

August 4, 2023

Mr. James Donelon  
Mr. David Caldwell  
Louisiana Department of Insurance  
P.O. Box 94214  
Baton Rouge, LA 70804

Re: Conversion of Louisiana Health Services & Indemnity Company dba BCBS from a Mutual Insurance Company to a Stock Insurance Company pursuant to R.S. 22:236.4(C)

Dear Commissioner Donelon,

I am reaching out to you today to respectfully submit my opposition to the proposed Plan of Reorganization regarding the conversion of BCBS from a Mutual Insurance Company to a Stock Insurance Company.

First, I want to congratulate management and the board of BCBS for growing a Louisiana based company suitable for an acquisition by Elevance Health for such a sizable sum. The success was not the result of a “one-off” event but from years and years of great management and board involvement. My former boss was the CFO for many years and I am proud of her.

Second, organizations must transition to maintain a leading edge and a competitive advantage. During the growth years, BSBC successfully transitioned when needed. Technology, infrastructure, people, and state of the art health programs all contributed to the success. Now, BCBS must transition to Elevance Health to continue that success. With over 46 million members within Elevance Health and its affiliated companies along with a Fortune 500 ranking as number 51, who can argue with BCBS merging with Elevance Health.

I am for Article I, Section 1.1 Reorganization to a Stock Insurance Company.

I am for Section 1.2 Establishment of a Foundation. I am opposed to the Funding amounts. As a CPA with over 38 years of practice, I have had the pleasure to serve on many Not for Profit Organizations and the Baton Rouge Area Foundation (BRAAF). I served on the board of BRAAF for 6 years (2002 – 2008) and Treasurer for 1 year. These organizations contribute to the community successes and are critical partners in funding raising and donor engagement. That being said, I would recommend the Foundation be established much like BRAAF was established in 1967. The board was composed by appointments from various organizations who had a stake in its success.

I disagree with the funding amount. The majority of the funds should go to the Eligible Members. They paid the premiums which financed the growth and success of BSBC.

I am opposed to Section 1.3 Purchase and Sale of BCBSLA Shares as it relates to the members payout.

I disagree with Exhibit E calculation of Eligible Member Payment Methodology. First, an allocation portion is determine based on the Cumulative Member Months (322,215,815) in relation to the Eligible Member Months (16,544,837). The ratio calculates to 5%. This percentage is applied to the purchase price \$3,500,000,000 and produces a total of \$179,417,729 which is “allocated” to Eligible Members as of 12/15/22 (94,802). The payout per member is \$1,896. This is ridiculously low.

The above is based on an Actuarial calculation. My concern is the Actuarial’s assertion. His assessment was based on a black and white issue – Fixed vs Variable. His findings centers on the “theory the fixed portion compensates the policy holders for loss of membership rights (e.g. voting rights) upon demutualization”.

To support his argument, the Actuary utilizes a Cumulative Member Month theory which grossly understates the allocation to Eligible Members. He then converts the calculation to a “per member basis”. Not taking into account the number of months a member was a policyholder grossly understates the value the member has contributed. His calculation gives the same payout to someone who was a policyholder for one month as compared to the same payout to the policyholder for 30 years. This is not equitable. There needs to be some prorata distribution based on total months. By utilizing this methodology, you take into account the “variable component”.

His assumption is based on BCBS articles of incorporation that grants its members the right to vote and not issue dividends. Ok, but no wording on proceeds of liquidation or excess surplus is mentioned in the articles. From my interpretation, the members are “not prohibited from receiving proceeds of liquidation;” it is just not stated in the Articles.

My proposal is to revise the Articles of Organization and state Eligible Members shall share in the proceeds of liquidation. This is based on the theory of capitalism. Mutual Insurance Companies are owned by the Policyholders whose main goal is to maintain enough capital to meet policyholder’s needs. They achieve this objective by electing “competent” board members to oversee the operations of the Mutual Insurance Company. So in essence, the Policyholders are responsible for the success of the company. And policyholders should be rewarded as such.

As to the Actuarial Considerations, he states “Actuarial standards of practice 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 the 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”. I am quoting him. First, allocations are not “prescriptive” which means it is subjective to professional judgement and practices vary. Therefore, I disagree with his methodology. Second, BCBS proposed demutualization is “unique”. This means it’s a one of kind. There is nothing to base it on! This reinforces my assertion that Eligible Members should receive a variable component and be allocated the liquidation proceeds.

In conclusion, BCBS should revise its Articles of Organization to include a provision for Eligible Members to receive a “variable portion” of the purchase price upon liquidation and it be based on the Eligible Members Months of Participation.

Sincerely,

Thomas A. Cotten, CPA CGMA