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Dashboard for Blue Financial Management

June 2008

## BLUES EXPERIENCE EARNINGS DECLINE IN 2007

### *Introduction*

In 2007, Blue Cross Blue Shield Plans had an 18.2% decrease in overall operating profits, while the median Blue Cross Blue Shield Plan's operating profits declined by 36.2%. The profit decline was mainly due to a higher health benefit ratio and a slight increase in the administrative expense ratio. Administrative expenses have increased for the Blues in terms of per member per month (PMPM) and in terms of percent of revenues overall. Offsetting much of this decline was an increase in non-operating income, which grew 22.8% overall with a median increase of 23.6%. Net Income overall declined by 1.4%, for a median decline of 1.0%. Overall revenues increased by 7.4% with median growth of 7.1%.

Health benefit ratios increased by a median of 1.1 percentage points to 86.1%. ASO revenues increased at a median rate of 3.0%, below last year's increase of 3.6%. Overall, administrative expenses had a median increase of 7.6% PMPM.

There are limitations in the data we use in this analysis: Sometimes Plans supply statutory statements which are not as useful as GAAP; Plans vary in the degree that they report membership and externally-reported administrative expenses and revenues sometimes lack a common definition. Finally, adjustments we made to compute ratios, such as the treatment of revenues and costs of self insured lines, are inherently estimates.

### *Preliminary SEER Results*

Preliminary results of the SEER report indicate that overall PMPM administrative costs were up by 3.7% to \$27.01. Overall, the rate of increase was approximately one-half of the rate of change for Blue Cross Blue Shield Plans as reported in this analysis. While the overall administrative cost growth was in line with the average over the past five years, it appears that after last year's larger than normal increase in administrative costs, SEER participants are once again experiencing a decline in the

growth in per member administrative costs.

Marketing costs were up by 5.5% to \$7.72, as Account and Membership Administration costs PMPM increased by 6.0% to \$10.33. Corporate services increased only slightly by 0.4% PMPM to \$5.75. Most surprisingly, the median increase in Medical and Provider Management was 10.1% to \$3.15, its fastest rate of growth since 2002. (The rates of changes and the values are medians and therefore individual functional area clusters will not perfectly relate to the totals. Please note that all comparisons hold constant the universe.)

Sampling selected Blue Cross Blue Shield Plan responses, it appears that the Blue Cross Blue Shield plans had increases in a variety of functional areas. Dollars paid for Commissions was a frequent source of cost increase. Many of the Plans reported significant increases in the functional areas of Information Systems, Medical Management and Corporate Services costs. Enrollment, Customer Services and Provider Management increases were also present.

Sherlock Company benchmarks for Blue Cross Blue Shield Plans are based on the results of 23 Plans, or most primary licensees. Comparisons reported in this section, however, are based on the Plans that participated in 2007 and 2008, of which only eighteen have provided data at the date of this publication. Additional and more complete information will be available in coming weeks.

### *Results of Blues*

In 2007, Blue Cross Blue Shield Plans experienced a slight decline in overall net income of 1.4% to \$8.1 billion, with a median decrease of 1.0%. Median operating income decreased by 36.2%. This decrease was partly offset by a substantial increase in median non-operating income of 23.6%. The median health benefits ratio increased by 1.1 percentage points as the administrative expense increased slightly by 0.1 percentage points. The median health benefit ratios and the administrative

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expense to premium ratios for the universe as a whole were 86.1% and 12.2% respectively.

The context of the median revenue growth of 7.1% was a broad distribution with a coefficient of variance (standard deviation divided by the mean) of 76.1%. Total revenue growth increased by 7.4% to \$198.1 billion. Eleven of the thirty-nine plans had revenue growth of less than 4% or more than 12% as shown in Figure 1. This also shows how broadly distributed the growth was.

Total ASO revenue decreased by 3.1% to \$9.1 billion. Plans (only 34 reported, one fewer than last year) posted median growth of 3.0% and mean growth of 6.0%, which was slower than premium growth. By contrast, total ASO revenue growth was 2.2% in 2006. The distribution of results was bipolar with 10 Plans reporting 9% or greater growth, while others posted modest growth or declines. This is shown in Figure 2.

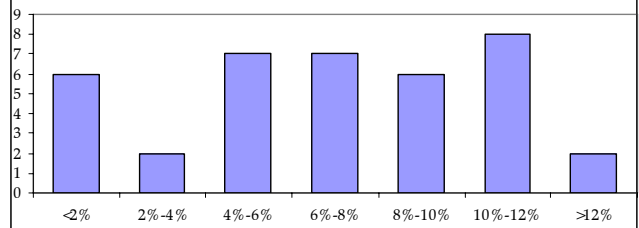
By contrast, premium revenue growth was more robust. Premiums increased by 7.9% to \$187.0 billion in 2007. The Plans had median and mean growth of 7.8% and 7.4% respectively. Of the thirty-nine Plans, nine posted premium growth of 5% or less, of which three posted declines. Premium growth was more clustered than ASO growth.

Total insured membership decreased by 1.4% to 51,462,586 in 2007. Median insured membership declined 0.6% with a mean growth of 0.9%. A few Plans had relatively large increases. Of the 34 Plans that reported insured membership, eighteen reported declines. Notably, eight reported greater than 6% insured membership growth, and eight reported declines greater than 4%.

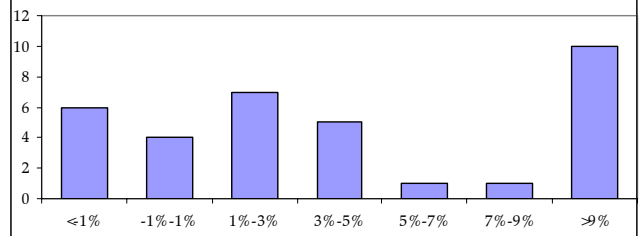
Of the 34 Plans for which we were able to infer premiums per member per month, the median increase was 5.4% and the mean increase was 6.3%. Five Plans had increases of 12% or greater.

Operating income, for Blues as a whole, decreased 18.2% to \$6.5 billion. Of the 32 Plans that reported meaningful comparisons (some were non-meaningful, say in the case of a change from a loss to a gain) the mean decline was 62.5% and the median decline was 36.2%. However, including all Plans, twenty-four reported declines of greater than 16% while seven reported gains of 56% or more. Because the dispersion in the operating income

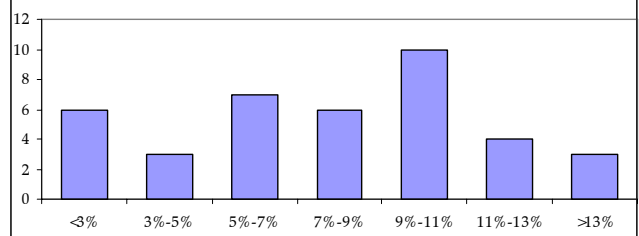
**Figure 1. BLUES**  
Total Revenue Growth, 2007, Plans Reporting



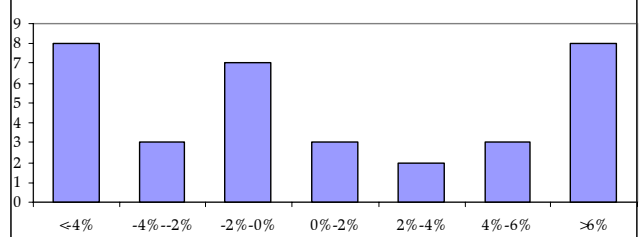
**Figure 2. BLUES**  
ASO Revenue Growth, 2007, Plans Reporting

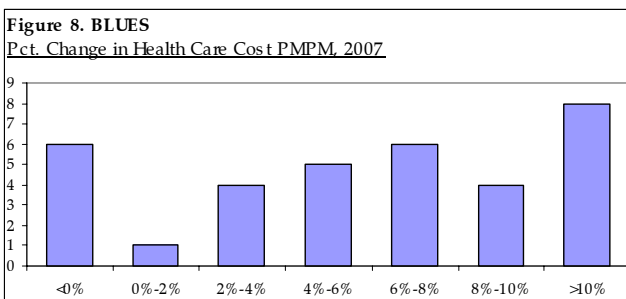
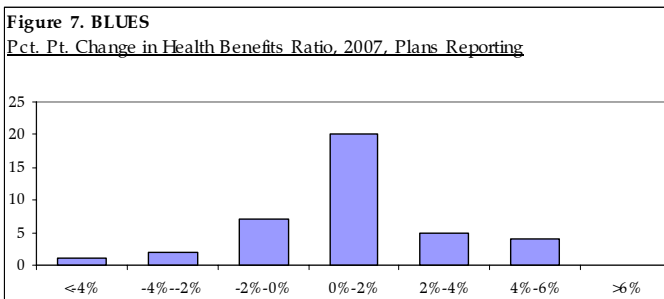
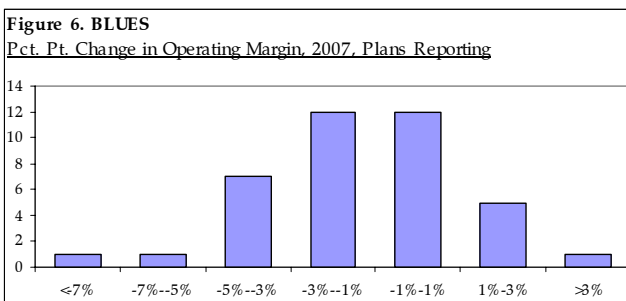
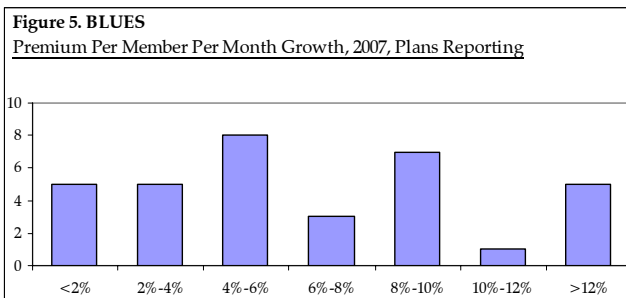


**Figure 3. BLUES**  
Premium Revenue Growth, 2007, Plans Reporting



**Figure 4. BLUES**  
Insured Membership Growth, 2007, Plans Reporting





trends was so broad, we have not included a chart with this. The coefficient of variance was -1,033.5%.

The mean decrease in operating margins was 1.3 percentage points and the mean decline was 1.2 percentage points. However, as shown in Figure 6 below, nine of the 39 Plans reported decreases of greater than three percentage points.

The decrease in the operating margin is due to the increase in administrative expense ratios and health benefits ratios. The health benefits ratio had a median increase of 1.1 percentage points and a mean increase of 1.0 percentage points. While twenty of the Plans reported changes of zero to two percentage points, nine reported health benefit ratios which increased by more than two percentage points.

The health care costs per member per month had a median increase of 6.4% and a mean increase of 6.6% to a median value of \$213 PMPM with a mean of \$220 PMPM. Six of the Plans actually experienced decreases, while eight had increases of 10% or more.

The median increase in the administrative expense to premium ratio was 0.1 percentage point, with a mean increase of 0.4 percentage points. The dispersion was extremely broad, however. While twenty-five of the Plans had between a 1 percentage point increase or decrease in their ratios, eight experienced 1-3 percentage point increases in the administrative expenses ratio. (Please note that the administrative ratios are calculated by subtracting ASO revenues from administrative expenses. This assumes that the ASO products are at break-even, which we do not know to be the case.)

Administrative PMPM had a median increase of 7.6% and a mean increase of 10.8% to median and mean values of \$31 PMPM each. The rate of increase is higher than the experience of Blue Cross Blue Shield Plans participating in our benchmarking study for 2008.

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**Figure 14. BLUES**  
**Financial and Operating Statistics for Blue Plans**  
*Figures in Millions, except Membership*  
*Year End Data as of 12/31/08*

	Revenue Trends												Mem Year 2006
	Total Revenues			ASO Revenues			Premiums			Premiums PMPM			
	Year 2006	Year 2007	Pct. Chg.	Year 2006	Year 2007	Pct. Chg.	Year 2006	Year 2007	Pct. Chg.	Year 2006	Year 2007	Pct. Chg.	
Alabama, Blue Cross and Blue Shield	\$3,789	\$3,976	4.9%	\$463	\$469	1.4%	\$3,326	\$3,507	5.4%	\$165	\$172	4.1%	1,677,558
Arizona, Blue Cross and Blue Shield	\$1,146	\$1,286	12.3%	NA	NA	NM	\$1,146	\$1,286	12.3%	\$211	\$254	20.4%	461,864
Arkansas, Blue Cross Blue Shield	\$1,058	\$1,112	5.1%	\$15	\$15	3.9%	\$1,044	\$1,097	5.1%	\$189	\$200	5.8%	459,282
California, Blue Shield	\$7,994	\$8,364	4.6%	\$29	\$41	42.5%	\$7,965	\$8,323	4.5%	\$290	\$315	8.7%	2,287,495
CareFirst BlueCross BlueShield	\$5,483	\$6,075	10.8%	\$206	\$212	3.2%	\$5,278	\$5,863	11.1%	\$220	\$234	6.6%	2,002,708
Delaware BlueCross BlueShield	\$469	\$505	7.7%	\$47	\$47	-0.0%	\$421	\$458	8.6%	\$327	\$332	1.5%	107,356
Excellus BlueCross BlueShield	\$5,585	\$5,916	5.9%	NA	NA	NM	\$5,585	\$5,916	5.9%	\$281	\$267	-5.0%	1,654,049
Florida, Blue Cross and Blue Shield	\$7,105	\$7,914	11.4%	\$464	\$465	0.2%	\$6,641	\$7,449	12.2%	\$278	\$291	4.8%	1,991,248
Hawaii Medical Service Association	\$1,806	\$1,647	-8.8%	\$364	NA	NM	\$1,442	\$1,647	14.2%	\$170	\$196	15.2%	707,100
Health Care Service Corporation	\$12,972	\$14,348	10.6%	NA	NA	NM	\$12,972	\$14,348	10.6%	NA	NA	NM	NA
HealthNow, Inc.	\$2,129	\$2,161	1.5%	\$19	\$22	18.1%	\$2,110	\$2,139	1.3%	\$301	\$321	6.6%	585,219
Highmark Inc.	\$10,090	\$11,243	11.4%	\$638	\$564	-11.5%	\$8,781	\$9,598	9.3%	\$352	NA	NM	2,077,849
Idaho, Blue Cross	\$902	\$988	9.5%	\$14	\$19	43.4%	\$889	\$969	9.0%	\$231	\$223	-3.6%	320,435
Kansas, Blue Cross and Blue Shield	\$1,412	\$1,526	8.1%	NA	NA	NM	\$1,412	\$1,526	8.1%	NA	NA	NM	NA
Louisiana, Blue Cross and Blue Shield	\$1,799	\$1,983	10.3%	\$44	\$44	1.5%	\$1,755	\$1,939	10.5%	\$225	\$232	3.3%	650,768
MA, Blue Cross and Blue Shield	\$6,571	\$6,987	6.3%	\$252	\$258	2.2%	\$6,319	\$6,729	6.5%	\$322	\$338	5.0%	1,634,946
Michigan, Blue Cross and Blue Shield	\$6,506	\$6,924	6.4%	\$701	\$755	7.7%	\$5,805	\$6,169	6.3%	\$312	\$339	8.7%	1,553,030
Minnesota, Blue Cross and Blue Shield	\$3,565	\$3,793	6.4%	\$295	\$289	-2.1%	\$3,270	\$3,505	7.2%	\$284	\$308	8.5%	958,526
Mississippi, Blue Cross and Blue Shield	\$1,120	\$1,204	7.5%	\$77	\$80	3.9%	\$1,043	\$1,124	7.8%	\$193	\$211	9.0%	449,210
Missouri, BlueCross and BlueShield	\$1,226	\$1,342	9.5%	\$51	\$54	5.5%	\$1,175	\$1,288	9.6%	\$216	\$235	9.0%	453,486
Montana, Blue Cross and Blue Shield	\$509	\$524	3.0%	\$29	\$15	-47.2%	\$480	\$509	6.0%	\$165	\$182	10.5%	242,411
Nebraska, Blue Cross and Blue Shield	\$1,014	\$1,163	14.6%	\$79	\$83	5.0%	\$935	\$1,079	15.4%	\$237	\$252	6.5%	328,695
NJ, Horizon Blue Cross and Blue Shield	\$6,653	\$7,300	9.7%	\$284	\$292	2.9%	\$6,369	\$7,008	10.0%	\$233	\$242	3.9%	2,277,486
NC, Blue Cross and Blue Shield	\$3,855	\$4,259	10.5%	\$200	\$230	14.9%	\$3,655	\$4,029	10.2%	\$232	\$240	3.8%	1,366,575
ND, Blue Cross and Blue Shield	\$722	\$793	9.9%	\$20	\$23	15.0%	\$702	\$770	9.7%	NA	\$225	NM	NA
PA, Blue Cross of NE-Wilkes-Barre	\$753	\$830	10.1%	\$39	\$42	9.5%	\$710	\$763	7.4%	\$194	\$220	13.5%	304,691
PA, Capital Blue Cross-Harrisburg	\$1,799	\$1,885	4.8%	\$59	\$95	60.6%	\$1,740	\$1,790	2.9%	\$243	\$254	4.5%	596,507
PA, Independence Blue Cross-Phila.	\$9,781	\$10,101	3.3%	\$182	\$164	-10.1%	\$9,014	\$9,599	6.5%	\$332	\$382	15.0%	2,410,056
Premera	\$3,039	\$3,232	6.4%	\$113	\$132	16.0%	\$2,918	\$3,092	6.0%	NA	\$267	NM	NA
Puerto Rico, Triple-S	\$1,357	\$1,319	-2.8%	\$17	\$17	1.9%	\$1,357	\$1,319	-2.8%	\$140	\$137	-2.3%	808,035
The Regence Group	\$5,616	\$6,252	11.3%	\$170	\$159	-6.8%	\$5,446	\$6,093	11.9%	\$185	\$194	4.9%	2,446,984
RI, Blue Cross and Blue Shield	\$1,760	\$1,846	4.9%	\$63	\$77	21.9%	\$1,697	\$1,769	4.3%	\$327	\$288	-11.9%	432,357
SC, Blue Cross and Blue Shield	\$1,776	\$1,761	-0.9%	\$226	\$226	0.0%	\$1,550	\$1,535	-1.0%	\$130	\$135	4.2%	995,711
TN, Blue Cross and Blue Shield	\$2,878	\$2,995	4.1%	\$394	\$285	-27.8%	\$2,484	\$2,710	9.1%	\$187	\$196	5.1%	1,107,798
Vermont, Blue Cross and Blue Shield	\$402	\$383	-4.9%	\$6	\$6	-1.0%	\$397	\$377	-4.9%	\$277	\$288	3.8%	119,155
Wellmark, Inc.	\$2,825	\$3,098	9.7%	\$135	\$138	2.8%	\$2,690	\$2,959	10.0%	\$201	\$245	21.9%	1,113,782
WellPoint Health Networks Inc.	\$56,160	\$60,131	7.1%	\$3,595	\$3,674	2.2%	\$51,972	\$55,865	7.5%	\$250	\$273	9.3%	17,356,000
WV, MtState Blue Cross and Blue Shield	\$700	\$711	1.6%	\$48	\$57	19.9%	\$652	\$654	0.3%	\$310	\$319	2.9%	175,151
Wyoming, Blue Cross and Blue Shield	\$194	\$219	12.9%	\$9	\$10	4.7%	\$185	\$209	13.3%	\$226	\$248	10.0%	68,213
<b>Total</b>	<b>\$184,522</b>	<b>\$198,098</b>	<b>7.4%</b>	<b>\$9,345</b>	<b>\$9,060</b>	<b>-3.1%</b>	<b>\$173,331</b>	<b>\$187,011</b>	<b>7.9%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>52,181,735</b>
<b>Mean</b>	<b>\$4,731</b>	<b>\$5,079</b>	<b>6.6%</b>	<b>\$267</b>	<b>\$266</b>	<b>6.0%</b>	<b>\$4,444</b>	<b>\$4,795</b>	<b>7.4%</b>	<b>\$241</b>	<b>\$252</b>	<b>6.3%</b>	<b>1,490,907</b>
<b>Median</b>	<b>\$1,806</b>	<b>\$1,983</b>	<b>7.1%</b>	<b>\$79</b>	<b>\$89</b>	<b>3.0%</b>	<b>\$1,755</b>	<b>\$1,939</b>	<b>7.8%</b>	<b>\$232</b>	<b>\$247</b>	<b>5.4%</b>	<b>808,035</b>

Membership Trends			Earnings Trends						Operating Ratios										
Risk Only		Net Income			Operating Income			Operating Margin			HC PMPM		Health Benefit Ratio		Admin PMPM		Exp. Ratio		
Year	Pct. Chg.	Year	Year	Pct. Chg.	Year	Year	Pct. Chg.	Year	Year	Chg.	Year	Chg.	Year	Chg.	Year	Chg.	Year	Chg.	
2007		2006	2007		2006	2007		2006	2007		2007		2007		2007		2007		
598,905	1.3%	\$114.1	\$71.7	-37.2%	\$104.1	\$19.6	-81.2%	2.7%	0.5%	-2.3%	\$158	5.7%	91.9%	1.4%	\$13	23.0%	7.5%	1.2%	
120,309	-9.0%	\$122.2	\$95.6	-21.8%	\$101.2	\$90.1	-11.0%	8.8%	7.0%	-1.8%	\$201	22.6%	79.2%	1.4%	NA	NA	13.8%	0.4%	
156,119	-0.7%	\$53.0	\$36.6	-30.9%	\$62.6	\$20.6	-67.0%	5.9%	1.9%	-4.1%	\$168	11.1%	84.0%	4.0%	\$28	6.8%	14.2%	0.1%	
198,345	-3.9%	\$381.6	\$726.8	90.5%	\$315.2	\$317.0	0.6%	3.9%	3.8%	-0.2%	\$265	7.9%	83.9%	-0.6%	\$39	15.8%	12.2%	0.8%	
187,100	4.2%	\$142.3	\$181.7	27.7%	\$117.0	\$132.1	12.9%	2.1%	2.2%	0.0%	\$201	6.7%	85.7%	0.1%	\$28	5.5%	12.1%	-0.1%	
14,865	7.0%	\$24.3	\$15.5	-36.0%	\$22.2	\$2.4	-89.2%	4.7%	0.5%	-4.3%	\$282	3.4%	84.8%	1.6%	\$49	29.0%	14.7%	3.1%	
344,318	11.5%	\$162.6	\$73.9	-54.5%	\$112.0	(\$41.2)	-136.8%	2.0%	-0.7%	-2.7%	\$242	-1.8%	90.5%	2.9%	NA	NA	10.2%	-0.2%	
130,965	7.0%	\$383.1	\$220.5	-42.5%	\$89.7	(\$5.2)	-105.8%	1.3%	-0.1%	-1.3%	\$248	6.1%	85.0%	1.0%	\$44	7.6%	15.1%	0.4%	
701,078	-0.9%	\$18.6	(\$22.6)	-221.6%	(\$39.4)	(\$65.7)	NM	-2.2%	-4.0%	-1.8%	\$185	-7.1%	94.4%	1.0%	NA	NA	9.6%	0.8%	
NA	NM	\$1,115.4	\$865.7	-22.4%	\$1,144.4	\$721.2	-37.0%	8.8%	5.0%	-3.8%	NA	NA	83.2%	1.9%	NA	NA	11.8%	1.9%	
556,139	-5.0%	\$66.0	\$64.9	-1.6%	\$71.2	\$40.2	-43.5%	3.3%	1.9%	-1.5%	\$281	7.9%	87.8%	1.1%	\$33	11.4%	10.4%	0.4%	
NA	NM	\$380.8	\$335.6	-11.9%	\$360.3	\$192.3	-46.6%	3.6%	1.7%	-1.9%	NA	NA	88.4%	4.0%	NA	NA	9.5%	-1.9%	
162,269	13.1%	\$31.7	\$31.6	-0.4%	\$24.3	\$20.0	-17.5%	2.7%	2.0%	-0.7%	\$191	-2.2%	85.6%	1.1%	\$27	-7.2%	12.3%	-0.5%	
NA	NM	(\$16.5)	\$17.1	NM	(\$60.5)	(\$60.5)	NM	1.0%	-4.0%	-5.0%	NA	NA	94.9%	0.2%	NA	NA	9.0%	-0.5%	
595,837	6.9%	\$71.7	\$74.4	3.8%	\$50.8	\$40.3	-20.7%	2.8%	2.0%	-0.8%	\$199	5.0%	85.6%	1.4%	\$29	-1.1%	12.3%	-0.5%	
558,446	1.4%	\$227.5	\$208.7	-8.3%	\$71.1	\$53.4	-24.8%	1.1%	0.8%	-0.3%	\$304	7.0%	88.7%	0.5%	\$36	4.2%	10.5%	-0.2%	
518,650	-2.2%	\$153.9	\$25.5	-83.4%	(\$14.4)	(\$206.5)	NM	-0.2%	-3.0%	-2.8%	\$314	12.4%	92.7%	3.1%	\$36	8.9%	10.7%	0.0%	
146,791	-1.2%	\$18.2	\$23.9	31.0%	(\$63.3)	(\$111.1)	NM	-1.8%	-2.9%	-1.2%	\$277	8.7%	89.9%	0.2%	\$41	17.8%	13.2%	1.0%	
144,097	-1.1%	\$40.0	\$47.9	19.9%	\$28.1	\$41.0	46.0%	2.5%	3.4%	0.9%	\$182	8.7%	86.4%	-0.3%	\$21	2.2%	9.9%	-0.7%	
156,173	0.6%	\$36.8	\$94.0	155.7%	\$12.8	\$24.1	88.5%	1.0%	1.8%	0.8%	\$202	8.7%	85.7%	-0.2%	\$29	4.4%	12.4%	-0.5%	
232,626	-4.0%	\$6.7	\$21.0	211.0%	(\$5.1)	\$8.0	NM	-1.0%	1.5%	2.5%	\$148	4.6%	81.1%	-4.5%	\$32	24.0%	17.3%	1.9%	
156,323	8.4%	\$16.6	\$8.1	-51.1%	\$3.5	(\$13.5)	-481.1%	0.3%	-1.2%	-1.5%	\$227	8.7%	89.9%	1.9%	\$29	4.4%	11.4%	-0.2%	
112,853	5.9%	\$150.5	\$208.0	38.2%	\$44.4	\$24.3	-45.4%	0.7%	0.3%	-0.3%	\$211	5.5%	87.0%	1.3%	\$31	-3.5%	12.7%	-1.0%	
124,382	4.2%	\$125.4	\$198.1	57.9%	\$115.5	\$204.2	76.7%	3.0%	4.8%	1.8%	\$196	4.9%	81.5%	0.8%	\$32	-13.7%	13.4%	-2.7%	
284,727	NM	\$3.9	\$18.0	358.7%	(\$17.1)	(\$3.1)	NM	-2.4%	-0.4%	2.0%	\$212	NA	94.2%	-1.8%	\$14	NA	9.2%	-0.1%	
288,238	-5.4%	\$31.8	\$38.3	20.4%	\$40.9	(\$18.9)	-146.4%	5.4%	-2.3%	-7.7%	\$197	19.5%	89.3%	4.5%	\$36	85.2%	16.4%	6.4%	
587,305	-1.5%	\$97.0	\$55.8	-42.4%	\$10.8	(\$78.0)	-823.5%	0.6%	-4.1%	-4.7%	\$219	10.0%	86.1%	4.3%	\$46	8.2%	18.3%	0.6%	
169,131	-10.0%	\$286.1	\$239.7	-16.2%	\$196.7	\$108.9	-44.6%	2.0%	1.1%	-0.9%	\$335	16.3%	87.8%	0.9%	\$43	15.1%	11.1%	0.0%	
165,419	NM	\$121.4	\$102.6	-15.4%	\$97.2	\$62.7	-35.5%	3.2%	1.9%	-1.3%	\$231	NA	86.4%	4.1%	\$32	NA	11.8%	-2.8%	
304,427	-0.4%	\$54.5	\$58.5	7.3%	\$26.6	\$37.7	41.6%	2.0%	2.9%	0.9%	\$117	-3.0%	85.9%	-0.6%	\$14	-5.8%	11.2%	-0.3%	
511,003	6.7%	\$243.6	\$127.0	-47.8%	\$135.2	(\$41.0)	-130.4%	2.4%	-0.7%	-3.1%	\$165	6.9%	84.9%	1.6%	\$31	16.0%	15.8%	1.5%	
511,684	18.3%	\$50.0	\$61.3	22.7%	\$40.1	\$49.7	24.0%	2.3%	2.7%	0.4%	\$244	-12.7%	84.7%	-0.8%	\$38	-3.5%	12.4%	0.4%	
146,299	-5.0%	\$99.1	\$148.1	49.5%	\$112.3	\$78.3	-30.3%	6.3%	4.4%	-1.9%	\$109	3.8%	80.4%	-0.3%	\$20	22.8%	14.5%	2.4%	
150,641	3.9%	\$87.1	\$144.9	66.2%	\$72.2	\$122.4	69.4%	2.5%	4.1%	1.6%	\$161	0.9%	82.1%	-3.4%	\$26	-4.4%	13.4%	1.8%	
109,112	-8.4%	\$2.0	\$5.3	165.6%	(\$4.0)	\$3.6	NM	-1.0%	0.9%	1.9%	\$255	3.8%	88.6%	0.0%	\$35	17.2%	12.1%	1.2%	
105,081	-9.8%	\$163.4	\$57.5	-64.8%	\$92.5	(\$16.6)	-118.0%	3.3%	-0.5%	-3.8%	\$213	26.0%	86.7%	2.8%	\$22	40.1%	13.7%	0.8%	
172,000	-1.6%	\$3,094.9	\$3,345.4	8.1%	\$4,439.5	\$4,693.5	5.7%	7.9%	7.8%	-0.1%	\$291	3.2%	82.4%	1.2%	\$25	-2.1%	9.1%	-1.1%	
170,656	-2.6%	\$17.5	\$39.8	127.2%	\$10.6	\$36.9	246.5%	1.5%	5.2%	3.7%	\$271	-0.8%	84.9%	-3.2%	\$30	-5.6%	18.2%	0.6%	
170,273	3.0%	\$10.9	\$7.3	-33.4%	\$8.7	\$2.2	-74.5%	4.5%	1.0%	-3.5%	\$219	14.6%	88.2%	3.5%	\$27	11.1%	10.8%	0.1%	
162,586	-1.4%	\$8,189	\$8,074	-1.4%	\$7,930	\$6,485	-18.2%	4.3%	3.3%	-1.0%	NM	NM	NM	NM	NM	NM	NM	NM	
129,516	0.9%	\$210	\$207	-1.4%	\$203	\$166	-22.2%	2.5%	1.3%	-1.2%	\$220	6.6%	86.7%	1.0%	\$31	10.8%	12.4%	0.4%	
752,753	-0.6%	\$87	\$65	-25.4%	\$51	\$24	-52.0%	2.4%	1.5%	-1.3%	\$213	6.4%	86.1%	1.1%	\$31	7.6%	12.2%	0.1%	

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Continued from Page III

## A Comparative Look at the Blues

Blue Cross Blue Shield Plans face a competitive environment in which market share is contested with other health plans. Their best financed competitors are large publicly traded firms. The following comparisons are of course not comprehensive and considering their growth, they are likely together taking share at the expense of other plans.

The publicly traded plans, excluding public Blues, increased their share of revenues relative to Blues as a whole. The public Blues slightly increased their share, measured by revenues of the Blue Cross Blue Shield segment.

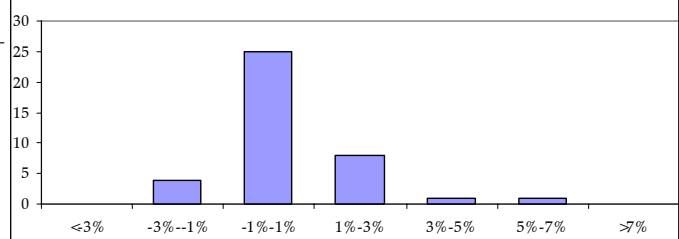
Blues also lost share to commercial plans in operating and net income, and independent Blues seemed to lose share to the public Blues relative to net and operating income. Triple-S and WellPoint lost share of net and operating income over other publicly traded health plans serving commercial members.

*Note: that for the following comparisons, only WellPoint was included for the public Blues in 2006. Due to Triple-S going public in December of 2007, it, along with WellPoint, comprised the public Blues for 2007.*

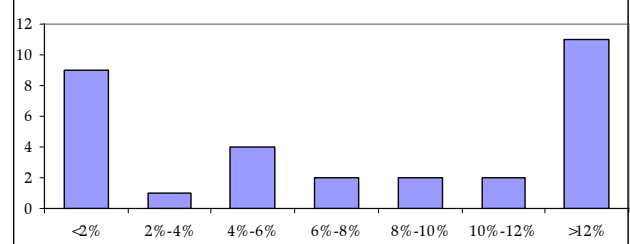
### Market Share Comparisons

In 2007, Blue Cross Blue Shield Plans had a 7.4% increase in total revenue to \$198.1 billion, while the commercial non-Blue plans had a 9.6% increase in revenue to \$161.5 billion. The Blue Cross Blue Shield Plans' share of total revenue thus decreased to 55.1% from 55.6% in 2007. (By the way, based on fee revenues of \$15 PMPM, our total Blue Cross Blue Shield membership approximates the 102 million members claimed by Blue Cross Blue Shield Plans according to BCBSA.)

**Figure 9. BLUES**  
Pct. Pt. Change in Admin. Expense Ratio, 2007, Plans Reporting



**Figure 10. BLUES**  
Pct. Change in Admin. PMPM, 2007, Plans Reporting



**Figure 11. BLUES**  
Market Shares (millions)

	Revenues (in Millions)		Pct. Change
	12/31/2006	12/31/2007	
<b>Blues vs. Commercial</b>			
All Blues	\$184,522	\$198,098	7.4%
Commercial Public	147,271	161,471	9.6%
Blues + Com. Public	\$331,793	\$359,568	8.4%
<i>Blues to Blues and Comm. Public</i>	55.6%	55.1%	
<b>Public Blues vs. Other Publics</b>			
	12/31/2006	12/31/2007	Pct. Change
Public Blues	29.8	30.8	3.3%
Commercial Public	65.0	67.3	3.6%
Blue + Com. Public	94.8	98.2	3.5%
<i>Public Blues to Blues + Comm. Public</i>	31.4%	31.4%	
<b>Public Blues vs. Other Blues</b>			
	12/31/2006	12/31/2007	Pct. Change
Public Blues	\$56,160	\$61,450	9.4%
Other Blues	128,361	136,648	6.5%
All Blues	\$184,522	\$198,098	7.4%
<i>Public Blues to All Blues</i>	30.4%	31.0%	

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For the year ended December 31, 2007, the public Blue Plans had less membership growth than its commercial competition. Membership for the public Blues grew by 3.3% to 30.8 million compared to the 3.6% increase in enrollment for the non-Blue public companies, as shown in Figure 11. The public Blues maintained its share of total membership of all public companies at 31.4%. Membership includes both risk members and ASO/ASC members as seen in Figure 14.

Non-public Blues, combined, experienced a 6.4% increase in revenues from \$128.4 billion to \$136.6 billion in 2007. The public Blues had a 9.4% increase for 2007 from \$56.2 billion to \$61.5 billion. The public Blue's total share of total revenue increased slightly from 30.4% to 31.0% in 2007.

## Income Share Comparisons

### BLUES VERSUS PUBLICS

As seen in Figure 12, all Blue Cross Blue Shield Plans had an 18.2% decrease in operating income in 2007 to \$6.5 billion, while the commercial public plans had a 15.2% increase to \$12.5 billion. The Blue Cross Blue Shield Plans' share of total operating income decreased to 34.2% from 42.3% during 2007.

Similarly, Blue Cross Blue Shield Plans posted a net income decline of 1.4% while the publicly traded plans posted an increase of 12.4% in 2007. Blue Cross Blue Shield Plans' share of total net income declined from 49.3% to 46.1%.

### PUBLIC BLUES VERSUS PUBLICS

The public Blues' share of the public company operating income decreased to 27.5% compared to 29.1% one year ago. While operating income for the public Blues increased by 6.6%, the increase in the other public company's operating income grew by 15.2%.

On a per member per year basis, operating income for the public Blues increased 3.1% to \$153.51. By comparison, the increase in the public company per member operating income was 11.2% to \$185.09.

The public Blues' share of the total public company net income declined to 26.5% compared to 26.9% for the same period last year. The net income for the public Blues increased by 10.0%, slower than the increase in the other public company's net income, which in total was 12.4%.

On a per member per year basis, net income for the public Blues increased 6.4% to \$110.44. By comparison, the comparable increase in the commercial per member per year net income was 8.6% to \$140.33.

### BLUES VS. PUBLIC BLUES

The public Blues increased their share of all Blue Cross Blue Shield operating income to 73.0% compared to 56.0% in 2007. Independent Blues' operating income decreased by 49.7% to \$1.8 billion, while the public Blues' operating income increased 6.6% to \$4.7 billion in 2007.

Public Blues' share of all Blues net income increased to 42.2% in 2007 from 37.8% from the previous year. Independent Blue's net income decreased 8.3% to \$4.7 billion, while the net income for the public Blues increased 10.0% to \$3.4 billion.

## *Valuation Measures, Blues vs. Other Health Plans*

Earnings are the most important way that health plans add to capital, but since the early 1980's approximately forty health plans have been publicly traded. It is relatively rare for Blue Cross Blue Shield Plans to go public, but it does occasionally happen, as seen in December of 2007 when Puerto Rico based Triple-S Management went public.

Valuation indicators vary by health plan, depending on a variety of factors including investors' expectations concerning a plan's growth rates and riskiness. Average valuation indicators for the public Blues, Triple-S and WellPoint, were lower than its Non-Blue public peers. The following analysis is based on stock price and financial data available as of May 30, 2008. The only publicly-traded Blue Cross Blue Shield Plans at that time were Triple-S and WellPoint, Inc.

The average price to trailing twelve months earnings (P/E) for the public Blues was 10.1, a 6.5% discount from the commercial public plans. Price to Estimated 2008 earn-

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**Figure 12. BLUES**  
Relative Margins (millions)

<i>Blues vs Commercial</i>	Operating Income			Pct. Change	Net Income			Pct. Change
	12/31/05	12/31/07			12/31/06	12/31/07		
All Blues	\$7,930	\$6,485	-18.2%	\$8,189	\$8,074	-1.4%		
Commercial Public	10,820	12,465	15.2%	\$8,406	\$9,451	12.4%		
Blues + Com. Public	\$18,750	\$18,951	1.1%	\$16,595	\$17,525	5.6%		
<i>Blues to Blues + Com. Pub.</i>	42.3%	34.2%		49.3%	46.1%			

<i>Pub. Blues vs. Other Publics</i>	Operating Income			Pct. Chg.	per Member per Yr.			Pct. Chg.	Net Income			Pct. Chg.
	12/31/06	12/31/07			12/31/06	12/31/07			12/31/06	12/31/07		
Public Blues	\$4,440	\$4,731	6.6%	\$148.87	\$153.51	3.1%	\$3,095	\$3,404	10.0%	\$103.78	\$110.44	6.4%
Commercial Public	10,820	12,465	15.2%	166.39	185.09	11.2%	8,406	9,451	12.4%	129.26	140.33	8.6%
Blue + Com. Public	\$15,259	\$17,197	12.7%	\$160.88	\$175.18	8.9%	\$11,500	\$12,855	11.8%	\$121.25	\$130.95	8.0%
<i>Public Blues to Blues + Com Public</i>	29.1%	27.5%					26.9%	26.5%				

<i>Public Blues vs. All Blues</i>	Operating Income			Pct. Change	Net Income			Pct. Change
	12/31/05	12/31/06			12/31/06	12/31/07		
Public Blues	\$3,852	\$4,440	6.6%	\$3,095	\$3,404	10.0%		
Other Blues	\$4,679	\$3,620	-49.7%	\$5,095	\$4,670	-8.3%		
All Blues	\$8,531	\$8,060	-18.2%	\$8,189	\$8,074	-1.4%		
<i>Public Blues to All Blues</i>	45.2%	55.1%		37.8%	42.2%			

Source: Company Reports, Sherlock Company estimates.

ings was 9.7, a discount of 3.4% compared to the commercial public plans' ratio of 10.0.

The average price to operating income for the public Blues was 6.7, a 20.1% discount from the commercial public plans' ratio of 8.3 times. Price to sales was 0.32 for the public Blues, a 40.5% discount from the commercial public plans's ratio of 0.54. The price per risk member for the Blues was discounted 52.2% to \$968, relative to the commercial public plans, which were valued at \$2,024.

Price per Total Member for the Blues was discounted 49.9% at \$583, compared with the commercial public plans at \$1,165.

Note: All of the information contained in this report is based on our analyses of publicly available information. While 23 of the Blue Cross Blue Shield Plans mentioned in this report are participants in our Sherlock Expense Evaluation Reports, company-specific information provided to us in the context of this benchmarking is covered under a mutual confidentiality agreement, and is disclosed in this report. Please contact us for further information on the Sherlock Expense Evaluation Reports.

**Figure 13. BLUES**  
Valuation Measures as May 30, 2008

Valuation Measure	Triple-S & WellPoint	Public Commercial	Premium (Discount)
Price to Sales	0.32	0.54	-40.5%
Price per Risk Member	\$968	\$2,024	-52.2%
Price per Total Member	\$583	\$1,165	-49.9%
Price to Operating Earnings	6.7	8.3	-20.1%
Price / Earnings	10.1	10.8	-6.5%
Price / 2008 Earnings	9.7	10.0	-3.4%