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

Our compensation philosophy ................................................................. 4
Adjusting to challenges in a changing workplace .......................... 6
Key elements of our executive compensation program ............. 7
Our executive compensation program ............................................... 8
Executive Incentive Plan ................................................................. 9
Long-Term Incentive Plan .............................................................. 11
Our top paid executives ................................................................. 13
2022 Chief Executive Officer compensation ............................. 14
How we compare against the market ........................................ 16
Comparing CEO compensation for 2022 .................................. 17
CEO pay ratio ................................................................................. 17
Pay equity ....................................................................................... 18
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 our results 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 advancing toward 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 so that we can 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 short- and long-term incentive measures and goals 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 senior leadership
- Reviews and approves executive compensation actions
- Reviews incentive plans to ensure they do not promote excessive risk taking
Adjusting to challenges in a changing environment

In 2022, as we reopened our offices and came out of the pandemic, Blue Shield of California worked to meet business objectives and to advance our mission while demonstrating respect, care and concern for our members, employees, providers, communities, and the environment.

Like much of the healthcare industry, we were challenged financially and forced to make tough decisions to ensure we could continue to provide high-quality, affordable care to our members. We pulled several non-labor levers, including managing our expenses based on healthcare cost trends, adjusting and consolidating our outside vendor and contractor usage to maximize efficiency and reduce costs, as well as rightsizing our physical offices.

We achieved some successes. We finished 2022 by growing nearly 140,000 members. We also saw improvements in our net promoter score and quality metrics. We won the TRICARE® account, which means we will begin serving active-duty military personnel and their families in California starting in 2024. Of the one million eligible for TRICARE, we expect more than 330,000 will join our network. We settled our appeal with the State of California on Medicaid, so we will continue to serve Medi-Cal members in Los Angeles and San Diego.

Even with these successes and efforts, our costs remained too high so we made the difficult decision to bring down labor costs, which account for 70 percent of our operating costs. We eliminated positions for 373 employees at all levels; however, through our Talent Bridge program, we were able to re-deploy 97 impacted employees to other jobs within Blue Shield.

Another key focus in 2022 was our real estate strategy, which included selling, renting out and relinquishing some of our office space to curb costs and accommodate our largely hybrid workforce. We continue to focus on purposeful interaction and intentional use of our spaces. This means we consider the nature of the work to be done, and what types of work are better suited to being done in person. Our spaces are increasingly being used for collaboration and connection, more than day-to-day in-office work.

We have learned a lot and we are better prepared for the year ahead. As we continue to adapt to a changing workplace, industry and community, we are confident in Blue Shield’s ability to create a health system worthy of our family and friends and sustainably affordable.
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.

### Key elements of our executive compensation program

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

<table>
<thead>
<tr>
<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>Cash</td>
<td>Provides a stable source of income and is a standard compensation element in executive compensation packages. Generally targeted between the 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>Cash</td>
<td>An annual cash-based incentive that encourages executives to focus on specific corporate and individual annual performance goals. 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>Cash</td>
<td>Helps ensure that executive pay is directly linked to the achievement of the company’s long-term strategic objectives, promotes retention. 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>Benefit</td>
<td>Critical element of a total rewards program that helps attract and retain employee and executive talent. Comprehensive program of benefits that are available generally to all Blue Shield employees.</td>
</tr>
<tr>
<td><strong>Retirement</strong></td>
<td>Benefit</td>
<td>Critical element of a total rewards program that helps attract and retain executive talent. 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)</td>
</tr>
<tr>
<td><strong>Other Benefits (e.g., perquisites)</strong></td>
<td>Benefit</td>
<td>Provides support for executives to plan for the future appropriately. Benefits are market competitive and include financial counseling. Perquisites are limited in amount and the Compensation and Human Resources Committee limits eligibility and use.</td>
</tr>
</tbody>
</table>
**Our executive compensation program**

**Target total compensation**

$ \quad $  

**BASE SALARY**  
Base salary, also expressed as eligible earnings, provides executives with a consistent source of income.

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**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.

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33%  
On average, **base salary** makes up 33% of an executive’s target total compensation.

67%  
On average, **incentives** make up 67% of an executive’s target total compensation. This is the percentage of pay “at risk,” meaning not guaranteed for executives.

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**Plus other programs:**

**Total benefits package**

On average, Blue Shield’s benefits package adds an amount equal to 12% of target total compensation to an individual’s total rewards.

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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 2022 short-term goals
(apply to incentive compensation paid in March 2023)

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

Performance is measured over a one-year period.
Executive Incentive Plan Award

**Corporate Performance**

70% weight
(0 to 150% range)

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

**Individual Performance**

30% weight
(0 to 200% range)

The individual performance factor is based on the employee’s achievement of individual goals and leadership for the plan year.

165% of target is the maximum payout allowed.

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.

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

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

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

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

Our 2022-2024 long-term goals
(apply to incentive compensation payable in March 2025)

- 25% customer experience
- 25% membership
- 20% clinical quality
- 20% affordability
- 10% great place to work

Performance is measured over a rolling three-year period.
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. 200% of target is the maximum payout allowed.

Corporate performance factor

Long-Term Incentive Plan Award

Year 1 eligible earnings × Year-end Long-Term Incentive Plan target opportunity × 1/3 + Year 2 eligible earnings × Year-end Long-Term Incentive Plan target opportunity × 1/3 + Year 3 eligible earnings × Year-end Long-Term Incentive Plan target opportunity × 1/3
Our top paid executives

Below is a summary of the compensation paid in 2022 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.

Sorted by total 2022 earnings¹

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Total Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Markovich</td>
<td>President and Chief Executive Officer</td>
<td>$6,612,794</td>
</tr>
<tr>
<td>Sandra Clarke</td>
<td>EVP, Chief Operating Officer</td>
<td>$3,564,913</td>
</tr>
<tr>
<td>Mary O’Hara</td>
<td>EVP, People and Engagement</td>
<td>$3,153,522</td>
</tr>
<tr>
<td>Nishant Anand</td>
<td>Chief Executive Officer, Altais</td>
<td>$2,508,303</td>
</tr>
<tr>
<td>Lisa Davis</td>
<td>SVP, Chief Information Officer</td>
<td>$2,039,182</td>
</tr>
<tr>
<td>Peter Long</td>
<td>EVP, Strategy and Health Solutions</td>
<td>$1,881,499</td>
</tr>
<tr>
<td>Jeffrey Robertson</td>
<td>SVP, Consumer Growth and Chief Marketing Officer</td>
<td>$1,868,171</td>
</tr>
<tr>
<td>Timothy Lieb</td>
<td>SVP, Commercial Markets</td>
<td>$1,806,855</td>
</tr>
<tr>
<td>Hope Scott</td>
<td>SVP, General Counsel and Corporate Secretary</td>
<td>$1,328,694</td>
</tr>
<tr>
<td>Aliza Arjoyan</td>
<td>SVP, Provider Partnerships and Network Management</td>
<td>$1,301,883</td>
</tr>
</tbody>
</table>

Below is the compensation paid to executives who left the company in 2022 and whose compensation placed them in the top ten highest paid overall.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Total Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeff Bailet</td>
<td>Chief Executive Officer, Altais</td>
<td>$2,685,043²</td>
</tr>
<tr>
<td>Sarah Iselin</td>
<td>Chief Operating Officer</td>
<td>$1,619,335²</td>
</tr>
</tbody>
</table>

¹ Amounts include incentives paid in March 2022 which reflect performance in fiscal year 2021 for the Executive Incentive Plan, and 2019-2021 for the Long-Term Incentive Plan, and may include other items such as executive perquisite allowance, taxable benefits, moving allowance, etc.

² Active amounts include base salary, incentives paid in March 2022 which reflect performance in fiscal year 2021 for the Executive Incentive Plan, and 2019-2021 for the Long-Term Incentive Plan, and other items such as executive perquisite allowance, taxable benefits, etc.

³ Jeff Bailet retired from Blue Shield on July 2, 2022. Post-employment he received a one-time payment consistent with Blue Shield’s employment policy and pro-rata payouts under the Executive Incentive Plan and Long-Term Incentive Plan.
2022 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.

### 2022 base salary

$1,449,052

78% of Paul Markovich’s 2022 total compensation was “at-risk” (Executive Incentive Plan + Long-Term Incentive Plan) and delivered through performance-based incentives.

<table>
<thead>
<tr>
<th>Actual Executive Incentive Plan payout</th>
<th>Actual Long-Term Incentive Plan payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>(based on 2021 goal achievement)</td>
<td>(based on 2019-2021 achievement)</td>
</tr>
<tr>
<td>$2,209,107</td>
<td>$2,939,636</td>
</tr>
</tbody>
</table>
2022 gross earnings\(^1\)

$6,612,794

is in-line with the Blue Shield executive compensation philosophy and positioned between the market 50\(^{th}\) and 75\(^{th}\) percentiles.

\(^1\)2022 gross earnings include imputed income, Group Term Life, Executive Perquisite and Parking.

The CEO total benefits package

Blue Shield’s benefits package added an amount equal to 24% 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.

<table>
<thead>
<tr>
<th>Health and welfare:</th>
<th>Employer 401(k) contributions:</th>
<th>Retirement Plans:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$27,914</td>
<td>All employees are eligible for a 4% matching contribution and a 1% performance-based contribution from Blue Shield. The CEO participates in the same deferred compensation benefits as other eligible employees.</td>
<td>Paul Markovich participates in the Blue Shield of California Retirement Plan and Supplemental Executive Retirement Plan (SERP). The benefits are earned over a full career with Blue Shield and are payable upon retirement from Blue Shield. Paul Markovich’s benefit follows the same formula as all other employees hired before December 31, 2015.</td>
</tr>
</tbody>
</table>
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 2022 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
- Tenet Healthcare
- Anthem
- Sutter Health
- Centene
- Highmark Health
- UnitedHealth Group
- Humana
- Kaiser Permanente
- Other similarly sized nonprofit and for-profit companies in the managed care industry
Comparing CEO compensation for 2022

The actual total compensation paid to Blue Shield’s Chief Executive Officer in 2022 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\(^2\)

\[
\begin{align*}
\text{Blue Shield’s CEO pay ratio} & \quad 88 \\
\text{For-profit health insurers} & \quad 282
\end{align*}
\]

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

\(^2\) Includes public health insurers Centene, Cigna, Elevance Health, Humana, Molina Healthcare and UnitedHealth.
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 equitably at Blue Shield. One of the tools we use to monitor pay equity is to calculate the average ratio of pay by job and location for minorities versus non-minorities and women versus men. These pay equity ratios will vary slightly over time as employees change jobs, join, or leave the company. As of March 2023, the ratios were:

- 100% for minorities versus non-minorities
- 99% for women versus men

In 2022, we began investing $7 million over the next five years for a new fellowship program at UC Berkeley’s School of Public Health to support graduate students from underrepresented communities. The program aims to increase diversity among health professionals.

We were awarded the HFS OneOffice Award for Diversity. This global award celebrates organizations that break down silos and drive real, lasting business change across the enterprise.

We scored a 98 on Best U.S. Companies for Diversity on the National Diversity Council Index.

We were again 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.

We were named Best Place to Work for LGBTQ Equality by the Human Rights Campaign (sixth consecutive year).

Women are well represented in management.
Blue Shield of California is an independent member of the Blue Shield Association