



## The Importance of Compensation at Blue Cross Blue Shield of Massachusetts (BCBSMA)

Attracting and retaining high-quality talent is crucial to our continued business success. Our compensation programs, at all levels, are designed to allow us to maintain an appropriate competitive position, to drive key business objectives, and to reward performance at the individual and company level.

### ASSOCIATE COMPENSATION PHILOSOPHY AND PROGRAMS

Key elements of the BCBSMA philosophy are:

- Provide competitive compensation opportunities (salary and incentives) sufficient to attract and retain high-quality associates and to motivate them to achieve superior performance.
- Place a significant portion of compensation at reasonable risk through incentive plans for associates in leadership positions.
- Provide all associates with the opportunity to supplement competitive base salaries through incentive plan participation.
- Support business plans and strategies with effective compensation arrangements.
- Ensure compensation results that are responsible and consistent with sound business practices found in other large, multi-product, billion dollar organizations.

### HOW CURRENT PROGRAMS SUPPORT THE PHILOSOPHY

BCBSMA Philosophy	Program
Provide competitive compensation opportunities (salary and incentives) sufficient to attract and retain high-quality associates and to motivate them to achieve superior performance.	The base pay program targets, on aggregate, median compensation levels for comparable jobs based on industry and/or local market practice.
Place a significant portion of compensation at reasonable risk through incentive plans for associates in leadership positions.	<p>The Leadership Performance Plan (LPP) provides an incentive opportunity targeted at 10% to 65% of base salary.</p> <p>Senior leaders also participate in the Long-Term Incentive Program incentive opportunity targeted at 10% and 65%. The combined programs encourage a balance between short-term business goals and long-term organizational objectives.</p>
Provide all associates with the opportunity to supplement base salaries through incentive plan participation.	The Associate Performance Plan (APP) provides associates who are not eligible for the LPP with an incentive opportunity targeted at 5% of base salary.

BCBSMA Philosophy	Program
Support business plans and strategies with effective compensation arrangements.	The incentive plans provide a platform for communicating the Company’s goals and rewarding their achievement. The plans are designed to focus associates on desired behaviors and link overall compensation with demonstrated results.
Ensure compensation results that are responsible and consistent with sound business practices found in other large, multi-product billion dollar organizations.	BCBSMA stays current with compensation practices and continually evaluates the effectiveness of our programs.

### Base Salary Structure

BCBSMA targets base salary, at the aggregate, at median market levels, which is consistent with market practice. The base pay structure generally aligns well with other organizations.

### Annual Incentive Plans

As part of fulfilling its compensation philosophy, BCBSMA provides annual at-risk incentive opportunities to all associates, through a combination of the *Leadership Performance Plan* and the *Associate Performance Plan*. The reasonableness of annual measures is assessed by an external consultant, Deloitte LLP.

### Long Term Incentive Plan

In addition to the annual incentive plans, the *Long Term Incentive Plan* (for selected senior leaders) bases awards on company performance and provides a key element in the recruitment and retention of talented executives. The reasonableness of annual measures is assessed by an external consultant, Deloitte LLP.

### Recognition Programs

In addition to annual and long-term incentives, BCBSMA sponsors a wide range of recognition programs that can effectively motivate and reward individual or team accomplishments and ideas. All associates are eligible for at least one form of recognition award, with the nature of awards varying based on individual department success criteria.

### Assessment of Compensation for Associates

Each year, the Human Resources Committee (HRC) of the Board of Directors of BCBSMA engages an executive consulting firm to complete a compensation assessment for our CEO and his direct reports to ensure our pay, programs, and practices remain market competitive and support our philosophy. The HRC has engaged Hay Group, a global management consulting firm, to complete this assessment for the last four years. In keeping with best practice, BCBSMA management engages a separate compensation consultant, Towers Watson, a global professional services company, to complete a compensation program assessment of our broad-based compensation programs for all associates other than the CEO and his direct reports to ensure that these programs continue to provide appropriate and competitive pay and programs allowing BCBSMA to attract and retain the necessary talent.

### Assessment of Compensation for CEO and his Direct Reports

Based on the analysis prepared by Hay Group, the HRC reviews proposed compensation levels for the CEO and his direct reports and presents a final recommendation to the full Board for its review. The comparator organizations used in the analysis reflects a mix of local competitors, comparably sized Blue Cross Blue Shield plans and the broader health care industry. The HRC believes this mix of comparators continues to be appropriate given the nature of BCBSMA's competition for senior executive talent. BCBSMA's greatest competition for executive talent is other health insurers and managed care companies.

Key findings of the 2012 analysis suggest that current senior associate compensation levels are generally consistent with median market practice, as summarized below:

Compensation Element	Findings
Base Salaries	Overall, base salaries are within a competitive range (+/- 15%) of median industry market practice.
Total Cash Compensation (TCC—base salary plus target bonus)	Target total cash compensation is generally competitive with median market practice.
Total Direct Compensation (TDC – base salary plus target bonus and target long-term incentive)	Target total direct compensation levels are generally competitive with median market practice.

### Assessment of Broad-based Programs

Towers Watson prepared an assessment BCBSMA's broad-based compensation philosophy, compensation structures and programs using comparator organizations that reflect a mix of large Blue Cross Blue Shield organizations, the broader health care industry, and geographically local companies representing a cross-section of industries.

Based on the analysis prepared by Towers Watson, BCBSMA's programs and practices align with market practices for comparable companies and/or comparable jobs including:

- Our objective to compensate at the median of the market on an aggregate basis,
- Our job structure and methodology for job placement within the structure,
- Our incentive plan design and incentive plan eligibility.

### Board of Director Compensation Philosophy and Structure

The Board of Directors engaged Frederic W. Cook & Co., Inc., a compensation consulting firm specializing in Executive and Board compensation, to assist the Board in the articulation of a compensation philosophy and to recommend a competitive fee structure appropriate for a health care company of our size and complexity.

### Principles

BCBSMA's ability to fulfill its mission depends to a large extent on the contributions and leadership of its Board of Directors. The compensation paid to Directors is intended to recognize that they devote substantial and valuable time to BCBSMA and have overall responsibility for setting the Company's strategy, policy and direction. Within a highly competitive and highly regulated business environment, the Board oversees and governs BCBSMA's operations, which includes the provision of health coverage to individuals and public and private employers and governmental programs.

Within this context, Director compensation will reflect the following principles:

- The compensation must be at a level that acknowledges the valuable service provided by Directors;
- The compensation must be appropriate to attract and retain highly qualified Board members, who will help facilitate the achievement of BCBSMA's mission and long-term business goals.

### **Program Objectives**

BCBSMA's Outside Director Compensation Program is intended to help the Company attract and retain highly-qualified directors with significant business acumen and leadership capabilities, in addition to the primary governance and oversight function and to provide appropriate recognition of the Directors' time and commitment in overseeing the governance of BCBSMA.

BCBSMA's not-for-profit business operations are significantly different than most public charities in that its revenue is generated from the sale of commercial insurance products rather than from donations from individuals, corporations or foundations. BCBSMA's operations are more similar to that of other not-for-profit "Blues" organizations and for-profit insurance counterparts, who seek director candidates with industry-specific technical knowledge and business expertise, as well as experience with the demands and challenges of working with individuals, organizations large and small, and government entities.

BCBSMA, therefore, recruits from a select pool of highly-qualified candidates to oversee its long-term business strategy and understand its business operations, including recruiting directors who are current or former senior officers at large not-for-profit or for-profit organizations, or have significant experience in the financial or insurance industries, or have been successful in leading complex organizations, related to labor relations, consulting, finance and accounting, or other core competencies required of the Board. Relevant peer markets for BCBSMA Directors include not-for-profit organizations which perform similar services and are of comparable stature and complexity of operations and publicly traded for-profit companies of comparable size. BCBSMA will target the approximate median cash compensation value among for-profit companies, excluding equity-based compensation, and the median total compensation of comparable not-for-profit organizations. The compensation program should be flexible to reflect current market trends and economic conditions.

### **Strategies**

Compensation amounts will be compared to that of board members among similarly situated not-for-profit organizations that (1) compensate their directors or trustees, (2) are engaged in health care delivery and/or health insurance, cooperatives, and other organizations with similar services that may be deemed comparable to BCBSMA, and (3) whose directors or trustees assume generally similar responsibilities and risk. To assist in determining comparability, factors such as annual revenues, geographic location, and industry type will be considered.

This philosophy document will be reviewed periodically and modified, as appropriate, to reflect industry changes, the organization's strategies, and other factors deemed relevant by the Blue Cross Blue Shield of Massachusetts, Inc. Human Resources Committee.

## Board of Director Compensation Structure

Compensation Element	Fee
Chairman Retainer *	\$80,000
All Other Directors:	
Annual Cash Retainer	\$30,000
Committee Chair Retainer	\$7,500
Board Meeting Fee **	\$1,500 (\$500 for telephonic)
Committee Meeting Fee ***	\$1,000 (\$500 for telephonic)

\* Chair retainer is inclusive of all meeting fees.

\*\* There are five scheduled full Board meetings per year plus a strategic planning meeting.

\*\*\* There are four scheduled committee meetings per year for each of the following standing committees of the Board: Audit, Finance and Business Performance, Health Care Quality and Affordability and Human Resources. The Governance Committee has three scheduled committee meetings per year. Directors are required to participate on a minimum of two committees.

Directors are eligible to participate in the company's associate medical plans at the same contribution rate as active associates.