



# Louisiana

EXHIBIT X

Korey Harvey | Vice President and Deputy General Counsel

August 24, 2022

Vanessa Brown Claiborne  
President & CEO  
Chaffe & Associates Investment Bankers  
*Via E-Mail*

Re: Engagement & Management Recommendation

The management of Louisiana Health Service & Indemnity Company d/b/a Blue Cross and Blue Shield of Louisiana (“BCBSLA”) delivers this letter to Chaffe & Associates Investment Bankers in connection with its proposed demutualization pursuant to La. R.S. 22:236 et seq.

#### Demutualization Statutory Provisions

In effecting a conversion of a reorganizing mutual, each eligible member shall be entitled to consideration in an amount equal to his or its equitable share of the value of the reorganizing mutual as provided for in the plan of reorganization. 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* (emphasis added), from a financial point of view.<sup>i</sup>

The same statute permits the consideration furnished to eligible members to consist of cash, stock, insurance or annuity benefits, a combination of such types of consideration, or any other form of consideration acceptable to the regulator and approved by the policyholders.

#### Rationale for Methodology

BCBSLA has existed since 1975 as a not-for-profit mutual company. BCBSLA’s articles of incorporation prohibit the payment of dividends, and further state that BCBSLA’s purposes include “[t]o promote the welfare of the members of the Corporation and the general public by transacting and conducting the kinds of insurance previously authorized by” BCBSLA’s predecessors. On account of the sizeable contributions to the value of BCBSLA by policyholders that are no longer with the company and the demutualization statute’s emphasis on equitable distribution, the management believes that both the statute and the articles of incorporation are satisfied by giving consideration to existing eligible members in proportion to their actual contributions, and placing the remaining value of BCBSLA into a social welfare organization that would make distributions within the state of Louisiana, or otherwise expend its resources, to improve the health and lives of its citizens, which is the corporate mission of BCBSLA.

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Management believes it would be inequitable to allocate the company's entire value to existing eligible members. The value of the mutual company, including its surplus, is not created solely by existing policyholders, but has developed over generations. Similarly, the concept of ownership in the context of a mutual company is not identical to the concept of ownership of a stock company. "In the most extreme case, dissolution of a mutual insurer, it may be no more legitimate to contend that current policyholders have a right to all of the assets of an insurer, than it would be to say they have none."<sup>ii</sup>

Furthermore, distributing the value of the company to policyholders under any other methodology could encourage persons and companies to purchase contracts of insurance from BCBSLA and upon demutualization, receive consideration well in excess of their contribution to the company's value.<sup>iii</sup> A rush to obtain health insurance policies for the sole purpose of obtaining consideration in markets where BCBSLA is subject to the guaranteed availability provisions of both state and federal law and generous special enrollment provisions would destabilize not only the risk pools of BCBSLA but the entire insurance industry within the state. Such a situation would undermine the purpose of obtaining health insurance coverage that is explicit throughout the state's statutes regulating health insurance: coverage is to be obtained for no purpose other than for insuring against risks to health. Such an outcome would have to be regarded as contrary to good public policy and not within the purpose of the governing statutes on demutualization.

#### Management Recommendation

The management of BCBSLA proposes that the total consideration for all eligible members as a group be determined by a methodology in which the member months attributable to existing eligible members be divided by the number of member months of all members since BCBSLA's corporate formation in 1975<sup>iv</sup>. The methodology would therefore determine a value for each member month; the consideration that any particular eligible member would receive would fluctuate based on the specific member months attributable to that particular eligible member<sup>v</sup>.

The source of information for total member months are the required annual statutory financial statements of BCBSLA.<sup>vi</sup>

The finite range of value for a member month will be dependent upon the final valuation<sup>vii</sup> of BCBSLA and the total member months of each eligible member. The chart below illustrates a range of valuation for BCBSLA and three possible average tenures of eligible members, which is included simply to demonstrate a range of raw dollar amounts that result from the methodology. A final determination of member months for each eligible member that is the named policyholder would be based upon the total member months attributable to the named policyholder.

In the chart on the following page, only for illustrative purposes to demonstrate a hypothetical range of total consideration resulting from the methodology, three variations in the range of total consideration are based upon group policyholders paying an average of 100%, 75%, and 50% of employee-enrollee premiums.<sup>viii</sup> In addition, the methodology proposed by management does not take into account the member months attributable to self-insured members, which constitutes a majority of BCBSLA's members and member months, and is a significant contributor to the value of BCBSLA<sup>ix</sup>; not including self-insured member months in the methodology inflates the value that is attributable to eligible members to their benefit.

### Policyholder Consideration Ranges - Individual & Group Consolidated

Average Employer Premium Share: 100%		Value (\$m)				
Average Member Life/Duration	Member Months	\$2,400	\$2,600	\$2,850	\$3,100	\$3,400
5 years	11,931,542	\$88.9	\$96.3	\$105.5	\$114.8	\$125.9
10 years	23,863,084	\$177.7	\$192.6	\$211.1	\$229.6	\$251.8
15 years	35,794,626	\$266.6	\$288.8	\$316.6	\$344.4	\$377.7
Total member months	322,215,815					
Value per member month		7.45	8.07	8.85	9.62	10.55

Average Employer Premium Share: 75%		Value (\$m)				
Average Member Life/Duration	Member Months	\$2,400	\$2,600	\$2,850	\$3,100	\$3,400
5 years	9,997,316	\$74.5	\$80.7	\$88.4	\$96.2	\$105.5
10 years	19,994,632	\$148.9	\$161.3	\$176.9	\$192.4	\$211.0
15 years	29,991,948	\$223.4	\$242.0	\$265.3	\$288.5	\$316.5
Total member months	322,215,815					
Value per member month		7.45	8.07	8.85	9.62	10.55

Average Employer Premium Share: 50%		Value (\$m)				
Average Member Life/Duration	Member Months	\$2,400	\$2,600	\$2,850	\$3,100	\$3,400
5 years	8,063,090	\$60.1	\$65.1	\$71.3	\$77.6	\$85.1
10 years	16,126,180	\$120.1	\$130.1	\$142.6	\$155.1	\$170.2
15 years	24,189,270	\$180.2	\$195.2	\$214.0	\$232.7	\$255.2
Total member months	322,215,815					
Value per member month		7.45	8.07	8.85	9.62	10.55

#### Comments/Notes

\*Consolidated consists of the aggregate of LHSIC, HMO, SNL, and Vantage

### Engagement

In consideration of the above, BCBSLA's management believes the methodology falls within the parameters of the statutory provisions and seeks to retain Chaffe & Associates to issue an opinion to the board of directors of BCBSLA that the proposed methodology to determine the value of a member month is fair to the eligible members as a group for the reasons outlined above.<sup>x</sup> The methodology would be used to determine the total value of consideration to be given to eligible members subsequent to a final valuation and plan of reorganization that is approved by the policyholders and the commissioner of insurance. BCBSLA does not seek an opinion from Chaffe & Associates as to the exact value of a member month, nor the exact valuation of BCBSLA's mutual company.

In addition to this Management letter, BCBSLA will submit a memorandum obtained from BCBSLA's regulatory counsel.

Sincerely,



Korey Harvey

Enclosure

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<sup>i</sup> La. R.S. 22:236.3.

<sup>ii</sup> National Association of Insurance Commissioners. (1998). *Mutual Insurance Holding Company Reorganizations* [white paper].

<sup>iii</sup> The demutualization statutes require that compensation be furnished to eligible members at the time of demutualization.

<sup>iv</sup> Submitted with this letter is an Appendix containing data on the total member months since corporate formation in 1975.

<sup>v</sup> Member months to be attributed to eligible members would be the member months of the named policyholder for individual policies and the employee-enrollees of group policyholders.

<sup>vi</sup> For some years, statutory financial statements no longer exist within the possession of BCBSLA or the Louisiana Department of Insurance. For those years, management has assumed an annualized growth rate that is historically consistent.

<sup>vii</sup> BCBSLA has obtained a valuation from a separate investment bank. The range of value of BCBSLA as demonstrated in the chart on page 3 constitutes the range of the valuation from lowest to highest. The final value of the company is determined by the plan of reorganization approved by the policyholders and approved by the regulator.

<sup>viii</sup> Upon the consultation of BCBSLA's marketing economist, the standard multiplier for a group policyholder is two. In other words, on the average, one group contract of insurance has two enrollees.

<sup>ix</sup> La. R.S. 22:236.3 permits that compensation to eligible members be differentiated by class of policyholders, types of policy, length of policy, etc.

<sup>x</sup> La. R.S. 22:236 *et seq.* requires that BCBSLA obtain a separate actuarial opinion to determine whether the methodology utilized to determine compensation to individual policyholders is reasonable and appropriate.

