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January 15, 2024

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 1/5/2024**

Dear Ms. Schroeder:

We are in receipt of the above-referenced letter to us dated January 5, 2024 (the “Rector Jan 2024 Inquiry”) concerning that certain Plan of Reorganization Regarding the Conversion from a Mutual Insurance Company to a Stock Insurance Company. The questions set forth in the Rector Jan 2024 Inquiry are reproduced below in their entirety, and set forth below those questions in blue text are our responses to such questions. We are providing the requested information to you with the understanding that you will only use this information for the purpose of your analysis and recommendations to the Louisiana Department of Insurance with respect to the above referenced Plan of Reorganization and will keep this response letter confidential 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 the Executive Summary of Our Report, I.A (p. 4), we set out a “Summary of Key Economic Aspects of the Transactions.”

- **Please update the estimated numbers set out in that section, as well make any other changes to that section (including the footnotes thereto) that are needed to reflect the key economic aspects of the December 2023 Transactions. Please note that the preference would be for the updated estimates to be based on 12/31/2023 numbers. If those are not available, please base the updated estimates on 9/30/2023 numbers. Changes do not need to be made to reflect the existence of the Trust, as that term is used in the December 2023 Transactions.**

**Response:** BCBSLA has not updated the numbers set out in Section 1.A of the Report because the value of BCBSLA’s reserves fluctuates based upon operational returns and market performance of the investments that comprise BCBSLA’s reserves, and therefore the final transaction value cannot be known until the transaction closes. Year end financials for 2023 will not be in audited form until March or April 2024, and all numbers are therefore subject to fluctuation until closing. BCBSLA does not believe that financials will be materially different from those disclosed in Section 1.A of the Report.

2. In support of the Transactions that were the subject of Our Report, the Parties submitted three expert reports/opinions: the Cain Brothers Opinion, the Chaffe Opinion, and the Deloitte Opinion.

- **Have there been any changes/amendments/additions/deletions to any of those reports/opinions?**

**Response:** No.

- **If not, do those reports/opinions still stand in support of the December 2023 Transactions? Why or why not?**

**Response:** Yes. The material economic aspects of the Proposed Reorganization (including taking into account all updates to reflect the potential adoption of enabling legislation and potential formation of the Trust and other updates reflected in the documents filed with the Department in December 2023) have not changed from what was considered by Cain Brothers, Chaffe and Deloitte in rendering their respective opinions.

- **BCBSLA’s statutory surplus increased by almost 8% from approximately \$1.652 billion as of 12/31/2022 (approximately the time that the early 2023 \$2.5 Base Purchase Price and the “Transaction Valuation” of \$3.413 billion were determined) to approximately \$1.782 billion as of 9/30/23. Please describe what impact, if any, that increase had on the base purchase price and the transaction valuation that underlie the December 2023 Transactions as well as the Parties’ reasoning as to why those amounts were or were not altered between the initial filing in early 2023 and the filings in December 2023.**

**Response:** The increase in statutory surplus does not alter the base purchase price under the Acquisition Agreement, it only impacts the calculation relating to the purchase price adjustment and for determination of the excess surplus to be transferred to the Accelerate Louisiana Initiative, Inc. (“ALI”). BCBSLA considered updating the total “Transaction Value” for the December 14, 2023, re-filing of the Plan of Reorganization. However, BCBSLA opted not to alter the “Transaction Value” due to 9/30/23 reserve levels since the value of reserves fluctuates based upon operational returns and market performance of the investments that comprise BCBSLA reserves. The final “Transaction Value” is still unknown until the transaction closes.

3. In the Executive Summary, I.C.2 (beginning p. 6) of Our Report, one of the items that we indicated we believed required particular consideration by the Department pertained to an anticipated reduction in BCBSLA’s liquidity as measured by BCBSLA’s current and anticipated liquid assets relative to its current and anticipated future liabilities. Further information about this item is set out beginning on p. 12 of Our Report (III.A.3). In those sections of Our Report, we not only identified what we viewed as possible concerns (the reduction in liquidity), but also what we viewed as various countervailing strengths or positives that, collectively, addressed (to at least some extent) our concerns.

- **Is there any additional information regarding this liquidity issue (information in addition to what is described in Our Report) that you believe would be helpful to us and/or the Department as we analyze this issue relative to the December 2023 Transactions?**

**Response:** There is no additional information.

4. We know that some of the material requested below is contained in the various documents recently filed with the Department in connection with the December 2023 Transactions. However, to expedite our review, please indicate whether the following factual aspects of Our Report are still accurate relative to the December 2023 Transactions:

- **P. 11, second paragraph, first sentence: is the Base Purchase Price (as that term is used in connection with the December 2023 Transactions) what the Parties believe the debt-free value of BCBSLA would be if BCBSLA only had enough surplus to support an ACL RBC ratio of 375%?**

**Response:** Yes, this continues to be the case.

- **P. 11, second paragraph, second and third sentences: Are the numbers set out there still accurate? If not, what are the revised numbers? (It is our understanding that the numbers should be consistent with the revised estimated numbers set out in response to question 1, above. If there are differences**

between the updated numbers relative to these sentences and the revised estimated numbers provided in response to question 1, please explain the differences and the reasons for those differences.)

**Response:** Please refer to the response to Question 1 above.

- **P. 17, beginning with the second full paragraph (the third paragraph counting the quoted language at the top of the page):** Our Report has a discussion regarding the four initial members of the board of directors of the Foundation as well as a discussion regarding plans as to additional directors. We know there is discussion in the materials filed regarding these matters, but—to expedite our review—please summarize here the current status of the initial and future composition of the board of the Foundation. Please provide this same information as to the initial and future composition of the board of the Trust.

**Response:** As discussed in detail below, ALI and the Trust are not intended to co-exist for more than a transitory period, if at all. ALI is currently in existence; if the Trust comes into existence, ALI will distribute its assets to the Trust and then dissolve, and the Trust will carry out, in perpetuity, the same work for which ALI was initially created. If the Trust does not come into existence, ALI will carry out that work in perpetuity. The entity that continues will develop a self-perpetuating board comprised of individuals with relevant expertise and experience, and with an overall composition reflective of the citizens of the State of Louisiana. The board of the relevant organization (the Trust or ALI) will elect future members in accordance with the relevant governing documents and the mission of both entities; provided, however, that if the Trust structure is used, the Governor of the State of Louisiana will be entitled to appoint one Trustee to the board, and the Commissioner of Insurance will be entitled to act as a nonvoting board observer for the Trust. BCBSLA does not have any information regarding the identity of the Governor’s potential board appointee if the Trust structure is used.

- **P. 18, first and second paragraphs:** Those paragraphs describe the anticipated compensation of the board of the Foundation. Is the information there still accurate? Can you provide any additional information regarding anticipated compensation for such board members? Would the language in these paragraphs of Our Report also accurately describe anticipated compensation for members of the board of the Trust? Because some persons would be on both boards (the Foundation and the Trust), would they receive compensation from both entities, or only one? If they would receive compensation from both, please describe how such compensation would be set, how it would relate to the descriptions in Our Report, etc.

**Response:** This information is still accurate. A final decision about compensation, including whether there will be compensation at all, for the board of ALI has not yet been made. If a decision is made to implement compensation, then the board of ALI will engage national consultants with expertise in nonprofit compensation to assure that any future compensation would be fair market value. The information regarding the compensation of the ALI board applies equally to the Trust. Only one of these entities will continue in perpetuity, and it will be that entity that may or may not provide compensation to its board. If the Trust structure is used, the Trust and ALI may co-exist for a brief period while ALI serves an “escrow” function for the Trust’s assets (more details below). During this period, it is expected that any board members who serve on both the ALI board and the Trust board will receive compensation from only one entity (except indemnification and reimbursement of reasonable expenses) if a decision is in fact made to introduce board compensation.

- **Starting p. 20, item F (Task 6):** please update the information described there as to both BCBSLA’s current board of directors and BCBSLA’s five most senior executive officers, including:

- whether there have been any changes as to the individuals who comprise BCBSLA’s board?

**Response:** No changes.

- whether Dr. Udvarhelyi remains the only member of BCBSLA’s board who is anticipated to remain on BCBSLA’s board post-transactions?

**Response:** Confirmed.

- whether there have been any changes to the list of seven people who are expected to become members of the Advisory Board?

**Response:** Mike Bruno will be over 75 years of age at the time of the closing and thus not eligible to join the Advisory Board. There will therefore be only six people on the Advisory Board effective as of the closing.

- whether the principal duties and responsibilities of the Advisory Board remain the same?

**Response:** Confirmed they remain the same.

- whether there have been any changes to the amount of compensation to be paid (initially, and anticipated in the future) to members of the Advisory Board?

**Response:** No changes.

- whether there have been any changes to the guaranteed and anticipated terms for Advisory Board members?

**Response:** No changes.

- whether there have been any changes to the specific persons who comprise BCBSLA’s five more senior executive officers?

**Response:** No changes.

- whether BCBSLA’s five most senior executive officers are still anticipated to remain with BCBSLA in their existing capacities (or in similar capacities) post-transactions (in this regard, we note that the document titled “Information required for a Statement regarding the Acquisition of Control of or Merger with a Domestic Insurer,” dated December 14, 2023, provides at Item 5 that a number of the executive officers of BCBSLA and affiliated entities would be “new”)?

**Response:** While changes will be made to the post-closing statutory officers of BCBSLA for consistency across Elevance Health-owned health plans<sup>1</sup>, BCBSLA’s senior management team will remain intact.

- whether the compensation arrangements for BCBSLA’s five most senior executive officers, post-transactions, will materially differ from their existing compensation?

**Response:** Confirmed they will not materially differ.

- whether the description of the various retention agreements remains accurate?

**Response:** Confirmed the description remains accurate.

- whether the description of the severance agreements remains accurate?

**Response:** Confirmed the description remains accurate.

- whether the description of Elevance’s “Total Rewards” program (and its impact on BCBSLA’s executive management) remains accurate?

**Response:** Confirmed the description remains accurate.

5. Please confirm the willingness of BCBSLA (and the other Parties, as appropriate) to follow and comply with

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<sup>1</sup> As set forth in the post-closing Amended and Restated Articles of Incorporation of BCBSLA as attached to the Plan, the post-closing statutory officers of BCBSLA will be (i) Dr. I. Steven Udvarhelyi (President and CEO), (ii) Vincent E. Scher (Treasurer), (iii) Eric (Rick) K. Noble (Assistant Treasurer), (iv) Kathleen S. Kiefer (Secretary), and (v) Corey Harvey (Assistant Secretary).

the following recommendations set out in Our Report:

- **P. 14: our recommendation that Elevance issue the referenced forms of guarantee that protect the “customers” of BCBSLA and HMO Louisiana. Please also provide the forms of guarantee that Elevance would issue.**

**Response:** Pursuant to Blue Cross Blue Shield Association (“BCBSA”) guidelines, Elevance Health will enter into parental guarantees with BCBSLA and HMO Louisiana (the two Blue Cross Blue Shield branded affiliates) whereby Elevance Health will guarantee all of the contractual and financial obligations of BCBSLA and HMO Louisiana to their respective customers. Please see the forms of such guarantees attached hereto as Exhibit 1.

- **P. 14: our recommendation that Elevance document that it will ensure that BCBSLA and HMO Louisiana will each maintain an ACL RBC ratio of at least 375%. Please also provide the document Elevance would use to ensure these RBC ratio levels.**

**Response:** Standards 2 and 6(H) of the BCBSA Guidelines address Financial Responsibility including maintaining appropriate RBC ratios and enhanced reporting if a plan's RBC ratio falls below 375% Authorized Control Level (“ACL”) RBC (see Attachment II to the BCBSA Guidelines attached hereto as Exhibit 2).

- **P. 15: our recommendation that BCBSLA not pay any shareholder dividends (whether “ordinary” or “extraordinary”) prior to 2027, unless it receives prior approval from the Department to allow such dividends to be paid. Please also provide the document Elevance would use to signify its agreement regarding this matter.**

**Response:** Given the above requirement to maintain each of BCBSLA's and HMO Louisiana's ACL RBC at or above 375% as well as the parental guarantee, Elevance Health does not believe that a commitment to not pay ordinary dividends without prior approval 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. The payment of extraordinary dividends already requires prior approval under Louisiana law.

Elevance Health will ensure that its Louisiana insurance company and HMO subsidiaries comply with all applicable laws governing the payment of ordinary and extraordinary dividends, including (i) La. Rev. Stat. Ann. 22:691.7(B), which requires the prior approval or non-disapproval of the Commissioner for the payment of extraordinary dividends, and (ii) La. Rev. Stat. Ann. 22:691.6(E), which requires certain reporting to the Commissioner for the payment of ordinary dividends.

## 6. Question about the Trust:

- **The documents filed in connection with the December 2023 Transactions appear to indicate that the Trust has not yet been formed. Is that correct? If it has been formed, please provide the various organizing documents. If it has not been formed, please provide drafts of the various organizing documents (if available).**

**Response:** The Trust has not yet been formed because the legislation enabling the creation of the Trust has not yet been passed. However, ALI has given consideration to the key provisions that likely would be included in governing documents for the Trust, should the legislation pass, and those provisions are outlined below.

- **The exhibits to the Member Information Statement, section 11.5 (p. Annex B-15) include the following sentence: “All directors of the Foundation will also become members of the board of trustees of the Trust pursuant to the organizational documents of the Trust.” Does this mean that the boards of the Foundation and of the Trust will be identical, with the possible exception of the member of the Trust’s board selected by the Governor of the State of Louisiana (and the observer**

**selected by the Commissioner of Insurance)?**

**Response:** Pursuant to the current plan, and assuming appropriate legislation authorizing the creation of the Trust is enacted, ALI (which is currently organized as a Louisiana nonprofit corporation) will only exist for a transitory period during which it holds funds on behalf of the Trust. As soon as practicable, ALI will transfer its assets to the Trust, subject to certain repayment obligations, and it will be the Trust that carries out the mission of the ALI/Trust structure in perpetuity. If legislation with appropriate provisions to authorize the creation of the Trust is not enacted, ALI will convert to a Section 501(c)(3) organization and will carry out the mission of the ALI/Trust structure in its current corporate form.

The entity that continues in perpetuity (be it the Trust or ALI) will develop a larger self-perpetuating leadership body comprised of individuals with relevant expertise and experience, and with an overall composition reflective of the citizens of the State of Louisiana. The statement above (that the Trust and ALI will co-exist with nearly identical leadership) will be accurate for at most a transitory period and not over the long term, as ALI is expected to be dissolved after it has transferred its assets to the Trust. If the Trust is established, the Governor will appoint one member to the Trust's board, and the Commissioner will hold an Observer seat on a non-delegable basis.

- **It appears from the documents that the Trust and the Foundation will be very similar—in fact, almost identical—in certain key aspects. For example, both (1) are to be organized under the laws of Louisiana, (2) are to be 501(c)(4) entities, (3) are to have the same general purposes of improving the health and lives of the people of the State of Louisiana, and (4) are to have substantial overlap as to their directors. Although plans for the Trust include more specific areas of focus within its general purpose than what exists for the Foundation, it would seem that those same specific areas of focus could be adopted by the Foundation. Given the substantial overlap between these entities, what is the purpose of having the Trust as an entity separate from the Foundation? Was consideration given to having the Foundation amend its organizational documents to provide the same more specified areas of focus, the same protections relative to influencing legislation and participating in political activity, etc. that are intended for the Trust and thereby have just one entity rather than two? Why or why not?**

**Response:** As discussed above, only one of the Trust or ALI will continue in perpetuity. If legislation is passed to allow the creation of the Trust, the Trust will continue with the specific areas of focus and the other provisions referenced above. The purpose for including the Trust option arises from the fact that a trust agreement can limit the ability of the trustees to amend certain provisions of the trust's governing documents, whereas the board of a nonprofit corporation always has the power to amend the corporation's governing documents. Accordingly, if the Trust is created, the trustees would be prohibited from amending the restrictions on lobbying and political activities in the trust agreement, something that cannot be accomplished for ALI as a corporation. This is also why, if legislation authorizing creation of the Trust is not enacted, ALI will convert to a Section 501(c)(3) organization so the lobbying and political activity restrictions will be requirements of its tax-exempt status.

The board of ALI also considered, at the outset, whether ALI should seek tax exemption under Section 501(c)(3) rather than Section 501(c)(4). It chose to seek 501(c)(4) status so that ALI would not be subject to the federal excise tax rules applicable to 501(c)(3) private foundations, including the requirement to pay a 1.39% annual excise tax on net investment income and a requirement to spend an annual amount equal to 5% of the net asset value on charitable purposes. The former requirement would cost about \$2 million per year in funds that could otherwise be used to improve the health and lives of the people of Louisiana. The latter would require ALI to make substantial charitable expenditures in its early stage of operation, before it has a chance to hire staff and conduct needs assessments that will allow it to develop strategic plans for using the charitable funds wisely. The creation of the Trust will allow ALI to retain the benefits of tax exemption under Section 501(c)(4).

If enabling legislation is not passed, the Trust will not be created, and ALI will convert to a Section 501(c)(3)



organization. Under those circumstances, the areas of focus and other restrictions will no longer be necessary due to ALI's Section 501(c)(3) status which, among other things, would automatically impose restrictions on lobbying and political campaign activity and would require that all of ALI's activities be conducted in furtherance of charitable purposes.<sup>2</sup> However, as a Section 501(c)(3) private foundation, ALI would be subject to the federal excise tax provisions discussed above, including a requirement to pay approximately \$2 million annually in federal excise taxes and to comply with a federally-determined annual payout schedule that would interfere with ALI's ramp-up.

- **The Terms of the Funding Agreement document provides that “it is expected that new legislation in the State of Louisiana will be needed to create this special charitable trust, as existing laws in Louisiana do not provide sufficient flexibility for a private charitable trust of this magnitude to operate in a commercially reasonable manner.” The examples given as to the “sufficient flexibility” needed pertain to “sufficient delegation of organizational management to traditional governance structures such as committees, executives, and employees” and “market-standard indemnification of board-level leadership.” As a follow up to the question in the previous bullet, do the corporate laws that pertain to the Foundation provide, as to it, the “sufficient flexibility” referred to in the Terms of the Funding Agreement? If so, would this be an additional reason to just use one entity—the Foundation (which would not require new legislation)—rather than to create the separate entity of the Trust (which would require new legislation)? Was the fact that new legislation might not be needed if the Foundation was the sole entity taken into account when the decision was made to use the Trust? If so, how did this information impact that decision?**

**Response:** As discussed above, only one of the Trust or ALI will continue in perpetuity—they are intended as alternatives rather than partners. If the perpetual entity is ALI, the corporate laws that pertain to ALI provide sufficient flexibility for a private philanthropic organization of this magnitude to operate in a reasonable manner. However, questions arose regarding ALI being both a corporation and exempt under Section 501(c)(4). ALI's board has determined that ALI should be exempt under Section 501(c)(4) and not Section 501(c)(3) to avoid private foundation classification and the federal excise tax regime applicable to private foundations. As noted, if ALI were exempt under Section 501(c)(3), it would be classified as a private foundation, would owe approximately \$2 million annually in federal excise taxes and would be subject to minimum annual payout requirements that would require the board to make distributions before it is able to take the time necessary to conduct adequate needs assessments and develop its staff and grantmaking program. Despite ALI's exemption under Section 501(c)(4), the intention was not to allow ALI to engage in lobbying and political activities, as reflected in the restrictions on these activities in ALI's governing documents.

Accordingly, while the board's initial preference was to form ALI as a Section 501(c)(4) corporation, the Section 501(c)(4) Trust structure is currently being proposed to address questions about a corporation's ability to amend the restrictions in its governing documents. The partially non-amendable Trust structure allows the Trust to codify certain Section 501(c)(3) restrictions in Trust provisions that are not amendable by the board. However, legislation is necessary to enable a Trust to operate in a reasonable manner for a philanthropic organization of this size.

- **In the Terms of Funding Agreement document, the section titled “Summary of Material Terms of Trust” provides in part: “The Trust will also be prohibited from the amendment of certain provisions regarding governmental oversight and the purpose and disposition of the assets of the Trust without the consent of a court of competent jurisdiction” (emphasis added). In the same document, the section titled “Proposed Legislation” provides in part: “The Proposed Legislation, as enacted, must also permit the trust instrument to be amended by the trustees without court involvement, except certain provisions regarding government oversight and the purpose and disposition of the assets of the Trust” (emphasis added). What are the “certain provisions” these sentences are referencing?**

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<sup>2</sup> Note to Draft: Under review.

**Response:** As of the date of these responses, we anticipate that these non-amendable provisions would cover the following subjects:

- (a) Purposes. We expect the Trust to provide that it will be organized and operated exclusively for the social welfare purpose of improving the health and lives of the people of Louisiana. This is the same purpose as ALI.
- (b) Priority Areas. We expect that for a period of time, likely 12 years, the Trust will focus on the following “Priority Areas:”
  - (i) Helping move Louisianans from dependence to independence, with a priority of assisting individuals and families to move from depending on government programs to a life of independence through jobs, coaching, and assistance in the transition. Such assistance may include, but shall not be limited to, addressing the costs of moving off of public benefits, including the cost of private health insurance premiums, co-pays, and deductibles, as well as food, transportation, and apparel costs.
  - (ii) Improving health outcomes by addressing chronic illnesses, disabilities and health concerns through a focus on diabetes, maternal/infant health, and mental health.
  - (iii) Healthcare workforce development through programs designed to match the demand for the healthcare workforce in Louisiana while addressing the excess demand on training institutions and risk of out-of-state migration. This may include, without limitation, marrying training for Certified Nurse Assistants (CNAs) with high school curricula and graduation schedules to expedite the process of earning CNA qualifications, balancing the demand for nurses with the limited pipeline of nurses from Louisiana universities, creating more practical and flexible ways for nursing capacities to be increased, augmenting dedicated resources to attract high quality faculty to university nursing programs, and exploring ways to increase funding, commitment, and employment opportunities for in-state healthcare jobs.
  - (iv) Optimizing government performance, and in particular, state healthcare, workforce, and social service agencies), which may include, without limitation, providing expertise and structured training academies for senior level executives in specific state agencies, providing bench training for the future leaders of Louisiana state government, providing technical resources to assist state agencies in integrating eligibility systems and modernizing customer-facing interfaces through mobile devices, and surfacing best practices and technical assistance to supercharge agency performance and program optimization.

Within each of these Priority Areas, it is also contemplated that the Trust may be allowed to allocate a relatively small portion of its resources to innovation, research and development, and pilot programs designed to improve the health, health outcomes, and social determinants of health in Louisiana as relates to such Priority Area.

- (c) Milestones. The Trust may require the Trustees to develop a plan outlining milestones, metrics, and criteria to evaluate the Trust’s progress in achieving meaningful impact in the Priority Areas. The Trustees may be required to consult with certain expert or government bodies in developing this plan. It is possible that the Trust would allow the Trustees to expand the initial Priority Areas before the specified time limit if it is determined that the Trust has accomplished a substantial proportion of the milestones articulated in this plan.
- (d) Lobbying and Political Campaign Activity. The Trust would be required to comply with the restrictions applicable to public charities described in Section 501(c)(3) of the Internal Revenue Code of 1986, as



amended, with respect to influencing legislation and participating in political campaign activity. Accordingly, no substantial part of the activities of the Trust could be the carrying on of propaganda or otherwise attempting to influence legislation. Additionally, the Trust will not be permitted to participate or intervene in (including the publication or distribution of statements concerning) any political campaign on behalf of or in opposition to any candidate for public office.

(e) Oversight. The Trust would be required to have a Trustee who is appointed by the Governor of the State of Louisiana (but otherwise meets the Trust’s eligibility requirements), and would also be required to provide the then-serving Commissioner of Insurance with a nonvoting, non-delegable board observer position.

- **Our understanding is that, regardless of whether the funds referenced by the Terms of Funding Agreement document are ultimately located in the Trust or in the Foundation, the entity holding those funds would have to comply with the restrictions applicable to 501(c)(3) entities with regards to lobbying and political campaign activity. This is our understanding because (1) the funds would not be transferred by the Foundation to the Trust unless the Trust’s organizational documents contain such a restriction, and (2) if the conditions pertaining to the transfer of funds from the Foundation to the Trust are not met, the Foundation would seek to convert to a 501(c)(3) entity before using the funds in accordance with its organizational documents. As such, under either scenario—whether the funds go to the Trust or remain with the Foundation—the 501(c)(3) restrictions pertaining to lobbying and political campaign activity would apply. Is our understanding regarding these matters correct?**

**Response:** Correct. Despite being exempt under Section 501(c)(4), the Trust would be required to comply with the restrictions that apply to public charities described in Section 501(c)(3) with respect to influencing legislation and participating in political campaign activity. Accordingly, no substantial part of the activities of the Trust would be the carrying on of propaganda or otherwise attempting to influence legislation. Additionally, the Trust would not be permitted to participate or intervene in (including the publication or distribution of statements concerning) any political campaign on behalf of or in opposition to any candidate for public office.

7. We note that, in the Member Information Statement, in the section titled “Questions and Answers about the Proposed Reorganization and the Vote,” the answer with respect to Question 35 provides in part that Elevance “does not plan to make changes to existing BCBSLA provider networks.” The answer then expands on that statement, indicating that current provider networks will remain intact, Elevance has no intention of reducing provider reimbursements, etc. Is there any additional information you can provide that would give the Department greater comfort that Elevance would not limit the current provider network if the acquisition is approved?

**Response:** The proposed transaction will not change the doctors and hospitals in the BCBSLA networks for the current plan year. At any time, unrelated to the proposed transaction and in the ordinary course of business, providers may join or leave the network.

That said and as noted, BCBSLA and Elevance Health intend for each entity’s current provider network to remain intact following the closing. The provider contracts are between the respective providers and the relevant BCBSLA entity and will therefore automatically move with each BCBSLA entity upon the closing of the proposed transaction. Louisianans will maintain their local healthcare providers and gain the support of a national network and benefits. BCBSLA and Elevance Health also intend to maintain continuity in the local teams that providers have been working with over the past several years.

Further, Elevance Health has no intention of reducing provider reimbursements. There are multiple large national insurance companies that compete for companies’ business and many customers prefer to have broad networks and choices. BCBSLA has a long tradition of partnering with the provider community to ensure that patients receive the right care at the right time, and the proposed transaction will not change that. Elevance

Health intends to maintain pricing consistent with past practices and industry norms, and prides itself on having the largest provider network of any insurer in each of its Blue geographies.

BCBSLA leadership and its provider relations teams have forged strong relationships with the providers serving Louisiana. The combination with Elevance Health will advance the ability of BCBSLA to partner on key initiatives (e.g., data integration, value-based models, innovation, administrative simplification, and support) while keeping key leaders local and available to work with providers at a local level, consistent with current BCBSLA practices. The proposed transaction will build on the success of BCBSLA and Elevance Health's Healthy Blue alliance, which has resulted in enhanced provider education and collaboration via campaigns aimed to deepen awareness, product knowledge, and access to care. Additionally, Elevance Health is committed to supporting and partnering with physicians through eleHealth - BCBSLA's new management services organization (MSO).

Finally, we note that Elevance Health has for decades contracted with over 95% of all providers (and nearly 100% of hospitals) in its Blue markets. There would therefore be no reason to believe the proposed transaction with BCBSLA will be an outlier from this historic practice in Elevance Health's other Blue markets, and shrinking the network would be contrary to how Elevance Health has conducted business in all other Blue markets.

8. The Department has asked whether any consideration has been given to setting aside some of the funds Elevance will be paying so that such funds could be used to limit future premium rate increases—in essence, whether a portion of the amount being paid by Elevance could be used to benefit BCBSLA's policyholders by reducing/limiting future rate increases. Has this been considered? Is it feasible? Why or why not?

**Response:** A significant portion of BCBSLA's policyholders have obtained individual market policies through the Federally-facilitated Marketplace (FFM) established under the Affordable Care Act. The pricing of those policies directly influences the determination of premium tax credits received by eligible individuals who purchase policies through the FFM. However, BCBSLA is not the only market participant in that market. If BCBSLA were to reduce premium rates on the FFM, it would materially damage BCBSLA's competitors in the FFM by lowering the value of the premium tax credit, and would materially damage prospective consumers by lowering the premium tax credits available to them on the FFM. Federal law does not permit the premium rates to differ for products sold on and off the FFM.

Beyond the problem identified with reducing premiums in the individual market without actuarial justification, a temporary reduction in premiums creates the unfortunate result that when the set aside used to reduce premiums runs out, the actual rate increase felt by policyholders on top of ordinary inflation in insurance prices would be drastic and create market shock.

It is also noted that (1) BCBSLA did consider the possibility of temporary premium reductions but rejected this idea for the reasons listed and (2) the consideration given to policy holders is cash and is the equivalent of giving a reduction in premiums if the policy holder so chooses.

9. We have reviewed the provisions of Article VIII of the Agreement and Plan of Acquisition pertaining to Indemnification. Our understanding, stated generally, is that the intention of the parties is that the costs of defending and paying any claims brought by or on behalf of a current or former member of BCBSLA alleging that it is entitled to payment or additional compensation (1) would be paid by Purchaser/Elevance up to the first \$50 million and (2) if amounts exceeding \$50 million are incurred, those additional amounts would be split 50/50 between the Purchaser/Elevance (on the one hand) and the Foundation (on the other), up to the Member Proceeding Indemnification Cap. Is our understanding correct?

**Response:** Correct. Also, there is no obligation to indemnify (including for litigation and defense costs), on the part of either party, until there is, generally speaking, a final non-appealable judgment or binding settlement with respect to such claims (see comments to Scenario #1 below).

To clarify our understanding, please indicate how the provisions of Article VIII would operate in connection with the following hypotheticals:

- **A claim is filed against BCBSLA and/or Elevance that leads to no award of damages but that causes \$10 million in litigation costs.**

**Response:** Because this amount falls under the \$50 million deductible, ALI would have no obligation to indemnify BCBSLA/Elevance pursuant to Section 8.2(a) against any amounts incurred by BCBSLA/Elevance (and to the extent ALI incurred any portion of such costs, BCBSLA/Elevance would be required to promptly reimburse ALI for such amounts pursuant to Section 8.4(a)). If the matter results in a final, non-appealable judgment, the deductible would be reduced by \$10 million pursuant to Section 8.4(a) and remain \$40 million going forward.

Note that litigation costs are only recoverable under the indemnity provisions of the Acquisition Agreement (and only reduce the deductible) to the extent there is a final non-appealable judgment or binding settlement with respect to the underlying member claim, and such costs are reasonable and documented and constitute a direct payment or payment obligation to an unaffiliated third party (see definition of “Member Proceeding Indemnifiable Losses”).

- **A claim is filed against BCBSLA and/or Elevance that leads to \$10 million in litigation costs and a judgement (upheld on appeal) or a settlement of \$45 million.**

**Response:** Assuming the litigation costs meet the requirements outlined in the foregoing response, \$50 million would be applied against the deductible, which would be extinguished, leaving \$5 million in aggregate remaining costs which would be allocated 50/50 between ALI, on the one hand, and BCBSLA/Elevance Health, on the other hand (up to the Member Proceeding Indemnification Cap). In this scenario, assuming that all such remaining costs are the obligation of BCBSLA/Elevance Health, then BCBSLA/Elevance Health would make an indemnification claim against ALI pursuant to Section 8.2(a) for 50% of such costs (up to the Member Proceeding Indemnification Cap).

- **A claim is filed against BCBSLA and/or Elevance that leads to \$10 million in litigation costs and a judgment (upheld on appeal) or a settlement of \$60 million.**

**Response:** Assuming the litigation costs meet the requirements outlined in the foregoing response, \$50 million would be applied against the deductible, which would be extinguished, leaving \$20 million in aggregate remaining costs which would be allocated 50/50 between ALI, on the one hand, and BCBSLA/Elevance Health, on the other hand (up to the Member Proceeding Indemnification Cap). In this scenario, assuming that all such remaining costs are the obligation of BCBSLA/Elevance Health, then BCBSLA/Elevance Health would make an indemnification claim against ALI pursuant to Section 8.2(a) for 50% of such costs up to the Member Proceeding Indemnification Cap.

- **The same three hypotheticals, but where the Foundation and/or Trust are included as defendant parties, either as the sole defendants or as defendants alongside BCBSLA and/or Elevance.**

**Response:** Regardless of which of the parties is named as a defendant, all costs (including damages/fines and legal fees as noted above) related to a final non-appealable judgment or settlement regarding a member claim, and the \$50 million deductible has been fully extinguished, the remaining amount will be allocated 50/50 between Purchaser/Elevance Health, on the one hand, and ALI or the Trust, as applicable, on the other hand, up to the Member Proceeding Indemnification Cap.

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

Sincerely,

McGlinchey Stafford PLLC

*Ronnie L. Johnson*

Ronnie L. Johnson

**EXHIBIT 1**  
**Forms of Guarantee**

*See attached.*



**PLEASE EXECUTE THIS PARENTAL FINANCIAL GUARANTEE**  
**FINANCIAL GUARANTEE – SMALLER CONTROLLED AFFILIATE**

**Elevance Health, Inc. (“Elevance Health”)** and **Louisiana Health Service & Indemnity Company (d/b/a Blue Cross and Blue Shield of Louisiana) (“LHSIC”)** hereby certify that **Elevance Health** guarantees to the full extent of its assets, all of the contractual and financial obligations of **LHSIC** to its customers, in accordance with the BCBSA Guidelines to Administer the Controlled Affiliate License Agreement(s) and Standards, Standard 2 – Financial Responsibility.

**IN WITNESS WHEREOF**, the undersigned duly authorized officers have executed this Financial Guarantee on behalf of the parties hereto.

**Elevance Health, Inc.**

**Louisiana Health Service & Indemnity Company  
(d/b/a Blue Cross and Blue Shield of Louisiana)**

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: Chief Executive Officer

Title: Chief Executive Officer

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**PLEASE EXECUTE THIS PARENTAL CONVERSION/SERVICE AGREEMENT**  
**CONVERSION/SERVICE AGREEMENT**

**Elevance Health, Inc. (“Elevance Health”)** agrees, in accordance with the BCBSA Guidelines to Administer the Controlled Affiliate License Agreement(s) and Standards, Standard 2 - Financial Responsibility, that in the event that **Louisiana Health Service & Indemnity Company (d/b/a Blue Cross and Blue Shield of Louisiana) (“LHSIC”)** ceases operations for any reason, Elevance Health shall:

- A. To the extent **LHSIC** assumes risk in its business, offer Blue Cross and Blue Shield branded coverage to **LHSIC’s** subscribers without exclusions, limitations or conditions based on health status.
- B. To the extent **LHSIC** provides non-risk services, provide Blue Cross and Blue Shield branded services to **LHSIC’s** customers.

**IN WITNESS WHEREOF**, the undersigned duly authorized officers have executed this Conversion/Service Agreement on behalf of the parties hereto.

**Elevance Health, Inc.**

**Louisiana Health Service & Indemnity Company  
(d/b/a Blue Cross and Blue Shield of Louisiana)**

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: Chief Executive Officer

Title: Chief Executive Officer

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**PLEASE EXECUTE THIS PARENTAL FINANCIAL GUARANTEE**  
**FINANCIAL GUARANTEE – SMALLER CONTROLLED AFFILIATE**

**Elevance Health, Inc.** and **HMO Louisiana, Inc.** hereby certify that **Elevance Health, Inc.** guarantees to the full extent of its assets, all of the contractual and financial obligations of **HMO Louisiana, Inc.** to its customers, in accordance with the BCBSA Guidelines to Administer the Controlled Affiliate License Agreement(s) and Standards, Standard 2 – Financial Responsibility.

**IN WITNESS WHEREOF**, the undersigned duly authorized officers have executed this Financial Guarantee on behalf of the parties hereto.

**Elevance Health, Inc.**

**HMO Louisiana, Inc.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: Chief Executive Officer

Title: Chief Executive Officer

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**PLEASE EXECUTE THIS PARENTAL CONVERSION/SERVICE AGREEMENT**  
**CONVERSION/SERVICE AGREEMENT**

**Elevance Health, Inc.** agrees, in accordance with the BCBSA Guidelines to Administer the Controlled Affiliate License Agreement(s) and Standards, Standard 2 - Financial Responsibility, that in the event that **HMO Louisiana, Inc.** ceases operations for any reason, Elevance Health, Inc. shall:

- A. To the extent **HMO Louisiana, Inc.** assumes risk in its business, offer Blue Cross and Blue Shield branded coverage to **HMO Louisiana, Inc.**'s subscribers without exclusions, limitations or conditions based on health status.
- B. To the extent **HMO Louisiana, Inc.** provides non-risk services, provide Blue Cross and Blue Shield branded services to **HMO Louisiana, Inc.**'s customers.

**IN WITNESS WHEREOF**, the undersigned duly authorized officers have executed this Conversion/Service Agreement on behalf of the parties hereto.

**Elevance Health, Inc.**

**HMO Louisiana, Inc.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: Chief Executive Officer

Title: Chief Executive Officer

Date: \_\_\_\_\_

Date: \_\_\_\_\_