

2017 Executive Compensation Summary

Blue Shield of California: We're Truly Mission-Driven



At Blue Shield our mission is to ensure all Californians have access to high-quality health care at an affordable price. We are transforming a dysfunctional healthcare system into one that's sustainably affordable and worthy of our family and friends. To get there, everything we do, every decision we make, must be driven by our mission, including having a strong leadership team that pushes us forward to achieve our goals.

The intent of this document is to give direct insight into the components of our executive compensation program and show how we pay for performance. As a nonprofit healthcare plan, it's important to us that we continue to raise the level of transparency in our industry, and ensure our members and partners fully understand what we do and why we do it.

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Our Compensation Philosophy

Blue Shield rewards its executives for strong company performance, but how they get it done is as important as what gets accomplished. It is expected that Blue Shield's executives are anchored in our values and are continuously modeling our leadership behaviors, including putting our members first, building high-performing teams, delivering results, taking an enterprise view and giving back to the communities we serve.

At Blue Shield we are committed to having a compensation program that is fair, equitable, performance-based, and competitive to attract, retain, motivate and reward an executive team with superior skills and experience – to lead and win in the healthcare industry and fulfill our mission.







We pay for outcomes versus effort and emphasize achieving them in the right way, aligned with our values and leadership behaviors.

The program is reviewed annually by an independent committee comprised of outside directors called the Compensation and Human Resources Committee. The committee:

- ▶ Determines the program's guiding principles and objectives
- ▶ Works with an independent consultant to benchmark Blue Shield's program against peer companies, which include nonprofit and for-profit managed care companies, and general industry
- ▶ Establishes challenging short- and long-term incentive goals and targets for executives
- ▶ Monitors company performance against goals and sets applicable corporate performance factors
- ▶ Reviews and approves the performance of the Chief Executive Officer and his direct reports
- ▶ Reviews and approves executive compensation actions
- ▶ Reviews incentive plans to ensure they do not promote excessive risk taking

Key Elements of Our Executive Compensation Program

Blue Shield's executive compensation program consists of the following elements:

	Link to Program Objectives	Type of Compensation	Key Features
Base Salary 	Provides a stable source of income and is a standard compensation element in executive compensation packages	Cash	Generally targeted between competitive median of the market and the 75th percentile, with differentiation expected for each individual based on their skills, experience, market conditions, performance and demonstrated contributions to the company
Executive Incentive Plan 	An annual cash-based award that encourages executives to focus on specific corporate and individual performance goals	Cash	Target incentive opportunity is set as a percentage of base salary and is paid only if threshold performance levels are met and leadership behaviors are demonstrated
Long-Term Incentive Plan 	Helps ensure that executive pay is directly linked to the achievement of the company's long-term strategic objectives; promotes retention	Cash	Target incentive opportunity is set annually with a three-year horizon needed to achieve the company's performance goals and objectives
Health and Welfare Benefits 	Critical element of a total rewards program that helps attract and retain employee and executive talent	Benefit	Comprehensive program of benefits that are available generally to all Blue Shield employees
Retirement 	Critical element of a total rewards program that helps attract and retain executive talent	Benefit	Executives receive retirement benefits through four plans: <ul style="list-style-type: none"> • 401(k) Plan • Deferred Compensation Plan • Defined Benefit Pension Plan (closed to new participants as of 1/1/16) • Supplemental Executive Retirement Plan (closed to new participants as of 1/1/16)
Other Benefits (e.g. perquisites) 	Provides support for executives to plan for the future appropriately. Benefits are market competitive and include financial counseling	Benefit	Perquisites are limited in amount and the Compensation and Human Resources Committee limits eligibility and use

Blue Shield's success depends largely on the contributions of motivated, focused and energized people all working to achieve our strategic goals. This understanding shapes our approach to providing a competitive total rewards package to our executives, including the Chief Executive Officer.

Our Executive Compensation Program

Target Total Compensation



BASE SALARY

Base salary, also expressed as eligible earnings, provides executives with a reliable source of income.

35%

On average, **base salary** makes up 35% of an executive's target total compensation.



INCENTIVES

Blue Shield offers two awards:

- ▶ **Executive Incentive Plan**
- ▶ **Long-Term Incentive Plan**

We set targets annually, as a percentage of an executive's eligible earnings. Payouts tie directly to the company's achievement of short-term and long-term goals and the consistent demonstration of our leadership behaviors.

65%

On average, **incentives** make up 65% of an executive's target total compensation. This is the percentage of pay "at risk," meaning not fixed for executives.

Plus other programs:

Total Benefits Package

On average, Blue Shield's **benefits package** adds an amount equal to 14% of target total compensation to an individual's total rewards.



**HEALTH, INSURANCE
& RETIREMENT
BENEFITS**

This includes Blue Shield's health, wellness, insurance and retirement benefits, including our pension plan (closed to new participants as of 1/1/16) and 401(k) plan.

Executive Incentive Plan

This incentive opportunity is tied to achievement of short-term strategic and financial goals, and demonstration of our leadership behaviors.

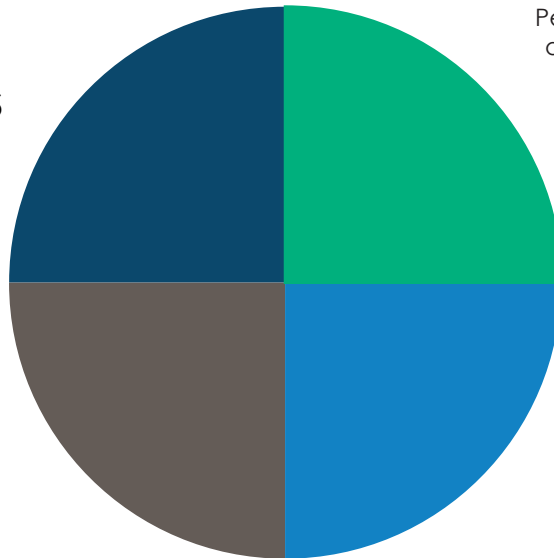


Performance is measured over a one-year period.

Our 2017 Short-Term Goals

(apply to compensation payable in 2018)

- 25% Clinical Quality
- 25% Customer Experience
- 25% Membership
- 25% Operating Income

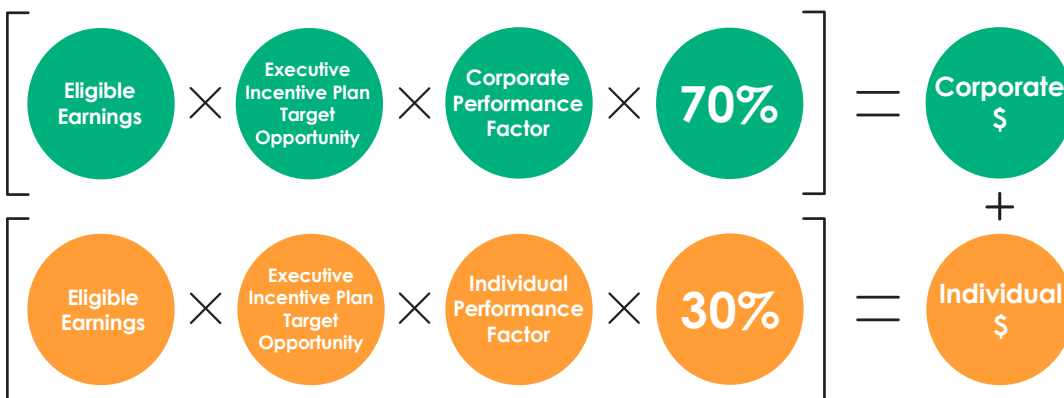


Determining an Executive Incentive Plan Award

Corporate and individual performance sets the amount paid out against an executive's target.



Corporate performance sets the amount of the Executive Incentive Plan payout based on achievement of Blue Shield's goals.



An executive's **individual performance** against goals impacts the remainder of the Executive Incentive Plan payout.

70%

of the Executive Incentive Plan award is based on corporate performance, and

30%

is based on individual performance.

What is a performance factor?

A performance factor can increase or decrease an executive's payout.

In particular, the corporate performance factor is set as a percentage for the entire company, based on achievement of Blue Shield's goals.

165%

of target is the maximum payout allowed.

Executive Incentive Plan Award



Long-Term Incentive Plan

This incentive opportunity is tied to long-term strategic and financial goals that support achieving our mission.

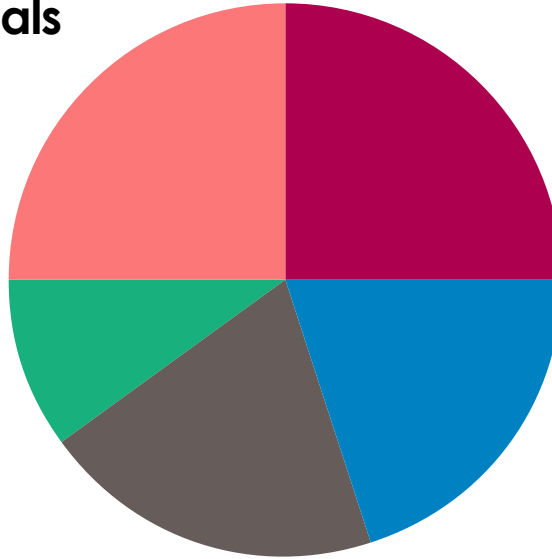


Performance is measured over a rolling three-year period.

Our 2017 Long-Term Goals

(apply to compensation payable in 2020)

- 25% Customer Experience
- 25% Membership
- 20% Clinical Quality
- 20% Affordability
- 10% Great Place to Work



Determining a Long-Term Incentive Plan Award



The corporate performance factor for the Long-Term Incentive Plan ranges from

0% to 200%

When applied to an executive's Long-Term Incentive Plan target, it can increase or decrease an executive's award payout.

Long-Term Incentive Plan Award



200%

of target is the maximum payout allowed.

Our Top Paid Executives

Below is a summary of the compensation paid in 2017 to Blue Shield of California's top ten highest paid, active executives as of year-end. Their total compensation was less than 1% of the company's total general, administrative, marketing and selling expenses.

Paul S. Markovich

President and Chief Executive Officer

\$4,102,304^{1,2}

Jeffrey Bailet

EVP, Health Care Quality and Affordability

\$2,364,511^{1,2}

Michael A. Murray

SVP, Chief Financial Officer

\$2,092,626^{1,2}

Seth A. Jacobs

SVP, General Counsel and Corporate Secretary

\$1,942,712^{1,2}

Michael G. Mathias

EVP, Customer Experience and Chief Information Officer

\$1,479,568^{1,2}

Mary M. O'Hara

Chief Human Resources Officer & SVP, Internal Communications

\$1,458,954^{1,2}

Nitin Bhargava

SVP, Employer Markets

\$1,326,010^{1,2}

Jeffrey W. Robertson

SVP, Chief Marketing Officer

\$1,311,310^{1,2}

Todd K. Walthall

EVP, Markets

\$1,091,513^{1,2}

Steven J. Young

VP, Chief Information Security

\$955,177^{1,2}

Below is a summary of the compensation paid to former executives who left the company in 2017 and whose compensation placed them in the top ten highest paid overall.

N. Marcus Thygeson

SVP, Chief Health Officer

\$2,802,268^{1,2,3}

David W. Fields

EVP, Markets

\$2,111,307^{1,2,3}

Melissa Welch Barker

VP, Clinical Quality Network

\$985,688^{1,2,3}

¹ Amounts paid March 2017 reflect performance in fiscal year 2016 for the Executive Incentive Plan, and 2014-2016 for the Long-Term Incentive Plan, plus 2012-2014 for the Supplemental Long-Term Incentive Plan. In 2014, the Supplemental Plan was folded into the Long-Term Incentive Plan.

² Gross earnings may include other items such as executive perquisite allowance, taxable benefits, moving allowance, etc.

³ Upon departure from Blue Shield there may be one-time payments incurred that are reported as part of income, such as separation pay, and pension or retirement plan payouts earned over several years of service.

2017 Chief Executive Officer Compensation

Our Chief Executive Officer's compensation—and that of our top executives—is weighted heavily toward performance-based incentives, meaning it is “at risk” based on company performance.

2017 Base Salary
\$1,202,046

70%

of Mr. Markovich's total compensation (base salary + Executive Incentive Plan + Long-Term Incentive Plan) was delivered through **performance-based** incentives.



Actual Executive Incentive Plan Payout¹

(based on 2016 goal achievement)

\$1,198,703

83% Percent of target delivered

Actual Long-Term Incentive Plan Payout¹

(based on 2016 goal achievement)

\$1,662,607

104% Percent of target delivered

2017 Gross Earnings²
\$4,102,304

which, at the 50th percentile, is 10% less than that of other Chief Executive Officers of managed care companies.

The CEO Total Benefits Package

Blue Shield's benefits package added an amount equal to 21% of target total compensation to the CEO's total rewards. Blue Shield provides competitive benefits that target the market median, consistent with the company's compensation philosophy.



Health and Welfare:
\$22,024

Employer 401(k) contributions:

All employees are eligible for a 4% matching contribution and a 1% performance-based contribution from Blue Shield.

Deferred benefit retirement plans:

The Blue Shield pension plan (closed as of 1/1/2016) and the non-qualified Supplemental Executive Retirement Plan are payable and portable upon retirement. The CEO participates in the same deferred compensation benefits as other eligible employees.

¹ Incentives paid in 2017 are derived from eligible earnings applicable during the relevant performance periods.

² 2017 gross earnings include other items such as executive perquisite allowance in addition to base salary and incentives.

How We Compare Against the Market

When compared to peer companies, we target the market median for total compensation (base salary plus annual incentive plus long-term incentive) and a range of market 50th - 75th percentile for salary and annual incentive.

Although competitive, total compensation paid in 2017 to Blue Shield's Chief Executive Officer was on the lower end when compared with similarly-sized managed care companies, including:

- ▶ Blue Cross Blue Shield companies
- ▶ Cigna
- ▶ Mayo Clinic
- ▶ Molina Healthcare
- ▶ Providence Health & Services
- ▶ WellCare Health Plans
- ▶ Other similarly-sized nonprofit and for-profit companies in the managed care industry

Other companies we track include:

- ▶ Centene
- ▶ Aetna
- ▶ UnitedHealth Group
- ▶ Anthem
- ▶ Humana
- ▶ Kaiser Permanente



Comparing CEO Compensation for 2017

10%

.....▶

The actual total compensation paid to Blue Shield's Chief Executive Officer was **10%** less than the median target total compensation for Chief Executive Officers of similarly-sized managed care companies.