Making a DIFFERENCE in the place we call home

2014 ANNUAL FINANCIAL REPORT

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.

Lifetime Benefit Solutions

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

Home Care Plus

Brings quality and focused health services to people in their homes in Rochester and the Finger Lakes region as the licensed home care services agency affiliated with Lifetime Care.

Lifetime Care

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

Lifetime Health Medical Group

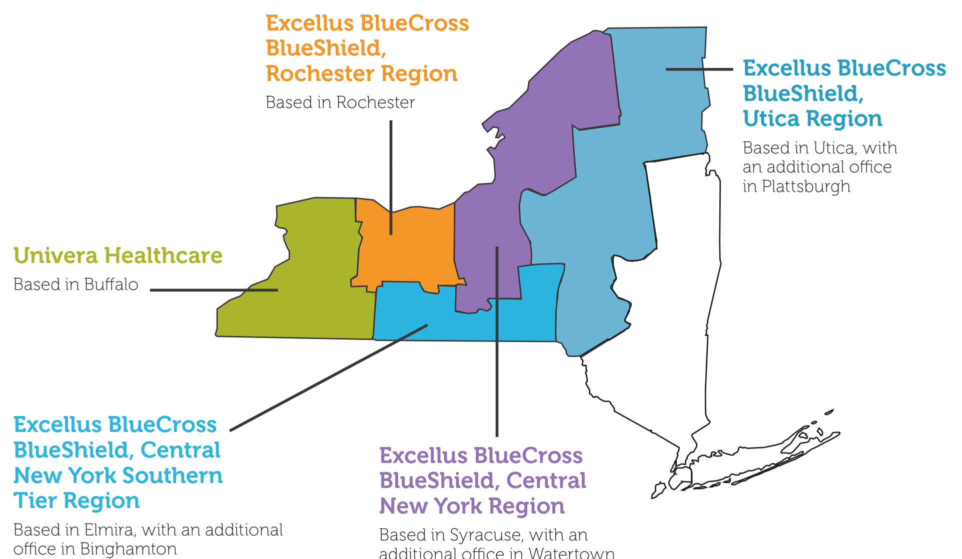
Delivers primary care, specialty care, urgent care, pharmacy, dental, optical, behavioral health, and imaging services in the Rochester and Buffalo areas.

Lifetime Pharmacy

Provides home infusion therapies for recovery from illness or condition management in the comfort and privacy of the home.

The MedAmerica Companies

Offer 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, 2014 and 2013

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.

Health Care Industry Developments

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, "Health Care Reform" or "ACA") has changed and will continue to make broad-based changes to the U.S. health care system. Health Care Reform is expected to continue to significantly impact the Company's business operations and financial results.

The Company paid its $90.9 million portion of the ACA's non-tax deductible health insurance industry fee in 2014 and incurred approximately $46.0 million of assessments associated with the Company's 2014 contribution to the ACA's transitional reinsurance program, both new expenses in 2014. For additional information on Health Care Reform, refer to Notes 1 and 13 to the statutory basis financial statements.

Summary

The Company's net income for 2014 was $24.2 million, representing 0.4% of premiums earned, as compared to $52.6 million of net income for 2013, which amounted to 0.8% of premiums earned. The net income for 2014 is the result of an underwriting loss of $55.3 million, or –0.9% operating margin, investment income of $118.7 million, partially offset by interest expense of $2.7 million, and income tax expense of $35.7 million.

Due to significant underwriting losses in 2013, the Company discontinued offering certain New York State government insurance products (Medicaid Managed Care and Family Health Plus) in 14 upstate New York counties during 2014. This exit, combined with other cost reduction initiatives, contributed to a year-over-year reduction in the underwriting loss for its New York State government products from $69.5 million for 2013 to $23.4 million for 2014.

Revenue

The Company had total premiums and premium equivalents on self-funded business of $7,582.3 million for 2014, a decrease of $167.8 million or 2.2% over the prior year. Total insured revenue, as reported, was $5,944.0 million for the year ended December 31, 2014, representing an annual decrease of $346.4 million, or 5.5%, compared to the year ended December 31, 2013. The decrease in insured premium revenue primarily reflects the loss of over 275,000 insured enrollees from December 31, 2013, to December 31, 2014, representing an approximately 18.6% annual average decrease. This decrease was partially offset by premium rate increases and product mix improvements in 2014, which averaged 16.1%. Premium rate increases were designed to cover overall cost trends and new fees associated with Health Care Reform, including the health insurance industry fee. The 2014 enrollment decline was due largely to the transition of approximately 155,000 New York State employees to a self-insured plan, combined with enrollment declines associated with the aforementioned Medicaid Managed Care and Family Health Plus exit, as well as other insured enrollment losses.

Expenses

Claims expense of $5,208.8 million in 2014 declined 8.0% from 2013 and is reflective of the previously described membership losses, the release of an $11.0 million premium deficiency reserve associated with the Company's New York State government products, partially offset by claims trend. Excluding the effects of adjustments in estimates related to prior years and premium deficiency reserves, the medical loss ratio for 2014 was 88.6% as compared to the 2013 medical loss ratio of 91.3%. This decrease in the medical loss ratio is primarily attributable to rate increases to cover new fees associated with Health Care Reform, including additional premiums collected to help cover the non-tax deductible impact of the health insurance industry fee. The decrease was further attributable to medical savings programs which were implemented in 2014, including provider reimbursement rate reductions, plus drug savings from an increase in the generic drug fill rate and new use-management initiatives. These initiatives helped to offset higher pharmacy costs associated with new high cost Hepatitis C therapies.

Health care expense trends in 2014 again 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 2014 was 7.7%. The utilization increase of 2.6% is mostly attributable to outpatient and professional services. The overall unit cost trend of 5.0% was driven predominantly by inpatient, outpatient and drug cost increases of approximately 5.7%, 4.2% and 13.6% respectively. Average drug unit cost increases are higher due to higher generic drug prices and rising specialty drug costs.

The Company's operating expenses, of $790.5 million, increased by $89.1 million from 2013. This 12.7% increase is due to new fees associated with Health Care Reform that were effective January 1, 2014, including $90.9 million for the health insurance industry fee and $46.0 million of assessments related to the ACA's transitional reinsurance

program. The effect of these new fees was partially offset by a $38.6 million decrease in pension and postretirement costs due to an increase in long term interest rates at the end of 2013, and a $9.6 million decrease in sales related expenses resulting from the decline in insured membership along with modifications to the Company's broker commission program. Excluding the new Health Care Reform-related fees, the Company's operating expenses declined $47.2 million or 6.8% compared to 2013.

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 2014 of $35.7 million increased from $13.4 million for 2013. This $22.3 million increase is primarily attributable to the non-tax deductible health insurance industry fee effective for 2014.

Investments

The Company's cash, cash equivalents and investments, excluding real estate and securities lending collateral, decreased by $42.5 million, or 2.0%, from $2,088.4 million at December 31, 2013, to $2,045.9 million at December 31, 2014. This decrease is chiefly due to sale of investments in order to fund operating cash needs.

As of December 31, 2014, the investment portfolio consisted of 8.6% investment in subsidiaries and affiliates, 21.2% equity mutual funds and common and preferred stock, 8.1% U.S. and U.S. Agency bonds (excluding mortgage-backed securities), 26.7% mortgage-backed securities (principally U.S. government agency), 32.6% other bonds (including convertible bonds), and 1.7% 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 increased $6.3 million or 38.9% to $22.4 million in 2014 primarily due to higher investment yields associated with the Company's debt securities. The Company had realized investment gains of $96.3 million in 2014 as compared to $125.3 million in 2013. The decrease in unrealized appreciation on investments in unassigned funds for 2014 of $15.9 million, net of tax, includes the effect of market value changes in investments in common stock and is primarily attributable to a net decrease in subsidiary equity. The Company's net unrealized appreciation on its debt securities, which amounted to $118.2 million at December 31, 2014, 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, 2014, total cash, cash equivalents, investments (excluding subsidiaries), and securities lending collateral exceeded total liabilities by $129.3 million, demonstrating the Company's strong ability to pay its obligations as they come due. Net cash flows from operating activities increased $28.3 million, from ($109.5) million in 2013 to ($81.2) million in 2014. This increase is primarily attributable to a reduction in operating losses compared to 2013.

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, 2014, the Company had a receivable due from the State of New York of $105.0 million representing premium payments due under the Medicaid Managed Care, Family Health Plus, and Child Health Plus programs and $6.1 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 $1,157.6 million at December 31, 2014, decreased $195.0 million from December 31, 2013. The principal elements of this decrease were the aforementioned $15.9 million decrease in unrealized appreciation in investments, a $10.8 million increase in the liability associated with the uncollateralized portion of the Excellus Ventures letter of credit, a pre-tax decrease of $245.5 million associated with the change in funded status of pension and postretirement benefits, offset by a decrease in non-admitted assets of $57.6 million and net income of $24.2 million. The decline in the funded status of the pension and postretirement plans is the result of year-end 2014 decline in discount rates and changes in mortality assumptions. The decrease in non-admitted assets is primarily due to a $52.3 million sale-leaseback of certain software, furniture and fixtures during 2014.

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, 2014. The Company's financial strength is rated A– (strong) by Standard & Poor's and B++ (good) by A.M. Best.

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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, 2015

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

As of December 31, 2014 and 2013 (Dollar amounts in thousands)

	2014	2013
ADMITTED ASSETS		
Cash, cash equivalents and short-term investments	$ 35,227	$ 30,654
Investments	2,010,631	2,057,710
Securities lending collateral	147,476	163,215
Accounts receivable:		
Premium	125,724	168,652
Health care	514,927	410,098
Due from parent, subsidiaries and affiliates	11,988	23,016
Interest	7,417	8,019
Other	1,285	369
Total accounts receivable	**$ 661,341**	**$ 610,154**
Real estate and equipment—Net	50,887	40,875
Net deferred tax assets	140,886	141,412
Total admitted assets	**$ 3,046,448**	**$ 3,044,020**
LIABILITIES, RESERVE AND UNASSIGNED FUNDS		
Claims payable	$ 479,496	$ 488,811
Unearned premiums and policy reserves	73,048	56,833
Accounts payable and accrued liabilities	297,493	355,856
Securities lending payable	147,476	163,215
Due to parent and affiliates	10,492	279
Pension and postretirement benefits obligations	542,614	259,903
Debt and other liabilities	338,202	366,502
Total liabilities	**1,888,821**	**1,691,399**
RESERVE AND UNASSIGNED FUNDS		
Statutory reserve	742,157	786,165
Special surplus (Note 7)	128,415	
Unassigned funds	287,055	566,456
Total reserve and unassigned funds	**1,157,627**	**1,352,621**
Total liabilities, reserve and unassigned funds	**$ 3,046,448**	**$ 3,044,020**

See notes to statutory basis financial statements.

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

For the years ended December 31, 2014 and 2013 (Dollar amounts in thousands)

	2014	2013
Premiums earned	$ 5,944,024	$ 6,290,443
Claims expense	5,208,836	5,661,980
Premiums earned over claims expense	**735,188**	**628,463**
Operating expenses	790,462	701,402
Underwriting loss	**(55,274)**	**(72,939)**
Interest expense	2,709	2,882
Net investment income:		
Interest and dividends earned—net of investment expenses	22,414	16,139
Realized gain on investments—net	96,251	125,308
Total investment income	**118,665**	**141,447**
Other (expense) income	(787)	324
Income before income taxes	**59,895**	**65,950**
Income tax expense	35,705	13,393
Net income	**$ 24,190**	**$ 52,557**

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, 2014 and 2013 (Dollar amounts in thousands)

	Statutory Reserve	Special Surplus	Unassigned Funds
BALANCE—January 1, 2013	**$ 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 depreciation on investments			(21,024)
BALANCE—December 31, 2013	**786,165**	**–**	**566,456**
Net income			24,190
Decrease in statutory reserve	(44,008)		44,008
Special surplus		128,415	(128,415)
Change in uncollateralized portion of Ventures letter of credit			(10,808)
Decrease (increase) in nonadmitted assets:			
Investments			(728)
Premium receivables			1,004
Health care receivables			10,222
Due from parent and affiliates			(9,501)
Other receivables			(5,601)
Real estate and equipment			62,195
Deferred taxes			(51,307)
Change in deferred taxes			(47,062)
Change in pension/postretirement liability			(151,746)
Unrealized appreciation on investments			(15,852)
BALANCE—December 31, 2014	**$ 742,157**	**$ 128,415**	**$ 287,055**

See notes to statutory basis financial statements.

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

For the years ended December 31, 2014 and 2013 (Dollar amounts in thousands)

	2014	2013
OPERATING ACTIVITIES:		
Premiums and other considerations received	$ 5,964,354	$ 6,157,678
Claims expenses paid	(5,272,005)	(5,687,986)
Operating expenses paid	(798,131)	(587,112)
Net cash used in underwriting activities	**(105,782)**	**(117,420)**
Interest and dividends received (net of investment expenses)	42,781	41,718
Assignment of alternative minimum tax credits	(2,818)	(20,038)
Federal income taxes paid	(15,400)	(13,719)
Net cash used in operating activities	**(81,219)**	**(109,459)**
INVESTING ACTIVITIES:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,410,544	1,539,490
Stocks	232,312	309,755
Real estate and equipment	53,626	
Other	(5,344)	(2,462)
Due from brokers	(1,124)	
Cost of investments acquired:		
Bonds	(1,386,522)	(1,587,055)
Stocks	(139,082)	(221,783)
Subsidiaries	(9,500)	(10,500)
Real estate, software, furniture and equipment	(29,101)	(30,258)
Securities lending collateral	15,739	(80,295)
Due to investment brokers	(910)	(813)
Net cash provided by (used in) investing activities	**140,638**	**(83,921)**
FINANCING ACTIVITIES:		
Securities lending	(15,739)	80,295
Debt borrowings	1,889,899	430,313
Debt payments	(1,929,006)	(337,213)
Net cash (used in) provided by financing activities	**54,846**	**173,395**
OTHER CASH PROVIDED		289
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	**4,573**	**(19,696)**
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year	30,654	50,350
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year	**$ 35,227**	**$ 30,654**

See notes to statutory basis financial statements.

Notes to Statutory Basis Financial Statements

As of and for the Years Ended December 31, 2014 and 2013
(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. ("UCH")	The Company is one of two members

On December 19, 2014, the members of UCH entered into an agreement whereby the Company will withdraw as a member of UCH and transfer its 50% membership interest in Univera IPA, LLC ("the IPA") to the remaining corporate member of the IPA effective June 30, 2015 ("transaction date"). As part of the agreement and at the request of UCH's remaining member, the Company will adjudicate on UCH's behalf all claims for services rendered to UCH enrollees through the transaction date and during the six month period following the transaction date, in return for a fee. A payment reconciliation that relates to pre-withdrawal date operations between UCH, the IPA, and EHP is expected to be completed shortly after June 30, 2015.

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 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 are 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, 2014 and 2013.

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 that affect reserve and unassigned funds at December 31, 2014 and 2013, is shown below:

	2014	2013
Net income—statutory basis—as reported	$ 24,190	$ 52,557
State prescribed/permitted practices—Capitalized land lease		(378)
Total net income—statutory basis in conformity with NAIC SAP	**$ 24,190**	**$ 52,179**
Total reserve and unassigned funds—as reported	$ 1,157,627	$ 1,352,621
State prescribed/permitted practices:		
Liability—uncollateralized portion of Ventures' letter of credit (see Note 10)	134,202	123,394
Valuation of Ventures	4,111	3,941
Total reserve and unassigned funds in conformity with NAIC SAP	**$ 1,295,940**	**$ 1,479,956**

Accounting for Certain Provisions of Health Care Reform

Premium-Based Fee on Health Insurers—The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (Health Care Reform or the "ACA") mandated significant reforms to various aspects of the U.S. health insurance industry. Among other things, the ACA imposes an annual premium-based fee on health insurers (the "health insurance industry fee") for each calendar year beginning on January 1, 2014, which is not deductible for federal income tax purposes. The health insurance industry fee is levied based on a ratio of an insurer's net health insurance premiums written for the previous calendar year compared to the total net health insurance premiums written by the U.S. health insurance industry for the same period.

The following table reflects the estimated amount of the health insurance industry fee payable for the years subsequent to 2013 and 2014, the amount of the fee paid in 2014, as well as the amount of premiums written in each respective year, which serves as the basis for the determination of the health insurance industry fee. The table also provides the total adjusted capital and authorized control level before and after adjustment to reflect the 2015 health insurance industry fee as if the fee had been recorded as of and for the year ended December 31, 2014. The "after adjustment" amounts represent a Risk Based Capital (RBC) sensitivity test which is required to be calculated and disclosed by the NAIC.

	2014	2013
Estimated health insurance industry fee payable for the upcoming year	$ 128,415	$ 86,000
Health insurance industry fee paid	90,913	
Premiums written subject to health insurance industry fee assessment	5,829,705	6,176,977
Total Adjusted Capital before surplus adjustment	1,164,993	
Authorized Control Level before surplus adjustment	223,900	
Total Adjusted Capital after surplus adjustment	1,036,578	
Authorized Control Level after surplus adjustment	223,960	

The Risk Based Capital action level would not have been triggered had the health insurance industry fee, pertaining to 2015, been recorded as of and for the year ended December 31, 2014.

Public Health Insurance Exchanges—The Company is participating in public health insurance exchanges established pursuant to the ACA. The ACA requires the establishment of state-based, state and federal partnership or federally facilitated health insurance exchanges ("exchanges") where individuals and small groups may purchase health insurance coverage under regulations established by U.S. Department of Health and Human Services ("HHS"). The Company currently participates in exchanges in New York State.

Member Related Components

Premium Subsidy—For qualifying low-income members, HHS will reimburse the Company, on the member's behalf, some or all of the monthly member premium depending on the member's income level in relation to the Federal Poverty Level. The Company recognizes the premium subsidy evenly over the contract period and reports it as part of premiums earned.

Cost Sharing Subsidy—For qualifying low-income members, HHS will reimburse the Company, on the member's behalf, some or all of a member's cost sharing amounts (e.g., deductible, co-pay/coinsurance). The amount paid for the member by HHS is dependent on the member's income level in relation to the Federal Poverty Level. The Company receives prospective payments on a monthly basis, which represent a cost reimbursement that is finalized and settled after the end of the year. The cost sharing subsidy is reflected in the statements of income—statutory basis as an offset to claims expense.

Reinsurance, Risk Adjustment and Risk Corridor—Effective January 1, 2014, the ACA includes permanent and temporary premium stabilization provisions for transitional reinsurance, permanent risk adjustment, and temporary risk corridors, which are applicable to those insurers participating inside, and in some cases outside, of the exchanges. These programs are intended to mitigate some of the risks relating to pricing and lack of information surrounding the previously uninsured. The accompanying statutory basis financial statements reflect the estimated impacts of these programs. Such estimated amounts may differ materially from actual amounts ultimately received or paid under the provisions, which may have a material impact on the Company's results of operations (see Note 13).

Transitional Reinsurance—A three-year (2014–2016) reinsurance program which provides reimbursement to insurers of high cost individual business sold on or off the public exchanges. The reinsurance entity established by HHS is funded by a per-member reinsurance fee assessed on all commercial medical plans, including self-insured group health plans. Only fully insured non-grandfathered plans compliant with the ACA in the individual commercial market are eligible for recoveries if individual claims exceed a specified threshold. Accordingly, the Company accounts for transitional reinsurance contributions associated with all commercial medical health plans, other than these non-grandfathered individual plans, as an assessment in operating expenses within the statements of income—statutory basis. Contributions made by the Company's ACA-compliant individual commercial plans are accounted for as ceded premiums (a reduction of premiums earned), while recoveries are reflected as ceded benefits (a reduction of claims expense) in its statements of income—statutory basis.

Risk Adjustment—The permanent risk adjustment program adjusts the premiums that commercial individual and small group health issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from insurers with lower risk populations to insurers with higher risk populations, within state markets, based on the relative risk scores of participants in plans in the individual and small group markets, both on and off the exchanges. The Company's estimate of amounts receivable and/or payable under the risk adjustment program is based on its estimate of both its own risk scores and the average risk scores for New York State. Assumptions used in these estimates include but are not limited to member demographics including age and gender, its pricing model, the Company's historical market experience, available data in regulatory filings, as well as data obtained from industry studies. Estimated risk adjustment receivables are reflected in health care receivables within the accompanying statement of admitted assets, liabilities, and reserve and unassigned funds—statutory basis with a corresponding increase to premiums earned.

Risk Corridor—A temporary (2014–2016) risk corridor program was designed to limit insurer gains and losses by comparing allowable medical costs to a target amount as defined by HHS. This program applies to individual and small group qualified health plans, operating on and off the exchanges. Variances from the target amount exceeding certain thresholds may result in amounts due to or due from HHS. Based upon provisions contained in recently enacted legislation, risk corridor payments from HHS are expected to be limited to the extent of the risk corridor collections received by HHS over the duration of the program.

The Company estimates and recognizes adjustments to premiums earned for risk adjustment and risk corridor provisions by projecting its ultimate realizable premium for the calendar year for its individual and small group plans.

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. 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.

Non-admitted 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 non-admitted assets is charged or credited directly to unassigned funds. Non-admitted 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 2014 or 2013.

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.

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 for 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.

Other Comprehensive Income—Other comprehensive income and its components are not presented in the statutory basis financial statements, but 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 $1,354 and $2,023 as of December 31, 2014 and 2013, 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 stock 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, 2014 and 2013, 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.

For the year ended December 31, 2014, the Company adopted a change in estimate affected by a change in accounting principle by including expected future investment income in its premium deficiency reserve estimate. This change was

precipitated by growing regulatory pricing pressures, aggravated by increased costs stemming from the ACA, which has led to compressed operating margins and an increased reliance on investment income to maintain adequate surplus levels. Had this change not been made, underwriting loss and net income would have been $59,000 lower for the year ended December 31, 2014.

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 is currently conducting an audit to validate the coding practices of and supporting documentation maintained by the Company's health care providers.

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 20% and 17% for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, the Company had receivables due from the State of New York of $105,001 and $106,108, respectively, representing premium payments due under the Medicaid, Family Health Plus, and Child Health Plus programs and $6,105 and $22,544, respectively, for stop loss related to Medicaid 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.

New Accounting Standards—In June 2014, the NAIC issued SSAP No. 106, *Affordable Care (ACA) Assessment (Section 9010 Assessment).* SSAP No. 106 is effective January 1, 2014, and establishes disclosure requirements for the health insurance industry fee. The required disclosures are included in Note 1.

In December 2014, the NAIC issued SSAP No. 107, *Accounting for the Risk-Sharing Provisions of the Affordable Care Act* (SSAP No. 107). SSAP No. 107 is effective for years ending on or after December 15, 2014, and establishes statutory accounting principles for the risk sharing provisions of the ACA. The financial impacts of SSAP No. 107 are disclosed in Note 13.

Subsequent Events—Subsequent events have been evaluated by the Company through March 10, 2015, the date the statutory basis financial statements were issued.

INVESTMENTS

2

The carrying value and estimated fair values of investments at December 31, 2014 and 2013, were as follows:

2014

	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	$ 166,393	$ 6,871	$ 1,848	$ 171,416
U.S. Agency mortgage-backed securities	328,246	7,718	712	335,252
States and municipal obligations	28,080	2,210	5	30,285
Residential mortgage-backed securities	9,292	73	388	8,977
Commercial mortgage-backed securities	113,148	2,505	364	115,289
Other asset-backed securities	94,641	305	132	94,814
Corporate obligations	304,929	12,381	491	316,819
Corporate convertible obligations	362,234	91,790	1,691	452,333
Total debt securities	**$ 1,406,963**	**$ 123,853**	**$ 5,631**	**$ 1,525,185**
Equity Securities:				
Mutual funds (cost $244,183)	381,996			
Common stocks (cost $38,372)	44,759			
Preferred stocks (cost $6,971)	7,637			
Other invested assets	(5,963)			
Subsidiaries	175,239			
Total	**$ 2,010,631**			

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**			

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, 2014, 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	$ 39,245	$ 44,979
Due after one year through five years	388,900	429,301
Due after five years through ten years	163,296	178,934
Due after ten years	270,195	317,639
Mortgage-backed securities	545,327	554,332
Total	**$1,406,963**	**$1,525,185**

Proceeds from the sales and maturities of investments during 2014 and 2013 were $1,642,856 and $1,849,245, respectively. Proceeds from the sales of bonds during 2014 and 2013 were $1,302,143 and $1,404,715, respectively. Non-cash bond conversions were $19,346 and $64,744 for the years ended December 31, 2014 and 2013, respectively. The gross realized gains and (losses) on sales of investments are as follows:

	2014	2013
Realized gains—debt securities	$ 63,157	$ 42,005
Realized losses—debt securities	(5,743)	(14,794)
Net realized gains—equity securities	44,181	100,559
Contribution—other invested assets	(5,344)	(2,462)
Total—net	**$ 96,251**	**$ 125,308**

Investment securities in an unrealized loss position as of December 31, 2014 and 2013 are summarized as follows:

	Less than 12 months		More than 12 months		Total	
2014	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	$ 94,780	$ 1,628	$ 6,382	$ 220	$ 101,162	$ 1,848
U.S. Agency mortgage-backed securities	28,554	87	31,632	625	60,186	712
States and municipal obligations	604	5			604	5
Residential mortgage-backed securities			8,211	388	8,211	388
Commercial mortgage-backed securities	12,034	72	14,613	292	26,647	364
Other asset-backed securities	41,312	117	5,082	15	46,394	132
Corporate obligations	66,671	340	8,534	151	75,205	491
Corporate convertible obligations	62,955	1,691			62,955	1,691
Mutual funds	5,298	270			5,298	270
Common and Preferred stock	10,005	1,049			10,005	1,049
Total	**$ 322,213**	**$ 5,259**	**$ 74,454**	**$ 1,691**	**$ 396,667**	**$ 6,950**
2013						
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**

The Company holds a diversified portfolio of investments in the general investment categories shown above. In the fixed income category there are 270 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 $259 and $300 in 2014 and 2013, respectively, for all debt securities. Impairment losses are included in realized gain on investments—net in the accompanying statements of income—statutory basis.

In 2014 and 2013, the Company had investments in mortgage backed securities, including some collateralized by non-prime mortgages. The Company recognized no impairment losses in 2014 and 2013, respectively, for mortgage backed securities.

In the equity securities category, there were eight mutual fund securities and 15 common stock securities in a net unrealized loss position at December 31, 2014. The Company recognized impairment losses of $341 and $0 in 2014 and 2013, respectively, for all equity securities.

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, credit worthiness 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, 2014 and 2013, the Company had loaned securities with a fair value of $152,398 and $173,116, respectively, including accrued interest. The fair value of the corresponding collateral was $147,476 and $163,215, respectively, for cash collateral reinvested and $8,539 and $14,082, respectively, for non-cash collateral at December 31, 2014 and 2013. 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.

REAL ESTATE AND EQUIPMENT—NET 3

At December 31, 2014 and 2013, amounts included in real estate and equipment are as follows:

	2014	2013
Real estate	$ 80,530	$ 83,922
Software and equipment	118,799	207,760
Total	**199,329**	**291,682**
Less accumulated depreciation and amortization	(135,606)	(175,776)
Less nonadmitted assets	(12,836)	(75,031)
Real estate and equipment—net	**$ 50,887**	**$ 40,875**

Depreciation and amortization expense was $31,675 and $33,470 for the years ended December 31, 2014 and 2013, respectively.

Effective December 18, 2014, the Company sold certain of its computer software, furniture and fixtures to a third party bank for $52,325, which were previously nonadmitted assets. Concurrently, the Company leased back these assets under a five year lease with a monthly rental of $936, including interest. This lease contains a bargain purchase option at the end of the lease term. In accordance with the accounting standards, the Company has deferred a gain of $4,222 associated with this transaction, which will be recognized ratably over the lease period.

TRANSACTIONS WITH RELATED PARTIES

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Lifetime Health Medical Group ("LHMG")—This affiliate provided comprehensive medical and physician services in its health care facilities to the members of various lines of business of the Company on a capitated and fee for service basis prior to January 1, 2014. Effective January 1, 2014, services were rendered solely on a fee for service basis. Amounts paid to LHMG for these services totaled $25,934 and $81,791 in 2014 and 2013, respectively.

The Company provides administrative services to LHMG. Administrative services reimbursement totaled $6,521 and $8,163 in 2014 and 2013, respectively. The Company owns certain properties occupied by LHMG. Annual rental charges for these facilities under the lease agreement were $1,531 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014, LHMG owed the Company $9,539 and at December 31, 2013, the Company owed LHMG $279. The net receivable from this affiliate at December 31, 2014, was a non-admitted asset under New York State Department of Financial Services regulations as it was over 90 days past due. As such, it was not reported in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company has committed to funding, as necessary, LHMG's operations through March 31, 2016, 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 2014 and 2013 in the amount of $25,779 and $24,141, 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, 2014 and 2013, were $6,003 and $6,532, for these costs and expenses, respectively.

The Company leases office space and equipment to Lifetime Care. During 2014 and 2013, total rental income under this lease was $748 each year.

The net receivable from this affiliate was $750 and $1,386 at December 31, 2014 and 2013, respectively, and is included in due from parent, subsidiaries and 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, 2014 and 2013, were $13,454 and $13,318, respectively. The amount due from this subsidiary was $829 and $804 at December 31, 2014 and 2013, respectively, and is included in due from parent, subsidiaries and affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company contributed additional capital to MedAmerica of $9,500 and $10,500 in 2014 and 2013, 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 $1,150,087 at December 31, 2014. 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, 2014 or 2013. 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 UCH, a prepaid health services plan which primarily provides 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 $16,646 and $18,645 for the years ended December 31, 2014 and 2013, respectively. The Company had a receivable from UCH of $10,090 and $10,242 at December 31, 2014 and 2013, respectively, which is included in due from parent, subsidiaries and 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 2014 and 2013, the Company made a net capital contribution to the IPA in the amount of $5,344 and $2,462, respectively, to fund one-half of the IPA's net loss for each of the respective prior years. The Company included in investments, at December 31, 2014, $5,972 for the IPA's 2014 net loss which will be recognized and contributed in 2015.

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 $11,364 and $10,938 at December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Company's workers' compensation liability amounted to $5,679 and $6,284, 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, 2014.

Excellus Acquisition, Inc. ("EAI")—EAI provides certain services to the Company, such as flexible spending account services and brokering various insurance products. The cost of such services totaled $3,910 and $4,681 in 2014 and 2013, 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, 2014 and 2013, were $4,875 and $4,724, respectively. The amount due from this subsidiary was $309 and $720 at December 31, 2014 and 2013, 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.

Lifetime Healthcare, Inc.—During 2014, the Company entered into an assignment agreement whereby it received alternative minimum tax credits from Lifetime Healthcare, Inc., in the amount of $2,818 in exchange for cash.

CLAIMS PAYABLE 5

Activity in the claims payable liability at December 31, 2014 and 2013, which includes the liability for claims adjustment expense, is summarized as follows:

	2014	2013
Beginning claims payable at January 1	$ 488,811	$ 517,281
Change in health care receivables and claims adjustment expense	53,854	(2,464)
Incurred related to:		
Current year	5,256,830	5,713,132
Prior years	(47,994)	(51,152)
Total incurred	**5,208,836**	**5,661,980**
Paid related to:		
Current year	4,919,388	5,291,054
Prior years	352,617	396,932
Total paid	**5,272,005**	**5,687,986**
Ending claims payable at December 31	**$ 479,496**	**$ 488,811**

As a result of changes in estimates of insured events in prior years, the provision for claims payable and claims expenses decreased by $47,994 and $51,152 in 2014 and 2013, 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 $0 and $11,000 was established at December 31, 2014 and 2013, respectively. The 2013 reserve was 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 was due to an anticipated shortfall of premium revenue from New York State over a 14 month period subsequent to 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 years ended December 31, 2014 and 2013, consisted of the following:

	2014	2013
Balance January 1	$ 11,000	$ 43,900
Change in Reserve		(4,600)
Amortization	(11,000)	(28,300)
Balance December 31	**$ –**	**$ 11,000**

The Company incurred claims adjustment expenses of $220,216 and $228,887 in 2014 and 2013, 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 expense reserve for 2014 and 2013:

	2014	2013
Total claims adjustment expenses incurred	$ 220,216	$ 228,887
Less current year unpaid claims adjustment expenses	(17,455)	(17,477)
Add prior year unpaid claims adjustment expenses	17,477	20,506
Total claims adjustment expenses paid	**$ 220,238**	**$ 231,916**

INCOME TAXES 6

The Company, along 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) files 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 $(10,489) and $9,816 as of December 31, 2014 and 2013, 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, 2014 and 2013, are as follows:

	2014			2013			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$346,055	$ 3,488	$349,543	$279,809	$ 2,528	$282,337	$ 66,246	$ 960	$ 67,206
Adjusted gross deferred tax assets	346,055	3,488	349,543	279,809	2,528	282,337	66,246	960	67,206
Nonadmitted deferred tax assets	(134,782)	(3,396)	(138,178)	(84,396)	(2,475)	(86,871)	(50,386)	(921)	(51,307)
Admitted adjusted gross deferred tax assets	211,273	92	211,365	195,413	53	195,466	15,860	39	15,899
Gross deferred tax liabilities	(20,401)	(50,078)	(70,479)	(2,546)	(51,508)	(54,054)	17,855	1,430	(16,425)
Net admitted adjusted gross deferred tax assets	**$190,872**	**$ (49,986)**	**$140,886**	**$192,867**	**$ (51,455)**	**$141,412**	**$ (1,995)**	**$ 1,469**	**$ (526)**
Federal income taxes paid in prior years recoverable through loss carrybacks	$ 3,431	$ 65	$ 3,496	$ 2,880	$ 53	$ 2,933	$ 551	$ 12	$ 563
Adjusted gross DTA expected to be realized after application of threshold limitation	137,363	27	137,390	138,478		138,478	(1,115)	27	(1,088)
Adjusted gross DTA to offset DTL	70,479		70,479	54,055		54,055	16,424		16,424
Admitted adjusted gross deferred tax assets	**$211,273**	**$ 92**	**$211,365**	**$195,413**	**$ 53**	**$195,466**	**$ 15,860**	**$ 39**	**$ 15,899**

The ratio percentage used to determine recovery period and threshold limitation amount was 520%. The adjusted capital and surplus used to determine the recovery period and threshold limitation was $1,004,968. As a result, the deferred tax asset admissible under paragraph 11.b. of SSAP No. 101, *Income Taxes*, 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:

	2014	2013
Federal income tax—operating	$ 15,895	$ (11,617)
Federal income tax—capital gains	19,810	25,010
	$ 35,705	**$ 13,393**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2014 and 2013, are as follows:

	2014	2013	Change	Character
Deferred tax assets:				
Alternative minimum tax credit carryforwards	$ 74,769	$ 96,193	$ (21,424)	Ordinary
Investments	4,008	3,041	967	Ordinary/Capital
Accounts receivable allowances	5,740	10,532	(4,792)	Ordinary
Real estate and fixed assets	17,765	19,812	(2,047)	Ordinary
Nonadmitted assets	30,502	28,396	2,106	Ordinary
Claims payable	1,482	1,979	(497)	Ordinary
Premium deficiency reserve		3,850	(3,850)	Ordinary
Accrued expenses	25,858	24,898	960	Ordinary
Pension and postretirement benefit obligations	189,419	90,471	98,948	Ordinary
Other		3,165	(3,165)	Ordinary
Total deferred tax assets	**349,543**	**282,337**	**67,206**	
Nonadmitted deferred tax assets	(138,178)	(86,871)	(51,307)	
Admitted deferred tax assets	**211,365**	**195,466**	**15,899**	
Deferred tax liabilities:				
Investments	(52,165)	(54,054)	1,889	Ordinary/Capital
Sale leaseback liability	(18,314)		(18,314)	Ordinary
Pension				Ordinary
Total deferred tax liabilities	**(70,479)**	**(54,054)**	**(16,425)**	
Net admitted deferred tax assets	**$ 140,886**	**$ 141,412**	**$ (526)**	

The change in AMT credit carry forwards was $(21,424) and $10,941 as of December 31, 2014 and 2013, respectively. Including AMT credits assigned to EHP from MedAmerica in 2013 and Lifetime Healthcare, Inc., in 2014 (Note 4), the amount of AMT credit carry forwards remaining at December 31, 2014, was $74,769. 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, the limitation on deductibility of compensation, and the health insurance industry fee which became effective for 2014.

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

RESERVE AND UNASSIGNED FUNDS 7

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, 2014 and 2013, the Company was in compliance with these requirements.

The Company is required by the New York State Insurance Law and 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, 2014 and 2013, the Company was in compliance with these requirements.

The Company has reclassified from unassigned funds to special surplus $128,415 representing the estimated 2015 health insurance industry fee imposed by the ACA at December 31, 2014 (see Note 1).

PENSION AND POSTRETIREMENT BENEFITS OBLIGATION

8

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.

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 2014 and 2013.

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, 2014 and 2013, are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 861,798	$ 913,519	$ 131,806	$ 100,489
Service cost	26,340	27,751	6,369	6,316
Interest cost	41,659	38,057	6,100	4,935
Actuarial loss (gain)	(205,998)	(102,069)	62,100	(9,287)
Recognition of non-vested		6,408		34,435
Participant contributions			740	611
Benefits paid	(23,694)	(21,868)	(6,183)	(5,693)
Benefit obligation at end of year	**$ 1,112,101**	**$ 861,798**	**$ 200,932**	**$ 131,806**
Accumulated benefit obligation	**$ 933,736**	**$ 724,590**	**not applicable**	**not applicable**
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 695,528	$ 602,536	$ –	$ –
Actual return on plan assets	64,968	111,581		
Employer contributions	5,562	4,333	5,443	5,082
Participants' contributions			740	611
Benefits and expenses paid	(25,063)	(22,922)	(6,183)	(5,693)
Fair value of plan assets at end of year	**740,995**	**695,528**	**–**	**–**
Funded status	**(371,106)**	**(166,270)**	**(200,932)**	**(131,806)**
Unamortized prior service costs		(132)	6,586	7,120
Unamortized prior service costs, non-vested		(3,204)	(17,218)	(25,827)
Unamortized net loss	(343,372)	(156,649)	(80,892)	(19,466)
	(343,372)	**(159,985)**	**(91,524)**	**(38,173)**
Net amount recognized	**$ 27,734**	**$ 6,285**	**$ 109,408**	**$ 93,633**

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Amounts recognized in the statement of admitted assets, liabilities, and reserve and unassigned funds consist of:				
Prepaid pension (non-admitted)	85,877	108,220	$ –	$ –
Overfunded Plan Asset—contra (non-admitted)	(85,877)	(108,220)		
Accrued liability	371,106	166,270	171,508	93,633
Unassigned funds	(343,372)	(159,985)	(62,100)	
	$ 27,734	**$ 6,285**	**$ 109,408**	**$ 93,633**
Amounts in unassigned funds recognized as a component of net periodic benefit cost:				
Beginning of year	$ 159,985	$ 367,786	$ –	$ 23,006
Transition liability deferred as of beginning of year			38,173	
Net prior service cost recognized	(3,336)	(3,411)	(8,075)	(8,075)
Non-vested prior service cost		6,408	–	34,436
Net loss (gain) arising during the period	192,771	(166,225)	62,100	(9,287)
Net loss recognized	(6,048)	(44,573)	(674)	(1,907)
End of year	343,372	159,985	91,524	38,173
Transition liability deferred as of end of year			(29,424)	(38,173)
Amount recognized in unassigned funds as of end of year	**$ 343,372**	**$ 159,985**	**$ 62,100**	**$ –**
Amounts recognized in unassigned funds that have not yet been recognized as components of net periodic benefit cost:				
Prior service cost	$ –	$ 132	$ (6,586)	$ (7,120)
Prior service cost non-vested		3,204	17,218	25,827
Net loss	343,372	156,649	80,892	19,466
Deferred transition liability			(29,424)	(38,173)
	$ 343,372	**$ 159,985**	**$ 62,100**	**$ –**
Amounts in unassigned funds, or remaining transition liability, expected to be recognized in net periodic benefit cost next year:				
Prior service costs	$ –	132	(534)	(534)
Prior service cost non-vested		3,204	8,609	8,609
Net loss	37,045	4,331	6,718	673
	$ 37,045	**7,667**	**$ 14,793**	**$ 8,748**

Plan Costs

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Components of net periodic benefit cost:				
Service cost—including plan administration costs	$ 26,894	$ 28,867	$ 6,369	$ 6,316
Interest cost	42,160	38,057	6,100	4,935
Expected return on plan assets	(51,427)	(47,486)		
Amortization of net loss	6,048	44,573	674	1,907
Amortization of prior service cost—non-vested transition	3,204	3,204	8,609	8,609
Amortization of prior service cost	132	207	(534)	(534)
Total net periodic benefit cost	**$ 27,011**	**$ 67,422**	**$ 21,218**	**$ 21,233**
(Credit) charge for additional minimum pension liability included in unassigned funds		**not applicable**		

The Company recognized net periodic pension and other postretirement benefit costs of $46,103 and $82,147 and allocated $2,125 and $6,508 to affiliates participating in the plans in 2014 and 2013, 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, 2014 and 2013, by asset category are as follows:

Asset Category	2014	2013
Cash and cash equivalents	2 %	2 %
Domestic equity securities	49	49
International equity securities	11	12
Fixed income securities	20	19
Real estate	8	7
Hedge funds and other	10	11
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, 2014 and 2013, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
Weighted-average assumptions used to determine the benefit obligation at year-end:				
Discount rate	3.99%	4.96%	4.00%	4.75%
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	4.96%	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
Expected long-term rate of return on plan assets	7.5%	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 (pre-65/post-65)	not applicable	not applicable	8%/6.5%	9%/7%
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

The increase in the benefit obligations in 2014 was primarily due to actuarial losses arising as a result of the new mortality tables and a lower discount rate.

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	$ 2,986	$ (2,383)
Effect on postretirement benefit obligation	32,149	(26,074)

The remaining deferred transition liability associated with the Company's other postretirement benefits is expected to be realized as follows:

Estimated recognition during 2015	$ 14,793
Estimated recognition during 2016	13,948
Estimated recognition during 2017	683
Total	**$ 29,424**

Cash Flows

Contributions

The Company expects to make contributions to its pension and other postretirement benefit plans in 2015 of approximately $13,000.

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
2015	$ 26,386	$ 7,424
2016	28,132	7,830
2017	31,126	8,446
2018	33,938	9,032
2019	37,410	9,777
2020–2024	245,871	57,873

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 $2,580 and $2,465 in 2014 and 2013, respectively.

FAIR VALUE MEASUREMENT

9

Certain assets in the statements 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 and Equity Securities (including Closed Ended Fixed Income Funds)—Fair values of debt and equity securities 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 are based on quoted market prices for actively traded equity securities or other market data for the same or comparable instruments and transactions in establishing the prices.

Mutual Funds—Mutual funds are valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

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 NAV of shares held.

In addition, the following methods and assumptions were used to determine the fair value of alternative pension benefit plan assets not defined above:

Common and Collective Trusts—Common and collective trusts are valued at NAV based on the underlying assets of the trust. The fair value of the underlying assets is obtained from information provided by the investment advisor using the audited financial statements of the common and collective trusts at year end. There are no restrictions on redemptions in these investments.

Venture Capital and Private Equity Funds—These funds are valued at estimated fair value based on the proportionate share of the fund fair value as recorded in the funds' audited financial statements. Gains, losses and expenses are allocated to the partners based on the ownership percentage as described in the partnership agreements and therefore use level 3 inputs in determining fair value.

Hedge and Other Real Estate Funds—These funds are valued at NAV based on the underlying assets of the fund. The fair value of the underlying assets is obtained from information provided by the funds' audited financial statements.

Alternative pension plan investment securities for which the Company has the ability to redeem the investment with the investee at NAV per share (or its equivalent) at the measurement date or in the near term (90 days) are classified as Level 2. Alternative pension plan investment securities for which the Company does not have the ability to redeem the investment with the investee at NAV per share (or its equivalent) at the measurement date or in the near term (90 days) are classified as Level 3.

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, 2014	Admitted Assets	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Short term investments	$ 75,534	$ 59,568	$ 16,193	$ –	$ 75,761
Debt securities:					
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 166,393	$ –	$ 171,416	$ –	$ 171,416
U.S. Agency mortgage-backed securities	328,246		335,252		335,252
States and municipal obligations	28,080		30,285		30,285
Residential mortgage-backed securities	9,292		8,977		8,977
Commercial mortgage-backed securities	113,148		115,289		115,289
Other asset backed securities	94,641		94,814		94,814
Corporate obligations	304,929		316,819		316,819
Corporate convertible obligations	362,234		452,333		452,333
Total debt securities	1,406,963	–	1,525,185	–	1,525,185
Equity securities:					
Mutual funds	381,996	381,996			381,996
Common stocks	44,759	41,052		3,707	44,759
Preferred stocks	7,637	2,330	5,307		7,637
Total equity securities	434,392	425,378	5,307	3,707	434,392
Total debt and equity securities	$1,841,355	$ 425,378	$ 1,530,492	$ 3,707	$ 1,959,577
Securities lending collateral	$ 147,476	$ 147,476	$ –	$ –	$ 147,476

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
Short term investments	$ 80,330	$ 68,668	$ 13,493	$ –	$ 82,161
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

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, 2014	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 763	$ –	$ –	$ 763
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ –	$ 69,934	$ –	$ 69,934
U.S. Agency mortgage-backed securities		922		922
States and municipal obligations		5,256		5,256
Commercial mortgage-backed securities		–		–
Other asset backed securities		524		524
Corporate obligations		56,589		56,589
Total debt securities	–	133,225	–	133,225
Equity securities:				
Mutual funds	160,507			160,507
Common stocks	44,989	92		45,081
Preferred stocks	135			135
Fixed income funds	13,219			13,219
Total equity securities	218,850	92	–	218,942
Alternative securities:				
Common collective trusts		249,358		249,358
Venture capital funds			4,376	4,376
Private equity funds			3,059	3,059
Hedge funds			69,862	69,862
Other real estate		61,410		61,410
Total alternative securities	–	310,768	77,297	388,065
Total	$ 219,613	$ 444,085	$ 77,297	$ 740,995

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 stocks	47,762			47,762
Preferred stocks	323			323
Fixed income funds	13,023			13,023
Total equity securities	**215,662**	**–**	**–**	**215,662**
Alternative securities:				
Common collective trusts		237,769		237,769
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 alternative securities	**–**	**288,118**	**72,628**	**360,746**
Total	**$ 216,462**	**$ 406,438**	**$ 72,628**	**$ 695,528**

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, 2014 and 2013:

INVESTMENTS— DECEMBER 31, 2014	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 19,262	$ –	$ –	$ 19,262
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				–
Corporate convertible obligations		21,971		21,971
Total debt securities	–	21,971	–	21,971
Equity securities:				
Mutual funds	381,996			381,996
Common stocks	41,052		3,707	44,759
Preferred stocks	2,330	5,307		7,637
Total equity securities	425,378	5,307	3,707	434,392
Total	$ 425,378	$ 27,278	$ 3,707	$ 456,363
Securities lending collateral	$ 147,476	$ –	$ –	$ 147,476

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

During the years ended December 31, 2014 and 2013, the changes in the fair value of the assets reported at fair value measured using significant unobservable inputs (Level 3) were comprised of the following:

	Non-Pension Investments	Pension Investments		
	Common Stock	Hedge Funds	Venture Capital Funds	Private Equity Funds
2014				
Beginning balance—January 1, 2014	$ 3,986	$ 66,309	$ 5,095	$ 1,224
Net return on assets (realized/unrealized)	(279)	3,553	(12)	88
Purchases			160	1,804
Sales			(867)	(57)
Balance—December 31, 2014	**$ 3,707**	**$ 69,862**	**$ 4,376**	**$ 3,059**
2013				
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**

DEBT AND OTHER LIABILITIES 10

The Company's debt and other liabilities as of December 31, 2014 and 2013, consisted of the following:

	2014	2013
Loan agreement	100,000	142,500
Credit agreement	104,000	100,000
Loan agreement accrued interest		608
Total debt	**$ 204,000**	**$ 243,108**
Liability—Uncollateralized portion of Ventures letter of credit	**134,202**	**123,394**
Total debt and other liabilities	**$ 338,202**	**$ 366,502**

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.

The Company has two agreements with a syndicate of banks. The first was a $100,000 Credit Agreement (the "2013 Credit Agreement") which matured on July 17, 2014, and permitted borrowing and repayment until that time. Borrowings bore 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 2013 Credit Agreement at December 31, 2013, which approximated its fair value. The 2013 Credit Agreement contained certain financial covenants pertaining to capitalization ratio, surplus and risk-based capital. On July 16, 2014, the Company replaced the 2013 Credit Agreement with a $150,000 Credit Agreement (the "2014 Credit Agreement") which matures on July 15, 2015, and borrowing and repayments are permitted until that time. Borrowings bear interest at 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, 2014, was 1.125%. There was $104,000 outstanding under the 2014 Credit Agreement at December 31, 2014, which approximates fair value. The 2014 Credit Agreement contains certain financial covenants pertaining to capitalization ratio, surplus and risk-based capital. At December 31, 2014, the Company was in compliance with the financial covenants.

The second agreement was a $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, 2014 and 2013, a balance of $100,000 and $143,108, respectively, was outstanding under the Loan Agreement, including $0 and $608 of accrued interest, respectively. The fair value of the Loan Agreement at December 31, 2014, and 2013, was $99,781 and $142,052, respectively.

The principal payments on the Loan Agreement are as follows:

2015	40,000
2016	40,000
2017	20,000
2018	–
2019	–
	$ 100,000

Pursuant to the Loan Agreement, investment securities with a minimum fair value of $133,333 and $190,000 were pledged as collateral as of December 31, 2014 and 2013, respectively.

Included in debt and other liabilities at December 31, 2014 and 2013, as required by the Superintendent, is a liability of $134,202 and $123,394, 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 $3,316 during 2014 and $2,711 during 2013.

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

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, 2014 and 2013, was as follows:

	2014	2013
Total net loss from operations	$ (14,001)	$ (21,042)
Claims payment volume	$ 940,014	$ 743,151

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, 2014 and 2013, was as follows:

	2014	2013
Gross reimbursement for medical cost incurred	$ 516,593	$ 572,316
Gross administrative fees recognized	22,878	25,700
GROSS EXPENSES INCURRED (CLAIMS AND ADMINISTRATIVE)	(547,166)	(614,221)
Total net loss from operations	$ (7,695)	$ (16,205)

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. Amounts received for these subsidies are reflected as a reduction to claims expense. For the years ended 2014 and 2013, the Company recorded $69,507 and $44,726 in Catastrophic Reinsurance Subsidies, $24,369 and $21,720 in Low Income Member Cost-Sharing Subsidies, and $22,049 and $18,540 in Coverage Gap Discount, respectively.

PHARMACEUTICAL REBATE RECEIVABLES

12

Pharmacy rebate 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 rebate receivables, 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, 2014	$ 42,543	$ –	$ –	$ –	$ –
September 30, 2014	38,586	29,927	15,029		
June 30, 2014	33,247	32,763	26,345	3,661	
March 31, 2014	30,693	29,696	25,789	3,838	69
December 31, 2013	$ 29,372	$ 30,899	$ 22,022	$ 7,746	$ 50
September 30, 2013	26,979	28,784	23,913	4,329	(1,160)
June 30, 2013	25,512	25,512	21,071	2,685	1,756
March 31, 2013	23,977	23,977	19,525	3,056	1,396

HEALTH CARE REFORM

13

The accompanying statutory basis financial statements include the following amounts associated with the Transitional Reinsurance, Permanent Risk Adjustment, and Risk Corridor, described more fully in Note 1:

PROGRAM	Affected Line Item in the Statutory Basis Financial Statement		As of and For the Year Ended December 31, 2014	
	Statement of Admitted Assets, Liabilities, Reserve and Unassigned Funds	Statement of Income	Statement of Admitted Assets, Liabilities, Reserve and Unassigned Funds Asset/(Liability)	Statement of Income Credit/(Change)
ACA Permanent Risk Adjustment Program				
Premium adjustments	Health care receivable	Premium earned	$ 50,000	$ 50,000
Risk adjustment user fees	Accounts payable and accrued liabilities	Operating expenses	(213)	(213)
ACA Transitional Reinsurance Program				
Amounts recoverable for claims paid due to ACA reinsurance	Health care receivable	Claims expense	$ 20,402	$ 20,402
Amounts owed for the transitional reinsurance program	Accounts payable and accrued liabilities		(7,886)	
Reinsurance contribution for qualified individual members		Premium earned	–	(1,274)
Reinsurance contribution for non-qualified individual members		Operating expenses	–	(46,040)
ACA Temporary Risk Corridor Program				
Amounts recoverable for ACA Risk Corridor	Health care receivable	Premium earned	–	–

COMMITMENTS 14

The Company leases office space, equipment, furniture and fixtures, and computer software under certain noncancelable lease agreements, including assets pertaining to a sale—leaseback transaction described in Note 3. As of December 31, 2014, the annual lease commitment is as follows:

2015	$ 15,968
2016	15,550
2017	15,351
2018	13,965
2019	12,195
Thereafter	635

Rent expense under operating leases totaled $6,587 and $6,992 in 2014 and 2013, respectively.

CONTINGENCIES 15

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.

Regulatory—The New York State Department of Financial Services regularly performs examinations of all New York insurers. The financial examination of the Company for the years 2009–2013 remains open. Management cannot currently reasonably estimate the impact, if any, of the final resolution of the examination. The Department has advised that any potential adjustments as a result of this examination should be recorded by the Company on a prospective basis.

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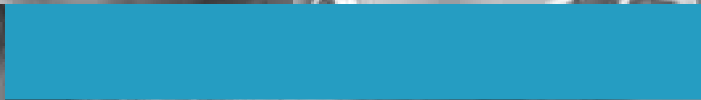

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