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Corporate & Financial Regulation

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Pennsylvania
Insurance Department

February 2, 2007

The Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
1326 Strawberry Square
Harrisburg, PA 17120

Re: **Highmark Inc. 2007 Annual Community Health Reinvestment Application -- Revised**

Dear Commissioner Koken:

Please accept this submission as Highmark Inc.'s ("Highmark") application for the expenditure distribution or other utilization of its projected Annual Community Health Reinvestment ("ACHR") obligation for 2007. The following chart represents Highmark's estimated ACHR calculation pursuant to section 4 of the Agreement on Community Health Reinvestment (the "Agreement") of February 2, 2005:

2007 ACHR CALCULATION

Total Projected 2007 Premiums at 1.6%:	Total Projected 2007 Premiums at 1%:	2007 Pennsylvania Health Premium & State Income Taxes Credit:	Excess of 107.5% of 2006 ACHR Annualization:	Total 2007 Estimated ACHR Amount:
\$5,220,789,210	\$ 3,194,120,258			
x .016	x .010			
\$83,532,627	\$31,941,203	\$(8,566,631)	\$(6,081,310)	\$100,825,889

In accordance with sections 5 and 6 of Agreement, we propose that \$60,495,533 be distributed in 2007 to the following state approved programs:

	Projected Expenditures
60% ACHR to state-approved programs for the low-income and uninsured	\$60.5 million

Corporate Offices:

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We propose allocating \$40,330,356, or 40% of ACHR, to other Permitted Community Health Endeavors, which include:

40% of 2007 ACHR to proposed Permitted Community Health Endeavors:	Projected Expenditures
• Indirect cost related to the adultBasic program	\$4.5 million
• SpecialCare - low-income program additional rate subsidy and projected underwriting losses	\$5.7 million
• CHIP and Caring for Kids (uninsured children above the CHIP income guidelines) projected underwriting losses	\$11.2 million
• Guarantee Issue Direct Pay programs underwriting losses	\$24.7 million
• Direct Pay, Senior Program, HCTC and HIPAA rate subsidies	\$32.9 million
• Community Initiatives, including grants and donations that support improving health in Pennsylvania and addressing issues such as, but not limited to, health disparities, chronic diseases (such as asthma), obesity, community rural health and influenza shots for seniors	\$8.4 million

As you can see, our projected expenditures related to the 40% for Permitted Community Health Endeavors exceed the agreed upon \$40,330,356 by a substantial margin. The amounts listed for each activity represent our best estimate of the cost of Highmark's commitment for 2007. While actual amounts may vary from the projections, the amounts committed to these programs will meet or exceed \$40.3 million. This does not signify an expectation that we will always exceed the 40% portion.

Highmark proposes the following timeframe for transferring funds related the 60% portion of ACHR. Highmark will deposit one-fourth of the net amount (\$60,495,533) each quarter beginning March 1, 2007 (i.e. 3/1/07, 6/1/07, 9/1/07 and 12/1/07). Highmark will adjust the second quarter payment in 2008 for any refund/credit from the 2007 ACHR year.

Additionally, for the 2006 ACHR year, Highmark will submit to the Commonwealth by April 1, 2007, per the ACHR agreement section 4(b), a reconciliation of the 2006 Application to actual premium results and taxes incurred, and section 6, adultBasic actual underwriting gains/losses. Highmark will adjust the second quarter payment in 2007 for any refund/credit for these items from the 2006 ACHR year.

If you would like to discuss the estimated 2007 ACHR amounts in this application, or have any other questions, I can be reached at 412-544-8322, or through Candy Gallaher at 717-302-3982.

Sincerely,



Nanette P. DeTurk
Executive Vice President Finance, CFO & Treasurer

cc: David M. O'Brien, Government Services, Highmark
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