

# Executive and Board Compensation Review Processes

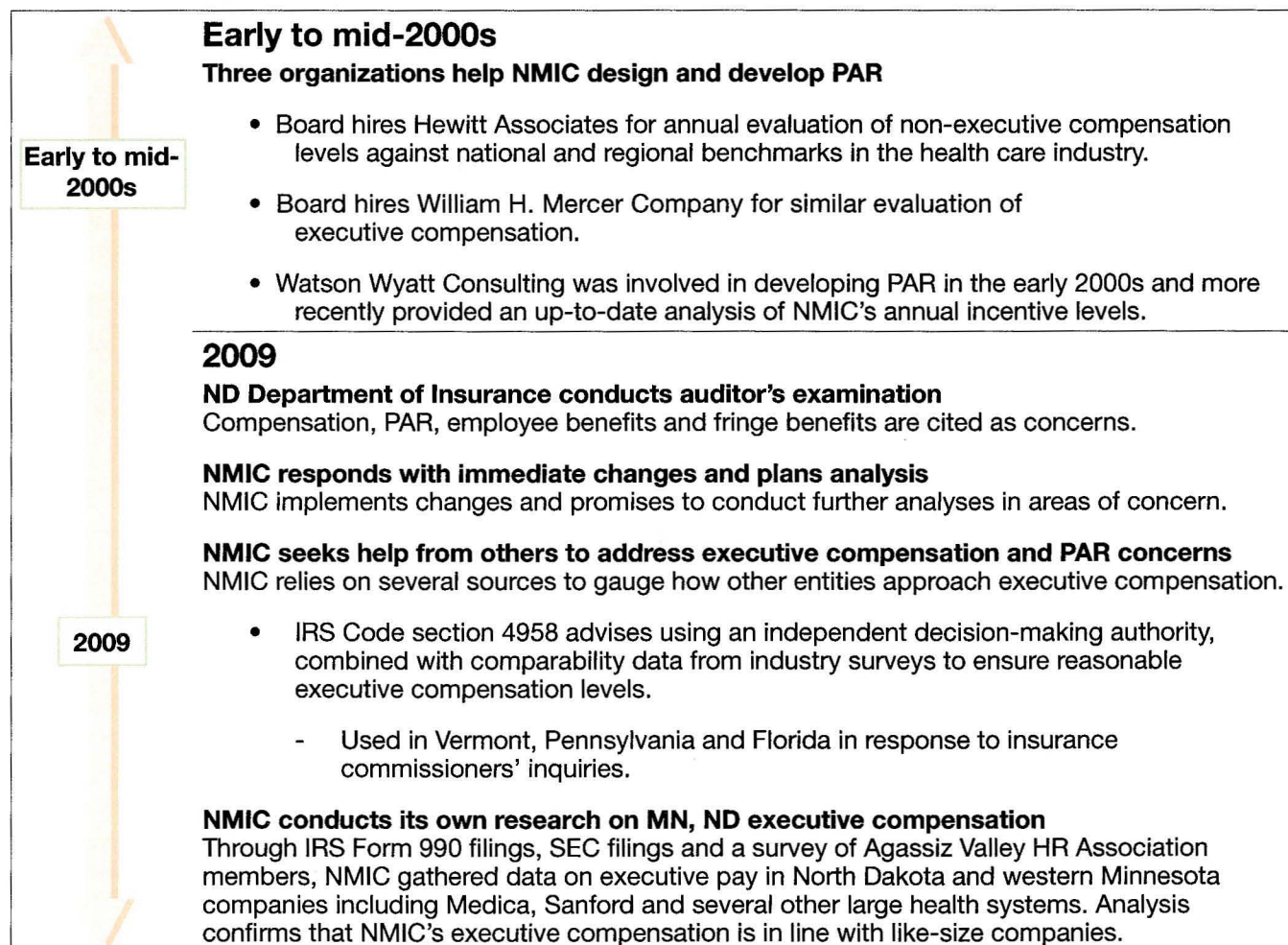
Updated August, 2010



The Noridian Mutual Insurance Company (NMIC), d.b.a. Blue Cross Blue Shield of North Dakota (BCBSND) Board of Directors continuously reviews executive compensation levels and benefits, as well as the Board of Directors compensation levels, to ensure compensation is reasonable and fair.

Below is a summary of all actions by the Board of Directors since mid-2000.

## Executive Compensation and PAR Timeline





## Executive Compensation and PAR Timeline Continued

2009

### 2009 continued

#### NMIC engages consultant to review executive incentive program

In October 2009, the Board engaged Towers Watson (formerly Watson Wyatt) to help develop and implement a new program for executive incentive. Their analysis provides a formula to ensure future goals are set at appropriate levels and include targets that are meaningful to members and consider the financial stability of the company.

#### Towers Watson recommends NMIC:

1. Establish meaningful, member-focused measurement categories
2. Use historical data to set challenging goals
3. Apply threshold, target and maximum performance measures and corresponding probabilities for achievement
  - a. Threshold levels—80-90% chance of achievement
  - b. Target goals—50-60% chance of achievement
  - c. Maximum goals—10-15% chance of achievement, based on historical performance
4. The addition of another financial trigger to ensure the NMIC plan is stable before making PAR payments

#### Board freezes 2010 executive compensation at 2009 levels

#### NMIC reviews Board appointments

NMIC reviews its process to ensure it nominates and elects Member Directors in accordance with its bylaws and North Dakota law.

2010

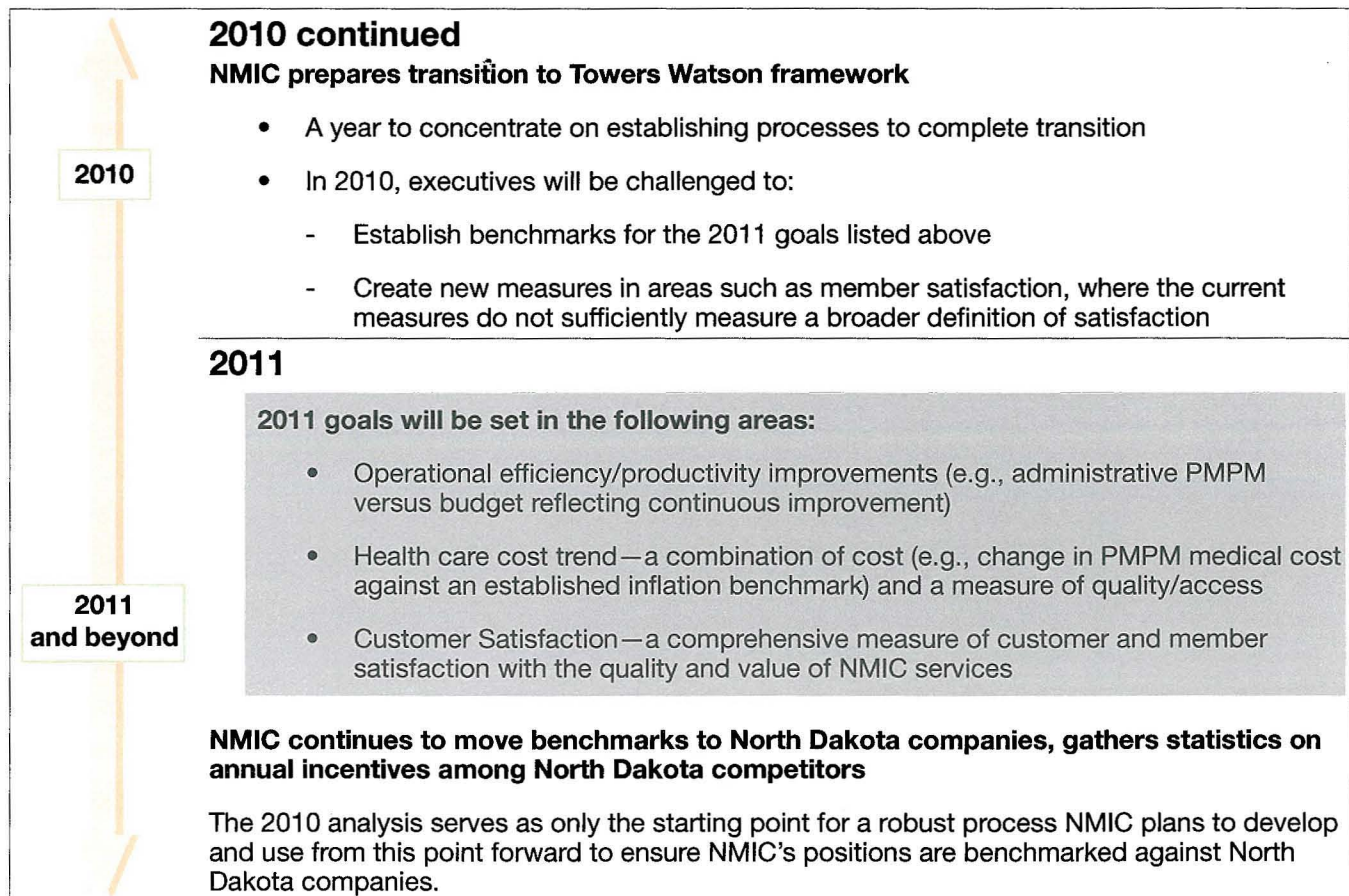
### 2010

#### Current year represents bridge between former practices and preparations for new framework

#### NMIC sets new goals within the Towers Watson framework

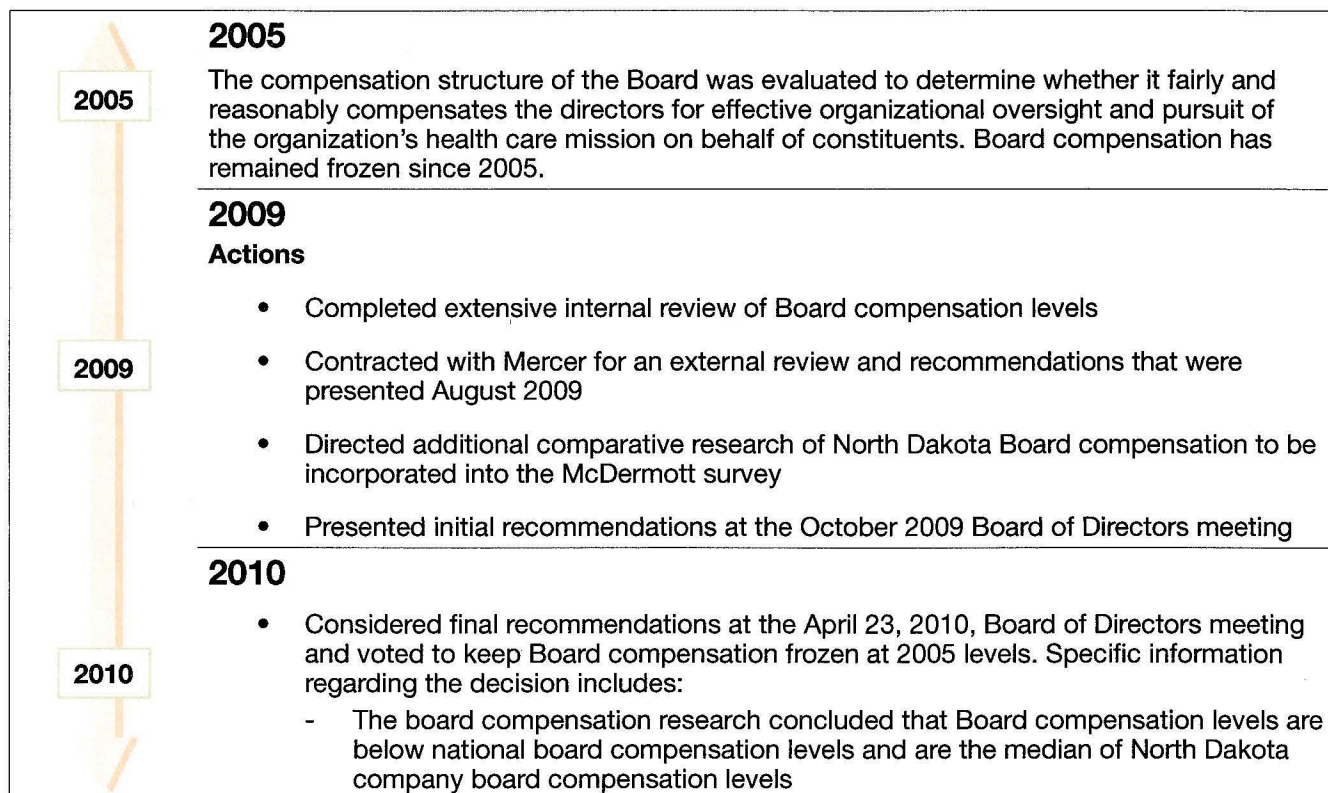
- 2010 Executive Incentive Plan goals presented to Board.
- Board approved goals on January 22; rolled out to all employees and executives on February 16, 2010.
- A five-year history for MTM, sales and external member services scores used to set goals within the new framework.
- 2011 goals will likely include a continuation of administrative efficiencies, combined with new member service measures and a cost trend goal.

## Executive Compensation and PAR Timeline Continued





## Board of Directors Compensation and Elections



## Board of Directors Election Processes

In addition to nominations from the floor at the annual meeting, there are two ways to nominate candidates to run for those seats.\*

### Actions

- Names of candidates can be submitted to the Board's Governance and Nominating Committee. The committee will verify their qualifications, interview final candidates and place two successful candidate names for each seat on the ballot.
- A new option this year allows candidates to secure 250 signatures from voting BCBSND members. Once qualifications are verified and the candidate has been interviewed by the Board's Governance and Nominating Committee, the candidate will be placed on the ballot. This change is documented in Article III, Section 4 of the corporate bylaws.

\* The bylaws were changed to allow for nomination by petition as well as allowing opposing candidates to run against incumbents.

# Board of Directors Fact Sheet

April 2010

BCBSND's Board  
comprised of  
3 Directors

8 Consumer Directors

cannot be providers of health care nor involved in health care or have financial interest in a health care provider

2 Provider Directors

must be physicians

2 Provider Directors

must be hospital administrators

1 Health Care Industry Director must be a representative of the health care industry

## BCBSND members elect directors

BCBSND's members vote for directors during the member annual meeting. Eligible voters receive notification by mail at least 5 days before the annual member meeting. Notices also appear in local newspaper.

### Eligibility requirements to vote:

Must be fully insured with BCBSND group or individual health coverage  
Must be a designated representative of a self-funded plan.  
Employees within a self-funded employer group are not eligible to vote.

#### Four ways to vote:

- In person
- Online
- Mail ballot
- Proxy

## Who reviews the board?

BCBSND's Governance and Nominating Committee evaluates the performance of board members annually. The committee reviews the judgment, diversity, age, skills, knowledge and experience of corporate governance of each director.

## Board candidates

There are three ways individuals can be suggested as potential directors:

By members during BCBSND's call for potential candidates in May

By members attending BCBSND's annual meeting in December

By collecting 250 voting member signatures on an official BCBSND petition

## Consumer Director eligibility guidelines

- Must have BCBSND health coverage
- Cannot be a provider or an employee of a provider
- Cannot be a supplier of health care services

*Directors commit to about 20 board and committee meeting days, and several telephonic meetings*

## Compensation

Board compensation is based on research conducted by the Blue Cross and Blue Shield Association (BCBSA) and the National Association of Corporate Directors. BCBSND compared director compensation amounts from local, regional and national like-sized health care companies.

## Board downsized in 1998

The board was reduced from 21 members to 13 members.

**Restructuring the BCBSND Board helped secure directors who were:**

more qualified  
more experienced  
more committed  
more engaged in health care management

### Did you know?

- Directors serve three-year terms
- Maximum service is four terms
- If completing a previous director's term, a director may serve up to 14 years

## Election year 2010

Two Provider Directors and two Consumer Director positions will be elected in 2010. Of the two Provider Director positions, one current Provider Director is ineligible to serve another term.



## NMIC aggressively reviewing every aspect of business

Beyond compensation, NMIC is committed to constant review of products and practices to offer the best health insurance value to members, as well as continuous review of administrative efficiencies.

### Sherlock Company compares NMIC to other plans

In October 2009, NMIC commissioned the Sherlock Company to study 22 Blue plans and 16 independent/provider-sponsored (IPS) plans. Their findings include:

1. NMIC's per member per month (PMPM) administrative costs are \$9.66 lower than the Blue comparators and \$14.07 lower than the IPS firms.
2. When costs are expressed as premium and premium equivalents, NMIC's costs are also low.
3. In product comparison, in all but one product, NMIC's PMPM costs were lower than its peers.
4. NMIC's costs for the corporate executive/governance (executives not tied directly to a function plus Board of Director costs) were in line with Blue and IPS peer groups.
5. NMIC's premiums are lower than those of its peers in the Blue and IPS universe, regardless of product. (Comparisons data from fiscal year 2008.)

### Praxis reveals NMIC economic impact

In a recent study, the Praxis Strategy Group estimated that NMIC brings nearly 2,000 jobs and \$110 million in earnings to the state's economy. As a large contributor to the state's economy, NMIC carefully balances its commitments to:

- Be an employer of choice in the state, providing good paying jobs in a positive work environment
- Provide our members good value in health insurance
- Remain a viable, independent health plan for the people of North Dakota

### Conclusion

NMIC believes it has responded to all of the concerns from the targeted financial exam with:

- Necessary changes to both policy and philosophy
- Data to support a consistent compensation, PAR and fringe benefits framework
- Benefit changes including:
  - Increased employee contributions to health care premiums
  - Phaseout of retiree health contributions
  - Additional changes that bring benefits to median levels against North Dakota peers
  - Demonstration that executive compensation is in line with national, regional and now North Dakota benchmarks
  - Tougher PAR goals to ensure alignment with the needs of customers

This process is not complete, but NMIC is forging ahead. The management team is fully committed to these changes, to rebuilding trust and to restoring the reputation of this company as a low-cost, reputable provider of health insurance in North Dakota.