



Capital BlueCross

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Gary D. St. Hilaire
Senior Vice President, Treasurer and CFO

November 30, 2007

Sandra L. Ykema, Esquire
Department Counsel
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17130

**Re: Capital Blue Cross
2008 CHR Application**

Dear Sandy:

Pursuant to Paragraph 3 of the Agreement on Community Health Reinvestment ("CHR"), enclosed please find Capital BlueCross' ("Capital") CHR Application for 2008.

In its February 1, 2007 Application filing (re-submitted) for the 2007 year, Capital explained that primarily due to certain state income taxes paid by Keystone HealthPlan Central, its total CHR obligation had been significantly reduced in 2006. This generated a significant overpayment in 2006, and also had the effect of reducing Capitals CHR obligation in 2007 and 2008 due to the provisions of Paragraph 4(c) of the CHR agreement. This section limits the increase in any year to 107.5 percent (107.5%) of the total CHR in the immediately proceeding calendar year.

The result of the overpayment in 2006 generated a credit to Capital of roughly \$2.8 million. That credit grew in 2007 to roughly \$3 million and is expected to increase to \$3.1 million in 2008 due to the Adult Basic credit exceeding the Commonwealth Directed amount. Pursuant to the terms of the Agreement, no payment is due in 2008.

As always, we would welcome an opportunity to review our enclosed 2008 CHR Application with you at your convenience.

Sincerely,

Gary D. St. Hilaire
Treasurer and Chief Financial Officer

**CAPITAL BLUE CROSS AND SUBSIDIARIES
APPLICATION FOR 2008 COMMUNITY HEALTH REINVESTMENT**

**SUBMITTED FOR REVIEW TO THE PENNSYLVANIA
DEPARTMENT OF INSURANCE**

1. Determination of Community Health Reinvestment (CHR)

Factors	1.6%	1.0%
	2008 (p) <u>Sch T col 3 & 6</u>	2008 (p) <u>Sch T col 4 & 5</u>
Capital Blue Cross	208,325,000	
Capital Advantage Ins Co	1,254,731,000	62,894,000
Keystone Health Plan Central	248,205,000	212,580,000
Avalon Health, Ltd	-	27,249,000
 Totals	 1,711,261,000	 302,723,000
(A) Sub-Total before Credits	27,380,176	3,027,230

Credits:
Premium Tax Credits:

Capital Blue Cross	0
Capital Advantage Ins Co	25,857,000
Keystone Health Plan Central	0

Income Tax Credits:

Capital Blue Cross	0
Capital Advantage Ins Co	0
Keystone Health Plan Central	(330,000)

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(B) Total Credits	25,527,000
(A) Gross before credits	30,407,406
(B) Credits	(25,527,000)

CHR	\$ 4,880,406
(1) Capped Amount per paragraph 4 (c)	1,472,931
Commonwealth Directed (60%)	883,758
Credits: Negotiated credit for	
(2) loss of Adult Basic program	\$ (988,240)
Net Commonwealth Directed Portion	\$ (104,481)
2007 Credit Carryforward	(3,021,265)
Total refund/credit due in 2008 ==>	(3,125,746)

(1) A cap of 107.5% of prior year TOTAL CHR is applied pursuant to paragraph 4(c) of the Agreement on Community Health Reinvestment. The 2007 ESTIMATED True-up shows a final TOTAL CHR of \$1,370,168. 2008 Cap is \$1,370,168 X 1.075 = \$1,472,931.

(2) Adult Basic negotiated credit equals 3.25% of (A) Gross before Credits