



Capital BlueCross

BY HAND

March 1, 2005

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

Re: Community Health Reimbursement Application for 2005

Dear Ms. Koken:

Reference is made to the Agreement on Community Health Reinvestment (the "Agreement"), dated February 2, 2005, among the Pennsylvania Insurance Company and the four Pennsylvania Blue Plans.

Pursuant to paragraph 3 of the Agreement, enclosed is Capital BlueCross' Community Health Reinvestment Application for calendar year 2005.

Please do not hesitate to contact me if you have any questions or comments concerning the enclosure.

Sincerely,

Patricia Wong
Supervising Counsel

CAPITAL BLUECROSS AND SUBSIDIARIES
APPLICATION FOR 2005 COMMUNITY HEALTH REINVESTMENT
SUBMITTED FOR REVIEW TO THE PENNSYLVANIA
DEPARTMENT OF INSURANCE

I. Determination of Community Health Reinvestment (CHR)

Factors	1.6%	1.0%
	2003 <u>Sch T col 3 & 6</u>	2003 <u>Sch T col 4 & 5</u>
Capital Blue Cross	\$ 378,491,263	\$ 0
Capital Advantage Ins Co	\$ 933,345,916	\$ 0
Keystone Health Plan Central	\$ 286,426,945	\$ 164,487,937
Less: 50% of Q1 2003 ¹	<u>\$ (35,622,554)</u>	<u>\$ (20,850,934)</u>
Totals	\$1,562,641,571	\$ 143,637,003
(A) Sub-Total before Credits	\$ 25,002,265	\$ 1,436,370
Credits:		
<i><u>Premium Tax Credits:</u></i>		
Capital Blue Cross	0	
Capital Advantage Ins Co	\$18,608,418	
Keystone Health Plan Central	0	
<i><u>Income Tax Credits:</u></i>		
Capital Blue Cross	0	
Capital Advantage Ins Co	0	
Keystone Health Plan Central	\$1,975,865	
Less: 50% of Q1 2003 ¹	(242,627)	
(B) Total Credits	\$20,341,656	
(A) Gross before credits	\$26,438,635	
(B) Credits	<u>(20,341,656)</u>	
CHR	<u>\$ 6,096,979</u>	

¹ Capital BlueCross was a 50% owner of Keystone Health Plan Central through the first quarter of 2003. Therefore, this entry reflects Capital's proportionate share of premium and state income taxes for that period as reported in Keystone's first quarter filing with the Pennsylvania Insurance Department. State income taxes were estimated at 9.99% of pre-tax book income.

2. Proposed Utilization/Disbursement of CHR

Under paragraph 5 of the Agreement on Community Health Reimbursement (the "Agreement"), dated February 2, 2005, among the Pennsylvania Insurance Department and the four Pennsylvania Blue Plans, the CHR amount is to be utilized each year in each Plan's service area for designated purposes:

- (a) 60% of the CHR amount (the "Commonwealth Directed Low Income Health Insurance Portion") is to be dedicated to providing health insurance through programs for persons of low income, such as the adultBasic program or an alternate program to benefit persons of low income, all as contemplated by the Agreement; and
- (b) 40% of the CHR amount is to be dedicated to other community health related expenses (including, among others, rate subsidies for individual programs).

It should be noted that the contract for the adultBasic program that is currently offered in Capital BlueCross' service area was originally set to expire on March 11, 2005 but has just been extended by the Pennsylvania Insurance Department for a period of 90 days through June 11, 2005. The contract for adultBasic for the period following June 11, 2005 has not yet been awarded to any carrier.

This application assumes that Capital BlueCross and its affiliates (collectively "Capital BlueCross") will be offering the adultBasic program on a stand-alone basis for calendar year 2005. If for any reason Capital BlueCross is not awarded an adultBasic contract for the entire calendar year, unexpended funds allocated to adultBasic will be utilized for an alternate Capital BlueCross program to benefit persons of low income, all as contemplated by the Agreement.

Commonwealth Directed Low Income Health Insurance Portion

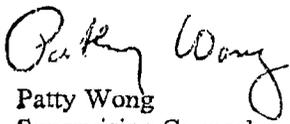
60% of the CHR amount is approximately \$3.7 million. Capital BlueCross will utilize this amount, less applicable credits for underwriting losses or additions for underwriting gains under paragraph 6 of the Agreement, to enroll persons of low income through the Capital BlueCross adultBasic program (or any alternate program to be offered by Capital BlueCross to benefit persons of low income).

Other Community Health Related Expenditures

40% of the CHR amount is approximately \$2.3 million. Consistent with its historical practice and as demonstrated by prior filings with the Pennsylvania Insurance Department, Capital BlueCross' current rate subsidies for individual programs exceed the amount to be utilized for other community health related expenditures.

Capital BlueCross staff are available to discuss any questions that you may have. Please call the undersigned at 541-7277 if you would like to discuss this matter.

Sincerely,

 me
Patty Wong
Supervising Counsel