Blue Cross Blue Shield of Massachusetts Issues Public Statement from Board of Directors

Board of Directors Voluntarily Suspends Pay

BOSTON — March 8, 2011 — Blue Cross Blue Shield of Massachusetts is a locally-based, community-minded company that has been proudly serving the Commonwealth for nearly 75 years. We are committed to working earnestly and collaboratively with others on the central challenge of health care affordability for individuals, families, employers, and government in Massachusetts.

Over the past several days, we have heard clearly the community's anger at the compensation package paid to our former CEO Cleve Killingsworth.

At a time when health care costs and premiums continue to rise at unacceptable and unsustainable rates, Cleve's compensation has caused the community to appropriately question the sincerity of our commitment to improving the affordability of health care for our members, employer customers and the community.

With regard to Cleve's package, we accept full responsibility for the decision.

When we negotiated Cleve's employment contract in 2005, we undertook a thorough process to ensure his compensation was market competitive. We examined comparative data and consulted with outside experts. In short, we did our best to negotiate a fair contract for the company and for our new CEO.

Looking back now, we understand why the community feels the contract was too generous, even for that time.

Cleve's decision to resign last year followed discussions with the Board about the direction of the company. As a result of these discussions, Cleve agreed to resign on the condition that he would receive the same severance benefits that were called for if he were terminated under his employment contract. The entire Board voted to proceed on that basis and honor his contract.

Attorney General Martha Coakley's office is currently reviewing the circumstances related to Cleve's departure and we are working with her office to answer any and all of her questions on this matter.

Since Cleve's departure, at the request and urging of our new CEO Andrew Dreyfus, the Board has substantially reduced the CEO's compensation and benefits. We believe Andrew's compensation is more in keeping with the community's expectations and standards for appropriate, but not excessive CEO compensation.

Today, at the recommendation of our new CEO and after consideration of the issues raised by the Attorney General's office and the community, the Board is announcing the following additional action:

Effective today, we have voluntarily agreed to immediately and indefinitely suspend the fees we are paid as Directors. At the same time, we intend to begin a broader dialogue about an important issue raised by the Attorney General and others over the past several days about BCBSMA's legal classification as a public charity. BCBSMA is a large, complex $13 billion commercial enterprise that operates in a very competitive marketplace, often against for-profit national competitors. Our classification as a public charity creates expectations that we will operate like museums, universities and human services organizations. Unlike those groups, we do not solicit or receive donations or government grants, and we pay significant local, state and federal taxes. Our classification as a charity creates understandable confusion about the community's expectations of us—do we behave like a business, or like a charity? We believe, for example, that we should pay market-based compensation to recruit high-performing leaders to run a company of our size and scope. As long as there are conflicting expectations about who we are and how we should behave, we will continue to have questions about compensation and other business practices. We believe it would be much healthier to have an environment where our expectations are clear to everyone—to government officials, to the community, and to us.

We do not know how this review will evolve, but we look forward to having the discussion with the Attorney General and others in the community. We would like the opportunity to clarify what it takes to be successful in our market.

We recognize that some in the community will not view our actions as sufficient, and we accept that. BCBSMA, under the leadership of our new CEO, will continue the work with others to improve care and moderate health care costs in Massachusetts.

We cannot change what happened in the past, but we can ensure that our future actions are consistent with what the community has expected from Blue Cross during its nearly 75 years of serving the community.

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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