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CHIEF COUNSEL
INSURANCE DEPARTMENT

March 30, 2005

The Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
1311 Strawberry Square
Harrisburg, PA 17120

**Re: Highmark Inc. Annual Community Health Reinvestment
Application - 2005**

Dear Commissioner Koken:

Please accept this revised 2005 Annual Community Health Reinvestment Application, submitted pursuant to section 3 of the Agreement on Community Health Reinvestment (the "Agreement") of February 2, 2005. Highmark Inc. ("Highmark") hereby submits its application for expenditure, distribution or other utilization of its Annual Community Health Reinvestment ("ACHR") for 2005. The following chart represents Highmark's ACHR calculation under section 4 of the Agreement:

2005 ACHR CALCULATION

Total 2003 Premiums at 1.6%:	Total 2003 Premiums at 1.0%:	2003 Pennsylvania Health Premium & State Income Taxes Credit:	Total 2005 ACHR Amount:
\$4,618,488,219	\$1,875,670,651		
X .016	X .010		
\$ 73,895,812	\$ 18,756,707	(\$ 2,740,419)	\$ 89,912,100

In accordance with sections 5 and 6 of the Agreement, we propose that \$ 53,947,260 be distributed in 2005 to the following state-approved programs:

60% ACHR to state-approved programs for the low-income and uninsured:	
• adultBasic – projected underwriting losses	\$10.3 million
• Funds for increased enrollment in adultBasic	\$43.6 million

Corporate Offices:

Camp Hill PA 17089
Fifth Avenue Place • 120 Fifth Avenue • Pittsburgh PA 15222-3099
www.highmark.com

We propose distributing \$35,964,840, that is 40% of ACHR, to other Permitted Community Health Endeavors, which include:

40% of 2005 ACHR to Permitted Community Health Endeavors	Projected Expenditures
<ul style="list-style-type: none"> • Indirect and uncompensated costs of state programs for the low-income and uninsured 	\$ 9.6 million
<ul style="list-style-type: none"> • CHIP, SpecialCare, and Caring Program (for low-income children (above the CHIP income guidelines) projected underwriting losses 	\$ 4.5 million
<ul style="list-style-type: none"> • Guarantee Issue Direct Pay programs and Senior programs projected underwriting losses, including FreedomBlue PPO (Medicare Advantage) 	\$18.9 million
<ul style="list-style-type: none"> • HCTC and HIPAA rate subsidies, Special Care, Guarantee Issue Direct Pay and Senior Programs rate subsidies for non-conversion enrollment 	\$34.2 million
<ul style="list-style-type: none"> • Initiatives/grants/donations to support improving health in Pennsylvania, such as, but not limited to: Childhood Obesity, Challenge for Healthier Schools, and KidShape programs, H.O.P.E (Highmark Osteoporosis Prevention & Education), and health programs operated by organizations such as the American Lung Association and Nuestra Clinical 	\$13.7 million

As you can see, the 40% of Permitted Community Health Endeavors we will manage, in programs we are already committed to supporting, exceeds the agreed upon \$35,964,840 by a substantial margin. The amounts listed for each activity represent our best estimate of the cost of Highmark's commitment during 2005. While the actual amounts may vary from the projections, the amounts committed to these programs will meet or exceed \$35,964,840. This does not signify an expectation that we will always exceed the 40% portion, but rather acknowledges that our current commitments obligate us to these projections this year.

We are hopeful of receiving prompt approval of this application. If you would like to discuss this, or have any questions requiring a response, I can be reached at 412-544-8322, or through Candy Gallaher at 717-302-3982.

Sincerely,



Nanette DeTurk
 Senior Vice President, Finance
 Corporate Controller

Cc: David M. O'Brien, Government Services, Highmark
 Candy Gallaher, Regulatory Affairs, Highmark