

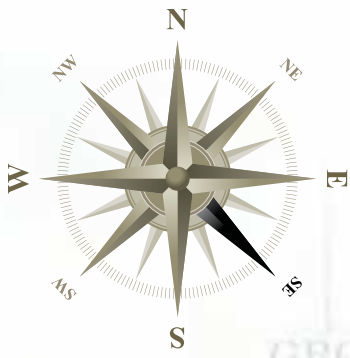
● Milliken State Park Harbor Light
+42.331944° -83.025278°



Blue Care
Network
of Michigan

2010

Annual Report



From President and CEO

Kevin James Klobneer



My first year as president of Blue Care Network was rewarding, although there were challenges to be met.

I am proud of all that BCN achieved (see below for a 2010 summary) and gratified to have been a part of the leadership team in these accomplishments. However, I was challenged by the volatility of the health care industry, which is being redefined daily by health care reform and by market demands.

A primary challenge this year — as it has been for the last few years — was the development and launch of new products to meet the demands of rapidly changing market needs. When you consider that 60

percent of our customers are in plans that didn't exist five years ago, it's easy to see that product development will define BCN.

Another priority was moderating benefit costs and reducing administrative expenses, twin paths to our being able to deliver affordable products. Like many of our customers, BCN strives constantly to join quality and value to affordability.

We have demonstrated our ability to lead, and we will continue to do so, serving the people of Michigan best by providing:

- The right products
- At the right price
- Through effective partnerships

These principles will continue to serve as our blueprint for action in 2011.

Windmill Point Light

+42.358120° -82.929830°

What we did in 2010

- Introduced three new products: Savings Plus RxSM, Healthy *Blue* Living RewardsSM and Blue EssentialsSM
- Reduced administrative costs by 5.5 percent per member per month
- Grew our membership to more than 650,000
- Received excellent accreditation from the National Committee for Quality Assurance for our three central products: BCN HMOSM, BCN AdvantageSM and BlueCaid[®]

From Chairman of the Board

William A. Black



In 2010 Blue Care Network subscribers voted for six peer representatives to the company's 18-member board of directors (12 are appointed). The new term of office took effect Jan. 1, 2011.

The election process followed BCN's goal to develop operational efficiencies wherever possible. Instead of mailing individual ballots to our 318,389 subscribers, we wrapped the ballot around the August issue of *Good Health* magazine. By using a scheduled mailing, we saved time and money.

On a larger scale, that same attention to detail helped us meet our operational measures. Through our association with Blue Cross and Blue Shield of Michigan, we commit to rigorous standards to

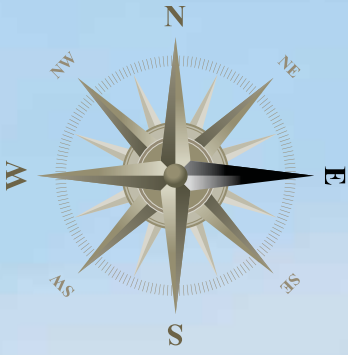
ensure we are providing rapid and accurate telephone, claims and enrollment service. Year-end total averages for these member touchpoint measures were the highest ever, exceeding both our targeted goal and our 2009 year-end performance.

As Kevin Klobucar said in his message, BCN had a banner year. We expect 2011 to be similarly successful, given the expertise our board members and our employees bring to the table.

Creating a forward-thinking company that gets it right for its customers, members and providers is not a one-man or one-day job. Everyone in the company — from board members and executive leaders to employees and partner firms — works to ensure our continued success. I appreciate all their efforts in 2010.



Leadership = Blue Care Network



Tawas Point Lighthouse
+44.253610° -83.449440°

Designing new plans to meet customer

When it comes to health care, one size doesn't fit all. That's why Blue Care Network offers a variety of plans and a selection of cost-sharing options. Each presents a unique way to manage health dollars while still providing quality coverage.

Our experience fuels our ability to design new products that meet the cost-saving needs of employers and the care requirements of employees. That expertise enables us to consistently give you the right products at the right time and at the right price.

In 2010 we introduced two new options to our comprehensive health plan portfolio. Both encourage members to take control of their health.

- **Healthy Blue Living Rewards**, an outcome-based product, is an extension of our very successful Healthy Blue LivingSM plan. As with Healthy Blue Living, members receive lower out-of-pocket costs when they adopt a healthier lifestyle. The plan adds more flexibility by offering three benefit levels, instead of two, for individuals who are at different stages of achieving their wellness goals.
- **Blue Essentials** centers on keeping people healthy. The rationale is simple. With a financial incentive to seek preventive services and the essential services provided through a primary care physician, people are more likely to take care of themselves. And care given now often reduces or eliminates more costly care later.

Because medical care often requires medication therapy, we added a new pharmacy plan as well:

- **Savings Plus Rx** encourages the use of generic drugs and helps employers save up to 25 percent off other drug plans. This product helps stabilize or even decrease overall prescription drug costs.

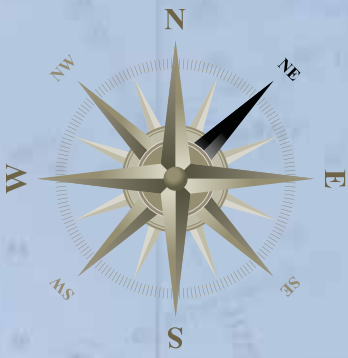
needs

Noteworthy in 2010

- In the first year of its offering, Healthy Blue HMO HRASM, our health reimbursement arrangement, enrolled more than 20,000 members.
- BCN ended 2010 with more than 116,000 members in its wellness-based products: Healthy *Blue* Living and Healthy *Blue* Living Rewards.

Coming attractions in 2011

- **Blue Elect PlusSM** (effective July 1): Comprehensive care with BCN oversight — plus the flexibility to visit any doctor without a referral from a primary care physician.
- A new network option that focuses on the most efficient managed care for substantial cost savings (Oct. 1).



Blue Care Network offers a wide selection of pharmacy benefit options to pair with medical coverage. By administering both benefits, we can deliver quality and cost-effectiveness. This is particularly important today when the rising cost of drugs requires ongoing monitoring to ensure members receive the best care at an affordable price.

Teaming pharmacy and medical care

Here's what else members get with BCN drug coverage:

- One-card convenience for all pharmacy and health benefits
- Access to most pharmacies in Michigan and throughout the United States
- A drug benefit that focuses on effective treatment options at affordable costs
- Management initiatives (such as step therapy and prior authorization) that counter spiraling pharmacy costs

Noteworthy in 2010

- Achieved a generic drug dispensing rate of more than **80 percent**, compared to the national average of 72 percent
- Introduced **Savings Plus Approved Drug List** with cost-savings benefit that allows group customers to save as much as **25 percent off** pharmacy benefits
- Developed **Blue Essentials** with an innovative benefit design that covers many critical maintenance prescription drugs with no copayment

Coming attractions in 2011

- A drug option with a tighter, more cost-effective formulary for BCN Advantage members (January 2011)
- Online processing to ensure speedier and more accurate coordination of pharmacy benefits

Managing Michigan's *largest* HMO network

Blue Care Network offers access to 30 percent more doctors and specialists than our closest competitor. Our network has approximately 4,700 primary care physicians who provide or coordinate responsible, quality care, more than 14,000 specialists who provide in-depth treatment and most leading hospitals in the state. We also ensure that every entity meets strict credentialing standards.

Round Island Lighthouse

+46.108890° -84.019720°

A map of Round Island Lighthouse in Michigan. The lighthouse is marked with a brown dot and a line pointing to the island. The island is outlined in brown. The map shows surrounding waters, shoals, and other islands.

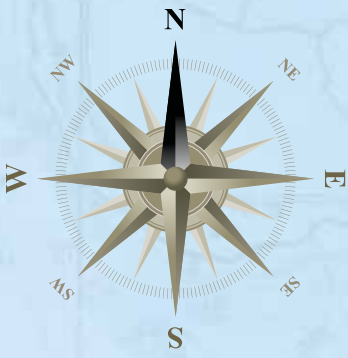
Noteworthy in 2010

- Expanded our network in lower Michigan, adding 127 primary care physicians
- Announced new Blue Distinction Centers® for spine surgery and knee and hip replacement
- Received high scores from our members for BCN primary care physicians and specialists, and how well our doctors communicate as demonstrated through the Consumer Assessment of Healthcare Providers and Systems® scores
- Found that physician satisfaction with BCN remained high, with seven in 10 physicians stating that they are satisfied with their overall relationship with BCN and six in 10 rating BCN better overall compared to other HMOs
- Enhanced online tools and electronic processes to make it easier for health care providers to do business with us and to ensure quicker and more accurate transactions with them

Coming attractions in 2011

- Expand provider network to provide coverage in more counties, including the Upper Peninsula
- Reduce our appeals response rate to 24 hours for urgent care approval

Leadership = Collaboration



BCN Advantage:

Medicare and more

The BCN Advantage tag line says it all: *Medicare and More.*

More group members discovered the value of BCN Advantage HMO-POSSM in 2010, and we experienced a membership boost of 42 percent between January 2009 and January 2011. The well-priced plan offers Medicare and more, an all-in-one medical and prescription drug option with comprehensive benefits that exceed Original Medicare. In addition to a broad spectrum of coverage, members reap the benefits of value-added resources: wellness tools, disease and care management programs and health product savings.

Noteworthy in 2010

- Named the highest-ranked Medicare Advantage plan in Michigan and one of the nation's top Medicare Advantage plans (25th) by the National Committee for Quality Assurance (NCQA *Health Insurance Plan Rankings 2010-11*: Medicare report)
- Introduced Health Advantage Rewards incentives encouraging BCN Advantage members to get a physician's assessment, complete an advance directive and protect themselves with flu and pneumonia vaccines
- Enrolled over 3,000 UAW Retiree Medical Benefits Trust Chrysler and Ford group members and marketed plan for the first time in West Michigan

Coming attractions in 2011

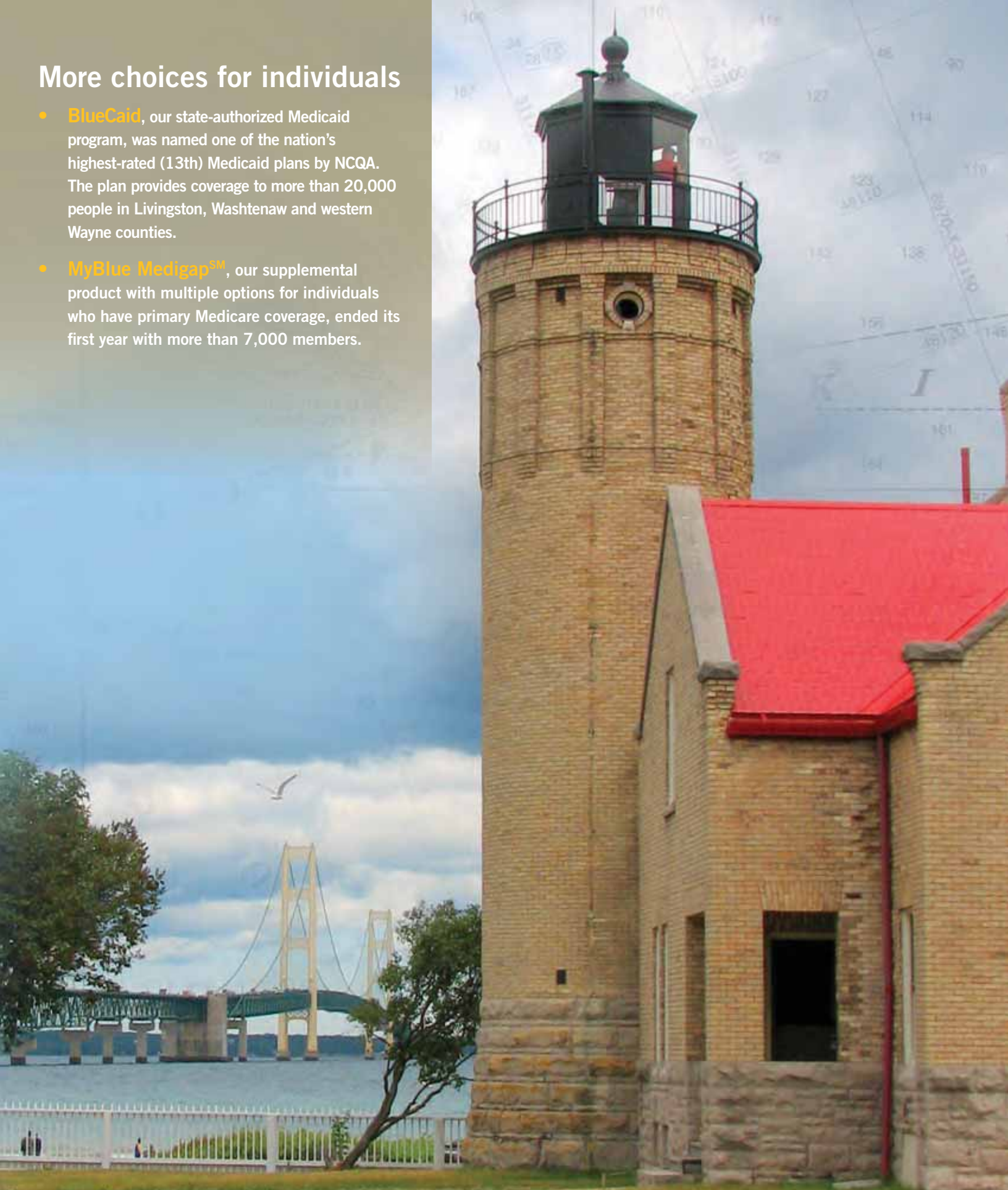
- Activate more health care initiatives, as BCN Advantage seeks to raise its CMS Quality Star rating
- Enhance plan benefits for members who purchase their own coverage to include BCN Advantage BasicSM, a plan with Part D prescription drug coverage at a \$0 premium
- Grow membership in BCN Advantage group and individual products, as approximately 8,000 Michigan baby boomers age into Medicare each month

Old Mackinac Point Lighthouse
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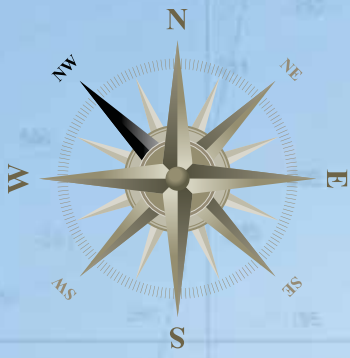


More choices for individuals

- **BlueCaid**, our state-authorized Medicaid program, was named one of the nation's highest-rated (13th) Medicaid plans by NCQA. The plan provides coverage to more than 20,000 people in Livingston, Washtenaw and western Wayne counties.
- **MyBlue MedigapSM**, our supplemental product with multiple options for individuals who have primary Medicare coverage, ended its first year with more than 7,000 members.



Leadership = Excellence



Good health

starts with

Health maintenance is what Blue Care Network is all about. Our member-centric view of health care is based on these two principles of care:

- You can't take good health for granted.
- You can't ignore a chronic condition.

BCN's coordinated care approach is the value we add to each of our plans. We help members take an active role in maintaining their health. For example, BCN's disease and case management programs identified 99 percent of the members who require additional services and helped them improve their health and receive the appropriate care programs. Our industry-leading case management programs have a 68 percent participation rate.

Point Betsie Lighthouse
+44.6911110° -86.255000°



Noteworthy in 2010

- BCN earned Excellent Accreditation — the highest award status — for the 11th consecutive year from the National Committee for Quality Assurance
- We added requirements for Healthy *Blue* Living and Healthy *Blue* Living Rewards to include testing for tobacco use and weight-management programs for members with a body mass index that's more than 30
- We provided special deals for members on healthy goods and services from Michigan companies through Healthy Blue XtrasSM, a Blues online savings program
- BCN partnered with Text4babySM to help pregnant women and new mothers with prenatal and infant care

Coming attractions in 2011

- Implement a new care management system that will allow us to better manage those who need extra care
- Encourage members with low back pain receive comprehensive, nonsurgical evaluation and treatment options before choosing surgery through a new spine care referral program

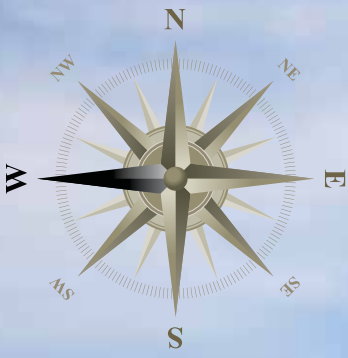


Quality Management

Healthy *Blue* Living is helping members lead healthier lifestyles and make healthier choices. Since the start of the plan in 2006:

- More than 52 percent who agreed to stop smoking did
- More than 55 percent improved their cholesterol to acceptable levels
- More than 71 percent have lowered their high blood pressure and are now within a healthy range

Leadership = Dedication



Management behind the scenes

Good management is what drives effective health maintenance. Having access to stellar resources expands our reach. BCN is the only Michigan HMO backed by the reputation and security of Blue Cross Blue Shield of Michigan.

Community involvement is one of our central values. We consider it good citizenship. We make every effort to connect to community activities through charitable contributions and volunteer participation.

Noteworthy in 2010

- Through our relationship with Blue Cross Blue Shield of Michigan, offered BCN and BCN Advantage to General Motors, Chrysler and Ford hourly retirees and dependents who enrolled in the newly formed UAW Retiree Medical Benefits Trust — serving close to 40,000 members.
- National health care reform is perhaps the greatest question mark in our health care future. The Michigan Blues are making sure that customers, providers and members can find answers to their many questions online at bcbsm.com/healthreform.
- BCN was recognized by the American Heart Association as a Start! Fit-Friendly Company at the highest level — platinum.
- We supported community health events such as the 10,000 Steps Challenge walking program in Grand Rapids and the Big House Big Heart runs in Ann Arbor.

Leadership = Resources



Little Point Sable Lighthouse
 +43.651390° -84.978330°

Financial Standing

Financial data (in thousands) as of December 2010 (statutory basis)¹

	2010	2009
Balance Sheets		
Assets		
Total current	\$633,696	\$592,694
Other	395,042	292,269
Total assets	\$1,028,738	\$884,963
Liabilities, capital and surplus		
Total liabilities	\$498,178	\$468,352
Total capital and surplus ²	530,560	416,611
Total liabilities, capital and surplus	\$1,028,738	\$884,963
Statement of Operations		
Premium revenue	\$2,327,054	\$2,208,872
Expenses		
Health care benefits	2,013,859	1,941,215
Administrative	233,777	233,232
Total expenses	\$2,247,636	\$2,174,447
Operating gain	79,418	34,425
Net investment income	25,710	36,906
Other	(1,206)	(8,562)
Net gain	\$103,922	\$62,769

¹As filed with the Michigan Office of Financial and Insurance Regulation on March 1, 2011.

²Includes investments in subsidiaries and affiliated trusts.



**Grand Haven South Pier
and Pierhead Inner Light**
+43.056670° -86.256110°

Vision

As the premier managed care plan in Michigan, Blue Care Network's purchasers, members, physicians, unions and employees are partners in maintaining and improving health.

Mission

People helping people to promote health and peace of mind through high quality care and service.

Values

- Integrity and honesty
- Family and personal life
- Personal accountability and empowerment
- Helping and caring
- Quality and excellence
- Diversity and inclusiveness
- Community involvement



Leadership = Vision, mission and values

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*Subscriber-elected representatives

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Leading the way forward

2010 Annual Report

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Old Mackinac Point Lighthouse

Round Island Lighthouse

Point Betsie Lighthouse

Tawas Point Lighthouse

Little Point Sable
Lighthouse

Grand Haven South Pier
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Milliken State Park
Harbor Light