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Date: January 12, 2023

To: Board of Directors of Louisiana Health Service & Indemnity Company
d/b/a Blue Cross and Blue Shield of Louisiana ("BCBSLA")
5525 Reitz Avenue
Baton Rouge, Louisiana 70809

Statement of Actuarial Opinion Allocation of Policyholder Consideration for Proposed Demutualization

IDENTIFICATION

I, Brian M. Collender, am associated with the firm of Deloitte Consulting LLP. I am a Fellow of the Society of Actuaries and member of the American Academy of Actuaries. I meet the education, experience, and other qualification requirements promulgated by the American Academy of Actuaries for rendering this opinion.

I have been retained, as of June 23, 2022, by BCBSLA to render this opinion regarding the allocation of consideration among eligible members under the proposed demutualization of BCBSLA.

SCOPE

I have examined BCBSLA's methodology and underlying assumptions for allocation of consideration among eligible members as provided by BCBSLA and as outlined in Exhibit E in BCBSLA's Plan of Reorganization.

This opinion rendered solely assesses the allocation of consideration among eligible members. This opinion is not intended to offer comment or recommendation regarding the exact number of members eligible to receive consideration, the form of the consideration to be distributed to eligible members, nor the proposed methodology for valuation of the total consideration to be distributed, including any calculations or components related to the development of the total consideration amount.

Additionally, this opinion is rendered from an actuarial perspective and should not be construed as legal advice or any opinion related to the structure, form and conditions of the plan of reorganization and demutualization, or decisions of BCBSLA or state regulators with respect to the plan of reorganization. This opinion also provides no recommendation with regard to whether or not the members of BCBSLA should vote to approve the plan of reorganization.

I have made no analysis of the adequacy of policy reserves, future policy benefits, other policyholder funds or any other related actuarial financial statement items, as such items which are outside the scope of this opinion.

MY UNDERSTANDING

I understand that BCBSLA, a licensee of the Blue Cross Blue Shield Association ("BCBS"), is considering a proposed demutualization pursuant to La. R.S. 22:236, and it is also proposed that, simultaneously with the demutualization, BCBSLA would be sold to another licensee of BCBS. As a result of the demutualization, BCBSLA will be converted to a stock company and the membership interests of existing BCBSLA members would be extinguished.

BCBSLA has provided drafts of their proposed plan of reorganization dated December 12, 2022 and December 29, 2022. BCBSLA has also provided a draft of an opinion from a qualified investment banker, Chaffe & Associates, Inc., addressing the fairness of BCBSLA's proposed methodology for determining the total consideration to existing eligible members, as a group, from a financial point of view.

As represented by BCBSLA, my understanding is that BCBSLA's articles of incorporation grant its members the right to vote, but they provide that BCBSLA shall issue no dividends. Moreover, according to BCBSLA, the articles are silent with regard to any right of the members to BCBSLA's surplus or the proceeds of its liquidation, and my understanding is that BCBSLA and its legal counsel are unaware of any provision of law providing such rights.

ANALYSIS

In developing my opinion related to the Scope as previously outlined, my analysis consisted of reviewing documents provided and developed by BCBSLA and having discussions with BCBSLA representatives around the development of the allocation of the consideration.

My review included analysis of the following documents provided by BCBSLA:

- Estimation of per member policyholder considerations found in "Project River – Member Months and Policyholder Consideration 11.17.22.xlsx";
- Details and information found in the draft plan of reorganization, "116697_113352904v7_Project River – Plan of Reorganization (MLR draft 12.12.2022.DOCX";
- BCBSLA Articles of Incorporation, "LHSIC – Articles of Inc -2-2019, 2-2016, 2-2007 Amend, 3-2003 articles.pdf";
- BCBSLA bylaws, "LHSIC BYLAWS -Approved 4-15-19.pdf";
- Sample BCBSLA member contracts including, "2023 GF IND CSD PLAN G CONTRACT – FINAL V1.pdf", "2023 IND CONTRACT PREF ESSEN DENTAL – FINAL V1.pdf", "2023 NGF IND BLUE SAVER CONTRACT – FINAL DMSR.pdf", "2023 NGF SM GRP PREMIER BLUE BP – FINAL DMSR.pdf"

I reviewed the above documents for reasonableness and consistency with BCBSLA's methodology and underlying assumptions for allocation of consideration among eligible members, including the fact that BCBSLA does not pay dividends and that the key right of policyholders is limited to a voting right.

ACTUARIAL CONSIDERATIONS

Actuarial standards of practice in this area are not prescriptive with regard to allocation of consideration among eligible members, and industry practices vary. Moreover, BCBSLA's proposed demutualization is unique in that none of BCBSLA's policies provide for dividends to be paid (i.e. none are participating insurance policies), in contrast to what is typically seen in mutual insurance companies.

In typical demutualizations, consideration is allocated partly on a per policy or per policyholder basis (called the fixed portion) and, for participating policies, partly on the basis of policyholders' actuarial contribution to the company's surplus (called the variable portion). In theory, the fixed portion compensates the policyholder for loss of membership rights (e.g., voting rights) upon demutualization, while the variable portion, if applicable, compensates participating policyholders for the loss of any rights to a distribution of excess assets in the event of liquidation.

The concept of fixed or variable components of consideration, depending on the specific circumstances, is also discussed in Louisiana statutes for reorganizing mutual insurance companies¹.

In BCBSLA's proposed plan of reorganization, BCBSLA has determined that the allocation of consideration among eligible members should consist of a fixed component on a per policy basis to compensate policyholders for the loss of voting rights. Furthermore, BCBSLA has determined that since all of its policies are non-participating, paying no dividends and providing no rights to surplus, shares of stock or liquidation proceeds, there is no variable component to the allocation of consideration among eligible members.

Practices commonly used by actuaries for the allocation of the fixed component of consideration compensate policyholders for the loss of membership rights associated with owning an in-force policy (e.g. voting rights). As outlined in Exhibit E of BCBSLA's proposed plan of reorganization, BCBSLA's allocation method for the proposed demutualization includes a fixed component to compensate policyholders for the loss of voting rights. The same amount will be allocated to each eligible member for each available vote.

Actuarial Standards of Practice (ASOP) No. 37 notes that in determining the reasonableness of the allocation, the actuary may consider the company's voting policy and that the actuary may determine that the fixed component can be allocated based on each eligible policy (regardless of the size of the policy) or each eligible policyholder (regardless of the number of policies or size of policies)². The allocation methodology utilized by BCBSLA conforms to this guidance as the fixed component is allocated based on each policy that has a voting right.

Under BCBSLA's methodology, there is no variable portion of consideration being allocated to eligible members. According to the American Academy of Actuaries Practice Note titled, "Distribution of Policyholder Equity in a Demutualization", a variable portion is generally allocated to policyholders that are participating on its face³. Since BCBSLA's policies are all non-participating, it is reasonable that there is not a variable portion being allocated.

BCBSLA has represented that the final counts of eligible members and final total consideration amount for eligible members as of the date of the board's adoption of the plan of reorganization are not expected to change materially from the amounts provided by BCBSLA in a spreadsheet dated December 20, 2022, and as summarized in Exhibit E, with current estimates as of that date and which underlie this opinion.

RELIANCE

In forming my opinion on the allocation of consideration among eligible members, I have relied upon information provided by BCBSLA.

I have evaluated BCBSLA's information, data and analysis for reasonableness and consistency. I have not performed any reconciliations of the provided data to any other data sources, nor have I performed any independent verification, recalculations or reconciliations of values provided. Therefore, the opinion that follows is contingent upon the accuracy and completeness of the

¹LA Rev Stat § 22:236.3 (2021), subsection B(1) states "The method shall provide for each eligible member to receive: (a) a fixed component of consideration or a variable component of consideration, or both; or (b) any other component of consideration acceptable to the commissioner"

²*Actuarial Standards of Practice No. 37 – Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualizations*, Actuarial Standards Board, Effective May 1, 2011

³*Distribution of Policyholder Equity in a Demutualization*, American Academy of Actuaries Practice Note, July 1999

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information I have received and reviewed; I am not aware of any facts or circumstances that would suggest that the provided information may be inaccurate, misleading, or incomplete.

My examination included review of actuarial and related guidance regarding allocation of consideration among eligible members consequent to the demutualization of a mutual insurance company.

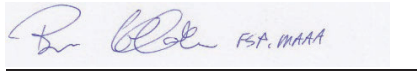
OPINION

In my opinion, BCBSLA's proposed methodology and underlying assumptions for allocation of consideration among eligible members are reasonable and appropriate and the resulting allocation, as summarized in Exhibit E, is fair and equitable.

SIGNATURE

This Statement of Actuarial Opinion is intended to satisfy the requirement for such an opinion under *LA Rev Stat § 22:236.3 (2021), subsection 2B⁴*, and is intended for use by BCBSLA, the Board of Directors of BCBSLA, and the regulators of BCBSLA.

Actuarial considerations and analyses used in forming my opinion conform to the relevant Standards of Practice as promulgated by the Actuarial Standards Board, whose standards form the basis of this statement of opinion.

A handwritten signature in blue ink, reading "Brian M. Collender FSA, MAAA". The signature is written in a cursive style and is positioned above a horizontal line.

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⁴LA Rev Stat § 22:236.3 (2021), subsection B(2) states: "The reorganizing mutual shall obtain an opinion addressed to the board of directors of the reorganizing mutual from an actuary who is a member of the American Academy of Actuaries that the methodology and underlying assumptions for allocation of consideration among eligible members are reasonable and appropriate and the resulting allocation is fair and equitable."