

Glossary of Terms

A

Accrual Basis

Under the accrual basis of accounting, income and expenses are recorded on the books for the period in which they are earned or incurred, regardless of whether the income was actually received or expenses actually paid in the period.

Accrued Expenses and Other Liabilities

Represents the amounts that arise due to the recording of expenses for the period in which they were incurred, even though they may be paid in a different accounting period.

Accrued Investment Income

Represents investment income earned but not yet received.

Accumulated Other Comprehensive Income

A separate component of shareholders' equity, which refers to revenues, expenses, gains, and losses that under GAAP are included in comprehensive income but excluded from net income. Aetna's Comprehensive Income consists primarily of unrealized gains or losses on investment securities classified as available for sale and foreign currency items and certain derivative transactions.

Administrative Service Fees

Fees received in exchange for performing certain claims processing and member services for self-insured members. Fees are recognized as revenue over the period the service is provided.

Administrative Services Only (ASO)

Refers to a self-insured or alternatively financed health plan that has entered into an agreement with Aetna to provide specific administrative services (e.g., claims processing).

Amortization

Accounting procedure that gradually reduces the cost value of a limited life or intangible asset (including goodwill) through periodic charges to income. Amortization is a non-cash expenditure.

Assets

Anything having value or probable future economic benefit that is owned by the company.

B

Balance Sheet

Financial report, also called a statement of condition or statement of financial position, showing the status of the company's assets, liabilities, and shareholders' equity on a given date.

C

Capital Asset

Long-term assets, such as property and equipment acquired for use in normal operations. Also referred to as fixed assets. Capital assets that create capital gains or losses include investment property.

Capital Gains/Losses

Gains and losses realized on the sale or exchange of a capital asset for income tax and financial reporting purposes. Capital gains or losses are non-operating items, and therefore not included in determining operating earnings.

Capitation Costs

Contractual monthly fees paid to participating physicians and other medical providers on a regular basis regardless of the frequency or type of service provided.

Cash and Cash Equivalents

Include cash on hand, money market instruments and other debt securities with a maturity of 90 days or less when purchased. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these instruments.

Cash Earnings Per Share

Cash Operating Earnings divided by the weighted average outstanding number of common shares and equivalents during the accounting period.

Cash Flow Statement

Financial report, showing the inflow and outflow of cash of the company for operating, investing, and financing activities.

Cash Operating Earnings

Cash operating earnings are derived by adding back the amount of amortization of goodwill and other intangible assets to operating earnings.

Coinsurance

A group sponsor's policy provision under which the covered member pays or shares part of the medical bill.

Collateral

Security given by a borrower to a lender as a pledge for payment of a loan.

Collateral Received/Payable Under Securities Loan Agreements

Result from securities that are loaned to other institutions for short periods of time. The market value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. The collateral is deposited by the borrower with an independent lending agent, and retained and invested by the lending agent according to company's guidelines. Collateral Received and Collateral Payable Under Securities Agreements will always be equal.

Combining Balance Sheet

Financial report that shows the combined balance sheet of Health Care and Group Insurance added to Large Case Pensions to arrive at the total consolidated balance sheet.

Commercial HMO Medical Cost Ratio

The ratio of Commercial HMO Health Care Costs to Commercial HMO premiums.

Commercial HMO Premium

Includes premiums for all medical HMO products except Medicare and Medicaid.

Commercial Risk Medical Cost Ratio

The ratio of Commercial Risk Health Care Costs to Commercial Risk premiums.

Commercial Risk Premium

Includes premiums for all medical and dental risk products except Medicare and Medicaid.

Common Stock

The basic ownership interest in a corporation issued by the company as reported on its balance sheet.

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Copayment

The portion of a claim or medical expense that a member (or covered insured) must pay out of pocket, usually a fixed amount.

Current and Future Benefits

Estimates of claims to be paid on certain short-duration group disability and term life insurance contracts, estimates of future policy benefits to be paid on pension and annuity contracts in the Large Case Pensions segment, and estimates of future policy benefits to be paid for group paid-up and supplemental life and long-term care insurance.

Current Assets

Cash or other assets that are likely to be converted to cash or consumed in the normal course of business, usually within one year.

Current Liabilities

Debt or other obligations coming due within a year.

D

Date of Service

Refers to medical cost and related information reflecting results based upon the actual time period services were performed.

Days Claims Payable

A measure used to depict the number of days of health care costs in the ending reserve. Days claims payable is calculated by taking Health Care Costs Payable, on the balance sheet, divided by (Health Care Costs, on the income statement, divided by the number of days in the period).

Debt-to-Capital Ratio

The ratio of total short-term and long-debt (liabilities) on the balance sheet as a percentage of total shareholders' equity plus short-term debt and long-term debt.

Deductible

The portion of the covered member's health care expenses that must be paid out of pocket before the member's plan begins paying its share.

Deferred Income Taxes

Deferred tax consequences attributable to differences in the timing of recording expenses or income for book and tax purposes. This can be an asset or a liability.

Derivatives

In general terms, a contract whose value depends on (or "derives" from) the value of an underlying asset, reference rate or index. The main over-the-counter derivatives include swaps, forwards, options, and futures.

Diluted Earnings Per Common Share

Earnings per share calculation that assumes the issuance of all potentially dilutive common shares, primarily stock options, where the proceeds received by the company are below the current fair market value, thereby increasing the number of weighted average shares outstanding. Diluted earnings per common share are therefore calculated as: Operating earnings or net income divided by the "diluted" weighted average outstanding number of common shares during the accounting period.

Dilution

Effect on earnings per share and book value if all dilutive stock options were exercised. Dilution creates a reduction in earnings per share due to a greater number of shares assumed outstanding.

Dividend Yield

Dividends paid on each share of common stock expressed as a percentage of the market price of those shares. Also known as Common Dividend Yield.

Dividends

Payments, generally declared by the Board of Directors, from retained earnings to shareholders.

E

Earnings Per Common Share (EPS)

Operating earnings or net income divided by the weighted average outstanding number of common shares during the accounting period.

Employer Funded Plans

Refers to a plan where the employer retains financial responsibility for claim payments, and assumes all or a majority of the risks associated with providing coverage. Most often, the employer engages the services of a plan administrator to handle functions like: claim processing, accounting, quality assurance, fiduciary, etc. Also known as self-insured or ASO plans.

F

Fair Value of Investments

Aetna has classified its investment securities (debt and equity) as available for sale and carries them at fair value. Fair value for such securities are based on quoted market prices or dealer quotes. Where quoted market prices or dealer quotes are not available, fair values are measured utilizing quoted market prices for similar securities or by using discounted cash flow methods.

Fee-for-Service

Payment of specific amounts for specific services rendered on a service unit basis.

Financial Accounting Standards Board (FASB)

Board composed of independent members who are responsible for establishing and interpreting Generally Accepted Accounting Principles (GAAP). Aetna's financial statements are prepared in accordance with GAAP.

Financial Statement Basis

Refers to medical cost and related information reflecting results that have occurred within the current reporting period.

Financial Statements

Financial statements communicate financial information to users for evaluating the financial health of the company, and consists principally of a balance sheet, an income statement, a statement of shareholders' equity, and a statement cash flows. These financial statements are interrelated with each other.

Fixed Assets

Property, plant, and equipment acquired for use in normal operations and not for sale. Also referred to as capital assets.

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Form 10-K

Securities and Exchange Commission report that a publicly traded company must file with the SEC on an annual basis. It provides a comprehensive overview of the company's business and financial condition. Form 10-K must be filed with the SEC within 90 days after the end of the company's fiscal year.

Form 10-Q

Securities and Exchange Commission report that a publicly traded company must file with the SEC on a quarterly basis. It includes unaudited financial statements and provides an updated view of the company's results and financial position since the filing of the last Form 10-K. The report must be filed for each of the first three fiscal quarters of the company's fiscal year and is due within 45 days of the close of the quarter.

Form 8-K

Securities and Exchange Commission "current report" used to report certain events or provide additional information that has previously not been reported by the company in a quarterly report (Form 10-Q) or annual report (Form 10-K). Examples of these events or changes include: acquisition or sale of significant assets not made in the ordinary course of the company's business; change in control of the company; etc.

Future Policy Benefits

Balance Sheet account that consists primarily of reserves for limited payment pension and annuity contracts in Large Case Pensions and certain long duration life and long-term care insurance contracts in the Group Insurance segment.

Futures Contracts

Represent commitments to either purchase or sell securities at a specified future day and at a specified price or yield.

G

Generally Accepted Accounting Principles (GAAP)

The overall conventions, rules, and procedures that define accepted accounting practice at a particular time in the U.S.

Goodwill

An intangible asset that represents the excess of the amount paid for an acquired company over the fair market value of the net assets of that company. Goodwill is different than identifiable intangible assets, such as customer lists, trademarks, etc.

Group Insurance Segment

One of the three (Health Care, Group Insurance, and Large Case Pensions) current reportable business segments of Aetna. The Group Insurance segment includes group life, disability, and long-term care insurance products.

H

Health Care Costs

Costs for medical and dental covered claims incurred within the Risk Product Grouping.

Health Care Costs Payable

Pertains to the Health Care segment; consist principally of unpaid health care claims, capitation costs and other amounts due to health care providers pursuant to risk-sharing arrangements in the Health Care segments' HMO, POS, PPO, and Indemnity plans. Unpaid health care claims include estimates of payments to be made on claims reported but not yet paid and health care services rendered but not yet reported to the company as of the balance sheet date.

Health Care Financing Administration (HCFA)

The federal agency responsible for administering Medicare and overseeing states' administration of Medicaid.

Health Care Segment

One of the three (Health Care, Group Insurance, and Large Case Pensions) reportable business segments of Aetna. The Health Care segment includes both medical and dental products and has been further delineated between Risk and Non-Risk product groupings.

Health Maintenance Organization (HMO)

A health plan, which provides comprehensive managed care benefits generally offered through participating network physicians, hospitals, and other providers.

Hedge

A financial transaction that reduces risk or market exposure.

HIPAA

Health Insurance Portability and Accountability Act of 1996; Purpose is to improve the efficiency and effectiveness of the health care system by standardizing the electronic exchange of administrative financial data and to protect the security and privacy of electronically transmitted health information.

I

Income Statement

Financial report summarizing the revenues, costs, and expenses of a business during an entire accounting period.

Income Taxes

Annual tax on income levied by the federal government and by Annual tax on income levied by the federal government and by certain state governments. Income tax expense is accrued quarterly.

Income Taxes Payable

The obligation to pay federal and state income taxes that are due within one year from the balance sheet date.

Incurred But Not yet Reported (IBNR)

Health care claims used in reference to Health Care Costs Payable and that have been rendered but not yet reported to the company as of the balance sheet date.

Indemnity

A health plan, which offers the member the ability to select any health care provider for covered services. Coverage is subject to deductibles and coinsurance, with member cost sharing limited by out-of-pocket maximums.

Intangible Assets

Nonphysical assets with continuing value, such as goodwill, customer lists, health provider networks, work force, and computer systems, etc.

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Interest Expense

Interest expense is the cost of borrowed funds.

Investment Income

Income derived from invested capital as distinguished from income derived from services. In insurance company accounting, investment income is current income (interest, dividends, etc.) from securities held in portfolios, as contrasted with capital gains or losses derived from actual sale of securities.

Investment Real Estate

Real estate investments that Aetna engages in and intends to hold for the production of income. Properties are carried at depreciated cost, including capital additions, net of write-downs for other than temporary declines in fair value.

Investment Securities

Securities held by the company in order to generate capital gains and/or investment income. Investment securities consist primarily of U.S. Treasury and agency securities, mortgage-backed securities, corporate and foreign bonds, and other debt and equity securities.

L

Large Case Pensions (LCP) Segment

One of the three (Health Care, Group Insurance, and Large Case Pensions) current reportable business segments of Aetna. The Large Case Pensions segment is comprised of retirement products (including pension and annuity products) primarily for defined benefit and defined contribution plans.

Liability

A financial obligation, or the cash outlay that must be made at a specific time to satisfy the contractual terms of such an obligation

Loaned Securities

Aetna engages in securities lending whereby certain securities from its portfolio are loaned to other institutions for periods of time. Such securities are classified as loaned securities.

Long Term Debt

Borrowed funds due after one year from the balance sheet date.

Long Term Investments

Investments with a maturity of greater than one year.

Long Term Liabilities

Obligations that are due after one year from the balance sheet date

M

Medical Cost Ratio (MCR)

The ratio of health care costs to premiums received. Also known as Medical Loss Ratio (MLR).

Medicare HMO Medical Cost Ratio

The ratio of Medicare HMO Health Care Costs to Medicare HMO premiums.

Medicare HMO Premium

Premiums received in connection with the Medicare HMO product.

Mortgage Loans

Loans made to purchasers of real property, which are generally secured by the underlying real estate property.

Mortgage Securitization

Aetna, may, from time to time, securitize and sell certain mortgage loans and may retain an interest in the securitized mortgage loans. A securitized mortgage loan is the pooling and repackaging of similar mortgage loans into marketable securities that can be sold to investors.

N

Net Income (Loss)

The net result of all revenue and expense items for the period. Also called Net Profit or (Loss).

Non-Risk Product Grouping

Includes all medical and dental products offered on an employer-funded basis (Administrative Services Only – ASO). Under employer-funded plans, the plan sponsor, and not the company, assumes all or a majority of these risks.

O

Open Access

A self-referral arrangement allowing members to see participating physicians for specialty care without a referral from a primary care doctor or authorization from the plan.

Operating Earnings/Loss

The profit or loss generated by a company's normal, recurring operating activities before considering non-operating items and realized capital gains or losses.

Operating Expense Ratio

A measure of operating efficiency, which is the ratio of operating expenses to revenues. Aetna calculates the operating expense ratio as operating expenses, excluding other items divided by revenues.

Operating Expenses

The costs of conducting business operations.

Operating Margin

Operating earnings expressed as a percentage of revenue. Aetna calculates pretax/after-tax operating margin by dividing pretax/after-tax operating earnings excluding other items (such as non-recurring charges, etc.), interest expense, and goodwill-intangibles amortization by total revenue, excluding net realized capital gains or losses.

Other Assets

A balance sheet item reflecting the combination of all miscellaneous non-itemized asset accounts.

Other Income

For the Health Care and Group Insurance segments, includes other miscellaneous items (i.e., management fees, etc.). In the Large Case Pensions business segment reflects, primarily, charges assessed against policyholders' funds for contract fees, participant fees and asset charges related to pension and annuity products.

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Other Investments

A balance sheet item reflecting the combination of all miscellaneous non-itemized investment accounts.

Other Liabilities

A balance sheet item reflecting the combination of all miscellaneous non-itemized liabilities.

Other Receivables

A balance sheet item reflecting the combination of all miscellaneous non-itemized receivable accounts.

P

Plan Sponsor

A group (typically an employer) that organizes the group health plan, oversees its facilities, and provides managerial authority.

PMPM

Per Member Per Month; associated with premium and medical costs measured on a monthly per member basis.

Point-of-Service (POS)

A health plan, which blends the characteristics of HMO and Indemnity plans. Members can have comprehensive HMO-style benefits through participating network providers with minimum out-of-pocket expense (copayments) and also can go directly, without referral, to any provider they choose, subject to, among other things, certain deductibles and coinsurance, with member cost sharing limited by out-of-pocket maximums.

Policyholders' Funds

Reserves for pension and annuity investment contracts in the Large Case Pensions segment and customer funds associated with group life and health contracts.

Preferred Provider Organization (PPO)

A health plan, which offers the member the ability to select any health care provider, with benefits paid at a higher level when care is received from a participating network provider. Coverage is subject to copayments or deductibles and coinsurance, with member cost sharing limited by out-of-pocket maximums.

Premiums

Revenue received in consideration for specific health services provided. Associated with the Health Care Risk product grouping as well as group life and disability products. Health care Risk premiums are recognized as income in the month in which the enrollee is entitled to receive health care services. Group life and disability premiums are recognized as income over the term of the coverage. Premiums are reported net of allowances for uncollectable accounts.

Premiums Receivable

Represent the amount of premium billed to plan sponsors and not yet received.

Price-to-Earnings Ratio

The comparison of the market price of a share of stock to the earnings per share of that stock expressed as a ratio. The number of times the market price of a share of stock exceeds the company's annual per share earnings estimate. Also called the P/E ratio and earnings multiple.

Property and Equipment

Typically long-lived (fixed), tangible (possessing physical substance) assets that are owned by businesses for use in operations and are not held for investment or for resale.

R

Realized Capital Gains (Losses)

Gains and losses realized on the sale or exchange of capital assets.

Regulation FD

Regulation Fair Disclosure, aims to promote the full and fair disclosure of material information to investors. Regulation FD provides that when an issuer discloses material nonpublic information to certain individuals or entities - generally, securities market professionals, such as stock analysts, or holders of the issuer's securities - the issuer must make public disclosure of that information.

Revenue

Actual or expected cash inflows (or the equivalent) that have occurred or will eventually occur as a result of the company's ongoing major or central operations during the period.

Risk Product Grouping

Includes all medical and dental products for which the company assumes all or a majority of health care cost, utilization, mortality, morbidity, or other risk (HMO, POS, PPO, and Indemnity).

S

Securities and Exchange Commission (SEC)

A federal agency that regulates the U.S. securities markets. The SEC also oversees the securities industry and promotes disclosure of material information to the investing public.

Securities Lending

Aetna engages in securities lending whereby certain securities from its portfolio are loaned to other institutions for periods of time. Such securities are classified as loaned securities.

Securitization

The pooling and repackaging of similar loans into marketable securities that can be sold to investors.

Self-Insured

Refers to a plan where the employer retains financial responsibility for claim payments, and assumes all the risks associated with providing coverage. Most often, the employer engages the services of a plan administrator to handle functions like: claim processing, accounting, quality assurance, fiduciary, etc. These services would be incorporated into an Administrative Services Only agreement.

Separate Accounts Assets/Liabilities

Generally represent funds maintained to meet specific investment objectives of contractholders who bear investment risk. Investment income and investment gains and losses generally accrue directly to such contractholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the company. These assets and liabilities are carried at market value. Aetna generally earns a fee for maintaining these separate accounts.

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Shareholders Equity

The excess of the Company's assets less its liabilities. Shareholders' equity is comprised of common stock and additional paid-in capital, retained earnings and accumulated other comprehensive income.

Short-term Debt

Debt with maturities of year or less.

Stock Option

An agreement, between the company and its executives/employees, that grants the right to purchase common stock of the company, at a specified price. Options are deemed common stock equivalents and are added to the average actual number of shares under the treasury stock method to arrive at the weighted average shares, assuming dilution.

U

Unearned Premiums

Balance Sheet account related to premiums for unexpired contractual coverage periods.

Unpaid Claims

Balance Sheet account that consists of reserves associated with certain group disability and term life insurance contracts for the Group Insurance segment.

W

Warrants

Financial instruments that provide the right, but not the obligation, to buy a security at a given price during a specified period.

Weighted Average Common Shares

The number of common shares outstanding plus the effect of dilutive stock options and stock-based awards and the effect of potentially dilutive conversions of preferred stock, where appropriate.