



now more than ever,  
our mission matters.





As a nonprofit health plan, Blue Shield of California is driven by our mission to ensure all Californians have access to high-quality health care at an affordable price. Learn what we did in 2016 to be truly mission-driven, a good corporate citizen and a responsible steward of our resources.

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# A message from our CEO

Blue Shield of California is fully committed to transform a dysfunctional healthcare system that is bankrupting us, as a society, into one that is worthy of our family and friends, and is sustainably affordable. As a nonprofit health plan, we are uniquely positioned to achieve this ambitious goal by focusing on our three fundamental obligations – to be truly mission driven, a good corporate citizen and a responsible steward of our resources.

## **Truly mission driven**

Blue Shield of California is on a mission to ensure that all Californians have access to the high-quality care they deserve at a price they can afford. It starts by building meaningful and long-lasting relationships with our members to ensure that they live healthier and more fulfilling lives.

In the past year, we have made substantial progress towards this goal. Through strategic digital investments, we improved how our members navigate the healthcare system and receive care. We helped form the state's largest health information exchange to make it easier for providers and insurers to collaborate on patient care by creating integrated, accurate medical records.

We continue to collaborate with physician groups and hospitals to develop innovative solutions that reduce cost, improve efficiency and deliver greater quality of care. We now have more than 40 Accountable Care Organizations across California.

We also remain a vocal advocate for public policy that helps us fulfill our mission. While the Affordable Care Act faces an uncertain future, we are working to preserve the most effective policies. No matter what changes come our way, we will steadfastly pursue our mission.

## **Good corporate citizen**

We believe that how we pursue our mission is just as important as getting there. That means we strive to do the right thing, act with integrity, be emblematic of our values, treat employees well, conserve natural resources and strengthen our connection with the communities we serve.

## **Responsible steward of our resources**

As a nonprofit health plan, we are not here to maximize profits for shareholders. We use our resources in a way that furthers access to quality, affordable health care.

That's why we voluntarily cap our net income at 2% of revenue, returning anything above that to customers and the community. We also give a significant portion of our income every year to Blue Shield of California Foundation.

Ensuring all Californians have access to high-quality, affordable health care is our North Star: It guides how we do business and interact with our members every day.

We hope you enjoy reading the 2016 Mission Report and welcome your feedback about the many fronts on which Blue Shield is working to improve health care in America.

Sincerely,



**Paul Markovich,**  
*President and Chief Executive Officer,  
Blue Shield of California*



# Truly mission-driven

We are working to enable all Californians to access the care they deserve at a price they can afford by moving health care into the digital age, collaborating with providers to improve health outcomes and supporting public policy that advances our mission.



# Serving all californians

We believe that all Californians deserve access to high-quality, affordable health care. In pursuit of this mission, we have made strides in transforming a broken healthcare system into one that meets the diverse needs of Californians. But there is more work to be done.

Regardless of any changes to our healthcare system, know this: We will continue to forge a path forward, guided by a deep commitment to our members and our mission.

## Better serving low-income californians

In 2015, we acquired Care1st Health Plan — a managed care company that offers Medicaid, Medicare and “dual eligible” plans. The acquisition increased Blue Shield’s Medicare membership and marked our entry into Medicaid and Medi-Cal, the federal and state programs that serve low-income individuals. Expanding our capacity to meet the needs of this underserved segment of the population is a critical step in furthering our mission to ensure all Californians have access to quality health care at an affordable price.

Since then, we have taken important steps to better understand this population’s unique health care needs and provide the programming and staffing needed to best serve them. In 2016, we introduced a pilot program for “dual eligible” individuals

who have both Medicare and Medi-Cal plans. The pilot provides insights into how to make it simpler for low-income patients, who are often disabled or elderly, to get the services they need and to stay independent in their own homes and communities.

When Blue Shield acquired Care1st, we agreed to numerous undertakings in our agreement with our state regulator, the California Department of Managed Care (DMHC). We have made substantial progress in implementing them in 2016, including:

- Contributing \$34 million to Blue Shield of California Foundation, exceeding the \$14 million minimum annual requirement contained in the undertakings.
- Making the first installment of Blue Shield’s five-year, \$10 million commitment to enhance consumer assistance and education efforts in the state.
- Converting Care1st Health Plan into a nonprofit.
- As part of our \$50 million commitment to strengthen the healthcare delivery system, Blue Shield established a working group of key stakeholders—including providers, health plans and regulators—with the goal of implementing a statewide provider directory database.

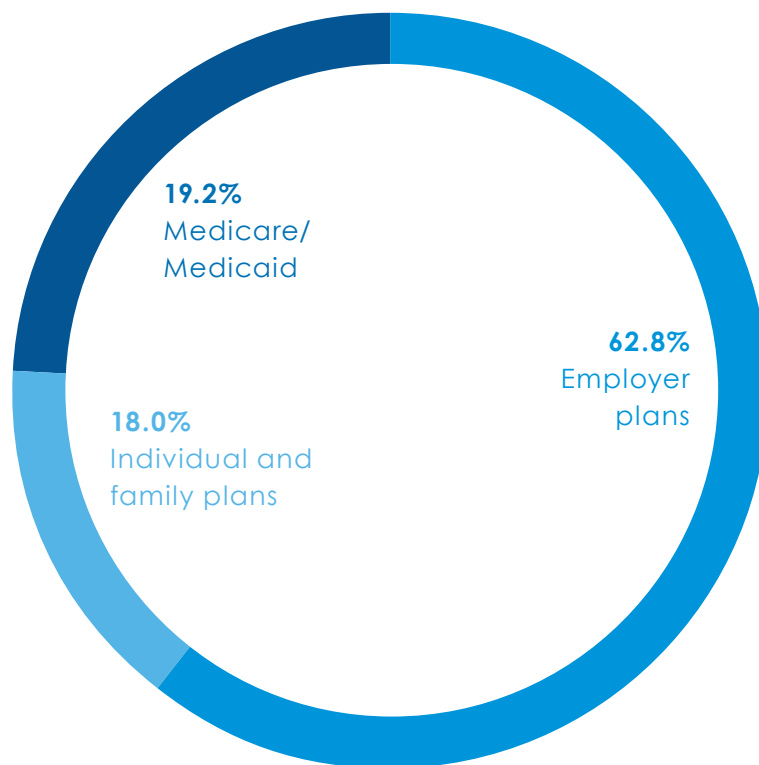
## Serving the individual and family plan market

We are committed to our partnership with Covered California and fostering a statewide health exchange market that is stable over the long term. Covered California has reduced the state's uninsured rate from 16% in 2013 to 8.1% in 2016—a full percentage point below the national average.

Our mission closely aligns with Covered California's, and we've worked side by side on a number of products and services to improve access, and the cost and quality of individual coverage, including:

- Availability of Blue Shield's nationally recognized Accountable Care Organization (ACO) program (as Trio ACO HMO plans) to individuals and families shopping on Covered California. Trio plans are designed to enhance care coordination, improve members' overall experience and reduce costs.
- Continuing to offer a statewide PPO—available in every county—to ensure access to a high-value network of providers and hospitals throughout California.
- A new program launching in 2017 that assigns IFP PPO members a primary care physician who serves as an advocate for navigating the healthcare system, and can help address most health care needs, from preventive health and wellness to managing chronic conditions.

## Type of plans our members have



## By the numbers

**4M** total members

**#1** in enrollment in Covered California for 2016 individual and family plans

**56%** of our Individual and Family Plan members purchased their plans through Covered California

# Moving health care into the digital age

In the age of smartphones and tablets, clipboards still rule across much of the healthcare industry. Blue Shield is working to change that. We are investing in a range of efforts to make the healthcare system more efficient, effective and accessible, by bringing it into the digital age.

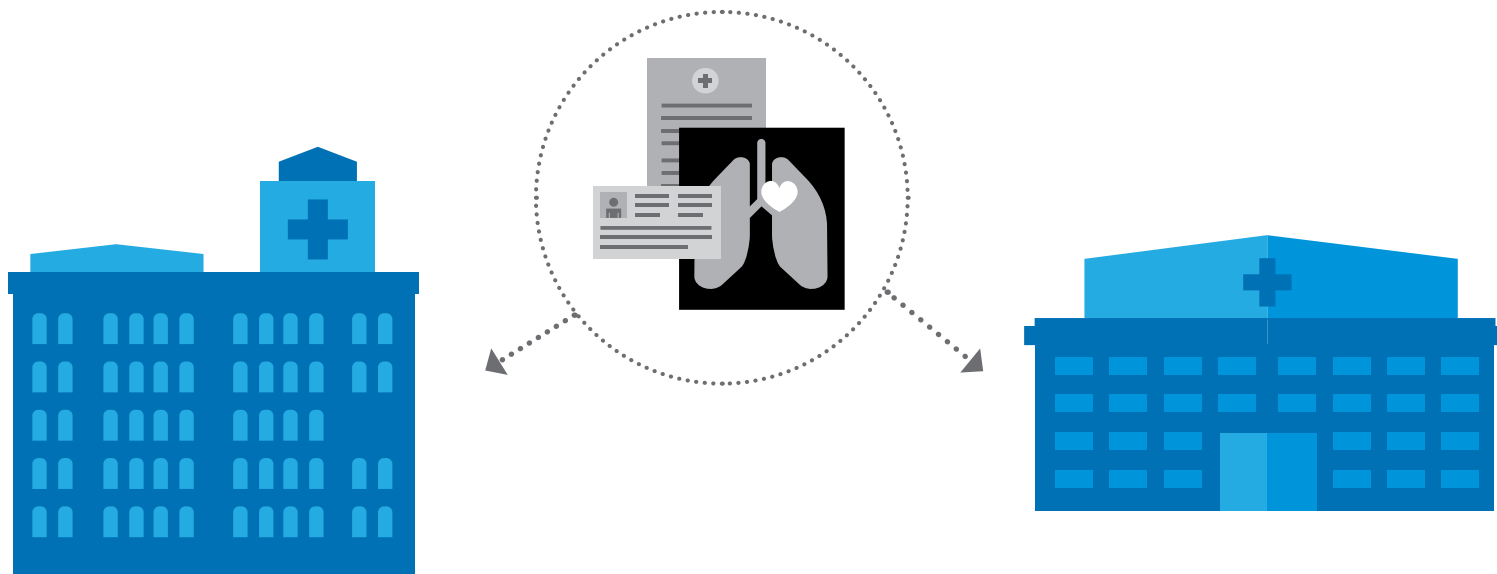
## Launching largest health information exchange

Blue Shield understands that the next big advance in California's healthcare delivery system is the establishment of an open-source health information exchange. Electronically sharing health data improves quality of care, reduces medical errors, cuts wasteful spending and provides valuable insights into population-level public health issues. In short, it has the potential to fundamentally transform the system—which is why we have invested significantly in advancing it.

In 2014, Blue Shield and Anthem Blue Cross launched the California Integrated Data Exchange (Cal INDEX), with the goal of improving the quality of care and member experience by creating a single source of integrated patient information.

Two and a half years later, Cal INDEX announced that it would merge with the Inland Empire Health Information Exchange (IEHIE) to create California's largest health information exchange, with more than 16 million patient records and 150 participating providers. The scale of the merger provides more traction in creating a comprehensive digital patient record, and enables California to take a giant step forward into the digital age.

The new organization, called [Manifest MedEx](#), operates as a tax-exempt public benefit corporation.





## Enhancing our customers' experience

We keep our members at the center of everything we do, and giving them the experience they deserve starts with consistently delivering on the basics of health care. That means making sure they get their ID cards, have access to care, and get their claims

paid accurately and promptly. But we know our members want more than these basics alone. They also want digital tools and services that are tailored to their needs and empower them to manage their health care conveniently and seamlessly.

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## Expanding our digital platform

in 2016, we significantly improved our digital capabilities with the redesign of our mobile app and website ([www.blueshieldca.com](http://www.blueshieldca.com)). Blue Shield employees built these tools from the ground up, because we can best serve our members by working directly with them and designing around their needs—and by having the technical skills and expertise in-house to support and rapidly iterate, based on our members' feedback.

In addition, Blue Shield has rolled out several programs to make it easier and more convenient for our members to access medical services. For example:

- Our Telehealth program with Adventist Health offers PPO members the ability to see a specialist—whose office may be located far from where the member lives—or other health care professional via video consultations, rather than travel to an in-person appointment. By the end of 2016, we had expanded the program to 21 locations across California.
- We collaborate with Teledoc to offer remote access to physicians via telephone and secure video consults. Teledoc's doctors are available 24 hours a day, 7 days a week, to help our members manage routine illnesses, reducing costly and time-consuming emergency room visits for non-emergency medical issues.
- Through Heal, an app-based “house call on-demand service,” Blue Shield members in select locations can arrange for doctors to come to the patient for appointments when and where it is most convenient for the patient.



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## Improving our customer care

Along with enhancing our digital capabilities, we have taken a number of steps in recent years to strengthen how we serve our customers. For example, we have improved our enrollment processing time by more than 70%. Our call wait times are down—and we are resolving more issues for members the first time they call. Our provider directories are more accurate and up-to-date. And our member satisfaction scores are up.

We know we still have more work to do, but the indicators are moving in the right direction. As we remain focused on keeping our members' needs at the center of everything we do, we are confident the trend will continue. Here are a few more things we did in 2016 to keep up the momentum:

- **Gained insight from our members.** We undertook several initiatives to learn more about our members' needs and how we can better meet them. For example, we established the Voice of the Customer Platform, a panel of 1,800 Blue Shield members who have committed to providing feedback on our service and products, to ensure we provide our members with the care they deserve.
- **Invested in our employees to better serve our members.** Providing our customers with exceptional service depends on equipping our employees with the skills and resources to excel at their jobs. With that in mind, we have rolled out several new training and development programs for our Customer Experience employees.

# Collaborating with providers

Blue Shield is deeply committed to collaborating with providers. These long-term relationships, built on trust and accountability, have made us a leader in California for nearly 80 years, and set us apart from other health plans. Together, we can work more effectively toward creating a better healthcare system for all Californians.

## Bringing costs down and quality up through shared accountability

Accountable Care Organizations (ACOs) are central to Blue Shield's strategy for transforming the healthcare system.

An ACO is a formal collaboration with physicians, hospitals and Blue Shield in which all three agree to be accountable for the quality, cost and overall care of patients.

ACOs work because each of the parties shares the risks and the incentives of improving quality and lowering costs, rather than simply passing on those responsibilities elsewhere. The result: The annual increase in the cost of health care for our ACO plans is 3.2%—roughly half the increase of our non-ACO plans. Meanwhile, the national cost of health care trend increased 7.0% in 2016.

Blue Shield's ACO program continues to grow and evolve. By the end of 2016, 350,000 of our members were in 42 ACOs across the state. During the year, we expanded our ACO network in Southern California through a partnership with PrimeCare Medical Network, Inc.—the Inland Empire's largest network of independently contracted physicians—and San Antonio Regional Hospital. This newly formed collaboration has the hallmarks of all of our ACOs: better care coordination and information sharing, resulting in better patient outcomes and lower costs.

## Expanding access and efficiency

In 2016, we made great strides in increasing access and efficiency for more Californians through our ACOs. This included:

- Expanding the geographical reach of Trio, our popular ACO Health Maintenance Organization (HMO), a network built entirely of ACO providers and available to employer group customers and Individual and Family Plans (IFP) purchased through Covered California.
- Harnessing the power of Manifest MedEx—a statewide health information exchange—to enable our ACO partners to better access and share the health data they need to provide the highest-quality care.
- Leveraging a primary care physician automatic-assignment process in our ACOs to make it easier for our members to access a doctor.

## The core four

We are working with and investing in our ACO partners to help them strengthen or implement clinical programs in four interconnected areas that can dramatically benefit those most acutely in need. When these programs are in place, the quality of care goes up, costs go down, and patients have a better experience and improved outcomes:



Advanced  
facility care



High-risk  
clinics

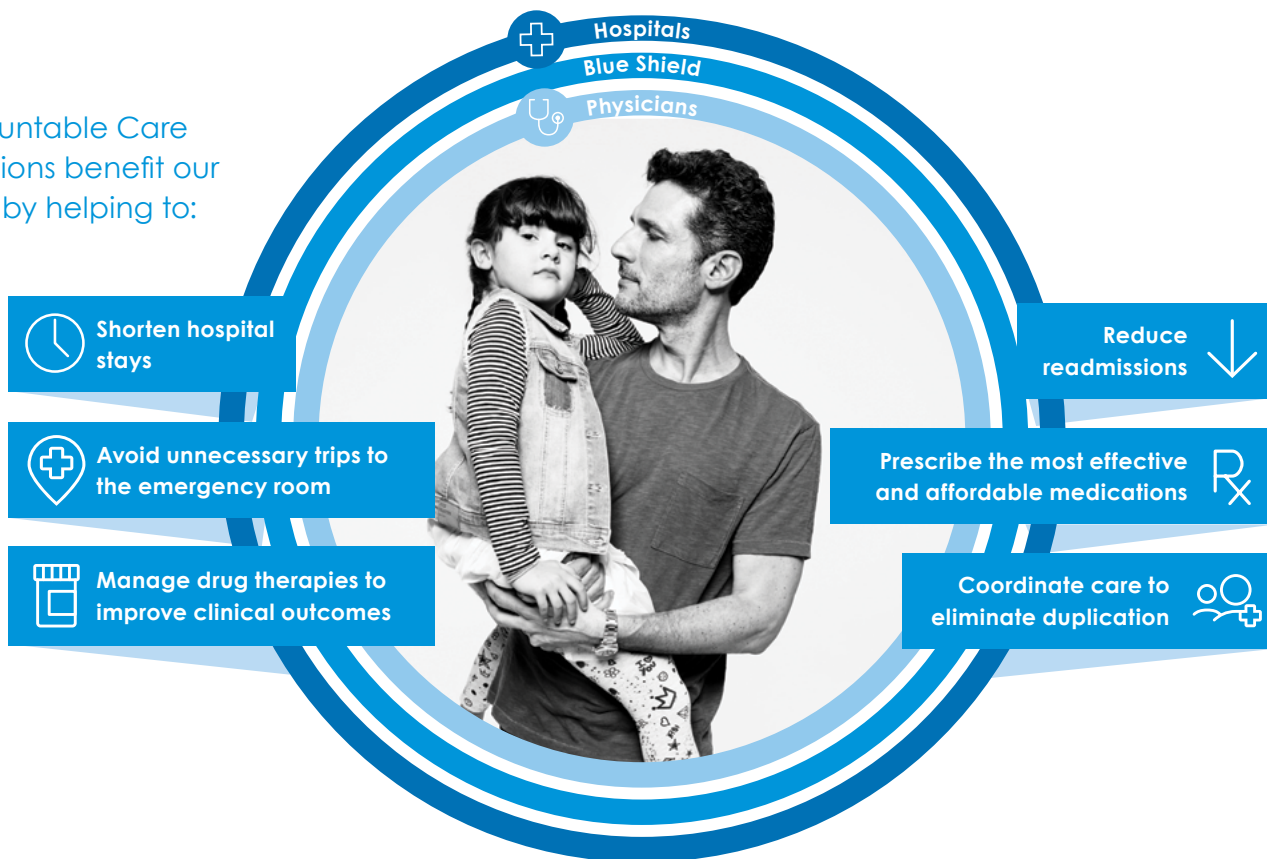


Home care



Care  
coordination and  
management

Our Accountable Care Organizations benefit our members by helping to:



#### Our ACO results since 2010

**21%**

reduction in  
hospital admissions

**19%**

reduction in  
hospital stays

**\$440M**

in total cost savings

#### Our ACOs by the numbers

**350K**

members in ACOs

**42**

Blue Shield ACOs

**3.2%**

annual increase in cost  
of health care—less  
than half the rate for  
our non-ACO plans

## Focusing on quality of care

At Blue Shield, quality means achieving the outcomes that improve the health of our members. We focus on the health of the whole person, which includes not just their physical well-being but also their mental and emotional health. Through our partnership with Magellan Health, a health care management company, we strive to ensure our members have access to high-quality behavioral health care services.

We also collaborate with providers to promote and share best practices in clinical care. Our Practices of the Future, for example, are innovative programs targeted at certain diseases, such as cancer. In these practices, specialists develop programs that improve clinical decision-making and take into account patient preferences, whole-person care and evidence-based medicine.

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## Measuring quality

To measure and assess how we are doing in providing access to quality care for our members, we developed our own Health Care Quality Index (HCQI). It consists of conventional quality measures set by regulators and other industry standards alongside our own set of innovative and outcome-based measures.

Another way we measure our performance is through our Medicare STAR ratings, which include a variety of measures, including how our members rate our plan's services and care; how well our doctors detect illnesses and keep members healthy; and how well our plan helps our members use prescriptions safely. In 2016, we received a 3.5 overall STAR rating from Medicare, slightly down from the previous year's. Because the rating system rewards improvement, the score reflects the fact that we've had some administrative and operational challenges, yet our clinical care has remained stable. To improve our quality scores, including Medicare STAR ratings, we are:

- Streamlining and automating appeals and complaints management systems and processes.
- Engaging provider partners throughout the year to close gaps in care.
- Improving the accuracy of the claims data used to track clinical quality.



## Working to improve health outcomes

Blue Shield continually works to enhance the quality of care our members access through our coverage and collaboration with providers to improve health outcomes. Here are examples of two initiatives we have recently launched:

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### Advancing innovations in palliative care

At Blue Shield, we work closely with providers to meet the needs of seriously ill members and their families through palliative care. This specialized care focuses on providing relief from the symptoms and stress of a serious illness, and improving quality of life for both the patient and the family.

In early 2017, Blue Shield of California, Hill Physicians Medical Group and Snowline Hospice announced a new home-based palliative care program that provides comprehensive care for seriously ill patients and their families. The innovative program allows primary care providers to offer palliative care alongside hospice providers who are experts in this field. This model, the first of its kind for an independent physician association in California, will improve care for the seriously ill and their caregivers. The program provides training, resources and support to develop a successful model that can be used elsewhere.

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### Narcotics safety initiative

The over-prescription of highly addictive pain-relief drugs, known as opioid narcotics, has become a national epidemic. In the past 15 years, their use has risen fourfold, leading to a cascade of health, social and economic problems.

In an effort to address this issue, Blue Shield launched a Narcotic Safety Initiative in 2015, with the goal of reducing inappropriate opioid prescription and overuse for our members by at least 50% by the end of 2018. As part of this initiative, we're collaborating closely with prescribers to help members with non-cancer-related pain find alternatives to opioids, since they can lead to dependence and addiction. We're also working to promote safer use for those already using opioid therapy.

The results for Blue Shield's Narcotic Safety Initiative have exceeded our expectations:

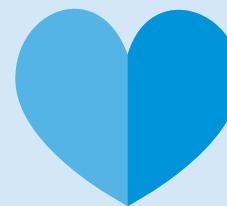
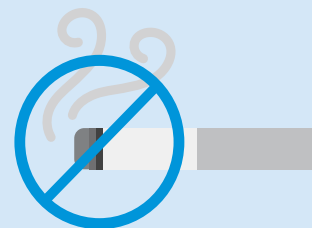
- Reduced opioid use by more than 30% among Blue Shield members with non-cancer pain.
- Reduced the number of members using the very highest doses of opioids by 47% and those using moderately high doses of opioids by 34%.
- Prevented 19% of all new opioid utilizers from progressing to chronic use (beyond 90 days), for pain unrelated to cancer or terminal illness.

## Promoting wellness

Wellvolution, our industry-leading wellness program, which has 70,000 active members, provides resources to encourage healthy living, such as tools to encourage physical activity, smoking cessation aids, customized diet and lifestyle recommendations and more.

Through collaboration with leading research organizations, we continually integrate the latest evidenced-based medical research into the program. For example, the Diabetes Prevention Program (DPP) became the latest clinically validated service to be offered by Wellvolution. The program includes lifestyle coaching and weekly courses on nutrition, exercise and stress management, to reduce the risk of Type 2 diabetes. Blue Shield has teamed up with Solera Health to provide our commercial health plan members access to Solera's network of DPP providers at no extra cost.

Our wellness initiatives have attracted national attention. In 2016, the American Heart Association (AHA) recognized Blue Shield as a platinum-level Fit-Friendly Worksite for the ninth consecutive year. For the seventh consecutive year, we received AHA's Worksite Innovation award for our Healthy You Healthy California campaign, which encouraged Blue Shield employees to stay active through our Walkadoo program, while raising money for the California State Parks Foundation.



# Influencing public policy

With a track record of leadership in advocating for universal coverage, Blue Shield of California has been a consistent champion of healthcare policy that ensures all Californians have access to quality, affordable care. For us, this isn't politics. It's our mission.

That's why we intend to continue offering individual coverage, even as federal or state health care policies change.

Our team has mobilized to work with leaders at the state and federal levels to educate them about the impact of their proposals, share our expertise to help shape new policy, and collaborate with a broad coalition of partners to preserve the most effective portions of the Affordable Care Act (ACA) in California. Most importantly, we are listening closely to our members and making sure their voices are represented in our advocacy.



## Advancing policy to support a better healthcare system

In 2016, we worked with the Blue Cross Blue Shield Association, America's Health Insurance Plans and California Association of Health Plans on collective advocacy initiatives that were instrumental in helping to pass several key pieces of legislation and initiatives aimed at improving our healthcare system. For example:

- A tobacco tax increase, which will reduce the use of cigarettes and provide billions of dollars to support health care for low-income Californians.
- A ban on surprise billing from out-of-network providers, to protect enrollees from unexpected and unfair costs.
- A tax on managed care organizations, to create a sustainable funding source for Medi-Cal.
- The "third party payment" rule, currently under federal court review, which restricts payments for companies that steer enrollment from public to private coverage for financial gain.

## Transparency in drug pricing

Prescription drug prices continue to skyrocket, driving up the cost of health care for all. Blue Shield has played a key role in pushing this issue onto the national agenda. We have been a driving force behind the effort to promote price transparency, which is critical to keeping drug costs down. We are also founding members of the Campaign for Sustainable Rx Pricing (CSRxP)—a national coalition that brings together health plans, hospitals, physicians, labor and businesses to influence policy and promote commonsense, market-based approaches to reducing drug costs.

In 2016, Blue Shield advocated for a state bill that requires drug makers to give prior notice to taxpayers before raising prices more than 10%, as well as requiring disclosure of the factors leading to excessive price increases. We were also successful in getting bipartisan legislation mirroring the state bill introduced in Congress. These bills have been instrumental in advancing the conversation about drug-pricing transparency, both in our state and nationally.

### Working against gaming and abuse in the individual market

The ACA took an important step towards improving our nation's health care system by requiring health insurers to take all paying customers irrespective of their health status. However, the unintended consequence was a proliferation of bad actors exploiting post-ACA loopholes for their own financial gain. We have seen a large increase in financially interested third parties, including a Medi-Cal plan, paying premiums to steer their most costly enrollees away from public programs like Medi-Cal and Medicare and into Blue Shield commercial plans where higher reimbursement rates benefit them financially. This has cost Blue Shield and our members over \$65 Million since 2014. We continue to work with our State and Federal regulators to address these issues and protect the individual market from behaviors that threaten to destabilize it.

### Keeping provider directories accurate and up to date

Consumers need to know which providers are in their network in order to access care. We have supported successful state-wide legislation that requires health plans and their contracted providers to make up-to-date, accurate provider directories available, both online and in printed form.

In 2016, Blue Shield organized the California Provider Directory Summit, which gathered stakeholders to discuss regulatory and other initiatives related to directory accuracy. We also partnered with America's Health Insurance Plans (AHIP) on a pilot program that introduced a single database for more than 100,000 healthcare providers to verify and report any changes to their practice, network or other information. Blue Shield continues to lead a statewide effort to reach a consensus solution among all stakeholders to provide better and more timely information to consumers.

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### Political contributions

Blue Shield contributes to state and local candidates, political parties, political committees and ballot measures that help us advance our mission. Blue Shield works with both political parties. In 2016:

- Blue Shield contributed \$650,250 to state candidates and committees.
- Blue Shield's employee political action committee, funded by voluntary contributions of eligible Blue Shield employees, contributed \$212,500 at the federal level.

# Creating a great place to work

To fulfill our mission, we need great people doing their best work. That's why we strive to create an exceptional experience for our employees, where each person feels respected, appreciated, productive and engaged. Through professional development opportunities and recognition programs, we are investing in a range of efforts to ensure that our employees love coming to work—and can do their best work when they're here.

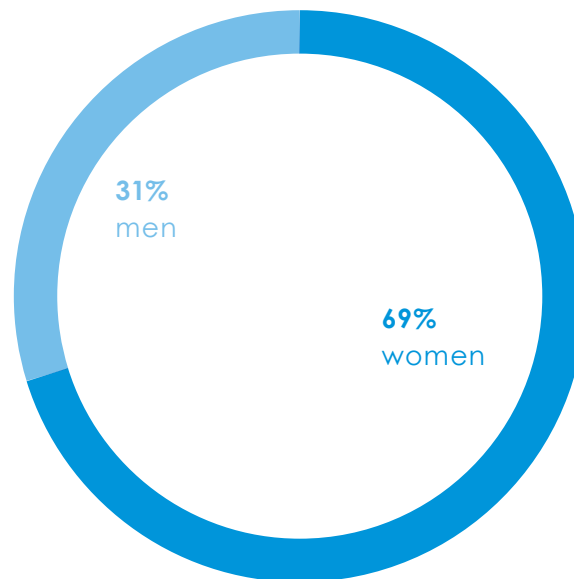
## Building leaders for the future

Fulfilling our mission and creating a great workplace starts with our leaders. We have made a strong commitment to leadership development by creating in-house programs that are taught by our senior leadership team and designed to touch every leader and people manager in our company. Our core programs are:

- **Lead to Excellence (L2X)**, for Directors and above. It is co-led by our CEO, Chief Human Resources Officer and other C-level executives, who commit a total of more than 30 days a year of their time to personally develop the curriculum and lead the sessions.
- **Manage to Excellence (M2X)**, for all supervisors, managers and senior managers, is also internally designed and delivered by our leaders. It focuses on foundational skills and expectations for people managers across Blue Shield.
- **Shield Emerging Leaders** is a program for those interested in management positions, to help build the next generation of leaders. It rotates participants through multiple business units in roles that help drive our most critical projects.
- **Harvard ManageMentor** provides all employees with access to online courses that help develop core skill areas, such as career management, goal setting, team management, time management, process improvement and more.

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## Gender of our workforce



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## 2016 Employee engagement survey results

**79%**

of our employees  
said Blue Shield is a  
great place to work

**82%**

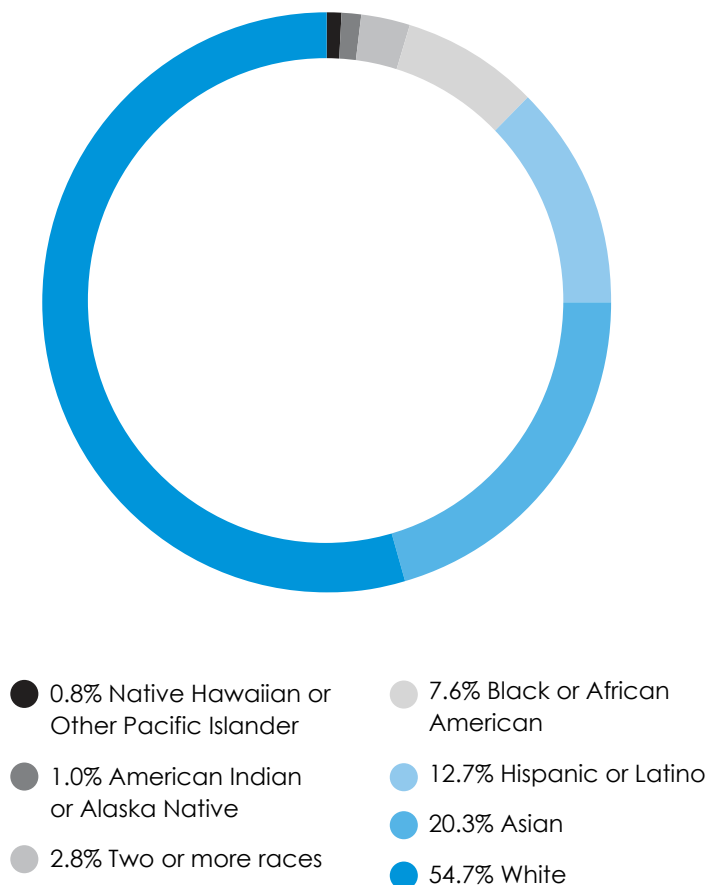
believe our long-  
term strategic  
goals will achieve  
our mission

**78%**

said their manager  
enables them to  
grow and  
develop through  
coaching support  
and guidance



## Race and ethnicity of our workforce



## Promoting diversity and inclusion

Celebrating diversity and supporting inclusion means that all of our employees feel respected for who they are, and are given the opportunity to achieve their aspirations.

We have a number of initiative in place across our company to make sure that is the case. One way is through our employee resource groups. These grassroots, staff-driven organizations give employees leadership opportunities and growth experiences outside their everyday jobs. They also give Blue Shield valuable input on how to create an even more diverse and inclusive environment for our employees and our members. Over the past few years, our employee groups have thrived. They include:

- Women Lead to Excellence
- Black Employee Network
- Shield Pride

We have recently added two more:

- ¡Unidos!, a Hispanic/Latino group (see Q&A with ¡Unidos! co-chair, pg. 18)
- APEN, Asian Pacific Employees Network

Our diversity efforts are working: In 2016, Blue Shield was recognized by DiversityInc as a Top 10 Regional Company for diversity. We were also included in the Human Rights Campaign's (HRC) list of 2017 Best Places to Work for lesbian, gay, bisexual and transgender (LGBT) equality, and earned a 100% on HRC's 2017 Corporate Equality Index survey—a national benchmarking tool that evaluates corporate policies and practices for LGBT employees.

## Recognizing and rewarding our people

Our employees are the driving force behind our success. We like to return the favor through Blue Shield's Total Rewards program. This comprehensive package includes cash compensation plus health and wellness, retirement and other benefits.

We strive to pay wages that are competitive within our industry and that enable our employees to meet their and their family's needs. In addition, our incentive plans align employee pay with the company's strategic objectives, ensuring that we are encouraging outstanding performance and behaviors essential to achieving our mission.

We also work to create a culture of appreciation and recognition. It's more than just good manners: We believe it is the key to a positive employee experience, and to building a great workplace. This year, we have upped the ante, finding even more opportunities to recognize and acknowledge each other's accomplishments. In 2016, we:

- Celebrated all employees with our first Employee Appreciation Week.
- Launched our online recognition and appreciation platform, Living Our Values Everyday (L.O.V.E.).
- Recognized individuals and teams who have championed innovative ideas to create positive change through our long-standing Mission and Values in Actions (MVIA) program.

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## Q & A with director of finance Cristina Guerrero, co-chair of ¡Unidos!, which launched during Hispanic Heritage month in October 2016.

### Q: Why was ¡Unidos! started?

A: Approximately 42% of Californians are Hispanic/Latino. We thought it was important to raise awareness within our own company about the culture, to build community and engagement and to help develop employees at Blue Shield so we can be more representative of the communities we serve.

### Q: What is the focus of the group?

A: We are focused around three main work streams: people, culture and brand. We want to create a network here for personal and professional growth, to enhance the employee experience by teaching about Hispanic/Latino culture, and to partner in the community to get our name out there, while promoting health and well-being.

### Q: What is a benefit of the effort that has surprised you?

A: We are the first employee resource group to launch that integrates Blue Shield and Care1st. We have really gotten to know and partner with Care1st, and it has really strengthened the integration between the organizations.

# Good corporate citizen

We believe that in pursuing our mission, we have an obligation to act in a way that is ethical and fair, conserve natural resources and give back to our communities.



# Operating with integrity

We believe that how we pursue our mission is just as important as what we achieve.

Blue Shield's Code of Conduct provides a framework for how we define doing business the right way, and it guides how we work every day. In addition, although Blue Shield is a nonprofit, we adhere to best practices in corporate governance. For example:

- Our bylaws require that our Board of Directors consist primarily of California residents, and that the majority are independent.
- At the end of 2016, our Board was comprised of 12 members. With the exception of our CEO, the sole Blue Shield employee serving on the Board, all of our Board members are independent.
- Our Board has a lead outside director who is our Vice Chair, whose responsibilities include chairing executive sessions (no management present) at each Board meeting, and selecting the chairs of the Audit, Compensation and Human Resources and Nominating Committees.

More details on our Code of Conduct and governance guidelines can be found at: [www.blueshieldca.com/bsca/documents/about-blue-shield/corporate/BSC%20Code%20of%20Conduct.pdf](http://www.blueshieldca.com/bsca/documents/about-blue-shield/corporate/BSC%20Code%20of%20Conduct.pdf).

## Executive compensation

Blue Shield's executive compensation strategy attracts, retains, motivates and rewards our executive team through a pay-for-performance culture, with a focus on both short- and long-term results, as well as individual and corporate performance. As a nonprofit health 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. As a result, we publish an annual Executive Compensation Summary that provides information on the components of our compensation program and details on our pay practices. The 2016 summary is available at [media.blueshieldca.com/wp-content/uploads/2017/05/2016-Exec-Comp-Summary.pdf](http://media.blueshieldca.com/wp-content/uploads/2017/05/2016-Exec-Comp-Summary.pdf).

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## Sourcing responsibly

In 2016, Blue Shield spent approximately \$576 million to purchase the goods and services needed to operate our company and serve our members. We require our suppliers to adhere to Blue Shield's Code of Conduct and other related policies. We also conduct extensive due diligence of potential suppliers.

We are committed to fostering a diverse supplier base. In 2016, Blue Shield procured approximately \$17 million in goods and services from certified small businesses and those that are majority-owned and operated by women, minorities, service-disabled veterans and members of the LGBTQ community.

## Conserving natural resources

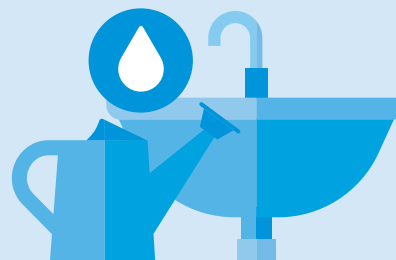
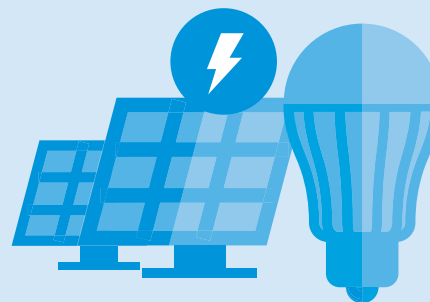
As a health plan, Blue Shield views environmental sustainability as a priority. Recognizing the clear link between human health and environmental factors – including climate change, air quality and availability of natural resources – Blue Shield established environmental sustainability goals in 2015. These include reducing our greenhouse gas (GHG) emissions by 30% and achieving 30% renewable energy use by 2020.

When we use less energy, we reduce the amount of GHG emissions we generate. It also lowers our operational costs, which helps us advance our affordability mission. As an office-based, services company, 85% of Blue Shield's carbon footprint is from the GHGs generated by electricity use in our facilities.

In recent years, we have taken a number of steps to reduce the amount of energy we use across our facilities, such as converting to more efficient light-emitting diode (LED) lighting at several of our offices. In 2016, we announced plans to install on-site solar projects at two of our facilities (see "Reducing GHG Emissions and Costs by Going Solar" on pg. 22).

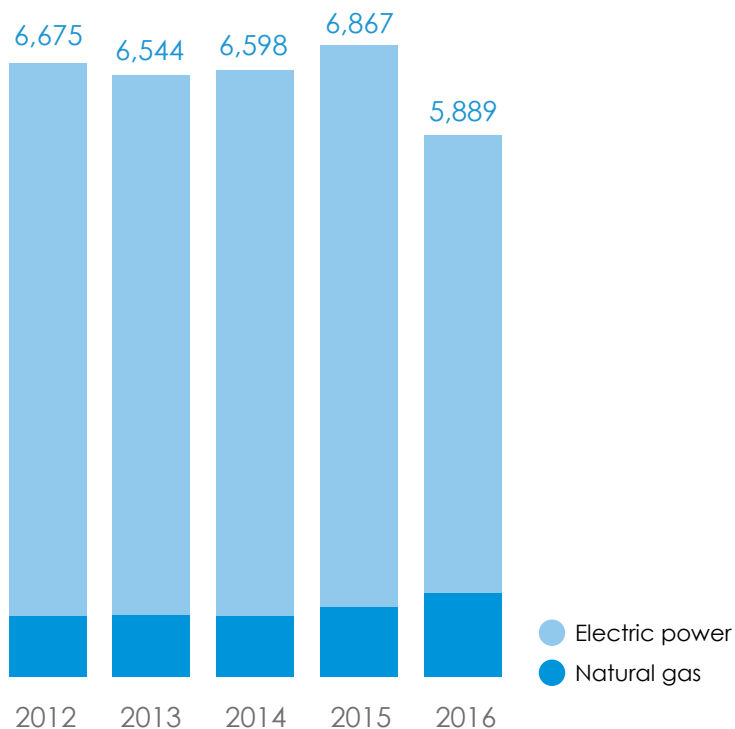
To drive progress on our efforts to conserve natural resources, we also participate in key environmental programs. For example, in 2016 Blue Shield served on the board on the Business Council on Climate Change and engaged with the City of San Francisco on its Climate Action Plan. In addition, Blue Shield participated in the Environmental Protection Agency's (EPA) ENERGY STAR program. Three of our buildings in El Dorado Hills, our Redding office and our headquarters in San Francisco were designated as ENERGY STAR certified facilities in 2016.

Blue Shield will continue to evaluate opportunities to strengthen our sustainability practices while finding meaningful savings that contribute to our culture of affordability and advance our mission.





## Total GHG emissions by total and source



As a result of our acquisition of Care1st facilities, this report includes restated emissions performance data that reflects the revised baseline. These facilities have been incorporated into our historical data back to our 2012 baseline. Our re-baselining efforts and the overall methodologies and assumptions we are using to compile Blue Shield of California's greenhouse gas inventory are in accordance with the World Resources Institute (WRI) and the World Business Council for Sustainable Development's (WBCSD) Greenhouse Gas (GHG) Protocol.

## Reducing GHG emissions and costs by going solar

The state of California has been a leader in embracing renewable energy as a way to reduce GHG emissions and combat climate change. Blue Shield of California is following suit. In 2016, we announced plans to install on-site solar projects at our Lodi and El Dorado Hills campuses. The two projects, are expected to produce about 5 million kilowatt hours annually, offsetting the equivalent of 86 million pounds of carbon dioxide over 20 years. This is comparable to planting more than 1 million trees or removing more than 8,600 cars from the road each year. Both investments bring us closer to meeting our environmental sustainability goals, which include reducing GHG emissions by 30% and achieving 30% renewable energy use by 2020.

The project is both an environmental and a financial win: Because of the way we structured the power purchase agreements, the solar projects will help Blue Shield save money from Day 1, with no up-front costs. The cumulative cost savings by using solar panels over the next 20 years is estimated to be more than \$7 million compared to standard utility rates. Our employees will also see a direct benefit: The solar installation will provide newly shaded parking for approximately 70% of the lot in El Dorado Hills.

**11.8%**  
reduction in GHG  
emissions since 2012

**85%**  
of GHG emissions were  
from electricity

# Encouraging employee volunteerism

Our Shield Cares program supports and encourages employees to volunteer or donate to nonprofit organizations where they live and work. It increases employee engagement and provides our people with an opportunity to invest in their local communities, strengthening our company's presence and connection with communities across California.

Through the program:

- Blue Shield matches employee donations, up to \$1,000 annually, to nonprofit organizations in health and human services, environmental issues, and domestic violence awareness and prevention.
- Beginning in 2015, all employees who volunteer at Blue Shield-endorsed community service activities receive up to eight hours of paid time off.

In 2016, 30% of our employees participated in a Blue Shield volunteer service project. Collectively, they volunteered nearly 10,000 hours over the course of the year — an approximately 175% increase over the year prior. This significant increase was, in part, a reflection of our improved tracking of volunteer hours, but also due to our efforts to create focused campaigns and more structured volunteer opportunities throughout the year.

During our Shield Cares Month of Giving and Service in April, 1,248 employees participated in 35 volunteer service projects to benefit nonprofit organizations throughout California. During the month, employees donated over \$30,000 to local nonprofits, which Shield Cares matched 2:1. The company also donated directly to the nonprofit organizations, enabling us to raise a total of more than \$150,000 in one month.

Employees also volunteered and contributed funds and in-kind donations for local domestic violence nonprofits during the Shield Cares: End the Silence Against Domestic Violence campaign in August 2016.

## Employee giving and volunteering in 2016

**\$179K**

total donations by Blue Shield  
in matching gifts

**10K**

total hours volunteered  
by employees

**\$163K**

total donations by  
employees

# Supporting our foundation and the community

Blue Shield of California Foundation is a critical ally in Blue Shield's efforts to fulfill its mission. The Foundation operates as an independent organization funded entirely through contributions from Blue Shield, which has provided more than \$450 million to the Foundation since 2002.

One of the largest grantmaking organizations in the state, Blue Shield of California Foundation is committed to understanding and supporting the needs of California's most vulnerable populations. Through its philanthropic giving, the Foundation works to elevate the voices and experiences of those at the margins, to push for greater equity and to enable all Californians to be healthy and live free from violence.

In addition to strengthening the capacity of safety net providers and domestic violence agencies throughout the state, Blue Shield of California Foundation strives to address many of the root causes affecting health and safety through our priority areas.

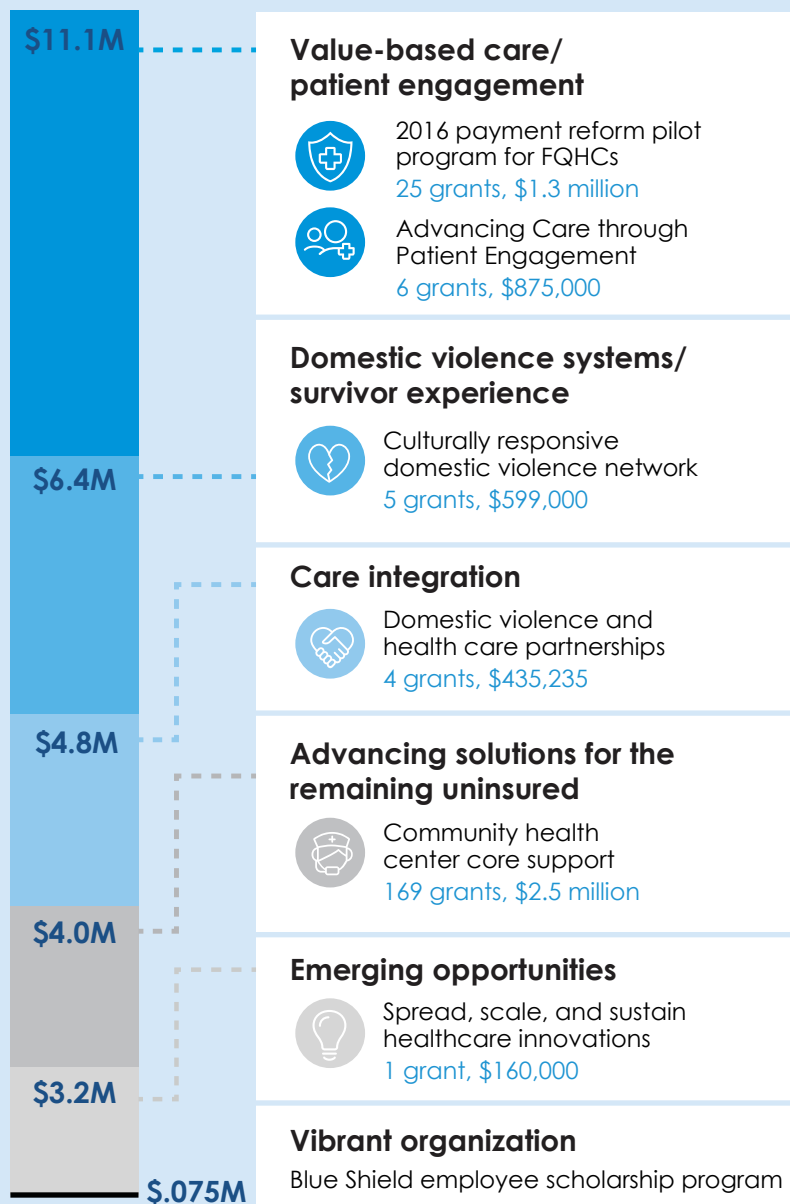
In 2016, the Foundation awarded more than \$29 million in grants to advance its mission of ending domestic violence and making health care more accessible, effective and affordable for the underserved.

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## Looking ahead to population health

An emerging area of focus for the Foundation is population health. By identifying patterns in outcomes, behaviors and barriers to wellness, the Foundation aims to more effectively meet the needs of whole communities. In 2016, the California Accountable Communities for Health Initiative (CACHI)—established by Blue Shield of California Foundation, the California Endowment, Kaiser Permanente and Sierra Health Foundation—selected six communities across the state to receive up to \$5.1 million in total funding. The goal is to implement innovative models for improving population health and to reduce disparities in care.

# Blue Shield of California Foundation 2016 grantmaking



Blue Shield of California  
2016 total giving

**\$29.6M**  
**422 grants**

## Responsible steward of our resources

As a nonprofit health plan, we don't have to answer to shareholders. By investing and managing our financial resources wisely, we further access to affordable, high-quality health care for more Californians.





# Ensuring financial sustainability

As a mission-driven nonprofit health plan, Blue Shield seeks to manage our financial resources in a way that furthers access to affordable, high-quality health care for everyone—not to generate returns for shareholders. We put this philosophy into practice by voluntarily capping our net income at 2% of revenue. No other major health plan does this. If we exceed 2% in net income in any year, we return the difference to our customers and the community, with approval from our Board of Directors.

In order for us to continue to serve our members and advance our mission, we need to protect our financial strength and stability. One of the ways we do this is by maintaining a sufficient level of net assets, referred to as a stabilization fund. As a nonprofit, we have limited access to the capital markets as a source of capital funding. Therefore, we also look to our stabilization fund to withstand potential shortfalls.

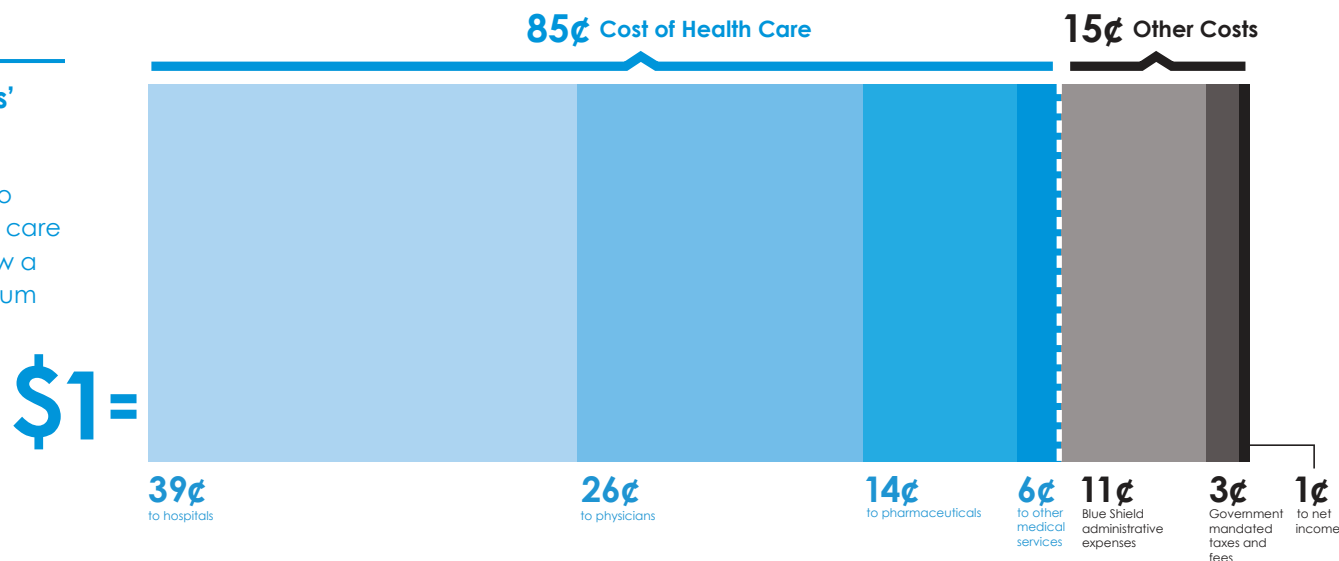
A standard measure of stabilization fund sufficiency in our industry is risk-based capital (RBC), which is monitored by regulators, the National Association of Insurance Commissioners (NAIC), the Blue Cross and Blue Shield Association (BCBSA), and financial institutions. At the end of 2016, Blue Shield's RBC was 673%. This is appropriately above the regulatory minimum levels and within the range we believe is sufficient to support our operations and to ensure the protection of our members.

## Managing our finances

In 2016, Blue Shield reported a net income of \$67 million, down from \$115 million in 2015. Of the company's revenue from premiums, 85.7% was spent on medical care. Blue Shield's profit margin was 0.4% and, as a result, we did not return any funds as part of our 2% Pledge commitment. Blue Shield contributed \$34 million to Blue Shield of California Foundation.

### Where do our members' premiums go?

Blue Shield is working hard to keep costs down and make care more affordable. Here is how a Blue Shield member's premium dollar is spent:



## Blue Shield of California Consolidated financials\*

Membership in thousands (\$ in millions)	2016	2015	2014	2013
Ending membership	3,926	4,080	3,481	2,944
Premiums, net & other revenue & other income	\$17,663	\$14,836	\$13,349	\$10,824
Less: medical expenses	15,085	12,369	10,948	9,194
<b>Gross profit</b> <i>Medical loss ratio</i>	<b>\$2,578</b> <i>85.7%</i>	<b>\$2,467</b> <i>83.4%</i>	<b>\$2,401</b> <i>82.0%**</i>	<b>\$1,630</b> <i>84.9%</i>
Marketing and selling	631	595	570	543
ACA taxes, premium taxes and other fees	451	417	357	62
General and administrative	1,398	1,341	1,191	974
<b>Total administrative expenses</b>	<b>\$2,480</b>	<b>\$2,353</b>	<b>\$2,118</b>	<b>\$1,579</b>
Pre tax income (loss) from health operations	\$98	\$114	\$283	\$51
Investment income	104	229	271	198
<b>Income before taxes</b>	<b>\$202</b>	<b>\$343</b>	<b>\$544</b>	<b>\$249</b>
Income taxes	135	228	392***	78
<b>Net income</b> <i>Profit margin (net income as a % of premiums)</i>	<b>\$67</b> <i>0.4%</i>	<b>\$115</b> <i>0.8%</i>	<b>\$162</b> <i>1.2%</i>	<b>\$171</b> <i>1.6%</i>
<b>2% Pledge amount****</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Foundation contribution (millions)</b>	<b>\$34</b>	<b>\$35</b>	<b>\$35</b>	<b>\$35</b>

\*Additional details on Blue Shield's financial performance can be found on the California Department of Managed Health Care website ([wpso.dmhc.ca.gov/fe/search](http://wpso.dmhc.ca.gov/fe/search)) by searching for "California Physicians' Service."

\*\*2014 medical loss ratio reflects the impact of Affordable Care Act (ACA) taxes on premiums. We estimate this to account for a reduction of 2 percentage points from that reported above.

\*\*\*Increase in 2014 income tax expense reflects improved operational performance, the non-deductibility of a new ACA tax and a protested assessment from the California Franchise Tax Board.

\*\*\*\* In years when our profit margin is less than 2% we do not return any funds as part of our 2% Pledge commitment.





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