



April 6, 2006

Honorable M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania
1326 Strawberry Square
Harrisburg, PA 17120

Re: Amended 2006 Community Health Reinvestment Application

Dear Commissioner Koken:

Independence Blue Cross submits this letter as its amended 2006 Community Health Reinvestment application. This amended application will replace IBC's 2006 Community Health Reinvestment application dated December 1, 2005. The amended application reflects a credit to IBC's 2006 projected 60% CHR obligation for actual underwriting losses for adultBasic as defined in Section 6 of the Community Health Reinvestment (CHR) Agreement and a credit to IBC's 2006 projected 40% obligation for expenditures incurred in 2005 in excess of its 2005 40% commitment. Based on the formula in the CHR Agreement, IBC's projected total CHR for 2006 is \$52,473,000. A detailed description of IBC's calculations is attached.

Section 5 of the CHR Agreement provides that 60% of IBC's projected 2006 CHR obligation, or approximately \$31.48 million shall be "dedicated to providing health insurance through state-approved programs for persons of low income, including, but not limited to, adultBasic..." After crediting the adultBasic actual underwriting losses of \$2,081,581 incurred by IBC in 2005, the net 60% portion of IBC's projected 2006 CHR obligation is **\$29,402,219.**¹

As IBC set forth in its 2005 CHR application and as we have discussed with your counsel, key program administration and funding issues regarding adultBasic remain of concern to IBC. Because we were not able to completely resolve these issues, IBC was not able to respond to the PID's request to fulfill its projected 60% CHR obligation by making direct payments to the Commonwealth.

¹ While the Pennsylvania Insurance Department (PID) has taken the position that actual underwriting losses from the CHIP program cannot be offset against IBC's projected 60% CHR obligation, it is IBC's opinion that actual underwriting losses from the CHIP program—a "state approved program(s) for persons of low income"—are permitted to be credited against its 60% obligation. Notwithstanding this difference of opinion, and without waiving any of its rights, IBC's amended application does not reflect these losses as a credit.



However, some of IBC's concerns have recently been addressed. IBC understands and has been assured by the PID that IBC's 60% CHR obligation has been and will continue to be spent to reduce the number of uninsured in its own service area (Philadelphia, Bucks, Chester, Delaware and Montgomery Counties). Additionally, the PID has acknowledged IBC's request for guidance on how the allowable losses incurred by IBC will be treated in 2010; has acknowledged that a programmatic solution needs to be identified; and, has expressed its willingness to confer and consult with IBC for a mutually agreeable resolution of this problem.

Based on these representations, IBC is willing to fulfill the 60% portion of its projected net 2006 CHR obligation by making direct payment to the Commonwealth in four quarterly installments of \$7,350,554.75 for the 2006 CHR obligation only. IBC is not committing to fulfill the 60% portion of its annual CHR obligation in the remaining years of the CHR Agreement by making direct payments to the Commonwealth. The CHR Agreement provides other ways by which IBC can fulfill this obligation. To the extent that the PID wishes to discuss direct payments or other methods in the remaining years, IBC, as always, is willing to discuss these issues.

The remaining 40% of IBC's projected 2006 CHR, or approximately \$20.98 million will be directed towards a variety of "Permitted Community Health Reinvestment Endeavors". The following is a breakdown of those endeavors in which IBC is engaged, and the projected expenditures/distributions/utilizations for 2006:

- subsidies to non-group programs, which currently includes Special Care (\$18-20 million)
- administrative subsidy and contribution to our Caring Foundation, which keeps the parent portion of the low-cost CHIP premium to just \$35 per child per month (\$3.6 million)
- IBC Charitable Medical Care Grant Program, which gives financial support to area clinics providing care to the uninsured in our region (\$1.9 million)
- IBC Nurse Scholars Program, which addresses the nursing crisis through scholarships and related programs to regional nursing programs (\$1.05 million)
- contributions and sponsorships to a variety of organizations and institutions, whose purpose or mission is health care related (in excess of \$2.1 million)

Combined support of these endeavors is expected to exceed this \$20.98 million component of IBC's projected 2006 CHR, as set forth in the attached detailed description of IBC's calculations.

As we have set forth in previous correspondence, IBC is reserving all of its rights and waiving none of its rights, including, but not limited to, its right to make adjustments to accurately reflect actual rather than estimated CHR obligations and account for any appropriate credits.

We look forward to our continued work together to improve the health of all Pennsylvanians. I can be reached at (215) 241-3027 with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Fera', written in a cursive style.

Stephen P. Fera
Vice President
Government Programs