

EXCELLUS BLUECROSS BLUESHIELD  
UNIVERA HEALTHCARE  
BEACON NETWORK SERVICES  
EBS-RMSCO  
LIFETIME CARE HOME HEALTH AND HOSPICE  
LIFETIME HEALTH MEDICAL GROUP  
MEDAMERICA  
SIBLEY NURSING PERSONNEL SERVICES  
SUPPORT SERVICES ALLIANCE (SSA)

# FINANCIALS

NEVER FORGETTING WHY WE'RE HERE.  
2010 ANNUAL REPORT



# MANAGEMENT'S REPORT



EMIL D. DUDA  
Senior Executive  
Vice President and  
Chief Financial Officer  
(above)

DAVID H. KLEIN  
President and  
Chief Executive Officer  
(top right)

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 Insurance Department ("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, 2010 AND 2009

### 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 Insurance Department for insurance companies. These principles are required to be used for regulatory purposes and differ from generally accepted accounting principles, as described in Note 1 to the statutory basis financial statements.

### SUMMARY

The Company's net income for 2010 was \$44.5 million, representing 0.9% of premiums earned, as compared to \$46.6 million of net income for 2009, which amounted to 1.0% of premiums earned. The net income for 2010 is the result of underwriting income of \$33.0 million, investment income of \$69.2 million, partially offset by other expenses of \$33.1 million and income tax expense of \$24.1 million.

### REVENUE

The Company had total premiums and premium equivalents on self-funded business of \$6,288 million for 2010, an increase of \$405 million or 6.9%. Total insured revenue as reported was \$5,172 million for 2010 representing an increase of \$279 million or 5.7%, compared with a decline of 1.8% in 2009.

The increase in premium revenue is attributable to enrollment increases across the Company's insured lines of business of 2.5% combined with average premium rate increases of 8.4%, partially offset by rate decreases resulting from the continued migration to lower-cost product options. The product selection mix between managed care and non-managed care products continued its trend away from managed care products. At the end of 2010, 27% of all under-65 members were enrolled in managed care products, down from 29% at the end of 2009.

### EXPENSES

Claims expense of \$4,561 million in 2010 was up 5.3% from 2009 and is reflective of the aforementioned enrollment gains and higher claims trends, offset partially by benefit buy-downs. Excluding the effects of adjustments in estimates related to prior years, the medical loss ratio for 2010 of 89.8% as compared to the 2009 medical loss ratio of 90.2% reflects a moderation of health care expense trends.

Health care expense trends in 2010 continued to exceed the rate of inflation, although, due to typically low utilization by new members, utilization was somewhat suppressed. For our commercial group business in total, annualized claim trends in 2010 declined from 8.0% early in the year to 5.0% later in the year. The utilization increase of 0.8% was driven primarily by outpatient and prescription drug use as inpatient services continue to shift to outpatient and as prescription drug use continues to rise. The overall unit cost trend of 4.0% was driven primarily by inpatient and outpatient cost increases of about 6.0% and 5.7% respectively.

The Company's operating expenses, of \$578.5 million, increased by \$10.4 million over 2009. This 1.8% increase is attributable to (1) an increase in broker commissions of \$27.3 million attributable to member gains in 2010, (2) a \$4.0 million increase in expenses associated with Medicare revenue management initiatives, offset by (3) a decrease in expenses related to New York State Insurance Department assessments of \$21.5 million.

Other expenses of \$33.1 million in 2010 include debt forgiveness of \$33 million owed by an affiliate in 2010.

### 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 subject to an effective federal tax rate of 20%, the corporate alternative minimum tax (AMT) rate, rather than the statutory federal corporate tax rate of 35% as a result of its use of AMT tax credits. The Company's income tax expense for 2010 was \$24.1 million is comparable to its income tax expense for 2009 of \$21.7 million.

## INVESTMENTS

The Company's cash and investments, excluding real estate, increased by \$171.2 million, or 10.7%, from \$1,592.6 million at December 31, 2009, to \$1,763.8 million at December 31, 2010. This increase, which includes subsidiary operating results, is due primarily to unrealized gains, before tax effect, of \$32.1 million, realized gains of \$30.3 million, both of which are due to the continued improvement in the investment markets in 2010, plus cash generated by operating and investing activities as described in the Liquidity and Capital Resources section below.

As of December 31, 2010, the investment portfolio consisted of 10.6% investment in subsidiaries, 20.4% equity mutual funds, 10.6% U.S. and U.S. Agency bonds (excluding mortgage-backed securities), 20.4% mortgage-backed securities (principally U.S. government agency), 33.0% other bonds (including convertible bonds) and 5.0% cash and cash equivalents, which includes routine operating cash balances. The Company must comply with various laws and regulatory requirements on permitted investments. The Company's internal investment policy for bonds allows only investment-grade acquisitions. The Company does not make investments in income-producing real estate.

Net interest and dividend income decreased \$5.4 million or 12.2% to \$38.9 million in 2010 primarily due to lower investment yields associated with the Company's debt securities. The Company realized investment gains of \$30.3 million in 2010 which is comparable to the \$31.0 million of investment gains in 2009. The unrealized appreciation on investments in unassigned funds for 2010 of \$17.8 million, net of tax, includes the effect of market value changes in investments in common stock and subsidiary operating results. The Company's unrealized appreciation on its debt securities, which amounted to \$81.2 million at December 31, 2010, is not reflected in unassigned funds because of statutory reporting requirements to carry debt securities at amortized cost.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010, total cash, cash equivalents, and investments exceeded total liabilities by \$472.7 million, demonstrating the Company's strong ability to pay its obligations as they come due. Net cash flows from operating activities increased \$94.1 million, from \$53.3 million in 2009 to \$147.4 million in 2010. This increase resulted primarily from a higher underwriting gain in 2010, increases in claims payable resulting from membership gains, and the effect of changes in the Company's payable balances with the Centers for Medicare and Medicaid Services (CMS) related to the Medicare Advantage, Medicare Part D, and Medicare Cost programs.

Net cash used in investing activities decreased \$59.1 million in 2010 primarily as a result of decrease in the usage of cash in 2010 for the purchase of investments.

Net cash used for financing activities decreased by \$14 million in 2010 due to the payment in full of the Company's outstanding senior notes in 2009.

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, 2010, the Company had a receivable of \$42.8 million due from the State of New York representing premium payments due under the Medicaid and Family Health Plus programs. The Company regularly monitors and evaluates such balances and recognizes only the amounts deemed probable of realization.

Reserves and unassigned funds of \$1,089.7 million at December 31, 2010, increased \$124.6 million from December 31, 2009. The increase reflects the net income for 2010, the increase in unrealized gains on investments, a reduction of the Company's additional minimum liability for its defined benefit pension plans, and a net decrease in the Company's non-admitted assets in 2010. 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, 2010. The Company's financial strength is rated A- (strong) by Standard & Poor's and B++ (good) by A.M. Best.

## OTHER MATTERS

During the first quarter of 2010, the Patient Protection and Affordable Care Act as well as the Health Care and Education Reconciliation Act of 2010 ("Health Care Reform") were signed into law. Health Care Reform legislation is far reaching and includes provisions for mandatory coverage of benefits, a minimum medical loss ratio for insured business, elimination of lifetime and annual benefit limits and creation of state-based health insurance exchanges. The legislation also reduces the reimbursement levels for health plans participating in the Medicare Advantage program over time. In addition, Health Care Reform imposes certain new taxes and fees, including an excise tax on high premium insurance policies, limitations on the amount of compensation that is tax deductible and new fees on companies in the health insurance industry, some of which will not be deductible for income tax purposes. While certain provisions of the law took effect in 2010, others are scheduled to take effect from 2011 through 2018.

While management is currently unable to estimate the full impact of Health Care Reform on the Company's future results of operations, and its financial condition and liquidity due to uncertainties related to interpretation and timing of its many provisions, it is possible that the ultimate impact of this legislation could have a material effect on the Company's results of operations. Management, through its internal steering committee, continues to closely monitor the Company's implementation of the law, report on the Company's compliance with Health Care Reform, and assess potential opportunities arising from Health Care Reform.

# INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF  
EXCELLUS HEALTH PLAN, INC.  
ROCHESTER, NEW YORK

We have audited the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis of Excellus Health Plan, Inc. (the "Company") as of December 31, 2010 and 2009, and the related statements of income—statutory basis, changes in reserve and unassigned funds—statutory basis, and cash flows—statutory basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York, and such practices differ from accounting principles generally accepted in the United States of America.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Excellus Health Plan, Inc., as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

However, 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 Excellus Health Plan, Inc., as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Deloitte & Touche LLP  
Rochester, New York  
March 14, 2011

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

(amounts in thousands)  
As of December 31, 2010 and 2009

	2010	2009
<b>ADMITTED ASSETS:</b>		
Cash and cash equivalents	\$ 88,028	\$ (6,215)
Investments	1,675,810	1,598,832
Accounts receivable:		
Premiums	161,493	175,930
Health care	345,707	331,912
Due from parent, subsidiaries, and affiliates	4,984	3,074
Interest	7,805	7,751
Other	1,218	1,222
<b>Total accounts receivable</b>	<b>521,207</b>	<b>519,889</b>
Real estate and equipment—net	43,340	45,604
Deferred tax assets	52,458	42,316
<b>Total admitted assets</b>	<b>\$ 2,380,843</b>	<b>\$ 2,200,426</b>
<b>LIABILITIES, RESERVE AND UNASSIGNED FUNDS:</b>		
Claims payable	\$ 566,205	\$ 545,401
Unearned premiums and policy reserves	159,109	128,651
Accounts payable and other liabilities	320,312	292,285
Due to parent and affiliates	221	537
Pension and postretirement benefits obligations	239,825	262,999
Debt	5,500	5,500
<b>Total liabilities</b>	<b>1,291,172</b>	<b>1,235,373</b>
<b>RESERVE AND UNASSIGNED FUNDS:</b>		
Statutory reserve	646,803	611,017
Unassigned funds	442,868	354,036
<b>Total reserve and unassigned funds</b>	<b>1,089,671</b>	<b>965,053</b>
<b>Total liabilities, reserve and unassigned funds</b>	<b>\$ 2,380,843</b>	<b>\$ 2,200,426</b>

See notes to statutory basis financial statements.

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

(amounts in thousands)  
For the years ended December 31, 2010 and 2009

	2010	2009
Premiums earned	\$ 5,172,151	\$ 4,892,916
Claims expense	4,560,649	4,331,394
<b>Premiums earned over claims expense</b>	<b>611,502</b>	<b>561,522</b>
Operating expenses	578,531	568,103
<b>Underwriting gain (loss)</b>	<b>32,971</b>	<b>(6,581)</b>
Interest expense	571	546
Investment income:		
Interest and dividends earned—net of investment expenses	38,938	44,359
Realized gain on investments—net	30,261	31,027
<b>Total investment income</b>	<b>69,199</b>	<b>75,386</b>
Other expense	(33,064)	(8)
<b>Income before income taxes</b>	<b>68,535</b>	<b>68,251</b>
Income taxes	24,084	21,685
<b>Net income</b>	<b>\$ 44,451</b>	<b>\$ 46,566</b>

See notes to statutory basis financial statements.

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

(amounts in thousands)  
For the years ended December 31, 2010 and 2009

	RESERVE REQUIRED BY STATUTE	UNASSIGNED FUNDS
<b>BALANCE—January 1, 2009</b>	<b>\$ 622,373</b>	<b>\$ 349,492</b>
Net income		46,566
Decrease in statutory reserve	(11,356)	11,356
Decrease (increase) in nonadmitted assets:		
Investments		(2,173)
Premium receivables		(152)
Health care receivables		(3,190)
Due from parent and affiliates		(929)
Other receivables		5,834
Real estate, furniture, software and equipment		(17,629)
Deferred taxes		(16,658)
Change in deferred taxes		6,036
Change in additional pension liability		(82,423)
Unrealized depreciation on investments		57,906
<b>BALANCE—December 31, 2009</b>	<b>\$ 611,017</b>	<b>\$ 354,036</b>
Net income		44,451
Increase in statutory reserve	35,786	(35,786)
Decrease (increase) in nonadmitted assets:		
Investments		(184)
Premium receivables		68
Health care receivables		(19,473)
Due from parent and affiliates		34,537
Other receivables		(487)
Real estate, furniture, software and equipment		(8,145)
Deferred taxes		32,014
Change in deferred taxes		3,476
Change in additional pension liability		20,544
Unrealized appreciation on investments		17,817
<b>BALANCE—December 31, 2010</b>	<b>\$ 646,803</b>	<b>\$ 442,868</b>

See notes to statutory basis financial statements.

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Premiums and other considerations received	\$ 5,200,647	\$ 4,926,029
Claims expenses paid	(4,539,198)	(4,364,585)
Operating expenses paid	(537,003)	(549,288)
<b>Net cash provided by underwriting activities</b>	<b>124,446</b>	<b>12,156</b>
Interest and dividends received (net of investment expenses)	49,726	47,115
Federal income taxes paid	(26,733)	(6,010)
<b>Net cash provided by operating activities</b>	<b>147,439</b>	<b>53,261</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from investments sold, matured or repaid:		
Bonds	731,320	803,707
Stocks	127,981	50,542
Real estate and equipment	550	
Cost of investments acquired:		
Bonds	(783,332)	(830,620)
Stocks	(102,171)	(77,217)
Subsidiaries		(20,500)
Real estate, software, furniture and equipment	(27,544)	(30,170)
Due to investment brokers		(8,000)
<b>Net cash used in investing activities</b>	<b>(53,196)</b>	<b>(112,258)</b>
FINANCING ACTIVITIES—Principal payments on debt	—	(14,142)
OTHER CASH PROVIDED	—	183
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>94,243</b>	<b>(72,956)</b>
CASH AND CASH EQUIVALENTS—Beginning of year	(6,215)	66,741
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b>\$ 88,028</b>	<b>\$ (6,215)</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$ 44,451	\$ 46,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,053	14,266
Amortization of bond premium	11,404	4,037
Realized (gains) on investments	(30,261)	(31,027)
Realized loss on fixed assets	74	8
Decrease (increase) in accounts receivable	13,314	(21,850)
Increase (decrease) in claims payable	20,804	(13,644)
Increase in unearned premiums	30,457	43,274
Increase (decrease) in accounts payable and other liabilities	28,027	(4,110)
(Increase) decrease in due from parent	(316)	537
Increase in pension and other postretirement benefits obligations	8,432	15,204
<b>Net cash provided by operating activities</b>	<b>\$ 147,439</b>	<b>\$ 53,261</b>

NONCASH INVESTING AND FINANCING ACTIVITIES—During 2010, the Company forgave \$33,000 of indebtedness owed by an affiliate. In addition, the Company contributed capital of \$20,000 in the form of debt securities to a subsidiary in 2010.

See notes to statutory basis financial statements.

## NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009  
(DOLLAR AMOUNTS IN THOUSANDS)

### 1. DESCRIPTION OF ORGANIZATION, BUSINESS, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 corporate 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 (“Excellus Acquisition”)	100% owned by the Company
Excellus Ventures, Inc., and Subsidiaries	100% of voting shares owned by Lifetime Healthcare, Inc., and 100% of nonvoting shares 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 corporate member
Univera Community Health, Inc.	The Company is one of two corporate members, effective October 1, 2010

**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 Insurance Department (“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 Insurance (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). Updates to this manual, including new Statements of Statutory Accounting Principles (SSAP), 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 exception from NAIC SAP which pertains 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. In addition, the Superintendent has required the Company to record a \$5,500 liability associated with the Company’s guarantee of an affiliate’s obligation (refer to Note 9). The Superintendent also has the right to permit other specific practices that may deviate from prescribed practices.

A reconciliation of the Company's unassigned funds between NAIC SAP and practices prescribed and permitted by the State of New York that affect reserves and unassigned funds at December 31, 2010 and 2009, is shown below:

	2010	2009
Total reserves and unassigned funds—as reported	\$ 1,089,671	\$ 965,053
State prescribed practices—Community Health Foundation liability	5,500	5,500
<b>Total reserves and unassigned funds in conformity with NAIC SAP</b>	<b>\$1,095,171</b>	<b>\$ 970,553</b>

Accounting practices as prescribed or permitted under statutory authority which may vary from GAAP:

**Investments in Debt Securities**—Debt securities are stated at amortized cost. 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 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. Other than temporary impairments due to credit 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 would be recognized as a realized loss.

**Investments in Subsidiaries**—Investments in insurance subsidiaries are stated at the statutory net equity of the subsidiaries. Investments in non-insurance subsidiaries which report on a GAAP basis are stated at the GAAP net equity of those subsidiaries. The net change in the Company's investments in subsidiaries is included in unassigned funds. 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 controlled affiliates as these net assets are not available for use by the Company. Non-profit 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 controlled affiliates are consolidated.

**Nonadmitted Assets**—NAIC SAP, New York State Insurance Law and New York State Insurance Department regulations do not allow certain assets to be included in statutory 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; deferred tax assets to the extent they do not reverse or are realizable within one year and exceed 10% of statutory capital and surplus, offset by existing deferred tax liabilities; provider advances and claim overpayment receivables that do not meet specific conditions of setoff, reconciliation, and settlement terms or are in excess of the payable to the provider for incurred claims. The net change in nonadmitted assets is charged or credited directly to unassigned funds. Nonadmitted assets are not a relevant concept under GAAP.

**Health Care Receivables**—Health care receivables are comprised primarily of pharmaceutical rebate receivables, loans and advances to providers, claim overpayment receivables, 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.

**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 Lifetime Healthcare, Inc. 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. Deferred tax assets are admitted to a limited extent based on reversal and realizability within one year, not to exceed 10% of statutory capital and surplus, plus the offset of remaining deferred tax assets against existing deferred tax liabilities. The change in deferred tax assets and liabilities is recognized as a separate component of gains/losses in unassigned funds. 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. In addition, effects of net operating loss carryforwards are not reported for statutory purposes while such items are reported for GAAP purposes.

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

**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. Under NAIC SAP, the pension and postretirement benefits accrual is based on only the vested obligation to employees and retirees and the amount of unfunded benefits are disclosed in the notes to the financial statements. For GAAP purposes, nonvested obligations are included and the unfunded status of the Company's pension and postretirement plans is reflected as a liability on its statement of financial position. Under NAIC SAP, an additional minimum liability is recorded for pension plans to the extent of the unfunded accumulated benefit obligation. Under GAAP, a liability is recorded to the extent of the unfunded projected benefit obligation for pension plans and for other postretirement benefit plans.

**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.

**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.

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

The differences between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material.

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

**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.

**Centers for Medicare and Medicaid Services (CMS)**—CMS deploys 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.

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. Medicare Advantage premium revenue is reported at estimated net realizable amounts and includes estimated retroactive revenue adjustments associated with current and anticipated future audits and reviews. CMS is currently conducting an audit to validate the coding practices of and supporting documentation maintained by the Company's health care providers.

Net premium income from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of premium earned is 16% for the years ended December 31, 2010 and 2009.

**Restricted Cash**—The Company had a restricted cash balance of \$2,127 and \$2,891 as of December 31, 2010 and 2009, respectively. These funds are restricted for payment of Federal Employee Program claims and are included in Cash and Cash Equivalents in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

**Investments in Equity Securities**—Common and preferred stocks are valued using Procedures for Valuing Common Stocks and Warrants of the Securities Valuation Office (SVO) of the NAIC, which approximates 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.

**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. At December 31, 2010 and 2009, amounts included in real estate and equipment are as follows:

	2010	2009
Real estate	\$ 98,506	\$ 107,098
Software and equipment	135,246	149,040
<b>Total</b>	<b>233,752</b>	<b>256,138</b>
Less accumulated depreciation & amortization	115,510	143,777
Less nonadmitted assets	74,902	66,757
<b>Real estate and equipment—net</b>	<b>\$ 43,340</b>	<b>\$ 45,604</b>

Depreciation and amortization expense was \$21,053 and \$14,266 for the years ended December 31, 2010 and 2009, respectively.

On an ongoing basis, the Company assesses whether its real estate and equipment are impaired. No impairment loss was recognized in 2010 or 2009.

The real estate amount is net of a capital lease obligation with a balance of \$2,019 and \$2,133 as of December 31, 2010 and 2009, respectively. Capital lease payments, which are indexed to the Consumer Price Index, are due in monthly installments of \$10 through 2027.

**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, 2010 and 2009, 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 reserves 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.

**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, 2010, the Company had a receivable of \$42,821 due from the State of New York representing premium payments due under the Medicaid and Family Health Plus programs. The Company regularly monitors and evaluates such balances and records only the amounts deemed probable of realization.

**Use of Estimates**—The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**—Subsequent events have been evaluated by the Company through March 14, 2011, the date the financial statements were available to be issued.

**New and Pending Accounting Standards**—Revisions to SSAP No. 5—*Liabilities, Contingencies and Impairment of Assets* require entities to recognize, at the inception of certain guarantees, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. Intercompany and related party guarantees that are considered “unlimited” (e.g., typically in response to rating agency’s requirement to provide a commitment of support), such as the MedAmerica guarantee described in Note 3, are exempt from the initial liability recognition requirements of SSAP No. 5(R). The guidance associated with these revisions is effective as of December 31, 2011, and is not expected to have a material effect on the Company’s financial statements.

## 2. INVESTMENTS

The carrying value and estimated fair values of investments at December 31, 2010 and 2009, were as follows:

2010	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>DEBT SECURITIES:</b>				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 187,189	\$ 5,837	\$ 1,872	\$ 191,154
U.S. Agency mortgage-backed securities	197,873	9,343	1,005	206,211
States and municipal obligations	6,656	223	66	6,813
Residential mortgage-backed securities	10,492	910	67	11,335
Commercial mortgage-backed securities	102,108	11,710	407	113,411
Other asset backed securities	50,108	1,075	27	51,156
Corporate obligations	242,348	14,548	952	255,944
Corporate convertible obligations	332,726	42,527	610	374,643
<b>Total debt securities</b>	<b>1,129,500</b>	<b>\$ 86,173</b>	<b>\$ 5,006</b>	<b>\$ 1,210,667</b>
<b>EQUITY SECURITIES:</b>				
Mutual funds (cost \$275,626)	353,681			
Common stocks (cost \$1,130)	3,609			
Preferred stocks (cost \$862)	1,686			
Subsidiaries	187,334			
<b>Total</b>	<b>\$1,675,810</b>			

2009	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>DEBT SECURITIES:</b>				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 142,143	\$ 3,978	\$ 879	\$ 145,242
U.S. Agency mortgage-backed securities	211,090	10,122	244	220,968
States and municipal obligations	8,229	152	208	8,173
Residential mortgage-backed securities	16,512	567	828	16,251
Commercial mortgage-backed securities	98,257	5,300	4,788	98,769
Other asset backed securities	42,218	1,034	104	43,148
Corporate obligations	245,392	11,427	1,450	255,369
Corporate convertible obligations	321,531	21,855	1,212	342,174
<b>Total debt securities</b>	<b>1,085,372</b>	<b>\$ 54,435</b>	<b>\$ 9,713</b>	<b>\$ 1,130,094</b>
<b>EQUITY SECURITIES:</b>				
Mutual funds (cost \$295,203)	332,394			
Common stocks (cost \$1,130)	3,485			
Preferred stocks (cost \$862)	1,351			
Subsidiaries	176,230			
<b>Total</b>	<b>\$1,598,832</b>			

The carrying value and estimated fair value of debt securities at December 31, 2010, 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	\$ 50,437	\$ 56,127
Due after one year through five years	275,583	293,093
Due after five years through ten years	223,995	239,065
Due after ten years	218,904	240,269
Mortgage-backed securities	360,581	382,113
<b>Total</b>	<b>\$ 1,129,500</b>	<b>\$ 1,210,667</b>

Proceeds from the sales and maturities of investments during 2010 and 2009 were \$859,301 and \$854,249, respectively. The gross realized gains and losses on sales of investments were as follows:

	2010	2009
Realized gains	\$ 42,642	\$ 47,456
Realized losses	(12,381)	(16,429)
<b>Total—net</b>	<b>\$ 30,261</b>	<b>\$ 31,027</b>

Investment securities in an unrealized loss position as of December 31, 2010 and 2009, are summarized as follows:

	LESS THAN 12 MONTHS		MORE THAN 12 MONTHS		TOTAL	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
<b>2010</b>						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 57,336	\$ (1,872)	\$ —	\$ —	\$ 57,336	\$ (1,872)
U.S. Agency mortgage-backed securities	53,097	(1,005)			53,097	(1,005)
States and municipal obligations	1,340	(66)			1,340	(66)
Residential mortgage-backed securities	801	(25)	798	(42)	1,599	(67)
Commercial mortgage-backed securities	2,753	(14)	3,854	(393)	6,607	(407)
Other asset backed securities	5,694	(27)			5,694	(27)
Corporate obligations	35,697	(870)	5,875	(82)	41,572	(952)
Corporate convertible obligations	36,845	(545)	14,480	(65)	51,325	(610)
Mutual funds			33,552	(348)	33,552	(348)
<b>Total</b>	<b>\$ 193,563</b>	<b>\$ (4,424)</b>	<b>\$ 58,559</b>	<b>\$ (930)</b>	<b>\$ 252,122</b>	<b>\$ (5,354)</b>
<b>2009</b>						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 40,629	\$ (879)	\$ —	\$ —	\$ 40,629	\$ (879)
U.S. Agency mortgage-backed securities	19,692	(244)			19,692	(244)
States and municipal obligations	4,849	(208)			4,849	(208)
Residential mortgage-backed securities	2,111	(19)	9,224	(809)	11,335	(828)
Commercial mortgage-backed securities	7,655	(114)	40,075	(4,674)	47,730	(4,788)
Other asset backed securities	7,831	(104)			7,831	(104)
Corporate obligations	39,269	(415)	6,681	(1,035)	45,950	(1,450)
Corporate convertible obligations	51,735	(830)	19,292	(382)	71,027	(1,212)
Mutual funds			22,638	(4,262)	22,638	(4,262)
<b>Total</b>	<b>\$ 173,771</b>	<b>\$ (2,813)</b>	<b>\$ 97,910</b>	<b>\$ (11,162)</b>	<b>\$ 271,681</b>	<b>\$ (13,975)</b>

The Company holds a diversified portfolio of investments in the general investment categories shown above. In the fixed income category there are debt securities in an unrealized loss position. Most of these positions 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. In 2010 and 2009, for residential mortgage-backed securities and 2010 for commercial mortgage-backed securities, the Company also considered 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 an intent to sell, are not considered to be other-than-temporarily impaired. The Company recognized impairment losses of \$1,084 and \$2,061 in 2010 and 2009, respectively, for all debt securities. Impairment losses are included in realized gain on investments—net in the accompanying statements of income—statutory basis.

The Company has investments in mortgage-backed securities, including some collateralized by non-prime mortgages. Most of the securities collateralized by non-prime mortgages are what are generally known as "Alt-A" mortgages and a smaller amount are known as sub-prime mortgages. The total of investments backed by non-prime mortgages is less than 1% of total investments. The Company's impairment losses for debt securities included \$583 and \$2,061 in 2010 and 2009, respectively, for mortgage-backed securities. As required by SSAP No. 43(R), the table below reflects the individual securities that comprise the 2010 impairment losses for mortgage-backed securities. These securities were impaired on the basis that the present value of cash flows expected to be collected is less than the amortized cost basis of the security.

Security	Amortized Cost Pre OTTI	Current Period Impairment	Amortized Cost after Current Period Impairment	Fair Market Value
Banc of America MBS 5.75%	\$ 686	\$ (17)	\$ 669	\$ 669
CWalt 2005-57CB MBS 5.5%	836	(566)	270	270
	<b>\$ 1,522</b>	<b>\$ (583)</b>	<b>\$ 939</b>	<b>\$ 939</b>

In the equity securities category, there is one security with a fair value of \$33,552 in an unrealized loss position at December 31, 2010, of \$348, which is less than 1% of cost. Management believes this temporary impairment is due to the factors affecting the market and the economy generally since the Company has essentially no positions in actively traded individual company stocks. The Company consults with its investment advisor and considers its ability to hold to recovery when evaluating possible other-than-temporary impairments. The Company recognized impairment losses of \$0 and \$2,039 in 2010 and 2009, respectively, for all equity securities.

### 3. TRANSACTIONS WITH RELATED PARTIES

**LIFETIME HEALTH MEDICAL GROUP**—This affiliate provides certain health care facilities and services to the Company on a capitated basis to members of various lines of business of the Company. Comprehensive medical and physician services are also provided by this affiliate on a fee-for-service basis. Amounts paid to Lifetime Health Medical Group for these services totaled \$88,348 and \$94,884 in 2010 and 2009, respectively.

The Company provides administrative services to Lifetime Health Medical Group. Administrative services reimbursement totaled \$7,078 and \$6,911 in 2010 and 2009, respectively. The Company owns certain properties occupied by Lifetime Health Medical Group. Annual rental charges for these facilities under the lease agreement were \$2,115 and \$2,491 for the years ended December 31, 2010 and 2009, respectively.

During 2010 the Company forgave \$33,000 of its net receivable from this affiliate. This charge is reflected in other expense in the accompanying statements of income—statutory basis.

The net receivable from this affiliate at December 31, 2010 and 2009, was a nonadmitted asset under New York State Insurance Department 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, Lifetime Health Medical Group's current and future operations to allow it to continue as a going concern.

The Company provides a guarantee of the payment of an unsecured bank borrowing obtained by Lifetime Health Medical Group. The loan had an outstanding balance of \$1,640 at December 31, 2010, which was subsequently increased to \$1,750 effective January 31, 2011. The loan is due January 31, 2012.

**LIFETIME CARE**—This affiliate provides home health, hospice, and alternative care services. Such services provided to subscribers of the Company in 2010 and 2009 approximated \$16,850 and \$15,650, 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, 2010 and 2009, were \$5,685 and \$5,126 for these costs and expenses, respectively.

Lifetime Care owns property and leases a portion of the premises to the Company. Rental expenses paid to Lifetime Care, for this facility amounted to approximately \$74 in 2010 and 2009. The Company leases office space and equipment to Lifetime Care. During 2010 and 2009, total rental income under this lease was \$748 and \$727, respectively.

The net receivable from this affiliate was \$1,592 and \$1,809 at December 31, 2010 and 2009, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

**MEDAMERICA**—The Company is reimbursed by MedAmerica for the full amount of operating expenses paid on its behalf. Total reimbursements for the years ended December 31, 2010 and 2009, were \$10,269 and \$8,909, respectively. The amount due from this subsidiary was \$670 and \$551 at December 31, 2010 and 2009, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company contributed additional capital to MedAmerica of \$20,000 and \$20,500 in 2010 and 2009, respectively.

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 \$701,365 at December 31, 2010. 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, in 2010, a capital support agreement was entered into 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 starting December 31, 2010. No contributions were required from the Company to satisfy this agreement at December 31, 2010. 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 the corporate members of Univera Community Health, Inc. (UCH), a prepaid health services plan which primarily provides prepaid comprehensive health care to enrolled Medicaid, Family Health Plus, and Child Health Plus populations in western New York. UCH is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Company is compensated for administrative services by UCH, which amounted to approximately \$13,436 and \$12,636 for the years ended December 31, 2010 and 2009, respectively. The Company had a receivable from UCH, of \$2,616 and \$1,393 at December 31, 2010 and 2009, respectively, which is included in healthcare receivables in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

**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 \$11,237 and \$10,517 at December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Company's workers' compensation liability amounted to \$4,470 and \$3,801, respectively, and is included within accounts payable and other liabilities on the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. The Company does not believe it will have to fulfill an obligation in excess of what is recorded at December 31, 2010.

**EXCELLUS ACQUISITION, INC. ("EAI")**—EAI provides certain retirement plan and flexible spending account services, as well as brokering various insurance products for the Company. The cost of such services totaled \$5,614 and \$4,153 in 2010 and 2009, respectively. The amount due to EAI of \$221 and \$92 at December 31, 2010 and 2009, respectively, is included in the due to affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis. 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, 2010 and 2009, were \$3,626 and \$3,569, respectively. The amount due from this subsidiary was \$439 and \$601 at December 31, 2010 and 2009, respectively and is included in the due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

**OTHER TRANSACTIONS**—The Company allocates various administrative and operating expenses to certain of its affiliates. These allocations are generally based upon continuing cost studies or actual amounts incurred. The Company also collects and/or processes cash receipts on behalf of certain of its affiliates. The net amount receivable from these affiliates as a result of these transactions was \$79 and \$113 as of December 31, 2010 and 2009, respectively, and is included in due from affiliates in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds—statutory basis.

## 4. CLAIMS PAYABLE

Activity in the claims payable liability at December 31, 2010 and 2009, which includes the liability for claim adjustment expenses, is summarized as follows:

	2010	2009
Balance at January 1	\$ 545,401	\$ 559,045
Less: Liability for claim adjustment expenses	(22,941)	(26,660)
Less: Claims related health care receivables	(251,680)	(228,414)
<b>Beginning claims liability</b>	<b>270,780</b>	<b>303,971</b>
Incurred related to:		
Current year	4,643,067	4,412,032
Prior years	(82,418)	(80,638)
<b>Total incurred</b>	<b>4,560,649</b>	<b>4,331,394</b>
Paid related to:		
Current year	4,224,530	4,027,677
Prior years	314,668	336,908
<b>Total paid</b>	<b>4,539,198</b>	<b>4,364,585</b>
Ending claims liability	292,231	270,780
Plus: Liability for claim adjustment expenses	22,145	22,941
Plus: Claims related health care receivables	251,829	251,680
<b>Balance at December 31</b>	<b>\$ 566,205</b>	<b>\$ 545,401</b>

As a result of changes in estimates of insured events in prior years, the provision for claims payable and claims expenses decreased by \$82,418 and \$80,638 in 2010 and 2009, respectively. This was primarily due to lower than anticipated health care cost trends for prior periods in 2010 and 2009, as well as lower than expected utilization trends and the revision of estimates for off-system payment liabilities to reflect new information in 2010.

There was no premium deficiency reserve, included in claims payable, in either 2010 or 2009.

## 5. INCOME TAXES

The Company joins with its parent, Lifetime Healthcare, Inc. and its other eligible domestic subsidiaries (Excellus Acquisition, Inc. and subsidiaries, Beacon Network Services, Inc., MedAmerica, Inc. and subsidiaries, and Excellus Ventures, Inc. and subsidiaries) in the filing of a consolidated federal income tax return and is party to a federal income tax allocation agreement. Under the tax allocation agreement, the Company pays to or receives from the Parent the amount, if any, by which the group's federal income tax liability was affected by inclusion of the Company in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed, with adjustments, as if the Company filed a separate return. Amounts due (to) from the Parent are \$2,204 and \$(445) as of December 31, 2010 and 2009, 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, 2010 and 2009 are as follows:

	2010			2009		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	\$ 328,628	\$ —	\$ 328,628	\$ 342,546	\$ —	\$ 342,546
Gross deferred tax liabilities	(3,352)	(28,776)	(32,128)	(10,162)	(14,012)	(24,174)
<b>Net deferred tax assets before</b>						
<b>admissibility test</b>	<b>325,276</b>	<b>(28,776)</b>	<b>296,500</b>	<b>332,384</b>	<b>(14,012)</b>	<b>318,372</b>
Nonadmitted portion of deferred tax assets	(244,042)		(244,042)	(276,056)		(276,056)
<b>Net admitted deferred tax assets</b>	<b>\$ 81,234</b>	<b>\$ (28,776)</b>	<b>\$ 52,458</b>	<b>\$ 56,328</b>	<b>\$ (14,012)</b>	<b>\$ 42,316</b>

Deferred tax assets are admitted to a limited extent based on reversal and management's expectation of realizability within one year, not to exceed 10% of adjusted statutory capital and surplus, plus the offset of remaining deferred tax assets against existing deferred tax liabilities.

SSAP No. 10(R), *Income Taxes—Revised, A Temporary Replacement of SSAP No. 10* (SSAP 10(R)) issued in November 2009, permits qualifying reporting entities to elect to admit additional deferred tax assets by extending admissibility to those amounts expected to reverse or be realized within three years, not to exceed 15% of adjusted statutory capital and surplus. This election is available to qualifying reporting entities through December 31, 2011, at which time, absent a continuance of SSAP 10(R), the previous deferred tax asset admission guidance of SSAP 10 will be reinstated. At December 31, 2010, the Company has not elected to admit the additional deferred tax assets permitted by SSAP 10(R).

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10(R) paragraph 10, as of December 31, 2010 and 2009, are as follows:

	2010	2009
	<u>Ordinary</u>	<u>Ordinary</u>
Federal income taxes recoverable through loss carry back (10.a.)	\$ 36,204	\$ 27,874
Adjusted gross DTA expected to be realized in one year (10.b.i)	48,382	38,616
<b>Total admitted DTA</b>	<b>\$ 84,586</b>	<b>\$ 66,490</b>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2010 and 2009, are as follows:

	2010	2009	CHANGE	CHARACTER
<b>DEFERRED TAX ASSETS:</b>				
Alternative minimum tax carryforwards	\$ 107,525	\$ 122,836	\$ (15,311)	Ordinary
Investments	8,354	5,731	2,623	Ordinary
Accounts receivable allowances	9,845	11,893	(2,048)	Ordinary
Real estate and fixed assets	19,627	21,071	(1,444)	Ordinary
Nonadmitted assets	4,349	5,807	(1,458)	Ordinary
Claims payable	8,204	13,289	(5,085)	Ordinary
Accrued expenses	85,346	69,892	15,454	Ordinary
Pension and postretirement benefit obligations	83,872	92,027	(8,155)	Ordinary
Other	1,506	1,506	1,506	Ordinary
<b>Total deferred tax assets</b>	<b>328,628</b>	<b>342,546</b>	<b>(13,918)</b>	
Nonadmitted deferred tax assets	(244,042)	(276,056)	32,014	
<b>Admitted deferred tax assets</b>	<b>84,586</b>	<b>66,490</b>	<b>18,096</b>	
<b>DEFERRED TAX LIABILITIES:</b>				
Investments	(28,776)	(14,012)	(14,764)	Capital
Pension	(3,352)	(10,162)	6,810	Ordinary
<b>Total deferred tax liabilities</b>	<b>(32,128)</b>	<b>(24,174)</b>	<b>(7,954)</b>	
<b>Net admitted deferred tax assets</b>	<b>\$ 52,458</b>	<b>\$ 42,316</b>	<b>\$ 10,142</b>	

The Company utilized AMT credit carryforwards of \$16,279 and \$13,430 in 2010 and 2009, respectively.

The changes in net deferred income tax for the years ended December 31, 2010 and 2009, are comprised of the following:

	2010	2009
Change in deferred tax assets	\$ (13,918)	\$ 38,115
Change in deferred tax liabilities	(7,954)	(14,959)
<b>Change in net deferred tax assets</b>	<b>(21,872)</b>	<b>23,156</b>
<b>CHANGE IN DEFERRED TAXES ON:</b>		
Unrealized investment gains	14,286	27,262
Additional minimum pension liability	11,062	(44,382)
	<b>25,348</b>	<b>(17,120)</b>
<b>Net change in deferred taxes</b>	<b>\$ 3,476</b>	<b>\$ 6,036</b>

The provision for federal income taxes incurred 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 use of AMT credit carry forwards and the change in net deferred tax assets which are recognized in unassigned funds for NAIC SAP purposes.

## 6. RESERVE AND UNASSIGNED FUNDS

New York State Insurance Law requires that a statutory reserve be established and increased each calendar year by 1% of net premium income unless otherwise waived by the Superintendent. At the end of any calendar year, this reserve shall not exceed 12.5% of net premium income for the year. As of December 31, 2010 and 2009, the Company was in compliance with these requirements.

The Company is required by the BlueCross BlueShield Association to maintain reserves as determined using the Risk-Based Capital Formula promulgated by the NAIC. As of December 31, 2010 and 2009, the Company was in compliance with these requirements.

## 7. PENSION AND POSTRETIREMENT BENEFITS OBLIGATION

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

**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 2010 and a September 30 measurement date in 2009 for its pension and postretirement benefit plans.

## 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, 2010 and 2009, are as follows:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
<b>CHANGE IN BENEFIT OBLIGATION:</b>				
Benefit obligation at beginning of year	\$ 577,395	\$ 400,978	\$ 81,524	\$ 42,630
Service cost	24,776	22,138	5,357	4,262
Interest cost	32,537	30,478	4,105	3,636
Actuarial (gain) loss	(7,583)	132,821	(947)	31,107
Special termination benefits		13,096		4,790
Participant contributions			443	326
Benefits paid	(19,080)	(22,116)	(6,660)	(5,227)
<b>Benefit obligation at end of year</b>	<b>\$ 608,045</b>	<b>\$ 577,395</b>	<b>\$ 83,822</b>	<b>\$ 81,524</b>
<b>CHANGE IN PLAN ASSETS:</b>				
Fair value of plan assets at beginning of year	\$ 279,708	\$ 282,628	\$ –	\$ –
Actual return on plan assets	52,937	(14,262)		
Employer contributions	31,643	34,034	6,217	4,901
Participants' contributions			443	326
Benefits and expenses paid	(20,840)	(22,692)	(6,660)	(5,227)
<b>Fair value of plan assets at end of year</b>	<b>343,448</b>	<b>279,708</b>	<b>–</b>	<b>–</b>
<b>Funded status</b>	<b>(264,597)</b>	<b>(297,687)</b>	<b>(83,822)</b>	<b>(81,524)</b>
Unamortized prior service costs	(753)	(1,064)	8,722	9,257
Unrecognized net loss	(181,222)	(218,906)	(31,264)	(33,415)
	<b>(181,975)</b>	<b>(219,970)</b>	<b>(22,542)</b>	<b>(24,158)</b>
<b>Net amount recognized</b>	<b>\$ 82,622</b>	<b>\$ 77,717</b>	<b>\$ 61,280</b>	<b>\$ 57,366</b>
<b>AMOUNTS RECOGNIZED IN THE STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND RESERVE AND UNASSIGNED FUNDS CONSIST OF:</b>				
Intangible asset	\$ (725)	\$ (1,112)	\$ –	\$ –
Accrued liability	178,545	205,633	61,280	57,366
Unassigned funds	(95,198)	(126,804)		
	<b>\$ 82,622</b>	<b>\$ 77,717</b>	<b>\$ 61,280</b>	<b>\$ 57,366</b>
<b>OBLIGATION FOR NONVESTED EMPLOYEES AT MOST RECENT VALUATION DATE:</b>				
<b>Projected benefit obligation</b>	<b>\$ 10,696</b>	<b>\$ 15,716</b>	<b>\$ 30,252</b>	<b>\$ 29,291</b>
<b>Accumulated benefit obligation</b>	<b>\$ 6,366</b>	<b>\$ 8,943</b>		

The projected benefit obligation exceeded the fair value of plan assets at December 31, 2010 and 2009, for each of the defined benefit pension plans. The accumulated benefit obligation for all defined benefit pension plans was \$505,890 and \$471,638 at December 31, 2010 and 2009, respectively. At December 31, 2010, for defined benefit plans with accumulated benefit obligations in excess of plan assets, the aggregate pension accumulated benefit obligation was \$505,890 and the aggregate pension assets were \$343,448. At December 31, 2009, for defined benefit plans with accumulated benefit obligations in excess of plan assets, the aggregate pension accumulated benefit obligation was \$471,638 and the aggregate pension assets were \$279,708.

## Plan Costs

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
<b>COMPONENTS OF NET PERIODIC BENEFIT COST:</b>				
Service cost—including plan administration costs	\$ 25,352	\$ 22,711	\$ 5,357	\$ 4,262
Interest cost	32,537	30,478	4,105	3,636
Expected return on plan asset	(31,475)	(29,379)		
Special termination benefits		13,096		4,790
Amortization of net (gain) loss	9,824	3,242	1,203	400
Amortization of prior service cost	310	325	(534)	(534)
<b>Total net periodic benefit cost</b>	<b>\$ 36,548</b>	<b>\$ 40,473</b>	<b>\$ 10,131</b>	<b>\$ 12,554</b>
<b>(Credit) charge for additional minimum pension liability included in unassigned funds</b>	<b>\$ (31,606)</b>	<b>\$ 126,804</b>		

The Company recognized net periodic pension and other postretirement benefit costs of \$43,620 and \$50,625 and allocated \$3,059 and \$2,402 to affiliates participating in the plans in 2010 and 2009, 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.

The Company offered a limited early retirement program during November 2008. As this offer occurred during the 2009 measurement year, the special termination benefits cost for the employees who elected to participate of \$17,886 was included in the Company's net periodic pension benefit cost in 2009.

## Plan Investment Strategy

The weighted average asset allocations of the Company's pension plans, at December 31, 2010 and 2009, by asset category are as follows:

Asset Category	2010	2009
Cash and cash equivalents	1%	9%
Domestic equity securities	46	38
International equity securities	11	11
Fixed income securities	19	19
Real estate	10	9
Hedge funds and other	13	14
<b>Total</b>	<b>100%</b>	<b>100%</b>

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, 2010 and 2009, were as follows:

	PENSION BENEFITS		OTHER POSTRETIREMENT BENEFITS	
	2010	2009	2010	2009
<b>WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE THE BENEFIT OBLIGATION AT YEAR-END:</b>				
Discount rate	5.71%	5.74%	5.25%	5.25%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	not applicable	not applicable
<b>WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE THE NET PERIODIC BENEFIT COST FOR THE YEAR:</b>				
Discount rate	5.74%	7.50%	5.25%	7.50%
Rate of compensation increase (graded)	3.5% to 7.5%	3.5% to 7.5%	not applicable	not applicable
Expected long-term rate of return on plan assets	9.0%	9.0%	not applicable	not applicable
<b>HEALTH CARE COST TREND ASSUMPTIONS AT YEAR-END:</b>				
Health care cost trend rate assumed for the next year	not applicable	not applicable	10%/8%	10%/8%
Rate to which the cost trend rate is assumed to decline	not applicable	not applicable	5%	5%
Number of years to reach ultimate trend rate	not applicable	not applicable	4	4

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

	ONE-PERCENTAGE-POINT	
	Increase	Decrease
Effect on total service and interest cost components	\$2,076	\$(1,742)
Effect on postretirement benefit obligation	7,418	(6,337)

## Cash Flows

### CONTRIBUTIONS

The Company expects to make contributions to its pension and other postretirement benefit plans in 2011 of approximately \$40,500.

### 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
2011	\$ 17,312	\$ 6,678
2012	18,667	6,783
2013	20,303	7,192
2014	22,459	7,427
2015	24,217	7,709
2016–2020	165,391	43,108

### 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 \$2,265 and \$2,207 in 2010 and 2009 respectively.

## 8. FAIR VALUE MEASUREMENT

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 are defined by SSAP No. 100, *Fair Value Measurements*, guidance for fair value measurements and disclosures, 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.

The Company obtains one price for each security primarily from the Company's custodian which uses multiple third party pricing services. These prices are typically derived through recently reported trades for identical or similar securities making adjustments through the reporting date 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 include, but are not limited to, nonbinding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. The Company made no adjustments to quoted market prices obtained from its custodian during the years ended December 31, 2010 and 2009, that were material to the statutory basis financial statements.

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 on a recurring and nonrecurring basis. 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. Financial assets that are measured on a nonrecurring basis are those assets that are generally required to be reported at amortized cost in the accompanying statements of admitted assets, liabilities, and reserve and unassigned funds, however, due to certain facts and circumstances, a write down to fair value was required. Financial assets recorded at fair value on a nonrecurring basis would include securities where an other-than-temporary impairment was recognized.

The following table presents information about the Company's financial assets that are measured at fair value at December 31, 2010 and 2009:

	INVESTMENTS—DECEMBER 31, 2010				PENSION INVESTMENTS—DECEMBER 31, 2010			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
<b>2010</b>								
<b>DEBT SECURITIES:</b>								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ —	\$ —	\$ —	\$ —	\$ 29,401	\$ —	\$ —	\$ 29,401
U.S. Agency mortgage-backed securities						8,602		8,602
States and municipal obligations						498		498
Residential mortgage-backed securities		1,989		1,989				
Commercial mortgage-backed securities		8,398		8,398		4,912		4,912
Other asset backed securities						1,756		1,756
Corporate bond funds						6,811		6,811
Corporate obligations		1,313		1,313		12,991		12,991
<b>Total debt securities</b>	<b>—</b>	<b>11,700</b>	<b>—</b>	<b>11,700</b>	<b>29,401</b>	<b>35,570</b>	<b>—</b>	<b>64,971</b>
<b>EQUITY SECURITIES:</b>								
Mutual funds	353,681			353,681	96,320			96,320
Common collective trusts						104,795		104,795
Common stocks			3,609	3,609				
Preferred stocks	1,686			1,686				
<b>Total equity securities</b>	<b>355,367</b>	<b>—</b>	<b>3,609</b>	<b>358,976</b>	<b>96,320</b>	<b>104,795</b>	<b>—</b>	<b>201,115</b>
Venture Capital Funds							3,415	3,415
Hedge Funds							40,873	40,873
Other Real Estate						26,720	6,354	33,074
<b>Total</b>	<b>\$ 355,367</b>	<b>\$ 11,700</b>	<b>\$ 3,609</b>	<b>\$ 370,676</b>	<b>\$ 125,721</b>	<b>\$ 167,085</b>	<b>\$ 50,642</b>	<b>\$ 343,448</b>

	INVESTMENTS—DECEMBER 31, 2009				PENSION INVESTMENTS—SEPTEMBER 30, 2009			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
<b>2009</b>								
<b>DEBT SECURITIES:</b>								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ —	\$ —	\$ —	\$ —	\$ 25,262	\$ —	\$ —	\$ 25,262
U.S. Agency mortgage-backed securities						10,231		10,231
Residential mortgage-backed securities		836		836				
Commercial mortgage-backed securities						4,192		4,192
Other asset backed securities						1,269		1,269
Corporate obligations						10,033		10,033
<b>Total debt securities</b>	<b>—</b>	<b>836</b>	<b>—</b>	<b>836</b>	<b>25,262</b>	<b>25,725</b>	<b>—</b>	<b>50,987</b>
<b>EQUITY SECURITIES:</b>								
Mutual funds	332,394			332,394	72,826			72,826
Common collective trusts						92,455		92,455
Common stocks			3,485	3,485				
Preferred stocks	1,351			1,351				
<b>Total equity securities</b>	<b>333,745</b>	<b>—</b>	<b>3,485</b>	<b>337,230</b>	<b>72,826</b>	<b>92,455</b>	<b>—</b>	<b>165,281</b>
Venture Capital Funds							2,216	2,216
Hedge Funds						37,305		37,305
Other Real Estate						23,919		23,919
<b>Total</b>	<b>\$ 333,745</b>	<b>\$ 836</b>	<b>\$ 3,485</b>	<b>\$ 338,066</b>	<b>\$ 98,088</b>	<b>\$ 179,404</b>	<b>\$ 2,216</b>	<b>\$ 279,708</b>

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2010.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Debt Securities**—The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2.

**Equity Securities**—Fair value estimates for Level 1 and Level 2 publicly traded equity securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing prices. The fair value of Level 3 investments, which include private equity securities for which there is no active market, is estimated based on each securities' current condition and future cash flow projections.

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

During the year ended December 31, 2010, the changes in the fair value of the assets carried at fair value measured using significant unobservable inputs (Level 3) were comprised of the following:

	NON-PENSION INVESTMENTS		PENSION INVESTMENTS		
	Preferred Stock	Common Stock	Hedge Funds	Real Estate	Venture Capital Funds
Beginning balance—January 1, 2010	\$ —	\$ 3,485	\$ —	\$ —	\$ 2,247
Net return on assets (realized/unrealized)		124	2,419	744	827
Net purchases, sales, and settlements				(3,417)	341
Transfer into/out of Level 3			38,454	\$ 9,027	
<b>Balance—December 31, 2010</b>	<b>\$ —</b>	<b>\$ 3,609</b>	<b>\$ 40,873</b>	<b>\$ 6,354</b>	<b>\$ 3,415</b>
<hr/>					
Beginning balance—January 1, 2009	\$ 1,299	\$ 2,590			
Net return on assets (realized/unrealized)	(1,299)	895			
Net purchases, sales, and settlements					
Transfer into/out of Level 3					
<b>Balance—December 31, 2009</b>	<b>\$ —</b>	<b>\$ 3,485</b>			
<hr/>					
Beginning balance—October 1, 2008			\$ —	\$ —	\$ 2,163
Net return on assets (realized/unrealized)					(131)
Net purchases, sales, and settlements					184
Transfer into/out of Level 3					
<b>Balance—September 30, 2009</b>			<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,216</b>

Based upon market conditions that resulted in an increase in the length of time when certain pension plan investments could be redeemed, the Company concluded that such investments were no longer redeemable in the near term. Accordingly, during 2010, these securities changed from Level 2 to Level 3 within the fair value hierarchy.

## 9. DEBT

The Company's debt as of December 31, 2010 and 2009, consists of the following:

	2010	2009
<b>Statutory obligation—Foundation guarantee</b>	<b>\$5,500</b>	<b>\$5,500</b>

During 2009 the Company discharged the senior notes in full, including a make-whole premium of \$1,076, which was included in investment expense.

At December 31, 2010, the Company had \$175,000 of unused borrowing capacity in noncommitted credit facilities at various variable rate options determined at the time of borrowing. Renewals of these credit facilities are subject to annual reviews.

Cash paid for interest during 2010 and 2009 was approximately \$0 and \$2,057 respectively.

**GUARANTEES**—Included in debt is \$5,500 related to Community Health Foundation of Western and Central New York, Inc. (the “Foundation”). The Foundation was created in conjunction with the mergers of Univera Healthcare operations with the Company and Lifetime Health Medical Group in 2001. The obligation requires Lifetime Health Medical Group to make annual payments of \$5,500 through 2012. The Company has provided a guarantee to the Foundation of Lifetime Health Medical Group’s obligation. Under the terms of the guarantee, the Company is to use its best efforts to ensure that Lifetime Health Medical Group meets its obligation to the Foundation. If Lifetime Health Medical Group fails to make the required payments, the Company is required to make payments as guarantor. The guarantee agreement also grants the Company’s board of directors the discretion to withhold payment to the Foundation if the payment as guarantor would cause the Company to be out of compliance with its statutory reserve requirement. In that event, no payment is due under the guarantee agreement.

## 10. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A & H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

**ASO PLANS**—The contribution margin for administrative expenses in excess of actual expenses from Administrative Services Only (ASO) uninsured plans and the uninsured portion of partially insured plans for the years ended December 31, 2010 and 2009, was as follows:

	2010	2009
a. Contribution margin for administrative expenses (including administrative fees) in excess of actual expenses	\$ (1,319)	\$ (1)
<b>b. Total claim payment volume</b>	<b>\$494,469</b>	<b>\$451,846</b>

**ASC PLANS**—The contribution margin from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans as of December 31, 2010 and 2009, was as follows:

	2010	2009
a. Gross reimbursement for medical cost incurred	\$ 520,259	\$ 438,232
b. Gross administrative fees accrued/reimbursed	30,949	26,640
c. Gross expenses incurred (claims and administrative)	(551,499)	(467,324)
<b>d. Contribution margin</b>	<b>\$ (291)</b>	<b>\$ (2,452)</b>

**MEDICARE COST-BASED REIMBURSEMENT CONTRACT**—Revenue from the Company’s Medicare cost-based reimbursement contract, for the years ended 2010 and 2009, consisted of \$5,977 and \$9,989, respectively, for medical and hospital related services and \$848 and \$793, respectively, for administrative expenses.

**MEDICARE PART D PHARMACY BENEFITS CONTRACT**—Under the Medicare Part D program, the Company receives cost reimbursements in the form of Catastrophic Reinsurance Subsidies and Low-Income Member Cost-Sharing Subsidies. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly, there is no insurance risk to the Company. For the years ended 2010 and 2009, the Company recognized, respectively, \$16,353 and \$16,038 in Catastrophic Reinsurance Subsidies and \$18,976 and \$17,751 in Low Income Member Cost-Sharing Subsidies.

## 11. PHARMACEUTICAL REBATE RECEIVABLES

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, 2010	\$21,089	\$ –	\$ –	\$ –	\$ –
September 30, 2010	20,135	17,382	8,914		
June 30, 2010	19,730	20,870	13,846	5,245	
March 31, 2010	19,611	19,537	13,376	5,934	
December 31, 2009	20,639	20,639	18,952	1,486	201
September 30, 2009	20,656	20,656	18,353	2,424	(121)
June 30, 2009	20,476	20,476	18,003	2,219	254
March 31, 2009	19,188	19,214	16,838	1,933	417
December 31, 2008	19,190	20,558	19,268	140	(218)
September 30, 2008	18,776	18,776	16,704	2,020	52
June 30, 2008	18,299	18,570	16,379	1,756	164
March 31, 2008	17,010	17,630	15,884	1,565	(439)

## 12. COMMITMENTS

The Company leases office space and equipment under certain noncancelable lease agreements. As of December 31, 2010, the annual lease commitment is as follows:

2011	2012	2013	2014	2015	THEREAFTER
\$10,124	\$7,601	\$5,896	\$4,297	\$2,344	\$5,374

Rent expense under operating leases totaled \$10,260 and \$11,275 in 2010 and 2009, respectively.

## 13. CONTINGENCIES

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