For Immediate Release

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Study: CEOs of BCBS Organizations Deliver Unexpected Bang for the Buck Relative to the CEOs of Large Public Health Insurance Companies

Reading, Pennsylvania (November 28, 2016) – with the hyperbolic escalation of health insurance premiums, those who purchase insurance (both companies and individuals) are highly concerned about the administrative costs of health insurance companies. Executive compensation is front and center of the scrutiny. So how has pay changed for the corporate leaders since 2013 (the first year of implementation of the Affordable Care Act – also known as Obama Care)?

Insurance premiums are increasing faster than salaries for most Americans, but is this also the case for corporate leaders? The salaries of Chief Executive Officers at Blue Cross and/or Blue Shield (BCBS) organizations went up an average of 2.5% annually since 2013; this is less than the typical merit budget of 3%. Total cash (salary plus annual bonus) levels for these CEOs increased at an annualized rate of 6.4%. Actual Total Direct Compensation (salary + annual bonus earned + payments of long-term bonuses) increased by an average annualized rate of 9.5% according to a recent study by HR+Survey Solutions (www.hrsllc.com), a specialty compensation consulting and research firm.

By way of comparison, for the Chief Executives at the larger publicly traded companies, salaries have increased by an average of 6.3% per annum, total cash compensation has increased by an annualized rate of 18.8% and total direct compensation has increased by an annualized average of 26.1% based on a review of proxy filings.

In addition, pay levels for Chief Executives of the BCBS organizations are still far less than the average pay enjoyed by their counter parts of the public insurance companies. The study revealed that the average total direct compensation (TDC) for the CEOs of the BCBS organizations is only about one fifth (20 percent) of the average level of pay reported in proxies for the large publicly held health insurance companies.

BCBS vs Public Health Insurance Cos CEO Pay Differentials:	
Salary	16% Below Public Companies
Total Annual Cash	46% Below Public Companies
Total Direct Compensation	80% Below Public Companies

This gap in pay is primarily due to the annual and long term incentives paid to the CEOs. Variable pay (annual and long-term incentives, including stock options) accounts for over 90% of the CEO pay packages of the public companies compared to approximately 67% of the CEO pay packages at BCBS organizations.

This raises the question, is the pay for the CEOs at these companies appropriately calibrated given the differences in company size? This was tested using two metrics: (1) Revenues Generated per Dollar of CEO Total Direct Compensation, and (2) Total Direct Compensation Paid to the CEO per Member. One might expect that the larger companies would come out on top as a result of economies of scale, but that is not the case.

An analysis of the larger regional BCBS insurance companies revealed that they generate almost exactly the same revenues per dollar of CEO pay as the large public companies. Despite being significantly smaller, the BCBS organizations' revenue per dollar of total direct compensation was 94% of the publicly traded health insurance companies.

The total direct compensation paid to the CEO per member at the larger private BCBS organizations is 76% of the amount paid to the CEOs of the publicly traded companies. So, on average, CEO pay costs less per member at the BCBS organizations than at larger publicly traded companies.

Pay	Average Revenues per Dollar of CEO Total Direct Compensation	Average CEO Total Direct Compensation per Member
BCBS	$3,049	$1.20
Public Health Insurers[1]	$3,247	$1.58
BCBS as a % of Public HI	94%	76%

These findings are based on the eleventh annual Executive Total Potential Remuneration (TPR) Compensation, Benefits and Perquisites Survey which assessed pay for the CEO and other executive and management positions at 21 Health Insurance organizations, including 18 BCBS organizations.

"Blue Cross and/or Blue Shield organizations are a great example of how companies can provide targeted regional health insurance solutions and effectively manage their resources," says Judy Canavan, managing partner, HR+Survey Solutions.

The shift in CEO pay at the Blues has been more toward variable compensation over the last five years. Annual and long-term incentives comprised about 67 percent of the pay package in 2015, up from 56 percent in 2012, and well up from the 46 percent level in 2007. This is still less leveraged than the larger publicly held companies where the incentives represent over 90 percent of their compensation package. Long-term incentives alone comprise 75%, on average, of total direct compensation. It is also important to note that long term incentives are paid almost exclusively in long term cash at the Blues, while the public companies favor stock based plans.

"Because most BCBS organizations are not-for-profit or mutual companies, their strategic focus is on providing valuable products for their policy holders and creating and maintaining a strong provider network; these goals are embedded in their

[1] Based on data from public filings. Excludes United because it is significantly larger than all other health insurance companies both public and private.

incentive plans," explains Canavan. "Conversely, publicly traded health insurance companies have shareholder return as their number one priority (through the use of stock-based incentives). Though it is not clear if generating value for shareholders benefits the policy holders or the providers," she adds.

Other study highlights

- All participants in the study utilize an annual incentive plan for their executives and managers.
- Target annual incentives have changed very little over the last three years, on average, for the CEO position.
- The vast majority of the study participants (90 percent) have a long term incentive plan – the prevalence of LTI has remained fairly constant over the last five years.
- The larger BCBS plans tend to have more pay at risk than the smaller plans (67 percent variable pay versus 44 percent for smaller plans)

About the methodology

The 11th annual Total Potential Remuneration Survey (TPR Survey)[2] was published by HR+Survey Solutions in August, 2016. A total of 21 Health Insurance organizations, including 18 Blue Cross and/or Blue Shield organizations participated, with 44 executive and management positions covered. The TPR Survey assesses compensation packages including salary, benefits, executive perks, long and short-term incentives, SERPs, and severance agreements, among other values. If you are interested in participating in the 2017 Total Potential Remuneration Survey, contact Judy Canavan at 866-252-6788 x902 [jcanavan@hrsllc.com].

About HR+Survey Solutions

HR+Survey Solutions conducts annual industry and custom client surveys and provides organizations with expert advisory services focused on compensation plan design and assessment of appropriate compensation levels. Please visit www.hrsllc.com for more information.

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[2] This study was conducted by HR+ Survey Solutions, with no affiliation or sponsorship by the Blue Cross and Blue Shield Association or other Blue companies.