



BlueCross of Northeastern Pennsylvania

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19 North Main Street, Wilkes-Barre, Pennsylvania 18711-0302

November 30, 2007

The Honorable Joel Ario
Acting Insurance Commissioner
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120

Dear Acting Commissioner Ario:

The following is submitted in compliance with the Agreement on Community Health Reinvestment (the "CHR Agreement") executed February 2, 2005 by and among the Insurance Department of the Commonwealth of Pennsylvania (the "Department"), Capital Blue Cross, Highmark Inc., Independence Blue Cross, and Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania ("BCNEPA"). This application sets forth the calculated and the proposed expenditure, distribution, or other utilization of BCNEPA's Annual Community Health Reinvestment ("ACHR"), including the proposed schedule of payments, for calendar year 2008. The application is submitted for review by the Department.

Calculation of BCNEPA 2008 ACHR

The following sets forth the calculation of BCNEPA and subsidiaries' ACHR financial commitment for calendar year 2008 as defined in paragraph 4(a) of the CHR agreement (in thousands of dollars):

BCNEPA Consolidated Health Premium (1)	\$586,044
Assessment Percentage	<u>1.6%</u>
Subtotal	9,377
Less Health Premium/State Income Tax	<u>5,374</u>
Annual Community Health Reinvestment	<u><u>\$4,003</u></u>

Note that we do not anticipate any Medicare/ Medicaid premiums in 2008.

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**CHIEF COUNSEL
INSURANCE DEPARTMENT**



Disposition of BCNEPA 2008 ACHR

BCNEPA intends to remit quarterly payments commencing on March 1, 2008. The initial quarterly payment will represent 25% of the CHR obligation allocated to the Commonwealth Directed Low Income Health Insurance Portion.

The following table sets forth the projected dollar amount and timing of quarterly payments during 2008:

	<u>March 1</u>	<u>June 1</u>	<u>September 1</u>	<u>December 1</u>	<u>Total</u>
Net Payment to Commonwealth	\$ 1,000,769	\$ 1,000,769	\$ 1,000,769	\$ 1,000,770	\$ 4,003,077

Changes for 2008 ACHR versus 2007 ACHR

- The projected BCNEPA consolidated premium decreased from \$588,769,000 to \$586,655,000.
- The projected health premium/ state income tax increased from \$1,485,000 to \$5,386,000.
- As a result of the previous two bullets, the resulting ACHR decreased from \$7,935,000 to \$4,003,077.
- Since the total required ACHR for 2008 is less than the floor of 95% of the 2007 Commonwealth Directed Low Income Health Insurance Portion (per Section 4 (d)), the entire 2008 assessment will be directed towards the Low Income Health Portion. As a result, no part of the assessment will be allocated towards other "Permitted Community Health Reinvestment Endeavors".

Even though the CHR formula results in no required 2008 assessment allocation for other "Permitted Community Health Reinvestment Endeavors", please note that BCNEPA will still be contributing to support community based health initiatives in 2008 as outlined below:

Other Charitable Activities

(A) Non-group Subsidies

BCNEPA will continue the practice of requesting reasonable rate increases and subsidizing the residual costs of health insurance for those individuals not covered under group policies. These estimated 2008 subsidies are on a pre-tax basis, excluding investment income, and extend to those customers who purchase the following BCNEPA products:

Traditional and major medical non-group	}	\$ 14.3 Million
Student		
Special Care		
Security 65		

(B) Other Charitable Services

Other charitable services and programs focusing on community health-related issues for 2007 and into 2008 will include the following:

- BCNEPA annually supports the Pennsylvania Higher Education Foundation's nurse scholarship and nursing faculty programs, aiding in the education and qualification of nurses throughout BCNEPA's 13-county service area.
- The Blue Ribbon Foundation of Blue Cross of Northeastern Pennsylvania's targeted *Access to Care for the Uninsured and Underinsured* initiative provides grants to nonprofits

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to help increase the quantity of, and improve the quality of, medical care for this growing population across our service area.

- BCNEPA's financial support for The Commonwealth Medical College has played a critical role in making this landmark community health project a reality.
- BCNEPA will continue its proactive outreach to the community to raise awareness and educate individuals, as well as our nonprofit and community health partners, about coverage eligibility for the Children's Health Insurance Program ("CHIP").

The information provided in this Application is intended to serve as a basis to assess BCNEPA's compliance with the CHR Agreement, and is not intended to represent an exhaustive list of community based health initiatives in which BCNEPA is involved.

We look forward to receiving your approval of the application in its entirety. In the event that the application is not approved in its entirety, we reserve the right to submit a revised application.

Please feel free to contact me at (570) 200-6360 or our Actuary, John Dante, at (570) 200-6315 if you have any questions or need additional information.

Sincerely,



J. Ken Suchoski

Senior Vice President, Finance & Chief Financial Officer

Cc:

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