Buchanan Ingersoll & Rooney PC
Attorneys & Government Relations Professionals

409 North Second Street
Suite 500
Harrisburg, PA 17101-1357

T 717 237 4837
F 717 233 0852
www.buchananingersoll.com

Jack M. Stover
717 237 4837
jack.stover@bipc.com

May 29, 2014

VIA HAND DELIVERY

Mr. Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

Re: Highmark Health Consolidated Financial Statements

Dear Deputy Commissioner Johnson:

In compliance with Condition 13 of the Approving Determination dated April 29, 2013, Highmark Health is submitting the enclosed consolidated financial statements for the period ending December 31, 2013. I have forwarded a copy of the reports to Mr. Beaser and Mr. Newman by email.

Very truly yours,

Jack M. Stover

RECEIVED
Corporate & Financial Regulation
MAY 30 2014
Pennsylvania
Insurance Department

JMS/skm
Enclosure

Highmark Health

Consolidated Financial Statements
December 31, 2013

Highmark Health
Index
December 31, 2013

Page(s)

pwc

Independent Auditor's Report

To the Board of Directors of Highmark Health:

We have audited the accompanying consolidated financial statements of Highmark Health and its subsidiaries and affiliates (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2013 and the related consolidated statement of operations, changes in net assets, and cash flows for the year then ended.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements 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 Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

pwc

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Corporation executed affiliations with Saint Vincent Health System, West Penn Allegheny Health System, Inc. and Jefferson Regional Medical Center during 2013. Our opinion is not modified with respect to these matters.

PricewaterhouseCoopers LLP

May 28, 2014

Highmark Health
Consolidated Balance Sheet
December 31, 2013

(in thousands of dollars)

Assets		
Cash and cash equivalents	$	1,274,475
Accounts receivable		
Insurance, less allowance for doubtful accounts of $37,702		2,025,468
Patient service, less allowance for doubtful accounts of $99,614		156,975
Other		135,589
Investments		
Debt securities, available-for-sale at fair value		3,536,012
Equity securities, available-for-sale at fair value		957,474
Board designated, restricted and other investments at fair value		736,142
Investment in affiliates		322,764
Other		193,956
Securities lending invested collateral		242,084
Inventory, net		111,929
Income tax recoverable, net		87,558
Deferred income taxes, net		28,336
Property and equipment, net		1,546,536
Goodwill and other intangible assets, net		839,517
Prepaid pension plan assets		55,172
Other assets		555,809
Total assets	$	12,805,796
Liabilities and Net Assets		
Claims outstanding	$	2,371,710
Unearned premium revenue		313,758
Amounts held for others		608,259
Accrued salaries and benefits		305,962
Other payables and accrued expenses		786,575
Securities lending payable		242,086
Benefit plan liabilities		511,537
Debt		1,638,116
Other liabilities		225,360
Total liabilities		7,003,363
Net Assets		
Unrestricted		5,518,908
Temporarily restricted		24,663
Permanently restricted		258,862
Total net assets		5,802,433
Total liabilities and net assets	$	12,805,796

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statement of Operations
Year Ended December 31, 2013

(in thousands of dollars)

Unrestricted revenue and other support	
Premium revenue	$ 12,629,289
Management services revenue	766,921
Vision revenue	1,113,645
Net patient service revenue	1,069,665
Other operating revenue	202,419
Net assets released from restriction	6,784
Total unrestricted revenue and other support	15,788,723
Expenses	
Claims expense	10,693,456
Salaries, wages and fringe benefits	2,625,950
Patient care supplies	279,053
Depreciation and amortization	236,319
Interest expense	66,463
Other operating expenses	1,762,740
Goodwill impairment	310,997
Total operating expenses	15,974,978
Operating loss	(186,255)
Net investment income	253,150
Net assets acquired through affiliations	63,485
Other non-operating expense	(118,993)
Excess of revenue over expenses before income taxes	11,387
Income tax provision	145,574
Deficit of revenue over expenses from continuing operations	(134,187)
Discontinued operations (Note 3)	
Discontinued operations and gain on sale, net of tax of $2,464	7,688
Deficit of revenue over expenses	$ (126,499)

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statement of Changes in Net Assets
Year Ended December 31, 2013

(in thousands of dollars)

Unrestricted net assets	
Deficit of revenue over expenses	$ (126,499)
Unrealized net holding losses on available-for-sale securities, net of tax of $11,723	(16,586)
Reclassification for net gains on available-for-sale securities included in income, net of tax of $17,039	(31,645)
Benefit plan asset and liability changes, net of tax of $(75,782)	232,665
Net assets released from restriction for acquisition of equipment	3,690
Income tax benefit on transfers to related parties	43,834
Other	(179)
Increase in unrestricted net assets	105,280
Temporarily restricted net assets	
Net assets assumed through affiliations	29,746
Contributions	5,261
Net investment income	84
Net assets released from restrictions used for:	
Operations	(6,784)
Acquisition of equipment	(3,690)
Other	46
Increase in temporarily restricted net assets	24,663
Permanently restricted net assets	
Net assets assumed through affiliations	245,262
Contributions	309
Net investment income	19,955
Transfer out of trusts to investment income and operations	(6,818)
Other	154
Increase in permanently restricted net assets	258,862
Increase in net assets	388,805
Net assets	
Beginning of the year	5,413,628
End of the year	$ 5,802,433

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statement of Cash Flows
Year Ended December 31, 2013

(in thousands of dollars)

Cash flows from operating activities		
Increase in net assets	$	388,805
Increase in net assets from discontinued operations		(7,688)
Adjustments to increase in net assets from continuing operations to net cash provided by operating activities		381,117
Provision for bad debts		96,869
Depreciation and amortization		263,748
Change in premium deficiency reserves		(137,355)
Goodwill impairment		310,997
Net realized gains on investments		(100,052)
Net unrealized losses on investments		42,672
Dividends received from affiliates		18,156
Undistributed earnings of affiliates		(29,330)
Benefit plan asset and liability changes		(232,665)
Deferred income tax provision		27,137
Income tax benefit on related party transfers		(43,834)
Restricted contributions		(5,570)
Net assets acquired through affiliations		(348,493)
Increase (decrease) due to change in		
Accounts receivable		72,722
Other assets		(9,720)
Claims outstanding		(30,144)
Unearned premium revenue		21,921
Other liabilities		(12,888)
Net cash provided by continuing operating activities		285,288
Net cash provided by discontinued operating activities		12,997
Cash flows from investing activities		
Purchases of investments		(4,246,395)
Proceeds from sales and maturities of investments		4,315,768
Issuance of notes receivable		(42,293)
Purchases of property and equipment		(361,386)
Change in securities lending invested collateral		5,070
Net proceeds from sale of subsidiary		103,271
Cash acquired in conjunction with affiliations		69,775
Net cash used in investing activities		(156,190)
Net cash used in discontinued investing activities		(603)
Cash flows from financing activities		
Restricted contributions		5,570
Change in book overdrafts		(58,891)
Receipts from CMS contract deposits		186,677
Withdrawals from CMS contract deposits		(214,081)
Change in securities lending payable		(5,070)
Proceeds from issuance of debt		620,010
Repayment of debt		(448,269)
Net cash provided by financing activities		85,946
Net cash used in discontinued financing activities		(780)
Effect of exchange rate changes on cash of discontinued operations		973
Increase in cash and cash equivalents		215,044
Increase in cash and cash equivalents related to discontinued operations		12,587
Cash and cash equivalents		
Beginning of year		1,046,844
End of year	$	1,274,475

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statement of Cash Flows
Year Ended December 31, 2013

(in thousands of dollars)

Supplemental disclosure of cash flow information		
Interest paid, net, continuing operations	$	86,028
Interest received, net, discontinued operations	$	(69)
Income taxes paid, net, continuing operations	$	116,976
Income taxes paid, net, discontinued operations	$	1,033
Supplemental disclosure of noncash investing and financing		
Assets acquired through other payables, continuing operations	$	29,299
Assets acquired through other payables, discontinued operations	$	(35)
Supplemental schedule of investing and financing activities		
Details of affiliation transactions		
Fair value of assets acquired	$	2,364,071
Liabilities assumed		(2,015,578)
Net assets acquired	$	348,493

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, through its affiliates, Highmark Inc. and its subsidiaries and affiliates (collectively "Highmark") and Allegheny Health Network and its subsidiaries and affiliates (collectively "Allegheny Health"), is an integrated health care delivery system whose focus is to preserve health care choice and provide affordable, high-quality care.

On April 29, 2013, the Pennsylvania Insurance Department (the "Department") approved, with conditions, a change in control of Highmark in favor of Highmark Health. Following the consummation of the change in control transaction, Highmark Health became the sole corporate member of Highmark Inc. and Allegheny Health Network. Highmark Health also became the primary Blue Cross Blue Shield Association ("BCBSA") licensee. The consolidated financial results of Highmark Health are presented on a consolidated basis as if the change in control transaction of Highmark Inc. occurred at the beginning of the period.

Highmark Inc. 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 Inc.'s affiliates, Highmark West Virginia Inc. ("Highmark WV") and Highmark BCBSD Inc. ("Highmark DE"), are nonprofit health services corporations. As a licensee of the BCBSA, Highmark underwrites various indemnity and managed care health insurance products for national accounts (primarily groups headquartered in Pennsylvania that have operations in other locations), regional accounts and individual accounts. Highmark also underwrites Medicare supplemental, dental, vision and long-term care insurance products and provides administrative services under contractual arrangements. Additionally, Highmark jointly markets various health insurance products with Independence Blue Cross and Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania ("BCNEPA").

Highmark's diversified health business includes vision and dental business. Highmark Inc.'s wholly owned subsidiary, HVHC Inc. ("HVHC"), through its subsidiaries, operates two distinct lines of vision business: retail and managed vision care. The retail line of business operates specialty optical retail stores, and the managed vision care line of business provides fully integrated eye care services. Through November 2013, HVHC also operated a third line of vision business, an international brands business. Highmark Inc.'s wholly owned subsidiary, United Concordia Companies, Inc. ("UCD") and its subsidiaries, provide dental services through preferred provider and managed care networks as well as third party administrative services. Highmark Inc.'s other for-profit subsidiaries offer workers compensation insurance, stop-loss insurance, real estate management services and other administrative services.

Allegheny Health Network is incorporated as a 501(c)(3) organization in the Commonwealth of Pennsylvania. Allegheny Health Network's subsidiaries and affiliates are nonprofit health care providers offering routine and tertiary healthcare services, clinical support and healthcare education in Western Pennsylvania. Additionally, Allegheny Health Network's other for-profit and nonprofit subsidiaries manage and develop outpatient medical facilities, which offer a variety of services including pharmacies, primary care and imaging, provide group hospital purchasing services and offer medical malpractice insurance.

(in thousands of dollars)

2. Affiliations

Saint Vincent Health System ("SVHS")

Effective July 1, 2013, Highmark Inc., Highmark Health and Allegheny Health Network finalized an affiliation agreement with SVHS. In accordance with the SVHS affiliation agreement, Highmark Inc. provided grants in an aggregate amount of $25,000 to finance various capital projects and to support the capital and operational needs of SVHS. In exchange for the transfer and/or relinquishment by the Sisters of Saint Joseph (the "Sisters"), the sponsor and sole member of SVHS prior to the transactions contemplated by the affiliation agreement, of all membership and other interest in SVHS, a contribution of $10,000 was made by Allegheny Health Network to the Sisters. In accordance with the terms of the affiliation agreement, Allegheny Health Network is now the sole member of SVHS. Highmark Health has the power to elect persons to the SVHS Board of Directors who control 75% of the voting power of all Directors. The consolidated financial statements include the financial position, results of operations and cash flows of SVHS from the affiliation date, July 1, 2013.

West Penn Allegheny Health System, Inc. ("WPAHS")

Effective April 29, 2013, Highmark Inc., Highmark Health and Allegheny Health Network affiliated with WPAHS, with Allegheny Health Network becoming the sole member of WPAHS. Highmark Health has the power to elect 75% of the Board of Directors of WPAHS. At closing, Highmark Inc. provided a $75,000 grant and a $100,000 loan to WPAHS in accordance with the affiliation agreement. Prior to the closing, Highmark Inc. had provided a $100,000 loan to WPAHS and an additional $100,000 in grants. As contemplated by the affiliation agreement and as a condition to closing of the affiliation with WPAHS, Highmark Inc. purchased $604,170 aggregate principal amount of Allegheny County Hospital Development Authority Revenue Bonds Series 2007A ("WPAHS Authority Bonds"), previously issued for the benefit of WPAHS, representing approximately 85% of the outstanding principal amount of the bonds, at a purchase price of 87.5% of par plus accrued interest. Funds for the purchase were provided by a commercial lender pursuant to a collateralized term loan facility. In October 2013, Highmark Inc. purchased an additional $51,635 aggregate principal amount of WPAHS Authority Bonds at a purchase price of 87.5% of par plus accrued interest. In January 2014, Highmark Inc. purchased an additional $8,100 aggregate principal amount of WPAHS Authority Bonds at a purchase price of 87.5% of par plus accrued interest. Highmark Inc. now holds approximately 95% of the outstanding debt securities, which are eliminated in consolidation. The consolidated financial statements include the financial position, results of operations and cash flows of WPAHS from the affiliation date, May 1, 2013.

Jefferson Regional Medical Center ("JRMC")

Effective March 1, 2013, Highmark Inc. affiliated with JRMC, obtaining the power to elect persons to the JRMC Board of Directors who controlled approximately 75% of the voting power of all Directors. Highmark Inc. also committed $75,000 plus interest to the JRMC Foundation and recognized a corresponding contribution expense in other non-operating expense in its 2013 consolidated statement of operations. JRMC Foundation is not a consolidated subsidiary or affiliate of JRMC. A payment of $45,509 was made in March 2013 to satisfy a portion of this commitment and the remaining $32,100 was paid in January 2014. Highmark Inc. also committed to fund a maximum of $100,000, of which $25,240 was paid in 2013, for expansion of the hospital's emergency room, an ambulatory surgery suite and other capital projects. JRMC's net assets were subsequently transferred to Allegheny Health Network, who is now the sole member of JRMC. Highmark Health has the power to elect persons to the JRMC Board of Directors who control approximately 75% of the voting power of all Directors. The consolidated financial statements include the financial position, results of operations and cash flows of JRMC from the affiliation date, March 1, 2013.

(in thousands of dollars)

In connection with the affiliations, net assets acquired through affiliations of $63,485 was recorded in the consolidated statement of operations based on the fair value analysis of the assets and liabilities as of the date of affiliation. Additionally, temporarily restricted net assets assumed of $29,746 and permanently restricted net assets assumed of $245,262 were recorded as of the date of affiliation. Total assets, liabilities and net assets at affiliation date were as follows:

	SVHS at 7/1/2013	WPAHS at 5/1/2013	JRMC at 3/1/2013
Cash and cash equivalents	$ 26,798	$ 36,369	$ 6,608
Board designated, restricted and other investments at fair value	71,865	483,149	114,610
Property and equipment, net	116,066	568,194	133,023
Goodwill	-	365,736	-
Other assets	90,714	278,122	72,817
Total assets	$ 305,443	$ 1,731,570	$ 327,058
Debt	$ 121,275	$ 788,483	$ 116,848
Benefit plan liabilities	64,254	298,126	92,683
Other liabilities	99,681	380,250	53,978
Total liabilities	285,210	1,466,859	263,509
Unrestricted	11,660	-	61,825
Temporarily restricted	4,732	23,606	1,408
Permanently restricted	3,841	241,105	316
Total net assets	20,233	264,711	63,549
Total liabilities and net assets	$ 305,443	$ 1,731,570	$ 327,058

3. Divestiture

On December 3, 2013, HVHC completed the sale of its wholly owned subsidiary, Viva Optique, Inc. ("Viva"), which specializes in the design and distribution of eyewear globally, to an external third party. HVHC recorded a gain on the sale of $3,106, net of tax. As a result of the sale, the results of operations and cash flows for Viva were separately reported in discontinued operations.

Viva's results of operations for the period ended December 3, 2013 were as follows:

Vision revenue	$ 176,801
Other revenue	526
Operating expenses	168,251
Interest expense	1,894
Excess of revenue over expenses before income taxes	7,182
Income tax provision	3,143
Excess of revenue over expenses	$ 4,039

(in thousands of dollars)

In addition to the operating results of Viva, certain intercompany eliminations related to Viva of $543 for the period ended December 3, 2013 were included in discontinued operations and gain on sale, net of tax, in the consolidated statement of operations.

4. Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying consolidated financial statements include the accounts of Highmark Health and its subsidiaries and affiliates, collectively the "Corporation."

The 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"). 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 and those affiliates for which the Corporation does not hold a controlling financial interest but may influence operating or financial decisions.

New Accounting Pronouncements

In January 2014, Financial Accounting Standards Board ("FASB") and Private Company Council ("PCC") issued new guidance regarding a private company accounting alternative for goodwill. Public business entities, not-for-profit entities and employee benefit plans are not eligible to adopt PCC accounting alternatives. Therefore, only the for-profit subsidiaries of the Corporation are permitted to make an accounting policy election to adopt this accounting alternative, or they may continue to follow existing goodwill accounting guidance. Pursuant to this guidance, an entity that elects this accounting alternative should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Impairment testing is performed either entity-wide or at the reporting unit level, and goodwill only needs to be tested for impairment upon the occurrence of a triggering event. If a triggering event occurs, the entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. The new guidance is effective for fiscal years beginning after December 15, 2014. The for-profit subsidiaries of the Corporation are evaluating the impact of the potential adoption of this new guidance on the financial position, results of operations and cash flows.

In July 2013, FASB issued new guidance regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to certain exceptions. If certain conditions apply, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The new guidance is effective for fiscal years beginning after December 15, 2014. The Corporation is evaluating the impact of the adoption of this new guidance on the financial position, results of operations and cash flows.

In April 2013, FASB issued new guidance related to personnel services rendered from an affiliate for which the affiliate does not seek compensation. The guidance requires a recipient not-for-profit entity to recognize in its standalone financial statements all personnel services received from an affiliate that directly benefit the recipient. The services should be measured at the cost recognized by the affiliate for the personnel providing those services or at fair value if cost will significantly overstate or understate the value of the service received. The increase in net assets associated with the services

(in thousands of dollars)

received should be presented as a contra-expense or a contra-asset, and the corresponding decrease in net assets or the creation or enhancement of an asset should be presented similar to how other such expenses or assets are reported. The new guidance is effective for fiscal years beginning after June 15, 2014. The Corporation is evaluating the impact of the adoption of this new guidance on the financial position, results of operations and cash flows.

In February 2013, FASB issued new guidance to clarify the scope and applicability of a particular fair value level disclosure requirement for nonpublic entities. The guidance clarifies that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3) does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The new guidance was effective upon its February 2013 issuance. The adoption of this guidance did not have an impact on the financial position, results of operations or cash flows.

In December 2011, FASB issued amended guidance that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The adoption of this guidance on January 1, 2013 did not have an impact on the financial position, results of operations or cash flows.

In July 2011, FASB issued new guidance that addresses health insurers' recognition and classification of an annual non-tax deductible fee mandates by the Affordable Care Act as amended by the Health Care and Education Reconciliation Act of 2010 (collectively referred to as "ACA"). The guidance specifies that a liability be estimated and fully recognized in the calendar year the fee is payable once qualifying health insurance is provided. The new guidance is effective concurrently with the fee beginning on January 1, 2014. At December 31, 2013, Highmark has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014 and estimates the Corporation's portion of the annual health insurance industry fee payable in 2014 to be approximately $133,000. The fee is non-tax deductible and is expected to increase Highmark's effective income tax rate starting in 2014.

In July 2011, FASB issued new guidance regarding presentation and disclosure of patient service revenues, provision for bad debts and allowances for doubtful accounts for health care entities. This guidance requires health care entities reclassify the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The guidance also requires disclosures of patient service revenues (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Corporation adopted this guidance in 2013.

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 donor restricted trusts, to be cash equivalents.

(in thousands of dollars)

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

Insurance accounts receivable is specific to Highmark business and includes amounts related to commercial health, dental business, vision businesses and government program accounts receivable, which are amounts related to government business including the Active Duty Dental Program, the Federal Employee Dental and Vision Program, the Federal Employee Program and the Medicare program.

Patient service accounts receivable is specific to Allegheny Health business and includes amounts receivable from patients, third-party payors and others for services as they are rendered. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Management assesses the collectability of these accounts based on a number of factors including past history, trends and whether patients have third-party coverage or are self-pay patients. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful collections and a provision for doubtful collections if necessary. For receivables associated with self-pay patients, the Corporation records a provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections. The Corporation does not maintain a material allowance for doubtful collections from third-party payors, nor did it have significant write-offs from third-party payors in 2013.

Concentrations of credit risk with respect to insurance accounts receivable are limited due to the large number of employer groups that constitute Highmark's customer base.

Inventory
Inventory consists primarily of vision related eyewear components and health care delivery related drugs, medical supplies and surgical supplies. Vision related eyewear components include frames, lenses and cases, contact lenses and solutions, laboratory supplies and packaging materials. Inventory is stated at the lower of cost or market. Vision related inventory cost is determined using the weighted average method. Health care delivery related inventory cost is determined using the first-in first-out basis.

Obsolescence reserves were $14,502 at December 31, 2013.

Investments
Debt and equity securities classified as available-for-sale are carried at fair value (based on quoted or estimated market prices), and unrealized gains and losses are reported in unrestricted net assets, 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 unrestricted net assets, 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 equity securities are based on cost (specific identification method). Realized gains and losses on available-for-sale debt and equity securities are reported in net investment income in the consolidated statement of operations.

(in thousands of dollars)

Available-for-sale equity securities include mutual funds and mutual fund investments held in grantor trusts for the benefit of nonqualified retirement and deferred compensation plans. Available-for-sale equity securities also include private equity securities. These private equity securities are carried at fair value with changes in fair value reported as unrealized gains and losses in unrestricted net assets, net of deferred income taxes.

The Corporation monitors its available-for-sale investments portfolio for unrealized losses that appear to be other-than-temporary. At the time an equity security is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current market value and records a realized loss in net investment income in the consolidated statement of operations.

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 statement of operations for the difference between fair value and amortized cost.

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

Other investments include investments in private limited partnerships, real estate trusts, limited liability companies and notes receivable. Private limited partnerships are accounted for under the equity method. The Corporation has committed $36,973 to various private limited partnership investments at December 31, 2013. These commitments are due upon capital calls by the general partners of the partnerships. Limited liability companies are accounted for under the cost or equity method, dependent on certain factors including ownership of a controlling interest. Fair values of real estate investment trusts are approximated based on trustee estimates. 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 statement of operations.

The Corporation participates in securities lending transactions. The Corporation 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. Noncash collateral is not recorded in the consolidated balance sheet, as the Corporation does not have the right to sell, pledge or otherwise reinvest the noncash 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 investment income. The fair value of securities held as invested collateral was $242,084 at December 31, 2013.

(in thousands of dollars)

The corresponding liability that represents the Corporation's obligation to return the collateral was $242,086 at December 31, 2013.

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. Due to the level of risk associated with certain investment securities, it is reasonably possible that the changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements and accompanying notes.

Fair Value of Financial Instruments
In accordance with FASB fair value measurement guidance, financial assets and liabilities recorded at fair value in the consolidated balance sheet are categorized based upon the level inputs used to measure their fair value.

Property and Equipment
Property and equipment is recorded at cost if purchased, 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 40 years; leasehold improvements, lesser of lease term or useful life; office furniture and equipment, three-30 years; and capitalized software, three-10 years.

Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

Property and equipment is reviewed for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized to the extent the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposal. No impairment losses were recorded in 2013.

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 25 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 fair value is less than carrying value, the asset is adjusted to the fair value and an impairment loss is recorded in the consolidated statement of operations. Management tested goodwill and other intangible assets with indefinite lives for impairment and recorded a goodwill impairment of $310,997 in 2013.

Other Assets
Other assets include reinsurance recoverables, pharmacy rebates receivable, prepaid expenses, insurance recoveries associated with medical malpractice, cash surrender values of corporate-owned life insurance policies held in grantor trusts, non-compete arrangements, signing bonuses and deferred financing costs.

(in thousands of dollars)

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. Amounts recoverable through these programs are recorded within other assets.

Pharmacy rebates receivable 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.

Changes in cash surrender value are reported in net investment income in the consolidated statement of operations.

Claims Outstanding
Claims 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 included in other payables and accrued expenses in the consolidated balance sheet.

In the ordinary course of business, the Corporation advances operating funds to health care providers. Claims outstanding are reported net of such advances, which were $20,165 at December 31, 2013.

The Corporation recorded $993,432 in claim liabilities for certain non-risk administrative arrangements at December 31, 2013. The non-risk group receivable is included in insurance accounts receivable and the corresponding provider liability is included in claims outstanding in the consolidated balance sheet.

Amounts Held for Others
Amounts held for others include reserves for refunds and deposits received from groups for non-risk administrative arrangements. At December 31, 2013, the Corporation held deposits received from groups of $128,915. Amounts held for others also include fees 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, premium deficiency reserve, asset retirement obligations, book overdraft and interest rate swap liabilities.

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 claims are reported separately in the consolidated balance sheet at net realizable value.

The Corporation records deferred grant revenue as nongovernmental grant monies are received and governmental grant monies received for the acquisition of property and equipment.

(in thousands of dollars)

The Corporation establishes a premium deficiency reserve ("PDR") when it determines that it is probable that future claims expense and related maintenance costs will exceed future premiums from contracts in force for a given line of business or product grouping within a contract period. The Corporation evaluates the need for a PDR by grouping policies consistent with the way the business is acquired, serviced and measured. In 2013, the Corporation released premium deficiency reserves of $137,355 due primarily to the anticipated termination of the guaranteed-issue products in 2014 due to the Patient Protection and ACA. The net change in PDR of $137,355 was recorded in other operating expenses in the consolidated statement of operations. At December 31, 2013, the Corporation established a PDR of $18,565 related to its commercial dental, medically underwritten and state-sponsored insurance products.

The Corporation accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Corporation recognizes a gain or loss for any difference between the settlement amount and liability recorded. The Corporation's asset retirement obligation relates to costs associated with future asbestos removal. The asset retirement obligation was $9,120 at December 31, 2013.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. Temporarily restricted net assets are available for capital and other program expenditures.

Permanently restricted net assets are 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 on permanently restricted net assets are restricted to use for capital purposes.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes 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 in unrestricted net assets in the consolidated statement of changes in net assets.

Insurance Revenue Recognition
Highmark's business consists of at-risk insurance arrangements and non-risk administrative arrangements. The administrative fees received under non-risk administrative arrangements are shown as management service revenues and recognized in the period in which the related services are performed. Management service revenues also include 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.

Risk business includes all insurance contracts. Premiums are generally billed in advance of the contractual coverage periods and are included in premium revenue as they are earned during the coverage period. The unearned portion of premiums collected is reflected in the consolidated balance sheet as unearned premium revenue. 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 statement of operations.

(in thousands of dollars)

Vision Revenue
Vision revenue includes sales from fully integrated eye care services and optical retail stores. Fully integrated eye care service revenues are recognized based upon services rendered. Sales are recognized when title and the risk of loss transfer to the customer, there is evidence of a contractual arrangement and collectability of the resulting receivable is reasonably assured.

Net Patient Service Revenue
Net patient service revenue is comprised of gross patient service revenues less contractual allowances, charity care and provision for doubtful accounts. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered at the time the service is performed and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Allegheny Health has agreements with third-party payors that provide for payments to Allegheny Health at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and contracted amounts. Allegheny Health recognizes patient service revenues associated with services provided to patients who have third-party payor coverage on the basis of established rates for services rendered. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Allegheny Health is reimbursed for services rendered at a tentative rate with a final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At December 31, 2013, Medicare cost reports have been audited by the Medicare fiscal intermediary through the fiscal year ended June 30, 2010 for all hospitals.

Medical Assistance: Inpatient and outpatient services rendered to Medical Assistance eligible patients are paid at prospectively determined rates.

Blue Cross Blue Shield Payors: Inpatient care and outpatient services rendered to subscribers of Blue Cross Blue Shield payors, including services provided under Highmark Inc. non-risk administrative arrangements and the BlueCard program. The BlueCard program provides access to provider networks of other Blue Cross Blue Shield plans in other states and regions.

(in thousands of dollars)

Net patient service revenue, by major payor, for the year ended December 31, 2013 was as follows:

Medicare	$	538,145
Medical assistance		138,521
Blue Cross Blue Shield payors		248,402
Other third-party payors		202,629
Patients and residents		29,840
Total patient service revenue, net of contractual allowances and discounts		1,157,537
Less: Provision for bad debts		(87,872)
Total net patient service revenue	$	1,069,665

Allegheny Health has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these arrangements includes prospectively determined rates and discounts from established charges.

Revenue from Medicare and Medical Assistance programs accounted for approximately 50% and 13%, respectively of patient service revenue, net of contractual allowances and discounts. Laws and regulations governing Medicare and Medical Assistance programs are extremely complex and subject to interpretation and there is at least a reasonable possibility that actual results could differ from those estimates.

Allegheny Health is subject to a Quality Care Assessment (the "Assessment") imposed by the Pennsylvania Department of Public Welfare ("DPW") under Pennsylvania Act 49 of 2010, and extended by Pennsylvania Act 55 of 2013. The Assessment was pursued by Pennsylvania in an effort to increase the federal share of Medical Assistance funding under the Medicaid Modernization Act. In turn, DPW provides additional reimbursement to Allegheny Health. The Assessment was $21,867 in 2013 and was included in other operating expenses in the accompanying consolidated statement of operations. Additional reimbursement as a result of Act 55 in 2013 was $21,963 and was included in net patient service revenue in the accompanying consolidated statement of operations.

Management's assessment of expected net collections of net patient revenue considers economic experience, trends in health care coverage and other collection indicators. Allowance for uncollectible accounts is assessed continually based upon historical write-off experience by aging dates and payor categories, including those amounts not covered by insurance and cash collection history. The results of this assessment is the basis for modification so the provision for bad debt expense and the basis for establishing an appropriate allowance for uncollectable accounts.

Charity Care
Allegheny Health hospitals provide services to all patients regardless of ability to pay. Allegheny Health hospitals each have a charity care policy under which they provide care to patients at no charge or at discounted rates, provided the patients meet the eligibility requirements stipulated in their policies. The Corporation does not pursue collection of amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as revenue or deducted from gross patient service revenue in arriving at net patient service revenue.

(in thousands of dollars)

Other Operating Revenue

Other operating revenue includes pharmacy rebates earned on non-risk administrative arrangements, grants, contributions, physician stipends, Medicare and Medicaid electronic health record ("EHR") incentive payments and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. Other operating revenue also includes the Corporation's proportionate share of affiliate earnings.

Donor-Restricted Contributions

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 other operating revenue in the consolidated statement 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 either temporarily or permanently 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income Taxes

Highmark Health and some of the entities within Allegheny Health are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on related income. These tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the IRC. No such tax liability exists in 2013, and as such, no provision for unrelated business income tax has been made in the consolidated financial statements.

Highmark Inc., Highmark WV and Highmark DE are subject to federal income taxes, although they remain exempt from state and local taxes. Highmark Inc., Highmark WV and Highmark DE file separate consolidated federal income tax returns with their respective wholly owned subsidiaries. Only the non-insurance and health maintenance organization ("HMO") subsidiaries of Highmark Inc., Highmark WV and Highmark DE are subject to state income taxes. Insurance subsidiaries, other than the HMOs, are subject to state premium taxes.

Provisions for any tax liability have been made in the consolidated financial statements for all for-profit entities of the Corporation.

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 the entire deferred tax asset will not be recognized.

The Corporation records uncertain tax positions in accordance with FASB Accounting Standards Codification ("ASC") 740, *Income Taxes.* ASC 740 clarifies the accounting for uncertainty in income taxes by defining criteria that a tax position on an individual matter must meet before that position is recognized. ASC 740 also provides guidance on measurement, classification, interest and penalties, disclosure and accounting in interim periods. The Corporation classifies interest and penalties on tax uncertainties as a component of the provision for income taxes.

(in thousands of dollars)

Deficit of Revenue Over Expenses
The consolidated statement of operations includes a deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from the deficit of revenue over expenses, consistent with industry practice, include unrealized gains and losses on board designated, restricted and other investments, permanent transfers of assets to and from affiliates (for other than goods and services), pension liability adjustments, the effective portion of the change in fair value of derivative financial instruments and 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).

Subsequent Events
In May 2014, WPAHS entered into a $700,000 syndicated term loan credit facility ("Term Loan Credit Facility"), part of the proceeds of which were used to purchase and redeem all of the WPAHS Authority Bonds from Highmark Inc. for an aggregate principal amount of $663,905 at a purchase price of 87.5% of par, plus accrued interest as of the purchase date. The Term Loan Credit Facility is fully guaranteed by Highmark Inc. and secured by a pledge of cash and/or securities. Highmark Inc. used the proceeds from the WPAHS Authority Bond redemption to repay its outstanding term loan of $543,010, plus accrued interest.

In February 2014, Highmark Inc. entered into a Merger Agreement (the "Merger Agreement") with BCNEPA. If the transactions contemplated by the Merger Agreement are consummated, BCNEPA will be merged with and into Highmark Inc., with Highmark Inc. being the surviving corporation. The merger is subject to various conditions precedent, including approval by the Department.

In connection with the preparation of the consolidated financial statements, the Corporation evaluated events subsequent to the balance sheet date of December 31, 2013 through the financial statement issuance date and determined that all material transactions have been recorded and disclosed properly.

5. 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, surplus notes and prepaid expenses, are excluded from statutory reserves; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) debt securities and certain preferred stock are carried at the lower of amortized cost or fair value, not fair value as required under GAAP; (4) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to net assets rather than in results of operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (5) equity transfers to affiliates are expensed; (6) assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (7) deferred tax asset recognition is limited; and (8) uncertain tax positions are fully recognized if the probability is greater than 50%.

(in thousands of dollars)

As a result of the foregoing, statutory reserves at December 31, 2013 and statutory net income for the year then ended were:

Highmark (excluding Highmark WV and Highmark DE)		
Statutory reserves	$	4,386,279
Statutory net income	$	340,741
Highmark WV		
Statutory reserves	$	310,017
Statutory net income	$	1,445
Highmark DE		
Statutory reserves	$	157,733
Statutory net income	$	8,352

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, 2013, Highmark Inc. and its insurance subsidiaries and affiliates exceeded their respective minimum RBC requirements.

The Pennsylvania Insurance Commissioner has determined that an appropriate sufficient operating surplus range for Highmark Inc. is 550% - 750% of the health RBC ratio or the Department'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, 2013, Highmark Inc.'s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Department.

The ACA creates state health insurance exchanges, which provide individuals and small businesses access to affordable and quality health insurance. The Corporation participates in the Pennsylvania, West Virginia and Delaware market.

The ACA establishes an annual fee on the health insurance sector effective in 2014. The aggregate annual fee for all insurers is $8,000,000 for 2014. This amount is apportioned among all insurers based on a ratio designated to reflect relative market share of U.S. health insurance business. The amount of the fee is calculated on the basis of prior year net written premiums, excluding the carrier's first $25,000 and half of the second $25,000 in net premiums. The fee applies to all net premiums in excess of $50,000 and is based on the ratio of net written premium for health insurance of all insurance issuers to total applicable net premiums for all such issuers. The fee is not tax deductible. The amount of the fee is expected to be approximately $133,000 in 2014 and the RBC ratio is expected to continue to be within the appropriate range.

(in thousands of dollars)

The ACA also establishes a transitional reinsurance program that reimburses non-grandfathered individual plans for a portion of the costs of high-cost enrollees for a 3-year period beginning January 1, 2014. The total amount assessed through this provision is $25,000,000 in the 3-year period and additional administrative expense charge for 2014 of $20,300. The fee will be levied on a per-covered-life basis and will be collected annually, with the first payment billed on December 15, 2014. Contribution amounts will be based on a per capita contribution rate, which is estimated to be five dollar and twenty-five cents per member per month for calendar year 2014. Both insured and self-insured plans will be assessed.

The ACA also establishes a risk corridor program for a 3-year period beginning January 1, 2014. The purpose of the risk corridor program is to provide limitations on issuer losses and gains for qualified health plans through additional protection against initial pricing risk. The program creates a mechanism for sharing the risk allowable costs between the Federal government and the qualified health plan issuers.

The ACA also establishes a risk adjustment program. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans within the same market in the same state. It will adjust premiums for adverse selection among carrier caused by membership shifts due to guarantee issue and community rating mandates. States may set up their own risk adjustment programs, or they may permit Health and Human Services to develop and manage the program in the state.

The reinsurance, risk corridor and risk adjustment programs, established to apportion risk among insurers, may not be effective in appropriately mitigating the financial risks related to exchange products. These factors, along with the limited information about the individuals who have access to these newly established exchanges that was available when Highmark established premiums, may have an adverse effect on the results of operations if premiums are not adequate.

Effective January 1, 2014, Highmark Inc. became subject to a Community Health Reinvestment ("CHR") Agreement with the Department, which establishes an annual CHR commitment for Highmark Inc. based on direct written health premiums. Highmark Inc.'s minimum social mission commitment for 2014 is $77,482. Highmark Inc. has the ability to direct the funds related to the CHR endeavors provided they meet the Department's criteria.

Certain debt securities are restricted for use by the Corporation and are on deposit with various regulatory agencies or maintained in a trust arrangement as required by BCSBA. The fair value of these securities was $335,044 at December 31, 2013.

Highmark's Medicare Advantage and Medicare Part D Prescription Drug Plan products offered under contracts with Centers for Medicare & Medicaid Services ("CMS") accounted for 32.4% of total premiums in 2013.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans.

(in thousands of dollars)

Highmark generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. Highmark also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS is continuing to perform audits of selected companies' Medicare Advantage contracts related to this risk adjustment diagnosis data. CMS announced a final Risk Adjustment Data Validation ("RADV") audit and payment adjustment methodology and that it will utilize to conduct RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans.

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, Highmark has not been notified by CMS that one of its Medicare Advantage contracts has been selected for audit for contract year 2011.

6. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in debt and equity securities classified as available-for-sale at December 31, 2013 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 698,798	$ 20,062	$ (13,118)	$ 705,742
Agency mortgage-backed securities	641,311	6,840	(14,061)	634,090
State and political obligations	42,465	601	(1,073)	41,993
Mortgage-backed securities	43,045	1,061	(766)	43,340
Asset-backed securities	52,601	2,592	(289)	54,904
Corporate and other debt securities	2,024,396	53,229	(21,682)	2,055,943
Total debt securities	3,502,616	84,385	(50,989)	3,536,012
Equity securities				
Domestic	320,891	172,791	(1,777)	491,905
Foreign	388,839	80,267	(3,537)	465,569
Total equity securities	709,730	253,058	(5,314)	957,474
Total	$ 4,212,346	$ 337,443	$ (56,303)	$ 4,493,486

(in thousands of dollars)

The gross unrealized losses and fair value of debt and equity 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, 2013 was 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	$ 394,819	$ (11,880)	$ 14,915	$ (1,238)	$ 409,734	$ (13,118)
Agency mortgage-backed securities	326,767	(8,283)	99,415	(5,778)	426,182	(14,061)
State and political obligations	16,764	(923)	2,420	(150)	19,184	(1,073)
Mortgage-backed securities	24,188	(656)	1,702	(110)	25,890	(766)
Asset-backed securities	18,984	(287)	151	(2)	19,135	(289)
Corporate and other debt securities	834,991	(18,627)	39,805	(3,055)	874,796	(21,682)
Total debt securities	1,616,513	(40,656)	158,408	(10,333)	1,774,921	(50,989)
Equity securities						
Domestic	38,941	(1,461)	2,704	(316)	41,645	(1,777)
Foreign	42,762	(3,056)	2,627	(481)	45,389	(3,537)
Total equity securities	81,703	(4,517)	5,331	(797)	87,034	(5,314)
Total	$1,698,216	$ (45,173)	$ 163,739	$ (11,130)	$1,861,955	$ (56,303)

At December 31, 2013, the Corporation held available-for-sale debt securities with gross unrealized losses of $50,989. 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 bases, 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, 2013.

At December 31, 2013, the Corporation held available-for-sale equity securities with gross unrealized losses of $5,314. Management reviews equity securities in which fair value falls below cost. In determining whether an equity security is other-than-temporarily impaired, management considers both quantitative and qualitative information. The impairment review process is subjective and considers a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than book value, the financial condition and near-term prospects of the issuer, recommendations of investment advisors, the intent and ability to hold securities for a time sufficient to allow for any anticipated recovery in value and general market conditions and industry or sector-specific factors, including forecasts of economic, market or industry trends. The Corporation believes that the unrealized losses do not represent an other-than-temporary impairment at December 31, 2013.

(in thousands of dollars)

The amortized cost and fair value of available-for-sale debt securities at December 31, 2013 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	$ 222,297	$ 222,984
Due after one year through five years	1,082,774	1,102,193
Due after five years through ten years	1,108,906	1,114,753
Due after ten years	351,682	363,748
Mortgage and asset-backed securities	736,957	732,334
Total	$ 3,502,616	$ 3,536,012

Board designated, restricted and other investments by investment type at December 31, 2013 at fair value consisted of the following:

Cash and cash equivalents	$ 139,623
Debt securities:	
U.S. Treasury and agency obligations	135,384
Agency mortgage-backed securities	17,173
Asset and mortgage-backed securities	37,099
Corporate and other debt securities	77,490
Total debt securities	267,146
Equity securities	103,623
Endowments managed by donor selected trustees	225,750
Total board designated, restricted and other investments	$ 736,142

Board designated, restricted and other investments consist of the following components at December 31, 2013:

Unrestricted:	
Other investments	$ 242,032
Board designated:	
Capital improvements	79,852
Foundation	40,957
Capital project funds	41,498
Debt service	14,384
Self-insurance	13,333
Grant funds and other	20,561
Total unrestricted	452,617
Temporarily restricted	24,663
Permanently restricted	258,862
Total board designated, restricted and other investments	$ 736,142

(in thousands of dollars)

The following is a summary of net investment income for the year ended December 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Interest and dividends	$ 164,283	$ 447	$ 2,848
Net realized gains (losses) on investments	91,223	(22)	8,851
Net unrealized (losses) gains on board designated, restricted and other investments	(2,356)	(341)	8,256
Total net investment income	$ 253,150	$ 84	$ 19,955

Net realized losses on unrestricted investments include $2,656 in other-than temporary impairment charges on available-for-sale equity securities. Other-than-temporary impairments recognized in 2013 resulted from the extent and duration of fair value declines due to market conditions, along with minor credit related concerns. Impaired securities included available-for-sale equity securities within the domestic retail, communications and financial services sectors, along with international developed markets.

The recognition of unrealized gains and losses on investments that are restricted as to use are recorded directly to temporarily and permanently restricted net assets 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. All unrealized gains and losses on marketable unrestricted board designated and other investments are recognized in net investment income. Allegheny Health elected a total return investment policy for certain trust accounts which permits income to be redefined as a percentage of a rolling average market value of the charitable trust as averaged over a period of at least three years provided the election is consistent with the charitable trust agreement and long term preservation of principal value of the charitable trust.

Certain limited partnership and private equity 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 private equity interests will be liquidated over the next seven to ten years, and the Corporation assumes that the interests will be held until liquidation.

7. Fair Value of Financial Instruments

Input levels, as defined by ASC Fair Value Measurement guidance, 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 are based on other than unadjusted quoted prices in active markets included within Level 1 and include observable unadjusted quoted market prices for similar financial assets or liabilities in active markets or quoted market prices for identical assets in inactive markets.

Level 3 – Pricing inputs include unobservable 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.

(in thousands of dollars)

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 sheet:

Cash equivalents: Cash equivalents include highly rated money market funds, commercial paper or discount notes with maturities of three months or less and bank deposits, and are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on 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. Government securities represent Level 1 securities, while Level 2 securities include corporate securities, state and political obligations and asset and mortgage-backed securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. The Corporation has certain fixed maturity securities, primarily corporate and other debt, 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, available-for-sale: Fair values of equity securities are generally designated as Level 1 and are based on quoted market prices. For certain equity securities, quoted market prices for identical securities are not always available and the fair value is estimated by reference to similar or underlying securities for which quoted prices are available. These securities are designated Level 2. The Corporation also has certain equity securities, including private equity securities, for which fair value is estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximates fair value. Such securities are designated Level 3.

Board designated, restricted and other investments: Board designated, restricted and other investments 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.

Real estate investment trusts: The fair value of ownership interest in real estate trusts are approximated based on trustee estimates and are designated as Level 3 securities.

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.

(in thousands of dollars)

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 combined 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.

The following table presents, by level, assets that are measured at fair value on a recurring basis at December 31, 2013:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 1,274,475	$ 1,196,928	$ 77,547	$ -
Investments:				
Debt securities, available-for-sale				
U.S. Treasury and agency obligations	705,742	425,270	280,472	-
Agency mortgage-backed securities	634,090	-	634,090	-
State and political obligations	41,993	-	41,993	-
Mortgage-backed securities	43,340	-	43,340	-
Asset-backed securities	54,904	-	54,904	-
Corporate and other debt securities	2,055,943	-	2,009,029	46,914
Total	3,536,012	425,270	3,063,828	46,914
Equity securities, available-for-sale				
Domestic	491,905	477,916	1,848	12,141
Foreign	465,569	256,930	208,639	-
Total	957,474	734,846	210,487	12,141
Board designated, restricted and other investments				
Cash and cash equivalents	139,623	139,623	-	-
Debt securities				
U.S. Treasury and agency obligations	135,384	130,147	5,237	-
Agency mortgage-backed securities	17,173	-	17,173	-
Asset and mortgage-backed securities	37,099	-	37,099	-
Corporate and other debt securities	77,490	-	77,490	-
Equity securities	103,623	103,458	-	165
Endowments	225,750	-	-	225,750
Total	736,142	373,228	136,999	225,915
Real estate investment trusts	8,078	-	-	8,078
Securities lending invested collateral	242,084	-	242,084	-
Total assets	$ 6,754,265	$ 2,730,272	$ 3,730,945	$ 293,048

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event. There were no material transfers between Levels 1 and 2 during 2013.

(in thousands of dollars)

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2013 were as follows:

	Corporate and other debt securities	Equity securities	Endowments	Real estate investment trusts	Total
Balance at January 1	$ 44,388	$ 7,147	$ -	$ 7,128	$ 58,663
WPAHS affiliation	-	165	213,250	-	213,415
Net unrealized (losses) gains	(430)	-	19,318	860	19,748
Net realized gains	200	-	-	-	200
Purchases	40,625	5,000	-	3,130	48,755
Sales	(38,263)	-	-	(2,577)	(40,840)
Issuances	419	-	-	-	419
Settlements	(25)	(6)	-	(463)	(494)
Transfers out of trusts	-	-	(6,818)	-	(6,818)
Balance at December 31	$ 46,914	$ 12,306	$ 225,750	$ 8,078	$ 293,048

There were no material transfers between Levels during the year ended December 31, 2013.

8. Property and Equipment, Net

Property and equipment at December 31, 2013 consisted of the following:

Land, buildings and leasehold improvements	$ 1,117,418
Office furniture and equipment	817,869
Capitalized software	523,466
Construction in progress	93,381
	2,552,134
Less accumulated depreciation and amortization	(1,005,598)
Property and equipment, net	$ 1,546,536

Depreciation and amortization expense related to property and equipment amounted to $220,549 in 2013.

(in thousands of dollars)

9. Goodwill and Other Intangible Assets, Net

Goodwill consisted of the following at December 31, 2013:

	HVHC	Allegheny Health	Other	Total
Goodwill, at January 1	$ 635,605	$ 31,998	$ 57,954	$ 725,557
WPAHS affiliation at May 1, 2013	-	365,736	-	365,736
Impairment	-	(310,997)	-	(310,997)
Goodwill, at December 31	$ 635,605	$ 86,737	$ 57,954	$ 780,296

The Corporation allocated goodwill to its reporting units based on the relative fair value basis. In 2013, goodwill was tested for impairment and a goodwill impairment charge of $310,997 was recorded to the extent the reporting unit carrying value exceeded the implied fair value based on the discounted debt-free cash flows of the reporting unit.

The carrying amounts of intangible assets at December 31, 2013 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 42,712	$ 10,005	$ 32,707
Trademarks	16,675	8,570	8,105
Patient records	8,253	1,951	6,302
Other	23,710	11,603	12,107
Total	$ 91,350	$ 32,129	$ 59,221

Amortization expense of intangible assets was $9,199 in 2013.

At December 31, 2013, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $2,850, was as follows:

Years ending December 31,	
2014	$ 7,452
2015	6,594
2016	6,012
2017	2,976
2018	2,692
Thereafter	30,645
Total	$ 56,371

(in thousands of dollars)

10. Claims Outstanding

Activity in the liability for claims outstanding for the year ended December 31, 2013 was as follows:

Claims outstanding at January 1	$ 2,401,854
Reinsurance recoverables	(105,948)
Net balance at January 1	2,295,906
Incurred related to	
Current year	10,906,007
Prior year	(212,551)
Total incurred claims	10,693,456
Paid related to	
Current year	9,517,214
Prior year	1,194,035
Total paid claims	10,711,249
Change in advances to providers	(3,870)
Change in non-risk claim liabilities	(6,850)
Net balance at December 31	2,267,393
Reinsurance recoverables	104,317
Claims outstanding at December 31	$ 2,371,710

Negative amounts reported for prior year incurred claims of $212,551 in 2013 resulted from claims being settled for amounts less than originally estimated due to lower than estimated utilization. Management has established estimates for claims outstanding to satisfy its ultimate claim liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the consolidated financial statements.

11. Employee Benefit Plans

Defined Benefit Plans

The Corporation covers certain employees meeting age and service requirements through multiple non-contributory defined benefit pension plans (the "pension plans"), including the Highmark Inc. Retirement Plan ("Highmark pension plan"), the Highmark WV Retirement Program (the "Highmark WV pension plan"), the Highmark DE Retirement Plan ("Highmark DE pension plan"), the West Penn Retirement Plan for Represented Employees and the West Penn Retirement Plan for Nonrepresented Employees (collectively the "WPAHS pension plans"), the Jefferson Retirement Plan (the "JRMC pension plan"), and the Saint Vincent Health System Pension Plan (the "SVHS pension plan").

The Highmark, Highmark WV and WPAHS pension plans provide 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. The Highmark DE pension plan benefits are based principally on salary and years of service. During 2013, the Highmark DE plan was amended to provide participants with a benefit design similar to the Highmark and Highmark WV pension plans. Lump sum payments in the Highmark DE pension plan in 2013 resulted in recognition of a settlement gain of $1,534. The JRMC and SVHS pension plans were frozen on December 31, 2010 and June 30, 2013, respectively. The frozen JRMC and SVHS pension plans provide eligible

(in thousands of dollars)

participants with their frozen benefit as of that date, which was based on age, average compensation and years of service.

The Corporation funds its pension plans according to minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. During 2014, the Corporation expects to contribute $134,260 to the pension plans.

Highmark Inc. and Highmark DE each sponsor defined benefit other postretirement plans (collectively the "other postretirement plans"). Highmark Inc. uses voluntary employees' beneficiary association ("VEBA") trusts and, in the case of Highmark WV, a participant in the Highmark other postretirement plan, a 401(h) account to fund their respective retiree other postretirement benefits. The Corporation expects to contribute $15,700 to the VEBA trusts and 401(h) account in 2014. Highmark DE funds other postretirement benefits as benefits are paid. Effective January 1, 2014, the Highmark DE other postretirement plans merged into the Highmark Inc. other postretirement plan. The other postretirement plans provide various postretirement health and life insurance benefits to retirees of participating subsidiaries and affiliates. The other postretirement plans are closed to new employees.

(in thousands of dollars)

The amounts recognized in the consolidated balance sheet at December 31, 2013 were as follows:

	Pension Benefits	Other Postretirement Benefits
Change in benefit obligations		
Benefit obligations at beginning of year	$ 1,905,122	$ 471,879
JRMC affiliation	236,786	-
WPAHS affiliation	814,746	-
SVHS affiliation	166,560	-
Service cost	76,959	25,847
Interest cost	108,776	16,136
Plan amendments	(506)	2,065
Participant contributions	-	3,732
Benefit payments	(97,476)	(20,414)
Settlement gain	(14,443)	-
Actuarial gain	(282,612)	(43,916)
Benefit obligations at end of year	$ 2,913,912	$ 455,329
Change in plan assets		
Net plan assets at beginning of year	$ 1,777,224	$ 266,402
JRMC affiliation	144,103	-
WPAHS affiliation	516,620	-
SVHS affiliation	102,306	-
Actual return on plan assets	89,948	31,988
Participant contributions	-	2,574
Employer contributions	91,440	17,717
Benefit payments	(97,476)	(16,346)
Settlement payments	(14,443)	819
Net plan assets at end of year	$ 2,609,722	$ 303,154
Amounts recognized in the consolidated balance sheet		
Benefit plan assets	$ 55,172	$ -
Benefit plan liabilities	$ (359,362)	$ (152,175)
Amounts included in unrestricted net assets		
Prior service credit	$ 241,719	$ 12,283
Actuarial loss	(325,330)	(91,134)
Net amounts recognized	$ (83,611)	$ (78,851)

The estimated prior service credit and actuarial loss for the pension plans that will be amortized from net assets in 2014 are $28,236 and $21,087, respectively. The estimated prior service credit and actuarial loss for the other postretirement plans that will be amortized from net assets in 2014 are $4,000 and $6,000, respectively.

(in thousands of dollars)

The following table provides the components of net periodic benefit cost for the year ended December 31, 2013:

	Pension Benefits	Other Postretirement Benefits
Service cost	$ 76,959	$ 25,847
Interest cost	108,776	16,136
Expected return on plan assets	(154,123)	(12,871)
Amortization of:		
Prior service credit	(27,586)	(4,150)
Actuarial loss	39,787	12,719
Settlement gain	(1,534)	-
Net periodic benefit costs	$ 42,279	$ 37,681

For measurement purposes, the assumed annual rate of increase in the per capita costs of covered health care benefits was 7.49% in 2014 for the Highmark other postretirement plan, gradually decreasing to 4.50% by the year 2028. Assumed annual rate of increase in the per capita costs of covered health care benefits was 9.00% in 2014 for the Highmark DE other postretirement plans, gradually decreasing to 5.00% by the year 2021.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement plans. At December 31, 2013, 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	$ 1,100	$ (1,200)
Effect on other postretirement benefit plan obligations	$ 19,100	$ (17,600)

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

	Highmark Inc.	Highmark WV	Highmark DE	WPAHS	JRMC	SVHS
Discount rate:						
Benefit obligations	4.90%	4.90%	4.40%	4.40%	4.80%	4.60%
Net periodic costs	4.10%	4.00%	3.40%; 4.30%	4.30%	4.70%	4.60%
Expected asset return	7.25%	7.25%	7.25%	7.43%	7.00%	7.25%
Compensation increase	3.40-7.50%	3.50-8.00%	3.40-7.50%	2.88-7.15%	-	-

(in thousands of dollars)

The Corporation's weighted-average assumptions related to the calculation of the other postretirement plan benefit obligations and net periodic benefit costs for the other postretirement benefit plans are presented in the table below:

	Highmark Inc.	Highmark DE
Discount rate:		
Benefit obligations	4.30%	4.60%
Net periodic costs	3.50%	3.90%; 4.50%
Expected asset return	5.00%	n/a
Compensation increase	n/a	3.40%-7.50%

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 other postretirement 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 other postretirement plan assets.

Estimated benefit payments are expected as follows:

	Pension Benefits	Other Postretirement Benefits
2014	$ 132,208	$ 25,300
2015	$ 139,278	$ 28,300
2016	$ 147,279	$ 31,300
2017	$ 154,303	$ 33,300
2018	$ 162,881	$ 37,300
2019-2023	$ 905,760	$ 218,700

The pension plans' and other postretirement plans' overall investment strategies 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.

For the Highmark pension plan, the Corporation's overall investment strategy is to achieve a mix of 96% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 30% equity securities, 56% fixed income securities, 4% cash equivalents and 10% alternative investments. 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 U.S. Treasury Securities. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

(in thousands of dollars)

The other pension plans have similar investments strategies as those mentioned above for the Highmark pension plan with target allocations for plan assets for the Highmark WV pension plan of 50% equity securities, 40% fixed income securities and 10% alternative investments. The Highmark DE pension plan target allocations for plan assets are 58% equity securities, 37% fixed income securities and 5% cash equivalents. The WPAHS pension plans target allocations for plan assets are 35%-45% for domestic equity securities and funds, 35%-45% for debt securities and funds, 8%-18% for international equity securities and funds, 4%-10% for alternative investments and 0%-10% for cash and cash equivalents. The JRMC pension plan target allocations for plan assets are 35%-55% for equity securities, 35%-55% for fixed income securities, and 8%-12% for alternative investments. The SVHS pension plan target allocations for plan assets are 50%-70% for equity securities, 20%-40% for fixed income, 0-15% for real estate and 0-10% for cash and cash equivalents.

For the funded other postretirement 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 62% equity securities, 33% 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 following table summarizes the fair value measurements by level at December 31, 2013:

	Fair Value	Level 1	Level 2	Level 3
Pension plan assets				
Cash and cash equivalents	$ 26,725	$ 5,017	$ 21,708	$ -
Debt securities:				
U.S. Treasury and agency obligations	365,814	316,442	49,372	-
Agency mortgage-backed securities	10,354	354	10,000	-
State and political obligations	67,300	4,654	62,646	-
Corporate and other debt securities	569,134	58,597	510,534	3
Total debt securities	1,012,602	380,047	632,552	3
Equity securities:				
Domestic	446,450	446,450	-	-
Foreign	186,131	182,575	3,556	-
Total equity securities	632,581	629,025	3,556	-
Registered investment company shares	503,896	503,896	-	-
Common collective trust interests	325,240	-	325,240	-
Private limited partnerships	41,667	-	-	41,667
Interest in a master trust	65,231	-	65,231	-
Total	$2,607,942	$1,517,985	$1,048,287	$41,670
Other postretirement plan assets				
Corporate and other debt securities	$ 8,264	$ -	$ 8,264	$ -
Domestic equity securities	36,502	36,502	-	-
Registered investment company shares	246,858	246,858	-	-
Interest in a master trust	11,289	-	11,289	-
Total	$ 302,913	$ 283,360	$ 19,553	$ -

(in thousands of dollars)

At December 31, 2013, the fair value of pension plan assets excluded guaranteed insurance contract assets of $4,361, carried at contract value, offset by accrued expenses and other payables of $2,581.

At December 31, 2013, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $241.

The changes in fair value for pension plan and other postretirement assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2013 were as follows:

Balance at January 1	$ 27,257
Unrealized net holding gains arising during the period	1,516
Purchases, sales, issuances and settlements	
Purchases	19,072
Issurances	1,646
Settlements	(7,821)
Balance at December 31	$ 41,670

Defined Contribution Plans

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. The Corporation recognized expense associated with its contributions to the savings plans for the year ended December 31, 2013 of $41,725.

The Corporation also sponsors deferred compensation plans for certain eligible employees. Participating employees may contribute a certain amount of their annual compensation to these plans. Certain deferred compensation plans provide for matching contributions based on employee deferrals. The deferred compensation plan pays interest on the deferrals at various rates. The Corporation made matching contributions to the deferred compensation plans of $1,459 in 2013. Deferred compensation plan liabilities of $51,447 were recorded in other payables and accrued expenses in the consolidated balance sheet at December 31, 2013. Changes in the liability are reported in other operating expenses in the consolidated statement of operations.

The Corporation also sponsors unfunded nonqualified supplemental retirement plans (the "nonqualified retirement plans") covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified plan liabilities were consistent with the assumptions used in the measurement of pension plan and adjusted, when needed, for nonqualified plan specific characteristics. The nonqualified retirement plan liabilities recorded in other payables and accrued expenses in the accompanying consolidated balance sheet at December 31, 2013 were $66,034.

(in thousands of dollars)

12. Debt

The Corporation's total debt at December 31, 2013 consisted of the following:

Unsecured Senior Notes due May 15, 2021	$	348,960
Unsecured Senior Notes due May 15, 2041		239,495
Allegheny County Hospital Development Authority Bonds:		
Series 2010A due through March 1, 2040		16,855
Series 2008A due through March 1, 2038		13,455
Series 2007A due through May 1, 2025		10,249
Series 2007A due through November 15, 2040		37,246
Series 2006A due May 1, 2026		22,000
Series 2006B due through May 1, 2018		8,863
Series 2004A due June 1, 2030		750
Series 2000A due June 1, 2030		11,500
Series 1998A due May 1, 2023 through May 1, 2029		21,990
Erie County Hospital Authority Bonds:		
Series 2009 due July 1, 2020		10,973
Series 2011A due August 18, 2026		7,216
Series 2010A due July 1, 2027		19,797
Series 2010B due July 1, 2039		55,685
Term Loan due April 22, 2016		543,010
Revolving credit facility with maximum available for draw of $75,000 expires June 2015		75,000
Revolving credit facility with maximum available for draw of $400,000 expires March 2018		100,000
Floating Rate Restructuring Certificates, payable based on attainment of defined income and cash levels		37,084
Series 2006A Health Facilities Revenue Notes due through December 2016		787
Series 2006B Health Facilities Revenue Notes due through October 2015		16,451
Mortgage loan, due March 15, 2032, interest at 6.00%		24,336
Capital leases payable due through 2016 at varying interest rates ranging from 5.190% to 8.033%		6,077
Mortgage and other loans due through 2016 at varying interest rates		10,337
Total debt	$	1,638,116

(in thousands of dollars)

A summary of scheduled principal repayments on debt is as follows:

Years ending December 31,	
2014	$ 25,069
2015	95,429
2016	553,023
2017	6,973
2018	107,088
Thereafter	850,534
Total	$ 1,638,116

Unsecured Notes
Highmark Inc. held unsecured senior notes of $348,960 due May 15, 2021 with interest payable semi-annually at 4.75%. The unamortized discount was $1,040 at December 31, 2013.

Highmark Inc. also held unsecured senior notes of $239,495 due May 15, 2041 with interest payable semi-annually at 6.125%. The unamortized discount was $1,380 at December 31, 2013.

On August 15, 2013, Highmark Inc. repaid in full the 6.80% unsecured senior notes issued August 2003 and due August 2013, which included principal of $292,878 and accrued interest of $9,958. Highmark Inc. was party to multiple interest rate swap agreements which meet the criteria of fair value hedges with two highly rated, major U.S. financial institutions (the "counterparties") pursuant to which it had synthetically converted $125,000 of its unsecured fixed rate senior notes (the "Highmark Notes") through August 15, 2013 to variable notes through maturity. The Corporation received $4,594 from the counterparties in 2013 for settlements under the interest rate swap agreements. This amount was included in interest expense in the accompanying consolidated statement of operations. The interest rate swap agreements were terminated with the maturity of the unsecured Senior Notes due August 2013.

Allegheny County Hospital Development Authority (the "Authority")
JRMC issued Authority Bonds in September 2010, July 2008, February 2007, May 2006, May 2004, May 2000 and March 1998, collective the JRMC Authority Bonds. At December 31, 2013, the Corporation had outstanding $105,662 of JRMC Authority Bonds. The JRMC Authority Bonds are scheduled to mature at various dates thorough March 1, 2040. Interest rates ranged from 0.06% to 5.125% at December 31, 2013. Proceeds from the JRMC Authority Bonds were used primarily for various capital projects. The JRMC Authority Bonds are collateralized by the general credit of the Jefferson Medical Center and irrevocable lines of credit totaling $65,257 which expire at various dates through July 15, 2016. The unamortized discount was $470 and premium was $202 at December 31, 2013.

JRMC is party to related interest rate swap agreements designated as fair value hedges with a highly rated, major U.S financial institution. The interest rate swap agreements expire at various dates through 2038. In 2013, JRMC paid $1,153 to the counterparty for settlement under the interest rate swap agreements. This amount was included in interest expense in the consolidated statement of operations. The Corporation recorded a liability of $4,406 at December 31, 2013 in other liabilities in the consolidated balance sheet under the swap agreements.

WPAHS issued Authority Bonds in June 2007. At December 31, 2013, the Corporation had outstanding $37,246 of WPAHS Authority Bonds, to non-related parties. The WPAHS Authority Bonds are scheduled to mature at various dates through November 15, 2040. Interest is payable semi-annually. Interest rates ranged from 5.0% to 5.375% at December 31, 2013. Proceeds from

(in thousands of dollars)

the WPAHS Authority Bonds were used to advance refund the outstanding Authority Series 2000 A and B bond issues and other outstanding debt at the time of the WPAHS Authority Bond issuance. The WPAHS Authority Bonds are secured by property, equipment and revenue of the WPAHS Obligated Group, as defined in the indenture agreement. The unamortized fair-value write down was $5,069 at December 31, 2013.

Erie County Hospital Authority ("Erie Authority")
SVHS issued the Series 2009 and Series 2010A in December 2009 with the Series 2010B issued in January 2010. At December 31, 2013, the Corporation had a total of $86,455 outstanding in Series 2009 and 2010 Erie Authority Bonds. The Erie Authority Bonds are scheduled to mature at various dates between July 1, 2020 and July 1, 2039. Interest rates ranged from 4.00% to 7.00% at December 31, 2013. Proceeds from the Erie Authority Bonds were used primarily for various capital projects and to advance the refund of previously issued bonds. The Series 2010B Erie Authority Bonds are collateralized by an irrevocable line of credit that expires September 30, 2016. The Erie Authority Bonds are partially collateralized by funds held by a trustee.

The Series 2010B Erie Authority bonds are demand bonds and while subject to long-term amortization periods, may be put to SVHS at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after the reporting date, the principal amount of such bonds are considered a current liability. The Board of Trustees of SVHS have restricted cash and investments of $63,483 at December 31, 2013 as a source of self-liquidity in the event the put option is enacted.

SVHS issued the Series 2011A Erie Authority Bonds in August 2011. The Series 2011A Erie Authority Bonds are scheduled to mature August 18, 2026. Principal and interest are payable monthly and calculated based on LIBOR plus 2.75%. Interest was 2.05% at December 31, 2013. Proceeds from the Series 2011A Erie Authority Bonds were used primarily to refinance the construction loan for the new parking facility.

SVHS is party to multiple interest rate swap agreements with highly rated, major U.S. financial institutions (the "counterparties"). One of the interest rate swaps is designated as a cash flow hedge. The cash flow hedge synthetically converted $29,325 of the variable rate Erie Authority Bonds to a fixed rate. The other two interest rate swaps meet the criteria of fair value hedges pursuant to which $17,000 and 8,068, respectively, of fixed-rate Series 2010B and Series 2011A Erie Authority bonds are converted to variable rate bonds through maturity.

In 2013, SVHS paid $662 to the counterparties for settlement under the interest rate swap agreements which was included in interest expense in the consolidated statement of operations. SVHS recorded a liability of $2,858 in other liabilities in the consolidated balance sheet under the swap agreements. The interest rate swaps do not qualify for hedge accounting and changes in fair value are accounted for as other non-operating expense in the consolidated statement of operations.

Term Loans
At December 31, 2013, Highmark Inc. had outstanding $543,010 of a $600,000 term loan with a financial institution, which was used to purchase the outstanding WPAHS Authority Bonds. Highmark Inc. must use the proceeds from the sale of the WPAHS Authority Bonds as a mandatory principal prepayment on the term loan equal to the proceeds plus accrued interest on such principal amount. Interest is payable quarterly and calculated on the daily LIBOR Rate plus 0.50%. The interest rate at December 31, 2013 was 0.66%. Interest of $1,637 was paid on the term loan in 2013. While the term loan was scheduled to be repaid April 22, 2016, it was repaid in May 2014.

(in thousands of dollars)

Revolving Credit Facilities
The Corporation is party to multiple revolving credit arrangements with financial institutions that provide for borrowings totaling $565,000, including the arrangements in the table above and an accordion feature that provides an additional $75,000 in available borrowings. At December 31, 2013, the principal amount outstanding under the revolving credit facilities was $175,000. The revolving credit facilities expire at varying dates between 2015 and 2018.

Highmark Inc. has outstanding borrowings of $75,000 on a revolving credit agreement with a financial institution providing for a $75,000 revolving credit facility expiring June 2015. Interest is payable at a varying rate of interest. The interest rate at December 31, 2013 was 1.16% and was based on the one-month LIBOR rate plus a credit spread.

HVHC has outstanding borrowings of $100,000 on a revolving credit agreement with a syndicate of lenders led by a financial institution that providing for a $400,000 revolving credit facility expiring March 2018. Interest is payable at a varying rate of interest. The interest rate at December 31, 2013 was 1.75% and was based on LIBOR plus 1.00%. The revolving credit loan is collateralized by substantially all assets of HVHC.

HVHC is party to a related interest rate swap agreement designated as cash flow hedge with a highly rated, major U.S. financial institution. In 2013, HVHC paid $1,889 to the counterparty for settlement under the interest rate swap agreement. This amount was included in interest expense in the consolidated statement of operations. The Corporation recorded a liability of $2,422 at December 31, 2013 in other liabilities under the swap agreements. Deferred net holding losses of $1,575 under the interest rate swap agreements were included in unrestricted net assets, net of deferred income taxes of $848, at December 31, 2013.

Other Debt
WPAHS has outstanding Floating Rate Restructuring Certificates ("FRRCs") of $37,084. The FRCCs bear interest at the three-month LIBOR plus 0.25%. Payment of interest is contingent upon WPAHS achieving certain profitability thresholds and maintaining specified liquidity levels. WPAHS has never been required to make an interest payment. The Corporation has not recoded interest to date as the probability of future interest payment requirements is considered remote. Subject to the FRRC Cap, WPAHS must make an annual payment of 25% of the WPAHS Obligated Group's adjusted net operating income, as defined in the FRRC indenture, calculated as of June 30. No annual payments have been earned or due.

WPAHS entered into two agreements with respect to the issuance of Series 2006 A and B notes to purchase four new helicopters and hospital beds. Principal and interest payments are required monthly. The Series A notes bear interest at 5.25% and the Series B notes bear interest at rates ranging from 4.55% to 4.61%. The Series A note is scheduled to be repaid in December 2016 and the Series B note is scheduled to be repaid in October 2015.

SVHS had an outstanding mortgage loan of $24,336 at December 31, 2013 related to a medical office building. The mortgage note matures on March 15, 2032 and requires monthly principal and interest payments. The note is secured by the related medical office building. A subsidiary of SVHS owns a 25% in Erie Medical Complex, LLC. This equity interest, combined with SVHS's master lease obligation in the medical office building creates a substantial beneficial interest and risk of Erie Medical Complex, LLC and results in the consolidation of the Erie Medical Complex, LLC in the consolidated financial statements.

(in thousands of dollars)

As a result of the interest rate swap agreements noted above, the Corporation is subject to interest rate risk and default risk. Only cash flows related to the differential in the fixed interest rates and the variable interest rates as applied to the notional amounts of the interest rate swaps are subject to interest rate risk over the terms of the interest rate swap agreements. The notional amounts do not represent the amounts at risk; rather, they are used only as the basis for calculating the amounts due under the interest rate swap agreements.

Several of the debt agreements referred to above contain covenants, including covenants relating to such matters as indebtedness, minimum net worth and financial ratings. The Corporation was in compliance with all debt covenants at December 31, 2013.

The carrying amount of debt reported in the consolidated balance sheet at December 31, 2013 was $1,638,116. Using a discounted cash flow technique that considered credit ratings, with adjustments for duration and risk profile, the Corporation determined that the fair value of its debt at December 31, 2013 was $1,691,190.

13. Income Taxes

The components of the income tax provision for the year ended December 31, 2013 were as follows:

Federal	
Current	$ 108,235
Deferred	24,950
	133,185
Foreign	
Current	664
Deferred	-
	664
State	
Current	9,538
Deferred	2,187
	11,725
Tax provision related to continuing operations	145,574
Tax provision related to discontinued operations	2,464
Total income tax provision	$ 148,038

(in thousands of dollars)

The components of deferred income taxes at December 31, 2013 were as follows:

Deferred tax assets		
Benefit plan liabilities	$	64,080
Other payables and accrued expenses		72,882
Premium deficiency reserves		6,558
Tax credit carryforwards		79,965
Goodwill and other intangible assets		6,225
Net operating loss carryforwards		64,477
Contribution carryforwards		25,042
Allowance for doubtful accounts		14,409
Impairment reserves on investments		5,735
Other		42,093
Total deferred tax assets		381,466
Less: Valuation allowance		(170,498)
Total deferred tax assets, net of valuation allowance		210,968
Deferred tax liabilities		
Net unrealized gains on available-for-sale securities		97,231
Property and equipment		57,461
Investment in partnerships/affiliates		20,851
Other		7,089
Total deferred tax liabilities		182,632
Deferred income taxes, net	$	28,336

The realization of net deferred tax assets is dependent on the Corporation's ability to generate sufficient taxable income in future periods. The amount of deferred tax assets considered realizable, however, could change if estimates of future taxable income change.

At December 31, 2013, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark WV and Highmark DE of $41,957 and $38,008, respectively, available to offset future taxes. Utilization of the alternative minimum tax credit carryforwards will not take place until such time as Highmark WV and Highmark DE cease to be in an alternative minimum tax position or a change in the tax laws occurs. The Corporation recognized a valuation allowance due to the uncertainty of realizing a tax benefit for alternative minimum tax credits and because the lower alternative minimum tax rate is expected to apply when net deductible temporary differences reverse.

At December 31, 2013, various subsidiaries and affiliates of the Corporation had state net operating loss carryforwards totaling $348,295 that expire between 2014 and 2031 and are available to offset future state taxable income of the subsidiary that generated the loss carryforward. The utilization of the state net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance given uncertainty surrounding the realizability of the carryforwards.

(in thousands of dollars)

At December 31, 2013, the Corporation had federal net operating loss carryforwards, related to Highmark DE and Allegheny Health subsidiaries of $11,913 and $108,676, respectively that expire in various amounts through 2032. The utilization of the federal net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the federal net operating loss carryforward not expected to be utilized.

A reconciliation of income tax expense recorded in the consolidated statement of operations and amounts computed at the statutory federal rate for the years ended December 31, 2013 was as follows:

Income taxes at statutory rate	$ 3,986
State taxes, net of federal tax benefit	7,646
IRC section 833(b) deduction	(519)
Net assets acquired through affiliations	(21,639)
Change in valuation allowance	16,090
Net losses from tax exempt entities	122,657
Nondeductible compensation	11,094
Other	6,259
Income tax provision on continuing operations	$ 145,574

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 IRC, 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. The special deduction calculation is complicated and little technical guidance has been issued by the taxing authorities. Therefore, some uncertainty exists in the calculation of the special deduction. After evaluating the uncertainties and in recognition of the impending statute expiration associated with certain tax years, during 2011, Highmark Inc. made the decision to file refund claims for the 2004 through 2010 tax years. Through its refund claim filings and the 2010 original tax return filed in 2011, special deduction tax benefits totaling approximately $275,000 were requested. Through 2013, Highmark Inc. recorded current income tax benefits totaling $126,500 related to this item, which is management's estimate of the amount to be realized. An increase to income tax expense for interest of $329 was recognized in 2013 and a decrease to income tax expense for interest of $630 was recognized in 2012. Future adjustments may be made to the Highmark Inc.'s estimated tax benefit as additional information becomes available.

(in thousands of dollars)

The changes in the carrying amount of gross unrecognized tax expenses benefits from uncertain tax positions for the year ended December 31, 2013 were as follows:

Balance at January 1	$	167,095
Additions for tax positions related to		
Current year		6,633
Prior years		1,891
Reductions to balance relating to		
Changes in tax positions of prior years		(1,705)
Statute of limitation expiration		(4,859)
Balance at December 31	$	169,055

At December 31, 2013, gross unrecognized tax benefits (excluding the federal benefit received from state positions) were $147,685, and, if recognized, would have impacted the effective tax rate.

The Corporation recorded potential interest and penalties payable of $647 at December 31, 2013 in net income tax recoverable in the consolidated balance sheet.

Highmark's consolidated federal income tax return has been examined by the IRS through 2010.

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded in 2014.

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2013:

Clinical	$	11,542
Capital expansion		8,660
Health education and support		4,461
Total temporarily restricted net assets	$	24,663

Temporarily restricted net assets include health care education and other support. Temporarily restricted net assets for capital expansion and renovation represent donations, gifts and pledges made for specific hospitals and other facilities. Similarly, temporarily restricted net assets for clinical programs represent donations, gifts and pledges made to support specific clinical programs or departments at hospitals and other facilities.

Permanently restricted net assets at December 31, 2013 were $258,862. These net assets are restricted to be invested in perpetuity. Income distributions generated from these net assets are either classified as unrestricted and may be used for any purpose or are classified as temporarily restricted based on donor restrictions. At December 31, 2013, permanently restricted net assets consisted of endowments managed by donor selected trustees as well as endowments managed by the hospitals of the Corporation.

In 2013, net assets were released from donor restrictions by incurring expenditures satisfying the specified restricted purposes in the amount of $10,474.

(in thousands of dollars)

15. Functional Expenses

The Corporation provides insurance and general health care services to customers. Expenses related to providing these services for the year ended December 31, 2013 are as follows:

Insurance	$ 13,607,316
Healthcare services	1,464,597
General and administrative	903,065
Total	$ 15,974,978

16. Leases

Several noncancellable operating leases, primarily software, computer equipment, office space, ambulatory locations, parking garages and clinical and administrative equipment were in effect at December 31, 2013. 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 noncancellable 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:

Years ending December 31,	
2014	$ 162,307
2015	136,627
2016	120,924
2017	91,510
2018	73,527
Thereafter	257,011
Total	$ 841,906

Rent expense of $191,722 in 2013 is recorded in other operating expenses in the accompanying consolidated statement of operations.

17. Contingencies

Herman Wooden and Thomas Logan, former corporate members of Highmark Inc., filed a lawsuit against Highmark Inc. in the Common Pleas Court of Philadelphia County alleging that Highmark Inc. is violating the Pennsylvania nonprofit corporation law by accumulating more than "incidental profits." Plaintiffs are seeking the creation of a common fund for the disposition of any funds determined to constitute more than "incidental profits" as well as an award of attorneys' fees and costs. Highmark Inc. filed its own Motion for Summary Judgment on April 15, 2013 as to which the plaintiffs filed an opposition on May 17, 2013. On August 8, 2013, the Court of Common Pleas granted Highmark Inc.'s Motion for Summary Judgment and denied Plaintiff's Partial Motion for Summary Judgment. Plaintiffs appealed from the trial court's decision to the Commonwealth Court on August 9, 2013. 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 thousands of dollars)

In December 2010, Royal Mile Company, Royal Asset Management and Pamela Lang, on behalf of individuals and companies which have obtained health insurance coverage from Highmark Inc., filed a class action lawsuit in the United States District Court for the Western District of Pennsylvania alleging that Highmark Inc. and UPMC Health System violated antitrust laws by entering into an illegal agreement to restrain trade and by conspiring to create monopolies in the Western Pennsylvania health insurance market. On September 27, 2013, the Court granted Highmark Inc.'s Motion to Dismiss and a Motion for Leave to file to file a Third Amended Compliant which Highmark Inc. opposed. Oral argument on the Plaintiffs' Motion for Leave was held on April 7, 2014. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter.

A number of class action lawsuits filed throughout the United States against the BCBSA, Highmark Inc. and/or other Blue Cross and/or Blue Shield plans have been consolidated in a multi-district litigation in the U.S. District Court for the Northern District of Alabama and captioned In re: Blue Cross Blue Shield Antitrust Litigation. Such lawsuits have been filed on behalf of (i) healthcare providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of Highmark Inc. or any other Blue Cross and/or Blue Shield plan and/or (ii) members and subscribers Highmark Inc. and/or any other Blue Cross and/or Blue Shield plan (the "BCBS Plans"). The lawsuits primarily deal with alleged conspiracy and price fixing by and among the BCBS Plans and BCBSA, the competitive impact of exclusive service areas granted by BCBSA and alleged contract provisions of BCBS Plans. Plaintiffs generally seek a judgment that 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. In addition, certain of the complaints filed by Plaintiffs in this litigation (including, without limitation, LifeWatch) contain additional claims specifically against Highmark Inc. 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 February 1, 2013, a former employee filed a purported class action complaint in Cambria County, Pennsylvania asserting one cause of action for breach of the Pennsylvania Minimum Wage Act ("PMWA"). The complaint claims that the former employee was misclassified as an exempt employee when they should have been classified as non-exempt, and thus should have been paid overtime compensation. The complaint was filed ostensibly on behalf of all "supervisors", defined as "individuals employed as supervisors in Highmark Inc.'s 'Healthplan Operations,' department from 2010 to the present...." Preliminary Objections were filed, and in response the Plaintiff filed an Amended Complaint which reasserted the PMWA claim and added a claim under the Fair Labor Standards Act. Highmark Inc. removed the action to the Federal District Court for the Western District of Pennsylvania, and filed a Motion to Dismiss the action, which was denied on November 15, 2013. Highmark Inc. and the plaintiff have tentatively agreed to a settlement that would result in the dismissal of this case. 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 April 2009, a putative collective action was filed in the United States District Court for the Western District of Pennsylvania alleging claims under ERISA, RICO and the Fair Labor Standards Act against WPAHS, certain of its related entities and certain WPAHS executives. The suit alleges that current and former employees did not receive compensation for all hours worked. A companion class action suit alleging various state court claims was filed in the Court of Common Pleas of Allegheny County. In late December 2011, the District Court for the Western District of Pennsylvania denied the certification of the class action suit and the Third Circuit affirmed in 2013. In the state suit, the judge dismissed the meal break claims but preserved potential non-meal break wage claims.

(in thousands of dollars)

That case is stayed pending the outcome of the federal appeal, and has remained inactive despite the decision by the Third Circuit. In response to the Third Circuit decision, the law firm that filed the 2009 case filed a new action in October 2013 that makes many of the same allegations against WPAHS, certain related entities and certain executives and individuals, and asserts a single cause of action under the Fair Labor Standards Act. WPAHS has filed a motion to dismiss the suit, which motion is 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.

WPAHS has conducted an investigation of its leasing activity with independent physicians. Certain of these arrangements potentially implicate the federal anti-kickback statute (42 U.S.C. § 1320a-7b(b)), the civil monetary penalty authorities (42 U.S.C. § 1320a-7a) and the physician self-referral law (42 U.S.C. § 1395nn) (the Stark law). WPAHS submitted a preliminary self-disclosure report of certain of these arrangements to the Health and Human Services Office of Inspector General ("OIG") pursuant to the OIG's self-disclosure protocol on December 20, 2012. WPAHS received a letter from the OIG dated February 27, 2013 accepting the submission into the OIG's self-disclosure protocol. WPAHS submitted a supplemental disclosure report to the OIG on March 22, 2013, identifying certain additional lease arrangements that it requests to be included in the self-disclosure protocol. WPAHS has since reached a settlement with the United States, releasing WPAHS from certain potential civil liabilities and resolving the OIG self-disclosure matter, in consideration of a settlement payment in the amount of $1,529. The settlement is not an admission of liability by WPAHS. On May 31, 2013, WPAHS disclosed certain other lease arrangements involving potential noncompliance with the Stark law to CMS. The disclosure reports are not an admission of liability with respect to the disclosed matters, but are intended to facilitate a resolution by settlement of potential violations of the aforementioned laws. WPAHS may be subject to fines and penalties with respect to the lease arrangements that are the subject of the disclosures.

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 consolidated financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the consolidated financial position, results of operations or cash flows of the Corporation.