

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402  
: and 1403 of the Insurance Holding  
Application of Centene Corporation in : Companies Act, Article XIV of the  
Support of the Request for Approval to : Insurance Company Law of 1921, Act  
Acquire Control of Magellan Behavioral : of May 17, 1921, P. L. 682, as  
Health of Pennsylvania, Inc. and : amended, 40 P.S. §§991.1401,  
Magellan Complete Care of : 991.1402 and 991.1403  
Pennsylvania, Inc. :  
: Order No. ID-RC-21-08

**DECISION AND ORDER**

AND NOW, on this 3rd day of May, 2021, Jessica K. Altman, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies 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**

Identity of PA Domestic Insurers

1. Magellan Behavioral Health of Pennsylvania, Inc. (“MBH”) is a risk-assuming preferred provider organization that is not a licensed insurer (“RANLI PPO”) organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Newtown, Pennsylvania.
2. Magellan Complete Care of Pennsylvania, Inc. (“MCC”) is a health maintenance organization (“HMO”) organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Newtown, Pennsylvania.

3. Magellan Health, Inc. (“MHI”) is a publicly traded corporation organized pursuant to the laws of Delaware with its principal place of business in Scottsdale, Arizona. MHI currently indirectly holds 100% of the issued and outstanding stock of MBH and MCC.

#### Identity of Applicant

4. Mayflower Merger Sub, Inc. (“Merger Sub”) is a recently formed corporation organized pursuant to the laws of Delaware with its principal place of business in St. Louis, Missouri.
5. Centene Corporation (“Centene”) is a publicly traded corporation organized pursuant to the laws of Delaware with its principal place of business in St. Louis, Missouri. Centene currently directly holds 100% of the issued and outstanding stock of Merger Sub.
6. An entity holding more than 10% of the voting securities of Centene has properly filed a disclaimer of control.
7. No entity controls Centene.

#### **Acquisition Filing**

8. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
9. On January 12, 2021, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from Centene for approval to acquire control of MBH and MCC.
10. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

#### **Department Procedures**

11. On January 30, 2021, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by Centene and such notice invited interested persons to submit comments to the Department regarding the Application for thirty (30) days following the date of the publication (“Comment Period”).
12. The Department received no comments regarding the Application during the Comment Period.

### **Description of the Proposed Acquisition**

13. As described in the Application, on January 4, 2021, MHI, Centene and Merger Sub entered into an Agreement and Plan of Merger (the "Merger Agreement").
14. As described in the Application and pursuant to the Merger Agreement, Centene intends to cause Merger Sub to merge with and into MHI, with MHI as the surviving corporation (the "Merger").
15. The issued and outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), of MHI will be cancelled and converted into the rights to receive \$95.00 per share in cash (the "Merger Consideration").
16. Centene expects to fund the Merger Consideration through a combination of cash on hand and a mix of public and private debt offerings.
17. Each share of stock, par value \$0.01 per share, of Merger Sub issued and outstanding prior to the Merger will be converted into and become one (1) validly issued, fully paid and nonassessable share of common stock, par value \$0.01 per share of MHI.
18. As described in the Application and subsequent the Merger, MHI will become a direct wholly owned subsidiary of Centene.
19. As described in the Application and subsequent to the Merger, Centene would indirectly control 100% of the issued and outstanding stock of MBH and MCC.
20. As described in the Application, Centene would become the sole ultimate controlling person of MBH and MCC as a result of the Merger.

### **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. An application for a change in control must be approved unless the Department 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 RANLI PPO and HMO being acquired.

24. Section 152.9 of Title 31 of the Pennsylvania Code requires a RANLI PPO to maintain assets in excess of liabilities by at least the minimum capital and surplus requires as a stock casualty insurer with accident and health powers under Section 206 of the Insurance Company Law (40 P.S. §386).
25. Under Section 206 of the Insurance Company Law (40 P.S. §386), MBH is required to maintain a minimum net worth of \$1,125,000 to maintain licensure as a RANLI PPO.
26. As described in the Application, upon completion of the Merger, MBH will have a net worth in an amount that will satisfy the statutory minimum required of a RANLI PPO.
27. The minimum net worth required of a HMO is set out Section 301.121 of Title 31 of the Pennsylvania Code (31 Pa. Code §301.121).
28. As described in the Application, upon completion of the Merger, MCC will continue to have a net worth in an amount sufficient to satisfy the minimum net worth requirement for a licensed HMO.

Competitive Impact

29. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein, as per Section 1402(f)(1)(ii) (the “competitive standard”).
30. In applying the competitive standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) are applicable.
31. Centene complied with the informational requirements of the Insurance Holding Companies Act by filing a pre-acquisition notification in the format required by the National Association of Insurance Commissioners.
32. Acquisitions that meet the standards set forth in Section 1403(b)(2)(v)(A)-(C) are exempt from the requirements of Section 1403.
33. For the purpose of the analysis performed under Section 1403(b)(2)(v)(A)-(C), a “market” means direct written insurance premium in this Commonwealth for a line of business as contained in the annual statement required to be filed by insurers licensed to do business in this Commonwealth.
34. For all lines of business, except Title XIX Medicaid, the proposed acquisition of control qualifies for the exemptions set forth in Section 1403(b)(2)(v)(A)-(C) of the Insurance Holding Companies Act.

35. With regard to the Title XIX Medicaid business, the Department examined whether this business establishes a prima facie violation of the competitive standard pursuant to Section 1403(d)(2)(i) and (ii) of the Insurance Holding Companies Act.
36. The market share percentages of Centene and its Pennsylvania operating insurance subsidiaries (10.63%) and MBH as the only subsidiary of MHI reporting direct written premium in the Title XIX Medicaid line of business in this Commonwealth (2.25%) establish a prima facie violation of the competitive standard of Section 1403(d)(2)(i) and (ii) of the Insurance Holding Companies Act.
37. With respect to the Title XIX Medicaid business, although there is a prima facie violation of the competitive standard of Section 1403(d)(2) of the Insurance Holding Companies Act, Centene has submitted substantial evidence pursuant to Section 1403(d)(2)(iv) to support the absence of an anti-competitive effect of the proposed acquisition of control.
38. As stated in the Application, MBH and MCC are specialty managed care organizations that provide only behavioral health plans. The Centene subsidiary insurers do not provide behavioral health plans in Pennsylvania and, as such, do not compete directly with MBH and MCC in the Title XIX Medicaid line of business.
39. While Centene performed the competitive standard analysis under Section 1403(d)(2) using the default product market (annual statement line of business) and the default geographic market (state-wide), Section 1403(d)(2)(iii)(B) of the Insurance Holding Companies Act permits the Department to adopt a definition of product market for the Title XIX Medicaid line of business that separates behavioral health from physical health.
40. The acquisition of control of Magellan will not lessen competition or tend to create a monopoly in the Commonwealth because Centene and its Pennsylvania operating insurance subsidiaries and MHI and its Pennsylvania operating insurance subsidiaries do not compete in the same market in the Commonwealth.

#### Financial Condition of Applicant

41. 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 person(s).
42. The Department has reviewed the financial information submitted by Centene.
43. The financial condition of Centene would not pose any impediments to the change in control nor jeopardize the financial condition of MBH and MCC.

Plans for the Acquired Insurers

44. 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 insurer.
45. In particular, the Department reviewed the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, to determine whether it is:
  - a) Unfair or unreasonable;
  - b) Fails to confer a benefit upon policyholders; or
  - c) Not in the public interest.
46. As stated in the Application, Centene has no future plans or proposals to declare any extraordinary dividend, to liquidate MBH or MCC, to sell their assets, to merge or consolidate them with any person or persons or to change their corporate structure.
47. As stated in the Application, Centene anticipates no changes to the board of directors or executive officers of MBH or MCC immediately following the merger; however, they do plan to replace the board of directors and officers of MHI with the board of directors and officers that are in place at Merger Sub immediately prior to the Merger.
48. There is no basis in the record from which it may be concluded that the plans or proposals which the acquiring party has for the insurer are unfair or unreasonable or fails to confer a benefit upon policyholders or are not in the public interest.
49. 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 insurer.
50. Biographical affidavits for all of the proposed new officers and directors of MHI were reviewed by the Department.
51. Biographical affidavits for all of the officers and directors of Centene were reviewed by the Department.

51. The Department is satisfied that the persons who would control the operations of MBH and MCC have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

52. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.
53. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

54. When analyzing an application for an acquisition of control involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.
55. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
56. 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 Department has jurisdiction to review and approve the change in control of MBH and MCC.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department 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 they are 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 MBH and MCC.
4. 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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Pennsylvania, Inc. :  
: Order No. ID-RC-21-08

**ORDER**

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order: .

The application of Centene Corporation ("Centene") in support of the request for approval to acquire control of Magellan Behavioral Health of Pennsylvania, Inc. ("MBH") and Magellan Complete Care of Pennsylvania, Inc. ("MCC") as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. Centene shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.
2. For a period of six (6) months after the effective date of the subject transaction, Centene shall not take affirmative action to reduce the number of employees of MBH or MCC principally located in Pennsylvania, without application to and the prior written approval of the Department.
3. For a period of two (2) years after the effective date of the subject transaction, Centene shall provide written notice to the Department of any planned or proposed reductions in staff that would affect more than ten percent (10%) of the employees of MBH or MCC principally located in Pennsylvania as of, or within six (6) months prior to, the effective date of the subject transaction. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve (12) month period. Such notice, which shall specify the reasons for the reduction in force and

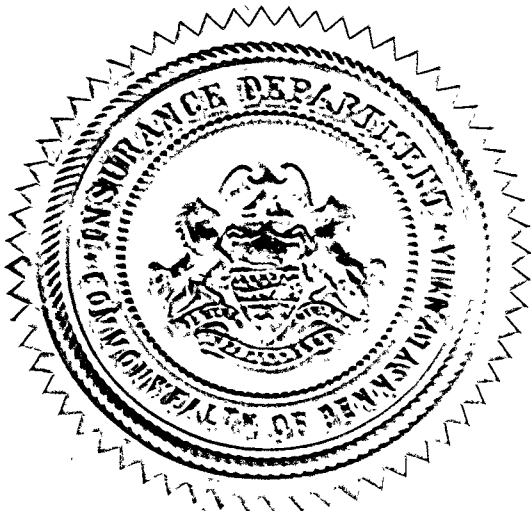
include information regarding planned or proposed severance pay and relocation opportunity arrangements, shall be filed with the Department at least ninety (90) days prior to any such planned or proposed reductions.


4. For a period of two (2) years after the effective date of the subject transaction, MBH or MCC shall not close or cease actively doing business from:
  - a) The corporate office of MBH and MCC, located in Newtown, Pennsylvania; or
  - b) Any other office located in Pennsylvania,

In each case without application to and the prior written approval of the Department.

5. For three (3) years following the effective date of the acquisition, MBH and MCC will be prohibited from declaring or paying any dividends, returns of capital or any other type of distributions, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq.
6. For a period of three (3) years after the effective date of the subject transaction, MBH and MCC shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania without the prior written approval of the Department.
7. For a period of three (3) years after the effective date of the subject transaction, MBH and MCC shall not attempt to redomesticate to another jurisdiction.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one-year limitation does not apply to any conditions prescribed by the Department in the Order.



  
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Jessica K. Altman  
Insurance Commissioner  
Commonwealth of Pennsylvania