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March 31, 2022

VIA ELECTRONIC FILING

Melissa Greiner
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: Order # ID-RC-13-06
Highmark Health Consolidated Financial Statements

Dear Deputy Commissioner Greiner:

In compliance with Condition 13 of the above-captioned Approving Determination dated April 29, 2013, Highmark Health is submitting the enclosed non-confidential consolidated financial statements for the period ending December 31, 2021. A copy has been forwarded to Mr. Beaser and Mr. DeLacey by email.

Very truly yours,

Jack M. Stover

JMS/jls
Enclosure
cc: Lawrence J. Beaser, Esq. (via email)
Patrick T. DeLacey (via email)

Highmark Health

Consolidated Financial Statements
December 31, 2021 and 2020

Highmark Health
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December 31, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, and the results of its operations, its changes in 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 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 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 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 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 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 41 and 42 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, 2021 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements nor is it intended to present the financial position, results of operations and cash flows of the individual companies. The consolidating supplemental schedules is the responsibility of management and was derived from and relates 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 is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

Hartford, Connecticut
March 23, 2022

Highmark Health
Consolidated Balance Sheets
December 31, 2021 and 2020

(in thousands of dollars)

	2021	2020
Assets		
Cash and cash equivalents	$ 1,025,602	$ 939,927
Accounts receivable		
Insurance, less allowance for doubtful accounts of $32,402 and $21,190, respectively	3,023,383	2,508,299
Patient service	223,459	240,562
Other	260,119	492,319
Investments		
Debt securities, available-for-sale at fair value	6,804,301	5,513,015
Equity securities	2,687,326	2,291,940
Board designated, restricted and other investments at fair value	1,034,301	865,264
Investment in affiliates	392,455	584,763
Other	546,958	406,591
Reinsurance recoverables	257,453	153,829
Securities lending invested collateral	596,511	521,079
Inventory, net	113,575	114,833
Income tax recoverable	156,330	95,148
Deferred tax asset	42,172	48,795
Property and equipment, net	2,563,984	2,292,508
Goodwill and other intangible assets, net	443,735	194,192
Operating lease right to use assets	424,543	-
Benefit plan asset	549,063	391,329
Other assets	1,063,126	737,768
Total assets	22,208,396	18,392,161
Liabilities and Net Assets		
Claims and claim adjustment expenses outstanding	$ 3,572,363	$ 3,097,378
Unearned revenue	350,227	272,987
Amounts held for others	820,394	510,312
Accrued salaries and benefits	672,096	532,362
CMS provider advances	135,124	232,490
Other payables and accrued expenses	2,037,529	2,105,203
Income tax payable	100,255	81,879
Deferred tax liability	116,102	5,344
Securities lending payable	600,039	521,042
Benefit plan liabilities, net	316,615	415,969
Operating lease right to use liabilities	448,877	-
Debt	2,454,332	1,674,207
Other liabilities	199,731	114,747
Total liabilities	11,823,684	9,563,920
Without donor restrictions - Highmark Health	9,935,161	8,425,890
Without donor restrictions - noncontrolling interest	41,009	34,394
Total net assets without donor restrictions	9,976,170	8,460,284
With donor restrictions	408,542	367,957
Total net assets	10,384,712	8,828,241
Total liabilities and net assets	$ 22,208,396	$ 18,392,161

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

Highmark Health
Consolidated Statements of Operations
Years Ended December 31, 2021 and 2020

(in thousands of dollars)

	2021	2020
Revenue and other support		
Premium revenue, net	16,935,890	$ 13,731,220
Net patient service revenue	2,943,217	2,600,223
Service and other revenue	1,872,243	1,634,312
Affiliates income	69,152	63,808
Net assets released from restriction	4,515	5,782
Total revenue and other support	21,825,017	18,035,345
Expenses		
Claims and claim adjustment expenses	14,456,127	10,535,106
Salaries, wages and fringe benefits	4,335,031	4,133,794
Patient care supplies	906,859	791,999
Depreciation and amortization	351,278	297,432
Other operating expenses, net	1,820,150	1,780,345
Total operating expenses	21,869,445	17,538,676
Operating (loss) gain	(44,428)	496,669
Net investment income, including net realized gains on investments	564,124	544,811
Interest expense	(59,065)	(57,454)
Gain on acquisition of affiliate	86,507	-
Other components of net periodic benefit cost	138,685	17,719
Excess of revenue over expenses before affiliation	685,823	1,001,745
Net assets acquired through affiliation	901,884	-
Excess of revenue over expenses before income taxes	1,587,707	1,001,745
Income tax provision (benefit)	132,415	(15,632)
Excess of revenue over expenses before noncontrolling interest	1,455,292	1,017,377
Excess of revenue over expenses attributable to noncontrolling interest	7,083	1,184
Excess of revenue over expenses attributable to Highmark Health	$ 1,448,209	$ 1,016,193

(Continued)

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

Highmark Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2021 and 2020

(in thousands of dollars)

	2021	2020
Net assets without donor restrictions - Highmark Health		
Excess of revenue over expenses	$ 1,448,209	$ 1,016,193
Unrealized net holding (losses) gains on available-for-sale securities, net of tax of $18,705 and ($23,773), respectively	(77,878)	203,344
Reclassification for net gains on available-for-sale securities included in income, net of tax of $16,893 and $11,085, respectively	(63,548)	(42,168)
Benefit plan asset and liability changes, net of tax of ($15,782) and and $361, respectively	117,574	19,551
Net assets released from restriction for acquisition of equipment	1,827	651
Income tax benefit on transfers to related parties	94,747	-
Other, net	(11,660)	(4,835)
Increase in net assets without donor restrictions - Highmark Health	1,509,271	1,192,736
Net assets without donor restrictions - noncontrolling interest		
Excess of revenue over expenses	7,083	1,184
Other	(468)	6,458
Increase in net assets without donor restrictions - noncontrolling interest	6,615	7,642
Net assets with donor restrictions		
Contributions	7,866	6,985
Net investment income	48,116	44,316
Net assets released from restrictions used for:		
Operations	(4,515)	(5,782)
Acquisition of equipment	(1,827)	(651)
Transfer out of trusts to net investment income	(9,482)	(9,955)
Other, net	427	(148)
Increase in net assets with donor restrictions	40,585	34,765
Increase in net assets	1,556,471	1,235,143
Net assets		
Beginning of the year	8,828,241	7,593,098
End of the year	$ 10,384,712	$ 8,828,241

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

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(in thousands of dollars)

	2021	2020
Cash flows from operating activities		
Increase in net assets	$ 1,556,471	$ 1,235,143
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	11,384	20,312
Depreciation and amortization, including investments	381,224	311,350
Gain on acquisition of affiliate	(86,507)	-
Net assets acquired through acquisition	(901,884)	-
Net realized gains on investments	(165,958)	(499,408)
Net unrealized gains on investments	(13,332)	(42,374)
Dividends received from affiliates	-	8,130
Undistributed gain of affiliates	(70,967)	(60,985)
Income tax benefit on related party transfers	(94,747)	-
Beneficial interest in perpetual trusts	(33,558)	(29,246)
Benefit plan liability changes	(117,574)	(19,551)
Deferred income tax provision	122,479	(39,121)
Restricted contributions	(7,866)	(6,986)
Increase (decrease) due to change in		
Accounts receivable	152,571	(146,212)
Reinsurance recoverables	(103,624)	(41,748)
Pharmacy rebates receivable	(187,186)	(18,480)
Other assets	(432,351)	(151,124)
Claims and claim adjustment expenses	(118,681)	388,185
Amounts held for others	225,869	(117,157)
Benefit plan liabilities, net	(168,921)	(343,045)
Other liabilities	377,951	926,034
Net cash provided by operating activities	324,793	1,373,717
Cash flows from investing activities		
Purchases of investments	(5,251,020)	(5,270,746)
Proceeds from sales of investments	4,672,634	4,580,252
Proceeds from maturities of investments	162,597	142,613
Purchases of property and equipment, net	(473,395)	(481,953)
Change in securities lending invested collateral	(78,997)	(134,278)
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	(1,055,916)	(1,164,112)
Cash flows from financing activities		
Restricted contributions	7,866	6,986
Change in book overdrafts	41,636	(11,282)
Receipts from contract deposits	303,069	205,550
Withdrawals from contract deposits	(381,153)	(272,405)
Change in securities lending payable	78,997	134,278
Proceeds from issuance of debt	1,645,101	114,999
Repayment of debt	(865,245)	(103,427)
Net cash provided by financing activities	830,271	74,699
Increase in cash, cash equivalents and restricted cash	99,148	284,304
Cash, cash equivalents and restricted cash		
Beginning of year	996,032	711,728
End of year	$ 1,095,180	$ 996,032

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

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

(in thousands of dollars)

		2021		2020
Supplemental disclosure of cash flow information				
Interest paid, net	$	79,250	$	78,020
Income taxes (received) paid, net		(41,812)		50,738
Supplemental disclosure of noncash investing and financing				
Assets acquired through other payables		25,334		79,656
Reconciliation of total cash, cash equivalents and restricted cash				
Cash and cash equivalents		1,025,602		939,927
Restricted cash included in board designated, restricted and other investments at fair value		69,578		56,105
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$	1,095,180	$	996,032

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 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 and operates 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.

HM Health Solutions (“HMHS”), is a for-profit corporation that provides health plan administration platform, infrastructure management, and other technology services.

Allegheny Health Network, and its subsidiaries and affiliates (collectively “AHN”), is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is 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.

(in thousands of dollars)

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 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, 2021 and 2020, Highmark WV's total reserves were $766,379 and $738,910, respectively. At December 31, 2021 and 2020, Highmark DE's total reserves were $507,306 and $494,526, respectively. At December 31, 2021, Highmark NY's total reserves were $819,837.

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. The expedients are available to be applied from March 12, 2020 through December 31, 2022. As of December 31, 2021, the Corporation has not yet applied any of the optional expedients under this new guidance. The Corporation will continue evaluating the impact of adoption through the application period.

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 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

(in thousands of dollars)

impact on the Consolidated Statements of Operations or Cash Flows. See Note 14 for additional disclosures about the Corporation’s leases.

In November 2021, FASB issued new guidance allowing not public 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 is permitted.

Under Evaluation
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 will not materially impact the financial position, results of operations or cash flows of the Corporation. The Corporation is evaluating the impact of the new guidance on its financial statement disclosures.

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 is still evaluating the impacts but does not believe the new guidance will materially impact its financial position, results of operations and cash flows.

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.

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.

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.

(in thousands of dollars)

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 classified as available-for-sale 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 available-for-sale debt security or whether it is more likely than not that the Corporation will be required to sell the available-for-sale 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.

Equity securities are carried at fair value based on quoted or estimated market prices; except for certain available-for-sale 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

(in thousands of dollars)

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 $263,585 and $246,822 to various private limited partnership investments at December 31, 2021 and 2020, 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 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 $596,511 and $521,079 at December 31, 2021 and 2020, respectively. The corresponding liability that represents the Corporation’s obligation to return the collateral was $600,039 and $521,042 at December 31, 2021 and 2020, 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.

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 are 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 by annual charges to expense 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; three 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.

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 existed in 2021 and 2020.

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

Leases
The Corporation adopted accounting standards codification ("ASC") 842 on January 1, 2021 on a modified retrospective basis. As a result, the Corporation's lease disclosures as of and for the year ended December 31, 2021 is reported under ASC 842. Comparative financial information for the year

(in thousands of dollars)

ended December 31, 2020 has not been restated and continues to be reported under the lease accounting standard in effect for that period.

Leases – Post Adoption

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 result 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 right-of-use assets and lease liabilities are reflected in property and equipment, net and debt, respectively, in the Corporation's Combined Balance Sheet at December 31, 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 uses 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. The right-of-use 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. A right-of-use 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.

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 actuarial 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.

(in thousands of dollars)

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 the Highmark 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.

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 at-risk insurance arrangements and non-risk administrative arrangements. Risk business includes all insurance contracts, which are report 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

(in thousands of dollars)

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 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.

(in thousands of dollars)

The Corporation's net patient service revenues, by major payor, for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Medicare	$ 1,353,175	$ 1,115,680
Medical assistance	328,362	292,004
Blue Cross Blue Shield payors	537,285	577,443
Other third-party payors	694,524	592,557
Self-pay patients	29,871	22,539
Total net patient service revenue	$ 2,943,217	$ 2,600,223

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. In 2020, revenue from Medicare and Medical Assistance programs accounted for 43% 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 69% and 85% of gross charges based upon the look-back method at each facility. AHN does not pursue collection of amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as net patient service revenue.

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 reflect any required adjustments in current operations. The Corporation considers services provided under non-risk administrative contracts to be a Consolidated performance obligation with benefits provided over the contract period.

(in thousands of dollars)

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.

Service revenue also includes pharmacy rebates retained in lieu of fees charged for non-risk administrative arrangements, grants, contributions, physician stipends, Medicare and Medicaid electronic health record incentive payments 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 aligns with the benefits from services provided to clients.

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.

Other revenue includes grants (including Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) funding), contracted physician services and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. 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.

Affiliate Income
Affiliate income includes the Corporation’s proportionate share of unconsolidated affiliate earnings.

(in thousands of dollars)

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 member, 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.

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

Excess of Revenue Over Expenses
The Consolidated Statements of Operations include an excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale

(in thousands of dollars)

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, 2021 through March 23, 2022, 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 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.

(in thousands of dollars)

As a result of the foregoing, statutory reserves at December 31, 2021 and 2020 and statutory net income for the years then ended was:

	2021	2020
Highmark (excluding Highmark WV, DE and NY)		
Statutory reserves	$ 4,246,621	$ 3,907,797
Statutory net income	275,602	823,676
Highmark WV		
Statutory reserves	655,826	595,887
Statutory net income	49,370	68,309
Highmark DE		
Statutory reserves	462,551	439,351
Statutory net income	30,845	29,529
Highmark NY		
Statutory reserves	636,678	-
Statutory net income	(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.

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, 2021 and 2020, 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, 2021 and 2020, 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 imposes an annual premium-based fee on health insurers for each calendar year beginning on or after January 1, 2014, which is not deductible for tax purposes. The health insurer fee was effective for 2020; the aggregate annual fee for all insurers was $15,522,820. The health insurer fee was permanently repealed beginning in 2021. The health insurer fee was apportioned among all insurers based on a ratio designated to reflect relative market share of U.S. health insurance business. The fee is based on the ratio of Highmark's applicable net written premium to total applicable net premiums for all such issuers. Highmark is required to estimate a liability for the health insurer fee and record it in full once qualifying insurance coverage is provided in the applicable

(in thousands of dollars)

calendar year in which the fee is payable with a corresponding deferred cost that is amortized ratably to expense over the same calendar year. In September 2020, the Corporation paid the federal government $146,174 for its portion of the health insurer fee. As the health insurer fee was repealed in 2021, no amounts were paid in 2021.

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% and 9% of the total premiums for the years ending December 31, 2021 and 2020, respectively. 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 transitional reinsurance and risk corridor programs were available for years 2014 through 2016.

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 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 $21,867 in 2021 to settle the 2020 plan year and received net payments of $32,762 in 2020 to settle the 2019 plan year.

The temporary risk corridor program applied to qualifying individual and small group Qualified Health Plans, as defined by CMS, operating both inside and outside of the exchanges. The risk corridor provisions limited issuer gains and losses by comparing allowable medical costs to a target amount, defined by CMS, and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries and cost sharing reductions received from CMS. Variances from the target exceeding certain thresholds

(in thousands of dollars)

may result in CMS making additional payments to Highmark or require Highmark to refund CMS a portion of the premiums received.

On October 13, 2020, CMS paid Highmark $571,474 for the 2014 through 2016 risk corridor program benefit years, which are recorded in premium revenue in the Consolidated Statements of Operations for the year ended December 31, 2020. No amounts were received in 2021. Amounts were paid as a result of a judgment entered in favor of Highmark in connection with a lawsuit filed by Highmark against the federal government in the United States Court of Federal Claims asserting that the federal government had not met its statutory obligation to pay out monies owed to insurers under the ACA three year risk corridor program for the years 2014 through 2016.

For the 3Rs, 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 for the year ended December 31, 2021. For the year ended December 31, 2020, the Corporation recorded a payable of $44,094 to other payables and accrued expenses in the Consolidated Balance Sheets. There were no amounts recorded in the Consolidated Balance Sheets related to risk corridor and reinsurance at December 31, 2021 and 2020.

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 2021 and in 2020.

In order to meet a licensing requirement of the BCBSA, Highmark Inc. had established and funded a trust for purposes of paying its claim liabilities in the event of its insolvency. The fair value of the trust was $420,413 at December 31, 2020 and was reported as debt securities in the Consolidated Balance Sheets. This trust was no longer required as of December 31, 2021.

Highmark offers Medicare Advantage and Medicare Part D Prescription Drug Plan products under contracts with CMS which accounted for 27% and 24% of total premiums for the years ended December 31, 2021 and 2020, 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

(in thousands of dollars)

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. In October 2018, CMS issued a proposed rule to change the methodology used to calculate these refund payments. This proposal has not yet been finalized. 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, 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

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, 2020 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 1,785,236	$ 105,996	$ (3,320)	$ 1,887,912
Agency mortgage-backed securities	897,401	20,809	(343)	917,867
State and political obligations	6,491	1,363	-	7,854
Mortgage-backed securities	164,590	4,433	(2,489)	166,534
Asset-backed securities	231,218	5,141	(23)	236,336
Corporate and other debt securities	2,155,490	149,656	(8,634)	2,296,512
Total	$ 5,240,426	$ 287,398	$ (14,809)	$ 5,513,015

(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, 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)

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, 2020 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	$ 345,264	$ (3,320)	$ -	$ -	$ 345,264	$ (3,320)
Agency mortgage-backed securities	84,556	(301)	11,252	(42)	95,808	(343)
Mortgage-backed securities	70,845	(2,479)	12,119	(10)	82,964	(2,489)
Asset-backed securities	811	(5)	3,979	(18)	4,790	(23)
Corporate and other debt securities	164,103	(6,745)	47,782	(1,889)	211,885	(8,634)
Total	$ 665,579	$ (12,850)	$ 75,132	$ (1,959)	$ 740,711	$ (14,809)

At December 31, 2021 and 2020, the Corporation held available-for-sale debt securities with gross unrealized losses of $65,364 and $14,809, respectively. Management evaluated the unrealized losses and determined that they were due primarily to volatility in the interest rate environment and market conditions. 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, 2021 and 2020.

(in thousands of dollars)

The amortized cost and fair value of available-for-sale debt securities at December 31, 2021 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	$ 190,310	$ 192,453
Due after one year through five years	2,288,528	2,315,346
Due after five years through ten years	1,513,881	1,529,525
Due after ten years	996,911	1,059,369
Mortgage and asset-backed securities	1,707,797	1,707,608
Total debt securities	$ 6,697,427	$ 6,804,301

Board designated, restricted and other investments by investment type at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Cash and cash equivalents	$ 69,578	$ 56,961
Debt securities		
U.S. Treasury and agency obligations	115,970	119,021
Agency mortgage-backed securities	2,510	2,368
Asset and mortgage-backed securities	7,317	2,703
Corporate and other debt securities	79,287	93,675
Total debt securities	205,084	217,767
Equity securities		
Domestic	286,506	169,361
Foreign	137,969	119,991
Total equity securities	424,475	289,352
Beneficial interest in perpetual trusts	325,806	292,248
Common collective trust interests	9,358	8,936
Total board designated, restricted and other investments	$ 1,034,301	$ 865,264

Board designated, restricted and other investments consist of the following components at December 31, 2021 and 2020:

	2021	2020
Without donor restrictions		
Other investments	$ 548,865	$ 436,722
Board designated		
Foundation	39,378	37,246
Other	7,529	-
Self-insurance reserves	3,140	2,552
Grant funds and other	35,086	31,135
Total without donor restrictions	633,998	507,655
With donor restrictions	400,303	357,609
Total board designated, restricted and other investments	$ 1,034,301	$ 865,264

(in thousands of dollars)

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

The following is a summary of net investment income for the year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	$ 217,352	$ 5,983
Net realized gains on investments	486,689	8,903
Net market value holding gains on equity securities	(174,617)	-
Net unrealized gains on board designated, restricted and other investments	15,387	29,430
Total net investment income	$ 544,811	$ 44,316

Net realized gains on investments without donor restrictions include $386 and $11,614 in 2021 and 2020, respectively, in other-than-temporary impairment charges on available-for-sale securities. Other-than-temporary impairments recognized in 2021 and 2020 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 mainly equity and debt securities within the domestic financial services, commodity and energy business sectors, along with international market holdings. 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.

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, 2021 and 2020, these investments totaled $492,661 and $476,184, 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, 2021 and 2020, these investments totaled $464,394 and $342,251, respectively.

The Corporation's mortgage loans are collateralized by commercial real estate. At December 31, 2021 and 2020, the carrying amounts of $68,436 and $51,822, respectively, were considered

(in thousands of dollars)

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, 2021, the Company's mortgage loans were given the following credit quality indicators:

	2021			2020		
	Number of loans	**Carry Value**	**Average LTV**	**Number of loans**	**Carry Value**	**Average LTV**
Credit Rating						
CM2	4	24,240	52%	6	40,494	54%
CM3	4	44,196	61%	1	11,328	64%

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 following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings as of December 31, 2020:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
U.S. Treasury and agency securities	$ -	$ -	$ 5,348	$ -	$ 5,348
Corporate fixed income securities	$ -	$ 7,325	$ 2,700	$ 4,526	$ 14,551
International fixed income securities	-	39,875	69,426	150,923	260,224
Other	29,839	74,722	104,564	31,794	240,919
Total borrowings	$ 29,839	$ 121,922	$ 182,038	$ 187,243	$ 521,042

The Corporation is required to maintain investments on deposit with state departments of insurance or other regulatory bodies. At December 31, 2021 and 2020 investments on deposit with regulatory bodies were $23,411 and $21,804, respectively, primarily included within debt securities, available-for-sale at fair value in the Consolidated Balance Sheets.

(in thousands of dollars)

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 a 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 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

(in thousands of dollars)

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: The fair values of real estate trusts are approximated based on trustee estimates. Limited partnerships and limited liability companies are accounted for using NAV as a 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.

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, 2021 for financial assets measured at fair value on a recurring basis:

	Total	Fair Value Measurements Using Level 1	Level 2	Level 3	Net Asset 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

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2020 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	$ 939,927	$ 933,492	$ 6,435	$ -	$ -	$ -
Investments						
Debt securities, available-for-sale						
U.S. treasury and agency obligations	1,887,912	1,789,152	98,760	-	-	-
Agency mortgage-backed securities	917,867	-	917,867	-	-	-
State and political obligations	7,854	-	7,854	-	-	-
Mortgage-backed securities	166,534	-	166,534	-	-	-
Asset-backed securities	236,336	-	236,336	-	-	-
Corporate and other debt securities	2,296,512	-	2,167,977	128,035	-	500
Total debt securities	5,513,015	1,789,152	3,595,328	128,035	-	500
Equity securities						
Domestic	1,288,349	1,288,106	-	243	-	-
Foreign	526,276	526,276	-	-	-	-
Equity securities other than fair value	477,315	-	-	-	463,666	13,649
Total equity securities	2,291,940	1,814,382	-	243	463,666	13,649
Board designated, restricted and other investments						
Cash and cash equivalents	56,961	56,961	-	-	-	-
Debt securities						
U.S. Treasury and agency obligations	119,021	116,588	2,433	-	-	-
Agency mortgage-backed securities	2,368	-	2,368	-	-	-
Mortgage-backed securities	1,072	-	1,072	-	-	-
Asset-backed securities	1,631	-	1,631	-	-	-
Corporate and other debt securities	93,675	-	93,675	-	-	-
Equity securities						
Domestic	167,622	167,622	-	-	-	-
Foreign	119,991	119,991	-	-	-	-
Equity securities other than fair value	1,739	-	-	-	-	1,739
Beneficial interest in perpetual trusts	292,248	-	-	292,248	-	-
Common collective trust interests other than fair value	8,936	-	-	-	8,936	-
Total board designated, restricted and other investments	865,264	461,162	101,179	292,248	8,936	1,739
Other investments						
Mortgage loans	51,822	-	-	46,872	-	4,950
Other investments other than fair value	354,769	-	-	-	354,769	-
Total other investments	406,591	-	-	46,872	354,769	4,950
457(b) assets	50,012	50,012	-	-	-	-
Securities lending invested collateral	521,079	-	521,079	-	-	-
Total assets	$ 10,587,828	$ 5,048,200	$ 4,224,021	$ 467,398	$ 827,371	$ 20,838

The purchases and sales of assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2021 was as follows:

	Corporate and other debt securities	Beneficial interest in perpetual trusts	Mortgage loans	Total
Purchases	$ 158,312	$ 26	$ -	$ 158,338
Sales	$ (81,478)	$ (9,991)	$ (30,732)	$ (122,201)

There were no transfers into and out of assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2021.

(in thousands of dollars)

The purchases, sales, and transfers into and out of assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2020 was as follows:

	Corporate and other debt securities	Equity securities	Beneficial interest in perpetual trusts	Mortgage loans	Total
Purchases	$ 55,505	$ -	$ -	$ -	$ 55,505
Sales	$ (39,304)	$ -	$ (9,957)	$ (1,202)	$ (50,463)
Transfers in	$ -	$ 259	$ -	$ 36,928	$ 37,187

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	Redemption Notice Period
Equity securities	$ 479,319	$ -	Daily, Quarterly, Monthly	1-60 Days
Common collective trust interests	9,357	-		
Real estate investment trust	13,341	-		
Private limited partnerships	464,394	263,585		
Total	$ 966,411	$ 263,585		

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, 2020:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity securities	$ 463,666	$ -	Daily, Quarterly, Monthly	1-60 Days
Common collective trust interests	8,936	-		
Real estate investment trust	12,518	-		
Private limited partnerships	342,251	246,822		
Total	$ 827,371	$ 246,822		

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, 2021 and 2020, AHN reported unrestricted investments of $633,998 and $507,655 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 gains of $3,783 and $15,199 for the years ended December 31, 2021 and 2020, respectively.

(in thousands of dollars)

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 investments as follows for December 31:

	2021		2020	
	Ownership Interest	Investment Balance	Ownership Interest	Investment Balance
Penn State Health	20.0%	$ 324,582	20.0%	$ 283,299
Geisinger-HM Joint Venture, LLC	40.0%	16,821	40.0%	4,784
Vantage Holding Company	52.3%	9,283	52.3%	8,565
Associated Clinical Labs	12.3%	9,258	12.3%	10,242
AHN-LECOM JV, LLC	50.0%	8,690	50.0%	7,058
EmergyCare, Inc.	50.0%	4,588	50.0%	3,203
Evio Pharmacy Solutions, LLC (a)	20.0%	3,457	20.0%	5,000
AST Risk, LLC	33.3%	3,326	33.3%	3,193
Gateway Health, LLC (b)	100.0%	-	50.0%	243,198
SDLC Partners, LP (c)	0.0%	-	20.0%	4,225
Other (d)	various	12,450	various	11,996
		$ 392,455		$ 584,763

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

(b) On August 31, 2021, Highmark purchased an additional 50% of the ownership in Gateway Health, LLC, bringing total ownership to 100%. Beginning August 31, 2021, Gateway is consolidated within the financial statements.

(c) In June 2021, the Corporation sold its ownership interest in SDLC Partners, LP

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

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, which was recognized in operating expenses in the Consolidated Statements of Operations at the inception of the agreement at the discounted present value of $92,872. The amount is to be paid in annual installments of $10,000 through 2030, and 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, 2021 and 2020, the Corporation had a liability of $78,113 and $92,872 respectively remaining under the contribution agreement, which is included in other payables and accrued expenses in the Consolidated Balance Sheet. The Corporation also contributed an additional $25,000 and $28,000 to the Highmark Foundation in December 2021 and 2020 respectively, which are recognized in operating expenses in the Consolidated Statements of Operations. At December 31, 2021, $15,000 of the additional contribution is included in other payables and accrued expenses in the Consolidated Balance Sheet; no amounts were accrued for the 2020 contribution as of December 31, 2020.

(in thousands of dollars)

8. Property and Equipment, Net

Property and equipment at December 31, 2021 and 2020 was comprised of the following:

	2021	2020
Land, buildings and leasehold improvements	$ 2,211,956	$ 1,683,402
Office furniture and equipment	1,506,689	1,305,845
Capitalized software	1,294,915	1,039,179
Construction in progress	95,623	500,392
	5,109,183	4,528,818
Less accumulated depreciation and amortization	(2,545,199)	(2,236,310)
Property and equipment, net	$ 2,563,984	$ 2,292,508

Depreciation and amortization expense related to property and equipment amounted to $338,566 and $292,084 for 2021 and 2020, 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 circumstance 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 2020 or 2021.

The changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020 are as follows:

	Gross Goodwill	Impairment Losses	Net Carrying Amount
Balance at January 1, 2020	$ 480,859	$ (325,877)	$ 154,982
Balance at December 31, 2020	480,859	(325,877)	154,982
Acquisition of affiliate	147,741	-	147,741
Balance at December 31, 2021	$ 628,600	$ (325,877)	$ 302,723

(in thousands of dollars)

The gross carrying amount of intangible assets and accumulated amortization in 2021 was 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

The gross carrying amount of intangible assets and accumulated amortization in 2020 was as follows:

	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	$ 60,412	$ (24,878)	$ (15,815)	$ 19,719
Trademarks	9,507	(6,541)	(2,966)	-
Patient records	7,009	(3,154)	-	3,855
Other	52,967	(29,743)	(7,588)	15,636
Total	$ 129,895	$ (64,316)	$ (26,369)	$ 39,210

Amortization expense related to intangible assets was $15,964 and $3,959 in 2021 and 2020, respectively.

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

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

At December 31, 2021, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $3,915, was as follows:

Years ending December 31,	
2022	$ 30,112
2023	30,096
2024	22,207
2025	8,398
2026	7,671
Thereafter	38,613
Total	$ 137,097

(in thousands of dollars)

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, 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 affiliates	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

A reconciliation of the beginning and ending balance for claims and claim adjustment expenses outstanding, by segment, for the year ended December 31, 2020 is as follows:

	Commercial	Government	Diversified	Total
Claims and claim adjustment expenses outstanding, beginning of year	$ 1,589,389	$ 675,211	$ 444,593	$ 2,709,193
Provider advances, beginning of year	37,194	3,544	-	40,738
Reinsurance recoverables, beginning of year	(40,803)	(4,053)	(67,225)	(112,081)
Non-risk claim liabilities, beginning of year	(1,246,961)	-	(38,338)	(1,285,299)
Net balance, beginning of year	338,819	674,702	339,030	1,352,551
Net incurred claims				
Current year	3,820,616	5,286,600	1,594,804	10,702,020
Prior year	(17,734)	(68,211)	(80,969)	(166,914)
Total net incurred claims	3,802,882	5,218,389	1,513,835	10,535,106
Net payments attributable to:				
Current year	(3,445,584)	(4,503,527)	(1,301,537)	(9,250,648)
Prior year	(309,085)	(580,288)	(208,759)	(1,098,132)
Total net payments	(3,754,669)	(5,083,815)	(1,510,296)	(10,348,780)
Net claims payable, end of year	387,032	809,276	342,569	1,538,877
Provider advances, end of year	(38,381)	(3,510)	-	(41,891)
Reinsurance recoverables, end of year	56,701	24,001	73,127	153,829
Non-risk claim liabilities, end of year	1,410,952	1,595	34,016	1,446,563
Claims and claim adjustment expenses outstanding, end of year	$ 1,816,304	$ 831,362	$ 449,712	$ 3,097,378

(in thousands of dollars)

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). 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.

Incurred and paid claims development, net of reinsurance, for the Commercial Business for the years ended December 31, 2018 through 2021 is as follows:

Commercial	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2021	
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2018	$ 3,715,527	$ 3,694,823	$ 3,688,474	$ 3,689,071	$ 570	12,250
2019		3,863,922	3,852,537	3,852,223	$ 1,692	12,735
2020			3,820,616	3,734,409	$ 10,583	11,330
2021				4,905,543	$ 442,311	20,803
Total				$ 16,181,246		

Commercial	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2018	$ 3,390,288	$ 3,685,133	$ 3,686,845	$ 3,689,001
2019		3,534,793	3,842,166	3,849,466
2020			3,445,584	3,718,778
2021				4,601,244
Total				$ 15,858,489

Incurred and paid claims development, net of reinsurance, for the Government Business as of and for the years ended December 31, 2018 through 2021 is as follows:

Government	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2021	
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2018	$ 5,903,056	$ 5,838,509	$ 5,825,894	$ 5,825,142	$ 136	23,051
2019		5,240,781	5,185,185	5,181,912	$ 5,832	21,903
2020			5,286,600	5,144,534	$ 11,124	18,904
2021				8,008,436	$ 865,455	24,355
Total				$ 24,160,024		

Government	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2018	$ 5,203,824	$ 5,818,094	$ 5,821,723	$ 5,822,646
2019		4,586,494	5,163,153	5,175,895
2020			4,503,527	5,031,971
2021				7,450,895
Total				$ 23,481,407

(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, 2018 through 2021 is as follows:

Diversified	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2021	
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2018	$ 1,761,983	$ 1,717,453	$ 1,709,896	$ 1,701,616	$ 493	8,420
2019		1,805,507	1,732,095	1,731,139	$ 269	8,571
2020			1,594,804	1,500,762	$ 8,087	9,147
2021				1,877,441	$ 334,580	8,548
Total				$ 6,810,958		

Diversified	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Claim Year	2018 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2021
2018	$ 1,461,664	$ 1,686,106	$ 1,688,717	$ 1,689,018
2019		1,497,824	1,703,972	1,708,794
2020			1,301,537	1,494,325
2021				1,585,997
Total				$ 6,478,134

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, 2021, is as follows:

	Commercial	Government	Diversified	Total
Cumulative incurred claims and allocated claim adjustment expenses, net of reinsurance	$ 16,181,246	$ 24,160,024	$ 6,810,958	$ 47,152,228
Less: cumulative paid claims and allocated claim adjustment expenses, net of reinsurance	15,858,489	23,481,407	6,478,134	45,818,030
Net claims payable	322,757	678,617	332,824	1,334,198
Claim liabilities assumed through consolidation of affiliates	139,309	472,079	-	611,388
Net claims payable, end of year	$ 462,066	$ 1,150,696	$ 332,824	$ 1,945,586

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 (the “Highmark NY pension plans”) covering substantially all salaried and hourly employees. Pension Plan A covers substantially all bargaining employees and the Retirement Bonus Plan covers substantially all nonbargaining employees. Pension Plan A and the Retirement Bonus Plan were frozen to new entrants effective March 31, 2006 and June 30, 2008, respectively.

(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 2022, 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 and a 401(h) account to fund its welfare plan. Highmark does not expect to contribute to the VEBA trusts and 401(h) account in 2022.

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.

In August 2020, the Corporation announced the offering of a voluntary retirement program ("VRP") that was effective December 1, 2020. The VRP was offered to individuals who met certain criteria for age and vested years of service. Those individuals who elected to participate in VRP received additional benefits. For the year ended December 31, 2020 special termination benefits of $35,423 and settlement expenses of $50,483 related to the VRP were included in other components of net periodic benefit cost in the Consolidated Statements of Operations.

(in thousands of dollars)

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

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Change in benefit obligations				
Benefit obligations at beginning of year	$ 3,994,860	$ 3,823,933	$ 522,149	$ 504,081
Highmark NY affiliation	178,386	-	39,966	-
Service cost	12,870	48,598	334	214
Interest cost	69,212	101,733	7,239	12,089
Plan amendments	-	-	(1,032)	-
Participant contributions	-	8	4,495	4,308
Benefit payments	(203,928)	(365,991)	(37,896)	(28,560)
Special termination benefits	-	35,423	-	-
Actuarial loss	(106,047)	351,156	(31,521)	30,017
Benefit obligations at end of year	$ 3,945,353	$ 3,994,860	$ 503,734	$ 522,149
Change in plan assets				
Net plan assets at beginning of year	$ 4,144,196	$ 3,596,163	$ 348,173	$ 344,615
Highmark NY affiliation	181,412	-	-	-
Actual return on plan assets	194,995	543,016	18,060	26,557
Participant contributions	-	8	4,495	4,308
Employer contributions	25,000	371,000	6,422	1,197
Benefit payments	(203,928)	(365,991)	(37,290)	(28,504)
Net plan assets at end of year	$ 4,341,675	$ 4,144,196	$ 339,860	$ 348,173
Amounts recognized in the consolidated balance sheets				
Benefit plan assets	$ 549,063	$ 391,329	$ -	$ -
Benefit plan liabilities	$ (152,741)	$ (241,993)	$ (163,874)	$ (173,976)
Amounts included in net assets without donor restrictions				
Prior service credit	$ -	$ -	$ 3,362	$ 5,367
Actuarial loss	(742,337)	(839,866)	(75,986)	(111,919)
Net amounts recognized	$ (742,337)	$ (839,866)	$ (72,624)	$ (106,552)

The estimated prior service credit and actuarial loss for the pension plan that will be amortized from net assets in 2022 are $0 and $19,100, respectively. The estimated prior service credit and actuarial loss for the welfare plan that will be amortized from net assets in 2022 are $1,000 and $2,200, respectively.

The following table provides the components of net periodic benefit (income) cost for the years ended December 31, 2021 and 2020:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Interest cost	$ 69,212	$ 101,733	$ 7,239	$ 12,089
Expected return on plan assets	(228,647)	(234,180)	(15,349)	(15,361)
Amortization of:				
Prior service credit	-	(27,253)	(973)	(973)
Actuarial loss	26,594	57,802	3,260	2,518
Settlement (gain) loss	(21)	50,483	-	-
Special termination benefits	-	35,423	-	-
Net periodic benefit (income) costs	$ (132,862)	$ (15,992)	$ (5,823)	$ (1,727)

(in thousands of dollars)

For pension benefits, the service cost was $12,870, and $48,598 for the years ended December 31, 2021 and 2020, respectively. For other postretirement benefits, the service cost was $334 and $214 for the years ended December 31, 2021 and 2020, 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	
	2021	**2020**	**2021**	**2020**
Weighted-average assumptions				
Discount rate - benefit obligations	2.73%	2.37%	2.40%	1.85%
Discount rate - net periodic costs	2.38%	3.16%	1.94%	2.83%
Expected return on plan assets	6.02%	7.00%	5.00%	5.00%
Rate of compensation increase	2.64 - 7.15%	2.45 - 7.50%	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 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, 2021, the assumed annual rate of increase in the per capita costs of covered health care benefits of the other postretirement benefits was 5.46% in 2022, gradually decreasing to 4.00% by the year 2046 and remaining at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement plans. At December 31, 2021, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

	One-Percentage-Point	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 200	$ (200)
Effect on other postretirement benefit plan obligations	$ 9,000	$ (9,000)

Estimated benefit payments are expected as follows:

	Pension Benefits	Other Postretirement Benefits
2022	$ 304,322	$ 38,300
2023	$ 223,552	$ 40,104
2024	$ 227,314	$ 39,658
2025	$ 228,871	$ 40,258
2026	$ 227,710	$ 40,012
2027-2031	$ 1,112,187	$ 184,413

(in thousands of dollars)

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, 28% of investments for long-term growth and 2% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for Highmark pension plan assets are approximately 70% fixed income securities, 15% equity securities, 13% alternative investments and 2% cash equivalents. The target allocations for the West Penn Allegheny Health System, Jefferson Regional Medical Center, and Saint Vincent Health System plan assets are approximately 44% fixed income securities, 45% equity securities, 9% alternative investments and 2% 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, 2021:

		Fair Value Measurements Using			Net Asset
	Total	**Level 1**	**Level 2**	**Level 3**	**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 following table summarizes the fair value measurements by level at December 31, 2020:

	Total	Fair Value Measurements Using			Net Asset Value
		Level 1	Level 2	Level 3	
Pension plan assets					
Cash and cash equivalents	$ 179	$ 179	$ -	$ -	$ -
Debt securities:					
U.S. Treasury and agency obligations	945,438	945,427	11	-	-
Agency mortgage-backed securities	11,625	-	11,625	-	-
State and political obligations	16,150	-	16,150	-	-
Commercial mortgage-backed securities	3,265	-	3,165	100	-
Residential mortgage-backed securities	165	-	165	-	-
Asset-backed securities	12,169	-	11,319	850	-
Corporate debt securities	1,268,960	-	1,268,957	3	-
Other debt securities	200,113	-	200,062	51	-
Total debt securities	2,457,885	945,427	1,511,454	1,004	-
Equity securities:					
Domestic	135,964	135,929	-	35	-
Foreign	80,613	80,613	-	-	-
Total equity securities	216,577	216,542	-	35	-
Registered investment company shares	907,619	882,432	25,187	-	-
Private equity limited partnerships	354,973	-	-	-	354,973
Common collective trust interests	208,889	-	-	-	208,889
Total	$ 4,146,122	$ 2,044,580	$ 1,536,641	$ 1,039	$ 563,862
Other postretirement plan assets					
U.S. Treasury and agency obligations	$ 19,378	$ 19,378	$ -	$ -	$ -
Agency mortgage backed securities	25,489	-	25,489	-	-
Commercial mortgage backed securities	634	-	634	-	-
Residential mortgage backed securities	349		349	-	-
Asset backed securities	2,085	-	2,085	-	-
Corporate and other debt securities	47,414	-	47,414	-	-
Domestic equity securities	54,355	54,355	-	-	-
Foreign equity securities	2,508	2,508	-	-	-
Registered investment company shares	186,601	186,601	-	-	-
Common collective trust funds	8,634	-	-	-	8,634
Total	$ 347,447	$ 262,842	$ 75,971	$ -	$ 8,634

At December 31, 2020, the fair value of pension plan assets excluded guaranteed insurance contract assets of $1,719, carried at contract value as well as accrued interest and other receivables of $3,645.

(in thousands of dollars)

At December 31, 2020, the fair value of welfare plan assets excluded accrued interest and other receivables of $726.

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, 2020:

Pension plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity limited partnerships	$ 354,973	$ 263,000	Quarterly, N/A	30 Days, N/A
Common collective trust funds	208,889	-	Daily, Monthly	1-15 Days
Total	$ 563,862	$ 263,000		

Other postretirement plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds	$ 8,634	$ -	Daily	1 Day
Total	$ 8,634	$ -		

The sales and transfers into and out of assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2021 and 2020 was as follows:

	2021	2020
Sales	$ (950)	$ -
Transfers out (when applicable)	$ -	$ (1)

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 $100,438 and $94,243 for the years ended December 31, 2021 and 2020, respectively.

Highmark NY also sponsors two defined contribution savings plans (the “Highmark NY savings plans”). The HealthNow New York Elective 401(k) Plan provides both matching and annual contributions. The amount expensed for such contribution costs for 2021 approximated $8,047. The Brokerage Concepts Elective 401(k) Plan provides a matching contribution but does not provide an annual contribution. The amount expensed for such contribution costs for 2021 totaled $151. The Brokerage Concepts Elective 401(k) merged into the savings plan effective December 31, 2021.

The Corporation 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

(in thousands of dollars)

participant's account, which is based on salary and other factors. The Corporation incurred expense for the discretionary amounts of $532 and $0 in 2021 and 2020, respectively. The Corporation incurred expense for matching contributions to the deferred compensation plan of $0 and $361 in 2021 and 2020, respectively. 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 $3,322 and $3,568 in 2021 and 2020, respectively. Deferred compensation and 457 plan liabilities of $119,244 and $108,678 were recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2021 and 2020 respectively. Changes in the liabilities are reported in other operating expenses in the Consolidated Statements of Operations.

The Corporation 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, 2021 and 2020 were $55,188 and $57,944, respectively.

Highmark NY also sponsors a nonqualified target benefit supplemental executive retirement plan covering certain members of senior management. The plan provides a benefit that is dictated by length of service or other factors specific to the participant. The nonqualified plan liabilities recorded in other payables and accrued expenses in the Combined Balance Sheets at December 31, 2021 was $2,921.

12. Debt

The Corporation's total debt at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Unsecured Senior Notes due May 15, 2021 (a)	$ -	$ 349,846
Unsecured Senior Notes due May 10, 2026 (a)	396,394	-
Unsecured Senior Notes due May 10, 2031 (a)	396,375	-
Unsecured Senior Notes due May 15, 2041 (a)	237,908	238,232
Series 2018 Revenue Bonds	975,437	980,648
Saint Vincent Health System Mortgage Loan	-	20,538
Revolving credit facilities	361,160	-
Mortgage and Other Loans	10,976	10,793
Financing Lease Liabilities	76,082	74,150
Total debt	$ 2,454,332	$ 1,674,207

(a) Net of unamortized discount and debt issuance costs

(in thousands of dollars)

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

Years ending December 31,		
2022	$	393,403
2023		31,946
2024		31,510
2025		31,991
2026		428,318
Thereafter		1,537,163
Total	$	2,454,331

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 $2,968 and $2,645 at December 31, 2021 and 2020, respectively. The unamortized discounts and issuance costs of the 2021 Notes were $151 at December 31, 2020.

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 intends to use 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 $571 at December 31, 2021. The unamortized debt issuance costs were $6,660 at December 31, 2021, 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 $38,471 and $43,921 at December 31, 2021 and 2020, 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. At December 31, 2021, $20,000 of the $50,000 three-year facility has been set aside for letters of credit, of which $12,750 has been utilized, but not drawn upon. The three-year facility is collateralized by the gross receivables and other property of AHN.

(in thousands of dollars)

In October 2021, Highmark NY entered into a first amendment to their loan agreement for a revolving line of credit with a borrowing capacity not to exceed $125,000, expiring October 2022. 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 $41,160 at December 31, 2021.

Highmark NY also had an unsecured credit line as of December 31, 2021 with a borrowing capacity of $10,000 at 125 basis points above the greater of one-month LIBOR, or one-day LIBOR. This line will remain open indefinitely subject to an annual bank approval. No amounts were outstanding under this line of credit at December 31, 2021.

Gateway has a revolving credit facility with a borrowing capacity of $25,000. Borrowings under the revolving credit facility accrue interest based upon a rate per annum equal to the daily LIBOR rate plus 200 basis points, in addition to a quarterly fluctuating commitment fee equal to 0.20% on the average unused portion of the line of credit. In January 2022, Gateway amended the credit agreement to extend the term of the loan from January 2022 to March 2022. The interest on the facility was amended to equal to the daily Bloomberg Short-term Bank Yield ("BSBY") floating rate plus 50 basis points.

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 15^{th} to August 15^{th} of each calendar year. The agreement expired in January 2022. Borrowings under the revolving credit commitment accrued interest based upon a rate per annum equal to the daily LIBOR rate plus 1.30%. In addition, Gateway was required to pay a quarterly fluctuating commitment fee equal to 0.20% on the average unused portion of the line of credit during the period May 15th to August 15th of each calendar year and pay a fee equal to 0.10% on the average unused portion of the line of credit at all other times.

At December 31, 2021, Gateway had no amounts outstanding under the line of credit agreements.

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 $320,000 outstanding under this facility as of December 31, 2021 and no outstanding borrowings as of December 31, 2020.

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. There were no amounts borrowed under this facility at December 31, 2020. Amounts borrowed under this facility bore interest at variable interest rates.

Mortgage and Other Loans
Saint Vincent Health System ("SVHS") had a consolidated joint venture, Erie Medical Complex, LLC ("EMC"), which held an outstanding mortgage loan of $20,538 at December 31, 2020, related to a medical office building. The related medical office building was pledged as collateral on the loan and had a carrying value of $17,614 at December 31, 2020. In December 2021, EMC was merged into and with a third party real estate investment trust. As a result of the merger, SVHS' interest in EMC was cancelled in exchange for cash consideration, and EMC was removed from the consolidated financial statements.

(in thousands of dollars)

On September 30, 2020, Jefferson Regional Medical Center ("JRMC") purchased an additional 45.9% of the ownership in its joint venture, Jefferson Medical Associates ("JMA"), bringing total ownership to 89.7%. With this purchase, JRMC assumed JMA's outstanding mortgage loan. The outstanding mortgage loan balance was $4,082 and $4,551 at December 31, 2021 and 2020. The mortgage note matures on March 1, 2029 and requires monthly principal and interest payments

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, 2021 and 2020, 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, 2021 and 2020 were as follows:

	2021	2020
Federal		
Current	$ 3,248	$ 11,898
Deferred	122,107	(34,543)
	125,355	(22,645)
Foreign		
Current	3,522	2,067
	3,522	2,067
State		
Current	3,166	9,524
Deferred	372	(4,578)
	3,538	4,946
Total income tax provision	$ 132,415	$ (15,632)

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, 2021 and 2020 was as follows:

	2021	2020
Income taxes at statutory rate	$ 333,419	$ 210,367
Contribution Income	(189,396)	-
IRC section 833(b) deduction	(40,346)	(269,212)
Loss from tax exempt entities	15,703	31,325
Nondeductible compensation	11,840	6,807
Change in valuation allowance	9,502	14,689
State taxes, net of federal tax benefit	2,795	3,908
Net operating loss ("NOL") carryback - rate differential	-	(36,635)
Health insurance providers fee	-	30,726
Other	(11,102)	(7,607)
Total income tax provision	$ 132,415	$ (15,632)

(in thousands of dollars)

Prior to January 1, 1987, Highmark Inc. was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the "Act"), Highmark Inc., 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 Inc. 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 Inc. filed suit in the United States Court of Federal Claims requesting the refund. 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 Tax Cuts and Jobs Act 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.

(in thousands of dollars)

The components of deferred income taxes at December 31, 2021 and 2020 were as follows:

	2021	2020
Deferred tax assets		
Other payables and accrued expenses	$ 170,247	$ 214,571
Net operating loss carryforwards	168,985	90,611
Operating lease - right of use liabilities	34,230	-
Premium deficiency reserves	10,097	5,988
Allowance for doubtful accounts	9,440	5,161
Contribution carryforwards	9,240	3,352
Discounting on unpaid losses	8,147	7,235
Goodwill and other intangible assets	-	3,851
Other	6,622	5,514
Total deferred tax assets	417,008	336,283
Less valuation allowance	(84,545)	(115,323)
Total deferred tax assets, net of valuation allowance	332,463	220,960
Deferred tax liabilities		
Net unrealized gains on available-for-sale securities	121,817	107,482
Property and equipment	118,561	7,519
Benefit plan liabilities	70,025	29,635
Operating lease - right of use assets	33,376	-
Investment in partnerships/affiliates	36,392	32,873
Goodwill and other intangible assets	26,222	-
Total deferred tax liabilities	406,393	177,509
Deferred income taxes, net	$ (73,930)	$ 43,451

The classifications of deferred income taxes at December 31, 2021 and 2020 were as follows:

Classified as	**2021**	**2020**
Deferred tax assets	$ 42,172	$ 48,795
Deferred tax liabilities	116,102	5,344
Deferred income taxes, net	$ (73,930)	$ 43,451

At December 31, 2019, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark Inc., Highmark WV and Highmark DE of $16,813, $6,043 and $339, respectively, recognized in deferred income taxes. 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 a result, these amounts were monetized in 2020.

(in thousands of dollars)

The realization of net deferred tax assets is largely dependent on the Corporation's ability to generate sufficient taxable income in future periods. As a result, the amount of deferred tax assets considered realizable could change 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, projected future taxable income, tax-planning strategies, and results of recent operations, the Corporation recorded a valuation allowance of $84,545 and $115,323 as of December 31, 2021 and 2020, respectively, against certain deferred tax assets that are not expected to be realized. Of this reduction, $38,098 was recorded directly within Other Comprehensive Income and General Reserves and did not impact the income tax provision recorded in the Combined Statements of Operations.

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

	2021	2020	Expires Through
Federal NOL	$ 661,137	$ 301,374	2041
State NOL	396,546	345,697	2041
Charitable Contributions	51,388	15,936	2026
Balance at December 31	$ 1,109,071	$ 663,007	

These carryforwards expire in various amounts through the expiration period indicated above and are subject to certain income limitations. Therefore, based on the Corporation's evaluation, a valuation allowance has been established against the portion of carryforward deferred tax assets not expected to be utilized as of December 31, 2021.

The changes in the carrying amount of gross unrecognized tax benefits from uncertain tax positions in 2021 and 2020 were as follows:

	2021	2020
Balance at January 1	$ 252,545	$ 256,989
Additions for tax positions related to		
Current year	1,657	3,269
Prior years	51,833	-
Reductions to balance relating to		
Changes in tax positions of prior years	(104)	-
Statute of limitation expiration	(1,307)	(7,713)
Balance at December 31	$ 304,624	$ 252,545

Of the unrecognized tax benefits in the table directly above, $300,426 and 249,137 would have impacted the effective tax rate if recognized for December 31, 2021 and 2020, respectively.

A decrease of up to $63,000 in unrecognized tax benefits may be recognized by December 31, 2022 as a result of a lapse in the statute of limitations.

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 2021 tax years. The remaining subsidiaries and affiliates are open for IRS examination for the three year statutory limitation period.

(in thousands of dollars)

14. Leases

As discussed in Note 3, the Corporation adopted new guidance regarding the recognition of leases as of January 1, 2021. As permitted by the standard, the Corporation did not restate its Consolidated Financial Statements for periods prior to the adoption date and the required disclosures presented below are prospective from the date of adoption. 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.

The components of lease expense for the year ended December 31, 2021 were as follows:

Finance lease expense		
Amortization of ROU assets	$	6,232
Interest on lease liabilities		3,389
Operating lease expense		110,917
Short-term/variable lease expense		4,698
Sublease income		(3,087)
Total lease cost	**$**	**122,149**

Supplemental cash flow information related to leases was as follows:

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

As of December 31, 2021, the weighted-average remaining lease term and the weighted-average discount rate was as follows:

Weighted-average remaining lease terms (in years)	
Finance leases	14.6
Operating leases	7.6
Weighted-average discount rate	
Finance leases	4.7%
Operating leases	2.8%

(in thousands of dollars)

Maturities of finance and operating lease liabilities as of December 31, 2021 were as follows:

	Finance	Operating
2022	$ 8,218	$ 99,416
2023	7,553	78,195
2024	7,046	62,771
2025	7,123	52,410
2026	7,202	40,645
Thereafter	69,917	175,497
Total	107,059	508,934
Less: Present value discount	(30,977)	(60,057)
Lease liabilities	$ 76,082	$ 448,877

For year-ended December 31, 2020, under prior lease disclosure requirements

Several noncancelable operating leases, primarily for EDP equipment and office space, were in effect at December 31, 2020. Rental expense is recognized on a straight-line basis over the lease term. Aggregate future rental commitments for all operating leases having initial or remaining noncancelable lease terms in excess of one year with commitments in one or more of the next five years and thereafter are shown in the following table:

	Operating Lease Commitments
Years ending December 31,	
2021	$ 91,288
2022	78,264
2023	60,396
2024	53,972
2025	50,631
Thereafter	222,654
Total	$ 557,205

Rent expense of $102,209 and $156,299 in 2020 and 2019, respectively, was recorded in other operating expenses in the accompanying Consolidated Statements of Operations.

(in thousands of dollars)

15. Net Assets

Net assets without donor restrictions for the years ended December 31, 2021 and 2020 include:

	2021	2020
Undesignated	$ 9,895,783	$ 8,388,644
Undesignated - Noncontrolling interest	41,009	34,394
Board designated assets:		
Capital improvements	39,378	37,246
Total net assets without donor restrictions	$ 9,976,170	$ 8,460,284

Nets assets with donor restrictions are restricted for the following purposes or periods for the years ended December 31, 2021 and 2020 include:

	2021	2020
Subject to expenditure for specific purpose:		
Capital improvements	$ 1,721	$ 1,471
Education and Scholarships	2,182	1,860
Research	5,166	4,688
Healthcare services	35,449	30,463
Total	44,518	38,482
Subject to the Corporations' policy and appropriation		
Investment in perpetuity, the income of which is expendable to support:		
Healthcare services	364,024	329,475
Total net assets with donor restrictions	$ 408,542	$ 367,957

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.

(in thousands of dollars)

The financial assets available to meet cash needs for general expenditures within one year at December 31, 2021 and 2020 were as follows:

	2021	2020
Cash and cash equivalents	$ 1,025,602	$ 939,927
Investments	11,465,341	9,661,573
Receivables	3,506,961	3,241,180
Total financial assets	15,997,904	13,842,680
Contractual or donor-imposed restrictions:		
Beneficial interests in perpetual trusts	(325,806)	(292,248)
Endowment funds	(74,497)	(65,361)
Equity method investments	(42,650)	(39,501)
Grant funds	(35,086)	(31,135)
Board designations:		
Capital improvements	(39,378)	(37,246)
Financial assets available to meet cash needs for general expenditures within one year	**$ 15,480,487**	**$ 13,377,189**

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 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 be subject to a rule of reason analysis. On November 30, 2020, the court granted preliminary approval of a proposed settlement agreement between the subscriber class and the defendants. 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.

Cyndie Nordi, a direct pay subscriber, brought a class action lawsuit in Allegheny County Orphan's Court on September 26, 2014 which was subsequently transferred to the Civil Division of the Allegheny County Court of Common Pleas. The complaint seeks relief from the Corporation's alleged unlawful conduct on behalf of policyholders. The case challenges the Corporation's operations and accumulation of surplus funds following a February 2005 Determination ("Determination") by the Department that set parameters for an appropriate, sufficient operating surplus. The plaintiff alleges that, despite acceptance of the Determination, the Corporation unlawfully continues to generate significant underwriting gains. Ms. Nordi seeks relief in the form of monetary damages up to the

(in thousands of dollars)

amount of all profits allegedly unjustly received and retained by the Corporation. A petition to intervene by three other prospective plaintiffs was granted on August 7, 2017 and the plaintiffs filed an amended class action complaint on September 6, 2017. On November 5, 2020, the court entered an order granting the Corporation’s motion for summary judgment and dismissing the plaintiffs’ amended complaint with prejudice. The plaintiffs filed an appeal of such decision to the Pennsylvania Superior Court, which appeal was subsequently transferred to the Commonwealth Court on January 27, 2021. On March 8, 2022, the plaintiffs filed a Praecipe to Discontinue its appeal in its entirety.

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 asserts 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. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the counterclaims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Burk Physical Therapy & Rehabilitation, P.C., on behalf of itself and all similarly-impacted physical therapists and chiropractors, filed a class action complaint against the Corporation on April 30, 2019 in the Court of Common Pleas of Allegheny County, Pennsylvania. The plaintiff alleges that the placement of certain physical therapists and chiropractors in lower tiers in certain products offered or administered by the Corporation, and the exclusion of certain physical therapists and chiropractors as in-network providers in certain products offered or administered by the Corporation, violate the terms of its participating provider contracts. 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.

In November 2020, Christopher James Walker, on behalf of himself and a putative class, filed a lawsuit alleging that the Corporation violated the Telephone Consumer Protection Act ("TCPA") by placing pre-recorded voice telephone calls to plaintiff and members of the putative class without their consent. The lawsuit was originally filed in the Court of Common Pleas of Allegheny County but was thereafter removed to the U.S. District Court in Western Pennsylvania. In December 2021, plaintiff amended the complaint to add as a defendant Cotiviti, Inc., a vendor the Corporation contracted with for certain call campaigns. 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.

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 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 filed a Motion to Dismiss such lawsuit on September 20, 2021 which remains pending. 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.

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

(in thousands of dollars)

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 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 World Health Organization declared the COVID-19 outbreak a pandemic and the United States federal government declared COVID-19 a national emergency. In response, AHN postponed all inpatient and outpatient elective and non-essential surgical and procedural cases, non-urgent and routine provider appointments to preserve personal protective equipment (“PPE”), ICU beds, ventilators, and other needed supplies to be better positioned for a potential surge in COVID-19 patients. These elective and non-essential procedures have since resumed. Highmark began permitting insurance members to obtain the COVID-19 diagnostic test as well as COVID-19 in-network inpatient hospital with no member cost sharing. Highmark continues to provide expanded benefit coverage for COVID-19 diagnostic tests, treatment and vaccine administration.
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 provides 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, 2020, the Corporation deferred approximately $100,853 attributable to the employer portion of Social Security wage taxes. These deferred payroll taxes are to be repaid in two equal installments, the first of which was paid in December 2021, and the second is due by December 31, 2022.

During 2020, AHN received $72,181 in governmental assistance including funding under the CARES Act. This includes recognition of $68,752 of grant revenue recorded as a component of other operating 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 recognized $3,623 of deferred CARES Act grants as a component of service and other revenue in the Consolidated Statements of Operations.

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 is recorded as a contract liability as a payment received before performing services. This amount is reported as a component of CMS advances in the consolidated balance sheet and as cash provided by operating activities in the statements of cash flows. The repayment terms specify that for the first eleven months after repayment begins, repayment will occur through an automatic recoupment of 25% of Medicare payments otherwise owed to the provider or supplier. At the end of the eleventh month, recoupment will increase to 50% for six months. If a balance remains at the end

(in thousands of dollars)

of the six months (29 months after receipt of advance), a demand letter will be issued for the full repayment of the remaining balance. If payment is not received within 30 days, interest will accrue at the rate of 4% from the date the letter was issued, and will be assessed for each full 30-day period that the balance remains unpaid. AHN repaid $97,366 of advance payments in 2021. The remaining amounts are expected to be repaid by September 30, 2022.

COVID-19 care, testing, vaccine administration, decreases in patient volumes, and the impact of new COVID-19 variants, have created volatility in the Corporation’s 2021 financial results. The Covid-19 pandemic continues 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 any legislative and regulatory changes related to the pandemic that may impact the business.

Highmark Health
Consolidating Balance Sheets
Year Ended December 31, 2021

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health Network	Other	Eliminations	Total
Assets							
Cash and cash equivalents	$ 54,565	$ 640,173	$ 63,468	$ 259,127	$ 8,269	$ -	$ 1,025,602
Accounts receivable							
Insurance, less allowance for doubtful accounts of $32,402	-	3,023,383	-	-	-	-	3,023,383
Patient service	-	-	-	453,827	-	(230,368)	223,459
Other	129,402	259,474	79,429	60,888	5,721	(274,795)	260,119
Investments							
Debt securities, available-for-sale at fair value	-	6,705,422	-	98,879	-	-	6,804,301
Equity securities	49,801	2,617,987	-	19,538	-	-	2,687,326
Board designated, restricted and other investments at fair value	-	-	-	1,034,301	-	-	1,034,301
Investment in affiliates	10,204,652	8,030	-	42,650	205	(9,863,082)	392,455
Other	-	546,689	269	-	-	-	546,958
Reinsurance recoverables	-	257,453	-	-	-	-	257,453
Securities lending invested collateral	-	596,511	-	-	-	-	596,511
Inventory, net	-	2,149	-	111,426	-	-	113,575
Income tax recoverable	-	149,234	6,650	181	265	-	156,330
Deferred tax asset	-	13,440	20,531	7,140	1,061	-	42,172
Property and equipment, net	156,927	469,405	9,433	1,927,969	250	-	2,563,984
Goodwill and other intangible assets, net	-	326,253	-	117,482	-	-	443,735
Benefit plan asset	-	549,063	-	-	-	-	549,063
Operating lease right to use assets	-	178,273	8,096	238,174	-	-	424,543
Other assets	27,559	874,027	39,520	124,735	-	(2,715)	1,063,126
Total assets	$ 10,622,906	$ 17,216,966	$ 227,396	$ 4,496,317	$ 15,771	$ (10,370,960)	$ 22,208,396
Liabilities and Net Assets							
Claims and claim adjustment expenses outstanding	$ -	$ 3,795,304	$ -	$ -	$ -	$ (222,941)	$ 3,572,363
Unearned revenue	-	232,175	55,716	62,336	-	-	350,227
Amounts held for others	-	820,394	-	-	-	-	820,394
Accrued salaries and benefits	152,130	277,065	51,912	188,328	2,661	-	672,096
CMS provider advances	-	-	-	135,124	-	-	135,124
Other payables and accrued expenses	127,042	1,636,695	96,137	423,487	5,782	(251,614)	2,037,529
Income tax payable	31	100,224	-	-	-	-	100,255
Deferred tax liability	-	116,102	-	-	-	-	116,102
Securities lending payable	-	600,039	-	-	-	-	600,039
Benefit plan liabilities, net	-	163,875	-	152,740	-	-	316,615
Debt	-	1,392,717	1,553	1,060,062	-	-	2,454,332
Operating lease right to use liabilities	-	192,389	8,096	248,392	-	-	448,877
Other liabilities	-	68,948	10,142	153,964	-	(33,323)	199,731
Total liabilities	279,203	9,395,927	223,556	2,424,433	8,443	(507,878)	11,823,684
Net Assets							
Without donor restrictions - Highmark Health	9,935,161	7,821,039	3,635	1,622,333	7,328	(9,454,335)	9,935,161
Without donor restrictions - noncontrolling interest	-	-	205	41,009	-	(205)	41,009
Total net assets without donor restrictions	9,935,161	7,821,039	3,840	1,663,342	7,328	(9,454,540)	9,976,170
With donor restrictions	408,542	-	-	408,542	-	(408,542)	408,542
Total net assets	10,343,703	7,821,039	3,840	2,071,884	7,328	(9,863,082)	10,384,712
Total liabilities and net assets	$ 10,622,906	$ 17,216,966	$ 227,396	$ 4,496,317	$ 15,771	$ (10,370,960)	$ 22,208,396

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, 2021

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health Network	Other	Eliminations	Total
Revenue and other support							
Premium revenue, net	$ -	$ 16,935,890	$ -	$ -	$ -	$ -	$ 16,935,890
Net patient service revenue	-	-	-	3,736,161	-	(792,944)	2,943,217
Service and other revenue	53,264	1,361,976	714,263	279,635	1,131	(538,026)	1,872,243
Affiliates revenue	53,422	15,627	103	-	-	-	69,152
Net assets released from restrictions	-		-	4,515	-	-	4,515
Total revenue and other support	106,686	18,313,493	714,366	4,020,311	1,131	(1,330,970)	21,825,017
Expenses							
Claims and claim adjustment expenses	-	15,181,063	-	-	-	(724,936)	14,456,127
Salaries, wages and fringe benefits	397,053	1,050,404	197,606	2,698,549	9,451	(18,032)	4,335,031
Patient care supplies	-	-	-	906,859	-	-	906,859
Depreciation and amortization	26,719	116,819	4,608	202,799	333	-	351,278
Other operating expenses, net	(315,606)	1,900,668	499,256	329,731	(5,897)	(588,002)	1,820,150
Total operating expenses	108,166	18,248,954	701,470	4,137,938	3,887	(1,330,970)	21,869,445
Operating (loss) gain	(1,480)	64,539	12,896	(117,627)	(2,756)	-	(44,428)
Net investment (loss) income, including net realized gains on investments	(5)	521,809	80	42,067	(2)	175	564,124
Interest expense	-	(34,672)	(363)	(23,854)	-	(176)	(59,065)
Equity gains of subsidiaries	1,449,694	-	-	-	63	(1,449,757)	-
Other components of net periodic benefit cost	-	104,442	-	34,243	-	-	138,685
Gain on acquisition of affiliate	-	86,507	-	-	-	-	86,507
Excess (deficit) of revenues over expenses before affiliation	1,448,209	742,625	12,613	(65,171)	(2,695)	(1,449,758)	685,823
Net assets acquired through affiliations	-	901,884	-	-	-	-	901,884
Excess (deficit) of revenues over expenses before income taxes	1,448,209	1,644,509	12,613	(65,171)	(2,695)	(1,449,758)	1,587,707
Income tax provision (benefit)	-	125,393	5,712	2,136	(826)	-	132,415
Excess (deficit) of revenues over expenses before noncontrolling interest	1,448,209	1,519,116	6,901	(67,307)	(1,869)	(1,449,758)	1,455,292
Excess of revenue over expenses attributable to noncontrolling interest	-	-	64	7,083	-	(64)	7,083
Excess (deficit) of revenue over expenses attributable to Highmark Health	$ 1,448,209	$ 1,519,116	$ 6,837	$ (74,390)	$ (1,869)	$ (1,449,694)	$ 1,448,209

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.