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BEFORE THE STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

In the Matter of the Proposed
Determination of Control of:

COLUMBIA UNITED PROVIDERS, a
Washington Domestic Insurer,

by

PEACEHEALTH NETWORKS, a
Washington nonprofit corporation

NO. 14-0106

DECLARATION OF
RONALD J. PASTUCH

Ronald J. Pastuch, under penalty of perjury under the laws of the State of Washington,
declares as follows:

1. I am the Holding Company Manager in the Company Supervision Division of
the Washington State Office of the Insurance Commissioner ("OIC"). I am over the age of
eighteen years old and I am competent to testify in this matter. I make this Declaration based
upon my personal knowledge.

2. I am a graduate of Pacific Lutheran University, where I earned a Bachelor of
Arts Degree in Business Administration in 1988. I received my CPA license in 2003.

1 3. My previous state employment includes the Washington Department of
2 ~~Veterans Affairs from 1980 to 1987 in accounting and human resource positions, and with the~~
3 OIC as a staff accountant in the Operations Division from 1987 to 1991, as a field Insurance
4 Examiner from 1991 to 1993, and as a financial analyst at various levels from 1993 to 2006 in
5 the Company Supervision Division.

6 4. On February 16, 2006, I was appointed the Holding Company Manager in the
7 Company Supervision Division. As the Holding Company Manager, my primary duties
8 consist of reviewing and approving holding company transactions, which include reviewing
9 and recommending OIC staff's position on proposed requests for insurance company
10 acquisitions and mergers, including disclaimers of control.

11 5. On February 18, 2014, PeaceHealth Networks ("PHN" or "Applicant") filed an
12 application for approval requesting confirmation and/or determination that Columbia United
13 Providers ("CUP") is controlled by PHN and that PeaceHealth ("PH"), a related entity, does
14 not control CUP.

15 6. CUP was originally formed as a Washington domiciled health care service
16 contractor as a for profit corporation as of September 13, 1994, and began writing business on
17 the same day under the corporate name of Clark United Providers. It later changed its
18 corporate name to its present title on February 27, 2001.

19 CUP previously participated in providing health coverage through the state-
20 based health programs such as Basic Health, State Children's' Health Insurance Plan, and
21 Healthy Options to subscribers in Clark County, Washington for several years. After its recent
22 contract with the state expired, CUP converted from a health care service contractor to a
23 disability insurer on January 3, 2013. Under a new arrangement, CUP provides third-party
administrator services for state-based health care programs and receives capitation payments
from an unrelated health care service contractor writing similar coverage. As an insurer, CUP
also provides reinsurance coverage to that health care service contractor.

1 6. PHN, formally known as Southwest Washington Health System (SWHS), is a
2 ~~Washington nonprofit organization, an organization described in section 501(c)(3) of the~~
3 Internal Revenue Code of 1986, as amended and is exempt from federal income tax under
4 section 509(a) of the Code. It was the member corporation of a group of non-profit
5 corporations engaged in providing healthcare services in Clark County, Washington. Its
6 largest member was Southwest Washington Medical Center. Other members also included an
7 affiliated physicians group, its charitable foundation, and 91 percent majority common
8 shareholder of CUP.

9 7. PH is a Washington nonprofit corporation and an organization described in
10 section 501(c)(3) of the Internal Revenue Code of 1986, as amended and is exempt from
11 federal income tax under section 509(a) of the Code. PH originally operated under the name
12 of the Sisters of St. Joseph of Peace, Health and Hospital Services until it adopted its current
13 name in 1994. PH is the member corporation of a group of non-profit corporations engaged
14 in providing healthcare services by promoting personal and community health throughout
15 Alaska, Oregon, and Washington. Its headquarters were previously located in Bellevue, WA
16 and later moved to Vancouver, WA during 2012.

17 8. On September 8, 2010, PH and SWHS submitted the first Form A Application
18 for control of CUP. On December 9, 2010, the OIC filed the Form A application to the
19 Hearings Unit and requested a hearing. On December 10, 2010, PH and SWHS signed their
20 affiliation agreement.

21 10. During a hearing proceeding held on January 3, 2011, the OIC requested a
22 copy of the affiliation agreement between PH and SWHS for the hearing proceeding. The
23 presiding officer directed PH to produce for her inspection a copy of the Affiliation
Agreement. On January 7, 2011, PH and SWHS requested a joint motion for an in camera
examination and protective order requesting the agreement not be treated as a public record
because it contained confidential proprietary trade secrets of PH and SWHS. The presiding

1 officer did not make any determination regarding the control of CUP nor the joint motion for
2 the in camera examination and protective order.

3 11. On February 22, 2011, PH and SWHS submitted a First Amendment to the
4 Affiliation Agreement. That agreement stated the PH's acquisition of a membership interest in
5 SWHS is a limited membership interest and does not in any manner whatsoever extend to
6 control or asserting control over SWHS' ownership interest in CUP. For this reason, PH and
7 SWHS proposed to withdraw the Form A application. A new Form A application would be
8 filed with the Insurance Commissioner in which a stock transfer arrangement between PH and
9 SWHS would occur where SWHS will directly transfer the stock it held in CUP to PH. The
10 presiding officer agreed with both parties' assertions through her February 25, 2011 letter to
11 PH, and later on March 20, 2011, issued an order striking the hearing and terminating the
12 proceeding.

13 12. On October 5, 2012, PH filed its second Form A application of control of CUP
14 for OIC review.

15 13. On December 31, 2012 according to its affiliation agreement, PH and SWHS
16 merged all of the SWHS subsidiaries including Southwest Washington Medical Center into
17 PH with the exception of CUP. The affiliation agreement also called for SWHS to merge
18 with and into PH but that merger did not take place.

19 15. As of January 1, 2013, the only remaining entities resulting from the merger
20 transactions were PH, SWHS, and CUP. PH was and remained the sole member of SWHS,
21 and SWHS continued to control 91 percent of CUP common stock shares. SWHS previously
22 held and continued to hold a majority number of members of CUP's board of directors.

23 16. During 2012, CUP applied for and received approval from the OIC to convert
from a health care service contractor to a disability insurer. The conversion was effectuated
on January 3, 2013.

1 17. On January 30, 2013, the OIC sent the Form A application to the Hearings
2 Unit. On April 12, 2013, PH requested its second Form A application be stricken. PH
3 determined that it does not wish to merge with SWHS and that SWHS would remain as a
4 separate corporation. The OIC opposed the PH request given the current state of its holding
5 company structure. The presiding officer allowed for PH's change of the merger transaction.

6 17. Sometime during 2013, PH and SWHS decide to reorganize and developed a
7 plan of reorganization, in which SWHS would become the sole member of PH, and CUP will
8 remain a majority-owned subsidiary of SWHS. SWHS would later change its corporate name
9 to PeaceHealth Networks. On August 22, 2013, PH filed its third Form A application which
10 contemplated a stock transfer arrangement of the CUP stock from SWHS to PH; however,
11 that transaction never occurred. The application was later withdrawn.

12 Also sometime during 2013, the OIC began a statutory financial examination
13 of CUP regarding its financial results as of December 31, 2012.

14 18. On January 1, 2014, PH and SWHS executed their plan of reorganization so
15 that SWHS is now the sole member of PH and SWHS changed its corporate name to
16 PeaceHealth Networks.

17 19. On February 20, 2014, the Insurance Commissioner issued Order No. 14-21
18 regarding the financial examination of Columbia United Providers as of December 31, 2012.
19 That Order contained instructions for PH to file a Form A for approval that accurately reflects
20 the current holding company structure that is in compliance with the filing requirements.

21 20. On February 18, 2014, PH filed its fourth Form A application for approval of
22 its current holding company structure to comply with the Commissioner's order.

23 21. On June 24, 2014, following an earlier pre-hearing conference call during that
week, the OIC requested additional information and confirmation of the current information
within the current Form A application.

 22. On July 23, 2014, PH filed its response to the OIC June 24th query letter.

1 23. I have reviewed and analyzed these submittals. My analysis was performed
2 under the criteria set forth in RCW 48.31B.015(4). From my analysis,

3 a. The domestic insurer would be able to satisfy the requirements for the
4 issuance of a license to write its current lines of business from which it is presently licensed.
5 As stated previously, CUP is presently licensed to write disability coverages. CUP minimum
6 capital and surplus as of the date of the Declaration is \$4.0 million (\$4,000,000). As of its
7 latest financial statement as of March 31, 2014, filed with the OIC, CUP reportedly had \$35
8 million in admitted assets and \$23.8 million in capital and surplus that exceeds the minimum
9 capital and surplus requirement for a Washington disability insurer.

10 b. The current effect of the holding company system would not lessen
11 competition in this state or tend to create a monopoly therein. This section is exempt from
12 OIC review according to RCW 48.31B.020(2)(b)(iv).

13 c. The financial condition of CUP and PH appears that it would not jeopardize
14 the financial stability as a domestic insurer or prejudice the interest of its policyholders. As of
15 March 31, 2014, PH unaudited financial condition has reportedly \$3.4 billion in assets and
16 \$1.7 billion in net assets. PH has an A+ credit rating from Fitch and an A rating from
17 Standard and Poor's rating agencies. PHN's financial condition is based on its consolidated
18 results from PH and CUP. Based on these facts, the current holding company system would
19 not jeopardize the financial stability of CUP or prejudice the interest of CUP policyholders.

20 d. PNW or PH is not proposing to liquidate, sell CUP assets, consolidate or
21 merge CUP with any person or to make any other material change in its business or corporate
22 structure or management that are unfair and unreasonable to policyholders of CUP and not in
23 the public interest. CUP will remain part of the PHN and serve other areas where PHN and
PH operate. CUP operations will remain in Vancouver, Washington and reportedly no
changes to existing CUP staff.

1 e. We verified the persons who were listed in the Form A filing who is
2 ~~currently the directors and/or officers of CUP and PHN. There are no reported changes to the~~
3 listed persons' biographical affidavit. As previously mentioned, we did not detect any
4 representation that would question the integrity of the current directors and officers of CUP,
5 PH, or PHN.

6 f. We are not aware that CUP's current business is likely to be hazardous or
7 prejudicial to the insurance buying public.

8 24. PHN and CUP have submitted all necessary documents to the OIC in
9 connection with this application. The OIC is satisfied with the necessary documents meeting
10 the statutory requirements for a determination according to RCW 48.31B.015.

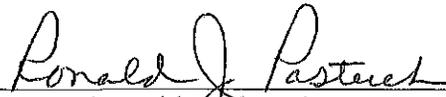
11 25. From the evidence presented in this application, it appears that PHN was and
12 remains the controlling entity of CUP. Before the reorganization, PH was the sole member of
13 SWHS, and SWHS was the majority owner of CUP's common shares. The CUP board of
14 directors contained member representatives from PH, SWHS, and minority shareholders.
15 After the reorganization, PH no longer appears to be a controlling entity as a sole member of
16 SWHS, and that PHN f/k/a SWHS is now the controlling entity as a sole member of PH. PHN
17 remains the majority owner of CUP's common shares.

18 25. From a procedural standpoint, the OIC requires that notice of this proposed
19 merger be given to the public via the Internet (on the Insurance Commissioner's website). On
20 July 8, 2014, the OIC posted a notice on the Insurance Commissioner's website concerning
21 the hearing to determine control of CUP and information about the OIC's hearing process, a
22 true and correct copy of which is attached hereto as Exhibit "A". Such notice included
23 information regarding the hearing, via the Notice of Hearing and announcement posted on the
website. We understand that notice will remain posted on the website from the date of this
Declaration to the date of the hearing.

1 26. The Notice of Hearing informs and advises all interested parties that any
2 ~~individual or entity is permitted to submit comments on, or objections to, this proposed~~
3 merger. The Notice of Hearing states that any questions or concerns should be directed to
4 Kelly A. Cairns, Paralegal to the presiding officer.

5 27. As of the date of this Declaration, I personally have not received any
6 comments, questions, or objections through letter, correspondence, email, or phone, nor am I
7 aware of any comments, questions, or objections having been received by the presiding
8 officer.

9 SIGNED this 29th day of July 2014.

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12 Ronald J. Pastuch
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2014 Public and hearing notices

August 2014

Public Hearing: #14-0106 Hearing set to determine control of Columbia United Providers - 8/7/2014

July 2014

Rule-making hearing: R 2014-25 Filing of financial statements and related filings electronically (PDF, 231KB) - 7/22/14

June 2014

Stakeholder meeting for rule-making: R 2013-29 Long-term care policy unintentional lapse notices (PDF, 37KB) - 6/5/14

Rule-making hearing: R 2012-16 Sharing commissions and referral programs (PDF, 113KB) - 6/10/14

Public Hearing: 14-0031 Hearing set to consider redomestication of Symetra Companies (Word, 18KB) - 6/19/2014

Rule-making hearing: R 2014-03 Essential health benefits transplant waiting period (PDF, 137KB) - 6/24/14

May 2014

Public Hearing: 14-0064 Hearing set to consider merger plan of Vision Service Plan (Word, 19KB) - 5/9/14

Stakeholder meeting for rule-making: R 2013-11 Issuer disclosures, notices and processes to protect privacy of health care information (PDF, 99KB) - 5/12/14

April 2014

Rule-making hearing: R 2013-19 Stand-alone dental insurance plans (PDF, 51KB) - 4/8/14

Notice

Mike Kreidler
Washington state Insurance Commissioner

Contact Ron Pastuch: 360-725-7211

07/08/2014

Hearing set to determine control of Columbia United Providers in Washington

OLYMPIA, Wash. – The Insurance Commissioner has scheduled a hearing on August 7, 2014, at 10:30 a.m. Pacific Daylight Savings Time in his Olympia, Washington office to confirm or determine the control of Columbia United Providers based in Vancouver, WA.

According to the filing, PeaceHealth Networks, formerly Southwest Washington Health System, a Washington based nonprofit corporation, owns a majority interest in Columbia United Providers. PeaceHealth, a Washington based nonprofit corporation, became the sole controlling member of PeaceHealth Networks through an affiliation agreement during 2011. An amendment to that agreement excepted PeaceHealth from controlling Columbia United Providers.

During a recent reorganization, the roles of PeaceHealth and PeaceHealth Networks changed, and PeaceHealth Networks is now the sole controlling member of PeaceHealth. The majority ownership of Columbia United Providers remains under PeaceHealth Networks.

The Commissioner will determine which PeaceHealth entity controls Columbia United Providers.

The public is notified that all interested parties may submit letters of support or concerns or objections and/or may participate in the hearing by appearing in person or by telephone at no charge.

To view the Notice of Hearing, which includes advice on how to participate in the hearing process, and to view all documents filed in this matter including the application by the parties, and all other documents such as organizational charts and finances, regulatory actions and any litigation filed in this proceeding, go to Columbia United Providers #14-0106 at

<http://www.insurance.wa.gov/laws-rules/administrative-hearings/judicial-proceedings/c-d/>