Local people

WORKING TOGETHER

for healthier communities.

2013 Annual Financial Report

The Lifetime Healthcare Companies

The Lifetime Healthcare Companies

Excellus BlueCross BlueShield

Provides quality health care coverage for members across 31 Upstate New York counties, helps employers control expenses, and works with providers to improve care and encourage best practices.

Univera Healthcare

Covers members across the eight counties of Western New York with a wide array of plans and services, including a comprehensive network of physicians, hospitals, and all major pharmacy chains.

EBS-RMSCO

Provides employee benefits administration and risk management services, including benefits consulting and administrative support, across the United States.

Home Care Plus

As the licensed home care services agency affiliated with Lifetime Care, Home Care Plus brings quality-focused health services to people in their homes in Rochester and the Finger Lakes region.

Lifetime Care Home Health and Hospice

Delivers compassionate, personalized care and education to adults and children who are ill, injured, dying, or grieving.

Lifetime Health Medical Group

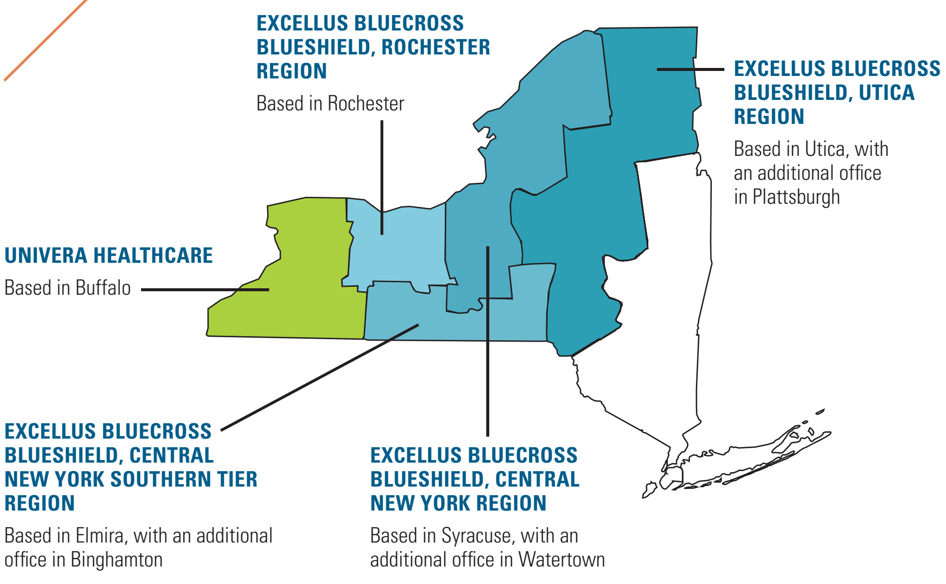
Delivers primary care, specialty care, radiology, pharmacy services, laboratory, and urgent care services in the Rochester and Buffalo areas.

Sibley Nursing Personnel Service

Provides trained temporary staff to hospitals and nursing homes and offers a range of health screenings and health promotion services.

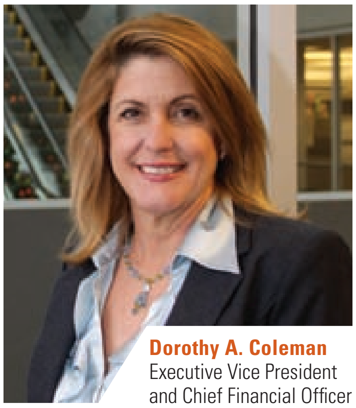
The MedAmerica Companies

Offers long term care insurance and short term care insurance nationally through easy-to-understand products and streamlined processes that ensure hassle-free service.



Management's report

Christopher C. Booth, Esq.
President and Chief Executive Officer



Dorothy A. Coleman
Executive Vice President
and Chief Financial Officer

The management of Excellus Health Plan, Inc., is responsible for preparing the statutory basis financial statements and other financial information in this Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of admitted assets, liabilities, reserve and unassigned funds, results of operations, and cash flows of Excellus Health Plan, Inc., in accordance with the basis of accounting practices prescribed or permitted by the New York State Department of Financial Services ("statutory basis"). The financial statements include amounts that are based on management's best estimates and judgments.

The statutory basis financial statements of Excellus Health Plan, Inc., have been audited by Deloitte & Touche LLP, whose report appears in this Annual Report.

Excellus Health Plan, Inc., maintains a system of internal controls that provides reasonable assurance that its records reflect its transactions in all material respects and that significant misuse or loss of assets is prevented. There are limits inherent in all systems of internal control based on the recognition that the cost of such systems should be related to the benefits to be derived. Management believes that the costs of internal control systems do not exceed the benefits obtained and are adequate to accomplish its objectives on a continuous basis. Excellus Health Plan, Inc., maintains a strong internal auditing program that independently assesses the effectiveness of internal controls and takes appropriate actions to respond to these recommendations.

The Board of Directors, acting through its Audit Committee composed solely of nonemployee directors, is responsible for determining that management fulfills its responsibilities in the preparation of the statutory basis financial statements and the maintenance of internal controls. In fulfilling its responsibility, the Audit Committee recommends independent auditors to the Board of Directors for appointment. The Committee also reviews the statutory basis financial statements and adequacy of internal controls. The Audit Committee meets regularly with management, Corporate Internal Audit and the independent auditors. Both the independent auditors and Corporate Audit have full and free access to the Audit Committee, without management representatives present, to discuss the scope and results of their audits and their views on the adequacy of internal controls and the quality of financial reporting.

It is the business philosophy of Excellus Health Plan, Inc., and its affiliates and subsidiaries to obey the law and to require that its employees conduct their activities according to the highest standards of business ethics. Management reinforces this philosophy by numerous actions, including issuing a Code of Business Conduct and Compliance Program to support compliance with the Company's policies.

Excellus Health Plan, Inc.
Management Discussion and Analysis

For the Years Ended December 31, 2013 and 2012

Financial Statements

The financial statements included in this annual report are the statutory basis financial statements of Excellus Health Plan, Inc. (the Company). They have been prepared using accounting practices prescribed or permitted by the New York State Department of Financial Services for insurance companies ("statutory accounting principles"). These principles are required to be used for regulatory purposes and differ from accounting principles generally accepted in the United States of America, as described in Note 1 to the statutory basis financial statements.

Summary

The Company's net income for 2013 was $52.6 million, representing 0.8% of premiums earned, as compared to $105.7 million of net income for 2012, which amounted to 1.8% of premiums earned. The net income for 2013 is the result of an underwriting loss of $72.9 million, or –1.2% operating margin, investment income of $141.4 million, partially offset by interest expense of $2.9 million, and income tax expense of $13.4 million.

The Company had an underwriting loss of $69.5 million associated with its New York State government products (Medicaid Managed Care and Family Health Plus) resulting from inadequate premium revenue from New York State, coupled by a change to its primary capitation arrangement under which a significant portion of the underwriting risk associated with these products, previously transferred to a third party, was recaptured effective January 1, 2013. This underwriting loss includes the effect of the reversal of $32.9 million from the premium deficiency reserve established at December 31, 2012, relating to these same products. Excluding the change in the premium deficiency reserve, the underwriting loss for these products would have been $102.4 million.

Revenue

The Company had total premiums and premium equivalents on self-funded business of $7,750.1 million for 2013, an increase of $446.2 million or 6.1% over the prior year. Total insured revenue, as reported, was $6,290.4 million for the year ended December 31, 2013, representing an annual increase of $289.6 million, or 4.8%, compared to the year ended December 31, 2012. The increase in insured premium revenue primarily reflects premium rate increases in 2013.

Expenses

Claims expense of $5,662.0 million in 2013 was up 6.4% from 2012 and is reflective of claims trend, partially offset by a $32.9 million reduction in the premium deficiency reserve associated with the Company's New York State government products. Excluding the effects of adjustments in estimates related to prior years and premium deficiency reserves, the medical loss ratio for 2013 was 91.3% as compared to the 2012 medical loss ratio of 88.8%. This increase in the medical loss ratio is attributable to 2013 claims trends outpacing premium pricing increases.

Health care expense trends in 2013 continued to exceed the rate of inflation, as both costs and utilization continue to increase. For the Company's commercial group business in total, the composite claim trend for year end 2013 was 6.0%. The utilization increase of 2.3% was driven primarily by increases in inpatient and professional services. The overall unit cost trend of 3.5% was driven predominantly by both inpatient and outpatient cost increases of approximately 4.7% and 4.4%, respectively.

The Company's operating expenses, of $701.4 million, increased by $67.2 million from 2012. This 10.6% increase is primarily attributable to (1) a $22.1 million increase in administrative expense stemming from the restructuring of the Company's third party capitated risk arrangement for its New York State government products, (2) an increase in pension and postretirement costs of $18.2 million due mainly to the decline in long term interest rates in 2012, (3) an increase in consulting services and software costs of $8.0 million attributable to Health Care Reform readiness projects as well as $2.1 million in initial fees resulting from the Affordable Care Act, and (4) increases in consulting and temporary labor costs and recovery fees of $6.7 million and $5.7 million, respectively, to address efficiency and quality matters arising from the Company's recent system conversion.

Other expenses of $26.2 million in 2012 include the forgiveness of an amount owed by an affiliate of $25.3 million.

Income Taxes

The Company is subject to federal corporate income taxes, but exempt from state and local taxes in New York. Statutory accounting principles provide that income tax expense includes only the current portion payable. Deferred tax assets resulting from temporary differences are limited in recognition and are included as a direct change in unassigned funds. The Company is currently subject to an effective federal tax rate of 20%, the corporate alternative minimum tax (AMT) rate, rather than the statutory federal tax rate of 35% as a result of its use of AMT tax credits. The Company's income tax expense for 2013 of $13.4 million compared to an income tax benefit of $1.7 million for 2012. This $15.1 million increase is primarily attributable to the tax benefit derived from a $150 million discretionary funding of the Company's pension plan which was treated as a current tax deduction in 2012.

Investments

The Company's cash, cash equivalents and investments, excluding real estate and securities lending collateral, increased by $77.6 million, or 3.9%, from $2,010.8 million at December 31, 2012, to $2,088.4 million at December 31, 2013. This increase is chiefly due to an increase in the

Company's borrowings against its bank line of credit by $100 million, offset by a decline in cash, cash equivalents, and short-term investments of $19.7 million.

As of December 31, 2013, the investment portfolio consisted of 8.4% investment in subsidiaries and affiliates, 22.9% in equity mutual funds and common and preferred stock, 6.7% U.S. and U.S. Agency bonds (excluding mortgage-backed securities), 24.7% mortgage-backed securities (principally U.S. government agency), 35.8% other bonds (including convertible bonds), and 1.5% in cash, cash equivalents and short term investments, which includes routine operating cash balances. The Company must comply with various laws and regulatory requirements on permitted investments. The Company's internal investment policy for bonds allows only investment-grade acquisitions. The Company does not make investments in income-producing real estate.

Net interest and dividend income decreased $2.9 million or 15.2% to $16.1 million in 2013 primarily due to lower investment yields associated with the Company's debt securities. The Company had realized investment gains of $125.3 million in 2013 as compared to $68.8 million in 2012. The unrealized appreciation on investments in unassigned funds for 2013 of $21.0 million, net of tax, includes the effect of market value changes in investments in common stock and is primarily attributable to increases in subsidiary equity. The Company's net unrealized appreciation on its debt securities, which amounted to $70.9 million at December 31, 2013, is not reflected in unassigned funds because of statutory basis reporting requirements to carry debt securities at amortized cost.

Liquidity and Capital Resources

At December 31, 2013, total cash, cash equivalents, investments (excluding subsidiaries), and securities lending collateral exceeded total liabilities by $378.9 million, demonstrating the Company's strong ability to pay its obligations as they come due. Net cash flows from operating activities decreased $78.3 million, from ($31.1) million in 2012 to ($109.5) million in 2013. This decrease is primarily attributable to the aforementioned operating losses associated with the Company's Medicaid Managed Care and Family Health Plus products.

Customer concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute the Company's customer base. At December 31, 2013, the Company had a receivable due from the State of New York of $106.1 million representing premium payments due under the Medicaid, Family Health Plus, and Child Health Plus programs and $22.5 million for stop loss related to these programs. The Company regularly monitors and evaluates such balances and recognizes only the amounts deemed probable of realization.

Reserve and unassigned funds of $1,352.6 million at December 31, 2013, increased $70.1 million from December 31, 2012. The principal elements of this increase were the net income for 2013 of $52.6 million, the aforementioned $21.0 million appreciation on investments, an increase in deferred tax assets of $26.4 million, plus a net increase in unassigned funds of $4.8 million associated with the adoption of new statutory accounting guidance pertaining to pension and postretirement benefits and changes in funded status, offset by a $45.9 million increase in the liability associated with the uncollateralized portion of the Excellus Ventures letter of credit.

The Company is required by New York law to maintain a minimum level of reserves. Additionally the BlueCross BlueShield Association has reserve requirements, based on the nature of the Company's business, which must be maintained. The Company exceeded all reserve requirements at December 31, 2013. The Company's financial strength is rated A– (strong) by Standard & Poor's and B++ (good) by A.M. Best.

Other Matters

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Health Care Reform or "the ACA") created a significant number of changes to the provision and delivery of health services to the health insurance marketplace. While many changes have occurred since the initial approval of the legislation, the most significant changes became effective January 1, 2014. These changes include the creation of government controlled "exchanges" where individuals and small business groups may purchase health coverage. New York State has elected to run its own exchange and the Company has elected to fully participate. The ACA also introduced multiple funding streams which will impact the Company including the imposition of an $8 billion annual health insurance industry assessment, allocated by market share, which is non-deductible for income tax purposes; an industry-wide $10 billion temporary reinsurance fee, allocated by commercial product enrollment, to fund high claims costs on the individual health insurance exchanges and to fund the U.S. Treasury; implementation of minimum medical loss ratio requirements for Medicare Advantage products; the expansion of regulations that govern premium rate increases requests; and limitations on the amount of compensation paid to health insurance executives that is tax deductible.

While the Company has estimated its portion of the 2014 health insurance industry assessment to be approximately $86 million, due to the nature of the other reforms which became effective January 1, 2014, the full impact to revenue, enrollment, premium rates, medical and administrative costs are not fully known. Management, through its internal steering committee, continues to closely monitor ACA-related project implementations and assess potential risks and opportunities arising from Health Care Reform.

Independent Auditors' Report

To the Board of Directors of Excellus Health Plan, Inc.
Rochester, New York

We have audited the accompanying statutory basis financial statements of Excellus Health Plan, Inc. (the "Company"), which comprise the statutory basis statements of admitted assets, liabilities, and reserve and unassigned funds as of December 31, 2013 and 2012, and the related statutory basis statements of income, changes in reserve and unassigned funds, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the Statutory Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures performed depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statutory basis financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory basis financial statements.

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 Accounting Principles Generally Accepted in the United States of America

As described in Note 1 to the statutory basis financial statements, the statutory basis financial statements are prepared by the Company using the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the New York State Department of Financial Services.

The effects on the statutory basis financial statements of the variances between the statutory basis of accounting described in Note 1 to the statutory basis financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and reserve and unassigned funds of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services as described in Note 1 to the statutory basis financial statements.

Deloitte & Touche LLP

Rochester, New York
March 10, 2014

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND RESERVE AND UNASSIGNED FUNDS—STATUTORY BASIS

As of December 31, 2013 and 2012 (Dollar amounts in thousands)

	2013	2012
Admitted Assets		
Cash, cash equivalents and short-term investments	$ 30,654	$ 50,350
Investments	2,057,710	1,960,400
Securities lending collateral	163,215	82,920
Accounts receivable:		
Premium	168,652	170,465
Health care	410,098	375,350
Due from parent, subsidiaries and affiliates	23,016	10,788
Interest	8,019	8,156
Other	369	665
Total accounts receivable	**610,154**	**565,424**
REAL ESTATE AND EQUIPMENT—Net	40,875	40,089
NET DEFERRED TAX ASSETS	141,412	119,446
Total admitted assets	**$3,044,020**	**$2,818,629**
Liabilities, Reserve and Unassigned Funds		
Claims payable	$ 488,811	$ 517,281
Unearned premiums and policy reserves	56,833	128,606
Accounts payable and accrued liabilities	355,856	347,872
Securities lending payable	163,215	82,920
Due to parent and affiliates	279	
Pension and postretirement benefits obligations	259,903	231,912
Debt and other liabilities	366,502	227,552
Total liabilities	**1,691,399**	**1,536,143**
Reserve and Unassigned Funds		
Statutory reserve	786,165	748,598
Unassigned funds	566,456	533,888
Total reserve and unassigned funds	**1,352,621**	**1,282,486**
Total liabilities, reserve and unassigned funds	**$3,044,020**	**$2,818,629**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF INCOME—STATUTORY BASIS

For the years ended December 31, 2013 and 2012 (Dollar amounts in thousands)

	2013	2012
Premiums earned	$ 6,290,443	$ 6,000,833
Claims expense	5,661,980	5,322,463
Premiums earned over claims expense	**628,463**	**678,370**
Operating expenses	701,402	634,226
Underwriting (loss) gain	**(72,939)**	**44,144**
Interest expense	2,882	1,762
Net investment income:		
Interest and dividends earned—net of investment expenses	16,139	19,027
Realized gain on investments—net	125,308	68,823
Total investment income	**141,447**	**87,850**
Other income (expense)	324	(26,173)
Income before income taxes	**65,950**	**104,059**
Income tax expense (benefit)	13,393	(1,684)
Net income	**$ 52,557**	**$ 105,743**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF CHANGES IN RESERVE AND UNASSIGNED FUNDS—STATUTORY BASIS

For the years ended December 31, 2013 and 2012 (Dollar amounts in thousands)

	Reserve Required by Statute	Unassigned Funds
BALANCE—January 1, 2012	**$ 703,496**	**$ 560,081**
Net income		105,743
Increase in statutory reserve	45,102	(45,102)
Adoption of permitted practice (Note 1)		(84,341)
Decrease (increase) in nonadmitted assets:		
Investments		(1,742)
Premium receivables		875
Health care receivables		(11,336)
Due from parent and affiliates		19,607
Prepaid pension		(151,736)
Other receivables		388
Real estate and equipment		2,520
Deferred taxes		117,214
Change in deferred taxes		(64,136)
Change in additional minimum pension liability		88,002
Unrealized depreciation on investments		(7,649)
Other		5,500
BALANCE — December 31, 2012	**748,598**	**533,888**
Net income		52,557
Increase in statutory reserve	37,567	(37,567)
Adoption of SSAP No. 92 and SSAP No. 102		(20,831)
Change in uncollateralized portion of Ventures letter of credit		(45,850)
Decrease (increase) in nonadmitted assets:		
Investments		(301)
Premium receivables		4,179
Health care receivables		(9,437)
Due from parent and affiliates		3,072
Prepaid pension		151,736
Other receivables		(15,534)
Real estate and equipment		4,209
Deferred taxes		(18,527)
Change in deferred taxes		26,422
Change in overfunded pension asset (contra)		(108,220)
Change in pension /postretirement liability		25,636
Unrealized appreciation on investments		21,024
BALANCE—December 31, 2013	**$ 786,165**	**$ 566,456**

See notes to statutory basis financial statements.

EXCELLUS HEALTH PLAN, INC.
STATEMENTS OF CASH FLOWS—STATUTORY BASIS

For the years ended December 31, 2013 and 2012 (Dollar amounts in thousands)

	2013	2012
Operating Activities:		
Premiums and other considerations received	$ 6,157,678	$ 6,060,136
Claims expenses paid	(5,687,986)	(5,352,341)
Operating expenses paid	(587,112)	(772,070)
Net cash used in underwriting activities	**(117,420)**	**(64,275)**
Interest and dividends received (net of investment expenses)	41,718	42,306
Assignment of alternative minimum tax credits	(20,038)	
Federal income taxes paid	(13,719)	(9,151)
Net cash used in operating activities	**(109,459)**	**(31,120)**
Investing Activities:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,539,490	1,232,618
Stocks	309,755	17,226
Real estate and equipment		505
Other	(2,462)	8,377
Cost of investments acquired:		
Bonds	(1,587,055)	(1,284,356)
Stocks	(221,783)	(10,270)
Subsidiaries	(10,500)	(12,400)
Real estate, software, furniture and equipment	(30,258)	(27,968)
Securities lending collateral	(80,295)	7,658
Due to investment brokers	(813)	1,725
Net cash used in investing activities	**(83,921)**	**(66,885)**
Financing Activities:		
Proceeds from securities lending	80,295	(7,658)
Debt borrowings	430,313	150,008
Debt payments	(337,213)	
Net cash provided by financing activities	**173,395**	**142,350**
OTHER CASH PROVIDED	289	
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	**(19,696)**	**44,345**
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year	50,350	6,005
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year	**$ 30,654**	**$ 50,350**

See notes to statutory basis financial statements.

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012 (Dollar amounts in thousands)

DESCRIPTION OF ORGANIZATION, BUSINESS, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1

Organization—Excellus Health Plan, Inc., (the "Company") is organized under Article 43 of the New York State Insurance Law and provides health and medical insurance coverage to subscribers in Upstate New York. The Company conducts most of its business under the following trade names: Excellus BlueCross BlueShield, Excellus BlueCross BlueShield Rochester Region, Excellus BlueCross BlueShield Central New York Region, Excellus BlueCross BlueShield Central New York Southern Tier Region, Excellus BlueCross BlueShield Utica Region, and Univera Healthcare. Lifetime Healthcare, Inc., (the "Parent") is the sole member of the Company.

The Company is also affiliated with the following entities:

Subsidiary/Affiliate	Nature of Affiliation
MedAmerica, Inc., and Subsidiaries ("MedAmerica")	100% owned by the Company
Excellus Acquisition, Inc., and Subsidiaries	100% owned by the Company
Excellus Ventures, Inc., and Subsidiaries ("Ventures")	100% of voting shares owned by Lifetime Healthcare, Inc., and 100% of nonvoting shares owned by the Company
Univera IPA, LLC	50% owned by the Company
North Star Home Health Management, Inc., and Subsidiaries ("Lifetime Care")	The Company appoints a majority of the members of the Board of Directors
Genesee Valley Group Health Association ("Lifetime Health Medical Group")	The Company is the sole member
Univera Community Health, Inc.	The Company is one of two members

Basis of Presentation and Summary of Significant Accounting Principles and Methods—The Company's financial statements have been prepared on the basis of accounting practices prescribed or permitted by the New York State Department of Financial Services ("Statutory Basis") and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP).

The New York Superintendent of the Department of Financial Services (the "Superintendent") requires insurance companies domiciled in New York to prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP or statutory accounting). Updates to this manual, including new Statements of Statutory Accounting Principles (SSAPs), are adopted unless otherwise specified by the Superintendent. Accounting practices and procedures included in NAIC SAP are subject to any exceptions required by the Superintendent.

The Superintendent has required the following exceptions from NAIC SAP which pertain to the Company:

- Leases approved for capitalization by the Superintendent prior to January 1, 2001, are admitted whereas the NAIC SAP requires all leases be treated as operating leases. The land lease covered by this exception was paid in full in 2013.
- A permitted practice was granted by the Superintendent, effective December 31, 2012, requiring the Company to:
  1) record a liability for the reinsurance credit taken by MedAmerica Insurance Company, a subsidiary of MedAmerica, Inc., for cessions to MIG Assurance (Cayman) Ltd. (MIG), a wholly owned subsidiary of Ventures, to the extent the reinsurance credit is based on the uncollateralized portion of a letter of credit issued by Ventures. The offsetting charge associated with the establishment of the liability and any subsequent adjustments to the liability will be made directly to unassigned funds.
  2) apply the limitation of not valuing a subsidiary below zero at the downstream holding company level for Ventures, rather than valuing Ventures' subsidiaries individually. One of Ventures' subsidiaries had an accumulated deficit at December 31, 2013 and 2012.

The Superintendent also has the right to permit other specific practices that may deviate from prescribed practices.

A reconciliation of the Company's total reserve and unassigned funds between NAIC SAP and practices prescribed and permitted by the State of New York, including that granted during 2012, that affect reserve and unassigned funds at December 31, 2013 and 2012, is shown below:

	2013	2012
Net income—statutory basis—as reported	$ 52,557	$ 105,743
State prescribed/permitted practices—Capitalized land lease	(378)	(127)
Total net income—statutory basis in conformity with NAIC SAP	**$ 52,179**	**$ 105,616**
Total reserve and unassigned funds—as reported	$ 1,352,621	$ 1,282,486
State prescribed/permitted practices:		
Capitalized land lease		(1,783)
Liability—uncollateralized portion of Ventures' letter of credit (see Note 10)	123,394	77,544
Valuation of Ventures	3,941	6,797
Total reserve and unassigned funds in conformity with NAIC SAP	**$ 1,479,956**	**$ 1,365,044**

Health Care Reform—The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Health Care Reform or the "ACA") created a significant number of changes to the provision and delivery of health services to the health insurance marketplace. While many changes have occurred since the initial approval of the legislation, the most significant changes became effective in 2014. These changes include the creation of government controlled "exchanges" where individuals and small business groups may purchase health coverage. New York State has elected to run its own exchange and the Company has elected to fully participate. The ACA also introduced multiple funding streams which will impact the Company including the imposition of an $8 billion annual health insurance industry assessment, allocated by market share, which is non-deductible for income tax purposes; an industry-wide $10 billion temporary reinsurance fee, allocated by commercial product enrollment, to fund high claims costs on the individual health insurance exchanges; implementation of minimum medical loss ratio requirements for Medicare Advantage products, the expansion of regulations that govern premium rate increase requests; and limitations on the amount of compensation paid to health insurance executives that is tax deductible.

As more fully disclosed on page 14, the Company has estimated its portion of the 2014 health insurance industry assessment. However, due to the nature of the other reforms which became effective January 1, 2014, the full impact to revenue, enrollment, premium rates, medical and administrative costs is not fully known.

Accounting practices as prescribed or permitted under NAIC SAP which may vary from GAAP include the following:

Cash, Cash Equivalents, and Short Term Investments—Short term investments are all investments with remaining maturities of one year or less from the time of acquisition. For statutory accounting, short term investments are stated at amortized cost and are classified with cash and cash equivalents. Under GAAP, investments other than cash equivalents are classified as trading, available-for-sale, or held to maturity and are excluded from the presentation of cash and cash equivalents.

The Company's banking arrangements allow for the Company to fund outstanding checks when presented to the financial institution for payment. This cash management practice frequently results in a net cash book overdraft position, which occurs when total outstanding checks exceed available cash balances at a single financial institution. For statutory accounting, negative cash is classified with cash, cash equivalents and short-term investments. Under GAAP, negative cash is classified with accounts payable and accrued liabilities.

Investments in Debt Securities—Debt securities are stated at amortized cost. Amortization of bond premium or discount is calculated using the scientific interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions are amortized to the call or maturity value or date that produces the lowest asset value (yield to worst). The carrying value of investments sold is determined on a first-in, first-out basis. For inflation indexed bonds, the inflation adjustment since the date of acquisition is included in amortized cost and in unrealized gains/losses in unassigned funds. When the fair value of the debt security is lower than its cost, and such a decline is determined to be other than temporary, the cost of the investment is written down to fair value, or by the amount of the credit loss for structured securities, and the amount of the write down is charged to net income as a realized loss. For loan-backed and structured securities, consideration is given to the Company's ability and intent to hold to maturity for interest related impairments.

For GAAP purposes, debt securities are stated at fair value and the interest income on inflation indexed bonds is recognized using an estimated effective yield and the retrospective interest method. Credit related other than temporary impairments are recognized as a realized loss and measured as the difference between amortized cost and the present value of projected cash flows discounted at the security's effective rate. The non-credit portion of an other than temporary impairment is recognized in other comprehensive income unless the Company intends to sell the security, in which case, that portion of the write down is recognized as a realized loss.

Investments in Subsidiaries—Investments in insurance subsidiaries are stated at the audited statutory net equity of the subsidiaries. Investments in noninsurance subsidiaries which report on a GAAP basis are stated at the audited GAAP net equity of those subsidiaries. The net change in the Company's investments in subsidiaries is included in unassigned funds. The Company non-admits the portion of its investment in Ventures to the extent that its investment securities are pledged as collateral for the letter of credit issued to MedAmerica Insurance Company. The Company's investment in Ventures is accounted for under the permitted practice described above effective December 31, 2012. For GAAP purposes investments in subsidiaries are eliminated after the consolidation of such subsidiaries. The Company excludes from investments the net assets of its non-profit, tax-exempt controlled affiliates as these net assets are not available for use by the Company. Non-profit, tax-exempt controlled affiliates with net deficits are evaluated to determine the probability of future funding and the need to recognize a contingent liability. For GAAP purposes, non-profit, tax-exempt controlled affiliates are consolidated.

Securities Lending Collateral and Payable—The Company records a securities lending asset and an offsetting securities lending payable for the underlying cash collateral received in securities lending transactions in its statutory basis financial statements. Collateral received by the Company which may be reinvested or repledged is recorded in accordance with the Company's investment accounting policies. Collateral received which may not be sold or repledged is excluded from the accompanying statements of admitted assets, liabilities and reserve and unassigned funds—statutory basis. Cash collateral and the corresponding payable are included within the accompanying statements of cash flows—statutory basis. For GAAP, such amounts are excluded from the cash flow statement.

Nonadmitted Assets—NAIC SAP, New York State Insurance Law and New York State Department of Financial Services regulations do not allow certain assets to be included in statutory basis financial statements. Such assets include receivables over 90 days past due; prepaid expenses; furniture, fixtures, and purchased software; amounts due from affiliates over 90 days past due; an intangible asset arising from pension accounting; prepaid pension cost; overfunded pension plan asset (contra); deferred tax assets to the extent they do not reverse or are realizable within a prescribed period and exceed a prescribed percentage of statutory capital and surplus, offset by existing deferred tax liabilities; provider advances and claim overpayment receivables that do not meet specific conditions of setoff, reconciliation, and settlement terms or are in excess of the payable to the provider for incurred claims. The net change in nonadmitted assets is charged or credited directly to unassigned funds. Nonadmitted assets are not a relevant concept under GAAP.

Health Care Receivables—Health care receivables are comprised primarily of pharmaceutical rebate receivables, loans and advances to providers, claim overpayment receivables, risk sharing receivables and amounts receivable under government insured programs. These receivables are accounted for in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*. Health care receivables do not have specific guidance under GAAP.

Real Estate and Equipment—Real estate, which includes land, buildings, and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over a range of 25–40 years for buildings and periods ranging from three to five years for software and equipment. Real estate investments are reported net of related depreciation expense, which is included in investment expenses. For GAAP purposes, real estate is reported at cost with depreciation expense included within operating expenses.

On an ongoing basis, the Company assesses whether its real estate and equipment are impaired. No impairment loss was recognized in 2013 or 2012.

Mortgages—Real estate encumbrances are netted against the related real estate under NAIC SAP. For GAAP purposes they are reported as liabilities.

Leases—NAIC SAP provides that all leases are treated as operating leases. New York conforms to NAIC SAP unless specific approval by the Superintendent was granted prior to January 1, 2001. For GAAP purposes, leases meeting certain criteria are treated as capital leases.

Pension and Other Postretirement Benefits Obligation—The Company offers pension benefits to its employees and postretirement benefits to retirees and their spouses similar to benefits offered to active employees.

Prior to January 1, 2013, and under NAIC SAP, the pension and postretirement benefits accrual was based on only the vested obligation to employees and retirees and the amount of unfunded benefits were disclosed in the notes to the statutory basis financial statements. An additional minimum liability was recorded for pension plans to the extent of the unfunded accumulated benefit obligation. For GAAP purposes, non-vested obligations are included and the unfunded status of the Company's pension and postretirement plans is reflected as a liability on its statement of financial position. A liability is recorded to the extent of the unfunded projected benefit obligation for pension plans and for other postretirement benefit plans.

Effective January 1, 2013, the Company adopted SSAP No. 92, *Accounting for Postretirement Benefits Other Than Pensions* (SSAP No. 92), and SSAP No. 102, *Accounting Pensions* (SSAP No. 102). The primary focus of SSAP Nos. 92 and 102 is to recognize the funded status of defined benefit plans in the balance sheet (including amounts attributable to non-vested employees), require elements of plan costs to either be recognized as expense components during the current period, or as adjustments to surplus with future amortization into expense, with transition options that allow for recognition of the liability and surplus impact over a period not to exceed 10 years. The Company elected the deferral option and recognized a net charge of $20,831, net of tax, to reserve and unassigned funds on January 1, 2013.

Guarantees—Guarantee liabilities are recorded at fair market value and included in accounts payable in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. In cases where a contingent liability associated with a guarantee exceeds the fair value of the guarantee liability, no guarantee liability is recorded. In addition, no guarantee liability is established for those guarantees meeting the exclusion criteria of SSAP No. 5(R), *Liabilities, Contingencies and Impairments of Assets—Revised*, including unlimited guarantees or guarantees made on behalf of a wholly owned subsidiary. Under GAAP, recognition of a liability is not required for a parent's guarantee of a subsidiary's debt to a third party.

Other Comprehensive Income—Other comprehensive income and its components are not presented in the statutory basis financial statements, which are required by GAAP.

Uninsured Plans—Amounts received and paid on behalf of uninsured plans are not reported as premiums earned or claims expense. Administrative fee revenues for servicing the uninsured plans are recognized in the period in which the related services are performed based upon the fee charged to the uninsured plan and are deducted from the Company's operating expenses. For GAAP purposes, the administrative fee revenue is reflected in revenue.

The Company also receives amounts from the Centers for Medicare and Medicaid Services (CMS) representing Catastrophic Reinsurance Subsidies and Low-Income Member Cost Sharing Subsidies, representing cost reimbursements under the Medicare Part D program. In addition, national health care reform legislation mandates a consumer discount of 50% on brand name prescription drugs for Part D plan participants in the coverage gap. This discount is funded by CMS and pharmaceutical manufacturers while the Company administers the application of these funds. Amounts received for these subsidies and discount are not reflected as premium revenues, but rather are accounted for as receivables and/or deposits.

Income Taxes—The Company is subject to federal income tax under Internal Revenue Code provisions applicable to stock property and casualty insurance companies, with certain special provisions. The Company and its wholly owned subsidiaries are included in the consolidated federal tax return of the Parent. Income tax expense is based upon income reported for tax purposes on a separate company basis. Deferred tax assets and liabilities are recognized for temporary differences between statutory accounting and tax basis of assets and liabilities. The change in deferred tax assets and liabilities is recognized as a separate component of unassigned funds.

Deferred tax assets are admitted to a limited extent based on reversal and realizability within three years, not to exceed 15% of statutory reserve and unassigned funds, plus the offset of remaining deferred tax assets against existing deferred tax liabilities.

For GAAP purposes, deferred taxes are recognized for temporary differences between the financial reporting and tax basis of assets and liabilities and are included in income tax expense in the results of operations.

Policies as prescribed or permitted under statutory authority which conform to GAAP include:

Cash Equivalents—Cash equivalents are highly liquid investments with original maturities of three months or less.

Restricted Cash—The Company had a restricted cash balance of $2,023 and $2,079 as of December 31, 2013 and 2012, respectively. These funds are restricted for payment of Federal Employee Program claims and are included in cash, cash equivalents, and short term investments in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

Investments in Equity Securities—Common and preferred stocks are stated at fair value. The carrying value of investments sold is determined on a first-in, first-out basis. The net unrealized holding gain or loss on common and preferred stocks is included in unassigned funds.

When the fair value of such an investment is lower than its cost, and such a decline is determined to be other than temporary, the cost of the investment is written down to fair value and the amount of the write down is charged to net income as a realized loss.

Fair Value—Assets recorded at fair value in the statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by SSAP No. 100, *Fair Value Measurements*, for fair value measurements and disclosures are as follows:

- Level 1 reflects unadjusted, quoted prices in active markets for identical assets
- Level 2 reflects valuation based on other inputs that are observable or derived principally from observable inputs
- Level 3 reflects valuation based on unobservable inputs that reflect the Company's assumptions rather than market participant assumptions.

Claims Payable—These amounts, which include the liability for reported claims and claims incurred but not reported, have been estimated using certain actuarial assumptions and methods and are based upon statistics developed from prior claims experience. These amounts also include estimated retrospective settlements with hospitals and an amount for estimated expenses related to processing unpaid claims.

Management believes that the claims payable liability at December 31, 2013 and 2012, is appropriately established in the aggregate and is adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by those dates. The establishment of appropriate liabilities is an inherently uncertain process. Such liabilities are necessarily based on estimates and the ultimate net cost may vary from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in current operations.

Premium Deficiency Reserve—Premium deficiency reserve and the related expenses, as defined by SSAP No. 54, *Individual and Group Accident and Health Contracts*, as well as actuarial practice guidelines, are recognized when it is probable that expected future health care expenses, claim adjustment expenses and administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in claims expense in the accompanying statements of income—statutory basis in the period in which the change in estimate is identified. The Company does not consider anticipated investment income in the determination of premium deficiency reserves.

Revenue Recognition—Premium revenues are derived from risk-based health insurance arrangements for which the Company assumes the economic risk of funding its customers' health care services and related administrative costs. The Company recognizes premium revenues in the period in which eligible individuals are entitled to receive health care services. The Company records health care premium payments received from its customers in advance of the service period as unearned premiums. For retrospectively rated customers, rate stabilization reserves, representing accumulated premiums that exceed amounts owed by customers based upon actual claim experience and paid based on contractual requirements, are reflected in policy reserves.

The Company's fully insured commercial premium revenues are generally subject to the minimum medical loss ratio requirements of Health Care Reform. Premium revenues are recognized based on the estimated premiums earned, net of projected rebates because the Company is able to reasonably estimate the ultimate premiums of these contracts. Each year, the Company estimates premium rebates based on the expected financial performance of the applicable contracts within each defined aggregation set (e.g., group size). The most significant factors in estimating the financial performance are current and future premiums and medical claim experience, effective tax rates and expected changes in business mix. The estimated ultimate premium is revised each year to reflect current and projected experience.

Centers for Medicare and Medicaid Services—CMS employs a risk adjustment model for its Medicare Advantage premium which pays more for members whose medical history would indicate higher expected medical costs. Under this risk adjustment methodology, the Company collects member medical histories and submits them to CMS. The health status data comes mostly from hospital inpatient, hospital outpatient and physician claims submissions. That electronic claims data is augmented with an in-depth review of medical charts on a subset of members. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS. Risk adjustment data for certain of the Company's plans is subject to audit by regulators.

CMS Medicare Advantage premium and the premium under the Medicare Part D program, which includes CMS premium, member premium, and low-income premium subsidy for the Company's insurance risk coverage is recognized ratably over the period in which the eligible individuals are entitled to receive health care services and prescription drug benefits.

Net premium income from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of premiums earned is approximately 17% and 16% for the years ended December 31, 2013 and 2012, respectively.

Premiums earned also include amounts paid by New York State in exchange for the provision and administration of medical benefits under the Medicaid Managed Care, Family Health Plus and Child Health Plus Insurance programs. Capitated premiums are received monthly for each member enrolled and are recognized in the coverage period in which members are entitled to receive services, except in the case of maternity payments. Maternity income is billed on contractual rates and recognized as income as each birth case is identified by the Company.

Concentrations of Credit Risk—Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute the Company's customer base. At December 31, 2013 and 2012, the Company had receivables due from the State of New York of $106,108 and $36,571, respectively, representing premium payments due under the Medicaid, Family Health Plus, Child Health Plus programs and $22,544 and $24,922, respectively, for stop loss related to these programs and Healthy New York. The Company regularly monitors and evaluates such balances and records only the amounts deemed probable of realization.

Use of Estimates—The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events—Subsequent events have been evaluated by the Company through March 10, 2014, the date the statutory basis financial statements were issued. On January 1, 2014, the Company became subject to an annual fee under Section 9010 of the ACA. This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net written premiums during the preceding calendar year to the amount of the health insurance premiums for all U.S. health risk that was written during the preceding calendar year. The Company estimates its portion of the annual health insurance industry fee payable on September 30, 2014, to be approximately $86,000. This assessment, had it occurred on December 31, 2013, would have reduced the Company's risk based capital ratio by an estimated 36 percentage points; however, the Company still expects to be in compliance with mandated surplus levels when this fee is assessed in 2014.

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INVESTMENTS

The carrying value and estimated fair values of investments at December 31, 2013 and 2012, were as follows:

2013	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 140,146	$ 95	$ 9,086	$ 131,155
U.S. Agency mortgage-backed securities	304,595	4,478	6,407	302,666
States and municipal obligations	31,458	148	101	31,505
Residential mortgage-backed securities	10,384	103	903	9,584
Commercial mortgage-backed securities	124,070	3,316	1,823	125,563
Other asset-backed securities	77,794	252	241	77,805
Corporate obligations	341,508	10,854	4,826	347,536
Corporate convertible obligations	375,224	79,048	4,055	450,217
Total debt securities	**1,405,179**	**$ 98,294**	**$ 27,442**	**$ 1,476,031**
Equity Securities:				
Mutual funds (cost $282,522)	418,591			
Common stocks (cost $41,713)	53,012			
Preferred stocks (cost $6,971)	6,960			
Other invested assets	(7,274)			
Subsidiaries	181,242			
Total	**$ 2,057,710**			

2012	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 210,703	$ 5,278	$ 236	$ 215,745
U.S. Agency mortgage-backed securities	290,687	11,603	162	302,128
States and municipal obligations	4,091	109	29	4,171
Residential mortgage-backed securities	2,182	154		2,336
Commercial mortgage-backed securities	94,371	7,722	2	102,091
Other asset-backed securities	56,644	777	6	57,415
Corporate obligations	303,845	21,212	1,079	323,978
Corporate convertible obligations	396,805	29,275	3,004	423,076
Total debt securities	**1,359,328**	**$ 76,130**	**$ 4,518**	**$ 1,430,940**
Equity Securities:				
Mutual funds (cost $314,614)	439,315			
Common stocks (cost $1,130)	3,939			
Preferred stocks (cost $2,876)	2,902			
Other invested assets	(2,943)			
Subsidiaries	157,859			
Total	**$ 1,960,400**			

The Company abides by New York State Insurance Law which places restrictions on the type, amount, and quality of investments, as well as internal corporate policies which place additional restrictions on investment activity. Management does not believe that the Company has any significant concentrations of credit risk.

The amortized cost and estimated fair value of debt securities at December 31, 2013, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 86,876	$ 107,030
Due after one year through five years	354,644	382,817
Due after five years through ten years	201,249	220,474
Due after ten years	245,567	250,092
Mortgage-backed securities	516,843	515,618
Total	**$ 1,405,179**	**$ 1,476,031**

Proceeds from the sales and maturities of investments during 2013 and 2012 were $1,849,245 and $1,249,844, respectively. Proceeds from the sales of bonds during 2013 and 2012 were $1,404,715 and $1,078,062, respectively. Non-cash bond conversions were $64,744 and $8,334 for the years ended December 31, 2013 and 2012, respectively. The gross realized gains and (losses) on sales of investments are as follows:

	2013	2012
Realized gains—debt securities	$ 42,005	$ 58,894
Realized losses—debt securities	(14,794)	(2,360)
Net realized gains—equity securities	100,559	3,912
(Contribution)/Distribution—other invested assets	(2,462)	8,377
Total—net	**$ 125,308**	**$ 68,823**

Investment securities in an unrealized loss position as of December 31, 2013 and 2012, are summarized as follows:

	Less than 12 months		More than 12 months		Total	
2013	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 116,234	$ 9,006	$ 357	$ 80	$ 116,591	$ 9,086
U.S. Agency mortgage-backed securities	183,661	5,939	8,671	468	192,332	6,407
States and municipal obligations	17,473	101			17,473	101
Residential mortgage-backed securities	8,324	903			8,324	903
Commercial mortgage-backed securities	52,836	1,774	1,472	49	54,308	1,823
Other asset-backed securities	43,216	241			43,216	241
Corporate obligations	131,487	4,309	5,042	517	136,529	4,826
Corporate convertible obligations	26,020	262	38,494	3,793	64,514	4,055
Common and Preferred stock	11,551	565			11,551	565
Total	**$ 590,802**	**$ 23,100**	**$ 54,036**	**$ 4,907**	**$ 644,838**	**$ 28,007**
2012						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 47,526	$ 236	$ –	$ –	$ 47,526	$ 236
U.S. Agency mortgage-backed securities	28,183	162			28,183	162
States and municipal obligations	1,921	29			1,921	29
Commercial mortgage-backed securities	2,794	2			2,794	2
Other asset-backed securities	3,844	6			3,844	6
Corporate obligations	49,162	1,079			49,162	1,079
Corporate convertible obligations	86,319	2,054	14,848	950	101,167	3,004
Total debt securities	**$ 219,749**	**$ 3,568**	**$ 14,848**	**$ 950**	**$ 234,597**	**$ 4,518**

The Company holds a diversified portfolio of investments in the general investment categories shown above. In the fixed income category there are 442 debt securities in an unrealized loss position that are not considered other-than-temporarily impaired since the unrealized loss is due to changes in the overall level of interest rates, excessive liquidity premiums or excessive changes in credit spreads, or in the case of convertible bonds, due to changes in the fair value of the underlying stock. The Company has a policy which considers historic interest rate volatility and the target and actual duration of its investments in debt securities to initially identify potentially other-than-temporarily impaired fixed income securities. Securities identified as potentially other-than-temporarily impaired are then reviewed with the Company's investment managers for potential inability to collect amounts due according to contractual terms (credit impairment). Additionally, the credit ratings, ratings history and outlook are reviewed and any intent to sell by the investment manager is considered. For mortgage-backed securities, the Company also considers the intrinsic values published by the NAIC. Such securities, which are not credit impaired and for which the investment manager and the Company do not have intent to sell, are not considered to be other-than-temporarily impaired. The Company recognized impairment losses of $300 and $115 in 2013 and 2012, respectively, for all debt securities. Impairment losses are included in realized gain on investments—net in the accompanying statements of income—statutory basis.

In 2013 and 2012, the Company had investments in mortgage backed securities, including some collateralized by non-prime mortgages. The Company's impairment losses for debt securities included $0 and $115 in 2013 and 2012, respectively, for mortgage backed securities.

In the equity securities category, there were no mutual fund securities in a net unrealized loss position at December 31, 2013 and 2012. The Company recognized no impairment losses in relation to all equity securities in 2013 and 2012.

The Company participates in a securities lending program whereby certain marketable securities in its investment portfolio are transferred to independent brokers or dealers based on, among other things, creditworthiness in exchange for collateral initially equal to 102% of the market value of the loaned securities. The duration of each loan is one day, which may be reset overnight. Collateral may take the form of cash or obligations issued or guaranteed by the United States Treasury or by an agency or instrumentality of the United States government. Collateral received in the form of cash is immediately reinvested in a short term cash equivalent fund. Securities on loan are reported in the applicable investment category within the tables above. At December 31, 2013 and 2012, the Company had loaned securities with a fair value of $173,116 and $81,507, respectively, including accrued interest. The fair value of the corresponding collateral was $163,215 and $82,920, respectively, for cash collateral reinvested and $14,082 and $0, respectively, for non-cash collateral at December 31, 2013 and 2012. The non-cash collateral may not be sold or repledged and accordingly has been excluded from the accompanying statement of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

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REAL ESTATE AND EQUIPMENT—NET

At December 31, 2013 and 2012, amounts included in real estate and equipment are as follows:

	2013	2012
Real estate	$ 83,922	$ 81,071
Software and equipment	207,760	185,323
Total	**291,682**	**266,394**
Less accumulated depreciation and amortization	(175,776)	(147,064)
Less nonadmitted assets	(75,031)	(79,241)
Real estate and equipment—net	**$ 40,875**	**$ 40,089**

Depreciation and amortization expense was $33,470 and $30,605 for the years ended December 31, 2013 and 2012, respectively.

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TRANSACTIONS WITH RELATED PARTIES

Lifetime Health Medical Group—This affiliate provides services in its health care facilities to the members of various lines of business of the Company on a capitated basis. Comprehensive medical and physician services are also provided by this affiliate on a fee for service basis. Amounts paid to Lifetime Health Medical Group for these services totaled $81,791 and $79,125 in 2013 and 2012, respectively.

The Company provides administrative services to Lifetime Health Medical Group. Administrative services reimbursement totaled $8,163 and $6,802 in 2013 and 2012, respectively. The Company owns certain properties occupied by Lifetime Health Medical Group. Annual rental charges for these facilities under the lease agreement were $1,531 and $1,539 for the years ended December 31, 2013 and 2012, respectively.

At December 31, 2013, the Company owed Lifetime Health Medical Group $279. At December 31, 2012, the Company fully forgave its net receivable from this affiliate in the amount of $25,292. This charge is reflected in other expense in the accompanying statement of income—statutory basis for the year ended December 31, 2012. The Company has committed to funding, as necessary, Lifetime Health Medical Group's operations through March 31, 2015, to allow it to continue as a going concern.

Lifetime Care—This affiliate provides home health, hospice, and alternative care services to the Company's subscribers. Such services resulted in benefit expenses to the Company in 2013 and 2012 in the amount of $24,141 and $19,605, respectively.

Certain salary and benefit costs are allocated to Lifetime Care by the Company based on actual amounts incurred and/or continuing cost studies. In addition, Lifetime Care reimburses the Company for other operating costs incurred on its behalf. The total reimbursements for the years ended December 31, 2013 and 2012, were $6,532 and $6,437 for these costs and expenses, respectively.

Lifetime Care owns property and leases a portion of the premises to the Company. Rental expenses paid to Lifetime Care for this facility amounted to approximately $74 in 2012. The lease expired in December 2012, at which time the Company sold Lifetime Care leasehold improvements and furniture remaining at the building for their fair market value of $568. The Company leases office space and equipment to Lifetime Care. During 2013 and 2012, total rental income under this lease was $748 each year.

The net receivable from this affiliate was $1,386 and $2,606 at December 31, 2013 and 2012, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

MedAmerica—The Company is reimbursed by MedAmerica for the full amount of operating expenses paid on its behalf. Total reimbursements for the years ended December 31, 2013 and 2012, were $13,318 and $14,009, respectively. The amount due from this subsidiary was $804 and $961 at December 31, 2013 and 2012, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company contributed additional capital to MedAmerica of $10,500 and $12,400 in 2013 and 2012, respectively.

During 2013, the Company entered into an assignment agreement whereby it received alternative minimum tax credits from MedAmerica in the amount of $20,038 in exchange for cash.

The Company has guaranteed the payment of the direct policyholder obligations associated with insurance policies directly issued by MedAmerica after June 24, 1997, and prior to July 1, 2010, which amounted to $1,051,190 at December 31, 2013. Management believes that MedAmerica has sufficient assets to pay its obligations and that any possible payments relative to this guarantee are remote and would not have a material impact on the Company's liquidity or surplus.

Additionally, a capital support agreement exists with MedAmerica which requires the Company to ensure that MedAmerica has sufficient liquid assets for the timely payment of amounts due on policies it directly issues after July 1, 2010. This agreement defines sufficient liquid assets as cash and invested assets exceeding disabled life reserves for these applicable policies as measured annually. No contributions were required from the Company to satisfy this agreement during December 31, 2013 or 2012. Management believes that any possible contributions from this agreement are remote and would not have a material impact on the Company's liquidity or surplus.

Univera Community Health—The Company is one of two members of Univera Community Health, Inc., (UCH), a prepaid health services plan which primarily provides prepaid comprehensive health care to enrolled Medicaid, Family Health Plus, and Child Health Plus populations in western New York. The Company is compensated for administrative services provided to UCH, which amounted to approximately $18,645 and $18,001 for the years ended December 31, 2013 and 2012, respectively. The Company had a receivable from UCH of $10,242 and $8,693 at December 31, 2013 and 2012, respectively, which is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

Univera IPA, LLC (the "IPA")—The IPA arranges for the provision of medical and related health care services to enrollees of UCH. The IPA has a risk sharing arrangement with UCH pursuant to an annual reconciliation and settlement whereby UCH's annual claims expense is compared to a pre-determined target six months after the end of each calendar year. If the IPA incurs a net loss, the Company, as a 50% corporate member, is required to make capital contributions to the IPA in an amount equal to 50% of that net loss within 90 days following the end of the calendar year in which the net loss was incurred. If the IPA has a net gain, the Company receives 50% of the gain six months after the end of the calendar year. In 2012, the Company received and recognized a settlement in the amount of $8,377, which represented 50% of the IPA gains for 2011. In 2013, the Company made a net capital contribution to the IPA in the amount of $2,462 to fund one-half of the IPA's net loss for 2012. The Company included in investments, at December 31, 2013, $6,793 for the IPA's 2013 net loss which will be recognized and contributed in 2014.

Workers' Compensation Trust (the "Trust")—The Company participates in a self insured workers' compensation trust. The Trust consists of Lifetime Healthcare, Inc., Excellus Health Plan, Inc., Lifetime Health Medical Group, Excellus Acquisition, Inc., and Lifetime Care. The Company is deemed to be jointly and severally liable for all workers' compensation obligations incurred by the Trust. The total liability for future benefits payable incurred by the Trust was $10,938 and $12,530 at December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the Company's workers' compensation liability amounted to $6,284 and $5,799, respectively, and is included within accounts payable and accrued liabilities on the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The liability is undiscounted for outstanding estimated losses December 31, 2006, and prior, and discounted at a 4% discount rate for all outstanding estimated losses after January 1, 2007. The Company does not believe it will have to fulfill an obligation in excess of what is recorded at December 31, 2013.

Excellus Acquisition, Inc., ("EAI")—EAI provides certain services to the Company, such as flexible spending account services and brokering various insurance products. In 2012, EAI also provided certain retirement plan account services. The cost of such services totaled $4,681 and $5,728 in 2013 and 2012, respectively. In addition, the Company is reimbursed by EAI for the full amount of operating expenses paid on its behalf. Total reimbursements for the years ended December 31, 2013 and 2012, were $4,724 and $4,550, respectively. The amount due from this subsidiary was $720 and $767 at December 31, 2013 and 2012, respectively, and is included in the due from parent, subsidiaries and affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

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CLAIMS PAYABLE

Activity in the claims payable liability at December 31, 2013 and 2012, which includes the liability for claim adjustment expenses, is summarized as follows:

	2013	2012
Beginning claims payable at January 1	$ 517,281	$ 509,055
Change in health care receivables and claims adjustment expense	(2,464)	38,104
Incurred related to:		
Current year	5,713,132	5,374,602
Prior years	(51,152)	(52,139)
Total incurred	**5,661,980**	**5,322,463**
Paid related to:		
Current year	5,291,054	4,987,315
Prior years	396,932	365,026
Total paid	**5,687,986**	**5,352,341**
Ending claims payable at December 31	**$ 488,811**	**$ 517,281**

As a result of changes in estimates of insured events in prior years, the provision for claims payable and claims expenses decreased by $51,152 and $52,139 in 2013 and 2012, respectively. This was due primarily to lower than anticipated health care cost trends and expected settlements of provider overpayments for outpatient services.

A premium deficiency reserve of $11,000 and $43,900 was established at December 31, 2013 and 2012, respectively. This reserve is associated with the Company's Safety Net line of business which is comprised of Medicaid Managed Care, Family Health Plus, and Child Health Plus insurance programs and is due to an anticipated shortfall of premium revenue from New York State over a 14 month period subsequent to each year end. The premium deficiency reserve is included in unearned premiums and policy reserves in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis, with the corresponding charge to claims expense.

The premium deficiency reserve for the year ended December 31, 2013, consists of the following:

	Balance—January 1, 2013	Change in Reserve	Amortization	Balance—December 1, 2013
Safety Net Line of Business	**$ 43,900**	**$ (4,600)**	**$ (28,300)**	**$ 11,000**

The Company incurred claims adjustment expenses of $228,887 and $226,431 in 2013 and 2012, respectively. These costs are included in operating expenses in the accompanying statements of income—statutory basis. The following table discloses paid claims adjustment expense, incurred claims adjustment expense and the balance in the unpaid claim adjustment expenses reserve for 2013 and 2012:

	2013	2012
Total claims adjustment expenses incurred	$ 228,887	$ 226,431
Less current year unpaid claims adjustment expenses	(17,477)	(20,506)
Add prior year unpaid claims adjustment expenses	20,506	21,938
Total claims adjustment expenses paid	**$ 231,916**	**$ 227,863**

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INCOME TAXES

The Company joins with its parent, Lifetime Healthcare, Inc., and its other eligible subsidiaries (Excellus Acquisition, Inc., and subsidiaries, Beacon Network Services, Inc., MedAmerica, Inc., and subsidiaries, and Excellus Ventures, Inc., and subsidiaries) in the filing of a consolidated federal income tax return and is party to a federal income tax allocation agreement. Under the tax allocation agreement, the Company pays to or receives from the Parent the amount, if any, by which the group's federal income tax liability was affected by inclusion of the Company in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed, with adjustments, as if the Company filed a separate return. Amounts due (to) from the Parent are $9,816 and $6,419 as of December 31, 2013 and 2012, respectively.

The Company evaluates the recoverability of the deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax assets to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of their reversal; (4) taxable income in prior carry back years as well as projected taxable earnings exclusive of reversing temporary differences and carry forwards; and (5) the length of time that carryovers can be utilized.

The components of the net deferred tax assets as of December 31, 2013 and 2012, are as follows:

	2013			2012			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	$279,809	$ 2,528	$282,337	$ 284,223	$ 2,860	$287,083	$ (4,414)	$ (332)	$ (4,746)
Adjusted gross deferred tax assets	279,809	2,528	282,337	284,223	2,860	287,083	(4,414)	(332)	(4,746)
Nonadmitted deferred tax assets	(84,396)	(2,475)	(86,871)	(65,593)	(2,751)	(68,344)	(18,803)	276	(18,527)
Admitted adjusted gross deferred tax assets	195,413	53	195,466	218,630	109	218,739	(23,217)	(56)	(23,273)
Gross deferred tax liabilities	(2,546)	(51,508)	(54,054)	(54,634)	(44,659)	(99,293)	52,088	(6,849)	45,239
Net admitted adjusted gross deferred tax assets	**$192,867**	**$(51,455)**	**$141,412**	**$163,996**	**$(44,550)**	**$119,446**	**$ 28,871**	**$ (6,905)**	**$ 21,966**
Federal income taxes paid in prior years recoverable through loss carrybacks	$ 2,880	$ 53	$ 2,933	$ 14,497	$ 109	$ 14,606	$ (11,617)	$ (56)	$ (11,673)
Adjusted gross DTA expected to be realized after application of threshold limitation	138,478		138,478	104,840		104,840	33,638		33,638
Adjusted gross DTA to offset DTL	54,055		54,055	99,293		99,293	(45,238)		(45,238)
Admitted adjusted gross deferred tax assets	**$195,413**	**$ 53**	**$195,466**	**$218,630**	**$ 109**	**$218,739**	**$(23,217)**	**$ (56)**	**$(23,273)**

The ratio percentage used to determine recovery period and threshold limitation amount was 566%. The adjusted capital and surplus used to determine the recovery period and threshold limitation was $1,211,209. As a result, the deferred tax asset admissible under paragraph 11.b. of SSAP No. 101 is the lesser of amounts realizable in three years or 15% of adjusted capital and surplus.

The Company did not use any tax planning strategies.

Current income tax (benefit) expense consists of the following significant components:

	2013	2012
Federal income tax—operating	$ (11,617)	$ (12,337)
Federal income tax—capital gains	25,010	10,653
	$ 13,393	**$ (1,684)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2013 and 2012, are as follows:

	2013	2012	Change	Character
Deferred tax assets:				
Alternative minimum tax credit carryforwards	$ 96,193	$ 85,252	$ 10,941	Ordinary
Investments	3,041	3,361	(320)	Ordinary
Accounts receivable allowances	10,532	11,984	(1,452)	Ordinary
Real estate and fixed assets	19,812	21,173	(1,361)	Ordinary
Nonadmitted assets	28,396	21,021	7,375	Ordinary
Claims payable	1,979	2,733	(754)	Ordinary
Premium deficiency reserve	3,850	15,365	(11,515)	Ordinary
Accrued expenses	24,898	39,173	(14,275)	Ordinary
Pension and postretirement benefit obligations	90,471	81,051	9,420	Ordinary
Other	3,165	5,970	(2,805)	Ordinary
Total deferred tax assets	**282,337**	**287,083**	**(4,746)**	
Nonadmitted deferred tax assets	(86,871)	(68,344)	(18,527)	
Admitted deferred tax assets	**195,466**	**218,739**	**(23,273)**	
Deferred tax liabilities:				
Investments	(54,054)	(45,689)	(8,365)	Capital
Pension		(53,604)	53,604	Ordinary
Total deferred tax liabilities	**(54,054)**	**(99,293)**	**45,239**	
Net admitted deferred tax assets	**$ 141,412**	**$ 119,446**	**$ 21, 966**	

The change in AMT credit carry forwards was $(10,941) and $(1,982) as of December 31, 2013 and 2012, respectively. Including AMT credits assigned to EHP from MedAmerica (Note 4), the amount of AMT credit carry forwards remaining at December 31, 2013 was $96,193. These do not expire.

The sum of the Company's provision for federal income taxes incurred and the change in its deferred tax assets and liabilities is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income before income taxes. The significant items causing this difference are the dividends received deduction as well as the limitation on deductibility of compensation.

The Company does not anticipate significant increases or decreases in uncertain tax positions within the next 12 months.

In September of 2013, the U.S. Department of the Treasury and the Internal Revenue Service released final regulations regarding the deductibility and capitalization of expenditures related to tangible property. Compliance with these final regulations will be required with companies' federal income tax returns for tax years beginning on or after January 1, 2014, although early adoption is available. The Company is currently assessing these rules and the impact to its statutory basis financial statements, if any. The Company does not anticipate that these regulations will have a material impact on its statutory basis results of operations, cash flows or financial position.

7 RESERVE AND UNASSIGNED FUNDS

New York State Insurance Law requires that a statutory reserve be established and increased each calendar year by 1% of net premium income unless otherwise waived by the Superintendent. At the end of any calendar year, this reserve shall not exceed 12.5% of net premium income for the year. As of December 31, 2013 and 2012, the Company was in compliance with these requirements.

The Company is required by the Blue Cross and Blue Shield Association to maintain reserves as determined using the Health Risk-Based Capital Formula promulgated by the NAIC. As of December 31, 2013 and 2012, the Company was in compliance with these requirements.

8 PENSION AND POSTRETIREMENT BENEFITS OBLIGATION

Defined Benefit Plans

The Company sponsors noncontributory defined benefit pension plans covering substantially all of its employees who have completed one year of service with the Company. Participants become vested after completing five years of service. Benefits are based on credited years of service and the participant's annual compensation over a defined service period. The Company has a funding policy for its qualified plan for amounts not less than the amount required under the Pension Protection Act based on statutory expense for the year. Plan assets consist primarily of common stocks, investment grade corporate bonds, U.S. government obligations, mutual funds, real estate funds, hedge funds and other alternative investments, and cash.

During 2012, the Company made a discretionary contribution of $150,000 and as a result, the Company remeasured the pension assets and obligations as of July 1, 2012. No discretionary contributions were made in 2013.

Postretirement Benefits Other than Pension

The Company provides postretirement health, dental, and life insurance benefits to eligible retired employees and their spouses. Eligible employees generally must have been hired before December 31, 2004, attain age 55 and complete 10 years of service after age 45 to be eligible for these benefits. Cost-sharing provisions apply to some employees based on length of service.

The Company used a December 31 measurement date in 2013 and 2012.

The Company adopted SSAP 92 and SSAP 102 effective January 1, 2013 (see Note 1). As a result, certain disclosures reflected in the tables below are not applicable for 2012.

Plan Status

A summary of assets, obligations and assumptions of the pension and postretirement benefit other than pension as of and for the years ended December 31, 2013 and 2012, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 913,519	$ 770,010	$ 100,489	$ 89,687
Service cost	27,751	31,408	6,316	6,351
Interest cost	38,057	36,371	4,935	3,895
Actuarial (gain) loss	(102,069)	93,413	(9,287)	5,918
Recognition of non-vested	6,408		34,435	
Participant contributions			611	593
Benefits paid	(21,868)	(17,683)	(5,693)	(5,955)
Benefit obligation at end of year	**$ 861,798**	**$ 913,519**	**$ 131,806**	**$ 100,489**
Accumulated benefit obligation	**$ 724,590**		**not applicable**	
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 602,536	$ 365,285	$ –	$ –
Actual return on plan assets	111,581	56,664		
Employer contributions	4,333	199,385	5,082	5,362
Participants' contributions			611	593
Benefits and expenses paid	(22,922)	(18,798)	(5,693)	(5,955)
Fair value of plan assets at end of year	**695,528**	**602,536**	**–**	**–**
Funded status	**(166,270)**	**(310,983)**	**(131,806)**	**(100,489)**
Unamortized prior service costs	(132)	(339)	7,120	7,654
Unamortized prior service costs, non-vested	(3,204)		(25,827)	
Unamortized net loss	(156,649)	(367,447)	(19,466)	(30,660)
	(159,985)	**(367,786)**	**(38,173)**	**(23,006)**
Net amount recognized	**$ 6,285**	**$ (56,803)**	**$ 93,633**	**$ 77,483**

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Amounts recognized in the statement of admitted assets, liabilities, and reserve and unassigned funds consist of:				
Intangible asset (non-admitted)	$ –	$ (339)	$ –	$ –
Prepaid pension (non-admitted)	108,220	(151,736)		
Overfunded Plan Asset - contra (non-admitted)	(108,220)			
Accrued liability	166,270	154,429	93,633	77,483
Unassigned funds	(159,985)	(59,157)		
	$ 6,285	**$ (56,803)**	**$ 93,633**	**$ 77,483**
Unrecognized obligation for nonvested employees at most recent valuation date:				
Projected benefit obligation		**$ 6,408**		**$ 34,436**
Accumulated benefit obligation		**$ 3,465**		
Amounts in unassigned funds not yet recognized as a component of net periodic benefit cost:				
Beginning of year	$ 367,786		$ 23,006	
Net prior service cost recognized	(3,411)		(8,075)	
Non-vested prior service cost	6,408		34,436	
Net loss (gain) arising during the period	(166,225)		(9,287)	
Net loss (gain) recognized	(44,573)		(1,907)	
End of year	159,985		38,173	
Transition liability deferred as of end of year			(38,173)	
Amount recognized in unassigned funds as of end of year	**$ 159,985**		**$ –**	
Estimated recognition of the transition liability:				
Estimated recognition during 2014			$ 8,748	
Estimated recognition during 2015			8,615	
Estimated recognition during 2016			8,497	
Estimated recognition during 2017			5,744	
Estimated recognition during 2018			5,744	
Estimated recognition during 2019			825	
Total			**$ 38,173**	
Amounts recognized in unassigned funds that have not yet been recognized as components of net periodic benefit cost:				
Prior service cost	$ 132		$ –	
Prior service cost non-vested	3,204			
Net loss (gain)	156,649			
	$ 159,985		**$ –**	
Amounts in unassigned funds, or remaining transition liability, expected to be recognized in net periodic benefit cost next year:				
Prior service costs	132		(534)	
Prior service cost non-vested	3,204		8,609	
Net loss (gain)	4,331		673	
	$ 7,667		**$ 8,748**	

The projected benefit obligation exceeded the fair value of plan assets at December 31, 2012, for each of the defined benefit pension plans. The accumulated benefit obligation for all defined benefit pension plans was $756,965 at December 31, 2012. At December 31, 2012, for defined benefit plans with accumulated benefit obligations in excess of plan assets, the aggregate pension accumulated benefit obligation was $756,965 and the aggregate pension assets were $602,536.

Plan Costs

	Pension Benefits 2013	Pension Benefits 2012	Other Postretirement Benefits 2013	Other Postretirement Benefits 2012
Components of net periodic benefit cost:				
Service cost—including plan administration costs	$ 28,867	$ 32,641	$ 6,316	$ 6,351
Interest cost	38,057	36,371	4,935	3,895
Expected return on plan assets	(47,486)	(41,342)		
Amortization of net (gain) loss	44,573	31,039	1,907	789
Amortization of prior service cost—non-vested transition	3,204		8,609	
Amortization of prior service cost	207	207	(534)	(534)
Total net periodic benefit cost	**$ 67,422**	**$ 58,916**	**$ 21,233**	**$ 10,501**
(Credit) charge for additional minimum pension liability included in unassigned funds	**not applicable**	**$ (135,386)**		

The Company recognized net periodic pension and other postretirement benefit costs of $82,147 and $63,953 and allocated $6,508 and $5,464 to affiliates participating in the plans in 2013 and 2012, respectively. The Company, as plan sponsor, recognized the entire liability related to the defined benefit pension plans and recorded amounts due from affiliates for the cumulative periodic pension benefit costs allocated, net of reimbursements received.

Plan Investment Strategy

The weighted average asset allocations of the Company's pension plans, at December 31, 2013 and 2012, by asset category are as follows:

	2013	2012
Asset Category		
Cash and cash equivalents	2%	2%
Domestic equity securities	49	45
International equity securities	12	13
Fixed income securities	19	21
Real estate	7	6
Hedge funds and other	11	13
Total	**100%**	**100%**

The pension plan maintains a diversified portfolio of assets. The strategy for investment allocation reflects the goal of maximizing the long-term risk adjusted return of the plan consistent with the long-term time horizon of the pension plan's obligations and the long-term assumed rate of return expected. Recommendations are obtained from an investment consulting firm based on historic performance of various asset classes, expected future performance, relative risks, and availability of investment managers for selected classes. The current target allocation percentages are domestic equities 46%, international equities 12%, fixed income securities 21%, real estate 8%, hedge funds and other alternative investments 13%. The long-term rate of return assumption was determined based on expected return of the pension plan portfolio using independent forecasts of a 10-year future performance, historical returns of the pension plan's investments for the past 15 years, using both market value and actuarially smoothed bases, and historical returns from similar asset classes from independent sources for the past 30 years.

Plan Assumptions

The assumptions used in determining the actuarial present value of the benefit obligations and the net periodic benefit cost at December 31, 2013 and 2012, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Weighted-average assumptions used to determine the benefit obligation at year-end:				
Discount rate	4.96%	4.18%	4.75%	3.75%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	not applicable	not applicable
Weighted-average assumptions used to determine the net periodic benefit cost for the year:				
Discount rate	4.18%	4.72%	3.75%	4.50%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	not applicable	not applicable
Expected long-term rate of return on plan assets	8.0%	8.0%	not applicable	not applicable
Health care cost trend assumptions to determine the net periodic benefit cost for the year:				
Health care cost trend rate assumed for the next year	not applicable	not applicable	9%/7%	10%/7.5%
Rate to which the cost trend rate is assumed to decline	not applicable	not applicable	5%	5%
Number of years to reach ultimate trend rate	not applicable	not applicable	4	4

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The effect of a one-percentage-point change in assumed health care cost trend rates is as follows:

	One-percentage-point	
	Increase	Decrease
Effect on total service and interest cost components	$ 1,816	$ (1,496)
Effect on postretirement benefit obligation	16,939	(14,136)

Cash Flows

Contributions

The Company expects to make contributions to its pension and other postretirement benefit plans in 2014 of approximately $12,000.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Other Postretirement Benefits
2014	$ 24,099	$ 6,778
2015	25,767	7,096
2016	27,601	7,468
2017	30,700	7,980
2018	33,599	8,358

Defined Contribution Plan

The Company also sponsors a defined contribution 401(k) plan. The plan allows employees to participate by contributing a portion of their compensation subject to the annual contribution limit imposed by Internal Revenue Code. The plan provides for employer matching at different levels. The matching contributions to this plan totaled $2,465 and $2,421 in 2013 and 2012, respectively.

FAIR VALUE MEASUREMENT

9

Certain assets in the statement of admitted assets, liabilities and reserve and unassigned funds—statutory basis are categorized based upon the inputs used to measure their fair value. Transfers between levels, if any, are recorded as of the end of the reporting period in which the transfer occurs.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the tables below:

Cash, Cash Equivalents and Short-Term Investments—The carrying value of cash, cash equivalents and short term investments approximates fair value. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt Securities, Equity Securities and Bond Funds—Fair values of debt securities, equity securities and bond funds are based on quoted market prices, when available. The Company's custodian obtains one price for each security primarily from a third party pricing service, which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies may include benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes. The Company is responsible for the determination of fair value; therefore, management performs analyses on the prices received from the custodian to determine whether the prices are reasonable estimates of fair value by comparing the prices received from the custodian to prices reported by its investment managers. The Company also compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's procedures and reviews of the values provided by the custodian have not historically resulted in material adjustments in the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets but are priced using other observable inputs or for which there is a lack of transparency into the specific pricing are classified as Level 2.

Fair value estimates for Level 1 and Level 2 equity securities and bond funds are based on quoted market prices for actively traded equity securities and bond funds or other market data for the same or comparable instruments and transactions in establishing the prices.

Securities Lending Collateral—Securities lending collateral is invested in money market funds. Fair value of money market funds is based on quoted prices, which represent the net asset value of shares held.

Alternative Pension Plan Assets—(including Common/Collective Trusts, Hedge Funds, Venture Capital funds, and other Real Estate)—Valued at estimated fair value based on the Plan's proportionate share of the underlying assets of the trust/fund. The fair value of the underlying assets is obtained from information provided by the investment advisor using the audited financial statements at year end.

Throughout the procedures discussed above in relation to the Company's processes for validating third party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

The aggregate fair value for financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall is presented in the following table:

Investments—December 31, 2013

	Admitted Assets	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash, cash equivalents and short term investments	**$ 30,654**	**$ 18,991**	**$ 13,493**	**$ –**	**$ 32,484**
Debt securities:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 140,146	$ –	$ 131,155	$ –	$ 131,155
U.S. Agency mortgage-backed securities	304,595		302,666		302,666
States and municipal obligations	31,458		31,505		31,505
Residential mortgage-backed securities	10,384		9,584		9,584
Commercial mortgage-backed securities	124,070		125,563		125,563
Other asset backed securities	77,794		77,805		77,805
Corporate obligations	341,508		347,536		347,536
Corporate convertible obligations	375,224		450,217		450,217
Total debt securities	**1,405,179**	**–**	**1,476,031**	**–**	**1,476,031**
Equity securities:					
Mutual funds	418,591	418,591			418,591
Common stocks	53,012	49,026		3,986	53,012
Preferred stocks	6,960	6,960			6,960
Total equity securities	**478,563**	**474,577**	**–**	**3,986**	**478,563**
Total debt and equity securities	**$1,883,742**	**$ 474,577**	**$ 1,476,031**	**$ 3,986**	**$ 1,954,594**
Securities lending collateral	**$ 163,215**	**$ 163,215**	**$ –**	**$ –**	**$ 163,215**

Investments—December 31, 2012

	Admitted Assets	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash, cash equivalents and short term investments	**$ 50,350**	**$ 36,052**	**$ 14,298**	**$ –**	**$ 50,350**
Debt securities:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 210,703	$ –	$ 215,745	$ –	$ 215,745
U.S. Agency mortgage-backed securities	290,687		302,128		302,128
States and municipal obligations	4,091		4,171		4,171
Residential mortgage-backed securities	2,182		2,336		2,336
Commercial mortgage-backed securities	94,371		102,091		102,091
Other asset backed securities	56,644		57,415		57,415
Corporate obligations	303,845		323,978		323,978
Corporate convertible obligations	396,805		421,171	1,905	423,076
Total debt securities	**1,359,328**	**–**	**1,429,035**	**1,905**	**1,430,940**
Equity securities:					
Mutual funds	439,315	439,315			439,315
Common stocks	3,939			3,939	3,939
Preferred stocks	2,902	2,040	1,583		3,623
Total equity securities	**446,156**	**441,355**	**1,583**	**3,939**	**446,877**
Total debt and equity securities	**$1,805,484**	**$ 441,355**	**$ 1,430,618**	**$ 5,844**	**$ 1,877,817**
Securities lending collateral	**$ 82,920**	**$ 82,920**	**$ –**	**$ –**	**$ 82,920**

The aggregate fair value of pension assets for financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall is presented in the following table:

Pension Investments—December 31, 2013

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	**$ 800**	**$ –**	**$ –**	**$ 800**
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ –	$ 40,582	$ –	$ 40,582
U.S. Agency mortgage-backed securities		34,196		34,196
States and municipal obligations		1,478		1,478
Commercial mortgage-backed securities		11,889		11,889
Other asset-backed securities		4,528		4,528
Corporate obligations		25,647		25,647
Total debt securities	**–**	**118,320**	**–**	**118,320**
Equity securities:				
Mutual funds	154,554			154,554
Common collective trusts		237,769		237,769
Common stocks	47,762			47,762
Preferred stocks	323			323
Fixed income funds	13,023			13,023
Total equity securities	**215,662**	**237,769**	**–**	**453,431**
Venture capital funds			5,095	5,095
Private equity funds			1,224	1,224
Hedge funds			66,309	66,309
Other real estate		$ 50,349		50,349
Total	**$ 216,462**	**$ 406,438**	**$ 72,628**	**$ 695,528**

Pension Investments—December 31, 2012

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ –	$ 34,399	$ –	$ 34,399
U.S. Agency mortgage-backed securities		32,089		32,089
States and municipal obligations		1,586		1,586
Commercial mortgage-backed securities		11,365		11,365
Other asset-backed securities		8,458		8,458
Corporate obligations		23,958		23,958
Total debt securities	**–**	**111,855**	**–**	**111,855**
Equity securities:				
Mutual funds	152,835			152,835
Common collective trusts		206,582		206,582
Common stocks	16,188			16,188
Fixed income funds	12,104			12,104
Total equity securities	**181,127**	**206,582**	**–**	**387,709**
Venture capital funds			4,000	4,000
Private equity funds			392	392
Hedge funds			59,853	59,853
Other real estate		$ 38,727		38,727
Total	**$ 181,127**	**$ 357,164**	**$ 64,245**	**$ 602,536**

The Company has financial assets recorded in the statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis that are measured at fair value. Financial assets that are measured and reported at fair value include equity securities and securities reported at the lower of cost or fair value based on NAIC rating designation regardless if the security was reported in the previous period at amortized cost.

The following table presents information about the Company's financial assets that are measured at fair value at December 31, 2013 and 2012:

Investments—December 31, 2013

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	**$ 18,991**	**$ –**	**$ –**	**$ 18,991**
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ –	$ –	$ –	$ –
U.S. Agency mortgage-backed securities				
States and municipal obligations				
Commercial mortgage-backed securities				
Corporate bond funds				
Corporate obligations		1,035		1,035
Corporate convertible obligations		12,617		12,617
Total debt securities	**–**	**13,652**	**–**	**13,652**
Equity securities:				
Mutual funds	418,591			418,591
Common stocks	49,026		3,986	53,012
Preferred stocks	6,960			6,960
Total equity securities	**474,577**	**–**	**3,986**	**478,563**
Total	**$ 474,577**	**$ 13,652**	**$ 3,986**	**$ 492,215**
Securities lending collateral	**$ 163,215**	**$ –**	**$ –**	**$ 163,215**

Investments—December 31, 2012

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	**$ 36,052**	**$ –**	**$ –**	**$ 36,052**
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ –	$ –	$ –	$ –
U.S. Agency mortgage-backed securities				
States and municipal obligations				
Commercial mortgage-backed securities				
Corporate bond funds				
Corporate obligations		5,838		5,838
Total debt securities	**–**	**5,838**	**–**	**5,838**
Equity securities:				
Mutual funds	439,315			439,315
Common stocks			3,939	3,939
Preferred stocks	2,040			2,040
Total equity securities	**441,355**	**–**	**3,939**	**445,294**
Total	**$ 441,355**	**$ 5,838**	**$ 3,939**	**$ 451,132**
Securities lending collateral	**$ 82,920**	**$ –**	**$ –**	**$ 82,920**

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012.

During the years ended December 31, 2013 and 2012, the changes in the fair value of the assets carried at fair value measured using significant unobservable inputs (Level 3) were comprised of the following:

2013	Non-Pension Investments	Pension Investments		
	Common Stock	Hedge Funds	Venture Capital Funds	Private Equity Funds
Beginning balance—January 1, 2013	$ 3,939	$ 59,853	$ 4,000	$ 392
Net return on assets (realized/unrealized)	47	6,456	286	(33)
Purchases			839	865
Sales			(30)	
Balance—December 31, 2013	**$ 3,986**	**$ 66,309**	**$ 5,095**	**$ 1,224**

2012	Non-Pension Investments	Pension Investments			
	Common Stock	Hedge Funds	Real Estate	Venture Capital Funds	Private Equity Funds
Beginning balance—January 1, 2012	$ 4,683	$ 41,005	$ 2,031	$ 3,950	$ –
Net return on assets (realized/unrealized)	(744)	4,048	66	167	(17)
Purchases		14,800		361	409
Sales			(2,097)	(478)	
Balance—December 31, 2012	**$ 3,939**	**$ 59,853**	**$ –**	**$ 4,000**	**$ 392**

10

DEBT AND OTHER LIABILITIES

The Company's debt and other liabilities as of December 31, 2013 and 2012, consists of the following:

	2013	2012
Loan agreement/term note	142,500	150,000
Credit agreement	100,000	
Loan agreement/term note accrued interest	608	8
Total debt	$ 243,108	$ 150,008
Liability—Uncollateralized portion of Ventures letter of credit	**123,394**	**77,544**
Total debt and other liabilities	**$ 366,502**	**$ 227,552**

The Company used a discounted cash flow method in determining fair value of outstanding debt. The Company estimated fair value based on its own assumptions about future cash flows and appropriate adjusted discount factors. The use of assumptions constitutes a Level 3 categorization for fair market value determination due to the use of significant unobservable inputs used in determining the fair market value.

During 2012, the Company entered into a Borrowing Agreement (the "Agreement") with a syndicate of banks that is comprised of two parts. The first part is a $150,000 Credit Agreement (the "Credit Agreement") that was to mature in December 2014 and permitted borrowing and repayment until that time. Loans bear interest at London Interbank Offered Rate (LIBOR) plus 0.75% for periods as selected by the Company for each borrowing. There were no outstanding amounts under the Agreement at December 31, 2012.

The second part of the Agreement was for a secured $150,000 Term Note Agreement (Term Note), which was entered into on July 5, 2012. The principal amount was due in quarterly installments beginning September 30, 2013. Interest at 1.705% is required to be paid quarterly. At December 31, 2012, a balance of $150,008 was outstanding under the Term Note including $8 of accrued interest. As of December 31, 2012, the fair value of the Term Note was $150,718.

During 2013, the Company entered into two separate agreements which replaced the two part Agreement that was in place at December 31, 2012. The $100,000 Credit Agreement (the "New Credit Agreement") now matures July 17, 2014, and permits borrowing and repayment until that time.

Loans bear interest at London Interbank Offered Rate (LIBOR) plus a margin which references the Company's external credit rating for periods as selected by the Company for each borrowing. The margin at December 31, 2013, was 1.125%. There was $100,000 outstanding under the New Credit Agreement at December 31, 2013, which approximates its fair value. The New Credit Agreement contains certain financial covenants pertaining to capitalization ratio, surplus and risk-based capital. At December 31, 2013, the Company was in compliance with the financial covenants.

The second agreement is an amended and restated $150,000 Loan Agreement (the "Loan Agreement"). The principal amount is due in quarterly installments beginning September 30, 2013. Interest at 1.705% is required to be paid quarterly. At December 31, 2013, a balance of $143,108 was outstanding under the Term Note, including $608 of accrued interest. The fair value of the Loan Agreement at December 31, 2013, was $142,052.

The principal payments on the Loan Agreement are as follows:

2014	$ 42,500
2015	40,000
2016	40,000
2017	20,000
2018	–
	$ 142,500

Pursuant to the Loan Agreement, investment securities with a minimum fair value of $190,000 were pledged as collateral.

Included in debt and other liabilities at December 31, 2013 and 2012, as required by the Superintendent, is a liability of $123,394 and $77,544, respectively, related to the uncollateralized portion of a letter of credit issued by Ventures in favor of MedAmerica Insurance Company. This amount reflects a permitted practice that departs from NAIC SAP (see Note 1).

The Company made payments for debt-related interest of $2,711 during 2013 and $1,679 during 2012.

11 GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED HEALTH PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

ASO Plans—The gain (loss) from operations, reflecting reimbursement of administrative expenses net of service revenues from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans for the years ended December 31, 2013 and 2012, was as follows:

	2013	2012
Total net loss from operations	**$ (21,042)**	**$ (20,376)**
Claims payment volume	**$ 743,151**	**$ 653,721**

ASC Plans—The gain (loss) from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans as of December 31, 2013 and 2012, was as follows:

	2013	2012
Gross reimbursement for medical cost incurred	$ 572,316	$ 509,788
Gross administrative fees recognized	25,700	25,918
Gross expenses incurred (claims and administrative)	(614,221)	(551,596)
Total net loss from operations	**$ (16,205)**	**$ (15,890)**

Medicare Cost-Based Reimbursement Contract—The Company ceased offering this product effective December 31, 2012. Revenue from the Company's Medicare cost-based reimbursement contract, for the year ended December 31, 2012, consisted of $3,240 for medical and hospital related services and $200 for administrative expenses.

Medicare Part D Pharmacy Benefits Contract—Under the Medicare Part D program, the Company receives cost reimbursements in the form of Catastrophic Reinsurance Subsidies, Low-Income Member Cost-Sharing Subsidies, and Coverage Gap Discount. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly there is no insurance risk to the Company. For the years ended 2013 and 2012, the Company recorded, respectively, $44,726 and $38,459 in Catastrophic Reinsurance Subsidies, $21,720 and $22,246 in Low Income Member Cost-Sharing Subsidies, and $18,540 and $18,377 in Coverage Gap Discount.

12 PHARMACEUTICAL REBATE RECEIVABLES

Pharmacy rebates receivables are estimated based on the most current available data from the Company's claim processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit manager (PBM). These receivables are recorded when reasonably estimated or billed by the PBM in accordance with pharmacy rebate contract provisions. The Company has excluded receivables that do not meet the admissibility criteria from the statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

The components of pharmaceutical rebates receivable, by quarter, were as follows:

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 91–180 Days of Billing	Actual Rebates Received (Refunded) More than 180 Days After Billing
December 31, 2013	$ 24,331	$ –	$ –	$ –	$ –
September 30, 2013	27,221	20,471	10,036		
June 30, 2013	23,563	22,827	19,682	2,128	
March 31, 2013	22,997	22,738	18,784	2,918	699
December 31, 2012	$ 25,367	$ 27,346	$ 19,666	$ 7,005	$ 675
September 30, 2012	26,249	26,249	22,935	2,865	449
June 30, 2012	26,198	26,343	17,800	8,143	255
March 31, 2012	25,749	25,749	18,111	8,129	(491)

13 COMMITMENTS

The Company leases office space and equipment under certain noncancelable lease agreements. As of December 31, 2013, the annual lease commitment is as follows:

2014	$ 5,808
2015	3,426
2016	2,970
2017	2,718
2018	1,522
Thereafter	355

Rent expense under operating leases totaled $6,992 and $9,297 in 2013 and 2012, respectively.

14 CONTINGENCIES

Litigation—From time to time the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the results of operations, liquidity, or surplus of the Company.

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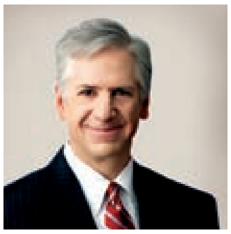

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