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A Letter from Our Chairman

CEO & President

This year, Horizon Blue Cross Blue Shield of New Jersey is celebrating our 85th Anniversary. Started during the Great Depression, and known then as the Associated Hospitals of Essex County, Inc., our Company was the first multi-hospital service plan to begin providing pre-paid hospital coverage. We have been a New Jersey-based company ever since, providing health coverage and a comprehensive portfolio of products and services to generations of families and businesses in our great state.

And while a milestone such as our 85th Anniversary is an important occasion at which to look back and take pride in a long history of service excellence, it is truly the men and women of Horizon BCBSNJ that we celebrate. I believe that the ability of our employees to look forward, guided by an unwavering commitment to provide our members with access to affordable, quality care amidst an ever-changing and increasingly challenging environment, is one of our Company’s greatest strengths.

Today, all health care stakeholders, including patients, health care professionals and payers, are facing significant change once again as the new Administration reassesses every component of the Affordable Care Act (ACA). And while it is hard to predict how health care will be redefined, Horizon BCBSNJ remains as dedicated as ever to providing our customers with strength, stability and peace of mind. Our members know they can count on us to be here when they need us, as we have been for more than eight and a half decades. Our passionate commitment to advocating for our members, and championing access to affordable, quality health care, remains our top priority.
This commitment was at the heart of several key accomplishments and milestones in 2016. We had a full year of collaboration with our OMNIA® Health Alliance, a joint effort of health care leaders across New Jersey with a shared commitment to accelerate New Jersey’s change from the traditional fee-for-service system, to one where hospitals and doctors are rewarded for the quality, not the quantity, of care they provide to patients.

Together, we are creating the initiatives and programs to transform health care in New Jersey, with a focus on patient-centered, value-based care. The OMNIA Health Alliance is enhancing health care in New Jersey by providing more organized, personalized and coordinated care, powered by the secure sharing of information, processes and best practices to help our members get and stay healthy. The doctors and hospitals that participate in the OMNIA Health Alliance share the following critical objectives:

- Improve the health of New Jersey’s residents and communities
- Enhance the patient experience
- Lower the overall cost of care

Our innovative strategy to transform health care in New Jersey was a welcome relief to consumers and businesses being crushed by the rising cost of health care. Customers told us they needed a better health care experience and better solutions to access quality, affordable care. That is why we introduced our OMNIA Health Plans. The plans were developed in response to consumer and employer demands to change the status quo and provide them with access to affordable, high-quality health care options.

OMNIA Health Plans offer significantly lower premiums, access to the largest network in New Jersey¹, and the option to save more money on out-of-pocket costs when seeking care from certain doctors and hospitals. The OMNIA Health Plans, on average, cost 15 percent less than our comparable broad network plans and do not sacrifice cost or access for quality. The response has been extremely positive from individuals purchasing health coverage both on and off the Federally Facilitated Marketplace (Exchange) and from our group clients. Our OMNIA Health Plan enrollment exceeded expectations, with nearly 290,000 members enrolled during the first year. Of that enrollment, more than 41,000 of the new enrollees in the Individual market were previously uninsured.

We are proud to have been recognized by the U.S. Department of Health and Human Services (HHS) last year when Horizon BCBSNJ was spotlighted as one of the nation’s ACA success stories, particularly among previously uninsured consumers. Our success was cited in the context of the Exchange as being “a laboratory for innovations and strategies that are helping us build a better health care system.”

In addition to our OMNIA Health Plans, Horizon BCBSNJ offers our customers a comprehensive portfolio of products and services to meet their health care needs.

Our Government Programs Division continues to be a key growth area in terms of the service we provide to underserved residents and seniors in our state.

¹Based on physician data as of January 21, 2017.
Medicaid expansion under the ACA increased the number of New Jersey residents covered under Medicaid by nearly 500,000 over the last three years, for a total of 1.7 million Medicaid members. This helped to reduce the uninsured rate in the state by 35 percent in that same timeframe. Throughout 2016, we focused our efforts on restructuring and enhancing how to better integrate, coordinate and deliver benefits to members eligible for both Medicaid and Medicare. We re-entered the Dual Eligible Special Needs Plan (DSNP) market last fall with our Horizon NJ TotalCare (HMO SNP) product for 2017.

A Dual Eligible Special Needs Plan is a Medicare Advantage coordinated care plan for members who are entitled to both Medicare and Medicaid. It includes:

- A team of doctors, specialists and care managers working together for the DSNP member
- A Model of Care that calls for individual care plans for members
- One health plan to coordinate all Medicare and Medicaid managed care benefits, including pharmacy and managed long-term services and supports for the member

Last year, we also delivered on a key implementation of a new Medicare Advantage PPO plan for nearly 60,000 State Health Benefits Program (SHBP) retirees. With their Horizon Medicare Advantage NJ DIRECT (PPO) plan, these members:

- Can access all doctors, specialists and other health care professionals eligible to receive Medicare payments and who agree to provide health care services to the member
- Are covered for all Medicare-eligible services
- Have no referrals
- Have access to Horizon BCBSNJ’s tools, support services and programs to manage their health

Strength ★ Stability ★ Peace of Mind

[Image]
Horizon BCBSNJ developed and delivered an extensive education and outreach program, helping SHBP retirees transition to the Horizon Medicare Advantage NJ DIRECT (PPO) plan. The program included education and outreach efforts detailing what members could expect, online resources, and more than 230 statewide and out-of-state education sessions for these retirees to learn more about the plan, ask questions and get answers.

As part of our Company’s strategy to improve quality, lower costs and enhance the patient experience, we made significant changes to our website and digital tools. Last fall, we introduced a new look and feel for HorizonBlue.com and our Member Online Services portal, with a focus on simple navigation and a clean, modern appearance to deliver an enhanced user experience for our customers. We made it easier for our members to find essential information about their Horizon BCBSNJ coverage, quickly and effortlessly on their desktop, smartphone and tablet.

Behind these and all the 2016 accomplishments highlighted throughout this report, are the men and women of Horizon BCBSNJ. They are the leaders, innovators and champions who work to bring Our Promise and Our Vision to life.

Our Promise
✦ To serve with excellence and dedication.
✦ To provide peace of mind for those who depend on us.
✦ To enrich the lives and health of our members and the communities we serve.

Our Vision
✦ We will continue to lead the transformation of health care in New Jersey by closely collaborating with hospitals and physicians, improving quality and enhancing patient experience, and lowering the total cost of care.
Horizon BCBSNJ employees are an extraordinary group whose commitment and compassion come through for our 3.8 million members time and time again. Team Horizon brings a diversity of talents, perspectives and experiences that inform and enable all that we do for our customers and the communities we serve. Their fierce determination to do their best every day resulted in Horizon BCBSNJ being recognized as the Most Recommended Health Insurer in America according to Insure.com’s 2016 national survey results. Horizon BCBSNJ also received an overall satisfaction score that earned us top honors among health insurance companies offering health plans in the Garden State.

Employees are the heart and soul of our Company. They are a trusted resource for helping members navigate an often complicated and confusing health care system and helping them access the care that they need. They are also an integral part of the communities that we serve, volunteering their time and energy to the organizations striving to make New Jersey a better place for all of us. You will find Horizon BCBSNJ employees always bring a helping hand, a giving spirit and a bright smile whether they are planting trees in parks, helping at food banks and soup kitchens, fundraising for schools in need or supporting shelters for women and children.

For 85 years, Horizon BCBSNJ has been a proud part of our great state. Our commitment to providing access to affordable, quality health care is as strong today as when we first started the Company. We are excited about the innovative new ways we are finding to collaborate with health care leaders across the state to improve quality of care, enhance your health care experience, lower the overall cost of care, and put your health and well-being at the front and center of everything we do. We are at the forefront of redefining the future of health care and we will be here for you when you need us.

Bob Marino
May 2017
**Patient-Centered, Value-Based Care**

Horizon BCBSNJ continues to collaborate with physicians and hospitals across the state to transform our health care system to one that is consistent with the Triple Aim – to improve quality of care, lower the total cost of care and enhance the patient experience.

A key driver of our Health Care Value strategy is the continued growth and development of our patient-centered programs, including the OMNIA Health Alliance, Patient-Centered Medical Home, Accountable Care Organization and Episodes of Care programs. Our patient-centered programs take a holistic approach to the care individuals receive to ensure that they get the right care, at the right time, to manage their overall health and well-being. These programs also offer shared savings to incent physicians and hospitals to achieve better care coordination and improved quality of care while reducing costs.

By the end of 2016, approximately 1.4 million Horizon BCBSNJ members were participating in patient-centered programs. In 2015, patient-centered practices and hospitals received $58.9 million in care coordination and shared savings payments for achieving quality and savings goals. These value-based payments were in addition to what the providers were paid through traditional fee-for-service reimbursements.

A review of our 2015 claims data showed that patient-centered care is having the intended effect, as members receiving care from patient-centered practices, compared to those members receiving care from traditional practices, had a:

- 12% lower cost of care for members with DIABETES
- 2% higher rate in BREAST CANCER SCREENINGS
- 5% lower rate of EMERGENCY ROOM (ER) VISITS
- 2% lower rate of HOSPITAL ADMISSIONS

Overall, patient-centered practices helped patients avoid more than 3,500 Emergency Room visits in 2015, resulting in a projected savings of more than $2.6 million. And the success of our patient-centered programs continues to attract more members of the medical community, with approximately 60 percent of all Horizon BCBSNJ medical claims spending in New Jersey during 2015 going to patient-centered network physicians and hospitals.

Horizon BCBSNJ launched other value-based initiatives in 2016 designed to help deliver on the Triple Aim.

In June, Horizon BCBSNJ launched a pilot program that offers eligible members a Personal Health Assistant. The Personal Health Assistant provides eligible members with care coordination services to address primarily non-clinical barriers they are experiencing. These barriers can negatively impact their health, the care they receive and/or their ability to reach treatment goals. The Personal Health Assistant is a Horizon BCBSNJ employee who works telephonically, one-on-one with eligible members to help make it easier and simpler to use the health care system and get the care they need.

As part of this pilot program, Horizon BCBSNJ engaged 2,900 members as of December 2016, with the following results:

- We reached 19 percent of members on the telephone.
- Of the members reached, 45 percent participated.
- Of the members participating, 45 percent had at least one barrier to receiving health care, 51 percent needed help understanding their plan, and 29 percent needed help finding a provider or scheduling an appointment.

These early results indicate that many of the participating members benefited from speaking with their Personal Health Assistant.
Best-in-Class Episodes of Care (EOC) Programs

While the success of all of our patient-centered programs is encouraging, the success of our 18 Episodes of Care programs has led to Horizon BCBSNJ being recognized as an industry leader throughout the nation. Since our introduction of programs for five episodes of care in 2014, our members in EOC practices have consistently had lower hospital readmission rates and experienced other high-quality outcomes, compared to members receiving the same services from non-EOC practices. These high-quality outcomes include:

The EOC Program has grown significantly over the last several years, with our projections indicating that we exceeded 15,000 episodes in 2016, with total savings of $20 million.

In 2016, we launched the following five new EOC programs:
- Coronary artery bypass grafting (CABG)
- Hysterectomy
- Prostate cancer
- Prostatectomy
- Crohn’s Disease (with fully integrated behavioral health)

In 2017, we are adding EOC programs for:
- Gastroesophageal reflux disease (GERD)
- Diverticulitis
- Low back pain/laminectomy
- Shoulder replacement
OMNIA Health Alliance

In the fall of 2015, Horizon BCBSNJ announced the formation of the OMNIA Health Alliance—a first-of-its-kind collaboration between Horizon BCBSNJ, some of the state's leading hospitals, and a major multi-specialty physician group, all of which share our vision to transform the way health care is financed and delivered in New Jersey. Their involvement is instrumental to our efforts to build and nurture a value-based care system due to the large populations of patients they treat, as well as their abilities to leverage their significant resources and technological capabilities to deliver more effective and efficient care to patients.

In 2016, the OMNIA Health Alliance made great strides to bring our vision to life as we established Joint Executive Committees to guide clinical transformation activities that integrate care coordination and develop population health goals. Through these collaborations, supported by secure data exchanges that offer a complete view of patients’ health, our members will get more effective, high-quality care.

Shared-savings models that reward OMNIA Health Alliance members and their associated physicians for providing the right level of care, at the right time and at the lowest cost possible, are key to these arrangements. Ultimately, this will lead to financial models that are designed to enable Alliance members to transition to assuming full financial risk, and care management arrangements that will capitalize on clinical transformation and encourage the elimination of unnecessary costs.

While the OMNIA Health Alliance is a prominent feature of Horizon BCBSNJ’s strategy to provide our members options for access to quality care at a lower cost, equally important was the introduction of our OMNIA Health Plans. These lower-cost, tiered health products were designed to enable consumers to save money while receiving high-quality care.

As part of this product implementation, Horizon BCBSNJ placed most of its network of physicians and hospitals into two groups, called tiers. Members in OMNIA Health Plans benefit from lower monthly premiums and have the opportunity to pay lower out-of-pocket costs (copayments, coinsurance and deductibles) when seeking care from OMNIA Tier 1-designated physicians and hospitals. The results of our 2016 enrollment speak well to consumers’ and businesses’ reactions to the OMNIA Health Plans, as the OMNIA product line was successfully launched across all of our Commercial market segments. In total, nearly 290,000 people enrolled in an OMNIA Health Plan in 2016, including 163,000 Individual health care consumers, 41,000 of whom were previously uninsured. This helped boost our leading market share in the Individual market from approximately 57 percent to 62 percent.

We also saw enrollment numbers in our Small Group (56,000 members) and Midsize Group (59,000 members) markets that exceeded our projections, and had some key Large Group customers switch to an OMNIA Health Plan offering.

The popularity of the OMNIA Health Plans demonstrates how well these products answer market demand, and reinforces our belief that it is possible to create a value-based health care system and products that provide our members with quality care at lower costs and an enhanced member experience.
Tackling the Opioid Crisis

With over 5,000 lives lost to opioid misuse and addiction in New Jersey over the last decade\(^2\), Horizon BCBSNJ has long been committed to helping our members and providers combat this growing problem. We have integrated several programs and key initiatives throughout the continuum of care to help ensure our members receive the right care at the right time without relying on opioids. They range from free prevention programs in New Jersey schools to public awareness campaigns in our communities. We have also created predictive tools for prescribing doctors to help them identify members who are at risk for substance abuse and referral programs for behavioral health services, as appropriate.

Pharmacy Initiatives

Horizon BCBSNJ provides resources and information to assist in improving the quality of care patients receive. Physicians receive comprehensive, fact-based and actionable risk reports created by Horizon BCBSNJ. Our pharmacy team uses tools to predict future probabilities and trends to educate health care professionals about their own prescribing behaviors and their patients’ risk behaviors.

The Horizon Pharmacy program has several initiatives that integrate pharmacy and medical claims. They identify prescribing and dispensing patterns and outliers that can assist in preventing abuse, addiction and fraud. Our programs help members and prescribers take action and make informed decisions.

* Triple Therapy Alert Program
  - Identifies members who are receiving a combination of a narcotic, a benzodiazepine and a muscle relaxant from two or more prescribers

* Concurrent Drug Utilization Review
  - Screens prescriptions at point of service
  - Compares dosage on a claim to the recommended dosage for a member’s age group
  - Determines effects of using a combination of medicines
  - Helps prevent duplicate refills or therapy
  - Provides opportunities to improve patient safety and quality of care

\(^2\) nj.com/news/index.ssf/page/welcome_to_heroinstown_new_jerseys_4th_largest_city.html
Controlled Substance Alert Program
- Identifies members with claim histories suggesting patterns of misuse or abuse, and notifies prescribers
- Tracks and evaluates outcomes
- REDuces overuse of controlled substances

Opioid Outlier Program
- Identifies members who are on high doses of opioids as outliers based on morphine-equivalent dose (MED)

Pharmacy Lock-in Program
- Identifies members who are at risk for substance use disorder based on their usage, and has them evaluated by a pharmacist for pharmacy lock-in
- Requires members to fill all of their prescriptions at one pharmacy, if appropriate

Horizon BCBSNJ also offers coverage of Medication-Assisted Treatment (MAT) such as Suboxone and Vivitrol for substance use disorder recovery. Through these programs and other utilization management and operational initiatives, the Horizon Pharmacy program helps ensure treatment of underlying psychiatric problems and helps refer members to behavioral health services, as appropriate. Horizon BCBSNJ also supports the New Jersey Prescription Monitoring Program, which aims to reduce member drug-seeking behaviors and promote appropriate provider prescribing behaviors.

Support through Episodes of Care (EOC) Programs
Horizon BCBSNJ’s EOC programs are quality-based and use standard quality measures unique to the procedure or disease state. Prolonged use of pain medication is tracked as one quality measure for orthopedic EOC programs (hip replacement, knee replacement and knee arthroscopy) and the pregnancy (cesarean section delivery) EOC program. Measures track opioid use within 90 days of the end of the episode.

Behavioral Health Integration
Horizon BCBSNJ is committed to providing patient-centered coordination of medical and behavioral care. Through the Horizon Behavioral Health program, we integrate medical, behavioral health and substance use disorder services. This integration helps ensure the treatment of underlying issues. We support the full continuum of care for mental health and addiction care.

Tackling the Opioid Crisis

Pharmacy Initiatives + Episodes of Care Programs + Behavioral Health Integration + Community Engagement
Community Engagement

Our team engages the community through the Blue To You Van, our Care-A-Vans and select pharmacies to help educate members and the public on how to correctly dispose of medicines through the New Jersey Project Medicine Drop.

In addition, The Horizon Foundation for New Jersey supports Partnership for a Drug-Free New Jersey (PDFNJ), a multimedia substance misuse and abuse prevention public health campaign that was created in 1992 to provide free prevention programs and initiatives to New Jersey schools and communities, as well as parent education training and drug-free workplace assistance. Additionally, Horizon BCBSNJ’s Chairman, CEO & President Bob Marino is on the Executive and Steering Committees of PDFNJ.

Since 2004, The Foundation has given over $180,000 through 12 grants to support the Fifth Grade Parent Alert, a brochure provided to all fifth-grade classes in New Jersey that encourages parents and guardians to discuss the dangers of substance abuse with their children. In 2017, The Foundation is proud to sponsor the PDFNJ Knock Out Opioid Abuse Town Hall Series. These meetings are being held throughout the state through November 2018, and will help shed light on opioid abuse, prevention and awareness. They are based on the Surgeon General’s recommendation to galvanize the public, policymakers and communities to raise awareness, educate, reduce stigma and change attitudes on addiction, and to ultimately reduce and prevent opioid abuse.

Horizon BCBSNJ is also working with 35 independent Blue Cross and Blue Shield Plans in a national commission convened by the Blue Cross and Blue Shield Association to reduce the devastating consequences of the opioid crisis. We continue to collaborate with thought leaders in New Jersey to combat the state’s opioid issue, while helping to improve the quality of care, lower its cost and enhance the patient experience for our members.
Improving the Customer Experience

Our continued efforts to transform to a consumer-centric, digital environment to better engage and connect with our members has been driven by the creation of an end-to-end customer experience that empowers members to be more educated and knowledgeable about how to live healthier lives.

Digital Strategy

As part of a multi-year digital strategy, our goal is to deliver easier access – and peace of mind – through a series of enhancements that include:

✦ Better tools to allow members to manage their health care quality and cost
✦ Clearer online communications to help members’ understanding
✦ User-friendly websites and easier mobile access to improve the member experience

In 2016, we successfully implemented the first phase of our digital strategy initiative, which involved the redesign of HorizonBlue.com, our corporate website, and Member Online Services, our authenticated member portal. Through a series of online surveys, member focus groups and data analyses, these digital properties were updated to provide clearer paths to content and functions.
Our new website and portal make it easier for customers to find what they need with whatever device they are using. The new layout is not only cleaner and better organized, but also designed to work seamlessly across desktops, smartphones and tablets. Improvements in our technology platform now provide our customers with easier access to helpful tools and valuable resources, including a secure paperless option. The simplified navigation on Member Online Services has made it easier for members to find essential information on their Horizon BCBSNJ coverage. The portal’s welcome page currently features six sections to help guide users to the information they need:

**Claims** – Members can review recent claim activity, including any amount we paid and the amount the member owes, if applicable.

**My Coverage** – This section features tools and resources to help members get the most out of their benefits, including a view of services covered and whether specific benefits require prior authorization.

**My Account** – Members can view their premium billing overview, billing history and payment history. They can even make a premium payment. This section also has Health Savings Account (HSA), Health Reimbursement Account (HRA) and Flexible Spending Account (FSA) information and a roll-up of total out-of-pocket costs, as applicable. Members only see the information that applies to their plan.

**ID Cards** – Members can print, view or request a member ID card.

**Wellness** – This section features discounts and savings on tools, resources and programs to help members live healthier.

**Get Care** – In this section, members can search for a doctor using our Online Doctor & Hospital Finder, and read patient reviews and recommendations of participating doctors using our Physician Review Tool. Members can also access the Horizon Pharmacy and Horizon Behavioral Health programs from this section.

Additional enhancements are underway for 2017 and beyond as we continue to transform how we serve and engage our customers.
Online Contact Channels

Members embraced a series of new online contact channels available to them, including Live Chat, FAQs and My Messages.

From January through December of 2016:

✦ Our newest channel which launched in 2016, Live Chat, handled more than 63,000 chat sessions.
✦ FAQ visits increased by 77.4 percent compared to the same period in 2015.
✦ Use of the My Messages feature increased by 306 percent compared to 2015.

As part of our commitment to continually improve the member experience, in 2016 Horizon BCBSNJ also:

✦ Updated FAQs for easier member search
✦ Updated FAQ content to reflect member feedback
✦ Rewrote and redesigned On Exchange premium bills and letters to improve member understanding
✦ Successfully rolled out a portal for individual health customer conversions and renewals, reducing the turnaround time for application processing from under five days to almost same-day processing, resulting in faster payment posting and collateral delivery to members.
An Evolving Marketplace

In addition to re-entering the Dual Eligible Special Needs Plan market and implementing our new Medicare Advantage PPO product, we made great strides in 2016 in increasing our presence in other traditionally underserved communities.

Recognizing the tremendous growth opportunity in New Jersey’s Hispanic market and to expand our reach in central New Jersey, we opened our second exclusive brokerage service center for Spanish-speaking consumers. This new service location helps Spanish-speaking consumers find affordable health care coverage and assists them with all their benefits needs. The new HolaDoctor® Insurance Services in Perth Amboy is the second installment of our brick-and-mortar approach to reaching Hispanic consumers. Visitors to either of our HolaDoctor Centers are offered one-on-one assistance with trained bilingual agents who help them with:

- Full enrollment services in Spanish, including assisting consumers with obtaining any financial assistance for which they may be eligible through the Exchange
- Completing a Health Risk Assessment

- Guiding them through a new Spanish-language section of our Member Online Services, where they can manage their premium payments and find culturally specific resources to help them locate providers and maintain good health

The other ways that Horizon BCBSNJ has helped and will continue to help connect Hispanic consumers to coverage and improve their health literacy include:

- Holding regular grassroots education events in Hispanic-owned restaurants to navigate language differences and improve health literacy
- Educating members about the value-added benefits and rewards onsite with Café Con Leche sessions
- Hosting a Spanish-language website (HorizonAzul.com), and offering a dedicated team of Spanish-speaking agents and a Spanish-language phone hotline to assist Hispanic consumers and businesses
- Establishing remote service and sales locations at New Jersey malls and staffing them with Spanish-speaking agents
- Collaborating with the Hispanic business community to create new channels of cultural outreach
- Providing support and guidance to navigators and in-person assistants through workshops, presentations and onsite visits

Through digital, grassroots, marketing and education efforts over the last two years to engage Hispanic consumers, Horizon BCBSNJ recorded a nearly 400 percent increase among Hispanic membership.
Specialty Products and Services

In addition to targeting new membership in emerging markets, we also continue to aggressively promote and sell additional products and services beyond our core medical business. We created a dedicated Specialty Products and Services (SPS) management team in 2016, with a clear alignment to our sales and account management teams to ensure we are meeting our customers’ needs, while growing and diversifying our revenue.

Initially focused on growing our Dental and Vision business and expanding partner Life and Disability offerings, SPS also includes:

- International Coverage (GeoBlue)
- Stop-Loss
- Telemedicine
- Wellness
- Worksite/Critical Illness

Among the key initiatives for the SPS team in 2016 was the launch of new dental products for Individual consumers, which was supported by a new ability to automatically bundle one of these new plans with a medical plan on our consumer portal. This cross-selling opportunity was also key to driving growth for a new set of vision products introduced in 2016. We also built new stop-loss capabilities to allow us to compete against other stop-loss carriers. Additionally, our Horizon Casualty Services division deployed a new growth strategy, partnering with bill review companies. Overall, the efforts of the SPS team resulted in a 5 percent increase in its revenue in 2016.
**Diversity at Work**

We work hard to foster and support an environment of diversity and inclusion at Horizon BCBSNJ, and the abilities and skills of our diverse and talented community of employees help us meet today’s business challenges with strength and creativity.

Members of our Diversity Council and our seven Affinity Groups make a personal commitment to:

- Sponsor events on topics of interest to employees
- Provide opportunities for networking
- Support service to community groups
- Raise awareness of our diverse workforce
- Foster a culture of respect and understanding in our workplace

During 2016, the Affinity Groups supported 16 diverse community organizations:

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<tr>
<th>Affinity Groups</th>
<th>Community Organizations</th>
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<tr>
<td>Asian-American Affinity Group</td>
<td>Ridge Street Elementary School of Newark, Apostle House and Community FoodBank of New Jersey</td>
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<tr>
<td>Enlightenment and Empowerment Enterprise</td>
<td>FP YouthOutCry Foundation and Camden Street Elementary School</td>
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<tr>
<td>Latin American Cultural Organization (LACO)</td>
<td>Belleville Public Schools, Junior Achievement, New Brunswick Little League, Autism Speaks, Community FoodBank of New Jersey and Newark Public Library Hispanic Heritage Wing Project</td>
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<tr>
<td>Military Affinity Group</td>
<td>United States War Dogs Association, Disabled American Veterans, the East Orange Campus of the U.S. Department of Veterans’ Affairs and Community FoodBank of New Jersey</td>
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<td>Muslim Affinity Group</td>
<td>The Building Blocks of New Jersey and Community FoodBank of New Jersey</td>
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<tr>
<td>Spectrum Affinity Group</td>
<td>Hetrick-Martin Institute of New Jersey</td>
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<tr>
<td>Women LEAD</td>
<td>Newark Renaissance House</td>
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The Diversity Council teamed with employee volunteers to support Arts High of Newark with donations and events that benefit students at the school. Activities included cleaning, organizing and planting shrubs to improve the school’s appearance; donating book bags filled with school supplies for students; and supplying coats, hats, scarves and gloves to underprivileged students.

In other activities, the Diversity Council and Affinity Groups sponsored and participated in:

✦ Lunch and learn seminars on topics such as Work/Life Balance and Caring for Aging Loved Ones
✦ Diversity training for employees on “Cultural Competency and Turning Differences Into Strengths”
✦ Expanding the diversity library to two locations, and publishing monthly Diversity Council book reviews on the Company's Diversity microsite

Diversity Showcase

In 2016, the annual Diversity Showcase was held in three Horizon BCBSNJ locations. This special event highlights the many cultures and traditions our employees celebrate and gives employees an opportunity to meet members of Horizon BCBSNJ’s seven Affinity Groups, speak with Company officers, listen to live musical performances and enjoy the foods and festivities of many countries and cultures.

All proceeds from ticket sales were donated to local organizations.
The Horizon Foundation for New Jersey

The Horizon Foundation for New Jersey, the philanthropic arm of Horizon BCBSNJ, is committed to working alongside organizations that can help us improve our neighbors’ health, inform their health decisions and inspire them to lead healthier, more fulfilling lives.

In 2016, The Foundation awarded 94 grants totaling over $4.2 million. Since its inception in 2004, The Foundation has awarded 1,319 grants totaling more than $47.8 million.

In 2016, The Foundation also launched its third signature program, the Kids’ Oral Health Program (KOHP). This $500,000 two-year pilot initiative is designed to improve oral health-related awareness, education, prevention and treatment for young people. The program also includes funding to support professional development for health care professionals and promote best practices in 10 New Jersey counties where dental health needs among children are acute.

KOHP joins The Foundation’s other two signature programs, Breathe Easier with Asthma Management (BEAM) and Healthy U. The BEAM program raises awareness about asthma and educates youth and their parents or caregivers about the disorder and how best to manage it. Nearly 300,000 children in New Jersey have been diagnosed with asthma. The Foundation made a $500,000 grant to the Boys & Girls Clubs in New Jersey to implement the BEAM pilot program in 12 Boys & Girls Club sites located in nine counties where childhood asthma is prevalent.

Healthy U, implemented in all 21 counties throughout New Jersey through the New Jersey YMCA State Alliance, is designed to prevent childhood obesity by instituting behavioral changes around nutrition and exercise in children ages 3 to 13 years, and by engaging parents to get more involved with helping their children to lead a healthier lifestyle. Healthy U has reached more than 60,000 children at 480 YMCA sites and 90 public schools. The Foundation has invested nearly $5 million in grants for the program, which spans from January 2008 through December 2019.
2016 FINANCIALS
Horizon BCBSNJ is a Health Service Corporation incorporated as Horizon Healthcare Services, Inc. and is New Jersey’s sole licensed Blue Cross Blue Shield Plan (Blue Plan). Horizon BCBSNJ operates solely in New Jersey and is the state’s largest provider of health care coverage, insuring approximately 3.8 million members as of December 31, 2016. Horizon BCBSNJ offers fully-insured products to large groups, small groups and individuals. Horizon BCBSNJ also offers administrative services only (ASO) products to national accounts and other large groups. Horizon BCBSNJ participates in a variety of government-sponsored businesses, both as a direct federal contractor of programs such as Medicare Advantage, Medicaid and the Federal Employee Program®, and as a state contractor for various non-federal governmental plans, including New Jersey’s State Health Benefits Program (SHBP) and its School Employees’ Health Benefits Program (SEHBP). It has the exclusive right to market products and services using the Blue Cross and Blue Shield names and marks in New Jersey under licensing agreements with the Blue Cross and Blue Shield Association.

Over the last several years, Horizon BCBSNJ has collaborated with doctors and hospitals across the state to develop patient-centered programs, including Patient-Centered Medical Home, Accountable Care Organization and Episodes of Care programs. Patient-centered programs take a holistic approach to the care individuals receive to ensure that they get the right care, at the right time, to manage their overall health and well-being. By the end of 2016, Horizon BCBSNJ had 1.4 million members attributed to doctors and hospitals who participate in its patient-centered programs.

In the fall of 2015, Horizon BCBSNJ announced the formation of the OMNIA Health Alliance. The OMNIA Health Alliance is a first-of-its-kind collaboration between Horizon BCBSNJ, some of the state’s leading hospitals and a major multi-specialty physician group. It represents a unique alliance focused on a Triple Aim of improving the quality of health care, enhancing how patients experience care and lowering the total cost of that care for New Jersey consumers. From a product perspective, the OMNIA Health Alliance is a prominent feature of Horizon BCBSNJ’s OMNIA Health Plans. These lower-cost, tiered health plans allow members in OMNIA Health Plans to benefit from lower monthly premiums and to have the opportunity to pay lower out-of-pocket costs (copayments, coinsurance and deductibles) when seeking care at OMNIA Tier 1 doctors and hospitals. By the end of 2016, Horizon BCBSNJ had nearly 290,000 members enrolled in OMNIA Health Plans.
Medical Membership — December 31, 2016 Compared to December 31, 2015

Membership counts include both subscribers and their covered dependents. For membership reporting purposes, we have displayed our enrollment by customer type and funding method.

Our membership as of December 31, 2016 compared to December 31, 2015 was as follows (in thousands):

<table>
<thead>
<tr>
<th>Customer type:</th>
<th>As of 2016</th>
<th>As of 2015</th>
<th>Increase/Decrease</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Group</td>
<td>1,556</td>
<td>1,579</td>
<td>(23)</td>
<td>(1.4%)</td>
</tr>
<tr>
<td>State Health Benefits Program</td>
<td>712</td>
<td>725</td>
<td>(13)</td>
<td>(1.9%)</td>
</tr>
<tr>
<td>Federal Employee Program</td>
<td>127</td>
<td>127</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Small Group</td>
<td>225</td>
<td>236</td>
<td>(11)</td>
<td>(4.9%)</td>
</tr>
<tr>
<td>Individual</td>
<td>196</td>
<td>168</td>
<td>28</td>
<td>16.6%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>892</td>
<td>841</td>
<td>51</td>
<td>6.1%</td>
</tr>
<tr>
<td>Medicare</td>
<td>116</td>
<td>122</td>
<td>(6)</td>
<td>(4.8%)</td>
</tr>
<tr>
<td><strong>Total members</strong></td>
<td><strong>3,824</strong></td>
<td><strong>3,798</strong></td>
<td><strong>26</strong></td>
<td><strong>0.7%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Funding method:</th>
<th>As of 2016</th>
<th>As of 2015</th>
<th>Increase/Decrease</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully-insured</td>
<td>1,936</td>
<td>1,912</td>
<td>24</td>
<td>1.2%</td>
</tr>
<tr>
<td>Self-funded</td>
<td>1,888</td>
<td>1,886</td>
<td>2</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Total members</strong></td>
<td><strong>3,824</strong></td>
<td><strong>3,798</strong></td>
<td><strong>26</strong></td>
<td><strong>0.7%</strong></td>
</tr>
</tbody>
</table>

Overall enrollment increased by approximately 26,000 members in 2016. We had continuing success in the Individual market, growing by 28,000 members, and our Medicaid enrollment grew by 51,000 members as a result of Medicaid expansion. These increases were partially offset by declines in our Large Group, SHBP and Small Group businesses. These membership declines were driven by groups downsizing due to economic conditions. Our overall market share has stayed constant at 49% for 2016 and 2015.

Insured premiums increased $717.4 million, or 6.6%, to $11.64 billion in 2016 from $10.92 billion in 2015. Insured premiums in our Medicaid and Individual books of business increased primarily as a result of the enrollment growth noted on the prior page.

Investment income was $117.9 million for 2016 compared to $118.9 million for 2015, a decrease of $1.0 million. This decrease was driven by lower re-investment yields in the held-to-maturity bond portfolio. The average balance in our cash and investments portfolio increased to $3.97 billion in 2016 compared to $3.77 billion in 2015, driven by the re-investment of interest income, financial market conditions and strong cash flow.

We recognized $5.0 million of net realized losses in 2016 compared to $22.0 million of net realized gains during 2015. The decrease of $27.0 million was primarily driven by approximately $15.1 million of other-than-temporary impairment write-downs resulting from adverse experience in the financial markets early in the year.

Medical and other benefit costs were $10.11 billion in 2016 compared to $9.42 billion in 2015, an increase of $690.4 million, or 7.3%. Medical and other benefit costs increased year over year driven by the increase in the fully-insured enrollment and the rising cost of health care. The medical cost ratio increased 60 basis points to 86.9% in 2016 from 86.3% in 2015, driven primarily by higher-than-expected claims in the Individual and Large Group commercial markets and higher-than-expected payments to out-of-network hospitals and physicians. In 2016, we experienced higher-than-expected utilization in Platinum and Gold plans in the Individual market.

Selling, general and administrative (SG&A) expenses were $1.88 billion for 2016 compared to $1.85 billion for 2015, an increase of $30.9 million, or 1.7%. Included in SG&A expenses were taxes, fees and assessments of $444.5 million in 2016 compared to $422.1 million in 2015. Despite this increase in taxes, fees and assessments, our administrative cost ratio decreased 70 basis points to 15.6% for 2016 from 16.3% for 2015, as a result of our ongoing strategy to improve operating efficiencies and control costs year over year.

Income tax expense was $91.0 million for both 2016 and 2015. The effective tax rate increased to 51.9% in 2016 from 46.0% in 2015. The increase in the effective tax rate was primarily due to the non-deductibility of a health care reform-related fee in proportion to lower pre-tax income and higher state income taxes as we generated greater income from our Medicaid book of business.

Net income for 2016 decreased to $84.6 million from $106.7 million in 2015.

Capital reserves grew $154.6 million to $2.98 billion as of December 31, 2016, primarily due to net income for the year and unrealized gains on investments of $70.9 million, net of deferred income taxes.

On a statutory basis, our capital reserves increased $80.0 million to $2.39 billion as of December 31, 2016, primarily due to unrealized gains on our investment portfolio. Our Health-Risk Based Capital (RBC) percentage decreased by 27% to 620% as of December 31, 2016 from 647% as of December 31, 2015. The decrease was due to an increase in capital requirements resulting from growth in our business.
# Consolidated Balance Sheets

**As of December 31, 2016 and 2015**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$224,028</td>
<td>$219,944</td>
</tr>
<tr>
<td>Investments available-for-sale, at fair value</td>
<td>2,601,807</td>
<td>2,436,342</td>
</tr>
<tr>
<td>Investments held-to-maturity, at amortized cost</td>
<td>23,173</td>
<td>82,980</td>
</tr>
<tr>
<td>Premiums and other receivables, net</td>
<td>1,121,923</td>
<td>1,027,658</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>156,468</td>
<td>113,768</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>4,127,399</td>
<td>3,880,692</td>
</tr>
<tr>
<td>Investments held-to-maturity, at amortized cost</td>
<td>525,208</td>
<td>481,971</td>
</tr>
<tr>
<td>Restricted investments, at amortized cost</td>
<td>594,735</td>
<td>567,247</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>613,551</td>
<td>609,773</td>
</tr>
<tr>
<td>Other assets</td>
<td>99,265</td>
<td>109,661</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$5,960,158</strong></td>
<td><strong>$5,649,344</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND CAPITAL RESERVES</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical and other benefits payable</td>
<td>$1,034,839</td>
<td>$954,010</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>131,636</td>
<td>140,792</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>604,471</td>
<td>586,740</td>
</tr>
<tr>
<td>Managed cash overdrafts</td>
<td>491,305</td>
<td>401,106</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>7,551</td>
<td>-</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>216,913</td>
<td>139,987</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>362,316</td>
<td>362,454</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,849,031</td>
<td>2,585,089</td>
</tr>
<tr>
<td>Obligations for employee benefits</td>
<td>130,389</td>
<td>134,894</td>
</tr>
<tr>
<td>Mortgage payable and capital lease obligations, less current portion</td>
<td>2,706</td>
<td>105,885</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>2,982,126</strong></td>
<td><strong>2,825,868</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitments and contingencies</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,915,860</td>
<td>2,831,225</td>
</tr>
<tr>
<td>Accumulated other comprehensive income/(loss)</td>
<td>62,172</td>
<td>(7,749)</td>
</tr>
<tr>
<td><strong>Total capital reserves</strong></td>
<td><strong>2,978,032</strong></td>
<td><strong>2,823,476</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and capital reserves</strong></td>
<td><strong>$5,960,158</strong></td>
<td><strong>$5,649,344</strong></td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insured premiums</td>
<td>$11,638,534</td>
<td>$10,921,167</td>
</tr>
<tr>
<td>Administrative service fee income</td>
<td>387,618</td>
<td>375,649</td>
</tr>
<tr>
<td>Other revenues</td>
<td>32,511</td>
<td>34,356</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td><strong>12,058,663</strong></td>
<td><strong>11,331,172</strong></td>
</tr>
<tr>
<td>Investment income</td>
<td>117,899</td>
<td>118,921</td>
</tr>
<tr>
<td>Net realized (losses)/gains</td>
<td>(5,016)</td>
<td>21,966</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>12,171,546</strong></td>
<td><strong>11,472,059</strong></td>
</tr>
</tbody>
</table>

| **Expenses:**        |            |            |
| Medical and other benefit costs | 10,113,879 | 9,423,507 |
| Selling, general and administrative expenses | 1,881,804 | 1,850,865 |
| **Total expenses**   | **11,995,683** | **11,274,372** |

| Income before income tax expense | 175,863 | 197,687 |
| Income tax expense             | (91,228) | (90,980) |
| **Net income**                 | **$84,635** | **$106,707** |
Employs more than 5,000 workers

Held more than 1,000 outreach events in NJ communities

3.8 million members

Paid over $540 million in taxes and assessments to federal, and NJ state and local governments

Awarded nearly $48 million in grants to NJ non-profits since The Horizon Foundation for New Jersey was formed in 2004
Most Recommended Health Insurer in America

Employee Resource Group of the Year
LATINA Style Inc.

Top 10 List of Regional Companies

One of the 50 best companies for Latinas to work for in the United States
LATINA Style Inc.

One of the top five “Best Companies for Multicultural Women”
Working Mother Magazine

Strength ★ Stability ★ Peace of Mind
Military Friendly® Employer
G.I. Jobs Magazine

Top 50 Best Places for Diverse Managers and Women to Work
Diversity MBA Magazine

Above & Beyond Award from Diversity Best Practices, a division of Working Mother Media

OMPLISHMENTS

Anti-Fraud Efforts
Since 2005, Horizon BCBSNJ’s anti-fraud efforts have saved members $290 million.

Ranked #3 in InformationWeek Elite 100 Users of Business Technology

CSO50 Award
CSO, Chief Security Officer Magazine

Brand Innovation Award
Blue Cross and Blue Shield Association (BCBSA)
In Memory

Alfred C. Koeppe
November 14, 1946 – December 6, 2016

The passing of my longtime friend Al Koeppe is a devastating loss for New Jersey. He was a truly legendary figure whose impact was felt in literally every corner of the state. Al was a longtime member on Horizon Blue Cross Blue Shield of New Jersey’s Board of Directors and made sure we always put New Jersey first. Al was someone whose wisdom, advice and counsel I often relied upon and will sorely miss. He was a true leader and gentleman in every sense of the word and there is a reason why every governor for the last four decades relied on Al to help make New Jersey a better place to live. His love for New Jersey was surpassed only by his love for Newark. Al was often referred to as “Mr. Newark” because of his devotion to the city. He will be greatly missed.

Bob Marino
Board of Directors

STANDING,
LEFT TO RIGHT:

Todd C. Brown
Vice Chairman (Retired)
ShoreBank Corporation

Joanne Pace
Managing Director &
Chief Operating Officer (Retired)
Morgan Stanley Investment Management

Joseph J. Roberts
Former Assembly Speaker
State of New Jersey

Leonard G. Feld, MD,
PhD, MMM
President, Physician Enterprise
Pediatric Specialists of America
Miami Children’s Health System

Robert A. Marino
Chairman of the Board,
Chief Executive Officer & President
Horizon Blue Cross Blue Shield
of New Jersey

Lawrence R. Codey
President & Chief Operating Officer (Retired)
Public Service Electric & Gas Company

Peter G. Stewart
Senior Partner (Retired)
Carella, Byrne, Cecchi, Olstein,
Brody & Agnello, PC

Russell L. Hewit
Shareholder and Director
Dughi, Hewit & Domalewski, PC

Barbara Bell Coleman
President (Retired)
BBC Associates, LLC

Mary E. O’Dowd
Executive Director for Health Systems
and Population Integration
Rutgers Biomedical and Health Services

Carlos A. Medina
Chairman, Statewide Hispanic
Chamber of Commerce
President, Robinson Aerial Surveys, Inc.

SEATED,
LEFT TO RIGHT:

Vincent J. Giblin
President (Retired)
International Union of Operating Engineers

Aristides W. Geogantas
Executive Vice President (Retired)
Chase Manhattan Corporation
Horizon BCBSNJ
Senior Officers

Robert A. Marino
Chairman, Chief Executive Officer & President

Kevin P. Conlin
Executive Vice President & Chief Operating Officer

Mark L. Barnard
Senior Vice President, Service

Douglas E. Blackwell
Senior Vice President & Chief Information Officer

William J. Castner, Jr., Esq.
Senior Vice President, Corporate and Regulatory Affairs

Margaret M. Coons
Senior Vice President, Human Resources

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Senior Vice President, Chief Financial Officer & Treasurer

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Senior Vice President, Healthcare Management

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Senior Vice President & Chief Strategy Officer

Erhardt H. L. Preitauer
Senior Vice President, Government Programs

Linda A. Willett, Esq.
Senior Vice President, General Counsel & Secretary