

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company, Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**RESPONSE TO
SUPPLEMENTAL REQUEST 4.3.13.2
FROM THE PENNSYLVANIA INSURANCE DEPARTMENT**

SUPPLEMENTAL REQUEST 4.3.13.2 (via letter from the PID dated September 26, 2012):

Provide a fully and complete copy of any materials submitted to credit rating agencies by any UPE Entity related to the Supplemented Transaction. This Supplemental Filing Request does not include materials previously submitted in response to Request 4.3.13. Also discuss any changes in credit rating for any UPE Entity related to the Supplemented Transaction.

RESPONSE:

UPE hereby supplements its prior responses to this Request by attaching at Tab A the February 5, 2013 Moody's Investors Service Rating Update for WPAHS.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222

TAB A

Rating Update: Moody's affirms West Penn Allegheny Health System's (PA) Ca bond rating; Outlook revised to developing from negative

Global Credit Research - 05 Feb 2013

Action affects \$726 million of outstanding debt

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY, PA
Hospitals & Health Service Providers
PA

Opinion

NEW YORK, February 05, 2013 –Moody's Investors Service has affirmed West Penn Allegheny Health System's (WPAHS or the System) (PA) Ca bond rating, affecting \$726 million of Series 2007 fixed rate bonds issued through the Allegheny County Hospital Development Authority. At this time, we are revising the outlook to developing from negative.

SUMMARY RATING RATIONALE

The developing outlook reflects the possibility of a rating upgrade or downgrade, depending on the outcome of the announced tender process and magnitude of the loss relative to the original par value of the bonds. In January, WPAHS announced plans for a tender of the Series 2007 bonds. WPAHS executed an amended affiliation agreement with Highmark and a non-binding term sheet with respect to the bonds that provides for a cash tender by Highmark for all bonds at a tender price of 87.5% in outstanding par amount of the tendered bonds, to occur no later than April 30, 2013.

Upon completion of the tender Moody's will determine whether the events constitute a debt default under Moody's definition. Four events constitute a debt default under Moody's definition, one of which is a distressed exchange whereby (1) an obligor offers creditors a new or restructured debt, or a new package of securities, cash or assets that amount to a diminished financial obligation relative to the original obligation and (2) the exchange has the effect of allowing the obligor to avoid a bankruptcy or payment default in the future.

The Ca rating reflects the severity of the financial status of the System and execution risks related to completing the tender. WPAHS's operating loss in fiscal year 2012 (based upon unaudited financial information) was very high at \$113 million, exceeding the loss in fiscal year 2011. WPAHS's weak unrestricted investment and cash position of \$273 million as of June 30, 2012 effectively has been supported by payments from Highmark. WPAHS has received a total of approximately \$232 million in grants, loans and other advances and capital support since 2011. WPAHS needs to complete several steps prior to the tender including receiving Pennsylvania Insurance Department approval with conditions acceptable to Highmark as well as other required approvals.

CHALLENGES

*Risks related to completing the steps necessary to complete the tender process

*Very large operating loss in fiscal year 2012 of \$113 million, exceeding the fiscal year 2011 operating loss of \$75 million (excluding a large non-recurring positive item) primarily driven by a 1% revenue decline

*Continued decline in acute discharges of 6% in fiscal year 2012 (3% decline including observation cases), largely due to the closure and downsizing of services at West Penn Hospital in December 2010 and then, upon reopening of the emergency department on February 14, 2012 and the return of full medical and surgical services at West Penn Hospital, volumes have exceeded expectations at West Penn Hospital; however, volume shortfalls in the latter half of fiscal year 2012 for the System as a whole were reportedly due to Highmark's extension of a contract with University of Pittsburgh Medical Center (UPMC), which retained patient volumes that were anticipated to shift to WPAHS upon termination of the contract

*Weak unrestricted cash position of \$273 million or 62 days of cash on hand as of June 30, 2012; Highmark has provided \$200 million in payments under the agreement as well as other advances and capital support, suggesting

that, without such support, WPAHS would have largely depleted its cash

*As of fiscal yearend 2012, underfunded status of pension plan was large at \$279 million, an \$82 million increase since fiscal yearend 2011 due to the decline in the discount rate

*Heavy competition from UPMC (Aa3/positive), which is the largest health system in the region and owns a large managed care plan, enabling UPMC to influence health plan membership and volumes; UPMC opened a new hospital competing with WPAHS's Forbes Regional Hospital in July 2012, which has resulted in a significant decline in volumes at that facility, though the decline was less than expected

*High leverage relative to operating performance with 57% debt-to-operating revenues; peak debt service coverage is zero based upon Moody's methodology.

*Challenging demographic service area with declining population trends in the primary service area and an aging patient base

STRENGTHS

*Significant financial support received from Highmark

*Favorable debt structure with all fixed rate debt and no interest rate derivatives

*System's prominence as the second largest healthcare system in Pittsburgh with 56,000 acute discharges

DETAILED CREDIT DISCUSSION

Please refer to Moody's report dated November 13, 2012 for more details.

OUTLOOK

The developing outlook reflects the possibility of a rating upgrade or downgrade, depending on the outcome of the announced tender process and magnitude of the loss relative to the original par value of the bonds.

WHAT COULD MAKE THE RATING GO UP

Loss to bondholders less than 35% relative to par value

WHAT COULD MAKE THE RATING GO DOWN

Loss to bondholders greater than 65% relative to par value

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for West Penn Allegheny Health System

-First number reflects audit year ended June 30, 2011

-Second number reflects unaudited results for year ended June 30, 2012

-Non-recurring items adjusted: In 2011, \$23 million gain from the termination of a joint venture with a payer removed from revenue; restructuring costs reclassified to operating expenses for all periods

-Investment returns normalized at 6% unless otherwise noted

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

-Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

*Inpatient acute discharges: 59,972; 56,146

*Observation stays: 15,313; 16,688

*Medicare % of gross revenues: 46.0%; 46.0%

- *Medicaid % of gross revenues: 13.0%; 12.0%
- *Total operating revenues (\$): \$1.6 billion; \$1.6 billion
- *Revenue growth rate (%) (3 yr CAGR): 1.3%; -1.1%
- *Operating margin (%): -4.8%; -7.2%
- *Operating cash flow margin (%): 1.5%; -0.4%
- *Debt to cash flow (x): over 3000 times; negative
- *Days cash on hand: 55 days; 62 days
- *Maximum annual debt service (MADS): \$53.9 million; \$53.9 million (excluding balloon payments in 2015 and 2016 related to a financing for helicopters, which would increase MADS by approximately \$5 million and \$3 million, respectively, in these years)
- *MADS coverage with reported investment income (x): 0.7 times; 0.2 times
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 0.7 times; 0.2 times
- *Direct debt (\$): \$807 million; \$895 million
- *Cash to direct debt (%): 30%; 31%
- *Comprehensive debt: \$1.3 billion; \$1.5 billion
- *Cash to comprehensive debt (%): 19%; 19%

RATED DEBT

-Series 2007 fixed rate bonds (\$726 million): Ca

CONTACTS

Issuer: Douglas X Womer, Interim Chief Financial Officer, 412-330-2419

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Lisa Martin
Lead Analyst

Public Finance Group
Moody's Investors Service

Lisa Goldstein
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



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