

2016 Executive Compensation Summary

Blue Shield of California: We're Truly Mission-Driven

At Blue Shield our mission is to ensure all Californians have access to high-quality health care at an affordable price. We are transforming a dysfunctional healthcare system into one that's sustainably affordable and worthy of our family and friends. To get there, everything we do, every decision we make, must be driven by our mission, including having a strong leadership team that pushes us forward to achieve our goals.

The intent of this document is to give direct insight into the components of our executive compensation program and show how we pay for performance. As a nonprofit healthcare plan, it's important to us that we continue to raise the level of transparency in our industry, and ensure our members and partners fully understand what we do and why we do it.



Key Facts About Our Executive Compensation

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Our Compensation Philosophy

Blue Shield rewards its executives for strong company performance, but how they get it done is as important as what gets accomplished. It is expected that Blue Shield's executives are anchored in our values and are continuously emblematic of our leadership behaviors, including putting our members first, building high-performing teams, delivering results, taking an enterprise view and giving back to the communities we serve.

At Blue Shield we are committed to having a compensation program that is fair, equitable, performance-based, and competitive in order to attract, retain, motivate and reward an executive team with superior skills and experience – to lead and win in the health care industry and fulfill our mission.







We pay for outcomes versus effort and emphasize achieving them in the right way, aligned with our values and leadership behaviors.

The program is reviewed annually by an independent committee comprised of outside directors, called the Compensation and Human Resources Committee. The Committee:

- ▶ Determines the program's guiding principles and objectives
- ▶ Works with an independent consultant to benchmark Blue Shield's program against peer companies, which include nonprofit and for profit managed care companies, and general industry
- ▶ Establishes challenging short- and long-term incentive goals and targets for executives
- ▶ Monitors company performance against goals and sets applicable corporate performance factors
- ▶ Reviews and approves the performance of the Chief Executive Officer and his direct reports
- ▶ Reviews and approves executive compensation actions

Key Elements of Our Executive Compensation Program

Blue Shield's executive compensation program consists of the following elements:

		Link to Program Objectives	Type of Compensation	Key Features
Base Salary		Provides a stable source of income and is a standard compensation element in executive compensation packages	Cash	Generally targeted between competitive median of the market and the 75th percentile, with differentiation expected for each individual based on their skills, experience, market conditions, performance and demonstrated contributions to the company
Executive Incentive Plan		An annual cash-based award that encourages executives to focus on specific corporate and individual performance goals	Cash	Target incentive opportunity is set as a percentage of base salary and is paid only if threshold performance levels are met and leadership behaviors are demonstrated
Long-Term Incentive Plan		Helps ensure that executive pay is directly linked to the achievement of the company's long-term strategic objectives; promotes retention	Cash	Target incentive opportunity is set annually with a three-year horizon needed to achieve the company's performance goals and objectives
Health and Welfare Benefits		Critical element of a total rewards program that helps attract and retain employee and executive talent	Benefit	Comprehensive program of benefits that are available generally to all Blue Shield employees
Retirement		Critical element of a total rewards program that helps attract and retain executive talent	Benefit	Executives receive retirement benefits through three plans: <ul style="list-style-type: none"> • 401(k) Plan • Defined Benefit Pension Plan (closed to new participants as of 1/1/16) • Supplemental Executive Retirement Plan (closed to new participants as of 1/1/16)
Other Benefits (e.g. perquisites)		Provides support for executives to plan for the future appropriately. Benefits are market competitive and include financial counseling	Benefit	Perquisites are limited in amount and the Compensation and Human Resources Committee limits eligibility and use

Blue Shield's success depends largely on the contributions of motivated, focused and energized people all working to achieve our strategic goals. This understanding shapes our approach to providing a competitive total rewards package to our executives, including the Chief Executive Officer.

Our Executive Compensation Program

Target Total Compensation



BASE SALARY

Base salary, also expressed as eligible earnings, provides executives with a reliable source of income.

37%

On average, **base salary** makes up 37% of an executive's target total compensation.



INCENTIVES

Blue Shield offers two awards:

- ▶ **Executive Incentive Plan**
- ▶ **Long-Term Incentive Plan**

We set targets annually, as a percentage of an executive's eligible earnings. Payouts tie directly to the company's achievement of short-term and long-term goals and the consistent demonstration of our leadership behaviors.

63%

On average, **incentives** make up 63% of an executive's target total compensation. This is the percentage of pay "at risk," meaning not fixed for executives.

Plus other programs:

Total Benefits Package

On average, Blue Shield's **benefits package** adds an amount equal to 14% of target total compensation to an individual's total rewards.



**HEALTH, INSURANCE
& RETIREMENT
BENEFITS**

This includes Blue Shield's health, wellness, insurance and retirement benefits, including our pension plan (for eligible employees) and 401(k) plan.

Executive Incentive Plan

This incentive opportunity is tied to achievement of short-term strategic and financial goals, and demonstration of our leadership behaviors.



Performance is measured over a one-year period.

Our 2016 Short-Term Goals

(apply to compensation payable in 2017)

20% Customer Experience

20% Membership

20% Operating Income*

15% Clinical Quality

15% Readiness**

10% Care 1st



*The Operating Income measure payout is capped to assure we maintain focus on balancing our nonprofit mission, financial and operational performance.

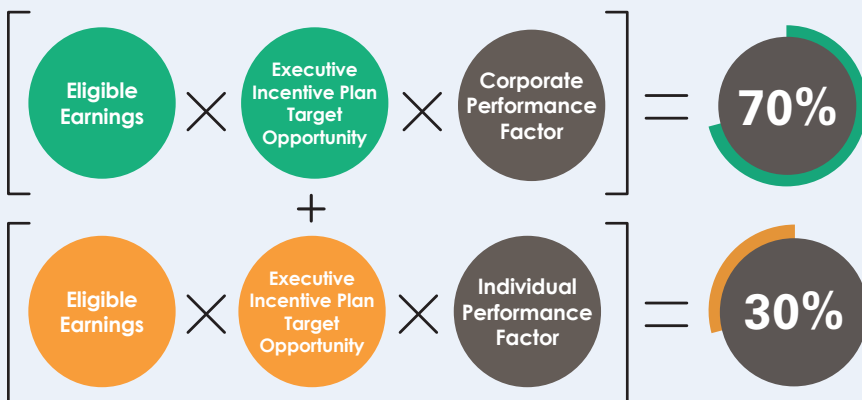
** Creation of books of record with member, provider, clinical, claims, and product data in order to migrate data to a new system that reduces administrative costs and improves affordability for our members.

Determining an Executive Incentive Plan Award

Corporate and individual performance sets the amount paid out against an executive's target.



Corporate performance sets the amount of the Executive Incentive Plan payout based on achievement of Blue Shield's goals.



An executive's **individual performance** against goals impacts the remainder of the Executive Incentive Plan payout.

70%

of the Executive Incentive Plan award is based on corporate performance, and

30%

is based on individual performance.

What is a performance factor?

A performance factor can increase or decrease an executive's payout.

In particular, the corporate performance factor is set as a percentage for the entire company, based on achievement of Blue Shield's goals.

165%

of target is the maximum payout allowed.

Executive Incentive Program Award



Long-Term Incentive Plan

This incentive opportunity is tied to long-term strategic and financial goals that support achieving our mission.



Performance is measured over a rolling three-year period.

Our 2016 Long-Term Goals

(apply to compensation payable in 2019)

- 20% Affordability
- 20% Membership
- 20% Risk-Based Capital
- 15% Customer Quality
- 15% Clinical Quality
- 10% Great Place to Work



Determining a Long-Term Incentive Plan Award



The corporate performance factor for the Long-Term Incentive Plan ranges from

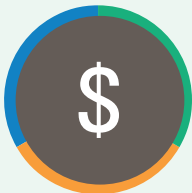
0% to 200%

When applied to an executive's Long-Term Incentive Plan target, it can increase (or decrease) an executive's award payout.

200%

of target is the maximum payout allowed.

Final Award



Our Top 10 Executives

Below is a summary of the compensation paid in 2016 to Blue Shield of California's top ten highest paid, active executives as of year-end. Their total compensation was less than 1% of the company's total general, administrative, marketing, and selling expenses.

Paul S. Markovich

President and Chief Executive Officer

\$3,399,750^{1,2}

Michael A. Murray

Chief Financial Officer

\$2,231,523^{1,2}

Seth A. Jacobs

SVP, General Counsel
and Corporate Secretary

\$1,995,798^{1,2}

David W. Fields

EVP, Markets

\$1,877,694^{1,2}

Michael G. Mathias

SVP, Chief Information Officer

\$1,172,505^{1,2}

Mary M. O'Hara

Chief Human Resources Officer
& SVP, Internal Communications

\$1,140,453^{1,2}

Jeffrey W. Robertson

SVP, Chief Marketing Officer

\$1,128,119^{1,2}

Nitin Bhargava

SVP, Employer Markets

\$1,034,493^{1,2}

Todd K. Walthall

SVP, Customer Experience

\$973,017^{1,2}

N. Marcus Thygeson

SVP, Chief Health Officer

\$949,962^{1,2}

Below is a summary of the compensation paid to former executives who left the company in 2016 and whose compensation placed them in the top ten highest paid overall.

Juan C. Davila

EVP, Health Care Quality & Affordability

\$4,278,022^{1,2,3}

Thomas J. Brophy

VP, Finance and Treasury

\$2,040,493^{1,2,3}

Michelle A. Simpson

SVP, Employer Markets

\$1,890,909^{1,2,3}

Catherine B. Campbell

VP, Consumer Sales

\$1,500,126^{1,2,3}

Note: Ms. Campbell participated in Blue Shield's Sales Incentive Plan at the beginning of the year prior to becoming eligible for the Executive Incentive Plan and Long-Term Incentive Plan.

Kenneth F. Wood

SVP, Consumer and Senior Markets

\$1,301,716^{1,2,3}

¹ Amounts paid March 2016 reflect performance in fiscal year 2015 for the Executive Incentive Plan, and 2013-2015 for the Long-Term Incentive Plan, plus 2011-2013 for the Supplemental Long-Term Incentive Plan. In 2014, the supplemental plan was folded into the Long-Term Incentive Plan.

² Gross earnings may include other items such as executive perquisite allowance, taxable benefits, moving allowance, etc.

³ Upon departure from Blue Shield there are sometimes one-time payments incurred that are reported as part of income, such as separation pay, and pension or retirement plan payouts earned over several years of service.

2016 Chief Executive Officer Compensation

Our Chief Executive Officer's compensation—and that of our top executives—is weighted heavily toward performance-based incentives, meaning it is “at risk” based on company performance.

2016 Base Salary
\$1,159,567

66%

of Mr. Markovich's total compensation (base salary + Executive Incentive Plan + Long-Term Incentive Plan) was delivered through **performance-based** incentives.



Actual Executive Incentive Plan Payout¹

(based on 2015 goal achievement)

\$1,193,330

86% Percent of target delivered

Actual Long-Term Incentive Plan Payout¹

(based on 2015 goal achievement)

\$1,041,000

104% Percent of target delivered

2016 Gross Earnings²
\$3,399,750

which, at the 50th percentile, is 26% less than that of other Chief Executive Officers of managed care companies.

The CEO Total Benefits Package

Blue Shield's benefits package adds an amount equal to 13% of total compensation to the CEO's total rewards. Blue Shield provides competitive benefits that target the market median, consistent with the company's compensation philosophy.



Health and Welfare:
\$22,024

Employer 401(k) match:
\$10,600 employer 401(k) match.
All employees receive a 4% match from Blue Shield when participating in the voluntary 401(k) plan.

Deferred benefit retirement plans:
the Blue Shield pension plan (closed as of 1/1/2016) and the non-qualified Supplemental Executive Retirement Plan are payable and portable upon retirement. The CEO participates in the same deferred compensation benefits as other eligible employees.

¹ Incentives paid in 2016 are derived from eligible earnings applicable during the relevant performance periods.

² 2016 gross earnings include other items such as executive perquisite allowance in addition to base salary and incentives.

How We Compare Against the Market

When compared to peer companies, we target the market median for target total compensation (base salary plus annual incentive plus long-term incentive) and a range between the 50th - 75th percentile on salary and short-term incentive.

Although competitive, total compensation paid in 2016 to Blue Shield's Chief Executive Officer was on the lower end when compared with similarly-sized managed care companies, including:

- ▶ Blue Cross Blue Shield companies
- ▶ Cigna
- ▶ Molina Healthcare
- ▶ Providence Health
- ▶ Tenet Healthcare
- ▶ WellCare Healthcare Plans
- ▶ Other similarly-sized nonprofit and for profit companies in the managed care industry

Other companies we track include:

- ▶ Centene
- ▶ Aetna
- ▶ United
- ▶ Anthem
- ▶ Humana
- ▶ Kaiser



Comparing CEO Compensation for 2016

26%

.....▶

The actual total compensation paid to Blue Shield's Chief Executive Officer was **26%** less than the median target total compensation for Chief Executive Officers of similarly-sized managed care companies.