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November 26, 2008

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

Re: Capital Blue Cross 2009 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 2009.

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 over-payment in 2006, and also had the effect of reducing Capital's CHR obligation in the following years 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 over-payment in 2006 generated a credit to Capital of roughly \$2.8 million. That credit grew in 2007 and 2008 to nearly \$3 million as a result of the Adult Basic Credit exceeding the Commonwealth Directed amount in each of those years. The credit due to Capital is expected to increase slightly in 2009 to an amount just over \$3 million.

As always we would welcome an opportunity to review our enclosed 2009 CHR Application with you at your convenience.

Sincerely,

Gary D. St. Hilaire

Senior Vice President, Treasurer and Chief Financial Officer

CAPITAL BLUE CROSS AND SUBSIDIARIES APPLICATION FOR 2009 COMMUNITY HEALTH REINVESTMENT

SUBMITTED FOR REVIEW TO THE PENNSYLVANIA DEPARTMENT OF INSURANCE

1. Determination of Community Health Reinvestment (CHR)

Factors			1.6%	1.0%
		Sc	2009 (p) h T col 2 & 5	 2009 (p) Sch T col 3 & 4
Keystone	ue Cross dvantage Ins Co Health Plan Central surance Company		209,282,000 1,316,627,000 215,771,000 16,853,000	 86,832,000 210,689,000 11,940,000
Totals		,	1,758,533,000	309,461,000
(A) Sub-Total before Credits			28,136,528	3,094,610
Credits: Premium Tax Credits: Capital Blue Cross Capital Advantage Ins Co Keystone Health Plan Central			0 26,525,000 0	
-	ax Credits:		v	
Capital Blue Cross Capital Advantage Ins Co Keystone Health Plan Central			0 0 357,000	
(B) Total Credits			26,882,000	
(A) Gross before credits			31,231,138	
(B) Credits			(26,882,000)	
(1)	CHR Capped Amount per paragraph 4 (c)	\$	4,349,138 1,583,400	
	Commonwealth Directed (60%)		950,040	
(2)	Credits: Negotiated credit for loss of Adult Basic program	\$	(1,015,011)	
	Net Commonwealth Directed Portion	\$	(64,971)	
	2007 Credit Carryforward per 2007 True-Up 2008 Estimated Credit		(2,872,847) (104,481)	
	Total refund/credit due in 2009 ====>		(3,042,299)	

⁽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 2008 Capped CHR is \$1,472,931. As a result, the 2009 Capped CHR is \$1,472,931 X 1.075 or \$1,583,400

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