united in our mission.
Our mission is to ensure all Californians have access to high-quality health care at an affordable price.
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At Blue Shield of California, we’re on a mission to transform a fragmented, often dysfunctional healthcare system into one in which all Californians can access the high-quality care they deserve at a price they can afford.

Health care in America faces some historic challenges: Millions still lack basic coverage, healthcare costs are rising, we’re in the midst of a nationwide opioid epidemic, there’s limited health information sharing, and the healthcare safety net is under siege.

Facing such challenges, I’m proud of the commitment we’ve shown to our mission, and of the Blue Shield employees who work tirelessly to make it a reality.

Transforming health care is an ambitious goal, but it’s one we are uniquely positioned to achieve. As a nonprofit health plan, we are driven by pursuing our mission – not generating returns for shareholders or meeting analyst expectations. In fact, we cap our net income at 2% of revenue, and return anything above that to our customers and the community.

We are advancing our mission by:

**Bringing health care into the digital age.** We are working to create a seamless system for our members to access care, and to provide a customer experience that meets them where they are and supports them in navigating the healthcare system.

**Tying pay to value.** We are partnering with aligned healthcare providers. Our accountable care organizations are a case in point: by building trusting relationships with hospitals and providers, we are improving infrastructure and efficiencies and developing new payment models that improve quality and drive down costs.

**Creating patient-centered models of care.** We are working hand-in-hand with our provider partners to develop new models that deliver whole-person care and further engage patients in their healthcare decisions.

Our mission doesn’t stop at our members; it extends to all Californians and beyond.

That’s why we are working at the federal, state, and local levels to advocate for policies that improve the healthcare system for everyone. And it’s why we have contributed more than $500 million since 2002 to the Blue Shield of California Foundation, our powerful ally in advancing our mission and supporting our communities.

We invite you to read our 2017 Mission Report to see how we are working every day to transform our current healthcare system into one that is sustainably affordable and worthy of our family and friends.

Sincerely,

Paul Markovich
President and Chief Executive Officer
At Blue Shield of California, we continually ask ourselves how we can innovate and challenge the status quo to create a healthcare system worthy of our family and friends. This goal guides our decisions and drives our every action.
Serving all Californians

We are steadfast in our commitment to serve all Californians. In 2017, we offered individual and family plans in every California ZIP code. We created new payment models, pushed for better public policies, and elevated lifestyle medicine to the forefront. We are committed to our partnership with Covered California and have redoubled our efforts to stabilize our statewide health exchange market.

We have also expanded the offerings for our members served by Medicare, the federal health insurance program for seniors. In addition, through Care1st Health Plan, we have developed additional capacity to meet the needs of lower-income adults and children who are eligible for Medi-Cal. And we continued to offer more options for members who get their plans through their employers, including access to our accountable care organization (ACO) networks.

Care1st

Our acquisition of Care1st Health Plan in 2015 helped advance our mission by allowing us to serve Medi-Cal beneficiaries. Since then, we have converted Care1st into a nonprofit health plan, expanded access to care, and grown our membership among these populations. We are also leveraging Blue Shield’s assets to reduce costs and increase efficiencies in serving this market. In addition, through Care1st in 2017 we:

- Added three provider groups that represent physicians and community clinics in San Diego, increasing our capacity and enhancing member access to providers and specialists
- Opened a post-discharge clinic in Antelope Valley, where patients are seen within a week of leaving the hospital to ensure their medical, social, and emotional needs are addressed
- Continued to operate our resource center in Huntington Park, which provides information about programs that facilitate access to health care, as well as health and wellness classes – services that are available not only to our members but to the entire community
- Served as a model for a new state requirement for non-medical transportation, based on Care1st’s longstanding transportation program to and from appointments

Our efforts to serve the Medi-Cal market are being recognized. The San Diego Care1st Partner Plan won an award in 2017 from the California Department of Health Care Services for the greatest improvement in quality.
Lily Cervantes
Community Representative
Care1st Information Resource Center

“Our hearts are here for this community,” says Lily Cervantes, community representative at Care1st’s Information Resource Center in Huntington Park. “We assist anybody who comes in. We don’t turn anyone away.” The Center is a one-stop-shop for Medi-Cal and other benefits support, exercise classes, and health education. It offers services in Spanish for those who are non-native English speakers, like many Huntington Park residents. The Resource Center staff sees themselves as advocates for those who come in. That means Lily and her Care1st colleagues routinely go the extra mile – for example, to personally call a Medi-Cal representative or an employer to help resolve a problem.

At the Center, community members can take Zumba, kickboxing, and yoga classes, or attend sessions on managing cholesterol, high blood pressure, or weight. They can join a knitting group or go to holiday events. Everything the Center offers is free and open to anyone – whether or not they are Care1st members.

For Lily, who has worked at the Center since it opened more than a decade ago, the most satisfying part is not only helping members of the community get the health coverage they deserve, but also improving their health and emotional well-being. “We see a lot of people with disabilities, who are elderly, or who are stressed or depressed, and they find comfort here,” says Lily. “They come to our classes because they may be lonely or have other issues at home, so they make the Center their home.”
We take policy positions to promote a sustainably affordable, high-quality healthcare system that guarantees access for all. In 2017, we took a stand against efforts in Congress to repeal the Affordable Care Act (ACA), defending its core consumer protections and access to coverage. At the state level, we also focused our efforts on healthcare reforms that control costs and improve the quality and access gains made by the ACA. This included opposing SB 562, the single payer proposal put forward in the California Senate, which we believe would have disrupted healthcare coverage, impacted the quality of care for our members, and increased costs for all Californians.

We significantly furthered our mission by playing a central role in passing SB 17, California's drug pricing transparency act – the most comprehensive such legislation in the country. Under this act, drug companies must give advance notice and justify the reasons for increases in drug prices. Our leadership in helping build a broad coalition among labor, business, and consumer groups allowed the entire industry to take a huge step forward in making health care sustainably affordable.

**Political contributions**

Blue Shield of California contributes to state and local candidates, political parties, political committees, and ballot measures to advance our mission and healthcare reform goals. Blue Shield is a nonpartisan organization, and we work with both political parties to support policies that will transform the healthcare system to better serve the public good. In 2017, Blue Shield contributed $1.6 million to state candidates and committees.

Blue Shield also has an employee political action committee, EmPAC, which is funded by voluntary contributions of participating eligible Blue Shield employees. EmPAC makes political contributions at the federal level to candidates of both political parties to support Blue Shield’s policy objectives. In 2017, EmPAC contributed a total of $119,000.

**Leading the Blue Cross and Blue Shield Association**

Blue Shield of California CEO Paul Markovich was elected chairman of the Blue Cross and Blue Shield Association (BCBSA) in 2017. As chair, Paul leads BCBSA’s governing body to adopt policies applicable to the nation’s 36 independent Blue Cross and Blue Shield health plans – which collectively serve one in three Americans – and provides strategic guidance and oversight for the Association.
At Blue Shield of California, we are continuing to transform the way health care is delivered by partnering with physicians and hospitals. Our innovative collaborations with providers are called accountable care organizations or ACOs. Through these alliances, physicians, hospitals, and Blue Shield share responsibility and accountability for the quality, cost, and overall care of patients. This high level of collaboration and aligned incentives among partners disrupts the model of fragmented care, reduces costs, and improves clinical outcomes.

Our ACO program continued to advance our mission in 2017. We expanded eight of our 42 ACO partnership agreements to serve a broader population of Californians. Our popular Trio HMO plan, which delivers care through our ACOs, has expanded into new regions and has dramatically grown to more than 200,000 Trio members in January 2018 from approximately 30,000 Trio members in January 2017.

Across the state, we are directly investing in our provider partners to help them build the infrastructure and programs needed to optimize their delivery systems. We continue to focus on helping partners build out what we call the “Core Four” clinical programs that lead to better health outcomes: high-risk clinics, advanced facility care, home care, and care coordination and management. These investments not only benefit our members, but also the communities these providers serve.

### Our ACO results

- **$486M** in cost savings through 2017
- **16%** reduction in hospital stays in 2017
- **7%** reduction in emergency room utilization in 2017
- **3%** annualized cost of health care trend for over seven years, as compared with nearly 7% of non-ACOs
“When there is something that isn’t working, we put our heads together and work it out,” says Josie Wong, senior director of Medical Management at the Care Coordination Center (CCC) at Torrance Health Independent Practice Association (IPA). She and her colleagues, who are part of Blue Shield of California’s ACO network, provide support for high-risk patients who have been discharged from the hospital.

Within 48 hours, the CCC reaches out to patients for a follow-up visit and provides compassionate palliative care for those with advanced illnesses. “We offer supportive, wraparound services to try to prevent readmission,” explains Josie.

Blue Shield recognizes this kind of coordinated care management is crucial to helping our members as they transition between care settings. In the past, the CCC was equipped with a physician, nurse practitioner, and dietician. Yet it was missing a crucial element of patient care – a dedicated social worker.

In collaboration with Blue Shield, Torrance Health IPA was able to hire a full-time social worker for the CCC, putting an important piece of the puzzle in place. The social worker helps identify patients with behavioral health issues; refers them to Blue Shield’s partner, Magellan Health Services; and enables the clinical staff to focus on physical health issues.

In addition, Blue Shield has assigned an advanced practice pharmacist within Torrance Health IPA to support patients and providers. The pharmacist helps with medication reconciliation and answers questions for post-discharge patients. “The sooner we can make sure a patient’s medication is reconciled, the lower the risk of readmission,” says Josie.
Creating higher quality and better outcomes

We are continually seeking new ways to improve quality and create better health outcomes in today’s ever-changing healthcare landscape.

**Palliative care**

We substantially expanded our network of palliative care providers in 2017. Blue Shield of California is now the only health plan offering home-based palliative care in all 58 California counties as a standard medical service for our members. Starting in 2018, it is also available for Medi-Cal beneficiaries enrolled with Care1st Health Plan.

Blue Shield’s home-based palliative care program focuses on improving the quality of life for seriously ill patients by providing a comprehensive suite of medical, emotional, and social support in their home. This innovative care delivery model made a real difference in the lives of participating members, and they let us know; our home-based palliative care programs received an average patient and family satisfaction score of 96%. For more information on our palliative care programs, see blueshieldca.com/palliativecare.

**Narcotic Safety Initiative**

As the devastation of opioid addiction becomes ever more apparent, we set an aggressive three-year goal of reducing inappropriate prescribing and overuse of opioid medications for our members by 50% by the end of 2018. Since the start of our Narcotic Safety Initiative in 2015, we have seen significant reductions: The overall consumption of opioids among our members fell by 42% by the end of 2017.

**Digital health information and transparency**

Physicians, nurses, hospitals, and health plans need the ability to share critical health information so they can ensure patients get the right care at the right place and right time. We are addressing this through our collaboration with the nonprofit organization Manifest MedEx (formerly known as Cal INDEX), which is dedicated to creating a comprehensive, digital health record for every Californian. As one of the nation’s largest health information exchanges (HIEs), it maintains 11 million claims records from four major health plans including Blue Shield of California, as well as 5 million clinical patient records from more than 300 participating partners.

**Measuring quality**

At Blue Shield of California, excelling in both clinical quality and member satisfaction is critical to advancing our mission. One of our key quality metrics is our Medicare Star rating. In 2017, we maintained our previous rating of 3.5 Medicare stars. We are working internally and in partnership with our provider community to improve Blue Shield’s Star rating for 2018. Ratings are based on data collected over a multiyear retrospective cycle, and we expect our current quality initiatives will enable us to reach 4 Medicare stars in the near term and improve our rating still further over time.

In 2017, we endorsed an initiative that developed a standardized set of 35 performance measures for California ACOs. Blue Shield and other members of the Pacific Business Group on Health joined the nonprofit Integrated Healthcare Association to adopt these quality performance measures with the goal of reducing reporting burdens on providers, standardizing performance measurement across health plans, and enabling clinicians to better focus on the most important areas for improving the delivery of quality, affordable care for their patients. This approach to ACO performance measurement and benchmarking in California could serve as a national model.
Quality health care goes beyond simply treating illness. That’s why Blue Shield of California offers our members access to lifestyle medicine – a structured, clinician-guided approach to healthy lifestyle changes to prevent, treat, and even reverse lifestyle-related chronic disease. These programs can include a healthy diet; regular physical activity; adequate sleep; stress management; tobacco cessation; and other non-drug interventions. Research shows that lifestyle medicine is often the safest, least invasive and most cost-effective way to address many chronic conditions, and it empowers people to take control of their own well-being. For more information, visit blueshieldca.com/wellness.

The centerpiece of our lifestyle medicine program is Wellvolution®, which provides a comprehensive suite of clinically-validated diet and lifestyle programs for virtually all commercial and Medicare members. Through Wellvolution, members can access digital and in-person programs designed to help them improve their health, including:

**Daily Challenge**

Daily Challenge® offers daily micro-health interventions delivered via app, text, or email. Members can opt for a random health challenge each day or choose between dozens of unique, 28-day well-being tracks targeting areas of health including physical, mental, emotional, financial, orthopedic, gastro-intestinal, prenatal, postnatal, and more.

**Walkadoo**

Walkadoo® provides daily, personalized physical activity recommendations via app, text, or email. For our Trio HMO plan members, it includes a Fitbit® at no extra charge.

**QuitNet**

QuitNet® is Blue Shield’s smoking cessation program, an internationally recognized, clinically-validated tobacco cessation intervention available to all members at no cost.

**Diabetes Prevention Program**

The Diabetes Prevention Program provides members access to a nationwide network of programs to empower individuals to take control of their health and reduce their risk of developing type 2 diabetes.

**Ornish Reversal Program**

This research-based program focuses on intensive diet and lifestyle changes to prevent and even reverse coronary artery disease with minimal use of drugs or surgery.
Blue Shield of California is here to serve our members and become their trusted adviser. We know that trust is not given, but earned, so we strive to provide our members service worthy of our family and friends.
Our membership

We continue to lay the groundwork for sustained membership growth and to further enhance the quality and seamlessness of our members’ experience. During 2017, we:

• Expanded our online and mobile resources to better serve our existing Medicare members and prepare for additional Medicare membership growth.

• Maintained our 42 ACO partnership agreements and expanded eight of those agreements to serve a greater population of Californians.

• Broadened our array of products and services to meet the diverse needs of the members we serve, no matter their age, income, or health status.

Enhancing the customer experience

We know the surest way to provide an excellent customer experience is to empower our employees. That’s why we made significant investments in new training and development programs to equip our Customer Care employees with the skills and resources they need to better serve our members.

We continue to provide our members with both high tech and “high touch” service – adding digital self-help products while also enhancing the level of service provided by our Customer Care representatives. These investments are yielding results: Blue Shield members reported higher satisfaction with Customer Care employees and faster times getting questions answered. We even exceeded our target satisfaction scores in 2017 – an increase of 17 percentage points over 2015.

Another way we are serving our members is by ensuring a smooth and efficient open enrollment process. During 2017, we planned carefully for the anticipated demand and began our hiring process earlier to ensure we were appropriately staffed to answer member calls in a timely manner. We also equipped our Customer Care representatives with new training and increased coaching support so they were prepared to take care of our members’ needs.

Our members – at a glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
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<tbody>
<tr>
<td>Employer Plan members</td>
<td>2,364,229</td>
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<tr>
<td>Medicaid/Medicare members</td>
<td>767,513</td>
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<tr>
<td>Individual and Family Plan members</td>
<td>665,549</td>
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<tr>
<td><strong>Total members</strong></td>
<td><strong>3,797,291</strong></td>
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Our digital evolution

We are committed to creating a seamless experience that makes accessing health care easier. We have made significant progress in ramping up our features and functionality so our members can get care when and where they want it. Through our user-focused strategy, we are creating even better digital solutions that deliver an effortless, proactive, and personalized member experience.

We focused on several customer-centric technology improvements in 2017, including:

- Integrating telehealth provider Teladoc into our website, enabling phone or video consults with board-certified doctors available 24/7.
- Enhancing our digital customer experience products to offer members more self-service functionality. This directly led to higher utilization: Total digital traffic increased by 16% from 2016 to 2017, while the volume of calls to our call centers decreased by 4%.
- Enabling 270,000 senior Medicare members to access our member website and mobile app, putting information about their benefits, claims, and providers at their fingertips.

Shield Concierge

We offer Trio HMO members concierge medicine to better meet their needs. Shield Concierge includes a team of health advocates, registered nurses, health coaches, social workers, pharmacists, pharmacy technicians, and customer service representatives. As a result, it gives members access to comprehensive information and one-on-one support through a single phone number.

Provider directories

Accurate provider directories are essential to helping consumers make informed healthcare decisions. In 2017, we awarded a grant to Integrated Healthcare Association to develop a new statewide provider directory, ensuring that consumers have the most up-to-date and accurate information about providers when choosing a health plan. As the first of its kind in the state, this tool will offer a single place for providers and health plans to update their data, simplifying the process and leading to more accurate provider data, improved quality, and a better customer experience. We look forward to helping move this project forward in 2018.
Stan Milnes
Blue Shield of California member

“I now realize that while I took reasonably good care of my outside, I wasn’t really taking care of my inside,” says Stan Milnes, 70, an entrepreneur and Blue Shield of California member from Placentia, California. The former athlete has always taken pride in his good health, but a heart attack two years ago made him rethink his approach.

After doctors put three stents in his heart, Stan was determined to do whatever it took to live a long and healthy life. His medical team recommended the Ornish Reversal Program, an evidence-based approach that focuses on reversing heart disease through lifestyle medicine. Through our Wellvolution program, Blue Shield provides eligible members access to the program.

The program focuses on nutrition, stress management, exercise, and social support. For Stan, this holistic approach was a new way of thinking. “I had thought about those things individually, but when I put all of them together I realized they could create positive results in my life,” he says.

After going through the nine-week program and adopting many of the lifestyle changes he learned, Stan saw positive results firsthand. He lost 30 pounds, lowered his cholesterol, and reduced the number of medications he was taking. Two years later, the changes have stuck. He also continues to meet with his ongoing Ornish support group.

“This program has enhanced my ability to have a full and vigorous lifestyle without increasing any of my medication,” says Stan. “It offers me real peace of mind.”

Stan’s embrace of lifestyle medicine has led him to understand the importance of prevention, and to appreciate having a health plan that promotes it.

“We need to invest our time wisely now, so we’ll have more later. That’s the legacy I want to leave my grandchildren.”
Being a great place to work is essential to Blue Shield of California’s strategy for one simple reason: To fulfill our ambitious mission, we need great people doing their best work. We are creating a workplace that makes that possible.

Investing in our employees
Creating a great place to work

Our formula for creating a great workplace for our 6,600 employees includes developing strong leaders, giving people opportunities to grow, and providing a meaningful employee experience. The results of our most recent employee engagement survey tell us we are making great strides; We saw the largest gains ever in 2017, with improvements in all categories.

Providing a meaningful employee experience

We know a high-quality employee experience generates top-quality work, so in 2017 we invested $48 million in our people through new and enhanced benefits. These included a one-time bonus, an extra paid day off in 2018 and several large-scale appreciation events. These investments were part of a broad effort over the past two years to modernize our Total Rewards pay and benefits program.

We also continued and expanded our longtime focus on creating a culture of appreciation and recognition. These efforts include our Living Our Values Everyday (L.O.V.E.) online platform, which enables employees to publicly recognize their colleagues, and our annual Mission and Values in Action (MVIA) awards program, which highlights the contributions our employees make to our community and society.

2017 employee engagement survey results

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>84%</td>
<td>of our employees said Blue Shield is a great place to work</td>
</tr>
<tr>
<td>87%</td>
<td>of our employees believe our long-term strategic goals will achieve our mission</td>
</tr>
<tr>
<td>81%</td>
<td>of employees said their manager enables them to grow and develop through coaching, support, and guidance</td>
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Developing strong leaders at all levels

Leaders who get results, continuously learn, and build great teams are essential to fulfilling our mission. To attract, retain, and develop talented leaders, we made a significant organizational commitment to leadership development, creating award-winning, internally designed and delivered programs including the following:

- **Lead to Excellence (L2X)** is designed for directors and above and is facilitated by our CEO, chief human resources officer, and other senior staff. To date, more than 88% of leaders across Blue Shield have participated in the program.
- **Manage to Excellence (M2X)** is for all supervisors and managers and is delivered by a team of senior leaders. The program reached approximately 400 employees across Blue Shield in 2017.
- **Shield Emerging Leaders** is a two-year development program for high-potential, early-career professionals, focused on building the next generation of Blue Shield leaders from within. There are currently 30 emerging leaders in the program.

We also provide all employees with access to online courses that help develop core business skills through Harvard ManageMentor. In 2017, more than 2,100 Blue Shield learners accessed the 44 course topics more than 15,000 times.

Blue Shield’s Lead to Excellence program was recognized for Best Advance in Leadership Development and Shield Emerging Leaders won a Gold award for Best Advance in High Potential Development from Brandon Hall Group in 2017.
**Promoting diversity and inclusion**

Blue Shield of California is committed to being an inclusive workplace that attracts and embraces a diverse set of people and ideas. Our employee resource groups are one important way we do this. These groups include Women Lead to Excellence, Black Employee Network, Shield Pride, ¡Unidos!, and Asian Pacific Employee Network. In 2017, we launched our newest group: Operation V.E.T. (Veterans and Employees Together) to recruit, support, and develop military veterans and their families at Blue Shield.

We also launched a new Inclusive Leadership training program in 2017, which builds on our Lead to Excellence (L2X) program and provides our people leaders with the tools, skills, and cultural dexterity to build the kind of inclusive work environment to which we aspire.

Our employee engagement survey results tell us these diversity and inclusion efforts are making a difference: In 2017, 84% of all women said that Blue Shield is a great place to work, up from 78% in 2016. In addition, scores among all minority groups increased at least six percentage points when reflecting on working at Blue Shield.

Our inclusive programs also received external recognition: In 2017, Blue Shield was named for the second year in a row as a Top Regional Company by DiversityInc. Also for a second year in a row, Human Rights Campaign (HRC) included us in their 2018 list of Best Places to Work for LGBTQ equality, and we earned a 100% score on HRC’s Corporate Equality Index survey.
When I see a need, I go all in,” says Leigh Purry, a compliance consultant in Blue Shield of California’s Law Department. And her actions back up that statement.

During her morning commute into San Francisco on BART last winter, Leigh saw a sight on the train that broke her heart. A young father was carrying his baby and, despite it being a particularly cold day, the baby was not wearing a jacket. When Leigh arrived at her office, she announced that Blue Shield’s Black Employee Network (B.E.N.) was going to organize a winter coat drive. Two weeks later, Leigh and her fellow members of B.E.N. had gathered 250 coats and distributed them to children in need in Oakland, San Francisco, Sacramento, and Los Angeles.

For Leigh, this service effort was anything but a one-time thing. In 2017, she personally volunteered 600 hours in the communities served by Blue Shield and Care1st. In recognition of her work, Leigh received Blue Shield’s inaugural Corporate Citizenship Award in 2017.

Leigh sees a direct link between her community service work and the work of Blue Shield as a whole. “Not only do we want to provide access to health care that is high quality and affordable,” she says, “we also want the communities we serve to know that Blue Shield values them.” Similarly, she views B.E.N.’s focus on helping cultivate a diverse and inclusive workplace as a logical extension of Blue Shield’s mission and values.

For Leigh, the ability to combine her career with her passion for helping people has been a unique benefit of working at Blue Shield. “I’ve never had the opportunity in a corporate setting to do this kind of community service work. It’s truly amazing,” she says.
Blue Shield of California, together with Blue Shield of California Foundation, is giving back to communities across our state and supporting our neighbors most in need. We are also working hard throughout our facilities to conserve the natural resources on which we all depend.
Employee volunteerism and engagement

Through our Shield Cares program, we support and encourage our employees to contribute their time, talent, and resources to make a positive impact where we live and work. Doing so engages our people and strengthens Blue Shield’s connection with our communities. As part of the program, Blue Shield matches employee donations, up to $1,000 annually, to approved nonprofit organizations and gives employees up to 24 hours of paid time off annually to participate in volunteer activities.

Each year, we provide opportunities for our employees to give back. In May 2017, we had a record-breaking Month of Giving and Service, raising $211,000 for nonprofits – 40% more than we raised in the prior year. During the month, 1,650 Blue Shield employee volunteers completed 34 community service projects across the state, a more than 25% increase in participation.

A major focus of our employee and corporate giving in 2017 was disaster relief. During the year, Blue Shield, our Foundation, and our employees contributed more than $140,000 to disaster relief. This included $30,000 in employee contributions and a corporate gift of $50,000 to Habitat for Humanity to assist survivors of the Northern California wildfires.

Volunteerism and community investments in 2017

- **45% of our employees** participated in a volunteer service project during the year – a three-fold increase since 2015.
- **26,000 hours** volunteered by Blue Shield employees.
- **$252,000 donated** by Blue Shield in matching gifts.
- **$222,000 donated** by our employees.

Putting down roots in Oakland

Blue Shield of California is moving its headquarters from San Francisco to Oakland in 2019. But we aren’t waiting for our new office to open before we put down roots in the community. Through our employee resources groups and other efforts, we have supported a number of Oakland organizations.

For example, more than 200 Blue Shield employees volunteered their time and resources in two separate events in 2017 to help bring more than 1,000 children in Oakland a step closer to having the play-filled childhood they deserve. We joined forces with the Oakland Housing Authority, Oakland Housing Authority Foundation, and KaBOOM! – a national nonprofit dedicated to bringing kids balanced and active play – to build a playground in West Oakland. We also worked with the American Heart Association (AHA) to give students at Lincoln Elementary School in downtown Oakland more than 750 pieces of recess equipment to promote healthy activity. Blue Shield employees made donations as part of Recess Reboot – AHA’s program focused on bringing physical education equipment to kids in need.

We are expanding our partnership with AHA in 2018 with the launch of “Make Time for Health,” a new initiative encouraging Oakland-area elementary students to improve their heart health by focusing on three pillars: a smoke-free lifestyle, increased physical activity, and balanced nutrition. The three-year initiative, funded entirely by Blue Shield, will reach approximately 2,000 students annually across select schools in the Oakland Unified School District.
Blue Shield of California Foundation

Blue Shield of California Foundation is working to build lasting and equitable solutions to end domestic violence and make California the healthiest state. Through its philanthropic giving, the Foundation collaborates with forward-thinking partners and works to find innovative solutions that advance the well-being of all Californians, particularly our state’s most vulnerable populations.

Building on more than a decade of work, the Foundation is embarking on a new chapter, driven by the recognition that health is about more than just health care. In fact, 80% of health outcomes are not tied to the healthcare system. There are many factors that contribute to an individual’s health – from access to affordable housing and good schools to ensuring personal and community safety. That’s why, as the Foundation looks to 2018 and beyond, it is focusing its work in three key areas:

• **Breaking the cycle of domestic violence:** Violence is cyclical, generational, and can be experienced and felt over a lifetime. We are working to stop domestic violence before it starts so that people experiencing or witnessing it can live up to their full potential.

• **Collaborating for healthy communities:** We’re working to expand breakthrough collaborative models that support community health and end multigenerational domestic violence.

• **Designing the future of health:** Together with our partners and communities, we are diving in to do what it takes to create a vibrant health ecosystem in which communities create long-term, equitable, and responsive solutions for all.

The Foundation is an independent organization funded entirely through contributions from Blue Shield. The company contributed $39 million to Blue Shield of California Foundation in 2017, and more than $500 million since 2002. In 2017, the Foundation awarded more than $25 million in grants to advance its mission and improve the lives of the Californians most in need.

More information about the Foundation and its initiatives can be found at blueshieldcafoundation.org.
"I felt silenced and invisible," says Beckie Masaki, reflecting on the start of her mission to end gender-based violence more than 30 years ago. She was the lone Asian employee at a battered women’s shelter in San Francisco. Despite the city’s sizeable Asian population, Asian women weren’t using the service. “There was a pervasive myth that domestic violence did not happen in the Asian community, or that Asians didn’t need shelter because they stayed with their families,” Beckie says. So, in 1988, she co-founded the Asian Women’s Shelter (AWS), one of the first domestic violence shelters in the nation designed to address the language and cultural needs of Asian-Pacific Islander communities.

It was at AWS that Beckie began what, in her words, has been a valuable partnership with Blue Shield of California Foundation, which provided funding to the shelter decades ago and continues to support Beckie’s work today.

Soon, other advocates began calling Beckie to learn how to better integrate race and gender equity in their work to end domestic violence. “There was a need for an entity that could help center Asian women’s experience in the direct work on the ground," Beckie recalls, “but also serve as a cultural resource to help others address the intersection of race, gender, and community in ending domestic violence.”

So, after 21 years at AWS, Beckie moved on to her next role as a founding member of the Asian Pacific Institute on Gender-Based Violence. There, she launched Gathering Strength, which promotes leadership development among Asian-Pacific Islander immigrant advocates, particularly those who have often been marginalized in the domestic violence field.

I appreciate that Blue Shield of California Foundation has shared my vision of funding work at the intersection of race and gender."
Environmental sustainability is a priority for Blue Shield of California, because we want to help safeguard the health of current and future generations of Californians. As an office-based services company, our environmental footprint stems primarily from our facilities, so we work hard to conserve natural resources in how we operate them.

This progress has been driven by a variety of initiatives across the organization, such as:

- **Continued focus on energy efficiency**: Several of our properties earned Energy Star certification in 2017, including our Lodi facilities and several buildings on our Rancho Cordova and El Dorado Hills campuses.

- **Finding ways to reduce water use**: At our Lodi facility, for example, we found ways to reduce water use in our landscaping by removing water intensive plants from the property and installing an irrigation controller tied to weather satellite data.

<table>
<thead>
<tr>
<th>Renewable energy</th>
<th>Greenhouse gas emissions</th>
<th>Water use</th>
<th>Recycling</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-2017</td>
<td>11% increase</td>
<td>20% decrease</td>
<td>8% decrease</td>
</tr>
<tr>
<td>2020 goals</td>
<td>30% increase</td>
<td>30% decrease</td>
<td>25% decrease</td>
</tr>
</tbody>
</table>
Blue Shield employees go green

We know that our employees care deeply about environmental sustainability – and their commitment is the driving force behind our Blue Goes Green team. The mission of the group is to increase employees’ knowledge and awareness of sustainability and engage them in taking meaningful action in Blue Shield’s stewardship of natural resources. Blue Goes Green members will participate in educational workshops and volunteer events throughout the year.

Harnessing one of California’s best assets: The sun

To reduce our greenhouse gas (GHG) emissions and increase our use of renewable energy, Blue Shield is going solar. In 2017, we reached a milestone when the on-site solar array at our Lodi campus came online. The new array met 51% of Lodi’s electricity demand on an average day in 2017. In early 2018, we broke ground on a larger solar installation at our El Dorado Hill campus. These two projects will put us in striking distance of our 2020 renewable energy and GHG emissions goals.

By the end of 2017, our GHG emissions were down 20% – the greenhouse gas equivalent of eliminating nearly 3 million miles driven by average passenger vehicles.
We believe that how we pursue our mission is just as important as what we achieve. That means acting in a way that is ethical and fair in everything we do. Operating responsibly also means managing our financial resources wisely – because that’s what enables us to advance our mission.
Blue Shield of California’s Code of Conduct provides a framework for how we define doing business the right way, and it guides how we work every day. In addition, although Blue Shield is a nonprofit, we adhere to best practices in corporate governance. For example:

- Our bylaws require that our board of directors consist primarily of California residents, and that the majority are independent; that is, they have no material relationship with Blue Shield (either directly or as a partner, shareholder, or officer of an organization that has a relationship with Blue Shield).
- At the end of 2017, our board was made up of 12 members representing a diverse range of industries including health care, financial services, and technology. With the exception of our CEO, all of our board members are independent.

A list of members of our board of directors and their biographies, as well as more details on our Code of Conduct and governance guidelines, can be found at blueshieldca.com/MissionReport.

With women holding 38% of our board seats, Blue Shield of California was recognized in 2017 as a 2020 Women on Boards Winning ‘W’ Company for championing board diversity. The healthcare industry as a whole reported that women held 21% of board seats in 2017.

Blue Shield of California is proud to have been recognized as one of the 2018 World’s Most Ethical Companies® by the Ethisphere Institute – the sixth time we have received this designation.

**Executive compensation**

Blue Shield’s executive compensation strategy attracts, retains, and rewards our executive team through a pay-for-performance structure, with a focus on both short- and long-term results. As a nonprofit health plan committed to transparency, we publish an annual Executive Compensation Summary to provide information on our compensation program and our pay practices. The 2017 summary is available at blueshieldca.com/MissionReport.

**Sourcing responsibly**

Blue Shield of California spent approximately $718 million to purchase the goods and services needed to operate our company and serve our members in 2017. We require our suppliers to adhere to Blue Shield’s Code of Conduct and other related policies, and we conduct extensive due diligence of potential suppliers. We are also committed to fostering a diverse supplier base. In 2017, Blue Shield procured approximately $28 million in goods and services from certified small businesses and those that are majority-owned and operated by women, minorities, service-disabled veterans, and members of the LGBTQ community.
As a mission-driven, nonprofit health plan, Blue Shield seeks to manage our financial resources in a way that furthers access to affordable, high-quality health care for everyone – not to generate returns for shareholders. We put this philosophy into practice through Blue Shield’s 2% Pledge, through which we voluntarily cap our net income at 2% of revenue. If we exceed 2% in net income in any year, we return the difference to our customers and the community, with approval from our board of directors. We are the only major health plan that does this.

**Ensuring financial sustainability**

To continue to serve our members and advance our mission, we need to protect our financial strength and stability. One of the ways we do this is by maintaining a sufficient level of net assets, referred to as a stabilization fund. As a nonprofit, we have limited access to the capital markets as a source of capital funding. Therefore, we also look to our stabilization fund to withstand potential shortfalls.

A standard measure of stabilization fund sufficiency in our industry is risk-based capital (RBC), which is monitored by regulators, the National Association of Insurance Commissioners (NAIC), the Blue Cross and Blue Shield Association (BCBSA), and financial institutions. At the end of 2017, Blue Shield’s RBC was 724.5%. This is appropriately above the regulatory minimum levels and within the range we believe is sufficient to support our operations and ensure the protection of our members.

Embracing a culture of affordability

In the face of ongoing healthcare affordability challenges, Blue Shield of California is working hard to keep costs down and make care more affordable. We are doing this through our provider partnerships and other innovative programs aimed at reducing costs while increasing quality. We also do so by embracing a culture of affordability within our organization and being good stewards of our members’ premium dollars – including, for example, reducing administrative costs.

In 2017, we announced we are relocating our headquarters from San Francisco to Oakland, a move designed to reduce administrative costs while also providing us with a state-of-the-art facility to support long-term, sustainable growth. The savings we achieve from this and other efforts to reduce administrative costs will enable Blue Shield to further invest in developing innovative delivery models and advancing the transformation of health care in California and beyond.

**2017 financial performance**

In 2017, Blue Shield of California reported a net income of $296 million, up from $67 million in 2016. This increase was due primarily to improved operating performance and the impact of new tax legislation. Of the company’s revenue from premiums, 85% was spent on medical care.
Where do our members’ premiums go?

Blue Shield is working hard to keep costs down and make care more affordable. Here is how a Blue Shield member’s premium dollar is spent:

- 40¢ to hospitals
- 25¢ to physicians
- 13¢ to pharmaceuticals
- 7¢ to other medical services
- 85¢ Cost of health care
- 12.6¢ Blue Shield administrative expenses
- 1.5¢ Government-mandated taxes and fees
- .9¢ to net income

15¢ Other costs

$1 =
## Blue Shield of California consolidated financials*

<table>
<thead>
<tr>
<th>Membership in thousands ($ in millions)</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ending membership</td>
<td>3,797</td>
<td>3,926</td>
<td>4,080</td>
<td>3,481</td>
</tr>
<tr>
<td>Premiums, net</td>
<td>$17,684</td>
<td>$17,598</td>
<td>$14,836</td>
<td>$13,349</td>
</tr>
<tr>
<td>Less: medical expenses</td>
<td>$15,035</td>
<td>$15,085</td>
<td>$12,369</td>
<td>$10,948</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td><strong>$2,650</strong></td>
<td><strong>$2,513</strong></td>
<td><strong>$2,467</strong></td>
<td><strong>$2,401</strong></td>
</tr>
<tr>
<td>Medical expenses as a percent of premiums</td>
<td>85.0%</td>
<td>85.7%</td>
<td>83.4%</td>
<td>82.0%</td>
</tr>
<tr>
<td>Marketing and selling</td>
<td>$685</td>
<td>$631</td>
<td>$595</td>
<td>$570</td>
</tr>
<tr>
<td>ACA taxes, premium taxes, and other fees</td>
<td>$261</td>
<td>$451</td>
<td>$417</td>
<td>$357</td>
</tr>
<tr>
<td>General and administrative</td>
<td>$1,541</td>
<td>$1,398</td>
<td>$1,341</td>
<td>$1,191</td>
</tr>
<tr>
<td><strong>Total admin expenses</strong></td>
<td><strong>$2,487</strong></td>
<td><strong>$2,480</strong></td>
<td><strong>$2,353</strong></td>
<td><strong>$2,118</strong></td>
</tr>
<tr>
<td>Pre-tax income (loss) from health operations</td>
<td>$163</td>
<td>$33</td>
<td>$114</td>
<td>$283</td>
</tr>
<tr>
<td>Investment income</td>
<td>$142</td>
<td>$169</td>
<td>$229</td>
<td>$271</td>
</tr>
<tr>
<td><strong>Income before taxes</strong></td>
<td><strong>$304</strong></td>
<td><strong>$202</strong></td>
<td><strong>$343</strong></td>
<td><strong>$544</strong></td>
</tr>
<tr>
<td>Income taxes</td>
<td>$8</td>
<td>$135</td>
<td>$228</td>
<td>$392</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$296</strong></td>
<td><strong>$67</strong></td>
<td><strong>$115</strong></td>
<td><strong>$162</strong></td>
</tr>
<tr>
<td>Profit margin (net income as a % of premiums)</td>
<td>1.7%</td>
<td>0.4%</td>
<td>0.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2% Pledge amount†</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Foundation contribution (millions)</td>
<td>$39</td>
<td>$34</td>
<td>$35</td>
<td>$35</td>
</tr>
</tbody>
</table>

* Additional details on Blue Shield’s financial performance can be found on the California Department of Managed Health Care website (wpso.dmhc.ca.gov/fe/search) by searching for “California Physicians’ Service.”

† In years when our profit margin is less than 2%, we do not return any funds as part of our 2% Pledge commitment.