

[REDACTED]

July 5, 2023

**VIA EMAIL**

Harold S. Horwich  
Morgan, Lewis & Bockius  
One State Street  
Hartford, CT 06103

**Re: HCMO Notice of Material Change Transaction Regarding the Proposed  
Transaction with CareOregon, Inc.**

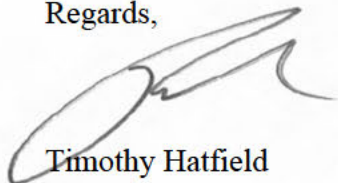
Dear Harold:

This letter is in response to the April 24, 2023 information request sent on behalf of the Health Care Market Oversight Program of the Oregon Health Authority (“OHA”), and supplements the information we provided in our prior letter dated May 23, 2023. You will note that we are still compiling responses to a small number of OHA’s requests and will provide responses to all outstanding requests shortly.

As noted below, many of the responses below are confidential, non-public information that is entitled to confidentiality protections under Oregon law. We are providing these responses pursuant to ORS 415.501(13)(a), which entitles these responses to the confidentiality protections of ORS 415.501(13)(b) and (c). OHA may share this response, including the responses marked confidential, with the Department of Consumer and Business Services under OAR 409-070-0035.

Please contact us prior to disclosing any information identified as confidential herein.

Regards,



Timothy Hatfield

**I. CONSIDERATION AND APPROVAL OF THE SCAN TRANSACTION BY THE CO BOARD.**

**INQUIRY I.1:** At any time within the last five years, did the CO Board consider an affiliation with any entity other than SCAN?

- a. Provide details of any proposals made or received by CareOregon including the terms of any proposal, the dates of any proposal, the identity of the entity involved, advisors retained to evaluate such proposal and the reasons that such proposal was rejected by CareOregon or such other entity.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- b. Produce any term sheets, correspondence or other documents evidencing such proposal and any analysis by CareOregon or advisors of such proposal.

[REDACTED]

**INQUIRY I.3:** Did the CO Board or CareOregon retain any consultants, financial advisors, investment bankers or others to provide advice to it in connection with the SCAN Transaction?

- a. If it did, please identify them and state the substance of the advice they provided to the CO Board related to the SCAN Transaction. Produce any engagement agreement and any work product produced for the CO Board.

[REDACTED]

**INQUIRY I.4** Explain what due diligence work was conducted on the SCAN Transaction by Price Waterhouse Coopers and LEK.

- a. For which party was it conducted and which parties received it?
- b. Provide the engagement letters and work product from such engagement.

[REDACTED]

**INQUIRY I.5:** Explain what work was conducted on the SCAN Transaction by Houlihan Lokey.

- a. For which party was it conducted and which parties received it?
- b. Provide the engagement letters and work product from such engagement.

[REDACTED]

**INQUIRY I.6:** The parties responded to this inquiry in our letter dated May 23, 2023 (the “May Response Letter”).

**INQUIRY I.7:** Identify and explain all proposals made by SCAN and CareOregon to each other leading up to the SCAN Transaction, and for each, provide an explanation as to why such proposal was rejected by the party rejecting it and identify any counterproposal made by such party. Produce any term sheets (including the term sheets referred to in your March 3, 2023 Response to Inquiry 15), correspondence or other documents evidencing any such proposal and any analysis of it by CareOregon, the CO Board or advisors.

Response: The parties are in the process of compiling the requested documents.

**INQUIRY I.8:** Produce the materials claimed to be proprietary in your response to Inquiry 15 in our letter dated January 30, 2023.

Response: The parties are in the process of compiling the requested documents.

**INQUIRY I.9:** Produce all board minutes, agendas, materials distributed to the CO Board, analyses prepared by the CO Board, CareOregon or its advisors, emails or other correspondence among CO Board members or with members of management concerning the SCAN Transaction or alternatives to the SCAN Transaction.

Response: The parties are in the process of compiling the requested documents.

**INQUIRY I.10:** What analysis was conducted by the CO Board as to how the SCAN Transaction would advance the CO Corporate Purpose?

Response: In considering whether to affiliate with another not-for-profit entity, the CO Board's primary focus was identifying a partner with a similar mission and demonstrated ability to advance CareOregon's strategic objectives, namely, partnership and collaboration, stewardship and efficiency, social health equity, quality and health outcomes, and people and culture.

The CareOregon mission is to inspire and partner to create quality and equity in individual and community health. SCAN's mission is to keep seniors healthy and independent. The SCAN Board and CO Board identified in their respective missions a shared purpose of helping the people they serve remain healthy and independent and promote quality and equity in community health.

This shared purpose establishes a platform for community-driven growth. See Exhibit F, which are confidential board materials from Jackson Care Connect and Columbia Pacific describing the mission alignment of the two organizations. Over the past decade, SCAN has substantially increased the number of members served and the scope of services that it provides to members. It has done so through significant investments in the direct provision of health care services to vulnerable seniors, programs to reduce inequities in healthcare outcomes and access, and geographic expansion. The SCAN Board and CO Board see these investments as a model for creating a not-for-profit, mission-driven

alternative to the large national competitors that are dominating the Medicare and Medicaid markets in many states.

The substantial financial contributions by SCAN Health Plan and CareOregon to HealthRight will improve each organization's ability to make these mission-aligned investments. As described in response to Inquiry V.B.5 below, the combined HealthRight organization is committed to deploying its financial resources to further CareOregon's mission through program expansion and service improvements. These investments will create transformative opportunities benefiting from the greater scale and capabilities of the HealthRight organization. Initial investments will focus on building institutional capacity and strengthening CareOregon's ability to serve its members, improve health equity, and foster community health.

The above considerations are articulated in the confidential board materials shared as Attachment 9 to our March 3, 2023 response letter, and in particular the presentations to the Jackson Care Connect and Columbia Pacific Boards entitled "CareOregon Plan to Bolster our Mission," which occurred in November 2022.

In addition to regularly scheduled board meetings, different subsets of CO Board members met with CO management to discuss the SCAN Transaction and how it would advance CO's mission over the course of summer 2022. In June through August of 2022, CO management hosted 2-3 meetings per week so board members could join when their schedules allowed. CO management presented information and the CO Board discussed topics related to the SCAN Transaction, including strategic rationale, guiding principles, development of the term sheet, governance and reserved powers, mission, determining success, value creation, board roles, the proposed foundation and more. These meetings continued into the fall of 2022 with the focus shifting more towards planning for a combined HealthRight Group.

- a. On what basis did the CO Board conclude that the SCAN Transaction fulfills the CO Corporate Purpose?

Response: See the response immediately above.

- b. Did the CO Board consider or propose requiring the Affiliation Payment be set aside for exclusive use in providing and improving health care and the health of the CO Population?

Response: Yes, the CO Board discussed and considered requiring CareOregon's contribution to the Opportunities Fund to be set aside for exclusive use in Oregon. However, it was ultimately determined that such a restriction would be inconsistent with the overall objectives of the SCAN Transaction. One of the primary goals of the SCAN Transaction is to create a unified, mission-driven organization capable of competing with national and super-regional health carriers. To effectively compete, HealthRight must benefit from the scale of the combined organization in the form of lower per-member administrative costs,

more sophisticated back-office capabilities, and larger investments in program expansion and improvements. This means HealthRight must have the ability to make organization-wide investments that directly and indirectly benefit CareOregon and its members through increased capacity, lower costs, and/or program improvement. Setting aside the Affiliation Payment for exclusive use on behalf of CareOregon membership could impede these types of organization-wide investments and prevent CareOregon from seeing the full benefits of HealthRight's scale.

As an alternative to setting aside CareOregon's contributions to the Opportunities Fund for exclusive use on behalf of CareOregon's membership, HealthRight is committing to spending 100% of CareOregon's initial \$50 million contribution to the Opportunities Fund on projects and services that directly benefit CareOregon and its members. This would include shared infrastructure investments (which will be allocated to CareOregon based on the benefits received), as well as the development or expansion of programs that serve the populations of CareOregon's primary service areas, and Oregonians in general.

Ultimately, CareOregon's contributions to HealthRight are a necessary component of establishing a combined parent organization in which CareOregon has meaningful voice and participation, including a voice related to use of the Opportunities Fund as a whole, which will be valued at approximately \$290 million as of closing.

- c. Produce any analyses, correspondence or documents evidencing the CO Board's consideration of the CO Corporate Purpose and how the SCAN Transaction fulfills it.

Response: The parties are in the process of compiling the requested documents.

- d. Produce the materials claimed to be proprietary in Inquiry 9 in our letter dated January 30, 2023.



**INQUIRY I.11:** What value or other consideration did the CO Board conclude was being received by CareOregon for the Affiliation Payment and Transfer of Control?

- a. Produce any analysis, correspondence or other document evidencing such conclusion and any analysis leading to such conclusion.

Response: The contributions to the Opportunities Fund and affiliation under HealthRight are each an integral part of the overall design and objectives of the parties with respect to the affiliation and establishment of HealthRight. As discussed in the response to Inquiry I.10, contributions to the Opportunities Fund by CareOregon, together with CareOregon board members joining the HealthRight board



of directors, are part of establishing a new combined parent organization seeded with contributions and board members from CareOregon and SCAN, all of which is designed to give CareOregon a meaningful voice and participation in furthering the mission and purpose of HealthRight, including a voice related to use of the Opportunities Fund.

The CareOregon contributions to the Opportunities Fund are intended to be consistent with and in proportion to contributions to HealthRight by SCAN Health Plan. As discussed in the response to Inquiry V.B.5, those combined contributions to HealthRight will be used to make investments in projects and services that neither SCAN nor CareOregon could make on its own. It is expected that a significant portion of such investments will directly benefit CareOregon and its members.

The governance of HealthRight includes a combination of CareOregon and SCAN board members. The combined HealthRight board and leadership team will provide oversight and direction for the combined organization, including making investments for the benefit of the combined organization and its members. As discussed in response to Inquiry V.B.5, the combined organization brings scale, allows spreading of administrative costs across a larger membership, hedges against product-specific declines, and facilitates investments and knowledge sharing. While providing many of the benefits of a larger, combined organization, the affiliation was designed to preserve local governance and oversight by CareOregon and SCAN Health Plan over their respective health plans and operations in Oregon and California. This model is similar to the approach taken by CareOregon with respect to its CCOs and the preservation of their local voice and governance.

**INQUIRY I.12.a and b:** The parties responded to this inquiry in the May Response Letter..

- c. Produce any documents reflecting the CO Board' s consideration of methods by which the Affiliation Payment would be determined.

Response: The CO Board members discussed CareOregon's contribution to the Opportunities Fund as part of their regular meetings with management in the summer and fall 2022, including alternatives to the agreed-upon structure; however, there is no documentation that reflects such discussions.

**INQUIRY I.13:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY 14:** Produce copies of the Hart-Scott-Rodino filing and the California Department of Managed Health Care filing.

Response: The parties are in the process of compiling the requested documents.

## **II. ESTABLISHMENT OF THE CO FOUNDATION**

**INQUIRY II.1a. -d:** The parties responded to this inquiry in the May Response Letter.

- e. Produce all CO Board minutes and internal communications concerning the establishment of the CO Foundation by CareOregon prior to the proposal of the SCAN Transaction and in connection with the proposal and approval of the SCAN Transaction.

Response: The parties are in the process of compiling the requested documents.

**INQUIRY II.2 - .4:** The parties responded to this inquiry in the May Response Letter.

## **III. OFFICERS AND DIRECTORS FUTURE ROLES**

**INQUIRY III.1 - .4:** The parties responded to this inquiry in the May Response Letter.

## **IV. EXPANSION PLANS**

**INQUIRY IV.A.1 - .4:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY IV.B.1 - .2:** The parties responded to this inquiry in the May Response Letter.

## **V. BENEFITS OF SCAN TRANSACTION TO CAREOREGON AND CO POPULATION**

**INQUIRY V.1:**

- b. If there are no antitrust reasons that would prevent the development of a business plan for HealthRight, explain the business plan for HealthRight, including plans, commitments and agreements for its subsidiaries and affiliates including those doing business in Oregon. The explanation should include both operational and financial details.

Response: HealthRight has not produced “business plans” and does not intend to do so. However, several of the enclosed, previously provided, and forthcoming responses address HealthRight’s future plans, including the responses to Inquiries IV.A and B. (Expansion Plans, Medicaid and Medicare Advantage); Inquiries V.A and B (General Benefits and Specific Initiatives). These responses include as many financial and operational details as the parties have developed to date. Note, the parties have long anticipated that functional integration planning will begin immediately after close, as reflected in the confidential October 2022 CO Board document entitled “Joint Work Product from SCAN & CareOregon: Perspectives on Integration,” which is attached hereto as Exhibit J. However, LEK is assisting the parties in developing an integration framework, which is attached hereto as Exhibit K.



- c. Produce the current version of any such plan as well as analyses supporting the plan performed by CareOregon, SCAN or third parties.

Response: See the response immediately above.

**INQUIRY V.A.1.a:** The parties responded to this inquiry in the May Response Letter.

- b. Produce any documents showing a quantitative analysis of the benefit to CareOregon from such diversification.

[REDACTED]

**INQUIRY V.A.2.a, i:** The parties responded to this inquiry in the May Response Letter.

- ii. Produce any analyses or other documents that support this contention.

[REDACTED]

- b. The parties responded to this inquiry in the May Response Letter.

- ii. Produce any analyses or other documents that support this contention.

[REDACTED]

- c. The parties responded to this inquiry in the May Response Letter.

**INQUIRY V.A.3:** Savings from greater purchasing power

- a. Explain the expected cost savings effects of shared purchasing of systems and services that would result from the SCAN Transaction.
- b. Provide details of the systems and services that would be expected to be subject to such savings. Provide a quantitative analysis of the benefit to Care Oregon from such savings.:

Response: The parties are unable to engage in the requested analysis at this time due to antitrust regulations that restrict the sharing of financial information for purposes of negotiating with third parties prior to closing. However, to illustrate the opportunity of shared purchasing value, the parties offer the following example regarding the co-purchase of a Customer Relationship Management (CRM) system. Neither organization currently uses a CRM solution for member and provider engagement operations.

CRM systems deliver strong value to customers and providers by allowing the synthesis of information across systems to improve holistic understanding of individuals, thereby improving the delivery of benefits and services, expediting

access to information, and reducing duplicative communications. In addition, they create longitudinal information regarding customers and providers, giving health plans a better opportunity to individualize improved service over time, and drive efficiencies across health plans via workflow automation. Significantly, CRM systems are routinely used by large corporations that spread the costs of these systems across large membership populations.

Both parties believe that implementation of a CRM could provide value by improving staff productivity, member and patient satisfaction, and market differentiation at their respective organizations. While each party has previously and independently explored implementation of CRM systems for workflow automation, member and provider relationship management and tracking, notably neither has elected to implement a CRM system yet due to the high incremental cost.

In their respective explorations, the parties independently determined the per member per month (PMPM) cost to be in the range of \$0.58 PMPM (for CareOregon) and \$3.75 PMPM (for SCAN) (note, both PMPM estimates are comprised of implementation, licensing, and labor costs. At this range, the annual aggregate increase to the parties' expenses would be in the range of \$2.8M for CareOregon and \$7.5M for SCAN, including those associated with recurring licensing and labor/run rate costs (each organization applied its own methodology and working assumptions in determining such cost estimates). The parties have noted the possibility of negotiating a more favorable PMPM rate for a CRM system based on the combined membership of HealthRight Group, which is expected to be approximately 800K members, and that the cost for a single implementation could also be shared as a combined organization. Typically, software application vendors offer tiered pricing based on membership or user volumes. The parties believe it is realistic to anticipate savings over what either organization could negotiate alone, with estimates that range in a reduction in PMPM cost from \$0.58 PMPM to \$0.43 PMPM (using CareOregon's methodology of cost estimates) or a reduction in PMPM cost from \$3.75 PMPM to \$1.61 PMPM (using SCAN's methodology of cost estimates).

#### **INQUIRY V.A.4: Resource Sharing**

- a. Identify resources that will be shared between CareOregon and SCAN that will result in cost savings for the combined organization.

Response. As explained further below, the parties are in the early stages of developing an integration plan. Based on these preliminary discussions, SCAN and CareOregon anticipate that there will be shared services functions, such as information technology, legal services, human resources, and finance. The parties have engaged in preliminary discussions regarding the level of sharing of various services with the expectation that some will be fully or partially shared, while others will be fully dedicated at the subsidiary level.

The parties have engaged in preliminary planning, with the assistance of LEK, through exploratory conversations with various functional leaders. The parties have determined that integration value will be achieved in at least three ways: (1) potential vendor combination; (2) expansion of functional breadth and depth; and (3) best practice sharing. Exhibit K illustrates our approach to integration as well as the functional areas that we identified that may benefit from integration.

- b. Provide details of any plan for sharing such resources that identifies the resources, the means by which they would be shared, the time period over which the sharing would occur and a quantitative analysis of the benefit to CareOregon from such resource sharing.

Response. While the parties are still having preliminary discussions about resource sharing and therefore have not yet made specific plans, they have discussed the following hypothetical scenario, which is illustrative of the expected benefits of working together under HealthRight Group.

Both parties maintain contact centers that answer member calls, research and respond to inquiries, and resolve issues. CareOregon and SCAN experience seasonal variation in call demand, with peak call volumes that increase call hold time and call abandonment rates, which are two key performance metrics associated with member experience. Peak call months for CareOregon are January through March, and for SCAN are January through March, followed by October through December. The parties have discussed identifying a cadre of member service representatives from each organization that could be cross-trained to enable them to serve both CareOregon and SCAN members. This cross-trained team could be deployed on demand to address call volume peaks, thereby improving member service without causing either organization to retain expensive and less effective temporary staffing. This practice is known in the healthcare industry as “load balancing” and is regularly practiced by large health plans with contact center staffing across multiple geographies and time zones.

By way of reference, the average hourly rate for a temporary contact center agent in CareOregon’s service areas is approximately \$26.00 to \$33.00 per hour, and across SCAN’s service areas, the average rate is \$28.00 per hour. Offshore temporary staffing for SCAN can sometimes be obtained for approximately \$15.00 per hour (CareOregon does not have offshore temporary staffing). While these amounts help put into context the anticipated cost avoidance of not having to use temporary staffing, the most important anticipated value of member service team load balancing is improved service to CareOregon’s and SCAN’s members, as they will be served by well-trained team members committed to the combined missions of the organizations.

**INQUIRY V.A.5:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY V.B.1:**

- a. Identify and explain the specific allocations and investments that will be made to or for the benefit of CareOregon or CO Populations that it serves.
- b. Produce any documents evidencing such planned allocations and investments, including market analyses and business plans.
- c. Does HealthRight envision that these investments qualify as Medical Expenses for purposes of the current Medicaid lines of business?

Response. HealthRight will spend 100% of CareOregon’s initial \$50 million contribution to the Opportunities Fund on projects and services that directly benefit CareOregon and its members. All decisions regarding specific capital expenditures from the Opportunities Fund will be made by the newly constituted HealthRight Board, which will include the CareOregon-appointed members. While no specific commitments have been made, the parties have had preliminary discussions about several near-term investments that directly benefit CareOregon and its members, which are described in the chart below. For the avoidance of doubt, this chart is not a commitment to fund any of the programs; however, it does represent the parties’ good faith expectations of the type and scale of investments to be made by the Opportunities Fund. In addition, the parties intend to look to CareOregon’s existing relationships and partnerships in determining investments. The parties have not yet developed documents evidencing planned allocations and investments, such as market analyses and business plans.

<b>Description</b>	<b>Summary</b>	<b>Projected expenditure</b>
Program for All-Inclusive Care for the Elderly (PACE)	Implement a PACE program in collaboration with myPlace, a SCAN affiliate, or with another PACE program operator. Preliminary discussion has focused on an initial presence in the Eugene market, with the intent to open 2-3 additional Oregon sites within 5-10 years.	\$9.5 million over 5 years for Eugene, OR, with \$10 million of additional capital for each additional site.
Homeless Services Medical Group	Expand CareOregon’s direct health care services offerings for Oregon’s homeless populations, informed by SCAN’s Healthcare in Action medical group for the homeless and based on the specific needs of Oregon communities.	\$15-\$20 million, with \$7 million representing startup costs and the remainder in ongoing program supports.
Primary Care Services	Expand CareOregon’s existing primary care service offering (Housecall Providers) with a focus on improving access for underserved enrollees.	\$10-\$12 million, with \$6 million representing in initial investment in program expansion and the remainder in ongoing program supports.

Wellness Visit and Palliative Care Medical Group	Begin offering wellness and palliative care services to CareOregon members, which may be through Housecall Providers (which is CareOregon’s existing provider group) or via a standalone group.	\$10-\$15 million, with \$5 million representing startup costs and the remainder in ongoing program supports.
Infrastructure Investments	See response to Inquiry V.A.3.	\$10-\$15 million.

HealthRight also anticipates allocating a substantial portion of CareOregon’s subsequent annual contributions to the Opportunities Fund to projects and services that directly benefit Oregonians. However, there are no immediate plans to spend the entirety of the Opportunities Fund. Both organizations have historically maintained significant capital reserves to facilitate opportunistic investments and provide a financial cushion in times of economic uncertainty and given the often counter-cyclical nature of healthcare spend. HealthRight will continue to do so via the Opportunities Fund. HealthRight will allocate capital investments based on the benefits received by the respective affiliated organizations within the different states served by HealthRight.

For the most part, the parties do not anticipate that capital expenditures from the Opportunities Fund will be considered a claims cost for MLR purposes, nor is that the intent of the fund.

**INQUIRY V.B.2:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY V.B.3:** Responses to Inquiries b. – m. are forthcoming.

**INQUIRY V.B.4:** What resources will be available from SCAN to assist CareOregon to improve the quality and reliability of care to the CO Population? What plans exist to make those resources available?

- a. What areas has CareOregon identified for quality improvement? Provide details regarding the quality metrics, strategies and resources SCAN will assist in improving.
- b. How will SCAN assist CareOregon in improving the provider network, improving member access to care and improving member service in the counties served by CareOregon?
- c. For any such plan, explain the resources that would be made available, the period over which it would occur, the cost of providing them, the source of financing for such costs and the expected benefit of CareOregon.
- d. Explain why such resources or similar resources would be unavailable to CareOregon if the SCAN Transaction did not close.

Response: At this time, the parties have not engaged in the specific planning necessary to address these questions, due to antitrust regulations. It should be noted that CareOregon currently has robust infrastructure and resources devoted to quality improvement; provider network management and partnership; and assuring member access to care and

service. SCAN has a similar commitment to these functions on behalf of its members. In preliminary planning discussions, both organizations have identified further programmatic opportunities in these areas in the “expansion of functional breadth and depth” category, as noted in Exhibit K attached hereto. The parties anticipate collaboratively pursuing further assessment and development of these opportunities once the transaction has received full regulatory approval.

**INQUIRY V.B.5:** What specific plans exist for use of the HealthRight Fund, whether for deployment in Oregon or elsewhere?

Response. See response to Inquiry V.B.1 above.

- a. If there are no specific plans for the deployment of the HealthRight Fund, explain why CareOregon and SCAN agreed to the formation of the HealthRight Fund and the amounts to be contributed before identifying specific projects.

Response. See response to Inquiry V.B.1 above.

- b. What is the rationale for SCAN's control over the HealthRight Fund?

Response. As part of this transaction CareOregon is appointing four board members to HealthRight. This will give CareOregon a strong voice in how funds within the Opportunities Fund will be deployed. The intent of the Opportunities Fund is to make organization-wide investments in projects and services that neither SCAN nor CareOregon could make on its own or would benefit from the combined organization’s scale, knowledge or infrastructure. As such, the Opportunities Fund would not serve its primary purpose if funds were siloed among SCAN, CareOregon and HealthRight.

- a. Why is it necessary for there to be a change in control of CareOregon to accomplish the business objectives of the HealthRight Fund?

Response. SCAN Group and CareOregon share the goal of combining two premier nonprofit managed care organizations under common governance and management. While other transaction structures that do not involve a change of control might have been appropriate if the parties’ intent was simply to share services, such structures would not enable the types of investments and program improvements that will result from the proposed affiliation. Plainly stated, the HealthRight combination allows each of CareOregon and SCAN to continue to do more of what they currently do as standalone entities.

As described in more detail elsewhere in our response, the parties believe that, as a combined organization, HealthRight will be better positioned to make the investments necessary to keep each organization at the forefront

of managed care delivery in their respective service areas. As separate entities with separate budgets and separate capital reserves, SCAN and CareOregon would remain vulnerable to increased competition from national and superregional managed care providers who have much larger enrollment across several different markets and product lines. This larger scale allows for spreading of administrative costs across a larger membership, hedging against product-specific declines, and facilitating investments and knowledge sharing. SCAN and CareOregon firmly believe that this transaction will replicate many of the advantages of the larger competitor entities while allowing each organization to remain firmly rooted in the communities they currently serve. This would not be possible without the proposed affiliation between the parties.

The parties believe that this effort aligns well with the goals of Oregon's Coordinated Care Model and the needs of the people of Oregon. Far from a mere service arrangement, the affiliation of SCAN Group and CareOregon under the HealthRight parent, governed by representatives from both organizations, will allow both organizations to optimize the delivery of services to their members by combining their respective management, experience, know how, skill sets and other assets in a single managed care system. HealthRight will be operated through uniquely regional nonprofit entities that know, respect, and can best accommodate and serve the needs of their respective local populations and, in the case of CCOs, have boards that include community representatives.

**INQUIRY V.B.6:** What are the centralized administrative services to be provided by SCAN pursuant to the Administrative Services Agreement contemplated by Section 2.6 of the Affiliation Agreement?

Response: See the response to Inquiry V.A.4 above. The parties are in the early stages of developing an integration plan. Based on these preliminary discussions, SCAN and CareOregon anticipate that there will be shared services functions, such as information technology, legal services, human resources, and finance. As noted above, within the bounds of antitrust regulations, the parties are exploring which services should be fully or partially shared and which services should reside within subsidiary lines of business. The Administrative Services Agreement will be written in a manner to appropriately address these decisions.

## **VI. GENERAL INQUIRIES**

**INQUIRY VI.1:** Provide all valuations, discounted cash flow or other financial modeling of the value of CareOregon completed by CareOregon, SCAN or a third-party.





**INQUIRY VI.2:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.3:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.4:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.5:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.6:** Your response to Inquiry 25 in our letter of March 9, 2023, explained how SCAN mitigated underpricing. Please explain what SCAN has done to avoid repeating the circumstances that led to the PDR recorded at December 31, 2021.

Response: The circumstance that led to SCAN recording of a premium deficiency reserve (PDR) in December 2021 was the launch of a negative margin product. The product was intended to drive growth, but SCAN ended up with membership that exceeded its expectations and projections. SCAN has mitigated the margin on that specific product and has no intention of introducing any new negative margin products in the future. As of December 31, 2022, SCAN had \$189 million of liquid equity, so it does not expect to encounter a liquidity crisis. SCAN also has a material amount of liquid equity within its health plan entities.

**INQUIRY VI.7:** Does SCAN have plans for expanding its ISNP product in other states?

Response: SCAN would like to expand its ISNP product in other states but has no immediate plans to do so.

**INQUIRY VI.8:** Provide details of any contingency funding available in the event of a liquidity crisis within the SCAN Group.

Response: At year-end 2022, SCAN Group had \$189 million of liquid equity, so SCAN Group does not expect to encounter a liquidity crisis. SCAN Group also has a material amount of liquid equity within its health plan entities. See also the response to Inquiry VI.6, above.

**INQUIRY VI.9:** Please provide current examples of how the SCAN Foundation, set up as a Type II Supporting Organization, operates to specifically support SCAN Health Plan. Provide details regarding the support functions.

Response: SCAN Health Plan's mission is to keep seniors healthy and independent. The SCAN Foundation's mission is to advance a coordinated and easily navigated system of high-quality services for older adults that preserve dignity and independence. The SCAN Foundation's strategic framework established three thematic goals for the organization: (1) to establish person-centered, integrated models as the standard of care that all older adults with complex needs come to expect and receive, (2) to build resilience and capacity in older adults, families, and communities and (3) to drive responsive federal

and state financing policies to create meaningful care choices for older adults of today and tomorrow.

The SCAN Foundation has specific initiatives to advance these thematic goals, each of which also supports SCAN Health Plan's mission to keep seniors healthy and independent. The initiatives include:

- *Paying for Nonmedical Needs.* Medicare Advantage plans have significant flexibility in designing Special Supplemental Benefits for the Chronically Ill (SSBCI) that meet the individual needs of enrollees. To achieve long-term adoption of SSBCI in a manner that improves health care for the chronically ill, Medicare Advantage payers and providers needed new principles to guide the implementation. The SCAN Foundation issued a grant for ATI Advisory (ATI) and the Long-Term Quality Alliance (LTQA) to lead national efforts to advance person-centered, non-medical supplemental benefits in Medicare Advantage.
- *Advance Health Equity in Aging:* Launched in October 2022, this initiative aims to reduce health inequities and improve the lives of older adults from historically marginalized communities, with an emphasis on older adults of color. In summer 2023, The SCAN Foundation is convening a summit for individuals and organizations interested in and working at the intersection of aging, disability, racial equity, and social justice.
- *Innovating for Medicare Beneficiaries:* States can position themselves to improve equitable access to high-quality care and services for the Medicare population. Establishing the infrastructure needed to build and sustain Medicare capacity over time will help states develop the expertise to create innovative models of care. The SCAN Foundation has funded the Medicare Academy, which helps participating states build the Medicare knowledge they need to: (1) develop and oversee Medicare-Medicaid integration programs; and (2) engage in longer-term policy and program refinement.
- *Multisector Plan for Aging:* The SCAN Foundation has championed the concept of a Master Plan for Aging since 2014. In June 2019, California Governor Gavin Newsom issued an Executive Order calling for a Master Plan for Aging—keeping a promise to voters made during his gubernatorial campaign. With seven other California foundations, the SCAN Foundation established a joint fund to support the Master Plan's creation.

**INQUIRY VI.10:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.11:** The parties responded to this inquiry in the May Response Letter.

**INQUIRY VI.12:** Provide the schedules to the Affiliation Agreement, which you have withheld on the basis that they are "confidential and proprietary."

Response: The parties are in the process of compiling the requested documents.

**INQUIRY VI.13:** Inquiry 10 in our letter dated March 9, 2023, pertained to the broad risk management processes maintained by both SCAN and CareOregon/HPCO, not the limited information disclosed in the Form F filings.

- a. Please advise us if the Parties plan to consolidate risk-management processes, or manage risks separately.
- b. Where will the Chief Risk Officer(s) reside?
- c. Which Boards will be responsible for overseeing risk management?
- d. What will the scope of their responsibilities be?

Response: The parties are in the process of compiling the requested documents.