

turning
ideas
into
action

TOGETHER



*Independence Blue Cross
2005 annual report*

A MESSAGE FROM THE PRESIDENT

TO OUR MEMBERS, COMMUNITY, AND ASSOCIATES,

This report is the story of a year of purposeful transition and achievement, yet it's also a caution and a call to action for all of us.

In 2005, Independence Blue Cross advanced a series of innovative initiatives, planned carefully for the future, and continued to honor the remarkable promise of partnership first made to our members 68 years ago. And we received some very gratifying confirmation of our success. Yet as we at IBC look to the future, we see serious challenges in the health care environment that could threaten our ability to fulfill our mission.

In short, our nation is in a health care cost crisis, and the scale

and complexity of this crisis are such that no single organization or entity can resolve it alone—not the most visionary of insurance companies and, no, not even the federal government.

In the following pages, we will explain some of the challenges that we face in health care in our region, share news of our work here at Independence Blue Cross to address them, and offer evidence of the power of creative collaboration to make real progress.

Our message is one of commitment and concern, but also of optimism. I am a passionate sports fan and have seen again and again that nothing can stop a focused and inspired team. In my first year as the CEO at Independence Blue Cross, I have found that people here



Joseph A. Frick
President & CEO

A MESSAGE FROM THE PRESIDENT



are prepared to work together as a powerful team, with each other and with outside partners. I have seen an organization uniquely positioned to help lead health care in the Philadelphia region toward the solutions we need to the pressing problems of health care—access, quality, and, most of all, affordability.

RECENT SUCCESS

Highlights of a strong year

As IBC works to shape its future and that of health care in our region, we are building on a solid foundation. In 2005, amidst change in our company and market, we focused on stability, continuity, and strategy. We performed well in 2005, continu-

ing as the leading health insurer in southeastern Pennsylvania in a highly competitive and demanding market and ending the year with a total membership of 3.4 million across all lines of business. We remained financially strong, earning \$167.5 million in net income with a modest margin of 1.6 percent. Our administrative costs were two percent under budget.

The quality of our performance was rewarded in September when our Personal ChoiceSM was rated the No. 1 PPO in the nation by the country's leading consumer affairs magazine, based on a national survey of member satisfaction. The same survey ranked Keystone Health Plan East as the No. 1 HMO in the region.

Then in November, the National Committee for Quality Assurance (NCQA) recognized our Keystone HMO and Personal Choice PPO with its highest rating. In addition, we were one of the first plans in the country to receive the NCQA Quality Plus Distinction for our innovative practices to help members obtain important information about health status, health plan resources, benefits, care options, and treatment costs.

We are proud of our associates' hard work and the excellent services provided by our network doctors and hospitals that led our customers and NCQA to rate us so highly.

1ST QUARTER

To make it easier to manage personal health, IBC launches an expanded *ibx.com* so members can go online to track claims, pick a doctor, rate a hospital, and more.



Enrollment grows in IBC's Flex SeriesSM health plans that allow businesses with fewer than 100 employees to mix and match benefits to meet their benefits and budget needs.



The IBC Board elects Joseph A. Frick as president and chief executive officer and Christopher D. Butler (at left) as chief operating officer.

A CHALLENGING AND CHANGING ENVIRONMENT

The pressure of escalating health care costs

Although the quality of our most popular products is winning awards and America's health care system is widely touted as the best in the world, nine of every ten people who responded to a recent national poll think that our health care system needs to be fundamentally overhauled. Frankly, we can see why:

- **Companies can't afford it.** Only three in five U.S. businesses can afford health care coverage for employees. That's a 10 percent drop in five years in the number of employers provid-

ing health insurance. Today, 715,000 fewer Pennsylvanians get health insurance through their employer than in 2000.

- **Individuals can't afford it.** More than 45 million people in the United States—more than 15 percent—have no health insurance at all. Here in Pennsylvania, nearly 1.5 million men, women, and children, or roughly 12 percent of the state's residents, are uninsured.

The stunning reality is that the overall cost of health care—everything from hospital and doctor bills to the cost of drugs, medical equipment, and nursing home care—has risen more than 40 percent in the last five years

in America. Over the same five years, spending for physician and clinical services alone went up 47.6 percent nationally, and spending on prescription drugs went up 80.4 percent.

And on top of the total cost of health care services rising, you and I and health care consumers nationwide help to drive up spending by demanding a greater number of costly medical services—including the latest diagnostic techniques. For example, in Pennsylvania, over the last five years, MRIs increased 71.8 percent and CT scans 58.3 percent.

What's more, health care costs here in the Philadelphia region

The stunning reality is that the cost of health care—from hospital and doctor bills to the cost of drugs—has risen more than 40 percent in the last five years in America.

The Insurance Department of Pennsylvania, ending years of public debate, affirms that IBC's surplus is not excessive and ranks in the "optimal range" for sound financial management.



◀ IBC headquarters is renamed the G. Fred DiBona Jr. Building in a ceremony with the IBC Board and the DiBona family.

An historic agreement is signed by Pennsylvania and the state's four Blue plans to create the Community Health Reinvestment Fund to help address the problem of the uninsured.

A MESSAGE FROM THE PRESIDENT

We are in a health care cost crisis. And we are in it together. Every single one of us—our members, the area’s physicians and nurses, businesses large and small, you and I.

are higher than in almost any other part of the country. For example, our region ranks:

- 32 percent higher than the national average in the use of hospital days per person.
- 37 percent higher than the national average in the number of physician visits per person.
- 3rd highest in the United States for cardiovascular visits, physical therapy visits, and radiology use.

Here’s the bottom line: When the use and cost of medical

care increases, so do health insurance premiums.

There’s no debate: We are in a health care cost crisis. And we are in it together. Every single one of us—our members, the area’s physicians and nurses, the region’s major corporations and small businesses, our civic and political leaders, our associates here at Independence Blue Cross, you and me. We are all consumers of health care services. In one way or another, the escalating cost of health care affects each of us.

So this is our collective dilemma. The issues that confront health care are too complex for any one

hospital, any single doctor, or any health insurer to address. Working together, how can we provide access to quality health care at an affordable cost for the great people in our region—for the dry cleaner on the corner and a large local corporation, for the retired grandmother and the family of four?

ANSWERS AND ACHIEVEMENTS

What we at IBC are doing to help solve the problem

IBC is taking significant steps every day to fight the rising cost of health care, seeking new ways to increase efficiency and provide greater value to our



◀ A Blue plan consortium in seven states selects IBC to manage the administration of its Medicare plan, a key strategic expansion of IBC’s Medicare business.

To develop a roadmap for the future, IBC begins a comprehensive, objective strategic assessment of its business, retaining the nationally recognized Booz Allen Hamilton firm.

members. Let me give you an overview of our frontline efforts:

Helping the Chronically Ill Stay Well. Seventy percent of health care costs in the United States are spent treating chronic disease, which claims the lives of more than 1.7 million Americans annually. Diabetes alone affects 18 million people and costs more than \$135 billion annually to treat.

IBC's ConnectionsSM Health Management Program is designed to serve members with such chronic conditions and to help control the cost of their care. Expanded in 2005, the program is now the

most comprehensive in our market. It covers 21 illnesses—the five most common chronic diseases, including coronary artery disease, asthma, and diabetes, and 16 rare chronic conditions, such as multiple sclerosis, Parkinson's, lupus, and cystic fibrosis. In shaping the program, we believed that our members—aided by personalized health reminders, access to more Web-based health information, and advice from health coaches available 24/7—would stay healthier and reduce costs by better managing their conditions.

It's working. The results for our Medicare members show that for every \$1 we spend on Con-

nections, we save \$2.50 in our members' health care costs. For our other members, every \$1 we invest saves \$2. These savings come from reduced inpatient days and more efficient use of professional services. What's more, 94 percent of our members are satisfied with Connections, and 74 percent feel that the program has improved their ability to manage their chronic illness.

Confronting Escalating Medical Expenses. Digital imaging is now the fastest growing medical expense in the nation, increasing, on average, by about 20 percent each year. Both the Pennsylvania Healthcare Cost Containment



◀ Underlining its ongoing commitment to good health, IBC sponsors the Blue Cross Broad Street Run for the ninth year, attracting more than 14,000 runners, a record number.



◀ IBC's anti-fraud team wins a national award from the Blue Cross and Blue Shield Association and Harvard Medical School for uncovering a scheme involving more than \$1 million in falsified psychotherapy charges.

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Here is our collective dilemma. The issues that confront health care are too complex for any one hospital, any single doctor, or any health insurer to address.

Council and the Centers for Medicare and Medicaid Services have concluded that the reason for such a large growth rate is that digital imaging is sometimes employed unnecessarily. The American College of Radiology advocates creating scientific standards for guiding radiologists and physicians in “making appropriate imaging decisions.”

In response, IBC launched an important initiative in 2005, aimed at curbing the use of discretionary MRIs, CTs, and other digital scans for diagnostic screening. We have two goals: to help our members avoid the expense and the associated risks

of optional diagnostic imaging services, and to ensure that medically needed scans are performed and covered. By reducing the number of unnecessary scans, our program will improve the quality of care for our members, help reduce costs, and conserve our members’ premium dollars.

Creating an Educated Health Care Consumer. On television and the Internet, consumers continually hear about sophisticated new drugs and services—and they want them. A recent national study showed that increased consumer demand for new, costly drugs and medical services accounts for 15 percent of

annual health insurance premium increases. To address this, IBC has strengthened its portfolio of consumer-driven health care products, meeting employer demand for more affordable coverage options. We call these options our BlueSaverSM Accounts, including new Blue-branded Flexible Spending Accounts (FSAs), Health Reimbursement Accounts (HRAs), and Health Savings Accounts (HSAs). These plans emphasize preventive care, offer health education resources, and provide a strong incentive for our members to make wise health care choices. For example, members now have the ability to compare data for

To better serve customers through technology, IBC completes a six-year conversion to a single computer system to support enrollment, claims, member services, and finance.



◀ IBC expands Connections, now the region’s strongest health management program, helping members with 21 chronic illnesses stay healthier with 24/7 health coaches and access to a wealth of health care information.

An independent analysis from the Lewin Group, commissioned by the Pennsylvania General Assembly, confirms that the state’s Blue plans’ surpluses are within the “reasonable bounds” set by the Insurance Department of Pennsylvania.

hospitals, to access enhanced physician data, and to view drug-pricing information.

Leveraging Technology. Information technology represents one of the most powerful tools available for increasing productivity. IBC is committed to harnessing this power more fully, making it easier to do business with us and increasing our efficiency and responsiveness. At the beginning of 2005, we launched our revamped Web site, *ibx.com*. Our members now have Web access to more information than ever, including an improved members-only site, *ibxpress.com*, which provides a physician search tool; hospital

statistics on survival, complications, and recovery following common procedures; plus relative cost data for common procedures.

Last summer, we completed a six-year conversion to MHS, a new single computer platform for handling operations. While the transition was not without bumps, ultimately this technology enables us to better serve our customers.

Keeping Operating Costs Low.

Administrative costs are the only factor in the health care cost equation that IBC directly controls. We are proud that our costs are comparatively low.

IBC spent 87.6 cents of every premium dollar to pay for medical care received by members. Less than 10 cents of each premium dollar goes to processing claims, providing customer service, and other administrative services, and that number is dropping each year.

Fighting Health Care Fraud.

Americans spent more than \$1.7 trillion for health care in 2004. Conservative industry estimates say three to five percent of that staggering number goes to fraud—totaling from \$50 billion to \$80 billion a year. At IBC, our dedicated, interdisciplinary anti-fraud investigative team scouts out

Working together, how can we provide access to quality health care at an affordable cost for the great people in our region—for the dry cleaner on the corner and a large local corporation, for the retired grandmother and the family of four?

IBC's subsidiary AmeriHealth Administrators expands its business by undertaking the administration of HTH Worldwide health plans, serving more than 50,000 students around the world.



◀ IBC 2010, a road map for IBC's future, is unveiled to the Board, associates, and the community.



◀ The Abington Hospital System, which includes the region's highest-volume single hospital as well as hospital physician practices, renews its IBC contract with an increased focus on quality and patient safety.

A MESSAGE FROM THE PRESIDENT

We are operating in a dynamic and challenging environment. Business as usual will not work in the future. As times change, we must change.

abuse throughout the health care system. In 2005, we recovered a record \$37.2 million in inappropriate medical charges, and in the last five years, we have identified more than \$227 million in waste, fraud, or inappropriate charges.

THE PATH FORWARD **How IBC will improve in the years to come**

To address the issues facing IBC and our region's health care in a thoughtful and systematic way, we launched an organization-wide strategic assessment early in 2005. Working with consultants from Booz Allen

Hamilton, we sought opinions from a broad array of stakeholders—customers (and former customers), physicians, benefits consultants, brokers, and health care industry experts. We asked ourselves tough, objective questions about our strengths and opportunities for improvement.

The assessment confirmed an important insight: Business as usual will not be enough to continue our success in the future. Although IBC is a strong, well-positioned company, we are operating in a dynamic and challenging environment. As times change, we must change as well.

We have defined a five-year strategy that we call IBC 2010. It's built around four imperatives:

First, an unyielding focus on our customers. We will demonstrate an unyielding focus on our customers, guided by feedback and research. For example, the research done for IBC 2010 by Booz Allen Hamilton showed that we ranked higher than our competition in customer service, the number of physicians and hospitals in our network, and respect for our brand. To those distinctions, we want to add more.

As part of its Nurse Scholars Program, which combats the nursing shortage by helping train nursing educators, IBC hosts 10 nurse interns for a nine-week behind-the-scenes look at how managed health care works.

To enhance patient care in area hospitals, IBC and the Delaware Valley Healthcare Council announce the Partnership for Patient Care, a three-year \$1.75 million effort to reduce medical errors in hospitals, starting with infections acquired in hospitals.



◀ Personal Choice® is ranked the No. 1 PPO in the nation, and the company's Keystone HMO is rated No. 1 in the region by a leading independent consumer magazine.

In 2006, we will increasingly harness the power of technology and knowledge management to provide essential, objective data and analysis for employers and other customers to explain our pricing, services, and costs. We are also developing the capability to better analyze our medical costs trends and identify the best ways to improve members' health.

We will also work closely with health care providers in our region to explore how to design different approaches to measuring quality in health care. That will surely represent change for all of us, but the marketplace is demanding that we do so. These approaches

include providing physicians and hospitals with enhanced rewards for performance and quality, and providing members with incentives to use our highest performing providers.

Second, focus on consumerism. Employers and employees are increasingly concerned with making wise decisions about staying healthy and spending health care dollars. That trend is called health care consumerism, and we are responding aggressively to the growing interest in it. IBC is providing a wealth of consumer health information that gives our members the information they need to be knowledgeable partners

in managing their health care. We have developed a full, flexible portfolio of consumer-driven health care products (CDHP). That's important because a national survey last fall reported that almost a quarter of employers with 10,000 employees or more will introduce a CDHP plan in 2006.

Our Flex Series, which enables a small employer to mix and match benefits to build a health plan tailored to its business needs, was so popular in 2005 that we developed a similarly flexible Flex PlusSM portfolio for the large-group market for 2006.



IBC introduces Flex PlusSM health plans that allow companies with more than 100 employees to easily create significantly customized Personal Choice PPO and Keystone Health Plan East HMO plans beginning in 2006.



◀ IBC's associates donate more than \$42,000 to help Hurricane Katrina victims, bringing IBC's overall contribution to the relief effort to almost \$200,000.



◀ To respond to market interest in consumer-driven health care products, IBC debuts easy-to-use BlueSaver FSA, HRA and HSA products and a BlueSaver debit card.

A MESSAGE FROM THE PRESIDENT

We are taking significant steps every day to hold down the rising cost of health care, from fighting fraud to promoting preventive health.

Third, build on the Blue brand.

The brand has tremendous value, and we are proud to be “Blue.” The Blue brand covers 1 in 3 Americans. That’s 94.4 million Blue members nationwide who have the peace of mind of knowing that we provide the widest networks of physicians and hospitals, the best pharmacy programs, and portability across the country and throughout the world. What’s more, when you choose Blue, you can work with a health insurance organization based right in your own backyard.

IBC is actively involved with the Blue Cross and Blue Shield Association (BCBSA) in a series

of progressive innovations. We are working with BCBSA to standardize electronic data to position the Blues® to take a leading role in the anticipated switch from paper to electronic health records in the next decade. And we are also collaborating with other Blues® to create the new Blue Healthcare Bank to provide seamless support for members using FSAs, HRAs, and HSAs.

Fourth, look for growth opportunities. We operate in a region in which neither employment nor population has grown for several years. For us to grow, we will look for new markets for our portfolio of products and services, and

we’ll develop new capabilities that are aligned with the traditional mission of our organization. For example, most recently, we have identified that Medicare Part D business has substantial potential to bring in new revenue and allow us to leverage our Medicare expertise to serve seniors both within and outside the region.

WORKING TOGETHER

The power of partnership to shape change

In 2005, IBC focused on enhancing and building partnerships with our key stakeholders—members, employers, physicians, nurses, hospitals and business, com-



◀ The independent National Committee for Quality Assurance awards IBC the highest possible rating for Personal Choice® and Keystone HMO.

In an innovative pilot program, IBC invites more than 500 area physicians to use handheld electronic prescribing technology—known as e-prescribing—to reduce prescribing errors and lower costs.

IBC agrees to join Blue plans nationwide to create the Blue Healthcare Bank. Starting in 2007, the bank will provide services to members enrolled in consumer-driven health care products.

The National League for Nursing selects IBC to receive its 2005 Award for Public Service in recognition of IBC’s Nurse Scholars Program for effectively advancing “quality nursing education.”

munity and governmental leaders. Why? Because we strongly believe that we have a leadership responsibility to help overcome the complex and pressing issues we face today in health care in the Philadelphia region. We believe we can best do that by cultivating promising concepts and turning those ideas into action—together.

In the next section of this report, you will find a series of stories about these successful collaborations—from our Partnership for Patient Care that’s fighting hospital-acquired infections, to our scholarship program addressing the nursing shortage, to our wellness initiatives promoting such healthy lifestyle choices as

losing weight, quitting smoking, and bike safety.

You’ll see that these programs are not simply examples of cooperation and good will, but also of new ideas achieving measurable results. More precisely, they are collaborative initiatives directly and successfully addressing the key issues we face: access, quality, and cost. They are helping us progress toward the goal that everyone in our area will have *access* to health care of outstanding *quality* at an affordable *cost*.

They are also examples of the kind of programs you can expect from IBC in the future, as we act on the conviction that we

have the expertise and resources right here in Philadelphia to become a national model for how health care can work.

OUR COMMUNITY **How IBC lives its commitment**

At IBC, we have a passion for this city and region. That’s because Philadelphia is not just where we work but also where we live. In dozens of local communities—from Radnor to Center City and from Doylestown to Chester—this is where we raise our families, where our children go to school, and where we are a key part of the fabric of life.

In 2005, IBC focused on enhancing and building partnerships with our key stakeholders—members, employers, physicians, nurses, hospitals, and area leaders—to help lower health care costs.



◀ IBC and its associates contributed more than \$2 million to the United Way Campaign.



◀ In 2005, IBC’s Blue Crew provided nearly 2,500 volunteers and more than 8,000 hours of community service to support The Ronald McDonald House, Habitat for Humanity, Philadelphia Reads, MANNA, and more than 100 other non-profit organizations.

A MESSAGE FROM THE PRESIDENT

We believe we have the expertise and resources right here in Philadelphia to become a national model for how health care can work. We can succeed by turning ideas into action—together.

Our commitment is evident in efforts like those of our Blue Crew, nearly 2,500 IBC employees and family members who together volunteered more than 8,000 hours of community service in 2005, cooking meals at The Ronald McDonald House, building homes with Habitat for Humanity, mentoring with Philadelphia Reads and helping more than 100 area nonprofits. Adding the time donated by our associates to board and other civic leadership, we gave more than 10,000 volunteer hours to our region.

We're also proud to have sponsored the Blue Cross Broad Street Run for the ninth year—a 10-mile spectacle of fitness and community with 14,000 participating runners.

Perhaps most importantly, IBC reaches out to and invests in our community through several programs that together advance our Social Mission:

- **The Charitable Medical Care Grant Program**, which is contributing \$4.7 million to 25 nonprofit clinics offering free or low-cost care. By providing quality preventative care to uninsured patients, the program avoids high cost emergency room treatment—which ultimately slows the escalation of health care costs.
- **The Nurse Scholars Program**, which is addressing the critical shortage of nurses and nursing educators by donating \$2 million for 1,200 scholarships through a partnership with the Pennsylvania Higher Education Foundation and the area's nursing schools.
- **The Independence Blue Cross and Highmark Blue Shield Caring Foundation**, which administers and subsidizes free or low-cost health insurance to uninsured children and low-cost health insurance to adults. In 2005, the Foundation and IBC contributed more than \$40 mil-

lion to strengthen the health and well-being of our community.

These programs reflect IBC's commitment to making a difference in our community. This commitment will always distinguish us from our competition, and we promise you that it will continue.

A DEAR FRIEND

Fred DiBona, our past president and CEO

We would not be poised to move ahead at Independence Blue Cross without the leadership, passion, and unparalleled contributions of our beloved G. Fred DiBona, Jr., who led this organization as CEO through tremendous growth for 15 years. As you know, we lost Fred in early 2005 after his prolonged and courageous battle with cancer.

For all of us at IBC, Fred's death presented a demanding, painful challenge. Fred and I were extremely close and moving into his



*G. Fred DiBona, Jr.
1951-2005*

chair as CEO was a difficult and emotional crossroad. Today, every time I walk into our building—now named in Fred’s honor—or listen to our customers talk about how worried they are about the health care system, the significance of the enterprise that I am privileged to lead is driven home.

We will always be guided by the memory of Fred’s generosity and kindness, his leadership and vision, and his deep commitment to the Philadelphia region. We will honor Fred and all that he believed in as we work together to build and strengthen our community and to provide superior products and the highest level of service.

In Fred’s memory, we began a new IBC tradition in 2005: the annual G. Fred DiBona, Jr. Leadership Award. We wanted to continue Fred’s legacy and impact by honoring associates who reflect his commitment to customers, the community, and health care.

In 2005, we recognized three extraordinary associates: Perry J. McCotter, enrollment specialist; Sheila M. Hess, manager, Social Mission; and Eleanor D. Thompson, vice president and deputy general counsel. I am reminded that Fred often said—and believed deeply—that it is the associates of IBC who are responsible for our company’s success. Fred regarded us with tremendous pride and affection, and he would be enormously proud of all we have accomplished together in the past year, carrying on the work he believed in so passionately—keeping our promise to the millions of people who depend on us every day.

THE CHALLENGE AHEAD

Coming together to move forward

The road ahead for health care is full of challenges—and opportunities. However, one thing is clear: By working together, we can make progress to benefit us

all. As I have said, we believe we have the expertise and resources right here in Philadelphia to become a national model for how health care can work.

As with most accomplishments, our success in improving access, quality, and affordability of health care in our region will be the result of teamwork and desire, partnerships and intelligence, collaboration and vision. I hope that you will join in this important endeavor to harness our expertise and energy and to work together to address the health care issues that are so critical to the future of this great city we live in.

Our region is counting on us. I am confident we can succeed by turning ideas into action—together.

Joseph A. Frick
*President and
Chief Executive Officer*

Improving patient care and safety



Dr. P. J. Brennan, the chief medical officer of the University of Pennsylvania and an infectious-disease specialist, believes there is no more pressing quality issue in health care than stamping out the menace of hospital-acquired infections. “I cannot think of better partners to tackle this important regional issue head-on than Independence Blue Cross, the area’s hospitals, and the Delaware Valley Healthcare Council,” said Dr. Brennan.

THE PROBLEM

Patients developing infections while hospitalized

Each year, one of every 20 patients in the United States contracts an infection during a hospital stay. That means that roughly two million Americans develop health care related infections annually. Nearly

90,000 people die from these problems, according to the Centers for Disease Control and Prevention. In 2004, Pennsylvania hospitals reported 11,666 hospital-acquired infections to the Pennsylvania Health Care Cost

Containment Council (PHC4). In just the first nine months of 2005, 13,711 health care related infections were reported to PHC4. Many of these infections are preventable and result in longer hospital stays and higher cost.

WHAT WE'RE DOING ABOUT IT

The Partnership for Patient Care

To take on this problem, Independence Blue Cross joined with one of its most important health care stakeholders, the local hospital community. Last October, IBC teamed with the Delaware Valley Healthcare Council, which represents more than 150 regional health care organizations, including more than 70 hospitals. Working together, IBC and the Healthcare Council

designed and launched The Partnership for Patient Care to reduce medical errors in hospitals. The goal of the Partnership's first initiative is ambitious: to lead the nation with a fresh and powerful approach to reducing hospital-acquired infections.

IBC and hospitals in the Delaware Valley Healthcare Council joined with the nationally recognized

Plymouth Meeting nonprofit health research group ECRI to develop practices to reduce hospital-acquired infections—techniques that can be applied to a wide variety of clinical problems. IBC has committed \$1.25 million over three years to fund this significant regional effort. By working together, we can and will overcome this threat to patient safety.

PAR  NERSHIP

Staying healthy, staying well

A group of approximately 15 diverse employees and their vice president are posed in a car dealership service area. In the foreground, Beth Beans Gilbert, the vice president, is smiling broadly with her hands on her hips. She is wearing a black turtleneck and a dark blazer. Behind her, a variety of employees in different attire, including business casual and work clothes, are standing. The background shows several cars on lifts and service equipment in a well-lit garage.

The Fred Beans Family of Dealerships partnered with IBC to create a Healthy Living Program that offers on-site weight-loss programs, smoking cessation classes, free annual health screenings, and an incentive for employees who get 15 punches on their Healthy Living Cards. “Independence Blue Cross worked closely with us to create an innovative, popular program that’s given us healthier employees and held down our premium increases,” says Beans Vice President Beth Beans Gilbert (foreground), shown here with employees at the Beans Ford Dealership in Doylestown.

HEALTH CARE ISSUE

The dangers of obesity and smoking

Obesity is a growing problem in America, and smoking remains the No. 1 cause of preventable death. Nearly two-thirds of adults are overweight. Our children's life expectancy will be lower than our own today because of

obesity—a first in modern history. As a person's body weight increases, so do the person's sick days and medical claims, studies have shown. In fact, rising obesity rates accounted for a 27-percent increase in health spending in

the last 20 years. Smoking kills 440,000 Americans each year and increases medical costs to treat resulting illness by an estimated \$75 billion.

WHAT WE'RE DOING ABOUT IT


Encouraging members' healthy lifestyles

To tackle these problems, Independence Blue Cross developed its award-winning and innovative wellness program, Healthy LifestylesSM, which encourages and supports making healthy choices. Because a healthy weight reduces risk for heart disease, high blood pressure, and diabetes, Healthy Lifestyles offers the *Healthy*

Weight, Healthy You program. We'll reimburse a member up to \$200 per year in class fees or membership costs for approved weight management programs. And to help members stay fit and keep their weight under control, Healthy Lifestyles' Fitness Program will reimburse a member up to \$150 in fitness center fees for completing 120 workouts

during a year. For smokers who wish to kick the habit, our Smoking Cessation Program will reimburse a member up to \$200 for completing a stop-smoking program. And to encourage members to exercise and stay safe, Healthy Lifestyles covers up to \$25 of the cost of a first aid or safety course and up to \$25 for the purchase of a bike helmet.

Offering physicians cutting-edge technology



Joining IBC's e-prescribing pilot program was a "no-brainer" for husband and wife physicians Angelo and Melinda Ratini, who see about 30 patients a day in Bristol Borough, Bucks County. Since joining the pilot, the Drs. Ratini are writing about 500 electronic prescriptions a month and saving about 45 minutes a day. "Our patients love it," says Dr. Melinda Ratini. "When a patient is sick and I write a prescription, she only has to go to the pharmacy once to pick up the prescription and then gets right home to bed." Says Dr. Angelo Ratini: "It's a breakthrough for us that IBC offered us e-prescribing, but the biggest benefit is how much it's helping our patients."

THE PROBLEM

A bottleneck of error-prone paper, phone, and fax transactions

A recent Harvard Medical School study estimated that 30 percent of U.S. health care expenditures cover administrative costs. From patient registration to prescriptions, physicians' offices and

hospitals have depended upon time-consuming and error-prone paper, phone, and fax transactions.

Because of complex billing practices, confusing governmental

regulations, and even illegible handwriting, a 2005 national study estimated administrative payment errors cost the health care industry up to \$100 billion per year. Another sobering

statistic: 15 percent of reported medication errors occur because of doctors' illegible handwriting on prescriptions, resulting in 150 million calls from confused pharmacists to doctors.

WHAT WE'RE DOING ABOUT IT

Automating health care paperwork to reduce inefficiency

In early 2001, Independence Blue Cross was one of the first health plans in the nation to capitalize on the potential of the Internet to speed and simplify transactions with physicians and hospitals and eliminate paperwork.

That year, IBC partnered with NaviMedix to develop NaviNet, an electronic system to help streamline the daily administrative tasks in health care.

With the click of a mouse, a doctor's office confirms what benefits a patient has, gets ap-

proval for a referral, or checks the status of a claim. This automated workflow creates paper and phone call-free communications that reduce administrative time and costs and increases accuracy.

Today IBC enjoys one of the highest levels of NaviNet utilization in the industry with more than 20,800 physicians, 6,100 offices, and 100 hospitals. In December 2005, NaviNet handled more than 93 percent of referrals to specialists.

To build on that success, in 2005 IBC invited more than 500 area physicians to join an electronic prescribing pilot project—called e-prescribing—to improve patient safety, reduce drug prescribing errors, help time-pressed doctors and pharmacists, and lower drug costs. During the year-long pilot, physicians, who had spent an hour or more each day writing prescriptions and refills, instead are using handheld PCs for prescriptions.

A doctor can call up a drug database via the Internet and send prescriptions electronically to the pharmacy, eliminating the chance of misreading handwriting—all from the exam room. This makes it easy to pick a less costly but equally effective generic drug. Although fewer than 15 percent of physicians nationwide use e-prescribing today, experts estimate a potential annual savings of \$29 billion.

Reducing the shortage of nurses

Inspired by her experience as an ambulance volunteer at the Malvern Fire Company, Janice Cantwell, a high school math teacher and mother of three, switched from teacher to student. She enrolled in the Brandywine School of Nursing and with the help of IBC's Nurse Scholars Program, she's now a senior. "As a nurse," Janice says, "whether my patient is an infant or a centenarian, it's a privilege to work together toward the best possible health."

THE PROBLEM

Too few nurses for quality health care

The shortage of qualified professionals entering nursing represents a critical national health care problem. Current estimates place the national shortage at more than 150,000

registered nurses—10,800 in Pennsylvania alone. And demand for nurses will only increase as baby boomers age and nurses retire. Experts predict that we will not be able to meet this

increased need because there are too few nursing school educators. In fact, in 2005, U.S. nursing programs turned away 147,000 applications because of a lack of nursing faculty.

WHAT WE'RE DOING ABOUT IT

Scholarships for nurses and nursing faculty

Three years ago, Independence Blue Cross asked nursing professionals in the area how it could help tackle the nursing shortage. The result is the Nurse Scholars Program, a partnership with the area's nursing schools and the Pennsylvania Higher Education Foundation. Through this program, IBC has made a long-term commitment to address the region's nursing shortage by increasing the number of


nursing educators and practicing nurses by creating graduate and undergraduate scholarships. In 2005, IBC added a summer internship program for student nurses and introduced grants to fund faculty positions.

The Nurse Scholars Program is making a difference. In just two years, it has awarded \$2 million for more than 1,200 nursing scholarships at 28

of the region's accredited colleges and universities.

Last fall, the National League for Nursing hailed the program as a national model and recognized IBC with its 2005 Award for Public Service. The League praised the effectiveness of the program for preparing nurses "to meet the needs of an ever-changing health care environment."

Providing health care for the uninsured



At its three clinics in Chester and Coatesville, ChesPenn Health Services provides health and dental care to more than 10,000 patients a year, many of them children. Clinic staffers also assist clients with transportation, language translation, and applying for health insurance. “Our patients have the opportunity to develop an ongoing relationship with a family doctor and dentist, something many people take for granted,” says pediatrician Dr. Reka Yagnik, who helped found ChesPenn in 1973. IBC supported ChesPenn’s track record of success with a grant in 2005. Dr. Yagnik is shown here with Jermaine (left), 19 months, and Jalea Lane, 3½.

THE PROBLEM

The uninsured have no health care

With more than 45 million Americans falling into the ranks of the nation's uninsured, including more than 11 million children and teenagers, the crisis of the uninsured continues to be one of the most pressing problems in the United States. In southeastern

Pennsylvania, more than a quarter million people lack health insurance, including 44,000 youngsters. One in four uninsured children hasn't received basic immunizations and does not have an annual physical, eye, or dental exam. When an uninsured

person receives medical care at a hospital emergency room but is unable to pay for it, the hospital must absorb the cost of the care, driving up medical costs for everyone in the community.

WHAT WE'RE DOING ABOUT IT

Grants to Community Clinics

Independence Blue Cross' two-year-old Charitable Medical Care Grant Program provides financial support to nonprofit, privately funded clinics in southeastern Pennsylvania that offer free or low-cost care to the area's uninsured. By making quality medical care available to uninsured patients, the program reduces the number of individuals who require

but can't pay for treatment at hospitals. Ultimately, the program will help slow the escalation in overall health care costs.

To date, IBC has dedicated more than \$4.7 million to 25 nonprofit, privately funded health clinics in our region to support their mission of providing access to primary health and dental care. In 2005,

IBC gave grants to five clinics: ChesPenn Family Health Center in Coatesville, ChesPenn Health Services Eastside/Medical Dental Center in Chester, ChesPenn Health Services Center for Family Health in Chester, Esperanza Health Center in Philadelphia, and Frankford Hospital Health Center Clinic in Philadelphia.

COMMUNITY 

A blurred person wearing a bright yellow raincoat is walking from left to right across the foreground. In the background, a large, dark brown sign is mounted on a wall. The sign features the text "Independence" in a smaller font, "Blue Cross" in a large, bold font, and "1901 Market Street" in a smaller font below it. To the left of the sign, a blue wall with a white logo is partially visible.

Independence

Blue Cross

1901 Market Street

A SNAPSHOT OF INDEPENDENCE BLUE CROSS 2005



OUR MEMBERSHIP BASE IS STRONG.

- 3.4 million members—including more than 2.6 million in Pennsylvania.
- 64,500 Pennsylvania employer groups—some widely recognized national corporations, but largely neighborhood favorites and local businesses.
- Part of a nationwide network of 38 “Blues” that serves 94.4 million members—more than 30 percent of the U.S. population.



WE HAVE AN UNYIELDING FOCUS ON QUALITY TO PROTECT OUR MEMBERS' HEALTH.

- Personal Choice rated the No. 1 PPO in the nation and Keystone HMO ranked No. 1 in the region.
- A full suite of health plans with flexible benefits and prices for businesses small and large and for individuals.
- A comprehensive program to help our members stay healthy—Connections supports the chronically ill, and Healthy Lifestyles encourages the well to stay healthy.



WE STRIVE TO BE SERIOUS STEWARDS OF OUR MEMBERS' PREMIUM DOLLARS.

- Annual revenue of more than \$10.6 billion.
- 87.6 cents of every premium dollar went directly to paying our members' claims; less than 10 cents paid administrative costs.
- Net profit margin was 1.6 percent.



WE ARE PASSIONATELY COMMITTED TO OUR COMMUNITY.

- Serving this area since 1938, when the employees of Independence Hall became our first subscriber group.
- Contributing significantly to the region's economy: employed 9,500 associates, many here in the city, and paid \$177 million in local, state, and federal non-payroll taxes.
- Donating more than 10,000 volunteer staff hours and contributing more than \$40 million to strengthen the health and well-being of our community.



INDEPENDENCE BLUE CROSS AND SUBSIDIARIES

The overall financial position of Independence Blue Cross and its family of companies continued positive throughout 2005. Cash and investments increased by \$118 million to almost \$2.5 billion, representing 65% of total assets at year-end. Positive operating results for the year increased surplus to slightly more than

\$1.4 billion, while our risk-based capital (RBC) percentage increased slightly to 413%, just keeping pace with the 7.5% increase in claims costs incurred during the year.

Net income of \$167.5 million in 2005 was comparable to the \$165.2 million earned in 2004, and represents a net margin

on gross underwriting income of 1.6%. Medical costs in 2005 accounted for 87.6 cents of every premium dollar, up slightly from 87.1 cents in 2004. Operating expense control in our core five-county market, and improved investment earnings, helped offset the higher level of claims cost incurred during 2005.

CONSOLIDATED BALANCE SHEETS: DECEMBER 31, 2005 AND DECEMBER 31, 2004

(\$ Thousands)	2005	2004
Cash and investments	\$ 2,496,225	2,378,524
Premium and other receivables	779,080	693,313
Intangible and other assets	558,913	550,360
Total assets	\$ 3,834,218	3,622,197
Claims liabilities	1,527,815	1,457,549
Unearned income	408,672	424,099
Accrued expenses	252,427	250,147
Other liabilities	216,830	205,563
Total liabilities	\$ 2,405,744	2,337,358
SURPLUS:		
Blue Cross Blue Shield Association minimum guideline	1,077,513	964,855
Unallocated	337,265	282,438
Accumulated comprehensive gain, net of taxes	13,696	37,546
Total surplus	\$ 1,428,474	1,284,839
Total liabilities and surplus	\$ 3,834,218	3,622,197

CONSOLIDATED STATEMENTS OF OPERATIONS: DECEMBER 31, 2005 AND DECEMBER 31, 2004

(\$ Thousands)	2005	2004
Gross underwriting income	\$ 10,611,592	9,938,644
Broker commissions and premium taxes	210,553	202,340
Net underwriting income	\$ 10,401,039	9,736,304
Claims incurred	9,300,782	8,655,543
Operating expenses	906,985	875,815
Net operating income	193,272	204,946
Investment and other income	85,913	69,934
Income before tax	279,185	274,880
Provision for income taxes	111,700	109,700
Net income	167,485	165,180
Other comprehensive (loss) gain	(23,850)	37,062
Comprehensive income	\$ 143,635	202,242

INDEPENDENCE BLUE CROSS FINANCIAL HIGHLIGHTS

Risk Based Capital	413%	404%
Days of claims covered by statutory surplus	51	48

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