# KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES

Combined Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Reports Thereon)

**KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES**

**Table of Contents**

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

# Independent Auditors' Report

The Boards of Directors
Kaiser Foundation Health Plan, Inc. and Subsidiaries
and Kaiser Foundation Hospitals and Subsidiaries:

*Opinion*

We have audited the combined financial statements of Kaiser Foundation Health Plan, Inc. and Subsidiaries and Kaiser Foundation Hospitals and Subsidiaries (Health Plans and Hospitals), which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of operations and changes in net worth, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Health Plans and Hospitals as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Health Plans and Hospitals and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Responsibilities of Management for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health Plans' and Hospitals' ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.

*Auditors' Responsibilities for the Audit of the Combined Financial Statements*

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a

substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Health Plans' and Hospitals' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health Plans' and Hospitals' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

San Francisco, California
February 14, 2023

**KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES**

Combined Balance Sheets

December 31, 2022 and 2021

(In millions)

| Assets | 2022 | 2021 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 718 | $ 471 |
| Current investments | 8,229 | 8,479 |
| Securities lending collateral | 624 | 777 |
| Broker receivables | 303 | 209 |
| Accounts receivable – net | 3,769 | 3,494 |
| Inventories – net and other current assets | 2,365 | 2,037 |
| Total current assets | 16,008 | 15,467 |
| Noncurrent investments | 42,550 | 47,703 |
| Land, buildings, equipment, and software – net | 30,157 | 29,481 |
| Pension and other retirement benefits | 8,281 | 2,782 |
| Operating lease right-of-use assets | 1,211 | 1,268 |
| Other long-term assets | 1,262 | 1,226 |
| Total assets | $ 99,469 | $ 97,927 |
| **Liabilities and Net Worth** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 5,913 | $ 5,052 |
| Medical claims payable | 2,976 | 3,035 |
| Due to associated medical groups | 1,348 | 1,352 |
| Payroll and related charges | 2,495 | 2,698 |
| Securities lending payable | 624 | 777 |
| Broker payables | 394 | 753 |
| Other current debt | 499 | 1,164 |
| Other current liabilities | 3,451 | 3,148 |
| Total current liabilities | 17,700 | 17,979 |
| Long-term debt | 10,597 | 11,687 |
| Physicians' retirement plan liability | 8,295 | 11,506 |
| Operating lease liabilities | 1,011 | 1,078 |
| Other long-term liabilities | 2,945 | 2,897 |
| Total liabilities | 40,548 | 45,147 |
| Net worth | 58,921 | 52,780 |
| Total liabilities and net worth | $ 99,469 | $ 97,927 |

See accompanying notes to combined financial statements.

**KAISER FOUNDATION HEALTH PLAN, INC. AND SUBSIDIARIES AND KAISER FOUNDATION HOSPITALS AND SUBSIDIARIES**

Combined Statements of Operations and Changes in Net Worth

Years ended December 31, 2022 and 2021

(In millions)

| | 2022 | 2021 |
|---|---|---|
| Revenues: | | |
| Members' dues | $ 61,169 | $ 60,653 |
| Medicare | 24,798 | 22,968 |
| Copays, deductibles, and other | 9,441 | 9,515 |
| Total operating revenues | 95,408 | 93,136 |
| Expenses: | | |
| Medical services | 47,863 | 45,245 |
| Hospital services | 25,983 | 25,601 |
| Outpatient pharmacy and optical services | 10,682 | 10,164 |
| Other benefit costs | 7,803 | 7,175 |
| Total medical and hospital services | 92,331 | 88,185 |
| Health Plan administration | 4,347 | 4,340 |
| Total operating expenses | 96,678 | 92,525 |
| Operating income (loss) | (1,270) | 611 |
| Other income and expense: | | |
| Investment income (loss) – net | (4,040) | 6,697 |
| Interest expense and other income (expense) – net | 842 | 771 |
| Total other income and expense | (3,198) | 7,468 |
| Net income (loss) | (4,468) | 8,079 |
| Change in pension and other retirement plans | 10,745 | 8,274 |
| Change in net unrealized gains on investments | (159) | (525) |
| Other | 23 | (28) |
| Change in net worth | 6,141 | 15,800 |
| Net worth at beginning of year | 52,780 | 36,980 |
| Net worth at end of year | $ 58,921 | 52,780 |

See accompanying notes to combined financial statements.

**KAISER FOUNDATION HEALTH PLAN, INC. AND**

**SUBSIDIARIES AND KAISER FOUNDATION**

**HOSPITALS AND SUBSIDIARIES**

Combined Statements of Cash Flows

Years ended December 31, 2022 and 2021

(In millions)

| | 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (4,468) | $ 8,079 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and software amortization | 2,857 | 2,819 |
| Other amortization | 109 | 272 |
| Loss (gain) recognized on investments – net | 4,839 | (5,973) |
| Loss on land, buildings, equipment, and software – net | 39 | 38 |
| Releases of restricted donations | (19) | (23) |
| Changes in assets and liabilities: | | |
| Accounts receivable – net | (233) | (193) |
| Other assets | (768) | (354) |
| Accounts payable and accrued expenses | 813 | 150 |
| Medical claims payable | (59) | 424 |
| Due to associated medical groups | 8 | 106 |
| Payroll and related charges | (203) | (23) |
| Pension and other retirement liabilities | 1,238 | 1,260 |
| Physicians' retirement plan liability | 797 | 865 |
| Other liabilities | 334 | (251) |
| Net cash provided by operating activities | 5,284 | 7,196 |
| Cash flows from investing activities: | | |
| Additions to land, buildings, equipment, and software | (3,528) | (3,518) |
| Proceeds from investments | 40,237 | 48,901 |
| Investment purchases | (39,615) | (55,723) |
| Decrease (increase) in securities lending collateral | 153 | (141) |
| Broker receivables / payables | (453) | 88 |
| Issuance of notes receivable | (15) | (70) |
| Prepayment and repayment of notes receivable | 65 | 169 |
| Other investing | (58) | 144 |
| Net cash used in investing activities | (3,214) | (10,150) |
| Cash flows from financing activities: | | |
| Issuance of debt | 1,693 | 3,442 |
| Prepayment and repayment of debt | (3,350) | (818) |
| Increase (decrease) in securities lending payable | (153) | 141 |
| Other financing | (13) | (14) |
| Net cash provided by (used in) financing activities | (1,823) | 2,751 |
| Net change in cash and cash equivalents | 247 | (203) |
| Cash and cash equivalents at beginning of year | 471 | 674 |
| Cash and cash equivalents at end of year | $ 718 | $ 471 |
| Supplemental cash flows disclosure: | | |
| Cash paid for interest – net of capitalized amounts | $ 383 | $ 367 |

See accompanying notes to combined financial statements.

## (1) Description of Business

The accompanying combined financial statements include Kaiser Foundation Health Plan, Inc. and Subsidiaries (Health Plans) and Kaiser Foundation Hospitals and Subsidiaries (Hospitals) (collectively referred to herein as Health Plans and Hospitals). Health Plans and Hospitals is primarily comprised of not-for-profit corporations whose capital is available for charitable, educational, research, and related purposes. Health Plans is primarily comprised of health maintenance organizations that are generally exempt from federal and state income taxes. At December 31, 2022 and 2021 membership was 12.6 million and 12.5 million, respectively. At December 31, 2022 and 2021, the percentage of enrolled membership in California was approximately 74%. The principal operating subsidiaries of Kaiser Foundation Health Plan, Inc. (Health Plan, Inc.) are:

Kaiser Foundation Health Plan of Colorado

Kaiser Foundation Health Plan of Georgia, Inc.

Kaiser Foundation Health Plan of the Mid-Atlantic States, Inc.

Kaiser Foundation Health Plan of the Northwest

Kaiser Foundation Health Plan of Washington

Independent Medical Groups (Medical Groups) cooperate with Health Plans and Hospitals in conducting the Kaiser Permanente Medical Care Program. Health Plans contracts with Hospitals and the Medical Groups to provide or arrange hospital and medical services for members. Hospitals also contracts with the Medical Groups for certain professional services. Contract payments to the Medical Groups represent a substantial portion of the expenses for medical services reported in these combined financial statements. Payments from Health Plans and Hospitals constitute substantially all of the revenues for the Medical Groups. Because the Medical Groups are independent and not controlled by Health Plans and Hospitals, their financial statements are not combined or consolidated with Health Plans and Hospitals.

At December 31, 2022 and 2021, the percentage of Health Plans and Hospitals' total labor force covered under collective bargaining agreements was approximately 73% and 72%, respectively. At December 31, 2022, approximately 30% of the workforce was covered under collective bargaining agreements that were scheduled to expire within one year. At December 31, 2022, approximately 1% of the workforce was under an expired agreement, and less than 1% of the workforce was organizing and negotiating an agreement.

Health Plans and Hospitals strives to improve the health and welfare of the communities it serves through its Community Benefit investment programs. Community Benefit expenditures provide funding for programs that serve communities through research, community-based health partnerships, the provision of charity care to low-income patients, direct health coverage for low-income families, and collaboration with community clinics, health departments, and public hospitals.

Cost-based methods are used to account for losses incurred under the care and coverage by members and patient types qualifying for treatment as Community Benefit. Assigned members and patients must first prove eligibility based upon family income relative to the Federal Poverty Guidelines. Certain Community Benefit costs are determined using the out-of-pocket costs directly billed to patients or a cost-to-charge ratio applied to uncompensated charges associated with care provided to these patients.

For the year ended December 31, 2022, Community Benefit expenditures (at cost, net of approximately $5.9 billion of related revenues) were $2.8 billion, representing 2.9% of operating revenues. In comparison, for the year ended December 31, 2021, Community Benefit expenditures (at cost, net of approximately $6.0 billion of related revenues) were $2.6 billion, representing 2.8% of operating revenues.

Health Plans and Hospitals continues to be impacted by the uncertainty of the global COVID-19 pandemic, its new variants, the on-going resumption of deferred care, and the associated costs in all geographical markets it operates. Health Plans and Hospitals' response to COVID-19 has included COVID-19 care and treatment, testing, vaccination administration, and taking steps to support the health and safety of members, employees, and the communities Health Plans and Hospitals serves.

As discussed in the *Summary of Significant Accounting Policies – Use of Estimates* note, under accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect reported amounts. The impact of COVID-19 has increased the uncertainty associated with several of the assumptions underlying management's estimates. COVID-19's overall impact on Health Plans and Hospitals will be driven primarily by the intensity and duration of the pandemic, severity of new variants of the COVID-19 virus, volume of testing, the ongoing administration of COVID-19 vaccines and treatment, and the impact on the United States economy. Those primary drivers are uncertain and beyond management's control and may adversely impact Health Plans and Hospitals' membership levels, supply chain, medical costs, values of investments, and workforce, among other aspects of Health Plans and Hospitals' business. The actual impact of COVID-19 on the assumptions used in Health Plans and Hospitals' combined financial statements may differ significantly from the judgments and estimates made as of the current reporting period.

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Presentation*

The financial statements of Health Plans and Hospitals are presented on a combined basis due to the operational interdependence of these organizations and because their governing boards and management are substantially the same. These combined financial statements have been prepared in accordance with GAAP. All material intercompany balances and transactions have been eliminated. Management has evaluated subsequent events through February 14, 2023, which is the date that these combined financial statements were issued.

### *(b) Cash and Cash Equivalents*

Cash and cash equivalents include interest-bearing deposits purchased with an original or remaining maturity of three months or less. Cash and cash equivalents held by outside investment managers are classified as investments. Cash, cash equivalents, and investments that are restricted per contractual or regulatory requirements are classified as noncurrent investments.

### *(c) Investments*

Investments including equity, U.S. Treasury, government agencies, money market funds, and other marketable debt securities are reported at fair value. Investments are categorized as current assets if they are designated to be available to satisfy current liabilities. Alternative investments are reported under the equity method. Certain investments are illiquid and are valued based on the most current information available. Other-than-temporary impairment and recognized gains and losses, which are recorded on the specific identification basis, and interest, dividend income, and income from equity method alternative investments are included in investment income (loss) – net. Health Plans and Hospitals has designated a portion of its investments for the physicians' retirement plan liability related to defined retirement benefits provided for physicians associated with certain Medical Groups. These investments are unrestricted assets of Health Plans and Hospitals. A portion of investment income that represents the expected return on the investments designated for the physicians' retirement plan has been recorded as a reduction in the provision for physicians' retirement plan benefits within interest expense and other income (expense) - net and is excluded from investment income (loss) – net, as described in the *Physicians' Retirement Plan* note.

Investments are regularly reviewed for impairment and a charge is recognized when the fair value is below cost basis and is judged to be other-than-temporary. In its review of assets for impairment that is deemed other-than-temporary, management generally follows these guidelines:

- Substantially all investments are managed by outside investment managers who do not need Health Plans and Hospitals' management preapproval for sales; therefore, substantially all declines in value below cost are recognized as impairment that is other-than-temporary. Changes in estimated value for equity method alternative investments and equity investments that do not result in consolidation, are recognized in investment income (loss) – net. Therefore, these investments do not typically require impairment.
- For other securities, losses are recognized for known matters, such as bankruptcies, regardless of ownership period, and investments that have been continuously below book value for an extended period of time are evaluated for impairment that is other-than-temporary.

All other unrealized losses and all unrealized gains on fixed income securities are included as other changes in net worth.

Interest income is calculated under the effective interest method and included in investment income (loss) – net. Dividends are included in investment income (loss) – net on the ex-dividend date, which immediately follows the record date.

Health Plans and Hospitals' investment transactions are recorded on a trade date basis.

### *(d) Securities Lending Collateral and Payable*

Health Plans and Hospitals enters into securities lending agreements whereby certain securities from its portfolios are loaned to other institutions. Securities lent under such agreements remain in the portfolios of Health Plans and Hospitals. Health Plans and Hospitals receives a fee from the borrower under these agreements, which is recognized ratably over the period that the securities are lent.

Collateral, primarily cash, is required at a rate of 102% of the fair value of securities lent and is carried as securities lending collateral. The obligation of Health Plans and Hospitals to return the cash collateral is carried as securities lending payable. The fair value of securities lending collateral is determined using level 1 or 2 inputs as appropriate, as defined in the *Summary of Significant Accounting Policies – Fair Value Estimates* note. The fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities fluctuates.

### *(e) Broker Receivables and Payables*

Broker receivables and payables represent current amounts for unsettled securities sales or purchases.

### *(f) Accounts Receivable – Net*

Accounts receivable – net are comprised of members' dues, Medicare receivables, patient receivables, and other receivables.

### *(g) Inventories – Net*

Inventories, consisting primarily of pharmaceuticals and supplies, are carried at the lower of cost (generally first-in, first-out, or average price) or net realizable value.

### *(h) Land, Buildings, Equipment, and Software – Net*

Land, buildings, equipment, and software – net are stated at cost less accumulated depreciation and amortization. Software, which includes internal and external costs incurred in developing or obtaining computer software for internal use, is capitalized. Qualifying costs incurred during the application development stage are capitalized. Interest is capitalized on facilities construction and internally developed software work in progress and is added to the cost of the underlying asset.

Depreciation and amortization begin when the project is substantially complete and ready for its intended use. Software is amortized on a straight-line basis over the estimated useful lives, generally ranging from three to seven years. Buildings and equipment are depreciated on a straight-line basis over the estimated useful lives of the various classes of assets, generally ranging from 3 to 40 years.

Management evaluates alternatives for delivering services that may affect the current and future utilization of existing and planned assets and could result in an adjustment to the carrying values or remaining lives of such land, buildings, equipment, and software in the future. Management evaluates and records impairment losses or adjusts remaining lives, where applicable, based on expected utilization, projected cash flows, and recoverable values.

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, recorded cost and related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in operations.

Management estimates the fair value of asset retirement obligations that are conditional on a future event if the amount can be reasonably estimated. Estimates are developed through the identification of applicable legal requirements, identification of specific conditions requiring incremental cost at time of asset disposal, estimation of costs to remediate conditions, and estimation of remaining useful lives or date of asset disposal.

### *(i) Medical Claims Payable*

The cost of health care services is recognized in the period in which services are incurred. Medical claims payable consists of unpaid health care expenses to third party providers, which include an estimate of the cost of services provided to Health Plans' members by the third party providers that have been incurred but not reported. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and other relevant data. Estimates are monitored and reviewed and, as claim payments are received, adjudicated, and paid, estimates are revised and are reflected in current operations. Such estimates are subject to actual utilization of medical services, changes in membership and product mix, claim submission and processing patterns, medical inflation, and other relevant factors. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

### *(j) Due to Associated Medical Groups*

Due to associated medical groups consists primarily of unpaid medical expenses owed to the Medical Groups for medical services provided to members under medical services agreements with Health Plans. The cost of medical services is recognized by Health Plans in the period in which services are provided and is reflected as a component of medical and hospital services expenses.

### *(k) Self-Insured Risks*

Costs associated with self-insured risks, primarily for professional, general, and workers' compensation liabilities, are charged to operations based upon actual and estimated claims. The portion estimated to be paid during the next year is included in current liabilities. The estimate for incurred but not reported self-insured claims is based on actuarial projections of costs using historical claims and other relevant data. Estimates are monitored and reviewed and, as settlements are made or estimates are revised, adjustments are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate payments for self-insured claims are dependent on future developments, management is of the opinion that the reserve for self-insured risks is adequate. Insurance coverage, in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for professional, general, and workers' compensation liabilities. The limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

### *(l) Premium Deficiency Reserves*

Premium deficiency reserves and the related expense are recognized when it is probable that expected future health care and maintenance costs under a group of existing contracts will exceed anticipated

future premiums over the contract period. If applicable, premium deficiency reserves extending beyond one year are shown as a long-term liability. Expected investment income and interest expense are included in the calculation of premium deficiency reserves, as appropriate. The level at which contracts are grouped for evaluation purposes is generally by geographic region. The methods for making such estimates and for establishing the resulting reserves are reviewed and estimates are periodically updated, and any resulting adjustments are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ from the calculated amount. At December 31, 2022 and 2021, premium deficiency reserves were not material.

### *(m) Derivative Financial Instruments*

Derivative financial instruments are utilized primarily to manage the interest costs and the risk associated with changing interest rates. Health Plans and Hospitals enters into interest rate swaps with investment or commercial banks with significant experience with such instruments. The changes in the fair value of these derivative instruments are included in investment income (loss) – net and settlement costs are recorded as interest expense or investment income (loss) – net.

Derivative financial instruments are utilized by Health Plans and Hospitals' investment portfolio managers. These instruments include futures, forwards, options, and swaps. The changes in fair value for these derivative financial instruments are included in investment income (loss) – net.

### *(n) Revenue Recognition*

Revenues from contracts with customers include revenues from the following categories: members' dues, Medicare, copays, deductibles, and other revenues. Health Plans and Hospitals recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which Health Plans and Hospitals expects to be entitled in exchange for those goods or services. At contract inception, Health Plans and Hospitals assesses the promised goods or services in the contract and identifies the performance obligation for each promise to transfer a good or service (or bundle of goods or services) that is distinct. Revenue is recognized when performance obligations are satisfied by transferring control of the good or service provided. For the majority of Health Plans and Hospitals' operations, the primary performance obligation is to provide access to integrated health care services.

The consideration received for goods and services may include variable components. Variable consideration is included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Health Plans satisfies its performance obligation and recognizes revenue ratably over the period in which members are eligible to access integrated health care services.

*Members' Dues*

Members' dues generally include amounts received from employer groups, individuals, and government entities. The service promised is access to integrated health care services for a typical

term of one year. Members' dues are generally based on a prepaid fee and billed on a monthly, fixed, per member per month basis.

Significant variable consideration includes the following:

- *Commercial Risk Adjustment:* Health Plans participates in certain contracts with commercial large group plan sponsors that include provision for risk adjustment of members' dues based on comparative data provided by Health Plans as well as other health plan vendors participating in these same arrangements. Settlements are typically calculated and paid according to the contract provisions and final settlements are made after the contract terms expire. For the years ended December 31, 2022 and 2021, dues subject to these risk adjustment arrangements comprise 2.7% and 2.8%, respectively, of total members' dues. For the years ended December 31, 2022 and 2021, $108 million and $55 million, respectively, have been recorded as reductions to revenue for these risk adjustment arrangements.

- *Affordable Care Act (ACA) Risk Adjustment Program:* The ACA Risk Adjustment Program provides for retrospective adjustment of revenue for non-grandfathered individual and small group market plans, whether inside or outside ACA exchanges. The ACA Risk Adjustment Program is designed such that payments to plans with higher relative risk are funded by transfers from plans with lower relative risk. For the years ended December 31, 2022 and 2021, Health Plans recorded $1.3 billion and $617 million, respectively, in net revenue reductions to members' dues related to the ACA Risk Adjustment Program. At December 31, 2022 and 2021, net payables for Risk Adjustment settlements were $1.2 billion and $953 million, respectively. Receivables are recorded in accounts receivable – net and payables are recorded in accounts payable and accrued expenses on the combined financial statements.

*Medicare*

Health Plans provides various Medicare products, including the Medicare Advantage Program (Part C) and Medicare cost plans with and without prescription drug coverage and Medicare supplemental products that supplement traditional fee-for-service Medicare coverage. The majority of Health Plans and Hospitals' Medicare revenue is received from Part C. Medicare revenues are based on contracts to provide access to integrated health care services to enrolled Medicare recipients.

Revenues for Part C plans include monthly capitated payments made from the Centers for Medicare & Medicaid Services (CMS), which vary based on member health status, demographic status, and other factors.

Certain Medicare revenues are paid under cost reimbursement plans based on pre-established rates and the final settlement is made after the end of the year. Estimates of final settlements of the cost reports are recorded by Health Plans in current operations.

Revenues for Medicare also include a voluntary prescription drug benefit (Part D). Revenues for Part D include monthly capitated payments made from CMS, which are adjusted for health risk factor scores. Revenues for Part D also include amounts to reflect a portion of the health care costs for low-income Medicare beneficiaries and a risk-sharing arrangement to limit the exposure to unexpected expenses.

Medicare Part C and D revenue is subject to governmental audits and potential payment adjustments. CMS performs audits to validate the supporting documentation maintained by Health Plans and its care providers. CMS made certain audit methodology changes, effective April 3, 2023, that could create uncertainty in audit results for payment years 2018 and after.

Significant variable consideration includes the following:

- *Medicare Part C and D:* Adjustments related to annual settlements from CMS, changes in members risk scores, member demographics, and data reconciliations.

In connection with Medicare, members may have to pay copays and/or deductibles.

*Copays, Deductibles, and Other*

These revenues include copays and deductibles, third party Medicaid contracts, hospital provider fee programs, and other revenues.

Third party Medicaid contracts represent coverage to certain Medicaid enrollees through contracts with third parties known as plan partners and is recorded in copays, deductibles, and other revenues. Health Plans generally receives capitation payments on a monthly, fixed, per member per month basis. Health Plans satisfies its performance obligation and recognizes revenue ratably over the period in which enrollees are eligible to access integrated health care services, which is generally over a one year period. For both the years ended December 31, 2022 and 2021, revenues related to third party Medicaid contracts were $2.6 billion.

Significant variable consideration includes the following:

- *Copays and Deductibles:* These are member cost share amounts due to Health Plans and Hospitals. Amounts due are based on contractual agreements and evidence of coverage documentation and are typically calculated and collected at the point of service. Amounts may be fixed per unit/service or vary based on venue of care, coverage, and/or whether certain maximum out of pocket or deductible thresholds have been met.

- *Third Party Medicaid Rate Retroactivity:* Periodic settlements from third party Medicaid plan partners based on rate retroactivity.

- *Hospital Provider Fee Programs:* Certain states where Hospitals operate have enacted legislation for a hospital fee program to largely help fund Medicaid. The hospital provider fee programs charge certain hospital providers a fee that is then used to obtain federal matching funds for Medicaid. For the years ended December 31, 2022 and 2021, expenses recognized for amounts paid to the states were $327 million and $1.1 billion, respectively. The fees collected from hospital providers and the federal matching funds are used by states to fund Medicaid related initiatives and associated costs of administration. A portion of the funds are redistributed to hospital providers within the state as supplemental payments. The supplemental payments received by Hospitals under these programs vary based on Medicaid utilization, among other factors. For the years ended December 31, 2022 and 2021, revenues related to hospital provider fee programs were $582 million and $1.3 billion, respectively.

***Collectibility Assessment***

Health Plans and Hospitals generally collects payments for contracts with customers in advance of the services provided or in the month due, thus a collectibility assessment is typically not required. Health Plans and Hospitals includes an estimate of collectibility as an implicit price concession in the transaction price at contract inception and bases the amount of adjustments on a monthly evaluation of historical collection experience, aged accounts receivable, and current market conditions using a portfolio approach for certain revenue arrangements. If actual amounts of consideration ultimately received differ from the estimates, Health Plans and Hospitals adjusts these estimates, which would affect revenues in the period such variances become known.

***Disaggregation of Revenue***

Health Plans and Hospitals earns substantially all of its revenues from contracts with customers. Revenue not related to contracts with customers are included in other revenue in the table below.

For the years ended December 31, contracts with customers revenue disaggregated by geographical market were as follows (in millions):

| **Primary Geographical Markets:** | **2022** | **2021** |
|---|---|---|
| Northern California | $ 37,501 | $ 36,507 |
| Southern California | 33,670 | 32,906 |
| Colorado | 4,031 | 4,085 |
| Georgia | 2,141 | 2,045 |
| Hawaii | 1,934 | 1,849 |
| Mid-Atlantic | 5,591 | 5,279 |
| Northwest | 4,909 | 4,874 |
| Washington | 4,540 | 4,620 |
| Other | 634 | 600 |
| Total contracts with customers revenue | 94,951 | 92,765 |
| Other revenue | 457 | 371 |
| Total operating revenue | $ 95,408 | $ 93,136 |

***Contract Asset / Liability Balances***

Health Plans and Hospitals generally satisfies its performance obligation when it provides access to integrated health care services in exchange for consideration from its customers. The timing of Health Plans and Hospitals' performance may differ from the timing of the customer's payment, which may result in the recognition of a contract asset or a contract liability. At both December 31, 2022 and 2021, there were no material contract assets with customers.

At December 31, Health Plans and Hospitals' contract liabilities, recorded in other current liabilities, were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Opening (January 1) | $ 939 | $ 945 |
| Closing balance | 976 | 939 |
| Increase (decrease) | $ 37 | $ (6) |

For the years ended December 31, 2022 and 2021, the majority of both contract liability balances at January 1, 2022 and 2021 of $939 million and $945 million, respectively, were recognized.

***Significant Judgments***

Below is a summary of significant judgments related to the recognition of revenue that significantly affect the determination of the amount and timing of revenue for Health Plans and Hospitals.

For the performance obligation related to access to integrated health care services, Health Plans and Hospitals transfers promised services by providing access to integrated health care services over time. A time-elapsed output method is used for revenue recognition to measure progress because Health Plans and Hospitals transfers promised services by providing access to integrated health care services over the period that the member is entitled to the services.

Determining a measure of progress requires management to make judgments that affect the timing of revenue recognized. Health Plans and Hospitals has determined that the above method provides a faithful depiction of the transfer of goods or services to the customer. Health Plans and Hospitals stands ready to provide coverage for integrated health care services as needed and efforts are expended evenly throughout the period.

***Practical Expedients***

Health Plans and Hospitals has elected the following significant practical expedient:

- *Incremental costs of obtaining a contract:* Health Plans and Hospitals has elected to recognize the incremental costs of obtaining a contract (primarily brokerage commissions) as an expense when incurred as the time period of most contracts with customers is one year or less and renewal commission rates are commensurate with new commission rates.

***Remaining Performance Obligations***

The remaining performance obligations greater than one year relate to contracts with customers in which the transaction price is not yet determinable for future years as the members' dues rate has not yet been negotiated and is also dependent on membership volume. For the years ended December 31, 2022 and 2021, the amount of revenues from contracts with customers with performance obligations greater than one year was $4.1 billion and $4.0 billion, respectively.

### *(o) Pension and Other Postretirement Benefits*

Health Plans and Hospitals' defined benefit pension and other postretirement benefit plans are actuarially evaluated and involve various assumptions. Critical assumptions include the discount rate and the expected rate of return on plan assets, and the rate of increase for health care costs (for postretirement benefit plans other than pension), which are important elements of expense and/or liability measurement. Other assumptions involve demographic factors such as retirement age, mortality, turnover, and the rate of compensation increases. Health Plans and Hospitals evaluates assumptions annually, or when significant plan amendments occur, and modifies them as appropriate. Pension and other postretirement costs are allocated over the service period of the employees in the plans. The non-service cost components of net benefit expense for pension, other postretirement benefits, and the physicians' retirement plan are included in interest expense and other income (expense) – net.

Health Plans and Hospitals uses a discount rate to determine the present value of the future benefit obligations. The discount rate is established based on the development of a sample bond portfolio consisting of high quality corporate bonds. From this portfolio, a spot rate curve is interpolated and used to derive a single discount rate.

Differences between actual and expected plan experience and changes in actuarial assumptions, in excess of a 10% corridor around the larger of plan assets or plan liabilities, are recognized into benefits expense over the expected average future service of active participants. Prior service costs and credits that arise from plan amendments are amortized into postretirement benefits expense over the expected average future service to full eligibility of active participants and pension benefits expense over the expected future service of active participants.

### *(p) Donations and Grants Made or Received*

Donations and grants made or received, that are contributions, are recognized at fair value in the period in which a commitment is made unconditionally, or in the period that conditions placed on the donations or grants are met. A condition is present if there is a barrier that the recipient must overcome to be entitled to the assets, and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists.

### *(q) Income Taxes*

Health Plans and Hospitals are not-for-profit corporations exempt from income taxes under Internal Revenue Code Section 501(a) as organizations described in section 501(c)(3) and the laws of the states in which they operate. Accordingly, Health Plans and Hospitals are generally not subject to federal or state income taxes. Health Plans and Hospitals are subject to income taxes on unrelated business income. A limited number of Health Plans and Hospitals' subsidiaries are for profit entities and are subject to income taxes. For the years ended December 31, 2022 and 2021, no significant income tax provision has been recorded.

### *(r) Use of Estimates*

The preparation of these combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts. Estimated fair value and impairment of investments; Medicare revenue accruals; incurred but not reported medical claims payable; physicians' retirement plan liabilities; pension and other retirement plans; self-insured professional liabilities; self-insured general and workers' compensation liabilities; land, buildings, equipment, and software impairment and useful lives; and certain amounts accrued related to the ACA Risk Adjustment Program represent significant estimates. Actual results could differ materially from those estimates.

### *(s) Fair Value Estimates*

The carrying amounts reported in the combined balance sheets for cash and cash equivalents, securities lending collateral, broker receivables, accounts receivable – net, accounts payable and accrued expenses, medical claims payable, due to associated medical groups, payroll and related charges, securities lending payable, and broker payables approximate fair value.

Investments, other than alternative investments, as discussed in the *Investments* note, are reported at fair value. The fair values of investments are based on quoted market prices, if available, or estimated using quoted market prices for similar investments. If listed prices or quotes are not available, fair value is based upon other observable inputs or models that primarily use market-based or independently sourced market parameters as inputs. In addition to market information, models incorporate transaction details such as timing of cash flows, including maturity. Fair value adjustments, including credit, liquidity, and other factors, are included, as appropriate, to arrive at a fair value measurement.

Health Plans and Hospitals utilizes a three-level valuation hierarchy for fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. For instruments classified in level 1 of the hierarchy, valuation inputs are quoted prices for identical instruments in active markets at the measurement date. For instruments classified in level 2 of the hierarchy, valuation inputs are directly observable but do not qualify as level 1 inputs. Examples of level 2 inputs include: quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; other observable inputs such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates; and market-correlated inputs that are derived principally from or corroborated by observable market data. For instruments classified in level 3 of the hierarchy, valuation inputs are unobservable inputs for the instrument. Level 3 inputs incorporate assumptions about the factors that market participants would use in pricing the instrument.

At December 31, 2022 and 2021, Health Plans and Hospitals held derivative financial instruments including interest rate swaps, as well as futures, forwards, options, and swaps within investment portfolios. The estimated fair values of derivative instruments were determined using level 2 inputs, including available market information and valuation methodologies, primarily discounted cash flows. Additional description and the fair value of derivative instruments are contained in the *Derivative Instruments* note.

### *(t) Natural Classification of Expenses*

For the years ended December 31, operating expenses classified by function in the combined statements of operations and changes in net worth are presented by their natural classifications as follows (in millions):

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Salaries, wages, and benefits | Outside medical costs | Depreciation and software amortization | Pharmacy and supplies costs | Other operating expenses | Total operating expenses |
| Medical services | $ 5,572 | $ 33,583 | $ 1,089 | $ 4,736 | $ 2,883 | $ 47,863 |
| Hospital services | 10,673 | 8,670 | 1,515 | 2,305 | 2,820 | 25,983 |
| Outpatient pharmacy and optical services | 2,019 | 211 | 91 | 7,962 | 399 | 10,682 |
| Other benefit costs | 808 | 6,491 | 23 | 218 | 263 | 7,803 |
| Health Plan administration | 1,544 | - | 139 | 120 | 2,544 | 4,347 |
| Total operating expenses | $ 20,616 | $ 48,955 | $ 2,857 | $ 15,341 | $ 8,909 | $ 96,678 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Salaries, wages, and benefits | Outside medical costs | Depreciation and software amortization | Pharmacy and supplies costs | Other operating expenses | Total operating expenses |
| Medical services | $ 5,552 | $ 32,114 | $ 1,132 | $ 4,037 | $ 2,410 | $ 45,245 |
| Hospital services | 10,415 | 7,766 | 1,445 | 2,258 | 3,717 | 25,601 |
| Outpatient pharmacy and optical services | 1,968 | 213 | 92 | 7,537 | 354 | 10,164 |
| Other benefit costs | 820 | 5,966 | 22 | 210 | 157 | 7,175 |
| Health Plan administration | 1,678 | - | 128 | 98 | 2,436 | 4,340 |
| Total operating expenses | $ 20,433 | $ 46,059 | $ 2,819 | $ 14,140 | $ 9,074 | $ 92,525 |

Some categories of natural class expenses are attributable to more than one function and require allocation, applied on a consistent basis. Outside medical costs include Medical Group costs and other outside medical costs. Property costs including depreciation are allocated on the basis of square footage. Indirect salaries and benefits are allocated on the basis of budgeted full time equivalent employees. Other expenses are assigned directly to specific functions as expenditures are made.

### *(u) Liquidity and Availability of Resources*

Cash and cash equivalents, current investments, and accounts receivable – net, as reported on the combined balance sheets at December 31, 2022 and 2021, are the primary liquid resources used by Health Plans and Hospitals to meet general expenditure needs within the next year. As part of liquidity management, Health Plans and Hospitals' policy is to structure and manage its financial assets to be available to meet its general expenditure needs. Health Plans and Hospitals invests cash in excess of daily requirements in current investments. To help manage unanticipated liquidity needs, Hospitals has both a credit facility and commercial paper program, as described in the *Debt* note. Additionally, although intended to satisfy long-term obligations, 43% of noncurrent investments at December 31, 2022, could be utilized within the next year if necessary.

### *(v) Recently Issued Accounting Standards*

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and subsequently refined the scope of Topic 848 in January 2021. The amendments in the standard are elective and apply to contracts, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued because of reference rate reform as well as certain other instruments that are impacted as a result of reference rate reform. The standard provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Expedients and exceptions can be elected for applying GAAP to contracts and other transactions affected by reference rate reform if certain criteria are met. The amendments are effective immediately and will be available through December 31, 2024. Management has not adopted the optional elections in Topic 848 and is evaluating the effect the new standard will have on its ongoing financial reporting.

### *(w) Leases*

Transactions give rise to leases when Health Plans and Hospitals receives substantially all the economic benefits from and has the ability to direct the use of specified property, plant, and equipment. Health Plans and Hospitals primarily has lessee activity that is classified as operating leases. Operating leases are included in operating lease right-of-use assets, other current liabilities, and operating lease liabilities in the combined balance sheets. Finance leases are included in land, buildings, equipment, and software – net, other current debt, and long-term debt in the combined balance sheets.

Right-of-use assets represent the right to use underlying assets for the lease term and lease liabilities represent obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. When discount rates implicit in leases cannot be readily determined, Health Plans and Hospitals uses the applicable incremental borrowing rate at lease commencement to perform lease classification tests and to measure lease liabilities and right-of-use assets. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

Health Plans and Hospitals has agreements with lease and non-lease components (such as common area maintenance), and generally has elected to account for the lease and non-lease components as a single lease component. For certain leases, such as service contracts with real estate and supply contracts with equipment leases, the lease and non-lease components are accounted for separately. Health Plans and Hospitals elected not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e. leases with terms of 12 months or less).

### *(x) Reclassifications*

Certain reclassifications have been made in these combined financial statements to conform 2021 information to the 2022 presentation.

## (3) Investments

Management's methods for estimating fair value of financial instruments are discussed in the *Summary of Significant Accounting Policies – Fair Value Estimates* note.

At December 31, 2022, the estimated fair value of current investments by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Significant unobservable inputs level 3 | Total |
|---|---|---|---|---|
| U.S. equity securities | $ 648 | $ — | $ — | $ 648 |
| Foreign equity securities | 13 | — | — | 13 |
| Debt securities issued by the U.S. government | — | 2,497 | — | 2,497 |
| Debt securities issued by U.S. government agencies and corporations | — | 52 | — | 52 |
| Debt securities issued by U.S. states and political subdivisions of states | — | 23 | — | 23 |
| Foreign government debt securities | — | 30 | — | 30 |
| U.S. corporate debt securities | — | 1,808 | — | 1,808 |
| Foreign corporate debt securities | — | 778 | — | 778 |
| U.S. agency mortgage-backed securities | — | 1,451 | — | 1,451 |
| Non-U.S. agency mortgage-backed securities | — | 143 | — | 143 |
| Other asset-backed securities | — | 572 | — | 572 |
| Short-term investment funds | — | 214 | — | 214 |
| Total | $ 661 | $ 7,568 | $ — | $ 8,229 |

At December 31, 2022, the estimated fair value of noncurrent investments by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Significant unobservable inputs level 3 | Total |
|---|---|---|---|---|
| U.S. equity securities | $ 1,911 | $ 147 | $ — | $ 2,058 |
| Foreign equity securities | 1,313 | 16 | — | 1,329 |
| Global equity funds | — | 2,579 | — | 2,579 |
| Debt securities issued by the U.S. government | — | 6,004 | — | 6,004 |
| Debt securities issued by U.S. government agencies and corporations | — | 167 | — | 167 |
| Foreign government debt securities | — | 503 | — | 503 |
| U.S. corporate debt securities | — | 219 | — | 219 |
| Foreign corporate debt securities | — | 239 | — | 239 |
| Non-U.S. agency mortgage-backed securities | — | 1 | 1 | 2 |
| Other asset-backed securities | — | 11 | — | 11 |
| Short-term investment funds | — | 2,174 | — | 2,174 |
| Other | — | 102 | 1 | 103 |
| | $ 3,224 | $ 12,162 | $ 2 | 15,388 |
| Alternative investments: | | | | |
| Absolute return | | | | 2,843 |
| Private equity | | | | 20,333 |
| Real assets | | | | 3,986 |
| Total | | | | $ 42,550 |

At December 31, 2021, the estimated fair value of current investments by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Significant unobservable inputs level 3 | Total |
|---|---|---|---|---|
| U.S. equity securities | $ 592 | $ — | $ — | $ 592 |
| Debt securities issued by the U.S. government | — | 2,717 | — | 2,717 |
| Debt securities issued by U.S. government agencies and corporations | — | 9 | — | 9 |
| Debt securities issued by U.S. states and political subdivisions of states | — | 72 | — | 72 |
| Foreign government debt securities | — | 10 | — | 10 |
| U.S. corporate debt securities | — | 1,949 | — | 1,949 |
| Foreign corporate debt securities | — | 1,026 | — | 1,026 |
| U.S. agency mortgage-backed securities | — | 638 | — | 638 |
| Non-U.S. agency mortgage-backed securities | — | 63 | — | 63 |
| Other asset-backed securities | — | 813 | — | 813 |
| Short-term investment funds | — | 590 | — | 590 |
| Total | $ 592 | $ 7,887 | $ — | $ 8,479 |

At December 31, 2021, the estimated fair value of noncurrent investments by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Significant unobservable inputs level 3 | Total |
|---|---|---|---|---|
| U.S. equity securities | $ 4,682 | $ 172 | $ — | $ 4,854 |
| Foreign equity securities | 2,873 | 442 | — | 3,315 |
| Global equity funds | — | 4,753 | — | 4,753 |
| Debt securities issued by the U.S. government | — | 6,112 | — | 6,112 |
| Debt securities issued by U.S. government agencies and corporations | — | 200 | — | 200 |
| Debt securities issued by U.S. states and political subdivisions of states | — | 1 | — | 1 |
| Foreign government debt securities | — | 554 | — | 554 |
| U.S. corporate debt securities | — | 670 | — | 670 |
| Foreign corporate debt securities | — | 530 | — | 530 |
| U.S. agency mortgage-backed securities | — | 6 | — | 6 |
| Non-U.S. agency mortgage-backed securities | — | 15 | 1 | 16 |
| Other asset-backed securities | — | 37 | — | 37 |
| Short-term investment funds | — | 3,097 | — | 3,097 |
| Other | — | 154 | 1 | 155 |
| | $ 7,555 | $ 16,743 | $ 2 | 24,300 |
| Alternative investments: | | | | |
| Absolute return | | | | 3,144 |
| Private equity | | | | 17,394 |
| Real assets | | | | 2,865 |
| Total | | | | $ 47,703 |

At December 31, 2022, available-for-sale debt and other securities were as follows (in millions):

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| Debt securities issued by the U.S. government | $ 8,491 | $ 10 | $ — | $ 8,501 |
| Debt securities issued by U.S. government agencies and corporations | 218 | 1 | — | 219 |
| Debt securities issued by U.S. states and political subdivisions of states | 22 | 1 | — | 23 |
| Foreign government debt securities | 474 | 59 | — | 533 |
| U.S. corporate debt securities | 1,984 | 43 | — | 2,027 |
| Foreign corporate debt securities | 984 | 33 | — | 1,017 |
| U.S. agency mortgage-backed securities | 1,440 | 11 | — | 1,451 |
| Non-U.S. agency mortgage-backed securities | 144 | 1 | — | 145 |
| Other asset-backed securities | 581 | 2 | — | 583 |
| Short-term investment funds | 2,388 | — | — | 2,388 |
| Other | 103 | — | — | 103 |
| Total | $ 16,829 | $ 161 | $ — | $ 16,990 |

At December 31, 2021, available-for-sale debt and other securities were as follows (in millions):

| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| Debt securities issued by the U.S. government | $ 8,747 | $ 82 | $ — | $ 8,829 |
| Debt securities issued by U.S. government agencies and corporations | 201 | 8 | — | 209 |
| Debt securities issued by U.S. states and political subdivisions of states | 68 | 5 | — | 73 |
| Foreign government debt securities | 521 | 43 | — | 564 |
| U.S. corporate debt securities | 2,522 | 97 | — | 2,619 |
| Foreign corporate debt securities | 1,495 | 61 | — | 1,556 |
| U.S. agency mortgage-backed securities | 634 | 10 | — | 644 |
| Non-U.S. agency mortgage-backed securities | 77 | 2 | — | 79 |
| Other asset-backed securities | 838 | 12 | — | 850 |
| Short-term investment funds | 3,687 | — | — | 3,687 |
| Other | 155 | — | — | 155 |
| Total | $ 18,945 | $ 320 | $ — | $ 19,265 |

At December 31, available-for-sale debt and other securities by contractual maturity and mortgage-backed and other asset-backed debt securities were as follows (in millions):

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| Due in one year or less | $ 3,180 | $ 3,184 | $ 4,442 | $ 4,447 |
| Due after one year through five years | 6,844 | 6,887 | 8,836 | 8,910 |
| Due after five years through ten years | 2,258 | 2,303 | 2,033 | 2,095 |
| Due after ten years | 2,382 | 2,437 | 2,085 | 2,240 |
| U.S. agency mortgage-backed securities | 1,440 | 1,451 | 634 | 644 |
| Non-U.S. agency mortgage-backed securities | 144 | 145 | 77 | 79 |
| Other asset-backed securities | 581 | 583 | 838 | 850 |
| Total | $ 16,829 | $ 16,990 | $ 18,945 | $ 19,265 |

The carrying value of alternative investments, which may include absolute return, risk parity, real assets, and private equity, is reported under the equity method. The carrying value of alternative investments have been determined by management based on available data, including information provided by fund managers or the general partners. The underlying securities within absolute return and risk parity investments are typically valued using quoted prices for identical or similar instruments within active and inactive markets. The underlying holdings within private equity and real asset investments are valued based on recent transactions, operating results, and industry and other general market conditions. Certain investments are illiquid and are valued based on the most current information available, which may be less current than the date of these combined financial statements.

Absolute return investments use advanced investment strategies, including derivatives, to generate positive long-term risk adjusted returns. Real assets are defined as any economic resources that are directly used to create value, including investments within real estate, infrastructure, natural resources, and other tangible or intangible assets. Private equity investments consist of funds that make direct investments in private companies. Management meets with alternative investment fund managers periodically to assess portfolio performance and reporting and exercises oversight over fund managers. At December 31, 2022, Hospitals' had original commitments related to alternative investments of $33.8 billion, of which $21.1 billion was invested, leaving $12.7 billion of remaining commitments. At December 31, 2021, Hospitals had original commitments related to alternative investments of $30.5 billion, of which $18.4 billion was invested, leaving $12.1 billion of remaining commitments.

For the years ended December 31, investment income (loss) – net was comprised of the following (in millions):

| | 2022 | 2021 |
|---|---|---|
| Other-than-temporary impairment | $ (1,955) | $ (964) |
| Recognized gains | 1,290 | 2,697 |
| Recognized losses | (1,401) | (280) |
| Income from equity method alternative investments | 497 | 4,696 |
| Change in fair value from equity investments | (2,383) | 632 |
| Interest, dividends, and other income – net | 661 | 565 |
| Derivative gain | 42 | 149 |
| Total investment income (loss) – net | (3,249) | 7,495 |
| Less investment income included in interest expense and other income (expense) – net | (791) | (798) |
| Investment income (loss) – net | $ (4,040) | $ 6,697 |

Absolute return, real assets, and private equity investments include redemption restrictions. Absolute return investments require 10 to 90 day written notice of intent to withdraw and are often subject to the approval and capital requirements of the fund manager. At December 31, 2022, absolute return investments of $228 million were subject to lock-up periods of up to three years. Private equity and real asset agreements do not include provisions for redemption. Distributions will be received as the underlying investments of the funds are liquidated, which is expected over the next 11 years.

The majority of debt and equity securities or funds can be redeemed within 10 days. At December 31, 2022, equity investment funds of $2.6 billion were redeemable between 10 and 30 days. At December 31, 2022, equity investment funds of $1 million had a redemption period of between 30 days and one year. No debt or equity investments require a redemption period of greater than one year.

## (4) Derivative Instruments

### *(a) Interest Rate Swaps*

At both December 31, 2022 and 2021, Health Plans and Hospitals had 11 agreements to manage interest rate fluctuations (Interest Rate Swaps) with a total notional amount of $1.1 billion. At December 31, 2022 and 2021, the fair values of these agreements were $(86) million and $(250) million, respectively, and were recorded in other long-term liabilities. For the years ended December 31, 2022 and 2021, Health Plans and Hospitals recorded $21 million and $33 million, respectively, in interest expense relating to the Interest Rate Swaps. For the years ended December 31, 2022 and 2021, net changes in fair values totaled $164 million and $72 million, respectively, and were recorded in investment income (loss) – net.

These derivatives contain reciprocal provisions whereby if Health Plans and Hospitals' or the counterparties' credit rating was to decline to certain levels, provisions would be triggered requiring Health Plans and Hospitals or the counterparties to provide certain collateral. At December 31, 2022

and 2021, no collateral was required to be posted by either Health Plans and Hospitals or the counterparties.

***(b) Derivatives Held in Investment Portfolios***

At December 31, 2022 and 2021, Health Plans and Hospitals' portfolio managers held $(8) million and $60 million, respectively, of futures, forwards, options, and swaps to attempt to protect certain investments against volatility. For the years ended December 31, 2022 and 2021, net changes in fair values totaled $13 million and $(140) million, respectively, and were recorded in investment income (loss) – net. For the years ended December 31, 2022 and 2021, gains (losses) resulting from derivative settlements totaled $(135) million and $217 million, respectively, and were recorded in investment income (loss) – net.

***(c) Information on Derivative Gain (Loss) and Fair Value***

Management's methods for estimating fair value of financial instruments are discussed in the *Summary of Significant Accounting Policies – Fair Value Estimates* note.

**Information on Derivative Gain (Loss) Mark-to-Market Valuation Recognized in Income**

(In millions)

| Derivatives not designated as hedging instruments | Statement of operations category | Gain (loss) recognized in income on derivatives for the years ended December 31, 2022 | 2021 |
|---|---|---|---|
| Interest rate swaps – related to debt | Investment income (loss) – net | $ 164 | $ 72 |
| Interest rate swaps – other | Investment income (loss) – net | — | (17) |
| Futures and forwards | Investment income (loss) – net | 14 | (128) |
| Options, rights, and warrants | Investment income (loss) – net | (1) | 5 |
| | | $ 177 | $ (68) |

**Information on Derivative Settlement Costs Recognized in Income**

(In millions)

| Derivatives not designated as hedging instruments | Statement of operations category | Gain (loss) recognized in income on derivatives for the years ended December 31, 2022 | 2021 |
|---|---|---|---|
| Interest rate swaps – related to debt | Interest expense and other income (expense) – net | $ (21) | $ (33) |
| Interest rate swaps – other | Investment income (loss) – net | 62 | 46 |
| Futures and forwards | Investment income (loss) – net | (210) | 159 |
| Options, rights, and warrants | Investment income (loss) – net | 13 | 12 |
| | | $ (156) | $ 184 |

**Information on Fair Value of Derivative Instruments – Assets**

(In millions)

| Derivatives not designated as hedging instruments | Balance sheet category | Fair value at December 31, 2022 | 2021 |
|---|---|---|---|
| Interest rate swaps – other | Noncurrent investments | $ 39 | $ 24 |
| Futures and forwards | Noncurrent investments | 14 | 75 |
| Options, rights, and warrants | Noncurrent investments | 2 | 2 |
| | | $ 55 | $ 101 |

**Information on Fair Value of Derivative Instruments – Liabilities**

(In millions)

| Derivatives not designated as hedging instruments | Balance sheet category | Fair value at December 31, 2022 | 2021 |
|---|---|---|---|
| Interest rate swaps – related to debt | Other long-term liabilities | $ 86 | $ 250 |
| Interest rate swaps – other | Other long-term liabilities | 24 | 16 |
| Futures and forwards | Other long-term liabilities | 36 | 23 |
| Options, rights, and warrants | Other long-term liabilities | 3 | 2 |
| | | $ 149 | $ 291 |

## (5) Accounts Receivable – Net

At December 31, accounts receivable – net were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Members' dues | $ 1,324 | $ 1,125 |
| Patient services | 583 | 547 |
| Medicare | 290 | 522 |
| Other | 1,572 | 1,300 |
| Total | $ 3,769 | $ 3,494 |

At both December 31, 2022 and 2021, the allowances for bad debt were not material.

## (6) Inventories – Net and Other Current Assets

At December 31, inventories – net and other current assets were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Inventories – net | $ 1,612 | $ 1,289 |
| Prepaid expenses | 536 | 637 |
| Other | 217 | 111 |
| Total | $ 2,365 | $ 2,037 |

## (7) Land, Buildings, Equipment, and Software – Net

At December 31, land, buildings, equipment, and software – net were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Land | $ 2,605 | $ 2,508 |
| Buildings and improvements | 44,021 | 42,306 |
| Furniture, equipment, and software | 15,535 | 14,855 |
| Construction and software development in progress | 3,197 | 2,770 |
| | 65,358 | 62,439 |
| Accumulated depreciation and amortization | (35,201) | (32,958) |
| Total | $ 30,157 | $ 29,481 |

Health Plans and Hospitals capitalizes interest costs on borrowings incurred during the construction, upgrade, or development of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is depreciated or amortized over the useful lives of the assets. During the years ended December 31, 2022 and 2021, Health Plans and Hospitals capitalized $72 million and $66 million, respectively, of interest in connection with various capital projects.

## (8) Medical Claims Payable

For the years ended December 31, activity in the liability for medical claims payable was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Balances at January 1 | $ 3,035 | $ 2,611 |
| Incurred related to: | | |
| Current year | 18,188 | 17,489 |
| Prior years | 68 | (311) |
| Total incurred | 18,256 | 17,178 |
| Paid related to: | | |
| Current year | 15,596 | 14,645 |
| Prior years | 2,719 | 2,109 |
| Total paid | 18,315 | 16,754 |
| Balances at December 31 | $ 2,976 | $ 3,035 |

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities are reviewed and revised as information regarding actual claims payments becomes known. Negative amounts reported for incurred related to prior years result from claims being adjudicated and paid for amounts less than originally estimated.

## (9) Other Liabilities

At December 31, other current liabilities were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Self-insured risks | $ 517 | $ 463 |
| Dues collected in advance | 955 | 916 |
| Physicians' retirement plan liability | 292 | 275 |
| Other | 1,687 | 1,494 |
| Total | $ 3,451 | $ 3,148 |

At December 31, other long-term liabilities were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Self-insured risks | $ 2,043 | $ 1,903 |
| Derivatives liability | 324 | 291 |
| Due to associated medical groups | 150 | 312 |
| Other | 428 | 391 |
| Total | $ 2,945 | $ 2,897 |

## (10) Debt

At December 31, debt was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Tax-exempt revenue bonds and taxable bonds and notes: | | |
| 0.10% to 4.45% variable rate due through 2049 | $ 1,840 | $ 1,848 |
| 2.81% to 5.00% fixed rate due through 2051 | 9,052 | 10,783 |
| Others at various rates due through 2047 | 204 | 220 |
| Total | $ 11,096 | $ 12,851 |
| Other current debt: | | |
| Commercial paper | $ 368 | $ 366 |
| Current portion of long-term debt | 131 | 798 |
| Long-term debt classified as a long-term liability | 10,597 | 11,687 |
| Total | $ 11,096 | $ 12,851 |

In March 2022, Hospitals exercised the option to redeem $870 million of tax-exempt fixed rate bonds due in 2042, which resulted in a gain on extinguishment of $22 million.

In June 2021, Hospitals issued $2.7 billion of taxable fixed rate bonds at par value. The bonds consist of $1.3 billion with a twenty-year term at a rate of 2.81% and $1.4 billion with a thirty-year term at a rate of 3.00%.

The fair value of long-term debt is based on level 2 inputs for debt with similar risk, terms, and remaining maturities. At December 31, 2022 and 2021, the carrying amount of long-term debt (including the current portion of long-term debt) totaled $10.7 billion and $12.5 billion, respectively. At December 31, 2022 and 2021, the estimated fair value of long-term debt (including the current portion of long-term debt) was approximately $9.3 billion and $13.5 billion, respectively.

At both December 31, 2022 and 2021, repurchase of variable rate bonds totaling $1.5 billion may be required at earlier than stated maturity. These bonds may be remarketed rather than repurchased. Health Plans and Hospitals has provided self liquidity for the variable rate demand bonds with put options. Additionally, at both December 31, 2022 and 2021, management had the ability to finance the acquisition of up to $3.0 billion, of any unremarketed bonds that are put using an available long-term credit facility. At both December 31, 2022 and 2021, none of these variable rate demand bonds were classified in current liabilities.

At December 31, 2022 and 2021, $264 million and $353 million, respectively, of the above tax-exempt fixed-rate revenue bonds and taxable fixed-rate bonds represented a net unamortized premium balance. At December 31, 2022 and 2021, $(44) million and $(50) million, respectively, of unamortized debt issuance cost was presented within long-term debt.

Scheduled principal payments remaining for each of the next five years and thereafter considering obligations subject to short-term remarketing as due according to their long-term amortization schedule were as follows (in millions):

| | | |
|---|---|---|
| 2023 | $ | 499 |
| 2024 | | 15 |
| 2025 | | 15 |
| 2026 | | 15 |
| 2027 | | 16 |
| Thereafter | | 10,316 |
| Total | $ | 10,876 |

*Credit Facility*

Hospitals' credit facility of $3.0 billion terminates in September 2027. Various interest rate options are available under this facility. Any revolving borrowings mature on the termination date. Hospitals pays facility fees, which range from 0.03% to 0.13% per annum, depending upon Hospitals' long-term senior unsecured debt rating. At December 31, 2022, the facility fee was at an annual rate of 0.04%. At both December 31, 2022 and 2021, no amounts were outstanding under this credit facility.

Hospitals' revolving credit facility contains a financial covenant. Under the terms of this facility, Hospitals is required to maintain a ratio of total debt to capital, as defined.

*Taxable Commercial Paper Program*

Hospitals maintains a commercial paper program providing for the issuance of up to $2.4 billion in aggregate maturity value of short-term indebtedness. The commercial paper is issued in denominations of $100,000 and will bear such interest rates, if interest-bearing, or will be sold at such discount from their face amounts, as agreed upon by Hospitals and the dealer acting in connection with the commercial paper program. The commercial paper may be issued with varying maturities up to a maximum of 270 days from the date of issuance. At December 31, 2022 and 2021, commercial paper of $368 million and $366 million, respectively, was outstanding under this program and is included within other current debt.

## (11) Pension Plans

### *(a) Defined Benefit Plan*

Health Plans and Hospitals has a defined benefit pension plan (Plan) covering substantially all their employees. Benefits are based on age at retirement, years of credited service, and average compensation for a specified period prior to retirement. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

For financial reporting purposes, the projected unit credit method is used. At December 31, 2022 and 2021, pension fund assets were held in a group trust. At December 31, 2022 and 2021, trust assets were invested in fixed-income and equity securities, with approximately 60% and 43%, respectively, of trust assets, net of liabilities, invested in alternative investments.

At December 31, the funded status of the Plan was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Change in projected benefit obligation (PBO): | | |
| Benefit obligation at beginning of year | $ 35,658 | $ 36,438 |
| Service cost | 2,051 | 2,125 |
| Interest cost | 919 | 771 |
| Plan amendments | — | 55 |
| Net actuarial gain | (12,268) | (2,278) |
| Benefits paid | (1,367) | (1,453) |
| Benefit obligation at end of year | $ 24,993 | $ 35,658 |
| Accumulated benefit obligation at end of year | $ 19,659 | $ 27,119 |
| Change in Health Plans and Hospitals' share of trust assets: | | |
| Fair value of plan assets at beginning of year | $ 37,992 | $ 33,927 |
| Actual return on plan assets | (4,847) | 5,312 |
| Contributions | — | 206 |
| Benefits paid | (1,367) | (1,453) |
| Fair value of plan assets at end of year | $ 31,778 | $ 37,992 |
| Funded status | $ 6,785 | $ 2,334 |
| Amounts recognized in the combined balance sheets consist of: | | |
| Pension and other retirement benefits | $ 6,785 | $ 2,334 |
| | $ 6,785 | $ 2,334 |
| Amounts recognized in net worth: | | |
| Net actuarial loss | $ 340 | $ 6,231 |
| Prior service cost | 93 | 105 |
| | $ 433 | $ 6,336 |

The measurement date used to determine pension valuations was December 31.

For the years ended December 31, pension expense was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Service cost | $ 2,051 | $ 2,125 |
| Interest cost | 919 | 771 |
| Expected return on plan assets | (2,212) | (2,137) |
| Amortization of net actuarial loss | 682 | 979 |
| Amortization of prior service cost | 12 | 13 |
| Net pension expense | 1,452 | 1,751 |
| Other changes in plan assets and PBO recognized in net worth: | | |
| Net actuarial gain | (5,209) | (5,453) |
| Prior service cost | — | 55 |
| Amortization of net actuarial loss | (682) | (979) |
| Amortization of prior service cost | (12) | (13) |
| Total recognized in net worth | (5,903) | (6,390) |
| Total recognized in net periodic benefit cost and net worth | $ (4,451) | $ (4,639) |

At December 31, 2022, the benefit obligation included a net actuarial gain of $12.3 billion, primarily due to the increase in the discount rate used to determine the benefit obligation from 3.10% in 2021 to 5.25% in 2022. At December 31, 2021, the benefit obligation included a net actuarial gain of $2.3 billion, primarily due to the increase in the discount rate used to determine the benefit obligation from 2.80% in 2020 to 3.10% in 2021.

Actuarial assumptions used were as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rate at January 1 for calculating service cost | 3.25% | 3.04% |
| Discount rate at January 1 for calculating interest cost | 2.59% | 2.18% |
| Discount rate for calculating December 31 PBO | 5.25% | 3.10% |
| Salary scale for calculating pension expense | 4.05% | 4.20% |
| Salary scale for calculating December 31 PBO | 4.15% | 4.05% |
| Expected long-term rate of return on plan assets for calculating pension expense | 6.75% | 6.75% |

During 2023, management expects to contribute approximately $326 million to the Plan.

The following benefit payments, which reflect expected future service, are expected to be paid (in millions):

| | | |
|---|---|---|
| 2023 | $ | 1,216 |
| 2024 | | 1,294 |
| 2025 | | 1,377 |
| 2026 | | 1,468 |
| 2027 | | 1,552 |
| 2028–2032 | | 9,109 |

*Explanation of Investment Strategies and Policies*

A total return investment approach is employed for the Plan whereby the Plan invests in a mix of equity, fixed-income, and alternative asset classes to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio will consist over time of a varying but diversified blend of equity, fixed-income, and alternative investments. Diversification includes such factors as geographic location, equity capitalization size and style, placement in the capital structure, and security type. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. The Plan's investment policy has restrictions relating to credit quality, industry/sector concentration, duration, concentration of ownership, and use of derivatives.

*Capital Market Assumption Methodology*

To determine the long-term rate of return assumption for plan assets, management incorporates historical relationships among the various asset classes and subclasses to be accessed over the investment horizon. Management's intent is to maximize portfolio efficiency. This will be accomplished by seeking the highest returns prudently available among the available asset classes. Overall portfolio volatility is managed through diversification among asset classes. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. From time to time, management reviews its long-term investment strategy and reconciles that strategy with the long-term liabilities of the Plan. This asset-liability study produces a range of expected returns over medium and long-term time periods. Those intermediate and long-term investment projections form the basis for the expected long-term rate of return on assets.

At December 31, 2022, the estimated fair value of total pension trust assets – net by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 484 | $ 2,951 | $ 3,435 |
| Broker receivables | — | 238 | 238 |
| Securities lending collateral | — | 315 | 315 |
| U.S. equity securities | 2,055 | 1,743 | 3,798 |
| Foreign equity securities | 1,782 | — | 1,782 |
| Global equity funds | — | 3,010 | 3,010 |
| Debt securities issued by the U.S. government | — | 3,217 | 3,217 |
| Debt securities issued by U.S. government agencies and corporations | — | 1 | 1 |
| Debt securities issued by U.S. states and political subdivisions of states | — | 389 | 389 |
| Foreign government debt securities | — | 220 | 220 |
| U.S. corporate debt securities | — | 6,861 | 6,861 |
| Foreign corporate debt securities | — | 773 | 773 |
| U.S. agency mortgage-backed securities | — | 69 | 69 |
| Non-U.S. agency mortgage-backed securities | — | 11 | 11 |
| Other | — | 222 | 222 |
| Total assets | 4,321 | 20,020 | 24,341 |
| Liabilities: | | | |
| Broker payables | — | 396 | 396 |
| Securities lending payable | — | 315 | 315 |
| Other liabilities | 53 | 804 | 857 |
| Total liabilities | 53 | 1,515 | 1,568 |
| Fair value of pension trust assets – net | $ 4,268 | $ 18,505 | 22,773 |
| Investments measured at net asset value (NAV): | | | |
| Alternative investments: | | | |
| Absolute return | | | 2,254 |
| Private equity | | | 28,099 |
| Real assets | | | 4,251 |
| Total pension trust assets – net | | | $ 57,377 |

At December 31, 2022, Health Plans and Hospitals' share of pension trust assets was 55.4%, or $31.8 billion. The remaining share of pension trust assets is for Medical Groups and a related party associated with Medical Groups.

At December 31, 2021, the estimated fair value of total pension trust assets – net by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ 209 | $ 2,540 | $ 2,749 |
| Broker receivables | — | 125 | 125 |
| Securities lending collateral | — | 767 | 767 |
| U.S. equity securities | 6,302 | 2,359 | 8,661 |
| Foreign equity securities | 4,390 | 217 | 4,607 |
| Global equity funds | — | 7,605 | 7,605 |
| Debt securities issued by the U.S. government | — | 6,047 | 6,047 |
| Debt securities issued by U.S. government agencies and corporations | — | 1 | 1 |
| Debt securities issued by U.S. states and political subdivisions of states | — | 398 | 398 |
| Foreign government debt securities | — | 421 | 421 |
| U.S. corporate debt securities | — | 7,563 | 7,563 |
| Foreign corporate debt securities | — | 963 | 963 |
| U.S. agency mortgage-backed securities | — | 19 | 19 |
| Non-U.S. agency mortgage-backed securities | — | 32 | 32 |
| Other | 1 | 284 | 285 |
| Total assets | 10,902 | 29,341 | 40,243 |
| Liabilities: | | | |
| Broker payables | — | 256 | 256 |
| Securities lending payable | — | 767 | 767 |
| Other liabilities | 2 | 654 | 656 |
| Total liabilities | 2 | 1,677 | 1,679 |
| Fair value of pension trust assets – net | $ 10,900 | $ 27,664 | 38,564 |
| Investments measured at net asset value (NAV): | | | |
| Alternative investments: | | | |
| Absolute return | | | 3,377 |
| Private equity | | | 22,370 |
| Real assets | | | 3,087 |
| Total pension trust assets – net | | | $ 67,398 |

At December 31, 2021, Health Plans and Hospitals' share of pension trust assets was 56.4%, or $38.0 billion. The remaining share of pension trust assets is for Medical Groups and a related party associated with Medical Groups.

The change in fair value of pension trust assets for the year ended December 31, 2022 was reflected in the funded status at December 31, 2022, the measurement date of the pension benefit obligation.

The target asset allocations for calculating pension expense were as follows:

| | 2022 and 2021 target |
|---|---|
| Equity securities | 32% |
| Debt securities | 30% |
| Alternative investments | 38% |
| Total | 100% |

Alternative investments, which include absolute return, real assets, and private equity, held in the pension trust are reported at NAV as a practical expedient for fair value. These investments are typically valued on a monthly or quarterly basis based on information provided by fund managers or general partners with an annual audit performed by an independent third party, but often have a lag in the availability of data. Management solicits valuation updates from fund managers and corroborating data from public markets to determine any needed fair value adjustments. Absolute return investments use advanced investment strategies, including derivatives, to generate positive long-term risk adjusted returns. Real assets are defined as any economic resources that are directly used to create value, including investments within real estate, infrastructure, natural resources, and other tangible or intangible assets. Private equity investments consist of funds that make direct investments in private companies. At December 31, 2022, the pension trust had original commitments related to alternative investments of $48.4 billion, of which $28.5 billion was invested, leaving $19.9 billion of remaining commitments. At December 31, 2021, the pension trust had original commitments related to alternative investments of $39.4 billion, of which $22.5 billion was invested, leaving $16.9 billion of remaining commitments.

Absolute return, real assets, and private equity investments include redemption restrictions. Absolute return investments require 10 to 90 day written notice of intent to withdraw and are often subject to the approval and capital requirements of the fund manager. At December 31, 2022, absolute return investments of $162 million were subject to lock-up periods of up to three years. Private equity and real asset agreements do not include provisions for redemption. Distributions will be received as the underlying investments of the funds are liquidated, which is expected over the next 11 years.

The majority of debt and equity securities can be redeemed within 10 days. At December 31, 2022, equity investment funds of $3.0 billion were redeemable between 10 and 30 days. No debt or equity investments require a redemption period of greater than 30 days.

### *(b) Defined Contribution Plans*

Health Plans and Hospitals has defined contribution plans for eligible employees. Employer contributions and costs are typically based on a percentage of covered employees' eligible compensation. For the years ended December 31, 2022 and 2021, plan expense was $422 million and $419 million, respectively.

### *(c) Multi-Employer Plans*

Health Plans and Hospitals participates in a number of multi-employer defined benefit pension plans under the terms of collective bargaining agreements that cover some union-represented employees. Some risks of participating in these multi-employer plans that differ from single-employer plans include:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- Employers that choose to stop participating in a multi-employer plan may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

For the years ended December 31, 2022 and 2021, Health Plans and Hospitals' participation in these plans is outlined in the table below. The "EIN/PN" column provides the Employer Identification Number (EIN) and the three-digit plan number (PN), if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2022 and 2021 is for the plan's year-end in 2021 and 2020, respectively. The zone status is based on information that Health Plans and Hospitals obtained from publicly available information provided by the United States Department of Labor. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are between 65% and 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP status pending/implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The "Health Plans and Hospitals' contributions to plan exceeded more than 5% of total contributions" columns represent those plans where Health Plans and Hospitals was listed in the plans' Forms 5500 as providing more than 5% of the total contributions for the plan years listed. The last column lists the expiration dates of the collective bargaining agreements to which the plans are subject. There have been no significant changes that affect the comparability of 2022 and 2021 employer expense.

| Pension fund | EIN-PN | Pension Protection Act zone status 2022 | Pension Protection Act zone status 2021 | FIP/RP status pending / implemented | (in millions) Health Plans and Hospitals' contributions December 31, 2022 | (in millions) Health Plans and Hospitals' contributions December 31, 2021 | Surcharge imposed | Health Plans and Hospitals' contributions to plan exceeded more than 5% of total contributions[1] 2022 | Health Plans and Hospitals' contributions to plan exceeded more than 5% of total contributions[1] 2021 | Expiration date of collective bargaining agreement |
|---|---|---|---|---|---|---|---|---|---|---|
| IUOE Stationary Engineers Local 39 Pension Fund[2] | 946118939 -001 | Green | Green | N/A | $ 14 | $ 12 | N/A | Yes | Yes | 9/17/2021 |
| Southern California United Food and Commercial Workers Unions and Drug Employers Pension Fund | 516029925 -001 | Green | Green | N/A | 6 | 6 | No | Yes | Yes | 9/30/2025 |
| Oregon Retail Employees Pension Trust[3] | 936074377 -001 | Red | Red | Implemented | 4 | 3 | No | Yes | Yes | 9/30/2023 - 10/31/2023 |
| International Painters and Allied Trades Industry Pension Fund (IUPAT Industry Pension Fund) | 526073909 -001 | Red | Red | Implemented | 2 | 2 | No | No | No | 6/30/2023 |
| Other[4][5] | Various | Green | Green | N/A | 34 | 20 | N/A | No | No | 05/31/2023 - 7/31/2026 |
| Other[4] | Various | Yellow | Yellow | N/A | — | 12 | No | No | No | N/A |
| Total expense | | | | | $ 60 | $ 55 | | | | |

(1) The majority of plans have a plan year end of December 31st and information is available via form 5500.

(2) Expired Agreements: IUOE Stationary Engineers Local 39 expired as of September 17, 2021.

(3) Surcharge Imposed Change: Effective 4/1/2022 the surcharge for Oregon Retail Employees Pension Trust was eliminated and rate increase was imposed.

(4) Pension Protection Act Zone Status Changes from Q4 2021: Sound Retirement Trust (UFCW Local 21) changed from "Yellow" to "Green" status in Q1 2022. Carpenters Pension Trust Fund for Northern California changed from "Yellow" to "Green" status in Q2 2022. The "Yellow" status in Q4 2022 represents zero dollars.

(5) Other green status includes Sound Retirement Trust (United Food and Commercial Workers Union Local 21), $2M, and Carpenters Pension Trust Fund for Northern California, $11M, both have Funding Improvement Plans implemented.

## (12) Postretirement Benefits Other than Pensions

### *(a) Defined Benefit Plan*

Certain employees may become eligible for postretirement health care and life insurance benefits while working for Health Plans and Hospitals. Benefits available to retirees, through both affiliated and unaffiliated provider networks, vary by employee group. Postretirement health care benefits available to retirees include subsidized Medicare premiums, medical and prescription drug benefits, dental benefits, vision benefits, and contributions to health care savings accounts.

At December 31, the funded status of postretirement benefits was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 5,813 | $ 6,259 |
| Service cost | 161 | 184 |
| Interest cost | 150 | 136 |
| Plan amendments | 33 | 8 |
| Benefits paid or provided | (194) | (186) |
| Net actuarial gain | (2,525) | (588) |
| Benefit obligation at end of year | $ 3,438 | $ 5,813 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $ 6,261 | $ 5,677 |
| Actual return on plan assets | (1,249) | 658 |
| Contributions | 116 | 112 |
| Benefits paid or provided | (194) | (186) |
| Fair value of plan assets at end of year | $ 4,934 | $ 6,261 |
| Funded status | $ 1,496 | $ 448 |
| Amounts recognized in the combined balance sheets consist of: | | |
| Pension and other retirement benefits | $ 1,496 | $ 448 |
| | $ 1,496 | $ 448 |
| Amounts recognized in net worth: | | |
| Net actuarial loss (gain) | $ (784) | $ 251 |
| Prior service credit | (91) | (299) |
| | $ (875) | $ (48) |

The measurement date used to determine postretirement benefits valuations was December 31.

For the years ended December 31, postretirement benefits expense (income) was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Service cost | $ 161 | $ 184 |
| Interest cost | 150 | 136 |
| Expected return on plan assets | (275) | (261) |
| Amortization of net actuarial loss | 34 | 74 |
| Amortization of prior service credit | (175) | (308) |
| Postretirement benefits expense (income) | (105) | (175) |
| Other changes in plan assets and benefit obligations recognized in net worth: | | |
| Net actuarial gain | (1,001) | (985) |
| Prior service cost | 33 | 8 |
| Amortization of net actuarial loss | (34) | (74) |
| Amortization of prior service credit | 175 | 308 |
| Total recognized in net worth | (827) | (743) |
| Total recognized in net periodic benefit cost and net worth | $ (932) | $ (918) |

During the year ended December 31, 2022, employer contributions and benefits paid or provided were $116 million and $194 million, respectively. During the year ended December 31, 2021, employer contributions and benefits paid or provided were $112 million and $186 million, respectively. During 2022 and 2021, there were no participant contributions from active employees.

At December 31, 2022, the benefit obligation included a net actuarial gain of $2.5 billion, primarily due to the increase in discount rates used to determine the benefit obligation from 3.05% in 2021 to 5.25% in 2022. At December 31, 2021, the benefit obligation included a net actuarial gain of $588 million, primarily due to the increase in discount rates used to determine the benefit obligation from 2.80% in 2020 to 3.05% in 2021.

Actuarial assumptions used were as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rates at January 1 for calculating service cost | 3.35% | 3.20% |
| Discount rates at January 1 for calculating interest cost | 2.62% | 2.22% |
| Discount rate for calculating December 31 accumulated postretirement benefit obligation | 5.25% | 3.05% |
| Expected long-term rate of return on plan assets for calculating benefits expense | 5.00% | 5.00% |

The following were the assumed health care cost trend rates used to determine the December 31, 2022 and 2021 benefit obligation and postretirement benefits expense for the years ended December 31, 2022 and 2021:

| | Basic medical pre-65/post-65 | Prescription drug pre-65/post-65 | Medicare Part D | Dental | Medicare Part A&B | Medicare Part C | Supplemental medical pre-65/post-65 |
|---|---|---|---|---|---|---|---|
| Initial trends: | | | | | | | |
| Benefit obligation – 2021 | 5.45% / 4.90% | 5.70% | 4.50% | 4.50% | 4.90% | 4.50% | 5.45% / 4.90% |
| Benefit expense – 2021 | 5.00% / 4.75% | 5.50% | 4.00% | 4.50% | 4.75% | 4.50% | 5.00% / 4.75% |
| Benefit obligation – 2022 | 5.75% / 4.95% | 6.35% | 4.50% | 4.50% | 4.00% | 4.50% | 5.75% / 4.95% |
| Benefit expense – 2022 | 5.45% / 4.90% | 5.70% | 4.50% | 4.50% | 4.90% | 4.50% | 5.45% / 4.90% |
| Ultimate trend rate | 4.50% / 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% / 4.50% |
| First year at ultimate trend rate | 2038 / 2028 | 2038 | n/a | n/a | 2030 | n/a | 2038 / 2028 |

The following benefit payments, which reflect expected future service, are expected to be paid or provided (in millions):

| | |
|---|---|
| 2023 | $ 160 |
| 2024 | 170 |
| 2025 | 183 |
| 2026 | 196 |
| 2027 | 210 |
| 2028-2032 | 1,053 |

*Explanation of Investment Strategies and Policies*

A total return investment approach is employed for the retirement benefit trust whereby the assets are invested in funds with underlying investments comprised of various asset classes to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio will consist over time of a varying but diversified blend of investments. Diversification includes such factors as geographic location, equity capitalization size and style, placement in the capital structure, and security type. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. The retirement benefit trust investment policy has restrictions relating to credit quality, industry/sector concentration, duration, concentration of ownership, and use of derivatives.

*Capital Market Assumption Methodology*

To determine the long-term rate of return assumption for plan assets, management incorporates historical relationships among the various asset classes and subclasses to be accessed over the investment horizon. Management's intent is to maximize portfolio efficiency. This will be accomplished by seeking the highest returns prudently available among the available asset classes. Overall portfolio

volatility is managed through diversification among asset classes. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. From time to time, management reviews its long-term investment strategy and reconciles that strategy with the long-term liabilities of the benefit plan. This asset-liability study produces a range of expected returns over medium and long-term time periods. Those intermediate and long-term investment projections form the basis for the expected long-term rate of return on assets.

At December 31, 2022, the estimated fair value of retirement benefit trust assets – net by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ — | $ 35 | $ 35 |
| Other | — | 1 | 1 |
| Total assets | — | 36 | 36 |
| Liabilities: | | | |
| Other liabilities | — | 2 | 2 |
| Total liabilities | — | 2 | 2 |
| Total fair value of retirement benefit trust assets | $ — | $ 34 | 34 |
| Investments measured at NAV: | | | |
| Alternative investments: | | | |
| Absolute return | | | 23 |
| Risk parity | | | 4,877 |
| Total retirement benefit trust assets | | | $ 4,934 |

At December 31, 2021, the estimated fair value of retirement benefit trust assets – net by level was as follows (in millions):

| | Quoted prices in active markets for identical assets level 1 | Significant other observable inputs level 2 | Total |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents | $ — | $ 23 | $ 23 |
| Broker receivables | — | 3 | 3 |
| Other | — | 3 | 3 |
| Total assets | — | 29 | 29 |
| Liabilities: | | | |
| Other liabilities | — | 2 | 2 |
| Total liabilities | — | 2 | 2 |
| Total fair value of retirement benefit trust assets | $ — | $ 27 | 27 |
| Investments measured at NAV: | | | |
| Alternative investments: | | | |
| Absolute return | | | 102 |
| Risk parity | | | 6,132 |
| Total retirement benefit trust assets | | | $ 6,261 |

The change in fair value of postretirement benefit trust assets for the year ended December 31, 2022 was reflected in the funded status at December 31, 2022, the measurement date of the postretirement benefit obligation.

The target asset allocations for calculating postretirement benefits expense were as follows:

| | 2022 and 2021 target |
|---|---|
| Equity securities | 0% |
| Debt securities | 0% |
| Alternative investments | 100% |
| Total | 100% |

Alternative investments, which include absolute return and risk parity, held in the retirement benefit trust are reported at NAV as a practical expedient for fair value. These investments are typically valued on a monthly or quarterly basis based on information provided by fund managers or general partners

with an annual audit performed by an independent third party, but often have a lag in the availability of data. Management solicits valuation updates from fund managers and corroborating data from public markets to determine any needed fair value adjustments. Absolute return investments use advanced investment strategies, including derivatives, to generate positive long-term risk adjusted returns. Risk parity funds use risk as the primary factor to allocate investments among asset classes.

Absolute return and risk parity investments include redemption restrictions. Absolute return and risk parity investments require 10 to 90 day written notice of intent to withdraw and are often subject to the approval and capital requirements of the fund manager. At December 31, 2022, absolute return investments of $16 million were subject to lock-up periods of up to two years.

***(b) Multi-Employer Plans***

Health Plans and Hospitals participates in multi-employer union-administered retiree medical health and welfare plans that provide benefits to some union employees. Benefits for retirees under these plans are negotiated as part of the collective bargaining process. For the years ended December 31, 2022 and 2021, Health Plans and Hospitals' employer expense for current and retiree benefits was $110 million and $105 million, respectively.

## (13) Physicians' Retirement Plan

Kaiser Foundation Health Plan, Inc. provides defined retirement benefits for physicians associated with certain Medical Groups. Benefits are determined based on the length of service and level of compensation of each participant. The plan is unfunded and is not subject to the Employee Retirement Income Security Act.

At December 31, the accrued liability for physicians' retirement plan was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Physicians' retirement plan liability at January 1 | $ 11,781 | $ 12,035 |
| Service cost | 608 | 643 |
| Interest cost | 329 | 277 |
| Net actuarial gain | (3,871) | (937) |
| Benefits paid | (260) | (237) |
| Physicians' retirement plan liability at December 31 | $ 8,587 | $ 11,781 |
| Accumulated benefit obligation at end of year | $ 6,939 | $ 8,960 |
| Change in plan assets: | | |
| Fair value of plan assets at the beginning of year | $ — | $ — |
| Company contributions | 260 | 237 |
| Benefits paid | (260) | (237) |
| Fair value of plan assets at end of year | $ — | $ — |
| Funded status | $ (8,587) | $ (11,781) |
| Amounts recognized in the combined balance sheets consist of: | | |
| Noncurrent assets | $ — | $ — |
| Other current liabilities | (292) | (275) |
| Physicians' retirement plan liability | (8,295) | (11,506) |
| | $ (8,587) | $ (11,781) |
| Amounts recognized in net worth: | | |
| Net actuarial loss (gain) | $ (686) | $ 3,322 |

The measurement date used to determine physicians' retirement valuation was December 31.

A portion of the investments of Health Plans has been designated by management for the liabilities of the physicians' retirement plan. These investments are not held in trust or otherwise legally segregated and are not restricted even though it has been intended that these assets be used to pay the obligations of the physicians' retirement plan.

For purposes of the physicians' retirement plan expense, the expected return on assets is the portion of investment income that represents the expected return on the investments designated for the physicians' retirement plan. This amount is recorded as a reduction in the expense for the physicians' retirement plan within interest expense and other income (expense) – net and is excluded from investment income (loss) – net, as described below and in the *Summary of Significant Accounting Policies – Investments* note.

For the years ended December 31, physicians' retirement plan provision was as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Service cost | $ 608 | $ 643 |
| Interest cost | 329 | 277 |
| Amortization of net actuarial loss | 137 | 202 |
| Total benefit expense | 1,074 | 1,122 |
| Expected return on assets – investment income included in interest expense and other income (expense) – net | (791) | (798) |
| Net benefit expense | 283 | 324 |
| Other changes in projected benefit obligations recognized in net worth: | | |
| Net actuarial gain | (3,871) | (937) |
| Amortization of net actuarial loss | (137) | (202) |
| Total recognized in net worth | (4,008) | (1,139) |
| Total recognized in net periodic benefit cost and net worth | $ (3,725) | $ (815) |

At December 31, 2022, the benefit obligation included a net actuarial gain of $3.9 billion, primarily due to the increase in the discount rate used to determine the benefit obligation from 3.20% in 2021 to 5.30% in 2022. At December 31, 2021, the benefit obligation included a net actuarial gain of $937 million, primarily due to the increase in the discount rate used to determine the benefit obligation from 2.95% in 2020 to 3.20% in 2021.

Actuarial assumptions used were as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rate at January 1 for calculating service cost | 3.40% | 3.27% |
| Discount rate at January 1 for calculating interest cost | 2.80% | 2.42% |
| Discount rate for calculating December 31 PBO | 5.30% | 3.20% |
| Salary scale for calculating pension expense | 3.80% | 4.40% |
| Salary scale for calculating December 31 PBO | 3.80% | 3.80% |
| Expected long-term rate of return on designated investments for calculating benefit expense | 6.75% | 6.75% |

The following benefit payments, which reflect expected future service, are expected to be paid (in millions):

| | |
|---|---|
| 2023 | $ 292 |
| 2024 | 318 |
| 2025 | 342 |
| 2026 | 368 |
| 2027 | 394 |
| 2028–2032 | 2,370 |

## (14) Leases

Health Plans and Hospitals leases land, medical office buildings, office space, data centers, and equipment. The remaining lease term for leases primarily ranges from 1-16 years. Many leases contain renewal options. For those contracts where options are reasonably certain to be exercised, Health Plans and Hospitals recognizes renewal options as part of the right-of-use assets and lease liabilities.

### Quantitative disclosures

At December 31, lease assets and lease liabilities were as follows (in millions):

| | | 2022 | 2021 |
|---|---|---|---|
| Assets | Classification | | |
| Operating | Operating lease right-of-use assets | $ 1,211 | $ 1,268 |
| Finance | Land, buildings, equipment, and software — net | 181 | 198 |
| | Total | $ 1,392 | $ 1,466 |
| Liabilities | Classification | | |
| Current | | | |
| Operating | Other current liabilities | $ 326 | $ 331 |
| Finance | Other current debt | 121 | 8 |
| Noncurrent | | | |
| Operating | Operating lease liabilities | 1,011 | 1,078 |
| Finance | Long-term debt | 84 | 212 |
| | Total | $ 1,542 | $ 1,629 |

For the years ended December 31, total lease costs incurred by lease type and type of payment were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Operating lease cost | $ 486 | $ 481 |
| Finance lease cost: | | |
| Amortization of lease assets | 10 | 11 |
| Interest on lease liabilities | 5 | 5 |
| Short-term lease cost | 75 | 67 |
| Variable lease cost | 98 | 99 |
| Total | $ 674 | $ 663 |

For the years ended December 31, other supplemental quantitative disclosures were as follows (in millions):

| | 2022 | 2021 |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows used for operating leases | $ (511) | $ (507) |
| Financing cash flows used for finance leases | $ (13) | $ (12) |
| Additions to right-of-use assets obtained in the period from operating leases | $ 134 | $ 169 |
| Weighted-average remaining lease term (years): | | |
| Operating leases | 5.65 | 5.80 |
| Finance leases | 6.77 | 7.84 |
| Weighted-average discount rate: | | |
| Operating leases | 3.02% | 2.87% |
| Finance leases | 2.32% | 2.36% |

At December 31, 2022, the undiscounted future lease payments under non-cancelable operating leases and finance leases, along with a reconciliation of the undiscounted cash flows to operating and finance lease liabilities were as follows (in millions):

| Lease Maturity | Operating leases | Finance leases | Total |
|---|---|---|---|
| 2023 | $ 359 | $ 125 | $ 484 |
| 2024 | 296 | 8 | 304 |
| 2025 | 241 | 8 | 249 |
| 2026 | 184 | 8 | 192 |
| 2027 | 128 | 9 | 137 |
| Thereafter | 257 | 76 | 333 |
| Total lease payments | 1,465 | 234 | 1,699 |
| Less amount representing interest | (128) | (29) | (157) |
| Present value of undiscounted future cash flows | $ 1,337 | $ 205 | $ 1,542 |

## (15) Commitments and Contingencies

### *(a) Purchase Commitments*

At December 31, 2022, minimum purchase commitments extending beyond one year were as follows (in millions):

| | |
|---|---|
| 2023 | $ 287 |
| 2024 | 225 |
| 2025 | 176 |
| 2026 | 71 |
| 2027 | 27 |
| Thereafter | 191 |
| Total | $ 977 |

During the years ended December 31, 2022 and 2021, Health Plans and Hospitals' total purchases under contracts with minimum purchase commitments were $768 million and $783 million, respectively.

### *(b) Regulatory*

Health Plans is required to periodically file financial statements with regulatory agencies in accordance with statutory accounting and reporting practices. Health Plans must comply with the various states' minimum regulatory net worth requirements generally under the regulation of the California Department of Managed Health Care and various state departments of insurance. Such requirements are generally based on tangible net equity or risk-based capital, and for California are calculated on the basis of combined net worth of Health Plans and Hospitals. At December 31, 2022 and 2021, the regulatory net worth, so defined, exceeded the aggregate regulatory minimum requirements by approximately $55.7 billion and $49.6 billion, respectively.

Health Plans and Hospitals is subject to numerous and complex laws and regulations of federal, state, and local governments, and accreditation requirements. Compliance with such laws, regulations, and accreditation requirements can be subject to retrospective review and interpretation, as well as regulatory actions. These laws and regulations include, but are not necessarily limited to, requirements of tax exemption, government reimbursement, government program participation, privacy and security, false claims, anti-kickback, accreditation, health care reform, controlled substances, facilities, and professional licensure. In recent years, government activity has increased with respect to compliance and enforcement actions.

In the ordinary course of business operations, Health Plans and Hospitals is subject to periodic reviews, investigations, and audits by various federal, state, and local regulatory agencies and accreditation agencies, including, without limitation, CMS, Department of Managed Health Care, U.S. Office of Personnel Management, Occupational Safety and Health Administration, Drug Enforcement Administration (DEA), State Boards of Pharmacy, Food and Drug Administration, Internal Revenue Service, National Committee for Quality Assurance, and state departments of insurance.

Health Plans and Hospitals' compliance with the wide variety of rules and regulations and accreditation requirements applicable to their business may result in certain remediation activities and regulatory fines and penalties, which could be substantial. Where appropriate, reserves have been established for such sanctions. While management believes these reserves are adequate, the outcome of legal and regulatory matters is inherently uncertain, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on the combined financial position or results of operations.

### *(c) Litigation*

Health Plans and Hospitals is involved in lawsuits and various governmental investigations, audits, reviews, and administrative proceedings arising, for the most part, in the ordinary course of business operations. Lawsuits have been brought under a wide range of laws and include, but are not limited to, business disputes, employment and retaliation claims, claims alleging professional liability, improper disclosure of personal information, labor disputes, administrative regulations, the False Claims Act, information privacy and Health Insurance Portability and Accountability Act laws, mental health parity laws, and consumer protection laws. In addition, Health Plans indemnifies the Medical Groups against various claims, including professional liability claims.

Health Plans and Hospitals records reserves for legal proceedings and regulatory matters where available information indicates that at the date of the combined financial statements a loss is probable and the amount can be reasonably estimated. While such reserves reflect management's best estimate of the probable loss for such matters, Health Plans and Hospitals' recorded amounts may differ materially from the actual amount of any such losses.

In the opinion of management, based upon current facts and circumstances, and except as stated below with respect to particular matters, the resolution of these matters is not expected to have a material adverse effect on the combined financial position or combined results of operations of Health Plans and Hospitals. The outcome of litigation and other legal and regulatory matters is inherently

uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on the combined financial position or combined results of operations of Health Plans and Hospitals.

In September 2015, a lawsuit was filed seeking to have the State of California impose the gross premiums tax on Health Plan, Inc. In March 2020, Health Plan, Inc. obtained a favorable summary judgment decision at the trial court. Plaintiff has appealed this decision. In the opinion of management, strong defenses exist regarding this claim. However, an unfavorable outcome could have a material adverse effect on the combined financial position or combined results of operations of Health Plans and Hospitals. No reserves have been provided related to this lawsuit.

Pursuant to civil subpoenas, Health Plans and Hospitals has provided documents and information to the U.S. Department of Justice (DOJ) and Department of Health and Human Services – Office of Inspector General relating to Medicare Part C risk adjustment practices, policies, and programs. On July 27, 2021, the Civil Division of the DOJ filed a notice indicating its intervention in certain aspects of lawsuits previously filed under seal against several Kaiser Permanente Medical Care Program entities. On October 25, 2021, the DOJ filed its complaint in intervention against those entities. The defendant entities intend to vigorously defend the case, but can provide no assurance as to the outcome of the litigation. No reserves have been provided related to this matter; however, an unfavorable outcome in the litigation could have a material adverse effect on the combined financial position or combined results of operations of Health Plans and Hospitals.