



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

September 6, 2005

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Advanced Via Facsimile

Mr. Bruce G. Arnold
Whyte Hirschboeck Dudek S.C.
555 East Wells Street, Suite 1900
Milwaukee, Wisconsin 53202-3819

Re: Acquisition of Control of American Medical Security Life Insurance Company (AMSLIC) by UnitedHealth Group Incorporated (Case No. 05-C29696)

Dear Mr. Arnold:

Responses to the following items are requested in connection with this Office's review of the proposed acquisition of control of American Medical Security Life Insurance Company by UnitedHealth Group Incorporated.

As we discussed during our meeting on August 12, 2005, this Office has concerns regarding certain market conduct matters related to the UnitedHealth Group's operations in Wisconsin. You should feel free to address those matters in your response since they bear on the pending application.

Requests for Additional Documentation

1. Please describe the process, time frame and deliberations that were undertaken by UnitedHealth Group Incorporated's management and boards of directors in arriving at the current plan to acquire PacifiCare Health Systems, Inc. Include any deliberations or discussions of plans or options considered that go beyond the immediate acquisition.
2. Please provide an analysis of the impact of the proposed transaction on the competitive environment in Wisconsin. This analysis is intended for use as an exhibit in the upcoming hearing and should be detailed enough to identify small business concentrations that may be impacted as a result of the acquisition. Please include a separate analysis of the effect of the acquisition on the small employer market, including a discussion of the small employer business in Wisconsin of all affiliates. Include in this analysis business written to Wisconsin small employers through associations, trusts or other vehicles, regardless of whether the premium is reported as Wisconsin business. Also include a description of the marketing plan for small employer business for all affiliates after the proposed acquisition.
3. Please describe material pending litigation in which the parties to the proposed acquisition are involved.

4. Please provide a copy of the Company Disclosure Letter of January 1, 2004 referenced in Section 2.03(e) of the Agreement and Plan of Merger.
5. Please provide a copy of the 2005 Equity Incentive Plan of PacifiCare Health Systems, Inc.
6. Please send biographical affidavits for the following directors and officers:
 - a. Richard H. Anderson
 - b. Jeannine M. Rivet
 - c. Reed V. Tuckson, M.D.
 - d. L. Robert Dapper
 - e. John S. Peshorn
 - f. Robert J. Sheehy
 - g. Lois Quam
 - h. Anthony Welters
 - i. Tracy L. Bahl
 - j. William A. Munsell
7. Describe the acquirer's plans to ensure sound, customer-friendly service transitions, the preservation of audit trails and maintenance of those records that the laws require to be maintained on a permanent basis. Include a description of the operating units, personnel and procedures that will be in place to address these topics. Who, following approval of the acquisition of control, would have ultimate responsibility to ensure that AMSLIC, and all persons under their supervision who will perform services for AMSLIC, would comply with all Wisconsin Statutes and regulations applicable to the company including, but not limited to, the requirements of ss. 601.42, 601.43, and 601.44, Wis. Stats., and s. Ins 6.80, Wis. Adm. Code? OCI requests that this individual affirm the following in a written affidavit:
 - a. the responsibility of the office with respect to ensuring compliance with all applicable Wisconsin Statutes and regulations including, but not limited to, the aforementioned statutes and regulation;
 - b. the awareness that failure to comply with all applicable Wisconsin Statutes and regulations, including but not limited to, ss. 601.42 and 601.44, Wis. Stats., and s. Ins 6.80, Wis. Adm. Code, may result in forfeiture, and that failure to comply with s. 601.43, Wis. Stats., may result in rehabilitation or liquidation; and,
 - c. the commitment to ensure compliance with all applicable Wisconsin Statutes and regulations including, but not limited to, the aforementioned statutes and regulation.
8. Please provide us a copy of the Hart-Scott-Rodino filing made with the Federal Trade Commission. Following receipt, please also provide a copy of the Federal Trade Commission's early termination notice or other form of response to UnitedHealth Group Incorporated's filing pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976.
9. Please file a copy of the proxy statement and any other filings with the U.S. Securities and Exchange Commission in connection with the proposed Agreement and Plan of Merger, following receipt of notice of waiver of review or final approval.

The Holding Company System, its Governance, and Resources

10. Please provide the following information with respect to UnitedHealth Group Incorporated and Point Acquisition LLC:
 - a. Date of incorporation
 - b. Capitalization structure, including the number of shares authorized, and issued and outstanding for each class of common and preferred stock and debt issued.
 - c. Who holds the debt and what are the rates, maturity schedules, and covenants on that debt?
11. Please file a Consent to Jurisdiction on Form E by UnitedHealth Group Incorporated and PacifiCare Health Systems, LLC.
12. Under what circumstances would UnitedHealth Group Incorporated anticipate that it would elect to substitute a Delaware business corporation for the limited liability company in the proposed acquisition?
13. What is UnitedHealth Group Incorporated's view on what represents a proper level of capitalization for an insurance subsidiary? How will this view be implemented with respect to AMSLIC?
14. After the acquisition, will the form of AMSLIC's articles of incorporation and bylaws closely follow those currently in use by AMSLIC? If not, please file the forms of articles and bylaws that are anticipated after the change in control.
15. Please describe the current status of operational and systems integration for each acquisition by UnitedHealth Group Incorporated in the last five years.
16. For each of the acquisitions identified in question 15, please compare the pre-acquisition anticipated management and employment changes with actual results at this stage of the integrations. If results varied materially from expectations, please identify causes of deviations.
17. Please file a copy of the intended form of Tax Allocation Agreement referenced in the Form A.

Financial Implications

18. Please provide pro forma financials of UnitedHealth Group Incorporated immediately following the effective date of the proposed transaction, with and without the effects of goodwill arising from this proposed acquisition.
19. On Tuesday, August 16, 2005, UnitedHealth Group Incorporated registered to sell up to \$4 billion of mixed securities to meet its working-capital requirements, to redeem or repurchase outstanding securities, refinance debt, finance acquisitions and for general corporate purposes. Please identify the cash flow needs of UnitedHealth Group Incorporated and its subsidiaries for the next three years for servicing current debt and

future debt to be incurred as a result of this proposed acquisition and specifically how this acquisition impacts those cash flows.

20. What time frame does UnitedHealth Group Incorporated anticipate will be needed to pay principal and interest on the debt that will be incurred to fund the purchase of PacifiCare Health Systems, Inc.?
21. Following the merger, what effect would the acquisition of PacifiCare Health Systems, Inc. and UnitedHealth Group Incorporated's chosen method of debt financing for the transaction be anticipated to have on the factors determining its post-merger insurance subsidiaries' rate levels?
22. What assets, if any, are anticipated to be pledged to secure the debt that will be incurred to fund the purchase of PacifiCare Health Systems, Inc. or the debt that is anticipated to replace the bridge financing?
23. What is the anticipated impact of integration expenses upon AMSLIC following the proposed change in control?
24. Is it anticipated that UnitedHealth Group Incorporated or its subsidiaries will contribute capital to AMSLIC during 2005 or thereafter?
25. What is the anticipated effect of the merger of pension plans on the combined plans' funded status?
26. Please confirm that there will be no changes to any assets or liabilities on the statutory annual or quarterly statements of AMSLIC related to the acquisition by UnitedHealth Group Incorporated, and that there will be no goodwill or acquisition expenses related to the acquisition by UnitedHealth Group Incorporated pushed down into AMSLIC.
27. Please describe the financial terms of the pending acquisition of Neighborhood Health Partnership.
28. What level of tangible net worth does the management of UnitedHealth Group Incorporated believe to be within the bounds of prudence for an organization of its size and membership?
29. The Form A indicates that the UnitedHealth Group Incorporated has executed a commitment letter with J.P. Morgan Securities, Inc. and Citigroup Global Markets, Inc., to provide a \$3 billion loan facility to serve as backup liquidity. Please provide copies of such commitment letters.

Status of Current Operations

When PacifiCare Health Systems, Inc. acquired AMSLIC a few months back, AMSLIC experienced substantial changes in its office operations. Since I do not have a recent examination report or other analysis that describes the current office operations, some questions need to be asked on the status of current operations, so that future plans can be understood.

30. Which corporations within the present PacifiCare Health Systems, Inc. holding company system function as the direct employers of those who provide services to AMSLIC?
31. What are the number and location of employees that currently provide services to AMSLIC and its policyholders?

Business Plan

32. What is the target date for closing the proposed merger?
33. What is planned level of capitalization for AMSLIC following the change in control? What is the intended form of capitalization, that is, among common stock, preferred stock, surplus notes, gross paid-in and contributed surplus, and unassigned funds?
34. Which types of insurance programs and services will UnitedHealth Group Incorporated direct AMSLIC to prioritize for growth and development following the proposed change in control?
35. Which types of insurance programs and services will UnitedHealth Group Incorporated direct AMSLIC to seek to reduce or terminate following the proposed change in control?
36. Will UnitedHealth Group Incorporated direct AMSLIC to seek to reduce or terminate services in any region of this State in which it is currently active?
37. Does management anticipate any changes in AMSLIC's marketing practices or distribution channels following the proposed merger? Will AMSLIC's distribution network be cross-licensed for agency on behalf of other present UnitedHealth Group members? Will UnitedHealth Group's distribution network be cross-licensed for agency on behalf of AMSLIC's agency network? Will the producer networks be more or less comprehensively integrated, or will they remain more or less distinct?
38. Does the approach of UnitedHealth Group Incorporated and PacifiCare Health Systems, Inc. with respect to coordinated care and disease management programs differ to any significant degree? If so, how will service in this respect differ after the merger?
39. Does the approach of UnitedHealth Group Incorporated and PacifiCare Health Systems, Inc. with respect to preventive and early detection programs differ in any significant degree? If so, how will service in this respect differ after the merger?
40. At the present time, financial statement preparation is performed, and the primary location of the books and records is maintained, in Cypress, California. Is it anticipated that financial statement preparation for AMSLIC, or the primary location of its books and records, will be consolidated with that of its prospective UnitedHealth Group affiliates? If so, what is the anticipated time frame for that transition?
41. Are there any functions that are expected to be consolidated with UnitedHealth Group Incorporated or its affiliates, such as tax preparation, investment management, pension, human resources, or any other key operational function?

42. Does UnitedHealth Group Incorporated plan to direct AMSLIC to purchase or sell any books of business over the next twelve months?
43. Does UnitedHealth Group Incorporated have any plans, within the foreseeable future, to enter into discussions or negotiations with other entities concerning the purchase, sale, merger, or affiliation of AMSLIC with such entities?
44. Is any reorganization of the succession of control or ownership of PacifiCare Health Systems, Inc.'s present subsidiaries contemplated following the proposed merger?
45. Are the information technology platforms currently in place at UnitedHealth Group Incorporated and PacifiCare Health Systems, Inc. relatively compatible? How long is the integration of information technology platforms anticipated to take?
46. This Office has expressed reservations concerning AMSLIC's participation in the PacifiCare Group's royalty fee arrangement, but current ownership has represented that it intends to preserve use of the American Medical Security brand name. Please confirm and elaborate on UnitedHealth Group Incorporated's plans for the American Medical Security brand identity and the PacifiCare Group's royalty fee arrangement.

Personnel

47. In the Form A, UnitedHealth Group Incorporated indicated that it had no current plans or proposals to reduce in any material respect the number of employees employed by PacifiCare and its subsidiaries in the State of Wisconsin as a result of the Merger. Please identify any anticipated employment changes expected as a result of the acquisition related to either PacifiCare and its subsidiaries or the UnitedHealth Group.
48. Will the existing employees of PacifiCare Health Systems, Inc., American Medical Security Group, Inc. and AMSLIC be transferred to become employees of one or more other companies in the holding company system? If so, which ones?
49. Has UnitedHealth Group Incorporated or any of its subsidiaries made or placed under development any side agreements, written plans, or assurances concerning staff retention, salaries and benefits, or severance packages applicable to the employees of PacifiCare Health System, Inc. and its subsidiaries?

Executive Compensation

50. What specific circumstances trigger the executive change-in-control payments? Does the mere fact of a change in control trigger payments to executive officers or do the executive officers have to terminate their employment to receive compensation under the change-in-control provisions of their employment arrangements?
51. Please provide a brief description of each of the companies' equity option plans.
52. What is the effect of the merger on the incentive compensation plans for UnitedHealth Group Incorporated executive officers? Will the merger alone increase or tend to increase executive officers' awards to the maximum of their respective ranges? What

does UnitedHealth Group Incorporated anticipate to be the likely incremental increase in the overall cost of the awards for executive officers under the incentive compensation plans as a result of the merger? In the opinion of UnitedHealth Group Incorporated's senior management, should the anticipated effect of the merger on the incentive compensation plans for participants other than executive officers be regarded as material?

53. How does UnitedHealth Group Incorporated expect to fund the executive change in control payments?

Regulatory Matters

54. Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$1,250,000 monetary penalty assessed against United Healthcare of TX by Texas in 2001?
55. Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$100,000 monetary penalty assessed against Golden Rule Ins. Co. by Minnesota in 2002?
56. Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$200,000 monetary penalty assessed against Golden Rule Ins. Co. by Missouri in 2002?
57. Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$125,000 monetary penalty assessed against United Healthcare Ins. Co. by Maryland in 2003?
58. Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$62,500 monetary penalty assessed against United Healthcare Ins. Co. by Nebraska in 2004?
59. Please describe the allegations, the causes of the noted problems and the remedies both operational and to the policyholders related to the \$1,100,000 monetary penalty assessed against United HealthCare Insurance Company by North Carolina in 2004.
60. Please describe the allegations, the causes of the noted problems and the remedies both operational and to the policyholders related to the \$1,100,000 monetary penalty assessed against UnitedHealthCare of North Carolina by North Carolina in 2004.
61. In addition to the foregoing, please identify any other regulatory actions or forfeitures against the group.

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62. What is the status of the efforts of UnitedHealthcare of Wisconsin, Inc. (UHC of WI) and Midwest Security Life Insurance Company to comply with the Stipulations and Orders in the Matter of Case No. 04-C28995, Case No. 04-C28996 and Case No. 04-C28997, which were issued in connection with the acquisition of certain business of Touchpoint Health Plan, Inc. and Touchpoint Insurance Company, Inc.? What is the current status of the agreement between UHC of WI and Touchpoint related to the maintenance of systems, operations and staff for service to the policyholders? If the agreement between UHC of WI and Touchpoint has been modified, please provide a detailed description of the modifications. If the systems, operations and staffing for service to policyholders has been transferred to UHC of WI or an affiliate, please provide detailed information and descriptions of how the modification demonstrates that the transferred functions are efficiently and effectively performed.

If you have any questions, please call me at (608) 267-5297.

Sincerely,

Tim Vande Hey
Insurance Financial Examiner - Advanced
Bureau of Financial Analysis and Examinations

cc: Thomas A. Roberts
Thomas M. Pyper