

AMENDMENT TO

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER
WITH A DOMESTIC INSURER**

Name of Domestic Insurer: Physicians Health Plan and its wholly owned subsidiaries, PHP Medicare and PHP Insurance Company (collectively, “Domestic Insurer”)

BY

Name of Acquiring Person: UM Health (“Applicant”)

Filed with the Michigan Department of Insurance and Financial Services

Dated: May 13, 2020

Name, Title, Address and Telephone Number of Individual to Whom Notices and Correspondence Concerning This Statement Should Be Addressed:

Pamela Emenheiser
Office of Vice President and General Counsel
University of Michigan
300 N. Ingalls, Suite 3B04
Ann Arbor MI 48109-5476
Phone: 734.232.9959
Email: pemen@med.umich.edu

Kathrin E. Kudner
Dykema Gossett PLLC
2723 S. State St., Suite 400
Ann Arbor, MI 48104-6188
Phone: 734.214.7697
Email: kkudner@dykema.com

This Form A Statement Regarding the Acquisition of Control or Merger (this “Form A”) relates to the acquisition of a minority interest in Physicians Health Plan and its wholly owned subsidiaries, PHP Medicare and PHP Insurance Company (collectively, “PHP” or the “Domestic Insurer”) by UM Health (the “Applicant”), as more fully described below.

This Form A contains confidential and sensitive personal information. In particular, the biographical affidavits attached as Exhibit B are submitted to DIFS in confidence and contain information that is not otherwise available to the public and should be afforded confidential treatment. All such information is provided with the express understanding that the confidentiality of such information will be safeguarded and the executive officers and directors UM Health, Sparrow Health System and PHP Holdings will be protected from any and all unwarranted invasions of personal privacy pursuant to all applicable provisions of law.

UM Health respectfully requests the approval of the Director of the Michigan Department of Insurance and Financial Services (“DIFS”) pursuant to the requirements of Mich. Comp. Laws §§ 500.1311-1312 and Order No. 18-075-M, dated November 19, 2018, as amended in part by Order No. 19-047-M, dated September 20, 2019 for the acquisition of a minority interest in PHP by UM Health as described herein.

ITEM 1. INSURER AND METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

Physicians Health Plan, together with its wholly owned subsidiaries, PHP Medicare and PHP Insurance Company, is the domestic insurer to which this application relates (hereinafter, collectively, “PHP” or “Domestic Insurer”). The Domestic Insurer’s address is 1400 E Michigan Ave., Lansing, MI 48912. The Domestic Insurer’s NAIC number is 95849. The sole corporate member of PHP is Sparrow Health System.

PHP Medicare is a Michigan health maintenance organization, whose address is 1400 E. Michigan Ave., Lansing, MI 48912 and whose NAIC number is 16555. PHP Insurance Company is a Michigan insurance company, whose address is PO Box 30377, Lansing, MI 48909 and whose NAIC number is 12816

The acquisition of interest in PHP by UM Health (the “Applicant”) addressed by this Form A will be completed in two steps. As the first step, Sparrow Health System has formed a new holding company, PHP Holdings, LLC, a Michigan limited liability company, (“PHP Holdings”) which is a wholly owned subsidiary of Sparrow Health System. At closing of the proposed transaction, Sparrow Health System will contribute one hundred percent (100%) of its membership interest in the Domestic Insurer to PHP Holdings.

In the second step, the Applicant will acquire a twenty-five percent (25%) minority membership interest in PHP Holdings (the “Transaction”). Sparrow Health System and the Applicant have entered into a binding Term Sheet dated as of March 28, 2019 and intend to enter into a Definitive Agreement to define the agreed upon terms and conditions of the Transaction. Sparrow Health System will retain a controlling seventy-five percent (75%) membership interest in PHP Holdings. Sparrow Health System and the Applicant will share in the profits and losses of PHP Holdings in accordance with their respective membership interest percentage.

The Transaction and the Applicant’s acquisition of interest of the Domestic Insurer will be effective as of the Closing Date set forth in the Definitive Agreement. A copy of the Term Sheet is attached as Exhibit A.

PHP Holdings will continue to:

- i. Develop regionally branded health insurance products;**
- ii. Engage and deploy existing Michigan Medicine physician capabilities and resources;**
- iii. Provide quality health insurance products on a regional and state-wide basis;**
- iv. Enhance diversity of Domestic Insurer scope and geographic presence to create greater risk tolerance;**

- v. Lower administrative costs through shared infrastructure efficiencies;
- vi. Be driven by industry leading quality, outcome and superior customer service metrics; and
- vii. Potentially partner with other like-minded Michigan healthcare delivery systems to develop a geographically diverse care network.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) State the name and address of the applicant seeking to acquire control over the insurer.

The Applicant is UM Health. The Applicant's address is 300 North Ingalls Boulevard, Ann Arbor, MI 48109-5476.

(b) If the applicant is not an individual, state the nature of its business operations for the past 5 years or for such lesser period as such person and any predecessors thereof shall have been in existence. Describe the business intended to be done by the applicant and the applicant's subsidiaries.

The Applicant is a wholly owned subsidiary of the Regents of the University of Michigan (the "University"). As part of the growing and expanding healthcare community, the University established the Applicant, UM Health, in 2016 as a vehicle to facilitate the acquisition of or merger or affiliation with healthcare systems and other healthcare organizations in Michigan and surrounding states, as well as to govern, direct and oversee these systems and organizations. UM Health is a charitable organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. UM Health recently affiliated with Metropolitan Hospital, a charitable hospital located in Wyoming, Michigan, and its affiliates. UM Health may acquire, merge, and affiliate with other healthcare systems or organizations in Michigan and surrounding states in the future.

UM Health conducts the following charitable activities:

- 1. Provide for the charitable, educational and scientific aspects of health care through activities designed to promote the health and promotion of education of the public;**
- 2. Engage in research concerning the causes, care and prevention of illness and the means by which the delivery of health care to the public can be improved;**
- 3. Own, operate, acquire, establish, sponsor, develop, and maintain hospitals, health care related facilities and other organizations, health promotion and education programs, and other activities designed to provide for the care of the public;**
- 4. Provide administrative and management support services and assist with long-term strategic planning to the University and affiliated healthcare systems and organizations; and**
- 5. Conduct other activities and programs, such as participation in managed care and coordinated care; and**

6. Offer its services for the general health and well-being of the public without regard to race, color, creed, sex, national origin or economic condition.

(c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant, including the ultimate controlling person(s). Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership), primary business (e.g. holding company, insurance agency, manufacturer) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

Organizational charts presenting the identities of, and inter-relationships among, UM Health and its affiliates before and after giving effect to the Transaction are attached as Exhibits C and D, respectively.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

On the biographical affidavit, include a third party background check and state the following with respect to 1) the applicant if she or he is an individual 2) if the applicant is not an individual, all persons who are, or who have been selected to be, directors, executive officers (or others who perform or will perform functions appropriate to those positions), or owners of 10% or more of the voting securities of the applicant, and if the applicant is not an individual.

(a) Name and business address;

(b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on;

(c) Material occupations, positions, offices or employment during the last 5 years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status or such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

(d) Whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last 10 years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

(e) Upon the request of the Director, independent third party verification reports prepared by an NAIC approved vendor shall be provided.

See https://www.naic.org/documents/industry_ucaa_third_party.pdf?19 for a list of third party vendors for background reports.

See Exhibit B. Pursuant to a waiver from DIFS, Applicant is submitting fingerprint cards instead of third party verification reports. Biographical affidavits and fingerprints for the Board of Directors of PHP and for Sparrow Health System were recently filed and are currently on file with DIFS. Biographical affidavits and fingerprints for the Board of Directors of PHP Holdings and UM Health are being submitted with this Form A or will be provided subsequently in separate submissions.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. Describe any transaction where funds were or are to be obtained for such purpose, including any pledge of the insurer's stock or pledge of the stock of any of its subsidiaries or controlling affiliates. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

As consideration for the acquisition of control of 25% interest in PHP Holdings, the Applicant will pay to Sparrow Health System:

- (1) the mutually agreed value of a competitive provider contract with the Applicant's health care facilities and providers for Domestic Insurer's products, such as HMO, ASO (self-funded), insurance and Medicare Advantage products and other services as they are developed; and**
- (2) \$13,000,000 to be paid on the Closing Date (as defined in the Definitive Agreement).**

(b) Explain the criteria used in determining the nature and amount of such consideration.

The Applicant and Sparrow Health System agreed upon a purchase price for the Applicant's acquisition of membership interest based on independent, third-party valuations conducted to determine the relative value of each party's contribution to the joint venture, whether jointly or by reconciliation of separately procured valuations. The Applicant retained Duff & Phelps and Lewis & Ellis, Inc. and the Domestic Insurer retained Hammond Hanlon Camp, LLC.

(c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.

Not Applicable.

ITEM 5. FUTURE PLANS OF INSURER

Describe any plans or proposals which the applicant may have for the insurer to declare a dividend, (whether or not extraordinary), to liquidate the insurer, to sell its assets, to merge it with any person or persons, or to make any other material change in its business operations or corporate structure or management.

Immediately following the closing of the Transaction, PHP will continue to conduct its operations as currently conducted, including operation of its two subsidiaries, PHP Medicare and PHP Insurance Company. PHP will be the wholly owned subsidiary of PHP Holdings. Sparrow Health System will be the controlling majority owner of PHP Holdings and the Applicant will be a minority owner of PHP Holdings. As the minority owner, the Applicant will support the goals of the Domestic Insurer and its affiliates including: (i) to expand its third party administrative ("TPA") services to include TPA services to University employees; (ii) to expand Domestic Insurer's service area to include the counties where the University employees live; and (iii) to expand its Medicare Advantage Product offering to include the Ann Arbor area.

The Applicant has no plans to request the Domestic Insurer to liquidate, sell its assets to or merge with any person or persons or to make any other material change in PHP's business operations or corporate structure or management.

Applicant and Sparrow Health System have agreed to cause the Domestic Insurer to issue ordinary dividends and, with consent of DIFS and as permitted by law, extraordinary dividends, when unrestricted cash and investment reserves exceed 450% of Risk Based Capital.

The Applicant and Sparrow Health System shall govern PHP Holdings using a shared governance model as defined below. The parties considered competency needs into account in making their appointments to the Board of Managers of PHP Holdings. The Applicant endeavored to appoint at least one individual with significant expertise in the health insurance industry.

The PHP Holdings Board shall be comprised of nine (9) voting managers, six (6) of whom shall be appointed by the controlling member, Sparrow Health System ("Sparrow Managers"), and three (3) of whom shall be appointed by Applicant ("UM Managers"), both initially and for purposes of filling vacancies. The PHP Holdings Board of Managers will serve at the pleasure of the appointing member and may be removed and replaced at any time by that member, in accordance with the governance documents of PHP Holdings. The President of PHP Holdings shall also serve as an ex-officio, non-voting manager on the PHP Holdings Board.

The managers and officers of PHP Holdings are the following individuals:

Managers

Iftiker Ahmad, M.D.
John Ayanian, M.D.
Keith Dickey
James Dover
Douglas Edema, M.D.
Andrea Kosloski
Timothy Peterson, M.D.
Paula Reichle
Joseph Ruth

Officers

Dennis Reese – President
Paula Reichle – Treasurer

It is contemplated that the existing management of the Domestic Insurer will continue after the closing of the Transaction.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

There are no securities of Domestic Insurer being acquired. Sparrow Health System is transferring one hundred percent (100%) of its interest in the Domestic Insurer to PHP Holdings. Applicant is acquiring a twenty-five percent (25%) minority membership interest in PHP Holdings. Sparrow Health System will hold a controlling seventy-five percent (75%) membership interest in PHP Holdings. PHP Holdings will own one hundred percent (100%) of Domestic Insurer. The purchase price and the terms of the Transaction were determined by arms' length negotiation between the Applicant and Sparrow Health System.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class or any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

Other than as disclosed on this Form A, neither the Applicant nor any of its affiliates owns any voting securities of the Domestic Insurer or any of its controlling persons, including Sparrow Health System.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom the contracts, arrangements or understandings have been entered into.

Other than as disclosed on this Form A, there are no contracts, arrangements, or understandings with respect to any voting security of the Domestic Insurer or any of its controlling persons in which the Applicant or its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefore. State whether any shares so purchased are hypothecated.

During the last twelve calendar months preceding the filing of this Form A, neither the Applicant, its affiliates, nor, to the knowledge of the Applicant, any of the individuals listed in item 3 has purchased any voting securities of the Domestic Insurer or any of its controlling persons.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

During the last twelve calendar months preceding the filing of this Form A, neither the Applicants, its affiliates, nor, to the knowledge of the Applicant, any person listed in Item 3, nor anyone based upon interview or at the suggestion of the foregoing persons has made any recommendations to purchase any voting securities of the Domestic Insurer.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

There are no agreements, contracts, or understandings made with any broker-dealer as to solicitation of voting securities of the Domestic Insurer or any of its controlling persons for tender with regard to this transaction.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements, exhibits, and three-year financial projections of the insurer(s) shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached. Also provide a three-year narrative business plan which describes the types of business to be written by the insurer, and marketing plan. The financial projections shall include projected direct, assumed, ceded, and net written premiums by line, pro-forma statutory balance sheets and income statements. Also, describe proposed changes to the insurer's reinsurance program (if any), amount, timing, and type of capital contributions (if any), proposed changes to the insurer's executive officers and directors, and compliance plan with the "books and records in Michigan" requirement of Section 5256.

See Previous Submission by PHP – PHP, the Domestic Insurer, submitted its Plan of Operations and three-year financial projections on August 29, 2019, as part of an examination by DIFS. It is PHP's understanding that the Plan of Operations and its three year projections will be kept confidential and withheld from public inspection in accordance with MCLA 500.222(7). There are no changes in the submitted documents and no changes anticipated in the reinsurance program.

(b) The financial statements shall include the audited annual financial statements of the persons (both corporate and individual) identified in Item 2(c), including individuals who are applying to be the ultimate controlling persons, for the preceding 5 fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year as of a date not earlier than 90 days prior to the filing of the statement if the information is available. The statements may be prepared on either an individual basis, or, unless the Director otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business. The consolidated financial statements shall include the consolidating work sheets. **See Exhibits E and G attached.**

Any ultimate controlling person who is an individual may file personal financial statements that are reviewed rather than audited by an independent public accountant. The review shall be conducted in accordance with standards for review of personal financial statements published in the Personal Financial Statements Guide by the American Institute of Certified Public accountants. Personal financial statements shall be accompanied by the independent public accountant's Standard Review Report stating that the accountant is not aware of any material modifications that should be made to the financial statements in order for the statements to be in conformity with generally accepted accounting principles.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the Annual Statement of the person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the state. **See Exhibit F attached.**

(c) File as exhibits copies of all tender offers for, requests or invitations for tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory, managing general agent, controlling producer, or management contracts concerning the insurer, annual reports and proxy statements to the stockholders or the insurer and the applicant for the best two fiscal years, and any additional documents or papers required by Form A forms and instructions for Sections 4 and 6.

Not Applicable.

ITEM 13. AGREEMENT REQUIREMENT FOR ENTERPRISE RISK MANAGEMENT

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within fifteen (15) days after the end of the month in which the acquisition of control occurs.

ITEM 14. SIGNATURE AND CERTIFICATION

Signature and certification required as follows.

SIGNATURE

Pursuant to the requirements of Section 1311 of the Ins. Code of 1956, as amended, Kevin P. Hegarty has caused this application to be duly signed on behalf in the City of Ann Arbor and State of Michigan on the 13th day of May, 2020.

UM Health

BY



Kevin P. Hegarty, Treasurer

Attest:



David A. Spahlinger,
President, University of Michigan Health System

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached application dated May 13, 2020, for and on behalf of UM Health; that he is the Treasurer of such company and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Kevin P. Hegarty, Treasurer