

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF CALIFORNIA**

IN THE MATTER OF:

The Proposed Acquisition of Control of:	)	
	)	
HEALTH NET LIFE INSURANCE	)	
COMPANY, a California stock life and health	)	
insurance company	)	
	)	
subsidiary of	)	File No. APP-2015-00889
	)	
HEALTH NET, INC., a Delaware corporation	)	
	)	
BY	)	
	)	
CENTENE CORPORATION, a Delaware	)	
corporation	)	
	)	
AND	)	
	)	
CHOPIN MERGER SUB I, INC. and CHOPIN	)	
MERGER SUB II, INC., each a Delaware	)	
corporation	)	
	)	

**Written Testimony of Kenneth Rone Baldwin on behalf of Centene Corporation**

**I. Witness Identification**

1. My name is Kenneth Rone Baldwin. My business address is 7700 Forsyth Boulevard, Clayton, Missouri 63105.
2. I am an Executive Vice President for the Insurance Group at Centene Corporation, a publicly traded Delaware corporation ("Centene").
3. I have held this position since 2012. I additionally hold several positions with certain of Centene's subsidiaries, including as Chairman and Director of NovaSys Health Inc., as President and Director of Celtic Group, Inc., and as President of Celtic Insurance Company. Prior to my joining Centene, I was employed by Optiwind, Guardian Life Insurance Company and Genworth Financial Inc. I am a 1980 graduate of Amherst College (BA) and a 1982 graduate of Harvard Business School (MBA).
4. I have been authorized by Centene to provide this Testimony (as defined in Paragraph 5) on its behalf and in support of the Proposed Acquisition of Control (as defined in Paragraph 5).

## II. Involvement with the Merger; Procedural Matters

5. I submit this written testimony (this "Testimony") to the Department of Insurance for the State of California ("CDI") on behalf, and in support, of Centene, which, together with certain of its subsidiaries (each of which is individually identified in Paragraph 16, collectively with Centene, the "Applicants") seeks to indirectly acquire control of Health Net Life Insurance Company, a California domestic stock life and health insurance company ("HNLIC") (the "Proposed Acquisition of Control"), via a merger of Health Net, Inc., a publicly traded Delaware corporation ("Health Net"), with Chopin Merger Sub I, Inc. ("Merger Sub I") and, if certain conditions are met, Chopin Merger Sub II, Inc. ("Merger Sub II"), each a Delaware corporation and a wholly owned subsidiary of Centene.

6. I have been and continue to be actively involved in the Merger (as defined in Paragraph 30).

7. In connection with the Proposed Acquisition of Control, I have reviewed and am familiar with (a) the Form A Statement and the exhibits attached thereto filed by the Applicants with CDI on July 31, 2015, and (b) the supplemental filings and submissions made by the Applicants to CDI in connection with such Form A Statement since its filing (collectively, the "Form A"). The facts set forth in the Form A are true to the best of my knowledge, information and belief.

## III. Benefits of the Merger for Health Net and California Consumers

8. Although this topic is addressed in detail in the written testimony of Steven Sell, I would like to preface this Testimony with a brief explanation of why the Merger is good for Health Net and California consumers.

9. **The Merger makes Health Net a stronger competitor:** Health Net is much smaller than many of the national competitors. To effectively compete in the post-Affordable Care Act health insurance market, Health Net needed to find a solution for its scale issue. By combining, Centene and Health Net have more opportunities to ensure quality of care for members and manage health care and administrative costs. Through the combination, California consumers will have the benefit of a stronger insurer to effectively compete with Anthem, United, Aetna, Kaiser and Blue Shield, with or without any mergers involving these dominant insurers and plans that might occur in the future.

10. **Centene follows a local approach which means that HNLIC will remain a California insurer:** Both Centene and HNLIC agree that healthcare is best viewed as a local service. This is demonstrated by Centene's approach in each of the 20 states in which it has health plans. In each state, a strong Chief Executive Officer/President leads a local management team and is responsible for that Health Plan's performance. If an interaction touches a member, provider, regulator or community advocate, it is handled by and is the responsibility of the local management team.

11. This same approach will be taken in California, where HNLIC will continue to be a California domiciled insurer with operational direction by a local management team. Health Net, although it will be merged into a subsidiary of Centene, will continue to be named Health Net, Inc. HNLIC will also not change its name. Centene has no plans to redomesticate or relocate HNLIC's headquarters outside of California, and is willing to commit, for so long as it maintains a majority of voting power of HNLIC, that it will not apply to transfer the state of domicile of HNLIC outside of California if, immediately following the redomestication: (a) HNLIC would be commercially domiciled in California pursuant to Section 1215.14(a) of the California Insurance Code; or (b) a plurality of covered lives of all types of coverage in all jurisdictions from all regulated entities that are subsidiaries of Health Net (or any successor) reside in California.

**12. This Merger will help ensure jobs stay in California:** Health Net, including HNLIC, had a competitive disadvantage compared to other plans in California as a result of its lack of scale. To counterbalance that competitive disadvantage, Health Net has for the last several years outsourced certain service functions and positions. Furthermore, in November 2014, Health Net signed an agreement with Cognizant Healthcare Services, LLC (the "BPaaS Agreement") to outsource on a going forward basis the bulk of Health Net's "back office" operations, which would have involved the re-badging (and potential subsequent off-shoring) of a significant portion of Health Net's more than 6,400 California employees. This BPaaS Agreement was put on hold as a result of the proposed merger with Centene. If the Merger is completed, it will result not only in the termination of the BPaaS Agreement (and, therefore, avoiding the outsourcing of employees), but may also result in the future in-sourcing of certain service functions and positions which are currently being outsourced by Health Net, as Centene's business model is to in-source as much as possible.

13. According to data provided by Health Net, the current total workforce for Health Net and its subsidiaries nationwide is 8,480, with 6,424 in California, including full-time, part-time, and individuals on leave of absence. Centene will not make any material reduction in this workforce or the overall number of employees in California as a result of the Merger. Centene anticipates that there will be elimination of certain positions at the corporate level (e.g. certain senior management and duplicative corporate roles), but not at the member or provider servicing level, as a result of the Merger.

**14. Centene has no competitive overlap with HNLIC:** As Centene has a small presence in California limited to providing Medi-Cal services, the combination does not reduce the number of competitors in the California commercial insurance market.

**15. Centene is committed to HNLIC's future growth in the commercial market in California:** Centene is committed to ensuring that HNLIC has the resources it needs to remain a financially strong insurer in California and is able to continue to grow. All acquisition costs will be booked at the holding company level and, consequently, will not have any impact at the HNLIC level and will not result in the depletion of any resources in California. Centene is committed to maintaining a level of capitalization at HNLIC necessary to support its existing business plan, which includes HNLIC's continued growth in the commercial market in California.

#### **IV. Overview of the Applicants**

16. The Applicants in this proceeding are Centene, Merger Sub I and Merger Sub II.

17. The Applicants propose to acquire control of HNLIC pursuant to, and subject to the terms of, an Agreement and Plan of Merger dated as of July 2, 2015 (the "Merger Agreement") by and among the Applicants and Health Net.

18. An executed copy of the Merger Agreement was provided to CDI as an exhibit to the Form A. Organizational charts setting forth the corporate structure of the Applicants prior to, and resultant of, the Merger were also included as exhibits to the Form A.

#### Centene

19. Centene is a publicly traded Delaware corporation listed on the New York Stock Exchange. As a Fortune 500 company and a leading multinational healthcare enterprise, Centene offers a comprehensive portfolio of innovative solutions within Medicaid, Medicare and the Health Insurance Marketplace. Centene also contracts with healthcare and commercial organizations to provide specialty services that help people attain better health and quality of life. Founded in Wisconsin in 1984, Centene has remained

deeply committed for over 30 years to a corporate mission of transforming the health of the community, one person at a time, and delivering results for its stakeholders: state governments, members, healthcare providers, uninsured individuals and families, and other healthcare and commercial organizations.

20. Centene works with state agencies, regulators and others to create quality solutions that address the distinct needs of health care consumers. Centene has the resources to provide customized solutions to its state partners through extensive experience in the Medicaid industry and uninsured market, as well as through specialty health solutions.

21. Centene operates in 23 states and principally in two market segments, managed care and specialty services. Centene is a national leader in managed health care serving 4.8 million members with a large network of physicians and hospitals. Centene's managed care segment has focused on government sponsored programs for lower income, uninsured and underinsured individuals. In California, Centene serves approximately 184,000 members in the Medi-Cal program through its subsidiary, California Health & Wellness Plan, which is a Knox-Keene licensed entity.

22. For the past two years, Centene's managed care segment has also provided coverage to individuals through federally facilitated and state-based exchanges under the Affordable Care Act. In 2015, Centene offered multiple plan choices in 12 states, covering approximately 156,000 exchange members.

23. Centene's other business segment, its specialty services business, offers diversified healthcare services and products to state programs, correctional facilities, healthcare organizations, employer groups, and other commercial organizations, as well as to its own health plan subsidiaries. Centene's specialty health solutions include pharmacy benefits, dental and vision benefits, behavioral health, and health and wellness programs.

#### Merger Sub I

24. Merger Sub I is a corporation incorporated in Delaware on June 26, 2015 and is a direct wholly owned subsidiary of Centene. Merger Sub I was formed as an acquisition subsidiary for the purpose of effecting the Merger. Merger Sub I has not conducted any activities other than those incidental to its formation and the matters contemplated by the Merger Agreement, including financing matters and the preparation of applicable regulatory filings in connection with the Merger.

#### Merger Sub II

25. Merger Sub II is a corporation incorporated in Delaware on June 26, 2015 and is a direct wholly owned subsidiary of Centene. Merger Sub II was formed as an acquisition subsidiary for the purpose of effecting the Second Merger (as defined in Paragraph 31). Merger Sub II has not conducted any activities other than those incidental to its formation and the matters contemplated by the Merger Agreement, including financing matters and the preparation of applicable regulatory filings in connection with the Second Merger.

### **V. Executive Officers and Directors of the Applicants**

26. The current executive officers and directors of Centene are all well respected and experienced in the healthcare industry. It is evident that such individuals possess the competence, experience, integrity and industry knowledge necessary to manage the combined company following the Merger based on (i) the successful growth and operation of Centene as described above, (ii) their backgrounds and biographies

which are available in publicly filed SEC documents, and (iii) the biographical information submitted by such individuals on a confidential basis to CDI as part of the Form A.

27. Pursuant to the terms of the Merger Agreement, the Board of Directors of Health Net will designate a director from those directors serving on the Board of Directors of Health Net as of July 2, 2015, who qualifies as an “independent” director as defined by Section 303A.02 of the NYSE Listed Company Manual and is reasonably acceptable to the Nominating and Corporate Governance Committee of the Board of Directors of Centene, to join the Board of Directors of Centene. While such individual has yet to be identified, given that such individual will have already been serving as a director of Health Net prior to his or her joining the Board of Directors of Centene, such individual will have had experience with Health Net and its subsidiaries, including HNLIC, and accordingly will be well qualified to take on this role. In addition, it is also anticipated that certain members of Health Net’s senior management team will continue in senior positions at Centene following the Merger.

28. As described above, Merger Sub I and Merger Sub II are acquisition subsidiaries formed by Centene for purposes of implementing the Merger. The individuals who serve as the directors and officers of Merger Sub I and Merger Sub II are identical and are executive officers of Centene. As stated above, these individuals have the competence, experience, integrity and industry knowledge necessary to serve in their roles. The individuals who comprise the directors and officers of Merger Sub I immediately prior to the effective time of the Merger will, from and after such effective time, be the directors and officers of the surviving corporation, following the merger of Merger Sub I with and into Health Net, until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified, as the case may be. Additionally, if the Second Merger (as defined in Paragraph 31) is effected, the individuals who are the directors and officers of Merger Sub II immediately prior to the effective time of the Second Merger will, from and after such effective time, be the directors and officers of the surviving corporation, without change until their successors have been duly elected and qualified in accordance with the certificate of incorporation and by-laws of the surviving corporation or until the earlier of their death, resignation or removal.

## **VI. Structure of the Merger**

### Overview

29. Under the terms of the Merger Agreement, the Merger would be realized through a potential two-step process.

30. First, subject to the terms and conditions set forth in the Merger Agreement, Merger Sub I will merge with and into Health Net (the “Merger”), with Health Net continuing as the surviving corporation in the Merger. Upon the consummation of the Merger, Health Net will be a wholly owned subsidiary of Centene.

31. Second, and only if Health Net’s counsel provides a legal opinion regarding certain aspects of the tax treatment of the transaction, immediately following the completion of the Merger, Health Net (as the surviving corporation in the Merger) will merge (the “Second Merger”) with and into Merger Sub II, with Merger Sub II continuing as the surviving corporation in the Second Merger as a wholly owned subsidiary of Centene. Immediately following consummation of the Second Merger, Merger Sub II will be renamed Health Net, Inc.

32. The Second Merger will only be implemented if certain criteria are met and is designed to qualify as a “reorganization” under U.S. federal income tax law. If a merger qualifies as a “reorganization,” then the target company’s shareholders will generally owe tax on any cash received in the merger, but can

receive acquiring company stock on a tax-free basis. In addition, neither the target company nor the acquiring company will owe any U.S. federal income tax as a result of a reorganization. There are many technical substantive requirements for a merger to qualify as a “reorganization” for U.S. federal income tax purposes, and it is often not known whether a merger will qualify as a reorganization until the day the merger occurs. Centene and Health Net’s respective tax advisors structured the proposed transaction as a two-step merger in order to protect the companies from the significant corporate tax that would be owed if the second step in the two-step merger process does not occur.

33. Following the consummation of the Merger (and if effected, the Second Merger), Centene will directly own 100% of the issued and outstanding shares of capital stock of Health Net, and will thereby indirectly own 100% of the issued and outstanding shares of capital stock of HNLIC. For the avoidance of doubt, regardless of whether the Second Merger occurs, Centene will acquire all of the outstanding equity securities of Health Net in the Merger.

34. In consideration, at the effective time of the Merger, each share of Health Net common stock, par value \$0.001 per share, that is issued and outstanding immediately prior to the effective time of the Merger (excluding shares held by Health Net in treasury, any shares held, directly or indirectly, by the Applicants and any shares that are outstanding immediately prior to the effective time of the Merger and that are held by any person who is entitled to demand and properly demands appraisal of such shares pursuant to Delaware law) will be converted into the right to receive the merger consideration (the “Merger Consideration”), which will consist of \$28.25 in cash and 0.622 of a share of Centene common stock, par value \$0.001 per share. The Merger Consideration will be paid in connection with the Merger and there will be no additional consideration paid if the Second Merger occurs.

35. At the effective time of the Merger, (i) each outstanding stock option to purchase shares of Health Net common stock will be converted into a right to receive cash and shares of Centene’s common stock (net of the option exercise price), (ii) each of Health Net’s vested performance share awards and vested restricted stock units will be converted into rights to receive the Merger Consideration in respect of the shares of Health Net common stock subject to the awards and units, and (iii) each unvested performance share award and each unvested restricted stock unit of Health Net will be converted into rights to receive shares of Centene’s common stock, subject to the same criteria, provided that any performance vesting goal will be deemed satisfied at target.

36. Following consummation of the Merger, existing stockholders of Centene will own approximately 71% of the combined company and existing stockholders of Health Net will own approximately 29% of the combined company based on stock prices and outstanding shares of Centene common stock and Health Net common stock as of July 1, 2015.

#### Conditions to Close the Merger

37. The completion of the Merger is subject to the satisfaction or waiver of customary closing conditions, including but not limited to the conditions listed as follows (along with the current status of each such condition):

- (i) approval of the Merger Agreement by Health Net’s stockholders was obtained on October 23, 2015;
- (ii) approval of the issuance of Centene’s common stock forming part of the Merger Consideration by Centene’s stockholders was obtained on October 23, 2015;

- (iii) approval of listing of such Centene common stock on the NYSE was requested by Centene on October 28, 2015;
- (iv) there being no law or order prohibiting consummation of the Merger or the issuance of the shares of Centene's common stock forming part of the Merger Consideration, and there being no governmental proceeding pending that seeks to impose a burdensome condition on Health Net or Centene, will be satisfied as of the closing date;
- (v) expiration or termination of any waiting period under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, was satisfied on August 11, 2015;
- (vi) the effectiveness of a registration statement on Form S-4 with respect to the Centene common stock to be issued as part of the Merger Consideration was satisfied on September 21, 2015;
- (vii) subject to specified materiality standards, the accuracy of the representations and warranties of the other party will be satisfied as of the closing date;
- (viii) compliance by the other party in all material respects with its covenants will be satisfied as of the closing date; and
- (ix) specified governmental filings and consents having been made and obtained, as will be discussed in the written testimony of Keith H. Williamson.

## **VII. Merger Consideration and Related Financing**

38. The Merger is valued at approximately \$6.8 billion in cash and stock, based on stock prices as of July 1, 2015, and including the assumption of approximately \$500 million in debt from Health Net. The cash component of such total amount is equal to approximately \$2.3 billion.

39. The basis and terms of the Merger Agreement, including the nature and amount of consideration, were determined through arms' length negotiations among the representatives of Centene, on the one hand, and the representatives of Health Net, on the other hand, and their respective legal and other advisors. Following substantial due diligence by Centene, the amount and type of consideration were determined by taking into account the consideration paid in other recent acquisitions of similar types of businesses, as well as the financial position and results of operations of the entities to be acquired, including the past and present business operations, historical and potential earnings, financial condition and prospects, assets and liabilities and such other factors and information as Centene considered relevant under the circumstances.

40. Centene expects to issue approximately \$2.3 billion of long term fixed-rate debt securities to partially fund the Merger (the "Debt Securities"). The details of the Debt Securities will not be known until close to time of issuance, which is anticipated to be shortly before the closing of the Merger. However, note 6 to the unaudited pro forma condensed combined financial statements on page 195 of the Form S-4 calculates interest expense associated with the Debt Securities based on the assumption of maturity tranches between seven and 10 years and an estimated weighted average annual interest rate of 5.44%.

41. Centene has obtained a commitment letter from certain lenders providing commitments for a new revolving credit facility of up to \$1 billion and, in the event Centene is unable to issue the Debt Securities on or prior to the closing date of the Merger, a senior bridge facility of up to \$2.67 billion to consummate the Merger and the other transactions contemplated by the Merger Agreement (the "Commitment").

Letter”). The financing contemplated by the Commitment Letter is referred to as the “Financing” herein and in the Form A.

42. The Financing is subject to customary conditions and will be unsecured. In particular, no assets or stock of Health Net or of any person controlled by Health Net, including HNLIC, will be pledged or otherwise offered as security for the Financing. The Financing commitments will terminate on the date that is the earlier of (a) consummation of the Merger, (b) the termination of the Merger Agreement, and (c) one business day after the Outside Date (as defined in the Merger Agreement). The completion of the Merger is not conditioned on receipt of financing by Centene.

43. Centene intends to service its new debt resulting from the Financing from cash flows generated from the combined enterprise resulting from the Merger. The repayment of the debt will not be dependent on earnings from HNLIC. The new debt will not impact network providers or policyholders of HNLIC. The most significant driver of insurance premiums in every state is the cost of the underlying health care. Centene utilizes its expertise to keep the cost of health care as low as reasonably possible. HNLIC will continue to set actuarially sound rates based on its historical practices and methodologies, taking into account the underlying medical costs of its members, and will not include any costs resulting from debt service obligations under the Financing, other acquisition costs, or executive compensation related to consummation of the Merger in any such rates.

#### **VIII. Executive Compensation**

44. The Merger in and of itself will not trigger entitlement to any special bonuses or payouts to Health Net’s or HNLIC’s executive officers. Certain executive officers have 2013 stock-based awards that vest in the normal course on March 7, 2016. If the Merger closes prior to March 7, 2016, the vesting of those awards would accelerate upon close due to the change of control.

45. Health Net executives that are severed as a result of the Merger (e.g. terminated for other than good cause) would be entitled to severance benefits under their employment agreements. The severance benefits vary by executive but include a lump sum payment equal to a multiple of base salary (generally either 1x or 2x), or, in the case of Health Net’s Chief Executive Officer, \$6 million. In addition, stock-based awards held by severed executive officers will have accelerated vesting upon severance.

46. Non-severed executives with Health Net stock or stock options will be treated like shareholders and receive the Merger consideration (less, in the case of stock options, the exercise price and withholding taxes). All other Health Net stock units held by executive officers will be substituted with Centene stock units, and will remain subject to time-based vesting (any performance vesting criteria will be deemed met at target level).

47. Information regarding executive compensation was provided in additional detail in supplemental responses to the Form A as well as contained in Centene and Health Net’s joint proxy statement (Form S-4) filed with the U.S. Securities and Exchange Commission in connection with the Merger.

48. HNLIC and its resources will in no way be impacted by executive compensation payable by reason of the Merger, including any enhancements that may result from severance benefits payable due to termination of employment under certain circumstances following the Merger.

#### **IX. Synergies Anticipated from the Merger**

49. The combined company is estimated to achieve approximately \$150 million of annual cost synergies by the second year following the closing of the Merger with 50% achieved after one year

following closing. The synergy estimates provided are expected from, among others, efficiencies in core general and administrative matters and integration of a range of specialty services. Additional synergies may be achieved over time from leveraging capabilities in IT systems and process management. Any synergies achieved will benefit the combined company as a whole.

50. There exists extremely limited overlap in the respective businesses of Centene and Health Net. As a result, post-Merger, Centene intends to maintain the business and infrastructure of HNLIC intact. Consumers will benefit from the continuation of HNLIC's business plan and lack of disruption in its service to the members. In addition, the combination of Health Net and Centene businesses will bring greater scale to the surviving company thus better positioning the surviving company to more effectively compete in California. Cost saving opportunities from the Merger are anticipated to include administrative cost savings which may result in lower administrative expenses for HNLIC on a fully allocated basis. However, the magnitude and timing for those savings are not known. Centene and HNLIC intend to manage HNLIC so that administrative costs are efficient and can better support premium rates that continue to be competitive, including keeping HNLIC's administrative cost ratio at or below the level currently contemplated in HNLIC's business plan.

#### **X. Competition in the Insurance Markets of California**

51. The immediate result of the Merger will not have an adverse effect upon competition for any line of insurance business in the State of California. The only line of business in which both Centene and Health Net write business in California is Medi-Cal. HNLIC has no Medi-Cal business. As set forth in the "Form E" analysis submitted to CDI by the Applicants as a supplement to the Form A, and as confirmed by expert testimony filed in this proceeding, there is no geographic overlap by county between the Centene and Health Net Medi-Cal products in California, which means that the companies do not compete with each other in any service area.

52. Health Net is smaller than many of its national competitors in the California market. To effectively compete in the post-Affordable Care Act health insurance market, Health Net needed to find a partner. By combining, Centene and Health Net have more opportunities to implement quality initiatives and manage health care and administrative costs. Through the combination, California consumers will have the benefit of a stronger insurer to effectively compete with Anthem, United, Aetna, Kaiser and Blue Shield, with or without any mergers involving these dominant insurers and plans that might occur in the future.

53. In addition, as Centene's presence in California is limited to providing Medi-Cal services, the combination does not reduce the number of competitors in the California commercial insurance market. Health Net's strength in the California marketplace has been primarily in Southern California. The new combined company will have the size and resources to potentially expand its offerings similar to those historically focused in Southern California to other regions of California.

54. The Merger is anticipated to positively contribute to the overall needs of California's healthcare system by, among other things, (1) maintaining and enhancing Health Net's strong commercial business in California; (2) bringing greater scale to the combined companies, thus better positioning them to more effectively compete in the evolving healthcare sector; (3) creating a stronger insurer dedicated to servicing lower and moderate income consumers; and (4) providing for increased resources to invest in future organic and acquisition growth opportunities in comparison to HNLIC on a standalone basis. In addition, HNLIC would be within a combined group that is expected to generate increased cash flow that would otherwise not be available on a standalone basis. Moreover, enhancing the IT expertise of HNLIC will also improve the ability to meet the overall needs of California's healthcare system.

55. The competitive effects of the Merger are analyzed in greater detail in the written testimony provided by Centene's expert witnesses, Drs. Lawrence Wu and Paul Wong, in this proceeding.

## **XI. Post-Merger Matters**

### **A. Business Operations and Insurance Markets**

#### **1. Business Plan**

56. Centene has no plans or proposals to cause HNLIC to declare an extraordinary dividend, liquidate HNLIC, sell any of HNLIC's assets (other than in the ordinary course of business), or to merge HNLIC with any person or persons or to make any other material change in HNLIC's corporate structure, business operations or management. Following the consummation of the Proposed Acquisition of Control, HNLIC will continue to maintain its separate corporate existence.

57. As documented in Centene's Form A, Centene's intends to continue the business of HNLIC without any material change to its existing plan of operation or its product offerings.

58. Centene's commitment extends to the commercial market in California. Health Net has been one of the leading commercial plans in California with 7% overall fully insured market share. Centene intends to maintain and support Health Net's current business plan with respect to the commercial products, which has a goal of continued growth. There are no changes contemplated for the Health Net commercial products as a result of the Merger. CDI has been provided detailed information on HNLIC's plans for continued growth in individual, small group and large group products on a confidential basis.

59. Centene's interest and commitment in offering commercial coverages is evidenced by the fact that Centene provides commercial coverage for individuals in the health insurance marketplaces in 13 states out of the 20 states in which Centene is currently operating health plans in 2016.

#### **2. Premium Rates in California's Commercial Insurance Market**

60. Independent of the Merger, HNLIC made a California rate filing that included rate increases for certain products in December 2015. Centene has no plans to increase the premium rates on any commercial products of HNLIC currently offered in any market in California other than as may be necessary over time to implement HNLIC's existing business plan.

61. Following the Merger, HNLIC will not increase the premium payable by its policyholders in California as a result of (a) costs associated with the close of the Merger, including the consideration to be paid by Centene and the financing of such consideration, or (b) any and all executive compensation to be paid to executive officers of Health Net in connection with the Merger.

62. Centene is committed to continuing HNLIC's history of working closely and in a cooperative manner with CDI on rate filings to ensure that its pricing is actuarially sound and is reflective of market conditions. HNLIC will continue to make adjustments in the products that it offers and the service areas in which it offers them in order to respond to market demands and to ensure that its pricing is actuarially sound in order for it to remain financially viable.

#### **3. Provider Networks in California**

63. The Merger is not anticipated to impact the number or scope of networks associated with HNLIC's various health products. HNLIC will continue to evolve its networks as is necessary both to

remain competitive in the California market and respond to changes in the provider communities, but any such evolution will not be a result of the Merger. As Centene has only Medi-Cal business in California there is no overlap of networks for commercial products and minimal overlap for Medi-Cal. Accordingly, no significant provider re-contracting effort will be necessary.

#### 4. Other States

64. Centene believes that the Merger will allow the combined company to use its expertise to establish similar health care products in other states by drawing on Health Net's experience without detracting from any California services or resources.

65. Health Net subsidiaries currently participate in the small group or large group markets in Arizona, Oregon and Washington, in addition to California, and Centene intends to maintain that market participation going forward. Centene is assessing the potential to use the experience and expertise of Health Net's management to offer certain government related group commercial products similar to those of HNLIC in selective other states and is evaluating which states to target and the timing for that expansion. While this would expand the geographical scope of these products, this geographical expansion will not impair HNLIC or its California consumers and will likely be limited in scope. The financing for the expansion of Centene's commercial business outside California will be funded through the corporate resources of Centene as well as the resources of the local entity to be involved in the expansion. The operation of Health Net in California would not be impacted by Centene's potential expansion into the commercial health insurance marketplace in other states.

#### B. Health Net Employees

66. As stated in Paragraph 13, according to data provided by Health Net, the current total workforce for Health Net and its subsidiaries nationwide is 8,480, with 6,424 in California, including full-time, part-time, and individuals on leave of absence. Centene will not make any material reduction in this workforce or the overall number of employees in California as a result of the Merger. Centene anticipates that there will be elimination of certain positions at the corporate level (e.g. certain senior management and duplicative corporate roles), but not at the member or provider servicing level to occur as a result of the Merger.

67. As stated in Paragraph 12, Health Net, including HNLIC, had a competitive disadvantage compared to other plans in California as a result of its lack of scale in comparison to such other plans. To counterbalance that competitive disadvantage, Health Net has for the last several years outsourced certain service functions and positions. Furthermore, in November 2014, Health Net signed the BPaaS Agreement to outsource on a going forward basis the bulk of Health Net's "back office" operations, which would have involved the re-badging (and potential subsequent off-shoring) of a significant portion of Health Net's more than 6,400 California employees. If the Merger is completed, it will result not only in the termination of the BPaaS Agreement (and, therefore, avoiding the outsourcing of employees), but may also result in the future in-sourcing of certain service functions and positions which are currently being outsourced by Health Net, as Centene's business model is to in-source as much as possible.

68. Headcount and staffing are continuously analyzed at Health Net and Centene, and will continue to be analyzed as combined operations after the Merger, and additions or reductions might be required at some point in the future based on then-current market conditions, service levels, number of insureds in relevant market segments, and other relevant factors. Any such future changes will not, however, be made as a result of the Merger.

#### C. Corporate Governance

69. Both Centene and HNLIC approach corporate governance from a local perspective. The companies believe that healthcare is best viewed as a local service. This is demonstrated by Centene's approach in each of the 20 states in which it has health plans. In each state, a strong Chief Executive Officer/President leads a local management team who is responsible for that health plan's performance. If an interaction involves direct contact with a member, provider, regulator or community advocate, Centene's approach is to have that interaction handled by the local management team.

70. Centene has been successful in maintaining the local nature of the services it provides in each jurisdiction in which it operates. For example, Centene has no centrally branded healthcare service provider or insurer across the nation. Rather, Centene's insurance companies and healthcare service providers remain branded locally in each state to emphasize the local nature of the services. In California, Centene will be keeping "Health Net" as a brand name, which will avoid confusion for Health Net members.

71. This same approach will be taken in California, where HNLIC will continue to be a California domiciled insurer with operational direction by a California-based Chief Executive Officer/President and senior executive team providing functions in key operational areas. Health Net, although it will become a subsidiary of Centene, will continue to be named Health Net, Inc. HNLIC will also not change its name. Centene has no plans to redomesticate or relocate HNLIC's headquarters outside of California, and is willing to commit, for so long as it maintains a majority of voting power of HNLIC, that it will not apply to transfer the state of domicile of HNLIC outside of California if, immediately following the redomestication: (a) HNLIC would be commercially domiciled in California pursuant to Section 1215.14(a) of the California Insurance Code; or (b) a plurality of covered lives of all types of coverage in all jurisdictions from all regulated entities that are subsidiaries of Health Net (or any successor) reside in California.

72. With regard to the ultimate parent holding company, Centene will replace Health Net as a result of the Merger. In the process, Health Net will become a wholly owned subsidiary of Centene and will be delisted from the New York Stock Exchange and cease to be a publicly traded company. Following the Merger, certain policies and procedures implemented by Centene, a publicly traded company listed on the New York Stock Exchange, and uniformly applied to its subsidiaries, such as Centene's Business Ethics and Conduct Policy, will be applied to HNLIC in its capacity as a subsidiary of Centene. Because Health Net, Inc. is currently listed on the New York Stock Exchange and is therefore subject to the same rules as Centene with respect to such listed status, the policies and procedures implemented by Centene and applied to HNLIC will be materially the same as are currently in place for HNLIC.

#### D. Claims Functions

73. Centene will not make material changes to HNLIC's claims handling and policy administration systems or functions for calendar year 2016, although over time Centene may seek to improve such systems by integrating Centene's IT expertise in California as described in the next paragraph.

74. Cognizant Technology Solutions ("CTS") provides certain claims-related activities for all lines of HNLIC's business on Health Net's systems. This arrangement has been in place for a number of years and is separate from the BPaaS Agreement. The BPaaS Agreement would have expanded upon the services historically provided by CTS to Health Net and its subsidiaries. Centene has reviewed the CTS arrangement and has determined that because CTS is trained and has experience with the Health Net systems utilized for processing claims for HNLIC's insureds, no material changes will be made for at least calendar year 2016 with respect thereto. Centene expects that the CTS arrangement will continue to be reviewed each year to determine whether material changes are warranted and in the best interest of HNLIC and its customers. If it is determined that a material change is warranted after calendar year 2016,

Centene does not anticipate using a different vendor. Rather, any such material change would likely involve Centene's insourcing the labor for claims processing with the goal of using U.S. domestic staff employed by the combined entity.

75. Any changes implemented will factor in the need for any system transition to avoid disruption to members or providers. In any event, Centene will, and will cause HNLIC to continue to, comply with all applicable California laws with respect to processing of claims of California insureds.

E. Underwriting

76. Centene will maintain HNLIC's underwriting function for large group coverage in California.

F. Customer Service Functions

77. Centene will not make any material changes to HNLIC's customer service systems or functions for calendar year 2016, although over time Centene may seek to improve such systems by integrating Centene's IT expertise in California as described in the next paragraph.

78. Certain vendors provide certain customer service functions for HNLIC's business on Health Net's systems. These arrangements have been in place for a number of years. Centene reviewed these arrangements and determined that because the vendors are trained and have experience with the Health Net systems utilized for customer service for HNLIC's insureds, no material changes are planned for at least calendar year 2016 with respect thereto. Centene expects that these arrangements will continue to be reviewed each year to determine whether material changes are warranted and in the best interest of HNLIC and its customers. If a material change is determined to be warranted after 2016, Centene does not anticipate using a different vendor. Rather, any such material change would likely involve Centene's insourcing the labor for customer service with the goal of using U.S. domestic staff employed by the combined entity.

79. Any changes implemented will factor in the need for any system transition to avoid disruption to members or providers. In any event, Centene will, and will cause HNLIC to continue to, comply with all applicable California laws with respect to customer service operations and systems impacting California insureds.

G. IT Systems and Vendor Contracts

80. Centene will continue to use the core third-party vendors currently used by HNLIC, but will seek ways to integrate the insurer's IT systems over time with Centene's efficient and effective IT systems. Centene understands that any such integration must be implemented with the least possible disruption to insureds and service providers, and Centene commits to taking the time and allocating the resources necessary to help ensure that any transition to HNLIC's IT infrastructure is as seamless as is reasonably possible.

81. Centene has a proven track record of seamlessly providing corporate standards across multiple regional areas while maintaining and promoting its local presence. From an IT perspective, Centene deploys an enterprise Management Information System for all of our health plans, with support from over 980 IT professionals.

82. Centene currently operates in 23 states and has, over many years, completed acquisitions and implementation of new insurance programs that required integration of IT systems and the transition of members and providers to Centene's IT systems. Centene has a proven track record of not only

understanding IT systems, but understanding how to integrate and improve disparate systems in a manner that avoids disruption to both insureds and service providers. Centene commits to bringing this same expertise and experience to bear in California.

83. As Centene's IT expertise is integrated with HNLIC over the coming years, more people should have easier access to the information and systems necessary to more quickly, efficiently, and cost-effectively access the relevant information and services necessary for effective healthcare. By using enhanced IT expertise for data management, document storage, and claims handling facilitation, HNLIC also hopes to be able to drive down the cost of insurance overall, which would also accrue to the benefit of consumers.

**XII. Conclusion**

84. I would like to thank the Commissioner and the Staff of CDI for their attention to, and their diligence in reviewing, the Form A. Based on this Testimony, the Form A and the written testimonies of Keith Harvey Williamson, Steven Sell, and Drs. Lawrence Wu and Paul Wong submitted to CDI in this proceeding, it is Centene's position that the Proposed Acquisition of Control satisfies all of the applicable standards of review for approval under Section 1215.2(d) of the California Insurance Code and that the Commissioner has a sufficient and robust record for the issuance of an approval order with respect to the Proposed Acquisition of Control as set forth in the Form A.

85. In conclusion, for the foregoing reasons, Centene respectfully requests that the California Commissioner of Insurance approve the Proposed Acquisition of Control.

\* \* \* \* \*

Kenneth Rone Baldwin deposes and says that he is the Executive Vice President for the Insurance Group at Centene Corporation, that he has read the foregoing written testimony and knows the contents thereof and that the same are true of his own knowledge.

  
Kenneth Rone Baldwin  
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