



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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DATE: December 12, 2013 REDACTED
TO: Rebecca Easland, Richard Hinkel
FROM: Kristin Forsberg
SUBJECT: Form A – Acquisition of Control of Physicians Plus Insurance Corporation by Iowa Health System (d/b/a UnityPoint Health) filed November 1, 2013 [the "Affiliation Transaction"] [Case No. 13-C35798]

Form A filing contacts:

Applicant: Ashley Dose, Attorney, Iowa Health System, 1776 West Lakes Parkway, Suite 400, West Des Moines, IA 50266, (515) 241-4662, Ashley.dose@unitypoint.org
External Legal Counsel: Cristina Choi, Attorney, Quarles & Brady LLP, 33 East Main Street, Suite 900, Madison, WI 53703, (608) 283-2463, cristina.choi@quarles.com

Parties to the transaction:

The Acquirer/Applicant:

- Iowa Health System (d/b/a UnityPoint Health) ("Applicant"): The Applicant, located in West Des Moines, IA, was organized as an Iowa nonprofit corporation in December 1994, and is currently the largest integrated healthcare delivery system in the Iowa/western Illinois region (including twelve hospitals in Iowa, and four hospitals in Illinois).1

Iowa Health System provides various corporate and administrative services to its affiliates. The primary healthcare operations of the system are conducted through an array of non-profit and for-profit subsidiaries, controlled directly or indirectly by the Applicant. The Iowa Health System currently has over 24,000 employees, and reported annual revenues of \$2.7 billion for the year ended December 31, 2012.

The Applicant intends to become the sole corporate member of Meriter Health Services, Inc. ("Meriter") (the parent of Physicians Plus Insurance Corporation), subject to all required regulatory approvals (including approval of this Form A by OCI), in accordance with the terms and conditions set forth in an Affiliation Agreement dated October 10, 2013 by and between Iowa Health System and Meriter (the "Affiliation" transaction).

1 The Applicant's holding company system currently does not include an insurance company.

The Party to be Acquired:

- Meriter Health Systems, Inc. ("Meriter"): Meriter, headquartered in Madison, Wisconsin, is a chapter 181, Wis. Stat. not-for-profit corporation that was formed in 1986 as a result of the merger between two prominent Madison hospitals: Madison General and Methodist Hospital. Meriter operates as a comprehensive healthcare system serving the residents of Dane County and southern Wisconsin.

Meriter's flagship facility is the 450-bed Meriter Hospital, a non-profit community hospital providing general medical and surgical care. Meriter also operates primary care clinics, a home health care provider, and clinical laboratories, and has over 3,400 employees.

Meriter currently owns 100% of the outstanding stock of PPIC.²

The Wisconsin Domestic Insurer to be Acquired:

- Physicians Plus Insurance Corporation ("PPIC"): PPIC, located in Madison, Wisconsin, is a for-profit network model health maintenance organization (HMO) insurer. PPIC was licensed in 1986 under chapter 611, Wis. Stat., and commenced operations that same year. PPIC's service area includes the following Wisconsin counties: Columbia, Dane, Dodge, Grant, Green, Iowa, Jefferson, Juneau, Lafayette, Marquette, Richland, Rock, and Vernon.

Although historically profitable, PPIC's financial condition began to deteriorate beginning in 2011 due to competitive market pressures. For the years ended 12/31/2012 and 12/31/2011, PPIC reported net losses of \$30.3M and \$10.5M, respectively. In addition, PPIC reported a premium deficiency reserve of \$13M at 12/31/12.

To date, Meriter has provided the following cash support, in exchange for surplus notes, to ensure that PPIC continues to meet its capital requirements:

<u>Date</u>	<u>Surplus Note \$ Amount</u>	<u>Rate</u>	<u>Maturity</u>
March 25, 2013	\$8,250,000	5.5%	3/31/20
April 13, 2013	\$8,000,000	5.5%	3/31/20
<u>August 14, 2013</u>	<u>\$8,400,000</u>	<u>5.5%</u>	<u>3/31/20</u>
Total:	\$24,650,000		

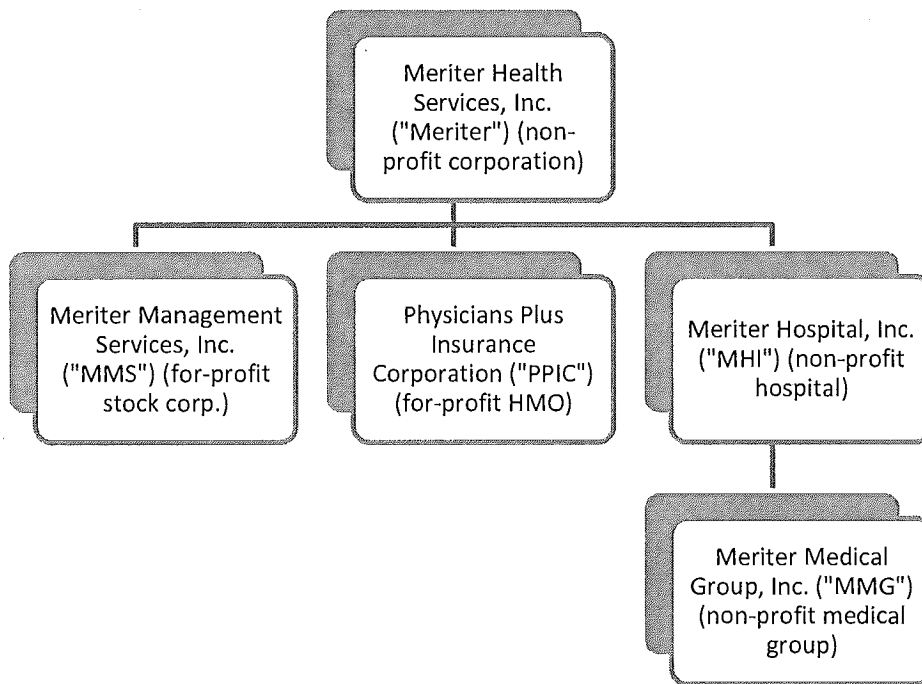
The surplus notes are subordinate to all policyholder claims, and repayment of principal and interest on these notes is subject to the approval of OCI. To date, no interest (or principal) has been paid on these notes.

² Meriter purchased Physicians Plus Investment Group's (PPIG's) 21% ownership interest in PPIC prior to closing of the Affiliation Transaction, in accordance with the Stock Purchase Agreement between Meriter and PPIG dated December 4, 2013. Since Meriter owned 79% of PPIC's outstanding stock prior to this transaction, there was no change in control, and therefore no Form A filing was required.

Organizational Charts – Pre- and Post-Acquisition

Below are abbreviated organizational charts showing PPIC’s place in the pre-and post-closing organizational structures of Meriter and Iowa Health System, respectively, along with a discussion of key affiliates:

Pre-Acquisition: Meriter (Abbreviated)



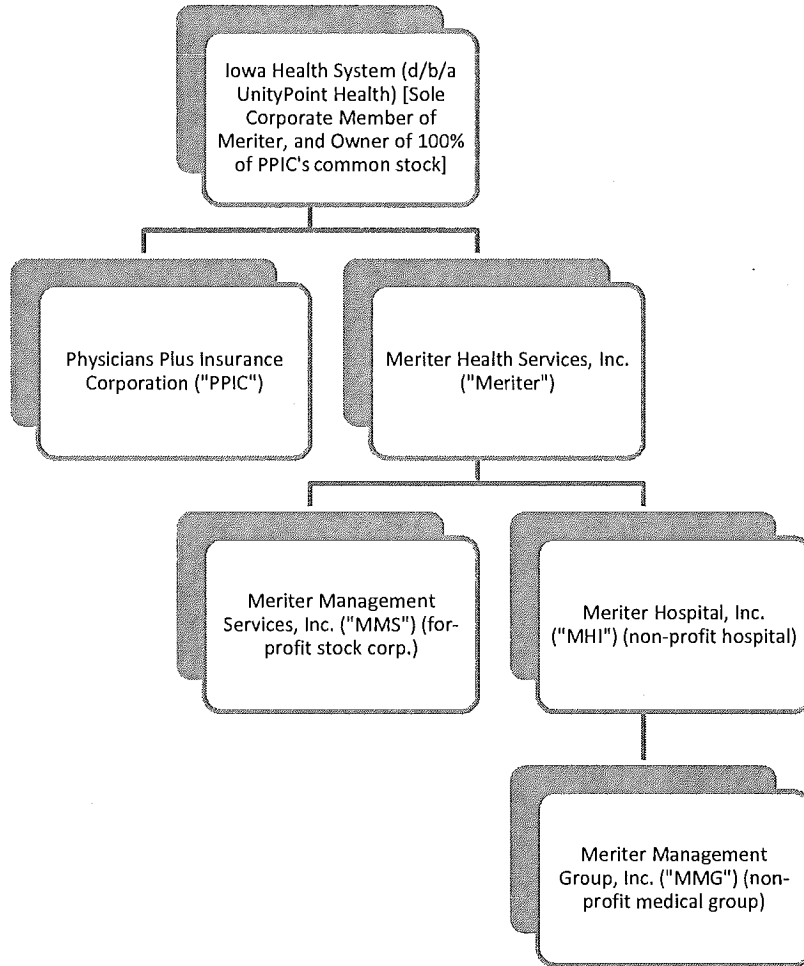
Key Affiliates:

Meriter Management Services, Inc. ("MMS"): MMS is a non-profit corporation that provides centralized management services to the holding company group. PPIC participates in a management consulting services agreement with MMS, whereby MMS provides consulting to PPIC for the development, management and achievement of strategic initiatives.

Meriter Hospital, Inc. ("MHI"): MHI is a non-profit acute care general hospital. PPIC has a provider agreement with MHI for the provision of medical and hospital services to PPIC’s enrollees.

Meriter Medical Group ("MMG"): MMG is a for-profit stock corporation that supports certain employed physicians and physician clinics. PPIC has a medical services agreement with Meriter, on behalf of MMG, for the purpose of setting forth the terms and conditions under which MMG will provide medical services to PPIC’s enrollees.

Post-Acquisition: Iowa Health System (Abbreviated) [See "Note" below]



Key Affiliates:

Iowa Health System: In accordance with section 3.4 of the Affiliation Agreement, Meriter (and its affiliates) will begin utilizing the corporate services offered by Iowa Health System upon closing (or soon thereafter), taking into account operational efficiencies and existing contractual obligations.

Note:

The Applicant intends to acquire 100% ownership of PPIC from Meriter as soon as reasonably possible (the "Stock Purchase" transaction). *The Applicant submitted a separate Form A filing dated 11/27/13 seeking OCI's approval prior to the proposed Acquisition.*

The Proposed Transaction (the “Affiliation”):

The Applicant, Iowa Health System (d/b/a UnityPoint Health), an Iowa non-profit corporation, intends to become the sole corporate member of Meriter, subject to all required regulatory approvals, including the approval of this Form A filing by OCI. The transaction will be effected in accordance with the terms and conditions of the Affiliation Agreement dated October 10, 2013, by and between Iowa Health System and Meriter.

In a related transaction (which will be submitted for OCI’s approval in a separate Form A filing), the Applicant intends to acquire PPIC from Meriter at a purchase price to be determined based on fair market valuation. If approved, it is intended that PPIC will continue to maintain a role in Meriter’s integrated delivery system.

The proposed affiliation transaction was summarized in an October 16, 2013 Press Release issued by Cain Brothers (an investment banking firm that served as the financial advisor to Meriter in connection with the transaction):

“This affiliation provides UnityPoint Health and Meriter the ability to continue to develop their population health and care coordination capabilities while providing Meriter with greater efficiencies available through UnityPoint Health.

Meriter will maintain a local governing board that will make decisions about what services are provided by Meriter and how capital is spent. UnityPoint Health, as the sole corporate member of Meriter, will have control over bylaws, the operating budget and appointing the CEO.”

Form A Filing - Analysis

Item 1: Method of Control: The Affiliation Agreement

Material terms of the Affiliation Agreement are summarized as follows:

Prelude:

This agreement is dated October 10, 2013 between the following parties:

- Meriter Health Services, Inc. (“Meriter”): Meriter operates a health care delivery system providing a broad range of services and programs to meet the health care needs of the residents of the South Central Wisconsin region, including Madison and surrounding communities.
- Iowa Health System: Iowa Health System is the parent organization of an integrated regional health care system serving the health care needs of the residents of Iowa and Western and Central Illinois, and wishes to offer its services and benefits to contiguous markets in Wisconsin through an affiliation with Meriter.

Purpose:

In 2013, the Parties entered into preliminary discussions to explore the possibility of establishing a long-term strategic relationship. After determining that the parties share similar values (including but not limited to complementary missions and a commitment to local governance and management of health care delivery), the Parties entered into this Affiliation Agreement to set-forth the terms and conditions of their strategic relationship.

Material Terms:

- Corporate Restructuring (Section 2.1): As of the Closing Date, the Parties shall enter into an affiliation structured as a sole member recognition pursuant to which (a) Iowa Health System shall become the sole member of Meriter and indirectly, of the Meriter affiliates, thereby making Meriter an Iowa Health System affiliate, and (b) Iowa Health System and Meriter shall adopt and institute a governance model, which is intended to be comparable to the governance model of the other Iowa Health System affiliates.

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[REDACTED]

[REDACTED]

Item 2: Identity and Background of the Applicant

The name and address of the Applicant is:

Iowa Health System d/b/a UnityPoint Health
1776 West Lakes Parkway
Suite 400
West Des Moines, IA 50266

Iowa Health System controls a regional healthcare delivery system, including twelve hospitals in Iowa, four hospitals in Illinois, and over 750 employed physicians. The Applicant provides various corporate and administrative services to its controlled for- and not-for-profit affiliates: There are currently no court

proceedings involving a reorganization or liquidation pending with respect to the Applicant or any of its affiliates.

Item 3: Identify and Background of Individuals Associated with the Applicant

The directors and officers of the Applicant are listed below:

Directors:

- Angela Aldrich
- Gene Blanc
- Terri Christoffersen
- Stanton Danielson
- Randy Easton
- Kathy Eno
- Sarah Hasken
- Kent Henning
- Steve Herwig
- Francis Kane
- Ron Klosterman (Board Chairman)
- Larry Liebscher, M.D.
- Rick McConnell
- Pete McLaughlin
- Linda Newborn
- Kurt Pittner
- Bruce Sherman
- Mike Stone
- Karen Stumpe
- Devendra Trivedi
- Mike Williams

Executive Officers:

- William B. Leaver (President & CEO)
- Kevin E. Vermeer (Executive Vice President)
- Mark A. Johnson (Senior V.P. & CFO)
- Joy M. Grosser (V.P. & CIO)
- Sabra K. Rosener (V.P., Government Relations and Public Policy)
- Emily E. Porter (V.P. of People Excellence)
- Alan S. Kaplan (Senior V.P. & Chief Clinical Officer)
- Dennis W. Drake (General Counsel & Compliance Officer)

Biographical Affidavits for all directors/officers were reviewed. There were no exceptional responses requiring further comment.

Item 4: Nature, Source and Amount of Consideration

The proposed transaction involves an affiliation pursuant to which Iowa Health System will become Meriter's sole corporate member (the "Affiliation" transaction). There will be no cash consideration involved in the transaction. However, Iowa Health System will provide to Meriter with a line of credit in the amount of \$50M (provided that when PPIC becomes a direct subsidiary of Iowa Health System, the line of credit will be reduced to \$25M). The source of cash to fulfill Iowa Health System's financial commitments under the Affiliation Agreement will either be from existing cash balances, or from short-term financing.

The fairness of the proposal was determined by arm's-length negotiations between Meriter and Iowa Health System.

Note: In a separate transaction, Iowa Health System plans to acquire PPIC from Meriter at a fair market value purchase price to be determined (the “**Stock Purchase**” transaction). The Applicant filed a separate Form A filing with OCI on November 27, 2013 for prior approval.

Item 5: Future Plans of Insurer

The Applicant plans to directly acquire the outstanding stock of PPIC from Meriter (which will be submitted to OCI for prior approval through a subsequent Form A filing), but otherwise does not plan to cause PPIC to declare an extraordinary dividend, to liquidate PPIC, to sell PPIC’s assets, or to merge it with any person or persons or to make any other material change to its business operations or corporate structure or management.

[Note: Although the closing of the Affiliation Agreement (the subject of this Form A filing) will not result in any changes to the Board of PPIC, the Applicant anticipates, pursuant to Article VI of the Affiliation Agreement, that there will be changes to the board of PPIC at the time that the Applicant acquires the outstanding stock of PPIC from Meriter. Additional information on the changes will be submitted as part of a separate Form A once the terms of the transaction are finalized.]

Item 6: Voting Securities to be Acquired

Upon the closing of the transaction, the Applicant will acquire control of Meriter, which owns 100% of the stock of PPIC.

Item 7: Ownership of Voting Securities

Neither the Applicant, nor any of its affiliates, nor any person listed in Item 3, beneficially owns any voting securities of PPIC or has the right to acquire beneficial ownership of any voting securities of PPIC.

Item 8: Contracts, Arrangements, or Understandings with Respect to Voting Securities of the Insurer

None.

Item 9: Recent Purchases of Voting Securities

None.

Item 10: Recent Recommendations to Purchase

None.

Item 11: Agreements with Broker-Dealers

NA – there were no agreements with Broker-Dealers in connection with this transaction.

Item 12: Financial Statements

The Applicant submitted audited financial statements for the years ended December 31, 2008 – 2012, and unaudited financial statements for the 9 months ended September 30, 2013. There were no issues or concerns noted that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of PPIC or Meriter, or prejudice the interests of PPIC’s Wisconsin policyholders.

Wisconsin Specific Requirements

The following checklist addresses the requirements of s. 611.72 (3), Wis. Stat. (Grounds for Disapproval):

- a) 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?

Did the Filing Adequately Address this Concern? Yes

Comments: The Applicant has no plans to make any material change to PPIC's business operations, corporate structure or management. Moreover, per the terms of the Affiliation Agreement, the Applicant has expressed a commitment to stabilizing PPIC's financial condition.

- b) The effect of the merger or other acquisition of control would not be to create a monopoly or substantially lessen competition in insurance in this state?

Did the Filing Adequately Address this Concern? Yes

Comments: Because there are no other insurers currently within the Iowa Health System holding company system, the proposed transaction will not create a monopoly, and is unlikely to substantially lessen competition in the State of Wisconsin.

- c) 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?

Did the Filing Adequately Address this Concern? Yes

Comments: There were no issues or concerns noted that would suggest that the financial condition of the Applicant and its affiliates is likely to jeopardize the financial stability of PPIC or Meriter, or prejudice the interests of PPIC's Wisconsin policyholders.

- d) 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?

Did the Filing Adequately Address this Concern? Yes

Comments: The Applicant plans to directly acquire the outstanding stock of PPIC from Meriter (which will be submitted to OCI for approval in a subsequent Form A filing), but otherwise does not plan to cause PPIC to declare an extraordinary dividend, to liquidate PPIC, to sell PPIC's assets, or to merge it with any person or persons or to make any other material change to its business operations or corporate structure or management.

- e) 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 policyholders of the corporation and of the public to permit the merger or acquisition of control?

Did the Filing Adequately Address this Concern? Yes

Comments: Review of the Biographical Affidavits (Item 3) did not raise any concerns in this area.

Hearing: Per s. 611.72 (3m), Wis. Stat.: “A hearing is not required under sub. (3) Before approval of a proposed plan of merger or other plan for acquisition of control if the proposed merger is with, or the proposed acquirer is, an affiliate of the insurer and the proposed merger or other acquisition of control does not change the controlling person of the insurer.” Is a hearing required for this filing?

Yes. The Applicant is not an affiliate of the insurer, and the proposed transaction will result in indirect control of PPIC (by becoming Meriter’s sole corporate member). Therefore, a hearing is required.

Follow-up Items

The Applicant (per letter dated November 22, 2013) adequately addressed the issues identified in OCI’s November 12, 2013 application follow-up letter.

Conclusion

It is recommended that the proposed acquisition of Physicians Plus Insurance Corporation (the “Affiliation Transaction”) be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72 (3), Wis. Stat.