



BlueCross of Northeastern Pennsylvania

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

November 24, 2009

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

Dear 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, submitted for the Department's review, describes the calculation of BCNEPA's Annual Community Health Reinvestment ("ACHR") for Calendar Year 2010.

Calculation of BCNEPA 2010 ACHR

The following sets forth the calculation of the ACHR financial commitment for BCNEPA and its subsidiaries for calendar year 2010 as defined in paragraph 4(a) of the CHR agreement (in thousands of dollars):

BCNEPA Consolidated Health Premium	\$ 511,005
Assessment Percentage	1.6%
Subtotal	\$ 8,176
Less Health Premium/State Income Tax	\$ 5,811
Annual Community Health Reinvestment	\$ 2,365

Changes for 2010 ACHR versus 2009 ACHR

- The projected BCNEPA consolidated Health Premium decreased from \$561,701,000 in 2009 to \$511,005,000 in 2010 due to a decrease in actual and projected membership along with the elimination of our CBHNP Medicaid book of business & resulting premium.
- The projected health premium/state income tax decreased from \$5,960,000 in 2009 to \$5,811,000 in 2010 due to the decrease in the proportion of our business subject to taxation.
- As a result of these two items, the resulting ACHR decreased from \$2,964,320 to \$2,364,856.



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- The total required ACHR for 2009 as submitted in our November 26, 2008 application was \$2,964,320, all of which was allocated towards the Low Income Health Portion. 95 percent of \$2,964,320 is \$2,816,104. The total required ACHR of \$2,364,856 is less than \$2,816,104, therefore per Section 4 (d) of the CHR Agreement, the entire ACHR of \$2,364,856 will be allocated to the Commonwealth Directed Low Income Health Insurance Portion.

Disposition of BCNEPA 2010 ACHR

BCNEPA intends to remit quarterly payments commencing on March 1, 2010. The initial quarterly payment will represent 25% of the CHR obligation allocated to the Commonwealth Directed Low Income Health Insurance Portion.

The table below sets forth the projected dollar amount and timing of quarterly payments during 2010:

	<u>March 1</u>	<u>June 1</u>	<u>September 1</u>	<u>December 1</u>	<u>Total</u>
Net Payment to Commonwealth	\$591,214	\$591,214	\$591,214	\$591,214	\$2,364,856

Other Charitable Activities

Even though the CHR formula results in no required 2010 assessment for other “Permitted Community Health Reinvestment Endeavors”, please note that BCNEPA will still be contributing to support community based health initiatives in 2010 as outlined below.

In 2010, BCNEPA will continue the practice applying Plan surplus for those individuals not covered under group policies. The estimated amount of plan surplus to be applied is on a pre-tax basis, excluding investment income for the following Individual Products:

<u>Product</u>	
BlueCare Cooperative	} \$ 12 Mill
BlueCare Direct Pay Major Medical	
Special Care	
BlueCare Security	

BCNEPA continues to remain focused on the long-term health care and economic interests of our community. Through the Blue Ribbon Foundation, we help local health-oriented non-profits.

The information in this letter 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.

All of the pages of this letter have been stamped “Confidential and Proprietary Information” due to the additional details provided. A separate letter has been provided for the public record.

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 John Fulginiti, at (570) 200-6402 if you have any questions or need additional information.

Sincerely,



William J. Farrell
Senior Vice President, Finance and Enterprise Chief Financial Officer

- CC: Denise S. Cesare, President & CEO, BCNEPA
Sandra Ykema, Department Counsel, Pennsylvania Insurance Department
Rosemarie Greco, Director, Governor's Office of Health Care Reform
Brian Rinker, Sr. Vice President, Health Plan Operations, BCNEPA
Timothy Nebel, Vice President, Chief of Staff, BCNEPA
Gertrude McGowan, Vice President Legal, Interim Gen. Counsel & Secretary, BCNEPA
Kimberly Kockler, Vice President, Government Affairs, BCNEPA
Mitch Kalish, Vice President, Chief Actuary, BCNEPA