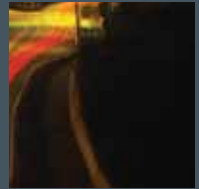
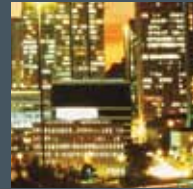


# THE STATE OF NASCO

## 2008 ANNUAL REPORT





## ATLANTA SKYLINE



NASCO got its start in Atlanta over 20 years ago when we partnered with several Blue Cross® and Blue Shield® Plans and the Blue Cross and Blue Shield Association to introduce an integrated membership and claims processing system for national accounts. Today, NASCO's Plan customers still benefit from that core strength, but we are now so much more than just a solution for national accounts. Our capabilities extend to include support for individual, local and government business while our multitude of performance-based services help our Plan customers improve their operational efficiencies and reduce costs.



NASCO's executive team pictured from left to right: Alan Bunn, Vice President, Customer Relations; Barbara Bell-Dees, Vice President, Human Resources; John Ladaga, Chief Executive Officer; Chris Hauser, Vice President, Chief Financial Officer; Lauret Howard, Vice President, Strategic Alignment and Performance Services; Darin McDonald, Vice President, Chief Information Officer.

## Greetings from Atlanta, birthplace of Dr. Martin Luther King Jr., home of the 1996 Centennial Olympic Games and headquarters to NASCO!

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In 2008, NASCO began a journey to achieve our mission of NO GAPS. This journey is a collaborative one that requires our entire team of dedicated associates to commit to bridging, filling and closing every Payer gap along the way. With a clear direction for the road ahead, we promised our Plan customers that we would continually improve what we do and transform how we do it, charting our path to success.

NASCO experienced tremendous growth in 2008. We began implementing new business onto the NASCO Processing System (NPS) and successfully completed the scheduled milestones for several account migrations. In addition, NASCO was awarded a significant amount of new business that we will begin implementing in the near future. We are poised to post double-digit growth over the next two years. Enrolled contracts will grow by 400,000 in 2009 over 2008, and total members will increase by 1.3 million. Measured on a claims basis, we are forecasting to eclipse the 150 million claims processed milestone in 2009 and 172 million in 2010.

Another success marker for NASCO in 2008 was the satisfaction results we received, not only from our Plan customers, but also from our associates. For the second year in a row NASCO's Customer Satisfaction Survey reached a record-breaking high with an overall satisfaction score of 4.08. We also celebrated our 2008 Associate Engagement scores, which garnered an engagement level of 87 percent, a seven percent increase over 2007, and a remarkable indicator of the level of trust our associates have in each other and their willingness to work together for a common mission.

Our successes in 2008 have moved us closer to achieving our mission of NO GAPS and have served as a solid foundation for the road ahead. Join me now as we travel through *The State of NASCO* to witness first-hand accounts of the successes that NASCO and our Plan customers achieved in 2008.



John Ladaga, Chief Executive Officer

MICHIGAN - BIRTHPLACE OF MOTOWN RECORDS



**Welcome to Michigan! Birthplace of Motown Records and long known as the automotive capital of the world. Michigan is also home to Blue Cross Blue Shield of Michigan (BCBSM), which insures more than 5 million members throughout the Great Lakes state and across the country, including employees of Ford, Chrysler and General Motors.**

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Creating a new operating system is no small task, especially for a company the size of BCBSM. As part of this major endeavor, BCBSM is in the midst of migrating its individual, BlueCard® Host and group business from their local system to the NPS as part of the multi-year initiative, the Michigan Operating System (MOS).

This journey to a single operating system reached a milestone in 2008 when BCBSM and NASCO successfully completed a pilot migration of approximately 10,000 members. These newly migrated members now receive membership and billing, benefits management and claims processing services under MOS.

Not only is this consolidated platform beneficial to members, but it also streamlines administration for BCBSM employees who serve members and providers on a daily basis. "We have experienced positive reactions from employees who use MOS," said Chris Maier, Vice President, Claims and BlueCard Operations, BCBSM. "They appreciate the additional membership and billing functionality, as well as improved inquiry capabilities associated with the NASCO Customer Service Workstation enhancements. We've also seen high auto-adjudication rates with the pilot. Although we

have a lot of work to do in 2009 for MOS, we are excited with the results achieved so far."

During this migration, NASCO maintained its commitment to closing the gaps and helping Plan customers achieve greater overall efficiencies. NASCO worked with BCBSM not only to ensure that the technical aspects of the migration went smoothly, but also to ensure that Plan associates had the training to be productive and successful as soon as the migration was complete.

"Our goal is to deliver a complete solution, which includes assuring operational and workforce readiness," stated Doug Osborn, Director, Human Performance Services, NASCO.

"NASCO was key to us in training because not only were we migrating existing business, but we were also implementing a new membership system, **MembersEdge<sup>SM</sup>**," said Carmi Edwards, Portfolio Manager - MOS Business Readiness, BCBSM. "I anticipated that we would have a learning curve issue because of the new system, but I was pleased to learn that our training results were very positive, which is a true testament not only to the system itself, but also to the training."



## LAKE MICHIGAN SUNSET



## While in Michigan, you realize that you are never more than six miles from a natural water source, which certainly provides a plethora of recreational choices.

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Choices are important to Americans, especially when it comes to our healthcare coverage. Healthcare costs are becoming more and more of a concern for everyone, and people are looking to spend their healthcare dollars more wisely. That's why consumer-directed healthcare (CDH) plans are among the fastest growing insurance plans nationwide.

Responding to this need became a big win in 2008 for BCBSM and NASCO as well as for one of BCBSM's major customers, Chrysler. A strong team effort helped BCBSM gain the Chrysler CDH business, due largely to major improvements to the **Health Care Benefits Online® (HCBO®)** Website. The ultimate winner of course is Chrysler. The HCBO site underwent several enhancements to ensure that it offered everything Chrysler needed to provide their employees to enter the new world of CDH.

"Exceptional teamwork between us and NASCO was key to the success," said Joan Vercammen, Director, Chrysler Marketing and Customer Relations for BCBSM. "We only had three months to win the business, from start to finish, and it was quite an accomplishment to pull so many areas together in such a short time."

The improved HCBO Website features many user-centric tools:

- Pharmacy includes plan-specific tools, a drug interaction guide, online prescription order and prescription cost comparison.
- Health and Wellness includes the Health Risk Appraisal, online health coach and discount services.
- Banking features the Blue Healthcare Bank, health savings account (HSA) details, HSA calculators and more.
- Other features include information about hospital and physician quality and cost, a treatment advisor and the Provider Group Incentive Program.

With the enhancements to the HCBO site, it is sure to play an integral role for BCBSM in attracting other customers to the fast-growing CDH business. "Our commitment to Chrysler was for a consumer-directed health care platform on HCBO on Jan. 1, which was an enormous undertaking," said Mary Moore, Director, Online Business and Customer Experience for BCBSM. "Although we responded to an immediate need by Chrysler, our other auto and national accounts will benefit from the enhanced customer experience."

## MASSACHUSETTS LIGHTHOUSE



**Founded by English colonists in the early 1600s, Massachusetts is home to Plymouth, North America's second permanent English settlement. Now, the most populous state in New England, Massachusetts is home to Blue Cross and Blue Shield of Massachusetts (BCBSMA), which insures 3 million of the state's population.**

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BCBSMA understands and appreciates the value of NASCO's shared system, as illustrated in NASCO's 2008 Customer Satisfaction results. One participant in this anonymous survey remarked, "We understand the value of [NASCO's] shared system capabilities, both nationally and locally."

Another participant added, "NASCO's strength is in the value we get from having a shared system, and the investment NASCO makes into the system to keep it strategically aligned with the Blues."

The value of NASCO's shared system will soon be further realized because BCBSMA announced its selection of NASCO's BlueCard ITS Host claims processing solution, which will enable BCBSMA to simplify the implementation of ITS releases and increase efficiencies. The implementation of this new business is well underway with a 2009 delivery date scheduled.

"NASCO already processes nearly 5 million claims per year for our national accounts," said Steve Booma, Executive Vice President of Sales, Service, Marketing and Information Technology, BCBSMA. "Consolidating all Host processing using NASCO's BlueCard Host business solution strengthens our alignment with an organization committed to national account business while providing us with a proven and familiar solution that offers immediate and long-term savings. We expect that NASCO will process more than 35 million Host claims over the next five years."

MARYLAND AND WASHINGTON, D.C.



**Rich in American history and patriotism, our nation's capital and its bordering state of Maryland are home to several must-see American landmarks as well as CareFirst BlueCross BlueShield, which is the largest healthcare insurer in the Mid-Atlantic region.**

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A new direction was on the minds of many in the District of Columbia in 2008, including CEO and President of CareFirst, Chet Burrell, who unveiled his vision for the company to his associates. Burrell explained that an important part of the new CareFirst strategy requires migrating groups over 200 contracts to NASCO during the next several years.

"Ultimately, we see about half of our total business being put on the NASCO platform over the next 12-24 months," Burrell said. "So it isn't just about what the NASCO technology offers, it's what the partnership brings in terms of support on a day-to-day basis and the understanding of our business need and the timetables that we have; and I can tell you from firsthand, direct experience with it so far this year that the support we have gotten is excellent."

The Plan achieved the first step in reaching this goal on July 1, 2008, when the State of Maryland's 63,000 PPO contracts successfully migrated to the NASCO system. CareFirst also migrated to NASCO the 3,550 contracts of Washington County Public Schools.

"We will be virtually doubling our large group book of business on NASCO between now and Jan. 1, 2010," said Dennis Cupido, Senior Vice President of Large Group, CareFirst. "This was only the first migration of many more to come, but I am proud of the way our people have responded to this challenge. We anticipate a very smooth transition for our members."

One of the factors behind this smooth transition is the partnership between NASCO and CareFirst in ensuring operational and workforce readiness. NASCO delivered a variety of new services to CareFirst's Large Group Administrative Services Unit (ASU), including on-site assessments of each business area to identify operational and workforce readiness impacts. NASCO also worked with CareFirst to develop online learning strategies and deliver classroom training.

"NASCO has been very helpful," said Tasha Bailey, Operations Training Manager, Large Group ASU, CareFirst. "The lines of communication were always open. NASCO made us aware of any gaps we may have had, and we worked together to close the gaps and reduce impacts."





**Welcome to New Jersey, birthplace of Bruce Springsteen and home of the famous seaside resort, Atlantic City. It's also home to one of the first Blue Cross plans in the nation, now Horizon Blue Cross and Blue Shield of New Jersey (Horizon BCBSNJ), the state's largest health insurer.**

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Horizon BCBSNJ's largest account, covering more than 600,000 members, is the State Health Benefits Program (SHBP). After winning the SHBP contract for a third time at the end of 2007, Horizon BCBSNJ was charged with implementing the contract by April 1, 2008. Horizon BCBSNJ and NASCO worked closely to deliver flawless results. "The SHBP implementation was a success," said Carol Banks, Vice President, State Health Benefits Program, Horizon BCBSNJ. "Together, we were able to complete a significant task in a short period of time with quality results."

In addition to this successful implementation in 2008, Horizon BCBSNJ chose NASCO to process its Medigap business, which represents about 100,000 members. The Medigap implementation is scheduled to begin in 2009.

NASCO also continued its transformational journey of developing intuitive products to help our Plan customers increase efficiency and performance. In 2008, NASCO decommissioned the Flexible Data Entry product and replaced it with the Electronic Flexible Data Entry (eFDE) product. By providing a Web-based way to enter paper claims coupled with workflow navigation, eFDE screens help users to navigate and enter information quickly and accurately.

As eFDE's largest user, Horizon BCBSNJ has seen significant improvements in First Pass Rates (FPR). "Our FPRs have increased greatly since eFDE was installed," said Jessica Kubiak, Supervisor - NASCO Initial Data Entry, Horizon BCBSNJ. "In fact, because of this increase, there has been a push to get all of our Claims Specialists cross-trained on this tool as soon as possible."

Horizon BCBSNJ experienced an average increase in FPRs of about 18 percent using eFDE versus FDE. "It was our goal to create an efficient product that would meet the requirements of the Federal mandates for paper claims, all while helping Plan customers improve productivity and accuracy," said Leslie Dickens, Director, Claims Solutions, NASCO. "Judging by the positive results we've seen, especially at Horizon BCBSNJ, I think it's fair to say that we accomplished our goal."





**From the chilly coast of Maine to the open fields of the American heartland, WellPoint, Inc. partners with NASCO to service its national accounts.**

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NASCO's commitment to superior service and exceptional delivery has led to increased customer satisfaction scores from the Plan as well as steady growth in new business added to the NPS. In 2008, WellPoint added approximately 100,000 contracts, bringing the total number of WellPoint contracts on the NPS to well over 1 million.

NASCO has been dedicated to providing the right solution, at the right time, in the right way, and WellPoint continues to realize the value of the NASCO solution through existing and new business. "The job and focus of the WellPoint support team is to deliver on the promise of NASCO, be there for our customers every day and do the best job we can for them no matter what," states Ken Boyd, NASCO Account Executive to WellPoint.

## CHICAGO SKYLINE



**Welcome to Chicago, the Windy City! Birthplace of the deep-dish pizza, home of the tallest building in the Western Hemisphere and headquarters of the Blue Cross and Blue Shield Association (BCBSA).**

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The BCBSA's Blue Vision 2015 provides the roadmap for the Blues. Since NASCO provides services exclusively to Blue Cross and Blue Shield (BCBS) Plans, we ensure our delivery aligns with the initiatives of Blue Vision 2015. As one of the largest BlueCard processors across the entire BCBS syndicate, NASCO continues to work closely with our Plan customers to ensure that we are always fully compliant with all BCBSA requirements and mandates.

NASCO maintains a solid relationship with the BCBSA, and we are continually focused on strengthening and building upon that relationship. As one of the owners of NASCO, the BCBSA is involved with NASCO at a strategic level to ensure that the best interests of its Plans are being maintained.

Being 100 percent BCBS-owned and focused, NASCO and the BCBSA have a lot in common. In the coming years, NASCO will continue its commitment to a close working relationship with the BCBSA to ensure that we are delivering the greatest value to its BCBS Plans.

ALASKA



NEW YORK



WASHINGTON



CALIFORNIA



ALABAMA



KANSAS CITY, MISSOURI

**From coast to coast, NASCO works collaboratively with several BCBS Plans to ensure that we are delivering the right solutions at the right time. Regardless of the size of the business, NASCO helps these Plan customers support the delivery of labor, Host processing or national accounts.**

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NASCO is committed to our mission of NO GAPS, and we work with each Plan to ensure the best possible member and provider experience combined with efficient administrative delivery. Therefore, we want to make sure that we are providing the Plans with everything they need to be efficient and optimize their performance. In 2008, we worked with our Plans on operational performance improvements and provided them with assistance and/or best practices in support of improvements to their FPRs or overall adjustment rates.

NASCO is continually committed to providing superior customer service. In doing so, we provide a personalized level of one-on-one support for our Plan customers. Our account executives are available to help with any of their day-to-day business needs as

well as support change to the system to meet their unique requirements. NASCO also provides these Plans with advice and consultation on potential impacts to their business relating to NASCO initiatives and BCBSA or government mandates. In addition, we are available to assist with any Plan-specific needs and help in defining and writing their business requirements for any required system enhancements.

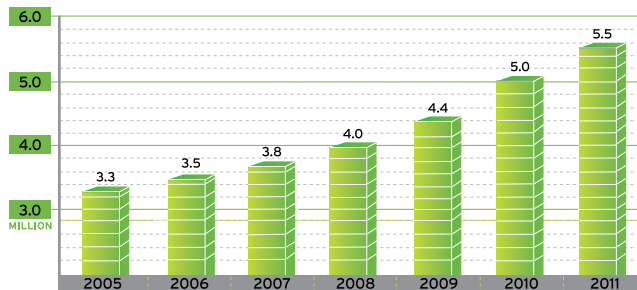
The level of support NASCO provides to our Plan customers was highly praised in the 2008 Customer Satisfaction Survey. One participant in this anonymous survey noted, "NASCO's strength is definitely the support we get from our Account Executive." While another participant said, "NASCO is very responsive to my needs. They get back to me. I can count on them."

Since NASCO operates with no debt, the liquidity and capital issue plaguing most companies in this slumping global economy have minimal impact on our ability to conduct business. We will continue to carefully leverage our healthy balance sheet to help our Plan customers with new business implementations.

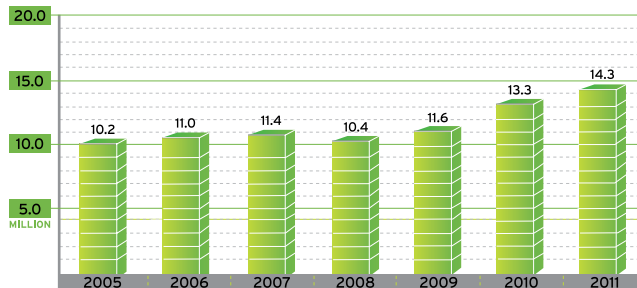
While 2008 was indeed a year of growth for NASCO, a significant amount of the new business awarded will begin implementation in the near future. Therefore, as indicated by these charts, NASCO's growth potential will be fully realized as these implementations are completed.

Through the hard work of our associates and Plan customers coupled with the strong sponsorship of our Board of Directors, NASCO is poised to post significant growth over the next few years.

TOTAL CONTRACTS ENROLLED

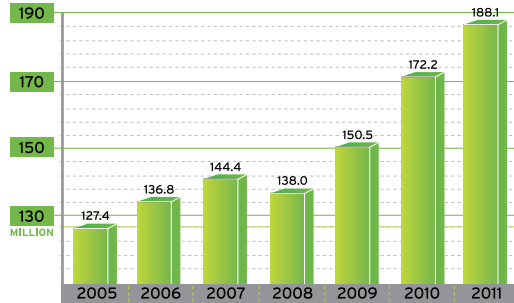


TOTAL MEMBERS

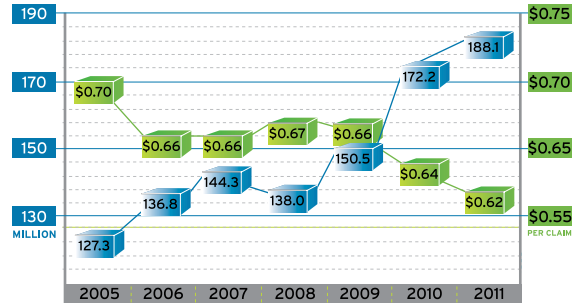




### TOTAL CLAIMS



### TOTAL CLAIMS/AVERAGE PRICE PER CLAIM



### TOTAL REVENUE



Measured on a claims basis, we are forecasting to eclipse the 150 million claims processed milestone in 2009 and 172 million in 2010. As the total number of claims processed increases, there is a correlating increase in our revenue depicted. However, as these numbers increase, NASCO's economies of scale business model enables the average price per claim to decrease. This business outcome is a true testament to our commitment to continually provide our Plan customers with lowered costs while maximizing their performance.





**NASCO witnessed great growth in 2008 and relished many successes, none of which could have been possible without the steadfast dedication of our talented associates and the deep-rooted relationships that we have with our Plan customers.**

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So...where do we go from here? What's next on the NASCO journey?

NASCO remains committed to our mission of NO GAPS. We understand that there will be challenges ahead, but we will continue to forge a path that leads to bridging, filling and closing every Payer gap along the way.

The greatest known challenge NASCO faces in 2009 is skillfully managing the numerous implementations and growth that are distributed across each of our major Plan customers. Through strengthening our suppliers, increasing our staff and developing account implementation tools and processes, we are confident that we have the right resources in the right place to deliver the right service the first time.

Bridging gaps through strengthened relationships, filling gaps through aligned strategies, closing gaps through optimized delivery: the NASCO journey continues.

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