



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

November 6, 2013

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MS LISA R LANGE ESQ
WHYTE HIRSCHBOECK DUDEK SC
PO BOX 1379
MADISON WI 53701 1379

Re: Form A – Acquisition of Control of Trilogy Health Insurance, Inc.

Dear Ms. Lange:

The State of Wisconsin Office of the Commissioner of Insurance (the “Department”) has completed its initial review of the above-referenced Form A filing (and the related Form D filing) submitted on October 22, 2013 on behalf of the following applicants: Independent Physician’s Network (IPN), Scas Management Group, LLC (SMG) and Ms. Benita Warner (“Applicants”). Our review identified certain items requiring follow-up, as indicated below. ***To ensure that the Form A review continues to move forward expeditiously, please provide the following information at your earliest convenience:***

1. Amended and Restated Operating Agreement: Please provide a copy of the proposed Second Amended and Restated Operating Agreement between Trilogy Health Holdings, LLC (“THH”), the Purchasers, and the other unit holders of THH, which will take effect upon the date of the closing.
2. Investment Agreement – Directors: Section 6 of the Investment Agreement states that IPN and SMG shall each have the right to designate two of the seven directors of THI (for a total of four directors between them). Please state whether there will be any immediate changes to THI’s directors following the closing (or shortly thereafter), and if so, please provide a list of all THI directors post-closing (along with Biographical Affidavits, if not previously submitted).
3. Business Plan:
 - (a) Contract with DHS: The Business Plan is contingent upon THI obtaining a contract from the State of Wisconsin Dept. of Health Services (DHS) to provide health services to BadgerCare Plus and Supplemental Security Income (SSI) eligible members. Please provide a copy of any correspondence to THI from DHS indicating that DHS has approved this contract (when available).
 - (b) Geographic Service Area: The Business Plan states that the service area will be limited to the counties of Milwaukee, Waukesha, Racine and Ozaukee. Please discuss whether a market impact analysis was performed to assess the potential impact of the addition of another Medicaid HMO into this service area (and provide the results of any market impact studies, if applicable).
 - (c) Feasibility/Marketing Surveys: Please provide a copy of any Feasibility Studies/Marketing Surveys that were used in making the decision to pursue a contract with DHS for BadgerCare Plus and Medicaid SSI.

- (d) BadgerCare Plus/Medicaid SSI Enrollment: The Business Plan states that one of the considerations in the investors' decision to participate in the proposed transaction was: "The availability of BadgerCare Plus and Medicaid SSI enrollees with special attention to the significant influx of childless adults expected in January and/or February 2014". Please provide the basis for this assertion (regarding the significant influx of childless adults into the program).
- (e) Plan Administration: The Business Plan states that the company will hire an experienced Executive Director beginning January 1, 2014. Additional staff will also be hired, including an HMO Advocate, as required by DHS. Please discuss who will temporarily fill these positions, in the event the Executive Director and/or HMO Advocate are not hired by January 1, 2014.

4. Financial Projections – Trilogy Health Insurance, Inc. ("THI"):

- a) Cash Flow Statement: Please provide pro forma cash flow statements for 2014 – 2016.
- b) RBC Ratio Projections – Trilogy Health Insurance, Inc. ("THI"): Please provide the authorized control level and RBC ratio projections for THI for 2014 – 2016.
- c) Membership Projections: Please provide the assumptions supporting the monthly membership projections, including an explanation as to how these assumptions were derived (and the source of the data used to derive these assumptions).
- d) PMPM Premium Assumptions: Please provide the basis for the following PMPM premium assumptions (along with copies of any correspondence from DHS that would support these assumptions):
 - (1) BadgerCare Plus average premium: \$125.38 pmpm
 - (2) Childless Adult average premium: \$278.68 pmpm
 - (3) SSI average premium: \$666.28 pmpm
- e) PMPM Premium Rate Increase: Please provide the basis for the following assumption: 3% per year pmpm premium rate increase.
- f) Medical Loss Ratio: Please provide the basis for the following assumption: 87% Medical Loss Ratio.

5. Target Level Capital and Surplus (RBC) – THI: Please discuss whether the Applicants are committed to maintaining a target level of capital and surplus for THI (i.e. – a threshold RBC ratio), and whether THH intends to ensure that the target level of capital and surplus is maintained at all times. [i.e. – will there be any formal written guarantees?]

6. Financial Statements: Form A Item 12 (b) requires applicants to submit annual audited financial statements for the preceding 5 fiscal years (or for such lesser period as such applicant has been in existence), and similar information covering the period from the end of such person's last fiscal year.

The Form A filing only included audited financial statements for IPN (the financial statements for Applicant SMG were unaudited, and there were no personal financial statements submitted for Applicant Bonita Warner). Moreover, the unaudited 2012 Balance Sheet for SMG indicates that SMG had negative net equity at 12/31/12. In addition, the response to Item 4 of the Form A (Nature Source and Amount of Consideration) indicated that the aggregate purchase price for the 47,832 Units being acquired will be \$1,198,000 will be paid in cash at closing.

Please provide audited financial statements for Applicants SMG and Bonita Warner for the year ended December 31, 2012 (or the most current period available), or alternatively, provide an explanation as to why audited financial statements were not provided.

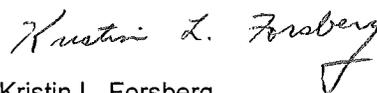
In addition, please provide evidence (i.e. Balance Sheet, Bank Statement, Personal Financial Statement, etc.) demonstrating that each of the three Applicants currently has sufficient cash to meet their respective purchase commitments, as indicated below:

- Independent Physicians Network, Inc.: \$548,000
- Scas Management Group, LLC: \$400,000
- Bonita Warner: \$250,000

7. Pending Arbitration Claim: Note 8 to IPN's 2012 Audited Financial Statements discusses a pending arbitration claim filed against IPN by Molina Healthcare, Inc. Please discuss the current status of this claim, including an assessment of the predicted outcome and an estimate of the potential loss (if any)
8. Biographical Statements: Please submit a Biographical Affidavit on NAIC Form 11 for the following individual:
 - Dr. Linda Dindzans (IPN)
9. Form D filing – Administrative Services Agreements:
 - Solutions Administrative Services Agreement: Please discuss how the compensation terms (as discussed in Exhibit C to this agreement) were determined to be "reasonable and fair to the interests of the insurer" in accordance with s. 617.21, Wis. Stat.
 - IPN Administrative Services Agreement: Please provide a current draft of this administrative services agreement.
 - SMG Administrative Services Agreement: Please provide a current draft of this administrative services agreement.

Please feel free to call me at (608) 266-9896, or email me if you have any questions.

Sincerely,



Kristin L. Forsberg
Licensing Specialist
Bureau of Financial Analysis and Examinations
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kristin.forsberg@wisconsin.gov