



Speaker Remarks

2011 Financial Announcement

April 17, 2012

Daniel J. Hilferty, IBC's president and CEO: This is an exciting time for Independence Blue Cross and the millions of customers we serve in Southeastern PA and throughout the country.

A few years ago, we experienced some financial hardships due to the weakening economy. However, my predecessor Joe Frick began a series of moves to position IBC on a forward-thinking path and we built on the solid groundwork that was established.

In 2011, IBC reported a profit margin of 3.4% and a net after-tax income of nearly \$315 million. I'm proud of the progress we've made and the direction we're heading in but there's more to be done.

Over the past year, we added more than 45,000 members, which is a reflection of smart business decisions and the hard work of our employees. We expanded our portfolio of health plans to offer our customers more options. In addition, we invested in new

capabilities through partnerships and alliances with like-minded organizations that support our mission of enhancing health and wellness.

For instance, we partnered with Blue Cross Blue Shield of Michigan to acquire AmeriHealth Mercy, one of the country's largest Medicaid companies. This investment gives us the opportunity to expand our business in the growing Medicaid managed care market. And over the next few years under healthcare reform, we are now positioned to take advantage of the enormous growth expected in Medicaid.

We also allocated time, effort and funding toward adopting innovative and highly effective new patient care models to do our part in keeping our members well. As an example last year, IBC opened more patient-centered medical homes which offer a team approach to high- quality coordinated care. Currently we have more than 200 patient center practices in our network serving 500,000 of our members in southeastern Pennsylvania. In addition, we enhanced our nationally-recognized physician and hospital incentive programs, creating a performance based model that motivates our physicians and hospital partners to work together and make the necessary decisions that put patients' needs first and keeps cost down.

We are proud of these accomplishments and they've helped pave the way for a promising and healthy future for our customers. But there's still much more work to be done. We need to explore different accountable-care models to understand what works best to keep people well. While integrated delivery models such as the Mayo Clinic

have been around for some time, the concept of accountable care is still in its infancy. We also continue to embrace new healthcare technology. In 2011, we made smart business decisions through partnerships and acquisitions that allow us to adopt and apply innovative technology **now**, not just in the future. This will play a critical part in the growth of IBC and how we will continue to lead the transformation of healthcare in our region and nationally.

Along with investing in the business and wellness of our members, IBC also continues to hold the health of our community as a top priority. In 2011, we took our dedication to the health of our region a big step further. We launched the Independence Blue Cross Foundation with a total investment of \$45 million. The foundation's mission is transforming healthcare through innovation in the communities we serve.

This has been a remarkable time of transformation for our industry and we will continue to explore new ways of doing business to anticipate the demands of consumers in an ever-evolving environment. We are establishing our company as an industry leader in healthcare and we hold ourselves accountable for delivering on that vision.

I'm going to pause there and turn the call over to Alan Krigstein so he can provide you with the specifics on our 2011 financial performance.

Alan Krigstein, IBC's executive vice president and CFO: Thanks Dan and good morning everyone. The embargoed press release that you have contains detailed numbers so during this call I will summarize the 2011 year results.

Despite a weakened economy, rising medical care costs and an evolving healthcare environment, Independence Blue Cross successfully navigated 2011. We incurred losses in 2008 and 2009; however, we returned to positive financial results in 2010 and again this past year in 2011.

With total revenues of \$9.2 billion, we reported a profit margin of 3.4% and a net after-tax income of nearly \$315 million. And many people don't realize that we pay taxes just like any other business. In 2011, we paid \$210.4 million in federal, state and local taxes. Our 3.4% margin is modest compared to our publicly traded competitors whose returns were nearly double that. And when you look at the past six years, which includes the worst economic downturn since the Great Depression, we maintained a profit margin of 1.3% over that time period. Also over the same period we paid almost \$1 billion in taxes.

We knew going into 2011 that it was imperative that the company maintain financial stability so we focused on three critical areas. The first area of focus was making enhancements to our core health insurance business with innovative products and services. We added new individual health plans providing more choices like high

deductible co-pay and spending account options. We also created new health plans for small businesses and offered rates 30% lower than 2010.

In addition we took the steps necessary to improve the quality of care our members receive. Together these changes helped to attract approximately 45,000 new customers in 2011.

Earlier Dan spoke about partnerships and acquisitions. Those ventures added value to our company allowing us to offer our customers and physician and hospital partners new capabilities and expanded services.

The second critical area of focus for us in 2011 was investing in our company to modernize and to become more efficient. Unlike publicly traded health insurers we don't have to use our net income to reward shareholders. Instead we invested in our business to implement innovative technologies that improve the way we operate.

From a customer service standpoint, we optimized processes which led to a 20 percent increase in first call resolution. To respond to our customers' needs, we entered into a vendor agreement to utilize Highmark's state-of-the-art operating platform. We have also enhanced our ancillary products including dental, vision plans and stop loss reinsurance while keeping customer costs down.

The third area of critical focus was managing our business with fiscal discipline. Maintaining financial stability allows us to continue serving our customers through difficult financial times. But we also have to plan for the future so we can grow as a company and serve more people in more places. The business decisions made in 2011 are reflective of the direction we are taking at IBC.

Those positive results and our continued fiscal discipline will enable us to enhance our members' health, remain a committed and active civic leader in the Philadelphia region and continue to make changes that are going to transform our industry.

In 2011, we spend 86.9 cents of each premium dollar on our members' healthcare and used 9.7 cents to run our business and pay taxes. Our address has not changed; we remain a significant corporate citizen headquartered in Philadelphia and employ almost 7,000 people.

We walked the talk last year and made great strides towards securing a stable future for our company and will continue to serve the millions of our members nationwide who depend on us every day.

This concludes my overview of the 2011 financial results for Independence Blue Cross.