



BlueCross of Northeastern Pennsylvania

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

December 1, 2006*

Ms. Diane Koken
Insurance Commissioner
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120

Dear Commissioner Koken:

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"). The application sets forth the calculated and the proposed expenditure, distribution, and other utilization of BCNEPA's Annual Community Health Reinvestment ("ACHR"), including the proposed schedule of payments, for calendar year 2007. The application is submitted for review by the Department.

Calculation of BCNEPA 2007 ACHR

The following sets forth the calculation of BCNEPA and subsidiaries' ACHR financial commitment for calendar year 2007 as defined in paragraph 4(a) of the CHR agreement (in thousands of dollars):

Projected BCNEPA Consolidated Health Premium	\$ 588,769
Assessment Percentage	1.6%
Subtotal	9,420
Less Health Premium/State Income Tax	<u>1,485</u>
Annual Community Health Reinvestment	\$7,935

*Revised January 31, 2007



Disposition of BCNEPA 2007 ACHR

In accordance with the terms of the CHR Agreement noted in section 4(d) of which the Commonwealth Directed Low Income Health Insurance Portion shall decrease by no more than 5% from the previous year, BCNEPA will allocate \$5,380,000 to provide health insurance through state-approved programs for persons of low income (the "Commonwealth Directed Low Income Health Insurance Portion"). At this time, it is believed that the allotment will be used to increase enrollment in the state-run adultBasic program in BCNEPA's service area of northeastern and north central Pennsylvania.

BCNEPA intends to remit quarterly payments commencing on March 1, 2007. The initial quarterly payment will represent 25% of the CHR obligation allocated to the Commonwealth Directed Low Income Health Insurance Portion net of the underwriting losses on adultBasic for the period January 1, 2006 – December 31, 2006.

The following table sets forth the projected dollar amount and timing of quarterly payment during 2007:

	<u>March 1</u>	<u>June 1</u>	<u>September 1</u>	<u>December 1</u>	<u>Total</u>
Low Income CHR Obligation*	\$ 1,345,000	\$ 1,345,000	\$ 1,345,000	\$ 1,345,000	\$ 5,380,000
Less Underwriting					
Losses 1/1/2006 - 6/30/2006	260,000	260,000	260,000	-	780,000
7/1/2006 - 12/31/2006	-	-	-	-	-
Net Payment to Commonwealth	<u>\$1,085,000</u>	<u>\$ 1,085,000</u>	<u>\$ 1,085,000</u>	<u>\$ 1,345,000</u>	<u>\$ 4,600,000</u>

*Commonwealth Directed Low Income Health Insurance Portion

Consistent with the CHR Agreement in section 4(b), the 2006 CHR Application will be reconciled prior to April 1, 2007. At that time, we will also reconcile the 2006 losses reflected in the above table. Any adjustments to the payments will be made in the June 1, 2007 payment.

The CHR Agreement stipulates that the remaining \$2,555,000 of ACHR be allocated to other "Permitted Community Health Reinvestment Endeavors". BCNEPA has a history of supporting community based health initiatives and anticipates the planned 2007 activities will exceed the amount necessary for compliance under this section of the CHR agreement. For purposes of calculating compliance with this portion of the CHR Agreement, BCNEPA will include the following rate subsidies for the non-group products.

December 1, 2006

Non-Group Subsidies

BCNEPA will continue to subsidize the Blue Cross non-group policies, as we have done in the past several years (pre-dating the CHR agreement). In an effort to make our non-group products as accessible and affordable as possible, BCNEPA has voluntarily forgone any rate increase action on these products for 2007. The resulting 2007 subsidies extended to the policyholders of the Blue Cross non-group policies are estimated to be as follows:

Traditional and major medical non-group	}	\$ 12,250,000
Student		
Special Care		
Security 65		

BCNEPA continues to remain focused on the long-term health care and economic interests of our community in insuring that our surplus is being used to benefit our customers and the 13 county areas we serve.

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 let me know if you have any questions or need additional information.

Sincerely,



J. Ken Suchoski

Senior Vice President, Finance, Chief Financial Officer & Corporate Treasurer

- cc: Sandra Ykema, Department Counsel, Pennsylvania Insurance Department
- Rosemarie Greco, Director, Governor's Office of Health Care Reform
- Denise S. Cesare, President & CEO, BCNEPA
- William C. Reed, Executive Vice President & COO, BCNEPA
- Edwin R. Goodlander, Sr. Vice President, Legal, Gen. Counsel & Secretary, BCNEPA