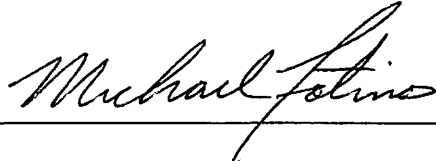


**PREMIER BEHAVIORAL SYSTEMS OF TENNESSEE, LLC.**

**STATEMENT OF OPINION ON**  
**ACCURACY AND COMPLETENESS OF RECORDS**  
**December 31, 2008**

I, Michael D. Fotinos, of Magellan Health Services hereby affirm that the records, listings, summaries of policies in force as of December 31, 2008, and other relevant data, prepared for and submitted to Ernst & Young, LLP, were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete. I hereby affirm that the claims incurral dates, claims paid dates, and contract totals are, to the best of my knowledge and belief, accurately stated on the aforementioned records, listing, summaries, and other relevant data.

I further affirm that, to the best of my knowledge and belief, Premier Behavioral Systems of Tennessee, LLC. has no obligation or commitments with respect to which actuarial reserves are required or appropriate other than those to which data in the aforementioned records, listings, summaries, and other relevant data relate.



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Michael D. Fotinos  
Finance Director, Public Sector  
Magellan Health Services  
Columbia, Maryland  
February 26, 2009

## STATEMENT OF ACTUARIAL OPINION

February 25, 2009

Board of Directors  
Premier Behavioral Systems, LLC

I, Michael J. Cellini, am a member of the American Academy of Actuaries ("the Academy"), and a Senior Manager and Consulting Actuary with the firm of Ernst & Young LLP. I have been retained by Premier Behavioral Systems, LLC, ("the Company") to issue this opinion. I meet the Academy qualification standards for issuing this opinion, and I am familiar with the valuation requirements applicable to the Company.

I have reviewed the actuarial assumptions and actuarial methods used in determining the reserves and related actuarial items listed below and as shown in the Quarterly financial statement of the Company, as prepared by the management of the Company for filing with state regulatory officials, as of December 31, 2008. My responsibility is to express an opinion on these reserves and related actuarial items based on my review. The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Actuarial Standards of Practice and Actuarial Compliance Guidelines as promulgated by the Actuarial Standards Board, and form the basis of this statement of opinion.

Financial Statement Reference <u>Item</u>	<u>Page-Line</u>	<u>Amount</u>
Claims Unpaid	3-1	<u>\$6,434,188</u>

The reserves and related actuarial items listed above represent the estimates made by management of the Company for all unpaid claims as of December 31, 2008. Considerable uncertainty and variability are inherent in such estimates, and, accordingly, the subsequent development of the unpaid claims liability may not conform to the assumptions used in the determination of the unpaid claims liability and therefore may vary from the amounts in the foregoing table.

I have relied on listings and summaries of claims and other relevant data, and upon management's representations regarding the collectibility of reinsurance recoverable amounts, as expressed in the attached statement. I have relied upon Mr. Michael D.

Fotinos, Finance Director, for the accuracy of the data, as expressed in the attached statement.

In other respects, my examination included such review of the actuarial assumptions and actuarial methods, including comparing prior years' estimates of unpaid claims liabilities to their subsequent development and such other tests of the actuarial calculations, as I considered necessary.

In my opinion, the reserves and related actuarial items identified above:

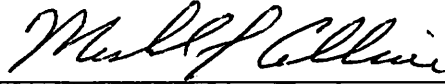
- (a) Are computed in accordance with presently accepted actuarial standards consistently applied, and are fairly stated in accordance with sound actuarial principles, except that consideration of the adequacy of the Company's reserves and related actuarial items in conjunction with the assets which support them has not been performed;
- (b) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the financial statement was prepared, and provide for all reasonably anticipated unpaid claims under the contracts;
- (c) Meet the requirements of the insurance laws and regulations of the State of Tennessee;
- (d) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the Annual Statement of the preceding year, with any exceptions noted below;
- (e) Include provision for all actuarial reserves and related actuarial items which ought to be established; and,
- (f) Make good and sufficient provision for all unpaid claims and other actuarial liabilities of the Company under the terms of its contracts and agreements, by which I mean that the estimated liabilities is an appropriate measure of reasonably anticipated payments on incurred claims under potentially moderately adverse development, although, consistent with the scope of my review, the adequacy of the Company's reserves and related actuarial items in conjunction with the assets which support them has not been considered,

My review did not include asset adequacy analysis, as such analysis is not in the scope of my assignment. I have not reviewed any of the Company's assets and I have not formed any opinion as to their validity or value. My opinion rests on the assumption that the Company's December 31, 2008 statutory-basis unpaid claims liability is funded by valid assets that have suitably scheduled maturities and/or adequate liquidity to meet future cash flow requirements.

As part of my review, I conducted analysis consistent with Section 3.6, "Follow-Up Studies", contained in ASOP Number 5, "Incurred Health and Disability Claims", adopted by the Actuarial Standards Board in December 2000.

My review relates only to those reserves and related actuarial items identified herein, and I do not express an opinion on the Company's financial statements taken as a whole.

This opinion has been prepared solely for the Board and the management of the Company and for filing with state regulatory officials and is not intended for any other purpose.



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Michael J. Cellini, ASA, FCA, MAAA  
Associate, Society of Actuaries  
Fellow, Conference of Consulting Actuaries  
Member, American Academy of Actuaries  
Ernst & Young, LLP  
5 Times Square  
New York, New York 10036-6530  
(212) 773-0873



February 24, 2009

Mr. Michael Cellini, ASA, MAAA  
Ernst & Young LLP  
5 Times Square  
New York, NY 10036

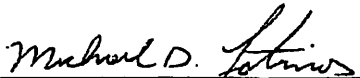
I, Michael Fotinos, Finance Director for Premier Behavioral Systems of Tennessee, LLC ("the Company"), hereby affirm that the listings and summaries of claims, exposures and other relevant data as of December 31, 2008, prepared for and submitted to Michael Cellini, all of which are detailed in the attached schedule, were prepared under my direction and, to the best of my knowledge and belief, are accurate and complete, and are the same as or derived from the in force records and other data which form the basis for the Company's 2008 Annual Filing. I further affirm that the line of business classifications, claim incurral dates, claim payment dates, development intervals, reinsurance data and premium rate information contained in such listings, summaries, and related data are, to the best of my knowledge and belief, accurately stated. I further affirm that the Underwriting and Investment Exhibit of the Annual Statement was prepared consistent with the claim incurral and claim payment dates of the data provided to support determination of the liability for unpaid claims. I further affirm that the listings, summaries, line of business classifications, to the best of my knowledge and belief, are compiled on a basis consistent with comparable data at December 31, 2007.

Policy reserves, the liability for unpaid claims, and unearned premiums are net of reinsurance ceded amounts. All such reinsurance recoverable amounts are collectible at December 31, 2008. I am unaware of any material adverse change in the financial condition of the Company's reinsurers that might raise concern about their ability to honor their reinsurance commitments. The reinsurance contracts provided to you by the Company represent the Company's complete agreements with its ceding and assuming companies, and there are no modifications, either written or oral, of the terms of the Company's reinsurance contracts or additional reinsurance agreements that have not been provided to you.

I further affirm that, to the best of my knowledge and belief, the Company has no obligations or commitments at December 31, 2008 with respect to which actuarial reserves are required or appropriate, except those for which reserves and liabilities are included in the following exhibits and line items on page 3 of the Company's 2008 Annual Filing:

Claims unpaid

\$6,434,188

  
\_\_\_\_\_  
Michael D. Fotinos  
Finance Director

Premier Behavioral Systems  
 Reconciliation of Net Premium Income and Uncollected Premiums  
 A: December 31, 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
Gross Revenue Paid	7,806,769.01	7,381,444.89	8,087,551.20	7,813,841.82	7,846,517.90	8,107,844.73	8,058,553.67	8,435,497.57	6,746,697.48	7,627,127.45	5,005,681.94	4,981,486.98	87,898,814.64
Change in Retro Revenue Accrual	1,2 (23,440.97)	329,765.88	(336,467.76)	11,242.42	8,693.90	(249,170.73)	(510,815.74)	(872,935.23)	1,621,817.35	103,840.06	(521,632.92)	275,990.56	(163,313.18)
<b>Total Revenue</b>	<b>7,783,328.04</b>	<b>7,711,210.77</b>	<b>7,751,083.44</b>	<b>7,825,084.24</b>	<b>7,855,211.80</b>	<b>7,858,474.00</b>	<b>7,547,737.93</b>	<b>7,562,562.34</b>	<b>8,368,514.83</b>	<b>7,730,967.51</b>	<b>4,483,849.02</b>	<b>5,257,477.54</b>	<b>87,735,501.46</b>
<b>Retro Revenue Accrual</b>													
Balance, December 31, 2007	1,204,729.01												
2008 Change in Balance	(163,313.18)												
<b>Balance, December 31, 2008</b>	<b>1,041,415.84</b>												
<b>Uncollected Premiums</b>													
December 2008 2.5% Withhold	124,537.17												
Retro Revenue Accrual	1,2 1,041,415.84												
Miscellaneous Difference	-												
<b>Total</b>	<b>1,165,953.01</b>												

1. Due to timing of priority status assessment being submitted to the State and entered into payments system, at the time of initial payment certain members who would qualify for payment at the higher priority rates are paid at the non priority rates. PBS records an accrual related to this misclassification.

2. Allowance for retroactive member additions. Comparison of remittance to eligibility

**PREMIER BEHAVIORAL SYSTEM  
12/31/2008 IBNR**

	<u>Premier</u>
FFS Claims	4,310,628
FFS PAD	301,747
CMHC	588,696
Claims Cutoff	1,094,303
	<b>6,295,373</b>
Reinvestment	138,815
<b>TOTAL</b>	<b>6,434,188</b>

**TennCare Partners Program  
Reconciliation of IBNR per MLR to Quarterly Filing  
December 31, 2008**

	<u>PBS</u>	<u>TBH</u>	<u>East</u>
IBNR Per MLR Report	4,899,323	1,232,128	13,095,876
<b><u>Adjustments</u></b>			
Claims Cutoff (1)	1,094,303	647,404	2,257,480
FFS PAD (2)	301,747	59,367	652,869
Reinvestment Reserve	<u>138,815</u>	<u>427,050</u>	<u>-</u>
<i>Total Adjustments</i>	<i>1,534,865</i>	<i>1,133,821</i>	<i>2,910,349</i>
<b>IBNR Per Monthly Filing</b>	<b>6,434,188</b>	<b>2,365,949</b>	<b>16,006,225</b>

(1) Claims processed during month but not paid until January. Included as a component of paid claims on the MLR reports.

(2) Ernst & Young requiring a 7% PAD above point estimate for FFS IBNR. Is an allowance for adverse deviation. Not reflected in MLR reports.



**TennCare Partners Program  
Reconciliation of Medical Expense per MLR to Quarterly Filing  
December 31, 2008**

	<u>PBS</u>	<u>TBH</u>	<u>East</u>
Medical Expense Per MLR Report	72,665,033	30,519,261	123,592,335
<b><u>Adjustments</u></b>			
Adjustment to Prior Period IBNR (1)	(1,840,030)	(2,119,040)	(1,867,590)
FFS PAD (2)	<u>301,261</u>	<u>59,349</u>	<u>638,275</u>
<i>Total Adjustments</i>	<i>(1,538,769)</i>	<i>(2,059,691)</i>	<i>(1,229,315)</i>
<b>Medical Expense Per Monthly Filing</b>	<b>71,126,264</b>	<b>28,459,570</b>	<b>122,363,020</b>

(1) Adjustment to IBNR for 12/31/07 and prior dates of service. Ties to underwriting and investment exhibit.

(2) Portion pertaining to 2008 only.

**TennCare Partners Program  
 Reconciliation of Revenue per MLR to Quarterly Filing  
 December 31, 2008**

	<u>PBS</u>	<u>TBH</u>	<u>East</u>
Revenue Per MLR Report	87,641,422	38,219,223	160,951,375
<b><u>Adjustments</u></b>			
2007 retro membership (1)	<u>94,079</u>	<u>(189,302)</u>	<u>(463,501)</u>
<i>Total Adjustments</i>	<i>94,079</i>	<i>(189,302)</i>	<i>(463,501)</i>
<b>Revenue Per Monthly Filing</b>	<b>87,735,501</b>	<b>38,029,921</b>	<b>160,487,874</b>

(1) Change in 2007 revenue between December 2007 MLR report and December 2008 MLR report.

**MEDICAL LOSS RATIO REPORT - TOTAL  
MIDDLE WEST REGION**

BHO Premier Behavioral Systems of Tennessee LLC		2008												For the Year Ended 12/31 12/31/2008							
Reporting Month Dec-08		For the Period 6/1 - 12/31/01	For the Year Ended 12/31 12/31/2002	For the Year Ended 12/31 12/31/2003	For the Year Ended 12/31 12/31/2004	For the Year Ended 12/31 12/31/2005	For the Year Ended 12/31 12/31/2006	For the Year Ended 12/31 12/31/2007	Incurred Month												
									January	February	March	April	May	June	July	August	September	October	November	December	
									255,384	251,751	254,058	253,220	252,088	251,649	254,273	254,439	251,468	253,115	60,870	64,573	
Enrollment																					
YonaCare Capitation Payment		130,816,644	264,254,732	260,988,285	238,225,334	225,818,984	227,301,451	129,739,487	7,785,157	7,818,659	7,903,120	7,981,685	8,022,047	8,053,560	7,538,720	7,584,705	7,649,833	7,765,777	4,715,611	4,822,348	87,641,422
Payments for Mental Health and Substance Abuse Services for the Month																					
Inpatient Payments by the Claims Processing System		27,854,863	54,000,974	44,892,117	39,882,629	33,154,643	42,543,483	36,204,224	2,544,447	2,301,091	2,481,573	2,471,715	2,549,577	2,460,624	2,348,011	2,313,138	2,247,477	2,184,528	899,975	66,792	24,870,947
Outpatient Payments by the Claims Processing System		5,418,756	11,893,099	11,953,848	11,547,787	10,146,272	8,409,927	5,221,822	324,466	308,435	318,282	346,541	355,919	339,570	376,023	384,415	385,650	385,504	172,444	91,544	3,804,311
Supported Housing Payments by the Claims Processing System		4,209,064	9,301,517	9,395,862	8,400,434	6,244,804	6,599,543	2,845,454	174,306	170,731	207,116	204,413	223,106	237,244	248,049	233,394	217,927	190,401	14,550	1,722	2,133,347
Intensive Outpatient Payments by the Claims Processing System		1,394,975	3,601,064	3,730,402	3,257,165	2,428,259	2,271,512	1,293,474	67,154	71,415	68,331	65,286	53,096	41,180	58,267	53,425	51,588	28,233	9,585	440,677	
Partial Hospitalization Payments by the Claims Processing System		329,834	544,819	442,646	274,453	192,264	42,427	10,105	940	191	476	0	0	0	0	0	94	1,425	0	0	13,230
In Home Payments by the Claims Processing System		1,359,835	5,732,042	5,840,748	5,142,916	4,857,920	2,512,215	3,944,145	294,526	320,539	333,020	378,805	400,249	405,204	363,330	375,145	400,389	417,717	395,412	0	4,104,336
Transportation Payments by the Claims Processing System		2,927,224	6,660,646	6,345,339	5,932,602	5,455,214	5,295,179	2,472,172	97,959	107,581	104,627	148,451	142,482	145,720	162,902	137,251	151,528	165,658	54,507	41,743	1,460,610
Twenty-Three Hour Payments by the Claims Processing System		39,901	21,736	48,787	55,924	14,734	5,957	2,839	0	0	0	0	0	0	0	0	0	0	0	0	0
CMHC Capitation Payments		42,450,204	89,043,296	88,671,490	80,840,217	68,263,767	67,004,938	37,210,573	2,291,605	2,278,274	2,306,447	2,417,355	2,342,911	2,351,045	2,337,205	2,125,594	2,404,289	2,291,246	1,115,608	1,098,452	25,360,032
Other Capitation Payments		17,089,540	36,529,021	41,274,948	35,977,965	30,048,346	31,787,292	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grant Payments		12,234,675	25,531,421	24,693,433	22,049,067	17,839,182	18,020,794	8,866,196	503,544	503,544	476,675	497,893	497,893	504,661	491,389	443,447	430,176	443,421	148,181	150,178	5,093,044
Non-FFS Inpatient		0	1,488,513	6,985,797	6,751,724	3,327,256	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subcontractor Payments for Mental Health and Substance Abuse Services		2,547,160	2,309,729	1,100,976	956,799	747,361	705,142	401,949	28,022	24,923	24,990	24,862	24,779	25,445	24,624	24,494	25,315	24,905	5,284	5,941	261,608
Reinsurance Payment		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Payments/Adjustments to Mental Health and Substance Abuse Costs		377,003	1,333,140	2,732,340	2,494,931	231,421	65,718	119,393	1,551	600	(6,822)	2,402	3,832	3,182	6,163	2,161	11,974	1,957	4,427	3,062	34,491
Less:																					
Pharmacy Rebates		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revisions not Reflected in Payments by the Claims System		506,404	1,395,976	741,127	343,718	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Payments for the month		117,730,629	246,616,740	247,407,605	223,282,898	183,213,701	175,284,175	98,672,023	6,335,490	6,090,076	6,314,631	6,558,418	6,633,845	6,555,895	6,415,964	6,092,200	6,128,244	6,138,051	2,840,621	1,449,019	67,772,653
Remaining IBNR for the month		0	0	0	0	0	0	4,943	5,099	2,239	10,404	13,644	17,682	25,331	190,700	607,269	425,446	472,449	713,211	2,203,402	4,892,300
Payments and Remaining IBNR for the month		117,730,629	246,616,740	247,407,605	223,282,898	183,213,701	175,284,175	98,678,976	6,340,789	6,092,314	6,325,235	6,572,087	6,651,527	6,581,227	6,608,744	6,699,449	6,753,490	6,830,499	3,553,831	3,452,421	72,665,013

Medical Loss Ratio	90.0%	93.3%	94.8%	91.7%	81.1%	77.1%	76.0%	81.4%	78.0%	80.0%	82.3%	82.9%	81.7%	87.6%	88.3%	88.3%	88.0%	75.4%	75.7%	82.9%
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**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2008 OF THE Premier Behavioral Systems of Tennessee, LLC**

**SUPPLEMENTAL COMPENSATION EXHIBIT**

For The Year Ended December 31, 2008

(To be filed by March 1)

**PART 1 - INTERROGATORIES**

1. The reporting insurer is a member of a group of insurers or other holding company system: Yes  No  If yes, do the amounts below represent  
 1) total gross compensation paid to each individual by or on behalf of all companies which are part of the group: Yes  ; or 2) allocation to each insurer: Yes  .
2. Did any person while an officer, director, or trustee of the reporting entity receive directly or indirectly, during the period covered by this statement any commission on the business transactions of the reporting entity?..... Yes  No
3. Except for retirement plans generally applicable to its staff employees, has the reporting entity any agreement with any person, other than contracts with its agents for the payment of commission whereby it agrees that for any service rendered or to be rendered, that he/she shall receive directly or indirectly, any salary, compensation or employment that will extend beyond a period of 12 months from the date of the agreement?..... Yes  No

**PART 2 - OFFICERS AND EMPLOYEES COMPENSATION**

1 Name and Principal Position	2 Year	Annual Compensation			
		3 Salary	4 Bonus	5 All Other Compensation	6 Totals
Chief Executive Officer [none]	2008				0
Chief Executive Officer [none]	2007				0
Chief Executive Officer [none]	2006				0
1. Carlos Ruiz, Project Manager, Service Operations	2008	51,672	12,442	0	64,114
Carlos Ruiz, Project Manager, Service Operations	2007	60,450	2,895	0	63,345
Carlos Ruiz, Project Manager, Service Operations	2006	0	0	0	0
2. Susan Bryant, Medical Director, CMC	2008	38,650	0	0	38,650
Susan Bryant, Medical Director, CMC	2007	48,750	0	0	48,750
Susan Bryant, Medical Director, CMC	2006	0	0	0	0
3. Vernon Greer, Regional Field Network Director	2008	28,020	4,275	0	32,295
Vernon Greer, Regional Field Network Director	2007	33,896	4,094	0	37,990
Vernon Greer, Regional Field Network Director	2006	0	0	0	0
4. Will Coltharp, Director, Clinical Services	2008	26,936	3,928	0	30,864
Will Coltharp, Director, Clinical Services	2007	32,669	4,915	0	37,584
Will Coltharp, Director, Clinical Services	2006	31,509	5,290	63	36,862
5. ....	2008				0
	2007				0
	2006				0
6. ....	2008				0
	2007				0
	2006				0
7. ....	2008				0
	2007				0
	2006				0
8. ....	2008				0
	2007				0
	2006				0
9. ....	2008				0
	2007				0
	2006				0

**PART 3 - DIRECTOR COMPENSATION**

1 Name and Principal Position or Occupation	2 Compensation Paid or Deferred for Services as Director	3 All Other Compensation Paid or Deferred	4 Totals