

# 2019 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

In 2019, several members of the executive team, including the CEO, received payments related to retention awards earned over the 2016-2018 period. The retention awards were provided to strengthen leadership stability during a period of significant organizational change for Blue Shield, including entering MediCal through the acquisition of Care1st – now Blue Shield Promise Health Plan, our internal technology transformation, implementation of sweeping health care policy changes and the resulting financial volatility associated with transformation. In addition, the retention awards helped to offset below market target total compensation resulting from target long-term incentive compensation awards that lagged market competitive levels.

As a result of the retention payments, 2019 actual compensation for several executives is higher than normal annual compensation relative to previous years. However, excluding the retention payments, 2019 actual total compensation is aligned with the Blue Shield executive compensation philosophy and generally positioned between the market 50th and 75th percentile.

# Impact of Coronavirus (COVID-19) on CEO and Board of Director Compensation

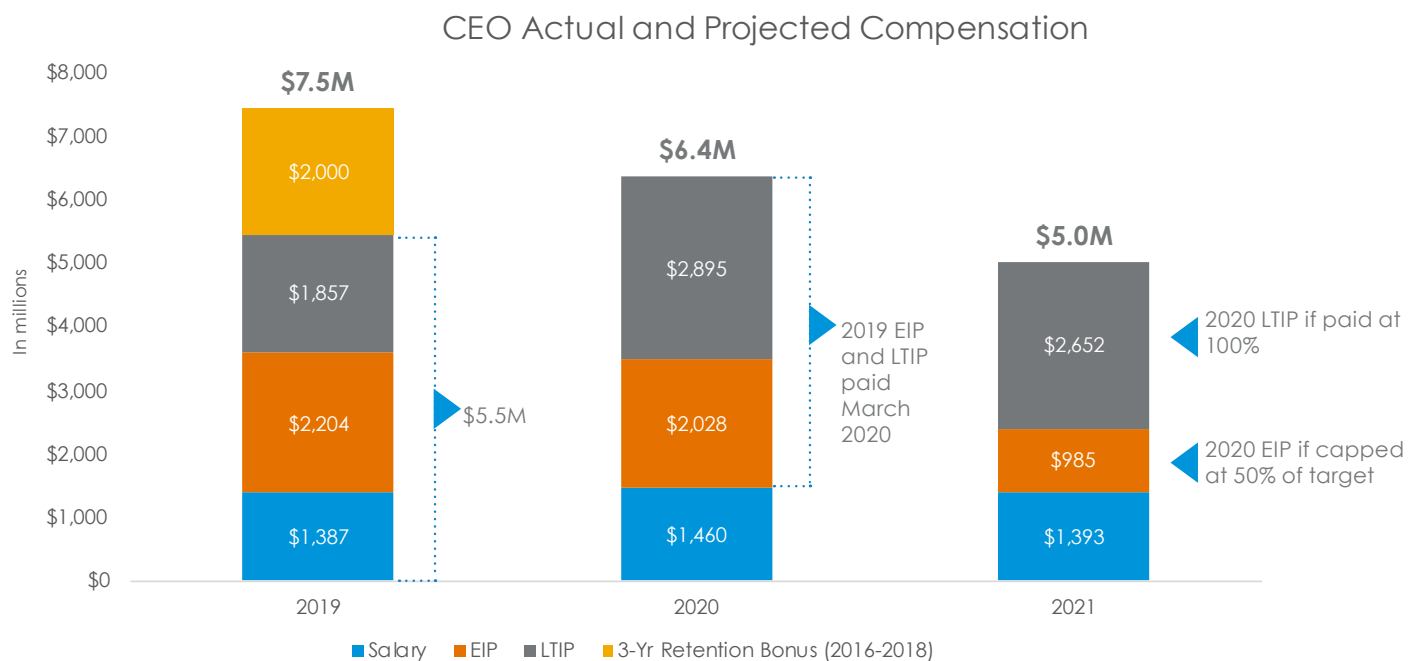
The emergence of the novel coronavirus in early 2020 created an unprecedented global healthcare crisis resulting in significant disruption of global economies and financial markets. As a result of the Coronavirus pandemic, we anticipate potentially significant downward pressure on 2020 business results for Blue Shield, which will result in lower future incentive payments for executives. However, because the 2020 variable compensation payments (i.e., Executive Incentive Plan (EIP) and Long-Term Incentive Plan (LTIP)) will be paid out in March 2021, any effect on pay levels will be delayed.

In the meantime, we have been fulfilling our mission during the COVID-19 crisis through donating money, helping customers through financial hardship, assisting struggling health care providers through \$200 million in financial assistance, volunteering significant executive time to assist the state in testing and tracing efforts, and much more.

We have also been determining how to be good stewards of our resources for our company and communities. This means being prudent financial managers, providing stable employment for our team, and taking a pragmatic approach to executive compensation. As such, our CEO proposed, and the Board of Directors accepted, the following temporary changes to his compensation:

- ▶ 2020 salary reduced by removing merit-based salary increase effective June 2020
- ▶ 2020 annual incentive (paid March 2021) will be capped at 50% of target, with a payout range of 0% to 50% of annual target. This reduction in EIP opportunity results in a pay reduction of approximately \$1.0M to \$1.6M depending on final company and individual performance results
- ▶ 2021 salary will be frozen

The overall potential impact on pay can be seen on the bar chart below.



In addition to CEO compensation reductions, the Blue Shield Board of Directors voluntarily elected to reduce the annual Board cash retainer to 2019 levels for the remainder of the year. This amounts to approximately 9.9% and 8.0% reductions to annual Board cash retainers for the Chairman of the Board and other Directors, respectively. Annual Committee cash retainers will remain at current levels, and overall director compensation will be reviewed in late 2020.

# 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
<b>Base Salary</b>	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
<b>Executive Incentive Plan</b>	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
<b>Long-Term Incentive Plan</b>	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
<b>Health and Welfare Benefits</b>	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
<b>Retirement</b>	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"> <li>• 401(k) Plan</li> <li>• Deferred Compensation Plan</li> <li>• Defined Benefit Pension Plan (closed to new participants as of 1/1/16)</li> <li>• Supplemental Executive Retirement Plan (closed to new participants as of 1/1/16)</li> </ul>
<b>Other Benefits (e.g., perquisites)</b>	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.

**33%**

On average, **base salary** makes up 33% 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.

**67%**

On average, **incentives** make up 67% 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 21% 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.

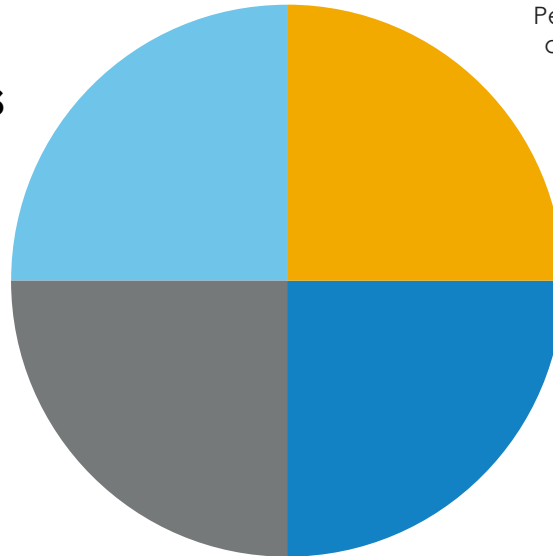


Performance is measured over a one-year period.

## Our 2019 Short-Term Goals

(apply to compensation payable in 2020)

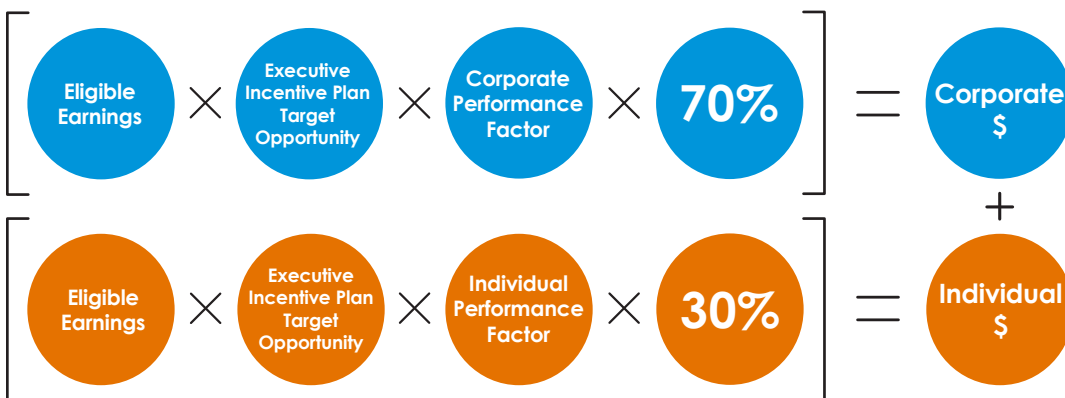
- 25% Customer Experience
- 25% Membership
- 25% Clinical Quality
- 25% Operating Income



## 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.

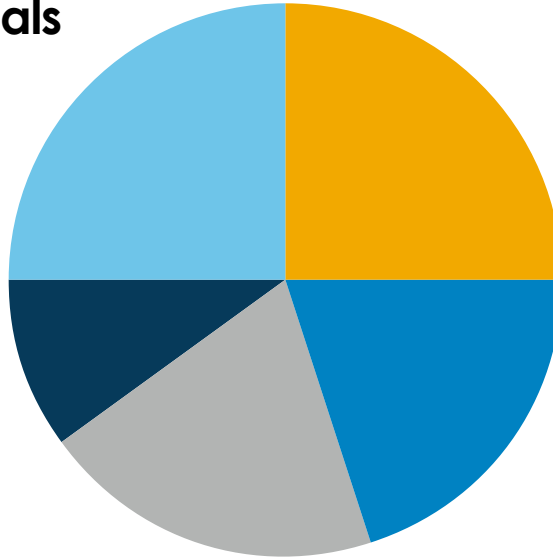


Performance is measured over a rolling three-year period.

## Our 2019 Long-Term Goals

*(apply to compensation payable in 2022)*

- 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 2019 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  
\$7,501,944<sup>1, 2, 3</sup>  
\$5,501,944 (excluding retention payment)

## Mary M. O'Hara

Chief Human Resources Officer & SVP, Internal Communications  
\$3,715,417<sup>1, 2, 3</sup>  
\$2,215,417 (excluding retention payment)

## Michael G. Mathias

EVP, IT  
\$3,648,848<sup>1, 2, 3</sup>  
\$2,148,848 (excluding retention payment)

## Todd K. Walthall

Chief Operating Officer  
\$3,496,508<sup>1, 2, 3</sup>  
\$1,996,508 (excluding retention payment)

## Seth A. Jacobs

SVP, General Counsel and Corporate Secretary  
\$2,500,922<sup>1, 2</sup>

## Jeffrey Bailet

Chief Executive Officer, Altas  
\$2,383,362<sup>1, 2</sup>

## Sandra Clarke

SVP and Chief Financial Officer  
\$2,288,345<sup>1, 2</sup>

## Amy Yao

SVP and Chief Actuarial Officer  
\$1,891,710<sup>1, 2, 3</sup>  
\$891,710 (excluding retention payment)

## Terry Gilliland

EVP, Health Care Quality and Affordability  
\$1,700,547<sup>1, 2</sup>

## Kimberley A. Goode

SVP, External Affairs  
\$1,373,761<sup>1, 2</sup>

Below is the compensation paid to executives who left the company in 2019 and whose compensation placed them in the top ten highest paid overall.

## Michael A. Murray

SVP, Finance (transitional role)  
\$3,767,567<sup>1, 2, 4</sup>

## Mimi S. Kokoska

SVP, Strategic Partnerships and Innovation  
\$2,316,702<sup>1, 2, 4</sup>

## Armine Papouchian

SVP, Provider Network Management  
\$2,229,970<sup>1, 2, 4</sup>

## Amanda J. Flaum

Chief Operating Officer, Promise Health Plan  
\$1,793,886<sup>1, 2, 4</sup>

## Joyce E. Mitchell

SVP, Healthcare and Community Health Transformation  
\$1,763,715<sup>1, 2, 4</sup>

## Matt Miller

Chief Operating Officer, Altas  
\$1,388,005<sup>1, 2, 4</sup>

<sup>1</sup> Amounts paid March 2019 reflect performance in fiscal year 2018 for the Executive Incentive Plan, and 2016-2018 for the Long-Term Incentive Plan.

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

<sup>3</sup> Includes the value of the 2016-2018 retention award (paid in 2019) related to completion of the Blue Shield technology transformation and implementation of sweeping health care policy changes as well as to address below market target long-term incentive compensation awards.

<sup>4</sup> Upon departure from Blue Shield there are sometimes 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.

# 2019 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.

2019 base salary .....  
**\$1,387,076**

**54%** of Mr. Markovich's 2019 total compensation (base salary + Executive Incentive Plan + Long-Term Incentive Plan + Retention Payment) was delivered through **performance-based** incentives. Excluding the retention payment, 74% of Mr. Markovich's 2019 total compensation was “at risk” and delivered through performance-based incentives.

**Actual Executive Incentive Plan Payout<sup>1</sup>**  
*(based on 2018 goal achievement)*

**\$2,203,719**

**Actual Long-Term Incentive Plan Payout<sup>1</sup>**  
*(based on 2016-2018 goal achievement)*

**\$1,857,388**

**2019 Gross Earnings<sup>2</sup>**  
**\$7,501,944**

which, when excluding the retention award, is \$5,501,944 and in-line with the Blue Shield executive compensation philosophy and positioned between the market 50th and 75th percentiles.

## The CEO Total Benefits Package

Blue Shield's benefits package added an amount equal to 33% 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:**  
**\$24,138**

**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.

<sup>1</sup> Incentives paid in 2019 are derived from eligible earnings applicable during the relevant performance periods.

<sup>2</sup> 2019 gross earnings include other items such as executive perquisite allowance in addition to base salary and incentives.

# How we compare against the market

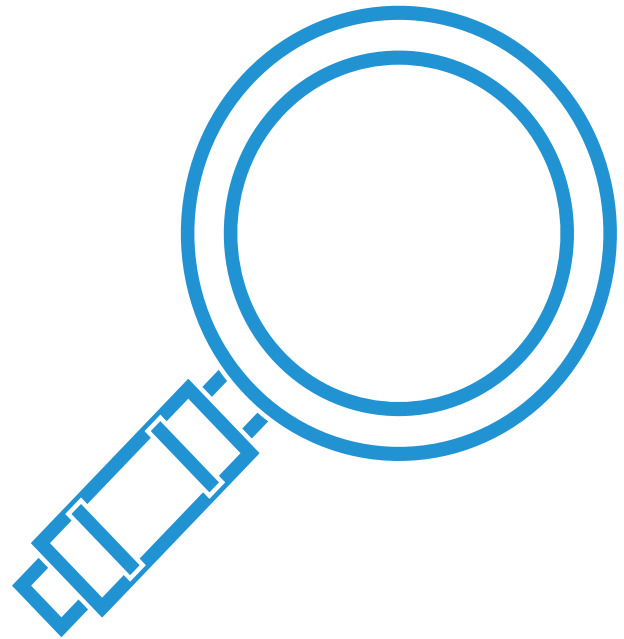
When compared to peer companies, we target the market median for total compensation (base salary plus annual incentive plus long-term incentive) and a range of market 50th - 75th percentile for salary and annual incentive.

Total compensation paid in 2019 to Blue Shield's Chief Executive Officer was competitive 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
- ▶ Highmark Health
- ▶ UnitedHealth Group
- ▶ Humana
- ▶ Kaiser Permanente



## Comparing CEO compensation for 2019

The actual total compensation paid to Blue Shield's Chief Executive Officer in 2019 was higher than normal due to payment of a special retention award earned over the 2016-2018 period. Excluding the retention award, the Blue Shield CEO's total compensation was comparable to the median target total compensation<sup>1</sup> of Chief Executive Officers of similarly sized managed care companies.

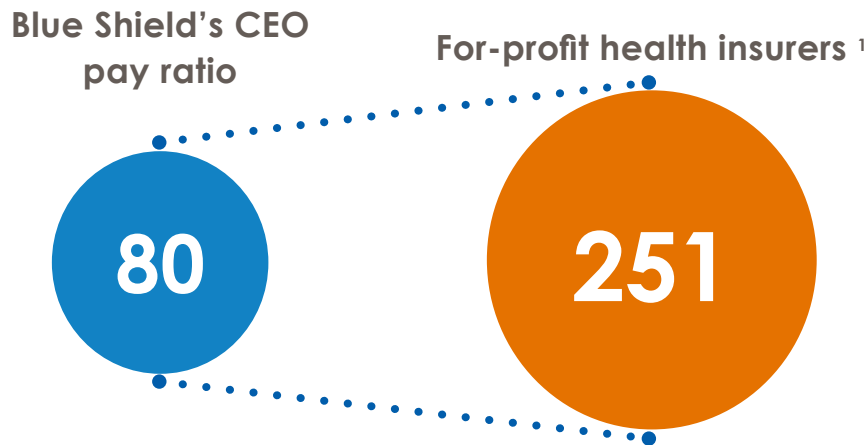
<sup>1</sup> Target Total Direct Compensation is comprised of base salary, the target value of annual incentive and the target value of long-term incentive.

# CEO pay ratio

Public companies must disclose in their proxy statement:

- ▶ The annual total compensation of its CEO
- ▶ The median of the annual total compensation of all its employees, except the CEO
- ▶ The ratio of those two amounts

Blue Shield is not required to disclose its CEO pay ratio since it is not a public company. We are voluntarily disclosing our CEO pay ratio for transparency.



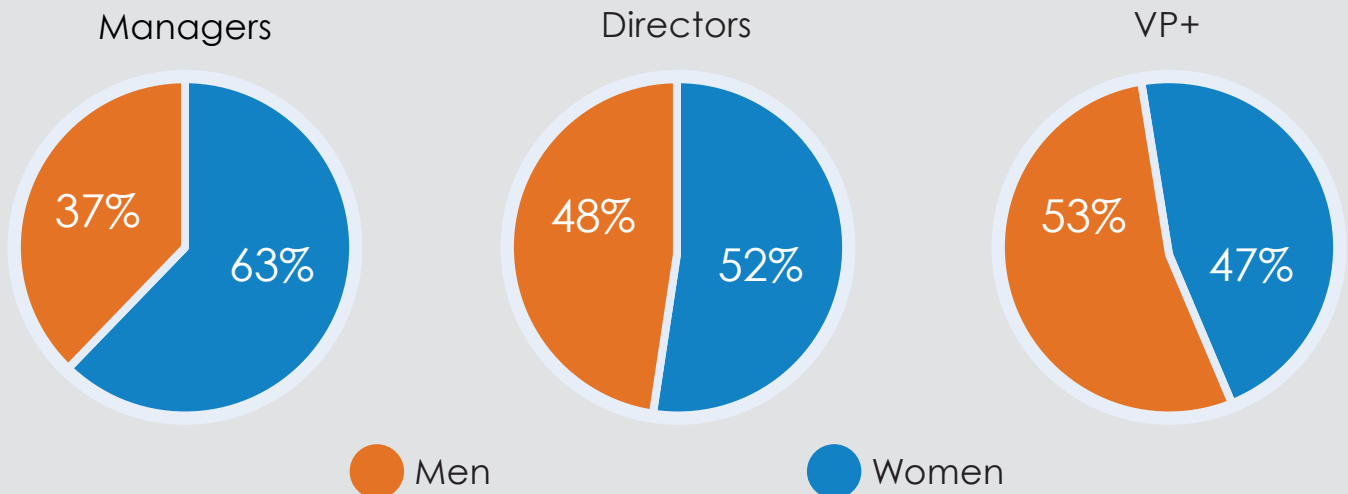
## Pay equity

Consistent with our pay for performance philosophy, minorities and non-minorities and women and men are paid the same for the same work at Blue Shield.

**Our pay ratio for minorities versus non-minorities is 100%.**

**Our pay ratio for women versus men is 100%.**

Women are well represented in management.



<sup>1</sup>Includes Anthem, Centene, Cigna, Humana, Magellan, Molina, Triple-S and UnitedHealth Group.