

Date: September 11, 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

## **Response to**

### **Actuarial Review of Proposed Sponsored Demutualization of Blue Cross/Blue Shield of Louisiana**

#### **IDENTIFICATION**

Deloitte Consulting LLP ("Deloitte Consulting") was retained, as a subcontractor of Deloitte & Touche LLP, as of July 7, 2022, by BCBSLA to render an opinion regarding the allocation of consideration among eligible members under the proposed demutualization of BCBSLA. Per this retention, Deloitte Consulting provided an opinion to BCBSLA ("Original Opinion"), dated January 12, 2023, regarding the allocation of consideration among eligible members under the proposed demutualization of BCBSLA.

I, Brian M. Collender, am a consulting actuary associated with Deloitte Consulting and signed the Original Opinion. 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.

#### **SCOPE**

In this memo, Deloitte Consulting responds to specific elements of the report titled Actuarial Review of Proposed Sponsored Demutualization of Blue Cross/Blue Shield of Louisiana ("Hause Report")<sup>1</sup>, dated August 15, 2023, authored by Randall A. Stevenson, ASA, MAAA of Hause Actuarial Solutions, Inc ("Hause"). The Hause Report was commissioned by the Louisiana Department of Insurance and broadly reviews various elements of the proposed demutualization of BCBSLA. Deloitte Consulting stands by the analysis and conclusions presented in the Original Opinion and, in the sections below, we address areas where the Hause Report comments on the Original Opinion.

In preparing our response, we have reviewed published actuarial guidance, including ASOP 37<sup>2</sup> and an American Academy of Actuaries Practice Note<sup>3</sup>. We have also 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. While we reference relevant Louisiana statutes, these references are intended to provide context and are not and should not be interpreted as legal analyses.

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<sup>1</sup> Hause Actuary Report\_8\_15\_23.pdf

<sup>2</sup> Actuarial Standard of Practice No. 37 – Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualizations (ASOP 37)

<sup>3</sup> Distribution of Policyholder Equity in a Demutualization, American Academy of Actuaries Practice Note, July 1999 (AAA Practice Note)

This response solely addresses the elements of the Hause Report related to the allocation of consideration among eligible members in the proposed demutualization of BCBSLA. As in the Original Opinion, this response 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 response takes an actuarial perspective and is not and should not be construed as legal advice or any opinion related to the structure, form or conditions of the plan of reorganization and demutualization, or decisions of BCBSLA or state regulators with respect to the plan of reorganization. This response also provides no recommendation with regard to whether or not the members of BCBSLA should vote to approve the plan of reorganization.

We 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 were outside the scope of the Original Opinion.

### **OUR UNDERSTANDING**

Deloitte Consulting understands 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, simultaneous to the demutualization, BCBSLA would be sold to another licensee of BCBS.

We rendered an actuarial opinion regarding the allocation of policyholder consideration under the demutualization plan proposed by BCBSLA, pursuant to LA R.S. 22:236.3, section B.(2)<sup>4</sup>. This Original Opinion was submitted, as an element of the BCBSLA demutualization proceedings, to the Louisiana Department of Insurance.

After BCBSLA submitted its plan for demutualization, the Louisiana Department of Insurance secured the services of Hause Actuarial Solutions, Inc. Hause was requested to perform certain services related to the valuation of BCBSLA and the ultimate proposed distribution of proceeds including, but not limited to, the following:

- Reviewing the actuarial fairness opinion issued by Deloitte, and opine on whether it meets the requirements of Louisiana Revised Statutes LA R.S. 22:236.3, section B.(2)<sup>4</sup>.
- Reviewing the fixed amount offered to the policyholders for their voting rights and provide an alternative for consideration, if deemed appropriate.
- Reviewing the variable amount of \$0 offered to the policyholders and provide an alternative for consideration, if deemed appropriate.

### **ANALYSIS**

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<sup>4</sup> Louisiana Laws Revised Statutes TITLE 22 – Insurance – §22:236.3 – Consideration and dividend protections, Section B(2)

*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.*

In developing this response, as previously outlined in the Scope section, our analysis included review of the Hause Report, published actuarial and other relevant guidance, documents provided by BCBSLA during the Original Opinion, and having discussions with BCBSLA representatives.

### **RESPONSE TO HAUSE REPORT**

The Hause Report, authored by Randall A. Stevenson, ASA MAAA MSc, presents broad commentary on matters related to the proposed demutualization of BCBSLA. In this section, we respond to commentary from the Hause Report that is within the scope of the Original Opinion and that is actuarial in nature. We do not address commentary that is beyond the scope of the Original Opinion or that is non-actuarial in nature, including legal considerations. Note that this Response is focused on components of the Hause Report that we disagree with, and is not an all-encompassing review of the Hause Report, which in many instances is aligned with our Original Opinion.

We first provide general remarks which include our interpretation of the actuary's role and scope in opining on the proposed demutualization of BCBSLA. We then offer detailed responses to specific commentary from the Hause Report related to the Original Opinion. The Hause Report invokes the Original Opinion in the "Executive Summary" section, the "Review of Actuarial Fairness Opinion" section, and the "Conclusions" section; each is addressed in turn below.

#### **General Remarks**

In developing our conclusion regarding the allocation of consideration presented in the Original Opinion, we reviewed other matters including, but not limited to, the valuation of BCBSLA opined on by Cain Brothers, the total consideration amount proposed in Exhibit E of the Plan of Reorganization and opined on by Chaffe & Associates, and readings of relevant statutes and regulations. However, in accordance with Precept 2 of the American Academy of Actuaries Code of Professional Conduct<sup>5</sup>, which provides guidance on performance of actuarial services only when the actuary is qualified to do so, we abstained from opining on these other matters as they did not fall within the professional mandate nor the area of expertise of Brian M. Collender, the signing actuary.

The formal conclusion of the Original Opinion was limited to the allocation of consideration. This is consistent with the scope of the Original Opinion, with LA R.S. 22:236.3, section B.(2)<sup>4</sup>, and with the published actuarial guidance regarding demutualizations, including ASOP 37<sup>2</sup> and the AAA Practice Note<sup>3</sup>, which establish that the actuary's role is to opine specifically on the evaluation of the allocation of consideration.

The Hause Report, in its entirety, is presented as a statement of actuarial opinion and thus would be subject to Precept 2 of the AAA Code of Professional Conduct<sup>5</sup>. Similar to the Original Opinion, the Hause Report notes reliance on actuarial guidance, i.e. ASOP 37<sup>2</sup> and the AAA Practice Note<sup>3</sup>; no additional sources of actuarial guidance were referenced in the Hause Report. However, in

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<sup>5</sup> American Academy of Actuaries, Code of Professional Conduct, Precept 2

*An Actuary shall perform Actuarial Services only when the Actuary is qualified to do so on the basis of basic and continuing education and experience, and only when the Actuary satisfies applicable qualification standards.*

#### **ANNOTATION 2-1**

*It is the professional responsibility of an Actuary to observe applicable qualification standards that have been promulgated by a Recognized Actuarial Organization for the jurisdictions in which the Actuary renders Actuarial Services and to keep current regarding changes in these standards.*

#### **ANNOTATION 2-2**

*The absence of applicable qualification standards for a particular type of assignment or for the jurisdictions in which an Actuary renders Actuarial Services does not relieve the Actuary of the responsibility to perform such Actuarial Services only when qualified to do so in accordance with this Precept.*

contrast to the Original Opinion, the Hause Report opines broadly on matters outside the scope of the referenced actuarial guidance including, but not limited to, the total valuation and various legal issues related to demutualization. Per Precept 2 of the AAA Code of Professional Conduct<sup>5</sup>, in the absence of applicable qualification standards, e.g. ASOPs, governing these broader conclusions of the Hause Report, the performance of these actuarial services may be qualified based on the experience of the actuary. Therefore, these broader conclusions expressed in the Hause Report would be credible contingent upon the author's expertise and experience in investment banking, law, etc.; we note that the Hause Report does not contain evidence that Mr. Stevenson possesses such expertise and experience.

A recurring position presented in the Hause Report is that the actuary is responsible for evaluating the total amount of policyholder consideration. Based on our understanding of the actuarial guidance<sup>6, 7</sup>, the total amount to be distributed is explicitly not an actuarial determination. Instead, the actuary's role is to evaluate the allocation of the consideration. This is also consistent with Louisiana's demutualization law. Pursuant to LA R.S. 22:236.3, section A(2)<sup>8</sup>, a qualified investment banker, not an actuary, is required to opine on the total amount of consideration to be provided. Whereas, pursuant to LA R.S. 22:236.3, Section B(2)<sup>4</sup>, the actuary is only called to opine on the methodology for allocating the total consideration among eligible members.

Response to Executive Summary (page 5 of Hause Report)

The Hause Report presents the following summary related to the Original Opinion:

"The actuarial opinion provided by Brian M. Collender, FSA MAAA, a consulting actuary with Deloitte Consulting LLP (the "actuarial fairness opinion" or "opinion" in context), on the fairness of allocation of considerations meets the technical requirements of La. R.S. 22:236.3.B.(2); however, the opinion relies on several questionable assumptions provided by BCBSLA to the opining actuary. I believe it accepts without due support that the total amount of the consideration is correct, it accepts without adequate justification there should be no variable component to the consideration, and it accepts without adequate justification that members' interests in BCBSLA are limited to their voting rights."

In response to "...accepts without due support that the total amount of the consideration is correct", as stated in the Original Opinion, this was not within the scope of our analysis. Based on our review of published actuarial guidance<sup>6, 7</sup>, the determination of the total amount of consideration is not an actuarial matter. Further, LA R.S. 22:236.3, Section B(2)<sup>4</sup> requires the actuary to opine on the "allocation of consideration" while LA R.S. 22:236.3, Section A(2)<sup>8</sup> places the opinion on the total amount of the consideration in the purview of the qualified investment banker.

In response to "...accepts without adequate justification there should be no variable component to the consideration", as stated in the Original Opinion, we reviewed the analyses provided by BCBSLA

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<sup>6</sup> ASOP 37, Appendix 1 – *The Garber Committee Report considered the determination of the aggregate amount of policyholder consideration to be a nonactuarial matter.*

<sup>7</sup> ASOP 37, Appendix 2 – *The task force notes that the aggregate amount of policyholder consideration in most demutualizations has been set by the marketplace. In any event, the task force believes that the determination of the aggregate value to be distributed to policyholders is beyond the scope of this standard.*

<sup>8</sup> Louisiana Laws Revised Statutes TITLE 22 – Insurance – §22:236.3 – Consideration and dividend protections, Section A(2)

*The reorganizing mutual shall obtain an opinion addressed to the board of directors of the reorganizing mutual from a qualified investment banker that the provision of consideration upon the extinguishment of the membership interests pursuant to the plan of reorganization is fair to the eligible members, as a group, from a financial point of view.*

and the relevant guidance and affirmatively concluded that the absence of a variable component of consideration was reasonable. Please see below for further details.

In response to "...accepts without adequate justification that members' interests in BCBSLA are limited to their voting rights", the Original Opinion stated that BCBSLA determined that "...all of its policies are non-participating, paying no dividends and providing no rights to surplus, shares of stock or liquidation proceeds", from which we conclude that voting rights are the remaining policyholder interest. We are not aware of any article in the BCBSLA Articles of Incorporation, any by law, or any law that provides any additional rights to BCBSLA policyholders, beyond voting rights, nor does the Hause Report cite to any such authority.

Response to "Review of Actuarial Fairness Opinion" (starting page 19)

Page 19 of the Hause Report states:

"The actuary specifically excludes opining on the total amount of the allocation, or it being less than the net price being paid for the company, and the opinion accepts the company's premise that eligible policyholders are not entitled to a variable component."

The first statement is addressed above; specifically, we believe the total amount of allocation is a non-actuarial matter based on ASOP 37<sup>6</sup>. To our knowledge, there is no actuarial standard for determining the total consideration. Moreover, LA R.S. 22:236.3, section A(2)<sup>8</sup> requires a qualified investment banker, not an actuary, to opine on the total amount of consideration.

Regarding the second statement, as noted above, we reached the affirmative conclusion that the proposed BCBSLA allocation, which did not include a variable component, was reasonable. This was based on our reading of the relevant guidance<sup>9, 10, 11</sup> and the Articles of Incorporation, together with the fact that BCBSLA policyholders are not eligible to receive dividends. Note that LA R.S. 22:236.3, section B(1)<sup>9</sup> and ASOP 37, Section 3.1.1<sup>10</sup> do not require that there be both a fixed and variable component.

LA RS 22:236.3, section B(1)<sup>9</sup> provides in pertinent part:

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<sup>9</sup> Louisiana Laws Revised Statutes TITLE 22 – Insurance

§22:236.3 - Consideration and dividend protections, section B(1)

*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.*

<sup>10</sup> ASOP 37, Section 3.1.1

*Components of Consideration—Plans of conversion generally express consideration as the combination of a fixed component and a variable component. A policyholder may be eligible for a fixed component, a variable component, or both. Although eligibility for the fixed component may be related to eligibility to vote in some plans, the fixed component is not necessarily allocated in proportion to voting power. Although eligibility for the variable component may be related to eligibility for dividends or for a distribution upon liquidation in some plans, the variable component is generally not allocated in proportion to dividends or to what would be paid upon liquidation.*

<sup>11</sup> ASOP 37, Appendix 1, Amount Allocated as the Variable Component

*The variable component of consideration has often been considered to be compensation for policyholder rights, other than voting rights, that are relinquished in a demutualization. This would include the right to receive a share of the net value of the company in the event of a liquidation. Probably the most significant right that participating policyholders have is the right to receive dividends as declared by the board of directors. This right is generally contractual and is not canceled as the result of a demutualization.*

"The method [of allocating consideration] 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"

ASOP 37, Section 3.1.1<sup>10</sup> provides in pertinent part:

"A policyholder may be eligible for a fixed component, a variable component, or both."

Additionally, BCBSLA informed us that all policies are non-participating, paying no dividends and providing no rights to surplus, shares of stock or liquidation proceeds. The AAA Practice Note<sup>3</sup> indicates, "the variable portion is generally allocated to any policy which is participating on its face." Since these policies are non-participating and do not receive dividends, have no rights to surplus, shares of stock, or liquidation proceeds, we concluded that the absence of a variable portion was consistent with published guidance.

Regarding the definition of a "participating policy", which is a key characteristic in determining whether or not a variable component of allocation should be present, Page 14 of the Hause Report suggests that the author defines a participating policy as one that has "voting [rights] or [is] eligible for dividends."

We are not aware of any actuarial standard or authority that defines a "participating policy" as one that provides voting rights but not the right to dividends, nor does the Hause Report cite to such authority. In the development of our Original Opinion we assumed that a participating member was only one who was eligible for dividends and that voting rights do not determine whether or not a policy is participating or non-participating. In discussions with BCBSLA counsel, they referenced LA R.S. 22:874, section A<sup>12</sup> and noted that under Louisiana law "unless otherwise specified in the policy, every insurer issuing participating policies, shall pay dividends, unused premium refunds or savings distributed on account of any such policy". BCBSLA also noted that since BCBSLA policies do not offer any profit sharing provisions, as described in LA R.S. 22:874, section A<sup>12</sup>, BCBSLA policies are all non-participating and would continue to be non-participating throughout the demutualization plan and after closing. We relied on this information to conclude that a variable allocation was not required given that BCBSLA does not have participating policyholders.

The Hause Report lists two constraints of assumptions of the Original Opinion, starting on page 19. The first constraint asserted in the Hause Report is as follows:

"1) The opinion states: "This opinion is not intended to offer comment or recommendation regarding ... 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." ASOP No. 37, Section 3.2.2 states: "The actuary should ascertain whether the amount allocated as the fixed component has been determined in a reasonable manner.""

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<sup>12</sup> Louisiana Laws Revised Statutes TITLE 22 – Insurance – §22:874 – Dividends payable to the real party, Section A

*Unless otherwise specified in the policy, every insurer issuing participating policies, shall pay dividends, unused premium refunds or savings distributed on account of any such policy, only to the real party in interest entitled thereto as shown by the insurer's records, or to any person to whom the right thereto has been assigned in writing of record with the insurer, or given in the policy by such real party in interest.*

Based on our reading of ASOP 37, section 3.2.2<sup>13, 14</sup>, this section provides guidance regarding the allocation of consideration rather than the evaluation of the total consideration. This is supported by ASOP 37 section 1.1<sup>15</sup>, wherein the stated purpose of ASOP 37 is to “give actuaries guidance in determining the allocation of policyholder consideration when a...mutual holding company demutualizes”. Further, the AAA Practice Note<sup>3</sup> only mentions the calculation of the total consideration “in general” as background and specifically notes it is not an actuarial determined value.

The second constraint asserted in the Hause Report is as follows:

“2) The opinion states: “... my understanding is that BCBSLA and its legal counsel are unaware of any provision of law providing [any right of the members to BCBSLA’s surplus or the proceeds of its liquidation]”. I believe this is contrary to the definition of membership in a nonprofit under LA R.S. 12:201(17).”

Regarding the definition of membership under Louisiana law and rights conferred to policyholders under such definition, we believe this is a legal matter outside the actuarial component of review, i.e. the review of the allocation methodology. That said, we were advised by BCBSLA that LA R.S. 12:201(17)<sup>16</sup> indicates that membership interest is defined to mean either a control of the corporation or a right to its assets, but not necessarily both. Additionally, BCBSLA advised that, pursuant to LA R.S. 12:266<sup>17</sup>, Louisiana’s nonprofit law does not apply to insurance companies and, accordingly, that reliance on R.S. 12:201(17) is misplaced.

Relatedly, the Hause Report cites LA R.S. 22:236(9)<sup>18</sup> to suggest that “membership interest” includes the rights to the surplus of the mutual insurer. BCBSLA advised that the definition specifically contemplates that membership interest may not include any rights to the mutual insurer’s surplus, given the use of the phrase “if any” in the definition, which is set forth below:

“Membership interest” means: (a) with respect to a mutual insurer, all rights and interests of a policyholder as a member arising under the mutual insurer’s articles of incorporation and bylaws, by law or otherwise, which rights include but are not limited to the right, if any, to vote and the right, if any, with regard to the surplus of the mutual insurer not apportioned or declared by the board of directors for policyholder dividends; ...”

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<sup>13</sup> ASOP 37, Section 3.2

*Basis of Allocation—The actuary is usually responsible for determining that eligible policyholders are treated appropriately in the allocation of consideration.*

<sup>14</sup> ASOP 37, Section 3.2.2

*Amount Allocated as the Fixed Component—The actuary should ascertain whether the amount allocated as the fixed component has been determined in a reasonable manner.*

<sup>15</sup> ASOP 37, Section 1.1

*Purpose—The purpose of this standard is to give actuaries guidance in determining the allocation of policyholder consideration when a mutual life insurance company or mutual holding company demutualizes, or in reviewing, advising on, or opining on the actuarial aspects of a proposed allocation; such aspects may include policyholder eligibility.*

<sup>16</sup> Louisiana Laws Revised Statutes TITLE 12 – Corporations and Associations – §12:201 – Terms defined (17)  
*“Membership” means an interest in a corporation entitling the holder thereof to participate in the control of the corporation or to a pro rata share of its net assets upon dissolution.*

<sup>17</sup> Louisiana Laws Revised Statutes TITLE 12 – Corporations and Associations – §12:266 – Scope of Chapter (3)  
*This Chapter does not apply to: ...Any corporation transacting any type of insurance business*

<sup>18</sup> Louisiana Laws Revised Statutes TITLE 22 – Insurance – §22:236 – Definitions (9)

Page 22 of the Hause Report states:

"The method used to determine the amount of the fixed component is not the usual method. The fixed component is usually the remainder of the net sale price after the determination of the total variable component, which is the actuarial contributions of the existing in-force policies. The allocation of the fixed component is the usual method."

Based on our reading of ASOP 37, Section 3.2.2<sup>19</sup>, the variable component is determined as the total consideration less the fixed component, which is the converse of what is stated above. In the case of BCBSLA, the fixed component equals the total consideration such that the variable component is zero. Accordingly, we disagree with the Hause Report's conclusion that the Original Opinion "is inconsistent with how sponsored demutualizations generally are executed".

Page 22 of the Hause Report states:

"The Elevance/BCBSLA proposal ostensibly does not consider the distribution of excess assets because Article VII of the Articles of Incorporation prohibit the payment of dividends. The application of Article VII is based on the apparent position that BCBSLA is sold in its current nonprofit status, rather than it being converted to a for-profit before being sold, which would require the amendment of Article VII. However, the IRS states in Tax Topic 430 that a nonprofit cannot be sold; therefore, the demutualization and conversion to a for-profit stock company is required before the sale can be effective."

This statement treads into legal definitions that are outside the scope of the Original Opinion and customary actuarial opinions. We agree that Article of Incorporation VII, which prohibits dividends, informed our review of the allocation methodology. Additionally, we considered ASOP 37, Appendix 1<sup>11</sup>, which notes that "the most significant right of participating policyholders is the right to receive dividends", and note that BCBSLA policyholders do not receive a dividend, and would not receive a dividend at any point during or after the proposed demutualization assuming the current policy and terms remain as is upon demutualization. Additionally, Article XI<sup>20</sup> of the Articles of Incorporation, does not state explicit policyholder's rights in the event of liquidation, beyond the voting rights; this further supports that policyholder rights are limited to voting and do not include rights to "excess assets", as posited by the Hause Report quote above.

Response to "Conclusions" (starting page 26 of Hause Report)

Page 26 of the Hause Report states:

"The company has obtained a fairness opinion from a qualified actuary as required by Louisiana's demutualization statutes (LA. R.S. 22:236.3.B.(2)). The actuarial fairness opinion is based on prescribed assumptions, and excludes reviews normally performed by an opining actuary for the allocation of demutualization proceeds."

We disagree that the Original Opinion excluded reviews normally performed. When rendering our Original Opinion, we reviewed assumptions, methodology and other legal guidance, data and

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<sup>19</sup> ASOP 37, Section 3.2.2

*Basis for Allocating the Variable Component—The actuary should consider whether the total amount to be allocated as the variable component (which is determined as the total amount of consideration less the total amount allocated as the fixed component) is reasonable in relation to the total actuarial contribution for eligible policies.*

<sup>20</sup> BCBSLA Articles of Incorporation, *ARTICLE XI Liquidation or Sale of All or Substantially All Assets*



analyses provided by BCBSLA, consistent with published guidance, including ASOP 37<sup>2</sup> and the AAA Practice Note<sup>3</sup>.

### **RELIANCE**

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

We have evaluated BCBSLA's information, data, and analysis for reasonableness and consistency pursuant to actuarial standards and guidance. We have not performed any reconciliations of the provided data to any other data sources, nor have we performed any independent verification, recalculations or reconciliations of values provided. Therefore, the opinion that follows is contingent upon the accuracy and completeness of the information we have received and reviewed; we are not aware of any facts or circumstances that would suggest that the provided information may be inaccurate, misleading, or incomplete.

Our 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 our opinion, BCBSLA's proposed methodology and underlying assumptions for allocation of consideration among eligible members are reasonable and appropriate and the resulting allocation is fair and equitable.

The Hause Report takes issue with three main items in the Original Opinion. Specifically, the Hause Report: 1) assumes that the actuary is responsible for evaluating the total amount of policyholder consideration; 2) contends that the Original Opinion accepts without adequate justification there should be no variable component to the consideration; and 3) contends that the Original Opinion accepts without adequate justification that members' interests in BCBSLA are limited to their voting rights. Regarding the first point, as noted above, the total amount of policyholder consideration is not an actuarial derived value. Regarding the second point, we assessed the inclusion of a variable component of consideration and determined the BCBSLA demutualization plan's allocation of consideration was reasonable without a variable component, given the lack of dividends and our understanding of the rights of policyholders upon liquidation. On the final point, it is our understanding that all BCBSLA policies are non-participating, paying no dividends and providing no rights to surplus, shares of stock or liquidation proceeds; this supports the conclusion that the members' interests are limited to voting rights.

### **SIGNATURE**

This response is intended to address commentary provided in the Hause Report, and is intended for use by BCBSLA, the Board of Directors of BCBSLA, and the regulators of BCBSLA.

Actuarial considerations and analyses used therein conform to the relevant Standards of Practice as promulgated by the Actuarial Standards Board, whose standards form the basis of this response.



Brian M. Collender, FSA, MAAA  
Deloitte Consulting LLP  
111 S. Wacker Dr.  
Chicago, IL 60606  
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