



August 18, 2016

Frank C Miller
Senior Counsel
Kaiser Permanente
One Kaiser Plaza, 19th Floor
Oakland, CA 94612

Robin L. Larmer
Counsel
Stoel Rives LLP
600 University St., #3600
Seattle, WA 98101

Re: Form A Filing -- Statement Regarding the Acquisition of Control of Group Health Cooperative and Group Health Options by Kaiser Foundation Health Plan of Washington.



Dear Mr. Miller and Ms Larmer,

The State of Washington, Office of the Insurance Commissioner (OIC) received the above Form A filing dated February 26, 2016 on March 1, 2016. As a result of the filing the OIC sent you a correspondence on March 24, 2016 and Stoel Rives LLP provided a response to the inquiries on April 15, 2016 along with further information. The responses and documentation provided have been reviewed and have generated the following inquiries.

A. The Form A Inquiries:

- 1) As indicated in the April 15, 2016 response from Stoel Rives, Group Health Community Foundation (GHCF) will be operated as a nonprofit organization that is completely separate and independent from Kaiser Permanente and Group Health. Please provide an organizational chart depicting the organizational structure for GHCF post acquisition.
- 2) A \$2B Note was entered into between Kaiser Foundation Health Plan of Washington (KFHPW) and [REDACTED] whereby [REDACTED] is the lender. In accordance with the Acquisition Agreement, Article II, \$1.8B will be transferred from KFHPW to Group Health Community Foundation (GHCF) at closing of the transaction, as the consideration for the transaction. GHCF resides outside the Group Health and Kaiser organizations. Please provide a justification for the consideration of the acquisition being paid to GHCF as opposed to the acquired entity, Group Health Cooperative (GHC).
- 3) In the April 15, 2016 response to D(1)(c) as related to the repayment of the \$2B note, it stated that the time frame for the repayment on the note is unknown and the repayment is anticipated to be generated by GHC post acquisition net income. The repayment is on demand and accrues interest as follows: yearly rate equal to the rate at which the proceeds hereof actually accrue interest (to the extent held in a deposit account) and realize investment income (to the extent held in a securities account). Since \$1.8B of the proceeds from the Note will be sent to GHCF, how is this calculated?
- 4) The purpose of the \$2B Note is that KFHPW represents and warrants to [REDACTED] that the loan evidenced by this Note is

EXHIBIT KCF-6

- not for personal, family, household or consumer purposes. Please provide a more specific purpose for the loan.
- 5) As referenced in the "Acquisition Agreement", Section 3.2(c), Evercore Group LLC was engaged to provide an opinion to the effect that the purchase price, as reduced by the aggregate member capital dues, to be paid by KHFPW to GCHC is fair to GCH from financial stand point. Evercore Group LLC is GCHC's financial advisor. Please provide a copy of this opinion.
 - 6) Provide an audited financial statement for KHFPW as of 12/31/2015.
 - 7) In the response to the Form A questions received on 4/15/2016, a biographical affidavit was received for Leslie Stone Heisz.

 - 8) 
 - 9) KHFP is the sole member of KHFPW, KHFP has control over members, changes in rights to the members, election and removal of Directors and filling any of the vacancies on the Board. In turn, post acquisition KHFPW is the sole member of GCH. KHFP and KHFPW have the same Directors and KHFPW the same executive officers as KHFP. If these are accurate statements, why wasn't the acquisition structure for GCH to be a direct affiliate of KHFP post acquisition?
 - 10) The Form B, Holding Company Registration Statement supplied was for Kaiser Foundation Health Plan of Northwest which does not appear to have any bearing on the acquisition of Group Health Cooperative. How is this Form B filing relevant to the Kaiser Foundation Health Plan of Washington acquisition?
 - 11) Do the Corporate Bylaws of GCH require the creation of a Consumer Advisory Committee of at least 25 people to provide GCH's member with an opportunity to participate in matters of policy and operations? Please provide a proposed post acquisition copy of the GCH By-Laws.
 - 12) The Escrow Agreement is between GCH and GCHC and KHFPW whereby KHFPW places \$75M in the escrow account. At the end of the escrow the outstanding amounts in the escrow will be distributed to GCHC. Why do these escrow distributions go to GCHC which is outside the Group Health Cooperative organizational structure?
 - 13) The GCH members can elect to receive a refund of \$175 of the \$200 membership fee or donate it to GHF, which after the acquisition GHF will not be part of the Group Health Organization. In essence as part of the acquisition, the members will be losing their membership, so why are they being charged a per member refund fee of \$25?
 - 14) In general, the Kaiser organization provides services through several intercompany service agreements such as claims, billing and other administrative functions. Identify each service that GCH becomes a party to if the acquisition is effectuated and provide a copy of each intercompany agreement. Additionally, provide a summary of the fees associated with each service as related to the intercompany agreements.
 - 15) Please provide a list and copy of any agreements that are going to be entered in to as a result of the Acquisition Form A filing. It is not necessary to provide any agreements already provided for #14 above.
 - 16) The following are questions relate to the 12/31/2016 through 12/31/2019 statutory proformas:
 - a. When Group Health Foundation is removed as an affiliate from GCH per Article II of the Acquisition Agreement, how much does that reduce the assets and surplus of GCH? Is this reflected in the proformas?
 - b. On the proformas balance sheet there is a line for "Aggregate write-ins for Other Liabilities" projected to be in excess of \$300M for all proforma years. Please itemize the liabilities and provide an explanation.
 - c. In 12/31/2016 there is a liability for "Borrowed Money and Interest" in the amount of \$90M. What does this liability represent?
 - d. In years 2017 through 2019 please provide a breakdown for the Medical Services expenses ranging from \$3.0BM to \$3.6B.

- e. In years 2017 through 2019 please provide a breakdown for the Administrative and Other expenses ranging from \$378M to \$448M.
 - f. In years 2017 through 2019 please provide a breakdown for the Capacity and Capabilities expenses ranging from \$41M to \$57M.
 - g. In years 2017 through 2019 please provide a breakdown for the Additional Community Benefit expenses ranging from \$9M to \$36M. Is this part of the \$800M charitable contributions over the next 10 years? How much of the \$800M will be funded by GHC?
 - h. In years 2017 to 2019 there is increasing additional depreciation, is this related to the \$1B commitment for capital improvements? How much of the \$1B in capital improvements is attributable to GHC?
- *17) For employees with non collective bargaining agreements, KFHPW has committed to provide current employees with compensation and benefits equal or greater to the compensation and benefits provided as of the closing of the transaction for a minimum of nine months. Will any long-term benefits such as pensions remain in effect subsequent to the nine month period?
- 18) Will the enrollees retain their current rate post acquisition? And if they do, for what period do they retain their current rate? Has an actuarial analysis been performed on the rates and if so, what would be the projected rate increase/decrease results for the next year, 3 three years and five years? Please provide a copy of the actuarial analysis indicating support for the acquisition.
- 19) Donna Lynne executed the Form A Filing for KHFPW as of February 26, 2016, however as of July 22, 2016 she is no longer an Executive Officer of Kaiser Foundation of Health Plan of Washington. Verify that her separation is not a result of inaccuracies in the statements submitted in the Form A filing and confirm that the information in the Form A filing is accurate.

In an effort to move the Form A review forward, please return the requested response and supporting documentation as soon as practicable. My contact information is listed below; please feel free to contact me if you have any questions.

Best Regards,

Karen Heburn

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