



EXHIBIT VIII

Korey Harvey | Vice President and Deputy General Counsel

September 30, 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>1</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 to eligible members, 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 as defined within the plan of reorganization and described herein, and placing the remaining value of BCBSLA into a social welfare organization (“New Foundation”) that would make distributions within the state of Louisiana, or otherwise expend its resources, to improve the

[www.bcbsla.com](http://www.bcbsla.com)

5525 Reitz Avenue | Baton Rouge, Louisiana 70809  
Korey.Harvey@bcbsla.com | (225) 297-2762 | Fax (225) 297-2760  
P.O. Box 98029 | Baton Rouge, Louisiana | 70898-9029

health and lives of its citizens, which is the corporate mission of BCBSLA.

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 be determined in accordance with an opinion obtained by an actuary as required by R.S. 22:236.3.

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

The finite range of value for a member month will be dependent upon the final valuation<sup>vi</sup> of BCBSLA's entire enterprise, which includes BCBSLA and all of its subsidiaries, and the total member months of each eligible member. It is possible that the final valuation of BCBSLA may be displaced by the purchase price as negotiated in a potential transaction; whether the valuation or the purchase price is utilized may be subject to negotiation with regulators. The chart on the following page 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.

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>vii</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>viii</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 Policyholders & Group Policyholders**

<b>Individual &amp; Employer Groups at 100% Premium</b>		<b>Value (\$m)</b>				
<b>Average Member Life/Duration</b>	<b>Member Months</b>	<b>\$2,400</b>	<b>\$2,600</b>	<b>\$2,850</b>	<b>\$3,100</b>	<b>\$3,400</b>
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					
<i>Value per member month</i>		<i>7.45</i>	<i>8.07</i>	<i>8.85</i>	<i>9.62</i>	<i>10.55</i>

<b>Individuals &amp; Employer Groups at 75% Premium</b>		<b>Value (\$m)</b>				
<b>Average Member Life/Duration</b>	<b>Member Months</b>	<b>\$2,400</b>	<b>\$2,600</b>	<b>\$2,850</b>	<b>\$3,100</b>	<b>\$3,400</b>
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					
<i>Value per member month</i>		<i>7.45</i>	<i>8.07</i>	<i>8.85</i>	<i>9.62</i>	<i>10.55</i>

<b>Individuals &amp; Employer Groups at 50% Premium</b>		<b>Value (\$m)</b>				
<b>Average Member Life/Duration</b>	<b>Member Months</b>	<b>\$2,400</b>	<b>\$2,600</b>	<b>\$2,850</b>	<b>\$3,100</b>	<b>\$3,400</b>
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					
<i>Value per member month</i>		<i>7.45</i>	<i>8.07</i>	<i>8.85</i>	<i>9.62</i>	<i>10.55</i>

Comments/Notes

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

\*\* Individual policyholders receive credit at 100% of premium; group policyholders receive member-month credit consistent with the percentage of premium paid by the employer-policyholder. The chart above estimates ranges based upon employers paying an average of 50%, 75% and 100% of employee premiums.

Potential Transaction

In connection with the demutualization, BCBSLA is considering a transaction with another licensee of the Blue Cross and Blue Shield Association. Definitive agreements have been neither signed nor agreed to at this time. However, BCBSLA is considering a transaction that would be a “sponsored demutualization” in which the demutualization happens concurrently with a transaction that would result in a change of control of BCBSLA. Both the demutualization and the transaction are subject to regulatory approval, and the demutualization would still require policyholder approval.

For federal tax law purposes, the transaction would occur in multiple steps, but under the “Step Transaction Doctrine” employed in federal tax law, each step would be deemed to occur in a single transaction, with most steps occurring nearly simultaneously.

The steps of the transaction would generally be comprised of the following:

1. The New Foundation, a section 501(c)(4) organization with a tax-exempt purpose, is formed.
2. Pursuant to the Plan of Reorganization, BCBSLA will make a distribution to the New Foundation.
3. BCBSLA undertakes a conversion (the “Conversion”) from a mutual insurance company to a stock insurance company in accordance with LSA-R.S. 22:72, LSA-R.S. 22:236 *et seq.*, and other applicable provisions of the Louisiana Insurance Code and, as provided in the Plan of Reorganization, one hundred percent (100%) of its newly issued shares of capital stock are transferred to transaction purchaser (in exchange for the Eligible Member Payment to be made by the Paying Agent in Step 5).
4. Transaction purchaser pays the Total Eligible Member Payment Amount to a third-party paying agent. Prior to the Conversion, the Board of Directors of BCBSLA will determine the Total Eligible Member Payment Amount as the amount that they find is fair and equitable to the BCBSLA Members as a group under Louisiana insurance regulatory statutes, and as informed by a fairness opinion that BCBSLA will obtain from a qualified independent investment bank. In addition, consideration to eligible members on an individual basis will be determined by a qualified actuary in a manner consistent with actuarial principles and the Louisiana insurance regulatory statutes. The Eligible Member Payment will be approved by the Louisiana Commissioner of Insurance as part of the Plan of Reorganization and will be submitted to Eligible Members for approval as requires by law.
5. The Paying Agent pays the Eligible Member Payment to the BCBSLA Members.
6. Transaction purchaser pays an amount to be agreed upon to an escrow agent.
7. Transaction purchaser contributes cash down-the-chain to BCBSLA, which uses it to pay the Note.
8. Following closing, BCBSLA and the New Foundation use the Escrow Amount to true up certain closing balances, including cash, debt-like items, surplus and transaction expenses. Any portion of the Escrow Amount remaining in escrow following such true-up is released to the New Foundation.

Utilizing existing Revenue Rulings and General Counsel Memoranda of the Internal Revenue Service, BCBSLA and a potential purchaser will seek to secure a Private Letter Ruling that minimizes taxes on a potential transaction. The step process outlined above is designed to achieve that purpose within the boundaries of the Internal Revenue Code. One component of prior Revenue Rulings regarding mutuals is that in a reorganization or transaction of a mutual, for federal tax law purposes the holders of mutual rights are viewed as equity holders; prior Revenue Rulings have stated explicitly that in such situations the equity interest is “more nominal than real, unlike that of a shareholder of a corporation.”<sup>xix</sup> The purpose of viewing mutual holders as equity holders for tax law purposes is that Subchapter C of the Internal Revenue Code uses the term “stock” when regulating corporate reorganizations. Because a mutual company is not a stock company, the Internal Revenue Service, in prior Revenue Rulings, has permitted non-traditional, non-stock

companies such as mutuals, to identify members as equity holders for tax law purposes to permit those non-stock entities to utilize Subchapter C of the Internal Revenue Code. In other words, to utilize Subchapter C, the Internal Revenue Service permits mutual companies to deem policyholders to be stock holders, while recognizing that no stock is issued to the policyholders. In a sense, a legal fiction is employed by non-stock companies in order to permit non-taxable corporate reorganizations.

### 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> 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>vi</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>vii</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>viii</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>ix</sup> GCM 38537 (Oct. 14, 1980).

<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.

