

**FORM A**

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

**BLUE CROSS AND BLUE SHIELD OF VERMONT**

and

**THE VERMONT HEALTH PLAN, LLC**

*(Names of Domestic Insurers)*

by

**BLUE CROSS BLUE SHIELD OF MICHIGAN MUTUAL INSURANCE  
COMPANY**

*(Name of Acquiring Person (Applicant))*

Filed with the Insurance Division of the Vermont Department of Financial Regulation

Dated: May 15, 2023

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

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## INTRODUCTION

This Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (including all exhibits attached hereto or referenced herein, this “Application”) is being submitted to the Commissioner (the “Commissioner”) of the Insurance Division of the Vermont Department of Financial Regulation (the “Department”) by Blue Cross Blue Shield of Michigan Mutual Insurance Company, a Michigan nonprofit mutual insurance company (the “Applicant” or “BCBSM”), in connection with a proposed affiliation between the Applicant and Blue Cross and Blue Shield of Vermont, a Vermont not-for-profit hospital/medical service corporation (“BCBSVT”), as more particularly described below (the “Proposed Affiliation”). The Proposed Affiliation may be deemed to constitute a change of “control” (as such term is defined in Vt. Stat. Ann. tit. 8, § 3681(3)) of BCBSVT and its direct, wholly owned subsidiary, The Vermont Health Plan, LLC, a Vermont domestic health maintenance organization (“TVHP” and, together with BCBSVT, the “Domestic Insurers”).

*This Application contains confidential and/or proprietary information that, if disclosed, would cause competitive harm to the Applicant. Accordingly, the Applicant respectfully requests that Exhibits A and G (including all annexes and exhibits thereto) be afforded confidential treatment and be excepted from disclosure pursuant to all applicable provisions of law, including, but not limited to, Vt. Stat. Ann. tit. 1, § 317(c)(9).*

*In addition, the National Association of Insurance Commissioners (“NAIC”) biographical affidavits attached hereto as Exhibit C-2 are being submitted to the Department in confidence and contain certain information that is not otherwise available to the public, are subject to financial privacy and individual privacy protections, and should be afforded confidential treatment. All biographical affidavits are being provided with the express understanding that the confidentiality of such information contained therein will be safeguarded and such individuals will be protected from any and all unwarranted invasions of personal privacy, pursuant to all applicable provisions of law, including but not limited to, Vt. Stat. Ann. tit. 1, § 317(c)(7).*

*The Applicant requests that: (i) the materials described above be afforded confidential treatment; (ii) the Applicant be notified in advance of any proposed disclosure by the Department of such confidential information; and (iii) the Applicant be given a reasonable opportunity to seek a protective order or take other action to prevent or limit any such disclosure.*

### **Item 1. Insurer and Method of Acquisition.**

#### **(a) Names and Addresses of the Domestic Insurers**

The names and statutory home office addresses for the Domestic Insurers to which this Application relates are as follows:<sup>1</sup>

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<sup>1</sup> BCBSVT and the Applicant currently indirectly control 49% and 51%, respectively, of the voting securities of Vermont Blue Advantage, Inc. (“VBA”), a Vermont domestic health maintenance organization. With respect to the effect of the Proposed Affiliation on VBA, the Applicant will file a Form A exemption pursuant to Vt. Stat. Ann. tit.

Blue Cross and Blue Shield of Vermont  
445 Industrial Lane  
Berlin, Vermont 05602  
NAIC # 53295

The Vermont Health Plan, LLC  
445 Industrial Lane  
Berlin, Vermont 05602  
NAIC # 95696

In accordance with Vt. Stat. Ann. tit. 8, § 3683(a)(1), the Applicant will provide the Domestic Insurers with a copy of this Application promptly following the filing of this Application with the Department.

(b) Method of Acquisition

The Proposed Affiliation will be effectuated pursuant to the terms of a Principal Transaction Agreement, dated as of April 28, 2023 (the “Agreement”), by and between the Applicant and BCBSVT, a copy of which is attached hereto as Exhibit A. Pursuant to the terms of the Agreement, in connection with the closing of the transactions contemplated by the Agreement (the “Closing”): (i) BCBSVT’s existing Articles of Incorporation will be amended and restated as set forth in the form attached as Exhibit B to the Agreement (the “BCBSVT Articles”); and (ii) BCBSVT’s existing Bylaws will be amended and restated as set forth in the form attached as Exhibit C to the Agreement (the “BCBSVT Bylaws”). The summary of the Proposed Affiliation contained in this Form A is qualified in its entirety by reference to the Agreement, including the BCBSVT Articles and the BCBSVT Bylaws.

Pursuant to the terms of the Agreement, the BCBSVT Articles and the BCBSVT Bylaws, at the Closing, the Applicant will become the sole member of BCBSVT with the power, among other things, to approve all members of the board of directors of BCBSVT (the “BCBSVT Board”). Specifically, in connection with the Proposed Affiliation, the BCBSVT Board will be reconstituted to consist of a total of twelve (12) directors, comprised of: (i) five (5) individuals appointed by the Applicant; and (ii) seven (7) individuals, each of whom must be (x) subscribers of BCBSVT, members of the public or the CEO or President of BCBSVT, (y) nominated by the nominating committee of the BCBSVT Board and (z) approved by the Applicant.

Thus, as a result of the Proposed Affiliation, the Applicant, as the sole member of BCBSVT and by virtue of its right to approve all members of the BCBSVT Board, may be deemed to acquire “control” (as such term is defined in Vt. Stat. Ann. tit. 8, § 3681(3)) of BCBSVT and become the ultimate controlling person of BCBSVT. By virtue of BCBSVT’s ownership of TVHP, the Applicant may also therefore be deemed to acquire indirect “control” of TVHP and become the ultimate controlling person of TVHP.

The parties desire to close the Proposed Affiliation on or around October 1, 2023, subject to the making of required filings with, and the receipt of required approvals from, governmental and regulatory authorities (including, among other things, the approval of this Application by the

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8, § 3683(h)(3)(A), as the Proposed Affiliation is not being entered into for the purpose, and will not have the effect, of changing or influencing the control of VBA.

Department),<sup>2</sup> and the satisfaction of other customary closing conditions set forth in the Agreement.

## **Item 2. Identity and Background of the Applicant.**

### **(a) Name and Address of the Applicant**

The name and statutory home office address of the Applicant are as follows:

Blue Cross Blue Shield of Michigan Mutual Insurance Company  
600 Lafayette East  
Detroit, Michigan 48226

### **(b) Nature of Business Operations of the Applicant**

#### *1. General Business Description*

The Applicant was founded in 1939 and is a Michigan nonprofit mutual insurance company and independent licensee of the Blue Cross Blue Shield Association. The Applicant is the largest health insurer serving the Michigan market with 5.2 million members, including 3.9 million members in Michigan and 1.3 million members in other states. The Applicant employs over 11,000 people and has major operations centers in Detroit, Michigan and Southfield, Michigan.

The Applicant designs, sells and manages health benefit plans for individuals, families and Michigan-based employers, including traditional indemnity plans, preferred provider organization (“PPO”) plans, health maintenance organization (“HMO”) plans, Medicare plans, Medicaid and state plans, wellness-based plans, plans with health spending accounts, dental and vision plans, international plans and pharmacy plans.

The Applicant’s membership spans all fifty states, and, based on recent enrollment data, the Applicant is the tenth largest health plan in the country, seventh largest plan serving Medicare Advantage members, and the third largest plan in the Blue Cross Blue Shield Association system (the “Blues System”). As a leading health insurance carrier, the Applicant has a diversified portfolio of offerings and solutions, national scale and reach, and market-leading capabilities and tools to support members, employers, and the provider community.

The Applicant holds the exclusive licenses to use the Blue Cross® and Blue Shield® names and service marks in Michigan, and is committed to its local market. The Applicant has a longstanding history of participating in all market segments across the state. As Michigan’s longtime insurer of last resort and a guarantee-issue carrier for its entire 84-year history, the

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<sup>2</sup> The Proposed Affiliation is also subject to the Department’s approval pursuant to the Nonprofit Hospital Service Corporations Act (8 V.S.A. §§ 4511–4523), the Nonprofit Medical Service Corporations Act (8 V.S.A. §§ 4581–4595) and the provisions of the Vermont insurance code governing health maintenance organizations (8 V.S.A. §§ 5101–5115). Under separate cover, BCBSVT is submitting applications to the Department to address these requirements.

Applicant was also an early supporter of Affordable Care Act reforms to Michigan’s health insurance market, providing its expertise and resources onsite in Washington, D.C. as the Department of Health and Human Services constructed the national health insurance marketplace. The Applicant also is the only health insurance carrier in Michigan to provide ACA-regulated individual health insurance plans in all 83 Michigan counties since the ACA came into operation in 2013—ensuring access to health care coverage for every person in the state.

The Applicant is also dedicated to its nonprofit social mission—to make affordable, high quality health care accessible to everyone in the State of Michigan, enhance the quality of care patients receive, and improve the health of Michigan’s citizens and communities—and has a proven track record of delivering on its commitments:

- In 1980, the Applicant created the Michigan Health Care Education and Research Foundation, now known as the Blue Cross Blue Shield of Michigan Foundation (the “Foundation”), with an initial endowment of \$20 million. The Foundation serves as a supporting organization to conduct and fund research directed at cost containment and quality of care. The Foundation’s ongoing grantmaking efforts continue to provide a means to improve the community’s capacity to conduct research and implement and evaluate community-inspired programs to improve health. The history of the Foundation speaks to the Applicant’s social mission. Through 2021, the Foundation provided nearly \$60 million in grant funding to universities, hospital and community organizations.
- Through the “Strengthening the Safety Net” program, now in its 19th year, the Applicant has provided grants totaling more than \$18 million to support nearly 90 community-based clinics providing free or low-cost medical, dental and mental health care for about 220,000 uninsured and underinsured Michigan residents. The Applicant is the single largest private funder of Michigan’s free clinics.
- Through the school-based Building Healthy Communities program, the Applicant supports evidence-based, comprehensive children’s health initiatives. Since 2009, the program has grown into a robust private-public partnership, attracting 15 partner organizations, including the Michigan Department of Education and the Michigan Department of Health and Human Services. It has reached more than 500,000 Michigan students in more than 1,100 schools.
- Most recently, the Applicant played a critical role in supporting the State of Michigan’s healthcare market during the pandemic, providing no-cost testing, telemedicine, and treatment and vaccine administration, all without increasing customer premiums for those services. The Applicant also voluntarily advanced over \$600 million in payments to Michigan health systems to provide liquidity as elective care procedures dwindled and resources were shifted to frontline care.

The Applicant is a leader in innovating new approaches to drive improved affordability and quality of care and deliver value to the State of Michigan’s health care system through collaborative partnerships with physicians, health systems and physician organizations. Several

noteworthy efforts include:

- The Applicant's Patient Centered Medical Home ("PCMH") transformation and designation program is the largest health plan-led program of its kind. More than 4,600 physicians in nearly 1,700 practices in the state have transformed to deliver holistic, patient-centered care and are receiving differential payments from the Applicant recognizing their advanced levels of care. PCMH-designated practices are in 80 of Michigan's 83 counties, have saved \$626 million over nine years, and currently serve over 3 million of the Applicant's members. More importantly, doctors and their care teams have prevented disease, reduced hospitalizations and ER visits, and better managed common and chronic medical conditions to keep patients healthy.
- The Applicant is a leader in advancing and supporting physician-driven reforms to care. For example, the Applicant pioneered an internationally recognized Collaborative Quality Initiative ("CQI") program over 20 years ago to address the most common and costly areas of surgical and medical care. In each CQI, hospitals and physicians across the state collect, share, and analyze data on patient risk factors, evaluate processes of care and outcomes of care, and then design and implement changes to improve patient care. The Applicant funds and enables the program by providing resources for data collection and analysis along with administrative oversight. A separate coordinating center serves as a data warehouse, conducts data audits, performs analyses, generates comparative performance reports, and convenes participant meetings. A subset of CQIs has saved an estimated \$1.4 billion in statewide medical costs and has been adopted in national protocols, positively influencing the way physicians practice across the country.
- The Applicant is also a leader in the transition to value-based care, launching its Blueprint for Affordability program in 2020 to transition providers from fee-for-service payments to value-based care. Every provider organization in the Blueprint program is evaluated against annual cost-of-care targets and clinical quality benchmarks, which are tailored to each organization's unique population. If an organization optimizes patient health to keep its overall cost below target and meets its quality performance metrics, it will receive additional financial rewards from BCBSM. If quality metrics are not met, driving costs above the target, the organization will rebate BCBSM. Since launching the program, BCBSM has experienced great success in engaging the provider community: in 2022, 58 percent of commercial PPO and 53 percent of Medicare Advantage PPO members utilized physicians with Blueprint contracts.
- Most recently, 213 primary care physician practices across the state were awarded the inaugural Blue Cross Blue Shield of Michigan Collaborative Care designation. Collaborative Care is a model where patients' mental health/substance use health care is coordinated within a patient-centered medical home practice, adding a mental health/substance use health care manager and consulting psychiatrist to the primary care team. Patients can readily connect to appropriate mental health/substance use treatment directly with their primary care doctor's office, which ultimately can help them get the support they need more quickly and reduce health risks, poor quality of life and costs

associated with untreated mental health conditions.

The Applicant has a rich history of partnering with the State of Michigan to promote access and affordability:

- The Applicant played a pivotal role in the State of Michigan’s efforts to expand Medicaid, both by providing data and insights and working directly with the governor’s office and other elected officials to help develop Medicaid reforms to improve the program.
- The Applicant is a founding member of the Center for Health Research and Transformation (“CHRT”) and continues to participate on its board. Based in Ann Arbor, Michigan, CHRT conducts research and publishes peer-reviewed, unbiased information to improve the health care delivery system in Michigan and address some of the state’s most critical public health issues.
- The Applicant served on a select advisory committee to the State of Michigan to support the meaningful use of federal stimulus dollars resulting from the pandemic, which led to hundreds of millions of dollars being directed to key priorities to improve the health of Michigan communities, including expanding mental health/substance use health care and addressing health disparities.
- The Applicant also serves on the State of Michigan’s Health Information Technology commission and the board of the Michigan Health Information Network (“MiHIN”). MiHIN is a public-private partnership that serves as the state’s central health information exchange, and the Applicant used its provider incentive programs, such as PCMH, to drive adoption of MiHIN by the provider community, ensuring providers and payors have the information necessary to optimize care and support the transition to value-based care.

Finally, the Applicant has an established track record of deep partnerships across the Blues System, including with BCBSVT. The Applicant aspires to work with like-minded plans with similar mission-driven objectives to enhance our collective ability to innovate and drive improved outcomes for our members and communities. Notable examples include:

- **NASCO** – A healthcare technology company dedicated to co-creating digital health solutions for Blue Cross and Blue Shield companies to better serve our members, including claims processing, servicing operations, membership, billing, member advocacy and payment integrity. NASCO currently serves approximately 23 million individuals, including customers of BCBSVT. BCBSM became the sole owner of NASCO in 2021.
- **Emergient** – A business focused on creating joint ventures with other Blues System plans to enter or grow in the Medicare Advantage market through a portfolio of leading end-to-end capabilities. Recently launched partnerships include VBA, NextBlue of North Dakota, and Wellmark Advantage Health Plan.

- **Evio** – A joint venture with four other Blues System plans to reimagine the pharmacy value chain and create a simpler, more member-centric experience to ensure that all patients have access to the right medication for their unique situation.
- **Blue Venture Funds** – The Applicant has \$65 million of capital committed to the Blue Venture funds, which provide partnered Blues System plans an opportunity to invest in and potentially partner with innovative companies focused on healthcare technology, services and clinical sciences.

## *2. Business Intended to be Done by the Applicant*

The Applicant and BCBSVT are well positioned to form an impactful affiliation which will benefit BCBSVT’s subscribers. The plans share similar missions and visions, as well as a long-standing commitment to non-profit healthcare and their local communities. The plans also have similar strategic aspirations and have several existing partnerships, including a shared operational chassis through NASCO and a joint venture through VBA. A broader, more strategic affiliation presents an opportunity to extend these efforts, build toward the plans’ shared goals, and support BCBSVT in delivering high quality, affordable, and accessible healthcare to its members.

The structure of the affiliation is a controlled affiliate model and is rooted in the belief that health care must remain local to deliver the greatest impact to our communities. BCBSVT would remain a Vermont-domiciled, nonprofit hospital service and nonprofit medical service corporation, and the affiliation will preserve BCBSVT’s mission, brand, values, and local commitments. The Applicant would serve as the ultimate controlling person of BCBSVT and have oversight on fundamental structural matters, and the Applicant would extend its capabilities, expertise, and scale efficiencies to BCBSVT. The affiliation would not provide the Applicant an economic interest in BCBSVT; similarly, BCBSVT would not have an economic interest in the Applicant. Additionally, neither party would have access to the capital or surplus of the other. BCBSVT would retain control over areas requiring high levels of local alignment, such as state regulatory matters.

The Applicant brings significant experience and expertise, market-leading capabilities, and scale efficiencies to support the strategic priorities of BCBSVT, which include:

- **Developing Member Engagement and Member-Facing Technologies** – The Applicant has been on a multi-year journey to become more customer-centric and serve as a trusted partner and advisor to its members and their caregivers. In 2022, for the second time in three years, the Applicant was awarded the J.D. Power Award for Highest Member Satisfaction among commercial health plans in Michigan, and the Applicant continues to make at-scale investments in member-facing capabilities. BCBSVT will be able to leverage many of the same capabilities to engage its members and guide them through their health journeys. Examples include the Applicant’s portal and award-winning apps; member advocacy solutions to deliver curated services and solutions to guide patients in their care journeys; and personalized case and chronic condition management programs.



- **Modernize Data and Analytics** – The Applicant and BCBSVT believe accessing and organizing disparate data across a wide variety of sources is increasingly important to inform and guide patients during their care journeys. The Applicant has developed a robust infrastructure and continues to invest resources to expand the tools and capabilities available across the enterprise. Recent focus areas include building interoperability across platforms and systems to share data and services; an informatics environment to aggregate data from multiple warehouses to develop a more complete view of the member, conduct advanced analytics, and improve overall reporting; omnichannel capabilities to create a seamless experience and consistent set of services across channels for members, providers, and agents; and an Advanced Analytics Center of Excellence with a cloud-based platform to address increasingly complex issues and use cases. BCBSVT will increasingly leverage the same infrastructure and functions to better understand its member needs and behaviors and tailor unique programs for their needs.
- **Optimizing Choices for Seniors** – The Applicant is the seventh largest Medicare Advantage plan in the nation and fifth largest Group Medicare Advantage plan with members in over 40 states. The affiliation with BCBSVT will build upon the VBA joint venture (“JV”) by expanding the range of capabilities available to the JV and bringing those capabilities to the market faster. The focus will be fourfold: attracting and engaging seniors as life-long members and exceeding their expectations; delivering high-quality, affordable care solutions to help seniors thrive; forming partnerships with community organizations to provide services addressing the unmet needs of seniors; and delivering consistently strong Medicare Star Rating performances and CMS audit results.
- **Reinventing the Administrative Services Only Business** – The Applicant enjoys the highest group customer retention rates (~95 percent) and close ratio across the Blues System, and the Applicant’s customers include several of the largest employers in the country, many of whom have complex requirements and novel requests to service their employees. To address their unique needs, the Applicant provides an innovative suite of products and solutions, including a range of stop loss and specialty solutions, concierge and member advocacy programs, condition-specific offerings such as maternity and fertility services, a broad set of mental health/substance use solutions to improve access and quality, and comprehensive analytic tools to inform condition-specific programs. With BCBSVT’s knowledge of the market and existing capabilities, the Applicant and BCBSVT can bring a higher level of service to employers and their employees. Additionally, many of the services developed for the administrative services only business are also shared with other lines of business, and the relative size of the administrative services only business brings scale efficiencies to make these services more affordable for all members.

By building from a shared foundation of core platforms, systems, and businesses, BCBSVT and its subscribers will benefit in several ways. First, the affiliation will yield a lower cost administrative operating structure by reducing the level of capital investments required by BCBSVT to address evolving market needs and by leveraging many of the same vendors as the Applicant to generate scale efficiencies. Second, the range of solutions available to members,

customers, and providers will grow beyond what BCBSVT could achieve on its own, resulting in higher levels of member and provider satisfaction and improved health outcomes.

In short, the Applicant and BCBSVT aspire to bring together two like-minded Blues System plans to deliver innovative and affordable products in the Vermont market and create a differentiated healthcare experience for the members we each serve.

(c) Organizational Chart

Attached as Exhibit B-1 is an organizational chart presenting the identities of, and interrelationships among, the Applicant and its affiliates before giving effect to the Proposed Affiliation. Attached as Exhibit B-2 is an organizational chart presenting the identities of, and interrelationships among, the Applicant and its affiliates after giving effect to the Proposed Affiliation. Such charts list, as to each entity specified in the applicable chart, the percentage of voting securities owned or controlled by the Applicant or any other such persons, the type of organization and its jurisdiction of domicile. Unless otherwise indicated on such charts or in this Application, each entity is a corporation and control is maintained by the ownership or control of all outstanding voting securities. No court proceedings involving a reorganization or liquidation are pending with respect to the Applicant or any of its affiliates listed in Exhibit B-1.

**Item 3. Identity and Background of Individuals Associated With the Applicant.**

A current list of the directors and executive officers of the Applicant is attached hereto as Exhibit C-1. Attached hereto as Exhibit C-2 are the NAIC biographical affidavits of all individuals listed in Exhibit C-1.

The name, business address, residential address and present principal business activity, occupation or employment of the Applicant's current directors and executive officers are stated in the biographical affidavits of such persons. The material occupations, positions, offices or employments during the last twenty (20) years, including 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, with respect the current directors and executive officers of the Applicant are stated in the biographical affidavits for such persons. Except as set forth in such biographical affidavits, no such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency. The current status of any such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith, are stated in such biographical affidavits. Except as otherwise indicated in the biographical affidavits of such persons, to the knowledge of the Applicant, no current director or executive officer of the Applicant has been convicted in a criminal proceeding (excluding minor traffic violations) during the past ten (10) years.

The Applicant is a nonprofit mutual insurance company with no common or preferred stock outstanding. Accordingly, there are no equity holders owning 10% or more of the voting securities of the Applicant.

#### **Item 4. Nature, Source and Amount of Consideration.**

##### **(a) Nature, Source and Amount of Consideration**

No consideration will be paid at the Closing in connection with the Proposed Affiliation. Instead, as described in the Agreement, the parties view the Proposed Affiliation as a net value creation opportunity (the “Affiliation Opportunity”) for both parties that will allow BCBSVT to realize cost savings as a result of administrative cost savings, increased membership and revenue, retention of group administrative service contracts, enhanced product offerings (e.g., stop loss, vision, dental), expanded customer tools, technology improvements, improved pricing competitiveness, care delivery improvements (e.g., provider partnerships, evidence based high-quality coordinated care), pharmacy efficiencies, ancillary provider partnerships (e.g., durable medical equipment and labs), improved data and analytics, value-based payment and care initiatives, scaling of operations, enhanced investment portfolio policies (e.g., increased investment yield and lower investment costs), improved payment integrity programs, potential for increased employment in the State of Vermont, and improved risk-based capital levels, in each case, with respect to the Domestic Insurers and their affiliates.

Specifically, as a result of the Affiliation Opportunity, the parties expect that BCBSVT will realize material cost savings (calculated in accordance with Section 6.10 of the Agreement) during the three (3)-year period following the Closing (the “Measurement Period”). If, during the Measurement Period, the Proposed Affiliation fails to result in cost savings of at least ten million dollars (\$10,000,000) to BCBSVT, then, subject to the terms of Section 6.10 of the Agreement, the Applicant will pay BCBSVT an amount calculated to cover the difference between ten million dollars (\$10,000,000) and the amount of cost savings actually realized by BCBSVT during the Measurement Period.

In addition, pursuant to Section 6.11 of the Agreement, the Applicant will bear the cost of transitioning BCBSVT to the Applicant’s technology and related systems, except that BCBSVT will annually reimburse Applicant an amount equal to the aggregate costs incurred by the Applicant during the immediately preceding twelve (12)-month period relating to certain changes or upgrades that increase software or hardware capabilities for BCBSVT’s policyholders and other constituents beyond Applicant’s current products and capabilities.

##### **(b) Criteria Used in Determining the Nature and Amount of Consideration**

The basis and terms of the Agreement, including the nature and amount of consideration to be provided in connection with the Proposed Affiliation, were determined by arms’ length negotiations between the Applicant and BCBSVT and their respective representatives. The amount and type of consideration to be provided under the Agreement were determined in view of the financial position and results of operation of the business of BCBSVT and its subsidiaries, including the Domestic Insurers’ past and present business operations, historical and potential earnings, financial condition and prospects, assets and liabilities and such other factors and information as the Applicant and BCBSVT considered relevant under the circumstances.

(c) Identity of Lender

Not applicable.

**Item 5. Future Plans for Insurer.**

The controlled affiliate structure proposed by the Applicant and BCBSVT is distinct. It reflects the companies' shared beliefs that the best health care is delivered and administered locally. The structure also preserves the ability of BCBSVT to make decisions aligned with local community needs, retains the BCBSVT brand, and allows for the majority of its board to be comprised of Vermont subscribers. Additionally, it furthers opportunities to share resources and technology, increase scale, and, most importantly, promote access to affordable coverage for the people served by both plans.

The Applicant has no present plans or proposals to: (i) cause the Domestic Insurers to declare any extraordinary dividend, (ii) liquidate the Domestic Insurers, (iii) sell the assets of the Domestic Insurers to any other person or persons (other than sales of invested assets in the ordinary course of business), (iv) merge the Domestic Insurers with any person or persons or (v) except as may arise in the ordinary course of business or as described in this Application, make any other material change in the Domestic Insurers' business operations or corporate structure or management.

Following the date of execution of the Agreement (the "Execution Date"), the parties have been working to align on a preliminary organizational structure and operating model immediately following Closing through a series of meetings and workshops. Additionally, the parties have worked to develop a preliminary framework for the Integration Office (defined below), including its responsibilities, guiding principles, and rules of engagement. Both parties are contributing to a set of standardized tools, templates and protocols to ensure consistent outcomes.

Following the Closing, each Domestic Insurer will continue to maintain its separate corporate existence and substantially continue its operations as currently conducted. No plans currently exist to make material staff reductions, or undertake any office closures, that would affect the Domestic Insurers. BCBSVT's commercial business will continue to operate in the State of Vermont with a strong local presence as today, and BCBSVT's directors and executive officers will retain decision rights over many local matters, but BCBSVT will gain access to the Applicant's functions, capabilities, and tools where benefits exist from scale, specialization or both. BCBSVT's Medicare Advantage business will continue to be operated through the JV. Other functions benefiting from local knowledge and presence will be maintained by BCBSVT, such as provider strategy, clinical operations, and most corporate functions, while BCBSVT will leverage the Applicant's capabilities and tools where appropriate. Meanwhile, functions that benefit from scale will become more integrated over time. Initial plans call for integrating the information technology, corporate finance (*e.g.*, tax, corporate insurance, and investment services), pharmacy operations, and procurement functions of BCBSVT with those of the Applicant. Currently, the plans share a common foundation across several core systems and vendors, such as NASCO core administration solutions, pharmacy benefit management, customer

relationship management, several information exchange vendors connecting payors and providers, outsourced data processing tools and data centers, etc. Building from a common foundation has several advantages, including reducing integration time and costs to onboard BCBSVT to the Applicant's platforms, potentially generating scale efficiencies by moving to single contracts versus multiple contracts, and minimizing disruptions to customers while also expanding the range of services and tools available to them.

An integration plan will develop the processes by which the parties will work towards achieving value post-Closing. The integration plan will include, among other things, plans for integrating technology, operations and vendors, improving the customer experience including customer-facing technologies, improving product capabilities, improving data analytics and improving account retention support, where such plans will be cost-effective and likely to produce a return on investment for BCBSVT. The parties have agreed to rules of engagement and guiding principles for building that integration plan. BCBSVT and BCBSM are currently establishing an integration committee consisting of representatives from BCBSVT and BCBSM that will be charged with (i) developing an integration plan and (ii) overseeing an integration office (the "Integration Office") that will oversee the means by which the parties will execute the integration plan. Pending the outcomes of the integration planning effort, select functions may become more integrated over time (e.g., medical management) to improve the overall quality of services offered to Vermont members, providers, and other stakeholders. The Integration Office will be overseen by executives from BCBSVT and BCBSM and will be staffed by both parties to achieve the goals it identifies, maximizing the post-Closing value of the Proposed Affiliation to BCBSVT and its subscribers.

Three-year financial projections for each Domestic Insurer will be filed with the Department once available promptly following the filing of this Application. BCBSVT will remain responsible for complying with minimum risk-based capital ("RBC") requirements under applicable law, including the RBC range ordered by the DFR with respect to BCBSVT. Following the Proposed Affiliation, BCBSM and BCBSVT will jointly comply with the Blue Cross Blue Shield Association's minimum RBC requirements for controlled affiliates, but neither party will otherwise have any obligation related to contributing capital or entering into keep-well or capital maintenance arrangements or maintaining certain risk-based capital levels, in each case, with respect to the other party.

As discussed more fully in Item 1(b) above, in connection with the Closing, BCBSVT's existing Articles of Incorporation and Bylaws will be amended and restated as set forth in the forms attached as Exhibit B and Exhibit C, respectively, to the Agreement. The Applicant, on behalf of BCBSVT, respectfully requests that approval of this Application be deemed to include approval of the BCBSVT Articles and BCBSVT Bylaws.

The Applicant has no present plans or intentions to change the executive officers of the Domestic Insurers or the members of the board of managers of TVHP. As discussed more fully in Item 1(b) above, in connection with the Closing, the BCBSVT Board will be reconstituted. A list of the individuals who are proposed to serve as post-Closing directors of BCBSVT is attached as Exhibit D hereto. An NAIC biographical affidavit of each individual listed in Exhibit D (other

than any such persons who are existing directors or executive officers of a Domestic Insurer) is included in Exhibit C-2, and the Applicant has submitted the NAIC biographical affidavits of such proposed new members of the BCBSVT Board to a third-party background check service provider, who will submit the background check reports directly to the Department.

Effective as of the Closing, and subject to receipt of all required regulatory approvals, the Applicant plans for BCBSVT, TVHP and/or VBA to become a party to certain intercompany agreements. Applications to obtain the approval (or non-disapproval) of the Department for such intercompany agreements will be submitted to the Department under separate cover in advance of the Closing. In addition, in order to achieve the affiliation value and savings related to the Proposed Affiliation, following the Closing, and subject to the receipt of all applicable regulatory approvals, the Applicant anticipates that BCBSVT, TVHP and/or VBA will become party to additional intercompany agreements with the Applicant and/or its affiliates. The parties will obtain all required insurance regulatory approvals prior to effecting those arrangements after the Closing, if applicable. In addition, any payments for services or products under intercompany agreements between BCBSM or its affiliates, on the one hand, and BCBSVT or its affiliates, on the other hand, will be fair, reasonable and arms' length. Further, any passthrough or other costs that may be accrued and paid for by BCBSM and/or its affiliates will be apportioned to BCBSVT based on appropriate methods of measurement and allocation based on actual cost to BCBSM (as will be detailed in the applicable intercompany agreements, which will be submitted to the Department for requisite approval (or non-disapproval)).

From time to time following the Closing, in the ordinary course of business, the Applicant and the management of the Domestic Insurers may evaluate the business and operations of each Domestic Insurer and make any necessary or desirable changes to such business and operations, subject in each case to obtaining any required regulatory approvals.

#### **Item 6. Voting Securities to be Acquired.**

As a Vermont not-for-profit hospital/medical service corporation, BCBSVT does not have any voting securities, including any common or preferred stock, outstanding. TVHP is a single-member limited liability company, and BCBSVT currently serves as the sole member of TVHP.

Pursuant to the Agreement, the Applicant will become the sole member of BCBSVT with the right, among other things, to approve all members of the BCBSVT Board. Thus, the Applicant may be deemed to acquire "control" (as such term is defined in Vt. Stat. Ann. tit. 8, § 3681(3)) of BCBSVT. By virtue of BCBSVT's ownership of TVHP, the Applicant may also therefore be deemed to acquire indirect "control" of TVHP.

The terms of the Agreement are described in Item 1(b) hereof. A statement as to the method by which the fairness of the proposal was determined is included in Item 4(b) hereof.

#### **Item 7. Ownership of Voting Securities.**

To the knowledge of the Applicant, none of the Applicant, its affiliates or any person listed in Item 3 hereof beneficially owns any class of any voting security or membership interest

of the Domestic Insurers or has the right to acquire beneficial ownership of any class of any voting security or membership interest of the Domestic Insurers.

**Item 8. Contracts, Arrangements or Understandings With Respect to Voting Securities of the Insurer.**

Except as otherwise set forth in this Application, to the knowledge of the Applicant, there are no contracts, arrangements, or understandings with respect to any voting security or membership interest of the Domestic Insurers, in which the Applicant, its affiliates or any person listed in Item 3 hereof 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.**

To the knowledge of the Applicant, none of the Applicant, its affiliates, or any person listed in Item 3 hereof has purchased any voting securities or membership interests of the Domestic Insurers during the twelve calendar months preceding the filing of this Application.

**Item 10. Recent Recommendations to Purchase.**

To the knowledge of the Applicant, none of the Applicant, its affiliates, any person listed in Item 3 hereof, or anyone based upon interviews or at the suggestion of the Applicant, its affiliates or any person listed in Item 3 hereof, has made any recommendations during the twelve calendar months preceding the filing of this Application to purchase any voting security or membership interest of the Domestic Insurers.

**Item 11. Agreements With Broker-Dealers.**

To the knowledge of the Applicant, no agreement, contract or understanding has been made by the Applicant, its affiliates or any person listed in Item 3 hereof with any broker-dealer as to solicitation of voting securities or membership interests of the Domestic Insurers for tender, and no amount of any fees, commissions or other compensation has been or will be paid by the Applicant, its affiliates or any person listed in Item 3 to broker-dealers with regard thereto.

**Item 12. Financial Statements and Exhibits.**

(a) Exhibits

<u>Exhibit A</u>	Principal Transaction Agreement ( <b>confidential</b> )
<u>Exhibit B-1</u>	Pre-Closing Organizational Chart of the Applicant and its Affiliates
<u>Exhibit B-2</u>	Post-Closing Organizational Chart of the Applicant and its Affiliates

<u>Exhibit C-1</u>	List of Directors and the Executive Officers of the Applicant
<u>Exhibit C-2</u>	NAIC Biographical Affidavits ( <b>confidential</b> )
<u>Exhibit D</u>	List of Proposed Post-Closing Directors of BCBSVT
<u>Exhibit E-1</u>	Annual Statutory Financial Statements of the Applicant for the Periods Ending December 31 of each of 2018, 2019, 2020, 2021 and 2022
<u>Exhibit E-2</u>	Unaudited Quarterly Financial Statements for Applicant for the Quarter Ended March 31, 2023
<u>Exhibit F</u>	BCBSM's 2021 Annual Report to Members
<u>Exhibit G</u>	Competitive Impact Statement ( <b>confidential</b> )

(b) Financial Statements

Exhibit E-1 includes the annual statutory financial statements of the Applicant for the fiscal years ended December 31 of each of 2018, 2019, 2020, 2021 and 2022. Exhibit E-2 includes the unaudited quarterly financial statements of the Applicant for the quarter ended March 31, 2023.

(c) Tender Offer, Agreements for Voting Securities

To the knowledge of the Applicant, other than as disclosed in this Application, there have been no (1) tender offers for, requests or invitations for, tenders of, exchange offers for, or agreements to acquire or exchange any voting securities or membership interests of the Domestic Insurers (or additional soliciting material related thereto), or (2) proposed employment, consultation, advisory or management contracts concerning the Domestic Insurers.

The Applicant's 2021 annual report to members is attached hereto as Exhibit F. When the Applicant's 2022 annual report to members is available, the Applicant will submit such report to the Department as a supplement to this Application. The Domestic Insurers have not issued any annual reports to members for the last two fiscal years.

(d) Competitive Impact

Applying the criteria set forth in Vt. Stat. Ann. tit. 8, § 3683a, the Proposed Affiliation will not substantially lessen competition in any line of insurance in the State of Vermont or tend to create a monopoly therein. As illustrated in Exhibit G attached hereto, the Proposed Affiliation meets the pre-acquisition notification exemption standards set forth in Vt. Stat. Ann. tit. 8, § 3683a(b)(4). Specifically, as illustrated in Exhibit G attached hereto, the Proposed Affiliation would be fully exempt from the application of the Form E pre-acquisition notification requirements for all lines of business because it would not result immediately in any increase in market share. Accordingly, the Applicant respectfully requests that the Department deem the information



provided in this Item 12(d) and Exhibit G to satisfy the requirements of Vt. Stat. Ann. tit. 8, § 3683(a)(3).

**Item 13. Agreement Requirements for Enterprise Risk Management.**

The Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within 15 days after the end of the month in which the Closing occurs and annually thereafter as long as control exists. The Applicant will satisfy this requirement by providing the Department a copy of the Applicant's most recent Form F as filed with the Michigan Department of Insurance and Financial Services, which is the lead state insurance regulator of the Applicant's holding company system as determined by the procedures within the Financial Analysis Handbook adopted by the NAIC. The Applicant also acknowledges that the Applicant and all subsidiaries within its control in the insurance holding company system will provide information to the Commissioner upon request as necessary to evaluate enterprise risk to the Domestic Insurers.

**Item 14. Signature and Certification.**

The signature and certification of the Applicant are set forth on the immediately following page.

*[Signature page follows]*

**SIGNATURE**

Pursuant to the requirements of 8 V.S.A. § 3683 and Regulation 71-2 (Revised), Blue Cross Blue Shield of Michigan Mutual Insurance Company has caused this application to be duly signed on its behalf in the City of Detroit and State of Michigan, on the 15th day of May, 2023.

(SEAL)

**BLUE CROSS BLUE SHIELD OF MICHIGAN  
MUTUAL INSURANCE COMPANY**

DocuSigned by:  
*mozak, paul*  
By: 8829BE3DE9414B2...  
Name: Paul Mozak  
Title: Executive Vice President and Chief Financial Officer

Attest:  
DocuSigned by:  
*Liz Irick*  
By: 70B74F72001B4D5...  
Name: Elizabeth Irick  
Title: Vice President and Corporate Secretary

**CERTIFICATION**

The undersigned deposes and says that he/she has duly executed the attached application dated May 15, 2023, for and on behalf of Blue Cross Blue Shield of Michigan Mutual Insurance Company; that he/she is the Executive Vice President and Chief Financial Officer of such company, and that he/she is authorized to execute and file such instrument. Deponent further says that he/she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

DocuSigned by:  
*mozak, paul*  
By: 8829BE3DE9414B2...  
Name: Paul Mozak