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Pennsylvania
Insurance Department

November 30, 2005

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

Re: Highmark Inc. 2006 Annual Community Health Reinvestment Application

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 2006. 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:

2006 ACHR CALCULATION

Total Projected 2006 Premiums at 1.6%:	Total Projected 2006 Premiums at 1.0%:	2006 Pennsylvania Health Premium & State Income Taxes Credit:	Total 2006 Estimated ACHR Amount:
\$5,652,034,069	\$3,136,282,218		
x .016	x .010		
\$90,432,545	\$31,362,822	(\$5,300,162)	\$ 116,495,205

In accordance with sections 5 and 6 of the Agreement, we propose that \$69,897,123 be distributed in 2006 to the following state-approved programs:

60% ACHR to state-approved programs for the low-income and uninsured:	Projected Expenditures
• adultBasic – projected underwriting credit/(refund)	\$4.8 million
• Funds for state-approved low-income programs	\$65.1 million

We propose allocating \$46,598,082, or 40% of ACHR, to other Permitted Community Health Endeavors, which include:

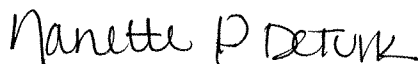
40% of 2006 ACHR to proposed Permitted Community Health Endeavors:	Projected Expenditures
• Indirect costs related to the adultBasic program	\$4.5 million
• CHIP and Caring Program (uninsured children above the CHIP income guidelines) projected underwriting losses	\$8.1 million
• SpecialCare – low-income program additional rate subsidy and projected underwriting losses	\$7.6 million
• Guarantee Issue Direct Pay programs underwriting losses	\$21.1 million
• HCTC and HIPAA rate subsidies	\$1.1 million
• Direct Pay and Senior Program rate subsidies	\$32.8 million
• Initiatives/grants/donations that support improving health in Pennsylvania, such as, but not limited to: Highmark’s Children’s Health Promotion (ages 6 to 18), Health Disparities, Chronic Diseases (such as asthma), Obesity, Community/Rural Health, Influenza shots for seniors, etc.	\$13.8 million

As you can see, our projected expenditures related to the 40% for Permitted Community Health Endeavors exceed the agreed upon \$46,598,082 by a substantial margin. The amounts listed for each activity represent our best estimate of the cost of Highmark’s commitment for 2006. While actual amounts may vary from the projections, the amounts committed to these programs will meet or exceed \$46.6 million. This does not signify an expectation that we will always exceed the 40% portion.

Highmark proposes the following timeframe for transferring funds related to the 60% portion of ACHR. Highmark will deposit one-fourth of the net amount (\$65,070,959) each quarter beginning April 1, 2006 (i.e. 4/1/06, 7/1/06, 10/1/06, and 1/1/07). Highmark will increase or decrease the first quarter payment each year by any refund/credit related to the prior year reconciliation or applicable credits.

If you would like to discuss the estimated 2006 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 DeTurk
 Senior Vice President, Finance
 Corporate Controller

Cc: David M. O’Brien, Government Services, Highmark
 Candy Gallaher, Regulatory Affairs, Highmark