

## 2008 Annual Report

# A Letter from Our Chairman

### To our shareholders:

I am pleased to highlight Aetna's industry-leading performance in 2008, which came despite the turmoil caused by larger economic trends. We posted solid financial results, added nearly 850,000 new medical members and were active in the national discussion about transforming health care. I also want to recognize the contributions of our dedicated and engaged employees. Aetna's success begins with one word – values – and it is our employees who bring those values to life through their actions, each and every day.



Ronald A. Williams  
Chairman and Chief Executive Officer

### Delivering Results

Aetna ended 2008 with significant momentum and a sound, flexible strategy designed to adapt to new challenges. We recognize the importance of continuing to execute on this strategy, and listening to our customers to develop products and services that best meet their needs.

Like other companies, we faced a challenging business environment as the global financial crisis became a defining event in 2008, and our stock closed lower at the end of 2008 than the previous year. Our stock's performance, however, does not reflect other measures of our industry leadership, including superior medical membership growth, industry-leading operating earnings per share growth and strong revenue growth. Metrics of this industry-leading performance included:

- Revenue, excluding net realized capital losses, increased 14 percent over 2007 to \$31.6 billion.
- Net medical membership increased by 848,000 members, or 5 percent, to 17.7 million.
- Operating earnings per share were \$3.93, an increase of 13 percent over 2007.

### Staying True to our Strategy

Our accomplishments have been the direct result of a strategy focused on segmentation, integration, consumerism and operational excellence. Over time, executing this strategy has created value for our customers and differentiated Aetna from our competitors.

**Meeting distinct customer needs through Segmentation:** We work constantly to identify the needs of specific customer groups to create solutions that will be meaningful. In 2008, for example, Aetna offered products and services to public sector industries within Small and Middle Markets resulting in growth of 53,000 members. We opened an office in China and developed new relationships in the Middle East, furthering our global expansion. Aetna Global Benefits grew by 125,000 members in 2008 and is

now one of the largest United States-based providers of expatriate health insurance. Additionally, our Aetna Student Health and Medicaid businesses continue to expand as we provide value-added solutions for these uninsured or underserved populations.

**Helping to improve quality and costs through Integration:** We know that integrating our information, products and services can lead to improved health outcomes for our members and reduced costs and improved productivity for our customers. It is an essential component of our strategy. As a result, we have made additional investments in our people and technology solutions to enhance our ability to identify and engage members in a more personal manner across our broad array of integrated solutions.

**Engaging members in their health through Consumerism:** Aetna is a leader in empowering members to become well-educated and more engaged consumers. Our consumer-directed membership increased by 44 percent during 2008, and 83 percent of our members have access to our best-in-class transparency tools and information. We know that enabling members to take charge of their health helps them to live longer, healthier and more productive lives; and we will continue to use tools and technologies to drive toward a true consumer-driven marketplace.

**Serving all of our constituents with a standard of Operational Excellence:** Operational excellence is the fourth pillar of our successful business strategy, and we view it as a true differentiator for us. Aetna experienced our largest January 1 membership growth in recent history as we began 2009, exceeding our normal open enrollment gains by approximately 100,000 members. It's not enough to add members, however. Our goal is to meet and exceed the expectations that our new and existing members have with regard to service. We are constantly working to identify best practices, implementing process improvements and listening to our customers. Importantly, we also are employing new technologies to help us better serve our customers and members, maximizing both our customers' and Aetna's investments. These combined elements are what earned Aetna its top ranking across all categories – including network, service and utilization management – in UBS Investment Research's benefit consultant survey, for the third consecutive survey.

These strategic elements give customers and members a reason to choose Aetna, and our ability to execute on them effectively enabled us to outperform our competitors and achieve operating earnings growth for the 28th consecutive quarter. And, for the second year in a row, we have been recognized by *Fortune* magazine as the most admired company in our industry. Earning a place among the world's most admired companies is an impressive accomplishment that reflects how we handle ourselves and the commitment we have to our customers.

### **The Recognized Leader in Health Care Reform**

We have successfully positioned Aetna as a leader willing to offer solutions to fundamentally change health care in this country. Our concrete recommendations would expand access to affordable, quality health care coverage in America; and we regularly discuss our views with government leaders, community and interest groups, and in the media. Unquestionably, health care reform will be front and center legislatively in 2009, and we will be a voice in the debate seeking to bring our experience in serving nearly 18 million medical members.

No single stakeholder can effectively change the system alone. Instead, we believe it will take a strong public and private partnership to make a meaningful change. For our part, we have advanced a proactive agenda focused on requiring individuals to have insurance; enrolling eligible uninsured in existing programs; expanding health information technology; creating mechanisms to improve health care quality and value; using the tax system to encourage greater access to the health care system; and creating new ways of pooling individuals.

Aetna is determined to be part of the health care solution; and to help achieve better health care access, quality, and affordability for all Americans.

### **Continued Success in 2009**

Being a leader means choosing to do the right things for the right reasons. It means taking the long, sometimes more challenging road rather than the easy one. In 2009, we will maintain our focus on our successful business strategy and serving our customers; and we will continue to be a credible voice in the health care debate.

This year, we have chosen to move our traditional summary *Annual Report* to an electronic format in order to conserve resources and respect the environment. I invite you to learn more about the four essential elements of our values and how Aetna employees are helping to improve health care one person at a time.

Thank you for your investment in Aetna.

A handwritten signature in black ink, appearing to read "Ronald A. Williams". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

**Ronald A. Williams**

Chairman and Chief Executive Officer

April 2009



## 2008 Annual Report

# Financial Highlights

(Millions, except for per common share data)

<b>FOR THE YEAR</b>	<b>2008</b>	<b>2007</b>	<b>CHANGE</b>
Revenue <sup>1</sup>	\$30,950.7	\$27,599.6	12.1%
Operating Earnings <sup>2</sup>	1,920.9	1,837.1	4.6%
Net Income	1,384.1	1,831.0	(24.4)%
Operating Expense Ratio <sup>3</sup>	17.8%	18.2%	(2.2)%
After-tax Operating Margin	4.5%	6.6%	(31.8)%
<b>AT YEAR END</b>			
Assets	\$35,852.5	\$50,724.7	(29.3)%
Shareholders Equity	8,186.4	10,038.4	(18.4)%
Market Capitalization	13,003.2	28,649.5	(54.6)%
Common Shares Outstanding	456.3	496.3	(8.1)%
<b>PER COMMON SHARE</b>			
Operating Earnings <sup>2</sup>	\$3.93	\$3.49	12.6%
Net Income	\$2.83	\$3.47	(18.4)%

(1) Revenue, excluding net realized capital losses, increased 14 percent over 2007 to \$31.6 billion.

(2) Operating earnings excludes from net income: net realized capital losses of \$482 million (\$656 million pretax) in 2008 and \$48 million (\$74 million pretax) in 2007; a reduction of the reserve for anticipated future losses on discontinued products of \$29 million (\$44 million pretax) in 2008 and \$42 million (\$64 million pretax) in 2007; a severance and facilities charge of \$36 million (\$55 million pretax) in 2008; a contribution for the establishment of an out-of-network pricing database of \$20 million (\$20 million pretax) in 2008; and an allowance on a reinsurance recoverable of \$27 million (\$42 million pretax) in 2008.

(3) The operating expense ratio (GAAP basis) was 18.6% in 2008 and 18.3% in 2007. The operating expense ratio excludes net realized capital losses from total revenue in both years as discussed in (2) above and also excludes the severance and facilities charge, contribution for the establishment of an out-of-network pricing database and an allowance on a reinsurance recoverable in 2008 as discussed in (2) above.

The foregoing financial information should be read in conjunction with the financial statement and related notes as presented in Aetna Inc.'s 2008 Annual Report, Financial Report to Shareholders.

