

August 9, 2011

11 a.m. EDT call begins

OPERATOR:

Good morning, ladies and gentlemen. Welcome to the Independence Blue Cross of Philadelphia and Blue Cross Blue Shield of Michigan conference call.

This call is being recorded. At this time, all participants are in listen-only mode while representatives from the companies share their remarks. After the companies' remarks, there will be a question and answer segment. If you would like to ask a question during the designated time, please press star-one on your touch-tone phone. An audio replay of the speakers' remarks will be available after the call.

I would now like to turn the call over to our host, Liz Williams, Senior Vice President and Chief Communications Officer, Independence Blue Cross.

LIZ WILLIAMS, SENIOR VICE PRESIDENT, CHIEF COMMUNICATIONS OFFICER, INDEPENDENCE BLUE CROSS:

Good morning, everyone, and thank you for joining us today. We sent each of you an embargoed news release shortly before this call. Independence Blue Cross and Blue Cross Blue Shield Michigan invited you to join our press call today to give you an opportunity to hear an important announcement directly from the leadership of our companies in advance of the broader public announcement.

We will open today's call with **Dan Hilferty**, president and chief executive officer of Independence Blue Cross. As some of you may know, Dan led AmeriHealth Mercy Family of Companies for 13 years prior to joining Independence Blue Cross in January 2010. He became president and CEO of Independence Blue Cross in December of 2010. After Dan Hilferty, you will hear from **Dan Loepp**, president and chief executive officer, Blue Cross Blue Shield of Michigan. Next, **Michael Rashid**, president and chief executive officer of the AmeriHealth Mercy Family of Companies will share his thoughts about today's news.

**DAN HILFERTY, PRESIDENT AND CEO, INDEPENDENCE
BLUE CROSS:**

Good morning, everyone.

This is truly an exciting day for us at Independence Blue Cross.

For the past seven decades, IBC has fulfilled our role as the preferred insurer for millions of residents throughout the five-county Philadelphia region. As always, we continue to be driven by our mission of enhancing the health and wellness of the people and communities we serve.

Driven by our commitment to this long-standing mission, we embarked on a strategy of forming collaborative alliances with like-minded organizations to enhance our reach and capabilities and better serve our customers.

More specifically, while remaining an independent entity focused on southeastern Pennsylvania, we are actively developing new affiliations to extend our scale and customer base, forging strategic alliances with other Blue health insurers, and building nontraditional business models to create new market opportunities.

That is why, as we assess the future direction of our core business, ancillary businesses, and subsidiaries, we see a unique opportunity to expand into other regions of the country by collaborating with Blue organizations that share our culture, values, and deep commitment to our customers, employees, physicians, hospitals, and the communities we serve.

And so I am proud to announce today that Independence Blue Cross and Blue Cross Blue Shield of Michigan, two of the nation's largest not-for-profit Blue Cross health insurers, will be partnering to expand services to Medicaid beneficiaries nationally through the AmeriHealth Mercy Family of Companies, a top-tier, best-in-class Medicaid managed care organization headquartered in Philadelphia.

Many of you already know that IBC is the leading health insurer in Southeastern Pennsylvania with 3.1 million members. Blue Cross Blue Shield of Michigan is the leading health insurer in Michigan with 4.3 million members.

Since 1996, IBC has shared equal ownership of AmeriHealth Mercy with our area's largest Catholic health system, Mercy Health System.

Today we are announcing that Mercy Health Plan will be paid \$170 million for its 50 percent ownership interest of AmeriHealth Mercy.

Blue Cross Blue Shield Michigan will be acquiring a minority interest in AmeriHealth Mercy. The Mercy Health Foundation will also receive a series of contributions over a period of 7 years, which will support Mercy Health System's charitable mission to deliver accessible and quality care and other health care initiatives.

IBC and Blue Cross Blue Shield Michigan have also agreed to provide additional capital to support AmeriHealth Mercy's expected growth and expansion.

We expect to close within three months, following the customary regulatory approvals.

AmeriHealth Mercy is already one of the largest Medicaid companies in the United States, serving almost 800,000 members in Medicaid managed care plans in three states. AmeriHealth Mercy also offers other services such as pharmacy benefits management and behavioral health care to an additional 3.2 million Medicaid, Medicare, and SCHIP beneficiaries in 11 states.

With the additional resources this transaction will bring, the organization is now better positioned to grow in the Medicaid market by offering turnkey, cost-effective, comprehensive Medicaid managed care coverage and services to Medicaid consumers nationwide and to the increasingly, financially strapped state governments that provide Medicaid coverage.

This agreement will also provide an opportunity for Blue health insurers nationwide to expand into the Medicaid market today and to take advantage of the enormous growth expected in Medicaid over the next few years. The 39 independent Blue health insurance companies in the United States operate in all 50 states

and cover one in three Americans, but they are not widely active in the Medicaid market. In fact, two-thirds of Blue health insurers do not offer Medicaid coverage in the states they serve. In 2014, the Patient Protection and Affordable Care Act expands eligibility for Medicaid across the United States. Health care experts predict that by 2019 this expansion will increase the number of people covered by Medicaid by 16 million.

We at IBC have been very pleased with the strong, positive relationship we have had with the Mercy Health System in overseeing the AmeriHealth Mercy Family of Companies for the last 15 years. The change in ownership will enable us to enhance our ability to work closely with the leadership team of AmeriHealth Mercy as we look to the opportunities ahead.

At the same time, this transition will not change AmeriHealth Mercy's mission-oriented focus. AmeriHealth Mercy, its outstanding management team, and its dedicated and talented employees will continue to excel at delivering on what matters most — their mission of helping people get care, stay well, and build healthy communities, with a special commitment to serving the poor.

In this unprecedented time of change in the American health care system, we at IBC see a tremendous opportunity to pioneer new business models that meet the demands of growing markets.

Through collaborative partnerships with like-minded Blues — like the one we are announcing today with Blue Cross Blue Shield of Michigan — IBC will take a significant step toward achieving our strategic vision ... a major step towards becoming a comprehensive, independent health insurer providing forward-looking products and services, and working collaboratively to meet the diverse health care needs of the customers we serve.

The venture we are announcing today will serve as a model for innovation in the years ahead as health care is transformed in America.

I'm going to pause there and turn the call over to **Dan Loepp, President and CEO for Blue Cross Blue Shield of Michigan**, so you can hear his perspective.

DAN LOEPP, PRESIDENT AND CEO, BLUE CROSS BLUE SHIELD OF MICHIGAN:

Thanks, Dan. Today, I am pleased to be here in Philadelphia to join with Independence Blue Cross and CEO Dan Hilferty to announce that Blue Cross Blue Shield of Michigan has invested in a top-tier, best-in-class national Medicaid company, AmeriHealth Mercy Family of Companies.

A little over six months ago, we started down the road that got us here today when the Michigan Blues began exploring how we could build our capabilities to serve Medicaid consumers. We wanted best-in-class operational and consumer health expertise in Medicaid. This new partnership brings us this expertise immediately and positions BCBSM very strongly as we seek to grow our Medicaid business. The arrangement also enables the Michigan Blues to spread its business risk beyond our home state of Michigan — because AmeriHealth Mercy has Medicaid business in other states.

With its 25 years of experience in Medicaid, AmeriHealth Mercy has Medicaid expertise, systems, and processes that will reduce our learning curve in entering the Medicaid market. AmeriHealth Mercy can provide us with experience in areas such as care

management, behavioral health management, pharmacy benefits, and other areas.

This not only helps us in the Medicaid market but also can give us insight into serving non-Medicaid consumers who will receive subsidies in the future to purchase health care coverage under national health care reform.

We will work with Independence Blue Cross to enable AmeriHealth Mercy to grow its national presence in the Medicaid market. You've already heard that the Medicaid market is expected to grow dramatically, encompassing 16 million additional beneficiaries.

The Michigan Blues also will gain expertise from AmeriHealth Mercy to better serve the Medicaid population in our home state of Michigan. The arrangement will help bring knowledge to BCBSM to benefit Michigan communities as the Michigan Medicaid market grows under national health reform. Their expertise can help us enhance the services we bring to Medicaid beneficiaries in our home state.

We have terrific partner in this venture in Independence Blue Cross. IBC has been a co-owner of AmeriHealth Mercy since 1996 and will continue to hold a majority interest. For Blue Cross Blue Shield of Michigan, our minority interest in AmeriHealth will enable us — for the first time in the history of our company — to participate in the Medicaid market on a national scale.

Both the Michigan Blues and Independence Blue Cross are nonprofit Blue plans and have similar missions and approaches to provide quality and affordable health insurance products to members, so it was natural for both companies to consider an arrangement to work together.

This is an exciting opportunity for the Michigan Blues and we look forward to playing a greater role in serving the Medicaid population both nationally and in the state of Michigan.

Now, I'll turn the mike over to **Michael Rashid**, president and CEO of AmeriHealth Mercy Family of Companies.

**MICHAEL RASHID, PRESIDENT AND CEO OF AMERIHEALTH
MERCY FAMILY OF COMPANIES.**

Thank you, Dan. At AmeriHealth Mercy, we're excited about this development because it brings us a step closer to realizing our vision of leading America in health care solutions for the underserved. Over the past few years, we have taken many steps to prepare ourselves to realize the vision.

The new partnership strengthens our financial resources so we can serve more people who need access to quality health care. It allows for greater operational investment so we can enhance information sharing and communication with doctors, hospitals and other health care professionals. It lets us expand the products and services available to members, giving them access to enhanced tools to help them get care and stay well.

AmeriHealth Mercy currently serves 4 million members through our Medicaid, behavioral health, and pharmacy benefits management services. This includes 800,000 Medicaid beneficiaries in our managed care plans.

There is one message in particular that I want to underscore, especially at this evolution in our ownership. Among our customers ... the members of our health plans ... and our employees, AmeriHealth Mercy is known for being mission-driven.

I have met the leaders at Blue Cross Blue Shield of Michigan — and knowing how strongly Independence Blue Cross has supported our commitment in the past — we know that we are like-minded organizations. We have similar values and missions. The difference or better yet, the opportunity, is that this change lets us serve the poor and underserved in even more communities nationally.

I know I speak for our employees when I say our commitment to our mission is stronger than ever. In fact, I believe that commitment will only grow under our new ownership arrangement.

Now I'll turn the call back to our host, Liz Williams.

LIZ WILLIAMS:

Thank you, Michael. Thank you to all of our speakers.

LIZ WILLIAMS: Before we hear a final remark from Dan Hilferty of Independence Blue Cross, I want to thank you for your time and interest today and to remind you that the embargo on the news release will be lifted at Noon. The press release gives you the names and numbers of contacts at our companies. Please call if you have additional questions. Now, some closing words from Independence Blue Cross CEO Dan Hilferty:

DAN HILFERTY:

Thanks, Liz and thanks to all of you who joined us on this call today. This is an unprecedented time of extraordinary change in American health care. We are honored and excited to have this opportunity to be at the forefront of a trend that is changing the delivery of health care. It's an important day for us ... An important day for Medicaid customers of our companies and for customers we look forward to serving in the near future.

We're excited about the prospects of building a Medicaid managed care model that other Blues can join. Thank you.

OPERATOR:

Thank you, everyone. A replay of the speakers' remarks will be available for one week by dialing 888-203-1112 and

entering passcode: 7634784. This concludes today's conference call. You may now disconnect.