



Blue Cross Blue Shield of Michigan 2014 ANNUAL REPORT



Blue Cross Blue Shield of Michigan is a nonprofit corporation and independent licensee of the Blue Cross and Blue Shield Association.



Milestones are powerful moments in life. Not only do they keep us connected to our past achievements, but they also serve as inspiration and point the way to our future endeavors.

In 2014, we celebrated our company's 75 years of service to Michigan. We also marked our first year as a nonprofit mutual insurance company. The convergence of these two important milestones gives us pause to reflect on what we have achieved, mark the progress we've made and recommit to what is still to be accomplished. Over 75 years, we've stayed true to our roots, while constantly pushing ourselves to improve the products and services we offer our members. We've also served as a champion and leader for better health and health care in Michigan. This commitment to a healthier Michigan endures as we look forward to many more years of serving our members and the broader community as a nonprofit mutual insurer.

OUR MISSION STATEMENT

We commit to being our members' trusted partner by providing affordable, innovative products that improve their care and health.



A MESSAGE FROM THE PRESIDENT AND CEO

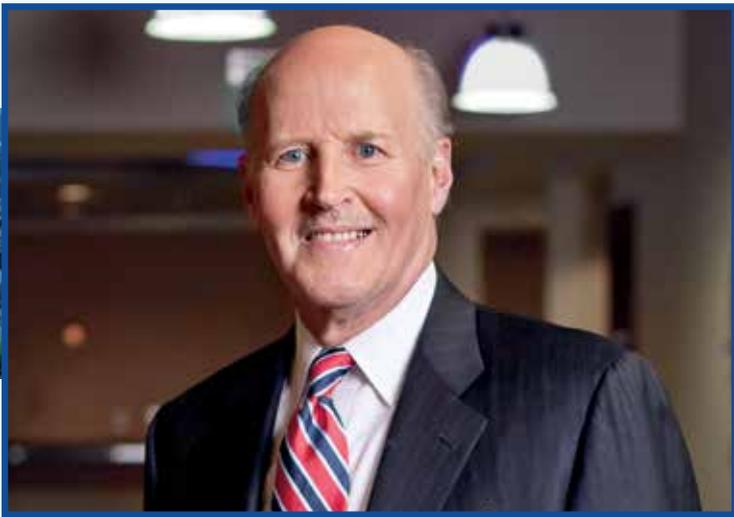
Much can change in 75 years. Much can also remain constant. In 2014, Blue Cross Blue Shield of Michigan celebrated its 75th year. From humble roots in 1939, when the Michigan Hospital Service was formed to bring prepaid health care to the state, to today's \$23 billion enterprise with more than 5 million people enrolled in our health insurance coverage nationwide, our company looks significantly different.

But our cause — and our character — remain the same. Today, our company is stronger than ever. We are better prepared to guide our stakeholders through the uncertainties of today's changing health care landscape. We are more resolved to continue our commitment to build a healthier Michigan for everyone who calls our state home.

Coincidentally, our 75th birthday also served as our first birthday. During our first year as a nonprofit mutual insurance company in 2014 — made possible by state regulatory reform signed into law the year before — we reaffirmed our long-standing commitment to our members and to our home state of Michigan.

Today's Blue Cross is built on a tradition of caring — one that has endured over more than seven decades of changing times. Today as a mutual, we have the freedom, the capability and the desire to innovate, partner and deliver what the marketplace wants and our members need. We are set to define our next 75 years by the security we will bring to our members and customers, and the partnerships we will build with organizations that improve health and deliver solutions for our members. It will also be defined by the health of the people and communities of our home state, which we have an unwavering commitment to improve.

Daniel J. Loepp
President and CEO
Blue Cross Blue Shield of Michigan



A MESSAGE FROM THE CHAIRMAN OF THE BOARD

Michigan is home to many great companies. Companies both large and small. Companies that are private and public, for profit and nonprofit. Many have been in business for decades, some for more than a century. I wager that most of the organizations that count longevity among their accomplishments have mastered the art of navigating and managing change.

In business, longevity is born of excellence. And excellence is achieved through other traits — innovation, flexibility, commitment to quality, perseverance and plenty of hard work. For 75 years, Blue Cross has worked for and with our customers, medical professionals, civic leaders and others toward one common purpose — to improve the health of Michigan’s people.

We’ve changed with the times, and even ahead of the times. The company and its leadership stayed true throughout the decades to the ideal of nonprofit health care. It’s a cause we believe in so much, we advocated that it be part of the 2013 law that allowed Blue Cross to become a nonprofit mutual insurer.

That descriptive phrase, “nonprofit mutual insurance company,” is important. It connects us to our past even as it defines our future. It grounds us to our customers and most especially to our members, whom we are now mission-focused to serve.

We like to say that Blue Cross Blue Shield of Michigan is “75 years new.” This means that we’ll continue our tradition of caring while we continue to evolve as all good companies do. With the changes we continue to make, we’re ensuring the long-term strength of the company and security for our members. And we make these changes with a firm commitment not to change the character of who we are or our decades-old commitment to a healthier future for all of Michigan.

Gregory A. Sudderth
Chairman of the Board
Blue Cross Blue Shield of Michigan



A COMMITMENT THAT ENDURES

We're not acting our age. In 75 years as a nonprofit company, we've never stopped evolving. Today we're a modern, dynamic company equipped to help our customers and partners navigate a new era of health care. And we're constantly changing, improving and challenging ourselves to be better.

At the same time, we've continued our long-standing commitments to improving delivery of health care, enhancing the customer experience and fulfilling our social mission.

FIRST THINGS FIRST

Becoming a nonprofit mutual changed our status but not our principles. We believe that one of our first obligations is to provide nonprofit health care. Public Acts 4 and 5 not only preserved our nonprofit status, they enhanced our mission of giving back, allowing us to be more responsive and nimble so we can quickly create health care plans that meet people's needs and give greater peace of mind.

As we completed our first year as a nonprofit mutual insurance company, we achieved a few “firsts” in 2014:

Our members have always been a focus, but the new mutual structure gives members a stronger voice and relationship to our company. We hosted our **first annual meeting of mutual voting members** at Cobo Center in Detroit. Hundreds of members gained more insight about the company’s new status as a nonprofit mutual insurer and what that means to our finances and our social mission. Here it is in a nutshell ...

- Dan Loepp, president and CEO, on the new Blue Cross: “We were ‘health reform’ long before the health law ever existed. Now under the ACA, all insurers must operate under these same rules that we have operated under for decades.”
- Mark Bartlett, chief financial officer, on our stability: “You can be assured that we will make good on our commitment to you, our policyholders, that there is sufficient capital available to pay your claims.”
- Lynda Rossi, executive vice president, Strategy, Government and Public Affairs, on the Blue Cross mission: “Our social mission programs reach nearly every area of the state and focus on three main objectives: improving health, increasing access and enhancing the quality of care. We remain a nonprofit company committed to Michigan and the health of our state.”

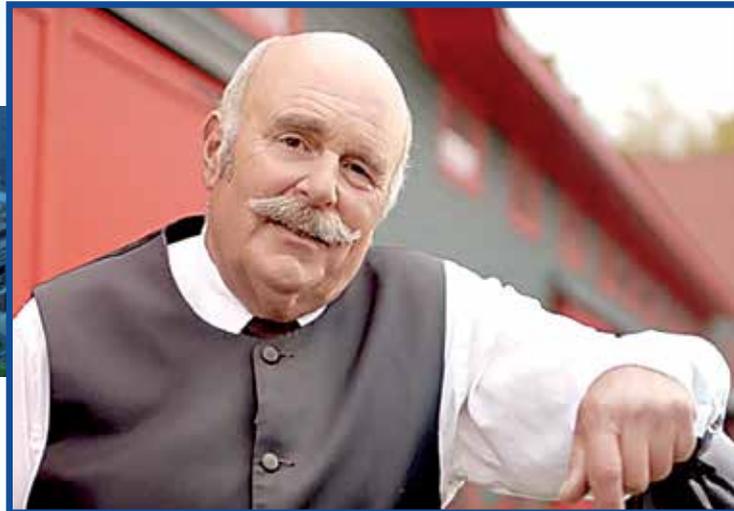




GIVING BACK

We made our **first contribution to the Michigan Health Endowment Fund**. The fund and its board are independent and separate from Blue Cross, created by the law that allowed Blue Cross to become a nonprofit mutual insurer. We've committed to support the fund as a way to sustain our long-standing social mission well into the future. The fund aims to improve the art and science of health care; improve access, cost and quality of care; and benefit the health and wellness of children and seniors throughout the state. Our \$100 million payment is the first of the \$1.56 billion we will pay over 18 years.

CHANGING AHEAD OF THE TIMES



Gaining members is a result of meeting people's needs, providing quality products and enhancing the value of health care. We can't expect customer loyalty; we have to earn it. As a nonprofit mutual, we can be quicker to market to give people the health care plans they want. So we:

- Boosted our individual product portfolio to include **41 plans** — more than double the number of plan options we offered during the first year of the Health Insurance Marketplace. Our wider selection of products ensured that customers in all situations could find quality, affordable health care coverage.



- Were the only insurer to offer products that met Affordable Care Act standards in all 83 Michigan counties. **Seventy-two percent** of all plans purchased on the Health Insurance Marketplace during the 2014 open enrollment in Michigan were Blue Cross products.
- Addressed the growing health care needs of Michigan's Medicare-eligible seniors by expanding our Medicare Advantage portfolio to **10 plans**.

And people responded to our efforts. We continued to be the top choice of people who bought health insurance in Michigan, posting our fourth straight year of membership growth across all product lines — an increase of 115,376 members overall, including more than 80,000 new members living in Michigan. Blue Cross and its HMO subsidiary, Blue Care Network, had a combined total membership of 5.2 million in 2014.

ENHANCING THE CUSTOMER EXPERIENCE

OUR CUSTOMER COMMITMENT

We aspire to be clear and simple, to help you make the right choices, to offer valuable coverage and help you get quality health care for you and those you love.

We listen and we learn. Customers said they wanted their experiences with us to be easy, useful and enjoyable. We responded. And Forrester Research recognized Blue Cross as making the biggest improvement in customer experience among all companies it measures in every industry in the nation. Blue Cross Blue Shield of Michigan scored a 75 in the Forrester index, following what Forrester called a “jaw-dropping increase” of 22 points. Blue Cross ranked second place among surveyed health insurance providers nationally.



NEW. IMPROVED. EASY. BCBSM.COM

In 2014, we personalized our Web experience for each one of our 5.2 million members. Now, our members can access a personalized dashboard of their most important health insurance information, including personalized health content, easily and securely. As of December 2014, more than 1 million members had registered for a **bcbsm.com** account, opening up a world of possibilities for them and a newly enhanced relationship with us.

- By the end of 2014, satisfaction with our member site increased by 36 percent from 2013.
- Roughly 50 percent of our registered members opted in to receive email communications from us.

ENHANCING THE CUSTOMER EXPERIENCE



MAKING IT EASY

People didn't understand health care. So what did we do? We championed Clear and Simple® — a companywide focus on making health insurance easier for people to understand and improving our service to members. The whole company dedicated itself to helping people understand health care. We started with what people see most from us — the explanation of benefits they receive after they go to the doctor. We send out more than 35 million EOBs every year. A team of experts revised, reviewed and revised some more. The result? A cleaner, easier-to-read EOB.



A PERSONAL TOUCH

We take your health care personally, as you do. So we're always here to help with a personal touch. As we helped the government overcome the challenging initial days of the Affordable Care Act open enrollment, we also helped Michigan's residents overcome their own challenges with signing up for health care coverage. Our health plan advisors — trained experts on the Affordable Care Act — manned phone lines and handled questions from hundreds of thousands of Michiganders. They provided the trusted guidance people needed to select the plans right for them and confirm their enrollment in coverage. And we are grateful that many of these people signed up for health care coverage for the first time in 2014.



SETTING QUALITY STANDARDS WHILE RAISING THE BAR

OUR QUALITY RATINGS PROVE WE'RE DOING IT RIGHT

In the Olympics, what won a medal in the past isn't good enough to win one now. The same goes for measuring quality in health care. The bar is always raised. To compete and succeed, we have to constantly perform at a higher level each year to meet government standards and surpass the expectations of our members in the process.

For the second year in a row, Blue Cross Blue Shield of Michigan earned **4 out of 5 stars** and Blue Care Network earned **4.5 stars** — its third in a row — from the Centers for Medicare & Medicaid Services.

Our star ratings show that we:

- Deliver high-quality products and services
- Consistently increase member satisfaction
- Help members get the care they need
- Work well with network doctors and hospitals to help members have better health outcomes



QUALITY THAT WON'T QUIT

Standards of quality don't stop with star ratings. We're also rated by the National Committee for Quality Assurance. NCQA is a standard of excellence and a respected force in driving improvement throughout the health care system in America. NCQA ratings tell us and others:

- Our members are receiving the treatment and achieving the outcomes that they should
- Members agree they are receiving quality health care
- Our policies and processes are effective

Both Blue Cross and BCN are currently accredited by NCQA and were awarded Commendable status in 2014.

MAKING CONNECTIONS, IMPROVING CARE, PROVIDING VALUE

For 75 years, we've been developing ever-stronger relationships with doctors and hospitals. We've never lost sight of the importance of it. Today, we're connecting doctors and hospitals together and strengthening relationships between them and their patients. The result is better care. For the sixth straight year, our Patient-Centered Medical Home program led the nation in size and cost savings. Blue Cross-designated PCMH practices care for more than 1.2 million Blue Cross members in 78 of Michigan's 83 counties.

- Our Collaborative Quality Initiatives continue to grow in size and national prominence. In 2014, we launched an anesthesia-focused initiative with hospitals across the state, bringing the total of our initiatives to 20. The University of Michigan Health System will serve as the coordinating center for the new initiative, which aims to improve anesthesiology practices, reduce anesthesiology-related complications and improve patient outcomes.
- The movement toward value-based care continued to gain momentum in 2014. In December, six more Michigan health systems signed new value-based reimbursement agreements with us, shifting their payment structure away from volume toward a greater focus on quality, efficiency and patient outcomes. So patients get better care at a lower cost. These additions brought the total number of Michigan hospitals with value-based reimbursement contracts to 70.



BUILDING COMMUNITY IN THE COMMUNITY

A community isn't just a place. Community is being involved; sharing and working together for a common goal. We build community by being a part of it and acting as a change agent for good health and nutrition.

Michigan's kids are the key to a bright future for our state — the healthier they are, the healthier Michigan will be. To support our leaders of tomorrow, we continued encouraging them to lead healthy, active lives in 2014.



YOUTH MOVEMENT

Our **Building Healthy Communities** program expanded in a major way in the 2014–2015 school year. Fifty-eight schools participated in the program — up from 28 in the previous school year — gaining opportunities to improve children's health, increase academic success and fight obesity. Our list of partners also grew as the Michigan Department of Community Health joined our collaboration with the Michigan Fitness Foundation, University of Michigan, United Dairy Industry of Michigan and Wayne State University. Since 2009, our school programs have helped more than 100,000 children learn the importance of staying active and choosing healthy foods.



SHOWING STRENGTH AND COMPASSION

- For the 10th straight year, we supported Michigan’s safety net providers, such as free clinics, with \$1 million in grants. Since 2005, we’ve provided more than \$10 million to help our partners treat more than 60,000 patients annually. They get the care they need along with a dose of kindness and compassion.
- As a business resident of the City of Detroit for all of our 75 years, we were proud to be among many companies to support the “grand bargain” to help Detroit emerge from bankruptcy and begin a new chapter of growth and improvement.



THE GREAT OUTDOORS

As an advocate for health, we know the importance of the great outdoors in promoting fitness. As an advocate for Michigan, we know there is no better place in the nation to get outside and play. So we partnered with the Michigan Department of Natural Resources, the Michigan Recreation and Park Association and Michigan’s public libraries to kick off the 2014 **Park and Read** program. Park and Read offers cardholders at participating libraries a one-day state park pass to explore any of Michigan’s 102 state parks for free, simply by visiting the library’s circulation desk.

KNOWLEDGE IS POWER

- Together with the Detroit Regional Chamber's MI Health Answers program, we hosted **Be Covered, Be Confident** in Saginaw. The free health expo connected experts with consumers to help people better understand health care reform and insurance coverage options available, giving them the knowledge and confidence to pick a health care plan.
- We collaborated with West Michigan community organizations as the presenting partner of **Let's Talk Health Week**. The third annual event featured a number of activities emphasizing the importance of healthy lifestyles, prevention and physical activity, especially among diverse communities.
- We supported African-American and Latino faith-based communities across the state with our 2014 **Faith in Wellness Blues Community Challenge**. The 12-week program focused on physical activity, good nutrition and health education.





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SUBSIDIARY CORPORATIONS

Accident Fund Holdings, Inc.

200 North Grand Avenue
Lansing, MI 48901-7990
Elizabeth R. Haar
President and Chief Executive Officer
afhi.com

Blue Cross Blue Shield of Michigan Foundation*

600 East Lafayette Blvd.
Detroit, MI 48226-2998
Audrey Harvey
Executive Director and
Chief Executive Officer
bcbsm.com/foundation

Blue Care Network of Michigan

20500 Civic Center Drive
Southfield, MI 48076-4115
Kevin J. Klobucar
President and Chief Executive Officer
bcbsm.com/bcn

LifeSecure Insurance Company

10559 Citation Drive
Suite 300
Brighton, MI 48116-6569
Tiffany A. Albert
President and Chief Executive Officer
yourlifefecure.com

*Subsidiary of Blue Care of Michigan, Inc.

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- 2014 Consolidated Financial Statements
- An Explanation of Accounting Principles
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