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 worthy of our family and friends and sustainably affordable. To achieve our mission, we must transform a dysfunctional healthcare system and ensure everything we do, every decision we make is driven by our mission and a strong leadership team that inspires all of us to achieve our goals.

The purpose of this document is to provide insight into the components of our executive compensation program and illustrate how we pay for performance. As a non-profit healthcare plan that voluntarily holds itself to the same disclosure standards as its for-profit competitor peers, it is important that we continue to raise the level of transparency in our industry, and ensure our members and partners fully understand what we do, what we stand for and why we do it.
Key facts about our executive compensation summary

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Our compensation philosophy

Blue Shield rewards executives through a pay for performance compensation philosophy that combines achieving strong company performance (the “what”) and high-quality, high-performing leadership (the “how”). How we achieve through leadership is as important as what we achieve. We expect our leaders to be human, honest and courageous and to model our leadership behaviors, including continuously striving towards our north star, to make health care worthy of our family and friends. We do this by putting our members first, giving back to our communities, building high-performing teams, delivering high-quality results and taking an enterprise view.
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 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 compensation program is reviewed annually by the Compensation and Human Resources Committee of the Board of Directors, an independent committee comprised of outside directors. This Committee is also supported by an expert Independent Compensation Consultant that complements and acts independent of the leadership team at Blue Shield. Annually, the committee:

- Reviews Blue Shield compensation program guiding principles and objectives
- Works with an independent consultant to benchmark Blue Shield pay programs against peer companies, which include nonprofit and for-profit managed care companies, and California general industry
- Reviews and approves challenging short- and long-term incentive goals and targets for executives
- Monitors company performance against goals and determines applicable corporate performance factors
- Reviews and approves the performance and development plans 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
Remaining vigilant and agile during a global pandemic

2020 was an unprecedented year for all requiring increased vigilance and agility, and Blue Shield responded appropriately and aggressively to safeguard business continuity and service levels for all of our members, communities and employees.

We worked diligently throughout 2020 to advance our mission in the face of great uncertainty resulting from the coronavirus pandemic. We also remained steadfast in our commitment to be good stewards of our financial resources in support of, and in response to, the evolving needs of our members, communities and employees.

For our members and communities, we returned nearly $240 million in direct financial support for providers, member premium and co-payment forgiveness and other community investments.

For our 7,000 plus employees, we invested nearly $6 million to ensure they were supported and organized to be effective in an extended remote work environment. We also met our goal of providing continued employment with no layoffs resulting from the pandemic-driven economic downturn.

In addition, we remained pragmatic in our approach to executive compensation. In 2020, our CEO voluntarily proposed, and the Compensation and Human Resources Committee approved, the following pay actions for the CEO:

- Removal of CEO 2020 merit-based salary increase, returning CEO base salary to the 2019 level
- Capping CEO annual incentive opportunity (paid in March 2021) at 50% of the actual corporate performance and target individual performance, which resulted in a payout of $1.2M and a voluntary reduction in variable pay based on performance of approximately $1.6M
  - Actual corporate and actual individual performance, if uncapped, would have resulted in an annual incentive payout of $2.8M
- Salary freeze for 2021
In 2020, the Blue Shield Board of Directors voluntarily elected to reduce the annual Board cash retainers to 2019 levels resulting in approximately 9.9% and 8.0% reductions for the Chairman of the Board and other Directors, respectively. As of January 2021, the annual Board cash retainers reverted to 2020 levels. There is no additional increase to annual Board cash retainers for 2021.
### Key elements of our executive compensation program

Blue Shield’s Executive Compensation Program consists of the following elements:

<table>
<thead>
<tr>
<th></th>
<th>Link to program objectives</th>
<th>Type of compensation</th>
<th>Key features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Salary</strong></td>
<td>Provides a stable source of income and is a standard compensation element in executive compensation packages</td>
<td>Cash</td>
<td>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</td>
</tr>
<tr>
<td><strong>Executive Incentive Plan</strong></td>
<td>An annual cash-based award that encourages executives to focus on specific corporate and individual annual performance goals</td>
<td>Cash</td>
<td>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</td>
</tr>
<tr>
<td><strong>Long-Term Incentive Plan</strong></td>
<td>Helps ensure that executive pay is directly linked to the achievement of the company’s long-term strategic objectives; promotes retention</td>
<td>Cash</td>
<td>Target incentive opportunity is set annually with a three-year horizon needed to achieve the company’s performance goals and objectives</td>
</tr>
<tr>
<td><strong>Health and Welfare Benefits</strong></td>
<td>Critical element of a total rewards program that helps attract and retain employee and executive talent</td>
<td>Benefit</td>
<td>Comprehensive program of benefits that are available generally to all Blue Shield employees</td>
</tr>
</tbody>
</table>
| **Retirement**        | Critical element of a total rewards program that helps attract and retain executive talent | Benefit              | Executives receive retirement benefits through four plans:  
• 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.
On average, Blue Shield’s benefits package adds an amount equal to 17% of target total compensation to an individual’s total rewards.

**BASE SALARY**

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

31%

On average, **base salary** makes up 31% 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.

69%

On average, **incentives** make up 69% of an executive’s target total compensation. This is the percentage of pay “at risk,” meaning not guaranteed for executives.

Plus other programs:

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

Our 2020 short-term goals

(apply to incentive compensation payable in March 2021)

- 25% customer experience
- 25% membership
- 25% clinical quality
- 25% operating income

Performance is measured over a one-year period.
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.

\[
\text{Corporate } \times \text{ Executive Incentive Plan target opportunity } \times \text{ Corporate performance factor } \times 70\% = \text{ Corporate } \$
\]

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

\[
\text{Individual } \times \text{ Executive incentive plan target opportunity } \times \text{ Individual performance factor } \times 30\% = \text{ Individual } \$
\]
Long-Term Incentive Plan

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

**Our 2020-2022 long-term goals**

*(apply to incentive compensation payable in March 2023)*

- 25% customer experience
- 25% membership
- 20% clinical quality
- 20% affordability
- 10% great place to work
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. 200% of target is the maximum payout allowed.

Determining a Long-Term Incentive Plan award
Our top paid executives

Below is a summary of the compensation paid in 2020 to Blue Shield of California’s top ten highest paid, active executives as of year-end. Total compensation for this group was less than 1% of the company’s total general, administrative, marketing and selling expenses.

Paul S. Markovich 1, 2
President and Chief Executive Officer
$6,407,405

Michael G. Mathias 1, 2
EVP, IT
$3,497,743

Jeffrey Bailet 1, 2
Chief Executive Officer, Altais
$2,922,649

Seth A. Jacobs 1, 2
SVP, General Counsel and Corporate Secretary
$2,920,454

Mary M. O’Hara 1, 2
Chief Human Resources Officer & SVP, Internal Communications
$2,850,825

Todd K. Walthall 1, 2
Chief Operating Officer
$2,615,128

Sandra Clarke 1, 2
SVP and Chief Financial Officer
$2,467,890

Jeffrey W. Robertson 1, 2
SVP, Chief Marketing and Customer Officer
$2,191,039

Terry Gilliland 1, 2
EVP, Health Care Quality and Affordability
$2,001,638

Lisa Davis 1, 2
Chief Information Officer
$1,646,410

Below is the compensation paid to executives who left the company in 2020 and whose compensation placed them in the top ten highest paid overall.

Gregory S. Buchert 1, 2, 3
President, Promise Health Plan
$3,387,124

Charles Sweeris 1, 2, 3
VP Deputy Gen Counsel
$3,036,013

William J. Brown 1, 2, 3
VP, Platform Development
$2,273,181

1 Amounts paid March 2020 reflect performance in fiscal year 2019 for the Executive Incentive Plan, and 2017-2019 for 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 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. For some individuals, this comprises a large portion of the total earnings.
2020 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.

2020 base salary

$1,393,319

77% of Mr. Markovich’s 2020 total compensation (base salary + Executive Incentive Plan + Long-Term Incentive Plan) was “at-risk” and delivered through performance-based incentives.

Actual executive incentive plan payout\(^1\)
(based on 2019 goal achievement)

$2,027,974

Actual long-term incentive plan payout\(^1\)
(based on 2017-2019 goal achievement)

$2,895,125
2020 gross earnings ², ³
$6,407,405

is 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 27% 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:
$25,795

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 2020 are derived from eligible earnings applicable during the relevant performance periods.
² 2020 gross earnings include other items such as executive perquisite allowance in addition to base salary and incentives.
³ In 2020, voluntarily forfeited variable/incentive pay of $1.6M.
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 to 75th percentile for salary and annual incentive.

Total compensation paid in 2020 to Blue Shield’s Chief Executive Officer was competitive when compared with similarly-sized managed care companies, including:

- Blue Cross Blue Shield companies
- Cigna
- Molina Healthcare
- Providence Health & Services
- WellCare Health Plans
- Other similarly-sized nonprofit and for-profit companies in the managed care industry
- Centene
- Highmark Health
- UnitedHealth Group
- Humana
- Kaiser Permanente
- Anthem
- Magellan
Comparing CEO compensation for 2020

The actual total compensation paid to Blue Shield’s Chief Executive Officer in 2020 was in the 50th to 75th percentile range and comparable to the target total compensation\(^1\) of Chief Executive Officers of similarly sized managed care companies.

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.

Blue Shield’s CEO pay ratio

For-profit health insurers\(^2\)

\(^1\) Target Total Direct Compensation is comprised of base salary, the target value of annual incentive and the target value of long-term incentive.

\(^2\) Includes Anthem, Centene, Cigna, Humana, Magellan, Molina, Triple-S and United Health Group.
Pay equity

Consistent with our pay for performance philosophy, we strive to rigorously maintain a position where minorities and non-minorities and women and men in comparable roles are paid the same at Blue Shield.

We also achieved gender and minority balance on our Board of Directors and appointed Kristina Leslie as the first female Chair of the Board of Directors in our 81-year history. We are proud to be one of the largest companies in the state of California to achieve this level of Board diversity.

In 2020, we were recognized in the “Parity.org Best Companies for Women to Advance” list, which recognizes organizations that have benefits, policies, and programs that are particularly beneficial for women to advance in the workplace.

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.
Blue Shield of California is an independent member of the Blue Shield Association