

EXHIBIT A

Actuarial Contribution Memorandum

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I. OVERVIEW

This memorandum describes the methodology for calculating Actuarial Contributions ("ACs") pursuant to Article VIII of the Plan of Conversion ("Plan").

The general methodology is described in more detail below.

Capitalized terms used in this Exhibit have the meanings ascribed to them in the Plan or in this Exhibit.

II. BASIC PRINCIPLES AND METHODOLOGY

A. Introduction

Actuarial Contributions (“ACs”) are used in the calculation of the Variable Share Percentage of consideration as described in Sections 8.1 and 8.2 of the Plan.

The AC of a particular policy is the accumulated contribution that policy is estimated to have made in the past to the Company’s Surplus (“historical contribution”) plus the present value of the contribution that the same policy is expected to make in the future (“prospective contribution”), with values as of December 31, 2000, which is the “Actuarial Date.” The historical contribution period is assumed to end at the Actuarial Date, and the prospective contribution period is assumed to begin at the Actuarial Date. “Surplus” is statutory surplus plus the asset valuation reserve plus the interest maintenance reserve, all as presented in financial statements prepared according to regulatory reporting (or “statutory accounting”) rules.

The Company ceased being a charitable corporation in 1969 by change in law, and then the Company mutualized (converting from a not-for-profit organization to a mutual life insurer) on July 1, 1992. In August 2000 the Company settled a lawsuit with the Attorney General of the State of Kansas for claimed charitable assets reaching back before 1992. This charitable asset lawsuit settlement is treated as an expense of a “non-membership line of business” and is therefore not reflected in the ACs. Neither the mutual insurer’s initial (July 1, 1992) Surplus (\$173,773,442) nor the cost of the 2000 settlement is reflected in the ACs of particular policies.

Conceptually, each year’s contribution to Surplus after July 1, 1992 equals the excess of premiums, investment income and capital gains over benefits (paid or reserved for), policyholder retrospective rating refunds (paid or reserved for, if any), commissions, expenses, and taxes.

B. Basic Method

The Company uses an “allocation” approach to calculate the historical portion of the AC and a “modeling” approach to calculate the prospective portion of the AC, but the description of even the allocation approach to calculate historical AC sometimes refers to using “models.”

The primary sources of historical profitability data by product line are internal management reports (including certain rate calculation work papers) showing underwriting gain (or loss) by product line or by line of business. To the underwriting gain (or loss) is added an amount of investment return estimated by product line as the product of the rate of investment return (defined below) times the sum of unpaid claim liabilities and experience refund reserves. The sum of underwriting gain and investment return is reduced for income tax on such sum to produce the year-by-year historical profit for the product line, to be allocated as follows.

For years 1992 through 2000, year-by-year profits identified by product line are allocated among the policies then in force in the product line in proportion to premium earned on the policy that year. For this purpose, “year” for 1992 means the last six months of 1992. (Within PL #13, which consists of Merit cases as explained below, year-by-year profits are averaged over time to determine a factor representing “basic profits” to which certain case by case adjustments are made year by year, as explained in paragraph III.C. below.)

The historical portion of the AC is calculated policy by policy as the accumulation (with investment return after tax) to the Actuarial Date of the year-by-year profits earned after July 1, 1992, as allocated to that policy.

The future expected annual contributions to Surplus reflect the Company’s business plans and expected profitability by product line, which are assumed to apply pro-rata to the policies currently in force. These profits are modeled and their discounted present values are taken as of the Actuarial Date to create a factor (prospective AC per gross monthly premium dollar) by product line, which is applied policy by policy to the monthly gross premium current as of the Actuarial Date to calculate the prospective portion of the AC.

The sum of the historical and prospective ACs gives the total AC for a policy.

Policy level data and aggregate data are used where available and credible. To the extent that data are not available or are not credible for certain periods of time, reasonable approximations are made to fill in the missing data.

C. Product Lines

For purposes of the AC calculations, lines of business (“LOB”), and product lines (“PL”) which exist within lines of business, are established by product groups that differ from each other significantly in terms of product characteristics. In defining lines of business and product lines for purposes of AC calculations, the Company’s past practices in managing the business are followed to the extent practicable. Within a product line, profits in a year are deemed to be uniform as a percentage of premium, as explained in the next section. (Within PL #13, basic profits in a year are deemed to be uniform as a percentage of premium, but certain case by case adjustments are made, as explained in paragraph III.C. below.) As described in the next section, for a given policyholder positive and negative ACs are netted for all policies in all PLs within a single LOB. A negative net AC for all policies of a given policyholder in one LOB is set equal to zero before such net AC is combined with the net ACs for other LOB for such policyholder.

The lines of business and product lines within them are as follows:

LOB	PL		
A. Non-Group Policies			
	1.	First Choice (non-SRO)	Individually underwritten medical coverage.
	2.	First Choice Self-Referral Option (“SRO”)	Self-Referral Coverage for HMO Subsidiary’s medical product is provided through a Company contract, rated independently of First Choice non-SRO block.
	3.	Non-Group Conversion	Non-group policies issued on a guaranteed conversion basis from group and from certain non-group policies.
	4.	Medicare Supplement	Individual policies.
	5.	Caring Program for Children	Coverage – primarily for children – with premiums subsidized through a charitable foundation. This business is no longer in force, but is treated as a separate product line in analyzing profits by product line. (A similarly named “Caring Program” targeted to adults was more similar to First Choice and is included there.)
B. Individual LTC			
	6.	Long Term Care (“LTC”)	Individual policies.
C. Ancillary Dental			
	7.	Voluntary Dental	Dental coverage sold to First Choice and Medicare Supplement policyholders. Excludes dental, whether voluntary or employer-paid, on group certificateholders because such coverage is part of the group contract.
D. Ancillary Hospital Indemnity			
	8.	Hospital Indemnity	Per day hospital coverage sold on an individual basis as supplementary coverage, including Security product.
E. Ancillary Cancer			
	9.	Plan 150	Supplementary cancer coverage sold on an individual basis as supplementary coverage to both group certificateholders and non-group contractholders. Not part of the group contract.
F. State of Kansas			
	10.	State of Kansas	Stand-alone employer group that once had membership but is no longer insured, that is treated as a separate product line in analyzing

			profits by product line
G. Group Insurance			
	11.	Small Group Rate Reform (“SGRR”) (non-SRO)	Medical, prescription drug, and dental coverages but excluding Self-Referral Option (SRO) coverage.
	12.	Small Group Rate Reform SRO	Self-Referral Coverage for HMO Subsidiary’s medical product.
	13.	Merit Rated Group	Primarily experience-rated non-SGRR groups. Includes Merit Rated SRO contracts, as well as medical, drug and dental coverages on Merit groups.
	14.	Stop Loss	Stop Loss coverage for ASO and Stop Loss aspect of Minimum Premium policies
	15.	Minimum Premium’s Claim and Administration charge aspect	Minimum Premium is a fully insured contract with cash flow and risk properties identical to the combination of a Stop Loss contract with an Administrative Services Only (“ASO”) agreement. The Stop Loss portion is treated as being in the Stop Loss PL; the claim and administration aspect of the Minimum Premium contract (similar to an ASO agreement) is treated here, deeming it to have neither profit nor loss.
	16.	Medicare Exclusion Rider (“MER”) (non-SRO)	Carve-out of group members eligible for Medicare, pooled across all groups, including both SGRR and Merit groups but excluding SRO coverage.
	17.	MER SRO	Self-Referral Coverage for HMO Subsidiary’s medical product (carved out of groups) for members eligible for Medicare.

Four other product lines were recognized as “non-membership lines of business” to reconcile to the total Company financial results, but the products in these four other product lines do not confer membership: the Blue Cross Blue Shield Association plans within the Federal Employees Health Benefits Program (“FEP”), administrative service contracts with the Medicare system, administrative service contracts with the Medicaid system, and Administrative Services Only contracts (ASO). In addition, as previously noted, the settlement of the charitable asset litigation is treated as a non-membership item.

Ancillary products are normally issued only to cover individuals with health (including ASO) coverage at the Company (or its HMO Subsidiary), with few exceptions. Ancillary policies may persist even if the original health (or ASO) coverage is terminated. The significance of the “Ancillary Product” designation is discussed in III.A. below.

D. Total Actuarial Contribution at the Policyholder Level

When a policyholder owns more than one policy in a given line of business, the total AC for the several policies is the algebraic sum of the ACs for each of the policies, before setting any negative AC for any of the policies to zero. If such sum is negative, the total AC for all of the policies owned by such policyholder in the line of business is set equal to zero. The sum so determined is allocated among the policies in force on the Adoption Date in such a way that no policy has a negative AC. The amount so allocated to each policy is the AC for the policy.

When a policyholder owns one or more policies in more than one line of business, the total AC for the one or more policies in each line of business is determined as above, with the allocation to each policy being unaffected by the presence of policies in other lines of business owned by the same policyholder. That is, a policyholder's net negative ACs are set to zero at the LOB level without regard to whether the policyholder has net positive ACs on policies in other LOB.

Related aspects are explained below in section III.A.

E. Assumptions and Practices that Apply Across Product Lines

The following assumptions and practices apply to all product lines except PL #6 (Long Term Care).

1. Historical Rates of Investment Return and Accumulation Rates

The investment return rates used in the historical AC calculations are derived from the assets and investment income and capital gains, net of defaults and investment expense, for the Company. The Company's management practice during the historical period was that investment return was not allocated by product line.

Investment return is the sum of (a) the net investment income, plus (b) realized capital gains (or losses) before taxes and without recognizing the interest maintenance reserve, plus (c) changes in unrealized capital gains (or losses). Capital gains and losses are recognized for purposes of AC calculations when recognized in Surplus. Unrealized capital gains (or losses) as of the Actuarial Date are deemed realized so they are taxed as of that date, but they will have already been recognized for purposes of AC calculations. Such deemed tax will use any tax loss carryforward available as of that date.

The financial impacts of investments in operating subsidiaries are removed, since the returns on such investments historically have been removed in the financial management of the product lines that are eligible for consideration.

The accumulation rates used to calculate the historical ACs as of the Actuarial Date are the historical investment return rates after tax. Such rates of investment return are derived using denominators consistent with the assets to which they are applied in the models.

2. Prospective Rate of Investment Return and Discount Rate

The assumed rate of investment return for prospective ACs is 7.5%, the currently expected long-term investment return rate. No future capital gains are assumed in developing this prospective investment return assumption. To maintain consistency with the assets to which it will be applied in the model, this rate is increased 4% of itself to 7.8%.

The rate used to discount the prospective ACs to the Actuarial Date is the investment return rate used in the prospective AC calculations after income tax.

3. Historical Expense Factors

Historical expenses (consistent with statutory financial accounting) as allocated among various product lines in the internal management reports are used in developing historical ACs.

4. Prospective Expense Factors

Expense assumptions used in calculating prospective ACs are based on recent experience and the management plan. Within each product line, the projected expense rates per premium in the management plan (which includes new business) are applied to the premiums projected on the policies in force on the Adoption Date.

5. Historical Federal Income Tax Factors

The applicable US tax law is complex and has changed over time. The derivation of tax factors followed both the dynamics of the law and also the Company's approach for allocating taxes.

Product lines with statutory losses receive tax benefits at the model tax rate as soon as a profitable product line can be charged the corresponding positive tax. If losses are larger than profits so not all product lines can receive full tax benefits immediately, lines of business conferring membership and with losses are given preference over non-membership lines of business with losses. Profitable product lines are allocated tax benefits for effects outside the statutory profitability, such as for tax loss carry-forwards available at July 1, 1992, by the use of the model tax rate. Alternative Minimum Taxes (AMT) are ignored because the AMT reverses within the historical period.

The model tax rate is the tax rate such that the total historical taxes calculated in the model (whether on gains on membership business or on other income and disbursements such as gains on nonmembership business) reproduce the actual historical total income and capital gains taxes over the period July 1, 1992 through December 31, 2000. The model tax rate is not applied to unrealized capital gains in the model until they are deemed realized and taxed at the Actuarial Date, as specified above in paragraph E. 1.

The deferred acquisition cost proxy tax imposed by section 848 of the Internal Revenue Code has been immaterial at the Company and is therefore ignored except as its contribution to total actual tax affects the calculation of the model tax rate.

6. Prospective Federal Income Tax Factors

For the prospective AC calculations, the current corporate tax rate is applied to projected statutory income for the product line, adjusted for an allocation of tax loss carry-forwards as of the Actuarial Date (to the extent not used to offset deemed tax on deemed realized capital gains as of the Actuarial Date as specified in paragraph E.1. above).

F. Assumptions and Practices that Apply to Product Line #6 (Long Term Care)

This is a new product line with lifetime coverage for a level premium, so the ACs are based on the original pricing assumptions and anticipated lifetime profitability.

G. Calculation Rules that Apply Across Lines of Business

1. Number of Prospective Years Recognized in the AC Calculation

The prospective AC calculation generally runs for 10 years from the later of the issue date and the Actuarial Date. However, in the case of Long Term Care, a different period, through the end of the mortality table, is used, based on the nature of the particular product line.

2. Policies Whose Contribution to Surplus Is Taken Into Account

As a general rule, contribution to Surplus is used only for policies and contracts that are in force as of the Adoption Date. However, the contribution to Surplus for such policies includes the financial experience of prior policies that they replaced so long as there is no gap in coverage of one month or more. In such cases with no gap, the experience of the prior policy is considered to be part of the experience of the current policy.

Related aspects are explained below in section III.A.

3. Reinsurance

The gain or loss from reinsurance ceded is reflected in the profit reports by product line, but the allocations of profit in proportion to premium use direct premium, before deduction of ceded premiums.

4. New Issues after the Actuarial Date

ACs for policies issued after the Actuarial Date and prior to the Adoption Date are developed in a manner consistent with that used for business in force on the Actuarial Date; they are assigned only the future portion of the AC.

5. Reinstatements after the Adoption Date

ACs for policies reinstated with premium paid for the lapse period, including policies not in force at the Adoption Date but reinstated prior to the date of the Special Meeting (on which date the final computer tabulations will be run to determine, as of the Adoption Date, the eligible policies), are developed as if the policies had been constantly in force without lapse.

III. DETAILS OF CALCULATIONS

A. Continuity of Historical Coverage Recognized (from July 1, 1992)

A policyholder may have held different policies over time. The following rules are used to determine the period of coverage recognized in the calculation of ACs for policies in force on the Adoption Date.

- A policyholder continuously covered by either a Non-Group policy (in PL #1 through 5) or an Ancillary policy (in PL #7 through 9), or both, is deemed not to have a break in coverage unless there is a calendar month in which the policyholder has neither Non-Group nor Ancillary coverage. That is, policies in PL #1 through 5 and #7 through 9 for a given policyholder are “linked.” Individual LTC policies (in PL #6) are not linked to Non-Group policies, nor to Ancillary policies.
- A policy In Force on the Adoption Date which was not In Force on the Actuarial Date but which is linked to a policy in the same LOB that was In Force on the Actuarial Date and not on the Adoption Date will be assigned the AC that such predecessor policy had as of the Actuarial Date. (As an example, but without limitation, a new Medicare Supplement policy issued in 2001 to replace a First Choice policy that had been In Force on the Actuarial Date will be assigned the AC which the First Choice policy would have received had it remained In Force through the Adoption Date.)
- A policy in force on the Adoption Date which was not In Force on the Actuarial Date and which is not linked to a policy in the same LOB that was In Force on the Actuarial Date and not on the Adoption Date will be assigned a new AC based on the future AC factor applicable at the Actuarial Date multiplied by its premium at the Adoption Date.
- A Group policyholder continuously owning Group policies is deemed not to have a break in coverage unless there is a calendar month in which the Group policyholder has no coverage (except ASO) on any lives. No break in coverage is deemed to occur if the group simply changes among product lines #11 through 17.
- A Non-Group or Ancillary contractholder becoming a Group certificateholder and retaining neither any Non-Group nor any Ancillary coverage after the change is deemed to have a break in coverage, even if the new Group coverage has the former contractholder as its sole certificateholder. A Group certificateholder becoming a (new) Non-Group contractholder is not given credit for the Group coverage, even if the former certificateholder was the sole certificateholder under the Group contract. That is, Group contracts are never linked to policies in PL #1 through 9.
- An employer acquiring or terminating coverage of employees through a Group contract issued to an association formed for purposes other than acquisition of insurance is deemed to have a break in coverage unless (a) the changes required by small group rate reform legislation resulted in the Company no longer offering coverage through such association and (b) such employer acquired coverage for employees through a direct contract with the Company upon such cessation of offering of coverage through such association without a

break in coverage with the Company. In cases where the association contract terminates (or is substantially terminated by the removal of almost all groups) because of small group rate reform legislation and the group contracts directly, the AC for the group recognizes only its own premium, both within the association contract and thereafter, not the total premium of all groups in the association. In the case where the association contract is substantially terminated by the removal of almost all groups because of small group rate reform legislation, the AC for any group remaining in the association contract recognizes only its own premium, not the total premium of all groups in the association before such substantial termination.

- A group entering or leaving a Company Trust is not deemed to have a break in coverage. The AC for the group recognizes only its own premium, not the total premium of all groups in the Company Trust.
- If two groups merge, the combined group gets the benefit of both groups' allocation.
- If a group splits into two groups, the group retaining the master contract identification number is deemed to be the successor group and is given credit for the full pre-split AC. The AC for the group not getting credit for the pre-split allocation is set equal to zero as of the date of the split.
- If it can be determined from Company records that a group is acquired or changes ownership or name, the acquiring or successor company is given credit for pre-acquisition allocations. Specifically, if a group terminates but if, immediately following such termination, at least 80% of its certificateholders appear in another group, the new group's policy is deemed to be the continuation of the terminating group's policy.

B. Aspects of Underwriting Gain

Underwriting gains are the algebraic difference of earned premium minus incurred claims, expenses (including commissions) and taxes (other than federal income taxes). Two specific considerations are the treatment of retrospective rating refunds and deficiency reserves, which are treated as follows.

1. Retrospective rating refunds

Retrospective rating refunds are recognized in the underwriting gains used to derive the basic profit factor for PL #13 (Merit rated groups). The allocation of profits in proportion to premiums uses premiums net of retrospective rating refunds (whether paid in cash or reflected in a change in positive experience rating refund reserves). Beyond the basic profit factor, case by case adjustments are made as described in paragraph III.C.

2. Premium deficiency reserves

The premium deficiency reserves established at December 31, 2000 are ignored in both the retrospective AC calculations and the prospective AC calculations.

C. Group Policy Calculations

1. A case-by-case approach is used to determine the AC for each Group policy. The general steps are as follows:
 - a. Capture historical premium, as available and appropriate, for each portion of a customer's policy.
 - b. Determine the appropriate gain factors for each calendar year, based on historical financial experience.
 - c. Multiply the historical gain factors by the applicable historical premium. If the coverage is in PL #13 (Merit), charge the AC for any write-off applicable to the experience refund balance for that year, and charge the AC for any change in the experience refund reserve from zero or a negative amount to a more negative amount. If the coverage is in PL #13 (Merit), credit the AC for any change in the experience refund reserve from a negative amount to a less negative amount or zero (but not for any further change to a positive reserve). Accumulate the results to the Actuarial Date to determine the historical AC for each portion of a policy.
 - d. Multiply the current premium as of the Actuarial Date (or as of the issue date for policies issued after the Actuarial Date) for each portion of a policy by a factor that represents the present value of future contributions to Surplus. If the coverage is in PL #13 (Merit), credit the AC for the present value of the anticipated future change in the experience refund reserve from a negative amount to a less negative amount or zero (but not for any further change to a positive reserve). This result is the prospective AC for that portion of the policy.
 - e. Add the historical AC and prospective AC to produce the total AC for that portion of the policy.
 - f. Combine the results across all portions of a policy to arrive at the total AC for the policy and then across all policies owned by the same policyholder in a given line of business. In no event is this total AC allowed to be less than zero.
2. Just as the historical ACs in all PLs accumulate only gains occurring after July 1, 1992, the historical ACs in PL #13 (Merit) accumulate only those write-offs and changes in negative experience refund reserves that occur after July 1, 1992.

D. Prospective Calculations

The same kinds of assumptions used in the historical AC calculations are used in the prospective AC calculations, except that the prospective AC calculations also incorporate the anticipated rate of lapse of the inforce business over its remaining future lifetime.

Five-year financial projections of existing and new business are produced regularly for management. Recent (June 2001) projections form the basis of the profit projections. These projections are prepared on the basis of Generally Accepted Accounting Principles (GAAP). For prospective AC purposes, they are adjusted as appropriate to be consistent with statutory financial reporting and to reflect emerging and expected experience. The adjusted projections are referred to in the table below as “profit projections”.

Premiums are projected using expected persistency and the rate increase assumptions in the table below. In later years premium rates are assumed to be set to be consistent with the profit projections discussed in the prior paragraph, given the projected claims and expenses.

Claims are projected using December 2000 data and expected trends and persistency. The resulting rates of claim cost per premium earned are assumed applicable to a projection of only those policies in force on the Actuarial Date.

Expense assumptions for 2001 through 2005 are based on budgets prepared for management purposes. For 2006 to the end of the projection period, expenses in a product line are assumed to increase at a rate that reflects management’s expectations. The resulting rates of expense per premium earned are assumed applicable to a projection of only those policies in force on the Actuarial Date.

Policyholders have their prospective AC factors calculated with respect to, and applied to, their monthly premiums as of the Actuarial Date.

Premium Projection Methods

	Product Lines	Premium Projection Method
1.	First Choice, First Choice SRO, Non-Group Conversion, Medicare Supplement	Apply 2001 filed premium change to premium. Thereafter, premiums are assumed set to be consistent with the profit projections.
2.	Small Group Rate Reform and SGRR SRO	A detailed plan has been created for management purposes. The premium rates used in that plan are applied through 2005. Thereafter, premiums are assumed set to be consistent with the profit projections.
3.	Merit, Merit SRO, MER, and MER SRO	Premiums set so profit grades from 2000 profitability to management's profitability targets by 2005. Thereafter, premiums are assumed set to be consistent with the profit projections.
4.	Stop Loss	Premiums set so profit (adjusted for expenses transferred to ASO) grades from profits in 2000 to the levels in the profit projections over a two-year period. Thereafter, premiums are assumed set to be consistent with the profit projections.
5.	Voluntary Dental, Hospital Indemnity, and Plan 150.	Premiums set so profit grades from 2000 profitability to be consistent with the profit projections by 2005. Thereafter, premiums are assumed set to be consistent with the profit projections.
6.	Long Term Care	Level premium product