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OF INSURANCE

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September 29, 2005

Steven J. Junior, Director
Bureau of Financial Analysis and Examinations
State of Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
P.O. Box 7873
Madison, Wisconsin 53707-7873

Re: Acquisition of Control of American Medical Security Life Insurance Company by
UnitedHealth Group Incorporated (Case No. 05-C29696)

Dear Mr. Junior:

On July 8, 2005, UnitedHealth Group Incorporated (the "Applicant") filed a Form A Statement Regarding Acquisition of Control of or Merger with a Domestic Insurer with the Office of the Commissioner of Insurance ("OCI") seeking prior approval for the acquisition of control of American Medical Security Life Insurance Company ("AMSLIC"). In connection with the review of the proposed transaction, we provided responses to your request for documentation with supplemental materials on September 14, 2005 and September 20, 2005.

In response to the questions you raised during our meetings on September 20, 2005, we are pleased to provide you with the following additional supplemental materials. Please note that the questions are numbered to correspond with the applicable question provided in your September 6, 2005 letter requesting additional information.

Requests for Additional Documentation

- 2. Please provide an analysis of the impact of the proposed transaction on the competitive environment in Wisconsin. This analysis is intended for use as an exhibit in the upcoming hearing and should be detailed enough to identify small business concentrations that may be impacted as a result of the acquisition. Please include a separate analysis of the effect of the acquisition on the small employer market, including a discussion of the small employer business in*

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Wisconsin of all affiliates. Include in this analysis business written to Wisconsin small employers through associations, trusts or other vehicles, regardless of whether the premium is reported as Wisconsin business. Also include a description of the marketing plan for small employer business for all affiliates after the proposed acquisition. [The answer set forth below has been slightly revised since the prior letter. Also note, Exhibits 2(a) and 2(b) were provided to the Office of the Commissioner of Insurance with the response dated September 20, 2005].

Please find attached as Exhibit 2(a) an analysis of the impact of the proposed transaction on the competitive environment in Wisconsin. Please note that we are requesting confidential treatment of Exhibit 2(a). In addition, as requested, the Applicant has analyzed the effect of the transaction on sales to "small group" customers¹, measuring the impact in two ways: (a) the estimated combined share that the small group membership of the Applicant and PacifiCare Health Systems, Inc. ("PacifiCare") (collectively the "Parties") will represent of all commercially insured small group employees in Wisconsin; and (b) the estimated combined share that the Parties' small group and association membership will represent of all commercially insurable small group employees in Wisconsin.

On either basis, PacifiCare has a tiny share of small group membership (around 1%) and the Parties' combined share and change in Herfindahl-Hirschmann Index ("HHI") are well below levels that would suggest any competitive issue. Specifically, the Parties' combined share is less than 16% and the change in HHI is no more than 25 points, well below levels that would suggest any adverse competitive effect from the proposed transaction (according to the Horizontal Merger Guidelines, published jointly by the U.S. Department of Justice and the Federal Trade Commission, the change in HHI is a useful indicator to determine "likely potential competitive effects of a merger"). Please find attached as Exhibit 2(b) the Parties' estimated share of small group commercially insured and commercially insurable small group employees in Wisconsin as described above.

As to the request for a description of post-closing marketing plans, the parties have only had high level discussions regarding merger integration planning due to anti-trust and other considerations, and have not prepared an integrated marketing

¹ Including sales to firms with 2-99 employees using data from Dun and Bradstreet, an accepted industry data source. There is no industry accepted definition of "small group." For instance, Wisconsin state regulations define "small groups" as those with 2-50 employees, whereas some health plans, including Applicant, define it as 2-99. Applicant believes the needs of 51-99 employee groups are closer to those of the 2-50 employee groups than to 100+ employee groups.

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plan for small group business post-merger. Such a plan will be developed following the closing of the transaction.

You also asked the Applicant to confirm whether the analysis of the impact of the proposed transaction on the competitive environment in Wisconsin was based upon small group membership for employees residing in Wisconsin, regardless of where the employer is headquartered. The Applicant initially relied on data supplied by AMSLIC, which identified membership in small business groups domiciled in Wisconsin. The Applicant asked AMSLIC to produce small group membership for employees residing in Wisconsin, regardless of where the employer is domiciled. The additional membership data received from AMSLIC supports the same conclusions provided in the confidential report submitted on September 20, 2005, which was updated for your consideration. For your convenience, the Applicant provides an updated share table reflecting the new member-residence data AMSLIC provided as Exhibit 2(c) on a confidential basis under separate cover.

On a related note, you asked the Applicant to consider providing a nonconfidential version of the Applicant's analysis of the competitive environment in Wisconsin to be marked as an exhibit at the hearing seeking approval of the transaction. The Applicant respectfully provides Exhibit 2(d), attached to this letter, to facilitate the hearing on the approval of the transaction.

27. *Please describe the financial terms of the pending acquisition of Neighborhood Health Partnership. [The answer set forth below has been slightly revised since the prior letter].*

In June 2005, the Applicant entered into a definitive agreement to purchase Neighborhood Health Partnership ("NHP") for \$175 million in cash. NHP is a privately owned health plan serving approximately 135,000 individuals primarily in South Florida. This merger will strengthen our market position and provide expanded distribution opportunities in this region for the Applicant's businesses. This transaction closed on September 19, 2005.

49. *Has UnitedHealth Group Incorporated or any of its subsidiaries made or placed under development any side agreements, written plans, or assurances concerning staff retention, salaries and benefits, or severance packages applicable to the employees of PacifiCare Health System, Inc. and its subsidiaries? [The answer set forth below has been slightly revised since the prior letter].*

Other than the arrangements described in the Summary of Senior Management Compensation Arrangements filed with the OCI on August 2, 2005, the only other agreement that the Applicant has in place with PacifiCare executives is an

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arrangement with five PacifiCare senior executive officers in which, upon termination of employment, such officer will receive a lump sum payment in an amount equal to the full premium for employee-only health, dental and group term life benefit coverages for a 36-month period following termination of employment. The Applicant is considering whether additional actions are necessary to retain mid-level management at PacifiCare who are not currently subject to employment agreements, including forming a retention bonus pool and/or offering standard employment agreements to certain of these individuals. The Applicant has not made any decision or finalized any terms with respect to either a retention bonus pool or the terms of any additional employment agreements. In addition, pursuant to the terms of the merger agreement and the Company Disclosure Letter, PacifiCare has the ability to grant stay bonuses to certain employees based on their salary grades. The maximum amount of stay bonuses that may be awarded in the aggregate will not exceed \$10 million. Employees eligible to receive the stay bonuses are chosen at the discretion of PacifiCare following consultation with the Applicant. PacifiCare has begun implementing this program and has made offers of stay bonuses, in an aggregate amount equal to approximately half of the bonus pool, to approximately 250 employees. In general, the stay bonus awards will become payable to the respective employees on the first anniversary of the closing based on continuing employment, except that, if the employee is earlier terminated by PacifiCare without cause, the stay bonus award would become payable following the date of termination. The benefit arrangements to which the Applicant has committed in connection with the merger are described in greater detail in the Applicant's S-4 Registration Statement, which has been provided to the OCI on September 14, 2005.

Regulatory Matters

54. *Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$1,250,000 monetary penalty assessed against United Healthcare of TX by Texas in 2001?*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

55. *Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$100,000 monetary penalty assessed against Golden Rule Ins. Co. by Minnesota in 2002?*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

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56. *Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$200,000 monetary penalty assessed against Golden Rule Ins. Co. by Missouri in 2002?*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

57. *Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$125,000 monetary penalty assessed against United Healthcare Ins. Co. by Maryland in 2003?*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

58. *Please describe the allegations, the causes of the noted problems and the specific remedies both operational and to the policyholders related to the \$62,500 monetary penalty assessed against United Healthcare Ins. Co. by Nebraska in 2004?*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

59. *Please describe the allegations, the causes of the noted problems and the remedies both operational and to the policyholders related to the \$1,100,000 monetary penalty assessed against United HealthCare Insurance Company by North Carolina in 2004.*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

60. *Please describe the allegations, the causes of the noted problems and the remedies both operational and to the policyholders related to the \$1,100,000 monetary penalty assessed against UnitedHealthCare of North Carolina by North Carolina in 2004.*

Please see Exhibit 1, which is provided under separate cover on a confidential basis.

In addition, you asked the Applicant to supplement its response with respect to the Applicant's ability to service the indebtedness to be incurred in connection with the Merger (Request Nos. 19 and 20). In response, the Applicant provides Exhibit 2, which is provided under separate cover on a confidential basis.

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Thank you for your review of the supplemental information provided herein. Please do not hesitate to give me a call with any questions or comments, or if we can provide any further information.

Very truly yours,



Bruce G. Arnold

Enclosure

cc: Michael J. McDonnell, Esq., General Counsel, UnitedHealthcare, Inc. (w/encl.)
Nancy Monk, Vice President, State Government Affairs, PacifiCare Health Systems, Inc. (w/encl.)
Robert J. Sullivan, Esq., Skadden, Arps, Slate, Meagher & Flom LLP (w/encl.)
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Roger A. Peterson, Hearing Examiner, Bureau of Financial Analysis and Examinations, Office of the Commissioner of Insurance (w/encl.)