



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

DATE: August 2, 2018

TO: Amy J. Malm, Hearing Examiner *ASM 8/15/18*
Richard Hinkel *RAH*

FROM: Michael A. Mancusi-Ungaro
Steven J. Junior

SUBJECT: The Acquisition of Control of Health Tradition Health Plan by WEA Insurance Corporation
(Case No. 18-C42753)

Executive Summary

This Form A statement concerns the announced acquisition of control of Health Tradition Health Plan (“HTHP”) by WEA Insurance Corporation (“WEA” or the “Applicant”). HTHP is a Wis. Stat. ch. 611 stock insurance corporation that is licensed as health maintenance organization.

WEA Insurance Corporation is owned by WEA Trust and wishes to acquire control of HTHP through the purchase of all of the issued and outstanding capital stock of HTHP (the “Shares”) from Mayo Holding Company (“Mayo”) pursuant to a Stock Purchase Agreement dated May 14, 2018.¹ This acquisition will expand WEA Insurance Corporation’s two target product markets: the public sector through the WEA Trust health plan, and the private sector through HTHP, while also continuing to maintain a strong relationship with the Mayo Clinic Health System. HTHP was originally set to close due to the challenges of maintaining a small plan with uncertainty in the health care and insurance environment. WEA Insurance Corporation will provide a similar version of the Health Tradition plan to the marketplace, offering coverage for Wisconsin state and municipal employees, employer plans for both small and large companies, and Medicare members, thus ensuring multiple health insurance options for people in the western and southwestern Wisconsin regions. Importantly, this combination helps preserve and increase competition for health insurance products by preventing the exit of an established competitor in the western part of the State of Wisconsin.

The mechanics of the integration are divided into three phases. Phase 1 concerns the execution of the Stock Purchase Agreement and business operations at HTHP will remain consistent with past practices subject to a Temporary Services Agreement between Mayo and Applicant.² Phase 2 begins after Closing, as defined in the stock purchase agreement, and HTHP’s administrative services provided by MMSI and Mayo will transition to WEA Insurance Corporation subject to

¹ A copy of the Stock Purchase Agreement is attached to the Form A as Appendix 1.

² A copy of the Temporary Services Agreement is attached to the Form A as Appendix 3.

the post-closing Service Agreement executed between WEA and HTHP.³ Phase 3 is the period after the transition of administration of HTHP pursuant to the Service Agreement. Mayo will continue to provide “ad hoc” support and services pursuant to the temporary service agreement until June 30, 2019 at the latest.

At closing, HTHP’s current directors and officers will resign, and WEA Insurance Corporation will elect directors for HTHP so that the HTHP board matches the WEA Insurance Corporation board. New articles and bylaws, attached as Appendix 4 and Appendix 5 to the Form A, respectively, are expected to be adopted at this time. A review of the biographical affidavits of the anticipated officers and directors of HTHP did not raise any concerns.

After control of HTHP has been transferred to WEA, HTHP will continue to operate under the terms of its Certificate of Authority, previously filed plan documents, and the Business Plan attached as Appendix 2 to the Form A. There will be no interruption to services for existing HTHP members. In 2019, HTHP plans to amend its existing product offerings to align its products with the ones currently offered by WEA and will amend its plan of operation to request permission to expand statewide within the first 12 months following the acquisition of control.

After reviewing the Stock Purchase Agreement, the Business Plan, biographical affidavits and the Form A, the proposed acquisition of control should be approved. As requested by Applicant, the Service Agreement and business plan changes described in Item 5 of the Form A should be permitted without any Form D or business plan change filings that might otherwise be required by HTHP under ss. 611.28(2) or 617.21(2), Wis. Stat., or ss. Ins 9.06 or Ins 40.04, Wis. Admin. Code.

Application Contacts:

Vaughn Vance
Vice President and General Counsel
WEA Insurance Corporation
45 Nob Hill Road
Madison, WI 53703
Telephone: (608) 276-4000
Email: vvance@weatrust.com

William J. Toman, Esq.
Quarles & Brady LLP
33 East Main Street
Suite 900
Madison, Wisconsin 53703
Telephone: 608-283-2434
Email: william.toman@quarles.com

³ A copy of the Service Agreement is attached to the Form A as the first Appendix 6.

The Transaction

The transaction described in the stock purchase agreement attached at Appendix 1 to the Form A is relatively straightforward: On the closing date, the Mayo Holding Company (the "Seller") will deliver all outstanding shares of common stock of Health Tradition Health Plan in exchange for cash in the amount of the Enterprise Value plus the Final Statutory Capital. The enterprise value has been determined to be \$500,000 and Exhibit B to the Stock Purchase Agreement has provided a "Form of Closing Balance Sheet" as of March 2018 to determine the Final Statutory Capital of HTHP, subject to certain post transaction adjustments. From this document, before any adjustments, total liabilities and stockholder's equity is \$30,058,851.

While not anticipated, there are provisions in the Stock Purchase Agreement that allow independent arbitration to settle any disagreement over valuation. Per the terms of the Stock Purchase Agreement, however, the arbitration is not subject to specifically defined rules of arbitration, which inserts certain risks to the transaction should a dispute over the value arise.

Concurrent with the Acquisition, HTHP will seek OCI approval to repay a Contribution Note issued by HTHP to Franciscan Skemp Medical Center, Inc. in the amount of \$1.25 million with accrued interest of approximately \$52,000. No dividends are anticipated per the parties' representations in answer to Question 4(a) of the Form A.

The Insurers

WEA Insurance Corporation is owned by the WEA Trust, and together they provide group health insurance and administrative services to public employers throughout Wisconsin. The not-for-profit WEA Trust was created in 1970 to serve Wisconsin school district employees. Today, the WEA Trust offers its top-rated service and quality benefits to all state, county, and municipal groups.

HTHP provides individual comprehensive insurance, group comprehensive insurance, and Medicare supplement insurance to those individuals at least 65 years old and eligible for Medicare. The company terminated its participation in the Wisconsin BadgerCare Plus Managed Care program prior to this transaction.

The Identity and Background of the Applicants

The name and current business address of each Applicant:

The Applicant is WEA Insurance Corporation, 45 Nob Hill Road, Madison, Wisconsin, 53713

The following individuals are directors of WEA Insurance Corporation and trustees of WEA Trust:

- Margaret Guertler;

- Mike Halloran;
- Amy Johnson;
- Carol Kettner;
- Allen Knop;
- Heather Mielke;
- David Stella;
- Mary Theisen; and
- Daniel Weidner,

The following individuals are also trustees of WEA Trust:

- David Kijek; and
- Shelly Krajacic.

The following individuals are also directors of WEA Insurance Corporation:

- Mark Litow;
- Dr. Geoffrey Priest; and
- Susan Thomson.

The following individuals are officers of WEA Insurance Corporation and WEA Trust:

- Mike Quist, President and CEO;
- Kyle Humphrey, Vice President of Sales and Marketing;
- Dr. Tim Bartholow, Chief Medical Officer;
- Vaughn Vance, Vice President and General Counsel; and
- Dawn Witek, Controller and Treasurer.

A review of the confidential biographical affidavits for the above listed officers and directors did not raise any concerns.

Nature, Source and Amount of Consideration

As set forth in § 2.3 of the Stock Purchase Agreement, the aggregate price WEA Insurance Corporation will pay to Mayo for the Shares (the “Purchase Price”) is \$500,000 plus the statutory net worth of HTHP at closing. With respect to such statutory net worth:

- While § 5.12 of the Stock Purchase Agreement provides that HTHP may pay a dividend prior to closing, subject to any required OCI review, the parties do not anticipate that there will be such a dividend.
- Pursuant to § 5.14 of the Stock Purchase Agreement, HTHP will seek OCI approval to repay the Contribution Note issued by HTHP to Franciscan Skemp Medical Center

Inc. in the principal amount of \$1.25 million with accrued interest of approximately \$52,000.

WEA Insurance Corporation will pay the Purchase Price in cash from funds on hand; no part of the consideration will be borrowed funds.

The 611.72(3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five part test to for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. 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. As stated in the application and during meetings with the OCI, this acquisition of control compliments WEA's current strategy of providing health insurance products statewide and specifically in the 17 county markets of northern Wisconsin currently served by HTHP. This acquisition also potentially allows WEA to expand HTHP's offerings statewide, as mentioned in the business plan. Further, as stated throughout the application, this acquisition will not significantly change the business practices of the Applicant or materially increase its risk profile. Where the Applicant's overall risk is increased as it relates to the execution risk of integrating HTHP with WEA's existing operations and the necessary attention such an effort will require. During this review, the risks to competition were measured against the likely benefits of having another insurance entity compete for commercial health insurance contracts statewide leads the OCI to believe that this transaction will benefit Wisconsin's insureds. Additionally, as stated in the Form A filing, HTHP was set to close absent a sale; this fact alone supports OCI's conclusion that the transaction will be beneficial to Wisconsin's insureds, especially the citizens of the 17 county HTHP service area.

s. 611.72(3)(am)2: It is OCI's opinion that a Form E analysis is not necessary as this proposed merger involves multiple products and many diverse geographic regions in which competition is robust and HTHP's market share in the 17 county area is quite low and will remain as such even with the projected rapid expansion of the integrated HTHP – WEA entity post-closing. Further, the Applicant does not write private commercial group health insurance in the state of Wisconsin. As such, the risk that this transaction would eliminate competition for health insurance in Wisconsin is minimal. 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 3 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 HTHP's insurance operations would jeopardize the financial condition of WEA Trust was deemed minimal given WEA's strong financial results and HTHP's existing capitated contracts limit the overall financial risk. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph 4 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." Review of the Form A and its supporting documents raise no concerns that certain customers would be prejudiced post-transaction as given that HTHP would wind down operations absent this transaction, HTHP's current policy holders would have to find new coverage in a more concentrated market absent WEA's acquisition of control. While WEA's integration and execution risk has increased, the OCI is satisfied that this risk to customers is minimal given the increase in financial resources now available to HTHP's policy holders.

Ms. Amy J. Malm, Hearing Examiner
Case No. 18-C42753
August 2, 2018
Page 7

Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected and not a significant concern at this time.

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

Conclusion

The plan for the acquisition of control of Health Tradition Health Plan by WEA Insurance Corporation should be approved. The Service Agreement and business plan changes described in Item 5 of the Form A should be permitted without any Form D or business plan change filings that might otherwise be required by HTHP under ss. 611.28(2) or 617.21(2), Wis. Stat., or ss. Ins 9.06 or Ins 40.04, Wis. Adm. Code.