



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

BlueAnnual 2004

Covering America:

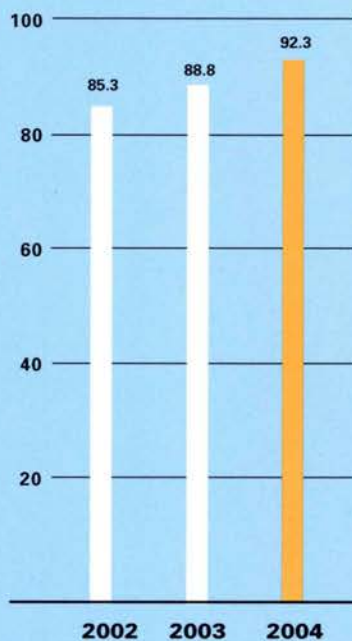
*75
Years and Counting*

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System-wide Performance

System-wide Enrollment
(millions)



System-wide Revenue
(billions)



Aggregate Net Gain
(as a % of Gross Revenue)
(billions)



Gross Revenue
 Net Revenue

✓ route to FSLT 5/24
return



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Association**

An Association of Independent
Blue Cross and Blue Shield Plans

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May 2, 2005

Dear Colleagues:

I am pleased to share with you *BlueAnnual 2004*, our annual report highlighting our key accomplishments and collective successes for the last year. I hope you and your senior executives find *BlueAnnual 2004* interesting and valuable.

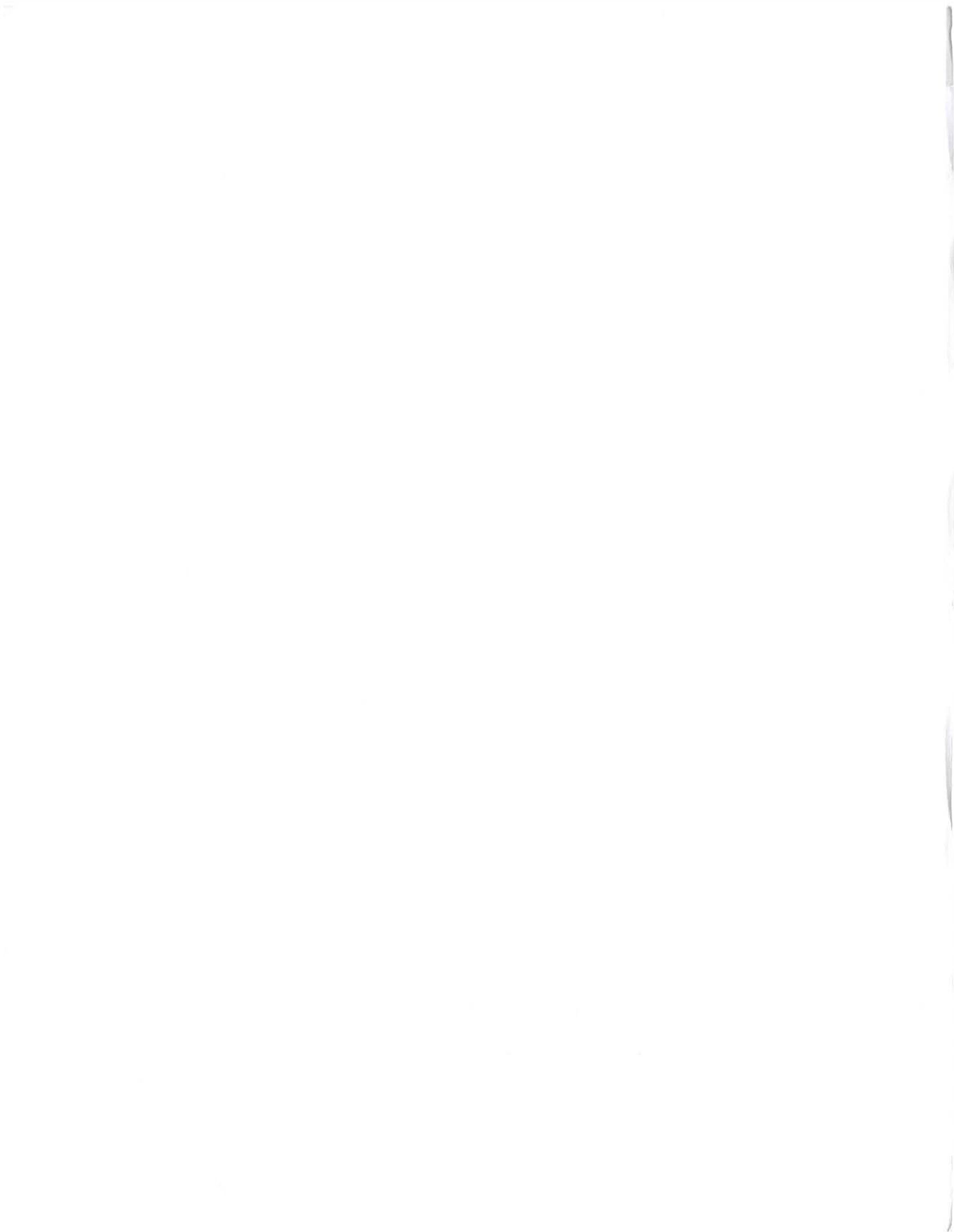
I look forward to working with you and your teams on future initiatives and, as always, I would welcome your comments and suggestions.

Yours in good health,

Scott P. Serota
President and CEO

R. C. D.

MAY 18 2005



Dear Colleagues:

Looking back on 2004, we reflect on a year marked by remarkable Blue System growth, performance and success.

At the close of the year, Blue System enrollment stands at an all-time high and is growing strong, especially in the critically important National Accounts arena. Blue Plans are continuing to record strong financial performance, and are investing wisely in new market strategies, technologies and operational improvements to fuel future growth. Most important, our Blue Brands continue to be by far the strongest in our industry.

It is especially gratifying to note that our record achievements came in the 75th anniversary year of the birth of the Blue System, helping elevate our Brands to even greater leadership roles in local and national arenas coast-to-coast.

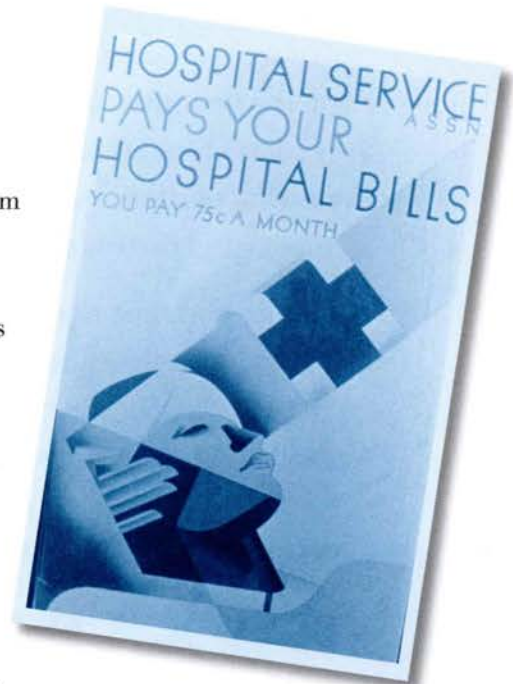
I hope you enjoy reflecting on a few of our collective successes highlighted in BlueAnnual 2004. From heading off federal AHP legislation to helping shape Medicare Reform, including HSAs and regional PPOs, we made our collective Blue voice heard in Washington, D.C. We also supported new consumer products and the market introduction of Blue-branded debit cards, and we took major steps to move Blue Health Intelligence, our health information data warehouse, from the research and development phase to well on its way to becoming the nation's largest resource for health information knowledge and analytical research. Our Brands also continued to be center stage during the year in our Healthcare Cost Campaign forums on affordability, and in numerous local and national collaborations drawing us closer to our physician, hospital and industry partners across the country.

On a more personal note, 2004 marked my fifth year as president and chief executive officer, and my ninth year with the Blue Cross and Blue Shield Association. While my tenure is short in comparison to the diamond anniversary of the Blue System, I am nonetheless extremely proud of what we accomplished together in 2004 and during my time with the Association. I also am very appreciative of your continuing support, and I look forward to many more years of collaboration in making our shared vision for the Blue Brands a reality.

Yours in good health,



Scott P. Serota
President and CEO



I. Supporting Our Plan Partners

From the first open enrollment in 1960 to today, the Federal Employee Program has maintained its leadership position and now covers more than 4 million members and their families – 52 percent of those eligible for coverage.

The Blues continue to develop new products and programs that create business value and strengthen the Blue Brands.



Federal Employee Program (FEP)

FEP negotiated a 7 percent increase in the administrative cost cap and a \$121 million service charge for 2005, adding \$65 million in available funding for Plans. The service charge increased \$10 million over 2004, resulting in a 95 percent increase since 2001. FEP's \$528 million operating gain for 2004 set a record as reserves grew to 4.6 months, and FEP's newest product, Basic Option, ended its third year with 8.5 months of reserves. FEP's 2005 premium increases were well below the competition and provided the foundation for the FEHBP to keep rate increases below comparable health plans.

FEP's operational performance measured by its service profile rating increased from 99 in 2005 to 102 in 2004. This was accomplished through the five-year re-engineering of its claims system – which now allows Plans to process claims in real-time – and through effective efforts to address long-term issues.

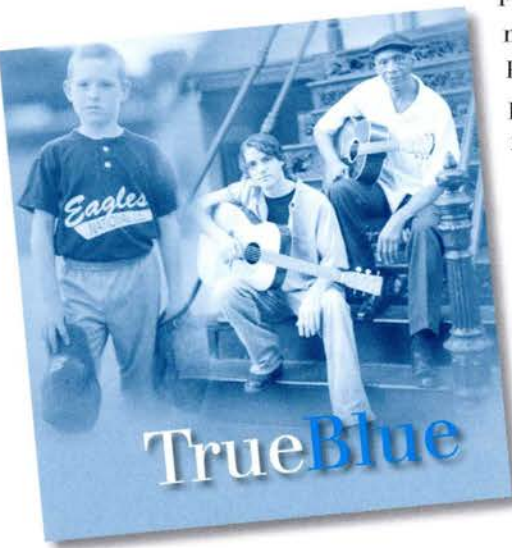
The agreement to implement the BCBSA Board's directive to transition FEP's Operations Center to a jointly-owned company was signed by both BCBSA and CareFirst Blue Cross Blue Shield in November. The term of the Operations Center Administrative Agreement is 10 years and will commence on Jan. 1, 2005. A companion service agreement was executed with CareFirst Blue Cross and Blue Shield of Maryland and Group Hospitalization and Medical Services, Inc. for each organization to provide data center and other services in support of the Operations Center function.

Integrated Health Resources (IHR)

IHR procured \$219 million in additional Rx savings (3 percent of Rx payout) for FEP through a new vendor, Caremark. The Blue Quality Centers for Transplant (BQCT) program saved Plans more than \$57 million, an 11 percent increase over last year. BQCT projects a profit of more than \$300,000 for 2004 (15 percent of revenue).

National Employee Benefits Administration (NEBA)

BluePlanning.com, NEBA's automated pension information Web site, received more than 2.5 million online hits and calculated more than 51,000 pension estimates for participants in 2004. The ability for participants to obtain immediate online information and pension estimates significantly reduces costs and turnaround time.



National Labor Office (NLO)

In 2004, the NLO developed a strategic partnership with the Federal Mediation and Conciliation Service (FMCS), which includes creating NLO-developed educational seminars allowing the Blue System to provide market information on healthcare issues and healthcare-related economics – along with gaining further Brand awareness. FMCS employees are mediators who resolve union conflicts, and many recent conflicts have involved healthcare issues. The NLO is also partnering with the George Meany National Labor College to create a Web-based initiative to be launched in 2006, “Blackboard,” which will provide online education on labor-related topics for Plans that service union membership. Organized labor represents approximately 17 percent of total Blue Plan membership.

Strategic Consulting Services (SCS)

Continuing to provide business insights and knowledge to Blue Plans, SCS completed a major update of National Account segmentation, including an assessment of Blue positioning and identification of critical success factors in this key market. SCS also assessed the evolving role of benefit consultants in employer decision-making.

Associated Health Plan (AHP) briefings were delivered to Plan executive leadership focusing on the strategic implications of AHPs. The *Blue Competitor Review* quarterly highlighted initiatives by major national competitors and key trends shaping the healthcare landscape.

SCS worked with senior management at several Plans on a variety of local initiatives, including small group/individual convergences, strategic planning, board education, administrative cost benchmarking, employer reporting and product evaluations.

Blue National Partnerships

The Strategic Sourcing Unit leverages Blue Plans’ size, strength and purchasing power to create economies of scale and superior service support for all Blue Plans.

Through national partnerships in 2004, Blue Plans had access to more than 50 vendors that provide in excess of 75 different products and services, ranging from business support products (e.g. office products) to health plan strategic products (e.g. predictive modeling). Blue Plans are actively involved in the Strategic Sourcing process. In 2004, for example, several Plans participated in a vendor evaluation process that led to contracts with best-in-class vendors for e-payment services.

Senior Market Services (SMS)

Assessing the business opportunities created by the Medicare Modernization Act of 2003, SMS worked closely with Strategic Consulting Services to evaluate national and regional Medicare Advantage and Part D offerings.

Additionally, working in conjunction with Strategic Sourcing, SMS successfully negotiated a discount with Federal Publications Seminars, LLC. This national contract will provide Plans (at a substantial savings) timely access to in-depth training on the business application for the Federal Acquisition Regulation (FAR) in government contracting.

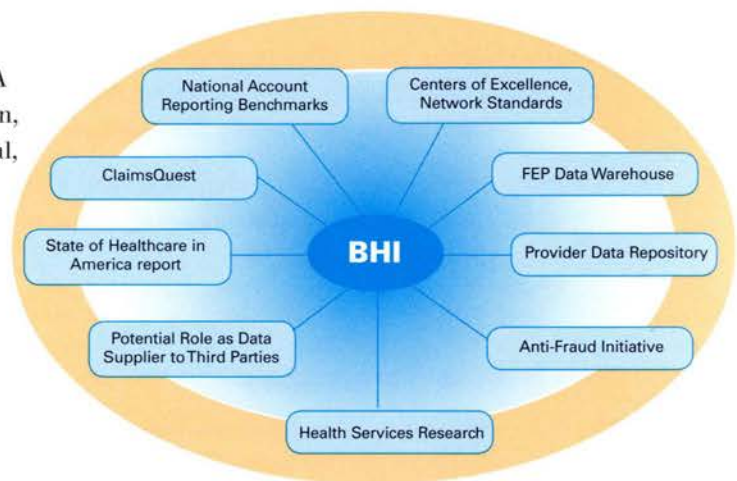
II. Excelling in the Marketplace

Blue Cross and Blue Shield Association's corporate objectives are focused entirely on furthering the success of the Blue Plans. During 2004, the Association developed new partnerships and initiatives that assisted Plans' product delivery and cost-savings goals.



Blue Health Intelligence (BHI)

BHI is a strategic initiative by participating Plans, BCBSA and Consortium Health Plans to offer a robust, multi-Plan, "health intelligence database" that will aggregate medical, drug and other critical information from participating Plans into a centralized data warehouse. Data will be accessible by each participating Plan to support their analysis and reporting. Currently, there are 19 participating Plans representing 45.8 million covered lives.



Long-Term Care Pilot

This pilot was launched in September 2004 and is a partnership between BCBSA and MedAmerica Insurance Company. A voluntary initiative, the Long-Term Care Pilot positions the Plans to offer a MedAmerica long-term care product to larger national accounts.

Strategic Government Initiatives (SGI)

SGI dramatically expanded the subcontracting opportunities for Plans in provider-audit-related business with the government. Medicare Plans were sent an SGI-developed handbook to help them respond to changes expected under Medicare Contracting Reform. SGI and subcontracting Plans successfully advanced a White House initiative to reduce the backlog of providers' Medicare appeals.

Inter-Plan Programs (IPP)

National Account Growth

Blue National Account market share increased to 52 percent. In partnership with Plans, BCBSA began development of a National Account strategic framework, scheduled to launch in 2005.

Debit Cards

Plans and BCBSA co-led the development of a framework to use the Blue Brands on debit cards issued to support medical savings accounts. This work was accomplished on an extremely accelerated basis to respond to changes in federal law and enable Plans to quickly introduce new products in their markets.

Customer Discount Savings/Volume Growth

Plans saved more than \$27.8 billion in provider discounts through the BlueCard® Program in 2004 – an increase of \$7.8 billion from 2003. IPP also reduced BlueCard fees, resulting in more than \$7.2 million in Plan savings. For 2005, these reduced fees are projected to result in a \$9.9 million savings for Plans. BlueCard/ITS transactions numbered more than 162 million – a 22.7 percent increase from 2003.



BlueCard Performance Levels Improve

In December 2004, 95 percent of Plans improved from below benchmark on the new index to above benchmark, compared to December 2003. In addition, 99.99 percent of transactions processed were above benchmark.

Access Fee Reductions

Effective January 1, 2005, IPP reduced Plan access fees to 5.55 percent for the 1,000 to 9,999 National Account segment and 5.15 percent for the 10,000 and above segment.

Medicare Advantage PPO

IPP improved delivery of Medicare Advantage products with new ID card standards and operational improvements in claims handling, creating a foundation for future Medicare Advantage expansion.

Ancillary Product/Network Opportunities

In response to emerging market needs, IPP expanded Blue ancillary network and delivery contracting opportunities. Plans now have significantly more flexibility in implementing national pharmacy, dental and vision networks – and in contracting with labs, durable medical equipment and specialty pharmacy providers.

International Initiatives

The Blue Brands continue to expand globally with the addition of a new international licensee in Panama in 2004. BCBSA also completed sublicense agreements with members of the Allianz Group to increase the use of the Blue Brands in the United Kingdom and Ireland in 2005. There are five international licensees, and the Blue Brands are used in eight countries outside the United States.

BlueWorldwide Expat

BWE, the first expatriate health insurance product launched by the Blues, grew as Blue Plans expanded their product portfolio with a solution for providing access to healthcare for American third-country national employees stationed abroad. At year-end, 59 Blue Licensees were participating in BWE. During the year, 20 Plans sold or submitted quotes for more than 8,200 expatriate members, and 50 groups with a total of 405 members enrolled in the program.



III. Enhancing Provider Relationships



Through the Office of Clinical Affairs and the National Council of Physician Executives, BCBSA continues to create opportunities to position the Blues as leaders in promoting high-quality, safe and affordable healthcare.

Physician Leadership

In 2004, new relationships with clinical, business and government agencies were developed paving the way for BCBSA and Plan medical and pharmacy staff involvement in strategic planning on national initiatives. Positioning the Blues as collaborators enables BCBS leadership to identify and discuss workable programs and standards to support performance improvement in physician practices.

The Association also is taking a leadership role in collaborative initiatives such as the E-Health Initiative, Connecting for Health and the National Alliance for Health Information Technology, among others, to promote quality improvement through electronic connectivity.

National initiatives include:

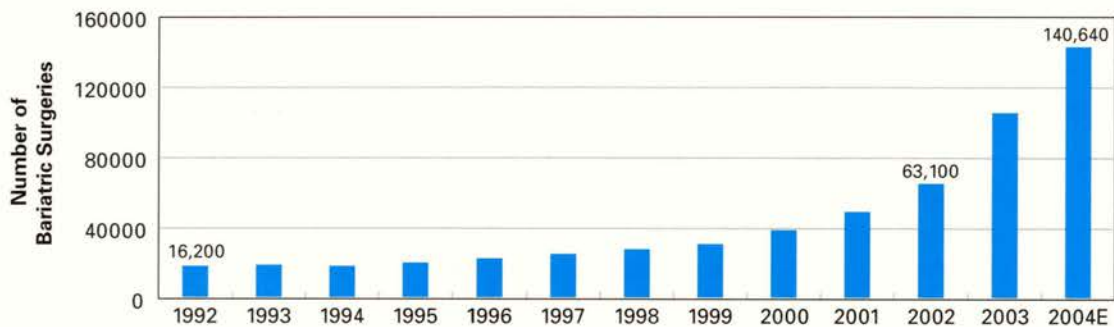
- **American Academy of Pediatrics/American Academy of Family Physicians:** models for enhancing primary care and dissemination of practice guidelines
- **American College of Cardiology:** drug-eluting stent guidelines, pay-for-performance criteria and five ACC-sponsored clinical workgroups
- **American College of Radiology:** promoting the provision of safe and effective radiologic care, a workgroup on diagnostic imaging and the role of accreditation in network design
- **The Leapfrog Group:** identified opportunities for Plans to demonstrate their shared commitment toward healthcare quality and improved outcomes
- **The Pharmaceutical Initiative:** to improve the safety, effectiveness and efficiency of pharmaceutical use and to promote the affordability of pharmacy benefits



Bariatric Surgery Network

Bariatric surgery claims have shown a marked increase during the past few years – with an estimated 60 percent increase in 2004 alone. Nationwide, there were more than 140,000 bariatric surgeries performed in 2004. In collaboration with a number of Plans and external experts on bariatrics, the Association’s Integrated Health Resources group developed three workgroups to evaluate bariatric programs, surgeons and facilities to determine appropriate credentialing. The goal is to develop a Blue-Branded national Bariatric Network by 2006.

Number of Bariatric Surgeries Continues to Increase



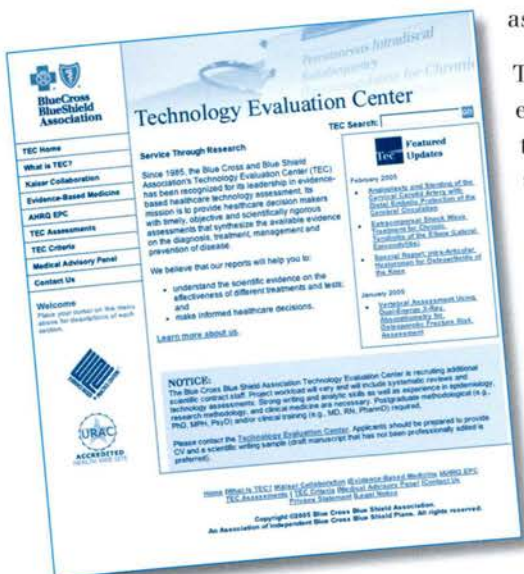
Source: American Society for Bariatric Surgery, 2004

TEC

BCBSA’s Technology Evaluation Center (TEC) and Medical Policy staff made great strides in 2004, improving on how medical technology information is delivered to Plans. Plans may now obtain draft and completed TEC and Medical Policy materials with near real-time access on BlueWeb, increasing delivery of content as much as three months earlier than previously.

The TEC-MP Clearinghouse News also was initiated in 2004. An electronic newsletter is delivered weekly to Plans on timely medical technology information such as Plan implications from recent clinical trial findings, journal publication review and more.

TEC continued its public leadership role in evidence-based medicine, winning URAC accreditation for the TEC Web site on BCBS.com in recognition of the credibility of the clinical information that TEC provides to the public.



IV. Making our Blue Voice Heard in Washington

With election-year politics influencing nearly all aspects of the 2004 domestic agenda, Blue Plans and BCBSA joined to secure key legislative and regulatory victories in Washington.

Using our collective voice with Members of Congress and the Administration, we were able to help ensure favorable outcomes on priority issues ranging from Association Health Plans and the uninsured to health information technology and Medicare Reform.



Association Health Plans (AHP)

The Blue System's aggressive campaign to oppose Association Health Plans helped stop AHP legislation despite a strong election-year push by proponents, including the White House and the politically powerful National Federation of Independent Business. More than 1,250 national and local organizations joined Blue Plans and BCBSA in successfully opposing AHP legislation. The campaign featured more than 2,000 "grasstop" contacts with lawmakers by local influentials, more than 800,000 opposition messages to Senators, Representatives and Governors from constituents, and favorable media coverage by *NBC News*, *The Wall Street Journal*, *The New York Times*, *The Washington Post*, *The Boston Globe* and *The St. Louis Post-Dispatch*. Targeted lobbying by BCBSA and Plans also helped persuade the Senate GOP Uninsured Task Force not to endorse AHPs in its recommendations for expanding health coverage.

Health Information Technology

Building on our leadership in implementing the HIPAA transactions and code sets, Blue Plans and BCBSA convinced HHS to delay releasing a proposed rule to replace ICD-9, the current diagnostic and inpatient procedure codes system, with ICD-10. BCBSA released research identifying the problems in migrating to ICD-10 and despite support for ICD-10 by vendors and others, HHS concluded the issue warranted further examination.

With growing interest in Washington about the potential for health IT standardization and coordination to reduce costs and improve quality, the Board of Directors approved a set of principles to guide BCBSA's work on interoperability and electronic health records. The principles also will help assure the more than 100 BCBS representatives on various standard setting organizations speak with one BCBSA position.

Helping to ensure the Blue System's continued leadership in the health IT arena, BCBSA also is working with Senate Majority Leader Bill Frist (R-TN) on the newly-established Commission on System Interoperability, which is charged with developing a long-term, coordinated plan for health IT standardization.



Medicare Reform

There was widespread Plan participation in developing the more than 80 pages of detailed recommendations for BCBSA's formal comments on Medicare reform regulation.

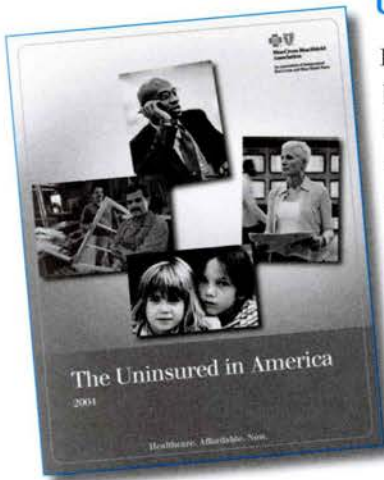
Plans and BCBSA engaged in an extensive lobbying and educational campaign, which helped persuade HHS to establish 26 Medicare Advantage PPO regions, short of the 50 originally targeted but a favorable shift in the Administration's initial position of creating only 10-15 regions. BCBSA also avoided cutbacks to the funding increases enacted in 2003 for Medicare Advantage plans and assured NAIC Medigap Model Act revisions reflected BCBSA recommendations.

BCBSA was extremely active on another key component of Medicare reform, Health Savings Accounts. Working closely with a Plan workgroup, BCBSA successfully shaped Treasury Department guidance to reflect key Blue System positions on preventive services and prescription drugs. In addition, BCBSA showcased Plans' leadership in bringing HSAs to market, earning positive media coverage and goodwill by Congressional Republicans and the White House.



Uninsured

Early in the year, BCBSA released a set of comprehensive options for consideration by Members of Congress and the Administration to reduce the number of uninsured. Recognizing that the uninsured are not a homogenous group, the proposals – developed with significant input by the Plan Workgroup on the Uninsured – provided targeted solutions to address specific populations. The list of options helped solidify the Blue System's leadership on this critical issue.



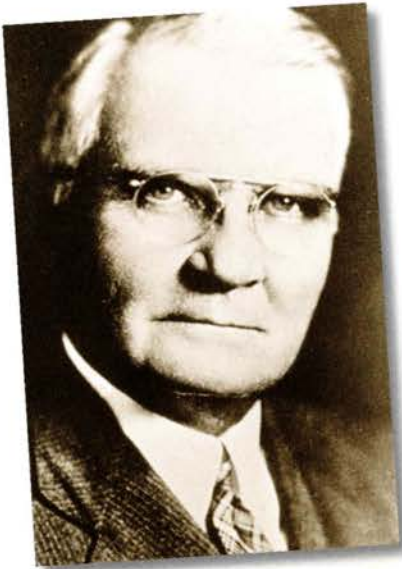
BluePac/Political

BluePac enjoyed a banner year in 2004, enabling the Blue System to continue its high-profile role with Members of Congress and co-host nearly 50 fundraising events in Washington and in lawmakers' home districts. Raising more than \$567,000,

BluePac set a System-wide record for annual contributions for the ninth straight year. Contributions increased 10 percent over the 2003-2004 election cycle, and were 40 percent higher than 2000. Thirty-eight out of 41 Plans contributed in 2004, while 22 Plans and BCBSA associates met their annual goal for the year.

V. Keeping Quality Healthcare Affordable

The Blue System has a 75-year record of excellence – and today we continue that legacy by championing consumer interest to keep quality healthcare affordable, being a leader in the marketplace, developing new products, collaborating with providers and being heard in Washington.



Since 1929 when Justin Ford Kimball developed a way to make hospital costs affordable for teachers, the Blues have been dedicated to providing Americans with affordable healthcare. Today, we embody that same spirit through our ongoing Healthcare Cost Campaign, which promotes Plan programs and Systemwide initiatives, such as WalkingWorks, that inspire consumers to live healthier lives and keep healthcare affordable.

WalkingWorks – Congressional Challenge

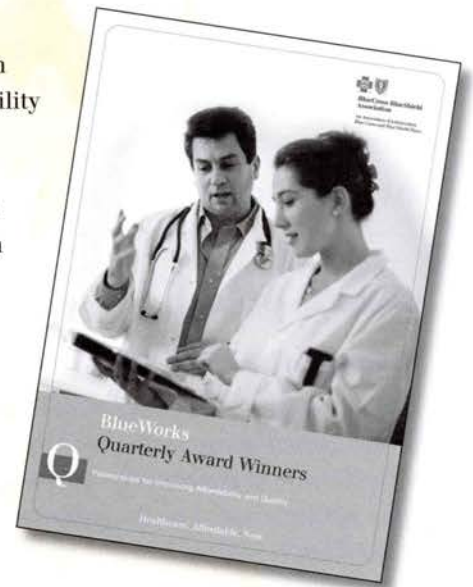
Some 4,300 Members of Congress and other Capitol Hill staff signed up to take the 2004 Capitol Hill Challenge in June. Representatives Zach Wamp and Mark Udall, as well as Senate Majority Leader Bill Frist and Senator Ron Wyden, joined in issuing the WalkingWorks Capitol Hill Challenge.

Challenge-takers who walked at least 50 minutes a day, five days a week for six weeks were eligible for a Presidential Active Lifestyle Award of the President's Challenge.



BlueWorks

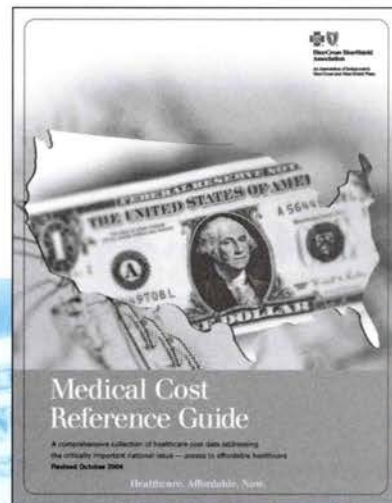
BlueWorks showcased innovative Blue Plan initiatives that have made an impact on our collective efforts to increase both the quality and affordability of healthcare. In 2004, 18 local Blue Plan initiatives were identified by researchers at Harvard Medical School as programs that demonstrate early success in improving healthcare quality, while keeping healthcare affordable. These programs were featured in a variety of media outreach initiatives as examples of what's working in local markets and as programs that could possibly be replicated across the country.



Research

Building on the rich body of research from previous years, we completed new studies centering on important concerns such as: hospital cost-shifting from public payers to private payers, the cost and use of specialty injectable drugs, and how consumers obtain and use health information for treatment decision-making. We also updated research on uninsured Americans for use in BCBS initiatives and related efforts to reduce the number of the uninsured. We released the 2004 edition of the Medical Cost Reference Guide addressing the critically important national issue – access to affordable healthcare.

Several Blue Plans have integrated value-added research provided by BCBSA in collaboration with academic researchers as part of proposals to CMS on the Chronic Care Improvement Program.



VI. Strengthening Operational Excellence

The Blue System continues to recognize that one of the keys to success is maintaining operational efficiencies by strengthening our technology, human resources and legal areas to drive the Blue System to greater heights than ever.

Legal/Governance

Ancillary Providers and Brand Education

Working closely with Plan lawyers and business professionals, BCBSA concluded a multi-year project that resulted in amendments to the license agreements to enable Plans to use the Brands outside their service areas. The amendments cover contracts with certain categories of ancillary providers without weakening the Blue System's position on its service areas.

The BCBSA Brand legal team partnered with Plan personnel to present numerous on-site Brand Workshops for Plans. The Brand Use Audit for 2004 showed a 29 percent decrease in Brand violations for the year .

Medicare Administrative Contractor Training on Federal Acquisition Regulation (FAR)

BCBSA sponsored two training seminars for Plan executives focused on the Federal Acquisition Regulation, which will be the basis for future traditional Medicare Fee-For-Service program contracting, as stipulated in the Medicare Modernization Act.

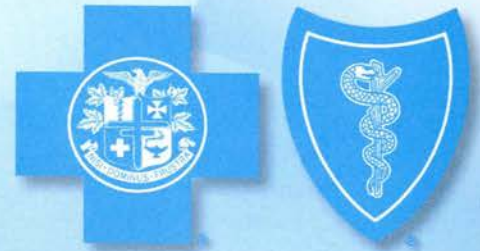
Legal Department Cooperative ("LDC")

The LDC continues successful partnerships with Plan counsel. Among major 2004 activities:

- *Expanded Educational Programming* including LDC's National Teleconference Series, Blue College Program and General Counsel Roundtable Program for hundreds of Blue lawyer participants.
- *Joint Retention Initiatives* – In addition to continued savings from discounted billing rates negotiated for HIPAA advice and counsel, 12 Plans jointly retained counsel in a lawsuit against perpetrators of Rent-A-Patient fraud schemes.
- *38th Annual Lawyers Conference* – Set an attendance record with 245 Blue lawyer attendees. It received an overall evaluation score of 4.5 on a 5-point scale.

Inter-Plan Information Technology Strategy

The Inter-Plan IT Strategy was approved by the Board of Directors in 2004, marking the beginning of a multi-year commitment to revitalize the Inter-Plan portfolio of technology products and platforms that have been designed to address significant challenges identified in the National Account Strategy. Critical Inter-Plan



platforms will evolve through a series of pilot projects and software releases over the course of the next few years to deliver Blue Plan business and technical capabilities necessary to ensure our continued success in the marketplace.

Human Resources

BCBSA Human Resources continues to help Plans reduce recruitment costs by managing the Career Opportunity Center (COC) on BCBS.com. The site provides Plans with free job postings, a searchable resume database and e-mail distribution capability. BCBSA's partnership with three national career outplacement firms continues to yield significant Plan savings. Additionally, BCBSA partnered with two premier compensation survey providers on a special program for BCBS Plans, resulting in collective savings in excess of \$100,000.

National Anti-Fraud Programs

BCBSA's Anti-Fraud Director's Office teamed up with Plan Special Investigation Units to launch a *National Anti-Fraud Enhancement Program*.

The program includes a national BCBSA Anti-fraud Hotline 1.877.527.BLUE, a Web site (www.BCBS.com/antifraud) and a consumer-focused anti-fraud education brochure, co-branded with the FBI/Department of Justice and the Coalition against Insurance Fraud. The BCBSA-led Anti-Fraud Strike Force is comprised of Plan investigators, working with BCBSA to give the Blues increased ability to conduct coordinated national fraud investigations.

In 2004, the Blue System realized almost \$225 million in total savings and recoveries, and received more than 80,000 calls to the Hotline. Additionally, almost 8,000 fraud investigations were opened during 2004.

Best of Blue Awards

The Association administered the 2004 Best of Blue programs that identified, acknowledged and disseminated BCBS best practices and innovations in quality, partnerships and Plan-to-Plan collaboration in three categories: Marketing and Communications, Medical and Pharmacy Management and Internal Audit. Several hundred applications were received for these

three Award programs, representing Plan activities during 2004. Awards will be presented in 2005.

Education and Training Programs

More than 6,800 Plan representatives attended 93 BCBSA education and training programs held across the country in 2004. BCBSA received more than \$1.6 million in revenue from outside companies in connection with Blue conferences, helping hold registration fees low for Blue attendees at these events. Blue Plan customer satisfaction scores across all conferences averaged 4.5 on a 5-point scale.

Geographic Accessibility (Geo) and Disruption Analysis

The Network Reporting Services team implemented enhancements to the network reporting process to produce more reports in less time and at a lower cost. Plan costs for Geo and Disruption Analysis reports were reduced by a total of 45 percent throughout 2004. Volumes increased by 16 percent for Geo reports and 50 percent for Disruption Analysis reports, while turnaround times for the requests averaged 2.2 days.

Licensee Desk Level Audit

The first full year of the Licensee Desk-Level Audit program showed many Plans improved their overall BlueCard claims processing. Based on Plan feedback, BCBSA implemented several enhancements that improved audit efficiency and Plan satisfaction with the audit program.

Provider Data Accuracy Improves

As a result of Plans' concerted efforts to improve processes affecting provider data operations, the average provider data accuracy score reached an all-time-high of 85 percent. The Provider Data Quality Index System-wide average increased by 4 percent.



By the Numbers

\$27.8 billion Blue Plan provider discount savings through BlueCard®

\$224.8 million Anti-Fraud savings and recoveries

162 million BlueCard/ITS Transactions

92.3 million Blue Plan members

2.3 million "Hits" to NEBA Website

135,000 New FEP Members

4,300 Capitol Hill staff in WalkingWorks Challenge

4,132.2 National Programs continuing education credit hours

BCBSA Financial Performance

BCBSA's 2004 financial performance resulted in a \$11.7 million gain. A one-time \$10.0 million special dues assessment in 2004 to fund legal costs and various lobbying activities had a positive impact on the gain. The BlueCard program's 25-percent increase in transactions and effective Inter-Plan Program operations contributed \$13.1 million to the bottom line. Net results also were affected by pension expense of \$5.3 million.

BCBSA Expenses and Net Gain

(in thousands)	2003	2004
Total Revenue	\$ 263,901	\$ 270,907
Expenses:		
Brand Development	\$ 21,107	\$ 19,437
Brand Protection	10,000	10,138
Representation	30,700	28,234
Governance & Administration	13,656	21,195
Inter-Plan Programs*	80,126	80,255
Optional Services**	37,413	40,494
Government Programs	54,099	59,426
Total Expenses	\$ 247,101	\$ 259,179
Gain / (Loss)	\$ 16,800	\$ 11,728

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

** Optional services – fee-for-service initiatives that are provided to Plans. Includes National Labor Office, National Employee Benefits Administration, Conferences, Government Business Services, Strategic Services, BluesNet, and Blue Health Interlligence.

At year-end 2004 BCBSA net assets were \$109.0 million – up \$11.7 million from year-end 2003:

(in thousands)	2003	2004
Net working capital	\$ 33,914	\$ 53,701
Prepaid pension	34,318	29,015
Fixed assets	24,209	23,885
Other assets	5,456	2,769
Long-term liabilities	584	429

BCBSA capital investments were \$12.1 million, primarily for new technology initiatives – including BlueExchange, provider database development and technology infrastructure enhancements.

BCBSA 2005 Corporate Goals and Objectives

Protect and Enhance the Brands through Effective License Administration

- 90 percent of the Plans pass MTM Direct Measures data quality requirements for timeliness, completeness, format and accuracy
- Board approval of a co-branding strategic framework for the Brands
- 85 percent of the 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 the 2005 Customer Satisfaction Survey)

Ensure the Blue Brands are the Consumers' Brand of Choice

- Achieve successful implementation of the Healthcare Cost Campaign as determined by the Brand Development and Promotion Committee
- Develop and implement 2005 deliverables from the National Account Strategy approved by Inter-Plan Programs Committee (IPPC)
- Facilitate development and implementation of 2005 BHI deliverables approved by the BHI Board

Ensure Effective Representation of Plans' Interests in National Forums

- Achieve our legislative and regulatory agenda, as articulated by the Health Policy and Legislation Committee
- At least 60 percent of the Plans participate in a national health priority initiative to improve healthcare quality, outcomes and safety
- Board approval for Blues leadership agenda of a BluePrint for patient safety, quality and affordable healthcare
- 85 percent of the Board Members give a 4 or 5 rating to BCBSA's efforts to lead and coordinate the defense of the Thomas Class Action Litigation

Ensure Operational Excellence in BCBSA Programs

- Implement the Operations Center contingency Plan as approved by the Federal Employee Program Board of Directors
- Successful vendor transition of FEP Rx mail-order as measured by performance indices approved by the FEP BOM
- Develop and implement 2005 Inter-Plan IT Strategy deliverables approved by IPPC
- Increase the number of Plans performing in the top 2 tiers on the BlueCard Provider and Member Customer Satisfaction Surveys as defined by IPPC

Contribute to the Success of the System

- System achieves or exceeds Plans' aggregate net gain 2005 forecast (percent of gross revenue)
 - System achieves or exceeds Plans' aggregate Blue enrollment forecasts for 2005 (percent change in members)
 - Board approval of a branded debit card, or if approved by 2005, availability of a branded debit card as approved by the Board or appropriate committee
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