

A message from the Chief Financial Officer



Remaining financially strong in a troubled economy and an industry in flux is key to our future ability to provide health benefits to our members. Blue Cross Blue Shield of Michigan is doing everything possible to manage our financial performance to provide the best value to our members, group customers, network providers and the state of Michigan. Our financial results for 2010 reflect that we are continuing to transform our business to meet those challenges.

The combined revenues of Blue Cross Blue Shield of Michigan and its subsidiaries totaled \$19.3 billion in 2010, with \$17.4 billion — more than 90 percent of the total revenue — going to fund benefits on behalf of customers and members. This equals \$47 million in benefits paid per day, on average.

The Company experienced a \$168 million underwriting loss in 2010. Ongoing significant losses from the company's Medicare Supplemental (Medigap) product, which has regulated rates below costs, primarily contributed to the negative results. This was the fifth straight year that the Company posted a consolidated underwriting loss.

A better-than-average investment year with net investment earnings of \$443 million and aggressive cost-management initiatives contributed to a positive financial margin of 1 percent in 2010. Without these factors, the Company's 2010 results would have been significantly worse, and not able to overcome the considerable underwriting pressures facing the Company.

The Company's risk-based capital ratio, which is the state's measure of financial health, improved slightly to 698 percent. RBC is the measure used by the National Association of Insurance Commissioners to measure the amount of capital needed to operate a company, based on its size and business risk profile. Our better-than-expected investment performance was the primary driver of an improved RBC, without which our RBC would have been more than 100 points lower.

We continue to be fully dedicated to analyzing the Patient Protection and Affordable Care Act and are in full compliance with its mandates. Despite this new era in health care, the Company continues to work within the parameters of a broken state regulatory system in the individual health insurance market. We continue to struggle with financial losses in our individual line of business because we take the brunt of high-cost medical claims, as other insurance companies are still allowed to reject individuals because of their health.

Our reserves are pressured, but we have managed to keep them sound. We keep our reserves well below the state-mandated maximum to provide a modest safety net that ensures we can pay claims. To put our reserves into perspective, they amount to a cushion of approximately \$260 per member before we dip below our national association's reserve requirements.

Although we posted a modest positive financial margin in 2010, we continue to face significant challenges due to Michigan's regulatory constraints under which we operate and a time of significant change in our industry and the economy. But, we have become a stronger company over the last year due to our efforts to maximize our investment earnings and the efforts of each employee to avoid or cut unnecessary costs.

A handwritten signature in black ink that reads "Mark R. Bartlett". The signature is written in a cursive, flowing style.

Mark R. Bartlett

Executive Vice President, Chief Financial Officer
and President of Emerging Markets
Blue Cross Blue Shield of Michigan

Historically, Blue Cross Blue Shield of Michigan has used generally accepted accounting principles for its annual report of financial results. GAAP reporting is reviewed by our independent auditor and is the accounting method used in this report. BCBSM also files a required financial report earlier in the year with the state regulators, who require use of statutory accounting principles. GAAP and SAP are both accepted methods but use different guidelines and criteria for reporting. Most differences between GAAP and SAP involve accounting treatment of assets. Certain assets that may not be easily converted to cash do not factor into SAP accounting. In another difference, GAAP reflects subsidiary operations and investments — it's a full consolidation of parent and subsidiary financial results on an enterprise basis. SAP numbers reflect BCBSM performance only.