

2008 ANNUAL REPORT



We're here for you every step of the way



LIFE MOVES FAST

You need a health insurance company that can keep pace *through every stage of your life*, from birth and childhood to your middle years, through retirement and beyond. No matter what's going on in your life and in your business, Independence Blue Cross is *right by your side* to provide access to affordable, high-quality health care.

In our 70th year, we are proud to continue to serve generations of families in southeastern Pennsylvania who have *counted on Blue*.

Keeping you well while keeping costs down remains our top priority.

Every day, we work hard to earn the trust you have placed in us as your *lifelong health and wellness partner*.

INDEPENDENCE BLUE CROSS

We're here for you every step of the way



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Looking back ... and looking **FORWARD**

DEAR FRIENDS AND ASSOCIATES,

In 2008, Independence Blue Cross celebrated 70 years of caring for the Philadelphia region. On this anniversary, we look back with pride on seven decades as the preferred health insurer in southeastern Pennsylvania, and we look forward to the next chapter of building the health of our members and the well-being of our community.

At a time when economic turmoil is creating instability among many historically solid institutions, Independence Blue Cross remains a financially stable, trusted business partner and a consistent innovator. Today, Independence continues to provide the responsive service, reliable health care coverage, and progressive products that have been our hallmark since we issued our first Blue Cross identification card in 1938. Our founder, entrepreneur E.A. van Steenwyk, launched the company with \$30,000 and four employees. He quickly contracted with 37 local physicians and began registering members for his three-cents-a-day health plan. Our first member was Philadelphia's then-Mayor S. Davis Wilson, and our first customer was a group of five Independence Hall employees.

Since then, we have been here for our members every step of the way, in war and peace, through recession and prosperity, from Benny Goodman to Bruce Springsteen. The Independence Blue Cross ID card is an enduring symbol of responsibility and a source of reassurance. As 2008 brought an increasingly unsteady economic environment and mounting attention to health care reform, Independence pushed forward to address the immense challenge in health care today: reducing the cost and increasing the quality of care to keep people more healthy.



“Independence Blue Cross remains a financially stable, trusted business partner and a consistent innovator.”

One important development was the decision of Independence and Highmark Inc. to withdraw their applications to combine the two companies. After a 21-month review with 10 public hearings, it became clear early in 2009 that the state would not approve the transaction unless the new company relinquished either the Blue Cross® or the Blue Shield® brand, which was unacceptable to Highmark and Independence. The companies spent more than 70 years developing their brands’ value, and the Cross and Shield are an integral part of our corporate identities. Giving up one of the brands would have made it impossible for the new company to deliver the full benefits to its customers, communities, and the commonwealth.

While we are disappointed that we cannot provide the advantages to Pennsylvania that the consolidation promised, we did not stand still during the Pennsylvania Insurance Department’s review process. We continued to execute our strategic plan and serve our community, keeping the needs of our members and customers paramount.

For example, inside this report, you will read about our Keys to Wellness program and Diana Mattera, whose life was changed forever when one of this initiative’s nurses reached out to her. You will meet Akpene Sebuabeh, whose conversation

with one of our 160 Health Coaches inspired her to eat healthier. You will hear from David Pride, who believes that we may have saved his life by urging him to have a colon cancer screening. We were here for Diana, Akpene, and David, as we strive to be for all our members, with innovative, cost-effective ways to build health, every step of the way.

In our 70-year history, we have negotiated through challenging times, while always keeping a steady eye on improving the health of our members and our community. That distinguishes us from many health insurers, whose focus is on satisfying the demands of Wall Street. For seven decades, Independence Blue Cross has remained true to its mission: Building the health of our members and strengthening the well-being of our community by improving access to affordable, quality health care.



M. Walter D’Alessio
Chairman

The solution to rising costs? WELLNESS

DEAR CUSTOMERS, COLLEAGUES,
AND COMMUNITY MEMBERS,

Almost every day on the news and around the dinner table, we hear worried talk about the cost of health care. It's second only to the economy among the issues that we Americans worry about most. According to national surveys, 70 percent of Americans believe that our health care system is broken.

Our concern is justified. As a nation, it is estimated that we will spend more than \$4 trillion on health care annually by 2017 — or one out of every five dollars spent in our country. We have an enormous opportunity and a deep responsibility to reform our health care system to provide affordable, high-quality health care for all Americans. That sense of urgent responsibility fuels the national focus on health care reform.

That same urgent responsibility fuels our mission at Independence Blue Cross: Building the health of our members and strengthening the well-being of our community by improving access to affordable, quality health care. In 2008, we worked tirelessly to hold down costs and raise quality in health care by focusing on keeping members well. Our research shows that nearly 85 percent of area employers believe that taking better care of ourselves is the most effective way to lower the cost of health insurance. Federal data shows that wellness programs offer a \$3 return for each \$1 spent.

In 2008, we expanded our efforts to strengthen the health of our members and our customers' bottom line. We doubled the number of hospitals in our pay-for-performance program, which rewards top-notch care. We welcomed 228 businesses as Wellness Partners[®], providing their employees with customized wellness programs and events. And, in this report, you will read about other innovative ways we're inviting members to join us on the road to wellness, such as Baby BluePrints[®], our award-winning prenatal care program, which enrolled almost 20,000 moms-to-be this year, and ConnectionsSM Health Management Program, which provided more than 2.6 million educational and reminder cards, letters, and telephone calls to members.

You will also learn about our ongoing commitment to community fitness, demonstrated by our new sponsorships of National Walk@Lunch Day and Step Out: Walk to Fight Diabetes, and by the continued success of our Blue Cross Broad Street Run — events that inspired more than 26,000 people to get out and get moving along the road to wellness.

We were disappointed that our consolidation with Highmark Inc. did not take place. However, the detailed analysis of our business that we undertook yielded invaluable insights that will lead to more efficiencies and innovation for our customers. And, throughout the review process, our dedicated associates continued to focus passionately on our customers and introduce new capabilities, such

as the cost-effective individual health plans we're offering and the Clinical Alerts we're sending a physician if a patient has not received the doctor's recommended care.

Our company ended 2008 financially sound, but we were not immune to the impact of the historic stock market decline. We reported \$11.4 billion in revenue and \$111.2 million in net operating income. Although our investment and other income was positive for the year, like most companies, we saw significant fluctuation in our long-term investments. This resulted in a net income loss of \$78.7 million.

As the nation's financial uncertainty continues in 2009, we and the 38 other independent Blue health plans in the Blue Cross and Blue Shield Association strongly support reform so our health care system can provide affordable, high-quality coverage for all Americans. We believe the public will be best served by reform that builds upon employer-based coverage and focuses on affordability, wellness, prevention, safety, quality, universality, and portability — the same core principles set forth by the Obama administration and many in Congress. However, the issues facing health care are complex, and our company cannot on its own address the forces that drive up costs, drive down quality, and limit access. Working with physicians, hospitals, employers, brokers, and other key health care stakeholders, we have joined this important national discussion and stand ready to do our part.

Having battled colon cancer in 2007, I committed in 2008 to making health and fitness a personal priority. Getting on the treadmill was my first "meeting" every day. When I went out of town, I packed gym clothes, even if I had to leave something else behind. I am proud to say that on May 4, at age 55, I participated for the first time

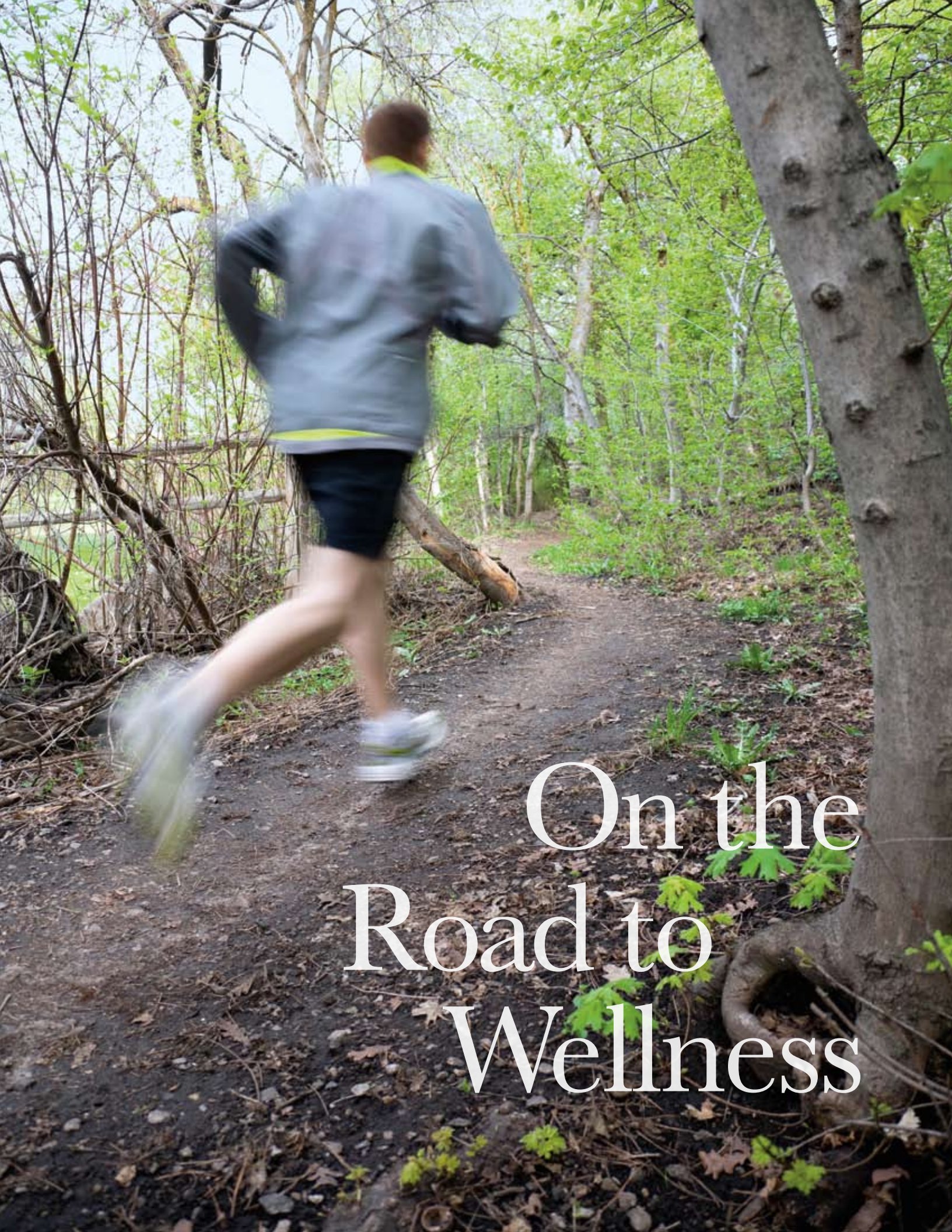


in the 10-mile 2008 Blue Cross Broad Street Run. Yes, countless runners flashed by me, but I finished. At the 2009 race, I'm determined to pass a few people myself.

I look forward to meeting you on the road to wellness.

A handwritten signature in black ink that reads "Joseph A. Frick". The signature is written in a cursive, flowing style.

Joseph A. Frick
President and Chief Executive Officer



On the
Road to
Wellness

What is wellness?

Improving the wellness of our members is the goal behind every decision we make. We asked our senior medical director, Dr. Esther Nash, who leads our efforts to keep members well, what wellness means to Independence Blue Cross:

*Dr. Esther Nash,
senior medical director of Independence Blue Cross*

“We believe that wellness is the presence of a positive sense of physical and mental well-being. At Independence Blue Cross, we work with you to keep you healthy, support you throughout an illness, and then help you get on your feet and back in the game.

“To meet your wellness needs right now — today — we must understand what they are and give you the tools to take care of them. With this in mind, in 2008 we nearly doubled the number of times that we reached out to customers and members through programs that are all about keeping you well.

“Whenever you have a health need, we can offer the right resource to help you. Need to find a physician to treat your illness? Try our online health care provider directory. Maybe you need the support of one of our trained Health Coaches to answer a medical question over the weekend, at night, or anytime, 24/7. Or the guidance of one of our skilled nurse case managers when you’re facing a difficult surgery and recovery. Would the advice of a Healthy LifestylesSM Keys to Wellness nurse help you lose weight or quit smoking? Or are you looking for a quick, convenient way to check your health benefits online? We can help with all of these needs, and many more. We really are here for you every step of the way.”



What does wellness mean to you?

JIM BLESSING, *Independence Blue Cross member and small business owner, Workspace LLC, Philadelphia*: “For me, 99 percent of wellness is watching my weight. I want to avoid heart disease, diabetes, and the other life-threatening conditions that being overweight can cause. Exercise is key. My wife, Bonnie, who works in the same office with me, is my exercise partner. Having someone to exercise with motivates both of us. We walk wherever and whenever possible!”

DR. EARL BROWN, *primary care physician, Philadelphia*: “Wellness means taking responsible care of yourself, whatever your health concerns may be. As a family doctor, I see all kinds of patients, and whether they can barely walk a block or are running miles, they can all take steps to improve their health. My grandmother used to say, ‘Keep it simple,’ and I use that wisdom in letting my patients know that it doesn’t have to be difficult or expensive: There are very simple things they can do to live longer. Like exercising a little more each day and eating better. Like cutting down on smoking. Like getting a mammogram or not



Wellness “doesn’t have to be difficult or expensive: There are very simple things [we] can do to live longer.”

EARL BROWN, M.D.
Primary care physician,
Philadelphia

putting off a colonoscopy. I encourage them to come see me regularly, without fail, and to ask themselves, ‘What can I do to improve my health this year?’ ”

GEORGE ROSIAK, *broker support and president, Emerson Reid and Co., Plymouth Meeting*: “The idea of wellness is getting back to basics and being accountable for your own health. In a business, it’s a team effort between employer and employee. Your employer is invested in your well-being, and it’s her job to provide resources that guide you toward healthy and responsible behaviors. As the employee, you do your part by being productive on the job and keeping your health care costs down by choosing a healthy lifestyle.”

KARA CZERPAK, R.N., C.C.M., Independence Blue Cross case manager: “I think wellness is about balance — between work and family life, exercise and diet, stress and sleep. My job is to guide our members in making conscious decisions to take control of their lives and keep them in balance. I try to help our members think in the long term, to realize that changing their lifestyles can take time. I like to tell members, ‘You are taking little steps to help prevent big problems.’ ”

JAY WRIGHT, *Independence Blue Cross member and head basketball coach, Villanova University Wildcats*: “I tell my players that being well means being true to yourself, what I call ‘being legitimate.’ That means trying your best to excel in all areas of your life — socially, physically, academically, and spiritually — and doing it for the right reasons. In a game situation, play your best, but not for the cameras and newspapers. Do it for your teammates and coaches. As a student and an athlete, take personal responsibility for your behavior and actions, make sure you are developing strong, healthy relationships with good people, and stay away from unhealthy behaviors, even though that can be hard at times. To be a great athlete, you need to have a clean heart and a clean mind as well as a strong body.”

*Jay Wright, head basketball coach,
Villanova University Wildcats*



Why does my health insurance cost so much?

A quick look at health care spending, how it drives your insurance premiums, and why wellness is our hope for a better future

There is an important but often overlooked connection between health care costs and the premiums people pay for health insurance. Premiums reflect the underlying cost of health care. Unless we slow the rise in the cost of health care, premiums will continue to rise at a pace far faster than either wage growth or inflation. This is particularly challenging in our region, which ranks first in the country in the cost of charges billed for medical services — such as hospital admissions, radiology, and physical therapy — and fifth in the overall use of such services, according to a 2008 study by actuarial consultant Milliman that analyzed the cost and use of 15 different medical services nationwide.

At Independence Blue Cross, we're passionate about finding ways to save our customers money to lower the cost of health care. Although we spend only 8.5 percent of our revenue on administrative costs, we are committed to increasing the efficiency of our operations to decrease even further the money we spend to administer claims and serve

our customers. Finding ways to save our customers money also means working with partners across the health care spectrum to lower costs and to improve the quality of care. The reality is that better health care lowers costs. Finally, we spend 88 cents out of every premium dollar on our members' medical care. Unlike some companies, we generate a very thin net operating margin on our health care business: one percent in 2008.



Factors driving health care costs

A national study by PricewaterhouseCoopers, *Factors Fueling Rising Health Care Costs 2008*, analyzed the rising cost of health care services and of premiums, and noted that “health insurance premiums generally track the underlying growth of the cost of health services.” The same national drivers identified in this study are at work in our region, including:

1 AN UNHEALTHY LIFESTYLE IS COSTLY.
The lifestyle we choose — smoking, eating poorly, not exercising — increases our need for health care. Obesity alone results in \$117 billion in U.S. health care costs each year, tobacco use costs America \$180 billion annually, and 78 percent of our health care spending in Pennsylvania pays for treating largely avoidable chronic conditions.

2 NEWER CAN BE BETTER, BUT IT’S OFTEN MORE EXPENSIVE. New technologies, such as new digital imaging procedures, increase prices because they cost more than existing technologies.

3 WE WANT THE LATEST TREATMENTS.
Once new, improved treatments come on the market, physicians want to use them and patients often demand them. These include new drug formulations for conditions that were already well managed by less costly generic drugs.

4 WE’RE NOT GETTING ANY YOUNGER.
As Americans age, we use more medical resources. By 2010, more than one in four Americans will be 65 or older. Our region leads the trend: Philadelphia ranks first among America’s top ten cities, with 14 percent of our population 65 or older.

5 YOU AND I PAY A SHARE OF THE COST OF CARING FOR THE UNINSURED.
Hospitals and physicians are required to treat the uninsured and often receive no payment for that care. In southeastern Pennsylvania in

2008, there were more than 262,000 uninsured adults and almost 49,000 uninsured children. In Pennsylvania, about 6.5 cents of every insurance premium dollar goes to cover the cost of providing care to the uninsured.

6 IF UNCLE SAM DOES NOT PAY, YOU AND I DO. When Medicare and Medicaid payments to doctors and hospitals drop below what the care costs, doctors and hospitals seek higher payments from health insurers to make up the difference. A 2008 Milliman study estimates that the total annual shift of costs from Medicare and Medicaid to health insurance companies was almost \$89 billion. To break that down, that raised the 2008 health insurance premium of a family of four by \$1,512, or 10.6 percent annually.

7 OUR HEALTH CARE PROVIDERS GET PAY INCREASES, TOO. Independence is committed to negotiating fair and competitive compensation for physicians and hospitals. However, such increases often exceed the rate of inflation.

8 FEAR OF MALPRACTICE SUITS.
Some physicians and hospitals use more intensive diagnostic testing to confirm diagnoses and reduce exposure to malpractice liability. This so-called defensive medicine adds to the cost of health care, primarily in emergency room care and obstetrics.

ON THE ROAD TO WELLNESS



Looking forward to find solutions:

HOW CAN WE WORK TOGETHER?

Some of the factors that contribute to rising health care costs and rising premiums are difficult to influence: We can't avoid growing older, and no one would want to stop the introduction of new, more effective technology, even if it is more costly. But there are factors that we can influence, if we all make an effort — physicians, hospitals, drug companies, policymakers, employers, our members, and us, your health insurance company. Here's how we can reform health care and bring about positive change:

- *Lower the risk of illness by eating well, exercising, and not smoking.*
- *Manage chronic illnesses effectively by following physicians' advice: Take prescribed medicine, eat right, and exercise.*
- *Improve research on what medical treatments work best and encourage physicians to use techniques that prove most effective.*
- *Avoid expensive brand-name drugs when inexpensive generic equivalents are equally effective.*
- *Give consumers better information to help them choose a doctor, select treatment, and make other important health care decisions.*
- *Improve the operational efficiency of health insurers to lower administrative costs.*
- *Align incentives between health insurers and their physician/hospital partners to reward producing quality results — keeping healthy people well and caring for the sick — rather than linking payments to the quantity of medical services.*
- *Seek ways to decrease the practice of defensive medicine.*
- *Enhance health information technology to improve patient care and safety and to minimize paperwork for health care providers.*

Making sense and saving dollars: WELLNESS AT WORK

As a growing group of employees gathered each week to exercise at lunchtime and as others stopped her in the hall to tell her they had quit smoking, Monica Rudzinski, a human resources specialist and chair of the Employee Wellness Committee for Lower Merion Township, realized that her worksite wellness efforts were starting to pay dividends.

Lower Merion Township is one of 228 employer groups that partnered with us in 2008 to create a healthier culture at work and hold down health insurance costs by focusing on employee wellness.

Calling on the resources of our Wellness Partners[®] program, the township took a proactive role in improving the health of its more than 400 full-time and 250 part-time employees, who include police officers, public works employees, library workers, firefighters, and administrators.

A RETURN ON INVESTMENT: Worksite wellness was a logical strategy to combat the rising costs of the township's health insurance premiums. Illnesses were causing missed days of work and making employees less productive, says Roseann McGrath, the township's human resources director. And the



RX FOR BETTER HEALTH: *Relief from rising drug costs*

Medicine is expensive. In 2007, about 13 percent of the total increase in the cost of health care in America was driven by rising prescription drug prices — prices so high they prohibit some people from taking prescribed medication.

To help, we introduced Rx for Better Health in 2008. For six months, we waived copays on 75 generic drugs used to treat common chronic conditions such as high blood pressure, diabetes, and high cholesterol.

“We want members with chronic conditions to live longer, healthier lives,” says Dr. I. Steven Udvarhelyi, Independence Blue Cross’s chief medical officer. “By waiving copays on medications that treat chronic conditions, we encouraged members to take prescribed medicine and take control of their health.”

The results? More than 175,000 members participated, about 20 percent took medication more regularly, and they saved \$11 million in waived copays.

medical care for these illnesses was expensive, causing health insurance premiums to rise to cover the medical costs. “The highest number of employee health insurance claims were in areas that can be improved through healthy behaviors, like heart disease, high blood pressure, and high cholesterol,” she says. “We decided that by helping people stay well, we could keep our insurance costs down.”

The effectiveness of worksite wellness is backed by solid research: Studies show a five-year return on investment of \$3 for every \$1 invested in employee wellness. This complements the savings shown by our programs for managing chronic diseases, where savings can be seen sooner, often within a year.

WELLNESS PROGRAMS FOR EVERYONE:

Starting with a Personal Health Profile for each employee, Wellness Partners match specific employee health concerns with educational programs from our Employer Toolkit, a do-it-yourself guide to putting customized wellness programs into action. Township human resources specialist Monica worked closely with Kristin Forlenza, one of our senior health promotion coordinators, to brainstorm creative, effective, and fun programs — all taking place during the paid workday — that helped employees make better health decisions about diet, exercise, smoking, and preventive care. “Kristen has been a big help in explaining all of the resources available,” says Monica. “Many of the programs we offer were inspired by her ideas.”

Together, the team kicked off the worksite wellness effort with a mandatory opening session, “Creating a Healthier You,” which featured a program on food and nutrition led by a registered dietitian. Employees who smoked also attended a program on smoking cessation, led by our staff. In addition, ongoing voluntary programs address a variety of employee health concerns. For example, employees are eligible for six free visits with a registered dietitian, extensive online resources, and



Lower Merion Township police officer David Sexton talks with resident Kevin Kelley

reimbursement for going to the gym or attending a SmokeStoppers® smoking cessation program. Plus, our wellness van visits township offices, offering free blood pressure and body mass index checks and skin cancer screenings. In 2008, the township participated in our April 29 National Walk@Lunch Day, a 1.5-mile fun walk we sponsored for the first time this year. After that event, says Monica, many employees continued exercising at lunch on their own, creating groups based on interest and ability.

EVERYBODY WINS: “For our employees, focusing on wellness has been a very positive thing,” says township human resources director Roseann. “When people start to see results, they feel really good about themselves — and about their workplace.” And, she adds, employees who feel well miss fewer days of work, are more productive on the job, and have fewer health care expenses. “It’s truly a win-win situation.”

70 YEARS *of* CARING

1938 – 2008

Through war and peace, recession and prosperity, epidemics and cures, Independence Blue Cross has built a reputation on stability, innovation, and community involvement. We've kept our promise to be there when you need us most. This year, we celebrate seven dynamic decades of care.



Above:

1933: *Our founder, E.A. van Steenwyk*

Right:

1938: *Student nurses perform in a 1938 Philadelphia radio drama, "Corps of Valor," to stir interest in nursing and Blue Cross.*

Above next page:

1958: *Market Street decked out in celebration of our 20th anniversary.*

Lower right next page:

1987: *Eagles coach Dick Vermeil with Caring Coach, Independence's robotic mascot, whose mission was to teach the importance of good health.*

1930s

Armed with a \$30,000 loan and some borrowed furniture, our founder, E.A. van Steenwyk, identifies a need for affordable health care in Philadelphia, and moves east from Minnesota in 1938 to open shop on Walnut Street. His company, the Associated Hospital Service of Philadelphia, signs 4,000 members in its first week. The company's brand logo, which van Steenwyk designed, is a blue cross, based on the Geneva Cross, the universal symbol of health care. Blue plans throughout the country adopt the blue cross symbol.

1940s

While many of our male associates are serving in World War II, our female associates take over as marketing representatives for the company, now informally referred to locally as Blue Cross. In a member survey in 1944, more than 98 percent of respondents say they would recommend us to a friend.

1950s

In 1956, we administer the new government-funded Dependent Medical Care Bill, which covers spouses and children of U.S. service members. In 1958, we create a physicians' review board to oversee hospital care for our members.

1960s

In 1964, we officially change our name to Blue Cross of Greater Philadelphia. We are one of the nation's first participants in



every step of the way



Medicare, the new federal program to cover seniors. In 1968, we introduce a community innovation: a volunteer donor blood bank co-sponsored by the Red Cross.

1970s

We modernize our Blue Cross symbol by adding a human figure at its center. In 1978, we celebrate our 40th anniversary with 2.3 million members. Our new Consumer Advisory Committee seeks feedback from our customers about our products and services.

1980s

We offer our first Health Maintenance Organization, or HMO. We sponsor health fairs throughout the region, which offer free blood pressure tests and other screenings, including a floating fair

on the canal in New Hope. Our 1982 educational media campaign, Take Good Care of Yourself, features television, radio, and print segments and former Eagles coach Dick Vermeil. In 1988, we celebrate our 50th anniversary by changing our name to Independence Blue Cross, and in 1989, we move to 1901 Market Street.

1990s

During the '90s, we launch a trio of wellness programs: Healthy LifestylesSM, which rewards members for healthy behavior; Baby BluePrints[®], a maternity support program; and ConnectionsSM, our health management and member outreach program. In 1996, we become the lead sponsor of the Blue Cross Broad Street Run.

2000s

We introduce FutureScripts[®], our pharmacy benefits management company, and roll out the Blue Distinction Center designation, which helps members locate the best specialty care facilities that have extensive experience, meet rigorous quality standards, and consistently demonstrate positive results. We offer Health eTools for Schools to fight childhood obesity, and introduce our Nurse Scholars Program to address the nursing shortage. By 2008, we fund 34 nonprofit health clinics serving more than 96,000 uninsured and underinsured through our Charitable Medical Care Grant Program, and our data analysis initiative provides information critical to our group customers and valuable to our 3.4 million members.



A Lifelong Wellness Partner



Exceptional care at every age

At Independence Blue Cross, our relationship with our members often begins at birth. We're here through the discoveries and adventures of *infancy and childhood* and the challenges of *adolescence and young adulthood*.

We offer solid support to members and their families in their *middle years*, and we promote healthy, active lifestyles during the *senior years*. At every step, we are here for our customers and members, making sure they have access to quality care when they need it and offering resources to make a difference in their health every day.

In 2008, our members of all ages took advantage of a wide range of innovative programs, from Health eTools for Schools, which helps students fight obesity, to SilverSneakers®, a fitness program that strengthens and celebrates the physical abilities of senior citizens. On the following pages, you will read about the many ways in which we work closely with our customers, members, physicians, and nurses to become their *lifelong wellness partner*.



First steps:

INFANCY & CHILDHOOD

Childhood is full of ups and downs. A parent's joy at each milestone is balanced by a parent's worry over each bruise or broken bone. Through it all, our youngest members have access to regular wellness checkups, including routine vaccinations, recommended screenings, and required tests, giving them an excellent chance of growing into healthy adults. At Independence Blue Cross, the importance of childhood wellness is reflected not only in our health benefits, but also in the special programs we offer our youngest members and their parents.

In 2008, with 25 million children in America considered obese, we provided the Health eTools for Schools program at no cost to nearly 386,000 students at more than 600 schools in our region. This comprehensive online program offers computerized body mass index screenings and follow-up action plans. Throughout this same year with nine million of our nation's children without health insurance, we offered more than 55,000

children in our region free or reduced-rate coverage through CHIP, Pennsylvania's Children's Health Insurance Program. And when five to ten percent of pregnancies were considered high-risk because of danger to the mother or baby, Baby BluePrints®, our program for mothers-to-be, promoted healthy beginnings even before birth, giving babies the best possible advantages as life begins.

PREVENTIVE CARE THROUGH BABY

BLUEPRINTS: Pregnancy is a time of excitement and anticipation, but it can also be stressful for women whose pregnancies are high-risk because of serious health issues such as diabetes or premature labor. Thanks to Baby BluePrints, our award-winning prenatal care program, mothers-to-be receive the reassuring care of our knowledgeable nurses, who are specially trained to manage high-risk cases. In 2008, we served more than 19,700 of our members through Baby BluePrints.

It's a partnership that's winning rave reviews from members and health care professionals alike. How does it work? The mother-to-be completes a Baby BluePrints health profile at her obstetrician's office. One of our Baby BluePrints nurse case managers carefully reviews the health history and calls her if she has any high-risk factors. If she does, our nurse works closely with the member and her obstetrician to ensure that the patient is aware of her risks, her options, and her health benefits. Baby BluePrints promotes the health of both mother and child and helps reduce pre-delivery hospital stays, saving health care dollars in a field known for skyrocketing costs.

"At other insurance companies, the patient might just be filling out forms, but with Baby BluePrints there is a real person there to help."

TOBA SPECTOR, M.S.N., C.R.N.P.
Nurse practitioner, Philadelphia



Nurse practitioner Toba Spector with the Perlicks, (left to right) Catherine, Sheila, and Matthew, and their newest member, Caroline. To read about how Toba helped another family, see the profile below.

Hope for high-risk mothers-to-be

Our Baby BluePrints program pairs a dedicated nurse with a knowledgeable case manager to keep mother and child safe.

When perinatal nurse practitioner Toba Spector thinks about Baby BluePrints, one mother-to-be comes to mind: a 35-year-old Personal Choice® member who suffered from depression but had stopped taking her prescribed antidepressants for fear of harming her baby.

As the woman described her extreme mood swings and feelings of frustration, eventually breaking down in tears, Toba was deeply concerned. The 25-year veteran of obstetrics immediately recognized her patient's risk for postpartum depression, a condition that affects up to ten percent of new mothers and poses a serious threat to the health of both mother and baby. Toba feared what might happen if this mother-to-be did not get proper care.

Toba knew exactly where to turn: She telephoned Jean Boyle, a Baby BluePrints case manager and obstetrics nurse assigned to Toba's practice. Specially trained case managers like Jean, who has worked at Independence since 2004, routinely offer information, advice, and peace of mind to high-risk members.

"Jean was fantastic. She clearly explained the patient's mental health benefits, helped her find names of mental health specialists who could accommodate her busy work schedule, and helped her set up appointments," recalls Toba. Soon the patient was seeing a psychiatrist, and when she delivered a healthy baby a few months later, Jean arranged for a visiting nurse to check on the family periodically for the first few weeks.

"Jean makes my job so much simpler!" Toba says. "At my practice, she is a key member of our health care team for Independence members. We are lucky to have her."

Big changes:

ADOLESCENCE & YOUNG ADULTHOOD

Navigating the challenges of middle school and high school. Going to college. Starting a job. Building new relationships. Adolescence and young adulthood are dynamic stages in life when our members try new and different roles to see what fits. At a time when so many changes are taking place, regular medical care is critical. At Independence Blue Cross, we offer programs that inform, educate, and inspire adolescents and their parents to stay well. For young adults, we offer low-cost individual health plans.

AFFORDABLE INDIVIDUAL HEALTH PLANS:

Many young adults do not have health insurance through their parents or their employers. Often,

they can't imagine getting sick, and because money is usually in short supply, young adults may avoid buying health insurance. Without it, they may skip critical routine preventive health care. To make health insurance affordable for young adults 18 and up, we offer six different Keystone Health Plan East HMO individual health plans, many with modest premiums, all great options for healthy recent graduates who live on tight budgets.

Our individual plans offer coverage for primary and specialist care, emergency care, prescriptions, preventive care including OB/GYN visits and mammograms, nutrition counseling, eye exams, and



even a benefit for purchasing contact lenses or glasses. Our individual plans also offer Healthy LifestylesSM, our wellness program that rewards healthy behavior with financial incentives, such as joining a gym or quitting smoking. The premiums for these plans are based on a review of the health of the applicant. Through our individual Keystone HMO plans, we're making sure that our young members enter adulthood with the care and information they need to stay well and make healthy choices.

BOOSTING ADOLESCENT IMMUNIZATION

RATES: Immunizations are the single most effective protection against diseases that threaten Americans, and they are as important for adolescents as they are for young children. In 2008, America's Health Insurance Plans (AHIP) applauded how significantly we improved our vaccination rate for our teen members between 2005 and 2006. By 2006, more than 80 percent of our adolescent members received vaccinations for dangerous, infectious diseases including meningitis and HPV, the virus that may lead to cervical cancer. Our immunization rate for this age group exceeded the immunization rates at 90 percent of other health plans nationwide.

Through our 2008 Adolescent Immunization Program, we sent annual reminder mailings to the parents of adolescents ages 11 to 13 in more than 72,800 families. We also reached out to adolescents and their parents through the Gen-Y Health Club[®], a website that focuses on the importance of immunization. Gen-Y offers recommended immunization schedules, free computer games, and the chance to win a Nintendo Wii[™] gaming system and other prizes. In 2008, 53,254 people logged on to Gen-Y. Also in 2008, we collaborated with physicians, offering them helpful immunization updates and online record-keeping resources, and worked with middle school nurses to promote student immunizations.



Students fight MRSA

The goal? To raise awareness among adolescents about the dangers of MRSA (methicillin-resistant Staphylococcus aureus), a dangerously contagious, treatment-resistant superbug that caused serious illness and forced numerous school closings in our region in 2008. The strategy? We partnered with The Health Care Improvement Foundation and The Franklin Institute and cosponsored a web contest for students in grades 3 to 12 in our region. Finalist entries were posted to the Students Fight MRSA website, and visitors to the site were asked to vote for their favorites. In the middle school category, Brent Bagdon was the poster contest winner (above) and Mason Skillman was one of the finalists (below). Both are from Log College Middle School in Warminster, Pennsylvania.



Family first:

THE MIDDLE YEARS

When you have a family, a job, and a home, you don't have time to be sick. Staying well makes a real difference in your ability to juggle your responsibilities. At Independence Blue Cross, we encourage you to take good care of yourself so you can care for others in your life. That's why we offer our adult members powerful programs that promote health, prevent illness, lower health care costs, and improve the quality of life for you and your family.

CONNECTING WITH MORE MEMBERS, BY MAIL AND BY PHONE: More than half of Americans live with one or more chronic diseases, such as asthma, diabetes, or heart disease, so we take extra care in developing programs that support chronic illness. In 2008, we enhanced our award-winning health management program, ConnectionsSM Health Management Program, through which trained Health Coaches reach out to members with specific conditions and risk factors. We also expanded the list of chronic conditions we manage to include hypertension, migraine, peptic ulcer disease, and gastroesophageal reflux disease.

Through our customized communications, we promoted awareness of new screenings or treatment options as well as 24/7 access to our Health Coaches. By telephone, we contacted members with chronic illnesses, reminding them of upcoming screenings or gaps in their care, and followed up with members who had recently been in the hospital. In 2008, through Connections, we sent more than 1.4 million mailings and made nearly 1.2 million phone calls to our members to encourage them to get care.



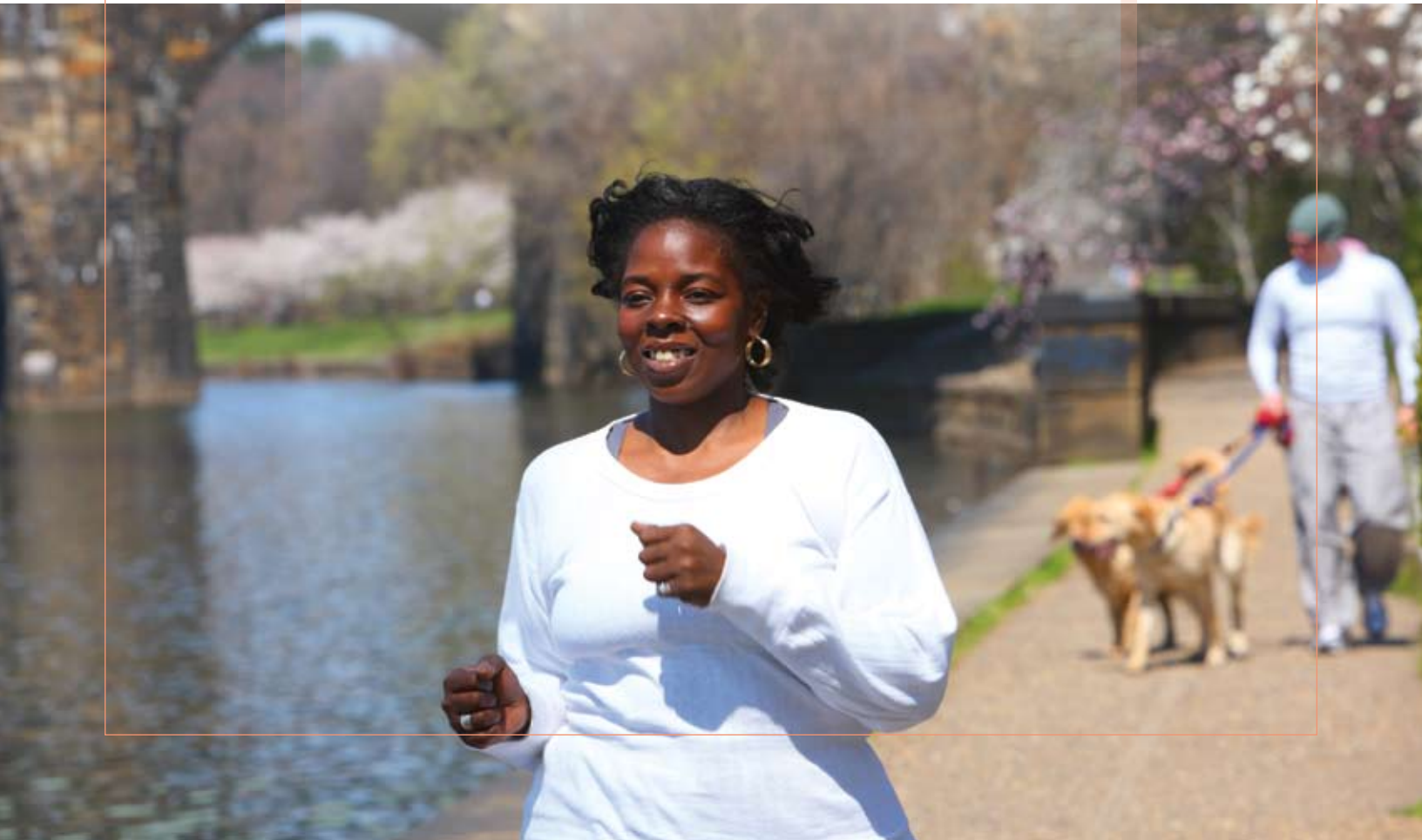
One member who received a call from a Connections Health Coach was Akpene Sebuabeh, a SEPTA customer service representative who recently had major abdominal surgery. The Health Coach called to see if Akpene had any concerns about her recent hospitalization. When Akpene called back, she asked the Health Coach questions about the surgery and then jumped to another topic that interested her: nutrition. “I knew that I could be eating better, so I asked how,” she says. The Health Coach answered Akpene’s questions

and provided detailed information about the Mediterranean-style diet, which studies show can help reduce cholesterol and prevent heart disease. “I’m definitely eating better since that call — using more olive oil and choosing more fish, soups, fruits, and vegetables in place of the fried foods and fatty proteins I ate before,” says Akpene. “Now, I know to call a Health Coach whenever I have a concern, whether it is about women’s health, nutrition, or anything!”

“Through Connections, I learned that the Mediterranean-style diet can lower my cholesterol and my risk of heart disease. My Health Coach was a wealth of valuable information.”

AKPENE SEBUABEH

Independence Blue Cross member and
SEPTA customer service employee, Philadelphia



CHANGING LIVES THROUGH CANCER

SCREENING: To help our members remember to schedule recommended preventive cancer screenings, in 2008, we mailed more than 1.5 million reminders for mammograms and cervical cancer, osteoporosis, cholesterol, and other screenings. But even with reminders, adults sometimes avoid screenings, especially colonoscopies. This is one reason why colorectal cancer is the third leading cause of cancer deaths in the United States, even though when it is found and treated early, the five-year survival rate is 90 percent. Therefore, in 2008, we tried a new, aggressive approach to increase colorectal cancer screenings. In the fall of 2008, we offered a free colorectal cancer screening kit to more than 34,000 HMO members who had not responded to previous colorectal cancer screening reminders. Members who requested the test could complete it at home and mail the test sample to the lab. Results were

then sent to the member and his or her primary care physician, with instructions for colonoscopy follow-up if the results were positive.

More than 2,660 members responded to the offer, including David Pride, who had just turned 56 when he ordered his free, do-it-yourself colorectal cancer screening test. “My wife and my doctor had been bugging me to get a colonoscopy, but like most people, I put it off,” he remembers. But the offer from Independence for a free and convenient screening was one he couldn’t refuse. Taking the test and mailing it to Quest Diagnostics Inc. was easy, says David, a father and grandfather who works as a mechanic for Wilkie Lexus in Haverford. When the screening results came back positive, David immediately scheduled a colonoscopy, and during that procedure, a precancerous polyp was removed. Now a convert to preventive care, he urges family members and friends to follow his lead.



“The letter about colon cancer screening that I received from Independence Blue Cross may have saved my life. It pushed me to do what I needed to do.”

DAVID PRIDE
Independence Blue Cross
member and automotive mechanic,
Broomall, Pennsylvania

IMPROVING THE QUALITY OF CARE

STATEWIDE: In 2008, Independence Blue Cross became a partner in a groundbreaking, statewide health care initiative for patients with chronic diseases. As part of Pennsylvania’s health care reform effort, we joined with Governor Edward G. Rendell and other stakeholders in the founding of the Chronic Care Commission, a collaboration among insurers, physicians, government representatives, academics, and consumers whose goal is to implement a patient-centered “medical home” model. In 2008, we signed agreements with 32 primary care practices in our region to participate in the southeastern Pennsylvania rollout of the Chronic Care initiatives. These practices serve as medical homes, or practices devoted to providing accessible, continuous preventive care. Rather than being compensated for the number of services provided or patients seen, medical homes are rewarded for giving more



time and attention to each patient, including open scheduling to accommodate urgent care and teaching patients self-management skills.

“We are excited to be part of the Chronic Care initiative and the team that helped develop this model,” says Dr. Richard Snyder, our senior vice president of health services. “We believe this new approach to delivering health care will improve the quality of life for members with chronic conditions and provide longer, happier lives. Ultimately we believe the medical home model will also help reduce hospitalizations and lower health care costs and could play a role in health care reform.”

Golden opportunities:

THE SENIOR YEARS

Health care costs are about three times higher for Americans 65 and older than for any other age group, making wellness a major concern of seniors — and of ours. In 2008, we insured the health of more than 228,000 members through Medicare health plans that offer a host of wellness-related programs designed to help seniors stay well and make wise health care decisions. Our older members are staying healthier, thanks to initiatives including ConnectionsSM, our health management program for members with chronic illness; Healthy Lifestyles, which rewards weight management, exercise, smoking cessation, and other healthy behavior; Healthy LifestylesSM Keys to Wellness, designed to identify and tackle potential health risks; and SilverSneakers[®], a fitness and social program just for senior citizens. As a result, seniors feel better and need fewer doctor visits and hospitalizations, helping to lower the cost of health care and in our region.

DIANA MATTERA

Independence Blue Cross member and breast cancer survivor, Lansdale, Pennsylvania

Between her daytime job as a North Penn School District bus driver and her night job as a cashier, Personal Choice[®] member Diana Mattera doesn't have much time to talk on the phone. She almost didn't answer when we called the first time.

"Something made me take the call," she remembers. On the line was Karen Ciccotelli, a Healthy Lifestyles Keys to Wellness nurse who was calling to talk to Diana about preventive health.

In 2008, more than 1,400 members participated in Keys to Wellness, one of several care management programs we provide to our adult members, including those with Medicare plans. It starts with a phone call from one of our nurses, who helps the member develop an action plan based on her health history, lifestyle, and personal goals, and then calls back every two weeks to check on progress.

When Diana, 69, admitted that she hadn't had a mammogram for years, nurse Karen insisted she

schedule the screening right away. "She seemed like she really cared," says Diana. "She made me promise, and I didn't want to let her down."

The mammogram brought bad news: Diana had a centimeter-long tumor in her breast, and a biopsy confirmed that it was malignant. "When you hear cancer, you panic," says Diana. Once again, Karen, whom Diana now calls "my guardian angel," offered reassurance and information. Diana followed her doctor's advice and recently finished radiation treatments. Because she got treatment immediately, Diana improved her prognosis considerably. Just as important, her experience with cancer has brought her closer to her grown children. "We weren't a huggy and kissy family before," she says, "but we are now."

She is still in touch with Karen, who calls on Saturdays, Diana's day off. "I know she's just doing her job," says Diana about the nurse who helped change her life, "but it's the way she does it that is special."

LORRAINE SHELKIN

Independence Blue Cross member and fitness instructor, Philadelphia

At 68, Lorraine Shelkin has more energy than many women half her age. These days, she's putting it to good use as an instructor in the SilverSneakers Fitness Program at a community center in northeast Philadelphia. A SilverSneakers membership allows many of our Medicare members to attend any of 2,600 local SilverSneakers fitness centers or locations nationwide to participate in fitness, yoga, and aerobics classes and social events. In 2008, more than 13,000 of our members participated in SilverSneakers classes and events.

When Lorraine, a grandmother of six, joined her first SilverSneakers class more than a year ago, she became so adept that when the instructor had to leave, the rest of the class recommended that Lorraine take her place. After completing training workshops in movement, choreography, CPR, and first aid, Lorraine took over the Monday, Wednesday, and Friday morning SilverSneakers class, attended by about 20 seniors in their 60s, 70s, and 80s.

"Balance and flexibility are very important for older people, so every exercise we do helps strengthen us for real-life movement, like lifting a bag of groceries, picking up a grandchild, or climbing stairs," says Lorraine, who teaches with rubber exercise bands, hand weights, and exercise balls and lets class members sit or stand.

Nearly 70 percent of people who participate in SilverSneakers nationwide report improved overall health. Not only do seniors feel better mentally and physically when they exercise regularly, but when they increase their flexibility and balance, they experience fewer injuries and falls. Lorraine remembers one class member in particular, an 87-year-old woman who joined the class after rehabilitation for a broken hip. Says Lorraine jubilantly, "She came in using a walker. Six months later, no walker!"



BLUE IS HERE FOR YOU, *every step of the way*

*Independence Blue Cross customer **Gerard H. Sweeney** (far right), president and CEO, Brandywine Realty Trust, backed by a few members of our local "Team Blue": (left to right): **Shawn Orenstein**, broker and president of Kistler Tiffany Benefits; **Kimberly Siejak**, manager of our health management programs; **Dr. A. Scott McNeal**, physician at Delaware Valley Community Health, Inc.; **Rafael Durant**, specialist who resolves members' issues; **Debbie Heller**, health coordinator with our Wellness Partners, **Peter Cissone**, account executive; **Inna Federova**, underwriter; **Tamara Stills**, enrollment team leader; **Julia Hartnett**, Informatics director; **Tom Inglesby**, broker, Kistler Tiffany Benefits; **Robert Velasco**, nurse at Hahnemann University Hospital; **Cher-Ron Milton**, manager in health plan design; **George Cooper**, underwriter; **Nickisha Nelson**, customer service representative; **Jennifer Szewczak**, claims specialist; and **Lesa Ivey**, supervisor in the Healthy LifestylesSM Keys to Wellness program.*



Behind every Independence Blue Cross ID card is a skilled and dedicated team of professionals — from doctors and nurses to Health Coaches and care management coordinators, from account representatives and insurance brokers to customer service representatives and claims specialists. Each member of our team goes to work each day with the same goals: to help you stay well; ensure you have access to quality health care; help you find fast, accurate information to assist you in making the best decisions about your health care.

Our team is also poised to help you anywhere you work or travel in the United States or worldwide. Our partnership with the national Blue Cross Blue Shield Association (BCBSA) means that your Independence Blue Cross ID card is your passport to the advice and care you need, not only

in southeastern Pennsylvania but also across the country and around the globe. In addition, the 29 Blue Distinction Centers here in the Philadelphia region and the 858 others nationwide have been recognized for meeting rigorous quality standards and delivering positive results for bariatric surgery, cardiac illness, transplants, and rare cancers. In our region, our data experts provide valuable information for employers, consumers, and health care professionals. And, through BCBSA's Blue Health Intelligence, the nation's premier health information database with secure, aggregated data on more than 54 million people, our customers are assured of an unmatched level of sophisticated detail about health care trends and best practices.

Whatever you need, whenever you need it, count on us to be with you every step of the way.



BY THE NUMBERS 2008

\$77 BILLION Dollars Americans could save annually in health care costs if more of us were physically active each day

\$5,034,432 Dollars we reimbursed members for going to the gym 120 times a year

55,000 Ice skaters who enjoyed the Blue Cross River Rink this winter

49,166 Pounds lost by members enrolled in our Healthy LifestylesSM weight management programs

26,311 People who participated in 2008 in National Walk@Lunch Day, the Blue Cross Broad Street Run, and Step Out: Walk for Diabetes, all sponsored by Independence Blue Cross (*see next page*)

20% Percentage of Pennsylvanians with chronic diseases — such as asthma, diabetes, or heart disease — whose care accounts for 78 percent of our state's health care spending

270,255 Calls made by our ConnectionsSM program to help members manage their chronic conditions

1,686,555 Members enrolled in our Connections program, which offers support 24/7 to help manage chronic conditions

\$11 MILLION Dollars saved by members through Rx for Better Health, which waived copays for 75 generic drugs used to treat chronic conditions to help members better manage their health

6 Number of Keystone HMO individual health plans we designed for young adults, early retirees, the self-employed, and other individuals — all plans providing preventive and wellness care

\$10 BILLION Estimated 2008 U.S. cost of avoidable hospital stays and employee absences because people did not get recommended preventive care or treatment

44 Members of the Chronic Care Commission, including our senior vice president of health services, Richard Snyder, M.D., who are working with Pennsylvania Governor Edward G. Rendell to transform the management of chronic disease statewide

2,649,055 Reminders we sent for recommended immunizations and screenings to stay well

29 Number of Blue Distinction Centers in our region that provide the best quality care in bariatrics, cardiac care, transplant services, and complex and rare cancers

96,000 Uninsured and under-insured people who received health care in 34 clinics supported by our Charitable Medical Care Grant Program, which eases the burden on the region's health care system by reducing the number of uninsured who require treatment for serious and costly health problems that could have been avoided with basic preventive care

2,300 Undergraduate and graduate scholarships awarded to future nurses and nursing professors at the 31 nursing programs supported by our Nurse Scholars Program, which improves health care in our community by addressing the nursing shortage

70 Area hospitals joining with us to improve patient care and safety through the Partnership for Patient Care

Our biggest year yet for sponsoring events to promote fitness

On April 30, we sponsored our city's first **National Walk@Lunch DaySM** to encourage Philadelphians to use their lunch break for walking and to demonstrate how easy it is to fit regular exercise into a busy schedule. About 5,000 local employees, predominantly our members and many of our associates, walked **1.5 miles** around City Hall or on routes near their suburban offices, burning an average of **122 calories** each and joining tens of thousands walking for National Walk@Lunch Day in all 50 states.

The 29th annual **Blue Cross Broad Street Run**, which we sponsored on May 4, broke participation records with **19,111 runners** crossing the finish line — the race's largest number ever and a **23 percent increase** in participation over 2009. The pack included **6,700 of our members**. Since it began in 1979 with about 1,600 runners, organized by the Philadelphia Department of Recreation, has become the largest 10-miler in the nation.

On October 4, more than **2,200 Philadelphia-area residents** took part in the first American Diabetes Association **Step Out: Walk to Fight Diabetes**, which we sponsored to fight the rising incidence of diabetes in our area. More than 800,000 Pennsylvanians have the disease. Step Out's walkers helped the association raise \$400,000 for research and programs to prevent and cure diabetes and to improve the lives of the **one in nine Americans** with diabetes.



Posing with Benjamin Franklin, some of the more than 5,000 walkers take a break from circling City Hall during our first National Walk@Lunch Day



The record-breaking field of more than 19,000 runners at the 2008 Blue Cross Broad Street Run

AT A GLANCE

Headquartered in Philadelphia, Independence Blue Cross is the region's leading health insurer.

An independent licensee of the Blue Cross and Blue Shield Association in the five-county Philadelphia region, Independence and its subsidiaries offer a variety of indemnity and managed care health insurance products for individuals and employer groups, including Personal Choice PPO and Keystone Health Plan East HMO. The company also offers Medicare supplemental products and consumer-driven health plans.

Independence's national health business includes administration of self-funded groups, network access arrangements, claims processing, and other services on behalf of the 38 independent Blue Cross and Blue Shield Plans across the country. Our participation in the BlueCard program offers our members benefits through the health care provider networks of other Blue Cross and Blue Shield Plans nationally and worldwide.

In addition, subsidiaries of Independence provide specialty services and products including third-party administration, pharmacy benefits management services, and workers' compensation insurance.

For 70 years, our commitment to the community, which we consider our social mission, has consistently been among our highest priorities as we strive to make a positive impact on the lives of thousands of people in our region through strategic giving, innovative programs, and strong volunteerism by our associates.

In 2008, we contributed \$91 million to support our mission, including \$49.7 million to help hold down the cost of providing individual health insurance programs to lower-income adults and children.

2008 FAST FACTS

\$11.4 BILLION in total revenues

\$156 MILLION paid in federal, state, and local non-payroll taxes

3.4 MILLION members served

47,979 employer groups served, **96.6** percent with fewer than 100 employees

158 hospitals and **36,257** physicians and other health care professionals in our network

88 CENTS out of each premium dollar used to pay for members' medical care

\$1.6 BILLION economic impact on Pennsylvania

102,000 members' claims processed each business day

\$40 MILLION paid each business day to physicians and other health care providers for our members' health care services

THE PREMIUM DOLLAR AND HOW IT'S SPENT

88¢ Member claims: hospitals, physicians, and pharmacies



* The one-cent margin comes from premiums. Net investment losses reduced the margin by 1.7 cents, bringing the total margin down to -0.7%.

FINANCIAL SUMMARY

While 2008 was a challenging year for Independence Blue Cross and many corporations in this market and around the country, the company remains financially stable. Total 2008 operating revenues reached \$11.4 billion, compared to \$11 billion in 2007. The company had lower net operating income in 2008 of \$111.2 million compared to 2007, primarily because of lower margins on our health plans. Although investment and other income was positive for the year at \$59.9 million, like most companies, Independence saw significant fluctuation in its long-term investments, as reflected in realized investment losses of \$89 million and an Other Than Temporary Impairments (OTTI) loss of \$149 million. This resulted in a net loss of \$78.7 million.

Our level of surplus declined from \$1.7 billion in 2007 to \$1.3 billion in 2008. The decline was the

result of the downturn in the financial markets and its impact on the company's investment portfolio. These challenging times underscore the need to maintain an adequate surplus so that our members have assurance that if there is an unforeseen natural or economic disaster we are able to pay their claims. Despite the decline in surplus, Independence remains a financially stable company, and the current level of surplus still places Independence in the "efficient" surplus range, as defined by the Pennsylvania Insurance Department.

Another key point worth noting — and one that is often overlooked — is that while Independence is a nonprofit corporation, it is also a tax-paying organization. Independence and its subsidiary companies paid \$156 million in federal, state, and local non-payroll taxes in 2008, including \$56 million in premium taxes.

CONSOLIDATED BALANCE SHEETS

December 31, 2008, and December 31, 2007
(\$ in thousands)

	2008	2007
Assets		
Cash and investments	\$ 2,105,415	2,885,596
Premiums and other receivables	864,035	689,493
Intangible and other assets	<u>684,954</u>	<u>600,589</u>
Total assets	\$ 3,654,404	4,175,678
Liabilities		
Claim liabilities	\$ 1,135,824	1,219,165
Unearned income	478,506	465,021
Accrued expenses	317,814	315,305
Other liabilities	<u>387,582</u>	<u>428,068</u>
Total liabilities	<u>2,319,726</u>	<u>2,427,559</u>
Surplus		
Total surplus	<u>1,334,678</u>	<u>1,748,119</u>
Total liabilities and surplus	\$ 3,654,404	4,175,678

CONSOLIDATED STATEMENTS OF OPERATIONS

December 31, 2008, and December 31, 2007
(\$ in thousands)

	2008	2007
Gross underwriting income	\$ 11,413,810	11,008,491
Broker commissions and premium taxes	<u>243,575</u>	<u>244,125</u>
Net underwriting income	11,170,235	10,764,366
Claims incurred	10,083,932	9,663,709
Operating expenses	<u>975,127</u>	<u>928,941</u>
Net operating income	111,176	171,716
Investment and other income, net	<u>59,930</u>	<u>68,225</u>
Income before investment gains (losses), OTTI and taxes	171,106	239,941
Realized investment gains (losses)	(88,976)	35,133
Other Than Temporary Impairments (OTTI)	(148,966)	(10,000)
Income (loss) before taxes	(66,836)	265,074
Provision for income taxes	<u>11,900</u>	<u>94,200</u>
Net income (loss)	\$ (78,736)	170,874

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* AS OF MAY 1, 2009



**Independence
Blue Cross**

WINNING HEARTS AND AWARDS, *every step of the way*

Our 2008 Every Step of the Way advertising campaign, including the TV spot “Medicine Cabinet” shown at right, featured online, print, TV, and radio ads illustrating our role as a lifelong wellness partner to our customers and members. Designed and prepared in partnership with Tierney Communications, the ads captured not only the hearts of audiences, but some prestigious awards as well.

The campaign won three gold and two silver awards at the 2008 American Advertising Federation’s regional ADDY awards held in March 2009. The ADDYs are the world’s largest and most comprehensive advertising competition for judging creative excellence. Our campaign will advance to compete at the national level in the coming months.

Our slogan “We’re here for you every step of the way,” also the theme of this annual report, sums up our ongoing relationship with our customers and members as we help them stay well, make the right health care decisions, and get high-quality care.





www.ibx.com

1901 Market Street | Philadelphia, Pennsylvania | 19103

Independence Blue Cross offers products directly, through its subsidiaries Keystone Health Plan East and QCC Insurance Company, and with Highmark Blue Shield — independent licensees of the Blue Cross and Blue Shield Association.



The Independence Blue Cross 2008 Annual Report is printed on recycled paper with 30% post-consumer fiber.