



BlueCross of Northeastern Pennsylvania

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RECEIVED CHIEF COUNSEL
PA INSURANCE DEPT.

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December 1, 2005 *

Ms. Diane Koken
Insurance Commissioner
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120

Dear Commissioner Koken:

The following is submitted in compliance with the Agreement on Community Health Reinvestment (the "CHR Agreement") executed February 2, 2005 by and among the Insurance Department of the Commonwealth of Pennsylvania (the "Department"), Capital Blue Cross, Highmark Inc., Independence Blue Cross, and Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania ("BCNEPA"). This application sets forth the calculated and the proposed expenditure, distribution, or other utilization of BCNEPA's Annual Community Health Reinvestment ("ACHR"), including the proposed schedule of payments, for calendar year 2006. The application is submitted for review by the Department.

Calculation of BCNEPA 2006 ACHR

The following sets forth the calculation of BCNEPA and subsidiaries' ACHR financial commitment for calendar year 2006 as defined in paragraph 4(a) of the CHR agreement (in thousands of dollars):

BCNEPA Consolidated Health Premium (1)	\$600,887
Assessment Percentage	1.6%
Subtotal	9,614
Less Health Premium/State Income Tax	175
Annual Community Health Reinvestment	\$9,439

(1) Source: 2006 Annual Statement - Projected Schedule T Premiums

* Revised January 24, 2006 to delete confidential and proprietary information.



Disposition of BCNEPA 2006 ACHR

In accordance with the terms of the CHR Agreement, BCNEPA will apportion 60% of the total ACHR of \$9,439,000 or \$5,663,400 to provide health insurance through state-approved programs for persons of low income (the "Commonwealth Directed Low Income Health Insurance Portion"). At this time, it is believed that this allotment will be used to increase enrollment in the state-run adultBasic program in BCNEPA's service area of northeastern and north central Pennsylvania.

BCNEPA intends to remit quarterly payments commencing on March 1, 2006. The initial quarterly payment will represent 25% of the CHR obligation allocated to the Commonwealth Directed Low Income Health Insurance Portion net of Underwriting Losses on adultBasic for the period March 1, 2005 – December 31, 2005. These losses, in accord with paragraph 6 of the Agreement, will be recovered equally over the four quarterly CHR payments of 2006.

The following table sets forth the projected dollar amount and timing of quarterly payments during 2006:

	<u>March 1</u>	<u>June 1</u>	<u>September 1</u>	<u>December 1</u>	<u>Total</u>
60% of CHR Obligation	\$ 1,415,850	\$ 1,415,850	\$ 1,415,850	\$ 1,415,850	\$ 5,663,400
Less Estimated Underwriting					
Losses 3/1/2005 - 12/31/2005	<u>290,000</u>	<u>290,000</u>	<u>290,000</u>	<u>290,000</u>	<u>1,160,000</u>
Net Payment to Commonwealth	<u>\$ 1,125,850</u>	<u>\$ 1,125,850</u>	<u>\$ 1,125,850</u>	<u>\$ 1,125,850</u>	<u>\$ 4,503,400</u>

The CHR Agreement stipulates that the remaining 40%, or \$3,775,600 of ACHR be allocated to other "Permitted Community Health Reinvestment Endeavors". BCNEPA has a history of supporting community based health initiatives and anticipates the planned 2006 activities will exceed the amount necessary for compliance under this section of the CHR agreement. For purposes of calculating compliance with this portion of the CHR Agreement, BCNEPA will include the following activities:

(A) Non-group Subsidies

BCNEPA will continue the practice of subsidizing the cost of health insurance for those individuals not covered under group policies. These estimated 2006 subsidies are extended to those customers who purchase the following BCNEPA products:

<u>Product</u>		
Traditional and major medical non-group	}	\$7,958,765
Student		
Special Care		
Security 65		

Portions of the Traditional and Special Care non-group subsidies are due to unintended premium deficiencies as a result of rate approval short falls.

(B) Other Charitable Services

Other charitable services and programs focusing on community health-related issues for 2006 will include the following:

- Continuation of the Million Pound Meltdown program implemented in 2005 to educate BCNEPA's 13-county service area about the health issues associated with being overweight and motivate individuals to lose weight.
- A nurse scholarship program will aid in the education and qualification of nurses in BCNEPA's 13-county service area.
- Involvement in a regional Chamber Committee on Health Care Education will result in educational mailings and the launch of a Healthy Workplace Awards program.
- BCNEPA will conduct an outreach effort to targeted segments of the community to raise awareness and educate individuals as well as non-profit and public agencies about coverage eligibility for the Children's Health Insurance Program ("CHIP").

The information provided in this Application is intended to serve as a basis to assess BCNEPA's compliance with the CHR Agreement, and is not intended to represent an exhaustive list of community based health initiatives in which BCNEPA is involved.

We look forward to receiving your approval of the application in its entirety. In the event that the application is not approved in its entirety, we reserve the right to submit a revised application.

Please let me know if you have any questions or need additional information.

Sincerely,



J. Ken Suchoski
Chief Financial Officer

Cc:

Sandra Ykema, Department Counsel, Pennsylvania Insurance Department
Rosemarie Greco, Director, Governor's Office of Health Care Reform
Denise S. Cesare, President & CEO, BCNEPA
William C. Reed, Executive Vice President & COO, BCNEPA
Edwin R. Goodlander, Sr. Vice President Legal, Gov't Affairs, Gen. Counsel & Secretary, BCNEPA
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