



now more than ever

quality. value. peace of mind.

letter to customers, colleagues, and community members	2
a blueprint for moving forward	4
quality: investing in innovation and technology	6
value: making sense and saving dollars	12
peace of mind: bringing you safe, effective care	18
2009 independence blue cross at a glance	22
financial stability in difficult times	24
the premium dollar and how it's spent	25
building the health of a community	26
board of directors and officers	28
the companies of independence blue cross	29

you can count on us. In these days of economic uncertainty, you rely on your health insurance company to stand behind you, no matter what.

At Independence Blue Cross, we understand that whether you're an employer or an employee, a parent or a spouse, few things are more important to you than safe, effective health care.

As we plan for the future, **quality** is our first and foremost goal. We strive to bring you innovative products, progressive programs, and top-notch customer service.

We work hard every day to increase the **value** of your Independence Blue Cross card, which comes with a time-honored promise: We're committed to keeping you well while keeping costs down.

Our name stands for the **peace of mind** that comes from knowing that your loved ones and employees are receiving quality health care.

now more than ever.



NOW MORE THAN EVER we're committed to keeping our promise.

Dear Customers, Colleagues, and Community Members,

Our company and the people and communities we serve have just witnessed a historic milestone with the enactment of health care reform. We have also faced the most severe economic downturn since the Great Depression. The theme of Independence Blue Cross's 2009 Annual Report, "Now more than ever," signifies first that our company is financially stable and ready to meet the changing dynamics in our industry. It also signifies that we are focused on responding to our customers' needs and dedicated to enhancing the health and wellness of the people and communities we serve.

Our Blue brand continues to rank nationally far above our top competitors', most importantly in trust, value, and innovation. Nevertheless, we believe we can be even better. In spring 2009, we revitalized our commitment to our customers through a new three-year strategic plan, and we are developing more responsive, cost-effective health plans and services.

As you can see in our report, we're focused on our customers. We're improving quality by investing in innovation and technology — offering members enhanced online resources on ibxpress.com and alerting physicians if patients have not received a mammogram, a cholesterol screening, or other recommended care. In a region that struggles with higher than average rates of obesity, diabetes, and heart disease, we're engaging consumers and creating value through our worksite wellness program and Healthy LifestylesSM Rewards. And we're bringing our members safer, more effective care by

Joseph A. Frick
President and CEO

rewarding physicians and hospitals for keeping patients well and by highlighting our region's 55 Blue Distinction Centers®.

Long before the recent national debate over health care reform began, we advocated comprehensive change to our health care system. We believe that every American deserves the peace of mind that comes with having health insurance — regardless of health or economic status. While the new reform law takes progressive steps to expand coverage to millions of the uninsured, much work remains to reduce medical costs, improve quality and safety, and make coverage affordable. As we have done throughout our 71-year history, we will continue to help our customers and work with doctors, hospitals, brokers, and consultants to navigate the changes that lie ahead.

Like our customers, we felt the impact of the most challenging economy in a generation. As enrollment dropped slightly and medical costs climbed steeply, we recorded a net loss of \$63.7 million for 2009. However, our seven decades serving our region is a testament to our resilience. We took decisive and thoughtful actions — strengthening medical quality and cost management, reducing staff, and lowering administrative costs — and we are already seeing improved results in our ability to serve our customers at the highest level.

We are genuinely thankful to our associates, whose talent and dedication helped our company manage through a difficult year and who always put the customer first. Moving forward, our priorities are clear — now more than ever: quality, value, and peace of mind.



Walter D'Alessio

M. Walter D'Alessio
Chairman of the Board

a blueprint for moving forward

Knowing who we are, what we stand for, and where we are going has guided Independence Blue Cross forward with energy, purpose, and determination for 71 years. In 2009, we took a fresh look at our mission, vision, and values to redefine our future and the cornerstone principles that will shape it.

MISSION: the core of who we are and why we exist

To enhance the health and wellness of the people and communities we serve by increasing access to quality health care and delivering value through our products and services.

VISION: our aspiration as a company

To be the market-leading, consumer-focused health care organization.

VALUES: the principles that guide our behavior

- Customer satisfaction
- Community leadership
- Associate engagement
- Accountability
- Excellence
- Integrity



quality: investing in innovation and technology

We work hard to bring you programs and services that are current, convenient, and of unequaled quality. Each day, we challenge the status quo, incorporating technologies that help you manage information easily and get the support you need to stay healthy.



Innovations that improve care. In 2009, Independence Blue Cross reached the one-year anniversary of the launch of the groundbreaking pilot program, Pennsylvania's Chronic Care Collaborative. Involving 32 of our primary care practices, with more than 150 of our physicians treating more than 100,000 of our members, the collaborative seeks to revolutionize the management of chronic disease through a more personalized team approach to primary care: the **patient-centered medical home**. Our intent is to help members get coordinated care to better manage their chronic conditions before health problems get out of control and to move away from a health system that reacts to acute illness and toward one that prevents it.

The results of the collaborative's first year were exciting and highly encouraging. Participants took more responsibility, and their chronic health problems showed marked improvement. For example, among diabetic patients, 33 percent more got their blood sugar levels under control, 40 percent more lowered their cholesterol, 25 percent more improved their blood pressure, and 71 percent more got eye exams. Armed with these dramatic and positive results, we will continue to move forward with this promising initiative.

WHAT IS A PATIENT-CENTERED MEDICAL HOME?

A new model of care, the patient-centered medical home brings a personalized team approach to the primary care physician's practice by:

- scheduling a patient to see a physician as soon as a problem develops;
- promoting fast, direct patient-doctor communication through secure email;
- employing care managers and health educators to help chronically ill patients receive key tests, take medication, and stay well.



Dr. Richard Baron of Greenhouse Internists heads a team that has implemented the patient-centered medical home model to improve patients' health by providing preventive care, coordinating specialists' care across the health care system, and encouraging patients to manage their chronic illnesses.



Lance Anderman, Jr., supervisor in our informatics department, collaborated with colleagues to bring you Clinical Alerts, electronic messages that notify doctors when patients have not followed through on lifesaving tests and screenings.

Harnessing technology. Powerful online tools help us serve our customers more effectively while building their health.

Critical health care information is now just a click away through **ibxpress.com**, our secure member website that uses the latest technology and trusted WebMD resources for easy access to reliable, personalized health care information. With leading-edge content and interactive tools on **ibxpress.com**, members can check the status of a claim, get advice on losing weight or quitting smoking, better manage physician visits, and learn about the risks and rewards of important health care decisions. The new features on **ibxpress.com** include the Personal Health Record, a free tool that gathers personal health information in one place to help members stay organized and be proactive in making the right choices for good health.

Like a warning light on your car's dashboard that alerts you when routine maintenance is overdue, **Clinical Alerts** are timely electronic messages we introduced in 2009 to alert physicians that a patient has not followed through with a mammogram, a cholesterol screening, or other recommended care. Clinical Alerts are important because national studies show that adults in the U.S. get recommended care only half the time. To create Clinical Alerts, we leverage our database of claims information from physicians, hospitals, labs, and pharmacies to identify care that doctors recommended but members have not received. We send Clinical Alerts through our secure web portal to physicians, who can then review the alerts when prepping to see patients. In 2009, our network physicians received more than 425,000 Clinical Alerts.







value: making sense and saving dollars

In everything we do, we're concerned about keeping you well while keeping costs down — and passing on the savings to our customers. By designing programs that prevent illness and by rewarding members' efforts to improve their health, we're making your Independence Blue Cross card more valuable than ever.



The greater the partnership with our customers, the greater success we can have together lowering medical costs. That's why Law Enforcement Health Benefits, Inc. offers our wellness programs to 23,000 City of Philadelphia police employees and their families, including Falesha Lawrence, Doug DiEmidio, and Christina Rosenberg.

The value of wellness. Keeping our members well is the single most effective way to lower medical and insurance costs.

Each year, employers throughout our region struggle to balance the cost of health benefits with the demands of the bottom line. Yet studies show that more than 50 percent of all health care costs are the result of people's unhealthy behavior. Through our innovative worksite wellness program, **Wellness Partners**[®], we teamed up with 225 employer groups, taking targeted health promotion and disease prevention solutions directly to the workplace to motivate our members to make healthy choices and practice healthy habits. In 2009, our Wellness Partners brought more than 300 weight-loss, smoking-cessation, and stress-relief programs to thousands of employees. We visited nearly 400 worksites, touching 22,500 people, to provide preventive health screenings for high blood pressure and skin cancer. We also went to nearly 90 companies and gave thousands of seasonal flu shots. Research shows that employees who feel better miss fewer days of work, are more productive on the job, and have fewer health care expenses, making workplace wellness a winning solution all around.

Insurance brokers like **Pepper Krach**, executive vice president at M.F. Irvine Corporate Solutions, encourage customers to take advantage of our worksite wellness program, which motivates members to make healthy decisions and saves employers money.



Promoting healthy choices. Motivating employers and their employees to make healthy behavior a priority is the idea behind **Healthy LifestylesSM**

Rewards, our incentive program launched in 2009. Designed to help members take active roles in their health and

become better-informed health care consumers, the program encourages

members to take healthy actions

— completing an online Personal

Health Profile, exercising, visiting

their doctors, getting preventive

screenings, taking a smoke-free

pledge, and talking with a Health

Coach about their health — to earn

HealthPoints and be rewarded with

up to \$200 a year in gift cards or

in deposits to health reimbursement accounts or health savings accounts. Four large

employer groups in our region piloted the program in 2009 and provided valuable feedback

for expanding the program. To date, our Healthy Lifestyles Rewards members have earned

258,047 HealthPoints and cashed them in for gift cards worth more than \$200,000.

WORKING TO KEEP YOU WELL

22,610	Pounds lost by members enrolled in Healthy Lifestyles weight-management programs
279,649	Calls made to members in our Connections SM program to help them manage their chronic conditions.
1,362,089	Reminders sent to members for recommended immunizations and screenings to stay well
1,725,348	Members enrolled in the Connections program
\$4,195,952	Amount we reimbursed members for going to the gym at least 120 times a year



Members from progressive companies across our region are awarded valuable gift cards for embracing healthy behaviors like regular exercise, good nutrition, and preventive screenings through Healthy Lifestyles Rewards, the innovative health incentive program we launched in 2009.



peace of mind: bringing you safe, effective care

Few things in our lives are more important than safe, effective health care. To our members, we offer more than seven decades of experience, a broad network of top physicians and hospitals, and a wide range of programs that build good health.



Care you can count on, no matter what. That's the promise we make to each customer and member through initiatives that promote quality, prevention, and wellness.

At Independence Blue Cross, we process more than 100,000 claims each day for our members' care. To ensure the best care possible for every penny of your premium dollar, we offer quality-based **Pay-for-Performance** programs to our network primary care physicians and hospitals. In other words, we provide incentives that reward superior quality and safety. For hospitals, this means reducing hospital-acquired infection rates and surgical complications. For physicians, it means documenting the progress of patients with chronic illnesses and making measurable improvements. By earning merit-based incentives for keeping you well, our hospitals and physicians are continually challenged to raise the quality of the care you receive.

How do you know where to go for first-rate specialty care? We can help. **Blue Distinction Centers**[®] are medical centers that have been identified by the Blue Cross and Blue Shield Association for their outstanding records in cardiac care, bariatric surgery, selected transplants, complex and rare cancers, and the newest specialties, knee and hip replacement and spine surgery. (We expect even more specialties to be included in the coming years.) When hospitals apply for Blue Distinction status, they are rigorously evaluated with the help of expert physicians in each field. Only those that meet national measures of excellence are selected. Currently, there are only 1,600 Blue Distinction Centers across the country, and 55 are located right here in our region. Names and locations are only a click away through ibx.com.



Our nurse case manager, Noreen Zaman, and medical director, Dennis Hsieh, M.D., exemplify our staff's dedication to ensuring that our members receive the right care at the right time, so you can rest assured you'll receive access to top-notch treatment from our network physicians and hospitals.

2009 independence blue cross at a glance

Based in Philadelphia, Independence Blue Cross covers 3.3 million people through our health plans. The only insurer in our region that offers coverage for people regardless of their health status, we are committed to building the health and wellness of our customers and the communities we serve.

\$10.5 billion in total revenue

\$9.4 billion paid to physicians, hospitals, and other health care providers for our members' care

\$93.9 million paid in federal, state, and local nonpayroll taxes

\$2.2 billion economic impact on Pennsylvania, including **\$1.6** billion in the five counties of Greater Philadelphia

5,590 people employed

25,840,222 members' claims processed

16,820 inquiries received by our associates each business day — online and by phone — from members and health care providers

51,914 employer groups served, **96.8%** with fewer than 100 employees

159 hospitals and **38,053** physicians and other health care professionals in our network, offering our members the widest consumer choice for quality care

\$107 million invested in the health and well-being of our community, including **\$31** million to help hold down the cost of providing individual health insurance programs to lower-income adults and children

For more information, visit ibx.com

3.3
MILLION
MEMBERS

INCLUDING 2.4 MILLION IN OUR REGION

We offer a variety of health insurance plans tailored to fit the needs of a diverse range of individuals and employer groups. These plans include:

Individual

Serves families and individuals under 65

Senior

Provides Medicare-eligible individuals with Medicare Advantage, a managed care alternative for the Medicare program, and Medicare supplemental benefits coverage



**Independence
Blue Cross**

THE POWER OF BLUE

Your Independence Blue Cross card gives you access to Blue Cross® and Blue Shield® physicians and hospitals across the country — more than any other health plan network in the industry.

83% OF NATION'S PRIMARY
CARE PROVIDERS
AND SPECIALISTS

94% OF NATION'S
HOSPITALS

Local group

Provides coverage to locally owned businesses with as few as two to as many as 20,000 employees

National

Serves employer groups primarily headquartered in the five-county southeastern Pennsylvania region with employees working in other states

Government-sponsored

Offers government-sponsored managed care alternatives for low-income adults and children, including adultBasic and the Children's Health Insurance Program (CHIP)

Federal Employee Program

Serves U.S. government employees and their dependents in the five-county southeastern Pennsylvania region through

our participation in the national contract between the Blue Cross and Blue Shield Association and the U.S. Office of Personnel Management

Prescription drug

Manages pharmacy benefits coverage for employers and health plans through FutureScripts®

financial stability in difficult times

A resilient organization weathers an economic downturn through wise decision-making and moves forward with strength and stability. As a health insurance company, we owe our customers nothing less. Although our business was affected by the recession, we took steps to ensure that we remain financially stable and operate efficiently to offer our customers quality and value.

Total 2009 revenues were \$10.5 billion*, compared to \$10.3 billion in 2008. We recorded a net operating loss of \$124 million, driven by higher than anticipated expenses as the cost of medical care rose steeply. We spent \$9.4 billion on claims. We continued to examine our administrative costs and reduced our staff by 17 percent, incurring one-time restructuring charges. Investment and other income was \$44.4 million, and we recorded an income tax benefit of \$134.9 million. The result was a net loss of \$63.7 million.

After 71 years of service, our surplus was \$1.6 billion in 2009, as the financial market began to recover. This level falls within the “efficient” surplus range as defined by Pennsylvania Insurance Department’s guidelines and ensures that we have resources in reserve to pay health care claims and provide our members with a strong safety net.

CONSOLIDATED BALANCE SHEETS

December 31, 2009, and December 31, 2008 (\$ in thousands)

	<u>2009</u>	<u>2008</u>
Assets		
Cash and investments	\$2,119,957	\$2,105,415
Premiums and other receivables	1,107,801	864,035
Intangible and other assets	<u>759,190</u>	<u>684,954</u>
Total assets	\$3,986,948	\$3,654,404
Liabilities		
Claim liabilities	\$1,204,687	\$1,135,824
Unearned income	323,936	478,506
Accrued expenses	351,471	317,814
Other liabilities	<u>539,948</u>	<u>387,582</u>
Total liabilities	\$2,420,042	\$2,319,726
Surplus		
Total surplus	<u>1,566,906</u>	<u>1,334,678</u>
Total liabilities and surplus	\$3,986,948	\$3,654,404

CONSOLIDATED STATEMENTS OF OPERATIONS

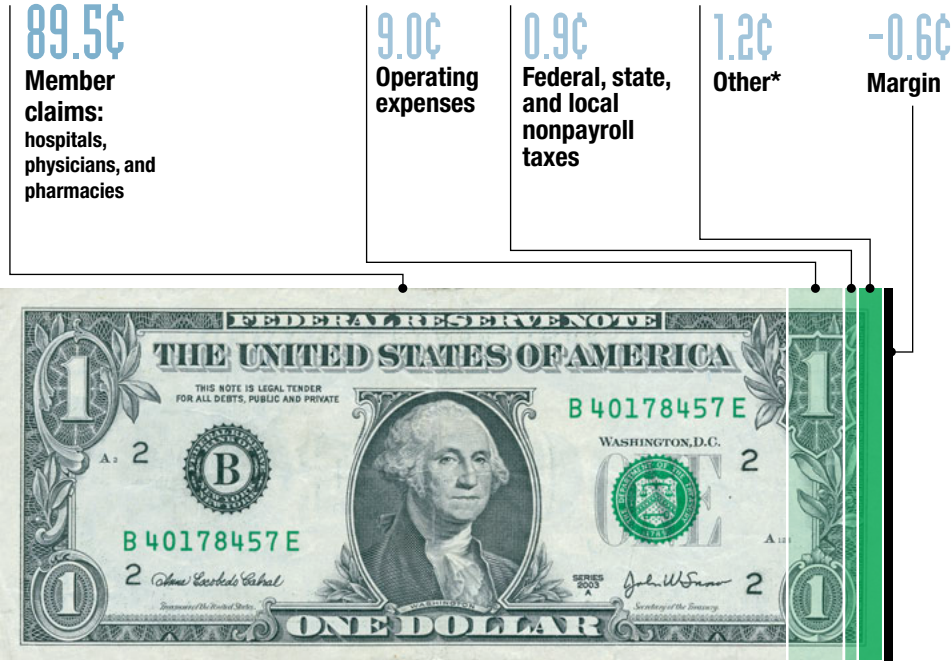
December 31, 2009, and December 31, 2008 (\$ in thousands)

	<u>2009</u>	<u>2008</u>
Gross underwriting income	\$10,466,131	\$10,302,593
Broker commissions and premium taxes	<u>262,473</u>	<u>243,575</u>
Net underwriting income	\$10,203,658	\$10,059,018
Claims incurred	9,368,512	8,972,715
Operating expenses	<u>959,306</u>	<u>975,127</u>
Net operating income (loss)	\$(124,160)	\$111,176
Investment and other income, net	<u>44,434</u>	<u>(178,012)</u>
Loss before restructuring charges and taxes	\$(79,726)	\$(66,836)
Restructuring charges	(118,987)	-
Income tax benefit (expense)	<u>134,976</u>	<u>(11,900)</u>
Net loss	\$(63,737)	\$(78,736)

* Includes revenue from the company's Medicaid affiliate.

the premium dollar and how it's spent

Independence Blue Cross spent 89.5 cents out of each premium dollar on our members' health care in 2009. We spent 9 cents on operating expenses. We used roughly 0.9 cents out of every premium dollar to pay \$93.9 million in federal, state, and local nonpayroll taxes, including \$56.4 million in state premium taxes. We made no profit in 2009. Even though operating costs were lower than in 2008, medical costs rose steeply and we incurred one-time restructuring charges, resulting in a -0.6 percent margin.



* Includes one-time restructuring charges and tax benefits.

building the health of a community

Our three annual fitness events were bigger than ever. More than 23,000 runners joined our 30th annual **Blue Cross Broad Street Run**, 15,000 walkers representing 75 customer companies signed up for our second annual **National Walk @ Lunch Day**, and more than 3,000 walkers participated in the second annual **Step Out: Walk to Fight Diabetes**. All three were sponsored by Independence Blue Cross to promote wellness, and all three enjoyed record-breaking participation by many of our customers and members. That made 2009 truly a banner year for our community fitness events.



The starting line at the Blue Cross Broad Street Run, May 3, 2009.



Above, walkers circle Philadelphia's City Hall on National Walk @ Lunch Day on April 29, 2009, joining tens of thousands in National Walks in all 50 states to support healthier lifestyles. **At left**, participants in the American Diabetes Association's Step Out: Walk to Fight Diabetes, held on October 3, 2009, get ready to enjoy the exercise and camaraderie the event promotes. Both events were sponsored by Independence Blue Cross.

board of directors and officers*

BOARD OF DIRECTORS

M. Walter D'Alessio
Chairman

Charles P. Pizzi
Vice Chairman

Salvatore J. Barbuto
Joseph A. Barilotti
Robert W. Bogle

Debra L. Brady
Christopher Butler
Edward S. Cooper, M.D.
Edward Coryell
A. Bruce Crawley
Nicholas DeBenedictis
Patrick J. Eiding
Thomas J. Ellis, Esq.
Patrick D. Finley

Joseph A. Frick
Dr. Vail P. Garvin, FACHE
Patrick B. Gillespie
Nicholas A. Giordano
Warren P. Higgins
Hon. James F. Kenney
Anne Kelly King
Thomas A. Leonard, Esq.
Andrew I. Lewis, IV

Michael D. Marino, Esq.
J. William Mills, III
Alan Paul Novak, Esq.
Michael V. Puppio, Jr., Esq.
Henry H. Reichner, Jr.
William R. Sautter
James C. Schwartzman, Esq.
Gerald S. Segal, Esq.
Robert W. Sorrell

OFFICERS

Joseph A. Frick
President and Chief Executive Officer

Christopher Butler
Executive Vice President

Daniel J. Hilferty
*Executive Vice President and
President, Health Markets*

I. Steven Udvarhelyi, M.D.
Executive Vice President, Health Services

Yvette D. Bright
*Senior Vice President and
Chief Administrative Officer*

Christopher Cashman
*Senior Vice President,
Corporate and Public Affairs*

Douglas L. Chaet
*Senior Vice President,
Contracting and Provider Networks*

Kathryn A. Galarneau, F.S.A.
*Senior Vice President,
Actuarial and Underwriting*

John R. Janney, Jr.
Senior Vice President, Marketing Services

Alan Krigstein
*Senior Vice President and
Chief Financial Officer*

Karen Lessin
*Senior Vice President,
Internal Audit and Corporate Compliance*

Carolyn W. Luther
*Senior Vice President and
Chief Information Officer*

Richard J. Neeson
Senior Vice President

Stephan R. Roker
Senior Vice President, Operations

Richard L. Snyder, M.D.
*Senior Vice President and
Chief Medical Officer*

Linda M. Taylor
*Senior Vice President and
Chief Marketing Executive*

Paul A. Tufano, Esq.
*Senior Vice President, General Counsel,
and Chief Government Business Executive*

Paul N. Urick, R.Ph.
Senior Vice President, Pharmacy Services

Virginia P. Barakat
Vice President, Human Resources

Royal E. Brown
Vice President, Treasury Services

Mary Elizabeth Dunlavey
*Vice President,
Operations Strategy and Support*

Stephen P. Fera
Vice President, Government Business

Lawrence J. Kissner
Vice President, Marketing and Sales

Richard F. Levins, Esq.
Vice President and Deputy General Counsel

Kathleen A. Lister
Vice President, Communications

Lorina L. Marshall-Blake
Vice President, Government Relations

Brett A. Mayfield
Vice President, Sales

Mary Ellen McMillen
Vice President, Legislative Policy

Edward H. Morris, Jr.
Vice President, Investments

Lauren C. O'Brien
Vice President and Chief Accounting Officer

R. Scott Post
Vice President

Lilton R. Taliaferro, Jr., Esq.
*Vice President, Deputy General Counsel,
and Assistant Secretary*

Hendrik B. Vermeulen
Vice President, Informatics

Elizabeth A. Williams
Vice President, Corporate and Public Affairs

*As of March 1, 2010.

the companies of independence blue cross

Founded in 1938, Independence Blue Cross is the region's leading provider of health care benefits. We provide health insurance and a range of supplemental health specialty products through our affiliates and subsidiaries, which include:



QCC Insurance Company. This wholly owned subsidiary offers quality, cost-effective preferred provider plans, including Personal Choice® PPO and Personal Choice 65SM PPO. QCC also offers the Medicare Part D plan, Select Option® PDP.



Keystone Health Plan East. This wholly owned subsidiary health maintenance organization offers a flexible suite of products, which includes Keystone Health Plan East, Keystone Point of Service, and Keystone 65.



Independence Administrators. Serving self-funded health plans for groups of 100 or more in the five-county southeastern Pennsylvania region, this wholly owned subsidiary is a third-party administrator that offers tailored, cost-effective benefits management services, including claims payment, health management, and consumer-directed health plan options.



AmeriHealth. The AmeriHealth companies operate outside the five-county southeastern Pennsylvania region and in two adjacent states, and they provide AmeriHealth HMO, AmeriHealth POS, AmeriHealth PPO, traditional coverage, and AmeriHealth 65® products.



AmeriHealth Administrators. Serving self-funded health plans for groups of 100 or more, this wholly owned subsidiary is a national third-party administrator that provides comprehensive benefits management services, such as claims payment, health management, and consumer-directed health plan options.



AmeriHealth Casualty Services. This wholly owned subsidiary insurance agency offers workers' compensation insurance, life and disability insurance, third-party claims administration, and integrated disability management in Pennsylvania, New Jersey, Delaware, and Maryland.



AmeriHealth Mercy Family of Companies. A partnership between IBC and Mercy Health System, these companies offer Medicaid managed care plans and related services in Pennsylvania, Indiana, and South Carolina. The company delivers quality health care to low-income populations covered by Medicare, Medicaid, and State Children's Health Insurance Programs.



FutureScripts. This wholly owned subsidiary is a pharmacy benefits management company delivering cost-effective prescription drug coverage to employer groups and health plans. Working directly with drug manufacturers and a national pharmacy network, FutureScripts provides flexible options backed by quality customer service.



CompServices, Inc. Operating in Pennsylvania, New Jersey, and Delaware, this wholly owned subsidiary offers administrative services for self-insured workers' compensation programs, such as case management and claims administration.



Independence
Blue Cross

| www.ibx.com

we're here for you every step of the way

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. Independence Blue Cross is an independent licensee of the Blue Cross and Blue Shield Association.



Supplied by Comuna y Energy



Mixed Sources
Product group from well-managed
forests, controlled sources and
recycled wood or fiber
www.fsc.org Cert no. SIB-COC-002169
© 1996 Forest Stewardship Council



The Independence Blue Cross 2009 Annual Report is
printed on recycled paper with 30% post-consumer fiber

