

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone: (360) 725-7000
www.insurance.wa.gov



OFFICE OF
INSURANCE COMMISSIONER

FILED

2016 MAR -7 P 2:32

HEARINGS UNIT
OFFICE OF
INSURANCE COMMISSIONER

March 7, 2016

WILLIAM G. PARDEE, JD
PRESIDING OFFICER
OFFICE OF THE INSURANCE COMMISSIONER
HEARINGS UNIT
PO BOX 40255
OLYMPIA, WA 98504
5000 CAPITOL BLVD
TUMWATER, WA 98502

Re: Form A Filing dated March 1, 2016 – Proposed Acquisition of Control of Group Health Cooperative and Group Health Options, Inc.

Dear Mr. Pardee:

Attached please find the Form A Statement requiring the Acquisition of Control of a Domestic Insurer. The Form A Statement describes the proposed transaction between the affiliates of Kaiser Foundation Health Plan, Inc. and Group Health Cooperative.

The proposed transaction comes at the request of Kaiser Foundation Health Plan whereby Kaiser plans to acquire control of Group Health Cooperative through a series of transactions. Group Health Cooperative and its affiliates would be ultimately controlled by Kaiser.

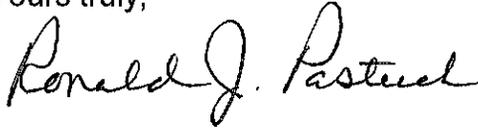
Group Health Cooperative is a Washington domiciled health maintenance organization and its subsidiary, Group Health Options, Inc., is a Washington domiciled health care service contractor and is wholly owned by Group Health Cooperative. These Group Health entities write comprehensive health products in Washington and Idaho.

The Company Supervision division requests an adjudicative hearing be scheduled in this matter according to RCW 48.31B.015. Mr. Darryl Colman is the OIC staff attorney assigned to this case.

William G. Pardee, JD
March 7, 2016
Page 2

If you have any questions, please feel free to contact me at 360-725-7211 or Mr. Colman at 360-725-7118.

Yours truly,

A handwritten signature in cursive script that reads "Ronald J. Pastuch". The signature is written in black ink and is positioned above the typed name.

RONALD J. PASTUCH, CPA
Holding Company Manager
Company Supervision Division
E-Mail: RonP@oic.wa.gov

Cc: Douglas A. Hartz, MBA, JD, CIR-ML Deputy Insurance Commissioner
Darryl Colman, Esq., Staff Attorney

AMENDED

No. 1002

Certificate of Registration

STATE OF WASHINGTON
INSURANCE COMMISSIONER
OLYMPIA

It Is Hereby Certified, That

GROUP HEALTH COOPERATIVE

of Seattle, Washington, has complied with the requirements of Chapter 48.46 Revised Code of Washington, and is registered, subject to the provisions thereof, to operate as a HEALTH MAINTENANCE ORGANIZATION in the State of Washington until such time as its registration is terminated or revoked.

IN WITNESS WHEREOF, I have hereunto set my hand

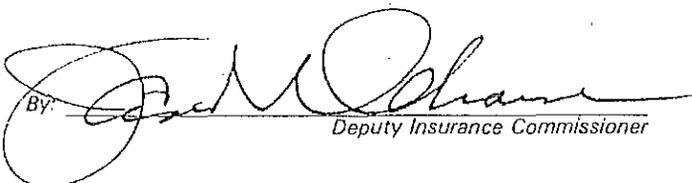
and caused the Official Seal of the Insurance

Commissioner to be affixed at Olympia, this

16th day of January, 2003.



Mike Kreidler
Insurance Commissioner

By: 
Deputy Insurance Commissioner

AMENDED

No. 125

Certificate of Registration

**STATE OF WASHINGTON
INSURANCE COMMISSIONER
OLYMPIA**

It Is Hereby Certified, That

GROUP HEALTH OPTIONS, INC.

of Seattle, Washington, has complied with the requirements of Chapter 48.44 Revised Code of Washington, and is registered, subject to the provisions thereof, to operate as a HEALTH CARE SERVICE CONTRACTOR in the State of Washington until such time as its registration is terminated or revoked.

*IN WITNESS WHEREOF, effective as of the 23rd
of October, 1990, I have hereunto set my hand
and caused my official seal to be affixed this 17th day of
December, 2002.*



Mike Kreidler
Insurance Commissioner

By *[Signature]*
Deputy Insurance Commissioner

Originally registered as Virginia Mason Group Health Alliance, Inc.
Merged with Options Health Care, Inc. 12/31/00.
Name changed to Group Health Options, Incorporated 1/5/01.



600 University Street, Suite 3600
Seattle, Washington 98101
main 206.624.0900
fax 206.386.7500
www.stoel.com

RECEIVED

MAR 01 2016

Insurance Commissioner
Company Supervision

ROBIN L. LARMER
Direct (206) 386-7667
robin.larmer@stoel.com

February 29, 2016

Mr. Ron Pastuch
Holding Company Manager, Company Supervision Division
Washington State Office of the Insurance Commissioner
PO Box 40249
Olympia, WA 98504-0259

Via Electronic transmission and U.S. mail

Dear Ron:

By transmission of the accompanying electronic file, in accordance with RCW 48.31B.015, Kaiser Foundation Health Plan of Washington ("KFHPW" or "Applicant") submits for your review and consideration the Form A Statement ("Statement") Regarding the Acquisition of Control of or Merger with a Domestic Insurer - Group Health Cooperative ("GHC"), including Exhibits and additional supporting material. Applicant understands that the Statement, Exhibits (except for the Confidential Exhibits, as defined below) and supporting materials in the electronic file will be made public upon your determination that the Form A filing is complete.

Confidential Exhibits

Certain Exhibits to the Statement, while likely relevant to the OIC's review, constitute or include confidential, proprietary, or trade secret information, or private information about individuals, that is exempt from public disclosure (the "Confidential Exhibits").¹ Public disclosure of such materials would cause economic and competitive harm to Applicant or GHC, and would provide no meaningful benefit to the public.

¹ The Revised Code of Washington defines "trade secret" to mean "information, including a formula, pattern, compilation, program, device, method, technique, or process that: (a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." RCW 19.108.010(4).

Mr. Ron Pastuch
Washington State Office of the Insurance Commissioner
Page 2

To ensure proper designation and handling of such materials, Exhibits that constitute or include confidential, proprietary, or trade secret information, or private information about individuals, are identified as such on the Exhibit list attached to the Form A. They include:

- **Note for Intercompany Loan:** The Note evidences an intercompany loan from a Kaiser entity to Applicant that was made in the ordinary course of the lending entity's business. Applicant requests that the identity of the lender be treated as confidential pursuant to RCW 48.31B.015(2)(B). Moreover, the Note is proprietary with respect to the internal finances of Kaiser Permanente. The Note would ordinarily be submitted in the Annual Registration Report in accordance with RCW 48.31B.025(c)(i), and would therefore be exempt from public disclosure pursuant to RCW 48.31B.038(1). Applicant requests that the Note be treated in a consistent manner and deemed exempt from disclosure. Applicant also points out that the fact that the transaction was funded through an intercompany loan is disclosed in the Statement, and therefore, disclosure of the Note is not necessary in order to afford interested persons an understanding of the nature and terms of the transaction.
- **Three-year Financial Projection:** The Projection includes proprietary financial data, sensitive strategic information and data based on market and commercial research that Applicant and GHC routinely safeguard against public disclosure. The information constitutes a trade secret that, if disclosed to competitors, could be used to discern and replicate Applicant and GHC's strategic plans and business operations, and could reasonably be expected to result in economic and competitive damage to Applicant and GHC, and is therefore exempt from public disclosure. RCW 19.108.010(4). Moreover, the Projection is provided to OIC for the purpose of OIC's financial analysis in connection with the transaction, and may be treated as exempt from public disclosure pursuant to RCW 48.02.065(6). Additionally, as a matter of policy, it would not serve the interests of enrolled participants or other interested persons if the information were placed in the hands of competitors, who could use the information to gain competitive advantage and ultimately undermine consumer choice.
- **Biographical Affidavits for the Executive Officers and Directors:** The biographical affidavits² include sensitive and confidential personal information about

² Included in the scope of this discussion are the biographical affidavits for the executive officers and directors of GHC, which have been previously submitted and are incorporated by reference into the Statement pursuant to WAC 284-18-310(1).

Mr. Ron Pastuch
Washington State Office of the Insurance Commissioner
Page 3

directors and executive officers, including social security numbers, home addresses and additional private information, the disclosure of which would be highly offensive to a reasonable person, and which is not of legitimate concern to the public. Accordingly, the biographical affidavits are exempt from public disclosure pursuant to RCW 42.56.050. In the event the OIC determines that the biographical affidavits are not exempt from public disclosure in their entirety, all individually identifying details must be redacted to delete such information to prevent an unreasonable invasion of personal privacy interests. RCW 42.56.070(1). The reports generated by the third-party vendor (to be submitted directly to the OIC) should similarly be exempt from public disclosure.

Applicant respectfully requests that you notify it before any disclosure of the above-referenced Exhibits is made so that Applicant will have the opportunity to defend against such disclosure.

Applicant appreciates your review and consideration of the filing, and looks forward to working with you and your team as you complete your review of this transaction. If you have any questions about the Statement, Exhibits or Supporting materials, or if you require any additional information, please don't hesitate to contact me via my direct line at (206) 386-7667 or via email at robin.larmer@stoel.com.

Very Truly Yours,



Robin Larmer

cc: Frank C. Miller, Kaiser Foundation Health Plan, Inc.
Shawna M. Sweeney, Group Health Cooperative

**EXECUTIVE SUMMARY
TO FORM A FILING OF
KAISER FOUNDATION HEALTH PLAN OF WASHINGTON**

This document serves as an executive summary to the Form A filing by Kaiser Foundation Health Plan of Washington regarding its proposed acquisition of control of Group Health Cooperative and its subsidiaries (the "Proposed Transaction").

1. Identity of Parties

Kaiser Foundation Health Plan of Washington ("KFHPW" or "Applicant") is a Washington non-profit corporation that currently has no operations. The Applicant's parent organization, Kaiser Foundation Health Plan, Inc. ("KFHP"), is a California non-profit public benefit corporation and health care services plan that was founded in 1945. Together with Kaiser Foundation Hospitals, a California non-profit public benefit corporation, and the independent and exclusively contracted Permanente Medical Groups, KFHP and its subsidiary health plan entities operate what is known as the "Kaiser Permanente Medical Care Program" (or together "Kaiser Permanente"). Kaiser Permanente is the nation's leading integrated health care delivery system with over 10 million members enrolled in its commercial, Medicare, and Medicaid lines of business. Kaiser Permanente owns and directly operates 38 hospitals, 621 clinics and outpatient facilities, and the Permanente Medical Groups employ approximately 18,000 physicians.

The domestic health insurer to which this application relates is Group Health Cooperative ("GHC"), a Washington non-profit corporation and registered health maintenance organization that was founded in 1945. Together with the independent and exclusively contracted Group Health Permanente, P.C., GHC and its subsidiary health plan entity operate what is known as the "Group Health Medical Care Program" (or together "Group Health"). Group Health currently serves almost 600,000 residents of Washington and Northern Idaho.

2. Summary of the Proposed Transaction

Subject to the satisfaction of certain conditions to closing, including approval by the various individual voting GHC members ("Voting Members") and the Washington Office of the Insurance Commissioner, Applicant proposes to become the sole corporate member of GHC and thereby acquire control over GHC and its subsidiaries. Applicant will pay transaction consideration in the amount of \$1.8 billion to Group Health Community Foundation ("GHCF"), a newly formed Washington non-profit corporation. This Proposed Transaction will be funded from within Kaiser Permanente with no external financing.

3. Business and Operational Plans

Applicant and GHC share the belief that the integrated care and coverage model delivers superior quality, service, access, and affordability.

Applicant has no current plans to declare any extraordinary dividend, liquidate GHC or any of its subsidiaries, sell GHC's or any of its subsidiary's assets outside the ordinary course of business, or merge GHC or any of its subsidiaries with any third party. Applicant also has no current intention to make material changes in the business operations, corporate structure or

management of GHC, except as specifically discussed in this Form A or as may arise in the ordinary course of business.

4. Commitment to Community Investment

In addition to the transaction consideration paid to GHCF, Applicant and its affiliates will spend an aggregate amount of \$1 billion in GHC and its subsidiaries during the first 10 years following closing of the Proposed Transaction for capital improvements and key investments in infrastructure and other improvements to help ensure the success of GHC's charitable mission and continued provision of high quality health care. Applicant will also continue to operate GHC as a charitable organization, and related to that expects to make \$800 million in community benefit investments in GHC's service areas over this same 10 year period.

5. Commitment to Community Involvement

The active role that GHC Voting Members play in the operations of Group Health is part of what makes GHC such a strong community asset. While as part of the Proposed Transaction GHC Voting Members will lose their member voting rights with respect to GHC, this important involvement by and input from GHC members will continue in several respects after the closing. First, Applicant will at closing appoint a board of directors for GHC that contains no less than one-third GHC enrolled participants or consumers who are substantially representative of the enrolled population of GHC. Second, Applicant will adopt corporate bylaws at closing that require the creation of a Consumer Advisory Committee of at least 25 people to provide GHC's members with a meaningful opportunity to participate in matters of policy and operation, to promote the effective use of health care services within the organization, and to suggest ways that the organization can better serve its members and the community as a whole. Third, Applicant will continue to recognize and engage with special interest groups formed by GHC members, including the group known as the "*GHC Senior Caucus*".

6. Benefits for Washington Consumers

The Proposed Transaction will yield significant benefits for Washington consumers. It will facilitate strategic investments in technology, facilities, and providers that will, in turn, enhance Group Health's ability to deliver high-quality, affordable health care and coverage through its integrated delivery system. From an operations and cultural perspective, Applicant and GHC are highly compatible. Each of these organizations links care delivery and insurance to offer affordable, high-quality health care services using the same integrated and dedicated group practice model. The Proposed Transaction will also preserve the charitable non-profit mission of GHC and endow a new community benefit fund, GHCF, with \$1.8 billion in assets. The combination of Kaiser Permanente and Group Health will ensure that the integrated delivery model that Group Health offers today will not only remain available in Washington, but that it will have the resources to expand and thrive into the future.

FORM A

STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER

Name of Domestic Insurer

The domestic health insurer to which this application relates is **Group Health Cooperative**, a Washington non-profit corporation and registered health maintenance organization.

Name of Acquiring Person

The proposed Acquiring Person and Applicant is **Kaiser Foundation Health Plan of Washington** ("KFHPW" or "Applicant"), a Washington non-profit corporation. The sole corporate member of KFHPW is Kaiser Foundation Health Plan, Inc. ("KFHP").

Filed with:

The Insurance Commissioner of the State of Washington

Dated: February 26, 2016

Notices and Correspondence

Please address notices and correspondence concerning this Statement to:

Frank C. Miller Senior Counsel Kaiser Permanente One Kaiser Plaza, 19 th Fl. Oakland, CA 94612 (510) 271-5703 frank.c.miller@kp.org	Robin L. Larmer Counsel Stoel Rives LLP 600 University St, #3600 Seattle, WA 98101 (206) 386-7667 robin.larmer@stoel.com
--	--

With a courtesy copy to:

Shawna M. Sweeney
VP & Deputy General Counsel
Group Health Cooperative
320 Westlake Ave. N., #100
Seattle, WA 98109
(206) 448-6152
sweeney.s@ghc.org

ITEM 1. INSURER AND METHOD OF ACQUISITION

Insurer

The domestic health insurer to which this application relates is Group Health Cooperative ("GHC"), a Washington non-profit corporation and registered health maintenance organization.

As a non-profit corporation, GHC does not issue stock or other instruments that would convey an equity (e.g., financial) ownership interest in GHC. Instead, GHC's bylaws generally vest governing authority in a board of trustees. In addition, GHC has individual enrolled participants ("Members") who have taken steps to become voting members of GHC ("Voting Members"). The GHC bylaws describe the rights of GHC Voting Members including rights regarding GHC trustee elections, approval of amendments to certain bylaw provisions and approval regarding extraordinary actions by GHC. In order to implement the aspects of the Acquisition Agreement (as defined below) requiring Voting Member approval, the GHC eligible Voting Members must approve a plan of member substitution with Applicant by at least two-thirds (2/3^{rds}) of the eligible Voting Members who cast votes.

GHC is the controlling person within the GHC holding company system. As used herein, the term "GHC" or "Group Health" shall refer collectively to Group Health Cooperative and each of its subsidiaries (except Group Health Foundation which will be separated from the GHC holding company system prior to closing of this proposed transaction). Please see the GHC organizational chart attached to this filing as Exhibit A.

Among GHC's subsidiaries (and included in this proposed transaction) is an insurance entity registered in the State of Washington – Group Health Options, Inc. ("GHO"). GHO is a health care service contractor that is wholly owned by GHC. GHO offers point of service and preferred provider organization plans to individuals and large and small employers. KPS Health Plan ("KPS") is a wholly owned subsidiary of GHO. By letter dated February 12, 2016, the OIC approved KPS' request to withdraw as an insurer from the State of Washington and cancelled KPS' Certificate of Registration effective December 31, 2015.

GHC's administrative and statutory address is:

Group Health Cooperative
320 Westlake Ave. N., #100
Seattle, WA 98109

Method of Acquisition

Effective December 2, 2015, Group Health Cooperative, Kaiser Foundation Health Plan of Washington and Group Health Community Foundation¹ ("GHCF") signed an Acquisition Agreement ("Acquisition Agreement") pursuant to which Applicant proposes, subject to certain conditions (including approval of the Washington Office of the Insurance Commissioner

¹ GHCF is a Washington non-profit corporation formed November 24, 2015, which will receive the Transaction Consideration, as defined in Item 4 below.

("OIC")), to acquire control of GHC ("*Transaction*"). The Acquisition Agreement is attached to this filing as **Exhibit B**. The closing of the Transaction ("*Closing*") is also subject to the approval of the GHC Voting Members (as described above).

If all of the conditions to Closing set forth in the Acquisition Agreement are satisfied, GHC will file amended and restated articles of incorporation for GHC with the Washington Secretary of State and adopt amended and restated bylaws, and in so doing will terminate all outstanding voting rights of the GHC Voting Members and cause a sole corporate membership interest of GHC to be issued to Applicant. Once Applicant is the sole corporate member of GHC, Applicant will immediately replace the existing GHC board of trustees with a board of directors appointed by Applicant. The composition of this new board of directors will comply with Washington law by requiring that one-third (1/3rd) of those board seats be filled by GHC Members or consumers who are substantially representative of the enrolled population of GHC.

The current and proposed (post-transaction) amended and restated articles of incorporation and governing bylaws of GHC are attached to this filing as **Exhibit C**.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

The Applicant, Kaiser Foundation Health Plan of Washington, is a Washington non-profit corporation that is exempt from federal income tax as an entity described under Internal Revenue Code ("*IRC*") Section 501(c)(3). The sole corporate member of Applicant is Kaiser Foundation Health Plan, Inc., a California non-profit public benefit corporation. Applicant has no current operations and it serves as a supporting organization to KFHP.

Mission and Vision

The charitable mission of Kaiser Permanente (as defined below) is to provide high-quality, affordable health care services and to improve the health of its enrollees and the communities it serves.

Organization Structure

Parent

KFHP was founded in 1945. Together with Kaiser Foundation Hospitals ("*KFH*"), a California non-profit public benefit corporation, and the independent and exclusively contracted Permanente Medical Groups, KFHP and its subsidiary health plan entities operate what is known as the "*Kaiser Permanente Medical Care Program*" (or together, "*Kaiser Permanente*"). Kaiser Permanente is the nation's leading integrated health care delivery system. Kaiser Permanente's regional operations reflect a working relationship among three separate but contractually integrated organizations – KFHP or one of its subsidiary health plans (each a "*Health Plan*"), Kaiser Foundation Hospitals, and a Permanente Medical Group (each a "*Medical Group*"). A Health Plan, Hospitals, and a Medical Group may be referred to in this filing collectively as "*Kaiser Permanente*" or "*KP*."

KFHP and each other Health Plan subsidiary of KFHP are organized under state laws as non-profit corporations and are primarily licensed or registered under applicable state law as health

maintenance organizations, health care service plans, or health care service contractors. All are exempt from federal income taxes as entities described under IRC Section 501(c)(3).

KFH is organized under state law as a non-profit corporation, and it owns and operates hospitals and other health care facilities that are dedicated primarily to serving Health Plan enrollees. KFHP is exempt from federal income taxes as an entity described under IRC Section 501(c)(3).

Please see the organizational chart attached to this filing as **Exhibit D**, which depicts KFHP and KFHP. Also, please see a list of affiliates of KFHP and KFHP attached to this filing as **Exhibit E**.

Regional Structure

Kaiser Permanente is organized into seven Regions – a Northern California Region, a Southern California Region, a Colorado Region, a Northwest Region (operating in Oregon and Southwest Washington State), a Georgia Region, a Hawaii Region, and a Mid-Atlantic States Region (operating in Maryland, Virginia, and the District of Columbia) (each, a “*KP Region*”).

Kaiser Permanente currently has over 10 million individuals enrolled in its commercial (including the Federal Employee Health Benefits Program), Medicare and Medicaid lines of business in its existing Regions. Please see a map showing the KP Regions and enrollment by Region (Q2 2015), attached to this filing as **Exhibit F**.

Nation’s Leading Integrated Delivery System

About Kaiser Permanente

Kaiser Permanente delivers high quality, affordable health care and coverage through its approximately 177,000 employees, including almost 50,000 nurses and 18,000 physicians across its 38 hospitals, 621 clinics and outpatient facilities, as well as by phone, email, and other virtual settings where clinically appropriate. Care provided by Kaiser Permanente’s internal care delivery system is supplemented by contracted relationships with other health care providers and health systems in the communities it serves.

Quality and Care Transformation

Kaiser Permanente is widely known as a national and international leader in health care excellence, with exceptional clinical effectiveness scores, outstanding patient safety ratings and high-performing hospitals. Kaiser Permanente’s health plans are ranked as among the best in the nation for prevention, treatment and customer experience by the National Committee for Quality Assurance. Six of Kaiser Permanente’s seven health plans have 5-Star ratings from CMS (the highest rating possible).

Sophisticated population health management systems and processes support quality care. Kaiser Permanente’s integrated model and advanced information technology allow it to measure and evaluate various care approaches, adherence to evidence-based best practices, patient outcomes, and the entire cost of care. Kaiser Permanente has systems and processes to provide this information to its health care providers to continuously improve care.

Kaiser Permanente's care transformation initiatives allow it to apply new insights, accelerate clinical innovation, build capabilities, and spread successful practices. Its EPIC-based electronic health record system ("EHR") has been integrated with its proprietary population health management system to support care teams across the organization.

Affordability

Affordability, viewed through the lens of what enrollees and communities can reasonably afford to pay, is foundational to Kaiser Permanente's mission.

Employers need health care spending to be a stable part of their budgets, and seek low, steady rate increases aligned with economic growth as a whole. Affordability reduces employers' need to make difficult tradeoffs like reducing coverage or shifting health costs to employees.

Individuals purchasing coverage (individually or through an employer) need the combined cost of care and coverage to be a reasonable percent of their income. Meeting these needs means keeping pricing growth in line with the growth in family incomes and the economy as a whole.

Affordability for important government programs, like Medicare and Medicaid, means having cost and quality that support meaningful participation and stable financial performance that does not undermine affordability for individuals who rely on such programs.

Kaiser Permanente's success in enhancing affordability has helped to facilitate its growth of over one million enrollees across all lines of business in the last two years. Kaiser Permanente will build upon this success to enhance the affordability of care for Washington communities.

Enrollee Experience

Kaiser Permanente delivers high-quality, affordable care in ways that consumers want, consistently and seamlessly. For example, Kaiser Permanente is increasing the availability of video consultations for enrollees, where clinically appropriate, giving them convenient access and lowering the cost of care delivery. Kaiser Permanente's website and digital resources provide information and user-friendly functionality to its enrollees, patients, customers, and workforce. These and other resources will be used to enhance the enrollee experience in Washington.

Kaiser Permanente's California Regions have been rated 4-Stars (the highest possible rating) for seven consecutive years by the California Office of the Patient Advocate. Kaiser Permanente was also ranked highest in satisfaction in the J.D. Power and Associates 2014 Member Health Plan Study for all Regions.

Technology and Innovation

Kaiser Permanente has a long history of fostering innovation and facilitating the development of state-of-the-art care delivery models. These advances and resources will allow Kaiser Permanente and Group Health, together, to significantly improve and enhance the enrollee experience. These resources include:

- **Care Management Institute (CMI)** – Optimizes care quality to further Kaiser Permanente’s mission by making the right thing easy to do and accelerating the spread of best practices. CMI draws from the collective knowledge of the enterprise and across the care continuum to identify leading clinical and operational practices, design integrated care delivery models, and codify them into national guidelines. Many of these guidelines have been built into Kaiser Permanente’s EHR.
- **Innovation and Advanced Technology (IAT) Group** – Identifies new and emerging technology that may be adopted by Kaiser Permanente to deliver care three to five years from today.
- **Sidney R. Garfield Health Care Innovation Center** – A simulated care delivery environment for technology research, simulation and impact analysis on hospital designs, clinical workflow, and technology infrastructures.
- **Center for Health Research (CHR)** – Makes key connections between lifestyle and wellness, disease and its effect on people’s lives, and treatment and outcomes. CHR pursues a vigorous agenda of patient-centered, population and practice-based research. There are significant opportunities for CHR to work with and learn from Group Health Research Institute.
- **Performance Improvement Institute** – Uses lean six sigma principles in a rigorous way to improve health outcomes and reduce costs across the system by tailoring manufacturing best practices to health care.

Community Benefit

Community benefit is a critical part of Kaiser Permanente’s mission and central to its charitable purpose. Its anticipated investments in Washington will more than double GHC’s already generous current level of community investment.

Kaiser Permanente’s 2014 Community Benefit report is attached to this filing as **Exhibit G**.

Financial Performance

Kaiser Permanente has consistent, stable, sustainable financial performance. In 2014, Kaiser Permanente generated \$56.4 billion in operating revenue, \$2.2 billion in operating income and \$3.1 billion in net income. Attached to this filing as **Exhibit H** are KFHP and KFH combined audited financial statements for the past five years. Kaiser Permanente’s 2014 Annual Report is attached to this filing as **Exhibit I**.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH APPLICANT

A list of the directors and executive officers of Applicant and Applicant’s parent company, KFHP, is attached to this filing as **Exhibit J**.

The biographical affidavits of directors and executive officers of Applicant and Applicant’s parent company, KFHP, are attached to this filing as **Exhibit K**. Applicant has engaged an

approved third-party vendor to verify the affidavits and conduct background checks. This vendor will send the verification and background check reports directly to the OIC.

The list of directors and executive officers of GHC and their respective biographical affidavits are on file with the OIC and are incorporated into this Form A by reference.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

Consideration and Manner of Payment

The Acquisition Agreement provides for a transfer by Applicant to GHCF at Closing of an amount equal to \$1.8 billion ("Transaction Consideration").

The Transaction Consideration will be reduced by that portion of the Transaction Consideration representing refundable membership dues previously paid by Voting Members to GHC (estimated at approximately \$1.2 million); which will be deposited with a paying agent prior to Closing. After Closing, this subset of Members may elect to be refunded \$175 of the membership dues or to donate that amount to the Group Health Foundation (which after Closing will be controlled by GHCF).²

Also, \$75 million of the Transaction Consideration will initially be deposited into an escrow account and held by a third party pursuant to an Escrow Agreement to satisfy potential claims for indemnification made by Applicant for up to fifteen months after Closing. The escrow balance remaining after the end of this escrow period will be transferred to GHCF. The Escrow Agreement is attached to this filing as Exhibit L.

The source of the Transaction Consideration is an intercompany loan from a Kaiser entity to Applicant. The note for such intercompany loan is attached hereto at Exhibit M.

The Transaction Consideration was established through a series of arms-length negotiations, and evaluated and approved by Applicant and GHC's respective boards. The criteria used in determining the consideration included amounts paid in recent and comparable transactions, the current and historical financial position and performance of GHC, and anticipated synergies as between GHC and Applicant that would result from the Transaction.

Applicant's secretary's certificate evidencing board authorization and approval of the terms and conditions of the proposed transaction and ratification of all actions taken in connection with the intercompany loan is attached to this filing as Exhibit N. GHC's secretary's certificate evidencing board authorization and approval of the terms and conditions of the proposed transaction is attached to the filing as Exhibit O.

Other Financial Commitments

In addition to the Transaction Consideration, Applicant has made other substantial financial commitments. These include a commitment to spend \$1 billion in aggregate in GHC during the first 10 years following Closing for capital improvements and key investments in infrastructure

² GHC Members have not been required to pay membership dues to become a Voting Member since 1989.

and other improvements to help ensure the success of GHC's charitable mission and continued provision of high quality health care.

Applicant has also committed to continue operating GHC as a charitable organization, and related to that expects to make \$800 million in community benefit investments for the communities GHC serves over the same 10 year period.

Agreement with Group Health Permanente

Applicant recognizes the significant value in the existing contractual relationship between GHC and Group Health Permanente, P.C. ("GHP"), a Washington professional services corporation and an independent, multi-specialty group medical practice. In order to ensure continuity in that relationship and in the substantial benefits that flow to Washington consumers as a result, Applicant and GHP have agreed that GHP will remain a contracted provider pursuant to an amended provider agreement that will take effect upon Closing.³

ITEM 5. FUTURE PLANS OF INSURER

Business and Operational Plans

Applicant has no current plans to declare any extraordinary dividend, liquidate GHC, sell GHC's assets outside the ordinary course of business, or merge GHC with any third party. Applicant also has no current intention to make material changes in the business operations, corporate structure or management of GHC, including in GHC's subsidiary health plan GHO, except as specifically discussed herein (which will include the appointment of a Regional President) or that may arise in the ordinary course of business.

In short, the Group Health tradition of providing high-quality health care to Washington consumers⁴ will not only continue, it will improve through the additional resources and capabilities Kaiser Permanente brings. Among other things, Kaiser Permanente intends to do the following:

- Preserve the non-profit mission and tax-exempt status of GHC by continuing to enrich people's lives through improving health.
- Invest in technology and facilities that enhance GHC's ability to deliver high quality, affordable health care and coverage through its integrated delivery system.
- Invest in and implement sophisticated capabilities and expertise to support improvements in quality, member service, research, brand and consumer focus.

³ Applicant will file the amended provider agreement in advance of its effective date in accordance with RCW 48.43.730. The current provider agreement between GHC and GHP is on file with the OIC.

⁴ In addition to its health plan membership, GHC continues to serve approximately fifty individuals who purchased long term care insurance from GHC in the late 1980s.

- Increase GHC membership and market share across all lines of business, driven by increased affordability, strong national account relationships, and national sales, marketing and service capabilities.
- Deepen the collaboration between Permanente Medical Groups and GHP, driving to even higher quality health care with improved service.
- Support an environment where GHC employees are valued and respected and in which they can thrive.

Capital Spending

One of Kaiser Permanente's strengths as a large national organization is the availability of dedicated resources to develop and deploy large-scale facility and technology projects, and to provide shared services capabilities that benefit all of its Regions. In the past ten years Kaiser Permanente has invested more than \$30 billion in medical facilities, technology, and health plan capabilities. This investment has funded Region-specific projects, including 18 new and replacement hospitals and 151 medical office buildings, along with enhancements in program-wide capabilities and infrastructure, including a claims system, financial systems, online personal health record capabilities, telehealth, and integrated pharmacy and laboratory services.

Kaiser Permanente will continue this tradition of targeted investment in concert with GHC. Although GHC's financial performance is strong, the two organizations recognize the opportunities to enhance GHC's performance and continued success into the future through capital investments.

As noted above, Kaiser Permanente will spend \$1 billion in the aggregate in GHC during the first 10 years following the Closing for capital improvements and key investments in infrastructure and other improvements. Notably, Kaiser Permanente will bring its state-of-the-art claims system to GHC. That system will greatly enhance GHC's ability to timely and accurately process claims without requiring substantial and ultimately redundant investments in a similar system by GHC.

Community Benefit

As noted above, Kaiser Permanente has a strong financial commitment to community benefit investments. As Kaiser Permanente applies its community benefit investment policies to GHC it will more than double GHC's already generous current level of community investment. Also, Kaiser Permanente is committed to increasing growth in Medicaid across all of its Regions.

Governance and Management

Applicant intends GHC to be directed by a strong local management team that makes decisions that are most appropriate for its local market conditions. Like all KP Regions, there will be a Regional President for GHC. That Regional President will report to an Executive Vice President/Group President, who in turn reports to the KFHP CEO. This Regional President will be responsible for all aspects of the performance of the Region, including financial, operational, service and quality, among others. This Regional President will also participate in a number of

enterprise-wide Kaiser Permanente activities that involve strategy, operations, information technology, and other focus areas.

The organizational structure of existing KP Regions has, for the most part, a similar design to that currently used by GHC. For example, KP Regions generally have the following executives and departments that report directly to the Regional President – Health Plan Operations, Quality, Clinical Operations, Compliance, Strategy, Finance, Marketing, External Relations, and Human Resources. In addition, Legal and Information Technology reside in each KP Region but report directly to National Leadership. Many of those direct reports to the Regional President have “communities of practice” that allow for enterprise-wide learning and consistency of practices across all KP Regions.

The governance and management of GHC will continue to reflect consumer input. The active role that GHC Members play in the operations of Group Health is part of what makes GHC such a strong community asset. While as part of the proposed Transaction GHC Voting Members will lose their member voting rights with respect to GHC, this important involvement by and input from GHC Members will continue in several respects after the Closing. First, Applicant will at Closing appoint a board of directors for GHC that contains no less than one-third GHC Members. Second, Applicant will adopt corporate bylaws at Closing that require the creation of a Consumer Advisory Committee of at least 25 people to provide GHC’s Members with a meaningful opportunity to participate in matters of policy and operation, to promote the effective use of health care services within the organization, and to suggest ways that the organization can better serve its Members and the community as a whole. This committee will have representation from the geographic areas and lines of business served by GHC. Third, Applicant will continue to recognize and engage with GHC Members that form special interest groups, including the group known as the “GHC Senior Caucus”.

Applicant will initially appoint a nine (9) member GHC board of directors, consisting of the following⁵: (A) three officers, including the KFHP Group President that covers GHC operations (who will also serve as chairperson of the board), the KFHP Chief Financial Officer, and the KFHP Chief Medical Officer; (B) three directors also serving on the Applicant’s board of directors; and (C) three GHC enrolled participants selected by Applicant using certain criteria, including among other things:

- Geographic representation, with ideally
 - One individual from Seattle
 - One individual from Spokane
 - One individual from the South Sound
- Experience/expertise
 - Understanding of health care needs/services (e.g., caring for vulnerable populations)

⁵ Applicant will provide a list of the members of the post-Transaction GHC board of directors (and their biographical affidavits, to the extent not already submitted) as a supplement to this Form A filing upon completion of the board roster.

- General knowledge of the operations of the Group Health Medical Care Program
 - Involvement in or with community organizations impacting the program
 - Understanding of regulatory requirements impacting the program
 - Understanding of the community and government expectations for non-profit health care organizations (e.g., federal tax exemption community benefit requirements)
- Independence
 - Not a Group Health employee (either GHC or GHP)
 - No vested interest in GHC's operations (financial or otherwise)

Applicant's board governance committee will from time to time adjust criteria that board candidates must meet in order to fill any vacant seats, taking into consideration the skills of the then current board members and resulting gaps given the needs of the board and organization.

Employees

Kaiser Permanente intends to deepen and broaden GHC's long-term commitment to providing the people of Washington State with the best possible health care and health care coverage. As part of this, Kaiser Permanente plans to invest in the necessary facilities, technology, equipment, and people to ensure access to high-quality, affordable care for GHC's Members and excellent member service. Given this focus, the expertise of Group Health physicians and employees will be integral to the continued delivery of excellent care. As such, the Transaction is not anticipated to result in significant job loss. At the same time, it is too soon to tell where new jobs may be created.

Applicant has committed to honor and cause GHC to honor all current collective bargaining agreements of GHC and its subsidiaries.

For all GHC employees who are not subject to collective bargaining agreements, Applicant has committed to provide current employees with compensation and benefits equal or greater (in the aggregate) to the compensation and benefits being provided as of the Closing for a minimum period of nine months following Closing. In addition, Applicant has committed to continue and honor all existing incentive, severance and retention arrangements between GHC and current and former employees, directors, or consultants for a minimum period of 18 months following Closing.

Further, in administering employee benefits after Closing, Applicant has committed to grant all current employees of GHC and its subsidiaries prior service credit for purposes of eligibility to participate, benefit accrual and vesting (including waiver of all waiting periods and preexisting conditions limitations, as well as credit for expenses incurred prior to Closing for deductibles and out of pocket limits in the year in which the Closing occurs) under Applicant's benefit plans applicable to those employees (except to the extent duplicating benefits).

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

No voting securities will be acquired in the Transaction. GHC is a non-stock non-profit corporation. GHC holds all the stock of its subsidiaries, Group Health Options, Inc. and Group Health Services, Inc. (collectively, the "Stock"), and all of the membership interests in Columbia

Medical Associates, LLC, Columbia Clinic, LLC, Group Health Northwest and Group Health of Washington (collectively, the "Membership Interests"). Following the Closing, the ownership of the Stock and the Membership Interests will remain intact with GHC as they existed immediately prior to Closing.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

Applicant does not own any voting securities of GHC.

ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Applicant has no contract, arrangement or understanding with respect to any voting securities of GHC.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Neither Applicant nor its affiliates have purchased any voting security of or interest in GHC during the twelve calendar months preceding the filing of this Application.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Neither Applicant nor its affiliates have made any recommendations to purchase any voting security of or interest in GHC during the twelve calendar months preceding the filing of this Application.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Applicant has not entered into any agreement with any broker-dealer regarding the solicitation of voting securities of or interest in GHC.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

As noted above, attached as Exhibit H are KFHP and KFH combined audited financial statements for the past five years, with exhibits.

Projections of Financial Performance (3-Year Projections)

Attached as Exhibit P are projected financial statements ("Projection") for GHC (as defined herein) subsequent to the closing of the Transaction. The Projection is based on currently available information, and reflects Kaiser Permanente's current understanding of GHC's operations and its strategic intentions concerning GHC operations. Kaiser Permanente expects to refine the Projection and plans as it deepens its understanding of GHC.

Background

The Projection reflects Kaiser Permanente's charitable mission to provide high-quality, affordable health care services and to improve the health of its enrollees and the communities it serves. It also reflects Kaiser Permanente's intent to deliver affordable premiums in the market

and invest in the business and in the community to meet long-term strategic objectives. The Projection forecast is presented in GAAP and statutory accounting formats for the period 2017-2019, along with an opening balance sheet for 2016.

Highlights

Financial Position

Kaiser Permanente's plans balance the need to invest to improve affordability, growth and enrollee experience with financial stability and sustainability. Kaiser Permanente will maintain a strong GHC balance sheet in Washington, reflected in capital and surplus levels that are consistent with the current situation and provide a healthy excess above required levels. This will be complemented by a strong ultimate parent organization, bringing even greater stability to the Washington organization. Kaiser Permanente will enhance existing insurance and integrated care delivery capabilities to support affordability and make GHC even better than it is today. Achieving these outcomes will require initial investment in the organization. Kaiser Permanente anticipates several years of low margins as transition costs are incurred and investments are made to drive future benefit. Notably, Kaiser Permanente will not rely on rate increases to fund those investments. Kaiser Permanente intends to maintain actuarially sound yet competitive rates in order to achieve growth.

Membership and Revenue

Kaiser Permanente is projecting enrollment growth across all business lines and competitive pricing that brings more affordable care to the communities GHC serves. Affordable pricing will support enrollment growth, as will investments designed to improve the enrollee experience and meet purchaser needs, and strong sales and marketing capabilities. Kaiser Permanente's projected revenue and pricing trends reflect moderating pricing across business lines and shifts in enrollment by product and business lines as membership grows. Kaiser Permanente anticipates growth in all key lines of business – employer groups, individuals and Medicare and Medicaid beneficiaries.

Expenses

Kaiser Permanente is projecting per member per month expense trends that track below recent experience. Enhanced affordability will be driven by capabilities and efficiencies that Kaiser Permanente will bring to GHC:

- Adoption of systems, tools and capabilities to improve quality outcomes and process efficiency
- Deployment of best practices, including care management, care coordination, and elements of KP's integrated care model
- Access to KP's administrative capabilities and scale

The Projection also recognizes and includes industry cost pressures related to current inflationary drug pricing trends.

Investments

The three-year Projection reflects Kaiser Permanente's most recent estimates of operating, capital and community benefit investments that support its strategy and align with the

commitments made in connection with the Transaction. The timing and level of these investments may shift as Kaiser Permanente identifies opportunities for investment and synergies that can accelerate long-term performance.

Post-Closing, Kaiser Permanente will bring capabilities to build and strengthen the operations in the State of Washington. Operating expenses will be incurred related to the integration of GHC and Kaiser Permanente, as well as investment in capabilities to support pricing trajectories, care outcomes, and long term financial sustainability.

The Projection reflects increasing investment in community benefit over this three-year period, consistent with the importance of community benefit to the mission of the organization.

Kaiser Permanente will spend \$1 billion in the aggregate in GHC during the first 10 years following the Closing for capital improvements and investments in infrastructure and other improvements. These investments will help ensure the continued success of GHC's charitable mission and its continued provision of high quality health care. The three-year Projection reflects initial increased capital investments in buildings and technology, consistent with this commitment.

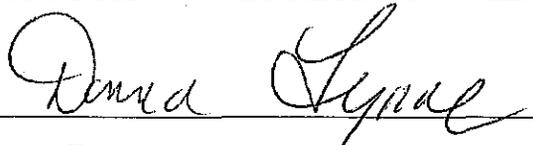
ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within fifteen (15) business days after the end of the month in which the acquisition of control occurs.

Signature

Pursuant to the requirements of RCW 48.31B.015, Kaiser Foundation Health Plan of Washington has caused this application to be duly signed on its behalf in the City of Seattle and State of Washington on the 26th day of February, 2016.

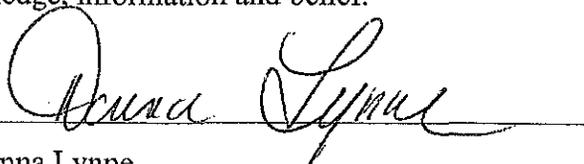
Kaiser Foundation Health Plan of Washington



By: Donna Lynne
Its: Executive Vice President

Certification

The undersigned deposes and says that she has duly executed this attached application dated February 26, 2016 for and on behalf of the Kaiser Foundation Health Plan of Washington; that she is the Executive Vice President of Kaiser Foundation Health Plan of Washington; and that she is authorized to execute and file such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.



Donna Lynne

Executive Vice President, Kaiser Foundation Health
Plan of Washington