

Junior, Steve

From: Klancnik, Thomas E. [TEKlancnik@MBF-LAW.com]
Sent: Wednesday, March 31, 2004 9:36 PM
To: Steve Junior (E-mail)
Subject: Comments to Draft Case Recommendation Memorandum

Exh #	16
Date	1 April 2004
Case	04-C28767
Incl. Comm.	



Comments to Case
Recommendatio...

Dear Mr. Junior,

Attached are additional comments from Anthem and WellPoint to the draft Case Recommendation Memorandum circulated earlier today.

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<<Comments to Case Recommendation Memorandum 2 (B0342862).PDF>>

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

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DATE: Draft of March 31, 2004

TO: Commissioner Jorge Gomez

FROM: Steven J. Junior, Senior Insurance Examiner

SUBJECT: In the Matter of the Acquisition of Control of Blue Cross & Blue Shield United of Wisconsin; Compcare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. by Anthem Inc. and Crossroads Acquisition Corp. (Case No. 04-C28767)

DESCRIPTION OF THE TRANSACTION

Overview

Anthem, Inc. and Anthem Holding Corp. filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated December 17, 2003. David J. Hanson, a partner with the Madison law office of Michael, Best & Friedrich LLP, signed a cover letter introducing the filing on behalf of the applicants. Anthem, Inc. is a publicly traded holding company domiciled in Delaware, which is listed on the New York Stock Exchange. Anthem Holding Corp. is a Delaware domiciled corporation formed for the specific purpose of being the survivor in a merger with WellPoint Health Networks Inc.

On December 17, 2003, Anthem, Inc. (hereinafter also, "Anthem") filed a plan to acquire WellPoint Health Networks Inc. (hereinafter also, "WellPoint"), which controls the following Wisconsin insurance corporations: Blue Cross Blue Shield of Wisconsin; Compcare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. Under the plan, WellPoint will be merged with and into Anthem Holding Corp. (hereinafter also, "Anthem Holding"), a direct, wholly owned subsidiary of Anthem. Immediately following the merger, Anthem would be renamed WellPoint, Inc.

The plan of acquisition will be implemented through an Amended and Restated Agreement and Plan of Merger by and among Anthem, Anthem Holding, and WellPoint, effective as of October 26, 2003.

If the plan is to be executed, the shareholders of both Anthem and WellPoint must vote to approve the merger. It is anticipated that the closing date will occur soon after the shareholders' vote, subject to regulatory approval by various state insurance departments.

21. UNICARE Health Insurance Company of Texas, Inc. (Texas; NAIC #10076)
22. UNICARE Health Plan of West Virginia, Inc. (West Virginia; 11810)
23. United Heartland Life Insurance Company (NAIC #83500)
24. United Wisconsin Insurance Company (NAIC #29157)
25. Unity Health Plans Insurance Corporation (NAIC #95796)
26. Valley Health Plan, Inc. (NAIC #95261)

Of the foregoing companies in the WellPoint Group that are not domiciled in Wisconsin, only two, UNICARE Life & Health Insurance Company and Healthy Alliance Life Insurance Company, are licensed in Wisconsin. Of these two, only UNICARE Life & Health Insurance Company has written any business in Wisconsin during 2003. None of the insurers in the WellPoint Group wrote any business in Wisconsin on a surplus lines basis.

Each of the foregoing insurers in the WellPoint Group is described as follows:

Blue Cross of California

Blue Cross of California was incorporated on June 8, 1982, and commenced business on July 1, 1982. It is one of California's largest managed health care companies and, together with its affiliate BC Life & Health Insurance Company, holds the exclusive license for the right to use the Blue Cross name and related service marks in California. Blue Cross of California provides a comprehensive array of managed health plans to the large employer, small employer, individual and senior markets. As of December 31, 2003, Blue Cross of California's statutory financial statements indicated assets of \$4,994,568,000, liabilities of \$3,691,353,000, capital and surplus of \$1,303,215,000, and net income of \$459,320,000. The company paid \$300,000,000 in dividends to its stockholder in 2003.

BC Life & Health Insurance Company

BC Life & Health Insurance Company was incorporated in California as "WellPoint Life Insurance Company" on May 29, 1991, and commenced business on August 2, 1991. The present name was adopted during 1996. BC Life & Health Insurance Company's activities have been concentrated in writing group life and group accident and health plans in conjunction with policies issued by Blue Cross of California. Products include coverages that cannot legally be written by Blue Cross of California. BC Life & Health Insurance Company offers life insurance, traditional medical and dental indemnity and limited benefit PPO coverage and provides administrative services to large employer groups that maintain self-funded health plans. The company is licensed only in California and its direct writings in 2003 were limited to that state. As of December 31, 2003, BC Life & Health Insurance Company's statutory financial statements indicated assets of \$757,862,962, liabilities of \$337,893,015, capital and surplus of \$419,969,947, and net income of \$233,135,527. The corporation paid \$90,000,000 in dividends to its stockholder in 2003.

Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc.

Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc. is a health maintenance organization that was incorporated on August 25, 1985, and commenced business on September 1, 1986. The corporation is licensed and writes business only in Georgia. As of December 31, 2003, Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc.'s statutory

financial statements indicated assets of \$279,271,739, liabilities of \$155,094,536, capital and surplus of \$124,177,203, and net income of \$38,951,831. The corporation paid no dividends to its stockholder in 2003.

Blue Cross and Blue Shield of Georgia, Inc.

Blue Cross and Blue Shield of Georgia, Inc. was incorporated in Georgia on May 1, 1937, and commenced business on November 1, 1937. Blue Cross and Blue Shield of Georgia, Inc. is licensed and writes business only in Georgia. The corporation has four major product lines, which consist of indemnity, preferred-provider organization, point of service, and health maintenance organization. As of December 31, 2003, Blue Cross and Blue Shield of Georgia, Inc.'s statutory financial statements indicated assets of \$942,652,259, liabilities of \$590,309,020, capital and surplus of \$352,343,239, and net income of \$108,747,533. The corporation paid \$90,000,000 in dividends to its stockholder in 2003.

Blue Cross Blue Shield of Wisconsin

Blue Cross Blue Shield of Wisconsin (hereinafter also, "BCBSW") was a nonprofit, service insurance corporation, originally incorporated on October 19, 1939, and originally organized pursuant to ch. 613, Wis. Stats. In June 1999, the BCBSW Board of Directors announced its intention to convert BCBSW from a nonprofit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the OCI on June 14, 1999. On March 28, 2000, the OCI approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the OCI recognized BCBSW's application as complete and the conversion was approved in accordance with the Order of March 28, 2000. Effective March 23, 2001, BCBSW converted to a stock insurance corporation and organized pursuant to ch. 611, Wis. Stats. In addition to the conversion, BCBSW became a wholly owned subsidiary of Cobalt Corporation through a combination of BCBSW and Cobalt Corporation on March 23, 2001.

As of December 31, 2003, BCBSW's statutory financial statements indicated assets of \$301,511,444, liabilities of \$143,798,178, capital and surplus of \$157,713,266, and net income of \$42,998,551. The corporation paid \$15,000,000 in dividends to its stockholder in 2003.

Compcare Health Services Insurance Corporation

Compcare Health Services Insurance Corporation (hereinafter also, "Compcare") is a Wisconsin stock insurance corporation that was incorporated on January 1, 1984, under the provisions of ch. 611, Wis. Stats. It operates as a health maintenance organization in Wisconsin. As of December 31, 2003, Compcare's statutory financial statements indicated assets of \$156,887,795, liabilities of \$73,167,075, capital and surplus of \$83,720,720, and net income of \$13,955,263. The corporation paid no dividends to its stockholder in 2003.

Golden West Health Plan, Inc.

Golden West Health Plan, Inc. is a California-domiciled health plan incorporated on April 11, 1974. It provides dental and vision coverage to residents of California. As of December 31, 2003, Golden West Health Plan, Inc.'s statutory financial statements indicated assets of \$5,944,912, liabilities of 4,961,768, net worth of \$983,144, and a net loss of \$(1,515,311). The company paid no dividends to its shareholder in 2003,

\$917,850 in

, prior to being acquired by WellPoint

Greater Georgia Life Insurance Company

Greater Georgia Life Insurance Company was incorporated in Georgia on November 16, 1981, and commenced business on May 6, 1982. It is licensed in seven states in the southeastern United States, but writes most of its business in Georgia. The corporation offers group life coverage on a yearly renewable term basis, with weekly income, long-term disability, and dependent life insurance available if the latter options are selected by the employer. Greater Georgia Life Insurance Company also offers a range of individual whole life and term policies. As of December 31, 2003, Greater Georgia Life Insurance Company's statutory financial statements indicated assets of \$42,568,618, liabilities of \$16,804,670, capital and surplus of \$25,763,948, and net income of \$5,047,279. The corporation paid \$2,500,000 in dividends to its stockholder in 2003.

Healthy Alliance Life Insurance Company

Healthy Alliance Life Insurance Company had its origins in an insurance corporation of the same name established in Arizona on April 19, 1971, and which commenced business on June 9, 1971. In 1993, this Arizona predecessor was merged with and into American Transcontinental Life Insurance Company, which then changed its name to that currently used. Although American Transcontinental Life Insurance Company changed its name, it retained its Missouri domicile. It is licensed in the District of Columbia and 35 states, including Wisconsin. Healthy Alliance Life Insurance Company offers a portfolio of life and disability products, including group term life with accidental death and dismemberment, dependent term life, short and long-term disability, and voluntary coverages in excess of what employers might choose to provide as a paid benefit. Healthy Alliance Life Insurance Company, together with its affiliate HMO Missouri, Inc., holds the exclusive right to use the Blue Cross and Blue Shield names and marks in certain counties in Missouri, including the greater St. Louis area. As of December 31, 2003, Healthy Alliance Life Insurance Company's statutory financial statements indicated assets of \$533,878,881, liabilities of \$337,237,973, capital and surplus of \$196,640,908, and net income of \$69,250,354. The corporation paid \$15,000,000 in dividends to its stockholder in 2003.

accident and health,

HealthLink HMO, Inc.

HealthLink HMO, Inc. is a health maintenance organization incorporated in Missouri on July 29, 1992, and which commenced business on January 14, 1993. It is licensed in Missouri, Illinois, and Arkansas. Service areas in Missouri are areas in which its affiliated Blue branded HMO is not available. As of December 31, 2003, HealthLink HMO, Inc.'s statutory financial statements indicated assets of \$26,709,124, liabilities of \$575,757, capital and surplus of \$26,133,366, and net income of \$7,425,274. The corporation paid \$4,000,000 in dividends to its stockholder in 2003.

HMO Missouri, Inc.

HMO Missouri, Inc. is a health maintenance organization incorporated in Missouri on May 28, 1987, and which commenced business on December 2, 1987. It utilizes the Blue brands in certain counties in Missouri. It is licensed in Missouri and Illinois, but wrote no business in the latter state in 2002. As of December 31, 2003, HMO Missouri, Inc.'s statutory financial statements indicated assets of \$90,486,004, liabilities of \$48,101,354, capital and surplus of

or 2003

\$42,384,650, and net income of \$14,964,235. Surplus includes \$36,990,255 in surplus notes. The corporation paid no dividends to its stockholder in 2003.

RightCHOICE Insurance Company

RightCHOICE Insurance Company was incorporated in Illinois on December 22, 1986, and commenced business on December 1, 1997. RightCHOICE Insurance Company offers fully insured PPO coverage in central and southern Illinois and is not licensed or active in any other state. Distribution is through in-house licensed enrollment representatives and independent brokers. Only fully insured products are made available to groups of fewer than 99 employees. Groups of between 100 and 500 employees have access to fully insured, minimum premium and self-funded products. Marketing to groups of 500 or more employees is focused on self-funded arrangements. As of December 31, 2003, RightCHOICE Insurance Company's statutory financial statements indicated assets of \$10,122,218, liabilities of \$2,019,252, capital and surplus of \$8,102,967, and net income of \$1,739,414. Surplus includes \$11,000,000 in surplus notes. The corporation paid no dividends to its stockholder in 2003.

UNICARE Life & Health Insurance Company

UNICARE Life & Health Insurance Company was incorporated in Delaware as the Bay Colony Life Insurance Company of Delaware on June 11, 1971. During 1979, the corporation's name was changed to MML Pension Insurance Company, and it commenced business on December 16, 1980. In March 1996, the title was changed to MIRUS Insurance Company. Until the corporation was acquired by WellPoint Health Networks Inc., it had served as the group life and health operation for Massachusetts Mutual Life Insurance Company. Later in 1996, after WellPoint acquired the corporation, the title was changed to that currently used and UNICARE became the brand name for most of WellPoint's non-Blue branded businesses operated outside California. In 1996, WellPoint acquired the life and health benefits management division from Massachusetts Mutual Life Insurance Company and placed the acquired business with UNICARE Life & Health Insurance Company. In 1997, certain portions of the health and related life group benefit operations of John Hancock Mutual Life Insurance Company were acquired for management under the UNICARE brand. As of December 31, 2003, UNICARE Life & Health Insurance Company's statutory financial statements indicated assets of \$1,295,802,501, liabilities of \$1,002,873,999, capital and surplus of \$292,928,502, and net income of \$39,800,684. The corporation paid no dividends to its stockholder in 2003.

UNICARE Health Plan of Oklahoma, Inc.

UNICARE Health Plan of Oklahoma, Inc. was incorporated in Oklahoma on February 3, 2000, and commenced business on July 1, 2000. It is licensed in Oklahoma only and its business consisted exclusively of Medicaid Title XIX business written in that state. As of December 31, 2003, UNICARE Health Plan of Oklahoma, Inc.'s statutory financial statements indicated assets of \$36,085,371, liabilities of \$33,115,219, capital and surplus of \$2,970,151, and a net loss of \$(2,553,156). The corporation paid no dividends to its stockholder in 2003.

The Medicaid contract with the Oklahoma Health Care Authority expired on December 31, 2003.

UNICARE of Texas Health Plans, Inc.

UNICARE of Texas Health Plans, Inc. was incorporated in Texas on October 12, 1993, under the name "Affiliated Health Plans, Inc." and commenced business on December 18, 1995. On

February 15, 1996, the corporation received approval to move its books and records from Texas. On December 29, 1999, the corporation's liabilities were assumed by UNICARE Life & Health Insurance Company and the corporation's certificate of authority was cancelled.

UNICARE Health Plans of the Midwest, Inc.

UNICARE Health Plans of the Midwest, Inc. was incorporated in Illinois as Rush Prudential HMO, Inc. on July 19, 1993, and commenced business on August 1, 1993. UNICARE Health Plans of the Midwest, Inc. is a licensed, for-profit health maintenance organization, providing defined health care benefits to employer groups, individuals, and Medicare subscribers. The corporation contracts with independent health care providers on either a capitated or fee-for-service basis. As of December 31, 2003, UNICARE Health Plans of the Midwest, Inc.'s statutory financial statements indicated assets of \$152,094,324, liabilities of \$113,032,056, capital and surplus of \$39,062,268, and net income of \$2,000,000. The corporation paid no dividends to its stockholder in 2003.

UNICARE Health Insurance Company of the Midwest

UNICARE Health Insurance Company of the Midwest was incorporated in Illinois under the title, "Rush Prudential Insurance Company", on June 26, 1982, and commenced business after a long delay on August 31, 1993. UNICARE Health Insurance Company of the Midwest is a for-profit life, accident and health insurance company that offers primarily point-of-service and preferred provider organization health coverage. Its business is located primarily in the greater Chicago area, with a small enrollment base in Indiana. UNICARE Health Insurance Company of the Midwest's statutory financial statements as of December 31, 2003, indicated assets of \$105,406,387, liabilities of \$82,096,746, capital and surplus of \$23,309,641, and net income of \$2,000,000. The corporation paid no dividends to its stockholder in 2003.

National Capital Health Plan, Inc.

National Capital Health Plan, Inc. was incorporated in Virginia on March 13, 1995, and received its certificate of authority on the same date. Its certificate of authority was voluntarily withdrawn on July 20, 2000.

UNICARE Health Plan of Virginia, Inc.

UNICARE Health Plan of Virginia, Inc. was incorporated in Virginia on March 15, 2001, and commenced business on December 1, 2001. It is licensed and writes business only in Virginia. As of December 31, 2003, UNICARE Health Plan of Virginia, Inc.'s statutory financial statements indicated assets of \$27,960,324, liabilities of \$19,276,680, capital and surplus of \$8,683,644, and net income of \$(664,813). The corporation paid no dividends to its stockholder in 2003.

UNICARE Health Plans of Texas, Inc.

UNICARE Health Plans of Texas, Inc. was incorporated in Texas as a health maintenance organization on January 12, 1996, and commenced business on August 29, 1996. It writes business only in Texas. UNICARE Health Plans of Texas, Inc.'s statutory financial statements

indicated assets of \$47,028,742, liabilities of \$20,214,817, capital and surplus of \$27,413,925, and net income of \$(4,115,352). The corporation paid no dividends to its stockholder in 2002. ^{38,704,971} ^{15,255,327} ^{23,449,644} _{1,521,739} (3)

UNICARE Health Insurance Company of Texas, Inc.

UNICARE Health Insurance Company of Texas, Inc. was incorporated in Texas on December 21, 2000, and commenced business on January 2, 2001. It writes business only in Texas. As of December 31, 2003, UNICARE Health Insurance Company of Texas, Inc.'s statutory financial statements indicated assets of \$10,729,164, liabilities of \$4,825,331, capital and surplus of \$5,903,833, and net income of \$226,684. The corporation paid no dividends to its stockholder in 2003.

UNICARE Health Plan of West Virginia, Inc.

UNICARE Health Plan of West Virginia, Inc. was incorporated as a health maintenance organization in West Virginia on June 13, 2003 and commenced business on November 1, 2003. It operates only in West Virginia. As of December 31, 2003, UNICARE Health Plan of West Virginia, Inc.'s statutory financial statements indicated assets of \$5,672,362, liabilities of \$1,034,111, capital and surplus of \$4,638,252, and a net loss of \$(357,981). The corporation paid no dividends to its stockholder in 2003.

United Heartland Life Insurance Company

United Heartland Life Insurance Company is a stock insurance company, was originally incorporated as National Benefit Life Assurance Company on August 23, 1990, in the State of Ohio. On March 1, 1993, the insurance company was acquired by a subsidiary of American Medical Security Holdings, Inc. ("AMS"). During 1996, United Wisconsin Services, Inc., the predecessor-in-interest to Cobalt Corporation, merged with AMS, and thereby obtained ownership of National Benefit Life Assurance Company. Effective January 1, 1997, the company redomiciled from Ohio to Wisconsin, organized pursuant to ch. 611, Wis. Stats., and changed its name to United Heartland Life Insurance Company. As a wholly owned subsidiary of Cobalt Corporation, United Heartland Life Insurance Company provides group term life, individual whole life, and group accidental death and dismemberment coverages. It is licensed in ten states. As of December 31, 2003, United Heartland Life Insurance Company's statutory financial statements indicated assets of \$45,994,456, liabilities of \$32,329,159, capital and surplus of \$13,665,297, and net income of \$967,444. The company paid no dividends to its stockholder in 2003.

Crossroads Acquisition Corp.
United Wisconsin Insurance Company

35

United Wisconsin Insurance Company is a Wisconsin stock insurance corporation, originally incorporated on September 11, 1957, and organized pursuant to ch. 611, Wis. Stats. United Wisconsin Insurance Company, a wholly owned subsidiary of CompCare, has established, maintained, and operated accident, sickness, long-term disability, and other health care insurance plans. It is licensed in 36 states and the District of Columbia. As of December 31, 2003, United Wisconsin Insurance Company's statutory financial statements indicated assets of \$113,908,309, liabilities of \$62,437,454, capital and surplus of \$51,470,855, and net income of \$5,081,737. The corporation paid no dividends to its stockholder in 2003.

National Capital Health Plan, Inc.	N/A	N/A
UNICARE Health Plan of Virginia, Inc.	A-	241%
UNICARE Health Plans of Texas, Inc.	A-	680%
UNICARE Health Ins. Co. of Texas, Inc.	NR-2	769%
UNICARE Health Plan of West Virginia, Inc.	N/A	546%
United Heartland Life Ins. Co.	B++	355%
United Wisconsin Ins. Co.	B++	1,312%
Unity Health Plans Ins. Corp.	B++	359%
Valley Health Plan, Inc.	B++	230%

228

Although the A.M. Best ratings and risk-based capital ratios are listed side-by-side, the function of each is quite different. The A.M. Best ratings are that nationally recognized statistical rating organization's independent opinion, based on a comprehensive quantitative and qualitative evaluation, of the companies' balance sheet strength, operating performance and business profile. The risk-based capital ratios indicate whether certain thresholds that are commonly accepted among the states for regulatory intervention or inquiry have been reached. For example, a risk-based capital ratio of 200% or below will generally prompt the insurance department of a company's state of domicile to request a business plan outlining how the company intends to improve its financial position. The fact that one company's risk-based capital ratio is higher than another's is not an indication of relative financial strength. The foregoing financial ratings and regulatory ratios generally reflect favorably on both the Anthem Group and the WellPoint Group. It should be noted that, while the risk-based capital ratio for UNICARE Health Plan of Oklahoma, Inc. is low, that corporation is a special-purpose vehicle for participation in that state's Medicaid program.

The financial condition and risks of the respective holding company systems led by Anthem, Inc. and WellPoint Health Networks Inc. are substantially similar. Both groups have assembled themselves through a long series of acquisitions and accordingly have the opportunities and the risks associated with serial acquisition. Anthem, Inc., individually, and the Anthem Group, taken as a whole, are unlikely to jeopardize the financial stability of the participating domestic insurers or to prejudice the interests of their respective Wisconsin policyholders.

Change in Control

The Form A will result in a change in control for Blue Cross Blue Shield of Wisconsin; CompCare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. Execution of the Merger Agreement referenced in, and included as an exhibit to, the Form A would result in the sale of 100% of the ownership interest in Blue Cross Blue Shield of Wisconsin; CompCare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. to Anthem, Inc.

Competence and Integrity of Prospective Management

Following the merger of WellPoint Health Networks Inc. with and into Anthem Holding Corp., the board of directors and management will be reconstituted by selection of persons from the boards of directors and managements of both Anthem, Inc. and WellPoint Health Networks Inc.