

2018

annual report

Blue Cross Blue Shield of Michigan



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# A message from our President and CEO



At Blue Cross Blue Shield of Michigan, we are celebrating 80 years of service as an iconic Michigan company. We look back fondly on where we've been. We're proud of who we are today, and confident in our road map to the future. Our performance and the value we provided for our customers and members in 2018 shows we're moving with purposeful and successful strides.

Blue Cross continued innovating and investing in ways that made health care better for those we serve. We protected the health of Michiganders, especially those who need it most. We represented and reinforced the Blue Cross Blue Shield social mission, meeting local community needs. We also continued to broaden our reach and impact, providing that same level of trusted coverage, service and quality as a company that now serves members in all 50 states.

In a complex and highly competitive environment, Blue Cross kept our customers and members at the center of all we do. We are a company that chooses innovation because it advances our mission, to stand up for the people who are counting on us when it comes to health care access, affordability and quality. In 2018, we continued to transform health care in ways that are

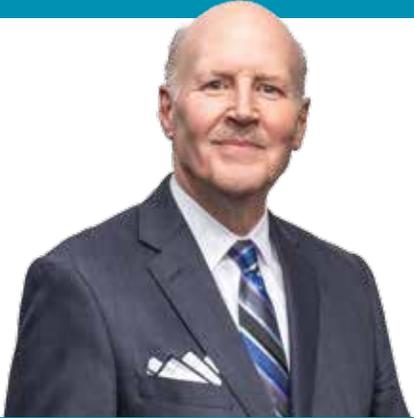
advancing Michigan's growing national reputation for efficiency and quality, and improving patient outcomes. This puts us in a leadership position to advance health care improvement nationally.

Our 2018 Annual Report illustrates how Blue Cross innovates in ways that positively impact the entire span of health care. We enhanced or launched initiatives designed to make the best care an everyday occurrence for the people of our great state and across the country. More than ever before, we were there as trusted advisors for our customers and members, meeting them where they live and work, fulfilling that vital role while providing value they want and need.

A handwritten signature in black ink that reads "Daniel J. Loepf". The signature is written in a cursive, flowing style.

Daniel J. Loepf  
President and CEO

# A message from our Chairman of the Board



Eighty years ago, Blue Cross Blue Shield of Michigan opened its doors and enrolled its first customers and members. From that first day, our first and foremost obligation has been to our members, customers and all our stakeholders. We are defined by a deep commitment to the people of Michigan, something that won't ever change. However, we are sustained by constant transformation and improvement.

What we stand for and how we do it are the things that have set us apart for 80 years. Those two things are our greatest source of pride and satisfaction. We are proud of our heritage, honored by every one of our 5.3 million members who place their trust in the Blue Cross member card they carry wherever they go. But we will not rest on the laurels of the past or remain in the comfort zone of the present. Our future is far too important.

We are a company of change makers, innovating every day so Blue Cross members will be able to rely upon us just like they have throughout the past 80 years. Blue Cross today is a company that excels at change and demonstrates world-class preparation and execution. We are successfully navigating through a time of unprecedented change and becoming a strong, diversified nonprofit mutual insurance company.

Blue Cross covers people in all 50 states through an array of products, including commercial health insurance, workers' compensation, dental, vision, Medicaid and Medicare Advantage.

Today, on behalf of the Blue Cross Blue Shield of Michigan board of directors, I confidently state that I see a company continuing to innovate, transform, diversify and perform at a level of excellence. We are still delivering on what we set out to do many decades ago and doing it better than ever. In 2018, Blue Cross kept its long-standing commitments to our members and their health while delivering outstanding business results.

A handwritten signature in black ink, reading "Gregory A. Sudderth". The signature is fluid and cursive, with a large initial "G" and "S".

Gregory A. Sudderth  
Chairman of the Board

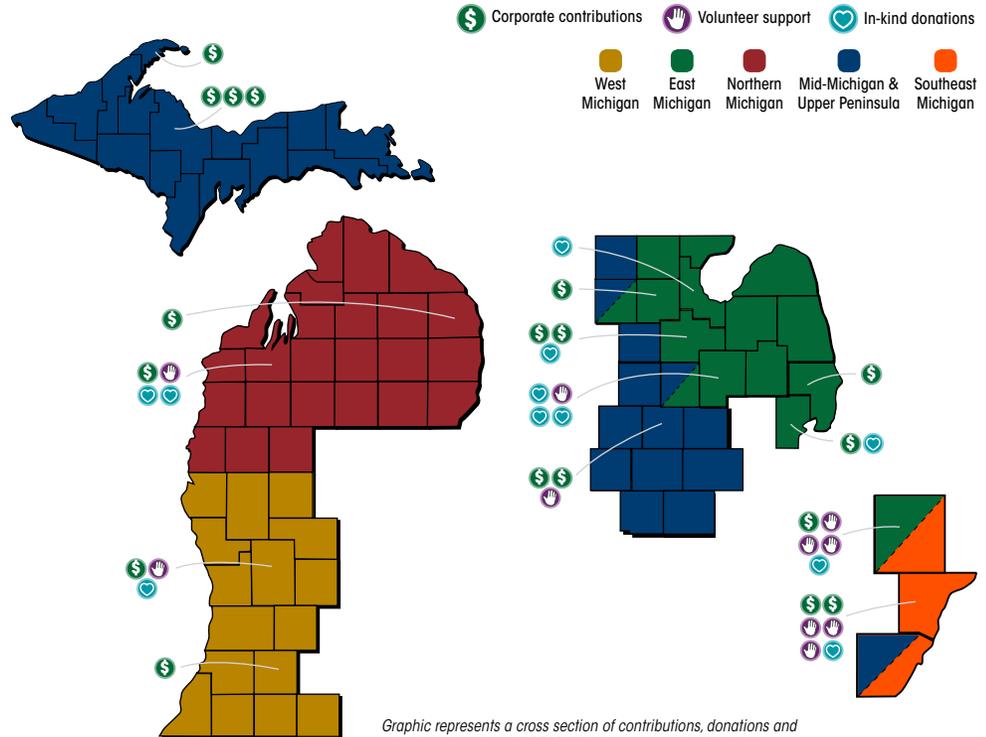
# Committed to Michigan's communities

For 80 years, Blue Cross has been involved in helping Michigan communities improve people's quality of life and control the overall cost of care through innovation and support. In 2018, some incredible strides were taken to benefit this ongoing effort.

Blue Cross invested more than **\$90 million** to support health access, wellness and quality health care. This includes \$85 million paid to the Michigan Health Endowment Fund—and brings the level of investment to more than \$8 for every person living in our state.

Our efforts to give back go beyond dollars. Blue Cross and BCN employees spent **13,869 hours** volunteering at sponsored events and programs and donated over **14,000** food items and articles of clothing.

## Funding, donations in-kind and volunteer time



Graphic represents a cross section of contributions, donations and volunteer time given in 2018. It isn't an exhaustive list of all support.



Total number of  
volunteers in 2018  
**5,413**



Total number of  
volunteer hours  
**13,869**



Value of  
volunteer hours  
**\$326,753.64**

(Points of Light = hours x \$23.56)



Giving Back

# Committed to Michigan's communities

Blue Cross employees give back to our communities in numerous ways during the course of any given year. Three of the efforts supported in 2018 achieved notable success:

- Through combined donations from Blue Cross, the Blue Cross Blue Shield of Michigan Foundation and employee fundraising, Blue Cross contributed almost **\$200,000** to the Alzheimer's Association.
- Blue Cross, BCN and subsidiary employees donated **16,350** items to Stamp Out Hunger. Created by the National Association of Letter Carriers, Stamp Out Hunger occurs in May and involves letter carriers across the nation collecting and delivering donated food to local food banks.
- Thanks to the generosity of Blue Cross and its employees, **46** cats and dogs were adopted at a Michigan Humane Society Pet Adoption event in June. MHS said it was the largest event they've hosted outside of one of their facilities, and it netted the highest number of pets adopted.





**11,849** food  
items donated



**1,884** hats,  
mittens, gloves  
and scarves  
donated



**671** new  
and like-new  
coats donated



Helping and Contributing

# Investing in the health of Michigan's people

Over the last 80 years, Blue Cross has also focused on efforts in Michigan that increase access to affordable health care, enhance the quality of care patients receive, and improve the health of Michigan citizens and communities. As part of our social mission, we're committed to a healthier future for our state.

- Our Building Healthy Communities program has reached more than 340,000 students in 772 schools. BHC works to create **supportive school environments for children** through healthy eating and physical activity.
- To address **critical health problems**, Blue Cross has partnered with the Blue Cross Blue Shield of Michigan Foundation and invested \$814,000 in 14 community organizations in the Upper Peninsula.

- Now in its 14th year, our **Strengthening the Safety Net grant program** has invested more than \$14 million to help more than 50 clinics across Michigan provide free or low-cost medical, dental, and mental health care for more than 60,000 uninsured and vulnerable Michigan residents.

- We are **fighting the opioid epidemic** in core communities across the state. Our efforts have resulted in:
  - More than 900,000 fewer tablets dispensed since 2014
  - 44 percent decrease in opioid prescriptions since 2012
  - Criminal prosecutions of predatory providers
- We help protect the vulnerable through our relationship with the **Michigan Health Endowment Fund**, where Blue Cross has committed

\$1.56 billion to the Fund over 18 years that support efforts around Michigan to invest in health, protect the vulnerable, and subsidize supplemental coverage for low-income Medicare beneficiaries.



## Building Healthy Communities



Healthy food consumed  
Physical activity  
Overall academic achievement



Obesity  
Sedentary lifestyle

Investing in

Health



The Strengthening the Safety Net program provided more than **\$800,000** to **45 free clinics** across the state



Blue Cross and the Blue Cross Blue Shield of Michigan Foundation invested **\$814,000** in 14 community organizations in the Upper Peninsula

# Innovating to serve customers better

Blue Cross recognizes that the speed of change in our industry affects our members and customers through the products and services we offer. Our focus on innovation is to remain at the forefront of change, delivering new services that improve our members' experience and bring more efficient ways for our customers to connect with us in serving their needs.

Our award-winning **mobile app** recognizes that our members need access to their most important health plan information around-the-clock, wherever they are. Our app serves as a way for our individually-enrolled members to access our new **MIBlue<sup>SM</sup> Virtual Assistant** on their smartphones. The virtual assistant uses Artificial Intelligence to enable easy member interactions with Blue Cross and help members view claims, check deductibles and order ID cards.

What's more, our mobile app saw more downloads and an increase in its satisfaction score with our members.

In 2018, Blue Cross became one of the first health insurers in the country to launch a skill on the virtual home assistant platform, **Amazon Alexa**. The "MI Blue" skill features interactive content around health insurance terminology, healthy recipes and exercise, news content and healthy activities for families to enjoy at home.

Our continued focus on innovation was also one of the reasons behind strong **Michigan membership growth** in 2018, with our Michigan membership growing by almost 90,000. Our membership in the small employer market grew by more than 22,000 members in 2018. Part of that is due to our ability to moderate rates for

these customers. In fact, we've reduced rates for our small group customers nine times since 2015.

## Results of Innovation



Membership in the small employer market grew by more than 22,000 members



Reduced rates for small group customers nine times since 2015

Innovating

to serve



## Mobile app

More than **120k** downloads

**79 percent** satisfaction score



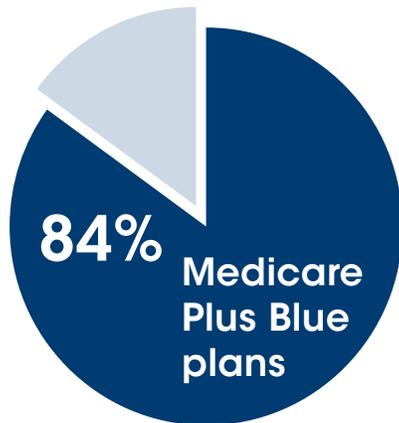
## Michigan membership

Grew by almost **90,000** members

# Generating momentum with Medicare

As more people than ever become age-eligible for Medicare, Blue Cross is here to serve them with an increasing array of quality Medicare Advantage and Medicare Supplement plans to meet their health care needs.

Our Medicare Plus Blue<sup>SM</sup> PPO plans make up 84 percent of our overall Medicare Advantage membership.



These plans received a four-star national quality rating for the sixth consecutive year. The Centers for Medicaid and Medicare Services' star ratings take into account quality measures for health coverage choices.

By using advanced analytics and targeting key information to specific members, we were able to improve the number of people who chose Medicare Advantage products **by 28 percent** in a pilot program. The pilot involved one of our key accounts and changed the style of how we communicate with our members. We plan to continue these efforts throughout 2019.

**Our Medicare Advantage rates went down an average of 15 percent across all segments.**

**15%**

In addition to lowering rates, we redesigned our products to bring more of a focus on our members while continuing to offer them value for their money.



Generating

## Momentum



Our Medicare Advantage PPO plans received a **four-star** national quality rating for the **sixth consecutive year**



# Providing more than health care coverage

Ten years. Hundreds of thousands of healthier lives. Patient-centered transformation.

When members get the right care, at the right time, and in the most appropriate care setting, they stay healthier, keep conditions under better control and avoid the need for more expensive health services.

We've proved this through 10 years of our nationally-recognized Patient-Centered Medical Home program, the largest program of its kind in the nation. Over the last decade, PCMH-designated practices have **saved \$626 million** in costs because of preventive and coordinated care that helped patients avoid emergency room visits and hospital stays.

"PCMH-designated practices provide team-based care that's centered around each patient's individual needs," says Todd Van Tol, Senior Vice President, Health Care Value at Blue Cross Blue Shield of Michigan. "So they're coordinating and tracking, keeping a watchful eye on conditions and getting patients needed care at the right time. This leads to better outcomes, and often prevents the need for high-cost emergency or inpatient care."

The Blue Cross PCMH model works. In fact, other health plans, including Medicare, recognize the Blue Cross PCMH-designation as qualifying for their value-based incentive programs.



## 1,700 Blue Cross-designated PCMH practices across Michigan

- **Approximately 4,640** physicians in those designated practices
- **More than 1.25 million** Blue Cross members covered by a PCMH-designated practice, totaling **close to 2 million** total patients impacted by this initiative
- Blue Cross-designated PCMH practices in **80** of Michigan's **83** counties
- **\$626 million** in prevented costs in program's first nine years



There are more than **1,700** PCMH practices with roughly **4,640** physicians in Michigan today



The PCMH model has resulted in **\$626 million** in avoided costs over nine years

# A message from our Chief Financial Officer



For the past 80 years, we've been a trusted partner to our members and customers, and committed to providing them with affordable, innovative products that improve their care and health. Our ability to continuously innovate and offer high-quality products is possible because of our strong financial foundation.

In 2018, the Blue Cross Blue Shield of Michigan enterprise recorded strong financial performance. The company's financial performance was driven by a number of factors. We experienced new business growth and increased membership in Michigan; in a challenging investment year, we generated a positive investment margin within our conservatively invested portfolio. And profitability from our subsidiary companies, which includes AF Group, played a key role in our performance.

As a nonprofit mutual, Blue Cross aims to keep our overall profitability low, allowing us to build capital and reinvest in our business while promoting affordable, quality health care services for our members and customers. For 2018, the enterprise reported an operating margin

of \$605 million on a GAAP basis on revenue of \$29.3 billion, which equates to a small positive margin of 2.1 percent.

Being a financially stable company has allowed us to navigate through times of significant change in health care over the past 80 years, and allows us to continue our good work of improving the health of Michigan's citizens and communities into the future.

A handwritten signature in black ink that reads "Mark Bartlett". The signature is fluid and cursive.

Mark Bartlett

Executive Vice President and Chief  
Financial Officer  
Blue Cross Blue Shield of Michigan

# 2018 key indicators



**Operating margin**  
**Positive margin**  
**of 2.1%**



**GAAP revenue**  
**\$29.3 billion**



## **Claims & Benefits**

**\$25.1 billion**

Paid an average of

**\$68 million** per day



## **Membership**

**5.34 million** nationwide

**4.7 million** in Michigan



## **Michigan Health Endowment Fund**

**\$85 million** paid in 2018

**\$355 million** in total payments

Our payments help Michigan's  
vulnerable residents

# Consolidated financial information (in millions)

December 31, 2018 and 2017 (GAAP\* basis)

	2018	2017
<b>Assets</b>		
Investments	\$8,085	\$7,804
Other	<u>7,974</u>	<u>7,599</u>
<b>Total assets</b>	<b><u>\$16,059</u></b>	<b><u>\$15,403</u></b>
<b>Liabilities, capital and surplus</b>		
Total liabilities	\$10,186	\$9,857
Total capital and surplus	<u>5,873</u>	<u>5,546</u>
<b>Total liabilities, capital and surplus</b>	<b><u>\$16,059</u></b>	<b><u>\$15,403</u></b>
<b>Total revenue</b>		
	<b><u>\$29,330</u></b>	<b><u>\$26,945</u></b>
Claims under self-funded arrangements	(12,326)	(11,760)
Expenses	(16,399)	(14,800)
Operating Gain (Loss)	605	385
Investment Income and other, net	123	366
Income Tax (Expense) Benefit	<u>(152)</u>	<u>440</u>
<b>Addition/Reduction to Policyholders Reserves</b>	<b><u>576</u></b>	<b><u>1,191</u></b>
Net Income attributable to noncontrolling interest – net of tax	<b><u>(10)</u></b>	
Addition/Reduction to Policyholders Reserves attributable to Corporation	<b><u>566</u></b>	<b><u>1,191</u></b>

\*Generally accepted accounting principles.

Financially

Strong



To see our detailed  
consolidated financial  
statements, go to  
**[BCBSM.com/annualreport](http://BCBSM.com/annualreport)**.

# 2018 – 2019 Board of Directors (as of April 10, 2019)

**James Agee\***

*President*  
JG Agee Consultants LLC

**Peter B. Ajluni, D.O.**

*Orthopedic Surgeon (Retired)*

**Reneé C. Axt\***

*President*  
RCP Associates LLC

**Ronald J. Bieber**

Michigan State AFL-CIO

**William H. Black\***

*Executive Director*  
Michigan Teamsters  
Joint Council 43

**Darrell Burks\***

PriceWaterhouseCoopers  
(Retired)

**Terry W. Burns\***

*Executive Vice President*  
Michigan Automobile Dealers  
Association

**Robert F. Casalou**

*Chief Executive Officer  
and President*  
Mercy Health and St. Joseph  
Mercy Health System

**Patrick J. Devlin**

*Financial Secretary/Treasurer*  
Michigan Building Trades  
Council

**Sarah W. Doyle**

International Union, UAW  
(Retired)

**Linda D. Forte**

Comerica Bank (Retired)

**Joseph A. Garcia**

*Attorney*

**Yousif Ghafari\***

*Chairman and Founder*  
Ghafari Associates LLC

**Diane R. Goddeeris, R.N., B.S.N.**

*Sparrow Hospital (Retired)*

**James D. Grant, M.D.**

*Physician*  
Beaumont Health –  
Royal Oak Campus

**Paula J. Herbart**

*President*  
Michigan Education  
Association

**Kerry M. Kaysserian D.D.S.**

*Dentist*  
Access Dental Group, PLLC

**Melvin L. Larsen**

Larsen & Associates Inc.  
(Retired)

**Daniel J. Loepp\***

*President and Chief Executive  
Officer*  
Blue Cross Blue Shield of  
Michigan

**Christopher J. Maksym,  
Pharm.D.**

Michigan Medicine,  
University of Michigan (Retired)

**Gary J. McInerney\***

*Owner*  
McInerney & Associates

**Anne M. Mervenne**

*Chief Executive Officer*  
Mervenne & Company

**William E. Meyers**

Wm. Meyers & Associates LLC  
(Retired)

**Dan Musser III**

President  
Grand Hotel

**Brian E. Peters\***

Chief Executive Officer  
Michigan Health & Hospital  
Association

**Phillip Pierce**

Managing Member  
Pierce, Monroe & Associates

**Jean L. Rose\***

General Motors LLC (Retired)

**James U. Settles Jr.\***

Group Executive –  
Department of Neighborhoods  
City of Detroit

**F. Remington Sprague, M.D.\***

Ministry Organization  
Vice President and  
Chief Medical Officer  
Mercy Health Muskegon,  
CHE – Trinity Health

**Gregory A. Sudderth\***  
Chairman of the Board

President and founder  
CIR, Inc. dba Executive Labor-  
Management Services Inc.

**Laura D. Swartzmiller**

Director, Health & Welfare  
Benefits  
Ford Motor Company

**Brad E. Thompson**

Senior Manager,  
Integrated Health Care  
FCA US LLC

**Gary H. Torgow**

Chairman  
Chemical Bank

**Renee L. Turner-Bailey**

Sr. Benefits Consultant  
International Union, UAW



\*Member of Executive Committee

# Subsidiary corporations



**Jamie Wells**  
President  
[advantasure.com](http://advantasure.com)



**Audrey Harvey**  
Executive Director and  
Chief Executive Officer  
[bcbsm.com/foundation](http://bcbsm.com/foundation)



**Lisa Corless**  
President  
[afgroup.com](http://afgroup.com)



**Blue Care  
Network**  
of Michigan

**Tiffany A. Albert**

President and Chief  
Executive Officer

[bcbsm.com](http://bcbsm.com)

Blue Cross   
**complete**  
of Michigan

**Heidi Chan**

Market President

[mibluecrosscomplete.com](http://mibluecrosscomplete.com)

 **lifesecure™**

**Kevin Stutler**

President and Chief  
Executive Officer

[yourlifesecure.com](http://yourlifesecure.com)

\*Subsidiary of Blue Care of Michigan, Inc.

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[bcbsm.com](http://bcbsm.com)

[MIBluesPerspectives.com](http://MIBluesPerspectives.com)

[AHealthierMichigan.org](http://AHealthierMichigan.org)





Connect



**Blue Cross  
Blue Shield**  
of Michigan

A nonprofit corporation and independent licensee  
of the Blue Cross and Blue Shield Association