

A message

from the Chief Financial Officer

Mark R. Bartlett
Executive Vice President,
Chief Financial Officer and
President of Emerging Markets
Blue Cross Blue Shield of Michigan



Our journey in 2009 was framed in the familiar — a global economic crisis and a broken health insurance regulatory system in Michigan necessitating individual market reform. But we know our stakeholders are expecting us to manage the business well in the midst of this, and we are doing just that.

We are working diligently to help control health care costs, including introducing new products that reward people for following a healthy lifestyle, and working more closely than ever with doctors and hospitals to promote preventive care and eliminate medical errors. We are aggressively but responsibly managing our investment portfolio, and in 2009 our investment strategy yielded a 14.5 percent return rate — which outpaced national benchmarks. We are deeply engaged in a corporate Performance Transformation initiative to address our cost base and the efficiency of running our complex business. In fact, our Performance Transformation efforts at Blue Cross Blue Shield of Michigan and Blue Care Network delivered a cumulative value of \$158.6 million in 2009, which exceeded our goal. Because of strong investment returns and responsible management of our costs, the Corporation posted a positive net consolidated income of \$233.1 million under GAAP, of which \$144 million was from subsidiaries.

Our investment returns and subsidiaries in 2009 mitigated the negative effects of the economy and a broken state regulatory system that requires the Corporation's health care business to absorb a disproportionate share of risk in the state's growing individual insurance market. We remain engaged with policymakers at both the state and federal levels to frame solutions to Michigan's regulatory problem in the individual market.

Our 2009 financial statements show a \$319.5 million operating loss. Underlying this was a \$186 million underwriting loss in our Medicare Supplemental lines and a \$94 million loss in our individual products for people under 65. Including 2009, BCBSM's average underwriting margin on its health care business has been negative one-tenth of one percent over the last five years.

Despite losses sustained in our health care business, our reserves have remained at a stable level because of our good investment returns and subsidiary performance. Subscriber reserves are essential to the running of a well-managed insurance business. They are a safety net against a fluctuating economy, a catastrophic event like an earthquake or a pandemic, and other unexpected threats. BCBSM reserves are necessary and required, and they are in the midrange of our regulatory requirements set by the state of Michigan and the Blue Cross and Blue Shield Association.

The Corporation must maintain its financial strength to fulfill our unique mission to protect the vulnerable and provide access to health care coverage for all who apply. We are making every effort to manage our business responsibly and effectively to ensure that our financial foundation remains strong.

Sincerely,

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