

# 2015 Executive Compensation Summary

# 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 at an affordable price. We are transforming a dysfunctional healthcare system into one that's sustainably affordable and worthy of our family and friends. To get there, everything we do, every decision we make, must be driven by our mission, including having a strong leadership team that pushes us forward to achieve our goals.

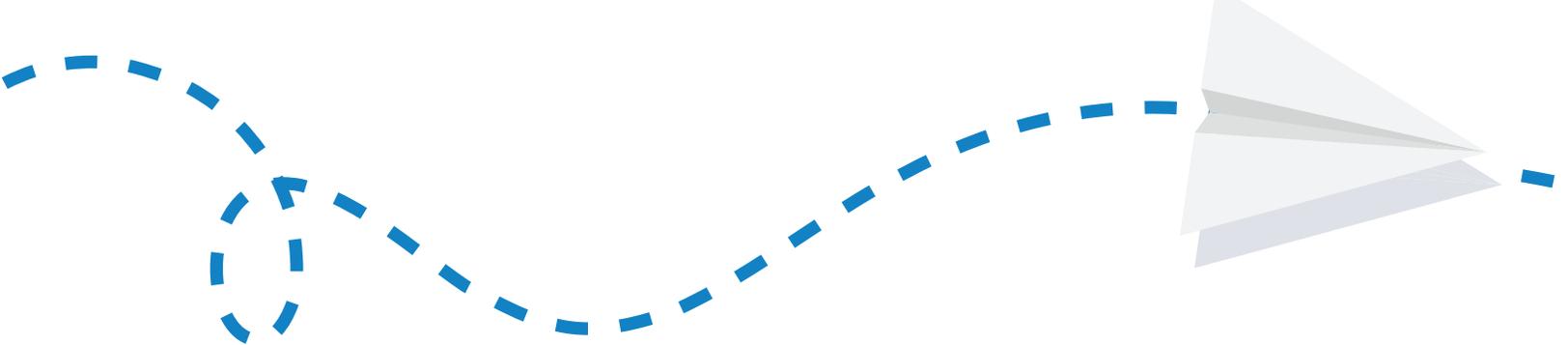
The intent of this document is to give direct insight into the components of our executive compensation program and show how we pay for performance. As a nonprofit healthcare plan, it's important to us that we continue to raise the level of transparency in our industry, and ensure our members and partners fully understand what we do and why we do it.



## Key Facts About Our Executive Compensation

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## Our Compensation Philosophy

Blue Shield rewards its executives for strong company performance, but how they get it done is as important as what gets accomplished. It is expected that Blue Shield's executives are anchored in our values and are continuously emblematic of our leadership behaviors, including putting our members first, building high-performing teams, delivering results, taking an enterprise view and giving back to the communities we serve.

Blue Shield's compensation plan attracts, retains, motivates and rewards our executive team through a pay-for-performance culture with a focus on both the short- and long-term.

The plan is reviewed annually and governed by an independent committee, called the Compensation and Human Resources Committee. The Committee:

- ▶ Determines the plan's guiding principles and objectives
- ▶ Works with an independent consultant to benchmark Blue Shield's plan against peer group companies, managed care companies, and general industry
- ▶ Establishes incentive goals and targets for executives
- ▶ Establishes company performance thresholds tied to the plan
- ▶ Monitors company performance against goals and sets the applicable annual corporate performance factor
- ▶ Reviews and approves the performance of the Chief Executive Officer and his direct reports
- ▶ Reviews and approves annual executive compensation actions

# Key Elements of Our Executive Compensation Program

Blue Shield's executive compensation program consists of the following elements:

	Link to Program Objectives	Type of Compensation	Key Features
<b>Base Salary</b> 	Provides a stable source of income and is a standard compensation element in executive compensation packages	Cash	Generally targeted between competitive 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
<b>Executive Incentive Plan</b> 	An annual cash-based award that encourages executives to focus on specific corporate and individual performance goals	Cash	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
<b>Long-Term Incentive Plan</b> 	Helps ensure that executive pay is directly linked to the achievement of the company's long-term strategic objectives; promotes retention	Cash	Target incentive opportunity is set annually with a three-year horizon needed to achieve the company's performance goals and objectives
<b>Health and Welfare Benefits</b> 	Critical element of a total rewards program that helps attract and retain employee and executive talent	Benefit	Comprehensive program of benefits that are available generally to all Blue Shield employees
<b>Retirement</b> 	Critical element of a total rewards program that helps attract and retain executive talent	Benefit	Executives receive retirement benefits through three plans: <ul style="list-style-type: none"> <li>• 401(k) Plan</li> <li>• Defined Benefit Pension Plan (closed to new participants as of 1/1/16)</li> <li>• Supplemental Executive Retirement Plan (closed to new participants as of 1/1/16)</li> </ul>
<b>Other Benefits (e.g. perquisites)</b> 	Provides support for executives to plan for the future appropriately. Benefits are market competitive and include financial counseling, car allowance, etc.	Benefit	Perquisites are limited in amount and the Compensation and Human Resources Committee limits eligibility and use

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 Chief Executive Officer and all other executives.

# Our Executive Compensation Program

## Total Compensation



### BASE SALARY

Base salary, also expressed as eligible earnings, provides executives with a reliable source of income.

**36.5%**

On average, **base salary** makes up 36.5% of an executive's total compensation.



### 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.

**63.5%**

On average, **incentives** make up 63.5% of an executive's total compensation. This is the percentage of pay "at risk," meaning not fixed for executives.

## Plus other programs:

### Total Benefits Package

On average, Blue Shield's **benefits package** adds an amount equal to 16.2% of total compensation to an individual's total rewards.



**HEALTH, INSURANCE  
& RETIREMENT  
BENEFITS**

This includes Blue Shield's health, wellness, insurance and retirement benefits, including our pension plan (for eligible employees) and market-leading 401(k) plan.

# Executive Incentive Plan

This incentive opportunity is tied to achievement of short-term strategic goals and financial goals, and demonstration of our leadership behaviors.

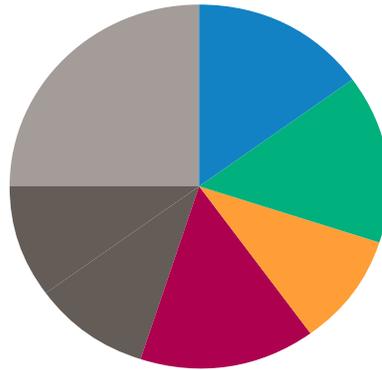


Performance is measured over a one-year period.

## Our 2015 Short-Term Goals

(apply to compensation payable in 2016)

- 15% Cost of Health Care
- 15% Clinical Quality
- 10% Customer Experience
- 15% Membership Growth
- 10% Operating Income\*
- 10% Great Place to Work
- 25% Readiness\*\*



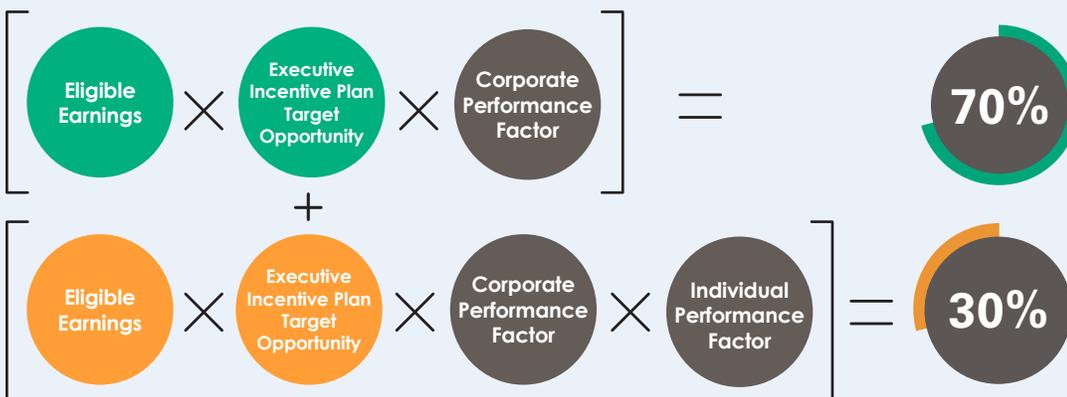
\*The Operating Income measure payout is capped to assure we maintain focus on balancing our nonprofit mission, financial and operational performance.

\*\* Consists of one-time large technology projects, such as moving all of our members onto a new claims and eligibility platform.

## 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 award.



 Next, an executive's **individual performance** may increase or decrease the actual Executive Incentive Plan payout.

# 70%

of the Executive Incentive Plan award is based on corporate performance, and

# 30%

is based on individual performance.

### What is a performance factor?

A performance factor can increase or decrease an executive's payout.

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

# 150%

of target is the maximum payout allowed.

Executive Incentive Program Award



# Long-Term Incentive Plan

This incentive opportunity is tied to strategic and financial objectives that ensure we achieve our mission.

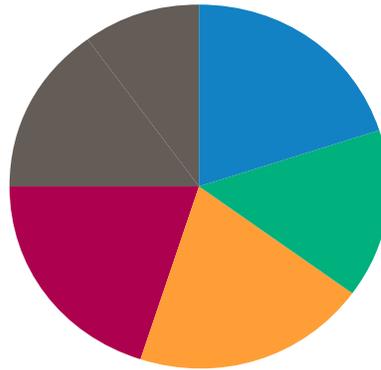


Performance is measured over a rolling three-year period.

## Our 2015 Long-Term Goals

*(apply to compensation payable in 2018)*

- 20% Affordability
- 15% Clinical Quality
- 20% Customer Experience
- 20% Membership Growth
- 15% Administrative Cost Control
- 10% Great Place to Work



## 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.

**Final Award**



# Our Top 10 Executives

Below is a summary of the compensation paid to Blue Shield of California's top ten executives.

## **Paul S. Markovich**

President and Chief Executive Officer  
\$3,522,627<sup>1,2</sup>

## **Janet D. Widmann**

EVP, Markets  
\$3,428,499<sup>1,2,3</sup>

Note: Ms. Widmann is no longer employed by Blue Shield of California.

## **Robert W. Geyer**

SVP, Customer Quality  
\$2,544,585<sup>1,2,3</sup>

Note: Mr. Geyer is no longer employed by Blue Shield of California.

## **Michael A. Murray**

Chief Financial Officer  
\$1,792,499<sup>1,2</sup>

## **Seth A. Jacobs**

SVP, General Counsel and Corporate Secretary  
\$1,554,965<sup>1,2</sup>

## **Todd K. Walthall**

SVP, Customer Experience  
\$1,396,137<sup>1,2</sup>

## **Michael G. Mathias**

SVP, Chief Information Officer  
\$1,222,728<sup>1,2</sup>

## **Juan C. Davila**

EVP, Health Care Quality and Affordability  
\$1,144,245<sup>1,2</sup>

## **Mary M. O'Hara**

Chief Human Resources Officer and SVP, Internal Communications  
\$1,081,447<sup>1,2</sup>

## **Brent J. Hitchings**

VP, Small Business Markets  
\$1,080,023<sup>1,2,3</sup>

Note: Mr. Hitchings is no longer employed by Blue Shield of California. He participated in Blue Shield's Sales Incentive Plan, not the Executive Incentive Plan; also he was not eligible for the Long-Term Incentive Plan.

<sup>1</sup> Amounts paid March 2015 reflect performance in fiscal year 2014 for the Executive Incentive Plan, and 2012-2014 for the Long-Term Incentive Plan, plus 2010-2012 for the Supplemental Long-Term Incentive Plan. In 2014, the supplemental plan was folded into the Long-Term Incentive Plan.

<sup>2</sup> Gross earnings may include other items such as executive perquisite allowance, moving allowance, separation agreement amount, etc.

<sup>3</sup> Upon departure from Blue Shield there are sometimes one-time payments that are incurred that are reported as part of income. For example, defined benefit pension portability, Supplemental Executive Retirement Plan payouts, etc.

# 2015 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.

2015 Base Salary  
**\$1,065,354**

**70%**

of Mr. Markovich's total compensation (base salary + Executive Incentive Plan + Long-Term Incentive Plan) was delivered through **performance-based** incentives.



## Actual Executive Incentive Plan Payout<sup>1</sup>

(based on 2014 goal achievement)

**\$1,153,291**

126% Percent of target delivered

## Actual Long-Term Incentive Plan Payout<sup>1</sup>

(based on 2014 goal achievement)

**\$1,296,000**

134% Percent of target delivered

2015 Gross Earnings<sup>2</sup>  
**\$3,522,627**

which, at the 50th percentile, is 25% less than that of other Chief Executive Officers of managed care companies.

## The CEO Total Benefits Package

Blue Shield's benefits package adds an amount equal to 13.1% of total compensation to the CEO's total rewards. Blue Shield provides competitive benefits that reflect the market median. Retirement benefits are aligned to the company's compensation philosophy and fall within the 50th and 75th percentile of benchmark companies.



**Health and Welfare:**  
**\$20,018**

**Employer 401(k) match:**

**\$10,600** employer 401(k) match. All employees receive a 4% match from Blue Shield when participating in the voluntary 401(k) plan.

**Deferred benefit retirement plans:**

the Blue Shield pension plan (closed as of 1/1/2016) and the non-qualified Supplemental Executive Retirement Plan are payable and portable upon retirement. The CEO receives the same deferred compensation benefits as all eligible employees.

<sup>1</sup> Incentives paid in 2015 are derived from eligible earnings applicable during the relevant performance periods.

<sup>2</sup> 2015 gross earnings include other items such as executive perquisite allowance and moving allowances, in addition to base salary and incentives.

# How We Compare Against the Market

When compared to peer companies, we target the market median for target total compensation (base salary plus annual incentive plus long-term incentive) and a range between the 50th - 75th percentile on salary and short-term incentive. Although competitive, total compensation for Blue Shield's Chief Executive Officer is on the lower end when compared with our peer group companies, including:

- ▶ Cigna
- ▶ Health Net
- ▶ Molina Healthcare
- ▶ Universal American
- ▶ WellCare Healthcare Plans
- ▶ Tenet Healthcare

Other companies we track include:

- ▶ Centene
- ▶ Aetna
- ▶ United
- ▶ Anthem
- ▶ Humana
- ▶ Kaiser



## Comparing Payouts for 2015

**41%**



The actual total compensation offered to Blue Shield's Chief Executive Officer is **41%** of the median actual total compensation offered to peer company Chief Executive Officers, and **25%** less than Chief Executive Officers of managed care companies.