Statement of Surplus Levels for Blue Cross and Blue Shield Plans:

The Insurance Department has completed its analysis of the 2005 annual statement surplus levels of the Pennsylvania Blue Cross and Blue Shield Plans – Capital Blue Cross; Highmark Inc.; Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania (NEPA); and Independence Blue Cross. The Department has found that Capital, Highmark, and NEPA continue to operate in the sufficient range; Independence continues to operate in the efficient range.

The ranges are explained in the Commissioner's February 9, 2005 Determination and Order. Using a model it developed, the Department developed different ranges for evaluating Blue Plans' surplus. The first, which is an upper level of surplus, is labeled "inefficient," which means it is presumptively inefficient and potentially excessive. Any Blue Plan operating within the inefficient surplus range must file a report with the Commissioner justifying the current level of surplus, or file a plan explaining how the Blue Plan will divest itself of surplus in a way that benefits its policyholders. The second level is called "sufficient" surplus, and any Plan that falls within that range will not be allowed to include any risk or contingency factors in any filed premium rates. The final level is "efficient," which means the Plan does not face solvency issues from routine fluctuations from factors like underwriting results and return on investment. The "sufficient" range for Highmark and IBC is from 550% to 750% of the lower of the NAIC Health Risk Based Capital ratio or the consolidated risk factor ratio. The "sufficient" ranges; below those ranges are the "efficient" ranges.

For further information on how these ranges are calculated and why they were established at the levels stated, <u>click here</u> to read the February 9, 2005 Determination and <u>click here</u> to view an illustration of the surplus ranges.