

**Examination Warrant Number 16-1324-11994-R1**

**Report of Examination of**

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

**As of December 31, 2016**

**For Informational Purposes Only**

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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 16-1324-11994-R1, dated August 4, 2016, an examination was made of

**UPMC Health Network, Inc., NAIC Code: 11994**

a Pennsylvania domiciled, single-state Risk Assuming Preferred Provider Organization, non-licensed insurer ("RANLI- PPO"), 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 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 Health Benefits, Inc.	11018
UPMC Work Alliance, Inc.	14485
Tri-Century Insurance Company	17990

### **HISTORY**

The Company was incorporated on June 17, 2002, as a for-profit business-stock corporation, was licensed by the Department on July 8, 2004, and commenced business on January 1, 2005.

The Company is currently authorized to transact business of a RANLI-PPO under the provisions of 40 P.S. § 764a.

### **MANAGEMENT AND CONTROL**

#### **CAPITALIZATION**

As of the examination date, December 31, 2016, the Company’s total capital and surplus was \$19,320,593, consisting of \$4,450,000 of paid in and contributed surplus, \$47,000,000 in surplus notes and (\$32,129,407) in unassigned funds (surplus).

Preferred Provider Organizations have the same initial capitalization requirements of a stock casualty insurer with accident and health powers in accordance with 40 P.S. § 386(c), which is \$750,000 in capital and \$375,000 in surplus. In addition to this required initial capitalization, pursuant to 31 Pa. Code § 152.9(a), a RANLI-PPO shall be deemed to have adequate working capital and reserves if its admitted assets exceed its liabilities by \$50,000 in excess of the minimum capital requirements at the time it commences operations, and if it

thereafter maintains its admitted assets in excess of liabilities by at least the minimum capital and surplus required of a stock casualty insurer with accident and health powers. The Company has met all governing requirements throughout the examination period.

**STOCKHOLDER**

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

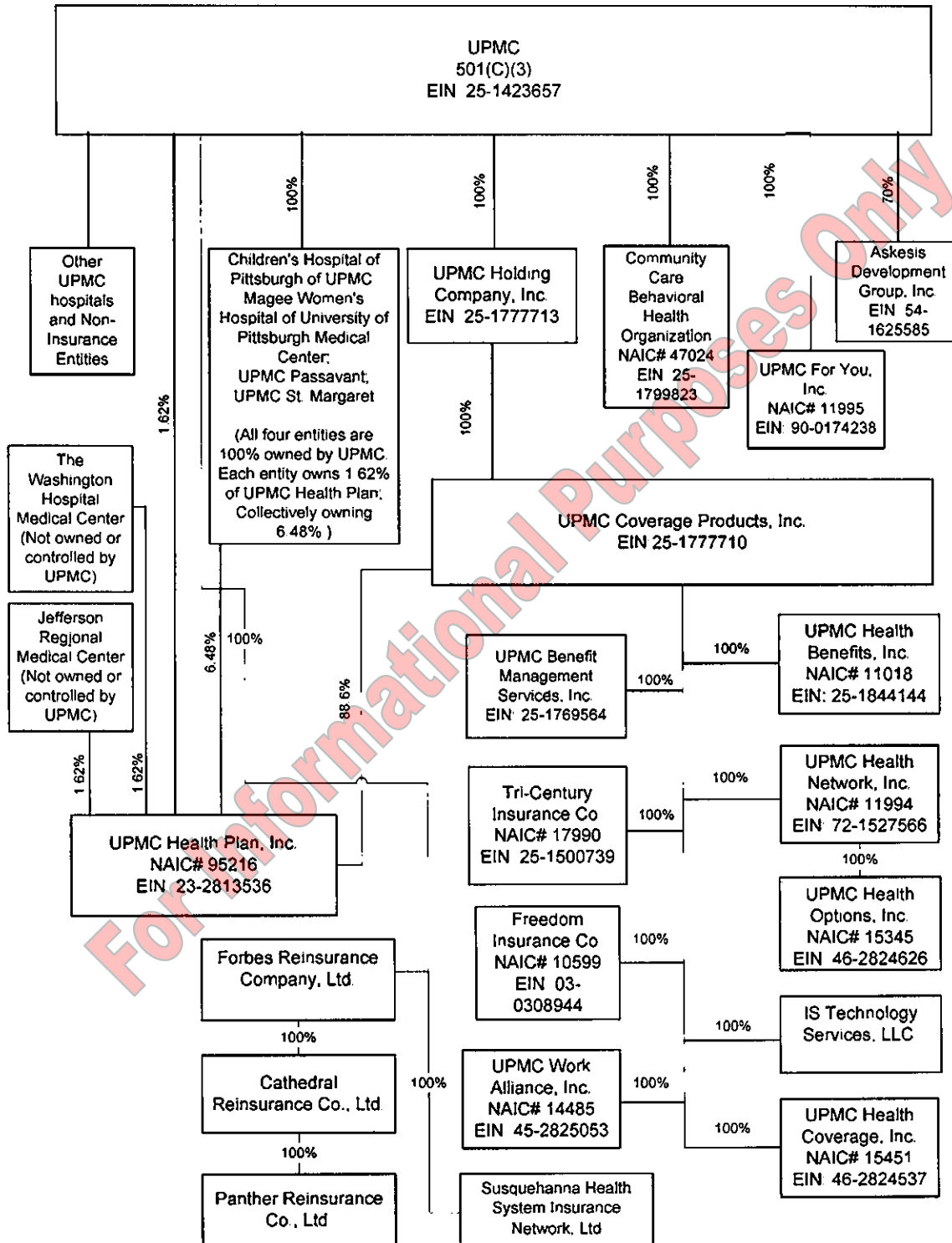
**INSURANCE HOLDING COMPANY SYSTEM**

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:

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### UPMC & Subsidiaries Organizational Structure



**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 Mitry 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	Senior 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 number of voting directors of the Company 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. The Directors shall be appointed 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  
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 Board meetings 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

The Company amended the Articles of Incorporation during the examination period. Effective January 15, 2014, the Company 1) changed the Statutory Home Office address to 600 Grant Street, Pittsburgh, Pennsylvania 15219; and 2) converted from a domestic business corporation to a non-profit corporation.

The Department notes that amendment required prior approval according to Pennsylvania Business Corporation Law, 15 Pa. C.S.A. § 1961, et seq. The conversion of a business corporation subject to the supervision of the Department requires prior written approval of such transaction. The Department did not receive a written request for prior approval. Also, the Company did not report the changes in the General Interrogatory section of the 2014 Annual Statement.

***It is recommended that Company changes that are subject to Pennsylvania Business Corporation Law are properly filed with the Department for prior approval, and appropriately reported in the General Interrogatory, pursuant to NAIC Annual Statement Instructions.***

### BY-LAWS

The Company amended its By-Laws effective February 1, 2014. The Company replaced Article V, Committee, Section 5.01, 5.1.1, and 5.1.2 with Article VII, Committees, Section 7.1. (a), (b) and (c), respectively, to add a Finance, Audit & Compliance Committee, and to remove the Executive Committee and to increase the maximum number of outside directors from six (6) to fifteen (15) of the Outside Directors Committee.

The Company did not submit the By-Laws changes in accordance with Department filing guidelines, nor report the changes in the General Interrogatory section of the 2014 Annual Statement.

***It is recommended that Company changes to By-Laws are provided to the Department, and appropriately reported in the General Interrogatory, pursuant to NAIC Annual Statement Instructions.***

## **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 has an Administrative Services Agreement with UPMC Health Plan, Inc. (“Health Plan”), under which Health Plan provides services for the administration and management of the Company. 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 re-credentialing; quality improvement; utilization management services; development services; and executive management and administration services. Health Plan is reimbursed for the actual costs 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, Health Plan receives reimbursement based upon the respective revenues of the companies.

### **Dental Administrative Services Agreement**

The Company and Health Plan are parties to a dental administrative services agreement (“Agreement”) with UPMC Health Benefits, Inc. (“Health Benefits”), effective January 1, 2015. Under the terms of the Agreement, Health Benefits shall provide certain dental benefits and services to members of the Company and Health Plan. Specifically, Health Benefits 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 Company and Health Plan.

### **Vision Administrative Services Agreement**

The Company, Health Plan and UPMC For You Inc. (“UPMCFY”) are parties to a vision administrative services agreement (“Agreement”) with Health Benefits. Under the terms of the Agreement, Health Benefits shall provide certain vision benefits and services to the members of the Company, Health Plan and UPMCFY. Specifically, Health Benefits 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 Company, Health Plan and UPMCFY.

### **Tax Allocation Agreement**

The Company participates in a consolidated federal income tax allocation agreement (“Agreement”) with some of its affiliated companies, originally dated November 1, 2000, and

effective as of July 1, 1999. The Agreement was amended on July 1, 2011 and July 1, 2013. The 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 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 did not have any significant ceded business during the period covered under this examination.

### ASSUMED

The Company assumed no business during the period covered under this examination.

## TERRITORY AND PLAN OF OPERATIONS

During the examination period, the Company operated as a Pennsylvania-only RANLI-PPO. The Company offers Medicare Advantage PPO insurance products.

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.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
<b>December 31, 2016</b>				
Comprehensive (hospital and medical)	\$ 62,510	\$ 0	\$ 62,510	0.08 %
Title XVIII - Medicare	82,165,260	25,520	82,139,740	99.92 %
Health subtotal	82,227,770	25,520	82,202,250	100.0 %
Totals	\$ 82,227,770	\$ 25,520	\$ 82,202,250	100.0 %

## SIGNIFICANT OPERATING TRENDS

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	\$ 38,106,160	\$ 40,921,561	\$ 57,335,271	\$ 281,377,307	\$ 240,769,513
Liabilities	\$ 18,785,568	\$ 15,284,866	\$ 16,397,083	\$ 139,287,681	\$ 129,853,342
Capital and Surplus Funds	\$ 19,320,593	\$ 25,636,695	\$ 40,938,188	\$ 142,089,626	\$ 110,916,171
Net Premium Income	\$ 82,202,250	\$ 92,215,946	\$ 104,092,178	\$ 1,208,221,120	\$ 969,531,156
Benefits to Members	\$ 72,585,524	\$ 77,504,556	\$ 93,779,943	\$ 1,165,990,208	\$ 905,564,616
Net Investment Income	\$ 55,127	\$ (1,901,290)	\$ (4,309,967)	\$ (2,965,945)	\$ (837,871)
Net Income	\$ 3,602,064	\$ 2,558,087	\$ (1,887,959)	\$ (48,148,236)	\$ (23,130,404)

## 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;
- 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.

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

	2016	2015	2014	2013	2012
Bonds	\$ 0	\$ 0	\$ 0	\$ 94,878,564	\$ 98,156,821
Common stocks	0	0	0	499,956	0
Cash, cash equivalents and short-term investments	29,568,712	31,000,459	49,011,140	36,176,531	56,423,244
Other invested assets	5,133,451	4,911,289	3,139,248	3,186,104	2,652,897
Receivable for securities	0	0	0	5,897,084	11,752,670
Subtotal, cash and invested assets	<u>34,702,163</u>	<u>35,911,748</u>	<u>52,150,388</u>	<u>140,638,259</u>	<u>168,985,932</u>
Investment income due and accrued	239	240	240	306,709	398,071
Premiums and considerations	257,967	255,354	571,899	18,247,656	12,428,998
Amounts recoverable from reinsurers	0	0	659,070	283,520	550,118
Other amounts receivable under reinsurance contracts	4,495	3,833	0	0	268,373
Amounts receivable relating to uninsured plans	128,865	1,723,352	1,396,258	793,318	520,273
Net deferred tax asset	0	0	0	0	1,913,807
Receivable from parent, subsidiaries and affiliates	1,789,000	2,109,000	1,768,000	109,983,405	47,575,000
Health care and other amounts receivable	1,223,331	918,034	789,416	11,144,442	7,148,269
Aggregate write-ins for other than invested assets	0	0	0	0	982,672
Total	<u>\$ 38,106,160</u>	<u>\$ 40,921,561</u>	<u>\$ 57,335,271</u>	<u>\$ 281,377,307</u>	<u>\$ 240,769,513</u>
Claims unpaid	\$ 4,432,807	\$ 4,440,240	\$ 6,871,282	\$ 83,834,434	\$ 62,563,590
Unpaid claims adjustment expenses	43,332	34,458	70,180	858,815	771,733
Aggregate health policy reserves	261,892	2,182,250	1,318,054	1,849,429	2,454,339
Premiums received in advance	325,671	393,924	346,403	40,997,968	18,035,309
General expenses due or accrued	0	11,797	305,668	2,472,013	248,788
Amounts due to parent, subsidiaries and affiliates	13,712,352	7,917,060	7,476,781	0	25,065,893
Payable for securities	0	0	0	9,202,404	19,486,091
Liability for amounts held under uninsured plans	0	291,816	0	236,172	1,169,846
Aggregate write-ins for other liabilities	9,614	13,523	10,655	36,446	37,755
Total liabilities	<u>18,785,568</u>	<u>15,284,866</u>	<u>16,397,083</u>	<u>139,287,681</u>	<u>129,853,342</u>
Gross paid in and contributed surplus	4,450,000	4,450,000	4,450,000	4,450,000	4,450,000
Surplus notes	47,000,000	57,000,000	77,000,000	177,000,000	94,000,000
Unassigned funds (surplus)	(32,129,407)	(35,813,305)	(40,611,812)	(39,360,374)	12,466,171
Total capital and surplus	<u>19,320,593</u>	<u>25,636,695</u>	<u>40,938,188</u>	<u>142,089,626</u>	<u>110,916,171</u>
Totals	<u>\$ 38,106,160</u>	<u>\$ 40,921,561</u>	<u>\$ 57,335,271</u>	<u>\$ 281,377,307</u>	<u>\$ 240,769,513</u>

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

	2016	2016	2014	2013	2012
Net premium income	\$ 82,202,250	\$ 92,215,948	\$ 104,092,178	\$ 1,208,221,120	\$ 969,531,156
Aggregate write-ins for other non-health revenues	(4)	(126)	0	2,701	0
Total revenues	<u>82,202,246</u>	<u>92,215,820</u>	<u>104,092,178</u>	<u>1,208,223,821</u>	<u>969,531,156</u>
Hospital/medical benefits	51,051,742	54,440,531	65,313,626	793,578,790	610,362,628
Other professional services	12,498,806	11,717,910	14,192,039	139,443,672	110,662,691
Emergency room and out-of-area	1,879,004	1,905,678	2,188,725	52,841,347	41,817,614
Prescription drugs	7,155,972	8,440,437	12,087,553	180,126,399	142,721,683
Subtotal (hospital and medical)	<u>72,585,524</u>	<u>77,504,558</u>	<u>93,779,943</u>	<u>1,165,990,208</u>	<u>905,564,616</u>
Net reinsurance recoveries	2,358	260,455	659,070	2,524,640	2,951,231
Total hospital and medical	<u>72,583,166</u>	<u>77,244,101</u>	<u>93,120,873</u>	<u>1,163,465,568</u>	<u>902,613,385</u>
Claims adjustment expenses including cost containment expenses	1,355,241	1,570,756	1,816,758	18,648,307	17,401,922
General administrative expenses	5,964,552	6,723,931	9,062,083	97,507,129	82,300,040
Increase in reserves for life accident and health contracts	(2,182,250)	868,196	(533,375)	(604,910)	2,454,339
Total underwriting deductions	<u>77,220,709</u>	<u>86,404,984</u>	<u>103,466,338</u>	<u>1,279,016,094</u>	<u>1,004,769,685</u>
Net underwriting gain or (loss)	<u>4,481,537</u>	<u>5,810,836</u>	<u>625,839</u>	<u>(70,792,273)</u>	<u>(35,238,530)</u>
Net investment income earned	55,127	(1,901,290)	(4,309,967)	(2,965,945)	(837,871)
Net realized capital gains or (losses)	0	0	(331,824)	149,342	1,148,300
Net investment gains or (losses)	<u>55,127</u>	<u>(1,901,290)</u>	<u>(4,641,791)</u>	<u>(2,819,603)</u>	<u>310,429</u>
Net income or (loss) before federal income taxes	<u>4,538,664</u>	<u>3,909,546</u>	<u>(4,015,952)</u>	<u>(73,611,876)</u>	<u>(34,928,100)</u>
Federal income taxes incurred	934,800	1,351,459	(2,127,993)	(25,463,640)	(11,797,696)
Net income (loss)	<u>\$ 3,602,064</u>	<u>\$ 2,558,087</u>	<u>\$ (1,887,959)</u>	<u>\$ (48,148,236)</u>	<u>\$ (23,130,404)</u>

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

	2016	2015	2014	2013	2012
Capital and surplus, December 31, previous year	\$ 25,636,695	\$ 40,938,188	\$ 142,089,626	\$ 110,916,171	\$ 103,792,199
Net income or (loss)	3,602,064	2,658,087	(1,887,859)	(48,148,236)	(23,130,404)
Change in net unrealized capital gains and (losses)	0	0	60,889	53,826	462,695
Change in net deferred income tax	(30,570)	788,286	30,571	(1,899,475)	0
Change in nonadmitted assets	112,404	1,342,134	645,061	(1,732,660)	(208,218)
Change in surplus notes	(10,000,000)	(20,000,000)	(100,000,000)	83,000,000	30,000,000
Net change in capital and surplus	(6,316,102)	(15,301,493)	(101,151,438)	31,173,455	7,123,871
Capital and surplus, December 31, current year	\$ 19,320,593	\$ 25,636,695	\$ 40,938,188	\$ 142,089,626	\$ 110,916,171

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### 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	\$ 80,210,065	\$ 93,442,315	\$ 80,583,054	\$ 1,225,026,585	\$ 968,531,951
Net investment income	43,330	(2,195,161)	(3,958,366)	(2,871,450)	(1,850,140)
Miscellaneous income	(4)	(126)	0	2,701	0
<b>Total</b>	<b>80,253,391</b>	<b>91,247,028</b>	<b>76,624,688</b>	<b>1,222,157,836</b>	<b>966,681,811</b>
Benefit and loss related payments	70,853,973	79,642,509	158,648,685	1,145,647,583	885,516,994
Commissions, expenses paid and aggregate write-ins for deductions	6,008,146	8,365,889	14,672,936	115,051,845	99,286,337
Federal and foreign income taxes paid (recovered)	(536)	1,351,459	(2,127,993)	(25,377,971)	(10,540,102)
<b>Total deductions</b>	<b>76,861,583</b>	<b>89,359,857</b>	<b>171,193,627</b>	<b>1,235,321,457</b>	<b>974,363,229</b>
<b>Net cash from operations</b>	<b>3,391,808</b>	<b>1,887,171</b>	<b>(94,568,960)</b>	<b>(13,163,621)</b>	<b>(7,681,419)</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	0	0	211,558,293	178,604,341	548,208,823
Stocks	0	0	2,796,204	0	689,288
Miscellaneous proceeds	0	0	36,145	439,228	41,120
<b>Total investment proceeds</b>	<b>0</b>	<b>0</b>	<b>214,390,642</b>	<b>179,043,569</b>	<b>548,939,230</b>
Cost of investments acquired (long-term only):					
Bonds	0	0	118,885,983	175,557,090	588,802,142
Stocks	0	0	2,267,500	511,185	0
Other invested assets	0	0	0	1,175,000	0
Miscellaneous applications	0	0	3,501,984	4,427,801	60,997,587
<b>Total investments acquired</b>	<b>0</b>	<b>0</b>	<b>122,635,467</b>	<b>181,671,056</b>	<b>649,799,729</b>
<b>Net cash from investments</b>	<b>0</b>	<b>0</b>	<b>(91,765,175)</b>	<b>(2,627,487)</b>	<b>(102,860,499)</b>
<b>Cash from Financing and Miscellaneous Sources</b>					
Cash provided (applied):					
Surplus notes, capital notes	(10,000,000)	(20,000,000)	(100,000,000)	83,000,000	30,000,000
Other cash provided or (applied)	5,176,448	102,148	116,648,394	(87,455,605)	(4,687,481)
<b>Net cash from financing and miscellaneous sources</b>	<b>(4,823,554)</b>	<b>(19,897,852)</b>	<b>16,648,394</b>	<b>(4,455,605)</b>	<b>25,312,519</b>
<b>Reconciliation of cash and short-term investments:</b>					
<b>Net change in cash and short-term investments</b>	<b>(1,431,747)</b>	<b>(18,010,682)</b>	<b>12,834,609</b>	<b>(20,248,713)</b>	<b>(85,229,399)</b>
Cash and short-term investments:					
Beginning of the year	31,000,458	49,011,140	36,176,531	56,423,244	141,652,643
<b>End of the year</b>	<b>\$ 29,568,712</b>	<b>\$ 31,000,458</b>	<b>\$ 49,011,140</b>	<b>\$ 36,176,531</b>	<b>\$ 56,423,244</b>

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## SUMMARY OF EXAMINATION CHANGES

There were no changes made to the Company's financial statements as a result of this examination.

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

#### INVESTMENTS

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

	Amount	Percentage
Cash	11,398,628	32.8%
Short-term investments	18,170,084	52.4%
Other invested assets	5,133,451	14.8%
Totals	<u>\$ 34,702,163</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	\$ 18,170,084	100.0%
Totals	<u>\$ 18,170,084</u>	<u>100.0%</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 18,170,084	100.0%
Totals	<u>\$ 18,170,084</u>	<u>100.0%</u>

The Company's investment portfolio is primarily comprised of cash and short-term investments, which collectively represent 85.2% of the invested assets.

The quality of the Company's short-term investment portfolio is 100.0% investment grade, with 100.0% having an NAIC designation of "1" highest quality. As of December 31, 2016, the Company owned 100% of all one thousand (1,000) shares of UPMC Health Options, Inc.'s issued and outstanding common capital stock with a par value of seven hundred fifty dollars (\$750) per share amounting to \$750,000, which was approximately 2% of the Company's admitted assets.

The Company has a written investment policy as required by 40 P.S. § 504.1(c). The investment policy is reviewed and approved on at least 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 non-discretionary 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

### POLICYHOLDER AND CLAIM RESERVES

The Company reported reserves for Claims Unpaid of \$4,432,807, Unpaid Claims Adjustment Expenses of \$43,332 and Aggregate Health Policy Reserves of \$261,592 in its December 31, 2016 Annual Statement.

Timothy J. Feeser, FSA, MAAA, Vice President, Actuarial Consulting, of the firm of Optum, has served as the Company's appointed actuary for all years in the examination period. Mr. Feeser concluded the December 31, 2016 reserves make an adequate provision for the anticipated cash flows required by the contractual obligations and related expenses of the Company; the appointed actuary also opined that the December 31, 2016 reserves and related actuarial values:

- (a) Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles,
- (b) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared,
- (c) Meet the requirements of the Insurance Laws and regulations of the Commonwealth of Pennsylvania and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed,
- (d) Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements,
- (e) Are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end,
- (f) Include appropriate provision for all actuarial items that ought to be established.

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 the Company's actuarial reserving process, assumptions, methodologies, calculations and reserve adequacy as of the examination date. Based upon procedures performed and results obtained, no material deficiencies were identified in the reported actuarial reserves and related actuarial values.

The examination staff obtained sufficient evidence to support the conclusion that the Company's policyholder and claim reserves are reasonably stated as of December 31, 2016.

## SUBSEQUENT EVENTS

On December 14, 2017, Michael L. Rasmussen, FSA, MAAA, Senior Director, Actuarial Consulting, of the firm of Optum, was appointed by the Board to serve as the appointed actuary, replacing Mr. Feeser, for several UPMC companies, including UPMC Health Network, Inc.

The Company submitted a filing with the Department to convert the Company from a RANLI-PPO to a non-profit hospital plan and a non-profit professional health services plan. The Department approved the Company's application effective April 10, 2018.

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.

## 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 shareholders meetings that are to be held as stipulated in Article III, 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 Administrative Services Agreement to specify a due date to comply 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. § 504.1(c).

*The Company has complied with this recommendation.*

### CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that Company changes that are subject to Pennsylvania Business Corporation Law are properly filed with the Department for prior approval, and appropriately reported in the General Interrogatory, pursuant to NAIC Annual Statement Instructions. (See "Corporate Records – Articles of Incorporation" at page 7)
2. It is recommended that Company changes to By-Laws are provided to the Department, and appropriately reported in the General Interrogatory, pursuant to NAIC Annual Statement Instructions. (See "Corporate Records" at page 7).

**CONCLUSION**

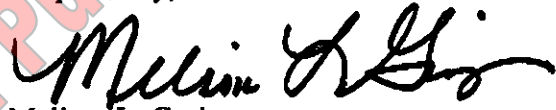
As a result of this examination, the financial condition of UPMC Health Network, Inc., as of December 31, 2016, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	\$ 38,106,160	100.0 %
Liabilities	\$ 18,785,567	49.3 %
Capital and Surplus	19,320,593	50.7 %
Total liabilities, capital and surplus	\$ 38,106,160	100.0 %


Since the previous examination, made as of December 31, 2011, the Company's assets decreased by \$201,845,067, its liabilities decreased by \$117,373,460, and its surplus decreased by \$84,471,606.

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

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