



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

BlueAnnual 2001

A Year-end Report for Blue Leadership



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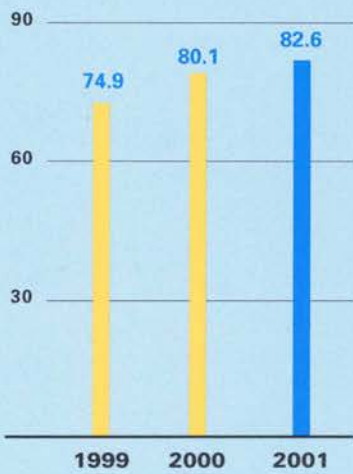
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Systemwide Performance

Systemwide Enrollment (millions)



Systemwide Net Revenue (billions)



Aggregate Net Gain (billions)



President's Message

Dear Colleagues:

We stand together on the threshold of an exciting future. We're embarking on a multi-faceted, multi-year campaign to solidify our leadership on the nation's #1 healthcare priority: Assuring continued affordability. Our goal is to identify and promote innovative solutions – building a workable economic environment that protects quality of care. By conducting extensive research and educating key stakeholders about these critical issues, we are helping preserve a market-driven healthcare financing model – while demonstrating our long-standing commitment to the American people. I look forward to working with each of you to make this shared vision reality.

In 2001, Blue Plans and BCBSA achieved numerous milestones, including a major victory in the form of a one-year extension in the implementation deadline for the HIPAA administrative simplification rules. Additionally, we drew closer to organized medicine, jointly developing principles with the AMA that guide our relationships with network physicians and partnering with numerous specialty societies on issues of common interest.

During the year, our national account enrollment topped 15 million, and our new "Basic Option" product led to continuing growth in the Federal Employee Program. We also began work on an unprecedented e-business collaboration –

BlueExchange – which will take our System into the next generation of electronic commerce and communications. In addition, we helped Plans reduce administrative costs by negotiating joint purchasing programs, streamlining data management requirements and facilitating new business opportunities. Moreover, BCBSA remained your leading resource for Blue-exclusive education and training programs – helping your workforce learn new skills and stay abreast of industry trends.

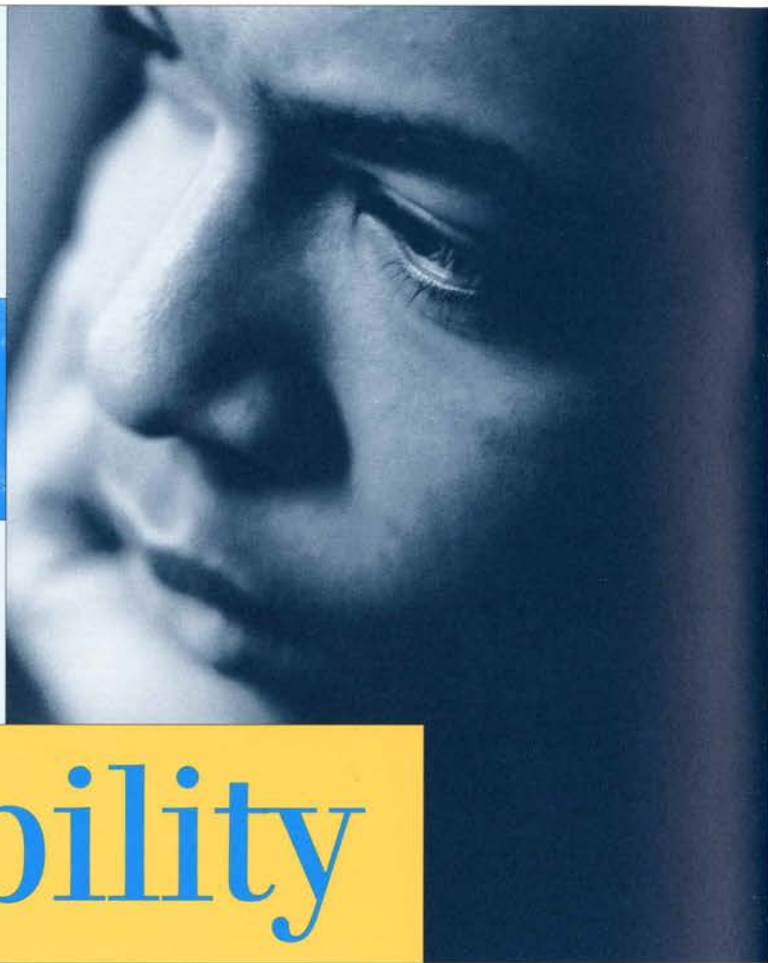
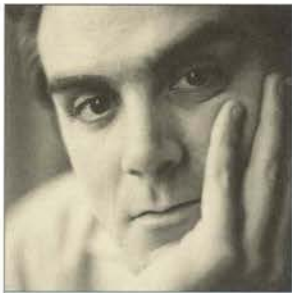
I hope you'll find this report useful in understanding what we accomplished on your behalf in 2001 – and where we're headed in 2002 and beyond. As you'll see, we continue to provide tools and resources to build on our proud 70-year tradition and to position our Brands for continuing success. More information about our programs and services is available on BlueWeb.

As always, I welcome your comments and suggestions. Please contact me at 312.297.6267 or scott.serota@bcbsa.com.

Yours in good health,



Scott P. Serota
President and CEO



Healthcare

Affordability

This year alone, the nation's healthcare expenses will total \$1.3 trillion - more than 13 percent of the U.S. economy. Left unchecked, costs will double by the end of the decade - with one out of every four dollars in our economy going to healthcare.

Healthcare Cost Campaign

The preservation of the U.S. healthcare system depends on our willingness to create an affordable economic environment – while protecting quality of care and expanding coverage to the 40 million Americans who lack health insurance.

That's why BCBSA and Blue Plans are conducting an aggressive campaign with opinion leaders, business decision-makers, providers and other key stakeholders to better understand the inter-related components of healthcare costs – and to champion affordability for the long term.

An integrated campaign: BCBSA is collaborating with Plans to conduct high-impact research analyzing current and future trends and implications of healthcare utilization and spending. We're sharing our research findings and proposed solutions through industry partnerships, provider outreach and the news media. Additionally, we're educating lawmakers and regulators about the true drivers of healthcare costs – while advocating new solutions to help the uninsured. Most importantly, we're bringing Blue Plans together – to share best practices, develop fresh approaches and facilitate collective action.

Pharmacy cost management: Our campaign began with extensive research examining pharmaceutical cost drivers – along with evaluating potential Plan solutions. We partnered with the consulting firm Booz-Allen & Hamilton to interview more than 100 Plan executives, drug makers, competitors and other key stakeholders. Translating our findings into action, we facilitated workshops to share Plan best practices – including in-sourcing PBM functions, network management and rebate contracting – as well as benefit designs that drive member accountability and support provider education.

Ensuring pharmaceutical appropriateness: To further promote high-quality pharmaceutical care, we provided funding and technical assistance for RxIntelligence, an independent research organization providing objective evaluations comparing the relative safety of new and emerging prescription drugs to existing medications. We also participated in RxHealthValue – a broad-based coalition jointly sponsoring research on the clinical and economic value of pharmaceuticals.

Advocacy: We pursued numerous legislative and regulatory approaches to help ensure prescription drugs remain affordable for consumers, employers and government programs. Among other proposals, we called for a comprehensive review of federal rules and regulations governing the flow of new drugs to market – to ensure that safety and efficacy are adequately tested before new medications reach pharmacy shelves. We also urged lawmakers to expand consumer access to low-cost generic drugs and to enact targeted tax credits and other initiatives to help expand coverage to the uninsured.

Looking ahead: Building on this success, we're pursuing a host of new cost campaign studies, educational programs and outreach activities in 2002. We're examining a wide range of cost drivers – including hospital costs, outpatient costs, the cost impact of government regulations and the impact of cost-shifting from the public sector to the private sector. Most importantly, we're continuing to facilitate Plan collaboration – and to support local market innovations.

We've dedicated extensive resources to this broad-based program – and we look forward to partnering with Plans to make our shared vision reality.

By working together, we can – and will – help assure healthcare affordability for current and future generations of Americans.



Raising
our
collective

Blue Voice

The Sept. 11 terrorist attacks fundamentally reshaped the 2001 Capitol Hill landscape – pushing many healthcare policy issues to the back burner for the remainder of the year. While homeland security continues to require substantial focus on Capitol Hill, numerous healthcare policy questions gradually returned to the legislative and regulatory agenda.

Advocating the Blue Position on Critical Issues

Administrative simplification: After an intensive education campaign, BCBSA secured congressional passage of an extension in the compliance deadline for a key portion of the Health Insurance Portability and Accountability Act – mandating the use of standard transactions and code sets. Throughout the year, we released a series of commissioned reports demonstrating the need for an extension. We also educated and mobilized a host of industry partners – including hospitals, physicians, technology companies and vendors – overcoming significant initial opposition.

DOL claims rule: BCBSA obtained a delay in implementation of the problematic U.S. Department of Labor claims rule. This regulation would have posed numerous compliance problems – and many of its provisions conflicted with claims-processing rules mandated in other, still-pending legislation. DOL officials credited Blue Plans' research demonstrating the rule's excessive compliance costs with helping to shape their decision.

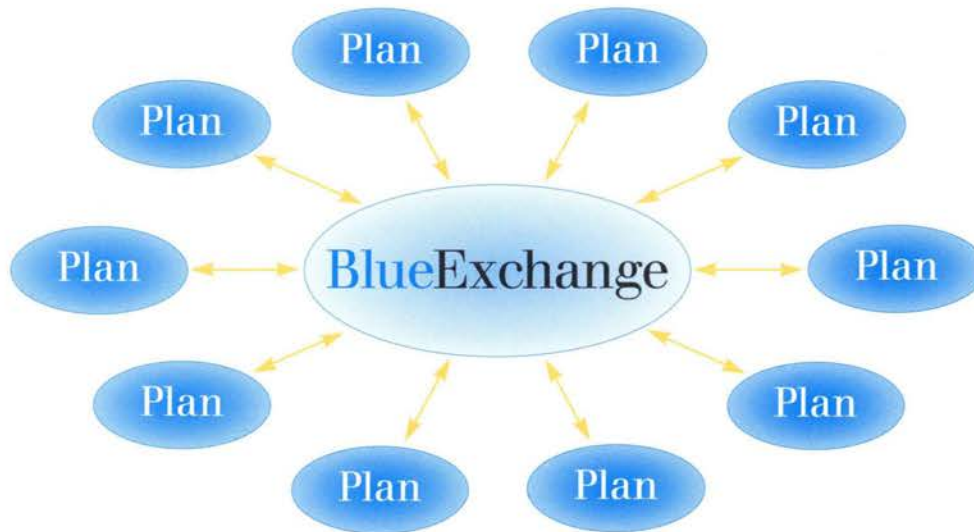
Privacy regulation: BCBSA provided technical comments on the privacy regulation to the U.S. Department of Health and Human Services – and many of our recommendations were incorporated in the agency's clarifying guidance. Further clarifications to the regulation are expected in 2002.

Prescription drug patent abuse: BCBSA succeeded in persuading lawmakers to avoid re-opening a loophole that would have extended the patent for a blockbuster diabetes drug – unfairly preventing generic competition. The Best Pharmaceuticals for Children Act – which passed Congress with BCBSA support – now provides pharmaceutical manufacturers incentives to test new drugs in children.

Medicare reform and contractor issues: BCBSA secured a significant increase for Medicare contractor funding. We also worked with key lawmakers to dramatically improve proposed Medicare contractor reform legislation – still pending in Congress. Additionally, BCBSA worked through a Plan Advisory Group in proposing a new rural PPO product for Medicare+Choice beneficiaries. Our proposal is helping the White House determine how best to expand choices for seniors, especially in rural areas.

"Patients' Bill of Rights": BCBSA successfully worked to shape the "patients' rights" legislation that passed the U.S. House of Representatives. Among other improvements, we were able to minimize the impact on Plan business of expanded liability and various mandates. The legislation is still pending.

Fund-raising: BCBSA and 22 Plans met their annual BluePac goals. The Blues collectively raised \$280,000 to support key political candidates – surpassing our annual Systemwide goal and exceeding last year's fundraising level by more than 10 percent.



Building the
System of the

Future

BlueExchange – the Blue System’s new electronic messaging hub – will offer Plans centralized, one-to-one connectivity beginning in late 2002. This new infrastructure not only will support key HIPAA transactions, but also will pave the way for unprecedented e-business collaboration in the future.

BlueExchange

Throughout the past decade, Plans and BCBSA have worked diligently to improve our inter-Plan processing capabilities. These efforts will take a substantial step forward in late 2002 with the launch of BlueExchange – a proprietary, centralized electronic messaging hub.

In the short term, BlueExchange will support HIPAA transactions – including eligibility, claims status and referral/authorization transactions – that cannot be handled through our current ITS system. BlueExchange also will offer simplified, more efficient functionality. For example, ITS currently requires 2,200 point-to-point connections – and processes all requests on a batch basis. Transactions can require days to execute. By contrast, BlueExchange will provide a one-to-one, centralized connectivity arrangement that supports interactive transactions. Phase One – slated for implementation in October – will enable Plans to comply with the new HIPAA standard transaction sets by offering providers an electronic gateway to member eligibility and claim status.

Longer term, BlueExchange will take our inter-Plan processes into the next generation of technology – by moving the Blue System from a batch to an interactive environment. This flexible e-business infrastructure will support evolving Plan business requirements.

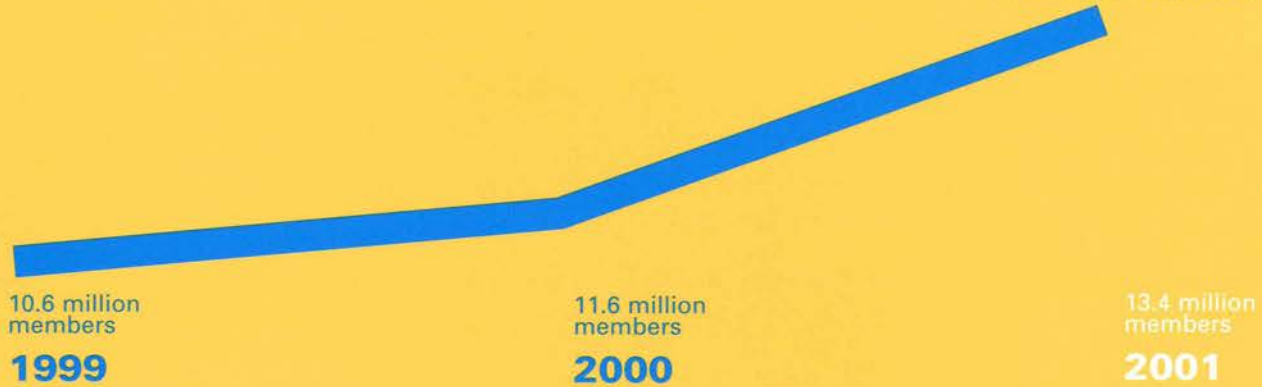
Throughout this transition, BlueExchange will preserve relationships among local Plans and providers. The system also will help ensure that Control Plans maintain relationships with their accounts and members.

Along with these technological advantages, BlueExchange presents a more cost-effective solution than a commercial clearinghouse. Clearinghouse costs increase rapidly as transaction volume grows. But total transaction costs for BlueExchange will decrease over the long term – even as volume increases. The future addition of more transaction types – such as enrollment and claim remittance advice – will result in even greater volume and further drive down per-transaction costs.

BCBSA staff already is working closely with Plans to design, refine and pilot-test key components of BlueExchange – and we look forward to continued collaboration in 2002 and beyond. The BlueExchange approach enables us to combine HIPAA compliance efforts with strategic transformation – encompassing technology renovation, process redesign and overall business strategy – and we believe this system holds great promise for the Blue System's future.

13.4

Million Members



10.6 million members

1999

11.6 million members

2000

13.4 million members

2001

National Account

Growth

Plans, CHP, NASCO and BCBSA teamed up in 2001 to streamline administrative processes, improve inter-Plan technology and offer value-added services targeting regional and national employers. As a result, national account enrollment grew by 1.8 million members – representing more than three-quarters of our total enrollment gain.

At the same time, Plans saved more than \$9 billion through the BlueCard Program – while claims volume rose 34 percent.





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An Association of Independent
Blue Cross and Blue Shield Plans

225 North Michigan Avenue
Chicago, Illinois 60601-7680
312.297.6000
Fax 312.297.6609
www.BCBS.com

Dear Colleagues:

I'm delighted to share with you the 2001 edition of *BlueAnnual*. This report highlights a number of BCBSA's key accomplishments for the year, and showcases many of our collective successes — increasing enrollment, expanding electronic communications, strengthening the Blue Brands' image and speaking out on important health issues, to name just a few.

I hope you will find *BlueAnnual* interesting and of value. As always, BCBSA staff and I look forward to working with you — and we welcome your comments and suggestions. Please contact me at 312.297.6267 or scott.serota@bcbsa.com.

Yours in good health.

A handwritten signature in black ink that reads "Scott P. Serota". The signature is written in a cursive style and is enclosed within a hand-drawn, irregular loop.

Scott P. Serota
President and CEO



Strengthening Blue System Internet Services

BCBS.com: BCBSA and Plans collaborated to improve the content and navigability of our primary consumer Web portal – BCBS.com. In 2001, more than 2.9 million consumers accessed local Plans by clicking through the portal – an 87-percent increase in Web traffic over 2000.

BCBSHealthIssues.com: By year-end, nearly 55,000 individuals had registered for regular e-mail updates from BCBSHealthIssues.com – our Web site designed to broaden awareness about important public policy issues affecting healthcare coverage. The site – offering news and opinions on key elements of the healthcare debate – experienced more than 150,000 visits per month. Site activity peaked in mid-summer, as Congress debated controversial “patients’ rights” legislation – and we offered streaming video coverage of House and Senate floor debates. BCBSHealthIssues.com’s online tools and services also are helping Blue Plans educate and mobilize employees and employers, while expanding their local public affairs operations.

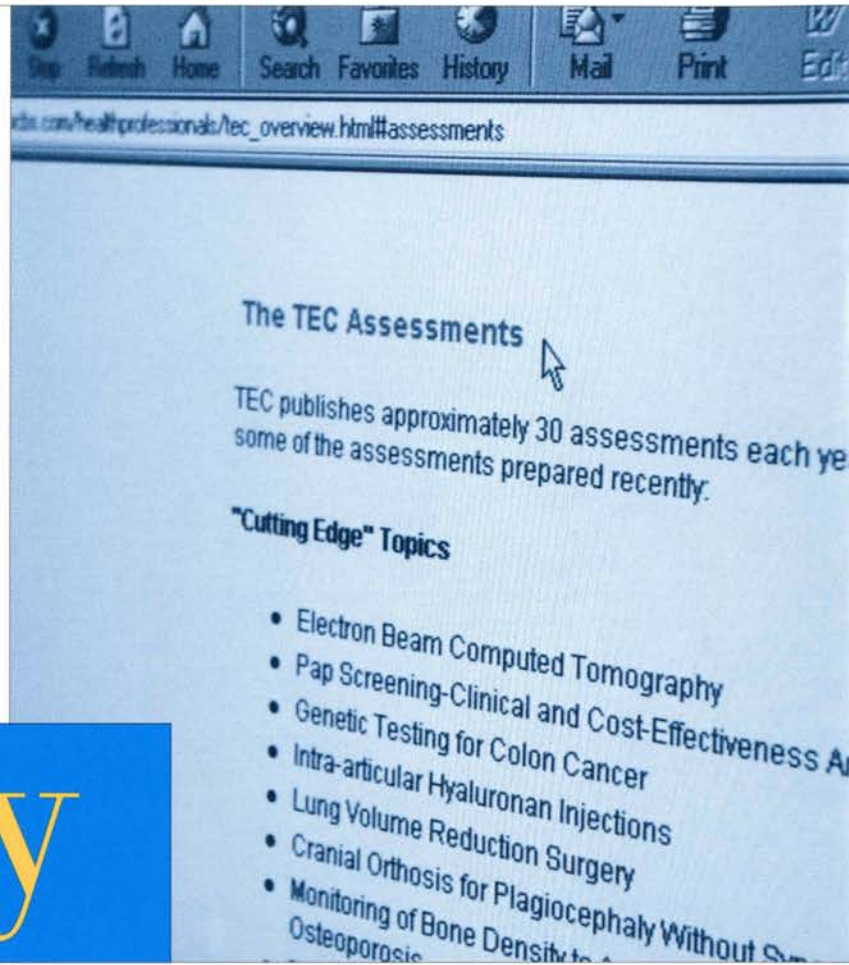
New FEP claims system: Work to re-engineer the Federal Employee Program claims system, System 85, continued throughout 2001. Key improvements included technological changes enabling the system to collect broader, higher-quality data, along with enhancements designed to reduce claim deferral rates and manual intervention during the claims adjudication process. By year-end 2005, we’re scheduled to replace all CICS entry and retrieval screens – and all batch components – with Web-based, real-time functionality.

FEP eService: As a result of our 2001 improvements, Federal Employee Program subscribers now can use our Web site, www.fepBlue.org, to check approved claims, deductible accumulations and eligibility status. Additionally, the site enables members to order ID cards, change addresses and send inquiries to Plan customer service representatives. We also established a new nurse-advice feature as part of Blue Health Connection. These site enhancements led traffic to more than double 2000 levels – with more than 100 million visitor sessions in 2001.

BlueCard Doctor and Hospital Finder: Hits on the BlueCard Doctor and Hospital Finder Web site more than doubled in 2001 to 25 million – up from 11.2 million in 2000. This dramatic growth was accompanied by a 42-percent drop in demand for paper directories.

Provider Data Repository: In June 2001, we implemented the Provider Data Repository – a new, centralized database enhancing the service provided to Plans for geo-access reports, disruption reports, provider directories and other provider-related initiatives.

BlueWeb 4.0: The July 16 launch of the BlueWeb 4.0 extranet marked a new era in online communication among Plans and BCBSA. Earlier versions of the site were designed to serve purely as information presentation platforms. But BlueWeb 4.0 promotes more efficient interactive communications – through expanded search capabilities, a more robust contact directory, improved site navigation, a new content management system and individual homepage personalization.



Promoting

Quality

One of BCBSA's top priorities is providing Plans' clinician partners with timely, relevant data and tools to support their patient interactions. We work closely with Plans' medical policy, physician relations and quality improvement teams – as well as physician organizations, government agencies and scientific forums – to help position the Blue System as a nationwide leader in clinical quality and innovation.

Building Strength in Inter-Plan Programs

Reduced per-claim fees: To price national accounts more effectively, we reduced access and administrative fees for BlueCard PPO national accounts that meet certain criteria. Access fees fell from 10 percent to 6 percent, with a \$2,000 per-claim cap. Similarly, the administrative fee for institutional claims dropped from \$11 to \$9.75, and the fee for professional claims fell from \$5 to \$4. These fee reductions – and the accompanying increased business – benefit Control Plans and Par Plans alike. Control Plans saved an estimated \$45 million in the first three quarters of 2001, while the overall volume increases enabled Par Plans to realize increased 2001 revenues of more than 38 percent in access fees and 33 percent in administrative fees.

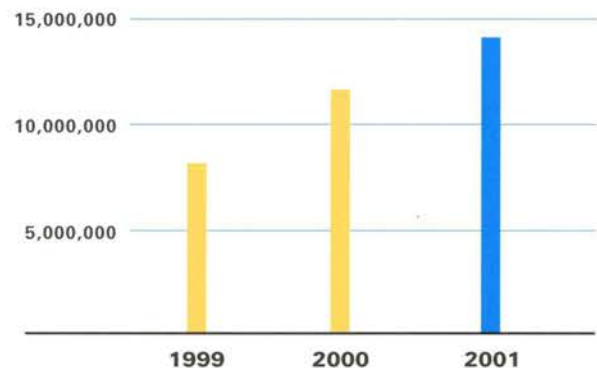
Faster cycle times: Our streamlined adjustments process helped drive down total BlueCard claims adjustment cycle time by 47 percent – from 10.2 days in 2000 to 5.4 days in 2001. This streamlined process not only promotes faster turnaround times, but also enhances member satisfaction.

More efficient access to provider data: In 2001, BCBSA continued to enhance the National Provider Accessibility (Geo) process – reducing turnaround time to an average of 5.8 days, compared to our year-end 2000 average of five days.

Improved provider assistance: Our BlueCard Eligibility verification service handled 5.5 million provider calls in 2001 – up from 3.6 million in 2000.

Federal Employee Program: Our showcase national account, the Blue Federal Employee Program, gained more than 46,500 contracts during the 2000 Open Season, bringing our total 2001 membership to 4.1 million – a 49-percent market share. Autumn's Open Season brought the successful launch of our new Basic Option product – offering an in-network-only benefit package, with no deductibles, at a cost affordable to most federal employees. We simultaneously eliminated High Option coverage and Point-of-Service coverage – products that no longer fulfilled market requirements. Blue Plans also continued to deliver high-quality customer service to FEP members. Systemwide service scores – as measured by our proprietary Service Performance Profile – improved to 99 in 2001, up from 96 in 2000.

FEP Open Season Enrollment Gains





fepBlue.org

BCBSHealthIssues.com

BlueWeb.bcbsa.com

BCBS.com



Access

Consumers, providers and employers increasingly are demanding 24x7 access to a wide range of healthcare services – from online claims status reports to real-time eligibility verification to information about the latest treatment advances. Strengthening the Blue System’s Internet leadership is a critical BCBSA priority. Key tactics in 2001 included e-business initiatives, Web-based grassroots activism and infrastructure support.

Strengthening Blue System Internet Services

BCBS.com: BCBSA and Plans collaborated to improve the content and navigability of our primary consumer Web portal – BCBS.com. In 2001, more than 2.9 million consumers accessed local Plans by clicking through the portal – an 87-percent increase in Web traffic over 2000.

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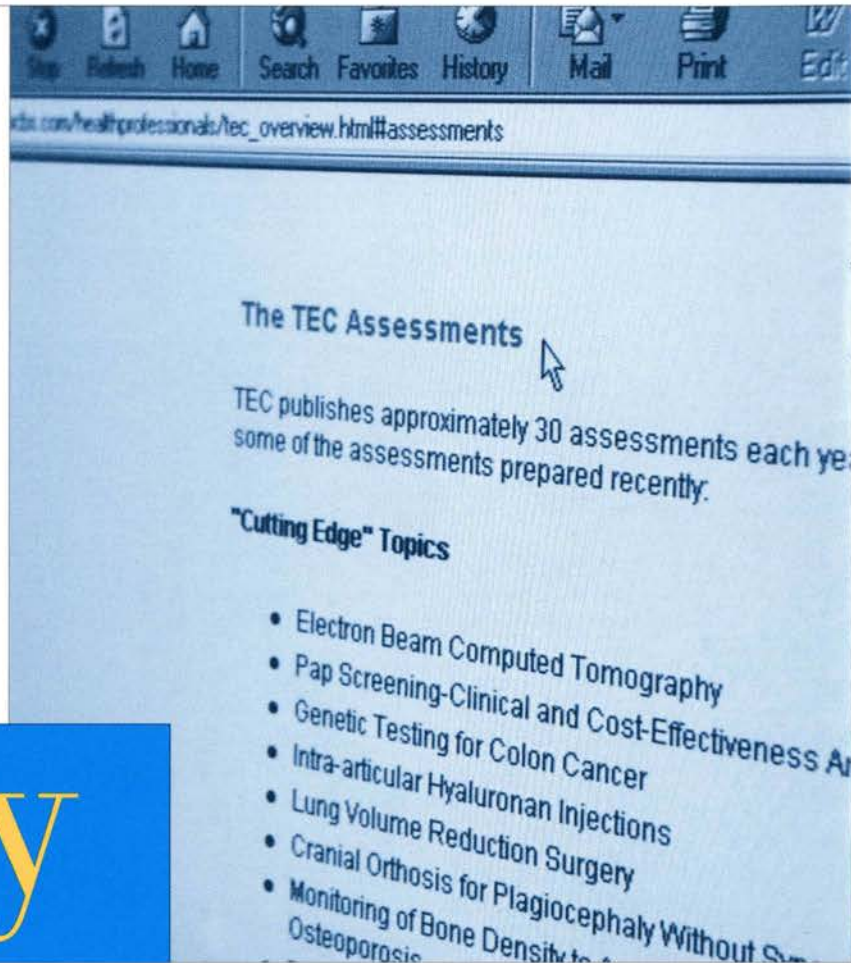
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Enhancing Quality and Physician Partnerships

Technology Evaluation Center (TEC): BCBSA's Technology Evaluation Center (TEC) remains one of the nation's top authorities on evidence-based medicine. Since its inception in 1985, TEC has produced objective assessments evaluating the relative safety and efficacy of more than 500 new and emerging drugs, procedures and devices. In 2001, TEC reviewed 24 complex clinical issues, with findings published in numerous peer-review journals. Additionally – for the first time – TEC made many of our scientific findings available to the general public through the launch of our new Web site, www.bcbs.com/consumertec. The site offers easy-to-understand summaries of TEC's formal assessments, helping consumers compare the relative advantages and disadvantages of competing therapies. TEC also continues to partner with key federal agencies – such as the Agency for Healthcare Research and Quality, the Centers for Disease Control and Prevention and the National Cancer Institute.

Physician outreach: BCBSA and Plans took a major step toward improving relationships with local physicians through the spring 2001 publication of our *Guidelines for the Role of Participating Physicians in Health Plans*. Developed through extensive collaboration with the American Medical Association, these 10 non-binding principles demonstrate the Blues' commitment to working more effectively with our physician partners – to reduce administrative hassles, improve clinical quality and better meet patients' needs. Similar outreach efforts are underway with the American College of Physicians/Society of Internal Medicine, the American Academy of Family Physicians, the American Academy of Pediatrics and the American College of Cardiology.

Medical policy: BCBSA published more than 100 new or revised medical policies to assist Plans in administering national accounts and developing local coverage standards.

Accreditation: Ongoing dialogue with the three major accreditors continues to reduce the administrative burdens placed on accredited Plans.

Performance measurement and accreditation: BCBSA completed a detailed analysis of competing HMO accreditation products offered by NCQA, JCAHO and URAC to help Plans evaluate the relative business benefits of each agency's accreditation process. We also provided extensive educational services, technical assistance and counsel to Blue Plans seeking accreditation and published a comprehensive HEDIS benchmark report.

Blue Quality Centers for Transplant: Our Blue-exclusive transplant network managed more than 2,000 referrals in 2001 – resulting in nearly 700 transplants, saving Plans more than \$55 million. Additionally, we expanded the network to include sites offering pancreas-only and adult-to-adult living donor liver transplants. We now maintain contracts with 65 world-class transplant centers offering more than 150 credentialed solid-organ and bone-marrow transplantation programs in 28 states.

Health services research: BCBSA established a new Health Services Research Alliance – composed of 11 Plans and two academic research centers – to promote greater collaboration. Additionally, BCBSA staff and Plan partners completed three prominent research studies: A Medicaid relational database, a Medicaid risk assessment screening tool and a Centers for Disease Control and Prevention Health Promotion Partners project.

Pharmacy: As part of the Federal Employee Program's new Basic Option product, BCBSA established a new, nationwide retail pharmacy network – which Plans can custom-tailor to meet local business needs. FEP's new pharmacy benefit design will help improve the safety and quality of drug coverage – while saving Plans more than \$55 million annually.



Brand

Leadership

Renewing our focus on Brand building and promotion, we conducted extensive research and market intelligence in 2001 to develop a better understanding of the health of our Brands. We also collaborated with Plans to enhance our Brand image through integrated and aggressive marketing communications. Additionally, the Healthy Competition campaign celebrated a banner year – communicating the dangers of performance-enhancing drugs and sports supplements to young athletes, parents and coaches across the nation.

Strengthening and Promoting the Blue Brands

Brand and market research: BCBSA executed and analyzed the industry's largest consumer awareness and satisfaction survey – the Brand Strength Measure survey. Our findings provided Plans with benchmarking data, competitor analysis and best practice information – which help guide member-experience improvement initiatives.

Media relations: BCBSA's 2001 media outreach efforts resulted in nearly 1,700 news reports in the national media – reaching an audience of more than 750 million. Stories about Blue business developments, policy positions and clinical issues appeared in a wide range of national media outlets – from *The New York Times*, *The Washington Post* and *USA Today* to *Business Week*, *Consumer Reports* and *Parade* to CNN and “The CBS Evening News with Dan Rather.” We also achieved substantial online news coverage through Web-based outlets such as Yahoo! and Reuters. These earned-media audience impressions translate into more than \$47 million in comparable advertising value.

National advertising: The “Your Health” advertising campaign came to a close in November 2001 – after successfully portraying Blue as an “empowering brand” during its two-year run. National tracking research demonstrated that consumers aware of the campaign were more likely to rate the Blues higher on four key “empowerment” attributes than those not exposed to the advertising campaign. Additionally, the research showed that consumers consider the Blues substantially more “empowering” than competitors.

Healthy Competition campaign: In January, we won “Healthcare Campaign of the Year” honors from *PR Week* magazine – and we capitalized on this momentum with a wide range of tactics throughout the year. Our bi-annual survey measuring performance-enhancing drug and sports supplement use earned unprecedented media coverage. Additionally, 1,000 sixth- through eighth-grade students in 31 states entered our national poster contest – and the winning student won a trip for four to the 2002 Winter Olympic Games in Salt Lake City.

More than a dozen Plans leveraged our messages of fair play and drug-free competition through local tie-ins. For example, Wellmark Blue Cross and Blue Shield introduced its Healthy Competition initiative at the 2001 Summer Iowa Games – where more than 500 young athletes, parents and coaches signed our “Healthy Competition is Drug-Free” pledge. Wellmark staff also promoted the program at an Iowa Cubs baseball game. Similarly, Blue Cross and Blue Shield of Montana tied the Healthy Competition program to its annual participation in the Governor's Cup running race – arranging a special race day speech by legendary Olympian and Healthy Competition advocate Frank Shorter. Meantime, Blue Cross and Blue Shield of Kansas' year-long Healthy Competition initiative culminated in awarding eight \$1,000 college scholarships to high school seniors who pledged to compete drug-free. More than 700 students applied for the scholarships, and more than 1,200 Kansas junior high and high school students, parents and coaches took our pledge.



Office Paper



Air Travel



Education and Training



Computer Disk Storage



Telecommunications

Promoting Business

Opportunities

BCBSA's joint purchasing and strategic sourcing programs help Plans acquire new business while reducing administrative costs. In 2001, these value-added services addressed a wide range of Plan front-office and back-office needs.

Bringing Blue Plans Together

Business Development: More than \$464 million flowed through BCBSA's 38 national contracts in 2001, helping Plans reduce overhead on a wide range of supplies and services – from computer disk storage and telecommunications services to office paper and air travel. We launched a new, innovative format for future purchasing programs – an online reverse auction powered by our new eBreviate e-sourcing platform. The first auction using this new technology, held in November, enabled Plans to bid online on discounted services for high-end disk storage. Based on the success of this program, we're planning six additional reverse auctions for 2002.

National Labor Office: BCBSA's National Labor Office assisted Plans in identifying, acquiring and retaining labor-related business involving more than 100,000 contracts. We represented the Blue System at 10 major conventions – promoting the Brands before more than 50,000 labor leaders. Additionally, we established a new Labor Certification Program – in partnership with the National Labor College at the AFL-CIO's George Meany Center – to help train Blue sales and marketing staff in labor history, law and issues.

Medicare value-added services: BCBSA and Plans collaborated on national affinity agreements offering seniors access to vision care and hearing services. Additionally, we helped develop a national Blue prescription-drug discount card proposal – responding to the president's call for private-sector discounts to help make needed drugs more affordable for seniors.

Legal Department Cooperative: Through BCBSA's Legal Department Cooperative, 43 Plans jointly retained HIPAA counsel – collectively saving more than \$1 million on documents and fees. Additionally, more than 150 Plan attorneys participated in the Cooperative's Blue-exclusive listserv – a unique electronic communications resource operated through a partnership with the American Health Lawyers' Association.

National Employee Benefits Administration: The BluePlanning.com Web site – enabling NEBA participants to project their retirement benefits online – has earned more than 76,000 hits since its inception in June 2001.

Human Resources Support: Forty Blue Plans now are using the BCBS.com Career Opportunities Center to post job openings, search resume databases, email candidates and track employment information online – up from 15 Plans in early 2001. Additionally, BCBSA offers Blue Plans discounts on compensation surveys – including custom-tailored, Blue-exclusive findings – through partnerships with the consulting firm William M. Mercer and the Life Office Management Association. In 2001, 35 Plans participated in this program – collectively saving more than \$90,000. Similarly, BCBSA's partnerships with three leading outplacement firms saved Plans more than \$200,000 on executive development, coaching and outplacement services.

Blue-Exclusive Education and Training:

Throughout 2001, BCBSA remained Plans' leading resource for Blue-exclusive education and training programs. More than 5,600 Blue staff and contractors participated in BCBSA's 55 conferences, workshops and professional development programs – learning new skills and staying abreast of industry trends. Our programs earned an average satisfaction score of 4.2 on a 5-point scale.

BCBSA Financial Performance

BCBSA's 2001 financial performance resulted in a \$14 million gain – \$15.8 million better than plan. The BlueCard program's 34-percent increase in transactions, operating efficiencies and a refocused advertising strategy contributed \$6.9 million to the bottom line. Our performance also was positively impacted by \$7.1 million resulting from capitalization of software costs.

BCBSA Expenses and Net Gain (in thousands)

	2000	2001
Total Revenue	\$ 228,428	\$ 239,652
Expenses:		
Brand Development	\$ 39,174	\$ 37,269
Brand Protection	9,622	7,822
Representation	18,775	19,134
Governance & Administration	10,929	7,455
Inter-Plan Programs*	58,569	64,874
Optional Services**	33,534	32,912
Government Programs	54,232	56,232
Total Expenses	\$ 224,835	\$ 225,698
Gain / (Loss)	\$ 3,593	\$ 13,954

* Inter-Plan Programs—initiatives associated with the BlueCard Program. Includes BlueCard, BlueCard Business Operations, BlueCard Technology and BluesCONNECT.

** Optional services—fee for service initiatives that are provided to Plans. Includes National Labor Office, National Employee Benefits Administration (NEBA), Conferences, Government Business Services and BluesNet.

At year-end 2001, BCBSA net assets were \$71.1 million – up \$14 million from year-end 2000:

	2000	2001
Net working capital	\$ 3,214	\$ 6,891
Prepaid pension	34,727	37,612
Fixed assets	16,307	23,157
Other assets	5,119	5,445
Long-term liabilities	2,200	1,984

BCBSA capital investments were \$15.5 million, primarily in new technology initiatives – including BlueExchange, database development and Web site enhancements.

BCBSA 2002 Corporate Goals and Objectives

Protect and Enhance the Brands through Effective License Administration

- Develop and implement market-driven licensure requirements related to service levels and monitoring requirements related to market performance.
- Reduce the number of Primary and Controlled Larger Affiliate Licensees on Concern Level Monitoring by 25% and the number of violations of the License Agreements and Brand Regulations by 10%.
- 50% of Board members give a 4 or 5 rating to BCBSA's efforts to resolve disputes between Plans and with the Association (based on year-end Plan satisfaction survey).
- 50% of Board members give a 4 or 5 rating to BCBSA's efforts to address license compliance issues and Plan monitoring situations in a fair and equitable manner (based on year-end Plan satisfaction survey).
- System achieves or exceeds Plans' aggregate net gain 2002 forecasts (% of net subscription revenue).

Ensure the Blues are the Consumers' Brand of Choice

- 50% of Board members rate BCBSA's implementation of the Healthcare Cost Campaign a 4 or 5 (based on year-end Plan satisfaction survey).
- Implement BlueExchange for HIPAA and BlueCard claim status and eligibility transactions.
- At least 75% of the enrollees in FEP's new product in 2002 Open Season will be active government employees.
- System achieves or exceeds Plans' aggregate Blue enrollment forecasts for 2002 (% change in members).

Ensure Effective Representation of Plans' Interests in National Forums

- Increase Blues' leadership in at least 5 new national forums.
- Achieve 85% of our legislative and regulatory agenda, as articulated by Health Policy and Legislation Committee (actual % subject to approval by HPLC).
- BCBSA's position on clinical quality in managed care products is adopted by BCBSA Board and accepted by committees of 3 key health care industry stakeholders (e.g. accreditors, purchasers, physicians, etc.).

Ensure Operational Excellence in BCBSA Programs

- Improve the quality of provider data by achieving a statistically significant improvement over baseline in the index (at the 90% confidence level).
- Successful implementation of FEP's new claim system as measured by achieving an overall FEP Plan Incentive Program (PIP) service rating of 90% or better.
- Leverage the collective buying power of the Blues by achieving a 10% increase in Plan/partner relationships.
- BlueCard Program achieves an overall customer satisfaction score representing a statistically significant improvement over the 2001 score.
- FEP achieves an overall member satisfaction score of 7.5 or better on 10-point scale.
- Implement at least one cost-effective, shared system.

Board Satisfaction

- Board members rate BCBSA a 4 or 5 on satisfaction with overall services/products based on 2002 Customer Satisfaction Survey.

In Remembrance

Blue Cross and Blue Shield associates remember 2001 with mixed emotions. We mourn the victims of the 9/11 tragedies – including our colleagues at Empire Blue Cross and Blue Shield. We grieve for the heroes at the World Trade Center, the Pentagon and in rural western Pennsylvania. Yet – despite our grief – we’ve emerged stronger and more united than ever.

Giving from our hearts, Blue Plans and BCBSA collectively donated \$1 million to the American Red Cross disaster relief fund. Blue Plans throughout the nation also offered financial support and in-kind assistance, as well as employee matching-fund programs supporting local and national relief efforts. Many Plan associates collected food, tools and health aids to assist rescue workers and provided meals for troops.

Along with this humanitarian response, Blue associates worked diligently with our physician and hospital partners to assist our Empire colleagues in rapidly resuming normal business operations – and in providing peace-of-mind for Blue customers. Contingencies were established to ensure timely, accurate processing of BlueCard, Federal Employee Program and other inter-Plan claims. At the same time, local Plans and state medical societies partnered with BCBSA and the American Medical Association to help spread the word that claims would be processed and paid normally through the Blue System.

Our business partners also played a key role in these operational recovery efforts. Within hours of the attacks, AT&T re-routed telephone lines and began installing new high-speed data connections to support increased claims volumes, while IBM installed critical software patches to help ensure smooth eligibility and claims processes. Many other business partners demonstrated similar service and commitment to our operations.

Reacting to tragedy following tragedy, we united once again when anthrax attacks threatened communities in Florida, New York, Washington, D.C., and other communities. We partnered with the U.S. Centers for Disease Control and Prevention to disseminate new and emerging information about the appropriate diagnosis and treatment of the disease.

We also teamed with numerous federal agencies to strengthen the role of private-sector health plans in monitoring, tracking and responding to future bioterrorist threats. These important collaborations are continuing in 2002.

We can be proud that the Blues’ 70-year tradition of service remains steadfast – even in these challenging times. The 9/11 tragedies did not weaken our resolve or our commitment. On the contrary, we are more dedicated than ever to our core mission: Providing security and peace-of-mind when Americans need it most.

9/11/01

BCBSA Officer Team



Mike Unhjem
Chairman, BCBSA Board
President and CEO
BlueCross and BlueShield
of North Dakota
701.282.1527
mike.unhjem@bcbsnd.com



Scott Serota
President and CEO
312.297.6267
scott.serota@bcbsa.com

Bill Colbourne
Vice President
Human Resources
312.297.5887
bill.colbourne@bcbsa.com

Frank Coyne
Vice President
Inter-Plan Programs
312.297.5595
frank.coyne@bcbsa.com

Steve Gammarino
Senior Vice President
National Programs
202.942.1150
steve.gammarino@wro.bcbsa.com

Allan Korn, M.D.
Senior Vice President
Clinical Affairs
Chief Medical Officer
312.297.6840
allan.korn@bcbsa.com

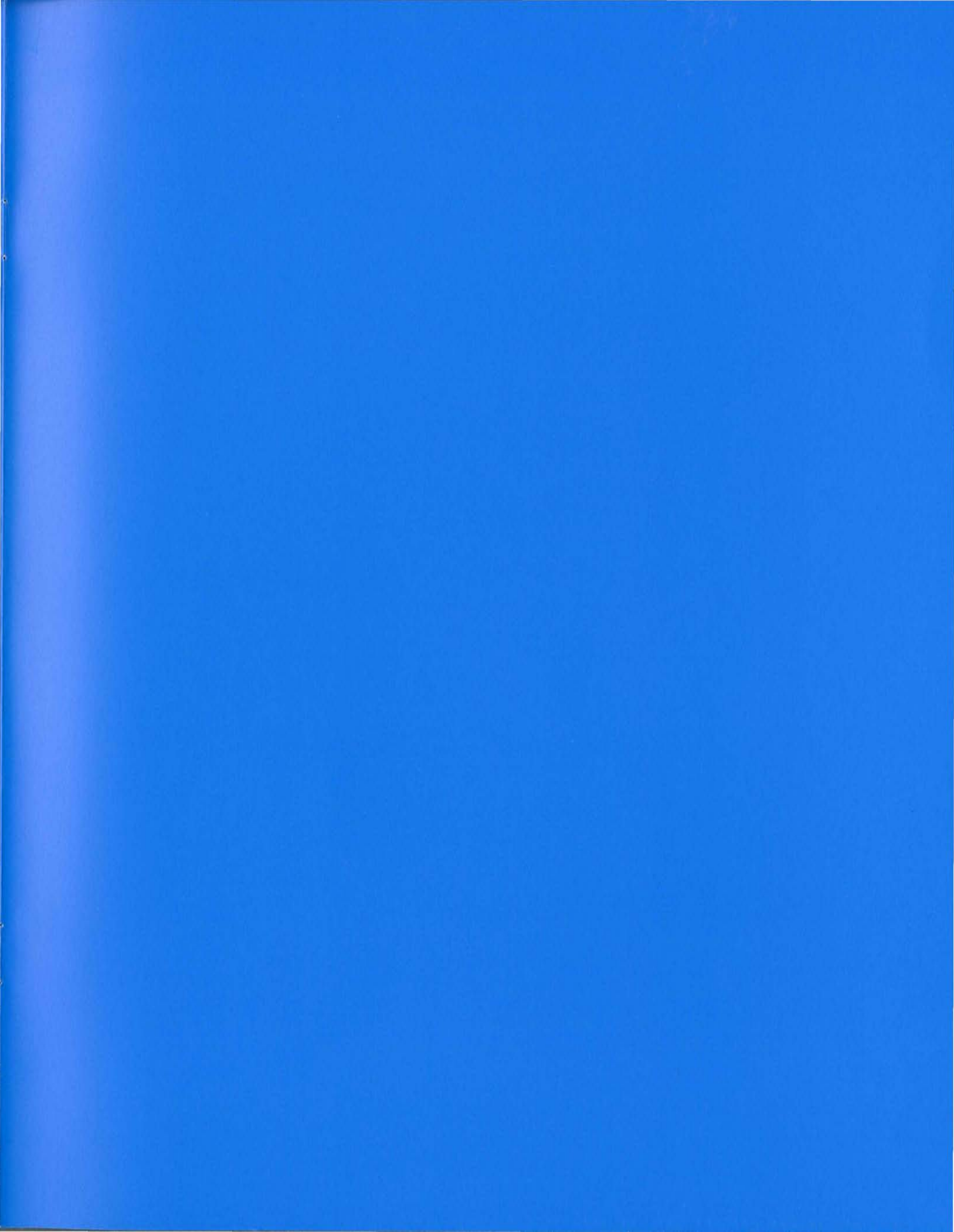
Mary Nell Lehnhard
Senior Vice President
Office of Policy and Representation
202.626.4781
marynell.lehnhard@wro.bcbsa.com

Ralph Rambach
Vice President
Finance and Administration
Chief Financial Officer
312.297.6462
ralph.rambach@bcbsa.com

Bob Rosecrans
Vice President and
Chief Information Officer
202.942.1195
robert.rosecrans@wro.bcbsa.com

Maureen Sullivan
Senior Vice President
Strategic Services
312.297.5714
maureen.sullivan@bcbsa.com

Roger Wilson
Senior Vice President
General Counsel and Corporate Secretary
312.297.6439
roger.wilson@bcbsa.com





**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

225 North Michigan Avenue
Chicago, Illinois 60601-7680
512.297.6000

www.BCBS.com