



THE EVOLVING COMMERCIAL MARKET LANDSCAPE & WHAT'S NEEDED TO WIN

Presented by: Dave Corkum, EVP and Chief Commercial Officer

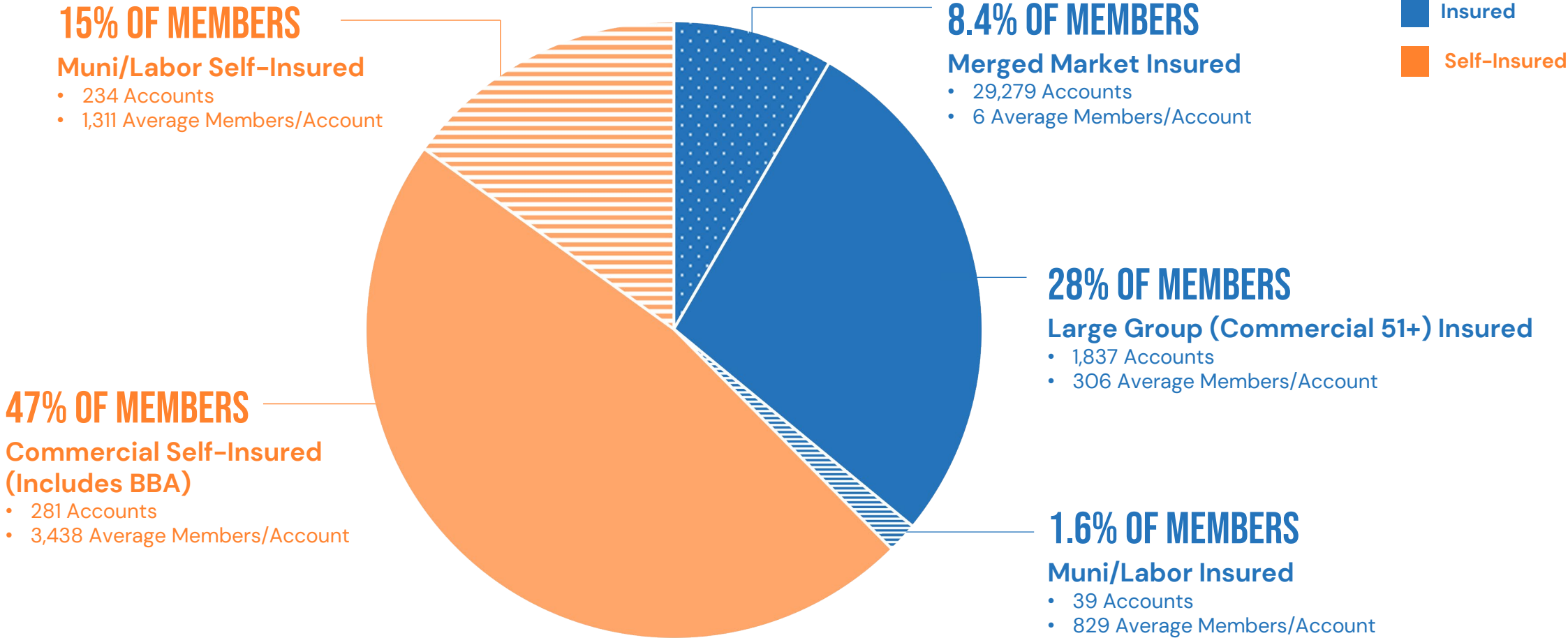
BOARD EDUCATION PROGRAM

OCTOBER 17, 2024

SUMMARY

- BCBSMA's business model was formed around single-state, insured plans. Those contracts have long been our source of financial strength and stability.
- Our industry dynamics are fundamentally shifting toward more self-insured business, not only for large national employers but increasingly for smaller employers, too. Self-insured plans are less profitable overall – they make up over 60% of our membership but only 7% of revenue.
- The movement is being driven by customers' desire for more control and flexibility to address escalating costs and tailor benefits to their specific populations.
- National competitors are responding to these market signals. They're leveraging scale and flexible operating models to win large national accounts and using 'alternative' funding mechanisms – hybrids of insured and self-insured models – to chip away at smaller accounts.
- While Blue plans have traditionally performed well with employers of all sizes, these trends are eroding our business at both ends of the market. Blues have been reluctant to shift to 'alternate funding' for smaller companies for fear of cannibalizing our high margin insured business; and lagging in the flexibility and capabilities most demanded by larger accounts.
- To meet today's challenges – where we're competing both with national insurers and also within Blue system because of Second Blue Bid – requires decisive action. We've developed a set of strategic recommendations to improve our performance across the self-insured market.

We have about 2.5 million commercial members spread across our key segments. About two thirds are in self-insured products.



Membership data is as of August 2024; Financial data is YTD as of July 2024
Host/Joint Venture plans are not represented in this slide; Commercial Self-Insured includes BBA plans
Each MIIA town is counted as a separate account



We are the market leader in most commercial segments. But our most profitable segments are declining. And our largest and growing segment – commercial self-insured – is the least profitable.

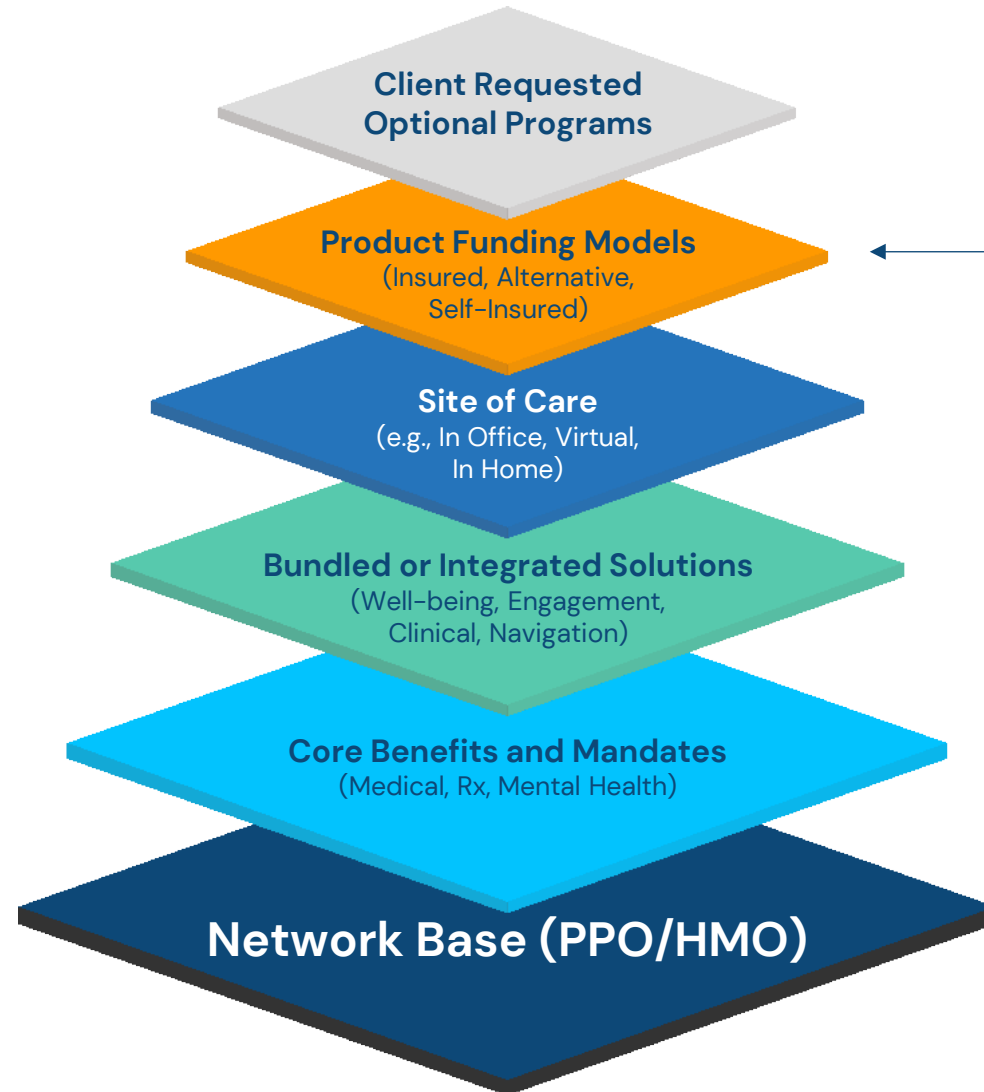


	Merged Market		Large Group (51+) Insured	Municipal & Labor	Commercial Self-Insured*
	Individual	Small Group			
Membership	33K	139K	524K	339K	1.44M
Share in Massachusetts	11%	41%	58%	63%	50%
2024 Revenue	\$1.5B		\$4.4B	\$400M	\$300M
5-Year-Plan Target Margin Range	(-1%) to 0%		1.5-2%	7-8%	(-45%) to (-35%)
Growth Outlook					

Membership as of Sept 2024. Individual membership includes groups of 1. Revenue as of 2024 3+9 Reforecast; *Commercial Self-Insured includes host/JV revenue and BBA membership and revenue.

Market segment share leader

These are the levers that drive a plan's cost. We use them to help create the member experience and access an employer wants, at the price they can afford.



Product funding models are a place where employers are focusing heavily in this market.

Fully-insured plans are the traditional choice of smaller accounts wanting predictability and easy management; self-insured plans appeal to larger accounts who have the resources to manage them.

Insured Health Plan



Pros

- Fixed budget, level monthly premiums
- Financial security and predictability
- Easier to switch health plans



Cons

- Subject to state regulations and mandates
- Subject to larger expenses
- Less flexibility in plan design
- Limited transparency of plan costs

Self-Insured Health Plan



Pros

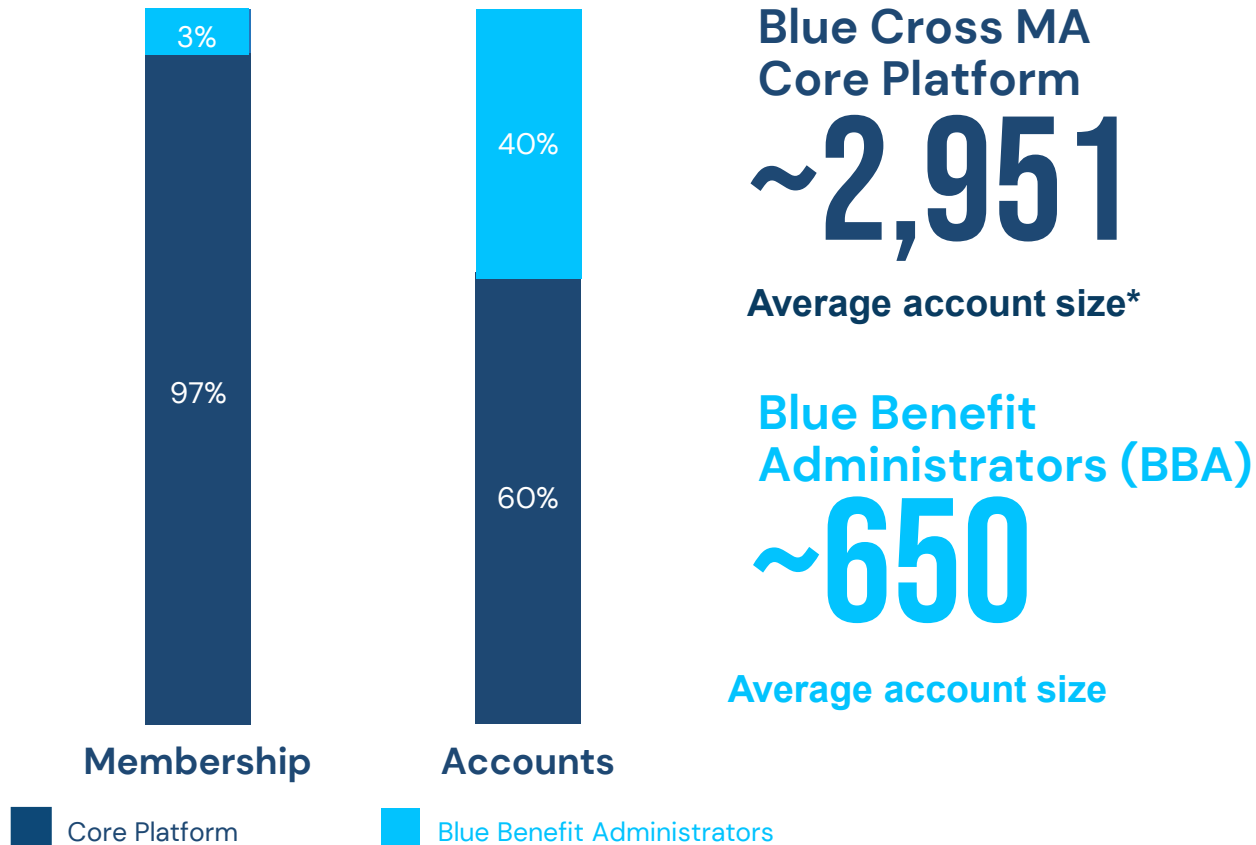
- Greater flexibility for plan design and customization
- Employer pays only for the health care employees use
- State regulations generally don't apply
- Employer visibility of claims data to analyze and improve plan design
- Potentially lower fixed costs



Cons

- Higher compliance requirements
- Monthly cash flow varies based on health care used
- Requires sophisticated accounting and stewardship
- Employer must keep reserves for claims incurred but not reported if terminating the plan

The majority of our self-insured members are served on our core platform; many of our smaller self-insured accounts use our Third-Party Administrator, Blue Benefit Administrators (BBA).



- Third-Party Administrators (TPAs) administer self-insured plans, including claims processing and other administrative services.
- Traditionally, TPAs have been a budget-focused offering with limited services, appealing to **smaller** self-insured accounts.
- BCBSMA owns BBA and shares revenue with BCBS of Vermont, which recently became part of BCBS Michigan.

Data as of January 2024

*Average account size represents members, not subscribers; Core Platform average includes MIIA towns as separate accounts.

Data on this slide includes all self-funded accounts, including those in the muni/labor segment, which are not included in the commercial self-funded segment breakout shown in prior slides. Differences in account sizes are due to this inclusion.

Macro factors are driving accounts' demand for greater flexibility and more openness to go out to bid.



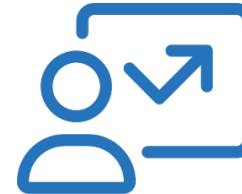
Industry Dynamics

Rising medical and pharmacy costs

Competitive employment environment

Intensifying competition from national payers

Development of new "alternative" funding models that combine features of insured and self-insured plans



Employer Responses

To control costs and improve experience, employers want more flexibility, customization, and control.

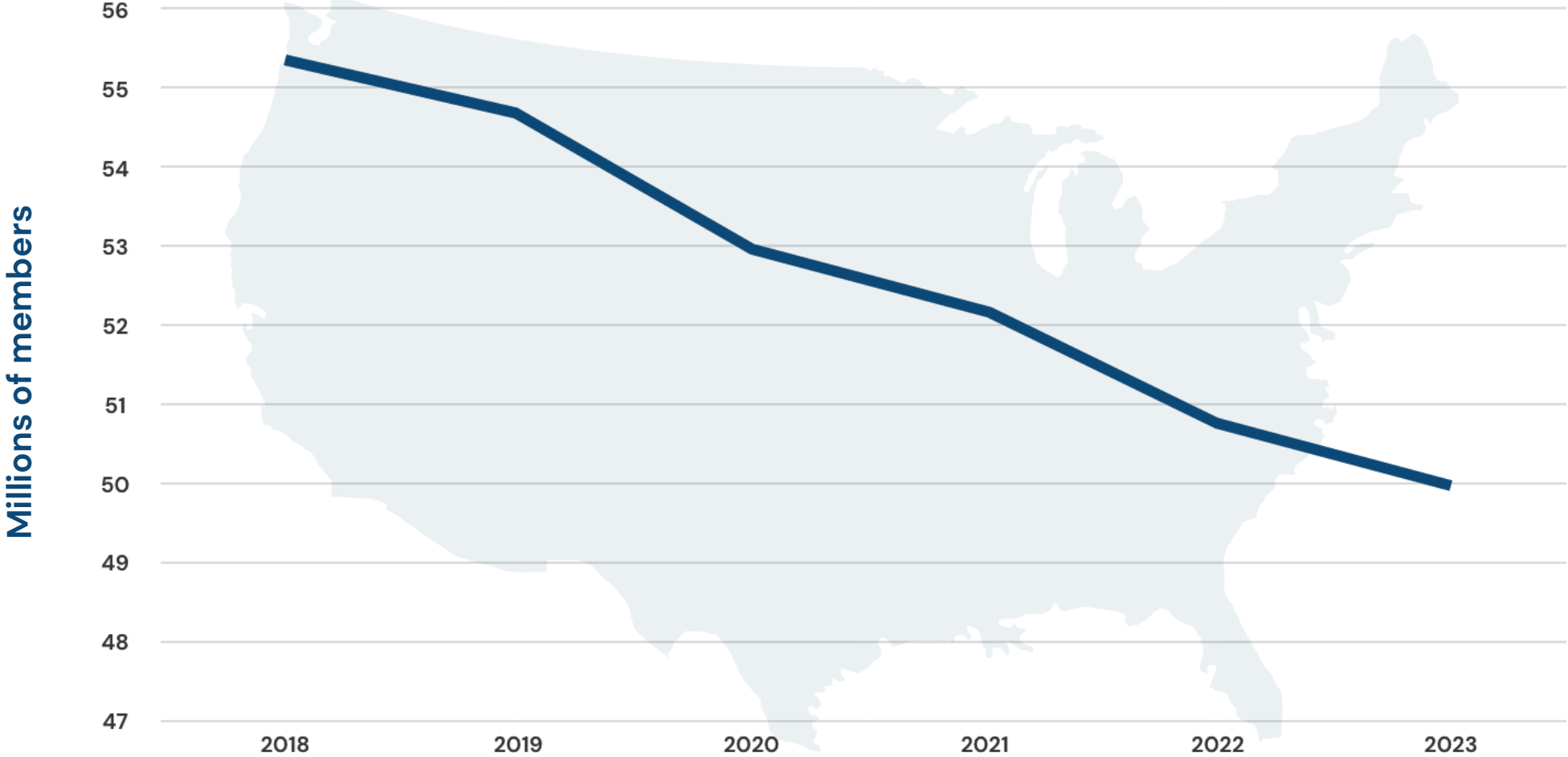
Large, national employers are

- Increasingly putting their health plan business out to bid after years of relative quiet
- Increasingly demanding carve-outs of specific capabilities (e.g., pharmacy, customer service, navigation, third-party stand-alone solutions) with seamless integration into their core health plan offerings

Smaller employers are increasingly enticed by "alternative" funding models.



The insured market has been declining across the country for years, as employers look for ways to manage escalating health care costs.

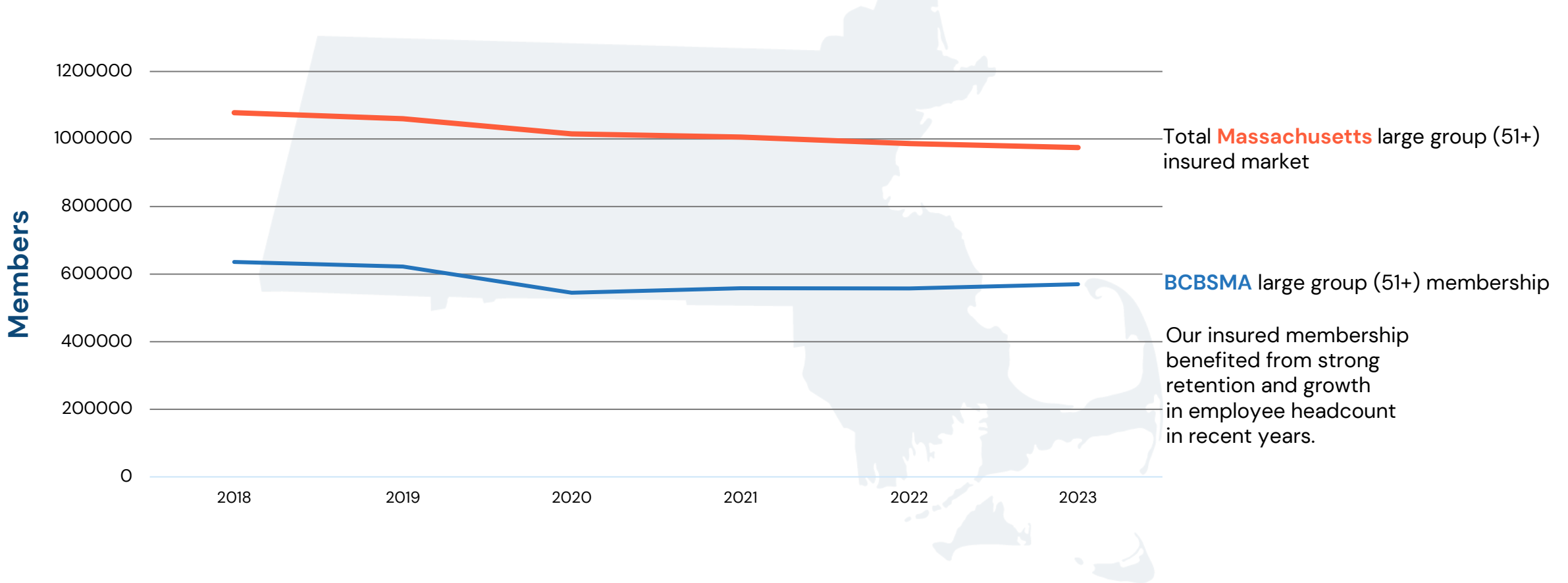




We see the same trend in insured membership in Massachusetts. Our membership has also dropped, but our strong win rate and retention throughout the pandemic has kept membership stable.



Massachusetts Large Group (51+) Insured Market and BCBSMA Membership



Total **Massachusetts** large group (51+) insured market

BCBSMA large group (51+) membership

Our insured membership benefited from strong retention and growth in employee headcount in recent years.

Our competitors, especially the Nationals, are accelerating the shift to away from insured business by offering “alternative” self-funded products, which Blues have been more hesitant to use.



BCBSMA (and Blue system) business and financial models are heavily weighted toward insured plans.

So, there is reluctance to shift accounts to self-insured because it cannibalizes margin.



Our competitors, especially the Nationals, have less insured business to begin with. **It's also not their main source of profit**, which is increasingly comes from their PBMs, provider business and other services.

So, they are picking off the "best risk" (accounts with the healthiest employees) and driving double-digit growth in their “alternative” self-funded products.



Opportunity exists for BCBSMA to capture membership and margin from insured transitions via our own alternative funding solutions.



One of the most common "alternative" models that competitors are offering to smaller accounts is called "level funding."



Level-funded plans are self-insured but have the benefit of providing cost stability through predictable monthly payments. They're typically less expensive compared to the insured plans small employers have traditionally relied on.

Pros

- **Affordable funding option** for small and mid-sized employers.
- **Payment stability** by using stop-loss insurance and setting monthly contribution rates.
- **Better transparency:** Provides greater access to plan performance data and opportunity for improvement.

Cons

- **Increased complexity and resource needs** including year-end financial reconciliation, compliance needs.
- **Different compliance requirements** than insured plans.
- **Potential cost fluctuation and financial impact** if claim forecast is not accurate.



Captives are another self-insured model gaining favor among smaller accounts.

Captive insurance is a regulated form of self-insurance that is created, owned, and controlled by the participating organizations. The primary objective of a captive arrangement is to insure its owners' risks and allow participants to benefit from any underwriting profits.



Pros

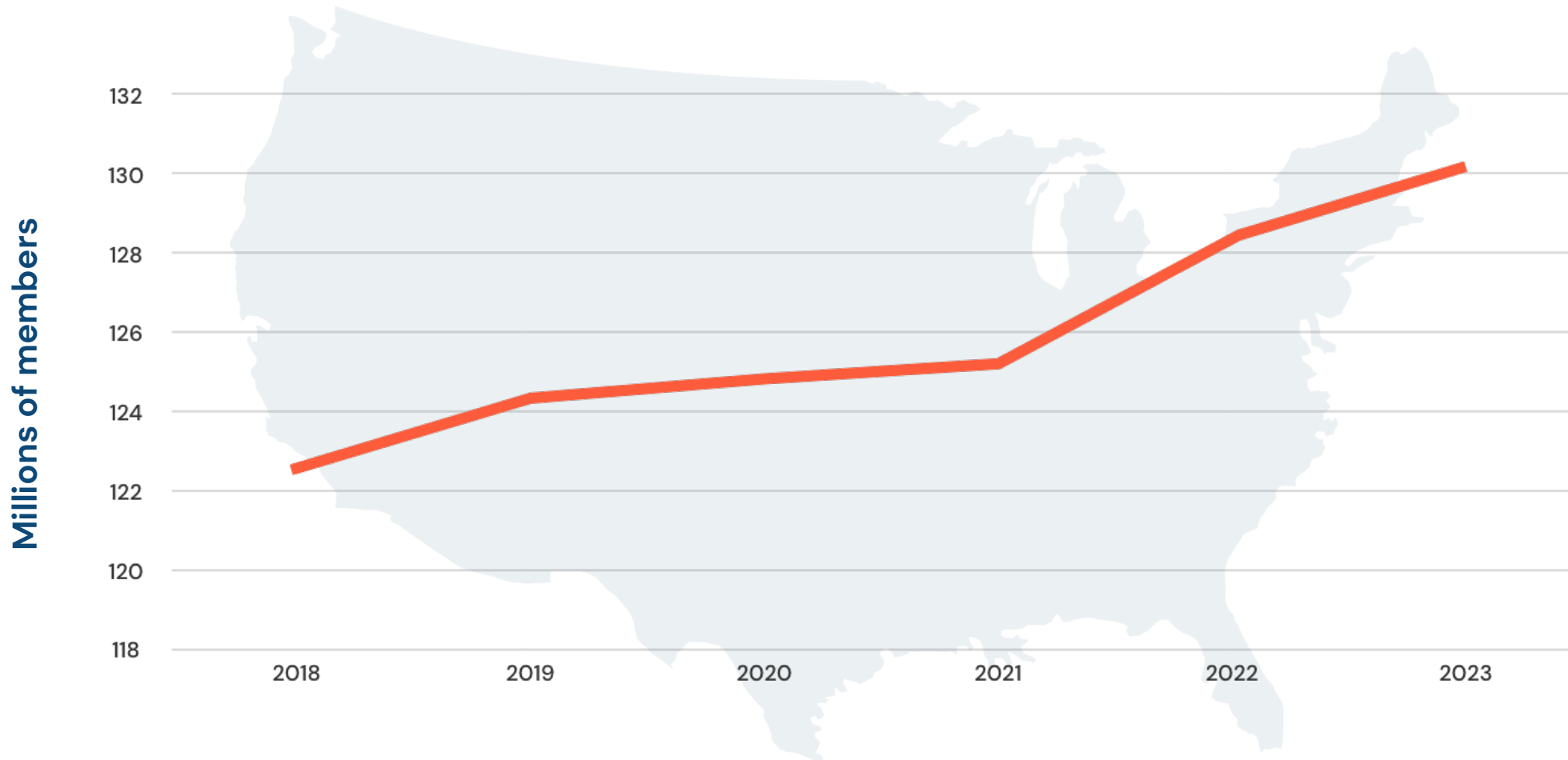
- **Improved control:** A captive allows tailored policy and coverage plan designs.
- **Better transparency:** Provides greater access to plan performance data and opportunity for improvement.
- **Potential to earn underwriting and/or investment gains:** Fixed costs may go down for captive participants.



Cons

- **Increased risk:** The owner-insureds put their own capital at risk.
- **Initial start-up costs:** Capitalization requirements and legal fees can be steep.
- **Quality of service:** Since it's a complex self-insured product, the quality of service may depend on the accounts' actions and efforts.

Nationally, the self-insured market is growing, driven by shifts from insured business, among other dynamics.

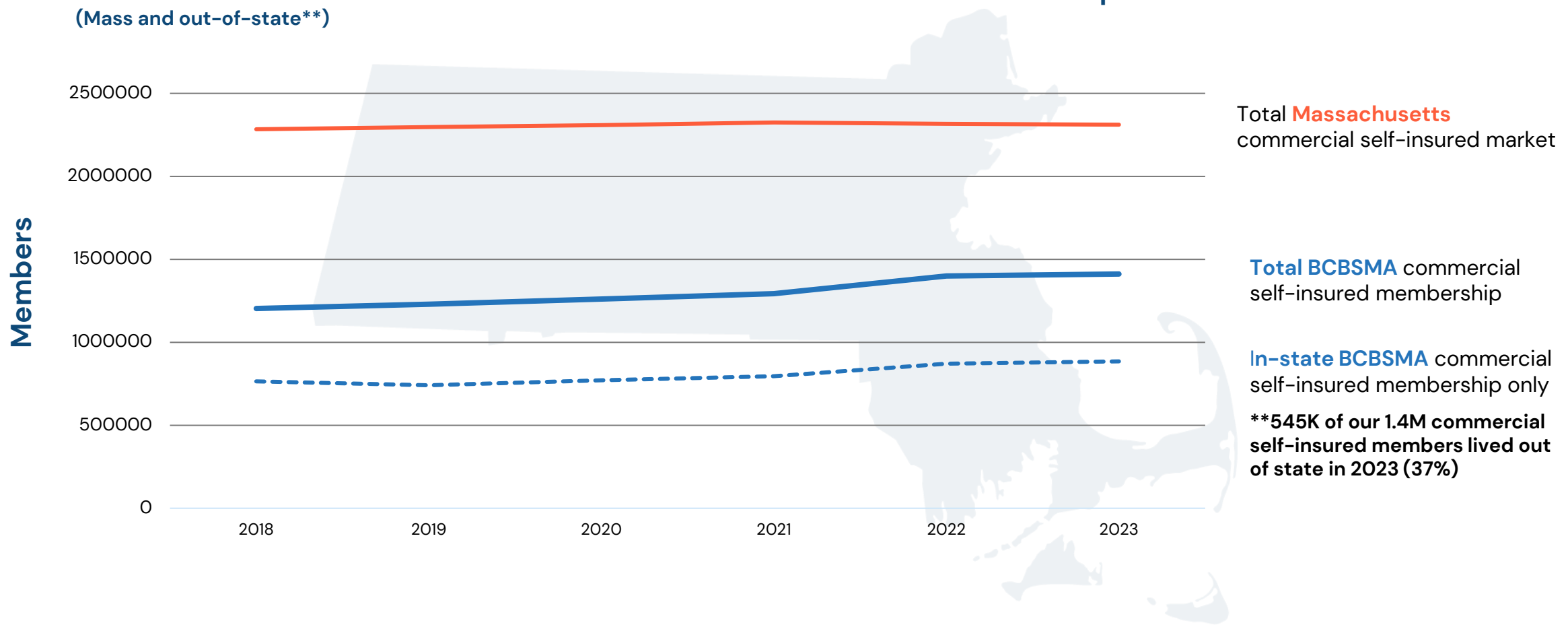




While the Massachusetts self-insured market remains flat, our self-insured membership is growing, driven by strong retention throughout the pandemic and shifts from insured.



Massachusetts Commercial Self-Insured Market and BCBSMA Membership
(Mass and out-of-state**)



Total **Massachusetts** commercial self-insured market

Total **BCBSMA** commercial self-insured membership

In-state **BCBSMA** commercial self-insured membership only

****545K of our 1.4M commercial self-insured members lived out of state in 2023 (37%)**



But new sales in our self-insured segment are lagging, most strikingly at the upper end of the market.



Missed our commercial self-insured new sales targets for the past several years



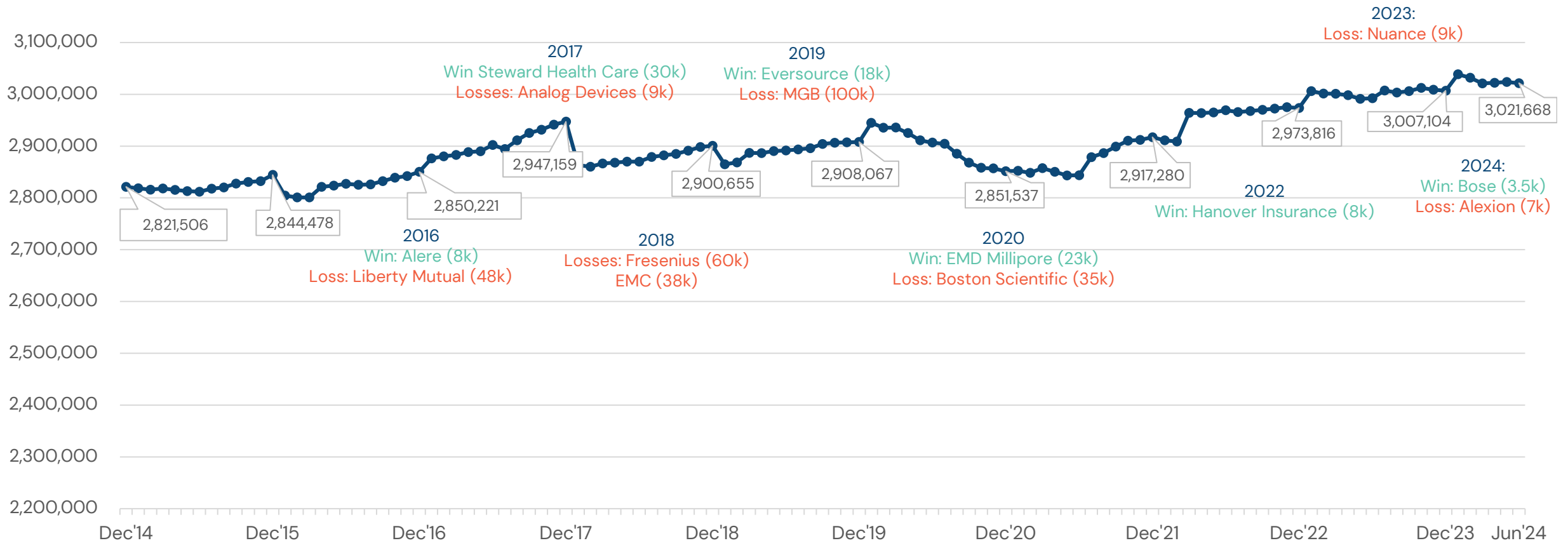
Only 1 larger account (5000+) win in the last four years

Overall large national account
WIN RATE OF ~10%

We've lost more large national accounts than we've won in the last decade. The ones we're winning recently are much smaller.

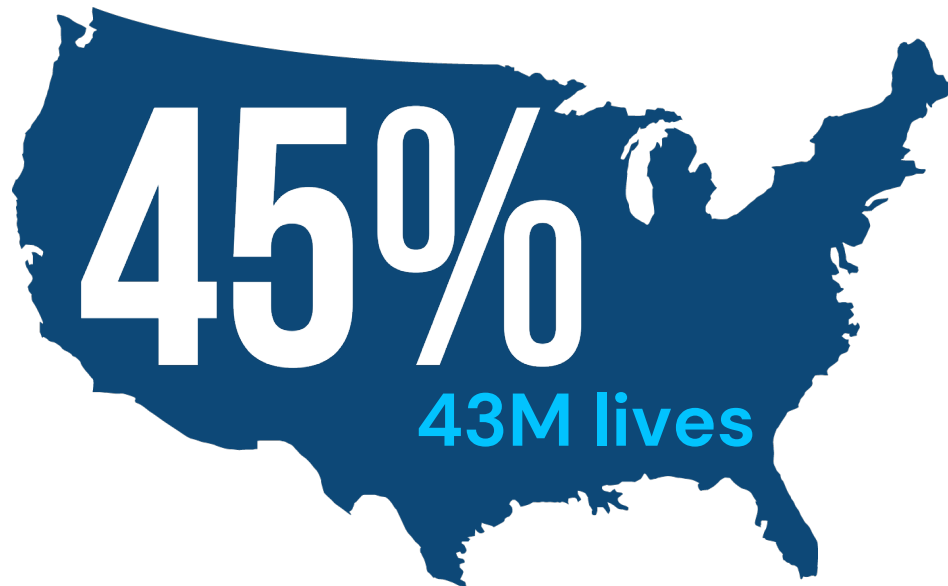


Large wins do not fully offset large losses in commercial markets.



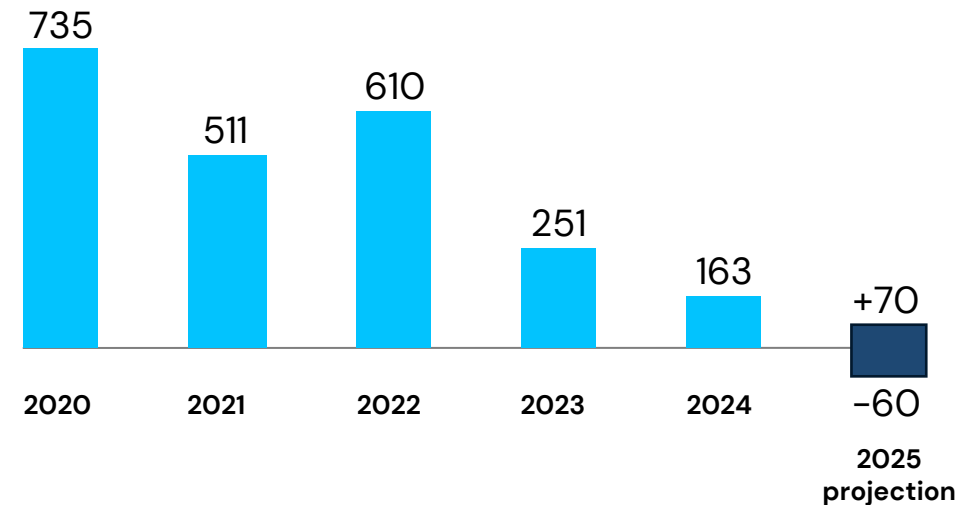
Our challenges winning national accounts are being experienced across the Blues system.

The Blues still have the largest proportion of national accounts.



But nationally, the system's win rate has declined significantly. It could end the 2025 sales cycle with a net loss.

Net contract growth across the Blues system in national commercial accounts (defined as 1000+ members by BCBSA)



These losses reflect employer perceptions about the Blues system overall – both in our core capabilities and in how Blue Plans work together to serve and manage members nationwide.



Employer survey data: health plan position across 28 national account capabilities

Compiled data 2022-2024



Nationals have the edge in capabilities over Blues

BCBS lags on 6:

- Overall Cost Mgmt. (vs. United)
- Innovation Strategy (vs. United)
- Fees (vs. Aetna)
- Med/Rx Integration (vs. Aetna)
- Behavioral Health (vs. Cigna)
- Out-of-Network Cost Mgmt. (vs. Cigna, 2024 data only)

BCBS leads Cigna on 2:

- Network Strategy
- Performance Guarantees

Source: 2022-2024 BCBSA B2B Quantitative Survey of All National Accounts; 3-Year Combined Data; BCBS n = 739, OON Cost Management, Network Steerage n= 320; Top 3 n = 850, OON Cost Management, Network Steerage n= 373

* Leading or Lagging established at a 90% confidence level



Improving our ability to meet the demands of large national self-insured accounts is even more critical as we begin to compete with other Blues, too.



What Is a *Second Blue Bid*?

Second Blue Bid allows a *Qualified National Account* (QNA) to request a proposal from the Blue Plan where the account is headquartered and a second Blue Plan.

Second Blue Bid went into effect on **September 24, 2024**.












Which Accounts Can Request a *Second Blue Bid*?

Qualified National Accounts are large employers whose employee populations are highly disbursed outside the state where they're headquartered.

We currently have 9 BCBSMA clients eligible for a Second Blue Bid.



Current Blue Cross Blue Shield of Massachusetts Accounts now eligible for a Second Blue Bid.

 Membership: 76.2K 11% in MA	 * Membership: 29.9K 10% in MA	 * Membership: 26.4K 21% in MA	 Membership: 25.2K 6% in MA	 Membership: 22.0K 46% in MA
 Membership: 6.9K 11% in MA	 Membership: 5.0K <1% in MA	 ** Membership: 4.9K 6% in MA	 Membership: 4.5K 18% in MA	











* **Philips North America and EMD Millipore:** Neither contracted entity is eligible. Parent companies — Koninklijke Philips N.V. and MERCK KG auf Aktien, respectively — are qualified national accounts.

** **Unifirst Corporation** BCBSMA is sliced alongside Aetna (11%), Cigna (46%), and Kaiser (5%); we provide benefit administration for 37% of the population.

From an opportunity standpoint, there are 23 qualified prospect accounts based in Massachusetts. Some of these were accounts that left us; others we've recently bid and lost.



Top 10 non-BCBSMA qualified national accounts headquartered in Massachusetts.

 <p>Membership: 170.5K 6% in MA Incumbent: BCBSAL</p>	 <p>Membership: 49.4K <1% in MA Incumbent: UHC</p>	 <p>Membership: 46.0K <1% in MA Incumbent: UHC</p>	 <p>Membership: 42.1K 6% in MA Incumbent: UHC</p>	 <p>Membership: 36.7K <1% in MA Incumbent: UHC</p>
 <p>Membership: 26.6K 33% in MA Incumbent: UHC/UMR</p>	 <p>Membership: 26.5K 3% in MA Incumbent: Cigna</p>	 <p>Membership: 24.5K <1% in MA Incumbent: Cigna</p>	 <p>Membership: 21.3K <1% in MA Incumbent: Unknown</p>	 <p>Membership: 17.8K 20% in MA Incumbent: Cigna</p>



To improve our win rate with large national self-insured accounts, we must address several critical market capabilities.



Based on our market analysis, these will be our differentiators in the next three years.



Configurable coverage & medical policies



Efficient & customized plan documents



Differentiated member service



Timely response to account requests



Updated member digital tools



Third-party solution flexibility



Advanced account reporting



Network alternatives, including a national tiered-network product