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STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE

PUBLIC HEARING

IN RE: THE PROPOSED ACQUISITION OF HEALTH NET  
LIFE INSURANCE COMPANY  
BY CENTENE CORPORATION  
APP-2015-00889  
SACRAMENTO, CALIFORNIA  
FRIDAY, JANUARY 22, 2016

ATKINSON-BAKER, INC.  
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REPORTED BY: KAREN CHALLE, CSR NO. 8244  
FILE NO.: AA00006

<p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6 STATE OF CALIFORNIA</p> <p>7 DEPARTMENT OF INSURANCE</p> <p>8</p> <p>9 PUBLIC HEARING</p> <p>10 IN RE: THE PROPOSED ACQUISITION OF HEALTH NET</p> <p>11 LIFE INSURANCE COMPANY</p> <p>12 BY CENTENE CORPORATION</p> <p>13</p> <p>14 APP-2015-00889</p> <p>15</p> <p>16 SACRAMENTO, CALIFORNIA</p> <p>17</p> <p>18 FRIDAY, JANUARY 22, 2016</p> <p>19</p> <p>20 Transcript of proceedings taken on behalf of the</p> <p>21 State of California, Department of Insurance, State</p> <p>22 Capitol Museum Building, Room 4202, Sacramento,</p> <p>23 California, commencing on Friday, January 22, 2016, at</p> <p>24 10:02 a.m., before Karen Challe, Certified Shorthand</p> <p>25 Reporter Number 8244.</p> <p>//</p> <p>Page 2</p>	<p>1 APPEARANCES (Continued):</p> <p>2</p> <p>3 For the State of California:</p> <p>4 DEPARTMENT OF INSURANCE, LEGAL DIVISION</p> <p>5 BY: JOHN FINSTON, General Counsel</p> <p>6 45 Fremont Street, 23rd Floor</p> <p>7 San Francisco, California 94105</p> <p>8 (415) 538-4379</p> <p>9 For the State of California:</p> <p>10 DEPARTMENT OF INSURANCE, LEGAL DIVISION</p> <p>11 BY: BRUCE HUNTER HINZE, Assistant Chief Counsel</p> <p>12 45 Fremont Street, 24th Floor</p> <p>13 San Francisco, California 94105</p> <p>14 (415) 538-4392</p> <p>15 For the State of California:</p> <p>16 DEPARTMENT OF INSURANCE, LEGAL DIVISION</p> <p>17 BY: MICHAEL J. LEVY, Deputy General Counsel</p> <p>18 300 Capitol Mall, 17th Floor</p> <p>19 Sacramento, California 95814</p> <p>20 (916) 492-3572</p> <p>21 For Centene Corporation:</p> <p>22 SKADDEN, ARPS, SLATE, MEAGHER &amp; FLOM LLP</p> <p>23 BY: JACK DICANIO, Esq.</p> <p>24 300 South Grand Avenue</p> <p>25 Los Angeles, California 90071</p> <p>(213) 687-5430</p> <p>For Centene Corporation:</p> <p>DENTONS US LLP</p> <p>BY: DAN BROWN, Partner</p> <p>525 Market Street, 26th Floor</p> <p>San Francisco, California 94105-2708</p> <p>(415) 882-2477</p> <p>//</p> <p>Page 4</p>
<p>1 APPEARANCES:</p> <p>2</p> <p>3 The Panel of the Insurance Commissioner:</p> <p>4 DAVE JONES</p> <p>5 Insurance Commissioner</p> <p>6 State of California</p> <p>7</p> <p>8 GEOFFREY MARGOLIS</p> <p>9 Deputy Commissioner and Acting Chief</p> <p>10 State of California</p> <p>11</p> <p>12 KRISTIN ROSI</p> <p>13 Administrative Law Judge</p> <p>14 State of California</p> <p>15</p> <p>16 JANICE ROCCO</p> <p>17 Deputy Commissioner</p> <p>18 Health Care Policy and Reform</p> <p>19 State of California</p> <p>20</p> <p>21 DAVID WILSON</p> <p>22 Special Deputy</p> <p>23 State of California</p> <p>24</p> <p>25 //</p> <p>Page 3</p>	<p>1 I N D E X</p> <p>2 SPEAKERS/WITNESSES:</p> <p>3 For Centene and Health Net:</p> <p>4</p> <p>5 MARCELA MANJARREZ HAWN</p> <p>6 Senior Vice President</p> <p>7 Chief Communications Officer</p> <p>8 Centene Corporation</p> <p>9 JEFFREY A. SCHWANEKE</p> <p>10 Senior Vice President</p> <p>11 Chief Accounting Officer</p> <p>12 Centene Corporation</p> <p>13</p> <p>14 KEITH H. WILLIAMSON</p> <p>15 Executive Vice President</p> <p>16 Secretary and General Counsel</p> <p>17 Centene Corporation</p> <p>18 K. RONE BALDWIN</p> <p>19 EVP, Insurance Group</p> <p>20 Centene Corporation</p> <p>21 STEVEN SELL</p> <p>22 President, Health Net, Inc.</p> <p>23</p> <p>24 KATHLEEN A. WATERS</p> <p>25 Senior Vice President</p> <p>General Counsel and Secretary</p> <p>LAWRENCE WU, PhD</p> <p>President, Nera Economic Consulting</p> <p>//</p> <p>Page 5</p>

<p>1 I N D E X</p> <p>2 SPEAKERS/WITNESSES (Continued):</p> <p>3</p> <p>4 For the Department of Insurance:</p> <p>5 RICHARD M. SCHEFFLER, Ph.D.</p> <p>6 Health Economics/Public Policy</p> <p>7 UC Berkeley</p> <p>8 BRENT D. FULTON, Ph.D.</p> <p>9 Health Economics/Public Policy</p> <p>10 UC Berkeley</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25 //</p> <p>Page 6</p>	<p>1 I N D E X</p> <p>2 SPEAKERS/WITNESSES (Continued):</p> <p>3</p> <p>4 For the Public/Interested Persons:</p> <p>5 KEVIN STEIN</p> <p>6 California Reinvestment Coalition</p> <p>7 CASSANDRA JENNINGS</p> <p>8 Greater Sacramento Urban</p> <p>9</p> <p>10 JOHN WALLIS</p> <p>11 Heritage Provider Network</p> <p>12 MARK DIAZ</p> <p>13 National Hispanic Medical Association</p> <p>14</p> <p>15 SHAWN ATHA</p> <p>16 River City Medical Group</p> <p>17 BRENDA PRIMA</p> <p>18 Harris Family Center for Disability</p> <p>19 and Health Policy</p> <p>20 RONALD BLAND</p> <p>21 Insurance Broker</p> <p>22</p> <p>23 STEVEN DUKE</p> <p>24 Disability Resources Agency</p> <p>25 of Independent Living</p> <p>//</p> <p>Page 8</p>
<p>1 I N D E X</p> <p>2 SPEAKERS/WITNESSES (Continued):</p> <p>3</p> <p>4 For Consumer Groups:</p> <p>5 MICHELLE RUBALCAVA</p> <p>6 California Medical Association</p> <p>7 LAURA ANTONINI</p> <p>8 Consumer Watchdog</p> <p>9</p> <p>10 TAM MA</p> <p>11 Health Access</p> <p>12 DENA MENDELSON</p> <p>13 Consumers Union</p> <p>14</p> <p>15 GILBERT OJEDA</p> <p>16 California Program on Access to Care</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25 //</p> <p>Page 7</p>	<p>1 I N D E X</p> <p>2</p> <p>3 E X H I B I T S</p> <p>4 In the matter of the proposed acquisition of</p> <p>5 Health Net, Inc. by Centene Corporation APP-2015-00889</p> <p>6 Binder of Documents Marked for Identification</p> <p>7 No. Page Description</p> <p>8 1 1 Form A public portion (information statement)</p> <p>9 2 16 Testimony of Keith Williamson</p> <p>10 3 24 Testimony of K. Rone Baldwin</p> <p>11 4 37 Kentucky Spirit Health Plan v. Commonwealth of</p> <p>12 Kentucky, 462 S.W. 3d 723</p> <p>13 5 45 Kentucky Spirit health Plan v. Commonwealth of</p> <p>14 Kentucky Nos. 213-CA-001050-MR and</p> <p>15 2013-CA-001201</p> <p>16 6 52 Testimony of Steven Sell</p> <p>17 7 60 Centene SEC filing</p> <p>18 8 67 CV, Dr. Lawrence Wu</p> <p>19 9 89 CV, Dr. Paul Wong</p> <p>20 10 95 Testimony of Dr. Wu and Dr. Wong</p> <p>21 11 131 CV, Dr. Richard Scheffler</p> <p>22 12 159 CV, Dr. Brent Fulton</p> <p>23 13 169 Testimony of Dr. Scheffler and Dr. Fulton</p> <p>24 14 184 Transcript, testimony of Dr. Dafny</p> <p>25 15 200 Dafny Duggan Ramanarayan 2012</p> <p>Page 9</p>

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<p>1 INDEX</p> <p>2 EXHIBITS (Continued)</p> <p>3 No. Page Description</p> <p>4 37 280 Hugh A. Calvin</p> <p>5 38 281 Elizabeth Evans</p> <p>6 39 282 Gary Germano</p> <p>7 40 283 Don Goldmacher</p> <p>8 41 284 Gilbert Gonzalez</p> <p>9 42 285 Don Krouse</p> <p>10 43 286 Thea Merrill</p> <p>11 44 287 Vic and Barby Ulmer</p> <p>12 45 288 Rocky Vang</p> <p>13 46 289 Camille Zeleny</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25 //</p> <p>Page 11</p>	<p>1 Commissioner of Health Care Policy and Reform,</p> <p>2 Commissioner Janice Rocco; Special Deputy Commissioner</p> <p>3 David Wilson.</p> <p>4 And we'll have an opportunity to have</p> <p>5 introductions made of the various witnesses and parties as</p> <p>6 we proceed through the hearing.</p> <p>7 We're scheduled to be in this room, I believe</p> <p>8 from 11:00 until 5:00 today. At a pre-hearing conference</p> <p>9 meeting, the parties and interested persons and I decided</p> <p>10 we're not taking a break for lunch. We -- which of course</p> <p>11 is not a great loss because of the offerings in the</p> <p>12 building. Well, dare I say it? I'll just leave it at</p> <p>13 that. But we will take occasional 15-minute breaks. And</p> <p>14 also, I'm very mindful we have a court reporter present,</p> <p>15 and she's going to need a break. And I've encouraged her</p> <p>16 to throw a flag if any of us go too fast or if she</p> <p>17 requires a break.</p> <p>18 And if any of the parties desire to take a break</p> <p>19 at some point in time, I would anticipate that they would</p> <p>20 let us know. The facilities are out the doors. And we'll</p> <p>21 try to conduct the hearing as efficiently as possible.</p> <p>22 My goal and objective is to try to conclude at</p> <p>23 the end of the time allotted today. But in the event</p> <p>24 we're not able to do so, we'll make a determination at the</p> <p>25 end if we need to identify another date that -- at which</p> <p>Page 13</p>



<p>1 to resume the hearing.</p> <p>2 I want to spend a little bit of time on the</p> <p>3 authority granted under the California Insurance Code.</p> <p>4 With regard to this proceeding, California Insurance Code</p> <p>5 Section 1215.2 provides the Commissioner may disapprove a</p> <p>6 transaction of this type for a number of reasons,</p> <p>7 including any of following -- and I want to remind</p> <p>8 everyone as I go through these that these are going to be</p> <p>9 the principle bases for the determination, although the</p> <p>10 Code is also clear that they're not necessarily exclusive.</p> <p>11 But number one: "After the change of control</p> <p>12 the domestic insurer referred to subdivision (a) could not</p> <p>13 satisfy the requirements for the issuance of a license to</p> <p>14 write the line or lines of insurance for which it is</p> <p>15 presently licensed."</p> <p>16 Number two: "The purchases, exchanges, mergers</p> <p>17 or other acquisitions of control would substantially</p> <p>18 lessen competition in insurance in this state or create a</p> <p>19 monopoly therein."</p> <p>20 Number three: "The financial condition of an</p> <p>21 acquiring person might jeopardy the financial stability of</p> <p>22 the insurer, or prejudice the interests of its</p> <p>23 policyholders."</p> <p>24 Number four: "The plans or proposals which the</p> <p>25 acquiring person has to liquidate the insurer, to sell its</p> <p style="text-align: right;">Page 14</p>	<p>1 to present their views in the case, as well as to enable</p> <p>2 interested persons, and members of the public as well, to</p> <p>3 present information too.</p> <p>4 So what we're going to do is we're going to</p> <p>5 enable the Applicants to make a presentation, to put on</p> <p>6 witnesses. Then this will be an opportunity for the other</p> <p>7 party to the proceeding, which is the California</p> <p>8 Department of Insurance, to ask questions of the</p> <p>9 Applicants, Centene and Health Net, and their witnesses.</p> <p>10 And then this will be an opportunity for interested</p> <p>11 persons to ask the Applicants questions that they might</p> <p>12 have about the merger.</p> <p>13 I'm going to be acting as the hearing officer</p> <p>14 and preside over this hearing. Should I require</p> <p>15 assistance in determining whether to accept evidence as</p> <p>16 part of the record, or rule on any objections or make any</p> <p>17 other procedural decisions with regard to the hearing,</p> <p>18 I've asked an Administrative Law Judge to advise. That's</p> <p>19 Miss Rosi, Chief Administrative Law Judge for the</p> <p>20 Department of Insurance. She will serve in that capacity,</p> <p>21 and she'll assist me in making whatever evidentiary</p> <p>22 rulings are necessary.</p> <p>23 So I did touch a little bit upon the hearing</p> <p>24 order. And I want to note that because the Applicant has</p> <p>25 requested my approval to merger, and requires to submit</p> <p style="text-align: right;">Page 16</p>
<p>1 assets, or to merge it with any person, or to make any</p> <p>2 other major change in its business or corporate structure</p> <p>3 or management, are not fair and reasonable to</p> <p>4 policyholders."</p> <p>5 And number five: "The competence, experience</p> <p>6 and integrity of those persons who would control the</p> <p>7 operation of the insurer indicate that it would not be in</p> <p>8 the interest of interest of policyholders or the public to</p> <p>9 make them do so."</p> <p>10 So those are the five bases in the Insurance</p> <p>11 Code that we will be examining today, and which ultimately</p> <p>12 I need to look to the purpose of deciding whether to</p> <p>13 approve or disapprove this transaction. Because of the</p> <p>14 size and complexity and significance of this proposed</p> <p>15 merger between Centene and Health Net, in determining</p> <p>16 whether I should approve or disprove the merger, I've</p> <p>17 chosen to hold this public hearing.</p> <p>18 A hearing is not required by law, but as the</p> <p>19 Insurance Commissioner of the state of California, I</p> <p>20 thought it important that we have a session of a</p> <p>21 controlled public hearing and invite interested persons</p> <p>22 and any member of the public to testify and to share their</p> <p>23 views with regard to this particular merger.</p> <p>24 So in that regard, we have structured a hearing</p> <p>25 that seeks to provide the best opportunity for all parties</p> <p style="text-align: right;">Page 15</p>	<p>1 information in support of this application of the merger,</p> <p>2 Centene and Health Net would be asked to submit their</p> <p>3 presentation first.</p> <p>4 I think it's important that we hear from them at</p> <p>5 the onset of the hearing so we can understand exactly what</p> <p>6 they're proposing, and allow them to state their case as</p> <p>7 to why I should approve the requested merger.</p> <p>8 You'll have the opportunity to present evidence,</p> <p>9 examine, cross-examine witnesses, et cetera or other</p> <p>10 members of the parties, of the public, and offer oral and</p> <p>11 written arguments.</p> <p>12 So after Centene and Health Net make their</p> <p>13 presentations, I'll ask the Department of Insurance to</p> <p>14 make its preparations on the proposed transaction. And as</p> <p>15 with the Applicants, the Department of Insurance will have</p> <p>16 an opportunity to present evidence, examine and</p> <p>17 cross-examine witnesses and offer oral and written</p> <p>18 arguments, and so too, if Centene has questions for the</p> <p>19 Department, if Health Net has questions for the</p> <p>20 Department, you're entitled to pose those questions at the</p> <p>21 conclusion of the Department's presentation.</p> <p>22 And interested persons and members of the public</p> <p>23 are entitled to pose questions to the Department of</p> <p>24 Insurance as well.</p> <p>25 Logistics are going to be a little tricky, so we</p> <p style="text-align: right;">Page 17</p>

<p>1 ask you to bear with us. But the way we're going to try 2 to do this is to use the center table for the Applicants. 3 And then for the Department of Insurance. And then we're 4 going to go to the interested persons who have identified 5 a desire to testify.</p> <p>6 And there, we have essentially two universes of 7 interested persons that have identified to the Department 8 that they would -- and to me -- that they wish to testify 9 in this matter. The first panel will be various 10 organizations representing medical providers who have an 11 interest in this. They'll have an opportunity to make 12 their presentation. Then the Applicants will have a 13 chance to ask some questions. The Department will have a 14 chance to ask some questions. Other interested persons 15 and other public will have the chance to ask questions.</p> <p>16 Then we'll go to the fourth category, or the 17 second category of interested persons, which are consumer 18 groups, a number of consumers groups have identified a 19 desire, and appropriately so, to testify at this hearing 20 as well. So they'll be invited to the front table and 21 will make their presentations.</p> <p>22 The Applicants will have a chance to question 23 them. The Department will have a chance to question them. 24 Other interested persons will have a chance to question 25 them. Then we'll excuse them. Then we'll go to the final</p> <p style="text-align: right;">Page 18</p>	<p>1 that you put your name on a witness list that's being 2 maintained by one of my staff here in the hearing room.</p> <p>3 And let me ask that person to identify 4 themselves at this time.</p> <p>5 Okay. Right over here. So the witness list is 6 going to be right over there. So any member of the public 7 that wishes to testify, we would ask that you please go 8 over there, sign up. Don't all run over there right now. 9 Take your time. There's not a time limit, other than the 10 end of the hearing. But we do want you to sign up, if you 11 haven't already been identified, the fact that you wish to 12 testify.</p> <p>13 So we've allotted six hours to hear the 14 testimony and receive written information. My hope is -- 15 again -- that we can accomplish this within that time. I 16 do want to do a couple procedural things before we get 17 under way, in addition to what we've already done. And 18 that is to identify some particular matters on which I'm 19 going to be taking official notice. And so let me go 20 through those, and then I'm going to pause a second to see 21 if either the Applicants or Department have any questions 22 about those. And certainly during the course of the rest 23 of the hearing, if other interested persons have questions 24 about those, they can certainly raise those.</p> <p>25 But I'll be taking official notice of the</p> <p style="text-align: right;">Page 20</p>
<p>1 portion of the hearing, and we'll invite any other 2 interested persons or member of the public to testify as 3 well.</p> <p>4 Same sort of formality. We'll get that 5 testimony. We'll give the Applicants a chance to ask 6 questions. We'll give the Department a chance to ask 7 questions. We'll give other interested parties a chance 8 to ask questions. And by then, it will be 5:00.</p> <p>9 So as you can tell, this is -- it's going to be 10 somewhat complex. But the Code is clear that we need to 11 provide all opportunity to present information, to ask 12 questions, to provide for rebuttal and additional 13 information as they -- as they see fit.</p> <p>14 We will swear in the witnesses before they 15 testify. We're going to do that with each group that I 16 described that comes up. We'll swear in those individuals 17 who are testifying, as a panel, or that group as well. 18 We'll swear in the members of the public if they wish to 19 testify as well.</p> <p>20 So I do want to -- those who provided pre-filed 21 testimony or other written comments, we will give priority 22 to witnesses that have made advance arrangements with or 23 been invited by the Department to testify. If you did not 24 notify the Department of your intent to testify, but you 25 would like to do so, you're welcome to do so. I just ask</p> <p style="text-align: right;">Page 19</p>	<p>1 following: The first is the UnitedHealth and PacifiCare 2 merger, and the record related there too, including the 3 subsequent enforcement action against PacifiCare and my 4 decision in that matter.</p> <p>5 Second, I'm going to take official notice of 6 any and all Centene or Health Net rate filings with the 7 California Department of Insurance or the Department of 8 Managed Health Care, and any and all reviews of those rate 9 filings by either of those departments.</p> <p>10 Third, I'm going to take official notice of any 11 and all Centene or Health Net medical provider network 12 filings with the Department of Insurance or the Department 13 of Managed Health Care, and any and all reviews by either 14 departments of those medical provider or network filings.</p> <p>15 Fourth, I'm going to take official notice of any 16 and all Centene and Health Net policy form filings with 17 the Department of Insurance or the Department of Managed 18 Health Care and the Department's review of those health 19 policy form filings.</p> <p>20 Five, I'm going to take official notice of the 21 Health Net Market Conduct Examination Report conducted by 22 the California Department of Insurance, which was adopted 23 on December 18th, 2015, and any other market conduct 24 examinations or reports conducted by the California 25 Department of Insurance with regard to Health Net or</p> <p style="text-align: right;">Page 21</p>

<p>1 Centene.</p> <p>2 Now, in addition to that, I also am going to</p> <p>3 take official notice of the following additional items:</p> <p>4 I'm going to take official notice of the Covered</p> <p>5 California 2014 through 2016 Rate Books. That is a term</p> <p>6 of art, covered calculus, and those are publicly available</p> <p>7 through Covered California, and I believe their website.</p> <p>8 I'm also going to take official notice of any</p> <p>9 and all reports and analyses publicly available from the</p> <p>10 California Health Care Foundation regarding health</p> <p>11 insurance, managed care plans or Medi-Cal in the state of</p> <p>12 California.</p> <p>13 So those are the items of which I'm taking</p> <p>14 public notice.</p> <p>15 With regard to that last one, those reports and</p> <p>16 analyses, again, are available publicly from the</p> <p>17 California Health Care Foundation, and also can be found</p> <p>18 on the website.</p> <p>19 So let me ask if the Applicants have any</p> <p>20 questions about the matters that I've identified on which</p> <p>21 I'm going to be taking public notice? And if you could,</p> <p>22 for the record, identify yourself. And then I'm happy to</p> <p>23 take any questions you might have about those items.</p> <p>24 JACK DiCANIO: Good morning, Commissioner. Jack</p> <p>25 DiCanio on behalf of Centene. We have no questions and no</p> <p style="text-align: right;">Page 22</p>	<p>1 distributed to you and your staff at the beginning of</p> <p>2 hearing.</p> <p>3 In addition, I just want to also note for the</p> <p>4 record that because this is a hearing pursuant to the</p> <p>5 application filed by Centene under 1215.2, we would</p> <p>6 request that the entire Department file with respect to</p> <p>7 that application, including the supplemental information</p> <p>8 provided by Health Net -- by Centene, I'm sorry -- be part</p> <p>9 of the record as well.</p> <p>10 There are, pursuant to standard Department</p> <p>11 procedures, parts of that record which are deemed</p> <p>12 confidential. And we have basically agreed with Centene</p> <p>13 and Health Net which portions of that record, under</p> <p>14 standard practice, the Department would consider to be</p> <p>15 confidential, and request that that confidential</p> <p>16 information be basically taken under seal.</p> <p>17 COMMISSIONER JONES: Okay. Let me first ask --</p> <p>18 with regard to the two Kentucky cases that the Department</p> <p>19 of Insurance has asked that they -- the Commission note,</p> <p>20 let me ask whether there are no objections from</p> <p>21 Applicants.</p> <p>22 MR. DiCANIO: No objection.</p> <p>23 COMMISSIONER JONES: So I have been given a copy</p> <p>24 of both those cases in a binder that was provided by the</p> <p>25 Department of Insurance. And the Department is proposing</p> <p style="text-align: right;">Page 24</p>
<p>1 objections.</p> <p>2 COMMISSIONER JONES: Thank you.</p> <p>3 Let me ask the California Department of</p> <p>4 Insurance -- and please identify who is representing the</p> <p>5 Department -- to indicate whether they have any questions</p> <p>6 about the items on which I'm taking official notice?</p> <p>7 MR. FINSTON: Thank you. John Finston. General</p> <p>8 Counsel for the Department of Insurance. And with me</p> <p>9 today is Michael Levy, Deputy General Counsel for</p> <p>10 Litigation, and Bruce Hinze, Senior Counsel.</p> <p>11 We have no objections to the literature that you</p> <p>12 presented, Your Honor -- Commissioner.</p> <p>13 We would ask that you take official notice of</p> <p>14 the two additional items -- three addition items,</p> <p>15 actually. First is there are two reported cases involving</p> <p>16 Kentucky Health Spirit -- Kentucky Spirit Health Plan.</p> <p>17 One is Kentucky Spirit Health Plan v. Commonwealth of</p> <p>18 Kentucky, 462 S.W. 3d 723. And the other is an</p> <p>19 unrecorded decision, Kentucky Spirit Health Plan v.</p> <p>20 Commonwealth of Kentucky. It's Docket Number</p> <p>21 213-CA-001050-MR and 2013-CA-001201. Copies of both of</p> <p>22 these decisions have been distributed to the Applicant and</p> <p>23 Health Net. And they've been -- they have no objections</p> <p>24 to you taking official notice of these decisions.</p> <p>25 They're also included in the binder that we</p> <p style="text-align: right;">Page 23</p>	<p>1 to identify those as Exhibit 4 and Exhibit 5 in this</p> <p>2 binder.</p> <p>3 Let me ask the Department this question. With</p> <p>4 regard to the binders, is it your intent to be drawing</p> <p>5 upon this information in your case in referring to those</p> <p>6 exhibits, or what was your plan?</p> <p>7 MR. FINSTON: Mr. Commissioner, we will be</p> <p>8 drawing upon some of this information. What's included in</p> <p>9 the binder are all of the comments that have been filed</p> <p>10 with the Department of Insurance pursuant to public</p> <p>11 notice. And in addition the public portion of the form</p> <p>12 e-filing, it's actually the information statement. So</p> <p>13 it's the -- in essence, the cover letter to the Form A on</p> <p>14 filing. But it gives a perspective of what the nature of</p> <p>15 the filing is.</p> <p>16 In addition, as I mentioned, it's the pre-filed</p> <p>17 testimony that we have received, and also all of the</p> <p>18 statements we've received. And I'll ask Bruce Hinze to --</p> <p>19 we've distributed this information to parties and to your</p> <p>20 staff. But we also have this information available</p> <p>21 publicly. And I'll ask Bruce Hinze to describe how we've</p> <p>22 made this information publicly available as well.</p> <p>23 COMMISSIONER JONES: Go ahead.</p> <p>24 MR. HINZE: Good afternoon, Commissioner. The</p> <p>25 Department has prepared a list of the exhibits, including</p> <p style="text-align: right;">Page 25</p>

<p>1 all written testimony and written comments submitted by 2 the end of the day yesterday. In the interest of resource 3 conservation, we don't have paper copies for everyone in 4 the room today. Instead, the written testimony and 5 comments are publicly available on the Department's 6 website. We will update that website to include written 7 testimony and comments subsequently submitted as well.</p> <p>8 Copies of those statements and other documents 9 are located on the insurance department insurance website. 10 These documents may be accessed by going to the 11 Department's web address at www.insurance.ca.gov. Once on 12 the website, select the "News" tab on the far right. Then 13 in the drop-down menu, select "Press Releases." Next 14 click "2016 Press Release," and lastly select 15 "January 21st, 2015 Advisory." You will then find links 16 to all the posted documents at the bottom of the page.</p> <p>17 Commissioner, as has already been mentioned, for 18 the -- for your use and the use of your staff, Counsel and 19 persons testifying, we have prepared a binder of that 20 written testimony, written comments received and other 21 exhibits presented by the Department, submitted by the 22 Department, Exhibits 1 through 46 for identification in 23 this proceeding. These exhibits are numbered sequentially 24 in the upper left-hand corner, with unique page numbers, 25 starting with "CDix." Although they are not separately</p> <p style="text-align: right;">Page 26</p>	<p>1 without objection, we will include in the record for this 2 proceeding Exhibits 1 through 46, which are a part of the 3 binder, identified documents marked for identification 4 Department of the Insurance January 22nd, 2015, In the 5 Matter of Proposed Acquisition of Health Net Incorporated 6 by Centene Corporation.</p> <p>7 I see no objections. So ordered.</p> <p>8 Now as well, I will rule on the request with 9 regard to taking official notice of the two Kentucky 10 cases. There was no objection from the Applicants. The 11 cases in effect are in the binder, so I will take official 12 notice of those two cases.</p> <p>13 Third, the Department asks that the entire 14 Department file associated with Form A and supplemental 15 information provided by the Applicants be included as part 16 of the record. And the Department has agreed that certain 17 of those items be deemed confidential.</p> <p>18 I take it that that's all the Exhibit 1 in this 19 binder, or are there additional documents that are not in 20 this binder which I'm going to need to make sure we get 21 provided to the court reporter that confidential ones for 22 purposes of this proceeding?</p> <p>23 How is it the parties wish to proceed on that 24 point? Well, can I just take notice of -- since they're 25 in the possession of the Department already, and I have --</p> <p style="text-align: right;">Page 28</p>
<p>1 tabbed, the index at the front of the binder provides a 2 page reference to each exhibit.</p> <p>3 Also Commissioner, Counsel for Applicant and the 4 Department have stipulated to the admission of the 5 curriculum vitae of the experts in the record, and that 6 the experts are qualified to testify as expert witnesses 7 within the meaning of Evidence Code 720.</p> <p>8 COMMISSIONER JONES: Okay. Let me go back to 9 the Applicants and make sure they've been given a copy of 10 the binder. And let me ask if they have any objections 11 about our entering into the record for this proceeding, 12 the various documents and writings that have been 13 described by Counsel for the Department that are in the 14 binder.</p> <p>15 If you have no objection, what I'm also going to 16 do is make sure the court reporter has a copy of it, and 17 be sure it is a part of the record.</p> <p>18 MR. DiCANIO: We've received copies, and we have 19 no objection.</p> <p>20 COMMISSIONER JONES: Okay. Then what I want to 21 ask the Department is have you given a copy to the court 22 reporter?</p> <p>23 MR. HINZE: I have not. I will at the end of 24 the proceeding.</p> <p>25 COMMISSIONER JONES: Okay. Great. So then</p> <p style="text-align: right;">Page 27</p>	<p>1 I can get access to them if I need to?</p> <p>2 MR. FINSTON: Your Honor, I would suggest you 3 take notice of them. They're part of the official records 4 of the Department. I just wanted to give everyone notice 5 that the -- because this is a proceeding under 1215.2, 6 that our standard process with respect to how we process 7 that type of application would generally result in 8 those -- that information being provided as a part of the 9 process for your use in making your decision. And so I 10 didn't want to leave anything unclear, that we consider 11 all that information to be information upon which you can 12 rely on in making your decision.</p> <p>13 So since it is part of the official records of 14 the Department, I don't think we really -- we need to 15 present a copy of it to the court reporter. We have 16 already distributed copies of that information to you and 17 all of your staff prior to the hearing.</p> <p>18 COMMISSIONER JONES: Any objections from the 19 Applicants?</p> <p>20 MR. DiCANIO: No.</p> <p>21 COMMISSIONER JONES: Okay. So I'm going to take 22 notice of the entirety of the Form A filing and 23 supplemental information that was provided, and rely on 24 that, along with any other evidence that's submitted as 25 part of this proceeding, or -- and along with any other</p> <p style="text-align: right;">Page 29</p>

<p>1 evidence to which I'm entitled rely. And I recognize that 2 parts of it are confidential, and we will treat them -- we 3 will continue to treat them as such.</p> <p>4 Any further input or issues by either the 5 parties with regard to determination?</p> <p>6 MR. LEVY: Commissioner, Michael Levy, just for 7 public reference, I left about a dozen pieces of paper by 8 the front, by the counter down there, about how to access 9 the file on the website.</p> <p>10 COMMISSIONER JONES: Okay. So out there, 11 wondering about all this process, the point of all this 12 process, and the reason the process is required is to make 13 sure that all the parties and interested persons have a 14 fair opportunity to present all their evidence, and 15 there's a clear and clean public record of that, and that 16 there's a body of information on which I can rely in 17 making my determination.</p> <p>18 So my intention is to conduct this proceeding in 19 a fashion that affords a fairness to all the parties and 20 interest persons. That makes it a little complicated, but 21 it's important, for purposes of making sure that we have a 22 complete opportunity with regard to everyone that's 23 provided information that they would like to be considered 24 in making this decision, and make sure that I have 25 available to me whatever information I need in which to</p> <p style="text-align: right;">Page 30</p>	<p>1 says no. Okay.</p> <p>2 There is one other request for information that 3 I have of the Applicants of Centene and Health Net. And 4 it's one that has resulted -- after I had a chance to read 5 through all the accumulated information that's already 6 been provided -- and I did not have an opportunity to 7 raise it at the pre-hearing conference, but I believe it's 8 appropriate and important. So I would like to ask that 9 Centene and Health Net provide me with any applicable 10 writings or other documents submitted to any state or 11 federal government agency in association with this 12 particular proposed merger.</p> <p>13 Now, a part of that, the portion dealing with 14 federal agency is a little bit repetitive of a prior 15 request, because I did ask for information with regard to 16 the federal agencies. But what I did not specifically ask 17 for in prior requests was submissions to other state 18 agencies, other than the California Department of 19 Insurance, associated with this merger. So that's the 20 additional request.</p> <p>21 Let me give the Applicants an opportunity to 22 confer amongst themselves, hearing it for the first time, 23 and then I'll ask if they have any objections related to 24 that too.</p> <p>25 MR. DiCANIO: No issue. Thank you.</p> <p style="text-align: right;">Page 32</p>
<p>1 make this decision.</p> <p>2 So I believe there's one other procedural item 3 that I want to touch on. Prior to today's hearing, I sent 4 a request for information to both Centene and Health Net. 5 I subsequently revised that request for information based 6 on input from the Department and the Applicants and 7 interested parties. I have modified the initial request 8 to provide additional time to Centene and Health Net to 9 comply with that request. The current deadline for the 10 provision of the information is February 23rd, 2016. So I 11 will I need to hold the record open at least until then in 12 order to receive that information and make sure that it's 13 a part of the proceeding.</p> <p>14 That doesn't necessarily mean that we will have 15 an additional hearing. But I just want to make clear that 16 in order to afford Centene and Health Net an opportunity 17 to provide the document and writings I requested, I want 18 to make sure the record's open so I can proceed with them.</p> <p>19 Let me see if there are any objections or 20 concerns by either party with regard to that procedure.</p> <p>21 Applicants.</p> <p>22 MR. DiCANIO: Not from us. We understand.</p> <p>23 COMMISSIONER JONES: Department.</p> <p>24 MR. FINSTON: No.</p> <p>25 COMMISSIONER JONES: All right. The department</p> <p style="text-align: right;">Page 31</p>	<p>1 COMMISSIONER JONES: Okay. No objection from 2 the Applicant.</p> <p>3 Any objection to concerns from the Department?</p> <p>4 MR. FINSTON: No, Your Honor.</p> <p>5 COMMISSIONER JONES: Okay. No objections there.</p> <p>6 So I'll set the same deadline, February 23rd, 2016. But I 7 also understand that I just made this request to the 8 Applicant. And if the Applicant requires more time, I'm 9 certainly happy to entertain that. But I'll need to keep 10 the record open according to -- you know -- receive the 11 information as to include it as a part of the record.</p> <p>12 So with that, I believe that concludes the 13 preliminary procedures and matters for us. And so what I 14 would like to do is to turn the floor over to the 15 Applicants, to Centene and Health Net.</p> <p>16 Before we do so, I would like to swear in the 17 witnesses who will be testifying for Health Net and 18 Centene. And if those individuals plan to testify, please 19 stand and raise their right hands. We'll swear you in.</p> <p>20 Okay. Do you swear or affirm the testimony 21 you're about to give is the truth, the whole truth and 22 nothing but the truth?</p> <p>23 (Panel in Unison: "Yes.")</p> <p>24 COMMISSIONER JONES: Let the record reflect that 25 all the witnesses have affirmed the oath.</p> <p style="text-align: right;">Page 33</p>

<p>1 Thank you.</p> <p>2 And we would now turn the floor over to Health</p> <p>3 Net and Centene to make their presentation.</p> <p>4 MR. FINSTON: Mr. Commissioner. I would request</p> <p>5 for the record, each witness identify themselves as part</p> <p>6 of the swearing-in procedure.</p> <p>7 COMMISSIONER JONES: Okay. We can do that</p> <p>8 quickly now, if there's no objection.</p> <p>9 MR. DiCANIO: None.</p> <p>10 COMMISSIONER JONES: Thought I might just do it</p> <p>11 as people testify, but maybe do it right now.</p> <p>12 Any objection?</p> <p>13 MR. DiCANIO: No.</p> <p>14 COMMISSIONER JONES: These are the individuals</p> <p>15 that have been sworn with regard to the testimony.</p> <p>16 MR. DiCANIO: Yes.</p> <p>17 MS. MANJARREZ HAWN: Good morning. My name is</p> <p>18 Marcela Manjarrez Hawn. I am Senior Vice President and</p> <p>19 Chief Communications Officer for Centene Corporation.</p> <p>20 MR. SCHWANEKE: My name is Jeff Schwaneke,</p> <p>21 Senior Vice President and Chief Accounting Officer of</p> <p>22 Centene Corporation.</p> <p>23 MR. WILLIAMSON: Keith Williamson. Executive</p> <p>24 Vice President, Secretary and General Counsel for Centene.</p> <p>25 MR. BALDWIN: I'm Rone Baldwin. Executive Vice</p> <p style="text-align: right;">Page 34</p>	<p>1 insurance group of Centene Corporation, the Applicant in</p> <p>2 the Form A that is the subject of this hearing.</p> <p>3 Thank you, Commissioner Jones, for convening</p> <p>4 this public hearing and giving us a chance to provide</p> <p>5 information to you and answer any questions you and your</p> <p>6 staff might have. I also want to thank each member of</p> <p>7 your staff at the Department of Insurance for the work</p> <p>8 that they have put in to get us to this point in the</p> <p>9 Applicant process.</p> <p>10 Finally, thank you to Judge Rosi for your time</p> <p>11 and assistance here today.</p> <p>12 I was going to begin by introducing all my</p> <p>13 colleagues at the witness table, but since they've already</p> <p>14 done that as part of the swearing in, I'll just proceed.</p> <p>15 And I would like to ask Marcela Manjarrez Hawn, the Senior</p> <p>16 Vice President and Chief Communications Officer of</p> <p>17 Centene, to read a statement from the Chairman and CEO of</p> <p>18 Centene, Michael Neidorff, who was not able to be here</p> <p>19 today.</p> <p>20 MS. MANJARREZ HAWN: Good morning, Commissioner</p> <p>21 Jones, Counselors, Advocates, Members of the Public.</p> <p>22 Thank you for the opportunity to read the following</p> <p>23 statement on behalf of Michael Neidorff, Chairman,</p> <p>24 President and CEO of Centene Corporation. These are his</p> <p>25 words:</p> <p style="text-align: right;">Page 36</p>
<p>1 President for the Insurance Group at Centene.</p> <p>2 COMMISSIONER JONES: Forgive me. To turn the</p> <p>3 mics on, you have to push the button, which may not be</p> <p>4 readily obvious. But I think the court reporter got the</p> <p>5 identification of the first few. Make sure the mics are</p> <p>6 on, for everyone.</p> <p>7 MR. SELL: Good morning. My name's Steve Sell.</p> <p>8 I'm the President of Health Net Life Insurance Company.</p> <p>9 MS. WATERS: Good morning. Kathleen Waters,</p> <p>10 Senior Vice President and General Counsel for Health Net.</p> <p>11 MR. WU: Good morning. I'm Lawrence Wu,</p> <p>12 Economist and President at Nera Economic Research</p> <p>13 Associates and Economic Consulting.</p> <p>14 COMMISSIONER JONES: Welcome to this hearing.</p> <p>15 We appreciate your taking the time to attend and share</p> <p>16 with us your testimony. And we'll turn the floor over now</p> <p>17 to Centene and Health Net and allow them to present the</p> <p>18 witnesses as they desire.</p> <p>19 MR. DiCANIO: Before we do, I would like to</p> <p>20 introduce for the record my colleague Dan Brown, who is</p> <p>21 with me, also Counsel for Centene. We're going to start</p> <p>22 our presentation with Mr. Baldwin.</p> <p>23 COMMISSIONER JONES: Very good.</p> <p>24 MR. BALDWIN: Good morning. My name is Rone</p> <p>25 Baldwin. Again, I'm the Executive Vice President for the</p> <p style="text-align: right;">Page 35</p>	<p>1 "We have here today a team of very capable</p> <p>2 Health Net and Centene Executives who will be presenting</p> <p>3 and responding to your questions throughout these</p> <p>4 hearings. I appreciate the opportunity to make these</p> <p>5 comments. This process is very important to all of us,</p> <p>6 and my executives are encouraged to work with you and DMHC</p> <p>7 to see these transactions through to completion.</p> <p>8 I wanted to make sure you knew how committed I</p> <p>9 am to making this transaction a success for California and</p> <p>10 to share with you our approach to achieving health care.</p> <p>11 I would like to state up front that we are fully committed</p> <p>12 to maintaining and working to grow our commercial business</p> <p>13 in California. This includes, of course, when necessary,</p> <p>14 working with the State to alter the product design when</p> <p>15 competitive issues arise, or when consumer demand</p> <p>16 dictates. We share first and foremost, a common concern</p> <p>17 for individuals we serve. Our mission is to transform the</p> <p>18 community one person at a time. And our members are at</p> <p>19 the heart of why we do it as it relates to members who we</p> <p>20 have served for most of our history.</p> <p>21 I have long believed that except for are the</p> <p>22 grace of the Lord, any of us could receive our health care</p> <p>23 through Medicaid, and we would expect to be treated with</p> <p>24 dignity and respect. This is exactly the way our</p> <p>25 recipients should expect to be treated, and it is the kind</p> <p style="text-align: right;">Page 37</p>

<p>1 of care they receive. We focus on treating the whole 2 person in improving their health status. We take very 3 seriously the responsibility you, as the State, give us, 4 and the trust our members have placed in us.</p> <p>5 Incidentally, our approach is already in place 6 in California. We are proud to serve consumers through 7 our locally in through our California Health and Wellness, 8 and we will continue to put our members first, whether 9 they're enrolled in commercial coverage, Medi-Cal, the 10 marketplace, Medicare or parts. It is intense practice 11 that anything that touches a recipient provider, a 12 contractor, a regulator is done locally. Our presidents 13 and CEOs are charged with representing the best interests 14 of their health plan in their state.</p> <p>15 You will not find a health plan that carries a 16 Centene name anywhere in the country. In Ohio we are 17 Buckeye. In Florida, we are Sunshine. In Texas, we are 18 Superior. Health Net is and will continue to be a 19 California company.</p> <p>20 As I alluded to earlier, we treat our members 21 one person at a time. Equally important is the way we 22 view our provider network. Providers are our product, and 23 we are committed to working with them to support and 24 enhance, through our systems, their ability to treat our 25 members or recipients. We also take very seriously the</p> <p style="text-align: right;">Page 38</p>	<p>1 lines of insurance, a strong balance sheet and integrated 2 systems to which consumers of health care will be benefit. 3 Our high speed claims and systems transactions enable us 4 to pay provider claims in eight days from the day we 5 receive them. Our claims payment accuracy exceeds 6 98 percent.</p> <p>7 Finally, Mr. Commissioner, we have always placed 8 a great deal of value in ensuring that any coming 9 recommendations we make are based on sound public policy. 10 This, in many cases, in my opinion is in the best interest 11 of the state of California and consumers of all insurance 12 products we currently offer, and new ones that may be 13 added by public policy. We are committed to improving for 14 our members. We are committed to providing products and 15 services in the most efficient manner, to the benefit of 16 taxpayers, and we are committed to maintaining our local 17 approach, which grows jobs in your state. In other words, 18 we're committed to the growth of Health Net.</p> <p>19 When we make a commitment, we live up to it. 20 Our word is our bond. It is a matter of honor, integrity 21 and credibility.</p> <p>22 Thank you again for this opportunity to make 23 these brief comments today. I appreciate your thoughtful 24 consideration of our acquisition of Health Net and will 25 look forward to ensuring utmost transaction and committing</p> <p style="text-align: right;">Page 40</p>
<p>1 responsibility to ensure the quality of care our members 2 receive. Part of our success is the strength that our 3 provider network brings to us.</p> <p>4 I know you have an interest in protecting and 5 growing California jobs. This transaction involving 6 Health Net will result in more jobs in California than if 7 the transaction didn't take place. The current number of 8 Health Net employees in California is approximately 6,500. 9 And in three years, if our plans come to full fruition, we 10 estimate it will be 7,000. We believe in in-sourcing our 11 work, not outsourcing. Over 85 percent of our employees 12 are located in the market we serve. We administer high 13 speed transactions at various systems, and by high speed 14 transaction, I mean claims, financials and systems 15 development. Health Net will maintain the local financial 16 support necessary to meet the State-Reported requirements. 17 With our accusation of Health Net, while not immediately, 18 over the next several years, as Health Net's processors 19 transition to Centene systems, we will be bringing back to 20 the U.S. Health Net functions that take place in India and 21 the Philippines. Many currently outsourced positions will 22 be brought to California.</p> <p>23 Centene is a fortunate 500 company. Each of our 24 local companies is supported by a significant resources. 25 Centene brings a strong commitment to recipients of all</p> <p style="text-align: right;">Page 39</p>	<p>1 to working effectively with you."</p> <p>2 COMMISSIONER JONES: Thank you very much. I 3 appreciate that Mr. Neidorff wanted to, but was unable to 4 join us. I would ask, since we are going to swear in all 5 the witnesses, if that statement could be submitted in 6 writing regard to its truth, as has been the case with 7 other writings submitted to the Department as part of this 8 proceeding.</p> <p>9 MR. BALDWIN: We will do that.</p> <p>10 COMMISSIONER JONES: Thank you.</p> <p>11 MR. BALDWIN: So let me proceed. As you know, I 12 submitted written testimony in this proceeding last 13 Friday. And I assume you have had an opportunity to 14 review that testimony. As such, I will not repeat my 15 written testimony, but I do adopt it as if it were 16 presented under oath here today.</p> <p>17 I would like today to provide some additional 18 background about Centene, and overview of some of the key 19 issues we've been addressing with your staff in the Form A 20 process. They're described in a more detail in my written 21 testimony, which collectively addressed the broader 22 question of why this merger is in the interest of Health 23 Net and California consumers.</p> <p>24 Later, I will address, with my colleagues, any 25 questions you or your staff might have for us today.</p> <p style="text-align: right;">Page 41</p>

<p>1 First, some background about Centene. Our 2 corporate purpose, again, is to transform the health 3 communities we serve one person at time. We do this 4 through innovative programs focusing on active local 5 involvement to care for the whole health of the 6 individual. We believe local partnerships enable 7 meaningful and accessible health care that ultimately 8 creates more vibrant families and communities. We 9 accomplish this through the alignment with the states in 10 which we operate and the health programs in each of those 11 states.</p> <p>12 Centene understands that each state, and even 13 regions within each state can have dramatically different 14 health insurance markets, provider needs, regulatory 15 approaches. We believe it is important to work locally 16 and to adapt to be able to provide the services that are 17 called for on a local basis on a nationally-centralized 18 template. For example, Centene entered California with 19 its formation of California Health and Wellness Plan, 20 Centene's licensed entity that currently serves 21 approximately 184,000 members in the Medi-Cal program. 22 Centene is not otherwise providing any health care 23 services to California insurers.</p> <p>24 As this is our practice in all states, 25 California Health and Wellness Plan is locally managed,</p> <p style="text-align: right;">Page 42</p>	<p>1 leaders for California Health and Wellness.</p> <p>2 And I'm pleased to state that the CEO of the 3 California market, after the closing of the merger, will 4 be Mr. Steve Sell, who's here today. Mr. Sell has 5 18 years of experience with Health Net in California.</p> <p>6 Through this local approach, Centene has become 7 national leader in managed health care. Serving 4.8 mill 8 members with a large network of physicians and hospitals, 9 we also have a compliment of specialty health solutions. 10 One of our brand pillars is belief in whole health, and 11 the way to accomplish that is to provide a full range of 12 integrated services. Our written materials describe in 13 detail the range of services we provide for the Centene 14 group of companies, because we have a fundamental belief 15 that you can't serve part of a person. And we bring that 16 philosophy to each state and health plan in which we 17 operate.</p> <p>18 I would now like to provide a brief explanation 19 of why the merger is good for Health Net and California 20 consumers. And I'll highlight five points.</p> <p>21 First, the merger makes Health Net a stronger 22 competitor. Health Net is much smaller than the national 23 competitors it competes against in California. To 24 effectively compete in the post Affordable Care Act health 25 insurance market, Health Net needed to find a solution for</p> <p style="text-align: right;">Page 44</p>
<p>1 and in fact it's CEO, Greg Buchert, is here today. This 2 is consistent with our local approach. We have business 3 in 23 states, but we don't have Centene-branded insurers 4 or health plans. Whether it is Peach State in Georgia, 5 Sunrise in Florida or Superior in Texas, Centene's adopted 6 local approach is evident in how we operate. 85 percent 7 of our 17,000 employees are in the markets we serve. 8 These include the services that directly touch regulators, 9 providers, members and other key constituents. This 10 includes focus such as member services, provider 11 relations, clinical affairs and care management.</p> <p>12 This local approach, which will be followed in 13 California after the merger, if approved, is not something 14 we are doing solely for California regulators, consumers 15 and providers. It is simply the way we operate in all 16 states, because we think it is the model that best serves 17 all of our constituents.</p> <p>18 We understand that the California Department has 19 a good working relationship with Health Net management. 20 And it is our goal to have that continue after the merger, 21 because Health Net will continue to be domiciled and 22 headquartered in California, and managed by a local 23 management team. The local team would consist of 24 experienced vendor executives in California who are 25 currently senior leaders of Health Net, as well as certain</p> <p style="text-align: right;">Page 43</p>	<p>1 its scale issue. By combining Centene and Health Net, 2 Health Net will have more opportunities to ensure 3 continuity of care for members and managed health care and 4 administrative costs. Through combination, California 5 consumers will have the benefit of a stronger insurer, to 6 effectively compete with Anthem, United, Aetna, Kaiser, 7 Blue Shield, with or without any mergers evolving, these 8 competent insurers and plans might occur in the future.</p> <p>9 Centene is a growth company. We are committed 10 to seeing Health Net grow in California. And in 11 combination with Centene, we believe Health Net will be a 12 stronger competitor, better positioned to grow going 13 forward.</p> <p>14 Secondly, Centene follows a local approach, 15 which means that Health Net Life Insurance Company will 16 remain a California insurer. Health Net will remain 17 domiciled in California, headquartered in California, and 18 dedicated to meeting the needs of California members and 19 providers.</p> <p>20 Health Net, although it will be merged into a 21 subsidiary of Centene, will continue to be named Health 22 Net. Health Net Life Insurance Company will also not 23 change its name. A strong Chief Executive Officer 24 presence in California, Mr. Steve Sell, will lead a local 25 management team responsible for the health insurer's</p> <p style="text-align: right;">Page 45</p>



<p>1 performance and interaction as it touches a member 2 provider region or community advocate. It is handled by 3 and is the responsibility of the local management.</p> <p>4 Thirdly, this merger will help ensure that jobs 5 stay in California. Centene is committed to growing 6 Health Net's business in California. And with growth 7 comes the need for additional employees and additional 8 jobs. With Centene's philosophy of being local, with this 9 expectation of growth, more jobs will be based in 10 California, going forward. Further, with respect to a 11 direct impact of this merger on jobs in California, Health 12 Net, including Health Net Life Insurance Company, had a 13 competitive disadvantage compared to other plans in 14 California as a result of its lack of scale.</p> <p>15 To counterbalance that competitive disadvantage, 16 Health Net has, for its last several years, outsourced 17 certain service functions and positions. In 18 November 2014, Health Net signed an agreement with 19 Cognizant Healthcare Services to outsource, going forward, 20 the bulk of Health Net's back office operations, which 21 would have involved the re-badging and potential 22 subsequent off-shoring of a significant portion of Health 23 Net's more than 6,500 California employees.</p> <p>24 This out-sourcing agreement was put on hold as a 25 result of the proposed merger with Centene. If the merger</p> <p style="text-align: right;">Page 46</p>	<p>1 in California, with the merger of Centene and Health Net.</p> <p>2 Finally, Centene is committed to Health Net 3 Life Insurance Company's future growth in the commercial 4 market in California. Centene's committed to ensuring 5 that Health Net Life Insurance Company has the resources 6 that it needs to remain a financially strong insurer in 7 California and is able to continue to grow.</p> <p>8 All costs associated with the merger will be 9 recorded at the holding company level, and consequently 10 will not have any impact on Health Net Life Insurance 11 Company. None of Health Net Life Insurance Company's 12 company assets are being pledged to secure any debt 13 incurred for the merger or in any other manner being asked 14 to pay for the cost of the transaction.</p> <p>15 Centene is committed to maintaining a level of 16 capitalization to Health Net Life Insurance Company 17 necessary to support its existing business plan, which 18 aims for Health Net Life Insurance Company's continued 19 growth in the commercial market in California.</p> <p>20 In conclusion, and as described in more detail 21 in pre-filed testimony and other documents provided to the 22 Department, I believe the acquisition of Health Net Life 23 Insurance Company by Centene will enable Health Net Life 24 Insurance Company to more effectively service California 25 consumers by competing with the other large insurers or</p> <p style="text-align: right;">Page 48</p>
<p>1 is completed, it will result not only in the termination 2 of this proposed outsourcing agreement, but also may 3 result in the future in-sourcing of certain service 4 functions and positions which are currently being 5 outsourced by Health Net, as Centene's business model is 6 to in-source as much as possible.</p> <p>7 Just to be clear, there will be no reductions 8 due to the merger, for employees already in position who 9 serve members and providers in California.</p> <p>10 Fourthly, Centene has no competitive overlap 11 with Health Net Life Insurance Company. As Centene has a 12 small presence in California, limited to providing 13 Medi-Cal service, and does not participate in the 14 commercial market in California, the combination does not 15 reduce the number of competitors in the California 16 commercial insurance market. There is no adverse impact 17 from a merger on competition. In fact, this merger will 18 increase competition in California by making Health Net a 19 stronger competitor going forward, to access of compliance 20 companies' scale resources and California abilities.</p> <p>21 I would also like to refer you to the testimony 22 submitted by Dr. Lawrence Wu and Dr. Paul Wong, experts in 23 evaluating competitive impact of mergers, to cite the 24 absence of anti-competitor impact from merger, and 25 meaningful procompetitive effects would accrue to members</p> <p style="text-align: right;">Page 47</p>	<p>1 health plans. It will result in a stronger company, 2 dedicated to needs of the California consumers and better 3 positioned to grow going forward.</p> <p>4 With Centene's local philosophy and growth 5 mindset, and by strengthening Health Net Life Insurance 6 Company with the combination of Centene, the merger will 7 ensure competition in the health insurance marketplace 8 remains strong, and lead to increased jobs in California.</p> <p>9 Thank you for your time. And with your 10 permission, Commissioner, I will turn it over to my 11 colleague, Keith Williamson.</p> <p>12 COMMISSIONER JONES: Thank you, Mr. Baldwin.</p> <p>13 Before we do that, I just want to let everybody 14 know that I conferred with Counsel for the Department and 15 Counsel for Applicants, and they suggested, and I agree, 16 we'll go through all of the witnesses, and then we'll have 17 an opportunity for the other party to ask questions of any 18 of those witnesses, and a chance for us to ask questions. 19 But we want to hear everyone who's present, first.</p> <p>20 So yes. Please. Thank you.</p> <p>21 MR. WILLIAMSON: Good morning. I would like to 22 thank you, Commissioner, your staff and Judge Rosi, for 23 the opportunity to be here today. I also submitted 24 written testimony last Friday. I will not repeat my 25 written testimony, but I do adopt it as if it were</p> <p style="text-align: right;">Page 49</p>

<p>1 presented under oath here today.</p> <p>2 I will summarize the ways in which Centene's</p> <p>3 application to acquire Health Net Life Insurance Company</p> <p>4 satisfies the relevant criteria and California's holding</p> <p>5 company as described in more detail in my written</p> <p>6 testimony. I will also be available, with my colleagues,</p> <p>7 to address any questions you or your staff may have for</p> <p>8 us.</p> <p>9 Centene, as the Applicant to acquire Health Net</p> <p>10 Life Insurance Company, provided a complete Form A</p> <p>11 application to the Department, including numerous</p> <p>12 responses to supplemental data and document requests.</p> <p>13 Through this process, your staff, Centene and Health Net</p> <p>14 focused on the information necessary to demonstrate</p> <p>15 compliance with the criteria for Form A approval and</p> <p>16 Insurance Code Section 1215.2.</p> <p>17 The key issues described in my pre-filed</p> <p>18 testimony, and supported by both the Form A, as</p> <p>19 supplemented over the past several months, and the</p> <p>20 pre-filed testimony of my colleagues, can be summarized in</p> <p>21 the following manner -- and as you stated, Commissioner,</p> <p>22 earlier, Centene's application to be approved, unless you</p> <p>23 find that approval would result in one or more of five</p> <p>24 adverse consequences as set forth in Section 1215.2(d).</p> <p>25 The record developed in this proceeding, including today's</p> <p style="text-align: right;">Page 50</p>	<p>1 monopoly in California.</p> <p>2 Because Centene and Health Net Life Insurance</p> <p>3 are not competitors in California or elsewhere, there will</p> <p>4 be no lessening of competition or any monopoly as a result</p> <p>5 of the merger, as has been detailed in pre-filed</p> <p>6 testimony. And as part of the Form A process, Centene and</p> <p>7 Health Net Life Insurance Company operate almost</p> <p>8 exclusively in different counties, and with different</p> <p>9 products.</p> <p>10 Rather than lessen competition, this transaction</p> <p>11 would have the opposite effect and enable Health Net Life</p> <p>12 Insurance Company to more effectively compete with the</p> <p>13 existing large competitors, without taking any current</p> <p>14 competitor out of the market.</p> <p>15 This will be described in more detail by Dr.</p> <p>16 Lawrence Wu.</p> <p>17 Third, you can disapprove our application if you</p> <p>18 find that Centene's financial condition might jeopardize</p> <p>19 the financial stability of Health Net Life Insurance</p> <p>20 Company, or prejudice the interests of its policy holders.</p> <p>21 Again, the record is now replete with evidence</p> <p>22 quite to the contrary, demonstrating that the financial</p> <p>23 strength of Centene enhances Health Net Life Insurance</p> <p>24 Company's financial stability in California's competitive</p> <p>25 marketplace, thereby protecting and enhancing the</p> <p style="text-align: right;">Page 52</p>
<p>1 hearing, demonstrates that the merger would not result in</p> <p>2 any such adverse consequences, and therefore should be</p> <p>3 approved by you, Commissioner.</p> <p>4 First, you can disapprove Centene's application</p> <p>5 if you find that after the merger, Health Net Life</p> <p>6 Insurance Company could not satisfy the requirements or</p> <p>7 the issuance of the license to write the line or lines of</p> <p>8 insurance for which it is presently licensed. We have</p> <p>9 included in record data and documents, confirming that</p> <p>10 Health Net Life Insurance Company, after the merger of its</p> <p>11 current holding company into the Centene holding company</p> <p>12 structure, would in fact continue to satisfy all relevant</p> <p>13 licensing requirements in California for the same lines of</p> <p>14 business as it currently writes.</p> <p>15 The documents and data supporting this</p> <p>16 conclusion address all of the relevant statutory issues,</p> <p>17 including capital and surplus, lawfulness and quality of</p> <p>18 investments, overall financial stability, reinsurance</p> <p>19 arrangements, competency, character and integrity of</p> <p>20 management and other factors relating to issuing of a</p> <p>21 California Certificate of Authority to Health Net --</p> <p>22 Health Net Life Insurance Company.</p> <p>23 Second, you can disapprove the application if</p> <p>24 you find that the merger would substantially lessen</p> <p>25 competition in insurance in California or create a</p> <p style="text-align: right;">Page 51</p>	<p>1 interests of its policyholders.</p> <p>2 For example, Centene intends to maintain Health</p> <p>3 Net Life Insurance Company's current high RBC or Risk</p> <p>4 Based Capital Ratio. In addition, the pro forma financial</p> <p>5 projections provided confidentially to the Department</p> <p>6 reflect significant growth that Health Net Life Insurance</p> <p>7 Company would be unlikely to achieve on a standalone</p> <p>8 basis.</p> <p>9 Moreover, Health Net Life Insurance Company</p> <p>10 policyholders can expect the same or better level of</p> <p>11 responsiveness and customer service as they currently</p> <p>12 receive, because Centene does not intend to make changes</p> <p>13 to these operations, but will leave them in the hands of</p> <p>14 essentially the same management team that is currently in</p> <p>15 place for Health Net.</p> <p>16 Fourth, you can disapprove our application if</p> <p>17 you find that Centene plans to liquidate Health Net Life</p> <p>18 Insurance Company, sell its assets, merger with another</p> <p>19 entity or make any other major changes in the business</p> <p>20 corporation structure or management, and any such changes</p> <p>21 are not fair and reasonable to policyholders.</p> <p>22 In the same manner in which Centene operates in</p> <p>23 all of its other states, more than 20, Centene has no</p> <p>24 plans to make any material changes to Health Net Life</p> <p>25 Insurance Company, its organizational structure, its</p> <p style="text-align: right;">Page 53</p>

<p>1 governors, its management, its local headquarters or any 2 other function per se that would adversely impact 3 California consumers or providers.</p> <p>4 Centene is happy with the current operations and 5 management of Health Net Life Insurance Company, and 6 intends to cause current management to continue to pursue 7 the business plan that it already developed, but is soon 8 to be backed by the financial and other resources of 9 Centene.</p> <p>10 For example, Health Net Life Insurance Company 11 currently out-sources various administrative and claims 12 functions because it does not have the scale to provide 13 those services internally. Centene plans to in-source 14 those functions over time, to the benefit of consumers, 15 providers. In short, Centene will not be making any 16 changes that are not fair and reasonable to policyholders.</p> <p>17 Five, and finally, you can disapprove the 18 application if you find that the competency, experience 19 and integrity of Centene and its management team would not 20 be in the interest of policyholders or the public. As 21 demonstrated by our controlled growth over the past 22 30 years into more than 20 states, Centene's business 23 model, commitment to local management, financial strength 24 and fair dealings with regulators, consumers and providers 25 are in fact in the best interest of policyholders and the</p> <p style="text-align: right;">Page 54</p>	<p>1 presented under oath here today. I will not repeat that 2 testimony, but instead would like to provide some 3 additional details as to why the transaction that is 4 before you today is good for Health Net Life and for the 5 California constituents it serves.</p> <p>6 In addition, I would like to address some of the 7 issues raised by the public in the comment letters that 8 were submitted to the DOI last Friday. I will be brief 9 here.</p> <p>10 But in wishing to address with my colleagues any 11 questions that you, your staff, physician groups, consumer 12 groups or the public might have for us today, first a 13 little background on Health Net. Health Net is a 14 California based health plan whose focus has been and will 15 continue to be on serving low to moderate-income 16 Californians, either directly or through 17 government-sponsored programs. Affordability, quality and 18 access to care are critical to these constituents.</p> <p>19 Health Net took a leadership role in 20 implementation of the Affordable Care Act in California, 21 and consequently serves a disproportionate share of 22 previously-uninsured populations which have both high 23 levels of homelessness and unmet needs. As a result, the 24 insured population for Health Net has grown and changed in 25 profile. Expanding our service to this population has</p> <p style="text-align: right;">Page 56</p>
<p>1 public.</p> <p>2 Thank you again, Commissioner, and your staff, 3 for attention to and their diligence in reviewing the Form 4 A. Based on the record developed in this matter, 5 including at this hearing, it is Centene's position that 6 the proposed acquisition of Health Net Life Insurance 7 Company satisfies all of the applicable legal standards 8 for approval under the California Holding Company, and 9 that the Commissioner has a robust record for issuance of 10 an approval order.</p> <p>11 With your approval, Commissioner, I will now 12 turn it over to Steve Sell.</p> <p>13 COMMISSIONER JONES: Thank you, Mr. Williamson. 14 Mr. Sell.</p> <p>15 MR. SELL: Thank you. Good morning.</p> <p>16 My name is Steve Sell, and I'm the President of 17 Health Net Life Insurance Company. I want to add my 18 thanks to you, Commissioner Jones, your staff, 19 Administrative Law Judge Rosi, for the work that's been 20 done and will be done in the coming days. I would also 21 like to thank all the members of the public who came here 22 today, and those who submitted testimony.</p> <p>23 Like Rone Baldwin and Keith Williamson, I 24 submitted written testimony in this proceeding last 25 Friday, and wish to adopt that testimony as if it were</p> <p style="text-align: right;">Page 55</p>	<p>1 been successful, but it has also come with some 2 challenges.</p> <p>3 We have received recognition for several 4 quality metrics, including being a four star Medicare 5 provider, providing multiple rural health care districts, 6 from NCQA, from California, all the populations we serve, 7 and we want to strive to do better in those efforts.</p> <p>8 However, access to new capabilities and 9 additional resources come with scale. Health Net chose to 10 address the scale issues through an outsourcing-agreement 11 that would have re-badged a significant portion of Health 12 Net's California employees.</p> <p>13 The Centene merger, however, allows Health Net 14 to avoid the outsourcing arrangement, address the need to 15 achieve economies of scale, and offer additional 16 capabilities to assure that we can continue with our 17 primary mission to serve low to moderate-income consumers.</p> <p>18 In addition, and importantly, the merger will 19 allow Health Net to maintain and improve our ability to 20 compete for and serve those consumers in the state of 21 California for long term. I want to note my full support 22 of and agreement with the description of benefits of this 23 merger as just described by Rone Baldwin. It combines 24 companies with shared philosophies and a focus on local 25 management and jobs. The transaction strengthens Health</p> <p style="text-align: right;">Page 57</p>

<p>1 Net, and therefore strengthens its ability to compete in 2 and serve the California market.</p> <p>3 Briefly, with respect to some of the benefits, 4 first, Health Net believes that this merger will make 5 Health Net, as a whole, and Health Net Life, a stronger 6 competitor, with increased scale and enabling 7 capabilities, allowing it to better compete with the 8 national carriers doing business here in California. 9 These capabilities include Centene's specialty companies 10 and a commitment to advanced I.T. infrastructure.</p> <p>11 Second, Centene is the right merger to provide 12 this strength, in large part due to the shared 13 philosophies between the visions, which is a commitment to 14 local management, local markets and value-based insurance 15 products for low to moderate consumers and 16 government-sponsored purchasers. Centene's local 17 approach, which will be followed in California, will have 18 the key leadership and managerial positions remaining in 19 California, so that we can continue to be responsive and 20 sensitive to California's specific issues.</p> <p>21 Finally, as you will hear today, the merger does 22 not result in market concentrations. Centene and Health 23 Net's businesses simply do not overlap. They compliment 24 each other, allowing the companies to work together to 25 maintain and grow their respective operations. Health Net</p> <p style="text-align: right;">Page 58</p>	<p>1 I do adopt it as if it were presented under oath here 2 today.</p> <p>3 Paul and I were requested by Centene to assess 4 the competitive impact of the proposed merger between 5 Centene and Health Net. Specifically, we were asked to 6 assess and prepare testimony on the following questions 7 and issues: First, what is the appropriate economic 8 framework to assess the competitive effects of the 9 proposed transaction on health insurance markets in 10 California? Second, what is the rationale for the 11 proposed transaction and the potential benefits of the 12 transaction for consumers? Third, what is the competitive 13 overlap, if any, between Health Net and Centene in 14 California? Fourth, what is the competitive impact in 15 California of the proposed transaction? And fifth, does 16 the proposed transaction substantially lessen competition 17 in health insurance in California or create monopoly 18 therein?</p> <p>19 Based on our analysis, our opinion is that the 20 proposed transaction will not lessen competition in 21 California in any health insurance market. Instead, as we 22 describe more fully in our pre-filed written testimony, 23 our opinion is that the transaction is likely to have a 24 procompetitive effect and enhance competition in health 25 insurance in California. That is because there is a</p> <p style="text-align: right;">Page 60</p>
<p>1 Life has worked hard to compete and provide quality 2 services and products in California's commercial market. 3 Centene will continue with that market investment and 4 commitment. We are all committed to continuing our strong 5 market position and growing in the commercial market. 6 Health Net's merger with Centene will create a stronger 7 California domestic insurer in Health Net Life, serving 8 the needs of California consumers.</p> <p>9 Thank you for your time. As mentioned, I look 10 forward to answering any questions you or the public may 11 have to help you understand the benefits of this merger. 12 For now, however, I turn it over to Dr. Lawrence Wu.</p> <p>13 Dr. Wu.</p> <p>14 COMMISSIONER JONES: Thank you, Mr. Sell.</p> <p>15 DR. WU: My name's Lawrence Wu. I am an 16 economist and President of Nera Economic Consulting, a 17 global firm of expert economists. I submitted written 18 testimony with my colleague, Paul Wong. Paul also is a 19 health care economist and co-consultant at Nera Economic 20 Consulting.</p> <p>21 Commissioner Jones, thank you for the 22 opportunity to give us the opportunity to address the 23 issues here today. So as you know, Dr. Wong and I 24 submitted written testimony in this proceeding last 25 Friday. I won't repeat that written testimony today, but</p> <p style="text-align: right;">Page 59</p>	<p>1 strong procompetitive rationale for the transaction, and 2 it's because the combined companies are likely to be more 3 efficient and more effective competitors in California, 4 especially against the other large insurance companies 5 that operate in California.</p> <p>6 As a combined company, Centene and Health Net 7 will be in a better position to serve Medi-Cal patients in 8 counties throughout California. And the transaction will 9 strengthen Health Net's existing presence in the 10 California commercial health care markets.</p> <p>11 At the same time, combining Health Net and 12 Centene presents no antitrust risk, and the transaction 13 will not lessen competition in California or create a 14 monopoly therein. And I say that because when analyzing 15 the competitive effect of a merger or acquisitions, the 16 first question to ask is whether the two parties compete, 17 and have they competed against each other in the past? If 18 not, under fundamental economic theory, the transaction 19 cannot result in a lessening of competition or lead to an 20 increase in market concentration or market power.</p> <p>21 So in this case, Centene and Health Net do not 22 compete and did not in the past compete for the same 23 customers. They have not competed for same the contracts 24 in any market area of insurance health business. In 25 California, there is no competitive overlap between the</p> <p style="text-align: right;">Page 61</p>

<p>1 companies. And because there is no competitive overlap,  2 the proposed acquisitions cannot create any competitive  3 effects. The transaction cannot create a market power,  4 and the transaction cannot substantially lessen  5 competition in any health care market in California.  6 So that's the case in commercial insurance,  7 including individual small group and large group coverage.  8 Centene has no operations in California. And the  9 transaction will have no affect from a competitive  10 standpoint on any commercial health care market in  11 California.  12 The same is true with Medicare and Medi-Cal,  13 which is the only category of health insurance products  14 that both companies offer in California. Centene and  15 Health net operate in geographically distinct counties,  16 and they never bid against one another. So as a result,  17 the transaction will not lessen competition in Medi-Cal.  18 We have had the opportunity to review the  19 written report submitted by the Department's experts, by  20 Doctors Scheffler and Fulton. And their analysis too  21 indicates to us that there is no antitrust concern related  22 to merger. They conclude that Centene Corporation and  23 Health Net are in distinct lines of business. They  24 conclude therefore that market concentration would not  25 increase with respect to purchasers in particular lines of</p> <p style="text-align: right;">Page 62</p>	<p>1 health plans to expand their business or enter new  2 geographies or new plans to enter if Health Net  3 hypothetically were to exit.  4 And furthermore, Health Net's competitors in  5 price are generally the smaller competitors, and Health  6 Net's exit would only present the opportunity for these  7 smaller carriers to grow. So that's a sense in which it's  8 possible that we could have, you know, potentially more  9 competitors or less concentration, even in the scenario  10 where -- as unlikely as it may be -- that Health Net exits  11 its markets in California.  12 So without any competitive effects, the  13 procompetitive benefits of merger will enhance competition  14 in California. For Centene, the transaction means better  15 scale and scope. It means the ability to participate more  16 broadly in California's Medi-Cal managed care program and  17 the ability to enter both commercial health insurance and  18 Medicare in California with sufficient scale and  19 expertise.  20 The merger will also allow Centene to share  21 Health Net's expertise in administering commercial health  22 insurance products in California, and capitated managed  23 care plans of all of these will increase competition in  24 California and elsewhere.  25 For Health Net, the transaction means that this</p> <p style="text-align: right;">Page 64</p>
<p>1 business, such as Covered California, the individual  2 market and the employer-sponsored market. We agree with  3 both of those points.  4 But the Department's experts make two other  5 claims which deserve some comment. The first is that they  6 claim that merger has perhaps modest potential to  7 adversely affect provider negotiations. We disagree. And  8 it's our opinion that the merger will not harm providers.  9 If you look at the Department's experts' own calculations,  10 the changes in measure of concentration, as they  11 calculated it, are small and are not the cause for  12 concern.  13 Second, they consider the possible effects under  14 a hypothetical scenario, what would happen if Health Net  15 were to exit Covered California. That's a second issue  16 that they consider. We reached different conclusions, but  17 exit is very unlikely and unrealistic. It just is not  18 rational for firm to exit a profitable business, which is  19 the case here.  20 We also disagree with their analysis because the  21 calculations that they did omit some very important  22 considerations that would preserve competition, or even  23 possibly decrease market concentration. Markets are  24 dynamic, and health insurance markets are dynamic as well.  25 And they have not considered the opportunity for other</p> <p style="text-align: right;">Page 63</p>	<p>1 is an opportunity to achieve better scale. It's an  2 opportunity to improve its infrastructure and avoid  3 continuing a significant outsourcing initiative. Health  4 Net also will gain additional expertise and programs that  5 compliment its own. And with Centene, it has a willing  6 partner that enables it to continue vigorous competition  7 across all lines of business.  8 To conclude, our opinion is that the proposed  9 transaction is likely to benefit consumers in California  10 by combining the complimentary, but distinct geographic  11 footprint of Centene and Health Net operations. It brings  12 together the strengths of the two companies. It creates  13 the opportunity to realize economies of scale. And  14 enhancing the combined companies' ability to compete more  15 effectively and enter additional California health care  16 markets in the future.  17 The transaction will not create an adverse  18 effect to competition in any health insurance market in  19 California. And it is on that basis that I urge you to  20 approve the transaction.  21 Thank you for the opportunity to be here.  22 COMMISSIONER JONES: Thank you, Doctor.  23 MR. WU: Thank you, Commissioner.  24 MR. BALDWIN: I thank you, Commissioner. That  25 concludes our opening remarks.</p> <p style="text-align: right;">Page 65</p>

<p>1 COMMISSIONER JONES: Thank you very much.  2 So let's now turn to the Department of Insurance  3 and see if they have any questions of any of the  4 witnesses.  5 MR. FINSTON: Mr. Commissioner, we've been going  6 now for a little over -- almost an hour and a half, and I  7 would just ask the court reporter if she needs a break.  8 THE COURT REPORTER: I'm okay. Thank you.  9 MR. FINSTON: In that case, I do have some  10 questions. And my questions are basically organized in --  11 with respect to individual, pre-filed testimony. And I  12 understand that some of these questions -- I'll direct the  13 testimony. But understand that they may be answered by  14 any one of the witnesses.  15 Mr. Williamson, on page four of testimony, you  16 mention that Centene is committed to maintaining a level  17 of capitalization at the Health Net Life, for Health Net  18 Life, and to support its existing business plans in  19 addition in other states in which Centene has insurance  20 operations through insurance subsidiaries. Do you have a  21 target level of capital for those other entities?  22 MR. SCHWANEKE: Yeah. This is -- this is Jeff  23 Schwaneke, Chief Accounting Officer.  24 We really don't have a target level. We usually  25 have an aggregate level. But it's different by entity.</p> <p style="text-align: right;">Page 66</p>	<p>1 Quality and customer satisfaction are very  2 important. We need to deliver to consumers. We do  3 operate in a number of states with respect to commercial  4 plans on the exchanges, and we feel that our quality  5 scores are solid.  6 MR. FINSTON: Do you know what specifically --  7 how you rank in comparison to your competitors?  8 MR. BALDWIN: I think with the exchanges in many  9 states, there's not rankings that have been released. But  10 many, all of our -- I believe all or most of our exchange  11 product health plans are now accredited by the NCQA. And  12 I think there's some testimony to the quality that they're  13 delivering.  14 MR. FINSTON: And going forward, what actions  15 are you anticipating engaging in to ensure that you  16 maintain a high level of consumer satisfaction?  17 MR. BALDWIN: Well, I think this is one of the  18 strengths of this merger. By combining capabilities of  19 two companies, we'll have more scale to be able to  20 continue to evolve our services and products to better  21 meet the needs of our members and maintain high levels of  22 quality and satisfaction going forward. So we'll continue  23 to make sure that we are responsive to the issues that  24 arise, that we hear from members, and apply the resources  25 from our I.T. sources, as well as other parts of our</p> <p style="text-align: right;">Page 68</p>
<p>1 MR. FINSTON: Okay. And do you, in connection  2 with Health Net Life, do you have, as part of your pro  3 forma and projections in this proceeding, do you have a  4 target level of capital?  5 MR. SCHWANEKE: Yeah. I think what  6 Mr. Williamson said in his testimony, we would like to --  7 how they've been capitalized historically, and we would  8 like to maintain that.  9 MR. FINSTON: And with respect to the pro forma  10 financials, they assume a certain level of capital. Would  11 you be prepared to make commitments with respect to  12 maintaining that level of capital?  13 MR. SCHWANEKE: Yeah. We understand it's an  14 important issue for the Department, and we would be  15 willing to discuss what form that may take.  16 MR. FINSTON: Uh-huh. Also on page four,  17 paragraph 21, you mention that the claims functions of  18 Health Net are prudent and sensible. Yet a number of the  19 competitors have mentioned that Health Net and Centene  20 have low consumer satisfaction scores and high rates of  21 consumer grievances.  22 First I want to focus on Centene. What are  23 Centene's customer satisfaction scores in its  24 non-governmental operations in other states?  25 MR. BALDWIN: We do -- thank you.</p> <p style="text-align: right;">Page 67</p>	<p>1 organization, to make sure that we maintain high levels of  2 quality.  3 MR. FINSTON: Are there any specific commitments  4 that you can make to people in California to maintain that  5 high level of consumer satisfaction you're referencing?  6 MR. BALDWIN: We're certainly committed to  7 making sure that we get recognition through NCQA for our  8 health plans. And that's something that we do follow  9 consistently. And we'll continue to make sure that we're  10 sensitive to the concerns expressed by members, and  11 improve services and response to that.  12 MR. FINSTON: Also, Mr. Williamson, on page five  13 of your testimony, you mention that the merger will not  14 have a negative impact in competition in California.  15 Health Net is a major provider of health care in a number  16 of the regions in California, is it not?  17 MR. WILLIAMSON: I'm sorry. Could you repeat  18 the question?  19 MR. FINSTON: Health Net is a major provider,  20 one of the top four competitors, providers of health care  21 services in a number of regions in California, is it not?  22 MR. WILLIAMSON: That's our understanding. Yes.  23 MR. FINSTON: So your statement that it would  24 have no impact assumes that Health Net will continue to be  25 a participant in those regions. Correct?</p> <p style="text-align: right;">Page 69</p>

<p>1 MR. WILLIAMSON: Well, I think, as you've heard  2 from my testimony and from our CEO statement, we're very  3 much committed to Health Net continuing to maintain its  4 presence in the commercial market in California. Centene  5 is a growth company. We're committed to seeing Health Net  6 continue to grow. And that's what we will be expecting of  7 this merger, going forward.</p> <p>8 MR. FINSTON: So a number of the comments  9 submitted by consumer groups and other participants here  10 have asked for specific commitments by Centene and Health  11 Net to ensure that you do continue to either maintain that  12 business or grow that business. Are you willing to make  13 specific commitments with respect to those plans?</p> <p>14 MR. WILLIAMSON: Well, as indicated here today,  15 we are committed. We're a growth company. We're  16 committed to growth for Health Net and all its lines of  17 business. That certainly includes the commercial market.  18 And we would be pleased to discuss the appropriate form of  19 continuing to affirm that.</p> <p>20 MR. FINSTON: Okay. Thank you.</p> <p>21 In your pre-filed testimony, and also in your  22 summary of your testimony today, you emphasize the  23 opportunities for in-sourcing additional jobs into  24 California.</p> <p>25 With respect to the business plans, going</p> <p style="text-align: right;">Page 70</p>	<p>1 level?</p> <p>2 MR. WILLIAMSON: Well, certainly in any merger  3 of two large companies, we'll be looking at how to  4 integrate those kinds of corporate administrative  5 divisions effectively. But there's going to be no impact  6 on positions that touch and service members and providers  7 in California.</p> <p>8 MR. FINSTON: So you qualify each of your  9 answers by reduction in positions affecting California  10 consumers. My question -- my questions are not so  11 limited. I'm just trying to get a feel for what positions  12 generally could be reduced in California or done on a  13 consolidated basis at the Centene level?</p> <p>14 MR. WILLIAMSON: Well, when you look at two  15 large corporations, there's and understanding, merging  16 them, there are overlapping positions at the corporate  17 level. You don't need two corporate Chief Financial  18 Officers. You don't need two corporate investor relations  19 directors. And in the process of how to combine the two  20 at those levels, it's still something that's ongoing.</p> <p>21 But I think the important point is that for  22 services that touch member providers and the associates  23 that are providing those services, there's going to be no  24 impact as a result of this merger.</p> <p>25 MR. FINSTON: You publicly mentioned that there</p> <p style="text-align: right;">Page 72</p>
<p>1 forward, are there any plans to outsource any of Health  2 Net's live operations that -- with respect to those future  3 operations?</p> <p>4 MR. WILLIAMSON: As we indicated, we're -- we  5 are looking to -- the additional outsourcing agreement  6 that had been entered by Health Net is on hold. And that  7 we would not be going forward with that after the merger.  8 We will look at all of the outsource vendor relationships,  9 and we will evaluate, and if we make a change, it will be  10 to in-source those. And those -- our intent is consistent  11 with our operating model, which is if anything touches  12 member providers in a particular state, it should be done  13 in that state -- should be done by the health plan itself.</p> <p>14 MR. FINSTON: Are there any operations that will  15 be done on a combined basis by Centene that would result  16 in a reduction of the work being done in California?</p> <p>17 MR. WILLIAMSON: There's nothing specific that's  18 going to be done by Centene that's going to pull --  19 outsource services out of California. Again, in  20 particular pertaining to member providers that are our  21 operating model and consistent with that, to have all  22 those services done local.</p> <p>23 MR. FINSTON: So you have no intention to  24 consolidate investments or legal or any of the other  25 operations that are typically done at a holding company</p> <p style="text-align: right;">Page 71</p>	<p>1 would be approximately 150 million dollars in savings  2 associated with the merger. Could you please describe the  3 areas where you achieve that level of savings?</p> <p>4 MR. SCHWANEKE: Yeah. There was general and  5 administrative. There's -- you know, I.T. There's  6 procurement. You know, obviously purchasing services are  7 in there as well. So there are four broad categories that  8 we publicly disclosed. And then medical expenses, which  9 is fraud waste and abuse. So no potential improvements in  10 fraud waste and abuse.</p> <p>11 MR. FINSTON: And those four general areas --  12 how do you -- what specific actions are you going to take  13 to achieve that level of savings?</p> <p>14 MR. SCHWANEKE: Well, there's all kinds of  15 actions. I mean, these are just plans at this point, and  16 those are just estimates. So to Rone's point, I mean,  17 when you combine two large corporations like this, there  18 are things like directors and officers and insurance and  19 things like that which are known and very easy to  20 identify. And then there are other, more complex issues  21 which would be in -- I would say associated with medical  22 expense and with fraud waste and abuse and integrating our  23 specialty companies. Those are more complicated and have  24 a longer timeframe.</p> <p>25 MR. FINSTON: So you mention integrating your</p> <p style="text-align: right;">Page 73</p>

<p>1 specialty companies. Do you anticipate that the services 2 provided by specialty companies will be, in the future, 3 provided by the Centene operations?</p> <p>4 MR. SCHWANEKE: Yeah. I think --</p> <p>5 MR. BALDWIN: Yes. Going forward, we will look 6 to integrate the capabilities of our specialty companies 7 to improve quality, improve management of health cost in 8 California. It's a model that's worked well for us in all 9 the other states. And we'll do that thoughtfully.</p> <p>10 But I -- one of the benefits of the Centene 11 model is by integrating specialty company services 12 together with what occurs at the core of the health plan, 13 we can do a better job of having a view of all of the 14 member's health needs and health issues, and be able to 15 deliver more responsive care management to those members.</p> <p>16 MR. FINSTON: So by combining the operations, 17 could that result in some reduction in the employees that 18 provide those sort of services currently by Health Net?</p> <p>19 MR. BALDWIN: There again is going to be no 20 impact on employees in California that are directly 21 servicing members' providers.</p> <p>22 MR. FINSTON: So Mr. Williamson, you also touch 23 upon, in your testimony, a situation that occurred in 24 Kentucky. With respect to Kentucky Spirit Health Plan, 25 some of the commenters have contended that the actions</p> <p style="text-align: right;">Page 74</p>	<p>1 ago, and we maintained a Medicaid business in Wisconsin 2 throughout all those 30 years.</p> <p>3 MR. FINSTON: Well, I'm somewhat concerned about 4 the situation in Kentucky. Throughout your testimony you 5 explained why this transaction would be beneficial to 6 people in California. But one of the basic assumptions in 7 your testimony is that you're willing to continue and 8 make -- continue to provide service once you acquire 9 Health Net, and make certain commitments to California.</p> <p>10 Yet when I look at the Kentucky Spirit 11 situation -- and correct me if I'm wrong -- but from the 12 Court proceeding, it appears that Centene, through 13 Kentucky Spirit, had entered into a three-year commitment 14 to provide certain services in Kentucky, and yet attempted 15 to withdraw prior to the end of that time period. Is that 16 correct?</p> <p>17 MR. BALDWIN: No. We had a right under the 18 contract to provide -- to be able to withdraw upon notice. 19 We exercised our contractual right. And we, again, did it 20 in a manner that protected the best interest. Through it, 21 although we were withdrawing our participation of members 22 and providers, we gave notice to the State that it was 23 exiting, and allowed for a transition of all the members 24 in Kentucky to other health plans. No member had any 25 impact in terms of their access to care, to coverage. We</p> <p style="text-align: right;">Page 76</p>
<p>1 taken by Kentucky Spirit, and legal positions it took, 2 call into question integrity of Centene management, and 3 its willingness to act responsibly with respect to 4 providing health care it has contractually committed to 5 provide. How would you respond to those comments?</p> <p>6 MR. BALDWIN: Well, just to speak about 7 Kentucky. Kentucky -- the state of Kentucky introduced, 8 for the first time, managed care. With respect to its 9 Medicaid plan, Centene was a participant in that program. 10 Soon after the start of the program, it became evident 11 that it was not sustainable, that we were not being paid 12 rates that were actuarially sound, and we were diligently, 13 with the State, in good faith, trying to find a solution 14 to this issue, and we were unable to and had to withdraw 15 our participation.</p> <p>16 But the management of Centene acted with full 17 integrity to protect the interests of members and 18 providers as part of that process.</p> <p>19 I should say that Centene has a strong track 20 record of effective partnerships, and longevity with 21 respect to those partnerships with our state partners. 22 We're in 23 states today. And many those relationships go 23 back over a decade.</p> <p>24 In fact, we've been continuously -- we 25 originally started as a health plan in Wisconsin 30 years</p> <p style="text-align: right;">Page 75</p>	<p>1 continue to maintain a presence in Kentucky after our 2 withdrawal to pay and adjudicate all outstanding 3 providers' claims and obligations.</p> <p>4 MR. FINSTON: And with respect to that 5 interpretation of the contract, did the Court of Appeals, 6 did the Courts in Kentucky agree with that interpretation?</p> <p>7 MR. BALDWIN: There is outstanding litigation, 8 and it's not a settled matter. And we're continuing to 9 contest the issues with the State of Kentucky on this. 10 But I would, again, go back that Centene has a track 11 record of effective partnerships in states. Kentucky is 12 an anomaly. We're in 23 states today. We have Medicaid 13 programs operating in those states, for over a decade in 14 many of them.</p> <p>15 MR. FINSTON: Notwithstanding that fact that 16 you have appealed the decision, isn't it true that both 17 the Trial Court and Appellate Court have concluded that 18 you did breach that contract?</p> <p>19 MR. BALDWIN: There have been court decisions in 20 line with that. Again, we disagree. We believe we 21 exercised our right under the contract. And we're 22 appealing those decisions, and it's not a settled matter.</p> <p>23 MR. FINSTON: And why did you feel that you 24 needed to terminate that contract?</p> <p>25 MR. BALDWIN: Again, it was not a -- the program</p> <p style="text-align: right;">Page 77</p>



<p>1 was not sound with respect to the actuarial rights that 2 were being paid to us. And we tried to work in good faith 3 with the State to be able to resolve this situation. And 4 we were unsuccessful. So we had to withdraw our 5 participation.</p> <p>6 Again, Kentucky is a one-time situation. If you 7 look at the track record of Centene, we have a strong 8 record of having long relationships with the states and 9 the Medicaid partners that we do business with.</p> <p>10 MR. FINSTON: Isn't it fair to say that the 11 reason you withdrew or provided notice, as you 12 characterize it, under the contract, to terminate the 13 contract, was because the business that you were writing 14 in Kentucky was unprofitable?</p> <p>15 MR. BALDWIN: It was not a sustainable program, 16 and we were not being paid actuarially sound rates. And 17 certainly that was respected. And as we disclosed, there 18 were a hundred million dollars of loss in 12 months with 19 respect to Kentucky.</p> <p>20 MR. FINSTON: Okay.</p> <p>21 MR. BALDWIN: We tried to work, again, within 22 good faith, with the State, how to get the program on a 23 sustainable basis. And we were unsuccessful and withdrew 24 our participation, and again, acted to protect the 25 interest of members and providers through that process.</p> <p style="text-align: right;">Page 78</p>	<p>1 withdraw in Kentucky, what assurances can you give us that 2 if the business written by Health Net, or other business 3 written here in California, is not sufficiently 4 profitable, that you won't withdraw from California 5 markets as well?</p> <p>6 MR. BALDWIN: California is not Kentucky. We've 7 operated successfully in California through California 8 Health and Wellness. And it's been positive for members, 9 positive for the providers of communities that we operate 10 in. That's given us confidence with respect to California 11 being able to impart, undertake this acquisition. And 12 again, if you look at the track record of Centene, we've 13 operated long programs in Medicaid, going back 30 years -- 14 going back more than ten years in a large number of 15 states. We have strong relationships. And that's been 16 reflected in the fact that we continue to grow in the 17 number of states, and representation for that, in terms of 18 the numbers of states that we operate in.</p> <p>19 MR. FINSTON: Mr. Baldwin, in page four of your 20 testimony, you describe Centene's business in the 23 21 states where it does business. Is it fair to say that the 22 core business of Centene is its government-plan-type 23 business?</p> <p>24 MR. BALDWIN: Yes. The majority of Centene's 25 business is government-sponsored health programs and</p> <p style="text-align: right;">Page 80</p>
<p>1 MR. FINSTON: I'm trying to understand some of 2 the terminology you're using. When you say "not 3 sustainable," what you mean by not sustainable was that 4 you were incurring significant losses with respect to 5 business. Correct?</p> <p>6 MR. BALDWIN: I think it's not unusual for a new 7 Medicaid program to incur losses in the early years. And 8 these are the issues that have to be worked through with 9 the State to be able to get the program on a sustainable 10 basis that can deliver the benefits of managed care to 11 members and providers. We are -- we're in 23 states, and 12 we've earned multiple programs with respect to Medicaid in 13 many of those states. So new programs, in the cases of 14 probably over a hundred different Medicaid programs and 15 contracts over the years, we have a track record of being 16 successful. And we've encountered, many years, issues of 17 income of the states, and have successfully been able to 18 work with the states, able to find solutions to these.</p> <p>19 And in Kentucky, this was not the situation. 20 And we had to -- it was not going to be a sustainable 21 program. We had to withdraw our participation. But 22 again, we acted in a responsible manner. And we're proud 23 of our track record with relationships and longevity of 24 relationships that we have in so many states today.</p> <p>25 MR. FINSTON: But given the fact that you did</p> <p style="text-align: right;">Page 79</p>	<p>1 Medicaid.</p> <p>2 MR. FINSTON: And in fact the number in that 3 segment, according to your testimony, is approximately 4.8 4 million. And in Centene's operations in the 12 states 5 where it currently does commercial business, you have 6 approximately, I think you mentioned approximately 156,000 7 members.</p> <p>8 MR. BALDWIN: We do operate -- since the 9 introduction of the exchanges on the Affordable Care Act, 10 we've been an active participant in the insurance 11 exchanges. We were in 12 states in 2015. That's been a 12 very successful, rapidly growing business for us. We're 13 continuing to expand and grow that business going forward.</p> <p>14 MR. FINSTON: So after a merger, many companies 15 seek to achieve, say, it's inefficiency, by focusing on 16 your core business. What assurances are provided to us 17 that Centene will not consolidate its operations or 18 consolidate operation to focus on the corporation?</p> <p>19 MR. BALDWIN: Centene's a growth company. And 20 we're committed to growth in California. For Health Net, 21 you've heard already from our CEO, as well as myself, the 22 commitment that we have to the commercial market in 23 California, and commitment to providing resources and 24 capabilities in California, for a California leadership 25 team to be able to execute its growth strategy in that</p> <p style="text-align: right;">Page 81</p>

<p>1 business.</p> <p>2 MR. FINSTON: On page seven and eight of your</p> <p>3 testimony, you discuss the financing required to fund this</p> <p>4 acquisition. What level of debt does Centene have prior</p> <p>5 to the transaction, and what debt level will it carry</p> <p>6 afterwards?</p> <p>7 MR. SCHWANEKE: Yeah. There's -- I'll --</p> <p>8 instead of giving exact dollars, I'll give a</p> <p>9 debt-to-capital ratio, right now a common metric people in</p> <p>10 our industry to measure the leverage of the company. And</p> <p>11 right now we're in the mid to upper 30-percent range for a</p> <p>12 debt-to-capital ratio on a pro forma basis. If you're</p> <p>13 looking at the S-4 and the joint proxy, joint proxy, we</p> <p>14 would be in the low to mid 40s.</p> <p>15 MR. FINSTON: Okay. And is that debt going to</p> <p>16 be allocated at the holding company level, or will it be</p> <p>17 also shared by operating companies?</p> <p>18 MR. SCHWANEKE: The transaction debt will be the</p> <p>19 obligation of Centene Corporation. There are Health Net</p> <p>20 notes, 400 million dollars of Health Net notes that will</p> <p>21 stay, remain outstanding. Those are due in 2017.</p> <p>22 MR. FINSTON: And who will have the obligation</p> <p>23 to pay those notes as far --</p> <p>24 MR. SCHWANEKE: Health Net will be a</p> <p>25 wholly-owned subsidiary of Centene Corporation, so those</p> <p style="text-align: right;">Page 82</p>	<p>1 MR. FINSTON: And what impact -- well, I think</p> <p>2 you mentioned this. What impact will the merger have on</p> <p>3 Health Net statutory capital and surplus models?</p> <p>4 MR. SCHWANEKE: Yeah. As we mentioned earlier,</p> <p>5 I think, you know, again, our intent is to maintain a</p> <p>6 similar level of capitalization as Health Net Life</p> <p>7 Insurance has in the past.</p> <p>8 MR. FINSTON: And are you willing to make</p> <p>9 commitments with respect to these representations and the</p> <p>10 commitment to the objectives set forth in your testimony?</p> <p>11 MR. SCHWANEKE: Yeah. We would be willing to</p> <p>12 discuss with the Department what form that may take.</p> <p>13 MR. FINSTON: Similarly, there are on page 48,</p> <p>14 you state that it -- that Health Net and its resources</p> <p>15 will not be affected by these payments. And are you also</p> <p>16 willing to commit that any cost associated with merger</p> <p>17 will not be reflected in the rates in California?</p> <p>18 MR. SCHWANEKE: Yes. Yes. The merger cost will</p> <p>19 be borne by Centene Corporation, and will not be borne</p> <p>20 by Health Net Life Insurance Company.</p> <p>21 COMMISSIONER JONES: Counsel, just want to</p> <p>22 correct the record. It was paragraph 48.</p> <p>23 MR. FINSTON: I'm sorry. Thank you.</p> <p>24 On page eight of -- Mr. Baldwin, of your</p> <p>25 testimony, you acknowledge that as a result of the change</p> <p style="text-align: right;">Page 84</p>
<p>1 obligations will be under Centene Corporation.</p> <p>2 MR. FINSTON: Okay. You mention in page eight</p> <p>3 that the debt can be served by the cash flows generated by</p> <p>4 the combined operations of Centene, and will not depend</p> <p>5 upon the earnings of Health Net. What assurances can you</p> <p>6 give that you can provide that this extra debt cost will</p> <p>7 not increase the cost of providing health care in</p> <p>8 California?</p> <p>9 MR. SCHWANEKE: Those -- the debt cost will not</p> <p>10 be allocated. It will remain at Centene Corporation. The</p> <p>11 interest expected will remain at Centene Corporation. It</p> <p>12 will not be allocated to any entities in Health Net.</p> <p>13 MR. FINSTON: A what impact will the merger have</p> <p>14 on Health Net with respect to future dividends or</p> <p>15 distributions to Centene?</p> <p>16 MR. SCHWANEKE: I think, as we mentioned in the</p> <p>17 past, we would -- or mentioned here earlier, we would</p> <p>18 expect to maintain the same or similar level of</p> <p>19 composition Health Net Life Insurance Company has had in</p> <p>20 the past, and we would look to continue whatever their</p> <p>21 history or the California practices were.</p> <p>22 MR. FINSTON: Will you require dividend or other</p> <p>23 distributions from Health Net to service the debt load at</p> <p>24 the Centene level?</p> <p>25 MR. SCHWANEKE: No. I don't believe so.</p> <p style="text-align: right;">Page 83</p>	<p>1 of control, certain executives will be entitled to certain</p> <p>2 payout. Do you know what the aggregate payout to senior</p> <p>3 executives will be in the absence of any severance of</p> <p>4 those individuals?</p> <p>5 MR. BALDWIN: Well, first of all, with respect</p> <p>6 to executives' compensation in connection with the merger,</p> <p>7 there are no bonuses or compensation that is paid to</p> <p>8 Centene executives due to the closing of this merger.</p> <p>9 There are -- is certain compensation that we discussed in</p> <p>10 our testimony, related to Health Net executives.</p> <p>11 And let me ask Kathleen Waters to speak to that.</p> <p>12 MS. WATERS: I think to answer your specific</p> <p>13 question, it's -- sorry, oh. I think your question was</p> <p>14 how much compensation is going to the executives as a</p> <p>15 result of the merger. And there's no payment or bonuses</p> <p>16 going as a result of the merger. There is a -- some</p> <p>17 vesting that was given in 2013, if that's what you're</p> <p>18 referencing.</p> <p>19 MR. FINSTON: Change in control.</p> <p>20 MS. WATERS: That was created in 2013. That</p> <p>21 will -- if merger closes before March 7th, that will</p> <p>22 accelerate the vesting of it. They've already been earned</p> <p>23 and awarded. If the merger closes after March 2nd, on</p> <p>24 March 7th, that vesting already accelerates. So if the</p> <p>25 merger closes after it, then there would be no</p> <p style="text-align: right;">Page 85</p>

<p>1 acceleration. There would be no benefit to the 2 activities.</p> <p>3 MR. FINSTON: But as a result of -- result of 4 the merger, they won't receive certain cash payments.</p> <p>5 MS. WATERS: No. Not as a result of the merger. 6 If they're severed, there are severance payments that go 7 to the executives. But Centene, in their negotiations, 8 was quite clear there would be no bonuses or payments paid 9 to the executives as a result of the merger itself.</p> <p>10 MR. FINSTON: So you mention that there would be 11 additional payments to senior executives if the -- there 12 are severances. Correct?</p> <p>13 MS. WATERS: That's correct.</p> <p>14 MR. FINSTON: Do you know approximately how -- 15 well, do you have any -- as part of your business plans or 16 as part of the merger, are there -- is there any 17 expectation that any of the senior management will receive 18 such payments?</p> <p>19 MS. WATERS: I think that there is -- isn't 20 finalization, but I think there's at least a few people 21 that would be receiving those payments. But the vast 22 majority of the executives you heard from today will stay 23 on in the new entity.</p> <p>24 MR. FINSTON: So is it the expectation that the 25 CEO, the CFO will stay on?</p> <p style="text-align: right;">Page 86</p>	<p>1 MS. WATERS: Well, I think those are rolled up 2 into the merger cost that Mr. Schwaneke mentioned earlier, 3 that they've assured would not be included.</p> <p>4 MR. BALDWIN: Yes. Any costs associated with 5 the executives' compensation, as we discussed, will be 6 borne by Centene Corporation, and will not be borne by 7 Health Net Life Insurance Company, and will not be 8 factored into the premium rates for California consumers.</p> <p>9 MR. FINSTON: So let me just ask you about that, 10 because my understanding is that these are contracts 11 with -- between these executives and Health Net. And so 12 typically, the payment obligation follows the contract. 13 So how will that cost then be borne by Centene?</p> <p>14 MR. SCHWANEKE: Getting a little technical here. 15 But you -- you're correct that they would probably have to 16 be paid out of the tax I.D. who employs, but that would be 17 Health Net Life. That would be Health Net, Inc., which 18 will be the newly-created merger that we'll be holding 19 onto by Centene Corporation. So those costs could -- in 20 theory, could be reimbursed to Health Net, Centene, Health 21 Net Life, Inc. But it's wholly owned, signed. There 22 would be no -- substantially, no reason to do so. No way, 23 shape or form, ultimately, to go down to Health Net Life 24 Insurance Company.</p> <p>25 COMMISSIONER JONES: Counsel, before we go off</p> <p style="text-align: right;">Page 88</p>
<p>1 MS. WATERS: Those are two that likely will not 2 be staying on.</p> <p>3 MR. FINSTON: And how much additional payments 4 in the aggregate, not by individual, in the aggregate, 5 would be likely to be paid as a result of those?</p> <p>6 MS. WATERS: Approximately 7.5 million dollars.</p> <p>7 MR. FINSTON: Okay.</p> <p>8 MS. WATERS: And I should just note that those 9 are severance payments from employment agreements that 10 were entered into in 2008. So they're not, again, part of 11 the merger, but just part of the employment agreement that 12 they're entitled to payments upon severance, and benefits 13 as well.</p> <p>14 MR. FINSTON: And under those agreements, are 15 any of those payments payable upon changing control?</p> <p>16 MS. WATERS: No. They're not. They are payable 17 strictly as to what we refer to as automatic trigger, so 18 it has to be both the change in control, plus the 19 severance.</p> <p>20 MR. FINSTON: But there is the expectation that 21 at least those two positions would likely be terminated.</p> <p>22 MS. WATERS: That is true.</p> <p>23 MR. FINSTON: Okay. And what assurances can you 24 give us that the cost associated with those payments will 25 not be reflected in rates in California?</p> <p style="text-align: right;">Page 87</p>	<p>1 this line of questioning, the conversation today's been 2 severance pay. And it's -- I'm also interested in stock 3 and stock options that Health Net executives will be able 4 to exercise as a result of the conclusion of this 5 transaction.</p> <p>6 I understand the nuance that Miss Waters is 7 asserting with regard to what result a merger is, and I 8 understand the nuance that the Department Counsel is 9 exerting with regard to that.</p> <p>10 I'll just ask the question very bluntly.</p> <p>11 MR. SCHWANEKE: Yeah.</p> <p>12 COMMISSIONER JONES: And that is with regard to 13 these two individuals, what do they stand to gain in stock 14 options after the merger, assuming that they are severed 15 from the California company?</p> <p>16 MS. WATERS: They have no outstanding go stock 17 options. Those two individuals. And so all of the stock 18 they have, other than this nuanced 2013 stock that's going 19 to vest on March 7th, is completely vested. So prior to 20 the merger, they could have cashed out their stock, been 21 treated just like any shareholder. They'll receive .622 22 of the Centene stock, plus the 2570, whatever that is 23 exactly. 2- -- 2,285. Cash. 2,825. I should know that 24 number. They will be treated like shareholders, no 25 acceleration, no special treatment to them as a result of</p> <p style="text-align: right;">Page 89</p>

<p>1 the merger.</p> <p>2 COMMISSIONER JONES: I appreciate that</p> <p>3 explanation. But were the merger not occurring, they</p> <p>4 would probably stay in place. And so what dollar amount</p> <p>5 will they obtain as a result of the stock and the stock</p> <p>6 options they hold?</p> <p>7 MS. WATERS: So just the dollar value of stock</p> <p>8 they hold, they could have sold otherwise, like -- just</p> <p>9 want to make sure that it's not -- there's -- they</p> <p>10 don't -- they get no benefit of the merger. But they</p> <p>11 still have -- hold -- you know, the day before the</p> <p>12 announcement, they could have sold their stock as well.</p> <p>13 So there is a --</p> <p>14 COMMISSIONER JONES: Appreciate that point.</p> <p>15 MS. WATERS: Okay.</p> <p>16 COMMISSIONER JONES: Or they could not have sold</p> <p>17 it because the merger wasn't occurring, and they're</p> <p>18 getting paid for leadership of the company. So I</p> <p>19 appreciate your point.</p> <p>20 What I'm interested in is what's the amount that</p> <p>21 these two individuals will obtain by exercising sale of</p> <p>22 stock or stock options?</p> <p>23 MS. WATERS: Just looking up the amount of stock</p> <p>24 that they each currently hold -- do you have --</p> <p>25 MR. SCHWANEKE: Yeah. I have it. It's in the</p> <p style="text-align: right;">Page 90</p>	<p>1 qualifying termination, what would the total equity payout</p> <p>2 be?</p> <p>3 MR. SCHWANEKE: Again, those relate to the stock</p> <p>4 award that Miss Waters spoke to before, that that would be</p> <p>5 dependent upon the closing timeframe of the transaction.</p> <p>6 And --</p> <p>7 MR. FINSTON: So let's assume, with qualifying</p> <p>8 termination, you have a --</p> <p>9 MR. SCHWANEKE: 75 million dollars.</p> <p>10 MR. FINSTON: Okay.</p> <p>11 COMMISSIONER JONES: That's aggregated between</p> <p>12 the two individuals.</p> <p>13 MR. SCHWANEKE: Correct.</p> <p>14 COMMISSIONER JONES: Thank you.</p> <p>15 MR. FINSTON: So just so that we're clear,</p> <p>16 Mr. Baldwin, on page nine of your testimony, you mention</p> <p>17 that the combination will have the potential of extending</p> <p>18 Health Net's offers from southern California to other</p> <p>19 regions, because it will have better scale and resources.</p> <p>20 That may not be in terms you used. Could you just expand</p> <p>21 a little bit more upon what additional resources will be</p> <p>22 available to Health Net?</p> <p>23 MR. BALDWIN: First of all, the combined company</p> <p>24 will receive 40 million dollars in revenue. So Health Net</p> <p>25 will have access to the financial -- pure financial</p> <p style="text-align: right;">Page 92</p>
<p>1 joint proxy statement on -- it's publicly disclosed. So</p> <p>2 the payments, upon a change and control, without a</p> <p>3 qualifying termination event, the equity of the combined</p> <p>4 number is 43 -- roughly 43 million dollars, between</p> <p>5 Mr. Gellert and Woys.</p> <p>6 COMMISSIONER JONES: Gellert and Woys.</p> <p>7 MR. SCHWANEKE: The CEO and CFO.</p> <p>8 COMMISSIONER JONES: Okay. Thank you.</p> <p>9 MR. FINSTON: And the payment upon it changing</p> <p>10 control and qualifying termination on the -- you spoke, is</p> <p>11 there a cash component in that circumstance? Is that</p> <p>12 correct as disclosed in document that you're looking right</p> <p>13 now?</p> <p>14 MR. SCHWANEKE: Yeah. I think that's what</p> <p>15 Mrs. Waters mentioned before on -- upon the cash payment</p> <p>16 upon termination of employment.</p> <p>17 MR. FINSTON: And that's approximately 8.3</p> <p>18 million dollars.</p> <p>19 MR. SCHWANEKE: Yes. Yes. That is what is in</p> <p>20 the S-4. Uh-huh.</p> <p>21 MR. FINSTON: And in the S-4, there is also the</p> <p>22 amount of the equity payment of the last circumstances,</p> <p>23 appears to increase. Is that correct?</p> <p>24 MR. SCHWANEKE: That is -- that's correct.</p> <p>25 MR. FINSTON: And what would that -- upon</p> <p style="text-align: right;">Page 91</p>	<p>1 resources of a much larger company, that can continue to</p> <p>2 support the investment needed for each of its insurance</p> <p>3 businesses in California to continue to grow.</p> <p>4 We'll look to bring some capabilities that</p> <p>5 Centene has, and proven successful in other states, to</p> <p>6 California. I should say that we don't operate under a</p> <p>7 national template. So ultimately it's the leadership team</p> <p>8 here in California that needs to determine what they think</p> <p>9 they need, and what they need to access to execute their</p> <p>10 growth strategy specific to California, specific to the</p> <p>11 members and providers in California.</p> <p>12 But we do think that in areas such as claims</p> <p>13 payment, we pay claims, we believe, faster. 99 percent in</p> <p>14 30 days. Average of eight days. That can lead to a</p> <p>15 better provider experience for providers in California.</p> <p>16 We also have strong capabilities in managing health costs.</p> <p>17 We have an integrated approach to care management that</p> <p>18 combines our specialty companies, as well as our I.T.</p> <p>19 systems that can deliver a view of the member to have more</p> <p>20 responsive care to that member through our care management</p> <p>21 programs. We integrate data across organizations to be</p> <p>22 able to identify care gaps, to enable members to get the</p> <p>23 care that they need.</p> <p>24 And Centene has developed those clinical medical</p> <p>25 management programs that address specific needs of</p> <p style="text-align: right;">Page 93</p>

<p>1 individuals who have -- are pregnant or need better 2 management of their asthma conditions, sickle cell, 3 diabetes. And again, these capabilities will be 4 accessible to the leadership team in California, as they 5 execute on their strategy to continue to grow in the 6 market.</p> <p>7 MR. FINSTON: So with respect to these 8 additional services, once again, it's -- I appreciate your 9 statements that you're willing to provide this sort of 10 support. But again, one of the things that we're 11 concerned about from past experience is translating 12 that then, that commitment at a hearing like this, to 13 actual practice going forward.</p> <p>14 So my question to you is is Centene willing to 15 work with the Department to make some specific commitments 16 with respect to ensure that those commitments are actually 17 honored?</p> <p>18 MR. BALDWIN: Well, with respect to these 19 capabilities, these are capabilities that are accessible 20 to all of our health plans. And this is the way we 21 operate. This is consistent with our operating model. 22 And with respect to which ones are employed to which ones, 23 timing in California is something that, again, needs to be 24 responsive to the specific needs of the market here. And 25 that will be a conversation, an ongoing discussion with</p> <p style="text-align: right;">Page 94</p>	<p>1 MR. FINSTON: Assuming -- on page 11, you 2 mention that changes to your provider networks may result, 3 but will not be as a result of the merger. Again, as a 4 regulator, we're very concerned about changes to networks, 5 provider networks. Is Centene willing -- also willing to 6 submit to additional oversight by the Department to 7 confirm that changes in the networks are not as a result 8 of the merger or the cost associated therein?</p> <p>9 MR. SELL: So -- all right if I answer?</p> <p>10 MR. BALDWIN: (Indicating.)</p> <p>11 MR. SELL: We're willing to stipulate we have no 12 plans to change our provider networks right now. We go 13 through a normal annual process, which we apprise you of, 14 in terms of our networks' physicians that leave the state. 15 There's contract negotiations, hospitals, et cetera. But 16 there is no plan before us to make any changes in our 17 existing networks.</p> <p>18 I think you know that we periodically introduce 19 new products with different networks. And as part of our 20 growth plan, I think we would be talking to you about 21 that. In some of our confidential sections, we reference 22 that.</p> <p>23 MR. FINSTON: Okay. Now, you've also discussed 24 in your testimony that Centene intends to maintain a local 25 management team in California. Also many of the</p> <p style="text-align: right;">Page 96</p>
<p>1 the leadership people in California, so they can evolve 2 what they do here, and the products that they offer, to be 3 responsive to the changes in market, economic and 4 competitive conditions, and grow.</p> <p>5 MR. FINSTON: I'm not sure you answered my 6 question.</p> <p>7 MR. BALDWIN: Well, certainly we're prepared to 8 discuss with you, at your direction, any of the points 9 that we mention here today. And certainly to ensure that 10 these kinds of capabilities are available to the 11 California health plan.</p> <p>12 MR. FINSTON: Thank you. With respect -- and 13 we've had prior discussions with respect to rates and the 14 cost of this merger. And a number of commenters have 15 suggested enhanced commitments to ensure that, you know, 16 the process of the merger's not reflected in rates.</p> <p>17 Is Centene willing to make commitments to 18 enhance disclosures to the Department to allow it to 19 confirm that these costs are not making their ways into 20 the rates paid here in California?</p> <p>21 MR. BALDWIN: At your direction, we're prepared 22 to discuss with you the appropriate form to affirm that 23 the merger costs are not going to be reflected in the 24 Health Net Life Insurance Company or premium rates in 25 California.</p> <p style="text-align: right;">Page 95</p>	<p>1 commenters focus on that issue as well.</p> <p>2 MR. SELL: Sure.</p> <p>3 MR. FINSTON: And access to maintain commitments 4 with respect to local management. And again, the 5 commitments that we would seek are specific commitments, 6 not general statements. Are you willing to make specific 7 commitments with respect to which physicians and functions 8 will remain based in California?</p> <p>9 MR. BALDWIN: Well, we have made that commitment 10 here at this hearing, and we're pleased again to discuss 11 with you the appropriate forms to affirm that.</p> <p>12 MR. FINSTON: Okay.</p> <p>13 MR. SELL: If I could. The management team that 14 we're talking about here in California averages 15 years 15 of experience in California, which I think is going to be 16 good.</p> <p>17 MR. FINSTON: On page 12, Mr. Baldwin, your 18 testimony -- and in your oral testimony -- you mention 19 that Health Net Life Insurance Company will remain in 20 California, domiciled in California. And in your 21 testimony, I believe you have some specific provisos with 22 respect to that it would remain commercial -- as long as 23 it would remain commercially domiciled in California and 24 have a plurality of covered lines, multi-coverage plans 25 all types of covered in California.</p> <p style="text-align: right;">Page 97</p>

<p>1 What has been Centene's experience with respect 2 to its other acquisitions? Has it ever re-domiciled a 3 company that it has acquired, to another state?</p> <p>4 MR. BALDWIN: I'm not aware of Centene ever 5 re-domiciling an insurance subsidiary. We -- again, 6 consistent with our operating model of being local, we 7 operate typically locally-domiciled headquartered 8 insurance subsidiaries. Again, with leadership teams that 9 are empowered to drive their performance.</p> <p>10 MR. FINSTON: And similarly, as we've been 11 discussing so far, with respect to it -- is this an area 12 that you would be willing to make specific commitments to 13 the Department?</p> <p>14 MR. BALDWIN: We would be pleased to enter into 15 discussions about how to affirm that with you.</p> <p>16 MR. FINSTON: Also on page 12, you -- with 17 respect to claims services, you note that you do not 18 expect to make any changes in 2016, but will review the 19 CTS contract after 2016. Is Centene willing -- what -- 20 let's focus on that review first. What aspect of claims 21 servicing would you be reviewing, and might change, and 22 how might it change after 2016?</p> <p>23 MR. BALDWIN: Well, we do think that combining 24 our capabilities, our I.T. capabilities, as well as our 25 claims processing capabilities, that we can deliver a</p> <p style="text-align: right;">Page 98</p>	<p>1 there's an awful lot that is just outreach to physicians 2 and updating that. We have instituted a data entry unit 3 to do outreaches on all the different physicians. We've 4 recently committed to a pilot here in California, being 5 led by Blue Shield, using a technology vendor herein that 6 would be developing throughout 2016.</p> <p>7 So there's a lot of work that we're going to be 8 doing to improve our provider networks in the current -- 9 in the visibility to the members.</p> <p>10 MR. FINSTON: Could you expand a little bit 11 on -- you mentioned a project with --</p> <p>12 MR. SELL: Oh, sure.</p> <p>13 MR. FINSTON: -- with Blue Shield. Can you 14 expand on that?</p> <p>15 MR. SELL: Oh, sure. The American Health 16 Insurance Plans has a national emphasis on improving the 17 accuracy of provider networks. The acronym is AHIP. I 18 apologize. And I believe you were talking about provider 19 directories and accuracy within those.</p> <p>20 MR. FINSTON: Uh-huh.</p> <p>21 MR. SELL: And so this pilot is intended to have 22 the industry start to work together on how in California 23 we can improve the accuracy of the directories. And we 24 are participating in that -- very early stages around 25 that. We can -- you know -- talk to you more off line</p> <p style="text-align: right;">Page 100</p>
<p>1 better experience for providers in California. And that 2 analysis is under way. But we do pay claims faster than 3 what is experienced today by providers in California 4 through Health Net. And we'll basically be looking at how 5 to combine that capability in a way that certainly can 6 deliver a positive, better experience for providers. And 7 that will be prior re-evaluation of current outsourcing 8 relationships.</p> <p>9 If we -- as we make this transition, we'll be 10 looking to in-source those capabilities. Because that's 11 the way that we operate, and as part of that, we're able 12 to deliver that better experience for providers. I can 13 assure you that we'll do it in a fashion to make sure that 14 there's no disruption to the members' providers. And the 15 fact that we've indicated that we're not indicating 16 changes in 2016 is intended to ensure that we can do this 17 in a thoughtful, careful manner.</p> <p>18 MR. FINSTON: On page 13 and 14 in your 19 testimony, you top Centene's I.T. systems to the areas 20 that customers have expressed concern about, hours and 21 accurate information about provider networks and timely 22 information about the deductibles. Are these areas that 23 would benefit from Centene's I.T. platform?</p> <p>24 MR. SELL: If I could. I think on provider 25 networks there is a technology component to that. But</p> <p style="text-align: right;">Page 99</p>	<p>1 about it, but I think it's part of the path on the 2 solution.</p> <p>3 MR. FINSTON: And when you say you're 4 participating in that, what is the nature of your 5 participation? Is it financial commitment? Is it just 6 conversations?</p> <p>7 MR. SELL: So far it's conversations with a 8 selected vendor that we'd be working with around that, and 9 then how do we work with them.</p> <p>10 MR. FINSTON: There are a number of concerns 11 that have been expressed -- concerns about client cyber 12 security, I guess would be the appropriate category, and 13 protection of personal information. And has Centene or 14 Health Net had cyber security issues in the past?</p> <p>15 MR. SELL: We have. We had lost server drives 16 back in 2012. We have made it a top priority from the 17 board on down. We have a top security officer, as does 18 Centene. The plan and execution's reviewed on a quarterly 19 basis. Obviously a pretty confidential, sensitive topic. 20 Don't want to talk a ton about it publicly. But we have 21 had issues. We've ramped up our intensity on it. It is a 22 top priority for us, and we intend to continue that as we 23 move forward and combine with Centene.</p> <p>24 MR. BALDWIN: Just from Centene's perspective, 25 that is a key priority, to make sure that we keep members'</p> <p style="text-align: right;">Page 101</p>

<p>1 data secure. We're very committed to it. We feel we have  2 a good record so far. But it's something that we  3 continually have to get better at. We have a technology  4 chief our board of directors meets with -- it's actually  5 chaired by a senior executive from Microsoft -- to make  6 sure that the company continues to avoid problems, evolve  7 these areas to be more responsive, and to get ahead of the  8 potential threats. And we have resources dedicated in our  9 I.T. organization to make sure that we continue to enhance  10 our capabilities to detect and mitigate any potential risk  11 in this area.</p> <p>12 MR. SELL: Mr. Finston, I can -- it just was  13 pointed out I didn't answer the second part of your  14 question, about deductible calculation and visibility.</p> <p>15 We do have a deductible calculator on our  16 website. Came off our website. People can access it by  17 calling. It will be going back on the website here in the  18 very near future. So that would be part of giving  19 visibility to folks who have asked about that.</p> <p>20 There are also a series of cost estimation tools  21 that both Health Net and Centene have, that as we put them  22 together, they can be continued for where someone can  23 estimate the cost of a treatment with this deductible  24 calculator, and their deductible that way, so I just want  25 to be responsive on that.</p> <p style="text-align: right;">Page 102</p>	<p>1 about five minutes of additional questions. And then my  2 colleague, Mr. Hinze, will have approximately ten minutes.</p> <p>3 COMMISSIONER JONES: Okay. Very good. So why  4 don't we pick up where we left off, Mr. Finston.</p> <p>5 MR. FINSTON: Thank you.</p> <p>6 Mr. Sell, on page five of your testimony, you  7 mention a renewed commitment to NCQA certification and  8 your submission to maintaining NCQA accreditation.</p> <p>9 MR. SELL: Correct.</p> <p>10 MR. FINSTON: If this submission to NCQA  11 accreditation a condition based upon this transaction  12 going forward?</p> <p>13 MR. SELL: We're committed to keeping that  14 accreditation up.</p> <p>15 MR. FINSTON: And another comment a number of  16 commenters have expressed concerns about is customer  17 service rating. Is this -- will this action, is it  18 intended to improve customer service going forward?</p> <p>19 MR. SELL: Well, I -- this -- there's a lot of  20 things we're doing to improve quality. That -- the  21 accreditation is simply the reporting on how you are doing  22 on quality metrics. It takes more fundamental things. We  23 have done well in some quality areas, like Medicare for  24 NCQA in customer satisfaction results that we've gotten  25 back from several commercial customers. But we've also</p> <p style="text-align: right;">Page 104</p>
<p>1 MR. FINSTON: Okay. Focusing a little bit back  2 on the cost of this acquisition, and the increase, that  3 debt rate that would result, does Centene have any plan,  4 any current plans for any additional acquisitions?</p> <p>5 MR. SCHWANEKE: I would say, yeah. Yeah.  6 Right, that would obviously be non-public information,  7 would be subject to securities regulation. But you know,  8 I guess what I would say is, you know, we are always, you  9 know -- the chairman has stated that we're an inquisitive  10 company. We have been in the past. So you know, there's  11 nothing specific today, but that's all I can say.</p> <p>12 MR. FINSTON: Okay. This might be a good time  13 to take a break.</p> <p>14 COMMISSIONER JONES: Then why don't we recess  15 for 15 minutes. It's now 1:25, and we will resume at  16 1:45. So 20 minutes. If there's no objection, Counsel,  17 by the Department, we'll stand in recess until 11:45.</p> <p>18 MR. FINSTON: Thank you.  19 (Off the record.)</p> <p>20 COMMISSIONER JONES: We will resume the hearing  21 at this time.</p> <p>22 Can the Department, if they can give us an  23 estimate of how much longer they anticipate they'll be  24 questioning Centene?</p> <p>25 MR. FINSTON: Commissioner, I believe I have</p> <p style="text-align: right;">Page 103</p>	<p>1 been engaged in some of the areas that people have talked  2 about.</p> <p>3 You know, one of those that was called out in  4 the testimony was the Office of Patient Advocate Score, in  5 terms of getting accurate information on cost and claims  6 to members. That's an area which was -- required an  7 investment of technology. We've made that investment in  8 technology in the CRM system, and our system does improve,  9 which translates into scores which would go to -- through  10 NCQA or other accreditation bodies.</p> <p>11 But the other point I would make is part of it  12 is the challenge we faced, because the ability to make an  13 investment like on an ongoing basis, that's why this  14 merger is important, and the opportunity to have that type  15 of investment going forward.</p> <p>16 MR. FINSTON: In any merger, based on my  17 experience, integration issues are key to a successful  18 merger and its successful operation going forward. Do you  19 have a specific time committed to addressing integration  20 issues?</p> <p>21 MR. BALDWIN: Yes. We've had an integration  22 team, led by an Executive Vice President at Centene, Cindy  23 Brinkley, as well as counterparts at Health Net have  24 engaged people throughout the Health Net and Centene  25 organization, including a full-time integration project</p> <p style="text-align: right;">Page 105</p>

<p>1 officer, as well as accessing outside consultants to 2 support, to help with respect to the integration planning. 3 It's still ongoing, and we'll continue to have dedicated 4 people with respect to integration, going forward.</p> <p>5 MR. FINSTON: In my experience, it's also 6 important to have a clear reporting structure with respect 7 to integration issues, to ensure that the checklist is -- 8 and other aspects of the -- an integration are moving 9 forward, and nothing gets dropped. Do you have specific 10 reporting obligations as well?</p> <p>11 MR. BALDWIN: Certainly. As part of the 12 integration planning and execution efforts we're using, an 13 effective project management discipline is part of that. 14 That includes tools like you indicated.</p> <p>15 MR. FINSTON: Okay. And are you willing to make 16 a commitment to the Department, going forward, that the 17 integration team will remain in place until all 18 integration issues have been addressed and satisfied?</p> <p>19 MR. BALDWIN: We'll make sure that we have 20 dedicated the resources to keep an integration team in 21 place. That, and ensure that it's done effectively and 22 smoothly.</p> <p>23 MR. FINSTON: Thank you. Mr. Sell, on page five 24 of your testimony, you also discuss a recent field claims 25 example, and Health Net's commitment to monitoring and</p> <p style="text-align: right;">Page 106</p>	<p>1 respect to -- it's a statement with respect to future 2 plans. And it says, with respect to Health Net's book, 3 they have a commercial -- "they have a commercial business 4 in California that I think is complimentary to the 5 government business they're doing. It's value-oriented, 6 and we intend" -- we, being Centene, I believe -- "intend 7 to keep that in place, but not necessarily grow it outside 8 of California."</p> <p>9 When I read that statement, that seems to 10 indicate that Centene does not intend to grow its 11 commercial business outside of California. Am I reading 12 that correctly?</p> <p>13 MR. BALDWIN: Centene, with respect to its 14 individual exchange business, has been actively growing 15 that outside of California. And we were in 12 states in 16 2015. We're in 13 states in 2016. And we believe we will 17 see a significant increase in enrollment this year. And 18 that continues to be a very important business for us. I 19 think Mr. Kroll -- Mr. Kroll's comments refer more to the 20 small group and large group business. And with respect to 21 that, we will selectively evaluate opportunities in our 22 states. But our real focus is to make sure that we grow 23 that business in California and maintain it to be 24 competitive and strong going forward.</p> <p>25 MR. FINSTON: Okay.</p> <p style="text-align: right;">Page 108</p>
<p>1 improve some of the efficiencies identified in that exam. 2 What specific steps are you taking to address the concerns 3 raised in that exam?</p> <p>4 MR. SELL: The main issue in that exam was 5 timeliness of claims payment. The steps that we've taken 6 is training of the staff, alerts for staff so that they 7 are tracking the aging on those claims, self-audits, so 8 that we make sure that we're monitoring ourselves along 9 the way. The usual point I make though is as we move with 10 Centene and integrate our systems, the benefits 11 Mr. Baldwin talked about on the claims payment side accrue 12 to us and will be an additional method.</p> <p>13 MR. FINSTON: Do you have a specific personal 14 task to ensure that these activities are fully integrated?</p> <p>15 MR. SELL: We have a specific objective to make 16 sure that it's met and it's part of our ongoing 17 monitoring.</p> <p>18 MR. FINSTON: All right. I'm curious about a 19 statement made by -- I believe it's Mr. Kroll. Might be 20 Mr. Seidel. A little bit unclear. But it's in the 21 binder. It's referenced in the binder that we provided, 22 as Exhibit 7. And it's at Centene SEC Filing. And the 23 part I'm curious about is in our reason statement on page 24 four -- and if you look at the top left corner of the 25 page, it's page CBix063. And the statement is with</p> <p style="text-align: right;">Page 107</p>	<p>1 MR. SELL: Can I add one statement? I think the 2 first part of his statement about the complimentary nature 3 of the different lines of business is really important 4 here in California, because I know there's concerns about 5 will Health Net exit the commercial business. And I think 6 that there is a real synergistic benefit across those 7 lines, particularly -- we call it out in some of the 8 confidential testimony, about working with providers, how 9 we grow different lines of business. And if you remove 10 some of those, and you lose some of that benefit.</p> <p>11 So I think within the state of California, you 12 should feel comfortable that we'll continue that 13 commitment and grow that along with ours.</p> <p>14 MR. FINSTON: Okay. And I believe Mr. Hinze has 15 a number of questions.</p> <p>16 MR. HINZE: Thank you. Good afternoon. 17 Dr. Wu, I have some questions for you. 18 Mr. Sell, if you could pass Dr. Wu the binder. 19 And Doctor, if I could ask you to look at page 20 CDix182. It's probably about half way through the book. 21 It's one of the exhibits to Dr. Scheffler's report. It's 22 the one that within the document is labeled "Exhibit 2. 23 Market Concentration Impact." Do you see that page there?</p> <p>24 DR. WU: Yeah. I -- yes. I do.</p> <p>25 MR. HINZE: Okay. Thank you. And this chart</p> <p style="text-align: right;">Page 109</p>



<p>1 shows Health Net's market share and a number of rating 2 regions in individual markets within Covered California. 3 And do you see that in the southern California regions, 4 starting at Region 15, it has a market share of 5 36.5 percent? And then down to region 19, in San Diego 6 County, 24.5 percent? And do you see that, sir? 7 DR. WU: I do. 8 MR. HINZE: And Doctor, that's consistent with 9 your understanding of Health Net's market share within 10 Covered California, those regions. Correct? 11 DR. WU: Well, it's consistent with what I know, 12 which is, you know, greater share in southern California. 13 MR. HINZE: All right. And would you agree, 14 based on your knowledge and these figures, that Health Net 15 has a significant market share in southern California 16 regions? And by significant, I mean that Health Net's 17 market share in those regions is such that its competitors 18 have to keep an eye on Health Net's market activity and 19 position? 20 DR. WU: Well, in health insurance markets, 21 based on my experience, competitors look at each other, 22 whether their shares are high or low. So in general, 23 that's the kind of environment that we're talking about. 24 MR. HINZE: And may I ask you now to look at 25 Exhibit 5B to your report, which in our binder here is</p> <p style="text-align: right;">Page 110</p>	<p>1 different strategies that compete. So there's many 2 options for consumers in these regions. 3 MR. HINZE: And those options, Exhibit 5B shows 4 that Health Net is the lowest to second lowest in price. 5 Correct? 6 DR. WU: Yes. They do. Among others. 7 MR. HINZE: Yes. Now if Health Net were to 8 withdraw from those regions, would there be an impact on 9 the pricing of other plans? Would there be a lessening of 10 price discipline? 11 DR. WU: I don't -- I'm not concerned about 12 that. I don't think that would be the case. 13 MR. HINZE: Okay. Doctor, let me ask you to 14 look at page CDix112, which is page 18 of your report. It 15 deals with large group. In that Section C of that page, 16 CDix112, you describe Health Net's large group insurance 17 operations as relatively small. Do you see that? 18 DR. WU: Yes. I do. 19 MR. HINZE: Thank you. You do point out that 20 Health Net continues to have a large -- number of large 21 groups that it contracts with. The University of 22 California, Boeing, Walmart. Also, it's not listed there, 23 but I believe that CalPERS is the largest large group, 24 also available for folks like me to participate. In your 25 report, you describe the listed large groups as loyal</p> <p style="text-align: right;">Page 112</p>
<p>1 CDix124? It's Exhibit 5B. A table with a title Health 2 Net's Covered California Operations. Do you see that? 3 DR. WU: Yes, I do. 4 MR. HINZE: Thank you, Doctor. And this 5 indicates that Health Net is the lowest or second 6 lowest-priced issuer in the southern California rating 7 regions in southern California regions 15 through 19. Is 8 that correct? 9 DR. WU: Yes. In regions 15 through 19, Health 10 Net is either the lowest or second lowest-priced issuer in 11 those counties in those regions. 12 MR. HINZE: And would you agree that as the 13 lowest or second-lowest issuer of those regions, with a 14 significant market presence, Health Net acts as a force 15 for price discipline in those marketplaces as its 16 competition has to keep an eye on Health Net's rates and 17 value? 18 DR. WU: Well, the way I think about it is there 19 are many health plans that serve these regions, and there 20 are many other health plans in these regions. There are 21 also low-priced plans. So consumers in those regions have 22 many choices, and that's in a sense in which I don't know 23 I would say there's one plan that is the source of price 24 discipline. There are many plans that are also 25 low-priced, and there are other -- many plans have</p> <p style="text-align: right;">Page 111</p>	<p>1 customers. Would you agree that given Health Net's 2 success with these large, sophisticated purchasers, Health 3 Net's an important presence in the large group market? 4 DR. WU: Well, Health Net's an important 5 presence in the sense that it is offering a product that 6 employers and their employees find valuable and want to 7 purchase. Obviously, at some point, if Health Net were to 8 fail to provide a product as valuable to consumers, that's 9 a different story. But that's not the case. Health Net 10 is providing a great product, and consumers and employers 11 find it valuable. 12 MR. HINZE: And so it has a value present in the 13 market, and it is a competitor in the value in a large 14 group market for that reason. Is that correct? 15 DR. WU: Well, Health Net has to compete against 16 all the other health plans that are vying for large group 17 business. And that's a competitive dynamic. So in order 18 to compete, you have to be -- you have to find ways to get 19 an economy to scale, get -- find ways to improve your 20 ability to be a stronger competitor. And that's why this 21 transaction, I think, is so valuable for consumers. 22 MR. HINZE: Because Health Net's presence in a 23 large group market helps maintain competition. You agree 24 with that, wouldn't you? 25 DR. WU: I wouldn't quite put it that way. It's</p> <p style="text-align: right;">Page 113</p>

<p>1 not because of health care's presence. It's just that  2 this transaction helps health care get even more economy  3 of scale to be an even better competitor. And that is,  4 that's valuable for consumers, especially when there are  5 other large health plans in consolidation.</p> <p>6 MR. HINZE: Now you testified that it was  7 unlikely that Health Net would withdraw from the  8 commercial market because that market is profitable for  9 them. Do you recall that testimony?</p> <p>10 DR. WU: Yes. I do.</p> <p>11 MR. HINZE: Would you agree that there may be  12 circumstances in which a company might shut down a  13 profitable operation if the company concluded that it  14 could increase its profits by directing its capital and  15 resources to another, more profitable business activity?</p> <p>16 DR. WU: Well, first of all, in this case, I  17 think exit is very unlikely, given the transaction we are  18 evaluating here. This is a case where we have an  19 acquisition of a profitable business, and would it make  20 economic sense to buy a business and then shut a  21 profitable business down?</p> <p>22 But in your hypothetical, you -- but in your  23 hypothetical, the -- you know, if you want to think about  24 ultimately the possibility the firm could, you know,  25 redevelop its business, then when we think about the</p> <p style="text-align: right;">Page 114</p>	<p>1 committed to the commercial market.</p> <p>2 You've heard that from our CEO as well, with  3 respect to his comments. And I just want to add one  4 aspect to this, because we recognize that in California,  5 Health Net has three legs to its stool that make it a  6 competitive force in California. Its Med-Cal presence,  7 its MediCare presence and its commercial presence. And  8 each of those legs, according to the relationships that it  9 has with providers, it's enabled it to compete and grow in  10 all those product lines.</p> <p>11 Part of our -- we're committed growth. We've  12 committed commercial. We're committed to making sure this  13 company is competitive and viable, and that necessarily  14 requires that we continue to invest and improve all three  15 legs of that stool going forward.</p> <p>16 MR. HINZE: Thank you.</p> <p>17 Dr. Wu, another topic, if I may. You testified  18 that were Health Net to withdraw from the Covered  19 California market, that that would open up possibilities  20 for expansion and new geographies for companies. You also  21 mentioned substantial barriers of potential entry of new  22 market participants, including in the context of the  23 Covered California. Let me ask you, have you heard  24 Covered California described as an active purchaser model?  25 DR. WU: First of all, I don't think I talked</p> <p style="text-align: right;">Page 116</p>
<p>1 competitive effects that kind of exist in California, we  2 would want to think about what other benefits there are  3 from relocating resources to more profitable areas. Maybe  4 it's an indication to develop a better product. Maybe  5 it's to expand a different pipeline. So those are  6 important possibilities too.</p> <p>7 But that's a hypothetical that I think no one  8 has really said. In my conversations with management at  9 Centene and Health Net, they are committed expanding the  10 business. So I'm not, you know, seeing the conditions for  11 the hypothetical you just talked about.</p> <p>12 MR. HINZE: But such a hypothetical could occur  13 on reallocation to a more profitable, larger basis.</p> <p>14 DR. WU: Well, in theory, yes. Because that is  15 how firms -- whether you're a health plan or any other  16 firm -- try to find a way to serve markets better.</p> <p>17 MR. BALDWIN: Can I make a comment?  18 Hypotheticals are interesting, but I think it's important  19 to consider the specifics of Centene and the specifics of  20 Health Net. Because that's what this is about. And if  21 you look at Centene's history and track record, we are a  22 growth company. We aim for growth in all of the states  23 that we operate in, aim for growth in all the product  24 lines that we participate in. We've indicated that we're  25 committed to that same mind in California. And we're</p> <p style="text-align: right;">Page 115</p>	<p>1 about substantial barriers to entry. But I did talk about  2 the importance of considering health plans and their  3 ability to enter new markets and expand their shares. So  4 that's the dynamic. That's really important. And I  5 mention that in the context of assessing the work that was  6 done by CDI's experts, that the dynamic was missing from  7 there, from the report. But what was your question?</p> <p>8 MR. HINZE: Have you heard Covered California  9 described as using an active purchaser model?</p> <p>10 DR. WU: No. I have never really thought of it  11 that way.</p> <p>12 MR. HINZE: Okay. Is it your understanding that  13 Covered California selects the companies that are  14 permitted to participate in California Exchange?</p> <p>15 DR. WU: Yes.</p> <p>16 MR. HINZE: And that not all companies can  17 expect to be selected to participate in the California  18 Health Exchange?</p> <p>19 DR. WU: I think that's part of the competitive  20 process.</p> <p>21 MR. HINZE: And that there will have been no  22 statewide new entrants in Covered California since the  23 first group of companies, including Health Net, first  24 began offering products in Covered California in 2014?  25 Are you aware of that?</p> <p style="text-align: right;">Page 117</p>

<p>1 DR. WU: If you're asking me whether there are 2 new plans that have -- 3 MR. HINZE: Statewide. 4 MR. SELL: Statewide is what he said. 5 MR. HINZE: Statewide, there have been -- there 6 have been no entrants. But there have not been statewide 7 new entrants. 8 DR. WU: I see. 9 COMMISSIONER JONES: I think the question was 10 whether or not. Whether -- CEO Sell, when we -- if we can 11 just keep the orderly -- 12 DR. WU: Okay. 13 COMMISSIONER JONES: -- process here. I 14 appreciate the desire to clarify. You'll have plenty of 15 opportunity to provide rebuttal testimony. 16 DR. WU: Okay. 17 COMMISSIONER JONES: Rebuttal argument. Let's 18 see if we can get through the questioning of Dr. Wu. 19 Thank you. 20 MR. HINZE: Doctor? 21 DR. WU: Yes. That's my recollection. 22 MR. HINZE: And would you agree that if Health 23 Net were to withdraw from the Covered California market, 24 especially in southern California, that the fact that 25 Covered California selects and curates the companies that</p> <p style="text-align: right;">Page 118</p>	<p>1 MR. FINSTON: No. There aren't. 2 COMMISSIONER JONES: Before we go to 3 interested-person questions or the public, I just have a 4 few additional questions for Dr. Wu. 5 Doctor, I'm wondering if you could turn your 6 attention to your written testimony, particular 7 Exhibit 6C, attached to your testimony. Do you have it, 8 sir? 9 DR. WU: Yes. 10 COMMISSIONER JONES: So that exhibit is entitled 11 "California Insurance and Shares by Carrier Small Group 12 Insurance." What is the overall statewide market share of 13 Health Net in a small group market in California? 14 DR. WU: Well, Exhibit 6C shows California 15 insurance enrollment shares by carrier, and this is for 16 small group insurance. And Health Net's share is 17 11.5 percent. 18 COMMISSIONER JONES: So isn't it true that were 19 Health Net to exit the market, the small group market, 20 specifically after the merger, isn't it true that that 21 would have a competitive impact in California in a small 22 group market? 23 DR. WU: No. 24 COMMISSIONER JONES: Yes or no question. 25 DR. WU: No.</p> <p style="text-align: right;">Page 120</p>
<p>1 are permitted to participate in the exchange would be a 2 potential barrier for new entrants into the market? 3 DR. WU: I would not think of it that way. 4 Covered California -- Covered California still wants to 5 select the providers that best meet the needs of that line 6 of business. That is a competitive process. And I've 7 said before, that's not a process that in the past has 8 involved any competition between Centene and Health Net. 9 But that -- but that is not a barrier to entry. That is 10 the -- that is the competitive process taking place. So 11 we would hope that purchasers are closely selecting 12 companies that they want to serve the public. 13 MR. HINZE: Would you agree that a selection 14 process is in itself inherently a barrier to entry if it's 15 not open to all qualified consumers? 16 DR. WU: No. No. I would not call that a 17 barrier to entry at all. That's what competition is 18 about. It is to -- you know, it is about the process. 19 And market process in this case is to select a plan that 20 is best positioned to meet the consumer needs and to -- 21 and in this case, that's what Centene and Health Net both 22 do. 23 MR. HINZE: Thank you, Doctor. 24 COMMISSIONER JONES: Any other questions from 25 the Department?</p> <p style="text-align: right;">Page 119</p>	<p>1 COMMISSIONER JONES: Why not? 2 DR. WU: First of all, let's -- you know, first 3 of all let's talk about the likelihood of exit. And we 4 talked -- 5 COMMISSIONER JONES: No. I want to put away the 6 side, the length of the exit for a moment. I heard you, 7 your opinion about that. I understand the testimony of 8 Centene, Health Net. My question is if they did exit, 9 would that have an impact on the degree of competition in 10 the small group health insurance managed care market in 11 California? Yes or no. 12 DR. WU: No. And the way I think about it is 13 this: Exit is a dynamic process. And this goes back to 14 why would firms exit a particular line of business. And 15 exit usually occurs when a firm is not able to provide a 16 product that is valuable for a consumer, whether it's in 17 terms of the futures or price. And if a firm is not able 18 to provide a product that's valuable to consumers, it's 19 going to get less enrollment. And that's the beginning of 20 the decline, the enrollment decline in shares, the decline 21 in profitability. And that's the process that begins the 22 possibility that a firm, in theory, might exit a 23 particular line of business. 24 But at that point in time, when you think about 25 what exit is likely to occur, that would be a point in</p> <p style="text-align: right;">Page 121</p>

<p>1 time when a health plan's significance would already be 2 diminished. So I think -- so that's why, at the end of 3 the day, I think the effects of exit are small, and why it 4 is -- and why it is that, given Health Net's position 5 today, exit is unlikely.</p> <p>6 And then the other dynamic is what we just 7 talked about a couple of minutes ago, which is upon 8 exit -- exit is what creates opportunities. And across 9 California, there are other health plans that have -- that 10 are low priced. If you think about some of the other 11 health plans that -- close competitors to Health Net, they 12 are some of the smaller carriers. That's what creates 13 opportunity for those. And if it were the case that, 14 hypothetically, that if Health Net were to exit, and their 15 enrollees were to go to the smaller players, and that'd 16 help them expand. That opens up the possibility for more 17 competition.</p> <p>18 It's -- so I think it's that dynamic that we 19 really want to pay attention to.</p> <p>20 COMMISSIONER JONES: You would like me to 21 believe then that if Health Net did exit the small group 22 market in California, the fourth largest provider of 23 managed care and health insurance in the commercial market 24 in California, that that would not reduce consumer choice? 25 DR. WU: I would urge you to consider what</p> <p style="text-align: right;">Page 122</p>	<p>1 California?</p> <p>2 DR. WU: Sure. So Exhibit 6B shows insurance 3 enrollment and shares by carrier for individual insurance, 4 and that table shows that Health Net has a 10.8 percent 5 share.</p> <p>6 COMMISSIONER JONES: So were Health Net to exit 7 the individual market in California after this merger, 8 wouldn't that have a negative impact on competition in the 9 insurance market in California?</p> <p>10 DR. WU: Well, my answer is similar to what I 11 said before, which is under the conditions where exit 12 would be likely, that would be a point where Health Net 13 would not be in the same position as you see it today. 14 And then again, we do need to think about what the market 15 reactions are and market dynamics are after exit. It's 16 not a static process. So when a firm exits, that's what 17 creates the opportunity.</p> <p>18 COMMISSIONER JONES: So let's go back to 19 Exhibit 5B in the binder, which is at CDix124. And that's 20 text that Counsel from the Department was asking about a 21 moment ago, which identifies those regions in which Health 22 Net individual market is lowest or second lowest-price 23 issuer. Do you see that exhibit in front of you? 24 DR. WU: I do. Thank you. 25 COMMISSIONER JONES: Can you tell me what</p> <p style="text-align: right;">Page 124</p>
<p>1 opportunities that that presents for those health plans, 2 those health plans that are -- also have the lowest -- 3 low-price health plans, that compete against Health Net's 4 low-price plans, and that that's the opportunity for them 5 to get -- share in enrollment.</p> <p>6 COMMISSIONER JONES: Isn't it more likely that 7 the three largest carriers -- Kaiser Permanente, Anthem 8 Blue Cross and Blue Shield would move into that space? 9 DR. WU: Well, I'm not so sure. Because it goes 10 back to an economic analysis that does more than literally 11 just counting -- counting doses and counting on the fact 12 that a big firm is nationally going to get all the share. 13 It really goes back to an analysis, who are the closest 14 competitors to the firm that is existing? That's what's 15 going to determine whether the result is less 16 concentration or more concentration in the marketplace.</p> <p>17 COMMISSIONER JONES: I just have a hard time 18 thinking less is more. But let's turn to Exhibit 6B, 19 attached to your testimony, which is Federal California 20 Insurance Enrollments Shares by Carrier Individual 21 Insurance. Do you have that, sir? 22 DR. WU: I do. 23 COMMISSIONER JONES: So can you tell me what the 24 size of the market share is that Health Net has in managed 25 care and the commercial health insurance market in</p> <p style="text-align: right;">Page 123</p>	<p>1 percentage of the individual market share is held by 2 Health Net in southern California?</p> <p>3 DR. WU: I don't know if I know that off the top 4 of my head.</p> <p>5 COMMISSIONER JONES: Would that be important to 6 know from the point of determining whether Health Net's 7 exit from leading the market might have anticompetitive 8 effects? 9 DR. WU: Well again, that goes back to two 10 things. One, understanding the likelihood of exit, which 11 is less likely if a firm is -- like Health Net is by 12 product, that is the features consumers want, and low 13 price. We would hope that the competitive process works. 14 And health plans that deliver a great product at a great 15 price would get greater enrollment.</p> <p>16 But this does not mean that there aren't other 17 competitors that serve these markets, and that's a dynamic 18 that we want to consider.</p> <p>19 COMMISSIONER JONES: So is that analysis 20 completely independent then of the size of the market 21 share that Health Net has in southern California? 22 DR. WU: No. My point is that when we look at 23 timing. If we're considering the effect of an exit, we'd 24 have to consider what share -- what are the likely shares 25 and what's the likely pricing, after, to be in place by</p> <p style="text-align: right;">Page 125</p>

<p>1 the time that exit -- by the time we're actually 2 contemplating the effect of that exit. 3 When we're talking about a time when an exit's 4 actually likely, I don't -- you know, I don't think that's 5 going to be in a place where Health Net is offering a 6 great product at a very low price. 7 COMMISSIONER JONES: That goes back to the level 8 issue. But again, putting aside that argument for a 9 moment, Exhibit 5B indicates that in reaching 15 -- Region 10 16 and 17 and 19 and Region One, that in 2014, 2015 and 11 2016, Health Net is the lowest or second lowest-priced 12 issuer. Correct? 13 DR. WU: Yes. 14 COMMISSIONER JONES: Okay. Assuming that Health 15 Net has a significant market share in these areas, 16 wouldn't Health Net's departure from the individual market 17 in southern California have an anticompetitive effect to 18 the second -- the first or second lowest-priced product? 19 You said you needed to have some information on pricing to 20 make a decision. I've given you that information. 21 Wouldn't that have a negative competitive effect, where 22 you exit the market in southern California? 23 DR. WU: I think that's the part where the 24 assumptions don't make any sense. Because when I think 25 about a situation where you've got a firm offering a great</p> <p style="text-align: right;">Page 126</p>	<p>1 that have a negative impact on competition? 2 DR. WU: Well, it would depend on what the 3 market response is from the other players in the 4 marketplace. For others who -- who can offer a great 5 product, also at a low price, that's their opportunity to 6 serve that segment. 7 COMMISSIONER JONES: Okay. And then I just have 8 a couple questions for the executives from Health Net, 9 from Centene. I've been listening very carefully, and I 10 do appreciate your attendance and your testimony and your 11 responsiveness to the questions. 12 I think the first question I have is for 13 Mr. Baldwin, from Centene. And that question is this. 14 As I have reviewed the merger agreement with respect to 15 the Form A, other than the statements that you've made in 16 those documents, and here at this hearing, other than 17 that, I am unable to find any enforceable guarantee that 18 California can enforce to make sure that Centene -- and 19 its -- after the merger with Health Net -- with Health 20 Net, remains in the individual small group commercial 21 market in California. So is there something you can point 22 me to, other than what you said with regard to the nature 23 of your business and your commitment to do this -- is 24 there anything binding in any of these documents that 25 would be enforceable in any way?</p> <p style="text-align: right;">Page 128</p>
<p>1 product at a low price, that is exactly when exit is not 2 likely. But when exit's not likely it also means that 3 that's not -- that's not the situation that would be in 4 place to actually evaluate an exit. 5 By the time a firm is contemplating exit, that's 6 not likely to be the case where they are -- they have a 7 high share. And the -- not -- probably not likely the 8 case that they're in the lowest-price plan. 9 COMMISSIONER JONES: Okay. So was it -- was it 10 likely that after United Healthcare acquired PacifiCare, 11 which was a perfectly good health insurer in the 12 commercial market in California, that was making a 13 reasonable return, was it likely that United would do 14 that, which is exit PacifiCare from the market, and 15 ultimately exit the market itself? The individual market? 16 DR. WU: Well, I -- 17 COMMISSIONER JONES: I ask wasn't that unlikely? 18 But it occurred. 19 DR. WU: I don't know the facts of that 20 transaction. 21 COMMISSIONER JONES: Okay. Let me -- again, 22 putting aside the likelihood for that, if Health Net were, 23 after the merger, to exit from southern California, and 24 given that it's the first or second lowest-priced issuer 25 in the individual market in southern California, wouldn't</p> <p style="text-align: right;">Page 127</p>	<p>1 MR. BALDWIN: To my knowledge, there's nothing 2 binding in those documents. However, we've indicated 3 that we're committed to growing this company, and 4 committed to the commercial marketplace. And we'd be 5 pleased to have discussions about the appropriate manner 6 to affirm that. 7 COMMISSIONER JONES: I appreciate that. And I 8 listened attentively as you responded to questions from 9 Counsel about each of the areas you be happy to have 10 discussions. I do appreciate that. 11 Let me just ask Mr. Sell of Health Net if I'm 12 missing anything. I've not seen anything, but the last -- 13 I'll ask if there's anything within the materials that 14 have been submitted that's of a binding nature that would 15 ensure that Health Net, Inc. and Health Net of California 16 and Health Net Life Insurance Company would remain in the 17 individual and small group commercial market after merger? 18 MR. SELL: I can't point you to anything in the 19 materials. But we're willing to stipulate that, and then 20 work with you for a guarantee. 21 COMMISSIONER JONES: Okay. I appreciate that 22 response, gentlemen. Thank you. 23 MR. SELL: Yeah. 24 COMMISSIONER JONES: What we're going to do now 25 is we're going to have an opportunity for interested</p> <p style="text-align: right;">Page 129</p>

<p>1 persons to pose questions. I want to be very clear.  2 These are questions. These are not statements. There  3 will be an opportunity to testify, for those that wish to  4 testify. If anybody makes a statement, I will excuse  5 them, because this is the point where we're asking  6 questions, not making statements. So just want to make  7 sure we're all clear on the ground rules.  8 First, I think we'll start with the interested  9 persons that are from the provider community who  10 previously identified to the Department of Insurance that  11 they wanted to testify. And you will be called to testify  12 in a little bit. Specifically I am referring to the  13 California Medical Association, the California Association  14 of Physician Groups or any other representative of the  15 provider community that would like to pose a question to  16 the advocates.  17 I don't see anyone rushing up here.  18 Okay. All right. Great. Now -- let me now ask  19 with regard to the consumer groups that previously  20 identified their interest in testifying. And you'll have  21 a chance to testify in a moment. Let me ask if any of  22 them would like to come forward and ask questions. And  23 I'm thinking specifically of Health Access, Consumer Union  24 and Consumer Watchdogs. Those were the three that  25 provided, I believe, testimony. But any other consumer</p> <p style="text-align: right;">Page 130</p>	<p>1 My question is will Centene promise to resolve  2 litigation on behalf of these consumers in a way that will  3 benefit consumers, paying them back for unexpected costs,  4 as part of the merger?  5 MR. BALDWIN: Let me say that Centene is  6 committed to trying to make sure that in all our health  7 plans, that members are served well, and member issues and  8 disputes are resolved quickly and swiftly and through the  9 different mechanisms that are available to them. And it's  10 certainly not something that we look forward to see, that  11 disputes rise to the level of actual judicial proceedings  12 with respect to it.  13 I don't know all the facts around this case, but  14 once disputes do rise to this level, we think it's  15 probably in the best -- there's good reason, and it's  16 probably in the best interest of the parties to see that  17 process through.  18 MS. ANTONINI: Thank you. The rules that are in  19 development by the Department of Insurance would determine  20 whether an insurance company has adequate provider  21 networks to provide timely access to care. Will Centene  22 submit the Health Net provider network now to full review  23 as a condition of approval of the merger?  24 MR. BALDWIN: We're committed to making sure  25 that Health Net in California and all of our businesses</p> <p style="text-align: right;">Page 132</p>
<p>1 groups that wish to ask questions, then they may do so now  2 as well.  3 Why don't you come up to this location here, and  4 that way the representatives won't have to try to twist  5 around in their seats to see you from behind them. And  6 you can feel free to move these chairs in front of the  7 mics, or maybe Mr. Hinze can help you do that.  8 And what I'll ask is that, again, questions.  9 I'll ask you -- we'll go in order, maybe starting the  10 person most immediately to me. To work the mic, you just  11 push the little button in front of you. And just identify  12 yourself, and then identify who you represent, if you  13 would like to pose a question, you can pose questions,  14 please.  15 MS. ANTONINI: Good afternoon. My name Laura  16 Antonini. I'm Staff Consumer Attorney at Consumer  17 Watchdog. My first question is for Mr. Williamson and  18 Mr. Baldwin of Centene.  19 Consumer Watchdog is currently involved in  20 litigation on behalf of Health Net consumers for  21 misrepresentations the company made about provider  22 networks. As a result of these misrepresentations, people  23 were hit with unexpected out-of-network costs and had to  24 delay medical care because they couldn't find providers in  25 the network.</p> <p style="text-align: right;">Page 131</p>	<p>1 comply with all the applicable rules and regulations  2 regarding provider network, make sure that we -- continue  3 to make sure that we maintain a robust network, and that's  4 our commitment going forward.  5 MS. ANTONINI: But would Centene be willing to  6 submit the network now, as a condition of the merger, to a  7 full review?  8 MR. BALDWIN: If the -- at the direction of the  9 Department, if that's something that they wish to discuss,  10 we'll enter in the discussions regarding that.  11 MS. ANTONINI: Thank you. As was discussed  12 earlier, Health Net has a history of reducing the quality  13 of its benefit plans and canceling plans, and especially  14 in southern California, I know Health Net has canceled all  15 its covered California individual PPOs, and it's in the  16 process of canceling most of its office exchange  17 individual PPOs. And so in the individual market, most  18 people only have access to EPOs, HSPs or HMOs in that  19 individual market. And when these plans are canceled,  20 consumers are left with very little options, and confused  21 and can't find other coverage.  22 And as Mr. Baldwin stated earlier, Health Net  23 wants to combine with Centene in order to compete with  24 bigger companies like Anthem and Blue Cross and Kaiser.  25 But if Health Net continues to cancel these plans in the</p> <p style="text-align: right;">Page 133</p>

<p>1 individual market, it seems like the competition will be 2 reduced, and people will be left with less options. 3 So will Centene commit to not withdrawing plans 4 from the individual market from any regions in California 5 as a condition of the merger? 6 MR. WILLIAMSON: Certainly, as a result of the 7 merger, there's no impact on the products that are being 8 offered by Health Net in any of the regions in California. 9 And there's no plans to change any of those product 10 offerings in any of the geographies at this point. 11 But it's also critical that the leadership team 12 in California, in response to what they see happening in 13 the market, be able to evolve those product offerings and 14 be able to serve offerings in service areas that they've 15 offered as part of continuing to go grow in the California 16 market, continuing to be able to grow its membership. And 17 that's a dynamic process and worth -- we're going to 18 commit to supporting them with the resources and 19 capabilities so they can continue to be responsive to 20 changes in the market. 21 MS. ANTONINI: But will Centene be willing to 22 specifically commit not to withdraw specific individual 23 plans from the market as a condition of this merger? 24 MR. WILLIAMSON: We're going to -- we operate on 25 a local model, so we're going to look very much to the</p> <p style="text-align: right;">Page 134</p>	<p>1 evolve networks -- networks continue to evolve, the 2 design, the product, to be responsive to changes in the 3 market. 4 MS. ANTONINI: Okay. Thank you. 5 Health Net has a history of proposing rates that 6 both the Department of Insurance and Department of Managed 7 Health Care, that regulates in independent areas, have 8 found unreasonable. Although Health Net has ultimately 9 reduced some of those rates as a result, they're under no 10 obligation, under current law, to do so. And so if 11 proposed rates are unreasonable, will Centene commit to 12 not implement any rate proposal that the Commissioner 13 finds unreasonable, as a condition of this merger? 14 MR. WILLIAMSON: We commit to make sure that all 15 of our health plans, including the one in California, are 16 fully compliant with all the rules and regulations 17 regarding the setting of rates in California. And it's 18 our understanding that Health Net has had a productive 19 relationship with the Department of Insurance about a 20 dialogue on rates. And we're committed to making sure 21 that that continues going forward. 22 MS. ANTONINI: Okay. But if the Commissioner 23 finds any proposed rate unreasonable, is there any 24 commitment that Centene is willing to make in response to 25 a finding of an unreasonable proposed rate?</p> <p style="text-align: right;">Page 136</p>
<p>1 local leadership team to be able to make those decisions 2 about how it can evolve its products over time to be able 3 to accomplish what we all want to accomplish here, which 4 is how to get high quality products to members on a more 5 affordable basis. 6 MS. ANTONINI: Okay. Centene anticipates a 150 7 million dollars in cost savings from the merger. Will 8 Centene commit that these savings will not be made by 9 reducing the benefits or network providers in the network? 10 MR. WILLIAMSON: There are no plans to change 11 the provider networks that are in place with Health Net as 12 a result of this merger. There's no impact on the 13 benefits that are being offered to California consumers. 14 And to my knowledge, there's nothing with respect to 15 synergies that would come through either one of those 16 avenues. 17 MS. ANTONINI: I understand there's no plans to 18 do that. But will Centene commit that these 150 million 19 dollars in cost savings will not be the result of reducing 20 that benefit from -- or reducing networks? 21 MR. WILLIAMSON: I'll have to give that -- 22 understand the implications of that with more thought. 23 But I can tell you that there's no impact from the merger 24 on benefits or on networks. Again, the local leadership 25 team is going to have to make sure that they continue to</p> <p style="text-align: right;">Page 135</p>	<p>1 MR. WILLIAMSON: We're committed to making sure 2 that we are in compliance with all the laws and 3 regulations regarding rate setting in California. 4 MS. ANTONINI: Okay. Thank you. 5 In response to one of the Department of 6 Insurance representative's questions, Centene reaffirmed 7 it's commitment that California policyholders will not 8 bear the cost of any executive's compensation associated 9 with the merger. Can Centene commit to an account for any 10 executives' compensation costs in rate filings to confirm 11 that these costs are not going to be passed on to 12 policyholders? 13 MR. WILLIAMSON: At the direction of the 14 Department, we would be pleased to talk about how we could 15 affirm the commitment we've expressed in this area. 16 MS. ANTONINI: In past mergers, funds have been 17 dividend to parent companies from California affiliates' 18 parent companies after the merger has taken place, and 19 sometimes these transfers come in the form of an ambiguous 20 payment for undue disclosed administrative services. And 21 usually there's no detail providing where the money comes 22 from, and no guarantees policyholders will pay merger 23 financing or other costs. So will Centene commit to 24 providing a detailed accounting of any amount that Health 25 Net needs or for services, including the market value of</p> <p style="text-align: right;">Page 137</p>

<p>1 those services?</p> <p>2 MR. WILLIAMSON: We're committed to making sure</p> <p>3 that we're -- that Health Net is in compliance with all</p> <p>4 the laws and regulations in the state of California,</p> <p>5 including with respect to inter-company agreements going</p> <p>6 forward.</p> <p>7 MS. ANTONINI: But no specific commitment that</p> <p>8 you'll provide detailed information about any money that</p> <p>9 Health Net feeds to Centene for services.</p> <p>10 MR. WILLIAMSON: We're committed, again, to</p> <p>11 making sure that we comply with extensive laws and</p> <p>12 writings about those inter-company agreements, and ensure</p> <p>13 that we're complying with them.</p> <p>14 MS. ANTONINI: Centene has identified three</p> <p>15 administrative activities, I believe. Claims handling,</p> <p>16 customer services and I.T. that Health Net will continue</p> <p>17 to conduct with its current vendors in 2016, but may move</p> <p>18 in-house in Centene after 2016. We think these activities</p> <p>19 provide a perfect opportunity for Centene to detail the</p> <p>20 cost savings from, quote, efficiency claims the merger</p> <p>21 will provide. Will Centene commit to disclosing detailed</p> <p>22 information about each of those administrative costs,</p> <p>23 beginning in 2016, so we can see -- we can have a baseline</p> <p>24 for comparison with the current earnings going forward?</p> <p>25 MR. WILLIAMSON: Well, we do think that there</p> <p style="text-align: right;">Page 138</p>	<p>1 not provide consumers with additional choices, rather than</p> <p>2 supplanting an existing option?</p> <p>3 MR. BALDWIN: Well, Centene has operated a</p> <p>4 health plan in California, California Health and Wellness,</p> <p>5 for a number of years now. It's been successful in its --</p> <p>6 MS. MA: Two years. Sorry.</p> <p>7 MR. BALDWIN: -- positive impact on members and</p> <p>8 providers in the community. It's grown rapidly. Our</p> <p>9 focus has been to continue to have and enhance the growth</p> <p>10 and success of that business, and the opportunity to</p> <p>11 present itself to potentially merge with Health Net. And</p> <p>12 when we looked at it, we saw tremendous potential from</p> <p>13 being able to combine two companies, and the benefits that</p> <p>14 it could potentially bring to make Health Net more</p> <p>15 competitive, by being able to adapt our local operating</p> <p>16 model to what Health Net does today. And that's how we</p> <p>17 have evolved to this point of -- through the merger with</p> <p>18 Health Net entering the markets more broadly in</p> <p>19 California.</p> <p>20 MS. MA: And so core health care business has</p> <p>21 been based on negotiated rates with Medi-Cal, Covered</p> <p>22 California and the rates charged to commercial customers,</p> <p>23 particularly the large group market. So how will you</p> <p>24 achieve efficiencies in savings based on the business</p> <p>25 model on negotiated rates, and how will these efficiencies</p> <p style="text-align: right;">Page 140</p>
<p>1 are going to be meaningful benefits from the merger.</p> <p>2 They're going to help improve affordability and help</p> <p>3 Health Net be a stronger competitor in California by</p> <p>4 combining the strength of the two companies. And that's</p> <p>5 something that we're committed to making sure that we</p> <p>6 follow through on to be able to ensure that Health Net can</p> <p>7 continue to grow and be more competitive in California in</p> <p>8 the future.</p> <p>9 MS. ANTONINI: But no specific commitment that</p> <p>10 you'll disclose this specific information about</p> <p>11 administrative costs?</p> <p>12 MR. WILLIAMSON: If -- we'll do -- we'll comply</p> <p>13 with the laws with respect to these kind of issues in</p> <p>14 California.</p> <p>15 MS. ANTONINI: Okay. Thank you. I have no</p> <p>16 further questions.</p> <p>17 COMMISSIONER JONES: Okay. Thank you very much.</p> <p>18 Next, Miss Ma from Health Access.</p> <p>19 MS. MA: I'm Tam Ma. I'm with Health Access</p> <p>20 California. The first question is for Mr. Baldwin.</p> <p>21 The proposed merger does not increase the number</p> <p>22 of plans participating in Medi-Cal, Covered California or</p> <p>23 the commercial market here in California. So why has</p> <p>24 Centene chosen to increase its presence in California</p> <p>25 through an acquisition, rather than as a new entrant? Why</p> <p style="text-align: right;">Page 139</p>	<p>1 in savings be shared with consumers?</p> <p>2 MR. SELL: I would characterize our business</p> <p>3 model a little bit different. I think the success of our</p> <p>4 model is working across multiple lines in California. And</p> <p>5 I think there's a lot of compliment across them. I think</p> <p>6 too, that as we've grown, we partnered with physician</p> <p>7 groups and hospitals, and were able to offer more</p> <p>8 affordable products as a result of that.</p> <p>9 And so I think our plan is to grow in all of</p> <p>10 those lines, across time. We've confidentially filed a</p> <p>11 five-year plan with the Department that shows what that</p> <p>12 growth looks like for those products. So I would</p> <p>13 characterize that as sort of the core of how I will</p> <p>14 achieve that.</p> <p>15 MS. MA: So how will those efficiencies and</p> <p>16 savings in growth be shared with consumers?</p> <p>17 MR. SELL: Well, I think that ultimately you're</p> <p>18 looking at affordable products. And so what I tried to</p> <p>19 outline in testimony and some response earlier was that</p> <p>20 for Health Net to continue to be an affordable offering,</p> <p>21 to continue to offer value-based byproducts that clearly</p> <p>22 California consumers have chosen, in a variety of lines,</p> <p>23 we needed to do something strategic. And so the benefits</p> <p>24 that come, both on the administrative and the health care</p> <p>25 cost side, ultimately impact our cost structure and allows</p> <p style="text-align: right;">Page 141</p>



<p>1 us to remain in those ranges where we're at today.</p> <p>2 We can't stipulate what's going to happen to</p> <p>3 health care cost inflation. We don't know what's going to</p> <p>4 happen, especially with drugs, et cetera. But we feel</p> <p>5 like we can compete with this partnership.</p> <p>6 MS. MA: Sure. So can consumers expect to</p> <p>7 receive lower premiums and lower cost-sharing as a result</p> <p>8 of the cost merger?</p> <p>9 MR. SELL: I think consumers can expect to</p> <p>10 receive competitive products from Health Net that will be</p> <p>11 in line with the whole dialogue we've had about how do we</p> <p>12 maintain those key price positions within the State.</p> <p>13 MS. MA: Consumers have struggled to get good</p> <p>14 customer service from Health Net. Patients feel they</p> <p>15 can't get the care they need when they need it, and they</p> <p>16 say Health Net did a poor job of answering their</p> <p>17 questions. You and Mr. Baldwin have previously said today</p> <p>18 that no change is planned to the management or the</p> <p>19 structure of processes of Health Net. And that's going to</p> <p>20 be left to the California team to figure out how to do</p> <p>21 things going forward.</p> <p>22 So how does Centene plan to improve customer</p> <p>23 service and grievances to consumers and servers and</p> <p>24 taxpayers who are spending a lot of money on health care?</p> <p>25 MR. SELL: Yeah. Well, we do think it's</p> <p style="text-align: right;">Page 142</p>	<p>1 we participate in. That's why we're looking to put in</p> <p>2 place the same model in California as we operate</p> <p>3 everywhere else.</p> <p>4 I think that -- and in terms of what hasn't</p> <p>5 worked well, I don't think anything has not worked well.</p> <p>6 So I'm -- I think it's been a track record of always there</p> <p>7 are issues that we try to work through and try to get</p> <p>8 better. But there's nothing I can point to systemically</p> <p>9 in terms of -- with respect to our Medicaid programs in</p> <p>10 other states.</p> <p>11 MS. MA: Great. And then can you give us</p> <p>12 specific examples of how you will improve upon Health</p> <p>13 Net's low quality rates for its medical products? And in</p> <p>14 particular, the NCQA has given Health Net's medical</p> <p>15 practices one of the lowest ratings for customer service,</p> <p>16 prevention and treatment.</p> <p>17 MR. BALDWIN: Well again, the benefits of this</p> <p>18 merger are that it provides a more scaled Health Net to</p> <p>19 access the capabilities and resources of Centene. And we</p> <p>20 don't apply a template. So we very much believe in local</p> <p>21 operating models. So again, the local team will need to</p> <p>22 look at what resources, capabilities they feel -- and</p> <p>23 programs can best impact members in California. But some</p> <p>24 of the things that I do think are very much of mind is</p> <p>25 that Centene has a very strong approach for integrated</p> <p style="text-align: right;">Page 144</p>
<p>1 important to be able to improve service to member services</p> <p>2 and members and address their grievances and appeals</p> <p>3 thoroughly and in a timely manner. And we will be looking</p> <p>4 to put more of Centene's operating models, I spoke to,</p> <p>5 with respect to Health Net in California, because we found</p> <p>6 that for -- that operating model does result in more</p> <p>7 responsiveness and a better experience for consumers. So</p> <p>8 in the past we will be looking at a number of the</p> <p>9 outsourced arrangements that currently exist, and trying</p> <p>10 to put more of those in position that touch members and</p> <p>11 providers in California.</p> <p>12 And we do believe that having a California-based</p> <p>13 insurer going forward, with more employees in California,</p> <p>14 serving members, that you will see the experience and</p> <p>15 proof going forward.</p> <p>16 MS. MA: And my last question -- second to last,</p> <p>17 Centene is known for Medicaid business in many states. So</p> <p>18 what do you feel has worked well, and what hasn't worked</p> <p>19 so well?</p> <p>20 MR. BALDWIN: We have a successful track record</p> <p>21 of growth in Medicaid, increasing programs, increasing the</p> <p>22 number of states that we participate in. And I think</p> <p>23 that's worked well is the operating model that we put in</p> <p>24 place to be local, which enables us to be responsive to</p> <p>25 the needs of the consumers, providers and the areas that</p> <p style="text-align: right;">Page 143</p>	<p>1 care management.</p> <p>2 It's members, through the utilization of</p> <p>3 savings, our specialty companies, through our integrated</p> <p>4 I.T. system -- which again, can combine -- members are</p> <p>5 having to get services across physical, behavioral,</p> <p>6 pharmacy, ancillary services, to present information for</p> <p>7 care managers, are on more timely basis. That enables</p> <p>8 them, that ensures that any issues with respect to our</p> <p>9 members' care are taken care of and dealt with.</p> <p>10 And that same integrative approach also is</p> <p>11 reflected in the analytical capabilities we have, which</p> <p>12 again, are designed to be able to detect quickly things</p> <p>13 that are emerging with respect to care gaps with members.</p> <p>14 Centene's model of in-sourcing, instead of outsourcing,</p> <p>15 fosters the ability to deliver this integrated approach to</p> <p>16 members. And that's one of the reasons that we'll be</p> <p>17 looking at evolving the model and Health Net, in</p> <p>18 California, over time.</p> <p>19 And again, the other thing I would point to is</p> <p>20 the array of health -- array of health programs that</p> <p>21 Centene has developed over the years through all of its</p> <p>22 different health plans address quality and cost for</p> <p>23 members. One of the manifestations of scale is that</p> <p>24 Health Net is going to be part of a span of pricing with</p> <p>25 20 health plans across the United States, all of whom are</p> <p style="text-align: right;">Page 145</p>

<p>1 trying to innovate and do different things that help 2 members with respect to getting better quality of care and 3 address health care costs.</p> <p>4 And the collective experience and scale being 5 able to be brought by the leadership team, where 6 appropriate, and to deal with priorities of California 7 membership in appropriate ways, are, I think, all going to 8 be elements that are going to see the company being more 9 competitive and benefit California consumers.</p> <p>10 MS. MA: So will you be able to make a 11 commitment to bring the medical quality rating to 12 above-average within three years?</p> <p>13 MR. BALDWIN: We commit to provide the resources 14 and capabilities and access to these sort of programs to 15 support the local leadership team to improve the quality 16 ratings and medical standards of all the programs in 17 California.</p> <p>18 MS. MA: And for Mr. Sell, so what progress has 19 Health Net made toward complying with SB 137, Senator 20 Hernandez's legislation to require health plans have to 21 have updated adequate provider templates?</p> <p>22 MR. SELL: So SB 137 takes effect this July. As 23 I talked a little earlier, provider directory, the 24 accuracy, we've created an integrity unit that is doing 25 outreach to physicians to make sure that we have current</p> <p style="text-align: right;">Page 146</p>	<p>1 through the combined companies' scale and capabilities, 2 providing access to the resources available to a much 3 larger organization, to help, in California, address any 4 of the issues. And certainly in an issue like continuing 5 to improve quality scores, that would be -- that will -- 6 that will be a focus going forward.</p> <p>7 MS. MENDELSON: In so doing that, would you be 8 willing to commit to having that quality score raised 9 within three years, regardless of whether it's under local 10 control or the assistance of Centene?</p> <p>11 MR. BALDWIN: We'll commit all the resources and 12 capability that enable the leadership team to move as 13 quickly as possible to raise the quality scores in 14 California.</p> <p>15 MS. MENDELSON: Great. Thank you.</p> <p>16 COMMISSIONER JONES: I want to thank the 17 consumer representatives. And I appreciate the response 18 of Centene and Health Net to the questions they posed. 19 I would just have a couple more questions. 20 The to the representatives assisting Health Net, 21 then we'll turn the floor over to parliament. Oh, I'm 22 sorry. For members of the public who want to ask 23 questions too, we were, I think, generating a list. 24 And so let me ask if there are any other members 25 of the public that wish to ask questions of Health Net?</p> <p style="text-align: right;">Page 148</p>
<p>1 CNR in our data. We've modified our contracts that 2 requires them to update us within 30 days of any material 3 demographic address changes, et cetera. And then as I 4 mentioned, we'll be participating in this pilot in 5 California that's run through the American Health 6 Insurance Plans, with Blue Shield and others in the State, 7 that's designed to aggregate information, use of 8 technology.</p> <p>9 MS. MA: Thank you. Those are all the questions 10 I have, Mr. Commissioner.</p> <p>11 COMMISSIONER JONES: Thank you.</p> <p>12 Next, we have a representative of Consumers 13 Union, I believe.</p> <p>14 MS. MENDELSON: That's correct. My name's Dena 15 Mendelsohn of the Consumers Union. I will be submitting 16 written, and so I only have the one.</p> <p>17 Stepping back to the quality rating issue that 18 we've been talking about several times today, with all due 19 respect to the local team here, and Health Net in 20 California, at this time Health Net has a history of low 21 quality scores, both from NCQA, but also from a number of 22 other organizations. My question is is Centene willing to 23 commit to stepping in and assisting Health Net directly in 24 bringing up the rating within a period of time?</p> <p>25 MR. BALDWIN: We're certainly committed to,</p> <p style="text-align: right;">Page 147</p>	<p>1 And again, it's not a -- no repeat questions that have 2 already been posed. So I don't want to have repetition. 3 I appreciate consumer advocates leading by example in that 4 regard.</p> <p>5 So let me see if there are any other members of 6 the public that wish to ask questions -- a question or 7 questions. And again, it's a question, and not repetitive 8 and what's been asked.</p> <p>9 Please come forward.</p> <p>10 Make yourself at home right here.</p> <p>11 MR. OJEDA: Hi.</p> <p>12 COMMISSIONER JONES: Identify yourself for the 13 record, please.</p> <p>14 MR. OJEDA: My name is Gil Ojeda. I've been 15 director for 18 years with the California Program on 16 Access to Care, a division of Latino Coalition for Healthy 17 California. And I was actively involved in the 2004 and 18 2005 merger efforts when then PacifiCare, and provided 19 technical assistant and legislature and to the 20 Commissioner of Insurance back in 2004. And my question 21 is drawn from that experience.</p> <p>22 We understand that you know the health -- 23 medical rates are very, very low in California. We know 24 that Health Net has objected, rightfully so, about a low 25 rate structure, and there's an effort now to try to do</p> <p style="text-align: right;">Page 149</p>

<p>1 something about it, supposedly to special sessions. Now  2 it appears likely that there's not going to be significant  3 increase that's going to come out of that process. But it  4 also appears now likely there may be in fact a reduction  5 of the child, adult member per month, which is a  6 significant possibility.</p> <p>7 So the question is how is Health Net, as the  8 number two provider of Medi-Cal, going to, in the state of  9 California, respond in a way that's not going to  10 substantially change the health care, welfare if you will,  11 of the State of California in lower income recipients?</p> <p>12 MR. SELL: We're committed to the Medi-Cal  13 program. We have a fantastic working relationship with  14 the Department of Health Care Services, and we intend to  15 continue working with them. The rate discussions are  16 ongoing, and so we'll work with the rates that come out  17 through that process and dialogue. And we've had a  18 history of doing that. And getting to an  19 actuarially-sound rate is something we've done with them  20 pretty methodically. And sometimes we agree, and  21 sometimes we disagree. But we work through that in a  22 pretty cooperative process, and we'll continue to do that.</p> <p>23 MR. OJEDA: There's been an issue and questions  24 alluded to the issue of all these changes. If Health Net  25 changes makes the decisions about its marketplace and size</p> <p style="text-align: right;">Page 150</p>	<p>1 thrive.</p> <p>2 Now obviously the team is going to have to  3 continue to evolve products and markets to respond, to be  4 more competitive. But that's not due to merger. That's  5 something that would happen in any course, and is  6 essential for a company to continue to be competitive and  7 continue to be responsive to the market that it sees.</p> <p>8 But with respect to the merger, there should be  9 no uncertainty that we're committed to growth and seeing  10 the company thrive in all of its product lines.</p> <p>11 MR. SELL: And if I could just add, I mean I  12 would point you to the testimony that was filed by several  13 brokers, by several medical groups and others, that say  14 "We're supportive of this. We see the commitment to  15 growth. We work with you in multiple lines of business.  16 And we understand that that's going continue."</p> <p>17 So you know, I think as we go out and gauge the  18 market, people feel fairly comfortable, especially with  19 the way this is being designed, and local management,  20 local continuity, local decision-making. The biggest  21 fail, and we have been rolling for many, many, many years.</p> <p>22 MR. OJEDA: Okay. Great. The point is many,  23 many people in the room, people have been asking  24 questions, have the sense of a great uncertainty. And  25 they're going to specify that you resolve this. Thank</p> <p style="text-align: right;">Page 152</p>
<p>1 economy, particularly at time of business, or out of -- in  2 a particular areas, okay? There's a great deal of  3 uncertainty under health insurers, like the response to  4 the market. But back in 2004, when this issue of market  5 uncertainty and decision uncertainty was reflected with  6 Blue Cross, Anthem, the question was raised what's the  7 cost of that uncertainty that Blue Cross put on its market  8 and that Health Net will put in terms of California? They  9 chose to resolve it by a public investment strategy.</p> <p>10 The question is whether or not Health Net has  11 laid out the conditions early, and prepared to negotiate  12 those conditions with regard to what sort of public  13 investments should the public get in response to what you  14 are suggesting is the public uncertainty about a series of  15 decisions you will be making over the next two or three or  16 four years?</p> <p>17 MR. BALDWIN: Well, just I don't think there is  18 any reason for public uncertainty about Centene's  19 commitment to making sure that Health Net have the  20 resources to be able to commit to continuing to help  21 Health Net grow in California, to grow in all its product  22 lines, including in commercial. And I think that's  23 evidenced in the letter from our CEO, in terms of that.  24 So there's -- there should be no uncertainty with respect  25 to our mission to continue to see the company continue to</p> <p style="text-align: right;">Page 151</p>	<p>1 you.</p> <p>2 COMMISSIONER JONES: Thank you, sir. Thank you  3 for your question.</p> <p>4 Thank you for response.</p> <p>5 MR. SELL: Thank you.</p> <p>6 COMMISSIONER JONES: A couple of additional  7 questions that I have. One of the things that I, as an  8 Insurance Commissioner, am very, very pleased about is the  9 work that my office and the work of my Department -- the  10 work of the Department of Managed Health Care and the work  11 of Senators and work of the Governor's branch, a huge  12 amount of work, the work of everyone in fully implementing  13 Affordable Care in California.</p> <p>14 And we have a strong policy commitment across  15 all of the constitutional offices, across all of the  16 agencies, both regulatory and others, that are involved in  17 implementing various public-pay insured programs toward  18 the success of this endeavor. And we're most pleased that  19 Health Net, as you testified to earlier, has been an  20 active participant in that endeavor.</p> <p>21 My question, for Mr. Baldwin, is whether Centene  22 will commit to continuing Health Net's participation in  23 our health benefits exchange, Covered California, both in  24 the emerging market, and the small group market, for the  25 period of -- from 2017 to at least 2019, which is the</p> <p style="text-align: right;">Page 153</p>

<p>1 next -- essentially the next year increment of the market 2 that qualified health plans are going to be asked to apply 3 to participate?</p> <p>4 MR. BALDWIN: We are very committed to making 5 sure that Health Net continues its commercial business. 6 That includes Covered California. And if requested by the 7 Department to affirm that in the form you outlined, we 8 would be pleased to enter into discussions about that.</p> <p>9 COMMISSIONER JONES: I appreciate that. And 10 also, wondering whether Centene has any plans to expand 11 the areas of the State in which it sells product through 12 Covered California currently? You enter a certain number 13 of regions, not statewide, a couple years. Health Net 14 asked for expansion and was told no. If this year we told 15 them yes, great. But going forward, the question for 16 Centene is do you have any plans to expand Health Net to 17 more regions across California and the immediate amount of 18 programs?</p> <p>19 MR. BALDWIN: We do want to see Health Net grow 20 in California. We're a growth company. And a part of 21 growing is looking for opportunities for geographic 22 expanding. So that is certainly something that we would 23 expect the local management team to pursue and look for 24 ways to continue to be able to grow and continue 25 evaluating new regions such as that. But I can't -- I can</p> <p style="text-align: right;">Page 154</p>	<p>1 is more. And the more competition we can have, in more 2 regions of the state, the better off we are. But that's 3 not a question. Let me go to my question.</p> <p>4 MR. SELL: Great.</p> <p>5 COMMISSIONER JONES: And my next question is one 6 that relates to what I think is one of the important -- 7 and dare I say it -- increasingly unique value 8 propositions that Health Net had to our market, and that 9 is their sale of PPO product, which we're seeing our 10 consumers remain interested in. The EPO product, the HMO 11 product do not provide an opportunity for consumers to go 12 outside of the network. PPO product does, and that's a 13 convenience -- dare I say it, a necessity in some cases 14 for consumers who can't find care they need within the 15 network.</p> <p>16 But I have a particular provider in mind outside 17 the network they would like access to who's critical and 18 central to their health and wellbeing. So the question is 19 whether -- and let me first direct Mr. Baldwin -- whether 20 Centene plans to maintain Health Net's PPO products going 21 forward?</p> <p>22 MR. BALDWIN: We have no plans to, as a result 23 of the merger, change the products that are offered by 24 Health Net in California. And that includes the 25 commercial PPO -- EPO and PPO products. Again, we would</p> <p style="text-align: right;">Page 156</p>
<p>1 tell you that that's the kind thing that we, in our 2 operating model, we're going to look for leadership to 3 determine through the different avenues for growth, what 4 is the best way going forward.</p> <p>5 COMMISSIONER JONES: Thank you. 6 And then let me pose the same questions to 7 Mr. Sell.</p> <p>8 As the leader of the local leadership team -- 9 and I'm appreciative of your explaining things, 10 Mr. Baldwin, Cantene's approach in allowing for local 11 plans to lead.</p> <p>12 And the same question, Mr. Sell, in that regard.</p> <p>13 MR. SELL: Well, on both items, I think we'll 14 stipulate with you in terms of participation in Covered 15 California for the next three years. And we're adding 16 three regions in the year for 2016. And we look to be 17 able to expand as we go.</p> <p>18 As was mentioned, Covered California is an 19 active purchaser. And so it is a dialogue and a 20 competitive process in terms of how that -- how that 21 works.</p> <p>22 COMMISSIONER JONES: Well, I recognize that you 23 may want to expand. And sometimes they won't let you 24 expand. That happened twice. And I think that was a big 25 mistake, because I don't think less is more. I think more</p> <p style="text-align: right;">Page 155</p>	<p>1 want the local leadership team to make sure they continue 2 to evolve the product offerings to be responsive to the 3 changes in the market and economics and the competitive 4 conditions as part of executing on a growth strategy.</p> <p>5 But we have no plans as a result of the merger 6 to change its current product lineup.</p> <p>7 COMMISSIONER JONES: Okay. 8 Mr. Sell.</p> <p>9 MR. SELL: I would echo Mr. Baldwin's comments. 10 In the group market today, we offer products in an 11 enhanced-choice package, which includes the full PPO. And 12 so companies are able to offer their employees, and make 13 those changes, which is inclusive of that. So we intend 14 to keep that moving forward, small group and large group, 15 in the individual market. We have a PPO that's ACA 16 compliant, and our intention would be to continue that. 17 And we sit down with your group every quarter, and small 18 group, and annually, in terms of individual talk about 19 rates and what that all looks like. So that would be our 20 intention, to continue doing that.</p> <p>21 COMMISSIONER JONES: I hope then we can also 22 have a conversation about the individual market PPO 23 product, because that -- it did decide to discontinue in 24 2015, the individual market, PPO market in Covered 25 California. And my hope would be that we could have a</p> <p style="text-align: right;">Page 157</p>

<p>1 conversation about a number of items we've decided, you</p> <p>2 know, that need to be talked about, about restoring that</p> <p>3 product, making it available.</p> <p>4 MR. SELL: We can absolutely have that</p> <p>5 conversation.</p> <p>6 COMMISSIONER JONES: I appreciate that very</p> <p>7 much.</p> <p>8 Well, I want to thank you again. And I want to</p> <p>9 suggest in the interest of time -- although in a normal</p> <p>10 course of an APA proceeding, I would now move to give you</p> <p>11 the opportunity for sort of surrebuttal testimony and</p> <p>12 additional cross. I think my perception has been that</p> <p>13 you've been very responsive in your answers. And so I'm</p> <p>14 going to afford Centene, Health Net, the opportunity to</p> <p>15 provide anything they would like in writing by way of</p> <p>16 rebuttal, additional evidence, additional testimony,</p> <p>17 additional argument after the hearing.</p> <p>18 And if I believe the -- give the Department the</p> <p>19 same opportunity, rather than doing another round, if you</p> <p>20 will.</p> <p>21 I want to make sure that that's acceptable to</p> <p>22 Centene, Health Net Counsel before we do that.</p> <p>23 MR. DiCANIO: It is. Thank you.</p> <p>24 COMMISSIONER JONES: Okay. Is that acceptable</p> <p>25 to the Department's Counsel?</p> <p style="text-align: right;">Page 158</p>	<p>1 because in the exhibit binder, it is in black and white,</p> <p>2 and the copy I provided to you is in color.</p> <p>3 COMMISSIONER JONES: Okay. I just want to make</p> <p>4 sure that Counsel for Centene and Health Net have a copy</p> <p>5 of the document.</p> <p>6 MR. SELL: We do. Thank you.</p> <p>7 COMMISSIONER JONES: Mr. Sell has affirmed that.</p> <p>8 So Counsel for the Department, the floor is</p> <p>9 yours.</p> <p>10 MR. HINZE: Thank you, Commissioner.</p> <p>11 Dr. Scheffler and Dr. Fulton, if I could ask</p> <p>12 that you please state and spell your name for the record.</p> <p>13 COMMISSIONER JONES: Oh, I'm sorry. We forgot</p> <p>14 to swear you in.</p> <p>15 MR. HINZE: Oh.</p> <p>16 COMMISSIONER JONES: I apologize. That's my</p> <p>17 fault. I'm going to ask Dr. Fulton and Dr. Scheffler to</p> <p>18 please stand up and raise your right hand.</p> <p>19 Do you swear or affirm the testimony you're</p> <p>20 about to give is the truth, the whole truth and nothing</p> <p>21 but the truth?</p> <p>22 DR. FULTON: I do.</p> <p>23 DR. SCHEFFLER: (Indicating.)</p> <p>24 COMMISSIONER JONES: Dr. Scheffler?</p> <p>25 DR. SCHEFFLER: I do.</p> <p style="text-align: right;">Page 160</p>
<p>1 MR. FINSTON: Yes, Mr. Commissioner.</p> <p>2 COMMISSIONER JONES: All right. He says with</p> <p>3 exhaustion in his voice.</p> <p>4 All right. Again, really want to thank all of</p> <p>5 you. And I would ask, hopefully, if you could remain.</p> <p>6 But if you would be so kind as to take seats in the</p> <p>7 audience. There's a little batter's box there as well.</p> <p>8 What we'll do now is call up the Department.</p> <p>9 They can present witnesses.</p> <p>10 Again, my thanks to the executives from Centene</p> <p>11 and executives from Health Net, to Dr. Wu and to Counsel</p> <p>12 for their testimony, and their responses to the questions</p> <p>13 that have been asked. Most appreciated. Thank you.</p> <p>14 I'm going to ask the Department to take the</p> <p>15 witness table for any testimony that they want to present.</p> <p>16 Okay. So I just want to note for the record</p> <p>17 I've been handed a document entitled "Testimony Regarding</p> <p>18 Centene Corporation's Proposed Acquisition of Health Net,</p> <p>19 Inc. by Richard Scheffler and Brent Fulton at the</p> <p>20 California Department of Insurance, January 22nd, 2016."</p> <p>21 And I don't know, Counsel for the Department, if</p> <p>22 this is already in the exhibit binder or we need to</p> <p>23 separately make this a part of the record.</p> <p>24 MR. HINZE: Thank you, Commissioner. It is in</p> <p>25 the exhibit binder. It is Exhibit 13. I hand it to you</p> <p style="text-align: right;">Page 159</p>	<p>1 COMMISSIONER JONES: Very good. Please have a</p> <p>2 seat. Thank you.</p> <p>3 So let the record note that both Dr. Fulton and</p> <p>4 Dr. Scheffler affirm the oath.</p> <p>5 Counsel Hinze.</p> <p>6 MR. HINZE: Doctors, with that, could you please</p> <p>7 state your name and your title for the record, please?</p> <p>8 DR. SCHEFFLER: Richard Scheffler. Professor of</p> <p>9 Health Economics and Public Policy, University of</p> <p>10 California at Berkeley.</p> <p>11 DR. FULTON: Good afternoon. My name's Brent</p> <p>12 Fulton, Assistant Adjunct Professor of Health Economics</p> <p>13 and Public Policy and School of Public Health at UC</p> <p>14 Berkeley.</p> <p>15 MR. HINZE: Dr. Scheffler and Dr. Fulton, your</p> <p>16 CVs have been entered into the record. Dr. Scheffler,</p> <p>17 your CV is Exhibit 11 at page 131. Dr. Fulton, yours is</p> <p>18 at Exhibit 12, page 159. And your written testimony is</p> <p>19 Exhibit 13 at page 169.</p> <p>20 Dr. Scheffler, may I address my question to you?</p> <p>21 Were you and Dr. Fulton retained by the Department to</p> <p>22 provide an analysis of the impact of health insurer</p> <p>23 consolidation in general, the impact of the proposed</p> <p>24 merger of Centene and Health Net on market concentrations</p> <p>25 in general, and the potential impact for Health Net to</p> <p style="text-align: right;">Page 161</p>

<p>1 exit the commercial health insurance market in California?</p> <p>2 DR. SCHEFFLER: Yes. We were to provide an</p> <p>3 independent and objective analysis.</p> <p>4 MR. HINZE: Could you please present the result</p> <p>5 of your analysis, your conclusions and the bases for your</p> <p>6 conclusions?</p> <p>7 DR. SCHEFFLER: Okay. I'll skip a lot of</p> <p>8 material that is in the record already and cut right to</p> <p>9 the chase. So the road map for the talk and testimony, we</p> <p>10 plan to discuss three following points that the Department</p> <p>11 asked us to look into.</p> <p>12 First, we will briefly summarize the published</p> <p>13 evidence of the impact of health insurance mergers and</p> <p>14 market concentration health insurance on premiums. Second</p> <p>15 we will provide empirical evidence on how the proposed</p> <p>16 Centene-Health Net merger will affect health insurance</p> <p>17 market concentrations with respect to purchasers of</p> <p>18 insurance as well as with respect to hospitals, physician</p> <p>19 groups and other providers of health care services.</p> <p>20 Third, we will provide empirical evidence on how</p> <p>21 health insurance market concentrations would change in</p> <p>22 covered California's rating areas if Health Net were to</p> <p>23 exit that market. We examine this potential scenario</p> <p>24 because of Centene's strong focus in the Medicaid lines of</p> <p>25 business.</p> <p style="text-align: right;">Page 162</p>	<p>1 Prudential Healthcare insurance merger to estimate that</p> <p>2 health insurer consolidation during 1998 to 2006 led to a</p> <p>3 seven percent real increase in large group health</p> <p>4 insurance premiums.</p> <p>5 There have been fewer studies since the passage</p> <p>6 of the ACA, particularly those that have analyzed the ACA</p> <p>7 Health Insurance Marketplaces. One study estimated that</p> <p>8 the second lowest-price silver premium in the</p> <p>9 federally-facilitated marketplaces would have been</p> <p>10 5.4 percent lower had United Health Care decided to</p> <p>11 participate in these markets during the first open</p> <p>12 enrollment in 2014.</p> <p>13 Now turning to the impact of Centene's Health</p> <p>14 Net merger on market concentration. In this section, we</p> <p>15 provided empirical evidence on how the proposed</p> <p>16 Centene-Health Net merger will affect the health insurance</p> <p>17 market concentrations with respect to the purchases of</p> <p>18 insurance as well as with respect to hospitals, physician</p> <p>19 groups and other providers of health care services. On</p> <p>20 the one hand, when an insurer sells its health insurance</p> <p>21 policies to purchases such as individuals and employers,</p> <p>22 its market power stems from its market share within a</p> <p>23 particular line of business. However, as a buyer of</p> <p>24 hospital and physician organization services, an insurer's</p> <p>25 market power from these transactions stem from its full</p> <p style="text-align: right;">Page 164</p>
<p>1 Impact of Health Insurer Concentration: Today</p> <p>2 the five largest insurers in the United States include</p> <p>3 United Health Care, Anthem, Cigna and Humana. But soon</p> <p>4 these five insurers may merge into three in July 2015.</p> <p>5 Anthem announced its intentions to acquire Cigna for 54</p> <p>6 billion dollars, and Aetna announced its intentions to</p> <p>7 acquire Humana for 37 billion dollars. Also, in</p> <p>8 July 2015, Centene announced plans to acquire Health Net</p> <p>9 for almost 7 billion dollars. These mergers require the</p> <p>10 approval of the Department of Justice, as well as the</p> <p>11 Commissioners of Insurance in states impacted by these</p> <p>12 mergers.</p> <p>13 Two recent studies found that higher health</p> <p>14 insurance concentration was associated with lower hospital</p> <p>15 prices, but they did not analyze the impact on premiums.</p> <p>16 However, even if insurers are able to negotiate lower</p> <p>17 provider reimbursement rates, there is substantial</p> <p>18 evidence that these cost savings might not be passed on to</p> <p>19 employers and consumers in the form of lower premiums. A</p> <p>20 pre-ACA study examined firms' profitability, i.e., the</p> <p>21 profitability of employers buying insurance, and found</p> <p>22 that the more concentrated health insurer markets led to</p> <p>23 hire premiums for more profitable firms, providing</p> <p>24 evidence of insurers exercising their market power. A</p> <p>25 second pre-ACA study used the impact of the 1999 Aetna and</p> <p style="text-align: right;">Page 163</p>	<p>1 book of business, including the individual, small group,</p> <p>2 large group -- as an insurer for administrative services</p> <p>3 only -- Medicare Advantage and Medicaid managed care.</p> <p>4 Health Net and Centene operate in separate lines</p> <p>5 of business in counties where they both operate. As such,</p> <p>6 HHIs by product line, which affects purchases of</p> <p>7 insurance, will not increase from the two companies</p> <p>8 merging.</p> <p>9 With respect to hospitals and physician groups</p> <p>10 and other providers of health insurance services, an</p> <p>11 insurer's market power comes from its full book of</p> <p>12 business. When computing HHIs from insurers' full books</p> <p>13 of business enrollment, HHIs will increase in the</p> <p>14 post-merger counties where Health Net and Centene overlap.</p> <p>15 Health Net insures over 2.9 million people in California.</p> <p>16 Health Net's enrollees are spread across 58 California</p> <p>17 counties in commercial, Medicare, Advantage and Medi-Cal</p> <p>18 plans. Centene's California enrollment includes 183,900</p> <p>19 Medi-Cal enrollees located in 19 counties. As such, there</p> <p>20 are 19 counties in California in which Health Net and</p> <p>21 Centene are currently operating. The HHIs calculated from</p> <p>22 insurers' full books in these 19 counties are discussed</p> <p>23 next.</p> <p>24 We started by measuring health insurer market</p> <p>25 concentration, as of July 1st, 2015, in the 19 counties</p> <p style="text-align: right;">Page 165</p>

<p>1 where Health Net and Centene overlap. We used the</p> <p>2 well-known Herfindahl-Hirschman Index, referred to as HHI,</p> <p>3 as our measure of market concentration. HHI has been used</p> <p>4 frequently as a measure of market concentration in merger</p> <p>5 cases brought by the U.S. Department Justice and the</p> <p>6 Federal Trade Commission. The Horizontal Merger</p> <p>7 Guidelines, authored by the Department of Justice and the</p> <p>8 Federal Trade Commission, categorize markets by HHI as</p> <p>9 unconcentrated, meaning HHIs below 1,500, moderately</p> <p>10 concentrated, between 1,500 and 2,500, and highly</p> <p>11 concentrated, above 2,500.</p> <p>12 We used insurer county-level enrollment shares</p> <p>13 as the market share for the HHI presented in Exhibit 1.</p> <p>14 These enrollment shares account for the enrollment across</p> <p>15 all lines of business. The HHIs from the 19 counties we</p> <p>16 examined range from 1,600 to 3,496, with 14 of the</p> <p>17 counties at HHIs above the Horizontal Mergers Guidelines</p> <p>18 of highly-concentrated market threshold of 2,500. Given</p> <p>19 the level of HHIs in Exhibit 1, Health Net and Centene</p> <p>20 overlap in markets that are highly concentrated. Future</p> <p>21 consolidation in markets that are already highly</p> <p>22 concentrated is generally concerning.</p> <p>23 Exhibit 1 also presents post-merger HHIs in the</p> <p>24 19 counties where Health Net and Centene overlap.</p> <p>25 Post-merger HHIs were calculated similarly to current HHIs</p> <p style="text-align: right;">Page 166</p>	<p>1 Now I'm going to turn to looking at Covered</p> <p>2 California. Covered California is the ACA marketplace for</p> <p>3 California. Participating health insurers can offer</p> <p>4 individual and SHOP coverage through the marketplace. As</p> <p>5 of June 2015, the total covered California enrollment 1.3</p> <p>6 million. Of the 1.3 million, 221,140, 16.9 percent, are</p> <p>7 enrolled in the Health Net plan, making Health Net the</p> <p>8 fourth largest insurer by enrollment in Covered</p> <p>9 California. In 2015, Health Net offered coverage in 13 of</p> <p>10 the 19 geographic rating areas in California. In 2016,</p> <p>11 Health Net will begin offering coverage in rating areas</p> <p>12 one, three and 11. Exhibit 2 lists the Health Net</p> <p>13 enrollment by rating area. The majority of the Health</p> <p>14 Net's covered California enrollment is in southern</p> <p>15 California.</p> <p>16 In this section we analyze the scenario of</p> <p>17 Health Net exiting Covered California. As of</p> <p>18 September 2015, Centene's total U.S. enrollment is 4.8</p> <p>19 million. Of those 4.8 million enrollees, 3.5 mill are</p> <p>20 enrolled in Medicaid plans, making Medicaid Centene's</p> <p>21 primary line of business. Given this, it is possible that</p> <p>22 Health Net's 1.8 million Medi-Cal enrollees are part of</p> <p>23 Health Net's California enrollment that are of most</p> <p>24 interest to Centene. This section is about posing the</p> <p>25 question: What would be the impact of Centene focusing on</p> <p style="text-align: right;">Page 168</p>
<p>1 except that Health Net and Centene enrollments were</p> <p>2 combined in order to create a Health Net-Centene</p> <p>3 county-level market shares as opposed to using separate</p> <p>4 market shares for the two companies. The point increase</p> <p>5 between the current HHIs and the post-merger HHIs range</p> <p>6 from six to 22 across counties. The largest point</p> <p>7 increase occurs in Nevada County, where HHI increases by</p> <p>8 three percent from 2,613 to 2,690.</p> <p>9 There are a few limitations to our analysis that</p> <p>10 should be pointed out. First, using counties to define</p> <p>11 geographic markets has been common in research studies,</p> <p>12 but whether or not counties are the proper geographic</p> <p>13 market definition has been a substance of much debate.</p> <p>14 Because we lack patient-level data, it is not possible to</p> <p>15 define each insurer market using the Elzinga-Hogarty and</p> <p>16 Critical Loss Analysis methods that rely on patient flows.</p> <p>17 In sum, we consider the HHI point increases from</p> <p>18 the Health Net-Centene merger to be modest at best.</p> <p>19 However, as Health Net and Centene overlap in rural</p> <p>20 counties that are already highly concentrated, any</p> <p>21 increases in market concentrations are potentially</p> <p>22 concerning to the competitive nature between insurers and</p> <p>23 providers. The impact could be greater if Centene's</p> <p>24 county market shares grow significantly in the</p> <p>25 post-acquisition.</p> <p style="text-align: right;">Page 167</p>	<p>1 Medi-Cal and deciding to have Health Net exit the</p> <p>2 commercial insurance market. We address this question in</p> <p>3 the context of Covered California.</p> <p>4 Again, we compute the HHI measures of market</p> <p>5 concentration. First, we compute HHIs at the rating</p> <p>6 area-level as opposed to county level. As such, we use</p> <p>7 rating area enrollment shares for our HHI calculations.</p> <p>8 Second, the rating area enrollment shares are specific to</p> <p>9 Covered California enrollment. No other enrollment from</p> <p>10 other lines of business are included. Exhibit 2, Section</p> <p>11 J in the Appendix, presents the results of our</p> <p>12 calculations. Current HHIs and post-Health Net HHIs are</p> <p>13 computed. The current HHIs use insurer rating area-level</p> <p>14 market shares as of June 2015. The Post-Health Net HHIs</p> <p>15 remove Health Net from the set of insurers. We assume the</p> <p>16 other insurers participating in a rating area will pick up</p> <p>17 Health Net's enrollment in proportion to their current</p> <p>18 enrollment shares in the rating area.</p> <p>19 We find that a Health Net exit from Covered</p> <p>20 California would increase health insurer HHIs between</p> <p>21 43 points and 1,202 points over Covered California's 19</p> <p>22 rating areas. Notably, the increases are significantly</p> <p>23 larger in southern California rating areas -- two Los</p> <p>24 Angeles rating areas, Inland Empire, Orange County, San</p> <p>25 Diego -- than the rest of the state. The mean HHI point</p> <p style="text-align: right;">Page 169</p>

<p>1 increase in the southern California rating area is  2 731 points, while the mean HHI point increase for the  3 other rating areas in which Health Net currently  4 participates is 86 points. In fact, in three southern  5 California rating areas, Los Angeles, Inland Empire, San  6 Diego, health insurer HHIs would cross over the Horizontal  7 Merger Guidelines for highly concentrated market  8 thresholds of 2,500 should Health Net exit from Covered  9 California.</p> <p>10 In sum, we find a Health Net exit from Covered  11 California may have a measurable and significant impact on  12 competitiveness of the southern California rating areas,  13 but would have little or no impact on the rest of the  14 rating areas in Covered California.</p> <p>15 To conclude, in summary, as health insurance  16 markets become more concentrated, the evidence suggests  17 that health insurance premiums increase. Centene  18 corporation and Health Net's managed care operations  19 overlap in 19 California counties. However, they are in  20 distinct lines of business. In those 19 counties, Centene  21 manages Medi-Cal lives and Health Net manages commercial  22 lives. Therefore, the market concentration would not  23 increase with respect to the purchase of a particular line  24 of business, such as Covered California, the individual  25 market and the employer-sponsored market.</p> <p style="text-align: right;">Page 170</p>	<p>1 be any instantaneous response to what goes on over time,  2 other firms -- insurance firms might enter and figure out  3 how to live at or deliver a lower product. But I think  4 the immediate impact is likely to be a noncompetitive one.</p> <p>5 MR. HINZE: Are there barriers to new entrance  6 or expansions of existing footprints of insurers in  7 California health insurance markets?</p> <p>8 DR. SCHEFFLER: Well, in Covered California, as  9 discussed earlier, is an active purchaser model, where the  10 director of Covered California decides whether an  11 insurance company can participate in the market, can enter  12 and exist. And so in the sense of that so-called barrier,  13 the usual term barrier to entry used in economics  14 literature in familiar theory is more of whether a firm  15 can just move into an area with other firms having the  16 ability to keep them out to other insurers. And in the  17 insurance marketplace, particularly in California, which  18 is very heavily-managed care, and has a fair amount of  19 consolidation, both on the hospital side and also the  20 physicians' side, it is very important to have networks of  21 providers. And in order for an insurance company to  22 enter, it need to be big enough and be able to sign  23 contracts with large providers to get the discounts  24 necessary to enter the market. This is a barrier for many  25 other insurance companies coming into California.</p> <p style="text-align: right;">Page 172</p>
<p>1 But more importantly, with respect to purchasing  2 health care services, such as from physicians and  3 hospitals, the merger will modestly increase insurer  4 market concentration in these 19 California counties. A  5 merged entity may be able to negotiate lower rates from  6 physician organizations and hospitals, however, the  7 evidence suggests those cost savings might not be passed  8 on to purchasers of insurance.</p> <p>9 Thank you very much.</p> <p>10 MR. HINZE: Thank you, Doctor. May I ask you  11 some follow-up questions. Were you present earlier in the  12 audience when I asked Dr. Wu some questions regarding an  13 exhibit to his report on page CDix124 that stated that in  14 the southern California rating regions, Health Net was the  15 lowest or second-lowest priced issuer? Were you present  16 during that testimony?</p> <p>17 DR. SCHEFFLER: Yes, I was.</p> <p>18 MR. HINZE: In your opinion, what would be the  19 competitive effect of removing the lowest or second-lowest  20 price issuer in those regions?</p> <p>21 DR. SCHEFFLER: The competitive effect of  22 removing a local low cost provider in part depends on  23 whether other low cost providers enter the marketplace,  24 but in the static immediate situation, I think it would be  25 anticompetitive. And in the sense that there is -- cannot</p> <p style="text-align: right;">Page 171</p>	<p>1 MR. HINZE: Doctor, in your analysis, you  2 indicated some potential increases in insurer market  3 concentration where various predicated withdrawals do  4 occur. Does an increase in concentration of an insurance  5 market result in an increase in market power for the  6 remaining insurers of the market?</p> <p>7 DR. SCHEFFLER: Well, if in the static move of  8 the other, the enrollment would need to go somewhere else.  9 And if you talk about Covered California -- so it depends  10 in part on where the enrollment goes. If it goes to very  11 small insurance companies in the area, then it wouldn't  12 have a competitive. If it goes to the very larger  13 insurers in California, dominated in Covered California by  14 four large insurers, if any of it goes -- any of it goes  15 to the other insurers, that increases their market power.  16 Market concentration goes up. And that's considered an  17 anticompetitive move in the market.</p> <p>18 MR. HINZE: Okay. And in the last sentence of  19 your presentation you indicated in the first phrase a  20 merged entity may be able to negotiate lower rates from  21 physician organizations and hospitals. What affect does  22 that negotiated lower rate have on access to providers?</p> <p>23 DR. SCHEFFLER: Did you want to take that?</p> <p>24 MR. HINZE: Dr. Fulton, you would like to?</p> <p>25 DR. FULTON: Sure. Sure. And I'd like to</p> <p style="text-align: right;">Page 173</p>



<p>1 answer this, we did not do a formal analysis on this, but  2 we thought about this in our -- in our work. And so if  3 you think of California's market, it's well-known that  4 health insurance premiums are higher in northern  5 California than southern California. And this is true in  6 Covered California market, in employer-sponsored market,  7 and there's reasons for that. Economic reasons and  8 actuarial reasons. The wage rates, the cost of living and  9 so forth. But another plausible concern is that providers  10 are more consolidated in northern California, and that  11 they exercise market power. They have higher profits, or  12 if they're non-profit, higher net revenues. And so more  13 concentrated in -- shall -- let's say the insurance market  14 in northern California may be able to negotiate more  15 favorable rates and reduce some of those excess profits or  16 excess net revenues, and that could, in and of itself,  17 benefit the insurer.</p> <p>18 Dr. Scheffler presented evidence that the  19 insurer may not pass on his cost savings to consumers and  20 other purchasers, so the net effect -- let's say in a  21 northern California scenario -- may be that providers do  22 not exit the market. They just have reduced profits for  23 reduced net revenue. In southern California, where you  24 can think of a market that's a little bit more  25 competitive, if more concentrated, the insurance market</p> <p style="text-align: right;">Page 174</p>	<p>1 distribution. Some of the higher counties, the MMI  2 increase would be as high as eight percent, for example,  3 in Santa Cruz County and Yolo County. And in Orange  4 County and Nevada County, both were at seven percent.</p> <p>5 MR. HINZE: Okay. Thank you. Doctor, I just  6 would like you to look at two documents in the binder I  7 have in front of you. If you could look at Exhibit 13.  8 I'm sorry. Exhibit 14. I'm beginning at CDI, page 184.  9 The page number is right here.</p> <p>10 MR. SCHEFFLER: This is quite a document.  11 DR. FULTON: I see the page numbers.</p> <p>12 MR. HINZE: Okay. Actually, Dr. Fulton, as you  13 were involved in --</p> <p>14 DR. SCHEFFLER: You find them okay?  15 DR. FULTON: Yes.</p> <p>16 MR. HINZE: This is the transcript of the  17 testimony of a Dr. Dafny before the Senate Judiciary.  18 DR. FULTON: Yes.</p> <p>19 MR. HINZE: Was that one of the documents that  20 you relied upon in your work that you did here today?  21 DR. FULTON: Yes. We did.</p> <p>22 MR. HINZE: Similarly, Exhibit 15, which is on  23 page CDI-201. That's Dr. Dafny's article and begins,  24 quote, "Paying a Premium on Your Premium?" Close quote.  25 Was that one of the documents that you relied upon in</p> <p style="text-align: right;">Page 176</p>
<p>1 bids down those providers rates below a competitive level  2 where they're not able to recuperate their long-term  3 costs, marginal cost as well as fixed cost in a long-term  4 base. That may cause them to either reduce quality or  5 actually exit the market, in the extreme situation.</p> <p>6 So it really depends on the market's condition  7 that you're asking about.</p> <p>8 MR. HINZE: Thank you, Dr. Fulton.</p> <p>9 Dr. Scheffler, the analysis that you presented  10 in your presentation was an analysis of a potential  11 withdrawal from Covered California of -- by Health Net.  12 Do you -- have you made any calculation as to what might  13 occur were Health Net to withdraw from the California  14 commercial market in its entirety?</p> <p>15 DR. SCHEFFLER: We have. And I, again, would  16 defer to my colleague, Dr. Fulton.</p> <p>17 MR. HINZE: Dr. Fulton.</p> <p>18 DR. FULTON: Yes. So we did that -- do that  19 analysis. It's the format, to some degrees, similar to  20 the results presented in Exhibit 2. But we did this  21 analysis at the county level. And we assumed a withdrawal  22 from the individual market, the small group market, as  23 well as the large group market. And the overall effect is  24 that the mean HHI increase would be two percent across the  25 58 counties. However, there are variations in that</p> <p style="text-align: right;">Page 175</p>	<p>1 formulating your opinions in this matter?  2 DR. FULTON: We did.</p> <p>3 MR. HINZE: Thank you, Doctor. That's all the  4 questions I have.</p> <p>5 COMMISSIONER JONES: Are there any other  6 witnesses the Department wants to put on?</p> <p>7 MR. HINZE: No witnesses.</p> <p>8 COMMISSIONER JONES: Okay. Let me ask Counsel  9 for Advocate if they have any questions of these  10 witnesses.</p> <p>11 MR. DiCANIO: We don't. Thank you.</p> <p>12 COMMISSIONER JONES: Okay. I have a question  13 for the witnesses, which is I'm wondering if there are any  14 recent peer-reviewed studies which demonstrate that  15 consumer prices for health insurance or managed care went  16 down after the health insurer-managed care merger?</p> <p>17 DR. FULTON: No. Not that I'm aware of.</p> <p>18 MR. SCHEFFLER: I'm not aware of either.</p> <p>19 COMMISSIONER JONES: Dr. Scheffler, Dr. Fulton,  20 are you aware of any peer-review study of reduction in  21 prices for consumers went down after a health insurance or  22 managed care merger?</p> <p>23 DR. FULTON: No. I'm not. But that goes to  24 mergers that created a birthrate market power.</p> <p>25 COMMISSIONER JONES: I understand. No studies.</p> <p style="text-align: right;">Page 177</p>

45 (Pages 174 to 177)

<p>1 All right. Now conversely, either of you two witnesses in 2 front of me here aware of any studies that indicate that 3 prices have gone up after a health insurance merger? 4 DR. FULTON: Yes. The studies Counsel referred 5 to, Leemore Dafny, and Senate testimony, typically the 6 approach is an indirect approach. So they're not 7 analyzing a specific merger. But they're using that 8 merger to indirectly estimate what happens to health 9 insurance premiums. And I assume that's what you mean by 10 prices, so that health insurance premiums go up. 11 COMMISSIONER JONES: Yes. So I'm thinking 12 specifically was there not a study that was done in the 13 wake of the -- the Prudential merger? The question is 14 what happened to premiums in the wake of that merger? 15 DR. FULTON: Yes. They used that merger, if you 16 will, as an incremental variable to analyze the effects of 17 market concentration in general. And that's where they 18 were able then to use that methodology to conclude that 19 higher market concentration leads to higher health 20 insurance premiums. 21 COMMISSIONER JONES: Okay. Thank you. 22 Let me see if there are any questions from the 23 panel of provider group, interested persons. CMA -- 24 either the CMA or California Association of Physician 25 Groups or any of those entities.</p> <p style="text-align: right;">Page 178</p>	<p>1 exerted market power, causing providers to either reduce 2 excess profit or actually operate below their long-term 3 costs. 4 And so it wasn't really a statement about a 5 particular economic market into northern California. It's 6 just generally, though, health insurance premiums are 7 higher in northern California than southern California. 8 MS. RUBALCAVA: Okay. I think I might have 9 misunderstood. Thank you then. 10 COMMISSIONER JONES: Thank you very much. 11 Let me ask now if there are any of the consumer 12 group interested persons that had questions for the 13 witnesses? 14 Okay. Let me ask if there are any other members 15 of the public that have questions for these witnesses? 16 I don't see anyone coming forward. 17 So any other testimony from the Department? 18 MR. HINZE: No further testimony. 19 COMMISSIONER JONES: Okay. Any questions from 20 the Applicants of the witnesses of the Department at this 21 time? 22 MR. DiCANIO: No. Thank you. 23 COMMISSIONER JONES: All right. So we'll excuse 24 the Department. 25 And we will call the first panel of interested</p> <p style="text-align: right;">Page 180</p>
<p>1 You can sit right over here, actually. You can 2 see them, and they can see you. Thank you. 3 MS. RUBALCAVA: Good afternoon. My name is 4 Michelle Rubalcava. I'm Legal Counsel for California 5 Medical Association. I just had a clarifying question for 6 the gentleman farther away from me. 7 I think you were talking about how in northern 8 California some provider groups are able to have some type 9 of market power so as to be able to negotiate better with 10 health plans. 11 My clarifying question is how are you defining 12 northern California? Because there are a lot of rural 13 counties in northern California, such as Humboldt, Sierra, 14 Modoc, that I think providers would feel they really don't 15 have market power in order to negotiate. So I just wanted 16 to clarify what you mean as northern California? 17 DR. SCHEFFLER: We were talking about the 18 distinction between southern and northern. 19 DR. FULTON: That's a good question. And when I 20 was describing northern California, I wasn't describing it 21 as a particular market from an economic standpoint. It 22 was a general condition, to answer his question, that 23 really it depends on what the nature of the market 24 concentration is of providers versus insurers. And he was 25 asking whether that would lead to an exit if insurers</p> <p style="text-align: right;">Page 179</p>	<p>1 persons that indicated a desire to testify. And that 2 would be the California Medical Associates, and I believe 3 the California Association of Physicians would like to 4 testify. And if that is the case, if you would come up to 5 the table here. 6 Wonderful. So if you are going to be providing 7 evidence at the hearing -- 8 MS. RUBALCAVA: I'm going to be a submitting 9 written comments. Yes. 10 COMMISSIONER JONES: Okay. Then we should 11 probably swear you in. So why don't you stand up and 12 raise your right hand. Do you swear or affirm the 13 testimony you're about to give is the truth, the whole 14 truth and nothing but the truth? 15 MS. RUBALCAVA: I do. 16 COMMISSIONER JONES: Thank you. Please identify 17 yourself for the record. 18 MS. RUBALCAVA: My name is Michelle Rubalcava. 19 R-u-b-a-l-c-a-v-a. And I am Legal Counsel for the 20 California Medical Association. 21 COMMISSIONER JONES: Wonderful. Thank you. 22 MS. RUBALCAVA: Thank you. Good afternoon, 23 Commissioner. Good afternoon. One, I want to thank you 24 for the opportunity to allow the California Medical 25 Association to testify on the matter of before you,</p> <p style="text-align: right;">Page 181</p>

<p>1 Centene's proposed acquisition of Health Net.</p> <p>2 As I stated, my name is Michelle Rubalcava, and</p> <p>3 I'm legal Counsel for the CMA. The California Medical</p> <p>4 Association is a not-for-profit professional association</p> <p>5 for California physicians with more than 42,000 members.</p> <p>6 CMA, physician members practice medicine in all</p> <p>7 specialties and modes of practice throughout California.</p> <p>8 For more than 150 years, CMA has promoted the science and</p> <p>9 art of medicine, the care and well-being of patients, the</p> <p>10 protection of public health and the betterment of the</p> <p>11 medical profession. CMA and its physician members are</p> <p>12 committed to the protection of the physicians' ability to</p> <p>13 exercise their medical judgment to provide quality and</p> <p>14 effective care for their patients.</p> <p>15 The CMA has long been concerned with the</p> <p>16 consolidation of health plans and health insurers and the</p> <p>17 reduction of competition. Physicians across the country</p> <p>18 have serious concerns with the recent, rapid wave of</p> <p>19 proposed mergers and consolidation of health plans and</p> <p>20 health insurers. A statement from the American Medical</p> <p>21 Association states that patients would be better served in</p> <p>22 a health care system that promotes competition and choice.</p> <p>23 The success of health care reform will depend as</p> <p>24 much upon its regulatory implementation as it will upon</p> <p>25 healthy, competitive health plan markets. In order to</p> <p style="text-align: right;">Page 182</p>	<p>1 access to health care to justify their increase in market</p> <p>2 power. Studies demonstrate that health plan mergers do</p> <p>3 not result in lower costs to consumers.</p> <p>4 That is, the promise to use their increased</p> <p>5 market power, or monopsony power, to negotiate lower</p> <p>6 reimbursement rates from providers does not materialize</p> <p>7 into lower premiums or lower deductibles. Instead, past</p> <p>8 mergers demonstrate that more market power can result in</p> <p>9 limited consumer choice of physicians in the form of</p> <p>10 narrow networks without sufficient physicians, including</p> <p>11 specialty care, reduced administrative capacity and</p> <p>12 resources to administer quality health care access to</p> <p>13 patients, and the loss of competition among health care</p> <p>14 plans that reduces their incentives to collaborate with</p> <p>15 health care providers.</p> <p>16 While limited or tiered networks are currently</p> <p>17 being used by health plans to control health care costs,</p> <p>18 when a health plan increases its market power, we are</p> <p>19 concerned, we are concerned that it can be further</p> <p>20 incentivized, and less hindered by competition, to utilize</p> <p>21 restricted networks to limit patient access to medically</p> <p>22 necessary care and increase profits.</p> <p>23 A study by the University of Pennsylvania</p> <p>24 researchers shows that 76 percent of health plans sold in</p> <p>25 California through Covered California have significantly</p> <p style="text-align: right;">Page 184</p>
<p>1 improve health care we must encourage competitive health</p> <p>2 markets that provide ample choice, high quality and</p> <p>3 transparency.</p> <p>4 Accordingly, we would urge the Department of</p> <p>5 Insurance to review Centene's proposed acquisition of</p> <p>6 Health Net of California in the context of the national</p> <p>7 move by health plans to merge and the goal of health care</p> <p>8 reform to increase access, improve quality and lower</p> <p>9 costs.</p> <p>10 We appreciate the Commissioner taking official</p> <p>11 notice of the United/PacifiCare merger and its subsequent</p> <p>12 enforcement action. The CMA participated in the</p> <p>13 regulatory consideration of this merger and the regulatory</p> <p>14 oversight to address the shortcomings and problems</p> <p>15 resulting from that merger.</p> <p>16 We urge DOI to carefully review past mergers in</p> <p>17 an attempt to duplicate what worked in the past, and</p> <p>18 improve upon any shortcomings or specific concerns</p> <p>19 presented by the Centene-Health Net merger.</p> <p>20 Based upon past experience, CMA recommends that</p> <p>21 a particular area of focus for the DOI should be on</p> <p>22 strengthening the oversight and enforceability of any</p> <p>23 undertakings, should this merger be approved.</p> <p>24 The health plans should also be required to</p> <p>25 specifically demonstrate efficiencies and improvements in</p> <p style="text-align: right;">Page 183</p>	<p>1 limited networks.</p> <p>2 Specifically, 38 percent were considered</p> <p>3 "x-small," meaning they included ten percent or less of</p> <p>4 providers in the rating area. 38 percent were considered</p> <p>5 "small," meaning they included 10 to 25 percent or less</p> <p>6 providers in the rating area. 19 percent were considered</p> <p>7 "medium," meaning they included 25 to 40 percent of</p> <p>8 providers in the rating area, and six percent were</p> <p>9 occurred "large," meaning they included 40 to 60 percent</p> <p>10 of providers in the rating area.</p> <p>11 No provider networks offered through the</p> <p>12 California exchange were considered by researchers to be</p> <p>13 "x-large," meaning they included 60 percent or more of</p> <p>14 providers in the rating area. In fact, some health care</p> <p>15 plans have no in-network network doctors in key</p> <p>16 specialties.</p> <p>17 The aftermath of past health plan mergers have</p> <p>18 also taught California physicians and their patients that</p> <p>19 post merger, it is imperative that the consolidated entity</p> <p>20 have the administrative capacity and resources in</p> <p>21 California to administer quality health care access to</p> <p>22 patients.</p> <p>23 As the DOI knows well, we experienced this with</p> <p>24 the United/PacifiCare merger, where post merger, United</p> <p>25 did not have enough dedicated resources in California to</p> <p style="text-align: right;">Page 185</p>

<p>1 administer claims, claims, authorizations or otherwise 2 facilitate timely access to health care resulting in the 3 DOI imposing penalties of more than \$173 million for over 4 900,000 violations of the Insurance Code from 2005 to 5 2008.</p> <p>6 The Commissioner should try and keep in mind 7 that one driver behind health care reform and value-based 8 health care is to incentivize collaboration in health care 9 markets in order to increase innovation and reduce costs.</p> <p>10 A study out of New York examined recent mergers, 11 and industry experts expressed concern that if insurers 12 have too much market power, then they have no reason to 13 collaborate with health care providers.</p> <p>14 California physicians have experienced this 15 effect already in California markets where health plans do 16 not negotiate with solo or small group physicians, but 17 instead, offer them take-it-or-leave-it contracts. While 18 health plans assert that their exercise of such market 19 power results in lower reimbursement rates, such savings 20 as discussed above, do not necessarily benefit the 21 consumer, because the savings are not passed down in cost 22 savings to the patients. Patients lose access to their 23 physicians who are driven out of the network, and the 24 opportunity to collaborate with physicians to provide 25 innovative, quality health care is lost.</p> <p style="text-align: right;">Page 186</p>	<p>1 to derail the plan's direction, but instead to facilitate 2 resolution of outstanding disputes.</p> <p>3 This lack of collaboration from one of the 4 smaller payors in California raises concerns with what 5 collaboration will look like once Centene joins the ranks 6 as one of the largest payors in California.</p> <p>7 With the aforementioned concerns in mind, the 8 CMA respectfully urges the DOI to consider the following 9 undertakings if it decides to approve Centene's proposed 10 acquisition of Health net: We recommend that DOI requires 11 Centene-Health Net to demonstrate that it will maintain 12 and improve there administrative capacity to process 13 claims, authorizations and respond to consumer, provider 14 and regulator complaints and issues. The undertakings, 15 for instance, should address key functions that should be 16 maintained in California in order to ensure that the 17 merged company has the capacity to administer health care, 18 including the prior authorization and referral system, 19 grievance system independent medical review process, 20 provider dispute resolution mechanism, clinical decision 21 making and medical policy decision making. The CMA has 22 long worked with health Net and its provider relations 23 staff to efficiently address physician and patient 24 complaints. This process has resulted in successful 25 resolution of complaints and provided patients timely</p> <p style="text-align: right;">Page 188</p>
<p>1 Unfortunately, we are experiencing this lack of 2 desire to collaborate currently with Centene's subsidiary, 3 California Health Care and Wellness. The CMA has a 4 member-only benefit where physicians may avail themselves 5 of the expertise from CMA's Center for Economic Services. 6 This center is staffed by highly qualified practicing 7 management experts. The services provided by CMA's CES 8 center range from coaching and education to direction 9 intervention with payors or regulators. In instances 10 where a physician or group of physicians is having a 11 longstanding issue with a payor, CES directors will 12 participate in three way calls with the provider 13 representative and the plan representative. California 14 Health and Wellness has a policy that disallows these 15 types of calls due to concerns over confidential 16 information. The CMA has been activity reaching out to 17 California Health and Wellness in attempt to find some 18 compromise on their stated policy. We have other major 19 players in California that do allow this type of policy, 20 including the Department of Health Care Services, 21 Medi-Cal, Blue Shield, Blue Cross and United. The ability 22 to engage in these type of three-way conversations allow 23 the CMA to be an intermediary of sorts. The reason why 24 we're allowed this ability from other payers is because 25 we've shown them consistently that CMA's attempt is never</p> <p style="text-align: right;">Page 187</p>	<p>1 access to their physicians' medical care. If the merger 2 is approved, it is imperative that this capacity is not 3 only maintained by health Net in California, but also 4 further developed by Centene in California, as our 5 interactions with Centene's subsidiary have not always 6 been as productive as our interactions with Health Net.</p> <p>7 Network adequacy and stability. On the front 8 end, prior to approving a merger, the DOI should require 9 the health plans to demonstrate that their physician 10 networks are robust and stable, and that their provider 11 directories are accurate. If the DOI approves the merger, 12 we urge that the undertakings delineate an on-going 13 process financed by the merged companies for an assessment 14 of the health plans' network capacity and network 15 directory accuracy.</p> <p>16 At the same time, we encourage the DOI to 17 prohibit health plan practices that disrupt physician 18 networks. Past mergers and the substantial use of narrow 19 networks have demonstrated that minor fluctuations in a 20 provider network can have major ramifications on access 21 for patients. A practice that disrupts physician networks 22 and creates great confusion for both patients and 23 physicians, which CMA respectfully urges the DOI to 24 consider prohibiting, is a health plans' practice of 25 opting in physicians to new network products without</p> <p style="text-align: right;">Page 189</p>

<p>1 obtaining physicians' affirmative consent or the use of</p> <p>2 all products clauses that allow health plans to force</p> <p>3 physicians in and out of their networks without much, if</p> <p>4 any, collaboration with physicians.</p> <p>5 In addition, we urge DOI to require the health</p> <p>6 plans to provide additional instructions necessary for</p> <p>7 patients to successfully locate and navigate the specific</p> <p>8 network in which he or she has subscribed. This may also</p> <p>9 help to ensure that any cost savings the plans see from</p> <p>10 narrow networks are not the result of patients being</p> <p>11 unable to get needed care. More information also needs to</p> <p>12 be available to patients so they can make informed</p> <p>13 decisions when selecting a plan.</p> <p>14 Access to specialty care. We urge the DOI to</p> <p>15 consider requiring assurances and reporting requirements</p> <p>16 regarding Health Net's and Centene's network of contracted</p> <p>17 specialty providers in order to improve network access.</p> <p>18 Financial commitments to improve infrastructure,</p> <p>19 including for physicians to participate in value based</p> <p>20 health care programs. We urge the DOI to consider</p> <p>21 requiring an undertaking that Centene will make a</p> <p>22 significant charitable contribution for the purposes of</p> <p>23 investing in providing the tools, financial capital and</p> <p>24 know-how to individual physicians and physician groups so</p> <p>25 that they have the ability to participate in value based</p> <p style="text-align: right;">Page 190</p>	<p>1 COMMISSIONER JONES: That would be wonderful.</p> <p>2 Let me ask you, if the Applicants have any</p> <p>3 questions of the California Medical Association, in which</p> <p>4 we thank you for comment.</p> <p>5 MR. DiCANIO: No questions.</p> <p>6 COMMISSIONER JONES: Let me ask the Department</p> <p>7 if has questions of the American Medical Association.</p> <p>8 MR. FINSTON: We have no questions of this</p> <p>9 witness, Your Honor.</p> <p>10 COMMISSIONER JONES: Okay. Great.</p> <p>11 Thank you very much.</p> <p>12 MS. RUBALCAVA: Thank you.</p> <p>13 COMMISSIONER JONES: Really appreciate it. Oh,</p> <p>14 not so fast. Sorry.</p> <p>15 Thank you, Judge Rosi.</p> <p>16 Let me see if any of the other interested</p> <p>17 persons, consumer representatives have any questions for</p> <p>18 the California Medical Association.</p> <p>19 I'm seeing a shake of heads. Let me see if</p> <p>20 other members of the public have questions for the</p> <p>21 California Medical Association.</p> <p>22 Okay. Thank you very much.</p> <p>23 MS. RUBALCAVA: Thank you.</p> <p>24 COMMISSIONER JONES: Okay. Now I'm going to</p> <p>25 call the next panel of interested persons. And that is</p> <p style="text-align: right;">Page 192</p>
<p>1 health care. Most physicians do not have the financial</p> <p>2 capital necessary to create and lead the integrated health</p> <p>3 care organizations that the federal health care reform</p> <p>4 legislation commercial plans and self-insured purchases of</p> <p>5 health care services are seeking. Instead, capital-rich</p> <p>6 health care systems are leading the development of such</p> <p>7 organizations even though studies consistently demonstrate</p> <p>8 that physician-led ACOs and value based programs create</p> <p>9 the greatest savings.</p> <p>10 CMA is uniquely positioned to provide guidance</p> <p>11 on this issue and would welcome an opportunity to discuss</p> <p>12 this further with the DOI.</p> <p>13 Thank you again for the opportunity to provide</p> <p>14 testimony on Centene's proposed acquisition of Health Net.</p> <p>15 We look forward to continuing to participate in your</p> <p>16 consideration of this proposed merger and its potential</p> <p>17 impact on physicians, patients and the California health</p> <p>18 care market.</p> <p>19 COMMISSIONER JONES: Thank you.</p> <p>20 Counsel, you referred to a couple different</p> <p>21 studies in your testimony. And I'm wondering if you could</p> <p>22 provide a copy of those studies to the Department of</p> <p>23 Insurance, the Applicants, and my representative.</p> <p>24 MS. RUBALCAVA: Absolutely. They can be</p> <p>25 attached to my written comments.</p> <p style="text-align: right;">Page 191</p>	<p>1 the representatives of the three consumer groups that</p> <p>2 indicated they would like to testify. And that is</p> <p>3 Consumer Watchdog, Health Access and Consumers Union.</p> <p>4 And if you would take your seats at the witness</p> <p>5 table.</p> <p>6 So I take it that all three of you intend to</p> <p>7 testify. So I'm going to swear you in, as I swore</p> <p>8 everyone else in. So now that you've gotten comfortable,</p> <p>9 ask you to stand up again. I apologize.</p> <p>10 If you'll raise your right hand. And do you</p> <p>11 swear or affirm the testimony you shall give shall be the</p> <p>12 truth, the whole truth and nothing but the truth?</p> <p>13 MS. ANTONINI: I affirm.</p> <p>14 MS. MENDELSON: I affirm.</p> <p>15 MS. MA: I affirm.</p> <p>16 COMMISSIONER JONES: Okay. So the witnesses</p> <p>17 each have taken the oath.</p> <p>18 Please resume your seats.</p> <p>19 And who would like to begin?</p> <p>20 MS. ANTONINI: Me.</p> <p>21 COMMISSIONER JONES: All right. Very good.</p> <p>22 MS. ANTONINI: Good afternoon. My name is Laura</p> <p>23 Antonini. I'm Staff Attorney with Consumer Watchdog.</p> <p>24 Thank you for the opportunity to provide testimony today.</p> <p>25 We've also submitted detailed written comments.</p> <p style="text-align: right;">Page 193</p>

49 (Pages 190 to 193)

<p>1 Consumer watchdog urges the Department to use 2 its full authority to impose comprehensive requirements to 3 protect consumers before allowing this merger between 4 Centene and Health Net to move forward. The Affordable 5 Care Act was meant to give more people access to health 6 care. There are millions of uninsured people. They face 7 a whole host of new problems, increasing premiums, 8 shrinking provider networks, outsourcing of network 9 deductibles, out of network costs, unexpected plan 10 cancellations, limited coverage options on the individual 11 market.</p> <p>12 Today we heard a lot of kind of vague general 13 promises from the insurance executives about benefits to 14 consumers and increased competition, but I didn't hear any 15 specific commitments that insurance companies are willing 16 to undertake to protect consumers. And that's why we urge 17 the Department to impose certain undertakings in 18 commitments of the companies before they approve this 19 merger, in four general areas.</p> <p>20 First, as to rate review, Health Net has a 21 history of unreasonable rate hikes. In 2013, Consumer 22 Watchdog California, per Department actuarials, found that 23 Health Net's proposed rates were unreasonable for its PPO 24 plans for Covered CALIFORNIA. Health Net amended its 25 proposal, but under law it didn't have to. In 2014, the</p> <p style="text-align: right;">Page 194</p>	<p>1 echoed those comments here today.</p> <p>2 As a condition of the merger, the merged company 3 must agree not to withdraw from the private market. There 4 are limited options for people out there. And if Health 5 Net withdraw from the individual market, people would be 6 left with very little options, especially PPO plans in 7 southern California. We believe that CDI should require 8 the company to maintain Health Net's individual small 9 group products on the same basis as prior to the merger.</p> <p>10 Next, the Department should ensure that the 11 company does not upstream California premiums to Centene 12 by prohibiting Centene from removing reserves from 13 California to pay for severance and retention packages for 14 executives in connection with the merger. Also, the 15 Department should require Centene to explain any upstream 16 amounts sent out of state after the merger happens.</p> <p>17 Finally, we believe that the merged company must 18 commit to undertakings to improve quality of care. Health 19 Net's integrity of and treatment of policyholders have 20 been in question in California for years. There have been 21 privacy breaches, failed to respond adequately to consumer 22 complaints, denied medically-necessary services, narrowing 23 provider networks. As a condition of the merger, Centene 24 should have to promise to resolve these issues and 25 Consumer Watchdog's litigation against Health Net</p> <p style="text-align: right;">Page 196</p>
<p>1 Department of Managed Health Care found that Consumer 2 Union found that Health Net's plans under the Department 3 of Managed Health Care were unjustified. They found that 4 Health Net's pricing and network design suggested that 5 Health Net was trying to reduce risk and discourage sicker 6 enrollees.</p> <p>7 To ensure that the terms of the merger are fair 8 and reasonable as required by Insurance Code 1512.2, the 9 Department must require some form of enhanced rate review. 10 Rate review can ensure, that details any customer, make 11 public that savings are passed on to consumers, and that 12 premiums are not used to finance part of the deal. We 13 believe that the merging companies must also agree not to 14 impose unreasonably high rates on consumers. The merged 15 company must agree that premiums co-payments and any other 16 rates will not increase more than the rate of influence 17 following the merger for a period of five years. This 18 will ensure that any policyholders of the newly-merged 19 company won't get hit with huge premiums.</p> <p>20 And has been discussed a lot today, Health Net 21 has made a lot of changes to its existing plans and 22 individual market. And at the Department of Managed 23 Health Care Merger Hearing, I believe one of Centene's 24 executives said there would be no material changes in 25 Health Net's plans as a result of the merger, and they</p> <p style="text-align: right;">Page 195</p>	<p>1 regarding its provider networks.</p> <p>2 In order to benefit consumers, the merged entity 3 must be required to have adequate provider networks, 4 including adequate specialists, which has been a problem 5 for Health Net, and pledge to approve medically-necessary 6 services as required.</p> <p>7 We also believe that Centene must be required to 8 improve any star rating for Health Net in the 2016 Health 9 Net Office of Patient Advocate Quality Report Card, and 10 improve Health Net's ranking in the NCQA to the top 11 one-third of all plans ranked in California by the end of 12 2017.</p> <p>13 Finally, in order to ensure that any commitments 14 or undertakings that are part of the deal actually happen, 15 we urge the Department to make sure that these commitments 16 are honored by including provisions in any approval that 17 would track, monitor and measure and enforce any 18 commitments made by the companies. Make sure everything 19 is written down, and not just agreed to. And as we have 20 seen with the Department of Managed Health Care's recent 21 approval of Blue Shield's acquisition of Care First, there 22 were tons of undertakings in that deal, and they're having 23 trouble enforcing it, and Blue Shield is not living up it 24 to some of the commitments it made in that deal, and we do 25 not want to see that happen here.</p> <p style="text-align: right;">Page 197</p>

<p>1 Unless the undertakings that we propose today</p> <p>2 are part of the deal, this merger will not be fair and</p> <p>3 reasonable to policyholders. It will not substantially</p> <p>4 lessen competition, prejudice policyholders and be averse</p> <p>5 to the interest of the policyholders and the public.</p> <p>6 We urge the Commissioner to use your statutory</p> <p>7 power to require the companies to commit to these</p> <p>8 undertakings before approving a deal. Thank you.</p> <p>9 COMMISSIONER JONES: Thank you.</p> <p>10 Next witness.</p> <p>11 MS. MENDELSON: Good afternoon. I'm Dana</p> <p>12 Mendelsohn, Staff Attorney for Consumer Union, the policy</p> <p>13 arm of Consumer Reports. From our vantage point,</p> <p>14 advocating for consumers on a number of health access,</p> <p>15 cost and quality issues, we are keenly attuned to the</p> <p>16 burden of cost of health care and health insurance for</p> <p>17 Californians. For that reason, the proposed, the merger</p> <p>18 of any health plan in California causes us to question</p> <p>19 whether health care costs will go up for consumers and</p> <p>20 what they'll get for their money. We believe our concern</p> <p>21 is justified. If history is a guide, having a high</p> <p>22 concentration of health insurers, as in other consolidated</p> <p>23 industries, results in higher prices, but not necessarily</p> <p>24 better quality plans. When the Department of Insurance</p> <p>25 considers the criteria for approval, we encourage they pay</p> <p style="text-align: right;">Page 198</p>	<p>1 markets abruptly.</p> <p>2 In 2013, Centene discontinued its Kentucky</p> <p>3 Medicaid product, Kentucky Spirit Health Plan, a year</p> <p>4 prior to the conclusion of its contract, leaving</p> <p>5 policyholders scrambling. It stands to question then</p> <p>6 whether Centene can actually maintain Health Net's</p> <p>7 commercial presence. The possibility of this large player</p> <p>8 exiting would mean less competition and higher prices for</p> <p>9 consumers. We therefore urge CDI to obtain contractual</p> <p>10 assurances of continued presence in both the Medicaid and</p> <p>11 commercial markets in California if this merger is</p> <p>12 approved.</p> <p>13 Regarding the second question, we believe the</p> <p>14 prior experience of these two plans does indicate that it</p> <p>15 would not be in the interest of the policyholders or the</p> <p>16 public to allow the staff position to take place without</p> <p>17 enforceable commitment to raise the bar on quality for</p> <p>18 policyholders. By a number of consumers of consumer</p> <p>19 satisfaction, both Health Net and Centene have not made</p> <p>20 favorable showing of the plans. Low consumer satisfaction</p> <p>21 scores are particularly worrisome, as are the results of a</p> <p>22 recent independent medical review of Health Net by DMAC in</p> <p>23 which about two-thirds of appeals were overturned or</p> <p>24 reversed. According to a recently-issued report by the</p> <p>25 Office of the Patient Advocate, DMHC found the commercial</p> <p style="text-align: right;">Page 200</p>
<p>1 particular consideration to one, whether this acquisition</p> <p>2 may substantially lessen competition in California. And</p> <p>3 two, whether the prior experience of these two plans</p> <p>4 indicate that it would not be in the interest of the</p> <p>5 policyholders or the public to allow this acquisition to</p> <p>6 take place.</p> <p>7 Regarding the first question about a market</p> <p>8 competition, testimony submitted to CDI on behalf of</p> <p>9 Health Net claims that the absence of overlap between</p> <p>10 Centene and Health Net's respective businesses will not</p> <p>11 result in market concentration. However, we agree with</p> <p>12 the experts who testified today that market consolidation</p> <p>13 should be measured by region where actually bought and</p> <p>14 sold, where the emphasis on regional market figure</p> <p>15 discounting of Health Net products result in significant</p> <p>16 market concentrations, as especially in the southern</p> <p>17 California rating regions.</p> <p>18 Currently Health Net is a significant player in</p> <p>19 our commercial insurance marketplace. Centene, on the</p> <p>20 other hand, focuses in government contracting in</p> <p>21 California, and does not operate in our commercial market</p> <p>22 at all. Both Centene and Health Net executives have made</p> <p>23 assurances today that Health Net's current product will be</p> <p>24 maintained in California the marketplace. However,</p> <p>25 Centene has a history of backing out of health insurance</p> <p style="text-align: right;">Page 199</p>	<p>1 market conferred on Health Net a single star. The lowest</p> <p>2 score possible for both categories of ease of access to</p> <p>3 care, and members getting answers to questions.</p> <p>4 In addition, it recently took Health Net several</p> <p>5 years to resolve a deficiency of inadequate consideration</p> <p>6 and rectification of enrollees' grievances which was</p> <p>7 uncovered by routine medical surveys by DMHC in 2013.</p> <p>8 Finally, a visit to the Better Business Bureau</p> <p>9 Review website reveals a bevy of recent consumer</p> <p>10 complaints against Ambetter, Centene's health insurance</p> <p>11 exchange product for the individual market. These</p> <p>12 complaints include lost documentation, unrecorded premium</p> <p>13 payments, adequate provider network and customer service</p> <p>14 hours that are limited to the standard workday, meaning</p> <p>15 that policyholders that work during the day may be unable</p> <p>16 to contact Centene during customer service hours.</p> <p>17 Complaints were spread among the states where Ambetter was</p> <p>18 offered in 2014 and 2015.</p> <p>19 If the two plans merge and gain market power,</p> <p>20 will the incentive to improve quality for the consumer</p> <p>21 decrease? And how will that affect consumers?</p> <p>22 Finally, Centene's currently-limited role in</p> <p>23 California means it is unlikely -- it is familiar with the</p> <p>24 intricacies of California legal requirements, the State's</p> <p>25 extensive consumer protections, and the unique regulatory</p> <p style="text-align: right;">Page 201</p>

<p>1 framework of having two regulators as well as the 2 purchaser exchange. We do have reservations of Centene 3 considering entering the California market so abruptly on 4 such a large scale. Although we have heard many 5 assurances prior to today, and at this hearing, we urge 6 CDI to ensure that the local presence that Centene 7 maintains is both adequate and meaningful.</p> <p>8 To address our concerns we suggest specific 9 enforcement and commitment to protect consumers, including 10 an obligation to achieve an above-average quality rating, 11 and to maintain Health Net's presence in the commercial 12 market, both in the number and the value of the insured 13 products offered; an agreement providing even greater 14 detail during the premium rate review process, publicly 15 available at the DMAC, and especially close written review 16 moreover, should rates increase, based on the original 17 plan offered for the 2016 plan year, whether offered by 18 Health Net or Centene.</p> <p>19 Finally, Centene must not be permitted to 20 finalize proposed premium rate increases deemed 21 unreasonable or unjustified by CDI or DMAC, and should 22 confer with regulators until a reasonable and justified 23 rate is set. This should apply to all lines of business 24 subject to rate review at the time the rates are filed.</p> <p>25 And finally, we urge CDI to hold Centene</p> <p style="text-align: right;">Page 202</p>	<p>1 MS. MENDELSON: Correct. Uh-huh.</p> <p>2 COMMISSIONER JONES: You also referenced NCQA 3 scores.</p> <p>4 MS. MENDELSON: Yes.</p> <p>5 COMMISSIONER JONES: For both companies, both at 6 the managed care, the health insurance market. So -- and 7 Medi-Cal as well.</p> <p>8 MS. MENDELSON: Yes.</p> <p>9 COMMISSIONER JONES: But what I -- I believe all 10 that's publicly available. What I would like to do is, if 11 there's no objection from Counsel for Advocates, and if 12 there's no objection from Counsel for the Department, I'll 13 just take official notice of both of those sets of 14 documents. The OPA reports, I believe are available on 15 OPA's website. One can go and find the information.</p> <p>16 MS. MENDELSON: Correct. Yes.</p> <p>17 COMMISSIONER JONES: Let me ask Counsel for 18 Advocates if they have any objection.</p> <p>19 MR. DICANIO: No objection.</p> <p>20 COMMISSIONER JONES: Okay. Counsel for the 21 Department?</p> <p>22 MR. FINSTON: No objection.</p> <p>23 COMMISSIONER JONES: Miss Ma.</p> <p>24 MS. MA: Good afternoon, Commissioner Jones. 25 My name is Tam Ma, and I am policy counsel at Health</p> <p style="text-align: right;">Page 204</p>
<p>1 accountable to assurances that it will maintain a local 2 presence in California. The presence must include high 3 level staff, such as medical director and legal 4 compliance, as well as customer service and I.T. 5 specialists.</p> <p>6 To conclude, we believe that the framework 7 designated by the Insurance Holding Company System 8 Regulatory Act grant the Commissioner ample authority to 9 deny the proposed merger until questions of market 10 competition and whether the merger would be in the 11 interest of policyholders and the public can be resolved. 12 California has a relatively stable commercial health 13 insurance market place, and it has worked to consumers' 14 advantage. Consolidation in that marketplace from this 15 and other pending mergers is worrisome, both for the 16 marketplace stability and pricing and access and quality 17 for consumers.</p> <p>18 We appreciate CDI holding a public forum on this 19 proposal and the Department's openness to input. 20 Submitted to CDI is testimony, including more expansive 21 recommendations on an agreement for your consideration. 22 Thank you.</p> <p>23 COMMISSIONER JONES: Thank you very much.</p> <p>24 You reference OPA reports, which is an advocate 25 for the state of California.</p> <p style="text-align: right;">Page 203</p>	<p>1 Access, California's health care consumer advocacy 2 coalition for quality and affordable care for all 3 Californians.</p> <p>4 Our main concern for this and other mergers is 5 whether California consumers, and health systems as a 6 whole, will be better off. These mergers raise questions 7 not just about choice and competition, but also whether 8 insurers with problematic track records should be allowed 9 to have even greater market share. To ensure that this 10 merger is in the public, insurers should not be allowed to 11 get bigger unless they commit to getting better. We are 12 skeptical that bigger is actually better for consumers.</p> <p>13 Mergers might be good for insurers, but we have 14 seen no evidence that they have resulted in lower prices 15 or higher quality for consumers. If this merger is 16 supposed to lead to better care and lower cost, then we 17 want clear commitments that guarantee consumers will 18 benefit in the form of lower premiums, lower out-of-pocket 19 costs, higher quality care and/or reduced health 20 disparities. Centene and Health Net have the burden of 21 showing how consumers will actually benefit.</p> <p>22 Well have concerns about how this merger will 23 affect government purchases such as Covered California and 24 Medi-Cal, and their ability to maintain continuity of 25 care, negotiate for value, and manage costs. Nationally,</p> <p style="text-align: right;">Page 205</p>



<p>1 Centene is the largest Medicaid managed care company, but 2 is relatively new to Medi-Cal. Health Net has a big 3 presence in Medi-Cal and serves over a million consumers. 4 Health Net also has nearly a million commercial 5 enrollees statewide and is responsible for 18 percent of 6 California Covered enrollment and offers products in 16 of 7 the 19 regions. 8 If Centene were to acquire Health Net, it would 9 take Health Net's place as one of the largest insurers in 10 the State. It would also, for the first time, be 11 responsible for insurance in California's commercial 12 market and participate in Covered California. We have 13 concerns about Centene's competency to manage these new 14 lines of business. And in addition, as previously 15 discussed today, their action in Kentucky leaves us 16 wondering if they will end up ditching consumers in our 17 individual and Medi-Cal markets. 18 We also urge to you scrutinize whether Centene 19 will improve upon Health Net's track record in the 20 commercial and Medi-Cal markets. It is relevant to look 21 at oversight and enforcement actions from all California 22 regulators because problems that are present in one line 23 of business are likely to manifest themselves across the 24 company. 25 In recent years, Health Net has been the subject</p> <p style="text-align: right;">Page 206</p>	<p>1 consumers meaningful access to interpreters when receiving 2 their health care. Insurers are also required to 3 translate vital documents and collect data on race, 4 ethnicity and language to address health inequities. We 5 understand the Department is reviewing insurer compliance 6 with these requirements for its biennial report to the 7 Legislature, and we request you to look into whether 8 Centene and Health Net are in compliance. Health access 9 regards compliance with language access requirements as a 10 critical indicator of whether insurers are providing 11 quality care to all Californians. 12 If this deal goes through, Health Net would be 13 the latest of California-based insurers to end up being 14 headquartered elsewhere. And while Centene has made 15 commitments that will maintain local directors in 16 California, we want assurances that they'll commit 17 tomorrow, for an extended period of time, and that they 18 should be required to have a California-based Medi-Cal 19 director, legal counsel and regulatory compliance staff 20 who are knowledgeable about California-specific consumer 21 protections and other requirements we place on our 22 California insurers. 23 Section 1215.2 of the Insurance Code gives you 24 the power to disapprove this merger if it will likely lead 25 to any of the negative outcomes described in subdivision</p> <p style="text-align: right;">Page 208</p>
<p>1 of serious enforcement action by both DMHC and CDI. 2 Within the last year alone, Health Net has received three 3 six-figure fines from DMHC for serious violations of 4 patient rights and for not providing medically-necessary 5 services services. In 2012, you initiated enforcement 6 actions against Health Net and other insurers to make sure 7 they meet their obligations to cover behavioral therapy 8 for autism whenever medically necessary. Prior to the 9 settlement you reached with Health Net, it had routinely 10 denied treatment to children and violated its obligation 11 under the Mental Health Disparity Act. 12 Other witnesses have discussed Health Net's poor 13 quality ratings. I'll add that their Covered California 14 Quality ratings, which were recently made available to 15 consumers shopping in the current open enrollment period, 16 show Health Net's HMO products earned a dismal two out of 17 five stars in all its regions. 18 Health Net's Medi-Cal products also have low 19 quality ratings from the NCQA for customer satisfaction, 20 prevention and treatment. If this merger is approved, it 21 must be result in better quality and better value for 22 patients. 23 State law and the Department's Language 24 Assistance Program regulations require insurers to provide 25 limited-English proficient and non-English-speaking health</p> <p style="text-align: right;">Page 207</p>	<p>1 (d). Centene and Health Net's track record, as I and 2 other consumer advocates have outlined, show that there 3 are serious questions about the competence, experience and 4 integrity of those who manage the company; that would it 5 not be in the interest of policyholders or the public to 6 allow them to go through with this merger. 7 Insurance companies doing business in California 8 are bound by duties and obligations imposed by statute and 9 by contract. The California Supreme Court has noted that 10 insurance companies are also subject to additional duties 11 and obligations as a matter of public policy. In Egan 12 versus Mutual of Omaha, the Supreme Court noted that as 13 suppliers of a public service, insurance companies must 14 take the public's interest seriously, placing it before 15 their own interest in maximizing profits and limiting 16 payouts. 17 On behalf of California's health care consumers, 18 Health Access calls on you to scrutinize this merger and 19 make sure that patients aren't left with higher prices and 20 unfulfilled promises. 21 Thank you for holding this important hearing and 22 giving this matter the attention it requires. And we will 23 be submitting detailed written comments to supplement our 24 oral testimony today. 25 COMMISSIONER JONES: Thank you.</p> <p style="text-align: right;">Page 209</p>

<p>1           You mentioned, among several things, language 2       access. And the Department of Insurance prepares a 3       biennial language access for the Court, which also is 4       publically available. So I want to take official notice 5       of the Department's report in that regard. 6           I'd first ask if there are any objections from 7       Counsel for Applicants. 8           MR. DiCANIO: No objection. 9           COMMISSIONER JONES: Any objections from Counsel 10      for the Department? 11          MR. FINSTON: No objection. 12          COMMISSIONER JONES: Okay. 13          Thank you, Miss Ma. 14          Let me see if the Applicants have any questions 15      for any of the witnesses that are present here. 16          MR. DiCANIO: Thank you for their comments. No 17      questions. 18          COMMISSIONER JONES: Does the Department have 19      any questions for any witness presented here? 20          MR. FINSTON: I have a few questions, Your 21      Honor -- Mr. Commissioner. 22          The company has made a number of commitments 23      addressing the areas that you have commented on. Is your 24      concern that, with respect to the statements that they've 25      made or the ability to enforce the statements that they've</p> <p style="text-align: right;">Page 210</p>	<p>1       this merger should under no circumstances be approved? 2           MS. ANTONINI: I would say if the undertakings 3       outlined today in consumer written comments, as well as 4       undertakings expressed by my fellow consumer advocates 5       were imposed and properly enforced, then we wouldn't 6       absolutely oppose the merger. But without commitments and 7       undertakings, then we don't think it should go forward. 8           MS. MA: So speaking for health access, we 9       believe this merger should not be approved unless 10      consumers actually benefit. And we will not -- we don't 11      know if consumers will actually benefit from the merger 12      unless there are clear and enforceable commitments to 13      ensure that any synergies or issues or cost savings are 14      actually passed down to consumers; that they clean up 15      there track record and improve quality and customer 16      service, a commitment to not proceed with unreasonable 17      rate increases. We would like to see those commitments to 18      actually be, you know, quantifiable and enforceable, with 19      clear, you know, timeframes, so that it's clear to us and 20      clear to the public what these companies would be -- 21      actually what standards they're being held to. And they 22      have -- consequences actually have to take place when, you 23      know, they don't follow through. 24          MS. MENDELSON: I'm in agreement to what my 25      colleagues are saying. Our concern is making sure that</p> <p style="text-align: right;">Page 212</p>
<p>1       made? 2           MS. ANTONINI: I would say both. The statements 3       that they've made today, I heard them saying that they 4       were going to follow the law. But it didn't seem like 5       there was anything above and beyond that. They said as a 6       result of the merger, they're not going to cancel or 7       change their plans. But that doesn't necessarily mean 8       that they're committing to not changing the plans, as I 9       heard. 10          And as far as enforcement, whatever those 11      commitments are in the ultimate agreement, I think that if 12      there are adequate enforcement and monitoring provisions 13      in line the agreement, those concerns would be taken care 14      of. 15          MR. FINSTON: But I guess my question then is a 16      little bit different. Do any of your organizations 17      absolutely oppose the merger? Or are you more concerned 18      with ensuring that the commitments that you got outlined 19      in your testimony, and some of the commitments that the 20      company has made, are actually -- we have the power to 21      follow through with them, and that we have the power to 22      enforce them? 23          Let me break that down, because that was a 24      compound question. Do any of your organizations 25      absolutely, you know, basically, have a bottom line, that</p> <p style="text-align: right;">Page 211</p>	<p>1       consumers are not holding the weight of the deal. So what 2       we're looking for is assurances, but more than assurances, 3       contractual obligation that they actually follow through 4       on the statements that they made today, and also on 5       statements that they submitted to CDI in the past letter. 6       So in our written testimony, we have included a 7       substantial number of recommended areas to pursue in that 8       regard. 9          And so while we have now nothing to specifically 10      oppose this merger in particular, we are concerned about 11      what the effect will be on consumers, whether consumers 12      actually will benefit from this merger. 13          COMMISSIONER JONES: And so the other thing I 14      heard was a concern about the ability to enforce 15      commitments, and that it comes out of some prior 16      transactions where the ability of the DMAC or the 17      Department of Insurance can enforce commitments should it 18      become problematic. And so am I correct then, what I'm 19      hearing? Is you want to make sure that if we do impose 20      commitments, that there's a clear course of mechanism as 21      well? 22          MS. MENDELSON: Correct. We would want to make 23      sure that any commitment that is made is clear and clearly 24      laid out, as well as what the repercussions would be, if 25      anybody were to change their understanding after</p> <p style="text-align: right;">Page 213</p>

<p>1 commission.</p> <p>2 COMMISSIONER JONES: Thank you.</p> <p>3 Thank you.</p> <p>4 COMMISSIONER JONES: In the wake of that, any</p> <p>5 additional questions from Applicants?</p> <p>6 MR. DICANIO: No. Thank you.</p> <p>7 COMMISSIONER JONES: Okay. Let me see if any</p> <p>8 other interested persons had questions for the consumer</p> <p>9 groups?</p> <p>10 I don't see any, so I'm going to excuse you at</p> <p>11 this point. Thank you.</p> <p>12 So now we're going to afford an opportunity for</p> <p>13 any other member of the public to testify.</p> <p>14 Thank you. What I'd like you to do is to join</p> <p>15 us in seats here. Take that back. Join us at the table.</p> <p>16 And we'll fill up the table as best we can, and then if we</p> <p>17 run out of room, we'll ask if folks hold off a second, and</p> <p>18 we'll sort of take you in waives if you will.</p> <p>19 All right. So I actually have a list of the</p> <p>20 additional witnesses, but I'm suspecting it may be a</p> <p>21 partial list. So what I'm -- what I'm going to do is call</p> <p>22 the names first of those people that actually gave us</p> <p>23 their names. And we'll let them testify first. And then</p> <p>24 we'll go to those that didn't give us their names.</p> <p>25 Now, to complicate that further, that is that</p> <p style="text-align: right;">Page 214</p>	<p>1 the Commissioner and the members of the panel for</p> <p>2 convening this hearing and the opportunity to testify.</p> <p>3 My organization is a coalition of 300</p> <p>4 non-profits throughout the State. We advocate for an</p> <p>5 increase in reinvestment in California's low income</p> <p>6 communities and communities of color. And I also happen</p> <p>7 to be a Health Net customer. As noted, the Commissioner</p> <p>8 may disprove this transaction upon a finding that the</p> <p>9 competence, experience and the integrity of experience of</p> <p>10 the control, the operation of the insurer indicates that</p> <p>11 it would not be in the interest of the policyholders or</p> <p>12 the public to permit them to do so.</p> <p>13 Earlier, representatives from the Applicant had</p> <p>14 indicated a commitment to low-income people. And I just</p> <p>15 wanted for the record to question, raise questions about</p> <p>16 that commitment, in part, in light of the compelling</p> <p>17 testimony of the consumer representatives who we heard</p> <p>18 earlier, but also to raise any questions and concerns</p> <p>19 around the investments that are made, or have not been</p> <p>20 made, by the Applicants.</p> <p>21 The Department of Insurance, through the COIN</p> <p>22 program, provides a readymade path for insurance companies</p> <p>23 to make safe and sound investments and also help address</p> <p>24 California's critical housing and other community</p> <p>25 development needs. But what are those companies doing to</p> <p style="text-align: right;">Page 216</p>
<p>1 some people have written to us and may not have signed up</p> <p>2 for the list. They figure they wrote to us.</p> <p>3 I'm looking to my friend Cassandra Jennings.</p> <p>4 And I don't see her name.</p> <p>5 MS. JENNINGS: No.</p> <p>6 COMMISSIONER JONES: I got a letter from her.</p> <p>7 Maybe what I'll do is just start from my left and just</p> <p>8 work across. As a result, I would ask if you could please</p> <p>9 be succinct in your remarks. We're going to swear you in</p> <p>10 in a moment. And our hope is that you'll have an</p> <p>11 opportunity to share with us your views, but that we can</p> <p>12 get through everybody. And be mindful of the hour as</p> <p>13 well.</p> <p>14 So why don't I ask you to stand. And please</p> <p>15 raise your right hand. Arms. And I'm going to ask you</p> <p>16 the following: Do you swear or affirm the testimony you</p> <p>17 shall give shall be the truth, the whole truth and nothing</p> <p>18 but the truth?</p> <p>19 (As a Group: "I do.")</p> <p>20 COMMISSIONER JONES: All right. Everyone up</p> <p>21 there has said "yes." So I'm going to start to my far</p> <p>22 left, which is at the far right of the table. And ask</p> <p>23 that you identify yourself, and we'll begin with you.</p> <p>24 MR. STEIN: My name is Kevin Stein, and I'm with</p> <p>25 the California Reinvestment Coalition. I'd like to thank</p> <p style="text-align: right;">Page 215</p>	<p>1 help meet the need?</p> <p>2 According to the most recent department data,</p> <p>3 based on the prior, the last data call in 2012, Health Net</p> <p>4 reported over a billion dollars in premiums in California.</p> <p>5 Centene was listed as having recorded over three million</p> <p>6 in premiums. But in looking at investments that, quote,</p> <p>7 "provide a positive environmental or social impact to low</p> <p>8 to moderate-income households or areas, as well as rural</p> <p>9 and reservation-based communities in California," both</p> <p>10 Centene and Health Net reported zero high-impact holdings.</p> <p>11 Both Centene and Health Net reported zero COIN-qualified</p> <p>12 holdings. And this goes all the way back to 1997. And</p> <p>13 both Centene and Health Net reported zero participation,</p> <p>14 as far as we can tell, in the COIN CDFI Tax Credit</p> <p>15 Investment Program. I'm sorry that's -- the tax credit</p> <p>16 program goes back to 1997. So it raises the question as</p> <p>17 to whether these companies have really made any</p> <p>18 bottom-lines investments at all. And if not, why not?</p> <p>19 The Commissioner should consider and review the</p> <p>20 responses to this question before making a decision on the</p> <p>21 proposed merger. And we -- I would note that my</p> <p>22 understanding is that there's currently a data call out</p> <p>23 now for more up-to-date information, and perhaps the</p> <p>24 companies have responded, or could respond, and that</p> <p>25 information could be considered.</p> <p style="text-align: right;">Page 217</p>

55 (Pages 214 to 217)

<p>1 And it raises the larger question of the 2 commitment to make substantial safe and sound investment, 3 and also to understand critical -- critically-needed, 4 affordable housing and other crucial needs. I would just 5 note obviously that our state, in the affordable housing 6 crisis, according to the California Housing Partnership, 7 characterizes our state has a shortfall of 1.5 million 8 rental homes for extremely low income and very low income 9 renter households. Contribute to that, California's 10 substantial 22 percent poverty rate, the highest poverty 11 rate in any state in the nation. And I will just note 12 that studies -- and maybe public consciousness, there's a 13 clear link between housing and health needs.</p> <p>14 In conclusion, we would urge the companies to 15 make a significant commitment to invest in affordable 16 housing in California through participation in the COIN 17 program or other initiatives. In the absence of that, we 18 would urge the Commissioner to disapprove of this merger 19 proposal as being contrary to the public interest. Thank 20 you very much.</p> <p>21 COMMISSIONER JONES: Thank you very much. 22 Miss Jennings.</p> <p>23 MS. JENNINGS: Thank you. Okay. Usually you 24 don't have a problem in here.</p> <p>25 Thank you, Commissioner Jones. It's good to be</p> <p style="text-align: right;">Page 218</p>	<p>1 have been -- really had a great presence. The mere fact 2 that they branded the local plan with a California name 3 demonstrates their commitment to the concept of all health 4 care is local. And in a very short time, California 5 Health and Wellness, they have made a great impact on our 6 community.</p> <p>7 The Greater Sacramento Urban League, in case 8 some of you aren't familiar, we work with economic, 9 educational social processes for the underserved person 10 and community, and we could get into housing as well, 11 which is one of my loves and background. But we 12 especially work with people of color and people in low 13 income neighborhoods and that sort of marketplace that we 14 work with to get to Covered California, to get services. 15 They're the working families. They're the families we 16 want to get to work that could benefit from this 17 partnership. The Urban League also promotes strong 18 sustainable communities through advocacy, collaboration 19 and innovation, and we offer a number of programs where 20 there's GED programs, computer training. We have a 21 custodial program, and we work with youth in certain 22 underserved neighborhoods.</p> <p>23 But given Centene's emphasis on a holistic 24 concept of health and wellness, and it's purpose of 25 transforming communities one person at a time, it is no</p> <p style="text-align: right;">Page 220</p>
<p>1 here today and spend the whole day with you. My name is 2 Cassandra Jennings, and I'm the president and CEO of the 3 Greater Sacramento Urban League. I appreciate the need 4 for this special hearing. It's been an educational 5 process for me, and I really want to acknowledge the 6 advocacy consumers. I will say there, your discussion 7 about the reasonable rates and the marketplace presence 8 and the quality of services are important. And I would 9 hope that the standard that you would hold for this 10 partnership would be the same standards that you would 11 hold for any insurance company that would be providing 12 service to our community.</p> <p>13 I am here really to support the partnership 14 between Health Net and Centene. I will say that I used to 15 be a Health Net consumer. And as your discussion was, I 16 think I was involved in it because my son was going to 17 college in Alabama, and I think I had a PPO, and then when 18 we went to school in Fresno, that still worked for me. 19 And so I think that's important.</p> <p>20 But I really want to talk about Centene and 21 their presence here now in the Sacramento community. And 22 while it's a new name to many of us in California, we are 23 fortunate to have them here.</p> <p>24 California Health and Wellness operated in 25 California. And since they've been in Sacramento, they</p> <p style="text-align: right;">Page 219</p>	<p>1 surprise that Centene is so closely aligned itself with 2 the Greater Sacramento Urban League. Their local plan, 3 health plan CEO, Greg Buchert, was on the board last year, 4 and has been very engaged with our community activities. 5 In fact, one of our programs, the GED program, we were 6 able to put 30 students through, and they weren't able to 7 really come up with the resources to pay for their testing 8 and graduation. So Centene, in addition to the support 9 that they were already giving the Urban League in our 10 programs, stepped right up so that those people could 11 really complete their program, get their certificate and 12 then go on to gainful employment. And you know what? 13 That means then they can have a quality health care. It's 14 many instances like that that corporations, and in 15 particular, California Health and Wellness, has stepped up 16 to help the Urban League really reach out to the 17 community.</p> <p>18 The combination of Centene and Health Net will 19 increase their impact on the community, and in particular 20 in our community, Health Net has a body present, and has 21 been a valuable contributor to the community activities. 22 When coupled with Centene's culture, they will make a big 23 impact, as they look at not just a member, but the 24 individual that lives in a family, that lives in a 25 community which we try to serve. This is the making of a</p> <p style="text-align: right;">Page 221</p>

<p>1 powerful and enriching partnership that can transform 2 lives and people in a real way.</p> <p>3 I spend my life trying to make an impact in this 4 community, and it is this reason that I encourage you to 5 support the partnership of Centene and Health Net. Thank 6 you, Commissioner Jones.</p> <p>7 COMMISSIONER JONES: Thank you, Miss Jennings. 8 And thanks for your patience. And all of you, for your 9 patience. I know it's been a long day.</p> <p>10 MS. JENNINGS: My pleasure.</p> <p>11 COMMISSIONER JONES: We'll hear from the next 12 person.</p> <p>13 MR. WALLIS: Good afternoon, Commissioner and 14 members of the panel.</p> <p>15 My name is John Wallis. I'm a Senior Vice 16 President at Heritage Provider Network. I'm giving 17 testimony on behalf of Heritage and our President and 18 Director, Dr. Richard Merkin, in support of the proposed 19 Centene-Health Net merger. Heritage is a provider network 20 and has a 35-year history in California. As a limited 21 entity. Through our regional medical groups we serve more 22 than one million enrolled members, more than 650,000 of 23 whom reside in California. Health Net has been a solid 24 partner with Heritage in offering health care coverage in 25 both the commercial and government-sponsored markets for</p> <p style="text-align: right;">Page 222</p>	<p>1 at time when other insurers are seeking to consolidate. 2 Centene's philosophy is that local control is best. I 3 know the patients we serve, and we need our insurers to 4 know them too. It's important that the combined Health 5 Net-Centene organization continue to be locally-managed, 6 and Centene has committed to that. Because of these 7 reasons, Heritage supports this partnership. Thank you.</p> <p>8 COMMISSIONER JONES: Thank you very much.</p> <p>9 MR. DIAZ: Good afternoon, Commissioner Jones 10 and others. My name is Dr. Mark Diaz. I've been a 11 practicing physician in California for over 30 years. I'm 12 here today representing the National Hispanic Medical 13 Association. The National Hispanic Medical Association is 14 a non-profit association representing the interests of 15 50,000 licensed Hispanic physicians in the United States, 16 including many Hispanic physicians here in California. 17 And NHMA's mission is to empower Hispanic leaders, to 18 improve the health of Hispanic and other underserved 19 populations, and change the state of Hispanic medical 20 associates, medical residents, medical students and other 21 public and private sector partners. The NHMA supports the 22 acquisition of Health Net by Centene Corporation. We 23 believe Centene and NHMA are committed to improving the 24 health of the community. We are pleased with the presence 25 of California Health and Wellness. Centene's health plan</p> <p style="text-align: right;">Page 224</p>
<p>1 more than two decades. Health Net's serving of low and 2 moderate-income populations throughout California is in 3 line with Centene's mission and their lines of business. 4 Health Net has been responsive to our providers. They fix 5 issues as they arise. That's why we believe Centene and 6 Health Net's partnership will be good for the members that 7 we serve. It combines complimentary services and service 8 areas that do not overlap, and will allow the two 9 companies to continue to work collaboratively and 10 effectively with the provider communities. The combined 11 resources will make the merged company stronger than the 12 two companies are today separately. And like Health Net, 13 Centene has focused their services primarily on low and 14 moderate-income customers.</p> <p>15 It's important to the patients we serve that the 16 health plans they choose consistently meet their needs by 17 providing low cost and high quality coverage, and that has 18 been the response of Health Net, to do that. They need 19 resources to operate their plans, to respond to those they 20 insure and the providers with whom they work. And I 21 believe with the partnership with Centene, there will be 22 more resources to do those kind of things.</p> <p>23 The combined organization will be able to 24 continue to offer cost-effective and attractive products 25 by increasing their scale in the marketplace, particularly</p> <p style="text-align: right;">Page 223</p>	<p>1 service is on our Corporate Advisory Committee, and with 2 our Board, is interested in innovations to improve health 3 outcomes.</p> <p>4 Over the past years, NHMA has developed 5 productive working relationship with Centene, and we are 6 impressed by the company's commitment to providing local, 7 accessible health care to underserved populations. NHMA 8 has been community-based, and supports initiatives that 9 hasten the endorsement of community initiatives. Centene 10 includes vision and dental health. Centene partners with 11 NHMA to host regional meetings, allowing companies and its 12 health plans to gain information on the health initiatives 13 and challenges within the Hispanic community.</p> <p>14 We understand that Centene recognizes and 15 partners in supporting physicians and other providers 16 relative to the unique cultural needs of Hispanic 17 patients. Membership is crucial to helping their members 18 get healthy and stay healthy. Centene's California Health 19 and Wellness program has proven to be sensitive to the 20 unique and diverse needs of its members and the 21 communities that they serve in California, recognizing 22 that diversity. This is critical in the state of 23 California, as it has extensive ethnic diversity.</p> <p>24 NHMA partners with the communities it serves. 25 California Health and Wellness members donate their time</p> <p style="text-align: right;">Page 225</p>

<p>1 to Boards that further our shared commitment, including  2 the National Hispanic Health Foundation, Latino Health  3 Community Advisory and the Sacramento Chamber of Congress  4 here in northern California, to name a few. During this  5 short tenure in our state, Centene's Health and Wellness  6 has demonstrated a long-term commitment to helping our  7 communities achieve those outcomes.</p> <p>8 The acquisition of Health Net will ensure  9 Centene will continue this strong investment, working in  10 partnership with providers, the state, community-based and  11 local organizations. Again, NHMA supports the acquisition  12 of Health Net by Centene. Thank you very much.</p> <p>13 COMMISSIONER JONES: Thank you very much, sir.</p> <p>14 MR. ATHA: Good afternoon. My name is Shawn  15 Atha (phonetic spelling.) I'm Senior Vice President for  16 Worker City Medical Group. We're a physician-owned  17 Medi-Cal-only medical group in southern California and  18 Sacramento, California.</p> <p>19 I'm here to speak on behalf of our organization  20 in support of this merger from a perspective of a long  21 history, of over 20 years of history working with River --  22 excuse me -- with Health Net of California as an  23 outstanding partner and leader to serving the Medi-Cal  24 population. The excitement and the integrity behind this  25 current level of merger has been interesting for</p> <p style="text-align: right;">Page 226</p>	<p>1 significant amounts of funding to help build innovative  2 programs to serve low-income populations.</p> <p>3 And so when I put the two together in terms of  4 the market in California, I see the support and the effort  5 and the statements saying "We're going to implement the  6 Health Net model," which is a dedicated model, which is a  7 model that puts physician-known medical groups at the  8 front of putting in care in the continuum of local  9 populations. Putting that in connection with Centene,  10 that has years of leadership and innovations for  11 low-income populations, starting out of a basis of  12 qualified health care, you put those together and it  13 happens.</p> <p>14 Centene is a local model, because in California,  15 truly, the physician-known Medi-Cal groups, it allows us  16 to have potential influence of new innovations of support  17 to build new programs. Health Net is already in the  18 concept of improving quality, looking at the concept of  19 using local medical groups like ours to increase the NCQA  20 scores as far as quality, in such that looking at our  21 programs, Medi-Cal populations can switch from plan to  22 plan to plan every month if they want to, to quite  23 often, when you look at quality scores, you encounter big  24 groups -- medical groups like ours, quantified multiple  25 health plans with no gaps. Doctors are seeing them</p> <p style="text-align: right;">Page 228</p>
<p>1 organizations like ours. The key thing we've looked at is  2 we've seen Health Net as a leader in what we call the  3 demonstrated model in California, the concept that health  4 care and service to the Medi-Cal population is intensely  5 local has been very successful, and we feel that it works  6 well in California.</p> <p>7 Because California is not Kansas, it's not  8 Montana, no other state in the sense California has a  9 unique demonstrated model, with large Medi-Cal groups,  10 small Medi-Cal groups that serve populations at a very  11 local base, community level, with physician leaders. And  12 Health Net has done that in an outstanding way, and it has  13 worked well.</p> <p>14 So what I'm looking at here is I've actually  15 been -- so my past, I was here at Health Net of California  16 to develop these program and accelerate the working for  17 the Department of Health Services in the '90s. I watched  18 them worked with them in a way over the years to implement  19 these programs, and it's always been high quality, and  20 they worked hard. I have seen Centene -- part of one of  21 my former positions, I was on a national Medicaid team for  22 Anthem.</p> <p>23 Today I, quite frankly, compete against Centene  24 with various competitors. I'm very impressed. They have  25 high quality programs, and they are able to put out</p> <p style="text-align: right;">Page 227</p>	<p>1 whether they belong to Aetna -- excuse me -- Anthem,  2 Molina or Health Net. We put the gaps together, and we're  3 working on programs with Health Net right now to build a  4 more complete patient record, which improves quality and  5 improves quality scores with programs, like I've seen in  6 place by Centene. It would allow us opportunities to  7 expand models like this through innovative experience and  8 through innovative programs that we have seen a history of  9 supporting.</p> <p>10 So with that context in mind, it's a given fact  11 that the markets have not overlapped, and Health Net  12 markets and Centene markets will be individual. It's  13 merging two together. It's really seeing the opportunity  14 to expand this model to some of the more rural counties  15 and increase the local access of physicians to work in the  16 Health Net model to improve quality, improve access, and  17 overall, the Medi-Cal program for California. And it's an  18 exciting prospect.</p> <p>19 So with that, I just sort of stand in support of  20 this merger. Thank you.</p> <p>21 COMMISSIONER JONES: Thank you very much.</p> <p>22 MS. PRIMO: I was going to say good morning.  23 But I think I'm going to "Good Afternoon."</p> <p>24 Commissioner Jones, I am here to talk about a  25 recommendation concerning the merger of Centene and Health</p> <p style="text-align: right;">Page 229</p>

<p>1 Net. I am currently the Director of what's called the</p> <p>2 Harris Family Center for Disability and Health Policy, but</p> <p>3 known by the over 14 plans that we've consulted with, as</p> <p>4 "June and Brenda."</p> <p>5 COMMISSIONER JONES: Please spell your name</p> <p>6 again?</p> <p>7 MS. PRIMO: Brenda Primo. P-r-i-m-o.</p> <p>8 COMMISSIONER JONES: Thank you.</p> <p>9 MS. PRIMO: I was Deputy Director of the</p> <p>10 Department of Rehabilitation under the Wilson</p> <p>11 Administration, and I was Director of that Department. I</p> <p>12 mean I worked for an independent living center called the</p> <p>13 Dayle McIntosh Center. My job today, I've been very</p> <p>14 entry-level and learned a lot about the overview of money</p> <p>15 transfers, who gets it. Who doesn't. What happens to</p> <p>16 care. And most of all, what happens to the transfer of</p> <p>17 patients.</p> <p>18 I'm old enough to remember sitting in a doctor's</p> <p>19 office, clothed, giving my history, having a 45-minute and</p> <p>20 be cared for. Today, 20 to 21 people in a day is not</p> <p>21 unusual.</p> <p>22 But I'm here to talk about a specific</p> <p>23 population. You see, three things happened when the ADA</p> <p>24 became effective. The first thing that happened is that</p> <p>25 people in the private sector, which is one of your big</p> <p style="text-align: right;">Page 230</p>	<p>1 I have worked within and in and on many other committees,</p> <p>2 talking about issues of access. We heard about autism.</p> <p>3 It wouldn't -- Health Net and Centene, none of the plans</p> <p>4 know what to do with people with significant disabilities.</p> <p>5 They're learning. I am an advocate. That's my primary</p> <p>6 job. That's who I am and is in the outcome of everything</p> <p>7 I do. And my associate, June Kailes is the same. You</p> <p>8 have a letter from June that is going to provide more</p> <p>9 detail on exactly what she believes, and the community</p> <p>10 that we represent believes needs to be in place for this</p> <p>11 merger.</p> <p>12 While there are many Californians was</p> <p>13 disabilities who would want to talk about the access</p> <p>14 issues they're experiencing, I think putting a face on it</p> <p>15 would be the most important. You're a new parent. You</p> <p>16 have a nine-month old child. You and your wife run to the</p> <p>17 Emergency Room to take care of the child who has a 106</p> <p>18 fever and is throwing up. You happen to be deaf. There's</p> <p>19 no one to communicate with you. You don't know what they</p> <p>20 need to ask. They don't know how to ask you. Your child</p> <p>21 is getting sicker. That happened to deaf people before</p> <p>22 many of the implementations with the Americans with</p> <p>23 Disabilities Act. And today, in health plans in and</p> <p>24 including Health Net and Centene, you can ask for an</p> <p>25 interpreter. But if you're in a rural area, what do you</p> <p style="text-align: right;">Page 232</p>
<p>1 concerns, who had preexisting conditions, who were not</p> <p>2 served, were denied by insurance companies, now had to be</p> <p>3 served. That's people with disabilities. The second and</p> <p>4 third was the development of a plan, a product within</p> <p>5 Medi-Cal specifically for people with disabilities. 100</p> <p>6 percent of that product, not five percent, not seven</p> <p>7 percent, is people with disabilities. Finally, the pilot</p> <p>8 put together what's called California MediConnect. The</p> <p>9 most interesting influence in that implementation is that</p> <p>10 it is 100-percent seniors and persons with disabilities.</p> <p>11 Both sets having significant activity limitations,</p> <p>12 including seeing, hearing, walking and understanding and</p> <p>13 mental health issues. I sat on the National Council for</p> <p>14 Disability and was appointed by President Reagan to</p> <p>15 oversee the development, the language which became the</p> <p>16 Americans with Disabilities Act. As result of that Act,</p> <p>17 plans are now responsible for providing eligible care for</p> <p>18 their members with disabilities. In addition, I have</p> <p>19 served on most policy commitments that help develop the</p> <p>20 California Medi-Cal Seniors and Persons with Disabilities</p> <p>21 Product development. And let me tell you all, nobody knew</p> <p>22 anything about that health plan until this began, and</p> <p>23 California MediConnect, and you could write a book about</p> <p>24 that.</p> <p>25 I am also the Chair of the Olmstead Committee.</p> <p style="text-align: right;">Page 231</p>	<p>1 do? You have to have a distance approach. You have to</p> <p>2 have a way to talk to that person with an interpreter.</p> <p>3 This experience happens to people with</p> <p>4 disabilities every day. Plans are beginning, through us</p> <p>5 in part, to learn what they need. There are others,</p> <p>6 however, who do not. It is important that conditions that</p> <p>7 are outlined in the detail go beyond saying "You must do</p> <p>8 something." And I will say the state of California has</p> <p>9 done several things, and I'm going to detail those. One</p> <p>10 of the things that happens -- and this is very important</p> <p>11 for us to describe -- is training providers, doctors,</p> <p>12 nurse practitioners, front and back office staff. You</p> <p>13 see, many times, we, in the sense of the provider, we see</p> <p>14 people with disabilities as unable to communicate, to</p> <p>15 understand and do not provide adequate information or</p> <p>16 care.</p> <p>17 In my experience over the last 20 years of</p> <p>18 working on this, I've seen too many people get sicker</p> <p>19 because they didn't get the care they needed. The doctors</p> <p>20 didn't understand the specialty needs. The primary care</p> <p>21 didn't understand secondary prevention. So one of the</p> <p>22 elements we talk about is training. We talk about it to</p> <p>23 the plan we train, but we want to go one step further. We</p> <p>24 want you and the MHC to require a set-aside of dollars</p> <p>25 that will put in a separate not-for-profit or foundation,</p> <p style="text-align: right;">Page 233</p>

<p>1 which has been done in other mergers, to provide resources 2 to incentivize doctors, P.A.s and others, and critical 3 care facilities, to put in the equipment and the services 4 necessary, such as those sign language interpreters, for a 5 new family. And that's not the pretend story. It's real 6 to be able to get the things they need and communicate, 7 have physical access and equipment access. You use a 8 wheelchair, the doctor says "I'm going to exam you in your 9 wheelchair." There's pressure usually on the back of you, 10 not the front. You go home and get a fever and you end up 11 in an ambulance, in a hospital, and \$100,000 later you 12 didn't get sepsis, but almost did and could have died 13 because someone didn't examine you on an examine table 14 because nobody could lift you. They're high tables.</p> <p>15 We want this investment to include how to 16 incentivize doctors, doctor's offices, providers, 17 specialists on how to provide that care. We want to see 18 our partners become a model for how this can be done. We 19 want to see models of how to put together home and 20 community-based services for folks with developmental 21 disabilities, who are now going to be in the system, and 22 how those services will be provided, with supports for 23 they and their families' needs. We want to see that this 24 fund will be used -- in our letter -- to get some very 25 specific issues. And one of them won't surprise you.</p> <p style="text-align: right;">Page 234</p>	<p>1 and find out what a truly accessible site for them would 2 be.</p> <p>3 We talked a lot about the money and where it 4 goes and what it is. But I'm going to put the face back 5 on it. Who is it and what do they need, and are you going 6 to serve them? We can no longer put in the pack seat of 7 care people with disabilities. They are 100 percent of 8 two products, and with the aging -- lucky me. I'm one of 9 those with the growth in aging -- by the year 2050, we 10 will have ten times more senior citizens or people 100 11 years old than we do now. I promise you, 100 percent of 12 them will have some kind of activity limitation and will 13 need the care. Five times more will be 85 or above. 14 They'll have some type of disability and will need the 15 access to care. That will be us. That won't be "them."</p> <p>16 We also need to take the things we're learning 17 from the public sector and move it to the private. If you 18 use a wheelchair, it doesn't matter if you have Health 19 Net's commercial plan or you have Centene's public plan, 20 you need access to that doctor's office. You need to have 21 those interpreters to have care. And you've paid for them 22 as taxpayers, and you have a right to them.</p> <p>23 I hope today that we can look beyond just the 24 broader issues or higher issues of who comes in and goes 25 where, but rather how does that affect those who are going</p> <p style="text-align: right;">Page 236</p>
<p>1 It's I.T.</p> <p>2 There needs to be a systemwide database. You 3 see? We've worked with Centene, and we worked with Health 4 Net. I have been a consultant for both Centene, for about 5 18 months, and Health and Wellness, or Health Net, for ten 6 years. And I can't say their name. And we've done a lot 7 with them. And they've done a lot. In fact, Health and 8 Wellness has been experimenting with that problem of those 9 interpreters in rural areas, looking at a way to implement 10 a system that will work, turn on a computer, 11 instantaneously have a sign language interpreter available 12 for you or your child should they need them.</p> <p>13 Health Net, IHP, Molina were instrumental and 14 created a tool, the first tool ever created, that looks at 15 the physical access of a doctor's office. If you can't 16 get out of the car or the curb, if you can't get through 17 the door, if you can't get on the table or exam room, you 18 can't get care. We're asking that this -- that these 19 models that have been developed, such as the tool which is 20 now being used and approved by the Department of Health 21 Care Services, and used by the FSR nurses, which have 22 created a database of all primary care doctors, and now 23 creating a database for specialists, be put on a statewide 24 system that will be used so that consumers themselves will 25 be able to open up their computers or call member services</p> <p style="text-align: right;">Page 235</p>	<p>1 to be the highest cost and the most expensive people that 2 we have to care for? We need to design and test and 3 implement, and that's what we want to do with this fund. 4 We want to actually put together systems that can be 5 tested and proven to reduce costs and increase 6 independence both on the home and community-based side of 7 the public plans, and in the private plans. The kind of 8 care that I would get.</p> <p>9 You see, I'm legally blind. You could read this 10 from there, sir. I assure you, if somebody gives me an 11 eight-point print prescription, I can't read it. If I 12 can't read it, I can't comply. If I can't comply, I can't 13 stay well. It's simple to do that. You can put it into a 14 tape recorder. You can send it to me by e-mail. You can 15 even take it to me, because of what my staff calls my 16 satellite, which is my big phone. All of those ways will 17 allow me to perform as a patient in a responsible way. 18 But everyone needs to understand they need to do it, so 19 that I can.</p> <p>20 Thank you for the opportunity to be able to 21 speak to you today. And we really want you to think 22 beyond just the broad, but how we talked about cost. And 23 we talked about how will these costs be brought back to 24 the consumer, and what will it do to result in better 25 care? In this case, better care means equally, effective</p> <p style="text-align: right;">Page 237</p>



<p>1 care for everyone, including those with mobility, sensory, 2 cognitive and mental health issues. Thank you for the 3 opportunity of speaking today. Or tonight.</p> <p>4 COMMISSIONER JONES: Thank you, Miss Primo. I 5 appreciate it very much. Thank you.</p> <p>6 Let's hear from the next witness.</p> <p>7 MR. BLAND: Yes. Thank you, Commissioner Jones 8 and Panel. I'm Ronald Bland, a northern California group 9 benefits insurance broker serving the Bay Area. 10 Specifically, I support the merger brought by Health Net 11 and Centene merging. Health -- I have been in the 12 California health industry for over 30 years. Health Net 13 is a California-based company. It is a solid partner with 14 its managed care product, offering focused 15 employer-sponsored plans and government-sponsored managed 16 care programs, offering a variety of health care options 17 to fit California's diverse population.</p> <p>18 The partnership between Health Net and Centene 19 is in a facility combining many complex services and 20 service areas and leveraging expertise in innovative 21 solutions. Centene and Health Net share a philosophy to 22 enhance their ability to serve members and work 23 collaboratively and figuratively in providing strengths in 24 California by continuing to leverage a local approach. 25 Its happens members have access to higher quality health</p> <p style="text-align: right;">Page 238</p>	<p>1 traveled many miles with no car, here today, and 2 California Health and Wellness was nice enough to provide 3 transportation for me to come and speak, because my story 4 is one that needed to some attention, to say thank you.</p> <p>5 I was -- I was hurt, hit a steel pole at 6 40 miles an hour on my bicycle, because a car was coming 7 straight at me. And it was a brief two and a half seconds 8 of my life, changed my whole life. I swerved out of the 9 way, and I ended up hitting a steel pole at 40 miles an 10 hour with no brakes on my bike. I was -- I went to go hit 11 my brakes. They didn't work, and I hit a steel pole. I 12 hit my stomach and my abdomen, and my bowels were crushed 13 immediately. Put it this way, I put a dent in the pole.</p> <p>14 The funny part of the story is that of all the 15 people in the whole town that seen me hit the pole, that 16 the incident, was the Junior Pastor of my church, David, 17 my friend, that I met at church, at bible study, who was 18 the preacher. And he said to me to turn around and look 19 at my bike, and look above you. You have angels above 20 you. And I didn't believe him at first. But when he 21 offered to take me back, take me to the hospital, when I 22 hit that pole, and I went into the main office area and 23 had a wristband put around me, and the next thing I know, 24 I fell into a coma right then in the waiting room. Never 25 even got into the back. I just woke up three days later</p> <p style="text-align: right;">Page 240</p>
<p>1 care services on a cost-effective basis. And it ensures 2 measurable quality outcomes.</p> <p>3 For these reasons, and many more, I support and 4 look forward to the emerging partnership between Health 5 Net and Centene. I have faith that the California 6 insurance agent, such as myself, will continue to see 7 great things as a result of the Health Net and Centene 8 combination. Thank you.</p> <p>9 COMMISSIONER JONES: Thank you for being a 10 presenter, sir.</p> <p>11 Let's hear from the next witness.</p> <p>12 MR. DUKE: Hello.</p> <p>13 COMMISSIONER JONES: Oh, Mr. Steven. I think we 14 missed the opportunity to swear you because you came to so 15 if you'll stand, raise your right hand. Do you swear or 16 affirm the testimony you're about to give is the truth, 17 the whole truth and nothing but the truth?</p> <p>18 MR. DUKE: Yes. I do.</p> <p>19 COMMISSIONER JONES: Thank you. Please identify 20 yourself for the record.</p> <p>21 MR. DUKE: Hi. Steven Duke. I'm a consumer 22 with Disability Resources Agency of Independent Living, 23 and on behalf of California Health and Wellness, they 24 asked me to come up here today to speak on the customer 25 service of Centene and California Health and wellness. I</p> <p style="text-align: right;">Page 239</p>	<p>1 in Modesto Doctors Hospital. I didn't remember. Took me 2 two and a half weeks to remember what happened to me. I 3 was in a coma. And they had to operate on me, and I'm on 4 Medi-Cal. I was working at a regular job of low income, 5 part-time. And I was -- I lost my job after this. I 6 didn't have any money. I mean I was making a 30-hour a 7 week job, part-time. So I was on Food Stamps and 8 Medi-Cal. And I had Medi-Cal for a couple months before I 9 started this whole thing. And it took me two and a half 10 weeks to remember what happened to me.</p> <p>11 And then I finally remembered, and I was in 12 shock that I was still alive. Thank you for California 13 Health and Wellness and Centene for providing excellent 14 service to me, for the operations that I had. This was 15 two years ago, about two and a half years ago today. And 16 I'm still alive. And I would like to thank California 17 Health and Wellness for their excellent -- providing 18 service, transportation to the clinics and the doctors 19 offices. And I feel that the merger would be a benefit to 20 any medical consumer, as far as helping them as a 21 provider, to assist in helping people get back on their 22 feet after such a trauma like my accident has occurred.</p> <p>23 And on that note, I wanted to read this poem 24 that I wrote as I was going out with a bang, since I have 25 an interest in being here since 11:00. I wanted to -- I</p> <p style="text-align: right;">Page 241</p>

<p>1 wanted to make everyone laugh out loud with a bang.</p> <p>2 COMMISSIONER JONES: I will be delighted to hear</p> <p>3 the poem.</p> <p>4 MR. DUKE: I actually got my glasses cleaned</p> <p>5 because they were getting dirty just waiting.</p> <p>6 All right. I'm here to talk about my health</p> <p>7 insurance. And in a sum of just two words, it is</p> <p>8 something that you heard. It's called customer service.</p> <p>9 Sorry if I seem a little bit nervous. It's important to</p> <p>10 have this featured, and even if I'm just home taking a</p> <p>11 nap, it's a feature I have never had before. It saved my</p> <p>12 life and even more. Provided transportation to doctors</p> <p>13 and whatnot. If you have any questions, I'm the author.</p> <p>14 I'll try to answer them in each and every way. Don't</p> <p>15 fight who wants to ask me first. Just know, because</p> <p>16 California Health and Wellness has helped me through the</p> <p>17 thick and the thin and even the worst. Thank you.</p> <p>18 COMMISSIONER JONES: Thank you very much,</p> <p>19 Mr. Drake. Very well said. Thank you for your patience,</p> <p>20 and thank you for sharing your personal story with us.</p> <p>21 MR. DUKE: Yeah. Thank you.</p> <p>22 COMMISSIONER JONES: I'm glad to hear you're</p> <p>23 doing better and wish you a full and complete recovery.</p> <p>24 MR. DUKE: I'm very happy to be alive. Thank</p> <p>25 you, sir.</p> <p style="text-align: right;">Page 242</p>	<p>1 a moment, and to include both Counsel and Mr. Baldwin,</p> <p>2 Mr. Williamson and Mr. Sell.</p> <p>3 And while we're doing that, one of the witnesses</p> <p>4 a moment ago, Mr. Stein, referred to a program of the</p> <p>5 California Department of Insurance called the California</p> <p>6 Organized Investment Network. That information, of which</p> <p>7 is publicly available on our website -- I'd like to take</p> <p>8 official notice of the information contained there with</p> <p>9 regard to Centene and Health Net.</p> <p>10 Any objection, Applicants' Counsel?</p> <p>11 MR. DiCANIO: No.</p> <p>12 COMMISSIONER JONES: I'm going to -- any</p> <p>13 objection from the Department?</p> <p>14 MR. FINSTON: No, Commissioner.</p> <p>15 COMMISSIONER JONES: Okay. Great. Great.</p> <p>16 So I just had one or two additional substantive</p> <p>17 questions for the Applicants, and then I think what I'll</p> <p>18 do is just make sure that there aren't any outstanding</p> <p>19 procedural issues about which we've not talked. So we can</p> <p>20 have an opportunity for the Applicant and Department to</p> <p>21 share with me anything else, procedurally, they think I</p> <p>22 should do.</p> <p>23 The good news is it's only a little after 5:00.</p> <p>24 We have just about completed the hearing. I do want to</p> <p>25 ask, because there was some testimony from several of the</p> <p style="text-align: right;">Page 244</p>
<p>1 COMMISSIONER JONES: Thank you.</p> <p>2 Let me see if there in any other members of the</p> <p>3 public that wish to testify that didn't have a chance to</p> <p>4 do so.</p> <p>5 What I'll ask now is if Applicants have any</p> <p>6 questions of this panel of witnesses?</p> <p>7 MR. DiCANIO: No. Thank you.</p> <p>8 COMMISSIONER JONES: Okay. Let me ask the</p> <p>9 Department if they have any questions of this panel, of</p> <p>10 the witnesses?</p> <p>11 MR. FINSTON: No.</p> <p>12 COMMISSIONER JONES: Let me ask any of the other</p> <p>13 eligible persons, medical providers, the consumer groups</p> <p>14 if they have any questions of this panel?</p> <p>15 Okay. Seeing none, I'm going to excuse you.</p> <p>16 Thank you very much. As you're going, I do want to know</p> <p>17 note that Stuart Waldman, who is the President and CEO of</p> <p>18 the Valley Industry and Commerce Association was here. He</p> <p>19 had to depart unfortunately before we could get his</p> <p>20 testimony. But I do have a copy of his letter. It's a</p> <p>21 part of the record. And I'm sorry that we weren't able to</p> <p>22 hear from him directly, but I do appreciate his taking his</p> <p>23 time today, and I understand he supports the merger. I</p> <p>24 have a copy of his letter.</p> <p>25 Let me ask if the Applicants would come back for</p> <p style="text-align: right;">Page 243</p>	<p>1 witnesses and medical providers about some of the aspects</p> <p>2 of California's health plan and health insurance</p> <p>3 relationships with providers, and I would imagine this</p> <p>4 question's probably best directed to Mr. Sell. But anyone</p> <p>5 could fill it if they like.</p> <p>6 And what I'm interested in is whether you could</p> <p>7 share with me with regard to the Health Net California</p> <p>8 provider contract, what percentage of those are capitated</p> <p>9 and what percentage are not capitated?</p> <p>10 MR. SELL: So approximately 80 percent of our</p> <p>11 members run through a capitated contract. And in terms of</p> <p>12 the medical expenses, that works out to be about 55,</p> <p>13 60 percent. Some of those are full capitation contracts</p> <p>14 in which the professional services and the facility</p> <p>15 services are covered underneath them. And some are just</p> <p>16 on the professional services' side, and then sort of a</p> <p>17 shared risk arrangement with that medical group for the</p> <p>18 facility services.</p> <p>19 COMMISSIONER JONES: And so my question was with</p> <p>20 regard to Health Net California, is it different with</p> <p>21 regard to Health Net Life Insurance Company?</p> <p>22 MR. SELL: With Health Net Life, we have no</p> <p>23 capitated contacts.</p> <p>24 COMMISSIONER JONES: Okay. And then I think you</p> <p>25 said that with regard to Health Net California, on an</p> <p style="text-align: right;">Page 245</p>

<p>1 aggregate annual reimbursement basis --</p> <p>2 MR. SELL: Correct.</p> <p>3 COMMISSIONER JONES: -- roughly what percent are</p> <p>4 capitated versus user services?</p> <p>5 MR. SELL: So for the membership, it's 80</p> <p>6 percent.</p> <p>7 COMMISSIONER JONES: Right.</p> <p>8 MR. SELL: And for the medical expenses, it's</p> <p>9 roughly 60 percent.</p> <p>10 COMMISSIONER JONES: Are capitated?</p> <p>11 MR. SELL: Are capitated.</p> <p>12 COMMISSIONER JONES: Are capitated. Okay.</p> <p>13 That's very much helpful.</p> <p>14 MR. SELL: Yeah.</p> <p>15 COMMISSIONER JONES: So I think that was the</p> <p>16 last substantive question that I had.</p> <p>17 Let me give Counsel for the Applicant an</p> <p>18 opportunity to raise any procedural questions or issues</p> <p>19 that they might have.</p> <p>20 MR. DiCANIO: Sure. Thank you,</p> <p>21 Mr. Commissioner. There's really just two. One of which</p> <p>22 I raised before the hearing today. And that is that</p> <p>23 Mr. Sell had submitted written testimony, a portion of</p> <p>24 which was designated confidential. Because I believe it</p> <p>25 related to some pro formas and some sensitive business</p> <p style="text-align: right;">Page 246</p>	<p>1 would be deemed not confidential, we like the opportunity</p> <p>2 to withdraw that portion of the record.</p> <p>3 COMMISSIONER JONES: At that time?</p> <p>4 MR. DiCANIO: Correct.</p> <p>5 COMMISSIONER JONES: I'm certainly willing to</p> <p>6 entertain that what you represented to me, you provided it</p> <p>7 with expectations that it would be treated confidentially.</p> <p>8 And so I'm willing to entertain that option.</p> <p>9 MR. DiCANIO: Great. Thank you very much.</p> <p>10 COMMISSIONER JONES: And very seriously. So I</p> <p>11 appreciate the spirit which you -- let me see if the</p> <p>12 Department has any concerns or objection.</p> <p>13 MR. FINSTON: We have no objection, Your Honor.</p> <p>14 I think that's a reasonable process.</p> <p>15 COMMISSIONER JONES: Okay. If I'm disinclined</p> <p>16 to try and --</p> <p>17 MR. DiCANIO: Sure.</p> <p>18 COMMISSIONER JONES: -- I am mindful of the</p> <p>19 importance of maintaining confidence, certain information</p> <p>20 as provided to us, as this process, and that was provided</p> <p>21 to the Department in the course of its regular business.</p> <p>22 We're very good about maintaining confidence for documents</p> <p>23 that are so designated under California law. So I will</p> <p>24 give you a tentative. You'll have a chance to argue, and</p> <p>25 then if you don't like the tentative, I'll seriously</p> <p style="text-align: right;">Page 248</p>
<p>1 information, that was submitted under the condition that</p> <p>2 the Commissioner would accept that and maintain</p> <p>3 confidentiality of that portion of the testimony. So we</p> <p>4 just wanted to raise that, so that we could have a</p> <p>5 decision from you on that.</p> <p>6 COMMISSIONER JONES: Well, I've gotten it. I</p> <p>7 have treated it as confidential. I haven't made a ruling</p> <p>8 on it per se. I'm happy to give you a ruling on -- I'm</p> <p>9 not prepared to do it right now. But I will not -- I will</p> <p>10 not treat it as not confidential until such time as I make</p> <p>11 a decision. And if I were to tentatively decide that it's</p> <p>12 not confidential, I will afford you the opportunity to</p> <p>13 provide me written legal argument as to why you think I'm</p> <p>14 wrong.</p> <p>15 MR. DiCANIO: Okay.</p> <p>16 COMMISSIONER JONES: Hopefully that was</p> <p>17 understandable to everybody. So basically going to treat</p> <p>18 it as confidential until such time as I make a tentative</p> <p>19 ruling. I'll share with the parties my tentative ruling.</p> <p>20 I will afford the parties written argument if they</p> <p>21 disagree with my tentative ruling. But until such time,</p> <p>22 we will treat it confidential.</p> <p>23 MR. DiCANIO: Thank you. Thank you Mr.</p> <p>24 Commissioner. I'd ask for another option, that we</p> <p>25 withdraw. If at the end of the day you would decide this</p> <p style="text-align: right;">Page 247</p>	<p>1 consider the withdrawal option.</p> <p>2 MR. DiCANIO: Thank you very much.</p> <p>3 COMMISSIONER JONES: What's the second one?</p> <p>4 MR. DiCANIO: Second, and last one, we've been</p> <p>5 working very hard on the document request that you</p> <p>6 mentioned at the beginning of the hearing. And we've made</p> <p>7 good progress. You know, I added a new one. We think we</p> <p>8 can get it all into you by a week from today, which would</p> <p>9 be January 29th. And I guess the request would be if</p> <p>10 we're able to do that, would you consider closing the</p> <p>11 record as of that time? So it would be a week from today.</p> <p>12 COMMISSIONER JONES: Yes, I would. And I'm --</p> <p>13 as long as I'm satisfied when I get it, that it's</p> <p>14 completely responsive.</p> <p>15 MR. DiCANIO: Sure.</p> <p>16 COMMISSIONER JONES: I'll retain my ability to</p> <p>17 decide that it's not -- that it need be augmented. But</p> <p>18 assuming that it is completely responsive, unless there's</p> <p>19 an objection from the Department, I'd be prepared to</p> <p>20 decide, once I've had a chance to look at it, and close</p> <p>21 the record immediately thereafter.</p> <p>22 MR. DiCANIO: Great. Thank you so much. And</p> <p>23 those are the issues.</p> <p>24 COMMISSIONER JONES: No objection from the</p> <p>25 Department on that?</p> <p style="text-align: right;">Page 249</p>

<p>1 MR. FINSTON: No objection.</p> <p>2 COMMISSIONER JONES: One thing in particular I'd</p> <p>3 draw your attention to with regard to the additional oral</p> <p>4 request I made today. One component of that, that I want</p> <p>5 to underscore, is that I have gotten, as a result of the</p> <p>6 confidential submission -- but also some of the</p> <p>7 information provided with the Form A, the prospective</p> <p>8 business plan for Health Net Life Insurance Company, what</p> <p>9 I don't have is the prospective business plan for Health</p> <p>10 Net of California, or for Health Net, Inc. And since</p> <p>11 Health Net Life Insurance Company is a wholly-owned</p> <p>12 subsidiary of Health Net California, Health Net,</p> <p>13 wholly-owned of Health Net -- Health Net, Inc., that</p> <p>14 Centene is merging with, I believe it's important material</p> <p>15 for me to have some understanding as well of what the</p> <p>16 prospective business plan is for those other two entities,</p> <p>17 which essentially will be controlling entities for the</p> <p>18 company regulated by this Department.</p> <p>19 So I just want to draw that to your attention</p> <p>20 that is incorporated within that request I made to see</p> <p>21 what has been submitted by Centene, or by Health Net, to</p> <p>22 any other state or federal agency. But to the extent you</p> <p>23 can provide that piece to me earlier, I think it would be</p> <p>24 helpful in terms of our reaching some conclusion.</p> <p>25 So I just draw that -- I just point that out.</p> <p style="text-align: right;">Page 250</p>	<p>1 this time?</p> <p>2 MR. DiCANIO: Not from our perspective. Thank</p> <p>3 you.</p> <p>4 COMMISSIONER JONES: Okay. Again, I want to</p> <p>5 invite the Applicants, it's your call, don't feel</p> <p>6 compelled to do it, but as I said earlier in the hearing,</p> <p>7 if there's, you know, additional testimony, rebuttal, the</p> <p>8 form of rebuttal you want to provide between now and that</p> <p>9 January date, you're welcome to do so.</p> <p>10 Any procedural, outstanding issues the</p> <p>11 Department wishes to raise?</p> <p>12 MR. FINSTON: Your Honor, pre-hearing</p> <p>13 conference, you had mentioned also leaving the record open</p> <p>14 for receipt of other comments from parties, in addition to</p> <p>15 the Applicant. Just, I think it would be appropriate at</p> <p>16 this time to specify when those comments need to be in by?</p> <p>17 COMMISSIONER JONES: Okay. So we talked at the</p> <p>18 pre-hearing conference about the possibility that since no</p> <p>19 one's been afforded a rebuttal opportunity, there might be</p> <p>20 some need to allow other interested persons, allow those</p> <p>21 interested persons that have come and testified to provide</p> <p>22 additional writings. Is that what you're alluding to?</p> <p>23 MR. FINSTON: People who appeared here today.</p> <p>24 But also other people. Since it's been a public meeting,</p> <p>25 there might be other people who would want to comment as</p> <p style="text-align: right;">Page 252</p>
<p>1 And also I suppose it's possible that, much as you've done</p> <p>2 with Mr. Sell's testimony, as it relates to the projected</p> <p>3 plans of Health Net Life Insurance Company, you may want</p> <p>4 to provide some writing in the form of a testimony from</p> <p>5 the CEO of either of those other two companies, completing</p> <p>6 what that plan is.</p> <p>7 MR. DiCANIO: Sure.</p> <p>8 COMMISSIONER JONES: I will open the door to</p> <p>9 that. It actually could be very helpful.</p> <p>10 Any objection from Department?</p> <p>11 MR. FINSTON: Your Honor, my expectation is</p> <p>12 that, as in connection with the Form A filing, that the</p> <p>13 company files with us many of those business plans and</p> <p>14 projections, pro formas, as we would tend to consider to</p> <p>15 be confidential.</p> <p>16 COMMISSIONER JONES: Oh, I understand that in</p> <p>17 all likelihood you'll be designating them as confidential,</p> <p>18 and I will treat them as such. I will make a ruling</p> <p>19 thereon at the same time, give you the option to pull it</p> <p>20 back if it turns out that you don't like my ruling.</p> <p>21 So are we all on the same page in that regard?</p> <p>22 Nodding heads in the Applicants.</p> <p>23 MR. DiCANIO: That's fine with us.</p> <p>24 COMMISSIONER JONES: Okay. Very good. Any other</p> <p>25 procedural matters that the Applicants wish to raise at</p> <p style="text-align: right;">Page 251</p>	<p>1 well.</p> <p>2 COMMISSIONER JONES: Okay. Fair enough.</p> <p>3 Counsel, do you have a suggestion?</p> <p>4 MR. DiCANIO: Well, it seems to me,</p> <p>5 Mr. Commissioner, that should all be done by the 29th.</p> <p>6 That's when we'll have the document. That's a week from</p> <p>7 today.</p> <p>8 COMMISSIONER JONES: Certainly there have been a</p> <p>9 lot of robust submissions, and that gives seven days.</p> <p>10 That's very fair.</p> <p>11 So with regard to any member of the public who</p> <p>12 wishes to provide additional information to me about this</p> <p>13 matter, the deadline for doing so is close of business on</p> <p>14 January 29th. Day break.</p> <p>15 MR. DiCANIO: That is a week from today.</p> <p>16 COMMISSIONER JONES: A week from today. And</p> <p>17 there are two ways in which you can do this. One is by</p> <p>18 e-mail. And that is to an e-mail address that the</p> <p>19 Department's now going to provide. Bruce Hinz. Stick</p> <p>20 with the person identified in the Notice.</p> <p>21 MR. HINZE: Well, the e-mail address to use can</p> <p>22 be found on the Notice for this hearing. And not mine.</p> <p>23 It is either Jennifer Chambers. jennifer.chambers --</p> <p>24 c-h-a-m-b-e-r-s -- @insurance.gov -- gov or</p> <p>25 jon.tomashoff -- that's j-o-n-t-o-m-a-s-h-o-f-f --</p> <p style="text-align: right;">Page 253</p>

<p>1 @insurance.gov -- g-o-v.</p> <p>2 COMMISSIONER JONES: Okay. And the physical</p> <p>3 address to which people can now mail something is --</p> <p>4 MR. HINZE: 45 Fremont Street, 21st floor, San</p> <p>5 Francisco, California 94105.</p> <p>6 COMMISSIONER JONES: Okay.</p> <p>7 Counsel Applicants, received or postmarked by</p> <p>8 that date?</p> <p>9 MR. DiCANIO: Received.</p> <p>10 COMMISSIONER JONES: Received by that date. So</p> <p>11 be very clear. If you want to send something in by</p> <p>12 regular mail, you better send it in early next week so we</p> <p>13 receive it by that date.</p> <p>14 Any objections from the Department?</p> <p>15 MR. FINSTON: No. No objection.</p> <p>16 COMMISSIONER JONES: E-mail, of course, still</p> <p>17 close of business on that date.</p> <p>18 Okay. Very good.</p> <p>19 I will just say that I want to thank you, the</p> <p>20 Applicants. I want to thank in particular Mr. Baldwin,</p> <p>21 Mr. Williamson, Mr. Schwaneke, Mr. Sell, their Counsel,</p> <p>22 Miss Waters, all the Counsel for Applicants.</p> <p>23 I want to thank all the interested persons who</p> <p>24 took the opportunity to testify and participate in the</p> <p>25 hearing. I want to thank all the members of the public</p> <p style="text-align: right;">Page 254</p>	<p>1 conversations with the parties in the event that there are</p> <p>2 what are described as settlement discussions. And I</p> <p>3 believe the kind conversations that I describe now would</p> <p>4 include those.</p> <p>5 So that is just something I wanted to leave</p> <p>6 everyone with. I will certainly consider all the evidence</p> <p>7 that's been provided, ultimately been provided, and I will</p> <p>8 render a decision. And I trust, though, that the parties</p> <p>9 will also be available themselves, as the opportunity</p> <p>10 under California law, to continue conversations</p> <p>11 accordingly. Again, thank you ladies and gentlemen. I</p> <p>12 appreciate it. It's been a long day, a long afternoon.</p> <p>13 But I really do appreciate all the information that's been</p> <p>14 presented. It's helpful to me in helping to make what is</p> <p>15 a critically-important decision for California's health</p> <p>16 insurance market.</p> <p>17 So again, unless there are any other issues that</p> <p>18 Counsel Applicants wish to weigh.</p> <p>19 MR. DiCANIO: No. Thank you.</p> <p>20 COMMISSIONER JONES: Anything from the</p> <p>21 Department?</p> <p>22 MR. FINSTON: No, Your Honor.</p> <p>23 COMMISSIONER JONES: We'll adjourn this hearing.</p> <p>24 Thank you very much.</p> <p>25 (The proceeding was concluded at 5:21 p.m.)</p> <p style="text-align: right;">Page 256</p>
<p>1 who attended as well. I want to note that California</p> <p>2 Association of Physicians Groups was represented by Bill</p> <p>3 Barcelona. He had to leave early as well because of the</p> <p>4 length of the hearing. But I want to thank him for being</p> <p>5 here, and we do have his letter as a part of the record.</p> <p>6 You've given me a great deal to think about.</p> <p>7 And these binders up here represent just a fraction of the</p> <p>8 paper that's been submitted in this case. I've done my</p> <p>9 best to get through it, as well I will look at the record</p> <p>10 and everything else that's provided.</p> <p>11 I will say this, obviously I'm going to be very</p> <p>12 deliberate and careful in making sure that we apply the</p> <p>13 law that governs these sorts of transactions. And I think</p> <p>14 that there has been a great deal of testimony provided</p> <p>15 with regard to the merits, and in some cases, the</p> <p>16 demerits. And so I look forward to getting through all of</p> <p>17 that.</p> <p>18 I note that there was quite a bit of colloquy</p> <p>19 between various parties during the course of the hearing</p> <p>20 about the possibility of undertakings or conditions, in</p> <p>21 lay person language, that might be associated with an</p> <p>22 approval of a merger. I would anticipate that once we</p> <p>23 close the record, or maybe even before we close the</p> <p>24 record, that the parties might begin conversations about</p> <p>25 that. And I am permitted under California law to have</p> <p style="text-align: right;">Page 255</p>	<p>1 REPORTER'S CERTIFICATE</p> <p>2</p> <p>3</p> <p>4 I, KAREN S. CHALLE, CSR No. 8244, Certified Shorthand</p> <p>5 Reporter, certify:</p> <p>6 That the foregoing proceedings, pages 1 through 257,</p> <p>7 were taken before me at the time and place therein set</p> <p>8 forth;</p> <p>9 That the proceedings and all statements made at the</p> <p>10 time of the hearing were recorded stenographically by me</p> <p>11 and were thereafter transcribed;</p> <p>12 That the foregoing is a true and correct transcript</p> <p>13 of my shorthand notes so taken.</p> <p>14 I further certify that I am not a relative or</p> <p>15 employee of any attorney of the parties, nor financially</p> <p>16 interested in the action.</p> <p>17 I declare under penalty of perjury under the laws of</p> <p>18 California that the foregoing is true and correct.</p> <p>19 Dated this 25th day of January, 2016.</p> <p>20</p> <p>21</p> <p>22 _____</p> <p>23 KAREN S. CHALLE, CSR NO. 8244</p> <p>24</p> <p>25</p> <p style="text-align: right;">Page 257</p>

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