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N.Y. insurer buys Solon's MemberHealth

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Mary Vanac

Plain Dealer Reporter

MemberHealth Inc., the Medicare prescription drug benefit provider in Solon, has agreed to be acquired by a specialty health and life insurer in New York for \$630 million in cash and stock.

Universal American Financial Corp. in Rye Brook, N.Y., plans to keep MemberHealth's 160 employees, most of whom work at its Solon headquarters.

"One of the attractions for us was the tremendous leadership of both Chuck and his management team, and the performance of the whole employee base out there," said Robert Waegelein, Universal American's executive vice president and chief financial officer.

Chuck Hallberg, MemberHealth's founding president and chief executive, said the acquisition might add to his company's employee ranks.

"We were already planning to add almost 90 people this year. That's what we had budgeted" before the Universal American deal came along, said Hallberg, who remains leader of MemberHealth and gets a Universal American board seat. "The only [change] I can think of is we might need more" employees.

MemberHealth's Medicare prescription drug benefit, which goes by the name Community Care Rx in most states, as well as the Solon company's other benefit plans, also are expected to stay the same. "All our plans will remain exactly as they are," Hallberg said. "Our beneficiaries will see no changes at all."

MemberHealth rocketed to the national scene and \$1 billion in revenue last year when it became the fourth-largest sponsor of a Medicare Part D prescription drug benefit.

Hallberg started MemberHealth as a prescription drug discount program in 1998, adding administration of the drug discount benefit of the Ohio Golden Buckeye card in 2003.

In 2005, MemberHealth joined the National Community Pharmacists Association in Alexandria, Va., and Computer Sciences Corp. in El Segundo, Calif., to create a Medicare discount drug program.

That program became Community Care Rx last year.

The Medicare prescription drug benefit is different from competing plans because insurance agents pitch it to seniors at local pharmacies. The plan also pays incentives to pharmacists for keeping costs down.

"MemberHealth Community Care Rx is unique among Part D plans because it so successfully aligns the interests of patients and pharmacists," said Bruce Roberts, executive vice president and chief executive of the pharmacists' association, in a written statement.

The acquisition, expected to close in the third quarter, would give MemberHealth a whole set of Medicare products to offer the 1.1 million members of its Medicare prescription drug plan, Hallberg said.

Universal American offers a broad array of health insurance and managed-care products and services, mostly to the senior population. The New York company also offers a Medicare prescription drug benefit, which is the seventh-largest program nationwide.

"This is a great strategic addition to the Universal American family of senior products," Waegelein said.

Under terms of the acquisition, MemberHealth investors would receive 55 percent of the purchase price in cash and 45 percent in Universal American stock. The investors could get more cash and stock in the future if MemberHealth meets performance goals.

Welsh, Carson, Anderson & Stowe, the New York private equity firm that acquired a majority interest in MemberHealth in late 2005, put the two insurers together, Hallberg said.

"After we sort of came from nowhere and had the phenomenal success that we did, virtually every company in our industry contacted our investor, Welsh, Carson," Hallberg said.

To cover the cash portion of the transaction, private equity funds operated by Lee Equity Partners LLC, Perry Capital LLC, Union Square Partners Management LLC, and Welsh, Carson would buy Universal American securities worth \$350 million. Universal American has another tie to Greater Cleveland. In 2003, it acquired Pyramid Life Insurance Co. from the Ceres Group Inc. in Strongsville. Pyramid offers health and life insurance products to the senior market.

"That's worked out very well for us," Waegelein said.

To reach this Plain Dealer reporter:

mvanac@plaind.com, 216-999-5302

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