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August 2, 2023

Sarah W. Schroeder, President
Rector & Associates, Inc.
172 E. State St. #305
Columbus, OH 43215

RE: **Louisiana Health Service & Indemnity Company d/b/a Blue Cross Blue Shield of Louisiana ("BCBSLA") Responses to Rector & Associates, Inc. Questions dated 7/20/2023**

Dear Ms. Schroeder:

BCBSLA is in receipt of the above-referenced letter to us dated July 20, 2023 (the "Rector Third Inquiry") concerning that certain Agreement and Plan of Reorganization Regarding the Conversion from a Mutual Insurance Company to a Stock Insurance Company. The questions set forth in the Rector Third Inquiry are reproduced below in their entirety, and set forth below those questions in blue text are BCBSLA's responses to such questions. Consistent with the LDI's April 11, 2023 letter to BCBSLA, we are providing the requested information to you with the understanding that you will use this information only for the purpose of your analysis and recommendations to the Louisiana Commissioner of Insurance with respect to the above referenced Plan of Reorganization and will keep this response letter confidential as provided for in LA. R.S. 22:691.10 and 22:1983(J). and will not provide this letter to any third party. If you have any further questions or wish to discuss, please let us know.

1. In both Question 13 of our June 22, 2023 requests for information (June 22 Requests) and in Question 4 of our July 10, 2023 requests for information (July 10 Requests), we sought to obtain a specific number as to the estimated cash payment to be made by Purchaser to BCBSLA at closing. Thank you for the additional information you provided.

With respect to that information, it is our understanding that, based on data as of 12/31/2022, the amount to be paid in cash by Purchaser to BCBSLA at closing will be approximately \$2.74 billion, as follows: \$2.5 billion Base Purchase + approximately \$913 million amount of surplus in excess of 375% RBC – approximately \$667 million surplus in excess of 500% RBC – approximately \$3 million indebtedness – approximately \$1 million transaction expenses = \$2.742 billion.

- **Is our understanding correct?**

Response: Subsequent to transmitting this inquiry, Rector & Associates supplied a document containing its understanding of the economics of the transaction entitled "BCBSLA_EconomicsSummaryJuly2023". We understand your desire to fully understand the flow of funds, not just the amount of dollars flowing but also between which legal entities the funds are flowing, and therefore we have taken that document and edited it to reflect the flow of funds and submit it as **Exhibit 1**.

- **If not, please provide (1) your estimate as to the dollar amount to be paid in cash by Purchaser to BCBSLA at closing and (2) your estimate as to each of the components of the formula used to determine the amount to be paid in cash by Purchaser to BCBSLA at closing.**

Response: Please see **Exhibit 1**.

- To make sure we fully understand the flow of funds, and to make sure that nothing we are unaware of has changed due to the "mixed and matched" 4th Quarter 2022/1st Quarter 2023 financials referenced in your response, **please restate in full your response to Question 13 of our June 22 Requests, which sought estimates of the payments to be made from a high- level summary perspective and related matters.**

Response: Please see **Exhibit 1**.

2. We have reviewed the financial projections provided in response to Question 8 of our June 22 Requests. When comparing those projections to BCBSLA's financial statements as of 12/3/2022, we noticed a possible significant decrease in BCBSLA's liquidity (more specifically, a possible significant decrease in BCBSLA's investment in liquid, non-affiliated assets).

For example, as of 12/31/2022, BCBSLA reported approximately $1.25 billion in common stocks (equities), of which $736 million consisted of "affiliated" common stocks. BCBSLA's equities are projected to be $745 million at 12/31/2023, which would be a decrease of approximately $505 million from the amount held at 12/31/2022. Because we understand from the post-acquisition organization chart provided with the Form A that the affiliated common stocks would continue to be held post transaction, we assume that BCBSLA's investments in affiliate equities would continue to be approximately $736 million as of 12/31/2023. If so, the projections would seem to anticipate that BCBSLA will go from non-affiliated, liquid equities of $514 million as of 12/31/2022 ($1.25 billion equities total - $736 million of illiquid affiliated equities) to approximately $9 million non-affiliated, liquid equities as of 12/31/2023 ($745 million equities total - $736 million of affiliated equities). The projections also reflect an anticipated sizeable drop in the other significant category of liquid assets, bonds, which are projected to decrease by $156 million between 12/31/2022 and 12/31/2023 (from $665 million at 12/31/2022 to $509 million projected as of 12/31/2023).

In total, combining stocks and bonds, BCBSLA's liquidity relative to those assets would appear to go from approximately $1.179 billion at 12/31/2022 (almost equal to BCBSLA's reported liabilities of $1.185 billion as of 12/31/2022) to $518 million as of 12/31/2023 (which is less than 45% of BCBSLA's current reported liabilities).

- **Is our understanding and analysis that the transaction would result in a significant lowering of BCBSLA's liquidity correct? If not, why not?**

Response: It is correct that BCBSLA's authorized control level risk-based capital ("ACL RBC") post-transaction would be lower than it is today. However, following the Closing, BCBSLA's investment portfolio is expected to be materially made up of cash and investment-grade fixed income assets, with a focus on safety and liquidity. Further, with the existence of the Blue Cross and Blue Shield Association's required parental guarantee by, and the extraordinary market capitalization of, Elevance Health, Inc. ("Elevance Health") the financial soundness of BCBSLA post-transaction is not in doubt.

- **Please describe in some detail how you plan to manage liquidity risk post-transaction given these significant drops in BCBSLA's anticipated liquidity.**

Response: Following the Closing, BCBSLA's investment portfolio is expected to be materially made up of cash and investment-grade fixed income assets, with a focus on safety and liquidity. A large portion of the excess surplus payment to The Accelerate Louisiana Initiative, Inc., the non-profit foundation established and to be funded as a result of the transaction (the "Foundation"), is anticipated to be made up of risk assets (i.e., public equities/securities), which will reduce potential volatility of the investment portfolio going forward.

  - **As part of this description, please provide cash flow projections for a period of approximately three years following the closing of the transaction.** The cash flow projections should be of a type sufficient for the Department's financial analysis section to be able to monitor them and to compare actual cash flow to projected cash flow. Please also describe what Elevance plans to do if actual cash flow does not meet

projected cash flow.
Response: The cash flow projections are attached as **Exhibit 2.**

- **As part of this description, please indicate what expectations you have as to whether rates will need to be raised for any categories of business to meet cash needs. Please describe as specifically as possible what plans or expectations you have as to increasing rates for any categories of business during a period of approximately three years following the closing of the transaction.**

Response: Please see the above responses regarding the liquidity of the BCBSLA investment portfolio following the Closing. Elevance Health does not anticipate needing to increase BCBSLA rates to meet cash needs as the post-transaction investment portfolio will have ample cash.

In addition, the Department has the statutory authority to review rate filings by health insurers in Louisiana and exercises that authority. The process of rate review by the Department is a lengthy process in which the Department reviews the justifications for rates set by insurers, and at the conclusion of that review, the Department has the authority to declare a health insurer's rates to be unreasonable.

Beyond regulatory review, a number of other factors constrain the ability of health insurers to arbitrarily set rates including the limitation on administrative costs (which includes profit) imposed by Section 2718 of the Public Health Service Act and market pressures in the competitive landscape.

3. Thank you for your various responses pertaining to the questions we asked regarding the forms of Financial Guarantee (Financial Guarantee) and Conversion/Service Agreement (Conversion/Service Agreement) and, in particular, your response to Question 3 of our July 10 Requests pertaining to a 375% RBC ratio and the related BCBSA Guidelines. The following are our follow-up questions/requests:

- **Is our understanding correct that neither the forms of Financial Guarantee provided in response to our earlier questions nor the BCBSA Guidelines would guarantee that BCBSLA and HMO Louisiana, Inc. will maintain capital sufficient to achieve an ACL RBC ratio of 375% or require them to do so?**

Response: Correct, while enhanced reporting/monitoring is required if a BCBSA-licensed entity's ACL RBC ratio falls below 375%, there is no guarantee that such would not occur. However, the BCBSA would impose a corrective action plan.

- **If our understanding is incorrect, please specify where within the forms of Financial Guarantee and/or the BCBSA Guidelines such a guarantee or requirement exists.**

Response: Your understanding is correct.

- **If our understanding is correct, would Elevance be willing to modify the relevant documents to affirmatively guarantee that the Louisiana entities will always have capital sufficient to achieve ACL RBCs of at least 375%? If not, why not?**

Response: Elevance Health has a practice of managing its BCBS-branded subsidiaries to a minimum ACL RBC ratio of 375%. Elevance Health is willing to commit to the LDI to maintaining a minimum 375% ACL RBC for each of BCBSLA and HMO Louisiana following the Closing; however, would ask that any such commitment be separate and apart from the BCBSA-required guarantee.

4. Thank you for your prior responses confirming that the "value of" BCBSLA (for the purposes of La. Rev. Stat. 22:236.3.A.) is estimated at \$3.413 billion, and that the total eligible member compensation is expected to be approximately \$307.7 million. Your response to Question 7 of our June 22 Requests indicates that the methodology used to determine the amount to be paid in total consideration to eligible members was chosen because the payment to be made to eligible members "relates to governance rights" and that "Eligible Members

have no economic interest in BCBSLA under BCBSLA's Articles." We note that (1) the eligible members, as a group, hold 100% of the governance (voting) rights of BCBSLA and (2) the total eligible member compensation of $307.7 million is approximately 9% of the $3.413 billion "value of" BCBSLA. Two questions here:

- **If the eligible member consideration is being made solely to acquire governance rights, then how is it "equitable" (within the meaning of La. Rev. Stat. 22:236.3.A.) for the eligible members (who hold 100% of the governance rights) to receive consideration equal to approximately 9% of the value of BCBSLA?**

Response: BCBSLA's primary objective was to ensure BCBSLA provided reasonable, equitable and balanced consideration between Eligible Members and the broader population who helped contribute to the value of BCBSLA. All customers gain the benefit from the Foundation to be created by the Plan of Reorganization, which will be established solely to benefit the citizens of Louisiana consistent with BCBSLA's mission, as stated in its Articles of Incorporation – to improve the health and lives of Louisianans, not just its current members. La. R.S. 22:236.3 provides that Eligible Members are entitled to compensation based upon an equitable share of the value of BSBSLA. Because Eligible Members comprise only a portion of the total customers over the Member Month Period, an equitable share of the value must be viewed in light of the contributions of other persons and entities who are not Eligible Members. In other words, if Eligible Members were to receive 100% of the proceeds of the transaction despite having only partially contributed to the value of the Company, that result would in fact be inequitable.

This methodology provided a reasonable and equitable portion of the proceeds to be distributed to the Eligible Members while ensuring that the remaining proceeds of the sale be allocated to the Foundation that will serve to benefit the citizens of Louisiana, including those who were or are policyholders and other customers, but are not Eligible Members.

It is important to remember that there is no statutory basis to assert that mutual policyholders possess an equity interest identical to shareholders of a stock corporation; indeed, the Internal Revenue Service has opined that the equity interest of mutual policyholders "is more nominal than real, unlike that of a shareholder of a corporation." (IRS General Counsel Memorandum 38537).

Moreover, as a reminder, BCBSLA engaged an independent investment banker to review the fairness of the methodology employed by BCBSLA to determine aggregate Eligible Member consideration and a qualified actuary from Deloitte to review the reasonableness and fairness of the per-Eligible-Member consideration. Both concluded that BCBSLA's proposal is fair, reasonable and equitable.

- The response to Question 7 of our June 22 Requests indicated that the methodology selected to determine the amount of consideration to be paid to eligible members "recognizes BCBSLA's long history and the Louisianians who have contributed to the value of BCBSLA since establishment in 1975." **How is that explanation consistent with the view that what is to be acquired from eligible members is solely their governance rights, since the explanation appears to apply to a measurement of what portion of BCBSLA's economic value was contributed by the eligible members rather than what portion of the governance rights they hold?**

Response: La. R.S. 22:236.3 effectively permits a reorganizing mutual company to propose to its eligible members a form and amount of consideration that is reasonable and equitable. The statute does not prescribe any particular formula or theory of consideration, including one that would require that consideration be based upon what portion of governance rights are held by such eligible members of the converting mutual company.

BCBSLA asserts that the methodology proposed in the Plan of Reorganization is fair, reasonable and equitable to its Eligible Members in accordance with La. R.S. 22:236.3 and with its current Articles of Incorporation, which has been confirmed by an investment banker as required by La. R.S. 22:236.3. Again, BCBSLA obtained satisfactory fairness opinions from both an independent investment banker and actuary.

Further, the Plan of Reorganization, including the methodology employed by BCBSLA to determine the Eligible Member consideration, are subject to the vote of the Eligible Members, which must approve the Plan of Reorganization by a 2/3 vote of the voting members present in person or by proxy.

5. Article VII of the Plan of Reorganization indicates that BCBSLA's current articles prohibit the payment of dividends.

   - **Is our understanding correct that the Amended and Restated Articles of Incorporation contain no such prohibition, such that BCBSLA would be allowed to pay dividends to shareholders post-transaction?**

Response: Yes, your understanding about the post-Closing Articles of Incorporation is correct regarding the payment of dividends. Note, however, that ATH Holding Company, LLC will be the sole BCBSLA shareholder following the Closing.

   - **What plans or understandings exist regarding the payment of dividends to shareholders post-transaction?**

Response: Elevance Health's subsidiaries pay dividends from capital above target levels to support the overall business. The past and present dividend policy of Elevance Health (along with each of its subsidiaries) is to ensure that each subsidiary company is appropriately capitalized and exceeds the requirements set forth by the applicable departments of insurance (or equivalent regulator) and maintain secure financial strength ratings that reflect the strong levels of capital and liquidity necessary for the protection of policyholders and that are demanded by customers and brokers. Elevance Health targets maintaining capital levels in excess of levels required by law, which provides security for its members that the companies are solvent and able to fulfill their respective obligations. In the event that additional capital is needed to strengthen the solvency for any of Elevance Health's subsidiaries, the dividend policy as it pertains to the applicable subsidiary would be reviewed (*i.e.*, dividends would likely be reduced or eliminated for a time as necessary). In addition, Elevance Health maintains cash and/or investments that can be contributed to its subsidiaries if necessary.

   - **Would BCBSLA be willing to agree to not to pay dividends to shareholders without prior Department approval for a specified period of time following the closing of the transaction?**

Response: Given the above commitment to maintain each of BCBSLA's and HMO Louisiana's ACL RBC at or above 375%, Elevance Health does not believe that a commitment to not pay dividends is necessary as it is clear that the capital and surplus positions of such entities will remain strong and well in excess of regulatory requirements.

6. Thank you for your responses to the various questions/requests we had pertaining to compensation/benefits for officers and directors. We have several follow-up questions.

   - We note that annual compensation for Advisory Board Members is set at "not less than $105,000," with an additional annual amount of "not less than $25,000" to be paid to the Chair of the Advisory Board. **Have there been any discussions, agreements or understandings as to whether the annual compensation to be paid to either the Members or the Chair of the Advisory Board will increase above the stated "not less than" amounts?**

Response: No, there have been no discussions, agreements or understandings regarding increases in compensation above the stated "not less than" amounts.

   - We note that the Charter of the Advisory Board provides that the Advisory Board will exist "until the later of" a period of 10 years or the date on which the Board of Directors of BCBSLA terminates the Advisory Board. **Have there been any discussions, agreements or understandings as to whether the Advisory Board will continue in existence past its 10th year anniversary date?**

Response: No, there have been no such discussions, agreements, or understandings regarding the existence of the Advisory Board past its 10th anniversary date.

- One of your responses references Elevance Health's Total Rewards benefits program, including that eligibility in that benefit program is not related to or contingent upon any executive management team member's involvement in the proposed transaction. However, **is our understanding correct that the members of the executive management team of BCBSLA are not currently eligible for "equity-based awards" so that, consequently, any equity-based awards granted pursuant to Elevance Health's Total Rewards benefits programs would be a new/additional form of compensation beyond what is currently available to BCBSLA's executive management team?**

Response: It is correct that as a mutual insurance company, BCBSLA does not currently have an equity-based long-term incentive plan. Instead, BCBSLA provides a 3-year cash-based long-term incentive plan for senior executives. Following the closing, BCBSLA's cash-based long-term incentive plan will be replaced with Elevance Health's equity-based long-term incentive plan. The effect of this is not additional compensation as a result of the proposed transaction, but rather a different form (i.e., equity v. cash) as Elevance Health will largely target long-term incentive compensation consistent with that provided by BCBSLA prior to the Closing.

  - **What would be the best/clearest/easiest way for us to determine the possible economic value of such possible awards to individual members of BCBSLA's current executive management team?**

Response: Elevance Health will target equity-based long-term incentive targets in amounts consistent with BCBSLA's current cash targets. As such, the expected additional economic value is zero.

  - **If possible, please estimate the economic value of such possible rewards for each of the members of BCBSLA's current executive management team.**

Response: As described above, the parties do not expect a change in the economic value of these awards as compared to BCBSLA's current long-term incentive compensation for the executive management team.

7. Following are several additional questions pertaining to compensation. To the extent that any of the following questions overlap with questions asked in a different question, please provide the information in both places.

- **What is the current amount of total annual compensation of each of the five "Officers" listed on the Jurat page of BCBSLA's 12/31/2022 annual statement, and what is the total annual compensation for each of those five officers expected to be for each of the three years following the transaction?**

Response: The current annual projected compensation of the following five officers (i) Dr. Steve Udvarhelyi, (ii) Brian Camerlinck, (iii) Adam Short (iv) Lou Patalano, and (v) Korey Harvey is attached hereto as **Exhibit 3**. Please note that one of the five officers listed on the 12/31/2022 Jurat page has retired (i.e., Michelle Calandro), and that total compensation for the five "Officers" is comprised of an annual base pay as well as incentive compensation, which is not determined until after 2023 calendar year financials are closed. Post-Closing compensation will be substantially similar to current amounts.

- **What is the current amount of total annual compensation of each of the current members of BCBSLA's Board of Directors/Trustees, and what is the total annual compensation expected to be for each of those members for each of the three years following the transaction?**

Response: See **Exhibit 4** attached hereto. Post-Closing, members of the Advisory Board will receive an annual retainer of not less than $105,000 with the Chairperson receiving an additional amount of not less than $25,000 per year.

- **Please provide a chart listing each current member of the Board of Directors/Trustees of BCBSLA and then identifying what position(s) that member will have relative to either BCBSLA, Elevance, or the Foundation post transaction (e.g., "remain member of the Board of BCBSLA," "Become a member of BCBSLA's Advisory Board," "Become a member of the Board of the Foundation," etc.)**

Response: See **Exhibit 5** attached hereto.

8. Section 11.5 of the Plan of Reorganization provides, in part, "It is intended that any compensation of members of the board of directors of the Foundation will comply with all provisions of applicable law, including any regulations promulgated thereunder applicable to organizations organized and operated for charitable purposes."

- **Please specify which provisions of applicable law and regulations are being referred to in that statement, and please provide copies of such laws and regulations**

Response: The Foundation is incorporated as a nonprofit nonstock organization with public/social welfare purposes, to improve the health and lives of the people of Louisiana. It is tax-exempt under Section 501(c)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), which requires the Foundation to operate for social welfare purposes and not for the private benefit of its directors and officers.

- The requirement that the Foundation pay no more than reasonable compensation to its directors (and its officers, for that matter), is inherent in its status as a nonprofit organization formed for public/social welfare purposes, and its tax-exempt status under Section 501(c)(4). This requirement is further enforced by Section 4958 of the Code, which imposes an excise tax penalty on any "disqualified persons" (including directors and officers) that receive "excess benefits" from Section 501(c)(4) organizations, including excessive compensation, and on any "organization managers" (including directors) who knowingly approve the payment of excess benefits. The regulations provide that it is permissible for Section 501(c)(4) organizations to pay reasonable compensation, defined as the amount that similar organizations pay for similar services, based on comparable market data. Reasonable compensation does not constitute an excess benefit.
- The Foundation will comply with the requirements of Section 501(c)(4) and Section 4958 and will ensure that any compensation paid to members of the board of directors (and officers) is reasonable based on comparable market data and has engaged a compensation consultant to gather comparable data to guide the board in making director and executive compensation decisions.
- We have attached hereto as **Exhibit 6** a copy of Section 4958 and the regulations thereunder. Because the statute and regulations are quite lengthy and complex, we have highlighted in yellow the sections that govern the compensation, if any, paid to members of the board of directors.

9. The Agreement and Plan of Acquisition refers to a "Company Disclosure Letter," which is defined in Article X as "the disclosure letter delivered concurrently with the execution of this Agreement by the Company to Purchaser."

- **Please provide a copy of the referenced Company Disclosure Letter.**

Response: A copy of the Company Disclosure Letter is attached hereto as **Exhibit 7**. Sensitive information contained in the Company Disclosure Letter, which information we believe has no impact on your review, has been redacted.

- **If there are any other schedules, letters or other such documents that are referenced in either the Plan of Reorganization or the Agreement and Plan of Acquisition that have not been previously provided to the Department, please identify them and either provide them or describe why they cannot be provided at this time.**

Response: There are no other schedules, letters or other such documents.

10. Thank you for your previous responses as to the future plans of the Foundation. It appears that very little is currently known about the Foundation and what it will do, other than such things as its general mission statement "to improve the health and lives of the people of Louisiana."

- **Please provide whatever further specifics you can share about the Foundation and its anticipated activities, including such things as what projects (or types of projects) it anticipates funding, who will make the decisions as to what projects to fund, who the anticipated officers of the Foundation will be, what will likely be the compensation of such officers, etc.**

Response: As noted in our response to Question 8 above, the Foundation is a nonprofit nonstock corporation formed for social welfare purposes within the meaning of Section 501(c)(4) of the Code. The Foundation's mission is to improve the health and lives of the people of Louisiana, which the Foundation plans to pursue by addressing health inequities and strengthening local communities, focusing both on issues relating directly to healthcare and on more holistic community issues such as poverty, education, and the social determinants of health.

The Foundation was formed in December 2022 in connection with the proposed acquisition of BCBSLA by Elevance Health and the related conversion of BCBSLA into a stock insurance company (the "Conversion"). Upon the closing of the Conversion, the Foundation expects to be funded with a significant investment portfolio that will allow it to devote critically needed support to projects concerning health, education, poverty, and other social welfare issues affecting the residents of Louisiana.

The Foundation's principal activity will be making grants to fund programs and activities that will further its mission of improving the health and lives of the people of Louisiana. The Foundation anticipates that a significant portion of these grants will be focused on searching for innovative and scalable solutions to address the healthcare needs of residents of the state, including access to care and the social determinants of health, as well as more general issues such as poverty and education. The Foundation may also engage in direct charitable programs and activities, although this may not occur during the first few years of its operation.

Section 501(c)(4) of the Code provides for the exempt status of "organizations not organized for profit but operated exclusively for the promotion of social welfare" provided that "no part of the net earnings of such entity inures to the benefit of any private shareholder or individual." Section 1.501(c)(4)-1(a) of the Treasury Regulations provides that an organization "is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting the common good and general welfare of the people of the community" and is "operated primarily for the purpose of bringing about civic betterments and social improvements."

The Foundation meets these requirements, although it does not plan to file for a determination letter from the Internal Revenue Service until after the transaction. First, the Foundation is not organized for profit and is operated exclusively for the promotion of social welfare because it is primarily engaged in promoting the common good and general welfare by improving the health and lives of the people of Louisiana through targeted grantmaking focused on addressing healthcare needs, poverty, education, and issues relating to the social determinants of health. These efforts will reduce poverty, increase access to healthcare, promote health and wellness, and benefit the residents of the state of Louisiana.

Finally, the net earnings of the Foundation will not inure to the benefit of any individual. No part of the net earnings of the Foundation shall be distributed to or inure to the benefit of its members, directors, officers, or other private persons, except that the Foundation may pay reasonable compensation for services rendered to or for the Foundation and make payments and distributions in furtherance of the Foundation's exempt purposes.

As to first steps towards this mission, the Board intends to commence a robust "Needs Assessment" executed by a world-class firm to achieve the following expected objectives:

- comprehensive understanding of state performance across health outcomes and their underlying drivers (e.g., SDoH);
- identification of potential root causes of performance, cross-walking outcomes to potential drivers (and therefore creating visibility into how to potentially address underlying issues) for prioritized areas;
- qualitative view to provide additional context and perspective (while also creating an inclusive process that enables Louisiana voices to be heard);
- inventory of existing philanthropy and not-for-profit landscape of efforts and focus across the state (both LA- and non-LA-based);
- case study profiles identifying how other foundations have attempted address similar outcomes and root causes, including lessons learned from successes and failures;
- initial perspective of balancing feasibility and impact across various challenges; and
- an initial view of potential gaps to prioritize (as an input to subsequent strategy development).

The Foundation has retained nationally recognized foundation compensation experts and legal counsel to ensure fair and equitable compensation levels in compliance with IRS requirements. The board fully expects to commence a national search for additional board members and a CEO immediately following the Closing to guide the operations that will be consistent with the above. Other initial officers expected to be hired will be a CFO and COO.

- Given that the Foundation and what it will do are such important aspects of the proposed transaction, and in light of the significant recourses [sic] the Foundation will receive as a result of the transaction, **please describe how eligible members of BCBSLA will be able to make an informed decision as to whether to approve the transaction without further specificity as to the Foundation's plans and operating structure?**

Response: Eligible Members have been well-informed that the mission of BCBSLA is to improve the health and lives of Louisianians. By adopting the mission to improve the health and lives of the people of Louisiana, the new Foundation will carry forward a mission that is familiar and well known to all BCBSLA members, not just the Eligible Members. Moreover, Eligible Members should be aware of the health issues facing our state, and the tremendous potential positive impact a foundation, such as the one being created from this transaction, can have on this state. The Eligible Members have already witnessed the positive impact the current BCBSLA Foundation has had on Louisiana. Putting this all together, Eligible Members should easily be able to make an informed decision. Additionally, the Member Information Statement contains further disclosures and information regarding the Foundation.

- **If our understanding is correct that the Foundation is incorporated in Delaware, please describe why the decision was made to incorporate the Foundation in that state rather than in Louisiana.**

Response: The Foundation was incorporated in Delaware. Delaware is the state of incorporation of many charitable organizations because the state's jurisprudence and statutory provisions governing such organizations are known, settled, apolitical, and highly predictable and has historically provided charitable institutions the kind of stability and predictability that is required for long-term planning.

In addition to the above questions, the Department's actuarial consultant Randall Stevenson asked that we include the questions below. If you have any questions regarding his questions, you can ask us (for us to relay to him) or you can reach out to him directly.

1. **Please provide the total amounts received by year since BCBSLA was founded in 1975, with the amounts allocated separately for each category of business (insured business, administrative only, non-voting contracts, etc.)**

Response: BCBSLA has limited records available due to ordinary course of business retention records. Detailed information exists dating to 2001, which is attached hereto as **Exhibit 8**.

2. Mr. Stevenson was told that the spreadsheet provided to him relative to the allocation of the amounts to be paid to eligible members was out of date. (Mr. Stevenson described the spreadsheet as Exhibit 12 or Exhibit XII). The Department provided him with what they said was their most recent spreadsheet, but it is the same as what Mr. Stevenson previously had. **Accordingly, please provide the current spreadsheet used to determine the allocation of payments to eligible members.**
Response: Attached hereto as **Exhibit 9** is the spreadsheet that was filed with the Department on July 19, 2023.

3. Mr. Stevenson's understanding is that one plan as to which BCBSLA provides administrative- only services has the right to vote and, thus, is an eligible member. **Is this correct? If so, why is this one administrative-only plan being treated differently from the other administrative- only plans?**
Response: No customers of ASO plans are entitled to governance rights of BCBSLA on account of their status as an ASO plan customer. Some ASO plan customers have separately subscribed to fully-insured dental and/or vision benefit plans issued by BCBSLA, and thus would be Eligible Members under those fully-insured plans, but again, not due to their status as a customer of an ASO plan.

4. **What categories of plans are included, and what categories are excluded, from the denominator used to determine the percentage of the Transaction Valuation that will be paid to eligible members?**
Response:
Numerator: The numerator represents the total member months of Eligible Members for the Member Month Period for the insured product lines issued by BCBSLA which are:

- Individual medical;
- Group medical;
- Group dental;
- Group vision;
- Individual Medicare Advantage; and
- Group Medicare Advantage (i.e., Employer Group Waiver Plans).

Denominator: The denominator represents all member months of all policies issued by BCBSLA for the Member Month Period along with the insured products of BCBSLA's subsidiaries, even though policyholders of subsidiaries have no voting rights, as policyholders of BCBSLA's subsidiaries' insured products contributed to the value of BCBSLA. By including member months for the Member Month Period of policyholders of BCBSLA's subsidiaries, BCBSLA calculated the total number of member months of all insured product lines, regardless of voting rights. Stated another way, the denominator includes all member months for the insured product lines included in the numerator and also includes member months for the Member Month Period for the following insured product lines:

- Federal Employee Health Benefit Plan;
- Stop Loss;
- Disability;
- Long Term care; and
- Insured products offered through our subsidiaries:
  - HMO Louisiana, Inc. (wholly owned stock company and no voting rights);
  - Southern National Life Company, Inc. (wholly owned stock company and no voting rights); and
  - Vantage Health Plan (wholly owned stock company and no voting rights).

Thank you for the opportunity to address these questions. Please let us know if we can assist further.

Sincerely,

McGlinchey Stafford PLLC

Ronnie Johnson

Ronnie L. Johnson

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EXHIBIT 1

Estimated Funds Flow

See attached.

EXHIBIT 2

Projected Cash Flow

See attached.

EXHIBIT 3

Officer Compensation

See attached.

EXHIBIT 4

Board Member Compensation

See attached.

EXHIBIT 5

Board Member Closing Chart

See attached.

EXHIBIT 6

Section 4958

See attached.

EXHIBIT 7

Company Disclosure Letter

See attached.

EXHIBIT 8

Total Amounts Received by Year

See attached.

EXHIBIT 9

Allocation of Eligible Member Payment

See attached.