

Examination Warrant Number 16-1324-15345-R1

Report of Examination of

**UPMC Health Options, 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 16-1324-15345-R1, dated August 4, 2016, an examination was made of

UPMC Health Options, Inc., NAIC Code: 15345

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 2, 2013. The prior examination was an organizational examination to determine compliance with 40 P.S. § 1555.1(b). As a result of the examination a Certificate of Authority was granted by the Department. This examination covered the period from December 3, 2013 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 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 May 15, 2013, as a for-profit business-stock corporation, was licensed by the Department on December 30, 2013, and commenced business on January 1, 2014.

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 \$191,259,070, consisting of one thousand (1,000) shares of issued and outstanding common capital stock with a par value of seven hundred fifty dollars (\$750) per share amounting to \$750,000, \$350,425,000 in paid in and contributed surplus, \$23,806,118 in aggregate write-ins for other than special surplus funds and (\$183,722,048) 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

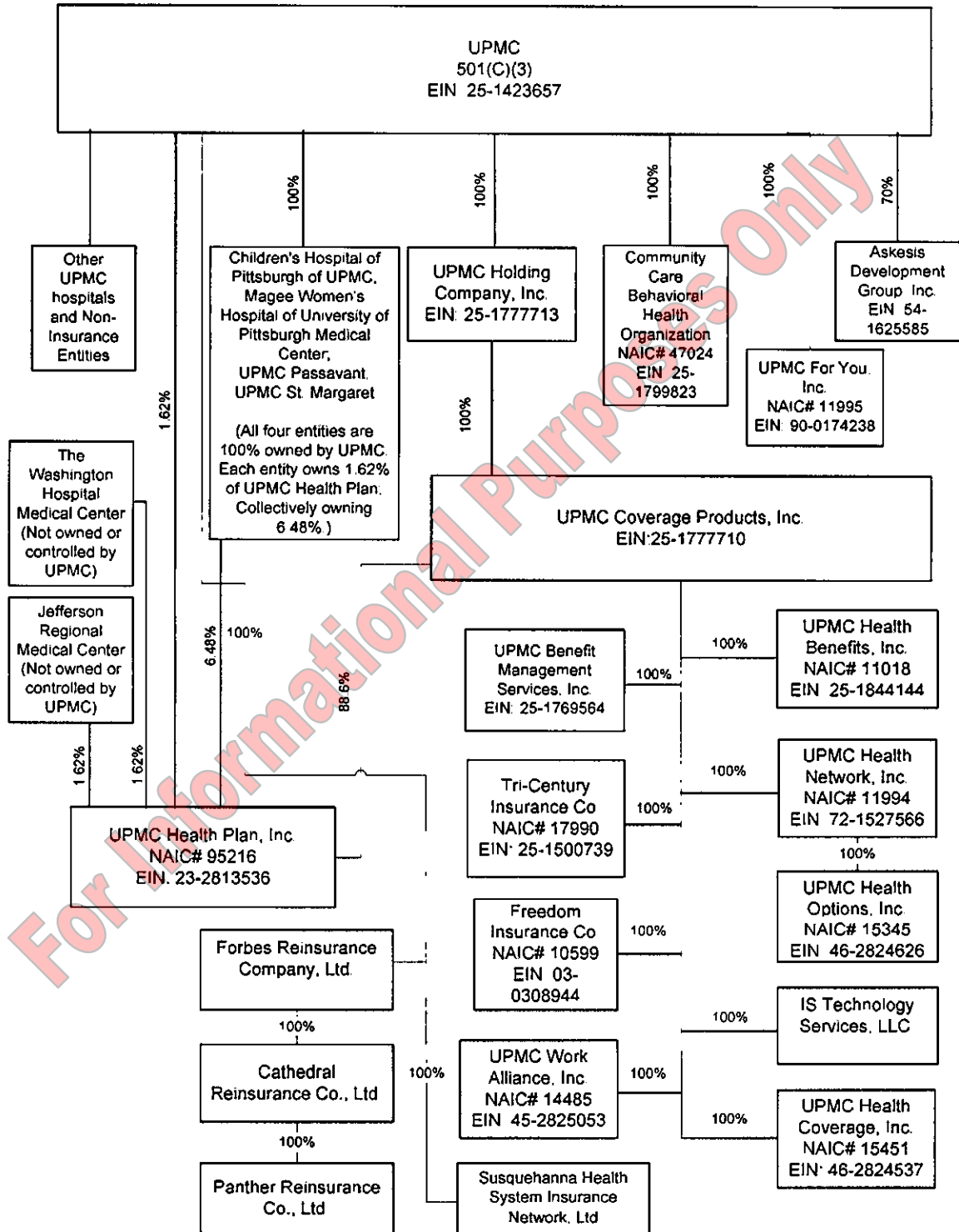
On December 31, 2016, UPMC Health Network, Inc. owns 100% of all one-thousand (1,000) shares of the Company's issued and outstanding common capital stock. No dividends were paid to shareholders during the period covered by this examination.

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:

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:

Name and Address	Principal Occupation
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 the Board of 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. One director shall also serve as 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
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:

Name	Title
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

There were no changes or amendments made to the Company's Articles of Incorporation during the examination period.

BY-LAWS

There were no changes or amendments made to the Company's By-Laws during the examination period.

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.

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’s reinsurance program as of December 31, 2016 is summarized as follows:

PartnerRe America Insurance Company

The Company entered into a Medical Specific Excess Loss Reinsurance Agreement with PartnerRe America Insurance Company, effective January 1, 2016. The term of the contract is for one year and shall remain in force until terminated by either party. The reimbursement percentage of covered expenses is 90% if complete claim is received by October 1, 2017, and 50% after.

The Company’s total ceded premium for 2016 was \$2,924,053. As of December 31, 2016, the Company had \$1,732,288 outstanding balance due from its reinsurer.

The Company’s retention and the reinsurance limits are as follows:

<u>Company’s Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$400,000	\$2,000,000	Hospital and Medical Services

As of December 31, 2016, the Company also recorded a receivable from the U.S. Department of Health and Human Services, of approximately \$15,852,442 in Affordable Care Act reinsurance.

The Company’s reinsurance contract meets the transfer of risk test. The contract contains the appropriate insolvency and arbitration clauses.

ASSUMED

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

TERRITORY AND PLAN OF OPERATIONS

The Company operates as a RANLI-PPO for medical in the Commercial Exclusive Provider Organization, Point-of-Service, and PPO fully-insured markets; in both the group and individual markets (both on- and off-Marketplace); and in the federal employees' benefit high-deductible health plan market.

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
Comprehensive (hospital and medical)	\$ 1,548,507,474	\$ 2,919,278	\$ 1,545,588,196	99.8 %
Fed employees health benefits program premium	2,642,258	4,774	2,637,484	0.2 %
Health subtotal	1,551,149,732	2,924,052	1,548,225,680	100.0 %
Totals	\$ 1,551,149,732	\$ 2,924,052	\$ 1,548,225,680	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
Admitted Assets	\$ 358,236,492	\$ 344,015,116	\$ 257,200,502
Liabilities	\$ 166,977,422	\$ 176,339,108	\$ 124,967,759
Capital and Surplus Funds	\$ 191,259,070	\$ 167,676,008	\$ 132,232,744
Net Premium Income	\$1,551,541,331	\$1,312,934,975	\$1,046,463,885
Benefits to Members	\$1,501,809,694	\$1,274,381,745	\$ 993,537,798
Net Investment Income	\$ 2,043,277	\$ (3,860,981)	\$ (1,528,386)
Net Income	\$ (47,439,650)	\$ (76,346,062)	\$ (37,790,845)

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 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.

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

	2016	2015	2014
Bonds	\$ 48,784,807	\$ 48,357,949	\$ 45,406,585
Common stocks	16,284,057	14,641,346	16,297,689
Cash, cash equivalents and short-term investments	84,011,235	48,233,196	9,962,645
Receivable for securities	912,714	209,586	1,781,844
Subtotal, cash and invested assets	<u>149,992,813</u>	<u>111,442,077</u>	<u>73,448,563</u>
Investment income due and accrued	345,196	331,311	263,164
Premiums and considerations	26,548,759	35,325,165	21,223,148
Amounts recoverable from reinsurers	17,584,730	15,863,389	232,489
Other amounts receivable under reinsurance contracts	503,565	276,987	0
Amounts receivable relating to uninsured plans	3,247,455	1,417,079	0
Current federal and foreign income tax recoverable and interest thereon		0	0
Receivable from parent, subsidiaries and affiliates	132,296,205	161,761,802	152,251,852
Health care and other amounts receivable	27,717,769	17,597,507	9,781,286
Total	<u>\$ 358,236,492</u>	<u>\$ 344,015,116</u>	<u>\$ 257,200,502</u>
Claims unpaid	\$ 91,064,301	\$ 85,502,296	\$ 63,578,857
Unpaid claims adjustment expenses	962,780	891,255	604,185
Aggregate health policy reserves	2,984,909	22,075,198	7,900,868
Premiums received in advance	60,532,506	53,259,397	34,243,214
General expenses due or accrued	10,531,946	14,195,589	16,862,998
Remittances and items not allocated	0	149,442	11,840
Payable for securities	900,980	265,931	1,764,797
Total liabilities	<u>166,977,422</u>	<u>176,339,108</u>	<u>124,967,759</u>
Common capital stock	750,000	750,000	750,000
Gross paid in and contributed surplus	350,425,000	110,425,000	425,000
Surplus notes	0	170,000,000	170,000,000
Aggregate write-ins for other than special surplus funds	23,808,118	19,686,481	0
Unassigned funds (surplus)	(183,722,048)	(133,185,473)	(38,942,257)
Total capital and surplus	<u>191,259,070</u>	<u>167,676,008</u>	<u>132,232,743</u>
Totals	<u>\$ 358,236,492</u>	<u>\$ 344,015,116</u>	<u>\$ 257,200,502</u>

Comparative Statement of Income For the Year Ended December 31,

	2016	2016	2014
Net premium income	\$ 1,551,541,331	\$ 1,312,934,974	\$ 1,046,463,885
Aggregate write-ins for other non-health revenues	(117)	(1,529)	0
Total revenues	1,551,541,214	1,312,933,445	1,046,463,885
Hospital/medical benefits	934,418,339	838,182,161	670,412,476
Other professional services	181,039,188	136,361,978	107,980,182
Emergency room and out-of-area	77,450,403	64,966,452	50,992,933
Prescription drugs	308,901,764	234,871,154	164,152,207
Subtotal (hospital and medical)	1,501,809,694	1,274,381,745	993,537,798
Net reinsurance recoveries	19,601,054	16,643,458	1,144,659
Total hospital and medical	1,482,208,640	1,257,738,267	992,393,139
Claims adjustment expenses, including cost containment expenses	25,538,454	19,898,117	15,058,035
General administrative expenses	137,259,356	113,218,036	83,645,001
Increase in reserves for life accident and health contracts	(22,075,198)	14,174,330	7,900,867
Total underwriting deductions	1,622,931,252	1,405,028,770	1,098,997,042
Net underwriting gain or (loss)	(71,390,038)	(92,095,324)	(52,533,158)
Net investment income earned	2,043,277	(3,860,981)	(1,528,386)
Net realized capital gains or (losses)	(501,808)	117,333	318,667
Net investment gains or (losses)	1,541,469	(3,743,648)	(1,209,719)
Net income or (loss) before federal income taxes	(69,848,569)	(95,838,972)	(53,742,877)
Federal income taxes incurred	(22,408,919)	(19,492,910)	(15,952,032)
Net income (loss)	\$ (47,439,650)	\$ (76,346,062)	\$ (37,790,845)

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

	2016	2015	2014
Capital and surplus, December 31, previous year	\$ 167,676,008	\$ 132,232,744	\$ 1,175,000
Net income or (loss)	(47,439,650)	(76,346,062)	(37,790,845)
Change in net unrealized capital gains and (losses)	1,243,758	(531,947)	910,617
Change in net deferred income tax	(8,655,532)	6,266,122	2,935,798
Change in nonadmitted assets	8,434,486	(3,944,849)	(4,997,826)
Change in surplus notes	(170,000,000)	0	170,000,000
Surplus adjustments:			
Paid in	240,000,000	110,000,000	0
Net change in capital and surplus	<u>23,583,062</u>	<u>35,443,264</u>	<u>131,057,744</u>
Capital and surplus, December 31, current year	<u>\$ 191,259,070</u>	<u>\$ 167,676,008</u>	<u>\$ 132,232,744</u>

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

	2016	2015	2014
Cash from Operations			
Premiums collected net of reinsurance	\$ 1,548,348,508	\$ 1,331,671,958	\$ 1,067,384,819
Net investment income	1,815,254	(3,980,697)	(1,619,597)
Miscellaneous income	(117)	(1,529)	0
Total	1,550,163,643	1,327,689,730	1,065,765,222
Benefit and loss related payments	1,466,708,614	1,271,587,885	936,946,639
Net transfers to separate, segregated accounts and protected cell accounts	0	19,886,481	0
Commissions, expenses paid and aggregate write-ins for deductions	168,220,303	136,913,570	81,235,853
Federal and foreign income taxes paid (recovered)	0	(20,039,298)	(15,952,032)
Total deductions	1,634,928,917	1,408,148,638	1,002,230,460
Net cash from operations	(84,765,274)	(80,458,908)	63,534,762
Cash from Investments			
Proceeds from investments sold, matured or repaid:			
Bonds	12,664,210	16,416,061	24,518,517
Stocks	12,481,908	15,168,076	9,579,298
Miscellaneous proceeds	697,959	477,166	246,746
Total investment proceeds	25,844,077	32,061,303	34,344,559
Cost of investments acquired (long-term only):			
Bonds	13,535,670	19,638,764	70,009,759
Stocks	12,734,478	13,607,278	24,981,745
Miscellaneous applications	755,490	400,135	16,847
Total investments acquired	27,025,638	33,646,177	95,008,351
Net cash from investments	(1,181,561)	(1,584,875)	(60,663,792)
Cash from Financing and Miscellaneous Sources			
Cash provided (applied):			
Surplus notes, capital notes	(170,000,000)	0	170,000,000
Capital and paid in surplus, less treasury stock	240,000,000	110,000,000	0
Other cash provided or (applied)	51,724,874	10,314,333	(164,083,326)
Net cash from financing and miscellaneous sources	121,724,874	120,314,333	5,916,674
Reconciliation of cash and short-term investments:			
Net change in cash and short-term investments	35,778,039	38,270,551	8,787,644
Cash and short-term investments			
Beginning of the year	48,233,196	9,962,645	1,175,000
End of the year	\$ 84,011,235	\$ 48,233,196	\$ 9,962,645

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
Bonds	\$ 48,784,807	32.5 %
Common stocks	16,284,057	10.9 %
Cash	83,284,602	55.5 %
Short-term investments	726,633	0.5 %
Receivable for securities	912,714	0.6 %
Totals	<u>\$ 149,992,813</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	\$ 36,709,866	75.3 %
2 - high quality	12,089,920	24.7 %
Totals	<u>\$ 48,799,786</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 2,611,982	5.4 %
2 to 5 years	23,867,928	48.9 %
6 to 10 years	18,802,105	38.5 %
11 to 20 years	1,745,294	3.6 %
over 20 years	1,772,477	3.6 %
Totals	<u>\$ 48,799,786</u>	<u>100.0 %</u>

The Company's investment portfolio is primarily comprised of bonds, common stocks and cash, which collectively represent 98.9% of the invested assets.

The quality of the Company's bonds and short-term investment portfolio is 100.0% investment grade, with 75.3% having an NAIC designation of "1" highest quality and 24.7% having an NAIC designation of "2" high quality.

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 \$91,064,301 and Unpaid Claims Adjustment Expenses of \$962,780 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 Options, Inc.

UPMC Holding Company, Inc. made a \$20,000,000 capital contribution in the form of cash to the Company. In accordance with SSAP No. 72, paragraph 8, this transaction is admissible at December 31, 2017. The Department approved this transaction on February 21, 2018.

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

RECOMMENDATIONS

PRIOR EXAMINATION

There were no recommendations made as a result of the prior examination.

CURRENT EXAMINATION

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

For Informational Purposes Only

CONCLUSION

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

	Amount	Percentage
Admitted assets	\$ 358,236,492	100.0 %
Liabilities	\$ 166,977,422	46.6 %
Capital and Surplus	191,259,070	53.4 %
Total liabilities, capital and surplus	\$ 358,236,492	100.0 %

Since the previous examination, made as of December 2, 2013, the Company's assets increased by \$357,061,492, its liabilities increased by \$166,977,422, and its surplus increased by \$190,084,070.

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.

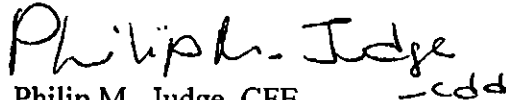
Respectfully,



Melissa L. Greiner

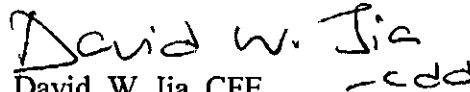
Director

Bureau of Financial Examinations



Philip M. Judge, CFE

Examination Manager



David W. Jia, CFE

Examiner-in-Charge