STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

In re: Proposed Purchase by Genesis Healthcare, Inc. and its Subsidiaries of Bennington Health and Rehabilitation Center, LLC, Berlin Health and Rehabilitation Center, LLC, Burlington Health and Rehabilitation Center, LLC, Springfield Health and Rehabilitation Center, LLC and St. Johnsbury Health and Rehabilitation Center, LLC	)	**Docket No. GMCB-014-15con**

RESPONSE TO MARCH 25, 2016
QUESTIONS FROM THE GREEN MOUNTAIN CARE BOARD

Liability Insurance

1. Explain why Genesis uses actuarial estimates rather than determining the actual cost of liability insurance based upon premiums and deductibles paid in each fiscal year.

ANSWER: **Genesis believes this question in general and the specific term actuarial estimates arise from its response to prior questions posed by the Board. In responding to those prior questions, Genesis was referring to its general financial reporting, done in accordance with U.S. GAAP. Genesis files its consolidated financial statements in numerous jurisdictions for various stakeholders, including, as a public registrant, with the U.S. Securities and Exchange Commission. Those financial statements are required to be prepared in accordance with U.S. GAAP.**

The question's use of the term "actual cost of liability based upon premiums and deductibles paid" presumes a cash basis of accounting. U.S. GAAP precludes using cash basis; rather, it requires the accrual method or estimated total cost of revenues for the period and financial position reported. There are claims that are reported and undeveloped and still others that are under reported as of any given balance sheet date and for any period earnings are reported. It takes several years for many claims to develop from a reported incident to a settled claim or a lawsuit. It generally takes three (3) to four (4) years to complete the claims cycle. This is why Genesis uses actuarial estimates.

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GAAP reporting and rate setting are two distinct financial reporting processes. Genesis does and will continue to follow rate setting rules when reporting to the Division of Rate Setting.

2. Explain and define the terms "state rate" and "equitable risk sharing."

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting, which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates.

Again, this response is pursuant to U.S. GAAP accounting.

"State Rates" are not derived from any outside sources and do not reflect the experience of any other providers in a given state. The state specific rate is developed from Genesis' consolidated loss experience and is derived from the mature, historical losses. For example, in the 2016 budgeted allocation, Genesis used the mature losses from 2012-2013, the most recent periods in which losses are largely settled and paid. This means that claims incurred (based on the date the incident is reported) over that 2 year period between 1/1/12 and 12/31/13, have been paid out over those 2 years, as well as the subsequent 2 years from the end of 2013 through late 2015 when the 2016 state rates were determined. Those total claims payments are divided by the occupied beds for those 2 years (2012-2013) to arrive at the gross state rate.

"Equitable risk sharing" when used in earlier responses, is a reference to an insurance concept of sharing risk across a risk pool. Here, the risk pool is Genesis centers. The gross state rate is adjusted for the equitable risk sharing, where centers that are below the average cost of claims receive a partial rate increase to "share" the risk of those centers with cost above the average. It is only a partial risk share. Genesis does not adjust all center rates down to the average of the companywide loss rates. Said another way, Genesis allocates more cost to states that have a more litigious environment and less to those with lower historical costs, much like an insurance carrier does with its premiums rates. Vermont has been allocated a lower cost in the past two years. In 2014, the Vermont risk sharing was decreased significantly based on the Vermont centers' favorable past claims experience.

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Genesis self-insures because it would be cost prohibitive for an organization of its size to purchase a fully insured commercial insurance product. While a premium paid to an outside insurance carrier will shift risk among the carrier's clients, as well as take a profit for the carrier, the Genesis allocation shares risk internally among its "clients" – the

individual nursing centers under its management. Genesis does not take any profit margin for these activities, but just allocates the cost of the programs.

3. Provide and fully explain the steps to calculate calculation Vermont's 2014 "state rate," including the application and computation of equitable risk sharing.

ANSWER: See response to Question 2 above. The Division of Rate Setting has regulatory authority over Genesis' cost reporting, which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates.

4. Provide historical loss records for the three most recent mature loss periods used for Vermont 2014 cost reporting, including a breakdown of the entity (Genesis, insurer, etc.) that paid each loss.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting, which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates.

5. Explain whether losses are the same as claims paid out.

ANSWER: No, they are not the same. The term "losses" includes claims payments plus associated costs such as legal fees. "Claims paid out" includes the cost of claims only.

6. Demonstrate and fully explain how the 2014 Vermont "state rate" determines the allocated liability insurance costs to Genesis's four Vermont facilities, as reported on the 2014 Vermont Medicaid cost reports.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates.

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7. Confirm whether the liability policies and allocations will be the same for the five Vermont facilities to be purchased as for the four Vermont facilities currently operated by Genesis. If different, describe and explain how costs will be allocated and recorded for each of the five Vermont facilities being purchased.

ANSWER: This response is in accordance with GAAP accounting. Genesis anticipates applying all the same policies and procedures to the five Applicant centers once acquired, as it currently applies to current Genesis centers, including the accounting for insurance losses.

Workers' Compensation

8. Based on information from the Vermont Division of Rate Setting, the 2013 workers' compensation rates applied to the Rutland and St. Albans facilities were over $0.10/dollar of payroll, compared to Bel-Aire and Mountain View homes which were approximately $0.05/dollar of payroll. In light of your response that "[c]laim cost is allocated to each business based upon state-specific rate applied to payroll dollars," explain why these rates differ.

ANSWER: These rates were historically different because one group of centers, Rutland and St. Albans, was acquired from a third party and was fully insured. The cost of the fully insured policies prior to Genesis acquiring the operations in 2012 was approximately double the cost of the Genesis self-insured program. The 2013 reporting inadvertently failed to adjust the rates for Rutland and St. Albans as those centers were under the Genesis self-insured program at that time. Going forward all Vermont centers will be assessed the same rate per dollar of payroll.

9. Given the availability to Genesis of actual costs of premiums, claims, administration and stoploss coverage—and the requirement that the Medicaid cost report reflect actual costs—explain why Genesis uses estimated actuarial costs, or comparable rates from third party sources, to determine workers' compensation rates for each of its four Vermont facilities.

ANSWER: This is a matter of following GAAP. See Response to Question 1 above.

10. For 2013 and 2014, provide the policy page(s) that show premiums, coverage limits and deductibles for Genesis's four Vermont facilities.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its

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insurance programs at the request of Rate Setting, those actual costs will be factored into the rates. However, the Applicant facilities will be included in the workers' compensation program so Genesis is providing responsive documents. See Exhibits 10a-10j attached.

Health Insurance

11. Based on the response to Question 12, it appears that Genesis runs models to estimate the cost of health care for the Vermont Medicaid cost report. Explain why Genesis does not report the actual health insurance costs for all Vermont nursing homes, and whether it will report actual costs if required to do so in the future.

ANSWER: **The prior response to Question 12 described how the health benefit costs are allocated to Genesis subsidiaries in accordance with GAAP, not for Medicaid cost reporting. Health benefits have a much shorter cycle than liability or workers compensation claims, so the cost reported is likely more timely, but there are still under-reported and undeveloped claims yet to be paid at the time of reporting.**

The Genesis Human Resources Department oversees the health benefits program. This is a self insured program reflected in a Summary Plan Description. In 2014 employees could select from amongst three benefits plans: (1) a consumer driven high deductible plan through contract with Aetna; (2) a Maximum Value plan through contract with Cigna; and (3) a Standard plan through contract with Cigna. Prescription coverage was provided through Restat which was purchased in 2014 by Catamaran. Each benefits program is documented in a benefits summary, describing the benefits covered by the plan and how to access them.

Genesis holds administrative services agreements with Cigna, Aetna and Restat/Catamaran pursuant to which each insurer administers the benefits, including claims processing. Genesis pays the administrative services providers a fee for their services to the Plan and weekly pays the claims incurred.

In this program, the cost of health benefits to Vermont facilities is based on the election of benefits by employees at those facilities. For example, if all of the employees waived coverage, the cost of health benefits to the facilities in Vermont would be zero. The rate per enrolled employee is determined based upon a conventional equivalent rate for the available tiers of coverage (employee, employee plus spouse, employee plus spouse and children, etc.), respectively. The conventional equivalent rate is representative of the total cost of benefits as determined by our insurance brokers with input from the administrative service carriers (Cigna, Aetna, etc.). The conventional equivalent rates developed for our population and applied to each employee is a form of risk sharing that should mimic the premium setting process of an outside insurance carrier, absent the profit margin those carriers would require. If Genesis purchased comparable fully insured products for each

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employee electing coverage, it would be much more expensive than leveraging the company's scale to minimize the cost of providing employees affordable healthcare alternatives.

Genesis complies with Rate Setting rules and will provide Rate Setting with any information reasonably requested.

12. For 2014, provide a copy of all health insurance policy(s) covering Genesis's four Vermont facilities.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates. However, the Applicant facilities will be included in the health insurance program so Genesis is providing responsive documents. Attached as Exhibit 12 please find the following policies: (a) Cigna Standard benefits summary; (b) Cigna Max Value benefits summary; (c) Restat prescription program summary, connects to Cigna Standard and Maximum Value Plans; (d) Aetna consumer driven high deductible benefits summary; (e) Catamaran prescription program summary, connects to CDHD plan; (f) Summary Plan Benefits Document; (g) Administrative Services Agreement with Cigna, pending confidentiality request; (h) Administrative Services Agreement with Aetna, pending confidentiality request; and (i) Administrative Services Agreement with Restat, pending confidentiality request.

13. If self-insured, provide the claims amounts paid on behalf of each of the four Vermont facilities for 2014. If not self-insured, provide the costs of the premiums less any employee contributions.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process. To the extent Genesis provides actual costs for its insurance programs at the request of Rate Setting, those actual costs will be factored into the rates.

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Other

14. Is Genesis or any other subsidiary considered a "related party" to Welltower? If yes, explain in detail.

ANSWER: No. Welltower is a master-landlord for nearly 200 Genesis skilled nursing facilities. Welltower also owns shares of Genesis public stock, although it is not a beneficial owner (<5% ownership). The only influence Welltower can exercise over Genesis pertains to its voting right proportionate to shares outstanding (<5%). Welltower does not control any representative of the board of directors.

Genesis does not have any ownership interest in Welltower and does not otherwise have any influence over Welltower, aside from the arms-length relationship as a master-tenant.

15. In a table format, provide the appraisal value for each of the five facilities Genesis proposes to purchase assigned to land, land improvement, building, furniture, fixtures, equipment, good will and other intangibles.

ANSWER: See Exhibit 15 attached. The table represents the estimated value of the 5 Vermont properties during the preliminary underwriting of this transaction in mid-2015 as updated in the fall of 2015. The entire purchase price for the purchase of all twenty-four (24) facilities purchased from Revera was allocated. The purchase price is less than the preliminary, estimated value. The estimated values are changing and not finalized. Genesis will finalize upon an appraisal conducted after the Certificate of Need is finalized. Even if the finalized appraisal increases, the rate would not be increased. Rate impact is limited by the step up in basis calculation that utilizes the lowest of step up, appraised value and purchase price; here purchase price is already lower than appraised value.

16. According to your responses, Welltower owns the real estate assets of two of the four Vermont facilities operated by Genesis. Provide a copy of the lease agreements for Years 1, 2 and 3 for these facilities.

ANSWER: The Division of Rate Setting has regulatory authority over Genesis' cost reporting which for 2014 is at the desk review stage. This question seeks information that Rate Setting has not requested. Genesis will provide to Rate Setting the information it reasonably requires. As such, Genesis defers response to this question to Rate Setting in the cost report auditing process.

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17. Explain whether Genesis similarly plans to sell to Welltower the real estate interests in the five facilities it is seeking to purchase in Vermont. Provide documentation, where appropriate, showing any proposed lease arrangement(s) for Years 1, 2 and 3.

ANSWER: No, Genesis does not plan to sell any of the five Applicant facilities to Welltower. As such, the leases between Welltower and the current centers requested in Question 16 are not relevant to the CON process for these five Applicant facilities.

18. Provide the contingency plan if Genesis is not successful in accessing the HUD financing program.

ANSWER: Given the October 15, 2015, global HUD approval referring to adding the twenty (20) centers acquired from Revera, which include the five Applicant facilities, Genesis is confident in its ability to obtain HUD financing. Genesis is already using the program financing, as HUD continues to finance other transactions through that global approval. In the remote chance a contingency plan were needed in the future, Genesis would turn to other forms of financing, such as the use of a bridge loan until traditional financing could be secured.

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