



DATE: January 30, 2024
TO: Amy J. Malm
Mark McNabb
FROM: Christopher Martin
SUBJECT: Form A - Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer

Form A Filing Contact(s)

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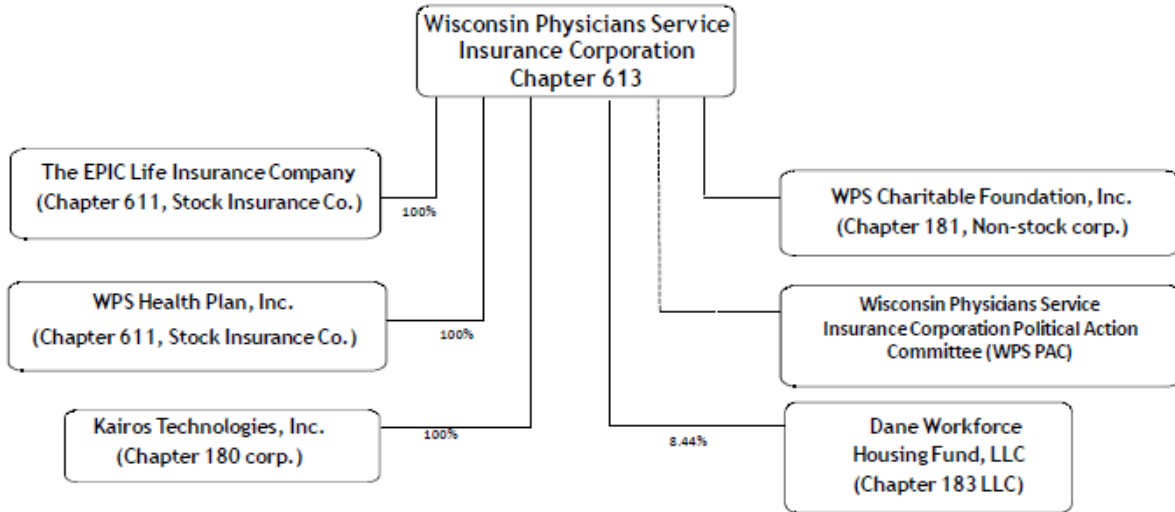
Form A Exhibit(s)

| <u>Exhibit:</u> | <u>Description:</u> |
|------------------------|---|
| Ex 1 | Transmittal Letter |
| Ex 2 | Form A Statement |
| Ex. 3 | Proposed Articles of Incorporation of WPS Holdings, Inc. |
| Ex. 4 | Proposed Bylaws of WPS Holdings, Inc. |
| Ex. 5 | Proposed Amended and Restated Articles of Incorporation for WPSIC |
| Ex. 6 | Proposed Amended and Restated Bylaws for WPSIC |
| Ex. 7 | Current Organizational Structure |
| Ex. 8 | Proposed Organizational Structure |
| Ex. 9 | Biographical Affidavits |
| Ex. 10 | Business Plan |
| Ex. 11 | Audited Financial Statements |
| Ex. 12 | Three-Year Financial Projections for WPSIC |

Executive Summary

On September 8, 2023, a Form A Filing was submitted by WPS Holdings, Inc. (WPSH, the “Applicant” or “Holdings”) regarding the acquisition of control of Wisconsin Physicians Service Insurance Corporation (WPSIC), The Epic Life Insurance Company (Epic), and WPS Health Plan, Inc. (WHP, and together with WPSIC and EPIC, the “Domestic Insurers”). The acquisition of control is an internal restructuring with the creation of a non-stock Wisconsin corporation as a new parent holding company. No consideration will be transferred during the restructuring.

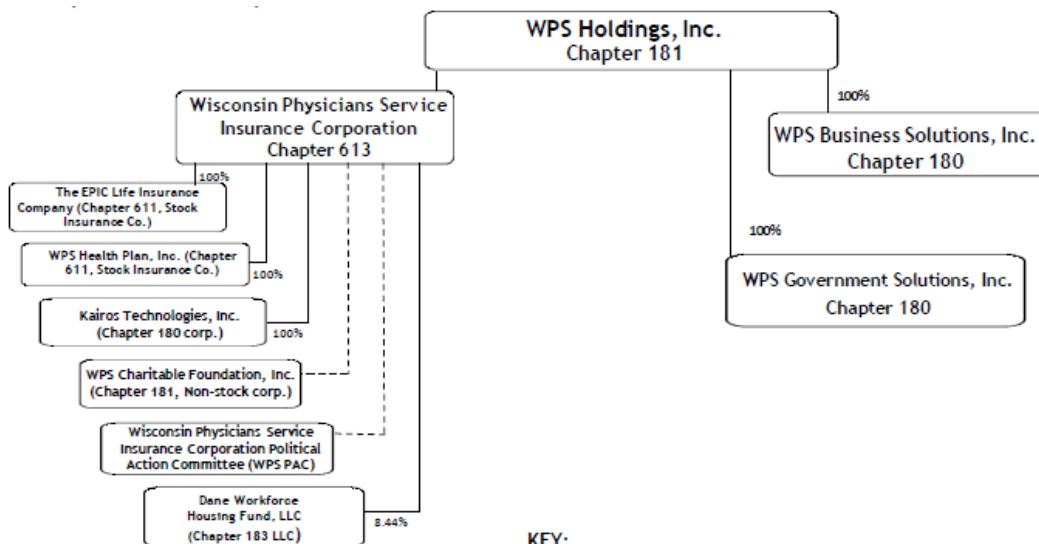
Organizational Chart of the Domestic Insurer(s) Before Proposed Transaction:



KEY:

- Represents some control by WPSIC through shared officers and/or directors, but no ownership.
- Represents ownership.

Organizational Chart of the Domestic Insurer(s) After Proposed Transaction:



KEY:

- Represents some control by WPSIC through shared officers and/or directors, but no ownership.
- Represents ownership (except that WPS Holdings, Inc. is the sole member of WPSIC).

| |
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| Identity and Background of the Domestic Insurer(s) |
|---|

Identity of the Domestic Insurer(s):

Wisconsin Physicians Service Insurance Corporation

1717 West Broadway
Madison, Wisconsin 53713

The EPIC Life Insurance Company

1717 West Broadway
Madison, Wisconsin 53713

WPS Health Plan, Inc.

1717 West Broadway
Madison, Wisconsin 53713

Background of the Domestic Insurer(s):

Wisconsin Physicians Service Insurance Corporation

WPSIC is organized under Chapter 613 and 181 of the Wisconsin Statutes, and currently does not, and is not authorized by its organizational documents to, have a member.

In the course of its business since incorporation, WPSIC developed alternate health delivery plans, including group health incentive plans, HMO plans, and PPO plans.

WPSIC currently issues traditional health insurance policies for individuals, small groups and large groups, provides claims administration services for self-insured employers, and offers Medicare Supplement (i.e., Medigap) insurance. In addition to serving health insurance customers, WPSIC also processes claims for the federal government and its contractors. WPSIC currently holds the TRICARE Medicare Eligible Program (TEMP) contract with the Defense Health Agency of the US Department of Defense and provides claims processing and administrative services as a subcontractor for the TRICARE Overseas Program and the TRICARE Managed Care Support contract for the East Region. In addition, WPSIC has processed Medicare claims since the launch of the Federal Medicare program in 1966. WPSIC is currently the A/B Medicare Administrative Contractor for CMS Jurisdictions 5 and 8. Finally, WPSIC has served the State of Wisconsin Department of Health Services as a third party administrator for several programs including Family Care, Children's Long-Term Support and the Include, Respect, I Self-Direct (IRIS) Program.

The EPIC Life Insurance Company

In 1984, WPSIC organized EPIC as a wholly-owned subsidiary to sell and administer life and disability insurance.

WPSIC currently directly owns 100% of the issued and outstanding shares of the capital stock of EPIC and WHP, each of which are organized under Chapters 611 and 180 of the Wisconsin Statutes.

WPS Health Plan, Inc.

WPSIC currently directly owns 100% of the issued and outstanding shares of the capital stock of EPIC and WHP, each of which are organized under Chapters 611 and 180 of the Wisconsin Statutes. In 2005 WPSIC formed WHP as a wholly-owned subsidiary to sell HMO and Point-of-Service (POS) plans.

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|--|
| Identity and Background of the Applicant(s) |
|--|

Identity of the Applicant(s):

WPS Holdings, Inc.

1717 West Broadway
Madison, Wisconsin 53713

Background of the Applicant(s):

WPS Holdings, Inc.

Once it is organized by WPSIC and the restructuring is consummated, WPS Holdings business operations will consist only of being the sole member of WPSIC and engaging in other holding company activities. WPS Holdings will be a Wisconsin non-stock corporation organized under Chapter 181 of the Wisconsin Statutes.

Proposed Executive Officers and Directors WPS Holdings:

| <u>Name</u> | <u>Title</u> |
|----------------------------------|--------------------------|
| Brad Evans Anderson* | Director, Vice Chair |
| Thomas George Belot* | Director |
| Teri Lea Bruns* | Director |
| Kristine Ann Euclide* | Director |
| William Harrison Haight III* | Director |
| Christine Spitaels Hunter, M.D.* | Director |
| Karen Jackson* | Director |
| Stanley Kocot* | Director |
| Nick Mastronardi, Ph.D.* | Director |
| Wendy Jean Perkins* | Director, President, CEO |
| Stephen Michael Skoronski* | Director, Board Chair |
| Kim Marie Sponem* | Director |
| William Winkenwerder Jr., M.D.* | Director |
| Kaleth Omra Wright* | Director |
| Frank Anthony Gumina* | Secretary |
| Vicki Marie Bernards* | Treasurer |

Executive Officers and Directors WPSIC:

| <u>Name</u> | <u>Title</u> |
|----------------------------------|--------------------------|
| Brad Evans Anderson* | Director, Vice Chair |
| Thomas George Belot* | Director |
| Teri Lea Bruns* | Director |
| Kristine Ann Euclide* | Director |
| William Harrison Haight III* | Director |
| Christine Spitaels Hunter, M.D.* | Director |
| Karen Jackson* | Director |
| Stanley Kocot* | Director |
| Nick Mastronardi, Ph.D.* | Director |
| Wendy Jean Perkins* | Director, President, CEO |
| Stephen Michael Skoronski* | Director, Board Chair |
| Kim Marie Sponem* | Director |
| William Winkenwerder Jr., M.D.* | Director |
| Kaleth Omra Wright* | Director |
| Frank Anthony Gumina* | Secretary |

Kimberly Kay Olson*
Vicki Marie Bernards*

Assistant Corporate Secretary
Treasurer

Executive Officers and Directors WPSHP:

| <u>Name</u> | <u>Title</u> |
|----------------------------|-----------------------|
| Vicki Marie Bernards* | Director, Treasurer |
| Nicholas Enders* | Director |
| Rochelle Myers* | Director |
| Wendy Jean Perkins* | Director, President |
| Stephen Michael Skoronski* | Director, Board Chair |
| Kimberly Kay Olson* | Secretary |

Executive Officers and Directors EPIC:

| <u>Name</u> | <u>Title</u> |
|----------------------------|-----------------------|
| Vicki Marie Bernards* | Director, Treasurer |
| Rochelle Myers* | Director |
| Wendy Jean Perkins* | Director, President |
| Stephen Michael Skoronski* | Director, Board Chair |
| Kimberly Kay Olson* | Secretary |

Note: * following an individual's name indicates that the biographical affidavit was provided for the individual and there are no outstanding significant concerns after OCI review.

Nature, Source, and Consideration

Other than a distribution to be made by WPSIC to WPSH at or prior to the effective date of the restructuring, in order to properly capitalize WPSH, no consideration will be paid in connection with the restructuring. The amount of the distribution was determined by WPSIC, the Applicant, and their advisors based on expected expenses of WPSH and other customary legal considerations regarding the proper capitalization of a Wisconsin non-stock corporation.

As a result of the Restructuring, the Applicant will become the sole member of WPSIC, and thereby will indirectly acquire 100% of the issued and outstanding shares of common stock of EPIC and WHP.

As stated in the Form A, there are no other contracts, arrangements or understandings with respect to any voting security of the Domestic Insurers in which the Applicant, its respective affiliates or, to the knowledge of the Applicant, any person listed in Item 3 of the Form A is involved, including but not limited to transfer of any securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits or the giving or withholding of proxies. There have also been no purchases of any voting securities of the Domestic Insurers by the Applicant, its respective affiliates or any person listed in Item 3 to the Form A during the twelve calendar months preceding the filing of the application. Other than the as noted in the Form A, there have been no recommendations to purchase any voting security of the Domestic Insurers made by the Applicant, its respective affiliates or any person listed in Item 3 to the Form A, or by anyone based upon interviews or at the suggestion of the Applicant, its respective affiliates, or any person listed in Item 3 to the Form A, during the twelve calendar months preceding the filing of the application.

The Applicant notes that no agreements, contracts or understandings have been made with any broker-dealer as to solicitation of voting securities of the Domestic Insurers for tender.

Future Plans

Other than as described in the Form A or in the Business Plan, the Applicant has no plans to declare an extraordinary dividend, to liquidate any of the Domestic Insurers, or to sell any of the Domestic Insurers' assets to or merge them with any person or persons or to make any other material change in their business operations.

Subject to, among other things, the receipt of all required regulatory approvals, including the approval of the Form A by the Wisconsin Office of the Commissioner of Insurance, WPSIC will undertake a series of steps to reorganize itself as the direct subsidiary of a new non-stock corporation parent. A summary of the steps to be taken in the Restructuring include that prior to or simultaneously with the effectiveness of the restructuring, WPSIC will cause the incorporation of WPSH pursuant to Chapter 181 of the Wisconsin Statutes. The Articles of Incorporation and Bylaws of Holdings shall be substantially in the forms of Exhibits provided. WPSIC will amend and restate its Articles of Incorporation and Bylaws to permit a sole member, and to designate WPSH as such sole member. WPSIC will pay the Distribution to WPSH. When WPSH is organized by WPSIC as described, its initial board of directors will consist of the same persons currently serving on the board of directors of WPSIC, and such persons will continue to serve on the board of directors of WPSIC after the consummation of the restructuring. The board of directors of Holdings will nominate and elect directors on a going-forward basis on substantially the same basis as the board of directors of WPSIC does today.

Financial Highlights

Highlighted Financial Data of WPS (Consolidated):

| Financial Highlights (in thousands) | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|----------|----------|---------|---------|---------|
| Total Assets | 262,227 | 328,295 | 381,975 | 329,166 | 289,268 |
| Total Liabilities | 119,764 | 129,432 | 170,718 | 160,703 | 161,531 |
| Total Surplus | 142,463 | 198,863 | 211,257 | 168,463 | 127,737 |
| Total Revenue | 376,104 | 352,550 | 344,374 | 346,025 | 396,043 |
| Net Underwriting Income | (25,078) | (5,499) | 23,687 | 20,987 | 14,209 |
| Net Investment Income | 807 | 6,618 | 4,062 | (1,406) | 3,538 |
| Net Income | (13,355) | (20,371) | 15,811 | 21,221 | (1,282) |
| Net Cash Flows From Operating Activities | (15,304) | (15,366) | 66,459 | 2,406 | 16,899 |

Financial Projections of the Domestic Insurer(s):

The financial projections of the Domestic Insurers are confidential. OCI reviews these projections as part of the Form A review process.

611.72 (3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. OCI applies these criteria to the evaluation of an acquisition or change of control of a ch. 613 service corporation. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation

would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;

3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;

4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and

5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72(3)(am)1: After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

s. 611.72(3)(am)2: OCI's determined that a Form E analysis was not necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

s. 611.72(3)(am)3: Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph four requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." The Form A filing notes that the Applicant has no current plans or proposals to declare any extraordinary dividend, to liquidate the Domestic Insurer, or to sell the assets of the Domestic Insurers. Additional review of the filing by OCI staff do not indicate any significant changes to the operation of the Domestic Insurers. Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

s. 611.72(3)(am)5: Paragraph 5 requires that OCI review the Biographical Affidavits of the proposed officers and directors of the Applicants. This review did not raise significant concerns.

Recommendation

The Acquisition of Control in the above-referenced Form A filing will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in ch. 613 Wis. Stat. and s. 611.72 (3), Wis. Stat. Therefore, the transaction should be approved.