

Examination Warrant Number 11-00936-95044-R1

Report of Examination of

AmeriHealth HMO, Inc.  
Philadelphia, PA

As of December 31, 2011

For Informational Purposes Only

TABLE OF CONTENTS

| Subject   | Page |
|---|------|
| Salutation .....  | 1    |
| Scope of Examination .....  | 2    |
| History .....   | 3    |
| Management and Control  |      |
| Capitalization .....  | 4    |
| Surplus Requirements .....  | 4    |
| Stockholder .....   | 4    |
| Insurance Holding Company System .....                                  | 5    |
| Board of Directors .....  | 7    |
| Officers .....  | 8    |
| Corporate Records   |      |
| Minutes .....   | 9    |
| Articles of Incorporation .....   | 9    |
| By-Laws .....   | 9    |
| Service and Operating Agreements .....                                  | 9    |
| Reinsurance   |      |
| Ceded .....   | 10   |
| Assumed .....   | 11   |
| Territory and Plan of Operation .....                                   | 11   |
| Significant Operating Ratios and Trends .....                           | 12   |
| Accounts and Records .....  | 13   |
| Pending Litigation .....  | 13   |
| Financial Statements  |      |
| Comparative Statement of Assets, Liabilities, Capital and Surplus ..... | 14   |
| Comparative Statement of Revenue and Expenses .....                     | 15   |
| Comparative Statement of Capital and Surplus .....                      | 16   |
| Comparative Statement of Cash Flow .....                                | 17   |
| Summary of Examination Changes .....                                    | 18   |
| Notes to Financial Statements   |      |
| Assets  |      |
| Investments .....   | 18   |
| Liabilities   |      |
| Claims Unpaid .....   | 19   |
| Aggregate Health Policy Reserves .....                                  | 19   |
| Amounts Due to Parents, Subsidiaries and Affiliates .....               | 20   |
| Subsequent Events .....   | 20   |
| Recommendations   |      |
| Prior Examination .....   | 20   |
| Current Examination .....   | 21   |
| Conclusion .....  | 21   |

**AmeriHealth HMO, Inc.**

Harrisburg, Pennsylvania  
December 13, 2012

Honorable Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-00936-95044-R1, dated February 25, 2011, an examination was conducted of

**AmeriHealth HMO, Inc., NAIC Code:95044**

a Pennsylvania domiciled Health Maintenance Organization (HMO), hereinafter referred to as "the Company" or "AHHMO". The examination was conducted at the Company's home office, located at 1901 Market Street, 42<sup>nd</sup> Floor, Philadelphia, PA 19103-1480.

A report of this examination is hereby respectfully submitted.

For Informational Purposes Only

## SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006.

This examination covered the five-year period from January 1, 2007 through December 31, 2011, and was conducted in accordance with the NAIC Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department (the Department) and the National Association of Insurance Commissioners (NAIC).

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For each year during the period under examination, the Certified Public Accounting (CPA) firm of Deloitte & Touche, LLP provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm during its annual audit of the Company was reviewed during the examination and incorporated into the examination workpapers.

The examination was conducted under the NAIC's coordinated approach, with the states of New Jersey and Delaware participating.

The following companies were examined simultaneously by the insurance departments of New Jersey and Delaware and in coordination with that of the entity addressed by this report:

| <b>Insurance Department / Company</b>    | <b>NAIC Code</b> |
|--|------------------|
| <b>Pennsylvania Insurance Department</b> |                  |
| CBHNP Services, Inc. (CSI)               | 13630            |
| Independence Blue Cross (IBC)            | 54704            |
| Inter-County Health Plan, Inc. (ICHEP)   | 53252            |

## AmeriHealth HMO, Inc.

-3-

|   |       |
|---|-------|
| Inter-County Hospitalization Plan, Inc. (ICHOP) | 54763 |
| Keystone Health Plan East, Inc. (KHPE)          | 95056 |
| Region 6 Rx Corporation (Region 6)              | 12812 |
| QCC Insurance Company (QCC)                     | 93688 |
| Vista Health Plan, Inc. (Vista)                 | 96660 |

### **Delaware Insurance Department**

|  |       |
|--|-------|
| Independence Insurance, Inc.           | 60254 |
| Healthcare Delaware, Inc.              | 95794 |
| AmeriHealth Casualty Insurance Company | 10975 |

### **New Jersey Department of Banking and Insurance**

|   |       |
|---|-------|
| AmeriHealth Insurance Company of New Jersey | 60061 |
|---|-------|

## HISTORY

The Company was incorporated under the Pennsylvania Not-for-Profit Code on March 1, 1976, as Greater Delaware Valley Health Care, Inc., a health service plan, commonly referred to as a Health Maintenance Organization (HMO).

In 1977, the Company moved from Ardmore, Pennsylvania to Wayne, Pennsylvania. In 1978, the Company moved to Radnor, Pennsylvania and then to Newtown Square, Pennsylvania in 1981.

Effective May 1, 1984, the Commonwealth of Pennsylvania's Department of State approved the Company's plan of conversion from a non-profit HMO to a for-profit HMO.

On December 23, 1986, the Company became a member of an Insurance Holding Company System when on that date it was acquired by Independence Blue Cross, a Pennsylvania Non-Profit Hospital Plan Corporation.

The Company changed its name to Delaware Valley HMO, Inc. on July 11, 1988, and also moved from Newtown Square, Pennsylvania to Concordville, Pennsylvania.

Effective July 1, 1995, the Company adopted its current name, AmeriHealth HMO, Inc., and moved to its present location.

The Company is currently authorized to transact those classes of insurance described in the Pennsylvania Insurance Company Law, 40 P.S. §1554 (b) as follows:

- (1) Provide either directly or through arrangements with others, basic health services to individuals enrolled;

- (2) Provide either directly or through arrangements with other persons, corporations, institutions, associations or entities, basic health services; and
- (3) Provide physicians' services (i) directly through physicians who are employees of such organization, (ii) under arrangements with one or more groups of physicians (organized on a group practice or individual practice basis) in which each group is reimbursed for its services primarily on the basis of an aggregate fixed sum or on a per capita basis, regardless of whether the individual physician members of any such group are paid on a fee-for-service or other basis, or (iii) under similar arrangements which are found by the Secretary to provide adequate financial incentives for the provision of quality and cost-effective care.

## MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2011, the Company's total capital and surplus was \$1,003,425,594, consisting of 1,000 shares of issued and outstanding common stock with a par value of \$400 per share amounting to \$400,000. The Company had \$262,080,214 of paid in and contributed surplus and \$740,945,380 of unassigned funds (surplus).

The examiner reviewed the corporate stock register to verify the ownership of the Company. The Company had properly issued the stock certificates to AmeriHealth Integrated Benefits, Inc.

### SURPLUS REQUIREMENTS

As an HMO offering point of service (POS) products, the Company is required to maintain a minimum net worth of the highest of \$1.5 million or 2% of premiums, or an amount equal to the sum of 3 months uncovered health care expenditures as reported on the most recent financial statement filed with the Insurance Department, as per Title 31 Pa. Code §301.202 (a)(1). The Company met the minimum net worth requirements.

### STOCKHOLDER

The Company is a wholly owned subsidiary of AmeriHealth Integrated Benefits, Inc., which is a wholly owned subsidiary of AmeriHealth, Inc. (AHI), which is a wholly owned subsidiary of IBC.

Dividends paid to stockholders, reported in the Company's Annual Statements during the examination period, were as follows:

## AmeriHealth HMO, Inc.

-5-

| Year | Amount       |
|------|--------------|
| 2007 | \$ 7,500,000 |
| 2008 | \$ 5,000,000 |
| 2009 | \$ 0         |
| 2010 | \$ 0         |
| 2011 | \$87,884,450 |

All of the above dividends were approved by the Board of Directors and were not considered extraordinary dividends based on 40 P.S. §991.1405(b)(1)(2)(i) and (ii).

The \$87,884,450 dividend in 2011 was paid as part of the IBC Group's financing requirement of its partnership with Blue Cross Blue Shield of Michigan. This partnership is discussed further in the Territory and Plan of Operation section of this report.

### INSURANCE HOLDING COMPANY SYSTEM

The Company's ultimate parent is Independence Blue Cross. The Company meets the requirements for filing an insurance holding company system registration statement based upon Pennsylvania Insurance Company Law, 40 P.S. §991.1404. Insurance holding company registration statements have been regularly filed with the Department.

IBC is the ultimate controlling entity in the Holding Company System. IBC Group's organization chart is shown below:

Independence Blue Cross - PA

IBC MH LLC (53%) - DE (See BMH LLC below)

IBC/HSB Caring Foundation for Children (50%) - PA

InsPro Technologies Corp (27.1%) - DE

Independence Blue Cross Foundation - PA

Vita 34 AG (20.7%) - Germany

AmeriHealth, Inc. - PA

AmeriHealth Administrators, Inc. - PA

AmeriHealth Assurance, Ltd. - BM

AmeriHealth Casualty Insurance Company - DE

AmeriHealth Insurance Company of New Jersey - NJ

AmeriHealth Integrated Workers Compensation Management, Inc. - PA

Healthcare Delaware, Inc. - DE

Independence Healthcare Management, Inc. - PA

Independence Insurance, Inc. - DE

NaviNet (12.4%) - DE

Region 6 Rx Corporation - PA

The AmeriHealth Agency, Inc. - PA

CompServices, Inc. - PA

CSI Services, Inc. - PA

AmeriHealth HMO, Inc.

-6-

Independence Holdings, Inc. - PA  
PRHP, Inc. - PR  
AmeriHealth Services, Inc. - PA  
Brandywine 1919 Ventures (50%) - DE  
NS Assisted Living Communities, Inc. - PA  
QCC Insurance Company - PA  
IBC MH LLC (23.5%) - DE (See BMH LLC below)  
Veridign Health Solutions, LLC - PA  
International Plan Solutions, LLC (40.5%) - DE  
Highway to Health, Inc. - DE  
Worldwide Insurance Services, Inc. - VA  
HTH Re, Ltd - BM  
AmeriHealth Integrated Benefits, Inc. - DE  
**AmeriHealth HMO, Inc. - PA**  
AmeriHealth Integrated Case Management, Inc. - PA  
Vista Health Plan, Inc. - PA  
Keystone Health Plan East, Inc. - PA  
IBC MH LLC (23.5%) - DE (See BMH LLC below)  
Keystone Health System, Inc. - PA  
Keystone Benefits, Inc. - PA  
  
BMH LLC (61.3%) - DE  
BMH SUBCO I LLC - DE  
BMH SUBCO II LLC - DE  
Keystone Mercy Health Plan - PA <sup>(1)</sup>  
AmeriHealth Mercy Health Plan - PA <sup>(1)</sup>  
AmeriHealth Mercy of Louisiana, Inc. - LA <sup>(1)</sup>  
Select Health of South Carolina, Inc. - SC <sup>(1)</sup>  
Select Health of Georgia, Inc. - GA <sup>(1)</sup>  
Shore Points AmeriHealth Mercy of Louisiana, LLC - LA <sup>(1)</sup>  
  
AmeriHealth Mercy of Indiana, LLC - IN <sup>(1)</sup>  
PerformRx, LLC - PA <sup>(1)</sup>  
AmeriHealth Mercy Perform RX IPA of NY, LLC - NY <sup>(1)</sup>  
AmeriHealth Nebraska, Inc. - NE <sup>(1)</sup>  
Florida True Health Inc. - FL <sup>(1)</sup>  
AmeriHealth Northeast, LLC - PA <sup>(1)</sup>  
AMHP Holdings Corp. - PA <sup>(1)</sup>  
Community Behavioral Healthcare Network of  
Pennsylvania, Inc. - PA <sup>(1)</sup>  
CBHNP Services, Inc. - PA <sup>(1)</sup>

<sup>(1)</sup> These affiliates are owned jointly (50%) by BMH SUBCO I LLC and BMH SUBCO II LLC.

Independence Blue Cross - PA

**AmeriHealth HMO, Inc.**

Highmark, Inc. - PA

Inter-County Health Plan, Inc. (50%) – PA <sup>(2)</sup>

Inter-County Hospitalization Plan, Inc. (50%) – PA <sup>(2)</sup>

Preferred Health System, Incorporated – PA <sup>(2)</sup>

<sup>(2)</sup> These affiliates are non-stock, non-profit entities managed and controlled by Highmark, Inc. and IBC through a 50% board representation in each company.

**BOARD OF DIRECTORS**

Management of the Company is vested in its Board of Directors (Board), which was comprised of the following members as of the examination date, December 31, 2011:

| <b>Name and Address</b>                             | <b>Principal Occupation</b>  |
|---|--|
| Daniel Joseph Hilferty<br>Philadelphia, PA          | President & CEO<br>Independence Blue Cross   |
| John Christopher Cashman, III *<br>Philadelphia, PA | Executive Vice President & President,<br>Commercial Markets<br>Independence Blue Cross |
| Alan Krigstein<br>Philadelphia, PA                  | Executive Vice President, CFO and<br>Treasurer<br>Independence Blue Cross              |
| Judith Lynne Roman<br>Cranbury, NJ                  | Executive VP; President, New Jersey<br>AmeriHealth HMO, Inc.                           |

\* Elected in 2011

Directors are elected at the annual meeting of the shareholders and shall hold office for one year and until a successor has been selected.

The Company's ultimate parent, IBC, has a Conflict of Interest Policy in place which applies to all affiliates. The policy provides for all directors, officers and management employees to disclose any outside interests, membership and affiliations by answering an annual questionnaire.

As required by Pennsylvania Holding Company Law, 40 P.S. §991.1405(c)(3), not less than one-third of the Directors of a domestic insurer and not less than one-third of the members of each committee of the Board of Directors of any domestic insurer shall be persons who are not officers or employees of such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or any entity. At least one such person must be included in

any quorum for the transaction of business at any meeting of the Board of Directors or any committee thereof.

Per 40 P.S. §991.1405(c)(4), the Board of Directors of a domestic insurer shall establish one or more committees comprised solely of Directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for Director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the Board of Directors the selection and compensation of the principal officers.

The Company meets each of these requirements by using the independent Board and committees of IBC, its ultimate parent.

Additional governing law, namely 40 P.S. §1557, states that a corporation receiving a certificate of authority to operate a health maintenance organization under the provisions of this act shall be organized in such a manner that assures that at least one-third of the membership of the Board of Directors of the health maintenance organization will be subscribers of the organization. The Board of Directors shall be elected in the manner stated in the corporation's Charter or By-Laws. The Company meets these requirements.

## OFFICERS

As of the examination date, December 31, 2011, the following officers were appointed and serving in accordance with the Company's By-Laws:

| <b>Name</b>                      | <b>Title</b>                              |
|----------------------------------|---|
| Daniel Joseph Hilferty           | President & CEO                           |
| Alan Krigstein                   | Executive Vice President, CFO & Treasurer |
| Lilton Roosevelt Taliaferro, Jr. | Corporate Secretary                       |
| John Christopher Cashman, III *  | Executive Vice President                  |
| Judith Lynne Roman               | Executive VP; President, New Jersey       |
| Paul Andrew Tufano               | Executive Vice President                  |
| Ian Steven Udvarhelyi, MD        | Executive Vice President                  |
| Douglas Lee Chaet                | Senior Vice President                     |
| Kathryn Ann Galarneau            | Senior Vice President                     |
| Richard Lamar Snyder, MD         | Senior Vice President                     |
| Linda Marie Taylor               | Senior Vice President                     |

\* Appointed in 2011

## CORPORATE RECORDS

### MINUTES

Minutes of the Board of Directors and Sole Stockholder meetings held during the examination period were reviewed and revealed the following:

- Quorums were present at all of the Board of Directors meetings.
- Directors were elected at the annual meeting.
- Directors regularly attended the Board of Directors meetings.
- All Directors were elected in accordance with the Company's By-Laws, and all officers were properly appointed by the Board of Directors.
- The Company's investment transactions were retroactively approved by the Board of Directors.
- All actions of the Company's officers were ratified by the Board of Directors.
- There were no significant reinsurance transactions during the examination period.

There were no committees appointed during the examination period.

### ARTICLES OF INCORPORATION

There were no amendments to the Company's Articles of Incorporation for the period covering this examination.

### BY-LAWS

There were no significant changes made to the Company's By-Laws for the period covering this examination.

### SERVICE AND OPERATING AGREEMENTS

The Company has Administration Services Agreements with Highmark, Inc. and the following members of its Holding Company System:

Keystone Health Plan East, Inc.  
Vista Health Plan, Inc.  
AmeriHealth Agency, Inc.

AmeriHealth Insurance Company of New Jersey  
AmeriHealth Services, Inc.  
AmeriHealth, Inc.  
Caring Foundation  
Independence Blue Cross  
Independence Healthcare Management, Inc.  
Keystone Benefits, Inc.  
LaCruz Azul de Puerto Rico, Inc.  
QCC Insurance Company

The agreements provide for the following services: executive and administrative, legal, data processing, treasury, corporate secretarial, marketing, recordkeeping and reporting, purchasing, insurance, human resources, and any other agreed upon services. Compensation includes all direct and indirect costs, charges, fees and expenses associated with the delivery of the respective services. All service agreements were reviewed and determined to meet the fair and reasonable standards in 40 P.S. §991.1405(a)(1).

#### **Tax Sharing Agreements**

The Company is a party to a Tax Sharing Agreement with IBC and its qualifying subsidiaries. The amount of tax liability allocated to each subsidiary is based on separate return calculations with credit for net losses. The subsidiaries in the group make monthly payments to permit for the payment of estimated taxes. Any balances owed to the Company or its affiliates are due within thirty days of the filing of IBC's Federal Tax Return. The agreement was in writing and was approved by the Board of Directors.

#### **Credit Agreement**

The Company is a party to a Credit Agreement with IBC and its subsidiaries under which the subsidiaries are authorized to enter into short-term loans with one another in order to cover short-term operating capital shortfalls in lieu of liquidating long-term investments. The loans shall be due and payable on the third business day following any Notice Date and otherwise no later than the first business day to follow 364 days from the loan issue date.

### **REINSURANCE**

#### **CEDED**

The Company entered into a Reinsurance Agreement with the AmeriHealth Insurance Company of New Jersey, an affiliated company, with an effective date of May 1, 1996. The agreement automatically renews for one-year terms unless terminated by either party upon thirty days prior written notice. Under the terms of the Agreement, the Company cedes 100% of its liability for non-referred covered claims under its Point of Service (POS) plans. The Agreement contains an Insolvency Clause.

## ASSUMED

The Company did not have any assumed reinsurance in effect at December 31, 2011.

## TERRITORY AND PLAN OF OPERATION

AmeriHealth HMO, Inc. is an indirect wholly owned subsidiary of IBC. IBC and its subsidiaries offer a full range of health insurance products, including: traditional Blue Cross, HMO, PPO, POS, Medicare, Medicare Supplement, Medicaid, dental, vision, and other health products.

AHHMO is a federally qualified HMO that is licensed in Delaware, New Jersey and Pennsylvania. The Company underwrites group health insurance and offers Cost Plus contracts for certain groups where the underwriting risk is shifted to the self-funded groups and the Company acts as a third-party administrator. In addition, AmeriHealth HMO, Inc. participates in the Medicare Plus Choice plan in both Pennsylvania and New Jersey.

Benefits are provided via a network of doctors and hospitals that have contracts with the Company. The insured's medical needs are coordinated by a primary care physician. A point of service plan is also available through which an insured can choose a provider without a referral from a primary care physician but with higher coinsurance or deductibles.

Coverage is sold by brokers and by employee sales representatives primarily to local employers and associations. A few accounts are self-funded in that the employers reimburse the Company for medical costs paid plus an administrative fee. AmeriHealth HMO, Inc. has a contract with the Office of Personnel Management to provide benefits under the Federal Employee Health Benefits Law. Benefits and premiums are set in the contract. Federal employees that live or work in New Jersey can choose AmeriHealth, HMO, Inc. as their health plan.

On November 30, 2011, IBC and Blue Cross Blue Shield of Michigan (BCBSM) entered into a Partnership Agreement to expand services to Medicaid beneficiaries nationally through the AmeriHealth Mercy Family of Companies. IBC and BCBSM acquired Mercy Health Plan's interest in AmeriHealth Mercy and provided additional capital to support AmeriHealth Mercy's expected growth. This Agreement between IBC and BCBSM will also provide an opportunity for Blue health insurers nationwide to expand into the Medicaid market and to take advantage of the expected growth in Medicaid.

Total direct premiums for AmeriHealth HMO were \$359 million in 2011. The Company operates as two divisions: Pennsylvania/Delaware and New Jersey, with the following premiums written by state in 2011:

| Jurisdiction | Premium              | Percentage  |
|--------------|----------------------|-------------|
| New Jersey   | \$321,035,455        | 90%         |
| Pennsylvania | 30,331,073           | 8%          |
| Delaware     | <u>7,629,685</u>     | <u>2%</u>   |
| Total        | <u>\$358,996,213</u> | <u>100%</u> |

The major lines of business and premium writings during 2011 were as follows:

| Lines of Business                    | Direct Premium       | Ceded Premium    | Net Premium          | Percentage of Total |
|--------------------------------------|----------------------|------------------|----------------------|---------------------|
| Comprehensive (hospital and medical) | \$338,418,479        | \$413,928        | \$338,004,551        | 94%                 |
| Medicare Supplement                  | 0                    | 0                | 0                    | 0%                  |
| Dental Only                          | 0                    | 0                | 0                    | 0%                  |
| Vision Only                          | 0                    | 0                | 0                    | 0%                  |
| Fed Employee Health Benefits Program | 0                    | 0                | 0                    | 0%                  |
| Title XVIII - Medicare               | 20,577,734           | 15,990           | 20,561,744           | 6%                  |
| Title IX - Medicaid                  | 0                    | 0                | 0                    | 0%                  |
| Other Health                         | <u>0</u>             | <u>0</u>         | <u>0</u>             | <u>0%</u>           |
| Totals                               | <u>\$358,996,213</u> | <u>\$429,918</u> | <u>\$358,566,295</u> | <u>100%</u>         |

### SIGNIFICANT OPERATING RATIOS AND TRENDS

The following indicates the activity of the Company during the period covered by this examination:

|                           | 2011            | 2010        | 2009         | 2008        | 2007        |
|---------------------------|-----------------|-------------|--------------|-------------|-------------|
| Admitted Assets           | \$1,073,207,911 | 936,220,880 | 887,875,081  | 814,378,623 | 979,236,714 |
| Liabilities               | 69,782,317      | 57,376,315  | 162,776,375  | 147,115,334 | 190,929,821 |
| Capital and Surplus Funds | 1,003,425,594   | 878,844,565 | 725,098,706  | 667,263,289 | 788,306,893 |
| Net Premium Income        | 358,566,295     | 353,936,491 | 334,774,044  | 409,799,821 | 490,773,197 |
| Net Benefits to Members   | 278,978,018     | 285,147,773 | 294,959,668  | 374,802,463 | 488,895,277 |
| Loss Ratio                | 78%             | 81%         | 88%          | 91%         | 100%        |
| Net Investment Income     | 90,182,197      | 53,078,878  | 6,654,247    | 27,566,417  | 34,825,251  |
| Net Income                | 110,769,935     | 78,136,583  | (11,219,570) | 18,426,614  | 28,150,348  |

The decrease in liabilities from 2009 to 2010 was due primarily to a decrease in the due to parent liability of approximately \$92 million as amounts were repaid.

Net income and net investment income decreased in 2008 and 2009 due to the economic recession. Corresponding increases in net income and net investment income in 2010 and 2011

were primarily driven by increases in improved underwriting results and investment performance coupled with increases in the value of affiliates.

## ACCOUNTS AND RECORDS

The Company's accounting, investment, policy and claims records are maintained at the Company's home office at 1901 Market Street, Philadelphia, Pennsylvania.

The Company utilizes automated systems with manual interfaces. There are separate systems used for general ledger (PeopleSoft), claims (multiple systems), policies (multiple systems), investments (iWorks) and other business functions. Controls for data transfers to the PeopleSoft general ledger from the other systems are manual. All systems are housed at the Highmark data center in Harrisburg, Pennsylvania.

## PENDING LITIGATION

In the course of ordinary business, the Company is involved in and is subject to noninsurance related claims, contractual disputes and other uncertainties. As of the last day of field work, the Company's management, in-house counsel, and primary outside attorneys advised the examiners that the ultimate disposition of these matters are not expected to have a material adverse effect on the Company and its affiliates' financial condition.

## FINANCIAL STATEMENTS

The Company's financial statements at December 31, 2011 are displayed as follows:

Comparative Statement of Assets, Liabilities, Capital and Surplus  
Comparative Statement of Revenue and Expenses  
Comparative Statement of Capital and Surplus  
Comparative Statement of Cash Flow

**Comparative Statement of Assets, Liabilities, Capital and Surplus  
As of December 31,**

|   | 2011                   | 2010                 | 2009                 | 2008                 | 2007                 |
|---|------------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Assets</b>   |                        |                      |                      |                      |                      |
| Bonds   | \$ 94,373,611          | \$ 91,706,086        | \$ 67,343,175        | \$107,723,690        | \$147,501,034        |
| Common stocks   | 924,643,223            | 815,020,746          | 740,803,359          | 659,488,953          | 774,323,474          |
| Cash, cash equivalents and short-term investments                       | 28,033,521             | 6,849,634            | 51,910,779           | 6,517,308            | 17,497,956           |
| Subtotal, cash and invested assets                                      | <u>1,047,050,355</u>   | <u>913,576,466</u>   | <u>860,057,313</u>   | <u>773,729,951</u>   | <u>939,322,464</u>   |
| Investment income due and accrued                                       | 286,687                | 372,142              | 1,487,341            | 1,996,552            | 2,192,990            |
| Premiums and considerations   | 7,342,430              | 7,285,408            | 6,329,382            | 6,466,208            | 6,375,280            |
| Amounts receivable relating to uninsured plans                          | 1,986,638              | 4,630,128            | 4,072,901            | 5,162,398            | 5,223,321            |
| Current federal and foreign income tax recoverable and interest thereon | 0                      | 0                    | 0                    | 3,021,285            | 0                    |
| Net deferred tax asset  | 1,767,184              | 1,384,322            | 0                    | 1,141,999            | 8,649,999            |
| Electronic data processing equipment and software                       | 247,831                | 16,315               | 24,284               | 25,573               | 30,678               |
| Receivable from parent, subsidiaries and affiliates                     | 2,848,164              | 5,329,139            | 10,618,349           | 11,955,720           | 10,850,448           |
| Health care and other amounts receivable                                | 11,678,622             | 3,626,960            | 5,285,511            | 10,878,937           | 6,591,534            |
| <b>Total assets</b>   | <u>\$1,073,207,911</u> | <u>\$936,220,880</u> | <u>\$887,875,081</u> | <u>\$814,378,623</u> | <u>\$979,236,714</u> |
| <b>Liabilities and Surplus Funds</b>                                    |                        |                      |                      |                      |                      |
| Claims unpaid   | \$ 39,547,424          | \$ 39,024,972        | \$ 41,933,285        | \$ 51,461,721        | \$ 62,896,722        |
| Accrued medical incentive pool and bonus amounts                        | 8,552                  | 216,942              | 159,922              | 241,400              | 190,000              |
| Unpaid claims adjustment expenses                                       | 501,613                | 585,949              | 649,706              | 1,316,895            | 1,554,949            |
| Aggregate health policy reserves  | 2,438,086              | 1,972,212            | 12,797,113           | 1,704,778            | 23,563,855           |
| Aggregate health claim reserves   | 50,000                 | 50,000               | 50,000               | 50,000               | 50,000               |
| Premiums received in advance  | 5,753,462              | 4,783,117            | 4,240,447            | 4,406,865            | 5,512,018            |
| General expenses due or accrued   | 3,833,428              | 5,397,662            | 3,833,420            | 3,452,719            | 5,940,629            |
| Current federal and foreign income tax payable and interest thereon     | 1,646,884              | 1,638,913            | 2,582,737            | 0                    | 258,687              |
| Ceded reinsurance premiums payable                                      | 0                      | 0                    | 0                    | 0                    | 149,222              |
| Amounts withheld or retained for the account of others                  | 1,940,830              | 824,884              | 1,092,364            | 1,490,002            | 1,267,463            |
| Remittances and items not allocated                                     | 116                    | 0                    | 0                    | 0                    | 0                    |
| Amounts due to parent, subsidiaries and affiliates                      | 12,920,814             | 2,304,725            | 94,270,750           | 82,380,050           | 87,437,952           |
| Liability for amounts held under uninsured plans                        | 1,141,108              | 576,939              | 1,166,631            | 610,904              | 2,090,751            |
| Aggregate write-ins for other liabilities                               | 0                      | 0                    | 0                    | 0                    | 17,573               |
| <b>Total liabilities</b>  | <u>69,782,317</u>      | <u>57,376,315</u>    | <u>162,776,375</u>   | <u>147,115,334</u>   | <u>190,929,821</u>   |
| Common capital stock  | 400,000                | 400,000              | 400,000              | 400,000              | 400,000              |
| Gross paid in and contributed surplus                                   | 262,080,214            | 262,080,214          | 262,080,214          | 262,080,214          | 262,080,214          |
| Unassigned funds (surplus)  | 740,945,380            | 616,364,351          | 462,618,492          | 404,783,075          | 525,826,679          |
| <b>Total capital and surplus</b>  | <u>1,003,425,694</u>   | <u>878,844,565</u>   | <u>725,098,706</u>   | <u>667,263,289</u>   | <u>788,306,893</u>   |
| <b>Total liabilities, capital and surplus</b>                           | <u>\$1,073,207,911</u> | <u>\$936,220,880</u> | <u>\$887,875,081</u> | <u>\$814,378,623</u> | <u>\$979,236,714</u> |

**Comparative Statement of Revenue and Expenses  
For the Year Ended December 31,**

|  | 2011                 | 2010                 | 2009                   | 2008                 | 2007                 |
|--|----------------------|----------------------|------------------------|----------------------|----------------------|
| Net premium income   | \$358,566,295        | \$353,936,491        | \$334,774,044          | \$409,799,821        | \$490,773,197        |
| Change in unearned premium reserves and reserve for rate credits | (222,444)            | (356,404)            | (149,059)              | 724,307              | 15,151               |
| Total revenues   | <u>358,343,851</u>   | <u>353,580,087</u>   | <u>334,624,985</u>     | <u>410,524,128</u>   | <u>490,788,348</u>   |
| Hospital/medical benefits  | 223,777,350          | 229,055,359          | 238,925,928            | 297,999,561          | 357,486,069          |
| Other professional services                                      | 12,218,333           | 13,241,465           | 14,206,878             | 19,539,213           | 26,090,328           |
| Emergency room and out-of-area                                   | 11,807,694           | 9,840,557            | 11,109,051             | 15,389,553           | 18,643,928           |
| Prescription drugs   | 31,124,136           | 33,069,009           | 31,464,117             | 41,764,116           | 49,724,998           |
| Incentive pool, withhold adjustments and bonus amounts           | 50,505               | 157,541              | (4,894)                | 252,375              | 190,000              |
| Subtotal (hospital and medical)                                  | <u>278,978,018</u>   | <u>285,363,931</u>   | <u>295,701,080</u>     | <u>374,944,818</u>   | <u>450,135,323</u>   |
| Net reinsurance recoveries                                       | 0                    | 216,158              | 741,412                | 142,355              | 1,240,046            |
| Total hospital and medical                                       | <u>278,978,018</u>   | <u>285,147,773</u>   | <u>294,959,668</u>     | <u>374,802,463</u>   | <u>448,895,277</u>   |
| Claims adjustment expenses                                       | 10,611,933           | 11,006,570           | 16,073,316             | 17,606,410           | 24,041,452           |
| General administrative expenses                                  | 39,215,927           | 40,565,394           | 37,642,357             | 42,574,990           | 48,837,455           |
| Increase in reserves for life accident and health contracts      | 0                    | (11,010,001)         | 11,010,001             | (21,304,000)         | (15,796,000)         |
| Total underwriting deductions                                    | <u>328,805,878</u>   | <u>325,709,736</u>   | <u>359,685,342</u>     | <u>413,679,863</u>   | <u>505,978,184</u>   |
| Net underwriting gain or (loss)                                  | <u>29,537,973</u>    | <u>27,870,351</u>    | <u>(25,060,357)</u>    | <u>(3,155,735)</u>   | <u>(15,189,836)</u>  |
| Net investment income earned                                     | 90,182,197           | 53,078,878           | 6,654,247              | 27,566,417           | 34,825,251           |
| Net realized capital gains or (losses)                           | 57,765               | 4,593,964            | 5,266,372              | (15,918,721)         | (889,611)            |
| Net investment gains or (losses)                                 | <u>90,239,962</u>    | <u>57,672,842</u>    | <u>11,920,619</u>      | <u>11,647,696</u>    | <u>33,935,640</u>    |
| Aggregate write-ins for other income or expenses                 | 0                    | (182,610)            | (215,832)              | (315,347)            | (339,456)            |
| Net income or (loss) before federal income taxes                 | <u>119,777,935</u>   | <u>85,360,583</u>    | <u>(13,355,570)</u>    | <u>8,176,614</u>     | <u>18,406,348</u>    |
| Federal income taxes incurred                                    | 9,008,000            | 7,224,000            | (2,136,000)            | (10,250,000)         | (9,744,000)          |
| Net income   | <u>\$110,769,935</u> | <u>\$ 78,136,583</u> | <u>\$ (11,219,570)</u> | <u>\$ 18,426,614</u> | <u>\$ 28,150,348</u> |

For Informational Purposes Only

**Comparative Statement of Capital and Surplus  
For the Year Ended December 31,**

|  | 2011                   | 2010                 | 2009                 | 2008                 | 2007                 |
|--|------------------------|----------------------|----------------------|----------------------|----------------------|
| Capital and surplus, December 31, previous year      | \$ 878,844,565         | \$725,098,706        | \$667,263,289        | \$788,306,893        | \$705,493,563        |
| Net income or (loss)                                 | 110,769,935            | 78,136,583           | (11,219,570)         | 18,426,614           | 28,150,348           |
| Change in net unrealized capital gains and (losses)  | 50,517,253             | 70,145,223           | 12,106,728           | (44,108,851)         | 72,912,542           |
| Change in net deferred income tax                    | 849,166                | (3,470,010)          | 1,577,385            | (6,095,744)          | (5,744,565)          |
| Change in nonadmitted assets                         | 50,329,126             | 8,934,063            | 55,370,874           | (84,265,623)         | 8,796,494            |
| Dividends to stockholders                            | (87,884,450)           | 0                    | 0                    | (5,000,000)          | (7,500,000)          |
| Aggregate write-ins for gains or (losses) in surplus | 0                      | 0                    | 0                    | 0                    | (13,801,489)         |
| Net change in capital and surplus                    | 124,581,030            | 153,745,859          | 57,835,417           | (121,043,604)        | 82,813,330           |
| Capital and surplus, December 31, current year       | <u>\$1,003,425,595</u> | <u>\$878,844,565</u> | <u>\$725,098,706</u> | <u>\$667,263,289</u> | <u>\$788,306,893</u> |

For Informational Purposes Only

**Comparative Statement of Cash Flow  
For the Year Ended December 31,**

|   | 2011          | 2010          | 2009          | 2008          | 2007          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Cash from Operations</b>   |               |               |               |               |               |
| Premiums collected net of reinsurance                                   | \$359,711,836 | \$341,998,867 | \$345,694,250 | \$388,068,543 | \$473,750,462 |
| Net investment income   | 91,007,108    | 54,590,831    | 6,496,217     | 27,578,267    | 34,861,763    |
| Total   | 450,718,944   | 396,589,698   | 352,190,467   | 415,646,810   | 508,612,225   |
| Benefit and loss related payments                                       | 278,663,956   | 276,989,065   | 315,579,583   | 363,177,373   | 439,905,245   |
| Commissions, expenses paid and aggregate write-ins for deductions       | 48,215,171    | 51,508,812    | 52,572,769    | 64,587,405    | 78,112,640    |
| Federal and foreign income taxes paid (recovered)                       | 9,005,804     | 9,293,830     | (7,740,022)   | (6,970,029)   | (5,657,027)   |
| Total deductions  | 335,884,931   | 337,791,707   | 360,412,330   | 420,794,749   | 512,360,858   |
| Net cash from operations  | 114,834,013   | 58,797,991    | (8,221,863)   | (5,147,939)   | (3,748,633)   |
| <b>Cash from Investments</b>  |               |               |               |               |               |
| Proceeds from investments sold, matured or repaid:                      |               |               |               |               |               |
| Bonds   | 61,749,373    | 108,349,419   | 123,040,919   | 153,568,702   | 99,230,957    |
| Stocks  | 0             | 119           | 0             | 0             | 0             |
| Net gain or (loss) on cash, cash equivalents and short term investments | 804           | 0             | 0             | (2,373,386)   | 1,451         |
| Miscellaneous proceeds  | 2             | 4             | 362,237       | 1             | 5,741         |
| Total investment proceeds   | 61,750,179    | 108,349,542   | 123,403,156   | 151,195,317   | 99,238,149    |
| Cost of investments acquired (long-term only):                          |               |               |               |               |               |
| Bonds   | 65,165,328    | 126,964,030   | 70,100,119    | 131,817,080   | 113,421,431   |
| Stocks  | 5,000,000     | 0             | 18,000,001    | 8,000,000     | 0             |
| Miscellaneous applications  | 0             | 0             | 362,245       | 0             | 1,443         |
| Total investments acquired  | 70,165,328    | 126,964,030   | 88,462,365    | 139,817,080   | 113,422,874   |
| Net cash from investments   | (8,415,149)   | (18,614,488)  | 34,940,791    | 11,378,237    | (14,184,725)  |
| <b>Cash from Financing and Miscellaneous Sources</b>                    |               |               |               |               |               |
| Cash provided (applied):  |               |               |               |               |               |
| Dividends to stockholders   | (87,884,450)  | 0             | 0             | (5,000,000)   | (7,500,000)   |
| Other cash provided or (applied)  | 2,649,374     | (85,244,648)  | 18,674,543    | (12,210,946)  | 22,394,832    |
| Net cash from financing and miscellaneous sources                       | (85,235,076)  | (85,244,648)  | 18,674,543    | (17,210,946)  | 14,894,832    |
| <b>Reconciliation of cash and short-term investments:</b>               |               |               |               |               |               |
| Net change in cash and short-term investments                           | 21,183,788    | (45,061,145)  | 45,393,471    | (10,980,648)  | (3,038,526)   |
| Cash and short-term investments:  |               |               |               |               |               |
| Beginning of the year   | 6,849,634     | 51,910,779    | 6,517,308     | 17,497,956    | 20,536,482    |
| End of the year   | \$ 28,033,422 | \$ 6,849,634  | \$ 51,910,779 | \$ 6,517,308  | \$ 17,497,956 |

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## SUMMARY OF EXAMINATION CHANGES

There were no examination adjustments to the preceding financial statements as filed with regulatory authorities over the review period.

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

#### INVESTMENTS

**\$1,047,050,355**

As of December 31, 2011, the Company's invested assets were distributed as follows:

| Asset                                   | Amount                 | Percentage  |
|---|------------------------|-------------|
| Bonds                                   | \$ 94,373,611          | 9%          |
| Preferred stocks                        | 0                      | 0%          |
| Common stocks                           | 924,643,223            | 88%         |
| Cash and cash equivalents               | 552,094                | 0%          |
| Short-term investments                  | 27,481,427             | 3%          |
| Aggregate write-ins for invested assets | <u>0</u>               | <u>0%</u>   |
| Totals                                  | <u>\$1,047,050,355</u> | <u>100%</u> |

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

| NAIC Designation    | Amount               | Percentage  |
|---------------------|----------------------|-------------|
| 1 - highest quality | \$121,299,994        | 100%        |
| 2 - high quality    | 422,890              | 0%          |
| 3 - medium quality  | 0                    | 0%          |
| 4 - low quality     | 0                    | 0%          |
| 5 - lower quality   | 132,155              | 0%          |
| 6 - lowest quality  | <u>0</u>             | <u>0%</u>   |
| Totals              | <u>\$121,855,039</u> | <u>100%</u> |

Approximately 100% of the Company's bond and short-term investments are NAIC designated 1 - highest quality investments. Invested assets increased by \$180,429,756 or approximately 20.8% during the examination period. Invested assets amount to 97.6% of the total admitted assets as of December 31, 2011.

| Years to Maturity              |                      |             |
|--------------------------------|----------------------|-------------|
| 1 Year or Less                 | \$ 74,922,947        | 62%         |
| Over 1 Year Through 5 Years    | 30,875,163           | 25%         |
| Over 5 Years Through 10 Years  | 9,155,003            | 8%          |
| Over 10 Years Through 20 Years | 5,267,729            | 4%          |
| Over 20 Years                  | <u>1,634,197</u>     | <u>1%</u>   |
| Totals                         | <u>\$121,855,039</u> | <u>100%</u> |

For the year ended December 31, 2011, the Company reported net investment income of \$90,182,197 and net realized gains of \$57,765, amounting to net investment gains of \$90,239,962. The Company maintains a significant investment in affiliates, which includes Keystone Health Plan, Inc. in the amount of \$780,065,263 and Vista Health Plan, Inc. in the amount of \$144,577,960.

The Company has a written investment policy as required by 40 P.S. §653b(b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company, at December 31, 2011, was following its investment policy.

## LIABILITIES

**Claims Unpaid** **\$39,547,424**

The Company reported \$39,547,424 of claims unpaid in its December 31, 2011 Annual Statement. The reported balance was comprised of \$6,642,095 reported in process of adjustment reserves and \$32,905,329 of net incurred but not reported reserves.

The Company's reserving actuaries prepare a monthly analysis of claims reserves using consistent actuarial methodologies with claim payment experience which is reconciled to the general ledger.

Claims unpaid reserves had favorable runoff for each year throughout the examination period.

In addition, the examiners reviewed claim reserves as of December 31, 2011, developed through June 30, 2012. The reported reserves at December 31, 2011 were deemed to be sufficient.

**Aggregate Health Policy Reserves** **\$2,438,086**

The Company reported \$2,438,086 of aggregate health policy reserves in its December 31, 2011 Annual Statement. The reported balance was comprised of \$2,149,792 of unearned premium reserves and \$288,294 reserve for rate credits or experience rating refunds.

**Amounts Due to Parent, Subsidiaries and Affiliates**

**\$12,920,814**

The Company reported \$12,920,814 of amounts due to parent, subsidiaries and affiliates in its December 31, 2011 Annual Statement. The balance includes amounts due under Service Agreements for transfer costs, legal services, accounting services, payroll, rent and other business related activities. The amount may also include loans made pursuant to the intercompany credit agreement.

The examiners determined that the allocation of expenses among subsidiaries was determined on a fair and reasonable basis. No exceptions were noted.

**SUBSEQUENT EVENTS**

There were no significant transactions that transpired subsequent to the examination date that would require recognition or disclosure in the financial statements.

**RECOMMENDATIONS**

**PRIOR EXAMINATION**

The prior examination report contained the following recommendations:

1. It is recommended that the Company undertake a claim adjustment expense study using the guidance as prescribed in SSAP No. 55 "Unpaid Claims, Losses and Loss Adjustment Expenses" and SSAP No. 85 "Claim Adjustment Expenses, Amendments to SSAP No. 55" to determine the appropriateUCAE factors to use in the future.
2. It is recommended the Company perform an extension of benefits study to determine an appropriate extension of benefits liability amount.
3. It is recommended that the Company properly document any adjustments made to the preliminary claim recast results based on the latest paid claim experience that is deemed necessary. The Company should include the adjustments and the support for why they are considered appropriate and warranted.
4. In the interest of improving the Company's claim reserving process, it is recommended that the Company upgrade and accelerate its system processing of paid claim information to allow the Company actuary sufficient time to adequately reflect the latest paid claim experience and claim payment patterns in its claim reserves.
5. It is recommended that the Company undertake a claim variability study or other appropriate analysis to determine and set the margin range appropriate for its business

and products. The Company must document valid reasons to deviate from the set margin range for certain reporting periods.

The Company complied with the recommendations through the following actions:

1. The Company has instituted an annual claims adjustment expense study and records its claims reserve in accordance with the study.
2. The Company researched and determined that extension of benefits (EOB) reserves are not necessary in Pennsylvania as the customer is required to pay premiums for the extended coverage. EOB reserves are necessary in New Jersey as the Company must incur the expense with no additional premium. The reserve is immaterial.
3. The Company documented all adjustments.
4. The Company upgraded its claims processing system.
5. The Company performed a claim variability study as part of its overall reserve evaluation process. The entire reserve study was then presented to the Company's Board of Directors.

## CURRENT EXAMINATION

No recommendations were made as a result of the current examination.

## CONCLUSION

As a result of this examination, the financial condition of AmeriHealth HMO, Inc., as of December 31, 2011, was determined to be as follows:

|                               | Total                  | Percentage  |
|-------------------------------|------------------------|-------------|
| Admitted Assets               | <u>\$1,073,207,911</u> | <u>100%</u> |
| Liabilities                   | 69,782,317             | 7%          |
| Capital and surplus           | <u>1,003,425,594</u>   | <u>93%</u>  |
| Total Liabilities and Surplus | <u>\$1,073,207,911</u> | <u>100%</u> |

Since the previous examination, made as of December 31, 2006, the Company's assets increased by \$168,217,845, its liabilities decreased by \$129,714,187, and its surplus increased by \$297,932,032.

AmeriHealth HMO, Inc.

-22-

This examination was conducted by Neeraj Gupta, CFE (Examiner-in-Charge).

Respectfully,



Annette B. Szady, CPA  
Director, Bureau of Financial Examinations



Neeraj Gupta, CFE  
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.

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