RONNIE L. JOHNSON
Attorney at Law

T 225.382.3620 F 225.343.3076
rjohnson@mcglinchey.com

McGlinchey Stafford PLLC
301 Main Street, Ste. 1400
Baton Rouge, LA 70801

January 22, 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 1/17/2024**

Dear Ms. Schroeder:

We are in receipt of the above-referenced letter to us dated January 17, 2024 (the "Rector Jan 17 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 17 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. We now understand that the plan is not for the Foundation and the Trust to exist simultaneously (other than for perhaps a short, transitional period). Rather, the plan is for only one of those two entities to survive and to carry out the mission described. We note, however, that the Governor of the State of Louisiana is to select a board member—and the Commissioner of Insurance is to be a nonvoting board observer—only if the Trust is formed and used. If the Foundation becomes the operating entity, then neither the Governor nor the Commissioner of Insurance would have those rights. Why would those rights be granted only if the Trust is used and not if the Foundation becomes the operating entity?

Response: The noted director rights were not contemplated when the formation documents of the Accelerate Louisiana Initiative, Inc. ("ALI") were created, nor were modifications to those documents directly discussed with the Governor and other stakeholders. However, should the Trust not be formed, and ALI ends up converting to a 501(c)(3) organization as the operating entity, it is BCBSLA's expectation that ALI would be willing to modify its formation document to create those same rights, notably that one director would be appointed by the Governor and that the Commissioner of Insurance would be designated to serve as a nonvoting board observer to the board of directors of ALI.

2. One of the items we referenced in Question 5 pertained to the documentation that would be used by Elevance to ensure that BCBSLA and HMO Louisiana will each maintain an ACL RBC ratio of at least 375%. (You will recall that Elevance indicated during our June 13, 2023 teleconference that it would be willing to provide a parental guaranty to ensure that this 375% RBC ratio level would be maintained.)

Your response does not provide such documentation, but, rather, points to Standards 2 and 6(H) of the BCBSA Guidelines, as well as to Attachment II to those Guidelines. However, those provisions appear to fall short of what we recommended. For example, although Standard 2, item 1.1.c. provides for a guarantee (the guarantee referenced by Exhibit 1 of your response), that guarantee only pertains to the entities' "customers," whereas what we recommended would provide protection to all creditors. Further, Standard 2, item 1.2.a(i) (which would seem to apply) appears to only pertain to an RBC ratio at the ACL level, not at 375% of the ACL level. Standard 6(H), item 1.2, provides that controlled affiliates have an ACL RBC ratio of 200% rather than 375%.

Moreover, the provisions of the Standards do not appear to affirmatively require that RBC levels be maintained or guarantees be provided; rather, they set out standards that could lead to enforcement or other action if they are not. In that regard, if an affiliate's ACL RBC ratio falls below 375%, the action that would appear to be required by Attachment II—which is the only place in the Guidelines that appears to specifically reference a 375% RBC ratio level—would merely be that the annual actuarial certification must be provided by an independent actuary rather than by an actuary who might be employed by the company. These provisions, even taken collectively, appear to provide significantly less protection than what we had recommended.

Accordingly, please provide the documentation that would be used by Elevance to ensure that BCBSLA and HMO Louisiana will each maintain an ACL RBC ratio of at least 375% or provide further/additional information as to how equivalent or greater protection is alternatively provided.

Response: Please see the form of Capital Maintenance Agreement attached hereto as **Exhibit A**.

3. Our Question 8 dealt with whether consideration had been given to setting aside some of the funds Elevance would be paying so that such funds could be used to limit future premium rate increases. We will share your response with the Department. Two additional requests pertaining to premium rates:

- **Concerns have been expressed regarding the possible impact the transaction might have on BCBSLA's future rates. The Department and others know that the Parties' view is that the transaction would not "cause" any rate increases. However, there are concerns that if BCBSLA were to operate with less surplus than it currently possesses and if BCBSLA becomes part of a publicly traded group (both of which would occur if the transaction is approved), then BCBSLA would be more likely to increase rates than it would if it continued to operate independently with its existing surplus. Please describe whether you believe these concerns are or are not well-founded and why.**

Response: As set forth in the Plan of Reorganization and the Acquisition Agreement, it is contemplated that BCBSLA would be operating at 500% ACL RBC, or 2.5 times the amount required under Louisiana law. Further, Elevance Health has committed to contribute any necessary capital to BCBSLA should its RBC fall below 375% ACL RBC (which is not expected to occur). Thus, BCBSLA will have more than sufficient surplus following the closing resulting in no impact on rates. While Elevance Health is a publicly-traded, for-profit company, it is important to note that BCBSLA is considered a non-profit because BCBSLA does not pay dividends to its policyholders. However, BCBSLA has no tax exemption; rather, BCBSLA fully pays all local, state and federal taxes. Moreover, BCBSLA has a profit margin that is in line with the rest of the industry, in the range of 2-4%. For reference, Elevance Health's profit margin in 2022 was 3.85%. Elevance Health is committed to offering competitive premium prices to not only attract and retain consumers, but also enable those consumers who select Elevance Health to get the maximum level of premium and cost share subsidies that they are eligible for to make coverage more affordable to them.

- **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. (FYI, this request was part of Question 2 of our July**

20, 2023 requests—what you called the Rector Third Inquiry; however, the response at that time did not provide the specific information requested but, rather, was general in nature and pertained to the Department's statutory authority over rate filings, market pressures in a competitive landscape, etc.)

Response: Both BCBSLA and Elevance Health are committed to making healthcare more affordable for Louisianians, while not compromising on outcomes. Elevance Health intends to bring more effective and efficient solutions such as integrated pharmacy, care navigation, and member advocacy, which would help improve member health outcomes while working to lower the cost trend. Elevance Health also intends to partner closely with providers to reduce administrative burden and drive more sustainable reimbursement through a range of tactics, including value-based care.

Elevance Health intends rate increases to generally track underlying medical costs (i.e., costs of health care) as it seeks price stability in the individual market and will ensure that any price changes over the next several years are made only to reflect, and are proportional to, the underlying medical cost of that membership. Therefore, if there is no increase in the costs of care, there would be no expectation of an increase in rates. Further, analysis of the individual market prices/premiums in Elevance Health's 14 Blue states shows that premiums are lower in nearly all 14 states as compared to BCBSLA's rates in Louisiana.

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 A

Form of Capital Maintenance Agreement

(See attached.)