Hause Actuarial Solutions, Inc.

7201 W. 129th Street, Suite 310

Overland Park, KS 66213

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

Randall A. Stevenson, ASA MAAA MSc

President & Consulting Actuary

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913-685-2200

RandallS@HauseActuarial.com

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Identification of Responsible Actuary

I am Randall Stevenson, a consulting actuary and President of Hause Actuarial Solutions, Inc. (Hause). I am an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries. I meet the experience and educational requirements to issue this statement of actuarial opinion.

I am guided as well as constrained in my work to follow all applicable principles and standards of actuarial practice, including, but not limited to, the guide to professional conduct and the actuarial standards of practice (ASOPs). In particular, I relied on ASOP No. 37, which is entitled "Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualization." Although ASOP 37 deals specifically with life insurance company demutualization, the provisions contained therein, adjusted for the differences in life and health insurance companies, provide standards of practice applicable to the demutualization of health insurance companies. I am further guided by Practice Notes promulgated by the American Academy of Actuaries, which provide prevailing actuarial practices.

This report is a statement of actuarial opinion. It is not a legal opinion and should not be considered as such. It does rely upon some conclusions, specifically as to the conversion of the company from a non-profit organization to a for-profit organization prior to the sale and the rights of the members to the value of the reorganized company less additional capital requirements. However, these conclusions are not offered as legal opinions, but merely logical conclusions based on available information.

Executive Summary

- The $2.5 billion valuation of the company as derived in the Cain Brothers opinion appears to be within a reasonable range of values.

- The proposed plan of the sponsored demutualization does not conform with general practices in a sponsored demutualization; however, several similar demutualizations funded foundations.
- The allocation of ownership of the demutualization to eligible members does not consider the actuarial contributions of eligible policies; and unlike most sponsored demutualizations, it does not allocate the net proceeds of the sale of the company to the owners of the reorganized for-profit stock company.
- The plan of reorganization does not address or compensate eligible policyholders for the future profits expected to be generated for the benefits of stockholders of Elevance instead of providing reduced premiums for members.
- The plan of reorganization does not recognize that the purpose of a mutual insurer's surplus is to provide security for paying future claims which may be higher than expected, or to reduce future premiums of members' policies.
- The opinion provided by Chaffee & Associates, a qualified investment banker, meets the technical requirements of La. R.S. 22:236.3.A.(2); however, it does not, in my opinion, satisfy the requirement of La. R.S. 22:236.3.A.(1) which states, "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 in the plan or reorganization, …." The value of the reorganizing mutual was established as $2.5 billion after its surplus is reduced by approximately $600 million, but the total consideration to eligible members is approximately $307 million.
- 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. Based on my reading and understanding of the Louisiana Demutualization statutes, the guidance provided by Actuarial Standard of Practice No. 37, the American Academy of Actuaries' Practice Note on Demutualization and the historical execution of other sponsored demutualizations, in my opinion the three prescribed assumptions are unjustified and incorrect.

This report also includes a description of the typical sponsored demutualization. Some relevant information on historical demutualizations and a simplified example of how a variable component might be determined are provided in appendices.

Distribution and Use

This report and any opinions and conclusions contained therein have been prepared for the use of the Louisiana Commissioner of Insurance. Disclosure of this report to any other party by any party other than by the Louisiana Commissioner of Insurance is prohibited without the prior written consent from Hause Actuarial Solutions, Inc.

Any distribution of this report should be in its entirety. This report has been prepared in conformity with its intended utilization by a person technically competent in the areas addressed and for the stated purpose only. Judgments as to the data contained in the report should be made only after studying the report in its entirety, as the conclusions reached by review of a section or sections on an isolated basis may be incorrect.

I am available to discuss the contents of this report with the Louisiana Department of Insurance or anyone with whom the Louisiana Commissioner of Insurance directs me to discuss its contents.

Assignment and Scope

Hause has been contracted by the Louisiana Department of Insurance to provide actuarial services. We were tasked with the following:

- Review 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.B.(2).
- Review the valuation of BCBSLA performed by Cain Brothers to determine if it is reasonable.
- Review the fairness opinion issued by Chaffee & Associates to assess its appropriateness and compliance with La. R.S. 22:236.3.A.(2).
- Review the fixed amount offered to the policyholders for their voting rights and provide an alternative for consideration, if deemed appropriate.
- Review the variable amount of $0 offered to the policyholders and provide an alternative for consideration, if deemed appropriate.
- Provide any other relevant information or suggestions to assist the Louisiana Commissioner of Insurance in forming his opinion of whether the overall transaction is in the best interest of the policyholders and other stakeholders.

Conflicts of Interest/Independence

I do not have any policies with nor am I aware of any investments in either of the companies involved in the proposed transaction, with the possible exception of holdings in mutual funds in which I or my immediate family may have invested; however, the total investment in Elevance would be minimal and we would not be materially impacted by the outcome of the proposed transaction nor do we control the investment decisions of any such mutual funds. I have not performed actuarial or other services for either company in the past five (5) years. Hause does perform financial examination work for the Louisiana Department of Insurance, which includes the examination of BCBSLA, its subsidiaries, and its affiliates.

I have not been directed or guided to form any specific or general conclusions in my review or opinion. The opinions stated herein are my own and are not necessarily the opinions of the Louisiana Commissioner of Insurance or any other individual or organization, including my employer or any organizations with which I am affiliated.

Background

The Blue Cross Blue Shield companies, collectively referred to as “the Blues”, originally were established as tax-exempt non-profit health service organizations under Internal Revenue Code (IRC) Section 501(c)(4). The Blues originally offered community-rated single price health insurance coverage for all persons residing in their respective areas of operations. For-profit insurance companies, who compete with the Blues for policyholders, frequently made a practice of underwriting their applicants to provide insurance for healthier individuals at lower premium rates than those charged by the Blues. This adversely impacted the Blues’ risk pool and forced them to operate more like the for-profit health insurers. To remain competitive, the Blues began to employ pricing based on medical underwriting, expanded the services they offer, and made use of their capabilities and services to increase revenues and reduce the net cost of health insurance through economies of scale. They also began selling non-insurance products, such as access to their healthcare networks and providing administrative only services to self-insured plans.

Louisiana Health Service and Indemnity Company, doing business as Blue Cross Blue Shield of Louisiana (BCBSLA) was established in 1976 to be exclusively a nonprofit mutual insurer per Article VII of

Articles of Incorporation. Article VII further states that the company will not issue stock nor pay dividends.

In the 1986 Tax Reform Act, the Federal Government changed the status of the Blues from tax-exempt non-profit service organizations regulated under IRC 501(c)(4) to for-profit organizations for tax purposes regulated under IRC 833. (Note: It is my understanding that La. R.S. 12:266(3) excludes any corporation transacting any type of insurance business from the Louisiana Nonprofit Corporation Law.)

BCBSLA did not amend its articles of incorporation to reflect that it was no longer exclusively a nonprofit company (since it was considered for-profit for tax purposes), or that it provided services which were not insurance (such as administrative services only contracts). Concurrently, BCBSLA continued to operate under the second sentence of Article VII, in that it did not issue stock and did not pay dividends to policyholders. To the best of my knowledge and belief, management has continued to operate BCBSLA as though it were still under IRC 501(c)(4), except for tax purposes, by not paying dividends to the policyholders, promoting healthcare in Louisiana, and contributing to the Blue Cross Foundation, a charity which advocates for and promotes healthcare in Louisiana. BCBSLA is not listed as one of the 22,999 Exempt Organizations in Louisiana per the IRS.

If BCBSLA were a tax-exempt organization, it would be required to distribute its surplus to another tax-exempt organization with similar objectives, or to the federal government or to a state or local government for a public purpose.

In 2022 Elevance Health (Elevance) is a for-profit Indiana insurance holding company which owns Blues in 14 states and was formerly known as Anthem, WellPoint, and The Associated Group. It was originally formed by the merger of Blue Cross of Indiana and Blue Shield of Indiana. Elevance offered to purchase BCBSLA. Elevance has entered into an agreement with the BCBSLA Board of Directors to purchase BCBSLA. The purchase requires BCBSLA first be converted to a for-profit stock insurance company. The agreement proposes that Elevance purchase the voting rights of eligible members for approximately $307 million, which is approximately 9% of the total transaction value. The agreement further proposes transferring approximately $0.7 billion of BCBSLA's current surplus plus approximately $2.4 billion contributed by Elevance for the purpose of purchasing BCBSLA into a newly created non-profit foundation, The Accelarate Louisiana Initative, Inc. (the foundation) – domiciled in Delaware – with a similar mission to BCBSLA. [Since BCBSLA is not a tax-exempt organization, it is not required to transfer all its surplus to another tax-exempt organization.] The foundation has been formed under IRC 501(c)(4), which is a service organization and not a charity (which would be formed under IRC 501(c)(3)). Some of the differences between these structures include the fact that contributions to a 501(c)(4) are not tax-deductible and 501(c)(4) organizations are allowed to make campaign contributions, endorse political candidates, and be involved in other political activities to advance their stated mission. Whether the transfer of funds to a 501(c)(4) is permitted or if some of the funds must be transferred to a charity is a legal issue beyond the scope of this review. Additionally, this review does not attempt to address any potential governance concerns related to the foundation.

The details of the financial transaction have been reviewed by Rector and Associates and are not repeated here. Approximate amounts are used in this review to more clearly show the actuarial processes presented herein. There are also possible considerations related to the treatment of non-admitted assets and Asset Valuation Reserves, which are not addressed in this review.

Reliance and Documents Reviewed

I have relied on information provided by the management of BCBSLA, including responses to questions presented to BCBSLA by Rector & Associates.

In preparing this report I reviewed and relied upon the following documents:

1) McGlinchey Memo to Harvey, dated 07/27/2022;
2) Deloitte Actuarial Fairness Opinion on the Allocation of Considerations;
3) Chaffee & Associates Opinion on the Fairness of the Total Consideration;
4) Cain Brothers Opinion on the Fairness of the Value of BCBSLA;
5) The Articles of Incorporation of BCBSLA;
6) The By-Laws of BCBSLA;
7) Policy forms for various insurance products sold by BCBSLA;
8) The plan of sponsored demutualization (reorganization);
9) The spreadsheet of how the consideration and allocation of consideration were determined;
10) Actuarial Standard of Practice, No. 37, "Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualization";
11) American Academy of Actuaries Practice Note "Distribution of Policyholder Equity in a Demutualization;"
12) Louisiana Revised Statutes, as deemed applicable;
13) Internal Revenue Code, as deemed applicable;
14) Historical demutualization information of other demutualizations (Appendix II);
15) Historical information about other Blue Cross/Blue Shield acquisitions or attempted acquisitions by Anthem/Elevance; and
16) The 1987 and 2022 statutory Annual Statement filings of BCBSLA.

Assumptions

For BCBSLA, a non-profit mutual insurer, to be sold, it must first be reorganized as a for-profit stock company; therefore, I have assumed BCBSLA converts to a for-profit company and demutualizes concurrently. I assume it is then sold after the reorganization, when the prohibitions against issuing stock and paying dividends have been removed. This sequence is consistent with how sponsored demutualizations are described in tax and actuarial literature. The reorganization would necessitate the revocation of Article VII of BCBSLA Articles of Incorporation prior to the sale of the company and result in net proceeds of the sale inuring to the eligible policyholders. I also assume that without revocation or amendment of Article VII, BCBSLA could not become a for profit-company stock company, since without the revocation it could not issue stock nor pay dividends. These assumptions are inconsistent with assumptions used throughout the plan of reorganization and proposed acquisition. The plan is based on the assumptions that only the voting rights are being purchased from the owners (eligible policyholders), and they do not acquire rights to future dividends or rights to net proceeds upon liquidation or sale of the reorganized company. The McGlinchey Memo states, "BCBS LA is a mutual insurer. In the case of BCBS LA, the Articles do not specifically state that the Members are owners of the mutual insurer. The Articles provide voting rights to Members and provide that BCBS LA will pay no dividends. Also, the liquidation provision in the Articles does not specifically state that the Members participate in the proceeds from a liquidation." This posits that the rights of ownership do not change upon conversion from a non-profit organization to a for-profit organization or upon demutualization.

Since a portion of the surplus of a mutual insurer is intended to provide security to policyholders and/or be used to reduce their future premiums, in this transaction the policyholders are losing more than their right to vote in the demutualization. This includes less surplus supporting future claims and available to reduce future premiums, the right to future profits being used for their benefit, the right to participate in the control of the surplus, and the right to the economic value of their membership.

I have based my assumption about the ownership of BCBSLA being the eligible policyholders on the following definitions of a mutual (insurance) company:

1) The definition of a mutual company in Black's Law Dictionary: "A company that is owned by its customers rather than by a separate group of stockholders."
2) IRS Tax Note 430, which states: "A mutual insurance company is owned by its policyholders whose ownership interests don't exist in the form of stock."
3) The generally accepted definition of a mutual insurance company is that it is owned by its policyholders: "A privately-held insurance company that is 100% owned by its policyholders." (Corporate Finance Institute), "A mutual insurance company is an insurance company that is owned by policyholders." (Investopedia) "A mutual insurance company is an insurance company whose policyholders are also the owners." (Insuranceopedia) "A mutual insurance company is an insurance company owned entirely by its policyholders." (Wikipedia) "Throughout this document, we use 'mutual insurance' as a generic term for insurance undertakings that are characterized by being jointly owned (and overseen) by their members and by not being listed on the stock exchange." ("A practical guide to understanding mutual insurance" Catherine Hock, author, and published by International Cooperative and Mutual Insurance Federation) "A mutual entity is defined as an entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members or participants." (IASB definition)

Customary Practices

Before considering the specific proposed transaction, it is instructive to consider customary practices in sponsored demutualizations and then compare the proposed transaction to these customary practices. The customary practices are provided in this section, most of which is from ASOP No. 37 or the American Academy of Actuaries' Practice Note on demutualization.

The company being acquired is appraised and a price determined based on the appraisal together with other considerations. An investment bank usually provides an appraisal of the fair market value of the company being acquired. Ultimately the value is the price a buyer and seller agree upon within a free market and without duress or coercion. This value is usually agreed upon by the Boards of Directors of the two companies and then voted upon by the members/owners of the company being acquired.

The total amount to be distributed to policyholders is generally 100 percent of the market value of the company, excluding any IPO or other capital raising initiatives. (Actuarial Practice Note) The consideration is usually a combination of a fixed component and a variable component. 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 (ASOP No. 37, Section 3.1.1).

The amount allocated to each owner consists of two parts: a variable portion, which reflects the policyholder's actuarial contribution and a fixed portion as payment for the voting and other ownership rights, such as rights to liquidation proceeds. The share of the fixed and variable components of consideration that any one policyholder receives should reflect both equity and practicality. Equity requires that actuarial contributions of policies be adequately recognized. (ASOP No. 37, Section 3.2) Practicality requires that the proposed allocation take into account both administrative feasibility and imperfections in available data. (ASOP No. 37, Section 3.2) The distribution may take several forms, including but not limited to cash, partial ownership in the purchasing company, and/or future premium credits. [NB: Future premium credits are more appropriate for products with fixed premiums than products for which the company adjusts premiums upon renewal, such as health insurance.]

The variable portion is usually determined for each eligible policy as the present value of past profits from the policy plus the present value of future profits from the policy. The variable portion is usually allocated to any policy which is participating (voting or eligible for dividends) on its face, including policies which never pay a dividend, but are participating (voting). The only policies issued by a mutual company which are not generally allocated a variable share are those which are specifically non-participating (non-voting and not eligible for dividends). If a policy's contribution is negative the variable portion is set at $0.

The fixed portion usually is the residual of the total purchase price net of new capital raised and the variable component. It is considered an approximation of the actuarial contributions of non-eligible policies, including those which have terminated minus the negative actuarial contributions of any eligible policies plus capital plus any additional value from intangibles, such as goodwill. The fixed component is generally paid only to voting owners in proportion to the number of votes they have. Some companies attribute votes to each eligible policy and others to each eligible policyholder, regardless of the number of policies the eligible policyholder owns.

A simplified illustrative example of how a typical demutualization might be approached is provided in Appendix I.

Actuarial Contribution to Past Profits

Two methods of determining the actuarial contributions of past profits, known as the present value of past profits (PVPP), are commonly used. One accumulates annual statutory after-tax profits, the other accumulates statutory cash flows then subtracts the ending statutory reserve. Theoretically, these should produce identical results, but the latter method is used more commonly. The in-force business is modeled by product line, which is generally segregated based on the statutory annual statement line of business, but further subdivisions are common. Experience factors are calculated for each year that the cell has been in force using the company's available records and the present value of past profits for each cell is calculated.

For individual health products, models are often based on policy form, issue year and age. For small group life and health policies not individually experience-rated, the cells might distinguish only by issue year and coverage. Large experience-rated group contracts may have their own calculations performed based on their experience. A profit rate as a percentage of premium might be used when no other information is available or practically applicable.

The PVPP cannot be validated against the accumulated surplus since it is calculated only for the eligible policies still in force. Surplus usually includes profits from policies which have terminated or which are non-participating. The historical contribution is the contribution of a particular policy or class of similar eligible policies has made to the company's statutory surplus and asset valuation reserve each year. The past profits are brought forward with interest in determining their present values. The interest used is often based on one of the demutualizing company's rates of return, such as its investment returns or internal return on assets. The number of years used for computing the PVPP is sometimes limited.

Actuarial Contribution to Future Profits

The present value of future profits (PVFP) is calculated using the actuary's best estimate of future experience for those policies. Investment income is calculated on a realistic basis assuming asset equal policy liabilities. Terminations of all kinds are considered for the calculation of the PVFP.

For group policies with an unlimited or very long potential future lifetimes, PVFP is often capped at a horizon ranging from 10 to 30 years. Once the statutory profits are projected, they must be discounted to the calculation date; the discount rate is usually the after-tax annual earned rate used in projecting future profits.

The total actuarial contribution for each cell is determined and related to a “driver” for each policy type (e.g., premiums for health insurance). The result is a grid of percentages for the various model cells. The specifics of each policy in force (plan, issue year, issue age, etc.) are used to calculate the appropriate percentage by interpolating within the model grid. This policy level percentage is multiplied by the appropriate driver to derive the actuarial contribution to future profits.

The Fixed Component

The fixed component is generally set equal to the total purchase price less capital raised minus the estimated variable component. This amount is then divided equally among the eligible members. ASOP No. 37 section 3.2.1 provides the following guidance on the fixed component:

> “…usually … the fixed component is 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).”

The ASOP continues in section 3.2.2 to provide guidance on the 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. The determination of the amount to be allocated as the fixed component is a matter in which judgment and practical considerations play a significant role. 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. The actuary may also consider the percentages of total consideration that were distributed as fixed consideration and the specific dollar values of fixed consideration allocated to each policy or policyholder in prior demutualizations.
>
> The following approaches to determining the fixed component would usually produce a result that would be consistent with these concepts:
>
> a. determining the aggregate dollar value to be allocated as the fixed component so that the variable component approximates the value of the total actuarial contribution for eligible policies; or

b. determining the aggregate dollar value to be allocated as the fixed component so that it approximates the value of the total actuarial contribution for policies not eligible for consideration, including terminated policies."

Review of Valuation of the Company

I reviewed the opinion of Cain Brothers, an investment banking firm, which opined the Base Purchase Price is fair. Although I did not review their specific calculations, which were neither provided nor requested, I considered the analyses they stated they used, which included discounted cash flows, market comparisons to publicly available information, financial projections, and other methods. These are reasonable approaches used to appraise an insurance company's value. The opinion did not provide sufficient supporting information to validate their results directly.

A complete appraisal was beyond the scope of this assignment; however, I was able to perform a reasonability test. I used the BCBSLA 2022 total revenues of $2,661,192,141 multiplied by Elevance's operating margin of 5.62% to get a projected annual profit of $149,558,998 with the business under Elevance's control. This amount was multiplied by Elevance's Price to Earnings ratio (on 7/28/23) of 17.63 to get an approximate market value of $2,636,725,140. Based on this evaluation and without consideration of other factors, in my opinion, the base price of $2.5 billion appears to be within the range of a reasonable valuation. It is also based on the capital and surplus of BCBSLA being at the Elevance level of about $1.0 billion, which releases about $0.6 billion of surplus and implies the total value of the transaction to the owners is about $3.1 billion. These amounts are in line with the proposed amounts of the sale and total transaction amount.

Review of Fairness Opinion of Extinguishment of Membership Interest

I reviewed the opinion of Chaffee & Associates, an investment banking firm, which opined on the fairness of the method used to determine the total amount to be paid the eligible members as a group.

La. R.S. 22:236(9) defines “membership interest” to mean:

> … 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**. (Emphasis added.)

Since no dividends are paid, all the surplus of BCBSLA is not apportioned or declared by the board of directors for policyholder dividends. Article XI of BCBSLA articles of incorporation addresses “Liquidation or Sale of All or Substantially All Assets” and is silent on disposition of any excess surplus. Regarding the surplus, the Chaffee opinion states “BCBSLA and its legal counsel are unaware of any provisions of law providing for such rights.” IRS Tax Topic number 430 states:

> “A mutual insurance company is owned by its policyholders whose ownership interests don't exist in the form of stock. The insurance policy sets the terms of the policyholder's ownership. When a mutual insurance company demutualizes and becomes a stock company, an eligible policyholder generally elects to receive newly issued stock in the new stock company or cash. At the same time, the insurance policy is modified only by changing the name of the issuing company and eliminating the voting and liquidation rights.”

La. R.S. 12:201(17) under the Nonprofit Corporation Law defines membership in a nonprofit corporation as follows:

> “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.

The Chaffee opinion does not conform with the general practice of paying members of a mutual company 100% of the proceeds from a sponsored demutualization less capital raised for the acquisition, nor does it account for all of membership’s interests. It is unusual to have an amount of allocation opinion between the valuation opinion and the actuarial allocation opinion.

For the reasons detailed above, I do not concur with the fairness opinion issued by Chaffee & Associates.

Review of Actuarial Fairness Opinion

The actuarial fairness opinion is required by La. R.S. 22:236.3.B.(2), which reads as follows:

> 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.

BCBSLA has obtained an opinion which meets these requirements; however, the opinion is predicated on the representations from BCBSLA that the only thing being purchased from the eligible members is their voting rights and the amount offered in aggregate is appropriate. 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.

Although the opinion cites the American Academy of Actuaries Practice Note "Distribution of Policyholder Equity in a Demutualization", the Practice Note also states, "In general, [the total value to be distributed] is not an actuarial determination. Instead, the total amount to be distributed to policyholders is generally 100 percent of the market value of the company, excluding any IPO or other capital raising initiatives." For a demutualization, the market value of an insurance company is usually determined by an investment banker.

Although the actuarial opinion meets the specific requirements of La. R.S. 22:236.3.B.(2), the actuarial opinion is constrained by assumptions, which, in my opinion, are inconsistent with typical plans of demutualization. The noted specifics of these constraints are:

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."

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).

Since the premises of the actuarial fairness opinion include assumptions and amounts provided to the actuary, which I believe are incorrect, I believe the conclusion is not valid. If the premises are correct, the conclusion would be valid in my opinion.

Review of the Proposed Fixed Component

The Practice Note states "There is no uniform approach for [determining how much value is allocated on fixed bases and on variable bases]. … The following are considerations which management typically takes into account in setting the fixed portion:

- The dollar value of the fixed portion should be small enough that cashing out small shareholders is not too expensive if the company should decide to do so;
- The [dollar amount of] the fixed portion should be large enough that its value is not trivial; and
- The range of values distributed in previous demutualizations.

In addition, the fixed portion has sometimes been increased if the value to be distributed is greater than the value of the aggregated actuarial contributions …."

It is my opinion that the first two considerations are adequately taken into account.

For illustration and comparison, I list below some percentages of the total amounts paid to policyholders allocated to fixed components from some prior demutualizations:

(Source: https://www.calt.iastate.edu/files/files-article/forms.pdf provided as Appendix II, except as noted for Prudential)

- American Mutual 19.7%
- Manulife 27.1%
- MetLife 22.3%
- Mutual Service Life 29.3%
- Principal Mutual 35.6%
- Prudential 14.4% (https://www.state.nj.us/dobi/a01_153.htm)
- Standard Insurance 34.8%
- Sun Life 19.8%

The average is close to 25%, which is significantly larger than the 9.0% proposed by the BCBSLA demutualization.

From the same source, the dollar values of the fixed components from some prior demutualizations were:

- American Mutual $520
- Anthem $756
- Indianapolis Life $428
- John Hancock $289
- Phoenix Home Life $140
- Principal Mutual Life $1,850
- Prudential Life $284
- Standard Insurance $1,235

The average of these is about $688 per eligible member for the fixed component, which is significantly less than the $3,027 per eligible member in the proposed Agreement. However, these companies are life insurers which typically had written many small policies, which had been in force for decades.

Given the offsetting considerations, a fixed amount of $3,027 per eligible member seems reasonable. Although it is lower than the typical percentage of the total value of the company, it is a higher-than-average dollar amount. The fixed portion is allocated equally to all the eligible members, which is an appropriate, fair and equitable means of allocating the fixed component. Since it is deemed to represent a member's voting right, it is also appropriate to establish an eligible policy as one with the right to vote.

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.

Review of the Proposed Variable Component

The Practice Note states:

> "In theory, … the variable portion compensates for the loss of rights to a distribution of excess assets in the event of liquidation."

The Practice Note identifies the variable portion as a policyholder's actuarial contribution, which is generally determined for each policy as the sum of the present value of future profits on the policy and the present value of past profits on the policy. We will consider each of the two subcomponents of the actuarial contribution.

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 implies the demutualized for-profit BCBSLA would be purchased from the owners not from BCBSLA itself.

Placing the funds in a social services foundation instead of paying them to the owners of BCBSLA assumes it is in the best interest of each individual policyholder that the funds be in the foundation instead of the manner they would choose to use them. Applying the principle of subsidiarity, if it is in the individual's best interest that the funds be placed in the foundation, the individual can choose to place the funds in the foundation. The current owners (policyholders) are being deprived of this right in the proposed agreement as well as the right to any participation in the control of the surplus funds transferred to the foundation.

Present (Accumulated) Value of Past Profits

Past profits could be attributed to two categories:

- Retained profits prior to the company losing its 501(c)(4) tax-exempt status (12/31/1986) and
- Retained profits from policies and contracts since 12/31/1986.

IRC 501(c)(4) defines a tax-exempt social welfare organization in subparagraph (A) and then states, "Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual." Based on this, all accumulated retained earnings of BCBSLA prior to January 1, 1987, plus AVR and non-admitted assets as of that date, minus charitable contributions made by BCBSLA since December 31, 1986, may be required to be transferred to a charitable organization with a similar mission or to the local, state or federal government. This determination is a legal matter beyond the scope of this report.

The first section of Article VII of BCBSLA's Articles of Incorporation states:

> The Corporation is organized and shall function entirely as a nonprofit mutual insurer. It shall issue no shares of stock and pay no dividends.

BCBSLA failed to be entirely a nonprofit when it became subject to IRC 833 on January 1, 1987. BCBSLA has provided products and services to non-members and some of which are not insurance, such as administrative services only contracts, and therefore has not operated entirely and/or exclusively as a mutual insurer. To the best of my knowledge and belief, the management of BCBSLA has continued to otherwise operate the Corporation as a social welfare organization.

The portion of profits retained, or a reasonable estimate thereof, on existing policies could be paid to policyholders as refunds of premiums, under the policy provisions which allow BCBSLA to refund premiums for business purposes. All the BCBSLA policies reviewed have the following provision:

> We may, at Our discretion, offer rebates, refunds, reductions of premium, or other items of value, in amounts to types determined by Us, for business purposes and healthcare quality improvement purposes, including but not limited to the following purposes ….

A reasonable way to approximate this amount, if better information is unavailable, would be to consider the total net profits since 1986 divided by the total premiums paid since 1986 and multiply the result by the total premium paid since 1986 for each policy currently in force. This would constitute a reasonable method and amount to allocate to the variable portion for the present value of past profits.

Historically some companies have reportedly paid non-member policyholders as well as member policyholders and others have paid only member policyholders. Although I have reviewed many demutualizations, I do not recall any example of a non-member policyholder being granted consideration, so I believe paying non-member policyholders would be an exception.

Present Value of Future Profits

Given that BCBSLA is currently a nonprofit, its market value does not include prior profits (its retained surplus) and is the (present) value of future profits after it has been converted to a for-profit business.

The Practice Note states:

> … the total amount to be distributed to the policyholders is generally 100 percent of the market value of the company, excluding any IPO or other capital raising initiatives.

The residual portion attributable to variable payment for the present value of future profits would be the total price being paid, less the sum of the approximately $1 billion in surplus being injected into the company after the transfer of the funds that are required to be transferred to an appropriate charity or government entity and any disbursements to policyholders for retained past profits, transaction expenses paid from the purchase price, and fixed portion of the demutualization proceeds.

Although Actuarial Standard of Practice No. 37, "Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualization", (the ASOP), is applicable to life insurance companies, the opining actuary relied upon it for the demutualization of BCBSLA, which is a health and accident insurance company. This seems appropriate, since there is no published standard for demutualizations of health insurers and the principles are essentially the same in most of the considerations. The ASOP states:

> The share of the fixed and variable components of consideration that any one policyholder receives should reflect both equity and practicality. Equity requires that actuarial contributions of policies be adequately recognized. Practicality requires that the proposed allocation take into account both administrative feasibility and imperfections in available data.

Assuming future profits are proportional to premiums and all policies are assumed to remain in force for the same future period, the variable portion could be allocated in proportion to the premiums.

On the other hand, the expected present value of future profits for each policy could be determined using an alternative means, which would include policy-specific projections on future profits with the variable portion for the present value of future profits be allocated to policies in proportion to each policy's present value of future profits. Here again, some companies may include non-eligible policies in this portion of the distribution, while some only include eligible policies.

Conclusions

The purchase price of BCBSLA is reasonably established as approximately $2.5 billion with capital and surplus of approximately $1.0 billion. The opinion of the valuation is provided by Cain Brothers, an investment bank.

The company has obtained a fairness opinion from a different qualified investment bank, Chaffee & Associates, which makes the statements required by La. R.S. 22:236.3.A.(2); however, it only attributes a portion of the value of the reorganizing mutual to members. It assumes the total value of BCBSLA does not belong to the owners, but only about 9% of the value is the owners' equitable share. I do not concur with the opinion because the sum of considerations to members is less than the value of the reorganizing mutual. Furthermore, the approach used is inconsistent with historical demutualizations. The consideration appears to assume a non-profit organization is being purchased instead of a demutualized for-profit insurance company.

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. This could lead one to conclude the opinion is a qualified opinion. Accepting the opinion as provided requires agreeing that the only thing being purchased from the members is their voting rights and all variable considerations are dividends, which appears inconsistent with how sponsored demutualizations generally are executed and is possibly inconsistent with Louisiana statutes related to membership in a non-profit and membership interest in a demutualizing mutual insurer.

If fairness and equity require that both groups and individuals within the groups be treated justly, it appears the plan of reorganization and sale fails to meet this standard in my opinion. The plan appears to maximize the funding of a newly formed, Delaware domiciled foundation in preference to paying the value of the company to the owners. The proposed agreement routes funds which could be paid to policyholders to a foundation, to which the Board of Directors has no fiduciary responsibility and from which individual policyholders may or may not benefit and through which they lose participation in the control of the funds. The Agreement also fails to recognize the difference in value different policies contribute to the value of the company. A small single life policy recently issued with a limited benefit and relatively small premium would not be expected to have the same actuarial contribution or value as a large group policy which provides comprehensive coverage to its certificate holders, and which has been in-force for several years.

Respectfully submitted,

Randall A. Stevenson

Randall A. Stevenson, ASA MAAA MSc
President & Consulting Actuary
Hause Actuarial Solutions, Inc.
August 15, 2023

Appendix I

A Simplified Illustrative Example

Suppose we limit the actuarial contribution consideration to a 10-year look-back and a 10-year forward projection. We will also assume the following:

Persistency	90% annually
Interest	4.25%
Individual Mortality	2016 Social Security
Group Mortality	None; leaving members are assumed to be replaced by incoming members
Profit Margin	5.67% of premium
Premium Inflation	1.50%

The actuarial contributions could be computed as follows:

Case 1: A female currently aged 40 purchased an individual policy in 2018. Since she did not have premiums prior to 2018, her actuarial contribution for past profits would be for 2018-2022.

Year	Premium/$1K Adj. for Inflation	Persistency	Mortality	Px	Cumm. Px	Interest Multiplier	Factor	Factor x Prem
2013	0	1	0	1	1	1.454402367	1.454402367	0
2014	0	1	0	1	1	1.395110185	1.395110185	0
2015	0	1	0	1	1	1.338235189	1.338235189	0
2016	0	1	0	1	1	1.283678838	1.283678838	0
2017	0	1	0	1	1	1.231346608	1.231346608	0
2018	942.1842303	1	0	1	1	1.181147825	1.181147825	1112.858854
2019	956.3169937	1	0	1	1	1.132995516	1.132995516	1083.502865
2020	970.6617486	1	0	1	1	1.08680625	1.08680625	1054.921255
2021	985.2216749	1	0	1	1	1.0425	1.0425	1027.093596
2022	1000	1	0	1	1	1	1	1000
2023	1015	0.9	0.001403	0.8987373	1	0.959232614	0.959232614	973.6211031
2024	1030.225	0.9	0.001491	0.8986581	0.8987373	0.920127208	0.826952642	851.9472858
2025	1045.678375	0.9	0.001597	0.8985627	0.807657554	0.882616026	0.712851501	745.4133996
2026	1061.363551	0.9	0.001724	0.8984484	0.725730953	0.846634078	0.614428556	652.132074
2027	1077.284004	0.9	0.001871	0.8983161	0.652031813	0.81211902	0.529527437	570.4514376
2028	1093.443264	0.9	0.002033	0.8981703	0.585730676	0.77901105	0.456290669	498.9279581
2029	1109.844913	0.9	0.002212	0.8980092	0.526085897	0.747252806	0.393119162	436.3013026
2030	1126.492587	0.9	0.002417	0.8978247	0.472429975	0.716789262	0.338632733	381.4672637
2031	1143.389975	0.9	0.002651	0.8976141	0.424159301	0.687567638	0.291638208	333.4562039
2032	1160.540825	0.9	0.002911	0.8973801	0.380731369	0.659537302	0.25110654	291.4193911
							Total	11013.51399
							x 5.67%	624.4662433

The result would be a variable amount of $624.47 per $1,000 of premium paid in 2022. If the result were negative, $0 would be used instead.

Case 2: A male currently aged 60 purchased an individual policy in 1990. Since the look back is limited to 10 years, he will have premiums accounted from 2013 onward. Since he will transfer to Medicare at age 65, he will only have 5 years of future potential coverage.

Year	Premium/$1K Adj. for Inflation	Persistency	Mortality	Px	Cumm. Px	Interest Multiplier	Factor	Factor x Prem
2013	874.5922402	1	0	1	1	1.454402367	1.454402367	1272.009025
2014	887.7111238	1	0	1	1	1.395110185	1.395110185	1238.45483
2015	901.0267907	1	0	1	1	1.338235189	1.338235189	1205.785758
2016	914.5421925	1	0	1	1	1.283678838	1.283678838	1173.978459
2017	928.2603254	1	0	1	1	1.231346608	1.231346608	1143.010203
2018	942.1842303	1	0	1	1	1.181147825	1.181147825	1112.858854
2019	956.3169937	1	0	1	1	1.132995516	1.132995516	1083.502865
2020	970.6617486	1	0	1	1	1.08680625	1.08680625	1054.921255
2021	985.2216749	1	0	1	1	1.0425	1.0425	1027.093596
2022	1000	1	0	1	1	1	1	1000
2023	1015	0.9	0.011533	0.8896203	0.8896203	0.959232614	0.853352806	866.1530978
2024	1030.225	0.9	0.012434	0.8888094	0.790702885	0.920127208	0.727547238	749.5373529
2025	1045.678375	0.9	0.013302	0.8880282	0.70216646	0.882616026	0.619743371	648.0522407
2026	1061.363551	0.9	0.014109	0.8873019	0.623033634	0.846634078	0.527481506	559.8496444
2027	1077.284004	0.9	0.014913	0.8865783	0.5523681	0.81211902	0.44858864	483.2573661
2028	1093.443264	0	0.015808	0	0	0.77901105	0	0
2029	1109.844913	0	0.016868	0	0	0.747252806	0	0
2030	1126.492587	0	0.018101	0	0	0.716789262	0	0
2031	1143.389975	0	0.019544	0	0	0.687567638	0	0
2032	1160.540825	0	0.021206	0	0	0.659537302	0	0
							Total	14618.46455
							x 5.67%	828.8669398

The result would be a variable amount of $828.87 per $1,000 of premium paid in 2022.

Case 3: A group policy has been in force since 2012. Since members of a group who die or retire can be assumed to be replaced by new members, the mortality factor is set at 0.

Year	Premium/$1K Adj. for Inflation	Persistency	Mortality	Px	Cumm. Px	Interest Multiplier	Factor	Factor x Prem
2013	874.5922402	1	0	1	1	1.454402367	1.454402367	1272.009025
2014	887.7111238	1	0	1	1	1.395110185	1.395110185	1238.45483
2015	901.0267907	1	0	1	1	1.338235189	1.338235189	1205.785758
2016	914.5421925	1	0	1	1	1.283678838	1.283678838	1173.978459
2017	928.2603254	1	0	1	1	1.231346608	1.231346608	1143.010203
2018	942.1842303	1	0	1	1	1.181147825	1.181147825	1112.858854
2019	956.3169937	1	0	1	1	1.132995516	1.132995516	1083.502865
2020	970.6617486	1	0	1	1	1.08680625	1.08680625	1054.921255
2021	985.2216749	1	0	1	1	1.0425	1.0425	1027.093596
2022	1000	1	0	1	1	1	1	1000
2023	1015	0.9	0	0.9	1	0.959232614	0.959232614	973.6211031
2024	1030.225	0.9	0	0.9	0.9	0.920127208	0.828114487	853.1442472
2025	1045.678375	0.9	0	0.9	0.81	0.882616026	0.714918981	747.5753188
2026	1061.363551	0.9	0	0.9	0.729	0.846634078	0.617196243	655.0695959
2027	1077.284004	0.9	0	0.9	0.6561	0.81211902	0.532831289	574.0106243
2028	1093.443264	0.9	0	0.9	0.59049	0.77901105	0.459998235	502.9819715
2029	1109.844913	0.9	0	0.9	0.531441	0.747252806	0.397120778	440.7424757
2030	1126.492587	0.9	0	0.9	0.4782969	0.716789262	0.342838082	386.2045579
2031	1143.389975	0.9	0	0.9	0.43046721	0.687567638	0.295975323	338.4152169
2032	1160.540825	0.9	0	0.9	0.387420489	0.659537302	0.255518264	296.5393771
							Total	17079.91933
							x 5.67%	968.4314262

In this case the group policy would have a variable amount of $968.43 per $1,000 of premium paid in 2022.

Suppose 85% of the $2,679,096,960 premiums paid in 2022 were attributed to eligible members' policies and the average variable amount was determined to be $925 per $1,000 of premium paid in 2022. This would produce a total of variable components of $2,106,439,985. With a sale price of $2.5 billion plus a $0.6 billion of released surplus, this would leave $993,560,015 for distribution as the fixed component among the 101,625 eligible members, or $9,776.73 per member for the fixed component. The fixed component represents about 32.05% of the total consideration, which is higher than historical fixed components both in terms of dollar amounts and percentage of the total payment to eligible policyholders. To adjust this the number of years used in the look-back and/or future projections could be increased or the driver could have a multiplier applied.

This example is provided for illustrative purposes only and does not constitute a recommendation nor is there any implication that the method or assumptions are appropriate for the current demutualization of BCBSLA. Profits, inflation, discount rates and other assumptions could vary both by year and by policy groupings. Also, the methodology used to determine the present value of past profits can be based on actual experience to the extent the needed information is available and an actuarial contribution can be practically determined.

Appendix II

Demutualization Details

1. **American Mutual Life – AmerUs- Indianapolis Life Insurance Company - Central Life Assurance -** Central Life Assurance merged with American Mutual in 1994. American Mutual Life was renamed AmerUs Life Insurance Company in 1995. On September 20, 2000, it demutualized to become AmerUs Group. In 2001, the company merged with Indianapolis Life, which had also undergone a demutualization. Approximately 300,000 policyholders and heirs became entitled to receive $452 million in AmerUs Group common stock and $340 million in cash and policy credits. Distribution began on July 31, 2001. Eligible policyholders received a fixed component of 20 AmerUS common shares, as well as a variable component based on policy value. Those who elected to receive cash were compensated $26 per share entitlement. In the first year after the initial public offering, the price of an AmerUS common share increased 99%. The current value of AmerUS Group stock is approximately $45 per share.

2. **Anthem Insurance** - On July 31, 2002 Anthem Insurance Companies, Inc. completed its conversion from a mutual insurance company to a stock company, and became a wholly owned subsidiary of Anthem, Inc. Eligible policyholders and heirs became entitled to approximately 48 million shares of Anthem, Inc. common stock and cash totaling $2.06 billion. Compensation consisted of a fixed component of 21 Anthem common shares, as well as a variable component based on policy value. The shares were offered to the public at $36. In the first year after the initial public offering, the price of an Anthem common share increased 54%.

3. **Equitable Life – Axa -** In 1992 the Equitable Life Assurance Society of the United States demutualized and a new parent holding company, the Equitable Companies, was listed on the New York Stock Exchange. At that time France-based AXA Group became the owner of 49% of Equitable's common stock in exchange for a $1 billion investment to strengthen Equitable's surplus. In 1999, Equitable became AXA Financial. Eligible policyholders and heirs became entitled to approximately $270 million in cash, stock and credits. In the first year after the initial public offering, the price of an Equitable common share increased 123%.

4. **General American Life – GenAmerica -** In 1998 General American Life, a subsidiary of GenAmerica, announced a plan to convert from a mutual holding company structure to that of a publicly traded stock company. Shortly thereafter, however, on August 10, 1999, the Missouri Department of Insurance placed General American Life Insurance Company under an order of administrative supervision. The cause of the supervision order was the company's inability to satisfy the liquidity demands for $5 billion in withdrawals by 37 institutional clients, holders of funding agreement contracts held by General American. As a result of the supervision order, Instead of the announced demutualization General American accepted agreed to be acquired by MetLife. The $1.2 billion sale price paid by MetLife was deposited in an account for the benefit of General American Mutual Holding Company policyholders and heirs.

5. **Indianapolis Life -** American Mutual Life was renamed AmerUs Life Insurance Company in

1995. On September 20, 2000, it demutualized to become AmerUs Group. Shares of AmerUs Group common stock, cash and policy credits were distributed beginning July 31, 2001, to eligible members of Indianapolis Life Insurance Company, in connection with the demutualization of Indianapolis Life and its concurrent combination with AmerUs Group in May 2001. Compensation to eligible policyholders and heirs totaled approximately $325 million, consisting of a fixed component of 12 AmerUS common shares, as well as a variable component based on policy value. Lost policyholders will receive cash in lieu of stock, at the rate of $35.63 per share. In the first year after the initial public offering, the price of an AmerUS common share increased 99%. The current value of AmerUS Group stock is approximately $45 per share.

6. **John Hancock Mutual Life Insurance Company -** John Hancock Mutual Life demutualized on November 30, 1999, and was renamed John Hancock Life Insurance Company, a wholly-owned subsidiary of John Hancock Financial Services, Inc. The reorganization provided eligible policyholders with shares of common stock, cash or policy credits in exchange for their membership interests. Compensation consisted of a fixed component of 17 John Hancock Financial Services common shares, as well as a variable component based on policy value. Eligible policyholders include owners of life insurance policies, annuity contracts, guaranteed investment contracts, long-term care policies, and other accident and health policies. Lost policyholders were to receive cash compensation of $17 per share entitlement. In the first year after the initial public offering, the price of a John Hancock common share increased 107%.

7. **Manufacturers Life Insurance Company – Manulife -** On September 24, 1999, Toronto, Canada-based Manufacturers Life Insurance Company's demutualized and became Manulife Financial. Only 35% of the company's 671,000 eligible policyholders worldwide voted. Eligible policyholders residing in Canada, the United States, Hong Kong and the Philippines were entitled to choose between cash and/or Manulife Financial shares. Compensation took the form of a fixed component of 186 Manulife Financial common shares, as well as a variable component based on policy value. Cash compensation was set at $18 CDN per share entitlement. The total value of stock and cash distributed - $8.3 billion. Policyholders who live outside of the four major regions automatically received cash, based on the offering price for a common share in Manulife Financial Corporation's initial public offering. Eligible policyholders were to make known their elections on or before August 30, 1999, otherwise, they were automatically to receive shares.

8. **Metropolitan Life – MetLife -** On April 7, 2000, Metropolitan Life made the conversion from a mutual life insurance company to a stock life insurance company. Over eleven million policyholders became eligible to receive trust interests representing shares of common stock held in the Metropolitan Life Policyholder Trust, cash, or an adjustment to their policy values in the form of policy credits. Only 25% of eligible policyholders actually voted for the plan, and MetLife Inc. estimates 60 million shares of stock arising from its demutualization - worth $855 million at the time of the IPO and significantly more today - have gone unclaimed. The Initial Public Offering consisted of 202 million shares priced at $14.25. Eligible policyholders were entitled to receive 494 million shares. Compensation took the form of a fixed component of 10 MetLife Inc. common shares, as well as a variable component based on policy value. Lost policyholders were to receive cash compensation of $14.25 per share entitlement. In the first year after the initial public offering, the price of a MetLife common share increased 98%.

9. **Mutual of New York – MONY -** On November 16, 1998, The Mutual Life Insurance Company of New York successfully completed its conversion from a mutual life insurance company to a shareholder-owned company, The MONY Group Inc. On July 8, 2004, MONY Group became a wholly owned subsidiary of AXA Financial. In 1999, AXA acquired the Equitable Companies, the

corporate entity resulting from the 1992 demutualization of the Equitable Life Assurance Society. All issued and outstanding shares of The MONY Group, including those issued in connection with the demutualization, were cancelled in exchange for the right to receive the merger consideration of $31.00 in cash plus a final dividend of $0.34755 in cash. Eligible policyholders were entitled to receive 34 million shares of stock and $37 million in cash and policy credits, represented by a fixed component of 7 MONY Group Inc. common shares, and a variable component based on policy value. Cash compensation was $23.50 per share entitlement. In the first year after the initial public offering price, the price of a MONY Group common share increased 27%.

10. **Mutual Service Life Insurance Company -** On January 1, 2005, Minnesota-based Mutual Service Life Insurance Company completed its demutualization. Policyholders were to be compensated for their ownership interest in two ways - with a fixed component payment and an additional variable component based on a number of factors including policy value. Proxy materials were sent to policyholders on October 6, 2004. On January 1, 2005, Minnesota- based Mutual Service Life Insurance Company completed its demutualization, a so called "sponsored demutualization", in which stock of the demutualized company was immediately purchased by Country Life Insurance Company of Illinois. Thirty-three thousand policyholders with Mutual Service policies active as of Sept. 30, 2003 - half of whom were Minnesota residents - became eligible to receive payment totaling approximately $45 million. Payments range from $400 to $80,000.

11. **Provident Mutual Life - Nationwide Provident -** In 1998, Nationwide Mutual Insurance Company merged with Allied Mutual. On October 1, 2002, Provident Mutual Life Insurance Company demutualized and concurrently merged with Nationwide Financial Services, Inc. to become Nationwide-Provident, in a transaction worth $1.56 billion. Eligible policyholders became entitled to receive compensation consisting of a fixed component of 26 Nationwide Financial Services common shares, as well as a variable component based on policy value. Lost policyholders were entitled to receive $28 cash per share entitlement. The current value of a Nationwide Financial share is approximately $39.00.

12. **Northwestern National – ReliaStar -** Northwestern National demutualized in 1989. The company changed its name to ReliaStar in 1996. Eligible policyholders were entitled to receive compensation totaling $120 million in cash and four million shares of stock in the new company. In the first year after the initial public offering, common shares appreciated 33%. In May of 2000, ReliaStar was acquired by Dutch financial services giant ING Group for $5.0 billion - $54-per- share.

13. **Phoenix Home Life Mutual Insurance -** In 1992, Phoenix Mutual merged with Home Life, creating Phoenix Home Life. On June 20, 2001, the initial public offering of The Phoenix Companies, Inc. closed and the demutualization of Phoenix Home Life Mutual Insurance Company became effective. Phoenix Home Life Mutual Insurance Company was renamed Phoenix Life Insurance Company and became a wholly owned subsidiary of The Phoenix Companies, Inc. The initial public offering consisted of 49 million shares offered at $17.50 per share. Eligible policyholders became entitled to receive compensation consisting of a fixed component of 18 Phoenix Companies common shares, as well as a variable component based on policy value. Lost policyholders are entitled to receive $17.50 cash per share entitlement.

14. **Principal Mutual Life -** On October 26, 2001, Principal Mutual Life converted from a mutual insurance company to a stock company, distributing to 925,000 eligible policyholders 260 million shares of stock in exchange for their membership interest. Eligible policyholders are those with Principal Life policies or contracts in force on March 31, 2000, one year prior to the adoption of the Plan of Conversion by the Board of Directors, who owned an eligible policy or contract continuously

from that date until October 26, 2001. All eligible policyholders were allocated at least 100 shares of Principal Financial Group, Inc. common stock, or the equivalent in cash or policy credits, as well as a variable component based on several factors, including policy value. The cash credit for lost policyholders is $18.50 per share entitlement. One year from the date of the Initial Public Offering the stock had appreciated 53%. The current value of a Principal share is approximately $41.

15. **Prudential Life** - On December 15, 2000, Prudential's Board of Directors unanimously adopted a Plan of Reorganization to convert from a mutual life insurance company to a stock company. The conversion occurred on November 16, 2001, after regulatory and policyholder approvals - 36% of eligible policyholders voted. Most eligible policyholders (including private employers - both for profit and not-for-profit, labor organizations, trusts, employee benefit plans, governments - federal, state, and local, schools, churches and associations) received 110 million shares of stock worth - $3.025 billion - in the new company, Prudential Financial, in exchange for their ownership interest. Other eligible policyholders received cash or policy credits. Prudential was unable to locate 1.2 million policyholders entitled to receive compensation. Compensation consisted of a fixed component of 10 Prudential Financial common shares, as well as a variable component based on policy value. Lost policyholders received cash compensation of $28.44 per share entitlement. The shares were offered to the public at $27.50. In the first year after the initial public offering, the price of a Prudential common share increased 16%.

16. **Standard Insurance Company - Stancorp Financial** - Standard Insurance Company demutualized on April 16, 1999. Because the company had only 125,000 policyholders, the average distribution per eligible policyholder was significantly larger than most other demutualizations. Eligible policyholders split the proceeds of 18.7 million shares offered at $23.75 in the new StanCorp Financial Group. Compensation consisted of a fixed component of 52 shares, as well as a variable component based on several factors including policy value. Lost policyholders became eligible to receive $23.75 cash per share entitlement. One year after the Initial Public Offering, a common share of StanCorp Financial had appreciated 16%. The stock currently trades at approximately $87.

17. **State Mutual Life Assurance – Allmerica** - Allmerica Financial Corporation was formed through the demutualization of State Mutual Life Assurance Company of America on October 16, 1995. Two hundred thousand eligible policyholders became entitled to receive over $600 million for their ownership interest. The IPO price was $21.00 per share. In the first year after the initial public offering, a common share had appreciated 56%. The current Allmerica Financial share price is approximately $36.

18. **Sun Life Insurance Company – Clarica** - On March 22, 2000, Sun Life Assurance Company of Canada completed its $1.2 billion demutualization and became Sun Life Financial Inc. In May, 2002, Sun Life Financial acquired Ontario-based Clarica, for $4.7 billion. Clarica itself had demutualized in July 1999. In addition to policy benefits, many policyholders are entitled to demutualization compensation. Many of the nation's oldest and largest life insurers began as mutual insurance companies. In recent years, however, a growing number - including Prudential, John Hancock, Metropolitan Life, Principal, Mutual of New York and dozens of others - have demutualized. The number of shares allocated to each eligible Sun Life policyholder varied widely. Owners of participating insurance policies in force as of January 27, 1998, were eligible for demutualization benefits in the form of shares or cash. The minimum allocation was 75 shares, plus a variable component based on a number of factors. The average allocation was 378 shares. In the years since demutualization, approximately one-half of those eligible have been located and claimed demutualization benefits.

19. **Union Mutual - UNUM – UnumProvident** - Maine-based Union Mutual demutualized in November of 1986, and became UNUM Life Insurance Company of America. Eligible Union Mutual policyholders became entitled to receive compensation totaling $650 million. UNUM subsequently merged with The Provident Companies (formerly Provident Life and Accident Insurance Company) on June 30, 1999, becoming UnumProvident Corporation. UNUM shareholders became entitled to receive one share of UnumProvident for every common share owned. UnumProvident stock split several times and currently trades at approximately $17 share.