REDACTED

CAPITAL BLUECROSS AND SUBSIDIARIES

APPLICATION FOR 2007 COMMUNITY HEALTH REINVESTMENT

SUBMITTED FOR REVIEW TO THE PENNSYLVANIA DEPARTMENT OF INSURANCE

1. Estimate of Community Health Reinvestment (CHR)

Factors	1.6%	1.0%
	2007 *(projected)* Sch T col 3 & 6	2007 *(projected)* Sch T col 4 & 5
Capital Blue Cross	$ 298,373,000	$ 0
Capital Advantage Ins Co	$1,089,015,000	$ 0
Keystone Health Plan Central	$ 195,122,000	$ 247,625,000
Avalon Limited	$ -0-	$ 30,654,000
Totals	$1,582,510,000	$ 278,279,000
(A) Sub-Total before Credits	**$ 25,320,160**	**$ 2,782,790**

Credits:

Premium Tax Credits:

Capital Blue Cross	0
Capital Advantage Ins Co	$23,797,000
Keystone Health Plan Central	0
Avalon Limited	0

Income Tax Credits:

Capital Blue Cross	0
Capital Advantage Ins Co	0
Keystone Health Plan Central	0
Avalon Limited	0
(B) Total Credits	**$23,797,000**

(A) Gross before credits	$28,102,950
(B) Credits	(23,797,000)
CHR – 100%	**$ 4,305,950**
Capped CHR[(a)]	**$ 1,282,716**
Commonwealth Directed (60%)	**$ 769,629**
Negotiated credit for AdultBasic	**(913,000)**
Estimated 2006 Overpayment [(b)]	**(2,905,348)**
2007 CHR Estimated liability / (credit)	**$ (3,048,719)**

(a) **Capital estimates its 2006 CHR to be $1,193,224. See Exhibit A. A cap of 107.5% of the prior year CHR is applied pursuant to paragraph 4(c) of the Agreement on Community Health Reinvestment.**

(b) **See Exhibit A.**

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Major Changes from the 2006 Application

- The 2006 application projected $2.0 billion of premium subject to the CHR. Actual 2006 premium subject to the CHR equaled $1.75 billion, or 12.5% lower than originally projected.

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- The Bid Protest Credit was reduced from $1.5 million in 2006 to a projected amount of $913,000 in 2007. The $913,000 represents the agreed upon credit calculated as 3.25% of the Gross CHR ($28,102,950).

2. Proposed Utilization/Disbursement of CHR

Under paragraph 5 of the Agreement on Community Health Reimbursement (the "Agreement"), dated February 2, 2005, among the Pennsylvania Insurance Department and the four Pennsylvania Blue Plans, the CHR amount is to be utilized each year in each Plan's service area for designated purposes:

(a) 60% of the CHR amount (the "Commonwealth Directed Low Income Health Insurance Portion") is to be dedicated to providing health insurance through programs for persons of low income, such as the adultBasic program or an alternate program to benefit persons of low income, all as contemplated by the Agreement; and

(b) 40% of the CHR amount is to be dedicated to other community health related expenses (including, among others, rate subsidies for individual programs).

Commonwealth Directed Low Income Health Insurance Portion

60% of the CHR amount is approximately $769,000. By mutual agreement with the PID, this amount will be offset by a credit in the amount of $918,000 related to adultBasic and the 2006 overpayment.

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Other Community Health Related Expenditures

40% of the CHR amount is approximately $513,000. Consistent with its historical practice and as demonstrated by prior filings with the Pennsylvania Insurance Department, Capital BlueCross' current rate subsidies for individual programs exceed the amount to be utilized for other community health related expenditures.

Capital BlueCross staff are available to discuss any questions that you may have. Please call me at 541-6223 if you would like to discuss this matter.

Sincerely,

Gary D. St. Hilaire
Senior Vice President & Chief Financial Officer

Exhibit A

CAPITAL BLUECROSS AND SUBSIDIARIES

ESTIMATED TRUE-UP FOR 2006 COMMUNITY HEALTH REINVESTMENT

SUBMITTED FOR REVIEW TO THE PENNSYLVANIA DEPARTMENT OF INSURANCE

1. Estimate of Community Health Reinvestment (CHR)

Factors	1.6%	1.0%
	2006 *(estimated)* Sch T col 3 & 6	2006 *(estimated)* Sch T col 4 & 5
Capital Blue Cross	$ 300,995,000	$ 0
Capital Advantage Ins Co	$ 972,788,000	$ 0
Keystone Health Plan Central	$ 239,186,000	$ 210,583,000
Avalon Limited	$ -0-	$ 26,889,000
Totals	$1,512,969,000	$ 237,472,000
(A) Sub-Total before Credits	**$ 24,207,504**	**$ 2,374,720**

Credits:	
Premium Tax Credits:	
Capital Blue Cross	0
Capital Advantage Ins Co	$19,340,000
Keystone Health Plan Central	0
Avalon Limited	0
Income Tax Credits:	
Capital Blue Cross	0
Capital Advantage Ins Co	0
Keystone Health Plan Central	$ 6,049,000
Avalon Limited	0
(B) Total Credits	**$25,389,000**
(A) Gross before credits	$26,582,224
(B) Credits	(25,389,000)
CHR – 100%	**$ 1,193,224**
CHR – 60% *(a)*	**$ 1,193,224**
Negotiated credit for AdultBasic	**(1,500,000)**
2006 quarterly payments	**(2,598,572)**
Estimated 2006 overpayment	**$ (2,905,348)**

(a) **The 60% Commonwealth Directed portion shall not be less than 95% of the previous year's calculation; provided, however, that the 60% Commonwealth Directed portion also cannot exceed the current year's 100% calculation.**