Examination Warrant Number 16-01324-95216-R1

Report of Examination of

UPMC Health Plan, Inc.
Pittsburgh, Pennsylvania

As of December 31, 2016

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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 16-01324-95216-R1, dated August 4, 2016, an examination was made of

UPMC Health Plan, Inc., NAIC Code: 95216

a Pennsylvania domiciled multi-state, Health Maintenance Organization ("HMO"), 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:

Company	NAIC Code
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 Benefits, Inc.	11018
UPMC Work Alliance, Inc.	14485
Tri Century Insurance Company	17990

HISTORY

The Company was incorporated on March 14, 1994, licensed by the Department on February 8, 1996, and commenced business March 1, 1996.

The Company was previously known as Best Health Care of Western Pennsylvania, Inc. ("Best"), a wholly owned subsidiary of Best Health Care, Inc. ("Best Health Care"). In December 1995, Best Health Care transferred 85% of the common stock and 100% of the preferred stock of Best to UPMC Coverage Products, Inc. In June 1997, the Company moved from Philadelphia to Pittsburgh and changed its name to the UPMC Health Plan, Inc.

In December 1997, UPMC Coverage Products, Inc. purchased the remaining 15% of the common stock of the Company from Best Health Care. UPMC Coverage Products, Inc. owned 100% of the Company's outstanding common stock on December 31, 1997. In conjunction with the integration of the Tri-State Health System into the Company, the Company issued 162 shares of common stock to each of seven hospital members, and 8,766 shares to UPMC Coverage Products, Inc. An Exchange Agreement and Shareholders Agreement dated September 30, 1999, detail the integration.

As of December 31, 2016, UPMC Coverage Products, Inc. owned 88.66% of the Company, while UPMC, four hospitals wholly owned by UPMC, and two hospitals not owned or controlled by UPMC each owned 1.62% of the Company.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 1554 as an HMO.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2016, the Company's total capital and surplus was $211,694,098, consisting of $2,877,731 paid in and contributed surplus; $90,000,000 in surplus notes; and $118,816,366 in unassigned funds (surplus).

The Company, an HMO offering a point-of-service ("POS") product, pursuant to 31 Pa. Code § 301.202(a)(1), is required to maintain a minimum net worth equal to the greater of $1,500,000 of 2% of premiums, or the sum of three (3) months uncovered health care expenditures. Accordingly, the Company's required minimum net worth, as of December 31, 2016, is $29,807,053, which represents 2% of premiums. The Company meets this requirement.

STOCKHOLDERS

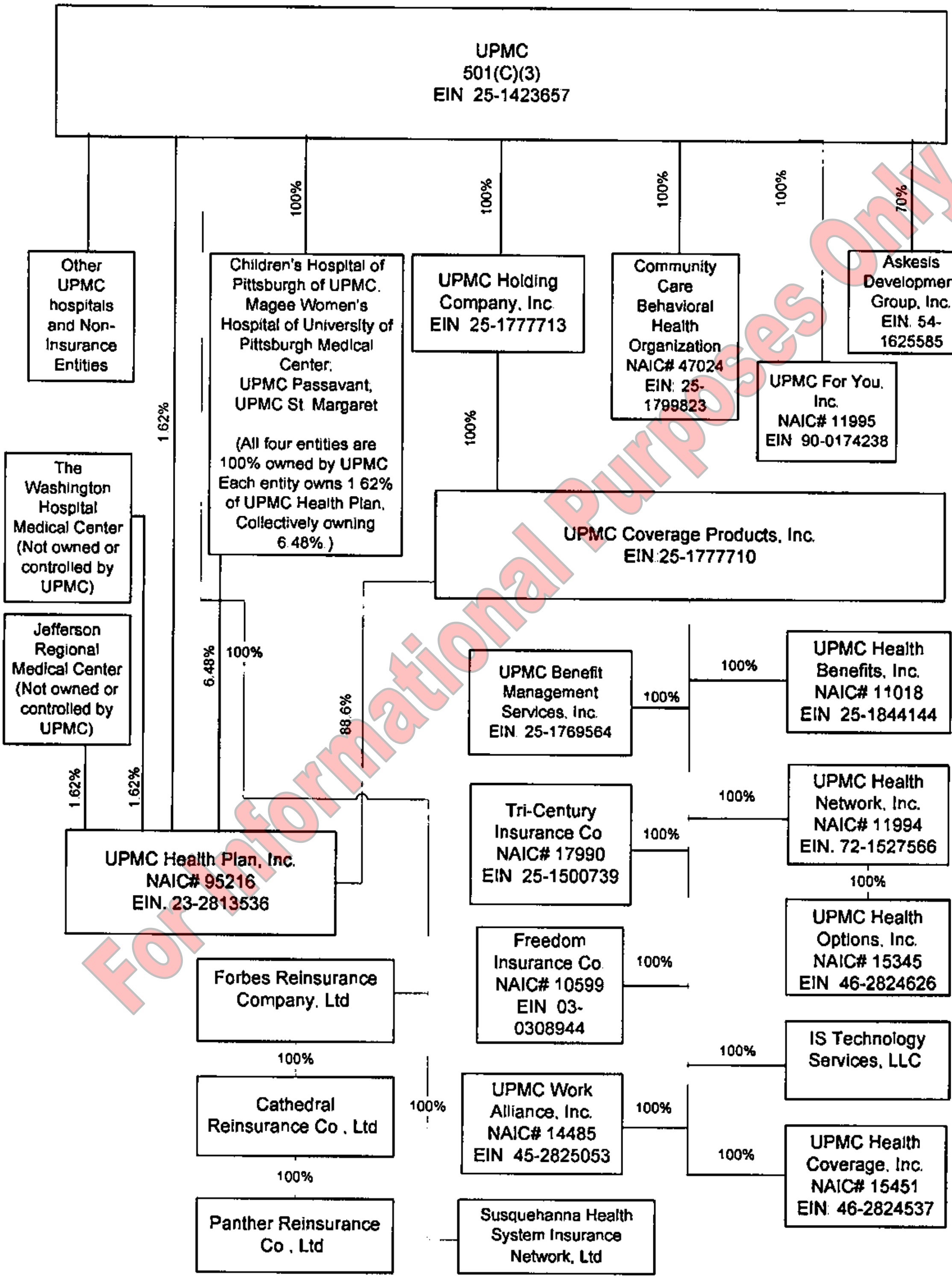
As of December 31, 2016, the Company had 100,000 shares authorized, 10,000 shares issued and outstanding common capital stock No dividends were paid to shareholders during the period covered by this examination.

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
George Nicholas Beckwith III Pittsburgh, Pennsylvania	Chairman and Chief Executive Officer Arch Street Management, LLC
Richard Hamilton Allison Park, Pennsylvania	Chairman of the Board AAA East Central
Diane Patricia Holder Pittsburgh, Pennsylvania	Chief Executive Officer UPMC Health Plan
Mark Laskow Stahlstown, Pennsylvania	Managing Director Greycourt & Company, Inc.
Stephen David Shapiro, M.D. Pittsburgh, Pennsylvania	Chief Medical and Scientific Officer, University of Pittsburgh Medical Center
Gary Weinstein Washington, Pennsylvania	President and Chief Executive Officer Washington Health System

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 Subscriber Directors. At least one-third of the Board of Directors shall be Outside Directors. Subscriber Directors may also serve as Outside Directors. The Directors shall be appointed annually by the stockholders and shall serve until their successors have been duly appointed and qualified or until a Director's earlier death, resignation, or removal.

The Company maintains interlocking directorates with several affiliated insurance entities to gain efficiencies performing overlapping board processes.

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	Outside Director Committee
Mark Laskow, Chairman	George Huber, Chairman
Peter Eisenbrandt	Jack Babich
Diane Holder	Peter Eisenbrandt
Scott Lammie	Richard Hamilton
Gary Weinstein	Lisa Pupo Lenihan
George Nicholas Beckwith III	Robert Lovett, Esq.

Richard Hamilton	Norman Mitry
George Huber	Robin Newham
Robin Newham	Greg Scott
Susan Shipley	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
Sheryl Kashuba, Esq.	Secretary
Gordon Gebbens	Chief Financial Officer
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

The Company amended the Articles of Incorporation effective June 24, 2013 to change the address of their Statutory Home Office to 600 Grant Street, Pittsburgh, Pennsylvania 15219.

BY-LAWS

The Company amended its By-Laws effective March 15, 2012. The Company amended Article VII, Committees, Section 7.1 (a) and (b), to add a Finance, Audit & Compliance Committee, and to remove the Executive Committee. The Company also amended Section 7.1 (c) to increase the maximum number of outside directors from six (6) to fifteen (15) of the Outside Directors Committee.

The Company amended its By-Laws effective July 12, 2012. The Company deleted Appendix 1 and replaced it in its entirety with Exhibit 1 which reflects a change in the number of Outside Hospital Shareholders eligible to appoint one member of the Board of Directors in accordance with Section 4.13(c).

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 Agreements

The Company has an Administrative Services Agreement ("Agreement") with UPMC Health Network, Inc. ("Health Network"), UPMC Health Benefits, Inc. ("Health Benefits"), UPMC For You, Inc. ("UPMCFY"), UPMC Health Coverage Inc., UPMC Health Options Inc., UPMC Work Alliance Inc., Community Care Behavioral Health Organization ("CCBH"), and UPMC Benefits Management Services, respectively. Under the terms of the Agreement, the Company provides services for the administration and management of those companies' businesses. Specifically, the Company 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; Pharmacy Benefits Management Services; and Executive Management and Administration Services. The Company is reimbursed for the actual costs of expenses that are directly attributable to each of the companies. For those costs that are attributable to all health plans for which the Company provides administration and management services, the Company receives reimbursement based upon the respective revenues of the companies.

The Company has an Administrative Services Agreement ("Agreement") with its ultimate parent company, UPMC, effective December 27, 1999. Under this agreement UPMC provides services for the administration and management of the Company. Specifically, UPMC has agreed to provide the following services: Investments, Financing Activities, Investment Accounts and Investment Policy, Payroll and Insurance. UPMC Health System is reimbursed for the actual services rendered on an hourly basis for rates that are to be determined.

Dental Administrative Services Agreement

The Company and Health Network are parties to a dental administrative services agreement ("Agreement") with 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 Network. 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 Network.

Vision Administrative Services Agreement

The Company, Health Network and 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 Network 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 Network and UPMCFY.

Claims Service Agreement

The Company entered into a Claims Service Agreement with CCBH, effective January 1, 2007. Under the terms of the agreement, the Company provides claims services for CCBH. The Company's services include claims adjudication and payment, maintain security, CCBH website management, quality audit, database management, production of checks and eligibility of benefits and other duties. The agreement was amended several times during the examination period, and after the examination period on May 24, 2017.

Behavioral Health Provider Agreement

The Company and UPMCFY are parties to a Special Needs Behavioral Health Services Agreement ("Agreement") with CCBH, effective January 1, 2006. Under the terms of the Agreement, CCBH provides behavioral health services to members of the Company and UPMCFY on an Administrative Service Only basis. An administrative fee is paid to CCBH on per member per month basis for these services. The Agreement was amended several times, and most recently, January 1, 2015.

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 did not have any significant ceded reinsurance contracts 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

The Company is a state certified HMO with POS product, licensed by the Commonwealth of Pennsylvania to offer a Medicare Advantage HMO, Children's Health Insurance Plan, Dual-Eligible Special Needs Plans for long-term care, and a commercial HMO for federal employees' benefits. 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:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
Comprehensive (hospital and medical)	$ 76,878,194	$ 370,428	$ 76,507,766	5.1 %
Fed employees health benefits program premium	70,153,604	77,521	70,076,084	4.7 %
Title XVIII - Medicare	1,344,135,553	366,776	1,343,768,777	90.2 %
Health subtotal	1,491,167,351	814,725	1,490,352,626	100.0 %
Totals	$ 1,491,167,351	$ 814,725	$ 1,490,352,626	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	$ 454,481,572	$ 350,898,818	$ 376,209,164	$ 343,560,860	$ 275,790,120
Liabilities	$ 242,787,474	$ 165,080,871	$ 226,516,213	$ 191,922,551	$ 148,278,892
Capital and Surplus Funds	$ 211,694,098	$ 185,817,947	$ 149,692,951	$ 151,638,309	$ 127,511,228
Net Premium Income	$1,490,352,626	$1,371,379,577	$1,193,019,898	$1,036,144,197	$1,151,034,150
Benefits to Members	$1,321,598,181	$1,246,085,324	$1,092,837,171	$ 900,081,663	$1,036,171,940
Net Investment Income	$ 4,468,451	$ 1,737,251	$ 1,908,022	$ 1,375,025	$ 2,619,283
Net Income	$ 25,704,913	$ 3,872,040	$ 12,557,006	$ 41,652,963	$ 19,192,470

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	$ 181 785,454	$ 177 049.083	$ 180,931 033	$ 171 988.439	$ 163,595,600
Preferred stocks	296 830	446 259	426.136	189,000	189,000
Cash, cash equivalents and short-term investments	19.088,212	46,278,461	57 331 760	99,530,597	36,719,032
Other invested assets	5.277,934	4,981.719	2,616,997	2,681.471	3,537,197
Receivable for securities	7 919,906	642 588	640,345	270,827	1,262,074
Subtotal, cash and invested assets	214 368,336	229.398 110	241.948,272	274,660,335	205,302,902
Investment income due and accrued	966.597	837 932	929.048	968,244	1,067 521
Premiums and considerations	15.206,701	14,697,289	13,379.006	19.732,646	8,145,590
Amounts recoverable from reinsurers	0	672 877	3,511 664	34	14,497
Other amounts receivable under reinsurance contracts	134,376	86,571	0	0	450,177
Amounts receivable relating to uninsured plans	645,736	16,500,237	7,901 850	8,161,367	0
Net deferred tax asset	10,721 966	9,696,701	0	0	0
Electronic data processing equipment and software	134,126	434 367	1 736,268	4,552,511	3,546,475
Receivable from parent, subsidiaries and affiliates	185.529,353	61 958,461	93,345,208	26,169,206	46,793,314
Health care and other amounts receivable	22,539,404	13,992,275	10,643,111	6,617,094	10,015,753
Aggregate write-ins for other than invested assets	4,234,977	2,623,998	2,614,737	2,681,423	453 691
Total	$ 454.481,572	$ 350,698,818	$ 376,209,164	$ 343,560,860	$ 275,790,120
Claims unpaid	$ 74,331 675	$ 69,870,153	$ 75,628.219	$ 65,562,223	$ 61 368,664
Unpaid claims adjustment expenses	649,097	546,210	827,372	646,661	554,697
Premiums received in advance	3,297,633	3,745,795	3,048,209	3.380,295	2,269,982
General expenses due or accrued	31,462,919	34,959,865	38,313,391	42,630,976	25,237 863
Current federal and foreign income tax payable and interest thereon			0	0	0
Net deferred tax liability	0	0	9,274,904	6,699,556	6,333,267
Amounts withheld or retained for the account of others	1,219,990	1 033,093	1 061 412	1 017,079	1,167 733
Remittances and items not allocated	239,279	327,391	14,327	86,475	0
Amounts due to parent, subsidiaries and affiliates	48,975,999	25,300,357	48,245,169	52,968,187	30,369,070
Payable for securities	15,808,503	3,499,296	7,002,313	5,726,865	7,135,081
Liability for amounts held under uninsured plans	4,076,607	0	0	713,544	6,362,877
Aggregate write-ins for other liabilities	62,725,372	25,698,711	42,900,876	12,492,687	7,479,738
Total liabilities	242,767,474	165,080,871	226,516,213	191,922,551	148,278,892
Gross paid in and contributed surplus	2,877,731	2,877 731	3,277 731	3,277,731	3,277 731
Surplus notes	90,000,000	90,000.000	85,000.000	100,000,000	100,000,000
Unassigned funds (surplus)	118,816,366	92,940,216	61,415,220	48,360,578	24,233,497
Total capital and surplus	211,694,098	185,817,947	149,692,951	151,638,309	127,511,228
Totals	$ 454,481,572	$ 350,898,818	$ 376,209,164	$ 343,560,860	$ 275,790,120

Comparative Statement of Income
For the Year Ended December 31,

	2016	2015	2014	2013	2012
Net premium income	$ 1,490,352,626	$ 1,371,379,577	$ 1,193,019,898	$ 1,036,144,197	$ 1,151,034,150
Aggregate write-ins for other non-health revenues	(114)	(919)	7,680	8,691	0
Total revenues	1,490,352,512	1,371,378,658	1,193,027,578	1,036,152,888	1,151,034,150
Hospital/medical benefits	932,461,968	886,651,408	776,412,084	646,622,297	734,053,870
Other professional services	231,532,000	196,354,592	168,706,073	140,779,052	160,837,862
Emergency room and out-of-area	39,947,571	36,122,629	30,598,674	25,165,575	28,244,007
Prescription drugs	117,656,641	126,956,695	117,120,341	87,514,740	113,036,202
Subtotal (hospital and medical)	1,321,598,181	1,246,085,324	1,092,837,171	900,081,663	1,036,171,940
Net reinsurance recoveries	149,984	(736,506)	3,524,359	486,106	164,278
Total hospital and medical	1,321,448,198	1,246,821,830	1,089,312,812	899,595,557	1,036,007,662
Claims adjustment expenses, including cost containment expenses	23,154,167	20,443,812	18,304,404	16,510,995	22,495,489
General administrative expenses	102,648,011	89,680,733	72,818,694	61,121,702	80,356,538
Total underwriting deductions	1,447,250,376	1,356,946,375	1,180,435,910	977,228,255	1,138,859,689
Net underwriting gain or (loss)	43,102,136	14,432,284	12,591,668	58,924,633	12,174,460
Net investment income earned	4,468,451	1,737,251	1,908,022	1,375,025	2,619,283
Net realized capital gains or (losses)	(2,363,519)	(5,579,198)	24,520	(137,994)	3,280,976
Net investment gains or (losses)	2,104,933	(3,841,947)	1,932,542	1,237,031	5,900,259
Net income or (loss) before federal income taxes	45,207,069	10,590,338	14,524,210	60,161,664	18,074,719
Federal income taxes incurred	19,502,156	6,718,298	1,967,204	18,508,701	(1,117,750)
Net income (loss)	$ 25,704,913	$ 3,872,040	$ 12,557,006	$ 41,652,963	$ 19,192,469

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

	2016	2015	2014	2013	2012
Capital and surplus, December 31 previous year	$ 185,817,947	$ 149,692,951	$ 151,638,309	$ 127,511,228	$ 134,091,894
Net income or (loss)	25,704,913	3,872,040	12,557,006	41,652,963	19,192,470
Change in net unrealized capital gains and (losses)	17,490	(102,823)	2,414	(193,643)	624,669
Change in net deferred income tax	3,922,000	19,785,970	(2,575,346)	(366,291)	(8,321,314)
Change in nonadmitted assets	(3,768,252)	7,569,810	3,070,568	(16,965,948)	(18,076,710)
Change in surplus notes	0	5,000,000	(15,000,000)	0	0
Net change in capital and surplus	25,876,150	36,124,996	(1,945,358)	24,127,081	(6,580,665)
Capital and surplus, December 31 current year	$ 211,694,098	$ 185,817,947	$ 149,692,951	$ 151,638,309	$ 127,511,228

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

	2016	2015	2014	2013	2012
Cash from Operations					
Premiums collected net of reinsurance	$ 1,489,347,447	$ 1,370,672,309	$ 1,199,101,599	$ 1,026,057,484	$ 1,151,202,702
Net investment income	2,639,043	584,205	445,545	447,226	2,792,035
Miscellaneous income	(114)	(919)	7,680	8,691	0
Total	1,491,986,376	1,371,255,595	1,199,554,824	1,026,513,401	1,153,994,737
Benefit and loss related payments	1,326,763,211	1,251,900,868	1,087,864,304	891,988,798	1,040,616,788
Commissions, expenses paid and aggregate write-ins for deductions	109,265,129	122,357,619	95,694,000	73,978,319	92,389,408
Federal and foreign income taxes paid (recovered)	0	0	1,967,204	18,508,702	(1,117,751)
Total deductions	1,436,028,340	1,374,258,487	1,185,545,507	984,475,818	1,131,886,445
Net cash from operations	55,958,036	(3,002,892)	14,009,316	42,037,583	22,108,292
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	269,915,596	297,096,313	180,184,913	163,365,024	287,603,709
Stocks	150,363	0	0	0	0
Net gain or (loss) on cash, cash equivalents and short term investments	0	0	0	0	(33,239)
Miscellaneous proceeds	7,185,305	5,647,322	1,175,556	92,319	0
Total investment proceeds	277,251,265	302,743,635	181,360,469	163,457,343	287,570,470
Cost of investments acquired (long-term only):					
Bonds	275,046,537	297,658,156	187,874,276	171,152,743	309,063,230
Stocks	0	0	233,385	0	189,000
Miscellaneous applications	2,405,067	8,966,768	0	416,970	34,144,248
Total investments acquired	277,451,604	306,624,926	188,107,661	171,569,713	343,396,478
Net cash from investments	(200,339)	(4,081,291)	(6,747,192)	(8,112,370)	(55,826,008)
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Surplus notes, capital notes	0	5,000,000	(15,000,000)	0	0
Other cash provided or (applied)	(82,947,945)	(8,969,115)	(34,460,962)	28,886,352	(58,983,389)
Net cash from financing and miscellaneous sources	(82,947,945)	(3,969,115)	(49,460,962)	28,886,352	(58,983,389)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(27,190,249)	(11,053,299)	(42,198,838)	62,811,565	(90,703,104)
Cash and short-term investments:					
Beginning of the year	46,278,461	57,331,760	99,530,597	36,719,032	127,422,137
End of the year	$ 19,088,212	$ 46,278,461	$ 57,331,760	$ 99,530,597	$ 36,719,032

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	$ 181,785,454	84.8 %
Preferred stocks	296,830	0.1 %
Cash	10,946,340	5.1 %
Short-term investments	8,141,872	3.8 %
Other invested assets	5,277,934	2.5 %
Receivable for securities	7,919,906	3.7 %
Totals	$ 214,368,336	100.0 %

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

NAIC Designation	Amount	Percentage
1 - highest quality	$ 164,351,360	88.1 %
2 - high quality	21,038,860	11.2 %
3 - medium quality	1,045,338	0.6 %
4 - low quality	154,605	0.1 %
Totals	$ 186,590,163	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 23,104,629	12.4 %
2 to 5 years	105,521,762	56.6 %
6 to 10 years	39,906,126	21.4 %
11 to 20 years	10,513,847	5.6 %
over 20 years	7,543,799	4.0 %
Totals	$ 186,590,163	100.0 %

The Company's investment portfolio is primarily comprised of bonds, cash and short-term investments, which collectively represent 93.7% of the invested assets.

The quality of the Company's bond portfolio is 99.9% investment grade, with 88.1% having an NAIC designation of "1" highest quality and 11.2% 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 $74,331,875 and Unpaid Claims Adjustment Expenses of $649,097 on 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 Plan, Inc.

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 at the annual shareholder meetings as stipulated in Section 4.3 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 Agreements 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 in accordance with 40 P.S. § 504.1(c).

   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 Plan, Inc., as of December 31, 2016, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 454,481,572	100.0 %
Liabilities	$ 242,787,474	53.1 %
Capital and Surplus	211,694,098	46.9 %
Total liabilities, capital and surplus	$ 454,481,572	100.0 %

Since the previous examination, made as of December 31, 2011, the Company's assets increased by $120,079,984, its liabilities increased by $42,477,778, and its capital and surplus increased by $77,602,206.

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

Melissa L. Greiner
Director
Bureau of Financial Examinations

Philip M. Judge
--cdd

Philip M. Judge, CFE
Examination Manager

David W. Jia
-cdd

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