MATERIAL CHANGE NOTICE SUBMISSION DETAILS

MCN Number	2024-07-09-1183
OHCA Review Start Date	8/16/2024
Anticipated date (unless tolled per regulation) by which OHCA could waive cost and market impact review	9/30/24
Anticipated date (unless tolled per regulation) by which OHCA could determine cost and market impact review required	10/15/24

SUBMITTER

HEALTH CARE ENTITY CONTACT FOR PUBLIC INQUIRY

Title	VP of Communications
First Name	Dana
Last Name	Holmes
Email Address	Dana_Holmes@hcsc.net

GENERAL

Business Name	Health Care Service Corporation, a Mutual Legal Reserve Company ("HCSC")
Website	https://www.hcsc.com/
Ownership Type	Corporation
Tax Status	For-profit
Federal Tax ID	36-1236610
Description of Submitting Organization	Please see the attached "Section 3_HCSC_Description of Submitting Organization."
Health Care Provider	No
For Payers: Enrollees per zip code	HCSC itself does not have any California enrollees, but its subsidiary entities (HISC, Luminare, and Dearborn) have the enrollees identified in the table attached as "Section 3_HCSC_Enrollees Per County (Confidential)." The counties identified in the attached table are reflected in the response to Section 4's prompt requesting "[c]ounty(ies) in California currently served by Submitter." Please note that Dearborn does not track where individual employees live, and the numbers represent the number of employees for which their groups have their situs in California.

LOCATIONS

Counties	Alameda; Amador; Butte; Calaveras; Colusa; Contra Costa; Del Norte; El Dorado; Fresno; Glenn; Humboldt; Imperial; Inyo; Kern; Kings; Lake; Lassen; Los Angeles; Madera; Marin; Mariposa; Mendocino; Merced; Modoc; Mono; Monterey; Napa; Nevada; Orange; Placer; Plumas; Riverside; Sacramento; San Benito; San Bernardino; San Diego; San Francisco; San Joaquin; San Luis Obispo; San Mateo; Santa Barbara; Santa Clara; Santa Cruz; Shasta; Sierra; Siskiyou; Solano; Sonoma; Stanislaus; Sutter; Tehama; Trinity; Tulare; Tuolumne; Ventura; Yolo; Yuba
California licenses and numbers	1) Dearborn Life Insurance Company – health and life insurance company certificate of authority issued by the Department of Insurance ("DOI") 2) GHS General Insurance Agency, Inc. – insurance producer licensed issued by the DOI (under name "GHS Insurance Agency") 3) Luminare Health Benefits, Inc. (f/k/a Trustmark Health Benefits, Inc.) – insurance producer license issued by the DOI 4) HCSC Insurance Services Company (d/b/a HCSC Health and Life Insurance Company) – health and life insurance company license issued by the DOI
Other States Served	AK; AR; AZ; CO; CT; DC; DE; FL; GA; ID; IL; IN; KY; MA; MD; ME; MI; MN; MO; MT; NE; NJ; NM; OH; OK; OR; PA; SC; TX; UT; VA; WI; WV
Other state(s) licenses and numbers	HCSC holds a health insurer certificate of authority in the following states: Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, New Jersey, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Utah, Virginia, West Virginia, and Wisconsin.
Primary Languages used when providing services	English

Other Languages	N/A

MATERIAL CHANGE

ADDITIONAL ENTITIES

Business Name	Description of the Organization	Ownership Type	Additional MCN Submission
The Cigna Group	See MCN Number 2024-07-10-1185.	Corporation	Yes

CRITERIA

A health care entity with annual revenue, as defined in *section 97435(d)*, of at least $10 million or that owns or controls California assets of at least $10 million and is a party to a transaction with any health care entity satisfying subsection (b)(1), or	Yes

CIRCUMSTANCES FOR FILING

The proposed fair market value of the transaction is $25 million or more and the transaction concerns the provision of health care services.	Yes
The transaction is more likely than not to increase annual California-derived revenue of any health care entity that is a party to the transaction by either $10 million or more or 20% or more of annual California-derived revenue at normal or stabilized levels of utilization or operation.	Yes

TRANSACTION DETAILS

Anticipated Date of Transaction Closure	1/1/2025
Description of Transaction	Please see the attached "Section 6_HCSC_ Description of Transaction."
Submitted to US Department of Justice or Federal Trade Commission?	Yes
Date of Submission	2/13/2024
Subject to court proceeding	No
Description of current services provided and expected post-transaction impacts on health care services	HCSC has no California business. Post-closing, it intends to operate the acquired business in California in the same manner as Cigna currently operates the business today.
Prior mergers or acquisitions that: (A) involved the same or related health care services; (B) involved at least one of the entities, or their parents, subsidiaries, predecessors, or successors, in the	1) On October 5, 2022, HCSC purchased one hundred percent (100.00%) of the shares of Trustmark Health Benefits, Inc. (now renamed Luminare Health Benefits, Inc.) (Luminare) for $402,482,737. Luminare is a third-party administrator of health benefits that

proposed transaction; and (C) were closed in the last ten years.	designs and offers custom plans for self-funded customers that help manage costs through innovative solutions, data transparency and member-centric support. Luminare does business in California. 2) On October 2, 2017, Medecision, Inc. (a wholly-owned subsidiary of HCSC) acquired CMH Technology Subsidiary, LLC (CMH) for a purchase price of $35,000,000. CMH was formed by the seller to hold AxisPoint Health's care management business, including the clients that use CCMS and VITAL (recently rebranded as AXIS). AxisPoint Health's services businesses, including CarePoint, GuidePoint, and Analytix, were not included in this transaction and remain under management by AxisPoint Health. CMH does business in Texas.
Description of Potential Post Transaction Changes	Except for the changes reflected in the post-transaction organizational chart submitted with this filing, HCSC does not plan to change the governance or operational structure of the transferred entities. Although there are no specific plans to replace individual management personnel post-transaction, HCSC will continue to evaluate management personnel and reporting, making decisions that it believes will benefit the transferred entities and HCSC. There will be no changes to HCSC's job security, retraining policies, wages, benefits, working conditions, and/or employment protections post-transaction. Neither The Cigna Group, the parties to the Share Purchase Agreement, Cigna Holdings, Inc. and Medco Health Solutions, Inc., nor HCSC have contracts with California cities or counties. Post-closing, HCSC intends to operate the acquired business in California in the same manner as Cigna operates it today.
Description of the nature, scope, and dates of any pending or planned material changes occurring between the Submitter and any other entity, within the 12 months following the date of the notice	N/A

Section 3_HCSC_Description of Submitting Organization

HCSC is the largest customer-owned health insurer in the United States, providing group and individual indemnity health insurance and managed health care products such as health maintenance organizations, participating provider/preferred provider options, point-of-service plans, and consumer-driven health plans. In addition, HCSC also sells other products such as Medicare supplemental coverage, Medicaid, standalone Medicare Part D, Medicare Advantage and Prescription Drug insurance coverage, Medicare/Medicaid dual eligible, managed behavioral health, prescription drug, vision coverages, and ambulatory surgery center coverage. As an independent licensee of the Blue Cross Blue Shield Association, HCSC underwrites and administers medical and dental insurance business through its operating divisions in the states of Illinois, Montana, New Mexico, Oklahoma, and Texas, as Blue Cross and Blue Shield of Illinois, Blue Cross and Blue Shield of Montana, Blue Cross and Blue Shield of New Mexico, Blue Cross and Blue Shield of Oklahoma, and Blue Cross and Blue Shield of Texas, respectively.

HCSC is not licensed in California and does not actively transact business in California. However, the following HCSC affiliates are licensed by the California Department of Insurance (DOI) and have 53,256 enrollees residing in California: Dearborn Life Insurance Company (health and life insurance company); GHS General Insurance Agency, Inc. (d/b/a GHS Insurance Agency) (insurance producer); Luminare Health Benefits, Inc. (f/k/a Trustmark Health Benefits, Inc. (insurance producer); and HCSC Insurance Services Company (d/b/a HCSC Health and Life Insurance Company) (health and life insurance company).

HCSC's annual California-derived revenue for its affiliates for the three most recent fiscal years is as follows:

2023: $8,341,887 (consisting of $0 in California-derived revenue for GHS General Insurance Agency, $0 in California-derived revenue for HCSC Insurance Services Company, approximately $8,700,000 in California-derived revenue for Luminare Health Benefits, and approximately $2,800,000 in California-derived revenue for Dearborn Life Insurance Company).

2022: $8,341,887 (consisting of $0 in California-derived revenue for GHS General Insurance Agency, $0 in California-derived revenue for HCSC Insurance Services Company, $4,578,779 in California-derived revenue for Luminare Health Benefits, and $3,763,108 in California-derived revenue for Dearborn Life Insurance Company).

2021: $6,879,662 (consisting of $0 in California-derived revenue for GHS General Insurance Agency, $0 in California-derived revenue for HCSC Insurance Services Company, $3,794,371 in California-derived revenue for Luminare Health Benefits, and $3,085,291 in California-derived revenue for Dearborn Life Insurance Company).

Section 6_HCSC_ Description of Transaction

HCSC is submitting this Material Change Transaction Notice ("MCN") in connection with a proposed transaction pursuant to which HCSC will purchase all of the assets relating to The Cigna Group's Medicare Advantage Plan Business, Medicare PDP Business, Supplemental Health Plans Business and CareAllies Business for a purchase price of approximately $3.3 billion, as further described below (the "Proposed Transaction").

The Goals of the Transaction

The Proposed Transaction will facilitate the geographic expansion of HCSC's Medicare Advantage business and improve the overall quality of its products, to the benefit of HCSC's members. It will bring together the local focus and more efficient operations of HCSC with the greater member reach and broader provider network of The Cigna Group's Medicare Advantage business. It will also allow The Cigna Group to focus on its highest impact businesses and more efficiently allocate its resources. The Proposed Transaction will achieve these beneficial results without negatively impacting competition, access, or patient care in California.

Summary of the Terms of the Transaction

The Proposed Transaction will occur pursuant to the terms and conditions of the Share Purchase Agreement, dated January 30, 2024 (the "Share Purchase Agreement"), by and among Cigna Holdings, Inc., a Delaware corporation ("CHI"), and Medco Health Solutions, Inc., a Delaware corporation ("MHSI" and, together with CHI, collectively, "The Cigna Group"), and HCSC. A copy of the Share Purchase Agreement is attached hereto as "Section 11_HCSC_Share Purchase Agreement." The parties desire to close the Proposed Transaction on January 1, 2025, or as soon thereafter as possible, subject to the making of required filings and notices with, and the receipt of required approvals from, governmental and regulatory authorities, and the satisfaction of other customary closing conditions.

Pursuant to the terms and conditions of the Share Purchase Agreement, HCSC intends to acquire the respective right, title and interest to all assets relating to The Cigna Group's Medicare Advantage Plan Business, Medicare PDP Business, and Supplemental Health Plans Business (collectively, the "Medicare Business") and CareAllies Business. HCSC has provided an abbreviated organizational chart attached hereto as "Section 11_HCSC_Post-Closing Organizational Chart" showing the legal entities being sold as part of the Proposed Transaction (collectively, the "Transferred Entities"). In addition to the Transferred Entities, HCSC will acquire other assets of The Cigna Group and its affiliates relating to the Medicare Business, including intellectual property, IT Assets, and books and records.

Some of the business that HCSC is acquiring currently exists in The Cigna Group subsidiaries that HCSC is not acquiring. Therefore, to facilitate the Proposed Transaction, and pursuant to Section 2.11(a) of the Share Purchase Agreement, prior to the closing of the Proposed Transaction, and subject to the receipt of regulatory approvals, The Cigna Group will move all purchased lines of business that currently exist in non-Transferred Entities into the Transferred Entities (the "Reorganization Plan"). With respect to the purchased lines of business in California, pursuant to the Reorganization Plan, (a) subject to receiving policyholder consents, The Cigna Group will move the Medicare Supplement (Individual) California business that currently exists in Cigna Health and Life Insurance Company, a Connecticut-domiciled stock insurer ("CHLIC"), into Medco Containment Life Insurance Company ("MCLIC"), which is one of the Transferred Entities, and (b) effective January 1, 2024, The Cigna Group moved the Medicare Part D (Stand-Alone) – Individual and Group business that existed in CHLIC to MCLIC. No other changes to the California business of the Licensed Insurers are contemplated as part of the Reorganization Plan.

In accordance with Section 2.2 of the Share Purchase Agreement, the aggregate purchase price payable by HCSC or its affiliate assignee to consummate the Proposed Transaction will be an amount equal to $3.3 billion, subject to certain adjustment amounts as described in Section 2.9 of the Share Purchase Agreement (the "Purchase Price"). HCSC has sufficient assets to pay the Purchase Price in cash at closing, and there is no financing contingency in the Share Purchase Agreement. While HCSC does not require financing to pay the Purchase Price, HCSC recently decided to proceed with a private bond offering (the "Offering"), which closed on June 10, 2024, at a total face value of $2.5 billion. The Offering will enhance HCSC's overall financial position, and its proceeds will be used to support HCSC's operations and growth, including the Proposed Transaction. HCSC will be the sole obligated party under any debt issued through the Offering. Accordingly, none of HCSC's current or future subsidiaries (including the Licensed Insurers) will be guarantors or otherwise legally obligated to repay any debt issued in the Offering.

In connection with the Proposed Transaction, HCSC will enter into certain other agreements with The Cigna Group and its affiliates. These include:

- A Transition Services Agreement, whereby The Cigna Group will provide, or cause its third-party service providers to provide, certain services to HCSC, its affiliates and the Transferred Entities, to facilitate the transfer of the Medicare Business to, and integration with, HCSC's and its affiliates' operations.
- A Pharmacy Benefits Management Services Agreement with Express Scripts, Inc. ("ESI"), an affiliate of The Cigna Group, whereby ESI will provide pharmacy benefits management services to HCSC and its affiliates (including the Transferred Entities) with respect to the Medicare Business.
- An Administrative Services Agreement whereby, in connection with the reinsurance to MCLIC of certain Medicare Supplement insurance policies issued by CHLIC, MCLIC will provide administrative services with respect to such policies.
- One or more Business Associate Agreements relating to services provided under the Transition Services Agreement and Administrative Services Agreement.

Statement of Why the Transaction is Necessary or Desirable

HCSC's greater investment in and attention to the purchased Medicare business will benefit the Medicare beneficiaries served by this business today. In tandem, the Proposed Transaction will position the purchased Medicare business for growth as it continues to serve the needs of its customers as part of HCSC. The Proposed Transaction will enable The Cigna Group to sharpen its focus on its highest impact businesses and drive greater investments in other areas. The Cigna Group's existing Medicare business requires sustained investment, focus and dedicated resources disproportionate to its size within The Cigna Group's broader portfolio in order to grow, compete and serve the needs of the market.

Additionally, the Proposed Transaction provides HCSC, a customer-owned mutual health insurer, with an immediate national presence, expanding its Medicare Advantage business from 5 to 30 states (including DC). With its new Medicare presence outside of its five core states, HCSC will have the ability to offer commercial products more easily in these states, creating additional competition. This expanded and more diverse revenue base will support investments in infrastructure and capabilities.

General Public Impact or Benefits of the Transaction, Including Quality and Equity Measures and Impacts

HCSC's on-going focus on expanding access to quality, affordable care for people throughout all stages of their lives will be enhanced by its geographic expansion in the growing Medicare market segment. The Proposed Transaction will enhance the availability of insurance for Medicare beneficiaries by allowing HCSC better to compete in multiple Medicare products.

The overarching rationale for the Proposed Transaction is for HCSC to expand its national footprint in Medicare Advantage, Medicare Part D, and Medicare Supplement lines of business, allowing HCSC to better compete with the groups that currently have significant enrollment in such products nationally. The Proposed Transaction will yield substantial efficiencies by allowing HCSC to deploy human resources and capital to the combined Medicare business, lowering the Medicare business's historically high aggregate administrative costs (The Cigna Group has historically spent a larger share of its revenue on administrative costs related to marketing, provider contracting, network, and IT systems than HCSC) and allowing HCSC to accelerate and optimize its Medicare-related technology updates (further lowering the administrative costs for the combined Medicare business). The Proposed Transaction will thus bring many opportunities to HCSC and its members over time – including a wider range of product offerings, robust clinical programs, and a larger geographic reach.

Narrative Description of the Expected Competitive Impacts of the Transaction

Because The Cigna Group has a limited presence in the California Medicare market and HCSC has virtually no presence in California, the Proposed Transaction will have almost no impact on market shares for all relevant lines of business, nor will it alter any of HCSC's incentives to offer affordable access to Medicare insurance products to Medicare beneficiaries in California.

There is only overlap in market share between HCSC and The Cigna Group in two markets. In the Life-Ordinary market, HCSC possesses 0.001% of the market and the Acquisition would result in an increase in that market share of 0.002%. In the Deposit-Type Funds – Ordinary market, HCSC possesses 0.26% of the market and the Proposed Transaction would result in an increase in that market share of 0.26%. There are no other markets in which there would be an increase in market share as a result of the Proposed Transaction. Set forth in Exhibit A ("Market Share by Line of Business") attached as "Section 6_HCSC_Exhibit A – Market Share by Line of Business," are the direct written premiums and total market shares for each line of business transacted in California by HCSC and The Cigna Group, respectively, as obtained from S&P Global's CapIQ for 2022 (which is the most recent year for which complete market share data is currently available from this source); specifically, as derived from the Accident and Health Policy Experience Exhibits for The Cigna Group and HCSC.

Additionally, robust competition exists—and continues to increase—in each applicable line of business. Nationally, The Cigna Group's and HCSC's Medicare businesses are dwarfed by other Medicare providers such as UnitedHealthcare, Humana, and Aetna, and numerous other insurance carriers compete in every Medicare product segment. Finally, many of the relevant features of these insurance products—including their benefit design and provider networks, are heavily regulated by the Centers for Medicare & Medicaid Services ("CMS") and by state law.

Therefore, the transaction will not:

- result in a negative impact on availability/accessibility of services or quality of services in California;
- result in a negative impact on costs for payers, purchasers, or consumers in California;
- lessen competition or create a monopoly in the State of California;
- entrench or extend a dominant market position of any health care entity in the transaction in California (including extending market power into related markets through vertical or cost-market mergers); or
- otherwise have any of the effects enumerated as factors relevant to determining whether a cost and market impact review is required.

Description of any Actions or Activities to Mitigate any Potential Adverse Impacts of the Transaction on the Public.

There are no anticipated adverse impacts of the Proposed Transaction on the public. First, given the structure of the Proposed Transaction and HCSC's intention to continue to grow the Medicare business, no beneficiary will lose the current Medicare Part D or Med Supp coverage, as a result of the Proposed Transaction. Post-closing, HCSC will continue to provide and operate the Part D and Med Supp plans currently offered by The Cigna Group. Further, given that, as a provision of the Proposed Transaction, HCSC will contract with ESI, the Pharmacy Benefit Manager ("PBM") currently serving The Cigna Group's Part D Plans, Medicare beneficiaries will not experience changes to their formularies or pharmacy networks as a direct result of the Proposed Transaction. Further, any changes to the Part D plan formularies post-closing will be subject to CMS' regulations.

In fact, as described above, the Proposed Transaction is expected to increase competition in the California Medicare market, lower operational costs, and drive HCSC's investment in technology and infrastructure. The improved efficiencies from the Proposed Transaction are likely to benefit California consumers without impacting market concentration, competition, affordability, or access to care.