

STATE OF CALIFORNIA
DEPARTMENT OF MANAGED HEALTH CARE

PUBLIC MEETING ON THE PROPOSED
CORPORATE CONVERSION OF
STANFORD HEALTH CARE ADVANTAGE

ONLINE/TELECONFERENCE MEETING
HOSTED BY THE
DEPARTMENT OF MANAGED HEALTH CARE
SACRAMENTO, CALIFORNIA

TUESDAY, DECEMBER 8, 2020

1:00 P.M.

Reported by: Ramona Cota

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1 Director, Mary Watanabe.

2 MS. WATANABE: Thank you, Sara. Welcome, everybody, to our
3 public meeting. We always like to start with our mission statement. The mission
4 of the California Department of Managed Health Care is to protect consumers'
5 health care rights and ensure a stable health care delivery system.

6 As Sara mentioned, our meeting today is on the proposed
7 conversion of Stanford Health Care Advantage. It is being held as required
8 under Article 11 of the Knox-Keene Act. The hearing will provide an opportunity
9 to publicly explain the Plan's proposed corporate conversion and for members of
10 the public to comment on what the DMHC should consider during its review.

11 On May 14th of this year Stanford Health Care Advantage filed a
12 material modification with the Department of Managed Health Care to convert
13 from a nonprofit health plan to a for-profit health plan. Stanford Health Care
14 Advantage is a Medicare Advantage-only plan currently licensed to operate in
15 Alameda, San Mateo and Santa Clara Counties. This conversion does require
16 the Department's approval. If approved, Stanford Health Care will own 100% of
17 the converted plan.

18 The Plan has also filed a separate material modification proposing
19 a change of control where Stanford Health Care would sell 83% of the plan to
20 Essence Plan Holdings if approved.

21 Many of you may remember that in 2018 Assembly Bill 595 gave
22 the Department additional authority to review proposed health plan mergers and
23 requires the DMHC to conduct an independent impact analysis for all major
24 mergers that have a significant impact on the state.

25 The DMHC may disapprove proposed mergers if the merger would

1 substantially lessen competition in health plan products. This applies to
2 transactions where a California-licensed health plan is being purchased or where
3 the plan is merging or consolidating with another California-licensed health plan
4 or insurer.

5 The Department has determined the proposed change of control of
6 Stanford Health Care Advantage is not a major transaction or agreement so
7 today's meeting is not related to the merger or consolidation. Instead, the focus
8 of today's hearing is on Stanford's conversion as required under Article 11.
9 Though we have determined the change of control is not a major transaction or
10 agreement, both the conversion and change of control remain under our review.

11 Now I am going to turn it over to Havi Jogani, an attorney in our
12 Office of Plan Licensing, to provide an overview of DMHC's jurisdiction and
13 authority as it relates to our review of this transaction.

14 MR. JOGANI: Thank you, Mary.

15 I am Havi Jogani, an attorney with the Department, and the
16 licensing reviewer for the proposed conversion. Today I am going to talk
17 generally about the DMHC licensee Stanford Health Care Advantage, the
18 general requirements for nonprofit health plans under Article 11 of the Knox-
19 Keene Act, the proposed conversion of Stanford Health Care Advantage, and
20 what Stanford has filed with the Department. I am also going to touch bases on
21 the types of issues the Department reviews for when looking out for these types
22 of transactions.

23 Let's start with a little background regarding the health plan.
24 Stanford Health Care Advantage is currently a nonprofit public benefit
25 corporation. As stated, the purpose of today's hearing is to discuss the Plan's

1 pending proposal to convert from nonprofit to for-profit status.

2 The Plan has been licensed by the Department as a full-service
3 plan since February of 2014.

4 It currently offers Medicare Advantage products exclusively in the
5 counties of Alameda, San Mateo and Santa Clara. It offers these Medicare
6 Advantage products exclusively via contract with the Centers for Medicare and
7 Medicaid Services.

8 As of the most current reporting period the Plan has approximately
9 4,700 current enrollees.

10 Now I will turn to a brief overview of the Department's review
11 process, including the requirements for nonprofit plans under Article 11 of the
12 Knox-Keene Act.

13 The Department looks at several areas when reviewing a proposed
14 conversion or a restructuring of a health plan under Article 11, including the
15 plan's organizational and corporate changes, any issues regarding administrative
16 capacity of the health plan, how the plan is safeguarded to ensure and avoid
17 conflicts of interest relating to public benefit and charitable activities, as well as
18 notice requirements, including notice requirements relating to today's public
19 hearing.

20 Regarding member impact. I'm sorry, if we could stay on the prior
21 slide. As of current review, Stanford has represented the conversion will not
22 result in changes to the Plan's current provider network, benefits or current
23 member services, including the Plan's current contact information.

24 The Plan has filed current conflict of interest policies relevant to the
25 proposed conversion for both Stanford Health Care Advantage, the Plan, and its

1 current sole member, Stanford Health Care. The Plan has also filed original and
2 proposed amended articles of incorporation and corporate bylaws relevant to the
3 proposed conversion.

4 Also as required under the Knox-Keene Act, both the Department
5 and the Plan have issued notice regarding today's public hearing. Specifically,
6 both the Department and the Plan noticed this hearing in newspapers of general
7 circulation within the Plan's service area. We utilized the San Jose Mercury
8 News, the Daily News and the Alameda Times Star. Notice was issued each
9 Friday for the entire month of November.

10 Now on the next slide we will turn to some of the financial aspects
11 of the proposed conversion.

12 The Department's review of a proposed conversion under Article 11
13 also includes a determination of a health plan's fair market value. Specifically,
14 the Knox-Keene Act requires the plan's fair market value to be set aside for
15 charitable purposes and transferred to an appropriate organization prior to any
16 Department approval of a transaction.

17 Any recipient of the set-aside amount must also have a mission
18 dedicated to serving the health care needs of Californians.

19 In support of its proposal here the Plan has submitted a fair market
20 value opinion prepared by VMG Health. The VMG Health opinion identifies the
21 Plan's combined tangible net equity or TNE of approximately \$5.2 million to be
22 set aside for charitable purposes. In this instance the Plan has requested the
23 Department consider setting aside the charitable contribution and allow it to be
24 transferred to the Plan's parent, Stanford Health Care, in the form of equity
25 ownership in the Plan.

1 In terms of valuation the Department has also engaged experts
2 PYA to review the fair market value opinion prepared and submitted by Stanford.
3 Our experts PYA did review the fair market value opinion prepared by VMG
4 Health and submitted by Stanford. PYA's review did find no material issue
5 regarding the proposal submitted by Stanford and the fair market value opinion
6 submitted and prepared by VMG Health.

7 All the materials I just referenced, including the fair market value
8 opinion and the Department's summary of the Department's consultant's findings,
9 are available on our public website under the conversion materials.

10 I do want to include a reminder that the proposals remain under
11 current review and are not yet approved. Both the conversion and the change of
12 control, which I will speak to in a moment briefly, do require prior Department
13 approval.

14 For now I will move on to an overview of the proposed conversion.

15 As our Director mentioned, in May of this year Stanford filed two
16 material modifications, one proposing conversion from a nonprofit to for-profit
17 status, and another material modification proposing a change of control whereby
18 Essence Health Plan Holdings would acquire 83% of the converted plan.

19 The Department has issued Orders of Postponement in June of this
20 year, which remain in place.

21 So as we have been clear, today's hearing does remain focused on
22 the proposed conversion. Specifically, Stanford would convert from a nonprofit
23 public benefit corporation to a for-profit corporation, under California law.

24 If approved, the Plan's current sole member in nonprofit status,
25 Stanford Health Care, would then become 100% owner of the converted for-profit

1 plan.

2 Immediately subsequent to the proposed conversion and filed for
3 separate approval, the Plan has also proposed a change of control whereby
4 Essence Health Plan Holdings would acquire 83% of the converted plan. As
5 Mary did mention, the Department has determined that change of control is not a
6 major transaction or agreement for the purposes of Article 10.5 related to
7 mergers and acquisitions under the Knox-Keene Act. Also this finding is publicly
8 available on the Department's website under the conversion materials.

9 Finally I would like to turn and provide reference to some diagrams
10 regarding the proposed transaction.

11 The organization charts we are looking at here do provide a high
12 level overview of the relationships between all the entities involved.

13 As I mentioned, the health plan is proposing the conversion from
14 nonprofit to for-profit status to facilitate the change of control. The diagrams
15 pictured here do depict both the pre-conversion status of the Plan as a nonprofit
16 public benefit corporation and also depict the overall impact on the DMHC
17 licensee if both material modifications for the conversion and the change of
18 control are approved. If the conversion is approved the Plan will become a for-
19 profit corporation owned by Stanford Health Care.

20 If the separately filed change of control is approved the Plan would
21 sell 83% of its holdings to Essence Health Plan Holdings. Stanford Health Care
22 would retain 17% ownership of the Plan and that is the amount represented and
23 requested by Stanford to also be representative and inclusive of the set-aside
24 amount for the purposes of the conversion.

25 Thank you. I will now turn it back over to Sara Durston.

1 MS. DURSTON: Thank you, Havi.

2 Now we will have comments from Thomas Kim. Thomas is a
3 Member of the Board of Directors of Stanford Health Care Advantage and the
4 Chief Market Development Officer for Stanford Health Care. After Thomas'
5 comments we will have time for public comment. Take it away, Tip.

6 MR. KIM: Thank you. Can everyone hear me?

7 (Affirmative responses.)

8 MR. KIM: Okay, great.

9 Good afternoon, ladies and gentlemen, distinguished members of
10 the DMHC, members of our community. My name is Tip Kim; I am the Chief
11 Market Development Officer for Stanford Health Care and a Board Member for
12 the Stanford Health Care Advantage Plan. I would like to take the opportunity to
13 provide some key information regarding the conversion of our Medicare
14 Advantage plan to you on behalf of my colleagues at Stanford Medicine.

15 I would like to cover the following three areas:

16 First I would like to share the strategic intent behind our creation of
17 the Stanford Health Care Advantage Plan in 2015, the same intent that we carry
18 forward with today.

19 Second I would like to recount the evolution of our plan and the
20 journey we have taken to arrive at our milestone today.

21 Finally, I would like to state clearly our continuing commitment to
22 Medicare Advantage and to this plan specifically to improve health care for the
23 seniors in our community.

24 Let me first turn to Stanford's strategic intent of why we entered the
25 Medicare Advantage business in the first place.

1 Medicare provides critical access to health care for seniors.
2 Stanford Medicine embraces Medicare and especially the innovative business
3 rules and models that CMS has created over the years. Stanford views Medicare
4 as a leading indicator in many ways of how the rest of the health care system will
5 evolve. Medicare Advantage, with all of its consumer protections, risk
6 adjustment mechanisms, fair rules of the road that reward documented quality,
7 stand at the top of the list of innovations that we at Stanford Medicine embrace.

8 Stanford Medicine launched Stanford Health Care Advantage to
9 create a stable provider-partner MA plan that would shield consumers from the
10 volatility of large national carriers who have shown a pattern of repeatedly
11 entering-exiting our communities. We wanted a stable learning environment
12 where Stanford Medicine could become a leading practitioner in population
13 health for seniors. Stanford wanted to become intimately familiar with the
14 internal mechanics of an MA plan because we saw that the business models in
15 place for Medicare Advantage would likely be adapted by other insurance
16 products. These strategic rationales still hold very much true today.

17 Let me now turn to our journey in operating and growing the Plan.
18 We are proud to have grown the membership close to 5,000 members in the five
19 years that we have been in operations. As is well known, there are many
20 challenges to operating a small Medicare Advantage plan. Further, even since
21 the launch of our plan in 2015, the level of resources required to maintain quality,
22 consumer experience and regulatory compliance have continued to increase.

23 The need for a partner, therefore, became necessary to continue
24 with our mission. But it is important to underscore the fact that this decision was
25 not strictly a matter of dollars and cents. The skills, infrastructure and talent

1 required to provide the best member experience for the long term compelled us
2 to seek the right administrative partner. Over the course of 18 months we
3 evaluated 13 different parties, including numerous not-for-profit entities.

4 In the end the Essence Health Plan was the administrative partner
5 that we chose to continue our mission in Medicare Advantage. Their willingness,
6 insistence even, that we actively partner to produce superior outcomes and
7 financial performance that would allow us to reinvest in benefits, differentiated
8 Essence from other well-qualified parties we spoke to and for whom we were
9 maybe a bit too small and from whom we could not get commitments to maintain
10 continuity for our members.

11 Finally I would like to state unequivocally that Stanford Medicine
12 remains committed to our members, to this plan and to managed care overall.
13 Our network is not changing. Stanford physicians will continue to proudly serve
14 as the core network for this plan and further, our brand will stand behind this plan
15 as long as we care for members of this plan. Members can look forward to
16 further enhancements in their member experience that will come with the
17 transition.

18 At its core our seeking conversion is a product of a deliberate,
19 strategic decision that best enables us to continue our mission for the long run.
20 Thank you very much for your time.

21 MS. DURSTON: Thank you very much, Tip.

22 Now is the time we have all been waiting for, the time where you
23 can submit your own public comments. You can either submit comments right
24 now via Zoom or over the phone, I will provide directions for that, but you may
25 also provide public comments to our Stakeholder@DMHC.ca.gov email address.

1 You may submit comments there until 5:00 p.m. on December 15th, 2020.

2 So if you would like to submit comments now, if you are on Zoom
3 you can use the Raise Hand feature. We will unmute you and allow you to give
4 your comments. To raise your hand you will have to click on the icon labeled
5 Participants on the bottom of the screen, then click on the button labeled Raise
6 Hand. Once you have raised your hand and asked your question we will ask you
7 to lower your hand, that way we don't keep you in the queue. When it is your
8 turn to give public comment we will announce you and unmute your line.
9 Conversely for those attending on the phone, if you would like to give a comment
10 please dial *9 and state your name and the name of your organization, if
11 applicable. That applies for everyone giving public comment, please give your
12 name and the name of your organization.

13 So with that we will take our first comment. Again, if you are on
14 Zoom click on Participants and Raise Hand, if you are over the phone please dial
15 *9.

16 DMHC ZOOM HOST: We have a comment from Yasmin. Go
17 ahead.

18 MS. PELED: Hi there. Can you hear me?

19 DMHC ZOOM HOST: Yes.

20 MS. PELED: Good afternoon. Yasmin Peled on behalf of Health
21 Access California, the statewide health consumer advocacy coalition. Thank you
22 to the Department for holding this important public meeting, both for the patients
23 of Stanford Health Care Advantage Plan and the precedent this deal may set.
24 We urge the Department to ask more questions and perform additional
25 investigations to ensure this sale is in the public interest and to impose

1 necessary undertakings and conditions.

2 In particular we raise three questions about this proposed sale.

3 First, the need for undertaking some commitments regarding continuity of care
4 for patients; second, the record of the acquiring entity Essence Health LLC; and
5 third, what commitments to continue charitable and community benefits will
6 continue after the transaction.

7 Independent evaluation confirmed that the Stanford Health Care
8 Advantage Plan has been consistently losing money, which raises concerns for
9 us that Essence Health may make significant changes to the provider network to
10 save money, which in turn could have serious continuity of care implications.

11 A quick online search of Essence Health raises serious questions
12 about their record. We would suggest that the Department thoroughly investigate
13 the whistleblower lawsuit and possible federal fraud investigation that Essence is
14 named in.

15 Stanford Health Care Advantage Plan is a nonprofit entity with a
16 charitable mission being transferred to a for-profit entity and we believe that it is
17 important that the charitable mission and commitments should continue after the
18 transaction.

19 In conclusion, we urge the Department to ask additional questions
20 and conduct additional investigations regarding the sale of Stanford Health Care
21 Advantage to a for-profit health plan Essence LLC and to, at a minimum, impose
22 undertakings and conditions before any approval. Thank you.

23 MS. DURSTON: Thank you, Yasmin.

24 We will continue accepting comments. Again, if you would like to
25 participate, if you are over the phone dial *9 and if you are on Zoom press

1 Participants and then Raise Hand.

2 Do we have any other comments, Lulu?

3 DMHC ZOOM HOST: No one, no one as of yet, no.

4 MS. DURSTON: Okay. We'll give it just one more minute.

5 And as a reminder, you can also submit written comments to
6 Stakeholder@DMHC.ca.gov until 5:00 p.m. on December 15th, 2020.

7 Okay, assuming we have no more comments I will turn it back to
8 Mary, our Director, for closing remarks.

9 MS. WATANABE: Thank you, Sara. And thank you for all of our
10 online participants as well and to Yasmin for giving public comment. We do look
11 forward to receiving other written comments if there are any.

12 Just a reminder that this transaction is eligible for our Consumer
13 Participation Program. You can find more information on our website at the link
14 that you see here on the slide. I would also encourage the public to sign up for
15 our DMHC list serve to be notified of the Department's decision regarding this
16 transaction. You can sign up for our list serve by going to our website at
17 healthhelp.ca.gov; there is a place that says Keep In Touch and you can type
18 your email address in there.

19 I just want to acknowledge Tip Kim for joining us and giving
20 remarks today, thank you for participating.

21 I also want to just take a moment to acknowledge our Department
22 of Managed Health Care administrative team, Sara and Havi for their
23 participation. While it looks like this is going to be a short public hearing today
24 there is actually a tremendous amount of work that goes into putting these
25 together and the coordination, so acknowledge the great work of the DMHC team

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I, RAMONA COTA, an Electronic Reporter and Transcriber, do

hereby certify:

That I am a disinterested person herein; that the foregoing Department of Managed Health Care Public Meeting was electronically reported by me and I thereafter transcribed it.

I further certify that I am not of counsel or attorney for any of the parties in this matter, or in any way interested in the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of December, 2020.



RAMONA COTA, CERT*478