Blue Cross Blue Shield of Massachusetts Files 2010 Financial Results

Strong investment earnings result in modest net income margin of 0.2%

BOSTON — March 1, 2011 — Blue Cross and Blue Shield of Massachusetts, Inc. (BCBSMA) and Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (BCBSMA HMO Blue) announced its 2010 calendar year, statutory financial results today and is reporting a combined after-federal tax net income of $13.4 million. These results reflect an operating loss of $100.7 million offset by investment income of $111.4 million.

"We were able to finish the year in the black, largely due to the strong earnings performance of our investment portfolio," said Allen Maltz, BCBSMA's Chief Financial Officer. "Operating income was adversely affected by the impact of collecting inadequate premium rates as a result of state rate caps, continued high claims costs associated with individuals in the merged market, and the sluggish labor market which impacted membership." Maltz said the rate caps in the individual and small group market resulted in the company taking a $55 million charge against operating earnings in 2010.

The company is making significant progress toward its goal of making quality health care affordable for its members and employer customers. In 2010, BCBSMA intensified its multi-year effort to become more efficient with the 10 percent of premiums used for administrative purposes. Notably, BCBSMA's total administrative spending last year fell to the lowest levels since 2006.

To make health care truly affordable, Maltz said, "we also need to reduce the current rate of increase in the cost of medical care, which now accounts for 90 percent of premiums. Our members and employer customers are counting on us to work collaboratively with hospitals and physicians in a spirit of shared responsibility to lower health care costs." The company is beginning to see a moderation in the growth of medical costs due to more modest contracts negotiated with providers as well as the impact of the Alternative Quality Contract (AQC), BCBSMA's innovative new payment model which rewards providers for the quality, not quantity of care they provide. See first-year results of the AQC here.

Maltz added, "As we look ahead at 2011, we're hopeful and confident that physicians and hospitals will continue to work with us to reach agreement on payment rates that allow care givers to cover their reasonable costs, while at the same time meeting the expectations of the community for improving the affordability of health care."

In addition to new contracts with providers, BCBSMA is also moderating the cost of health care by introducing new value-based health plans and developing innovative care management and wellness and prevention programs that assist our members in managing chronic conditions and living healthier lifestyles. Among targeted members, BCBSMA's care management programs have effectively reduced hospital readmissions by 11 percent since 2007 and improved medication adherence by 65 percent in 2010. Introduced in January BCBSMA's newest addition to value-based health plans, Hospital Choice Cost Share (www.bluecrossma.com/hospitalchoice), provides an average premium savings of approximately five percent while offering incentives for members to seek care at hospitals or independent centers that deliver high quality care at a lower cost. In its first month, approximately 30 percent of small business and individual customers renewing with BCBSMA in January enrolled in one of these innovative plans.

BCBSMA is the leading private health plan in Massachusetts, with 2.9 million members as of December 31, 2010.

Blue Cross Blue Shield of Massachusetts (www.bluecrossma.com) was founded 74 years ago and is now the largest private health plan in the state, providing coverage to nearly 3 million members. BCBSMA believes in working with physicians, hospitals, employers and the broader community to provide quality, affordable health care in Massachusetts. Blue Cross Blue Shield of Massachusetts is an independent licensee of the Blue Cross Blue Shield Association.

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