

AUDITED FINANCIAL STATEMENTS –
STATUTORY-BASIS AND
SUPPLEMENTARY INFORMATION

UPMC For You, Inc.
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

UPMC For You, Inc.

Audited Financial Statements – Statutory-Basis
and Supplementary Information

Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
UPMC For You, Inc.

Opinion

We have audited the statutory-basis financial statements of UPMC For You, Inc. (the Company), which comprise the Balance Sheets – Statutory-Basis as of December 31, 2021 and 2020, and the related Statements of Income – Statutory-Basis, Statements of Changes in Capital and Surplus – Statutory-Basis, and Statements of Cash Flow – Statutory-Basis for the years then ended, and the related notes to the financial statements (collectively referred to as the “financial statements”).

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company at December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Pennsylvania Insurance

Department which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

Pittsburgh, Pennsylvania
April 26, 2022

UPMC For You, Inc.

Balance Sheets – Statutory-Basis
(Dollars in Thousands)

	December 31	
	2021	2020
Admitted assets		
Cash and invested assets:		
Cash, cash equivalents, and short-term investments	\$ 451,420	\$ 602,884
Bonds	401,713	342,727
Preferred stocks	3,014	1,459
Common Stocks	67,234	–
Surplus note from affiliate	11,000	11,000
Other invested assets	154,294	109,658
Receivables for securities	35,349	18,681
Restricted reserve deposit	98	100
Total cash and invested assets	<u>1,124,122</u>	<u>1,086,509</u>
Investment income due and accrued	2,630	1,926
Uncollected premiums in the course of collection	538,798	485,830
Accrued retrospective premiums and contracts	4,739	183
Amounts recoverable from reinsurers	2,012	176
Accounts receivable from uninsured plans	1,997	11,501
Receivables from parent, subsidiaries and affiliates	118,665	–
Pharmacy rebates receivables	37,337	34,681
Other receivables	54,049	59,292
Total admitted assets	<u>\$ 1,884,349</u>	<u>\$ 1,680,098</u>
Liabilities and capital and surplus		
Reserve for claims unpaid and claims adjustment expenses	\$ 372,962	\$ 404,854
Aggregate health policy reserves	13,506	60,265
Assessment and taxes payable	–	315
Payable for securities	35,496	20,256
Amounts due to parent, subsidiaries and affiliates	–	195,497
Liabilities for amounts held under uninsured health plans	5,189	2,552
Assessments payable	127,120	101,250
Other liabilities	109,427	90,645
Total liabilities	<u>663,700</u>	<u>875,634</u>
Capital and surplus:		
Contributed surplus	8,000	8,000
Unassigned surplus	1,212,649	796,464
Total capital and surplus	<u>1,220,649</u>	<u>804,464</u>
Total liabilities and capital and surplus	<u>\$ 1,884,349</u>	<u>\$ 1,680,098</u>

See accompanying notes.

UPMC For You, Inc.

Statements of Income – Statutory-Basis
(Dollars in Thousands)

	Year Ended December 31	
	2021	2020
Premiums and enrollment revenues, net of reinsurance	\$ 7,071,000	\$ 6,266,994
Medical expenses:		
Hospital and medical expenses	1,980,738	1,885,289
Other professional services	2,933,910	2,625,039
Emergency room and out of area	116,535	98,567
Prescription drugs	946,682	805,282
Medical expenses prior to reinsurance recoveries	5,977,865	5,414,177
Reinsurance recoveries	4,439	4,162
Total medical expenses	5,973,426	5,410,015
Claims adjustment and cost containment expenses	74,292	81,203
Administrative expenses	550,658	501,042
Total underwriting deductions	6,598,376	5,992,260
Net underwriting gain	472,624	274,734
Investment income:		
Net investment income earned	12,973	12,186
Net realized capital gains	7,284	3,374
Net investment income	20,257	15,560
Net income	\$ 492,881	\$ 290,294

See accompanying notes.

UPMC For You, Inc.

Statements of Changes in Capital and Surplus – Statutory-Basis
(Dollars in Thousands)

	Contributed Surplus	Unassigned Surplus	Total Capital and Surplus
	<u> </u>	<u> </u>	<u> </u>
Balance at January 1, 2020	\$ 8,000	\$ 507,911	\$ 515,911
Net income	–	290,294	290,294
Change in nonadmitted assets	–	8	8
Change in unrealized gains and losses on investments	–	(1,749)	(1,749)
Balance at December 31, 2020	<u>8,000</u>	<u>796,464</u>	<u>804,464</u>
Net income	–	492,881	492,881
Change in nonadmitted assets	–	8	8
Change in unrealized gains and losses on investments	–	8,296	8,296
Contributed surplus to parent	–	(85,000)	(85,000)
Balance at December 31, 2021	<u>\$ 8,000</u>	<u>\$ 1,212,649</u>	<u>\$ 1,220,649</u>

See accompanying notes.

UPMC For You, Inc.

Statements of Cash Flow – Statutory-Basis

(Dollars in Thousands)

	Year Ended December 31	
	2021	2020
Operating activities		
Premiums collected, net of reinsurance	\$ 6,425,782	\$ 5,689,158
Net investment income	13,316	13,421
DHS hospital assessment and miscellaneous income received	540,933	504,397
Claims and claims adjustment expenses paid	(6,006,189)	(5,250,000)
Administrative expenses paid	(614,246)	(581,858)
Other	47,719	51,524
Net cash provided by operating activities	<u>407,315</u>	426,642
Investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	285,351	284,887
Stocks	44,601	–
Miscellaneous proceeds	2,115	1,501
Cost of investments acquired:		
Bonds	(342,761)	(294,270)
Stocks	(101,643)	(1,450)
Other invested assets	(45,852)	(2,774)
Miscellaneous applications	(1,428)	(1,825)
Net cash used in investing activities	<u>(159,617)</u>	(13,931)
Financing activities		
Net transfer (to) from affiliates	(399,162)	164,622
Net cash (used in) provided by financing activities	<u>(399,162)</u>	164,622
(Decrease) increase in cash, cash equivalents, and short-term investments	(151,464)	577,333
Cash, cash equivalents, and short-term investments at beginning of year	<u>602,884</u>	25,551
Cash, cash equivalents, and short-term investments at end of year	<u>\$ 451,420</u>	<u>\$ 602,884</u>

See accompanying notes.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (Dollars in Thousands)

December 31, 2021 and 2020

1. Operations and Organization

UPMC For You, Inc. (UPMC For You or the Company), a wholly owned subsidiary of the University of Pittsburgh Medical Center (UPMC), is designated by the Pennsylvania Department of Human Services (DHS) and the Pennsylvania Insurance Department (the Department) as a state-certified health maintenance organization (HMO). The Company was formed as a managed care company that specializes in the delivery of health and related services to Medical Assistance recipients of the Commonwealth of Pennsylvania through contracts with various hospitals, primary care physicians, and specialists. The mission of the Company is to provide a comprehensive managed care program that will demonstrate measurable improvement in the health status and well-being of members, while controlling overall medical expenses. The Company derives most of its revenue from managed care activities under contracts with DHS. UPMC For You also has a contract with the Centers for Medicare & Medicaid Services (CMS) to provide insurance benefits under the Medicare Advantage program. UPMC For You also offers services as part of the Pennsylvania DHS Community HealthChoices (CHC) Managed Care Agreement. Looking to better coordinate medical care and long-term services and support (LTSS), the CHC program is available for individuals who are dual eligible for Medicaid and Medicare or qualify for Medicaid LTSS.

2. Significant Accounting Policies

Basis of Presentation

The accompanying statutory-basis financial statements have been prepared in conformity with the accounting principles prescribed or permitted by the Department. The Department requires that insurance companies domiciled in the Commonwealth of Pennsylvania prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC AP&P).

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

As of December 31, 2021 and 2020, the more significant variances between statutory accounting practices prescribed or permitted by the Department and U.S. generally accepted accounting principles (GAAP) are as follows:

- Investments in bonds and mandatory redeemable preferred stocks are reported at amortized cost or fair value based on their NAIC rating. For GAAP, such fixed maturity investments and marketable equity securities would be designated at the time of purchase as held to maturity, trading, or available for sale. Held-to-maturity fixed investments would generally be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value, with unrealized holding gains and losses reported in operations for those designated as trading. Fair value for statutory purposes is based on the price that would be received to sell an asset in orderly transaction between market participants at the measurement date, whereas fair value for GAAP is based on quoted market prices.
- Investments in bonds not backed by loans are reported at amortized cost or fair value based on their NAIC rating. Single-class and multi-class mortgage-backed/asset-backed securities are valued at amortized cost using the interest method, including anticipated prepayments. For GAAP, such fixed maturity investments and marketable equity securities would be designated at the time of purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed maturity investments would generally be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading.
- Investments in common stocks are reported at fair value for statutory-basis, with changes in unrealized gains and losses credited to surplus. For U.S. GAAP, such investments are reported at fair value, with unrealized gains and losses and realized gains and losses included in investment income.
- Certain assets designated as “nonadmitted,” principally prepaid expenses and past-due accounts receivable balances, are excluded from the accompanying statutory-basis balance sheets and are charged directly to unassigned surplus. Under GAAP, such assets are included on the balance sheet to the extent that those assets are not impaired.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

- Cash, cash equivalents, and short-term investments on the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.
- Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.

The effects of the variances from U.S. GAAP and statutory accounting have not been determined but are presumed to be material.

Use of Estimates

The preparation of statutory-basis financial statements requires management to make estimates and assumptions that affect the amounts reported in the statutory-basis financial statements and accompanying notes. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Short-Term Investments

Cash, cash equivalents, and short-term investments consist of highly liquid investments with original maturities of one year or less. Short-term investments are valued at amortized cost, which approximates fair value. The company held \$2,315 and \$2,356 in short-term investments as of December 31, 2021 and 2020, respectively.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Investments

Bonds, preferred stocks and common stocks are stated at values prescribed by the NAIC, as follows:

Bonds not backed by other loans rated one and two by the NAIC are stated at amortized cost using the interest method of amortization; all others are stated at the lower of amortized cost or fair value.

Single-class and multi-class residential mortgage-backed securities are valued at amortized cost using the interest method of amortization, including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities except principal-only and interest-only securities, which are valued using the prospective method

Redeemable preferred stocks that have characteristics of debt securities and are rated as high quality or better are reported at cost or amortized cost. All other redeemable preferred stocks are reported at the lower of cost, amortized cost, or fair value. Nonredeemable preferred stocks are reported at fair value or lower of cost or fair value based on the price that would be received to sell an asset in orderly transaction between market participants at the measurement date, and the related net unrealized capital gains (losses) are reported in unassigned surplus.

Common stocks are reported at fair value, which is based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, and the related net unrealized capital gains (losses) are reported in unassigned surplus, along with any adjustment for federal income taxes.

Realized gains and losses are computed using the average cost method. Declines in the fair value of individual investments below cost that are considered to be other-than-temporary are recognized in the statutory-basis statements of income when such determination is made.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Company continually reviews investments for impairment conditions that indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered which, individually or in combination, indicate that a decline is other-than-temporary and that a reduction of the carrying value is required. These factors include specific information pertaining to an individual company or a particular industry and general market conditions that reflect prospects for the economy as a whole. Declines in the fair value of individual investments below cost that are considered to be other-than-temporary are recognized in the statutory-basis statements of income when such determination is made. Other-than-temporary losses of \$494 were recorded in 2021. The amortized cost, prior to recording any other-than-temporary losses, was \$1,414. The fair value and amortized cost, after recording the other-than-temporary losses, were \$920. Other-than-temporary losses of \$1,424 were recorded in 2020. The amortized cost, prior to recording any other-than-temporary losses, was \$3,702. The fair value and amortized cost, after recording the other-than-temporary losses, were \$2,278.

Included in various investment related line items in the statutory-basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired or, for certain bonds and preferred stock, when carried at the lower of cost or market.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models, and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model, or input used.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

In June 2017, the Company entered into a Subscription Agreement with Omicelo RE I, LP (Omicelo). Omicelo commenced operations on June 20, 2017, with the purpose of sourcing, purchasing, and reconstructing distressed real estate properties. Omicelo's investment strategy is to preserve partners' capital, generate income, and capture capital appreciation over the life of the partnership agreement. The Amended and Restated Limited Partnership Agreement provides that the partnership will continue until June 1, 2027, with possible extension by up to two consecutive years upon Advisory Committee approval. The Company accounts for the profit and losses of the investment under an equity method of accounting prescribed by paragraph 8.b.iii of Statement of Statutory Accounting Principles (SSAP) No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities*. The Company has recorded an investment in the amount of \$10,919 as of the balance sheet date and has disclosed this investment as "other invested assets" in Note 3. The Company has committed \$20,000 to Omicelo over the life of the partnership for the purpose of locating, sourcing, purchasing, and reconstructing distressed properties and also general expenses. The Company does not have any additional obligations or contingencies related to this investment.

In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities*, when a reporting entity's share of losses exceeds its investment in a subsidiary, controlled, or affiliated (SCA) entity, additional disclosures for tracking the SCA entity's losses are required. As of December 31, 2021 and 2020, the Company's investment in the limited partnership did not fall below zero.

As of December 31, 2021, UPMC For You has a loan outstanding to UPMC, as described in Note 8. As outlined in SSAP No. 25, *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*, loans made by the Company shall be admitted if approval for the transaction has been obtained from the domiciliary commissioner and the loan is determined to be collectible based upon periodic review of the parent's independent payment ability. If it becomes probable the balance is uncollectible, any uncollectible receivable shall be written off and charged to income in the period the determination is made. As of the reporting date, management believes collection from UPMC is probable and the balance of the loan outstanding is admissible and is included in the other invested assets.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Revenue Recognition

Premiums and enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. The revenue is based on rates paid to UPMC For You, which represent a capitated rate to cover all administrative and claims costs.

Medical Assistance and Community HealthChoices premiums represent the majority of the enrollment revenue reported on the accompanying statutory-basis statements of income. The Company's revenue is based on capitated amounts as contracted with the DHS and is recognized in the period in which subscribers are entitled to benefits. Included in uncollected premiums in the course of collection at December 31, 2021 and 2020, is approximately \$495,695 and \$440,748, respectively, related to the expected settlement of negotiated capitation rates with DHS for the periods from January 1, 2021 to December 31, 2021, and January 1, 2020 to December 31, 2020, respectively. The Company's contracts with DHS for the period January 1, 2020 to December 31, 2021, were fully executed and approved by CMS. A final reconciliation of amounts received by the Company as compared to rates included in the executed contracts, which is completed in conjunction with DHS, is expected to be completed during the year ending December 31, 2022. As a result, there is at least a reasonable possibility that estimates will change when the final reconciliation is completed.

Additionally, a liability for the risk pool established by DHS for the payment of catastrophic health claims of \$9,000 and \$12,332 has been recorded at December 31, 2021 and 2020, respectively. The risk pool was established in the Company's contract with DHS for the period January 1, 2021 to December 31, 2021, and for the period January 1, 2020 to December 31, 2020. Under the contract, a withholding is calculated by DHS from the Company's monthly capitation payment for ultimate redistribution to HMOs contracted with DHS based on each HMO's percentage of catastrophic health claims within DHS's designated service area. The final determination of amounts due to the Company is subject to review by DHS, which began in 2019. Through the date the accompanying statutory-basis financial statements were issued, there has been no impact on the recorded estimate as of December 31, 2021, but there is a possibility that recorded estimates will differ from final determination by DHS.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The contract with DHS also provides for reimbursement of certain other services that are in addition to the monthly capitation payment. Included in other receivables as of December 31, 2021 and 2020, is approximately \$3,285 and \$1,043, respectively, related to other services provided to Medical Assistance enrollees.

UPMC For You provides health care services to Medicare enrollees under a contract with CMS. The Company's revenue is based on capitated amounts as contracted with CMS and is recognized in the period in which subscribers are entitled to benefits. Medicare premiums represent 9% of premium and enrollment revenues for the years ended December 31, 2021 and 2020.

Laws and regulations governing the Medical Assistance and Medicare programs are complex and subject to interpretation. UPMC For You believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Premium Receivables

Premium receivables include only items less than or equal to 90 days past due. The Company routinely assesses the collectability of these receivables.

Other Receivables

The Company has recorded other receivables totaling \$54,049 and \$59,292 as of December 31, 2021 and 2020, respectively. Other receivable is primarily composed of receivables based upon programs with DHS totaling \$52,180 and \$58,061 for 2021 and 2020, respectively.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Medicare Part D Pharmacy Benefits Contract

The Company serves as a plan sponsor, offering Medicare Part D prescription drug insurance coverage with CMS. The CMS premium, the member premium, and the low-income premium subsidy represent payments for the Company's insurance risk coverage under the Medicare Part D program and therefore are recorded as premium revenues in operations. Premiums and enrollment revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred.

As of December 31, 2021 and 2020, the Company has recorded receivables of \$2,182 and \$11,684, respectively, related to the cost reimbursement provisions of the contract for amounts held under uninsured health plans. These are presented as part of accrued retrospective premiums and contracts and accounts receivable from uninsured plans in the balance sheets. As of December 31, 2021 and 2020, the Company has recorded payables of \$5,189 and payables of \$2,552, respectively, related to low-income cost-sharing provision of the contract in liabilities for amounts held under uninsured health plans.

Risk Corridor

As of December 31, 2021 and 2020, the Company has recorded payables of approximately \$13,506 and \$60,265, respectively, within aggregate health policy reserves in the balance sheets related to Community HealthChoices and Medical Assistance estimated Risk Corridor accrual. Accrued retrospective premiums are recorded through written premiums and are estimated based on guidelines determined by DHS.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Managed Care Organization Assessment

Beginning July 1, 2016, the Company is subject to a Managed Care Organization (MCO) Assessment. The MCO Assessment is applied to all MCOs, specifically Medical Assistance MCOs, CHC MCOs, Act 68 MCOs and all Children's Health Insurance Program plans. The assessment is a fixed, per member, per month assessment, and was \$24.95 for the period of January 2020 through December 2021. The assessment is paid on a quarterly basis and is due by the end of each quarter. The total MCO Assessment for the Company was approximately \$195,253 and \$173,138 for the years ended December 31, 2021 and 2020, respectively, and is included in premiums and enrollment revenues and administrative expenses on the statutory-basis statements of income. Included within the other liabilities line on the statutory-basis balance sheets is a liability related to the MCO Assessment of approximately \$50,611 and \$45,297 as of December 31, 2021 and 2020, respectively.

Reserve for Claims Unpaid and Claims Adjustment Expenses

Health care costs are paid under contracts providing for a variety of payment arrangements. Health care costs include estimates of payments to be made on claims reported, estimates of health care services rendered but not reported to UPMC For You as of the balance sheet date, and the estimated adjustment expenses related to those claims. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when UPMC For You is obligated to render such services in accordance with contract provisions or regulatory requirements. Adjustments to prior period estimates of health care costs are reflected in the current period.

Health care costs payable are based on known amounts of reported claims and an estimate for incurred but not reported claims using past experience adjusted for current trends. The methods used to determine the estimate are continually reviewed, and any resulting adjustments are included in current operations.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Pharmacy Rebates

UPMC For You has executed an exclusive rebate contract administration amendment with its Pharmacy Benefits Manager (PBM). The Company receives a quarterly rebate based on drug channel utilization and contract guarantee schedule. Pharmacy rebates are recognized as a reduction in health care costs in the period in which pharmacy prescriptions are filled and totaled approximately \$73,600 and \$67,170 for the years ended December 31, 2021 and 2020, respectively.

Pharmacy rebate receivables consist of reasonable estimated amounts and are based on a function of pharmacy claim counts by dispensed channel multiplied by the set contract PBM guaranteed rates. Amounts are collected within 150 days of the quarter close per the contract requirements. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted.

The following is a summary of activity related to the pharmacy rebates for the years ended December 31, 2021, 2020, and 2019:

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
2021:					
December 31	\$ 18,582	\$ –	\$ –	\$ –	\$ –
September 30	18,647	18,755	–	–	–
June 30	18,106	18,555	–	18,555	–
March 31	17,484	17,708	–	17,708	–
2020:					
December 31	\$ 17,643	\$ 18,062	\$ –	\$ 18,062	\$ –
September 30	16,803	17,386	71	17,315	–
June 30	16,175	16,488	4	16,484	–
March 31	15,645	15,930	15	15,915	–
2019:					
December 31	\$ 26,279	\$ 26,531	\$ 15	\$ 26,516	\$ –
September 30	26,046	26,033	12	26,021	–
June 30	26,810	26,741	7	26,734	–
March 31	26,947	26,387	–	26,387	–

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Allocable Expenses

UPMC For You purchases various administrative services from UPMC Health Plan, Inc., an affiliate through common ownership. The Company's administrative expenses are on a direct cost basis for those expenses directly attributable to a particular product. All other expenses are allocated based on department effort, premium revenue, or equivalents, as a percentage of total health insurance premium, or equivalent revenues, of affiliates. Claims adjustment expenses are reported based on an allocation of administrative expenses from the claims processing departments. Investment expenses are reported based on direct costs. Total claims adjustment and cost containment expenses and general administrative expenses are \$74,292 and \$550,658, respectively, for the year ended December 31, 2021, and \$81,203 and \$501,042, respectively, for the year ended December 31, 2020. Investment expenses of \$1,308 and \$1,025 are included in net investment income for the years ended December 31, 2021 and 2020, respectively.

Reinsurance

UPMC For You has reinsurance coverage that provides coverage for catastrophic inpatient hospital claims. The deductibles under the policies are \$750 and \$400 of allowable expenses for HMO Commercial and HMO Medicare risk members, respectively, per member per contract year with a maximum reinsurance indemnity for each member of \$2,000 per annum. UPMC For You is contingently liable for reinsured losses to the extent that the reinsurance company cannot meet its obligations under the reinsurance contract.

Total reinsurance premiums for the years ended December 31, 2021 and 2020, were approximately \$2,541 and \$2,228, respectively, and are classified as a reduction to premium and enrollment revenues in the accompanying statutory-basis statements of income. Total reinsurance recoveries for the years ended December 31, 2021 and 2020, were approximately \$4,439 and \$4,162, respectively, and are included in the statutory-basis statements of income as a reduction to medical expenses

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Contingent Liabilities

UPMC For You is a defendant in certain legal proceedings that have resulted from the normal conduct of its operations. It is the opinion of management that the ultimate liability, if any, associated with the outcome of these matters will not have a significant effect on UPMC For You's financial position, results of operations, or cash flows.

Assessments Payable

The Company has recorded assessments payable totaling \$127,120 and \$101,250 as of December 31, 2021 and 2020, respectively. Assessment payable includes programs with DHS for hospitals and nursing facilities.

Other Liabilities

The Company has recorded other liabilities totaling \$109,427 and \$90,645 as of December 31, 2021 and 2020, respectively. Other liabilities is primarily composed of MCO assessment payable, totaling \$50,611 and \$45,297 as of December 31, 2021 and 2020, respectively. Other liabilities is composed of programs based upon DHS and CHC, totaling \$28,426 and \$15,481 as of December 31, 2021 and 2020, respectively. Additionally, the Company experienced an overpayment from CMS which was recorded as a liability of \$9,933 as of December 31, 2021 and 2020. The overpayment is known to CMS and will be settle according to their timeline.

Permitted Statutory Accounting Practices

The Company's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Department. The Department recognizes only statutory accounting practices prescribed or permitted by the Commonwealth of Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the Commonwealth of Pennsylvania Insurance Law. The Company does not employ accounting practices that depart from NAIC AP&P.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments

The following two tables summarize the Company’s book adjusted carrying value, unrealized gains and losses, fair value, and carrying value on investments in bonds and restricted reserve deposit at December 31, 2021 and 2020:

	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
December 31, 2021					
U.S. government securities	\$ 45,128	\$ 698	\$ (779)	\$ 45,047	\$ 45,128
Foreign government securities	60,120	475	(438)	60,157	60,120
Municipal bonds	9,386	255	(57)	9,584	9,386
Corporate bonds	262,211	52,886	(1,656)	313,441	262,211
Mortgage-backed securities:					
U.S. government securities	24,868	227	(415)	24,680	24,868
Restricted reserve deposit	98	–	(11)	87	98
Total bonds	<u>\$ 401,811</u>	<u>\$ 54,541</u>	<u>\$ (3,356)</u>	<u>\$ 452,996</u>	<u>\$ 401,811</u>

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Preferred stocks	\$ 2,885	\$ 129	\$ –	\$ 3,014	\$ 3,014
Common stocks	59,503	8,875	(1,144)	67,234	67,234
Total stocks	<u>\$ 62,388</u>	<u>\$ 9,004</u>	<u>\$ (1,144)</u>	<u>\$ 70,248</u>	<u>\$ 70,248</u>

	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Equity Value	Carrying Value
December 31, 2021					
Investment in limited partnership	<u>\$ 14,236</u>	<u>\$ –</u>	<u>\$ (3,317)</u>	<u>\$ 10,919</u>	<u>\$ 10,919</u>

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
December 31, 2020					
U.S. government securities	\$ 36,390	\$ 1,137	\$ (195)	\$ 37,332	\$ 36,390
Foreign government securities	47,276	294	(582)	46,988	47,276
Municipal bonds	6,859	457	(18)	7,298	6,859
Corporate bonds	228,189	7,541	(1,054)	234,676	228,189
Mortgage-backed securities:					
U.S. government securities	24,013	617	(40)	24,590	24,013
Restricted reserve deposit	100	1	–	101	100
Total bonds	<u>\$ 342,827</u>	<u>\$ 10,047</u>	<u>\$ (1,889)</u>	<u>\$ 350,985</u>	<u>\$ 342,827</u>
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Preferred stocks	<u>\$ 1,450</u>	<u>\$ 9</u>	<u>\$ –</u>	<u>\$ 1,459</u>	<u>\$ 1,459</u>
	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Equity Value	Carrying Value
December 31, 2020					
Investment in limited partnership	<u>\$ 11,384</u>	<u>\$ –</u>	<u>\$ (2,101)</u>	<u>\$ 9,283</u>	<u>\$ 9,283</u>

The differences in the investment categorization for corporate bonds and mortgage-backed securities (U.S. government securities and corporate government securities) as of December 31, 2021 and 2020, is in accordance with the required classification presentation changes made by the NAIC.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

A summary of the book adjusted carrying value and fair value of investments in bonds and restricted reserve deposit at December 31, 2021, by contractual maturity, is presented below.

	Book Adjusted Carrying Value	Fair Value
Years to maturity:		
One or less	\$ 10,018	\$ 10,096
After one through five	94,714	145,272
After five through ten	128,777	128,661
After ten years	143,434	144,287
Mortgage-backed securities:		
U.S. government securities	24,868	24,680
Total	<u>\$ 401,811</u>	<u>\$ 452,996</u>

Expected maturities may differ from contractual maturities because the issuers of the bonds may have the right to call or prepay obligations with or without penalties.

Investment income, net of investment expenses, consisted of the following for the years ended December 31:

	2021	2020
Net investment income earned	\$ 12,973	\$ 12,186
Net realized capital gains	7,284	3,374
Net investment income	<u>\$ 20,257</u>	<u>\$ 15,560</u>

Gross realized gains and losses on sales were \$10,912 and \$3,628, respectively, during 2021 and \$7,196 and \$3,822, respectively, during 2020.

The schedules below summarize the fair value of securities that have gross unrealized losses (the amount by which carrying value exceeds the fair value) as of December 31, 2021 and 2020. These declines in value are determined to be temporary by the Company. The schedules further segregate the securities that have been in a gross unrealized position as of December 31, 2021 and 2020, for less than 12 months and those for 12 months or more.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

The gross unrealized losses of less than 12 months of \$2,264 and \$1,429 as of December 31, 2021 and 2020, respectively, are a reflection of current market fluctuations and interest rates changes and, therefore, are considered temporary. The Company recognized impairments that were determined to be other-than-temporary of \$494 during 2021; the Company recognized impairments that were determined to be other-than-temporary of \$1,424 during 2020. The gross unrealized losses of 12 months or more of \$1,092 and \$460 as of December 31, 2021 and 2020, respectively, are considered to be temporary as the Company does not intend to sell these securities, has the intent and ability to hold these investments until recovery with respect to noncredit-related declines, and because management expects to receive principal and interest cash flows in accordance with contractual terms or expectations at time of acquisition.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2021						
U.S. government	\$ 26,905	\$ (317)	\$ 8,358	\$ (462)	\$ 35,263	\$ (779)
Foreign government	18,888	(108)	5,644	(330)	24,532	(438)
Municipal bonds	3,390	(43)	434	(14)	3,824	(57)
Corporate bonds	99,551	(1,384)	8,570	(272)	108,121	(1,656)
MBS – U.S. government	17,761	(401)	1,290	(14)	19,051	(415)
Restricted reserve deposit	87	(11)	–	–	87	(11)
Total	\$ 166,582	\$ (2,264)	\$ 24,296	\$ (1,092)	\$ 190,878	\$ (3,356)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2020						
U.S. government	\$ 12,638	\$ (195)	\$ –	\$ –	\$ 12,638	\$ (195)
Foreign government	16,615	(542)	8,291	(40)	24,906	(582)
Municipal bonds	43	(1)	432	(17)	475	(18)
Corporate bonds	21,320	(657)	12,438	(397)	33,758	(1,054)
MBS – U.S. government	3,998	(34)	246	(6)	4,244	(40)
Total	\$ 54,614	\$ (1,429)	\$ 21,407	\$ (460)	\$ 76,021	\$ (1,889)

The above securities have been evaluated and determined to be temporary impairments for which the Company will be able to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition. The primary components of this analysis include a general review of market conditions and financial performance of the issuer, along with the extent and duration at which fair value is less than cost.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

As detailed below, the Company had one OTTI security during the year ended December 31, 2021.

CUSIP	Amortized Cost Before OTTI	OTTI Recognized	Fair Value	Amortized Cost After OTTI
553414-AN-0	\$ 1,414	\$ (494)	\$ 920	\$ 920

As detailed below, the Company had four OTTI securities during the year ended December 31, 2020.

CUSIP	Amortized Cost Before OTTI	OTTI Recognized	Fair Value	Amortized Cost After OTTI
12528P-AJ-1	\$ 1,165	\$ (241)	\$ 924	\$ 924
12528P-AK-8	546	(136)	410	410
35905E-AB-7	978	(741)	237	237
44422P-CA-8	1,013	(306)	707	707
	<u>\$ 3,702</u>	<u>\$ (1,424)</u>	<u>\$ 2,278</u>	<u>\$ 2,278</u>

The Company's financial assets and liabilities have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

classification is based on the lowest level of input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

In accordance with SSAP No. 100, the following tables represent the Company's fair value hierarchy for all financial instruments as of December 31, 2021 and 2020. There are no financial liabilities reported at fair value under SSAP No. 100 at December 31, 2021 and 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2021				
U.S. government securities	\$ 41,281	\$ 3,766	\$ –	\$ 45,047
Foreign government securities	–	60,157	–	60,157
Municipal bonds	–	9,584	–	9,584
Corporate bonds	–	311,515	1,926	313,441
Mortgage-backed securities:				
U.S. government	–	24,680	–	24,680
Restricted reserve deposit	87	–	–	87
Common stock	67,234	–	–	67,234
Preferred stock	3,014	–	–	3,014
Total assets at fair value	<u>\$ 111,616</u>	<u>\$ 409,702</u>	<u>\$ 1,926</u>	<u>523,244</u>
Investment in limited partnership				<u>10,919</u>
Fair value of total invested assets				<u>\$534,163</u>

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2020				
U.S. government securities	\$ 34,512	\$ 2,820	\$ –	\$ 37,332
Foreign government securities	–	46,988	–	46,988
Municipal bonds	–	7,298	–	7,298
Corporate bonds	–	231,640	3,036	234,676
Mortgage-backed securities:				
U.S. government	–	24,590	–	24,590
Restricted reserve deposit	101	–	–	101
Preferred stock	–	1,459	–	1,459
Total assets at fair value	<u>\$ 34,613</u>	<u>\$ 314,795</u>	<u>\$ 3,036</u>	<u>352,444</u>
Investment in limited partnership				<u>9,283</u>
Fair value of total invested assets				<u>\$ 361,727</u>

The table below represents the Company’s fair value hierarchy for financial statements carried at fair value as of December 31, 2021 and 2020.

<u>Description</u>	<u>December 31, 2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value				
Corporate bonds	\$ –	\$ 20,163	\$ 934	\$ 21,097
Foreign government securities	–	1,425	–	1,425
Total bonds	–	21,588	934	22,522
Preferred stock	3,014	–	–	3,014
Total stock	3,014	–	–	3,014
Cash and cash equivalents	8,283	–	–	8,283
Total cash and cash equivalents	8,283	–	–	8,283
Total assets at fair value	\$ 11,297	\$ 21,588	\$ 934	\$ 33,819

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

3. Investments (continued)

Description	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets at fair value				
Corporate bonds	\$ –	\$ 15,286	\$ 2,031	\$ 17,317
Foreign government securities	–	4,435	–	4,435
Total bonds	–	19,721	2,031	21,752
Preferred stock	–	1,459	–	1,459
Total stock	–	1,459	–	1,459
Cash and cash equivalents	9,812	–	–	9,812
Total cash and cash equivalents	9,812	–	–	9,812
Total assets at fair value	\$ 9,812	\$ 21,180	\$ 2,031	\$ 33,023

At the end of each reporting period, the Company evaluates whether any event has occurred, or circumstances have changed that would cause an instrument to be transferred between Levels 1, 2, and 3. The following tables represent all activity of Level 3 investments during the years ended December 31, 2021 and 2020:

Description	Beginning Balance at 1/1/2021	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Ending Balance at 12/31/2021
December 31, 2021									
Assets:									
Corporate bonds	\$ 2,031	\$ –	\$ –	\$ 34	\$ (197)	\$ –	\$ –	\$ (934)	\$ 934
Total assets	\$ 2,031	\$ –	\$ –	\$ 34	\$ (197)	\$ –	\$ –	\$ (934)	\$ 934

Description	Beginning Balance at 1/1/2020	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Ending Balance at 12/31/2020
December 31, 2020									
Assets:									
Corporate bonds	\$ 833	\$ 1,826	\$ (154)	\$ (741)	\$ 68	\$ 255	\$ –	\$ (56)	\$ 2,031
Total assets	\$ 833	\$ 1,826	\$ (154)	\$ (741)	\$ 68	\$ 255	\$ –	\$ (56)	\$ 2,031

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)

(Dollars in Thousands)

3. Investments (continued)

At December 31, 2021, UPMC For You has committed capital of approximately \$5,764 yet to be called for the limited partnership investment over the next one to twelve years. The Company's investment in the limited partnership has significant redemption restrictions that prohibit withdrawals during the partnership's term, which is expected to end in ten to twelve years.

The Company accounts for investment in limited partnership using the equity method of accounting. Amounts recorded represent initial investment at cost, adjusted for the Company's share in undistributed earnings and losses (net of dividends declared). The general partner obtains an audit of the limited partnership at least annually.

4. Leases

The Company receives an allocated portion of rent, equipment, and furniture expense from UPMC Health Plan, Inc., an affiliate through common ownership. Leases generally have terms ranging from two to twenty years. Rental expense for 2021 and 2020 approximated \$8,948 and \$9,013, respectively, and is included in administrative expenses in the statutory-basis statements of income.

5. Restricted Reserve Deposit

The Department has various reserve requirements related to HMOs. Actual restricted funds of \$98 and \$100 at December 31, 2021 and 2020, were set aside to meet these reserve requirements.

6. Income Taxes

The Internal Revenue Service has recognized UPMC For You as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) as part of UPMC's group ruling, and is, therefore, exempt from income tax under Section 501(a) of the Code.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued)
(Dollars in Thousands)

7. Reserve for Claims Unpaid and Claims Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for health care costs and claims adjustment expense reserve as of December 31, 2021 and 2020:

	Year Ended December 31	
	2021	2020
Balances at January 1		
Reserves for unpaid claims	\$ 400,749	\$ 239,235
Dental and vision reserves	4,105	5,377
Total medical costs unpaid	<u>404,854</u>	244,612
Incurred related to:		
Current year	5,996,873	5,408,701
Prior years	(23,447)	1,314
Net incurred medical costs	<u>5,973,426</u>	5,410,015
Paid related to:		
Current year	5,623,911	5,003,847
Prior years	381,407	245,926
Net paid	<u>6,005,318</u>	5,249,773
Balance at December 31:		
Reserves for unpaid claims	368,385	400,749
Dental and vision reserves	4,577	4,105
Reserve for claims unpaid and claims adjustment expense	<u>\$ 372,962</u>	<u>\$ 404,854</u>

The foregoing reconciliation shows favorable development of \$23,447 and unfavorable development of \$1,314 for the years ended December 31, 2021 and 2020, respectively. Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year-end liability. The favorable development reported in 2021 for incurred medical costs related to prior years' results from claims being settled for amounts less than originally estimated. The unfavorable development reported in 2020 for incurred medical costs related to prior years' results from claims being settled for amounts more than originally estimated.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

7. Reserve for Claims Unpaid and Claims Adjustment Expenses (continued)

This experience is primarily attributable to actual medical cost experience that differs from that assumed at the time the liability was established.

The reserve for health care costs and claims adjustment expenses was based on the best data available to the Company; however, these estimates are subject to a degree of inherent variability. It is possible that the Company's actual incurred costs and claims adjustment expenses will not conform to the assumptions inherent in the determination of the liability; accordingly, the ultimate settlement of health care costs and the related claims adjustment expenses may vary from the estimates included in the Company's statutory-basis financial statements.

No premium deficiency reserve was recorded as of December 31, 2021 or 2020. The Company does not consider anticipated investment income as a factor in the premium deficiency reserve calculations.

8. Related-Party Transactions

UPMC For You participates in an agreement with Community Care Behavioral Health Organization (CCBH), an affiliate of UPMC, who provides behavioral health coverage for UPMC For You's members. Under the terms of the contract, CCBH is paid a monthly administrative fee for behavioral health services rendered to members enrolled in UPMC For You's HMO and POS programs. Included in health care costs and administrative expenses are amounts paid to CCBH for such coverage, amounting to \$218 and \$256 in 2021 and 2020, respectively.

UPMC For You is one of several subsidiaries of UPMC, and approximately 12% of its health care costs for the years ended December 31, 2021 and 2020, were paid to UPMC affiliates under contracts that are executed by and among related entities.

Total expenses include approximately \$455,077 and \$429,223 for the years ended December 31, 2021 and 2020, respectively, related to payroll and various administrative services purchased from UPMC Health Plan, Inc., including depreciation on furniture, fixtures, and equipment owned by UPMC Health Plan, Inc. and used by UPMC For You.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) (Dollars in Thousands)

8. Related-Party Transactions (continued)

Payable to affiliates represents amounts owed for certain purchased services under its administrative services agreement with UPMC Health Plan, Inc. Amounts are remitted to UPMC Health Plan, Inc. in the ordinary course of business.

Surplus notes from affiliates include \$11,000 related to notes issued by UPMC Health Benefits, Inc. and UPMC Health Network, Inc., insurance affiliates. The annual interest rate on the surplus notes shall be equal to the sum of the yield of U.S. Treasury Notes having a maturity of 20 years from the date the note was issued plus 50 basis points. The company received interest of \$122 and \$93 during 2021 and 2020, respectively, reflected within net investment income earned in the statutory-basis statements of income. Any interest payment or principal repayment on the surplus notes requires prior approval of the Commissioner. The surplus notes are not a liability or claim against the issuers or any of its assets, and interest shall be paid only out of the unassigned surplus of the issuers. The surplus notes may be redeemed by the issuers, in whole or in part, at any time, subject to all terms and conditions.

On July 1, 2019, UPMC For You received approval from the Department to issue a \$100,000 promissory note to UPMC. Upon transfer in September 2019, a promissory note receivable was established by UPMC For You and reported as other invested assets within the Company's statutory-basis balance sheet. Interest is paid by UPMC to UPMC For You monthly on the average outstanding promissory note balance equal to the sum of the yield of the one-month U.S. Dollar London Interbank Offered Rate (LIBOR) plus a LIBOR spread based upon UPMC's debt rating in a given month.

On January 22, 2021, UPMC For You received approval from the Pennsylvania Insurance Department to lend UPMC \$40,000. Upon transfer in January 2021, UPMC issued a promissory note to the Company evidencing indebtedness in the amount of the monies lent. Interest is paid by UPMC to UPMC For You monthly on the average outstanding promissory note balance equal to a fixed rate of 1.54% per annum. UPMC For You received \$1,495 and \$1,425 in interest payments from UPMC during 2021 and 2020, respectively, reflected within net investment income earned in the statutory-basis statements of income. As of December 31, 2021, there is no outstanding interest due from UPMC to UPMC For You on the promissory notes. The promissory notes have a maturity of 10 years from the closing date of each agreement. UPMC has the option to prepay its outstanding promissory note balances to UPMC For You prior to the maturity date, subject to all terms and conditions.

UPMC For You, Inc.

Notes to Financial Statements – Statutory-Basis (continued) *(Dollars in Thousands)*

9. Risk-Based Capital and Dividend Restriction

The Company is subject to certain risk-based capital requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by UPMC For You is to be determined based on the various risk factors related to it. At December 31, 2021 and 2020, UPMC For You has satisfied these requirements.

Pennsylvania law provides that dividends may be paid out of unassigned surplus after prior notification to the Department. The Department requires approval of any distribution exceeding the greater of (i) 10% of surplus or (ii) net income for the prior year. At December 31, 2021 there was \$290,294 of the Company's surplus, that may be paid as ordinary dividends to UPMC according to guidelines. UPMC For You made distributions of \$85,000 in 2021.

10. Subsequent Events

Management evaluated subsequent events through April 26, 2022, the date the statutory-basis financial statements were issued. It was determined that there were no additional events other than those mentioned above that would require recognition or disclosure in the statutory-basis financial statements through the report date.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
UPMC For You, Inc.

We have audited the statutory-basis financial statements of UPMC For You, Inc. (the Company) as of and for the years ended December 31, 2021 and 2020, and have issued our report thereon dated April 26, 2022, which contained an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Pennsylvania Insurance Department on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of life and health reinsurance disclosures and supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

Pittsburgh, Pennsylvania
April 26, 2022

UPMC For You, Inc.

Supplemental Investment Risk Interrogatories
(Dollars in Thousands)

December 31, 2021

The Company's total admitted assets as reported on the balance sheet of the Company's Annual Statement for the year ended December 31, 2021, are \$1,884,349.

Following are the ten largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the Securities Valuation Office (SVO) *Practices and Procedures Manual*, as exempt; (ii) property occupied by the Company; and (iii) policy loans:

Investment	Amount	Percentage of Total Admitted Assets
Promissory Notes to UPMC	\$ 140,000	7.43%
Investment in Limited Partnership	10,919	0.58%
DREYFUS GOVT CAS MGMT INST 289	8,283	0.44%
Surplus Note Receivable from UPMC Health Benefits	6,000	0.32%
Surplus Note Receivable from UPMC Health Network	5,000	0.27%
Bridgeway Capital	3,375	0.18%
FROST CMBS 2021-1 1A A2 144A	2,943	0.16%
SEB FUNDING LLC 1A A2 144A	2,935	0.16%
PALMER SQUARE EUROPE 2A D 144A	2,892	0.15%
GEDESCO TRADE RECEIVA 1 D REGS	2,746	0.15%

UPMC For You, Inc.

Supplemental Investment Risk Interrogatories
(Dollars in Thousands)

December 31, 2021

Following are the ten largest exposures to a single equity interest as of December 31, 2021:

Investment	Amount	Percentage of Total Admitted Assets
Alphabet Inc	\$ 1,879	0.10%
Trinity Cap Inc	1,518	0.08%
Gladstone Investment Corp	1,076	0.06%
Microsoft Corp	1,045	0.06%
Ventas Inc	948	0.05%
Apple Inc	939	0.05%
Regency Centers Corp	935	0.05%
Facebook Inc	900	0.05%
Cisco Sys Inc	893	0.05%
Qualcomm Inc	882	0.05%

UPMC For You, Inc.

Supplemental Investment Risk Interrogatories
(Dollars in Thousands)

December 31, 2021

The Company's total admitted assets held in bonds by NAIC rating at December 31, 2021, are as follows:

Bonds	Amount	Percentage of Total Admitted Assets
NAIC-1	\$ 230,316	12.22%
NAIC-2	130,172	6.91%
NAIC-3	27,382	1.45%
NAIC-4	9,019	0.48%
NAIC-5	2,950	0.16%
NAIC-6	4,287	0.23%
Preferred Stock	Amount	Percentage of Total Admitted Assets
P/RP-1	\$ 1,519	0.08%
P/RP-2	1,495	0.08%

Total admitted assets held in bonds include \$2,315 of short-term investments presented under cash, cash equivalents, and short-term investments in the balance sheet.

UPMC For You, Inc.

Supplemental Investment Risk Interrogatories
(Dollars in Thousands)

December 31, 2021

The Company's total assets held in foreign investments at December 31, 2021, are as follows:

Classification of Foreign Investments	Amount	Percentage of Total Admitted Assets
Total admitted assets held in foreign investments	\$ 60,656	3.22%
Foreign-currency-denominated investments		
Insurance liabilities denominated in that same foreign currency		

The following are the aggregate foreign investment exposures categorized by NAIC sovereign designation as of December 31, 2021:

NAIC Sovereign Designation	Amount	Percentage of Total Admitted Assets
Countries designated NAIC-1	\$ 35,177	1.87%
Countries designated NAIC-2	18,106	0.96%
Countries designated NAIC-3 or below	7,373	0.39%

UPMC For You, Inc.

Supplemental Investment Risk Interrogatories
(Dollars in Thousands)

December 31, 2021

The following are the largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

NAIC Sovereign Designation	Amount	Percentage of Total Admitted Assets
Countries designated NAIC-1:		
Cayman Islands	\$ 30,334	1.61%
Italy	1,817	0.10%
Countries designated NAIC-2:		
Cayman Islands	16,232	0.86%
France	427	0.02%
Countries designated NAIC-3 or below:		
Cayman Islands	6,319	0.34%
United Kingdom	1,054	0.06%

UPMC For You, Inc.

Summary Investment Schedule
(Dollars in Thousands)

December 31, 2021

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. treasury securities	\$ 48,894	4.35%	\$ 48,894	4.35%
All other governments	60,120	5.35%	60,120	5.35%
States, territories, and possessions	9,386	0.83%	9,386	0.83%
Revenue and assessment obligations	21,103	1.88%	21,103	1.88%
Industrial and miscellaneous	262,210	23.33%	262,210	23.33%
Preferred stock	3,014	0.27%	3,014	0.27%
Common stock	67,234	5.98%	67,234	5.98%
Cash, cash equivalents, and short-term investments	451,420	40.15%	451,420	40.15%
Other invested assets	154,294	13.73%	154,294	13.73%
Surplus note from affiliate	11,000	0.98%	11,000	0.98%
Receivable for securities	35,349	3.14%	35,349	3.14%
Restricted reserve deposit	98	0.01%	98	0.01%
Total invested assets	<u>\$1,124,122</u>	<u>100.00%</u>	<u>\$1,124,122</u>	<u>100.00%</u>

* Gross investment holdings as valued in compliance with the NAIC's *Accounting Practices and Procedures Manual*.

UPMC For You, Inc.

Supplemental Schedule of Life and Health Reinsurance Disclosures

For the Year Ended December 31, 2021

The following information regarding reinsurance contracts is presented to satisfy the disclosure requirements in SSAP No. 61R, *Life, Deposit-Type and Accident and Health Reinsurance*, which apply to reinsurance contracts entered into, renewed or amended on or after January 1, 1996 and in effect for the current period.

1. Has UPMC For You reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is subject to Appendix A-791, *Life and Health Reinsurance Agreements*, and includes a provision that limits the reinsurer's assumption of significant risks identified in Appendix A-791?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects.

Yes No

If yes, indicate the number of reinsurance contracts to which such provisions apply:

If yes, indicate if deposit accounting was applied for all contracts subject to Appendix A-791 that limit significant risks.

Yes No N/A

UPMC For You, Inc.

Supplemental Schedule of Life and Health Reinsurance Disclosures (continued)

2. Has UPMC For You reinsured any risk with any other entity under a reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) that is not subject to Appendix A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumption of risk?

Examples of risk-limiting features include provisions such as a deductible, a loss ratio corridor, a loss cap, an aggregate limit or other provisions that result in similar effects. However, stop loss or excess of loss reinsurance agreements with deductibles or loss caps which apply to the entire contract and are not adjustable based on other features are not considered to be reinsurance contracts with a provision that limits the reinsurer's assumption of risk

Yes No

If yes, indicate the number of reinsurance contracts to which such provisions apply:

If yes, indicate whether the reinsurance credit was reduced for the risk-limiting features.

Yes No N/A

3. Does UPMC For You have any ceded reinsurance contracts (other than reinsurance contracts with a federal or state facility) that contain one or more of the following features which may result in delays in payment in form or in fact:

- (a) Provisions that permit the reporting of losses to be made less frequently than quarterly;
- (b) Provisions that permit settlements to be made less frequently than quarterly;
- (c) Provisions that permit payments due from the reinsurer to not be made in cash within ninety (90) days of the settlement date (unless there is no activity during the period); or
- (d) The existence of payment schedules, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes No

UPMC For You, Inc.

Supplemental Schedule of Life and Health Reinsurance Disclosures (continued)

4. Has UPMC For You reflected reinsurance accounting credit for any contracts that are not subject to Appendix A-791 and not yearly renewable term reinsurance, which meet the risk transfer requirements of SSAP No. 61R?

Type of contract:	Response:	Identify reinsurance contract(s):	Has the insured event(s) triggering contract coverage been recognized?
Assumption reinsurance - new for the reporting period	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		N/A

5. Has UPMC For You ceded any risk, which is not subject to Appendix A-791 and not yearly renewable term reinsurance, under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statements, and either:

- (a) Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or

Yes No N/A

- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes No N/A

If the answer to item (a) or item (b) is yes, include relevant information regarding GAAP to SAP differences from the accounting policy footnote to the audited statutory-basis financial statements to explain why the contract(s) is treated differently for GAAP and SAP below:

UPMC For You, Inc.

Note to Supplementary Information

December 31, 2021

Note – Basis of Presentation

The accompanying supplementary schedules present selected statutory-basis financial data as of December 31, 2021, and for the year then ended, for purposes of complying with paragraph 9 of the National Association of Insurance Commissioners' Annual Statement Instructions and the NAIC's *Accounting Practices and Procedures Manual* and agree to or are included in the amounts reported in the Company's 2021 Statutory Annual Statement as filed with the Pennsylvania Insurance Department. Certain captions or amounts have been omitted because they are not applicable.