Blue Cross Blue Shield of Massachusetts Announces Financial Results

Disciplined business strategy results in modest 0.2% operating margin for the first half of 2011

BOSTON — August 15, 2011 — Blue Cross and Blue Shield of Massachusetts, Inc. (BCBSMA) and Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (BCBSMA HMO Blue) today announced a combined after-tax net income of $76.5 million for the first six months of the year. The results reflect an investment income of $72.8 million and an operating income of $7.7 million offset by the payment of taxes. For the second quarter, the combined companies reported an after-tax net income of $56.5 million.

"Making quality health care affordable for our customers and the community remains our highest priority," said Allen Maltz, BCBSMA's Chief Financial Officer. "Strong returns on our investment portfolio and the year-over-year improvement in our operating results reflect the disciplined approach underway across the company to aggressively manage both our administrative and medical costs." Maltz noted the company is on track to reduce its 2011 administrative spending (which accounts for approximately 10 cents of each premium dollar) to 2008 levels while at the same time making significant progress in moderating the rising cost of medical care (which accounts for approximately 90 cents of each premium dollar).

Maltz said the improvement in medical cost trends—which the company has reduced by three percent over the past twelve months—is the result of more modest contracts with physicians and hospitals and a continued moderation in consumer demand for health care services.

"Importantly, we have begun to reflect this moderation in medical cost increases in our customers' premiums," said Maltz. "For example, the majority of our individual and small business customers renewing in the fourth quarter of this year will see average rate increases less than 7.5% before any adjustments for demographic changes. More than a third will see increases below 5%."

Looking ahead, Maltz said the outcome of contract negotiations now underway with approximately one third of BCBSMA's provider network will be a major factor in the company's continued ability to deliver more affordable premiums to the marketplace. "We're committed to working with physicians and hospitals in a spirit of shared responsibility to reach contract agreements that allow caregivers to cover their reasonable costs while also meeting the community's expectations about affordability."

Maltz emphasized the company remains focused on the key elements of its affordability strategy which include:

- New provider payment models like the Alternative Quality Contract (AQC) that reward physicians and hospitals for the value, not the volume, of their care
- New value-based health benefit plans that help guide members to high-value providers—physicians and hospitals that deliver high-quality care at a lower cost
- Care management and wellness programs that help members receive the most appropriate care, manage chronic illness and live healthier lifestyles

BCBSMA is the leading private health plan in Massachusetts, with 2.8 million members as of June 30, 2011.

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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