

AETNA INC /PA/
Form 10-Q
August 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-16095

Aetna Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of incorporation or organization)
151 Farmington Avenue, Hartford, CT
(Address of principal executive offices)
Registrant's telephone number, including area code:

23-2229683
(I.R.S. Employer Identification No.)
06156
(Zip Code)
(860) 273-0123

Former name, former address and former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
 Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 348.6 million shares of the registrant’s voting common stock with a par value of \$.01 per share outstanding at June 30, 2015.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended June 30, 2015

Unless the context otherwise requires, references to the terms “we”, “our” or “us” used throughout this Quarterly Report on Form 10-Q (except the Report of Independent Registered Public Accounting Firm on page 39), refer to Aetna Inc. (a Pennsylvania corporation) (“Aetna”) and its subsidiaries (collectively, the “Company”).

| Table of Contents | | Page |
|-------------------|---|------|
| Part I | Financial Information | |
| Item 1. | Financial Statements | 1 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 40 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 58 |
| Item 4. | Controls and Procedures | 58 |
| Part II | Other Information | |
| Item 1. | Legal Proceedings | 59 |
| Item 1A. | Risk Factors | 59 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 59 |
| Item 4. | Mine Safety Disclosures | 59 |
| Item 6. | Exhibits | 60 |
| | Signatures | 62 |
| | Index to Exhibits | 63 |

Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

| (Millions, except per common share data) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|--|-----------------|--------------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue: | | | | |
| Health care premiums | \$12,936.5 | \$12,416.1 | \$25,876.6 | \$24,327.8 |
| Other premiums | 546.0 | 551.7 | 1,084.0 | 1,113.3 |
| Fees and other revenue ⁽¹⁾ | 1,509.0 | 1,289.5 | 2,884.0 | 2,538.3 |
| Net investment income | 247.4 | 228.3 | 480.3 | 472.5 |
| Net realized capital gains | 2.0 | 23.8 | 10.1 | 52.3 |
| Total revenue | 15,240.9 | 14,509.4 | 30,335.0 | 28,504.2 |
| Benefits and expenses: | | | | |
| Health care costs ⁽²⁾ | 10,496.3 | 10,314.8 | 20,736.8 | 19,891.1 |
| Current and future benefits | 539.2 | 525.6 | 1,067.3 | 1,104.3 |
| Operating expenses: | | | | |
| Selling expenses | 405.7 | 413.0 | 820.6 | 815.8 |
| General and administrative expenses | 2,396.1 | 2,188.2 | 4,797.9 | 4,235.8 |
| Total operating expenses | 2,801.8 | 2,601.2 | 5,618.5 | 5,051.6 |
| Interest expense | 78.3 | 81.3 | 157.3 | 166.9 |
| Amortization of other acquired intangible assets | 63.7 | 61.9 | 126.9 | 124.1 |
| Loss on early extinguishment of long-term debt | — | — | — | 91.9 |
| Total benefits and expenses | 13,979.3 | 13,584.8 | 27,706.8 | 26,429.9 |
| Income before income taxes | 1,261.6 | 924.6 | 2,628.2 | 2,074.3 |
| Income taxes: | | | | |
| Current | 515.7 | 350.5 | 1,162.7 | 769.0 |
| Deferred | 11.3 | 26.9 | (45.4) | 88.7 |
| Total income taxes | 527.0 | 377.4 | 1,117.3 | 857.7 |
| Net income including non-controlling interests | 734.6 | 547.2 | 1,510.9 | 1,216.6 |
| Less: Net income (loss) attributable to non-controlling interests | 2.8 | (1.6) | 1.6 | 2.3 |
| Net income attributable to Aetna | \$731.8 | \$548.8 | \$1,509.3 | \$1,214.3 |
| Earnings per common share: | | | | |
| Basic | \$2.10 | \$1.54 | \$4.32 | \$3.38 |
| Diluted | \$2.08 | \$1.52 | \$4.28 | \$3.35 |

Fees and other revenue include administrative services contract member co-payments and plan sponsor reimbursements related to our mail order and specialty pharmacy operations of \$28.5 million and \$52.6 million

⁽¹⁾ (net of pharmaceutical and processing costs of \$327.9 million and \$627.2 million) for the three and six months ended June 30, 2015, respectively, and \$26.4 million and \$48.2 million (net of pharmaceutical and processing costs of \$315.5 million and \$590.9 million) for the three and six months ended June 30, 2014, respectively.

⁽²⁾

Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of \$30.2 million and \$63.6 million for the three and six months ended June 30, 2015, respectively, and \$27.3 million and \$57.9 million for the three and six months ended June 30, 2014, respectively.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Page 1

Consolidated Statements of Comprehensive Income
(Unaudited)

| (Millions) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | | |
|--|--|---------|--------------------------------------|-----------|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Net income including non-controlling interests | \$734.6 | \$547.2 | \$1,510.9 | \$1,216.6 | |
| Other comprehensive income (loss), net of tax: | | | | | |
| Previously impaired debt securities: ⁽¹⁾ | | | | | |
| Net unrealized (losses) gains (\$ (2.7), \$3.4, \$(6.1) and \$5.1 pretax) | (1.8 |) 2.2 | (4.0 |) 3.3 | |
| Less: reclassification of gains to earnings (\$7.4, \$2.5, \$9.8 and \$3.1 pretax) | 4.8 | 1.6 | 6.4 | 2.0 | |
| Total previously impaired debt securities ⁽¹⁾ | (6.6 |) .6 | (10.4 |) 1.3 | |
| All other securities: | | | | | |
| Net unrealized (losses) gains (\$ (430.7), \$213.6, \$(310.8) and \$424.6 pretax) | (279.9 |) 138.8 | (202.0 |) 276.0 | |
| Less: reclassification of (losses) gains to earnings (\$ (28.4), \$6.9, \$(39.4) and \$1.9 pretax) | (18.4 |) 4.5 | (25.6 |) 1.2 | |
| Total all other securities | (261.5 |) 134.3 | (176.4 |) 274.8 | |
| Foreign currency and derivatives: | | | | | |
| Net unrealized gains (losses) (\$26.8, \$(19.3), \$5.4 and \$(38.5) pretax) | 17.4 | (12.5 |) 3.5 | (25.0 |) |
| Less: reclassification of (losses) gains to earnings (\$ (1.4), \$(1.4), \$(2.9) and \$14.2 pretax) | (.9 |) (.9 |) (1.9 |) 9.2 | |
| Total foreign currency and derivatives | 18.3 | (11.6 |) 5.4 | (34.2 |) |
| Pension and other postretirement employee benefit (“OPEB”) plans: | | | | | |
| Less: amortization of net actuarial losses (\$ (16.0), \$(11.9), \$(32.1) and \$(23.8) pretax) | (10.4 |) (7.7 |) (20.9 |) (15.4 |) |
| Less: amortization of prior service credit (\$1.0, \$1.0, \$2.0 and \$2.0 pretax) | .6 | .7 | 1.3 | 1.3 | |
| Total pension and OPEB plans | 9.8 | 7.0 | 19.6 | 14.1 | |
| Other comprehensive (loss) income | (240.0 |) 130.3 | (161.8 |) 256.0 | |
| Comprehensive income including non-controlling interests | 494.6 | 677.5 | 1,349.1 | 1,472.6 | |
| Less: Comprehensive income (loss) attributable to non-controlling interests | 2.8 | (1.6 |) 1.6 | 2.3 | |
| Comprehensive income attributable to Aetna | \$491.8 | \$679.1 | \$1,347.5 | \$1,470.3 | |

⁽¹⁾ Represents unrealized (losses) gains on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Balance Sheets

| (Millions) | (Unaudited) | |
|--|---------------------|----------------------------|
| | At June 30, 2015 | At December 31, 2014 |
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,125.8 | \$ 1,420.4 |
| Investments | 2,545.8 | 2,595.2 |
| Premiums receivable, net | 2,513.6 | 1,623.0 |
| Other receivables, net | 2,745.2 | 2,065.9 |
| Accrued investment income | 226.5 | 223.9 |
| Collateral received under securities loan agreements | 543.7 | 826.9 |
| Income taxes receivable | 90.0 | 372.7 |
| Deferred income taxes | 458.4 | 443.0 |
| Other current assets | 2,733.1 | 2,193.0 |
| Total current assets | 12,982.1 | 11,764.0 |
| Long-term investments | 22,180.1 | 22,193.9 |
| Reinsurance recoverables | 840.3 | 751.4 |
| Goodwill | | |