

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of WCAS IX Associates,	:	Companies Act, Article XIV of the
LLC and WCAS X Associates, LLC in	:	Insurance Company Law of 1921,
Support of the Request for Approval to	:	Act of May 17, 1921, P.L. 682,
Acquire Control of Pennsylvania Life	:	<u>as amended</u> , 40 P.S. § 991.1401,
Insurance Company	:	991.1402, and 991.1403
	:	
	:	Order No. ID-RC-07-27

DECISION AND ORDER

AND NOW, on this 27th day of August, 2007, Joel Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Pennsylvania Life Insurance Company (“Domestic Insurer”) is a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Lemoyne, Pennsylvania.
2. Universal American Financial Corp. (“UAFC”) is an insurance holding company organized under the laws of the state of New York with its principal place of business located in Rye Brook, New York. UAFC

- indirectly controls 100% of the issued and outstanding voting stock of Domestic Insurer.
3. Capital Z Financial Services Fund II, L.P. and Capital Z Financial Services Private Fund II, L.P. (collectively "Capital Z Funds") are parallel equity investment funds organized under the laws of Bermuda with their principal place of business located in New York, New York. Capital Z Funds currently directly hold 34.2% of the issued and outstanding voting stock of UAFC.
 4. Capital Z Funds are currently the sole ultimate controlling persons of Domestic Insurer.
 5. MemberHealth, Inc. ("MemberHealth") is a pharmacy benefits manager company organized under the laws of the state of Ohio with its principal place of business located in Solon, Ohio.
 6. MHRx LLC ("MHRx") is a business company organized under the laws of the state of Delaware with its principal place of business located in New York, New York. MHRx directly controls 100% of the issued and outstanding voting stock of MemberHealth.
 7. Welsh, Carson, Anderson & Stowe IX, L.P. ("WCAS IX") is a business partnership organized under the laws of the state of Delaware with its principal place of business located in New York, New York. WCAS IX is the majority owner of the voting membership of MHRx.
 8. WCAS IX Associates, LLC ("WCAS IX Associates") is a business company organized under the laws of the state of Delaware with its principal place of business located in New York, New York. WCAS IX Associates is the managing partner of WCAS IX.
 9. Welsh, Carson, Anderson & Stowe X, L.P. ("WCAS X") is a business partnership organized under the laws of the state of Delaware with its principal place of business located in New York, New York.
 10. WCAS X Associates, LLC ("WCAS X Associates") is a business company organized under the laws of the state of Delaware with its principal place of business located in New York, New York. WCAS X Associates is the managing partner of WCAS X.

Acquisition Filing

11. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
12. On June 22, 2007, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from WCAS IX Associates and WCAS X Associates (together “Applicants”) for approval to acquire control of Domestic Insurer.
13. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

14. On July 14, 2007, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Applicants and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending August 13, 2007.
15. The Department received no comments regarding the Application during the thirty (30) day comment period.

Description of the Proposed Acquisition

16. As described in the Application, on May 7, 2007, WCAS IX and MHRx entered into a merger agreement (“Merger Agreement”) with UAFC whereby MHRx would merge with and into subsidiaries of UAFC.
17. As described in the Application and pursuant to the Merger Agreement, UAFC would pay a merger consideration of approximately \$630 million to WCAS IX and the other current owners of MHRx. 55% of the merger consideration is to be paid in cash and 45% of the merger consideration is to be paid in UAFC common stock.
18. As described in the Application, to fund the cash portion of the merger consideration and to provide UAFC with capital to support growth,

WCAS X, and others, will acquire a total of \$350 million of UAFC stock.

19. As described in the Application, a secondary acquisition agreement was entered into by WCAS X and Capital Z Funds whereby WCAS X paid \$41.67 million in cash for UAFC common stock then held by Capital Z Funds.
20. As described in the Application, upon closing of all of the contemplated transactions Applicants would control approximately 17.0% of the voting stock of UAFC.

Standards for Review

21. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
22. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

23. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
24. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
25. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
26. Upon completion of the transaction, Domestic Insurer would have paid up capital in an amount that would satisfy the statutory minimum required of a life insurance company licensed to write the classes of authority currently held by Domestic Insurer.
27. Upon completion of the transaction, Domestic Insurer would have paid in surplus in an amount that would satisfy the statutory minimum required

of a life insurance company licensed to write the classes of authority currently held by Domestic Insurer.

Competitive Impact

28. The acquisition of control of Domestic Insurer is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
29. The acquisition of control of Domestic Insurer would not lessen competition or tend to create a monopoly in the Commonwealth because the market share of Applicants, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of Acquiring Persons

30. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.
31. The Department reviewed the financial statements of WCAS IX and WCAS X.
32. The financial condition of Applicants would not pose any impediments to the change in control nor jeopardize the financial condition of Domestic Insurer.

Plans for the Acquired Insurer

33. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurers.
34. As provided in the Application, Applicants have disclosed that they intend to make no significant immediate changes to the business plan of Domestic Insurer.

Management

35. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
36. Biographical affidavits for all directors and executive officers of Applicants were provided as part of the Application and the Department reviewed all affidavits that were submitted.
37. The Department is satisfied that the persons who would control the operations of Domestic Insurer have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
38. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;

- d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Domestic Insurer.
 4. Based upon the Application, the Commissioner has determined that upon closing of the Acquisition the ultimate controlling persons of Domestic Insurer would be Applicants and Capital Z Funds.
 5. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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: :
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ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The application of WCAS IX Associates, LLC and WCAS X Associates, LLC in support of the request for approval to acquire control of Pennsylvania Life Insurance Company is hereby approved, subject to this Order and the following condition:

WCAS IX Associates, LLC and WCAS X Associates, LLC shall provide a list of the closing documents to the Insurance Department within five business days of consummation of the subject transactions. Such documents shall be available for Department review for a period of not less than five years from the date of the closing of this acquisition.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

JOEL ARIO
Acting Insurance Commissioner
Commonwealth of Pennsylvania