

Examination Warrant Number 17-00707-95220-R1

Report of Examination of

**UnitedHealthcare of Pennsylvania, Inc.
Pittsburgh, Pennsylvania**

As of December 31, 2017

For Informational Purposes Only

TABLE OF CONTENTS

Subject	Page
Salutation	1
Scope of Examination	1
History.....	2
Management and Control:	
Capitalization	3
Stockholder	3
Insurance Holding Company System.....	4
Board of Directors.....	5
Committees	5
Officers	6
Corporate Records:	
Minutes	6
Articles of Incorporation.....	6
By-Laws	6
Service and Operating Agreements	7
Reinsurance:	
Ceded	9
Assumed.....	10
Territory and Plan of Operations	10
Significant Operating Trends	11
Pending Litigation.....	11
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds	12
Comparative Statement of Income.....	13
Comparative Statement of Capital and Surplus	14
Comparative Statement of Cash Flow	15
Summary of Examination Changes	16
Notes to Financial Statements:	
Assets:	
Investments	16
Liabilities:	
Policyholder and Claim Reserves	17
Subsequent Events	18
Recommendations:	
Prior Examination	19
Current Examination.....	19
Conclusion	20

Harrisburg, Pennsylvania
April 24, 2019

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 17-00707-95220-R1, dated July 11, 2017, an examination was made of

UnitedHealthcare of Pennsylvania, Inc., NAIC Code:95220

a Pennsylvania domiciled, single-state Health Maintenance Organization (“HMO”), hereinafter referred to as the “Company.” The examination was conducted at the Company’s statutory home office, located at Nova Tower 2, Two Allegheny Center, Suite 600, Pittsburgh, Pennsylvania 15212.

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, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017.

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. Statements were prepared by management and are therefore the responsibility of management. 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

UnitedHealthcare of Pennsylvania, Inc.

-2-

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 Baker Tilly Virchow Krause, 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 affiliated insurance companies from the UnitedHealth Group Incorporated (“UHG”) were examined at the same time with this examination:

Legal Entity	NAIC Code	State
Unimerica Life Insurance Company of New York	11596	NY
All Savers Insurance Company	82406	IN
All Savers Insurance Company of California	73130	CA
Golden Rule Insurance Company	62286	IN
Harken Health Insurance Company	79480	WI
Unimerica Insurance Company	79413	WI
United Healthcare of Wisconsin HMO	95710	WI
United Healthcare of Colorado HMO	95090	CO
United Healthcare of Texas HMO	95765	TX
United Healthcare of Georgia HMO	95850	GA
United Healthcare of Kentucky Ltd HMO	96644	KY
United Healthcare of Ohio	95186	OH
UnitedHealthcare Community Plan of Texas HMO	11141	TX
UnitedHealthcare Community Plan of Georgia HMO	13168	GA

HISTORY

The Company was incorporated on January 27, 1995, as Three Rivers Health Plan, Inc. and was granted a Certificate of Authority by the Department and the Department of Health on January 12, 1996, to operate a Health Maintenance Organization.

Effective November 1, 2005, the Company changed its name to Unison Health Plan of Pennsylvania, Inc. In 2008, UnitedHealth Group, Inc. (“UHG”), a publicly traded Minnesota corporation, through its wholly owned subsidiary, AmeriChoice, Inc. (“AmeriChoice”), a Delaware corporation, acquired the Company and its affiliates by the acquisition of 100% of the issued and outstanding capital stock of its parent company, Three Rivers Holdings, Inc (“TRH”). The acquisition was completed on May 30, 2008. This transaction was approved by the Department on April 15, 2008.

UnitedHealthcare of Pennsylvania, Inc.

-3-

On December 31, 2010, the Unison Family Health Plans of Pennsylvania, Inc. was merged with and into Unison Health Plan of Pennsylvania, Inc. Effective December 31, 2010, AmeriChoice of Pennsylvania, Inc. was also merged into the Company. Effective December 31, 2010, the Company changed its name to UnitedHealthcare of Pennsylvania. On January 4, 2011, this merger was approved by the Department.

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, 2017, the Company's total capital and surplus was \$199,562,110, consisting of \$22,476,245 aggregate write-ins for special surplus funds, 100,000 shares of issued and outstanding voting common capital stock with no par value, and a stated value of \$1 per share, and 3,055,000 shares of issued and outstanding non-voting common capital stock with no par value, and a stated value of \$1 per share amounting to \$3,155,000, \$9,800,000 in gross paid in and contributed surplus, and \$164,130,865 in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed pursuant to 31 Pa. Code § 301.121(b)(2) is equal to the greater of \$1,000,000 or three months of uncovered health care expenditures. Accordingly, the Company's required minimum net worth as of December 31, 2017 was \$1,000,000. The Company has met this requirement for all years under examination.

STOCKHOLDER

On December 31, 2017, TRH owns 100% of all 3,155,000 shares of the Company's issued and outstanding common capital stock.

During the period covered by this examination, the Company paid a total of \$58,500,000 in dividends to its parent company, TRH. All ordinary dividends were approved by the Board of Directors and did not require approval from the Department. Below is a summary of total dividends paid by the Company during the examination period:

UnitedHealthcare of Pennsylvania, Inc.

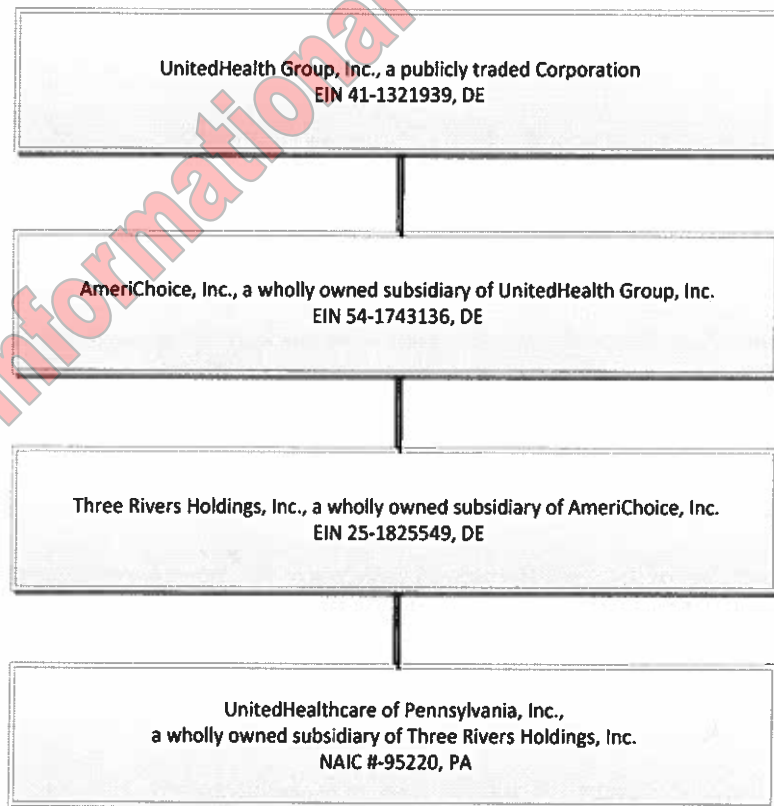
-4-

Year	Dividends
2013	0
2014	14,000,000
2015	14,500,000
2016	0
2017	\$30,000,000
Total	\$58,500,000

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.

UHG is named as the ultimate controlling person in the system. The following abridged organizational chart depicts the Company’s relationship within the UHG holding company system at December 31, 2017:



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, 2017:

Name and Address	Principal Occupation
Denise Adrienne Christian M.D. Flourtown, Pennsylvania	Senior Vice President, Clinical Operations UnitedHealthcare
Allison McConomy Davenport Philadelphia, Pennsylvania	President and Chief Executive Officer UnitedHealthcare of Pennsylvania, Inc.
Tiffany Mamie Ferrell Philadelphia, Pennsylvania	Well-being Specialist Bethanna
Boris Shapiro Esq. Narberth, Pennsylvania	Attorney Epstein, Shapiro, and Epstein, P.C.
Timothy Mark Spilker New Canaan, Connecticut	Regional Chief Executive Officer, C&S Operations, UnitedHealthcare
Susan Elizabeth Tew New Hope, Pennsylvania	Owner Heartystew Resources

Article IV, section 4.02(a) of the by-laws states that at least one-third of the membership of the directors shall be individuals who are subscribers of the Corporation.

Article IV, section 4.03(a) of the by-laws states that the number of directors of the corporation may be determined from time to time by the board of directors, but in no case, shall the number of directors be less than three.

The examiner determined that the Board is comprised of and operating pursuant to the requirements of its by-laws.

The Company has a conflict of interest policy in place that requires all employees annually to disclose any conflicts of interest involving themselves. In addition, all Board members and senior executives are required to complete an annual disclosure and certification of potential conflicts which are filed with the UHG’s compliance and ethics department.

COMMITTEES

UHG has established a two-tier audit committee system as follows:

Tier 1: Subsidiary Level Audit Committees – Each of the legal entities has designated, and is directly served by, one of eleven subsidiary level audit committees comprised of management from UHG. These audit committees are not independent and serve both entities that meet the independent membership criteria under the Model Audit Rule (“MAR”) and those that do not.

Tier 2: UHG Audit Committee – This audit committee is the Sarbanes-Oxley Act (“SOX”) compliant independent audit committee serving UHG.

The MAR provides expressly in Section 14 that the independence requirements for Audit Committees do not apply to companies that are directly or indirectly wholly-owned subsidiaries of a SOX compliant entity.

UnitedHealthcare of Pennsylvania, Inc.

-6-

The Company does not maintain any of its own committees, as all committees are established at the parent level. The Company utilizes the audit committee of its parent company AmeriChoice, Inc., and that audit committee is not independent. However, the UHG Audit Committee is the SOX compliant independent audit committee and meets the requirements of 40 P.S. § 991.1405(c)(5), which state that provisions of 40 P.S. §§ 991.1405(c)(3), (4) and (4.1) shall not apply to the Company as its parent, UHG, meets those requirements.

OFFICERS

As of the examination date, December 31, 2017, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Allison McConomy Davenport	President, Chief Executive Officer
Robert Worth Oberrender	Treasurer
Christina Regina Palme-Krizak	Secretary
Nyle Brent Cottington	Vice President
Heather Anastasia Lang Jacobsen	Assistant Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The annual meetings of the Company's stockholder were held in compliance with its by-laws.
- The stockholder elects directors at such meetings in compliance with the by-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All directors attend Board meetings regularly.

ARTICLES OF INCORPORATION

The Company changed its statutory home office to Nova Tower 2, Two Allegheny Center, Suite 600, Pittsburgh, Pennsylvania 15212 effective March 27, 2017. The Company properly notified the Department for the address change.

BY-LAWS

The Company amended its by-laws effective October 14, 2014, in several areas as summarized below:

UnitedHealthcare of Pennsylvania, Inc.

-7-

- The name of the corporation shall be UnitedHealthcare of Pennsylvania, Inc.
- The registered office of the corporation in Pennsylvania shall be that as defined in the Articles of Incorporation or in the most recent amendment of the Article of Incorporation or in a statement of change filed with the Pennsylvania Department of State.
- The requirements for qualification and selection of directors were clarified in Section 4.02(a).
- The requirements for the number of directors and terms of office were clarified in Section 4.03(a).

The Company properly notified the Department of the by-laws changes.

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which include intercompany and related-party agreements. The following significant agreements were in place during the examination period:

Credit Agreement

On November 1, 2012, the Company executed a subordinated revolving credit agreement with its ultimate parent company, UHG. The maximum amount that can be accessed by the Company is \$200,000,000. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. As of December 31, 2017, the Company has not accessed the line of credit.

Management Services Agreement

On January 1, 2011, the Company entered into an agreement with United HealthCare Services, Inc. ("UHS"), a wholly-owned subsidiary of UHG, to provide management and operation support to the Company. The agreement was amended on January 1, 2015 and March 1, 2017. The fee structure is based on a percentage of premium charges representing UHS's expenses for services or use of assets provided to the Company. In addition, UHS provides or arranges for services on behalf of the Company using a pass-through of charges incurred by UHS on a per member per month ("PMPM") basis or using another allocation methodology consistent with the agreement.

These services may include, but are not limited to, banking, financial analysis and reporting, human resources, information technology, audit, legal and regulatory affairs, facilities, general administration including tax and insurance, treasury and investments, actuarial and underwriting, benefit design and administration, call centers and related activities including enrollee and provider support activities, claims adjudication and payment systems, cost containment, data clearinghouse and warehouse systems, data management, disease management, financial administration systems, health care decision support, marketing and sales, medical management, payment integrity, pharmacy administration, provider network, quality oversight, specialty benefit management systems, third party administration and wellness management. The agreement shall continue until terminated by the parties.

Dental Services Agreement

On January 1, 2011, the Company entered into an administrative service agreement with Dental Benefit Providers, Inc. ("DBP"), an affiliated company, to provide dental benefit management and administration services for dental related services to the Company's members. DBP agreed to provide network management, credentialing and recredentialing, utilization management and/or complex case management, claims administration, and other related services to members in the regional area. The agreement was amended on January 1, 2012, September 1, 2013, January 1, 2014, January 1, 2015, January 1, 2016 and August 1, 2017. The agreement has detailed fee and service level agreements for the service provider. The agreement shall continue until terminated by the parties.

Vision Services Agreement

On September 1, 2013, the Company entered into a vision service agreement with Spectera, Inc., an affiliated company, to provide vision benefit management and administration services for vision related services to the Company's members. Spectera, Inc. agreed to provide network management, credentialing and recredentialing, utilization management and/or complex case management, claims administration, and other related services to members in the regional area. The agreement was amended on January 1, 2015, to add Specialty Benefits, LLC, as a party to the agreement. The agreement was amended again on January 1, 2016. The agreement has detailed fee and service level agreements for the service provider. The agreement shall continue until terminated by the parties.

Behavioral Health Services Agreement

On January 1, 2011, the Company entered into a behavioral health services agreement with United Behavioral Health ("UBH"), an affiliated company, to provide behavioral health benefit management and administration services for mental health and substance abuse related services to the Company's members. The agreement shall remain in effect for an initial term of one year, and thereafter, shall renew automatically for successive one-year terms, unless terminated by the parties. UBH agreed to provide network management, credentialing and recredentialing, utilization management and/or complex case management, claims administration, and other related services to members in the regional area. The agreement was amended on January 1, 2012, May 1, 2013, March 1, 2014, January 1, 2015, August 1, 2015, April 1, 2016 and June 1, 2017. The agreement has detailed fee and service level agreements for the service provider. The agreement shall continue until terminated by the parties.

Network Service Agreement

On August 1, 2011, the Company entered into a network service agreement OptumHealth Care Solutions, Inc., an affiliated company, to provide chiropractic, physical therapy, speech therapy, physical health, and complex medical conditions services to the Company's members. The agreement was amended on January 1, 2015 and February 1, 2016. The agreement shall continue until terminated by the parties.

Prescription Drug Benefit Administration Agreement

Effective January 1, 2013, the Company entered into a prescription drug benefit administration agreement with OptumRx, Inc., an affiliated company, to provide prescription drug benefit management and administration services for pharmacy related services to the Company's Medicaid and Children's Health Insurance Plan ("CHIP") members. The agreement shall have an initial term of three years and renew automatically for renewal terms of one year, until terminated by the parties. OptumRx, Inc. agreed to establish a pharmacy network for members in the regional area. The agreement has detailed fee and service level agreements for the service provider.

Retrospective Integrity Services Agreement

Effective January 1, 2011, the Company entered into an agreement with OptumInsight, Inc., an affiliated company, to provide Retrospective Integrity Services to the Company. The agreement was amended on January 1, 2013, November 1, 2013, June 1, 2014, December 31, 2014, September 1, 2015, March 1, 2017 and December 1, 2017. Under the terms of the agreement, OptumInsight, Inc., will provide claim analytics, recovery of medical expense overpayments, retroactive fraud, waste and abuse, subrogation, and premium audit services. The agreement has detailed service level and fee agreements. The agreement shall continue until terminated by the parties.

Tax Allocation Agreement

The Company is included in the consolidated federal income tax return with its ultimate parent, UHG, under a tax allocation agreement effective June 2, 2008. The tax allocation agreement was in existence since January 1, 1997 for all companies within the UHG system. Subsequent to the acquisition of the parent company AmeriChoice by UHG, this agreement became binding between the Company and UHG. Under the terms of the agreement, the Company is required to pay all tax liabilities as if it were a single entity. All long and short-term gains, as well as property sales, are calculated on a separate corporate basis. The parent company will act as the agent for all corporate tax filings and for collecting any tax refunds. The agreement shall continue until terminated by the parties.

REINSURANCE

CEDED

The Company did not have any significant ceded business during the period covered under this examination.

The Company's reinsurance program as of December 31, 2017 is summarized as follows:

UnitedHealthcare Insurance Company

Effective January 1, 2016, the Company entered into an insolvency-only reinsurance agreement with affiliate insurer, UnitedHealthcare Insurance Company ("UHIC"), to provide

UnitedHealthcare of Pennsylvania, Inc.

-10-

insolvency protection for its enrollees. Reinsurance premiums are calculated as 0.1% of member premium income. The term of the contract is for one year and shall remain in force until terminated by either party.

The Company's total ceded premium for 2017 was \$1,184,704. As of December 31, 2017, the Company had \$626,391 reinsurance recoverable for claims paid due to the Affordable Care Act ("ACA") Reinsurance Program and \$102,863 ceded reinsurance premium payable to its reinsurers.

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

Company's <u>Retention</u>	Reinsurance <u>Limits</u>	Type of business <u>Covered</u>
99.9% of Premiums	None	Hospital and Medical Services

The Company's reinsurance contract meets the transfer of risk test pursuant to the requirements of SSAP No. 61R. 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 is licensed in Pennsylvania only. The Company has contracts with the Commonwealth of Pennsylvania's Department of Human Services ("DHS") to provide health care services to Medicaid eligible beneficiaries in Pennsylvania.

The Company also has a contract with DHS to provide health care services under Pennsylvania's CHIP program.

During 2016, the Company offered comprehensive commercial products to individuals. Effective January 1, 2017, the Company exited the Federal-Facilitated Marketplace for individual coverage.

On December 14, 2017, the Company filed an application with the Department to expand its license. The Company wishes to expand the current license and use it to sell a commercial HMO product in Pennsylvania.

The following chart summarizes the Company's direct and assumed, ceded and net written premiums for the year 2017:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
Comprehensive (hospital and medical)	\$ 59,972,373	\$ 62,872	\$ 59,909,501	5.2 %
Title XIX - Medicaid	1,100,313,582	1,121,832	1,099,191,750	94.8 %
Health subtotal	1,160,285,955	1,184,704	1,159,101,251	100.0 %
Totals	\$ 1,160,285,955	\$ 1,184,704	\$ 1,159,101,251	100.0 %

SIGNIFICANT OPERATING TRENDS

The following table indicates the growth of the Company during the period covered by this examination:

	2017	2016	2015	2014	2013
Admitted Assets	\$ 411,867,940	\$ 525,754,455	\$ 428,237,917	\$ 278,396,973	\$ 279,817,304
Liabilities	\$ 212,305,830	\$ 352,718,690	\$ 285,277,428	\$ 133,349,373	\$ 131,416,734
Capital and Surplus Funds	\$ 199,562,110	\$ 173,035,765	\$ 142,960,489	\$ 145,047,600	\$ 148,400,570
Net Premium Income	\$1,159,101,251	\$1,375,185,375	\$1,186,279,639	\$ 922,615,845	\$1,099,633,972
Benefits to Members	\$ 998,528,649	\$1,053,249,754	\$ 913,256,478	\$ 749,049,560	\$ 938,893,212
Net Investment Income	\$ 6,068,236	\$ 3,907,290	\$ 2,476,272	\$ 2,297,842	\$ 1,949,339
Net Income	\$ 57,376,909	\$ 30,505,908	\$ 8,773,667	\$ 10,076,961	\$ 12,265,347

PENDING LITIGATION

The Company and certain of the UHG 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, 2017, 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.

UnitedHealthcare of Pennsylvania, Inc.

-12-

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

	2017	2016	2015	2014	2013
Bonds	\$ 248,705,718	\$ 238,539,820	\$ 154,368,105	\$ 131,927,349	\$ 117,849,044
Cash, cash equivalents and short-term investments	20,059,869	241,292,849	140,150,637	25,106,394	60,746,574
Receivable for securities	350,000	0	0	0	0
Subtotal, cash and invested assets	269,115,587	479,832,669	294,518,742	157,033,743	178,595,618
Investment income due and accrued	2,090,952	1,784,053	1,291,843	1,178,139	1,097,943
Premiums and considerations	131,285,827	30,697,084	111,976,006	108,131,405	70,762,251
Amounts recoverable from reinsurers	626,391	2,934,249	5,593,387	0	0
Amounts receivable relating to uninsured plans	0	0	83,455	2,711,331	2,948,058
Current federal and foreign income tax recoverable and interest thereon	0	0	3,521,455	0	2,557,084
Net deferred tax asset	942,635	3,090,170	3,315,917	3,635,032	4,498,502
Health care and other amounts receivable	7,806,548	7,416,230	5,819,521	4,069,442	6,954,935
Aggregate write-ins for other than invested assets	0	0	2,139,591	1,617,881	12,404,913
Total	\$ 411,867,940	\$ 525,754,455	\$ 428,237,917	\$ 278,396,973	\$ 279,817,304
Claims unpaid	\$ 116,284,212	\$ 136,928,219	\$ 126,761,889	\$ 94,068,183	\$ 122,861,809
Accrued medical incentive pool and bonus amounts	1,161,763	1,104,557	527,393	217,840	225,908
Unpaid claims adjustment expenses	1,183,587	1,525,008	1,408,473	1,081,882	1,906,359
Aggregate health policy reserves	57,933,458	118,465,832	115,649,971	3,788,976	234,111
Aggregate health claim reserves	2,251,357	3,228,819	1,978,106	1,363,854	3,420,161
Premiums received in advance	1,575,829	10,504,150	1,785,231	852,531	130,678
General expenses due or accrued	18,332,144	53,788,780	14,022,206	1,532,805	514,734
Current federal and foreign income tax payable and interest thereon	3,803,715	4,289,732	0	2,498,444	0
Ceded reinsurance premiums payable	102,863	256,096	998,536	0	0
Remittances and items not allocated	2,995	52,644	0	0	0
Amounts due to parent, subsidiaries and affiliates	6,293,186	6,863,227	13,506,656	26,256,660	928,178
Liability for amounts held under uninsured plans	285,473	2,933,872	7,844,034	336,031	202,010
Aggregate write-ins for other liabilities	3,085,248	12,797,754	996,933	1,352,167	992,786
Total liabilities	212,305,830	352,718,690	285,277,428	133,349,373	131,416,734
Aggregate write-ins for special surplus funds	22,476,245	0	19,118,362	16,579,766	0
Common capital stock	3,155,000	3,155,000	3,155,000	3,155,000	3,155,000
Gross paid in and contributed surplus	9,800,000	9,800,000	9,800,000	9,800,000	9,800,000
Unassigned funds (surplus)	164,130,865	160,080,765	110,887,127	115,512,834	135,445,570
Total capital and surplus	199,582,110	173,035,765	142,960,489	145,047,600	148,400,570
Totals	\$ 411,867,940	\$ 525,754,455	\$ 428,237,917	\$ 278,396,973	\$ 279,817,304

For Informational Purposes Only

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

	2017	2016	2015	2014	2013
Net premium income	\$ 1,159,101,251	\$ 1,375,185,375	\$ 1,186,279,639	\$ 922,615,845	\$ 1,099,633,972
Change in unearned premium reserves and reserve for rate credits	75,097,259	(28,295,783)	(65,594,789)	(3,524,696)	1,474,102
Aggregate write-ins for other health care related revenues	5,692,708	255,601	2,361,094	829,351	739,336
Total revenues	1,239,891,218	1,347,145,193	1,123,045,944	919,920,498	1,101,847,410
Hospital/medical benefits	640,354,257	691,006,592	652,372,377	451,595,137	464,417,438
Other professional services	61,929,483	57,667,287	23,678,816	75,831,195	200,290,973
Emergency room and out-of-area	0	0	0	7,107,179	37,744,244
Prescription drugs	226,217,310	214,583,188	180,532,180	161,051,541	184,080,240
Aggregate write-ins for other hospital and medical	69,131,151	88,322,558	56,112,892	53,407,328	52,315,212
Incentive pool, withhold adjustments and bonus amounts	896,448	1,670,129	560,213	57,180	45,105
Subtotal (hospital and medical)	998,528,649	1,053,249,754	913,256,478	749,049,560	938,893,212
Net reinsurance recoveries	1,308,884	2,885,435	6,348,678	0	0
Total hospital and medical	997,219,765	1,050,384,319	906,907,800	749,049,560	938,893,212
Claims adjustment expenses, including cost containment expenses	54,564,790	60,212,436	54,223,146	41,797,440	47,069,031
General administrative expenses	107,425,948	185,918,081	139,818,866	108,423,227	100,514,067
Increase in reserves for life accident and health contracts	0	(1,224,000)	1,224,000	0	0
Total underwriting deductions	1,159,210,503	1,295,290,836	1,102,173,812	899,270,227	1,086,476,310
Net underwriting gain or (loss)	80,680,715	51,854,357	20,872,132	20,650,271	15,371,100
Net investment income earned	6,088,236	3,907,290	2,476,272	2,297,842	1,949,339
Net realized capital gains or (losses)	(68,977)	556,185	197,029	99,182	281,768
Net investment gains or (losses)	5,999,259	4,465,455	2,673,301	2,397,024	2,231,107
Net gain or (loss) from agents' or premium balances charged off	(1,245,986)	(502,057)	(4,472)	0	0
Aggregate write-ins for other income or expenses	1,087	0	0	(500)	0
Net income or (loss) before federal income taxes	85,435,075	55,817,755	23,540,961	23,046,795	17,602,207
Federal income taxes incurred	28,058,166	25,311,847	14,767,274	12,969,834	5,336,860
Net income (loss)	\$ 57,376,909	\$ 30,505,908	\$ 8,773,687	\$ 10,076,961	\$ 12,265,347

For Informational Purposes Only

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

	2017	2016	2015	2014	2013
Capital and surplus, December 31, previous year	\$ 173,035,765	\$ 142,960,489	\$ 145,047,600	\$ 148,400,570	\$ 135,316,768
Net income or (loss)	57,376,909	30,505,908	8,773,687	10,076,961	12,265,347
Change in net deferred income tax	(2,147,535)	(274,453)	(329,152)	(891,030)	(1,071,489)
Change in nonadmitted assets	1,296,971	(156,179)	3,968,354	1,461,099	1,889,944
Dividends to stockholders	(30,000,000)	0	(14,500,000)	(14,000,000)	0
Net change in capital and surplus	26,526,345	30,075,276	(2,087,111)	(3,352,970)	13,083,802
Capital and surplus, December 31, current year	\$ 199,562,110	\$ 173,035,765	\$ 142,960,489	\$ 145,047,600	\$ 148,400,570

For Informational Purposes Only

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

	2017	2016	2016	2014	2013
Cash from Operations					
Premiums collected net of reinsurance	\$ 1,063,995,840	\$ 1,440,184,854	\$ 1,229,408,479	\$ 885,998,711	\$ 1,101,864,782
Net investment income	9,081,420	5,628,716	4,103,681	3,929,912	3,630,814
Miscellaneous Income	5,692,708	255,601	2,361,094	829,351	739,336
Total	1,078,769,968	1,446,067,171	1,235,873,254	890,757,974	1,106,234,932
Benefit and loss related payments	1,015,569,849	1,037,736,969	876,536,551	775,552,971	947,087,362
Commissions, expenses paid and aggregate write-ins for deductions	201,656,775	209,080,616	171,904,064	138,942,849	161,876,285
Federal and foreign income taxes paid (recovered)	28,522,843	17,767,238	20,945,445	7,979,917	8,260,271
Total deductions	1,245,749,467	1,264,584,823	1,069,386,060	922,475,737	1,117,223,918
Net cash from operations	(166,979,499)	181,482,348	166,487,194	(31,717,763)	(10,988,986)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	89,812,254	74,363,944	54,351,674	40,384,381	75,243,557
Net gain or (loss) on cash, cash equivalents and short term investments	0	1,000	0	982	9,597
Total investment proceeds	89,812,254	74,364,944	54,351,674	40,385,363	75,253,154
Cost of investments acquired (long-term only):					
Bonds	103,383,539	159,915,117	78,189,387	55,995,644	89,545,370
Miscellaneous applications	350,000	0	0	0	0
Total investments acquired	103,733,539	159,915,117	78,189,387	55,995,644	89,545,370
Net cash from investments	(13,921,285)	(85,550,173)	(23,837,713)	(15,610,281)	(14,292,216)
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Dividends to stockholders	30,000,000	0	14,500,000	14,000,000	0
Other cash provided or (applied)	(10,332,196)	5,210,037	(13,105,238)	25,687,864	(1,458,955)
Net cash from financing and miscellaneous sources	(40,332,196)	5,210,037	(27,605,238)	11,687,864	(1,458,955)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(221,232,980)	101,142,212	115,044,243	(35,640,180)	(26,740,157)
Cash and short-term investments:					
Beginning of the year	241,292,849	140,150,637	25,106,394	60,746,574	87,486,731
End of the year	\$ 20,059,869	\$ 241,292,849	\$ 140,150,637	\$ 25,106,394	\$ 60,746,574

For Informational Purposes Only

SUMMARY OF EXAMINATION CHANGES

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

NOTES TO FINANCIAL ITEMS

ASSETS

INVESTMENTS

As of December 31, 2017, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 248,705,718	92.4 %
Cash	6,293,648	2.3 %
Cash equivalents	8,290,584	3.2 %
Short-term investments	5,475,637	2.0 %
Receivable for securities	350,000	0.1 %
Totals	<u>\$ 269,115,587</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	\$ 229,308,487	89.8 %
2 - high quality	26,171,185	10.2 %
Totals	<u>\$ 255,479,672</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 47,288,906	18.5 %
2 to 5 years	118,801,113	46.5 %
6 to 10 years	81,991,142	32.1 %
11 to 20 years	3,758,242	1.5 %
over 20 years	3,640,269	1.4 %
Totals	<u>\$ 255,479,672</u>	<u>100.0 %</u>

The Company's investment portfolio is primarily comprised of bonds, cash, cash equivalents and short-term investments, which collectively represent 99.9% of the invested assets.

The quality of the Company's bond portfolio is 100.0% investment grade, with 89.8% having an NAIC designation of "1" highest quality and 10.2% 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, 2017.

The Company holds its investment portfolio under two non-discretionary custodial agreements with The Bank of New York Mellon and Northern Trust Company, effective November 22, 2010 and May 1, 2011, respectively. The examiners performed a review of the custodial agreements and found them not to be in compliance with all requirements of 31 Pa. Code § 148a.3.

It is recommended that the Company amend the custodial agreements with The Bank of New York Mellon and Northern Trust Company, respectively, and bring the custodial agreements into compliance with all requirements of 31 Pa. Code § 148a.

LIABILITIES

POLICYHOLDER AND CLAIM RESERVES

The Company reported reserves for Claims Unpaid of \$116,284,212, Accrued Medical Incentive Pool and Bonus Amounts of \$1,161,763, Unpaid Claims Adjustment Expenses of \$1,183,587, Aggregate Health Policy Reserves of \$57,933,458 and Aggregate Health Claim Reserves of \$2,251,357 in its December 31, 2017 Annual Statement.

During the examination period, the Company had several actuaries serving in the role of appointed actuary as follows.

Kevin B. Francis, FSA, MAAA, Vice President, Actuarial Services of UHS served as the Company's appointed actuary for the years ending 2013 and 2014.

Allen J. Sorbo, FSA, MAAA, Chief Actuary of UHIC served as the Company's appointed actuary for the years ending 2015 and 2016. Mr. Sorbo retired on May 31, 2017.

On May 31, 2017, Gary A. Iannone, ASA, MAAA, Vice President, Corporate Actuarial Services of UHS was appointed to serve as the Company's appointed actuary for the year ending 2017.

The Company provided the required letters regarding changes in appointed actuaries and no disagreements letters to the Department.

Mr. Iannone concluded the December 31, 2017 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, 2017 reserves and related actuarial values:

- (a) Are in accordance with 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 a 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; and
- (f) Include appropriate provision for all actuarial items that ought to be established.

The CPA utilized the actuarial services of Oliver Wyman Actuarial Consulting, Inc., to perform separate independent actuarial analyses of reserves as of December 31, 2017. Their analyses concluded that reserves were within acceptable ranges, and therefore, were fairly stated.

As part of the coordinated examination, the Department utilized the actuarial services of Lewis & Ellis, Inc., 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 the procedures performed and the 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, 2017.

SUBSEQUENT EVENTS

On February 28, 2018, Jeffrey B. Snelling was elected to serve as the Chief Financial Officer of the Company.

On March 9, 2018, Brett E. Edelson was elected to serve as an Audit Committee Member of the Company, replacing Kent W. Monical who resigned effective March 8, 2018.

On March 21, 2018, the Company declared an ordinary cash dividend of \$25,000,000 to the sole shareholder, TRH, that was paid April 4, 2018. This was recorded as an accrued liability and a reduction to unassigned surplus in the March 31, 2018 statement of admitted assets, liabilities, and capital and surplus.

On April 16, 2018, the Company received from DHS, calendar year 2018 HealthChoices contract amendment agreements for the Southeast, Southwest, and Lehigh Capital Zones.

The Company is subject to the annual fee under Section 9010 of the ACA. The fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of the health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, of the year the fee is due. Pursuant to the 2017 Health Insurer Fee ("HIF") moratorium, no HIF was payable in 2017.

UnitedHealthcare of Pennsylvania, Inc.

-19-

The estimated HIF amount payable of \$22,476,245 for 2018 is apportioned out of 2017 unassigned funds.

Effective September 26, 2018, Peter Marshall Gill was elected to serve as Treasurer of the Company, replacing Robert Worth Oberrender, who retired effective as of June 29, 2018.

On November 19, 2018, the Department approved the Company's application to expand the Company's license and use it to sell a commercial HMO product in Pennsylvania.

On November 19, 2018, the Company declared an ordinary cash dividend of \$30,000,000 to the sole shareholder, TRH, and was paid December 17, 2018. This was recorded as an accrued liability and a reduction to unassigned surplus in the November 19, 2018 statement of admitted assets, liabilities, and capital and surplus.

RECOMMENDATIONS

PRIOR EXAMINATION

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

CURRENT EXAMINATION

As a result of the current examination, the following recommendation is being made:

1. ***It is recommended that the Company amend the custodial agreements with The Bank of New York Mellon and Northern Trust Company, respectively, and bring the custodial agreements into compliance with all requirements of 31 Pa. Code § 148a. (See "Investments" at page 17).***

UnitedHealthcare of Pennsylvania, Inc.

-20-

CONCLUSION

As a result of this examination, the financial condition of UnitedHealthcare of Pennsylvania, Inc., as of December 31, 2017, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 411,867,940	100.0 %
Liabilities	\$ 212,305,830	51.5 %
Capital and Surplus	199,562,110	48.5 %
Total liabilities, capital and surplus	\$ 411,867,940	100.0 %

Since the previous examination, made as of December 31, 2012, the Company's assets increased by \$129,481,764, its liabilities increased by \$65,236,422, and its surplus increased by \$64,245,342.

This coordinated examination was conducted by examination staff and actuaries from Lewis & Ellis, Inc., Cornelius McConville 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