BEFORE THE COMMISSIONER OF SECURITIES AND INSURANCE
MONTANA STATE AUDITOR

IN THE MATTER OF THE ACQUISITION OF: Allegiance Life & Health Insurance Company and Allegiance Re, by Anthem, Inc.	CASE NO. INS-2015-240 **HEARING EXAMINER'S PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER**

Anthem, Inc. (Anthem) has filed with the Office of the Montana State Auditor, Commissioner of Securities and Insurance (CSI), a completed Form A Statement (Form A). The Form A addresses the proposed acquisition of Allegiance Life & Health Insurance Company (Allegiance), a Montana life and disability company, as well as Allegiance Re, a Montana captive insurance company, by Anthem, as part of Anthem's larger acquisition of Allegiance's parent company, Cigna Corporation (Proposed Transaction). Cigna Corporation (Cigna) is a Delaware corporation that wholly owns and controls Allegiance and Allegiance Re.

PROCEDURAL BACKGROUND

On September 3, 2015, Anthem filed an initial Form A pursuant to Mont. Code Ann § 33-2-1104. Anthem provided a copy of the Form A to Cigna on September 4,

2015 Anthem subsequently supplemented the filing on September 23, 2015; October 8, 2015, and October 20, 2015.

On September 14, 2015, the Commissioner of Securities and Insurance, Montana State Auditor (Commissioner), appointed Jesse Laslovich, Chief Counsel for the CSI, as hearing examiner in this matter pursuant to § 2-4-611 On September 28, 2015, deeming the Form A submitted, the Hearing Examiner issued a Notice of Hearing for this matter to be heard on October 21, 2015, pursuant to § 33-2-1105 Anthem provided a copy of the Notice of Hearing to Cigna via certified mail. as required by § 33-2-1105. Anthem caused a notice of the hearing in this matter to be published on October 11, 2015, in the Independent Record, Billings Gazette, Missoulian, Montana Standard, Daily Inter Lake, Bozeman Chronicle, and Great Falls Tribune On October 20, 2015, the Commissioner issued an order substituting Nicholas Mazanec, attorney for the CSI, for Jesse Laslovich as hearing examiner

On October 21, 2015, a public hearing was held in the matter. Hearing Examiner Nicholas Mazanec presided Jacqueline T Lenmark, Derrick W. Smith, and T. Ark Monroe appeared for Anthem. Michael A Kakuk appeared for the CSI. Witnesses were called, testimony was received, and evidence was introduced. The hearing was conducted pursuant to the hearing procedures set forth under § 33-2-1105(2). The public was provided the opportunity to offer oral comment; no member of the public did so. Testimony was received from one witness for Anthem, Jay Harry Wagner, and one witness for the CSI, Steve Matthews. Exhibits 1 through 13 were admitted by stipulation of the parties. The hearing record remained open for written public comments until October 23, 2015 The CSI received no written public comments.

Based upon the testimony received and the exhibits admitted into evidence, the Hearing Examiner makes the following

FINDINGS OF FACT

1 The CSI has reviewed the Form A submitted by Anthem. Hrg. Tr. 21 (Oct 21, 2015)

2. Anthem serves approximately 33 million medical members through affiliated health plans Through its subsidiaries, Anthem offers various network-based managed care plans to the large and small employer, individual, Medicaid, and Medicare segments Anthem is an independent licensee of the Blue Cross and Blue Shield Association. It currently operates as a Blue Cross and/or Blue Shield (Blue) licensee in 14 states. If the Proposed Transaction is consummated, Anthem would not operate in Montana as a Blue licensee Ex. 1, 13, Hrg. Tr. 14.

3. Anthem currently owns several companies licensed to transact insurance business in Montana. Anthem Life Insurance Company wrote $615 in premium in Montana in 2014. Unicare Life and Health Insurance Company wrote $286,000 of Medicare Advantage premium in 2014, which is roughly .10 percent of total Medicare Advantage premium written in Montana. Ex. 13; Hrg. Tr 24.

4. Anthem has proposed to merge with Cigna, also a large national health insurance company The value of the Proposed Transaction is estimated to be approximately $54.2 billion based on the closing price of Anthem's common stock on the New York Stock Exchange on May 28, 2015 Ex 1, 13.

5 Anthem estimates that approximately $21 billion in equity will be issued to Cigna stockholders, leaving cash requirements of approximately $27.6 billion for the

merger consideration. According to the Form A, the cash portion of the merger consideration will be paid for by Anthem with approximately $4 billion of new term loans, $18 billion of public debt issuance, and $5.6 billion of cash. Ex. 1, 13

6. Anthem currently has a 40 percent debt to equity ratio and the Proposed Transaction would increase that ratio to 49.6 percent. Anthem anticipates lowering this ratio to approximately 40 percent within two years following the Proposed Transaction. Ex. 13, Hrg. Tr. 9.

7. Anthem's consolidated operating revenue for the year ending December 31, 2014, was approximately $73 billion, while its consolidated net income was just over $2 5 billion. Anthem also has over $64 billion in consolidated total assets as of June 30, 2015. Ex. 1, 13

8 Allegiance and Allegiance Re are wholly owned subsidiaries of Cigna; Cigna holds all shares (750,006 in total) of Allegiance voting common stock. Anthem would gain ownership and potential control of Allegiance and Allegiance Re as part of the Proposed Transaction However, the separate corporate existence of Allegiance and Allegiance Re would remain unchanged. Ex. 1, 13

9. Allegiance is authorized to write life insurance and disability (health) insurance in Montana. In 2014, Allegiance wrote only large group health insurance, and represented roughly four percent of the large group market in Montana in 2014. Hrg Tr. 22.

10. There is currently no overlap of insurance business in Montana between Anthem and Allegiance or Allegiance Re. It is unclear whether there is any overlap in insurance business between Anthem and Cigna in Montana. Hrg. Tr. 24-25

11. Allegiance is currently in good standing with the CSI. Allegiance reported a slight profit in 2014, and its surplus is adequate for the amount of premium it is writing. Hrg. Tr 27

12. The CSI has determined that the Proposed Transaction would not imperil the insurance licenses or certificates of authority in Montana of Allegiance or Allegiance Re. Hrg. Tr 24

13. Allegiance is owned by Benefit Plan Management, which does business as a third party administrator and a benefit plan manager. Benefit Plan Management is owned by Cigna. Hrg Tr. 23.

14. Allegiance Re is also owned by Benefit Plan Management It was licensed as a captive insurance company, and formerly underwrote stop-loss insurance for Allegiance. Allegiance Re is not currently doing any business in Montana or elsewhere. Hrg. Tr 23.

15. Allegiance officers currently serve at the pleasure of Cigna. Anthem has no plans to change the current officers of Allegiance if the Proposed Transaction is consummated. Hrg. Tr. 14

16. Anthem anticipates that certain operations of Cigna, including human resources, payroll, and finance/accounting, may be integrated with Anthem's existing operations. Leaders from Anthem and Cigna are working on and will finalize integration plans together Also, it is anticipated that Allegiance and Allegiance Re will become members of Anthem's consolidated tax group upon consummation of the Proposed Transaction, and Anthem is evaluating the need for any changes to intercompany tax sharing agreements that may be appropriate Ex. 1, 13.

17. Anthem believes the Proposed Transaction would result in increased operational efficiencies. These efficiencies could result, in part, from consolidation of some enterprise operations, such as claim processing and information technology systems; and from the increased scale resulting from the merger of the two entities. Following previous acquisitions, Anthem has worked to consolidate diverse claim systems previously used by its multiple single state Blue plans. Hrg. Tr. 12-13.

18. Anthem states it has no current plans to merge or consolidate Allegiance or Allegiance Re, or to materially change the operations or business of those entities. Anthem will be working on a plan of integration over the next six to nine months Anthem does not anticipate that Allegiance's current business practices will fit into a consolidation of operations Ex 13; Hr. Tr. 10.

19. If the Proposed Transaction were consummated, current officers of Allegiance will maintain the same level of local control and decisional authority that they currently possess Hrg. Tr. 14.

20. Montanans currently using the Cigna provider network would continue to do so following the Proposed Transaction Anthem aims to expand the Cigna network following the Proposed Transaction It anticipates no material adverse changes to Allegiance's current provider network or provider contract terms, including reimbursement rates. Ex. 13; Hrg Tr 15-16.

21 Anthem has a minimal presence in Montana, as well as the surrounding states such as Idaho, Wyoming, and the Dakotas. Hrg. Tr. 12.

22. Anthem does not anticipate any changes to Allegiance's pro forma, filed as a part of Exhibit 1, as a result of the Proposed Transaction. Hrg Tr. 16. Anthem

anticipates Allegiance's policyholder surplus and risk based capital ratio would not change as a result of the Proposed Transaction Ex. 13

23. Anthem currently has approximately 53 percent of its providers in value-based arrangements, which emphasize quality of outcome to a greater extent than standard fee-for-service arrangements. Anthem hopes to increase the use of its value-based arrangements as a result of the Proposed Transaction. Hrg. Tr. 17.

24. Anthem has no plans to materially reduce the number of Montanans employed by Cigna or Allegiance, or to consolidate or transfer Montana-based positions to another state. Ex. 13, Hrg Tr. 13.

25. Anthem has no plans to transition Allegiance's claim processing or any other policyholder servicing-related functions from the systems Allegiance currently uses. Hrg. Tr 19.

26. Anthem requested confidential treatment of a portion of Exhibit 1, Exhibit 3, and Exhibit 10, and has submitted the Affidavit for Confidential Treatment of Jay Wagner in support of that request. Ex. 12.

CONCLUSIONS OF LAW

1. The Montana State Auditor is the Commissioner of Securities and Insurance (Commissioner) pursuant to § 2-15-1903.

2. The CSI is under the control and supervision of the Commissioner pursuant to §§ 2-15-1902 and 33-1-301.

3. The Commissioner shall administer the CSI to protect insurance consumers. § 33-1-311(3).

4. The Commissioner and the CSI have jurisdiction over this matter. §§ 33-1-311 and 33-2-1105.

5. A person may not merge with or otherwise acquire control over a domestic insurer unless a statement is filed with the Commissioner as provided in § 33-2-1104 and that transaction has been approved by the Commissioner pursuant to § 33-2-1105.

6. Anthem has filed a Form A that satisfies the documentation requirements of § 33-2-1104.

7. The Commissioner shall approve the merger or acquisition agreement unless, after a public hearing, the Commissioner finds that the agreement meets one of the criteria set forth in § 33-2-1105(1)(a)-(f)

8. Anthem's proposed acquisition of control of Allegiance and Allegiance Re would not adversely affect the ability of Allegiance or Allegiance Re to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed. § 33-2-1105(1)(a).

9. There is no evidence that Anthem's proposed acquisition of control of Allegiance and Allegiance Re would substantially lessen competition in insurance or create a monopoly in the state of Montana. § 33-2-1105(1)(b).

10. There is no evidence that the financial condition of Anthem might jeopardize the financial stability of Allegiance or Allegiance Re, prejudice the interests of Allegiance's policyholders, or prejudice the interests of any securityholders of either company. § 33-2-1105(1)(c).

11. It does not appear that Anthem's proposed acquisition of control of Allegiance and Allegiance Re would be unfair or unreasonable to Allegiance, Allegiance Re, or securityholders of either company § 33-2-1105(1)(d)

12. Anthem neither has any current plans or proposals to liquidate, merge, consolidate, or otherwise make material changes to the business or corporate structure or management of Allegiance or Allegiance Re, nor specifically any such plans or proposals that are unfair or unreasonable to policyholders, or not in the public interest of Montana. § 33-2-1105(1)(e).

13. It does not appear that the competence, experience, and integrity of Anthem's board of directors would jeopardize the interests of Allegiance policyholders or the general public. § 33-2-1105(1)(f).

14. The biographical information contained in Exhibits 1, 3, and 10 contain personal information not subject to disclosure under Montana public records law, pursuant to Mont. Const. Art. II § 10.

15 The pro forma in Exhibit 1 contains confidential trade secret information, and is not subject to disclosure under Montana public records law. *See Great Falls Tribune v Montana Public Service Commission*, 2003 MT 359, 319 Mont. 38, 82 P.3d 876.

From the foregoing Findings of Fact and Conclusions of Law, the Hearing Examiner proposes to the Commissioner the following.

ORDER

1. The proposed acquisition of Allegiance Life and Health Insurance Company and Allegiance Re by Anthem, Inc. is APPROVED pursuant to § 33-2-1105.

2. This Order is conditioned upon the completion of the Proposed Transaction between Anthem, Inc., and Cigna Corporation as proposed, which is outside the scope of the review by the CSI.

3. Anthem, Inc. shall provide the CSI with written notice within ten business days following the consummation of the Proposed Transaction.

4. The following portions of the record are sealed:

   a. The biographical information contained in Exhibits 1, 3, and 10; and

   b. The pro forma in Exhibit 1.

DATED this 23rd day of November, 2015.

NICHOLAS MAZANEC
Hearing Examiner

cc: Michael A. Kakuk, Attorney for the CSI
T. Ark Monroe, III, Counsel for Anthem, Inc.
Alan Hall, Counsel for Allegiance