

**AGREEMENT
ON
COMMUNITY HEALTH REINVESTMENT**

This Agreement on Community Health Reinvestment (the "Agreement") is made this 2nd day of February 2005, by and among the Insurance Department of the Commonwealth of Pennsylvania (the "Department"), by Patricia H. Stromberg, in her capacity and pursuant to her authority as Deputy Insurance Commissioner, and Capital Blue Cross ("CBC"), Highmark Inc. ("Highmark"), Independence Blue Cross ("IBC"), and Hospital Service Association of Northeastern Pennsylvania, d/b/a Blue Cross of Northeastern Pennsylvania ("NEPA") (collectively, the "Parties").

Recitals

A. CBC, Highmark, IBC and NEPA (collectively, the "Blue Plans"), are not-for-profit health plan corporations operating pursuant to the provisions of the Health Plan Corporations Act, 40 Pa. C.S. §§ 6101, *et seq.*, 6301 *et seq.* and are subject to regulation by the Department.

B. CBC, IBC, and NEPA have traditionally and voluntarily engaged in a variety of community activities ("Community Activities").

C. Highmark has traditionally and voluntarily engaged in a variety of Community Activities. These efforts have included, but have not been limited to, full compliance with certain social and charitable health care endeavors required under a 1996 Decision and Order of the Insurance Commissioner (the "Commissioner"), Docket No. MS96-04-098.

D. The Community Activities of the Blue Plans have been designed in part to improve health care, to make health care more affordable and accessible, and to benefit the communities in the Blue Plans' respective service areas.

E. The Department and the Blue Plans wish to formalize their understanding relating to the existence, nature, and scope of the Blue Plans' Community Activities on a prospective basis.

F. This Agreement is intended to be a complete and total resolution of the issue of the Blue Plans' Community Activities (sometimes referred to, *inter alia*, as "social mission," "charitable and/or benevolent endeavors," or "community activities") raised in the Department's Notice dated January 17, 2004, up to and including the period of this Agreement.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound, the Parties agree as follows:

1. Each Blue Plan agrees to an annual financial commitment to Community Activities in the form of an annual community health reinvestment (the "Annual Community Health Reinvestment") for calendar years 2005 through 2010.
2. For purposes of this Agreement:
 - (a) "Health Premiums" means all Pennsylvania direct written health premiums reported by the parent and its Health Subsidiaries and Affiliates (as defined below) in their Annual Statements in proportion to any respective ownership interest. The term "Health Premiums" does *not* include administrative service business income or Medicare and Medicaid program premiums. "Health Premiums," as defined in this Agreement, are those premiums currently reported at Schedule T, Pennsylvania line, columns 3 and 6 of each Plan's Annual Statement.

- (b) "Medicare and Medicaid Premiums" means all Pennsylvania direct written Medicare and Medicaid Premiums reported by the parent and its Health Subsidiaries and Affiliates in their Annual Statements in proportion to any respective ownership interest. "Medicare and Medicaid Premiums" are those premiums currently reported at Schedule T, Pennsylvania line, columns 4 and 5 of each Plan's Annual Statement.
- (c) "Health Subsidiaries and Affiliates" means all Pennsylvania domiciled entities writing health insurance coverage.
- (d) "Health Premium/State Income Tax" means all actual Commonwealth state income taxes and state premium taxes incurred on Health Premiums reported to the Pennsylvania Department of Revenue by the parent and its Health Subsidiaries and Affiliates in proportion to any respective ownership interest.
- (e) "Permitted Community Health Reinvestment Endeavors" means:
 - (i) Health coverage programs for low income and/or uninsured persons, including, but not limited to, adultBasic, CHIP, Special Care or any similar successor programs;
 - (ii) Other programs or means of subsidizing or providing healthcare coverage and/or healthcare services to persons who are determined under applicable and recognized standards to be unable to pay for such coverage or services or to be without access to affordable healthcare services or coverage, including, but not limited to, rate subsidies for HIPAA and HCTC, rate subsidies for individual

programs paid by any Blue Plan that have not been collected from group premiums, and operating subsidies for public health provider programs; and

- (iii) Other community healthcare-related expenditures, distributions or utilizations approved by the Department, which approval shall not be unreasonably withheld.

- (f) "RBC" means "risk based capital" as that term is defined at 40 P.S.

§§ 221.1-B, *et seq.*

3. On or before December 1 of each calendar year, each Blue Plan shall submit to the Department an application (the "Application") for review by the Department setting forth the Blue Plan's proposed expenditure, distribution or other utilization of its Annual Community Health Reinvestment for the following calendar year. For calendar year 2005, the Application will be due March 1, 2005.

4. The Annual Community Health Reinvestment shall be calculated as follows:

- (a) For calendar year 2005, 1.6% of Health Premiums plus 1.0% of Medicare and Medicaid Premiums as reported on each Plan's 2003 Annual Statement minus Health Premium/State Income Tax.
- (b) For each succeeding calendar year in the period 2006-2010, 1.6% of Health Premiums as projected for that year by the respective Blue Plan plus 1.0% of Medicare and Medicaid Premiums as projected for that year by the respective Blue Plan minus Health Premium/State Income Tax as projected for that year by the respective Blue Plan. Beginning in calendar year 2007, and each year thereafter through 2011, on or before April 1 of

each year, each Blue Plan shall submit to the Department a reconciliation of its Annual Community Health Reinvestment as provided in its Application for the prior calendar year against actual premium reported and taxes incurred for that prior calendar year. Subject to Department approval, such reconciliation shall state the manner and time within which any adjustments shall be made, and each Blue Plan shall appropriately adjust for any excess or deficiency in the actual Annual Community Health Reinvestment amount as calculated based on actual premium and taxes for the prior calendar year.

- (c) Notwithstanding any other provision of this Agreement, beginning with the Application for year 2007 and for each calendar year thereafter for the term of this Agreement, the total Annual Community Health Reinvestment of any Plan shall not exceed 107.5 percent (107.5%) of the total Annual Community Health Reinvestment for that Plan in the immediately preceding calendar year.
- (d) Notwithstanding any other provision in this Agreement, each Blue Plan agrees that in the event that a Blue Plan's total Annual Community Health Reinvestment amount decreases from one year to the next in excess of 5%, the percentage used to determine the Commonwealth Directed Low Income Health Insurance Portion (as defined in paragraph 5) for that Blue Plan shall be adjusted for that year such that the Commonwealth Directed Low Income Health Insurance Portion for that Blue Plan shall decrease by no more than 5% of the amount of the Commonwealth Directed Low

Income Health Insurance Portion for that Blue Plan from the prior year.

In no event, however, shall the adjusted percentage used to determine the Commonwealth Directed Low Income Health Insurance Portion for that Blue Plan exceed 100% of that Blue Plan's total Annual Community Health Reinvestment amount.

5. Each Blue Plan agrees that the Annual Community Health Reinvestment for each Plan shall be expended, distributed or utilized in the respective service area of that Plan and solely for Permitted Community Health Reinvestment Endeavors. Sixty percent (60%) of the Annual Community Health Reinvestment for each calendar year of this Agreement shall be dedicated to providing health insurance through state-approved programs for persons of low income, including but not limited to adultBasic (the "Commonwealth Directed Low Income Health Insurance Portion"). In the event that the Commonwealth Directed Low Income Health Insurance Portion cannot be expended, distributed or utilized in the calendar year in which it is dedicated, such amounts shall be expended, distributed or utilized in succeeding years.

6. Any Blue Plan participating in the adultBasic program or any alternative program to benefit persons of low income in any calendar year subject to this Agreement, will receive approval of rates for 2005 and thereafter for adultBasic, and to the extent applicable for such alternative programs, as filed with the Department, or in the event such approval of rates as filed is not received, such Blue Plan will receive a credit for Actual Underwriting Losses for adultBasic, and to the extent applicable, for such alternative programs, against the sixty percent (60%) number defined in paragraph 5 above or the Blue Plan will provide a credit to the Commonwealth for adultBasic Actual Underwriting Gains. The term "Actual Underwriting

Losses/Gains" means premiums earned less claims incurred, less administrative expense costs directly associated with the program as recorded on the Blue Plan's internal financials.

7. Each Blue Plan shall make available to the Department such information as the Department may reasonably require to verify the calculation, expenditure, distribution or use of a Blue Plan's Annual Community Health Reinvestment. Any such information that is proprietary or confidential, including such information that is set forth in an Application, (the "Confidential Information") shall be clearly marked prior to submission to the Department, and shall be accorded confidential treatment by the Department and not disclosed by the Department to any third party except by agreement with the Blue Plan or pursuant to Court Order. Upon receipt of any request from a third party for Confidential Information, the Department will notify the third party that the Confidential Information will not be provided. In the event that a third party institutes an action to compel the Department to disclose the Confidential Information, the Department will inform the affected Blue Plan of the Court Order in sufficient time to allow the Blue Plan to intervene or otherwise seek additional protections from having to disclose the Confidential Information. The Department may, but does not have to, assist the Blue Plan with any efforts to maintain the confidentiality of the information in any Court proceeding but in no event shall the Department oppose any such effort.

8. This Agreement may be modified or waived as to an individual Blue Plan, provided notice of the application for modification or waiver is provided to each of the other Blue Plans five (5) business days in advance of when said modification or waiver is sought from the Department. The modification or waiver shall be in writing and executed by the Department and said individual Blue Plan. Relief from the Annual Community Health reinvestment obligation may be granted by the Commissioner without application for modification or waiver if

a Blue Plan's RBC ratio drops 100 points within a twelve (12) month period or below the Blue Cross Blue Shield Association's early warning level which is currently at 375% RBC, or if the Commissioner determines other good cause exists for such relief, or upon written application by a Blue Plan for other good cause shown, which includes but is not limited to any circumstance which significantly impairs, diminishes, impedes or otherwise compromises a Blue Plan's ability to meet its Annual Community Health Reinvestment obligation as that obligation is defined in this Agreement, or any circumstance which suggests that the need for the Annual Community Health Reinvestment is significantly diminished, or in the event any court of competent jurisdiction issues a decision or order against any Blue Plan or legislation is enacted that substantially alters the terms or purpose of this Agreement. A decision by the Commissioner not to grant the requested modification or waiver will be in the form of a determination, as to which judicial review is available as provided by Pennsylvania law. After a Blue Plan seeks modification or waiver of the Agreement under this paragraph, the passage of sixty (60) days or any decision by the Commissioner that does not satisfy the Blue Plan's request for modification or waiver shall constitute a determination, as to which judicial review is available as provided by Pennsylvania law.

9. In the event a Blue Plan submits a written application seeking modification of or relief from its Annual Community Health Reinvestment obligation, the Department may retain attorneys, appraisers, independent actuaries, independent certified public accountants or other professionals and examiners, the cost of which shall be borne by the Blue Plan seeking such modification or relief. The Blue Plan's obligation hereunder will not exceed \$75,000.

10. Notwithstanding any other provision to the contrary, all obligations of a respective Blue Plan shall terminate and the Agreement shall become null and void as to that

Blue Plan: (i) in the event that the Blue Plan no longer is a Health Plan Corporation under 40 Pa.C.S. §§ 6101 *et seq.*, 6301 *et seq.*; or (ii) in the event legislation is enacted that impacts the state tax payments or assessments of a Health Plan Corporation in a manner that is intended to or has the effect of being adverse and discriminatory to the Blue Plans in comparison to other insurers and obligates that Blue Plan to make state tax payments or assessments greater than the contributions required under this Agreement.

11. After the effective date of this Agreement, if disputes arise relating to the implementation of the Agreement or any of its terms or conditions, the Parties agree that the dispute shall be submitted to the Commissioner for resolution. Thereafter, the passage of thirty (30) days or any decision by the Commissioner that does not resolve the dispute in a manner acceptable to the Blue Plan shall constitute a determination, as to which judicial review is available as provided by Pennsylvania law.

12. This Agreement and the Annual Community Health Reinvestment hereunder shall supersede and replace Highmark's required "social or charitable health care endeavors" obligations pursuant to the 1996 Decision and Order of the Commissioner.

13. Neither the entry into this Agreement, nor the discussions in connection with its negotiation and execution, shall constitute evidence of wrongdoing or culpability or an admission by any Party of liability or obligation to any other Party for any purpose, or a waiver of any defense or position any Party could raise in any forum.

14. Unless sooner terminated as provided herein, this Agreement shall terminate and have no further force and effect after December 31, 2010, except to the extent necessary for any Blue Plan to adjust for any excess or deficiency as required by paragraphs 4 or 6 for any prior calendar year.

15. This Agreement may be executed in one or more counterparts, all or any of which shall be regarded for all purposes as one original, and constitute and be but one and the same instrument. Delivery of the executed Agreement by facsimile or other electronic means shall be equally effective as the delivery of the original Agreement.

16. Nothing in this Agreement, express or implied, is intended to, nor shall it in any way be construed to, create or convey any rights or remedies in or to any individual or entity other than the Parties, nor shall this Agreement or any provision hereof constitute a waiver or relinquishment of any legal right of any Party to otherwise challenge or appeal any action or decision hereunder or arising from any other action of any other Party.

17. In the event any dispute arises among the Parties with regard to the interpretation of any term of this Agreement, all of the Parties shall be considered collectively to be the drafting party, and any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall be inapplicable.

18. All prior discussions, agreements and understandings concerning the subject of this Agreement are completely merged and integrated into this Agreement.

19. This Agreement and all amendments, supplements, modifications, waivers and consents shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

20. No part of this Agreement shall be modified or waived in any respect except by a writing.

21. By its signature affixed hereto, each Party acknowledges that it has read this Agreement, fully understands the agreements, covenants, obligations, conditions, and terms

contained herein, and has had the advice of counsel pertaining thereto, prior to the time of execution.

22. The Parties agree and acknowledge that each provision of this Agreement, including the Recitals and the terms, form the essential subject matter of this Agreement and the Recitals and the terms of this Agreement shall not be severable.

23. Each Party represents and warrants that it has the requisite power and authority to enter into this Agreement and that the signatory is duly authorized to execute this Agreement on behalf of that Party.

24. This Agreement shall be binding upon all Parties and their successors and assigns.

25. The division of this Agreement into paragraphs and subparagraphs and the use of captions and headings in connection therewith, are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

PENNSYLVANIA INSURANCE DEPARTMENT

BY: Patricia H. Stromberg
Patricia H. Stromberg
Deputy Commissioner

CAPITAL BLUE CROSS

BY: _____
Anita M. Smith
President and Chief Executive Officer

HIGHMARK INC.

BY: _____
Kenneth R. Melani, M.D.
President and Chief Executive Officer

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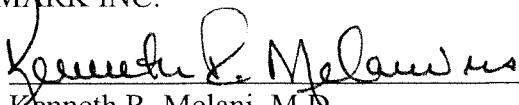
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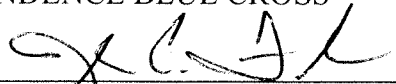
HOSPITAL SERVICE ASSOCIATION OF
NORTHEASTERN PENNSYLVANIA

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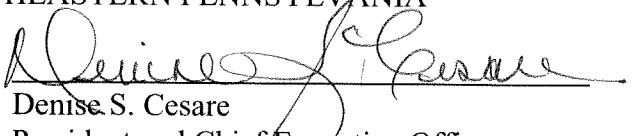
Denise S. Cesare
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