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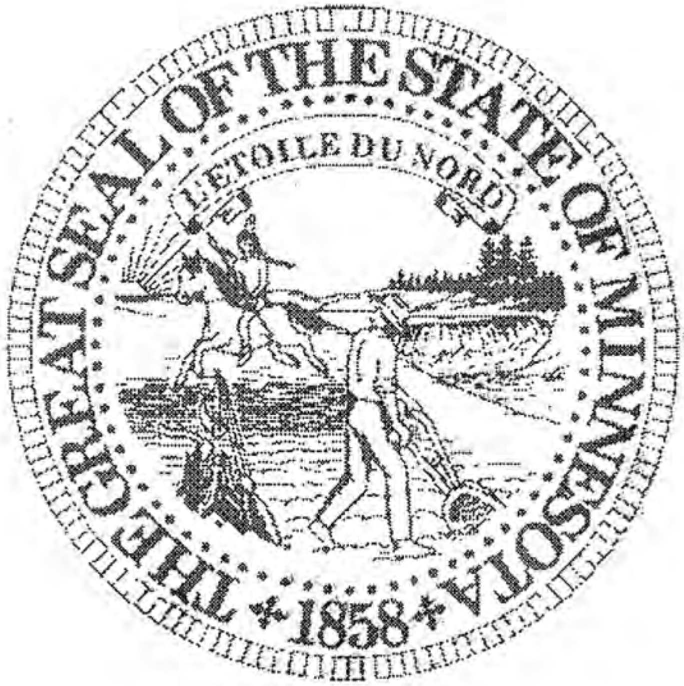
EXECUTIVE COMPENSATION AND BOARD COMPOSITION



Office of Minnesota Attorney General
Mike Hatch

VOLUME IV: EXECUTIVE COMPENSATION AND BOARD COMPOSITION

EXECUTIVE SUMMARY

BCBSM's executives are handsomely paid. It is not only profitable for executives to be hired by BCBSM, it is equally profitable for them to be retired and even fired.

CEO Compensation. From 2000 to 2004, CEO Mark Banks was paid between \$2.4 million and \$3.1 million. In each of the past four years, Dr. Banks' compensation was rated the highest of Minnesota's 100 largest health care nonprofit organizations. Dr. Banks' compensation also ranks at the top of nonprofits nationally. Dr. Banks also receives lucrative retirement benefits. He has five retirement accounts and, in one account alone, Dr. Banks will be eligible for retirement pay worth more than \$12 million after just ten years as CEO.

Executive Compensation Generally. BCBSM reports that it has 32 vice presidents and senior vice presidents. The AGO reviewed the compensation of the twelve highest paid executives -- three of whom had earnings of more than \$1 million in at least one year reviewed. BCBSM purports to pay its executives at rates comparable to its peers, although BCBSM would not disclose which peer positions its executives' salaries were compared to. In fact, it appears that BCBSM's executive salaries exceed the average salaries paid by BCBSM's peers.

Retirement Benefits. In 2001 BCBSM hired a consultant to analyze its executive benefits. Among other things, the consultant determined that BCBSM's executive retirement benefits are more lucrative than over 75% of comparable companies.

Severance. Under BCBSM's policy, terminated executives other than the CEO receive 52 weeks of severance. The CEO is eligible for three years of continued salary, incentives and benefits. Despite this policy, BCBSM paid a former senior vice president 78 weeks of his base salary, outplacement assistance, a relocation payment and deferred compensation for a total severance package of more than \$1 million.

Consultant Driven Process. BCBSM hired at least four executive compensation consultants, at a cost of almost \$3 million, to collect and analyze executive compensation data during the review period. While the process utilized by BCBSM to determine executive compensation is highly structured, identification of the positions with which BCBSM's executives are compared is not possible to determine. Also, BCBSM management "adjusts" the survey data before comparing it to BCBSM's salaries. As a result, it is not possible to determine whether BCBSM's salaries are really in line with its peers.

Performance-Based Factors. In addition to base salary, executives are eligible for annual bonuses and long-term bonuses. In its performance-based measurements, BCBSM provides a greater emphasis on financial incentives than on mission-driven incentives. Also, the level of challenge to achieve a bonus is low -- executives received annual and long-term bonuses in each year of the compliance review.

Board Composition. BCBSM's Board is self-perpetuating. Board members elect themselves and their successors. Of the 14 current board members, two are not even Minnesota residents. BCBSM's structure virtually ensures that its Board members are accountable to no one.

Conclusion. BCBSM's Board of Directors needs to examine its executive compensation decision-making process and make revisions to make sure the process is effective, cost efficient and transparent.

With respect to the composition of the Board, subscribers must be represented and have the right to vote on Board members. In addition, the AGO believes that it is important to have a certain number of members on the Board who are appointed by the Governor to provide for public accountability.

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EXECUTIVE COMPENSATION
AND BOARD COMPOSITION

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I. Introduction

Executive compensation in nonprofit organizations is coming under increasing government scrutiny. The Commissioner of the Internal Revenue Service stated recently that "there are indications that [nonprofit] organizations have allowed key executives too great a voice in determining their own compensation or have otherwise not done due diligence in setting compensation levels."[1] The dramatic increase in health premiums -- over 50% in the past three years -- has heightened this scrutiny as it relates to the health care industry. (Exhibit 1). When it comes to high CEO pay, the CEOs in the health care industry are second to none. (Exhibit 2). Indeed, the compensation paid to Minnesota health care executives has been the subject of national commentary. *How Nice to be the Chief Medical Officer -- of a Large Commercial HMO in or Near Minnesota*, MANAGED CARE (Compensation Monitor), August, 2001. (Exhibit 3).

II. Applicable Law

A. Minnesota Nonprofit Corporation Act

The Minnesota Nonprofit Corporation Act (the "Act"), Minn. Stat. Ch. 317A, is based in substantial part on the American Bar Association Revised Model Nonprofit Corporation Act (the "Model Act") adopted in 1987. The Act provides that the board of directors of a nonprofit corporation is responsible for the management of the business and affairs of the corporation. Minn. Stat. § 317A.201 (2004). In carrying out their responsibilities under the Act, officers and directors have three basic fiduciary duties: (1) the duty of care; (2) the duty of loyalty; and (3) the duty to follow the law. *See* Minn. Stat. §§ 317A.251, subd.1; 317A.255 and 317A.361 (2004). These duties are owed to the corporation itself and apply to the setting of compensation

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[1] Mark W. Everson, Commissioner of Internal Revenue, Remarks at the Greater Washington Society of CPAs, Washington D.C. (December 14, 2005) http://www.irs.gov/pub/irs-tege/everson_gwcpa_speech_on_tax_exempt_entities.pdf.

as part of the business and affairs of the corporation. Indeed, the Official Comments to the Model Act state that in setting compensation for directors and officers, the board must comply with the Model Act's standards of care, loyalty and obedience to the law. REVISED MODEL NONPROFIT CORP. ACT, § 8.12 cmt. Accordingly, the Comments state that the payment of unreasonable levels of compensation is prohibited. *Id.*, Comments, §§ 1.40, 3.01, 8.12, 13.01.

B. Limits on Compensation Under 26 U.S.C. § 4958: "Excess Benefit Transactions"

In 1996, Congress enacted a law authorizing the Internal Revenue Service ("IRS") to impose sanctions for "excess benefit transactions" by certain tax-exempt organizations. 26 U.S.C. § 4958. Section 4958 defines an "excess benefit transaction" as follows:

> The term "excess benefit transaction" means any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit. For purpose of the preceding sentence, an economic benefit shall not be treated as consideration for the performance of services unless such organization clearly indicated its intent to so treat such benefit.

26 U.S.C. § 4958(c)(1)(A). The "excess benefit" on which the sanction is imposed is simply the amount by which the value of the benefit received by the insider exceeds the value of services for which the benefit was paid. 26 U.S.C. § 4958(c)(1)(B).

The IRS created a safe harbor rule which essentially states, as it relates to salaries, that a "rebuttable presumption of reasonableness" exists if the nonprofit takes the following steps:

1. The compensation is approved in advance by an authorized body of the tax-exempt organization composed entirely of individuals without a conflict of interest;

2. The board obtained and relied upon an appropriate comparability data[2] in making its determination; and

3. The board adequately documents the basis for its determination, concurrently with making its decision.

26 C.F.R. § 53.4958-6(a).

Because BCBSM is a taxable entity, it is not subject to the IRS regulations pertaining to excess benefit transactions. Nonetheless, BCBSM's board of directors has indicated that it intends to comply with these regulations:

> The Human Resources Committee and Blue Cross Board of Trustees uses as a model IRC § 4958 and Treas. Reg. § 53-4958 so that its compensation practices fall within the section 4959 "safe harbor" as if Blue Cross were subject to those requirements...

(Exhibit 4). Accordingly, the reasonableness of the compensation paid to BCBSM's executives was reviewed for consistency with the above regulations.

III. OVERVIEW OF EXECUTIVE COMPENSATION: *IT'S A WONDERFUL LIFE* (TO BE A BCBSM EXECUTIVE)

A. It's Good to be Hired

1. Forms of Compensation and Benefits

BCBSM executive officers are generously paid.[3] BCBSM pays its executive officers the following forms of compensation:

[2] The regulations provide that relevant comparability information includes compensation paid by similarly situated organizations, both taxable and tax-exempt, for functionally comparable positions; the availability of similar services in the geographic area of the applicable tax-exempt organization; concurrent compensation services compiled by independent firms; and actual written offers from similar institutions competing for the services of the employee. 26 C.F.R. § 53.4958-6(c)(2)(i).

[3] The AGO's review focused on BCBSM's 12 highest paid officers.

- ***Base Salary.***

- ***Annual incentive award program.*** This program allows executives to earn an annual bonus.

- ***Long-term incentive award program.*** This is a bonus program that rewards officers for corporate performance over a three-year-period.

- ***Pension Equity Plan ("PEP").*** This is a qualified defined benefit plan where employees become eligible for an amount of money at retirement depending on years of service, age at retirement and final average salary. (*Id.*)

- ***Employee Savings Plan 401(k).*** (a) This is a qualified defined contribution plan which allows executives to contribute generally up to twelve percent of their earnings subject to limits set by the IRS. (Exhibit 6).

  (b) BCBSM matches 30% of employee contributions up to six percent of the employee's earnings. (*Id.*)

  (c) BCBSM may make an *additional* discretionary supplemental contribution to employees' 401(k) accounts. (*Id.*)

- ***Executive Deferred Compensation Plan.*** (a) This plan (i) allows executives to defer up to six percent of salary and bonuses to reduce taxable income to allow for more investing; and (ii) helps executives "make up" for the amount they would have saved but could not contribute to their 401(k) due to IRS limits. (*Id.*)

  (b) BCBSM matches 30%, or other percentage set by the Board, of the amount deferred by executives. (*Id.*)

- ***Supplemental Retirement Plan/Supplemental Executive Retirement Plan.*** This plan complements the PEP by paying a pension benefit based on an executive's entire salary and annual incentives without regard to the statutory limits on eligible income under the PEP. (*Id.*)

- ***Medical and Dental Insurance Coverage.*** During at least part of the review period, BCBSM paid 100% of the cost of employee and dependent medical and dental coverage. (Exhibit 7).

- ***Life Insurance.*** BCBSM pays the premiums on the following life insurance plans:

  (a) a $50,000 group term life insurance plan (2000 - 2002), replaced by a two times salary death benefit (Exhibit 8);

  (b) supplemental survivor coverage; and

  (c) travel accident insurance; spouse life insurance; and dependent coverage. (Exhibit 9).

- ***Disability Benefits.*** If an executive is disabled for six months or less, 100% of his salary is replaced pursuant to BCBSM's benefit plan. If an executive is disabled longer than six months, 60% of his salary is replaced. (Exhibit 10).

- ***Execu-flex Benefit Allowance.*** In addition to base salary, BCBSM gives executives 5.5% of their base salary and allows them to put the money into one or more of the following: a "capital accumulation account," which allows investing of the money and withdrawal; individual long-term disability; long-term care; or family supplemental survivor benefit programs. (Exhibit 11).

- ***Severance benefit.*** This benefit provides for 52 weeks of base pay and "outplacement assistance". (Exhibit 12).

- ***Vacation.*** There is no specific number of days of vacation that executives are permitted to take. Rather, the corporate policy allows executive officers to "take vacation as reasonable and appropriate…" (*Id.*)

In addition to the compensation package described above, BCBSM executive officers receive significant perks, including the following:

- ***A car.*** Until 2002, executives received an auto allowance of $8,400 annually. That perk was "discontinued" in 2002 for all executives, other than the CEO.[4] In 2002, BCBSM leased a BMW for its CEO, at a cost of $14,592 per year (Exhibit 14).

- ***"Life Planning Services".*** According to BCBSM, Life Planning Services "combines all the different aspects of your life and catalogs them for you and presents them in a detailed binder." (Exhibit 15.) The service attempts to "assist you in balancing your personal goals with the business goals." *Id.* BCBSM pays $5000 for initial "life plan" and up to $750 for annual updates. (Exhibit 16).

- ***Tax, financial, and estate planning services.*** Until 2005, BCBSM reimbursed executive officers up to $900 per year for tax preparation fees, financial services, estate planning services and legal services for estate planning. (Exhibit 12).

- ***Club memberships.*** BCBSM pays for a Minneapolis Club membership and Kitchi Gammi Club membership for its CEO, Dr. Mark Banks. (Exhibit 17).

- ***Other benefits.*** A variety of other benefits are provided to executives including accident insurance; adoption assistance plan; discounts on child care, health club memberships, massage, acupuncture, and laser vision correction; tuition

[4] When BCBSM "discontinued" the auto allowance in 2002, it actually converted the annual amount of the auto allowance into additional salary for the executives. (Exhibit 31).

reimbursement for undergraduate and graduate programs; onsite fitness center; onsite convenience and gift stores; financial planning seminars; and professional dues in approved organizations. (Exhibit 11).

2. Compensation Paid to Executive Staff

Of the twelve executives whose compensation was reviewed as part of this compliance review, eight, excluding the CEO, were employed by BCBSM during the entire period reviewed. Two of those executives earned more than $1 million during at least one of the years reviewed, and the others were also handsomely paid.[5] The range of compensation paid to these executives is set forth below.

ANNUAL COMPENSATION 2000 TO 2004		
	Lowest	**Highest**
SVP Corporate Affairs	$564,170	$1,808,972
VP Commercial Sales	$489,389	$1,023,596
Executive VP Operations	$585,892	$975,341
SVP Chief Information Officer	$606,255	$825,897
VP Health Management and CMO	$521,305	$774,993
SVP Financial Officer	$447,308	$747,549
SVP Chief Marketing Officer	$489,688	$734,307
VP Chief Actuary	$462,320	$585,364

BCBSM appears to have had at least 32 positions with the title of senior vice president or vice president during the review period. (Exhibit 18). As noted above, salaries of only the 12 highest paid executives were reviewed. Detailed information regarding the compensation paid to those executives is attached as Exhibit 19.

[5] Certain other executives appear to have also been employed during the entire period reviewed, but BCBSM did not provide complete information for them for all years reviewed. Accordingly, the salaries of those executives are not included in this discussion.

3. Compensation Paid to CEO

(a) Elements of compensation.

Dr. Mark Banks became the CEO of BCBSM in 2000 at age 50.[6] From 2000 through 2004, Dr. Banks' total compensation ranged from $2,408,469 to $3,113,517. (Exhibit 19). Dr. Banks' 2004 compensation breaks down as follows:

CEO Total Compensation -- 2004	
Base Salary	$700,000
Annual Incentive Award	257,950
Long-term Incentive Award	306,232
Expense Account and Other Allowances	18,337
401(k) Match and Supplemental Match	84,433
Pension Plan Contribution	70,038
Contribution to SERP	622,659
Medical and Dental Insurance	12,089
Execu-FLEX Benefit Allowance	49,280
Other[7]	287,451
TOTAL	**$2,408,469**

(b) Generous retirement package.

Retirement-related contributions reflected above include a 401(k) match and supplemental match; a pension plan contribution; the SERP contribution; and the Execu allowance. These retirement contributions equaled approximately 35% of Dr. Banks' total 2004

[6] "Newsmakers," *Modern Healthcare*, December 20, 1999, vol. 29, Issue 51, p.24. (Exhibit 20).
[7] BCBSM reported Dr. Banks' total 2004 compensation on IRS Form 990 as $2,408,469. The "Other" amounts represent the difference between the total amount of compensation reported by BCBSM on Form 990 and the total amount of itemized elements of compensation reported to the AGO as part of this compliance review.

compensation; in 2003, they totaled $1,332,093,[8] or almost 45% of Dr. Banks' total compensation of $3,001,496. (Exhibit 19).

At age 60, after just ten years as CEO, Dr. Banks will be eligible for retirement pay worth $12,341,000 under his Supplemental Executive Retirement Plan ("SERP"). (Exhibit 21). The Plan established for Dr. Banks pays 60% of his final average pay using the highest three consecutive years out of the last ten. This amount does not include the retirement benefits to which Dr. Banks is entitled pursuant to his 401(k) account, his PEP, his deferred compensation account, or any capital accumulation account.

Further, while BCBSM's compensation consultant found that cost of living adjustments to payments under SERPs are rare, Dr. Banks' SERP benefit is increased annually by the greater of 2.25% or two-thirds of the change in Consumer Price Index. (Exhibit 22). As a result, following retirement, Dr. Banks' will continue to receive an annual raise.

(c) Highest compensated nonprofit CEO in Minnesota.

BCBSM is in a league of its own in terms of CEO compensation. Dr. Banks' compensation was ranked the highest in the *Minneapolis Star Tribune's* listing of the 100 largest health care nonprofits in Minnesota in each of the past four years. (Exhibit 23). His 2004 compensation almost exceeded the total compensation of the CEOs of the two next highest ranked organizations combined -- Mayo Foundation ($1,544,741) and HealthPartners ($1,132,342). (*Id.*)

Dr. Banks' compensation also ranks at the top among nonprofits *nationally*. If included in *The Chronicle of Philanthropy's* 2005 national survey of the highest paid CEOs of hospitals,

[8] This amount includes life insurance premiums paid by BCBSM; BCBSM discontinued these payments in 2004.

medical centers and health-related charities, Dr. Banks' salary would have ranked No. 1 in the country with his total compensation of $3,001,496.[9]

Although BCBSM claims that it wants to pay executive salaries that are comparable to those paid by peer organizations, its CEO's pay is the highest of nonprofit organizations year after year. It is difficult to see how BCBSM can be found to pay reasonable and comparable executive salaries while at the same time consistently topping Minnesota's compensation charts.

B. It's Good to be Retired

Dr. Banks is not the only BCBSM executive looking forward to retirement. All of BCBSM's executives receive lucrative retirement packages. Indeed, top executives have to work at BCBSM for only a relatively short period of time before they receive a sizeable retirement bounty. For example, an executive officer who retires at 60 with just nine years on the job could receive a "projected lump-sum" of $1,500,000 at retirement. (Exhibit 26). With 11 years of service and retirement at age 62, that sum climbs to $2,881,000. (Exhibit 27). At age 65 with 14 years of service, the total possible retirement package soars to $4,367,710. (Exhibit 28).

In 2001, Clark/Bardes Consulting ("Clark/Bardes"), a healthcare benefits consulting firm, analyzed the benefits paid to BCBSM executives. The study concluded that the retirement package of BCBSM executives is more lucrative than over 75% of other comparable companies. (Exhibit 7). Among other things, it found:

> (1) With respect to BCBSM's discretionary match of executives' deferred compensation (which is in addition to BCBSM's standard match of 30% of the first six percent of pay deferred):

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[9] *The Chronicle of Philanthropy*, Executive Compensation Survey, September 25, 2005, www.philanthropy.com. (Exhibit 24). While this article was published in 2005, it is based primarily on 2003 compensation. (Exhibit 25). Accordingly, Dr. Banks' 2003 compensation was utilized for comparison purposes.

- "Discretionary" matches are *"very unusual"* in nonprofit health care. (Exhibit 7).

- Only five percent of managed care companies and 17% of general businesses offer a discretionary match. (*Id.*)

(2) With respect to BCBSM's SRP/SERP:

- Less than half (44%) of health care organizations, managed care companies and general businesses offer nonqualified defined benefit plans. (*Id.*)

- Only 38% of healthcare providers, 28% of managed care companies and 24% of general businesses offer SERPs. (*Id.*)

(3) Regarding the total amount of employer-paid retirement benefits:

- After 20 years of service, BCBSM pays an average of 44.2% of an employee's average salary in retirement benefits. (*Id.*)

- The median employer-paid retirement benefits for 20 years of service in service organizations, the financial services industry and general businesses is 35 percent. Accordingly, BCBSM's retirement benefits are roughly 26% higher than the median of its peers. (*Id.*)

While BCBSM's Human Resources Committee has expressed some concern regarding BCBSM's lucrative retirement benefits, no changes appear to have been made to reduce them.

C. It's Good to be Fired

BCBSM's terminated executives, other than the CEO, receive a generous 52 weeks of salary plus outplacement assistance. The CEO is eligible for three years of continued salary, incentives and benefits.[10] (Exhibit 17).

[10] Payment of the CEO's severance is triggered not only by actual termination, but also by "constructive termination following change in control". (Exhibit 17).

From 2000 through 2004, three executive officers received severance packages. (Exhibit 29). BCBSM's former Senior Vice President and Chief Information Officer received a particularly lucrative severance package including 78 weeks of his base salary at $5,846 per week; outplacement assistance of $21,250; a relocation payment of $25,000; and deferred compensation of close to $500,000, for a total severance package of more than $1 million. (*Id.*) Strikingly, this severance package is more generous than even BCBSM's own policy allows. (Exhibit 12).

IV. How Executive Compensation is Determined

Levels of executive compensation at BCBSM are primarily based on (i) peer group comparisons and (ii) measures of corporate performance that determine annual and long-term incentive bonuses.

A. Peer Group Comparisons

1. BCBSM's Policy

BCBSM's "Executive Compensation Guiding Principles" state that the framework within which the compensation of BCBSM executives will be measured is as follows:

> In general, *the comparative framework of companies include comparable healthcare industry companies (including Blue Plans and managed care/HMO organizations).* For certain positions, general industry data may also be used in determining the market midpoint. For determining competitive long-term incentive opportunities, however, only non-profit Blue Plans data should be used.

(Exhibit 5).

Every year BCBSM uses two or more outside consulting firms to analyze BCBSM executives' compensation and compare it with that of other organizations. The following executive compensation consultants have been retained by BCBSM during the review period: Clark/Bardes Healthcare Group, f/k/a Healthcare Compensation Strategies; Sibson & Company; Watson Wyatt Data Services; and Towers Perrin.

Typically, BCBSM retained one consulting firm to compare base salaries, annual bonuses and incentive compensation and retained another consultant to review benefit packages. A third consultant was retained on at least one occasion to then review the recommendations of the other paid consultants. (Exhibit 35).

The consultants generally compiled information regarding the compensation paid by BCBSM's peers. The studies conducted by the consultants included information regarding base salary, bonus compensation, certain other benefits and reimbursable perquisites. Compensation paid to BCBSM executives was then compared to the compensation paid to individuals in similar positions, as reflected in the studies.

2. Concerns with BCBSM's Peer Group Comparisons

(a) Identification of peer group.

Although BCBSM's Executive Compensation Guiding Principles state that the comparative compensation framework is to include Blue Plans and managed care/HMOs, there has been continuing uncertainty by BCBSM's Human Resources Committee about what BCBSM's peer group should be. In fact, each of the compensation studies utilized by BCBSM during the review period used different peer groups that were selected in different ways. For example, the 2000 Sibson & Company study focused on 19 Blue Cross Blue Shield plans and nine managed care companies. Companies elected to participate in this survey; as a result, the companies included do not necessarily represent a random sample of BCBSM's peers.

In 2001, Clark/Bardes conducted an analysis of executive benefit plans for BCBSM, comparing BCBSM's executive benefits to those offered by health care providers, managed care companies and companies from completely different industries. The specific "peers" with which BCBSM's benefits were compared are not identified. Indeed, it does not appear that it would even be possible to identify BCBSM's "peers" for purposes of this analysis. This is because Clark/Bardes used information from its own database of 181 hospital and health systems as well as information from seven benefits reports and surveys prepared by other consultants which analyzed data from 316 general industries; 1,017 organizations in the manufacturing, financial and service industries; 207 Fortune 1000 corporations and 232 healthcare and managed care organizations.

Watson Wyatt's 2003 report studied 24 organizations. Various Blues' plans were included in the study as were a number of insurers and managed care companies. The insurers and managed care companies included in this study included health care giants United Health Group, CIGNA HealthCare and Kaiser Foundation Health Plans.

While the studies conducted by BCBSM's consultants benchmark top executive positions at BCBSM with similar positions at a variety of industries, they do not typically include organizations in the same geographic region. In 2001, for example, HealthPartners was the only regional health care organization reviewed. (Exhibit 32). In 2002, seven local companies were compared. However, all but one of them were for-profit companies and none of the seven provided health care coverage. (Exhibit 13). The value in doing a distinct geographic study is that the cost of living is considered when determining if compensation is reasonable. As the cost of living in Minnesota is not that of other major U.S. cities, top executives of Minnesota nonprofits should not be paid like top executives of similar nonprofits in higher cost areas.

(b) Inclusion of ASC revenue inflates compensation.

BCBSM enters into administrative services contracts ("ASCs") with employers and groups that self-insure their health care coverage. Under an ASC, BCBSM handles enrollment, processes claims and performs similar administrative services. BCBSM assumes no risk for this business; the employers and groups are responsible for payment of all claims. In practice, BCBSM "fronts" the money for claims, and 100% of claim costs are reimbursed by the self-insured employers and groups. BCBSM is paid an administrative fee for the services it provides.

One of the main factors that BCBSM considers when comparing its executives' salaries with its peer group is the revenue of its peers. For example, BCBSM compares its executive compensation with a range of companies whose average revenue is comparable to BCBSM's revenue. As a result, how BCBSM calculates its revenue impacts the amount of compensation paid to its executives.

In determining its revenue for comparison purposes, BCBSM includes the monies it processes on behalf of self-insured groups to pay for claims -- the ASC revenue. These funds are never held by BCBSM as an asset and are not reported to the IRS as income. By including these funds BCBSM significantly increases its revenue as 65% of its gross revenue consisted of such reimbursements in 2004. Specifically, BCBSM's total revenue with ASC revenue was almost $5.6 billion; the total without ASC revenue was roughly $2.2 billion. (Exhibit 36).

In the 2004 executive compensation decisionmaking process, BCBSM's peer group included 15 Blue Plans and nine managed care plans. In comparing the salaries paid to its executives, BCBSM's Human Resources Committee appears to have looked at the executive salaries of organizations with $5 to $10 billion in revenue. Based on these comparisons, the Human Resources Committee approved executive salary increases of between 4.2 and 4.5 percent. (Exhibit 39).

If ASC revenue were not included in BCBSM's revenue, and BCBSM compared its executive compensation to organizations with revenue of less than $5 billion, the base salaries of a majority of BCBSM executives would far exceed the medians of the peer group. In fact, base salaries of nine of the twelve top executive positions at BCBSM exceeded the median base salaries of comparable positions at peer organizations with less than $5 billion in revenue. (Exhibit 40).

BCBSM's compensation consultant Watson Wyatt admits that there are "mixed feelings" about whether ASC revenue should be included in establishing BCBSM's revenue size for purposes of comparing executive compensation. (Exhibit 13). Yet, BCBSM has included ASC revenue for comparison purposes in each year of the compliance review.[11]

ASC revenue is not income. BCBSM clearly recognizes this as it does not include ASC revenue as income in its federal or state tax returns. It is not appropriate for BCBSM to treat these revenues differently for executive compensation purposes, particularly where this differing treatment results in inflated salaries for executives.

(c) The process is not transparent and does not appear to be consistent with BCBSM policy.

BCBSM touts that it uses independent sources to collect and report compensation and benefit data from comparable companies. (Exhibit 4). In determining officer compensation for 2004, BCBSM contracted with Watson Wyatt and relied on the 2003 Watson Wyatt Compensation Survey for Health Insurance and Managed Care Industry to compare executive compensation. Among other things, that survey identified the average compensation for specific executive positions in the companies surveyed.

As part of this compliance review, the AGO used the information gathered in Watson Wyatt's 2003 study and compared it to the 2003 salaries of BCBSM's officers. The positions to

[11] The only instance where ASC revenue appears not to have been included was in 2002 when BCBSM's compensation was compared to "companies outside the industry." (Exhibit 13). It is not clear, however, what actual comparisons, if any, were made to "companies outside the industry."

which BCBSM officers were compared are identified in Exhibit 40. The AGO compared the total direct compensation ("TDC") of BCBSM officers, which is the total of base salary, annual bonus and long-term incentive bonus, with the median TDC of similar positions surveyed by Watson Wyatt. The results of that comparison are set forth in Table 1.

Table 1.

COMPARISON OF BCBSM EXECUTIVES' TOTAL DIRECT COMPENSATION*

BCBSM EXECUTIVES	2003 SURVEY AVG. TDC < $5 BILLION	2003 SURVEY AVG. TDC $5-$10 BILLION	2003 BCBSM ACTUAL TDC
Banks	$1,313,400	$1,498,200	$1,392,308
Flygare	227,400	343,400	419,047
Gold	415,200	417,400	553,021
Klepper	306,100	311,500	395,326
Morrow	271,900	340,500	349,135
Nelson	292,900	299,500	441,065
Neuner	301,500	279,700	546,205
Niemiec	528,900	495,600	842,411[12]
Ounjian	381,300	409,200	552,744
Peterson	468,300	555,700	568,084
Reitan	535,200	585,500	631,836

*Total direct compensation is the total of the executives' salary, annual bonus and long term incentive.

[12] Includes deferred compensation; Mr. Niemic is the only executive of those reviewed who deferred a significant portion of his salary.

As the above shows, the TDC of *every* BCBSM officer[13] exceeded the market median for similar positions.[14] The amount by which BCBSM positions exceeded the median TDC ranged from 19 percent to as much as 84 percent.

When BCBSM conducts its comparison, it does not simply compare officers' compensation to the median compensation of comparable positions. Instead, BCBSM modifies the data compiled by the consultant before it compares the data with the compensation of its officers. For example:

- The comparable data is compared to existing BCBSM positions "with adjustments, where appropriate and reasonable". (Exhibit 4).
- 2003 market medians were increased, prior to comparison with BCBSM compensation, to reflect an "annual inflation rate" and "structure movement". (Exhibit 30).
- 2003 data accumulated by Watson Wyatt regarding long term incentives was not utilized by BCBSM because of purported "data integrity issues" and, accordingly, other data was relied upon. (Exhibit 39).

After modifying the data as reflected above and conducting a comparison of positions, management recommended to the Human Resources Committee that total direct compensation of officers be increased on average by 5.3%, which includes a 4.2% salary increase. As a result, the officers' compensation, which on its face already appeared to significantly exceed market medians, was further increased.

BCBSM purports to undertake the above process to ensure that its salaries are reasonable. While it spends millions of dollars on compensation consultants who, among other things, survey

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[13] The AGO analyzed only the highest paid executive officers from whom compensation information was provided by BCBSM for both 2003 and 2004.

[14] The TDC of the CEO exceeded the mean TDC of companies with less than $5 billion in revenue, but not that of companies with revenue between $5 to 10 billion.

companies against which BCBSM salaries are compared, BCBSM management interjects a number of subjective factors which marginalize the value of an independent comparison. As noted above, in its recommendation to the Human Resources Committee, management inflates the median salaries against which BCBSM's salaries are compared by an inflation rate and for "structure movement". This immediately raises the base salary against which BCBSM's salaries are compared, which in turn increases the likelihood that BCBSM's salaries will be less than the base salaries, thereby "justifying" an increase.

In addition, although it is not clear, it appears that management, not the Board, decides which executive position in the survey is comparable to each executive position of BCBSM. Nowhere in the minutes of the Human Resources Committee or in any other information provided to the AGO is it identified who determines which position in the survey is "matched" with each BCBSM position.[15] This is significant because compensation varies widely among positions in the survey. For example, the 2003 mean compensation of the Top Sales and Marketing Executive was $390,000; that of the Top Sales Executive was $211,900; and that of the Top Marketing Executive was $261,300. This results in a variable of 84 percent for what appear to be very similar positions. As a result, the positions selected for comparison purposes play a key role in the comparison process. Yet, it is unknown who specifically identifies the "comparable" positions on behalf of BCBSM or which positions are chosen for comparison purposes.

While using comparability data to establish salaries should be fairly straightforward, in the case of BCBSM it is not. The process was not transparent to the AGO, and it is unlikely that

[15] It appears that in 2001 and 2002, management "consulted" with Clark/Bardes in matching positions. (Exhibits 67 and 68).

the process is transparent to BCBSM's Board. As troubling, it appears that BCBSM's salaries exceed the median salaries of comparable positions and are therefore inconsistent with BCBSM policy.

(d) Process is costly and its usefulness is questionable.

Peer group comparisons are used by nonprofit organizations as a means of establishing the "reasonableness" of their executive salaries and to fall within the IRS' safe harbor rule.[16] Instead of serving as a measure to ensure that salaries are not excessive, however, BCBSM appears to have utilized peer group comparisons to establish salary floors. In fact, for every year in this compliance review, executive salaries substantially increased to keep-up with the market as defined by BCBSM's compensation consultants.

The peer group comparison process used by BCBSM is also costly. From 2000 through 2005, BCBSM appears to have paid its three compensation consultants -- Clark/Bardes, Watson Wyatt and Towers Perrin -- a total of almost $3 million to collect and analyze executive compensation data and to provide advice to the Board and BCBSM executives. (Exhibit 33).

Executive compensation consultants are facing increasing scrutiny.[17] Consultants are paid up to $950 per hour, and executive compensation consulting has "grown into a substantial industry where there is little disclosure about how executive pay is determined."[18]

[16] As noted previously, if charitable organizations fall within the IRS' safe harbor rule by, among other things, using comparability data in setting executive salaries, the salaries are presumed to be reasonable and not "excess benefit transactions". *See* 26 C.F.R. § 53.4958-6(a).
[17] *See*, "Outside Advice on Boss's Pay May Not Be So Independent, *NY Times*, April 10, 2006 (Exhibit 73).
[18] *Id.*

BCBSM and its bevy of compensation consultants have created a complicated and costly process for determining executive compensation. Whether it is prudent for BCBSM to establish executive compensation in this manner is questionable.

B. Performance-Based Factors: Executive Bonuses

1. Annual and Long-Term Bonuses

BCBSM has two performance-based compensation programs for executives: (i) The Annual Incentive Award ("AIA") program, which rewards senior executives for corporate achievement on an annual basis; and (ii) The Long-term Incentive ("LTI") program, which rewards executives for corporate achievement over a three-year-period. AIA and LTI bonuses are based on BCBSM's corporate achievement as measured by financial and non-financial criteria called "performance measures." (Exhibit 5).

The AIA program has three major goals against which performance is measured:

(1) to increase health plan enrollment in all market segments;

(2) to assure that customers are satisfied with services provided by BCBSM and the healthcare providers in its networks; and

(3) to control claim cost increases, manage the price we charge in the community so that it effectively covers our claims and costs and allows for improvement in the reserve position while providing administrative rates that are market competitive. (Exhibit 42).

The specific measures of performance for BCBSM's LTI program have changed from 2000 to 2004. Attached as Exhibit 44 is a listing of the measures used for each long-term incentive award period. During the review period, financial measures have included the amount of capital, BCBSM's market share and its enrollment gain. (Exhibit 45). Non-financial measures have included the level of improvement in the control of diabetes in BCBSM members who participate in BCBSM's Care Support Program[19]; the reduction in heart attack rates of members enrolled in the Care Support Program; and the number of members who have quit smoking after entering BCBSM's smoking cessation program. (*Id*).

2. Concerns About BCBSM's Performance-Based Measurements.

(a) Executives have greater incentive for financial achievement than advancement of purpose.

In its performance measurements, BCBSM places far greater emphasis on financial incentives than on service-based incentives. In its AIA program from 2000 through 2002, financial measures were weighted at 55% and non-financial measures at only 45 percent. (Exhibit 48). In addition, BCBSM's AIA program does not include any performance achievement measures for determining whether BCBSM is achieving its statutory charge -- making health services more economical and widely available for the people of Minnesota.[20]

The LTI program also gives greater priority to financial performance achievement. Bonuses for 1999 to 2001 were not based on any criteria other than administrative expense ratios and market share. (Exhibit 44). For the period 2000 to 2002, financial measures were weighted at 70% while non-financial criteria, including those that measured health improvement, were weighted at only 30 percent. (Exhibit 49). For 2003 to 2005, the weighting leveled somewhat to 55% financial and 45% non-financial. (Exhibit 50).

In addition to concerns regarding the heavy emphasis on financial performance, the criteria which measure member health improvement are also troubling. With respect to health improvements in persons with diabetes and cardiac problems, those persons must participate in

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[19] According to BCBSM, its Care Support Program provides more personalized service for members with a chronic condition like diabetes. The Care Support Program is included in fully-insured group plans and costs extra for self-insured group plans. *See www.bluecrossmn.com*
[20] *See* Minn. Stat. § 60C.01, subd. 2 (2004).

BCBSM's Care Support Program in order for their health improvements to be considered for purposes of the LTI program. BCBSM's Care Support Program is offered through American Healthways, a national "disease management" firm. From 2002 through 2005, BCBSM paid over $98 million to American Healthways for an array of disease management services. If there are improvements in the health of diabetics and those with heart problems, they could be the result of American Healthways' intervention. Such improvements would not, however, be the result of the performance of BCBSM's executives. It is not clear why BCBSM's executives should be financially rewarded for any successes achieved by a third party vendor.

(b) The level of challenge is low.

BCBSM's performance goals are easy to meet. Under BCBSM's AIA program, overall corporate performance as measured by operating income/margin reached 100% or more of the target in four out of the five years reviewed. In addition, in each of the three most recent LTI periods reviewed, BCBSM executives also achieved over 100% of the performance targets. (Exhibit 44).

Rarely has an executive bonus not been paid. From 2000 to 2003, there was only one annual performance measurement (net enrollment gain in 2003) for which no bonus was paid due to underachievement. However, achievement in other areas more than compensated for this as a bonus pool of $1.8 million was shared by executives. (Exhibit 52). Similarly, in the LTI program, in only one year was there enough "underachievement" in a measurement so as to not provide any bonus for that measurement. (Exhibit 44). Other performance criteria including capital and total enrollment made up for that underachievement, however, and executives ultimately enjoyed a bonus pool over $5.2 million. (*Id.*)

Concerns have been expressed to BCBSM's Human Resources Committee about the lack of challenge for top executives in their bonus programs. According to BCBSM's own compensation consultant, Watson Wyatt, weighting enrollment growth at 20% for purposes of the annual incentive bonus makes it too easy to succeed. According to Watson Wyatt, "while it is important to motivate growth, many commitments from large employers are made prior to setting the annual growth goal so achievement of that performance measure is almost 'a given.'" (Exhibit 13).

Members of BCBSM's Human Resources Committee have expressed similar concerns. Watson Wyatt's 2001 interviews of committee members found that "there is a concern that goals aren't challenging enough because the average previous six years of incentive payouts based on performance level have reached 97.6% of targets." (*Id.*) Moreover, "the last two long-term incentive plan cycles paid at, or very close to, the maximum award level." (*Id.*) Similar concerns were again expressed by Committee members in 2004. (Exhibit 53). The concerns were expressed to a member of BCBSM management, however, who assured the Committee that, with some minor changes, the incentives were consistent with market practices. (*Id.*)

V. BOARD COMPOSITION

A. Provisions of Minnesota Law

Minnesota Statutes section 62C.07 discusses the composition of the board of directors of nonprofit health service corporations like BCBSM. That section states that a health service plan corporation must be governed by a board of not less than twelve members.[21] With respect to the selection of directors, that section states:

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[21] Minn. Stat. § 62C.07, subd. 1 (2004).

> The directors shall be selected in accordance with the bylaws and at least one-third shall be individuals who are not practicing or engaged in providing health services, and who before their retirement did not practice or engage in providing health services, or not spouses of such persons, and are not employed by or directors of a provider.
>
> Minn. Stat. § 62C.07, subd. 2 (2004).

BCBSM's bylaws state that the board of directors is to consist of no less than twelve and no more than fifteen persons. (Exhibit 34). The bylaws further require that a majority of the board be members of the "public," which BCBSM defines as individuals not practicing or engaged in providing health care services. (*Id.*) Directors are elected for terms of up to three years and are subject to maximum service of nine years. (*Id.*)

As it is apparent from the above, Minnesota law does not specifically require that BCBSM subscribers be represented on the board or comprise any portion of the board of directors. Nor are subscribers given the right to select board members.

B. BCBSM's Board of Directors

1. Current board

As of February 2005, BCBSM's board of directors consisted of 14 members. (Exhibit 38). One director, Mark Banks, is the CEO of BCBSM, and the remaining 13 directors are from outside the organization. Two of these directors live outside of Minnesota -- one is a consultant from Arizona and the other is a physician from North Dakota. (*Id.*) Of the eleven directors who reside in Minnesota, only one has had any significant experience with a nonprofit organization. (*Id.*) The other ten have various types of business experience with for-profit organizations ranging from banking to human services to venture capital. (*Id.*)

2. Member selection process

(a) Board is self-perpetuating.

The sole member of BCBSM is its parent company, Aware Integrated, Inc. ("AII"). AII elects the directors of BCBSM, all of whom also serve as directors of AII. (Exhibit 34). Each BCBSM director is also a member of AII and issued a share certificate to represent that membership interest. (Exhibit 41). The certificates do not represent financial or ownership interest but instead represent the individual's membership interest in AII. (*Id.*) The share certificates represent the entire number of issued and outstanding shares of AII and are required to be tendered upon termination of serving as a director of BCBSM. (*Id.*)

As a result of the above, the current directors of BCBSM essentially elect themselves and their successors.

(b) Recruitment.

In January 2000, BCBSM hired the consulting firm of SpencerStuart to identify new board member candidates. (Exhibit 43). The Board of Directors was asked to complete a questionnaire listing the most desired professional characteristics and personal qualities that new board members should possess. (*Id.*) SpencerStuart prioritized the list of possible candidates which was later presented to the Governance Committee. Two new directors were thereafter recommended and elected. SpencerStuart was to be paid $50,000 per board member; total payments to SpencerStuart totaled $164,719 in 2000. (Exhibit 46).

The Governance Committee again retained SpencerStuart for director recruitment in 2001. (Exhibit 47). SpencerStuart provided the Governance Committee with prospects for its review. (Exhibit 51). Members of the Governance Committee reviewed the candidates and thereafter met with two of them. (Exhibit 54). Dr. Banks met with two of those candidates separately. (*Id.*) One of those candidates was ultimately elected to the Board. (*Id.*) SpencerStuart was compensated $96,466 for its services in 2001. (Exhibit 46).

With respect to 2002 director recruitment, SpencerStuart was again retained to provide assistance in the recruitment of one new board member in the areas of "finance, marketing, and public relations". (Exhibit 55). The Governance Committee members themselves were to look for one new board member in the area of "public policy". (*Id.*) Two BCBSM employees -- Mark Banks and Dick Niemic -- were to compile a list of potential candidates for that position for committee members. (*Id.*) Representatives of the Governance Committee as well as Mark Banks interviewed the two top candidates who were ultimately nominated and elected to the Board. (Exhibits 56 and 57). SpencerStuart was paid $110,000 for its services in 2002. (Exhibit 46).

SpencerStuart continued to provide assistance in 2003.[22] With respect to 2003 openings, interviews of prospective candidates were held with members of the Governance Committee as well as with Mark Banks. (Exhibit 58). Two of those candidates were nominated and ultimately elected to the Board. (*Id.*)

With respect to the recruitment of members in 2004, the Governance Committee noted that SpencerStuart was identifying many of the same candidates that it had identified. (Exhibit 59). As a result, the Committee decided to internally develop a process to recruit new board members. (*Id.*) In that regard, the Committee asked "staff" to compile a list of potential candidates for review in January 2004. (*Id.*) Management thereafter presented to the Governance Committee a list of prospective board candidates. After further review and

[22] Payments for SpencerStuart's services in 2003 appear to have been made by BCBSM in 2002. (Exhibit 46).

consideration, the Committee instructed Mark Banks to contact those individuals to determine their interest in serving on the Board. (Exhibit 65). This process was continuing and no selection had yet been made at the time that the AGO's compliance review began.

C. Concerns with Recruitment and Selection Process

1. Level of staff involvement.

BCBSM's minutes reflect the significant involvement of BCBSM management in Board member selection, particularly after SpencerStuart was no longer used in the recruitment process. While the AGO agrees that use of SpencerStuart's services was costly and may have been superfluous, extensive involvement of management in the process creates other problems. The Governance Committee specifically empowered the CEO to identify and interview prospective board members. Because the CEO serves at the pleasure of the Board of Directors and his compensation is determined by the Board, it is not appropriate for the CEO to hand-select the pool of Board candidates or to meet individually with Board candidates. Similar concerns arise in connection with the involvement of other executives in the process. The Board should take steps to remove management from the Board member recruitment and selection process.

2. Self-selection.

As noted above, BCBSM directors effectively elect themselves and recruit and appoint their successors. There is no involvement of BCBSM's subscribers in the process nor must any minimum percentage of the Board members be subscribers.

Further, neither BCBSM's articles or bylaws set forth any requirement that the Board members even be Minnesota residents. In fact, under current law and BCBSM's articles and bylaws, BCBSM's entire Board could be comprised of non-subscriber, non-Minnesota members.[23] This is troubling for a number of reasons. First, while it is important to have some members on the Board who are well-versed in financial and business matters, BCBSM is a nonprofit organization and, as such, has, or should have, different priorities than a for-profit organization. Where a board is overwhelmingly compromised of business leaders, there is a risk that the organization's nonprofit mission may be overlooked or minimized. Second, BCBSM is a creature of Minnesota law with a statutory charge to serve Minnesotans. With an ample supply of resident leaders in a variety of fields, it does not seem appropriate for nonresidents to serve on the Board. And finally, because BCBSM's single responsibility under Minnesota law is to make health care coverage more available and affordable for subscribers, BCBSM subscribers should participate in the governance of the organization.

3. Laws in other states.

Blues organizations and other nonprofit health service corporations exist in many states. States typically have a specific act under which nonprofit health service corporations are organized and which sets forth requirements with respect to the composition of their boards of directors.

As part of this compliance review, the AGO reviewed the nonprofit health service corporation laws of a number of states.[24] An overwhelming majority of the states reviewed -- 12 of 15 -- require that subscribers be represented on the board of directors of a nonprofit health service corporation. Certain states, including North Dakota and Iowa, require that subscribers represent the *majority* of directors on the board. (Exhibits 60 and 61). Four states -- Kansas,

[23] BCBSM's Governance Committee has, however, adopted a resolution indicating that a majority of the Board must be Minnesota residents and or Minnesota employees.

[24] The AGO reviewed the laws of Georgia, Iowa, Kansas, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Rhode Island, South Dakota, Vermont, and West Virginia.

Michigan, Rhode Island and New Jersey -- require that two or more directors be appointed by the governor. (Exhibits 69, 70, 71, and 72). Still other states require that the boards include individuals who are licensed to practice medicine; are appointed by the legislature; represent senior populations; or represent specific geographic regions served by the corporation. (Exhibits 62, 63 and 64).

BCBSM's current structure ensures that its board members are accountable to no one. Directors are not accountable to BCBSM subscribers nor are they accountable to the public. Changes should be made to Minnesota law to make BCBSM's Board more accountable to the people they are to serve and to ensure that the Board includes directors whose focus is fulfilling BCBSM's statutory purpose.

VI. Conclusion and Recommendations

BCBSM's executive compensation system is highly structured. BCBSM spends significant time -- and resources -- collecting and analyzing data for use in its executive compensation decision-making process. Indeed, BCBSM collects and compiles so much data that it can be analyzed and manipulated to support virtually any outcome.

Despite this elaborate process, it is difficult to conclude that the salaries of BCBSM executives are reasonable when the CEO is consistently recognized as the highest paid nonprofit CEO in Minnesota and also ranks at the top of nationwide surveys. In a number of ways, it appears that BCBSM is putting form over substance in its executive compensation decision-making process.

With respect to BCBSM's executive compensation system, the following recommendations are made:

1. The Board needs to closely examine its executive compensation decision-making process -- from beginning to end -- to make sure it is effective, cost-efficient and transparent.

2. The Board should review and make changes to the Executive Compensation Principles and Policy without staff input.

3. The annual incentive award program should be modified to include meaningful nonfinancial performance measurements that reflect the importance of BCBSM's nonprofit mission.

4. The Board should modify the long-term incentive award program to encourage top executives to work towards BCBSM's statutory purpose: making health care more affordable and widely available to Minnesotans through its health plans. Such measures should be given at least as much weight as financial measures of performance.

5. The Board should review both the annual and long-term incentive programs to ensure that they are based on an appropriate level of challenge.

With respect to the composition of the Board, subscribers must be represented. In addition, as other states have found, it is critical to have members on the Board who are held accountable in ensuring that BCBSM is meeting its statutory responsibilities. In that regard, the AGO recommends that Minnesota Statutes chapter 62C be amended as follows:

1. To provide for the election of a specific number of BCBSM Board members by subscribers;

2. To require that a majority of the members of BCBSM's Board of Directors be subscribers; and

3. To provide for the appointment by the Governor of at least two members to the Board of Directors.

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October 1, 2004

Survey: Charity Leaders Get Fat Pay Raises

Survey Finds Charity Leaders' 2003 Pay Raises Were Almost Double Inflation Rate

The Associated Press

WASHINGTON Sept. 26, 2004 — Compensation increases in 2003 for the executives who run the largest nonprofit organizations nearly doubled the rate of inflation, according to The Chronicle of Philanthropy's annual survey.

The study being released Monday showed that the median salary of 215 chief executives was $291,356. The median is the middle point of that group, meaning 107 leaders made more than that figure and 107 made less.

The publication determined that the middle range of the increases from 2002 to 2003 was 3.7 percent, almost twice the inflation rate of 1.9 percent last year. Still, the rate of compensation increase was the smallest since 1996, the figures showed.

Salaries of leaders of 309 of the largest nonprofit organizations were reviewed in 2003. Of those, 215 had provided information the previous year and were compared to track growth. The survey does not necessarily reflect all top earners.

The four top earners surveyed worked at hospitals: Harold Varmus, president of the Memorial Sloan-Kettering Cancer Center in New York, and Floyd D. Loop, chief executive of Cleveland Clinic Foundation, both of whom earned $1.7 million in 2003; Herbert Pardes, chief executive of New York-Presbyterian Hospital, $1,3 million; and Peter G. Traber, president of the Baylor College of Medicine, $1.2 million.

Some are keeping a watchful eye on the escalating salaries at nonprofits. The Senate Finance Committee held hearings in June on what its members consider abuses among charitable organizations. The Internal Revenue Service announced at the hearings it would investigate vigorously "seemingly high compensation" paid to some charity executives and board members.

One worry about high salaries is that donors will stop giving to charities if they consider the salaries of nonprofits' leaders excessive, said Daniel Borochoff, president of the Chicago-based American Institute of Philanthropy, a nonprofit charity watchdog service.

Borochoff said nonprofits often pay high salaries simply to keep pace with the salaries paid those in the corporate world.

"There's a lot of responsibility and a lot of background and experience needed for those jobs," he said. "The nonprofit needs to hire qualified people."

For example, those running hospitals deal with very large, complicated matters such as insurance and regulatory issues.

IRS rules governing charities and private foundations say they cannot pay executives more than reasonable compensation. Excessive compensation can be penalized by excise taxes. A group's tax-exempt status can be revoked if trustees, founders, directors or others use the charity for their benefit.

On the Net:

The Chronicle of Philanthropy:

)USTED CARITAS CHIEF GOT $1.4M LAST YEAR ; OTHER HUB HOSPITAL CEOS ALSO DID WELL; [THIRD Edition]

Liz Kowalczyk, Globe Staff. **Boston Globe**. Boston, Mass.: Aug 14, 2004. pg. E.1

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Abstract (Document Summary)

}aritas spokesmen would not comment on [Michael Collins]'s compensation yesterday, only saying "it's consistent with his ›ntract." A spokesman for the archdiocese could not be reached for comment. The amount does includes deferred .ompensation from prior years.

The new president of Mass. General, Dr. Peter Slavin, earned $747,050 last year, one-third more than his $559,000 compensation the prior year, for part of which he was head of the Massachusetts General Physicians Organization. His salary includes deferred compensation. Dr. Gary Gottlieb, earned $635,250 as chief executive of Brigham and Women's Hospital, another Partners member, last year. For part of the prior year, he was president of North Shore Medical Center.

Tufts-New England Medical Center paid Dr. Thomas O'Donnell $529,008 in compensation last year, far less than what he earned in the prior year: $798,411. But that year's compensation included a one-time payment of nearly $250,000 from the hospital's then-parent organization for achieving certain goals. Tufts-NEMC no longer has such an incentive plan.

Full Text (874 words)

[PUBLISHED CORRECTION - DATE: Tuesday, August 17, 2004: Correction: Because of a reporting error, a story in Saturday's Business section about compensation for local health care executives contained incorrect income information for several Boston hospital executives. Dr. James Mongan, chief executive of Partners HealthCare, the largest hospital network in Massachusetts, earned $687,191 in salary last fiscal year, plus another $852,471 in deferred compensation and benefits. Dr. Gary Gottlieb, chief executive of Brigham and Women's Hospital, a Partners member, earned $635,250 in salary and another $223,039 in deferred compensation and benefits. Dr. Peter Slavin, chief executive of Massachusetts General Hospital, also a Partners member, earned $747,050 in salary plus $102,754 in deferred compensation and benefits. Mongan, Gottlieb, and Slavin can collect a portion of their deferred compensation only if they remain in their jobs for a specified time period. Also, in addition to $1,383,645 that Dr. Michael Collins, former chief executive of Caritas Christi }ealth Care, earned in compensation last year, he received another $327,368 in deferred compensation and benefits.]

r. Michael Collins, who was unexpectedly ousted as president of Caritas Christi Health Care in April, earned $1.4 million in compensation last year, far more than most other Boston teaching hospital executives.[SEE CORRECTION ABOVE] Collins's compensation, which included a one-time $500,000 payment related to prior years , came when the state's largest

Catholic hospital system was trying to turn itself around financially after years of struggle.

Caritas earned an operating profit of $3 million in the fiscal year ended Sept. 30, largely because of a one-time $11 million yment from the state Medicaid program to compensate the system for treating a large number of poor patients. The twork had an operating loss of $15.9 million in 2002, during which time Collins earned $802,234, according to public ngs.

The Boston Archdiocese unexpectedly asked Collins, a longtime leader in Boston healthcare, to step down in April. Archbishop Sean P. O'Malley and his advisers would not discuss their reasons. Collins's ouster triggered a period of instability in the network, which includes St. Elizabeth's Medical Center in Brighton.

Caritas spokesmen would not comment on Collins's compensation yesterday, only saying "it's consistent with his contract." A spokesman for the archdiocese could not be reached for comment. The amount does includes deferred compensation from prior years.

Nonprofit hospitals have until Monday to file with the state attorney general's office last fiscal year's financial re ports, including compensation for their highest paid employees. The office's public charities division collects salary information in part so it can monitor whether nonprofits, which are supposed to pump profits back into community services, are paying their executives excessive salaries.

Boston hospital executives have long maintained that salaries of their key leaders are in line with their national counterparts, and are necessary to attract top talent. Other hospital chief executives also fared well last year.

Elaine Ullian, chief executive of Boston Medical Center, also a hospital that largely serves the poor, earned $902,721 in compensation last year, up 5.6 percent from $854,927 the previous year.

"Last year was the seventh year of the most successful hospital merger in town and perhaps the most difficult," said chairman Marshall Carter, referring to the merger of Boston City Hospital and Boston University Medical Center. "We didn't think a 5.5 percent increase was that unusual. She's really skinny-ed down the staff, and she's operating without a chief operating officer. She's running the place herself."

James Mandell, chief executive of Children's Hospital, earned $823,680 last year, when his compensation grew 8.8 percent from $757,000 the prior year. The increase comes at a time when Children's has turned around its losses, and earned robust profits.

"The reasons for the increase are related to his extraordinary performance and achieving the goals of the institution," said Children's spokeswoman Michelle Davis, who would not elaborate on the goals.

Paul Levy, chief executive of Beth Israel Deaconess Medical Center, earned $786,413 in compensation last year, including a $150,000 bonus for turning around several years of multimillion dollar losses. He was chief executive for only part of the prior year.

Partners HealthCare, the largest hospital and physicians network in Massachusetts, and by far the most profitable, had some of the lower salaries.

Partners chief executive Dr. James Mongan earned $687,191 last year. That's a 10.4 percent increase over his $622,525 salary the prior year, when he was president of Massachusetts General Hospital, a member of Partners. [SEE CORRECTION ABOVE] The new president of Mass. General, Dr. Peter Slavin, earned $747,050 last year, [SEE CORRECTION ABOVE] one-third more than his $559,000 compensation the prior year, for part of which he was head of the Massachusetts General Physicians Organization. His salary includes deferred compensation. Dr. Gary Gottlieb, earned $635,250 [SEE CORRECTION ABOVE] as chief executive of Brigham and Women's Hospital, another Partners member, last year. For part of the prior year, he was president of North Shore Medical Center.

Tufts-New England Medical Center paid Dr. Thomas O'Donnell $529,008 in compensation last year, far less than what he earned in the prior year: $798,411. But that year's compensation included a one-time payment of nearly $250,000 from the hospital's then-parent organization for achieving certain goals. Tufts-NEMC no longer has such an incentive plan.

Kowalczyk can be reached at kowalczyk@globe.com.

ARILION CEO EARNED $740,645, IRS FILING SHOWS; [METRO Edition]

Jeff Sturgeon jeff.sturgeon@roanoke.com 981-3251. **Roanoke Times & World News.** Roanoke, Va.: Dec 19, 2003. pg. C.8

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Companies:	Carilion Health System (NAICS: 622110, 621111)
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Abstract (Document Summary)

Carilion is the Roanoke region's largest employer, with 9,329 workers, 330 of whom are physicians, and it is the region's dominant health care provider. The system owns and operates six hospitals; co- owns and manages four other hospitals; and owns and operates about 60 physician practices spread out from Woodstock to Wytheville.

.dward Murphy] was trained as a doctor and then embarked on a career in health care administration. Before joining Carilion Health System, he led Seton Health System of Troy, N.Y. Seton is smaller than Carilion but like Carilion combines hospital-based services and outpatient services.

Murphy became Carilion's leader three years ago next month. He joined Carilion in 1998 as executive vice president of its patient services division, became chief operating officer and was promoted by Carilion's board of directors to system chief in January 2001.

Full Text (685 words)

Dr. Edward Murphy, president and chief executive of Carilion Health System, earns a salary that's in keeping with the industry average for health system leaders.

Murphy's pay was $740,645 during the health system's 2001-02 fiscal year. The amount appears in an August health system filing with the Internal Revenue Service, obtained by The Roanoke Times last month.

The filing confirms he is one of the highest-paid health care workers in the state. Nationally, his pay is about average for health system executives at the president-CEO level.

Modern Healthcare magazine reported that the latest average is $736,300.

Because the $740,645 figure is more than a year old, Murphy, 48, could be earning more today. The health system would ot provide his salary during the 2002-03 fiscal year, which ended 2 1 / 2 months ago, or his current pay. But spokesman ic Earnhart said the health system would comply with IRS rules that will require the release of last year's pay in late 2004 .d this year's pay in late 2005.

"Dr. Murphy's salary is appropriate for a $1-plus-billion-dollar company with nearly 10,000 employees serving approximately a million people in western Virginia," said George Cartledge, chairman of the health system's board of directors, in a prepared release. "Keep in mind, Carilion does not offer stock options or equity opportunities that other companies use to nhance executive compensation."

rtledge said a consultant gathered salary information from about 200 health care systems and 630 hospitals and recommended what the appropriate compensation should be.

"Health care organizations," his statement said, "must invest in stable leadership and compete nationally for this leadership. There are relatively few people nationwide who possess the experience and expertise required to successfully operate a health care organization of our size and scope. Unlike many other organizations, Carilion has enjoyed the benefits of stable leadership for many years."

Carilion is the Roanoke region's largest employer, with 9,329 workers, 330 of whom are physicians, and it is the region's dominant health care provider. The system owns and operates six hospitals; co- owns and manages four other hospitals; and owns and operates about 60 physician practices spread out from Woodstock to Wytheville.

Carilion also operates a helicopter ambulance, three health clubs and a health insurance company (closing Dec. 31); and it has a number of specialty centers including a newly opened same-day surgical hospital. It is affiliated with the Jefferson College of Health Sciences and offers residency training opportunities for doctors.

Murphy was trained as a doctor and then embarked on a career in health care administration. Before joining Carilion Health System, he led Seton Health System of Troy, N.Y. Seton is smaller than Carilion but like Carilion combines hospital-based services and outpatient services.

Murphy became Carilion's leader three years ago next month. He joined Carilion in 1998 as executive vice president of its patient services division, became chief operating officer and was promoted by Carilion's board of directors to system chief in January 2001.

Murphy's predecessor, Tom Robertson, was earning $635,000 a year when he left in 2001 after 15 years in the top leadership post, health system officials said previously.

oanoke-area executive pay

A look at how much top executives are making.

In the public eye:

-Frank Beamer, head football coach, Virginia Tech: About $900,000*

-Darlene Burcham, Roanoke city manager: $147,373

In health care: (2001 Regular compensation)

-David Bernd, Sentara Health Care, Norfolk: $1.1 million

-J. Knox Singleton, Inova Health System, Falls Church, $768,483

At Roanoke Valley public companies (regular compensation in 2002)

- Lawrence Castellani, Advance Auto Parts: $635,778

- Don Smith, Roanoke Electric Steel Corp.: $412,000

- John Williamson, Roanoke Gas: $184,546

estern Sizzlin' Corp., Victor Foti: $172,000 **

- Ellis Gutshall, Valley Financial Corp.: $170,000

- Neil Wilkin, Optical Cable Corp.: $120,000

*Beamer's total compensation also includes endorsement contracts.

*Foti was replaced by James Verney in summer 2003

[Illustration]
Caption: Photo - 1 The Roanoke Times File Dr. Edward Murphy, president of Carilion Health System, joined the company in 1998 as executive vice president of its patient services division. 2. chart - Roanoke-area executive pay (text is at the end of the story)

The Flap Over HMO/Healthcare CEO Pay Premiums
Posted on December 11, 1998

Several days ago, we released on our subscriber-only website a CEO Pay Simulator. a piece of software that compares a given CEO's pay package to those of 1,568 CEOs and that produces competitive levels of pay, after taking account of a company's size, its shareholder return performance and the type of industry in which it is engaged.

Yesterday, we were talking with Jim Finkle, a reporter for the Bloomberg News Service, and during our discussion, we mentioned that when it comes to high CEO pay, the CEOs in the HMO/Healthcare industry seem to be second to none. That sent all sorts of alarm bells ringing, because, barring a flat EEG tracing, everyone is well aware that healthcare costs are a big item in Washington, almost as big as Monica Lewinsky (no pun intended).

In studying Total Direct Compensation (TDC--the sum of base salary for 1997: annual bonus earned for 1997 performance; the estimated present value of stock option grants made in 1997, using the Black-Scholes Option Pricing Model; the value at grant during 1997 of shares of restricted stock; payouts made during 1997 under other long-term incentive plans; and, as defined by the SEC, 1997 Other Annual Compensation and 1997 All Other Compensation), we found that we could explain:

35% of the variation in TDC if we knew the size of the company (size being measured here by giving equal weight to 1997 revenues, 1997 yearend invested capital [long-term debt plus shareholders' equity] and 1997 total employees)
37% of the variation in TDC if we knew both the size of the company and its total shareholder return performance (i.e., stock price appreciation and reinvested dividends in three different time windows--a three-year time window, a two-year time window and a one-year time window, all ending with the end of the company's 1997 fiscal year)
45% of the variation in TDC if we knew the size of the company, its total shareholder return performance and the type of industry in which it is engaged.
In our study, we assigned each of the 1,568 companies to one of many different industry categories. Of these many categories, 31 contained sufficient numbers of cases so as to permit their use in a multiple regression analysis that took account of company size, company performance and type of industry.

Our study showed that seven of the 31 industries paid significantly less than other industries, after taking account of their size and performance levels. And four other industries paid significantly more. The probability of any of these industry findings being fluky was less than one-chance-in-a-hundred.

Turning first to our low-payers. For the same amount of company size and company performance:

CEOs in the food retailing industry receive 63% less TDC
CEOs in the power utility industry receive 51% less TDC

CEOs in the air transport industry receive 45% less TDC
CEOs in the restaurant industry receive 42% less TDC
CEOs in the transportation industry, excluding air transport companies, receive 33% less TDC
CEOs in the wholesaling industry receive 26% less TDC
CEOs in the retailing industry, other than food retailing companies, receive 20% less TDC.
Now for the high rollers: For the same amount of company size and company performance:

CEOs in the computer and software industry receive 39% more TDC
CEOs in the pharmaceutical/biotech industry also receive 39% more TDC
CEOs in the diversified finance industry (mainly, Wall Street firms) receive 61% more TDC
And now for our big winner...CEOs in the HMO/Healthcare industry receive 66% more TDC.
Not all CEOs in the HMO/Healthcare industry earn 66% more than their counterparts in other industries, of course. There are actually some good buys in that industry. But there also are a lot of non-good buys, as evidenced by the 66% pay premium.

A cursory analysis of some of the really high-rollers in the HMO/Healthcare industry reveals a disturbing pattern:

Total shareholder return performance in the three time windows tested has been quite poor, reflecting the recent trashing of HMO stocks
The company may have responded to the poor performance by cutting the CEO's bonus, not infrequently all the way to zero
But then comes the consolation prize: A mega-option grant.
For a case in point, let's look at Malik M. Hasan. M.D., the former Chairman of Woodland Hills, California (near Los Angeles)-headquarted Foundation Health Systems, a company with $7.1 billion of revenues in 1997. (Dr. Hasan, though no longer CEO, continues in the role of Chairman of the Board.)

During the year ending December 31, 1996, FHS generated a shareholder return of a minus-23%. This compares to a return of plus-22.9% for the S&P 500 Index and a return of a minus-9.8% for the 16 companies comprising the S&P Midcap Health Services Index. So, FHS performed poorly vis a vis companies generally. And it also performed poorly even when compared to the other poor-performing companies in its own industry. For this poor performance, Dr. Hasan received a niggardly salary increase of only 3% and no bonus at all. But he did receive an option grant that came in three tranches:

An option on 100,000 shares carrying a strike price (i.e., the price that must be paid to exercise the option) of $35.25 per share and a term of 10 years. On the date of grant, the market price per share was the same $35.25 per share
An option on 100,000 shares carrying a strike price of $40.54 per share and a term of 10 years. The strike price was 115% of the $35.25 market price on the date of grant
An option on 100,000 shares carrying a strike price of $44.06 per share and a term of 10 years. The strike price was 125% of the $35.25 market price on the date of grant.
We estimate the present value at grant of these three option tranches to be $3.9 million.

In total, Dr. Hasan's pay package for 1996 was worth $5.7 million.

Now let's roll the cameras forward by one year--to the end of 1997. During the 12-month period ending December 31, 1997, FHS generated a total shareholder return of a minus-10.1%. During the same one-year period, the return on the S&P 500 Index was plus-33.4%. But the return on the S&P Midcap Health Services Index was minus-9.1%. In this case, though FHS lagged the S&P 500 Index badly, it came out about even with its peers in the healthcare industry.

Apparently, reducing your negative return from a minus-23% to a minus-10.1% is cause for intense jubilation in the Hills of Woodland. It's not that Dr. Hasan scored big in base salary, for his salary increase in 1997 amounted to only 4.9%. And it's not that he scored big in bonus, for his bonus, for the second year in a row, was zero. But now for the fun part. During 1997, he received an option on 850,000 shares carrying a strike price of $32.50 per share and a ten-year term. Note here that, in number of shares, this option was almost three times the size of his aggregate option grants one year earlier. Moreover, the gutsiness displayed one year earlier, when Dr. Hasan took one-third of his option on a 15% out-of-the-money basis and another third on a 25% out-of-the-money basis, was totally absent. Perhaps it was totally absent because, when the 850,000-share option was granted on September 4, 1997, all three of his option grants made in February 1996 were underwater.

We estimated that the present value of this new 850,000-share grant was $11.5 million, a figure that was 2.9 times the present value of the grants made to Dr. Hasan one year earlier.

That $11.5 million figure, in turn, caused Dr. Hasan's TDC to rise to $12.5 million, a figure that after calibrating for company size and company performance (but before adding in the HMO/Healthcare 66% pay premium) was 3.1 times higher than the competitive norm.

We have noted in past studies that, in general, there are two classes of CEOs who receive the very largest option grants. In the first category are CEOs with superb past performance, for example, a CEO like Sanford Weill of Citigroup. But in the second category are CEOs with horrible past performance. Paradoxically, these CEOs generally receive much larger grants than other CEOs with normal performance.

In effect, if you have the performance numbers, you get rewarded with a big option grant. But if you come up short, you persuade your board that big option grants are once again required "to hold on to our good people" and "to motivate them in difficult circumstances". So if you get a huge option grant for performing hugely and a huge option grant for screwing up, the circumstances under which you won't get a huge option grant are rather rare.

Dr. Hasan last received a cash bonus for his performance during 1995, when his company's total shareholder return actually went into the plus zone (a plus-5.8%, compared to a plus-30.9% for the S&P 500 Index and a plus-20.0% for the S&P Midcap Health Services Index). The bonus was $800.000.

Although he didn't receive any cash bonus for his performance during 1997, it wouldn't take much of an increase in his company's stock price to make his 850,000-share option worth

$800,000. The increase would amount to only $0.94 per share, a mere 2.9% increase in share price (compared to the price prevailing on the date the option was granted).

Of course, that isn't what happened during 1998. As this article was being written on December 11, 1998, FHS' stock price closed at $11.6875 per share. With strike prices for his 1997 and 1998 option grants ranging from a low of $32.50 per share to $44.06 per share, one needs a stronger adjective than "underwater" to describe the current status of his option grants. Still, he has until the year 2006-2007 time period to bring those grants above water. And that's a long time away.

We would love to have included with this article a complete line-by-line database covering each company in the HMO/Healthcare industry and its pay premium status. But under our license agreement with Standard & Poors Compustat, which provided the raw data for our analyses, we are not permitted to do so. Nonetheless, subscribers can replicate our analytical findings by downloading and then inputting to our CEO Pay Simulator. This piece of software may be found in our subscriber-only website under the article title, "The Crystal Report CEO Pay Simulator".

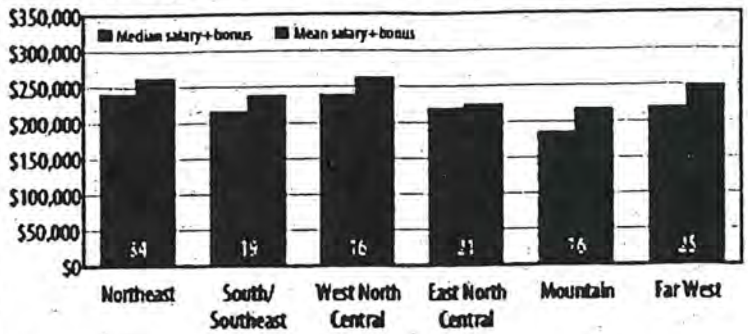
COMPENSATION MONITOR

How nice to be the chief medical officer — of a large commercial HMO in or near Minnesota

Chief medical officers of HMOs have highest incomes in the Northeast, but their mean incomes are only about $200 more than the average total compensation of CMOs from the next most prosperous region — the West North Central area consisting of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota. Median salaries are also close, and higher by $20,000 or more than other regions. Warren Surveys collected 2001 data from over 500 HMO and other managed care health plans nationwide. The survey defines CMO as "Top person responsible for overseeing the medical policies, medical service delivery and quality care for health plan members. In a large network and/or insurer-sponsored model, this person may have several medical directors for whom [he is] responsible." All CMOs are physicians.

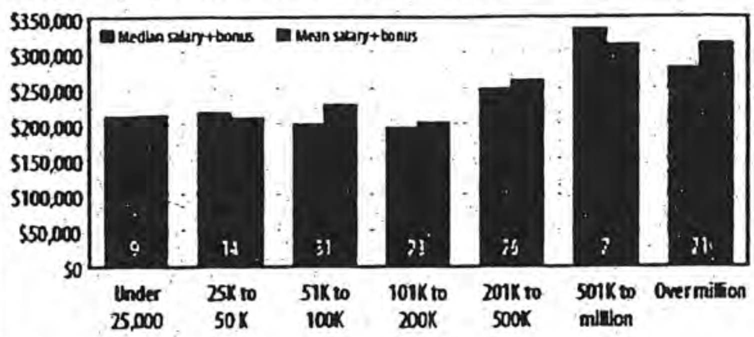
Note: Numbers at base of bars are counts of surveyed plans in each category.

Lowest compensation in the Mountain states



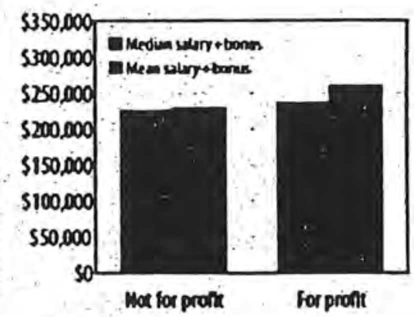
Bigger plan, better for CMO

Chief medical officers of plans with 500,000 or more members have considerably greater total earnings than CMOs at smaller plans.



Corporate status may play a role

The chief medical officer at a not-for-profit organization is compensated at a lower level than peers at for-profit organizations. The mean difference in salary (including bonuses) between CMOs in for-profit and not-for-profit organizations is over $30,000.



SOURCE: WARREN SURVEYS. *THE HMO SALARY SURVEY: SPRING 2001*. 815-877-8794

Managed Care's full collection of Compensation Monitor articles on physician and health plan executive compensation

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Collateral Assignment Split Dollar (CASD) arrangements. These policies were individually owned by the executive with a collateral assignment to Blue Cross for all the premiums advanced to the owner. With proposed IRS regulations issued in July 2002 and the Sarbanes-Oxley Act of 2002, Blue Cross determined that the existing CASD arrangements should be discontinued, even though Blue Cross, as a non-public company, was not obligated to comply with Sarbanes-Oxley. The Human Resources Committee approved the termination of all CASD arrangements, except for an executive who had retired with the benefit, on October 1, 2003 and the Board of Trustees approved the termination on October 8, 2003.

The CASD arrangements were replaced with group term insurance at two times base salary paid for by the Company, optional group term life insurance up to an additional three times base salary paid for by the participants, and a survivor income benefit insurance with a death benefit level equal to the death benefit level in place for the CASD arrangement for basic coverage only, paid as self-insured plan by Blue Cross and only available to those executives who had a CASD arrangement.

Enclosed is a list of all the life insurance that meets the above criteria and the corresponding cash surrender values that Blue Cross recovered from the termination of each of the policies. The one policy that continues is identified at the end of the list.

INTERROGATORY NO. 9: (executive compensation)

Identify in detail how compensation is determined for executives of BCBSM, other than the President and CEO, and who approves the level of compensation.

ANSWER:

Step 1.

The Blue Cross Blue Shield of Minnesota Board of Trustees and its Human Resources

Word 20122491.1

Committee have been actively involved in oversight of executive compensation during the period 2000-2004. All elements of executive compensation and benefits and the compensation process are controlled by the Human Resources Committee who meet four to five times per year and are composed entirely of outside trustees. [1] The purpose of an independent Board of Trustees and Human Resources Committee is to ensure that trustees understand their role in protecting the primary stakeholders who are the beneficiaries of Blue Cross' mission. [2]

The Human Resources Committee reviews and approves officer compensation plans, including annual and long-term programs (and any earned awards), executive level benefits, severance plans, deferred compensation plans, supplemental executive retirement plans, or other executive level plans taking into account peer group practices and any special considerations. Severance plans of greater than twelve months require Board approval.

The Human Resources Committee and the Blue Cross Board of Trustees uses as a model IRC § 4958 and Treas. Reg. § 53-4958 so that its compensation practices fall within the section 4959 "safe harbor" [3] if Blue Cross were subject to those requirements (Blue Cross is not a tax exempt organization and thus the aforementioned regulations do not legally apply to the company).

Step 2.

The Human Resources Committee reviews and amends the executive compensation philosophy, from time to time, to ensure that it is aligned with Blue Cross' enabling legislation and further that it allows Blue Cross to attract, retain and motivate its executive talent for the benefit of its members and other stakeholders.

Step 3.

Market compensation analysis is conducted using independent sources to collect and report compensation and benefit data on comparable companies. Blue Cross uses the Watson Wyatt Data Services Health Care Executives Survey as its primary source (2001-2004). Blue Cross supplements the primary survey with custom surveys from Watson Wyatt, Mercer or other independent consultant firms as needed. The data is compared to existing Blue Cross positions, with adjustments, where appropriate and reasonable, based on the scope of the position being compared. Blue Cross then assigns each executive position with a Blue Cross target median level of base salary compensation based on the survey data that has been calibrated to the revenue that Blue Cross achieved in the previous year. This ensures that Blue Cross makes its comparisons using a regression analysis, versus comparing to the median of the group or the group average, irrespective of the comparability in size of revenues within the survey peer group. The annual incentive opportunity is compared to the median level of annual incentive opportunity for the position being compared. The long-term incentive opportunity is compared to the median level of long-term incentive in the not-for-profit Blue Plans, excluding the effect of stock option grants, restricted stock or other equity based compensation arrangements, which are generally up to three times higher in value. Only positions that have divisional accountability (direct report to the CEO), profit and loss accountability for a subsidiary, product-line or line-of-business oversight, or have major strategic importance to the company and eligible for long-term incentive opportunities. Benefits are reviewed annually.

Step 4.

For each executive, recommended Blue Cross target base salaries, annual incentive opportunities and where appropriate, long-term incentive opportunities as they relate to the market data compiled in Step 3 are prepared.

Step 5.

The next step involves comparing recommended base salary amounts to actual performance of the executive, time in position, and the executive's current base salary with respect to market target (this is known as the compa-ratio, with Blue Cross managing its executive compensation between 80% - 120% compa-ratio. A compa-ratio of 80% is approximately at the 25th percentile of the market, 100% is approximately at the 50% percentile or median and a 120% compa-ratio is approximately at the 75th percentile). The Chief Executive Officer reviews preliminary data. A meeting is held with each of the direct reports to the Chief Executive Officer to review executives within their scope of accountability and solicit their input on each executive. A final meeting is held with Chief Executive Officer to finalize preliminary merit and adjustment recommendations for each executive and the overall pool that will be recommended to the Human Resources Committee for its review along with the overall executive compensation framework. This process step creates the opportunity that the executive has with respect to the total compensation package. Several elements of the package have variable components of compensation that are performance-based and dependent on corporate performance. The Human Resources Committee recommends and the Board of Trustees approves annual and long-term incentive measures at the beginning of the performance period that establish the framework for these variable compensation measures and certifies results at the end of the performance period that translate into performance-based incentive awards.

Step 6.

A Human Resources Committee book, comprised of agenda, minutes from last meeting, and all agenda items, is sent to each Committee member, the Human Resource Committee's independent executive compensation consultant and Chief Executive Officer one week prior to the Committee meeting. Recommendations on the executive total compensation package together with market data are included in the Committee book.

Step 7.

At the Human Resources Committee meeting, the Committee reviews the entire presentation and engages in discussion. At the end of the meeting, the Committee may approve the executive merit and adjustment pool and authorize the percentage for the merit and adjustment for the coming year. The direct reports to the CEO and other "elected" officers are reviewed by the Human Resources Committee as part of this process. Any changes to annual incentive opportunity or long-term incentive opportunity are also reviewed and may be approved at this time. The Human Resources Committee considers for approval the flexible benefit allocation and any changes to benefit plans. Prior to the final approval, the Committee meets in Executive Session with the independent executive compensation consultant that the Committee has contracted with and without the Chief Executive Officer and other staff. The Committee discusses the total executive compensation package being recommended and then formally authorizes its decision through a Committee resolution.

Step 8.

The Chair of the Human Resources Committee, or the designate, gives a report to the Board of Trustees at the next Board meeting, and distributes material to each Board member that details each of the components of compensation that were approved by the Human Resources Committee for each officer. The independent executive compensation consultant attends this meeting to serve as the Board's executive compensation consultant. This session of the Board meeting is in Executive Session without the Chief Executive Officer and other staff in attendance.

Step 9.

Each step in the process is documented and the minutes of the Human Resources Committee meeting are approved by the Committee at the next meeting. A summary of the Human Resources Committee meeting is made available for the Board and is included in the next Board Book mailed to all board members in advance of their Board meeting.

Step 10.

The Chief Executive Officer meets with the executives who report directly to him and discusses any merit increase awarded to that executive. The vice president of human resources meets with each of the direct reports to the Chief Executive Officer and distributes material that they can use to repeat the process for each executive that reports directly to them.

References:

(1) Trustee
Recommended Practices for Board Executive Compensation Committees, July, 2004 by Michael W. Peregrine, Ralph E. Dejong, and Timothy J. Cotter. *Compensation Philosophy Statement guiding principle.*

(2) National Association of Corporate Directors Report of the NACD Blue Ribbon Commission on Executive Compensation, Guidelines for Corporate Directors, April 2000. *Chapter 1, The Role of the Compensation Committee.*

(3) Executive Compensation
Guidelines for Healthcare Leaders and Trustees, edited by Thomas Flannery, Ph.D., May 2002. *Chapter 4, Setting Reasonable Compensation: Minimizing Exposure to "Intermediate Sanctions."*

INTERROGATORY NO. 10:

Identify all real property owned by YOU and identify all leases between any entities or person with the BCBSM FAMILY.

ANSWER:

Enclosed. The leases are also enclosed in response to Request for Production of Documents No. 1.

BLUE CROSS AND BLUE SHIELD OF MINNESOTA
EXECUTIVE COMPENSATION
GUIDING PRINCIPLES

1. Blue Cross and Blue Shield of Minnesota and its business units will manage compensation, and the supporting performance management system, to help communicate desired performance results and influence executives as they act and make decisions.

2. Total compensation plays an important role in attracting, retaining, and motivating executive talent, along with other factors such as the organization's chartered mission, its purpose, values, position challenges, work environment, and career opportunity.

3. In general, the comparative framework of companies will include comparable healthcare industry companies (including Blue Plans and managed care/HMO organizations). For certain positions, general industry data may also be used in determining the market midpoint. For determining competitive long-term incentive opportunities, however, only non-profit Blue Plans data should be used. A list of the comparable companies used in 2002 is included in Attachment A.

4. Total Direct Compensation* for target levels of performance, with consideration of time in position (used only as an internal equity guide whereby performance is always viewed senior to tenure) will be targeted at the median of total direct compensation levels for the comparative framework companies. Similarly, base salaries will be administered to median salary levels with minimum salaries at 80% of median and target annual incentive opportunities set to deliver median total cash compensation levels for the position under consideration.

5. For executives who have divisional accountabilities and those with subsidiary, market business unit or key strategic accountabilities affecting long-term corporate success, incentive pay opportunity will be split between annual and long-term incentive plans; for other executive positions, incentive pay opportunity will be available only through an annual incentive plan.

6. Incentive pay opportunity will vary between zero and 150% of the determined target amount based on performance measures and results linked to financial and strategic non-financial accomplishments that contribute to stakeholder value and the achievement of Blue Cross' mission, as well as divisional and individual performance.

7. Indirect compensation** will provide competitive benefits for retirement, life insurance, disability income, and medical coverage reflecting comparative competitive practice at median levels.

8. Compensation programs will be well communicated to participants to maximize motivation and retention value.

* Defined as salary, annual incentive and long-term incentive, where appropriate.

** Defined as benefits, perquisites and other recognition elements.

Last Revision: December 10, 2002, Presented November 18, 2003 for 2004 Executive Compensation

RETIREMENT BENEFITS

This document is intended to provide an overview of basic information regarding Blue Cross' benefit plans. Please refer to your Summary Plan Descriptions, Plan Documents, or your Human esources representative for more complete information. The legal documents governing the plans will prevail if there are any inconsistencies or inaccuracies in this material.

Why did Blue Cross implement the Pension Equity Plan?

- The Pension Equity Plan is designed to provide an additional source of retirement income for eligible employees. The PEP benefits are in addition to Social Security benefits and the Blue Cross Employee Savings Plan (401(k)).

- For most employees, a secure retirement will depend upon a combination of Social Security benefits, retirement plan benefits, and personal savings and investments. PEP can be an important part of your retirement planning.

- PENSION EQUITY PLAN

Who is eligible for participation in PEP (i.e., When do I become an Eligible Employee)?

– As a general rule, each employee of Blue Cross is an Eligible Employee.

– You will become a Member in PEP on the first day on which you meet both the following requirements:

  - You are an Eligible Employee.
  - You are 21 years of age or older.

How are Hours of Service defined?

– You are credited with an Hour of Service for each hour for which you are paid or are entitled to payment from Blue Cross. This includes both hours worked and certain paid time off, such as vacation, holidays, discretionary leave, and short-term disability.

When am I 'Vested' in PEP?

– PEP uses your 'Vesting Service' to determine whether or not you are entitled to receive a pension benefit.

  - If you have five or more years of Vesting Service, you are 'vested' and are entitled to a benefit under PEP when you terminate your employment with Blue Cross.

  - You are also vested if you terminate your employment with Blue Cross on or after your 65th birthday, or if you die while you are employed by Blue Cross. If you become disabled while employed by Blue Cross and are eligible to receive long-term disability benefits under Social Security or the Blue Cross long-term disability insurance plan, you will also be vested.

  - If you terminate employment with less than five years of vesting service and before you reach age 65, you will not be entitled to a benefit under PEP unless you die or become disabled (as defined above) while employed by Blue Cross.

As of December 31, 2000, you were not vested in PEP.

- PENSION EQUITY PLAN (cont'd)

How is my PEP Benefit Calculated?

– The amount of your PEP benefit grows over your career with Blue Cross. Your PEP benefit is expressed in terms of a lump sum amount, which can be converted to monthly payments for life. This lump sum amount is a percentage of your Final Average Salary. The factors used to calculate the amount of your lump sum benefit are:

  - Your age on your last birthday
  - Your Final Average Salary
  - Your years of Credited Service
  - One-third of the Social Security Taxable Wage Base

– Using these four factors, Blue Cross calculates your total PEP benefit in two parts: a basic benefit and an excess benefit. As a PEP Member, you earn Basic and Excess Percentages for each year of Credited Service with Blue Cross. These percentages are shown below and increase each year as you complete additional years of Credited Service. The percentages that you earned each year are added together following your termination of employment and the total is multiplied by your Final Average Salary to determine the amount of your lump sum PEP benefit.

Your Age + Years of Credited Service	Annual BASIC Benefit Percentage	Annual EXCESS Benefit Percentage
Under 25	3.5%	0.0%
30	4.1%	0.3%
35	4.5%	0.5%
40	5.4%	0.8%
45	6.0%	1.0%
50	7.5%	1.3%
55	8.5%	1.5%
60	10.6%	2.1%
65	12.0%	2.5%
70	14.7%	3.1%
75	16.5%	3.5%
80	19.8%	4.4%
84+	22.0%	5.0%

The percentages shown above are prorated for the years not shown.

- PENSION EQUITY PLAN (cont'd)

What are the Basic and Excess Benefits?

- The lump sum PEP benefit is based on a percentage of your Final Average Salary. This percentage is the sum of the Basic Benefit and Excess Benefit Percentages that you earned each year while you worked for Blue Cross.

- *Basic Benefit:* Each year, you earn a Basic PEP benefit equal to a certain percentage of your Final Average Salary. When you terminate employment with Blue Cross, the Basic Benefit Percentages you earned each year are added together and the total is multiplied by your Final Average Salary to calculate the amount of your Basic Benefit under PEP.

- *Excess Benefit:* In addition to the Basic Benefit Percentage, you earn an Excess Benefit Percentage each year. When you terminate employment with Blue Cross, the Excess Benefit Percentages you earned each year are added together and the total is multiplied by the portion, if any, of your Final Average Salary that exceeds one-third of the Social Security Taxable Wage Base in effect when you terminate employment. This is your Excess Benefit under PEP.

- *Your Total PEP Benefit:* Your total PEP benefit is the sum of your Basic Benefit and your Excess Benefit.

How does the Plan define 'Final Average Salary'?

Your Final Average Salary is twelve times the average amount of your monthly Salary during the 36 consecutive month period in the 120 months preceding your termination of employment with Blue Cross that produces the highest average.

How does the Plan define 'Salary'?

- Your monthly 'Salary' for purposes of PEP is your monthly compensation rate on the first day of each month that you are an Eligible Employee, subject to the following:

  - Salary includes sales or incentive payments, short term differential pay and bonuses (other than signing and retention bonuses) paid during any given month. Signing and retention bonuses, however, do not count as Salary.

  - Salary does not include overtime or other extra compensation.

  - Salary includes any salary reduction contributions under Blue Cross' 401(k) Plan and SelectAccount Plan.

  - Salary does not include reimbursements or allowances for expenses, severance pay, payments from or contributions on your behalf to most employee benefit plans (including contributions on your behalf under the Plan), merchandise discounts, or benefits in the form or property or the use of property.

- PENSION EQUITY PLAN (cont'd)

How is my Credited Service determined under PEP?

– In general, your Credited Service is equal to your period or periods of employment with Blue Cross as an Eligible Employee, subject to the following:

  - You begin receiving Credited Service beginning on the first day of the month following your date of hire with Blue Cross, unless your hire date is the first of the month, in which case you start to receive Credited Service immediately.

  - You do not receive Credited Service for service before your 18th birthday.

  - With certain exceptions, you do not receive Credited Service for service prior to the date you became an employee of Blue Cross.

  - You can receive up to three months of Credited Service during an authorized leave of absence.

  - You continue to receive Credited Service while you are covered under the Blue Cross long-term disability plan unless, and until, you elect to begin receiving disability retirement benefits under PEP provided you have at least five years of vesting service. Note, however, that you are not eligible for LTD benefits until you have been on a leave of absence due to disability for six months or longer, and that only the first three months of a leave of absence count as Credited Service.

- PENSION EQUITY PLAN (cont'd)

<u>What are my options in how the benefit is paid to me?</u>

– The way in which your PEP benefits are paid depends in part on your marital status.

- *If you are single:* If you are single when your benefit payments begin, your PEP benefits are paid in the form of a Life Annuity unless you elect to receive a Lump Sum within the 90 day period following the date you terminate employment with Blue Cross.

  - Any election to receive a Lump Sum Distribution must be made within the 90 day period following the date of your termination of employment.

- *If you are married:* If you are married, your PEP benefits will be paid in the form of a Qualified Joint and Survivor Annuity, unless you elect otherwise and comply with the rules for electing a Lump Sum Distribution or Life Annuity.

  - Any election to receive a Lump Sum Distribution must be made within the 90 day period following the date of your termination of employment or, if later, within 90 days following the date your are provided with your explanation of the Qualified Joint and Survivor Annuity. In addition, you must obtain your spouse's consent, and the consent must be signed within the 90 day period before the date the Lump Sum Distribution is paid. Your spouse's consent must be notarized. The only exception to this requirement is under certain circumstances where the consent cannot be obtained, such as where your spouse cannot be located.

  - An election to receive a Life Annuity must be made before the due date for your first pension payment.

- *If your pension benefit is small:* If your accrued benefit under PEP is $5,000 or less, and if payments to you under PEP have not yet started, your benefits will be paid in a single Lump Sum Distribution. The Lump Sum Distribution can be made without your consent and without the consent of your spouse if you are married.

  - If you receive a Lump Sum Distribution, you (and your spouse) will no longer be eligible to receive any type of pension under PEP.

  - If you receive a Lump Sum Distribution, you may elect a Direct Rollover to an IRA or other qualified retirement plan.

- PENSION EQUITY PLAN (cont'd)

What do each of these 'forms of payment' mean?

– *Lump Sum:* The amount of your Lump Sum Distribution is based on a percentage of your Final Average Salary, as calculated using the Basic Benefit and Excess Benefit percentages explained previously.

  - If you choose a Lump Sum payment, no further payments will be due to you or anyone else.
  - If the amount of your PEP Lump Sum benefit is $5,000 or less, you will automatically receive a Lump Sum Distribution.
  - If you wish to receive a Lump Sum Distribution, you generally must make your election within 90 days following the date you terminate employment.
  - If you receive your PEP benefit in the form of a Lump Sum, it is eligible for 'rollover' treatment and can be taken in two ways. You may have all or any portion of your payment either (1) paid in a 'direct rollover' or (2) paid to you.
    - ➢ A rollover is a payment of your PEP benefits to an individual retirement arrangement (IRA) or to another tax-qualified employer retirement plan. This choice will affect the tax you owe.
    - ➢ See the full Summary Plan Description or your Human Resources representative for full information on the rollover option.

– *Life Annuity:* The Life Annuity provides you with monthly payments for as long as you live. After you die, no benefits are paid to anyone.

  - The monthly amount of your Life Annuity payments is calculated by converting the amount that would be payable to you as a Lump Sum Distribution to monthly payments for life using certain interest and mortality assumptions.

– *Qualified Joint and Survivor Annuity:* The Qualified Joint and Survivor Annuity provides you with reduced monthly payments for as long as you live, with monthly payments continuing after your death to your spouse (if you spouse survives you) in the amount of one-half of the monthly payments made to you.

  - The amount of your monthly payments under this option equals a reduced specified percentage of the monthly payment you would have received under a Life Annuity. The percentage is calculated by using certain interest and mortality factors.
  - Your monthly payments under this option are smaller than the monthly payments under a Life Annuity to reflect the value of potential payments to your spouse after your death.
  - You can choose to being receiving monthly payments under the Qualified Joint and Survivor Annuity as of the first day of the month following your termination of employment, or you cna defer commencement to a later date.

- PENSION EQUITY PLAN (cont'd)

What if I change my mind about what form of payment I want to receive?

- Once your benefit payments begin, you may not change the form in which they are paid.
- Benefits payable to your spouse are payable only to the spouse to whom you are married at the time your benefit begins, and are not available if you remarry after your benefit payments begin.

When do PEP benefits begin?

- Subject to the following rules, you elect when you want to receive your PEP benefits.
  - Normally, your PEP benefits (lump sum or monthly annuity) will not be paid before your termination of employment with Blue Cross.
  - If you reached age 70 ½ before December 31, 1999, however, you must begin receiving PEP benefits by April 1, 2000.
  - After your termination of employment with Blue Cross, payments must start no later than April 1 following the year in which you reach age 70 ½.
- *Lump Sum Distribution:* If you choose to receive a Lump Sum Distribution, it will be paid as soon as administratively feasible after you file your election forms.
  - If you elect to receive your PEP benefit in the form of a Lump Sum Distribution, before age 55, your payment will be subject to a 10% nondeductible excise tax in addition to regular income taxes, unless it is rolled over to the Blue Cross Employee Savings Plan, an IRA, or another tax qualified retirement plan.

What happens to my PEP benefit after I die?

- *Death while still employed by Blue Cross:* If you die before you terminate employment with Blue Cross, your spouse or other designated Beneficiary will receive a PEP benefit. The death benefit is provided even if you did not work long enough to be vested.
- *Death after termination of employment:* If you are vested and die after you leave Blue Cross but before you receive any PEP payments, your spouse or other designated Beneficiary will receive a PEP death benefit. You must have been vested, however, for any death benefit to be payable after you terminate employment with Blue Cross.
- *Death after your pension begins:* If you die after your pension begins, death benefits are payable only if you were receiving your PEP benefit in the form of a Qualified Joint and Survivor Annuity.

- PENSION EQUITY PLAN (cont'd)

If my spouse/Beneficiary is eligible for PEP benefits after my death, how are such benefits paid?

- The PEP death benefit is the same Lump Sum amount that you would have been entitled to as of the date you terminated your employment with Blue Cross.

- *Small benefit amounts:* If the total Lump Sum value of your PEP benefit is $5,000 or less, the PEP death benefit will automatically be paid in the form of a Lump Sum.

- *If you are married:*

  - If your spouse is your Beneficiary and is alive when you die, he or she may elect to receive the PEP death benefit either in the form of a Lump Sum Distribution or as a Life Annuity. An election by your spouse to receive a Lump Sum Distribution must be made within 90 days of the date of your death or, if later, within 90 days of the date your spouse is given the explanation of the Life Annuity form of payment.

  - If you have designated someone other than your spouse as your Beneficiary, your PEP death benefit will be paid in the form of a Lump Sum Distribution as soon as administratively feasible after your death. Life annuities are not available to non-spouse Beneficiaries.

- *If you are not married:* If you are not married when you die, your PEP death benefit will be paid to your Beneficiary in the form of a Lump Sum Distribution as soon as administratively feasible after your death. Life annuities are not available to non-spouse Beneficiaries.

- If a Lump Sum settlement is elected/received:

  - If your spouse or other Beneficiary receives a Lump Sum Distribution, he or she will no longer be entitled to receive monthly benefits from the PEP.

  - If your spouse is your beneficiary, he or she can elect a Direct Rollover to an IRA.

  - Federal law does not allow non-spouse beneficiaries to make any kind of rollover.

Are there any restrictions on who I can name as my Beneficiary?

- *If you are married:* If you are married, you are subject to some special rules. In general, your spouse must be your Beneficiary. If you wish to designate someone else, your spouse must consent to the different Beneficiary. If you wish to change that Beneficiary, your spouse must consent to the change. Your spouse's consent must be in writing and must be either notarized or witnessed by a PEP representative. The only exception is under certain circumstances where the consent cannot be obtained, such as where a spouse cannot be located.

- *If you are single:* No particular limitations apply.

- PENSION EQUITY PLAN (cont'd)

What happens if I do not name a Beneficiary?

– If your Beneficiary dies before you do, or is not designated on an approved form filed prior to your death, your Beneficiary will be the person or persons who survive you in the first of the following four classes in which there is a survivor. If there are two or more individuals in a class, the distribution will be divided equally between them.

  - Your surviving legal spouse
  - Your surviving children. However, if a child of yours dies before you die and that deceased child leaves surviving descendants, those descendants will take the share that their deceased parent would have taken had he/she not died before you died.
  - Your surviving parents.
  - Your surviving brothers and sisters.
  - If none of the above survives you, your Beneficiary will be your estate.

Will I be eligible for PEP benefits if I become disabled?

You are eligible for PEP disability benefits if you meet all of the following requirements:

  - You have completed five or more years of Vesting Service before you become disabled
  - You are eligible to receive long term disability benefits under Social Security or under the Blue Cross long term disability insurance plan
  - You become disabled while employed by Blue Cross

– If you do not meet all of these requirements, you are not eligible for the special PEP disability benefits and your PEP benefit will not increase while you are disabled.

- PENSION EQUITY PLAN (cont'd)

Will I continued to accrue PEP benefits while I am disabled?

- If you meet the eligibility requirements listed above, you can continue to receive additional Benefit Percentage Credits and Credited Service until the earliest of the following:
  - You reach age 65.
  - You are no longer disabled.
  - You elect to receive a lump sum or start monthly benefit payments under PEP.
- Thus, unless you choose to begin receiving PEP benefits before age 65, your PEP benefit will continue to grow while you are disabled until you reach age 65.
- Even though you continue to receive Benefit Percentage Credits and Credited Service, your Final Average Salary and the Social Security Wage Base are frozen at the time you become disabled for purposes of determining the amount of your PEP benefit.

When do I receive my PEP disability benefits?

- Normally, if you are disabled, you will receive your PEP lump sum or begin receiving monthly payments under PEP when you reach age 65. This is always the case if you have less than five years of Vesting Service when you become disabled.

What happens if I decide to begin PEP payments while I am disabled?

- If you have five or more Years of Vesting Service and are employed by Blue Cross when you become disabled, you may elect to receive a PEP lump sum payment or begin monthly PEP payments before age 65.
- Your PEP disability benefit can be paid in any of the forms available under PEP. Direct Rollovers are also available.

What happens if I return to work at Blue Cross after I begin receiving PEP payments?

- If your employment terminates and you subsequently return to work for Blue Cross while you are receiving monthly benefit payments, your payments will continue as before you returned to work.
- After you again terminate employment, the benefit payment or payments to which you are entitled will be recalculated based on your additional years of service performed after your re-employment.

- PENSION EQUITY PLAN (cont'd)

Under what circumstances might my PEP benefit be limited or reduced?

- If you are entitled to a benefit under some other pension plan to which Blue Cross contributes with respect to any period of service that is included in your Credited Service under PEP, your monthly benefit will be reduced by the monthly amount of the benefit from the other plan.

- If the PEP is amended, the amendment may affect your rights.

- If the PEP is terminated, pensions are provided only to the extent that PEP funds are available in the Trust or to the extent that the pensions are guaranteed by the Pension Benefit Guaranty Corporation. In addition, if PEP is terminated, the benefit otherwise payable to the highest paid 25 individuals (determined at the time of the amendment) may be reduced.

- Federal tax laws limit the maximum amount of pension benefits that can be paid to an individual from PEP. No one will receive a benefit in excess of what is permitted under federal tax laws. Your pension benefits from PEP, when expressed in the form of a Life Annuity, may not exceed in any Plan Year the smaller of:

  i. $130,000 (indexed for inflation after 1998); or

  ii. the average of your annual compensation for the three consecutive years producing the highest average.

    - The limit in (i) is increased if your pension commences after age 65 and is decreased if your pension commences before age 65.

    - If you have less than 10 years of service with Blue Cross of less than 10 years of participation in the Plan, the above limits may be further reduced for each year less than 10.

    - If you are a participant in any other plans sponsored by Blue Cross or an affiliate, additional limits on your pension benefits may apply.

- If there has been any misstatement of any information on which the amount of a benefit is determined, the amount of benefit payable may be adjusted retroactively to be the proper amount.

- 401(k) EMPLOYEE SAVINGS PLAN

Who is eligible to participate in the Savings Plan?

– You are eligible for the Savings Plan when you meet the age and service requirements. As a general rule, each employee of Blue Cross is an Eligible Employee.

– You will become a Participant in the Savings Plan on the day you meet all of the following requirements:

  - You are an Eligible Employee.
  - You are age 21.

How much may I contribute to the Plan?

– Subject to certain limitations imposed by the tax laws, you choose the amount you wish to have deducted from your pay and contributed to the Savings Plan. Your election to make Salary Reduction Contributions is expressed as a percent of your Eligible Earnings. You can choose any whole percent between a minimum of 1% up to a maximum of 15%. Blue Cross currently limits those individuals considered highly compensated (based on IRS rules) to 12%.

– Your contributions to the Savings Plan (plus amounts under any before-tax basis) cannot be more than a maximum amount specified in the tax laws for each calendar year. The limit for 2000 is $10,500. It may be adjusted for inflation in future years. If you exceed this limit, the excess will be refunded to you. You will still be eligible to receive a Matching Contribution on the entire first six percent of pay you elected to contribute, however, even if some of your contribution is refunded to you.

– The Internal Revenue Code imposes additional limitations on the total amount that can be contributed to your Accounts under the Savings Plan each Plan Year. For example, the Internal Revenue Code limits the total amount of your Salary Reduction and Matching and Supplemental Contributions to the lesser of $30,000 or 25% of pay. You will be informed in the event that these limits affect the amount you can contribute to the Savings Plan. If they do, the Savings Plan has detailed rules for dealing with the problem.

– No nondeductible after tax contributions to the Savings Plan are allowed.

You have elected to defer 6% into the 401(k) Employee Savings Plan.

- 401(k) EMPLOYEE SAVINGS PLAN (cont'd)

How much will Blue Cross contribute to the Plan?

– *Matching Contributions:* Blue Cross will make a Matching Contribution on your behalf each payroll period equal to thirty percent (30%) of your Salary Reduction Contributions up to six percent (6%) of your Eligible Earnings for that pay period. No Matching Contribution will be made with respect to any portion of your Salary Reduction Contributions that exceeds six percent of your Eligible Earnings for the payroll period.

– *Supplemental Contributions:* Blue Cross may also choose to make a Supplemental Contribution for a Plan Year. Blue Cross decides each year whether or not to make a Supplemental Contribution and, if so, the amount of the Supplemental Contribution. Any Supplemental Contribution for a Plan Year is allocated among Participants based on the ratio that each Participant's Salary Reduction Contributions for the year bears to the total Salary Reduction Contributions of all Participants, but excluding all Salary Reduction Contributions in excess of six percent (6%) of Eligible Earnings. You must be employed by Blue Cross on December 31 of any given year, however, to be eligible for a Supplemental Contribution for that year.

How are Savings Plan contributions and earnings taxed?

– You do not pay federal income taxes on your Salary Reduction Contributions at the time the Contributions are made. Salary Reduction Contributions are also exempt from state income tax in Minnesota and most other states. Your Salary Reduction Contributions are, however, subject to Social Security taxes.

– You also do not pay tax on any Matching or Supplemental Contributions when they are made. Federal income taxes, including taxes on the earnings of all your Accounts, are deferred until you make withdrawals or receive distributions from the Savings Plan.

What if I change my mind about how much I want to contribute during the Plan Year?

– You can increase or decrease, or completely stop making, contributions at any time.

- 401(k) EMPLOYEE SAVINGS PLAN (cont'd)

What is included in Eligible Earnings? What is not?

– Subject to the following, your Eligible Earnings are simply your total earnings for payroll periods ending during the Plan Year. Eligible Earnings, however, do not include:

  - Severance pay or employee contributions to deferred compensation plans.
  - Expense allowances or reimbursements.
  - Supplemental or Matching Contributions to this Plan.
  - Compensation in excess of $170,000 during any year (adjusted in accordance with IRS regulations).
  - Salary Reduction Contributions to the Blue Cross SelectAccount Plan before March 25, 2000. After March 25, 2000, Salary Reduction Contributions to the SelectAccount will be included in Eligible Earnings.
  - Signing or Retention Bonuses.

How are plan contributions invested?

– You direct the investment of your Accounts and are responsible for any investment losses. You may elect to have your Accounts invested in one or more of the available Investment Funds. Your investment directions remain in effect until you change them. In the event of your death, your Beneficiary will be entitled to make investment elections until the entire balance in your Accounts is distributed.

– Blue Cross determines which Investment Funds will be available. Options may be changed by Blue Cross from time to time.

What happens if I lose money on my Savings Plan contributions?

– Because of the nature of this plan, statutory authority dictates that you are liable for your own investment choices, and Blue Cross and the other fiduciaries of the Savings Plan are not liable for any losses resulting from investment instructions given by you or your Beneficiary.

Am I allowed to borrow against my Accounts?

– You may borrow against the vested portion of your Accounts, subject to whatever administrative rules exist from time to time. Please see your Summary Plan Description and/or your Human Resources Department for complete details regarding applicable administrative rules.

- 401(k) EMPLOYEE SAVINGS PLAN (cont'd)

Am I allowed to withdraw from my Accounts while still employed by Blue Cross?

– You generally cannot withdraw funds from your Salary Reduction Contribution and Matching and Supplemental Contribution Accounts while you are working for Blue Cross. The following are exceptions to this rule:

  - withdrawals for financial hardship or
  - on account of disability and
  - withdrawals after age 59 ½.

– You cannot withdraw any amounts in your Matching or Supplemental Accounts unless you are vested. Also, you cannot withdraw any earnings on your Salary Reduction Contributions that were credited to your Account after December 31, 1988.

– Please see your Summary Plan Description and/or your Human Resources Department for complete details regarding the rules applicable to withdrawals from your Accounts.

What does it mean to be 'vested'?

– 'Vesting' relates to your right to receive benefits from your Accounts under the Savings Plan.

When am I vested in my Accounts?

– *Salary Reduction Contribution Account:* You are always fully vested in the balance in your Salary Reduction Contribution Account, regardless of how long you have been employed by Blue Cross.

Rollover Account: You are always fully vested in the balance of any rollover account you might have, regardless of how long you have been employed by Blue Cross.

– *Matching and Supplemental Contributions Accounts:*

  - If

    (i) you have completed five or more years of Vesting Service,
    (ii) you have reached age 65 when you terminate employment with Blue Cross,
    (iii) you are totally and permanently disabled, or
    (iv) you die while you are employed by Blue Cross,

    you will be fully vested and entitled to the entire balance in your Matching and Supplemental Contributions Account.

  - If you have completed less than five years of Vesting Service and have not reached age 65 when you terminate employment, your Matching and Supplemental Contributions Account will be forfeited, unless you are totally disabled or you die while you are employed by Blue Cross.

As of December 31, 2000, you were vested in the company match.

- 401(k) EMPLOYEE SAVINGS PLAN (cont'd)

What happens if I am rehired by Blue Cross some time after my employment is terminated?

– If you are rehired by Blue Cross after you have a termination of employment, any amounts in your Matching and Supplemental Contributions Account that were forfeited will be reinstated. Then, if you have completed a total of five or more years of Vesting Service (including your years of Vesting Service before your first termination of employment), or you are age 65, disabled, or die while employed by Blue Cross, you will be entitled to the entire balance in your Matching and Supplemental Contributions Account when you later leave Blue Cross. If, however, you still have not completed five or more years of Vesting Service or reached age 65 on your subsequent termination of employment and are alive and not disabled, your Matching and Supplemental Contributions Account will again be forfeited.

What is 'Vesting Service'?

– As a general rule, your Vesting Service equals your total years, months, and days of employment with Blue Cross, even if you are not an Eligible Employee or are on an authorized leave of absence during all or part of that period.

– If you leave Blue Cross and are later rehired, your Vesting Service for the period before you left is unaffected and is added to any subsequent Vesting Service you may earn when determining whether you have completed five years of Vesting Service.

– Unless you are on an authorized leave of absence (including maternity or paternity leave) or are on military leave, you will not receive Vesting Service for any consecutive 12-month-period when you are not working for Blue Cross, unless you perform at least one Hour of Service during those 12 months.

– You are credited with an Hour of Service for each hour for which you are paid or entitled to payment from Blue Cross. This includes both hours worked and certain paid time off, such as PTO, holidays, and short-term disability.

What happens to my benefits after my employment with Blue Cross terminates?

– In general, you may elect to receive your benefits under the Savings Plan at any time following your termination of employment with Blue Cross, unless you are re-employed by an affiliate of Blue Cross. After your employment terminates, you choose the time and method of payment of your Savings Plan benefits.

When must I take payment of the Savings Plan benefits upon termination?

– You can take a distribution after termination, or leave your money in the Savings Plan until later.

– If the vested balance in your Account is $5,000 or less, you will automatically receive a cash distribution as soon as practicable after your employment terminates. Your benefit will automatically be paid in the form of a Lump Sum which you can elect to receive in cash or have a Direct Rollover made on your behalf.

– Distributions after you terminate employment generally must start soon after you reach age 70 ½.

- 401(k) EMPLOYEE SAVINGS PLAN (cont'd)

What are my distribution options for Savings Plan benefits?

– If the vested balance in your Accounts exceeds $5,000 and you request a distribution, there are three general forms in which benefits are paid from the Savings Plan (combinations are possible):

  - A Lump Sum payment
  - Distributions in a series of annual or more frequent installments
  - Direct Rollover to another Plan or an IRA (avoids current taxation).

When must I begin receiving plan payments?

– In general, you decide when payments begin. After you terminate employment with Blue Cross, however, distributions must begin no later than the April 1st after the year you reach age 70 ½.

How will I be taxed on plan payments?

– You will be subject to income taxes on the benefits you receive from the Savings Plan. In addition, distributions will be subject to an additional 10% penalty tax unless you terminate employment with Blue Cross after age 55, die, or are disabled.

What happens to these benefits if I die while employed by Blue Cross?

– If you die while you are still employed by Blue Cross, you are vested and your Beneficiary will be able to withdraw any remaining balance in your Accounts.

What happens to these benefits if I die after termination of employment with Blue Cross?

– If you die after you terminate employment and you are vested, your Beneficiary will also be entitled to the balance in your Accounts.

– If you are not vested, and die after your termination of employment, your Beneficiary will only be entitled to your Salary Reduction and Rollover Accounts.

- SOCIAL SECURITY

Who pays for Social Security benefits?

- Blue Cross sponsors 50% of your Social Security retirement, disability, survivor, and Medicare benefits.

Are Social Security benefits taxable?

- Depending on age, income, and other factors, Social Security benefits received may be subject to income tax.

For the exact amount of your Social Security benefits, contact the Social Security Administration for a personalized statement by calling 1-800-772-1213, between 7:00 a.m. and 7:00 p.m. For TDD, call 1-800-325-0778. The information can also be requested via the Internet at www.ssa.gov.

- SUPPLEMENTAL RETIREMENT PLAN

What is the purpose of the Supplemental Retirement Plan?

– Your qualified pension benefits may be limited by tax code maximums on eligible compensation. Blue Cross believes you are entitled to a pension benefit based on your entire salary plus annual incentives; therefore, Blue Cross has provided a Supplemental Retirement Plan (SRP) which provides a benefit based on the same formula as the Pension Equity Plan (PEP). It is a non-qualified plan, avoiding most ERISA requirements.

When am I eligible to participate in the Supplemental Retirement Plan?

– So long as you are eligible to receive a PEP Benefit, the SRP becomes effective when your eligible income exceeds the legislative limit ($170,000 in 2000), or when your pension income exceeds the legislative limit ($135,000 in 2000).

How are SRP benefits calculated?

– The SRP extends the PEP formula to compensation in excess of the legislative limits.

– The SRP is a monthly benefit payable for your life, in a monthly amount equal to the positive difference, if any, of (a) minus (b):

(a) The monthly amount of the PEP Benefit to which you would have been entitled if such benefit were computed without using the legislative limit described above, and ignoring your compensation deferrals under the Executive Deferred Compensation Plan;

LESS

(b) The monthly amount of the PEP Benefit actually payable to you.

These amounts will be computed as of the date of your termination from Blue Cross, and will be adjusted as of January 1 or each succeeding year to account for any increase in the amount payable to you under the PEP.

How is compensation defined in the SRP?

– All wages and annual incentives you receive from Blue Cross will be included when the benefit calculation is made, including salary, deferred salary, annual incentives, and incentive deferrals. Deferrals to the 401(k) Plan and the Executive Deferred Compensation Plan are included in the year earned, not the year paid.

- SUPPLEMENTAL RETIREMENT PLAN (cont'd)

How are SRP benefits distributed?

– Generally, the SRP benefit payable to you is to be paid in the same form under which the PEP Benefit is payable to you. Your election under the PEP of any optional form of payment of your PEP benefit (with valid spousal consent, as required) is also applicable to the payment of your SRP benefit.

– If you notify Blue Cross in writing at least 12 months prior to your termination, you may elect to receive SRP benefits in a lump sum or in installments over 120 or 180 months, despite the form of benefits under the PEP.

  - A lump sum payment is payable within 90 days after the termination of employment.
  - Installment payments commence with the month following termination of employment.

When are SRP benefits payable?

– Payment of the SRP will commence on the same date as payment of the PEP benefit commences.

– Except as noted above, any election you make under the PEP with respect to the commencement of payment of the PEP benefit will also apply with respect to the commencement of payment of the SRP benefit.

Are SRP benefits taxable?

– Benefits are subject to income taxes upon distribution.

What happens if I die before my PEP benefits commence?

– If you die before payment of your PEP benefits begins, and your spouse is entitled to receive a PEP Surviving Spouse Benefit, then a Supplemental Surviving Spouse Benefit is payable to your surviving spouse.

- SUPPLEMENTAL RETIREMENT PLAN (cont'd)

How are Supplemental Surviving Spouse Benefits calculated?

– The monthly amount of the Surviving Spouse benefit is equal to the positive difference, if any, of (a) minus (b):

(a) The monthly amount of the PEP Surviving Spouse Benefit to which your spouse would have been entitled under the PEP if the benefit were computed without regard to the legislative limits described above, and ignoring your compensation deferrals into the Executive Deferred Compensation Plan;

LESS

(b). The monthly amount of the PEP Surviving Spouse Benefit actually payable to your spouse under the PEP.

The amount described in (b) will be adjusted as of January 1 of each year to account for any increases in the amount payable to your spouse under the PEP.

How and when are Supplemental Spouse Benefits payable?

– Unless you elect otherwise, in writing filed with Blue Cross, the benefit is payable over the lifetime of your spouse only in monthly installments.

Monthly installments begin on the date that PEP Surviving Spouse Benefit payments begin, and end on the date of the last payment of the PEP Surviving Spouse Benefit made before your spouse's death.

What happens to my SRP benefits if Blue Cross becomes insolvent?

– This benefit is payable from Blue Cross' general assets. If Blue Cross becomes insolvent, you will be an unsecured creditor and will have no preferred claim to any assets. However, a special trust has been approved to safeguard this benefit from other contingencies such as change of control of Blue Cross.

- EXECUTIVE DEFERRED COMPENSATION PLAN

What is the purpose of the Executive Deferred Compensation Plan?

– The Executive Deferred Compensation Plan is a tax-sheltered opportunity to defer current income and build net worth on a long-term basis. It also restores the 401(k) Plan employer match and supplemental match lost due to statutory limits on compensation under that Plan. It is a nonqualified plan, avoiding most ERISA requirements.

How much of my salary may I defer each year?

– You may elect to defer any amount of your salary each year through payroll deduction. You may also elect to defer annual incentive payments. However, the deferrals may not reduce your annual income below the Social Security Wage Base.

– Should participation in the Plan reduce your Pension Equity Plan benefit, the Blue Cross Supplemental Retirement Plan (SRP) will restore any lost income at retirement.

Who is eligible to participate in the Deferred Compensation Plan?

– Eligible participants must be:

  - An employee of Blue Cross;
  - An officer of Blue Cross or one of its affiliated companies;
  - A member of the select group of management of highly compensation employees; and
  - Specifically designated as a participant by the Committee.

– If you are eligible to participate, you will become a participant as of the first day of the plan year during which you are both eligible to participate and elect to defer compensation under the plan.

How much of my compensation can I defer into the Plan?

– The maximum amount you may elect to defer under the plan for a given plan year is:

  - the amount that leaves your compensation not deferred under this plan equal to the Social Security wage base for the plan year; or
  - 6% of your cash compensation, less your compensation reduction contributions under the ESP.

You have elected to contribute 6% into the Executive Deferred Compensation Plan.

- EXECUTIVE DEFERRED COMPENSATION PLAN (cont'd)

How much of my deferral will Blue Cross match?

– On the last day of each plan year, Blue Cross will credit to your account the sum of the following:

  - An amount equal to 30% (or such other percentage set by the Board under the ESP) of the aggregate amount of compensation you have deferred under the Plan and the ESP for the Plan year, the product of which is reduced by the matching contribution credited to your account under the ESP for the Plan year. Compensation deemed deferred under the plan is limited to 6% of your eligible earnings, less your compensation reduction contributions under the ESP.
  - An amount equal to the reduction taken from the ESP or any amounts forfeited or reallocated under the ESP for the plan year, with respect to you and your accounts.

When do I make my election to defer compensation?

– For the plan year beginning January 1, 2000, you may elect to defer compensation by filing a written notice with Blue Cross within 30 days after Blue Cross provides you with an election form. The election will be effective on the first day of the pay period after you file the form with Blue Cross.

– For plan years beginning after January 1, 2000, you may elect to defer compensation by filing a written notice with Blue Cross prior to the beginning of the plan year to which it pertains. The election will be effective on the first day of the plan year following the filing of the written notice.

What happens if I want to discontinue my election to defer?

– Your initial election to defer shall continue in effect unless and until you file a subsequent written notice with Blue Cross specifying a different amount of deferral or discontinuing your previous election.

– A notice to discontinue deferred contributions will be effective if filed prior to the beginning of any pay period. The notice to discontinue contributions will take effective as soon as practicable after it is filed, and applies only with respect to your compensation attributable to services not yet performed.

When am I vested in my deferred compensation account?

– You are fully vested in your account at all times.

When are the deferred compensation benefits distributed?

– Your deferred compensation benefits are payable upon your termination of employment with Blue Cross.

- EXECUTIVE DEFERRED COMPENSATION PLAN (cont'd)

What forms of distribution are available to me?

- Blue Cross will pay the benefits in a lump sum (within 90 days after termination of employment) or in annual installments over a 10-year or 15-year period (commencing within 30 days termination of employment, and continuing on each anniversary of the initial payment date) at your written election, filed with Blue Cross.
- No election as to the form of distribution is effective unless it is filed with Blue Cross at least 12 months prior to your termination. Without such a designation, Blue Cross will use the form of benefit under the ESP for you.

What happens to my account if I die?

- If you die prior to the complete distribution of your account in accordance with the provisions of this plan, Blue Cross will pay your unpaid account balance (plus any interest required according to the plan) to your beneficiary in a lump sum within 90 days of Blue Cross' receipt of written notification of your death.

Are my deferred compensation benefits taxable?

- Benefits are subject to income taxes upon distribution

What happens to my account if Blue Cross becomes insolvent?

- This benefit is payable from Blue Cross' general assets. If Blue Cross becomes insolvent, you will be an unsecured creditor and will have no preferred claim to any assets. However, a special trust has been approved to safeguard this benefit from any other contingencies such as change of control of Blue Cross.

- EXECU-FLEX BENEFIT PLAN OPTION: CAPITAL ACCUMULATION ACCOUNT

How are credits made to the Capital Accumulation Account?

– Under the Execu-FLEX Plan, you may elect to credit some portion of your FLEX Allowance to a tax-deferred Capital Accumulation Account (CAA).

You have elected to credit $34,800 from your FLEX Allowance into the Capital Accumulation Account.

How often are credits made to the Capital Accumulation Account?

– FLEX Allowance allocations to the Capital Accumulation Account will be credited annually at the mid-point of the plan year. Simulated earnings will be credited throughout the plan year.

When am I vested in my credits?

– Credits are vested 1/12 each month during the plan year. If you terminate employment during the plan year, the account balance will be adjusted accordingly.

How are earnings on my account reflected?

– Blue Cross will credit earnings to your account as if it were invested in your choice of options offered by Blue Cross.

When is my Capital Accumulation Account distributed?

- You elect the distribution date for each year's credit:
  - Minimum of two years to termination of employment
  - At least one year prior to your original in-service distribution date, the plan allows a one-time opportunity for you to extend that distribution date for an additional period of two or more years

– The account balance is distributed at the earlier of:
  - The in-service distribution date you elect;
  - Death; or
  - Termination of employment, whether voluntary or involuntary

Are Capital Accumulation Account benefits taxable?

– Benefits are subject to income taxes upon distribution. Credits are subject to FICA taxes as they vest.

What happens to my Capital Accumulation Account if Blue Cross becomes insolvent?

– This benefit is payable from Blue Cross' general assets. If Blue Cross becomes insolvent, you will be an unsecured creditor and will have no preferred claim to any assets. However, a special trust has been approved to safeguard this benefit from any other contingencies, such as change of control.

Clark/Bardes Consulting
Healthcare Group

d Avenue South
370
..inneapolis, Minnesota 55402
612-339-0919
800-327-9335 TOLL-FREE
612-339-2569 FAX
www.clarkbardes.com

MEMORANDUM

TO: Board of Directors
Blue Cross Blue Shield of Minnesota

FROM: David A. Bjork, Ph.D.
Robert H. Grant
Clark/Bardes Consulting - Healthcare Group

DATE: November 26, 2001

RE: Reasonableness of Executive Benefits and Perquisites

Blue Cross Blue Shield of Minnesota (BCBS) has engaged Clark/Bardes Consulting - Healthcare Group to conduct an analysis of its executive benefit plans, to determine whether they are reasonable and within the bounds of competitive practice of peer group organizations.

To complete this review, the Healthcare Group completed these worksteps:

- Determined the cost of executive benefits based on FASB accounting principles and data provided by BCBS Human Resources staff.
- Compared the cost of executive benefits at BCBS, as a percentage of salary, to norms in the health care industry, the managed care industry, and general industry.
- Reviewed descriptions of the benefit programs provided to BCBS executives.
- Compared the features of BCBS benefit programs to those found in the health care industry, the managed care industry, and general industry.

Based on this review, we find the executive benefit programs of Blue Cross Blue Shield of Minnesota to be reasonable and well within the bounds of competitive practice.

This memorandum will discuss the methodology used in the analysis, and document the basis for our conclusion of reasonableness.

BCBSM- 36500

Medical Benefits

- Benefits are well-designed and above-average in value, because of their low deductibles and out-of-pocket maximums.
- BCBS pays the full cost of employee and dependent coverage, a practice that exceeds competitive standards in health care, the managed care industry, and general industry.
- Annual employer costs are at approximately the 75th percentile of the health care industry (costs for other peer groups not available).

Dental Benefits

- Benefits are typical of those provided in all three peer groups.
- BCBS pays the full cost of employee and dependent coverage, a practice that exceeds competitive standards in health care, the managed care industry, and general industry.
- Annual employer costs are between the 75th and 90th percentiles of the health care industry (costs for other peer groups not available).

Post-Retirement Medical Benefits

- Benefits are comparable to those provided by slightly over half of the employers in all three peer groups. Many employers, including BCBS, have redesigned their plans to reduce costs by requiring retiree contributions.

Short-Term Disability Benefits

- Benefits are comparable to those found in health care.
- Benefits are somewhat more generous for short-service executives (those with less than 20 years of service) than plans reported in managed care industry and in general industry surveys which require sick days to be accumulated over time. Salary continuation is often an informal practice or a contractual provision, and thus is under-reported in surveys of executive benefits.

Group Long-Term Disability Benefits

- Benefits are comparable to those found in all three peer groups in the amount of income replaced. The monthly benefit maximum is higher than typical plans other industries. The higher monthly benefit maximum means that fewer executives will need additional individual coverage.

Retirement Plans

- Benefits are very competitive, at the 75th percentile of the financial services industry, and exceeding the 75th percentile of the health care, service industry, and industrial peer groups.
- *Note that BCBS executives' benefits are identical to those of rank & file employees, because the nonqualified plans simply restore benefits lost due to statutory limits and do not enhance executive retirement benefits beyond those levels.*

CEO Retirement Plans

- Benefits are competitive with CEO benefits in the health care industry, the managed care industry, and general industry.

Capital Accumulation Accounts

- Benefits are comparable to those offered by over 70% of health care employers.
- In the for-profit segment of the managed care industry, and in public companies, stock options and other forms of deferred compensation are used instead of capital accumulation plans. Stock option plans generally provide substantially higher benefits than the BCBS plan.

Vacation and Holidays

- BCBS vacation and holidays are comparable to those offered in all three peer groups.

Auto Allowances

- Executive Staff members receive auto allowances at approximately the median of general industry data.
- Other executives' auto allowances are between the 25th percentile and the median of general industry data. (Data for the health care and managed care industries is not available.)

Club Memberships

- For the two executives who receive paid memberships, annual costs are close to the median of general industry data.

Financial Planning and Tax Planning Allowances

- Allowances are slightly above the 25th percentile of general industry data.

Severance

- CEO severance benefits are within the median range for health care providers.

BCBSM- 36508

POST-RETIREMENT MEDICAL BENEFITS

Blue Cross Blue Shield of MN	Health Care Providers	Managed Care Industry	General Industry
• Post-retirement medical benefits provided to employees retiring with 30 years of service or at age 55 with 10 years of service. Prior to age 65, coverage is equivalent to employee plan; after age 65, choice of Medicare supplements. Retirees pay a share of the premium. BCBS subsidy is based on age & service at retirement.	• 54% provide employer-paid post-retirement medical benefits to senior executives	• 60% of organizations provide post-retirement medical benefits • 63% of plans are employer-paid at normal retirement, and 37% require participant cost sharing	• 54% of organizations provide post-retirement medical benefits • 31% of plans are employer-paid at normal retirement; 48% require participant cost sharing; and 22% are fully paid by retirees

QUALIFIED RETIREMENT BENEFITS

Blue Cross Blue Shield of MN	Health Care Providers	Managed Care Industry	General Industry
• The Pension Equity Plan (PEP) is a defined benefit plan providing retirement benefits based on age + years of service. • The Employee Savings Plan is a 401(k) plan allowing participant deferrals of up to 15% of pay. Participants receive a match of 30% of the first 6% of pay deferred. BCBS may also grant a discretionary match of up to 30% of the first 6% of pay deferred.	• 62% of employers offer defined benefit qualified pension plans • 36% of employers offer 401(k) or 403(b) plans with an employer match – Median practice is to match the first 3 to 3.99 percent of pay contributed by the employee – 40% of employers match 50% of EE contribution; 36% match 100% – Discretionary matches are very unusual in not-for-profit health care	• 79% of employers provide defined benefit qualified pension plans • 92% offer 401(k) or 403(b) plans with an employer match – 65% match the first 6% of pay contributed by the employee – Most common match is 50% of employee contribution – 5% also offer a discretionary match	• 58% of employers offer defined benefit qualified pension plans • 69% of employers offer 401(k) or 403(b) plans with an employer match – 62% match the first 6% or more of pay contributed by the employee – Most common match is 50% of employee contribution – 17% also offer a discretionary match

NONQUALIFIED RETIREMENT BENEFITS

Blue Cross Blue Shield of MN	Health Care Providers	Managed Care Industry	General Industry
• For employees earning more than the statutory limit on compensation ($170,000 in 2001), lost pension benefits are restored under two nonqualified retirement plans: – The Supplemental Retirement Plan (SRP) restores PEP plan benefits. – The Executive Deferred Compensation Plan allows deferrals of up to 6% of pay in excess of $170,000 and restores the employer match and discretionary match. • The CEO's SERP brings total retirement benefits to 60% of final average annual pay (salary plus STI) at age 60 or later	• 30% of organizations offer nonqualified defined benefit plans to address statutory limits – This represents 48% of organizations with defined benefit qualified plans • 9% of organizations offer nonqualified defined contribution plans to address statutory limits – These plans are difficult to structure under Section 457(f) of the tax code, which applies to tax-exempt health care employers • 38% of organizations also offer SERPs to enhance benefit formulas. Typical plans provide 50-60% of final average annual cash (salary+STI).	• 61% of organizations offer nonqualified defined benefit SERPs – 40% of these plans are intended to address statutory limits – 60% specify a benefit formula; most common is 60% of final pay • 52% of organizations offer nonqualified deferred compensation plans to senior management • 28% offer a nonqualified defined contribution SERP – 78% of these plans are intended to address statutory limits	• 42% of organizations offer nonqualified defined benefit SERPs – 51% of these plans are intended to address statutory limits – 77% specify a benefit formula; most common is 60% of final pay • 38% of organizations offer nonqualified deferred compensation plans to senior management • 24% offer a nonqualified defined contribution SERP – 73% of these plans are intended to address statutory limits • Most common formula is 60% of final average pay

TOTAL RETIREMENT BENEFITS

Blue Cross Blue Shield of MN	Health Care Providers	Service Organizations[13]	Financial Industry[13]	Industrials[13]
• Employer-paid retirement benefits vary as a percentage of final (3-year) average TCC (salary plus annual incentives) based on years of service, as illustrated below[14]:	• Total employer-paid retirement benefits typically replace 60-75% of final average salary, or 50-60% of final average total cash compensation	• Total retirement benefits as a % of final salary:	• Total retirement benefits as a % of final salary:	• Total retirement benefits as a % of final salary:

Blue Cross Blue Shield of MN

	Years of Service @ 65		
	34 yrs	25 yrs	17 yrs
PEP	28.9%	21.7%	14.5%
SRP	23.3%	17.5%	11.7%
401(k) Match	8.5%	5.1%	2.7%
Discretionary Match	5.8%	3.5%	1.9%
Match Restoration	2.0%	2.0%	1.9%
50% Social Security	5.0%	5.0%	5.0%
Total	73.5%	54.9%	37.7%

Service Organizations[13]

	Years of Service @ 65	
	30 yrs	20 yrs
P25	32.9%	23.0%
Median	45.1%	31.5%
P75	54.2%	38.0%

Financial Industry[13]

	Years of Service @ 65	
	30 yrs	20 yrs
P25	42.0%	30.4%
Median	56.5%	39.5%
P75	66.8%	45.8%

Industrials[13]

	Years of Service @ 65	
	30 yrs	20 yrs
P25	30.2%	21.2%
Median	48.2%	34.1%
P75	57.7%	40.5%

[13] Source: Hay Benefits Report, Volume II - final 1-year average salary of $200,000

[14] Plan entry salary = $150,000 with $45,000 annual incentive target. Retirement at age 65 with 34, 25 or 17 years of service. 6% salary scale. 6% contributed to 401(k) and Executive Deferred Compensation plans. Discretionary match = 20.4% (1994-98 average). 10% gross investment earnings on 401(k) investments. 6.5639% net investment earnings on Executive Deferred Compensation (1994-98 average). Final Average Pay = high 36 months salary + annual incentives. CPI inflation = 3%.

Legend:
- A Name and title of the employee
- B The amount of the employee's base salary
- C The amount and reason for any bonuses paid to the employee, including but not limited to any retention or signing bonuses
- D The amount and reason for any incentive payment to the employee
- E The amount and reason for any other payment not part of the employee's base salary made directly to the employee (not including amounts reimbursed to the employee based upon the submission of an expense report produced pursuant to Document Request No. 4
- F The amount and type of any retirement or pension payments, of any kind whatsoever, made on behalf of the employee
- G The amount and payor for any life insurance policy for the employee
- H For any vehicle leased for the employee's use, identify the cost per month and the total of the lease, the payor, time frame for the lease and a detailed description of the vehicle. If the vehicle was purchased for the employee's use, please identify the total amount paid for the vehicle, the payor and a detailed description of the vehicle
- I The amount, payor, and business purpose for any other payments made to a third party for the benefit of the employee
- J Whether the employee has an employment agreement
- K Whether the employee is still employed by BCBSM (if not, identify and describe all payments that were made to the employee or on his or her behalf after the termination of the employment and whether there is a severance agreement
- L The date on which the board of directors, or a committee thereof, of BCBSM approved the above compensation

A 2003	B	C	D	E	F	G	H	I	J	K	L
Mark Banks, President and Chief Executive Officer	$670,000	0	$419,089 Annual Incentive Award, $303,219 Long-Term Incentive Award	$1,496.67 tax planning for 2003	23671 401(k) match	$548,000 Equitable Life, 670,000 MII Life, $330,000 Optional-MII Life	$1,218.63 per month, $47,796.96 total, 2002 BMW 4-door sedan	$46,344 Capital Accumulation Account, $9,536 Equitable Life, $1,016 MII Life-LTC	YES	YES	Base Salary: 12/11/2002, Annual and Long-Term Incentive: 2/5/2003+M25
Colleen Reitan, Executive Vice President, Operations	$377,000	0	$151,609 Annual Incentive Award, $111,968 Long-Term Incentive Award	$783.00 tax planning for 2003, $157 Service Anniversary,	$13,569 401(k) match	$550,000 Equitable Life, $50,000 MII Life,	na	$17,886 Capital Accumulation Account, $2,052 UNUM-Paul Revere-LTD, $797 MII Life-LTC	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2003

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Richard Niemiec, Senior Vice President, Corporate Affairs	$341,000	0	$160,950 Annual Incentive Award	$1,350.14 estate planning, $436 Service Award	$14,025 401(k) match	$578,000 Equitable Life, $50,000 MII Life,	na	$16,170 Capital Accumulation Account, $750.00 to Wealth Enhancement Group, $2,585 MII Life-LTC	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2004
Timothy Peterson, Senior Vice President, Chief Financial Officer	$321,000	0	$141,777 Annual Incentive Award, $16,849 Long-Term Incentive Award	$111 Service Award	$7,702 401(k) match	$444,000 Equitable Life, $50,000 MII Life,	na	$17,655 Capital Accumulation Account	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2005
Richard Neuner, Senior Vice President, Chief Marketing Officer	$300,000	0	$137,845 Annual Incentive Award		$11,970 401(k) match	$544,000 Equitable Life, $50,000 MII Life,	na	$14,483 Capital Accumulation Account, $1,322 UNUM	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2006
William Gold, M.D., Vice President, Chief Medical Officer	$305,000	0	$138,828 Annual Incentive Award, $109,193 Long-Term Incentive Award	$422 Cell Phone Allowance	$7,702 401(k) match	$549,000 Equitable Life, $50,000 MII Life,	na	$13,609 Capital Accumulation Account, $1,124 UNUM-Paul Revere LTD, $2,042 MII Life-LTC,	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2007
John Ounjian, Senior Vice President, Chief Information Officer	$300,000	0	$141,777 Annual Incentive Award, $110,997 Long-Term Incentive Award	$729.07 tax planning for 2003	0	$550,000 Equitable Life, $50,000 MII Life,	na	$9,985 Capital Accumulation Account, $470 UNUM LTD, $2,840 MII Life LTC	NO	NO, see note for 2004	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2008

Nancy Nelson, Vice President, Chief Actuary	$255,000	0	$104,691 Annual Incentive Award, $65,100 Long-Term Incentive Award	$35 Weight Watchers Rebate	$10,569 401(k) match	$471,000 Equitable Life, $627,000 Equitable Supplemental $950,000 MII Life - Optional $50,000 MII Life	na	$12,418 Capital Accumulation Account, $197 UNUM Provident LTD, $1,965 MII Life LTC, $1,407 Equitable.	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2009
Susan Flygare, Vice President, Commercial Sales & Account Management	$247,000	0	$106,908 Annual Incentive Award, $65,139 Long-Term Incentive Award	$1,259.45 estate planning, $393 Service Award	$10,540 401(k) match	$458,000 Equitable Life, $50,000 MII Life,	na	$16,488 Capital Accumulation Account	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2010
Roger Kleppe, Vice President, Human Resources, Real Estate & Facilities Services	$245,000	0	$90,288 Annual Incentive Award		$10,149 401(k) match	$406,000 Equitable Life, $50,000 MII Life,	na	$13,475 Capital Accumulation Account,	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2011
Michael Morrow, Senior Vice President, Business Development & Network Management	$224,000	0	$72,455 Annual Incentive Award, $52,680 Long-Term Incentive Award		$9,408 401(k) match	$370,000 Equitable Life, $50,000 MII Life,	na	$15,837 Capital Accumulation Account, $793 MII Life LTC,	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2012
Steve Richards, M.D. Vice President, Health Improvement	$218,000	0	$82,116 Annual Incentive Award	$1,007.56 tax planning for 2003	$9,427 401(k) match	$386,000 Equitable Life, $219,000 MII Life Optional Life, $50,000 MII Life,	na	$15,884 Capital Accumulation Account	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2013

Deborah Madson, Vice President, Government Programs	$198,000	0	$68,324 Annual Incentive Award, $57,804 Long-Term Incentive Award	$302 Tax Planning	$9,391 401(k) match	$324,000 Equitable Life, $396,000 MII Life Optional Life, $50,000 MII Life,	na	$13,685 Capital Accumulation Account, $213 UNUM LTD, $802 MII Life LTC	NO	YES	Base Salary: 12/10/2002, Annual and Long-Term Incentive: 2/5/2014

Notes:
Twelve highest paid employees determined from Box 5, W-2 for the year in question (see Tab B). Blue Cross has publicly disclosed compensation in the past in the IRS 990 format, which includes more than Box 5, W-2 compensation.
MII Life, subsidiary of BCBSM, providing $50,000 basic group term life, taxable to employee. Optional-MII Life, is voluntary additional life paid for by employee at market rates established by MII Life for age and sex adjusted. Equitable Life, split dollar coverage, with company paying the premium and having a collateral interest in the policy to receive repayment of premium at policy rollout. Spouse and Family Supplemental with Equitable or Nationwide, with company paying the premiums and having collateral interest in the policy to receive repayment of premium at policy rollout, with employee also paying interest, a Time Value of Money charge equal to the 30-year Treasury rate in effect at 12/31 of the preceding year. In November 2003, Blue Cross terminated its Equitable Designated and Supplemental Survivor policies. In addition the $50,000 life insurance with MII Life was replaced with a two-times salary death benefit from MII Life, with option to purchase, at employees expense, an additional three-times salary death benefit, to a maximum coverage amount of $1,600,000. Officers who had an Equitable Designated policy were eligible for the same death benefit in a Supplemental Survivor Benefit Plan that is self-insured by Blue Cross.
MII Life, providing Long-Term Care (LTC) coverage and Paul Revere providing Long-Term Disability coverage on a pre-tax basis within the Executive Flexible Benefits Plan. Wealth Enhancement Advisor Services provides estate planning. Capital Accumulation Account established for participants in the Executive Fexible Benefit Plan.

BCBSM-36617

YOUR LIFE INSURANCE BENEFITS

- How much life insurance coverage do I have under all of my life insurance plans through Blue Cross?

Benefit	Multiple of Salary	Face Amount	Portable Coverage? (Y/N)
Base Group Term Coverage	0.22x	$50,000	N
Designated Supplemental Survivor Coverage	1.93x	$444,000	Y
Total Survivor Benefits	**2.15x**	**$494,000**	

- How much Accidental Death & Dismemberment (AD&D) coverage do I have under all of my insurance plans through Blue Cross?

Benefit	Multiple of Salary	Face Amount	Portable Coverage? (Y/N)
Travel Accident Insurance	0.87x	$200,000	N

- How much spouse life insurance coverage do I have under all of my life insurance plans through Blue Cross?

Benefit	Face Amount	Portable Coverage? (Y/N)
Group Life Insurance Plan – Coverage	$2,000	N (Convertible)
otal Spouse Life Insurance Benefits	**$2,000**	

BCBSM 120888

YOUR LIFE INSURANCE BENEFITS

How much dependent life insurance coverage do I have under all my life insurance plans through Blue Cross?

Benefit	Face Amount	Portable Coverage? (Y/N)
Group Life Insurance Plan – Dependent Coverage	$2,000 per dependent child	N (Convertible)
Total Dependent Life Insurance Benefits	**$2,000 per dependent child**	

YOUR DISABILITY BENEFITS

- What portion of my income will be replaced if I am disabled?

  - For a Short-Term Disability (six months or less), your income will be provided by the following benefits:

Benefit	Maximum Benefit Period	% of salary replaced	Monthly benefit amount in $
Salary Continuation	Six months	100%	$19,167

  - For a Long-Term Disability (lasting longer than six months), your income will be provided by the following benefits:

Benefit	Maximum Benefit Period	% of salary replaced	Benefit amount in $	Offsets to benefit
Group Long-Term Disability	To Social Security retirement age, if disability occurs before age 60	60%	$11,500 per month	• Social Security benefits • Retirement, disability, or other similar employer-sponsored benefits • Early retirement benefits (if elected)
Individual Long-Term Disability	To age 65	29%	$5,600 per month	• None
Group Long-Term Care	Through lifetime	N/A	$150 per day	• None

- Are any benefits payable in the event that my spouse is disabled?

Benefit	Maximum Benefit Period	Benefit amount in $	Offsets to benefit
Spouse Long-Term Care	Through lifetime	$150 per day	• None

[Cover]

Blue Cross and Blue Shield Of Minnesota

Executive Total Compensation Statement 2002

Your Total Executive Compensation at Blue Cross

As an executive at Blue Cross and Blue Shield of Minnesota, you enjoy a broad and competitive package of compensation and company-provided benefits. This statement provides a "snapshot in time" summary of your 2001 total executive compensation.

Included in this summary is personalized information on:

- Your 2001 cash compensation, including your base pay and incentive awards
- Your 2001 Basic, Executive and Execu-FLEX benefits
- Your estimated retirement plan benefits from Blue Cross

You will also find a summary of how these plans work and information on who to contact if you have questions.

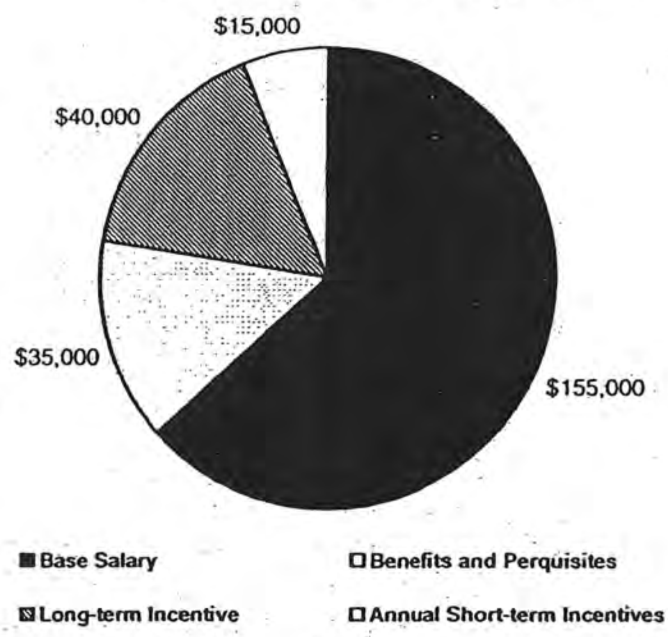
The Total Value—Adding It Up

Our goal is to reward your engagement and commitment to the organization. As an important member of the executive management team, your executive total compensation at Blue Cross consists of much more than base pay. It includes incentive pay and the value of your employee and executive benefits.

The following information summarizes your total executive compensation for 2001:

Your Base Salary as of December 31, 2001 *(for 2002, your base salary is ${BasePayCy})*	**${BasePayLy}**
Your Annual Short-term Incentives *(earned in 2000 and paid in 2001)*	**${STIPay}**
[IF {LTIPay} > 0 PRINT **Your Long-term Incentive** *(earned in the 1997-2000 cycle and paid in 2001)* ENDIF]	**${LTIPay}**
Value of Benefits and Perquisites [IF {CEORptFlg} = Y PRINT *(Not including the value of any time off you may have taken throughout the year.)* ENDIF]	**${ZBenCst}**
Total Executive Compensation Value	***${ZTotComp}***

2001 Total Executive Compensation



[ED NOTE TO MCR: USE THE FOLLOWING FIELDS TO CREATE THE PIE CHART: {BasePayLy} for Base Salary, {ZBenCst} for Benefits and Perquisites, {LtiPay} for Long-term Incentives, and {StiPay} for Annual Short-term Incentives. NOTE THAT THE LONG TERM INCENTIVE PIECE WILL BE VARIABLE.]

An Overview of Your Benefits

Your benefits package consists of three types of benefits:

- Basic
- Executive
- Execu-FLEX

Basic

Basic benefits are those generally provided to most employees. They include:

Retirement	■ Pension Equity Plan ■ Employee Savings Plan – 401(k) ■ Social Security (employer's share) and other statutory benefits
Health & Welfare	■ Medical plan ■ Dental plan ■ SelectAccount flexible spending plan
Life, Disability & Other Insurance	■ Group long-term disability ■ Basic term life insurance ■ Optional life insurance (known as Voluntary Life in 2002) ■ Spouse/same-gender domestic partner and dependent life insurance ■ Long-term care ■ Accidental Death & Dismemberment ■ Travel accident insurance
Health Improvement Programs	■ Healthy Start® prenatal care information ■ Our BluePrint for Health® online consumer health information Web site ■ 24-hour nurse line for answers to your health questions ■ Health promotion programs including flu shots and our stop-smoking program
Employee Discounts	■ Child care ■ Health club memberships ■ Auto and home insurance ■ Massage, acupuncture and nutritional supplements ■ Laser vision correction
Continuous Learning Opportunities	■ Onsite professional development workshops ■ Onsite technical training ■ Self-study insurance programs ■ Tuition reimbursement for undergraduate and graduate programs ■ Reimbursement for external seminars
Work/Life Balance	■ Holidays ■ Flexible work schedules in many departments ■ Onsite fitness centers ■ Business casual dress ■ Onsite convenience and gift stores ■ Financial planning seminars ■ Child care and elder care referral services ■ Weight Watchers meetings at work

Executive

Executive benefits are those benefits and perquisites designed to ensure your benefits package meets competitive standards for executives in the health care industry. They include:

Retirement

- Executive Deferred Compensation Plan (401(k) Employer Matching Contribution "Restoration" and salary and incentive deferrals)

[IF {ZCEOFlg} <> Y PRINT

- Supplemental Retirement Plan

ELSE PRINT

- Supplemental executive retiree health care
- CEO Supplemental Executive Retirement Plan ENDIF]
- Financial/tax/estate planning benefit
- Life planning benefit

Life, Disability & Other Insurance

- Short-term disability salary continuation
- Designated supplemental survivor benefit

Time Off & Other Perquisites

- Vacation

[IF {ProfDues} > 0 PRINT

- Professional dues

ENDIF]

[IF {ClubMemCst} > 0 PRINT

- Business club memberships ENDIF]

Execu-FLEX

Flexible benefits are those designed to meet your individual needs beyond what is provided by your Basic and Executive benefits. Each year you receive a pre-tax Execu-FLEX allowance that you can choose to allocate among several benefit choices. For 2001, your allowance was 5.5 percent of your 2000 salary. Execu-FLEX options include:

Retirement

- Capital Accumulation Account

Life, Disability & Other Insurance

- Individual long-term disability
- Long-term care
- Family supplemental survivor

[IF {CEORptFlg} <> Y OR IF {ZCEOFlg} <> Y PRINT

Other Benefits

- Paid time off buy or sell

ENDIF]

How Your Benefits Compare

In a 2001 survey of 12 local health care organizations, Blue Cross ranked 6th out of 12 in executive benefits, including health care, retirement, paid time off and income protection benefits. This rank illustrates where we choose to position ourselves in the executive benefits arena.

OTHER BLUE CROSS-SPONSORED BENEFITS

This document is intended to provide an overview of basic information regarding Blue Cross'] fit plans. Please refer to your Summary Plan Descriptions, Plan Documents, or your Human ources representative for more complete information. This legal documents governing the plans will prevail if there are any inconsistencies or inaccuracies in this material.

- SELECTACCOUNT FLEXIBLE SPENDING PLAN

<u>What is the purpose of the SelectAccount Plan?</u>

– The plan enables you to pay the following expenses with pre-tax dollars:

  - Certain medical and dental expenses that are not covered by insurance (e.g., medical supplies, co-pays, deductibles or co-insurance expenses);
  - Dependent care expenses.

<u>How does the plan work to pay for my non-covered medical and dental expenses?</u>

– You elect to reduce your salary by the amount you expect to spend on medical and dental expenses.

– As you incur the expense, you are reimbursed up to the total amount you elected to have deposited in your medical and dental expense reimbursement account.

You have elected an annual salary reduction of $500 for medical and dental expenses.

<u>/hat limits apply to my medical and dental expense reimbursement account?</u>

– The maximum amount you can elect to deposit in your medical and dental expense reimbursement account each calendar year is $2,500. The minimum payroll deduction is $5 per pay period.

<u>Which medical and dental expenses are eligible for reimbursement?</u>

– Most medical and dental expenses are eligible for reimbursement unless they are already covered by insurance.

– In order to be reimbursable, the expenses must be deductible on your federal income tax return.

<u>What must I do to receive my reimbursement?</u>

– After you have incurred the expenses, you should submit an itemized bill, receipt, or explanation of benefits to SelectAccount.

- SELECTACCOUNT FLEXIBLE SPENDING PLAN (cont'd)

Iow does the plan work to pay for my dependent care expenses?

– You elect to reduce your salary by the amount you expect to spend on dependent care expenses.

– You can be reimbursed for your dependent care costs from you dependent care expense reimbursement account up to the amount you have in that account.

  - You must first pay the dependent care expenses yourself, then provide the appropriate reimbursement request form, attaching proof of payment for the services.

  - You will need to give the plan administrator the name, address, and Social Security number of the dependent care service provider.

You are not utilizing the dependent care Flexible Spending Account.

How are 'dependents' defined for purposes of the SelectAccount Plan?

– Your children who are under age 13 and depend on you (and your spouse if you are married) for at least half of their support. Other children whose principal residence is your home and are members of your household also count as dependents.

– Members of your family (including your spouse) or any other individuals whose principal residence is your home and are members of your household, who are dependent on you (and your spouse if you are married) for at least half of their support and who are mentally or physically incapable of caring for themselves.

Which dependent care expenses qualify for reimbursement?

– Expenses for care at licensed nursery schools, day care centers, day camps, and kindergartens generally qualify. The school or center must, however, comply with State and local laws and receive a fee for its services.

– No dependent care expenses reimbursement is available if you are married unless your spouse (i) is working at a job for pay outside your home; (ii) is actively seeking employment outside your home; (iii) is a full-time student; or (iv) is physically or mentally unable to care for himself or herself.

– Only day care centers for dependent adults are eligible for reimbursement.

– Household services related to the care of the elderly or disabled adults are eligible for reimbursement.

– If you pay your own child to provide day care services while you are at work, the expense will not qualify for reimbursement unless the child you pay is at least 19 and you do not claim the child you pay for the day care services as a dependent on your income tax return.

- SELECTACCOUNT FLEXIBLE SPENDING PLAN (cont'd)

What limits apply to my dependent care reimbursement account?

– Your dependent care expense reimbursements may not exceed the following limits:

  - $5,000 during the calendar year; $2,500 if you are married and file a separate return
  - If you have a working spouse, the lesser of your spouse's pay or your net pay after all salary reductions during the calendar year.
  - If you have a spouse who is either a full-time student or is incapacitated, $200 per month if you have one dependent or $400 per month is you have more than one dependent.
  - If you are single, your net taxable pay during the calendar year after all salary reductions.

What happens if I don't use all of the money I have allocated to the accounts?

– If you do not use up all the money credited to your expense reimbursement accounts, the unused money will be forfeited.

– Also, you cannot use your dependent care account for medical reimbursements or vice versa.

– You have 90 days following the end of December to submit claims for reimbursements or expenses that were incurred during the previous calendar year.

Can I change the amount that I am deferring from my salary?

Generally, your salary reduction election will remain in force throughout the calendar year and cannot be changed, except under special circumstances.

– In certain situations you can increase or decrease the amount of your payroll deductions during the calendar year. The new election must be based on a 'change in status' and must be consistent with the change. Examples of a 'change in status' include:

  - Significant cost or coverage changes
  - Change in marital status
  - Change in number of dependents
  - Change in employment status
  - Change in work schedule or worksite
  - Change in daycare provider
  - Dependent satisfies or ceases to satisfy requirements for unmarried dependents
  - Change in place of residence or work site
  - Qualified medical child support order
  - Entitlement to Medicare or Medicaid benefits
  - Medical Leave
  - HIPAA

- SELECTACCOUNT FLEXIBLE SPENDING PLAN (cont'd)

What happens if I terminate employment during the year?

- *Dependent Care Account:* No amounts will be deposited in your dependent care expense reimbursement account after you terminate employment with Blue Cross. Any amounts left in the account after termination may be used to reimburse you for expenses incurred during the remainder of the calendar year.

- *Medical and Dental Expense Account:*

  - No amounts remaining: If you already have been reimbursed for the full amount of your contributions, your contributions will stop with your last paycheck and no further reimbursements will be made. If you wish, you can instead continue to make contributions by agreeing to have the entire amount you initially elected to contribute for the remainder of the calendar year deducted from your last paycheck prior to termination. This amount can be used to reimburse you for claims incurred at any time during the calendar year in which your termination occurs.

  - Amounts remaining: If your reimbursements are less than what you contributed, you can elect coverage under COBRA until the end of the year. Your COBRA contributions will, however, be on an after-tax basis. Or, you may file reimbursement requests for expenses you incur to the end of the year up to the amount of your remaining contributions.

If you die while employed: Any balance remaining in your accounts may be used to reimburse eligible expenses incurred through the date of death.

EXECUTIVE VACATION AND HOLIDAYS

How much vacation time am I entitled to take each year?

- As a member of Executive Staff, you may take vacation as reasonable and appropriate, given your job responsibilities and the needs of the organization.

Are holidays included?

- No. In addition to vacation, you will receive nine holidays per year.

- SEVERANCE BENEFIT PROGRAM

Jnder what circumstances am I eligible for Severance Benefits?

– You are entitled to receive severance benefits if the following conditions are satisfied:

1. You are employed by Blue Cross and not assigned to Delta Dental;
2. Blue Cross, in its sole discretion, determines that your position is to be eliminated or employment is terminated due to performance reasons. (A voluntary resignation or termination of employment due to misconduct will disqualify you from receiving severance pay benefit);
3. You sign and deliver to the Administrator a release or waiver of employment-related claims, in a form prescribed by the Administrator;
4. You are not eligible for severance benefits pursuant to any other plan of or agreement with an Affiliate unless that plan or agreement expressly states that benefits are in addition to those provided under this plan.

What types of severance benefits will I receive?

– *Severance Pay:* Severance benefits will be 52 weeks of your base pay.

– *Outplacement Assistance:* You will be entitled to outplacement assistance.

ow is Severance Pay actually paid?

– Severance benefits will be paid in periodic payments made on the same basis (bi-weekly) as Base Pay (subject to the Administrator's retained right to at any time cause any remaining periodic payments to be paid in a single lump sum payment). In no case will payments be made or begin before the end of any rescission period in connection with any release or waiver that you are asked to sign.

- EMPLOYEE ASSISTANCE PROGRAM

What is the purpose of the Employee Assistance Program?

– The Employee Assistance Program is maintained to provide eligible employees of Blue Cross or any Blue Cross Affiliates with referral and counseling services regarding personal and work-related problems that affect job performance and overall lifestyle.

Am I eligible for the Employee Assistance Program?

– Employee Assistance benefits under this program are provided to all individuals who meet the definition of Qualified Employee under the Blue Cross Welfare Benefit Plan.

What benefits are provided by the Program?

– You are provided by Blue Cross with the Program Provider's toll-free telephone number to access certified social service counselors available through the Program. The counselors are available twenty-four hours per day, seven days per week to assist with assessment and intervention when necessary. Such counselors also provide short-term counseling and make referrals to other human service professionals.

Who pays for the benefits provided by the Program?

- There is no charge for using the Program. You are, however, responsible for any fees incurred from a referral provided by a Program counselor.

What happens to my Employee Assistance benefits upon my termination from Blue Cross?

– The Program will continue to be available to you and your spouse or dependents for up to 36 months following your termination with Blue Cross or the termination of an individual's spousal or dependent status in relation to you.

- ADOPTION ASSISTANCE PROGRAM

\m I eligible for the Adoption Assistance Program?

– Adoption Assistance benefits under this program are provided to all individuals who meet the definition of Qualified Employee under the Blue Cross Welfare Benefit Plan and who are regularly scheduled to work at least 20 hours per week.

What benefits are available under the Program?

– You may receive reimbursement of up to $5,500 of Qualified Adoption Expenses per adopted eligible child.

What expenses are reimbursable under the Program?

– Only Qualified Adoption Expenses are eligible for reimbursement. Subject to the exclusions below, Qualified Adoption Expenses are reasonable and necessary adoption fees, court costs, attorney fees, and other expenses that are directly related to, and the principal purpose of which is, the legal adoption of a child. Examples include:

  - State-licensed adoption agency fees including fees for placement and parental counseling;
  - Legal costs, including attorney fees and costs of legal proceedings;
  - State-required 'pre-placement home study' and 'post-placement supervision' programs;
  - Charges for temporary foster care before placement provided by a licensed agency;
  - Reasonable and customary transportation and lodging expenses to obtain physical custody of the child, for adoptive parents, child and natural mother.

What expenses are not reimbursable under the Program?

– Qualified Adoption Expenses do not include any expense incurred:

  - in violation of state or federal law;
  - in carrying out any surrogate parenting arrangement;
  - after the date of the adoption decree;
  - while you are not an Eligible Employee; or
  - that is payable or reimbursable under any other program.

Which children qualify as 'Eligible' under this Program?

– An 'Eligible' child must not be the child of your spouse, and:

  - is not a relative or stepchild; and
  - has not yet attained age 18.

- ADOPTION ASSISTANCE PROGRAM (cont'd)

What must I do to claim benefits under this Program?

- To receive reimbursement, you must submit a properly completed Adoption Expenses Reimbursement Form, itemized bills or receipts for all Eligible Adoption Expenses, and a certified copy of the adoption decree issued by a court in the United States.
- The reimbursement form must be submitted within 12 months after the date the adoption decree was issued.
- You must be an Eligible Employee when the reimbursement form is submitted.

Are benefits paid under this Program included in my regular income from Blue Cross?

- If your adjusted gross income (with the Eligible Adoption Expense reimbursement added) is $75,000 or less, up to $5,000 of the reimbursement may be excluded from your taxable income.
- If your income is between $75,000 and $115,000, a portion of the reimbursement may be excluded.
- If you are married (and not legally separated or living apart from your spouse), you and your spouse must file a joint federal income tax return.
- All reimbursements are subject to FICA and FUTA taxes.

To the extent Eligible Adoption Expenses are not reimbursed, they may qualify for an adoption tax credit.

OTHER BLUE CROSS-SPONSORED BENEFITS (cont'd)

- ONLINE DEPENDENT CARE/ELDER CARE REFERRAL NETWORK
- FIRSTHELP™
- GOLDNET BY MAIL™
- BLUEPRINT FOR HEALTH STOP-SMOKING PROGRAM
- HEALTHY START
- ON-SITE SERVICES
  - Fitness centers
  - Cafeterias
  - Convenience and gift store
  - Dry cleaning
  - Post office services
  - Film developing
  - Credit Union
- EMPLOYEE DISCOUNTS
  - Auto and property insurance
  - Tickets to area attractions and events
  - Memberships to area health clubs
  - Services at participating daycare centers
- EDUCATIONAL ASSISTANCE PROGRAM
- WORKSHOPS, TECHNICAL TRAINING, AND SELF-STUDY PROGRAMS
- OTHER SERVICES
  - Financial planning seminars
  - Wellness programs, including flu shots and Weight Watchers
  - Flexible work schedules (subject to department approval)
  - Lactation rooms for nursing mothers

- AUTOMOBILE ALLOWANCE
  - Blue Cross provides you with an automobile allowance equal to $8,400 annually.
  - The automobile allowance will be added to your W-2 as ordinary income.

OTHER BLUE CROSS-SPONSORED BENEFITS (cont'd)

FINANCIAL/TAX/ESTATE PLANNING BENEFIT

- Blue Cross provides you with an allowance for financial, tax, and/or estate planning equal to $900 annually.

- The value of this allowance will be added to your W-2 as ordinary income. Blue Cross will also 'gross up' the amount added to your W-2 to cover the additional tax liability.

LIFE PLANNING BENEFIT

- Blue Cross provides you with an allowance of $4,000 in the first year and $500 annually thereafter for life planning benefits.

- The value of this allowance will be added to your W-2 as ordinary income. Blue Cross will also 'gross up' the amount added to your W-2 to cover the additional tax liability.

PROFESSIONAL DUES

- Blue Cross will reimburse you for dues paid for membership in approved professional organizations.

BUSINESS CLUB MEMBERSHIPS

- Blue Cross will reimburse you for membership fees paid for your participation in approved business clubs.

Blue Cross and Blue Shield of Minnesota

Executive Compensation Review - Competitive Benchmarking

October 16, 2002

Final

Watson Wyatt
Worldwide

Executive Summary

Desired Competitive Position

- General concurrence that median is the appropriate desired competitive position for BCBSM executive compensation for total compensation and benefits, with the opportunity to earn above median compensation through performance-based incentives.
- There is also concurrence that median is the objective for all elements of pay, i.e., salary, annual incentives, long-term incentives, and benefits. We understand that in the past, there was a specific intent to offset below market salaries with more competitive incentives and benefits, but that approach was not well received and is no longer being used.
- While there was discussion that some positions need to be paid more competitively than others, this objective can be achieved by using a market range around the common desired competitive position of median.

Peer Group

- There is currently no agreed upon peer group. The Guiding Principals state that the comparative framework of companies will include large Blues plans, life/health insurance companies and large managed care/HMO organizations.
- There is general agreement that the healthcare industry is the most relevant peer group for most positions. Due to consolidation in the industry, many of the life/health insurance companies have sold or significantly reduced their health insurance business so they are no longer as relevant for comparison purposes.

BCBSM-36649

Peer Group (cont'd)

- There was also specific interest in looking at local market peers from general industry given BCBSM's high public profile and mission related to serving the health needs of Minnesota.
  - Comparisons to the local Minnesota companies are not included in the Executive Summary but are included in the individual comparison pay detail and in the Appendix.
- While there is no specific mention that a different peer group would be used for any element of pay, there was a sentiment that BCBSM cannot compete with the long-term incentive awards of publicly traded entities — particularly stock options. In reviewing the data for private Blue Plans only versus the total peer group and noting BCBSM confirmation to remain private in the near term, we concur with using only private Blue data to determine long-term incentive award competitiveness.
- The most commonly used scope measure in determining an appropriate peer group is revenues. Within health insurers, however, there is additional complexity because gross revenues also include administrative contract services (ACS) revenues which are composed of revenues for providing administration and funds to pay actual claims. The ACS business does not carry any insurance risk on the claims, but does require that the administrative provider have the capabilities to process the claims correctly and efficiently. While there are mixed feelings as to whether comparability should be based on gross revenues or revenues less the claims portion of ASC, we believe an appropriate methodology would be to use gross revenues when determining comparability among other health insurers, but revenues less ASC when determining comparability with companies outside of the industry.

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Executive Summary

Peer Group (cont'd)

- Another issue raised regarding selection of the peer group using revenues is that revenues are going up significantly, not due to increase in market share, etc., but due to increases in the cost of providing healthcare. The concern is that if executive pay is tied to revenues, compensation levels will increase through no additional effort or performance of management. Within the industry, however, the pure effect of premium increases on pay levels is "washed out" since industry peers are generally all facing similar premium rate increases.

Executive Summary

Annual Incentive Plan Design (cont'd)

- Consideration should be given to review the goal setting process for incentive measures. One of the performance measures used by BCBSM is enrollment growth. While it is important to incent growth, many commitments from large employers are made prior to setting the annual growth goal so achievement of that performance measure is almost " a given."
- BCBSM currently uses six performance measures for the annual incentive plan. While we understand that all measures are important to the business of BCBSM, consideration should be given to reducing the number of goals to provide a stronger focus on the most important goals. The current goals and weightings are as follows:
  - Operating Income - 25%
  - Health Plan Fully-Insured Loss Ratio - 10%
  - Administrative PMPM - 20%
  - Net Enrollment Gain - 20%
  - Member Touchpoint Measures - 15%
  - Customer Loyalty Index - 10%
- BCBSM recently changed the administrative expense goal to Health Plan Administration Expense PMPM, rather than as a percentage of premium. We believe this was a positive change and addresses some of the concerns raised about increasing premiums due to medical inflation.

Executive Summary

Blue Cross Blue Shield Minnesota
Peer Group Profile
($millions)

Company	Private or Public	Revenues: Gross Revenues	Revenues: Revenues Less ASC	Revenues: ASC as % of Rev.	Members: 2000	Members: 2001	Members: '00-'01 Grth.	Total Assets	Net Income	Employees: 2000	Employees: 2001
Healthcare Industry (Primary)											
BCBS, Mass	Private	$6,178	N/A	N/A	N/A	2,392	--	$1,913	$132	2,998	3,508
BCBS DE/MD/DC/No VA (CareFirst)	Private	$5,979	$3,863	35%	2,900	3,104	7%	$2,566	$99	6,540	6,435
Horizon BCBS of NJ	Private	$5,917	$2,198	63%	2,300	2,420	5%	$1,379	$97	4,467	4,668
BCBS, Alabama	Private	$5,725	N/A	N/A	3,000	N/A	--	N/A	N/A		
BCBS, ID/WA/OR/UT (Regence Group)	Private	$5,535		N/A	4,280	2,987	-30%	$2,508	$71	6,268	
BCBS, Florida	Private	$5,100	$3,297	35%	3,200	3,382	6%	$2,583	$73	9,134	9,143
Blue Shield of California	Private	$4,800	$4,319	10%	2,250	2,248	0%	$1,668	$61	3,685	4,000
Oxford Health Plans	Public	$4,421	N/A	N/A	N/A	N/A	--	$1,577	$322	3,400	3,400
BCBS, Rochester (Excellus)	Private	$4,061		N/A	1,800	1,789	-1%	$1,612	$39		2,249
BCBS, Tennessee	Private	$3,900	$1,900	51%	2,015	2,126	6%	$1,400	$53	4,217	4,451
Coventry Health Care	Public	$3,147	N/A	N/A	N/A	N/A	--	$1,451	$84	3,150	3,242
Trigon Healthcare*	Public	$2,971	N/A	N/A	N/A	N/A	--	$2,582	$116	3,999	4,208
BCBS, North Carolina	Private	$2,078	$1,570	24%	2,500	1,749	-30%	$1,726	$86		3,200
Cobalt	Public	$1,439	N/A	N/A	2,800	N/A	--	$727	($22)	1,503	3,599
Average		*$4,375*	*$2,858*	*37%*	*2,705*	*2,466*	*-5%*	*$1,822*	*$93*	*4,487*	*4,342*
Median		*$4,611*	*$2,748*	*35%*	*2,650*	*2,392*	*3%*	*$1,668*	*$84*	*3,999*	*3,800*
Local Peers (Secondary)											
Hormel Foods	Public	$4,124		–	*Not relevant*	--		$2,163	$182	12,200	15,600
Nash Finch	Public	$4,107		–	*Not relevant*	--		$970	$21	13,537	12,755
PepsiAmericas	Public	$3,171		–	*Not relevant*	--		$3,419	$19	15,400	15,400
International Multifoods	Public	$2,849		--	*Not relevant*	--		$1,125	$9	4,654	4,680
NRG Energy	Public	$2,799		--	*Not relevant*	--		$12,895	$265	2,934	3,888
Pentair	Public	$2,616		–	*Not relevant*	--		$2,372	$33	13,100	11,700
Allina	Private	$1,700		–	*Not relevant*	--		N/A	N/A	N/A	N/A
Average		*$3,052*						*$3,824*	*$88*	*10,304*	*10,671*
Median		*$2,849*						*$2,267*	*$27*	*12,650*	*12,228*
BCBS, Minnesota	Private	$4,052	$2,200	46%	2,043	2,187	7%	$1,831	$65		3,546

** Acquired by Anthem in 2002*

Executive Summary

Long-Term Incentives

- Comparisons were made for BCBSM's long-term incentive (LTI) targets and maximums versus the competitive market.
- Overall, the ten executives reviewed are between the 25th percentile and median for long-term incentives at target. (Note: the last two long-term incentive plan cycles paid at, or very close to, the maximum award level).
- Individual comparisons at target:
  - Banks, Niemic, Reitan and McKenna are below the 25th percentile.
  - Peterson and Kleppe are at the 25th percentile.
  - Ounjian, Gold, Neuner and Nelson are at the median.
- At maximum long-term incentive opportunities for BCBSM, the ten executives are between the median and 75th percentile.
- As shown on the following page, the private Blues companies deliver much less value in long-term incentives than other public companies, though it should be noted that the private Blues data reflect target long-term incentive opportunities, not actual payouts.
- As with the annual incentive opportunities, the competitiveness of BCBSM opportunities are diminished by below market base salaries for some positions.

HR Committee and Executive Interviews

- While the current philosophy states that pay is targeted at the market median, there are issues with what the HR Committee views as the market. Perhaps some officers should be targeted higher than median levels of competitive pay. There is a sentiment on the HR Committee that BCBSM has not properly defined the market for executive pay. The HR Committee realizes that total cash pay may now be below the market median for some individuals. Some members feel that benefits (health, life and pension) are above competitive levels.

- There is a sentiment that little weight should be placed on simply following the market, questioning the logic of following the lead of others who may be "doing it wrong." However, if the organization does not consider the market, the variance from market could develop into a major attraction/retention problem down the road.

- The HR Committee would like to use both Blues companies and some other public health insurers as peer companies. In addition to traditional peers, some members of the HR Committee also want to consider health insurance companies with rapid increases in the top line, and other industries where revenue increases are due to outside factors (e.g., commodities business).

- There should be insurance/health care focus for most of the executives including CEO and Medical Director. Most of the interviewees acknowledged that for certain positions (human resources, information services and legal), however, it was appropriate to take a broader general industry view since those positions could be filled from other industries. Interviewees comments were mixed regarding whether the CFO could come from outside of the healthcare industry.

HR Committee and Executive Interviews

- Issues with incentive plans:
  - Short-term incentives – Plan has paid out above 50% of target for the last six years. There is a concern that goals aren't challenging enough. Last six years of payouts (average 97.6% of target):
    - 2001 (128.4% of target)
    - 2000 (97.6%)
    - 1999 (80.2%)
    - 1998 (114.6%)
    - 1997 (105.5%)
    - 1996 (59.1%)
  - While the short-term incentive has paid out in the last six years, the compensation philosophy suggests that payouts should be set so that there is a 50-75% probability of achieving target, 75% of reaching threshold (i.e., 30% of target paid for achieving 70% of the goal) and 10% for achieving superior results (150% of target paid for achieving 120% of the goal).

BCBSM- 36676

Legend:

A Name and title of the employee
B The amount of the employee's base salary
C The amount and reason for any bonuses paid to the employee, including but not limited to any retention or signing bonuses
D The amount and reason for any incentive payment to the employee
E The amount and reason for any other payment not part of the employee's base salary made directly to the employee (not including amounts reimbursed to the employee based upon the submission of an expense report produced pursuant to Document Request No. 4
F The amount and type of any retirement or pension payments, of any kind whatsoever, made on behalf of the employee
G The amount and payor for any life insurance policy for the employee
H For any vehicle leased for the employee's use, identify the cost per month and the total of the lease, the payor, time frame for the lease and a detailed description of the vehicle. If the vehicle was purchased for the employee's use, please identify the total amount paid for the vehicle, the payor and a detailed description of the vehicle
I The amount, payor, and business purpose for any other payments made to a third party for the benefit of the employee
J Whether the employee has an employment agreement
K Whether the employee is still employed by BCBSM (if not, identify and describe all payments that were made to the employee or on his or her behalf after the termination of the employment and whether there is a severance agreement
L The date on which the board of directors, or a committee thereof, of BCBSM approved the above compensation

A	B	C	D	E	F	G	H	I	J	K	L
2002											
Mark Banks, President and Chief Executive Officer	$620,000	0	$409,596 Annual Incentive Award, $338,690 Long-Term Incentive Award	$1,506.00 Tax Planning, $281.50 Benefit Planning	$22,506 401(k) Match	$548,000 Equitable Life, $670,000 MII Life, $330,000 Optional-MII Life	$1,218.63 per month, $47,796.96 total, Carousel Audi, 2002 BMW 4-dr sedan,	$34,151 Equitable Life, $940 St Paul Co, $152.5 Gray, Plant, Moody & Bennett, PA (benefit planning), $1,049 MII Life-LTC.	YES	YES	Base Salary and CEO Total Compensation Package: 12/5/2001, Annual and Long-Term Incentive: 2/6/2002,
Ramona Berger, Senior Account Executive	$70,772	0	$681,614 Sales Incentive	na	$7,273 401(k) Match	$71,000 MII Life	na	$192 St Paul Co, $207 MII Life	NO	YES	Base Salary and Total Compensation Package: 12/4/2001,

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Richard Niemiec, Senior Vice President, Corporate Affairs & Subsidiary Operations	$319,000 beginning and increased to $327,400 on 5/18/02	0	$157,162 Annual Incentive Award, $166,939 Long-Term Incentive Award	$3,500 Auto Allowance, $1,260.13 Tax Planning,	$12,631 401(k) Match	$578,000 Equitable Life, $50,000 MII Life,	na	$14,960 Equitable Life, $344 St Paul Co, $2,585 MII Life-LTC, $392.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
Vaughn Francis, Senior Account Executive	$85,885	0	$490,058 Sales Incentive	$115 Service Award,	$7,273 401(k) Match	$86,000 MII Life	na	$199 MII Life	NO	NO	Base Salary and Total Compensation Package: 12/4/2001,
Colleen Reitan, Vice President Corporate Planning, CEO Blue Plus	$300,000 beginning and increased to $308,400 on 5/18/02	0	$141,240 Annual Incentive Award, $115,892 Long-Term Incentive Award	$3,500 Auto Allowance, $774.08 Tax Planning, $1,350.13 Estate Planning	$7,273 401(k) Match	$550,000 Equitable Life, $50,000 MII Life	na	$15,703 Equitable Life, $344 At Paul Co, $750 Wealth Enhancement Advisory Services, $797 MII Life-LTC.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
John Ounjian, Senior Vice President, Chief Information Officer	$280,000 beginning and increased to $288,400 on 5/18/03	0	$141,240 Annual Incentive Award, $127,584 Long-Term Incentive Award	$3,500 Auto Allowance, $651.67 Tax Planning	0	$550,000 Equitable Life, $50,000 MII Life, $950,000 Optional-MII Life, $240,000 Spouse Supplemental-Equitable Life, $480,000 Family Supplemental-Equitable Life	na	$9,487 Equitable Life, $344 St Paul Co, $2,930 MII Life-LTC.	NO	NO, See 2004	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,

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William Gold, M.D., Vice President Health Management, Chief Medical Officer	$274,000 beginning and increased to $282,400 on 5/18/04	0	$135,590 Annual Incentive Award, $127,241 Long Term Incentive	$3,500 Auto Allowance,	$7,273 401(k) Match	$549,000 Equitable Life, $50,000 MII Life, $306,000 Optional-MII Life	na	$13,025 Equitable Life, $344 St Paul Co, $1,124 Paul Revere-LTD, $2,042 MII Life-LTC.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
Timothy Peterson, Vice President Finance, Chief Financial Officer	$280,000 beginning and increased to $288,400 on 5/18/08	0	$129,427 Annual Incentive Award, $115,892 Long-Term Incentive Award	$3,500 Auto Allowance	$7,273 401(k) Match	$444,000 Equitable Life, $50,000 MII Life	na	$15,400 Equitable Life, $344 St Paul Co.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
Richard Neuner, Vice President Sales & Marketing, Chief Marketing Officer	$272,000 beginning and increased to $280,400 on 5/18/05	0	$134,563 Annual Incentive Award, $121,222 Long Term Incentive	$3,500 Auto Allowance, $399.64 Tax Planning, $1,119.71 Estate Planning	$11,388 401(k) Match	$544,000 Equitable Life, $50,000 MII Life	na	$13,259 Equitable Life, $344 St Paul Co, $1,322 Paul Revere-LTD, $379 MII Life-LTC,	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,

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Steve Loosbrock, Vice President, Treasury	$153,000 retired on 3/31/02	0	$46,950 Annual Incentive Award, $42,073 Long-Term Incentive Award, $23,289 deferred comp payment, $30,922 SRP payment, $286,208 in deferred comp on W-2	$1,500 Auto Allowance, $2,015.12 Tax Planning ($1,007.56 for 2001 benefit & $1,007.56 for 2002 benefit), $1,259.45 Estate Planning	$7,273 401(k) Match	$307,000 Equitable Life, $50,000 MII Life	na	$5,046 Capital Accumulation Account, $9,321 Equitable Life, $207 St Paul Co, $750 Wealth Enhancement Advisory Services	NO	NO	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
Nancy Nelson, Vice President, Chief Actuary	$235,000 beginning and increased to $242,200 on 5/18/06	0	$96,845 Annual Incentive Award, $94,334 Long-Term Incentive Award	$3,000 Auto Allowance,	$10,021 401(k) Match	$471,000 Equitable Life, $50,000 MII Life, $627,000 Family Supplemental-Equitable Life	na	$12,172 Equitable Life, $344 St Paul Co, $1,966 MII Life-LTC.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,
Susan Flygare, Vice President, National Market	$229,000 beginning and increased to $235,000 on 5/18/07	0	$61,410 Annual Incentive Award, $68,170 Long-Term Incentive Award	$2,500 Auto Allowance,	$7,273 401(k) Match	$458,000 Equitable Life, $510,000 Nationwide Life Insurance Company, $50,000 MII Life	na	$1,501 Capital Accumulation Account, $15,153 Equitable Life , $344 St Paul Co, $1,847 MII Life-LTC.	NO	YES	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,

Char Carlson, Vice President, Underwriting	$135,000 retired on 6/30/02	0	$50,451 Annual Incentive Award,	$2,500 Auto Allowance, $299,665 in deferred comp on W-2	$8,441 401(k) Match	$230,000 Equitable Life, $50,000 MII Life, $219,000 Optional-MII Life	na	$27,845 Equitable Life, $344 St Paul Co, $3,334 MII Life-LTC.	NO	NO	Base Salary and Total Compensation Package: 12/4/2001, Annual and Long-Term Incentive: 2/5/2002,

Notes:
Twelve highest paid employees determined from Box 5, W-2 for the year in question (see Tab B). Blue Cross has publicly disclosed compensation in the past in the IRS 990 format, which includes more than Box 5, W-2 compensation.
MII Life, subsidiary of BCBSM, providing $50,000 basic group term life, taxable to employee. Optional-MII Life, is voluntary additional life paid for by employee at market rates established by MII Life for age and sex adjusted. Equitable Life, split dollar coverage, with company paying the premium and having a collateral interest in the policy to receive repayment of premium at policy rollout. Spouse and Family Supplemental with Equitable or Nationwide, with company paying the premiums and having collateral interest in the policy to receive repayment of premium at policy rollout, with employee also paying interest, a Time Value of Money charge equal to the 30-year Treasury rate in effect at 12/31 of the preceding year. MII Life, providing Long-Term Care (LTD) coverage and Paul Revere providing Long-Term Disability coverage on a pre-tax basis within the Executive Flexible Benefits Plan. Wealth Enhancement Advisory Services provides estate planning.
Nationwide policy's for Mark Banks and Susan Flygare cancelled in 2001, $31,733.63 premium refund on Banks policy, $4,287 premium refund on Flygare policy
Auto Allowance and Auto Insurance Program discontinued as of 5/31/02.
Loosbrock: retired 3/31/02, no severance, not eligible for 2002 annual incentive or continuation of benefits, elected installment payments for SRP over 10 years with $325,225 taxable as Medicare wages added in Box 5 W-2 for total Box 5 wages of $491,225. Total Box 1, W-2 is $205,016
Carlson: retired 6/30/02, no severance, prorated 2002 annual incentive at 50%, continuation of split-dollar variable life with collateral interest

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BlueCross BlueShield
BluePlus
of Minnesota

INTEROFFICE MEMO

Independent licensees of the Blue Cross and Blue Shield Association

To: Senior Staff
From: Roger Kleppe
Date: March 16 1999

Subject: Executive Perquisites

At the beginning of this year, you should have received a one-page summary of your 1999 compensation and perquisites from your divisional vice president. I have attached a copy of your summary for your reference. Under the "Perquisites" heading, one of the perks was "Estate/Financial/Tax Planning Services". This memo will help you understand the financial arrangements that are in place to support this perquisite. This perk has two components, the first is the "life planning" service that is currently being delivered by two different companies, either of which you may choose, and the other is an annual reimbursement for estate, financial or tax planning services. I will discuss both.

The "life planning" is an elective service that combines all the different aspects of your life and catalogs them for you and presents them in a detailed binder. Blue Cross believes that as an executive, you are committing a great deal of time and energy to the business and this service attempts to assist you in balancing your personal goals with the business goals. The process begins with a one-time project that creates the "life design" package for you and then annual updates. The cost of the one-time package is $4,000, and annual updates are $500, both of which Blue Cross pays. This amount is taxable to you and Blue Cross will "gross-up" the taxable amount so that the net effect to you is zero. You can choose between two consultants that deliver these services: a) Life Designs, Larry Christie, 612-343-2595 or b) Life Plan Advisors, Bud Pappas, 651-490-9933. Both companies provide client engagement letters to detail the scope of the services provided and you may interview both prior to selecting the consultant you feel most comfortable with. You are under no obligation to participate in this perquisite. The information you elect to provide to either of the consultants is strictly confidential and Blue Cross does not have access to any of the data, other than the data it may be requested to provide in building the detailed binder for you.

The "estate/financial/tax planning services" is a perquisite that will reimburse you for expenses you pay for up to a certain dollar amount on an annual basis. The 1999 Compensation and Perquisite summary provided to you indicates the 1st year reimbursement, which included the $4,000 "life design" cost, as stated above, plus the additional amount available for "estate/financial/tax planning services". This summary also indicated the amount of reimbursement available thereafter, which includes the $500 annual update for the "life design" package, plus the additional amount available for "estate/financial/tax planning services". Example: "up to $4,300 1st year, $800 thereafter" means the first year you would have $4,000 for "life design" services and up to $300 for "estate/financial/tax planning services", and thereafter, you would have $500 for annual "life design" updates and up to $300 for "estate/financial/tax planning services". This amount that Blue Cross reimburses you is taxable to you and Blue Cross will "gross-up" the reimbursement so that the taxes are covered.

I have enclosed a brochure for Life Design and one for LifePlan Advisors. You should contact either Larry or Bud directly if you are interested in pursuing this perquisite.

For estate/financial/tax planning service expenses that you have paid, please submit those paid receipts directly to me for reimbursement, up to the level authorized, through the payroll system.

The Vice President of Human Resources will administer this perquisite as a designee of the Chief Executive Officer of BCBSM. The CEO or the designee may amend or rescind such rules, regulations, policies, interpretations and guides as deemed appropriate for proper and effective administration of the perquisite. The existence of or participation in this perquisite does not constitute or imply a contract of employment. Cash in-lieu of either of these perquisites is not allowed. Amounts not used in one calendar year are not transferable to a later year.

Roger W Kleppe /BCBSMN
03/30/2004 11:34 AM

To Roger W Kleppe/BCBSMN@BCBSMN
cc
bcc Roger W Kleppe/BCBSMN
Subject Life Planning Services & Tax/Financial/Es Services

To: Blue Cross Officers

I want to remind each of you of the two parts of the executive compensation package that are available to you as an officer of Blue Cross.

The first portion is a benefit called, "Life Planning Services ". We have three approved vendors that provide this service. They are 1) Wealth Enhancement Group, contact: Bud Pappas at 952-449-9579, 2) Stevens, Foster Financial Advisors, contact: Brian Durand at 952-843-4220, and 3) Thrivent Financial, contact: Gary Tangwell at 651-779-9720. If you have already previously had a "Life Plan" completed, you are authorized to receive an annual update for this service, up to a cost of $750.00. Blue Cross pays the vendor directly and subsequently grosses up the amount we paid to the vendor and applies this "other income" to your paycheck to cover the taxes you will owe. If you have not completed an initial "Life Plan", you are eligible for up to $5,000.00 in services for the initial life plan work-up and then up to $750.00 thereafter for annual updates. Any charges above these amounts are your responsibility, but may be reimbursed through the next portion (see below) up the limit you are authorized for.

The second portion of the benefit is called, "Tax/Financial/Estate Planning Services ". This is for tax preparation fees, financial services, estate planning services, legal services for estate planning etc. You pay for these services directly to the vendor of your choice and submit invoices to me for reimbursement. Blue Cross reimburses you via payroll (these benefits are taxable as other income) and the invoice amount is grossed up to cover taxes at a predetermined rate. The benefit is up to $900.00 per year for the invoice amount(s). You may submit multiple invoices, example: an invoice for tax preparation services and an invoice for estate planning services, such as a will or trust. Any charges above the allowable amount is not reimbursed. The gross up will cover federal, state and medicare taxes.

If you have any questions about either of these services, please contact me at ext 2-2100

Best,
Roger
Roger W. Kleppe
Vice President, Human Resources
Blue Cross Blue Shield of Minnesota
651-662-2100
"Committed to building the business through integrated people solutions"

BCBSM, INC.
CEO EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is made as of the 1st day of January, 2000, by and between BCBSM, INC. ("Company"), and MARK BANKS, MD ("Employee").

Introduction

The Company desires to retain the Employee's services in the capacity of President and Chief Executive Officer effective January 1, 2000, and the Employee has accepted such appointment on all the terms and conditions set forth below.

Agreement

NOW, THEREFORE, the parties agree as follows:

Section 1
Position/Term of Employment

1.1. Commencement. Effective as of the date first written above, the Company employs the Employee as its President and Chief Executive Officer. During the term of his employment in such positions, the Employee shall have the responsibilities normally associated with the positions, as they may be more specifically defined by the Company's Board of Trustees ("Board").

1.2 Termination. The Employee's employment with the Company shall continue until terminated as described in Section 5, below.

Section 2
Standard of Care

During the term of this Agreement, the Employee agrees to devote substantially his full time, attention, and energies to the Company's business and shall not be engaged in any other business activity, whether or not such business activity is pursued for gain, profit, or other pecuniary advantage. This shall not be construed as preventing the Employee from (1) investing assets in such form or manner as will not require his services in the daily operations or the affairs of the companies in which such investments are made, or (2) serving as a director of one or more organizations, as approved by the Company's Board, in a capacity which would not violate the noncompete and/or confidentiality provisions of the CEO Severance Benefit Plan attached as Exhibit A. As of the date of this Agreement, the Employee is a director of the organizations listed on Exhibit B, and the Board approves such service.

The Employee covenants, warrants, and represents that he shall:

(a) Devote his full and best efforts to the fulfillment of his employment obligations; and

(b) Exercise the highest degree of loyalty and the highest standards of conduct in the performance of his duties.

Section 3
Compensation

Subject to Section 5 herein regarding employment terminations, as remuneration for all services to be rendered by the Employee during the term of this Agreement, and as consideration for complying with the covenants herein, the Company shall pay the Employee total compensation consisting of the following:

3.1 Base Salary. The Company shall pay the Employee a Base Salary in an amount which shall be established from time to time by the Board or the Board's designee; provided, however, that the annual Base Salary shall not be less than $548,000. This Base Salary shall be paid to the Employee in a manner consistent with the normal payroll practices of the Company.

The annual Base Salary shall be reviewed at least annually to ascertain whether, in the judgment of the Board or the Board's designee, such Base Salary should be increased, based primarily on the performance of the Employee during the year and on the position of Employee's Base Salary with respect to the market median of the peer group companies that Employer uses to set executive salary midpoints. If so increased, the Base Salary as stated above shall, likewise, be increased for all purposes of this Agreement.

3.2 Incentive Opportunities. The Company shall provide the Employee the opportunity to earn short-term and long-term incentive awards based on the achievement of performance goals established and communicated to the Employee under the Company's short-term and long-term incentive plans, as they may be amended from time to time. The Company is currently considering the design of such plans. As currently structured, the target incentive award opportunities are 55% of Base Salary under the short-term incentive plan, and 50% of Base Salary under the long-term incentive plan. If the Company modifies the design and operation of such plans, it shall do so in a way that preserves the Employee's total cash compensation opportunities (i.e., Base Salary plus incentive opportunities) at current levels or at such higher levels as the Company may determine.

3.3 Employee Benefits. Commencing January 1, 2000, the Company shall provide to the Employee the benefits listed below, or such greater benefits as the Company may determine from time to time:

Basic Benefits (as provided to all employees, except as noted)

- Medical and Dental Benefits
- Post-Retirement Medical (Company will pay additional cash compensation to the Employee to pay the Employee's share of the premiums, and to pay the income taxes on the additional cash compensation; coverage will be the Company's indemnity coverage without network limitation, will include prescription drug benefits, and commencing at age 65 will be coordinated with Medicare)
- "Select Account" Flexible Spending Accounts
- Group Long-Term Disability
- Base Group Term Life Insurance (death benefit of one times Base Salary)
- Optional Group Term Life Insurance (Employee-paid with Company subsidy)
- Qualified Pension Equity Plan
- Qualified 401(k) Plan
- Employer's portion of Social Security and Medicare Taxes

Designated Supplemental Benefits

- Disability Salary Continuation (12 months)
- Executive Accident Insurance
- Executive Deferred Compensation Plan
- Supplemental Survivor Split Dollar Plan (initial death benefit of $548,000)
- Supplemental Executive Retirement Plan (60% of total cash compensation for retirement at age 60 or later; integrated with Qualified Pension Equity Plan benefits)
- Vacation/Holidays (reasonable days, as determined by the Employee and Board Chair)

Flexible Benefit Plan

An annual allowance equal to $35,200 to allocate each year among the following benefits:

- Individual Long-Term Disability Coverage
- Long-Term Care Coverage
- Family Supplemental Survivor Benefit

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- Capital Accumulation Account

3.4 Perquisites. The Company shall provide to the Employee, at the Company's cost, all perquisites to which other senior executive officers of the Company are entitled and such other perquisites as are suitable to the character of the Employee's position with the Company as determined appropriate by the Board or its designee. Such perquisites shall include, among other things, membership and dues in the Minneapolis Club.

3.5 Right to Change Plans. The Company shall not be prohibited from changing, amending, or discounting any benefit plan, program, or perquisite by reason of Sections 3.3 and 3.4 herein, so long as such changes are similarly applicable to senior executive employees generally.

Section 4
Expenses

The Company shall pay, or reimburse the Employee, for all ordinary and necessary expenses, in a reasonable amount, which the Employee incurs in performing his duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees, and expenses associated with membership in various professional, business, and civic associations and societies of which the Employee's participation is in the best interest of the Company, as determined by the Board or its designee.

Section 5
Employment Terminations

5.1 Notice Requirements. Either party may terminate the Employee's employment by giving 45 days advance written notice to the other party. In such event, the effective date of termination shall be the expiration of such notice period. However, nothing in this Agreement (including, but not limited to, the notice periods in this Section 5) shall preclude or prohibit the Company, from removing the Employee from any officer position then held by the Employee and/or removing the Employee from the Company's premises if the Board believes that such actions are in the best interests of the Company. Whether the Company is obligated to pay any additional compensation to the Employee (other than during any applicable notice period) following any such removal shall depend on the application of Section 5.3 based on the surrounding facts.

5.2 No Salary or Benefit Continuation Upon Certain Terminations. There shall be no salary or benefit continuation (except as may be required by applicable state or federal law) under this Agreement and all rights, duties, and obligations of either party under this Agreement shall fully terminate upon the effective date of termination of the Employee's employment resulting from:

(a) Employee's Death. In this event, the effective date of termination shall be the first day of the month immediately following the date of death.

(b) Employee's Total Disability. In this event, the effective date of termination shall be the date of commencement of Company provided long-term disability benefits to the Employee under the Company's regularly maintained long-term disability plan. However, the Employee's termination for disability shall not shorten the Company's obligation to provide salary continuation benefits (integrated with other disability benefits) under the Disability Salary Continuation Plan.

(c) Termination by Employee (other than "Change of Control Termination", defined in Exhibit A). In this event, the effective date of termination shall be the expiration of the 45-day notice period provided in Section 5.1 hereof.

(d) Termination by the Company for Cause. In this event, the effective date of termination shall be the expiration of the 45-day notice period provided in Section 5.1 hereof. For these purposes, termination for cause means termination of employment by the Company as a result of (1) willful and repeated failure by the Employee to substantially perform his duties with the Company (other than any such failure resulting from his incapacity due to physical or mental illness), after a demand for substantial performance is delivered to the Employee by the Board that specifically identifies the manner in which the Company believes that the Employee has not substantially performed his duties and the Employee has failed to resume substantial performance of his duties on a continuous and regular basis within 30 days of receiving such demand; (2) the intentional or grossly negligent conduct of the Employee, whether or not related to the performance of his duties hereunder, which conduct demonstrably or materially injurious to the Company or its reputation, monetarily or otherwise; or (3) the

Employee's conviction of a felony which impairs his ability substantially to perform his duties with the Company. For purposes of this Section 5.2(d), no act, or failure to act, on the Employee's part shall be deemed "intentional" or "grossly negligent" unless done, or omitted to be done, by the Employee not in good faith and without reasonable belief by the Employee that the Employee's action or omission was in the best interest of the Company. The failure of the Company to meet financial goals and objectives established by its Board shall not be a basis for termination of the Employee for cause.

5.3 Compensation Continuation Provisions. If the Company terminates the employment of the Employee other than for cause (as defined in Section 5.2(d) hereof), or if a Change of Control Termination occurs, then the Company shall provide to the Employee the severance compensation as described in the CEO Severance Benefit Plan attached as Exhibit A.

Section 6
Indemnification

The Company hereby covenants and agrees to indemnify and hold harmless the Employee fully, completely, and absolutely against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including attorney's fees), losses, and damages resulting from the Employee's performance of his duties and obligations under the terms of this Agreement, except in the case of willful misconduct as reasonably demonstrated by the Company. These rights are in addition to and in no way affect any rights to indemnification otherwise provided under the Company's bylaws.

Section 7
Assignment

7.1 Assignment by Company. This Agreement shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation, or business entity which at any time, whether by merger, purchase, or otherwise, acquires all or essentially all of the assets or business of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder.

7.2 Assignment by Employee. This Agreement shall inure to the benefit of and be enforceable by the Employee's personal or legal representatives, executors and administrators, successors, heirs, distributees, devisees, and legatees. If the Employee should die while any amounts payable to the Employee hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Employee's estate.

Other than a transfer by reason of death or incapacity, the rights and duties of the Employee hereunder are personal and may not be assigned or transferred.

Section 8
Arbitration and Notice

8.1 Arbitration. Each party retains the right to bring an action in a court of law for the interpretation and/or enforcement of the terms of this Agreement. The Employee and the Company shall also have the right and option to mutually agree (in lieu of litigation) to have a dispute or controversy arising under or in connection with this Agreement settled by arbitration, conducted before one arbitrator mutually agreed upon by the Employee and the Company, sitting in a location selected by the Company within 25 miles from the location of Company's principal place of business. To the extent not otherwise inconsistent with the express provisions of this Agreement, the rules of the American Arbitration Association then in effect shall apply unless the Employee and the Company otherwise agree. In the event the Company and the Employee cannot agree upon an arbitrator within 60 days of the receipt of a written request for arbitration under this Agreement, the parties shall apply to the District Court for Hennepin County for the Court to appoint an arbitrator pursuant to Minnesota Statutes Section 572.10, as amended. Judgment may be entered on the award of the arbitrator in any court having jurisdiction. The arbitrator, in its discretion, may award attorneys fees and costs to the party in whose favor the arbitrator rules.

8.2 Notice. Any notices, requests, demands or other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Employee at the last address he has filed in writing with the Company or, in the case of the Company, at its principal offices.

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Section 9
Miscellaneous

9.1 Entire Agreement. This document and the CEO Severance Benefit Plan contain the entire Agreement of the parties relating to the subject matter hereof, and together they supersede and replace the Key Employee Severance Plan and any other plan or agreement between the parties regarding severance benefits, but they do not supersede the Agreement Regarding Non-Disclosure of Confidential Information and Non-Competition.

9.2 Modification. This Agreement shall not be varied, altered, modified, canceled, changed, or in any way amended except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

9.3 Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

9.4 Tax Withholding. The Company may withhold from any benefits payable under this Agreement all Federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

Section 10
Governing Law

To the extent not preempted by Federal law, the provisions of the Agreement shall be construed and enforced in accordance with the laws of the State of Minnesota.

IN WITNESS WHEREOF, the Employee has executed and the Company (pursuant to a resolution adopted at a duly constituted meeting of its Board of Trustees) has executed this Agreement, as of the day and year first above written.

BCBSM, INC.

By________________ 2-4-00
Its Chairman of the Board of Trustees

EMPLOYEE

________________ 2/11/00
Mark Banks, MD

BCBSM- 36318

EXHIBIT A

CEO SEVERANCE BENEFIT PLAN

BCBSM- 36319

BCBSM, INC.
CEO SEVERANCE BENEFIT PLAN

Article 1
The Plan

1.1 Name/Effective Date. BCBSM, INC. (the "Company") hereby establishes the CEO Severance Benefit Plan (the "Plan"). The Plan is effective as of January 1, 2000.

1.2 Purpose. The Company has established the Plan to provide MARK BANKS, MD (the "Participant"), with severance compensation following certain types of termination of employment.

Article 2
Definitions

Whenever used in this Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning. When the defined meaning is intended, the term is capitalized:

2.1 "Base Salary" means the total annual base salary payable to the Participant at the gross rate in effect on the date of the Participant's termination of employment. The gross rate of Base Salary shall be determined without reduction for any salary reduction contributions (i) to cash or deferred arrangements under Section 401(k) of the Code, (ii) to a Tax Sheltered Annuity under Section 403(b) of the Code, (iii) to a cafeteria plan under Section 125 of the Code, or (iv) to a nonqualified deferred compensation plan. Base Salary shall not take into account any bonuses, reimbursed expenses, credits or benefits (including benefits under any plan of deferred compensation), or any additional cash compensation or compensation payable in a form other than cash.

2.2 "Cause" means cause as defined in Section 5.2(d) of the CEO Employment Agreement between the Company and the Participant dated January 1, 2000.

2.3 "Change of Control" means any of the following events:

2.3.1 A sale, consolidation, merger, acquisition or affiliation which results in either the Participant or the Chairman of the Company's Board of Trustees not remaining as Chief Executive Officer or Chairman, respectively, of the newly created or controlling organization, with essentially the same duties and responsibilities as prior to the sale, consolidation, merger, acquisition or affiliation; or

2.3.2 A sale, consolidation, merger or acquisition in which the Company becomes accountable to, or a part of, a newly created company or controlling organization where at least 50% of the members of the Board of the newly created Company or controlling organization were not members of the Company's Board immediately prior to such sale, consolidation, merger or acquisition.

2.4 "Constructive Termination" means the Participant's voluntary termination of employment within 6 months before or 12 months after a Change of Control, provided that a Force Out Event has also occurred within such 18-month time period and prior to the termination.

2.5 "Force Out Event" means either of the following occurring within 6 months before or within 12 months after a Change of Control without the advance written consent of the Participant:

2.5.1 The Participant being removed as President and (after January 1, 2000) Chief Executive Officer of the Company, or not being named President and Chief Executive Officer of any newly created or controlling organization resulting from a Change of Control, with the same duties and responsibilities as prior to the Change of Control; or

2.5.2 Any reduction in the annual rate of Base Salary, incentive opportunities, benefits or perquisites.

Article 3
Participation

The Participant shall be eligible to participate in this Plan as of the effective date of the Plan. To participate in and receive benefits under this Plan, the Participant agrees to observe all rules and regulations established by the Company for administering the Plan and shall abide by all decisions of the Company in the construction and administration of the Plan.

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Article 4
Entitlement to Benefits

If (a) the Company terminates the Participant's employment involuntarily and without Cause at any time, or (b) a Constructive Termination occurs, and then after (a) or (b) the Participant releases all legal claims against the Company by signing the release provided by the Company substantially in the form of Exhibit A, the Company shall provide to the Participant the severance compensation described in Article 5. No severance compensation shall be payable under this Plan for the Participant's termination of employment under any other circumstances, or if the Participant does not release the Company from all legal claims.

Article 5
Severance Benefits

5.1 Term of Benefits. Except as noted in the other provisions of this Article 5, the Company shall provide to a Participant who becomes entitled to severance compensation under Article 4 the severance compensation described in Section 5.2. Such benefits shall commence on the Participant's termination of employment and continue for 36 months.

5.2 Amount of Benefits. Severance benefits shall consist of the following:

5.2.1 Base Salary. Continuation of the Participant's Base Salary, paid with the Company's regular payroll;

5.2.2 Incentives. Continuation of annual and long-term incentive payments equal to the average awards the Participant earned over the 36 months prior to the termination of employment, paid at the same time the Company is to pay such awards to current employees; and

5.2.3 Benefits. Continuation of all basic, supplemental and flexible benefits if and as in effect for the Participant on the date of the Participant's termination of employment; provided, however, if the Company modifies such benefits for employed individuals during the Participant's severance compensation period, then such benefits shall also be modified for purposes of this Plan. If the calculation of, or vesting in, a benefit is based on years of service, the Company shall count the severance compensation period as additional years of service.

5.3 Legal Continuation Restrictions. The Company shall pay to the Participant in cash during the severance period the value of any benefit described in Section 5.2.3 which benefit, due to insurance or other contract language or any other legal restrictions, cannot be continued "in kind" for the Participant following termination of employment. In the case of an insured benefit, the cash equivalent shall be the premium the Company otherwise would have paid for such benefit. In the case of qualified pension plan benefits, the Company shall pay such amounts through the Supplemental Retirement Plan.

5.4 COBRA Continuation. Any benefits which are subject to post-termination continuation under COBRA, and which are provided by the Company during the severance period, are provided as part of the continuation period available under COBRA.

5.5 Benefit Offset. Cash compensation in any form that the Participant earns during the second half of the severance compensation period shall directly reduce the severance compensation payable under Sections 5.2.1 and 5.2.2. Cash compensation earned during the second half of the severance period shall be determined on the accrual basis, such that cash compensation that accrues during such period shall be an offset, even if the compensation is not paid until a later date. The Participant agrees to provide to the Company a complete description of compensation earned from sources other than the Company. The description shall be provided to the Company prior to the first day of each month during the benefit period. No benefits shall be payable under this Plan in the absence of such a description.

5.6 No Death Benefits. If the Participant dies during the severance compensation period, the benefits under this Plan shall cease, and the rights of the Participant's beneficiary and spouse to any benefits under any other Company-sponsored plan or arrangement shall be as specified in such plan or arrangement.

5.7 Competition Forfeiture. Notwithstanding the other provisions of this Plan, all severance compensation under this Plan shall cease if the Participant does any of the following:

5.7.1 Noncompetition Provisions. Directly or indirectly within the Company's service area as of the date of the termination of the Participant's employment, in any material way, lends his credit, advice or assistance, or engages in any activity or act in any

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manner, including but not limited to, as an individual, owner, sole proprietor, founder, associate, promoter, partner, joint venturer, shareholder (other than as a less than 5% shareholder of a publicly traded corporation), officer, director, trustee, manager, employer, employee, principal, agent, salesman, broker, representative, consultant, advisor, investor or otherwise, for the purpose or having the effect of establishing, operating or managing any business or entity that is engaged in activities competitive with any health service or life insurance line of business or related activity of the Company, its subsidiaries, affiliates, or successors, as carried on within the three consecutive year period ending on the date of termination of the Participant's employment.

5.7.2 Nonsolicitation Provisions. Whether for his own account or for the account of any other Person, directly or indirectly, contacts, solicits, or accepts consulting fees, commissions, service fees, salaries, or consulting contracts relating to any of the health services or life insurance lines of business or related activities of the Company, its subsidiaries, affiliates, or successors, from individuals, firms or other organizations: (1) who were clients or policyholders of the Company, its subsidiaries, affiliates, or successors at any time during the Participant's employment with the Company or during the period the Participant is to receive severance compensation under this Plan; or (2) for whom active efforts by the Company, its subsidiaries, affiliates, or successors were made, or were in the process of being made, to obtain such as clients during the Participant's employment with the Company or during the period the Participant is to receive salary continuation and benefits under this Plan. As used in this Plan, the term "Person" means any individual, corporation, joint venture, general or limited partnership, association, or other entity.

5.7.3 Confidential Information. "Uses" or "Discloses" "Confidential Information" to any Person (as defined in Section 5.7.2), without first obtaining the written consent of the Company. "Confidential Information" means information, not generally known to the public or the industry, and proprietary to the Company, relating to the Company's procedures, techniques, methods, concepts, ideas, affairs, products, processes and services, including, but not limited to, information relating to marketing, merchandising, selling, research, development, purchasing, accounting, compensation, financing, costs, customers, plans, pricing, billing, needs of customers, and services used by customers. All information disclosed to the Participant, or to which the Participant obtains access, during the term of this Plan, which the Participant has a reasonable basis to believe to be Confidential Information or which treated by the Company as being Confidential Information, shall be

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presumed to be Confidential Information. "Discloses" means to reveal, deliver, divulge, disclose, publish, copy, communicate, show, or otherwise make known or available to any Person, or in any way to copy, any of the Company's Confidential Information. "Uses" means to appropriate any of the Company's Confidential Information for the benefit of one's self or any Person other than the Company.

In the event that the geographic scope and/or the duration of the restrictive covenants contained in this Section 5.7 shall be found by a court of competent jurisdiction to be unreasonable, then such restrictive covenants shall be considered modified to the minimum extent necessary to make them reasonable and enforceable under the circumstances. The Participant acknowledges and agrees that the geographic scope and period of duration of the restrictive covenants contained in this Section 5.7 are both fair and reasonable and that the interests sought to be protected by the Company are legitimate business interests entitled to be protected.

Article 6
Employment Status

6.1 Right to Terminate Employment. This Plan shall not be deemed to be an employment contract between the Company and the Participant. Nothing contained herein shall give the Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge the Participant at any time, nor shall it give the Company the right to require the Participant to remain in its employ or to interfere with the Participant's right to terminate employment at any time.

6.2 Status During Benefit Period. Commencing upon the Participant's termination of employment, the Participant shall cease to be an employee of the Company for any purpose. The payment of severance compensation under this Plan shall be payments to a former employee.

Article 7
Amendments and Termination

This Plan may be amended or terminated only by the written agreement of the Participant and the Company.

Article 8
Miscellaneous

8.1 Nonalienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or encumbrance of any kind.

8.2 Tax Withholding. The Company shall withhold any applicable income or employment taxes that are required to be withheld from the severance compensation provided under this Plan.

8.3 Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of Minnesota except to the extent preempted by federal law.

8.4 Limitation on Liability. The Company does not guarantee benefits payable under any insurance coverage described or referred to herein, and any benefits thereunder shall be the exclusive responsibility of the insurer that is required to provide such benefits under such policy.

8.5 Binding on Successors. This Plan shall bind any successor organization resulting from a merger, acquisition or affiliation involving the Company, or resulting from a sale of substantially all of the Company's assets.

BCBSM, INC.

By ______________________

Its Chairman of the Board of Trustees

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EXHIBIT B

APPROVED DIRECTOR POSITIONS

1. Aware Integrated, Inc. internal board positions
2. BCBSA Board
3. BCBSA Executive Committee
4. Western Conference of Pre-Paid Medical Services Plans Board
5. FEP Board of Governors
6. CRG Board (Codman Research Group)
7. Minneapolis Children's Theatre
8. Ordway Center for Performing Arts
9. St. Paul United Way

BCBSM/Affiliates Officers - Current & Former

Name	Position	Termination Date
Christopher Aasland	**VP** President & CEO MII Life	
Mark Banks, M.D.	**President & CEO**	
John Stephen Bjorum	**VP, Provider Systems Relations**	
Judith Busse	VP, Actuarial	9/30/03
Charlotte Carlson	VP, Underwriting	6/30/02
Laurie Clark	**VP, Core Application Systems**	
Martin Cook	VP, Applications Development	12/31/00
Patrick Cruikshank	VP, Marketing, MII Life	
Czajkowski	President & CEO	12/31/99
Fred Dickson	**VP & Chief Information Officer**	
Kathy Dunmire	**VP, Major Accounts**	
James Faklis	VP, Administration, MII Life	
Susan Flygare	**VP, Commercial Sales & Account Management**	
Jerry Fruetel	VP, Business Development	4/30/04
Jennifer Gillespie	**VP & Actuary, Underwriting**	
William Gold, M.D.	**VP; Health Management & Chief Medical Officer**	
Mark Heymans	VP, Corporate Communications	6/30/04
Roger Kleppe	**VP, Human Resources, Real Estate & Facilities Services**	
Carol Doffing Kraft	VP, IS Operations	3/31/03
Greggory Larson	VP, Portfolio Companies; President, CMC, CDMI, & Atrium Health Plan	6/30/04
Dana Lien	**VP, Corporate Adjudication Services**	
Steven Loosbrock	VP, Treasury, BCBSM, Blue Plus, & MII Life, Inc.	3/31/02
Janis Lysen	**VP, Health Care Costs & Outcomes** VP, Sales & Marketing, Blue Plus	
Deborah Burns Madson	**VP, Government Programs** VP & COO Blue Plus	
Denise McKenna	**VP, Enterprise Service**	
Robert Milis	**VP & General Counsel** Secretary, Blue Plus, Atrium Health Plan & MII Life	
David Miller	VP: President, Behavioral Heath Services	8/31/02
Kathleen Mock	**VP, Policy & Legislative Affairs**	
Michael Morrow	**Sr. VP, Business Development & Network Management** President & CEO Blue Plus	

Nancy Nelson	**VP, Finance & Chief Actuary** BCBSM & Blue Plus	
Richard Neuner	**Sr. VP, Chief Marketing Officer**	
Richard Niemiec	**Sr. VP, Corporate Affairs**	
John Ounjian	Sr. VP, Chief Information Officer	4/30/04
Shawn Patterson	**VP, Marketing & Communications**	
Timothy Peterson	**Sr. VP, Chief Financial Officer**	
Colleen Reitan	**Exec. VP, Operations** Former President & CEO, Blue Plus	
Steve Richards, M.D.	**VP, Health Care Improvement** BCBSM & Blue Plus	
Jodie Root	VP, Network Management	2001
Timothy Schultz	**VP, Finance** Treasurer, Blue Plus & Atrium Health Plan	
Sanders Shapiro	**VP, Community Accounts**	
Mark Shaw	**VP, Network Finance & Payment**	
David Spaulding	**VP, Business Development**	
Lois Stevens	**VP** President CCS	
Nicole Stretar	VP & Actuary, MII Life	
MaryAnn Stump, R.N.	**VP, Strategic Innovation & State Health Plan**	
Steve Youso	VP, Community & Commercial Accounts; VP, Health Systems Development, Blue Plus	2/11/04

BCBSM
Top Executives Compensation
for Years 2000- 2004

Banks, Mark
President & Chief Executive Officer

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Exec. Retirement Plan (SERP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 548,000		$ 197,521	$ 225,336	$ 22,642	$ 14,460	$ 28,068	$ 1,307,078	$ 7,577	$ 57,617	$ 123,736		$ 2,532,035	$ 2,750,199
2001	$ 580,000	5.84%	$ 294,166	$ 324,871	$ 16,614	$ 19,284	$ 84,913	$ 1,177,803	$ 8,034	$ 70,652	$ 35,200		$ 2,611,537	$ 2,844,319
2002	$ 620,000	6.90%	$ 409,596	$ 338,690	$ 15,276	$ 22,506	$ 33,282	$ 1,317,653	$ 10,188	$ 34,151	$ 35,200		$ 2,836,542	$ 3,113,577
2003	$ 670,000	8.06%	$ 419,089	$ 303,219	$ 14,619	$ 23,671	$ 35,584	$ 1,215,942	$ 10,678	$ 9,536	$ 47,360		$ 2,749,698	$ 3,001,496
2004	$ 700,000	4.48%	$ 257,950	$ 306,232	$ 18,337	$ 84,433	$ 70,038	$ 622,659	$ 12,089	$ -	$ 49,280		$ 2,121,018	$ 2,408,469

[1] 3-Year LTI Award Chart states the LTI paid in 2003 was $303,249.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Flygare, Susan
Vice President, Commercial Sales & Account Management

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 195,000		$ 42,130	$ 60,600	$ 8,392	$ 6,057	$ 53,841	$ 59,514	$ 7,577	$ 8,084	$ 12,620		$ 453,815	$ 489,389
2001	$ 213,000	9.23%	$ 61,410	$ 68,170	$ 7,100	$ 8,489	$ 240,445	$ 19,295	$ 8,034	$ 8,084	$ 14,820		$ 648,847	$ 705,646
2002	$ 229,000	7.51%	$ 61,410	$ 68,170	$ 3,344	$ 7,273	$ 221,329	$ 197,328	$ 10,188	$ 15,153	$ 17,000		$ 830,195	$ 920,253
2003	$ 247,000	7.86%	$ 106,908	$ 65,139	$ 2,013	$ 10,540	$ 204,019	$ 310,971	$ 10,678	$ -	$ 18,335		$ 975,603	$ 1,023,596
2004	$ 256,000	3.64%	$ 60,515	$ 65,787	$ 1,937	$ 17,717	$ 176,499	$ 173,922	$ 12,089	$ -	$ 19,005		$ 783,471	$ 832,235

[1] BCBSM provided contradictory data. The 3-Year LTI Award chart states Flygare received $69,692 in 2002.

Notes to LTI Award charts: 2000 - Flygare promoted 8/1/00 to include service, base salary from $170,000 to $195,000 with prorated salary of $180,416.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Gold, William M.D.
Vice President Health Management/CMO

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 244,000		$ 74,426	$ -	$ 14,270	$ 7,589	$ 18,239	$ 26,251	$ 7,693	$ 17,676	$ 33,118		$ 443,262	$ 521,305
2001	$ 264,000	8.20%	$ 95,258	$ 113,822	$ 13,552	$ 10,016	$ 39,411	$ 19,935	$ 8,150	$ 17,676	$ 13,420		$ 595,240	$ 681,797
2002	$ 274,000	3.79%	$ 135,590	$ 127,241	$ 5,214	$ 7,273	$ 24,393	$ 44,052	$ 10,188	$ 13,025	$ 15,070		$ 656,046	$ 760,471
2003	$ 305,000	11.31%	$ 138,828	$ 109,193	$ 1,824	$ 7,702	$ 26,176	$ 56,854	$ 8,057	$ -	$ 16,775		$ 670,409	$ 748,843
2004	$ 312,000	2.30%	$ 96,075	$ 129,754	$ 7,945	$ 14,638	$ 41,897	$ 57,688	$ 9,059	$ -	$ 17,160		$ 686,216	$ 774,993

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Kleppe, Roger
Vice President, Human Resources, Real Estate & Facilities Services

Year	Base Salary	Annual Percentage Increase In Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 170,000		$ 42,386	$ 51,250	$ 8,509	$ 5,691	$ 21,972	$ 9,699	$ 7,577	$ 10,614	$ 33,548		$ 361,246	$ 401,481
2001	$ 200,000	17.65%	$ 58,072	$ 66,508	$ 8,427	$ 8,194	$ 41,813	$ 2,121	$ 8,034	$ 10,614	$ 9,350		$ 413,133	$ 462,620
2002	NR													
2003	$ 245,000		$ 90,288	$ 60,038	$ 347	$ 10,149	$ 26,015	$ 47,056	$ 8,426	$ -	$ 13,475		$ 500,794	$ 488,244
2004	$ 253,000	3.27%	$ 60,025	$ 60,495	$ 1,965	$ 16,700	$ 44,327	$ 40,787	$ 9,883	$ -	$ 13,915		$ 501,097	$ 499,951

[1] According to the LTI Award Charts, Kleppe earned an award of $67,188 in 2002. Kleppe also earned awards in 2003 and 2004 but chose to defer 100% each year: 2003 - $60,038, 2004 - $60,495.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Larson, Gregory
Vice President, Portfolio Cos./President CMC, CDMI & Atrium

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match [2]	Accrued Pension Equity Plan (PEP) - Qualified [3]	Accrued Suppl. Retirement Plan (SRP) - Nonqualified [3]	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee [3]	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	NR													
2001	NR													
2002	NR													
2003	NR													
2004	$ 185,000		$ 75,162	$ 47,251	$ 2,632	$ 4,334	$ 147,057	$ 40,398	$ 5,840	$ -	$ 10,175	$ 256,925	$ 774,774	$ 498,775

[1] Amounts reported on 3-Year LTI Award chart: 2001 - $44,818, 2002 - $45,405, 2003 - $46, 786.

[2] 2004 401k Match + Suppl. 401K Match: Reported on 990 Format as $6,742.

[3] 2004 Larson terminated 6/30/04. The terms of the severance agreement call for Larson to receive substantial benefits, including PEP, a qualified amount of approximately $130,424; and SRP, a nonqualified amount of approximately $30,192. In addition, the $256,925 payment found under Other Payments to Employee represents other elements of Larson's severance package: deferred payout - $21,017; SRP payout - $30,225; 52 weeks severance pay of which $99,615 was paid in 2004; outplacement services - $10,000; COBRA - amount unknown, and deferred compensation, non-qualified (Inclds pymts from Capital Accumulation, Deferred Comp and LTI Accounts) - $96,068.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Loosbrock, Steve
Vice President, Treasury

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned[1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee[2]	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart[3]
2000	NR													
2001	NR													
2002	$ 153,000		$ 46,950	$ 42,073	$ 5,731	$ 7,273	$ 126,508	$ 325,225	$ 1,309	$ 9,321	$ 11,355	$ 54,211	$ 782,956	$ 687,246
2003	NR													
2004	NR													

[1] Amounts reported as earned on 3-Year LTI Award chart are: 2001- $41,810, 2003 - $85,191, 2004 - $0.

[2] Includes SRP payout of $30,922 and deferred salary payout of $23,289.

[3] BCBSM addition error in 2002. As a result, Annual Compensation as Reported by BCBSM is understated by $3,568. Should be $690,814.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Lysen, Jan
Vice President, Network Management

Year	Base Salary[1]	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned[2]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match[3]	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 170,000		$ 37,614	$ 56,775	$ 7,033	$ 5,823	$ 44,923	$ 19,106	$ 7,577	$ 7,399	$ 9,350		$ 365,600	$ 409,742
2001	NR													
2002	NR													
2003	NR		NR	$ 56,355	$ 239	NR	$ 32,919	$ 49,575	$ 10,678	NR	NR		$ 149,766	$ 427,740
2004	$ 210,000		$ 49,245	NR	NR	$ 6,742	NR	NR	NR	$ -	NR		$ 265,987	NR

[1] BCBSM was inconsistent in its reporting of some of the top executives. For example: Jan Lysen's 2003 compensation was not provided in the Response to Interrogatory 1, Chart 1, however, her W-2 wages and benefits were reported for that year on the 990 Format. Lysen's 2004 income was included on Interrogatory 1, Chart 1, but she was omitted from both the 990 Format and the Execu-Flex Benefit Chart for that year.

[2] 2004 Long-Term Incentive Award: The 2000-2002 LTI Award Chart indicates that $56,355 was awarded in 2003 and deferred 100%; BCBSM failed to provide the 2004 award amount.

[3] The 2003 990 Format states that BCBSM paid Lysen a 401(k) match of $5,456 and a supplemental 401(k) match of $4,102.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Madson, Deborah
Vice President, Government Programs

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart (B)
2000	$ 162,000		$ 41,263	$ 50,500	$ 13,841	$ 5,669	$ 45,436	$ 23,924	$ 7,577	$ 8,064	$ 12,025		$ 370,299	$ 416,257
2001	$ 177,000	9.26%	$ 45,350	$ 76,401	$ 8,365	$ 7,551	$ 100,148	$ (36,072)	$ 8,034	$ 8,064	$ 12,315		$ 407,156	$ 452,811
2002	NR													
2003	$ 198,000		$ 68,324	$ 57,804	$ 625	$ 9,391	$ 37,170	$ 51,925	$ 10,678	$ -	$ 14,700		$ 448,617	$ 487,102
2004	NR													

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Morrow, Michael
Senior Vice President, Business Development & Network Management

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	NR													
2001	NR													
2002	NR													
2003	$ 224,000		$ 72,455	$ 52,680	$ 221	$ 9,408	$ 32,101	$ 50,402	$ 8,426	$ -	$ 16,630		$ 466,323	$ 509,760
2004	$ 300,000	33.93%	$ 47,040	$ 53,204	$ 2,587	$ 13,937	$ 54,485	$ 91,608	$ 9,883	$ -	$ 16,500		$ 589,244	$ 645,854

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BCBSM
Top Executives Compensation
for Years 2000- 2004

Nelson, Nancy
Vice President, Chief Actuary

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned[1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 209,000		$ 55,017	$ 67,925	$ 9,796	$ 6,840	$ 11,133	$ 10,902	$ 7,577	$ 17,532	$ 11,495		$ 407,217	$462,320
2001	$ 222,000	6.22%	$ 74,821	$ 100,280	$ 9,849	$ 8,892	$ 23,802	$ 1,447	$ 8,034	$ 7,023	$ 11,495		$ 467,643	$537,816
2002	$ 235,000	5.86%	$ 96,845	$ 94,334	$ 3,578	$ 10,021	$ 14,635	$ 16,336	$ 10,188	$ 12,172	$ 15,637		$ 508,746	$585,364
2003	$ 255,000	8.51%	$ 104,691	$ 81,374	$ 185	$ 10,569	$ 15,824	$ 24,115	$ 10,678	$ 1,407	$ 15,987		$ 519,830	$560,070
2004	$ 260,000	1.96%	$ 62,475	$ 81,994	$ 2,876	$ 20,536	$ 25,426	$ 20,697	$ 12,089	$ -	$ 16,300		$ 502,393	$550,951

[1] According to BCBSM's 3-Year LTI Award Chart, Nelson earned an award of $81,374 in 2003, but chose to defer 20% or $16,274. BCBSM reported only the amount paid of $65,100 in its Response to Interrogatory 1, Chart 1. 2004: According to Interrogatory 1, Chart 1, BCBSM paid Nelson an LTI award of $65,746 in 2004, however, the Supplemental Compensation Exhibits state that Nelson actually earned an LTI award of $81,994 that year, but deferred 20% or $16,248.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Neuner, Richard
Senior Vice President, Chief Marketing Officer

Year	Base Salary	Annual Percentage Increase In Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned[1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 242,000		$ 64,481	$ -	$ 16,334	$ 7,338	$ 13,550	$ 10,133	$ 7,577	$ 13,690	$ 32,861		$ 407,964	$ 489,688
2001	$ 262,000	8.26%	$ 94,477	$ 107,597	$ 10,307	$ 9,966	$ 25,565	$ 13,912	$ 8,034	$ 13,690	$ 13,310		$ 558,858	$ 650,667
2002	$ 272,000	3.82%	$ 134,563	$ 121,222	$ 6,356	$ 11,388	$ 18,335	$ 30,178	$ 8,546	$ 13,259	$ 14,960		$ 630,807	$ 734,307
2003	$ 300,000	10.29%	$ 137,845	$ 108,360	$ 420	$ 11,970	$ 19,523	$ 38,145	$ 8,426	$ -	$ 16,500		$ 641,189	$ 611,358
2004	$ 320,000	6.67%	$ 84,000	$ 109,185	$ 2,166	$ 27,073	$ 29,971	$ 39,214	$ 9,883	$ -	$ 17,600		$ 639,092	$ 573,724

[1] BCBSM reported in its Response to Interrogatory 1, Chart, that it paid Neuner no LTI awards in 2003 and 2004. On review of the 3-Year LTI Award Charts and Supplemental Compensation Exhibits, however, it is clear that Neuner earned awards each of those years, but chose to defer them 100%. The amounts earned for 2003 and 2004 are $108,360 and $109,185, respectively.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation for Years 2000-2004

Niemiec, Richard
Senior Vice President, Corporate Affairs

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned[1]	Expense Account & Other Allowances	Executive Deferred Compensation	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 289,000		$ 107,468	$ 135,340	$ 16,173		$ 8,583	$ 320,858	$ 730,369	$ 7,577	$ 24,417	$ 79,279		$ 1,719,064	$ 1,808,972
2001	$ 306,000	5.88%	$ 112,826	$ 190,982	$ 12,690	$ 260,013	$ 11,379	$ 482,523	$ (138,404)	$ 8,034	$ 24,417	$ 15,895		$ 1,286,355	$ 1,139,771
2002	$ 319,000	4.25%	$ 157,162	$ 166,939	$ 5,965	$ 205,550	$ 12,631	$ 56,648	$ 305,440	$ 7,146	$ 14,960	$ 17,545		$ 1,268,986	$ 1,183,985
2003	$ 341,000	6.90%	$ 160,950	$ 127,511	$ 3,321	$ 212,950	$ 14,025	$ (8,567)	$ 261,479	$ 6,331	$ -	$ 18,755		$ 1,137,755	$ 885,993
2004	$ 346,000	1.47%	$ 107,415	$ 224,922	$ 8,599	$ 54,000	$ 32,804	$ (4,379)	$ 53,744	$ 7,368	$ -	$ 19,030		$ 849,503	$ 564,170

[1] 2003 and 2004 LTI Awards: According to BCBSM's Response to Interrogatory 1, Chart 1, BCBSM paid no LTI award to Niemiec in 2003 and 2004. Supplemental Compensation Exhibits produced in December 2005 indicate that Niemiec earned the above-reported amounts during those years, but chose to defer them.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Ounjian, John
Senior Vice President & Chief Information Officer

Year	Base Salary	Annual Percentage Increase In Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified [1]	Accrued Suppl. Retirement Plan (SRP) - Nonqualified [1]	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee [2]	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 240,000		$ 72,822	$ 109,445	$ 10,553	$ -	$ 17,365	$ 21,395	$ 7,577	$ 41,330	$ 30,737		$ 551,224	$ 606,255
2001	$ 275,000	14.58%	$ 93,696	$ 115,764	$ 10,472	$ -	$ 36,527	$ 15,091	$ 8,034	$ 41,330	$ 13,200		$ 609,114	$ 678,593
2002	$ 280,000	1.82%	$ 141,240	$ 127,584	$ 32,911	$ -	$ 23,529	$ 41,964	$ 7,146	$ 9,487	$ 15,400		$ 679,261	$ 789,644
2003	$ 300,000	7.14%	$ 141,777	$ 110,997	$ 3,713	$ -	$ 25,306	$ 54,817	$ 8,057	$ -	$ 16,500		$ 661,167	$ 739,404
2004	$ 304,000	1.33%	$ 94,500	$ 112,100	$ 2,345	$ -	$ 187,720	$ 210,081	$ 5,729	$ -	$ -	$ 422,578	$ 1,339,053	$ 825,897

[1] Conflicting LTI award information. Both Interrogatory 1, Chart 1 and the LTI Award Chart indicate Ounjian earned an LTI award of $112,100 in 2004, however, Ounjian's 2004 Supplemental Compensation Exhibit states that he received $224,032.

[2] Ounjian terminated 4/30/04. The terms of the severance agreement called for him to receive substantial benefits, including PEP, a qualified amount of approximately $168,485; and SRP, a nonqualified amount of approximately $186,045. In addition, the $422,578 payment found under Other Payments to Employee represents other elements of Ounjian's severance package: deferred payout - $28,454; 78 weeks of severance pay of which $198,769 was paid in 2004; COBRA - $6,853; moving expense - $25,000; outplacement services - $21,250, and deferred compensation (inclds pymts from Capital Accumulation, Deferred Comp and LTI Accounts) - $142,252.

Key:
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BCBSM
Top Executives Compensation
for Years 2000- 2004

Peterson, Timothy
Senior Vice President & Chief Financial Officer

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee [2]	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 222,000		$ 64,160	$ -	$ 9,852	$ 7,105	$ 16,686	$ 11,685	$ 8,820	$ 16,087	$ 17,334		$ 373,729	$ 447,308
2001	$ 252,000	13.51%	$ 86,669	$ -	$ 9,742	$ 9,645	$ 29,858	$ 8,208	$ 8,707	$ 16,087	$ 12,210		$ 433,126	$ 518,813
2002	$ 280,000	11.11%	$ 129,427	$ 115,892	$ 5,117	$ 7,273	$ 23,426	$ 39,151	$ 11,994	$ 15,400	$ 15,400		$ 643,080	$ 747,549
2003	$ 321,000	14.64%	$ 141,777	$ 105,307	$ 615	$ 7,702	$ 25,181	$ 53,204	$ 12,919	$ -	$ 17,655		$ 685,360	$ 680,408
2004	$ 335,000	4.36%	$ 101,115	$ 109,960	$ 3,657	$ 16,996	$ 38,101	$ 62,625	$ 13,030	$ -	$ 18,425	$ 11,414	$ 710,323	$ 699,035

[1] 2003 Long-Term Incentive Awards: According to BCBSM's 3-Year LTI Award Chart, Peterson earned and was awarded $105,307 in 2003, but chose to defer 84% or $88,458. BCBSM reported only the remainder paid in its Response to Interrogatory 1, Chart 1. 2004: BCBSM reported no LTI award for Peterson in its Response to Interrogatory 1, Chart 1, however, Supplemental Compensation Exhibits provided to this Office indicate that Peterson earned $109,960 in 2004, but deferred the entire amount.

[2] Deferred payout of $11,414 in 2004.

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BCBSM
Top Executives Compensation
for Years 2000- 2004

Reitan, Colleen
Executive Vice President of Operations

Year	Base Salary[1]	Annual Percentage Increase In Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 242,000		$ 55,178	$ 73,033	$ 21,381	$ 6,841	$ 31,076	$ 40,749	$ 7,577	$ 7,457	$ 30,998		$ 516,290	$ 585,892
2001	$ 275,000	13.64%	$ 88,621	$ 92,623	$ 10,381	$ 10,094	$ 53,153	$ 35,563	$ 8,034	$ 7,457	$ 13,310		$ 594,236	$ 695,133
2002	$ 300,000	9.09%	$ 141,240	$ 115,892	$ 7,000	$ 7,273	$ 21,268	$ 85,459	$ 10,188	$ 15,703	$ 16,500		$ 720,523	$ 831,980
2003	$ 377,000	25.67%	$ 151,609	$ 111,968	$ 1,228	$ 13,569	$ 24,282	$ 121,076	$ 10,678	$ -	$ 20,735		$ 832,145	$ 928,084
2004	$ 400,000	6.10%	$ 118,755	$ 113,081	$ 3,190	$ 20,918	$ 46,077	$ 128,156	$ 12,089	$ -	$ 22,000		$ 864,266	$ 975,341

[1] 2000 - Reitan promoted 10/7/00, base salary from $222,000 to $242,000, average is $227,000.

Key:
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BCBSM
Top Executives Compensation
for Years 2000- 2004

Richards, Steven M.D.
Vice President, Health Improvement

Year[1]	Base Salary	Annual Percentage Increase In Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified	Accrued Suppl. Retirement Plan (SRP) - Nonqualified	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance	Other Payments to Employee	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	$ 193,000		$ 47,230	$ 53,300	$ 17,230	$ 6,265	$ 23,756	$ 26,882	$ 7,577	$ 12,043	$ 14,325		$ 401,608	$ 385,760
2001	$ 200,000	3.63%	$ 61,165	$ 68,185	$ 8,407	$ 8,250	$ 68,526	$ (13,014)	$ 8,034	$ 12,043	$ 14,460		$ 436,056	$ 423,806
2002	NR													
2003	$ 218,000		$ 82,116	$ -	NR	$ 9,427	NR	NR	NR	$ -	$ 16,180		$ 325,723	NR
2004	NR													

[1] Although Richards' 2003 compensation was reported in the Response to Interrogatory. 1, Chart 1, BCBSM did not include him on either its 2003 990 Format Chart or the Execu-Flex Benefit Plan. As such, we were unable to determine certain elements of compensation paid in 2003.

Key:
NR = Not Reported By BCBSM

BCBSM
Top Executives Compensation
for Years 2000- 2004

Youso, Steven
Vice President, Community and Commercial Accounts

Year	Base Salary	Annual Percentage Increase in Base Salary	Annual Incentive Award	Long-Term Incentive Award Earned [1]	Expense Account & Other Allowances	401k Match + Suppl. 401k Match	Accrued Pension Equity Plan (PEP) - Qualified [3]	Accrued Suppl. Retirement Plan (SRP) - Nonqualified [3]	Medical & Dental Insurance Premiums Pd by BCBSM	Life Insurance Premiums Pd by BCBSM	Execu-Flex Benefit Allowance 2	Other Payments to Employee [3]	Annual Compensation as Determined by AGO	Annual Compensation as Reported by BCBSM on IRS 990 Format Chart
2000	NR													
2001	NR													
2002	NR													
2003	NR													
2004	$ 196,000		$ 47,040	$ 56,342	$ 817	$ 4,334	$ 139,494	$ 28,444	$ 3,102	$ -	NR	$ 321,124	$ 796,697	$ 492,996

[1] Conflicting information regarding Long-Term Incentive Awards: BCBSM provided one year of data for Youso. In its 2004 Response to Interrogatory 1, Chart 1, BCBSM reports it paid Youso an LTI award of $56,342. BCBSM failed to report any 2004 information for Youso on its LTI Award Chart. On Youso's 2004 Supplemental Compensation Exhibit, BCBSM stated that Youso received an LTI bonus of $111,911.

[2] BCBSM did not provide Youso's Execu-Flex benefits data for 2004.

[3] Youso terminated 2/11/04. The terms of the severance agreement call for Youso to receive substantial benefits, including PEP, a qualified amount of approximately $129,637; and SEP, a nonqualified amount of approximately $25,927. In addition, the $321,124 payment found under Other Payments to Employee represents other elements of Youso's severance package: deferred payout - $39,107; SRP payout - $25,980; COBRA coverage - $9,974; 52 weeks of severance pay of which $165,847 was paid in 2004, and deferred compensation, non-qualified (inclds pymts from Capital Accumulation, Deferred Comp and LTI Accounts) - $80,216.

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Title: Newsmakers.

Source: Modern Healthcare; 12/20/99, Vol. 29 Issue 51, p24, 2/3p, 1bw

Document Type: Article

Subject Terms: *EMPLOYEES
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Geographic Terms: UNITED States

NAICS/Industry Codes: 62 Health Care and Social Assistance

People: CROWLEY, Daniel
BANKS, Mark
NICHOLAS, Lynn

Abstract: Deals with executive appointments in the health care industry of the United States. Appointment of ***Mark Banks*** as chief executive officer of Blue Cross and Blue Shield of Minnesota; Designation of Daniel Crowley as the chairman, president and chief executive officer of Coram Healthcare Corp.; Former posts of Lynn Nicholas, president of the Louisiana Hospital Association.

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Section: Week in healthcare

NEWSMAKERS

- Managed-care executive Phil Nudelman plans to retire effective Dec. 31, 2000. Nudelman, 64, is chairman of Kaiser/Group Health, a joint managed-care plan with 1.1 million members in the Northwest, and board chairman of the American Association of Health Plans, a Washington-based trade group representing HMOs. He will relinquish his AAHP post in June. Since 1973, Nudelman has worked in various positions at Seattle-based Group Health Cooperative of Puget Sound. He was president and chief executive officer from 1990 to 1997, when he took over the joint venture between Group Health and Kaiser Permanente.
- Financial turnaround company Pitts Management Associates, based in Baton Rouge, La., has named a versatile healthcare executive as its new president. G. Rodney Wolford, 53, will become president of PMA effective Jan. 1. David Pitts, who has been president, chief executive officer and chairman of the company, will remain CEO and chairman. Wolford most recently was president, chairman and CEO of Sterling Diagnostic Imaging, a Greenville, S.C.-based supplier of diagnostic imaging X-ray film and equipment. Sterling was sold in May to Agfa Corp. and has since been renamed Agfa-Sterling Corp. Wolford was also president and

CEO of Alliant Healthcare, now called Norton Healthcare, Louisville, Ky., between 1988 and 1993.

- Blue Cross and Blue Shield of Minnesota has named ***Mark Banks***, M.D., 50, its chief executive officer. ***Banks*** has been president and chief operating officer. He will assume his new job Jan. 1, replacing Andy Czajkowski, 63, who is retiring. The transition began last year when ***Banks*** assumed day-to-day operations of the 1.9 million-member plan.
- Coram Healthcare Corp., Denver, late last month tapped Daniel Crowley, 52, as its new chairman, president and chief executive officer. Crowley replaces chairman and interim CEO Don Amaral, 46, effective immediately. Before becoming president and CEO of a Sacramento, Calif.-based healthcare consulting firm in 1997, Crowley engineered the turnaround of the predecessor to Woodland Hills, Calif.-based Foundation Health Systems. Coram lost $15.2 million, or 30 cents per share, on revenues of $143.2 million in the third quarter ended Sept. 30 largely because of a contractual dispute with Aetna U.S. Healthcare.
- **John Evans,** 47, has been named vice president and chief financial officer of the American Hospital Association. Evans, who is based in Chicago, is a 22-year veteran of the AHA. He was previously vice president of treasury and financial planning at the AHA.
- **Sister Beverly McGuire** has been named to the new post of vice president of sponsorship and mission services for the Catholic Health Association, St. Louis. McGuire replaces Sister Jean deBlois, who resigned Nov. 30 from her post as the CHA's vice president of mission services (Dec. 6, p. 4). McGuire joined the CHA staff in September as a special adviser on sponsorship.
- The Louisiana Hospital Association has named Lynn Nicholas its new president, effective Jan. 1. Nicholas, 45, was executive vice president and chief operating officer of the New Jersey Hospital Association. She is a Tennessee native and a fellow in the American College of Healthcare Executives. She formerly was an executive at Morristown (N.J.) Memorial Hospital and Atlantic Health System, Florham Park, N.J. In Louisiana, she will replace Robert Merkel, who is retiring after 30 years with the association.

PHOTO (BLACK & WHITE): Wolford

Source: Modern Healthcare, 12/20/99, Vol. 29 Issue 51, p24, 1p
Item: 2738516

Executive Summary

CEO SERP

- The current SERP for Dr. Banks became effective 5/1/00, based on information and recommendations from a Clark/Bardes analysis (Recommendations for the New CEO, August 20, 1999). The SERP design recommended by Clark/Bardes was intended to provide an above median (65th percentile) benefit although the final adopted plan contained some modifications.
- The major plan provisions of the current SERP are as follows:
  - 60% of final average pay (base plus annual incentive) using the highest 3 consecutive out of last 10 years.
  - Full benefit received at age 60; 2.5% reduction/year if early retirement.
  - Cost of Living adjustment equal to greater of 2.25% or 2/3 change in CPI.
  - Payment form: 50% joint and survivor without actuarial reduction; lump sum option.
  - Offset by value of Pension Equity Plan.
  - Estimated age 60 lump sum of $12,341,000; estimated annual accruals (2003-2008) of $1,053,000.
- At the end of 2002, the HR Committee asked Watson Wyatt to provide a detailed competitive analysis of Dr. Banks' SERP (delivered to the HR Committee on January 20, 2003). Key findings are as follows:
  - Most other comparators use a 4-6% early retirement reduction (current reduction is 2.5% per year).
  - It is not common practice to include a cost of living adjustment (current COLA is 2.25%).
  - Although not majority practice, a number of organizations include long-term compensation in definition of final average pay (current SERP benefit is based on salary and annual bonus only).
  - Since the SERP is a function of pay, and Dr. Bank's current pay is below median market practice, the total value of the SERP versus a "competitive SERP" is reduced.

BCBSM, INC.
CEO SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Article 1
The Plan

1.1 Name/Effective Date. BCBSM, INC. (the "Company") hereby establishes this CEO Supplemental Executive Retirement Plan (the "Plan") effective as of May 1, 2000.

1.2 Purpose. The purpose of the Plan is to provide the Company's President and Chief Executive Officer, MARK BANKS, MD (the "Participant") with additional retirement benefits to encourage his continued interests in the Company's success.

1.3 Prior SERP Replacement. This Plan replaces the Participant's participation in, and any benefits otherwise payable to the Participant under, the Company's Supplemental Executive Retirement Plan that was established as of January 1, 1990, and amended and restated effective January 1, 1994 (the "Prior SERP").

Article 2
Definitions

Whenever used in the Plan, the following words and phrases shall have the meanings set forth below unless the context plainly requires a different meaning. When the defined meaning is intended, the term is capitalized:

2.1 "Code" means the Internal Revenue Code of 1986, as amended. References to a Code section shall be deemed to be to that section as it now exists and to any successor provision.

2.2 "Disability" means, if the Participant is covered by an individual or group long-term disability policy paid for by the Company, total and permanent disability as defined in such policy without regard to any waiting period. If the Participant is covered by both an individual and a group policy, Disability occurs under this Plan when total and permanent disability occurs under either the individual or the group policy, also without regard to any waiting period. If the Participant is not covered by such a policy, Disability means the Participant suffering a sickness, accident or injury which, in the judgment of a physician satisfactory to the Company, prevents the Participant from performing substantially all of his normal duties for the Company. As a condition to any benefits, the Company may require the Participant to submit to such physical or mental evaluations and tests as the Company deems appropriate.

2.3 "Final Average Compensation" means the highest average annual compensation paid to the Participant by the Company during the three consecutive calendar-year period out of the last 10 calendar years. Compensation for these purposes shall include base salary, annual incentive compensation payments from the Company, its subsidiaries, and affiliates, and any salary reduction contributions made on behalf of, or compensation deferrals elected by, the Participant to or under any plan maintained by the Company under Section 401(k) or Section 125 of the Code, and under any nonqualified deferral arrangement, but shall exclude long-term incentive compensation payments, reimbursed expenses, benefits (including benefits under any plan of deferred compensation) or any additional cash compensation or compensation payable in a form other than cash.

2.4 "Normal Retirement Date" means the first day of the month coinciding with or next following the Participant's 60th birthday.

2.5 "Qualified Plan" means the Blue Cross and Blue Shield of Minnesota Pension Equity Plan established effective January 1, 1994, and each predecessor, successor or replacement retirement plan.

2.6 "SERP Benefit" means the benefit described in Article 4.

2.7 "SERP Benefit Percentage" means the percentage (based on the Participant's age as of his Termination of Employment) used for determining the Participant's SERP Benefit (if any) under Article 4, as set out in the table below:

Age at Termination	SERP Benefit Percentage
52	40.0%
53	42.5%
54	45.0%
55	47.5%
56	50.0%
57	52.5%
58	55.0%
59	57.5%
60 or older	60.0%

BCBSM- 36329

2.8 "Termination of Employment" means the Participant's ceasing to be employed by the Company for any reason whatsoever, voluntary or involuntary, including by reason of death or Disability.

Article 3
Participation

As a condition of participation in and receipt of benefits under this Plan, the Participant agrees to observe all rules and regulations established by the Company for administering the Plan and shall abide by all decisions of the Company in the construction and administration of the Plan.

Article 4
SERP Benefit

4.1 Normal Retirement Benefits. If the Participant terminates employment on or after the Normal Retirement Date, the Company shall pay to the Participant a SERP Benefit in the form of a joint and 50% survivor annuity for the Participant and his spouse paying annual joint lifetime benefits (in monthly installments) equal to (a) 60% of the Participant's Final Average Compensation, reduced by (b) the offset amount described in Section 4.4. The annuity amount shall then be increased each year as described in Section 4.5. For example, if the Participant terminated employment on the Normal Retirement Date when his Final Average Compensation was $220,000 and the Section 4.4 offset was $80,000, the initial annual benefit would be $52,000, determined as follows:

(.60 x $220,000) - $80,000

4.2 Early Termination Benefit. If the Participant terminates employment (for reasons other than death or Disability) before the Normal Retirement Date, the Company shall pay to the Participant a SERP Benefit in the form of a joint and 50% survivor annuity for the Participant and his spouse paying annual joint lifetime benefits (in monthly installments) equal to (a) the SERP Benefit Percentage multiplied by the Participant's Final Average Compensation, reduced by (b) the offset amount described in Section 4.4, and further reduced by (c) .2083% for each complete or partial month by which the date of the Termination of Employment precedes the Participant's 60th birthday. The annuity amount shall then be increased each year as described in Section 4.5. For example, if the Participant terminated employment on his 58th birthday, with

Final Average Compensation of $220,000 and a Section 4.4 offset of $80,000, the initial annual benefit would be $38,950, determined as follows:

$$[(.55 \times \$220{,}000) - \$80{,}000] \times [1 - (.002083 \times 24)]$$

4.3 Disability Benefit. If the Participant terminates employment for Disability before the Normal Retirement Date, the Company shall pay to the Participant a SERP Benefit in the form of a joint and 50% survivor annuity for the Participant and his spouse paying annual joint lifetime benefits (in monthly installments) equal to (a) the SERP Benefit Percentage (47.5% if termination occurred prior to age 55) multiplied by the Participant's Final Average Compensation, reduced by (b) the offset amount described in Section 4.4, and further reduced by (c) .2083% for each complete or partial month by which the date of the Termination of Employment precedes the Participant's 60th birthday. For example, if the Participant terminated employment for Disability on his 55th birthday, with Final Average Compensation of $220,000 and a Section 4.4 offset of $80,000, the initial annual benefit would be $20,213, determined as follows:

$$[(.475 \times \$220{,}000) - \$80{,}000] \times [1 - (.002083 \times 84)]$$

4.4 SERP Benefit Offset. The reduction amount for purposes of calculating the SERP Benefit is the joint and 50% survivor annuity benefits (joint lifetime benefits paid in monthly installments) the Participant would be entitled to receive under the Company's Qualified Plan as of his Termination of Employment or, in the case of Termination of Employment for death or Disability, the later of Termination of Employment or age 55.

4.5 Annual Annuity Adjustment. Commencing on the first anniversary of the Participant's Termination of Employment, and continuing on each anniversary thereafter so long as SERP Benefits are payable to the Participant (or to his beneficiary) , the Company shall increase the annual SERP Benefit payment by a cost-of-living adjustment equal to the greater of 2.25%, or two-thirds of the Consumer Price Index that occurred during the 12 months prior to such adjustment date. The Company shall apply the adjustment to the amount previously determined under part (a) of Section 4.1, 4.2 or 4.3, whichever applies, including prior adjustments to such amount under this Section 4.5.

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4.6 Alternate Form of Benefit

4.6.1 Generally. The Participant, in a writing filed with the Company, may elect to receive benefits under Section 4.1, 4.2, 4.3 or 5.1.1, whichever applies, in a lump sum, in annual installments over a 10-year or 15-year period, or in a joint and 100% survivor annuity for the Participant and his beneficiary (also paid in annual installments). Any such benefit shall be the actuarial equivalent of the joint and 50% survivor annuity otherwise provided under the applicable Section. The Company shall pay lump sum benefits within 90 days after Termination of Employment, and shall commence installments within 30 days after Termination of Employment. The Participant may make a separate election with respect to each of the Sections under which SERP Benefits may become payable.

4.6.2 Timing of Election. To be effective, each election described in Section 4.6.1 must be filed with the Company either within 60 days after this Plan document is signed, or at least 12 months prior to the Participant's Termination of Employment.

4.6.3 Recovable Elections. Any written designation of an alternate form of benefits may be revoked or modified by a subsequent writing filed with the Company at least 12 months prior to the Participant's Termination of Employment.

4.7 Actuarial Value Calculation. Actuarial equivalent shall be calculated using the GATT assumptions in effect under the Qualified Plan for Qualified Plan benefits payable on the same date as the SERP Benefit, an assumed future annual annuity adjustment under Section 4.5 of 2.25%, and such other assumptions deemed necessary by the actuaries making such calculation. Actuarial present value shall be calculated by the actuaries retained by the Company, in its sole discretion.

Article 5
Survivorship Benefits

5.1 Entitlement to / Payment of Benefits

5.1.1 Death During Employment. If the Participant dies while employed with the Company, the Company shall pay to the Participant's beneficiary the SERP Benefit the Participant would have been entitled to receive under Section 4.3 had the Participant terminated employment for Disability on the day before his death. Unless otherwise subject to an effective election under Section 4.6 for a different form of benefit, the Company shall pay the SERP Benefit to the beneficiary in a lump sum within 90 days after the Participant's death.

5.1.2 Death Following Employment

5.1.2.1 Survivor Annuity Format. If the SERP Benefit is payable in a survivor annuity format, and if the Participant dies after Termination of Employment and before his designated beneficiary, the Company shall pay the applicable survivor annuity to the beneficiary.

5.1.2.2 Other Formats. If the SERP Benefit is payable in a format other than a survivor annuity, and if the Participant dies after Termination of Employment but before receiving all of the SERP Benefit, the Company shall pay the unpaid portion of the SERP Benefit to the Participant's beneficiary at the same times and in the same amounts the Company would have paid to the Participant had he survived.

5.2 Death of Beneficiary. If a beneficiary (other than in the case of benefits payable in a survivor annuity format) dies before receiving the SERP Benefit payment (if any) due to such beneficiary pursuant to this Plan, the Company shall pay the unpaid amount to the legal representatives of the beneficiary's estate at the same time and in the same amount otherwise payable to the beneficiary.

5.3 Beneficiary Designations. The Participant shall designate a beneficiary by filing a written notice of such designation with the Company. The Participant may revoke or modify the designation at any time by a further written designation. However, no such designation, revocation or modification shall be effective unless signed by the Participant and accepted by the Company during the Participant's lifetime. The Participant's beneficiary designation shall be deemed automatically revoked (i) in the event of the death of the beneficiary prior to the Participant's death, or (ii) if the beneficiary is the Participant's spouse, in the event of dissolution of marriage. If the Participant dies without a valid beneficiary designation, the Company shall pay the SERP Benefit to the Participant's surviving spouse, if any, and if none, to the Participant's estate.

5.4 Facility of Payment. If a benefit is payable to a minor or person declared incompetent or to a person incapable of handling the disposition of his or her property, the Company may pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Company may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

Article 6
Claims and Review Procedures

6.1 Claims Procedure. The Company shall notify the Participant or his beneficiary ("claimant") in writing, within 90 days after his or her written application for benefits, of his or her eligibility or non-eligibility for benefits under the Plan. If the Company determines that the claimant is not eligible for benefits or full benefits, the notice shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Plan on which the denial is based, (3) a description of any additional information or material necessary for the claimant to perfect his or her claim, and a description of why it is needed, and (4) an explanation of the Plan's claims review procedure and other appropriate information as to the steps to be taken if the claimant wishes to have the claim reviewed. If the Company determines that there are special circumstances requiring additional time to make a decision, the Company shall notify the claimant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90-day period.

6.2 Review Procedure. If a claimant is determined by the Company to be ineligible for benefits, or if the claimant believes that he or she is entitled to greater or different benefits, the claimant shall have the opportunity to have such claim reviewed by the Company by filing a petition for review with the Company within 60 days after receipt of the notice issued by the Company. The petition shall state the specific reasons which the claimant believes entitles him or her to benefits or to greater or different benefits. Within 60 days after receipt by the Company of the petition, the Company shall afford the Participant (and counsel, if any) an opportunity to present his or her position to the Company orally or in writing, and the claimant (or counsel) shall have the right to review the pertinent documents. The Company shall notify the claimant of its decision in writing within the 60-day period, stating specifically the basis of its decision written in a manner calculated to be understood by the claimant, and the specific provisions of the Plan on which the decision is based. If, because of the need for a hearing, the 60-day period is not sufficient, the decision may be deferred for up to another 60-day period at the election of the Company, but notice of this deferral shall be given to the claimant.

Article 7
Administration and Finances

7.1 Administration. The Company's Board of Directors or its designee shall be the named fiduciary and shall act for the Company under this Plan.

7.2 Powers of the Company. The Company shall have all powers necessary to administer the Plan, including, without limitation, powers:

7.2.1 to interpret the provisions of the Plan;

7.2.2 to establish and revise the method of accounting for the Plan and to maintain the accounts; and

7.2.3 to establish rules for the administration of the Plan and to prescribe any forms required to administer the Plan.

7.3 Actions of the Company. All determinations, interpretations, rules, and decisions of the Company shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

7.4 Delegation. The Company shall have the power to delegate specific duties and responsibilities to officers or other employees of the Company or other individuals or entities. Any delegation by the Company may allow further delegations by the individual or entity to whom the delegation is made. Any delegation may be rescinded by the Company at any time. Each person or entity to whom a duty or responsibility has been delegated shall be responsible for the exercise of such duty or responsibility and shall not be responsible for any act or failure to act of any other person or entity.

7.5 Reports and Records. The Company and those to whom the Company has delegated duties under the Plan shall keep records of all their proceedings and actions and shall maintain books of account, records, and other data as shall be necessary for the proper administration of the Plan and for compliance with applicable law.

Article 8
Amendments and Termination

The Plan may be amended or terminated only by a written agreement signed by the Company and the Participant.

Article 9
Miscellaneous

9.1 No Guaranty of Employment. The adoption and maintenance of the Plan shall not be deemed to be a contract of employment between the Company and the Participant. Nothing contained herein shall give the Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge the Participant at any time, nor shall it give the Company the right to require the Participant to remain in its employ or to interfere with the Participant's right to terminate employment at any time.

9.2 Non-Alienation. No benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or encumbrance of any kind.

9.3 Transfer to Affiliate. If the Participant transfers employment from the Company to an Affiliate, the Participant shall not be deemed to have terminated employment for any purpose under this Plan.

9.4 Exclusive Benefit. The Plan shall be maintained for the exclusive benefit of the Participant and his beneficiaries.

9.5 Notice. The Company shall provide the Participant with reasonable notice of the benefits available under this Plan.

9.6 Participant Rights. In consideration of the Participant's continuing his employment with the Company following his receipt of notice of eligibility to participate in this Plan, the Company intends to provide the Participant with legally enforceable rights to his benefits in accordance with the terms of this Plan, subject to the Company's and Participant's rights to amend or terminate such benefits under Article 8.

9.7 Assignment to Successor. The Company shall assign its rights and obligations under this Plan to any successor organization resulting from a merger, acquisition or affiliation involving the Company, or resulting from a sale of substantially all of the Company's assets. Such an assignment shall not be considered to be a termination of the Plan by the Company, or a termination of the Participant's employment if the Participant continues as an employee of the successor organization.

9.8 Applicable Law. The Plan and all rights hereunder shall be governed by and construed according to the laws of Minnesota, except to the extent such laws are preempted by the laws of the United States of America.

BCBSM, INC.

By ______________________

John Lettmann, Chair
Human Resources Committee

The Participant, by his signature below, agrees that he no longer is entitled to any benefits under the Company's Prior SERP, as described in Section 1.3 of this Plan, and that the benefits under this Plan entirely replace the benefits he otherwise might have earned under the Prior SERP.

____

MARK BANKS, MD

BCBSM- 36337

Home||Nation||Business
The Nonprofit 100 by Ranking
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Business
Dollar, Gold Rise in Europe
Europe Seeks Homegrown Power Solutions
Dollar Recovers Against Yen and Euro
Boeing Gets Record Plane Orders in 2005

NONPROFIT 100 rankings
2004 Rank

Company Name Expenses Excess Chief Executive Compensation — NONPROFIT 100 categories: Social Services - Exec. Comp. | Health Care - Exec. Comp. | Education - Exec. Comp. | Arts & Culture - Exec. Comp.

2004 Rank Overall	2003 Company Name	Location	Annual Report Date	2004 Revenue	2004 Expenses	2004 Excess	2004 % of Revenue from Charitable Contributions	Additional Financial Information	Chief Executive	Title	2004 Chief Executive Compensation
1	1 Blue Cross and Blue Shield of Minnesota	Eagan	12/31/2004	8,568,269,000	8,528,952,000	39,337,000		Blue Cross and Blue Shield of Minnesota paid over $101 million in state income, federal incom	Mark Banks	Pres., CEO	2,464,459
2	2 Mayo Foundation	Rochester	12/31/2004	8,615,900,000	8,126,700,000	489,200,000	7		Denis A. Cortese	Pres. and CEO	1,644,741
3	3 HealthPartners	Bloomington	12/31/2004	2,233,041,538	2,203,310,996	29,730,542	0.7		Mary Brainerd	Pres. and CEO	1,132,342
4	4 Allina Health System	Minneapolis	12/31/2004	2,106,038,000	1,982,074,000	123,964,000	0.8	Allina Health System financials are from audited financial statements	Richard Pettingill	CEO	1,543,585
5	5 Fairview Health Services	Minneapolis	12/31/2004	1,701,053,189	1,635,142,729	65,910,460	0.6		David Page	CEO	1,004,383
6	6 Medica	Minnetonka	12/31/2004	1,407,799,190	1,379,938,245	27,861,945			David Tilford	Pres., CEO	778,548
7	7 Park Nicollet Health Services	St. Louis Park	12/31/2004	997,656,694	964,224,547	33,432,147	1.9		David Wessner	Pres. and CEO	861,754
8	8 St. Mary's/Duluth Clinic Health System	Duluth	6/30/2004	680,596,864	669,875,160	10,721,704	0.6		Peter E. Person	CEO	948,515
9	9 HealthEast	St. Paul	8/31/2004	637,093,000	624,158,000	12,935,000	0.3		Timothy H. Hanson	Pres. and CEO	973,373
10	10 UCare Minnesota	Minneapolis	12/31/2004	613,632,010	569,128,706	44,503,304	0		Nancy J. Feldman	Pres. and CEO	379,290
11	12 CentraCare Corp.	St. Cloud	6/30/2004	507,589,095	467,233,959	40,355,106	0.6		Terence R. Pladson	CEO CentraCare, CEO-CentraCare Clinic	750,244
12	11 North Memorial Health Care	Robbinsdale	12/31/2004	466,296,583	445,774,687	20,521,896	0.1		Scott R. Anderson	Pres. and CEO	1,037,644
13	13 Children's Hospitals and Clinics	Minneapolis	12/31/2004	407,328,241	376,410,793	30,917,448	2.4		Alan L. Goldbloom	CEO	699,674
14	14 Benedictine Health System	Duluth	6/30/2004	285,396,410	272,910,374	12,486,036	0.3		Dale Thompson	Pres., CEO	497,562
15	18 University of St. Thomas	St. Paul	5/30/2004	228,350,341	200,103,762	28,246,559	18		Rev. Dennis Dease	Pres.	179,158
16	15 St. Luke's Hospital of Duluth	Duluth	12/31/2004	225,409,258	229,133,074	-3,723,816	0.2		John Strange	Pres. and CEO	465,078
17 -	University of Minnesota Physicians	Minneapolis	6/30/2004	182,617,870	179,567,898	3,049,972	0		Ruby Thompson	Chairperson and CEO	294,524
18	21 Carleton College	Northfield	6/30/2004	189,573,533	107,587,902	81,985,631	12.2		Robert A. Oden Jr.	Pres.	446,813
19	22 St. Olaf College	Northfield	5/31/2004	142,355,580	110,881,890	31,473,790	11		Christopher M. Thomforde	Pres.	249,772
20	16 National Marrow Donor Program	Minneapolis	9/30/2004	132,871,705	129,219,171	3,652,534	32.2		Jeffrey Chell	CEO	405,292
21	19 Presbyterian Homes and Services	Roseville	9/30/2004	123,649,569	111,847,953	11,801,966	12.1		Daniel A. Lindh	CEO	268,525
22	20 Hennepin Faculty Associates	Minneapolis	12/30/2004	110,238,938	111,982,441	-1,743,503	15.9		Donald Jacobs M.D.	Chm., CEO	534,101
-	Bauman	St. Paul	12/31/2004	98,413,269	95,133,542	3,279,727	2.4		Kathryn Roberts	CEO	240,502
23	25 Ridgeview Medical Center	Waconia	12/31/2004	96,034,300	90,114,151	5,920,149	0		Robert Stevens	Pres. and CEO	264,741
24	29 Hazelden Foundation	Center City	12/31/2004	94,292,361	90,978,861	3,313,500	3.8	Hazelden results are from the Federal Form 990 and combines the Hazelden Foundation; Haz	Ellen L. Breyer	Pres., CEO	433,140
25	33 Hamline University	St. Paul	6/30/2004	93,721,052	78,241,863	15,479,189	16.1		Larry G. Osnes	Pres.	355,568
26	24 Concordia College Corp.	Moorhead	4/30/2005	91,457,957	83,523,241	7,934,716	10.1		Pamela M. Jolicoeur	Pres.	204,565
27	23 Olmsted Medical Center	Rochester	12/31/2004	91,410,716	88,084,008	3,326,708	0.2		Noel R. Peterson MD	Pres.	328,879
28	17 Scholarship America	St. Peter	8/30/2004	91,371,529	92,420,463	-1,048,934	58.8	Scholarship America saw restricted contributions dropped by $6 million from $64 million and $4	William C. Nelsen	Pres.	153,567
29	52 Macalester College	St. Paul	5/31/2004	91,107,693	88,136,016	2,971,677	8.7		Brian C. Rosenberg	President	284,232
30	30 Bethel University	Arden Hills	5/31/2004	89,055,504	83,918,808	5,136,496	8.8		George K. Brushaber	Pres.	220,890
31 -	American Public Media Group	St. Paul	6/30/2004	84,882,000	77,842,000	7,029,000		American Public Media Group's consolidated revenue for 2004 including Minnesota Public Ra	William Kling		544,778
32	27 Greater Twin Cities United Way	Minneapolis	12/31/2004	84,367,461	82,451,470	1,915,991	95.8		Lauren A. Segal	Pres. and CEO	241,710
33	29 Gillette Children's Specialty Healthcare	St. Paul	12/31/2004	83,482,478	77,980,360	5,502,118	3.3		Margaret E. Perryman	Pres. and CEO	532,019
34	50 Gustavus Adolphus College	St. Peter	5/31/2004	81,362,264	77,867,622	3,494,642	10.2		James Peterson	Pres.	229,364
35	51 Aspen Medical Group	St. Paul	12/31/2004	80,531,527	81,273,498	-741,971	0		Robert Van Why	CEO	232,878
36	32 Minnesota Masonic Home Care Center	Minneapolis	12/31/2004	79,515,614	70,760,750	8,754,864		consolidated financial numbers for Minnesota Masonic Homes and affiliates	Michael Hanson	CEO	144,923
37	29 College of Saint Catherine, The	St. Paul	5/31/2004	73,431,509	68,598,349	4,833,160	10.9		Andrea J. Lee, IHM M. Ed, Ph.D	Pres.	NA
38	42 Lutheran Social Service of Minnesota	St. Paul	9/30/2004	72,801,559	72,952,557	-150,998	9		Mark A. Peterson	Pres. and CEO	187,788
39	34 St. John's University	Collegeville	6/30/2005	72,031,288	57,460,856	14,570,432	21		Dietrich Reinhart	Pres.	NA
40	55 Grand Itasca Clinic and Hospital	Grand Rapids	6/30/2004	71,555,538	50,589,219	20,966,319	28	Grand Itasca Clinic and Hospital $20.0 million of revenue in FY04 was a contribution relate	Dan McCormick	CEO	272,798
41	35 North Country Health Services	Bemidji	9/30/2004	68,424,695	65,139,194	3,285,501	1.6		James Hanko	President and CEO	306,183
-	American Baptist Homes of the Midwest	Eden Prairie	6/31/2004	67,955,111	67,857,011	98,100			Robert B. Inhoff	Pres. and CEO	185,348
43	45 Augsburg College	Minneapolis	5/31/2004	65,308,584	60,780,042	4,528,542	14.4		William V. Frame	Pres.	211,822
43	39 Lakeview Memorial Hospital Association Inc.	Stillwater	9/30/2004	63,719,379	59,304,068	4,415,311	0.8		Jeffrey Robertson	Administrator/CEO	310,004
44	56 College of Saint Benedict	St. Joseph	6/30/2004	63,300,315	59,334,024	3,966,291	8.6		Carol [illegible]	Pres.	244,471
45	57 First Plan of Minnesota	Duluth	12/31/2004	61,585,893	56,609,522	4,976,371	0.2		Anthony Solem	CEO	140,713
46	44 Volunteers of America Care Facilities	Eden Prairie	6/30/2005	58,162,113	56,674,570	1,487,543	0.7		Charles Gould	Pres.-VoA National Services	NA
47	47 Winona Health	Winona	9/30/2004	56,677,488	55,364,916	1,312,572		Winona Health's numbers are from consolidated financial statements the excess represents c	Rachelle Schultz	Pres., CEO	229,041
48	46 College of St. Scholastica	Duluth	6/30/2004	55,923,815	52,851,636	3,072,179	12.3		Larry Goodwin	Pres.	240,238
49	40 St. Mary's University of Minnesota	Winona	5/31/2005	53,914,474	54,268,465	-353,991	8.7		Louis DeThomasis FSC	Pres.	211,751
50	31 Amherst H. Wilder Foundation	St. Paul	6/30/2004	53,564,559	56,066,963	-2,502,304	26.3		Thomas W. Kingston	Pres.	263,010
51	43 Walker Methodist	Minneapolis	12/31/2004	52,259,000	55,129,000	-2,870,000	0.6	Walker Methodist numbers are from consolidated financial statements.	Lynn Starkovich	Pres., CEO	210,590
52	59 Northwestern College	St. Paul	6/30/2004	48,735,170	45,667,250	3,067,920	28.5		Alan S. Cureton	Pres.	192,166
53	66 Catholic Charities of the Archdiocese of St. Paul & Minneapolis	Minneapolis	6/30/2004	46,816,690	31,035,779	15,783,911	63.2	Catholic Charities revenues reflects funds acquired through comprehensive/capital campaign	Fr. John Estrem	Exec. Dir.	NA
54	58 Unity Family Healthcare, fka St. Gabriel's Hospital	Little Falls	6/30/2004	46,739,860	45,165,331	1,574,529	1.1		Carl Vaagenes	Pres. and CEO	231,807
55	60 Lake Region Healthcare Corp.	Fergus Falls	9/30/2004	46,387,275	43,474,910	2,912,365	0.1		Edmund J. [illegible]	Administrator/CEO	288,604
56	64 Regina Medical Center	Hastings	9/30/2004	44,746,952	43,350,891	1,396,061	0.6		Mark D. Wilson	Pres. and CEO	189,848
57	67 Minneapolis Society of Fine Arts	Minneapolis	6/30/2004	43,948,365	29,265,005	14,683,360	67.2	The Minneapolis Society of Fine Arts operating revenues and expenses were $21.1 million wit	Evan M. Maurer	Dir. and President	313,782
58	62 Augustana Care Corp.	Minneapolis	9/30/2004	43,284,907	42,540,813	744,094	1.9		Timothy H. Tucker	CEO	268,001
59	57 Augsburg Fortress Publishers	Minneapolis	12/31/2004	43,251,138	46,998,542	-3,747,404		Augsburg Fortress Publishers is an affiliate of the Evangelical Lutheran Church of America in	Beth A. Lewis	Pres. and CEO	NA
60	53 Second Harvest Heartland	Maplewood	9/30/2004	42,174,225	42,363,181	-188,956	93.6		R. Jane Brown	Executive Director	104,848
61	63 YMCA of Metropolitan Minneapolis	Minneapolis	12/31/2004	42,000,243	37,331,866	4,668,377	24.2		Harold Mezile Jr.	Pres.	284,918
62	68 YMCA of Greater St. Paul	St. Paul	12/31/2004	41,721,170	34,733,452	6,987,718	38.4		Tom Bitman	Pres. and CEO	264,810
63	68 Concordia University	St. Paul	6/30/2005	40,421,957	38,842,480	1,579,477	15.3		Robert Holst	Pres.	114,492
64	115 Walker Art Center	Minneapolis	6/30/2004	39,648,924	18,900,510	22,748,414	61.6		Kathy Halbreich	Dir.	374,448
65 -	Glencoe Regional Health Services	Glencoe	12/31/2004	39,640,597	38,079,295	3,561,302	0.2		John Bruberg	Pres., CEO	NA
66	61 Minnesota Historical Society	St. Paul	6/30/2004	38,892,230	38,615,294	276,936	79.4		Nina Archabal	Director & Secretary	229,522
67	72 Lakewood Health System	Staples	12/31/2004	37,393,000	35,583,000	1,810,000	1.3		Tim Rice	Pres.	254,000
68	70 Minnesota Diversified Industries Inc.	St. Paul	12/31/2004	35,140,204	32,381,665	2,758,539	10.1		Mark de Nesky	Pres. and CEO	304,261
69	71 Sholom Community Alliance	St. Louis Park	9/30/2004	34,070,677	34,210,913	-140,236		Sholom's numbers are from audited consolidated financials, the excess does not include addi	Bruce Kahn	Exec. Dir.	222,449
70	79 Riverview Healthcare Association	Crookston	6/30/2004	33,567,490	34,732,041	-1,164,551	1.8		Debra Boardman	CEO and Pres.	NA
71	76 Breck School	Golden Valley	6/30/2004	32,670,488	26,635,367	6,035,121	14.2		Samuel A. Bailey	Headmaster	297,852
72	81 St. Joseph's Area Health Services	Park Rapids	9/30/2004	32,842,448	30,565,843	2,276,605	1.2		Peter Jacobson	Pres. and CEO	247,820
73	69 Courage Center	Golden Valley	6/30/2004	32,330,991	33,992,477	-1,661,486	30.6		Eric Stevens	CEO	253,523

74	77	Nexus	Minneapolis	12/30/2004	32,231,339	29,791,245	2,440,094	5.1	Includes Nexus and Gerard Treatment Programs	James D'Angelo	Exec. Dir.	255,329
75	92	Minnesota Orchestral Association	Minneapolis	8/31/2004	31,814,640	33,042,985	-1,228,345	44.7		Anthony Woodcock	Pres.	253,274
76	73	Volunteers of America - Minnesota	Golden Valley	6/30/2004	31,675,814	31,847,268	-171,454	56		Michael W. Weber	Pres. and CEO	152,718
77	54	Parker Hughes Clinics	Roseville	12/31/2004	31,358,933	35,113,399	-3,754,476	0.2		Faith Uckun	Pres.	262,179
78	84	Blake School, The	Hopkins	6/30/2004	31,180,196	29,346,637	1,833,559	21.5		John Gulla	Head of School	351,791
79	75	Accessible Space Inc.	St. Paul	12/31/2004	29,949,465	27,124,372	2,825,113	32.8	Accessible Space's financials are from audited consolidated statements which include the ops	Stephen Vander Schaaf	Pres. and CEO	303,087
80	76	Memorial Blood Centers	Minneapolis	5/31/2005	29,743,363	26,912,034	2,831,349	0.6		Don Berglund	CEO	206,961
81	114	Minneapolis Jewish Federation	Minnetonka	8/31/2004	29,198,422	20,035,327	9,163,095	100.8		Joshua Fogelson	Exec. Dir.	268,107
82	80	Mankato Rehabilitation Center Inc.	Mankato	12/31/2004	29,074,454	28,504,244	570,210	10.1		William R. Bisbee	Exec. Dir.	93,377
83	56	Guthrie Theater Foundation	Minneapolis	3/31/2005	28,768,437	20,613,588	8,154,869	62.7		Joe Dowling	Artistic Director	428,699
84	82	Science Museum of Minnesota	St. Paul	6/30/2004	28,049,625	29,609,462	-1,560,837	41.4		Eric J. Jolly	Pres.	79,969
85	83	Northwest Medical Center	Thief River Falls	4/30/2005	27,333,940	28,152,429	-818,489	0.4		Richard A. Spyhalski	CEO	179,294
86	87	Pheasants Forever Inc.	St. Paul	6/30/2004	27,243,677	26,012,363	1,230,314	43.9		Howard K. Vincent	Pres., CEO	175,870
87	96	Community Memorial Hospital Association	Cloquet	9/30/2004	26,700,542	24,510,739	2,189,804	1.8		Rick Breuer	CEO/Administrator	129,518
88	101	Salvation Army Twin-Cities Program Fund	Roseville	9/30/2004	26,222,876	19,311,600	6,911,276	92.2		Daniel Sjogren	Major Divisional Commander	89,146
89	74	Public Radio International Inc.	Minneapolis	6/30/2004	26,072,062	28,006,009	-1,932,947	51.9		Stephen L. Salyer	Pres. and CEO	296,532
90	102	William Mitchell College of Law	St. Paul	6/30/2004	25,826,827	23,594,438	2,234,389	13		Harry J. Haynsworth	Pres. and Dean	258,025
91		Tri-County Hospital Inc.	Wadena	12/31/2004	25,495,496	25,333,046	160,450	1.2		Dennis Miley	Administrator	230,648
92	91	Lifeworks Services Inc.	Mendota Heights	12/31/2004	25,277,209	25,039,373	237,836	1.4		Judy Lysne	Pres.	165,677
93	97	Minneapolis Medical Research Foundation	Minneapolis	12/31/2004	25,169,393	24,446,697	723,696	95.9		Paul Pentel M.D.	Pres.	NA
94	99	Community Action Partnership of Ramsey and Washington Counties	St. Paul	9/30/2004	25,061,076	24,664,990	396,086	93.4		Jim Scheibel	Executive Dir.	123,600
95	86	Arrowhead Economic Opportunity Agency Inc.	Virginia	6/30/2004	24,896,314	24,530,676	365,638	71.4		Harlan Tardy	Exec. Dir.	94,685
96	88	American Refugee Committee	Minneapolis	12/31/2004	24,605,121	24,031,882	571,239	63.3		Hugh G. Parmer	Pres. and CEO	169,354
97	95	Roseau Area Hospital and Homes Inc.	Roseau	9/30/2004	23,768,285	22,677,554	1,190,731	2.2		David F. Hagen	CEO	228,449
98	93	Stevens Community Medical Center	Morris	12/31/2004	23,627,236	22,990,147	637,089	0.2		John Rau	Pres. and CEO	222,776
99	94	St. Therese Home Inc.	New Hope	6/30/2004	23,278,584	22,767,821	510,763	0.8		Barbara Rode	CEO	132,007
100	106	Children's Home Society & Family Services	St. Paul	6/30/2004	23,037,029	21,664,566	1,372,463	27.5		Madonna W. King	Exec. Dir.	167,176

Nonprofits: A look by categories

Thanks largely to capital campaigns, revenues at arts and culture nonprofits rose 18.1 percent in 2003. Social services nonprofits meanwhile, saw revenues decline 4.4 percent. Health care revenues grew in double digits. Revenues rose at education nonprofits although as a group they spent slightly more than they took in.

	Arts & culture	Health care	Education	Social services
Average revenue change	18.1%	11.2%	7.7%	-4.4%
Average expense ratio (exp/rev)	99.2%	98.1%	100.7%	99.8%
Average percentage of revenue from contributions, grants & gifts	62.0%	5.5%	17.6%	56.0%
Median total compensation of top office	$268,430	$264,916	$210,948	$148,686
Median total compensation of top officer as a percentage of revenue	1.0%	0.5%	0.4%	0.6%

➤ Health care

Cat. rk.	Organization	Revenue (mil.)	1-yr. pct. chg.	Expenses (mil.)	Exp. ratio*	Grants, gifts as pct. of revenue	Top office	Total comp.
1	Blue Cross and Blue Shield of Minnesota	$5,983.9	19.4%	$5,853.8	97.8%	NA	Mark Banks (a)	$3,001,496
2	Mayo Foundation	4,860.2	8.7	4,533.9	93.3	3.9%	Denis Cortese	659,796
3	HealthPartners	2,028.0	12.2	1,974.6	97.4	0.9	Mary Brainerd	1,039,244
4	Allina Health System	1,645.8	5.7	1,512.0	91.9	0.9	Richard Pettingill (b)	996,556
5	Fairview Health Services	1,546.9	-4.7	1,487.1	96.1	0.6	David Page (c)	853,627
6	Medica	1,509.9	7.7	1,468.9	97.3	NA	David Tilford (d)	649,450
7	Park Nicollet Health Services	897.7	20.8	883.9	98.5	1.8	David Wessner	734,899
8	St. Mary's/Duluth Clinic Health System	625.0	19.9	631.6	101.1	0.3	Peter Person	816,814
9	HealthEast	589.9	8.8	561.5	96.6	0.4	Timothy Hanson	883,078
10	UCare Minnesota	544.7	12.2	510.4	93.7	0.0	Nancy Feldman	360,186
11	North Memorial Health Care	453.2	9.9	424.9	93.8	0.2	Scott Anderson (e)	922,477
12	CentraCare Corp.	431.2	24.7	439.1	101.8	0.5	Terence Pladson (f)	685,887
13	Children's Hospitals and Clinics	373.7	9.9	354.8	94.9	1.9	Alan Goldbloom (g)	837,364
14	Benedictine Health System	265.4	7.9	259.8	97.9	0.5	Barry Halm (h)	324,598
15	St. Luke's Hospital of Duluth	202.6	17.8	202.0	99.7	0.1	John Strange	410,459
16	National Marrow Donor Program	120.2	7.0	112.1	93.3	37.1	Jeffrey Chell	320,346
17	Presbyterian Homes and Services	118.1	26.6	101.3	85.8	14.2	Daniel Lindh	258,594
18	Hennepin Faculty Associates	105.6	10.5	106.3	100.7	16.9	Donald Jacobs (i)	834,684
19	Olmsted Medical Center	89.5	12.2	82.8	92.6	0.1	Noel Peterson	329,275
20	Ridgeview Medical Center	88.1	5.0	82.9	94.1	0.2	Robert Stevens (j)	267,678
21	Hazelden Foundation	87.6	4.5	85.4	97.5	4.7	Ellen Breyer	375,471
22	Gillette Children's Specialty Healthcare	77.3	3.0	72.2	93.4	1.3	Margaret Perryman	457,868
23	Aspen Medical Group	74.4	39.0	80.3	108.0	0.0	Thomas Holets	225,977
24	Minnesota Masonic Homes	74.1	14.4	68.0	91.7	0.5	Edwin Martini Jr.	732,869
25	North Country Health Services	63.5	9.9	60.8	95.7	0.1	James Hanko (k)	352,445
26	First Plan of Minnesota	59.3	12.3	57.3	96.6	0.0	Anthony Solem	168,152
27	Elim Care Inc.	58.2	3.8	57.2	98.3	NA	Robert Dahl	239,983
28	Lakeview Memorial Hospital Association Inc.	58.0	13.2	53.3	91.9	0.0	Jeffrey Robertson	294,456
29	Walker Methodist	56.5	-6.2	59.4	107.1	0.3	Lynn Starkovich (l)	161,625
30	Volunteers of America Care Facilities	55.0	-8.7	53.1	96.4	NA	Charles Gould (m)	NA
31	Winona Health	52.6	41.7	51.3	97.5	NA	Rachelle Schultz	182,018
32	American Baptist Homes of the Midwest	49.8	-1.4	50.9	102.3	0.8	Robert Inhoff	167,804
33	Amherst H. Wilder Foundation	47.9	1.5	60.8	126.9	33.7	Thomas Kingston	267,117
34	Parker Hughes Clinics	47.5	30.6	49.1	103.5	0.6	Fatih Uckun	720,532
35	Grand Itasca Clinic and Hospital	46.6	55.1	45.9	98.5	0.1	Dan McCormick	262,715
36	Unity Family Healthcare	44.4	29.6	42.7	96.2	0.6	Carl Vaagenes (n)	228,393
37	Lake Region Healthcare Corp.	43.0	8.3	40.5	94.3	0.0	Edward Mehl	273,990
38	Augustana Care Corp.	41.4	4.8	41.4	100.0	1.4	Timothy Tucker	268,569
39	Regina Medical Center	39.1	4.3	38.2	97.6	0.9	Mark Wilson	190,723
40	Sholom Community Alliance	31.8	14.8	33.5	105.3	NA	Bruce Kahn	224,032
41	Lakewood Health System	31.3	19.7	29.9	95.6	0.5	Tim Rice	237,000
42	Accessible Space Inc.	29.7	11.2	26.5	89.2	24.5	S. Vander Schaaf	259,709
43	Memorial Blood Centers	29.6	31.2	24.8	83.8	1.4	Jerome Haarmann	324,964
44	Riverview Healthcare Assoc'n	28.2	17.3	28.8	102.0	2.0	Debra Boardman	169,730
45	St. Joseph's Area Health Services	27.2	20.7	25.9	95.1	1.8	Peter Jacobson (o)	236,688
46	Northwest Medical Center	25.5	2.8	26.7	104.4	0.0	Richard Spyhalski	191,475
47	Stevens Community Medical Ctr.	22.8	4.3	22.0	96.9	0.1	John Rau (p)	NA
48	St. Therese Home Inc.	22.5	0.5	22.2	98.5	0.6	Barbara Rode	104,998
49	Roseau Area Hospital and Homes Inc.	22.3	9.2	20.7	93.1	0.4	David Hagen	151,015
50	Community Memorial Hospital Association	22.3	11.2	22.2	99.7	4.7	Rick Breuer	131,284
51	Minneapolis Medical Research Foundation	22.1	11.5	23.6	106.5	94.5	Paul Pentel (q)	200,867
52	Queen of Peace Hospital	20.3	0.4	20.6	101.6	0.0	Sis. Jean Juenemann	139,835
53	Upper Midwest Organ Procurement Organization Inc.	17.9	1.3	17.6	98.5	1.7	Susan Gunderson	241,399
54	Lyngblomsten Care Center Inc.	16.9	7.7	15.8	93.5	8.5	Paul Mikelson	135,204
55	Ely-Bloomenson Community Hospital & Nursing Home Corp.	16.3	22.9	15.5	94.8	0.6	John Fossum	118,768
56	St. Francis Medical Center	15.2	8.8	14.7	96.4	0.5	David Nelson (r)	259,007
57	Eventide	14.8	7.9	14.3	96.6	0.7	Helen Frampton	213,275
58	Jones-Harrison Residence	13.8	-6.0	14.9	107.7	4.5	Sharon Brainy	257,510
59	Planned Parenthood of MN/SD	13.6	-9.2	15.7	115.3	56.2	Sarah Stoesz	166,172
60	University Affiliated Family Physicians- U of M	8.8	-45.0	8.6	96.3	0.0	Carl Anderson	73,926

Notes:

(a) Banks' compensation includes base salary, annual incentive earned in 2002 and paid in 2003, and assumes one-third long-term incentive earned for 2000-2002 period and vested on January 1, 2003 and paid in 2003.

(b) Pettingill's compensation includes $137,565 in nonvested deferred compensation.

(c) Page's other compensation includes $109,482 in nonvested benefits.

(d) Tilford was named Medica's president in May 2003, and CEO in June 2004.

(e) Anderson's compensation excludes $192,050 of investment earnings on retirement assets.

(f) Pladson's compensation includes deferred compensation not paid out.

(g) Goldbloom, a pediatrician, joined Children's on Jan. 1, 2003. His compensation includes some recruiting and relocation expenses.

(h) Halm resigned in Dec. 2002. Dale Thompson began serving as President and CEO of Benedictine Health System on April 1, 2003.

(i) A portion of Jacobs' compensation is from work as a physician.

(j) Stevens is compensated through Executive Health Mgmt Services Inc.

(k) Compensated through North Country Management Inc.

(l) Replaced Janet Lindbo on July 1, 2003.

(m) Gould is compensated through the national office of volunteers.

(n) Vaagenes is compensated through Catholic Health Initiatives.

(o) Peter Jacobson is compensated through Catholic Health Initiatives.

(p) Stevens Community Medical Center has a management agreement with Allina.

(q) Pentel is compensated through Hennepin Faculty Associates.

(r) Nelson is compensated through Catholic Health Initiatives.

Compensation comparison

Total compensation of the organization's top officer as a percentage of revenue

➤ Other

Cat. rk.	Organization	Revenue (mil.)	1-yr. pct. chg.	Expenses (mil.)	Exp. ratio*	Grants, gifts as pct. of revenue	Top office	Total comp.
1	Augsburg Fortress Publishers	$45.6	-7.9%	$49.2	107.7%	0.0%	Beth Lewis (a)	NA
2	Pheasants Forever Inc.	24.5	23.1	24.0	98.0	56.5	Howard Vincent	$169,821
3	Greater Minneapolis Convention & Visitors Association	6.6	5.5	6.3	95.9	79.7	Greg Ortale	153,280
4	Search Institute	8.5	-7.8	8.7	102.3	NA	Peter Benson	277,878

Notes:

(a) Compensation unavailable; as an affiliate of the ELCA Augsburg Fortress is not required to file a 990 or disclose compensation.

Definitions

Revenue — includes program sales, fees and government contracts (such as Medicare payments), government grants, investment income and charitable contributions.

1-year percent change — percentage change in revenue since prior fiscal year.

Expenses — includes costs for program services, management costs and fund-raising costs.

Expense ratio — Expenses divided by revenue. Ratios over 100 percent indicate that expenses exceed revenue.

Grants, gifts as percentage of revenue — Total government and foundation grants plus charitable donations divided by revenue.

Total compensation — includes salary, contributions to benefit plans and other allowances.

NA — Not available, NM — Not meaningful.

➤ Social services

Cat. rk.	Organization	Revenue (mil.)	1-yr. pct. chg.	Expenses (mil.)	Exp. ratio*	Grants, gifts as pct. of revenue	Top office	Total comp.
1	Greater Twin Cities United Way	$83.9	6.2%	$85.6	102.0%	94.8%	James Colvin	$305,490
2	American Cancer Society Midwest Division Inc.	55.7	-3.0	56.4	101.3	91.2	Jan Allen	228,997
3	Lutheran Social Service of Minn.	55.5	-19.3	54.6	98.3	10.5	Mark Peterson (a)	150,004
4	Second Harvest Heartland	47.8	3.9	46.1	96.5	96.2	R. Jane Brown	99,330
5	YMCA of Metropolitan Mpls.	39.2	8.2	37.6	96.0	21.4	Harold Mezile Jr.	279,371
6	Catholic Charities of the Archdiocese of St. Paul & Mpls.	36.5	-5.7	34.2	93.6	46.8	Fr. Larry Snyder	75,109
7	YMCA of Greater St. Paul	33.2	3.8	33.8	101.7	12.0	Tom Brinsko	257,064
8	Courage Center	32.7	2.5	31.8	97.1	36.3	Eric Stevens	241,739
9	Minnesota Diversified Industries	32.4	-9.2	33.8	104.1	1.1	Mark de Naray (b)	144,499
10	Volunteers of America - Minn.	31.2	10.9	31.2	100.0	89.8	Michael Weber	142,470
11	Nexus	29.1	-1.1	27.3	93.6	1.3	James D'Angelo	242,034
12	Mankato Rehabilitation Center	27.3	1.7	27.7	101.5	11.2	William Bickett	97,538
13	American Refugee Committee	24.9	-9.5	24.8	99.5	83.2	Hugh Parmer	192,188
14	Arrowhead Economic Opportunity Agency Inc.	24.6	1.3	24.3	98.6	71.6	Harlan Tardy	94,416
15	Ramsey Action Programs Inc.	24.2	-2.3	24.2	100.2	92.9	Mary Lou Clowes (c)	86,605
16	Lifeworks Services Inc.	23.1	12.3	22.4	97.1	1.2	Judy Lysne	148,686
17	Opportunity Partners Inc.	22.0	7.1	20.7	94.0	6.9	Jon Thompson	156,716
18	Anoka County Community Action Program Inc.	21.3	-11.1	21.4	100.2	89.3	Patrick McFarland	86,266
19	Salvation Army Twin Cities Program Fund	21.0	-3.5	18.9	89.7	89.0	W. Paul Freeman (d)	80,353
20	Providers Choice	20.5	-0.3	20.5	100.0	99.4	Gail Birch	129,324
21	Children's Home Society of Minn.	20.0	-0.1	16.9	84.5	32.0	Donna Walgren King	151,427
22	RESOURCE Inc.	19.9	-8.5	20.0	100.6	78.7	Bob Barkule	145,360
23	Parents in Community Action Inc.	18.6	-37.3	22.2	119.5	99.8	Alyce Dillon	175,697
24	Minnesota Valley Action Council	18.3	11.7	18.2	99.6	98.8	John Woodwick	79,040
25	Catholic Charities of the Diocese of St. Cloud	18.0	-3.4	18.1	100.5	33.8	Steven Bresnahan	117,437
26	Minneapolis Jewish Federation	17.8	-55.0	23.3	130.7	92.1	Joshua Fogelson (e)	247,978
27	Dakota Communities Inc.	15.4	0.4	14.8	96.2	1.7	Kathleen LeMay	164,277
28	Goodwill Industries Inc./Easter Seals Minnesota	13.2	-8.7	12.9	97.9	53.0	Michael Wirth-Davis	157,433
29	Community Action of Minneapolis	12.5	-1.7	12.4	99.2	88.9	William Davis	134,072

Notes:

(a) Peterson's compensation is for nine months.

(b) De Naray named President and CEO of Minnesota Diversified Inc. in May 2003.

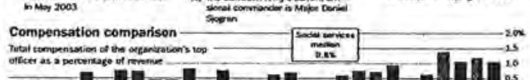
(c) James Scheibel was named the new executive director of Ramsey Action Programs in Oct. 2003.

(d) The Salvation Army's current divisional commander is Major Daniel Sjogren.

(e) The change in revenue as the Minneapolis Jewish Federation is due to a completed community-wide capital campaign in 2002.

Compensation comparison

Total compensation of the organization's top officer as a percentage of revenue



➤ Education

Cat. rk.	Organization	Revenue (mil.)	1-yr. pct. chg.	Expenses (mil.)	Exp. ratio*	Grants, gifts as pct. of revenue	Top office	Total comp.
1	University of St. Thomas	$197.1	0.3%	$189.0	95.9%	20.9%	Rev. Dennis Dease	$125,865
2	Scholarship America	165.2	-8.0	124.9	75.6	95.4	William Nelson	197,449
3	Carleton College	97.0	460.0	106.8	110.1	22.0	Robert Oden Jr.	419,640
4	St. Olaf College	95.1	-12.4	104.8	110.2	15.4	C. Thomforde (a)	230,943
5	Concordia College Corp.	89.0	36.6	79.8	89.6	9.0	Paul Dovre (b)	212,745
6	The College of Saint Catherine	77.2	17.8	68.6	88.8	10.4	Andrea Lee, IHM (c)	NA
7	Bethel University	75.3	0.9	77.8	103.4	11.7	George Brushaber	214,294
8	Hamline University	73.2	16.4	70.4	96.2	13.8	Larry Osnes (d)	397,324
9	St. John's University	72.0	29.4	54.1	75.1	17.8	Dietrich Reinhart (e)	
10	College of Saint Benedict	65.4	11.6	56.8	87.0	17.7	Mary Lyons	245,555
11	St. Mary's University of Minnesota	56.4	0.3	52.6	93.2	16.7	Louis DeThomasis	206,969
12	Augsburg College	54.8	1.1	56.7	103.5	15.1	William Frame	209,151
13	College of St. Scholastica	52.0	0.5	50.8	97.7	22.1	Larry Goodwin	223,704
14	Gustavus Adolphus College	48.9	-32.1	75.8	155.0	12.7	Dennis Johnson (f)	185,089
15	Macalester College	47.9	-24.2	84.6	176.6	16.0	M. McPherson Jr. (g)	363,117
16	Northwestern College	44.1	4.9	41.7	94.5	24.7	Alan Cureton	159,602
17	Concordia University	38.3	14.1	34.6	90.6	14.1	Robert Holst (h)	125,973
18	Breck School	28.3	18.0	25.7	90.6	15.6	Samuel Salas	281,058
19	Blake School, The	25.1	-5.2	28.7	114.5	19.5	John Gulla	361,722
20	Dunwoody College of Technology	24.1	46.7	21.7	90.1	NA	C. Ben Wright	149,789
21	St. Paul Academy and Summit School	21.8	23.4	20.5	94.0	21.0	Pamela Clarke	269,019
22	William Mitchell College of Law	21.0	0.2	20.2	96.0	5.7	Harry Haynsworth (i,j)	244,556
23	Northwestern Health Services University	20.1	2.7	20.6	102.7	10.6	Alfred Traina	196,120
24	American Academy of Neurology	18.8	-3.2	17.3	92.0	10.1	Catherine Rydell	341,912
25	Minneapolis College of Art and Design	18.1	12.1	18.7	103.2	13.1	Michael O'Keefe	222,823
26	North Central University	16.5	7.4	14.8	89.9	13.9	Gordon Anderson	121,325
27	Bethany Lutheran College & Seminary	15.2	-5.3	16.4	108.2	37.1	Dan Bruss (k)	46,870
28	Crown College	13.6	3.3	13.5	99.3	NA	Gary Benedict	127,687
29	Minnehaha Academy	13.5	1.8	13.0	96.3	9.3	John Engstrom	127,185

Notes:

(a) Thomforde's compensation includes a housing allowance.

(b) Dovre retired on June 30, 1999, returned as interim Pres. from July 1, 2003 to July 15, 2004. Dr. Pamela Jolicoeur is the new president.

(c) As a member of a religious order Sister Andrea Lee's compensation is paid to her order.

(d) Hamline named Linda Hanson new president in November.

(e) St. John's is not required to file a 990, and does not disclose compensation.

(f) Johnson served as interim president at Gustavus until James Peterson took over in July 2003.

(g) McPherson left Macalester in June 2003 to become president of the Spencer Foundation in Chicago.

(h) Holst's compensation includes $20,000 in housing allowance.

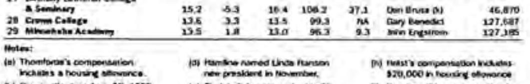
(i) Haynsworth's compensation is for 11 months. Allen Easley was named president and dean on July 1, 2004.

(j) William Mitchell results are for an 11-month period.

(k) Bruss was inaugurated as president on March 29, 2003.

Compensation comparison

Total compensation of the organization's top officer as a percentage of revenue



➤ Arts & culture

Cat. rk.	Organization	Revenue (mil.)	1-yr. pct. chg.	Expenses (mil.)	Exp. ratio*	Grants, gifts as pct. of revenue	Top office	Total comp.
1	Minnesota Public Radio Inc.	$54.5	28.5%	$47.3	86.8%	78.2%	William Kling (a)	$551,144
2	Guthrie Theater Foundation	46.3	203.6	20.3	43.8	70.5	Joe Dowling	363,640
3	Minnesota Historical Society	42.9	0.0	41.1	95.9	89.8	Nina Archabal	229,185
4	Minneapolis Society of Fine Arts	34.5	60.3	28.3	82.2	93.5	Evan Maurer	584,307
5	Public Radio International Inc.	30.1	29.6	26.2	87.0	44.2	Stephen Salyer	288,077
6	Science Museum of Minnesota	26.3	-4.5	31.4	119.4	44.0	James Peterson (b)	236,765
7	Twin Cities Public Television	24.4	3.8	24.5	100.5	68.2	Jim Pagliarini	215,696
8	Minnesota Orchestral Association	22.9	34.7	31.2	136.3	59.5	David Hyslop (c)	333,564
9	Walker Art Center	17.5	-14.3	17.3	98.7	89.5	Kathy Halbreich	374,341
10	Ordway Center for the Performing Arts	17.1	19.5	17.4	101.7	22.6	David Galligan (d)	237,800
11	St. Paul Chamber Orchestra Society	8.1	-11.6	11.2	137.6	64.5	Bruce Coppock	248,832
12	Theatre Live!	6.9	-70.3	6.9	100.1	0.0	Fred Krohn	0

Notes:

(a) MPR's Kling receives compensation from American Public Media Group and from its affiliate Greenspring. His total 2003 compensation from MPR was $284,799.

(b) Peterson resigned from Science Museum in 2003 to become president of Gustavus Adolphus. Eric Jolly became president in 2003.

(c) Hyslop retired in October 2003. Tony Woodcock is the new president of Minnesota Orchestral Association.

(d) David Galligan succeeded Kevin McCollum as President and CEO of Ordway.

12/12/04

http://www.startribune.com/style/news/newsgraphics/files/2nonprofit1212.pdf

Nonprofits: A look by categories

Revenues at health care nonprofits climbed 11.5 percent in 2002, compared with 9.1 percent in 2001. At social services nonprofits, revenue growth slowed to 5.3 percent from 8.8 percent the year before. Education revenues dropped 3 percent (compared with a 20 percent drop in 2001) while arts and culture nonprofits saw revenues drop 19 percent compared with flat revenues in 2001.

	Health care	Social services	Arts and culture	Education
Average revenue increase	11.6%	5.3%	-19.1%	-3.0%
Average expense ratio (exp/rev)	98.4%	95.8%	111.8%	115.9%
Average percentage of revenue from contributions, grants & gifts	6.7%	55.9%	62.6%	20.0%
Median total compensation of top officer	$230,139	$140,683	$263,701	$201,531
Median total compensation of top officer as a percentage of revenue	0.49%	0.57%	1.22%	0.56%

➤ Health care

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Blue Cross and Blue Shield of Minn.	$5,009.9	23.6%	$4,931.2	98.4%	NA	Mark Banks (a)	3,109,604
2	Mayo Foundation	4,470.1	6.3	4,598.2	102.9	2.8	Michael Wood	732,959
3	HealthPartners	1,806.7	12.9	1,774.6	98.2	1.3	Mary Brainerd (b)	962,894
4	Fairview Health Services	1,623.4	5.6	1,592.7	98.1	NA	David Page (c)	811,508
5	Allina Health System	1,556.4	6.4	1,450.3	93.2	1.0	Richard Pettingill (d)	187,431
6	Medica	1,401.8	17.5	1,378.0	98.3	NA	Jane Rollinson (e)	171,389
7	Park Nicollet Health Services	743.0	10.5	755.2	101.7	2.4	David Wessner	788,520
8	HealthEast	542.1	11.5	537.5	99.1	0.6	Timothy Hanson	551,660
9	St. Mary's/Duluth Clinic Health System	521.1	8.5	505.8	97.1	0.3	Peter Person	782,935
10	UCare Minnesota	485.3	19.2	478.1	98.5	0.0	Nancy Feldman	345,389
11	North Memorial Health Care	412.4	11.7	393.6	95.4	0.2	Scott Anderson	764,220
12	CentraCare Corp.	345.7	7.3	366.2	105.9	0.5	John Frobenius (f)	633,509
13	Children's Hospitals and Clinics	340.2	12.9	328.5	96.6	0.7	Brock Nelson (g)	361,449
14	Benedictine Health System	245.9	6.3	237.1	96.4	0.4	Barry Halm (h)	324,598
15	St. Luke's Hospital of Duluth	171.9	19.5	168.7	98.1	0.2	John Strange	311,048
16	Aspen Medical Group	122.0	8.5	120.0	98.4	0.0	Thomas Holets	332,626
17	National Marrow Donor Program	112.3	6.8	105.2	93.7	42.0	Jeffrey Chell	367,565
18	Hennepin Faculty Associates	95.6	4.7	97.6	102.1	17.8	Donald Jacobs (i)	526,389
19	Presbyterian Homes and Services	93.3	5.1	90.6	97.1	5.8	Daniel Lindh	245,276
20	Ridgeview Medical Center	83.9	13.3	79.0	94.1	0.1	Robert Stevens	246,098
21	Hazelden Foundation	83.9	16.5	89.4	106.5	5.4	Ellen Breyer (j)	169,255
22	Olmsted Medical Center	79.7	20.6	76.3	95.7	0.0	Noel Peterson (k)	285,352
23	Gillette Children's Specialty Healthcare	75.0	36.5	63.2	84.2	10.9	Margaret Perryman	413,524
24	Volunteers of America Care Facilities	66.1	6.4	65.7	99.3	0.4	Charles Gould (l)	NA
25	Minnesota Masonic Homes	64.8	8.8	67.1	103.5	0.5	Edwin Martini Jr.	213,116
26	Walker Methodist Inc.	59.1	5.0	62.1	105.0	0.3	Janet Lindbo (m)	278,290
27	North Country Health Services	57.8	12.2	57.5	99.6	0.3	James Hanko	320,942
28	Elim Care Inc.	56.1	5.3	55.1	98.2	0.7	Robert Dahl (n)	221,726
29	First Plan of Minnesota	52.8	5.4	51.2	96.9	0.0	Anthony Solem	157,391
30	Lakeview Memorial Hospital Association	51.3	16.7	46.0	89.8	0.0	Jeffrey Robertson	267,623
31	American Baptist Homes of the Midwest	50.5	1.9	53.4	105.7	0.9	Robert Inhoff	165,900
32	Amherst H. Wilder Foundation	47.2	25.3	57.9	122.7	31.3	Thomas Kingston	232,444
33	Lake Region Healthcare Corp.	39.7	5.4	37.4	94.2	0.2	Edward Mehl	231,231
34	Augustana Care Corp.	39.5	2.9	39.4	99.8	2.1	Timothy Tucker	232,799
35	Regina Medical Center	37.5	11.3	34.5	92.2	0.4	Mark Wilson	184,437
36	Winona Health	37.1	12.8	34.7	93.5	0.5	Patrick Booth	111,477
37	Unity Family Healthcare	34.3	39.6	32.8	95.8	0.7	Carl Vaagenes (o)	223,874
38	Itasca Medical Center	30.0	7.0	27.1	90.3	0.1	Steve Feltman	141,040
39	Sholom Community Alliance	27.7	3.3	28.2	101.8	NA	Bruce Kahn	230,139
40	Lakewood Health System	26.1	11.5	25.8	95.0	1.1	Tim Rice	216,950
41	Northwest Medical Center	24.9	3.8	25.4	102.2	0.1	Richard Spyhalski	220,199
42	Riverview Healthcare Association	24.1	11.0	23.4	97.2	0.6	Debra Boardman	145,982
43	Memorial Blood Centers of Minnesota	23.0	31.4	23.0	99.8	1.1	Jerome Haarmann	300,483
44	St. Joseph's Area Health Services	22.5	13.2	21.4	95.1	1.5	Peter Jacobson	213,748
45	St. Therese Home Inc.	22.4	13.1	20.7	92.3	5.4	Barbara Rode	121,488
46	Tri-County Hospital Inc.	22.3	18.1	20.4	91.4	3.5	Dennis Miley	180,912
47	Stevens Community Medical Center	21.8	10.9	21.0	96.3	0.1	John Rau (p)	NA
48	Roseau Area Hospital and Homes Inc.	20.4	7.0	20.2	99.2	0.0	David Hagen	140,517
49	Queen of Peace Hospital	20.2	9.3	19.7	97.6	0.6	Sis. Jean Juenemann	133,093
50	Community Memorial Hospital Association	20.0	9.6	19.4	96.9	1.0	Rick Breuer	127,676
51	Minneapolis Medical Research Foundation	19.8	0.7	21.2	106.8	98.8	Paul Pentel (q)	211,756
52	Upper Midwest Organ Procurement Organization Inc.	17.7	7.7	17.2	97.7	0.5	Susan Gunderson	217,831
53	University Affiliated Family Physicians University of Minnesota	16.0	98.9	17.3	108.6	0.0	Carl Anderson (r)	125,635
54	Lyngblomsten Care Center Inc.	15.7	3.6	15.9	101.5	6.2	Paul Mikelson	132,198
55	Planned Parenthood of MN/SD	15.0	11.7	15.7	104.7	45.9	Sarah Stoesz	161,780
56	Jones-Harrison Residence	14.6	8.5	14.2	97.6	12.2	Sharon Brenny	138,487
57	St. Francis Medical Center	14.0	1.3	13.5	96.2	0.6	David Nelson (s)	209,488
58	Evercare	13.7	5.9	13.5	98.5	1.4	Helen Frampton	201,268
59	Ely-Bloomenson Community Hospital & Nursing Home Corp.	13.3	8.3	12.3	92.5	0.9	John Fossum	106,746

Notes:

(a) Banks total compensation includes a $597,516 bonus and $1,350,935 in pension liability.

(b) Brainerd succeeded George Halvorson in March 2002. Her compensation includes deferred compensation of $142,814. The deferred compensation plans may provide, but are not certain to provide, additional compensation in the future.

(c) Page's other compensation includes $88,841 in non-vested benefits.

(d) Pettingill was appointed Allina CEO in Oct. 2002.

(e) Rollison resigned in March after one year with Medica. John Buck serves as the interim CEO with no compensation.

(f) Frobenius has an additional $141,200 in a deferred compensation plan.

(g) Nelson left Children's Hospitals at the end of 2002. Contributions to benefits excludes noncash contributions to benefits and deferred compensation of $2,155,309 of Supplemental Executive Retirement Plan.

(h) Halm resigned in Dec. 2002 from Benedictine Health System. Dale Thompson has been appointed pres. and CEO.

(i) A portion of Jacobs compensation is due to his work as a physician.

(j) Breyer served as Hazelden interim pres., CEO for seven months before being named permanently in November 2002.

(k) 100,000 of Peterson's compensation is for his role as pres., the remainder from his role as a physician.

(l) Gould is compensated through the national office of Volunteers.

(m) Janet Lindbo resigned as pres. And CEO on July 1, 2003 to pursue other opportunities.

(n) Dahl is compensated through Elim Homes Inc.

(o) Vaagenes is compensated through Catholic Health Initiatives.

(p) Stevens Community Medical Center has a management contract with Allina.

(q) Pentel compensated through Hennepin Faculty Associates.

(r) AFP's previous year results were from a six month period due to change in fiscal year.

(s) Nelson is compensated through Catholic Health Initiatives

➤ Other

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Augsburg Fortress Publishers	$49.6	-4.5%	$53.9	108.7%	0.0%	Beth Lewis (a)	NA
~~2~~	~~Pheasants Forever Inc.~~	~~19.9~~	~~8.9~~	~~18.0~~	~~94.2~~	~~37.8~~	~~Howard Vincent~~	~~169,800~~
3	Search Institute	9.2	5.5	9.2	100.0	NA	Peter Benson (b)	248,956
4	Greater Minneapolis Convention & Visitors Association	8.1	1.5	8.2	101.1	75.0	Greg Ortale	189,792

Notes:

(a) Lewis's compensation unavailable, as an affiliate of the ELCA Augsburg Fortress is not required to file a 990 or disclose compensation.

(b) Search Institute's financials are from audited financial statements.

➤ Social services

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Greater Twin Cities United Way	$179.0	10.0%	$165.8	108.5%	97.1%	James Colville	$318,420
2	Lutheran Social Service of Minnesota	68.8	12.4	68.8	100.0	9.8	Mark Peterson	234,687
3	American Cancer Society Midwest Division Inc.	57.4	0.0	58.5	102.0	70.6	Jan Allen	214,930
4	Second Harvest Heartland	46.0	53.6	46.6	101.4	96.4	R. Jane Brown	87,890
5	Minneapolis Jewish Federation	39.5	21.0	26.4	66.8	93.1	Sandra Fogelson	201,803
6	Catholic Charities of the Diocese of St. Paul & Minneapolis	38.8	10.6	34.8	89.7	53.4	Fr. Larry Snyder	71,541
7	YMCA of Metropolitan Minneapolis	36.2	5.2	37.5	103.4	15.7	Harold Mezile Jr.	282,854
8	Minnesota Diversified Industries Inc.	35.7	8.5	35.6	99.7	0.9	Lloyd Bratland (a)	296,128
9	YMCA of Greater St. Paul	32.0	9.8	31.8	99.5	15.3	Tom Brinsko	243,558
10	Courage Center	31.9	4.8	29.0	90.9	NA	Eric Stevens (b)	172,669
11	Nexus	29.4	5.2	26.3	89.2	6.8	James D'Angelo	278,517
12	Volunteers of America - Minnesota	28.1	10.4	28.6	101.6	92.0	Michael Weber	140,580
13	American Refugee Committee	27.5	4.0	27.6	100.1	77.1	Hugh Parmer	140,000
14	Mankato Rehabilitation Center Inc.	26.8	20.2	27.0	100.9	33.8	William Bickett	97,468
15	Accessible Space Inc.	26.7	11.8	25.2	94.3	20.6	S. Vander Schaaf	241,752
16	Parents in Community Action Inc.	25.6	48.9	21.4	83.6	99.7	Alyce Dillon	155,329
17	Ramsey Action Programs Inc.	24.7	7.7	24.7	99.9	90.4	Mary Lou Clowes	83,997
18	Arrowhead Economic Opportunity Agency Inc.	24.3	9.4	24.3	99.9	82.5	Harlan Tardy	93,382
19	Anoka County Community Action Program Inc.	24.0	15.9	23.5	97.9	90.3	Patrick McFarland	86,000
20	Salvation Army Twin-Cities Program Fund	21.8	19.1	19.7	90.3	89.6	Jack Gelz	68,997
21	RESOURCE Inc.	21.7	27.8	20.8	95.7	81.4	Bob Berkaw	131,485
22	Lifeworks Services Inc.	20.6	34.1	20.4	99.2	1.1	Judy Lysne	145,265
23	Opportunity Partners Inc.	20.6	6.5	19.8	96.4	4.0	Jon Thompson	140,785
24	Providers Choice	20.6	3.2	20.6	100.0	99.8	Gail Birch	130,199
25	Children's Home Society of Minnesota	20.0	11.3	17.6	87.9	34.0	Donna Wagner King	124,231
26	Catholic Charities of the Diocese of St. Cloud	18.6	2.5	18.6	99.9	31.5	Steven Bresnahan	113,008
27	Minnesota Valley Action Council Inc.	16.4	5.6	16.3	99.3	98.2	John Woodwick	75,390
28	Dakota Communities Inc.	15.3	1.6	14.5	94.7	1.6	Kathleen LeMay	NA
29	Goodwill Industries Inc./ Easter Seals Minnesota	14.4	4.0	12.6	87.7	55.8	Michael Wirth-Davis	157,542
30	Community Action of Minneapolis	12.7	19.1	12.7	100.3	87.9	William Davis	146,375
31	Project for Pride in Living Inc.	11.6	8.5	10.2	88.0	44.9	Jim Scheibel (c)	122,478

Notes:

(a) Mark de Naray was named new pres. and CEO in May 2003.

(b) Courage Center changed its fiscal year to Sept. from Dec.

(c) Scheibel resigned in July 2003 and was replaced by former PPL head Steve Cramer.

➤ Education

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	University of St. Thomas	$196.4	0.7%	$182.6	92.9%	16.1%	Rev. Dennis Dease	131,161
2	Citizens' Scholarship Foundation of America Inc.	179.5	24.4	115.7	64.5	95.0	William Nelson	165,183
3	St. Olaf College	108.5	30.4	99.9	92.1	19.3	C. Thomforde (a)	214,269
4	Bethel College & Seminary	74.6	5.9	73.8	99.0	10.6	George Brushaber	202,208
5	Gustavus Adolphus College	72.0	6.6	75.2	104.6	10.3	Axel Steuer (b)	379,205
6	Concordia College Corp.	65.2	8.2	76.2	117.0	13.4	Rev. T. Thomsen (c)	220,658
7	Macalester College	63.2	26.7	80.9	128.1	15.8	M. McPherson (d)	343,302
8	Hamline University	62.9	0.0	65.0	103.4	18.7	Larry Osnes	361,330
9	The College of Saint Catherine	62.2	2.8	61.6	99.0	16.1	Sis. Andrea Lee (e)	NA
10	College of Saint Benedict	58.6	4.9	55.6	94.8	10.7	Mary Lyons	236,777
11	St. John's University	55.7	30.1	53.3	95.8	28.2	Dietrich Reinhart (f)	NA
12	Augsburg College	54.2	5.3	54.3	100.2	20.3	William Frame	200,853
13	St. Mary's University of Minnesota	49.3	12.3	49.3	100.0	12.2	Louis DeThomasis	183,313
14	College of St. Scholastica	47.5	17.7	43.9	92.3	26.0	Larry Goodwin	181,634
15	Northwestern College	42.1	7.6	38.5	91.6	27.9	Alan Cureton	70,859
16	Concordia University	31.5	6.8	30.4	96.7	17.4	Robert Holst	133,870
17	The Blake School	26.5	10.7	25.3	95.3	26.1	John Gulla	341,690
18	Breck School	24.0	4.2	23.5	98.1	10.1	Samuel Salas	264,965
19	William Mitchell College of Law	21.0	3.7	20.4	97.3	8.3	Harry Haynsworth	259,132
20	Northwestern Health Services University	19.5	1.2	19.7	101.0	9.2	Alfred Traina	186,316
21	American Academy of Neurology	19.4	2.4	17.4	89.5	11.7	Catherine Rydell (g)	281,191
22	St. Paul Academy and Summit School	17.6	0.5	19.3	109.3	11.8	Pamela Clarke	249,493
23	Carleton College	17.3	NM	106.5	NM	NM	Stephen Lewis Jr. (h)	326,083
24	Dunwoody College of Technology	17.1	28.6	17.6	102.5	NA	C. Ben Wright (i)	146,659
25	Minneapolis College of Art and Design	16.1	9.6	17.9	111.1	16.7	John Slorp (j)	230,7[illegible]
26	Bethany Lutheran College & Seminary	16.0	20.1	14.2	88.4	49.6	Marvin Meyer	142,000
27	North Central University	15.4	12.0	13.6	88.5	15.9	Gordon Anderson	113,571
28	Minnehaha Academy	13.3	4.4	12.2	91.9	12.8	John Engstrom	121,880
29	Crown College	13.1	11.3	13.1	99.6	10.5	Gary Benedict	113,499

Notes:

(a) Christopher Thomforde started Jan. 1, 2001.

(b) Steuer left as Gustavus president in June 10, 2002. Dennis Johnson served as interim president until Jim Peterson, formerly of the Science Museum of Minnesota, was named the college's 14th president.

(c) Thomas Thomsen resigned in July from Concordia College Corp. Paul Dovre, former pres., returned as interim pres.

(d) Michael McPherson left Macalester in June to become president of Spencer Foundation in Chicago. Brian Rosenberg was named Macalester's new president in May.

(e) As a member of a religious order Sister Andrea Lee's compensation is paid to her order.

(f) St. John's is not required to file a 990, and does not disclose compensation.

(g) American Academy of Neurology changed its fiscal year to December from September.

(h) Lewis retired in Jan. 2002 from Carleton College. Robert Oden was named pres. July 1, 2002.

(i) Wright succeeded Frank Starke on July 1, 2002 and becomes eighth president of Dunwoody Institute.

(j) John Slorp retired from Minneapolis College of Art and Design on July 1, 2002. Michael O'Keefe was named the new president.

➤ Arts & culture

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Minnesota Historical Society	$42.9	0.5%	$40.2	93.7%	93.6%	Nina Archabal	$226,843
2	Minnesota Public Radio Inc.	42.4	5.5	42.7	100.8	76.9	William Kling (a)	496,873
3	Science Museum of Minnesota	27.6	12.4	30.8	111.8	45.4	James Peterson (b)	247,876
4	Guthrie Theater Foundation	26.7	48.1	18.2	68.3	63.8	Joe Dowling	337,013
5	Twin Cities Public Television	23.5	13.2	24.0	102.1	83.3	Jim Pagliarini	219,121
6	Theatre Live!	23.4	12.9	22.9	98.2	0.3	Fred Krohn	0
7	Public Radio International Inc.	23.2	10.5	25.7	110.4	32.6	Stephen Salyer	269,970
8	Minneapolis Society of Fine Arts	21.5	37.2	32.6	151.5	NM	Evan Maurer	590,032
9	Walker Art Center	20.5	4.7	18.1	88.7	78.3	Kathy Halbreich	358,064
10	Minnesota Orchestral Association	17.1	43.1	30.8	180.3	68.1	David Hyslop (c)	321,955
11	Ordway Center for the Performing Arts	14.4	10.9	16.5	115.0	17.7	Kevin McCollum (d)	257,432
12	St. Paul Chamber Orchestra Society	9.2	29.8	11.2	121.7	71.7	Bruce Coppock (e)	252,687

Notes:

(a) MPR's King receives compensation from American Public Media Group and from its for profit affiliate Greenspring. His total compensation from MPR was $233,743.

(b) Peterson resigned from Science Museum in 2003 to become president of Gustavus Adolphus. Former Macalester College head Robert Gavin Jr. became interim president.

(c) Hyslop retired in October; Tony Woodcock is the new president of Minnesota Orchestral Association.

(d) David Galligan succeeded Kevin McCollum as pres. and CEO of Ordway.

(e) Coppock received a $150,000 loan in 1999 from the SPCO [illegible]

Definitions:

Revenue — Includes program sales, fees and government contracts (such as Medicare payments); government grants; investment income, and charitable contributions.

1-year percent change — Percentage change in revenue since prior fiscal year.

Expenses — Includes costs for program services, management costs and fundraising costs.

Expense ratio — Expenses divided by revenue. Ratios over 100 percent indicate that expenses exceeded revenue.

Grants, gifts as percentage of revenue — Total government and foundation grants plus charitable donations divided by revenue.

Total compensation — Includes salary, contributions to benefit plans and other allowances.

NA — Not available. NM — Not meaningful.

Comparing compensation as a percentage of revenue

The charts below depict total compensation of the organization's top officer as a percentage of the organization's revenue.

Nonprofits: A look by categories

Revenue at education nonprofits dropped 20 percent in 2001 after rising by 20.7 percent in 2000. Investment losses on endowments were partly to blame. Many schools also had launched capital campaigns in the late 1990s boom years. As those campaigns ended, they affected 2001 comparisons. Median compensation of top officers increased in three of four categories with the biggest jump – 21.9 percent – coming in arts and culture. Median top officer pay in social services nonprofits dropped 1.2 percent from 2000.

	Health care	Social services	Arts and culture	Education
Average revenue increase	9.9%	8.8%	0.4%	-20.0%
Average expense ratio(exp/rev)	97.1%	95.0%	87.2%	79.9%
Average percentage of revenue from contributions, grants & gifts	5.2%	54.9%	55.9%	19.8%
Median total compensation of top officer	$215,557	$123,984	$273,125	$177,708
Median total compensation of top officer as a percentage of revenue	0.5%	0.6%	1.1%	0.4%

Health care

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Mayo Foundation	$4,206.1	10.4%	$4,265.2	101.4%	3.4%	Michael Wood	$700,337
2	Blue Cross and Blue Shield of Minn.	4,057.2	17.6	3,993.7	98.5	0.0	Mark Banks (a)	2,823,220
3	Allina Health System	1,692.5	6.5	1,734.2	102.5	0.0	Gordon Sprenger (b)	815,240
4	HealthPartners	1,600.6	1.9	1,560.4	97.5	1.5	Gea Halvorson (c)	1,095,887
5	Fairview Health Services	1,537.5	6.1	1,508.6	98.1	0.6	David Page	839,058
6	Medica	1,193.5	2.1	1,164.8	97.6	0.0	Kevin Halvorson	608,456
7	Park Nicollet Health Services	658.9	7.6	654.2	99.6	0.6	David Wessner	760,850
8	HealthEast	460.2	12.8	453.1	101.5	0.6	Timothy Hanson	610,618
9	St. Mary's/Duluth Clinic Health System	480.4	7.6	460.7	95.9	0.7	Peter Person	534,752
10	UCare Minnesota	401.2	36.4	399.6	99.1	0.0	Nancy Feldman	265,608
11	North Memorial Health Care	369.2	7.2	358.9	97.2	0.7	Scott Anderson	667,331
12	CentraCare Corp.	322.2	9.4	314.3	97.6	0.6	John Frobenius (d)	668,654
13	Children's Hospitals and Clinics	301.3	10.3	296.9	98.5	3.5	Brock Nelson	571,506
14	Benedictine Health System **	245.9	6.3	237.1	96.4	0.1	Barry Halm	324,598
15	St. Luke's Hospital of Duluth	143.8	15.0	139.7	97.2	0.4	John Strange	219,561
16	Aspen Medical Group	112.5	12.6	109.1	97.0	0.0	Thomas Hoksts	313,153
17	National Marrow Donor Program	105.2	6.4	98.9	94.0	41.5	Jeffrey Chell	354,843
18	Hennepin Faculty Associates	91.3	0.3	91.4	100.1	17.4	Donald Jacobs (f)	437,819
19	Presbyterian Homes and Services	88.6	15.4	82.2	92.5	12.2	David Lindh	215,557
20	Ridgeview Medical Center	74.1	15.7	73.4	99.1	0.0	Robert Stevens	222,462
21	Hazelden Foundation	72.0	1.4	66.1	91.8	12.5	Jerry Spicer	337,556
22	Minnesota Masonic Homes	71.0	12.0	68.4	96.3	2.4	Edwin Martin Jr.	206,130
23	Olmsted Medical Center	66.1	3.3	67.8	102.5	0.1	Noel Peterson	251,175
24	North Country Health Services	65.8	25.9	52.8	80.3	0.3	James Hanko (g)	251,310
25	Amherst H. Wilder Foundation	59.2	11.7	53.6	84.3	24.0	Thomas Kingston	217,748
26	Volunteers of America Care Facilities	62.2	6.7	62.3	100.2	0.7	Charles Gould	NA
27	Walker Methodist Inc.	56.3	4.3	57.2	101.6	0.3	Janet Emrich	253,399
28	Gillette Children's Specialty Healthcare	54.9	17.0	51.0	92.8	3.0	Margaret Perryman	366,369
29	Elim Care Inc.	53.2	1.2	52.4	98.4	0.0	Robert Dahl	NA
30	First Plan of Minnesota	50.1	47.0	48.4	96.5	0.0	Andrew Sotich	128,895
31	American Baptist Homes of the Midwest	49.5	10.0	53.7	108.3	6.3	Robert Kloiff	150,000
32	Lakeview Memorial Hospital Association	43.9	11.5	40.5	92.1	0.0	Jeffrey Robertson	232,424
33	Augustana Care Corp.	38.4	6.0	37.0	101.4	0.0	Timothy Tucker	216,639
34	Lake Region Healthcare Corp.	37.7	11.9	34.7	92.1	0.0	Edward Mehl	206,039
35	Regina Medical Center	33.7	10.8	31.1	92.2	0.6	Mark Weber	122,562
36	Winona Health	32.9	-19.8	30.0	91.1	0.3	Patrick Booth (h)	175,216
37	Itasca Medical Center	28.1	7.6	25.1	89.6	0.0	Steve Feldman	121,952
38	Sholom Community Alliance	26.8	6.1	27.4	102.1	0.0	Bruce Kahn	206,516
39	Fairmont Community Hospital Ass'n.	25.4	6.7	24.8	97.5	1.1	Gerry Gilbertson	174,786
40	Weiner Memorial Medical Center	24.8	12.0	21.8	87.9	0.6	Richard Slieter	124,522
41	St. Gabriel's Hospital	24.5	5.2	23.7	96.7	0.3	Carl Vaagenes (i)	NA
42	Northwest Medical Center	23.9	16.1	22.7	94.7	0.2	Richard Spyhalski	209,691
43	Accessible Space Inc.	23.9	2.9	23.6	98.7	23.3	S. Vander Schaaf	224,896
44	Lakewood Health System	23.4	29.2	23.1	98.5	0.1	Tim Rice	182,865
45	Memorial Blood Centers of Minnesota	23.0	31.4	23.0	99.9	1.1	Jerome Haarmann	211,500
46	Riverview Healthcare Association	21.7	0.6	20.8	96.1	0.6	Thomas Lenertz	141,233
47	St. Joseph's Area Health Services	19.9	8.0	19.0	95.6	2.8	Peter Jacobson (j)	173,736
48	St. Therese Home Inc.	15.8	8.2	18.9	95.2	0.4	Barbara Rode	94,993
49	Mpls. Medical Research Foundation	15.7	9.7	20.2	102.9	91	Paul Pentel (k)	NA
50	Roseau Area Hospital and Homes Inc.	19.1	13.8	18.0	94.6	0.1	David Hagen	139,824
51	Tri-County Hospital Inc.	18.5	21.5	17.5	94.4	0.9	Donna Miley	156,403
52	Queen of Peace Hospital	18.5	21.3	17.8	96.0	0.4	Sis. Jean Juenemann	126,926
53	Community Memorial Hospital Ass'n.	18.3	14.7	17.4	95.7	0.4	Rick Breuer	94,469
54	Upper Midwest Organ Procurement Organization Inc.	16.4	25.4	15.9	97.3	1.2	Susan Gunderson	211,210
55	Lyngblomsten Care Center Inc. 1	15.1	5.1	15.4	102.1	4.6	Paul Mikelson	126,920
56	St. Francis Medical Center 2	14.8	7.6	14.2	95.1	0.4	David Nelson	137,792
57	Jones-Harrison Residence	13.4	12.5	14.4	107.3	13.7	Sheryl Brekhus	140,263
58	Planned Parenthood of Minn./S.D.	12.4	6.4	14.5	117.3	42.6	Sarah Stoesz	99,330
59	Evercare	12.5	14.6	12.2	94.5	0.6	Helen Franqueur	203,097
60	Ely-Bloomenson Community Hospital & Nursing Home Corp.	12.3	6.3	11.3	91.8	2.6	Jack Hanson	102,038
61	University Affiliated Family Physicians-University of Minnesota 3	5.0	47.4	8.6	29.1	0.0	Carl Patow (l)	57,548

Notes:

** As of 6/30/02

1 Revenue for Lyngblomsten Care Center [illegible] 2001 was $15.5 million.

2 St. Francis Medical Center is a nonprofit subsidiary of Catholic Health Initiatives.

3 University Affiliated Family Physicians changed its fiscal year from December to June. Financial results represent only a half year.

(a) Banks' compensation [illegible] compensation of $1,875,585.

(b) Sprenger was president and CEO of Allina through [illegible] 2002 when he became a [illegible] employee.

(c) Halvorson [illegible] 2001 [illegible] Mary Brainerd [illegible] HealthPartners.

(d) [illegible]

(e) [illegible] $131,464.

(f) A portion of Donald Jacobs compensation is due to his work as a practicing physician.

(g) Compensated through North Country [illegible]

(h) [illegible]

(i) Succeeded [illegible]

(j) [illegible]

(k) [illegible]

(l) [illegible]

Definitions:

Revenue — includes program sales, fees and government contracts (such as Medicare payments), government grants, investment income, and charitable contributions.

1-year pct. chg. — Percentage change in revenue since prior fiscal year.

Expenses — includes costs for program services, management costs and fundraising costs.

Expense ratio — Expenses divided by revenue. Ratios over 100 percent indicate that expenses exceeded revenue.

Grants, gifts as pct. of rev. — Total gifts, government and foundation grants plus charitable donations divided by revenue.

Total comp. — includes salary, contributions to benefit plans and other allowances.

NA — Not available NM — Not meaningful

Social services

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Greater Twin Cities United Way	$87.8	NA	$91.7	104.5%	94.9%	James Colville	$278,520
2	Lutheran Social Service of Minnesota	61.21	3.0%	60.7	99.2	10.5	Mark Peterson	222,784
3	American Cancer Society Midwest Division Inc.	57.4	10.1	56.3	98.1	89.8	Ian Allen	217,653
4	Second Harvest Heartland	46.0	53.7	46.5	101.1	97.1	R. Jane Brown	87,059
5	Catholic Charities of the Diocese of St. Paul & Minneapolis 1	43.4	136.2	33.0	76.1	46.1	Fr. Larry Snyder	67,597
6	Minnesota Diversified Industries Inc.	39.0	28.1	39.2	100.5	0.7	Lloyd Brelford	249,780
7	YMCA of Metropolitan Minneapolis	38.2	5.7	37.4	97.8	15.4	Harold Mezile Jr.	255,653
8	Mpls. Federation for Jewish Service	32.7	51.2	19.1	58.5	90.6	Joshua Fogelson	199,634
9	Nexus	31.1	54.4	28.3	91.0	5.9	James D'Angelo	214,672
10	Courage Center	30.5	5.4	29.0	95.0	45.0	Eric Stevens	191,626
11	YMCA of Greater St. Paul	29.1	6.0	28.9	99.1	16.9	Tom Brisko	233,782
12	American Refugee Committee	28.7	31.1	28.2	98.2	80.1	Anthony Kozlowski	147,859
13	Salvation Army Twin Cities Program Fund	26.9	10.8	20.2	74.9	68.7	Jack Getz	70,403
14	Arrowhead Economic Opportunity Agency	26.9	27.0	26.3	98.0	74.2	Harlan Tardy	87,048
15	Ramsey Action Programs Inc.	26.8	27.8	27.3	101.8	91.6	Dale Anderson	73,983
16	Volunteers of America - Minnesota	25.5	28.1	26.5	104.2	88.5	Michael Weber	163,799
17	Children's Home Society of Minn. 1	22.5	138.6	18.2	80.6	39.9	Donna Walgren King	132,159
18	Mankato Rehabilitation Center Inc.	22.3	27.4	22.0	98.6	37.9	William Bickett	89,744
19	Anoka County Community Action Program Inc.	20.7	8.2	21.1	101.9	91.7	Patrick McFarland	81,810
20	Providers Choice	19.9	3.1	19.9	99.9	99.6	Gail Birch	121,571
21	Opportunity Partners Inc.	19.3	5.0	19.1	98.8	4.4	Jon Thompson	130,622
22	Catholic Charities of the Diocese of St. Cloud	18.2	2.7	18.4	101.1	32.3	Steven Bresnahan	105,255
23	Parents in Community Action Inc.	17.2	29.6	19.8	115.1	93.4	Alyce Dillon	142,038
24	Resource Inc.	17.0	19.0	17.1	101.0	78.5	Bob Berkle	123,984
25	Dakota Communities Inc.	15.6	4.3	14.0	89.8	2.3	Kathleen LeMay	117,645
26	Minnesota Valley Action Council Inc.	15.5	10.5	15.3	98.5	96.5	John Woodwick	71,464
27	Lifeworks Services Inc.	15.3	31.0	15.2	99.2	1.3	Judy Lysne	121,015
28	Goodwill Industries Inc./Easter Seals Minnesota	15.0	49.7	11.8	78.7	56.6	Michael Wirth-Davis	147,993
29	Professional Association of Treatment Homes (PATH)	14.7	24.3	14.5	98.3	1.1	Timothy Plant	120,351
30	Project for Pride in Living Inc.	12.7	23.0	11.6	91.3	37.2	Jim Scheibel	118,742
31	Community Action of Minneapolis **	12.0	23.3	12.0	100.0	86.9	William Davis	146,374
32	The Mission Inc.	6.1	33.2	6.2	102.0	100.0	Paul Anagnopoulos	39,603
33	Resources for Child Caring Inc.	5.0	30.6	4.2	82.9	29.0	Carol Rhode	77,839

** As of 9/30/02 ** As of 6/30/02 1 Previous year was a half year due to fiscal year change.

Education

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	University of St. Thomas	$197.8	-21.4%	$183.8	92.9%	11.8%	Rev. Dennis Dease	$126,831
2	Citizens' Scholarship Foundation of America Inc.	144.3	32.3	123.8	85.8	89.3	William Nelsen	162,566
3	Macalester College	86.2	29.4	75.5	87.5	20.1	Michael McPherson Jr.	314,970
4	St. Olaf College	83.2	19.0	74.7	89.8	22.1	Mark Edwards Jr. (a)	265,859
5	Gustavus Adolphus College	77.1	10.2	69.7	90.4	15.5	Axel Steuer	174,049
6	Bethel College & Seminary	70.4	7.0	68.2	97.0	10.4	George Brushaber	194,430
7	Concordia College Corp. ***	68.7	3.7	71.7	104.4	16.2	Rev. L. Thomson	231,068
8	Hamline University	62.8	2.3	60.9	96.9	21.6	Larry Osnes	273,227
9	College of St. Catherine	60.5	25.1	58.3	96.2	16.5	Andrea Lee, IHM (b)	6,117
10	St. Mary's University of Minnesota	56.2	18.9	46.3	82.3	24.9	Louis DeThomasis	170,066
11	College of St. Benedict	55.9	7.5	51.6	92.3	10.2	Mary Lyons	227,850
12	Augsburg College	51.5	1.0	52.0	101.0	16.4	William Frame	175,416
13	St. John's University **	42.8	8.9	50.6	118.3	25.4	Dietrich Reinhart (c)	NA
14	College of St. Scholastica	40.4	2.8	38.0	94.0	21.4	Larry Goodwin	173,168
15	Northwestern College	39.1	13.0	35.7	91.3	26.5	Alan Cureton	NA
16	Concordia University	33.8	20.9	28.0	83.0	25.1	Robert Holst	108,626
17	Blake School	29.7	23.3	24.9	83.9	35.5	John Gulla	310,640
18	Breck School	25.0	10.4	18.0	72.0	25.8	Samuel Salas	248,264
19	William Mitchell College of Law	20.2	4.5	19.7	97.2	9.7	Harry Haynsworth	252,894
20	Bethany Lutheran College & Seminary	20.1	14.8	13.2	65.6	59.3	Marvin Meyer	132,529
21	Northwestern Health Services University	19.3	3.5	19.6	101.7	6.0	Alfred Traina	180,000
22	Minneapolis College of Art and Design	17.9	10.4	16.2	90.5	15.6	John Slorp	211,220
23	St. Paul Academy and Summit School	17.5	6.0	18.6	106.7	16.5	Pamela Clarke	236,171
24	William Hood Dunwoody Industrial Institute	15.6	18.1	15.4	98.6	23.6	Frank Starke (d)	167,587
25	Minnehaha Academy	13.9	0.5	11.1	79.6	26.4	John B. Engstrom	116,900
26	North Central University	13.7	10.5	12.2	89.0	14.7	Gordon Anderson	108,460
27	Crown College	12.6	0.1	11.8	93.0	15.6	Gary Benedict	93,329
28	Carleton College	-39.4	117.8	96.3	NM	69.0	Stephen Lewis Jr.	296,304

Notes:

** As of 6/30/02 *** As of 4/30/02

(a) Mark Edwards resigned in September 2000. Christopher Thomforde was named president of St. Olaf's [illegible] April 2001.

(b) As a member of a religious order, Sister Andrea does not receive compensation directly.

(c) St. John's is not required to file a 990 and does not disclose compensation.

(d) Starke [illegible] He was succeeded by C. Ben Wright.

Arts & culture

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Guthrie Theater Foundation	$55.4	148.5%	$16.1	21.3%	79.5%	Joe Dowling	$415,302
2	Minnesota Public Radio Inc.	44.9	15.7	39.8	88.6	74.4	William Kling (a)	223,974
3	Minneapolis Society of Fine Arts	34.3	20.2	29.5	86.0	59.7	Evan Maurer	482,668
4	Science Museum of Minnesota	31.5	27.2	31.3	99.4	24.5	James Peterson	253,509
5	Minnesota Orchestral Association	30.0	2.6	31.4	104.8	40.2	David Hyslop	352,714
6	Twin Cities Public Television	27.1	24.9	24.4	89.9	81.7	Jim Pagliarini	214,532
7	Theatre Live	26.8	25.2	26.9	100.1	0.5	Fred Krohn	0
8	Public Radio International Inc.	26.0	6.7	26.0	100.3	44.1	Stephen Salyer	276,072
9	Walker Art Center	21.4	67.5	16.3	76.1	109.5	Kathy Halbreich	343,004
10	Ordway Center for the Performing Arts	40.1	35.9	16.9	105.6	23.4	Kevin McCollum	273,125
11	St. Paul Chamber Orchestra Society	13.1	4.5	10.2	77.7	77.6	Bruce Coppock	232,943

Notes:

(a) MPR's Kling gets additional compensation from American Public Media Group and the for-profit Greenspring. His total compensation from all sources is $486,730.

Other

Cat. rank	Organization	Revenue (mil.)	1-year pct. chg.	Expenses (mil.)	Expense ratio*	Grants gifts as pct. of rev.	Top officer	Total comp.
1	Billy Graham Evangelistic Ass'n. 1	196.7	23.1%	$101.3	104.5%	88.7%	Billy Graham	$207,147
2	Augsburg Fortress Publishers	52.0	4.0	59.3	113.9	0.0	Beth Lewis (a)	NA
3	American Academy of Neurology	19.0	3.9	16.6	87.4	12.4	Catherine Rydell	254,285
4	Pheasants Forever Inc.	18.3	19.0	17.5	95.5	51.5	Howard Vincent	140,210
5	Search Institute 2	6.7	9.5	6.4	95.6	0.0	Peter Benson (b)	201,875
6	Greater Minneapolis Convention & Visitors Association	8.0	17.5	7.9	96.7	64.5	Greg Ortale	186,917

Notes:

1 Billy Graham Evangelistic Association is in the process of moving its headquarters to Charlotte, N.C., from Minneapolis.

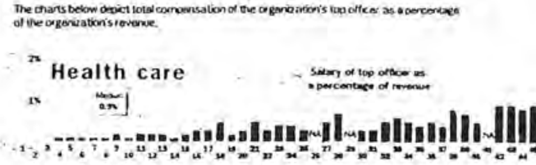
2 Search Institute's financials are from audited financial statements.

(a) Lewis' compensation is unavailable; as an affiliate of the ELCA, Augsburg Fortress is not required to file a 990 or disclose compensation.

(b) Benson's compensation includes $12,000 held in a deferred account that is not guaranteed.

Comparing compensation and revenue

The charts below depict total compensation of the organization's top officer as a percentage of the organization's revenue.



Rank '01	Rank '00	Organization
1	1	M
2	2	Bl
3	3	Al
4	4	He
5	5	Fa
6		M
7	6	Pa
8	8	He
9	7	St
10	10	Ui
11	9	Ha
12	11	Ce
13	12	Ch
14	14	Gr
15	13	Un
16	19	Ch
17	17	St
18	21	Au
19	22	Ma
20	16	Bi
21	23	Al
22	27	Pr
23		Gu
24	18	Be
25	20	St
26	24	Co
27	31	Be
28	29	Ha
29	26	Mi
30	30	Ba
31	28	Co
32	32	Ot
33	39	He
34	40	An
35	34	Na
36	37	Vo
37	43	Lu
38	25	Co
39	46	Am
40	44	Wh
41	49	St.
42	48	Co
43	50	Gl
44	45	Eb
45	41	Am
46	47	Aq
47	88	Gu
48	61	Fn
49	51	Am
50	67	So
51	56	Mi
52	54	Lul
53		Ca
54	36	St.
55	55	Col
56	60	Na
57	42	Mi
58	58	Aq
59	59	YM
60	62	Lak
61	52	Mi
62	69	Cou
63	64	Reg
64	53	Wh
65	84	Mi
66	72	Science
67	90	Nelson, M
68	66	Courage
69	63	Minnesota
70	57	Elisha Sch
71	70	YMCA of
72	81	American
73	71	Itasca Me
74	82	Twin Citie
75	76	Salvation
76	86	Arrowhea
77	85	Theatre Li
78	68	Sholom C
79	87	Ramsey A
80	75	Public Rac
81	91	Volunteer
82	77	Fairmont
83	79	Breck Sch
84	80	Weiner Me
85	78	St. Gabriel
86	89	Northwest
87	74	Accessible
88		Lakewood
89		Memorial
90		Children's
91		Mankato F
92	92	Riverview
93	44	Walker Art
94		Anoka Cou
95	95	William M
96		Bethany L
97	96	Providers
98	100	St. Joseph
99		St. Therese
100		Minneapol

Notes:

1 Mayo financials are con[illegible] that include the Mayo F[illegible] Mary's Hospital, and Ro[illegible] Hospital.

2 Blue Cross and Blue Sh[illegible] not income for the yea[illegible] and paid more than $47[illegible] various taxes in 2001.

3 Allina Health System, d[illegible] Allina Hospitals and Clin[illegible] prior-year financials to m[illegible] size of Allina Hospitals a[illegible]

4 Fairview Health Servic[illegible] revenue to expenses ra[illegible] operating income from t[illegible] audited consolidated fin[illegible]

5 St. Mary's/Duluth Clinic[illegible] sults are from consolid[illegible] ports.

6 North Memorial's result[illegible] financial statements.

7 CentraCare financial re[illegible] consolidated financial st[illegible]

8 Benedictine Health Syst[illegible] from audited consolidat[illegible] statements.

9 Part of St. Thomas' total [illegible] from operation activities, [illegible] capital gains on endowm[illegible] and permanently restrict[illegible]

10 Presbyterian Homes figu[illegible] consolidated financial st[illegible]

11 United Way numbers are [illegible] nation of separate, parti[illegible] reflects 12 months of fis[illegible] United Way of Greater M[illegible] United Way of St. Paul Ar[illegible]

12 American Cancer Society [illegible] Division Inc. results are f[illegible] financial statements.

THE CHRONICLE OF PHILANTHROPY
MANAGING

From the issue dated September 29, 2005

Executive Compensation Survey

⊕ Show search options Comp Hospitals + Medical Centers

View Other Years: 2005 | **2004** | 2003 | 2002 | 2001

<< start | < previous | **1 - 30** of **30** listings (Show all) | next > | end >>

Official	Compensation	Organization	Organization income	Category	Fiscal year end
Saleh Shenaq, Professor and Chief, Division of Plastic Surgery	$2,486,767	Baylor College of Medicine* (Houston)	$949,033,942	Hospitals and Medical Centers	6/30/2003
Michael A. Berman, Hospital Director	$1,959,443	NewYork-Presbyterian Hospital*	$2,063,319,948	Hospitals and Medical Centers	12/31/2002
Delos Cosgrove, Chairman, Department of Thoracic and Cardiovascular Surgery	$1,753,245	Cleveland Clinic Foundation*	$3,044,230,282	Hospitals and Medical Centers	12/31/2002
Harold Varmus, President	$1,693,710	Memorial Sloan-Kettering Cancer Center* (New York)	$1,391,689,000	Hospitals and Medical Centers	12/31/2003
Floyd D. Loop, Chief Executive Officer	$1,682,829	Cleveland Clinic Foundation*	$3,044,230,282	Hospitals and Medical Centers	12/31/2002
Murray F. Brennan, Chairman and Attending, Department of Surgery	$1,498,797	Memorial Sloan-Kettering Cancer Center* (New York)	$1,391,689,000	Hospitals and Medical Centers	12/31/2003
Herbert Pardes, President	$1,260,348	NewYork-Presbyterian Hospital*	$2,063,319,948	Hospitals and Medical Centers	12/31/2002
Peter G. Traber, President	$1,230,769	Baylor College of Medicine* (Houston)	$949,033,942	Hospitals and Medical Centers	6/30/2003
Robert Wertheim, Senior		Mount Sinai Medical		Hospitals and	

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Pay Raises for Charity Leaders Keep Pace With Inflation (9/29/2005)

How the Chronicle Conducted Its Annual Survey of Pay at Big Nonprofit Groups (9/29/2005)

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Bonuses Earned by Top Executives in 2004 (9/29/2005)

Groups That Reported $100,000 or More in Fringe Benefits for Top Executives (9/29/2005)

2004 Survey

Vice President, Business Development	$997,392	Center* (New York)	$950,421,376	Medical Centers	12/31/2002
James Mandell, Chief Executive Officer	$823,680	Children's Hospital Boston*	$785,476,768	Hospitals and Medical Centers	9/30/2002
James Herndon, Chairman, Partners Department of Orthopaedic Surgery	$731,512	Partners HealthCare System* (Boston)	$4,561,190,000	Hospitals and Medical Centers	9/30/2003
Edward Benz Jr., President	$677,056	Dana-Farber Cancer Institute (Boston)	$328,413,883	Hospitals and Medical Centers	9/30/2002
Michael B. Wood, Vice President	$654,669	Mayo Foundation* (Rochester, Minn.)	$4,860,100,000	Hospitals and Medical Centers	12/31/2003
Sandra Fenwick, Chief Operating Officer	$599,040	Children's Hospital Boston*	$785,476,768	Hospitals and Medical Centers	9/30/2002
James M. Anderson, Chief Executive Officer	$592,580	Children's Hospital Medical Center (Cincinnati)	$876,483,377	Hospitals and Medical Centers	6/30/2003
Denis H. Cortese, President	$563,296	Mayo Foundation* (Rochester, Minn.)	$4,860,100,000	Hospitals and Medical Centers	12/31/2003
Twee Do, Assistant Professor, Pediatric Orthopaedics	$562,820	Children's Hospital Medical Center (Cincinnati)	$876,483,377	Hospitals and Medical Centers	6/30/2003
James J. Mongan, Chief Executive Officer	$537,500	Partners HealthCare System* (Boston)	$4,561,190,000	Hospitals and Medical Centers	9/30/2003
Lee M. Nadler, Senior Vice President, Experimental Medicine	$531,785	Dana-Farber Cancer Institute (Boston)	$328,413,883	Hospitals and Medical Centers	9/30/2002
Larry E. Kun, Chairman, Radiation Oncology	$459,887	American Lebanese Syrian Associated Charities/St. Jude Children's Research Hospital (Memphis)	$450,835,000	Hospitals and Medical Centers	6/30/2003

Theodore Krontiris, Executive Vice President, Medical and Scientific Affairs	$455,384	City of Hope* (Duarte, Calif.)	$411,579,849	Hospitals and Medical Centers	9/30/2003
Kenneth I. Berns, Chief Executive Officer	$454,072	Mount Sinai Medical Center* (New York)	$950,421,376	Hospitals and Medical Centers	12/31/2002
Donna W. Hyland, Chief Financial Officer	$409,000	Children's Healthcare of Atlanta Foundation*	$25,510,487	Hospitals and Medical Centers	12/31/2002
Richard C. Shadyac, National Executive Director	$384,371	American Lebanese Syrian Associated Charities/St. Jude Children's Research Hospital (Memphis)	$450,835,000	Hospitals and Medical Centers	6/30/2003
Peter F. Armstrong, Headquarters Director	$377,759	Shriners Hospitals for Children* (Tampa, Fla.)	$1,309,338,000	Hospitals and Medical Centers	12/31/2003
Eugene A. Hayes III, President, Foundation	$250,131	Children's Healthcare of Atlanta Foundation*	$25,510,487	Hospitals and Medical Centers	12/31/2002
Lewis K. Molnar, Chief Operating Officer	$247,552	Shriners Hospitals for Children* (Tampa, Fla.)	$1,309,338,000	Hospitals and Medical Centers	12/31/2003
Jonathan M. Ulsh, President, Oregon Health & Science University Foundation	$234,831	Oregon Health & Science University* (Portland)	$30,708,412	Hospitals and Medical Centers	6/30/2003
Michael Friedman, Chief Executive Officer	$198,077	City of Hope* (Duarte, Calif.)	$411,579,849	Hospitals and Medical Centers	9/30/2003
Barbara Mahoney, Senior Vice President of Development	$151,122	Oregon Health & Science University* (Portland)	$30,708,412	Hospitals and Medical Centers	6/30/2003

* **An asterisk** indicates that there is a footnote related to the data, which can be viewed by clicking on the organization name.

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SOME TIPS ON SEARCHING

THE CHRONICLE OF PHILANTHROPY
MANAGING

From the issue dated September 29, 2005

Executive Compensation Survey

Heath Charities

⊕ Show search options

View Other Years: 2005 | **2004** | 2003 | 2002 | 2001

<< start | < previous | **1 - 25** of **38** listings (Show all) | next > | end >>

Official	Compensation	Organization	Organization income	Category	Fiscal year end
John H. Graham IV, Chief Executive Officer	$603,950	American Diabetes Association* (Alexandria, Va.)	$191,492,540	Health Charities	6/30/2003
Peter Van Etten, Chief Executive Officer	$483,000	Juvenile Diabetes Research Foundation International* (New York)	$136,741,145	Health Charities	6/30/2003
Robert J. Beall, Chief Executive Officer	$465,107	Cystic Fibrosis Foundation* (Bethesda, Md.)	$152,231,009	Health Charities	12/31/2003
John R. Seffrin, Chief Executive Officer	$465,000	American Cancer Society* (Atlanta)	$857,495,000	Health Charities	8/31/2003
Jennifer Howse, President	$443,263	March of Dimes Birth Defects Foundation* (White Plains, N.Y.)	$207,586,912	Health Charities	12/31/2003
James E. Williams Jr., President	$388,600	Easter Seals* (Chicago)	$698,932,800	Health Charities	8/31/2003
M. Cass Wheeler, Chief Executive Officer	$381,165	American Heart Association* (Dallas)	$503,037,949	Health Charities	6/30/2003
Harmon J. Eyre, Chief Medical Officer	$372,000	American Cancer Society* (Atlanta)	$857,495,000	Health Charities	8/31/2003
Robert Ross, President	$365,000	Muscular Dystrophy Association* (Tucson)	$193,138,702	Health Charities	3/31/2004
Michael Weamer, Executive Vice		American Heart Association*		Health	

Related Articles

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2004 Survey

President, Heritage Affiliate	$364,730	(Dallas)	$503,037,949	Charities	6/30/2003
Gloria A. Feldt, President	$363,426	Planned Parenthood Federation of America* (New York)	$766,600,000	Health Charities	6/30/2003
Robert Goldstein, Vice President of Research	$347,300	Juvenile Diabetes Research Foundation International* (New York)	$136,741,145	Health Charities	6/30/2003
C. Richard Mattingly, Executive Vice President	$337,402	Cystic Fibrosis Foundation* (Bethesda, Md.)	$152,231,009	Health Charities	12/31/2003
Marilyn Gentry, President	$337,307	American Institute for Cancer Research* (Washington)	$33,085,389	Health Charities	9/30/2003
Caroline Stevens, Chief Operating Officer	$335,851	American Diabetes Association* (Alexandria, Va.)	$191,492,540	Health Charities	6/30/2003
John Davis, Chief Executive Officer	$329,164	National Kidney Foundation* (New York)	$56,639,742	Health Charities	6/30/2003
Michael J. Dugan, President	$307,115	National Multiple Sclerosis Society* (New York)	$168,270,558	Health Charities	9/30/2003
Michael Faenza, Chief Executive Officer	$306,727	National Mental Health Association* (Alexandria, Va.)	$148,760,320	Health Charities	12/31/2003
Dwayne Howell, President	$296,156	Leukemia & Lymphoma Society* (White Plains, N.Y.)	$163,156,931	Health Charities	6/30/2003
Donald E. Jackson, Chief Operating Officer	$294,200	Easter Seals* (Chicago)	$698,932,800	Health Charities	8/31/2003
Gerald Weinberg, Director, Field Organization	$290,000	Muscular Dystrophy Association* (Tucson)	$193,138,702	Health Charities	3/31/2004
John L. Kirkwood, Chief Executive Officer	$283,880	American Lung Association* (New York)	$164,616,000	Health Charities	6/30/2003
Jane E. Massey, Executive Vice	$280,184	March of Dimes Birth Defects Foundation*	$207,586,912	Health	12/31/2003

President		(White Plains, N.Y.)		Charities	
Joseph Bergen, Chief Operating Officer	$234,706	American Lung Association* (New York)	$164,616,000	Health Charities	6/30/2003
Kelly B. Browning, Executive Vice President	$234,634	American Institute for Cancer Research* (Washington)	$33,085,389	Health Charities	9/30/2003

* **An asterisk** indicates that there is a footnote related to the data, which can be viewed by clicking on the organization name.

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SOME TIPS ON SEARCHING

You may enter words or phrases that you want to find in the keyword search box. This query will look for the exact word(s) within the following fields in this database:

- Names of organizations
- Cities
- States
- Categories

Unlike some search engines, this one does not accommodate Boolean terms to search for words in separate categories. For example, if you enter the search string "California and arts" in the keyword box, the search engine will not produce a list of arts organizations in California.

http://www.philanthropy.com/premium/articles/v17/i24/24005401.htm

How the Chronicle Conducted Its Annual Survey of Pay at Big Nonprofit Groups

By Leah Kerkman

The Chronicle's 13th annual salary survey examines what the nation's largest nonprofit organizations pay their top officials. This year's survey gathered data from 313 charities and foundations.

The organizations asked to participate in the survey are those that ranked highest in their categories on the 2004 Philanthropy 400, *The Chronicle*'s annual list of the charities that raise the most money from private sources.

Several charities that were not included on last year's Philanthropy 400 were also asked to provide information because, in some categories, only a handful of organizations raised enough to make the list.

For example, only 12 environmental and animal-welfare groups were large enough for inclusion on last year's Philanthropy 400, while 15 such groups were included in this year's salary survey. Charities added to this year's compensation survey were those that raised the next-highest amounts after those included in the 400 list.

In addition, *The Chronicle* requested compensation figures for the 50 wealthiest private foundations as determined by *The Chronicle*'s annual survey of grant makers. The 20 wealthiest operating foundations according to the records of the Foundation Center, in New York, and the 15 community foundations that raised the most last year according to rankings by the Columbus Foundation, in Ohio, were also asked to participate in this year's salary survey.

Officials at all of the nonprofit organizations were asked to fill out a survey and provide supporting information from their Forms 990 or, for operating and private foundations, Forms 990-PF, informational tax returns that charities and foundations are required to file with the Internal Revenue Service each year.

Nonprofit organizations are required to tell the IRS about the compensation provided to their directors, trustees, and key officials and their five highest-paid officials.

The organizations in the survey were asked to provide information for the 2004 fiscal year -- or, if their fiscal years ended in January, February, or March, for 2005.

Some 201 organizations provided breakdowns for compensation, benefits, and expenses for top officials or verified information *The Chronicle* culled from the organizations' informational tax returns. The remaining organizations simply provided their annual tax returns to *The Chronicle*.

Top Officials

The survey sought information about each organization's chief executive and the employee other than the chief executive whose compensation was the highest. *The Chronicle* also asked organizations to provide information about the employee whose regular compensation was the highest at the organization, and not inflated by a one-time payment, such as a severance or pension payout.

Seventy-seven organizations in the survey received permission from the Internal Revenue Service to delay filing their informational tax returns for the 2004 or 2005 fiscal year.

However, 38 of those organizations provided their most current compensation information. Figures provided for the other 39 groups were based on either 2003 or 2004 data.

To determine the highest paid official other than the top executive at the organizations surveyed, *The Chronicle* added together compensation, benefits, and expenses figures to decide whose entire compensation package was worth the most.

Reporting Requirements

Three religious groups -- the Catholic Foreign Mission Society of America (Maryknoll Fathers and Brothers), St. Labre Indian School, and Wesleyan Church -- declined to provide information. Religious organizations do not have to file informational returns with the IRS, but seven religious organizations did provide compensation data for the *Chronicle* survey.

The survey form asked for breakdowns of the financial data reported on the Form 990. The breakdowns show how charities report deferred compensation, pensions, housing allowances, and other payments to top officials. *The Chronicle*'s tables show the breakdowns of bonuses, deferred compensation, housing allowances, and other payments when that information was provided by organizations. Some organizations provide these details on their informational returns, but they are not required to do so.

Readers of the survey should take care when comparing one organization's reported compensation totals to others included in the survey.

Reporting standards set forth by the IRS require organizations to report all take-home pay in a fiscal year. Sometimes this includes significant retirement payouts for executives or relocation payments for new executives. Also, the IRS requires organizations to report the value of retirement or severance packages, even if the sums have not been paid in that fiscal year.

Small Groups

Although the salary survey shows what many top nonprofit officials earn, it does not necessarily include all of the highest earners. Some smaller, less-wealthy nonprofit groups that were not included in the survey may pay their executives more money. Some large organizations were not included on the Philanthropy 400 because they raise little from private sources.

Some organizations had just one employee who was paid a salary; one group had more than one employee who made the same salary.

The Horace W. Goldsmith Foundation listed five officials, rather than two, because the five top executives all have the same title and make the same salary.

Four organizations -- the American-Nicaraguan Foundation, Campus Crusade for Christ International, the Michael and Susan Dell Foundation, and Lutheran Services in America -- did not provide the salary for a second executive other than the director.

The Chronicle's salary survey was compiled by Leah Kerkman and Cassie J. Moore, with assistance from Maria Di Mento.

- What is the projected value of my retirement benefits at age 60 retirement?

The following totals include both employee and employer dollars, using current contribution levels.

BASIC RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 60 Retirement	Projected Pre-Tax Annuity at Age 60 Retirement
Pension Equity Plan	$75,000	$6,355
401(k) Plan Contributions	$250,000	$21,200
Social Security	$618,883*	$54,288
Total Basic Retirement Benefit Contributions	**$943,883**	**$81,843**

EXECUTIVE AND EXECU-FLEX RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 60 Retirement	Projected Pre-Tax Annuity at Age 60 Retirement
Executive Deferred Compensation	$500,000	$42,400
Supplemental Retirement Plan	$300,000	$26,300
Designated Supplemental Survivor Benefit	$500,000	$42,372
Capital Accumulation Account	$200,000	$16,950
Total Executive and Execu-FLEX Retirement Benefits	**$1,500,000**	**$128,022**

Social Security not available as a lump sum.

Assumptions used for retirement benefit projections:

- You will have 9.00 years of service at age 60 retirement
- 5% compensation scale
- 3% CPI increases
- Qualified Plan, SRP, 401(k), and Deferred Compensation are based on total cash compensation
  - 40% annual short-term incentive payment
  - Long-term incentives are not included
- Qualified Pension Plan SEP credits go back to year of hire based on current formula
- 401(k) and Deferred Compensation figures include both employer and employee contributions
- 9.0% net earnings on 401(k), Deferred Compensation, Supplemental Survivor, Profit Sharing, and Capital Accumulation Account
- You currently contribute 6% to the 401(k) up to the salary cap and 6% over the salary cap to the Deferred Compensation Plan
- 401(k) plan (2000) equal to 21.7% match up to 6% of compensation
- Capital Accumulation Account is based on a constant Flexible Benefit Allowance and constant FLEX Allowance charges, except TVMs
- Supplemental Survivor is cashed out after the normal 15-year rollout
- GAM 83 tables used for lump sum/annuity conversions

- What is the projected value of my retirement benefits at age 62 retirement?

The following totals include both employee and employer dollars, using current contribution levels.

BASIC RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 62 Retirement	Projected Pre-Tax Annuity at Age 62 Retirement
Pension Equity Plan	$81,800	$7,200
401(k) Plan Contributions	$272,500	$23,900
Social Security	$618,883*	$54,288
Total Basic Retirement Benefit Contributions	**$973,183**	**$85,388**

EXECUTIVE AND EXECU-FLEX RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 62 Retirement	Projected Pre-Tax Annuity at Age 62 Retirement
Executive Deferred Compensation	$800,000	$77,226
Supplemental Retirement Plan	$545,000	$47,810
Designated Supplemental Survivor Benefit	$1,090,000	$95,600
Capital Accumulation Account	$419,000	$33,900
Total Executive and Execu-FLEX Retirement Benefits	**$2,881,000**	**$254,536**

*Social Security not available as a lump sum.

Assumptions used for retirement benefit projections:

- You will have 11.00 years of service at age 62 retirement
- 5% compensation scale
- 3% CPI increases
- Qualified Plan, SRP, 401(k), and Deferred Compensation are based on total cash compensation
    - 40% annual short-term incentive payment
    - Long-term incentives are not included
- Qualified Pension Plan SEP credits go back to year of hire based on current formula
- 401(k) and Deferred Compensation figures include both employer and employee contributions
- 9.0% net earnings on 401(k), Deferred Compensation, Supplemental Survivor, Profit Sharing, and Capital Accumulation Account
- You currently contribute 6% to the 401(k) up to the salary cap and 6% over the salary cap to the Deferred Compensation Plan
- 401(k) plan (2000) equal to 21.7% match up to 6% of compensation
- Capital Accumulation Account is based on a constant Flexible Benefit Allowance and constant FLEX Allowance charges, except TVMs
- Supplemental Survivor is cashed out after the normal 15-year rollout
- GAM 83 tables used for lump sum/annuity conversions

- What is the projected value of my retirement benefits at age 65 retirement?

The following totals include both employee and employer dollars, using current contribution levels.

BASIC RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 65 Retirement	Projected Pre-Tax Annuity at Age 65 Retirement
Pension Equity Plan	$95,000	$8,962
401(k) Plan Contributions	$350,000	$33,019
Social Security	$783,900*	$73,956
Total Basic Retirement Benefit Contributions	**$1,228,900**	**$115,937**

EXECUTIVE AND EXECU-FLEX RETIREMENT BENEFITS		
BENEFIT	Projected Lump Sum Value at Age 65 Retirement	Projected Pre-Tax Annuity at Age 65 Retirement
Executive Deferred Compensation	$1,240,500	$115,839
Supplemental Retirement Plan	$817,500	$71,715
Designated Supplemental Survivor Benefit	$1,635,000	$143,400
Capital Accumulation Account	$674,710	$59,187
Total Executive and Execu-FLEX Retirement Benefits	**$4,367,710**	**$390,141**

Social Security not available as a lump sum.

Assumptions used for retirement benefit projections:

- You will have 14.00 years of service at age 65 retirement
- 5% compensation scale
- 3% CPI increases
- Qualified Plan, SRP, 401(k), and Deferred Compensation are based on total cash compensation
  - 40% annual short-term incentive payment
  - Long-term incentives are not included
- Qualified Pension Plan SEP credits go back to year of hire based on current formula
- 401(k) and Deferred Compensation figures include both employer and employee contributions
- 9.0% net earnings on 401(k), Deferred Compensation, Supplemental Survivor, Profit Sharing, and Capital Accumulation Account
- You currently contribute 6% to the 401(k) up to the salary cap and 6% over the salary cap to the Deferred Compensation Plan
- 401(k) plan (2000) equal to 21.7% match up to 6% of compensation
- Capital Accumulation Account is based on a constant Flexible Benefit Allowance and constant FLEX Allowance charges, except TVMs
- Supplemental Survivor is cashed out after the normal 15-year rollout
- GAM 83 tables used for lump sum/annuity conversions

Severance Payouts for BCBSM Executives

SVP Chief Information Officer, terminated 4/30/04.	**Amount**
Severance payments: 78 weeks @ $5,846.15 per week	$ 456,000
Outplacement services at Drake, Beam & Morin	21,250
COBRA Benefits paid during severance period until Ounjian is reemployed	6,853
Relocation payment	25,000
Pension Equity Plan, qualified (approx.)	168,485
Supplemental Retirement Plan,non-qualified (approx.)	186,045
Deferred Compensation Plan, non-qualified	142,252
Final 2003-2005 long-term incentive award, payable after 3/10/06	NA
Total Severance Payout	**$1,005,885**

VP Community & Commercial Accounts, terminated 2/11/04.	**Amount**
Severance payments: 52 weeks @ $ 3,769.23 per week	$ 196,000
Pension Equity Plan, qualified (approx.)	129,637
Supplemental Retirement Plan, non-qualified (approx.)	25,927
Deferred Compensation Plan, non-qualified	80,216
COBRA Benefits paid during severance period until Youso is reemployed	9,974
Final 2003-2005 long-term incentive award, payable after 3/10/06	NA
Total Severance Payout	**$ 441,754**

VP Portfolio Cos./Pres. CMC, CDMI & Atrium, terminated 6/30/04.	**Amount**
Severance payments: 52 weeks @ $ 3,557.69 per week	$ 185,000
Outplacement services	10,000
Pension Equity Plan, qualified (approx.)	130,424
Supplemental Retirement Plan,non-qualified (approx.)	30,192
Deferred Compensation Plan, non-qualified	96,068
COBRA Benefits paid during severance period until Larson is reemployed	NA
Final 2003-2005 long-term incentive award, payable after 3/10/06	NA
Total Severance Payout	**$ 451,684**

AG: #1543301-v1

Incumbents	2003 Base	2004 Market Base	2004 Market Annual	2004 Market LTI	2004 Target TCC	2004 Target TDC	2004 Base	Merit/Adj for 2004	Percent Midpt	2004 BCBSM Midpt	Annual %	Annual $	LTI %	LTI $	TCC Target	TDC Target	TCC Comp Ratio	TDC Comp Ratio	Flex Benefit 2004
Reitan	377	427	50%	37%	641	798	400	6.1%	94	427	50.0%	200	40%	160	600	760	94%	95%	$22,000
Morrow	224	361	40%	37%	505	639	300	33.9%	83	361	45.0%	135	40%	120	435	555	86%	87%	$16,500
Neuner	300	344	40%	39%	482	616	320	6.7%	93	344	45.0%	144	40%	128	464	592	96%	96%	$17,600
Niemiec	341	329	40%	37%	461	582	346	1.5%	105	329	45.0%	156	40%	138	502	640	109%	110%	$19,030
Ounjian	300	304	40%	34%	426	529	304	1.3%	100	304	45.0%	137	40%	122	441	562	104%	106%	$16,720
Peterson	321	371	45%	42%	538	694	335	4.4%	90	371	45.0%	151	40%	134	486	620	90%	89%	$18,425
Gold	305	318	40%	32%	445	547	312	2.3%	98	318	45.0%	140	40%	125	452	577	102%	106%	$17,160
Nelson	255	248	40%	35%	347	434	260	2.0%	105	248	40.0%	104	35%	91	364	455	105%	105%	$14,300
Kleppe	245	263	40%	27%	368	439	253	3.3%	96	263	40.0%	101	30%	76	354	430	96%	98%	$13,915
Aasland	183	193	30%	30%	251	309	186	1.6%	96	193	35.0%	65	30%	56	251	307	100%	99%	$10,230
Larson	185	193	30%	30%	251	309	185	0.0%	96	193	35.0%	65	30%	56	250	305	100%	99%	$10,175
Flygare	247	205	33%	27%	273	328	247	0.0%	120	205	35.0%	86	30%	74	333	408	122%	124%	$13,585
Lysen	201	210	33%	32%	279	347	210	4.5%	100	210	35.0%	74	30%	63	284	347	102%	100%	$11,550
Bjorum	184	200	33%	32%	266	330	190	3.3%	95	200	35.0%	67	30%	57	257	314	96%	95%	$10,450
Stevens	184	193	30%	30%	251	309	193	4.9%	100	193	35.0%	68	30%	58	261	318	104%	103%	$10,615
Youso	192	207	36%	26%	282	335	196	2.1%	95	207	35.0%	69	30%	59	265	323	94%	96%	$10,780
Mills	192	190	35%	30%	257	314	195	1.6%	103	190	35.0%	68	30%	59	263	322	103%	103%	$10,725
Madson	198	186	30%	25%	242	288	198	0.0%	106	186	30.0%	59	25%	50	257	307	106%	106%	$10,890
Stump	168	183	30%	25%	238	284	180	7.1%	98	183	30.0%	54	25%	45	234	279	98%	98%	$9,900
McKenna	207	211	30%	4%	274	283	212	2.4%	100	211	35.0%	74	0%	0	286	286	104%	101%	$11,660
Gillispie	154	186	30%	0%	242	242	162	5.2%	87	186	30.0%	49	0%	0	211	211	87%	87%	$8,910
Heymans	142	160	33%	0%	213	213	145	2.1%	91	160	30.0%	44	0%	0	189	189	89%	89%	$7,975
Mock	180	182	30%	0%	237	237	186	3.3%	102	182	30.0%	56	0%	0	242	242	102%	102%	$10,230
Schultz	178	185	30%	0%	241	241	182	2.2%	98	185	30.0%	55	0%	0	237	237	98%	98%	$10,010
Clark	164	189	30%	0%	246	246	172	4.9%	91	189	30.0%	52	0%	0	224	224	91%	91%	$9,460
Dickson	173	186	30%	0%	242	242	180	4.0%	97	186	30.0%	54	0%	0	234	234	97%	97%	$9,900
Lien	168	189	30%	0%	246	246	184	9.5%	97	189	30.0%	55	0%	0	239	239	97%	97%	$10,120
Richards	218	206	28%	0%	264	264	218	0.0%	106	206	30.0%	65	0%	0	283	283	107%	107%	$11,990
Fruetel	168	151	30%	0%	196	196	168	0.0%	111	151	30.0%	50	0%	0	218	218	111%	111%	$9,240
Shaw	148	167	30%	0%	217	217	157	6.1%	94	167	30.0%	47	0%	0	204	204	94%	94%	$8,635
subtotal	6502	6937	34.2%	32.2%	9417	11055	6776	4.2%	97.7	6937	35.8%	2542	33.4%	1669	9318	10987	99%	99%	$374,684

Notes:

Base Salary: 1=Data from 2003 WWDS survey, all orgs, $6.0 billion revenue scope, aged to 1/1/04 at 3.2% annual inflation rate. 2= Data from 2003 market medians plus 2.6% structure movement.

Annual Incentive: Date from 2003 WWDS survey, all orgs, median. Long-Term Incentive: Data from 2002 Watson Wyatt custom report dated Oct 16, 2002 for top 10 positions, others from 2002 WWDS survey.

Reitan: +5% increase in annual incentive. **Morrow:** +15% increase in annual incentive and +10% increase in long-term incentive. **Neuner:** +5% increase in annual incentive. **Nelson:** +5% increase in annual incentive.

Kleppe: 5% increase in annual incentive, **Madson:** -5% reduction in long-term,

Incentive Opportunity Increase

Incentive Opportunity Decrease

BCBSM-36876 **CONFIDENTIAL**

Review and Approve Elimination of Auto Allowance and Auto Insurance Program

Mr. Kleppe presented recommendations to eliminate the auto insurance program, eliminate the auto allowance program as a perquisite and replace with a three tiered program based on the number of business miles driven each year, and convert the existing auto allowance monthly benefit to base salary. Mr. Kleppe reviewed the cost impact to accomplish the recommendations and stated that moving the auto allowance expenses to salary will result in an aggregate compa-ratio of 91.6%, which is below the target compa-ratio of 94-95% as established in the Executive Compensation Philosophy statement. Mr. Kleppe reviewed the components of the Executive Benefit Package, which the Committee had reviewed and approved at the December 4, 2001, Human Resources Committee meeting. Upon motion, seconded and carried, it was

> RESOLVED, that the Car Allowance/Car Insurance program for officers be replaced with a new Car Allowance Program that is mileage based and that the existing monthly car allowance amount be converted to base salary. Effective June 1, 2002, be and hereby are, approved.

Adjournment

Mr. Lettmann adjourned the meeting at 5:30 p.m.

John Lettmann

John Lettmann Chair

Health Insurance/Managed Care Industry

Executive Compensation Survey

Survey Report

2001

Data in effect April 1, 2001

Watson Wyatt
Data Services
218 Route 17 North
Rochelle Park, NJ 07662
(201) 843-1177
www.wwdssurveys.com

BCBSM-36575

Watson Wyatt
Worldwide

Participants

Aetna

BC/BS of Alabama

BC/BS of Florida

BC/BS of Massachusetts

BC/BS of Michigan

BC/BS of Minnesota

BC/BS of North Carolina

Blue Shield of California

CareFirst BC/BS

CIGNA Health Care

Hawaii Medical Service Association

Health Care Service Corporation

Health Partners

HighMark

Horizon BC/BS of New Jersey

Independence BC/BS

Kaiser Foundation Health Plan

Oxford Health Plans

The Regence Group

Sierra Health Services

Trigon Healthcare

Tufts Health Plan

Wellmark

Wellpoint

BCBSM- 36578

BCBSM Consultant Expenditures 2000-2005

YEAR	AMOUNT BCBSM SPENT ON WATSON WYATT & COMPANY SERVICES
2000	$ 444,789.00 (BCBSM - 73205)
2001	$ 269,364.00 (BCBSM - 59746)
2002	$ 384,297.43 (BCBSM - 58728)
2003	$ 458,887.00 (BCBSM - 59711)
2004	$ 353,969.00 (BCBSM - 59694)
2005	$ 222,642.00 (BCBSM - 140604)
TOTAL	$2,133,948.43

AG: #1580788-v1

BCBSM 144130

BCBSM's Response to Request No. 164

Name	2000	2001	2002	2003	2004	2005
Alliance Inc (Architectural Alliance)	$ 1,237,422.22	$ 624,962.03	$ 674,365.74	$ 1,499,302.95	$ 365,294.92	$ 716,518.05
Towers Perrin	$ 208,161.00	$ 72,019.00	$ 65,942.00	$ 19,684.00	$ -	$ 208,406.00
Clark/Bardes Consulting*	$ -	$ 24,378.76	$ 35,296.08	$ 8,498.00	$ 12,024.00	$ 12,229.00
HealthCare Compensation Strategies	$ 89,638.93	$ 7,812.38	$ -	$ -	$ -	$ -

*Reported as HealthCare Compensation Strategies in Responses to Requests No. 15 and 31
Healthcare Compensation Strategies was a division of Clark Bardes
In 2005, company is now under Clark Consulting Healthcare Group

RESTATED BYLAWS OF BCBSM, INC.

ARTICLE I.
Members

1. Composition. The sole member of the corporation shall be Aware Integrated, Inc.

2. Membership Interest. The members of the corporation shall be of one class. Each membership interest in the corporation shall be represented by a share certificate of the corporation's stock issued in the name of the member. Each share certificate shall be kept by the Secretary or the Secretary's designee with the other corporate records. Neither membership nor a right arising from membership may be transferred, unless the transfer is approved by a majority of the members.

3. Meetings. An annual meeting of the members shall be held in each calendar year for the election of Trustees, for a report of the activities and financial condition of the corporation, and for the transaction of any other business properly coming before it. The time and place for the annual meeting shall be established by the Board of Trustees. If no annual meeting of the members has been held during the immediately preceding fifteen (15) months, then the annual meeting of members shall be called by the President or Secretary upon demand of any member. Special meetings of the members may be called at any time by the President, or as otherwise permitted by Minnesota law. Written notice shall be sent to each member at least five (5) days in advance of all meetings.

ARTICLE II.
Board of Trustees

1. Composition. The management of this corporation shall be vested in a Board of no more than fifteen (15), and no less than twelve (12), persons, elected annually by the members of this corporation to such terms and in such number as determined by the members of this corporation from time to time, which number shall include the Chief Executive Officer as provided hereinafter in this Section; provided, that at least a majority of the Board of Trustees shall be persons who are members of the public (designated as Public Trustees) who are not practicing or engaged in providing health services, or, if they are retired, did not practice or engage in providing health services prior to their retirement, and are not spouses of such persons, and are not employed by or

BCBSM-023486

directors of a provider as defined by the Minnesota Nonprofit Health Service Plan Corporations Act; and, provided further, that the Chief Executive Officer of the corporation shall, during his or her tenure in office, be a Trustee. As provided hereinafter in Article III, Section 1, the Board of Trustees may elect a separate person as President of the corporation, and, if a separate person is elected as President, this person may be elected by the members of the corporation to the Board of Trustees, to serve such term or terms as determined by the members.

2. Terms. The terms of office of the Trustees shall be up to three (3) years, and may, but need not be, staggered, in the discretion of the members of this corporation; provided that, if the members of this corporation choose to stagger the terms of the Trustees, all terms shall be staggered, to the extent practicable, so that at no time will the Public Trustees consist of less than a majority of the Board of Trustees.

3. Limitations on Terms. No Trustee may serve for more than nine (9) consecutive years, except for the Chief Executive Officer, who shall continue to serve as a Trustee during his or her tenure as Chief Executive Officer, and, except for the President, if one is elected to the Board by the members, who will be eligible for election as a Trustee during his or her tenure as President, and, except for the Chair of the Board of Trustees, who will be eligible to serve the balance of an unexpired term as Chair and remain a Trustee until expiration of such term as Chair, not to exceed a maximum of ten (10) years of service as a Trustee.

4. Attendance. The term of office of any Trustee who shall be absent from three meetings of the Board of Trustees between annual meetings of the Board of Trustees, without excuse satisfactory to the Board, shall upon written certification of that fact by the Secretary (a copy of which shall be forthwith mailed to such Trustee) cease and terminate and the Trustee's office shall be vacant.

5. Compensation. Reasonable compensation may be paid and reimbursement for actual and necessary expenses may be made to any Trustee for service as a Trustee, as authorized by the Board of Trustees from time to time.

6. Vacancies. Vacancies that occur on the Board of Trustees, including a vacancy resulting from an increase in the number of Trustees, shall be filled by a vote of the members of this corporation and may be filled at an annual or special meeting of the members of this corporation.

7. Meetings. The annual meeting of the Board of Trustees shall be held at such time as determined by the Board of Trustees. In addition to the annual meeting, the Board of Trustees shall hold regular meetings as it by resolution shall determine. Special meetings of the Board of Trustees

may be called at any time by the Chair of the Board of Trustees or by the Chief Executive Officer, or upon written request of five (5) Trustees. Written notice shall be sent to each Trustee at least five (5) days in advance of all meetings.

8. Quorum. A quorum shall consist of a majority of the Board of Trustees.

9. Removal. A Trustee shall hold office until expiration of the term for which the Trustee was elected and until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of the Trustee. A Trustee may be removed at any time, with or without cause, by majority vote of the members of this corporation. In the event of such removal, the members of this corporation may at the same time elect a successor for the Trustee so removed to serve for the remainder of the unexpired term that the successor Trustee is filling.

ARTICLE III.
Officers

1. Board Officers. The Board of Trustees at its annual meeting shall elect a Chair of the Board of Trustees, one or more Vice Chairs of the Board of Trustees, a Chief Executive Officer, who may also be elected the President, a Secretary and a Treasurer (each individually a "Board Officer" and collectively "Board Officers"). Provided, that the Board may elect a separate person as President, who, if elected by the members of the corporation to the Board, may be designated a Board Officer. Each Board Officer shall be a member of the Board of Trustees. Neither the Chief Executive Officer or President, if a President is elected to the Board, shall be eligible for election as the Chair of the Board, Vice Chair of the Board, Secretary or Treasurer, and, further, shall not be appointed by the Chair of the Board as chair of any committee of the Board authorized pursuant to Article IV of these Bylaws. Persons elected to serve as Board Officers shall hold office until the next annual meeting of the Board of Trustees and until their successors are elected.

2. Chair of the Board of Trustees. The Chair of the Board of Trustees shall have the power to call special meetings of the Board of Trustees, and shall preside at all meetings of the Board of Trustees. The Chair shall have power for and in the name of the corporation to execute with the Secretary such instruments as may be authorized by the Board of Trustees. The term of office of the Chair of the Board of Trustees shall be two (2) years, and the Chair shall be eligible to serve no more than two, two-year terms or a total of four (4) years as Chair.

3. Vice Chairs of the Board of Trustees. There shall be at least one Vice Chair of the Board of Trustees. The Vice Chair shall perform such

duties as may be prescribed from time to time by the Board of Trustees, and, unless the Board of Trustees determines otherwise, shall exercise the functions of the Chair of the Board of Trustees in the event of the Chair's absence or disability to act for any cause.

4. Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the corporation and shall be a member of the Board of Trustees during his or her tenure as Chief Executive Officer. The Chief Executive Officer shall have the duties and responsibilities of the President, as that office is described in Minnesota Statutes, Chapter 317A, including the power to execute deeds and mortgages, bonds, subscriber contracts, and other obligations, and the power to make and execute contracts in the ordinary course of business of the corporation, and may delegate any or all of these powers to other Operating Officers from time to time. The Chief Executive Officer shall have, subject to the direction of the Board of Trustees, authority for the general administration of the affairs of the corporation and such authority as may be necessary to perform all duties incidental to the office.

5. President. The President may be elected as chief operating officer of the corporation and may be elected a member of the Board of Trustees during his or her tenure as President. The President shall have such powers as may be delegated by the Chief Executive Officer, and may have, subject to the direction of the Chief Executive Officer, authority for the general operations of the Corporation and such authority as may be necessary to perform all duties incidental to the office.

6. Operating Officers. Either the Board of Trustees or the sole member of the corporation, Aware Integrated, Inc., acting through its Chief Executive Officer, may elect and/or appoint from time to time one (1) or more operating officers, which may include without limitation, one (1) or more Group Vice Presidents, Senior Vice Presidents, Vice Presidents, and Assistant Vice Presidents (each individually an "Operating Officer" and collectively "Operating Officers.") Each Operating Officer shall be in charge of a segment of the business as determined by the Chief Executive Officer. Each person elected or appointed to serve as an Operating Officer by the Board of Trustees shall hold office at the pleasure of the Board of Trustees. Each person elected or appointed to serve as an Operating Officer by the sole member of the corporation, Aware Integrated, Inc., acting through its Chief Executive Officer, shall hold office at the pleasure of the Board of Trustees, or the sole member of the corporation, Aware Integrated, Inc., acting through its Chief Executive Officer, until his or her death, resignation or removal, or until his or her replacement is elected or appointed as provided hereinabove.

7. Treasurer. The Treasurer of the corporation shall have general responsibility for the keeping of accurate and complete records of all receipts and disbursements and for the custodianship of all funds of the corporation, subject to control of the Board of Trustees. The Treasurer shall delegate such authorities and functions to a duly elected and bonded Operating Officer of the corporation as the Board of Trustees may designate. The Treasurer shall be an outside Trustee and shall serve as chair of the Audit Committee.

8. Secretary. The Secretary or the Secretary's designee shall keep a full and permanent record of all meetings of the Board of Trustees and the members. The Secretary shall execute or attest all deeds and mortgages of the corporation, and perform such other duties as may from time to time be prescribed by the Board of Trustees.

9. Other Board Officers. The Board of Trustees may elect an Assistant Treasurer and an Assistant Secretary as additional Board Officers who may act in the event of the absence or disability to act of the Treasurer or Secretary, respectively. The Board of Trustees may elect such other Board Officers as the Board may determine and prescribe their duties.

10. Vacancies. The Board of Trustees may at any time declare any office vacant or remove any officer. The sole member of the corporation, Aware Integrated, Inc., acting through its Chief Executive Officer, may at any time declare any office previously filled by the sole member of the corporation as vacant or may remove such officer. Any vacancy occurring in any office of the corporation may be filled by the Board of Trustees. Any vacancy occurring in an office previously filled by the sole member of the corporation, Aware Integrated, Inc., acting through its Chief Executive Officer, may also be filled by the sole member, acting through its Chief Executive Officer.

11. Bonds. Bonds may be required from any officer or employee for the faithful performance of his or her duties.

ARTICLE IV.
Board Committees and Corporate Advisory Council and other Provider and Consumer Committees

1. Executive Committee. There shall be an Executive Committee consisting of the Chair of the Board of Trustees, the Chief Executive Officer and at least two (2) other Trustees appointed by the Chair of the Board and approved by the Board of Trustees. At least a majority of the Executive Committee shall be composed of outside Trustees. The Executive Committee shall have such powers and duties, not inconsistent with law, as the Board of Trustees shall by resolution determine.

2. Governance Committee. The Chair of the Board, subject to approval of the Board of Trustees, shall annually appoint a Governance Committee composed of not less than three (3) members, all of whom shall be outside Trustees, and shall annually designate its chair. The terms of the members of this Committee shall be up to three (3) years, and may, but need not be, staggered, in the discretion of the Chair of the Board; provided that, if the Chair chooses to stagger the terms of the Committee members, all terms shall be staggered to the extent practicable. The Committee shall review the qualifications of and recommend candidates for election to the Board, and shall present a slate of nominees, with at least one nominee for each Trustee position to be filled at the annual meeting of the members of this corporation, and shall nominate persons to be elected by the members of this corporation to fill vacancies which occur on the Board of Trustees from time to time. The Committee shall review conflict of interest questionnaires completed at least annually by the Board of Trustees and by the Operating Officers designated by the Chief Executive Officer, shall at least annually review compliance with rules of conduct approved by the Board of Trustees, shall at least annually review the performance of each member of the Board of Trustees and of the Board as a whole, and shall report thereon to the Chair of the Board and the Chief Executive Officer. The Committee shall present a slate of nominees for election as Board Officers at the annual meeting of the Board of Trustees, and shall nominate persons for election as Board Officers as may be necessary from time to time to fill vacancies or to elect new Board Officers.

3. Audit Committee. The Chair of the Board shall annually appoint, subject to approval of the Board, an Audit Committee composed of not less than three (3) Trustees, all of whom shall be outside Trustees and one of whom shall be the Treasurer, who shall serve as chair of the Committee. The Committee shall be responsible for providing review and oversight of management's performance of its financial responsibilities on behalf of the corporation, as such review and oversight functions are required by this Section 3 and as determined by resolution of the Board of Trustees. The Committee shall review and evaluate the corporation's procedures for producing financial data, internal audit functions, internal accounting controls, and external audit performance. The Committee shall designate on an annual basis an external auditor for the corporation and have the authority to discharge such auditor. The Committee shall review the annual report of the external auditor of the corporation and shall report to the Board of Trustees regarding the audit report and any recommendations of the auditor made in the annual report, or that may be made at any other time by the auditor, and as to the fulfillment of, or response to, such recommendations. The Committee shall review annually the proposed budget for the corporation, and shall make any recommendations to the Board of Trustees that it deems necessary or appropri-

ate regarding such budget. The Committee, or another Committee designated by the Board, shall recommend guidelines for investment of all money not currently needed as working capital, and, when authorized by the Board of Trustees, shall direct such investments to be made in accordance with such guidelines. The Committee shall consider such other matters relating to the corporation's financial performance and functions as shall be determined by the Board of Trustees.

4. Human Resources Committee. The Chair of the Board of Trustees shall annually appoint, subject to approval of the Board, a Human Resources Committee composed of not less than three (3) Trustees, all of whom shall be outside Trustees and shall annually designate its chair. The Committee shall be responsible for evaluation of personnel development and programs and all other elements of the corporation's human resources strategy. Human resources strategy may include, but is not limited to, employee compensation, employee competency requirements, training, recruitment, retention and management development. The Committee shall be responsible for the performance review of the Chief Executive Officer, and of any other Operating Officer the Board may designate, for the development of an appropriate compensation package on an annual basis. The compensation package of the Chief Executive Officer, and of any other Operating Officer the Board may designate, shall be presented to the Board of Trustees for approval. The Committee shall consider such other matters relating to human resources as shall be determined by the Board of Trustees or by the Chair of the Board of Trustees.

5. Other Board Committees. The Chair of the Board may periodically appoint, subject to approval of the Board, such other committees composed of not less than three (3) Trustees, at least a majority of whom shall be outside Trustees, as may be necessary or desirable for the conduct of the business of the corporation, and shall designate the chair of each such committee. Each committee may be granted the authority of the Board in the management of the business of the corporation, to the extent provided in the Board's authorizing resolution, provided that each committee shall be subject at all times to the direction and control of the Board of Trustees. Each committee shall make regular and special reports to the Board of Trustees as the Board shall request, and such other reports as the committee may deem appropriate.

6. Corporate Advisory Council and Other Committees. The Chief Executive Officer shall establish and appoint the members of a Corporate Advisory Council composed of hospital, medical and public representatives who will serve in an advisory capacity to the corporation in accordance with administrative guidelines approved by the Chief Executive Officer from time to time. The Chief Executive Officer may also establish from time to time and appoint the members

of one or more other committees to serve in an advisory capacity to the corporation. The Chief Executive Officer shall periodically report to the Board of Trustees on the activities of the Corporate Advisory Council and any other committee established pursuant to this Section.

ARTICLE V.
Indemnification

The corporation shall indemnify, to the fullest extent permitted by the Minnesota Nonprofit Corporation Act, any person who is eligible for indemnification, including advances, including, but not limited to, current or former members, Trustees, officers or employees of the corporation.

ARTICLE VI.
Adoption and Amendment of Rules and Regulations

The Board of Trustees is authorized and empowered to adopt at any meeting, by the affirmative vote of a majority of the members of the Board of Trustees present, such Rules and Regulations for the management of the affairs of this corporation, and to amend and repeal the same, as shall be deemed proper and for the best interests of the corporation.

[End of Bylaws]

AWARE INTEGRATED, INC.

Articles of Incorporation and By-Laws

February 2003

BCBSM- 023447

ARTICLES OF INCORPORATION
OF
AWARE INTEGRATED, INC.

The undersigned incorporator, being a natural person, eighteen years of age or older, in order to form a nonprofit corporate entity under Minnesota Statutes, Chapter 317A, hereby adopts the following Articles of Incorporation:

ARTICLE I.
Name

The name of this corporation shall be AWARE INTEGRATED, INC. and its principal place of service shall be the State of Minnesota, and its registered office shall be 3535 Blue Cross Road, St. Paul, Minnesota 55122.

ARTICLE II.
Incorporator

The name and mailing address of the incorporator of this corporation is as follows:

NAME	ADDRESS
Paul D. Anderson	45 S. 7th Street Suite 3400 Minneapolis, MN 55402

ARTICLE III.
Purposes

The general purposes of this corporation shall be to make possible wide, economic and timely availability of hospital, medical-surgical, dental and other health services for the people of Minnesota and others and to advance public health and the art and science of hospital, medical and health care under the laws of the State of Minnesota by, among other methods, supporting the operations and activities of its subsidiaries and affiliates, including, without limitation, those involving the health care coverage business, and the arrangement for, management of or provision of cost-effective health care services, including related managed care and administrative services.

ARTICLE IV.
Powers

This corporation shall have power and authority:

1. To do everything necessary or proper for accomplishing any of the purposes or attaining any one or more of the objectives set out in these Articles of Incorporation, either directly or indirectly, and to do that which at any time may appear to be conducive to, or convenient or expedient for, the protection or benefit of this corporation.

2. To exercise any and all of the powers and authorities granted to, or permitted to be exercised by, nonprofit corporations under the provisions of the Minnesota Nonprofit Corporation Act, as amended from time to time.

ARTICLE V.
Duration and Limitation

This corporation shall have perpetual existence. This corporation shall not afford pecuniary gain, incidentally or otherwise, to its members, and no part of the net income of the corporation, and no part of the net assets of the corporation, shall inure to the benefit of any private member or individual or to any corporation organized for profit, either during the operation of the corporation, or upon dissolution of the corporation, in which event distribution shall be to a nonprofit organization or organizations having health care purposes similar to this corporation. There shall be no personal liability on the part of any of the Directors for corporate obligations.

ARTICLE VI.
Board of Directors

The management of this corporation shall be vested in a Board elected to such terms and in the manner provided in the Bylaws, and composed of the number of Directors who shall meet such qualifications as provided in the Bylaws. An annual meeting of the Board of Directors shall be held once each year, on a date fixed by the Board of Directors.

ARTICLE VII.
Amendments

These Articles of Incorporation may be amended in the manner set out in the Minnesota Nonprofit Corporation Act by the affirmative vote of two-thirds (2/3) of the entire Board of Directors at its annual meeting, or at any meeting called for that purpose, provided that notice of the proposed amendment is included with the notice of the meeting, and upon the approval of the members of this corporation, if any.

IN WITNESS WHEREOF, the above-named incorporator has executed these Articles of Incorporation this 20th day of July, 1994.

BYLAWS

OF

AWARE INTEGRATED, INC.

ARTICLE I.
Members

1. Composition. The members of the corporation shall consist solely and exclusively of all the persons who are Directors of the corporation, who shall be deemed to consent to their status as a member upon election as a Director.

2. Membership Interest. The members of the corporation shall be of one class. Each membership interest in the corporation shall be represented by a share certificate of the corporation's stock issued in the name of the member. Each share certificate shall be kept by the Secretary or the Secretary's designee with the other corporate records. Neither membership nor a right arising from membership may be transferred, unless the transfer is approved by a majority of the members.

3. Term and Termination. The term of membership of a member shall be fixed to and run concurrently with his or her term as a Director. At such time as a member ceases to be a Director, he or she also shall cease to be a member. Upon such termination, the share certificate representing the terminated member's membership interest shall be deemed cancelled, and the Secretary or the Secretary's designee shall stamp the share certificate as such.

4. Meetings. An annual meeting of the members shall be held in each calendar year for the election of Directors, for a report of the activities and financial condition of the corporation, and for the transaction of any other business properly coming before it. The time and place for the annual meeting shall be established by the Board of Directors. If no annual meeting of the members has been held during the immediately preceding fifteen (15) months, then the annual

meeting of members shall be called by the President or Secretary upon demand of any member. Special meetings of the members may be called at any time by the President, or as otherwise permitted by Minnesota law. Written notice shall be sent to each member at least five (5) days in advance of all meetings.

5. Quorum. A quorum shall consist of a majority of the members.

ARTICLE II.
Board of Directors

1. Composition. The management of this corporation shall be vested in a Board of no more than fifteen (15), and no less than twelve (12), persons, elected annually by the members of this corporation to such terms and in such number as determined by the members of this corporation from time to time, which number shall include the President as provided hereinafter in this Section; provided, that at least a majority of the Board of Directors shall be persons who are members of the public (designated as Public Directors) who are not practicing or engaged in providing health services, or, if they are retired, did not practice or engage in providing health services prior to their retirement, and are not spouses of such persons, and are not employed by or directors of an institution, organization, or person that furnishes health services either directly or pursuant to a prescription or directive from a person licensed by a state to make such a prescription or directive; and, provided further, that the President of the corporation shall, during his or her tenure in office, be a Director.

2. Terms. The terms of office of the Directors shall be up to three (3) years, and may, but need not be, staggered, in the discretion of the members of this corporation; provided that, if the members of this corporation choose to stagger the terms of the Directors, all terms shall be staggered, to the extent practicable, so that at no time will the Public Directors consist of less than a majority of the Board of Directors.

3. Limitations on Terms. No Director may serve for more than nine (9) consecutive years, except for the President, who may continue to serve as a Director during his or her tenure as President, and, except for the Chair of the Board of Directors, who will be eligible to serve the balance of an unexpired term as Chair and remain a Director until expiration of such term as Chair, not to exceed a maximum of ten (10) years of service as a Director.

4. Attendance. The term of office of any Director who shall be absent from three meetings of the Board of Directors between annual meetings of the Board of Directors, without excuse satisfactory to the Board, shall upon written certification of that fact by the Secretary (a copy of which shall be forthwith mailed to such Director) cease and terminate and the Director's office shall be vacant.

5. Compensation. Reasonable compensation may be paid and reimbursement for actual and necessary expenses may be made to any Director for service as a Director, as authorized by the Board of Directors from time to time.

6. Vacancies. Vacancies that occur on the Board of Directors, including a vacancy resulting from an increase in the number of Directors, shall be filled by a vote of the members of this corporation and may be filled at an annual or special meeting of the members of this corporation.

7. Meetings. The annual meeting of the Board of Directors shall be held at such time as determined by the Board of Directors. At such annual meeting, the Board of Directors shall elect the officers of the Board of Directors, and, further, shall approve operating officers designated by the President. In addition to the annual meeting, the Board of Directors shall hold regular meetings as it by resolution shall determine. Special meetings of the Board of Directors may be called at any time by the Chair of the Board of Directors or by the President, or upon written request of five (5) Directors. Written notice shall be sent to each Director at least five (5) days in advance of all meetings.

8. Quorum. A quorum shall consist of a majority of the Board of Directors.

9. Removal. A Director shall hold office until expiration of the term for which the Director was elected and until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of the Director. A Director may be removed at any time, with or without cause, by majority vote of the members of this corporation. In the event of such removal, the members of this corporation may at the same time elect a successor for the Director so removed to serve for the remainder of the unexpired term that the successor Director is filling.

BCBSM-023451

ARTICLE III.
Officers

1. Board and Operating Officers. The Board of Directors at its annual meeting shall elect a Chair of the Board of Directors, one or more Vice Chairs of the Board of Directors, a President, a Secretary and a Treasurer, and shall approve operating officers designated by the President. The Board of Directors may also elect such other officers as the Board may determine. The Chair of the Board of Directors, the President, the Vice Chairs of the Board of Directors, the Secretary and the Treasurer shall be members of the Board of Directors. The President shall not be eligible for election as the Chair of the Board, Vice Chair of the Board, Secretary or Treasurer, and, further, shall not be appointed by the Chair of the Board as chair of any committee of the Board authorized pursuant to Article IV of these Bylaws.

2. Chair of the Board of Directors. The Chair of the Board of Directors shall have the power to call special meetings of the Board of Directors, and shall preside at all meetings of the Board of Directors. The Chair shall have power for and in the name of the corporation to execute with the Secretary such instruments as may be authorized by the Board of Directors. The term of office of the Chair of the Board of Directors shall be two (2) years, and the Chair shall be eligible to serve no more than two, two-year terms or a total of four (4) years as Chair.

3. Vice Chairs of the Board of Directors. There shall be at least one Vice Chair of the Board of Directors. The Vice Chair shall perform such duties as may be prescribed from time to time by the Board of Directors, and, unless the Board of Directors determines otherwise, shall exercise the functions of the Chair of the Board of Directors in the event of the Chair's absence or disability to act for any cause.

4. President. The President shall be the chief executive officer of the corporation and shall be a member of the Board of Directors during his or her tenure as President. The President shall have power to execute deeds and mortgages, bonds, and other obligations, and the power to make and execute contracts in the ordinary course of business of the corporation. The President shall have, subject to the direction of the Board of Directors, general administration of the affairs of the corporation and perform all duties incidental to the office.

5. Operating Officers. Upon designation by the President, the Board of Directors shall approve such operating officers, including group vice

presidents, senior vice presidents, vice presidents or assistant vice presidents, as it deems necessary. Each operating officer shall be in charge of a segment of the business as determined by the President.

6. Treasurer. The Treasurer of the corporation shall have general responsibility for the keeping of accurate and complete records of all receipts and disbursements and for the custodianship of all funds of the corporation, subject to control of the Board of Directors. The Treasurer shall delegate such authorities and functions to a duly elected and bonded officer of the corporation as the Board of Directors may designate. The Treasurer shall be an outside Director and shall serve as chair of the Audit Committee.

7. Secretary. The Secretary or the Secretary's designee shall keep a full and permanent record of all meetings of the Board of Directors and the members. The Secretary shall execute or attest all deeds and mortgages of the corporation, and perform such other duties as may from time to time be prescribed by the Board of Directors.

8. Other Officers. The Board of Directors may designate an Assistant Treasurer and an Assistant Secretary who may act in the event of the absence or disability to act of the Treasurer or Secretary, respectively. The Board of Directors may designate other officers from time to time and prescribe their duties.

9. Vacancies. The Board of Directors may at any time declare an office vacant or remove an officer. Vacancies may be filled by the Board of Directors, the persons so elected to hold office until the next annual meeting and until their successors are elected.

10. Bonds. Bonds may be required from any officer or employee for the faithful performance of his or her duties.

ARTICLE IV.
Board Committees

1. Executive Committee. There shall be an Executive Committee consisting of the Chair of the Board of Directors, the President and at least two (2) other Directors appointed by the Chair of the Board and approved by the Board of Directors. At least a majority of the Executive Committee shall be composed of outside Directors. The Executive Committee shall have such powers and duties, not inconsistent with law, as the Board of Directors shall by resolution determine.

2. Governance Committee. The Chair of the Board, subject to approval of the Board of Directors, shall annually appoint a Governance Committee composed of not less than three (3) members, all of whom shall be outside Directors, and shall annually designate its chair. The terms of the members of this Committee shall be up to three (3) years, and may, but not need be, staggered, in the discretion of the Chair of the Board; provided that, if the Chair chooses to stagger the terms of the Committee members, all terms shall be staggered to the extent practicable. The Committee shall review the qualifications of and recommend candidates for election to the Board, and shall present a slate of nominees, with at least one nominee for each Director position to be filled at the annual meeting of the members of the corporation, and shall nominate persons to be elected by the members of the corporation to fill vacancies which occur on the Board of Directors from time to time. The Committee shall review conflict of interest questionnaires completed at least annually by the Board of Directors and by the executive officers designated by the President, shall at least annually review compliance with rules of conduct approved by the Board of Directors, shall at least annually review the performance of each member of the Board of Directors and of the Board as a whole, and shall report thereon to the Chair of the Board and the President. The Committee shall present a slate of nominees for election as officers of the Board of Directors at the annual meeting of the Board of Directors, and shall nominate persons for election as officers of the Board as may be necessary from time to time to fill vacancies or to elect new officers of the Board of Directors.

3. Audit Committee. The Chair of the Board shall annually appoint, subject to approval of the Board, an Audit Committee composed of not less than three (3) Directors, all of whom shall be outside Directors, and one of whom shall be the Treasurer, who shall serve as chair of the Committee. The Committee shall be responsible for providing review and oversight of management's performance of its financial responsibilities on behalf of the corporation, as such review and oversight functions are required by this Section 3 and as determined by resolution of the Board of Directors. The Committee shall review and evaluate the corporation's procedures for producing financial data, internal audit functions, internal accounting controls, and external audit performance. The Committee shall designate on an annual basis an

external auditor for the corporation and have the authority to discharge such auditor. The Committee shall review the annual report of the external auditor of the corporation and shall report to the Board of Directors regarding the audit report and any recommendations of the auditor made in the annual report, or that may be made at any other time by the auditor, and as to the fulfillment of, or response to, such recommendations. The Committee shall review annually the proposed budget for the corporation, and shall make any recommendations to the Board of Directors that it may deem necessary or appropriate regarding such budget. The Committee, or another Committee designated by the Board, shall recommend guidelines for investment of all money not currently needed as working capital, and, when authorized by the Board of Directors, shall direct such investments to be made in accordance with such guidelines. The Committee shall consider such other matters relating to the corporation's financial performance and functions as shall be determined by the Board of Directors.

4. Human Resources Committee. The Chair of the Board of Directors shall annually appoint, subject to approval of the Board, a Human Resources Committee composed of not less than three (3) Directors, all of whom shall be outside Directors, and shall annually designate its chair. The Committee shall be responsible for evaluation of personnel development and programs and all other elements of the corporation's human resources strategy. Human resources strategy may include, but is not limited to, employee compensation, employee competency requirements, training, recruitment, retention and management development. The Committee shall be responsible for the performance review of the President and for the development of an appropriate compensation package on an annual basis. The compensation package of the President shall be presented to the Board of Directors for approval. The Committee shall consider such other matters relating to human resources as shall be determined by the Board of Directors or by the Chair of the Board of Directors.

5. Other Board Committees. The Chair of the Board may periodically appoint, subject to approval of the Board, such other committees composed of not less than three (3) Directors, at least a majority of whom shall be outside Directors, as may be necessary or desirable for the conduct of the business of the corporation, and shall designate the chair of each such committee. Each committee may be granted the authority of the Board in the management of the business of the corporation, to the extent provided in the Board's authorizing resolution, provided that each committee shall be subject at all times to the direction and control of the Board of Directors. Each committee shall make regular and special reports to the Board of Directors as the Board shall request, and such other reports as the committee may deem appropriate.

ARTICLE V.
Indemnification

The corporation shall indemnify, to the fullest extent permitted by the Minnesota Nonprofit Corporation Act, any person who is eligible for indemnification, including advances, including, but not limited to, current or former members, Directors, officers or employees of the corporation.

ARTICLE VI.
Adoption and Amendment of Bylaws, Rules and Regulations

The Board of Directors at its annual meeting, or at any meeting called for that purpose, to the fullest extent permitted by the Minnesota Nonprofit Corporation Act, is authorized and empowered to adopt such Bylaws, by the affirmative vote of two-thirds (2/3) of the entire Board of Directors, for the management of the affairs of this corporation, and to amend and repeal the same, as shall be deemed proper and for the best interests of the corporation. Further, the Board of Directors is authorized and empowered to adopt at any meeting, by the affirmative vote of a majority of the members of the Board of Directors present, such Rules and Regulations for the management of the affairs of this corporation, and to amend and repeal the same, as shall be deemed proper and for the best interests of the corporation.

This Exhibit Contains Confidential Information

Aware Integrated, Inc.

Condensed Consolidating Statement of Income

Year ended December 31, 2004
(In Thousands)

	BCBSM, Inc.	First Plan	Blue Plus	Atrium	MII, Inc.	Eliminating Entries	Consolidated BCBSM	For-Profit Entities	Aware Integrated
Revenues									
Premiums – fully insured	$1,929,583	$58,351	$576,703	$65,131	$ 23,003	$ –	$2,652,771	$ –	$2,652,771
Premium equivalents – self insured	3,651,226	–	–	55,071	175,434	–	3,881,751	–	3,881,751
Claims processed – self insured	(3,349,236)	–	–	(53,916)	(169,662)	–	(3,572,814)	–	(3,572,814)
Other revenue	4,083	283	3,760	–	15,557	(5,028)	18,655	15,112	33,767
	2,235,656	58,634	580,463	66,286	44,352	(5,028)	2,980,363	$15,112	$2,995,475
Costs									
Claims incurred – fully insured	1,676,281	50,215	491,090	56,958	16,827	–	2,291,371	741	2,292,112
Assessments and surcharges	50,428	990	12,119	438	220	–	64,195	–	64,195
	1,726,709	51,205	503,209	57,396	17,047	–	2,355,566	741	2,356,307
Other operating revenue and expenses									
Net investment income	26,797	303	8,202	820	3,659	(7,977)	31,804	9,139	40,943
Net realized gain (loss) on investments	17,911	–	1,197	4	29	–	19,141	–	19,141
Administrative expenses	(511,785)	(2,933)	(43,041)	(7,123)	(28,065)	3,557	(589,390)	(10,441)	(599,831)
Tobacco settlement income, net	(12,415)	–	–	–	–	448	(11,967)	–	(11,967)
Correction of pension error	(12,050)	–	–	–	–	–	(12,050)	–	(12,050)
Other revenue (expenses)	7,773	–	219	–	(379)	–	7,613	(924)	6,689
Income before income taxes	25,178	4,799	43,831	2,591	2,549	(9,000)	69,948	12,145	82,093
						–	–	–	–
Income tax (benefit) expense	8,155	72	1	229	595	–	9,052	4,838	13,890
Net income before minority interest	17,023	4,727	43,830	2,362	1,954	(9,000)	72,946	7,307	68,203
Minority interest in gain of consolidated subsidiaries	–	2,364	–	–	–	–	2,364	–	2,364
Net income	$ 17,023	$ 2,363	$ 43,830	$ 2,362	$ 1,954	$(9,000)	$ 70,582	7,307	$ 65,839

BCBSM - 59797

Aware Integrated, Inc.

Condensed Consolidating Balance Sheet

December 31, 2004

(In Thousands)

	BCBSM, Inc.	First Plan	Blue Plus	Atrium	MII, Inc.	Eliminating Entries	Consolidated BCBSM	For-Profit Entities	Aware Integrated
Assets									
Investments available for sale:									
Fixed maturities	$ 565,026	$12,697	$175,509	$21,650	$69,528	$ –	$ 844,410	$ –	$ 844,410
Equity securities	373,377	–	30,213	–	15,957	–	419,547	–	419,547
	938,403	12,697	205,722	21,650	85,485	–	1,263,957	–	1,263,957
Cash and cash equivalents	326,970	9,697	20,278	2,522	(3,196)	–	356,271	21,637	377,908
Accounts receivable	263,867	3,718	41,576	1,081	9,515	–	319,757	1,616	321,373
Property and equipment, net	190,512	6,378	5,633	–	–	–	202,523	–	202,523
Other assets	251,961	1,266	46,302	–	4,429	(269,297)	34,661	11,642	46,303
Deferred income taxes	52,806	–	–	–	124	–	52,930	(4,094)	48,836
Total assets	$2,024,519	$33,756	$319,511	$25,253	$96,357	$(269,297)	$2,230,099	$30,801	$2,260,900
Liabilities and equity									
Liabilities:									
Claims and claim adjustment expenses	315,130	4,601	84,168	7,722	4,553	–	416,224	–	416,224
Policy reserves	131,300	1,400	29,700	–	–	–	162,400	–	162,400
Advance premiums	123,121	2,932	42,920	3,151	911	–	173,035	897	173,932
Accounts payable and accrued expenses	318,464	3,427	1,690	219	32,637		356,437	415	356,852
Other liabilities	57,748	1,106	4,778	970	149	(46,464)	18,287	117	18,404
Notes payable	2,643	5,647	2,643	–	–	(1,552)	9,381	–	9,381
Tobacco settlement liabilities	71,250	–	–	–	–	–	71,250	–	71,250
Total liabilities	1,019,656	19,113	165,899	12,112	38,250	(48,016)	1,207,014	1,429	1,208,443
Minority interest in net assets of subsidiaries	–	6,222	–	–	12,000	–	18,222	–	18,222
Equity:									
Paid-in capital	–	–	–	–	12,229	(12,229)	–	402	402
Accumulated earnings (deficit)	–	–	–	–	33,878	(33,878)	–	30,570	30,570
Equity in not-for-profit affiliates	968,699	8,421	153,612	13,141	–	(175,174)	968,699	(1,600)	967,099
Accumulated other comprehensive income	36,164	–	–	–	–	–	36,164	–	36,164
Total equity	1,004,863	8,421	153,612	13,141	46,107	(221,281)	1,004,863	29,372	1,034,235
Total liabilities and equity	$2,024,519	$33,756	$319,511	$25,253	$96,357	$(269,297)	$2,230,099	$30,801	$2,260,900

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AWARE INTEGRATED, INC./BLUE CROSS AND BLUE SHIELD OF MINNESOTA, INC. BOARD MEMBERS 2004-2005

MARK W. BANKS, M.D. – President and CEO
President and CEO, Blue Cross and Blue Shield of Minnesota
3535 Blue Cross Road, Eagan, MN 55122
651.662.8438 or 651.662.6679 Mary Beth Olson
651.662.7767 Fax
mark_w_banks@bluecrossmn.com

EMMETT D. CARSON, Ph. D.
President and CEO, The Minneapolis Foundation
800 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402
612.672.3838 Annie Andrianasolo
612.672.3846 Fax
edcarson@mplsfoundation.org
All Mail To: 5230 Green Farms Road, Edina, MN 55436

SUSAN S. ENGELEITER
President and COO, Data Recognition Corporation
13490 Bass Lake Road, Maple Grove, MN 55311
763.268.2102 or 763.268.2222 Roiann Rinehart
763.268.2722 Fax or 763.268.2602 PC Fax
sengeleiter@drc-mn.com

BENJAMIN R. FIELD
Retired - Senior Vice President and Chief Financial Officer – Bemis Company, Inc.
1729 North Farm Road
Long Lake, MN 55356
612.376.3092 (Office) or 952.473.2244 (Home)
952.475.2244 Fax
brfield@bemis.com; benrfield@aol.com

JOEL R. HAUGEN, M.D.
Managed Care Medical Director
Dakota Clinic West Acres
3902 – 13th Ave. South, Fargo, ND 58103
701.364.6622 or 701.364.7800 701.364.3405 Donna Hentges
701.364.8598 or 701.364.2595 Fax
jhaugen@dakcl.com, joelhaugen@cableone.net

SHIRLEY J. HUGHES
Senior Vice President, Human Resources, Ceridian Corporation
3311 Old Shakopee Road, Bloomington, MN 55425
952.853.3301 or 952.853.6604 Mary Ann
952.853.3312 Fax
shirley.j.hughes@ceridian.com

AWARE INTEGRATED, INC./BLUE CROSS AND BLUE SHIELD OF MINNESOTA, INC. BOARD MEMBERS 2004-2005

ROBBIN S. JOHNSON - Secretary
Senior Vice President, Director of Corporate Affairs, Cargill Incorporated
15407 McGinty Road West, Wayzata, MN 55391
or P.O. Box 5724, Minneapolis, MN 55440
952.742.6206 or 952.742.6205 Bonnie Meyer
952.742.7209 Fax
rob_johnson@cargill.com

JONATHON (JON) E. KILLMER – Vice Chair and Treasurer
Consultant, Hypercom Corporation
480.513.4988 Home, 480.694.5889 Cell
480.513.4987 Fax
jon.killmer@dcranch.com
All Mail To: 9290 East Thompson Peak Parkway, The Country Club, #233, Scottsdale, AZ 85255

JOHN H. KLEINMAN, M.D.
Vice President of Clinical Affairs, VHA Upper Midwest
7601 France Avenue, Suite 500, Edina, MN 55435
952.837.4709 or 952.837.4738 Nita
952.837.4701 Fax
jkleinma@VHA.com

JOHN W. LETTMANN
President and CEO, Malt-O-Meal Company
2700 IDS Center, 80 South 8th Street, Minneapolis, MN 55402
612.524.2100 or 612.524.2151 Debbie Lamb
612.359.5425 Fax
john_lettmann@malt-o-meal.com

PETER H. MCNERNEY
General Partner, Thomas, McNerney & Partners LLC
60 South Sixth Street, Suite 3620, Minneapolis, MN 55402
612.465.8670 or 612.465.8673 Kim Steinert
612.465.8661 Fax
pmcnerney@tm-partners.com

JOHN M. MURPHY, JR. – Chair
Managing Partner, Somerset Asset Management LLC
90 South 7th Street, Suite 4400
Minneapolis, MN 55402
612.317.2140 John or 612.317.2146 Julie
612.317.2160 Fax
murph@somersetasset.com

VANCE K. OPPERMAN, ESQ.
President and CEO, Key Investment, Inc.
225 South Sixth Street, Suite 5200, Minneapolis, MN 55402
612.370.1720 Char or 612.916.0153 Char's Cell Phone
612.333.6708 Fax
vopperman@keyinvestment.com

PAMELA A. WHEELOCK
EVP and Chief Financial Officer
Minnesota Sports and Entertainment
317 Washington Street
St. Paul, MN 55101
651.602.6021 Office
651.602.5709 Stephanie Huseby
651.312.3490 Fax
pwheelock@wild.com

Aware Integrated, Inc.
Human Resources Committee
Minutes

BCBSM 5th Floor Conference Room **November 18, 2003**
Eagan, Minnesota **3:30 p.m.**

Present: Shirley Hughes, Chair
Benjamin Fields
Joel Haugen, M.D.
John Kleinman, M.D.
John Lettmann
Peter McNerney

Others Present: Mark Banks, M.D.
Roger Kleppe
Andy Goldstein, Watson Wyatt & Company

Absent: Ellen Perl

Call

The Blue Cross Blue Shield of Minnesota Human Resources Committee was called to order by Shirley Hughes, Chair at 3:30 p.m.

Approval of Minutes

Ms. Hughes accepted a motion for approval of the minutes of the October 1, 2003, Human Resources Committee. Upon motion, seconded and carried, it was:

> RESOLVED, that the minutes of the Human Resources Committee meeting held on October 1, 2003, be, and hereby are, approved.

Review and Recommend Human Resources Committee Charter

Mr. Kleppe reviewed with the Committee the Human Resources Committee Charter with the proposed changes highlighted in blue text. Mr. Kleppe stated that he had reviewed the by-laws for the corporation to ensure the Charter was aligned. Mr. Kleppe also stated that he had reviewed numerous public company Human Resources Committee charters with the intent to incorporate best of class language and to simplify the existing language. The Committee requested a change to the membership requirements with the deletion of the following words, "the majority of whom shall be outside" and the inclusion of the following language, "all of whom shall be independent". Under decision activity number 4 and 5, the Committee changed the management activity to "As directed by HR Committee". After discussion, upon motion, seconded and carried, it was:

RESOLVED, that Aware Integrated, Inc. and BCBSM, INC., Human Resources Committee approves the following resolutions and recommends adoption of said resolutions by the Aware Integrated, Inc. and BCBSM, INC. Governance Committee:

RESOLVED, that the Aware Integrated, Inc. and BCBSM, INC., Governance Committee approves the following resolution and recommends adoption of said resolution by the Aware Integrated, Inc. Board of Directors and by the BCBSM, INC. Board of Trustees:

RESOLVED, that the Human Resources Committee Charters of Aware Integrated, Inc. and BCBSM, INC. copies of which are attached and incorporated herein by reference, be and hereby are, approved.

Review and Approve Retiree Health Care Program Changes

Mr. Kleppe reviewed with the Committee changes that had been made to the retiree medical program in March 2000 and the grandfather/transition benefits for employees who were within 5 years of reaching rule of 85 or 30 years of service. Mr. Kleppe noted that with the recent Reduction-In-Force impacting over 130 employees, two employees are impacted to prevent their eligibility for retiree medical under the new program, that stipulates eligibility as age 55 and 10 years of service. Mr. Kleppe stated that Blue Cross recommends the same concept as stated in the transition rules for employees who lose their employment due to corporate restructuring. The additional language is recommended as follows: "If an employee loses employment with Blue Cross due to corporate restructuring and is within 12 months of satisfying plan eligibility requirements, he or she shall be treated as being eligible for the premium subsidy based on the actual number of full years of active eligible employment". Following discussion, upon motion, seconded are carried, it was:

RESOLVED, that Retiree Health Care Program is amended to allow employees who lose employment due to corporate restructuring and are within twelve months of satisfying plan eligibility requirements, to be treated as being eligible for the premium subsidy based on the actual number of full years of active eligible employment, be and hereby, are approved.

Review and Approve Officer Total Compensation Package for 2004

Mr. Kleppe reviewed with the Committee the officer compensation process in preparing the recommendations for last year's executive compensation review. For that review, the Human Resources Committee contracted with Watson Wyatt who reviewed the philosophy for executive compensation, performed a market assessment of the top positions and recommended the desired competitive position for executive compensation at median of a peer group consisting of comparable healthcare industry companies with additional information reviewed for local market peers.

Mr. Kleppe stated that for purposes of determining 2004 executive compensation levels, Blue Cross relied upon the 2003 Watson Wyatt Compensation Survey for Health Insurance and Managed Care Industry (which included 15 Blue Plans with a median total healthcare revenue of $6.3 billion and 9 managed care plans with a median revenue of $2.4 billion). For long-term incentive opportunity targets, the October 16, 2002 Watson Wyatt report was relied upon using only the non-profit Blue Plans as reference points for the 10 participants in that study, for other officers the 2002 Watson Wyatt Compensation Survey for Health Insurance and Managed Care Industry was used. Mr. Kleppe stated the 2003 report had data integrity issues with the long-term data that were not reconcilable. Mr. Kleppe reported the resulting aggregate 2004 base salary market midpoints totaled $6,937,000 (CEO excluded) compared with the 2003 aggregate of $6,610,000 for an increase of 4.9% for base salaries, 4.7% for Total Cash Compensation (TCC) and 5.3% for Total Direct Compensation (TDC). Mr. Kleppe stated that the recently announced re-organization, created an Executive Vice President position and additional accountabilities for three officers that were the primary drivers in the higher TDC market medians.

Mr. Kleppe noted that Competitive Total Cash Compensation (TCC) was determined using the salary midpoint data (median) plus the median annual incentive opportunity for the combined group of positions surveyed (median revenue of 5.0 billion with 4,700 employees). Of the companies in the combined groups, 75% were not-for-profit or mutual and 86% of the Blue Plans were not-for-profit or mutual. Long-term incentive opportunity is determined using Blue Plan non-profit data only.

Mr. Kleppe referenced Executive Benefits, and the report by Clarke/Bardes dated November 26, 2001, entitled, "Reasonableness of Executive Benefits and Perquisites", which stated, "*we find the executive benefit programs of Blue Cross Blue Shield of Minnesota to be reasonable and well within the bounds of competitive practice*". Mr. Kleppe also referenced the October 16, 2002, Watson Wyatt report which stated, "*the design of the benefits plans are competitive with market practices (with health and dental insurance and the defined benefit plans slightly above market practices)*". For 2004, the Collateral Assigned Split-Dollar

Arrangements have been terminated and replaced with term life insurance for the pre-retirement benefit and a survivor income benefit for the post-retirement benefit. Health Insurance premiums and plan design changes has shifted more medical costs to officers and director level staff so that on average this level of employee is paying for approximately 30% of the overall cost of medical coverage.

Mr. Kleppe offered the following recommendations:

- Base salary – distribute a 4.2% salary merit and promotion pool resulting in a 97.7% compa-ratio (ratio between established pay levels to market). The range of compa-ratios would be 83% to 120%. A compa-ratio in the 80% range equates to approximately the 25th percentile and 120% to approximately the 75th percentile. The recommendations result in a base salary compa-ratio of 97.7%, which is very close to the 50th percentile. Mr. Kleppe noted that 78.3% of surveyed companies position salary at median, 13.0% between median and 75th percentile and 8.7% at the 75th percentile, with zero percent below median.

- Annual bonus – target incentive opportunity for the aggregate of all officers are at relative market median levels, 35.8% actual average versus 34.2% market average, with 15 officers equal to market, 13 officers greater than market by an average of 4.1% (range from +2% to +5%), and 2 officers less than market by an average of 2.0% (range from -1% to -3%). Consideration should be made to increase Colleen Reitan from 45% to 50%, Michael Morrow from 30% to 45%, Richard Neuner from 40% to 45%, Nancy Nelson and Roger Kleppe from 35% to 40% in order to bring total cash compensation more in line with the market. Mr. Kleppe noted that last year, Watson Wyatt made the recommendation to bring targeted annual incentive opportunity from 40% to 50% for the top five officers, and management recommended limiting that increase to 5% which was approved. The WWDS survey utilized for this year's analysis identified annual target median levels for the top eight officers at a 41.8% average versus 42.5% average last year utilizing the Watson Wyatt custom survey. The recommendations result in a Total Cash Compensation (TCC) compa-ratio of 99.0%. Mr. Kleppe noted that 52.6% of surveyed companies position TCC at median, 31.6% between median and the 75th percentile and 15.8% at the 75th percentile, with zero percent below median.

- Long-term incentive plan – long-term incentive targets are approximately at median of the not-for-profit Blues, assuming median salary levels. Mr. Kleppe noted that in general industry, there is typically a slightly larger gap between the target long-term incentive levels for the CEO and the other top executives than what is shown for not-for-profit Blue Plans. Mr. Kleppe stated that for 2004, target long-term incentive opportunity for the aggregate of all eligible officers are at market median levels, 33.4% actual average versus 32.2% market, with 7 officers equal to market, 9 officers greater than market by an average of 3.8% (range +1% to +8%), and 3 officers less than market by 2% each. Consideration should be made to increase Michael Morrow's long-term from 30% to 40% and to reduce Deborah Madson's long-term from 30% to 25%. The recommendations result in a Total Direct Compensation (TDC) compa-ratio of 99.4%. Mr. Kleppe noted that within surveyed companies, 46.2% position TDC at median, 38.5% between median and the 75th percentile, and 15.4% below median. Blue Cross of Minnesota would fall into this category since its long-term incentive opportunity targets are positioned to include only non-profit Blue plans, excluding for-profit Blue and non-Blue plans that distribute stock options or have higher value performance based plans thereby positioning its long-term below median.

- Benefits – benefit design is consistent with market practices and no other changes are recommended. Mr. Kleppe referenced the 2004 Executive Benefit Plan Summary which was included in the Committee's advance reading material.

Mr. Kleppe distributed a market analysis of base salary comparisons over a five-year time frame within the health insurance/managed care industry across five top executive positions representing revenue scopes from $1 billion to $6 billion. Mr. Kleppe stated that recent inflation in health care premiums appear to have inflated the salary level for all positions in the $1-3 billion range, but deflated salary for three positions and slightly inflated for two positions (4.8% and 6.5%) over the five year period compared with a relatively conservative 4% annual executive wage inflation rate.

Mr. Kleppe reviewed a detailed spreadsheet included in each Committee Member's material for the 10 elected officers which identified the following: current base salary, 2004 market base midpoint, 2004 market annual incentive, 2004 market long-term incentive (all data from the Watson Wyatt Worldwide industry survey). Additional information presented included the proposed 2004 base salary, proposed 2004 annual incentive opportunity, proposed 2004 long-term incentive opportunity, proposed TCC and TCC compa-ratio, proposed TDC and TDC compa-ratio and proposed 2004 flexible benefit amount. Mr. Kleppe also referenced the same format detail for all officers below the CEO. The Committees discussion focused on the first report concerning the elected officers, and offered feedback related to the reorganization, actual performance for the listed officers, and after discussion, agreed that the increase for Michael Morrow should be scaled back $10,000, for a compa-ratio of 83%, which would recognize the promotional increase and provide movement in the future consistent with his performance.

Mr. Kleppe reviewed the Executive Benefit Plan Summary, including basic benefits available to all employees, designated executive benefits (disability salary continuation, supplemental retirement plan, executive deferred compensation, executive group term life insurance coverage, executive optional life insurance, executive survivor income benefit, accident insurance coverage, financial/tax/estate planning benefits, life planning benefit, and professional dues). Mr. Kleppe stated that the split-dollar arrangements had been terminated and the process was underway to resolve that termination. Mr. Kleppe also reviewed the executive flexible benefit allowance of 5.5% of base salary and the choices executives could make with those flex-dollars, including individual long-term disability coverage, group long-term care coverage, vacation buy/sell and the capital accumulation account program.

Following discussion, upon motion, seconded and carried, it was:

> WHEREAS, BCBSM, INC. (Blue Cross) is a taxable corporation under federal and state laws, it is also a non-profit corporation under Minnesota Statues, Chapter 317A,
>
> WHEREAS, Blue Cross adheres to processes and policies to ensure that compensation paid to employees is reasonable and appropriate,
>
> WHEREAS, Blue Cross' compensation arrangements are approved by the Human Resources Committee which is, composed entirely of individuals who do not have a conflict of interest with respect to the compensation arrangements,
>
> WHEREAS, the Human Resources Committee obtained and relied upon appropriate data as to comparability of other similarly situated individuals prior to making its determination,
>
> WHEREAS, the Human Resources Committee adequately documented the basis for its determination that the compensation arrangements are appropriate concurrently with making that determination,
>
> NOW THEREFORE BE IT RESOLVED, that the Corporation is authorized to distribute $274,000 in merit and/or adjustments for up to thirty individuals, who are currently elected or appointed officers of BCBSM, INC., to be effective December 13, 2003, corresponding with the first pay-period of 2004,
>
> FURTHER RESOLVED, that annual incentive opportunity for 2004, expressed as a percentage of base salary, at target, be increased for the

following officers at the stated percentage: Colleen Reitan 50%, Michael Morrow 45%, Richard Neuner 45%, Nancy Nelson 40%, and Roger Kleppe 40%, and other officers annual incentive remains at existing percentages, with an opportunity to earn up to 150% of target with superior performance,

FURTHER RESOLVED, that long-term incentive opportunity for 2004, expressed as a percentage of base salary for each year of eligibility within a long-term period, at target, be approved as follows: Michael Morrow 40% and Deborah Madson 25%, and other officer's long-term incentive remaining at existing levels, with an opportunity to earn up to 150% of target with superior performance,

NOW THEREFORE BE IT RESOLVED, that BCBSM, INC. officers are authorized continuation of existing basic benefits, designated executive benefits and executive flexible benefit choices, including a 5.5% executive flexible benefit allowance based on the 2004 annual salaries adjudicated from the 4.2% merit/adjustment pool, be and hereby are approved.

Review Officer Severance and Change-In-Control Provisions

Mr. Goldstein reviewed the report dated November 18, 2003, entitled, "Overview of Officer Severance and Change-In-Control Provisions" with the Committee. Mr. Goldstein reported that the Chief Executive Officer is covered under a separate plan as part of the employment agreement and Mr. Goldstein reviewed its benefits. Mr. Goldstein reviewed the existing Senior Staff Severance Pay Policy, effective January 1, 1996, and reported that a conservative view of market practices suggests that an enhanced severance package for a select group of senior staff officers would be appropriate. Mr. Goldstein reported that the enhanced severance benefits would include providing 18 months of salary and health/dental benefits continuation with outplacement services. For Change-of-Control that results in actual or constructive termination, Mr. Goldstein reported that 24 months of salary, and health/dental benefits continuation and outplacement services is within market practices. Mr. Goldstein stated that all severance benefits should include the requirement of a non-compete, non-piracy, and non-solicitation for the period severance benefits are being paid. After discussion, upon motion, seconded and carried, it was:

WHEREAS, BCBSM. INC., (Blue Cross) desires to retain the employment services of its top executive leadership talent, and that such employment continuity is in the best interest of Blue Cross stakeholders,

WHEREAS, the Human Resources Committee has relied upon independent advice and counsel with respect to severance and change-in-control policies and practices, and that such advice was formed on the basis of market comparability of other similarly situated individuals prior to

> making its decision, and the Human Resources Committee adequately documented the basis for its determination, that the severance and change-in-control arrangements were appropriate concurrently with making that determination,
>
> NOW, THEREFORE BE IT RESOLVED, that a select group of key executives, to include the officers who report directly to the Chief Executive Officer, representing seven (7) current officers of Blue Cross, are recommended for an eighteen-month severance package consisting of only salary continuation, medical/dental benefit continuation, and outplacement services, and for actual or constructive termination related to a change-in-control, a twenty-four month severance package consisting of only salary continuation, medical/dental benefit continuation, and outplacement services, be and hereby are approved for recommendation to the Board of Trustees.

<u>Review 2003-2005 Long-Term Measures of Health Improvement</u>

This topic was deferred to the January 29, 2004 Human Resources Committee Meeting.

<u>Review Executive Replacement and Succession Planning</u>

Dr. Banks reviewed with the Committee the reorganization recently announced on November 10, 2003, and additional job accountabilities and challenges for Colleen Reitan, Michael Morrow and Richard Neuner. Dr. Banks discussed issues relating to the succession planning for the Chief Executive Officer position, both short-term and long-term. Dr. Banks stated that re-organizing the executive talent, which would serve two purposes: 1) better alignment of talent in response to the regional affiliation strategy, and 2) to position certain executives for additional accountabilities and career developmental opportunities.

<u>Review and Approve Nominations for officer election</u>

Mr. Kleppe introduced a clean-up resolution for the officers recently promoted, and after discussion, upon motion, seconded and carried, it was:

> RESOLVED, the following slate of persons are nominated for election as operating officers of the corporation to hold such office at the pleasure of the Board of Directors or until resignation or removal and replacing all previously elected operating officers:

Colleen Reitan	Executive Vice President, Operations
Richard Neuner	Senior Vice President and Chief Marketing Officer
Michael Morrow	Senior Vice President, Business Development and Network Management

Marsha Shotley Assistant Secretary

Review Executive Compensation Reporting Requirements

Mr. Kleppe stated that IRS 990 filing is only required on tax-exempt organizations, and within Blue Cross, include Blue Plus and Atrium. The Department of Commerce for the State of Minnesota and the Office of the Commissioner of Insurance for the State of Wisconsin also require reporting on executive compensation, but do not require the same information. Mr. Kleppe reported that the Commerce Department did not realize the difference and requested an explanation as to why the amounts for Blue Cross executives were different in the Commerce Department's Supplemental Compensation Exhibit and the 990 reported compensation used by the Star and Tribune. The IRS also requires Blue Cross to submit a Form 1120, but this requirement is different from the 990 and the Department of Commerce. For example:

2001 Reporting Mark Banks, M.D. CEO	IRS 990 Format	IRS 1120 format	Dept of Commerce Format
2001	$2,823.220	$947,635	$1,165,134
2002	$3,109,604	$1,317,919	$1,270,482

Mr. Kleppe stated that technically, the only executive staff member that requires a 990 format filing is Colleen Reitan due to her role as President and CEO of Blue Plus. Dr. Banks reported that Blue Cross has made the decision to externally report compensation for officers other than Colleen Reitan in the same format (IRS 990) as it reports Ms. Reitan's to avoid differences in reporting methodologies, even though such reporting distorts the compensation dollars and the media reports such compensation as "paid", when portions of it are not. After discussion, the Committee agreed to present this topic to the Board for further discussion.

Dr. Banks and Mr. Kleppe left the meeting at this time.

Review and Recommend Chief Executive Officer Total Compensation Package

The Committee members and Mr. Goldstein discussed the total compensation package for the Chief Executive Officer given the detailed information included in the Human Resources Committee book dated, November 18, 2003, entitled, "Chief Executive Officer Compensation 2004" and "Chief Executive Officer Compensation History". Mr. Goldstein stated that for determining market comparables in preparation for determining 2004 executive compensation levels, the Committee authorized management to perform a market analysis using the 2003 Health Insurance Executive Compensation Survey report prepared by Watson Wyatt Data Services (WWDS). Mr. Goldstein reported that the peer group used in the WWDS survey is comparable to the custom survey from the previous year and represents health plans of similar size which included 15 Blue Plans with median total healthcare revenue of $6.3 billion and 9 managed care plans with median revenue of $2.4 billion. Blue Cross' revenue for 2003 will be $6.0 billion, including ASC premium equivalents. For purposes of determining 2004 executive compensation levels, a $6 billion revenue scope was utilized. For annual incentive opportunity, median incentive levels were utilized and derived from all organizations in the survey. The median long-term incentive (LTI) opportunity for Blue Plan CEO's, as stated in the October 16, 2002 Watson Wyatt report is 50%, and was utilized for long-term incentive opportunity.

Mr. Goldstein stated that the Human Resources Committee has established a peer group of companies for the purpose of ensuring the compensation and benefits it awards the CEO is at competitive levels in the industry. The Executive Compensation Guiding Principles state that base salaries will be administered to median salary levels with minimum salaries at 80% of median and incentive opportunities targeted at median levels.

Ms. Hughes reviewed preliminary results from the CEO Evaluation and Assessment and the Committee discussed the need to evaluate its recommendation for the CEO's total compensation package based on the market data presented, the CEO's performance evaluation results and any special considerations. Ms. Hughes stated that the CEO is provided a leased vehicle. The monthly payment for the leased vehicle is $1,218.63, which includes the lease and taxes. For 2002, an imputed income charge of $9,452 was included on the W-2. Ms. Hughes reported that if the leased vehicle for the CEO was eliminated and converted to salary, it would require a gross income amount of $2,234 per month or $26,807 per year.

Mr. Goldstein reported that last year the Committee extensively reviewed the Supplemental Executive Retirement Plan (SERP) approved by the Board in 1999, and concluded that certain elements of the SERP resulted in benefit levels higher than median, but within market norms. Mr. Goldstein noted that Watson Wyatt estimated that for 2004, that amount would be $274,177. The spread between the CEO's current TDC and the market median TDC for 2003 is $464,000. The Committee discussed taking the $274,177 into consideration when viewed the CEO's total compensation package relative to market, as the $274,177 should be viewed as part of the total compensation.

Following discussion, upon motion, seconded and carried, it was:

> WHEREAS, BCBSM, INC. (Blue Cross) is a taxable corporation under federal and state laws, it is also a non-profit corporation under Minnesota Statues, Chapter 317A,

WHEREAS, Blue Cross adheres to processes and policies to ensure that compensation paid to the Chief Executive Officer is reasonable and appropriate,

WHEREAS, Blue Cross' compensation arrangements are approved by the Human Resources Committee which is, composed entirely of individuals who do not have a conflict of interest with respect to the compensation arrangements,

WHEREAS, the Human Resources Committee obtained and relied upon appropriate data as to comparability of other similarly situated individuals prior to making its recommendation,

WHEREAS, the Human Resources Committee adequately documented the basis for its recommendation that the compensation arrangement for the Chief Executive Officer are appropriate concurrently with making that determination,

NOW THEREFORE BE IT RESOLVED, that the Corporation is authorized to distribute $30,000 in merit, representing an increase of 4.5% over the 2003 base salary, for the Chief Executive Officer, to be effective December 13, 2003, corresponding with the first pay-period of 2004,

FURTHER RESOLVED, that annual incentive opportunity for 2004, at target, be set at 60% of base salary, with an opportunity to earn up to 150% of target with superior performance,

FURTHER RESOLVED, that long-term incentive opportunity for 2004, at target, be set at 60% of base salary for each year of eligibility within a long-term period, with an opportunity to earn up to 150% of target with superior performance,

NOW THEREFORE BE IT RESOLVED, that the retirement programs and benefits afforded the Chief Executive Officer and approved as part of his current employment agreement are continued in place for 2004 including continuation of existing basic benefits, designated executive benefits, perquisites, and executive flexible benefit choices, including a 6.4% executive flexible benefit allowance based on the 2004 annual salary, be and hereby are approved for recommendation to the Board of Trustees.

Adjournment

Ms. Hughes adjourned the meeting at 6:00 p.m.

Shirley Hughes

Shirley Hughes, Chair

BCBSM Top Executive Base Salaries and Annual Bonuses:
Comparison to Peers by Position and by Organization Revenue Size

Name	Title	03 Base	03 Annual Bonus	04 Base	04 Annual Bonus	Position Compared To	Median, Org Revenue Less Than $5B, Bonus Eligible Orgs	Bonus Avg Paid	Median, of Org Revenue of $5-10B, Bonus Eligible Orgs	Bonus Avg Paid	Exhibit 34, Page #
Banks	CEO	$ 670,000	$ 419,000	$ 700,000	$ 257,000	CEO	$ 632,000	$ 628,000	$ 850,000	$ 633,000	32
Flygare	VP Commercial Sales & Account Mgmt	$ 247,000	$ 107,000	$ 256,000	$ 60,000	Top Sales Exec	$ 182,000	$ 57,000	$ 251,000	$ 94,000	97
Gold	VP Health Mgmt/CMO	$ 305,000	$ 139,000	$ 312,000	$ 96,000	Top Medical Officer	$ 304,000	$ 111,000	$ 305,000	$ 114,000	84
Kleppe	VP HR, Real Estate & Facilities Services	$ 245,000	$ 90,000	$ 253,000	$ 60,000	Top HR Exec	$ 212,000	$ 89,000	$ 225,000	$ 81,000	143
Morrow	Senior VP Business Dev & Network Mgmt	$ 224,000	$ 72,000	$ 300,000	$ 47,000	Top Network Management Exec	$ 187,000	$ 73,000	$ 231,000	$ 94,000	75
Nelson	VP Chief Actuary	$ 255,000	$ 104,000	$ 260,000	$ 62,000	Top Actuarial Exec	$ 204,000	$ 90,000	$ 226,000	$ 74,000	131
Neuner	Senior VP Chief Marketing Officer	$ 300,000	$ 137,000	$ 320,000	$ 84,000	Top Marketing Exec	$ 215,000	$ 84,000	$ 215,000	$ 72,000	101
Niemiec	Senior VP Corporate Affairs	$ 341,000	$ 160,000	$ 346,000	$ 224,000	Top Managed Care Exec	$ 301,000	$ 188,000	$ 350,000	$ 279,000	65
Ounjian	Senior VP & Chief Info Officer	$ 300,000	$ 141,000	$ 304,000	$ 95,000	Chief Information Systems Exec	$ 250,000	$ 111,000	$ 295,000	$ 114,000	118
Peterson	Senior VP & CFO	$ 321,000	$ 141,000	$ 335,000	$ 101,000	Top Financial Exec	$ 329,000	$ 143,000	$ 365,000	$ 164,000	122
Reitan	Executive VP of Operations	$ 377,000	$ 151,000	$ 400,000	$ 113,000	Executive VP	$ 378,000	$ 288,000	$ 415,000	$ 167,000	38

Notes: If BCBSM includes Administrative Service Contracts (ASC) revenue in its revenue size then BCBSM executives are compared to executives in the $5-10 billion range.
All numbers rounded to nearest whole amount up or down.
If BCBSM did not include ASC revenue in its revenue size then BCBSM executives would be compared to executives in the less than $5 billion range.
The source for BCBSM Executives' compensation figures is (Exhibit 19).
Comparsion information is from Health Insurance Executive Compensation Survey Report 2003, Watson Wyatt Data Services, (Exhibit 34).

BYLAWS

OF

AWARE INTEGRATED, INC.

ARTICLE I.
Members

1. Composition. The members of the corporation shall consist solely and exclusively of all the persons who are Directors of the corporation, who shall be deemed to consent to their status as a member upon election as a Director.

2. Membership Interest. The members of the corporation shall be of one class. Each membership interest in the corporation shall be represented by a share certificate of the corporation's stock issued in the name of the member. Each share certificate shall be kept by the Secretary or the Secretary's designee with the other corporate records. Neither membership nor a right arising from membership may be transferred, unless the transfer is approved by a majority of the members.

3. Term and Termination. The term of membership of a member shall be fixed to and run concurrently with his or her term as a Director. At such time as a member ceases to be a Director, he or she also shall cease to be a member. Upon such termination, the share certificate representing the terminated member's membership interest shall be deemed cancelled, and the Secretary or the Secretary's designee shall stamp the share certificate as such.

4. Meetings. An annual meeting of the members shall be held in each calendar year for the election of Directors, for a report of the activities and financial condition of the corporation, and for the transaction of any other business properly coming before it. The time and place for the annual meeting shall be established by the Board of Directors. If no annual meeting of the members has been held during the immediately preceding fifteen (15) months, then the annual meeting of members shall be called by the President or Secretary upon demand of any member. Special meetings of the members may be called at any time by the President, or as otherwise permitted by Minnesota law. Written notice shall be sent to each member at least five (5) days in advance of all meetings.

5. Quorum. A quorum shall consist of a majority of the members.

ARTICLE II.
Board of Directors

1. Composition. The management of this corporation shall be vested in a Board of no more than fifteen (15), and no less than twelve (12), persons, elected annually by the members of this corporation to such terms and in such number as determined by the members of this corporation from time to time, which number shall include the President as provided hereinafter in this Section; provided, that at least a majority of the Board of Directors shall be persons who are members of the public (designated as Public Directors) who are not practicing or engaged in providing health services, or, if they are retired, did not practice or engage in providing health services prior to their retirement, and are not spouses of such persons, and are not employed by or directors of an institution, organization, or person that furnishes health services either directly or pursuant to a prescription or directive from a person licensed by a state to make such a prescription or directive; and, provided further, that the President of the corporation shall, during his or her tenure in office, be a Director.

2. Terms. The terms of office of the Directors shall be up to three (3) years, and may, but need not be, staggered, in the discretion of the members of this corporation; provided that, if the members of this corporation choose to stagger the terms of the Directors, all terms shall be staggered, to the extent practicable, so that at no time will the Public Directors consist of less than a majority of the Board of Directors.

3. Limitations on Terms. No Director may serve for more than nine (9) consecutive years, except for the President, who may continue to serve as a Director during his or her tenure as President, and, except for the Chair of the Board of Directors, who will be eligible to serve the balance of an unexpired term as Chair and remain a Director until expiration of such term as Chair, not to exceed a maximum of ten (10) years of service as a Director.

4. Attendance. The term of office of any Director who shall be absent from three meetings of the Board of Directors between annual meetings of the Board of Directors, without excuse satisfactory to the Board, shall upon written certification of that fact by the Secretary (a copy of which shall be forthwith mailed to such Director) cease and terminate and the Director's office shall be vacant.

5. Compensation. Reasonable compensation may be paid and reimbursement for actual and necessary expenses may be made to any Director for service as a Director, as authorized by the Board of Directors from time to time.

6. Vacancies. Vacancies that occur on the Board of Directors, including a vacancy resulting from an increase in the number of Directors, shall be filled by a vote of the members of this corporation and may be filled at an annual or special meeting of the members of this corporation.

7. Meetings. The annual meeting of the Board of Directors shall be held at such time as determined by the Board of Directors. At such annual meeting, the Board of Directors shall elect the officers of the Board of Directors, and, further, shall approve operating officers designated by the President. In addition to the annual meeting, the Board of Directors shall hold regular meetings as it by resolution shall determine. Special meetings of the Board of Directors may be called at any time by the Chair of the Board of Directors or by the President, or upon written request of five (5) Directors. Written notice shall be sent to each Director at least five (5) days in advance of all meetings.

8. Quorum. A quorum shall consist of a majority of the Board of Directors.

9. Removal. A Director shall hold office until expiration of the term for which the Director was elected and until a successor is elected and qualified, or until the earlier death, resignation, removal, or disqualification of the Director. A Director may be removed at any time, with or without cause, by majority vote of the members of this corporation. In the event of such removal, the members of this corporation may at the same time elect a successor for the Director so removed to serve for the remainder of the unexpired term that the successor Director is filling.

ARTICLE III.
Officers

1. Board and Operating Officers. The Board of Directors at its annual meeting shall elect a Chair of the Board of Directors, one or more Vice Chairs of the Board of Directors, a President, a Secretary and a Treasurer, and shall approve operating officers designated by the President. The Board of Directors may also elect such other officers as the Board may determine. The Chair of the Board of Directors, the President, the Vice Chairs of the Board of Directors, the Secretary and the Treasurer shall be members of the Board of Directors. The President shall not be eligible for election as the Chair of the Board, Vice Chair of the Board, Secretary or Treasurer, and, further, shall not be appointed by the Chair of the Board as chair of any committee of the Board authorized pursuant to Article IV of these Bylaws.

2. Chair of the Board of Directors. The Chair of the Board of Directors shall have the power to call special meetings of the Board of Directors, and shall preside at all meetings of the Board of Directors. The Chair shall have power for and in the name of the corporation to execute with the Secretary such instruments as may be authorized by the Board of Directors. The term of office of the Chair of the Board of Directors shall be two (2) years, and the Chair shall be eligible to serve no more than two, two-year terms or a total of four (4) years as Chair.

3. Vice Chairs of the Board of Directors. There shall be at least one Vice Chair of the Board of Directors. The Vice Chair shall perform such duties as may be prescribed from time to time by the Board of Directors, and, unless the Board of Directors determines otherwise, shall exercise the functions of the Chair of the Board of Directors in the event of the Chair's absence or disability to act for any cause.

4. President. The President shall be the chief executive officer of the corporation and shall be a member of the Board of Directors during his or her tenure as President. The President shall have power to execute deeds and mortgages, bonds, and other obligations, and the power to make and execute contracts in the ordinary course of business of the corporation. The President shall have, subject to the direction of the Board of Directors, general administration of the affairs of the corporation and perform all duties incidental to the office.

5. Operating Officers. Upon designation by the President, the Board of Directors shall approve such operating officers, including group vice

presidents, senior vice presidents, vice presidents or assistant vice presidents, as it deems necessary. Each operating officer shall be in charge of a segment of the business as determined by the President.

6. Treasurer. The Treasurer of the corporation shall have general responsibility for the keeping of accurate and complete records of all receipts and disbursements and for the custodianship of all funds of the corporation, subject to control of the Board of Directors. The Treasurer shall delegate such authorities and functions to a duly elected and bonded officer of the corporation as the Board of Directors may designate. The Treasurer shall be an outside Director and shall serve as chair of the Audit Committee.

7. Secretary. The Secretary or the Secretary's designee shall keep a full and permanent record of all meetings of the Board of Directors and the members. The Secretary shall execute or attest all deeds and mortgages of the corporation, and perform such other duties as may from time to time be prescribed by the Board of Directors.

8. Other Officers. The Board of Directors may designate an Assistant Treasurer and an Assistant Secretary who may act in the event of the absence or disability to act of the Treasurer or Secretary, respectively. The Board of Directors may designate other officers from time to time and prescribe their duties.

9. Vacancies. The Board of Directors may at any time declare an office vacant or remove an officer. Vacancies may be filled by the Board of Directors, the persons so elected to hold office until the next annual meeting and until their successors are elected.

10. Bonds. Bonds may be required from any officer or employee for the faithful performance of his or her duties.

ARTICLE IV.
Board Committees

1. Executive Committee. There shall be an Executive Committee consisting of the Chair of the Board of Directors, the President and at least two (2) other Directors appointed by the Chair of the Board and approved by the Board of Directors. At least a majority of the Executive Committee shall be composed of outside Directors. The Executive Committee shall have such powers and duties, not inconsistent with law, as the Board of Directors shall by resolution determine.

2. Governance Committee. The Chair of the Board, subject to approval of the Board of Directors, shall annually appoint a Governance Committee composed of not less than three (3) members, all of whom shall be outside Directors, and shall annually designate its chair. The terms of the members of this Committee shall be up to three (3) years, and may, but not need be, staggered, in the discretion of the Chair of the Board; provided that, if the Chair chooses to stagger the terms of the Committee members, all terms shall be staggered to the extent practicable. The Committee shall review the qualifications of and recommend candidates for election to the Board, and shall present a slate of nominees, with at least one nominee for each Director position to be filled at the annual meeting of the members of the corporation, and shall nominate persons to be elected by the members of the corporation to fill vacancies which occur on the Board of Directors from time to time. The Committee shall review conflict of interest questionnaires completed at least annually by the Board of Directors and by the executive officers designated by the President, shall at least annually review compliance with rules of conduct approved by the Board of Directors, shall at least annually review the performance of each member of the Board of Directors and of the Board as a whole, and shall report thereon to the Chair of the Board and the President. The Committee shall present a slate of nominees for election as officers of the Board of Directors at the annual meeting of the Board of Directors, and shall nominate persons for election as officers of the Board as may be necessary from time to time to fill vacancies or to elect new officers of the Board of Directors.

3. Audit Committee. The Chair of the Board shall annually appoint, subject to approval of the Board, an Audit Committee composed of not less than three (3) Directors, all of whom shall be outside Directors, and one of whom shall be the Treasurer, who shall serve as chair of the Committee. The Committee shall be responsible for providing review and oversight of management's performance of its financial responsibilities on behalf of the corporation, as such review and oversight functions are required by this Section 3 and as determined by resolution of the Board of Directors. The Committee shall review and evaluate the corporation's procedures for producing financial data, internal audit functions, internal accounting controls, and external audit performance. The Committee shall designate on an annual basis an

external auditor for the corporation and have the authority to discharge such auditor. The Committee shall review the annual report of the external auditor of the corporation and shall report to the Board of Directors regarding the audit report and any recommendations of the auditor made in the annual report, or that may be made at any other time by the auditor, and as to the fulfillment of, or response to, such recommendations. The Committee shall review annually the proposed budget for the corporation, and shall make any recommendations to the Board of Directors that it may deem necessary or appropriate regarding such budget. The Committee, or another Committee designated by the Board, shall recommend guidelines for investment of all money not currently needed as working capital, and, when authorized by the Board of Directors, shall direct such investments to be made in accordance with such guidelines. The Committee shall consider such other matters relating to the corporation's financial performance and functions as shall be determined by the Board of Directors.

4. Human Resources Committee. The Chair of the Board of Directors shall annually appoint, subject to approval of the Board, a Human Resources Committee composed of not less than three (3) Directors, all of whom shall be outside Directors, and shall annually designate its chair. The Committee shall be responsible for evaluation of personnel development and programs and all other elements of the corporation's human resources strategy. Human resources strategy may include, but is not limited to, employee compensation, employee competency requirements, training, recruitment, retention and management development. The Committee shall be responsible for the performance review of the President and for the development of an appropriate compensation package on an annual basis. The compensation package of the President shall be presented to the Board of Directors for approval. The Committee shall consider such other matters relating to human resources as shall be determined by the Board of Directors or by the Chair of the Board of Directors.

5. Other Board Committees. The Chair of the Board may periodically appoint, subject to approval of the Board, such other committees composed of not less than three (3) Directors, at least a majority of whom shall be outside Directors, as may be necessary or desirable for the conduct of the business of the corporation, and shall designate the chair of each such committee. Each committee may be granted the authority of the Board in the management of the business of the corporation, to the extent provided in the Board's authorizing resolution, provided that each committee shall be subject at all times to the direction and control of the Board of Directors. Each committee shall make regular and special reports to the Board of Directors as the Board shall request, and such other reports as the committee may deem appropriate.

ARTICLE V.
Indemnification

The corporation shall indemnify, to the fullest extent permitted by the Minnesota Nonprofit Corporation Act, any person who is eligible for indemnification, including advances, including, but not limited to, current or former members, Directors, officers or employees of the corporation.

ARTICLE VI.
Adoption and Amendment of Bylaws, Rules and Regulations

The Board of Directors at its annual meeting, or at any meeting called for that purpose, to the fullest extent permitted by the Minnesota Nonprofit Corporation Act, is authorized and empowered to adopt such Bylaws, by the affirmative vote of two-thirds (2/3) of the entire Board of Directors, for the management of the affairs of this corporation, and to amend and repeal the same, as shall be deemed proper and for the best interests of the corporation. Further, the Board of Directors is authorized and empowered to adopt at any meeting, by the affirmative vote of a majority of the members of the Board of Directors present, such Rules and Regulations for the management of the affairs of this corporation, and to amend and repeal the same, as shall be deemed proper and for the best interests of the corporation.

HR2 I

EXECU..VE SUMMARY
ANNUAL MEASUREMENTS

2003 Annual Corporate Measures
Summary

The 2003 Annual Corporate Measures provide continued alignment to the strategic plan and take into consideration recommendations from the Watson Wyatt Executive Compensation Report of October 16, 2002, specifically concerning the method of determining an enrollment growth measure and reducing the number of measures to provide a stronger focus on the most important goals. Additional consideration was given to concerns raised with respect to operating income, margin or net income measures. The weighting on all measures has changed, with financial measures weighted at 50% of the total and non-financial measures weighted at 50%. The 2003 Annual Corporate Measures and rational are as follows:

Financial Measures

- All Operating Margin, expressed as a percentage of operating income to operating revenue, is an important financial measure distinct from net income and measures the strength of the business without the influence of investment income. Operating margin is a major component in the business plan for determining the target level of reserves required to pay claims and adequately cover other financial risks. There is no superior level award for this measure.

- Health Plan Administrative Expense PMPM remains as a measure and is aligned with the strategic intent to lower the overall economic burden of health care costs and the ability of Blue Cross to be competitive in the markets it serves.

Non-Financial Measures

- Health Plan Net Enrollment Growth is an important market measure for continued plan growth. The measurement period will be from February 1, 2003 through January 31, 2004. Enrollment growth includes all Blue Cross, Blue Plus, Atrium & First Plan fully insured and self insured business, CCS, Taft Hartley, Stop Loss only, Network Lease and MCHA.

- Member Touchpoint Measures (MTM) is the BCBSA benchmark for measuring operational and service performance. It measures claims, enrollment (membership), and inquiry (customer service) with respect to accuracy, quality and timeliness and includes Blue Card.

Risk Based Capital (RBC) is the circuit breaker, with a threshold value of 375%, or as established by the Blue Cross Blue Shield Association. No incentives are awarded if the RBC is at or below the threshold value.

EXECUTIVE SUMMARY
ANNUAL MEASUREMENTS

2001 Annual Corporate Measures
Summary

The 2001 Annual Corporate Measures provide continued alignment to the strategic plan and are consistent with the 2000 measures, with slight modifications. The weighting on all measures remains the same, with financial measures weighted at 55% of the total. In the non-financial measures NMIS has been replaced with Member Touchpoint Measures (MTM). The 2001 Annual Corporate Measures and rational are as follows:

Financial Measures

- All Operating Income is an important financial measure distinct from net income and measures the strength of the business without the influence of investment income.

- Health Plan Fully-Insured Loss Ratio is vitally important as a component of underwriting and determines in great part the ability of the company to meet operating income targets.

- Health Plan Administrative Expense PMPM is aligned with the strategic intent to lower the overall economic burden of health care costs and the ability of Blue Cross to be competitive in the markets it serves.

Non-Financial

- Health Plan Net Enrollment Growth is an important market measure for continued plan growth.

- Health Plan Customer Satisfaction is measured by two separate indicators: Member Touchpoint Measures (MTM) and Customer Loyalty Index. MTM is the BCBSA benchmark for measuring operational and service performance. It measures claims, inquiries and membership with respect to accuracy, quality and timeliness. Customer Loyalty Index is drawn from the Consumer Health Insurance Survey, which is conducted twice each year by an independent research company. The index is composed of responses to three items: 1) satisfaction with how well Blue Cross meets the members requirements, 2) willingness to recommend Blue Cross to a friend or family member, and 3) likelihood to switch to another plan at the next opportunity. The metric is the Blue Cross to competitor differential.

- Risk Based Capital (RBC) is the circuit breaker, with a threshold value of 375%, or as established by the Blue Cross Blue Shield Association.

2004 Aware Integrated, Inc./BCBSM
Corporate Goals & Measures

"The general purposes of the corporation shall be to make possible wide, economic and timely availability of hospital, medical-surgical, dental and other health services for the people of Minnesota and others through nonprofit, prepaid health service plans and thereby advance public health and the art and science of hospital, medical and health care under the laws of the State of Minnesota, and to serve as a nonprofit health service plan corporation under provisions of the Minnesota Nonprofit Health Service Plan Corporations Act." (Articles of Incorporation of BCBSM, Inc.)

The 2004 Corporate Plan builds on the foundation of previous annual operational goals and has defined the strategic themes in terms of achieving a balance between market position, financial strength, and consumer trust. The other corporate priorities in the 2004 Corporate Plan include: enrollment growth, operational effectiveness and efficiency, and health care cost and outcomes. Our Purpose, Our Values and Our Future guide our objectives and their related goals and measures.

Corporate Objectives, Goals and Measures

Objective	Goal	Measures
Market Position: Achieve and maintain a market position that allows maximum ability to deliver products and services to members in all market segments.	To increase health plan enrollment in all market segments, in a way that maintains our market strength statewide, regionally and with multi-state employers.	• Health Plan Net Enrollment Gain.
Consumer Bond: Build consumer trust by improving service, ease access, and creating better interactions with consumers.	To assure that our customers are satisfied with the services we provide to them and by health care providers in our networks.	• Health Plan Member Touchpoint Measures.
Financial Strength: Maintain adequate statutory capital position to have the financial strength and flexibility needed to achieve our business goals.	To control claim costs increases, manage the price we charge in the community so that it effectively covers the claims cost and allows for improvement in the reserve position while providing administrative rates that are market competitive.	• AII Operating Margin. • Health Plan Administrative Expense PMPM.

The National Association of Insurance Commissioners (NAIC) designated that Risk-Based Capital (RBC) is a measure of financial solvency. This RBC ratio quantifies the capital resources required for a health plan related to measures of risk relative to its own underwriting, investment, credit and general business risk profile. The Blue Cross Blue Shield Association has adopted a RBC minimum requirement, currently at 375%.

BCBSM 120938

2003 Aware Integrated, Inc./BCBSM
Corporate Goals & Measures

> *"The general purposes of the corporation shall be to make possible wide, economic and timely availability of hospital, medical-surgical, dental and other health services for the people of Minnesota and others through nonprofit, prepaid health service plans and thereby advance public health and the art and science of hospital, medical and health care under the laws of the State of Minnesota, and to serve as a nonprofit health service plan corporation under provisions of the Minnesota Nonprofit Health Service Plan Corporations Act."* (Articles of Incorporation of BCBSM, Inc.)

The 2003 Corporate Plan builds on the foundation of previous annual operational goals and has defined the strategic themes in terms of achieving a balance between market position, financial strength, and consumer trust. The other corporate priorities in the 2003 Corporate Plan include: service; major compliance initiatives; behavioral health; tobacco reduction; health care outcomes and cost control; Minnesota market share; provider network; enterprise data strategy; and benefit management. Our Purpose, Our Values and Our Future guide our objectives and their related goals and measures.

2002 Corporate Objectives, Goals and Measures

Objective	Goal	Measures
Market Position: Achieve and maintain a market position that allows maximum ability to deliver products and services to members in all market segments.	To increase health plan enrollment in all market segments, in a way that maintains our market strength statewide, regionally and with multi-state employers.	• Health Plan Net Enrollment Gain.
Consumer Bond: Build consumer trust by improving service, ease access, and creating better interactions with consumers.	To assure that our customers are satisfied with the services we provide to them and by health care providers in our networks.	• Health Plan Member Touchpoint Measures.
Financial Strength: Maintain adequate statutory capital position to have the financial strength and flexibility needed to achieve our business goals.	To control claim costs increases, manage the price we charge in the community so that it effectively covers the claims cost and allows for improvement in the reserve position while providing administrative rates that are market competitive.	• AII Operating Margin. • Health Plan Administrative Expense PMPM.

The National Association of Insurance Commissioners (NAIC) designated that Risk-Based Capital (RBC) is a measure of financial solvency. This RBC ratio quantifies the capital resources required for a health plan related to measures of risk relative to its own underwriting, investment, credit and general business risk profile. The Blue Cross Blue Shield Association has adopted a RBC minimum requirement, currently at 375%.

AWARE INTEGRATED, INC./
BLUE CROSS BLUE SHIELD OF MINNESOTA
GOVERNANCE COMMITTEE MINUTES

BCBSM 6TH Floor Meeting Room — **January 26, 2000**
St. Paul, Minnesota — **7:30 a.m.**

PRESENT: Rob Johnson, Chair
Joel Haugen, M.D.
John Kleinman, M.D.
Larry Mathias
Ellen Perl

ABSENT: None

ALSO PRESENT: Mark Banks, M.D.
Susan Boren (SpencerStuart)
Paul Earle (SpencerStuart)
Robert Milis
Richard Niemiec
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the AII/BCBSM Governance Committee to order at 7:30 a.m.

MINUTES:

The minutes of the AII/BCBSM Governance Committee regular meeting held December 10, 1999, were distributed in advance of the meeting. Rob Johnson, Chair, called for corrections and, hearing none, upon motion, seconded and carried, it was,

> RESOLVED, that the minutes of the AII/BCBSM Governance Committee regular meeting held December 10, 1999, be, and hereby are, approved as presented.

NEW BOARD MEMBER RECRUITMENT:

Staff was instructed to seek employment of an outside search firm for the purpose of identifying new board member candidates and as a consultant to review board processes. Staff selected the consulting firm of SpencerStuart. Susan Boren and Paul Earle from SpencerStuart attended the meeting to discuss governance issues.

A proposed process and schedule for board member recruitment was reviewed. The committee discussed characteristics of new board members that would provide the board with new board members that would compliment the current mix.

The committee was asked to fill out a questionnaire listing the most desired professional background characteristics and personal qualities that new board members would possess. The full board will be asked to fill out this questionnaire as well. This will give SpencerStuart an idea of what attributes are most important to the board as they begin the recruitment process.

Conference calls will be scheduled with the committee and SpencerStuart in March to prioritize a list of possible board candidates. At the committee's next scheduled meeting on March 22, a prioritized short list of candidates will be reviewed by the committee. It is planned that invitations will be extended to new board member candidates by May.

ACTION: Set up conference calls in March with the Governance Committee to prioritize potential candidate list. – Marsha Shotley

CONTINUING BOARD SERVICE

Susan Boren provided criteria for continuing board service. Discussion took place on term limits, job change or resignation, retirement, performance, attendance, age limits and residence. Ms. Boren recommended that for retirement, members be allowed to serve until the end of their current three-year term; the performance criteria be removed as this is managed through the board's annual self-evaluation; to continue with no board policy on age limits; and, to eliminate the requirement for Minnesota residency. The other criteria would remain the same as the present board policy. The committee agreed with her recommendations.

After discussion, upon motion, seconded and carried, it was,

> RESOLVED, that the staff develop a formal policy for continuing board service to bring to the next board meeting for formal adoption.

ACTION:

1. Develop policy for continuing board service for adoption at the next committee meeting. – Dick Niemiec, Chap Milis

2. Incorporate existing conflict of interest policy. – Dick Niemiec, Chap Milis

BOARD EVALUATIONS

Susan Boren provided recommendations on the board self-evaluation process, based on her experience with board best practices. She felt that the board has a good evaluation process that can be incrementally improved.

ACTION:

1. Review board self-evaluation process and draft new board self-evaluation form. – Dick Niemiec, Susan Boren.

ADJOURNMENT:

There being no further business to come before the Governance Committee, the meeting was adjourned at 8:30 a.m.

Respectfully submitted,

Rob Johnson

Rob Johnson, Chair

Next Meeting: Wednesday, March 22, 2000, at 7:30 a.m. in the 6th Floor Dining Room at BCBSM.

BCBSM Long-Term Incentive Award Measures of Achievement Results+

Period	Measures	Weight	Key Metric(s)	Type of Measure (F=Financial; NF=Non-Financial)	Weight of Metric	Threshold	Target	Superior	Result (Actual)	Achievement Level	Opportunity Achieved	Total Earned Award for Period
1998-2000 (36393)	Administrative Expense Ratio	n/a		F		13.1%	12.6%	12.1%	9.9%	150%		$1,093,202
	HP Market Share Growth	n/a		F		1.6%	2.1%	2.7%	2.6%	141.7%		$1,032,711
	TOTAL									145.8%		$2,125,913
1999-2001 (36544)	Administrative Expense Ratio	50%		F		10.9%	10.4%	9.9%	9.0%	150%		$1,226,355
	HP Enrollment Market Share Growth	50%		F		1.1%	1.9%	3.2%	2.1%	107.92%		$882,322
	TOTAL	50%F 50% NF		F						128.96%		$2,108,677
2000-2002# (36748)												
	Risk-Based Capital (w/o tobacco reserves)	35%	1. Solvency Level	F		424%	447%	469%	477%	150%	52.5%	$2,734,169
	Market Penetration	35%	1. Minnesota market share	F	25%	1.8%	2.5%	3.2%	0.7%	0.00%	0.00%	$0
			2. Total enrollment	F	10%	2,107,020	2,184,580	2,236,820	2,419,176	150%	15%	$781,191
	Health Improvement	30%	1. Flu immunization rate increase over baseline	NF	7.5%	12%	16%	20%	300%	150%	11.25%	$585,893
			2. Tobacco cessation (increase in total Member participants)*	NF	7.50%	10,000	18,000	26,000	16,613	87.90%	6.59%	$343,203
			3. Ischemic Heart Disease	NF	7.50%	20%	35%	50%	35%	100%	7.5%	$390,595
			4. Hypertension	NF	7.50%	15%	20%	25%	47%	150%	11.25%	$585,893
	TOTAL (36753)	70% F 30% NF								104.09%		$5,207,941
									03-05Projected Results (not actual)			
2003-2005 (120935)	Risk Based Capital (w/o tobacco)	25%	1. Solvency Level	F		455%	473-483	500%	439%			
	Market Growth	30%	1. Metro Market Share of Twin Cities area	F	15%	29.2%	30.6%	31.5%	27.10%			
			2. Total Enrollment Growth	F	15%	375,000	410,000	465,000	165,292			
	Health Improvement	30%	1. Diabetic Health	NF	10%	77.5	78.28	79.8	75			
			2. Heart Attack Reduction	NF	10%	1.006	0.982	0.919	1.197			
			3. Member who quit smoking	NF	10%	4,400	5,400	5,800	3,655			
	Customer Loyalty Index	15%		NF		0.16	0.220	0.280	0.155			
	TOTAL	55%F 45% NF										

Footnotes:

+ Opportunity achieved or performance in the 3 year period is calculated by multiplying the metric's weight% by the results achieved to create the overall opportunity achieved, which is used in the award calculation to fund the plan (36747)

 # BCBSM states that long-term measures have been redesigned and the LTI itself has changed (36747)

** Tobacco Cessation as a performance measure was to be dropped due to implementation of "BluePrint for Health care support programs" (36751)*

EXECUTIVE SUMMARY

AWARE INTEGRATED, INC
LONG-TERM MEASUREMENT

1998-2000

The 1998-2000 long-term measures retains the administrative expense ratio and market share component from the 97-99 period.

- **Administrative Expense Ratio** reflects the importance of controlling administrative expenses to ensure the competitive market position of BCBSM products and services. Target is a 12.8% Administrative Expense Ratio for 1998, a 12.7% for 1999 and a 12.4% for 2000. The 1998-2000 target is the average over the three year period, or 12.6%. Threshold is 13.1% and superior is 12.1%.

- **Total Health Enrollment Market Share** is aligned with the long-term strategic objectives. The 95-97 period identified the service area as all of Minnesota and Western Wisconsin. The 96-98, 97-99 and 98-00 periods focus entirely on Minnesota market share. The 1998-2000 Target is a 2.1% market share growth as measured on December 31, 2000, compared with the market share on December 31, 1997. Market Share threshold is 1.6% and superior is 2.7%. Total Minnesota only Net Enrollment Growth for the 98-00 period is forecast at 9.3%.

- **Risk Based Capital** has replaced Capital Benchmark as a circuit breaker and must be at least 375%, as determined by BCBSA,

Administrative Expense Ratio and Total Health Enrollment Market Share are weighted 50% each. The pro-forma used to calculate award earned in the 3 year period maintains that threshold or above must be reached at each measure to fund the plan.

The Human Resources Committee of the Board of Trustee's for Aware Integrated, Inc / Blue Cross and Blue Shield of Minnesota retains full and discretionary power and authority to make appropriate adjustments.

AWARE INTEGRATED / BCBSM
Long-Term Incentive Calibration - Pro Forma

1

	1998-2000	Aware Integrated Administrative Expense Ratio Weighted 50%	
Performance Standard			
Superior	12.1%		
Target	12.6%		
Threshold	13.1%		
Aware Integrated Results		9.9%	
Percent of Target		150%	$1,093,202

	1998-2000	BCBSM Health MarketShare Growth Weighted 50%	
Performance Standard			
Superior	2.7%		
Target	2.1%		
Threshold	1.6%		
BCBSM Results		2.6%	
Percent of Target		141.7%	$1,032,711
PRO-FORMA CALCULATION		145.8%	
RISK BASED CAPITAL		625-650%	
PRO-FORMA AWARD PAYOUT		145.8%	$2,125,913 Award

BCBSM - 36393

CIRCUIT BREAKER:
RISK BASED CAPITAL, AS DETERMINED BY BCBSA, MUST BE AT 375% OR HIGHER. NO LONG-TERM INCENTIVE AWARD WILL BE GRANTED IF THE CAPITAL BENCHMARK, AVERAGED OVER THE 12 QUARTERS OF THE 3 YEAR PERFORMANCE PERIOD, IS BELOW 375%.

EXECUTIVE SUMMARY
LONG-TERM MEASUREMENT

1999-2001

The 1999-2001 long-term measures retain the administrative expense ratio and market share component from the 97-99 and 98-00 period.

1999-2001 Long-Term Corporate Measures

- **Administrative Expense Ratio** reflects the continuing importance of controlling administrative expenses to ensure the competitive market position of BCBSM products and services. Target is a 10.7% Administrative Expense Ratio for 1999, a 10.4% for 2000 and a 10.0% for 2001. The 1999-2001 target is the average over the three-year period, or 10.4%. Threshold is 10.9% and superior is 9.9%.

- **Total Health Enrollment Market Share** is aligned with the long-term strategic objectives. The 95-97 period identified the service area as all of Minnesota and Western Wisconsin. The 96-98, 97-99, 98-00 and 99-01 periods focus entirely on Minnesota market share. The 1999-2001 Target is a 1.9% market share growth as measured on December 31, 2001, compared with the market share on December 31, 1998. Market Share threshold is 1.1% and superior is 3.2%. Total Minnesota only Net Enrollment Growth for the 99-01 period is forecast at 8.2%.

- **Risk Based Capital** as a circuit breaker replaces Capital Benchmark, Risk Based Capital (RBC) as determined by BCBSA, must be at 375% or higher, at the end of the 3-year performance period.

Administrative Expense Ratio and Total Health Enrollment Market Share are weighted 50% each. The pro-forma used to calculate award earned in the 3 year period maintains that threshold or above must be reached at each measure to fund the plan.

The Human Resources Committee of the Board of Trustee's for Aware Integrated, Inc / Blue Cross and Blue Shield of Minnesota retains full and discretionary power and authority to make appropriate adjustments.

99-01LTI.DOC

AWARE INTEGRATED / BCBSM
Long-Term Incentive Calibration - Pro Forma

Aware Integrated Administrative Expense Ratio
1999-2001

Performance Standard

Superior	9.9%
Target	10.4%
Threshold	10.9%

Aware Integrated Results		9.0%	
Percent of Target	50% WEIGHT	150.00%	Earned Award $1,226,355

BCBSM Health MarketShare Growth
1999-2001

Performance Standard

Superior	3.2%
Target	1.9%
Threshold	1.1%

BCBSM Results		2.1%	
Percent of Target	50% WEIGHT	107.92%	Earned Award $882,322
PRO-FORMA CALCULATION		128.96%	
Risk Based Capital		650-700%	
PRO-FORMA AWARD PAYOUT		128.96%	Total Earned Award $2,108,677

BCBSM- 36544

CIRCUIT BREAKER:
RISK BASED CAPITAL (RBC), AS DETERMINED BY BCBSA, MUST BE AT 375% OR HIGHER. NO LONG-TERM INCENTIVE AWARD WILL BE GRANTED IF THE RBC, AT THE END OF THE 3-YEAR PERFORMANCE PERIOD, IS BELOW 375%.

EXECUTIVE SUMMARY
LONG-TERM MEASUREMENT

2000-2002

The 2000-2002 long-term measures have been completely redesigned, as is the long-term incentive plan.

2000-2002 Long-Term Corporate Measures

- **Risk Based Capital** (RBC) is a formula adopted by the National Association of Insurance Commissioners (NAIC) in 1998 and adopted by the Blue Cross Blue Shield Association to replace the Capital Benchmark measure previously used. The purpose of RBC as a regulatory solvency tool is to help establish minimum capital requirement and measurements that are based on an individual company's size and risk profile. Target is 447%, Threshold is 424%, and Superior is 469%. **Results 477%.**

- **Market Penetration** is aligned with the long-term strategic objectives and is composed of two measures: 1) Minnesota market share and total enrollment. The 2000-2002 Target is a 2.5% market share growth as measured on December 31, 2002 compared with the market share on December 31, 1999. Market Share threshold is 1.8% and superior is 3.2%. **Results .7%.** Total Enrollment for the 00-02 period at Target is 2,184,580, threshold is 2,107,020 and Superior is 2,236,820. **Results 2,419,176.**
- **Health Improvement** is a new group of measures and is composed of four measures: 1) Flu Immunization rate increase over baseline, 2) Tobacco cessation, 3) Ischemic Heart Disease, and 4) Hypertension. The 2000-2002 metrics are as follows: Flu Immunization, Target +16%, Threshold +12%, and Superior +20%, **Results 300%**; Tobacco Cessation, Target 18,000 members, Threshold 10,000 members, and Superior 26,000 members, **Results 16,613**; Ischemic Heart Disease, Target 35%, Threshold 20%, and Superior 50%, **Results 35%**; Hypertension, Target +20%, Threshold +15%, and Superior +25%, **Results 47%.**

Risked Based Capital is weighted at 35%, Market Penetration is weighted at 35% with MN market share at 25% and total enrollment at 10%, and Health Improvement is weighted at 30% with each of the four metrics at 7.5% each. The opportunity achieved or performance in the 3-year period is calculated by multiplying the metric's weight (%) by the results achieved to create the overall opportunity achieved, which is used in the award calculation to fund the plan.

The Human Resources Committee of the Board of Trustee's for Aware Integrated, Inc / Blue Cross and Blue Shield of Minnesota retains full and discretionary power and authority to make appropriate adjustments.

Long Term Goals for the Health Improvement Index
Measured at the end of 2002

	Goals				
Health Improvement Initiatives	**Level 1 (one point)**	**Level 2 (two points)**	**Level 3 (three points)**	**Progress as of 12/31/02**	**Success Rate**
Flu Immunization	Increase by 12% over baseline the rate of adult influenza vaccination in the targeted populations of our members.	Increase by 16% over baseline the rate of adult influenza vaccination in the targeted populations of our members.	Increase by 20% over baseline the rate of adult influenza vaccination in the targeted populations of our members.	During the 2000-01 flu season, a baseline of 7,577 adults vaccinated at employer worksite flu clinics was established. At the conclusion of the 2001-02 flu season the number of adults vaccinated increased to 25,244.	Level 3 – a 300% increase was attained.
Tobacco Cessation and Prevention	Implement a tobacco cessation-counseling program and enroll 10,000 BCBSM members.	Implement a tobacco cessation-counseling program and enroll 18,000 BCBSM members.	Implement a tobacco cessation-counseling program and enroll 26,000 BCBSM members.	A total of 16,613 members were enrolled.	Level 1

Diabetes/ Ischemic **Heart Disease** (HMS)	Increase by 20% the number of high severity members in active case management.	Increase by 35% the total number of high severity members in active case management.	Increase by 50% the number of high severity members in active case management.	The HMS result for 2000 and 2001 is 58.8%. Beginning baseline of 170 with ending result of 270.	With the implementation of BluePrint for Health care support programs this goal is no longer applicable and will be dropped.
Hypertension	Show a 15% improvement in "well controlled" blood pressures.	Show a 20% improvement in "well controlled" blood pressures.	Show a 25% improvement in "well controlled" blood pressures.	HEDIS data from mid-2001 show that control rates have increased from 33.82% in 2000 to 46.96% in 2001 … an outstanding improvement of 47% over the year.	Level 3 – a 47% increase was attained.

Note: If all 4 of the Health Improvement Initiatives achieve Level 3 ratings, it is possible to earn 12 total points.

Scoring Methodology

Total Points	Rating
3	Threshold
9	Target
12	Superior

BCBSM-36751

EXECU… E SUMMARY
LONG-TERM MEASUREMENT

2003-2005

Long-Term Corporate Measures

- **Risk Based Capital** (RBC) is a formula adopted by the National Association of Insurance Commissioners (NAIC) in 1998 and adopted by the Blue Cross Blue Shield Association to replace the Capital Benchmark measure previously used. The purpose of RBC as a regulatory solvency tool is to help establish minimum capital requirement and measurements that are based on an individual company's size and risk profile. Target is within a range from 473% - 483%, threshold is 455%, and superior is 500%, with all values to reflect actual December 31, 2002 RBC value, which is used as the baseline.
- **Market Growth** is aligned with the long-term strategic objectives and is composed of two measures: 1) Metro market share and 2) Total enrollment growth. The 2003-2005 **Metro Market Share** Target is a market share of 30.6% as measured on December 31, 2005 compared with the market share on December 31, 2002. Market Share threshold is 29.2% and superior is 31.5%. **Total Enrollment Growth** for the 2003-2005 period at target is 410,000, threshold is 375,000 and superior is 465,000.
- **Health Improvement** is essential to delivering on our purpose and is composed of four measures: **1) Diabetic Health** is a statistically significant improvement in the percentage of diabetics in the population eligible for the program as of January 1, 2003. Target represents a statistically significant improvement in 2005 compared to the base year at a p value of <0.05, threshold at <0.1 and superior at <0.01. For example, the Hemoglobin A1c test results equal to or less than 8.0 in the base year was 73.4%, which translates to a target of 78.28%, threshold 77.50%, and superior 79.80%. **2) Heart Health** is a statistically significant reduction in the heart attack rate in the population eligible for the program as of January 1, 2003. Target represents a statistically significant reduction in heart attack rate at a p value of <0.05, threshold at <0.1 and superior at <0.01. For example, the heart attack rate in the base year was 1.093/1,000 members, which translates to a target of 0.982, threshold 1.006 and superior 0.919. **3) Members Quitting Smoking** is the cumulative number of members who have quit smoking, determined by applying the quit rate to the number of persons who have entered the Tobacco Cessation Program, with a target of 5,400, threshold of 4,400, and superior of 5,800.
- **Customer Loyalty** is an index scale based on member satisfaction with their health plan, likelihood to recommend their health plan, and likelihood to renew with their health plan. Target is the positive differential of +.22 between Blue Cross and its competitors with threshold of +.16 and superior of +.28.

Risked Based Capital is weighted at 25%, Market Penetration is weighted at 30% with Metro market share at 15% and total enrollment at 15%, Customer Loyalty is weighted at 15% and Health Improvement is weighted at 30% with each of the three metrics at 10.0% each. The pro-forma used to calculate the award earned in the 3-year period is calculated by multiplying the metric's weight (%) by the performance achieved to create the overall funding pool for the plan.

The Human Resources Committee of the Board of Trustee's for Aware Integrated, Inc / Blue Cross and Blue Shield of Minnesota retains full and discretionary power and authority to make appropriate adjustments.

2003 – 2005
Aware Integrated, Inc.
Long-term Measures

RISK-BASED CAPITAL (WITHOUT TOBACCO)

The projected December 31, 2005 RBC is expected to equal 445%. This value increases to 473% to discount the impact of non-operating surplus enhancement actions. Thus, 473% is used as the expected 2005 value.

Threshold of 455%	Established at 455%, which is the result if the stock portfolio performs at 2.5% per annum and all other operations perform to plan.
Target of 473-483%	Established as a range to reflect the inherent uncertainty in operations. The lower end of the range is at the 473% expected 2005 value. The upper end of the range is ten percentage points higher.
Superior of 500%	Established by looking at what would happen in 2006 if both operating income and stock market performance (the two principal drivers of RBC results) were sharply negative. A 1% operating loss, combined with a 10% portfolio decline would reduce 2006 RBC by over 100 points. Setting Superior at 500% represents a level at which we could sustain such a decline and still be above the Blue Cross Blue Shield Association threshold of 375% without Tobacco.

The above values are preliminary only and will be adjusted (most likely upward) to reflect actual December 31, 2002 as the starting point. The values will be presented to the Audit Committee for further review and to request approval on March 11, 2003.

Stock portfolio returns will be adjusted as needed to assure that results are no less than 2.5% per annum and no greater than 12.5% per annum – same as in the 2000-2002 plan. These adjustments are to assure that management is neither unduly rewarded for extremely favorable stock market performance, nor unduly penalized for extremely poor performance.

The targets presented here assume that throughout the incentive plan period Blue Cross and Blue Plus both remain below their maximum reserve (4 months and 3 months of claims and administrative expense, respectively). A variety of factors could contribute

Total Enrollment Gain

Total Enrollment Gain in the long-term program will be based on calendar year performance, rather than the February-January cycle used in the annual program. Historically, our total enrollment growth during recent 3-year periods has averaged 382,000 net new members. The range is as follows:

95-97: 348,023
96-98: 390,809
97-99: 361,659
98-00: 339,009
99-01: 361,846
00-02: 491,837

Threshold of 375,000	(Annual measure of 125,000 x 3) Achieved in only 2 of the last 6 three-year cycles.
Target of 410,000	Net new members. Since the 2003 forecast already projects a gain of 147,000 net new members, it is recommended that "Target" is set at a 6% gain in 2002, and a 5% gain for the two additional years, yielding a total enrollment of 410,000. Achieved in only 1 of the last 6 three-year cycles.
Superior of 465,000	(6% annual growth each year) Achieved in only 1 of the last 6 three-year cycles.

HEALTH IMPROVEMENT

Diabetes and heart disease afford great opportunities for improving the health of a population. Our investment in the BluePrint for Health care support program represents Blue Cross' commitment to helping our members with chronic disease.

Diabetic Health

This measure is to show the improvement in eligible members, within the program as of January 1, 2003, with diabetes who are considered in control of their disease as a result of the Care Support program. The universally accepted measure for good control is a HgbA1c level equal to or less than 8.0%. We collected the actual level of control in our population through an actual chart review of HgbA1c values as part of our NCQA HEDIS data collection. Using this methodology, we surveyed 320 charts to arrive at a statistically valid number of our members. NCQA national data indicates that the average percentage of members with HgbA1c levels less than 9.5 is approximately 63%, and at less than 8.0 is 50%. The base year level for the population in our measurement group, with HgbA1c levels less than 8.0 is 73.4%. Utilizing 73.4% as the base line, translates to the following increase we would expect to see for threshold, target and superior performance levels using statistically significant improvements at the 90th, 95th and 99th percentile confidence levels.

The following is proposed as the methodology to determine threshold, target and superior with a baseline of 73.4% of the measurement group's HgbA1c below 8.0%:

The following is proposed as the methodology to determine threshold, target and superior. If baseline A1c at or below 8.0% is 37%.

Threshold of 77.50% ($p<0.1$, with a confidence interval of 90%)

Target of 78.28% ($p<0.05$, established to realize a statistically significant improvement in 2005 compared to the base year. With a confidence interval of 95%)

Superior of 79.80% ($p<0.01$, with a confidence interval of 99%)

Heart Health

This measure is designed to show the impact of the Care Support program on decreasing the rate of myocardial infractions (MI) in eligible population, within the program as of January 1, 2003. This was calculated from claims data using ICD-9 diagnostic codes to identify cardiac events per the methodology described in the Care Support contract. The baseline measure were determined in August 2003, which encompass a full year of program operations with three months of claims run-out for this population.

The following methodology was utilized to determine threshold, target and superior. A statistically significant improvement (decrease) in MI rate/1000 shall be what is proposed for threshold, target, and superior improvement at the 90th, 95th, and 99th percentile confidence levels. The MI rate/1000 eligible members is 1.093 MI/1000 members and translates to the following:

Threshold of 1,006	($p<0.1$, with a confidence interval of 90%)
Target of 0.982	($p<0.05$, established to realize a statistically significant improvement in 2005 compared to the base year. With a confidence interval of 95%)
Superior of 0.919	($p<0.01$, with a confidence interval of 99%)

Members Quitting Smoking

The cumulative number of members who have quit, rather than the quit rate will be used as the measure. The rationale to use the number of members is that we could manipulate the quit rate through changes to the program (e.g., changing the program to recruit only those smokers who indicate they are ready to quit). The more important result is the number who quit. The number who quit will be determined by applying a quit rate (to be measured at least two additional times before 2005) to the number of persons who have entered the program through 2005. This allows us to recognize the impact of the program on all persons who have enrolled through 2005.

Threshold of 4,400	16% Quit rate, recruitment of 3,000 members/year 2003-2005
Target of 5,400	18.4% Quit rate, recruitment of 4,000 members/year x 10% growth
Superior of 5,800	20% Quit rate, recruitment of 4,000 members/year x 20% growth

Customer Loyalty Index

This measure is an index survey measure that generates a composite score based on consumer (our members and members of the other health plans in our market) responses to three items: 1) Overall health plan satisfaction, 2) Likelihood to renew their health plan membership at the next opportunity, and 3) willingness to recommend their health plan to others. Historically, our performance has been as follows:

- 1999: Differential of +.16
- 2000: Differential of +.14
- 2001: Differential of +.15
- 2002: Differential of +.22

Threshold of +.16	Represents a point where the drop in the differential over the 2002 results is statistically significant, however, the result has been achieved in only 2 of the 4 years the measure has been used.
Target of +.22	Represents the superior position of 2002 and designed to hold onto the high level of differential achieved.
Superior of +.28	Represents a statistically significant increase in the differential over the 2002 results and has never been achieved in previous years.

2003 – 2005
Aware Integrated, Inc.
Long-term Measures

HEALTH IMPROVEMENT

Diabetes and heart disease afford great opportunities for improving the health of a population. Our investment in the BluePrint for Health care support program represents Blue Cross' commitment to helping our members with chronic disease.

Diabetic Health

This measure is to show the improvement in eligible members, within the program as of January 1, 2003, with diabetes who are considered in control of their disease as a result of the Care Support program. The universally accepted measure for good control is a HgbA1c level equal to or less than 8.0%. We collected the actual level of control in our population through an actual chart review of HgbA1c values as part of our NCQA HEDIS data collection. Using this methodology, we surveyed 320 charts to arrive at a statistically valid number of our members. NCQA national data indicates that the average percentage of members with HgbA1c levels less than 9.5 is approximately 63%, and at less than 8.0 is 50%. The base year level for the population in our measurement group, with HgbA1c levels less than 8.0 is 73.4%. Utilizing 73.4% as the base line, translates to the following increase we would expect to see for threshold, target and superior performance levels using statistically significant improvements at the 90th, 95th and 99th percentile confidence levels.

The following is proposed as the methodology to determine threshold, target and superior with a baseline of 73.4% of the measurement group's HgbA1c below 8.0%:

Threshold	77.50% ($p<0.1$, with a confidence interval of 90%)
Target	78.28% ($p<0.05$, established to realize a statistically significant improvement in 2005 compared to the base year. With a confidence interval of 95%)
Superior	79.80% ($p<0.01$, with a confidence interval of 99%)

BCBSM 120933

Heart Health

This measure is designed to show the impact of the Care Support program on decreasing the rate of myocardial infractions (MI) in eligible population, within the program as of January 1, 2003. This was calculated from claims data using ICD-9 diagnostic codes to identify cardiac events per the methodology described in the Care Support contract. The baseline measure were determined in August 2003, which encompass a full year of program operations with three months of claims run-out for this population.

The following methodology was utilized to determine threshold, target and superior. A statistically significant improvement (decrease) in MI rate/1000 shall be what is proposed for threshold, target, and superior improvement at the 90th, 95th, and 99th percentile confidence levels. The MI rate/1000 eligible members is 1.093 MI/1000 members and translates to the following:

Threshold	1.006 ($p<0.1$, with a confidence interval of 90%)
Target	0.982 ($p<0.05$, established to realize a statistically significant improvement in 2005 compared to the base year. With a confidence interval of 95%)
Superior	0.919 ($p<0.01$, with a confidence interval of 99%)

BCBSM 120934

to exceeding the corridor, from better-than-expected operating results or investment returns to decisions to exit lines of business to delayed resolution of the tobacco lawsuit (thereby preventing the expected spend-down of Tobacco funds on the Investment in Prevention).

Decisions related to the Tobacco Proceeds Plan may impact the appropriate management actions which may be counter to the Risk Based Capital objective. In such situations management may approach the Human Resources Committee and the Board to adjust the target consistent with the management actions proposed.

MARKET GROWTH

Metro Market Share

The proposed measure is Blue Cross market share improvement within the 11 county Twin Cities area over the 3-year program. Counties include Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright. A market share measure will include all lines of business (Blue Cross, CCS, Blue Plus, FEP*) *Unable to allocate Wal-Mart national account members by county. Statewide, our market share grew at an average rate of one percentage point per year from 1995 through 2001. However, our Minnesota market share declined .6 of a point in 2002, from 33.5% to 32.9%. This measure attempts to control for PAR Plan membership within Minnesota by eliminating it from the denominator or the population. PAR Plan members are those members who are using our networks, but not our members who are choosing a competitor to the brand and under BCBSA regulations, we have no opportunity to prospect for them, consequently, they are excluded from the market share calculation. Actual annual numbers of PAR Plan membership in Minnesota will be used to adjust the Metro area population accordingly during the reporting period. In the 11-county Metro area, our market share declined by .8 of a point. As of January 1, 2003 we have 756,216 members in the Twin Cities area, representing a 26.2% market share. Population growth alone will add 124,000 to the Twin Cities over the 3-year period, at a growth rate of 1.4% a year.

Threshold of 29.2%	Metro market share (3.0 point gain)
Target of 30.6%	Metro market share (4.4 point gain). Since there is more urgency and opportunity to grow enrollment in the Twin Cities area, a 7% annual factor was applied to our present enrollment, yielding a 29.8% market share by the end of the 3-year period. This should be considered as very aggressive, and implies a gain of almost 1.5 points per year throughout the plan period:
Superior of 31.5%	Metro market share (5.3 point gain)

BCBSM 120928

Total Enrollment Gain

Total Enrollment Gain in the long-term program will be based on calendar year performance, rather than the February-January cycle used in the annual program. Historically, our total enrollment growth during recent 3-year periods has averaged 382,000 net new members. The range is as follows:

95-97: 348,023
96-98: 390,809
97-99: 361,659
98-00: 339,009
99-01: 361,846
00-02: 491,837

Threshold of 375,000 (Annual measure of 125,000 x 3) Achieved in only 2 of the last 6 three-year cycles.

Target of 410,000 Net new members. Since the 2003 forecast already projects a gain of 147,000 net new members, it is recommended that "Target" is set at a 6% gain in 2002, and a 5% gain for the two additional years, yielding a total enrollment of 410,000. Achieved in only 1 of the last 6 three-year cycles.

Superior of 465,000 (6% annual growth each year) Achieved in only 1 of the last 6 three-year cycles.

HEALTH IMPROVEMENT

Diabetes and heart disease afford great opportunities for improving the health of a population. Our investment in the BluePrint for Health care support program represents Blue Cross' commitment to helping our members with chronic disease.

BCBSM 120929

The following methodology was utilized to determine threshold, target and superior. A statistically significant improvement (decrease) in MI rate/1000 shall be what is proposed for threshold, target, and superior improvement at the 90th, 95th, and 99th percentile confidence levels. The MI rate/1000 eligible members is 1.093 MI/1000 members and translates to the following:

Threshold of 1.006	(p<0.1, with a confidence interval of 90%)
Target of 0.982	(p<0.05, established to realize a statistically significant improvement in 2005 compared to the base year. With a confidence interval of 95%)
Superior of 0.919	(p<0.01, with a confidence interval of 99%)

Members Quitting Smoking

The cumulative number of members who have quit, rather than the quit rate will be used as the measure. The rationale to use the number of members is that we could manipulate the quit rate through changes to the program (e.g., changing the program to recruit only those smokers who indicate they are ready to quit). The more important result is the number who quit. The number who quit will be determined by applying a quit rate (to be measured at least two additional times before 2005) to the number of persons who have entered the program through 2005. This allows us to recognize the impact of the program on all persons who have enrolled through 2005.

Threshold of 4,400	16% Quit rate, recruitment of 3,000 members/year 2003-2005
Target of 5,400	18.4% Quit rate, recruitment of 4,000 members/year x 10% growth
Superior of 5,800	20% Quit rate, recruitment of 4,000 members/year x 20% growth

Customer Loyalty Index

This measure is an index survey measure that generates a composite score based on consumer (our members and members of the other health plans in our market) responses to three items: 1) Overall health plan satisfaction, 2) Likelihood to renew their health plan

BCBSM PAYMENTS TO SPENCER STUART

YEAR	AMOUNT BCBSM SPENT ON SPENCER STUART SERVICES
2000	$ 164,719 (BCBSM - 73208)
2001	$ 96,466 (BCBSM - 59750)
2002	$ 110,000 (BCBSM - 59733)
TOTAL	$ 371,803.42

AG: #1586971-v1

Following discussion, upon motion, seconded and carried, it was,

RESOLVED, that the 2001 meeting dates for the Governance Committee be, and hereby are, approved as presented.

BLUE CROSS FOUNDATION BOARD MEMBER SELECTION PROCESS

Mr. Niemiec reported that several potential candidates from diverse backgrounds have been identified for the Blue Cross Foundation board member selection process. An external board member will be appointed by BCBSM in conjunction with the March 2001 Blue Cross Foundation Board Meeting.

BOARD MEMBER RECRUITMENT PROCESS AND BALANCE OF DIVERSITY AND STRENGTHS

Susan Boren, Consultant, SpencerStuart attended the Governance Committee meeting to discuss potential board candidates. Ms. Boren asked the committee to review a list of board prospects to determine which candidates are of high interest to the committee. The committee reviewed a graph of current board strengths to determine areas which need focus. The committee asked that the areas of quality improvement and sales and marketing be listed as categories of board strengths for review.

The committee discussed and identified a need for board members with experience in Information Services and Technology, and Human Resources. In addition, board members from rural Minnesota would be beneficial to the board's composition.

Ms. Boren will identify lists of the top candidates in these areas to pursue further with the committee. These lists will be provided to Mr. Niemiec the first week of January 2001.

EVALUATION OF BOARD MEMBERS, OFFICERS AND COMMITTEE CHAIRS

The committee reviewed the current evaluation process for individual board members at the end of their terms. It was noted that it is very important to evaluate the contributions of each board member, the board chair, board officer, committee chairs, and each individual's personal interest in serving an additional term. It was also noted that the Chair of the Governance Committee should consult with the CEO and the Chair of the Board to solicit feedback on individual board member contributions and to discuss any identified issues.

Ms. Boren recommended that the board evaluation target questions that not only are specific to evaluation of the board and committee members, but also to get at the members' interests, such as when they want to be on a specific committee. Also, the end-of-term evaluation should include review of attendance and contribution level of the board member.

BCBSM Annual Incentive Award Measures of Achievement and Results

Year	AIA measures	Type of Measure F=financial; NF=non-financial	Weight	Threshold	Target	Superior	Result	Achievement Level	Opportunity Achieved	Tot Financial Achievement (avg of financial opportunity achieved)	Tot Non-Financial Achievement	Tot Corp Achievement Toward Goals	Target Funding Pool of Money for Top Execs as Group	Actual Funding Pool Earned
2000 (36389-36390)	HP Net Enrollment Gain	NF	25%	70,000	99,000	120,000	115,975	140.40%	35.10%				$505,882	$710,258
	National Management Information System (NMIS) and Member Touchpoint Measure score (MTM)	NF	10%	85	90	95	85.7	40%	4%				$202,353	$80,941
	Customer Loyalty Index	NF	10%	0.05	0.15	0.3	0.55	34%	3%				$202,353	$68,800
	All Operating Income	F	25%	10,000,000	24,000,000	38,000,000	22,521,000	92.80%	23.20%				$505,882	$469,458
	All Insured Health Plan Loss Ratio	F	10%	86.60%	85.10%	84.10%	85.40%	86.00%	8.60%				$202,353	$174,024
	HP Administrative Expense Ratio	F	20%	9.60%	9.30%	9.00%	9.20%	116.50%	23%				$404,706	$471,482
	TOTAL	55%F 45%NF								98%	71%	97.6%	$2,023,529	$1,974,963
2001 (36540-36541)	HP Net Enrollment Gain	NF	25%	55,000	79,000	105,000	143,000	150%	38%				$553,100	$829,650
	MTM score	NF	10%	85	90	95	89.2	88.80%	8.90%				$221,240	$196,461
	HP Customer loyalty Index	NF	10%	0.09	0.17	0.22	0.155	86.90%	8.70%				$221,240	$192,258
	All Operating Income	F	25%	10,000,000	30,000,000	50,000,000	58,531,000	150%	37.50%				$553,100	$829,650
	HP Fully-Insured Loss Ratio	F	10%	87.30%	85.80%	84.80%	85.30%	125%	12.50%				$221,240	$276,550
	HP Administrative Expense PMPM	F	20%	13.90	13.36	12.9	13.21	116.30%	23.30%				$442,479	$514,603
	TOTAL	55%F 45%NF								130.4%	108.5%	128.4%	$2,212,399	$2,839,172

BCBSM Annual Incentive Award Measures of Achievement and Results

Year	AIA measures	Type of Measure F=financial; NF=non-financial	Weight	Threshold	Target	Superior	Result	Achievement Level	Opportunity Achieved	Tot Financial Achievement (avg of financial opportunity achieved)	Tot Non-Financial Achievement	Tot Corp Achievement Toward Goals	Target Funding Pool of Money for Top Execs as Group	Actual Funding Pool Earned
2002 (36743-36744)	HP Net Enrollment Gain	NF	20%	184,000	222,000	264,000	232,554	112.56%	22.50%				$481,233	$541,676
	MTM score	NF	15%	85	90	95	90.81	108%	16%				$360,924	$390,159
	HP Customer loyalty Index	NF	10%	0.09	0.17	0.22	0.22	150%	15%				$240,616	$360,924
	All Operating Income	F	25%	28,000,000	49,000,000	79,000,000	78,762,000	149.60%	37.40%				$601,541	$899,484.00
	HP Fully Insured Loss Ratio	F	10%	88%	86.50%	85.50%	85.10%	150.00%	15.00%				$240,616	$360,924
	HP Administrative Expense PMPM	F	20%	13.71	13.18	12.72	13.3	84.15%	16.80%				$481,233	$404,958
	TOTAL	55%F 45%NF								128%	124%	122.9%	$2,406,163	$2,958,125
2003 (36906)	HP Net Enrollment Gain	NF	30%	85,000	125,000	150,000	45,154	0.00%	0.00%				$778,752	$0
	MTM score (note NMIS replaced by MTM, 36904)	NF	20%	87	92	96	88.51	51.14%	10.20%				$519,168	$265,503
	All Operating Margin	F	30%	0.72%	0.87%	0.87%	2.17%	100%	30%				$778,752	778,752
	HP Administrative Expense PMPM	F	20%	13.71	13.18	12.72	12.73	148.91%	29.80%				$519,168	$773,109
	TOTAL	50%F 50%NF								127.89%	25.5%	70%	$2,595,840	$1,817,364
2004 (120941)	All Operating Margin	F	30%	0.17%	0.52%	0.52%	0.60%	100%	30%					
	HP Admin PMPM	F	20%	13.71	13.18	12.72	12.63	171.40%	34.28%					
	HP Net Enrollment Gain	NF	30%	90,000	130,000	155,000	70,120	0.00%	0%					
	Health Plan MTM	NF	20%	80	85	89	85.92	116.40%	23.28%					
	TOTAL	50%F 50%NF								64.28%	23.28%	87.6%	n/a	n/a

01/09/06

EXECUTIVE SUMMARY
AWARE INTEGRATED, INC & BLUE CROSS BLUE SHIELD OF MINNESOTA
OFFICER INCENTIVE PROGRAM
2000 RESULTS

The Officer Incentive Program had a targeted incentive opportunity of $2,023,529. The incentive pool funding is as follows:

Objective	Weighted Target	Target Funding	Actual Results	Actual Funding
Aware Integrated Operating Income	25%	$505,882	92.6%	$469,458
Aware Integrated Insured Loss Ratio	10%	$202,353	86.0%	$174,024
Aware Integrated Administrative Expense Ratio	20%	$404,706	116.5%	$471,482
Health Plan Net Enrollment Gain	25%	$505,882	140.4%	$710,258
Health Plan NMIS/MTM	10%	$202,353	39.5%	$80,941
Health Plan Customer Loyalty Index	10%	$202,353	33.5%	$68,800
Total	100%	$2,023,529		$1,974,963

Risk Based Capital at 12/31/00 are in a range of 625-650%, which exceeds the minimum level of 375%.

The weighting between the corporate objectives and the individual objectives determines how much of the pool is available for individual results. The corporate objectives account for 76% of funded awards and individual objectives account for 24%. The Corporate Opportunity is $1,540,877 and given a 97.6% result, it would fund $1,503,896 for distribution. The Individual Opportunity* is $378,971 with 97.6% available for distribution, based on individual results. The individual pool does not have enough funds to cover the actual earned results ($432,329) of individual measures, therefore, each officers individual earned incentive is pro-rated by 85.6%. The total individual payout is $370,073.

BCBSM-36390

EXECUTIVE SUMMARY
AWARE INTEGRATED, INC & BLUE CROSS BLUE SHIELD OF MINNESOTA
OFFICER INCENTIVE PROGRAM
2001 RESULTS

The Officer Incentive Program had a targeted incentive opportunity of $2,212,399. The incentive pool funding is as follows:

Objective	Weighted Target	Target Funding	Actual Results	Actual Funding
Aware Integrated Operating Income	25%	$553,100	150.0%	$829,650
Health Plan Insured Loss Ratio	10%	$221,240	125.0%	$276,550
Health Plan Administrative Expense PMPM	20%	$442,479	116.3%	$514,603
Health Plan Net Enrollment Gain	25%	$553,100	150.0%	$829,650
Health Plan MTM	10%	$221,240	88.8%	$196,461
Health Plan Customer Loyalty Index	10%	$221,240	86.9%	$192,258
Total	100%	$2,212,399		$2,839,172

BCBSM- 36541

Risk Based Capital at 12/31/01 is in a range of 625-650%, which exceeds the minimum level of 375%.

The weighting between the corporate objectives and the individual objectives determines how much of the pool is available for individual results. The corporate objectives account for 75% of funded awards and individual objectives account for 25%. The Corporate Opportunity is $1,664,859 and given a 128.4 % result, it would fund $2,137,679 for distribution. The Individual Opportunity* is $388,300 with $498,577 available for distribution, based on individual results. If the individual pool does not have enough funds to cover the actual earned results of individual measures, each officers individual earned incentive is pro-rated. The final results from individual officers totaled $439,345, therefore no pro-ration is required.

* All bonuses are contingent on funding from the corporate measurements identified above, except for the four subsidiary officers, whose individual incentive awards ($159,240 at target opportunity) are determined by the performance of their individual company. Actual results for the four subsidiary officers was $206,551.

EXECUTIVE SUMMARY
AWARE INTEGRATED, INC & BLUE CROSS BLUE SHIELD OF MINNESOTA
OFFICER INCENTIVE PROGRAM
2002 RESULTS

The Officer Incentive Program had a targeted incentive opportunity of $2,406,163. The incentive pool funding is as follows:

Objective	Weighted Target	Target Funding	Actual Results	Actual Funding
Aware Integrated Operating Income	25%	$601,541	149.53%	$899,484
Health Plan Insured Loss Ratio	10%	$240,616	150.0%	$360,924
Health Plan Administrative Expense PMPM	20%	$481,233	84.15%	$404,958
Health Plan Net Enrollment Gain	25%	$481,233	112.56%	$541,676
Health Plan MTM	10%	$360,924	108.10%	$390,159
Health Plan Customer Loyalty Index	10%	$240,616	150.0%	$360,924
Total	100%	$2,406,163	122.94	$2,958,125

BCBSM-36744

Risk Based Capital (All consolidated with tobacco reserves) at 12/31/02 is in a range of 640-650%, which exceeds the minimum level of 375%.

The weighting between the corporate objectives and the individual objectives determines how much of the pool is available for individual results. The corporate objectives account for 76.4% of funded awards and individual objectives account for 23.6%. Of the $2,406,163 targeted incentive opportunity the corporate objectives represent an opportunity of $1,837,672 and given a 122.94% result, it would fund $2,259,234 for distribution. The individual objectives represent an opportunity* of $568,491 and given a 122.94% result, it would fund $698,903, which is available for award distribution, based on individual results. If the individual pool does not have enough funds to cover the actual earned results of individual measures, each officers individual earned incentive is pro-rated.

* All bonuses are contingent on funding from the corporate measurements identified above, except for the four subsidiary officers, whose individual incentive awards ($157,880 at target opportunity) are determined by the performance of their individual company.

BLUE CROSS BLUE SHIELD OF MINNESOTA

Date 2/4/2003

Goal #	Goal Summary	Opportunity (weighting)	Threshold	Target	Superior	Projected Results	Actual Achievement	Opportunity Achieved
1	RISK BASED CAPITAL (W/OUT TOBACCO RESERVES)	35%	424	447	469	477	150.0%	52.50%
2	MINNESOTA MARKET SHARE GROWTH	25%	1.8	2.5	3.2	0.7	0.0%	0.00%
3	TOTAL ENROLLMENT GROWTH	10%	2,107,020	2,184,580	2,236,820	2,419,176	150.0%	15.00%
4	FLU IMMUNIZATION RATE	7.5%	12%	16%	20%	300%	150.0%	11.25%
5	TOBACCO CESSATION ENROLLMENT	7.5%	10,000	18,000	26,000	16,613	87.9%	6.59%
6	ISCHEMIC HEART DISEASE CASES IN ACTIVE C.M.	7.5%	20%	35%	50%	35%	100.0%	7.50%
7	HYPERTENSION CONTROL RATE	7.5%	15%	20%	25%	47%	150.0%	11.25%

TOTAL (WEIGHTING): 100%

Note: Superior for 2 of 3 years.

PROJECTED TOTAL: 104.09%

BCBSM-36748

2003 - 2005 Term Corporate Goals

BLUE CROSS BLUE SHIELD OF MINNESOTA						Date	2003		
Measure	Measure Summary	Opportunity (weighting)	Threshold	Target	Superior	Projected Results	Actual Achievement	Opportunity Achieved
1	RISK BASED CAPITAL (W/OUT TOBACCO RESERVES)	25%	455%	473-483	500%	439%	0.0%	0.00%
2	METRO MARKET SHARE OF THE 11 COUNTY TWIN CITIES AREA	15%	29.2%	30.6%	31.5%	27.1%	0.0%	0.00%
3	TOTAL ENROLLMENT GROWTH	15%	375,000	410,000	465,000	165,292	0.0%	0.00%
4	CUSTOMER LOYALTY INDEX	15%	0.16	0.22	0.28	0.155	0.0%	0.00%
5	SIGNIFICANT IMPROVEMENT IN GOOD CONTROL OF HgbA 1c LEVEL EQUAL TO OR LESS THAN 8.0% IN THE POPULATION ELIGIBLE FOR THE CARE SUPPORT PROGRAM	10%	77.5	78.28	79.8	75.0	0.0%	0.00%
6	SIGNIFICANT REDUCTION IN MYOCARDIAL INFARCTIONS IN THE POPULATION ELIGIBLE FOR THE CARE SUPPORT PROGRAM	10%	1.006	0.982	0.919	1.197	0.0%	0.00%
7	NUMBER OF MEMBERS WHO QUIT SMOKING	10%	4,400	5,400	5,800	3,655	0.0%	0.00%
	TOTAL (WEIGHTING):	100%						
							PROJECTED TOTAL:	0.00%

BCBSM 120935

Susan Boren and Dick Niemiec will make revisions to the questionnaire and forward the questionnaire to Rob Johnson, Chair, for distribution. The questionnaire results will be reported by Rob Johnson at the March meeting.

Upon motion, seconded and carried, it was

RESOLVED, that the questionnaire be, and hereby is, approved as revised.

BOARD MEMBER RECRUITMENT PROCESS:

Susan Boren, Consultant, SpencerStuart, provided the committee with a revised list of candidates based on the previous discussion with the committee on December 13, 2000. The areas of Human Resources, Information Services and Technology, and geographic location were used to place candidates in categories to pursue further review with the committee.

The committee reviewed the candidates in each category, determining a list of candidates and ranking them in an "A" list order.

Ms. Boren will contact the candidates in the Human Resources category, then the Information Services and Technology category, in that order, to determine interest and availability. Dick Niemiec will keep the board apprised of any progress made in the review process.

RENOMINATION:

Mr. Johnson has spoken with all individuals who are at the end of a 3-year term. These individuals include: Andy Czajkowski, Joel Haugen, Rob Johnson, Jonathon Killmer, John Lettmann, John Murphy and Ellen Perl. It was noted that all candidates are interested in continuing their service for another 3-year term. At the March meeting, the Governance Committee will formally nominate board candidates for the annual meeting in May 2001.

CHAIRMAN RECRUITMENT PROCESS:

Joel Haugen reported that the subcommittee met to provide recommendations to the Governance Committee for the positions of Chair and Vice Chair of the Aware Integrated, Inc. Board of Directors and Blue Cross Blue Shield of Minnesota Board of Trustees.

The slate of candidates reviewed by the subcommittee for the position of Chair included: John Murphy, Jonathon Killmer, John Lettmann and Rob Johnson. Ellen Perl was also considered for the position of Vice Chair. It was noted that Ms. Perl declined the opportunity to run as Chair, but did agree to be considered for the position of Vice Chair.

EXECUTIVE SUMMARY

AWARE INTEGRATED, INC & BLUE CROSS BLUE SHIELD OF MINNESOTA
OFFICER INCENTIVE PROGRAM

2003 RESULTS

The Officer Incentive Program had a targeted incentive opportunity of $2,595,840. The incentive pool funding is as follows:

Objective	Weighted Target	Target Funding	Actual Results	Actual Funding
Aware Integrated Operating Income	30%	$778,752	100.0%	$778,752
Health Plan Administrative Expense PMPM	20%	$519,168	148.9%	$773,109
Health Plan Net Enrollment Gain	30%	$778,752	0%	$0
Health Plan MTM	20%	$519,168	51.1%	$265,503
Total	100%	$2,595,840	70.0%	$1,817,363

Risk Based Capital (All consolidated with tobacco reserves) at 12/31/03 is in a range of 650% +/- 10%, which exceeds the minimum level of 375%.

For 2003, all officers are weighted at 100% on the corporate objectives, except the three subsidiary officers who have a 20% corporate weight and an 80% weight on the results of their own subsidiaries. All bonuses are contingent on funding from the corporate measurements identified above, except for the three subsidiary officers, whose individual incentive awards ($154,560 at target opportunity) are determined by the performance of their individual company

BCBSM- 36907

Aware Integrated, Inc.
Human Resources Committee
Minutes

5th Floor Conference Room | **January 20, 2004**
Eagan, Minnesota | **3:30 p.m.**

Present: Shirley Hughes, Chair
Ben Field
John Lettmann
Peter McNerney

Absent: Joel Haugen, M.D.
John Kleinman, M.D.
Ellen Perl

Others Present: Mark Banks, M.D.
Roger Kleppe
Richard Neuner
Sandy Shapiro
William Gold, M.D.
Stephen Griffiths, Ph. D., M.S.

Call

The Human Resources Committee was called to order by Shirley Hughes, Chair at 3:30 p.m.

Approval of Minutes

Ms. Hughes accepted a motion for approval of the minutes of the November 18, 2003, Blue Cross Blue Shield of Minnesota Human Resources Committee. Upon motion, seconded and carried, it was:

> RESOLVED, that the minutes of the Blue Cross Blue Shield of Minnesota Human Resources Committee meeting held on November 18, 2003, be, and hereby are, approved.

Review and Approve the 2003 Annual Incentive Plan Results

Mr. Kleppe reviewed the preliminary results for the 2003 annual incentive program indicating the corporation achieved 67.0% of its targets, substantially less than last year's achievement of 122.9%. Historical results as follows: 2001 (128.4%), 2000 (97.6%), 1999 (80.2%), 1998 (114.6%), 1997 (105.5%), 1996

Trustees approves the 2003 audited financial statements of Aware Integrated, Inc., and the Chair of the Human Resources Committee gives final approval of the year-end results, be and hereby are approved.

Review and Approve the 2004 Annual Corporate Goals

Mr. Kleppe reviewed with the Committee the 2004 annual corporate measures (financial and non-financial performance measures). Each measure was discussed for inclusion as a corporate measure and the specific metrics for threshold, target and superior were presented and discussed. The annual corporate measures form the basis for funding the annual incentive program for officers, individuals in the corporate incentive plan (all employees) and the supplemental matching contributions in the 401(k) plan. Mr. Kleppe reported that the proposed 2004 Annual Corporate Measures provide continued alignment to the strategic plan. Mr. Kleppe stated that the proposed weighting on all measures would remain the same, with financial measures weighted at 50% of the total and non-financial measures weighted at 50%. Discussion centered on the threshold, target and superior metrics, with Committee members questioning the amount of challenge needed to reach target performance levels. Mr. Kleppe reported that management recommended keeping the Operating Margin measure limited to target achievement only with no provision for superior performance or awards, and in doing so, will also recommend increasing the superior calculation for the other three measures from 150% to 171.4%, so that the total opportunity at superior is 150%. The total opportunity would then be consistent with market practices and align with the executive compensation philosophy. Mr. Kleppe reported that under the probability percentages and the award factors established, the range of performance could realistically be expected to be within 92% to 117% on an annual basis. The Committee discussed this relative to their industry and experience and referenced the Watson Wyatt findings from last year regarding targeting total cash compensation to median levels. Upon motion, seconded and carried, it was:

> RESOLVED, that the 2004 annual corporate goals and measures, as recommended by the Chief Executive Officer and as presented, be and hereby are approved for recommendation to the Board of Trustees for approval, and that such measures form the basis for funding the annual incentive program for officers, participants in the Corporate Incentive Program and the 401(k) Supplemental Match, and that such measures form the annual incentive program for the Chief Executive Officer with recommendation to the Board of Trustees.

AWARE INTEGRATED, INC.
GOVERNANCE COMMITTEE MINUTES

BCBSM 6th Fl.
Eagan, Minnesota

May 23, 2001
7:30 a.m.

PRESENT: Rob Johnson, Chair
Emmett Carson, Ph.D.
Joel Haugen, M.D.
Ellen Perl

ABSENT: None

ALSO PRESENT: Mark Banks, M.D.
Robert Milis
Richard Niemiec
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the Aware Integrated, Inc. Governance Committee to order at 7:30 a.m.

MINUTES:

The minutes of the Aware Integrated, Inc. Governance Committee meeting held March 28, 2001, were distributed in advance of the meeting. Mr. Johnson called for corrections.

Following discussion, upon motion, seconded and carried, it was

> RESOLVED, that the minutes of the Aware Integrated, Inc. Governance Committee meeting held March 28, 2001, be, and hereby are, approved as corrected.

BOARD MEMBER RECRUITMENT PROCESS:

Rob Johnson and Emmett Carson met with Shirley Hughes, Senior Vice President, Ceridian Corporation, an identified "A" category candidate based on previous discussions with the Governance Committee. Mark Banks met with Ms. Hughes as well on a separate occasion. Both meetings were positive.

Mr. Johnson and Ellen Perl met with Wayne Fortun, President and CEO, Hutchinson Technologies, Inc., an identified "A" category candidate, as well. Dr. Banks met with Mr. Fortun on a separate occasion. Both meetings were positive. However, Mr. Fortun may have conflicts of interest at this time.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that Shirley Hughes, be, and hereby is, nominated for election as a Director of Aware Integrated, Inc. to serve for a three-year term expiring at the annual meeting in 2004.

SELF-EVALUATION:

Mr. Johnson asked the Governance Committee at its prior meeting to review the self-evaluation responses for discussion on this date. After its review, the committee noted that they felt the self-evaluation was positive.

Some items to work on for 2001-2002 are having the board members bring forth topics for discussion at the board meetings, and to keep the full board apprised of committee meeting discussions on very important topics such as the tobacco proceeds plan of action.

The committee also asked that the full board receive the self-evaluation comments for their information.

BOARD COMPENSATION:

Dick Niemiec, Senior Vice President, Corporate Affairs and Subsidiary Operations, reported that according to the Korn/Ferry International Annual Board of Directors Study 2000, there has been less than a 1% change in compensation for the year 2000. It is recommended that the board compensation not be changed at this time.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, RESOLVED, that the Governance Committee recommends continuation of current board member compensation as set forth below and directs that said compensation be maintained until modified by the board.

	Current
Board Member Annual Retainer:	\$20,000
Board Chair Annual Retainer:	\$20,000 + \$10,000
Board Committee Chair Retainer:	\$20,000 + \$2,500

*Committee Meeting Fee:	
Chair:	$1,000
Member:	$800
Board Meeting Fee:	
Chair:	$1,200
Member:	$1,000
Telephone Conference Fee:	$500
Out-of-Pocket Expenses:	As incurred.

***Including Aware Integrated, Inc., Business Development Committee**

BOARD OFFICERS:

The Governance Committee reviewed the following slate of officers.

Following discussion, upon motion, seconded and carried, it was

Aware Integrated, Inc.

RESOLVED, that the following individuals be, and hereby are, nominated as Board Officers and Operating Officers of Aware Integrated, Inc., each to serve a one-year term expiring at the Annual Meeting in 2002, or at the pleasure of the Aware Integrated, Inc., Board:

Board Officers

John M. Murphy, Chair
Robbin S. Johnson, Vice Chair, Secretary
Jonathon Killmer, Treasurer
Mark W. Banks, M.D., President and Chief Executive Officer

Operating Officers

Richard M. Niemiec, Senior Vice President, Corporate Affairs
and Subsidiary Operations
John N. Ounjian, Senior Vice President and Chief Information Officer
Colleen F. Reitan, Senior Vice President, Network Management
and Government Business
Marsha A. Shotley, Assistant Secretary

CONFLICT OF INTEREST QUESTIONNAIRES:

Mr. Niemiec and Robert Milis, Vice President and General Counsel, BCBSM, reviewed the Conflict of Interest Questionnaires with the committee and recommended three revisions.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the revised Conflict of Interest Questionnaire for board members, be and hereby is, approved.

NEW BOARD MEMBER ORIENTATION:

Mr. Niemiec reviewed with the committee the new board member orientation process. Based on if the board elects Ms. Hughes at today's meeting, a new board member orientation meeting would be scheduled as soon as possible based on Ms. Hughes' calendar. All other board members would be invited to attend, as well. Mr. Niemiec will schedule a date and notify the board in the near future.

ADJOURNMENT:

There being no further business to come before the Governance Committee, the meeting was adjourned at 8:05 a.m.

Respectfully submitted,

Rob Johnson

Rob Johnson, Chair

Next Meeting: Wednesday, September 26, at 7:30 a.m. in the 6th Floor Dining Room at BCBSM.

AWARE INTEGRATED, INC.
GOVERNANCE COMMITTEE MINUTES

BCBSM 6th Fl. **December 5, 2001**
Eagan, Minnesota **7:30 a.m.**

PRESENT: Rob Johnson, Chair
Emmett Carson, Ph.D.
Joel Haugen, M.D.
Ellen Perl

ABSENT: None

ALSO PRESENT: Mark Banks, M.D.
Robert Milis
Richard Niemiec
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the Aware Integrated, Inc. Governance Committee to order at 7:30 a.m.

MINUTES:

The minutes of the Aware Integrated, Inc. Governance Committee meeting held September 26, 2001, were distributed in advance of the meeting. Mr. Johnson called for corrections.

Following discussion, upon motion, seconded and carried, it was

> RESOLVED, that the minutes of the Aware Integrated, Inc. Governance Committee meeting held September 26, 2001, be, and hereby are, approved as presented.

BOARD MEMBER RECRUITMENT PROCESS:

Currently, the Aware Integrated, Inc. Board of Directors is at its minimum number of members. It was decided that two new board members would be recruited for the 2002 annual meeting in one or more of the identified areas of finance, public relations, marketing and public policy. Susan Boren, Consultant with SpencerStuart, will continue to provide assistance in the recruitment of one new board member in the area(s) of finance, marketing and public relations. The Governance Committee members will look to recruit one new board member in the area of public policy. Mark Banks and Dick Niemiec will provide a list of people to consider for this position and asked that if the committee members knew of possible candidates that they provide names to Dick Niemiec to add to the list.

RENOMINATION OF BOARD MEMBERS AT END-OF-TERM:

There are two board members who are eligible for renomination: Andy Czajkowski and John Kleinman. Mr. Czajkowski is elected yearly, and Mr. Kleinman is at the end of a 3-year term. The committee decided that both members are contributing to the board's success and they should be asked for their interest in continuing to serve. Dr. Banks will have a conversation with Mr. Czajkowski on his interest in continuing for one more year. Mr. Johnson will have a conversation with Mr. Kleinman on his interest in continuing for another 3-year term. Both will report at the next committee meeting on February 6, 2002.

The committee amended the Individual Board Member End-of-Term Evaluation. The first bullet, first sentence was amended as follows: The Chair of the Governance Committee should consult with the CEO, the Chair of the Board, *and the Chair(s) of the committees they serve on* to solicit any feedback they may have about the individual Board members' contributions, as well as any concerns they may have about asking the Board member to serve for another term.

BOARD CHAIR, COMMITTEE CHAIRS AND BOARD OFFICER EVALUATIONS:

In the year 2000, the committee adopted an evaluation process in conjunction with the Board Self-Evaluation Process. This evaluation process document was amended by the committee adding a bullet under the Committee Chairs heading to read as follows: *Access: As a Board member, would you be comfortable going to the Board Chair or the Committee Chair outside of the meeting if you have a concern?*

Mr. Niemiec will incorporate questions into the questionnaire used in 2001, based on the adopted evaluation process, to be reviewed at the next meeting on February 6, 2002.

BOARD MEMBER EXPENSE AND EDUCATION POLICIES:

At the last meeting, the committee approved the proposed Board Member Expense and Education policies with proposed changes incorporated. Staff made the changes and asked the committee for its review of the policies. The committee approved of the changes presented. These policies will be included as part of the orientation process for new board members and distributed to current board members for their information.

It was noted that board members may bring forth proposed conferences to attend in board governance or other board-related topics, as well as areas of expertise, i.e. marketing, public policy, etc.

BLUE PLUS GOVERNANCE STUDY:

Colleen Reitan, Senior Vice President, Network Management and Government Business, BCBSM, provided a summary of a governance study that Blue Plus staff has undertaken to clarify roles of Blue Plus Board members and to review a variety of Blue Plus governance issues, particularly those related to Blue Plus' relationship with BCBSM.

Ms. Reitan provided an overview of the findings of the Blue Plus Governance Study, including the areas of oversight that the BCBSM Board has with respect to Blue Plus. In addition, recommendations were discussed including: Board role definition, a Board chair position description, a more formal nomination process for enrollee directors, and to provide clarity of oversight and committee structure to enhance the Board's performance.

Ms. Reitan asked for the Governance Committee's consideration on formalizing the relationship the Blue Plus Board has with the BCBSM Audit Committee, due to the fact that Blue Plus purchases all administrative services from Blue Cross and relies on the deliberations of the BCBSM Audit Committee for a number of oversight functions.

The Blue Plus Board will review final resolutions, position description and charters in January 2002. The process will then be presented to the BCBSM Audit Committee in March 2002 for review and approval. After the Blue Plus Governance Study is finalized and changes implemented, this process will be repeated with other controlled subsidiaries to review their governance practices, as well, to determine if position descriptions and role clarification is needed.

ADJOURNMENT:

There being no further business to come before the Governance Committee, the meeting was adjourned at 8:40 a.m.

Respectfully submitted,

Robb Johnson

Rob Johnson, Chair

Next Meeting: Wednesday, February 6, 2002, at 7:30 a.m. in the 5th Floor Meeting Room at BCBSM.

RENOMINATION OF BOARD MEMBERS AT END-OF-TERM:

There are two board members who are eligible for renomination: Andy Czajkowski and John Kleinman. Both members were asked of their interest to continue serving on the board. Mr. Czajkowski is interested in serving one more year. Mr. Kleinman is interested in serving another 3-year term. They will be formally nominated at the April committee meeting.

BOARD MEMBER NOMINATION:

Vance Opperman, Esq., President and CEO, Key Investment, Inc., has been interviewed by John Murphy, Mark Banks and Rob Johnson to determine his interest in serving on the Board of Directors. Mr. Opperman brings general management, legal and public policy expertise to the board. Mr. Opperman is interested in a board appointment.

Nomination of New Director of Aware Integrated, Inc.

The Governance Committee discussed the nomination of Vance Opperman for election as a director of Aware Integrated, Inc., to serve for a three-year term expiring at the Annual Meeting in 2005 and at the pleasure of the members of Aware Integrated, Inc.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that Vance Opperman be, and hereby is, nominated for election as a director of Aware Integrated, Inc., to serve for a three-year term expiring at the Annual Meeting in 2005.

BOARD SELF-EVALUATION PROCESS:

Dick Niemiec worked with internal staff to review the current self-evaluation questionnaire. The questionnaire will be changed based on the internal and committee's review of the questionnaire. A section on "Board Materials" was added, as well as two questions at the end of the questionnaire relating to how well the vision of the board members is being achieved and describing the one thing they would like to see done differently.

Rob Johnson, Chair, will distribute the self-evaluation questionnaire and will report the results at the April meeting of the committee.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the questionnaire be, and hereby is, approved as revised.

AWARE INTEGRATED, INC.
GOVERNANCE COMMITTEE MINUTES

BCBSM 6th Fl.
Eagan, Minnesota

June 6, 2002
7:30 a.m.

PRESENT: Rob Johnson, Chair
Emmett Carson, Ph.D.
Joel Haugen, M.D.
Ellen Perl

ABSENT: None

ALSO PRESENT: Mark Banks, M.D.
Robert Milis
Richard Niemiec
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the Aware Integrated, Inc. Governance Committee to order at 7:30 a.m.

MINUTES:

The minutes of the Aware Integrated, Inc. Governance Committee meeting held April 17, 2002, were distributed in advance of the meeting. Mr. Johnson called for corrections.

Following discussion, upon motion, seconded and carried, it was

> RESOLVED, that the minutes of the Aware Integrated, Inc. Governance Committee meeting held April 17, 2002, be, and hereby are, approved as presented.

BOARD MEMBER RECRUITMENT PROCESS:

Mr. Johnson reported that he and Dr. Banks have met with Pete McNerney. Both felt that Mr. McNerney would be an asset as a board member and noted that he showed a high level of interest in serving on the board. Staff will proceed with having Mr. McNerney complete a Conflict of Interest Questionnaire and will bring his nomination forth at the Annual Meeting. Dr. Banks will continue to attempt to contact [redacted] to determine his interest in a board position. Dr. Banks will report to the committee after a contact is made.

BCBSM, INC.
GOVERNANCE COMMITTEE MINUTES

BCBSM 5th Fl.
Eagan, Minnesota

April 8, 2003
3:30 p.m.

PRESENT: Rob Johnson, Chair
Joel Haugen, M.D.
Shirley Hughes
Vance Opperman, Esq.

ABSENT: Emmett Carson, Ph.D.

ALSO PRESENT: Mark Banks, M.D.
Susan Boren (portion only)
Robert Milis
Richard Niemiec
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the BCBSM, Inc. Governance Committee to order at 3:30 p.m.

MINUTES:

The minutes of the BCBSM, Inc. Governance Committee meeting held February 5, 2003, were distributed in advance of the meeting. Mr. Johnson called for corrections and hearing none approved the minutes as presented.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the minutes of the BCBSM, Inc. Governance Committee meeting held February 5, 2003, be, and hereby are, approved as presented.

BOARD MEMBER RECRUITMENT:

Susan Boren of SpencerStuart provided an update on board member recruitment. Ms. Boren discussed the BCBSM Board Trustee opportunity with the candidates identified by the committee at the February 2003 meeting. The results of Ms. Boren's discussions with the candidates were reviewed with the committee. Ms. Boren met personally with Ben Field and Pam Wheelock who both expressed their interest in the board member opportunity. Ms. Boren provided more information on both Mr. Field and Ms. Wheelock. The committee agreed to move ahead with the process by setting up interviews with both candidates prior to the June committee meeting. The interviewers will consist of Mark Banks, John Murphy, Rob Johnson and other Governance Committee members interested in participating in the process.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that Ben Field and Pam Wheelock be interviewed as candidates for the BCBSM, Inc. Board Trustee positions.

SELF-EVALUATION PROCESS:

Mr. Johnson noted that all of the self-evaluation questionnaires had been sent out and 12 of the 14 were returned. Mr. Johnson reviewed the total evaluation scores and comments with the committee. He noted that the evaluation scores as a whole were very favorable and committee members concurred. The committee discussed revised times for committee meetings and other possible alternatives for assuring that board members be kept fully informed about issues raised at committee meetings. Mr. Johnson proceeded to present results regarding individual effectiveness and general board effectiveness.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the board self-evaluation review is hereby accepted as presented.

BOARD POLICY MANUAL:

Dick Niemiec, Senior Vice President, BCBSM, provided an updated copy of the board policy manual to the committee for review and comment. The committee reviewed several policies making revisions as recommended by the committee members. The revised board policy manual will be sent to the full board for their review and approval at the June 2003 meeting.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the following resolution be approved and recommended for adoption by the Board of BCBSM, Inc.:

RESOLVED, that the board policies be approved as amended.

CHARTERS AND MATRICES:

On an annual basis, the Governance Committee reviews the charters and matrices of all board committees. At this time, all committees have reviewed and approved their own charters and matrices for review by the Governance Committee and adoption by the board of BCBSM, Inc.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the Governance Committee approves the following resolutions and recommends adoption of said resolutions by the BCBSM Board of Trustees:

RESOLVED, that the BCBSM, Inc. Audit, Governance, Human Resources, and Investment Committees Charters and Matrices be and hereby are, approved as presented.

ADJOURNMENT:

There being no further business to come before the Governance Committee, the meeting was adjourned at 5:10 p.m.

Respectfully submitted,

Robt S. Johnson

Rob Johnson, Chair

BCBSM, INC.
GOVERNANCE COMMITTEE MINUTES

BCBSM 5th Fl.
Eagan, Minnesota

November 18, 2003
1:30 p.m.

PRESENT: Rob Johnson, Chair
Emmett Carson, Ph.D.
Joel Haugen, M.D.
Vance Opperman, Esq.
Pam Wheelock

ABSENT: None

ALSO PRESENT: Mark Banks, M.D.
Robert Milis, Esq.
Richard Niemiec
Colleen Reitan
Marsha Shotley

CALL:

Rob Johnson, Chair, called the meeting of the BCBSM, Inc. Governance Committee to order at 1:30 p.m.

MINUTES:

The minutes of the BCBSM, Inc. Governance Committee meeting held October 1, 2003, were distributed in advance of the meeting.

Following discussion, upon motion, seconded and carried, it was

RESOLVED, that the minutes of the BCBSM, Inc. Governance Committee meeting held October 1, 2003, be, and hereby are, approved as presented.

BOARD MEMBER RECRUITMENT PROCESS:

Dick Niemiec, Senior Vice President, Corporate Affairs, BCBSM, reported that he spoke with Susan Boren, SpencerStuart, regarding board recruitment fees for 2004 – 2007. Ms. Boren provided a schedule proposing the cost of recruitment at $55,000 for 2004 - 2005, and $60,000 in 2007.

It was discussed that although Susan Boren has added value to the recruitment process, the board has identified many of the same candidates as potential board members. It was determined that staff will work with Mr. Johnson to develop a process for board member recruitment asking the full board for names of potential board members. To stimulate the submission of new board member names, the board will receive a listing of Ms. Boren's current list of potential candidates from the 2003 recruitment process, the listing of board strengths of the current board members, and a listing of term limits. It was determined that there is not a pressing need to recruit a new board member to replace Ellen Perl in 2004, as the board now is at 15 members (the range is 12-15). Staff will compile a list of potential candidates for review in January 2004.

RENOMINATION PROCESS AT END-OF-TERM:

Mr. Johnson brought forth the names of five board members eligible for renomination: Shirley Hughes is completing her first three-year term; Joel Haugen, M.D., Rob Johnson, Jonathon Killmer and John Lettmann are completing their second three-year terms.

Mr. Johnson reviewed the process of the end-of-term evaluation to determine contributions of the board member and interest in continuing service. A copy of the Board Individual Job Description, which is part of the board policy manual, was provided. Since Rob Johnson is also completing a term and will be a part of the renomination process, staff will work with Joel Haugen to conduct the end-of-term evaluation for Mr. Johnson. Nominations will take place at the April Governance Committee meeting.

INDEPENDENCE:

At the October meeting, Mr. Milis presented independence models for discussion with the committee to define the term "independent" board member and to determine which board committees need to be composed of only independent board members. New laws and rules have been adopted in a variety of settings during the past year to enhance corporate governance. Foremost of these is the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley applies only to publicly held corporations, but it sets new standards for best practices in corporate governance. The boards of Aware Integrated, Inc. and BCBSM, Inc. have expressed their intent to comply with the standards set forth in Sarbanes-Oxley to the extent practical.

The committee reviewed a draft definition of independent board member and discussed the elements of the definition. Discussion took place regarding the difference between independence (relationship) and conflicts of interest (transaction), to avoid the use of a position as a board member to influence the decisions of the company. Currently, board members excuse themselves from board discussions when there are transactions that may constitute a conflict of interest. The annual conflict of interest policy discloses potential conflicts of interest. It is also the responsibility of board members to recognize potential conflicts of interest. It was determined that an Independence Policy be developed for board approval and to tie the conflict of interest disclosure process to the definition of independence.

Staff will propose a final definition of independence and how the definition is applied, along with the conflict of interest process for review at the next Governance Committee meeting in January 2004.

ADJOURNMENT:

There being no further business to come before the Governance Committee, the meeting was adjourned at 3:00 p.m.

Respectfully submitted,

Rob Johnson

Rob Johnson, Chair

C

Iowa Code Annotated Currentness
Title XIII. Commerce
Subtitle 1. Insurance and Related Regulation (Refs & Annos)
Chapter 514. Nonprofit Health Service Corporations (Refs & Annos)

→514.1. Applicability–definitions

<Pursuant to Acts 2004 (80 G.A.) ch. 1049, § 191, references to chapter 504A are directed to be deleted throughout this section after July 1, 2005.>

A corporation organized under chapter 504, Code 1989, or current chapter 504 or 504A for the purpose of establishing, maintaining, and operating a nonprofit hospital service plan, whereby hospital service may be provided by the corporation or by a hospital with which it has a contract for service, to the public who become subscribers to this plan under a contract which entitles each subscriber to hospital service; or a corporation organized for the purpose of establishing, maintaining, and operating a plan whereby health care service may be provided at the expense of this corporation, by licensed physicians and surgeons, dentists, podiatric physicians, osteopathic physicians, osteopathic physicians and surgeons or chiropractors, to subscribers under contract, entitling each subscriber to health care service, as provided in the contract; or a corporation organized for the purpose of establishing, maintaining, and operating a nonprofit pharmaceutical service plan or optometric service plan, whereby pharmaceutical or optometric service may be provided by this corporation or by a licensed pharmacy with which it has a contract for service, to the public who become subscribers to this plan under a contract which entitles each subscriber to pharmaceutical or optometric service; shall be governed by this chapter and is exempt from all other provisions of the insurance laws of this state, unless specifically designated in this chapter, not only in governmental relations with the state but for every other purpose, and additions enacted after July 1, 1939, shall not apply to these corporations unless they are expressly designated in the additions.

For the purposes of this chapter, "subscriber" means an individual who enters into a contract for health care services with a corporation subject to this chapter and includes a person eligible for medical assistance or additional medical assistance as defined under chapter 249A, with respect to whom the department of human services has entered into a contract with a firm operating under chapter 514. For purposes of this chapter, "provider" means a person as defined in section 4.1, subsection 20, which is licensed or authorized in this state to furnish health care services. "Health care" means that care necessary for the purpose of preventing, alleviating, curing, or healing human physical or mental illness, injury, or disability.

CREDIT(S)

Amended by Acts 1955 (56 G.A.) ch. 244, § 1; Acts 1965 (61 G.A.) ch. 397, § 1; Acts 1967 (62 G.A.) ch. 369, § 1, eff. June 30, 1967; Acts 1969 (63 G.A.) ch. 271, §§ 1, 2; Acts 1970 (63 G.A.) ch. 1102, § 6; Acts 1983 (70 G.A.) ch. 27, § 11; Acts 1983 (70 G.A.) ch. 96, § 157, eff. July 1, 1983; Acts 1984 (70 G.A.) ch. 1122, § 3; Acts 1986 (71 G.A.) ch. 1180, § 3; Acts 1996 (76 G.A.) ch. 1034, § 68; Acts 2003 (80 G.A.) ch. 108, § 96; Acts 2004 (80 G.A.) ch. 1175, § 394.

HISTORICAL AND STATUTORY NOTES

2005 Electronic Pocket Part Update

I.C.A. § 514.1

2003 Legislation

The 2003 amendment in unnum. par. 1 substituted "chapter 504, Code 1989," for "former chapter 504" and "July 1, 1939," for "the effective date of this chapter".

2004 Legislation

The 2004 amendment, by ch. 1175, in unnum. par. 1, substituted "current chapter 504 or 504A" for "chapter 504A".

Acts 2004 (80 G.A.) ch. 1049, § 191 provides:

"Sec. 191. Code editor directive. After July 1, 2005, the Code editor is directed to remove Code references to chapter 504A as required due to the July 1, 2005, repeal of sections 504A.1 through 504A.102 by this Act."

1998 Main Volume

Derivation:

Acts 1945 (51 G.A.) ch. 209, § 1.
Code 1939, § 8895.01.
Acts 1939 (48 G.A.) ch. 222, § 1.

The 1970 amendment added definition of "subscriber".

Acts 1983 (70 G.A.) ch. 27, revised definition of "subscriber" and added definition of "provider".

Acts 1983 (70 G.A.) ch. 96, substituted "human services" for "social services".

The 1984 amendment revised the definition of "subscriber" as an individual who enters into a contract for health care services, by striking "hospital services, medical or surgical services, dental services, or pharmaceutical or optometric services"; and revised the definition of "provider" by striking "is as defined in section 514b.1" and added "shall mean a person as defined in section 4.1, subsection 13, which is licensed or otherwise authorized in this state to furnish health care services. 'Health care' shall mean that care necessary for the purpose of preventing, alleviating, curing, or healing human physical or mental illness, injury, or disability".

The 1986 amendment added chiropractors to list of services provided at expense of corporation.

The 1996 amendment, in unnum. par. 1, substituted "podiatric physicians" for "podiatrists".

I. C. A. § 514.1, IA ST § 514.1

Current through Acts of 2005 1st Reg.Sess.

END OF DOCUMENT

C

Iowa Code Annotated Currentness
Title XIII. Commerce
Subtitle 1. Insurance and Related Regulation (Refs & Annos)
Chapter 514. Nonprofit Health Service Corporations (Refs & Annos)

→514.4. Directors

At least two-thirds of the directors of a **hospital** service corporation, medical service corporation, dental service corporation, or pharmaceutical or optometric service corporation subject to this chapter shall be at all times subscribers and not more than one-third of the directors shall be providers as provided in this section. The **board of directors** of each corporation shall consist of at least nine members.

A subscriber director is a director of the board of a corporation who is a subscriber and who is not a provider of health care pursuant to section 514B.1, subsection 7, a person who has material financial or fiduciary interest in the delivery of health care services or a related industry, an employee of an institution which provides health care services, or a spouse or a member of the immediate family of such a person. A subscriber director of a **hospital** or medical service corporation shall be a subscriber of the services of that corporation.

A provider director of a corporation subject to this chapter shall be at all times a person who has a material financial interest in or is a fiduciary to or an employee of or is a spouse or member of the immediate family of a provider having a contract with such corporation to render to its subscribers the services of such corporation or who is a **hospital** trustee.

A director may serve on a board of only one corporation at a time subject to this chapter.

The commissioner of insurance shall adopt rules pursuant to chapter 17A to implement the process of the election of subscriber directors of the **board of directors** of a corporation to ensure the representation of a broad spectrum of subscriber interest on each board and establish criteria for the selection of nominees. The rules shall provide for an independent subscriber nominating committee to serve until the composition of the **board of directors** meets the percentage requirements of this section. Once the composition requirements of this section are met, the nominations for subscriber directors shall be made by the subscriber directors of the board under procedures the board establishes which shall also permit nomination by a petition of at least fifty subscribers. The board shall also establish procedures to permit nomination of provider directors by petition of at least fifty participating providers. A member of the **board of directors** of a corporation subject to this chapter shall not serve on the independent subscriber nominating committee. The nominating committee shall consist of subscribers as defined in this section. The rules of the commissioner of insurance shall also permit nomination of subscriber directors by a petition of at least fifty subscribers, and nomination of provider directors by a petition of at least fifty participating providers. These petitions shall be considered only by the independent nominating committee during the duration of the committee. Following the discontinuance of the committee, the petition process shall be continued and the **board of directors** of the corporation shall consider the petitions. The independent subscriber nominating committee is not subject to chapter 17A. The nominating committee shall not receive per diem or expenses for the performance of their duties.

Population factors, representation of different geographic regions, and the demography of the service area of the corporation subject to this chapter shall be considered when making nominations for the **board of directors of a** corporation subject to this chapter.

A corporation serving states in addition to Iowa shall be required to implement this section only for directors who are residents of Iowa and elected as board members from Iowa.

CREDIT(S)

Amended by Acts 1955 (56 G.A.) ch. 244, § 2; Acts 1965 (61 G.A.) ch. 397, § 2; Acts 1983 (70 G.A.) ch. 27, §§ 12, 15; Acts 1984 (70 G.A.) ch. 1282, § 1, eff. June 3, 1984; Acts 1991 (74 G.A.) ch. 258, § 58; Acts 2000 (78 G.A.) ch. 1023, § 23.

HISTORICAL AND STATUTORY NOTES

2005 Electronic Pocket Part Update

2000 Legislation

The 2000 amendment struck unnum. par. 7 which prior thereto read:

"A corporation shall not reimburse or compensate a provider director or a subscriber director more than the per diem specified in section 7E.6 plus necessary and actual expenses for attendance at a meeting of the **board of directors**."

1998 Main Volume

Acts 1991 (74 G.A.) ch. 258, § 73 provides that the amendments to this section by this Act are retroactively applicable to January 1, 1991.

Derivation:
Acts 1945 (51 G.A.) ch. 209, § 3.
Code 1939, § 8895.04.
Acts 1939 (48 G.A.) ch. 222, § 4.

Acts 1983 (70 G.A.) ch. 27, § 15 provides:

The 1983 amendment struck the section and inserted a new one in lieu thereof. It previously provided:

"At least a majority of the directors of a **hospital** service corporation must be at all times administrators, or directors, or trustees, or members of the clinical staff of **hospitals** which have contracted or may contract with such corporation to render to its subscribers **hospital** service. The **board** of **directors** of such corporation shall consist of at least nine members and not more than one shall be from any one **hospital**.

"At least a majority of the directors of a medical service corporation must be at all times physicians or surgeons, dentists, podiatrists, osteopathic physicians, or osteopathic physicians and surgeons, who have contracted or may contract with such corporation to render to its subscribers medical or surgical service. The **board** of **directors** of such corporation shall consist of at least nine members."

The 1984 amendment revised the unnumbered fifth paragraph relating to the selection process of subscriber and provider directors of a board of a **hospital** service corporation, medical service corporation, dental service corporation, or pharmaceutical or optometric corporation by requiring the commissioner of insurance to adopt rules to establish criteria for the selection of nominees and to permit the nomination process by petition, by requiring the board of such corporations to establish procedures to permit nomination by petition, to exempt the independent subscriber nominating committee from ch. 17A, and to prohibit the members of such committee from receiving per diem and expenses.

The 1991 amendment, in unnum. par. 7, substituted "the per diem specified in section 7E.6" for "forty dollars per diem".

I. C. A. § 514.4, IA ST § 514.4

Current through Acts of 2005 1st Reg.Sess.

END OF DOCUMENT

Westlaw.

NDCC, 26.1-17-04

NORTH DAKOTA CENTURY CODE
TITLE 26.1. INSURANCE
CHAPTER 26.1-17. NONPROFIT HEALTH SERVICE CORPORATIONS.

26.1-17-04 Directors - Responsibilities.

A **board** of **directors** shall manage the business and affairs of a health service corporation and has the power to amend bylaws. The board is to consist of at least nine members. At least a majority of the directors of a health service corporation writing **hospital** or medical service contracts under this chapter must be at all times subscribers.

A subscriber director is a director who is a subscriber and who is not a provider of health care, a person who has a material financial or fiduciary interest in the delivery of health care services or a related industry, an employee of an institution that provides health care services, or a spouse or a member of the immediate family of such a person. Nominations for and election of the subscriber directors must be made by the existing directors.

A director may serve on the board of only one corporation subject to this chapter at a time.

Population factors, representation of different geographic regions, and the demography of the service area of the corporation subject to this chapter must be considered when making nominations for the **board** of **directors** of a corporation subject to this chapter.

A health service corporation may not reimburse or compensate a director for more than necessary and actual expenses for service as a member of the **board** of **directors**.

Source: S.L. 1983, ch. 332, § 17; 1987, ch. 348, § 1; 1991, ch. 307, § 1; 1993, ch. 297, § 1.

NDCC 26.1-17-04, ND ST 26.1-17-04

Current through the 2005 Regular Session

END OF DOCUMENT

C

West's Annotated Code of Maryland Currentness
Insurance (Refs & Annos)
Title 14. Entities That Act as Health Insurers
Subtitle 1. Nonprofit Health Service Plans (Refs & Annos)
Part III. Management, Finances, and Solvency

→ § 14-115. Board of directors

(a)(1) In this section the following words have the meanings indicated.

(2) "Board" means the **board of directors** of a nonprofit health service plan.

(3) "Immediate family member" means a spouse, child, child's spouse, parent, spouse's parent, sibling, or sibling's spouse.

(b) This section applies to a nonprofit health service plan that is:

(1) issued a certificate of authority in the State; and

(2) organized under the laws of the State.

(c)(1) The business and affairs of a nonprofit health service plan shall be managed under the direction of **a board of directors**.

(2)(i) The board and its individual members are fiduciaries and shall act:

1. in good faith;

2. in a manner that is reasonably believed to be in the best interests of the corporation and its controlled affiliates or subsidiaries that offer health benefit plans;

3. in a manner that is reasonably believed to be in furtherance of the mission of the corporation as a nonprofit health service plan as required under § 14-102(c) of this subtitle; and

4. with the care that an ordinarily prudent person in a like position would use under similar circumstances.

(ii) The board and its individual members may not use board membership for personal or financial enrichment to the detriment of the nonprofit health service plan or the mission of the nonprofit health service plan.

(3) The principal functions of the board shall include:

(i) ensuring that the corporation effectively carries out the nonprofit mission established under § 14-102(c) of this subtitle;

(ii) selecting corporate management and evaluating its performance;

(iii) ensuring to the extent practicable that human resources and other resources are sufficient to meet corporate objectives;

(iv) subject to the provisions of subsection (d) of this section, nominating and selecting suitable candidates for the board;

(v) establishing a system of governance at the board level, including an annual evaluation of board performance; and

(vi) before considering any bid or offer to acquire the nonprofit health service plan and to convert to a for-profit entity under Title 6.5 of the State Government Article, ensuring that adequate consideration is given to an independent valuation of the nonprofit health service plan.

(4) Each member of the board shall demonstrate a commitment to the mission of the nonprofit health service plan as required by § 14-102(c) of this subtitle.

(5) An officer or employee of a nonprofit health service plan or any of its affiliates or subsidiaries may not be appointed or elected to the board.

(6) A nonprofit health service plan is subject to the provisions of § 2-419 of the Corporations and Associations Article.

(d)(1) This subsection applies to a corporation that is:

(i) issued a certificate of authority as a nonprofit health service plan; and

(ii) the sole member of a corporation issued a certificate of authority as a nonprofit health service plan.

(2) The board shall be composed of no more than 23 members, including:

(i) one nonvoting member, who is not a member of the Maryland General Assembly, appointed by and serving at the pleasure of the President of the Senate of Maryland;

(ii) one nonvoting member, who is not a member of the Maryland General Assembly, appointed by and serving at the pleasure of the Speaker of the House of Delegates; and

(iii) 21 members selected by the board, in accordance with the bylaws of the corporation, including two consumer members, who satisfy the requirements of paragraphs (13), (14), and (15) of this subsection.

(3) No more than four members of the board may be:

(i) licensed health care professionals;

(ii) hospital administrators; or

(iii) employees of health care professionals or hospitals.

(4) To the extent possible, the board shall include individuals with experience in accounting, information technology, finance, law, large and small businesses, nonprofit businesses, and organized labor.

(5) Except for nonvoting members under paragraph (2)(i) and (ii) of this subsection, the board shall be

self-perpetuating.

(6) The board shall have the following standing committees whose duties shall include:

(i) an audit committee responsible for ensuring financial accountability;

(ii) a finance committee responsible for reviewing and making recommendations on the annual budget and for developing and recommending long-range financial objectives;

(iii) a compensation committee responsible for developing proposed compensation guidelines in accordance with § 14-139(d) of this subtitle;

(iv) a nominating committee responsible for identifying, evaluating, and recommending to the board individuals qualified to become board members, including individuals who represent a corporation for which the nonprofit health service plan is the sole member;

(v) a service and quality oversight committee responsible for ensuring that policies and processes are in effect to assess and improve the quality of health insurance products provided to subscribers and certificate holders;

(vi) a mission oversight committee responsible for ensuring that the officers of the corporation act in accordance with the mission of the nonprofit health service plan;

(vii) a strategic planning committee responsible for examining long- range planning objectives, assessing strategies that may be used to implement the planning objectives, and analyzing the nonprofit health service plan's role in the insurance marketplace; and

(viii) any other committee that the board determines is necessary to carry out its duties.

(7) Each standing committee shall have representation from:

(i) the voting members under paragraph (2) of this subsection; and

(ii) each corporation for which the nonprofit health service plan is the sole member.

(8) The compensation committee and the nominating committee shall each include either the appointee of the President of the Senate or the appointee of the Speaker of the House of Delegates.

(9) Each board member shall serve on at least one standing committee.

(10) The chairman of the board shall select a chairman for each board committee.

(11)(i) The board shall approve in advance any action by the nonprofit health service plan, a corporation for which the plan is the sole member, or any affiliate or subsidiary of the nonprofit health service plan to:

1. materially modify options available in benefit plans marketed in the State;

2. materially modify Maryland provider networks or Maryland provider reimbursement levels;

3. materially modify underwriting guidelines for products marketed in the State;

4. materially modify rates or rating plans that are required to be approved by the Commissioner;

5. add a product to or withdraw a product from the Maryland market, withdraw from a line or type of business in the State, or withdraw from a geographic region in the State;

6. materially modify marketing goals and objectives in the State; or

7. materially impact the availability or affordability of health care in the State.

(ii) The Commissioner shall adopt regulations that define "material" for purposes of subparagraph (i) of this paragraph.

(iii) A decision by the board to convert to a for profit entity under Title 6.5 of the State Government Article may be rejected by any three members of the board.

(iv) The board may delegate approval for the actions listed in subparagraph (i) of this paragraph to a standing committee of the board.

(12) The board shall take and retain complete minutes of all board and committee meetings.

(13) Of the two consumer members, one shall be a subscriber and one shall be a certificate holder of the nonprofit health service plan.

(14) Each consumer member of the board:

(i) shall be a member of the general public;

(ii) may not be considered an agent or employee of the State for any purpose; and

(iii) is entitled to the same rights, powers, and privileges as the other members of the board.

(15) A consumer member of the board may not:

(i) be a licensee of or otherwise be subject to regulation by the Commissioner;

(ii) be employed by or have a financial interest in:

1. a nonprofit health service plan or its affiliates or subsidiaries; or

2. a person regulated under this article or the Health-General Article; or

(iii) within 3 years before appointment, have been employed by, had a financial interest in, or have received compensation from:

1. a nonprofit health service plan or its affiliates or subsidiaries; or

2. a person regulated under this article or the Health-General Article.

(e)(1) This subsection does not apply to a board that has fewer than three authorized members.

(2) The term of a member is 3 years.

(3) The terms of the members of a board shall be staggered over a 3-year period as required by the terms

provided for members of the board in the bylaws filed and approved by the Commissioner on or after June 1, 2003.

(4) At the end of a term, a member continues to serve until a successor is appointed and qualifies.

(5) A member who is appointed after a term has begun serves only for the rest of the term and until a successor is appointed and qualifies.

(6) A member may not serve for more than:

(i) two full terms; or

(ii) a total of more than 6 years.

(7) A person may not be a member of the board if the person:

(i) has defaulted on the payment of a monetary obligation to the nonprofit health service plan;

(ii) has been convicted of a criminal offense involving dishonesty or breach of trust or a felony;

(iii) habitually has neglected to pay debts; or

(iv) has been prohibited under any federal securities law from acting as a director or officer of any corporation.

(8) A member shall meet any other qualifications set forth in the bylaws of the nonprofit health service plan.

(9) A member may not be an immediate family member of another board member or an officer or employee of the nonprofit health service plan.

(10) The board shall elect a chairman from among its members.

(11)(i) The composition of the board shall represent the racial and gender diversity of the State.

(ii) The board shall include representation from each geographic region of the State.

(f) The board shall notify the Commissioner of any member who attends less than 65% of the meetings of the board during a period of 12 consecutive months.

(g)(1) Excluding reimbursement for ordinary and necessary expenses, a board member, in any calendar year, may receive compensation not to exceed:

(i) $15,000 for the chairman of the board or a board member who is the chairman of a committee; or

(ii) $12,000 for a board member who is not the chairman of the board or a board committee.

(2) A board member may not receive more than the amount specified in paragraph (1) of this subsection for serving on more than one board of a corporation subject to this section.

(3)(i) This paragraph applies to a corporation that is:

1. issued a certificate of authority as a nonprofit health service plan; and

2. the sole member of a corporation issued a certificate of authority as a nonprofit health service plan.

(ii) On or before March 1, 2004, and annually thereafter, a corporation subject to this paragraph shall report to the Commissioner on the amount of the ordinary and necessary expenses paid to each board member in the preceding calendar year.

CREDIT(S)

Added by Acts 1997, c. 35, § 2, eff. Oct. 1, 1997. Amended by Acts 2003, c. 356, § 1, eff. May 22, 2003; Acts 2003, c. 357, § 1, eff. May 22, 2003; Acts 2004, c. 25, § 1, eff. April 13, 2004; Acts 2004, c. 257, § 1, eff. June 1, 2004.

PRIOR COMPILATIONS

Formerly Art. 48A, §§ 360A, 361G.

LEGISLATIVE NOTES

Revisor's Note (Acts 1997, c. 35):

This section is new language derived without substantive change from former Art. 48A, §§ 360A and 361G(a) through (d).

Former Art. 48A, § 360A(a)(4), which defined "nonprofit health service plan", is revised as a scope provision in subsection (b) of this section.

In subsection (c)(4) of this section, the former phrase "incorporated in this State under this subtitle" is deleted as unnecessary in light of subsection (b) of this section.

In subsection (d)(1)(i) of this section, the reference to "podiatric" services is substituted for the former obsolete reference to "[c]hiropodial" services.

The Insurance Article Review Committee notes, for the consideration of the General Assembly, that subsection (d)(4)(ii) of this section, which states that "each consumer member of the board ... may not be considered an agent or employee of the State for any purpose", may be unnecessary. Consumer members of the **board** of **directors** of a nonprofit health service corporation are appointed by the board and not by the Governor.

Former Art. 48A, § 361G(a), which defined "health care provider", is revised as a substantive provision in subsection (g)(2) of this section.

In subsection (g)(3) of this section, the former reference to "rules" of the Commissioner is deleted in light of the reference to "regulations". See the General Revisor's Note to this article.

Former Art. 48A, § 361G(e), which delayed the application of the section to existing foreign nonprofit health service plans until July 1, 1989, is deleted as obsolete.

Defined terms: "Certificate of authority" § 1-101

"Commissioner" § 1-101

"Person" § 1-101

HISTORICAL AND STATUTORY NOTES

2003 Legislation

Acts 2003, c. 356, § 4, and Acts 2003, c. 357, § 4, provide:

"SECTION 4. AND BE IT FURTHER ENACTED, That:

"(a) Notwithstanding the provisions of § 14-115(d)(2) and (4) of the Insurance Article, as enacted by Section 1 of this Act, ten board members representing a corporation that is organized under the laws of the State and that is subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, shall be removed from the **board** of **directors** and replaced as early as practicable, but no later than December 1, 2003, as provided in subsection (b) of this section.

"(b)(1) The ten members removed under subsection (a) of this section shall be replaced by a nominating committee appointed by the Governor, President of the Senate of Maryland, and Speaker of the House of Delegates.

"(2) The nominating committee shall be appointed on or before June 1, 2003, and shall consist of nine members, of whom:

"(i) three, including one consumer member and no more than one health care provider, are appointed by the Governor;

"(ii) three, including one consumer member and no more than one health care provider, are appointed by the President of the Senate; and

"(iii) three, including one consumer member and no more than one health care provider, are appointed by the Speaker of the House.

"(3) An individual shall be appointed to the board under paragraph (1) of this subsection with the approval of a simple majority of the nominating committee.

"(4) The individuals appointed under paragraph (3) of this subsection:

"(i) shall include two consumer members;

"(ii) to the extent practicable, shall meet the requirements of § 14-115 (e)(11) of the Insurance Article, as enacted by Section 1 of this Act; and

"(iii) to the extent practicable, shall have experience in accounting, information technology, finance, law, large and small businesses, nonprofit businesses, and organized labor.

"(5) The nominating committee shall determine the order of replacement of members removed from the **board** of **directors** under subsection (a) of this section.

"(c) A member of the nominating committee may not be a candidate for membership on the board.

"(d) This section does not apply to those members who serve on the **board of directors** of a corporation that is subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, who represent a corporation that is not organized under the laws of the State."

Acts 2003, c. 356, § 5, and Acts 2003, c. 357, § 5, provide:

"SECTION 5. AND BE IT FURTHER ENACTED, That:

"(a) Two board members representing a corporation that is organized under the laws of the State and that is subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, shall be removed from the **board of directors** and replaced, on or before June 1, 2004, by a nominating committee established under § 14-115(d)(6)(iv) of the Insurance Article, as enacted by Section 1 of this Act.

"(b) The board members who serve on the board of a corporation subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, and who represent a corporation that is not organized under the laws of the State shall be removed and replaced on or before March 31, 2006."

Acts 2003, c. 356, § 6, and Acts 2003, c. 357, § 6, provide:

"SECTION 6. AND BE IT FURTHER ENACTED, That, subject to the approval of the Maryland Insurance Commissioner, a nominating committee established under § 14-115(d)(6)(iv) of the Insurance Article, as enacted by Section 1 of this Act, shall develop a plan to stagger the terms of the voting members of a board of a corporation subject to § 14-115(d) of the Insurance Article, as enacted by this Act."

Acts 2003, c. 356, § 7, and Acts 2003, c. 357, § 7, provide:

"SECTION 7. AND BE IT FURTHER ENACTED, That, for a period of 5 years after the effective date of this Act:

"(1) a person may not file an application for the acquisition of a nonprofit health service plan subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, and a nonprofit health service plan subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, may not be acquired, under Title 6.5 of the State Government Article; and

"(2) the Maryland Insurance Commissioner may not approve an application for the acquisition of a nonprofit health service plan subject to the provisions of § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act."

Acts 2003, c. 356, § 9, and Acts 2003, c. 357, § 9, provide:

"SECTION 9. AND BE IT FURTHER ENACTED, That a member of the **board of directors** of a corporation organized under the laws of this State and subject to § 14- 115(d) of the Insurance Article, as enacted by Section 1 of this Act, who is a member of the **board of directors** on the effective date of this Act is prohibited from serving on the **board of directors** of the corporation after removal from the board under the provisions of Sections 4 and 5 of this Act."

Acts 2003, c. 356, § 10, and Acts 2003, c. 357, § 10, provide:

"SECTION 10. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly to encourage a nonprofit health service plan that is subject to § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act, to participate in public programs, such as Medicaid and Medicare, when participation is consistent with the mission of the nonprofit health service plan and does not impair the financial condition of the nonprofit health service plan."

Acts 2003, c. 356, § 11, and Acts 2003, c. 357, § 11, provide:

"SECTION 11. AND BE IT FURTHER ENACTED, That a nonprofit health service plan that is subject to § 14-115(d) of the Insurance Article, as enacted by Section 1 of this Act:

"(1) shall work with the Maryland Insurance Administration, the Department of Aging, and other appropriate entities to study, and if feasible and desirable develop, a State arrangement to offer health insurance coverage to individuals who are eligible for the federal tax credit under § 35 of the Internal Revenue Code; and

"(2) on or before August 1, 2003, in accordance with § 2-1246 of the State Government Article, shall report to the Senate Finance Committee and the House Health and Government Operations Committee on the results of its study."

Acts 2003, c. 356, § 13, and Acts 2003, c. 357, § 13, provide:

"SECTION 13. AND BE IT FURTHER ENACTED, That, if any provision of this Act or the application thereof to any person or circumstance is held invalid for any reason in a court of competent jurisdiction, the invalidity does not affect other provisions or any other application of this Act which can be given effect without the invalid provision or application, and for this purpose the provisions of this Act are declared severable."

On May 23, 2003, the United States District Court for the District of Maryland issued the following Order:

"For a period of eleven (11) days, up to and including June 3, 2003, the Blue Cross and Blue Shield Association ("BCBSA"), CareFirst, Inc., and the Attorney General on behalf of the State of Maryland and the State Defendants (hereinafter "the Parties") have agreed to stay all pending litigation between them in the State of Maryland and the State of Illinois, and without prejudice to any claims and defenses that have been raised or that may be raised therein, the Parties agree to discuss prospective long-term solutions to the claims presented. During the eleven (11) day period:

"1. All CareFirst cardholders continue to have the same Blue Cross Blue Shield benefits they had prior to May 22, 2003, in accordance with existing contracts.

"2. BCBSA will not grant any license to the Blue Marks to a third party in the CareFirst region or negotiate the terms of any license agreement with a third party in the CareFirst region. BCBSA also will not remove CareFirst from its role in the Federal Employee Program or reassign any national accounts in the CareFirst region.

"3. The State of Maryland will not implement the provisions of HB 1179 [Acts 2003, c. 357] and SB 772 [Acts 2003, c. 356]."

On June 6, 2003, the United States District Court for the District of Maryland signed an Order and Consent Judgment in *CareFirst, Inc. v. The Honorable Robert L. Ehrlich, Jr., et al.*, Civil Action No. JFM 03-1521, and *State of Maryland v. Blue Cross & Blue Shield Association and CareFirst, Inc.*, Civil Action No. JFM 03-1510, which provides, in part:

"1. The current Class II Directors (the 'Outgoing Directors') shall serve out the remainder of their current terms, which end on December 31, 2003, and shall continue in office until replaced as provided herein. The replacements for the Outgoing Directors shall be selected as provided in paragraphs 2 and 3 of this Order and Consent Judgment. To the extent practicable, the directors selected to replace the Outgoing Directors shall represent the racial and gender diversity of the State and the geographic regions of the State and shall have experience in accounting, information technology, finance, law, large and small businesses, and organized labor. The directors shall include two consumer members, one of whom shall be a subscriber and one of whom shall be a certificate holder of CareFirst.

"2. The Nominating Committee authorized under Section 4(b) of the Act [Acts 2003, c. 356, and Acts 2003, c. 357] shall select five persons who meet the qualifications for "certified applicants," as described below, for election to the CareFirst Board as new Class II Directors for terms commencing January 1, 2004, to replace those five Outgoing Directors designated by the current Class II Directors. The Class II Directors shall elect the five persons so selected by the Nominating Committee.

"3. The Class II Directors as constituted after the election of the five persons selected in Paragraph 2 shall elect seven new Class II Directors to replace the seven remaining Outgoing Directors to serve commencing July 1, 2004. Those directors shall be elected according to CareFirst's current Bylaws from a pool of applicants certified by the Nominating Committee (the "Certified Applicants").

"4. The Nominating Committee shall solicit applications for the position of Class II Director, and shall review the application of each candidate for election to the position of Class II Director, including candidates submitted by the CareFirst Board, and conduct such inquiry as it deems necessary to determine whether the candidate satisfies the criteria set forth herein for the pool of Certified Applicants subject to the following provisions:"

"(a) the Nominating Committee shall determine whether any candidate has experience in accounting, information technology, finance, law, large and small businesses, nonprofit businesses, and organized labor, and provide that information to the Board;"

"(b) the Nominating Committee shall certify each applicant for Class II Director who satisfies each of the following criteria:

"i. The applicant has not (1) defaulted on the payment of a monetary obligation to CareFirst; (2) been convicted of a criminal offense involving dishonesty or breach of trust or a felony; (3) habitually neglected to pay debts; or (4) been prohibited under any federal securities law from acting as a director or officer of any corporation;

"ii. The applicant does not hold an elective or appointive governmental office and is not an employee of any governmental body and has not held such office or position for twelve months prior to election to the Board;

"iii. The applicant has acknowledged in writing that upon election he or she will owe a fiduciary duty to CareFirst, as set forth in Section 14-115(c)(2) of the Insurance Article, as amended;

"iv. The applicant has not previously served as a director of a nonprofit health service plan subject to the provisions of Section 14-115 of the Insurance Article, as amended by the Act [Acts 2003, c. 356, and Acts 2003, c. 357];

"v. If a consumer representative, an applicant: (1) is a member of the general public; (2) may not be considered an agent or employee of the State of Maryland for any purpose; (3) is not a licensee of or otherwise be subject to regulation by the Insurance Commissioner of the State of Maryland; (4) is not employed by or does not have a financial interest in a nonprofit health service plan or its affiliates or subsidiaries or a person regulated under either the Insurance Article, as amended by the Act [Acts 2003, c. 356, and Acts 2003, c. 357], or the Health General Article of the Annotated Code of Maryland; (5) has not, within three years before appointment, been employed by, had a financial interest in, or received compensation from a nonprofit health service plan or its affiliates or from a person regulated under either the Insurance Article, as amended by the Act [Acts 2003, c. 356, and Acts 2003, c. 357], or the Health General Article of the Annotated Code of Maryland; and,

"vi. The applicant: (1) is not an officer or employee of CareFirst or any of its affiliates or subsidiaries and is not an immediate family member of another board member or an officer or employee of CareFirst; (2) has not in the current year or any of the past three years received in excess of $60,000 (excluding payments for health care services) in compensation for services from CareFirst or any of its affiliates; and (3) is not a partner or controlling shareholder or executive officer of any organization to which or from which CareFirst or any affiliate made or received payments (excluding payments for health care services or premiums) that exceed 5% of the recipient's consolidated gross revenues or $200,000, whichever is more, in the current fiscal year or any of the past three fiscal years.

"(c) The Nominating Committee shall not certify any applicant who fails to satisfy the criteria specified in Paragraph 4(b) above, and shall certify any applicant who does satisfy the criteria.

"5. After discharging its duties as provided in Paragraphs 2 through 4 above, the Nominating Committee shall be dissolved.

"6. No provisions of the Act [Acts 2003, c. 356, and Acts 2003, c. 357] shall be affected by this Order and Consent Judgment, except that the following provisions shall not be implemented or enforced: those provisions of Section I codified in the Insurance Article at Sections 14-139(d)(2) through 14- 139(d)(4) and Section 14-139(d)(5) in so far as it implements Sections 14-139(d)(2) - (d)(4); Section 4(a), Section 4(b)(1), except insofar as it governs creation of the Nominating Committee, and Section 5; and other provisions, if any, of the Act [Acts 2003, c. 356, and Acts 2003, c. 357] to the extent that they are inconsistent with this Order and Consent Judgment. The two non-voting directors to be appointed under Section 14-115(d)(2)(i) and (ii) of the Insurance Article shall meet the qualifications for Certified Applicants as described in paragraph 4 of this Order and Consent Judgment."

2004 Legislation

Acts 2004, c. 257, § 2, provides:

"SECTION 2. AND BE IT FURTHER ENACTED, That:

"(a) notwithstanding the term limitations established under § 14-115(e)(6) of the Insurance Article, an individual who is a Class I director of a board of a domestic nonprofit health service plan that is subject to § 14-115 of the Insurance Article and who was appointed to the board prior to December 31, 2003 and subsequently reappointed to the board for a 1-year term on January 1, 2004 as the representative of a foreign nonprofit health service plan of which the domestic nonprofit health service plan is the sole member, may serve on the board of the domestic nonprofit health service plan for an additional 1-year term until December 31, 2005;

"(b) any replacement of a Class I director described in subsection (a) of this section, and any other individual who is elected to the board of a domestic nonprofit health service plan that is subject to § 14-115 of the Insurance Article, shall be subject to the term limitations established under § 14- 115(e)(6) of the Insurance Article; and

"(c) the provisions of subsection (a) of this section shall be limited to and affect no more than two of the Class I directors described in subsection (a) of this section."

MD Code, Insurance, § 14-115, MD INSURANCE § 14-115

Current through end of 2005 Regular Session

END OF DOCUMENT

Westlaw.

W. Va. Code, § 16-5B-6a

C

West's Annotated Code of West Virginia Currentness
Chapter 16. Public Health (Refs & Annos)
Article 5B. **Hospitals** and Similar Institutions (Refs & Annos)

→§ 16-5B-6a. Consumer majorities on hospital boards of directors

(a) The legislature declares that a crisis in health care costs exists, that one important approach to deal with this crisis is to have widespread citizen participation in **hospital** decision making and that many **hospitals** in West Virginia exclude from their boards important categories of consumers, including small businesses, organized labor, elderly persons and lower-income consumers. The legislature further declares that nonprofit **hospitals** receive such major revenue from public sources and are so crucial in health planning and development that it is necessary to require consumer representatives on their **boards** of **directors**. Therefore, the legislature determines that nonprofit **hospitals** and **hospitals** owned by local governments should have **boards** of **directors** representative of the communities they serve.

(b) As used in this section, "applicable **hospitals**" means all nonprofit **hospitals** and all **hospitals** owned by a county, city or other political subdivision of the State of West Virginia.

(c) At least forty percent of the **boards** of **directors** of applicable **hospitals** shall, on or before the first day of July, one thousand nine hundred eighty-four, be composed of an equal portion of consumer representatives from each of the following four categories: Small businesses, organized labor, elderly persons and persons whose income is less than the national median income. Special consideration shall be made to select women, racial minorities and handicapped persons.

(d) The provisions of this section may be enforced by the director of health, or by any citizen of the county wherein any offending **hospital** is located, by the filing of an action at law in the circuit court of such county.

Acts 1983, c. 99.

W. Va. Code, § 16-5B-6a, WV ST § 16-5B-6a

Current through End of 2005 Fifth Ex. Sess.

END OF DOCUMENT

Westlaw.

8 V.S.A. § 4513

VERMONT STATUTES ANNOTATED
TITLE EIGHT. Banking and Insurance
PART 3. INSURANCE
CHAPTER 123. Nonprofit **Hospital** Service Corporations

§ 4513 Permit to engage in business; foreign corporations

(a) At least three-fourths of the **board of directors** of a corporation organized under this chapter shall be composed of subscribers and members of the public. The remainder may be providers. The subscriber members of the board shall comprise at least a majority of the board. A corporation organized under this chapter shall provide for the election of its **board of directors** at a publicly announced meeting. For the purposes of this section, "provider" means any person who is a provider of **hospital** or medical services, or who is an employee, director, trustee or representative of a provider of such services.

(b) A **hospital** service corporation shall not enter into a contract with a subscriber until it has obtained from the commissioner of banking, insurance, securities, and health care administration a permit so to do. A permit may be issued by the commissioner upon the receipt of an application in form to be prescribed by him. Such application shall include a statement of the territory in which such corporation proposes to seek subscribers, the service to be rendered by it and the rates to be charged therefor. Such application shall also include a statement of the number of subscribers for **hospital** service. Before issuing such permit, the commissioner may make such examination or investigation as he deems necessary. The commissioner may refuse such permit if he finds that the rates submitted are excessive, inadequate or unfairly discriminatory. A **hospital** service corporation organized under the laws of another state or country shall not be licensed to do business in this state except as provided by section 4520 of this title.

(c) In connection with a rate decision, the commissioner may also make reasonable supplemental orders to the corporation and may attach reasonable conditions and limitations to such orders as he finds, on the basis of competent and substantial evidence, necessary to insure that benefits and services are provided at minimum cost under efficient and economical management of the corporation. The commissioner shall not set the rate of payment or reimbursement made by the corporation to any physician, **hospital** or other health care provider.

(d) The commissioner shall permit rates for a **hospital** service corporation designed to enable the corporation to accumulate and maintain a reserve fund which shall from time to time during the calendar year be increased in an amount equal to at least two percent of the annual premium income of the corporation until the reserve fund is equal to at least eight percent of the annual premium income of the corporation. However, if the liabilities of the corporation exceed its assets, the commissioner shall permit the corporation to charge rates that enable the corporation to accumulate a reserve fund at the rate of at least five percent of annual premium income of the corporation until the corporation's assets equal its liabilities. Nothing herein shall require the commissioner to permit a corporation to accumulate a reserve fund until the law of the state of incorporation of that corporation is substantially similar to this subsection with respect to the reserve fund.

-- Amended 1975, No. 69, § 2, eff. April 18, 1975; 1983, No. 166 (Adj. Sess.); 1989, No. 225 (Ajd. Sess.), § 25(b); 1995, No. 180 (Adj. Sess.), § 38(a).

8 V.S.A. § 4513, VT ST T. 8 § 4513

8 V.S.A. § 4513

Current through the First Session of the 68th Biennial Session (2005)
Current through decisions of the VT Supreme Court through February 4, 2005
(177 VT Reports)

END OF DOCUMENT

Westlaw.

8 V.S.A. § 4512

VERMONT STATUTES ANNOTATED
TITLE EIGHT. Banking and Insurance
PART 3. INSURANCE
CHAPTER 123. Nonprofit Hospital Service Corporations

§ 4512 Powers

(a) Such hospital service corporation shall be a nonprofit sharing corporation without capital stock. It shall be maintained and operated solely for the benefit of the subscribers thereof and shall not be authorized to pay money in lieu of hospital service. A person, partnership, association or corporation shall not contract to furnish hospital service unless authorized so to do pursuant to the provisions of this chapter. Corporations formed under the provisions of this chapter shall have the privileges and be subject to the provisions of Title 11B as well as the applicable provisions of this chapter. In the event of a conflict between the provisions of Title 11B and the provisions of this chapter, the latter shall control.

(b) Subject to the approval of the commissioner, a hospital service corporation may establish, maintain and operate a medical service plan as defined in section 4583 of this title. The commissioner may refuse approval if the commissioner finds that the rates submitted are excessive, inadequate or unfairly discriminatory. The contracts of a hospital service corporation which operates a medical service plan under this subsection shall be governed by chapter 125 of this title to the extent that they provide for medical service benefits, and by this chapter to the extent that the contracts provide for hospital service benefits.

(c) Subject to the approval of the commissioner, a hospital or medical service corporation may establish, maintain and operate, or participate in the establishment, maintenance and operation of, health care services contracts or arrangements, including, but not limited to, health maintenance organizations authorized pursuant to chapter 139 of this title, all of which are intended to insure that subscriber benefits are provided at minimum cost under efficient and economical management. A health maintenance organization established, maintained or operated under the authority of this subsection shall be organized so that its business and affairs will be managed by a governing board or committee of which a majority are members who are not providers, as those terms are defined in section 5101 of this title. Notwithstanding the foregoing, subject to the approval of the commissioner, a hospital or medical service corporation may establish, maintain, and operate or participate in the establishment, maintenance, and operation of administrative claims processing services and related services.

-- Amended 1975, No. 69, § 1, eff. April 18, 1975; 1985, No. 44; 1997, No. 54, §§ 2, 3, eff. June 26, 1997; 2005, No. 36, § 20, eff. June 1, 2005.

8 V.S.A. § 4512, VT ST T. 8 § 4512

Current through the First Session of the 68th Biennial Session (2005)
Current through decisions of the VT Supreme Court through February 4, 2005
(177 VT Reports)

END OF DOCUMENT

8 V.S.A. § 4511

Pending Legislation

1 2005 VT S.B. 113 (NS) (Feb 22, 2005), PROPOSED ACTION: Amended.

→§ 4511 Purposes and definition

NOTES, REFERENCES, AND ANNOTATIONS

History

Source. V.S. 1947, § 5888. 1939, No. 174, § 1.

Following discussion, upon motion, seconded and carried, it was

> RESOLVED, that the following individuals be nominated as board officers and operating officers for Aware Integrated, Inc. each to serve a one-year term expiring at the Annual Meeting in 2005:

<u>Board Officers</u>

Rob Johnson, Vice Chair, Secretary
Jon Killmer, Treasurer
Mark Banks, M.D. President and Chief Executive Officer

<u>Operating Officers</u>

Richard Niemiec, Senior Vice President, Corporate Affairs
Colleen Reitan, Executive Vice President, Operations
Marsha Shotley, Assistant Secretary

<u>BOARD MEMBER RECRUITMENT PROCESS:</u>

The Governance Committee continued the process of identifying candidates for board seats. Discussion took place related to the skill sets and industry attributes needed to complement the current board. The committee developed a list of their top prospects from the areas of information technology, human resources, medical experience and general management. Seven candidates were identified as the top prospects: [redacted], [redacted], M.D., [redacted] [redacted], M.D., [redacted], [redacted], and [redacted] Mark Banks, M.D., President and CEO, BCBSM, will make the first calls to prospective board members. If they are interested, a statement of disclosure will be sent to them for completion. The candidate would then meet with the Chair of the Governance Committee and other committee members if available.

Dr. Banks raised the topic of chairman of the board succession planning, as John Murphy will be retiring from the board in 2005. This topic will be discussed further at the September committee meeting.

<u>ADJOURNMENT:</u>

There being no further business to come before the Governance Committee, the meeting was adjourned at 3:00 p.m.

Respectfully submitted,

Rob Johnson, Chair

225 South Sixth Street, Suite 4141
Minneapolis, Minnesota 55402

T 612.313.2000 F 612.313.2001
www.spencerstuart.com

SpencerStuart

November 11, 2002

PRIVATE & CONFIDENTIAL

Richard M. Niemiec
Senior Vice President, Corporate Affairs
Blue Cross Blue Shield of Minnesota
1800 Yankee Doodle Rd.
Riverpark II Bldg.
Eagan, MN 55164

Dear Dick:

We are pleased to be working with the Governance Committee of Blue Cross Blue Shield of Minnesota on two additional Director searches. The purpose of this letter is to confirm our working arrangements with you for conducting these assignments, and to get your written authorization to proceed with this assignment in support of your verbal authorization to do so.

OUR UNDERSTANDING OF THE NEED

We understand that Spencer Stuart is being exclusively engaged for two board search assignments to assist Blue Cross Blue Shield of Minnesota in recruiting two individuals to fill the position of Board Director. This position, including the specific title for this position, will be further described in a detailed Position and Candidate Specification to be developed shortly. We understand that one Director's position will be focused on a financial executive. You and I have agreed that the second profile will be discussed with the Governance Committee at its December meeting.

TIMING AND STAFFING

In conducting this search, I will be the lead Spencer Stuart consultant responsible for ensuring the success of the assignment. However, we operate under a best team approach, including utilization of a research staff.

OUR APPROACH

We normally approach each assignment with a search strategy which includes the development of a Position and Candidate Specification describing your requirements. This is coupled with a thorough, disciplined approach toward identifying and attracting the best qualified candidates for the position.

SpencerStuart

Our efforts are generally divided into a number of interrelated steps as follows:

1) Preliminary Assignment Study – Development of Search Specifications and Strategy

   Prior to undertaking the search itself, we work with you and the Governance Committee to gain as much knowledge and understanding of the Board's current needs. We believe it is essential to develop a broad understanding of your activities and board culture, and an in-depth awareness of your plans, objectives, and expectations in order to attract suitable candidates.

   When this preliminary work is completed, we prepare and reach final agreement with you on a Position and Candidate Specification consisting of a position description and specifications for the ideal candidate. At the same time, we develop and review with you a basic search strategy, including where the primary thrust of our search is expected to be focused.

2) Research – Source Contacts -- Prospective Candidate Screening and Evaluation

   Utilizing the resources of our research team, our consulting staff, and our research retrieval system, which is available throughout the Spencer Stuart worldwide organization, candidate prospects and sources are identified and discreetly contacted and screened. The most suitable prospects are carefully interviewed and evaluated against the ideal candidate specifications. Reference information is developed on prospective candidates, if possible, before introducing them to you.

3) Candidate Reports – Introductory Meetings

   Board candidate reports are submitted to you in anticipation of introductory meetings with the most qualified and attractable individuals. These reports include the following:

   (a) Data and a detailed career history.
   (b) An appraisal prepared by us.
   (c) If available, preliminary pre-qualified data compiled from third party qualitative comments in our database or provided by our consultants.

   Candidate meetings are then scheduled with Mark Banks and members of your Governance Committee.

4) Candidate Selection -- Negotiations – Reference Checking – Closure

   When the appropriate candidate is selected and the search enters the final negotiation and reference checking stages, we participate as a facilitator in both of these sensitive steps. Our past experience has shown that our participation often ensures a successful conclusion to the search.

SpencerStuart

The information in our reports is generally gathered from the candidate, the public domain, and third party sources (when available). If you prefer a more detailed background check, including criminal, credit, employment history, professional license, or SEC violation checks, we can refer you to third-party investigative firms. We welcome you to get acquainted with the background of the candidates and encourage you to conduct two or three reference checks on your own at an agreed point in the process as you decide on a candidate. After the selected candidate has joined your board, we continue to monitor his or her progress as a new director on a regular basis.

5) Satisfaction Survey Program

Spencer Stuart is very interested in your view on the quality of our work. At the conclusion of each search, we conduct a Client Satisfaction Survey using an outside organization called D&L Consulting. This firm will ask you for your assessment of our work when the assignment is concluded so that we can be responsive to any suggestions regarding our professional service.

THE CLIENT - SPENCER STUART RELATIONSHIP

Our experience in the search field has prompted us to formulate some guidelines to ensure a successful relationship between you and our firm. The understanding and acceptance of these guidelines will enable us to work together efficiently and professionally.

You commit to the following:

- You agree that Spencer Stuart, once authorized to conduct this search assignment, will be the only consulting firm used on the assignment until either the assignment is completed or Spencer Stuart's involvement is terminated. If you have used other consulting firms (on a contingency or retained fee basis) to assist in recruiting an individual for the same position for which Spencer Stuart is being authorized to conduct this assignment, you will, on a best efforts basis, provide to Spencer Stuart both the names of all prospective candidates surfaced by the other consulting firm(s), as well as any notes or information pertaining to why any particular prospective candidate was not hired for the position.

- To enable Spencer Stuart to offer a professional opinion with regard to the most suitable candidates, it is essential that all candidates -- including those whom you identify and want to be considered for the position (internal or external) -- be subjected to the same interviewing and screening process by our consultants.

SpencerStuart

Spencer Stuart commits to the following:

- In undertaking this assignment, Spencer Stuart will be developing a professional relationship with your organization. This means we will always aim to further your best interests, protect the confidentiality of information gathered during the assignment and deepen our understanding of your business so that we can operate together effectively.
- We will plan to touch base with you, or others you specify, as frequently as necessary to ensure adequate communications.

CONTACT INFORMATION

Susan S. Boren Consultant	Office Telephone: Office Fax: Email Address: Home Telephone: Cellular Telephone:	612-313-2030 612-313-2001 sboren@spencerstuart.com 612-332-3636 612-817-1537
Kerry Canfield Research	Office Telephone: Email Address:	612-313-2015 kcanfield@spencerstuart.com
Charlain Berg Administration	Office Telephone: Email Address:	612-313-2033 cberg@spencerstuart.com

ADMINISTRATION, FEES, AND EXPENSES

We charge a retainer fee and expenses for our services. We will conduct these assignments for a fixed fee. Our professional fee is compensation for performing the board searches and is not contingent on the placement of a candidate.

Given our long relationship with you and the multiple search assignments that we have done, we have agreed to honor our previous retainer of $50,000 per Director. For the two searches you have asked us to do, we will establish a minimum retainer of $100,000. Under all circumstances our fees are earned and due as billed and are not contingent upon your hiring a candidate presented by us.

Per your request, the above minimum retainer fee will be billed to your attention according to the following schedule:

December 15, 2002	$100,000

SpencerStuart

Spencer Stuart shall be deemed to have completed the search assignment regardless of whether the candidate was introduced by another source. Should we complete the assignment prior to the end of the retainer period, our full fee is due at that time. If, for any reason, you decide to cancel the assignment after the first month, our fees are considered earned to the date of cancellation on a 90 day prorated basis from the date you authorized us to proceed on this project. However, the first month's fee plus associated overhead and expenses are considered earned in its entirety at the commencement of the assignment regardless of the date of cancellation.

We also charge an amount equal to ten percent (10%) of the retainer fee noted above, which approximates our average expenses for office telephone, postage, computer communication, reprographics and contracted research associated with a typical assignment. In jurisdictions where required, applicable state and city service taxes will be added.

In addition to our professional fees, we bill you directly for the actual out-of-pocket cost of both consultants' and candidates' interview and travel-related expenses, including videoconferencing costs, airfare, car rental/taxi fares, parking, meals and lodging; costs of any special report generated and expedited delivery costs.

Should there be no placement after six months from the commencement of this search, the assignment will be reviewed in detail with you and, if necessary, changes will be made in the specification or search approach. Depending on the scope of the proposed redirection, Spencer Stuart will either submit a supplementary proposal letter, possibly incorporating additional fees, or terminate the assignment.

For your convenience and internal confidentiality, invoices for this project will be identified by an assignment numbers 15993-005 & 15993-006. For your records, Spencer Stuart's Tax Identification Number is 36-3538416. Invoices for professional services and expenses are due and payable upon receipt.

REPLACEMENT SEARCHES

Spencer Stuart agrees to make every effort to present you with the best candidates. However, we can not guarantee the performance of a candidate ultimately selected by you.

Spencer Stuart agrees that if a person is hired for the position of Board Director, but within one year of joining your board is asked to step down as a director for reasons that should have been identified by Spencer Stuart during the search assignment; we will commence a replacement search. The fees already collected from the initial retainer will be applied toward this search. However, expenses associated with the replacement search will be invoiced to you. The foregoing is the extent of Spencer Stuart's liability, it being agreed that Spencer Stuart is not liable for any consequential or other damages resulting from termination of employment.

SpencerStuart

EQUAL EMPLOYMENT OPPORTUNITY (DIVERSITY)

Spencer Stuart is an equal opportunity employer committed to the principles of non-discrimination in the workplace. Spencer Stuart does not discriminate in employment on the basis of age, race, creed, color, religion, sex, sexual orientation, national origin, disability, marital status or any other basis that is prohibited by federal, state, or local law. Spencer Stuart represents that, in providing the services described in this agreement, it has not and will not discriminate on any such basis. It is our policy to source and present candidates in a non-discriminatory manner. Proactively, we make every good faith effort to include a diverse pool of candidates in our search assignments.

AGREEMENT

By having the appropriate authorized agent(s) of Blue Cross Blue Shield of Minnesota sign in the spaces provided below, Blue Cross Blue Shield of Minnesota agrees to the terms and conditions of this search assignment as outlined above.

Dick, I certainly appreciate the opportunity to work with you again on these board search assignments, and appreciate your confidence in our abilities to assist you on this major recruiting need. We feel confident that we can move forward quickly to identify a group of excellent candidates.

Sincerely yours,

Susan

Susan S. Boren

/suz

AGREED AND CONFIRMED

____
Richard M. Niemiec

____
Date

Authorized Agent for Blue Cross Blue Shield of Minnesota

SpencerStuart

FOR YOUR CONVENIENCE
CONTACT INFORMATION "TEAR OFF" SHEET

Susan S. Boren	Office Telephone:	612-313-2030
	Office Fax:	612-313-2001
	Email Address:	sboren@spencerstuart.com
	Home Telephone:	612-332-3636
	Cellular Telephone:	612-817-1537
Kerry Canfield	Office Telephone:	612-313-2015
	Email Address:	kcanfield@spencerstuart.com
Charlain Berg	Office Telephone:	612-313-2033
	Email Address:	cberg@spencerstuart.com

Human Resources Committee

EXECUTIVE SUMMARY

OFFICER TOTAL COMPENSATION 2001

The Executive Total Compensation study conducted in 1999 by HealthCare Compensation Strategies, (HCS) has provided the framework for executive total compensation (salary, incentives and benefits) and has guided the administration of the Executive Total Compensation Program in alignment with the Executive Compensation Policy and Guiding Principles.

The 1999 HCS report found that salaries and benefits were 15% below market median, total variable compensation was 15% below median, total cash compensation was 13% below median, total direct compensation was 18% below median and total remuneration was 19% below median. HCS recommended and the Human Resources Committee approved changes to the Executive Compensation Policy with additional funding, spread over a two-year period, to bring average salaries for the group to a 94-95% compensation-ratio and additional Executive Flexible Benefits valued at 5.5% of salaries in 2000.

The 2000 Sibson & Company "Executive Compensation Survey" which includes Blue Cross plans and Managed Care plans provide competitive market data for salaries and variable compensation. Initially, revenue scope of $3.3 billion (Aware Integrated Inc. revenue for 2000) was used to determine market midpoints, with alternate scopes used as appropriate (e.g., Information Systems budget for CIO, Government Program revenue for Top Government Exec, etc). However, the resulting market midpoints indicated a 12.2% aggregate midpoint increase. This was due to the 21% increase in revenues over 1999 and market conditions for talent. In discussions with David Bjork, Ph.D., and partner at HCS, Blue Cross recommended a 3% increase across most positions. Some position midpoints are appropriately determined by regression analysis, using corporate revenue scope or alternative area scope. Competitive Total Cash Compensation (TCC) is determined using the salary midpoint data plus the annual incentive opportunity at the 50th percentile.

The Executive Merit Pool for 2001, excluding the CEO, is recommended to be funded at 4.3% with an additional 5.1% for market based adjustments for a total pool of 9.4%. Adjustments are necessary to bring salaries closer to the market median in alignment with the Executive Compensation Philosophy and to account for promotions, advancements in the range and internal equity considerations. Annual and, where appropriate, long-term incentive opportunities will be targeted at the 50th percentile for each position relative to the survey data. Executive Flexible Benefits are recommended to remain at 5.5% of the 2000 ending salary level for each officer.

Blue Cross consulted with David Bjork in matching executive positions to the 2000 survey data. At the end of 2000, Blue Cross' base salaries for officers had a compensation-ratio of 89.0% or 11% below median. This measure compares the actual base salaries against the Blue Cross targeted survey midpoints. When managing base salaries and incentive opportunities, our goal is to be at competitive levels with Total Direct Compensation (TDC). The TDC comp-ratio is 91% as of 12/31/00. With implementation of recommended increases for the annual salary pool and selected annual and long-term incentive opportunities, the TDC compensation-ratio will be 93%. HCS recommended and the Committee approved a 97-98% compensation-ratio target or 2-3% below median.

BCBSM- 36378

December 12, 2000

HUMAN RESOURCES COMMITTEE
EXECUTIVE SUMMARY

OFFICER TOTAL COMPENSATION
2002

The Executive Total Compensation study conducted in 1999 by Clarke/Bardes' Healthcare Group (formerly known as Healthcare Compensation Strategies) and presented by David Bjork, Ph.D., and partner at Clarke/Bardes, has provided the framework for executive total compensation (salary, incentives and benefits) and has guided the administration of the Executive Total Compensation Program in alignment with the Executive Compensation Policy and Guiding Principles.

The 1999 HCS report found that salary, total cash compensation, total direct compensation, and benefits were below median. HCS recommended and the Human Resources Committee approved changes to the Executive Compensation Policy with additional funding, spread over a two-year period, to bring average salaries for the group to a 94-95% compensation-ratio. An Executive Flexible Benefit of 5.5% of 2000 salaries was also approved.

The 2001 Watson Wyatt "Executive Compensation Survey" which includes Blue Cross plans and Managed Care plans (see Exhibit A) provides competitive market data for salaries and variable compensation. Revenue scope of $4 billion (Aware Integrated, Inc. revenue for 2001) was used to determine competitive market midpoints, with alternate scopes used as appropriate (e.g., Subsidiary revenue for Presidents of subsidiaries, Government Program revenue for Top Government Exec, etc). The resulting market midpoints, from the Wyatt survey data, indicated a 5.1% aggregate midpoint increase over the 2000 survey midpoints for benchmark jobs identified, as those having the same scope as the previous year.

The 2001 Mercer IHN Survey was compared to 12 positions where matches in job descriptions provided comparability. The Mercer survey results were almost identical to the Wyatt survey with total salaries .1% higher in Mercer and total cash compensation and total direct compensation .7% and 1.7% higher respectively.

Overall, the 2002 Market Base Salary Midpoint average increased only 2.8% over 2001 midpoints. The reasons for this decrease from the 5.1% aggregate increase mentioned above, is that many positions had new responsibilities and this resulted in new survey data comparisons. Revenues for Aware Integrated, Inc., were up 17% in 2001 over the prior year and enrollment will be up 6.6%. Some position midpoints are appropriately determined by regression analysis, using corporate revenue scope or alternative area scope. Competitive Total Cash Compensation (TCC) is determined using the salary midpoint data plus the annual incentive opportunity at the 50th percentile. Long-term incentive opportunity is determined using Blue Plan data only and excludes high outliers, presumably caused from stock options in for-profit Blue Plans.

Blue Cross consulted with David Bjork in matching executive positions to the 2001 survey data. The Executive Merit Pool for 2002, excluding the CEO, is recommended to be funded at 4.6%. Annual and, where appropriate, long-term incentive opportunities will be targeted at the 50th percentile for each position relative to the survey data. Executive Flexible Benefits are recommended at 5.5% of the beginning salary level for each officer for that year, beginning in 2002.

BCBSM-36492

December 4, 2001

Westlaw.

K.S.A. § 40-19c03

KANSAS STATUTES ANNOTATED
CHAPTER 40.--INSURANCE
ARTICLE 19C.--NONPROFIT MEDICAL AND **HOSPITAL** SERVICE CORPORATIONS
40-19c03. Organization; purposes; board of directors.

Nonprofit corporations may be organized under the nonprofit medical and **hospital** service corporation act for the purpose of entering into contracts with participating health care providers and participating **hospitals** to provide professional and **hospital** services for subscribers as may be designated in subscription agreements. Such corporations shall also indemnify subscribers as designated in subscription agreements for services which may be received from nonparticipating health care providers or nonparticipating **hospitals**. Such corporations may also provide service or indemnity for other health services or facilities but not to exceed reasonable and customary charges that a subscriber may incur for these services. The affairs of any such corporation shall be managed by a **board of directors** of not less than 15 members as specified by the articles of incorporation composed of: Persons licensed under the Kansas healing arts act and trustees or administrators of **hospitals** who participate in providing professional and institutional service to subscribers and members of the public exclusive of persons licensed under the Kansas healing arts act and **hospital** trustees or administrators who, at the time of their election, are subscribers. Beginning with the election of directors immediately following the effective date of this act, the **board of directors** at all times shall include at least one person licensed under the Kansas healing arts act to practice allopathic medicine and surgery, osteopathic medicine and surgery and chiropractic. Two members of the public who are subscribers shall be appointed to the **board of directors** by the governor of the state of Kansas. The members of the public, exclusive of physicians and **hospital** trustees or administrators, shall at all times comprise a majority of the membership of the **board of directors**. The directors shall take the oath of office as in other corporations and duplicates of such subscribed oaths shall be forwarded at the time of election to the commissioner of insurance for filing. The bylaws shall specify the number of directors necessary to constitute a quorum which shall not be less than 10 members. *

History: L. 1980, ch. 137, § 21; L. 1990, ch. 168, § 1; July 1.

K. S. A. § 40-19c03, KS ST § 40-19c03

Current through the 2004 Regular Session

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M.C.L.A. 550.1301

C
Michigan Compiled Laws Annotated Currentness
Chapter 550. General Insurance Laws
Nonprofit Health Care Corporation Reform Act (Refs & Annos)
Part 3.

550.1301. Board of directors

Sec. 301. (1) The property and lawful business of a health care corporation existing and authorized to do business under this act shall be held and managed by a board of directors to consist of not more than 35 members. The board shall exercise the powers and authority necessary to carry out the lawful purposes of the corporation, as limited by this act and the articles of incorporation and the bylaws of the corporation.

* (2) Four voting members of the board shall be representatives of the public appointed by the governor by and with the advice and consent of the senate. Two of those members shall be retired individuals 62 years of age or older. The term of office of each representative of the public shall be 2 years, and until a successor is appointed and qualified. If a vacancy occurs before the conclusion of a 2-year term, the appointment of a representative to complete the term shall be made in the same manner as the original appointment.

(3) The board of directors shall consist of not more than 25% provider directors. In addition to physician and hospital provider directors, not less than 1 provider director shall be a registered professional nurse who shall be representative of licensees under part 172 of the public health code, Act No. 368 of the Public Acts of 1978, as amended, being sections 333.17201 to 333.17242 of the Michigan Compiled Laws, and not less than 1 provider director shall be representative of the provider whose services, in the 1984 calendar year in the case of an existing health care corporation, or, in the calendar year immediately following incorporation in the case of a newly-formed health care corporation, generated the largest number of benefit claims received by the corporation from its subscribers. Other provider directors shall be as broadly representative of provider classes as possible.

(4) The bylaws of a health care corporation may authorize not more than 1 officer or employee of the corporation to serve as a voting or nonvoting director.

(5) The remaining members of the board of directors shall include representatives of large subscriber groups, medium subscriber groups, small subscriber groups, and nongroup subscribers, in proportions which fairly represent the total subscriber population of the health care corporation. However, at least 3 directors shall represent nongroup subscribers, at least 1 of whom shall be a retired individual 62 years of age or older, and at least 3 directors shall represent small subscriber groups. Large and medium subscriber groups shall be represented, to the greatest extent possible, by an equal number of labor and management representatives and shall be categorized as labor subscriber representatives or management subscriber representatives.

(6) The method of selection of the directors, other than the directors who are representatives of the public, and additional provisions and requirements for further refinement or specification regarding the number of directors comprising each component shall be specified in the bylaws. The terms of office of directors, other than the directors who are representatives of the public, and the method for filling vacancies in those offices shall be provided in the bylaws. However, if a term of office of more than 1 year is prescribed by the bylaws, at least 1/3 of the members of the board shall be selected each year.

(7) The method of selection of each category of subscribers entitled to representation on the board under subsection (5) shall maximize subscriber participation to the extent reasonably practicable. This subsection shall permit, but not require, the statewide election of a director or member of the corporate body. The method of selection shall neither permit nor require nomination, endorsement, approval, or confirmation of a candidate or director by the corporate body, the board of directors, or the management of the health care corporation, or any member or members of any of these. This subsection shall not apply to the selection of an officer or employee as a director pursuant to subsection (4). This subsection shall not limit the rights of any director, member of the corporate body, or employee or officer of the health care corporation to participate in the selection process in his or her capacity as a subscriber, to the same extent as any other subscriber may participate.

(8) For the purposes of this section:

(a) "Health care provider" or "provider" includes:

(i) A person defined as a health care provider or provider in section 105(4); [FN1] a person employed by a health care facility, as defined in section 105(3); [FN2] or a director, officer, or trustee of a health care provider, as defined in section 105(4), unless the person serves in that capacity as a representative selected by the same subscriber group or collective bargaining representative which the person represents on the board of a health care corporation.

(ii) Except as provided in subdivision (b), a spouse, child, or parent of a health care provider who resides in the same household.

(iii) A person who receives more than 25% of his or her annual income through the provision of goods or services to health care providers, or who is an employee, officer, trustee, or director of a firm or organization which receives more than 25% of its annual income through the provision of goods or services to health care providers.

(b) For purposes of determining whether a director is a provider director, "health care provider" or "provider" does not include a spouse, child, or parent of a health care provider who resides in the same household if all of the following criteria are met:

(i) Not more than 1/3 of the total annual household income is earned by that health care provider.

(ii) The term of office of the director commences in the 1988 calendar year.

(iii) Not more than 2 directors qualify for the exemption under this subdivision.

(9) A director shall not be an employee, agent, officer, or director of an insurance company writing disability insurance inside or outside this state.

CREDIT(S)

P.A.1980, No. 350, § 301. Amended by P.A.1988, No. 45, § 1, Imd. Eff. March 11, 1988.

[FN1] M.C.L.A. § 550.1105(4).

[FN2] M.C.L.A. § 550.1105(3).

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RI ST § 27-19.2-5 Page 1

Gen.Laws 1956, § 27-19.2-5

GENERAL LAWS OF RHODE ISLAND ANNOTATED, 1956
TITLE 27. INSURANCE
CHAPTER 19.2. **NONPROFIT HOSPITAL** AND MEDICAL SERVICE CORPORATIONS

27-19.2-5. Composition of the board of directors. --

(a)(1) Notwithstanding any public law, rule or regulation to the contrary, six (6) positions on the **board** of **directors** of a **nonprofit hospital** and/or medical service corporation, shall be filled by public appointment for a maximum of three (3) three (3) year terms. Public appointment of two (2) of the directors shall be made by the Governor, two (2) shall be made by the Speaker of the House, and two (2) shall be made by the President of the Senate. Neither government employees nor elected officials shall serve as public members of the **board** of **directors**. Each appointing authority shall make one such appointment on or after July 1, 2004, and the remaining will be made on or after July 1, 2005. ~~Once appointed, public members may only be removed in accordance with~~ the bylaws of the **nonprofit hospital** and/or medical service corporation. When sufficient public appointments have been made, vacancies shall thereafter be filled for a maximum of three (3) three (3) year terms as the **board** of **directors** may determine, and consistent with subsection (2) hereof, except that seats filled by public appointment pursuant to this subsection shall always remain subject to such public appointment, upon the resignation, removal, incapacity or retirement of the incumbent public appointee. Public appointees shall not constitute a majority of the board.

(2) Future vacancies not filled by public appointment pursuant to subsection (1) hereof shall be filled by an open and public process of recruitment and appointment, to be determined by the board and within its discretion, but to include public solicitation of candidates.

(3) At the end of their term, directors shall continue to serve until their successors are appointed and qualified. Nothing herein prevents the reappointment of a board member presently serving.

(4) Public appointees may not:

(i) Be a licensee of or otherwise be subject to regulation by the department of health;

(ii) Be employed by or have a financial interest in:

(A) A **nonprofit hospital** and/or medical service plan or its affiliates or subsidiaries;

(B) A person regulated under this article; or

(iii) Within three (3) years before appointment, have been employed by, had a financial interest in or have received compensation from:

(A) A **nonprofit hospital** and/or medical service plan or its affiliates or subsidiaries; or

(B) A person regulated under this article.

(b) An officer or employee of a **nonprofit hospital** and/or medical service plan or any of its affiliates or subsidiaries may not be appointed or elected to the board.

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N.J.S.A. 17:48E-7

Effective: [See Text Amendments]

New Jersey Statutes Annotated Currentness
Title 17. Corporations and Institutions for Finance and Insurance (Refs & Annos)
Subtitle 3. Insurance
Part 9. **Hospital** and Medical Service Corporations, Etc.
Chapter 48E. Health Service Corporations (Refs & Annos)

→17:48E-7. Health service corporation not formed by merger; board membership

The **board** of **directors** of a health service corporation which is established in accordance with paragraph (1) of subsection a. of section 2 of P.L.1985, c. 236 (C.17:48E-2) shall have four public members appointed by the ~~Governor with the advice and consent of the Senate and eleven members elected as provided in the bylaws.~~ *

CREDIT(S) L.1985, c. 236, § 7, eff. July 15, 1985. Amended by L.1991, c. 208, § 21, eff. July 15, 1991.

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1991 Legislation

L.1991, c. 208, § 21, provided that **board of directors** of a health service corporation would consist of four public members appointed by the governor with the advice and consent of the senate and eleven members elected in accordance with the bylaws; previously, board consisted of eight public members appointed by the governor and 24 members elected as provided in bylaws.

N. J. S. A. 17:48E-7, NJ ST 17:48E-7

Current with legislation that is now effective through Chapter 249

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The New York Times
nytimes.com

April 10, 2006

Advice on Boss's Pay May Not Be So Independent

By GRETCHEN MORGENSON

For Ivan G. Seidenberg, chief executive of Verizon Communications, 2005 was a very good year. As head of the telecommunications giant, Mr. Seidenberg received $19.4 million in salary, bonus, restricted stock and other compensation, 48 percent more than in the previous year.

Others with a stake in Verizon did not fare so well. Shareholders watched their stock fall 26 percent, bondholders lost value as credit agencies downgraded the company's debt and pensions for 50,000 managers were frozen at year-end. When Verizon closed the books last year, it reported an earnings decline of 5.5 percent.

And yet, according to the committee of Verizon's board that determines his compensation, Mr. Seidenberg earned his pay last year as the company exceeded "challenging" performance benchmarks. Mr. Seidenberg's package was competitive with that of other companies in Verizon's industry, shareholders were told, and was devised with the help of an "outside consultant" who reports to the committee.

The independence of this "outside consultant" is open to question. Although neither Verizon officials nor its directors identify its compensation consultant, people briefed on the relationship say it is Hewitt Associates of Lincolnshire, Ill., a provider of employee benefits management and consulting services with $2.8 billion in revenue last year.

Hewitt does much more for Verizon than advise it on compensation matters. Verizon is one of Hewitt's biggest customers in the far more profitable businesses of running the company's employee benefit plans, providing actuarial services to its pension plans and advising it on human resources management. According to a former executive of the firm who declined to be identified out of concern about affecting his business, Hewitt has received more than half a billion dollars in revenue from Verizon and its predecessor companies since 1997.

In other words, the very firm that helps Verizon's directors decide what to pay its executives has a long and lucrative relationship with the company, maintained at the behest of the executives whose pay it recommends.

This is the secretive, prosperous and often conflicted world of compensation consultants, who are charged with helping corporate boards determine executive pay that is appropriate and fair, and who are often cited as the unbiased advisers whenever shareholders criticize a company's pay as excessive.

It is a world where consulting fees can reach $950 an hour, rivaling those of the nation's top lawyers. And it has grown into a substantial industry where there is little disclosure about how executive pay is determined.

Marc C. Reed, executive vice president for human resources at Verizon, declined to identify the company's compensation consultant, noting that the Securities and Exchange Commission did not require it. "We understand the potential perception issue," he said in an e-mail message, "but we think it's important to honor the confidentiality of our advisers, and we have always ensured there have been no conflicts of interest."

Suzanne Zagata-Meraz, a spokeswoman for Hewitt, said in a statement: "Hewitt Associates has strict policies in place to ensure the independence and objectivity of all our consultants, including executive compensation consultants. In addition, Hewitt adheres to strict confidentiality requirements and a strong Hewitt code of conduct."

Because much of what goes on in compensation consulting stays in the hushed confines of corporate boardrooms, the roles of these advisers in determining executive pay have been hidden from investors' view. Nevertheless, corporate governance experts say, the conflicts bedeviling some of the large consulting firms help explain why in good times or bad, executive pay in America reaches dizzying heights each year.

Warren E. Buffett, the chief executive of Berkshire Hathaway and an accomplished investor, has noted the troubling contributions that compensation consultants have made to executive pay in recent years.

"Too often, executive compensation in the U.S. is ridiculously out of line with performance," he wrote in his most recent annual report. "The upshot is that a mediocre-or-worse C.E.O. — aided by his handpicked V.P. of human relations and a consultant from the ever-accommodating firm of Ratchet, Ratchet & Bingo — all too often receives gobs of money from an ill-designed compensation arrangement."

How Much Is Too Much?

Executive pay has been a subject of criticism for decades. Even though last year's pay figures showed slower growth than in previous years, the fact that executive compensation often has little relationship to the performance of the company has contributed to a growing sense among investors that pay is diminishing shareholder returns. "Everybody should have an interest in controlling this explosion in executive pay," said Frederick E. Rowe Jr., chairman of the Texas Pension Review Board who is also chairman of Greenbrier Partners, a money management firm in Dallas. "The wealth of America has been built through the returns of our public corporations, and if those returns are being redirected to company managements, then the people who get the short end of the stick are the people who hope to retire someday."

The median compensation for chief executives at roughly 200 large companies rose modestly to $8.4 million last year, from $8.2 million in 2004, according to Equilar Inc., a compensation analysis firm in San Mateo, Calif. The median was $7.2 million in 2003.

There are those who defend the current levels of executive pay, saying that the packages are set by the market and reflect the rising value of executives in an increasingly complex and competitive arena.

In an interview with The Wall Street Journal on March 20, John W. Snow, secretary of the Treasury, characterized executive pay this way: "In an aggregate sense, it reflects the marginal productivity of C.E.O.'s." Mr. Snow added that he trusted the marketplace to reward executives. Mr. Snow was a member of the Verizon board from 2000 to 2002 and on its compensation committee in 2001.

But defenders of executive pay are increasingly being drowned out by investors and workers who see some packages not only as an unjustified cost but also as a potentially divisive social issue.

Any discussion of executive pay quickly leads to compensation consultants, because they are the experts relied upon by company directors trying to balance their fiduciary duties to shareholders and their desire to keep management happy. Directors look to consultants for their knowledge about prevailing pay practices as well as the tax and legal implications of different types of compensation. Yet the consultants' practices have received little scrutiny.

Consultants help select the companies to be used in peer groups for comparison purposes in judging an executive's performance. Picking a group of companies that will be easy to outperform is one way to ensure that executives can clear performance hurdles. Another is to structure an executive's pay so that it is always at or near the top of those in his industry regardless of his company's performance. This pushes up pay simply when others in the industry do well.

Consultant creativity is behind some of the pay practices that have generated huge windfalls for executives in recent years. Some of the most costly practices involving stock options, like mega-grants and automatic reloads of options when others are cashed in, have vanished under pressure as accounting rules have changed. But innovative practices continue to crop up and spread quickly because comparisons with what other executives receive is a central factor driving executive pay.

An increasingly common practice of consultants is to use the same performance benchmark to generate both short-term and long-term pay. This arrangement rewards executives twice for a single achievement, noted Paul Hodgson, senior research associate at the Corporate Library, a corporate governance research firm in Portland, Me.

A recent study by the Corporate Library, "Pay for Failure: The Compensation Committees Responsible," identified 11 major companies whose shareholder returns had been negative for five years, but whose chief executives' pay had exceeded $15 million during the last two years combined. "The disconnect between pay and performance is particularly stark" at these companies, the study noted. They include AT&T, BellSouth, Hewlett-Packard, Home Depot, Lucent Technologies, Merck, Pfizer, Safeway, Time Warner and Wal-Mart.

Directors Help Each Other

Verizon is the other company on the list. Mr. Seidenberg's $75 million total pay for five years looked especially high against a total shareholder loss of more than 26 percent in the period, the study said. Verizon's board received a grade of D in effectiveness from the Corporate Library.

Robert A. Varettoni, a Verizon spokesman, pointed out that Mr. Seidenberg had received the first increase in base salary last year since the company was formed in 2000. "During this particularly tumultuous time in the telecom industry," Mr. Varettoni said in an e-mail message, "Verizon has maintained its financial health and infrastructure investments, increased its dividends, lowered its debt, transformed its revenue growth profile, and provided customers with a steady stream of product innovations, such as wireless broadband services and fiber-optic-based TV services."

Doreen A. Toben, chief financial officer of Verizon, sits on the board of The New York Times Company and on its audit committee. Hewitt Associates is the compensation consultant for The New York Times, said Catherine Mathis, a spokeswoman for the Times, but does not handle other business for the company.

Consultants are not alone in driving executive pay. Corporate boards are often composed of other chief executives with an interest in keeping executive pay high. Even though stock exchange regulations require compensation committee members to be independent of the executives whose remuneration they oversee, their connections with those people can run deep.

Verizon's compensation committee, for example, consists entirely of chief executives or former chief executives. Three of the four members sit on other boards with Mr. Seidenberg. When he was on Wyeth's board, Mr. Seidenberg helped set the pay of one member of Verizon's compensation committee, John L. Stafford, previously the chairman and chief executive of Wyeth.

Human resources officials often work closely with the compensation consultants and report directly to the chief executives. Then there are the executives themselves, who have been known to make quiet suggestions to their directors about their pay, according to board members and compensation experts who spoke about their experiences but said they feared retribution if they were identified.

Mutual fund and pension fund managers, too, regularly vote their shares in favor of large grants of stock options or restricted stock.

The potential for conflicts in consulting arrangements can be difficult for outsiders to spot. Even if the consultant is identified, the other work that a consultant's company performs for the compensation client is hard to plumb.

"I wish we could figure out how to flesh out the conflicts that pay consultants have in the same way we were successful in fleshing out the conflicts in Wall Street research," said Richard H. Moore, who as treasurer of North Carolina oversees $70 billion. "This is one of the last pieces that are pure unadulterated conflicts that neither the board nor the shareholder is well served by."

Room for Potential Conflicts

The only reference to Hewitt Associates in any Verizon filing, for instance, is a letter sent by the company to institutional shareholders and attached to a 2004 proxy filing. The letter, written by a Hewitt official, details the supplemental executive retirement plan in response to a shareholder proposal that would have required stockholder approval of any "extraordinary benefits for senior executives" at Verizon.

Last year, Verizon's directors described the compensation adviser as an "independent, outside consultant." In this year's proxy, the word "independent" is missing.

The Securities and Exchange Commission has proposed rules on compensation disclosure that would require compensation consultants to be identified. But the rules would not force companies to disclose details of other services provided by the consulting firm or its affiliates.

The potential for conflict is reminiscent of that among auditing firms that were performing lucrative consulting services related to information technology and tax issues for the same companies whose financial results they were certifying. When the S.E.C. required companies to disclose how much they were paying in consulting as well as audit fees, the industry was compelled to separate these businesses.

"Auditors' giving companies tax advice while acting as their independent auditors was clearly crossing the line into bad corporate governance in the cases of Enron and Hollinger," said Mr. Hodgson of the Corporate Library. Referring to pay consultants, he added: "The perception has been growing that it is better that there be a clear line of distinction between the people the board hires and the people hired by the corporation."

The Conference Board, a nonprofit organization that conducts research and conferences for business leaders, issued a report in January suggesting, among other practices, that boards hire their own compensation consultants, who have not done work for the company or its current management. The report quoted a former chief justice of Delaware, E. Norman Veasey: "Compensation committees should have their own advisers and lawyers. Directors who are supposed to be independent should have the guts to be a pain in the neck."

But according to consultants and directors, compensation committees typically employ a consultant who also works with a human resources executive, the company's chief executive and the chief financial officer. In many cases, a company's chief executive is present at meetings where the compensation consultant and the human resources executive hash out the terms of a package.

Some compensation committees have started hiring their own pay consultants who do no other work for their companies. James F. Reda & Associates, a small pay consultant in New York, founded in 2004, works with some of the nation's largest companies on executive compensation issues. But such independence is uncommon.

In a comment letter to the S.E.C. on its proposed disclosure rules, Mr. Reda noted that all but one of the nation's large compensation consultants offered other services. "Most diversified H.R. consulting firms earn more on selling other services than on performing compensation consulting services," he wrote.

Hewitt; Watson Wyatt; Towers Perrin; Pearl Meyer & Partners, a unit of Clark Consulting; and Mercer Human Resources Consulting, a unit of Marsh & McLennan, all provide a vast array of services to corporate clients.

Hewitt, for example, conducted mostly actuarial work when it was founded in 1940. Now, it is much more diversified, operating in 31 countries and providing things like investment services. Of the $2.8 billion in revenues at Hewitt in 2005, 71 percent came from its outsourcing business; 29 percent came from its human resources consulting unit.

Typically, only a fraction of a firm's sales come from compensation consulting. Mr. Reda estimates that compensation consulting generates less than 2 percent of a diversified firm's revenues.

Verizon is not the only Hewitt compensation client that uses the firm for actuarial, administrative, investment advice or other services. According to filings with the Labor Department, Hewitt has worn two hats in its work for Boeing, Maytag, Genuine Parts, Procter & Gamble, Toro, Morgan Stanley and Nortel Networks.

Because few companies identify their compensation consultant, this list is by no means comprehensive.

At Verizon, Hewitt is ubiquitous. The company operates Verizon's employee benefits Web sites, where its workers get information about their pay, health and retirement benefits, college savings plans and the like. Labor Department filings show that Hewitt is actuary for three of Verizon's pension plans. Hewitt also performed extensive work for the two companies — Bell Atlantic and GTE — that merged to become Verizon in 2000. Immediately after the merger, Verizon employed Hewitt to help it assess overall human resources costs. Over the years, Hewitt's Web site has offered testimonials from Verizon officials about its services.

These multiple relationships are no accident. Hewitt calls its offerings "total human resources solutions" that help clients manage the costs of their work force efficiently.

Towers Perrin, Watson Wyatt and Mercer Human Resources make the same pitch. They contend, as Wall Street firms once did about stock analysts and investment bankers, that potential conflicts can be managed properly. In a working group report written by corporations and consultants last year for the Conference Board, they argued that companies and boards are best served by using a single compensation consultant — less adversarial and lower cost — and that the consultant should work closely with the company's management in devising executive pay. This argument was rejected in the Conference Board's subsequent report.

A 'One-Two Punch'

Brian Foley, an executive compensation expert who operates his own independent consulting firm in White Plains and who does not work for Verizon, analyzed Mr. Seidenberg's pay for this article. "If you were a shareholder looking at how Ivan did financially, in terms of new stuff, if you didn't know the facts, you would have sworn they had a really good year," Mr. Foley said. "Bonus up 23 percent and a 40 percent salary increase — that's a one-two punch in a year when stockholders are down."

According to Verizon's proxy, Mr. Seidenberg received his raises last year in part because the company expanded "its customer base through innovative products in wireless, broadband, data, video and long-distance services," according to the company's proxy statement. In addition, Verizon made significant investments in its network and enlarged its market share. Verizon's annual consolidated operating revenue increased 6 percent, driven by 16.8 percent revenue growth at Verizon Wireless and 10.5 percent revenue growth in wireline data revenues.

Mr. Reed noted that last year Verizon's board canceled 209,660 restricted shares Mr. Seidenberg was to receive. "Ivan and the board have made a series of strategic business choices that are designed to create sustainable long-term shareholder value," he said in an e-mail message. "In 2006, these plans have begun to take root, and our shareholders have begun to benefit accordingly."

But Mr. Foley pointed to several aspects of Mr. Seidenberg's pay that seem out of sync. One is the low level of performance — beginning at the 21st percentile of other companies — that generates an incentive stock payout. "If you have 100 companies in the sample, as long as you beat 20 of them you start making money," Mr. Foley said. "That hurdle is so low it's almost embedded in the ground."

Another surprise, Mr. Foley said, was Verizon's contributions to Mr. Seidenberg's retirement plan in recent years. "They've put in almost $6 million in four years in new contributions — that goes beyond holy cow," he said. "I look at this in the context of all the retrenchment Verizon has made in retiree benefits and medical for the rank-and-file guys." Verizon has frozen future benefits to be paid under Mr. Seidenberg's retirement plan, which had grown to $15.2 million by the end of last year.

Each year that Mr. Seidenberg has been Verizon's chief executive, a shareholder proposal has appeared on the company's proxy that is critical of its executive pay. At this year's meeting, scheduled for May 4, shareholders will vote on a proposal that would require that at least three-quarters of stock option and restricted share grants to executives be "truly performance-based, with the performance criteria disclosed to shareholders."

The company's directors say its incentive pay plans already "provide aggressive and competitive performance objectives that serve both to motivate and retain executives and to align their interests with those of the company's shareholders."

But the Corporate Library study concurred with Mr. Foley in questioning Verizon's practice of paying bonuses even when the company's performance lags well behind that of most companies in its comparison groups. "This is not even logical," the study asserted.

Mr. Reed of Verizon noted that the consultant used by the compensation committee did not certify board actions, "but its perspective — which board members may or may not agree with — is one of many inputs considered before the board reaches its independent decision."

On the matter of disclosing the consultant's identity, "We'll continue to look at this issue," he said, "even if the S.E.C. does not adopt new guidelines."

Gary Lutin, an investment banker at Lutin & Company in New York and an adviser in corporate control contests, said: "Paying some friendly consultant $100 million to help you justify the diversion of shareholder wealth to managers is just adding another $100 million to the diversion. If you're really trying to be a responsible director, you'd never rely on an expert who can't be considered objective."

Shareholders Speak Up

Verizon's compensation committee is led by Walter V. Shipley, former chief executive of the Chase Manhattan Corporation, and is made up of Richard L. Carrión, chief executive of Banco Popular de Puerto Rico; Robert W. Lane, chief executive of Deere & Company; and Mr. Stafford, formerly of Wyeth.

None of Verizon's directors agreed to be interviewed for this article.

Many of the Verizon directors who are on its compensation committee have also met Mr. Seidenberg at board meetings of other public companies. At Wyeth meetings, Mr. Seidenberg encounters Mr. Shipley, who is the chairman of Verizon's compensation committee and who is a member of Wyeth's committee, sitting with Mr. Carrión, at least until 2006.

Mr. Seidenberg sees Mr. Stafford when the board of Honeywell International meets. Mr. Stafford is chairman of Honeywell's compensation committee, which includes Mr. Seidenberg.

C. William Jones, the president and executive director of BellTel Retirees, a group of 111,500 people, has had many meetings with Verizon executives to discuss pay.

BellTel Retirees have placed four shareholder proposals relating to executive compensation on Verizon proxies in recent years; the organization has won significant concessions from the company after the proposals attracted shareholder support.

Mr. Jones said Verizon executives had always treated him with respect. But the dialogue stops on the subject of Verizon's consultant. "I spoke to a senior vice president of human resources and said, 'Who is it?' " recalled Mr. Jones, who retired in 1990 with 30 years' service. "He said, 'We have a policy that we do not disclose that information.' I don't know what the secret is."