

**BEFORE THE OFFICE OF THE COMMISSIONER OF INSURANCE
STATE OF WISCONSIN**

Case No. 04-C29300

In the Matter of the Acquisition of Control of
Unity Health Plans Insurance Corporation by
University Health Care, Inc.

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16 DEC. 2004

04-C29300

Date: December 16, 2004
Time: 3:45 p.m. Central Standard Time
Location: Office of the Commissioner of Insurance
125 S. Webster St.
Madison, WI 53703

PREPARED TESTIMONY OF JANE M. BARNETT

Question: Please state your name.

Answer: Jane M. Barnett.

Question: By whom are you employed and in what capacity?

Answer: I am President and Chief Executive Officer of University Health Care, Inc. ("UHC"), 635 Science Drive, Suite 100, Madison, Wisconsin. UHC is a non-profit entity organized to promote medical education, research, and public service by the University of Wisconsin Medical School, its faculty, the University of Wisconsin Medical Foundation, and the University of Wisconsin Hospital and Clinics Authority.

Question: Please describe some of your background and qualifications to serve as President and Chief Executive Officer of UHC.

Answer: I began employment at University Hospital in the mid-1980s. I served as the Vice President for Regional Affairs at UHC and University of Wisconsin Hospitals and Clinics for many years and have been the President and CEO of UHC since 1999. I am currently the Board Chair at Unity, and I have been a member of its Board since 1999.

Question: Are you familiar with the Form A filing which is Exhibit 2 in these proceedings?

Answer: Yes. I supervised the preparation of the Form A filing and am familiar with the contents, the exhibits, and supplements made to that filing

subsequent to the original application.

Question: To the best of your belief, are the contents of those filings true, accurate and complete?

Answer: Yes. But I recognize that there will be a number of post-closing filings required, such as those asking for approval of transactions with affiliates and advising the Office of the Commissioner of Insurance of any changes in the directors and officers of the acquired HMO. UHC will timely make those filings.

Question: Does this transaction require Hart-Scott-Rodino clearance from either the U.S. Department of Justice or the Federal Trade Commission?

Answer: No. This transaction is exempt from Hart-Scott-Rodino requirements because the total consideration that UHC will pay to acquire Unity is estimated at \$45 million, which is below the \$50 million threshold that would necessitate a Hart-Scott-Rodino filing in this transaction.

Question: Are there any events subsequent to your last filing which should be brought to the attention of the Insurance Commissioner which would be relevant to these proceedings?

Answer: Yes. UHC and Unity's transition teams have: (i) negotiated and filed with the Department new contracts for out of area services provided to Unity's Point of Service clients; (ii) segregated the sales and underwriting staff between WellPoint, as the parent company of the Seller, and Unity; (iii) planned all computer system conversions to occur upon the transfer of ownership; (iv) developed compensation and benefit plans for Unity employees; (v) developed customer service telephone support systems; (vi) arranged for actuarial services for 2005; and (vii) finalized the terms of the purchase and planned for the orderly transition of Unity. Other than these, there are no new developments that I'm aware of. The Office of the Commissioner of Insurance has conducted a thorough investigation and has asked a number of questions regarding both the transaction and UHC as the acquirer. We have responded to these questions. The Department has been thorough and professional.

Question: Are there other approvals required before you close?

Answer: No. UHC has obtained all other corporate and regulatory approvals necessary to close this transaction.

Question: Wisconsin Statutes set out specific grounds for disapproving the proposed acquisition of a Wisconsin domestic insurance company. Have you reviewed Wisconsin Statute § 611.72(3), which lists grounds on which this transaction might be disapproved?

Answer: Yes, I have reviewed that section.

Question: Do you believe that the acquisition of Unity would violate the law?

Answer: No, I do not.

Question: Do you believe that this transaction would be contrary to the interests of Unity's insureds?

Answer: No, I do not. Indeed, this acquisition should be beneficial to Unity's insureds. As a result of this transaction, UHC, a non-profit charitable entity, will own Unity and be in a position to enhance its charitable purposes through the HMO. As stated in UHC's Articles of Incorporation, UHC is organized "to promote medical education, research and public service by the University of Wisconsin Medical School, its faculty, the University of Wisconsin Medical Foundation, and the University of Wisconsin Hospital and Clinics Authority." UHC's Articles of Incorporation are marked as Exhibit 7.4.

Question: Is the transaction contrary to the interests of the insureds of any participating domestic corporation or the Wisconsin insureds of any participating nondomestic corporation?

Answer: No.

Question: Do you believe that after the acquisition, Unity will be able to satisfy the requirements for the issuance of licenses to write the line or lines of insurance for which it is presently licensed?

Answer: Yes, I do. I believe that Unity currently satisfies the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed. No changes are contemplated that would affect that conclusion. Unity has arranged for Madison National Life Insurance Company to handle the indemnity portion of its point of service contracts. This relationship has been approved by OCI Financial Examiner Richard Hinkel.

Question: Is the effect of the merger to create a monopoly or substantially lessen competition in insurance in this state?

Answer: No, it is not. Indeed, the acquisition may well foster greater competition for two reasons. First, this transaction does not lead to a decrease in the number of insurers providing services in the greater Dane County market. Second, Unity will not be owned by WellPoint, Inc., the company resulting from the recent merger of WellPoint Health Networks, Inc. and Anthem, Inc.

WellPoint currently owns Unity. Following the acquisition, Unity will be independent of WellPoint, Inc. This independence from a former parent company should, if anything, lead to increased competition in the insurance market. This situation would be similar General Motors selling its Chevrolet Division to a start-up car manufacturer. Where Chevrolet and Pontiac were once owned by a single firm and their product lines coordinated so as not to compete, they are now owned independently, and Chevrolet competes with Pontiac for customers. So to will Unity compete with WellPoint.

Question: Is it possible that UHC's acquisition of Unity would reduce UHC's likelihood of contracting with WellPoint or other payors for services?

Answer: No. UHC has an extensive history of entering into relationships with a broad range of payors. Currently, UHC has provider agreements with all of the HMOs in the south central Wisconsin market, including CompCare, Dean Health Plan, Physicians Plus Insurance Corporation, Group Health Cooperative of South Central Wisconsin, MercyCare Insurance Corporation, and Medical Associates Clinic Health Plan of Wisconsin. It is common in this market for providers to own a payor organization. In fact, three of the major provider networks in south central Wisconsin, Dean/St. Mary's, Meriter Hospital, and Southern Wisconsin Health Care System, control or are affiliated with a payor, those being Dean Health Plan, Physicians Plus Insurance Corporation, and MercyCare, respectively. UHC contracts with each of these payors, even though they are controlled by competing providers. These payors also contract with providers other than UHC and their controlling provider network.

In addition to the provider agreement with CompCare, which is a WellPoint subsidiary, UHC and the Unity transition team sought to continue other contractual relations with WellPoint. Notably, when the Unity transition team sought a point of service provider with an indemnity license that would work with Unity following the acquisition, it first asked Blue Cross if it would like that business. Blue Cross declined the contract without negotiation, and an agreement was then struck with Madison National Life Insurance Company.

No part of UHC, the University of Wisconsin Medical Foundation (the "Medical Foundation"), or the Hospital and Clinics Authority's mission is to maximize profits via the elimination of competition. According to its bylaws, the Medical Foundation shall "at all times be operated exclusively for the benefit of, and to support the purposes and operations of, the University of Wisconsin Medical School and the University of Wisconsin-Madison." The Medical School's mission is "meeting the health needs of Wisconsin and beyond through excellence in education, research, patient care and service." The Hospital and Clinics Authority's mission is to provide safe, high-quality health care; educate the next

generation of health professionals; conduct research to discover new methods of treatment and prevention; and provide education and outreach services to the community.

Question: Do you believe that having UHC own Unity presents barriers to competition while they both operate in the same market?

Answer: No. I described earlier, UHC relies upon a broad range of payor relationships. UHC has payor relationships with all HMOs operating in this market. In addition, income from Unity does not comprise a dominant portion of UHC and its affiliates' revenue. The Hospital and Clinics Authority and the Medical Foundation's combined patient care revenue derived from its contract with Unity only comprises about 8.3% of the patient care revenue of these entities. Through the third quarter of 2004, even if all of Unity's payments for medical and hospital expenses were made to the Hospital and Clinics Authority and the Medical Foundation, those payments would comprise less than 15% of these entities' total patient care revenue. Because payments from Unity make up such a small portion of the total revenue for UHC and its affiliates and because these entities rely heavily on revenue from other payors, there is no incentive for UHC to alienate other payors. Such alienation would offer no competitive advantage for UHC. In addition, it should be noted that while there are over 470,000 HMO-insured lives in this market, Unity's membership is less than 75,000.

Question: Will the financial condition of UHC, or any of its affiliates, jeopardize the financial stability of Unity or prejudice the interests of its Wisconsin policyholders?

Answer: No. The purchase price for the acquisition is derived from cash on hand. No debt will be placed on Unity or UHC as its parent as a result of this acquisition. Furthermore, as an HMO, Unity places a substantial portion of its risk on providers, principally on UHC and the UW Health providers. These providers are financially strong and are able to meet their commitments. For Unity's Dane County members, which comprise two-thirds of Unity's membership, UHC and UW Health providers assume risk for these members based upon a capitation agreement. By managing medical risk, capitation agreements align the incentives of good medicine and cost control, and the providers have an interest in balancing these factors most favorably for the insured patients. Therefore, Unity is shielded from financial risk and the risk that one would see in an HMO that pays primarily on a fee-for-service basis. As a result, Unity will have relatively limited risk, particularly when this capitation arrangement is considered with Unity's financial strength, and thus there is no reason to expect that Unity will need to rely on UHC for additional financial

support.

Question: Does UHC plan to liquidate Unity, to sell its assets, or merge it with any other person?

Answer: No. First, UHC has no current plans to merge or combine with any entity. Second, it should be noted that the receipt of any dividend discussed in response to Question 29 of OCI's November 11, 2004, letter and in response to question 6 of OCI's December 3, 2004, letter is not a condition to UHC or its members entering into this transaction. These questions and UHC's responses are included in Exhibits 7 and 9, respectively. Finally, UHC recognizes the authority of OCI over extraordinary dividends and any subsequent change of control of Unity.

Question: Will any material changes that UHC makes in Unity or its corporate structure or management be fair and reasonable to their policyholders and in the public interest?

Answer: Currently, we have no plans for any such material changes. UHC has made arrangements to retain all of the key employees of Unity following the acquisition and has worked hard to make the transaction seamless.

Question: Will the competence and integrity of those persons who will control the operations of Unity be in the interest of the policyholders and of the public?

Answer: Yes. We believe that Unity's current management has run the company with competence and integrity that are in the interests of both policyholders and the public. We plan no changes in the composition or structure of Unity's management. In fact, we expect even greater benefits to the policyholders and the public following this transaction as UHC carries out its charitable mission as a non-profit entity through the ownership of Unity. Evidence of this benefit can be seen in the willingness of UHC's sponsors, the Medical Foundation and the Hospital and Clinics Authority, to take on Medicaid risk for a variety of payors.

Question: Can you tell us who will hold the key administrative positions at Unity following the acquisition by UHC and briefly describe each person's background?

Answer: Sure. Following the acquisition, Gail Midlikowski will serve as vice president and will be responsible for claims processing. Ms. Midlikowski has served as Unity's director of operations since 2000 and also has over 25 years experience with Wausau Insurance Company.

Nancy Sielaff will serve as Unity's secretary and general counsel following the acquisition. Ms. Sielaff has worked in the general counsel's

office of United Wisconsin Services and its successors since 1994 and has focused her time exclusively to Unity's legal matters since 2001.

Edward Breunig will be responsible for Unity's accounting and will serve as treasurer. Mr. Breunig began with Unity as a financial analyst in 1995 and has served as Unity's director of finance since 2001.

David Roughen will serve as Unity's director of sales and will supervise sales activities. Mr. Roughen has experience selling Unity and other insurance products as a WellPoint employee.

In the past, actuarial services were provided by WellPoint personnel. Following the acquisition, Unity will contract with Actuarial & Health Care Solutions, LLC for such services, which will be provided by Richard Marchel and Kevin Dolsky. In addition, following the acquisition, Unity will bid out its audit to three nationally recognized audit firms.

Question: Is Unity prepared to operate independently from Blue Cross following the acquisition?

Answer: Yes. The same key individuals I have just told you about, who currently operate Unity will occupy the leadership positions at Unity following the transaction.

Question: Please describe the effect of the transaction, if any, on number of Unity employees.

Answer: Unity expects to maintain its current employee complement. Unity employees are enthusiastic about UHC's acquisition of Unity, and few, if any, employees are expected to leave Unity as a result of the acquisition.

Question: What affect will UHC's acquisition of Unity have on the employees' pension and benefit plans?

Answer: Unity has developed a new 401(k) plan, which will be qualified to accept rollovers from Unity employees' Blue Cross accounts or other qualified retirement benefits. Open enrollment and retirement plan meetings have been conducted for all Unity employees.

Question: Please describe the current projections for Unity's book of business on a going-forward basis.

Answer: By all projections, I expect that Unity will maintain its current membership level or slightly increase that level. Since the WellPoint and Unity sales employees were segregated in anticipation of this transaction, the Unity salespeople have had great success, bringing in more new business in the past month than Unity brought in over the previous year. It

should be noted that this business was brought in with adequate premium, based on usual and customary underwriting principles. I believe Unity is well-positioned to continue that type of success.

Question: Do you have any other statements you wish to make for the record?

Answer: Yes. UHC is pleased to be in this proceeding seeking approval of its reacquisition of Unity. More than ten years ago, Unity's predecessor, U-Care HMO, a University of Wisconsin HMO, served over 25,000 members as a locally controlled HMO. Since that time, HMO competition in this market has increased.

When we entered into a joint venture in 1994 with seller's predecessor, it was critical to retain the option to reacquire Unity so that the insureds in the market would have quality insurance options available to them. Following the conversion of seller's predecessor to a for-profit entity and two subsequent mergers with for-profit entities, UHC decided to exercise its option and the option of CHS, which it now owns, to reacquire Unity. The reacquisition will ensure that Unity continues to have the authority to make independent medical management decisions and to have local control over pharmaceutical formulary choices. These capabilities represent meaningful benefits for Unity's insureds.

We believe that our acquisition of Unity will benefit its Wisconsin insureds in numerous ways. For example, it will bring total control back to local decision makers who have a better understanding of local needs. The acquisition will also eliminate any pressure on Unity to produce quarterly returns for the stockholders of Unity's current publicly-traded parent corporation. Future profits that would have been distributed to Blue Cross will be available to maintain the integrity and quality of our healthcare system, a key component of UHC's non-profit mission.

Question: Does this conclude your testimony?

Answer: Yes it does. I would be happy to answer any questions.