

1 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

2 **A.** My name is Colleen F. Reitan, and I am the Executive Vice President and Chief
3 Operating Officer of Health Care Service Corporation, a Mutual Legal Reserve Company
4 (“HCSC”). My business address at HCSC is 300 East Randolph Street, Chicago, Illinois,
5 60601.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

7 **A.** I received a Bachelor of Science Degree in Economics and Urban Studies in 1980 from
8 Mankato State University in Minnesota. In 1986, I received a Master’s Degree in Health
9 Care Administration from the University of Minnesota in Minneapolis.

10 **Q. PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY.**

11 **A.** After receiving my Master’s Degree, I worked for Blue Cross Blue Shield of Minnesota
12 from 1986 to 1991 in various management positions. I then worked for Physicians
13 Surgical Services in St. Paul, Minnesota from 1991 to 1993 as a Director of Business
14 Development. I rejoined Blue Cross Blue Shield of Minnesota in 1993 and held various
15 management positions, including President and Chief Operating Officer, until October
16 2008 when I joined HCSC as Executive Vice President, Internal Operations and Finance.
17 In February 2009, I was promoted to my current position as Executive Vice President and
18 Chief Operating Officer.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN FORMAL PROCEEDINGS BEFORE**
20 **AN OFFICER OF THIS STATE OR IN A FORMAL PROCEEDING IN ANY**
21 **OTHER STATE OR FEDERAL GOVERNMENT ENTITY?**

1 A. Yes. I provided testimony regarding health care issues before the Domestic Policy
2 Subcommittee of the U.S. House of Representatives Committee on Oversight and
3 Government Reform in 2009.

4 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING.**

6 A. My testimony will provide facts in support of approval from the Montana State Auditor,
7 *ex officio* Commissioner of Insurance (“Commissioner”) and the Montana Attorney
8 General (“Attorney General”) of the proposed alliance between Blue Cross and Blue
9 Shield of Montana, Inc. (“BCBSMT”) and HCSC. BCBSMT and HCSC jointly seek
10 approval of the proposed alliance from the Commissioner and Attorney General, and
11 have filed an Application for Approval of Alliance (“Application”) pursuant to Montana
12 Code Annotated §§ 35-2-609, 35-2-617 and Title 50, Chapter 4, part 7 (“Conversion
13 Statute”). According to the terms of the proposed alliance, HCSC will acquire the
14 insurance and Administrative Services Only (self-funded) (“ASO”) operations and
15 related assets, and specified associated liabilities of BCBSMT. My testimony will
16 include: (a) background information on HCSC; (b) a description of the process that
17 resulted in the alliance that is the subject of this proceeding, including the lack of any
18 associated conflicts of interest and the due diligence conducted by HCSC; (c) a
19 discussion of the benefits of this alliance to BCBSMT policyholders and employees; and
20 (d) an explanation of the representation BCBSMT will have on HCSC governing bodies
21 after the consummation of the alliance.

22 **Q. PLEASE PROVIDE SOME GENERAL BACKGROUND ON HCSC.**

1 A. HCSC is a mutual legal reserve company doing business as a nonprofit health care
2 service plan. HCSC was organized in Illinois in 1936 as a nonprofit health care service
3 plan, and in 1982 reorganized as a mutual insurance company domiciled in Illinois.
4 HCSC's organizational documents provide that HCSC shall operate on a not-for-profit
5 basis and prohibit any person from receiving any HCSC profits. As a non-investor
6 owned ("NIO") company, HCSC does not have third-party investors to demand priorities
7 that could place financial returns ahead of services to its policyholders.

8 **Q. WHAT TYPES OF PRODUCTS DOES HCSC OFFER TO ITS MEMBERS?**

9 A. HCSC offers a variety of fully-insured products, and also offers administrative services
10 for various self-funded benefit plans. HCSC's products include individual and group
11 plans of various types, including managed care products. HCSC also participates in
12 government programs such as Medicare Advantage, Medicaid, and the Federal Employee
13 Health Benefit Program ("FEP"). HCSC reaches virtually all segments of the health
14 insurance market.

15 **Q. WHAT IS A MUTUAL LEGAL RESERVE COMPANY?**

16 A. Under Illinois law, insurance companies can only organize as either stock companies or
17 mutual legal reserve companies. A mutual legal reserve company is a member owned
18 company that operates for the mutual benefit of its members. Since HCSC is not a stock
19 company, it operates as a nonprofit member owned company, and is legally referred to as
20 a mutual legal reserve company.

21 **Q. WHAT DOES IT MEAN THAT HCSC OPERATES AS A NONPROFIT ENTITY?**

22 A. It means that no person or entity receives, directly or indirectly, or is entitled to any
23 profits from HCSC.

1 **Q. IN WHAT STATES DOES HCSC OPERATE BLUE CROSS AND BLUE SHIELD**
2 **PLANS?**

3 **A.** HCSC currently operates the Blue Cross and Blue Shield (“Blue”) Plans in Illinois, New
4 Mexico, Oklahoma, and Texas. It is an independent licensee of the Blue Cross and Blue
5 Shield Association. HCSC is the country’s largest NIO health insurer and fourth largest
6 health insurer overall. It currently has more than 13 million members in its Blue Plans
7 across its four states. HCSC has grown steadily in all of its states by offering traditional
8 and innovative health insurance products and services to individual members and group
9 customers.

10 **Q. YOU MENTIONED NEW MEXICO, OKLAHOMA, AND TEXAS. DID HCSC**
11 **FORM ALLIANCES WITH THOSE PLANS?**

12 **A.** Yes. HCSC formed alliances with those plans similar to the proposed alliance with
13 BCBSMT. Between 1996 and 1998, HCSC consolidated the Claims, Customer Service
14 and Technology organizations in Illinois and Texas. In 2001 and 2002, HCSC
15 consolidated the same business units between HCSC and New Mexico Blue Cross and
16 Blue Shield (“NMBCBS”). In 2005 and 2006, HCSC consolidated business units
17 between HCSC and Blue Cross and Blue Shield of Oklahoma (“BCBSOK”). As the New
18 Mexico, Oklahoma, and Texas alliances demonstrate, HCSC has a history of successfully
19 bringing together operations in other states and incorporating them into existing HCSC
20 operations. At present, over 6 million HCSC members and over 7,000 of its 16,000
21 employees reside outside of Illinois. A significant factor in HCSC’s success in these
22 other states has been its commitment to maintaining local executive leadership and an
23 emphasis on strong local presence with community roots and involvement.

1 **Q. ARE YOU FAMILIAR WITH THE NMBCBS AND BCBSOK TRANSACTIONS**
2 **THAT HCSC CLOSED IN 2001 AND 2005 RESPECTIVELY?**

3 **A.** Yes. I did not join HCSC until 2008 so I was not involved in the NMBCBS or BCBSOK
4 transactions directly, but I have become familiar with the general terms of those
5 transactions in my role as Chief Operating Officer.

6 **Q. WHAT WAS THE STRUCTURE OF THE TRANSACTION WITH NMBCBS?**

7 **A.** The transaction structure with NMBCBS was an asset purchase, which is the same
8 structure as the proposed alliance with BCBSMT.

9 **Q. HOW MANY MEMBERS DID HCSC ACQUIRE IN THE NMBCBS**
10 **TRANSACTION?**

11 **A.** HCSC acquired approximately 217,000 members.

12 **Q. HOW MUCH DID HCSC PAY FOR THE ASSETS OF NMBCBS?**

13 **A.** HCSC paid approximately \$55 million for the assets it acquired from NMBCBS. The
14 leave behind corporate entity, renamed TrueCo from NMBCBS, paid the net proceeds of
15 the purchase price (after satisfying all excluded liabilities) to a newly formed foundation.
16 The total amount paid into this newly formed foundation was approximately \$20 million.

17 **Q. WAS THE NMBCBS TRANSACTION DIFFERENT IN ANY MATERIAL WAY**
18 **FROM THE PROPOSED ALLIANCE WITH BCBSMT?**

19 **A.** Yes. HCSC acquired virtually all of the assets of NMBCBS in that transaction, leaving
20 behind very few specific assets. As a result, the purchase price constituted a significant
21 portion of the proceeds that were deposited to the newly created foundation. In this
22 transaction, however, HCSC is acquiring only a limited portion of the assets of
23 BCBSMT, consisting primarily of its core insurance business. HCSC is leaving behind

1 more than an estimated \$120 million in assets (including the purchase price) that will be
2 deposited to a Montana foundation in accordance with Montana law after all requisite
3 liabilities are paid. Also, NMBCBS was in a more financially precarious position than
4 BCBSMT and had fewer assets available to ultimately transfer to the new foundation.

5 **Q. WHAT WAS THE STRUCTURE OF THE TRANSACTION WITH BCBSOK?**

6 **A.** The transaction structure with BCBSOK was a merger, which is different than the
7 structure of the proposed alliance with BCBSMT.

8 **Q. HOW MANY MEMBERS DID HCSC ACQUIRE IN THE TRANSACTION WITH**
9 **BCBSOK?**

10 **A.** HCSC acquired approximately 355,000 members, not including FEP members.

11 **Q. WHAT WAS THE PURCHASE PRICE FOR THAT TRANSACTION?**

12 **A.** There was no cash consideration paid for that transaction. HCSC needed to immediately
13 invest approximately \$200 million in information technology investment expenditures to
14 make BCBSOK viable for the future. Given the significant and immediate investment
15 that HCSC needed to make to ensure BCBSOK's viability, HCSC did not pay any cash
16 consideration for that transaction.

17 **Q. HAS HCSC RAISED PREMIUMS RATES IN NEW MEXICO OR OKLAHOMA**
18 **AS A RESULT OF THOSE TRANSACTIONS?**

19 **A.** No, not as a result of those transactions. In general, premium rates change based on a
20 variety of factors. These factors include changes in age, geographic location, inflation of
21 medical costs, increased utilization of medical services, higher than expected claims
22 costs, durational impacts, and deterioration of the underlying experience. Inflation of

1 medical costs results from hospital, drug company, medical equipment and other health
2 care increases.

3 **Q. DOES HCSC HAVE ANY SUBSIDIARIES?**

4 **A.** Yes. HCSC has 33 subsidiaries. Some of those subsidiaries offer services that will
5 directly benefit Montanans, including MEDecision, Inc., Hallmark Services Corporation,
6 Dearborn National Life Insurance Company, and Dental Network of America. For
7 example, MEDecision's care management programs for the chronically ill can help
8 BCBSMT reduce medical expenses and improve overall managed care capabilities for
9 members who are chronically ill. As a another example, HCSC's individual business
10 administrator, Hallmark Services Corporation, can help BCBSMT reduce its
11 administrative expenses on a per member basis and improve its internal operations for its
12 over 30,000 individual members. If the transaction is approved and it closes, BCBSMT
13 will be able to offer a wide variety of ancillary products, including life and dental
14 insurance underwritten by HCSC's life insurance company, Dearborn National Life
15 Insurance Company and its dental administrator Dental Network of America.

16 **Q. WHAT IS HCSC'S FINANCIAL CONDITION?**

17 **A.** HCSC is currently one of the strongest Blue Plans in the United States. As documented
18 in BCBSMT and HCSC's Application for Approval of Alliance, HCSC had 2011
19 earnings after federal income taxes of approximately \$1.2 billion, a December 31, 2011,
20 statutory surplus of approximately \$8.9 billion, and a surplus of \$9.5 billion as of
21 September 30, 2012. HCSC's 2011 risk based capital ("RBC") ratio is 1227%. HCSC
22 has an A.M. Best rating of A+ (Superior), a Standard & Poor's rating of AA- (Very
23 Strong) and a Moody's rating of A1 (Good). It is my understanding that copies of

1 HCSC's statutory financial statements for the periods ending June 30, 2012 and
2 December 31, 2011, have been submitted to the offices of the Commissioner and the
3 Attorney General.

4 **Q. WHY DOES HCSC HAVE SUCH A HIGH SURPLUS?**

5 **A.** As a member-owned company, HCSC's options to access the capital markets are limited
6 and are not as broad as they are for public companies. Public companies can issue
7 additional shares of stock to raise money that may become necessary to promptly pay
8 claims. HCSC's reserves are in place to ensure that anticipated (and unanticipated)
9 claims by our members for health care services are paid promptly and to help protect
10 policyholders and health care providers from the economic consequences of a major
11 health crisis such as a flu pandemic. This financial security is a benefit to all of HCSC's
12 policyholders. HCSC currently has more than 13 million members, and a truly
13 catastrophic health crisis could challenge even HCSC's surplus amount. To put it in
14 perspective, the amount of HCSC's current surplus would equate to the approximate cost
15 of an ambulance ride for each of its 13 million members.

16 **Q. ARE THERE ANY OTHER REASONS WHY IT IS IMPORTANT FOR HCSC TO**
17 **MAINTAIN ITS CURRENT SURPLUS LEVELS?**

18 **A.** Yes. Since HCSC's options to access capital markets are not as broad as the options
19 public companies have, adequate surplus is crucial given the market uncertainties health
20 insurers face over the next few years as a result of certain features of the Patient
21 Protection and Affordable Care Act ("ACA"). For example, HCSC's reserves will be
22 critically important to provide flexibility and security in the first quarter of 2014, when it
23 is anticipated that large numbers of new consumers who are not currently insured will

1 seek coverage and groups and individuals who are currently insured may consider
2 different coverage options as a result of certain ACA requirements.

3 **Q. DOES THE HCSC BOARD OF DIRECTORS ACTIVELY MONITOR HCSC'S**
4 **SURPLUS?**

5 **A.** Yes. HCSC's Board of Directors reviews and considers information regarding the
6 amount of HCSC's statutory surplus each year as part of the company's financial plan.
7 For the 2013 financial plan, the HCSC Board of Directors determined based on multiple
8 factors that the amount of HCSC's statutory surplus is necessary and appropriate to meet
9 and serve HCSC's current and near-term requirements, and to address contingencies and
10 challenges faced by the company. Some of these factors included:

- 11 • potentially significant increases in insured membership, especially in 2014, which
- 12 may lower RBC levels, especially in large states such as Illinois and Texas;
- 13 • minimum medical loss ratio mandates;
- 14 • development of new products and programs, some as a result of ACA; and
- 15 • unexpected or catastrophic events such as epidemics.

16 **Q. WHEN DID HCSC FIRST BEGIN CONSIDERING AN ALLIANCE WITH**
17 **BCBSMT?**

18 **A.** In May of 2012 BCBSMT approached HCSC regarding a possible alliance. HCSC was
19 interested in evaluating an alliance as it had success in the past with other Blue Plan
20 alliances and believed such an alliance was consistent with HCSC's long-term interests
21 and strategy.

22 **Q. WHAT IS HCSC'S RATIONALE FOR FORMING AN ALLIANCE WITH**
23 **BCBSMT?**

1 A. There are several reasons why an alliance with BCBSMT is important to HCSC. First,
2 HCSC must continue to increase its membership, geographic diversification and related
3 operations — a factor we refer to as “scale” — in order to maintain a competitive
4 administrative cost structure, and to continue to effectively compete with other national
5 health insurers in the delivery of services to its members. Alliances become an important
6 strategic opportunity for HCSC to continue to meet the levels of growth required to
7 remain competitive in the market. Second, and related to the first point, HCSC can
8 realize immediate member growth through an alliance with BCBSMT and target a larger
9 overall population for future organic growth. The increases in membership and scale the
10 alliance will provide are expected to result in improvement of HCSC’s overall expense
11 ratio, resulting in a net positive effect on the financial performance of the entire HCSC
12 enterprise going forward.

13 **Q. ARE THERE ANY OTHER REASONS THAT AN ALLIANCE IS IMPORTANT**
14 **TO HCSC?**

15 A. Yes. In addition to scale improvements and membership growth, the BCBSMT business
16 portfolio features a different industry mix than HCSC’s current states, such as timber and
17 mining. An alliance with BCBSMT would allow HCSC to add members who work in
18 those industries, which would help make HCSC less susceptible to regional and industry-
19 specific business cycles.

20 **Q. WHAT OTHER BENEFITS WILL HCSC REALIZE WITH THE ALLIANCE?**

21 A. HCSC also believes that an alliance with BCBSMT will afford HCSC an opportunity to
22 include BCBSMT executives as part of HCSC’s senior leadership, as well as grow its
23 workforce by adding virtually all of BCBSMT’s current employees, many of whom are

1 very familiar with BCBSMT's providers, vendors, and member groups. Also, expansion
2 into Montana offers HCSC a low-cost work environment for certain business processes in
3 the future.

4 **Q. WHAT OTHER REASONS MADE AN ALLIANCE WITH BCBSMT**
5 **ATTRACTIVE TO HCSC?**

6 **A.** As the largest NIO health insurance company in the country, HCSC put great value on
7 the fact that BCBSMT shares its commitment to the NIO approach as an alternative for
8 members to a for-profit health coverage approach. By forming an alliance with HCSC,
9 BCBSMT is preserving the NIO alternative in Montana, which improves the likelihood
10 that individuals and businesses in Montana have an option to purchase health insurance
11 from a payor focused on the long-term wellness and financial security of its members
12 instead of short-term profits to benefit shareholders.

13 **Q. BEFORE AGREEING TO THE TRANSACTION, DID HCSC CONDUCT ITS**
14 **OWN DUE DILIGENCE AND PARTICIPATE IN BCBSMT'S DUE DILIGENCE**
15 **PROCESS?**

16 **A.** Yes. HCSC designated an internal transaction team after BCBSMT approached HCSC
17 regarding a potential alliance. Extensive due diligence and reverse due diligence
18 regarding the proposed alliance with BCBSMT was completed in July and August of
19 2012 by both parties. HCSC established a data room and materials were reviewed from
20 there. There were numerous follow up calls and meetings to address questions raised
21 during the process.

22 **Q. WERE YOU PART OF HCSC'S TRANSACTION TEAM?**

23 **A.** Yes.

1 **Q. WHAT WAS YOUR ROLE ON THE TEAM?**

2 **A.** I led the HCSC business team in transaction negotiations and reviewed due diligence
3 summaries and materials in my role as a member of senior leadership.

4 **Q. WHAT CONCLUSION DID THE TRANSACTION TEAM REACH WITH**
5 **RESPECT TO THE PROPOSED ALLIANCE WITH BCBSMT?**

6 **A.** Based on its extensive due diligence, the transaction team concluded that the proposed
7 alliance would be mutually beneficial to both BCBSMT and HCSC for the scale,
8 efficiency and NIO commitments reasons discussed above, as well as a number of other
9 factors.

10 **Q. DID THE HCSC TRANSACTION TEAM PRESENT ITS FINDINGS TO THE**
11 **HCSC BOARD OF DIRECTORS?**

12 **A.** Yes. Following the conclusion of the due diligence period in the summer of 2012, the
13 HCSC transaction team reported to the HCSC Board of Directors at the September 2012
14 board meeting and recommended that HCSC enter into an alliance with BCBSMT.

15 **Q. DID YOU ATTEND THE SEPTEMBER 2012 HCSC BOARD OF DIRECTORS**
16 **MEETING?**

17 **A.** Yes.

18 **Q. WHAT ACTION DID THE HCSC BOARD OF DIRECTORS TAKE WITH**
19 **RESPECT TO THE TRANSACTION TEAM'S PRESENTATION AND**
20 **RECOMMENDATION?**

21 **A.** The HCSC Board of Directors approved the proposed alliance with BCBSMT. More
22 specifically, the HCSC Board of Directors directed senior management to undertake the
23 necessary steps to form the alliance, including HCSC's entry into and execution of the

1 final definitive agreement, which is an Asset Purchase Agreement, subject to an
2 acceptable purchase price.

3 **Q. WHEN WAS A FINAL AGREEMENT REACHED?**

4 **A.** On November 14, 2012, BCBSMT and HCSC entered into the Asset Purchase
5 Agreement that sets forth the transaction that will consummate the alliance for which we
6 are seeking approval in this proceeding.

7 **Q. PLEASE DESCRIBE THE PROPOSED TRANSACTION BETWEEN BCBSMT
8 AND HCSC?**

9 **A.** Under the terms of the Asset Purchase Agreement, BCBSMT will transfer to HCSC
10 certain assets, including its insurance and ASO contracts, provider contracts, and rights to
11 use its Blue Cross and Blue Shield marks (“Acquired Business”). In addition, HCSC will
12 assume specified liabilities of BCBSMT, including claims liabilities and ASO contracts,
13 provider contracts, and specified pension liabilities.

14 **Q. HOW MUCH WILL HCSC PAY TO PURCHASE THE ACQUIRED BUSINESS
15 FROM BCBSMT?**

16 **A.** In consideration of the sale of the Acquired Business to HCSC, HCSC will pay \$17.6
17 million. HCSC will pay this amount out of its own funds; no borrowing is involved. No
18 part of the payment will inure directly or indirectly to an officer, director, or trustee of
19 BCBSMT, to an officer, director, trustee, shareholder, or employee of HCSC, or to any
20 other person that is not a foundation approved to receive the assets by the Attorney
21 General. Likewise, no officer, director, or trustee of BCBSMT will receive any
22 immediate or future remuneration as a result of the proposed transaction except for the
23 reasonable value of services rendered pursuant to a valid contract between the officer,

1 director, or trustee and BCBSMT. It is important to note that as part of the transaction,
2 HCSC is also assuming approximately \$180 million in liabilities, as documented in the
3 Application. BCBSMT will transfer approximately \$180 million in assets to cover those
4 liabilities (as documented in the Application) to HCSC at closing, if the proposed alliance
5 is approved.

6 **Q. IS HCSC PURCHASING ALL OF BCBSMT'S ASSETS?**

7 **A.** No. HCSC is purchasing only the Acquired Business assets. BCBSMT management
8 estimates that at least \$120 million of BCBSMT's remaining assets (which includes the
9 purchase price) will be paid as proceeds to a foundation approved to receive those assets
10 by the Attorney General and in accordance with Montana law. Those assets will be
11 available for payment to a foundation after the remaining entity discharges all of its
12 remaining liabilities.

13 **Q. HOW WAS THE PURCHASE PRICE DETERMINED?**

14 **A.** BCBSMT and HCSC negotiated all of the terms and conditions of the Asset Purchase
15 Agreement other than the purchase price. For example, the parties negotiated which
16 BCBSMT assets and liabilities HCSC would acquire or assume, as well as all of the other
17 provisions of the Asset Purchase Agreement, such as the representations and warranties,
18 and closing conditions as is customary in transactions such as this one. However, the
19 parties agreed to obtain an independent, third party valuation of the fair market value of
20 BCBSMT as required by the Montana conversion statute. More specifically, Actuarial
21 and Financial Modeling, Inc. performed an independent actuarial valuation of
22 BCBSMT's core health insurance business on behalf of BCBSMT. This valuation was

1 then incorporated into an overall independent valuation of the fair market value of the
2 total surplus of BCBSMT, which was performed by Moss Adams LLP.

3 **Q. HAVE EITHER OF THE TWO VALUATION EXPERTS RETAINED BY**
4 **BCBSMT PERFORMED ANY WORK FOR OR ON BEHALF OF HCSC?**

5 **A.** No.

6 **Q. UNDER THE ASSET PURCHASE AGREEMENT, WHAT WILL HAPPEN TO**
7 **BCBSMT EMPLOYEES?**

8 **A.** HCSC has committed to provide offers of employment to all employees of BCBSMT
9 who are employed by BCBSMT as of the closing date of the transaction, with the
10 exception of employees on long-term disability who will continue to receive their
11 disability benefits. HCSC's success is attributable in part to maintaining local executive
12 leadership and a strong local presence in all of the states in which it operates Blue Plans.
13 BCBSMT's management team will join HCSC and will continue in managerial roles for
14 the new Montana division of HCSC. Current BCBSMT President and CEO, Mike Frank,
15 will be the plan president of the HCSC division, Blue Cross and Blue Shield of Montana.
16 The current management of BCBSMT will retain significant management roles in
17 HCSC's Montana operations.

18 **Q. WHAT WILL HAPPEN TO BCBSMT'S EMPLOYEE BENEFITS?**

19 **A.** BCBSMT employees will transition to HCSC's benefit programs and will be treated the
20 same as similarly situated employees. BCBSMT employees may experience slight
21 changes in their benefits as a result of the transition, but overall the benefit offerings at
22 HCSC are comparable, or in some cases, better than what BCBSMT employees have
23 now. Importantly, an employee's original date of hire with BCBSMT (and not with

1 HCSC) will be recognized for purposes of determining benefit eligibility. This means
2 that Montana employees will retain their BCBSMT level of seniority and will not be
3 starting over as new HCSC hires.

4 **Q. WHAT WILL HAPPEN TO BCBSMT POLICYHOLDERS AFTER THE**
5 **CLOSING OF THE TRANSACTION?**

6 **A.** HCSC will provide its considerable financial resources and expertise to the Acquired
7 Business assets, which will afford a continued high level of service to members and
8 subscribers, in many cases expand services, and will improve the competitive status and
9 financial condition of the Acquired Business assets. Immediately after the closing of the
10 transaction, HCSC will focus on integrating the business and operations of the Acquired
11 Business assets into HCSC business and operations. The Acquired Business assets will
12 continue to operate in Montana as a division of HCSC using the Blue Cross and Blue
13 Shield marks, and all current BCBSMT policyholders will become HCSC policyholders
14 without any break in coverage, benefits, or services as a result of the Transaction.

15 **Q. WHAT WILL HAPPEN TO PROVIDERS CURRENTLY UNDER CONTRACT**
16 **WITH BCBSMT AFTER THE CLOSING OF THE TRANSACTION?**

17 **A.** HCSC will retain BCBSMT's current provider network and hopes to have providers
18 under contract with BCBSMT agree to the assignment of those contracts to HCSC.
19 Accordingly, hospitals, physicians and other types of providers will not be impacted by
20 the proposed alliance. However, these providers will realize benefits from the alliance,
21 such as faster processing of their claims and more flexible reimbursement methodologies.
22 For example, BCBSMT will have access to HCSC's system for claims processing, Blue
23 Chip, which is more flexible and efficient than BCBSMT's current system.

1 **Q. WILL BCBSMT BE REPRESENTED ON THE HCSC BOARD OF DIRECTORS?**

2 **A.** Yes. BCBSMT and HCSC have agreed that one member of BCBSMT's current Board
3 will be nominated to join HCSC's Board of Directors for a specified term following the
4 closing of the transaction. Other remaining current directors of BCBSMT will form an
5 HCSC affiliate board in Montana that will advise HCSC on local matters.

6 **Q. HOW WILL THE ALLIANCE BENEFIT BCBSMT MEMBERS?**

7 **A.** As members of HCSC, BCBSMT members will have more options available through
8 HCSC's products and programs, as well as heightened service through HCSC's
9 information technology, internet and mobile capabilities. In addition, being part of a
10 much larger and financially stronger company will help control the rate of premium
11 increases over time which is also a benefit.

12 **Q. IN YOUR OPINION, WILL THIS TRANSACTION BENEFIT ALL**
13 **MONTANANS, NOT ONLY BCBSMT MEMBERS?**

14 **A.** Yes. HCSC is contemplating opening a customer service center in Great Falls, Montana,
15 that would add 100 additional jobs. This center will be possible if the proposed
16 transaction is approved in its current form and within the timeframe HCSC needs to make
17 such a center viable and operational for the upcoming changes to the health insurance
18 marketplace that begin in October of this year. These 100 jobs would be new jobs; not
19 replacements for current jobs in Helena. We estimate that the annual payroll for such a
20 center would be approximately \$10 million. In addition, we have estimated that the
21 addition of the facility would generate positive ripple effects to the Great Falls economy
22 of approximately \$28 million annually.

1 **Q. WHY DOES THE TIME FRAME FOR APPROVAL MATTER FOR THE**
2 **OPENING OF THE NEW CUSTOMER SERVICE CENTER?**

3 **A.** HCSC must have additional facilities along with a trained workforce ready for the new
4 insurance exchange enrollment that begins in October of this year. To accomplish that
5 objective, HCSC must begin finalizing its customer service center plans later this month
6 (February). If HCSC does not open a center in Great Falls or in Montana, it will need to
7 open the additional center in another location in one of our other states.

8 **Q. WHAT TAXES DOES HCSC ANTICIPATE TO PAY IN MONTANA?**

9 **A.** We have not completed a full analysis of all of the taxes HCSC may have to pay in the
10 State of Montana if this transaction is approved; however, HCSC anticipates that it will
11 pay all of the same taxes that BCBCMT pays, and may also pay the premium tax. If this
12 transaction is approved, HCSC will perform a complete analysis of whether it may be
13 exempt from paying the State of Montana premium tax as a non-for-profit health plan.

14 **Q: WILL BCBSMT MANAGEMENT HAVE A VOICE IN HCSC'S BUSINESS**
15 **PLANS IN MONTANA?**

16 **A.** Yes. The senior officer in BCBSMT, like the senior officers in Texas, New Mexico,
17 Oklahoma and Illinois, will be a member of the senior management team of HCSC and
18 will be involved in corporate decisions, including major company decisions. That
19 executive will also be relied upon by HCSC to bring the local perspective, and that
20 perspective will influence HCSC's decision making as it affects the local company.

21 **Q. WILL HCSC BE ACTIVE IN THE LOCAL COMMUNITY?**

22 **A.** Yes, to the fullest extent possible, HCSC will continue BCBSMT's commitment to, and
23 activity in, the community. HCSC will donate to charitable organizations and special

1 causes in the community, and will be a good corporate citizen from the standpoint of
2 community involvement.

3 **Q. WHAT IMPACT DO YOU THINK THE ALLIANCE WILL HAVE ON**
4 **COMPETITION WITHIN MONTANA?**

5 **A.** I believe the proposed transaction will increase competition in Montana. The qualities
6 and strengths HCSC will bring to BCBSMT's operations, will result in BCBSMT being
7 more competitive at a time when financial strength and flexibility will become
8 increasingly important.

9 **Q. WERE THERE ANY CONFLICTS OF INTERESTS IDENTIFIED IN THE**
10 **TRANSACTION?**

11 **A.** No.

12 **Q. HAS ANY DIRECTOR, OFFICER, EMPLOYEE, OR OTHER**
13 **REPRESENTATIVE OF HCSC BEEN PAID OR RECEIVED ANY FEE,**
14 **COMMISSION, OR OTHER SPECIAL OR VALUABLE CONSIDERATION FOR**
15 **ASSISTING IN THE NEGOTIATION OR IMPLEMENTATION OF THE**
16 **TRANSACTION?**

17 **A.** No. The only agreements for employment or other compensation or benefit are those
18 stated in the asset purchase agreement. We do not consider regular salaries or other
19 regular compensation received or to be received by directors, officers, employees or
20 agents for services rendered in the ordinary course of business to constitute the type of
21 consideration listed in the question.

1 Q. WILL THE COST OF MAILING (IF ANY) OR OTHERWISE GIVING NOTICE
2 OF ANY PUBLIC HEARING REQUIRED IN CONNECTION WITH THE
3 APPROVAL OF THE PROPOSED ALLIANCE BE BORNE BY THE PARTIES?

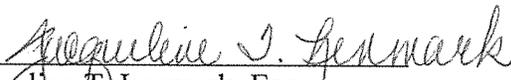
4 A. Yes.

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

6 A. Yes.

Respectfully submitted this 5th day of March, 2013.

KELLER, REYNOLDS, DRAKE,
JOHNSON & GILLESPIE, P.C.

BY: 
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CERTIFICATE OF SERVICE

I, Jacqueline T. Lenmark, KELLER, REYNOLDS, DRAKE, JOHNSON & GILLESPIE, P.C., certify that on March 5, 2013, I served a true and correct copy of the foregoing **DIRECT TESTIMONY OF COLLEEN F. REITAN**, by mailing it first class postage prepaid to:

Ms. Sybil Shults
Office of the Commissioner of
Securities & Insurance
State Auditor's Office
840 Helena Avenue
Helena, MT 59601

Honorable W. William Leaphart
1772 University Avenue
Helena, MT 59601

Jesse Laslovich, Esq.
Nick Mazanec, Esq.
Office of the Commissioner of
Securities & Insurance
State Auditor's Office
840 Helena Avenue
Helena, MT 59601

Kelley Hubbard, Esq.
Michael Black, Esq.
Montana Department of Justice
215 North Sanders, Third Floor
P.O. Box 201401
Helena, MT 59620-1401

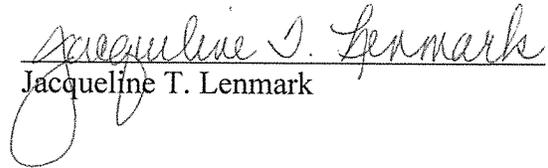
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DATED this 5th day of March, 2013.


Jacqueline T. Lenmark