PRICEWATERHOUSECOOPERS

Executive Compensation Review:

Competitiveness and Reasonableness of Premera Practices

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Introduction

- Project Background -

PricewaterhouseCoopers LLP ("PwC") was retained by the Washington Office of the Insurance Commissioner ("OIC") to complete a due diligence review across multiple areas of concern (i.e., actuarial, economic impact, accounting and tax) in connection with the proposed conversion of Premera Blue Cross ("Premera") from a private non-profit to a publicly held for-profit company.

Subsequent to commencement of the engagement, OIC requested that PwC also review Premera's compensation and benefit practices. This report summarizes PwC's key findings and conclusions on the reasonableness of Premera's executive compensation and benefit practices in its current status as a private company, and prospectively, post-conversion.

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Introduction

- Project Objectives -

In evaluating Premera's compensation and benefit programs in connection with the proposed conversion, PwC's primary objectives are to determine:

- If the conversion unjustly enriches any officer, outside director, or other key employee of Premera.
- If executive compensation and benefit practices found at Premera are consistent with "best practices" in the industry
- If the conversion is necessary for strengthening the company's employee retention

The scope of PwC's evaluation covers:

- Current, pre-conversion compensation and benefit levels and practices
  - Total compensation including direct elements of compensation and supplemental retirement benefits
  - Executive benefit practices including Premera's change-in-control policy, supplemental retirement plans, and perquisites
  - Qualified benefit practices including health and welfare and retirement plans
- Pay-for-performance analysis for the Top Five officers
- Additional compensation analyses - historic growth in base salary and bonus levels and employee turnover
- Post-conversion compensation and benefit levels and practices
  - Total Direct Compensation
  - Outside director compensation
  - Share reserve and grant allocation

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Executive Summary

- Methodology -

PwC achieved the project objectives by performing the following steps:

- PwC compiled three distinct peer groups used to benchmark pay levels:
  - Pre-Conversion Analysis - market pay data collected from survey sources representing composite of (i) public and private, not- and for-profit health insurers and (ii) Blue Cross Blue Shield organizations ("Survey Group").
  - Post-Conversion Analysis - market pay data collected from SEC filings (e.g., company proxy statements and annual reports) and consisting of publicly held health insurers with median total revenues and membership of $4.2 billion and 2 million members, respectively ("Compensation Peer Group").
  - Pay-for-Performance Analysis – key financial data collected from the A.M. Best Company database for a group of BlueCross BlueShield organizations ("Performance Peer Group") for period 1999-2002.
- PwC selected a group of companies that have recently converted or demutualized. This group was used to benchmark share reserve and equity grant allocations to employees.
- PwC reviewed summary plan descriptions relating to Premera's annual and long-term incentive plans, qualified and supplemental retirement plans, qualified health and welfare programs, management stock ownership plan, reports to Premera's Governance Committee, executive employment contracts, change-in-control policy, projected financial statements, outside director compensation program, and current/historical pay levels/opportunities.

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Executive Summary

- Methodology -

- Key Terms and Definitions:
  - Top Five – refers to Premera's senior officer group (as of 2002) consisting of the Chief Executive Officer (CEO) and Executive Vice Presidents (EVPs).
  - Benchmark Jobs – refers to a cross-section of functional senior/mid-level management jobs consisting of Senior Vice Presidents (SVPs), Vice-Presidents (VPs), directors and managers.
  - Total Cash Compensation (TCC) is the sum of salary and annual bonus. For outside directors, TCC consists of the annual retainer, Board and Committee meeting fees and fees for service as the Chairman of a Committee.
  - Total Direct Compensation (TDC) is the sum of TCC and long-term incentives*
  - Total Compensation is the sum of TDC and the estimated value of supplemental retirement benefits

- PwC's Guidelines for Reasonableness:
  - The reasonableness of compensation and benefit practices is a collective determination that considers objective criteria related to pay levels and company performance.
  - PwC considers the market median as a broad, relative test of reasonableness ("At Market")
  - PwC also considers factors such as company and individual performance, the organization's compensation strategy and philosophy, job scope and responsibility, and other industry-specific practices in determining reasonableness.

*Premera maintains the Long-Term Performance Incentive Plan (LTIP) designed to provide senior executives a cash bonus based on the achievement of 3-year performance objectives, with opportunities granted annually to plan participants.

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- Project Limitations -

PwC has requested detailed information on executive turnover. A portion of that information was recently provided, but we did not have sufficient time to review it for accuracy.

Premera has not fully disclosed the following information:

- An approved employee stock plan and specific stock option grant guidelines
- Any expected changes to the executive annual and long-term incentive plans or retirement plans.

Consequently, PwC's findings and conclusions may change significantly after review/analysis of these documents. PwC advises the OIC to consider conditioning final approval of the plan of conversion upon receipt and review of these items to finalize their effect, if any, on our assessment of Premera's executive compensation practices.

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Executive Summary

- General Conclusions -

- Premera has generally implemented above market compensation practices in comparison to similarly-sized BlueCross BlueShield organizations.
  - Total Compensation Levels (Pre-Conversion)
    - TDC provided to Premera's Top Five and SVPs is above market practice, approximating the 75th percentile in aggregate
    - TCC provided to VPs, Directors and Managers is at market levels (i.e., median)
    - Total Compensation (TDC plus value of supplemental retirement benefits) provided to SVPs and the Top Five is significantly above market practice
  - Annual Salary Growth
    - From 1998 through 2002, salaries at Premera grew faster than market rates of approximately 4% per year. Annual TCC growth has also exceeded market rates but may have been warranted considering actual performance.
      - Since 1998, base salaries and TCC for the Top Five have increased at an average annual compounded rate of 7 and 6 percent, respectively.
      - Since 1998, base salaries and TCC for VPs, Directors and Managers have increased at an average annual compounded rate of 8 and 10 percent, respectively.

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Executive Summary

- General Conclusions -

- In aggregate, turnover rates at Premera over the period 1999-2001 have been significantly lower than industry rates.
- All of Premera's executive compensation and benefit programs are either at or above market practice. The following describes provisions that are above market:
  - The supplemental (i.e., non-qualified) retirement benefits provided to the Top Five Officers and Senior Vice Presidents do not contain any corresponding offsets for company contributions to the executive within qualified and non-qualified plans.
  - Premera calculates LTI payouts based on the participant's base salary levels at the end of the plan cycle versus at the time of award/grant. This is unusual and generous compared with typical practice.
  - 40% of the annual incentive award is determined based on achievement of non-financial performance criteria, a higher emphasis than typically found in best practices.
  - Funding of the 2002 annual incentive plan begins upon achievement of a level of operating income that was well below prior years' actual operating income results and 2002 target operating income. Typically, funding thresholds are set commensurate with prior years' results and more closely aligned with the current year's financial plan.
  - The annual and long-term incentive plans do not include operating margin as a factor in determining award payout. The plans also have very low emphasis on growth in enrollments.

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Executive Summary

- General Conclusions -

- Premera's total share reserve (7% of total outstanding shares or "TSO") under Premera's Stock Ownership Plan (Form A, Exhibit G-10) approximates the median of market practice.
  - The total share reserve (7% of total outstanding shares) under Premera's Stock Ownership Plan (Form A, Exhibit G-10) approximates the median of market practice. However, more than 60% of the reserve will be depleted in the first year if the company makes stock option grants up to the maximum permitted (4.3% of total shares outstanding).
    - Consequently, Premera may seek shareholder approval to obtain additional share authorization under the Stock Ownership Plan. Accordingly, the OIC may wish to establish a restriction period precluding additional share authorizations or seek to lower the maximum authorization per year. The OIC may also seek to preclude stock grants to officers and outside directors for a period of 6 months to 1 year following the conversion.

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Executive Summary

- General Conclusions -

- Under Premera's current CiC policy, the total estimated CiC benefit accruing to the Top Five executives and the SVPs is approximately $23 million.
  - A conversion or initial public offering will not trigger CiC benefits. However, Premera will still be obligated to pay full CiC benefits to participants if another triggering event* occurs post-conversion.
  - The change-in-control policy permits the CEO, CFO or an EVP to "walk-away" for any reason following the one year anniversary of a change in control event and collect [ ] of the severance benefit.

Proprietary Material
Redacted

- The OIC should require Premera to amend its existing change in control policy to preclude accelerated vesting of stock options for a period of 2 years following the conversion.

*Triggering events other than a conversion would be subject to review and final approval by the OIC. Other triggering events: (1) the company is not the surviving entity in a reorganization, merger, consolidation (2) a sale, liquidation or other disposition of more than [ ] of the company's assets (3) dissolution of the company and (4) acquiring control of [ ] or more of the company's aggregate assets, membership or voting rights.

Proprietary Material
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Executive Summary

- Pre-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Total Direct Compensation				**Compared to BlueCross BlueShield (BCBS) Organizations** ▪ In aggregate, TDC levels provided to the Top Five executive officers are positioned near the 75th percentile of BCBS practices ▪ Two of the Top Five are above the 75th percentile **Compared to General Health Insurance Organizations** ▪ In aggregate, TDC levels provided to the Top Five executive officers and SVPs are between the median and 75th percentile of General Health Insurance practices. ▪ TCC levels provided to VPs, directors and managers are positioned at the median.
Top Five			✓*	
SVPs			✓*	
VPs, Directors, Managers		✓*		

*Reflects overall assessment of market position.

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Executive Summary

- Pre-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Change in Control (CiC) Policy			✓*	▪ The level of CiC protection provided to the CEO, EVPs and SVPs within Premera's CiC policy is quite comparable, and, in some instances, better than that provided by publicly-held organizations and more competitive than practices found in not-for-profit organizations. The following policy provisions are above practices typically found at publicly-held organizations: Proprietary Material Redacted

*Reflects overall assessment of market position.

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Executive Summary

- Pre-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Executive Benefits				▪ The total number of supplemental retirement plans is above market practice.
Supplemental Retirement Plans			✓	▪ Deferred Compensation: Matching contributions of [ ] on mandatory incentive deferrals are above market practice. Proprietary Material Redacted ▪ Defined Contribution SERP (DC SERP): The level of company contributions and the fact that these contributions are 100% vested at all times are above market practice. ▪ Defined Benefit SERP (DB SERP): Key plan provisions are in line with market practices and offset by qualified pension plan benefits only. There are no offsets for nonqualified company contributions (e.g., DC SERP and deferred compensation). ▪ Collectively, the value of supplemental retirement plans provide the CEO, EVPs and SVPs with an additional annualized benefit equal to approximately [Proprietary Material Redacted] of base salary, respectively.
Perquisites		✓		▪ Perquisites are in line with competitive practices.
Total Compensation				The TDC levels for the Top Five and SVPs are already above or near the 75th percentile. The addition of the supplemental retirement benefits results in total compensation significantly above the third quartile of market practice.
Top Five			✓	
SVPs			✓	

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Executive Summary

- Pre-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Pay-for-Performance Analysis - *Total Cash Compensation vs. Relative Annual Performance*			✓	▪ Actual TCC for the Top Five executives for 2002 is at the 75th percentile of competitive practice whereas Premera's relative performance score[1] is at the 38th percentile. ▪ Each of the Top Five executives is above the acceptable pay-for-performance range. ▪ Actual TDC for the Top Five executives is approximately at the 75th percentile of competitive practice whereas Premera's relative performance score[2] is at the 65th percentile.
Total Direct Compensation vs. Relative Long-Term Performance		✓	✓	▪ The Chief Legal/Policy Officer and Chief Actuary are above the acceptable pay-for-performance range. ▪ The CEO, CFO and EVP Healthcare Services/Strategy Development are within the acceptable pay-for-performance range.

1 The annual performance score is based on Premera's 2002 financial performance relative to other BlueCross BlueShield companies as measured by net written premium growth, operating income and operating margin and weighted 20%, 50% and 30%, respectively.

2 The long-term performance score is based on Premera's 2000-2002 financial performance relative to other BlueCross BlueShield companies as measured by net written premium growth, cumulative operating income and average operating margin and weighted 40%, 30% and 30%, respectively.

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Executive Summary

- Pre-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Additional Pay Analyses *Salary/TCC Trends* *Turnover Rates* - Company-Wide - Executive Level	N/D	N/D	✓ ✓ N/D	• Salary and TCC levels across all positions for the last 5 years have increased at an annual compounded rate of 7.5 and 8.2 percent, respectively. Market salary increases have averaged 4.1% over the last 5 years. • Salary and TCC have increased proportionately in 1999 and 2000 across the CEO and other vice-president positions (VPs, SVPs and EVPs). In 2001 and 2002, however, the increase in the CEO's salary and TCC for the CEO was significantly higher than increases for other vice-presidents. • Company-wide turnover rates from 1999-2001 are lower than industry rates. • PwC could not determine executive retention levels based upon the officer turnover data from 2000-2002 recently provided by Premera.
Qualified Retirement Plans		✓		• Pension Equity Plan: Key plan provisions including the benefit formula are in line with competitive practices. • 401k Plan: Vesting provisions for the company match portion are above market practice.
Qualified Health & Welfare Plans		✓		• Medical and insurance options and the employee's cost of basic coverage are in line with competitive practice.

N/D – not determinable

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Executive Summary

- Post-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Top Five Total Direct Compensation				▪ Base salaries are at market considering Premera's relative size to the Compensation Peer Group. ▪ TCC is below market practice. ▪ PwC could not determine Premera's Total Direct Compensation competitiveness as Premera has not disclosed its specific stock-based grants intended for its executive officers.
Base Salary		✓		
Total Cash Compensation	✓			
Total Direct Compensation	N/D	N/D	N/D	
Outside Director Compensation				▪ Total cash compensation (annual retainer plus meeting fees) is consistent with the market median. ▪ PwC could not determine Premera's Total Direct Compensation competitiveness as Premera has not disclosed its specific stock-based grants intended for its outside directors.
Total Cash Compensation		✓		
Total Direct Compensation	N/D	N/D	N/D	

N/D – not determinable

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Executive Summary

- Post-Conversion Scorecard -

Component	Below Market	At Market	Exceeds Market	Key Findings
Share Reserve and Allocation				▪ The proposed share reserve (7% of total shares outstanding) approximates the median of competitive practice.
Share Reserve		✓		▪ Premera may grant stock options to employees, executives and outside directors during the initial 12 months following the conversion. About two-thirds of companies preclude stock option grants for a period of 6 months to 1 year.
Restriction Period			✓	
Initial Equity Grant			✓	▪ The maximum number of stock options (4.3% of total shares outstanding) that can be granted during the initial 12 months following the conversion is at the 75th percentile of competitive practice ▪ Potentially, more than 60% of the total share reserve can be granted in the first 12 months, which will inevitably require approval of additional share authorizations.
Top 5 Grant Allocation	N/D	N/D	N/D	▪ PwC cannot determine the reasonableness of the initial grants to the Top Five officers at this time since the final grant allocation has not been established and disclosed by Premera management.

N/D – not determinable

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Total Compensation: Total Direct Compensation

- Executives (Top Five) -

Key Findings:

- In aggregate, the Total Direct Compensation for Premera's Top Five is between the 50th and 75th percentile for base salary, Total Cash Compensation (base salary + bonus), and Total Direct Compensation (Total Cash Compensation + long-term incentives) when compared to other organizations in the health insurance industry.
- Two of the EVPs are both paid above the 75th percentile in all components of TDC.

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Total Compensation: Total Direct Compensation

- Executives (Top Five) – Base Salary -

Key Findings:

- The base salaries for Premera's Top Five executives are between the 50th and 75th percentiles when compared to others in the health insurance industry and slightly above the 75th percentile when compared to only Blue Cross Blue Shield organizations.
- Two of the Top Five officers earned salaries above the 75th percentile when compared to both survey groups.

		Competitive Practice				Differential			
		Health Insurance Industry		Blue Cross Blue Shield		Health Insurance Industry		Blue Cross Blue Shield	
Position	2002 Base Salary	50th	75th	50th	75th	50th	75th	50th	75th
President/Chief Executive Officer	650,016	581,100	783,000	570,300	776,900	12%	-17%	14%	-16%
EVP/Corp Sec/Chief Legal & Policy Office	407,208	271,400	360,900	235,000	347,400	50%	13%	73%	17%
EVP/Chief Actuary	350,376	229,500	280,700	185,000	225,200	53%	25%	89%	56%
EVP Health Care Services & Strat. Dvpt	308,040	287,600	370,750	296,850	367,550	7%	-17%	4%	-16%
EVP & Chief Financial Officer	300,048	309,400	406,000	305,800	425,100	-3%	-26%	-2%	-29%
Average						24%	-4%	36%	-2%

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Total Compensation: Total Direct Compensation

- Executives (Top Five) - Total Cash Compensation (TCC) -

Key Findings:

- Total Cash Compensation levels for Premera's Top Five executives are between the 50th and 75th percentiles when compared to other companies in the health insurance industry and at the 75th percentile when compared to other Blue Cross Blue Shield organizations.
- Two of the Top 5 are above the 75th percentile for TCC when compared to both survey groups.

		Competitive Practice				Differential			
		Health Insurance Industry		Blue Cross Blue Shield		Health Insurance Industry		Blue Cross Blue Shield	
Position	TCC	50th	75th	50th	75th	50th	75th	50th	75th
President/Chief Executive Officer	1,032,909	974,000	1,423,300	871,000	1,224,900	6%	-28%	19%	-16%
EVP/Corp Sec/Chief Legal & Policy Office	567,648	366,200	546,900	280,800	499,800	55%	4%	102%	14%
EVP/Chief Actuary	488,424	310,600	418,300	246,900	334,900	57%	17%	98%	46%
EVP Health Care Services & Strat. Dvpt	429,408	383,750	549,650	382,750	505,400	12%	-22%	12%	-15%
EVP & Chief Financial Officer	418,267	433,800	602,000	424,500	578,600	-4%	-31%	-1%	-28%
Average						25%	-12%	46%	0%

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Total Compensation: Total Direct Compensation

- Executives (Top Five) - Total Direct Compensation (TDC) -

Key Findings:

- Total Direct Compensation levels for the Top Five Premera executives are between the 50th and 75th when compared to both the health insurance industry and other Blue Cross Blue Shield organizations.
  - Two of the Top 5 are above the 75th percentile for TDC when compared to both survey groups.

		Competitive Practice				Differential			
		Health Insurance Industry		Blue Cross Blue Shield		Health Insurance Industry		Blue Cross Blue Shield	
Position	2002 TDC	50th	75th	50th	75th	50th	75th	50th	75th
President/Chief Executive Officer	1,601,933	1,546,100	2,799,500	1,505,920	2,597,580	4%	-43%	6%	-38%
EVP/Corp Sec/Chief Legal & Policy Office	805,295	499,580	811,860	397,860	769,980	61%	-1%	102%	5%
EVP/Chief Actuary	692,903	414,100	563,020	313,560	444,580	67%	23%	121%	56%
EVP Health Care Services & Strat. Dvpt	609,180	544,490	837,770	575,590	797,780	12%	-27%	6%	-24%
EVP & Chief Financial Officer	593,375	628,820	939,140	637,440	970,700	-6%	-37%	-7%	-39%
Average						28%	-17%	46%	-8%

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Total Compensation: Total Direct Compensation

- Benchmark Jobs (SVPs, VPs, Dir., Mgrs) -

Key Findings:

- For all levels, base salaries are at or below the 50th percentile.
- For all levels, Total Cash Compensation levels are between the 50th and 75th percentile.
- Only SVPs and above are eligible for long-term incentives at Premera. SVPs have Total Direct Compensation levels between 50th and 75th percentile.

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Total Compensation: Total Direct Compensation

- Benchmark Jobs (SVPs, VPs, Dir., Mgrs) – Base Salary -

Key Findings:

- Generally, base salary competitiveness diminishes at each level within the organization.
  - Base salaries for SVPs are slightly above the 50th percentile.
  - Base salaries for VPs and directors fall below the 50th percentile.
  - Base salaries for managers are at the 50th percentile.
- In aggregate, base salaries are slightly below the 50th percentile.

Level	Number of Incumbents	Current Average Salary	Survey		Differential	
			50th	75th	50th	75th
SVPs	5	229,016	213,540	266,400	7%	-14%
VPs	3	141,521	146,100	183,100	-3%	-23%
Dir.	13	116,434	132,054	149,234	-12%	-22%
Mgrs	31	90,636	91,068	105,471	0%	-14%
Average					-2%	-18%

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Total Compensation: Total Direct Compensation

- Benchmark Jobs (SVPs, VPs, Dir., Mgrs) – Total Cash Compensation (TCC) -

Key Findings:

- In aggregate, Total Cash Compensation is slightly above the 50th percentile.
  - Total Cash Compensation for SVPs and managers is above the 50th percentile
  - Total Cash Compensation for directors is below the 50th percentile.
  - Total Cash Compensation for VPs is at the 50th percentile.

Level	Number of Incumbents	Current Average TCC	Survey		Differential	
			50th	75th	50th	75th
SVPs	5	322,051	281,460	384,180	14%	-16%
VPs	3	175,416	175,467	234,200	0%	-25%
Dir.	13	143,556	160,562	190,577	11%	-25%
Mgrs	29	102,704	99,677	119,284	3%	-14%
Average					7%	-20%

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Total Compensation: Total Direct Compensation

- Benchmark Jobs (SVPs, VPs, Dir., Mgrs) – Total Direct Compensation (TDC) -

Key Findings:

- The Total Direct Compensation for SVPs are on average between the 50th and 75th percentile.
  - VPs, directors and managers do not receive any long-term incentive opportunity and therefore are excluded from this analysis of TDC.

Level	Number of Incumbents	Current TDC	Survey		Differential	
			50th	75th	50th	75th
SVPs	5	455,560	377,742	750,956	21%	-39%

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Total Compensation: Executive Benefits

- Change-in-Control (CiC) -

Key Findings

- It should be noted that Premera's CiC policy has been amended to effectively exclude payment of CiC benefits in the case of a Conversion (defined as "...a transaction or event or series of related transactions or events pursuant to which either Premera and/or their respective successors, become a for-profit corporate entity...") or the issuance of stock by Premera and/or their respective successors as a qualifying CiC event.
- Overall, Premera's CiC provisions are consistent with those reported by publicly-held health care organizations for their senior executives.
  - Premera's CiC provisions are covered in an overall CiC policy vs. individual executive agreements.
  - Premera's CiC policy covers fewer executives, however, the breadth and value of benefit protection is more generous than competitive practices.

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Total Compensation: Executive Benefits

- Change-in-Control (CiC) -

Key Findings

Proprietary Material
Redacted

- While a conversion or initial public offering will not trigger CiC benefits, Premera will still be obligated to pay the full CiC benefits to each participating executive if (1) the company is not the surviving entity in a reorganization, merger, consolidation (2) a sale, liquidation or other disposition of more than 50% of the company's assets (3) dissolution of the company and (4) acquiring control of 50% or more of the company's aggregate assets, membership or voting rights.
  - The existing CiC policy should be amended such that the vesting of stock options will not be accelerated if an executive is terminated within 2 years of the conversion.

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Total Compensation: Executive Benefits

- Retirement and Perquisites -

- Deferred Compensation
  - Deferred compensation programs for senior executives are highly prevalent. However, Premera's program includes a match of 40% on mandatory deferrals (credited 10% per year for four years). This practice is above market.
  - In the event of death, disability or retirement (i.e., voluntary or involuntary termination after attaining age 55 and achieving 100% vesting by completing 5 years of service in accordance with the Pension Equity Plan), a specified percentage (ranging from 15% to 100% based on the age of the participant at time of death, disability or termination) of the company's matching contribution that has not yet been credited to the participant's account will be accelerated and credited.
- Defined Contribution SERP (DC SERP)
  - Generally, a non-qualified SERP is established to provide benefits that would otherwise be limited as a result of IRS statutes. As a result, many of these plans simply mirror key provisions of the qualified defined contribution plan including company contributions and vesting terms.
  - However, Premera's DC SERP provides SVPs, EVPs and the CEO with a company contribution equal to 10%, 12% and 15% of base salary, respectively. This is a significantly higher contribution rate than the amount provided to non-executive employees under the qualified 401(k) plan (i.e., 50% of the first 6% of salary deferrals). The amounts held in these accounts, unlike the qualified plan, are not subject to forfeiture; executives are 100% vested at all times. Further, executives are eligible to receive company contributions without having to defer additional compensation.

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Total Compensation: Executive Benefits

- Retirement and Perquisites -

- Defined Benefit SERP (DB SERP)
  - The provisions of Premera's DB SERP plan are consistent with market practices.
  - SERP benefits are generally offset by qualified pension plans and social security. Approximately 20 percent of organizations also offset SERP benefits by a company match to a 401(k) plan or a company contribution to another nonqualified plan.

Proprietary Material
Redacted

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Total Compensation: Total Compensation Competitiveness

- Total Compensation for the CEO and EVPs -

- The following table estimates the total annual compensation earned by the CEO and each EVP by adding the annualized value generated from Premera's Defined Contribution SERP, (DC SERP), Defined Benefit SERP (DB SERP), and the matching portion of the deferred compensation plan to TDC (salary, bonus and long-term incentives).
- For the CEO, the total value of supplemental retirement benefits equals [ ] of salary. Similarly, for EVPs, the average total value of supplemental retirement benefits equals [ ] of salary.

Proprietary Material
Redacted

Proprietary Material
Redacted

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Total Compensation: Total Compensation Competitiveness

Proprietary Material
Redacted

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Total Compensation: Pay-For-Performance Analysis

- Overview -

PwC has determined that total compensation levels for Premera's Top Five officers were significantly above market practices reported by other BlueCross BlueShield ("BCBS") organizations. These practices may be justified if the level of pay is commensurate with Premera's relative performance. In other words, if Premera outperformed other BCBS companies, the level of pay may be justifiable based on performance.

To determine if executive compensation levels can be justified based on relative performance, we compared the percentile pay rank for each of the Top Five officers vs. the Performance Peer Group to Premera's annual and long-term relative performance across selected performance measures and results vs. this same peer group.

Annual pay-for-performance was determined by comparing actual 2002 Total Cash Compensation market percentile for each of Premera's Top Five Executive Officers vs. relative Premera performance based on net written premium growth, operating income and operating margin for 2002.

Long-term pay for performance was determined by comparing actual 2002 Total Direct Compensation market percentile for each of Premera's Top Five Executive Officers vs. relative Premera performance based on the average annual growth in net written premiums, cumulative operating income and the average annual operating margin for the three-year period 2000 to 2002.

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Total Compensation: Pay-For-Performance Analysis

- Performance Peer Group -

Company	Annual Results[1] 1/2002-12/2002			Long-Term Results[1] 1/2000-12/2002		
	Net Written Premium Growth	Operating Income	Operating Margin	Average Annual Net Written Premiums Growth	Cumulative Operating Income	Avg. Annual Operating Margin
Blue Cross & Blue Shield of AL	6.8%	$67,178	2.1%	8.5%	$165,192	1.6%
Blue Cross & Blue Shield of FL	11.1%	$269,419	6.9%	14.3%	$346,900	3.0%
Blue Cross & Blue Shield of MA	7.6%	$184,985	3.7%	26.4%	$481,373	3.8%
Blue Cross & Blue Shield of MN	10.9%	$86,590	5.3%	12.7%	$140,601	2.0%
Blue Cross & Blue Shield of MT	18.1%	$14,065	4.7%	14.5%	$18,645	1.8%
Blue Cross & Blue Shield of NC	24.4%	$88,917	2.0%	15.5%	$256,061	2.0%
Blue Cross & Blue Shield of NE[3]	-2.7%	$44,736	4.6%	na	na	na
Blue Cross & Blue Shield of RI	-0.8%	$14,603	0.8%	5.0%	$112,613	2.9%
Blue Cross & Blue Shield of VT	16.3%	$9,245	3.5%	-3.7%	$21,168	2.5%
Blue Cross of ID Health Service[3]	32.9%	$11,629	1.5%	na	na	na
Blue Cross & Blue Shield of KC	20.7%	$47,776	4.4%	21.5%	$89,404	4.0%
Blue Cross Blue Shield of TN	15.9%	$142,383	6.6%	-1.5%	$272,137	3.8%
CareFirst of Maryland Inc.	7.5%	$25,589	2.0%	9.9%	$111,802	2.4%
Independence Blue Cross	-2.4%	$7,184	3.5%	-11.2%	$56,577	4.4%
Regence BC/BS of Oregon	25.2%	$14,468	1.7%	13.0%	$1,253	0.2%
Premera Blue Cross[2]	4.0%	$48,131	1.9%	19.6%	$127,757	1.6%
Percentile Rank	19th	57th	19th	89th	55th	8th
25th Percentile	7.1%	$14,267	2.0%	5.0%	$56,577	2.0%
50th Percentile	11.1%	$44,736	3.5%	12.7%	$112,613	2.5%
75th Percentile	19.4%	$87,754	4.7%	14.5%	$256,061	3.8%

(1) All information compiled from A.M. Best database. Operating Income data is expressed in thousands (000s).

(2) Includes HealthPlus financial data in 1999.

(3) Financial data for Blue Cross & Blue Shield of NE and Blue Cross of Idaho Health Services are not included in the long-term measures due to lack of available data.

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Total Compensation: Pay-For-Performance Analysis

- Annual Relative Performance –

We weighted three different performance measures to determine Premera's relative performance on an annual basis. These weights were developed based on the actual weights assigned to operating income and membership for the 2002 Annual Incentive Plan (per report to Premera's Governance Committee dated Feb. 12, 2002). Net premium growth and operating margins are considered important drivers of shareholder value within the industry. These weights produced a relative performance "score" of 38% for 2002.

Performance Measures	Weighting	Premera	
	Annual	%ile Rank	Relative Performance
Net Written Premium Growth	20%	19%	4%
Operating Income	50%	57%	29%
Operating Margin	30%	19%	6%
Total:	***100%***		***38%***

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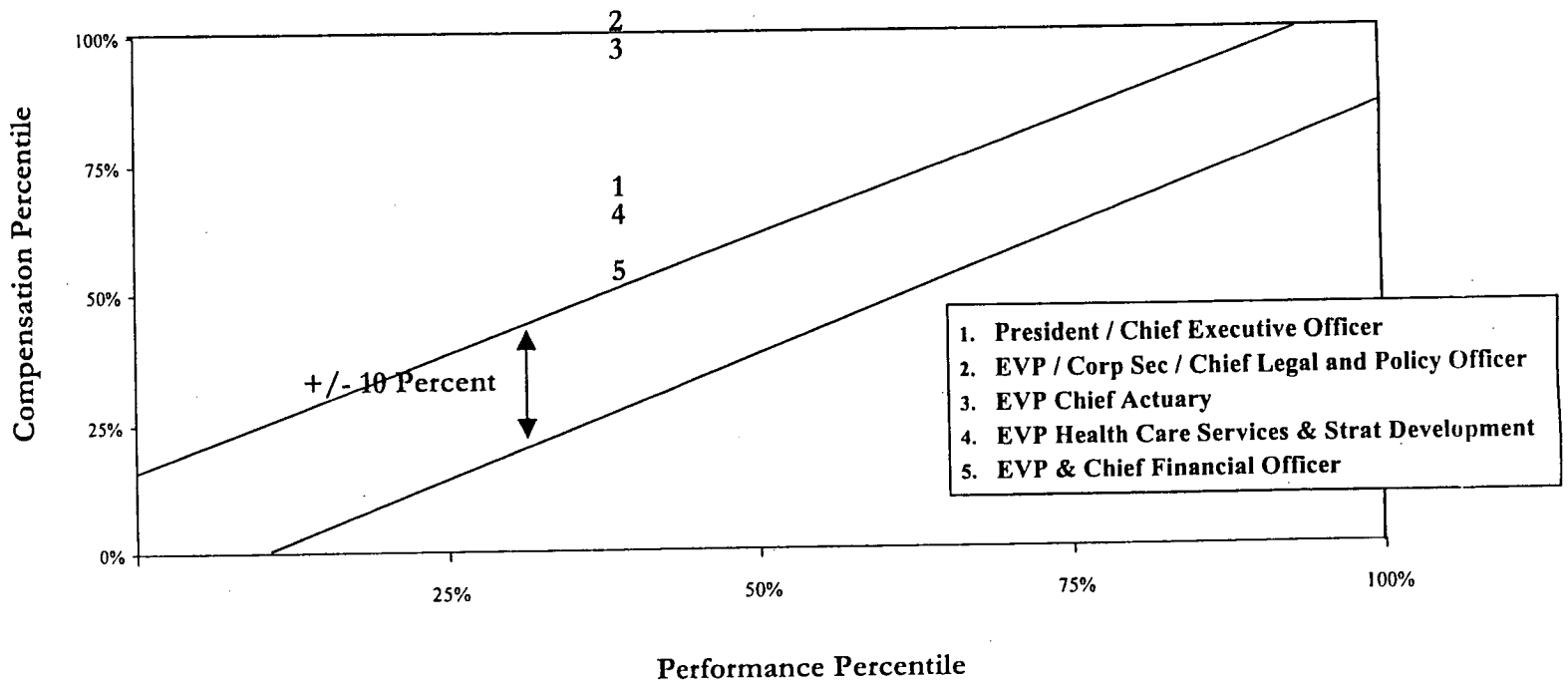
Total Compensation: Pay-For-Performance Analysis

- Annual Pay-For-Performance –

Accordingly, the TCC for all of the Top Five Executive Officers is above the acceptable pay-for-performance range.



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Total Compensation: Pay-For-Performance Analysis

- Long-Term Relative Performance –

We weighted three different performance measures to determine Premera's relative long-term performance for the period of 2000-2002. These weights were developed based on the actual weights assigned to operating income and membership for the 2002 Long-Term Incentive Plan (per report to Premera's Governance Committee dated Feb. 12, 2002). Net premium growth and operating margins were given greater weighting in comparison to the annual relative performance score. These weights produced a relative performance "score" of 54% for the three-year period.

Performance Measures	Weighting	Premera	
	Long-Term	%ile Rank	Relative Performance
Avg. Annual Net Written Premium Growth	40%	89%	36%
Cumulative Operating Income	30%	55%	16%
Avg. Annual Operating Income	30%	8%	2%
Total:	***100%***		***54%***

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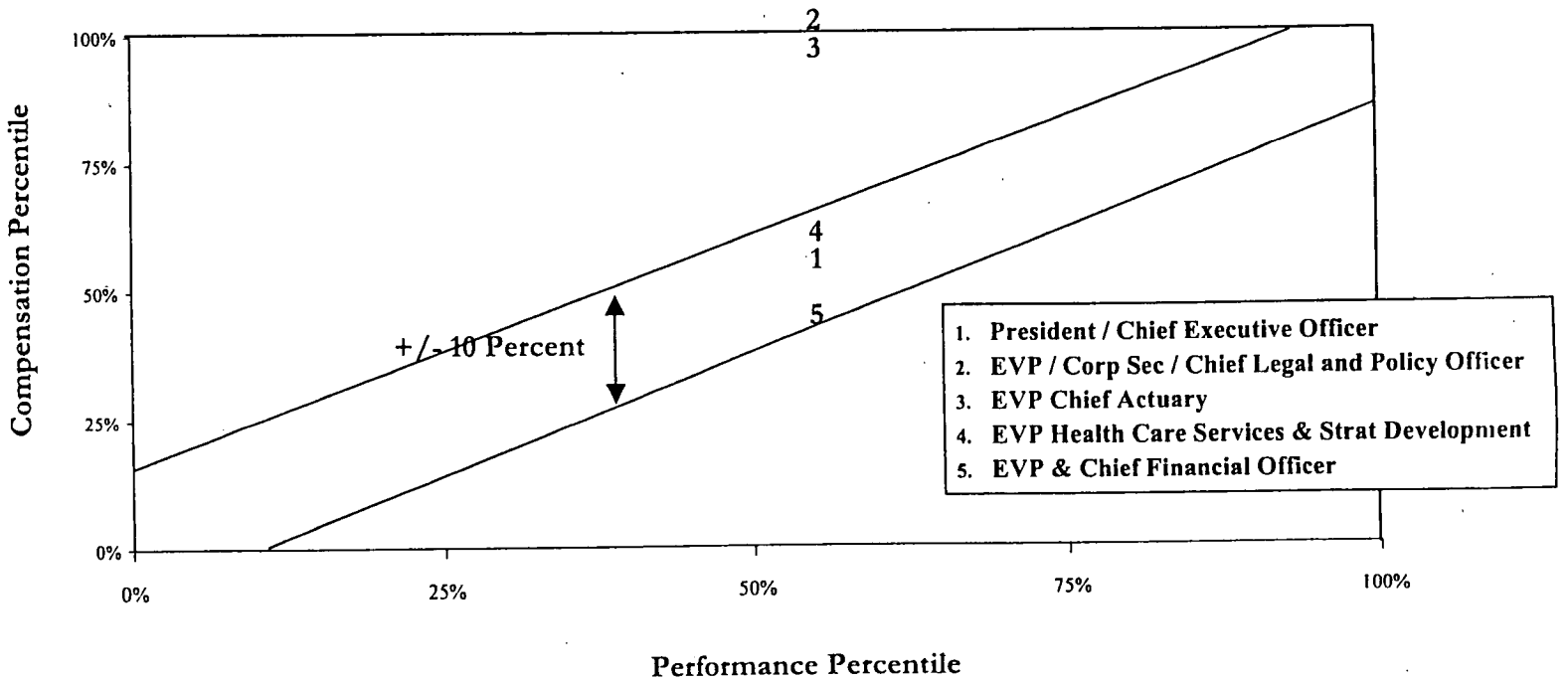
Total Compensation: Pay-For-Performance Analysis

- Long-Term Pay-For-Performance –

The TDC for three of the Top Five Executive Officers is acceptable based on performance, however, the TDC of the other two executives is above the relative pay-for-performance range.



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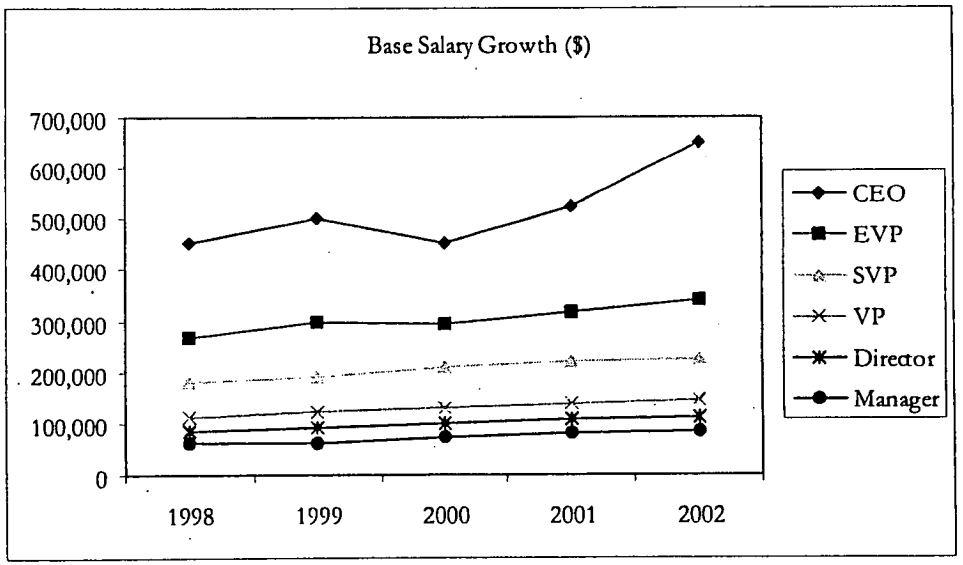
Total Compensation: Additional Analyses

- Base Salary Trends ($) -

- The base salary for the CEO in the last 5 years has increased from $450,000 to $650,000, an annual compounded increase of 10 percent.
- Base salaries for EVPs, SVPs, and VPs have increased at an annual compounded rate of 6 percent.
- Base salaries for director and managers have increased at an annual compounded rate of 8 percent.



Market Data Sources:

WorldatWork reports salary increases of 4.0%, 4.0%, 4.2%, 4.4% and 4.0% for officers and executives and 3.7%, 3.6%, 3.8%, 4.2% and 4.2% in years 1998-2002 for exempt employees in the healthcare industry.

Watson Wyatt reports salary increases of 4.4% and 4.1% for executives and 3.8% and 3.9% in 2001 and 2002 for exempt employees in the healthcare industry.

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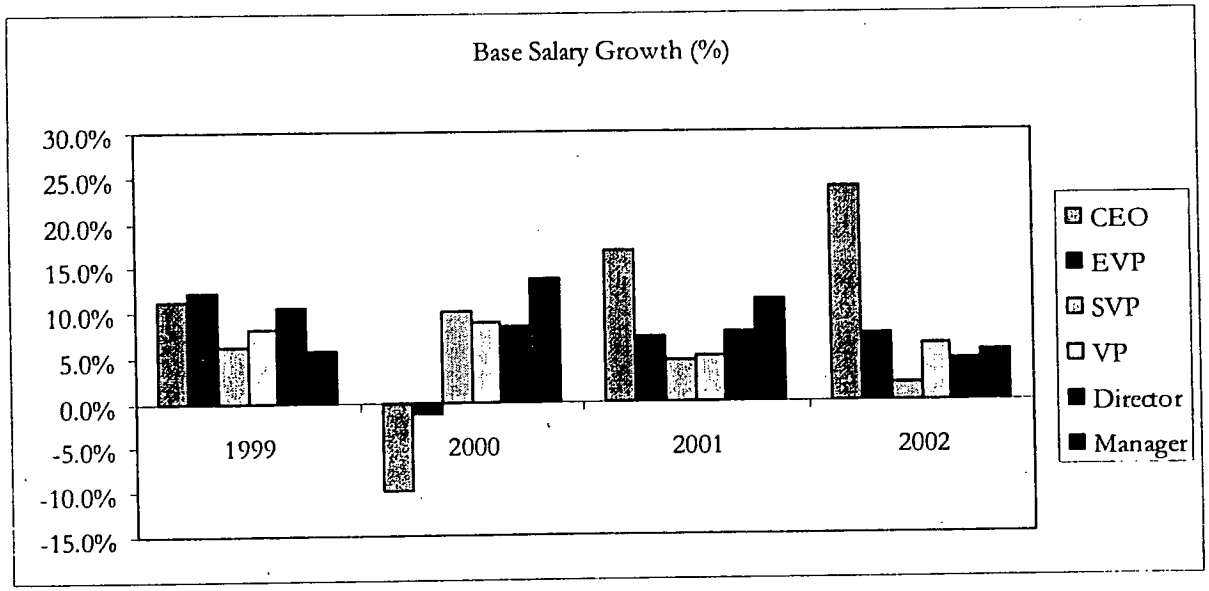
Total Compensation: Additional Analyses

- Base Salary Trends (% Change) -

- With the exception of the CEO and EVPs in 2000, base salaries have increased in every year for every position.
  - The decrease in the CEO's base salary in 2000 was due to a change in incumbents.
- Salary levels in 2001 and 2002 for the CEO have increased at a much higher rate than increases for other positions.



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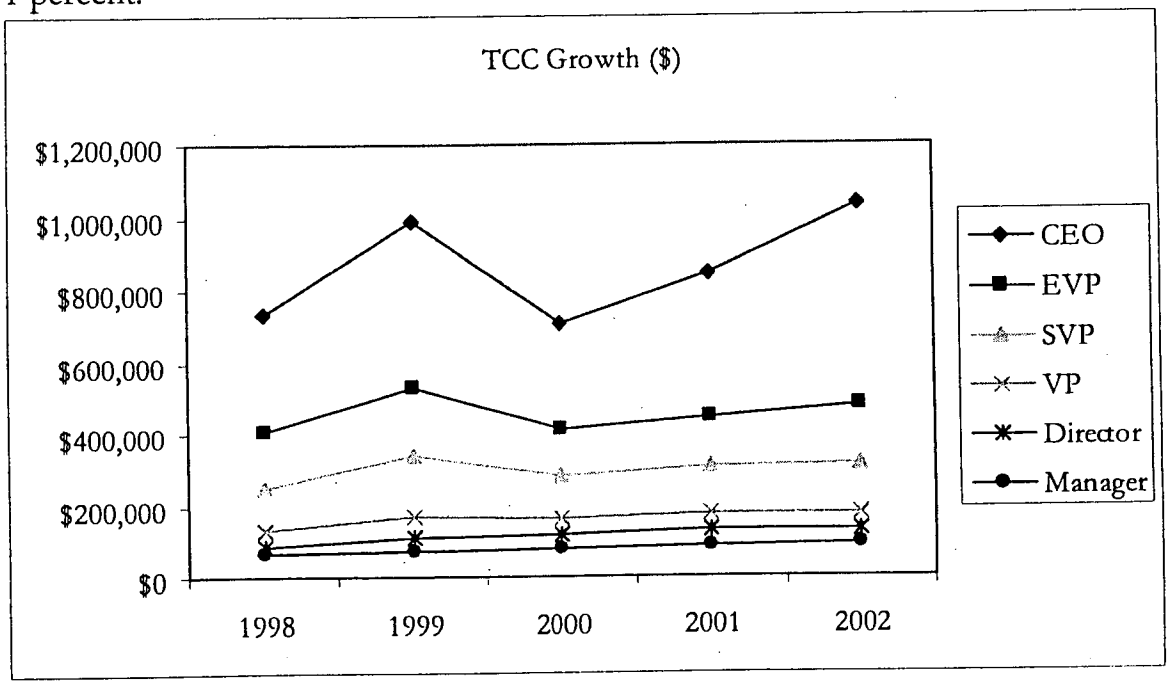
Total Compensation: Additional Analyses

- Total Cash Compensation Trends ($) -

- Total Cash Compensation for the CEO increased from $734,000 in 1998 to $1,033,000 in 2002, a compounded rate of 9 percent.
- Total Cash Compensation levels for EVPs, SVPs, and VPs have increased at an annual compounded rate of 6 percent.
- Total Cash Compensation levels for directors and managers have increased at an annual compounded rate of 11 percent.



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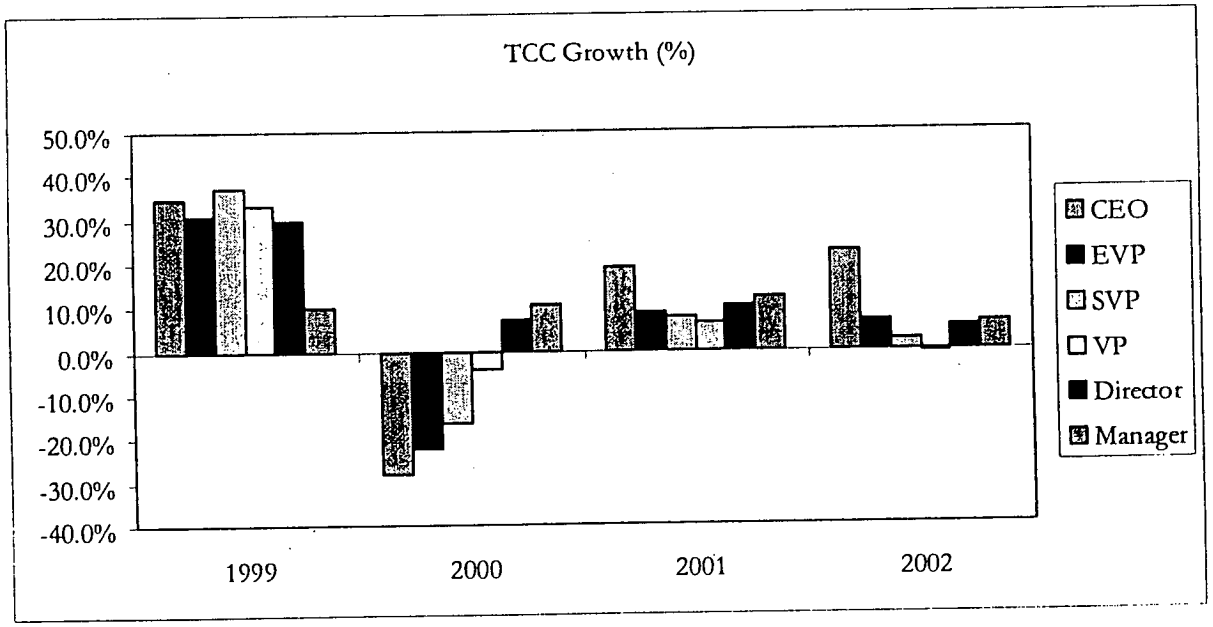
Total Compensation: Additional Analyses

- Total Cash Compensation Trends (% Change) -

- With the exception of 2000, TCC has increased every year for every position.
- TCC levels in 2001 and 2002 for the CEO have increased at a much higher rate than increases for other positions.



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Total Compensation: Additional Analyses

- Turnover Rates -

- Premera's employee turnover rates (defined as voluntary separations), in aggregate, has been lower than the industry average. Premera has recently submitted officer turnover rates for 2000-2002. However, we cannot determine executive retention from the limited information provided by Premera, the level of officer reported, the officer sample size or the comparability of Premera data to market data.

	Premera	Market Rates (Average)
Company-Wide Turnover Rate	Average 1999-2001 [ ] * Proprietary Material Redacted	Direct Life, Health, and Medical Insurance Carriers (NAICS: 52411): 14.1%
Management Turnover Rate	Average 2000-2002: N/D	Direct Life, Health, and Medical Insurance Carriers (NAICS: 52411): 7.7%

*As reported in the Incentive Plans Report to Premera's Governance Committee dated February 12, 2002.

Market Data Source: Saratoga Institute

[Proprietary Material Redacted]

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Qualified Plans: Retirement

- Key Findings -

- Premera 401(k) Plan
  - Above market practices for key plan provisions:
    - Participants are allowed to contribute up to 25% of salary (vs. 10-15% market practice) per pay period up to legal limits per year.
    - Participants are 100% vested in employer match contributions after 1 year of service (vs. market practice of 5 years of service, cliff vesting).
- Premera Pension Equity Plan
  - Key plan provisions are consistent with market practices.

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Qualified Plans: Health & Welfare

- Key Findings -

Premera Flex

- Offers flexible benefits which cover:
  - Medical, Dental, Life Insurance, Long Term Disability
- The plan targets coverage for approximately 90% of benefit costs.

In comparison, competitive practices include:

- On average, employers cover 77% of total benefits.
- Healthcare organizations
  - 91% provide either a Flexible Spending Account or full cafeteria plan
  - 34% provide full cafeteria plan
- Most prevalent benefits offered by companies with flexible benefits programs:
  - Medical: 97%
  - Dental: 94%
  - Long-Term Disability: 72%
  - Life Insurance: 72%

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Qualified Plans: Health & Welfare

- Key Findings -

Premera's health and welfare benefit plans are consistent with market practices both in terms of breadth of coverage and the monthly cost to employees.

Monthly Employee Contributions:

Benefit	Premera	Market Practice
Medical	**Avg. EE Contributions ($):** Employee Only - $39.25 Family - $165	**Avg. EE Contributions ($):** Employee Only - $39.44 Family - $108.68
Dental	**Avg. EE Contributions ($):** Employee Only - $15.70 Family - $58.30	**Avg. EE Contributions ($):** Employee Only - $22.38 Family - $64.84
Life Insurance *Basic*	$0 monthly premium for 2 times base salary	$.21/$1,000 of insurance
Supplemental	$.16/$1,000 of insurance (at age 40)	$.18/$1,000 of insurance (at age 40)
Long-Term Disability *Basic*	$0 monthly for 60% of base salary	$.49/$100 of benefit
Additional	Additional $.49/$100 for 66 2/3% coverage	

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Post-Conversion: Total Direct Compensation

- Post-Conversion Analysis -

- PwC completed a benchmarking analysis of TDC for the Top Five officers and outside directors that gauges competitiveness relative to a Compensation Peer Group.
- The Compensation Peer Group consists of publicly-held managed care organizations and hospitals with 2002 annual revenues ranging from $760 million to $5 billion. Total members range from 570,000 to 4,608,000. The median revenues and membership reported by the Compensation Peer Group are $2.3 billion and 1.4 million, respectively.
- As of fiscal year end 2002, Premera reported total revenues of $2.6 billion with 1.4 million members, which ranks at the 53rd percentile and 52nd percentile of the Compensation Peer Group, respectively.
- Premera's management has affirmed that no changes or modifications are expected to be made to any provision of the current annual and long-term incentive plans including award opportunities in contemplation of the conversion.
- As of the date of this report, Premera has not disclosed any specific plan related to stock-based grants to its executives.

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Post-Conversion: Total Direct Compensation

- Compensation Peer Group -

Company	Fiscal Year End	Revenues (in billions)	Membership* (in millions)
WellChoice	Dec. 2002	5.11	4.61
Oxford Health Plans, Inc	Dec. 2002	4.87	1.60
Coventry Health Care Inc	Dec. 2002	3.58	2.03
Triad Hospitals	Dec. 2002	3.54	n/a
Universal Health Services	Dec. 2002	3.26	n/a
Mid Atlantic Medical Services	Dec. 2002	2.31	1.97
Health Management Associates	Dec. 2002	2.26	n/a
Sierra Health Services Inc	Dec. 2002	1.28	1.21
Amerigroup Corporation	Dec. 2002	1.16	0.59
Cobalt Corp	Dec. 2002	1.55	0.80
American Medical Security Group	Dec. 2002	0.79	.57
First Health Group Corp	Dec. 2002	0.76	1.40
Summary Statistics	**Median** **75th Percentile**	**$2.29** **$3.55**	**1.40** **1.97**
Premera	**Dec. 2002** **Percent Rank**	**$2.62** **53rd Percentile**	**1.45** **52nd Percentile**

*Note: Membership data applies only to MCOs.

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Post-Conversion: Total Direct Compensation

- Top Five Base Salary -

Key Findings:

Overall, current base salaries are 8 percent below the market median. Base salaries are positioned appropriately given Premera's relative size to the Compensation Peer Group.

Position	2002 Base Salary	Proxy		Differential		Percent Rank
		50th	75th	50th	75th	
President/Chief Executive Officer	650,016	723,473	856,591	-10%	-24%	33rd Percentile
EVP/Corp Sec/Chief Legal & Policy Officer	407,208	439,605	511,058	-7%	-20%	44th Percentile
EVP/Chief Actuary	350,370	381,252	438,126	-8%	-20%	35th Percentile
EVP Health Care Services & Strat. Dvpt	308,040	324,028	396,990	-5%	-22%	47th Percentile
EVP & Chief Financial Officer	300,048	298,308	346,490	1%	-13%	57th Percentile
Average for Top 5				-8%	-22%	43rd Percentile

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Post-Conversion: Total Direct Compensation

- Top Five Total Cash Compensation -

Key Findings:

Overall, current Total Cash Compensation is 22 percent below the market median, or below levels corresponding to Premera's size versus the Compensation Peer Group.

Position	2002 TCC	Proxy		Differential		Percent Rank
		50th	75th	50th	75th	
President/Chief Executive Officer	1,032,909	1,555,775	1,725,737	-34%	-40%	3rd Percentile
EVP/Corp Sec/Chief Legal & Policy Office	567,648	693,296	1,153,530	-18%	-51%	26th Percentile
EVP/Chief Actuary	488,424	614,065	704,472	-20%	-31%	16th Percentile
EVP Health Care Services & Strat. Dvpt	429,408	510,000	609,578	-16%	-30%	23rd Percentile
EVP & Chief Financial Officer	418,267	425,364	488,971	-2%	-14%	36th Percentile
Average for Top 5				-22%	-38%	21st Percentile

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Post-Conversion: Total Direct Compensation

- Top Five Total Direct Compensation -

Key Findings:

PwC could not determine Premera's Total Direct Compensation competitiveness as Premera has not disclosed its specific stock-based grants intended for its executive officers.

Position	2002 TDC	Proxy		Differential		Percent Rank
		50th	75th	50th	75th	
President/Chief Executive Officer	N/A	3,725,532	6,482,328	N/A	N/A	TBD
EVP/Corp Sec/Chief Legal & Policy Officer	N/A	1,688,555	2,435,585	N/A	N/A	TBD
EVP/Chief Actuary	N/A	1,440,092	2,404,029	N/A	N/A	TBD
EVP Health Care Services & Strat. Dvpt	N/A	1,160,111	1,630,042	N/A	N/A	TBD
EVP & Chief Financial Officer	N/A	1,690,591	1,279,321	N/A	N/A	TBD
Average for Top 5				N/A	N/A	TBD

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Post-Conversion: Total Direct Compensation

- Outside Director Compensation (Non-employees) -

- Total Cash Compensation for outside directors is consistent with competitive practices.
- Total Direct Compensation for outside directors is significantly below competitive practices due to the absence of any stock-based opportunity.

Program Element	Premera's Outside Director Compensation Program	Competitive Practices (Median)
Annual Retainer	$20,000	$23,500
Total Cash Compensation*	**$41,500**	**$39,300**
Meeting Fees		
-Per Board Meeting	$1,200	$1,600
-Per Committee Meeting	$1,200	$1,500
Annual Stock-Based Grant	No provision	$113,800 stock option value
Total Direct Compensation	$41,500	$121,700

*Includes annual retainer, Board and Committee meeting fees and fees for service as the Chairman of a Committee. Assumes 5 Board meetings and 5 Committee meetings per year.

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Post Conversion: Equity Reserve and Allocation

- Shares Reserved for Employees and Outside Directors -

As contained in Exhibit G-10 of Form A, Premera has proposed a maximum share reserve equal to 7 percent of the total shares outstanding after giving effect to the conversion transaction and any subsequent equity offerings.

- The proposed share reserve under Premera's Stock Ownership Plan approximates the median of competitive practice.

Company	Total outstanding after IPO	Employee Plan		Director Plan[1]		Stock Purchase Plan		Total	
		Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
AMERIGROUP	19,182,012	2,064,000	10.8%			600,000	3.1%	2,664,000	13.9%
AmerUs Group	23,449,478	1,400,000	6.0%	150,000	0.6%			1,550,000	6.6%
Anthem	103,088,000	7,000,000	6.8%			3,000,000	2.9%	10,000,000	9.7%
Centene	10,596,369	682,685	6.4%			300,000	2.8%	982,685	9.3%
John Hancock Financial Services	331,700,000	16,585,000	5.0%	1,000,000	0.3%	800,000	0.2%	18,385,000	5.5%
MetLife	786,203,472	37,823,333	4.8%	500,000	0.1%			38,323,333	4.9%
MONY Group	47,037,500	2,361,908	5.0%					2,361,908	5.0%
Principal Financial Group	375,600,000	21,648,355	5.8%	500,000	0.1%	7,216,000	1.9%	29,364,355	7.8%
Prudential Financial	585,600,000	42,000,000	7.2%					42,000,000	7.2%
Trigon Healthcare	42,300,022	3,550,000	8.4%	550,000	1.3%	1,000,000	2.4%	5,100,000	12.1%
WellChoice	82,300,000	6,250,000	7.6%			3,000,000	3.6%	9,250,000	11.2%
RightChoice	18,700,000	500,000	2.7%	60,000	0.3%			560,000	3.0%
WellPoint	99,500,000	4,600,000	4.6%			400,000	0.4%	5,000,000	5.0%
Cobalt	16,812,081	4,625,000	27.5%					4,625,000	27.5%
25th Percentile	20,248,879	2,138,477	5.0%	237,500	0.2%	550,000	1.5%	2,437,431	5.2%
Median	64,668,750	4,612,500	6.2%	500,000	0.3%	900,000	2.6%	5,050,000	7.5%
75th Percentile	274,547,000	14,188,750	7.5%	537,500	0.6%	3,000,000	3.0%	16,288,750	10.9%

NOTES:

Source: Executive Compensation Reports

[1] In cases where the company combines employee and director plans, shares reserved for awards to directors are included in plans for employees.

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Post Conversion: Equity Reserve and Allocation

- Initial Stock Option Grants -

- Premera has reserved a maximum of 1.5 percent of outstanding shares that can be granted to non-officers or non-directors plus a maximum reserve equal to 2.8 percent of outstanding shares that can be granted to officers, employees or outside directors.

- The aggregate percent of shares reserved that can be granted in the first 12 months following the conversion date is 4.3 percent, which is positioned at the 75th percentile of competitive practice.

Company	Total outstanding after IPO	TOP Five	All Other Employees	Total Percent
AMERIGROUP	19,182,012	1.0%	3.3%	4.3%
AmerUs Group	23,449,478	2.1%	1.7%	3.8%
Anthem[1]	103,088,000	0.4%	2.6%	3.0%
Centene	10,596,369	0.7%	4.7%	5.4%
John Hancock Financial Services[1]	331,700,000	0.7%	3.7%	4.4%
MetLife	786,203,472	0.1%	1.5%	1.6%
MONY Group	47,037,500	1.2%	2.1%	3.4%
Principal Financial Group[1]	375,600,000	0.1%	1.3%	1.4%
Prudential Financial[1]	585,600,000	0.1%	3.6%	3.7%
Trigon Healthcare	42,300,022	1.3%	3.8%	5.2%
WellChoice[2]	82,300,000			
RightChoice[3]	18,700,000			1.2%
WellPoint	99,500,000	1.2%	2.1%	3.3%
Cobalt	16,812,081	2.7%	1.0%	3.7%
25th Percentile	20,248,879	0.3%	1.7%	3.0%
Median	64,668,750	0.9%	2.4%	3.7%
75th Percentile	274,547,000	1.3%	3.6%	4.3%

Source: Executive Compensation Reports

[1] Companies made a one-time grant to non-executive employees following IPO. Grants to the Top Five and other senior management were made in 2002.

[2] Wellchoice disclosed the terms of their equity incentive plan in their quarterly report for the period ending 6/30/03 but not specific grant details

[3] Companies only disclosed the aggregate number of stock options granted

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Post Conversion: Equity Reserve and Allocation

- Restriction Guidelines on Equity Ownership -

- Premera's proposed Stock Ownership Plan expressly prohibits grants of stock to any employee, officer or outside director during the initial 12 months following the conversion, but it does retain discretion to make grants of stock options during that same period. Management and outside directors are subject to a 3-month restriction period before they can receive a stock option grant.
- Summary of competitive findings:
  - Five of the fourteen companies either did not disclose or were silent regarding restrictions on equity ownership. Of the nine that have disclosed restrictive guidelines,
    - The majority of the guidelines were self-imposed or negotiated by management. Two of the companies indicated that equity grants were restricted by state statute.
    - Virtually all of the restrictive guidelines prevent executives and outside directors from:
      - Receiving stock-based grants (e.g., restricted stock, stock options) during the restriction period
      - Purchasing the company's common stock during the restriction period (which, presumably, would include the exercise of a stock option)
    - The restriction period ranged from 6 months to 2 years following the IPO/conversion date with the most typical period being 6 months or 1 year.
    - One company conditioned the extent of the restriction (i.e., how long, type of transaction) on the class of employee; less restrictive for non-officers or non-directors.

Note: These type of restrictions differ from "lock-up" agreements, which are a legally binding contracts between the underwriters and insiders of the company undergoing an initial public offering (IPO). These agreements prevent insiders from selling any shares of stock for a specified period of time.

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Appendices

Appendix A **Methodology**

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APPENDIX A

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Methodology: Survey Bibliography

Economic Research Institute (ERI)

- 2002 Executive Compensation Assessor

Executive Compensation Advisory Services

- Guide to Change in Control Agreements, 3rd Edition
- Share Reserve and Allocation Analysis

Hay Group

- 2001 Hay Benefits Report
- Clark/Bardes Consulting Executive Benefits 2002 Results

Watson Wyatt ECS

- 2002/2003 ECS Industry Report of Top Management Compensation
- 2002/2003 ECS Industry Regression Report of Top Management Compensation
- 2002/2003 ECS Watson Wyatt Health, Annuity and Life Insurance Report

William M. Mercer

- 2001/2002 Long-Term Incentive Survey
- 2001/2002 Finance, Accounting, and Legal Compensation Survey
- 2001/2002 Executive Compensation Survey
- 2002 Integrated Health Network Executive Module
- 2002 BlueCross BlueShield Custom Executive Module

WorldatWork Salary/Budget Increase Survey

Saratoga Institute

- 1999-2002 Voluntary Separation Rates

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Methodology: Total Direct Compensation Survey Analysis

We completed the following major steps in analyzing compensation levels:

- Collected market pay data from relevant industries (i.e., managed care organizations/health insurers and BlueCross BlueShield organizations) and organizations of comparable size to Premera.

- Matched jobs based on title, description and reporting relationship. For the Top Five executive officers, we relied exclusively on title as job descriptions were not provided.

Proprietary Material
Redacted

- We used the simple average for calculating competitive compensation levels.

- Salaries and Total Cash Compensation that are +/- 20% of the market data are generally considered to be within a competitive range.

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Methodology: Total Direct Compensation Survey Analysis

- Analyzed the reasonableness of compensation levels for thirty-one Premera jobs ("benchmark jobs"). These jobs were jointly selected by Premera and PwC based on the following criteria:
  - Representative of those found in the health insurance industry
  - Representative across various organization levels (from managers through senior vice presidents)
  - Representative across divisions/functional areas
  - Availability of sufficient and meaningful survey data
- To determine competitiveness by levels for SVPs, VPs, Directors and Managers, Premera incumbent and market pay within each level was averaged and weighted by the number of incumbents in each benchmarked job.

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Methodology: Total Direct Compensation Survey Analysis

Definitions

Premera-

Base Salary = 2002 Base Salary

Bonus = 2002 Actual Bonus Earned (and paid in 2003)

Total Cash Compensation = Base Salary plus Bonus

Long Term Incentives = 2002 Actual LTI Earned (and paid in 2003).

Total Direct Compensation = Total Cash Compensation plus Long Term Incentives

Survey Group-

Base Salary – Base Salary aged to 2/1/03

Bonus – Difference between Total Cash Compensation and Base Salary

Total Cash Compensation – Total Cash Compensation aged to 2/1/03

Long Term Incentives - Competitive LTI expressed as a percent of base salary consisting of stock options, restricted stock, and cash-based performance plans applied to the competitive median and 75th percentile base salary levels. These percentages were adjusted to reflect Premera's private company status using a discount rate of 40 percent.

Total Direct Compensation – Total Cash Compensation plus Long Term Incentives

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Methodology: Executive Benefits

- Change-in-Control -

- We reviewed Premera's change-in-control policy most recently amended on October 7, 2002.
- We compared key CiC provisions to competitive practices reported by the healthcare industry and/or organizations of comparable size with respect to their CIC policies.
- We estimated the value of CiC benefits for eligible participants based on the most recent pay information.

- Retirement and Perquisites -

- In determining the market competitiveness of Premera's executive retirement and perquisite programs, we reviewed each program's provisions and the value of these programs to the executive.
- This was accomplished by reviewing the SPD and plan documents for the following programs:
  - Deferred Compensation
  - Defined Contribution SERP
  - Defined Benefit SERP
  - Miscellaneous Perquisites: Car allowance, tax/financial planning, employment contracts, club membership, and travel policies

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Methodology: Executive Benefits

- Defined Benefit SERP Estimates -

- In order to estimate the annual accrual earned under the DB SERP plan during 2003, we:
  - Used an annual accrual which is equal to the difference between the estimated DB SERP lump sum earned as of January 1, 2003 and the estimated DB SERP lump sum earned as of January 1, 2004.
  - Used an estimated DB SERP lump sum earned as of January 1, 2003 which was calculated net of the estimated qualified DB plan lump sum earned as of January 1, 2003.
  - Used the provided 1998-2002 base and bonus pays to calculate the high 5 years consecutive pay for the qualified amount, and the high 3 years pay for the non-qualified amount.
  - Considered only participants with more than 5 years of service as of January 1, 2003 as eligible for the Special Supplemental Benefit (up to 8 additional years of service if hired after age 45).
- To estimate the DB SERP lump sum earned as of January 1, 2004 which was calculated net of the estimated qualified DB plan lump sum earned as of January 1, 2004, we:
  - Used the provided 1999-2002 base and bonus pays to calculate the high 5 years consecutive pay for the qualified amount, and the high 3 years pay for the non-qualified amount. 2003 base pay was estimated to be 2002 base increased by 5%. The 2003 bonus was estimated to be the average of the 1998-2002 bonuses, increased by 5%.
  - Considered only participants with more than 5 years of service as of January 1, 2004 as eligible for the Special Supplemental Benefit (up to 8 additional years of service if hired after age 45).

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Methodology: Pay-for-Performance Analysis

PwC analyzed Premera's pay-for-performance relationship by completing the following major steps:

- Selected a subset of BlueCross BlueShield ("BCBS") organizations surveyed in William M. Mercer Integrated Health Networks 2002 Compensation Report.
- Collected key performance results as measured by net written premium growth, operating income, and operating margin from 1999 to 2002 from A.M. Best database of BCBS financials.
  - Determined Premera's percentile rank vs. the peer group for each of these measures, on an annual and 3-year performance basis.
- Calculate Premera's annual and long-term composite performance score by applying a specific weight to each performance metric.

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Methodology: Additional Compensation Analysis

- Salary and TCC Trends -

- We determined pay trends in base salaries and bonuses earned during the period 1998 through 2002.
- We graphed the amounts earned and the year-to-year change in pay for each distinct employee tier:
  - CEO,
  - Executive Vice Presidents,
  - Senior Vice Presidents,
  - Vice Presidents,
  - Directors and
  - Managers.
- We used job-based rather than incumbent based data for SVPs, EVPs and CEO.

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Methodology: Qualified Plans

- Health and Welfare-

- To determine competitiveness of Premera's plans we:
  - Examined full range of health and welfare benefits offered to Premera employees
  - Assumed full flex credits based for associates regularly scheduled to work 30 or more hours per week for calculation of employee contributions.
  - Examined both employee only and family cost of monthly premiums across all locations. Hence, an average was calculated for all plans available in all locations for employee only coverage and similarly for family coverage.

- Retirement Programs -

- To determine the competitiveness of Premera's plans we:
  - Examined plan documents for the 401(k) plan, Pension Equity Plan and retiree medical.
  - Compared Premera's plans to market practices found in published surveys.

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Methodology: Total Direct Compensation Proxy Analysis (Top 5)

- To benchmark the TDC competitiveness of Premera's Top Five officers to publicly traded companies, we:
  - Selected a peer group of 12 publicly held Managed Care Organizations (MCOs) and hospitals with revenues ranging between $760 million and $5 billion
  - Collected summarized pay data from Equilar, Inc.
  - Matched executives by pay rank order to named executive officers (NEOs) reported in the proxy statement filed by peer companies (i.e., CEO to CEO, 2nd highest paid in Premera to NEO #2, etc.)

Definitions of Terms-

Base Salary – 2002 Base Salary

Annual Bonus – the average bonus paid for fiscal years 2000-2002

Total Cash Compensation – Base Salary plus Annual Bonus

Long Term Incentives – Equal to the three-year (fiscal years 2000-2002) average of (i) Black Scholes value of stock options granted (ii) face value of restricted stock granted and (iii) long-term incentive payouts.

Total Direct Compensation – Total Cash Compensation plus Long Term Incentives

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Methodology: Outside Directors

- In evaluating the reasonableness of Premera's Board of Director's compensation levels, we examined the practices at publicly traded peer companies in the most recent proxy filing statement.
- To determine the final value of annual director compensation, we looked at the following components: annual retainers, per meeting fees – board and committee, Chairman of the Board annual and per meeting fees, Committee Chair fees – annual and per meeting. In addition, we determined the value of stock grants annual awards and special grants.

Definition of Terms

- Total Cash Compensation = Annual Retainer + Fees for 5 Board Meetings + Fees for 5 Committee in-person meetings + Fees for service as a Committee Chair.
- The Value of Annual Stock Options was determined using the Black-Scholes option pricing model based on the exercise price reported in the most recent proxy statement or, if undisclosed, the exercise price is equal to the closing stock price on the date of the most recent shareholder meeting.
- Total Direct Compensation = Total Cash Compensation + Value of Annual Stock Option Award (Excludes special grants)

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Methodology: Share Reserve and Allocation

- We reviewed Exhibit G-10 of Form A filed on October 7, 2002, which discusses the maximum number of shares reserved for stock-based grants to officers, employees and outside directors at Premera.
- We gathered equity plan practices disclosed in various SEC filings (including proxy statements, registration statements and final prospectuses) and analyzed key plan components:
  - Shares reserved under employee and outside director stock plans
  - Grants of stock/stock options following a company's initial public offering.
  - Restriction guidelines on equity ownership including
    - Length of the restriction period,
    - Types of prohibited transactions such as purchase of common stock and/or grants of equity, and
    - Classes of employees affected by the restriction rules (officer, directors, etc.)

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APPENDIX B

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Total Direct Compensation: Executives (Top 5)

CEO

Current Title: President/Chief Executive Officer

Survey Source	Survey Industry	Survey Revenue	Survey Position Title	Number of Survey Matches	Base Salary	50th Percentile Implied Bonus (% of Base)	Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	Total Cash
1	Tradtl MCO	$3,769.0M	President/CEO - All Health Plans	39	$482.1	45%	$700.9	$700.9	62%	$1,137.5
2	All Orgs.	$2,875.0M	CEO	21	$692.9	95%	$1,350.2	$871.3	120%	$1,919.7
3	BlueCross Blue Shield	$2,654.9M	President/CEO - All Health Plans	25	$570.3	53%	$871.0	$776.9	58%	$1,224.9
		Estimated Local Market Value (Average)			$581.8	64%	$974.0	$783.0	80%	$1,427.3
		Estimated Local Market Value (Weighted Average)			$560.1	60%	$911.3	$765.4	75%	$1,356.4
		Standard Deviation/Average Local Market Value			18.2%		34.6%	10.9%		30.0%

Sources:

1. William M. Mercer, Integrated Health Network Executive Module, 2002.
2. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.
3. William M. Mercer, Integrated Health Network Executive Module, 2002.

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Total Direct Compensation: Executives (Top 5)

Chief Legal Officer

Current Title: EVP/ Corp Sec/ Chief Legal & Policy Officer

Survey Source	Survey Industry	Survey Revenue	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Tradtl MCO	$4,089.4M	Top Legal Exec.	40	$231.5	30%	$301.7	$351.5	47%	$516.5
2	BlueCross Blue Shield	$2,768.1M	Top Legal Exec.	27	$235.0	20%	$280.8	$347.4	44%	$499.8
3	All Orgs.	$2,875.0M	EVP (Not COO)	11	$325.5	40%	$456.2	$402.6	56%	$627.6
4	All Orgs.	$2,875.0M	Top Legal Exec.	17	$293.6	45%	$426.1	$342.2	59%	$543.6
		Estimated Local Market Value (Average)			$271.4	34%	$366.2	$360.9	51%	$546.9
		Estimated Local Market Value (Weighted Average)			$271.2	32%	$360.8	$356.8	51%	$538.9
		Standard Deviation/Average Local Market Value			16.9%		24.0%	7.8%		10.4%

Sources:

1. William M. Mercer, Integrated Health Network Executive Module, 2002.
2. William M. Mercer, Integrated Health Network Executive Module, 2002.
3. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.
4. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.

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Total Direct Compensation: Executives (Top 5)

Chief Actuary

Current Title: EVP/ Chief Actuary

Survey Source	Survey Industry	Survey Revenue	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Tradtl MCO	$4,322.7M	Top Actuarial Exec.	37	$197.0	28%	$252.4	$253.0	41%	$357.1
2	BlueCross Blue Shield	$2658.7M	Top Actuarial Exec.	26	$185.0	33%	$246.9	$225.2	49%	$334.9
3	All Orgs.	$2,875.0M	EVP (Not COO)	11	$325.5	40%	$456.2	$402.6	56%	$627.6
4	All Orgs.	$2,875.0M	Top Actuarial Exec.	21	$210.4	36%	$287.0	$241.9	46%	$353.5
		Estimated Local Market Value (Average)			$229.5	35%	$310.6	$280.7	48%	$418.3
		Estimated Local Market Value (Weighted Average)			$211.6	33%	$282.1	$260.3	46%	$381.6
		Standard Deviation/Average Local Market Value			28.3%		31.8%	29.2%		33.4%

Sources:

1. William M. Mercer, Integrated Health Network Executive Module, 2002.
2. William M. Mercer, Integrated Health Network Executive Module, 2002.
3. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.
4. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.

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Total Direct Compensation: Executives (Top 5)

EVP/COO/Top Provider Network Exec.

Current Title: EVP Health Care Services & Strat. Dvpt.

Survey Source	Survey Organization	Survey Revenue	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Tradtl MCO	$2419.7M	EVP/COO	27	$388.3	35%	$523.1	$502.9	50%	$755.8
2	All Orgs.	$2,875.0M	COO	12	$398.7	51%	$603.6	$531.7	72%	$917.2
3	BlueCross Blue Shield	$2922.8M	EVP/COO	18	$413.3	34%	$554.3	$518.4	38%	$717.7
4	Tradtl MCO	$3,975.2M	Top Provider Network Executive	31	$169.7	20%	$203.2	$230.8	35%	$311.7
5	BlueCross Blue Shield	$2,732.5M	Top Provider Network Executive	16	$180.4	17%	$211.2	$216.7	35%	$293.1
		Estimated Local Market Value (Average)			$310.1	31%	$419.1	$400.1	46%	$599.1
		Estimated Local Market Value (Weighted Average)			$296.7	29%	$394.5	$383.8	44%	$564.3
		Standard Deviation/Average Local Market Value			39.9%		46.7%	40.3%		46.9%

Sources:

1. William M. Mercer, Integrated Health Network Executive Module, 2002.
2. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.
3. William M. Mercer, Integrated Health Network Executive Module, 2002.
4. William M. Mercer, Integrated Health Network Executive Module, 2002.
5. William M. Mercer, Integrated Health Network Executive Module, 2002.

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Total Direct Compensation: Executives (Top 5)

CFO

Current Title: EVP & Chief Financial Officer

Source	Industry	Revenue	Position Title	Number of Survey Matches	Base Salary	50th Percentile Incentive Bonus (% of Base)	Total Cash	Base Salary	75th Percentile Incentive Bonus (% of Base)	Total Cash
1	Tradtl MCO	$3,778.7M	Top Finance Exec. (CFO)	42	$305.0	33%	$405.7	$418.7	39%	$583.0
2	BlueCross Blue Shield	$2,936.0M	Top Finance Exec. (CFO)	27	$305.8	39%	$424.5	$425.1	36%	$578.6
3	All Orgs.	$2,875.0M	EVP (Not COO)	11	$325.5	40%	$456.2	$402.6	56%	$627.6
4	All Orgs.	$2,875.0M	Top Finance Exec.	23	$301.3	49%	$448.8	$377.4	64%	$618.8
		Estimated Local Market Value (Average)			$309.4	40%	$433.8	$406.0	49%	$602.0
		Estimated Local Market Value (Weighted Average)			$306.6	39%	$425.7	$409.4	46%	$594.6
		Standard Deviation/Average Local Market Value			3.5%		5.3%	5.2%		4.1%

Sources:

1. William M. Mercer, Integrated Health Network Executive Module, 2002.
2. William M. Mercer, Integrated Health Network Executive Module, 2002.
3. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.
4. Watson Wyatt, Health, Annuity, and Life Insurance Compensation Report, 2003.

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APPENDIX C

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 1: Actuarial Director

Survey Source	Survey Industry	Survey Revenue Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	BlueCross Blue Shield	4719	Dir, Actuarial Svcs	38	$129.9	23%	$159.2	$135.7	43%	$193.7
		Estimated Local Market Value (Average)			$129.9	23%	$159.2	$135.7	43%	$193.7
		Estimated Local Market Value (Weighted Avera			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Value			N/A		N/A	N/A		N/A

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 2: Actuarial Team Leader

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	BlueCross Blue Shield	5,476	Sr Assoc Actuary	43	$89.2	3%	$92.2	$96.6	15%	$110.9
2	Hospital & Med Svc Pla	N/A	Actuary 3	N/A	$92.3	9%	$100.9	$105.8	9%	$115.7
3	Med Svc & Health Ins	N/A	Actuary 4 - Lead	50	$79.1	0%	$79.1	$84.3	1%	$85.1
		Estimated Local Market Value (Average)			$86.9	4%	$90.7	$95.6	8%	$103.9
		Estimated Local Market Value (Weighted Av			$83.8	N/A	$85.2	$90.0	7%	$97.1
		Standard Deviation/Average Local Market Va			7.9%		12.1%	11.3%		15.8%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Watson Wyatt, Professional & Scientific Personnel Compensation, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 3: Director of Operations (Claims)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Intgd Hlth Ntwrk (NFP)	2,696	Top Claims Proc Exec	20	$135.3	28%	$173.1	$190.3	24%	$236.8
2	Blue Cross Blue Shield	2,001	Top Claims Proc Exec	15	$143.9	39%	$200.2	$193.1	32%	$255.6
3	Intgd Hlth Ntwrk	3,895	Top Claims Proc Exec	19	$143.9	33%	$191.6	$193.1	32%	$255.6
4	Health, Annuity & Life Ins	2,875	Claims Mgr	16	$83.2	14%	$95.0	$99.1	18%	$117.0
5	Blue Cross Blue Shield	2,833	Claims Proc Mgr	274	$58.9	18%	$69.8	$67.0	20%	$80.7
6	Insurance	2,137	Claims Mgr	117	$77.2	6%	$81.9	$84.7	16%	$98.0
		Estimated Local Market Value (Average)			$107.1	23%	$135.3	$137.9	24%	$173.9
		Estimated Local Market Value (Weighted Avera			$74.0	17%	$87.5	$87.2	20%	$106.0
		Standard Deviation/Average Local Market Valu			35.7%		43.8%	43.8%		48.1%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
4. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
5. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
6. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 4: Manager-Operations (Claims)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Claims Mgr	16	$83.2	14%	$95.0	$99.1	18%	$117.0
2	Blue Cross Blue Shield	2,833	Claims Proc Mgr	274	$58.9	18%	$69.8	$67.0	20%	$80.7
3	Insurance	2,137	Claims Mgr	117	$77.2	6%	$81.9	$84.7	16%	$98.0
		Estimated Local Market Value (Average)			$73.1	13%	$82.2	$83.6	18%	$98.5
		Estimated Local Market Value (Weighted			$65.1	15%	$74.3	$73.3	19%	$87.1
		Standard Deviation/Average Local Marke			17.3%		15.3%	19.2%		18.4%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 5: VP - Communications

Survey Source	Survey Industry	Survey Premium Volume $	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Intgd Hlth Ntwrk (NFP)	2360.6	Top Public Rel Exec	32	$138.5	12%	$155.6	$172.1	16%	$199.1
2	Insurance	2,582	Top Public Rel Exec	5	$122.5	5%	$128.6	$133.9	45%	$193.8
3	Blue Cross Blue Shield	4,449	Top Public Rel Exec	10	$139.4	31%	$182.9	$194.2	11%	$215.2
	Estimated Local Market Value (Average)				$133.4	16%	$155.7	$166.8	24%	$202.7
	Estimated Local Market Value (Weighted Ave				$137.0	16%	$158.5	$172.8	18%	$202.0
	Standard Deviation/Average Local Market Va				7.1%	[illegible]	17.5%	18.3%	[illegible]	5.5%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. Watson Wyatt, Top Management Report, 2002/2003.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 6: Director, Customer Service

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	All Industry	2,875	Cust Service Dir	N/A	$96.8	9%	$105.6	$117.5	9%	$128.1
2	Med Svc & Health Ins	2,875	Cust Service Dir	N/A	$91.0	9%	$99.1	$110.2	9%	$120.3
		Estimated Local Market Value (Average)			$93.9	9%	$102.4	$113.9	9%	$124.2
		Estimated Local Market Value (Weighted A			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market			4.4%		4.5%	4.5%		4.4%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 7: Operations Manager (Customer Service)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Insurance	1,800	Cust Service Mgr	15	$81.5	0%	$81.5	$105.1	11%	$116.5
2	All Industry	N/A	Cust Service Mgr	N/A	$68.2	6%	$72.0	$76.4	6%	$80.7
3	Med Svc & Health Ins	N/A	Cust Service Mgr	N/A	$65.3	6%	$69.0	$73.1	6%	$77.3
		Estimated Local Market Value (Average)			$71.7	4%	$74.2	$84.9	7%	$91.5
		Estimated Local Market Value (Weighted A			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market			12.1%		8.8%	20.8%		23.8%

Sources:

1. Watson Wyatt, Middle-Management Report, 2002/2003.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 8: SVP Operations (Claims & Customer Svc)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,551	Top Claims Proc & Memb Svc	15	$181.5	36%	$246.7	$206.2	97%	$405.7
2	Intgd Hlth Ntwrk (NFP)	3,044	Top Claims Proc & Memb Svc	18	$176.2	17%	$205.4	$256.9	36%	$350.6
		Estimated Local Market Value (Average)			$178.8	26%	$226.0	$231.6	67%	$378.1
		Estimated Local Market Value (Weighted Average)			$178.6	25%	$224.2	$233.9	64%	$375.6
		Standard Deviation/Average Local Market Value			2.1%		12.9%	15.5%		10.3%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 9: Director of Finance, Controller

Survey Source	Survey Industry	Survey Employer Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,042	Controller	20	$143.6	24%	$178.6	$200.1	32%	$264.9
2	Intgd Hlth Ntwrk	4,228	Controller	32	$162.4	23%	$199.8	$198.7	43%	$284.3
3	Intgd Hlth Ntwrk (NFP)	2,056	Controller	88	$147.8	13%	$166.5	$183.5	15%	$211.8
		Estimated Local Market Value (Average)			$151.2	20%	$181.6	$194.1	30%	$253.7
		Estimated Local Market Value (Weighted A			$150.5	17%	$175.9	$189.4	24%	$236.0
		Standard Deviation/Average Local Market			6.5%		9.3%	4.7%		14.8%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 10: Accounting/Fin. Reporting Mgr (Mgr 2)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Accounting Mgr	N/A	$76.6	6%	$81.5	$85.9	6%	$91.4
2	All Industry	2,875	Accounting Mgr	N/A	$80.8	6%	$86.0	$90.6	6%	$96.4
3	Insurance	2,474	Gen Accounting Mgr	203	$76.6	5%	$80.8	$84.5	7%	$90.1
		Estimated Local Market Value (Average)			$78.0	6%	$82.8	$87.0	6%	$92.6
		Estimated Local Market Value (Weighted Ave			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Va			3.1%		3.4%	3.7%		3.6%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 11: SVP Human Resources

Survey Source	Survey Industry	Survey Volume	Survey Position Title	Number of Surveys Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Top Human Res Exec	22	$211.1	31%	$277.6	$243.8	46%	$354.9
2	Blue Cross Blue Shield	3,411	Top Human Res Exec	24	$204.2	39%	$283.4	$268.9	44%	$386.4
3	Intgd Hlth Ntwrk	4,429	Top Human Res Exec	39	$197.0	37%	$269.6	$280.0	41%	$393.5
4	Intgd Hlth Ntwrk (NFP)	1,988	Top Human Res Exec	82	$203.6	16%	$236.3	$239.0	20%	$287.6
		Estimated Local Market Value (Average)			$204.0	31%	$266.7	$257.9	38%	$355.6
		Estimated Local Market Value (Weighted Aver			$203.1	26%	$256.3	$253.5	32%	$335.4
		Standard Deviation/Average Local Market Valu			2.8%		7.9%	7.6%		13.6%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
4. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 12: Director of Compensation & Benefits

Survey Source	Survey Industry	Survey Premium Value	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Comp & Ben Dir	N/A	$125.8	12%	$141.1	$147.5	12%	$165.4
2	Health, Annuity & Life Ins	2,875	Top Comp & Ben Exec	9	$114.7	22%	$139.5	$142.7	25%	$179.1
		Estimated Local Market Value (Average)			$120.3	17%	$140.3	$145.1	19%	$172.2
		Estimated Local Market Value (Weighted Avera			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Valu			6.5%		0.8%	2.3%		5.6%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 13: Compensation Manager

Survey Source	Survey Participant	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Comp Mgr	N/A	$75.5	8%	$81.3	$84.6	8%	$91.1
2	Insurance	2.291	Comp Mgr	8	$79.8	4%	$83.3	$87.1	32%	$114.8
		Estimated Local Market Value (Average)			$77.7	6%	$82.3	$85.8	20%	$102.9
		Estimated Local Market Value (Weighted			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market			4.0%		1.7%	2.1%		16.3%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 14: SVP-Chief Information Officer

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Top IS/IT Exec	18	$272.1	49%	$404.2	$312.9	60%	$499.4
2	Blue Cross Blue Shield	2,643	Top MIS Exec (CIO)	23	$248.9	25%	$311.1	$293.4	49%	$436.7
3	Intgd Hlth Ntwrk	1,963	Top MIS Exec (CIO)	19	$212.2	21%	$255.9	$243.8	33%	$324.4
4	Intgd Hlth Ntwrk (NFP)	2,971	Top MIS Exec (CIO)	41	$251.8	29%	$324.4	$285.1	32%	$376.7
		Estimated Local Market Value (Average)			$246.2	31%	$323.9	$283.8	43%	$409.3
		Estimated Local Market Value (Weighted Av			$247.3	30%	$322.7	$284.2	41%	$402.4
		Standard Deviation/Average Local Market V			10.1%		18.9%	10.3%		18.5%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
4. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 15: Director of IT Client Services

Survey Source	Survey Industry	Survey Revenue Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (Average)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (Average)	75th Percentile Total Cash
1	Insurance	N/A	Assistant CIO	5	$153.2	12%	$172.2	$146.3	25%	$182.4
2	Insurance	N/A	Client/Server Ops Mgr	11	$100.5	2%	$102.3	$102.2	8%	$110.1
		Estimated Local Market Value (Average)			$126.8	7%	$137.2	$124.2	16%	$146.2
		Estimated Local Market Value (Weighted Avera			$116.9	5%	$124.1	$116.0	13%	$132.7
		Standard Deviation/Average Local Market Valu			29.4%		36.0%	25.1%		35.0%

Sources:

1. William Mercer, Inc., Information Technology Compensation Survey, 2001.
2. William Mercer, Inc., Information Technology Compensation Survey, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 16: Applications Manager (1)

Survey Source	Survey Industry	Survey Participant Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Insurance	1,706	Applications Prog Mgr	147	$87.4	4%	$90.7	$73.8	44%	$106.0
2	Insurance	2,683	Applications Prog Mgr	286	$88.1	8%	$95.4	$95.4	16%	$110.4
3	Med Svc & Health	N/A	Computer Applic. Mgr	N/A	$86.9	8%	$94.0	$98.2	8%	$106.3
		Estimated Local Market Value (Average)			$87.5	7%	$93.4	$89.1	23%	$107.6
		Estimated Local Market Value (Weighted Avera			$87.9	7%	$93.8	$88.1	25%	$108.9
		Standard Deviation/Average Local Market Valu			0.7%		2.6%	15.0%		2.3%

Sources:

1. Watson Wyatt, Industry Report on IT Personnel Compensation, 2002/2003.
2. Watson Wyatt, Middle-Management Report, 2002/2003.
3. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 17: VP - Internal Audit

Survey Source	Survey Industry	Survey Revenue Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Top Internal Audit	13	$158.2	29%	$204.0	$188.3	41%	$264.9
2	Med Svc & Health Ins	2,875	Top Internal Audit	N/A	$115.3	14%	$131.3	$137.1	14%	$156.2
3	All Industry	2,875	Top Internal Audit	N/A	$124.1	14%	$141.4	$147.6	14%	$168.2
		Estimated Local Market Value (Average)			$132.5	19%	$158.9	$157.7	23%	$196.4
		Estimated Local Market Value (Weighted Av			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market V			17.1%		24.8%	17.1%		30.3%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 18: Manager 2 (Internal Audit)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Auditing Mgr	9	$94.9	13%	$107.5	$126.4	23%	$155.2
2	Med Svc & Health Ins	2,875	Internal Auditing Mgr	N/A	$85.4	5%	$89.6	$96.5	5%	$101.2
3	All Industry	2,875	Internal Auditing Mgr	N/A	$80.7	5%	$84.6	$91.2	5%	$95.6
		Estimated Local Market Value (Average)			$87.0	8%	$93.9	$104.7	11%	$117.3
		Estimated Local Market Value (Weighted Ave			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Va			8.3%		12.8%	18.1%		28.1%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 19: Asst. General Counsel

Survey Source	Survey Participant	Survey Premium Volume	Survey Position Title	Number of Survey Matches	60th Percentile Base Salary	60th Percentile Implied Bonus (% of Base)	60th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,194	Assoc Gen Counsel	50	$116.6	15%	$134.5	$140.0	12%	$157.2
2	Intgd Hlth Ntwrk	2,689	Assoc Gen Counsel	21	$135.6	11%	$150.6	$199.3	11%	$220.2
3	Intgd Hlth Ntwrk (NFP)	1,878	Assoc Gen Counsel	83	$119.0	14%	$135.8	$139.4	12%	$155.4
		Estimated Local Market Value (Average)			$123.8	13%	$140.3	$159.5	11%	$177.6
		Estimated Local Market Value (Weighted Ave			$120.5	14%	$137.4	$147.7	12%	$164.8
		Standard Deviation/Average Local Market Va			8.4%		6.4%	21.6%		20.8%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 20: Manager, Regulatory Affairs

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus ($ (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Regulatory Affairs Mgr	N/A	$68.7	6%	$73.0	$77.5	6%	$82.4
2	All Industry	2,875	Regulatory Affairs Mgr	N/A	$71.9	6%	$76.5	$81.2	6%	$86.3
3	Insurance	2,448	Regulatory Affairs Mgr	5	$87.1	12%	$97.8	$111.2	3%	$114.7
		Estimated Local Market Value (Average)			$75.9	8%	$82.4	$90.0	5%	$94.5
		Estimated Local Market Value (Weighted Averag			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Value			13.0%		16.3%	20.5%		18.7%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 21: VP Marketing

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Insurance	2,875	Top Marketing Exec	14	$218.1	31%	$286.4	$289.9	35%	$391.4
2	Medical Svc & Health Insurance	2,875	Top Marketing Exec	N/A	$188.6	21%	$229.0	$243.4	21%	$295.7
3	Blue Cross Blue Shield	3,227	Top Marketing Exec	13	$201.6	21%	$244.2	$277.8	56%	$432.5
4	Blue Cross Blue Shield	1,988	Marketing Manager	5	$88.4	9%	$96.6	$93.0	8%	$100.8
5	Medical Svc & Health Insurance	N/A	Marketing Manager	N/A	$74.3	6%	$78.9	$83.3	6%	$88.5
		Estimated Local Market Value (Average)			$172.4	18%	$211.8	$224.8	25%	$303.5
		Estimated Local Market Value (Weighted Average)			$191.1	24%	$239.6	$254.2	39%	$362.7
		Standard Deviation/Average Local Market Value			39.1%		44.0%	45.1%		52.9%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
4. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
5. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 22: Director of Sales

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	2,920	Sales Dir	78	$101.8	51%	$154.2	$114.0	71%	$194.9
2	Life & Health Ins Carriers	2,448	Regional Sales Mgr	39	$108.3	36%	$147.1	$121.1	44%	$174.5
		Estimated Local Market Value (Average)			$105.1	44%	$150.6	$117.5	58%	$184.7
		Estimated Local Market Value (Weighted Ave			$104.0	46%	$151.8	$116.3	62%	$188.1
		Standard Deviation/Average Local Market Va			4.4%		3.3%	4.3%		7.8%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. Watson Wyatt, Sales & Marketing Personnel Report, 2000/2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 23: Manager 2 (Sales)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	60th Percentile Base Salary	60th Percentile Implied Bonus (% of Base)	60th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,012	Sales Mgr	81	$76.1	33%	$101.1	$83.0	55%	$128.7
2	Med Svc & Health Ins	2,875	Area Sales Mgr	N/A	$64.1	11%	$71.4	$70.8	11%	$78.8
3	All Industry	2,875	Area Sales Mgr	N/A	$66.9	11%	$74.5	$73.8	11%	$82.2
4	Insurance	1,706	District sales Mgr	202	$78.2	36%	$106.4	$98.8	36%	$134.8
		Estimated Local Market Value (Average)			$71.3	23%	$88.4	$81.6	29%	$106.1
		Estimated Local Market Value (Weighted A			$77.6	35%	$104.9	$94.3	42%	$133.0
		Standard Deviation/Average Local Market V			9.7%		20.3%	15.4%		28.0%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Economic Research Institute, Consultant's Assessor, 2001.
4. Watson Wyatt, Sales & Marketing Personnel Report, 2000/2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 24: Manager, Contract Services

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,789	Contracting Mgr	26	$78.6	7%	$84.2	$96.7	8%	$104.7
2	Med Svc & Health Ins	2,875	Contract Admin Mgr	N/A	$84.8	7%	$91.0	$95.9	7%	$102.8
3	All Industry	3,486 ees	Contract Admin Mgr	94	$76.7	5%	$80.4	$91.2	10%	$100.6
	Estimated Local Market Value (Average)				$80.0	6%	$85.2	$94.6	9%	$102.7
	Estimated Local Market Value (Weighted Av				$77.1	5%	$81.2	$92.4	10%	$101.5
	Standard Deviation/Average Local Market V				5.3%		6.3%	3.1%		2.0%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. Watson Wyatt, Middle-Management Report, 2002/2003.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 25: CMO & SVP of Care Facilitation

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	3,497	Chief Med Off/Med Dir	24	$285.2	44%	$410.1	$323.0	47%	$473.3
2	Intgd Hlth Ntwrk	4,116	Chief Med Off/Med Dir	37	$287.1	42%	$407.7	$339.8	49%	$507.4
3	Intgd Hlth Ntwrk (NFP)	1,529	Chief Med Off/Med Dir	79	$269.6	22%	$328.2	$321.4	29%	$414.8
		Estimated Local Market Value (Average)			$280.6	36%	$382.0	$328.1	42%	$465.2
		Estimated Local Market Value (Weighted Avera			$276.9	31%	$363.2	$326.5	37%	$449.3
		Standard Deviation/Average Local Market Valu			3.4%		12.2%	3.1%		10.1%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 26: Director of Quality

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Quality Assurance Dir	N/A	$138.9	15%	$159.6	$165.7	15%	$191.2
2	All Industry	2,875	Quality Assurance Dir	N/A	$149.9	15%	$173.0	$179.6	15%	$207.3
		Estimated Local Market Value (Average)			$144.4	15%	$166.3	$172.7	15%	$199.3
		Estimated Local Market Value (Weighted Avera			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Valu			5.4%		5.7%	5.7%		5.7%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Economic Research Institute, Consultant's Assessor, 2001.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 27: Mgr Clinical Performance Measurement (Mgr 2)

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	60th Percentile Base Salary	60th Percentile Implied Bonus (% of Base)	60th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	4,886	Health Data Analysis Mgr	22	$76.8	7%	$82.2	$81.9	17%	$95.5
		Estimated Local Market Value (Average)			$76.8	7%	$82.2	$81.9	17%	$95.5
		Estimated Local Market Value (Weighted Average			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Value			N/A		N/A	N/A		N/A

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 28: Regional Medical Director

Survey Source	Survey Organization	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Blue Cross Blue Shield	4,846	Regional Med Dir	187	$196.3	19%	$233.2	$207.2	22%	$253.0
2	Intgd Hlth Ntwrk (NFP)	2,878	Regional Med Dir	34	$204.8	19%	$242.8	$232.8	12%	$261.1
		Estimated Local Market Value (Average)			$200.5	19%	$238.0	$220.0	17%	$257.0
		Estimated Local Market Value (Weighted Ave			$197.6	19%	$234.7	$211.1	21%	$254.2
		Standard Deviation/Average Local Market Va			3.0%		2.9%	8.2%		2.2%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 29: Associate Medical Director

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile → Base Salary	Implied Bonus (% of Base)	Total Cash	75th Percentile → Base Salary	Implied Bonus (% of Base)	Total Cash
1	Blue Cross Blue Shield	3,928	2nd Level/Assoc. Med Dir	15	$175.2	5%	$184.8	$181.6	20%	$218.6
2	Intgd Hlth Ntwrk	4,295	2nd Level/Assoc. Med Dir	83	$179.4	11%	$199.1	$191.8	14%	$218.6
3	Intgd Hlth Ntwrk (NFP)	2,499	2nd Level/Assoc. Med Dir	41	$152.9	2%	$155.5	$176.7	7%	$188.9
		Estimated Local Market Value (Average)			$169.2	6%	$179.8	$183.4	14%	$208.7
		Estimated Local Market Value (Weighted Average)			$171.1	8%	$184.7	$186.2	13%	$209.8
		Standard Deviation/Average Local Market Value			8.4%		12.3%	4.2%		8.2%

Sources:

1. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 30: Manager 2 (Underwriting)

Survey Source	Industry	Survey Population Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Med Svc & Health Ins	2,875	Underwriting Mgr	N/A	$70.0	6%	$74.1	$78.5	6%	$83.0
2	All Industry	2,875	Underwriting Mgr	N/A	$73.5	6%	$77.7	$82.4	6%	$87.1
3	Blue Cross Blue Shield	2,934	Med Underwriting Mgr	17	$73.5	0%	$73.6	$98.9	3%	$102.0
		Estimated Local Market Value (Average)			$72.3	4%	$75.1	$86.6	5%	$90.7
		Estimated Local Market Value (Weighted Avera			N/A	N/A	N/A	N/A	N/A	N/A
		Standard Deviation/Average Local Market Valu			2.8%		3.0%	12.5%		11.0%

Sources:

1. Economic Research Institute, Consultant's Assessor, 2001.
2. Economic Research Institute, Consultant's Assessor, 2001.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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Total Direct Compensation: Benchmark Jobs (SVPs, VPs, Directors, Managers)

Job# 31: SVP-Chief Underwriter

Survey Source	Survey Industry	Survey Premium Volume	Survey Position Title	Number of Survey Matches	50th Percentile Base Salary	50th Percentile Implied Bonus (% of Base)	50th Percentile Total Cash	75th Percentile Base Salary	75th Percentile Implied Bonus (% of Base)	75th Percentile Total Cash
1	Health, Annuity & Life Ins	2,875	Top Underwriting Exec	15	$167.8	27%	$213.6	$208.3	39%	$288.8
2	Blue Cross Blue Shield	3,311	Top Underwriting Exec	14	$157.3	39%	$218.9	$250.1	35%	$337.2
3	Intgd Hlth Ntwrk (NFP)	2,931	Top Underwriting Exec	16	$149.3	30%	$193.7	$233.3	34%	$312.1
		Estimated Local Market Value (Average)			$158.1	32%	$208.7	$230.6	36%	$312.7
		Estimated Local Market Value (Weighted Avera			$158.0	32%	$208.2	$230.2	36%	$312.2
		Standard Deviation/Average Local Market Valu			5.9%		6.4%	9.1%		7.7%

Sources:

1. Watson Wyatt, Health, Annuity and Life Insurance Positions, 2002/2003.
2. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.
3. William M. Mercer, Integrated Health Networks Compensation Survey, 2002.

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APPENDIX D

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Executive Benefits: Change-in-Control Policy

CIC Provision	Premera	Leading Practices	Conclusions
Participation	PROPRIETARY MATERIAL REDACTED	• 80 percent of health care companies provide CIC protections in the form of individual executive agreements • 38 percent with individual agreements cover one or more NEOs only • 23 percent cover NEOs and more than 5 other executives • 40 percent of health care companies companies provide CIC protections in the form of a CIC policy that protecting most or all of their employees • 51 percent with policies cover most or all employees • 23 percent cover all executive officers • For all companies surveyed (n=150), the most common combination of protections include: • 51 percent provide individual agreements and plan protections; • 23 percent provide all three types of protections (i.e., agreements, policy and plan protections); • 9 percent provide a company policy along with plan protections.	• CIC protections in the form of a general policy (vs. individual agreements) is consistent with practices in the health care industry • The Company's CIC policy limits participation to senior executive officers which is more selective than leading practices generally

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Executive Benefits: Change-in-Control Policy

CIC Provision	Premera	Leading Practices	Conclusions
CIC Period PROPRIETARY MATERIAL REDACTED		• 49 percent of companies with a CIC policy provide a protection period equal to 2 years following a CIC • Some companies, however, link CIC triggers to shareholder approval as opposed to consummation of a transaction. Hence, executives can collect severance benefits if employment is terminated after shareholder approval but before consummation. Approximately 40 percent of companies with a CIC policy link the CIC trigger to shareholder approval. Of those companies, the prevalence varies by transaction : ◆ 39 percent start the CIC period upon shareholder approval of a merger, consolidation, or reorganization ◆ 43 percent start the CIC period upon shareholder approval of a merger, consolidation, or reorganization ◆ 39 percent start the CIC period upon shareholder approval of a merger, consolidation, or reorganization	• The total period in which executive are protected from a CIC is more generous than leading practices • The protection period provided to Premera executives prior to the consummation of a transaction is more generous than leading practices

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Executive Benefits: Change-in-Control Policy

CIC Provision	Premera	Leading Practices	Conclusions
Payment Trigger	PROPRIETARY MATERIAL REDACTED	• 100 percent of companies with CIC policies authorize CIC benefits upon involuntary termination without cause • 47 percent of companies with CIC policies authorize CIC benefits upon voluntary termination with good reason.	• CIC benefits payable upon termination by the company without cause or by the employee as a result of constructive termination is consistent with leading practices.
Severance Multiple		• 47 percent of companies with CIC policies provide a 3 times severance multiple to their CEO • 64 percent of companies provide a 2 to 3 times severance multiple to their NEOs • 53 percent of companies vary severance multiple according to position level or some other criteria (e.g., service) when it comes to non-NEOs. ◆ Approximately 23 percent provide a severance multiple of 2 to 2.5 times while 17 percent provide a severance multiple equal to 3 times.	• The severance multiple for each executive tier is consistent with leading practices.

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Executive Benefits: Change-in-Control Policy

CIC Provision	Premera	Leading Practices	Conclusions
Severance Formula	PROPRIETARY MATERIAL REDACTED	• Salary and bonus are the most typical severance components • The definition of bonus varies from target opportunity to average paid	• The components of severance as well as the definition of bonus are consistent with leading practices
Annual Incentive		• 30 percent of companies provide for annual bonus protection in their CIC policy • Annual incentive plans that provide protections in a CIC generally payout a prorated target bonus to the covered employee	• Protecting annual incentive benefits under a severance policy is more generous than leading practices • The formula for determining bonus payouts is consistent with leading practices
Long-Term Incentive		• 22 percent of companies provide long-term incentive plan protection in their CIC policy • Long-term incentive plans that provide protections in a CIC generally payout the full target award	• Protecting long-term incentive benefits under a severance policy is more generous than leading practices • The formula for determining long-term incentive payouts is less generous than leading practices

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Executive Benefits: Change-in-Control Policy

CIC Provisions	Premera	Leading Practices	Conclusions
Health and Welfare Continuation	PROPRIETARY MATERIAL REDACTED	• 66 percent of companies with policies provide health and welfare benefits continuation • 74 percent of these provisions continue over the severance period	• Health and welfare benefits continuation through the severance period is consistent with leading practices
Defined Benefit SERP (DB SERP)		• 26 percent provide pension enhancements as part of their CIC policy • 89 percent of the pension enhancements is in the form of additional age/service credit equal to the severance period (may also include accelerated vesting)	• The protection provided to pension benefits under the CiC policy is more generous than leading practices • The enhanced service credit equal to the benefits continuation period is consistent with leading practices. • The inclusion of severance benefits payable over the benefits continuation period is generous.
Defined Contribution SERP (DC SERP)		• Similar to pension enhancements, nonqualified defined contribution plans are also protected in the form of additional credits/contributions by the company. Where companies do provide this type of protection, the additional credit/contribution is tied to the severance multiple.	• We cannot reach a conclusion as to the prevalence of enhanced nonqualified defined contribution benefits due to insufficient data. However, the additional credit/contribution based on the severance multiple is generally consistent with leading practices.

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Executive Benefits: Change-in-Control Policy

CIC Provisions	Premera	Leading Practices	Conclusions
Excise Tax Gross Up Coordination		CIC policies that disclosed excise tax gross up provisions: ◆ 67 percent of companies provide a excise tax gross up ◆ 10 percent provide no gross up ◆ 24 percent reduce CIC benefits	• Excise tax gross up provisions are below leading practices. • Generally, senior officers are provided a full excise tax gross up.
"Single Trigger" Benefits	PROPRIETARY MATERIAL REDACTED	• 16 percent of companies that maintain a CIC policy provide a "single trigger" benefit. That is, benefits payable to the executive when he/she terminates employment for any reason following a CIC. • 63 percent of companies define the single trigger window period as 30 days following the one-year anniversary of the CIC.	• Single trigger benefits, if provided, are generally contained in one or two individual agreements. Hence, this provision is better than leading practices. • A reduction of CIC benefits is unusual in cases where companies are providing single trigger provisions.

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Executive Benefits: Supplemental Retirement Plans

Benefit	Premera	Market Practice
Defined Contribution SERP	Proprietary Material Redacted	26% of organizations provide a defined contribution nonqualified executive retirement program. Eligible Compensation: More than half of organizations include bonuses Contributions: Average employer contribution is 9.2% of base salary. Most organizations provide 2.6% to 5.0% of salary. Vesting: 36% have full vesting after 5 years of service and 32% have full and immediate vesting.
Deferred Compensation		53% of organizations offer a deferred compensation program. Those that provide a deferred compensation program, 60% require mandatory deferrals. Participants: The most prevalent group of participants is Senior Management Eligible Compensation: The most prevalent sources of deferred compensation are base salary and annual bonus.

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Executive Benefits: Supplemental Retirement Plans

Benefit	Premera	Market Practice
Defined Benefit SERP	Proprietary Material Redacted	39% of organizations have a non-qualified retirement program Eligible Compensation: 72% of organizations include deferred compensation and 74% include bonuses as eligible compensation Final Compensation: For benefit determination, the most prevalent practices include final five-year period and final three-year period. Formula: The targeted income replacement ratio ranges between 50%-60% (avg. equals 54%) Vesting: Of those with a service requirement, both 1-5 and 6-10 years are prevalent (25% and 24%, respectively). Offsets: 85% of companies offset the target income replacement ratio by other benefits such as qualified plans, Social Security, company match to 401(k), company contributions to other nonqualified plans or former employer qualified plans.

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Executive Benefits: Perquisites

Benefit	Premera	Market Practice
Car Allowance	Proprietary Material Redacted	41% of organizations provide a car allowance 89% of organizations restrict eligibility to senior management
Tax/Financial Planning		Eligibility: 49% of organizations provide personal financial counseling/tax preparation services to the CEO 43% offer these services to senior management Benefit: 78% provide ongoing consultation
Employment Contracts		Eligibility: Of those offering an employment contract, 92% offer them to the CEO Type: 74% provide a formal contract Term: 44% have a provision for the automatic renewal or extension of the agreement

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Executive Benefits: Perquisites

Benefit	Premera	Market Practice
Club Memberships	Proprietary Material Redacted	27% or organizations offer country club memberships. Organizations also offer luncheon (19%) and athletic club memberships (14%), with 32% offering 2 of the above types of memberships. Eligibility: Generally based on job title, most memberships are limited to senior management
Travel Policy		15% of organizations have policies paying for spouse's expenses on business trips Eligibility: 43% of organizations offer paid spouse travel expense to top officers, 31% offer this benefit to senior management

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APPENDIX E

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Qualified Plans: Retirement Plans

Benefit	Premera	Market Practice
Pension Equity Plan	Proprietary Material Redacted	53% of companies provide a defined benefit pension plan. Eligibility: Most prevalent requirement is age 21 and 1 year of service Vesting: Most prevalent vesting schedule is five-year cliff Final Avg. Pay: Most prevalent formula uses an average of five highest consecutive years of earnings. Of those companies paying an annual bonus, more than half (63%) include the bonus in covered compensation for pension benefit purposes. In addition, 13% of companies with final average pay formulas have a formula in which the percentage per year of service varies according to the number of years of service.

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Qualified Plans: Retirement Plans

Benefit	Premera	Market Practice
401(k) Plan	Eligibility: All associates can participate on the 1st day of the quarter following the date of hire Contribution: Participants can contribute up to 25% of pay Employer Match: Equal to 50% on the first 6% of pay deferred up to IRS limitations Vesting: Matching portion is 100% vested after 1 year service	98% of companies provide a 401(k) Eligibility: 24% of companies offering a 401(k) allow for immediate coverage Contribution: 46% of companies credit bonuses as allowable for contributions. The most prevalent maximum contribution percentage is 6% Employer Match: The most prevalent percentage match for companies providing a match as a percentage is 50% Vesting: Of companies with 100% vesting basis for employer contributions, 32% vest between 1 and 4 years of service
Retiree Medical/ Dental	Proprietary Material Redacted	42% of organizations offer retiree medical coverage to both over and under age 65 46% of organizations offer retiree dental coverage in addition to medical Contributions: Average employer cash contribution costs as a percent of payroll is 1.52%.

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Qualified Plans: Health and Welfare Plans

Premera Flex allows employees to purchase coverage of additional benefits using any remaining "flex credits" or by purchasing these benefits through payroll deductions. Hence, an individual who uses all of their flex credits for medical, dental, life insurance and LTD coverage would need to purchase the additional employee benefits listed below. Conversely, employees with leftover benefits may receive a cash refund.

Key Findings:

These additional benefits are competitive with market practices.

Benefit	Premera	Market Practice
Accidental Death & Dismemberment	[Proprietary Material Redacted]	92% offer an AD&D benefit Most prevalent form of cost sharing is employer-paid
Flexible Spending Accounts	Healthcare Reimbursement Account (HCRA) Daycare Reimbursement Account (DCRA)	91% offer FSAs Of those offering FSAs the most prevalent type is for dependent care expenses
Short Term Disability	[Proprietary Material Redacted]	81% offer STD Most prevalent waiting period is 90 days
Dependent Life Insurance	[Proprietary Material Redacted]	73% offer Dependent Life Insurance Most prevalent method used to determine amount of coverage is flat dollar amount

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APPENDIX F

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Post-Conversion Total Direct Compensation: Executives (Top 5)

CEO

Company	Base Salary	3 Year Average Bonus	Total Cash Compensation	3 Year Average Long Term Incentive	Total Direct Compensation
WELLCHOICE INC	$850,000	$622,500	$1,472,500	452,760	$1,925,260
UNIVERSAL HEALTH SERVICES INC	$1,030,000	$1,032,697	$2,062,697	12,239,478	$14,302,175
TRIAD HOSPITALS INC	$976,240	$727,093	$1,703,333	3,979,245	$5,682,578
SIERRA HEALTH SERVICES INC	$876,364	$984,983	$1,861,347	1,785,338	$3,646,685
OXFORD HEALTH PLANS INC	$609,616	$1,183,333	$1,792,949	9,023,607	$10,816,556
MID ATLANTIC MEDICAL SERVICES INC	$818,226	$683,241	$1,501,467	2,302,913	$3,804,379
AMERICAN MEDICAL SECURITY GROUP INC	$700,000	$641,667	$1,341,667	865,813	$2,207,479
HEALTH MANAGEMENT ASSOCIATES INC	$600,000	$698,438	$1,298,438	7,583,139	$8,881,577
FIRST HEALTH GROUP CORP	$746,545	$547,092	$1,293,637	3,354,980	$4,648,617
COVENTRY HEALTH CARE INC	$594,230	$1,100,000	$1,694,230	1,636,250	$3,330,480
COBALT CORP	$673,751	$246,377	$920,128	502,880	$1,423,008
AMERIGROUP CORP	$560,083	$1,050,000	$1,610,083	450,243	$2,060,326
25th Percentile	$607,212	$636,875	$1,330,859	$775,079	$2,170,691
50th Percentile	723,273	712,765	1,555,775	2,044,125	$3,725,532
75th Percentile	856,591	1,037,023	1,725,737	4,880,219	6,482,328
90th Percentile	966,252	1,095,000	1,854,508	8,879,560	10,623,058
PREMERA	$650,016	$382,893	$1,032,909	N/A	N/A
	33rd Percentile	4th Percentile	3rd Percentile	N/A	N/A

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Post-Conversion Total Direct Compensation: Executives (Top 5)

EVP #2

Company	Base Salary	3 Year Average Bonus	Total Cash Compensation	3 Year Average Long Term Incentive	Total Direct Compensation
WELLCHOICE INC	$420,000	$710,000	$1,130,000	174,812	$1,304,812
UNIVERSAL HEALTH SERVICES INC	$322,088	$249,000	$571,088	1,288,723	$1,859,811
TRIAD HOSPITALS INC	$473,187	$238,217	$711,404	1,618,845	$2,330,250
SIERRA HEALTH SERVICES INC	$309,002	$196,133	$505,135	554,436	$1,059,571
OXFORD HEALTH PLANS INC	$500,000	$596,667	$1,096,667	5,735,937	$6,832,603
MID ATLANTIC MEDICAL SERVICES INC	$818,226	$683,241	$1,501,467	2,302,913	$3,804,379
AMERICAN MEDICAL SECURITY GROUP INC	$298,308	$236,733	$535,041	216,863	$751,904
HEALTH MANAGEMENT ASSOCIATES INC	$230,000	$274,583	$504,583	2,247,008	$2,751,591
FIRST HEALTH GROUP CORP	$901,746	$322,376	$1,224,122	293,177	$1,517,298
COVENTRY HEALTH CARE INC	$544,230	$700,000	$1,244,230	1,021,250	$2,265,480
COBALT CORP	$459,209	$215,978	$675,187	833,309	$1,508,497
AMERIGROUP CORP	$321,923	$298,333	$620,256	236,378	$856,634
25th Percentile	$318,693	$237,846	$562,076	$278,977	$1,243,502
50th Percentile	439,605	286,458	693,296	927,280	1,688,555
75th Percentile	511,058	618,310	1,153,530	1,775,886	2,435,585
90th Percentile	790,826	698,324	1,242,219	2,297,322	3,699,101
PREMERA	$407,208	$160,440	$567,648	N/A	N/A
	44th Percentile	Below Range	26th Percentile	N/A	N/A

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Post-Conversion Total Direct Compensation: Executives (Top 5)

EVP # 3

Company	Base Salary	3 Year Average Bonus	Total Cash Compensation	3 Year Average Long Term Incentive	Total Direct Compensation
WELLCHOICE INC	$650,000	$0	$650,000	287,509	$937,509
UNIVERSAL HEALTH SERVICES INC	$362,503*	$216,333	$578,836	799,697	$1,378,534
TRIAD HOSPITALS INC	$456,077	$229,464	$685,541	1,570,604	$2,256,145
SIERRA HEALTH SERVICES INC	$290,922	$141,750	$432,672	560,117	$992,789
OXFORD HEALTH PLANS INC	$400,000	$361,267	$761,267	2,700,806	$3,462,073
MID ATLANTIC MEDICAL SERVICES INC	$635,202	$488,044	$1,123,246	1,975,706	$3,098,953
AMERICAN MEDICAL SECURITY GROUP INC	$298,308	$228,400	$526,708	216,863	$743,571
HEALTH MANAGEMENT ASSOCIATES INC	$220,000	$261,250	$481,250	2,366,431	$2,847,681
FIRST HEALTH GROUP CORP	$400,005	$90,909	$490,914	1,066,627	$1,557,541
COVENTRY HEALTH CARE INC	$359,231	$500,000	$859,231	556,417	$1,415,648
COBALT CORP	$432,142	$199,086	$631,228	833,309	$1,464,538
AMERIGROUP CORP	$306,901	$290,000	$596,901	90,049	$686,950
25th Percentile	$304,753	$184,752	$517,760	$489,190	$978,969
50th Percentile	381,252	228,932	614,065	816,503	1,440,093
75th Percentile	438,126	307,817	704,472	1,671,879	2,404,029
90th Percentile	617,290	475,367	849,435	2,327,359	3,073,826
PREMERA	$350,376	$138,048	$488,424	N/A	N/A
	34th Percentile	18th Percentile	16th Percentile	N/A	N/A

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Post-Conversion Total Direct Compensation: Executives (Top 5)

EVP # 4

Company	Base Salary	3 Year Average Bonus	Total Cash Compensation	3 Year Average Long Term Incentive	Total Direct Compensation
WELLCHOICE INC	$400,000	$200,000	$600,000	262,248	$862,248
UNIVERSAL HEALTH SERVICES INC	$272,950	$222,667	$495,617	870,541	$1,366,158
TRIAD HOSPITALS INC	$348,055	$176,328	$524,383	935,856	$1,460,239
SIERRA HEALTH SERVICES INC	$251,693	$145,067	$396,760	512,419	$909,178
OXFORD HEALTH PLANS INC	$400,000	$351,667	$751,667	1,383,360	$2,135,027
MID ATLANTIC MEDICAL SERVICES INC	$403,731	$234,582	$638,313	1,232,007	$1,870,321
AMERICAN MEDICAL SECURITY GROUP INC	$246,154	$199,567	$445,721	463,498	$909,219
HEALTH MANAGEMENT ASSOCIATES INC	$300,000	$113,056	$413,056	1,486,112	$1,899,168
FIRST HEALTH GROUP CORP	$395,986	$87,336	$483,322	1,066,627	$1,549,949
COVENTRY HEALTH CARE INC	$349,231	$308,333	$657,564	296,500	$954,064
COBALT CORP	$286,743	$118,372	$405,115	218,643	$623,758
AMERIGROUP CORP	$291,530	$281,667	$573,197	94,551	$667,748
25th Percentile	$283,295	$138,393	$437,554	$287,937	$897,446
50th Percentile	324,028	199,783	510,000	691,480	1,160,111
75th Percentile	396,990	246,353	609,578	1,107,972	1,630,042
90th Percentile	400,000	305,667	655,639	1,368,225	1,896,283
PREMERA	$308,040	$121,368	$429,408	N/A	N/A
	47th Percentile	19th Percentile	23rd Percentile	N/A	N/A

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Post-Conversion Total Direct Compensation: Executives (Top 5)

EVP # 5

Company	Base Salary	3 Year Average Bonus	Total Cash Compensation	3 Year Average Long Term Incentive	Total Direct Compensation
WELLCHOICE INC	$409,231	$181,569	$590,800	174,812	$765,612
UNIVERSAL HEALTH SERVICES INC	$269,000	$184,667	$453,667	871,969	$1,325,636
TRIAD HOSPITALS INC	$346,490	$140,481	$486,971	792,350	$1,279,321
SIERRA HEALTH SERVICES INC	$270,104	$106,000	$376,104	314,487	$690,591
OXFORD HEALTH PLANS INC	n/a	$211,650	N/A	952,997	N/A
MID ATLANTIC MEDICAL SERVICES INC	$322,902	$83,409	$406,311	226,758	$633,069
AMERICAN MEDICAL SECURITY GROUP INC	$298,308	$120,167	$418,475	125,993	$544,468
HEALTH MANAGEMENT ASSOCIATES INC	n/a	$94,375	N/A	339,108	N/A
FIRST HEALTH GROUP CORP	$367,312	$58,052	$425,364	1,066,627	$1,491,991
COVENTRY HEALTH CARE INC	n/a	$237,500	N/A	153,750	N/A
COBALT CORP	$285,252	$65,486	$350,738	273,304	$624,042
AMERIGROUP CORP	$267,600	$281,667	$549,267	94,551	$643,818
25th Percentile	$270,104	$91,633	$406,311	$169,547	$633,069
50th Percentile	298,308	130,324	425,364	293,896	690,591
75th Percentile	346,490	191,413	486,971	812,255	1,279,321
90th Percentile	375,696	234,915	557,573	944,894	1,358,907
PREMERA	$300,048	$118,219	$418,267	N/A	N/A
	51st Percentile	44th Percentil	37th Percentile	N/A	N/A

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Post-Conversion Total Direct Compensation: Outside Directors

Company	Date of Meeting	Annual Retainer	Per Meeting Fees: Board	Per Meeting Fees: Committee	Committee Fees: Non-Chair/Annual	Chairmen of the Board: Annual	Chairmen of the Board: Per Meeting	Committee Chair Fees: Annual	Committee Chair Fees: Per meeting	Total Cash Compensation[2]	Annual Stock Option Awards: #	Annual Stock Option Awards: Ex. Price	Annual Stock Option Awards: Value[3]	Special Grants A[1]: #	Special Grants A[1]: Ex. Price	Special Grants A[1]: Value[3]	Special Grants B[1]: #	Special Grants B[1]: Ex. Price	Special Grants B[1]: Value[3]	Total Direct Compensation[4]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Universal Health	5/21/2003	20,000			$ 2,500			3,000		25,000										25,000
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Coventry Health System[5][6]	6/5/2003	25,000	2,000	2,250		$ 10,000		10,000		56,250	2,000	44.80	59,140	7,400	$31.22	196,470	6,000	$44.80	177,420	113,390
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health Management Associates	2/18/2003	20,000	3,000	1,500				3,000		35,500	5,000	19.95	72,450							127,950
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mid Atlantic Medical Services, Inc.	4/28/2003	20,000	1,500	1,000		100,000				32,500	5,000	33.30	113,800	10,000	33.30	227,600				146,300
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WellChoice	6/18/2003	19,000	1,750	1,750		135,000				36,500										36,500
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
American Medical Security Group[9]	5/21/2003	25,000	1,200	1,000				6,250		42,250	6,700	14.41	73,030	5,000	17.73	62,850				115,280
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Median		$ 23,502	$ 1,625	$ 1,500	$ 2,500	$ 87,500	N/A	$ 4,500	N/A	$ 39,252	6,700	$24.93	$113,800	10,000	$26.00	$196,470	22,667	$24.93	$392,587	$121,670
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
90th Percentile		$ 34,000	$ 2,750	$ 2,050	$ 2,500	$ 124,500	N/A	$ 8,125	N/A	$ 54,750	11,200	$41.60	$222,704	33,600	$36.28	$558,304	36,533	$40.83	$603,637	$253,423
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(1) Special Grants A and Special Grants B are any non-recurring, non-annual grants that are given to outside directors throughout the year.
(2) Based on 5 Board Meetings and 5 Committee Meetings. Includes fees for service as the Committee Chair but excludes service as Chairmand of the Board
(3) Values are derived from the Black-Scholes model based on an exercise price on the date of grant in 2002 or, if not disclosed, the closing stock price on the date of the most recent shareholder meeting.
(4) Excludes special grants
(5) Committee meeting fee equals an average of $3,000 for the Audit Committee and $1,500 for Compensation Committee
(6) Coventry's Special Grant A consists of 3,700 stock options and 3,700 in restricted stock. The value for this grant is calculated as (3,700* $21.88) + (3,700*$31.22).
(7) First Health Group's Special Grant B is an average of the options granted to the COB (40,000), Chair of Exec Committee (24,000) and Chairs of the Audit and Comp. Committees (4,000).
(8) Per Meeting Fees for Sierra assume 4 hrs. $1,000 for first two hrs of Board/Committee Meeting and $500 each addt'l hour.
(9) The Annual Committee Chair Fee is an average of $7,500 (Audit) and $5,000 (all others).

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APPENDIX G

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Post-Conversion: Share Reserve and Allocation

- Peer Group –

Company	IPO date	Revenues from Premiums (in millions)	IPO price	Tender offer	Over-allotment	Issued to policy holders/ foundation	Other shares Issued[1]	Total shares outstanding	Total shares outstanding Excl. Allotment
AMERIGROUP	November 9, 2001	$646	$17.00	4,400,000	660,000	0	14,122,012	19,182,012	18,522,012
AmerUs Group	January 28, 1997	$244	$16.50	5,750,000	699,478	5,000,000	12,000,000	23,449,478	22,750,000
Anthem	November 2, 2001	$7,737	$36.00	48,000,000	7,200,000	47,888,000	0	103,088,000	95,888,000
Centene	December 31, 2001	$216	$14.00	3,500,000	525,000	0	6,571,369	10,596,369	10,071,369
John Hancock Financial Services	January 27, 2000	$2,198	$17.00	102,000,000	15,300,000	214,400,000	0	331,700,000	316,400,000
MetLife	April 7, 2000	$12,088	$14.25	202,000,000	30,300,000	493,903,472	60,000,000	786,203,472	755,903,472
MONY Group	November 16, 1998	$839	$23.50	11,250,000	1,687,500	34,100,000	0	47,037,500	45,350,000
Principal Financial Group	October 26, 2001	$3,996	$18.50	100,000,000	15,000,000	260,600,000	0	375,600,000	360,600,000
Prudential Financial	December 18, 2001	$10,221	$27.50	110,000,000	16,500,000	459,100,000	0	585,600,000	569,100,000
Trigon Healthcare	January 31, 1997	$1,571	$13.00	15,500,000	2,325,000	24,475,022	0	42,300,022	39,975,022
WellChoice	November 7, 2002	$4,246	$25.00	16,694,783	2,504,217	63,101,000	0	82,300,000	79,795,783
RightChoice	August 1, 1994	$546	$11.00	3,250,000	487,500	14,962,500		18,700,000	18,212,500
WellPoint	January 27, 1993	$1,859	$28.00	17,000,000	2,500,000	80,000,000		99,500,000	97,000,000
Cobalt[2]	September 25, 1998	$561					16,812,081	16,812,081	16,812,081

NOTES:

[1] Includes all classes of shares issued to previous common or preferred shareholders, warrant holders or shares issued in private placement at IPO.

[2] Cobalt (formerly United Wisconsin (new)) became a public entity from a spin-off transaction from American Medical Security Group in 1998

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Post-Conversion: Share Reserve and Allocation

Company	Group	Buy Common Shares	Grant Stock-Based Awards	Notes
Amerigroup				No stock issuance restrictions
AmerUs	Directors and Executives	6 mos	6 mos	
Anthem	Directors and Executives	6 mos	6 mos	
Centene				No stock issuance restrictions
John Hancock Financial Services	Policy Committee Participants		1 yr	
MetLife	Employees and Directors		1 yr	
MONY Group	Directors and Executives	2 yrs	1 yr	
Principal Financial Group	Directors and Executives		6 mos	Not exercisable until 18 mos after conversion
Prudential Financial	Senior Vice Presidents and Above Vice Presidents and Equivalents		1 yr 6 mos	
Trigon Healthcare				No stock issuance restrictions
WellChoice	Employees and Directors		1yr	Also agreed not to award SARs until 1 yr a
RightChoice				No stock issuance restrictions
WellPoint				No grants prior to shareholder approval of plans and the California Dept. of Corp. (initial gant made in 1996)
Cobalt				No stock issuance restrictions

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APPENDIX H

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Premera Compensation and Benefit Plans

PwC reviewed the following Premera plans:

- Total Direct Compensation
  - Officers Annual Performance Incentive Compensation Plan (APICP)
  - Long-Term Performance Incentive Plan (LTPIP)
- Proposed Stock Ownership Plan (Form A, Exhibit G-10)
- Outside Director Compensation
  - Summary of Outside Director's Fees (WA 103; Bates Stamp #0009735)
- Executive Benefits
  - Deferred Compensation Plan
  - Supplemental Retirement Program (DC SERP)
  - Supplemental Defined Benefit Retirement Plan (DB SERP)
  - Change in Control Provisions
- Qualified Plans
  - The Pension Equity Plan
  - The 401(k) Plan
  - Premera Flex

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Premera Compensation and Benefit Plans

Proprietary Material
Redacted

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