

December 31, 2001

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Ms. Kathy Greenlee
General Counsel
Department of Insurance
420 S.W. 9th Street
Topeka, Kansas 66612-1678

Dear Ms. Greenlee:

Re: Plan of Reorganization of Blue Cross and Blue Shield of Kansas (BCBSKS)

Statement of Actuarial Opinion

Qualifications

I, Kenneth M. Beck, a Principal with the firm of PricewaterhouseCoopers LLP (PwC) and a member of the American Academy of Actuaries, am qualified under the Academy's Qualification Standards to render the opinions set forth herein. This opinion is provided pursuant to the Engagement Letter between PwC, the Kansas Insurance Department (KID), and BCBSKS dated July 31, 2001. This opinion is not a legal opinion regarding the Plan, and does not address the overall fairness of the Plan. Rather, it reflects the application of actuarial concepts and standards of practice to the requirements set forth in Chapter 40 of the Kansas Law.

Reliance

I and other PwC staff acting under my direction received from BCBSKS and their advisors extensive information relating to BCBSKS' past and present financial experience and the characteristics of its policies. In all cases, we were provided with the information we required. We relied on the accuracy and completeness of the data and assumptions supplied by BCBSKS and did not independently verify that information.

My opinion depends upon the substantial accuracy of the information described above that was provided by BCBSKS.

Opinion

In my opinion, the plan for allocation of consideration to Eligible Policyholders (as defined in the Plan) as set forth in Article VIII of the Plan of Reorganization is fair and equitable to BCBSKS policyholders as required by Chapter 40 of the Kansas Insurance Law.

Discussion

The distribution described in Article VIII of the Plan takes into account the ratio of the positive sum of the estimated past and future contributions to BCBSKS surplus, if any, of each Policy and Contract owned by each Eligible Policyholder to the total of all such positive sums.

Most of the consideration to be distributed to policyholders is allocated based on the ratios described above. Under Chapter 40 of the Kansas Insurance Law, there is no specific guidance given for the allocation of consideration in a reorganization other than that it be based on a “a fair and equitable” basis. However, the contribution method is recognized in the actuarial literature as an appropriate method. The contribution method is sometimes applied to past contributions only, and sometimes to past and estimated future contributions.

Under the circumstances I find that:

- The use of “actuarial contribution” as the principal basis underlying the allocation is fair and equitable; and
- The manner in which the actuarial contribution method has been implemented, including the use of both past and estimated future contributions, is fair and equitable.

The distribution to policyholders also takes into account, to a lesser extent, the fact that policyholders have intangible membership rights that are independent of their actuarial contributions. Each Eligible Policyholder will receive the “Eligible Policyholder’s pro-rata share”, which is based on the total number of Eligible Policyholders without regard to the contribution of that policyholder or of the class or classes in which policies held by the policyholder happen to reside. The portion of the total consideration that is allocated in this manner (equal to one-third of the total distribution) is significantly less than that allocated in proportion to positive contributions, which is appropriate as well as consistent with the approach used in previous demutualizations.

Sincerely,

Kenneth M. Beck, F.S.A., M.A.A.A.
Principal for PricewaterhouseCoopers LLP

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