

Report of Examination of
Gateway Health Plan of Ohio, Inc
Pittsburgh, Pennsylvania

As of December 31, 2009

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Columbus, Ohio

January 12, 2011

Honorable Mary Jo Hudson
Director
State of Ohio
Department of Insurance ("Department")
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code ("ORC"), an examination was made of

Gateway Health Plan of Ohio, Inc

an Ohio domiciled, multiple employer welfare association, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 600 Grant Street, Pittsburgh, Pennsylvania.

A report of this examination is hereby respectfully submitted.

This is the Company's first examination by the Department, other than the qualifying examination report. Representatives of the Department conducted the current examination covering the period from inception to and including December 31, 2009.

Management and Control

Board of Directors:

Members of the board of directors elected and serving on December 31, 2009, were as follows:

Name	Principal Occupation
Joseph Hugh Bradley	Chief Financial Officer, Mercy Health System of Southeastern Pennsylvania
Nanette Paden DeTurk	Executive Vice President, Treasurer and Chief Financial Officer, Highmark Inc.

Brett Christopher Moraski	Senior Vice President - Corporate Development, Highmark Inc.
Aaron Arnold Walton	Senior Vice President - Corporate Affairs, Highmark Inc.
Horatio Ray Welch Jr.	President and Chief Executive Officer, Mercy Health Systems
Renee (Regina) Mary Yann Sister, RSM	Senior Vice President – Mission, Keystone Mercy Health Plan

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
C. Michael Blackwood	President and Chief Executive Officer
Karen Arcidiacono Barringer	Vice President, Secretary, and General Counsel
Cecil Eric Huss	Vice President, Treasurer and Chief Financial Officer

Insurance Holding Company System

The Company's immediate parent is GHP, LP, a Pennsylvania limited partnership, with current limited partners Highmark Inc. and Mercy Health Plan each holding a 49% interest in GHP, LP and with current general partners Highmark Ventures Inc. (formerly Alliance Ventures Inc.) and Mercy Health Plan, each holding a 1% interest in GHP, LP. The Company is ultimately controlled by a combination of Highmark Inc., a not-for-profit Pennsylvania insurer, that is an independent licensee of the Blue Cross and Blue Shield Association and Mercy Health Plan, a not-for-profit corporation operating managed care plans through joint ventures with various partners.

Territory and Plan of Operations

The Company is licensed to transact business in the State of Ohio and is currently in runoff.

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the National Association of Insurance Commissioners (NAIC) Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of PriceWaterhouseCoopers have provided an unqualified opinion based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department's actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and,
7. Articles of Incorporation and Code of Regulations.

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2009

Admitted assets

Cash and invested assets:

Bonds	\$463,813
Cash and short-term investments	3,743,155
Total cash and invested assets	<u>4,206,968</u>

Investment income due and accrued	9,279
Receivables from parent, subsidiaries and affiliates	12,842
Health care and other amounts receivable	3,138
Aggregate write-ins for other than invested assets	178
Total admitted assets	<u>\$4,232,405</u>

Liabilities and capital and surplus

Liabilities:

Claims unpaid	\$205,087
Unpaid claims adjustment expenses	4,125
Aggregate health policy reserves	19,995
General expenses due or accrued	31,880
Amount due to parent, subsidiaries and affiliates	4,300
Liability for amounts held under uninsured plans	120,529
Total liabilities	<u>385,916</u>

Capital and surplus:

Common capital stock	1,500
Gross paid in and contributed surplus	5,634,735
Unassigned funds (surplus)	(1,789,746)
Total capital and surplus	<u>3,846,489</u>
Total liabilities and capital and surplus	<u>\$4,232,405</u>

Statement of Revenue and Expenses

**For the Year Ended
December 31, 2009**

Premium and other revenues:	
Net premium income	\$657,579
Total premiums and other revenues	<u>657,579</u>
Hospital and Medical:	
Hospital and medical benefits	387,703
Other professional services	66,352
Emergency room and out-of-area	29,234
Prescription drugs	58,004
Aggregate write-ins for other hospital and medical	16,040
Total hospital and medical	<u>557,333</u>
Less:	
Claims adjustment expenses	126,302
General administrative expenses	120,961
Total underwriting deductions	804,596
Net underwriting loss	<u>(147,017)</u>
Net investment income earned	29,137
Net investment gains	<u>29,137</u>
Net loss	<u><u>\$(117,881)</u></u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	2005	2006	2007	2008	2009
Capital and surplus December 31, previous year	\$0	\$3,516	\$5,397	\$4,926	\$4,933
Net income	(372)	(889)	(261)	(176)	(118)
Net change unrealized capital gains				(70)	100
Change in net deferred income tax	191	240	185	(12)	(604)
Change in nonadmitted assets	(139)	(270)	(395)	265	536
Surplus adjustment: Paid in	3,836	2,800			(1,000)
Net change in capital and surplus	<u>3,516</u>	<u>1,881</u>	<u>(470)</u>	<u>7</u>	<u>(1,087)</u>
Capital and surplus end of period	<u><u>\$3,516</u></u>	<u><u>\$5,397</u></u>	<u><u>\$4,926</u></u>	<u><u>\$4,933</u></u>	<u><u>\$3,846</u></u>

Notes to Financial Statements

Investments

The Company's investments were not in compliance with Section 3925.08 of the ORC, in that a money market investment exceeded the allowable amount as allowed by 3925.08(D)(2). The Company subsequent to year end became compliant with the ORC with no loss in the assets value, therefore no adjustment was made to the financial statements for the excess investment.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

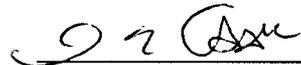
Total Admitted Assets	<u>\$4,232,405</u>
Liabilities	\$385,916
Unassigned funds	<u>3,846,489</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$4,232,405</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the aforementioned and the undersigned, the following representative of the Department participated in the examination: Kim Somogyi, CPA.

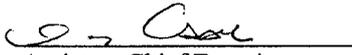
Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

 2/9/11
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 9th day of February, 2011.


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires