REPORT ON EXAMINATION

of

CIGNA HEALTHCARE OF TENNESSEE, INC.

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Company Examinations

as of

DECEMBER 31, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
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Hartford, Connecticut
December 13, 2005

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

Commissioner Flowers:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws and regulations and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), an examination and market conduct review was made of the condition and affairs of

CIGNA HEALTHCARE OF TENNESSEE, INC.

Location of Books and Records:
900 Cottage Grove Road
Hartford, Connecticut

Home and Administrative Offices:
1000 Corporate Centre Drive
Franklin, TN 37067

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

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on May 18, 2005. The Examination was conducted under the association plan of the NAIC by a duly authorized representative of The Department of Commerce and Insurance, State of Tennessee.

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 2001, the date of the previous examination, to the close of business on December 31, 2004, 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 was conducted in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook*. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2004. The financial condition of the Company and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the work papers of this report. An examination was also made into the following matters:

- Company History
- Growth of the Company
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bond and Other Insurance
- Territory
- Plan of Operation
- Excess of Loss Agreements
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest – Tenn. Code Ann. § 56-3-103
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statements

PRIOR EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous examination was made as of December 31, 2001, by examiners of the State of Tennessee and resulted in no change in surplus and made one recommendation to which the Company complied. The Company produced documentation that indicated the filing of the Management Services Agreement and Consolidated Income Tax Allocation Agreement with The Tennessee Department of Commerce and Insurance for approval as required by Tenn. Code Ann. § 56-11-206(a)(2)(D) during the Post Examination Review of Corrective Action Taken following the prior examination.

COMPANY HISTORY

The Company was incorporated on September 10, 1984, as a for profit corporation 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 November 12, 1986, the Company amended its charter to change its name to EQUICOR Healthplan, Inc. and on July 1, 1991, the name 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 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 Commissioner, Department of Commerce and Insurance, State of Tennessee on March 21, 1990.

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 owed by Healthsource Management, Inc.

At December 31, 2001 Healthsource Management, Inc., owned all one thousand (1,000) shares of the Company's common stock, which is a wholly owned subsidiary of Healthsource, Inc. that in turn is a wholly owned subsidiary of CIGNA Health Corporation. CIGNA Health Corporation is ultimately controlled by CIGNA. A holding company organizational chart is included at the last page of this examination report.

GROWTH OF THE COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with The Department of Commerce and Insurance, State of Tennessee.

	Net Admitted Assets	Surplus as Regards Policyholders	Total Revenue	Net Income
2004	$ 61,145,896	$ 33,701,901	$ 247,379,310	$ 17,952,410
2003	$54,088,919	12,348,564	220,537,823	(3,313,278)
2002	44,672,994	15,355,540	171,695,134	7,882,853
2001	49,862,834	17,121,206	173,593,456	430,917

CHARTER AND BYLAWS

Charter:

The charter of the Company dated September 10, 1984 established it as a perpetual, for profit corporation to provide or 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. Also, the charter provides for consultation, training, advisory and management services to any business, whether corporation, trust association, partnership, joint venture or proprietorship.

Bylaws:

The Bylaws establish the rules, which regulate the affairs of the Company. The By-laws have seven (7) articles, which govern the conduct and duties of its stockholders, directors and officers. The Bylaws as such are generally found in corporations of this type and are consistent with the Charter. They may be altered or amended by the Board of Directors of the corporation or by the affirmative vote of a majority of the issued and outstanding shares of common stock of the corporation.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide shareholders' annual meetings shall be held on such date during April, May or June of each year at such time and at such place within or outside the state of Tennessee as shall be determined by the Board of Directors. The business of such annual meetings includes the election of directors of the ensuing year and such other business as may come before the meetings. Special meetings of the

shareholders may be called for any purpose by the Chairman of the Board, the President or a majority of the Board of Directors or by one or more shareholders holding not less than one third (1/3) of the issued and outstanding stock of the Company.

The Board of Directors of the Company shall have the authority to conduct, manage and control the property, business and affairs of the Company. The bylaws provide for a Board of Directors consisting of not less than three (3) nor more than twelve (12) members. They shall be elected at each annual meeting of the shareholders and shall serve until the next annual meeting.

The following persons were duly elected Directors holding office at December 31, 2004:

Name and Address	Principal Occupation
Vincent Lewis Shreckengast 19 Pheasant Hill Drive West Hartford, CT 06107	Vice President HealthCare Accounting
David Meadow Ferris, Jr. M.D. 6325 Westcates Court Brentwood, TN 37027	Senior Medical Executive Medical Management
Chuie Lan Yuen, M.D. * 45 Country Meadow Road Rolling Hills, CA 90274	National Medical Director Cigna Healthcare

* On March 21, 2005, Dr. Yuen resigned and was replaced by Dr. Razia S. Hashmi.

During the period under review, there were twelve (12) regular meetings and six (6) actions taken by written consent in lieu of meetings of the Board of Directors.
The bylaws specify that officers of the corporation shall be a Chairman of the Board who shall be the Chief Executive Officer, a President, one (1) 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 (1) or more Assistant Secretaries and one (1) or more Assistant Treasurers who shall have the same duties and authority as the Secretary and Treasurer. At no time during the period of examination did the Company's Board of Directors elect a Chairman of the Board of Directors.

The following persons were duly elected as officers by the Board of Directors as of December 31, 2004:

Name	Title
John W. Sorrow	President
Vincent L. Shreckengast	Vice President
David M. Porcello	Vice President and Assistant Treasurer
Steven T. Crooke	Assistant Secretary
David M. Ferris, Jr.	Vice President and Medical Director
John P. Frey	Vice President and Assistant Treasurer
Timothy Burton	Vice President
Glenn Michael Gerhard	Vice President
Leslie Neil Campbell	Vice President
David Olyn Hollis, M.D.	Vice President and Medical Director - Memphis
Shawn Michael Fitzgibbon	Vice President
Barry Richard McHale	Vice President and Treasurer
Kathleen McCabe Hockmuth	Vice President
Edward M. Tanida	Vice President
Jeffery Lynn Novak	Vice President
Michael Richard Wise	Vice President
Chuie Lan Yuen, M.D.	Vice President

The bylaws specify that the Board of Directors may appoint one (1) or more directors to form an advisory committee as a standing committee to the Board of Directors, which will consist of at least five (5) persons to include the plan manager and four (4) subscriber members. Additionally, the bylaws specify that the Board of Directors may establish committees and designate members thereof, which shall consist of two (2) or more directors to serve at the pleasure of the Board of Directors and have such power and authority as the Board of Directors shall grant and be obligated to report periodically

to the Board of Directors. However, the Company had no committees for the period under examination.

The Company has an established procedure for the disclosure to its Board of Directors concerning conflicts of interest for directors and elected officers. On June 3, 2004, the Company adopted a policy and procedures on conflicts of interest and other ethics matters, known as the "CIGNA Code of Ethics and Compliance Policies." A sample of such disclosures was inspected for the period under examination.

Control:

The Company is a wholly owned subsidiary of Healthsource Management, Inc. (the parent), a wholly owned subsidiary of CIGNA Health Corporation, which is an indirect wholly owned subsidiary of CIGNA. A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

The minutes of meetings of the Board of Directors and stockholders were reviewed for the period under examination. They were found to be well written and appear to properly reflect the acts of these respective bodies.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured, along with affiliates and subsidiaries, under certain insurance coverages being carried by its ultimate parent, CIGNA. The following is a summary of the various bonds and insurance policies in effect as of December 31, 2004:

Type of Coverage	Limits of Liability
1. Fidelity Bond, E&O, Professional Services	$5,000,000 any one loss
2. General Liability	$1,000,000 per occurrence $3,000,000 general aggregate $1,000,000 personal injury $1,000,000 products, completed operations $ 100,000 fire damage- any one fire $ 5,000 medical expense - any one person
3. Automobile Liability	$1,000,000 combined single limit
4. Worker's Compensation Liability	
A. Workers' Compensation	Tennessee statutory limit
B. Employers' Liability	
a. Bodily injury by accident	$3,000,000 each accident
b. Bodily injury by disease	$1,000,000 disease – policy limit
c. Bodily injury by disease	$1,000,000 disease – each employee

Minimum fidelity coverage suggested in the *NAIC Financial Condition Examiner Handbook* for a company of the Company's size and premium volume is not less than one million dollars ($1,000,000), which the Company exceeds by a comfortable margin. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All policies were written by companies licensed to transact business in the State of Tennessee, with the exception of the fidelity bond, which was written by an authorized surplus lines insurer.

TERRITORY

The Company is authorized to transact business in the State of Tennessee and Mississippi at December 31, 2004. The certificates of authority granted by the foregoing jurisdictions were inspected and found to be in force as of the date of this examination. The Company's statutory home office is in Franklin, Tennessee and it serves the fifty six (56) Tennessee counties including Anderson, Bledsoe, Blount, Bradley, Campbell, Carter, Cannon, Cheatham, Claiborne, Cocke, Coffee, Davidson, Dekalb, Dickson, Fayette, Franklin, Grainger, Greene, Hamblen, Hamilton, Hancock, Hawkins, Hickman,

Jefferson, Johnson, Knox, Loudon, McMinn, Macon, Marion, Maury, Meigs, Monroe, Montgomery, Morgan, Overton, Polk, Rhea, Roane, Robertson, Rutherford, Scott, Sequatchie, Sevier, Shelby, Smith, Sullivan, Sumner, Tipton, Trousdale, Unicoi, Union, Warren, Washington, Williamson and Wilson. It also serves Desoto county in Mississippi.

The Company has no plans to apply for additional licenses.

PLAN OF OPERATION

The plan of operation is partially stated in the Company's Charter under sections (a) and (b) of item five (5) as follows:

> 5. The purposes for which this 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 or 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.

The Company arranges for a range 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 CIGNA Behavioral Health, Inc. ("CBH")..

The Company sells a standard Health Maintenance Organization ("HMO") product and subcontracts with Connecticut General Life Insurance Company ("CGLIC"), an affiliated company, in connection with an indemnity based managed care product called FlexCare. FlexCare is offered to employers on an insured or self-insured funding basis.

CGLIC, in the case of insured plans, and employers, in the case of self-insured plans, are responsible to the Company for the payment of charges by health care providers for covered services rendered to members. FlexCare revenues and receivables are reimbursements for medical expenses for FlexCare participants. The Company also receives an administrative fee for the use of its provider network by CGLIC and self-insured employers.

A standardized Group Service Agreement is executed with each contracting group. Specific coverage and riders are defined by documents attached to said agreement. Primary benefits provided vary as to deductibles and co-payments.

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

Year	Member
2004	81,582
2003	85,399
2002	72,831
2001	84,738

EXCESS LOSS AGREEMENTS

As regards business ceded as of December 31, 2004, the Company had one (1) direct excess loss agreement with its affilate CGLIC.

Direct Excess Risk Agreement between the Company and CGLIC

This agreement is between CGLIC and the subsidiaries of CIGNA Health Corporation, which are signatories to the agreement (the plans). This is a standard direct excess agreement, which allows new subsidiaries to join the agreement as they become eligible. The CGLIC Reinsurance Agreement is administered by CIGNA Health Corporation. This agreement was originally adopted effective January 1, 1994, with the latest amendment made as of January 1, 2003.

Under the provisions of the agreement, the plans pay a monthly premium based on an established rate per Healthplan member. In return for premiums paid, the plans are reimbursed a percentage of costs in excess of a deductible for hospital and related services provided to individual Healthplan members pursuant to a service agreement.

Service agreement means those contracts between the plans and groups/individuals under which the plans agree to provide or arrange for the provision of health care services to members on a prepaid or other basis.

Deductible refers to per member per calendar year amount stated in the contract and shall apply to all hospital services received by a member during the calendar year.
The required deductible per individual Healthplan member per calendar year was two hundred fifty thousand dollars ($250,000), two hundred fifty thousand dollars ($250,000) and one hundred fifty thousand dollars ($150,000) for the years ended December 31, 2004, 2003 and 2002, respectively.

Responsibility for covered charges per member per year during the years ended 2004, 2003 and 2002 was as follows:

2002	$150,000 and greater	20% the Company, 80% CGLIC
2003	$250,000 and greater	20% the Company, 80% CGLIC
2004	$250,000 and greater	20% the Company, 80% CGLIC

The plans established a bank account in the name of CIGNA Health Corporation ("CHC"). The plans shall deposit funds into the bank account in accordance with schedule C of the agreement. CGLIC, as agent for the plans, may draw upon the funds in the bank accounts for the purpose of funding the claims made there under. The agreement includes standard clauses for this type of contract, including insolvency.

Premiums paid to CGLIC for this agreement amounted to three million four hundred thirty thousand nine hundred fifteen dollars ($3,430,915) and two million six hundred seventy six thousand seven hundred ninety five dollars ($2,676,795) for the years ended December 31, 2004 and 2003, respectively, and are reported as an offset to premiums in the accompanying Statutory Statement of Income.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company does not have any employees. The Company participates and contributes to a qualified pension plan sponsored by CIGNA. CIGNA allocates amounts to the Company based on salary ratios. Retirement benefits are provided to substantially all eligible employees through a single integrated plan sponsored by CIGNA. 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 expenses were included within administrative expenses for the years ended December 31, 2004 and 2003.

Other postretirement benefits are provided 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 membermonths. CIGNA and its participating subsidiaries make contributions to these plans as claims are incurred, and as of December 31, 2004 and December 31, 2003, the Company's contributions were two hundred forty three thousand two hundred seventy dollars ($243,270) and two hundred eighty four thousand one hundred thirty seven dollars ($284,137) respectively. The Company's unfunded postretirement benefit obligation amounted to one million two hundred seventy one thousand three hundred seventy eight dollars ($1,271,378) and one million twenty nine thousand three hundred seventy eight dollars ($1,029,378) as of December 31, 2004 and December 31, 2003, respectively.

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. A substantial amount of the parent's contributions are invested in the CIGNA common stock fund. Employees may invest in one (1) or more of the following funds: CIGNA common stock fund, several diversified stock funds, a bond fund and a fixed-income fund. CIGNA may elect to increase its matching contributions if CIGNA's annual performance meets certain targets. The Company's expense for such plans was included within administrative expenses for the years ended December 31, 2004 and 2003.

LOSS EXPERIENCE

Loss and Loss Adjustment Expense ("LAE") reserves are subject to error of estimation arising from the fact that the ultimate liability for claims evaluated as of a valuation date is dependent on future contingent events that cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

	Premiums Earned (000's)	Total Claims and CAE Incurred (000's)	Percent
2004	$247,379	$214,442	86.7%
2003	$220,538	$197,932	89.7%
2002	$169,123	$164,189	97.1%

ACCOUNTS AND RECORDS

During the course of the examination, such test and audit procedures were performed as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years under review.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2004:

Description	Par Value	Statement Value	Market Value
Tennessee			
Hamilton Cnty 5.0% due 5-1-2008	$ 1,270,000	$ 1,271,366	$1,367,637
US Treasury Note 2.25% due 4-30-06	510,000	507,929	505,777
US Treasury Note 3.25% due 8-15-07	1,000,000	1,010,616	1,001,480
US Treasury Note 2.625% due 5-15-08	350,000	342,043	342,181
Mississippi			
US Treasury Note 6.125% due 8-15-07	$ 510,000	$ 516,996	$ 547,332
Total	$ 3,640,000	$ 3,648,950	$ 3,764,407

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company meets the definition of a holding company pursuant to Tenn. Code Ann. §56-11-201(b)(5), which specifically defines a "health maintenance organization holding company system".

Management Services Agreement

The Management Services Agreement, as amended, is by and between CHC and each of its subsidiaries or affiliates which are signatories thereto. This agreement was

entered into as of January 1, 1994. Effective July 1, 2004, the Company executed an amendment to the Management Services Agreement which revised Section III to more accurately reflect the current billing procedures. This agreement allows new subsidiaries to join the agreement when they receive regulatory approval.

Under this agreement, CHC and certain affiliates provide management services to the Company and its affiliated HMOs in exchange for a fee. The services provided include sales support, premium billing, underwriting, personnel, claims, treasury, training, administrative, payroll, legal, marketing, and financial. In the course of providing these services, CHC will also monitor each plan's fiscal stability, level of services and quality of care. CHC charged the company sixty nine million five hundred seventy six thousand four hundred ninety six dollars ($69,576,496) and seventy five million thirty five thousand seven hundred thirty four dollars ($75,035,734) in administrative service fees and fees for other services for the years ended December 31, 2004 and 2003, respectively.

Each month, CHC will bill each plan the amount due for the management services provided that plan for the preceding month, including any interest due and owing on said amount. Early in each year, CHC will calculate and communicate to each plan the amount to be charged for the services for each month in that year based upon estimated projections. At the end of the year, CHC will reconcile the actual expenses incurred for the services with the amounts paid by each plan and will issue an appropriate charge or credit for the difference.

Amended and Restated Consolidated Federal Income Tax Agreement

The Company participates in an amended and restated Consolidated Federal Income Tax Agreement by and between CIGNA and certain of its subsidiaries. This agreement between CIGNA and each of its qualified subsidiaries was originally adopted effective as of April 1, 1982, with the latest amendment made as of January 1, 1997. The agreement allows new subsidiaries to join as they become eligible.

Subsidiaries with taxable income are required to pay CIGNA an amount equal to the Federal Income Tax ("FIT") liability as if it were filing its own separate FIT return, except that available tax return credits can be used only if such credits are utilized in the consolidation.

Subsidiaries with a tax loss will receive a refund from CIGNA equal to the refund they would have received from the Internal Revenue Service ("IRS") if they were filing their own separate FIT return, except that to receive the tax benefit of tax losses, the losses must be utilized in the reduction of the consolidated FIT liability. Also, subsidiaries with a tax loss may be paid for the tax benefits of tax losses, at the discretion of the CIGNA's Chief Financial Officer, if such officer determines such payment to be appropriate in maintaining or enhancing the capital or surplus position of any of the subsidiaries. Payment for estimated taxes (refunds) and any other payments (refunds) made pursuant to this agreement will be made four (4) times a year. A final payment (refund) will be made in each November after the tax return for the prior year has been filed.

Investment Advisory Agreement

The Company participates in an amended Investment Advisory Agreement with its affiliate CIGNA Investments, Inc., pursuant to which CIGNA Investments, Inc. acts as the Company's investment adviser. This agreement was originally effective October 3, 1994 and amended on January 1, 2002 to reflect the assignment of the agreement by TimesSquare Capital Management, Inc. (formerly by CIGNA Investments, Inc.) to

CIGNA Investments, Inc. (formerly CIGNA Investment Advisory Company, Inc.). There were no changes to the original agreement or the manner in which it is administered. The company paid fourteen thousand one hundred ninety four dollars ($14,194) and thirty seven thousand seven hundred twenty six dollars ($37,726) in 2004 and 2003, respectively, for these services.

CIGNA Health Access

This agreement is by and between each of the subsidiaries of CHC, which are signatories to this agreement (the plans) and CGLIC. This agreement became effective as of June 1, 1996.

The plans and CGLIC jointly offer a point-of-service coverage plan referred to as CIGNA Health Access ("CHA"). The plans offer groups and individual standard service agreements providing coverage of "in-network" health care services, and CGLIC provides group insurance coverage, which supplements the plans service agreements by covering "out-of-network" health care services. Customers purchasing this product receive a single premium bill.

CGLIC authorizes the plans and each of the plans individually, to act as its agent in billing CHA customers for its premium with respect to that customer's CHA coverage. Where required to do so, the plan will identify to the CHA customer the portion of the CHA premium attributable to the CGLIC insurance policy. The plans shall remit to CGLIC all premiums collected on behalf of CGLIC within such time as agreed upon by CGLIC and the plans. There are no administrative fees due from the Company under this agreement.

Intracorp Agreement

The Intracorp Agreement is by and between International Rehabilitation Associates, Inc. ("Intracorp"), CGLIC, and CHC on behalf of certain subsidiaries, including the Company. Pursuant to the agreement, Intracorp provides consultating services with respect to utilization management, case management, demand management, disease management, care management and any other consultative services in conjunction with the administration of such plans to the enrollees of participating plans. On December 5, 2003, the Company executed an amendment to the Intracorp Agreement to modify Exhibit A, Schedule of Services, and Exhibit B, CHC Standards for Delegation of

Utilization Management. (Activities to be effective January 1, 2004.) The expense relating to these services for the years ended December 31, 2004 and 2003 were seven million six hundred sixty thousand three hundred fifty nine dollars ($7,660,359) and four million five hundred eighty three thousand two hundred thirty three dollars ($4,583,233), respectively.

Network Access Agreement

The Network Access Agreement is by and between CGLIC and certain subsidiaries of CIGNA, including the HMOs. This agreement became effective as of November 27, 2001. This agreement allows CGLIC and each of the HMOs to utilize the networks of Participating
Providers maintained by its affiliated HMOs. Under this agreement, an HMO may also provide to or receive from other participants certain administrative services associated with network access. The Network Access Agreement replaced the prior agreement by and between the Company and CGLIC known as the "FlexCare Agreement." Administrative fees of fifty nine million six hundred fourteen thousand eight hundred thirty dollars ($59,614,830) and fifty eight million four hundred sixty three thousand five hundred sixty five dollars ($58,463,565) for the years ended December 31, 2004 and 2003, respectively, are included as a reduction of administrative expenses.

Participating Mail Order Pharmacy Agreement

The Participating Mail Order Pharmacy Agreement, as amended, is by and between Tel-Drug, Inc. Tel-Drug of Pennsylvania, LLC, its affiliates and certain subsidiaries of CHC including HMOs. Under this agreement, Tel-Drug, Inc. and Tel-Drug of Pennsylvania, LLC provide mail order pharmaceutical services to the enrollees of the HMOs. The effective date of this agreement is January 1, 2005 and replaces the old agreement. In 2004 and 2003, the Company paid no fees under this agreement.

Mental Health Agreement

The Mental Health Agreement is by and between CBH and CHC on behalf of their respective subsidiaries and affiliates, including the HMOs. Under this agreement, CBH provides mental health and substance abuse services to the enrollees of the HMOs. The expense relating to this contract for the years ended December 31, 2004 and December 31, 2003 was four million nine hundred
sixty four thousand three hundred twenty two dollars ($4,964,322) and four million four hundred twenty thousand seventeen dollars ($4,420,017), respectively.

Dental Consultation Agreement

The Dental Consultation Agreement is between CIGNA Dental Health, Inc. and the HMOs. Pursuant to this agreement CIGNA Dental Health, Inc. provides dental consultations at the request of the Company with respect to selected dental cases. In 2004 and 2003, the Company paid no fees under this agreement.

PECUNIARY INTEREST – TENN.CODE ANN. §56-3-103

The Company has no employees, three (3) members of the Board of Directors and officers, one (1) who is also a board member. These same individuals would also be party to any conflict of interest policy, which is in place for employees and officers of the Company. Additionally, Tenn. Code Ann. §56-32-221(a) states "Except as otherwise provided in this part, provisions of the insurance law, and provisions of hospital or medical service corporation laws are not applicable to any health maintenance organization granted a certificate of authority under this part".

DIVIDENDS OR DISTRIBUTIONS

The Company paid an extraordinary dividend of four million dollars ($4,000,000) on November 26, 2002 to its parent company, Healthsource Management, Inc. The entire amount was approved by letter from the Commissioner of Commerce and Insurance of the State of Tennessee dated November 18, 2002.

LITIGATION

As of December 31, 2004, the Company had no pending litigation, which would materially adversely affect the financial condition of the Company.

SUBSEQUENT EVENTS

The Company declared a dividend on April 5, 2005 in the amount of ten million four hundred thousand dollars ($10,400,000). The Board of Directors approved this dividend on April 5, 2005. The Company paid this amount by wire transfer to the parent on April 26, 2005.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and statement of income at December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Ledger Assets	Non Admitted Assets	Net Admitted Assets
Bonds	$ 37,629,195	$ 516,996	$ 37,112,199
Cash and Short-term investments	10,391,285		10,391,285
Receivable for securities	145,000		145,000
Investment income due and accrued	565,042		565,042
Uncollected Premiums and agents' balances in the course of collection	12,231,500	515,644	11,715,856
Net deferred tax asset	1,933,813	834,846	1,098,967
Furniture and equipment	41,271	41,271	0
Receivables from parent, subsidiaries and affiliates	646,328	646,328	0
Health care and other amounts receivable	1,092,535	974,988	117,547
Total	$ 64,675,969	$ 3,530,073	$ 61,145,896

LIABILITIES, SURPLUS AND OTHER FUNDS

Claims unpaid	$	22,314,150
Unpaid claim adjustment expenses		1,028,389
Premiums received in advance		139,022
General expenses due or accrued		1,253,576
Current federal and foreign income tax payable		561,667
Amounts due to parent, subsidiaries and affiliates		1,796,890
Liability for amounts held under uninsured accident and health plan		182,893
Aggregate write-ins for other liabilities- Escheat liability		167,408
Total liabilities		27,443,995
Common capital stock		1,000
Gross paid in and contributed surplus		23,234,099
Unassigned funds		10,466,802
Total capital and surplus		33,701,901
Total	$	61,145,896

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months		$ 953,032
Net premium income		247,379,310
Total revenues		$247,379,310
HOSPITAL AND MEDICAL		
Hospital/medical benefits	$ 0	$ 129,058,893
Other professional services	0	9,570,479
Outside referrals	9,378,359	9,378,359
Emergency room and out-of-area	2,517,673	12,054,643
Prescription drugs	0	36,613,891
Aggregate write-ins for other hospital and medical	0	(281,629)
Subtotal	$11,896,032	$ 196,394,636
LESS		
Total hospital and medical	$ 11,896,032	$ 196,394,636
Claims adjustment expenses	0	11,576,221
General administrative expenses	0	14,504,854
Total underwriting deductions	11,896,032	222,475,711
Total underwriting gain of (loss)	0	24,903,599
Net investment income earned	0	1,985,483
Net realized capital gains (losses)	0	1,423
Net investment gains or (losses)	0	1,986,906
Aggregate write-ins for other income or expenses	0	11,996
Net income before federal income taxes	0	26,902,501
Federal and foreign income taxes incurred	0	8,950,091
Net income	0	$ 17,952,410

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2003	$ 12,348,564
Net income	17,952,410
Change in net deferred income	143,237
Change in non-admitted assets	4,157,690
Aggregate write-ins for gains and losses	(900,000)
Net change in capital and surplus	21,353,337
Capital and surplus, December 31, 2004	$ 33,701,901

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31,	2004	2003	2002	2001
Previous year	$12,348,564	$15,355,540	$17,121,206	$13,654,127
Net income	17,952,410	(3,313,278)	7,882,853	(111,074)
Change in net deferred income	143,237	264,345	(858,813)	(293,930)
Change in non-admitted assets	4,157,690	41,957	(5,852,875)	1,917,267
Cumulative effect of changes in accounting principles	0	0	0	940,380
Paid in Surplus adjustments				1,014,436
Aggregate write-ins for gains or (losses)	(900,000)	0	1,063,169	
Dividends to stockholders			(4,000,000)	
Surplus as regards policyholders December 31 current year	$ 33,701,901	$ 12,348,564	$ 15,355,540	$ 17,121,206

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

None

COMMENTS AND RECOMMENDATIONS

Comments:

- Per letter dated May 24, 2004 from Michael W. Triplett, Sr., President of the Company to the Tennessee Insurance Commissioner Paula A. Flowers, after a thorough review of the Company's business goals and pursuant to Tennessee Code § 56-7-2806 c (2) (A), the Company decided to cease doing business in the small group (two [2} fifty [50] eligible employees) medical market in Tennessee. At that time, the Company covered approximately eighteen (18) small groups with ninety (90) covered lives. The Company's decision was limited solely to the small employer group medical market. Existing business as of May 24, 2004 was terminated upon renewal beginning with January 1, 2005 renewals.

Recommendations:

- During the review of the Company's custodian agreement with J.P. Morgan Chase, it was determined that language contained in the agreement was not in compliance with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46-.03(2)(a)(i) that sets forth certain requirements for custodial agreements. Therefore,

  "It is recommended the Company initiate immediate action to bring the J.P. Morgan Chase custodial agreement language to comply with Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46-.03(2)(a)(i). The language should include a provision stating that the standard of responsibility on the part of the custodian shall not be less than that of a responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee. Further, failure to execute a proper custodial agreement or custodian affidavit may result in the Commissioner's non-admission of the insurance Company's assets which are not held in a manner authorized by this Rule."

- The Company agreed with the said recommendation referencing the standard of responsibility defined in Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-46.03(2)(a)(i) and negotiated with J.P. Morgan Chase Bank, N.A. to include said standard in a new custodial agreement. The Domestic Custody Agreement with J.P. Morgan Chase Bank, N.A. (the Bank) dated August 15, 2005 was signed by the Company on August 15, 2005 and signed by the Bank on August 16, 2005.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Company.

In such manner, it was determined that, as of December 31, 2004, the Company had admitted assets of sixty one million one hundred forty five thousand eight hundred ninety six dollars ($61,145,896) and liabilities, exclusive of capital, of twenty seven million four hundred forty three thousand nine hundred ninety five dollars ($27,443,995). Thus, there existed for the additional protection of the policyholders/enrollees, the amount of thirty three million seven hundred one thousand nine hundred one dollars ($33,701,901) in the form of common capital stock, gross paid-in and contributed surplus, and unassigned funds (surplus).

The courteous cooperating of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Jeffrey Good, CFE
Contract Insurance Examiner
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of CIGNA HealthCare of Tennessee, Inc. dated December 13, 2005 and made as of December 31, 2004, on behalf of The Department of Commerce and Insurance, State of Tennessee. 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.

Jeffrey Good, CFE
Contract Insurance Examiner
State of Tennessee

Subscribed and sworn to before me
This 13th day of
December, 2005

Notary Helen W. Dorey
County Davidson
State Tennessee
Commission Expires 03/25/2006

Organization Chart
Cigna Healthcare Of Tennessee, Inc

December 31, 2004

	Line	NAIC Group Code	Group Name	NAIC Company Code	State of Domicile	Federal ID or All Number	Name of Company
0000001	Detail lines		CIGNA GROUP	0		06-1059331	CIGNA CORPORATION
0000002			CIGNA GROUP	0		06-1072796	CIGNA HOLDINGS, INC.
0000003			CIGNA GROUP	0		06-1095823	CIGNA INVESTMENT GROUP, INC.
0000004			CIGNA GROUP	0		52-0291385	CIGNA INTERNATIONAL FINANCE, INC.
0000005			CIGNA GROUP	0		23-1879590	CIGNA INTERNATIONAL INVESTMENT ADVISORS
0000006			CIGNA GROUP	0		06-0861092	TIMESQUARE CAPITAL MANAGEMENT, INC.
0000007			CIGNA GROUP	0		06-1336442	CIGNA MEZZANINE PARTNERS III, INC.
0000008			CIGNA GROUP	0		06-0840391	CONNECTICUT GENERAL CORPORATION
0000009			CIGNA GROUP	0		03-0452349	ARBOR REINSURANCE COMPANY, LTD. (BERMUDA
0000010			CIGNA GROUP	0		06-1280320	CIGNA BENEFITS PROCESSING IRLEND LTD
0000011			CIGNA GROUP	0		41-1648670	CIGNA BEHAVIROAL HEALTH INC.
0000012			CIGNA GROUP	0		59-2308055	CIGNA DENTAL HEALTH, INC.
0000013			CIGNA GROUP	0	CA	59-2600475	CIGNA DENTAL HEALTH OF CALIFORNIA, INC.
0000014			CIGNA GROUP	11175	CO	59-2675861	CIGNA DENTAL HEALTH OF COLORADO, INC.
0000015			CIGNA GROUP	95380	DE	59-2676987	CIGNA DENTAL HEALTH OF DELAWARE, INC.
0000016			CIGNA GROUP	52021	FL	59-1611217	CIGNA DENTAL HEALTH OF FLORIDA, INC.
0000017			CIGNA GROUP	52024	KS	59-2625350	CIGNA DENTAL HEALTH OF KANSAS, INC.
0000018			CIGNA GROUP	52108	KY	59-2619589	CIGNA DENTAL HEALTH OF

Organization Chart
Cigna Healthcare Of Tennessee, Inc

							KENTUCKY, INC.
0000019			CIGNA GROUP	48119	DE	59-2740468	CIGNA DENTAL HEALTH OF MARYLAND, INC.
0000020			CIGNA GROUP	11160	MO	06-1582068	CIGNA DENTAL HEALTH OF MISSOURI, INC.
0000021			CIGNA GROUP	11167	NJ	59-2308062	CIGNA DENTAL HEALTH OF NEW JERSEY, INC.
0000022			CIGNA GROUP	47001	NM	95-4452999	CIGNA DENTAL HEALTH OF NEW MEXICO, INC.
0000023			CIGNA GROUP	95179	NC	56-1803464	CIGNA DENTAL HEALTH OF NORTH CAROLINA, I
0000024			CIGNA GROUP	47805	OH	59-2579774	CIGNA DENTAL HEALTH OF OHIO, INC.
0000025			CIGNA GROUP	47041	PA	52-1220578	CIGNA DENTAL HEALTH OF PENNSYLVANIA, INC
0000026			CIGNA GROUP	95037	TX	59-2676977	CIGNA DENTAL HEALTH OF TEXAS, INC.
0000027			CIGNA GROUP	52617	VA	52-2188914	CIGNA DENTAL HEALTH OF VIRGINIA, INC.
0000028			CIGNA GROUP	47013	AZ	86-0807222	CIGNA DENTAL HEALTH PLAN OF ARIZON, INC.
0000029			CIGNA GROUP	0		06-0859006	CIGNA FINANCIAL PARTNERS, INC.
0000030			CIGNA GROUP	0		06-1443623	CIGNA FINANCIAL SERVICES, INC.
0000031			CIGNA GROUP	0		62-1312478	CIGNA HEALTH CORPORATION
0000032			CIGNA GROUP	223	NH	02-0387748	HEALTHCOURCE, INC.
0000033			CIGNA GROUP	95125	AZ	86-0334392	CIGNA HEALTHCARE OF ARIZONA, INC.
0000034			CIGNA GROUP	0		86-0759133	CIGNA COMMUNITY CHOICE, INC.
0000035			CIGNA GROUP	0	CA	95-3310115	CIGNA HEALTHCARE OF CALIFORNIA, INC.
0000036			CIGNA GROUP	95604	CO	84-1004500	CIGNA HEALTHCARE OF COLORADO, INC.
0000037			CIGNA GROUP	95660	CT	06-1141174	CIGNA HEALTHCARE OF CONNECTICUT, INC.

Organization Chart
Cigna Healthcare Of Tennessee, Inc

0000038			CIGNA GROUP	95544	DE	52-1347731	CIGNA HEALTHCARE OF DELAWARE, INC.
0000039			CIGNA GROUP	95136	FL	59-2089259	CIGNA HEALTHCARE OF FLORIDA, INC.
0000040			CIGNA GROUP	95602	IL	36-3385638	CIGNA HEALTHCARE OF ILLINOIS, INC.
0000041			CIGNA GROUP	95477	ME	01-0418220	CIGNA HEALTHCARE OF MAINE, INC.
0000042			CIGNA GROUP	95220	MA	02-0402111	CIGNA HEALTHCARE OF MASSACHUSETTS, INC.
0000043			CIGNA GROUP	95599	MD	52-1404350	CIGNA HEALTHCARE OF MID-ATLANTIC, INC.
0000044			CIGNA GROUP	95493	MA	02-0387749	CIGNA HEALTHCARE OF NEW HAMPSHIRE INC.
0000045			CIGNA GROUP	95500	ME	22-2720890	CIGNA HEALTHCARE OF NEW JERSEY, INC.
0000046			CIGNA GROUP	95209	OH	31-1146142	CIGNA HEALTHCARE OF OHIO INC.
0000047			CIGNA GROUP	95121	PA	23-2301807	CIGNA HEALTHCARE OF PENNSYLVANIA, INC.
0000048			CIGNA GROUP	95635	MO	36-3359925	CIGNA HEALTHCARE OF ST. LOUIS, INC.
0000049			CIGNA GROUP	95518	UT	62-1230908	CIGNA HEALTHCARE OF UTAH, INC.
0000050			CIGNA GROUP	96563	VA	54-1252797	CIGNA HEALTHCARE OF VIRGINIA, INC.
0000051			CIGNA GROUP	0	NH	02-0464421	HEALTHSOURCE SOUTH, INC. (NH)
0000052			CIGNA GROUP	96229	GA	58-1641057	CIGNA HEALTHCARE OF GEORGIA, INC.
0000053			CIGNA GROUP	95383	TX	74-2767437	CIGNA HEALTHCARE OF TEXAS, INC.
0000054			CIGNA GROUP	87980		02-0441070	CIGNA INSURANCE GROUP, INC.
0000055			CIGNA GROUP	0	IN	02-0453430	HEALTHSOURCE INDIANA, INC.
0000056			CIGNA	95525	IN	35-	CIGNA

Organization Chart
Cigna Healthcare Of Tennessee, Inc

			GROUP			1679172	HEALTHCARE OF INDIANA, INC.
0000057			CIGNA GROUP	95488	NY	11-2758941	CIGNA HEALTHCARE OF NEW YORK, INC.
0000058			CIGNA GROUP	95606	TN	62-1218053	CIGNA HEALTHCARE OF TENNESEE, INC.
0000059			CIGNA GROUP	95132	NC	56-1479515	CIGNA HEALTHCARE OF NORTH CAROLINA, INC.
0000060			CIGNA GROUP	63405		57-0937292	CIGNA INSURANCE SERVICES COMPANY
0000061			CIGNA GROUP	95708	SC	06-1185590	CIGNA HEALTHCARE OF SOUTH CAROLINA, INC.
0000062			CIGNA GROUP	0		AA-1560515	CIGNA LIFE INSURANCE COMPANY OF CANADA
0000063			CIGNA GROUP	64548	NY	13-2556568	CIGNA LIFE INSURANCE COMPANY OF NEW YORK
0000064			CIGNA GROUP	0		06-1637380	CIGNA VISION CARE, INC.
0000065			CIGNA GROUP	62308	CT	06-0303370	CONNECTICUT GENERAL LIFE INSURANCE COMPA
0000066			CIGNA GROUP	0		00-0000000	CG ALHAMBRA, LLC
0000067			CIGNA GROUP	0		00-0000000	CG BALLSTON, LLC
0000068			CIGNA GROUP	0		00-0000000	CG GILLETTE RIDGE, LLC
0000069			CIGNA GROUP	0		00-0000000	CG MERRICK, LLC
0000070			CIGNA GROUP	0		06-0303370	CG PINNACLE, LLC
0000071			CIGNA GROUP	0		00-0000000	CG WACKER DRIVE, LLC
0000072			CIGNA GROUP	0		00-0000000	CIGNA DULLES TOWN, LLC
0000073			CIGNA GROUP	93629	CT	06-1050034	CIGNA LIFE INSURANCE COMPANY
0000074			CIGNA GROUP	0	CT	23-2260195	CIGNA RETIREMENT BENEFIT SERVICES, INC.
0000075			CIGNA GROUP	0	CT	06-0851332	CONGEN PROPERTIES, INC.

Organization Chart
Cigna Healthcare Of Tennessee, Inc

0000076			CIGNA GROUP	0		00-0000000	CORAC NASHVILLE, LLC
0000077			CIGNA GROUP	0		52-2043466	HOUSTON PROPERTIES, LLC
0000078			CIGNA GROUP	0		33-0829867	KCL INVESTMENT COMPANY, LLC
0000079			CIGNA GROUP	0		06-1055669	GLOBAL PORTFOLIO STRATEGIES, INC.
0000080			CIGNA GROUP	0	NH	23-1728483	INTERNATIONAL REHABLITATION ASSOCIATES,
0000081			CIGNA GROUP	65498	PA	23-1503749	LIFE INSURANCE COMPANY OF NORTH AMERICA
0000082			CIGNA GROUP	0		46-0427127	TEL-DRUG, INC.
0000083			CIGNA GROUP	0		51-0389196	CIGNA CLOBAL HOLDINGS, INC.
0000084			CIGNA GROUP	0		98-0210110	CIGNA GLOBAL REINSURANCE COMPANY, LTD
0000085			CIGNA GROUP	0		00-0000000	CIGNA LIFE INSURANCE CO. OF EUROPE S.A.-
0000086			CIGNA GROUP	0		00-0000000	CIGNA EUROPE INSURANCE COMPANY S.A.-N.V.