

## 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.
- 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.	The annual incentive plan (STIP) provides an incentive opportunity targeted at 5% to 100% of base salary. Senior leaders also participate in the Long-Term Incentive Plan (LTIP) program opportunity targeted at 10% and 125%. The combined programs encourage a balance between short-term business goals and long-term organizational objectives.
Provide all associates with the opportunity to supplement competitive base salaries through incentive plan participation.	Associates participate in STIP, LTIP or Sales Incentive programs.
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 align with other organizations.

## **Annual Incentive Plan**

As part of fulfilling its compensation philosophy, BCBSMA provides annual at-risk incentive opportunities to all associates, through Short Term Incentive Plan (STIP). The reasonableness of annual measures is assessed by an external consultant, Willis Towers Watson.

## **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, Willis Towers Watson.

## **Recognition Programs**

In addition to annual and long-term incentives, BCBSMA sponsors a wide range of recognition programs that can effectively motivate, reward and recognize individual or team accomplishments. 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 market competitive compensation assessment for our CEO and his direct reports to ensure our pay, programs, and practices remain competitive and support our philosophy. The HRC has engaged Willis Towers Watson, a global management consulting firm, to complete this assessment for the last three 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 Willis Towers Watson, 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 competitors, comparably sized Blue Cross Blue Shield plans the broader health care industry and general industry as appropriate for staff roles. 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 found within other health insurers and managed care companies.

## **Assessment of Broad-based Programs**

Willis Towers Watson prepares 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 Willis 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

### 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, 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 individuals, corporations or foundation donors. 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 among large not-for-profit or for-profit organizations, or have significant experience or background in financial or insurance products of leading complex organizations, labor relations, consulting, finance, accounting, or other core competencies required of the Board.

Relevant peer markets for BCBSMA Directors include similarly situated Blue Cross Blue Shield plans and 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 Blue Cross Blue Shield plans and 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	Current Fee
Chair Retainer <sup>1</sup>	\$120,000

All Other Directors:	
Annual Cash Retainer	\$55,000
Committee Chair Retainer	\$12,000 Audit and HRC \$10,000 All Other Committees <sup>2, 3</sup>
Board Meeting Fee <sup>4</sup>	\$1,500 (\$500 for telephonic)
Committee Meeting Fee <sup>3, 5</sup>	\$1,200 (\$500 for telephonic)

<sup>1</sup> Chair retainer is inclusive of all meeting fees.

<sup>2</sup> The Corporate Contributions Committee is a non-compensated committee of the Board.

<sup>3</sup> Currently, the Investment Committee chair is not a Director and, therefore, does not receive a retainer or meeting fees under this program.

<sup>4</sup> There are four scheduled full Board meetings per year, plus a strategic planning meeting.

<sup>5</sup> There are four scheduled committee meetings per year for each of the standing committees of the Board except for the

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