PREMERA

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2018 and 2017, and
Independent Auditors' Report

PREMERA

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Deloitte.

Deloitte & Touche LLP
925 Fourth Avenue
Suite 3300
Seattle, WA 98104-1126
USA

Tel:+1 206 716 7000
Fax:+1 206 965 7000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of PREMERA:

We have audited the accompanying consolidated financial statements of PREMERA and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, net worth, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the tables of net incurred and paid loss development by accident year on page 32 be presented to supplement the basic consolidated financial statements. Such supplementary information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the supplementary information and comparing the supplementary information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

March 27, 2019

PREMERA

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
CASH AND CASH EQUIVALENTS	$ 195,060	$ 109,421
INVESTMENTS:		
Available-for-sale investments, at fair value:		
Short-term investments (amortized cost—$1,289 and $3,790 in 2018 and 2017, respectively)	1,290	3,789
Fixed-income securities (amortized cost—$1,191,518 and $1,103,198 in 2018 and 2017, respectively)	1,174,555	1,114,552
Marketable equity securities (cost—$459,610 and $447,393 in 2018 and 2017, respectively)	721,133	811,189
Other investments:		
Private equity funds (includes $35,921 and $33,287 in 2018 and 2017, respectively, measured at fair value)	260,430	237,005
Other long-term investments	34,914	28,360
Total investments	2,192,322	2,194,895
RECEIVABLES:		
Accounts receivable—net of allowance for doubtful accounts of $10,785 and $11,562 in 2018 and 2017, respectively	311,324	254,259
ASC receivables—net of allowance for doubtful accounts of $2,079 and $1,747 in 2018 and 2017, respectively	706,975	679,783
Reinsurance receivables	116,004	116,684
Investment income receivable	7,892	7,335
Federal income tax receivable	187,720	8,992
Total receivables	1,329,915	1,067,053
PROPERTY AND EQUIPMENT—Net	89,056	88,083
OTHER:		
Prepaid expenses and deferred charges	88,272	100,879
Securities lending collateral	61,087	-
Deferred federal income taxes—net	174,069	335,346
Total other	323,428	436,225
TOTAL ASSETS	$4,129,781	$3,895,677

(Continued)

PREMERA

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
LIABILITIES AND NET WORTH		
LIABILITIES:		
Benefit liability	$ 468,578	$ 437,328
ASC benefit liability	702,127	645,247
Outstanding checks in excess of bank balances	81,158	75,539
Unearned revenue	31,721	31,400
Accounts payable and accrued liabilities	145,575	149,788
Securities lending payable	61,087	-
Pension and postretirement benefits	65,240	77,131
Policy reserves	98,928	125,786
Other liabilities	119,661	114,815
Total liabilities	1,774,075	1,657,034
COMMITMENTS AND CONTINGENCIES (Notes 9 & 10)		
NET WORTH:		
General reserves	2,238,701	2,001,431
Accumulated other comprehensive income	117,005	237,212
Total net worth	2,355,706	2,238,643
TOTAL LIABILITIES AND NET WORTH	$4,129,781	$3,895,677

See notes to consolidated financial statements. (Concluded)

PREMERA

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
REVENUES:		
Premiums	$ 3,862,971	$ 3,680,584
Medical loss ratio rebates	(4,416)	-
Administrative fees	265,162	251,386
Other revenue	100,909	89,771
Total revenues	4,224,626	4,021,741
EXPENSES:		
Benefit expense	3,123,247	3,021,006
Quality improvement expense	64,383	68,028
General and administrative	681,024	707,388
Premium taxes and ACA fees	134,055	64,615
Commissions and brokerage	90,254	73,309
Total expenses	4,092,963	3,934,346
INVESTMENT INCOME:		
Net investment income	50,843	40,399
Net realized (losses) gains:		
Total other-than-temporary impairment losses on investments	(5,347)	(1,994)
Less portion recognized in other comprehensive income	105	-
Net impairment losses on investments recognized in earnings	(5,242)	(1,994)
Other net realized gains	57,129	55,887
Net realized gains on investments	51,887	53,893
Total investment income	102,730	94,292
OTHER INCOME (EXPENSE)	1,208	(1,892)
INCOME BEFORE INCOME TAXES	235,601	179,795
INCOME TAX (EXPENSE) BENEFIT	(1,296)	347,013
NET INCOME	$ 234,305	$ 526,808

See notes to consolidated financial statements.

PREMERA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	**2017**
NET INCOME	$ 234,305	$ 526,808
OTHER COMPREHENSIVE (LOSS) INCOME—Net of tax:		
Defined benefit plans and other postretirement benefits:		
Amortization of actuarial gains included in net periodic benefit cost (net of tax: 2018—$913; 2017—$751)	3,435	3,004
Amortization of prior service credit included in net periodic benefit cost (net of tax: 2018—$42; 2017—$40)	158	160
Net actuarial (losses) gains arising during the year (net of tax: 2018—($4,939); 2017—$863)	(18,578)	3,451
Recognition due to settlement (net of tax: 2018—$242; 2017—$0)	908	-
Total change in unrecognized retirement benefit costs—net of tax	(14,077)	6,615
Cumulative effect of change in accounting principle	(2,965)	-
Unrealized net (loss) gain on available-for-sale investments (net of tax: 2018—$(14,846); 2017—$26,924)	(55,851)	107,696
Reclassification adjustment for net realized gains included in net income (net of tax: 2018—$(12,418); 2017—$(8,210))	(46,713)	(31,074)
Change in noncredit component of other-than-temporary impairment losses on investments (net of tax: 2018—$(160); 2017—$(30))	(601)	(122)
Total other comprehensive (loss) income	(120,207)	83,115
COMPREHENSIVE INCOME	$ 114,098	$ 609,923

See notes to consolidated financial statements.

PREMERA

CONSOLIDATED STATEMENTS OF NET WORTH
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
GENERAL RESERVES:		
Balance at beginning of year	$2,001,431	$1,474,623
Cumulative effect of change in accounting principle—net of tax	2,965	-
Net income	234,305	526,808
Balance at end of year	2,238,701	2,001,431
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Available-for-sale investments—net of tax:		
Balance at beginning of year	300,118	223,618
Cumulative effect of change in accounting principle—net of tax	(2,965)	-
Noncredit losses of other-than-temporary impairment losses on investments	(601)	(122)
Unrealized net (depreciation) appreciation on available-for-sale investments	(55,851)	107,696
Reclassification adjustment for net realized gains included in net income	(46,713)	(31,074)
Balance at end of year	193,988	300,118
Unrecognized retirement benefit costs:		
Balance at beginning of year	(62,906)	(69,521)
Change in unrecognized retirement benefit costs—net of tax	(14,077)	6,615
Balance at end of year	(76,983)	(62,906)
Accumulated other comprehensive income at end of year	117,005	237,212
TOTAL NET WORTH	$2,355,706	$2,238,643

See notes to consolidated financial statements.

PREMERA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	**2017**
OPERATING ACTIVITIES:		
Net income	$ 234,305	$526,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on available-for-sale investments	(38,825)	(41,377)
Net realized gains on other investments	(7,518)	(7,447)
Net realized losses on disposals of property and equipment	-	10,292
Depreciation of property and equipment	22,998	20,445
Net accretion of discounts and amortization of premiums on investment securities	(2,171)	722
Deferred income taxes	192,443	(385,894)
Changes in certain assets and liabilities:		
Trade accounts receivable—net	(56,240)	41,110
ASC receivables—net	(27,192)	(58,050)
Reinsurance receivables	680	35,036
Investment income receivable	(557)	31
Federal income tax receivable	(178,728)	(8,992)
Prepaid expenses and deferred charges	(16,674)	(10,860)
Benefit liability	31,250	(108,549)
ASC benefit liability	56,880	8,458
Outstanding checks in excess of bank balances	5,619	(1,711)
Unearned revenue	321	(13,589)
Accounts payable and accrued liabilities	(4,198)	13,035
Federal income tax payable	-	(5,889)
Pension and postretirement benefits	2,677	4,341
Policy reserves	(26,858)	3,927
Other liabilities	4,846	6,777
Net cash provided by operating activities	193,058	28,624

(Continued)

PREMERA

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	**2017**
INVESTING ACTIVITIES:		
Proceeds from sales of investments	$ 640,009	$ 648,514
Proceeds from maturities of investments	80,572	96,023
Changes in securities lending collateral	(47,590)	-
Purchases of investments	(753,002)	(650,991)
Purchases of other long-term investments	(50,527)	(78,131)
Purchase of note receivable	(500)	-
Purchases of property and equipment	(23,971)	(28,396)
Net cash used in investing activities	(155,009)	(12,981)
FINANCING ACTIVITIES:		
Changes in securities lending payable	47,590	-
Net change in short-term debt	-	(10,000)
Net cash provided by (used in) financing activities	47,590	(10,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,639	5,643
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	109,421	103,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 195,060	$ 109,421
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ (61)	$ (508)
Cash received (paid) for income taxes—net of refunds	$ 12,389	$ (53,700)
NONCASH TRANSACTIONS:		
Changes in noncash securities lending collateral	$ 13,497	$ -

See notes to consolidated financial statements. (Concluded)

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations—PREMERA is a Washington nonprofit and miscellaneous corporation that is the sole voting member of Premera Blue Cross (PBC). PBC is a Washington nonprofit corporation that is registered as a health care service contractor in the state of Washington and a hospital and medical service corporation in the state of Alaska. PBC is primarily engaged in the business of providing basic medical, hospital, major medical, comprehensive, and other prepaid health care benefits for its subscribers in the states of Washington and Alaska. PBC also participates in the public health insurance exchanges for Washington and Alaska. PREMERA and subsidiaries (collectively, the "Company") and its affiliates are subject to the federal income tax.

PBC owns 100% of the voting stock of Connexion Insurance Solutions, Inc. ("Connexion"), a Washington corporation, and 29.5% of Better Health Value Network, LLC (BHVN), a Washington limited liability company, that operates a clinically integrated network.

Connexion is an insurance agency that, in turn, owns 100% of the voting interests of LifeWise Assurance Company (LWAC); LifeWise Health Plan of Washington (LWW); and Vivacity, Inc. ("Vivacity").

LWAC and Vivacity are for-profit corporations. LWAC is domiciled in the state of Washington and primarily offers student health insurance in Washington state and stop-loss insurance in a number of states where it is licensed to do so. LWW is a nonprofit miscellaneous corporation and health care service contractor registered in the state of Washington that primarily provides individual health benefits coverage to Washington state residents. LWW also participates in Washington state's public health insurance exchange. Vivacity is a Washington corporation that provides wellness services and products to employers.

Principles of Consolidation—The consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Use of Estimates—Preparation of these consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and the accompanying notes. We consider some of our most important accounting policies that require estimates and management judgment to be those policies with respect to benefit liabilities, income taxes, investments, premium stabilization programs, and retirement benefits. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents consist primarily of cash balances on hand and deposited in financial institutions and are all highly liquid investments with a maturity of three months or less when purchased.

Short-Term Investments—Short-term investments are carried at fair value based on quoted market prices for identical or similar securities. The Company considers securities with maturities greater than three months and less than one year at the date of purchase to be short-term investments.

Investments—The Company classifies all securities, except other investments, as available -for-sale. All available-for-sale securities are recorded at fair value with unrealized gains and losses, net of tax, recognized as a component of other comprehensive income with the exception of embedded derivatives for which the change in fair value is recorded within net realized gains on investments in the consolidated statements of income. The fair value of all securities, except other investments, is based on quoted market prices for identical or similar securities.

The fixed-income portfolio is invested primarily in US Treasury and government agency securities, corporate bonds, municipal bonds, asset-backed bonds, mortgage-related securities, and redeemable preferred stock. The Company also maintains a diverse portfolio of domestic and foreign equity securities. There were no non-US dollar-denominated investments held as of December 31, 2018 and 2017.

Premiums and discounts on fixed-income securities are recognized as adjustments to investment income, using the scientific method.

Interest on fixed-income securities is recognized in income on an accrual basis. The retrospective adjustment method is used to amortize all asset-backed securities. Gain or loss on the sale of fixed-income securities and marketable equity securities is determined using the maximum loss convention cost of all shares of that type of security held at the time of sale.

Private equity funds are organized as limited liability-type entities or corporations that hold diversified portfolios of high-yield bank loans, high-yield bonds, real estate, and health care service and product companies. Readily determinable fair values are not available for the underlying investments and these financial instruments involve varying degrees of risk. Private equity funds are less liquid than the Company's available-for-sale investments. The Company is a limited partner or member in these funds and each fund maintains specific ownership accounts on the Company's behalf. The Company accounts for private equity limited liability-type funds using the equity method, even when the Company has a minor position in the fund, as the Company has access to the information to report on the equity method and recognizes its share of each fund's earnings or losses in the periods they are reported. These private equity limited liability-type funds qualify as investment companies and the net assets or equity of these funds are recorded at fair value using net asset value (NAV) as the practical expedient. The Company accounts for private equity funds organized as corporations using the fair value option, measuring each fund at fair value, and recognizing changes in fair value in earnings in the periods they are reported.

Other long-term investments primarily include investments held for the deferred benefit of PBC's defined contribution supplemental retirement program and investments in the Federal Home Loan Bank of Des Moines (FHLB) stock, as well as investments in our noncontrolling interest in BHVN and other health care-related companies. The deferred benefit program investments are stated at fair value, which is determined based upon quoted market prices for identical or similar securities. The Company's investment in FHLB stock is accounted for under the cost method. The Company's investment in BHVN is accounted for under the equity method. Noncontrolling interests in the remaining other long-term investments are accounted for under the cost method.

Other-than-Temporary Impairment—The Company evaluates its marketable equity securities for other-than-temporary impairment based on current economic conditions, duration and severity of declines in fair value, declining credit quality, and financial condition of the issuers. Private equity funds and other long-term investments are evaluated based on qualitative and quantitative factors, including history of operating losses and the Company's knowledge of the investee, its activities, and financial condition. Fixed-income securities are evaluated by estimating the future discounted cash flows of the security compared to the Company's amortized cost basis. Cash flows are estimated using the remaining contractual cash flows of the underlying collateral, adjusted for future expected credit losses (which consider current delinquencies, expected future default rates, vintage, and collateral value by geographic region) and prepayments, as applicable. The estimated cash flows are discounted using the effective yield at the time of acquisition.

Any fixed-income securities with declines in fair value considered to be other than temporary, and that we do not intend to sell and will not be required to sell prior to recovery of amortized cost, are separated into the amount that is credit related and the amount related to all other factors. The credit loss component is recognized as a realized loss in the consolidated statements of income and is calculated as the difference between the security's amortized cost basis and the present value of its expected future cash flows. The noncredit component, calculated as the difference between the security's fair value and the present value of future expected cash flows, is recognized as a component of other comprehensive income. Any fixed-income security that the Company intends to sell or will be required to sell prior to recovery of amortized cost is written down to its fair market value with the realized loss recognized in the consolidated statements of income.

Marketable equity securities with declines in fair value considered to be other than temporary are written down to estimated fair value and the impairment charge is recorded within other-than-temporary impairment losses on investments in the consolidated statements of income.

The Company continues to review its investment portfolios under its impairment review policy. Given past market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairment losses on investments may be recorded in future periods.

Securities Lending— The Company enters into securities lending agreements with financial institutions to enhance investment income, whereby it loans certain of its securities to third parties, primarily major brokerage firms, for short periods of time through a lending agent. The Company maintains legal control over the securities it lends, retains the earnings and cash flows associated with the loaned securities and receives a fee from the borrower for the temporary use of the securities. An indemnification agreement with the lending agent protects the Company in the event a borrower becomes insolvent or fails to return any of the securities on loan to the Company.

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Company retains substantially all of the risks and rewards of asset ownership. The loaned securities are included in available-for-sale securities on the consolidated balance sheets. A liability is recognized for collateral received, required initially at 102%, on which interest is accrued. If the fair value of the collateral is at any time less than 102% of the fair value of the loaned securities, the counterparty is required to deliver additional collateral, the fair value of which, together with the collateral already held in connection with the lending transaction, is at least equal to 102% of the fair value of the loaned securities.

Derivatives—The Company's investment guidelines provide that a portion of the Company's investment portfolio may comprise convertible securities. Convertible securities diversify the portfolio and these investments have the potential to provide the opportunity of gains similar to equity securities while preserving capital investment similar to a fixed-income security. The conversion feature of the fixed-income security into an equity security is considered an embedded derivative under the accounting guidance for derivative instruments. The Company bifurcates this embedded derivative from the related fixed-income security and reports it at fair value in marketable equity securities. Changes in the fair value of the embedded derivative are recorded in the consolidated statements of income as realized gains on investments.

Subprime Risk—The investment guidelines of the Company allow its core fixed-income manager to invest in mortgage-backed securities (MBS) that are rated investment grade or higher. This would include a MBS that is collateralized with subprime mortgage loans if the security has an adequate credit rating at the time of purchase. The general categories of information considered related to the purchase and subsequent evaluation of subprime securities for other-than-temporary impairment include:

- The credit rating of the security,
- Whether the underlying loans have fixed or variable interest rates,
- The payment priority of the tranche (senior versus subordinate),
- The expected life of the tranche,
- Whether there is overcollateralization of the underlying loans to the current face value of the security, and
- Whether the principal and interest of the security is insured by a third-party bond insurer.

The Company has exposure to unrealized loss due to changes in the fair value.

Fair Values of Financial Instruments—The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and notes thereto:

Cash and Cash Equivalents, Short-Term Investments, Securities Lending Collateral and Payable, and Outstanding Checks in Excess of Bank Balances—The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values due to the short nature of their duration.

Available-for-Sale Securities—The fair values of fixed-income and marketable equity securities are based on quoted market prices. These fair values are obtained primarily from third-party pricing services, which generally use Level I or Level II inputs for the determination of fair value in accordance with Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*. Third-party pricing services normally derive the security prices through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. For securities not actively traded, the third-party pricing services 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, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Private Equity Funds—The fair values of private equity funds accounted for under the fair value option are based on the Company's proportionate ownership interest in the underlying fund's NAV. Funds accounted for under the fair value option are commercial real estate funds. The NAV is based on the underlying fair value of the commercial property held by the fund. The income capitalization, sales comparison, and cost approach are used to value the underlying property in the fund, depending on the type of asset or business being valued. Inputs include, but are not limited to, comparable sales in each asset's market, replacement cost, revenue and expense growth rates, terminal capitalization rates, and discount rates.

Receivables:

Accounts Receivable—Accounts receivable include the uncollected premium amounts from insured groups and individuals, receivables from the Federal Employee Health Benefit Program (FEHBP), receivables relating to the risk adjustment premium stabilization program, pharmaceutical rebate receivables, and other miscellaneous receivables. FEHBP is a health benefit program providing coverage to federal employees and dependents administered by the US government. Accounts receivable are shown net of an allowance based on historical collection trends and management's judgment on the collectability of these accounts. The Company writes off accounts receivable balances when there is no reasonable expectation of collecting the balances due. This balance is routinely monitored by management and any adjustments required are reflected in current operations.

Administrative Service Contract (ASC) Receivables—ASC receivables are uncollected amounts due from self-funded groups for administrative services provided and for claims paid or estimated claims incurred but not paid on behalf of the group. ASC receivables are shown net of an allowance based on historical collection trends and management's judgment on the collectability of these accounts. The Company writes off accounts receivable balances when there is no reasonable expectation of collecting the balances due. This balance is routinely monitored by management and any adjustments required are reflected in current operations.

Reinsurance Receivables—Reinsurance receivables are uncollected amounts due from other companies and government agencies, related to reinsured portions of the long-term care, accident, life, and health risks on certain policies the Company underwrites and services. Reinsurance receivables are shown net of an allowance based on historical collection trends and management's judgment on the collectability of these accounts. This balance is routinely monitored by management and any adjustments required are reflected in current operations.

Risk Adjustment—A risk adjustment program was implemented as part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (ACA). The ACA's risk adjustment program is intended to reinforce market rules that prohibit risk selection by insurers. Risk adjustment accomplishes this by transferring funds from qualified health plans with lower-risk enrollees to plans with higher-risk enrollees. The goal of the risk adjustment program is to encourage insurers to compete based on the value and efficiency of their plans rather than by attracting healthier enrollees. To the extent that risk-selecting behavior by insurers—or decisions made by enrollees—drive up costs in the health insurance marketplaces (for example, if insurers selling outside the exchange try to keep premiums low by steering sick applicants to exchange coverage), risk adjustment works to stabilize premiums and the cost of tax credit subsidies to the federal government. Risk adjustment liabilities of $4,727 and $15,137 were estimated under the risk adjustment program and included in policy reserves as of December 31, 2018 and 2017, respectively. Risk adjustment receivables of $69,919 and $30,119 were estimated under the risk adjustment program and included in accounts receivable as of December 31, 2018 and 2017, respectively. The net effect of risk adjustment program amounts is included in premium revenues on the consolidated statements of income.

Prepaid Expenses and Deferred Charges—Costs incurred that provide economic benefit to the Company are deferred and amortized on the straight-line method over the estimated useful life of the asset.

Property and Equipment—Property and equipment are stated at cost, less accumulated depreciation and amortization. Included in property and equipment are capitalized software costs, which consist of certain costs incurred in the development of internal-use software, including external direct costs of materials and services and payroll costs of employees devoted to specific software development. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets, which are 10 years for land improvements and furniture; 10 to 30 years for buildings and improvements; and three to seven years for office equipment, computer hardware, and software.

Expenditures for maintenance and repairs are expensed as incurred. Major improvements that increase the estimated useful life of an asset are capitalized. Upon the sale or retirement of assets, the recorded cost and the related accumulated depreciation are eliminated and any gain or loss on disposal is reflected in operations.

Impairment of Long-Lived Assets—Assets, such as property and equipment and capitalized software, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the fair value is deemed to be lower. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Benefit Liability—The benefit liability represents the Company's best estimate of the cost of settling claims relating to insured events that have occurred on or before the consolidated balance sheet date and are unpaid at year-end. The estimated liability includes the amount that will be required for future payments of claims that have been reported; claims related to insured events that have occurred, but that have not been reported; and unpaid claims processing expense. Unpaid claims processing expense is an estimate of the costs to record, process, and adjudicate unpaid claims.

Liabilities for both incurred but not reported and reported but not yet paid claims are determined employing actuarial methods that are commonly used by health insurance actuaries, meet Actuarial Standards of Practice (ASOP), and are appropriate under GAAP. These ASOP require that the benefit liabilities be adequate under moderately adverse circumstances. The amount of the liability for incurred but not reported claims is determined by following a detailed actuarial process that entails using both historical claim payment patterns, as well as emerging medical cost trends to project the best estimate of claim liabilities. These estimates are subject to the effects of trends in claims severity and frequency. Although considerable variability is inherent in such estimates, management believes that the benefit liability is adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

ASC benefit liability is the estimate of unreported claims from certain group contracts in which the Company is not at risk for any of the claims experience, unless a group defaults. The Company is reimbursed by the groups for amounts of actual claims paid.

Policy Reserves—Policy reserves consist mainly of active life reserves, which are established to pay future policy benefits on insurance policies for which some of the premiums received in earlier years are intended to pay anticipated benefits to be incurred in future years. Policy reserves also include groups with experience-rated refunding provisions, and reserves relating to the risk adjustment premium stabilization program. Experience-rated refunding groups are monitored monthly and their provisions are adjusted based on their current experience levels. Medical loss ratio (MLR) rebate reserves represent the Company's best estimate of premium rebates that will be owed to subscribers and/or groups for lines of business that experience an actual MLR below the minimum prescribed by law. MLR reserves are monitored monthly and the provision is recorded as an adjustment to revenue in the consolidated statements of income.

Short-term Debt—The Company is a member of the FHLB. As a member, the Company has the ability to obtain short-term cash advances subject to certain minimum collateral requirements. FHLB cash advances are presented as short-term debt on the consolidated balance sheets. The maximum credit capacity is fixed at 30% of the Company's nonconsolidated statutory-basis assets as of the prior quarter-end. As of December 31, 2018, the Company had a maximum credit capacity of $1,008,998. The Company had $0 of short-term debt as of December 31, 2018 and 2017.

Retirement Benefits—The funded status, accumulated other comprehensive income (loss), and annual expense of the Company's retirement benefit plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, long-term rate of asset return, and mortality. Accumulated other comprehensive income (loss) related to retirement benefits consists primarily of accumulated net after-tax actuarial losses. Net actuarial gains or losses are redetermined annually and principally arise from gains or losses on plan assets due to variations in the market-related value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense in future periods when they exceed 10% of the greater of the plan assets or projected benefit obligations by benefit plan. The excess of gains or losses over the 10% threshold is subject to amortization over the average remaining service period of employees of approximately 10 years. The Company uses a total portfolio return analysis to determine the expected long-term rate of return on plan assets. Factors, such as past market performance, the long-term relationship between asset classes, interest rates, and inflation, are considered in the assumption. Peer data and an average of historical returns are also reviewed for appropriateness of the selected assumption. The Company uses published mortality tables with appropriate projections as the basis of its mortality assumptions, consistent with the Company's plan participant demographics.

Other Liabilities—Other liabilities include amounts for accrued compensation, vacation, taxes, and unclaimed property.

Revenue Recognition—Premiums are earned at contractual rates and are recorded as earned during the month subscriber coverage is provided. If applicable, premiums are reported net of MLR rebates, reinsurance, experience-rated refunding provisions, and adjustments resulting from the ACA risk adjustment program. Premiums applicable to the unexpired contractual coverage periods are reflected in the accompanying consolidated balance sheets as unearned revenue.

Premiums on retrospectively rated policies are set in the same manner as other fully insured policies, with the exception of an explicit margin added to the premium to cover the uncertainty of estimated claims experience. An annual accounting is performed at the end of the contract period in order to establish if gains or losses have occurred. A rate stabilization reserve is set up for groups in gain positions and those gains are used to offset potential losses in future years. The percent of premiums subject to this provision was 9% and 20% for the years ended December 31, 2018 and 2017, respectively.

Administrative fees include revenues from administrative services group contracts that provide for the group to be at risk for all or, with supplemental insurance arrangements, a portion of their claims experience. The Company charges self-funded groups an administrative fee, which is based on the number of members in a group or the group's claim experience. Administrative fees are recognized in accordance with the terms of the contractual relationship between the Company and the customer. All claims payments under these programs are excluded from benefit expense. Administrative fees are net of any performance guarantees on self-funded group products.

Other revenue includes revenues from Connexion's insurance agency business, Vivacity's wellness services, and self-funded pharmaceutical pricing services.

The Federal Employees Program accounted for 21% and 17% of total Company revenue in 2018 and 2017, respectively.

In March 2017, the Company announced it would no longer offer health coverage to the Washington Education Association (WEA) beginning in November 2017. The Company's decision was based on WEA's pursuit of a two-carrier model, which would have led to significant losses for PREMERA. The WEA accounted for 0% and 12% of total Company revenue in 2018 and 2017, respectively. Since terminating the contract, the Company has sold contracts directly to Washington state school districts, except those headquartered in Clark County. The Company was able to retain many of the school districts it insured through the WEA and sell insurance to new districts that were not a part of the WEA plan.

Reinsurance—Reinsurance premiums, claims, and claims processing expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

Quality Improvement Expense—Quality improvement expenses are administrative health care costs that meet the health care quality improvement expense criteria as defined by Centers for Medicare & Medicaid Services for MLR reporting purposes.

Insurer Fee—Health insurance issuers are assessed an annual, nondeductible fee to fund some of the provisions of the ACA. The annual fee was $14,300,000 in 2018 and was allocated to individual health insurers based upon the ratio of the amount of the insurer's net premiums written compared to the amount of health insurance written by all US carriers during the preceding calendar year. The fee was $0 in 2017 because of a one-year suspension on the collection of the fee in 2017. The 2018 fee was payable once the entity provided health insurance for any US health risk in 2018 and was due on September 30, 2018. The Company's share of the insurer fee was $69,716 and $0, in 2018 and 2017, respectively. It is estimated to be $0 in 2019 due to a one-year suspension of the fee.

Federal Income Taxes—The Company files as the common parent of an affiliated group. The liability method is used in accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws expected to be in effect when the differences are anticipated to reverse. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted.

Judgment is required in determining the Company's effective tax rate and in evaluating its tax positions. The Company establishes accruals for uncertain tax positions when, despite the belief that the Company's tax return positions are fully supportable, the Company believes that its positions may not be fully sustained, primarily given the risks associated with tax litigation or disputes. The uncertain tax position accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The Company's effective tax rate includes the impact of changes to the accruals for uncertain tax positions. The Company classifies interest and penalties on tax-related matters as other expense in the consolidated statements of income.

Contingent Liabilities—The Company has a number of regulatory and legal matters outstanding, as discussed further in Note 10—*Commitments and Contingencies*. Periodically, the Company reviews the status of all significant outstanding matters to assess the potential financial exposure. When (i) it is probable that an asset has been impaired or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, the estimated loss is recorded in the consolidated statements of income. The Company provides disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both of these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the consolidated financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. Accruals made are based on the best information available at the time, which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

Recently Adopted Accounting Pronouncements—In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The update allows for a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Act"). The Company adopted this guidance for the year ending December 31, 2018. Accordingly, the

Company reclassified $2,965 of deferred tax liabilities, which were related to items remaining in AOCI as of December 31, 2017, from AOCI to general reserves in 2018. Thus, deferred tax liabilities for unrealized gains in AOCI are appropriately provided at 21%, which is the effective tax rate when the deferrals reverse.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The update defines a business while providing guidance on evaluating whether transactions should be accounted for as acquisitions (or disposals) of a group of assets or a business. The Company adopted this guidance for the year ending December 31, 2018. The impact of adoption was not material to the consolidated financial statements and disclosures.

New Accounting Pronouncements Not Yet Adopted—In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This update requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized in a software licensing arrangement under the internal-use software guidance in Accounting Standards Codification Topic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software*. This guidance is effective for the year ending December 31, 2021, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments aim to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies when preparing the disclosures. A number of disclosure requirements that are not decision-useful to users are eliminated and some decision-useful disclosures that will not impose significant costs on preparers are added. This guidance is effective for the year ending December 31, 2022, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU eliminates, amends, and adds disclosure requirements for fair value measurements. These amendments are expected to provide more decision-useful information for financial statement users. This guidance is effective for the year ending December 31, 2020, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This amendment requires entities to disaggregate the service cost component from the other components of the benefit cost and present the service cost component in the same income statement line item as other employee compensation costs arising from services rendered by the applicable employees during the period. The other components of net benefit cost must be presented separately in the income statement from the service cost component and outside a subtotal of income from operations. In addition, the amendment allows only the service cost component to be eligible for asset capitalization. This guidance is effective for the year ending December 31, 2019, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.* In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross verses Net)*. These updates provide clarification and implementation guidance on the previously issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Upon adoption, Topic 606 will supersede almost all existing revenue recognition guidance under GAAP, with some exceptions, including an exception for the Company's premium revenues, recorded on the premiums and MLR rebates line items on the consolidated statements of income. Premiums will continue to be accounted for in accordance with the provisions of Accounting Standards Codification Topic 944, *Financial Services—Insurance*. This guidance is effective for the year ending December 31, 2019. Adopting this guidance is not expected to have a material impact to the consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This update provides guidance on how certain transactions should be classified in the statement of cash flows. The Company plans to adopt this guidance for the year ending December 31, 2019. Adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements or disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update introduces a new model for estimating credit losses on certain financial instruments and revises disclosure requirements. Impairment losses and recoveries for available-for-sale debt securities will be recorded through an allowance account. This guidance is effective for the year ending December 31, 2021. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 supersedes Topic 840*, Leases,* within the FASB Accounting Standards Codification and enacts amendments to the guidance in the determination of whether a contract is or contains a lease. In previous GAAP, the critical determination surrounded whether a lease was considered to be a capital lease versus an operating lease. ASU No. 2016-02 changes and expands upon the critical determination factors of what should be classified as a lease for balance sheet purposes. This guidance is effective for the year ending December 31, 2020. The Company is currently evaluating the impact of this guidance on the consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The amendments in this update require that all equity instruments be measured at fair value with changes in fair value recognized through net income. The Company plans to adopt this guidance for the year ending December 31, 2019. As of December 31, 2018, the Company recognized $261,523 of unrealized gains on marketable equity securities that will be reclassified from AOCI to general reserves effective January 1, 2019. Beginning in 2019, net realized gains on investments will include any change in fair value in the period of change.

2. INVESTMENTS

The cost or amortized cost, gross unrealized gains and gross unrealized losses, and estimated fair values of available-for-sale investment securities as of December 31, 2018 and 2017, are as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
December 31, 2018:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 212,966	$ 4,368	$ (2,534)	$ 214,800
Municipal debt securities	111,620	585	(909)	111,296
Foreign government debt securities	2,668	44	(98)	2,614
Corporate debt securities	415,192	2,168	(10,733)	406,627
Redeemable preferred stock	8,715	35	(2,913)	5,837
Residential mortgage-backed securities	267,229	1,674	(6,703)	262,200
Commercial mortgage-backed securities	125,525	296	(2,053)	123,768
Other asset-backed securities	48,892	44	(233)	48,703
	1,192,807	9,214	(26,176)	1,175,845
Marketable equity securities	459,610	274,484	(12,961)	721,133
Total	$ 1,652,417	$ 283,698	$ (39,137)	$ 1,896,978

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
December 31, 2017:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 205,040	$ 6,613	$ (1,130)	$ 210,523
Municipal debt securities	112,897	1,176	(502)	113,571
Foreign government debt securities	4,806	177	(23)	4,960
Corporate debt securities	373,811	6,983	(2,418)	378,376
Redeemable preferred stock	6,945	1,035	(303)	7,677
Residential mortgage-backed securities	240,374	2,722	(2,963)	240,133
Commercial mortgage-backed securities	116,198	778	(678)	116,298
Other asset-backed securities	46,917	48	(162)	46,803
	1,106,988	19,532	(8,179)	1,118,341
Marketable equity securities	447,393	366,382	(2,586)	811,189
Total	$ 1,554,381	$ 385,914	$ (10,765)	$ 1,929,530

Accumulated derivative (loss) gain as of December 31, 2018 and 2017, was $(1,081) and $17,371, respectively. The fair value of the Company's embedded derivatives included in marketable equity securities was $54,356 and $64,230 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, the Company had pledged $44,324 in fixed-income securities at fair value and $1,890 in cash and cash equivalents to meet indemnity requirements of the State of Washington Office of the Insurance Commissioner (OIC). The Company also had pledged $1,011 in fixed-income securities at fair value with various other regulatory authorities. The Company also had pledged $175,830 in fixed-income securities at fair value, $2,479 in cash and cash equivalents, and $3,745 in FHLB stock with the FHLB.

As of December 31, 2017, the Company had pledged $44,044 in fixed-income securities at fair value and $1,675 in cash and cash equivalents to meet indemnity requirements of the OIC. The Company also had pledged $20,773 in fixed-income securities at fair value and $575 in cash and cash equivalents with various other regulatory authorities. The Company also had pledged $176,643 in fixed-income securities at fair value, $1,339 in cash and cash equivalents, and $3,121 in FHLB stock with the FHLB.

As of December 31, 2018, $59,561 of the Company's securities were on loan to primary brokerage firms. For these loans, the Company holds cash collateral of $47,590, which was reinvested into securities purchased with a fair value of $47,590, and noncash collateral of $13,497 as of December 31, 2018. The Company did not have any securities on loan or related collateral as of December 31, 2017.

The cost or amortized cost and estimated fair values of available-for-sale fixed-income securities as of December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	**Estimated Fair Value**
Due in one year or less	$ 53,049	$ 50,186
Due after one year and through three years	149,170	147,304
Due after three years and through five years	200,616	197,140
Due after five years and through ten years	243,950	242,714
Due after ten years and through twenty years	78,092	78,233
Due after twenty years	26,284	25,597
Asset-backed securities	441,646	434,671
	$ 1,192,807	$ 1,175,845

The major categories of net investment income for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Fixed-income securities	$ 41,049	$ 33,289
Marketable equity securities	14,800	13,438
Cash, cash equivalents, and other investments	2,108	508
Investment revenue	57,957	47,235
Investment expenses	(7,114)	(6,836)
Net investment income	$ 50,843	$ 40,399

Provided below is a summary of available-for-sale securities, which were in an unrealized loss position as of December 31, 2018 and 2017. There were 883 lots, or 14.48%, with $14,533 in unrealized losses that had been in a continuous loss position for 12 months or more as of December 31, 2018. There were 334 lots, or 5.96%, with $4,779 in unrealized losses that had been in a continuous loss position for 12 months or more as of December 31, 2017. In determining whether the unrealized losses of marketable equity securities are temporary or other than temporary, the Company considers (1) the length of time and extent to which the fair value has been less than cost or carrying value and (2) the financial strength of the issuer. In determining whether the losses of fixed-income securities are other than temporary, the Company considers (1) the present value of estimated future cash flows relative to the amortized cost of each lot and (2) whether it is more likely than not that the Company will be required to sell the security prior to a recovery of its amortized cost basis. Management does not believe that any individual unrealized loss as of December 31, 2018, represents an other-than-temporary impairment.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 156,672	$ (1,204)	$ 58,128	$ (1,330)	$ 214,800	$ (2,534)
Municipal debt securities	70,633	(362)	40,663	(547)	111,296	(909)
Foreign government debt securities	2,296	(68)	318	(30)	2,614	(98)
Corporate debt securities	320,567	(6,204)	86,061	(4,529)	406,628	(10,733)
Redeemable preferred stock	5,035	(2,350)	802	(563)	5,837	(2,913)
Residential mortgage-backed securities	130,239	(789)	131,960	(5,914)	262,199	(6,703)
Commercial mortgage-backed securities	70,104	(599)	53,665	(1,454)	123,769	(2,053)
Other asset-backed securities	36,823	(67)	11,878	(166)	48,701	(233)
Marketable equity securities	666,777	(12,961)	-	-	666,777	(12,961)
	$ 1,459,146	$ (24,604)	$ 383,475	$ (14,533)	$ 1,842,621	$ (39,137)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 197,983	$ (723)	$ 12,539	$ (407)	$ 210,522	$ (1,130)
Municipal debt securities	102,585	(374)	10,987	(128)	113,572	(502)
Foreign government debt securities	4,274	(6)	685	(17)	4,959	(23)
Corporate debt securities	359,455	(2,012)	18,921	(406)	378,376	(2,418)
Redeemable preferred stock	6,035	(156)	1,642	(147)	7,677	(303)
Residential mortgage-backed securities	157,126	(619)	83,007	(2,344)	240,133	(2,963)
Commercial mortgage-backed securities	107,659	(451)	8,640	(227)	116,299	(678)
Other asset-backed securities	42,131	(126)	4,672	(36)	46,803	(162)
Marketable equity securities	720,848	(1,519)	26,111	(1,067)	746,959	(2,586)
	$ 1,698,096	$ (5,986)	$ 167,204	$ (4,779)	$ 1,865,300	$ (10,765)

Proceeds from disposals of available-for-sale short-term investments, fixed-income securities, marketable equity securities, and related gross realized gains and losses on those disposals for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Proceeds from sales of short-term investments	$ 6,986	$ 13,357
Proceeds from sales of fixed-income securities	403,575	419,285
Proceeds from sales of marketable equity securities	204,492	138,038
Proceeds from maturities, redemptions, calls, and pay downs	80,572	96,023
Total	$ 695,625	$ 666,703
Disposals of short-term investments:		
Gross realized gains	$ 16	$ 70
Gross realized losses	(1)	(167)
	15	(97)
Disposals of fixed-income securities:		
Gross realized gains	1,949	5,308
Gross realized losses	(6,023)	(3,729)
	(4,074)	1,579
Disposals of marketable equity securities:		
Gross realized gains	72,302	42,097
Gross realized losses	(8,057)	(5,956)
	64,245	36,141
Changes in fair value of embedded derivatives	(18,452)	5,748
Other-than-temporary decline in fair value of available-for-sale securities	(2,909)	(1,994)
Net realized gain on available-for-sale investments	$ 38,825	$ 41,377

For the year ended December 31, 2018, the Company recognized in earnings other-than-temporary declines in fair value associated with fixed-income securities of $752 and equity securities of $2,157. For the year ended December 31, 2017, the Company recognized in earnings other-than-temporary declines in fair value associated with fixed-income securities of $24 and equity securities of $1,970.

Activity related to the credit component recognized in earnings on fixed-income securities held by the Company for which a portion of the other-than-temporary impairment loss remains in AOCI as of December 31, 2018 and 2017, is as follows:

	2018	**2017**
Beginning balance at January 1	$ 7,139	$ 7,675
Additions for the credit component on debt securities in which other-than-temporary impairment was not previously recognized (initial credit impairments)	105	-
Additions for the credit component on debt securities in which other-than-temporary impairment was previously recognized (subsequent credit impairments)	-	-
Reductions for securities sold during the period	(1,086)	(536)
Ending balance at December 31	$ 6,158	$ 7,139

The Company held several equity funds as of December 31, 2018 and 2017. These funds were accounted for at fair value, which was based on NAV as a practical expedient, and included within marketable equity securities. The fair value and unrealized gain of the funds was $169,197 and $69,326, respectively, as of December 31, 2018. The fair value and unrealized gain of the funds was $176,876 and $91,493 respectively, as of December 31, 2017. The fund agreements contain a clause restricting all contributions and withdrawals to the first business day of each month. There were no unfunded capital commitments related to these funds as of December 31, 2018 and 2017.

Private Equity Funds—The Company held several private equity funds as of December 31, 2018 and 2017. Most of the funds held as of December 31, 2018, were accounted for under the equity method, and one was accounted for under the fair value option. The book value of the equity method funds was $224,509 and $203,718 as of December 31, 2018 and 2017, respectively. The related equity earnings recorded in net realized gain on investments were $8,505 and $11,411 for the years ended December 31, 2018 and 2017, respectively. The fair value of the fair value option fund, which was based on NAV as a practical expedient, was $35,921 and $33,287 as of December 31, 2018 and 2017, respectively. The related change in fair value recorded in net realized gain on investments for the fund was $1,324 and $282 for the years ended December 31, 2018 and 2017, respectively, and the related dividend income was $1,309 and $1,638 for the years ended December 31, 2018 and 2017, respectively.

The Company had unfunded capital commitments of $44,398 and $41,192 for private equity funds owned as of December 31, 2018 and 2017, respectively.

Other Long-Term Investments—Other long-term investments include the Company's nonqualified supplemental defined benefit plan covering certain officers, as well as investments in business ventures where the Company has more than a minor influence. See Note 8 for a discussion on the nonqualified defined contribution retirement program, which had assets of $12,126 and $14,069 as of December 31, 2018 and 2017, respectively.

Investments in joint ventures are accounted for under the equity method, as the Company has more than a minor influence over their operations through a combination of its voting, governance, and other rights. As of December 31, 2018 and 2017, the book value of joint ventures was $5,450 and $4,832, respectively. The Company recognized $573 and $816 of loss for its share of equity losses during 2018 and 2017, respectively, in net realized gain on investments.

The Company's investment in FHLB stock is accounted for under the cost method. The book value of this investment was $3,745 and $3,121 as of December 31, 2018 and 2017, respectively.

The Company's investment in other preferred stock is accounted for under the cost method. The combined book value of these investments totaled $13,000 and $2,874 as of December 31, 2018 and 2017, respectively.

The Company's investments in the remaining other long-term investments consist of other immaterial investments, which are carried at cost.

The Company recognized in earnings other-than-temporary declines in fair value associated with other long-term investments of $2,333 and $0 during 2018 and 2017, respectively, in net realized gain on investments.

Securities Lending Program—The Company receives collateral in the form of cash or securities. Cash collateral is primarily reinvested to purchase short-term investments. At December 31, 2018, the fair value of the cash collateral received on securities lending was $47,590 and the fair value of security collateral received was $13,497. At December 31, 2017, the fair value of the cash collateral received on securities lending was $0 and the fair value of security collateral received was $0. The value of the collateral represented 103% of the market value of the securities on loan at December 31, 2018.

The Company's securities lending transactions were accounted for as secured borrowings with significant investment categories as follows:

	Overnight and Continuous
December 31, 2018:	
Repurchase agreements	$ 4,338
Certificates of deposit	27,389
U.S. Treasury securities and obligations of U.S. government corporations and agencies	11,094
Corporate debt securities	9,890
Residential mortgage-backed securities	2,404
Other asset-backed securities	5,972
Total	$61,087

3. FAIR VALUE

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by the fair value guidance, are as follows:

Level I—Quoted prices for identical assets or liabilities in active markets at the measurement date.

Level II—Other observable inputs that reflect quoted market prices for assets either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), inputs other than quoted prices that are observable, and inputs derived principally from or corroborated by other observable market data for substantially the full term of the asset or liability.

Level III—Unobservable inputs that cannot be corroborated by other observable market data at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of assets and liabilities recorded at fair value in the consolidated balance sheets:

Cash Equivalents—Cash equivalents include highly rated money market mutual funds. The carrying value approximates fair value as the funds are purchased at par with maturities of three months or less. The Company designates all cash equivalents as Level I given their status as short-term, investment-grade assets.

Short-Term Investments, Fixed-Income Securities, Marketable Equity Securities, and Securities Lending Collateral and Payable—at Fair Value—Fair values are based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services, which generally use Level I or Level II inputs for the determination of fair value in accordance with the fair value guidance. Third-party pricing services normally derive the security prices through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information. For securities not actively traded, the third-party pricing services 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, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Investments measured at NAV—The Company invests in one private equity fund accounted for under the fair value option—a commercial real estate fund. As a practical expedient to value the investment in the fund, which has attributes of an investment company and does not have a readily determinable fair value, the Company relies on its proportionate ownership interest in the underlying fund's NAV. The NAV was based on the underlying fair value of the commercial property held by the fund. The income capitalization, sales comparison, and cost approach were used to value the underlying property in the fund, depending on the type of asset or business being valued. Inputs for valuation include, but are not limited to, comparable sales in each asset's market, replacement cost, revenue and expense growth rates, terminal capitalization rates, and discount rates.

The Company invests in several equity funds accounted for at fair value, which were based on NAV as a practical expedient, and are included within marketable equity securities. The NAV of each fund was based on the underlying fair value of the publicly traded equities held by the funds.

The following tables summarize fair value measurements by level as of December 31, 2018 and 2017, for assets and liabilities measured at fair value on a recurring basis:

	Level I	**Level II**	**Level III**	**Total**
December 31, 2018:				
Cash equivalents	$ 50,452	$ -	$ -	$ 50,452
Debt—available for sale:				
U.S. Treasury securities and obligations of US government	214,800	-	-	214,800
Municipal debt securities	-	111,296	-	111,296
Foreign government securities	-	2,614	-	2,614
Corporate debt securities	-	406,627	-	406,627
Redeemable preferred stock	-	5,837	-	5,837
Residential mortgage-backed securities	-	262,200	-	262,200
Commercial mortgage-backed securities	-	123,768	-	123,768
Other asset-backed securities	-	48,703	-	48,703
Total debt—available for sale	214,800	961,045	-	1,175,845
Marketable equity securities	486,745	65,191	-	551,936
Securities lending collateral	11,094	49,993	-	61,087
Total assets in fair value hierarchy	$ 763,091	$ 1,076,229	$ -	1,839,320
Investments measured at NAV				205,118
Assets at fair value				$ 2,044,438
Securities lending payable—at fair value	$ 11,094	$ 2,403	$ -	$ 13,497
Liabilities at fair value	$ 11,094	$ 2,403	$ -	$ 13,497

	Level I	Level II	Level III	Total
December 31, 2017:				
Cash equivalents	$ 37,468	$ -	$ -	$ 37,468
Debt—available for sale:				
U.S. Treasury securities and obligations of US government	210,523	-	-	210,523
Municipal debt securities	-	113,571	-	113,571
Foreign government securities	-	4,960	-	4,960
Corporate debt securities	-	378,376	-	378,376
Redeemable preferred stock	-	7,677	-	7,677
Residential mortgage-backed securities	-	240,133	-	240,133
Commercial mortgage-backed securities	-	116,298	-	116,298
Other asset-backed securities	-	46,803	-	46,803
Total debt—available for sale	210,523	907,818	-	1,118,341
Marketable equity securities	563,920	70,393	-	634,313
Total assets in fair value hierarchy	$ 811,911	$ 978,211	$ -	1,790,122
Investments measured at NAV				210,163
Assets at fair value				$ 2,000,285

There were no Level III investments as of December 31, 2018 and 2017.

There were no transfers between Levels I and II during 2018 or 2017, and there were no transfers in or out of Level III during 2018 or 2017. There were no nonfinancial instruments remeasured at fair value during 2018 or 2017.

4. PROPERTY AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of property and equipment as of December 31, 2018 and 2017, is set forth below:

	2018	2017
Land and land improvements	$ 14,831	$ 14,831
Buildings and improvements	78,378	74,536
Office and computer equipment	56,290	51,687
Software	146,327	140,993
	295,826	282,047
Less accumulated depreciation and amortization	(206,770)	(193,964)
Total property and equipment	$ 89,056	$ 88,083

5. BENEFIT LIABILITY

Activity in the benefit liability as of December 31, 2018 and 2017, is summarized as follows:

	2018	2017
Claims liability at beginning of year	$ 425,317	$ 530,614
Less ceded claims, beginning of year	(17,584)	(25,669)
Less other benefit-related receivables and liabilities—beginning of year	(86,360)	(114,226)
Net claims liability—beginning of year	321,373	390,719
Add incurred claims related to:		
Current year	3,198,974	3,124,048
Prior years	(75,727)	(35,014)
Total incurred claims	3,123,247	3,089,034
Deduct paid claims related to:		
Current year	(2,873,801)	(2,822,611)
Prior years	(222,523)	(335,769)
Total paid claims	(3,096,324)	(3,158,380)
Net claims liability—end of year	348,296	321,373
Ceded claims, end of year	19,735	17,584
Other benefit-related receivables and liabilities—end of year	87,804	86,360
Claims liability at end of year	455,835	425,317
Life reserves	1,105	1,195
Unpaid claims processing liability	11,638	10,816
Benefit liability at end of year	$ 468,578	$ 437,328

As of December 31, 2018, the amounts include favorable development on prior-year estimates of $1,678 and $14,567 of reinsurance and other benefit-related receivables and payables, respectively. As of December 31, 2017, the amounts include favorable development on prior-year estimates of $2,706 and $7,275 of reinsurance and other benefit-related receivables and payables, respectively. As the benefit liability includes various actuarially developed estimates, the Company's actual claims experience may be more or less than the Company's previously developed estimates. The Company's benefit liability as of December 31, 2017 and 2016, was decreased by $59,482 and $25,033, respectively, in the following year for claims that had occurred on or prior to those consolidated balance sheet dates. These adjustments resulted from the Company's actual benefit expense related to prior years totaling less than the estimates previously made by the Company. These changes in reserves are primarily driven by lower-than-expected health system utilization levels and more efficient claims handling and processing, which results in higher completion factors. Adjustments of prior-year estimates may result in additional benefit expenses or, as the Company experienced during each of the last two years, a reduction in benefit expenses may be offset as the Company establishes its accrual for current-year benefit expenses. No return premiums were due as a result of the adjustments in the benefit liability. Adjustments made to the benefit liability for unpaid claims processing expense during 2018 and 2017 were immaterial.

Incurred and paid claims development, net of reinsurance, for the years ended December 31, 2018 and 2017, is as follows:

	Cumulative Incurred Claims, Net of Reinsurance	
	(unaudited)	
Claim Year	**2017**	**2018**
2017	$ 3,124,048	$ 3,048,321
2018		3,198,974
		$ 6,247,295

	Cumulative Paid Claims, Net of Reinsurance	
	(unaudited)	
Claim Year	**2017**	**2018**
2017	$(2,822,611)	$(3,045,134)
2018		(2,873,801)
		(5,918,935)
Net remaining outstanding liabilities prior to 2017		19,936
Net claim liability, end of year		$ 348,296

6. REINSURANCE

The Company reinsures with other companies and the government portions of the accident and health risks on certain policies it underwrites and services. Premiums and claims ceded under reinsurance contracts for the years ended December 31, 2018 and 2017, were as follows:

	2018	**2017**
Premiums	$ 26,137	$ 27,575
Claims	(77,486)	(52,839)

On January 1, 2017, the Alaska Comprehensive Health Insurance Association established the Alaska Reinsurance Program, in which the Company is a participating health care insurer. During 2018, premium revenues and claims ceded under the program totaled $9,668, and $58,774, respectively. During 2017, premium revenues and claims ceded under the program totaled $11,651, and $27,785, respectively. The Company had reinsurance receivables related to the Alaska Reinsurance Program of $13,361 and $12,609 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the Company had reinsurance receivables from an unaffiliated reinsurer related to its ceded long-term care insurance products of $94,880 and $88,378, respectively.

7. FEDERAL AND STATE INCOME TAXES

The provision (benefit) for federal and state income taxes for the years ended December 31, 2018 and 2017, consists of the following:

	2018	**2017**
Federal income tax:		
Current	$(191,117)	$ 38,819
Deferred	192,442	(385,893)
	1,325	(347,074)
State income tax—current	(29)	61
Total	$ 1,296	$(347,013)

For the years ended December 31, 2018 and 2017, the rate at which the Company provides for income taxes differs from the statutory federal rate primarily due to the following:

	2018		**2017**	
	Amount	**Rate**	**Amount**	**Rate**
Provision computed at statutory rates	$ 49,476	21.0 %	$ 62,928	35.0 %
Effect of Section 833(b)	(64,882)	(27.5)	(70,623)	(39.3)
Effect of other permanent differences	1,479	0.6	(1,448)	(0.8)
Effect of corporate tax rate change	-	-	3,466	1.9
Decrease in federal valuation allowance	-	-	(346,242)	(192.6)
State income tax—net of federal benefit	(23)	-	48	-
Nondeductible insurer fee	14,640	6.2	-	-
Other	606	0.3	4,858	2.7
Total	$ 1,296	0.6 %	$ (347,013)	(193.1)%

The Act enacted on December 22, 2017, made broad and complex changes to the US tax code, including, but not limited to, repeal of Corporate Minimum Tax, changes to how existing minimum tax credit (MTC) carryforwards can be realized, and reduction in the statutory tax rate from 35% to 21% effective January 1, 2018.

The Company has completed the accounting for the tax effects of the Act under Accounting Standards Codification Topic 740, *Income Taxes*, in 2018. No material adjustment is recorded as a result.

The Company had $388,931 of alternative MTC available at December 31, 2017. The Company expects to use MTC to offset $9,024 of federal income tax and receive $189,954 (50% of the remaining MTC) as refundable credit in tax year 2018. The remaining MTC as of December 31, 2018, will be used to offset future tax liability or be refunded to the Company in the next three tax years (2019 to 2021).

Deferred federal income taxes for the years ended December 31, 2018 and 2017, consist of the following:

	2018	**2017**
Deferred tax assets:		
MTC	$ 189,953	$ 390,227
Deferred compensation and accrued incentive	12,545	13,305
Postretirement benefits	9,286	8,863
Benefit liability	5,548	5,218
Impairment loss on available-for-sale investments	25,073	20,823
Unrecognized retirement benefit cost	20,255	16,513
Step-up in basis of land	443	443
Other assets	6,181	4,154
Total deferred federal income tax assets	269,284	459,546
Valuation allowance	-	-
Deferred federal income tax assets—net	269,284	459,546
Deferred tax liabilities:		
Unrealized gain on investments	(51,358)	(78,781)
Fixed assets	(5,272)	(4,075)
Prepaid pension asset	(28,558)	(28,547)
Investments	(9,100)	(11,886)
Other	(927)	(911)
Total deferred federal income tax liabilities	(95,215)	(124,200)
Net deferred federal income tax assets	$ 174,069	$ 335,346

The gross deferred tax assets decreased in 2018 from 2017 mainly due to the reclassification of 50% MTC from deferred tax assets to federal receivable. The gross deferred tax liabilities decreased in 2018 from 2017 mainly due to the decrease in unrealized gain on investments.

The Company establishes a valuation allowance for deferred tax assets when it is more likely than not that the deferred tax assets will not be realized in the future, and releases the valuation allowance when that is no longer applicable. No valuation allowance is needed for 2018 or 2017 because it is more likely than not that the deferred tax assets will be realized in the future.

Judgment is required in determining the Company's effective tax rate and evaluating its tax positions. The Company establishes accruals for certain tax reserves when, despite the belief that the Company's tax return positions are fully supportable, the Company believes that its tax position may not be fully sustained, primarily given the risks associated with tax litigation or disputes. The tax reserve accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law, and emerging legislation. The Company's effective tax rate includes the impact of tax reserve accruals and changes to accruals.

There were no penalties or interest accrued as of December 31, 2018 or 2017. Uncertain tax positions are not material as of December 31, 2018 and 2017. Tax years ended December 31, 2018, 2017, 2016, and 2015, remain subject to Internal Revenue Service examination.

8. EMPLOYEE BENEFITS

Defined Benefit Retirement Plans: Pension Equity Plan and Nonqualified Supplemental Plans—

Retirement Benefits—The Company provides a pension equity plan covering substantially all of its employees and employees of its subsidiaries.

The Company has one PREMERA-wide nonqualified defined benefit supplemental retirement program covering certain officers approved by the board of directors as having a significant corporate-wide impact on accomplishing the Company's strategic goals and objectives. Contributions to nonqualified supplemental retirement plans are maintained in a rabbi trust and are, therefore, not considered plan assets of the supplemental defined benefit retirement plans. In the event of the Company's insolvency, trust assets can be used to satisfy the claims of general creditors.

The funded status of the Company's defined benefit plans and amounts recognized as of December 31, 2018 and 2017, is as follows:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 360,103	$ 321,472
Service cost	21,317	19,751
Interest cost	12,984	13,493
Settlements	(3,181)	-
Actuarial (gain) loss	(7,143)	26,712
Benefits paid	(16,306)	(19,475)
Administrative expenses paid	(2,038)	(1,850)
Benefit obligation at end of year	365,736	360,103
Change in plan assets:		
Fair value of plan assets at beginning of year	401,149	363,448
Actual return on plan assets	(17,615)	48,769
Employer contributions	27,072	10,256
Benefits paid	(16,306)	(19,475)
Administrative expenses paid	(2,038)	(1,850)
Fair value of plan assets at end of year	392,262	401,148
Overfunded status of the plans	$ 26,526	$ 41,045
Net amount included in the consolidated balance sheets:		
Prepaid expenses and deferred charges	$ 39,190	$ 55,217
Retirement benefits	(12,664)	(14,172)
Net amount at end of year	$ 26,526	$ 41,045

Net defined benefit plan costs for the years ended December 31, 2018 and 2017, include the following:

	2018	2017
Service cost	$ 21,317	$ 19,751
Interest cost	12,984	13,493
Return on assets	(23,657)	(22,730)
Net loss amortization	4,259	3,756
Prior service cost amortization	450	450
Net defined benefit cost	$ 15,353	$ 14,720

Weighted-average assumptions used to determine net defined benefit cost for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Discount rate	3.7 %	4.2 %
Expected return on plan assets	6.3	6.3
Rate of compensation increase	2.5-8.5	2.5–8.5

Weighted-average assumptions used to determine benefit obligations as of December 31, 2018 and 2017, were as follows:

	2018	2017
Discount rate	4.3 %	3.7 %
Rate of compensation increase	2.0–10.0	2.5–8.5

The Company’s defined benefit plan asset allocation as of December 31, 2018 and 2017, and target allocation for 2019, is as follows:

	Target Allocation	Percentage of Plan Assets at December 31	
Asset Category	**2019**	**2018**	**2017**
Fixed income	76 %	68 %	67 %
Equity securities	21	26	28
Real estate	3	6	5
Total	100 %	100 %	100 %

In managing the plan assets, the Company’s objective is to maintain adequate liquidity and asset value to ensure the payment of current benefits while growing plan assets over time to maintain or improve long-term funded status. The Company attempts to mitigate risk to the plan assets through the Company’s investment policy, which places limits on the overall mix, quality of investments, and concentrations in individual investments. In addition to producing a reasonable return, the investment strategy seeks to minimize the volatility in employer expense and cash flow.

The expected return on plan assets assumption for the Company’s defined benefit plans is based on many factors, including forecasted market returns, projected inflation rates, and historical asset returns.

Plan assets include a diversified mix of fixed maturity securities and equity securities across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk.

Fixed maturity securities primarily include US Treasury securities, long duration corporate bonds, and asset-backed investments issued by the US government and corporations. Equity securities primarily consist of collective trusts invested in domestic and foreign equities. The allocation to real estate is to be invested in commercial real estate properties via a commingled trust. As of December 31, 2018 and 2017, there were no significant concentrations of investments in the plan assets.

Fair values of our plan assets are based on quoted market prices, where available. These fair values are obtained from third-party pricing services, which obtain each fund's NAV directly from the fund sponsor. Fund sponsors use Level I or Level II inputs, based upon available market observable information, to price each fund's underlying investments and calculate the NAV of the fund as of the reporting date. All investments held in the portfolio as of December 31, 2018 and 2017, are traded on retail or institutional markets.

Plan assets recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The fair values of our pension benefit assets and other benefit assets as of December 31, 2018 and 2017, by asset category and level inputs, as defined by Accounting Standards Codification Topic 820 regarding fair value measurements and disclosures (see Note 3 for additional information regarding the definition of level inputs) are as follows:

	Level I	**Level II**	**Level III**	**Total**
December 31, 2018:				
US Treasury securities and obligations of US government	$56,621	$ 386	$ -	$ 57,007
Municipal debt securities	-	10,334	-	10,334
Corporate debt securities	-	149,314	-	149,314
Mutual funds:				
Fixed-income funds	24,103	-	-	24,103
Money market funds	13,934	-	-	13,934
Investments measured at NAV				141,582
	$94,658	$160,034	$ -	$396,274

	Level I	**Level II**	**Level III**	**Total**
December 31, 2017:				
US Treasury securities and obligations of US government	$49,091	$ -	$ -	$ 49,091
Municipal debt securities	-	12,618	-	12,618
Corporate debt securities	-	163,382	-	163,382
Mutual funds:				
Fixed-income funds	21,546	-	-	21,546
Money market funds	3,098	-	-	3,098
Investments measured at NAV				150,190
	$73,735	$176,000	$ -	$399,925

There were no transfers between Levels I, II, or III during 2018 or 2017.

Investments measured at NAV as of December 31, 2018 and 2017, are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency
December 31, 2018:			
Common/Collective Trust Funds			
Domestic equity funds	$ 77,304	$ -	Monthly with 30 days' notice
International equity funds	39,478	-	Monthly with 30 days' notice
Real estate funds	24,800	-	Quarterly with 45 days' notice
	$141,582	$ -	

	Fair Value	Unfunded Commitments	Redemption Frequency
December 31, 2017:			
Common/Collective Trust Funds			
Domestic equity funds	$ 83,135	$ -	Monthly with 30 days' notice
International equity funds	44,427	-	Monthly with 30 days' notice
Real estate funds	22,628	-	Quarterly with 45 days' notice
	$150,190	$ -	

The fair value of the assets in the rabbi trust as of December 31, 2018 and 2017, was $15,919 and $12,565, respectively, and is composed of marketable equity securities and cash equivalents.

The accumulated benefit obligation for the defined benefit plans was $333,988 and $334,905 as of December 31, 2018 and 2017, respectively. The Company expects to make $14,900 in cash contributions to its defined benefit plans during 2019.

Expected benefit payments during the years ending December 31 are as follows:

2019	$ 18,308
2020	18,526
2021	19,726
2022	21,152
2023	21,836
2024–2028	124,317

Other Supplemental Retirement Programs—The Company has a nonqualified defined contribution retirement program covering officers. The expense related to this program was $4,018 and $2,706 in 2018 and 2017, respectively.

The Company funds the deferred benefits of the defined contribution program through the establishment of a separate deferred benefit trust. The fair value of the trust assets, which are included in other long-term investments, was $12,126 and $14,069 as of December 31, 2018 and 2017, respectively. Realized and unrealized gains and losses from the assets included in the trust accrue to the participants. However, participants only have an unsecured interest in trust assets. In the event of the Company's insolvency, trust assets can be used to satisfy the claims of general creditors. Deferred benefits relating to these programs were $12,125 and $14,069 as of December 31, 2018 and 2017, respectively, recorded within retirement benefits in the consolidated balance sheets.

Deferred Contribution Retirement Savings Plan—The Company has a deferred contribution retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code, in which its employees are automatically enrolled within 30 days following the date of hire, unless they have affirmatively elected not to participate. The Company made total contributions of $7,041 and $7,044 to the plan in 2018 and 2017, respectively.

Other Postretirement Benefits—The Company maintains a postretirement benefit plan, which provides certain health care benefits for eligible retired employees.

The funded status of the postretirement benefit plan and the amounts recognized in the Company's consolidated financial statements as of December 31, 2018 and 2017, is as follows:

	2018	**2017**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 48,890	$ 51,736
Service cost	1,174	1,061
Interest cost	1,791	1,810
Actuarial gain	(10,611)	(4,986)
Benefits paid	(792)	(731)
Benefit obligation at end of year	40,452	48,890
Fair value of plan assets	-	-
Underfunded status of the plan	$(40,452)	$(48,890)
Net amount included in the consolidated balance sheets—pension and postretirement benefits at end of year	$(40,452)	$(48,890)

The net periodic benefit cost for the years ended December 31, 2018 and 2017, includes the following:

	2018	2017
Service cost	$1,174	$1,061
Interest cost	1,791	1,810
Net loss amortization	89	-
Prior service cost amortization—net of plan amendments	(250)	(250)
Net periodic benefit cost	$2,804	$2,621

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2018 and 2017, were as follows:

	2018	2017
Discount rate	3.8 %	4.3 %
Health care cost trend rates	6.5	7.0

Weighted-average assumptions used to determine benefit obligations as of December 31, 2018 and 2017, were as follows:

	2018	2017
Discount rate	4.4 %	3.8 %
Health care cost trend rates	6.3	6.5

Health care cost trend rates are assumed to decrease over future years, ending at 5.0% in 2024. Assumed health care cost trend rates have a significant effect on the amounts reported for the nonpension postretirement benefit plans.

The Company does not hold plan assets for the postretirement benefit plan and expects to contribute $1,225 to this plan in 2019.

Expected benefit payments during the years ending December 31 are as follows:

2019	$1,225
2020	1,236
2021	1,245
2022	1,271
2023	1,300
2024–2028	7,305

Amounts Recognized in AOCI—The amounts included in AOCI that have not been recognized as components of net periodic benefit costs as of December 31, 2018 and 2017, are as follows:

	Defined Benefit Retirement Plans		Other Postretirement Benefits	
	2018	2017	2018	2017
Balance at beginning of year	$ 71,950	$ 75,484	$ 6,684	$ 11,420
Amounts amortized during the year:				
Net gain	(4,259)	(3,756)	(89)	-
Net prior service (credit) cost	(450)	(450)	250	250
Occurring during the year:				
Net loss (gain)	34,128	672	(10,611)	(4,986)
Recognition due to settlement	(1,150)	-	-	-
Accumulated other comprehensive loss (income) recognized at December 31	$ 100,219	$ 71,950	$ (3,766)	$ 6,684

	Defined Benefit Retirement Plans		Other Postretirement Benefits	
	2018	2017	2018	2017
Net prior service cost (credit)	$ 97,404	$ 3,264	$(3,446)	$ (570)
Net loss (gain)	2,815	68,686	(320)	7,254
Accumulated other comprehensive loss (income) recognized at December 31	$ 100,219	$71,950	$(3,766)	$ 6,684

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from AOCI into net periodic benefit costs over the next year are as follows:

	Defined Benefit Retirement Plans	Other Postretirement Benefits
Amortization of net prior service cost (credit)	$ 403	$(250)
Amortization of net loss	3,462	-

9. LEASES

The Company has contractual obligations in the form of operating leases for a data center, office space, and related office equipment that expire at various dates. Certain leases contain various provisions for periodic rent escalation adjustments, renewal options, sublease agreements, and lease cancellations with nominal penalties. The Company's rental expense for 2018 and 2017 was $3,999 and $3,304, respectively.

Future minimum lease payments under noncancelable operating leases as of December 31, 2018, are as follows:

Years Ending December 31	**Total Leases**
2019	$ 3,788
2020	2,917
2021	2,267
2022	1,855
2023	1,563
Thereafter	-
Total	$12,390

10. COMMITMENTS AND CONTINGENCIES

Commitments—On March 1, 2017, the Commonwealth Court of Pennsylvania ordered the long-term care insurer Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company (collectively, "Penn Treaty") to be liquidated. Insurers, including the Company, will be obligated to pay a portion of Penn Treaty policyholders' claims through assessments made by guaranty associations over a period of years. The Company has recorded a liability for this insolvency of $2,405 and $3,803 as of December 31, 2018 and 2017, respectively, which is included in accounts payable and accrued liabilities on the consolidated balance sheets.

Legal Proceedings—The Company is involved from time to time in claims, proceedings, and litigation, including the following:

PREMERA is named as a defendant in the consolidated class complaint *In re: Premera Blue Cross Customer Data Security Breach Litigation* that was filed in federal court in Portland, Oregon in October 2015. This matter is part of a process called Multi-District Litigation (MDL), where there are multiple cases filed by plaintiffs in different jurisdictions across the country all alleging the same basic set of operative facts and causes of action. For purposes of judicial economy and convenience, the various lawsuits are all transferred and consolidated with one court. Here, plaintiffs across the country filed multiple lawsuits alleging violations of state and federal laws stemming from the cyberattack on PREMERA's networks that occurred in 2014. Those cases have all been transferred and consolidated in Federal District court in Oregon. PREMERA has retained defense counsel and is defending this litigation.

PREMERA, along with the Blue Cross Blue Shield Association (BCBSA) and the majority of all of the other Blue Plans, has been named as a defendant in multiple suits that make up the *In re Blue Cross Blue Shield Antitrust Litigation* matter that is being handled by a Federal District court judge in Birmingham, Alabama. This matter is part of a process called MDL, where there are multiple cases filed by plaintiffs in different jurisdictions across the country all alleging the same basic set of operative facts and causes of action. For purposes of judicial economy and convenience, the various lawsuits are all transferred and consolidated with one court. Here, plaintiffs across the country have filed multiple lawsuits alleging violation of antitrust law based on an alleged conspiracy among the Blue Plans and the BCBSA to restrain trade via the service area restrictions in the parties' license agreements. Those cases have all been transferred and consolidated in Federal District court in Alabama. PREMERA has retained its own independent counsel to defend it in these suits. PREMERA's counsel has been coordinating and cooperating in the joint defense with the BCBSA and the other Defendant Blue Plans.

The Company disputes the allegations of the foregoing claims and intends to vigorously defend against them; however, litigation is subject to inherent uncertainties and the ultimate outcome of these matters cannot presently be determined and the Company cannot estimate the range of possible losses. An unfavorable outcome in any of these matters could have a material adverse effect on the Company's consolidated financial position and the results of operations.

The Company is subject to other claims and legal actions that arise in the ordinary course of business. Although the ultimate outcome of these additional proceedings cannot be ascertained at this time, it is reasonably possible that some of them could be resolved unfavorably to the Company. Management believes that any liabilities that may arise from such proceedings would not be material in relation to the Company's consolidated financial position and results of operations as of December 31, 2018. Potential contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the consolidated financial position, results of operations, or cash flows of the Company.

11. STATE HEALTH POOL ASSESSMENT

The Company makes payments to the Washington and Alaska state health insurance pools, which were created to provide health insurance coverage to all state residents who are denied individual health insurance. Payments for assessments recorded as part of benefit expense were $2,868 and $5,999 in 2018 and 2017, respectively.

12. STATUTORY RESERVES AND NET INCOME

PBC, LWAC, and LWW (the "Companies") file regulatory reports and financial statements with various state insurance commissioners in accordance with statutory accounting practices prescribed or permitted by the respective domiciliary state insurance department. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners, as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. PBC has a permitted statutory accounting practice as of December 31, 2018 and 2017, to admit the statutory capital and surplus of Connexion's audited insurance subsidiaries. Differences between statutory reserves/unassigned surplus and statutory net income and net worth and net income as determined on a GAAP basis primarily relate to differences in accounting for net income of subsidiaries; unrealized gain or loss on available-for-sale fixed-income securities; postretirement benefits; and nonadmitted assets, such as prepaid expenses and certain furniture, equipment, and software. Assets nonadmitted by the Companies under prescribed and permitted practices were $11,040 and $9,540 as of December 31, 2018 and 2017, respectively.

The Companies met the regulatory surplus requirements as of December 31, 2018 and 2017.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the consolidated financial statements were available to be issued on March 27, 2019, and no events, other than those described in these notes, have occurred that require disclosure.

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