

2004 annual report



Evolving to meet the needs of Albertans



Our mission is to provide supplementary health care and related benefit programs and services, on a viable, not-for-profit basis, for the financial protection and well-being of our publics.





Evolving to meet the needs of Albertans

Ron Malin

President and Chief Executive Officer

Through 2004, we have seen a significant disparity between specific sectors of the Alberta economy. While some sectors have enjoyed record growth, others have struggled. The far-reaching impact of the Alberta case of Bovine Spongiform Encephalopathy (BSE) in 2003 has demonstrated how the fortunes of one industry influence the provincial economy as a whole. While beef producers have borne the brunt of this crisis, the negative effects have spiralled to other industries and have had a significant impact on many Alberta Blue Cross customers.

In the face of such disparity, Albertans need our organization to respond quickly to their changing circumstances. Alberta Blue Cross continually enhances our products and services to serve our customers' changing needs, and 2004 was no exception. We offered plans to meet the diverse needs—and budgets—of individuals, families and businesses alike. From those who needed to scale back their coverage because of the beef and agricultural sector challenges, to those working in booming sectors of the economy such as construction and oil and gas who wanted more comprehensive plans, we continued to meet Albertans' diverse needs.

At the same time, consolidation in the Canadian insurance industry has resulted in fewer, but in some cases, very large, multinational companies. In this changing environment, Alberta Blue Cross provides an attractive alternative—offering unequalled flexibility in terms of both price and product content, as well as a unique emphasis on quality local service delivered as close as one of the seven Alberta Blue Cross offices located in communities across the province. Combined with our effective claims management and commitment to cost containment, Alberta Blue Cross delivers unparalleled value to Albertans.

In 2004, Alberta Blue Cross processed more than 25 million claim lines with a value of \$1.1 billion. This total includes 17 million prescriptions processed under Alberta Blue Cross Pharmacy Agreements, which accounts for approximately 55

per cent of the total number of prescriptions dispensed by Alberta pharmacies. Considering that prescription drugs are now the second-highest component of health-care spending in Canada, behind only hospital costs, controlling drug costs on behalf of our customers continues to be a key focus for Alberta Blue Cross.

We recognize that meeting the needs of Albertans amidst our changing environment requires ongoing investment. Alberta Blue Cross invests in our employees through ongoing training and educational support. We invest in our systems and infrastructure to ensure we operate as efficiently as possible. We invest in Alberta's future, offering 60 post-secondary educational scholarships through our 50th Anniversary legacy program. We invest in the communities we serve, through our support of a wide variety of worthwhile charitable activities. And we invest in Albertans' health—not only by educating and encouraging our employees and customers to make healthy lifestyle choices, but also by partnering with other health care system stakeholders and sponsoring initiatives to foster Albertans' health and well-being.

Strong financial results in 2004 also enabled Alberta Blue Cross to reinforce the reserve fund we are required to maintain to meet future operating requirements and ensure the organization's continued financial viability. This reserve fund provides the backstop critical to successfully provide for claims that could result from a catastrophe or epidemic. The reserve fund also ensures that Alberta Blue Cross is able to maintain reasonable rates despite economic fluctuations.

Alberta Blue Cross is proud to be part of your community. We are constantly evolving to meet the needs of Albertans.

Ron Malin
President and Chief Executive Officer

George H. Cornish
Chair, Board of Directors



trust

Alberta based and not-for-profit

Alberta Blue Cross is more than a familiar name—we're a financially solid, independent organization that's been a key provider of health care benefits to Albertans for more than 50 years. Beginning in 1948 with the simple objective to cover basic hospital care, Alberta Blue Cross has continuously evolved to meet the changing needs of Albertans. Today we serve more than 1.3 million Albertans and provide a broad range of benefits including coverage for prescription drugs, dental, optical, ambulance, preferred hospital accommodations, paramedical practitioners, oxygen, medical and surgical equipment and supplies, prosthetics and orthotics, hearing aids and other health-related products and services. We also offer group life insurance, accidental death and dismemberment, short and long-term disability coverage, and critical illness benefits through Blue Cross Life Insurance Company of Canada.

In accordance with legislation, Alberta Blue Cross is governed by a Board of nine Directors, representing a broad and diverse cross-section of Albertans. New board members are nominated by a committee consisting of a representative from each of the Provincial Health Authorities of Alberta, Institute of Chartered Accountants of Alberta, Alberta Association of Municipal Districts and Counties and the

current Board Chair, as stipulated through governing legislation. In the provision of effective governance, this Board of Directors plays an important role in overseeing the affairs of the corporation.

Part of your community

With our head office in Edmonton, and six other locations across the province, Alberta Blue Cross employs over 700 Albertans—people with strong ties to hundreds of communities across Alberta. With a clear and substantial commitment to support the local economy, Alberta Blue Cross is an organization Albertans know and trust.

In accordance with our status as a member of the Canadian Association of Blue Cross Plans, Alberta Blue Cross operates on a not-for-profit basis. As a member Blue Cross plan, we comply with specific financial reporting and auditing procedures, and the requirement that our organization's activities are directed principally to health-related benefits and services. Any surplus we generate is invested in the products and services we offer to Albertans, and distribution of surplus assets or earnings is prohibited.

We truly are part of Albertans' healthy futures.

Controlling costs

As a not-for-profit organization, Alberta Blue Cross is committed to providing the best value to our customers. In fact, we pay approximately 94 per cent of the money we receive back in claims to health service providers and Albertans—a level of efficiency that is unparalleled in the health benefits industry. Virtually all money received by Alberta Blue Cross stays in Alberta. Beyond the funds paid in claims, we reinvest in the products and services provided to our customers, and spend millions of dollars each year buying services and supplies in Alberta.

While health costs have experienced double-digit increases for many years, due in particular to rising prescription drug costs, Alberta Blue Cross has been able to hold rate increases for our customers to very reasonable levels by making every effort to control costs both internally and externally on behalf of plan participants.

Internal measures by which Alberta Blue Cross controls costs include:

- Outsourcing certain non-core business functions where it makes financial sense to do so and where it will not compromise the privacy or confidentiality of our customers.
- Strategically applying technology to simplify business processes.
- Continually re-engineering our organization to ensure we are operating at peak efficiency.
- Managing increased business volumes without adding a corresponding number of employees.

At the same time, Alberta Blue Cross Pharmacy Agreements, currently signed with every retail pharmacy in Alberta, set maximum dispensing fees for our customers. To further reduce costs, most Alberta Blue Cross plans automatically pay according to a Least Cost Alternative (LCA) pricing program where less expensive interchangeable drug products are available.

Meanwhile, dental benefits for over 240,000 Albertans are paid according to the *Alberta Blue Cross Dental Schedule*, which provides a fair and consistent basis for payment of dental claims while helping to ensure the continued viability and affordability of their plans.

As well, Alberta Blue Cross maintains agreements with many other health service providers, including ambulance service operators, which result in guaranteed lower costs for our customers.

In the interest of controlling costs, Alberta Blue Cross also conducts audits of providers to monitor claiming practices and compliance with agreements.

We evaluate our measures to control costs and provide the best value by continuously comparing our products and services against those offered by competitors. As a result, more than 1.3 million Albertans have Alberta Blue Cross health and dental coverage—and more Albertans are choosing to do business with Alberta Blue Cross every day.

service



responsive

Tarena d'Haene of Government Programs Administration, and Scott Jackson and Jessica Li of Government Operations.

Supporting government programs

It's no coincidence that our head office is located close to the Alberta Legislature. Although Alberta Blue Cross has always operated independently, for more than 30 years we have provided ongoing support to Alberta Health and Wellness by administering supplementary health plan programs, including Coverage for Seniors, Non-Group Coverage and the Palliative Care Drug Coverage program. In addition, through 2004 we continued to administer benefits through the Income Support, Assured Income for the Severely Handicapped and Learners Benefit programs for Alberta Human Resources and Employment; and the Alberta Child Health Benefit program for Alberta Children's Services. On a daily basis, employees in departments across our organization work directly with government personnel to meet the evolving needs of their programs.

Our ongoing involvement with Alberta Health and Wellness includes providing a wide range of program management and consulting services, including administrative and scientific support to the Minister of Alberta Health and Wellness

Expert Committee on Drug Evaluation and Therapeutics; administration of the special authorization process for prescription drugs; assistance in design, implementation and ongoing administration of special programs such as the Palliative Care Drug Program; production and distribution of the *Alberta Health and Wellness Drug Benefit List* and quarterly updates, as well as posting it and related documents on the Internet; and the administration of provider agreements with pharmacies, ambulance operators and optical providers.

Alberta Blue Cross stays close to health care in Alberta. We constantly monitor the provincial health care environment to identify benefit trends and potential impacts for our customers. Our staff includes health professionals such as consulting pharmacists, dentists and optometrists, and registered nurses. This professional expertise provides us with a thorough understanding of how the health care system works and how to design and deliver benefit plans to suit the needs of Albertans.

Alberta Blue Cross has developed a close and trusted working relationship with the Government of Alberta. We understand the unique challenges it faces and have gained a solid reputation as a sound, reliable organization committed to meeting its needs.

Evolving legislative amendments

In March 2004, the *Blue Cross Statutes Amendment Act* was passed by the Legislative Assembly of Alberta. The legislation resulted in removal of the exemption Alberta Blue Cross had from paying a two per cent premium tax on a small portion of our business beginning July 1, 2004. As a not-for-profit organization committed to ensuring the best value for Albertans, Alberta Blue Cross is working to offset a portion of this increase through enhanced operating efficiencies.



peace
of
mind

Amy Cochrane, Individual Products Sales Representative.

Plans to suit every stage in life

In today's changing economy, the needs of Albertans vary widely. From the effects of the closed border on the cattle industry to the boom in construction and the oil and gas sector, Albertans in 2004 demanded specific plans to suit their current financial position. Alberta Blue Cross responded.

A significant number of Albertans do not have coverage for supplementary health benefits such as prescription drugs, ambulance services, dental or vision care through their employer or a government-sponsored program. But Alberta Blue Cross individual health plans do offer such benefits—and more. Alberta Blue Cross offers affordable individual health and dental plans for Albertans who are self-employed, working on contract, have retired early or are without group benefits. Individual health plans offer another advantage—discounts on out-of-province emergency medical travel coverage.

We also recognize that Alberta's population is increasing in age. In order to meet this need, we offer unique plans for Alberta seniors ages 65 and over that complement existing government-sponsored programs with useful supplementary coverage. In 2004, thousands of seniors enjoyed the security of knowing they were covered by a Seniors Plus plan.

Our supplementary coverage has additional benefits as well. Canada's taxation laws allow individuals to deduct the cost of their Alberta Blue Cross health and dental plan premiums, which could provide a significant income tax saving of up to 40 per cent of the premium cost. For many Albertans, this can mean sizeable savings off the cost of coverage.

Alberta Blue Cross is evolving with the needs of Albertans, helping them to secure a healthy future at every stage of life.

Standing firm on plan abuse

Alberta Blue Cross takes an aggressive approach to the detection and prevention of fraud to ensure the best value for Albertans and the legitimacy of costs incurred by our customers.

On a regular basis, Alberta Blue Cross conducts audits of providers to monitor claiming practices and compliance with agreements. The majority of health service providers work conscientiously with Alberta Blue Cross to ensure they process and submit claims appropriately, in accordance with contractual and legislative requirements. Unfortunately, there are a small percentage that may not. As result of this audit process, on occasion Alberta Blue Cross recovers funds that are put back into products and services for the people of Alberta—and if significant, are returned to plan sponsors. In instances where audits uncover fraudulent, unethical or illegal activity, audit findings are reported to the respective professional body and to law enforcement authorities.

At the same time, Alberta Blue Cross performs post-claims monitoring and other activities to detect potential instances of benefit plan abuse or fraudulent activity by plan participants, and acts upon such instances in cooperation with law enforcement authorities across the province.

Statistics indicate that insurance fraud costs Canadian businesses and individuals more than \$1 billion each year, and a significant portion of this cost is related to health care fraud. We are doing our part to ensure that statistic decreases. We have a zero tolerance toward fraud, and encourage customers, plan sponsors and health service providers to report any concerns regarding potential or suspected fraudulent activity.

Privacy matters

Alberta Blue Cross values the trust our customers place in us. Our corporate privacy policies and procedures are designed to respect and address privacy needs and meet all legal and business requirements for the protection of personal information. In other words, we assure that private information is protected and used correctly.

Our business practices comply with privacy legislation requirements, and include policies and procedures to ensure the accuracy,

confidentiality and security of the personal information we hold for the purposes of administrating benefit plans.

Alberta Blue Cross continues to revise publications and forms to reflect our privacy policies and procedures. One change incorporated in 2004 was the inclusion of a consent statement on Alberta Blue Cross identification cards referring customers to our privacy policy.

Evolving to meet the needs of Alberta business

Alberta Blue Cross is the province's leading provider of supplementary health care coverage for employer groups of all sizes, and operates on both a provincial and national level.

Businesses with thousands of employees have very distinct needs compared to companies with only two employees, but Alberta Blue Cross has the knowledge and expertise to provide benefits to both—with exceptional service. A full range of benefits encompassing extended health, prescription drugs, dental, vision, employee assistance programs, Health Spending Accounts, out-of-province emergency medical travel coverage and expatriate coverage for international employees are offered to groups to provide a benefit package specific to their needs. We also offer group life insurance, accidental death and dismemberment, short and long-term disability coverage and critical illness through Blue Cross Life Insurance Company of Canada.

Our ability to deliver and manage benefit programs is backed by superb service. Many of the 4,000 employer plans we administered in 2004 were on behalf of Alberta-based employers with employees working outside our province.

Faced with rising drug costs, an aging workforce with growing health needs, and increasing demands for flexibility from employees, Alberta employers are facing mounting group benefit plan expenses. As a market-responsive organization, Alberta Blue Cross offers innovative products with a unique blend of flexibility and cost control to meet employers' needs. And to assist employer benefit administrators, we offer ongoing, hands-on information sessions to help cut through the complexities of benefits and provide practical solutions for optimum plan management.

Alberta Blue Cross offers a full suite of employer group benefit plans specifically geared to meet the evolving needs of Alberta businesses.





Jeff Stevenson, Group Sales Representative and Linda Ross, Group Sales.

flexibility

Enhancing products

In 2004, as an enhancement for our customers, Alberta Blue Cross introduced several changes to our Health Spending Account products.

A Health Spending Account is an arrangement through which an employer can allocate pre-tax dollars for its employees to pay for a list of health care services not covered by his or her benefit plan, but approved by Canada Revenue Agency as medical expenses. Plan participants can be reimbursed for medically-related expenses not covered by provincial health care plans. In general, any medically-related expense that could be used to meet requirements for inclusion on a plan participant's personal income tax return (in accordance with the *Income Tax Act*) is eligible for reimbursement.

Many Alberta businesses today are opting to bring additional flexibility to their group benefit plans by complementing them with Health Spending Accounts.

At one time available only to large employers, Health Spending Accounts are now offered to Alberta Blue Cross groups of any size—providing a practical, affordable and tax-effective way to meet the diverse needs of employees while ensuring cost containment for employers.



Jarett Nevill displays his scholarship certificate.



Fostering future talent

Scholarships are awarded to 60 post-secondary students across Alberta every year through the Alberta Blue Cross 50th Anniversary Scholarship Program. The program celebrates over fifty years of Alberta Blue Cross involvement in the lives of Albertans, and a continuing investment in the future of young people in this province.

Paddling for cancer research

Alberta Blue Cross employees once again took part in the Row for Life Festival—an annual fundraising event for the Cross Cancer Institute in Edmonton. We had two rowing teams competing in the 2004 Regatta and raised approximately \$7,000. Since our organization's initial involvement in this event, our rowing teams have raised approximately \$30,000 for the Cross Cancer Institute. Proceeds raised in 2004 were targeted to support the PolyomX Cancer Research Program.



Elaine Shannon, Customer Services department and United Way Committee member, poses with the United Way mascot.

Investing in communities across Alberta

Alberta Blue Cross has participated in United Way campaigns for over 10 years and has a tradition of giving to the community. We are committed to the communities we serve and the health and well-being of Albertans in general. By playing an active role in annual United Way campaigns, we help ensure a better future for everyone in Alberta.

Each year, funds raised by our employees are combined with a corporate donation from Alberta Blue Cross. The employee campaigns have grown over the years—special events were added and presentations included to provide information and a better understanding of the benefits made possible through United Way. In 2004, Alberta Blue Cross donated a total of \$109,000 to United Ways across Alberta.



Showing support

In support of our province's beef industry in 2004, Alberta Blue Cross continued a corporate initiative through which we donated \$25,000 worth of Alberta beef products via our Hearts of Blue charity to food banks and charitable organizations across the province.

sharing



The decorated room made possible by the Hearts of Blue donation.



Carie Fargey of the Provider Audit Services department and Hearts of Blue committee member, presents Deb Cautley, Executive Director of the Youth Emergency Shelter, with a cheque for \$752.

Heartfelt support

At Alberta Blue Cross we take our commitment to Albertans seriously—and we understand that sometimes means lending a helping hand. As an organization, we support our employees in their desire to contribute to the community through numerous charitable projects, from the United Way to Casual for a Cause days. Hearts of Blue, our staff-funded charity committee, supports the community by providing assistance to charitable organizations across the province.

In recent years, Hearts of Blue has assisted registered charities such as the Boys' and Girls' Clubs, women's shelters, inner-city seniors' centres and men's hostels by providing everything from appliances and clothing to hot meals at Thanksgiving. To encourage its success, Alberta Blue Cross makes a significant annual financial contribution, in conjunction with direct donations from employees, and provides resources to promote

and communicate Hearts of Blue initiatives to staff.

In August 2004, Alberta Blue Cross executives donned aprons and served up Alberta beef to Alberta Blue Cross employees at the Blue Sky Grill barbecue in support of Edmonton's Youth Emergency Shelter Society (YESS). The event raised \$752 which was allocated to the YESS "Room Mates" program. This donation enabled one room at the shelter to be renovated and a plaque installed on the door featuring the Alberta Blue Cross logo and a motivational saying.

"The Youth Emergency Shelter Society appreciates the generosity of financial and in-kind assistance," said Deb Cautley, Executive Director of YESS. "These kids deserve more than they have at times and caring organizations like Alberta Blue Cross support us in our vision to give youth at risk a chance."



Tracy Holmes, fitness program instructor and member of the Individual Products Administration department.

Workplace wellness

Alberta Blue Cross has earned a reputation as a best practices employer for our focus on fostering a healthy workplace, encouraging a healthy work-life balance and helping employees achieve optimum health. As the world becomes busier and the rate of change continues to quicken, people are deluged with information and often overwhelmed by their daily lives. Wellness initiatives play an important role in helping our employees restore balance to their lives and maintain their health.

Our active support of employee health and wellness began more than 15 years ago. Today the program encompasses a supportive work environment, ergonomic initiatives, employee health and wellness education through “lunch and learn” sessions, sponsorship of lifestyle improvement activities and much more. In addition, on-site fitness facilities and a daily exercise program are offered. The classes are led by experienced, certified instructors from both within the company as well as external resources. Change rooms, complete with shower facilities, are also available.



balance

Fostering dynamic employees

At Alberta Blue Cross, we believe our people are the key to our success. Employees who believe in our products and services and take pride in being productive and accountable play a key role in making us the largest provider of supplementary health and dental benefits in Alberta.

Shared values

In the health care industry, there are significant and continuous environmental forces at work: the influences of Alberta's and Canada's economies, changing legislation, new technologies and alterations in the nature of competition. Shared values that promote learning and adaptability in a climate of change help us respond to the fluctuating demands of our customers. Research shows that employees of values-based organizations are motivated to acquire new skills, show increased productivity, heightened morale and are committed and loyal.

Alberta Blue Cross is committed to living our values of Integrity & Trust; Respect, Dignity & Pride; Continuous Learning; Productivity; and Wellness & Balanced Lifestyle.

Training to serve you better

We are committed to enhancing employees' skills and knowledge to serve our customers better. Training opportunities are provided through on-the-job training, in-house training, conferences, seminars and educational courses.

As our business volume increases, so do the demands placed on our employees. Projects and processes become more complex and require greater coordination. In 2004 Alberta Blue Cross partnered with the Northern Alberta Institute of

Technology (NAIT) to establish techniques to help our staff work more efficiently in today's fast-paced environment. A customized Project Management program was created for employees of Alberta Blue Cross specifically designed to enhance our operations.

Our focus on continued education and skill development supports our evolution toward a high performance workplace, serving the needs of Albertans.



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(780) 498-8000

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Suite 101A
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T8V 3X8
(780) 532-3505

Lethbridge

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Medicine Hat

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Red Deer

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ABC Benefits Corporation **2004 Board of Directors**

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L.G. YOUNG	<i>Vice-Chair, Economist</i>
G.J. CLANACHAN	Chartered Accountant
K.J. GREGOR	Corporate Vice-President, Business Development, Relizon Canada Inc.
G.E. HOBBS	Principal, Governance West Inc.
P.E. MACKENZIE	Assistant Vice-President, Environment, Telus
R.R. RUMBERGER	Chartered Accountant
M.H. SWITZER	President, Global Muffler and Shock Absorber
J.E. WALBRIDGE	Addictions Counsellor

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DAVID F. ANDREWS	Senior Manager, Group Underwriting and Administration
NICHOLAS O. ARSCOTT	Vice-President, Benefit Services
LARAINÉ T. BARBY	Senior Manager, Application Development and Support
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RICHARD L. MARTIN	Vice-President and Chief Financial Officer
DAVID W. MILLER	Vice-President and Chief Information Officer
RAY R. PISANI	Vice-President, Group

2004 Company Highlights

Employees:	Over 700 across Alberta
Offices in Alberta:	Seven
Albertans served:	More than 1.3 million
Employer group plans:	4,000
Benefit lines offered:	13
Claim lines processed:	25 million
Value of claims paid:	\$1.1 billion



www.ab.bluecross.ca