Thomas D. Kavanaugh
Thomas.kavanaugh@highmarkhealth.org

March 30, 2023

Via Electronic Filing

Diana L. Sherman
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: Order No. ID-RC-13-06/Condition 13

Dear Deputy Commissioner Sherman:

Pursuant to Condition 13 of the above-captioned Order, Highmark Health is filing with the Department the enclosed non-confidential consolidated financial statements for the period ending December 31, 2022. I have copied Mr. Beaser and Mr. DeLacey with the filing.

Very truly yours,

Thomas D. Kavanaugh

TDK/sk
Attachment
cc: Lawrence J. Beaser, Esquire (via email)
Patrick T. DeLacey (via email)

Highmark Health

Consolidated Financial Statements
December 31, 2022 and 2021

Highmark Health
Index
December 31, 2022 and 2021

Report of Independent Auditors

To the Board of Directors of Highmark Health

Opinion

We have audited the accompanying consolidated financial statements of Highmark Health and its subsidiaries and affiliates (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the prior year incurred and paid claims development information, net of reinsurance, on pages 42 and 43 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating supplemental schedules as of and for the year ended December 31, 2022 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements nor are they intended to present the financial position, results of operations and cash flows of the individual companies. The consolidating supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating supplemental schedules are fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

Hartford, Connecticut
March 22, 2023

Highmark Health
Consolidated Balance Sheets
December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Assets		
Cash and cash equivalents	$ 1,142,923	$ 1,025,602
Accounts receivable		
Insurance, less allowance for doubtful accounts of $46,846 and $32,402, respectively	3,155,346	3,023,383
Patient service	278,760	223,459
Other	318,799	260,119
Investments		
Debt securities, available-for-sale at fair value	5,841,821	6,804,301
Equity securities	2,247,164	2,687,326
Board designated, restricted and other investments at fair value	780,275	1,034,301
Investment in affiliates	326,871	392,455
Other	605,368	546,958
Reinsurance recoverables	270,384	257,453
Securities lending invested collateral	368,806	596,511
Inventory, net	107,200	113,575
Income tax recoverable	63,553	156,330
Deferred tax asset	50,909	42,172
Property and equipment, net	2,774,149	2,563,984
Goodwill and other intangible assets, net	418,072	443,735
Operating lease right to use assets	374,029	424,543
Benefit plan asset	400,028	549,063
Other assets	1,114,600	1,063,126
Total assets	20,639,057	22,208,396
Liabilities and Net Assets		
Claims and claim adjustment expenses outstanding	$ 3,929,593	$ 3,572,363
Unearned revenue	350,447	350,227
Amounts held for others	833,107	820,394
Accrued salaries and benefits	692,233	672,096
CMS provider advances	-	135,124
Other payables and accrued expenses	1,954,507	2,037,529
Income tax payable	64,230	100,255
Deferred tax liability	2,195	116,102
Securities lending payable	368,598	600,039
Benefit plan liabilities, net	314,144	316,615
Operating lease right to use liabilities	403,581	448,877
Debt	2,472,612	2,454,332
Other liabilities	259,582	199,731
Total liabilities	11,644,829	11,823,684
Without donor restrictions - Highmark Health	8,628,091	9,935,161
Without donor restrictions - noncontrolling interest	32,841	41,009
Total net assets without donor restrictions	8,660,932	9,976,170
With donor restrictions	333,296	408,542
Total net assets	8,994,228	10,384,712
Total liabilities and net assets	$ 20,639,057	$ 22,208,396

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Revenue and other support		
Premium revenue, net	20,517,047	$ 16,935,890
Net patient service revenue	3,129,241	2,943,217
Service and other revenue	2,029,598	1,872,243
Affiliates (loss) income	(47,631)	69,152
Net assets released from restriction	7,805	4,515
Total revenue and other support	25,636,060	21,825,017
Expenses		
Claims and claim adjustment expenses	17,511,583	14,456,127
Salaries, wages and fringe benefits	5,009,733	4,335,031
Patient care supplies	942,667	906,859
Depreciation and amortization	398,201	351,278
Other operating expenses, net	1,872,769	1,820,150
Total operating expenses	25,734,953	21,869,445
Operating loss	(98,893)	(44,428)
Net investment (loss) income, including net realized gains on investments	(378,519)	564,124
Interest expense	(71,606)	(59,065)
Gain on acquisition of affiliate	-	86,507
Other components of net periodic benefit cost	139,298	138,685
(Deficit) excess of revenue over expenses before affiliation	(409,720)	685,823
Net assets acquired through affiliation	-	901,884
(Deficit) excess of revenue over expenses before income taxes	(409,720)	1,587,707
Income tax (benefit) provision	(69,437)	132,415
(Deficit) excess of revenue over expenses before noncontrolling interest	(340,283)	1,455,292
Excess of revenue over expenses attributable to noncontrolling interest	5,971	7,083
(Deficit) excess of revenue over expenses attributable to Highmark Health	$ (346,254)	$ 1,448,209

(Continued)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Net assets without donor restrictions - Highmark Health		
(Deficit) excess of revenue over expenses	$ (346,254)	$ 1,448,209
Unrealized net holding losses on available-for-sale securities, net of tax of $48,057 and $18,705, respectively	(831,171)	(77,878)
Reclassification for net losses (gains) on investments included in loss (income), net of tax of ($26,634) and $16,893, respectively	100,195	(63,548)
Benefit plan asset and liability changes, net of tax of $44,739 and and ($15,782), respectively	(224,865)	117,574
Net assets released from restriction for acquisition of equipment	1,113	1,827
Income tax benefit on transfers to related parties	-	94,747
Other, net	(6,088)	(11,660)
(Decrease) increase in net assets without donor restrictions - Highmark Health	(1,307,070)	1,509,271
Net assets without donor restrictions - noncontrolling interest		
Excess of revenue over expenses	5,971	7,083
Other	(14,139)	(468)
(Decrease) increase in net assets without donor restrictions - noncontrolling interest	(8,168)	6,615
Net assets with donor restrictions		
Contributions	8,182	7,866
Net investment (loss) income	(60,752)	48,116
Net assets released from restrictions used for:		
Operations	(7,805)	(4,515)
Acquisition of equipment	(1,113)	(1,827)
Transfer out of trusts to net investment income	(12,804)	(9,482)
Other, net	(954)	427
(Decrease) increase in net assets with donor restrictions	(75,246)	40,585
(Decrease) increase in net assets	(1,390,484)	1,556,471
Net assets		
Beginning of the year	10,384,712	8,828,241
End of the year	$ 8,994,228	$ 10,384,712

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Cash flows from operating activities		
(Decrease) increase in net assets	$ (1,390,484)	$ 1,556,471
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	24,384	11,384
Depreciation and amortization, including investments	435,433	381,224
Gain on acquisition of affiliate	-	(86,507)
Net assets acquired through acquisition	-	(901,884)
Net realized losses (gains) on investments	55,479	(165,958)
Net unrealized losses (gains) on investments	1,260,009	(13,332)
Undistributed loss (gain) of affiliates	51,243	(70,967)
Income tax benefit on related party transfers	-	(94,747)
Beneficial interest in perpetual trusts	67,738	(33,558)
Benefit plan liability changes	224,865	(117,574)
Deferred income tax (benefit) provision	(13,487)	122,479
Restricted contributions	(8,182)	(7,866)
(Decrease) increase due to change in		
Accounts receivable	(338,163)	152,571
Reinsurance recoverables	(12,931)	(103,624)
Pharmacy rebates receivable	(82,088)	(187,186)
Other assets	131,894	(432,351)
Claims and claim adjustment expenses	357,230	(118,681)
Amounts held for others	12,713	225,869
Benefit plan liabilities, net	(138,075)	(168,921)
Other liabilities	(257,429)	377,951
Net cash provided by operating activities	380,149	324,793
Cash flows from investing activities		
Purchases of investments	(3,833,757)	(5,251,020)
Proceeds from sales of investments	3,916,702	4,672,634
Proceeds from maturities of investments	93,565	162,597
Purchases of property and equipment, net	(570,698)	(473,395)
Change in securities lending invested collateral	231,441	(78,997)
Cash used in acquisition	(8,371)	-
Acquisition of affiliate, net of cash acquired	-	(226,564)
Cash obtained through affiliation	-	76,329
Return on investment dividends received from affiliates	-	62,500
Net cash used in investing activities	(171,118)	(1,055,916)
Cash flows from financing activities		
Restricted contributions	8,182	7,866
Change in book overdrafts	61,003	41,636
Receipts from contract deposits	589,311	303,069
Withdrawals from contract deposits	(520,924)	(381,153)
Change in securities lending payable	(231,441)	78,997
Proceeds from issuance of debt	1,272,943	1,645,101
Repayment of debt	(1,263,797)	(865,245)
Net cash (used in) provided by financing activities	(84,723)	830,271
Increase in cash, cash equivalents and restricted cash	124,308	99,148
Cash, cash equivalents and restricted cash		
Beginning of year	1,095,180	996,032
End of year	$ 1,219,488	$ 1,095,180

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

(in thousands of dollars)

	2022	2021
Supplemental disclosure of cash flow information		
Interest paid, net	$ 79,846	$ 79,250
Income taxes received, net	(72,402)	(41,812)
Supplemental disclosure of noncash investing and financing		
Assets acquired through other payables	(1,524)	25,334
Reconciliation of total cash, cash equivalents and restricted cash		
Cash and cash equivalents	1,142,923	1,025,602
Restricted cash included in board designated, restricted and other investments at fair value	76,565	69,578
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 1,219,488	$ 1,095,180

The accompanying notes are an integral part of these Consolidated Financial Statements.

(in thousands of dollars)

1. Nature of Operations

Highmark Health is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Highmark Health, together with its subsidiaries and affiliates, is a diversified health and wellness enterprise based in Pittsburgh, Pennsylvania. Highmark Health consists of Highmark Inc., HM Health Solutions (d/b/a “enGen”) and Allegheny Health Network, among others. Highmark Health and its subsidiaries and affiliates are herein referred to as the “Corporation”.

Highmark Inc., and its subsidiaries and affiliates (collectively “Highmark”), is incorporated as a nonprofit corporation operating as a hospital plan corporation and a professional health services plan in the Commonwealth of Pennsylvania. Highmark Health is the sole corporate member of Highmark and is also the primary licensee of the Blue Cross and Blue Shield Association (“BCBSA”). Highmark’s affiliates, Highmark West Virginia Inc. (“Highmark WV”), Highmark BCBSD Inc. (“Highmark DE”) and Highmark Western and Northeastern New York (“Highmark NY”) are nonprofit health services corporations and operate in the states of West Virginia, Delaware and New York, respectively. As licensees of the BCBSA, Highmark and certain of its subsidiaries and affiliates underwrite various indemnity and managed care health insurance products for national accounts (groups headquartered in Pennsylvania, West Virginia, Delaware and New York that have operations in other locations), regional accounts and individual accounts. In addition, Highmark and certain of its subsidiaries and affiliates underwrite Medicaid, Medicare Advantage, Medicare Part D prescription drug and Medicare supplemental insurance products.

Highmark’s wholly owned for-profit subsidiary, United Concordia Companies, Inc. ("UCCI") and its subsidiaries, provide dental services through preferred provider and managed care networks as well as third party administrative services. Highmark’s other for-profit subsidiaries, including HM Insurance Group, LLC (“HMIG”), offer stop-loss insurance and other services.

enGen is a for-profit corporation that provides health plan administration platform services, infrastructure management, and other technology services.

Allegheny Health Network, and its subsidiaries and affiliates (collectively “AHN”), are incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and are federally recognized as a 501(c)(3). AHN’s subsidiaries and consolidated affiliates primarily are nonprofit health care providers offering routine and tertiary healthcare services, clinical support and healthcare education in Western Pennsylvania. Additionally, AHN’s other for-profit and nonprofit subsidiaries manage and develop outpatient medical facilities, which offer a variety of services including pharmacies, primary care, imaging, and group hospital purchasing services.

2. Acquisition and Affiliation

Effective March 1, 2021, Highmark became the sole member of HealthNow New York Inc. and its subsidiaries, a New York not-for-profit corporation n/k/a Highmark Western and Northeastern New York Inc. Highmark Health became the primary Blue Cross Blue Shield licensee for Western New York and the primary Blue Shield licensee for Northeastern New York, offering similar insurance products as Highmark Inc. and its existing subsidiaries. As such, Highmark NY’s financial results have been included in the Consolidated Financial Statements from the date of affiliation. Highmark NY operates as a controlled affiliate of Highmark Health within the meaning of BCBSA rules underwriting health coverage for both insured and administrated to members in New York.

(in thousands of dollars)

Highmark obtained full control of Highmark NY through an affiliation agreement without the transfer of consideration. The objective of its affiliation was to provide better health solutions for Highmark NY members to increase customer and clinician engagement, create better health outcomes, manage costs and improve affordability.

As a result of this affiliation, inherent contribution of $901,884 was recorded in the Consolidated Statement of Operations within net assets acquired through affiliation based on the fair value analysis of the assets and liabilities as of the date of affiliation. Additionally, as a result of this fair value analysis, intangible assets of $55,499 consisting of customer relationships were recognized and recorded in goodwill and other intangible assets, net in the Consolidated Balance Sheets.

Effective August 31, 2021, Highmark gained control of Gateway Health Plan, LLC and its subsidiaries (“Gateway”) by acquiring an additional 50% interest, which resulted in 100% ownership of Gateway. As such, Gateway's financial results have been included in the Consolidated Financial Statements from the date of control. Gateway offers Medicaid and Medicare Advantage plans across Pennsylvania. The objective of this acquisition was to improve the delivery of care and provide a more coordinated and personalized experience to members.

Prior to the acquisition, Highmark held a previous noncontrolling 50% ownership interest in Gateway. A gain of $86,507 was recognized based on a write-up of the previous 50% interest to a fair value of $281,705 within gain on acquisition of affiliate within the Consolidated Statement of Operations. The consideration exchanged included cash of $323,418 and a liability of $8,000 for future costs in the form of a payable, for a total purchase price of $331,418. As a result of this fair value analysis, goodwill of $147,741 was recognized and recorded in goodwill and other intangible assets, net in the Consolidated Balance Sheets. Additionally, intangible assets of $61,930 were also recognized and recorded in goodwill and other intangible assets, net in the Consolidated Balance Sheets, consisting of the following: $34,430 of customer relationships, $16,700 of provider contracts and $10,800 of noncompete agreements.

(in thousands of dollars)

The following table summarizes the value of the assets acquired and liabilities assumed at the acquisition date for both Highmark NY and Gateway.

	Highmark NY As of March 1, 2021		Gateway As of August 31, 2021	
Assets				
Cash and cash equivalents	$	76,329	$	96,743
Investments				
Debt securities, available-for-sale at fair value		732,650		312,194
Equity securities		212,959		201,618
Other		17,284		-
Accounts receivable, less allowance for doubtful accounts				
Insurance		221,055		247,980
Other		154,624		1,466
Property and equipment, net		82,552		40,687
Goodwill and other intangible assets, net		55,499		209,671
Benefit plan asset		3,967		-
Other assets		31,623		35,087
Total assets	$	1,588,542	$	1,145,446
Liabilities and Reserves				
Claims and claim adjustment expenses outstanding	$	310,660	$	315,828
Unearned revenue		16,050		-
Amounts held for others		84,213		-
Income tax payable		1,258		3,481
Other payables and accrued expenses		228,092		204,224
Deferred tax liabilities		3,204		8,790
Benefit plan liability		43,181		-
Total liabilities		686,658		532,323
Reserves		901,884		613,123
Total liabilities and reserves	$	1,588,542	$	1,145,446

3. Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying Consolidated Financial Statements are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Consolidated Financial Statements include the accounts of the Corporation and its subsidiaries and affiliates. All significant intercompany balances and transactions have been eliminated from the Consolidated Financial Statements.

The Corporation uses the equity method of accounting for 50% or less owned affiliates or those affiliates for which the Corporation does not hold a controlling financial interest but may influence operating or financial decisions.

Highmark Health is the sole corporate member of Highmark Inc, who in turn is the sole corporate member of Highmark WV, Highmark DE and Highmark NY. The Corporation has the authority to elect all the members of the Board of Directors of Highmark WV, Highmark DE and Highmark NY. In accordance with its articles of incorporation, no part of the funds, income or net earnings of Highmark WV, Highmark DE or Highmark NY may inure to the benefit of the Corporation. In the event of

(in thousands of dollars)

dissolution or winding up of the affairs of Highmark WV, its assets are required to be distributed in the manner provided for nonprofit corporations by the statutes of the State of West Virginia or the rules and regulations of the Insurance Commissioner of the State of West Virginia, each as then in effect. Likewise, in the event of dissolution of Highmark DE, the Directors shall cause any remaining assets of Highmark DE to be distributed to a foundation created pursuant to Delaware law or to a federally tax-exempt organization. Likewise, in the event of dissolution of Highmark NY, its assets are required to be distributed in the manner provided for nonprofit corporations by the statutes of the State of New York or the rules and regulations of the Insurance Commissioner of the State of New York, subject to the approval of the state attorney general, each as then in effect. Creditors of the Corporation should not anticipate that any of the assets or revenues of Highmark WV, Highmark DE or Highmark NY are or will be available to pay their claims, either currently or at any time in the future. At December 31, 2022 and 2021, Highmark WV's total reserves were $752,234 and $766,379, respectively. At December 31, 2022 and 2021, Highmark DE's total reserves were $439,160 and $507,306, respectively. At December 31, 2022 and 2021, Highmark NY's total reserves were $661,141 and $819,837, respectively.

New Accounting Pronouncements

Implemented

In January 2017, the Financial Accounting Standards Board ("FASB") issued new guidance eliminating Step 2 from the goodwill impairment test. The new guidance is effective for fiscal years beginning after December 15, 2021. The Corporation elected to early adopt the guidance at December 31, 2017, which was permitted. The early adoption of this new guidance did not materially impact the financial position, results of operations or cash flows of the Corporation.

In March 2020, FASB issued new guidance regarding reference rate reform on financial reporting. The guidance provides optional expedients to companies for a limited period of time to ease the potential burden in accounting reference rate reform on financial reporting. In December 2022, FASB issued new guidance to defer the sunset date of application. The expedients are available to be applied from March 12, 2020 through December 31, 2024. As of December 31, 2022, the Corporation has adopted the new guidance, through the addition of transition language to any variable credit rate agreements. The adoption of this guidance did not materially impact the financial position, results of operations, or cash flows of the Corporation.

In February 2016, FASB issued new guidance regarding the recognition of leases ("ASC 842"). The ASC 842 guidance requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for fiscal years beginning after December 15, 2021. The Corporation elected to early adopt the guidance at January 1, 2021, which was permitted.

The Corporation elected the practical expedient package, allowing the Corporation to carry forward the assessment of whether the Corporation's contracts contain or are leases, the lease classification and whether previously capitalized costs continue to qualify as initial direct costs. The Corporation did not elect the use-of-hindsight practical expedient during the transition to ASC 842 and elected the short-term lease recognition exemption for all leases that qualify. Upon adoption, the Corporation recognized new right-of-use assets and lease liabilities related only to the operating leases, as finance (capital) leases were already reflected as property and equipment, net on the Corporation's Consolidated Balance Sheets. The impact of adoption on operating gain and net assets was not material, nor was there a material impact on the Consolidated Statements of Operations or Cash Flows. See Note 14 for additional disclosures about the Corporation's leases.

(in thousands of dollars)

In November 2021, FASB issued new guidance allowing nonpublic business entities to elect to use a risk-free rate as the discount rate for all leases. The new guidance is effective for fiscal years beginning after December 15, 2021. The Corporation elected to early adopt the guidance at January 1, 2021, which was permitted. The adoption of the guidance did not materially impact the financial position, results of operations or cash flows of the Corporation.

In August 2018, FASB issued new guidance to modify the disclosure requirements on defined benefit plans. The new guidance is effective for fiscal years beginning after December 15, 2021. The adoption of this new guidance did not impact the financial position, results of operations or cash flows of the Corporation, and the modified disclosure requirements have been incorporated into Note 11.

In December 2019, FASB issued new guidance to simplify the accounting for income taxes. The new guidance is effective for fiscal years beginning after December 15, 2021. The Corporation has evaluated the impacts of the new guidance and determined that it will not materially impact its financial position, results of operations or cash flows.

Under Evaluation

In June 2016, FASB issued guidance introducing a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new guidance replaces the current incurred loss model for measuring expected credit losses, requiring immediate recognition of all expected credit losses and applies to loans, accounts receivables, debt securities, and other financial assets. The new guidance is effective for fiscal years beginning after December 15, 2022. The Corporation is evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

In January 2023, FASB issued additional guidance regarding the Organization for Economic Co-operation and Development OECD Pillar Two tax, indicating that it believes the tax to be an alternative minimum tax under GAAP. The Corporation has evaluated the impacts of the guidance and does not expect provisions of the Pillar Two tax to have a material impact on its financial position, results of operations or cash flows.

Use of Estimates

The preparation of the Corporation's Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with maturities of three months or less when purchased, excluding assets limited or restricted as to use, to be cash equivalents.

(in thousands of dollars)

Accounts Receivable
In the normal course of business, the Corporation grants credit to its customers under various contractual arrangements. The Corporation carries its accounts receivable at estimated net realizable value, which reflects the impact of potential credit losses.

Insurance accounts receivable is specific to Highmark business and includes amounts related to health, dental, vision, stop-loss and government business accounts receivable. An allowance for doubtful accounts is based on a number of factors, including economic experience, past history, trends, coverage type and other indicators. When it is determined an accounts receivable balance is not collectible, it is written off.

Patient service accounts receivable is specific to AHN business and includes amounts receivable from patients, third-party payors and others for services as they are rendered, at an amount that reflects implicit price concessions based upon historical collection rates.

Other accounts receivable primarily includes receivables from affiliates, accrued interest revenue, receivables from securities sold and other receivables not associated with the Corporation's core business.

Concentrations of credit risk, excluding government payors, are limited due to the large number of Highmark Health customers.

Investments
Debt securities are classified as available-for-sale and are carried at fair value (based on quoted or estimated market prices). Unrealized gains and losses on available-for-sale debt securities are reported in net assets without donor restrictions, net of deferred income taxes. Derivatives embedded within convertible debt securities are bifurcated, with changes in fair value included in earnings; any remaining unrealized gains or losses of the convertible bonds are reported in net assets without donor restrictions, net of deferred income taxes. Premiums and discounts are amortized using the effective interest method. Realized gains and losses on debt securities are based on amortized cost. Realized gains and losses on available-for-sale debt securities are reported in net investment income in the Consolidated Statements of Operations.

The Corporation monitors its available-for-sale investments portfolio for unrealized losses that appear to be other-than-temporary. In determining if an available-for-sale debt security is other-than-temporarily impaired, the Corporation considers whether it has intent to sell the debt security or whether it is more likely than not that the Corporation will be required to sell the debt security before recovery of its amortized cost basis, which may be at maturity. If the Corporation intends to sell the debt security or it is more likely than not that the Corporation will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment is recorded as a realized loss in net investment income in the Consolidated Statements of Operations for the difference between fair value and amortized cost.

If the Corporation does not have the intent to sell and it does not believe that it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost, the Corporation performs a detailed review to determine the underlying cause of the unrealized loss and whether an other-than-temporary impairment is warranted. At the time a debt security is determined to be other-than-temporarily impaired, the credit component of the other-than-temporary impairment is recognized in income in the Consolidated Statements of Operations and the non-credit component of the other-than-temporary investment is recognized in the Consolidated Statements of Changes in Net Assets, net of deferred income taxes.

(in thousands of dollars)

Equity securities are carried at fair value based on quoted or estimated market prices; except for certain equity investments, which are valued at net asset value ("NAV") as a practical expedient to fair value. Changes in the fair value of equity securities are reported in net investment income on the Consolidated Statements of Operations. Realized gains and losses on equity securities are based on cost (specific identification method) and are reported in net investment income on the Consolidated Statements of Operations.

Board designated, restricted and other investments include assets whose use is contractually limited by external parties and assets set aside by the Board of Directors for future capital improvements or liquidity, over which the Board retains control and may, at its discretion, subsequently use for other purposes, as well as assets held by trustees under indenture agreements. Other investments consist primarily of marketable debt and equity securities and marketable securities maintained in a master trust fund. Investment income or loss (including realized gains and losses, interest and dividends, and unrealized gains and losses) is recorded in net investment income in the Consolidated Statements of Operations unless restricted by donor or law. Investment income related to restricted gifts is recorded based on donor restriction as part of net assets with donor restrictions in the Consolidated Statements of Changes in Net Assets.

Other investments include investments in private limited partnerships, private equities, real estate trusts, limited liability companies and mortgage loans. Private limited partnerships are carried at NAV as a practical expedient to fair value. The Corporation has committed $195,194 and $263,585 to various private limited partnership investments at December 31, 2022 and 2021, respectively. These commitments are due upon capital calls by the general partners of the partnerships. Real estate investment trusts are valued at NAV as a practical expedient to fair value and are approximated based on trustee estimates. Private equities and limited liability companies are accounted for under the cost or equity method, dependent on certain factors including ownership of a controlling percentage and the ability to exercise significant influence. Mortgage loans are carried at the lower of amortized cost or fair value. Interest income and amortization amounts are recognized as adjustments of yield and are included in net investment income. The Corporation monitors its other investments for unrealized losses that appear to be other-than-temporary. At the time an investment is determined to be other-than-temporarily impaired, the Corporation reduces the book value to the current market value and records a realized loss in net investment income in the Consolidated Statements of Operations.

The Corporation participates in securities lending transactions, which are accounted for as secured borrowings. The Corporation utilizes a custodian as a lending agent, maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Non-cash collateral is not recorded in the Consolidated Balance Sheets, as the Corporation does not have the right to sell, pledge or otherwise reinvest the non-cash collateral. Cash collateral is invested in short-term debt securities and is carried at fair value. Changes in fair value are reported as unrealized gains and losses within net assets without donor restrictions.

The fair value of securities held as invested collateral was $368,806 and $596,511 at December 31, 2022 and 2021, respectively. The corresponding liability that represents the Corporation's obligation to return the collateral was $368,598 and $600,039 at December 31, 2022 and 2021, respectively. The potential risks associated with the transactions include counterparty credit risk, non-cash collateral security risk, lending agent operational risk, and cash collateral reinvestment risk, including the risk that the reinvested collateral would be illiquid, insufficient to repay borrowers, would differ in maturity, or be otherwise unavailable to return the cash collateral to counterparties.

(in thousands of dollars)

The Corporation and its lending agent mitigate those risks by limiting the amount of investments available for loan, limiting the amount of borrowings by any one counterparty, maintaining effective control over loaned securities, evaluating the credit of counterparties, maintaining a list of approved borrowers, requiring overcollateralization, placing limitations, including duration and credit quality, on the investment of cash collateral, conducting daily mark-to-market pricing of securities, collateral and invested collateral, and maintaining a written agreement with the lending agent that includes certain protections.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the Consolidated Financial Statements are subject to various market fluctuations, which include changes in the interest rate environment, equity markets and general economic conditions.

Reinsurance
In the normal course of business, the Corporation seeks to reduce losses that may arise from risks or occurrences of an unexpected nature that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance premiums and benefits paid or provided are accounted for in a manner consistent with the original policies issued and the terms of the reinsurance contracts. The Corporation also assumes risks from other insurance companies. Such assumed reinsurance activity is recorded principally on the basis of reports received from the ceding companies.

Inventory, Net
Inventory consists primarily of health care delivery related drugs, medical supplies and surgical supplies. Inventory is stated at the lower of cost or market and net of obsolescence reserves. Health care delivery related inventory cost is determined using the first-in first-out basis.

Property and Equipment, Net
Property and equipment is recorded at cost, net of accumulated depreciation and amortization. If a donor contributes property and equipment, it is recorded at the fair market value on the date contributed. Maintenance, repairs and minor improvements are expensed as incurred. Certain costs related to the internal development of software or software purchased for internal use are capitalized. Gains or losses on sales or disposals of property and equipment are included in operations.

Depreciation is computed under the straight-line method over the estimated useful lives of the various asset types as follows: buildings and building or land improvements, up to forty years; leasehold improvements, lesser of lease term or useful life; office furniture and equipment, three to thirty years; and capitalized software, three to ten years.

Property and equipment is reviewed for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized to the extent the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposal. No impairment was recognized in 2022 and 2021.

(in thousands of dollars)

Goodwill and Other Intangible Assets, Net
Intangible assets with definite lives are amortized using the straight-line method over their estimated lives, which range from three to twenty-five years. Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If the fair value is less than the carrying value, the asset is adjusted to the fair value and an impairment loss is recorded in the Consolidated Statements of Operations. No impairment was recognized in 2022 and 2021.

Goodwill consists primarily of amounts related to AHN, Gateway and UCCI. Other intangible assets are primarily comprised of customer relationships and provider contracts, among others. See Note 9 for additional information.

Leases
The Corporation adopted ASC 842 on January 1, 2021 on a modified retrospective basis. The Corporation determines if an arrangement is a lease and its lease classification (operating or finance) at inception. Beginning in the first quarter of 2021, both operating and finance leases resulted in (1) a right-of-use ("ROU") asset that represents the Corporation's right to use the underlying asset for the lease term and (2) a lease liability that represents the Corporation's obligation to make lease payments arising from the lease. The finance lease ROU assets and lease liabilities are reflected in property and equipment, net and debt, respectively, in the Corporation's Consolidated Balance Sheets at December 31, 2022 and 2021.

These lease assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. Most of the Corporation's leases do not provide an implicit rate and, as a result, the Corporation may use a risk-free rate determined using a period comparable to that of the lease term based on the information available at commencement date in determining the present value of lease payments or an estimated incremental borrowing rate, which is derived using a collateralized borrowing rate for the same currency and term as the associated lease. Determination of the rate utilized is dependent on the information available to the Corporation at lease inception. The ROU asset also includes any lease pre-payments made.
The Corporation's expected life of a lease may consider options to extend or terminate a lease when it is reasonably certain that the Corporation will exercise that option. Certain leases include multiple optional renewal periods. The Corporation will evaluate extension periods within one year of expiration of the lease term.

Real estate leases include fixed rental payments. Most leases include lease payment increases at pre-determined dates. The Corporation has lease agreements with lease and non-lease components that are accounted for as a single lease component. Real estate leases include multiple optional renewal periods. The Corporation will evaluate extension periods within one year of expiration of the lease term.

In the event of an abandonment of an ROU asset, or portion of an ROU asset, the Corporation will evaluate whether the circumstances leading to abandonment indicate impairment of the related asset group. Any identified impairment is recognized as an impairment loss at that point in time. If impairment is not identified, the asset group or determined separate lease component will be amortized in full by the cease-use date.

A ROU asset and lease liability is not recognized for leases with an initial term of twelve months or less and the Corporation recognizes lease expense for these leases over the lease term within other operating expenses.

(in thousands of dollars)

Other Assets
Other assets primarily include prepaid expenses, pharmacy rebates receivable, insurance recoveries associated with medical malpractice, notes receivable, contract assets, and cash surrender values of corporate-owned life insurance policies held in grantor trusts.

Pharmacy rebates receivable, and the related customer liabilities, is an estimate based on prescriptions filled and terms of rebate contracts. The actuarial estimates are continually reviewed, and any resulting adjustments are included in current operations. The Corporation carries its notes receivable at estimated net realizable value, which reflects the impact of potential credit losses. Changes in cash surrender value are reported in net investment income in the Consolidated Statements of Operations.

Claims and Claim Adjustment Expenses Outstanding
Claims and claim adjustment expenses outstanding include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed, and any resulting adjustments are included in current operations. Corresponding administrative costs to process outstanding claims are estimated and accrued and are also included in claims and claim adjustment expenses outstanding.

The Corporation records certain non-risk administrative arrangements in claims liabilities. The non-risk administrative receivable is included in insurance accounts receivable and the corresponding provider liability is included in claims and claim adjustment expenses outstanding in the Consolidated Balance Sheets.

Amounts Held for Others
Amounts held for others include reserves for refunds and deposits received from groups for non-risk administrative arrangements. Amounts held for others also include amounts related to the BlueCard program, which allows Highmark's members to access other Blue Cross and Blue Shield plans' provider networks.

Other Liabilities
Other liabilities include medical malpractice reserves, deferred grant revenue, book overdrafts and payor advances.

The provision for medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported and unreported claims are reported in other assets in the Consolidated Balance Sheets at net realizable value.

The Corporation records deferred grant revenue for grant monies received until the revenue is earned or related costs have been incurred. Governmental grant monies received for the acquisition of property and equipment are deferred until the asset is provided or until depreciation expense is recognized.

Net Assets
Net assets without donor restrictions include investments and board designated assets set aside by the Corporation for future capital improvements or liquidity, over which the Corporation retains control and may at its discretion subsequently use for other purposes.

(in thousands of dollars)

Net assets with donor restrictions include those whose use is limited by donor-imposed stipulations, including some that either expire with the passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. Additionally, net assets with donor restrictions include those whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Corporation. Investment earnings from net assets with donor restrictions may be donor restricted for capital or operating needs depending upon the original intent of the donor.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes of being placed-in-service, incurred, or by occurrence of other events specified by donors. Net assets released from restrictions and used for operations are recorded in net assets released from restriction. Net assets released from restriction and used for capital purposes are recorded as change in net assets without donor restrictions in the Consolidated Statements of Changes in Net Assets.

Insurance Revenue Recognition
Highmark's business consists of both at-risk insurance arrangements and non-risk administrative arrangements. Risk business includes all insurance contracts, which are reported as premium revenue. Premium revenue is generally billed in advance of the contractual coverage periods and is included in premium revenue as it is earned during the coverage period. The unearned portion of premiums collected is reflected in the Consolidated Balance Sheets as unearned revenue. Premium revenue is received from the federal government and certain states according to government specified payment rates and various contractual terms. Changes in revenues from Medicare, ACA and Medicaid products resulting from the periodic changes in risk-adjustment scores derived from medical diagnoses for the Highmark's membership are recognized when the amounts become determinable and the collectability is reasonably assured.

Net Patient Service Revenue
Revenues consist primarily of patient service revenues that are recorded based upon established billing rates less contractual adjustments and discounts. Revenues are recorded during the period the healthcare services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans and commercial insurance companies (including plans offered through the health insurance exchanges), and employers. Estimates of contractual adjustments are based upon the payment terms specified in the related contractual agreements. Contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts).

The Corporation records its patient service revenue at the transaction price estimated to reflect the total consideration due from patients and third-party payors in exchange for providing healthcare services. Retroactive settlements with third-party payors are a result of cost report filings, audits, and other investigations and are realized through patient service revenue in the period they are identified. Healthcare services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recognized as these performance obligations are fulfilled. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. The Corporation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Corporation measures inpatient care, which is the performance obligation, from admission into the hospital to the point when it is no longer required to provide services to that patient, generally at the time of discharge. Outpatient performance obligations are measured from patient registration to the point where care is no longer required to be provided. Revenue for

(in thousands of dollars)

performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and the Corporation does not believe it has additional obligations to the patient.

The transaction price, which involves significant estimates, is determined based on standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as patient discounts and patient price concessions. Any revision in estimates is recognized in the period in which the estimates are revised. Amounts are billed to patients and third-party payors after the performance obligation is satisfied and payment is expected within a reasonable period of time, though settlement may occur well after the healthcare service is provided. The Corporation would provide refunds to patients and third-party payors once it is identified that overpayments have occurred.

The transaction price for the Corporation's healthcare services is variable due to the existence of price concessions due to various agreements with insurance, governmental payors, and self-pay patients. The transaction price reflects the expectations about the consideration that the Corporation is entitled to receive from the patient or third-party. The transaction price is determined by using portfolios of accounts that have similar payment methodologies and performance experience.

The provision for bad debts in the statements of operations is reflected as an implicit price concession and considered an adjustment to arrive at patient service revenue. The implicit price concession is determined based upon historical collection rates.

The Corporation's net patient service revenues, by major payor, for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Medicare	$ 1,348,376	$ 1,353,175
Medical assistance	357,991	328,362
Blue Cross Blue Shield payors	682,999	537,285
Other third-party payors	709,031	694,524
Self-pay patients	30,844	29,871
Total net patient service revenue	$ 3,129,241	$ 2,943,217

In 2022, revenue from Medicare and Medical Assistance programs accounted for 43% and 11%, respectively, of total patient service revenue, net of contractual allowances and discounts. In 2021, revenue from Medicare and Medical Assistance programs accounted for 46% and 11%, respectively, of total patient service revenue, net of contractual allowances and discounts. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount.

Uncompensated Care and Community Services Benefit
AHN hospitals offer medical care to all patients, including those who may have difficulty paying for services due to limited income. AHN's financial assistance policy defines the income eligibility criteria, the type of financial assistance, and the services that are included and excluded under its policy. The policy sets forth the procedure by which a patient shall apply for financial assistance, sometimes referred to as charity care. If the patient and/or guarantor's income is at or under 200% of the Federal Poverty Guidelines, all patient liability balances will be forgiven at 100%, whereas discounted care for uninsured but not meeting charity thresholds ranges between 71% and 83% of gross charges based upon the look-back method at each facility. AHN does not pursue collection of

(in thousands of dollars)

amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as net patient service revenue.

Of AHN's total expenses reported, an estimated $14,600 and $10,800 arose from providing services to charity patients in 2022 and 2021, respectively. AHN estimates these costs by applying the cost of the total direct and indirect costs of each procedure to the individual charity care cases. Patients are required to apply for the charity care discount, but often do not complete the necessary paperwork to determine if they quality.

In addition to uncompensated care, AHN provides free and below cost services and programs for the benefit of the community. The cost of these programs is included in the accompanying Consolidated Statements of Operations.

Service and Other Revenue
The administrative fees received under non-risk administrative arrangements are included in service revenue and recognized in the period in which the related services are performed, net of estimated uncollectible amounts. Administrative fees are calculated by multiplying the membership covered under the various contracts by the contractual rates. This also includes fees for management of medical services, claims processing and access to provider networks. Under non-risk administrative arrangements, the customer assumes the risk of funding claims. The Corporation does not record premium revenue or claims incurred on non-risk administrative arrangements. The expenses associated with administering the risk and non-risk business are included in salaries, wages and fringe benefits and other operating expenses in the Consolidated Statements of Operations. The Corporation routinely monitors the collectability of specific accounts, the aging of receivables, as well as prevailing and anticipated economic conditions, and reflects any required adjustments in current operations. The Corporation considers services provided under non-risk administrative contracts to be a combined performance obligation with benefits provided over the contract period.

Revenue related to the information technology platform services (access and build-out/enhancement services), application service provider (ASP) and business process outsourcing (BPO) services, data centering hosting (telephone and data network services), and print management is also included in service revenue. Platform access, ASP and BPO services, data centering hosting, and print management services are recognized on a transaction basis. The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, services have been rendered and collectability is reasonably assured. Revenues are recognized as the services are provided.

The Corporation recognizes revenue when the promised services are delivered to customers for an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those services. Revenues from services rendered under the transaction basis are recognized as the services are provided. The Corporation's platform build-out and enhancement services include application development, maintenance and support services. Revenues and related direct expenses from the platform build-out and enhancement services are deferred until a "go live" date or a date in which the platform build-out and enhancement services are available to the customer for use and recognized ratably over the term of the contract.

Services and other revenue also includes pharmacy rebates retained in lieu of fees charged for non-risk administrative arrangements, grants (including Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") funding), contributions, physician stipends, Medicare and Medicaid electronic health record incentive payments, contracted physician services, and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. The Corporation recognizes revenue for these revenue streams when the promised goods or services are delivered to customers for an amount that reflects the consideration to which the Corporation expects to be entitled. This recognition pattern

(in thousands of dollars)

aligns with the benefits from services provided to clients. All other revenue is composed of exchange transactions, with the exception of certain state and federal grants, which are non-exchange transactions and considered contributions for accounting purposes.

The Corporation's customer contracts may also include incentive payments received for discrete benefits delivered or promised to be delivered to clients or service level agreements that could result in credits or refunds to the client. Revenues relating to such arrangements are accounted for as variable consideration when the amount of revenue to be recognized can be estimated to the extent that it is probable that a significant reversal of any incremental revenue will not occur. Such amounts are estimated at contract inception and are adjusted at the end of each reporting period as additional information becomes available.

The Corporation often enters into contracts with clients that include promises to transfer multiple products and services to the client. Determining whether products and services are considered distinct performance obligations that should be accounted for separately rather than together may require significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation. In instances where the standalone selling price is not directly observable, it is determined using information that may include market conditions and other observable inputs.

Affiliate Income
Affiliate income includes the Corporation's proportionate share of net income of unconsolidated affiliates which are accounted for under the equity method.

Claims and claims adjustment expenses
Claims and claims adjustment expenses includes claim payments, capitation payments, and various other costs incurred to provide health insurance coverage to members, claims processing and administrative costs, as well as estimates of future payments. Claims expenses are recognized in the period in which services are provided.

Other Operating Expenses
Other operating expenses include general and administrative fees such as facility expenses, advertising and marketing costs, software expenses and outside services, among others. Operating expenses are expensed as incurred.

Contributions with Donor Restrictions
Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received as unrestricted gifts within service revenue in the Consolidated Statements of Operations. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year are reported as net assets released from restriction in the accompanying Consolidated Financial Statements.

Income Taxes
Highmark Health and certain of the entities within AHN are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on exempt purpose income. These tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the IRC.

(in thousands of dollars)

Highmark Inc., Highmark WV, Highmark NY, and Highmark DE are subject to federal income taxes, although they remain exempt from state and local taxes. Highmark Inc., Highmark WV, Highmark NY, and Highmark DE file separate consolidated federal income tax returns. Certain non-insurance entities, health maintenance organizations, and insurance subsidiaries of Highmark Inc., Highmark WV, Highmark NY, and Highmark DE are subject to state income taxes. Provisions for the applicable tax liabilities have been made in the Consolidated Financial Statements.

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. The Corporation records a valuation allowance against its deferred tax assets when it determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In evaluating the ability to utilize deferred tax assets, all available evidence, both positive and negative, is considered in determining future taxable income on a jurisdiction-by-jurisdiction basis.

The Corporation classifies interest and penalties expense related to income taxes as a component of income tax expense

(Deficit) Excess of Revenue Over Expenses
The Consolidated Statements of Operations include a (deficit) excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the (deficit) excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale debt securities, benefit plan asset and liability changes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits.

Subsequent Events
In connection with the preparation of the Consolidated Financial Statements, the Corporation evaluated events subsequent to the balance sheet date of December 31, 2022 through March 22, 2023, which is also the date the financial statements were available to be issued and has determined that all material transactions have been recorded and disclosed properly.

4. Insurance Regulation

Highmark Inc. and its insurance subsidiaries and affiliates file financial statements with insurance departments in their states of domicile. These financial statements are prepared in accordance with statutory accounting principles prescribed by such regulatory authorities. Prescribed statutory accounting principles include state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners (“NAIC”). Permitted statutory accounting practices encompass all accounting practices not prescribed.

Financial statements prepared for state insurance departments in accordance with statutory accounting principles differ from the Consolidated Financial Statements prepared in accordance with GAAP. The principal differences in statutory accounting are: (1) certain assets, such as accounts receivable aged more than 90 days, office furniture and equipment, non-operating software, certain provider advances, certain intangible assets and certain prepaid expenses, are excluded from statutory reserves; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds are carried at amortized cost or fair value, not fair value as required under GAAP; (4) change in fair value of unaffiliated common stock is recorded directly to surplus rather than in results of operations as required under GAAP; (5) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to surplus rather than in results of

(in thousands of dollars)

operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (6) investments in, and earnings from, Highmark Inc.'s controlled affiliates, Highmark DE, Highmark WV and Highmark NY, are not recognized; (7) certain assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (8) deferred tax asset recognition is limited; (9) changes in deferred taxes are recorded directly to surplus rather than in the results of operations as required under GAAP; (10) tax benefits associated with uncertain tax positions are only recognized if the probability is greater than 50%; (11) the amount of expense recognized for pension and postretirement plans differs from GAAP primarily due to the required timing of the recognition of certain inputs for statutory accounting; (12) noncontrolling interest consolidated for GAAP purposes is not recognized; (13) certain equity transfers to affiliates are expensed; and (14) operating lease assets and liabilities are not recorded to the balance sheet and are expensed as incurred.

As a result of the foregoing, statutory reserves at December 31, 2022 and 2021 and statutory net income for the years then ended was:

	2022	2021
Highmark (excluding Highmark WV, DE and NY)		
Statutory reserves	$ 4,031,878	$ 4,246,621
Statutory net (loss) income	(38,239)	275,602
Highmark WV		
Statutory reserves	753,356	655,826
Statutory net income	136,995	49,370
Highmark DE		
Statutory reserves	443,986	462,551
Statutory net income	24,228	30,845
Highmark NY		
Statutory reserves	599,034	636,678
Statutory net loss	(61,453)	(57,987)

Highmark Inc. and its insurance subsidiaries and affiliates are subject to minimum risk-based capital ("RBC") requirements that were developed by the NAIC and adopted by various state legislatures. The formula for determining the amount of RBC specifies various weighting factors that are applied to financial balances and various levels of activity based on perceived degrees of risk.

(in thousands of dollars)

The RBC ratios of Highmark Inc. and its insurance subsidiaries and affiliates are compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2022 and 2021, Highmark Inc. and its insurance subsidiaries and affiliates exceeded their respective minimum RBC requirements.

The Pennsylvania Insurance Commissioner ("Commissioner") has determined that an appropriate sufficient operating surplus range for Highmark Inc. is 550% - 750% of the health RBC ratio or the Commissioner's consolidated risk factor ratio, whichever is lower. As long as Highmark Inc. operates above the 550% ratio, it is not permitted to include a risk and contingency factor in its filed premium rates. If Highmark Inc.'s ratio exceeds 750%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range. At December 31, 2022 and 2021, Highmark Inc.'s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Commissioner.

The ACA enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including the establishment of federally-facilitated or state-based exchanges which provide individuals and small businesses access to affordable and quality health insurance. Highmark participates in the Pennsylvania, West Virginia, Delaware and New York markets.

The ACA also established three premium stabilization programs effective January 1, 2014. These risk spreading programs are applicable to certain commercial medical insurance products. In the aggregate, Highmark's commercial medical insurance products subject to the premium stabilization programs represented approximately 8% of the total premiums for the years ending December 31, 2022 and 2021. These programs, commonly referred to as the "3Rs", include a permanent risk adjustment program, a temporary risk corridor program and a transitional reinsurance program designed to more evenly spread the financial risk borne by issuers and to mitigate the risk that issuers would have mispriced products. The federal ACA transitional reinsurance program and the temporary risk corridor program were only effective for the 2014 through 2016 benefit years. Therefore, the Corporation was not eligible for reimbursement under these programs for the 2022 and 2021 benefit years and there were no amounts recorded in the Consolidated Balance Sheets.

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans in the same state. The risk adjustment program is applicable to commercial individual and small group health plans (except certain exempt, grandfathered and grandmothered plans) operating both inside and outside of the health insurance exchanges established under the ACA. Under the risk adjustment program, a risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlement amounts are determined by utilizing the Centers for Medicare and Medicaid Services ("CMS") risk transfer formula which averages all risk scores in risk adjustment covered plans and uses the plan average risk scores combined with other factors to calculate the settlement. Settlements are determined on a net basis by legal entity and state.

Prior to the settlement, the estimate of amounts receivable or payable under the risk adjustment program is based on an estimate of both Highmark's and the state average risk scores. Assumptions used in these estimates include but are not limited to historical market experience, member demographics including age and gender, pricing models, membership data, the mix of previously underwritten membership as compared to new members in plans compliant with the ACA, published third party studies and other publicly available data including regulatory plan filings. Highmark

(in thousands of dollars)

generally relies on providers to appropriately document all medical data, including the diagnosis data submitted with claims, as the basis for risk scores under the program.

Highmark records receivables or payables for the risk adjustment program as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final settlements are determined by CMS in the year following the policy year. Under the risk adjustment program, Highmark received net payments of $59,631 in 2022 to settle the 2021 plan year and received net payments of $21,867 in 2021 to settle the 2020 plan year.

The Corporation recorded a risk adjustment receivable of $36,429 to insurance receivables and a payable of $28,670 to other payables and accrued expenses in the Consolidated Balance Sheets for the year ended December 31, 2022. For the year ended December 31, 2021, the Corporation recorded a risk adjustment receivable of $42,167 to insurance receivables and a payable of $32,630 to other payables and accrued expenses in the Consolidated Balance Sheets.

Highmark Inc. is subject to a Community Health Reinvestment ("CHR") obligation, ordered by the Department, which establishes an annual CHR commitment for Highmark Inc. based on Highmark Inc.'s direct written health premiums. CHR includes funding, subsidization or provision of health care coverage for persons who are uninsured or unable to pay for coverage; health care services for persons who are uninsured and unable to pay for services; and programs for the prevention and treatment of disease or injury including mental health counseling or the promotion of health or wellness. Highmark Inc. has met its minimum social mission commitment for both 2022 and in 2021.

Highmark offers Medicare Advantage and Medicare Part D Prescription Drug Plan products under contracts with CMS which accounted for 24% and 27% of total premiums for the years ended December 31, 2022 and 2021, respectively.

Participation in government sponsored health care programs subjects Highmark to a variety of federal laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to Highmark providing the relevant services under audit. These risks may include reimbursement claims as well as potential fines and penalties. With respect to Highmark's Medicare Advantage business, CMS regularly audits Highmark's performance to determine compliance with CMS's regulations and contracts with CMS and to assess the quality of services provided to Medicare Advantage beneficiaries. CMS uses various payment mechanisms to allocate and adjust premium payments to Highmark's Medicare Advantage plan by considering the applicable health status of Medicare Advantage members as supported by information prepared, maintained and provided by health care providers. Highmark collects claim and encounter data from providers and generally rely on providers to appropriately code their submissions and document their medical records, including the diagnosis data submitted to Highmark with claims. CMS pays increased premiums to Medicare Advantage plans and prescription drug program plans for members who have certain medical conditions identified with specific diagnosis codes. Federal regulators review and audit the providers' medical records to determine whether those records support the related diagnosis codes that determine the members' health status and the resulting risk-adjusted premium payments to Highmark. In that regard, federal regulators have initiated contract-level risk adjustment data validation audits of certain plans within Highmark for certain periods to validate coding practices and supporting medical record documentation maintained by health care providers and the resulting risk adjusted premium payments to such plans. CMS may require Highmark to refund premium payments if Highmark's risk adjusted premiums are not properly supported by medical record data and are outside of acceptable error thresholds. On January 30, 2023, CMS issued a final rule on Risk Adjustment Data Validation (RADV) audits, which codifies CMS' intent to extrapolate findings beginning with Payment Year 2018 ("PY2018") audits. Extrapolation will not apply to RADV or U.S. Department of Health and Human Services, Office of Inspector General audits

(in thousands of dollars)

prior to PY2018. However, CMS's final RADV rule does not adopt a specific sampling, extrapolation, or audit methodology, as such, Highmark is unable to estimate the financial impact, if any, at this time.

5. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2022 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 1,764,492	$ 156	$ (216,194)	$ 1,548,454
Agency mortgage-backed securities	1,237,906	1,542	(117,152)	1,122,296
State and political obligations	233,588	603	(34,682)	199,509
Mortgage-backed securities	374,563	87	(36,903)	337,747
Asset-backed securities	207,712	31	(11,389)	196,354
Corporate and other debt securities	2,693,680	17,875	(274,094)	2,437,461
Total	$ 6,511,941	$ 20,294	$ (690,414)	$ 5,841,821

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2021 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 1,989,573	$ 50,572	$ (20,135)	$ 2,020,010
Agency mortgage-backed securities	1,061,328	12,454	(12,505)	1,061,277
State and political obligations	176,751	9,108	(805)	185,054
Mortgage-backed securities	359,621	1,813	(3,167)	358,267
Asset-backed securities	286,848	2,239	(1,023)	288,064
Corporate and other debt securities	2,823,306	96,052	(27,729)	2,891,629
Total	$ 6,697,427	$ 172,238	$ (65,364)	$ 6,804,301

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2022 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 911,499	$ (137,882)	$ 618,632	$ (78,312)	$ 1,530,131	$ (216,194)
Agency mortgage-backed securities	661,646	(47,776)	327,440	(69,376)	989,086	(117,152)
State and political obligations	129,202	(21,763)	44,628	(12,919)	173,830	(34,682)
Mortgage-backed securities	190,481	(15,042)	144,332	(21,861)	334,813	(36,903)
Asset-backed securities	95,776	(4,539)	96,431	(6,850)	192,207	(11,389)
Corporate and other debt securities	1,525,016	(163,468)	654,909	(110,626)	2,179,925	(274,094)
Total	$ 3,513,620	$ (390,470)	$ 1,886,372	$ (299,944)	$ 5,399,992	$ (690,414)

The gross unrealized losses and fair value of investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2021 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 941,837	$ (10,895)	$ 204,041	$ (9,240)	$ 1,145,878	$ (20,135)
Agency mortgage-backed securities	654,162	(11,948)	22,184	(557)	676,346	(12,505)
State and political obligations	59,128	(788)	1,468	(17)	60,596	(805)
Mortgage-backed securities	287,044	(2,823)	4,958	(344)	292,002	(3,167)
Asset-backed securities	128,289	(1,020)	1,599	(3)	129,888	(1,023)
Corporate and other debt securities	1,063,280	(24,719)	74,009	(3,010)	1,137,289	(27,729)
Total	$ 3,133,740	$ (52,193)	$ 308,259	$ (13,171)	$ 3,441,999	$ (65,364)

At December 31, 2022 and 2021, the Corporation held available-for-sale debt securities with gross unrealized losses of $690,414 and $65,364, respectively. Gross unrealized losses from debt securities was present on 7,800 positions out of a total of approximately 8,600 debt positions at December 31, 2022. Management evaluated the unrealized losses and determined that they were due primarily to volatility in the interest rate environment and market conditions. Additionally, debt positions were reviewed at the lot level and unrealized losses did not exceed 40% of the amortized cost basis. The Corporation does not intend to sell the related debt securities and it is not likely that the Corporation will be required to sell the debt securities before recovery of their amortized cost basis, which may be maturity. Therefore, management does not consider the available-for-sale debt securities to be other-than-temporarily impaired as of December 31, 2022 and 2021.

(in thousands of dollars)

The amortized cost and fair value of available-for-sale debt securities at December 31, 2022 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year or less	$ 189,290	$ 185,238
Due after one year through five years	1,985,119	1,855,959
Due after five years through ten years	1,476,128	1,308,247
Due after ten years	1,041,223	835,980
Mortgage and asset-backed securities	1,820,181	1,656,397
Total debt securities	$ 6,511,941	$ 5,841,821

Board designated, restricted and other investments by investment type at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Cash and cash equivalents	$ 76,565	$ 69,578
Debt securities		
U.S. Treasury and agency obligations	93,233	115,970
Agency mortgage-backed securities	8,232	2,510
Asset and mortgage-backed securities	8,281	7,317
Corporate and other debt securities	55,611	79,287
Total debt securities	165,357	205,084
Equity securities		
Domestic	170,602	286,506
Foreign	100,536	137,969
Total equity securities	271,138	424,475
Beneficial interest in perpetual trusts	258,068	325,806
Common collective trust interests	9,147	9,358
Total board designated, restricted and other investments	$ 780,275	$ 1,034,301

(in thousands of dollars)

Board designated, restricted and other investments consist of the following components at December 31, 2022 and 2021:

	2022	2021
Without donor restrictions		
Other investments	$ 367,077	$ 548,865
Board designated		
Capital improvements		
Foundation	36,225	39,378
Other	7,529	7,529
Self-insurance reserves	3,158	3,140
Grant funds and other	35,692	35,086
Total without donor restrictions	449,681	633,998
With donor restrictions	330,594	400,303
Total board designated, restricted and other investments	$ 780,275	$ 1,034,301

The following is a summary of net investment income for the year ended December 31, 2022:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	$ 166,737	$ 6,751
Net realized (loss) gains on investments	(72,150)	11,427
Net market value holding loss on equity securities	(384,813)	-
Net unrealized loss on board designated, restricted and other investments	(88,293)	(78,930)
Total net investment loss	$ (378,519)	$ (60,752)

The following is a summary of net investment income for the year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	$ 266,746	$ 8,253
Net realized gains on investments	127,410	20,379
Net market value holding gains on equity securities	166,587	-
Net unrealized gains on board designated, restricted and other investments	3,381	19,484
Total net investment income	$ 564,124	$ 48,116

Net realized (loss) gains on investments without donor restrictions include $11,477 and $386 in 2022 and 2021, respectively, in other-than-temporary impairment charges on available-for-sale securities. Other-than-temporary impairments recognized in 2022 and 2021 resulted from the extent and duration of fair value declines due to market conditions, along with credit related concerns in certain instances. Impaired securities included debt securities within the technology services, commodity, media and energy business sectors. The recognition of unrealized gains and losses on investments that are restricted as to use are recorded directly to net assets with donor restrictions as required by donor or regulation. These investments consist primarily of equity securities, agency mortgage-backed securities, corporate debt securities and U.S. Treasury obligations.

(in thousands of dollars)

Certain investment partnership and trust vehicles of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Generally, the amounts are available for withdrawal subject to a 30 days' notice requirement, with some trust vehicles subject to just seven-days' notice. At December 31, 2022 and 2021, these investments totaled $430,320 and $492,661, respectively.

Certain other private equity limited partnership interests of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Distributions are received as the underlying investments generate income or are liquidated. The Corporation estimates that the underlying assets of certain other private equity limited partnership interests will be liquidated over the next ten to twelve years, and the Corporation assumes that the interests will be held until liquidation. At December 31, 2022 and 2021, these investments totaled $524,722 and $464,394, respectively.

The Corporation's mortgage loans are collateralized by commercial real estate. At December 31, 2022 and 2021, the carrying amounts of $65,715 and $68,436, respectively, were considered current. The Corporation assesses mortgage loans on a regular basis for credit quality, taking into consideration investment management agreements that detail investment objectives, guidelines and restrictions. Loan quality is targeted at the NAIC rating category of CM2 upon origination, with a minimum quality rating of CM3. Loan-to-value ("LTV") ratios are also used to assess credit quality, with a targeted LTV of 60% or less, not to exceed 70%.

Based upon the most recent assessments at December 31, 2022 and 2021, the Company's mortgage loans were given the following credit quality indicators:

	2022			2021		
	Number of loans	**Carry Value**	**Average LTV**	**Number of loans**	**Carry Value**	**Average LTV**
Credit Rating						
CM2	3	$ 13,332	50%	4	$ 24,240	52%
CM3	6	$ 52,382	59%	4	$ 44,196	61%

The following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings as of December 31, 2022:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
Corporate fixed income securities	$ -	$ 7,400	$ 1,300	$ 17,950	$ 26,650
International fixed income securities	-	32,000	77,768	155,707	265,475
Other	(56)	72,129	-	4,400	76,473
Total borrowings	$ (56)	$ 111,529	$ 79,068	$ 178,057	$ 368,598

(in thousands of dollars)

The following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings as of December 31, 2021:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
International fixed income securities	$ -	$ 25,375	$ 83,650	$ 131,712	$ 240,737
Other	36,125	122,598	90,917	109,662	359,302
Total borrowings	$ 36,125	$ 147,973	$ 174,567	$ 241,374	$ 600,039

The Corporation is required to maintain investments on deposit with state departments of insurance or other regulatory bodies. At December 31, 2022 and 2021 investments on deposit with regulatory bodies were $22,301 and $23,411, respectively, primarily included within debt securities, available-for-sale at fair value in the Consolidated Balance Sheets.

6. Fair Value of Financial Instruments

Input levels, as defined by FASB, are as follows:

Level 1: Pricing inputs are based on unadjusted quoted market prices for identical financial assets or liabilities in active markets. Active markets are those in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Pricing inputs include observable inputs other than Level 1 pricing inputs, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Pricing inputs include observable inputs that are supported by little or no market activity and that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Certain investments without readily determinable fair values measure fair value on the basis of the net asset value per share (or equivalent) without any additional adjustments are excluded from fair value leveling. The underlying assets of these investments are measured at fair value as of the reporting date. These investments, if sold, are probable of being sold at amounts equal to the net asset value per share. A summary of the nature of the investments using net asset value ("NAV") as a practical expedient to fair value can be found on the redemption table. Other includes investments valued using other than fair value measurements, such as amortized cost or equity method accounting.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the Consolidated Balance Sheets:

Cash and cash equivalents: Cash is designated as Level 1. Cash equivalents include exempt and other money market mutual funds, commercial paper, discount notes, and securities with an original maturity 3 months or less. The fair value of exempt and other money market mutual funds is based on publicly available NAV per share. The fair values of all other cash equivalents are obtained from a third party pricing service that primarily uses Level 1 or Level 2 inputs. They are

(in thousands of dollars)

designated as Level 1 or Level 2, depending on the inputs, structure and the extent of credit-related features.

Debt securities, available-for-sale: Fair values of available-for-sale debt securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Treasury securities generally are designated Level 1 securities, while Level 2 securities generally include corporate securities, state and political obligations, mortgage-backed securities, asset-backed securities, and private debt. Level 2 inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, prepayment speeds, and discounted cash flow models that use observable inputs. The Corporation has certain bank loans, corporate and other debt securities, which are designated as Level 3 securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Equity securities: Fair values of equity securities are generally designated as Level 1 and are based on quoted market prices for identical assets in active markets. The Corporation also has certain private equity securities that do not have readily determinable fair values and are carried at cost or equity method and are excluded from the fair value hierarchy Certain limited liability company investments that operate similar to mutual funds, are classified as common stock and are valued at NAV as a practical expedient to fair value.

Board designated, restricted and other investments: Board designated, investments with donor restrictions include cash equivalents, debt securities and equity securities that follow the same methods and assumptions and fair value designations described above. The fair value for endowments managed by donor selected trustees are designated as Level 3 securities with the interest in these trusts based on the fair value of the underlying trust investments, which approximates the present value of the expected future cash flows for which the Corporation is an income beneficiary. Certain board designated, restricted and other investments are valued at NAV as a practical expedient to fair value.

Beneficial interest in participating trusts: Donor-restricted net assets consist of amounts held in perpetuity as designated by donors, including the Corporation's portion of beneficial interests in several endowments managed by donor-selected trustees. The fair value for endowments managed by donor-selected trustees are designated as Level 3 securities with the interest in these trusts based on the fair value of the underlying trust investments.

Other Investments: Fair values of real estate trusts use NAV as practical expedient to fair value and are approximated based on trustee estimates. Limited partnerships and limited liability companies use NAV as practical expedient to fair value and are based on the estimated fair values from the financial statements obtained from the investment vehicle.

Mortgage Loans: Fair values of mortgage loans are obtained from a third party pricing service, whose valuation is based on the present value of expected future cash flows discounted at the appropriate LIBOR rate, plus an appropriate credit spread. Mortgage loans are designated as Level 3.

(in thousands of dollars)

Securities lending invested collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analyses and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. Securities that use NAV as a practical expedient to fair value carry underlying investments that, if sold, are probable to being sold at amounts equal to the net asset value per share.

The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing fair values against prices obtained from other sources and comparing the consolidated fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services that were material to the Consolidated Financial Statements.

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2022 for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using			Net Asset	
	Total	Level 1	Level 2	Level 3	Value	Other
Assets						
Cash and cash equivalents	$ 1,142,923	$ 1,142,923	$ -	$ -	$ -	$ -
Investments						
Debt securities, available-for-sale						
U.S. treasury and agency obligations	1,548,454	1,307,201	241,253	-	-	-
Agency mortgage-backed securities	1,122,296	-	1,122,296	-	-	-
State and political obligations	199,509	-	199,509	-	-	-
Mortgage-backed securities	337,747	-	337,747	-	-	-
Asset-backed securities	196,354	-	196,354	-	-	-
Corporate and other debt securities	2,437,461	60	2,228,180	207,221	-	2,000
Total debt securities	5,841,821	1,307,261	4,325,339	207,221	-	2,000
Equity securities						
Domestic	1,188,546	1,180,302	-	8,244	-	-
Foreign	613,674	613,674	-	-	-	-
Equity securities other than fair value	444,944	-	-	-	416,028	28,916
Total equity securities	2,247,164	1,793,976	-	8,244	416,028	28,916
Board designated, restricted and other investments						
Cash and cash equivalents	76,565	76,565	-	-	-	-
Debt securities						
U.S. Treasury and agency obligations	93,233	87,428	5,805	-	-	-
Agency mortgage-backed securities	8,232	-	8,232	-	-	-
State and political obligations	3,073	-	3,073	-	-	-
Mortgage-backed securities	2,616	-	2,616	-	-	-
Asset-backed securities	5,665	-	5,665	-	-	-
Corporate and other debt securities	52,538	-	52,538	-	-	-
Equity securities						
Domestic	168,863	168,863	-	-	-	-
Foreign	100,536	100,536	-	-	-	-
Equity securities other than fair value	1,739	-	-	-	-	1,739
Beneficial interest in perpetual trusts	258,068	-	-	258,068	-	-
Common collective trust interests other than fair value	9,147	-	-	-	9,147	-
Total board designated, restricted and other investments	780,275	433,392	77,929	258,068	9,147	1,739
Other investments						
Restricted collateral	639	639	-	-	-	-
Mortgage loans	65,715	-	-	65,715	-	-
Other investments other than fair value	539,014	-	-	-	539,014	-
Total other investments	605,368	639	-	65,715	539,014	-
457(b) assets	50,566	50,566	-	-	-	-
Securities lending invested collateral	368,806	-	368,806	-	-	-
Total assets	$ 11,036,923	$ 4,728,757	$ 4,772,074	$ 539,248	$ 964,189	$ 32,655

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2021 for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using			Net Asset	
	Total	Level 1	Level 2	Level 3	Value	Other
Assets						
Cash and cash equivalents	$ 1,025,602	$ 1,025,602	$ -	$ -	$ -	$ -
Investments						
Debt securities, available-for-sale						
U.S. treasury and agency obligations	2,020,010	1,880,064	139,946	-	-	-
Agency mortgage-backed securities	1,061,277	-	1,061,277	-	-	-
State and political obligations	185,054	-	185,054	-	-	-
Mortgage-backed securities	358,267	-	358,267	-	-	-
Asset-backed securities	288,064	-	288,064	-	-	-
Corporate and other debt securities	2,891,629	53	2,685,231	205,545	-	800
Total debt securities	6,804,301	1,880,117	4,717,839	205,545	-	800
Equity securities						
Domestic	1,434,860	1,426,341	-	8,519	-	-
Foreign	756,701	756,701	-	-	-	-
Equity securities other than fair value	495,765	-	-	-	479,319	16,446
Total equity securities	2,687,326	2,183,042	-	8,519	479,319	16,446
Board designated, restricted and other investments						
Cash and cash equivalents	69,578	69,578	-	-	-	-
Debt securities						
U.S. Treasury and agency obligations	115,970	112,436	3,534	-	-	-
Agency mortgage-backed securities	2,510	-	2,510	-	-	-
State and political obligations	1,921	-	1,921	-	-	-
Mortgage-backed securities	4,932	-	4,932	-	-	-
Asset-backed securities	2,385	-	2,385	-	-	-
Corporate and other debt securities	77,366	-	77,366	-	-	-
Equity securities						
Domestic	284,767	284,767	-	-	-	-
Foreign	137,969	137,969	-	-	-	-
Equity securities other than fair value	1,739	-	-	-	-	1,739
Beneficial interest in perpetual trusts	325,806	-	-	325,806	-	-
Common collective trust interests other than fair value	9,358	-	-	-	9,358	-
Total board designated, restricted and other investments	1,034,301	604,750	92,648	325,806	9,358	1,739
Other investments						
Restricted collateral	787	787	-	-	-	-
Mortgage loans	68,436	-	-	16,756	-	51,680
Other investments other than fair value	477,735	-	-	-	477,735	-
Total other investments	546,958	787	-	16,756	477,735	51,680
457(b) assets	58,925	58,925	-	-	-	-
Securities lending invested collateral	596,511	-	596,511	-	-	-
Total assets	$ 12,753,924	$ 5,753,223	$ 5,406,998	$ 556,626	$ 966,412	$ 70,665

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2022:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity securities	$ 416,028	$ -	Daily, Quarterly, Monthly	1-60 Days
Common collective trust interests	9,147	-		
Real estate investment trust	14,292	-		
Private limited partnerships	524,722	195,194		
Total	$ 964,189	$ 195,194		

(in thousands of dollars)

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2021:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity securities	$ 479,319	$ -	Daily, Quarterly, Monthly	1-60 Days
Common collective trust interests	9,358	-		
Real estate investment trust	13,341	-		
Private limited partnerships	464,394	263,585		
Total	$ 966,412	$ 263,585		

Fair Value Option

The Corporation elected the fair value option for its AHN held unrestricted investments, with the exception of the securities held by Palladium Risk Retention Group Inc., AHN's captive insurance company. At December 31, 2022 and 2021, AHN reported unrestricted investments of $449,681 and $633,998 respectively under the fair value option within the Board designated, restricted and other investments at fair value on the Consolidated Balance Sheets. All unrealized gains and losses on investments which are measured using the fair value option election are recognized in net investment income, including net realized gains on investments on the Consolidated Statements of Operations. AHN has recorded unrealized losses of $88,125 for the year ended December 31, 2022 and unrealized gains of $3,783 for the year ended December 31, 2021.

7. Investments in Affiliates

The Corporation and its subsidiaries have ownership interests in various ventures which were formed to reduce the costs and increase effectiveness in providing community service benefits. These include ventures which provide laboratory, ambulance, oncology and other services and are accounted for under the equity method of accounting. The accompanying Consolidated Balance Sheets reflect equity interests as follows for December 31:

	2022		2021	
	Ownership Interest	Investment Balance	Ownership Interest	Investment Balance
Penn State Health	20.0%	$ 278,175	20.0%	$ 324,582
AHN-LECOM JV, LLC	50.0%	8,664	50.0%	8,690
Associated Clinical Labs	12.3%	8,352	12.3%	9,258
Vantage Holding Company	52.3%	7,112	52.3%	9,283
EmergyCare, Inc.	50.0%	4,421	50.0%	4,588
Geisinger-HM Joint Venture, LLC	40.0%	3,929	40.0%	16,821
AST Risk, LLC	33.3%	3,046	33.3%	3,326
AHN Emergency Medicine Management, LLC	50.0%	2,976	50.0%	2,550
Evio Pharmacy Solutions, LLC (a)	20.0%	2,013	20.0%	3,457
Other (b)	various	8,183	various	9,900
		$ 326,871		$ 392,455

(a) Evio Pharmacy Solutions, LLC was formerly known as Kent Pharmacy Newco, LLC

(b) Consists of various individually immaterial investments of varying ownership interests (ranging from 0.5% to 50%).

(in thousands of dollars)

In December 2019, Highmark Inc. entered into a charitable contribution agreement in the amount of $25,000 to the Caring Foundation, a nonprofit affiliate of the Corporation, to be paid in annual installments of $5,000 through 2024. The funds are to be used to promote the health and well-being of the communities served by the Caring Foundation. As of December 31, 2022 and 2021, Highmark Inc. had a liability of $10,000 and $15,000, respectively, remaining under the contribution agreement, which is included in other payables and accrued expenses in the Consolidated Balance Sheets. In December 2020, Highmark Inc. entered into a charitable contribution agreement with the Highmark Foundation, a nonprofit affiliate of the Corporation, in the amount of $100,000, to be paid in annual installments of $10,000 through 2030. The funds are to be used to promote the health and well-being of the communities served by the Highmark Foundation. As of December 31, 2022 and 2021, the Corporation had a liability of $69,361 and $78,113 respectively remaining under the contribution agreement, which is included in other payables and accrued expenses in the Consolidated Balance Sheets. In June 2022, Highmark Inc. agreed to an additional charitable contribution of $15,000 to the Highmark Foundation, to be paid in annual installments of $5,000 through 2024. As of December 31, 2022, Highmark Inc. had a liability of $10,000 remaining under the contribution agreement, which is included in other payables and accrued expenses in the Consolidated Balance Sheet.

8. Property and Equipment, Net

Property and equipment, net at December 31, 2022 and 2021 was comprised of the following:

	2022	2021
Land, buildings and leasehold improvements	$ 2,297,603	$ 2,211,956
Office furniture and equipment	1,658,539	1,506,689
Capitalized software	1,301,928	1,200,555
Construction in progress	388,703	189,983
	5,646,773	5,109,183
Less accumulated depreciation and amortization	(2,872,624)	(2,545,199)
Property and equipment, net	$ 2,774,149	$ 2,563,984

Depreciation and amortization expense related to property and equipment amounted to $373,686 and $338,566 for 2022 and 2021, respectively.

9. Goodwill and Other Intangible Assets, Net

Goodwill represents the excess of the cost over the fair value of acquired identifiable tangible and intangible assets and liabilities assumed from businesses acquired.

Goodwill is tested for impairment at the reporting unit level annually and whenever events or circumstances indicate the carrying value may not be recoverable. The evaluation of goodwill impairment involves using either a qualitative or quantitative approach. The impairment charge represents the excess of the book value of the subsidiary over the fair value. No impairment charges were recorded in 2021 or 2022.

(in thousands of dollars)

The changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021 are as follows:

	Gross Goodwill	Impairment Losses	Net Carrying Amount
Balance at January 1, 2021	$ 480,859	$ (325,877)	$ 154,982
Acquisition of affiliate	147,741	-	147,741
Balance at December 31, 2021	628,600	(325,877)	302,723
Acquisition of affiliate	4,098	-	4,098
Balance at December 31, 2022	$ 632,698	$ (325,877)	$ 306,821

The gross carrying amount of intangible assets and accumulated amortization at December 31, 2022 is as follows:

	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	$ 150,341	$ (52,648)	$ (15,815)	$ 81,878
Provider contracts	16,700	(7,423)	-	9,277
Non compete agreements	14,838	(8,838)	-	6,000
Patient records	10,499	(7,217)	-	3,282
Other	54,409	(33,041)	(10,554)	10,814
Total	$ 246,787	$ (109,167)	$ (26,369)	$ 111,251

The gross carrying amount of intangible assets and accumulated amortization at December 31, 2021 is as follows:

	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	$ 150,341	$ (34,688)	$ (15,815)	$ 99,838
Provider contracts	16,700	(1,856)	-	14,844
Non compete agreements	14,838	(5,238)	-	9,600
Patient records	10,499	(6,850)	-	3,649
Other	54,288	(30,653)	(10,554)	13,081
Total	$ 246,666	$ (79,285)	$ (26,369)	$ 141,012

Amortization expense related to intangible assets was $29,761 and $15,964 in 2022 and 2021, respectively.

(in thousands of dollars)

The weighted-average useful life of all intangible assets acquired in 2021 was six years. The weighted-average useful life (in years) of acquired intangibles in 2021 by asset class was as follows:

	Weighted-average Useful Life
Customer relationships	7
Provider contracts	3
Noncompete agreements	3

At December 31, 2022, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $3,915, was as follows:

Years ending December 31,	
2023	$ 30,092
2024	22,628
2025	8,394
2026	7,667
2027	7,663
Thereafter	30,892
Total	$ 107,336

10. Claims and Claim Adjustment Expenses Outstanding

The Corporation's insurance business has three business segments, which are referred to as Commercial business, Government business and Diversified business. The Commercial business segment is a combination of fully-insured business and self-funded business. The Government business includes fully-insured health business such as Medicare products, Medicaid products, pre-65 individual including ACA products and Small Group products. The Diversified business includes Dental and Stop-loss insurance product offerings.

A reconciliation of the beginning and ending balance for claims and claim adjustment expenses outstanding, by segment, for the year ended December 31, 2022 is as follows:

	Commercial	Government	Diversified	Total
Claims and claim adjustment expenses outstanding, beginning of year	$ 1,849,278	$ 1,218,448	$ 504,637	$ 3,572,363
Provider advances, beginning of year	61,214	5,380	-	66,594
Reinsurance recoverables, beginning of year	(53,593)	(71,852)	(132,008)	(257,453)
Non-risk claim liabilities, beginning of year	(1,394,833)	(1,280)	(39,805)	(1,435,918)
Net balance, beginning of year	462,066	1,150,696	332,824	1,945,586
Net incurred claims				
Current year	5,353,845	10,574,658	1,997,214	17,925,717
Prior year	(94,718)	(225,352)	(94,064)	(414,134)
Total net incurred claims	5,259,127	10,349,306	1,903,150	17,511,583
Net payments attributable to:				
Current year	(4,882,358)	(9,467,699)	(1,644,104)	(15,994,161)
Prior year	(353,130)	(792,819)	(214,803)	(1,360,752)
Total net payments	(5,235,488)	(10,260,518)	(1,858,907)	(17,354,913)
Net claims payable, end of year	485,705	1,239,484	377,067	2,102,256
Provider advances, end of year	(55,200)	(1,821)	-	(57,021)
Reinsurance recoverables, end of year	54,347	80,691	135,346	270,384
Non-risk claim liabilities, end of year	1,575,962	-	38,012	1,613,974
Claims and claim adjustment expenses outstanding, end of year	$ 2,060,814	$ 1,318,354	$ 550,425	$ 3,929,593

(in thousands of dollars)

A reconciliation of the beginning and ending balance for claims and claim adjustment expenses outstanding, by segment, for the year ended December 31, 2021 is as follows:

	Commercial	Government	Diversified	Total
Claims and claim adjustment expenses outstanding, beginning of year	$ 1,816,304	$ 831,362	$ 449,712	$ 3,097,378
Provider advances, beginning of year	38,381	3,510	-	41,891
Reinsurance recoverables, beginning of year	(56,701)	(24,001)	(73,127)	(153,829)
Non-risk claim liabilities, beginning of year	(1,410,952)	(1,595)	(34,016)	(1,446,563)
Net balance, beginning of year	387,032	809,276	342,569	1,538,877
Claim liabilities assumed through consolidation of affiliate	139,309	472,079	-	611,388
Net incurred claims				
Current year	4,905,543	8,008,436	1,877,441	14,791,420
Prior year	(85,924)	(146,091)	(103,278)	(335,293)
Total net incurred claims	4,819,619	7,862,345	1,774,163	14,456,127
Net payments attributable to:				
Current year	(4,601,244)	(7,450,895)	(1,585,997)	(13,638,136)
Prior year	(282,650)	(542,109)	(197,911)	(1,022,670)
Total net payments	(4,883,894)	(7,993,004)	(1,783,908)	(14,660,806)
Net claims payable, end of year	462,066	1,150,696	332,824	1,945,586
Provider advances, end of year	(61,214)	(5,380)	-	(66,594)
Reinsurance recoverables, end of year	53,593	71,852	132,008	257,453
Non-risk claim liabilities, end of year	1,394,833	1,280	39,805	1,435,918
Claims and claim adjustment expenses outstanding, end of year	$ 1,849,278	$ 1,218,448	$ 504,637	$ 3,572,363

Amounts incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled. Negative amounts reported for incurred related to prior years result from claims being ultimately settled for amounts less than originally estimated (favorable development), which has been driven by continued volatilities in utilization levels influenced by current market trends and conditions within the industry.

The cumulative number of reported claims for each claim year for each segment has been developed using historical data captured by our enterprise claim payment systems.

(in thousands of dollars)

Incurred and paid claims development, net of reinsurance, for the Commercial Business for the years ended December 31, 2019 through 2022 is as follows:

Commercial	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2022	
Claim Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021 (Unaudited)**	**2022**	**Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims**	**Cumulative Number of Reported Claims**
2019	$ 3,863,922	$ 3,851,940	$ 3,852,223	$ 3,855,230	$ 28	12,735
2020		3,820,616	3,734,409	3,737,507	$ 1,430	11,330
2021			4,905,543	4,743,447	$ 7,079	20,803
2022				5,353,845	$ 480,328	50,030
Total				$ 17,690,029		

Commercial	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021 (Unaudited)**	**2022**
2019	$ 3,534,793	$ 3,840,081	$ 3,849,537	$ 3,854,235
2020		3,445,584	3,718,778	3,732,685
2021			4,601,244	4,735,046
2022				4,882,358
Total				$ 17,204,324

Incurred and paid claims development, net of reinsurance, for the Government Business as of and for the years ended December 31, 2019 through 2022 is as follows:

Government	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2022	
Claim Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021 (Unaudited)**	**2022**	**Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims**	**Cumulative Number of Reported Claims**
2019	$ 5,240,781	$ 5,185,937	$ 5,181,912	$ 5,181,950	$ 39	21,903
2020		5,286,600	5,144,534	5,156,199	$ 7,111	18,904
2021			8,008,436	8,120,901	$ 8,596	24,355
2022				10,574,658	$ 963,143	46,622
Total				$ 29,033,708		

Government	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021 (Unaudited)**	**2022**
2019	$ 4,586,494	$ 5,161,606	$ 5,175,271	$ 5,176,176
2020		4,503,527	5,031,971	5,149,368
2021			7,450,895	8,000,981
2022				9,467,699
Total				$ 27,794,224

(in thousands of dollars)

Incurred and paid claims development, net of reinsurance, for the Diversified Business as of and for the years ended December 31, 2019 through 2022 is as follows:

Diversified	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2022	
Claim Year	2019 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2022	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2019	$ 1,805,507	$ 1,740,375	$ 1,731,139	$ 1,728,560	$ 219	8,571
2020		1,594,804	1,500,762	1,498,570	$ 2,166	9,147
2021			1,877,441	1,788,148	$ 7,928	8,548
2022				1,997,214	$ 354,961	8,341
Total				$ 7,012,492		

Diversified	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	2019 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2022
2019	$ 1,497,824	$ 1,703,671	$ 1,708,794	$ 1,708,977
2020		1,301,537	1,481,727	1,496,938
2021			1,585,997	1,785,406
2022				1,644,104
Total				$ 6,635,425

The reconciliation of the Commercial, Government, and Diversified Businesses incurred and paid claims development information, reflected in the tables above, to the consolidated ending balance for claims outstanding, as of December 31, 2022, is as follows:

	Commercial	Government	Diversified	Total
Cumulative incurred claims and allocated claim adjustment expenses, net of reinsurance	$ 17,690,029	$ 29,033,708	$ 7,012,492	$ 53,736,229
Less: cumulative paid claims and allocated claim adjustment expenses, net of reinsurance	17,204,324	27,794,224	6,635,425	51,633,973
Net claims payable, end of year	$ 485,705	$ 1,239,484	$ 377,067	$ 2,102,256

11. Employee Benefit Plans

The Corporation covers certain employees meeting age and service requirements through a non-contributory defined benefit pension plan (the "pension plan") comprised of four legacy plans; the Highmark Retirement Plan, the Retirement Plan for Eligible Employees of the West Penn Allegheny Health System, the Jefferson Retirement Plan, and the Saint Vincent Health System Pension Plan. The pension plan provides participants with a frozen legacy benefit as well as a cash-balance account consisting of pay credits, based on age and years of service, interest credits and limited transition credits. All plans were closed to new participants and froze benefit accruals prior to or as of December 31, 2020.

Highmark NY sponsors two defined benefit pension plans covering salaried and hourly employees. Pension Plan A covers bargaining employees and the Retirement Bonus Plan covers non-bargaining employees. Pension Plan A and the Retirement Bonus Plan were frozen to new entrants prior to the affiliation with Highmark. On December 31, 2022, the two pension plans merged (the "Highmark NY pension plan"). This plan merger has no impact to participant benefit accruals and is merely an effort to consolidate administration on the part of Highmark NY.

(in thousands of dollars)

The Corporation and Highmark NY fund their pension plan according to minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. During 2023, the Corporation and Highmark NY do not expect to contribute to their pension plans.

Highmark sponsors a defined benefit other postretirement plan; the Highmark Postretirement Welfare Benefits Plan (the "welfare plan"). The welfare plan provides various postretirement health and life insurance benefits to retirees of participating subsidiaries and affiliates. The welfare plan is frozen and closed to new employees. Highmark uses voluntary employees' beneficiary association ("VEBA") trusts to fund its welfare plan. Highmark does not expect to contribute to the VEBA trusts in 2023.

Highmark NY provides certain health care and life insurance benefits for retired and certain active employees (the "Highmark NY welfare plans"). Bargaining unit employees may become eligible for certain retirement benefits if they reach retirement age while working for Highmark NY. Effective April 1, 2006, new nonbargaining unit retirees no longer receive health care benefits. The Highmark NY welfare plans are unfunded.

The amounts recognized in the Consolidated Balance Sheets were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Change in benefit obligations				
Benefit obligations at beginning of year	$ 3,945,353	$ 3,994,860	$ 503,734	$ 522,149
Highmark NY affiliation	-	178,386	-	39,966
Service cost	12,528	12,870	299	334
Interest cost	84,001	69,212	9,125	7,239
Plan amendments	-	-	(9,478)	(1,032)
Participant contributions	-	-	4,408	4,495
Benefit payments	(205,977)	(203,928)	(33,583)	(37,896)
Settlement gain	(2,801)	-	-	-
Actuarial gain	(808,417)	(106,047)	(92,060)	(31,521)
Benefit obligations at end of year	$ 3,024,687	$ 3,945,353	$ 382,445	$ 503,734
Change in plan assets				
Net plan assets at beginning of year	$ 4,341,675	$ 4,144,196	$ 339,860	$ 348,173
Highmark NY affiliation	-	181,412	-	-
Actual return on plan assets	(900,336)	194,995	(55,391)	18,060
Participant contributions	-	-	4,408	4,495
Employer contributions	-	25,000	4,753	6,422
Benefit payments	(205,977)	(203,928)	(33,177)	(37,290)
Settlement payments	(2,801)	-	-	-
Net plan assets at end of year	$ 3,232,561	$ 4,341,675	$ 260,453	$ 339,860
Amounts recognized in the consolidated balance sheets				
Benefit plan assets	$ 400,028	$ 549,063	$ -	$ -
Benefit plan liabilities	$ (192,152)	$ (152,741)	$ (121,992)	$ (163,874)
Amounts included in net assets without donor restrictions				
Prior service credit	$ -	$ -	$ 13,867	$ 3,362
Actuarial loss	(1,050,449)	(742,337)	(51,108)	(75,986)
Net amounts recognized	$ (1,050,449)	$ (742,337)	$ (37,241)	$ (72,624)

(in thousands of dollars)

The following table provides the components of net periodic benefit (income) cost for the years ended December 31, 2022 and 2021:

	Pension Benefits		Other Postretirement Benefits	
	2022	**2021**	**2022**	**2021**
Interest cost	$ 84,001	$ 69,212	$ 9,125	$ 7,239
Expected return on plan assets	(237,650)	(228,647)	(15,309)	(15,349)
Amortization of:				
Prior service credit	-	-	(1,038)	(973)
Actuarial loss	19,512	26,594	1,557	3,260
Settlement (gain) loss	503	(21)	-	-
Net periodic benefit income	$ (133,634)	$ (132,862)	$ (5,665)	$ (5,823)

For pension benefits, the service cost was $12,528, and $12,870 for the years ended December 31, 2022 and 2021, respectively. For other postretirement benefits, the service cost was $299 and $334 for the years ended December 31, 2022 and 2021, respectively.

The Corporation's weighted-average assumptions related to the calculation of the pension benefit obligations and net periodic benefit cost for the pension and welfare plans are presented in the table below:

	Pension Benefits		Other Postretirement Benefits	
	2022	**2021**	**2022**	**2021**
Weighted-average assumptions				
Discount rate - benefit obligations	5.20%	2.73%	5.04%	2.40%
Discount rate - net periodic costs	2.73%	2.38%	2.39%	1.94%
Expected return on plan assets	6.00%	6.02%	5.00%	5.00%
Rate of compensation increase	2.64 - 7.15%	2.64 - 7.15%	N/A	N/A
Cash balance interest credit rate - benefit obligations	3.80%	3.50%	N/A	N/A
Cash balance interest credit rate - net periodic costs	3.50%	3.30%	N/A	N/A

The discount rate for benefit obligations and the discount rate for net periodic costs are developed based on corresponding spot rates as of the measurement date. The increase in discount rates from 2021 to 2022 caused significant actuarial gains related to changes in the benefit obligations.

The expected return on pension plan assets is developed using inflation expectations, risk factors and input from actuaries to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The expected return on welfare plan assets is developed based on historical returns and the future expectations for returns for each asset class as well as the asset allocation of the welfare plan assets.

For measurement purposes, at December 31, 2022, the assumed annual rate of increase in the per capita costs of covered health care benefits of the other postretirement benefits was 6.00% in 2022, gradually decreasing to 4.00% by the year 2047 and remaining at that level thereafter.

(in thousands of dollars)

Estimated benefit payments are expected as follows:

		Pension Benefits		**Other Postretirement Benefits**
2023	$	322,000	$	36,400
2024	$	228,000	$	38,300
2025	$	230,000	$	38,300
2026	$	227,000	$	38,200
2027	$	230,000	$	38,200
2028-2032	$	1,124,000	$	172,300

The pension plan investment strategy includes dynamic target allocations that change as the funded status changes, with the goal of reducing risk as funded status improves, with an overall investment strategy to achieve a mix of 70% of long-duration fixed income securities meant to hedge the benefit obligations, 26% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for pension plan assets are approximately 72% fixed income securities, 16% equity securities, 8% alternative investments and 4% cash equivalents. Equity securities primarily include stock investments in U.S. developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, domestic mortgage-backed securities, and bonds of U.S. and foreign governments and agencies. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

The target asset allocation on a weighted-average basis for the Highmark NY pension plans' assets consist of approximately 30% growth assets (19% global equity, 10% fixed income, and 1% cash), with the remaining 70% representing immunizing assets.

For the welfare plan, the Corporation's overall investment strategy is to achieve a mix of 95% of investments for long-term growth and 5% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 60% equity securities, 35% fixed income securities and 5% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries and bonds of U.S. and foreign governments and agencies.

The overall investment strategies of the pension plan and welfare plan are determined by the plans' investment committees, investment advisors and plan administrators. Overall, the goals of the Corporation are to achieve sufficient diversification of asset types, fund strategies and fund managers in order to minimize volatility and maximize returns over the long term, while still having sufficient funds to pay those benefits due in the near term.

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2022:

	Total	Consolidated Fair Value Measurements Using Level 1	Level 2	Level 3	Net Asset Value
Pension plan assets					
Cash and cash equivalents	$ 9,083	$ 9,083	$ -	$ -	$ -
Debt securities:					
U.S. Treasury and agency obligations	561,315	561,311	4	-	-
Agency mortgage-backed securities	21,605	-	21,605	-	-
State and political obligations	12,285	-	12,285	-	-
Commercial mortgage-backed securities	142	-	142	-	-
Asset-backed securities	10,720	-	10,720	-	-
Corporate debt securities	1,069,200	-	1,069,106	94	-
Other debt securities	178,738	(215)	178,902	51	-
Total debt securities	1,854,005	561,096	1,292,764	145	-
Equity securities:					
Domestic	110,505	109,107	1,398	-	-
Foreign	53,096	53,096	-	-	-
Total equity securities	163,601	162,203	1,398	-	-
Registered investment company shares	400,173	380,515	19,658	-	-
Private equity limited partnerships	530,266	-	-	-	530,266
Common collective trust interests	288,824	-	-	-	288,824
Total	$ 3,245,952	$ 1,112,897	$ 1,313,820	$ 145	$ 819,090
Other postretirement plan assets					
U.S. Treasury and agency obligations	$ 15,213	$ 15,213	$ -	$ -	$ -
Agency mortgage backed securities	23,905	-	23,905	-	-
Commercial mortgage backed securities	590	-	590	-	-
Asset backed securities	5,928	-	5,928	-	-
Corporate and other debt securities	37,593	-	37,593	-	-
Domestic equity securities	47,117	47,117	-	-	-
Foreign equity securities	1,451	1,451	-	-	-
Registered investment company shares	120,846	120,846	-	-	-
Common collective trust funds	7,501	-	-	-	7,501
Total	$ 260,144	$ 184,627	$ 68,016	$ -	$ 7,501

At December 31, 2022, the fair value of pension plan assets excluded guaranteed insurance contract assets of $1,556, carried at contract value, as well as accrued expenses and other payables of $14,947.

At December 31, 2022, the fair value of welfare plan assets excluded accrued interest and other receivables of $309.

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2022:

Pension plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity limited partnerships	$ 530,266	$ 193,000	Quarterly, N/A	30 Days, N/A
Common collective trust funds	288,824	-	Daily, Monthly	1-10 Days, Same Day
Total	$ 819,090	$ 193,000		

Other postretirement plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds	$ 7,501	$ -	Daily	1 Day
Total	$ 7,501	$ -		

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2021:

		Consolidated Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Net Asset Value
Pension plan assets					
Cash and cash equivalents	$ 5,852	$ 5,852	$ -	$ -	$ -
Debt securities:					
U.S. Treasury and agency obligations	923,891	923,884	7	-	-
Agency mortgage-backed securities	62,117	-	62,117	-	-
State and political obligations	13,796	-	13,796	-	-
Commercial mortgage-backed securities	1,364	-	1,364	-	-
Residential mortgage-backed securities	-	-	-	-	-
Asset-backed securities	13,022	-	13,022	-	-
Corporate debt securities	1,348,171	-	1,348,076	95	-
Other debt securities	237,362	-	237,311	51	-
Total debt securities	2,599,723	923,884	1,675,693	146	-
Equity securities:					
Domestic	145,412	143,636	1,776	-	-
Foreign	68,319	68,319	-	-	-
Total equity securities	213,731	211,955	1,776	-	-
Registered investment company shares	688,098	662,926	25,172	-	-
Private equity limited partnerships	486,300	-	-	-	486,300
Common collective trust interests	360,970	-	-	-	360,970
Total	$ 4,354,674	$ 1,804,617	$ 1,702,641	$ 146	$ 847,270
Other postretirement plan assets					
U.S. Treasury and agency obligations	$ 19,430	$ 19,430	$ -	$ -	$ -
Agency mortgage backed securities	23,864	-	23,864	-	-
Commercial mortgage backed securities	632	-	632	-	-
Residential mortgage backed securities	-	-	-	-	-
Asset backed securities	5,116	-	5,116	-	-
Corporate and other debt securities	45,536	-	45,536	-	-
Domestic equity securities	54,063	54,063	-	-	-
Foreign equity securities	1,956	1,956	-	-	-
Registered investment company shares	180,115	180,115	-	-	-
Common collective trust funds	8,535	-	-	-	8,535
Total	$ 339,247	$ 255,564	$ 75,148	$ -	$ 8,535

At December 31, 2021, the fair value of pension plan assets excluded guaranteed insurance contract assets of $1,622, carried at contract value as well as accrued expenses and other payables of $14,621.

At December 31, 2021, the fair value of welfare plan assets excluded accrued interest and other receivables of $613.

(in thousands of dollars)

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2021:

Pension plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity limited partnerships	$ 486,300	$ 280,000	Quarterly, N/A	30 Days, N/A
Common collective trust funds	360,970	-	Daily, Monthly	1-15 Days, Same Day
Total	$ 847,270	$ 280,000		

Other postretirement plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds	$ 8,535	$ -	Daily	1 Day
Total	$ 8,535	$ -		

The sales measured using significant unobservable inputs (Level 3) for the year ended December 31, 2022 and 2021 were $0 and $950, respectively.

The Corporation sponsors several defined contribution savings plans (the “savings plans”), covering substantially all of the Corporation’s employees and employees of certain participating affiliates. The savings plans allow participating employees to contribute a percentage of their annual salaries, subject to current Internal Revenue Service (“IRS”) limitations. Employee contributions are matched by the Corporation at various percentages. Due to a pension plan freeze that became effective December 31, 2020, beginning in 2021, the Corporation began to provide additional non-elective contributions to employee accounts. The Corporation recognized expense associated with its contributions to the savings plans of $133,398 and $100,438 for the years ended December 31, 2022 and 2021, respectively.

Highmark NY sponsors a defined contribution savings plan (the “Highmark NY savings plan”). Benefit accruals were frozen effective December 31, 2021. The Highmark NY savings plan provided both matching and annual contributions. No employer match or annual contribution was made in 2022 because of the benefit accrual freeze. The amount expensed for contribution costs were $8,047 for 2021. Highmark NY also sponsored The Brokerage Concepts Elective 401(k) Plan that provided a matching contribution but did not provide an annual contribution. The Brokerage Concepts Elective 401(k) merged into the savings plan effective December 31, 2021.

Highmark also sponsors a deferred compensation plan for certain eligible employees. Employee elective deferrals ceased effective January 1, 2021 for certain participating employees. The remaining participating employees may contribute an amount of their annual compensation to the plan. The deferred compensation plan pays interest on the deferrals at various rates and market gains and losses are applied to the participant accounts. Effective January 1, 2021, the deferred compensation plan no longer provides for matching contributions based on employee deferrals. Instead, it now provides for an annual discretionary employer liability to contribute to each participant’s account, which is based on salary and other factors. The Corporation incurred expense for the discretionary amounts of $1,744 and $532 in 2022 and 2021, respectively. Deferred compensation plan liabilities of $43,578 and $52,901 and were recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2022 and 2021, respectively.

(in thousands of dollars)

The Corporation also sponsors Internal Revenue Code 457(b) and 457(f) plans (the "457 plans") for certain eligible employees. The 457(b) plans are nonqualified benefit plans that provide supplemental benefits to participants in the form of an annual discretionary employer liability credited to each participant's account. The Corporation incurred expense for the discretionary amounts to the 457 plans of $3,686 and $3,322 in 2022 and 2021, respectively. Deferred compensation and 457 plan liabilities of $103,182 and $119,244 were recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2022 and 2021 respectively. Changes in the liabilities are reported in other operating expenses in the Consolidated Statements of Operations.

Highmark also sponsors an unfunded nonqualified supplemental retirement plan (the "nonqualified retirement plan") covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified retirement plan liabilities were consistent with the assumptions used in the measurement of the pension plans and adjusted, when needed, for nonqualified plan specific characteristics. The nonqualified retirement plan liabilities recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2022 and 2021 were $45,233 and $55,188, respectively.

12. Debt

The Corporation's total debt at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Unsecured Senior Notes due May 10, 2026 (a)	$ 397,208	$ 396,394
Unsecured Senior Notes due May 10, 2031 (a)	396,759	396,375
Unsecured Senior Notes due May 15, 2041 (a)	238,197	237,908
Series 2018 Revenue Bonds	951,898	975,437
Revolving credit facilities	391,988	361,160
Mortgage and Other Loans	11,736	10,976
Financing Lease Liabilities	84,826	76,082
Total debt	$ 2,472,612	$ 2,454,332

(a) Net of unamortized discount and debt issuance costs

A summary of scheduled principal repayments on debt for the next five years and thereafter is as follows:

Years ending December 31,	
2023	$ 429,238
2024	33,429
2025	33,909
2026	431,045
2027	34,286
Thereafter	1,510,705
Total	$ 2,472,612

(in thousands of dollars)

Unsecured Senior Notes

In May 2011, Highmark Inc. issued $350,000 of unsecured Senior Notes at an interest rate of 4.75% due May 15, 2021 (the “2021 Notes”) and $250,000 of unsecured Senior Notes due May 15, 2041 at an interest rate of 6.125% (the “2041 Notes”). In 2013, Highmark Inc. early extinguished $9,124 of the 2041 notes. In 2021, Highmark Inc. repaid the 2021 Notes at maturity. The unamortized discounts and issuance costs of the 2041 Notes, which are being amortized over the life of the notes, were $2,679 and $2,968 at December 31, 2022 and 2021, respectively.

In May 2021, Highmark Inc. completed an offering through a private placement of $800,000 aggregate principal amount of Senior Unsecured Notes, which were issued in two tranches of $400,000 at 1.450% and due on May 10, 2026 and $400,000 at 2.550% and due on May 10, 2031 (collectively, the “2026 and 2031 Notes”). Interest on the 2026 and 2031 Notes are due semiannually in May and November. The 2026 and 2031 Notes were issued to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933. Highmark Inc. used a portion of the proceeds of the offering to repay the 2021 Notes, as disclosed above, and is using the remaining proceeds for general corporate purposes. The unamortized discounts of the 2026 and 2031 Notes, which are being amortized over the life of the notes under the effective interest method, were $454 and $571 at December 31, 2022 and 2021, respectively. The unamortized debt issuance costs were $5,579 and $6,660 at December 31, 2022 and 2021, respectively, which are being amortized under the straight-line method over the life of the 2026 and 2031 Notes.

Series 2018 Revenue Bonds

In August 2018, AHN issued tax exempt revenue bonds with a par value of $943,365 (Series 2018A) through the Allegheny County Hospital Development Authority (“ACHDA”) at a premium of $56,639 for total proceeds of $1,000,004. The Series 2018 Revenue Bonds consist of both serial and term bonds scheduled to mature at various dates through April 2047. Interest rates are fixed and range from 4.00% to 5.00%. AHN is required to pay interest only through 2021, with level debt service thereafter consisting of principal and interest. The unamortized premium was $33,388 and $38,471 at December 31, 2022 and 2021, respectively. The bonds are collateralized by the gross receivables and other property of AHN.

Revolving Credit Facilities and Lines of Credit

In July 2020, AHN entered into a one-year and three-year line of credit facility for $50,000 each, with options to extend the terms. Amounts borrowed under these facilities bear interest at variable interest rates. On July 28, 2021 the one-year facility expired with no plans of renewal. In December 2022, the three-year facility was amended to address the LIBOR transition language and extended the expiration date to December 18, 2023. At December 31, 2022, $20,000 of the $50,000 three-year facility has been set aside for letters of credit, of which $5,450 has been utilized, but not drawn upon. The three-year facility is collateralized by the gross receivables and other property of AHN.

In June 2022, Highmark was approved as a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and purchased $1,424 of class B membership stock. Under the Corporation’s membership with the FHLB of Pittsburgh, the Corporation has determined the maximum borrowing capacity as $300,000 per board of directors’ consent. As of December 31, 2022, Highmark had outstanding debt borrowings of $159,488 which bears interest at 4.4%, with collateral pledged of debt securities with an approximate fair value of $186,046.

In October 2022, Highmark NY entered into a second amendment to their loan agreement for a revolving line of credit with a borrowing capacity not to exceed $125,000, expiring October 2023. Borrowings under the line of credit accrue interest based on varying interest rate options selected by the borrower. The total outstanding balance under the line was $38,500 and $41,160 at December 31, 2022 and 2021, respectively.

(in thousands of dollars)

Highmark NY also had an unsecured credit line with a borrowing capacity of $10,000 at 125 basis points above the greater of one-month LIBOR, or one-day LIBOR. This line was terminated in 2022.

Gateway had an amended revolving credit facility with a borrowing capacity of $25,000. At December 31, 2021, Gateway had no amounts outstanding under the line of credit agreement. On March 28, 2022, the Line of Credit Agreement between Gateway and PNC Bank expired and Gateway elected to not renew.

Gateway also had an amended and restated credit agreement that established a revolving credit facility with borrowing capacity of $150,000 and expanded the borrowing capacity to $215,000 during the period May 15th to August 15th of each calendar year. At December 31, 2021, Gateway had no amounts outstanding under the line of credit agreement. The agreement expired in January 2022.

In June 2021, Highmark Inc. renewed the $275,000 revolving credit facility with four financial institutions and increased the borrowing limit to $500,000 and the number of lenders to five financial institutions. The revolving credit facility expires on June 7, 2024. Amounts borrowed under this facility bear interest at variable rates. There was $194,000 and $320,000 outstanding under this facility as of December 31, 2022 and 2021, respectively.

In June 2021, Highmark Inc. terminated its $225,000 revolving credit facility with a financial institution. Amounts borrowed under this facility bore interest at variable rates.

Several of the debt agreements referred to above contain covenants, including covenants relating to such matters as indebtedness, minimum net worth and financial ratings. At December 31, 2022 and 2021, the Corporation was in compliance with all debt covenants.

13. Income Taxes

The components of the income tax provision for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Federal		
Current	$ (14,043)	$ 3,248
Deferred	(63,220)	122,107
	(77,263)	125,355
Foreign		
Current	2,842	3,522
	2,842	3,522
State		
Current	(1,257)	3,166
Deferred	6,241	372
	4,984	3,538
Total income tax provision	$ (69,437)	$ 132,415

(in thousands of dollars)

A reconciliation of income tax expense recorded in the Consolidated Statements of Operations and amounts computed at the statutory federal rate for the years ended December 31, 2022 and 2021 was as follows:

	2022	**2021**
Income taxes at statutory rate	$ (86,041)	$ 333,419
IRC section 833(b) deduction	(67,009)	(40,346)
Loss from tax exempt entities	65,778	15,703
Change in valuation allowance	11,601	9,502
Nondeductible compensation	8,695	11,840
State taxes, net of federal tax benefit	3,937	2,795
IRC section 1341 deduction, net	(3,246)	-
Contribution Income	-	(189,396)
Other	(3,152)	(11,102)
Total income tax provision	$ (69,437)	$ 132,415

The Inflation Reduction Act (the “Act”) was enacted on August 16, 2022. The Act includes a new corporate alternative minimum tax (“CAMT”) that goes into effect for tax years beginning after 2022. On December 27, 2022 and February 17, 2023, the United States Treasury Department issued Notice 2023-07 and Notice 2023-20, respectively, which provide interim guidance regarding application of the CAMT until the issuance of proposed regulations. The Corporation is currently evaluating if the Corporation will be subject to the CAMT in 2023 and the related impact of the Act on the Consolidated Financial Statements.

(in thousands of dollars)

The components of deferred income taxes at December 31, 2022 and 2021 were as follows:

	2022	2021
Deferred tax assets		
Net unrealized losses on available-for-sale securities	$ 150,714	$ (121,817)
Net operating loss carryforwards	139,249	168,985
Other payables and accrued expenses	135,293	170,247
Operating lease right to use liabilities	52,236	34,230
Contribution carryforwards	12,149	9,240
Allowance for doubtful accounts	10,867	9,440
Discounting on unpaid losses	7,967	8,147
Premium deficiency reserves	4,422	10,097
Other	1,001	6,622
Total deferred tax assets	513,898	295,191
Less valuation allowance	(230,601)	(84,545)
Total deferred tax assets, net of valuation allowance	283,297	210,646
Deferred tax liabilities		
Property and equipment	66,329	118,561
Investment in partnerships/affiliates	64,026	36,392
Operating lease right to use assets	49,886	33,376
Benefit plan liabilities	44,581	70,025
Goodwill and other intangible assets	9,761	26,222
Total deferred tax liabilities	234,583	284,576
Deferred income taxes, net	$ 48,714	$ (73,930)

The classifications of deferred income taxes at December 31, 2022 and 2021 were as follows:

Classified as		
Deferred tax assets	$ 50,909	$ 42,172
Deferred tax liabilities	2,195	116,102
	$ 48,714	$ (73,930)

In addition to the income tax provision, the deferred tax asset increased by $66,007 in 2022 and $5,097 in 2021, primarily related to unrealized losses on investments and changes in benefit plan assets and liabilities. As these changes were recorded directly within net assets, they did not impact the income tax provision recorded in the Consolidated Statements of Operations.

The realization of net deferred tax assets is dependent on the Corporation's ability to identify sources of income, including sufficient taxable income of the appropriate character in periods eligible for loss carrybacks, as well as future periods. As a result, the amount of deferred tax assets considered realizable could change as loss carryback periods expire and if estimates of future taxable income change. Based on all available positive and negative evidence, including, but not limited to, scheduled reversals of deferred tax liabilities, loss carryback capacity, projected future taxable income, tax-planning strategies, and results of recent operations, the Corporation recorded a

(in thousands of dollars)

valuation allowance of $230,601 and $84,545 as of December 31, 2022 and 2021, respectively, against certain deferred tax assets that are not expected to be realized. The valuation allowance increase of $141,975 in 2022 and reduction of $38,098 in 2021 relates to and was recorded directly within net assets and did not impact the income tax provision recorded in the Consolidated Statements of Operations.

The Corporation had gross carryforwards for years ended as of December 31 as outlined below:

	2022	2021	Expires Through
Federal NOL	$ 573,288	$ 661,137	2042
State NOL	439,636	396,546	2042
Charitable Contributions	57,845	51,388	2027
Balance at December 31	$ 1,070,769	$ 1,109,071	

These carryforwards expire in various amounts through the expiration period indicated above and are subject to certain taxable income limitations. Based on the Corporation's evaluation, a valuation allowance has been established against the portion of these deferred tax assets not expected to be utilized as of December 31, 2022.

The changes in the carrying amount of gross unrecognized tax benefits from uncertain tax positions in 2022 and 2021 were as follows:

	2022	2021
Balance at January 1	304,624	252,545
Additions for tax positions related to		
Current year	14,385	1,657
Prior years	97,193	51,833
Reductions to balance relating to		
Changes in tax positions of prior years	(9,476)	(104)
Statute of limitation expiration	(65,507)	(1,307)
Settlements	-	-
Balance at December 31	$ 341,219	$ 304,624

Of the unrecognized tax benefits in the table directly above, $337,187 and $300,426 would have impacted the effective tax rate if recognized for December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the Corporation has recorded accumulated interest and penalties payable associated with these unrecognized tax benefits of $34,630 and $27,883, respectively, in income tax recoverable in the Consolidated Balance Sheets. For the years ended December 31, 2022 and 2021, the Corporation recorded $6,747 and $7,785, respectively, in interest and penalties related to these tax contingencies in the Consolidated Statements of Operations.

A decrease of up to $68,000 in unrecognized tax benefits may be recognized by December 31, 2023 due to the expiration of the statute of limitations

(in thousands of dollars)

Prior to January 1, 1987, Highmark was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the "Act"), Highmark, and all other Blue Cross and Blue Shield plans, became subject to federal income tax. Among other provisions of the Internal Revenue Code, these plans were granted a deduction under Code Section 833(b) (the "special deduction") for regular tax calculation purposes. The special deduction is calculated as the excess of 25% of incurred claims and claim adjustment expenses for the tax year over adjusted surplus, as defined, limited to taxable income. The amount of taxable income before the special deduction has the effect of increasing the adjusted surplus balance used in calculating the special deduction. Once the cumulative adjusted surplus balance exceeds 25% of incurred claims and claim adjustment expenses for the current taxable year, the deduction is eliminated. Little technical guidance has been issued by the taxing authorities regarding the special deduction and therefore some uncertainty exists in its calculation. In 2011, Highmark requested refunds of approximately $185,000 (plus interest) for the 2004 through 2007 tax years related to the Special Deduction that have not yet been received. On June 30, 2017, Highmark filed suit in the United States Court of Federal Claims requesting the refund. On August 11, 2022, the Court issued an opinion whereby it granted the government's partial motion for summary judgment and denied Highmark's partial motion for summary judgment related to the determination of the special deduction amount. In the opinion of management, an adequate reserve against the requested refunds receivable has been made in the financial statements related to this matter, and the amount that is ultimately received is not expected to materially affect the financial position of the Corporation. In addition, a portion of the alternative minimum tax credit carryforwards monetized as part of the TCJA are unrecognized due to the impact of the uncertainty associated with the special deduction calculation described here. Future adjustments may be made to the Corporation's estimated tax benefit as additional information becomes available.

Highmark Inc. and the subsidiaries included in its consolidated return have been examined by the IRS through 2017; therefore it is open for examination for its 2018 through 2022 tax years on returns as originally filed. It is also open for its 2014 and 2016 tax years due to amended return filings for these years. The remaining subsidiaries and affiliates are open for IRS examination for the three year statutory limitation period.

14. Leases

As discussed in Note 3, the Corporation adopted new guidance regarding the recognition of leases as of January 1, 2021. The Corporation leases most of its corporate offices, transportation assets, physician offices and outpatient facilities under operating leases, typically with initial terms of five to twenty-five years. The Corporation also leases certain equipment and medical equipment and other assets under operating or finance leases, typically with initial terms of three to five years.

(in thousands of dollars)

The components of lease expense for the years ended December 31, 2022 and 2021, respectively, were as follows:

	2022	2021
Finance lease expense		
Amortization of ROU assets	$ 7,344	$ 6,232
Interest on lease liabilities	3,348	3,389
Operating lease expense	109,595	110,917
Short-term/variable lease expense	6,557	4,698
Sublease income	(3,733)	(3,087)
Total lease cost	$ 123,111	$ 122,149

Supplemental cash flow information related to leases was as follows:

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating - Operating cash flows	$ 103,557	$ 103,753
Right-to-use asset obtained in the exchange for lease liabilities		
Finance leases	$ 13,627	$ 2,820
Operating leases	$ 47,385	$ 56,169

As of December 31, 2022 and 2021, respectively, the weighted-average remaining lease terms and the weighted-average discount rates were as follows:

	2022	2021
Weighted-average remaining lease terms (in years)		
Finance leases	13	15
Operating leases	7	8
Weighted-average discount rate		
Finance leases	4%	5%
Operating leases	3%	3%

(in thousands of dollars)

Maturities of finance and operating lease liabilities as of December 31, 2022 were as follows:

	Finance	Operating
2023	$ 9,991	$ 91,083
2024	9,232	75,213
2025	9,303	61,712
2026	9,375	44,619
2027	9,439	38,180
Thereafter	66,211	142,737
Total	113,551	453,544
Less: Present value discount	(28,725)	(49,963)
Lease liabilities	$ 84,826	$ 403,581

15. Net Assets

Net assets without donor restrictions for the years ended December 31, 2022 and 2021 include:

	2022	2021
Undesignated	$ 8,591,866	$ 9,895,783
Undesignated - Noncontrolling interest	32,841	41,009
Board designated assets:		
Capital improvements	36,225	39,378
Total net assets without donor restrictions	$ 8,660,932	$ 9,976,170

Nets assets with donor restrictions are restricted for the following purposes or periods for the years ended December 31, 2022 and 2021 include:

	2022	2021
Subject to expenditure for specific purpose:		
Capital improvements	$ 1,252	$ 1,721
Education and Scholarships	1,917	2,182
Research	4,926	5,166
Healthcare services	33,090	35,449
Total	41,185	44,518
Subject to the Corporations' policy and appropriation		
Investment in perpetuity, the income of which is expendable to support:		
Healthcare services	292,111	364,024
Total net assets with donor restrictions	$ 333,296	$ 408,542

(in thousands of dollars)

16. Liquidity and Availability of Financial Assets

The Corporation's working capital and cash flows are subject to variability during the year attributable to variations in volume and cash receipts. To manage liquidity, the Corporation maintains unrestricted investments portfolios to manage fluctuations in cash flow.

The following table reflects the Corporation's financial assets reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for general expenditures. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors approves the action.

The financial assets available to meet cash needs for general expenditures within one year at December 31, 2022 and 2021 were as follows:

	2022	2021
Cash and cash equivalents	$ 1,142,923	$ 1,025,602
Investments	9,801,499	11,465,341
Receivables	3,752,905	3,506,961
Total financial assets	14,697,327	15,997,904
Contractual or donor-imposed restrictions:		
Beneficial interests in perpetual trusts	(258,068)	(325,806)
Endowment funds	(72,526)	(74,497)
Equity method investments	(38,465)	(42,650)
Grant funds	(35,692)	(35,086)
Board designations:		
Capital improvements	(36,225)	(39,378)
Financial assets available to meet cash needs for general expenditures within one year	**$ 14,256,351**	**$ 15,480,487**

17. Contingencies

A number of class action lawsuits filed throughout the United States against various Blue Cross and/or Blue Shield plans (the "BCBS Plans"), including the Corporation, have been consolidated in a multi-district litigation in the U.S. District Court for the Northern District of Alabama under the caption In re: Blue Cross Blue Shield Antitrust Litigation. The lawsuits state that they were filed on behalf of (i) health care providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of any BCBS Plan and/or (ii) members and subscribers of any BCBS Plan. The lawsuits primarily deal with alleged conspiracy and price fixing by and among the BCBS Plans and the Blue Cross Blue Shield Association ("BCBSA"), the competitive impact of exclusive service areas granted by BCBSA, and alleged contract provisions of the BCBS Plans. Plaintiffs generally seek a judgment that the defendants have violated Section 1 of the Sherman Act, an injunction prohibiting defendants from entering into agreements that restrict the territories in which any BCBS Plan may compete, and an award of treble damages. The District Court has found that the exclusive service areas licensed to the BCBS Plans in conjunction with the national "best efforts" requirements and other applicable BCBSA rules constitute per se violations of federal antitrust laws and that the "Blue Card" system providing for the BCBS Plans' payment of out-of-area claims would

(in thousands of dollars)

be subject to a rule of reason analysis. On August 9, 2022, the Court entered a final order approving the subscriber class settlement and the remaining monetary obligations of the settlement were subsequently paid into escrow with the settlement administrator pending resolution of appeals. Four such appeals of the final approval order have been filed resulting in a delay of the effective date of the subscriber class settlement agreement until such appeals are resolved. The provider class action is ongoing. The Corporation, based on consultation with legal counsel, believes adequate provision has been made in the financial statements for any potential liability related to this matter and continues to believe it has meritorious defenses to the claims in this matter.

The Corporation filed a complaint against Med-Test Laboratories, LLC (“MedTest”) and its owners and operators on October 5, 2018 regarding alleged improper billing for laboratory services not performed by MedTest. On April 8, 2019, the defendants filed a counterclaim and third party complaint against the Corporation and all other BCBS Plans. MedTest asserted breach of contract, negligence and fraudulent misrepresentation claims related to the BCBS Plans’ national networks, as well as antitrust conspiracy claims and joint action by the BCBS Plans in inducing MedTest to perform lab services without compensation. On November 19, 2020, the West Virginia Supreme Court ordered the dismissal of all Blue plans other than the Corporation from the case. In April 2022, the Court entered a default judgment against Med-Test and granted the motion for summary judgment filed by the Corporation on its breach of contract claim. There are no remaining claims against the Corporation pertaining to this matter.

On July 9, 2021, Brian J. Lyngaas, D.D.S., P.L.L.C., individually and as the representative of a class of similarly-situated persons, filed a class action lawsuit alleging that the Corporation violated the Telephone Consumer Protection Act ("TCPA") by sending at least two facsimiles concerning the availability of discounted personal protective equipment during the COVID-19 Pandemic to plaintiff and members of the putative class purportedly without their consent. The lawsuit was filed in the United States District Court for the Eastern District of Michigan, Southern Division. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Eight class action lawsuits were filed during February and March 2023 in the United States District Court for the Western District of Pennsylvania pertaining to an alleged December 2022 data breach regarding certain enrollment files. Six of such lawsuits were filed against Highmark Inc. and two were filed against Highmark Health. The alleged breach may have impacted the enrollment data of approximately 300,000 current, former and/or potential members. The lawsuit asserts that the defendant had an obligation under statutory and common law to protect the member information that may have been accessed as a result of the alleges breach. The plaintiff seeks on behalf of the class of impacted persons, damages, equitable relief, injunctive relief, prejudgment interest and attorneys’ fees and expenses. The defendants intend to vigorously defend the matter and, at present, are unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Participation in government-sponsored healthcare programs subjects AHN to a variety of federal and state laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to AHN providing the relevant services under audit. Audit risks include repayment of claims and/or the payment of fines and penalties. AHN believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations.

The Corporation is subject to various other contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. Due to the complex nature of these actions and proceedings, the timing of the ultimate resolution of these matters is uncertain. In the

(in thousands of dollars)

opinion of management, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results of operations of the Corporation.

18. COVID-19

In March 2020, the President of the United States declared the outbreak of the novel coronavirus (“COVID-19”) a national emergency. Throughout 2021 and 2022, the COVID-19 pandemic continued to evolve, and the full extent of its impact will depend on future developments, which are highly uncertain and cannot be predicted at this time. The Corporation will continue to monitor the pandemic as well as resulting legislative and regulatory changes in order to manage the Corporation’s response and assess and mitigate potential adverse impacts to its business.

On March 27, 2020, the President of the United States signed into law the CARES Act to provide economic assistance to a wide array of industries to ease the financial impact of COVID-19. As part of the CARES Act, CMS expanded its Accelerated and Advance Payment Program which allows participants to receive expedited payments during periods of national emergencies. Additionally, the CARES Act provided for payroll tax relief, including employee retention tax credits and the deferral of all employer Social Security tax payments to help employers in the face of economic hardship related to the COVID-19 pandemic. As of December 31, 2021, the Corporation had outstanding deferred balances of approximately $50,426 attributable to the employer portion of Social Security wage taxes. These deferred payroll taxes were to be repaid in two equal installments in 2021 and 2022, the final of which was paid in December 2022.

In 2020, AHN recorded $232,490 attributable to the Medicare Accelerated and Advance Payment Program representing working capital financing to be repaid through the provision of future services and was recorded as a contract liability as a payment received before performing services. Amounts due to be refunded were recorded as CMS advances in the consolidated balance sheet. In 2022 and 2021, AHN repaid $135,124 and $97,366, respectively, of the advance payments, and as of December 31, 2022, has no further amounts due to be refunded.

During 2022, AHN received $116,204 in governmental assistance including funding under the CARES Act and recognized $116,463 of grant revenue recorded as a component of other revenue in the Consolidated Statements of Operations as a result of satisfying the conditions of general and targeted grant funding under the Provider Relief Fund established by the CARES Act. In 2021, AHN received $1,921 in funding and recognized $4,186 of grant revenue, which included deferred revenue from amounts received in 2020.

Additionally, CMS increased the Diagnosis Related Group weighting factor by 20% for inpatients diagnosed with COVID-19, which represented approximately $4,623 of additional revenue to AHN through December 31, 2021. During 2022, this represented $2,319 of additional revenue. The previously planned 2% Medicare sequestration adjustment was suspended during 2021, but was reestablished in phases during 2022, with a full 2% adjustment beyond June 2022. The suspension represented approximately $10,440 of revenue to AHN through December 31, 2021. During 2022, this represented $7,440 of additional revenue. These enhanced reimbursements are accounted for as patient service revenue and are included in the Consolidated Statements of Operations.

In 2022, AHN received $10,966 from the Commonwealth of Pennsylvania pursuant to Act 2 of 2022 (HB 253) enacted under the American Rescue Plan Act, which provided Pennsylvania hospitals with dedicated funding to support nursing recruitment and retention efforts. AHN distributed these funds to eligible employees and recognized the revenue within services and other revenue on the Consolidated Statements of Operations.

SUPPLEMENTARY CONSOLIDATING INFORMATION

Highmark Health
Consolidating Balance Sheets
Year Ended December 31, 2022

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health Network	Other	Eliminations	Total
Assets							
Cash and cash equivalents	$ 30,320	$ 744,241	$ 79,323	$ 276,997	$ 12,042	$ -	$ 1,142,923
Accounts receivable							
Insurance, less allowance for doubtful accounts of $46,846	-	3,155,346	-	-	-	-	3,155,346
Patient service	-	-	-	501,899	-	(223,139)	278,760
Other	126,656	350,830	120,359	81,870	3,293	(364,209)	318,799
Investments							
Debt securities, available-for-sale at fair value	-	5,753,608	-	88,213	-	-	5,841,821
Equity securities	-	2,231,080	-	16,084	-	-	2,247,164
Board designated, restricted and other investments at fair value	-	-	-	780,275	-	-	780,275
Investment in affiliates	8,833,990	6,282	-	38,465	392	(8,552,258)	326,871
Other	-	605,247	121	-	-	-	605,368
Reinsurance recoverables	-	270,384	-	-	-	-	270,384
Securities lending invested collateral	-	368,806	-	-	-	-	368,806
Inventory, net	-	7,027	-	100,173	-	-	107,200
Income tax recoverable	753	53,091	9,221	222	266	-	63,553
Deferred tax asset	-	27,257	18,114	5,538	-	-	50,909
Property and equipment, net	223,863	530,689	11,218	2,008,379	-	-	2,774,149
Goodwill and other intangible assets, net	-	299,126	-	118,946	-	-	418,072
Benefit plan asset	-	400,028	-	-	-	-	400,028
Operating lease right to use assets	-	143,240	5,725	225,064	-	-	374,029
Other assets	33,570	886,600	56,099	138,867	129	(665)	1,114,600
Total assets	$ 9,249,152	$ 15,832,882	$ 300,180	$ 4,380,992	$ 16,122	$ (9,140,271)	$ 20,639,057
Liabilities and Net Assets							
Claims and claim adjustment expenses outstanding	$ -	$ 4,166,760	$ -	$ -	$ -	$ (237,167)	$ 3,929,593
Unearned revenue	-	230,282	62,605	57,560	-	-	350,447
Amounts held for others	-	833,107	-	-	-	-	833,107
Accrued salaries and benefits	152,745	277,727	87,608	169,878	4,275	-	692,233
Other payables and accrued expenses	135,020	1,504,553	112,053	519,365	3,088	(319,572)	1,954,507
Income tax payable	-	64,230	-	-	-	-	64,230
Deferred tax liability	-	2,195	-	-	-	-	2,195
Securities lending payable	-	368,598	-	-	-	-	368,598
Benefit plan liabilities, net	-	127,580	-	186,564	-	-	314,144
Debt	-	1,424,434	567	1,047,611	-	-	2,472,612
Operating lease right to use liabilities	-	162,903	5,725	234,953	-	-	403,581
Other liabilities	-	119,726	13,692	157,438	-	(31,274)	259,582
Total liabilities	287,765	9,282,095	282,250	2,373,369	7,363	(588,013)	11,644,829
Net Assets							
Without donor restrictions - Highmark Health	8,628,091	6,550,787	17,538	1,641,486	8,759	(8,218,570)	8,628,091
Without donor restrictions - noncontrolling interest	-	-	392	32,841	-	(392)	32,841
Total net assets without donor restrictions	8,628,091	6,550,787	17,930	1,674,327	8,759	(8,218,962)	8,660,932
With donor restrictions	333,296	-	-	333,296	-	(333,296)	333,296
Total net assets	8,961,387	6,550,787	17,930	2,007,623	8,759	(8,552,258)	8,994,228
Total liabilities and net assets	$ 9,249,152	$ 15,832,882	$ 300,180	$ 4,380,992	$ 16,122	$ (9,140,271)	$ 20,639,057

The schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the information included within the “Eliminations” column.

Highmark Health
Consolidating Statements of Operations
Year Ended December 31, 2022

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health Network	Other	Eliminations	Total
Revenue and other support							
Premium revenue, net	$ -	$ 20,517,047	$ -	$ -	$ -	$ -	$ 20,517,047
Net patient service revenue	-	-	-	3,946,127	-	(816,886)	3,129,241
Service and other revenue	60,515	1,392,583	1,094,977	403,971	2,545	(924,993)	2,029,598
Affiliates revenue	(46,426)	(1,205)	-	-	-	-	(47,631)
Net assets released from restrictions	-	-	-	7,805	-	-	7,805
Total revenue and other support	14,089	21,908,425	1,094,977	4,357,903	2,545	(1,741,879)	25,636,060
Expenses							
Claims and claim adjustment expenses	-	18,237,805	-	-	-	(726,222)	17,511,583
Salaries, wages and fringe benefits	327,549	1,253,005	383,939	3,045,370	21,263	(21,393)	5,009,733
Patient care supplies	-	-	-	942,667	-	-	942,667
Depreciation and amortization	30,407	138,786	4,714	224,044	250	-	398,201
Other operating expenses, net	(254,834)	2,109,681	700,932	327,491	(16,237)	(994,264)	1,872,769
Total operating expenses	103,122	21,739,277	1,089,585	4,539,572	5,276	(1,741,879)	25,734,953
Operating (loss) gain	(89,033)	169,148	5,392	(181,669)	(2,731)	-	(98,893)
Net investment (loss) income, including net realized (losses) gains on investments	(332)	(331,704)	1,496	(47,976)	(3)	-	(378,519)
Interest expense	-	(38,125)	(138)	(33,343)	-	-	(71,606)
Equity (losses) gains of subsidiaries	(257,789)	-	-	-	76	257,713	-
Other components of net periodic benefit cost	-	108,431	-	30,867	-	-	139,298
(Deficit) excess of revenues over expenses before income taxes	(347,154)	(92,250)	6,750	(232,121)	(2,658)	257,713	(409,720)
Income tax (benefit) provision	(900)	(78,155)	5,655	2,903	1,060	-	(69,437)
(Deficit) excess of revenues over expenses before noncontrolling interest	(346,254)	(14,095)	1,095	(235,024)	(3,718)	257,713	(340,283)
Excess of revenue over expenses attributable to noncontrolling interest	-	-	76	5,971	-	(76)	5,971
(Deficit) excess of revenue over expenses attributable to Highmark Health	$ (346,254)	$ (14,095)	$ 1,019	$ (240,995)	$ (3,718)	$ 257,789	$ (346,254)

The schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the information included within the “Eliminations” column.