

Examination Warrant Number 16-01324-11018-R1

**Report of Examination of**

**UPMC Health Benefits, Inc.  
Pittsburgh, Pennsylvania**

**As of December 31, 2016**

*For Informational Purposes Only*

TABLE OF CONTENTS

<b>Subject</b>	<b>Page</b>
Salutation .....	1
Scope of Examination .....	1
History.....	2
Management and Control:	
Capitalization .....	2
Stockholder .....	3
Insurance Holding Company System.....	3
Board of Directors.....	5
Committees .....	6
Officers .....	6
Corporate Records:	
Minutes .....	7
Articles of Incorporation.....	7
By-Laws.....	7
Service and Operating Agreements .....	7
Reinsurance:	
Ceded .....	9
Assumed.....	10
Territory and Plan of Operation.....	10
Significant Operating Trends.....	11
Pending Litigation.....	11
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds .....	13
Comparative Statement of Income.....	14
Comparative Statement of Capital and Surplus.....	15
Comparative Statement of Cash Flow .....	16
Summary of Examination Changes .....	17
Notes to Financial Statements:	
Assets:	
Investments .....	17
Liabilities:	
Loss and Loss Adjustment Expense Reserves .....	18
Subsequent Events .....	18
Recommendations:	
Prior Examination .....	19
Current Examination.....	19
Conclusion .....	20

Harrisburg, Pennsylvania  
April 19, 2018

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 16-01324-11018-R1, dated August 4, 2016, an examination was made of

**UPMC Health Benefits, Inc., NAIC Code: 11018**

a Pennsylvania domiciled multi-state, stock casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 600 Grant Street, Pittsburgh, Pennsylvania 15219.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the certified public accounting firm of Ernst & Young, LLP (“CPA”) has provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following Pennsylvania domestic affiliated insurance companies from the University of Pittsburgh Medical Center (“UPMC”) Group were examined at the same time with this examination:

<u>Company</u>	<u>NAIC Code</u>
UPMC Health Network, Inc.	11994
UPMC For You, Inc.	11995
UPMC Health Options, Inc.	15345
UPMC Health Coverage Inc.	15451
Community Care Behavioral Health Organization	47024
UPMC Health Plan, Inc.	95216
UPMC Work Alliance, Inc.	14485
Tri-Century Insurance Company	17990

## HISTORY

The Company was incorporated on April 22, 1999 as a for-profit business stock corporation, licensed by the Department on February 9, 2000, and commenced business on February 9, 2000.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382(c)(2) Accident and Health and (c)(14) Workers’ Compensation.

## MANAGEMENT AND CONTROL

### CAPITALIZATION

As of the examination date, December 31, 2016, the Company’s total capital and surplus was \$56,390,839, consisting of fifty thousand (50,000) shares of issued and outstanding common stock with a par value of twenty dollars (\$20) per share amounting to \$1,000,000; \$4,100,000 in paid in and contributed surplus; \$66,500,000 in surplus notes, and (\$15,209,161) in unassigned funds (surplus).

The Company’s minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$800,000 in capital and \$400,000 in surplus. The Company has met all governing requirements throughout the examination period.

## **STOCKHOLDER**

On December 31, 2016, UPMC Coverage Products, Inc. owns 100% of all fifty thousand (50,000) shares of the Company's issued and outstanding common capital stock. No dividends were paid to shareholders during the period covered by this examination.

## **INSURANCE HOLDING COMPANY SYSTEM**

The Company meets the requirements for filing an insurance holding company system annual registration statement ("Annual Registration Statement"), in compliance with 40 P.S. § 991.1404. The Company has filed the Annual Registration Statement and various amendments for all years of the examination period.

UPMC, a 501(c)(3) non-profit corporation, is named as the ultimate controlling person in the system. The following abridged organizational chart depicts the Company's relationship within the UPMC holding company system at December 31, 2016:

For Informational Purposes Only



**BOARD OF DIRECTORS**

Management of the Company is vested in its Board of Directors (“Board”), which was comprised of the following members as of the examination date, December 31, 2016:

<b>Name and Address</b>	<b>Principal Occupation</b>
Jack Wood Babich Johnstown, Pennsylvania	Sr. Vice President & Chief Human Relations Officer Ameriserv Financial Corporation
George Nicholas Beckwith, III Pittsburgh, Pennsylvania	Chairman and Chief Executive Officer Arch Street Management, LLC
Peter Eisenbrandt Pittsburgh, Pennsylvania	Senior Vice President Federated Investors
Richard Hamilton Allison Park, Pennsylvania	Chairman of the Board AAA East Central
Diane Patricia Holder Pittsburgh, Pennsylvania	Chief Executive Officer UPMC Health Plan
George Alan Huber Venetia, Pennsylvania	Attorney and Professor University of Pittsburgh
Scott Miller Lammie Mars, Pennsylvania	Treasurer UPMC Health Plan
Mark Laskow Stahlstown, Pennsylvania	Managing Director Greycourt & Company, Inc.
Lisa Pupo Lenihan Pittsburgh, Pennsylvania	U.S. Magistrate Judge United States Courts
Robert Gross Lovett, Esq. Pittsburgh, Pennsylvania	Partner Lovett, Bookman, Harmon, Marks, LLP
Norman Mity Aliquippa, Pennsylvania	President and CEO Heritage Valley Health System
Robin O. Newham Pittsburgh, Pennsylvania	Teacher and Head of School The Ellis School
Gregory Peaslee Pittsburgh, Pennsylvania	Senior Vice President-Human Resources UPMC
Loren Roth, M.D. Pittsburgh, Pennsylvania	Health Care Administrator UPMC
Gregory Scott Pittsburgh, Pennsylvania	Sr. Vice Chancellor-Business & Operations University of Pittsburgh
Stephen David Shapiro, M.D. Pittsburgh, Pennsylvania	Chief Medical and Scientific Officer, UPMC
Francis Solano, M.D. Wexford, Pennsylvania	Physician and Administrator UPMC
Susan Baker Shipley Pittsburgh, Pennsylvania	Regional President Huntington Bank
Gary Weinstein Washington, Pennsylvania	President and Chief Executive Officer The Washington Hospital

The Company's By-Laws provide that the Board of Directors shall consist of no less than three (3) nor more than twenty-one (21) members. At least one-third of the Board of Directors shall be Outside Directors. One director shall also serve as the Chief Executive Officer of the Company. The Directors shall be elected annually by the shareholders and shall serve until their successors have been duly appointed and qualified or until a Director's earlier death, resignation, or removal.

The Company has a conflict of interest policy and requires all employees and directors to complete a conflict of interest questionnaire on an annual basis.

## COMMITTEES

As of the examination date, December 31, 2016, the following committees were appointed by the Board and serving in accordance with the Company's By-Laws:

### Finance, Audit & Compliance Committee

Mark Laskow, Chairman  
Peter Eisenbrandt  
Diane Holder  
Scott Lammie  
Gary Weinstein  
George Nicholas Beckwith III  
Richard Hamilton  
George Huber  
Robin Newham  
Susan Shipley

### Outside Director Committee

George Huber, Chairman  
Jack Babich  
Peter Eisenbrandt  
Richard Hamilton  
Lisa Pupo Lenihan, Judge  
Robert Lovett, Esq.  
Norman Mitry  
Robin Newham  
Greg Scott  
Susan Shipley  
Gary Weinstein

## OFFICERS

As of the examination date, December 31, 2016, the following officers were appointed and serving in accordance with the Company's By-Laws:

<b>Name</b>	<b>Title</b>
Diane Patricia Holder	Chief Executive Officer
Mark Laskow	Chairman of the Board
Gordon Gebbens	Chief Financial Officer
Sheryl Kashuba, Esq.	Secretary
Scott Miller Lammie	Treasurer



## CORPORATE RECORDS

### MINUTES

A compliance review of the corporate minutes revealed the following:

- All meetings of the Board held during the period under examination were held in compliance with the Company's By-Laws, and quorums were established at all such meetings.
- The stockholders elect the Company's Directors at the annual meeting of the stockholders in compliance with the By-Laws.
- The Company's officers were appointed by the Board in compliance with the By-Laws.
- The Company's investment transactions and policy are approved by the Board or a committee thereof.

### ARTICLES OF INCORPORATION

There were no amendments to the Articles of Incorporation during the examination period. However, effective September 15, 2014, the Company reported a change of their registered address to 600 Grant Street, Pittsburgh, Pennsylvania 15219.

### BY-LAWS

The Company amended its By-Laws effective March 15, 2012. The Company amended Article V-Committees of the Board, to add a Finance, Audit & Compliance Committee which shall consist of no fewer than five and no more than fifteen Directors, and to remove the Executive Committee. The Company further amended Article V to add to the maximum number of outside directors from six (6) to fifteen (15) to the Outside Director Committee.

### SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, including several external and intercompany agreements. The following significant agreements were in place during the examination period:

#### Administrative Services Agreement

The Company entered into an Administrative Services Agreement ("Agreement") with UPMC Health Plan, Inc. ("Health Plan"), effective January 1, 2004 and amended on December 31, 2007. Under the agreement Health Plan provides services for the administration and management of the Company's business. Specifically, Health Plan has agreed to provide the following services: Sales and Marketing; Enrollment and Eligibility; Member Services; Accounting; Finance; Claims Adjudication and Payment; Information Systems; Network Development and Administration; Provider Credentialing and Recredentialing; Quality Improvement; Utilization Management Services; Development Services; Pharmacy Benefits

Management Services; and Executive Management and Administration Services. The Company reimburses Health Plan. the actual cost of expenses that are directly attributable to the Company. For those costs that are attributable to all health plans for which Health Plan provides administration and management services, the Company pays its respective portion based upon its revenues.

**Dental Administrative Services Agreement**

The Company entered into a dental administrative services agreement (“Agreement”) with Health Plan and UPMC Health Network, Inc. (“Health Network”), effective January 1, 2015. Under the terms of the Agreement, the Company shall provide certain dental benefits and services to members of the Health Plan and Health Network. Specifically, the Company has agreed to provide the following services: Member Services, Claims Adjudication and Payment, Network Development and Administration, Provider Credentialing and Recredentialing, Quality Improvement, Utilization Management Services, Development Services, Retained Responsibilities. The Company shall be reimbursed for all costs incurred directly attributable to Health Plan and Health Network.

**Vision Administrative Services Agreement**

The Company entered into a vision administrative services agreement (“Agreement”) with Health Plan, Health Network. and UPMC For You Inc. (collectively, “Companies”), effective January 1, 2017. Under the terms of the Agreement, the Company shall provide certain vision benefits and services to the members of the Companies. Specifically, the Company has agreed to provide the following services: Member Services, Claims Adjudication and Payment, Network Development and Administration, Provider Credentialing and Recredentialing, Quality Improvement, Utilization Management Services, Development Services, Retained Responsibilities. Health Benefits shall be reimbursed for all costs incurred directly attributable to the Companies.

**Tax Allocation Agreement**

The Company participates in a consolidated federal income tax allocation agreement (“Tax Agreement”) with some of its affiliated companies, originally dated November 1, 2000 and effective as of July 1, 1999. The Tax Agreement was amended on July 1, 2011 and July 1, 2013. The Tax Agreement calls for the Company to file its federal income tax return as part of a consolidated return filed by UPMC Holding Company, Inc. and its subsidiaries. The Tax Agreement between the companies provides for the allocation of income tax or income tax benefits based upon each company’s share of consolidated net income or loss.

**REINSURANCE****CEDED**

The Company and UPMC Work Alliance Inc. (“Work Alliance”) have a joint first through fourth layers workers’ compensation excess of loss reinsurance contract with various reinsurers, effective July 1, 2016. The term of the contract is for one year, with the Company having the option to renew after the initial term. The following represents a summary of the reinsurers and the Company’s retention and the reinsurance limits:

**First Layer**

Reinsurer		Participation
Maiden Reinsurance North America, Inc.		100%
<u>Company’s Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$500,000	\$1,000,000	Workers’ Compensation

**Second Layer**

Reinsurer		Participation
Safety National Casualty Corporation		100%
<u>Company’s Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$1,000,000	\$10,000,000	Workers’ Compensation

**Third Layer**

Reinsurers		Participations
Markel Global Reinsurance Corporation		50%
Safety National Casualty Corporation		50%
<u>Company’s Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$10,000,000	\$20,000,000	Workers’ Compensation

**Fourth Layer**

Reinsurers		Participations
Markel Global Reinsurance Corporation		25%
Arch Reinsurance Company		25%
BGS Services (Bermuda) Limited		
For and on behalf of Lloyd’s Syndicate No. 2987		35%

Through Aon UK Limited trading as Aon Benfield  
Lloyd's Underwriters Per Signing Page(s) 15%

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$20,000,000	\$40,000,000	Workers' Compensation

The Company's reinsurance intermediary, Aon Benfield Inc. is licensed by the Department as required by 40 P.S. § 321.2(a). The Company operates this program pursuant to a properly executed written authorization between the Company and the intermediary as required by 40 P.S. § 321.3.

## ASSUMED

On October 1, 2016, the Company entered into a 100% Quota Share Reinsurance Agreement ("Agreement") with Work Alliance, whereby the Company assumes all of Work Alliance's net liability under policies, contracts, and binder of workers' compensation insurance policies, both in force and new policies after the effective date including renewals. The Agreement shall commence on the effective date and continue in force until terminated by both parties. The Agreement was approved by the Department on September 7, 2016.

All of the Company's reinsurance contracts meet the transfer of risk test. All contracts contained the appropriate insolvency and arbitration clauses.

## TERRITORY AND PLAN OF OPERATION

The Company is a for-profit casualty insurance company licensed by the Department to offer dental, stop-loss, vision, Medicare Supplement, Medicare Select, Medicare Advantage Pharmacy Plan, Workers Compensation fully-insured, individual medical products, non-Affordable Care Act compliant legacy plans, Medicare Private Fee-for-Service, and a national complementary plan. The Company is also licensed in West Virginia and Ohio.

The following chart summarizes the Company's direct and assumed, ceded and net written premiums by line of business for the year ended December 31, 2016:

<u>Line of Business</u>	<u>Direct and Assumed Premium</u>	<u>Ceded Premium</u>	<u>Net Written Premium</u>	<u>Percentage of Total</u>
Other accident and health	\$ 28,416,991	\$ 24,674	\$ 28,392,317	28.1 %
Workers' compensation	77,512,898	4,929,465	72,583,431	71.9 %
<b>Totals</b>	<b>\$ 105,929,887</b>	<b>\$ 4,954,139</b>	<b>\$ 100,975,748</b>	<b>100.0 %</b>

As of December 31, 2016, the Company did not have direct premiums written/produced by managing general agents or third-party administrators.

### SIGNIFICANT OPERATING TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	\$ 393,021,495	100 0 %
Losses incurred	\$ 287,113,336	73 1 %
Loss expenses incurred	21,255,208	5 3 %
Other underwriting expenses incurred	78,062,560	19 8 %
Aggregate write-ins for underwriting deductions	(124,130)	0.1 %
Net underwriting gain or (loss)	6,714,521	1 7 %
Totals	\$ 393,021,495	100 0 %

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2016	2015	2014	2013	2012
Admitted assets	\$ 170,489,812	\$ 147,948,282	\$ 85,435,740	\$ 70,550,657	\$ 38,778,387
Liabilities	\$ 114,098,973	\$ 102,601,992	\$ 67,552,160	\$ 55,836,582	\$ 21,175,733
Surplus as regards policyholders	\$ 56,390,839	\$ 45,346,290	\$ 17,883,580	\$ 14,714,075	\$ 17,602,654
Gross premium written	\$ 105,829,887	\$ 95,711,451	\$ 90,400,251	\$ 88,508,159	\$ 50,609,579
Net premium written	\$ 100,975,748	\$ 91,177,702	\$ 88,645,528	\$ 84,294,174	\$ 48,147,862
Underwriting gain/(loss)	\$ 3,590,568	\$ 2,465,048	\$ 4,510,331	\$ (4,238,937)	\$ 387,512
Investment gain/(loss)	\$ 2,729,547	\$ (493,786)	\$ 385,673	\$ (2,529)	\$ 826,735
Other gain/(loss)	\$ 384,795	\$ 320,990	\$ 337,350	\$ 123	\$ 0
Net Income	\$ 71,591	\$ 1,138,621	\$ 2,582,936	\$ (2,990,326)	\$ 603,463

### PENDING LITIGATION

The Company and certain of the UPMC insurance companies are subject to litigation and arbitration arising in the normal course of business. A review of the legal representation letters from the Company's legal counsel, and outside attorneys, explaining all current litigation to which the Company is a party indicated that the Company is not a party to any material litigation or arbitration, and none of which will, in the opinion of management that the ultimate liability, if any, associated with the outcome of these matters have a material adverse effect on the Company's financial condition.

## FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2016, and the results of its operations for the five-year period under examination, are reflected in the following statements\*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;  
Comparative Statement of Income;  
Comparative Statement of Capital and Surplus; and  
Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

For Informational Purposes Only

## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2016	2015	2014	2013	2012
Bonds	\$ 83,426,952	\$ 80,314,994	\$ 37,920,247	\$ 36,170,654	\$ 26,022,969
Common stocks	24,839,415	21,896,498	0	0	0
Cash, cash equivalents, and short term investments	28,152,394	17,373,506	22,526,331	18,400,881	9,296,350
Receivable for securities	1,082	313	2,335	2,988	1,135
Subtotals: cash and invested assets	<u>136,419,843</u>	<u>119,585,311</u>	<u>60,448,913</u>	<u>62,574,623</u>	<u>35,320,454</u>
Investment income due and accrued	450,638	430,373	207,613	241,334	183,908
Premiums and agents' balances due	32,623,028	27,420,696	22,905,523	17,033,684	2,766,917
Other amounts receivable under reinsurance contracts	60,660	4,088	678,790	200,000	7,551
Amounts receivable relating to uninsured plans	497,658	611,559	561,256	383,422	413,583
Net deferred tax asset	0	0	322,811	0	29,496
Health care and other amounts receivable	263,405	198,256	310,834	117,694	66,478
<b>Total</b>	<u>\$ 170,469,812</u>	<u>\$ 147,948,282</u>	<u>\$ 85,435,740</u>	<u>\$ 70,550,657</u>	<u>\$ 38,778,387</u>
<b>Losses</b>	<b>\$ 49,417,105</b>	<b>\$ 40,699,092</b>	<b>\$ 31,708,028</b>	<b>\$ 29,889,804</b>	<b>\$ 13,431,288</b>
Loss adjustment expenses	7,306,485	5,832,700	4,174,547	31,176	33,102
Commissions payable, contingent commissions and other similar charges	0	288,835	387,172	0	0
Taxes, licenses and fees	571,251	1,419,364	1,618,796	1,567,051	607,697
Net deferred tax liability	9,982,043	18,270,200	0	0	0
Unearned premiums	35,150,741	29,711,805	26,054,418	19,720,716	4,003,361
Advance premium	1,441,190	1,525,416	1,912,977	2,610,174	1,437,255
Ceded reinsurance premiums payable (net of ceding commissions)	661,420	1,608,510	0	(882,000)	0
Remittances and items not allocated	568,819	410,327	303,144	255,887	165,224
Payable to parent, subsidiaries and affiliates	6,539,949	1,660,813	100,882	218,322	582,806
Payable for securities	0	0	0	366,946	0
Liability for amounts held under uninsured accident and health plans	431,863	358,910	286,839	130,545	0
Aggregate write-ins for liabilities	2,028,127	1,016,019	1,007,356	1,907,960	914,790
<b>Total liabilities</b>	<u>114,098,973</u>	<u>102,601,992</u>	<u>67,652,160</u>	<u>65,836,582</u>	<u>21,176,733</u>
Aggregate write-ins for special surplus funds	0	454,446	0	0	0
Common capital stock	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Surplus notes	66,500,000	66,500,000	21,500,000	21,500,000	21,500,000
Gross paid in and contributed surplus	4,100,000	4,100,000	4,100,000	4,100,000	4,100,000
Unassigned funds (surplus)	(15,209,161)	(26,708,166)	(8,716,420)	(11,685,925)	(5,997,346)
Surplus as regards policyholders	<u>56,390,839</u>	<u>45,346,290</u>	<u>17,883,580</u>	<u>14,714,075</u>	<u>17,602,654</u>
<b>Totals</b>	<u>\$ 170,469,812</u>	<u>\$ 147,948,282</u>	<u>\$ 85,435,740</u>	<u>\$ 70,550,657</u>	<u>\$ 38,778,387</u>

### Comparative Statement of Income For the Year Ended December 31,

	2018	2016	2014	2013	2012
<b>Underwriting Income</b>					
Premiums earned	\$ 95,536,812	\$ 87,620,315	\$ 81,096,351	\$ 80,720,157	\$ 48,147,861
Deductions:					
Losses incurred	62,517,595	61,343,998	57,174,850	66,201,440	37,875,455
Loss expenses incurred	8,683,221	5,990,674	2,761,134	2,289,812	1,530,467
Other underwriting expenses incurred	20,316,559	17,720,697	17,524,096	13,905,083	8,696,125
Aggregate write-ins for underwriting deductions	428,870	0	(884,080)	552,768	(241,698)
Total underwriting deductions	<u>91,946,245</u>	<u>85,055,267</u>	<u>78,586,020</u>	<u>84,659,093</u>	<u>47,760,349</u>
Net underwriting gain or (loss)	<u>3,590,568</u>	<u>2,465,048</u>	<u>4,510,331</u>	<u>(4,238,937)</u>	<u>387,612</u>
<b>Investment Income</b>					
Net investment income earned	2,711,418	162,097	(11,133)	(76,167)	331,925
Net realized capital gains or (losses)	18,129	(655,684)	396,606	73,638	494,610
Net investment gain or (loss)	<u>2,729,547</u>	<u>(493,788)</u>	<u>385,673</u>	<u>(2,528)</u>	<u>826,735</u>
<b>Other Income</b>					
Aggregate write-ins for miscellaneous income	384,795	320,990	337,350	123	0
Total other income	<u>384,795</u>	<u>320,990</u>	<u>337,350</u>	<u>123</u>	<u>0</u>
Net income before dividends to policyholders and before federal and foreign income taxes	6,704,909	2,292,251	5,233,354	(4,241,343)	1,214,247
Federal and foreign income taxes incurred	6,633,318	1,163,630	2,650,418	(1,251,017)	610,784
Net income	<u>\$ 71,591</u>	<u>\$ 1,138,621</u>	<u>\$ 2,682,936</u>	<u>\$ (2,990,326)</u>	<u>\$ 603,463</u>

For Informational Purpose Only



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

	2016	2015	2014	2013	2012
Surplus as regards policyholders					
December 31, previous year	<u>\$45,346,290</u>	<u>\$17,883,580</u>	<u>\$14,714,075</u>	<u>\$17,602,654</u>	<u>\$17,683,468</u>
Net income	71,591	1,138,621	2,582,936	(2,980,326)	603,463
Net unrealized capital gains or (losses)	2,834,263	(223,776)	(13,016)	(1,623)	29,450
Change in net deferred income tax	8,288,157	(18,593,011)	322,811	(29,497)	0
Change in nonadmitted assets	(149,461)	140,877	278,774	132,867	(713,728)
Change in surplus notes	0	45,000,000	0	0	0
Change in surplus as regards policyholder for the year	<u>11,044,549</u>	<u>27,462,710</u>	<u>3,169,505</u>	<u>(2,888,579)</u>	<u>(80,814)</u>
Surplus as regards policyholders					
December 31, current year	<u>\$56,390,839</u>	<u>\$45,346,290</u>	<u>\$17,883,580</u>	<u>\$14,714,075</u>	<u>\$17,602,654</u>

For Informational Purposes Only

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

	2016	2015	2014	2013	2012
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 94,567,401	\$ 88,970,585	\$ 81,566,082	\$ 82,215,842	\$ 49,765,872
Net investment income	1,789,818	(160,028)	243,280	(4,844)	607,179
Miscellaneous income	388,883	318,901	337,350	123	0
<b>Total Income</b>	<b>96,756,100</b>	<b>89,127,460</b>	<b>82,146,712</b>	<b>82,211,021</b>	<b>50,373,051</b>
Benefit and loss related payments	53,799,583	52,350,932	55,358,625	51,617,808	30,738,518
Commissions, expenses paid and aggregate write-ins for deductions	28,057,067	22,129,687	14,902,165	15,086,962	9,875,897
Federal and foreign income taxes paid (recovered)	175,318	0	2,650,418	(1,251,016)	329,708
<b>Total deductions</b>	<b>82,031,968</b>	<b>74,480,619</b>	<b>72,911,209</b>	<b>65,453,753</b>	<b>40,944,118</b>
<b>Net cash from operations</b>	<b>14,724,132</b>	<b>14,646,841</b>	<b>9,235,503</b>	<b>16,757,267</b>	<b>9,428,933</b>
<b>Cash from Investments</b>					
<b>Proceeds from investments sold, matured or repaid:</b>					
Bonds	81,881,509	71,834,753	47,569,556	33,501,453	22,463,806
Stocks	5,415,263	3,361,984	0	0	0
Net gain or (loss) on cash and short-term investments	0	4,768	12	11,950	3,750
Miscellaneous proceeds	321,502	233,552	0	385,092	0
<b>Total investment proceeds</b>	<b>87,618,274</b>	<b>75,435,057</b>	<b>47,569,568</b>	<b>33,898,495</b>	<b>22,467,556</b>
<b>Cost of investments acquired (long-term only):</b>					
Bonds	84,587,769	114,623,889	49,104,320	43,717,723	21,242,266
Stocks	5,898,508	25,848,788	0	0	0
Miscellaneous applications	282,028	231,531	396,292	0	1,135
<b>Total investments acquired</b>	<b>90,778,305</b>	<b>140,704,008</b>	<b>49,490,612</b>	<b>43,717,723</b>	<b>21,243,401</b>
<b>Net cash from investments</b>	<b>(3,160,030)</b>	<b>(65,268,951)</b>	<b>(1,921,044)</b>	<b>(9,819,228)</b>	<b>1,224,155</b>
<b>Cash from Financing and Miscellaneous Services</b>					
<b>Other cash provided (applied):</b>					
Surplus notes, capital notes	0	45,000,000	0	0	0
Other cash provided or (applied)	(785,214)	469,286	(1,189,109)	166,591	(4,387,823)
<b>Net cash from financing and miscellaneous sources</b>	<b>(785,214)</b>	<b>45,469,286</b>	<b>(1,189,109)</b>	<b>166,591</b>	<b>(4,387,823)</b>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	10,778,888	(5,152,825)	6,125,350	7,104,631	6,265,265
Cash and short-term investments					
Beginning of the year	17,373,506	22,526,331	16,400,981	9,296,350	3,031,085
End of the year	<b>\$ 28,152,394</b>	<b>\$ 17,373,506</b>	<b>\$ 22,526,331</b>	<b>\$ 16,400,981</b>	<b>\$ 9,296,350</b>

## SUMMARY OF EXAMINATION CHANGES

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

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

### INVESTMENTS

As of December 31, 2016, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 83,426,952	61.1 %
Common stocks	24,839,415	18.2 %
Cash	26,948,211	19.7 %
Short-term investments	1,204,182	0.9 %
Receivable for securities	1,083	0.1 %
Totals	<u>\$ 136,419,843</u>	<u>100.0 %</u>

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

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 62,956,695	75.5 %
2 - high quality	18,156,773	21.8 %
3 - medium quality	1,889,540	2.2 %
4 - low quality	423,944	0.5 %
Totals	<u>\$ 83,426,952</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 4,603,806	5.5 %
2 to 5 years	39,731,591	47.6 %
6 to 10 years	31,116,915	37.3 %
11 to 20 years	5,018,981	6.1 %
over 20 years	2,955,659	3.5 %
Totals	<u>\$ 83,426,952</u>	<u>100.0 %</u>

The Company's investment portfolio is primarily comprised of bonds, common stocks and cash.

The quality of the Company's bond and short-term investment portfolio is 99.5% investment grade, with 75.5% having an NAIC designation of "1" highest quality and 21.8% having an NAIC designation of "2" high quality. The Company has no investments in affiliated companies.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy at December 31, 2016.

The Company holds its investment portfolio under a custodial agreement with The Bank of New York Mellon, N.A. The examiners reviewed the Custodial Agreement and found it to be compliant with 31 Pa. Code § 148a.3.

## LIABILITIES

### LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported net reserves of \$49,417,105 for losses and \$7,306,465 for loss adjustment expenses ("LAE") on its December 31, 2016 Annual Statement.

Charles C. Emma, FCAS, MAAA, a Managing Principal of EVP Advisors, Inc., has served as the Company's appointed actuary for all years in the examination period. Mr. Emma concluded the December 31, 2016 reserves make a reasonable provision for Company.

Ernst & Young, LLP, the Company's independent auditor, performed separate, independent actuarial analyses of reserves as of December 31, 2016. Their analyses concluded that reserves were within acceptable ranges and, therefore, were fairly stated.

In conjunction with the examination, the Department utilized the actuarial services of Lewis & Ellis, Inc., who subcontracted through Cerebres, LLC, to assist in the review of reserving and pricing key activities of the Company.

Based upon procedures performed and the results obtained, the examination staff obtained sufficient evidence to support the conclusion that the Company's loss and LAE reserves are reasonably stated as of December 31, 2016.

### SUBSEQUENT EVENTS

On March 9, 2017, the Insurance Department of Delaware approved the Company's application for a Certificate of Authority to operate as a stock casualty workers compensation and employee liability company in the state of Delaware.

On April 4, 2017, the Company notified the Department that it has submitted a license application in the state of Maryland to operate as a Preferred Provider Organization, to comply with the Uniform Certificate of Authority Application requirements.

On September 1, 2017, the Company issued a Surplus Note in the amount of \$40,000,000 to UPMC Benefit Management Services.

On September 29, 2017, the Company issued an additional 25,000 shares of stock at \$20 par value to UPMC Coverage Products, Inc., its direct parent, in exchange for \$500,000 cash. As a result, the Company has capital stock of 100,000 shares authorized, 75,000 shares issued and outstanding at December 31, 2017.

On October 19, 2017, UPMC Coverage Products, Inc., the direct parent of the Company, appointed John Kunkle as a member of the Company's Board of Directors.

## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company document the election of Board members conducted during annual shareholder meetings that are to be held as stipulated in Section 3.01 of the Company's By-Laws.

*The Company has complied with this recommendation.*

2. It is recommended that the Company amend the applicable administrative services agreement to specify a due date, so that it complies with SSAP Number 25, Paragraph 6.

*The Company has complied with this recommendation.*

3. It is recommended that the Company's Board of Directors document the review and approval of its Investment Policy on an annual basis as required by 40 P. S. § 653b(b).

*The Company has complied with this recommendation.*

### CURRENT EXAMINATION

There are no recommendations being made as a result of this examination.

**CONCLUSION**

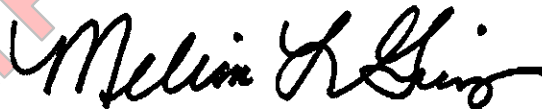
As a result of this examination, the financial condition of UPMC Health Benefits, Inc., as of December 31, 2016, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 170,489,811	100.0 %
Liabilities	\$ 114,098,972	66.9 %
Surplus as regards policyholders	56,390,839	33.1 %
Total liabilities and surplus	\$ 170,489,811	100.0 %

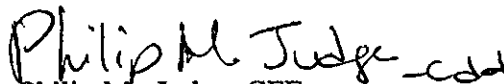
Since the previous examination, made as of December 31, 2011, the Company's assets increased by \$137,177,223, its liabilities increased by \$98,469,852, and its surplus increased by \$38,707,371.

This examination was conducted by examination staff from Cerebres, LLC, actuaries from Lewis & Ellis, Inc., Cornelius McConville, Ellamarie Durant, George Horey, CFE, Robert Smith, CFE and David Jia, CFE, with the latter in charge.

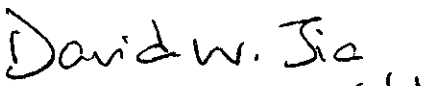
Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Philip M. Judge, CFE  
Examination Manager



David W. Jia, CFE  
Examiner-in-Charge