



THE COMMONWEALTH OF MASSACHUSETTS

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

Division of Insurance

Report on the Statutory Examination of

CIGNA HealthCare of Massachusetts, Inc.

Newton, MA

As of December 31, 2005

NAIC COMPANY CODE: 95520

EMPLOYERS ID NUMBER: 02-0402111

**Commonwealth of Massachusetts Division of Insurance
REPORT ON THE STATUTORY EXAMINATION OF
CIGNA HEALTHCARE OF MASSACHUSETTS, INC.**

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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March 19, 2007

The Honorable Joseph Torti, III
Secretary, Northeastern Zone, NAIC
Superintendent
Rhode Island Insurance Division
Department of Business Regulation
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The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
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Honorable Commissioner and Superintendent:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G, Section 10, an examination has been made of the financial condition and affairs of

CIGNA HEALTHCARE OF MASSACHUSETTS, INC.

at its home office located at:

900 Cottage Grove Road, Hartford, CT 06152-1228

The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This statutory examination of CIGNA HealthCare of Massachusetts, Inc., hereinafter referred to as "the Company," "CIGNA," "the Plan," or "the Corporation," is as of December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. KPMG LLP (KPMG) has applied certain agreed upon procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Commonwealth of Massachusetts Division of Insurance (the Division).

The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Division. The statutory examination was performed at the Company's home office in Bloomfield, Connecticut. KPMG was engaged to perform certain agreed-upon procedures, which are in compliance with the *NAIC Financial Condition Examiners' Handbook*. KPMG's actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2005. KPMG's Information Technology Advisory Services (ITAS) personnel were engaged to perform an Evaluation of Controls in Information Systems Questionnaire in a form substantially similar to the one established in the *NAIC Financial Condition Examiners' Handbook*. The ITAS Specialists performed examination procedures pertaining to the examination of the IT systems as outlined in the *NAIC Financial Condition Examiners' Handbook*. All procedures were performed under the management and control and general supervision of the examination staff of the Division.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (NAIC) Financial Condition (E) Committee and prescribed by the current *NAIC Financial Condition Examiners' Handbook*.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, provider contracts, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the Division placed reliance on certain workpapers provided by the Company's external auditors, PricewaterhouseCoopers LLP (PwC). Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

DESCRIPTION OF COMPANY

History

CIGNA HealthCare of Massachusetts, Inc. is a health maintenance organization (HMO) which commenced operations on January 1, 1986. The Company voluntarily relinquished federal qualification effective July 1, 1996. The Company is domiciled in Newton, Massachusetts, and serves all Massachusetts counties except Dukes and Nantucket. The Company was previously domiciled in Worcester, Massachusetts. The Company is a wholly-owned subsidiary of Healthsource, Inc., a New Hampshire corporation. Healthsource, Inc., in turn, is a wholly-owned subsidiary of CIGNA Health Corporation (CHC), which is an indirect wholly-owned subsidiary of CIGNA Corporation.

Effective January 1, 1999, the Commonwealth of Massachusetts Division of Insurance approved the merger of the Company into Healthsource Massachusetts, Inc., an affiliated company, which was subsequently renamed CIGNA HealthCare of Massachusetts, Inc.

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Organization

The Company is part of a holding company system, and CIGNA Corporation, a Delaware corporation, is the ultimate corporate parent. CIGNA Corporation is the parent of CIGNA Holdings, Inc. CIGNA Holdings, Inc. is the parent entity of CIGNA Investment Group, Inc. (and its various subsidiaries), Connecticut General Corporation and CIGNA Global Holdings, Inc. (and its various subsidiaries). Connecticut General Corporation, in turn, has various direct and indirect subsidiaries; relevant direct subsidiaries include CIGNA Behavioral Health, Inc., CIGNA Dental Health, Inc. CIGNA Financial Partners, Inc., CIGNA Health Corporation, CIGNA Life Insurance Company of New York, Connecticut General Life Insurance Company, International Rehabilitation Associates, Inc. (d/b/a Intracorp) and Tel-Drug, Inc. CIGNA Health Corporation, in turn, is the parent of Healthsource, Inc., which is the direct parent of CIGNA HealthCare of Massachusetts, Inc. and various affiliated companies.

See also the Section entitled "Affiliated Companies" for a detailed organizational chart.

Net Worth

Net worth represents the excess of revenues over expenses since inception. The total admitted assets, total liabilities and net worth of the Company from 2003 to 2005 is shown in the following schedule.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Net Worth</u>
2003	\$39,064,002	\$24,165,549	\$14,898,452
2004	\$28,215,174	\$11,610,751	\$16,604,423
2005	\$28,518,550	\$5,586,692	\$22,931,858

MANAGEMENT AND CORPORATE RECORDS

Articles of Organization and By-Laws

The Corporate By-Laws ("the By-Laws") may be amended or repealed in whole or in part by the affirmative vote of the holders of two-thirds (2/3) majority of the shares of each class of the capital stock at the time outstanding and entitled to vote at any annual or special meeting of stockholders, provided that notice of the substance of the proposed amendment is stated in the notice of such meeting. If authorized by the Articles of Organization ("the Articles"), the Directors may make, amend or repeal the By-Laws, in whole or in part, except with respect to any provision thereof which by law, the Articles or the By-Laws requires action by the stockholders. Any By-Law adopted, amended or repealed by the Directors may be repealed, amended or reinstated by the stockholders entitled to vote on amending the By-Laws.

Stockholders

The By-Laws indicate the following regarding the Company's stockholders:

- The annual meeting of stockholders shall be held on the 10th day of March in each year (or if that be a legal holiday in the place where the meeting is to be held, on the next succeeding full business day) at such time as shall be fixed by the Board of Directors ("the Board") or the President. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, the Articles or the By-Laws may be specified by the Board or the President. If no annual meeting has been held on the date fixed above, a special meeting in lieu thereof may be held and such special meeting shall have, for the purposes of the By-Laws or otherwise, all the force and effect of an annual meeting. A special meeting of the stockholders may be called at any time by the President, or by a majority of the directors acting by vote or by written instrument(s) signed by them. A

special meeting of the stockholders shall be called by the Clerk (or any other officer in the case of the death, absence, incapacity or refusal of the Clerk) upon written application of one or more stockholders who hold at least one-tenth (1/10) part of interest of the stock entitled to vote at the meeting.

- All meetings of the stockholders shall be held at the principal office of the Corporation in Massachusetts, unless a different place within Massachusetts or, if permitted by the Articles, elsewhere within the United States is designated by the President, or by a majority of the Directors acting by vote or by written instrument(s) signed by them. A written notice of the place, date and hour of all meetings of stockholders stating the purposes of the meeting shall be given at least seven (7) days before the meeting to each stockholder entitled to vote (in person or by mail).
- At any meeting of the stockholders, a quorum shall consist of a majority in interest of all stock issued and outstanding and entitled to vote at the meeting; except that if two or more classes or series of stock are entitled to vote on any matter as separate classes or series, then in the case of each such class or series a quorum for that matter shall consist of a majority in interest of all stock of that class or series issued and outstanding; except when a larger quorum is required by law, the Articles or the By-Laws. Stock owned directly or indirectly by the Corporation, if any, shall not be deemed outstanding for this purpose.
- When a quorum is present at any meeting, a plurality of the votes properly cast for election to any office shall elect to such office, and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except where a larger vote is required by law, the Articles or the By-Laws. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.
- Stockholders entitled to vote shall have one vote for each share of stock entitled to vote held by them of record according to the records of the corporation and a proportionate vote for a fractional share, unless otherwise provided by the Articles or By-Laws. The Corporation shall not, directly or indirectly, vote any share of its own stock. In the election of Directors, the principle of cumulative voting shall apply. In any such election, each shareholder entitled to vote shall have votes equal to the number of his shares with voting rights multiplied by the number of directors to be elected. He may divide and distribute his votes as so calculated, among any two or more candidates for the directorships to be filled, or he may cast all his votes for a single candidate. At any such election, the candidates receiving the highest number of votes, up to the number of directors to be chosen, shall stand elected, and an absolute majority of the votes cast is not a prerequisite to the election of any candidate to the Board.
- Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of stockholders. Such consents shall be treated for all purposes as a vote at a meeting.
- Stockholders entitled to vote may vote either in person, or by proxy in writing dated not more than six (6) days before the meeting named therein, which proxies shall be filed with the Clerk or other person responsible to record the proceedings of the meeting before being voted. A proxy purporting to be executed by or on behalf of a stockholder shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger.

BOARD OF DIRECTORS

The Corporate By-Laws indicate the following regarding the Board of Directors (the "Board"):

- The business of the Corporation shall be managed by the Board, who shall have and may exercise all the powers of the Corporation except as otherwise reserved to the stockholders by law, the Articles, or the By-Laws.
- The Board shall consist of not less than three (3) Directors, except that whenever there shall be only two (2) stockholders the number of Directors shall be not less than two (2), and whenever there shall be only one (1) stockholder the number of Directors shall be not less than one (1). The number of Directors shall be as determined from time to time by the stockholders and may be enlarged by unanimous vote of the Directors then in office. The Directors shall be chosen at the annual meeting of the stockholders by such stockholders as have the right to vote thereon, and each shall hold office until the next annual election of Directors and until his successor is chosen and qualified or until he sooner dies, resigns, is removed, or becomes disqualified. No director need be a stockholder.
- Regular meetings of the Board may be held at any such times and places as the Board may fix, and no notice thereof need be given, except to Directors absent when such decision is made. Special meetings of the Directors may be held at any time and at any place designated in the call of the meeting, when called by the President, Treasurer, or by two or more Directors, reasonable notice thereof being given to each Director by the Secretary, Assistant Secretary or by the officer or one of the Directors calling the meeting. Reasonable and sufficient notice shall be given to a Director by mail (at least 48 hours in advance), by telegram (at least 24 hours in advance) or in person or by telephone (at least 24 hours in advance).
- Except as otherwise provided, at any meeting of the Directors a quorum for any election or for the consideration of any question shall consist of a majority of the Directors then in office. When a quorum is present at any meeting, the votes of a majority of the Directors present shall be requisite and sufficient for election to any office and shall decide any question brought before such meeting, except in any case where a larger vote is required by law, the Articles or the By-Laws. Any action required or permitted to be taken at any meeting of the Directors may be taken without a meeting if all the Directors consent to the action in writing and the written consents are filed with the records of the meetings of the Directors. Such consent shall be treated for all purposes as a vote of the Directors at a meeting.
- Any Director or officer may resign at any time by delivering his resignation in writing to the President or Clerk or to a meeting of the Directors. Directors, including Directors elected by the Directors to fill vacancies in the Board, may be removed with or without cause by vote of the holders of a two-thirds majority of the shares entitled to vote in the election of Directors. If cause is assigned for removal of any Director or officer, such Director or officer may be removed only after a reasonable notice and opportunity to be heard before the body proposing to remove him.
- Any vacancy in the Board, including a vacancy resulting from an enlargement of the Board, may be filled by vote of a majority of the Directors then in office, or in the absence of such election by the Directors, by the stockholders at a meeting called for the purpose; provided, however, that any vacancy resulting from action by the stockholders may be filled by the stockholders at the same meeting at which such action was taken by them. If the office of any officer becomes vacant, the Directors may elect or appoint a successor by vote of a majority of the Directors present at the meeting at which such election or appointment is made.

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At December 31, 2005, the Board was comprised of two (2) directors, with one (1) vacancy, which is in compliance with the Corporate By-Laws. Per the By-Laws, Directors are elected annually at the shareholders' meeting. Directors duly elected and serving at December 31, 2005, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Principal Occupation</u>	<u>Tenure</u>
Donald M. Curry Westfield, NJ	President & General Manager, CIGNA HealthCare	11/25/2002 - Present
Vincent L. Schreckengast ⁽¹⁾ West Hartford, CT	Vice President HealthCare Accounting, CIGNA HealthCare	12/15/2005 - 4/27/2006

Vacant⁽²⁾

(1) Replaced by David Goldberg, W. Hartford, CT, effective 4/27/2006; Goldberg remains a Director at March 19, 2007.

(2) Vacancy filled by Aslam M. Khan, M.D., Northfield, IL, effective 8/17/2006. Khan remains a Director at March 19, 2007.

Committees of the Board

The Board, by vote of a majority of the Directors then in office, may elect from its number an Executive Committee or other committees and may delegate thereto some or all of its powers except those which by law, the Articles or the By-Laws may not be delegated. Except as the Board may otherwise determine, any such committee may make rules for the conduct of its business. All members of such committees shall hold such offices at the pleasure of the Board. The Board may abolish any such committee at any time. Any committee to which the Board delegates any of its powers or duties shall keep records of its meetings and shall upon request report its action to the Board. The Board shall have power to rescind any action of any committee, but no such rescission shall have retroactive effect.

The Company does not currently have any active or inactive committees.

OFFICERS

The officers of the Corporation shall be a President, a Treasurer, a Clerk and such other officers, if any, as the incorporators at their initial meeting, or the Directors from time to time, may in their discretion elect and appoint. The Corporation may also have such agents, if any, as the incorporators at their initial meeting, or the Directors from time to time, may in their discretion appoint. Any officer may be but none need be a Director or stockholder. The Clerk shall be a resident of Massachusetts unless the Corporation has a resident agent appointed for the purpose of service of process. Any two or more offices may be held by the same person.

The President, Treasurer and Clerk shall be elected annually by the Directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected or appointed by the Board at said meeting or at any other time. Except as otherwise provided by law, the Articles or the By-Laws, the President, Treasurer and Clerk and each other officer shall hold office until the first meeting of the Directors following the next annual meeting of the stockholders and until their respective successors are chosen and qualified. In the case of officers other than the President, Treasurer or Clerk, a different period of service may be specified by the terms of his election or appointment.

See also the section entitled, "Board of Directors" for information about the resignation and removal of officers.

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The elected officers and their respective titles at December 31, 2005 were as follows:

<u>Officer</u>	<u>Elected Title</u>
Donald M. Curry	President
Scott R. Lambert	Vice President and Treasurer
Vincent L. Shreckengast	Vice President
Timothy Burton	Vice President
Leslie N. Campbell	Vice President
Karen E. Ferrell	Vice President
Shawn M. Fitzgibbon ⁽¹⁾	Vice President
Kathleen M. Hockmuth	Vice President
Robert P. Hockmuth, M.D.	Vice President and Medical Director
Barry R. McHale	Vice President and Assistant Treasurer
Jeffery L. Novak	Vice President
Robert D. Picinich	Vice President
David M. Porcello	Vice President
Joseph E. Turgeon III	Vice President
James V. Vasquenza, Jr.	Vice President
David M. Wildfeuer	Vice President
Susan L. Cooper	Clerk and Secretary
John P. Frey	Vice President and Assistant Treasurer
Glenn M. Gerhard	Vice President
Allan E. Hanssen	Vice President

⁽¹⁾ Service as Vice President ended on 6/1/2006.

CONFLICT OF INTEREST PROCEDURES

CIGNA Corporation has established a Code of Ethics and Compliance and related policies (“the Corporate Policy”). It is the Corporate Policy to avoid any situation that involves, or appears to involve, a conflict between the interests of the Company and the interests of its employees. Conflicts of interest can arise when an employee is directly or indirectly connected with a present or potential supplier, competitor or customer. Outside financial or business involvement by members of an employee’s immediate family, or by persons with whom the employee has a close personal relationship, may create a possible conflict of interest for the employee, and are subject to the requirements of the Corporate Policy. In addition, CIGNA employees and Directors are prohibited from taking personal advantage of opportunities that are discovered through the use of corporate property, information or position; using corporate property, information or position for personal gain; and competing with CIGNA. Personal loans to, or guarantees of obligations of directors and certain officers, made by CIGNA may also create conflicts of interest and are subject to the requirements of the Corporate Policy.

CIGNA’s Code of Ethics and Compliance also addresses antitrust and fair competition, anti-money laundering and Office of Foreign Assets Control (OFAC) compliance, board memberships and officerships, charitable contributions, gifts and entertainment, harassment, information protection, political contributions and lobbying, purchasing and trade practices, and use of corporate assets and intellectual property.

The ethics affirmation questionnaire is distributed to employees above a defined job band, resulting in the majority of CIGNA Corporation employees receiving the annual questionnaire. In addition, all CIGNA Officers and Directors are asked to deliver the completed annual questionnaire to the CIGNA Corporate Audit Department.

CIGNA’s Corporate Audit Department confirmed and certified that the ethics affirmation statements for the Officers and Directors of the Company have been reviewed, and no conflicts of interest have been found.

CORPORATE RECORDS

Articles of Organization and By-Laws

Our review of the By-Laws and Articles of Incorporation indicated that the By-Laws were adopted on May 28, 1986, and no amendments have been made since that date. The Company filed Articles of Merger with the Commonwealth of Massachusetts, effective January 1, 1999; the Agreement of Merger between CIGNA HealthCare of Massachusetts, Inc. and Healthsource Massachusetts, Inc., which made the most current amendments to the Articles of Organization, was dated December 16, 1998.

Board of Directors Minutes

The minutes of the Board for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company By-Laws and the laws of the Commonwealth of Massachusetts.

ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASES OR SALES

None.

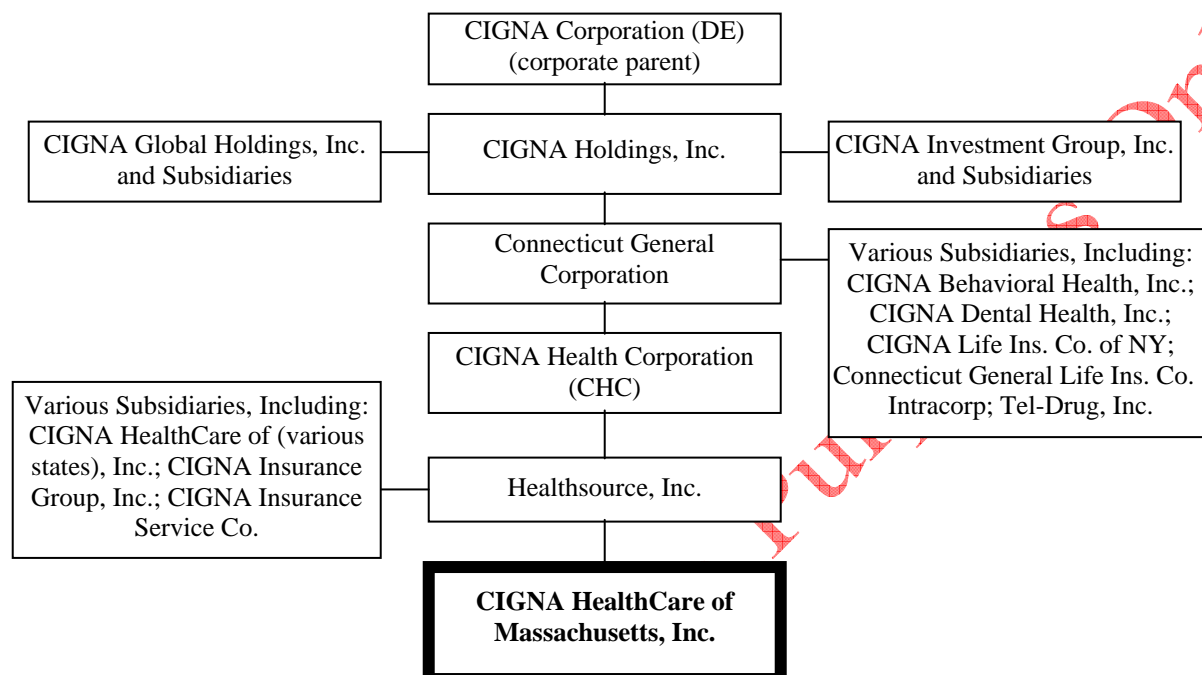
MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws, Chapter 175 §§ 180M-180Q.

AFFILIATED COMPANIES

Subsidiaries and Affiliated Companies

A summary of ownership and relationship of the Company and its operating subsidiaries and affiliated companies as of December 31, 2005 is illustrated below:



RELATED PARTY TRANSACTIONS

All outstanding shares of the Company are owned by the Parent, Healthsource, Inc. (HSI), a New Hampshire corporation. The Company paid no cash dividends to the Parent during 2004 or 2005. However, the Company paid cash dividends of \$3.5 million to the Parent on June 30, 2006 and \$10.0 million to the Parent on December 29, 2006. The Company does not own shares of an upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company. The Company does not hold any interest in another company or limited partnership. The Company did not have any impairment and consequently did not write down its investments in Subsidiary, Controlled or Affiliated Companies during the statement period.

CIGNA Health Corporation (CHC) charged the Company \$3,647,010 and \$35,552,371 in administrative service fees and fees for other services for the years ended December 31, 2005 and 2004 respectively. The fees charged are based largely on the Company's plan participants as a percentage of total applicable participants for the Company and its affiliates. Effective January 1, 2005, the Company ceased to administer the FlexCare product on behalf of Connecticut General Life Insurance Company (CGLIC), therefore, total expenses attributed to the Company have decreased. The Company also paid \$20,626 and \$22,501 in interest charges to CHC for the years ended December 31, 2005 and 2004, respectively.

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CIGNA Behavioral Health, Inc. (CBH) is an affiliate of the Company. The CBH Agreement is by and between CBH and CHC on behalf of their respective subsidiaries and affiliates, and arranges for the provision of mental health and/or substance abuse services by CBH, its subsidiaries and affiliates to enrollees of the HMOs. The expense relating to this contract for the years ended December 31, 2005 and 2004 was \$982,410 and \$1,500,436, respectively.

International Rehabilitation Associates, Inc. (d/b/a Intracorp) is an affiliate of the Company. The Intercompany Service Agreement is by and between Intracorp, CGLIC and CHC on behalf of their respective health plan subsidiaries and affiliates. The Company pays Intracorp for utilization management, case management, demand management, disease management and other services to its members. The expense relating to these services for the years ended December 31, 2005 and 2004 was \$225,496 and \$3,874,527, respectively. The significant decrease was primarily related to the 2005 discontinuance of the FlexCare product, as well as a 44% decrease in member months.

The Management Services Agreement, as amended, is by and among CHC and each of its subsidiaries or affiliates which are signatories thereto. Under this agreement, CHC and certain affiliates provide Management Services (as defined and described in said agreement) to the HMO subsidiaries of CHC. The terms of the agreement require that these amounts be settled within 30 days.

The Network Access Agreement is by and among the Company, CGLIC and the affiliated HMOs. This agreement allows an affiliated HMO as well as CGLIC, an affiliate, to access the Company's provider networks.

The Company currently participates in the Amended and Restated Consolidated Federal Income Tax Agreement by and between CHC and its subsidiaries adopted as of January 1, 1997 in order to facilitate the filing of a consolidated federal income tax return as an affiliated group under CIGNA. Pursuant to this agreement, payments are made to CHC based on taxable income of the Company. In the case of a "taxable loss," CHC pays the Company a refund based on the "taxable loss" to the extent CHC is able to utilize that loss in the consolidated tax return.

The Participating Mail Order Pharmacy Agreement (also known as the Tel-Drug Agreement) is by and between Tel-Drug, Inc., Tel-Drug of Pennsylvania, LLC, and certain subsidiaries of CHC, including the Company. Under this agreement, Tel-Drug, Inc. and Tel-Drug of Pennsylvania, LLC provide mail-order pharmacy services to the Company's enrollees.

The Dental Consultation Agreement is by and between the Company and its affiliated HMOs and CIGNA Dental Health, Inc. (CDH). Pursuant to this agreement, CDH provides dental consultations to the Company on selected dental cases relative to services provided under the members' HMO contracts.

The CIGNA Health Access Premium Billing Authorization Agreement by and among CIGNA and certain subsidiaries, including the Company, enables each HMO to provide its CIGNA Health Access customers with a single premium bill.

The Company participates in an Investment Advisory Agreement, pursuant to which CIGNA Investments, Inc. serves as the Company's investment advisor.

CHC charged the Company \$8,748 and \$120,424 for the years ended December 31, 2005 and 2004, respectively, for liability insurance. This program provides protection against liabilities imposed on the Company from allegations of negligence stemming from the management of health care activities.

At December 31, 2005 and 2004, the Company reported \$766,427 and \$196,797, respectively, as amounts due to parent, subsidiaries and affiliates. Cash settlements are processed according to the terms of the management services agreement.

The Company does not have any guarantees or undertakings for the benefits of an affiliate, which result in a material contingent exposure.

FIDELITY BOND AND OTHER INSURANCE

The Corporation maintains fidelity bond coverage with an authorized Massachusetts insurer. The aggregate limit of liability is within the NAIC suggested minimum.

In addition to the bond insurance, the Corporation has other insurance purchased from authorized insurers in the form of professional liability and excess professional liability coverage.

PENSION AND INSURANCE PLANS

Employees' Retirement Plan

The Company participates in a qualified, non-contributory defined benefit pension plan sponsored by CIGNA Corporation. CIGNA Corporation allocates amounts to the Company based on salary ratios. The Company provides retirement benefits to substantially all eligible employees through a single integrated plan (the Plan) sponsored by CIGNA Corporation. The Company's policy for the Plan is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974 (ERISA). Pension expense was included within administrative expenses for the years ended December 31, 2005 and 2004.

The Company participates in a capital accumulation 401(k) plan sponsored by CIGNA Corporation in which employee contributions on a before-tax basis are supplemented by the Company's matching contributions. A substantial amount of the Parent's contributions are invested in the CIGNA Corporation common stock fund. Employees may invest in one or more of the following funds: CIGNA Corporation common stock fund, several diversified stock funds, a bond fund and fixed-income fund. CIGNA Corporation may elect to increase its matching contributions if the parent company's annual performance meets certain targets. The Company's expense for such plans was included within administrative expenses for the years ended December 31, 2005 and 2004.

The Company provides certain other postretirement benefits to retired employees, spouses and other eligible dependents through a plan sponsored by CIGNA Corporation. The Company has no legal obligation for benefits under these plans. CIGNA Corporation allocates amounts to the Company based on a combination of salary ratios and member months. CIGNA Corporation and its participating subsidiaries make contributions to these plans as claims are incurred, and for the years ended December 31, 2005 and 2004, the Company's contributions were \$10,495 and \$120,737, respectively. The Company's unfunded postretirement benefit obligation amounted to \$759,518 and \$744,912 as of December 31, 2005 and 2004, respectively.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2005 are as follows:

Description of Deposit	Where Deposited	Par or Book Value	Statement Value	Market Value
Alaska St. 5.25% Transn. Grant Projs. Serb. – Maturity 7/15/2013	State Street, Boston, MA	\$ 1,000,000	\$1,091,410	\$1,098,949
TOTAL		<u>\$ 1,000,000</u>	<u>\$1,091,410</u>	<u>\$1,098,949</u>

TERRITORY AND PLAN OF OPERATION

Territory

The Company is only licensed to transact business in the Commonwealth of Massachusetts.

Plan of Operations

CIGNA HealthCare of Massachusetts, Inc. is headquartered in Hartford, CT.

CIGNA offers a variety of plan choices, including health maintenance organization (HMO) and point-of-service (POS) plans.

Commercial Operations: CIGNA contracts with hospitals and physicians organizations such as Independent Practitioners Association (IPA) and Physicians Hospital Organization (PHO) to provide hospital and medical services to group and individual enrollees. CIGNA pays “fee for service” (negotiated fees) and/or capitation for services rendered by its contracting providers. Terms of the hospital and physician contracts include withholds and risk sharing agreements (including Pay for Performance Agreements) whereby favorable and unfavorable claims experience and utilization is shared.

PRODUCTS

The Company offers the following insured managed care products:

HMO (Health Maintenance Organization) – The Company offers a comprehensive HMO system, which includes medical, dental, behavioral health, and pharmacy services. These network-only plans are designed to provide the right care at the right time in a cost effective way for members. Under HMO plans, members must choose a primary care physician (PCP) to coordinate care and treatment, provide referrals to specialists and file claim forms. Emergency services are the only out-of-network services covered by this type of plan.

POS (Point of Service) – Under the Company’s Point-of-Service products, participants generally pay either no co-payment or a small, fixed co-payment to use network providers and are required to choose a PCP. Alternatively, members may choose to go directly, without a referral, to non-network providers, but their costs are higher and level of coverage lower than with CIGNA HealthCare participating providers.

FlexCare (discontinued during examination period) – During 2004 and prior, Connecticut General Life Insurance Company (CGLIC), an affiliated company, contracted with the Company to assist with the administration of the FlexCare product, an indemnity-based managed care product offered to employers on an insured or self-insured funding basis. FlexCare was offered and underwritten entirely by CGLIC. Under the administrative services arrangement, CGLIC (for insured plans) and employers contracting with CGLIC (for self-insured plans) were responsible to the Company for the payment of charges by providers for covered services rendered to employees. The Company also received an administrative fee from either CGLIC or self-insured employers for use of its provider network. Effective January 1, 2005, CGLIC decided to retain the administration of the FlexCare product; as of 2005, the Company no longer reports FlexCare results within its current year Statement of Revenues and Expenses.

PROVIDER CONTRACTS

The Company arranges for the provision of health care services to its subscribers and eligible dependents thereof through contracts with Provider Units and other health care providers. Provider Units and such other organizations or individuals are and shall be deemed to be, for all purposes, independent contractors with the Company, and shall not be characterized as officers, employees or agents of the Company.

For the HMO product, the Company, participating hospitals and physicians are generally parties to risk incentive agreements (including pay-for-performance agreements) whereby favorable and unfavorable claims experience is shared. Payments to participating physicians for medical claims are generally subject to retention by the Company. Distribution of such retention is contingent upon the results of the risk incentive arrangements.

The agreements are in compliance with Massachusetts statutes and regulation 211 CMR § 43.10(1)(C).

RESERVES

In conjunction with KPMG's examination of the statutory financial statements of CIGNA, KPMG was engaged by the Division to review the adequacy of the Unpaid Claim Liability (UCL) of CIGNA as of December 31, 2005, and to perform a premium adequacy analysis as of December 31, 2005.

KPMG actuaries prepared independent estimates of the unpaid claim liabilities for December 2005 and prior periods. For December 31, 2005, completion factors for the projection of ultimate incurred claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from KPMG's range of incurred claims estimates. As the CIGNA business pays fairly quickly, the range of estimates for the December 31, 2005 UCL is narrow and KPMG's estimates are similar to CIGNA's estimates with hindsight through October 31, 2006.

Based upon KPMG's review, the UCL at December 31, 2005 appears to be fairly stated in aggregate in all material respects. CIGNA made a separate provision for Unpaid Claim Adjustment Expenses in 2005 in accordance with standard actuarial practice. The expense percentage levels used are within industry norms.

Review of the Company's claims reserves identified the following comments, observations, and suggestions that should be considered by the Company to improve the reserve setting process. Detailed claim data should be maintained for earlier months of service in the lags instead of the practice of grouping claim payments. The volatility of the tail payment patterns and the small, declining size of the block of business complicate the reserving process and make hindsight reviews somewhat difficult. Companies frequently utilize 36 or 48 months of monthly claim payments data completely segregated by incurral month in the reserve setting process.

KPMG reviewed CIGNA's premium deficiency reserve calculation and found it to be reasonable. The Company did not book a premium deficiency reserve at December 31, 2005. This appears appropriate based on recent financial results, and the Company's projections of revenues, claims and administrative expenses at that point in time.

REINSURANCE

CIGNA enters into agreements with other insurance companies to cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance does not relieve the originating insurer of liability.

Effective January 1, 1994, the Company entered into a Reinsurance Agreement with Connecticut General Life Insurance Company (CGLIC). The reinsurance agreement is administered by CIGNA Health Corporation (CHC). Under the provisions of the Reinsurance Agreement, the Company pays a monthly premium based on an established rate per healthplan member. In return for premiums paid, the Company is reimbursed a percentage of costs in excess of a deductible for hospital and related services provided to individual healthplan members. The deductible per individual healthplan member per calendar year was \$250,000 for both the years ended December 31, 2005 and 2004.

Responsibility for covered charges under the CGLIC Reinsurance Agreement per member per year during the years ended December 31, 2005 and 2004 was as follows:

December 31, 2005: \$250,000 and greater – 20% to the Company, 80% to CGLIC;
December 31, 2004: \$250,000 and greater – 20% to the Company, 80% to CGLIC.

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Premiums paid to CGLIC and to CHC, as administrator, for this agreement amounted to \$152,902 and \$813,888 for the years ended December 31, 2005 and 2004, respectively, and are reported as an offset to premiums in the accompanying Statement of Revenue and Expenses. Recoveries for covered charges amounted to \$2,236 and \$353,761 in 2005 and 2004, respectively. These balances are included in net reinsurance recoveries in the accompanying Statement of Revenue and Expenses.

INCOME TAXES

The Company currently participates in a tax-sharing agreement with CIGNA HealthCare and its various subsidiaries in order to facilitate the filing of a consolidated federal income tax return as an affiliated group under CIGNA Corporation. Pursuant to this agreement, payments are made to CIGNA HealthCare based on taxable income of the Company. In the case of a "taxable loss," CIGNA HealthCare pays the Company a refund based on the "taxable loss" to the extent CIGNA HealthCare is able to utilize that loss in the consolidated tax return.

As part of KPMG's examination of the statutory financial statements of the Company, KPMG reviewed the Company's December 31, 2005 balance and rollforward for federal income tax recoverable and net deferred tax asset. KPMG reviewed the Company's admitted deferred tax asset of \$264,018 and determined that it was correctly calculated pursuant to SSAP No. 10, paragraph (b).

ACCOUNTS AND RECORDS

The books and records of the Company are audited annually by the independent certified public accounting firm of PricewaterhouseCoopers LLP (PwC), in accordance with 211 CMR § 43.14. The CPA Firm issued an unqualified opinion on the December 31, 2005 audited financial statements. The Company is also subject to review by an internal audit department.

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Corporation's Independent Certified Public Accountants (PwC). No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA Firm's filings with the Division.

The NAIC provides a questionnaire covering the evaluation of the controls in the EDP systems environment. The questionnaire was completed by the Company and reviewed by KPMG's Information Technology Advisory Services (ITAS) team, which evaluated the adequacy of the IT systems controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2005 Annual Statement. No material exceptions were noted.

SUBSEQUENT EVENTS

- June 30, 2006 – The Company paid a dividend of \$3.5 million to its parent, Healthsource, Inc.
- October 31, 2006 – CIGNA HealthCare announced the launch of HealthePassSM, a hold-and-settle process developed by American Express to streamline payment processes, help patients manage health care costs, shorten the provider revenue cycle and address patient bad debts. The HealthePassSM process reserves a patient's payment from a funding source such as the patient's health savings account or a line of credit, and releases the payment at the same time the insurance claim is settled. CIGNA HealthCare plans to launch HealthePassSM with select employers, members and providers during 2007, working toward a nationwide rollout.

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- December 26, 2006 – On November 15, 2006, the Company submitted a Form D requesting the approval of a \$10 million extraordinary dividend. On December 26, 2006, the Massachusetts Insurance Commissioner approved the extraordinary dividend with specific terms. Specifically, the Plan's membership cannot exceed 11,000 without submitting a formal business plan and meeting with the Division to discuss a capital infusion.
- December 29, 2006 – The Company paid a dividend of \$10.0 million to its parent, Healthsource, Inc.

COMMITMENTS AND CONTINGENCIES

Lease Obligations

The Company participates in lease arrangements with CGLIC. All lease expenses are paid by CGLIC and are included within administrative expenses, as an allocation from CGLIC, for the years ended December 31, 2005 and 2004. The Company is not engaged in any lessor leases or leveraged leases.

Legal Proceedings

Beginning in 2004, various regulators, including the New York and Connecticut Attorneys General, began investigating insurance broker compensation. Some regulators have brought suit against certain insurance brokers, including Universal Life Resources (ULR), alleging, among other things, that these brokers sought rigged bids from and steered business to, insurers with whom they had contingent compensation arrangements. CIGNA Corporation and some of its subsidiaries are included in one such lawsuit seeking injunctive relief against these types of contingent compensation arrangements. In addition, CIGNA Corporation is providing information about ULR in connection with an investigation by the U.S. Attorney's Office for the Southern District of California. CIGNA Corporation is cooperating with the inquiries and investigations by regulators and the U.S. Attorney's Office. Separately, several purported class action lawsuits have been filed against brokers and insurance companies, including CIGNA Corporation and certain of its subsidiaries, asserting that contingent commissions are unlawful. CIGNA Corporation disagrees with the assertions against it in the lawsuits. In addition, early in 2005, a shareholder filed a derivative lawsuit against certain CIGNA Corporation directors and officers alleging breach of fiduciary duty based upon allegations similar to those contained in the ULR cases.

CIGNA Corporation is routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of the business of administering and insuring employee benefit programs. An increasing number of claims are being made for substantial non-economic, extra-contractual or punitive damages. The outcome of litigation and other legal matters is always uncertain, and outcomes that are not justified by the evidence can occur. CIGNA Corporation believes that it has valid defenses to the legal matters pending against it and is defending itself vigorously. Nevertheless, it is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to the Company's results of operations, liquidity or financial condition.

FINANCIAL STATEMENTS

The Financial Statements section includes the following:	<u>Page</u>
Statutory Statement of Assets, Liabilities and Capital & Surplus as of December 31, 2005	19
Analysis of Assets Exhibit as of December 31, 2005	20
Statement of Revenue and Expenses for the Year Ended December 31, 2005	21
Capital & Surplus for the Year Ended December 31, 2005	22

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2005.

For Information Purposes Only

Commonwealth of Massachusetts Division of Insurance
**REPORT ON THE STATUTORY EXAMINATION OF
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CIGNA HealthCare of Massachusetts, Inc.
Statutory Statement of Assets, Liabilities and Capital & Surplus
As of December 31, 2005

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>			
Bonds	\$ 24,725,908	\$ -	\$ 24,725,908
Cash, cash equivalents and short-term investments	580,980	-	580,980
Subtotals, cash and invested assets	25,306,888	-	25,306,888
Investment income due and accrued	334,066	-	334,066
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,051,424	-	1,051,424
Current federal and foreign income tax recoverable and interest thereon	770,892	-	770,892
Net deferred tax asset	264,018	-	264,018
Receivables from parent, subsidiaries and affiliates	315,775	-	315,775
Health care and other amounts receivable	3,205	-	3,205
Other than invested assets	\$ 472,282	-	\$ 472,282
Total Assets	\$ 28,518,550	\$ -	\$ 28,518,550
<u>LIABILITIES</u>			
Claims unpaid	\$ 3,749,322	\$ -	\$ 3,749,322
Accrued medical incentive pool and bonus amounts	36,886	-	36,886
Unpaid claims adjustment expenses	159,720	-	159,720
Premiums received in advance	232,665	-	232,665
General expenses due or accrued	161,318	-	161,318
Remittance and items not allocated	1,279	-	1,279
Amounts due to parent, subsidiaries and affiliates	1,082,202	-	1,082,202
Other Liabilities	163,300	-	163,300
Total Liabilities	\$ 5,586,692	\$ -	\$ 5,586,692
<u>CAPITAL & SURPLUS</u>			
Common capital stock	\$ 1,000	\$ -	\$ 1,000
Gross paid in and contributed surplus	18,992,975	-	18,992,975
Unassigned funds (surplus)	3,937,883	-	3,937,883
Total Capital and Surplus	\$ 22,931,858	\$ -	\$ 22,931,858
Total Liabilities, Capital and Surplus	\$ 28,518,550	\$ -	\$ 28,518,550

**Commonwealth of Massachusetts Division of Insurance
REPORT ON THE STATUTORY EXAMINATION OF
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**CIGNA HealthCare of Massachusetts, Inc.
Analysis of Assets Exhibit
As of December 31, 2005**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
<u>ASSETS</u>					
Bonds	\$ 24,725,908	\$ -	\$ 24,725,908	\$ -	\$ 24,725,908
Cash, cash equivalents and short-term investments	580,980	-	580,980	-	580,980
Subtotals, cash and invested assets	25,306,888	-	25,306,888	-	25,306,888
Investment income due and accrued	334,066	-	334,066	-	334,066
Premiums and considerations:					
Uncollected premiums and agents' balances in the course of collection	1,420,536	369,112	1,051,424	-	1,051,424
Current federal and foreign income tax recoverable and interest thereon	770,892	-	770,892	-	770,892
Net deferred tax asset	693,309	429,291	264,018	-	264,018
Furniture and equipment, including health care delivery assets	61	61	-	-	-
Receivables from parent, subsidiaries and affiliates	315,775	-	315,775	-	315,775
Health care and other amounts receivable	712,862	709,657	3,205	-	3,205
Other than invested assets	770,016	297,734	472,282	-	472,282
Total assets excluding Separate, Segregated and Protected Cell Accounts	30,324,405	1,805,855	28,518,550	-	28,518,550
Total Assets	\$ 30,324,405	\$ 1,805,855	\$ 28,518,550	\$ -	\$ 28,518,550

Commonwealth of Massachusetts Division of Insurance
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CIGNA HealthCare of Massachusetts, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2005

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Member Months	127,232	-	127,232
Net premium income	\$ 38,051,282	\$ -	\$ 38,051,282
Total revenues	38,051,282	-	38,051,282
Hospital and Medical:			
Hospital/medical benefits	18,040,787	-	18,040,787
Other professional services	1,471,579	-	1,471,579
Outside referrals	1,435,150	-	1,435,150
Emergency room and out-of-area	1,225,540	-	1,225,540
Prescription drugs	6,353,906	-	6,353,906
Other hospital and medical	(150,000)	-	(150,000)
Incentive pool, withhold adjustments and bonus amounts	(88,427)	-	(88,427)
Subtotal	28,288,535	-	28,288,535
Less:			-
Net reinsurance recoveries	(2,236)	-	(2,236)
Total medical and hospital	28,290,771	-	28,290,771
Claims adjustment expenses	1,119,382	-	1,119,382
General administrative expenses	2,209,682	-	2,209,682
Increase in reserves for accident and health contracts	(800,000)	-	(800,000)
Total underwriting deductions	30,819,835	-	30,819,835
Net underwriting gain	7,231,447	-	7,231,447
Net investment income earned	1,192,253	-	1,192,253
Net realized capital gains	29,471	-	29,471
Net investment gains	1,221,724	-	1,221,724
Other income (expense)	7,893	-	7,893
Net income before federal income taxes	8,461,064	-	8,461,064
Federal and foreign income taxes incurred	2,012,801	-	2,012,801
Net Income	\$ 6,448,263	\$ -	\$ 6,448,263

**Commonwealth of Massachusetts Division of Insurance
REPORT ON THE STATUTORY EXAMINATION OF
CIGNA HEALTHCARE OF MASSACHUSETTS, INC.**

**CIGNA HealthCare of Massachusetts, Inc.
Capital & Surplus
For the Year Ended December 31, 2005**

	<u>Annual Statement</u>	<u>Statutory Examination Adjustment</u>	<u>Per Statutory Examination</u>
Capital and Surplus, December 31, 2004	\$ 16,604,423	\$ -	\$ 16,604,423
Net income or (loss)	6,448,263	-	6,448,263
Change in net deferred income tax	(809,878)	-	(809,878)
Change in nonadmitted assets	689,047		689,047
Aggregate write-ins for gains in surplus	3		3
Net change in capital and surplus	<u>6,327,435</u>	<u>-</u>	<u>6,327,435</u>
Capital and Surplus, December 31, 2005	<u>\$ 22,931,858</u>	<u>\$ -</u>	<u>\$ 22,931,858</u>

For Information Purposes Only

ACKNOWLEDGMENT

This is to certify that the undersigned is a duly qualified Certified Financial Examiner (CFE) and that, in conjunction with KPMG LLP, applied certain agreed-upon procedures to the accounting and corporate records of CIGNA HealthCare of Massachusetts, Inc., in order for the Division of Insurance of the Commonwealth of Massachusetts to fulfill the Commonwealth's requirements regarding periodic Statutory Examinations of Massachusetts domiciled insurers.

The undersigned's participation in this Statutory Examination as the Examiner-in-Charge encompassed responsibility for the coordination and direction of the statutory examination performed which was in accordance with, and substantially complied with, those standards established by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (NAIC) and the *NAIC Financial Condition Examiners' Handbook*. This participation consisted of involvement in the planning (development, supervision and review of agreed upon procedures), administration, review of work papers and preparation of the statutory examination report.

The cooperation and assistance of the officers and employees of CIGNA HealthCare of Massachusetts, Inc. extended to all examiners during the course of the examination is hereby acknowledged.

John Smallwood, CFE
Chief Examiner & Examiner in Charge (EIC)
Commonwealth of Massachusetts
Division of Insurance
Boston, MA

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