PROPOSED ACQUISITION OF CAREPLUS HEALTH PLANS, INC, HUMANA HEALTH INSURANCE COMPANY OF FLORIDA, INC., HUMANA MEDICAL PLAN, INC., AND COMPBENEFITS COMPANY BY AETNA, INC.

PROCEEDINGS: Public Hearing

DATE: Monday, December 7, 2015

TIME: Commenced at 10:00 a.m.
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APPEARANCES:

PANEL MEMBERS:

Rich Robleto, Chair
Alyssa Lathrop, Esquire
Mary Mostoller
Carolyn Morgan
Eric Johnson
Sha'Ron James

Also Present:

Fran Soistman, Aetna
Dr. Thomas McCarthy, NERA
Gregory Martino, Aetna
Joseph Ventura, Humana
Dr. Yolangel "Yogi" Hernandez
Steven Whitmer, Esquire, Locke Lord

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1 PROCEEDINGS

2 **MR. CHAIR:** Good morning, everyone. I am Rich
3 Robleto. I'm the deputy commissioner of life and
4 health insurance for the Office of Insurance
5 Regulation, and I will be presiding at today's
6 public hearing. It has been scheduled to discuss
7 Aetna Incorporated's application for the proposed
8 acquisition of Humana and its affiliates. The
9 hearing today will help all parties understand the
10 implications of the proposed merger between the
11 companies and what is at stake, while also
12 providing a better understanding for consumers of
13 the overall process, and for all of us of the
14 thoughts and comments from the consumers.
15 Let me start by talking about Aetna and Humana
16 in terms of Florida's health insurance market. I
17 warn you, before I get started on that, that the
18 way we summarize the numbers may be a little
19 different from some of the testimony that we will
20 hear regarding the numbers, but they all come out
21 even. We categorized them a little bit
22 differently, but --
23 To start about Aetna, Aetna was the fourth
24 largest writer of accident health insurance
25 coverage in Florida, with more than $3 billion in

1 premium. They have 8 percent of market share based
2 on total premium for all lines of business. They
3 provide comprehensive medical coverage. And, in
4 our case, that would include not just the
5 commercial coverage that you can buy on the
6 exchange or off exchange, but also the Medicare and
7 Medicaid businesses to about 800,000 people. And
8 they have more than a million policies in ancillary
9 lines.
10 Humana, headquartered in Louisville, Kentucky,
11 as of the end of 2014, Humana nationally had about
12 3.8 million members in its medical benefit plans,
13 as well as approximately 7.7 million members in its
14 special products. And, as of December 2014, here
15 in Florida, they were the second largest writer of
16 accident and health insurance coverage in Florida,
17 with more than 7 billion in premium, 19 percent of
18 the Florida market, based on total premium for all
19 of its lines of business. And they provide
20 comprehensive medical coverage to more than
21 1.7 million people and more than 1.3 million
22 policies in ancillary lines.
23 If this acquisition is approved and the two
24 companies merge together, the Office estimates that
25 they would be the largest writer of accident health

1 insurance in the state, with 27 percent market
2 share and more than $10 billion in premium.
3 Aetna's proposed acquisition of Humana and the
4 reason we're holding the public hearing today is
5 that it will have a direct impact on four Florida
6 insurance companies. These include CarePlus Health
7 Plans, Humana Health Insurance Company of Florida,
8 Humana Medical Plan and CompBenefits Company.
9 With this brief overview of the company's
10 presence in the state of Florida health insurance
11 market, let's now proceed to the logistical aspects
12 of today's hearing.
13 For the record, today is Monday, December 7th,
14 2015, and it is approximately 10:00 a.m. If
15 there's any of that you weren't planning on being
16 here on Monday, December 7th at 10:00 a.m., you
17 may now depart. That's the way the professors
18 always did it in college.
19 The public hearing is being conducted in the
20 Jim King Committee Room, which is located in the
21 Senate Office Building of the Capitol in
22 Tallahassee, Florida. It is being streamed live
23 online thanks to the Florida Channel. And a link
24 to the video of the hearing will also be made
25 available on the Office's website, FLOIR.com.

1 Notice of the hearing was published in the
2 Florida Administrative Register on November 20th,
3 2015. And for those in attendance, copies of the
4 agenda are available at the registration table.
5 For those watching live who would like to follow
6 along, the agenda can also be viewed online at the
7 Office's website, again, WWW.FLOIR.com, and
8 selecting the Aetna probably hearing link on the
9 left side menu bar.
10 For members of the public who are interested
11 in providing comments today or -- sorry. For those
12 of you who are not here and would like to submit
13 comments, please do so by sending an email to
14 Aetnahearing -- that's all one word -- at
15 FLOIR.com. And we will certainly accept public
16 comments. We encourage public comments. But we'll
17 accept them until December 17th.
18 We're making a record of this proceeding, so,
19 to help clarify the record, I ask that all
20 speakers, please state your name prior to making
21 comments, and that only one person speaks at a
22 time. And if any members of the audience wish to
23 speak, please complete a public comment request
24 form, which can be found, again, at the
25 registration table. You will be asked to come

1 forward at the appropriate time during the hearing
2 and offered the opportunity to present your
3 comments.
4 Let me introduce the people on the panel
5 today. I would like to start somewhat in the
6 middle, if you don't mind, but we are honored to
7 have Sha'Ron James, Florida's Consumer -- Florida's
8 Insurance Consumer Advocate, representing the
9 Department of Financial Services with us today.
10 And we certainly appreciate her participating in
11 this hearing. Sha'Ron is two people to my left.
12 So, as I said, I started in the middle, but,
13 moving all the way to the left, we have Alyssa
14 Lathrop. She is assistant general counsel for the
15 Florida Office of Insurance Regulation.
16 To my immediate left, I have Eric Johnson.
17 Eric is OIR's chief actuary and director of the
18 life and health product review division.
19 To my right, Mary Mostoller. She's the
20 director of company admissions and business
21 development.
22 Further to my right, Carolyn Morgan, the
23 director of life and health financial oversight.
24 And far to the right, I have Tracy Brown, who
25 is our court reporter today. She will also be

1 doing some swearing in of all of the witnesses in
2 just a few moments.
3 So, with that, I'd like to introduce Steven
4 Whitmer of Locke Lord -- he's outside counsel for
5 Aetna -- to briefly introduce the presenters from
6 Aetna today and any witnesses.
7 **MR. WHITMER:** Thank you, Mr. Robleto and
8 distinguished panel members. And thank you for the
9 opportunity to be here today. I'm going to
10 introduce to you now the five witnesses that you'll
11 hear from today, and I'll introduce them in the
12 order that you're going to hear from them.
13 First, to your right is Mr. Fran Soistman.
14 And he serves as the executive vice-president and
15 head of government services for Aetna.
16 To your left, and the second witness, will be
17 Dr. Yogi Hernandez. To your left is Dr. Yogi
18 Hernandez. She is the vice-president and chief
19 medical officer, care delivery organization for
20 Humana.
21 The third witness you'll hear from today is at
22 the end of the table to your right. This is
23 Dr. Thomas McCarthy. He's an economist and a
24 senior vice-president for NERA Economic Consulting.
25 The fourth witness you'll hear from is on your

1 left at the end of the table, Gregory Martino. And
2 he is the assistant vice-president for state
3 government relations for Aetna.
4 And finally, you'll hear from, on your left in
5 the middle, from Mr. Joseph Ventura, who serves as
6 the associate general counsel and the assistant
7 corporate secretary for Humana.
8 And with that, the first of the witnesses we'd
9 like to call is Mr. Soistman.
10 Mr. Robleto, would you like to do that at this
11 time?
12 **MR. CHAIR:** I think I have a couple more
13 things I need to go through before we do that, if
14 you don't mind.
15 Again, mostly for the record, but the hearing
16 today is being held pursuant to Section 628.4615 of
17 the Florida Statutes, Section 628.461, and Section
18 641.255. They govern the proposed acquisition that
19 is the subject of this hearing. This is a
20 fact-finding hearing. It is not an adversarial
21 hearing in any way. It is an opportunity for Aetna
22 to present its proposals and for affected or other
23 interested parties to provide their input and their
24 feedback.
25 At this time, the Office has not made any

1 decision regarding the application for acquisition
2 and we certainly will not do so today.
3 Sha'Ron, would you like to say anything?
4 **MS. JAMES:** Rich, I'll waive my time. Thank
5 you.
6 **MR. CHAIR:** So now I will reintroduce Tracy
7 Brown, who will be assisting us today by swearing
8 in the witnesses as well as keeping the record.
9 (Witness sworn in.)
10 **MR. CHAIR:** Thank you, Tracy. Thank you all.
11 And now, I will turn the meeting back over to
12 you to begin introducing your witnesses. Thank you
13 very much.
14 **MR. WHITMER:** Thank you, Mr. Robleto. Because
15 the microphone was off the first time, I will take
16 a second opportunity to introduce Mr. Fran
17 Soistman, who serves as the executive
18 vice-president, head of government services, for
19 Aetna.
20 **MR. SOISTMAN:** Thank you, Steve. Good
21 morning. As Steve indicated, my name is Fran
22 Soistman. I am the executive vice-president and
23 head of government services for Aetna. I'd like to
24 thank the Office of Insurance Regulation for the
25 opportunity to present to you the Aetna Humana

1 transaction.

2 While Aetna's headquartered in Connecticut,
3 we're proud to have a very large presence right
4 here in Florida. We have nearly over 5,000
5 dedicated employees that reside within the state,
6 making Florida the state with the third largest
7 number of Aetna employees. These employees are
8 located in offices in Jacksonville, Plantation,
9 Sunrise, Orlando, and Tampa. Aetna's flexible
10 workplace arrangements allow for over 2,000 of
11 these employees to work from home. In addition,
12 Humana has over 10,000 employees in Florida.

13 So let me begin with the rationale for our
14 acquisition. For several years, Aetna has been
15 pursuing a mission of building a healthier world,
16 reshaping the healthcare system to be more
17 consumer-centric in order to give our members as
18 many healthy days as possible.

19 In Humana, we have found the ideal partner to
20 complement and accelerate our efforts, a company
21 with an enterprise goal to improve the health of
22 the communities they serve by 20 percent by 2020.
23 The Aetna acquisition of Humana is about two
24 companies coming together to offer more people a
25 broader choice of higher quality and more

1 affordable health plan options. Our companies are
2 highly complementary, combining Aetna's focus on
3 commercial, group, and specialty products with
4 Humana's concentration on Medicare Advantage.
5 As I will explain in more detail, we believe
6 that individuals will benefit in many ways from
7 this transaction. Most notably, Medicare Advantage
8 enrollees will benefit from the combination of two
9 companies with top rated Medicare plans, as this
10 transaction allows Aetna to offers Humana's high
11 quality care and service model to the rapidly
12 growing Medicare-eligible population.
13 After the acquisition, Aetna will have a
14 product portfolio balanced more evenly between
15 commercial and government products such as Medicare
16 and Medicaid. We'll take the best practices, the
17 best systems, the best capabilities and programs of
18 both companies in order to make us an even stronger
19 and more reliable source of quality affordable
20 products for Florida consumers in the years to
21 come.
22 We're committed to working with the Office of
23 Insurance Regulation through the regulatory
24 approval process. We want to provide you, along
25 with our customers, our provider partners, our

1 associates, and the people of Florida greater
2 insight into this transaction, and to share with
3 you our vision for how, with Humana, we can help
4 more people to lead healthier lives.
5 We believe that the new combined Aetna will
6 bring many advancements to the healthcare markets
7 in Florida, and that robust choice and competition
8 will remain. Our retained economist, Dr. McCarthy,
9 will share his expert perspective on the
10 competitive impacts in Florida.
11 As this transaction is primarily about
12 Medicare, I want to share a few national, in
13 Florida specific perspectives, on how the
14 combination of the two companies impacts Medicare
15 offerings in competition. As you all know, the
16 Medicare population is the fastest growing segment
17 in our country. And, in fact, over 10,000
18 Americans every day age into Medicare eligibility.
19 By 2030, 67 million Americans age 65 and older will
20 be enrolled in Medicare, an increase of more than
21 27 million from 2010.
22 19 percent of Florida's population is eligible
23 for Medicare, which is the highest percentage of
24 the country, and continues to grow each year.
25 Today there are nearly 3.7 million Medicare

1 beneficiaries in Florida, second only to
2 California, with over 5 million. Merging with
3 Humana gives Aetna the opportunity to extend its
4 existing capabilities to serve more Medicare
5 members and provide a richer array of highly
6 effective capabilities.
7 So a little more about the transaction itself.
8 I'd like to take a couple minutes to briefly review
9 the business terms of the transaction to provide a
10 sense of how the new combined company will be
11 organized, and also provide an update on our work
12 to date to secure state and federal regulatory
13 approvals.
14 Under the terms of the transaction, each of
15 Humana's insurers, HMOs, and other companies will
16 become a direct wholly-owned subsidiary of Aetna.
17 Mark Bertolini, the CEO, will remain the CEO of the
18 new combined entity. Aetna's board of directors
19 will be expanded to include four of the current
20 Humana board members to be determined.
21 On October 19th of this year, shareholders
22 of both Aetna and Humana approved the transaction.
23 And last, we're currently working with the states
24 and the Department of Justice on the approval of
25 this transaction, which we anticipate to occur in

1 the second half of 2016. So we have many
2 constituents that are very interested about this
3 transaction. And I'd like to cover each of those
4 and start with our consumers.
5 You're here because you want insurance to
6 work. And we want it to work as well. We
7 collectively want the best possible outcomes for
8 our customers. This transaction will benefit
9 consumers by accelerating improvements to quality
10 and patient outcomes, simplifying the healthcare
11 experience, improving access and engagement,
12 increasing healthy days, and developing technology
13 innovations to help make healthcare more
14 affordable.
15 Today the market competes on price and choice
16 of doctors, and that won't change. But to create
17 greater consumer value, we believe we need to
18 better engage our members, simplify their
19 experience, and increase the number of healthy
20 days.
21 With this transaction, we expect to achieve
22 1.25 billion in cost savings in 2018, and recurring
23 savings thereafter by becoming more efficient. We
24 intend to have a significant portion of these
25 savings flow back to consumers through medical and

1 pharmacy coverage that remains affordable with
2 lower out-of-pocket costs and better health
3 outcomes. Consumers will see overall costs and a
4 simpler experience than they would otherwise.
5 These savings will improve consumers'
6 experience and options in ways beyond increasing
7 coverage options and improving long-term
8 affordability. We also intend to invest these
9 savings to improve the quality and effectiveness of
10 the services we offer to consumers. We will build
11 upon the important programs both companies have in
12 place today in Florida, to provide a richer
13 consumer experience with programs and services that
14 truly help people experience healthier days.
15 For many years, the Centers for Disease
16 Control have consistently measured the number of
17 healthy and unhealthy days Americans have. The
18 simple survey asks people how many physical and
19 mentally healthy days they've had in a month. Both
20 companies see healthy days as a valid measure of
21 individual and community health improvement. Aetna
22 and Humana are committed to offer products and
23 services that will help our members improve the
24 number of healthy days they can enjoy each year.
25 For example, Aetna partners with a program

1 called Medical Doctor House Calls, which provides
2 home-based physician or nurse practitioner medical
3 services to Medicare Advantage patients in many
4 counties in Florida. The program provides 24-7
5 access to home-based care for patients who do not
6 have an established relationship with a primary
7 care provider.
8 Since we started the program, Medical Doctor
9 House Calls has made approximately 2,000 home
10 visits, averaging around 50 to 60 visits per month.
11 The program has been very successful and has found
12 primary care doctors for approximately 85 percent
13 of the patients it serves. For the other roughly
14 15 percent, Medical Doctor House Calls becomes the
15 patient's permanent primary care provider. Now,
16 it's our objective that 100 percent of our members
17 have an established primary care physician
18 relationship to help coordinate care and navigate
19 the healthcare system.
20 Another example I'd like to feature comes from
21 Humana. Humana helps increase members' healthy
22 days through the Humana At Home Program. Through
23 this program, Humana supports members, care
24 managers who connect with them personally in their
25 homes to develop a more holistic approach to their

1 health. This approach has helped nearly 345,000
2 Humana chronic care program members stay out of the
3 hospital across the country, and a large number of
4 these are in the State of Florida. These
5 individuals were also 42 percent less likely to be
6 readmitted to the hospital within 30 days than
7 nonmembers. That's an extraordinary
8 accomplishment.
9 While clinical services play an important role
10 in this individualized holistic approach, Humana
11 also addresses the social determinants of care by
12 arranging to deploy ramps and hold bars into
13 members' homes, provide transportation for these
14 members to see their physicians, ensure they have
15 food in their homes, and have access to needed
16 financial assistance. The physician community
17 doesn't have the capacity to do these. And the
18 health insurance industry has stepped in to fill
19 these needs. And this is what's keeping people
20 from slipping through the cracks, and it's making a
21 difference.
22 You can see the results of these efforts
23 reflected in both Aetna and Humana's Medicare Star
24 ratings. Medicare uses a Star Rating System to
25 measure how well Medicare Advantage and

1 prescription drug plans perform. This is
2 established by CMS. It scores how well plans
3 perform in several different categories, including
4 quality of care, HTAS, prescription safety,
5 operations, and surveys measuring satisfaction with
6 their providers in their health plan. Ratings
7 range from one to five stars, with five being the
8 highest and one being the lowest. The overall Star
9 rating scores provides a way to compare performance
10 among several plans. The two companies are number
11 one and number two in Star ratings among publicly
12 traded companies in the nation, and 85 percent of
13 Aetna's Medicare Advantage members are in plans
14 with a four or higher Star rating.
15 Let's talk about our providers, important
16 partners to make this whole system work well. We
17 know doctors want to care for patients to help them
18 stay well or get better, not spend time on
19 paperwork and administrative bureaucracy. We're
20 committed to a new value base system where we work
21 collectively with hospitals and physicians to align
22 incentives and reward the overall health of the
23 individual. Many providers support these efforts.
24 We believe that, by coming together, we can grow
25 our partnership with providers and improve care.

1 I'd like to share a few examples that
2 illustrate how Aetna and Humana have already had
3 success with provider partnerships and clinical
4 programs that resulted in improved health outcomes
5 right here in Florida.
6 Aetna and the Catholic Health Services in
7 Miami-Dade and Broward counties have a care
8 transition program where we work together to
9 provide physician services, pharmacy reconciliation
10 services, personal health records, coaching,
11 transportation, and meals to keep people from
12 returning to the hospital after discharge. We've
13 had excellent results from this partnership, with a
14 readmission rate decrease of 65 percent for the
15 target population.
16 On the Humana side, it's my privilege to
17 introduce one of Humana's Florida-based clinical
18 leaders, Dr. Hernandez, to share some of her
19 perspective unique to this state from the
20 experience a physician leads their care delivery
21 organization, an organization that includes 56
22 Humana-owned clinics right here in Florida.
23 Dr. Hernandez.
24 **DR. HERNANDEZ:** Thank you, Mr. Soistman. Good
25 morning.

1 I am Yogi Hernandez, and I serve as Humana's
2 chief medical officer and vice-president of our
3 care delivery organization, overseeing all of the
4 wholly-owned clinics. As a long-time south
5 Floridian, I wanted to highlight the benefits I see
6 to physicians and providers from being a part of
7 Humana's integrated care delivery approach, and
8 also share a story of how we worked in partnership
9 with physicians to enhance outcomes and care and
10 ultimately improve individuals' healthcare
11 experiences.
12 Humana has unique experience partnering
13 directly with primary care physicians in the 56
14 clinics we own and operate in Florida, as well as
15 partnering with community physicians across our
16 state. These innovative, integrated care centers
17 combine medical care and related services that
18 address the social determinants of health that
19 propose barriers to improved health outcomes.
20 These clinics largely serve low income seniors
21 living with multiple chronic conditions in largely
22 medically underserved neighborhoods.
23 For example, for over 50 years Humana CAC
24 medical centers, known originally as *Clínica
25 Asociación Cubana*, have served Miami-Dade's

1 Hispanic community, using an all-in-one approach to
2 healthcare delivery that is based on an
3 all-under-one-roof model that's widely practiced in
4 Latin America. The CAC multi specialty centers in
5 Miami neighborhoods like Little Havana and
6 Westchester are designed to provide a sense of
7 community as well as a convenient treatment setting
8 for health conditions.
9 As one of our clinic provider engagement
10 leaders said, every day when I come to work, I have
11 a great opportunity to reshape the healthcare
12 system and help our frontline physicians, the real
13 rock stars, deliver the best possible care in the
14 most effective manner. It's really fascinating and
15 meaningful work.
16 And our patients agree. As described by
17 Melinda, a CAC patient for almost 15 years, the
18 doctors are very empathetic, very professional.
19 They treat you with so much patience. The
20 employees give you so much attention. So much
21 attention. But that is what makes one feel so
22 good.
23 Beyond anecdotes, the research supports that
24 there are tangible benefits of this model. I'm
25 proud to share that the patients seen at our

1 centers have a 5 percent lower rate of inpatient
2 admission compared to others in the same market,
3 higher HTAS scores for preventive screenings, and a
4 world class customer satisfaction rate.
5 Thank you.
6 **MR. SOISTMAN:** Thank you, Dr. Hernandez.
7 There are lessons to be shared from this type
8 of clinical engagement and consumer experience. As
9 Humana combines with Aetna to enhance the clinical
10 and healthcare experience, we will continue to
11 focus on achieving our goal of building a healthier
12 world.
13 Employers. By bringing our insights and
14 solutions together, Aetna and Humana will be able
15 to offer employers new solutions to lower costs and
16 enhance the health and wellness of employees and
17 their families. This will help employers improve
18 the costs and value of their benefit programs as
19 well as their ability to attract and retain top
20 talent.
21 For example, we recently partnered with our
22 customer, the Broward County Sheriff's Office, to
23 build an employer-specific primary care clinic to
24 increase access to affordable quality health
25 services for their employees and their families.

1 Our partnership with providers are bringing
2 new products to the market for employers and their
3 employees. Aetna's been able to offer
4 employer-based products that have premiums that are
5 3 to 5 percent below the competition by offering
6 plans and partnership with leading provider systems
7 around the country. The combination of Aetna and
8 Humana will allow us to offer a broader choice of
9 more affordable, higher quality products to
10 employers.
11 Florida has maintained a healthy competitive
12 market for health plans across all lines of
13 business. Robust choice of coverage and health
14 plans exist across all programs, in particular
15 within the Medicare and the health insurance
16 exchange. As Dr. McCarthy will testify, the
17 exchange market is very competitive and fluid, with
18 eight insurers offering coverage in 2016.
19 The Medicare market is also very competitive.
20 Today, at least 6 Medicare Advantage plans are
21 available in all 67 of Florida's counties. Florida
22 Medicare beneficiaries have an average of 26
23 Medicare Advantage private options from which to
24 choose, with 22 different Medicare Advantage
25 organizations offering plans throughout the state.

1 Today, Aetna has approximately 98,000 Medicare
2 Advantage enrollees in Florida, and Humana has
3 almost 590,000.
4 Robust choice and competition exists across
5 the Medicare program today and will be enhanced by
6 our transaction. Aetna's combination with Humana
7 will enhance these choices, promoting choice and
8 competition for Floridians.
9 Florida is vitally important for Aetna and
10 Humana. As I mentioned earlier, Aetna has 5,000
11 employees in Florida, and Humana has over 10,000
12 employees, including its own clinic personnel, in
13 the state. We plan to base our Medicare and
14 Medicaid and federal employee health benefit
15 program business in Louisville, Kentucky. But
16 outside of that, no specific decisions have been
17 made regarding employment in local geographies.
18 While there's always some dislocation, we see
19 this transaction as helping our company grow in
20 value, which over time will expand employment. I
21 would also add that healthcare is local. It will
22 always have a strong presence in the states where
23 we are privileged to serve its citizens.
24 Aetna has made strong commitments across its
25 employee base, voluntarily raising our minimum wage

1 and subsidizing our healthcare benefits for
2 employees whose household income is less than
3 300 percent of the federal poverty level. As part
4 of this transaction, these benefits will be
5 extended to a similar group of 10,000 Humana
6 employees here in Florida, and remaining 40,000
7 plus across the nation.
8 How do we fulfill our corporate social
9 responsibility here and throughout the nation?
10 Right here in Florida, Humana and Aetna have made a
11 significant commitment to improving the health and
12 wellbeing of Floridians through our respective
13 foundations, our corporate giving and employee
14 volunteerism.
15 You can see from this slide that together
16 Aetna and Humana have donated millions of dollars
17 and hundreds of thousands of volunteer hours to
18 important programs and causes. This is a
19 commitment that we stand behind today, tomorrow,
20 and well beyond when this transaction is approved.
21 In closing, mergers and acquisitions are not
22 just about achieving greater efficiencies and
23 business goals. Both Aetna and Humana share a
24 common culture focused on improving health, not
25 just selling products. Aetna's acquisition of

1 Humana is about creating positive change in the
2 healthcare market. It's about being a part of an
3 effort to build a 21st century healthcare system
4 built around engaging the consumer and increasing
5 the number of healthy days, and by partnering with
6 hospitals, physicians, and other providers to
7 improve health outcomes. We believe our
8 acquisition will enhance the healthcare market by
9 providing more consumer access to more affordable
10 and higher quality products.
11 Thank you again for the opportunity to testify
12 today, and I look forward to your questions.
13 **MR. CHAIR:** Thank you very much. I believe
14 that we would like -- unless anybody has any
15 specific questions right now, perhaps that we would
16 hold questions until the various presenters --
17 Does anybody have anything right now?
18 **MR. SOISTMAN:** Okay. Very good. I'll turn it
19 back over to Mr. Whitmer. Thank you.
20 **MR. WHITMER:** Thank you, Mr. Soistman.
21 The next witness we'd like to present is
22 Dr. Thomas McCarthy.
23 EXAMINATION
24 **BY MR. WHITMER:**
25 **Q** Dr. McCarthy, could you go ahead and start by

1 providing us with your title?

2 **A** Yes. I am a senior vice-president with NERA

3 Economic Consulting. And I'm also the head of our

4 healthcare practice around the world.

5 **Q** What is NERA?

6 **A** NERA is -- Economic Consulting implies a firm of

7 economists. We're virtually all economists. Probably 400

8 economists in about 27 offices around the world. We look

9 at economic analysis for various reasons: Competition

10 policy, public policy, litigation, finance, strategy, those

11 sorts of things, but what holds all of those practices

12 together is an analysis of economic data.

13 **Q** And approximately how long have you been with

14 NERA?

15 **A** 32 years.

16 **Q** I'd like to talk a little bit about your

17 education. Where'd you go to college?

18 **A** I went to a small school in Worcester,

19 Massachusetts named Assumption College, and got a BA in

20 economics from Assumption College. I then went on to the

21 University of Maryland, got a master's and a Ph.D. in

22 economics, and I wrote my dissertation on a health

23 economics subject.

24 **Q** And you've also had some college teaching

25 positions. Could you tell us about those?

1 **A** Yes. While I was finishing my dissertation, I
2 taught at the University of Maryland. I was an instructor
3 and taught a variety of courses. When I got my Ph.D., I
4 then taught at a school called Oakland University in
5 Michigan. And there I taught a number of subjects to
6 undergraduates and to MBA students, including health
7 economics.
8 **Q** I'd like to talk a bit about your professional
9 background. Could you go ahead and start with your work at
10 the Federal Trade Commission?
11 **A** Yes. I worked for the Federal Trade Commission
12 for a while in a division called the Division of Regulatory
13 Analysis. And the purpose of that division was to look at
14 regulations before they passed to see whether they would
15 have positive economic effects in a cost benefits sense or
16 positive economic effects in terms of competition.
17 And I focused mainly on certificate of need
18 loss, home health reimbursement. And the first project
19 I had there was to evaluate something which is now
20 routine, which is the DRG system that hospitals use for
21 reimbursement. But back in early '80s, that was new.
22 And I worked on that project.
23 **Q** What other health plan mergers have you worked on
24 other than the one we're talking about here today?
25 **A** I've worked on several. I'll run through a quick

1 list. All of these had to do with the antitrust review and
2 antitrust analysis. Cigna/Health Spring, that merger.
3 United healthcare/Pacific Care. Blue Cross of Michigan
4 bought a company called MCare, which was the provider
5 sponsored plan for the University of Michigan.
6 Aetna/Prudential, one of the signal events in analyzing
7 health plan mergers. Aetna/Coventry. Blue Cross Blue
8 Shield of New Mexico's recent purchase of the Loveless
9 Health Plan, mostly in the Albuquerque area. Cigna/Great
10 West.
11 And then there's a company called healthcare
12 Services Corporation, HCSC, which is actually an owner
13 of five not-for-profit Blue Cross Blue Shield plans
14 around the country, and I helped them with their
15 acquisition of -- their fifth that they added, which was
16 Montana. The Blue Cross plan in Montana is now owned by
17 HCSC.
18 **Q** Now, Dr. McCarthy, you are also co-editor of a
19 book. Could you tell us a bit about that?
20 **A** Yes. That's called *Financing healthcare*. It
21 actually was about healthcare reform around the world.
22 Financing healthcare is, I think you would guess, has
23 something to do with insurance and how we actually bear
24 that risk. So this had to do with comparisons around the
25 world.

1 **Q** I'd like to talk a bit about your prior testimony
2 in other proceedings. First of all, have you had the
3 opportunity to testify before before state departments of
4 insurance?
5 **A** Yes, I have.
6 **Q** Tell us a bit about that.
7 **A** Well, for the Florida Office of Insurance
8 Regulation, for the Aetna/Coventry transaction, I didn't
9 appear in person, but I submitted two written affidavits
10 for that transaction to this body. But also I've appeared
11 in person in a number of other departments of insurance.
12 These include Alaska, Colorado, Delaware, Montana, New
13 Jersey, twice in new Mexico, and once in Washington state.
14 **Q** Now, you've also appeared previously before the
15 Department of Justice and the Federal Trade Commission.
16 Can you tell us about that?
17 **A** In 2003, they held hearings about how to -- it
18 was called a dose of competition in healthcare, how
19 competition relates to healthcare. I spoke at three of
20 those sessions, testified at three of those sessions for
21 those hearings.
22 **Q** And finally, you've also testified before state
23 and federal courts. What can you tell me about that?
24 **A** Yes, I have. In mainly their healthcare
25 antitrust cases, sometimes patent cases or damages

1 analyses, but that's serving as an expert witness in the
2 court setting.
3 **Q** And moving on to this transaction, what was your
4 assignment for this matter?
5 **A** Well, I was asked to evaluate whether, in terms
6 of the NAIC guidelines, whether a merger of Aetna and
7 Humana was likely to lead to lessened competition or tend
8 to create a monopoly in any line of business in the state
9 of Florida, that is to evaluate the competitive effects.
10 Our shorthand would be the competitive effects of the
11 merger.
12 **Q** I'd like to walk through with you the process you
13 undertook for your analysis. But let's start with the
14 information you reviewed. Could you just describe that for
15 us?
16 **A** Well, as you'll see in a few moments, we're going
17 to look at a lot of shared data. So we looked at premium
18 data, we looked at enrollment data. And those enrollment
19 data come from a number of different sources, the parties
20 themselves, the OIR's research division. The medicare data
21 are principally from the centers for Medicare and Medicaid
22 services, which is CMS, federal government. And there's
23 also another database that we use, and you'll see, from the
24 InterStudy database. That's a company that collects data
25 around the country, all the states, tries to categorize all

1 of the various services that those insurers provide.
2 **Q** Now, as part of this process, did you also have
3 the opportunity to conduct certain interviews?
4 **A** I did. We talked to -- at both the national and
5 the Florida operational level, we talked to Humana
6 management and Aetna management to make sure we understood
7 what was going on in the markets.
8 **Q** Was the information that you reviewed and the
9 interviews you conducted, was that collectively sufficient
10 from your viewpoint to conduct the analysis you're
11 presenting here today?
12 **A** Yes. I definitely think we cast a wide enough
13 net to understand what's going on in Florida.
14 **Q** Now, before we get to the details, let's start
15 with your overall conclusion.
16 **A** I find that the transaction is not likely to
17 lessen competition or tend to create a monopoly in any line
18 of business, health insurance business in the State of
19 Florida.
20 **Q** Now, Dr. McCarthy, I understand that this
21 conclusion is based on four specific facts. Let's take
22 each of those four in turn.
23 Now, the first key fact that you've identified
24 is that Aetna and Humana have complementary strengths.
25 Could you explain that to us?

1 **A** Yes. And I think you just heard a very complete
2 rendition of that from Mr. Soistman. But the principal
3 complementary is between Aetna as a commercial,
4 particularly large group national account, strong company,
5 and Humana, which is very strong and very able on the
6 Medicare product side. So, what you heard is putting these
7 two together gives you a very balanced portfolio for the
8 merged entity.
9 **Q** Now, the second key fact you've identified is
10 that the proposed transaction will lower costs and provide
11 greater competitive opportunities for both companies.
12 Could you also explain that point for us?
13 **A** Right. Again, I think this was covered in the
14 first presentation. I looked particularly at the
15 efficiencies that will come out of this new organization
16 and the 1.25 billion in annual savings by the year 2018.
17 And I think, to put my role in the context of that number,
18 it is to say that I'm going to describe the competition is
19 sufficient and forceful enough in the State of Florida to
20 make sure those cost savings are passed on to effectively
21 keep price down and keep quality up.
22 **Q** Moving on to the third key fact that you've
23 identified, that's that post-merger shares for the relevant
24 products will generally remain below a 30 percent
25 threshold, I understand that you took a three-step process

1 and three-step approach to that particular answer. Could
2 you go ahead and explain to us the first of the three
3 steps?
4 **A** Yeah. Much like the NAIC model law, there are
5 thresholds in those guidelines that, if the share for a
6 particular line of business is below that threshold, it's
7 considered a safe harbor. So that's step one. When you
8 look at a particular line of business, is it below that
9 safe harbor.
10 If on the other hand it is above the number,
11 particularly in the NAIC guidelines, then you have to
12 look a little further. You have to look and say are
13 there other factors and other conventions in a
14 particular industry for a particular review. In this
15 case, an antirust review. And that's where the
16 30 percent comes from. In my experience in all of these
17 merger reviews, there's never a magic number, but
18 there's a threshold that you approach of about
19 30 percent share where it acts as if it's almost a safe
20 harbor. It's not literally a safe harbor, it's just the
21 discussion changes are above 30 percent, where you need
22 to look a little more deeply at what's going on to make
23 sure competition will be preserved. So that's the
24 second step in establishing that 30 percent.
25 And then the third step is if it is above this

1 30 percent threshold, that's the convention, then
2 there's a deeper analysis that has to be undertaken,
3 again, to look at other aspects in the market.
4 **Q** And when courts generally are looking at monopoly
5 power, is there any factors that they're looking at or
6 percentages that they consider?
7 **A** Well, in the end what you care about is monopoly
8 power, will something advance to the point of monopoly
9 power. And courts never consider monopoly power to exist
10 unless the share's at least 50 percent.
11 **Q** So that takes us to your fourth key fact,
12 Dr. McCarthy, and that's that additional factors further
13 establish why this transaction does not present any
14 competitive concerns. What are those additional factors?
15 **A** We're going to talk a bit about them in a context
16 of a particular product line. But you look at basically
17 three things, sort of categories of analysis. One would be
18 to look at shares. That is, what are current competitors
19 doing in the market now that gives you an idea. We know
20 that a current competitor would want to steal business from
21 Aetna, would want to steal business from Humana. So we
22 just look at what's going on now. That's pretty much the
23 share analysis.
24 But then we also consider opportunities for
25 expansion. That is, people -- players who are in the

1 market can expand geographically, they can expand to a
2 new product line, they can expand by changing their
3 network strategy, their provider network strategy.
4 There are adjustments that exist that players in the
5 market can make to compete more effectively. That would
6 be the second opportunity to expand.
7 Then the third would be opportunities for
8 entry. And there's sometimes a blurry line between
9 expansion and entry, but the idea would be new players
10 who might come in or new players who have never
11 considered being in one product line and suddenly
12 they're in that product line. We'll talk about that
13 kind --
14 **Q** So could you provide some context for these three
15 factors you just identified? Why do they matter for the
16 transaction we're talking about here today?
17 **A** If you think about -- when you focus on share,
18 you're just talking about what's available today and what
19 choices can I make, because you're looking at existing
20 players. That's really only the beginning of a competitive
21 market analysis, because there's also -- that's the demand
22 side. That's what buyers can choose from differently.
23 But on the supply side, there are other
24 responses we want to look at, like that expansion and
25 entry. And so you can't really get an idea. The way

1 markets are supposed to work is consumers express a
2 preference, suppliers notice those preferences, see it
3 as a market opportunity, and respond. And they can
4 respond in big ways, like entry, or they can respond in
5 little ways, like consumers want a bigger provider
6 network.
7 But the point is, to understand the
8 competitive process, you have to not only understand
9 what consumers want and what's available today, but you
10 have to understand what the market responses could be in
11 maintaining competitive pressures on everybody.
12 **Q** So now that we have established these four facts,
13 let's move on and talk about the lines of business that you
14 considered. Can you identify those three lines for us?
15 **A** Yes. We looked at commercial, overall commercial
16 enrollment, we looked at Medicare, and we looked at
17 Medicaid.
18 **Q** And why is it that you selected those three lines
19 as opposed to others?
20 **A** Well, we talked about safe harbors before. These
21 are the three categories that exceeded the NAIC guidelines.
22 **Q** So if you could go ahead and look at the screen,
23 Dr. McCarthy, you have up there figure three. Could you
24 explain to us, what is it that this figure tells us?
25 **A** Well, you can see that -- well, two things. The

1 two different companies are up there, but you can see at
2 the bottom that both of these companies have about
3 1.5 million members in Florida. And so they're roughly the
4 same size, yet they're very different companies. The --
5 Aetna, you can see 90 percent or so of their membership is
6 in the commercial membership, whereas for Humana, it's only
7 about 37 percent of their membership. Instead, Humana's
8 significantly involved in Medicare business, with about
9 40 percent of its membership being in Medicare
10 beneficiaries. Aetna on the other hand has less than
11 10 percent.
12 I think this is a picture of what Mr. Soistman
13 was saying earlier, that these are two very different
14 companies in a complementary sense. And that's really
15 what I think this figure illustrates is how nicely the
16 two portfolios fit together.
17 **Q** So you've identified for us three lines you're
18 going to tell us about. Let's move forward and talk about
19 the first of the three lines or segments, and that is
20 commercial. Let's go ahead and move forward to table one.
21 And you'll see, Dr. McCarthy, table one that's
22 up on the screen, could you give us some context about
23 what the table tells us?
24 **A** Yes. This table looks at total commercial
25 enrollment. In this case, we're looking at individual and

1 small group and large group. We're looking at them all
2 together. And we're looking at fully insured and
3 self-insured members. These data come from InterStudy.
4 They collect both fully insured and self-insured data. And
5 what you see in that table is that the combined entity post
6 merger would have a 19.3 percent share based on this 2015
7 data. That's not -- again, looking at the 30 percent
8 threshold we talked about earlier, that's not a threatening
9 level and one would not consider that a significant concern
10 from an antitrust point of view.
11 **Q** Continuing with the commercial segment, let's now
12 take a look at table two. What is table two and what is it
13 that it tells us?
14 **A** Table two is a similar table, but now we're going
15 to try to break this down into small group, large group,
16 and individual. This is the table reflecting small group
17 data. The data here come from the OIR, because there are
18 very few people who gather small group data separately.
19 This is our only source. It does not include the
20 self-insured, but the -- looking at fully insured small
21 group plans, we see that the post-merger share would be
22 23.6 percent. Again, well below the 30 percent threshold.
23 **Q** So let's move forward then and take a look at
24 table three. What can we learn from this table?
25 **A** This is looking at large group. Again, large

1 group is defined, by the way, as a hundred and above. That
2 is employer groups that have at least a hundred employees.
3 And when we look at the players offering these products,
4 this is, again, OIR data. It's only the fully insured
5 component of it. But the post-merger share would be
6 22.5 percent in that segment.
7 **Q** Again, below the 30 percent number you've been
8 discussing?
9 **A** That's right.
10 **Q** So you've been describing for us commercial
11 group. Did you also have the opportunity to review the
12 commercial individual segment?
13 **A** Yes.
14 **Q** And what is it you learned about that?
15 **A** Well, this is the only commercial segment where
16 the share is above 30 percent. You can see for 2014,
17 that's the most recent data we have, the post-merger share
18 would be 37.7, 38 percent.
19 **Q** And does that present a competitive concern,
20 Dr. McCarthy?
21 **A** No. Because -- and I will try to go through why,
22 because of the potential supplier responses that I think
23 will keep this market robust. What we'll find is shares
24 are very volatile in this segment.
25 **Q** Does the Affordable Care Act have any impact on

1 your valuation here, sir?
2 **A** Yes. As you know, the Affordable Care Act,
3 otherwise known as ObamaCare colloquially, has a mandate to
4 buy health insurance. And so many of the buyers are
5 looking to find the cheapest possible policy with as much
6 of a subsidy as possible to reduce the costs to them of
7 satisfying that mandate. In fact, nationally about
8 86 percent of those who buy on the exchanges, on the public
9 exchanges, receive a subsidy.
10 **Q** So why -- you're focusing on the subsidy, but
11 could you provide us an explanation, why does the subsidy
12 matter with respect to your analysis?
13 **A** The subsidy matters because, again, buyers would
14 like to maximize the use of that subsidy. And I don't
15 probably need to go into too much detail with this group,
16 but the subsidy is tied to the two lowest price silver
17 plans in a given area. And, as you know, ObamaCare is
18 organized in terms of these different medal levels:
19 Bronze, silver, gold, premium implying richer and richer
20 benefits.
21 So the premium -- the subsidy being tied to
22 the price of these two lower plans means that you always
23 would like to be one of those two top spots, because it
24 will mean higher membership, more successful sales if
25 you're among these to get the greatest proportion of the

1 subsidy.

2 **Q** So, if you could connect the dots for us, why is
3 it that a 38 percent share here still does not present a
4 competitive concern from your viewpoint?

5 **A** Well, if you look at 2013 on this table four, you
6 see that the share, the post-merger share would have been,
7 in 2013, 22.3 percent of the individual market. But the
8 jump up between 2013 and 2014 is really due to Aetna and
9 Humana's entry into the exchanges.

10 And so I want to look now at the exchanges to
11 show what the supply responses have been in those
12 exchanges.

13 **Q** Okay. So why don't you explain, what are the
14 implications here?

15 **A** Well, it's clear that the shares in the exchange
16 are very fluid. For instance, in 2015, Aetna dropped from
17 the second slot in Miami-Dade County, and they lost more
18 than half of their exchange membership. Why? Because you
19 fell out of those two favored spots and therefore lost a
20 lot of membership. So, in some sense, there's an easy
21 come, easy go, unless you bid very aggressively.

22 **Q** So you've been explaining to us that what you
23 call supply responses and that they will ensure
24 competition, but perhaps it will be helpful if you could
25 give us an example of how that works.

1 **A** There's a very interesting example going on in
2 Florida and nationally, and that has to do with the company
3 known as Centene. Centene's a good example of the type of
4 supply response that will ensure this competition remains
5 robust. As you probably know, Centene's an important and
6 successful Medicaid managed care company. They've been
7 recently trying to diversify their portfolio by moving into
8 the commercial individual space, mainly through the
9 exchanges. But it's also an interesting note that Centene
10 has already gotten approval from the antitrust -- the
11 federal antitrust authorities to merge with Health Net.
12 Health Net, as you may know, is a West
13 Coast -- fairly large West Coast health plan that has a
14 full range of commercial and Medicare and Medicaid
15 services. And one of the reasons given for that merger
16 is to leverage the success of Health Net in these
17 markets.
18 So, Centene is very active. They've now moved
19 into -- when we talk to Aetna and Humana about their --
20 what they're doing in Florida, we're told that they have
21 a very aggressive exchange strategy developed.
22 **Q** Describe for us what you mean by an aggressive
23 strategy. What does that mean?
24 **A** Well, the way Centene is going after the exchange
25 market is to, what management calls, they've flooded the

1 market with low cost plans. So they're on the one hand
2 trying to achieve those first two preferred slots on the
3 silver plan pricing, and they are in effect tying up a lot
4 of the low price slots. So they have the first five slots
5 in 11 counties; they will have for 2016 the first five
6 slots for 11 different counties in Florida. And that's
7 going to make them appealing in two ways: One, they're the
8 low priced carriers; two, they kind of occupy the whole
9 first space. If you get on Healthcare.gov website, you'll
10 see Centene, Centene, Centene, Centene.
11 **Q** So you've described the approach that Centene is
12 going to be taking. Are there others that are taking a
13 similar approach?
14 **A** Molina is also on the exchange. They're new to
15 the exchange, relatively new to the exchange. They have
16 one of the top two slots in one county. They're
17 well-positioned to follow the Centene model. But also
18 Amerigroup, owned by Anthem, is in a similar position,
19 being an experienced Medicaid managed care company that
20 could expand into the exchanges.
21 **Q** So to summarize, Dr. McCarthy, do you have any
22 concerns whatsoever from a competitive standpoint with
23 respect to the commercial lines?
24 **A** No. For Aetna, with or without Humana, for Aetna
25 to remain successful in this segment, they're going to have

1 to price aggressively because of this volatile -- this sort
2 of volatile shifting of share that occurs when somebody
3 takes over those silver plans, preferred silver plans.
4 **Q** So let's move on now to the second line that you
5 focused on in your analysis. And you've already explained
6 that to us. That's Medicare. So let's talk about
7 Medicare. Let's start, if you could, by explaining, what
8 are the choices available to Medicare beneficiaries?
9 **A** The main choice is to choose between traditional
10 Medicare and a Medicare Advantage plan that are offered by
11 the commercial insurers such as Aetna and Humana.
12 Traditional Medicare of course is historically what we
13 think of as Medicare. Some people call it original
14 Medicare. It's sometimes caught up with a Medicare
15 supplemental plan or prescription drug plan, but it's what
16 we think of as the original Medicare.
17 Medicare Advantage plans in effect take the
18 traditional Medicare benefits, and they require that
19 those same benefits have to be made available to the
20 beneficiaries, but they're -- these benefits are made
21 available through an HMO or a PPO by a private
22 commercial entity like Aetna or Humana.
23 **Q** So are traditional Medicare and Medicare
24 Advantage considered substitutes for each other?
25 **A** Yes. They're choices that have to be made. They

1 offer the similar benefit structures, and people choose one
2 or the other for a variety of different reasons.
3 **Q** So if you could explain to us a little bit more,
4 what is the choice that's presented to a retiree when it
5 comes to these two pieces?
6 **A** Well, when a retiree ages into Medicare, they
7 have to make this choice. And usually the retiree will go
8 to the Medicare.gov website, and what you'll find there is
9 the first choice you're asked to make is do you want
10 traditional Medicare or do you want a Medicare Advantage
11 plan?
12 So, for example, if you enter the Tallahassee
13 zip code of 32301, which I took to be the OIR's zip
14 code, you -- the website lists first, as is typical,
15 lists the traditional Medicare option first. And then,
16 in the case of this particular zip code, it lists the
17 eight Medicare Advantage plans that are available.
18 They're available from five different companies, and the
19 premiums range from $0 to $147 per month. So there's a
20 choice of plans available.
21 **Q** Now, let's assume that an enrollee --
22 **MR. CHAIR:** Excuse me. Maybe I misheard you.
23 I thought we were discussing the traditional
24 Medicare, as you called it, and then you said there
25 are five Medicare Advantage plans with traditional

1 Medicare?

2 **DR. McCARTHY:** What I meant to say is that
3 when you go to the Medicare.gov website you are
4 faced with a choice of both. Traditional Medicare
5 is listed, and then below that are these eight
6 plans I was mentioning as options. So, the typical
7 way that you can research what you would like to do
8 as a new retiree is to go to this website, put in
9 your zip code, and see what the alternatives are.
10 They're both there, traditional Medicare and the
11 Medicare Advantage.

12 **MR. CHAIR:** Okay. And by traditional
13 Medicare, you mean the med sup plans, as we refer
14 to them? It seems like there are three options.
15 There's the Medicare, you could just go alone, or
16 you could buy a supplement or you can buy a
17 Medicare Advantage plan.

18 **DR. McCARTHY:** And all of those are options.
19 All of those are options. I was referring to the
20 traditional Medicare, meaning more if I'm a new
21 retiree, I must opt into some Medicare plan. Am I
22 going to opt into what we call original Medicare,
23 traditional Medicare part A, part B, that whole
24 approach, or am I going to opt into a Medicare
25 Advantage plan? All that's presented as options to

1 a new retiree, which is the point I'm trying to
2 make. But you're absolutely right, that new
3 retiree can -- if they were -- he or she were to
4 choose traditional Medicare, can supplement with
5 what we call a med gap policy, and that and an
6 additional option within those two broad options.
7 **MR. CHAIR:** Okay. Thank you.
8 **BY MR. WHITMER:**
9 **Q** Now, Dr. McCarthy, let's assume that enrollee
10 does not like her initial choice. Is there an opportunity
11 to change or switch?
12 **A** Yes, there is.
13 **Q** Could you explain that to us?
14 **A** Once a year, and curiously enough December 7th,
15 today, is the last day for Medicare enrollees, if they
16 wanted to switch for the calendar year 2016, they have to
17 do it today. Today's the last day. But once a year at
18 least, there's some other conditions where you may get to
19 do it more than once, but once a year at least Medicare
20 beneficiaries can switch to another Medicare Advantage
21 plan, from traditional to Medicare Advantage, from Medicare
22 Advantage to traditional. They can revisit that option.
23 **Q** So have you evaluated that? Have you looked at
24 whether enrollees switch from traditional Medicare to
25 Medicare Advantage or vice versa?

1 **A** Yes. We've looked at the last three years of
2 data available to see, for any Aetna member, any Aetna
3 Medicare member who had a Medicare Advantage plan who
4 switched, how many switched to traditional insurance. And
5 21 percent of the Aetna members who switched, switched to
6 traditional. And with respect to Humana, 25 percent of
7 Humana enrollees who switched during those three years
8 switched to traditional Medicare.
9 **Q** So what is it that we learned from that?
10 **A** Well, we learned that not only can you revisit
11 this choice, but there's a substitution that goes on and
12 the Medicare beneficiaries move between these two products
13 so that they are substitutes. And that Medicare --
14 traditional Medicare is acting as a constraint on the
15 Medicare Advantage policies.
16 **Q** So let's move forward now to table six. You can
17 go ahead, Dr. McCarthy, and take a look at the screen.
18 Please explain to us what table six demonstrates.
19 **A** Table six looks at the shares of total Medicare
20 enrollees that the players in Florida have. And you can
21 see the post-merger share for Aetna and Humana would be
22 15.5 percent.
23 **Q** And does that number, 15.5 percent, present a
24 competitive concern from your viewpoint?
25 **A** No. It's well below that 30 percent threshold.

1 **Q** So, are there any other additional considerations
2 that you'd want to look at when evaluating this Medicare
3 segment?
4 **A** Yes. I think I would just add -- in that case
5 this is sufficient, but I would add that there are a
6 variety of supply responses in the Medicare Advantage
7 segment of the Medicare business. So, during the past six
8 years, there have been four new entrants in Medicare
9 Advantage in Florida. There's another phenomenon that
10 we're seeing which is -- it has been done before, it's not
11 terribly new, but hospital systems around the country as
12 they consolidate sometimes have their own what we call
13 provider-sponsored health plan.
14 You have one very prominent one in Florida in
15 the Health First System out of Melbourne, Brevard
16 County. And there are others around the country that
17 are these provider-sponsored health plans that have a
18 Medicare Advantage plan. Given the consolidation going
19 on in the hospital system and the vertical integration
20 going on with physicians, et cetera, provider-sponsored
21 plans, I think, are a part of the future and would be
22 another supply response to look at, at least potential
23 supply response.
24 **Q** Let's come back to Centene for a moment. You
25 talked Centene when describing the commercial lines. Does

1 Centene also play a factor here?
2 **A** Yes. I mentioned their purchase of Health Net.
3 Health Net has a well-established Medicare Advantage
4 product line. And the press release for this merger says
5 the following: Health Net's high quality Medicare platform
6 across the combined business is the reason -- is one of the
7 reasons for the merger. In other words, I'd like to take
8 what Health Net knows about Medicare Advantage and move it
9 to other places. And we think for sure in Florida, because
10 in our interviews with the local operations folks, they've
11 heard repeated rumors that Centene is already talking to
12 different providers around the state about starting up
13 Medicare Advantage. You can't count those more than rumors
14 at this point, but certainly they have clear intention of
15 moving into Medicare Advantage with their purchase of
16 Health Net.
17 **Q** So what other developments matter as we're
18 considering this?
19 **A** Well, we've talked mainly about individual
20 retirees choosing a Medicare benefit, but there's also
21 Medicare Advantage plans and Medicare supplemental plans
22 and the like, sold as group policies, that is, to employers
23 who want to provide health retiree benefits. And there's
24 been sort of an interesting development that's starting in
25 the sale, the distribution process of group Medicare

1 benefits. That's something called the private exchanges.
2 **Q** Describe that for us. What is a private
3 exchange?
4 **A** A private exchange is usually a health -- a human
5 resources kind of consultancy. We'll make an arrangement
6 such that a given employer's retirees can choose between
7 several different Medicare Advantage plans or traditional
8 Medicare instead of the usual process that went on, which
9 is RFPs go out, different companies bid, and they either
10 get all or nothing. They either get the retirement
11 contract or they don't get the retirement. Now, in an
12 private exchange, this pool of retirees is going to be
13 split among different types of plans.
14 **Q** So tie that together for us. How is it that that
15 impacts how Medicare beneficiaries make their decisions?
16 **A** Well, it says, first of all, you're not going to
17 get all or nothing. But it also has had -- at least
18 reported to us from Aetna management, has had an
19 interesting effect. And the interesting effect is that in
20 one instance, when Aetna lost a large retiree group
21 contract, they were only able to retain 8 percent of the
22 members that they had effectively 100 percent of before.
23 And what they've also found out of this is that the real
24 shift goes to traditional Medicare. That's something like
25 70 percent of those who use an exchange will choose the

1 traditional Medicare option rather than, you know, one of
2 the managed Medicare Advantage options.
3 This is also coupled with some surveys of
4 employers, which show that, by 2018, between 20 percent
5 and 33 percent of employers expect to be using private
6 exchanges for their Medicare retiree options.
7 **Q** So, concluding this segment, what does all this
8 tell us about any competition concerns with respect to
9 Medicare?
10 **A** It says that there's plenty of current
11 competition on future competition.
12 **Q** Now, I'd like to switch directions a bit and ask
13 you whether the analyses that we've been discussing, do
14 those consider statewide data?
15 **A** Yeah. With very minor exception, yes. We're
16 looking at statewide data.
17 **Q** What is an MSA?
18 **A** MSA stands for metropolitan statistical area.
19 It's usually made up of a core urban center, which we
20 colloquially call a city, and the -- sort of suburbs in
21 areas that are economically integrated with that. In
22 total, that's called an MSA. The Tallahassee MSA is made
23 up of four counties. It's made up of Leon, Gadsden,
24 Jefferson, and Wakulla.
25 **Q** So let's assume some were to request a more

1 granular analysis and, for example, say let's look at the
2 MSA level instead of statewide.
3 **A** Yes.
4 **Q** Have you done that? And if so, have your
5 conclusions been any different?
6 **A** Yes, we looked at that for the overall commercial
7 business and for the Medicare business. And for the
8 commercial business, there is no MSA that's any higher than
9 26 percent post-merger share for Aetna and Humana. That is
10 26 percent or less in each of the Florida MSAs. For
11 Medicare, looking at the Medicare shares MSA by MSA, the
12 highest number we get is 24 percent.
13 **Q** Both numbers being underneath that 30 percent
14 threshold we discussed earlier?
15 **A** That's right.
16 **Q** So, in either respect, whether you're looking at
17 statewide data or the MSA level, are there any competitive
18 concerns as we're looking at Medicare?
19 **A** No.
20 **Q** So let's move forward then to your third line,
21 and your final line, and that's Medicaid. What does
22 Medicaid encompass? Let's start there.
23 **A** In Florida, there are two distinct programs.
24 There's one called the managed medical assistance program,
25 called MMA. And there's another program called the

1 long-term care program, LTC. And both of these are part of
2 the overall Medicare program. Of course, the MMA is about
3 40 times larger than the long-term care program, because
4 the long-term care is really a subset of Medicaid members
5 who are eligible for nursing home care, long-term care
6 benefits. So it's a much smaller part of the program.
7 **Q** So you just described for us two separate
8 segments of Medicaid. Let's take a look at each of them
9 separately, starting with what you referred to as MMA.
10 Take a look at the screen, Dr. McCarthy, that's table
11 eight. What is it that table eight tells us about MMA?
12 **A** Table eight tells us that the post-merger share
13 for Aetna and Humana would be only 11 percent,
14 11.1 percent. And that, of course, given the threshold
15 we've been talking about, is not a threat to competition.
16 **Q** And let's jump forward to table nine. Table nine
17 is long-term care, or LTC?
18 **A** Correct.
19 **Q** What can we learn from table nine as it concerns
20 competition?
21 **A** It's 26 percent post-merger share. There are
22 fewer insurers involved in the LTC that's regulated by the
23 state. And all of those insurers that are in the LTC
24 program are also in the MMA program. So presumably there
25 are other MMA insurers who would be willing to join that

1 segment if the state felt it was needed.
2 **Q** So is there any competitive concern here, table
3 nine?
4 **A** No. It's below the 30 percent threshold as well.
5 **Q** So now, Dr. McCarthy, you have described for us
6 commercial, Medicare, and Medicaid. You talked about all
7 three lines. I'd like to come back now to the big picture.
8 In closing here, could you just summarize for
9 us what was the purpose of your investigation?
10 **A** The purpose was to look at whether the
11 competitive process is preserved even after this
12 transaction. And my finding is that, yes, it is preserved.
13 And that, again, to use the NAIC language, that there's --
14 the transaction will not substantially lessen competition
15 or tend to create a monopoly in any line of business in the
16 state of Florida.
17 **MR. WHITMER:** Thank you, Dr. McCarthy.
18 Mr. Robleto, I have no further questions for
19 this witness.
20 **MR. CHAIR:** Thank you. I may have just one or
21 two.
22 It seemed to me when you were asked early on
23 about why did you choose commercial, Medicare,
24 Medicaid, your response had something to do with
25 those were the ones in which the market share would

1 exceed the 30 percent. Did I mishear you when you
2 spoke?
3 **DR. McCARTHY:** No. I'm sorry. It was that
4 they would -- that under the NAIC filing and the
5 competitive analysis that was filed, that these
6 were segments, lines of business that called out
7 for greater analysis, that the threshold that was
8 exceeded was an NAIC threshold, not the 30 percent.
9 **MR. CHAIR:** Okay. I misunderstood.
10 You spoke a great deal about the number of
11 people every year that have switched from the
12 Medicare Advantage I guess back to traditional
13 Medicare. And yet I think we've seen over the last
14 several years a tremendous overall growth in the
15 Medicare Advantage market. So there's something
16 else going on.
17 Are there equal numbers of switches coming
18 over from the traditional Medicare? Or, as I said,
19 the med sub -- well, let me start there.
20 **DR. McCARTHY:** I think you're right. The
21 trend since I think 2004 has been a fairly
22 consistent upward penetration of Medicare Advantage
23 plans. And I do think there are a number of
24 different things going on, and a number of
25 different adjustments going on having to do with

1 what the subsidies are and whether they're going to
2 taper off, having to do with the baby boomers that
3 are aging in and whether they're more comfortable
4 in a managed care type setting. And all of this
5 kind of varies state by state, but I think the
6 point I want to -- would like to have us all take
7 away is that the traditional Medicare puts a
8 constraint on managed -- or Medicare Advantage
9 programs by being this alternative that caps
10 what -- you know, what Medicare Advantage plans can
11 do. And that's what I need to establish to
12 understand that there's no competitive problem
13 that's going to occur.
14 **MR. CHAIR:** You broke the Medicare market down
15 into MSAs at one point. Is there any reason not to
16 have looked at it as the Medicare Advantage market
17 on a standalone basis, which of course would
18 significantly increase the overall shares to
19 somewhere close to 50 percent, I believe, post
20 merger?
21 **DR. McCARTHY:** I don't know that it's that
22 high, but the answer is that our analysis in the
23 position that we think is supportable, and there's
24 evidence for, is that both of these types of
25 approaches constrain each other. Traditional

1 Medicare constrains the Medicare Advantage plan and
2 that's why they're put together. It's because of
3 the theory that they affect each other, that
4 they're substitutes for each other.
5 **MR. CHAIR:** Okay.
6 **MR. JOHNSON:** Just one followup to that.
7 Did you consider all the changes that are
8 going to happen in 2020 to traditional Medicare?
9 You're actually looking at no first dollar coverage
10 and, you know, greatly, I guess, shift in the
11 dynamics of what we were getting with traditional,
12 and how it would impact the competition between MA
13 and --
14 **DR. McCARTHY:** I have not looked at that.
15 2020, that happens, I have not looked at that.
16 **MR. CHAIR:** I would like to remind all of us,
17 which I violated a number of times now, that since
18 we are being recorded and people are listening in,
19 we're supposed to introduce ourselves. So I
20 apologize to the general public that didn't know.
21 I was speaking -- this is Rich Robleto speaking to
22 Dr. McCarthy. And Eric Johnson, followup question.
23 **MR. WHITMER:** Any other questions,
24 Mr. Robleto?
25 Thank you.

1 At this time, Aetna would like to call
2 Mr. Gregory Martino as its next witness.
3 EXAMINATION
4 **BY MR. WHITMER:**
5 **Q** Mr. Martino, could you go ahead and explain, what
6 is your current title?
7 **A** Yes. Currently I am employed by Aetna as an
8 assistant vice-president for state government relations for
9 Aetna, Inc.
10 **Q** And what are your responsibilities, what's your
11 role in that capacity?
12 **A** Working in the state government relations area,
13 it's a broad area, including legislative regulatory NAIC
14 issues. I am spending a significant amount of time on
15 mergers, acquisitions in the regulatory side, dealing with
16 state regulators as well as other duties I have.
17 **Q** Now, before you came to Aetna, you spent many
18 years in the insurance industry. Could you tell us what
19 you were doing?
20 **A** Yeah. I spent 10 plus years with the
21 Pennsylvania insurance department in various capacities. I
22 was director for market conduct when I first began at the
23 Pennsylvania insurance department. I then moved on to
24 deputy insurance commissioner for consumer services and
25 market conduct. I also played a role and was actually, for

1 the longest period of time, was there as deputy insurance
2 commissioner for insurance regulations, which oversaw tax
3 in the health industry, the PNC industry, and dealt with
4 the impact of rates and forms and market penetration.
5 And then lastly, I did serve as acting
6 insurance commissioner for a brief period of time at the
7 Pennsylvania insurance department.
8 **Q** Let's move on now to this transaction that we're
9 here to talk about today. Just describe for us, what's
10 your role been?
11 **A** I've been involved with the transaction here
12 since its initial announcement on July 2nd, and have been
13 very much involved in the forming proper applications that
14 we've done for other states for the application for
15 Florida. Have been very much involved in getting the forms
16 filed with the states. I've been involved with meeting
17 with the states. I have met with all the state insurance
18 departments where we have filed and need approvals. Met
19 with a number of insurance commissioners, senior staff and
20 all those folks, talked to them, explained to them the
21 transaction. I worked with various parties on preparing
22 followup questions, responding to state insurance
23 regulators. And obviously am preparing for hearings such
24 as this one here today.
25 **Q** Now, is one aspect of your preparation with

1 respect to this transaction a review of the Florida
2 statutes, and more specifically, the ten requirements set
3 forth under Florida law with respect to this transaction?
4 **A** Yes. As part of my preparation for the
5 application that we submitted towards the end of July as
6 well as this hearing, I familiarized myself with those
7 statutes.
8 **Q** Now, Dr. McCarthy just testified about one of the
9 ten requirements, and I won't ask you any questions about
10 that one, but I do want to ask you about the other nine.
11 **A** Okay.
12 **Q** Let's start with requirement number one. This
13 requirement provides that the domestic insurers will
14 continue to satisfy the requirements for issuance of a
15 license in Florida. Now, there are four domestic insurers.
16 Mr. Robleto identified them at the beginning. Mr. Ventura
17 will be providing some more specific testimony on each of
18 the four. What I'd like for to you do, sir, is to just
19 confirm that the licensure requirements for all four of
20 these domestic insurers has been satisfied.
21 **A** Yes. The licensing requirements for those four
22 domestic insurers, they all currently are licensed under
23 the Florida statutes, currently meet those requirements and
24 continue to do so and are in good standing today.
25 **Q** I'd now like to direct your attention to a

1 post-transaction period. What assurances can you provide
2 for us that these four domestic insurers will continue to
3 satisfy licensing requirements on a going-forward basis?
4 **A** Post transaction, Aetna currently has no plans to
5 make any material changes to the operations of the business
6 of these four domestic insurers, really nothing that will
7 adversely affect their maintaining a license in good
8 standing in the State of Florida.
9 **Q** Does the Aetna compliance department have any
10 weigh-in there?
11 **A** Aetna has a very strong, robust, very active
12 compliance department. As part of that, we monitor and the
13 compliance department works on all of these what I'll call
14 the family of legal entities that Aetna has throughout the
15 country. And post transaction these four domestic insurers
16 will be part of the Aetna family, legal entities, and the
17 same robust, proactive compliance that applies to those
18 individuals, to those other Aetna life -- Aetna insurance
19 companies will also apply to these four domestic insurers.
20 **Q** Moving forward to requirement number two,
21 Mr. Martino. This concerns whether the financial condition
22 of Aetna will jeopardize the financial stability of these
23 four domestic insurers, or prejudice the interests of their
24 insureds or the public. Now, Mr. Robleto at the beginning
25 provided some background information on both Aetna and

1 Humana. What I would like for you to do is confirm for us
2 that Aetna has the financial strength to meet this
3 requirement.
4 **A** Yes. Aetna has a very strong financial strength
5 and will meet this requirement. Aetna is a very
6 longstanding insurance company, dating back to 1853. It is
7 a Fortune 50 company. It is a large national insurance
8 company. And in 2014, it had a revenue of approximately
9 $58 billion.
10 **Q** So you can confirm for us that requirement number
11 two has been met here?
12 **A** Yes, I can.
13 **Q** Then let's move forward to requirement three.
14 This concerns whether this transaction is fair and free of
15 prejudice to the insureds, of these four domestic insureds,
16 and to the public. Has that requirement been met here?
17 And if so, could you explain why?
18 **A** Yes, that requirement has been met, as Mr. Fran
19 Soistman discussed earlier through the presentation, a
20 number of the benefits that would occur to the current
21 insureds, to the providers, to the employers, and to the
22 state. So he really laid out very well in the
23 presentation. We hope you can pick up some of those pieces
24 that really would benefit the overall insured's -- and the
25 general public.

1 **Q** Can you confirm for us, Mr. Martino, first
2 that -- whether there are any intentions to declare
3 extraordinary dividends with respect to these --
4 **A** There are no current plans to declare any
5 extraordinary dividends, liquidate the company, or to make
6 any material changes to its business.
7 **Q** Can you also confirm for us, on a going-forward
8 basis, all four domestic insurers will continue to maintain
9 their separate corporate existences?
10 **A** Yes. As a result of this transaction, post
11 transaction, Humana will be a separate legal entity.
12 Humana, LLC, will be a direct subsidiary of Aetna. And as
13 a result of that, these four domestic insurers will
14 continue to operate independently under the Humana, LLC.
15 **Q** What can you tell us with respect to whether any
16 material changes are anticipated with respect to the boards
17 of directors or the senior management for these four
18 companies?
19 **A** There are no plans to make any changes to these
20 board of directors at post closing or at closing, except
21 through replacement that will occur as a result of
22 resignations.
23 **Q** Let's move forward now to requirement number
24 four. This concerns the competence, experience, and
25 integrity of those who will either directly or indirectly

1 control the operations of these four domestic insurers
2 following the transaction. Now, have you had the
3 opportunity, sir, to review the makeup of what the new
4 board will be?
5 **A** Yes, I have.
6 **Q** Could you tell us about that?
7 **A** Sure. At the close -- upon closing this
8 transaction, the Aetna board will be at 12 members. Part
9 of the acquisition agreement is that board of directors
10 will expand from 12 members to 16 members. The four
11 additional members will come from the Humana board. And I
12 think that's important to note because it kind of plays
13 into the fact that we really are valuing their expertise
14 and their knowledge in the Medicare world. So as we talk
15 about these complementary benefits, it's important to bring
16 on the board of directors as well as others, the skill and
17 expertises.
18 **Q** I'd like to direct your attention to the 13
19 directors for Aetna, Inc.
20 First of all, do you have familiarity with
21 those 13 individuals?
22 **A** Yes, I do. I've reviewed their biographical
23 affidavits.
24 **Q** And having reviewed the biographical affidavits
25 for all 13, what can you tell us concerning the competence,

1 experience, and integrity of those individuals?
2 **A** They are individuals of high competency, very
3 experienced, and very high integrity.
4 **Q** There are currently seven executive officers of
5 Aetna, Mr. Martino. Is that right?
6 **A** Yes, there are.
7 **Q** What can you tell us about your familiarity with
8 those seven individuals?
9 **A** I worked with them, most of those if not all of
10 those individuals, over my 15 years at Aetna and gotten to
11 know them. And I will tell you, in addition to working
12 with them on a number of different projects, I've also
13 reviewed their biographical affidavits.
14 **Q** And having reviewed that information and with
15 your knowledge having dealt with many of those individuals,
16 what can you tell us about them with respect to the
17 knowledge, experience, integrity?
18 **A** Based upon my experience and their biographical
19 affidavits, I would indicate that they -- state that they
20 are individuals of high competency, integrity, and
21 experience.
22 **Q** Now, jumping forward, requirements five, six,
23 seven, and eight, all of those concern the background, the
24 experience, the trustworthiness of the individuals who will
25 be controlling the domestic insurers. And I'm going to put

1 all those together.

2 Have those requirements been met here? And if

3 so, can you tell us why?

4 **A** As I mentioned earlier, I have reviewed the

5 biographical affidavits and worked with a number of the

6 executives in the committee -- excuse me -- the company,

7 and, as a result of that, I can tell you that they are

8 individuals with very good backgrounds, experience,

9 knowledge, expertise, and would meet the requirements of

10 53.

11 **Q** Now, with respect to the individuals who are the

12 directors and the executive officers of the four domestic

13 insurers, we're going to have Mr. Ventura address that, but

14 for right now, I'd like to move on with you to requirement

15 number nine. And that requirement provides that this

16 transaction is not likely to be hazardous or prejudicial to

17 the insureds or the domestic insurers or to the public.

18 Has requirement nine been satisfied here? And

19 if so, could you explain why that is?

20 **A** Yeah. Requirement nine has been satisfied, as I

21 think Mr. Soistman discussed earlier and explained the

22 various benefits. We can clearly see how this will be a

23 benefit to the various stakeholders and the various parties

24 of the domestic insurers as well as Aetna. And as a result

25 of that, we believe -- I will tell you that we have met

1 that requirement.

2 **Q** Now, the tenth factor is the one that

3 Dr. McCarthy already addressed. I'm not going to ask any

4 questions on that. But before you complete your testimony,

5 are there any additional comments that you'd like to make

6 to Mr. Robleto and this panel?

7 **A** The last and concluding statement I'll make is

8 really, as we look at this, this is really a transaction of

9 bringing together two complementary companies. And it

10 really -- Aetna, who really is focused on the commercial

11 side, and Humana, who is focused on the Medicare side.

12 Bringing these two complementary companies together really

13 will bring together and allow for both policyholders on

14 both sides and future policyholders and the public to have

15 access. And the combination will provide high quality

16 healthcare services, more consumer-centric services, more

17 consumer-centric affordable products. The folks at Aetna

18 will have access to the expertise and best of class

19 services that are really out there with Humana now for

20 their Medicare policyholders. And vice versa, where

21 Humana, who has a smaller piece of commercial business,

22 really will have the access and ability to reach into

23 Aetna's whole investment class services. And that's why we

24 really do believe this is really a good opportunity to

25 bring this together for the public and the policyholders.

1 Beyond that, I would simply ask for -- thank
2 you for your time and ask you for approval on the
3 transaction.
4 **MR. WHITMER:** Mr. Robleto, I have no further
5 questions for this witness, but I want to give you
6 an opportunity, or the panel.
7 **MR. CHAIR:** Again, we may come back with some
8 questions, but for now, thank you.
9 **MR. WHITMER:** With that, I'm going to ask that
10 we now call Mr. Joseph Ventura as our fifth and
11 final witness to be presented today.
12 EXAMINATION
13 **BY MR. WHITMER:**
14 **Q** Mr. Ventura, could you go ahead and explain to
15 the panel, what is your current role?
16 **A** Sure. Good morning. I'm the associate general
17 counsel and assistant corporate secretary for Humana, Inc.,
18 and for each of our subsidiaries.
19 **Q** And in that role, could you describe for us what
20 are your typical responsibilities?
21 **A** Sure. Since I joined Humana in 2009, I've been
22 involved in a variety of legal endeavors. Typically
23 provide mergers and acquisitions, activities, securities
24 laws advice. Advise our board and our management team in
25 upholding the fiduciary duties and the strategic direction

1 of the company.
2 **Q** Now, sir, you're also involved with the
3 transaction. Could you explain to the panel what that
4 involvement has entailed?
5 **A** Yes. I first became involved with the
6 transaction in March when it first came to the attention of
7 our board of directors. And, since that date, have worked
8 to advise and provide legal advice to our board, to the
9 management team of Humana, and evaluate the transaction,
10 negotiating the transaction and the strategic merits of the
11 transaction.
12 **Q** Now we're going to move over to the four domestic
13 insurers. We heard a little bit about them. Now, we don't
14 need to know a lot of facts about them, but I would like a
15 little bit of general background information on the four
16 domestic insurers we're talking about here today.
17 Let's go ahead and start with CarePlus Health
18 Plans, Inc. Could you give us a little information?
19 **A** Absolutely. I'll rattle off some figures that I
20 know you all are very familiar with. CarePlus was founded
21 in 1985. Became part of the Humana family in 2005. Offers
22 Medicare Advantage products. And today we have about
23 112,000 Medicare Advantage members.
24 **Q** The second domestic insurer is Comp Benefits
25 Company. Tell us a little bit about that.

1 **A** Sure. Comp Benefits is a specialty insurer
2 licensed as a prepaid limited health services organization
3 in Florida. Has about 1.1 million members that's grown
4 over its life. Founded in 1984. Became part of the Humana
5 family 2007 through an acquisition. Today, as I said,
6 1.1 million members. About 600,000 of those are vision
7 members and 500,000 have dental products with us.
8 **Q** The third domestic insurer is Humana Health
9 Insurance Company of Florida, Inc. Tell us --
10 **A** Sure. HIC Florida, as we call it. Humana Health
11 Insurance Company of Florida, also founded in the '80s,
12 provides a wide range of products. Today we have about
13 84,000 members. Approximately 61,000 of those are
14 commercial HMO members. The entity is licensed as a life
15 and health insurer in the state. And the balance are med
16 sup and Medicare Advantage members.
17 **Q** Now, the fourth and final domestic insurer is
18 Humana Medical Plan, Inc. What information can you provide
19 us on that company?
20 **A** Humana Medical Plan, similar to CarePlus, is
21 licensed here as an HMO, health maintenance organization.
22 Offers a broad range of products. Today about 1.2 million
23 members. 440,000 of those are Medicare Advantage members.
24 Similarly, 440,000 approximately are commercial HMO
25 members. And the balance, 320,000 or so, are -- we assist

1 through our Medicaid contracts with the state.
2 **Q** Now, you just heard Mr. Martino testify about
3 nine of the ten requirements under Florida statutes. I'm
4 going to go ahead and move on and ask you questions about
5 those same nine. Are you prepared to provide testimony on
6 them?
7 **A** Yes, I am.
8 **Q** Let's start then with requirement number one.
9 This concerns whether those four domestic insurers continue
10 to satisfy the licensure requirements here in Florida. Can
11 you confirm for us that all four of those entities
12 currently satisfy all the requirements?
13 **A** Yes, they do. As I indicated, two of the
14 entities, CarePlus and -- I've gone totally blank. Two of
15 the entities are licensed as an HMO and are in good
16 standing. The other two are prepaid life and life services
17 limits, health services company and a life and health
18 insurer. And all four are in good standing.
19 **Q** Okay. Let's move on then to requirement number
20 two. Mr. Martino talked about the financial condition of
21 Aetna. What I'd like to ask you about is the financial
22 condition of the four domestic insurers and their relative
23 strength. The first one being -- go ahead with CarePlus.
24 What can you tell us?
25 **A** Sure. I would say that each of these four

1 domestic insurers are very adequately capitalized and
2 demonstrate tremendous financial strength in accordance
3 with the way that Humana typically handles our licensed
4 insurers. CarePlus has approximately $150 million of
5 statutory capital. Comp Benefits has a little over
6 13 million. Humana Insurance Company of Florida has over
7 70 million. Humana Medical Plan has over $458 million of
8 statutory capital. We well capitalized our insurance
9 subsidiaries. We expect them to remain that way through
10 closing.
11 **Q** And does this information establish, from your
12 viewpoint, that requirement number two is met here?
13 **A** Yes, it does.
14 **Q** Then let's move forward to requirement three.
15 Again, this requirement provides that this transaction is
16 fair and free of prejudice to the insureds of the Florida
17 domestic insurers and to the public. Has that requirement
18 been satisfied here? And if so, could you explain why it
19 is?
20 **A** Yes, it has. We have heard a great deal today
21 about this transaction and how it brings together
22 complementary capabilities really to create a new kind of
23 healthcare company that can offer value-based
24 consumer-centric care. This new type of healthcare company
25 will be in a position to offer a broad range of products

1 for consumers at large, which can only have a beneficial
2 effect for policyholders and for the broader public.
3 **Q** Moving on to requirement number four, Mr. Martino
4 provided testimony about Aetna directors and Aetna
5 executive officers. What I'd like to ask you about are the
6 directors and the executive officers of these four domestic
7 insurers. But let's start with the directors. Can you
8 tell us, what is your familiarity, what is your knowledge
9 with respect to the directors of these four domestic
10 insurers?
11 **A** I know each of the directors of each of the four
12 domestic insurers personally through working with them over
13 their careers and my career at Humana. In addition, I've
14 also familiarized myself with their biographical
15 affidavits.
16 **Q** And based on that information and knowledge, what
17 is it you can tell us of these individuals?
18 **A** I can tell you that, without question, each of
19 them is of the upmost integrity, tremendous experience with
20 the insurance industry, and they're extremely competent.
21 **Q** With respect to the executive officers now of the
22 same four domestic insurers, could you also explain what is
23 your background or knowledge concerning those individuals?
24 **A** Sure. Similarly to our directors, I know each of
25 the executive officers, with very few exceptions,

1 personally through interactions with them over a number of
2 years. Those exceptions are only due to geographic
3 locations in a couple of instances. And one of the
4 gentlemen recently joined Humana, so I'm not as familiar
5 with them. I have, however, reviewed all of their
6 biographical affidavits, including the recent hire. So I
7 can tell you that each of them is also of the upmost
8 integrity. They each have a number of years experience in
9 insurance industry and they're all extremely competent.
10 **Q** As with Mr. Martino, we went through requirements
11 five, six, seven, and eight, and we're going to put them
12 together for you as well. These requirements as we
13 discussed collectively concern the background, the
14 experience, and the trustworthiness of these same
15 individuals. Have you had the opportunity to review, first
16 of all, those requirements?
17 **A** Yes, I have.
18 **Q** And can you tell us whether you believe those
19 requirements have been met? And if so, explain why.
20 **A** Yes, I do. Knowing these individuals as I do, I
21 have no reservations testifying that they are each of the
22 upmost integrity, trustworthiness, they all have tremendous
23 experience and background in the industry.
24 **Q** That takes us to the final requirement we're
25 going to discuss with you. That's requirement number nine.

1 And, again, requirement nine provides that this transaction
2 is not likely to be hazardous or prejudicial to the
3 insureds of the domestic insurers. Has that requirement
4 been satisfied here? And if so, could you explain why it
5 has?
6 **A** Yes, it has, for the same reasons that I
7 articulated earlier. The bringing together of these two
8 companies will be bringing together complementary
9 capabilities to provide a broader choice that will only
10 benefit the insureds of the domestic insurers.
11 **Q** And, again, Dr. McCarthy has addressed
12 requirement number ten, and so that concludes the ten
13 requirements.
14 But before we complete your testimony, I'd
15 also like to give you an opportunity to provide any
16 additional information that you believe that the panel,
17 you believe, should hear at this point.
18 **A** Sure. I have to go last, so challenging the
19 eloquence of the panelists here, it will be difficult. I
20 will keep it very simple. Thank you for your time today.
21 I want you to know that we at Humana are very excited about
22 this transaction. We are excited about what this
23 transaction could do for our bold goal to make all the
24 communities we serve 20 percent healthier by 2020.
25 I think of this very simply. We have a

1 diagram of our integrated care delivery model, and at
2 the center of that diagram is the member. Wrapped
3 around that member are clinical capabilities, the data
4 analytics, the member experience, all of the things that
5 we bring to bear to help that member achieve their best
6 health. And I think of this transaction as wrapping
7 more things around that member, taking the best things
8 that Humana does, taking the best things that Aetna
9 does, combining them, and creating more healthy days for
10 our members.
11 **MR. WHITMER:** Thank you, Mr. Ventura.
12 Mr. Robleto, with that, that concludes the
13 direct examination of our five witnesses. And
14 certainly we'll make them available now for any
15 questions or however you'd like to proceed.
16 **MR. CHAIR:** Thank you all very much for very
17 informative presentations. I think what I would
18 like to do is to perhaps take about a ten-minute
19 break at this point. Let the panel and I get
20 together and talk over questions we may want to
21 come back and ask your witnesses.
22 So, if you don't mind, we will take a
23 ten-minute break, I hope.
24 **MR. WHITMER:** Thank you.
25 (Brief recess.)

1 **MR. CHAIR:** Didn't think we'd make ten
2 minutes. I apologize it took a little bit longer,
3 but I think we all could have used the potty break.
4 Well, I would like to thank the witnesses for
5 a very comprehensive presence today. I think you
6 answered an awful lot of our questions. We may
7 touch base on a couple of things that you have
8 already discussed just to make sure that we
9 completely understand. We have prepared some
10 questions that we would like to direct --
11 Mr. Whitmer, would you like me to direct them to
12 you and you farm them out, or how would you like us
13 to --
14 **MR. WHITMER:** Mr. Robleto, that sounds like a
15 good idea.
16 **MR. CHAIR:** Okay. I think early on
17 Mr. Soistman focused on the concept of part of the
18 rationale behind this acquisition was to simplify
19 Florida policyholder transactions with the
20 companies. And I wonder if he could explain that
21 just a little bit. And then at the same time,
22 perhaps expand on -- I don't think we touched on
23 the impact that we're seeing for providers or for
24 agents if the acquisition goes forward. So I
25 wondered if somebody could better explain,

1 simplify, and tell us a little bit about the impact
2 on providers and agents.
3 **MR. WHITMER:** Sure. I'm going to direct that
4 question to Mr. Soistman. And if you could go
5 ahead and make sure the microphone's turned on,
6 that would be great. Thank you.
7 **MR. SOISTMAN:** Thank you. Simplification is
8 probably a description that does need some further
9 explanation.
10 **MR. CHAIR:** Complicated.
11 **MR. SOISTMAN:** Exactly. But, you know, our
12 vision is that we want to give our members,
13 consumers, the citizens of Florida a better
14 experience from the very beginning, from shopping
15 experience for health insurance, the shop buying
16 world, all the way through the administration of
17 those benefits, accessing providers. It's a
18 complex environment today. We want -- when you
19 think of the average consumer today, when he or she
20 makes purchasing decisions online, you know,
21 shopping through Amazon or one of the other online
22 organizations, they have a very predictable
23 experience almost every time, something that leads
24 to a high level of satisfaction. That's what we're
25 striving for for everything, from the very

1 beginning all the way through the end, and making
2 the experience more understandable, less
3 error-prone, so that that end-to-end experience --
4 In fact, one of our biggest initiatives that
5 we've been working on is achieving business
6 excellence. And it's an end-to-end commitment to
7 having a very streamlined process of everything
8 that touches the consumer, because we know that, in
9 a consumer-centric world, consumers will vote with
10 their wallets. And if we're not taking care of
11 them, they're going to leave us. And that's not a
12 good outcome. That's a very bad outcome. So
13 everything about simplification is making sure the
14 consumer's experience is one that they feel -- they
15 feel good about. They make the determination.
16 So I hope that provides a little clarification
17 in terms of what we're striving for.
18 **MR. CHAIR:** I think it does as far as the
19 simplify. We use words kind of loosely here. We
20 keep talking about this as an acquisition, and yet
21 there were many times where we talked about post
22 merger. And I think, when consumers hear the idea
23 of merger, there can be concerns raised, you know,
24 am I going to have to terminate my coverage with
25 the Humana entity to be a part of an Aetna entity

1 or something like that.
2 So can you expand a little bit more on what
3 impact the typical consumer that hears my company's
4 merging together with another company that would
5 provide some comfort level to them or some
6 reasonable expectations of what they can expect?
7 **MR. WHITMER:** Mr. Soistman?
8 **MR. SOISTMAN:** Sure. I think we have to
9 acknowledge that bringing these two organizations
10 together will take time, many years to bring
11 everything together, so I think of it sequentially.
12 And we want to minimize, to your point, any kind of
13 hassle, disruption, additional burden or work
14 depending on the commercial segment where employers
15 may be doing a lot of that already for them or the
16 Medicare Advantage or Medicaid. Each of those may
17 be a little different, but the overarching goal is
18 to make sure that our consumers have minimal impact
19 over a period of time.
20 For example, with the Medicare Advantage
21 program, CMS gives us three years to essentially
22 consolidate our contracts. And that is ample time
23 to make sure that we can do this in a way that is
24 minimally disruptive to our current members and
25 prospective customers. So that's --

1 **MR. CHAIR:** So for Medicare, it's actually a
2 federal requirement that you merge the two?
3 **MR. SOISTMAN:** We would have to bring the
4 contracts together over three years. For example,
5 on the Medicare Part D, we're only allowed to
6 provide, under current regulations, three different
7 product options. For those three years, we'll be
8 able to each offer our three. But by the end, we
9 would have to have what might be six down to three.
10 **MR. CHAIR:** And might a consumer not expect
11 that we would have something similar taking place
12 in at least the commercial markets as will?
13 **MR. SOISTMAN:** Absolutely. And again,
14 reminding that this is a very complementary
15 transaction, where Aetna's commercial business is
16 substantially larger than Humana's nationally and
17 here in Florida as well. We would do that based on
18 the individual, individual market, the small group
19 market, the large group market. They might each
20 have a different experience depending on whether
21 it's an employer-based decision or a consumer
22 decision.
23 **MR. CHAIR:** Okay. Let's talk about providers
24 or provider network, which was not necessarily
25 discussed a great deal, I think, in any of the

1 presentations or on the agents. Can you tell an
2 agent what he might expect to see as a result of
3 this transaction? Can you tell providers what they
4 might expect to see as a result of this
5 transaction?
6 **MR. WHITMER:** Mr. Soistman?
7 **MR. SOISTMAN:** Sure. Let me begin with
8 providers. Providers are -- when we describe a
9 health insurance product, I think often we think of
10 it in terms of the benefits themselves, but in fact
11 the product has as much to do with the providers
12 that are available to provide those benefits. So,
13 providers are, you know, front and center in terms
14 of how we will bring these organizations together
15 and preserve those relationships. But, as I
16 mentioned in my comments, we're evolving from a
17 fee-based or paying for volume of services to
18 paying for value to more value-based care,
19 value-based payment. And we're looking with -- to
20 providers to embrace that as well and will work
21 with us to achieve that so that we are paying to
22 achieve better quality outcomes for their patients,
23 our members.
24 So providers -- and I should also say that one
25 size network doesn't fit all. So I envision that

1 we'll continue to offer a variety of networks, be
2 it an HMO, a PPO, a point of service, an ACO,
3 they'll be choices, and those choices will be
4 dependent upon whether the employer has something
5 specific to their needs or the individual market,
6 they'll have options as well. So, you know,
7 working with providers is paramount to our success,
8 and having the right partners to -- who share our
9 vision of a consumer-centric model and a value-base
10 model.
11 With respect to brokers, I would say the same
12 occurs. They're an important part of our
13 distribution system today, and I believe they'll be
14 an important part in the future, though I think
15 consumers are becoming much more comfortable
16 shopping online, for example. So their role may
17 diminish over time, but nevertheless there will be
18 certain consumers and certain groups who will
19 always want the advice and counsel of a broker or
20 an agent. And we'll, you know, continue to have
21 them as a part of our distribution system in the
22 future.
23 **MR. CHAIR:** Any additional questions?
24 **MS. MOSTOLLER:** Yes. Mary Mostoller.
25 I want a little clarification, if I may have.

1 If I'm currently a Humana policyholder, primary
2 care physician already have, use my hospital in the
3 neighborhood and so forth, as a result of this
4 transaction, am I going to possibly lose access to
5 those doctors or that hospital or that clinic, or
6 are they still going to be there for me through
7 this transaction?
8 **MR. WHITMER:** Mr. Soistman?
9 **MR. SOISTMAN:** It's a great question. And,
10 yes, I think it's fair to say that we have a couple
11 different models here, because Humana owns or has
12 strategic relationships with many provider groups,
13 and those models will continue well into the
14 future. Likewise with Aetna, with our ACO
15 relationships, we would preserve those. So, there
16 is no intention here of somehow blowing up the
17 current networks that we have today. Back to my
18 point, that they're as much a part of the product
19 that we offer as the benefits themselves. So
20 having those relationships is very critical.
21 We want to evolve those relationships, though.
22 I want to emphasize that we have to move to a
23 value-based care as a nation, as a state here in
24 Florida, particularly with 19 percent of your
25 population being Medicare eligible. And that

1 number's going to continue to climb. We have to
2 get value-based care and providers are critical
3 partners to make that happen.
4 **MR. CHAIR:** Thank you.
5 We have one open question regarding
6 competition and Dr. McCarthy's presentation.
7 Dr. Johnson would like --
8 **MR. JOHNSON:** Yeah. Thank you, Rich. Eric
9 Johnson.
10 I just wanted to have a quick followup on the
11 individual market, Dr. McCarthy. I guess one of
12 the things you talked about was the ease of access
13 and getting into the exchanges and being a
14 little -- new competitors and that kind of thing.
15 I wondered if you have any thoughts on, if you had
16 looked at what would happen if people started to
17 leave that market? I know, for instance, recently
18 there's a major carrier nationwide that has
19 expressed a concern about the performance of that
20 market for them and maybe talked about withdrawal.
21 So I want get your thoughts on any competitive
22 influence that has on your analysis.
23 **DR. McCARTHY:** Sure. That one insurer who has
24 threatened to leave is only saying, I think, that
25 while their experience has not been good to date,

1 that they'll reconsider and they'll evaluate the
2 different options that they have. I would steer
3 away from that side of the group that's offering
4 services and look more at the Centene side that we
5 talked about.
6 There's this logic about a churn that can go
7 on between an exchange where subsidies are given
8 and a Medicaid market where some people, some low
9 income people are in and out of work, they're in
10 and out of -- whether they're eligible for
11 Medicaid, whether they're -- but yet still eligible
12 for a subsidy. And there's a thought that that
13 churn presents an opportunity for the Medicaid
14 managed care providers or insurers to actually keep
15 that patient or keep that member, whether they're
16 in Medicaid at that moment or whether they're on
17 the exchange. So, I think that's part of what
18 triggered a lot of the Medicare -- Medicaid managed
19 care companies to look at the exchanges.
20 And so you've got Centene aggressively
21 pursuing it and being -- apparently successfully
22 pursuing it. They've got a different cost
23 structure than United, the one that you're alluding
24 to. And you've got other Medicaid managed care
25 companies that are similarly positioned, Molina

1 being the one that's already entered the exchange
2 market and Amerigroup being a pretty logical
3 example of one who would follow on, too.
4 So, on the one hand, you talk about those that
5 may be reconsidering it from year to year have to
6 make a business decision whether to stay in the
7 exchange or not. And you have those that are
8 positioned to be successful in the exchange. I
9 think that's got to be sorted out. I don't -- I
10 think that's one of the reasons these shares are
11 very volatile.
12 **MR. JOHNSON:** Thank you.
13 **MR. CHAIR:** As a part of your application, you
14 presented a statement that the merger of Aetna and
15 Humana will enable the company or their combined
16 entity to offer consumers a broader choice of
17 products, access to higher quality and more
18 affordable care, as well as a better overall
19 experience. And I think we've touched base on much
20 of the -- you've described much of what we're
21 talking about there.
22 Perhaps we didn't talk about the broader
23 choice of products, or is there anything else that
24 you would like to add substantiating the statement
25 that was made in the application?

1 **MR. WHITMER:** Mr. Soistman?
2 **MR. SOISTMAN:** Thank you, Mr. Robleto. I'd
3 like to maybe touch on two of those aspects.
4 First, broader choice of products. We know that
5 consumers have a broad range of needs, and there
6 isn't a one-size-fits-all solution. And we know
7 that someone who is part of the millennial
8 generation or generation -- or baby boomers or
9 everything in between, their needs are different.
10 And we have to have products and services that
11 respond to those needs. So our portfolio will
12 always be ever-evolving to meet those changing
13 needs.
14 I also want to touch on quality, because
15 quality can take on a different meaning to
16 different people as well. And I can't emphasize
17 enough how committed Humana and Aetna are. And
18 it's not just in words, it's in actions. If you
19 look at our Star ratings, which I think is just a
20 great example of, you know, demonstrating actions
21 and results for what you really intend to do. And
22 there is a correlation between driving quality
23 results and driving down costs and improving member
24 satisfaction, which is why I like the Stars Rating
25 System so much, because it brings all of that

1 together. And it holds us accountable, as we
2 should be.
3 And I think the way we operate, we -- even
4 though we may not have an official Stars rating for
5 our commercial business and some other lines of
6 business, we operate as if we did. And it brings
7 those same quality goals across all of our
8 business. And that, too, is an evolving process.
9 Technology allows us to get better at things.
10 Just thinking outside the box and solving problems,
11 data informatics, and being able to understand root
12 cause of, you know, why people are going to the
13 hospitals more often or going to the ER facilities
14 more often when they really don't need to be there.
15 How do you solve for that?
16 So both organizations, I think, have
17 demonstrated high levels of commitment, but also I
18 would say great passion for, you know, bringing
19 about better outcomes for the consumer in
20 satisfaction as well as the quality of their life.
21 It's back to our healthy days. It's not just a
22 slogan, it really is how we view the world, giving
23 our members more healthy days.
24 **MR. CHAIR:** Thank you.
25 My next written question may be what you just

1 answered, but is it expected the proposed
2 combinations of the organization, subject to this
3 acquisition filing, will result in products,
4 services, or technology the acquiring entity does
5 not currently possess? Maybe the synergy or some
6 access? Just -- you may have already addressed
7 that, but --
8 **MR. SOISTMAN:** I probably have, but I'll
9 emphasize, in fact, even in my remarks, you may
10 recall me talking about how we will look for best
11 practices, best systems, best products, procedures,
12 everything that is going to affect our operation is
13 now fair game. Meaning, we'll look at this across
14 both organizations and we'll have leadership from
15 both organizations working together to truly
16 identify this is, indeed, the best practices,
17 whether it's on the Humana side or the Aetna side.
18 And it's going to vary from initiative to
19 initiative. And that's how we approached the
20 Coventry transaction, by the way, and we got a very
21 good outcome. We would approach Humana in a very
22 similar fashion.
23 **MR. CHAIR:** I think you've made it clear that
24 the acquisition is not going to result in any
25 changes in management, at least where it stands,

1 there were no changes in management. Can you share
2 anything about how management is affected by this
3 transaction? How does management benefit? How
4 does management lose? Just anything about the
5 impact. We've talked about consumers and providers
6 and the agents. What about the impact on
7 management of the companies?
8 **MR. WHITMER:** Mr. Soistman?
9 **MR. SOISTMAN:** Sure. I would say that our
10 jobs get much more challenging. They're
11 challenging already, as you might appreciate, but
12 bringing these two organizations together, you
13 know, the bandwidth requirements are certainly
14 greater. And, you know, I think we're up for that
15 challenge to run these -- this business, the new
16 combined business, to the highest standards and get
17 the, you know, best possible results over the long
18 term.
19 There really are, I would say, no other
20 benefits that I could think of in terms of just
21 having an opportunity to play a role in a much
22 larger combined organization, and it's going to
23 test all of us in terms of our ability to step up
24 and operate in a much larger organization.
25 **MR. CHAIR:** You talked a little bit -- I

1 believe it was referenced that Aetna will become a
2 stronger, financially stronger company as a result
3 of the acquisition. Certainly it's a very
4 expensive transaction. Certainly going to be a
5 boatload of debt. Can you talk at all about how
6 Aetna will become a stronger financially -- a
7 stronger company financially as a result of the
8 acquisition?
9 **MR. WHITMER:** Mr. Soistman or Mr. Martino,
10 feel free to go ahead and answer. I think both of
11 you --
12 **MR. SOISTMAN:** I'm happy to start --
13 **MR. WHITMER:** Why don't you start.
14 **MR. SOISTMAN:** -- and ask Greg to supplement.
15 Again, this is a complementary transaction of
16 bringing the existing commercial strength and
17 capabilities of Aetna together with Humana's world
18 class Medicare managed capabilities. And you're
19 right, initially, there is more debt involved, but
20 we have a plan to work that debt down over two
21 years to -- you know, within a established target.
22 And I think, if you look at the history of Aetna,
23 we have been a very physically sound organization.
24 We're very mindful of our ratings and very mindful
25 to meeting our regulator's requirements, be it at

1 the RDC levels, and that won't change. We will --
2 as the organizations come together and we recognize
3 some of the synergies, that will help our financial
4 performance as well.
5 **MR. MARTINO:** The only thing I would add is
6 obviously as we bring -- begin developing broader
7 products, looking towards the quality, looking
8 towards all the things we've talked about, the
9 benefits, we really think it will help drive
10 growth, drive membership. Our goal is to grow our
11 membership, grow healthy days for our membership,
12 which will all make us a stronger company from a
13 financial perspective, but also from an operational
14 perspective.
15 **MR. CHAIR:** Thank you.
16 Within various affiliates of Aetna or within
17 various affiliates of Humana there are a number of
18 types of contracts between the affiliates. Are
19 there any types of contracts not previously
20 discussed involving Florida domestic companies that
21 would be canceled post acquisition or some new
22 initiative regarding relationships between the
23 entities?
24 **MR. WHITMER:** Mr. Soistman?
25 **MR. SOISTMAN:** Mr. Robleto, I'm not aware of

1 any such contracts that would be eliminated or
2 terminated.
3 **MR. CHAIR:** Okay. Aetna is a stock insurer,
4 so they have a fiduciary responsibility or
5 fiduciary duty of profitability that can often --
6 well, I don't know if it can get in the way, but
7 that often can raise questions about the interest
8 of investors balanced against the interest of
9 policyholders. And can you assure us in any way,
10 is there anything that you would like to talk about
11 about that very difficult balance of satisfying
12 investors, often on a short return timeline, and
13 taking care of the consumers?
14 **MR. WHITMER:** Mr. Soistman?
15 **MR. SOISTMAN:** Well, I think our shareholders
16 would expect us to take care of our customers
17 first. Without taking care of our customers,
18 nothing else is possible. So that is always our
19 number one objective.
20 When you look at the businesses, the lines of
21 businesses, more of them, if not most of them, now
22 have some kind of minimum loss ratio requirement,
23 which by design really does limit the amount of
24 profitability one can achieve.
25 And to Dr. McCarthy's comments earlier about

1 just the competitive nature of the Florida market,
2 markets across the country, there's always those
3 checks and balances. Our job is to continue to be
4 mindful of how can we do things more efficiently
5 and eliminate waste and unnecessary redundancy.
6 And bringing these organizations together, in fact,
7 that's where a lot of the savings come back is
8 eliminating unnecessary redundancies.
9 And then we have to -- talked about
10 simplicity. Simplicity does take out a lot of
11 waste when you do it right. So that's how we'll
12 take care of our shareholders, two ways, you know,
13 how we run our business, but also Mr. Martino's
14 comments, many of the areas we're focusing on are
15 growth businesses.
16 Back to my comments about Medicare and the --
17 what we're seeing in America right now with 10,000
18 Americans aging into Medicare eligibility every
19 day, that continues out for the next 25 years. So
20 there are growth opportunities, Medicaid growth
21 opportunities, individual public exchange growth
22 opportunities. That's how we'll take care of our
23 shareholders in terms of growing our top line, but
24 being very mindful of being lean and efficient so
25 we can offer competitively affordable price

1 products to our current and future members.
2 **MR. CHAIR:** So, if this acquisition is
3 approved, is it your intent to comply with the
4 provisions of Sections 624.318 and 641.27 of
5 Florida statutes, which require cooperation with
6 examinations conducted by the Office, which require
7 making accounts, records, documents, files,
8 information, assets, and any other matters in your
9 possession freely available to our examiners?
10 **MR. WHITMER:** Mr. Soistman?
11 **MR. SOISTMAN:** I can say definitively that if
12 you look at the history of the relationship that
13 we've had with the OIR, we have held ourselves to
14 the highest standard. We've made sure that we've
15 lived up to that standard, and I don't expect that
16 to change. So, yes, we will continue to be good
17 stewards and remain in compliance with all of the
18 requirements set forth in regulation.
19 **MR. CHAIR:** Thank you.
20 Was there an independent valuation of the
21 assets being acquired? Did you obtain an
22 independent valuation of the assets being acquired?
23 And can you tell us who conducted it and what
24 opinion there was?
25 **MR. WHITMER:** Start with Mr. Soistman. Or if

1 not, Mr. Martino can follow up.
2 **MR. SOISTMAN:** I can tell you that, yes, there
3 were independent valuations performed by, I
4 believe, more than one organization at the Board's
5 request. I don't have here today the specifics,
6 but I can tell you that, yes, there were
7 independent valuations performed. I don't know if
8 Mr. Martino would like to supplement that.
9 **MR. MARTINO:** I'll obviously try to help you
10 out with that. The arm's length negotiation and
11 the arm's length, really, review and analysis done
12 in additional -- firms by independent --
13 independently reviewed. And I believe one of the
14 organizations was CitiBank who did one of the
15 reviews.
16 **MR. CHAIR:** Thank you.
17 Are there material tax implications expected
18 as a result of the proposed acquisition?
19 **MR. WHITMER:** Mr. Soistman?
20 **MR. SOISTMAN:** I'm not aware of any, but I
21 will check with my colleagues here to see if anyone
22 has information that I'm not aware of. But
23 otherwise we would come back to you with it.
24 **MR. MARTINO:** I'm not aware of one either.
25 **MR. CHAIR:** To date, have any regulatory

1 decisions been received by the company relative to
2 the proposed acquisition transaction?
3 **MR. WHITMER:** Mr. Martino?
4 **MR. MARTINO:** Yes. We've received approval
5 from Michigan for our Form A in Michigan. We also
6 received change of control approval in Vermont. In
7 addition to that, we have had additional Form Es
8 approved and others are being worked on. So we
9 have had several approvals from states.
10 **MR. CHAIR:** May I ask, are they blanket
11 approval or is there any qualifications to the
12 approvals thus far?
13 **MR. MARTINO:** In Michigan, there was. One of
14 the conditions was approval from other regulatory
15 bodies, including state insurance departments that
16 are necessary to review this filing, as well as
17 clearance from the federal bodies necessary to
18 review this.
19 **MR. CHAIR:** Okay. Thanks.
20 One of the things that we're certainly always
21 interested in in Florida is bringing jobs to
22 Florida. And one of the things we're always afraid
23 of is losing jobs in Florida. Can we talk about
24 the workforce? I think you've mentioned about
25 15,000 employees between the two companies here in

1 Florida. Will this transaction bring additional
2 jobs to Florida? Is it anticipated that ultimately
3 this transaction will reduce jobs in Florida?
4 **MR. WHITMER:** Mr. Soistman?
5 **MR. SOISTMAN:** Sure. I think with -- if you
6 refer back to my remarks, I acknowledge that any
7 time you have a merger and acquisition, there is
8 some risk of dislocation. Where that occurs, we
9 don't know. But I can reemphasize my comments
10 about the importance of Florida. Florida is
11 Aetna's third largest market with respect to
12 employees. It's a great market. We have great
13 employees here in Florida. And I think that holds
14 true for Humana as well.
15 I mentioned our focus on growth businesses.
16 And when you are successful capitalizing on those
17 opportunities in growth businesses, the jobs will
18 follow. Healthcare is local. So we envision that
19 our local presence will continue to be strong and
20 employment will grow as we grow.
21 **MR. CHAIR:** Thank you.
22 Can you provide any update on litigation that
23 may have been settled or is pending or threatened
24 as a result of the proposed acquisition?
25 **MR. WHITMER:** Mr. Martino?

1 **MR. MARTINO:** Yeah. The last piece of
2 litigation up against Aetna was dismissed on -- I
3 believe last week it was dismissed by the
4 parties -- by the party.
5 **MR. CHAIR:** Have there been any amendments to
6 the agreement and plan of merger document that you
7 presented to us? I think I quoted from that
8 earlier. Are there any other significant changes
9 between the date of application and today?
10 **MR. WHITMER:** I'm going to give Mr. Soistman
11 and Mr. Ventura an opportunity to respond.
12 **MR. SOISTMAN:** To my knowledge, no, there have
13 not been any changes.
14 **MR. VENTURA:** That's correct from our
15 perspective, no changes.
16 **MR. CHAIR:** Okay. Thank you.
17 So if a policyholder or a stockholder has a
18 specific question, can you provide us with a
19 contact before we conclude our hearing today that
20 we can share with those or make available to those
21 inquiries?
22 **MR. WHITMER:** Mr. Soistman?
23 **MR. SOISTMAN:** We would be happy to do that,
24 yes.
25 **MR. CHAIR:** Okay. Does anyone on the panel

1 have any additional questions, need clarification
2 on anything that we've heard?
3 **MS. MOSTOLLER:** Mary Mostoller. You talked
4 about your cost savings today. But is there any of
5 the cost savings that will actually be passed on to
6 Florida consumers in any type of monetary fashion
7 through, you know, just lower out-of-pocket
8 expenses? Anything that you envision?
9 **MR. WHITMER:** Mr. Soistman?
10 **MR. SOISTMAN:** We are very mindful of that in
11 Florida and in all of our other markets. When we
12 talked about the 1.25 billion that we expect to
13 achieve in cost savings beginning in 2018, we see
14 that being returned substantially to the benefit of
15 consumers in the form of coverage that they have,
16 lower copays and so forth. But it's also through
17 an investment in how we make products and programs
18 available in the future. So it's really a
19 combination.
20 But I think it's important to note that
21 reducing the costs is sort of relative, because we
22 also have this medical trend that goes -- continues
23 every year. So I'd like to think of those cost
24 savings as mitigating what otherwise would be a
25 higher -- potentially a higher increase in the cost

1 of the premium, so this actually defrays some of
2 that.
3 **MR. CHAIR:** Please.
4 **MR. JOHNSON:** You mentioned the medical trend
5 and the cost curves, so I have to bring this up. I
6 guess one of the things I hear about when we talk
7 about getting bigger as health companies is you
8 want to try to bend the cost curve and then
9 actually stop that trend or at least significantly
10 slow it. So I guess what is your -- I guess, is
11 this through the -- what is it you see is the most
12 likely area of this change that you're going to --
13 the process of merging you're going to go through
14 that will help you do that?
15 **MR. WHITMER:** Mr. Soistman and perhaps
16 Dr. McCarthy as well.
17 **MR. SOISTMAN:** Mr. Johnson, we look at every
18 element of medical costs continuously, whether it's
19 the unit cost, utilization. We look for areas for
20 waste and abuse. You have to remain vigilant on
21 all of those fronts to really make an impact. And
22 we do that through a lot of data science work, a
23 lot of data mining. And we continue to identify
24 opportunities.
25 But when I referenced in my remarks Humana at

1 Home, for example, a program that is really aimed
2 at the chronically ill population, and it's
3 changing, not just the cost curve, but it's also
4 making a difference in people's lives. And you've
5 got to do those simultaneously. I mean, achieving
6 one without the other frankly would be failure.
7 So, we -- I point to that program just to
8 illustrate one of many unique programs between our
9 respective organizations that are really aimed at
10 bringing about a better outcome of quality outcome
11 for a unique part of the population, because
12 populations have different challenges.
13 You know, we look at the health disparities
14 and we have to be mindful of a very diverse
15 population and have initiatives that really reflect
16 the differences in populations and programs that
17 are specific to one group versus another group.
18 That's how we will achieve quality and bend cost
19 curve.
20 **MR. WHITMER:** Did you want to add anything,
21 Dr. McCarthy?
22 **DR. McCARTHY:** I would only add that
23 competitive pressures are going to guarantee that
24 sort of thing, that Aetna and Humana and all the
25 others in the market are going to listen to what

1 consumers are doing -- what they need, what they
2 want, what will improve their health status, what
3 will be a way to manage their utilization that
4 helps them, not just takes something away. I mean,
5 I think we heard Dr. Hernandez talk about the
6 model, and you just talked about another model that
7 says managing utilization is something that keeps
8 people healthy.
9 I think it's competitive pressures across the
10 spectrum of all these players that will have all of
11 them asking what can they do better to sell and to
12 gain more members.
13 **MR. CHAIR:** I think that completes our
14 questions at this time. I would now like to switch
15 to the opportunity for public comment. I have
16 received three public comment request forms. I
17 will call the individuals. I believe for some
18 reason I'm going to do it in the order that they
19 were provided to me.
20 So, I would like to start with calling Kyle
21 Sanders. He's from Duval County and represents
22 St. Vincent's healthcare.
23 Mr. Sanders?
24 **MR. SANDERS:** Good afternoon. Thank you for
25 having us. My name is Kyle Sanders. I'm the

1 president of Population Health and Care Continuum
2 at St. Vincent's healthcare in Jacksonville. And
3 I'm honored to be here to advocate on behalf of
4 this acquisition.
5 St. Vincent's healthcare is a fully integrated
6 network that exists within Jacksonville. We have
7 hospitals, represent about a thousand beds,
8 approximately 200 employed physicians. And we
9 really feel like we're on the leading edge within
10 our community in moving towards a value-based care.
11 And we really like to talk about it around
12 patient-centered holistic care for our patients.
13 St. Vincent's is also part of Ascension
14 healthcare, which is the largest Catholic and the
15 largest not-for-profit system that exists within
16 the United States. We've really enjoyed an
17 exceptional relationship with Aetna. We've had a
18 collaborative relationship where we've gotten
19 together on many products. We worked together on a
20 Medicare Advantage product. We worked together on
21 some of the exchange products as well as commercial
22 that they have.
23 And what we've enjoyed is the fact that we've
24 been able to sit together and share data, talk
25 about how we're doing both on the costs and the

1 quality side. We've been able to look at it all
2 the way down to our individual provider level.
3 We've been able to actually move the needle both on
4 the cost side as well as on the quality indicator
5 side, as we've looked at individual providers and
6 how we've talked about how we changed the lives of
7 some of those patients that have been in that area.
8 Recently actually got to celebrate some
9 successes that we had with some of our state and
10 local executives with that. So we were very proud,
11 because we felt like that made a difference in the
12 lives of the patients that we serve. So, as a
13 partner with Aetna and as a partner also with
14 Humana, we feel that this merger will actually
15 provide a stronger company.
16 We agree on the collaborative nature and on
17 the complementary nature of their products, and
18 that this is something that's going to help benefit
19 our patients in our community within Jacksonville.
20 And I appreciate the opportunity to advocate on
21 behalf of the organizations.
22 **MR. CHAIR:** Thank you very much.
23 Does anyone on the panel have any questions
24 for Mr. Sanders?
25 **MR. SOISTMAN:** Thank you.

1 **MR. CHAIR:** Next I'd like to call Mr. Jay
2 Wolfson, representing University of South Florida
3 Health, USF Health.
4 **MR. WOLFSON:** Good afternoon.
5 **MR. CHAIR:** Good afternoon, Mr. Wolfson.
6 **MR. WOLFSON:** Pleasure to be here. Thank you
7 for giving me the opportunity. My name is Jay
8 Wolfson. I wear a bunch of different hats. I'm a
9 professor of public health, medicine, and pharmacy
10 at the University of South Florida. I'm the
11 associate vice-president for health -- policy at
12 USF. And I'm also the senior associate dean for
13 the Morsani College of Medicine.
14 And in those capacities for the last 30 some
15 odd years, I've worked closely with the state,
16 conducting collaborative studies with colleagues at
17 FSU and Gainesville on health services research
18 issues, quality, outcome safety, costs, trying to
19 find out how we can measure it, how we can improve
20 it.
21 I spend an awful lot of my time conducting
22 those studies, engaging in the management of
23 professional education and health services across
24 all those colleges, engaging in clinical services,
25 measurement and management, writing a bunch of

1 grants to support it, federal grants, private
2 grants.
3 I've had the privilege of working with Humana
4 for several years in our community and I've watched
5 them develop community-based systems of care and
6 focusing on a few special communities. They've
7 done some things in San Antonio and they've come to
8 Tampa now to develop a healthy communities
9 perspective. Their health days count, really a
10 public health concept. Population-based health
11 management. They're not the only ones who are
12 doing this, but the extent to which they're doing
13 it openly and notoriously in some respects in
14 bringing together all the different characters and
15 players in each community makes a real difference.
16 The complementary strengths of Aetna with its
17 massive financial services and analytics
18 capability, and the strength and experience of
19 Humana in the public health services marketplace
20 come together to make them both stronger. And as
21 we move forward after the Affordable Care Act has
22 been introduced, transparency in what we do, how we
23 measure it and how we report it is going to make a
24 difference in terms of who buys what and how you
25 regulate all of it. It will be a lot more useful

1 data.

2 Twenty years ago data weren't very good, even
3 ten years. They're getting much better. And we're
4 all using them. We're using them as consumers,
5 we're using them as regulators, we're using them as
6 researching, and as clinicians to make better
7 decisions. And if we have a larger entity that's
8 capable of synthesizing what they do and
9 structuring it better to improve the data they have
10 to leverage the services that they have, it creates
11 a complement for the community in terms of being
12 able to focus more on outcomes and value.
13 Everybody's going to have to do that. And this is
14 a cool example of doing that.

15 And it creates what I think is going to be
16 more regulatory transparency, more transparency for
17 consumers, and more of an opportunity for all of us
18 to collaborate more together, which we expect to do
19 at USF with Humana. And I was glad to learn that
20 they're not going to turn the Humana name off,
21 consume it, and simply make a giant Aetna. They're
22 going to maintain the structural and quality
23 integrity of what Humana has done.

24 And I just made the three minutes.

25 **MR. CHAIR:** Thank you very much.

1 Any questions?
2 Thank you. Our third speaker request form
3 comes from Bill Herrle, the National Federation of
4 Independent Businesses. Mr. Herrle?
5 **MR. HERRLE:** Thank you, Mr. Robleto. Glad to
6 see you. Bill Herrle with the National Federation
7 of Independent Business. We represent independent
8 business owners across the state, about 10,000, as
9 you know, Mr. Robleto. I've been doing that for
10 quite some time. My history in advocating for the
11 business community started in 1989 with -- and I've
12 been proud to do that ever since.
13 I noted that, at the start of the meeting, you
14 pointed out that this is not an adversarial
15 process. That's kind of unusual for this room
16 right here in the Senate, but we'll try to
17 accommodate that by not being adversarial,
18 Mr. Robleto. So, we are neither taking a formal
19 position advocating the approval or disapproval of
20 this merger, but I would like to offer to you my
21 personal testimony in working as an advocate for
22 small business owners for many years.
23 The corporate culture that I have found, out
24 of both of these organizations when it comes to
25 voicing the concerns of the consumer and as it is

1 so often in healthcare, the consumer is the
2 independent business owner, and their dialogue and
3 their constant work with us on many, many issues,
4 not in the least of which is just reminiscing over
5 the many years. As I was sitting in the audience,
6 remembering that Humana was a tremendous leader in
7 bringing transparency issues forward before the
8 legislature, even this year.
9 NFIB is working very closely with Aetna on the
10 balance billing issue, which is very much a
11 pro-consumer issue. And we find a beneficial
12 alliance in the corporate culture of both these
13 organizations and wanted to take the opportunity to
14 relay that to you, Mr. Robleto, and the Office of
15 Insurance Regulation.
16 **MR. CHAIR:** Thank you, Bill. Thank you very
17 much.
18 My plan was to suggest that if Aetna
19 representatives wanted to respond to any of the
20 public testimony, I'll give you that opportunity.
21 **MR. SOISTMAN:** I would like to respond with
22 just a heartfelt thank you.
23 **MR. CHAIR:** I guess, before I did that, is
24 there anybody else present that would like to come
25 up and speak?

1 Okay. Are there any final questions from the
2 panel members?
3 Well, I again would like to compliment you on
4 the tremendous presentation that you provided.
5 Very comprehensive information, your ability to
6 answer all of our questions. So, again, I thank
7 you very much for your presentation.
8 As I mentioned earlier, we are not going to
9 make any decisions today, but we will take into
10 account in our decision-making all of the
11 information that we have received today and any
12 information that we receive from the public over
13 the next ten days.
14 So, again, reminding the public that, to make
15 a comment, send an email to Aetnahearing@FLOIR.com.
16 And we will take into consideration whatever
17 additional comments we have.
18 Again, thank you very much. Thank you all in
19 the audience for participating and being with us.
20 And hope you all have a great afternoon.
21 (Hearing concluded at 1:00 p.m.)
22 * * *
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1 CERTIFICATE OF OATH

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3

4

5 STATE OF FLORIDA:

6 COUNTY OF LEON:

7

8

9 I, the undersigned authority, certify that said

10 designated witness personally appeared before me and was

11 duly sworn.

12 WITNESS my hand this day of ,

13 2016.

14

15

16 ______________________________

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22 My Commission Expires: July 24, 2016

23

24

25

1 CERTIFICATE OF REPORTER

2

3

4 STATE OF FLORIDA:

5 COUNTY OF LEON:

6

7 I, TRACY L. BROWN, court reporter and Notary
8 Public do hereby certify that the foregoing proceedings
9 were taken before me at the time and place therein
10 designated, and that the foregoing pages numbered 1 through
11 are a true and correct record of the aforesaid proceedings.
12 I further certify that I am not a relative,
13 employee, attorney or counsel of any of the parties, nor am
14 I a relative or employee of any of the parties' attorney or
15 counsel connected with the action, nor am I financially
16 interested in the foregoing action.
17 DATED THIS day of , 2016.

18

19

20 ______________________________

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