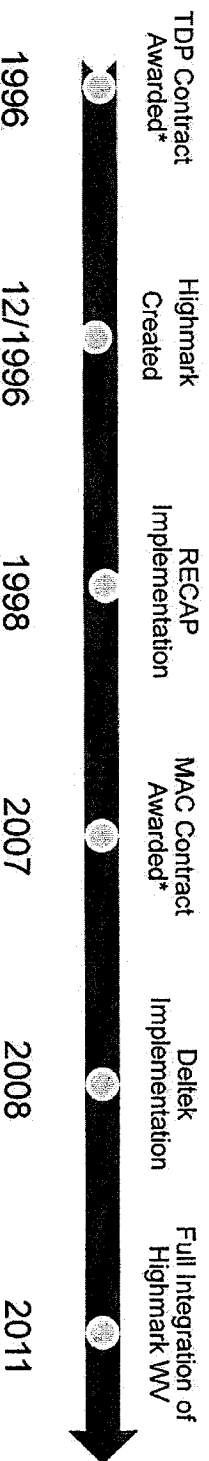


Highmark Cost Allocation

Overview

- **Objectives**
 - One consolidated costing process for Highmark
 - Fair and reasonable assignment of costs to business segment / final objectives
 - Compliance with Government regulations
 - Consistency
 - Source of information for administrative pricing and measuring financial performance

- **Major Milestones of Cost Allocation:**



* CAS Covered

- **Federal Government Compliance**
 - Highmark Medicare Services and United Concordia have contracts covered by federal Cost Accounting Standards (CAS)
 - CAS-covered contracts subject to ongoing disclosure of cost accounting practices and DCAA audit
 - Other contracts, e.g., FEP, subject to the Federal Acquisition Regulations (FAR)

** Proprietary and Confidential Draft **

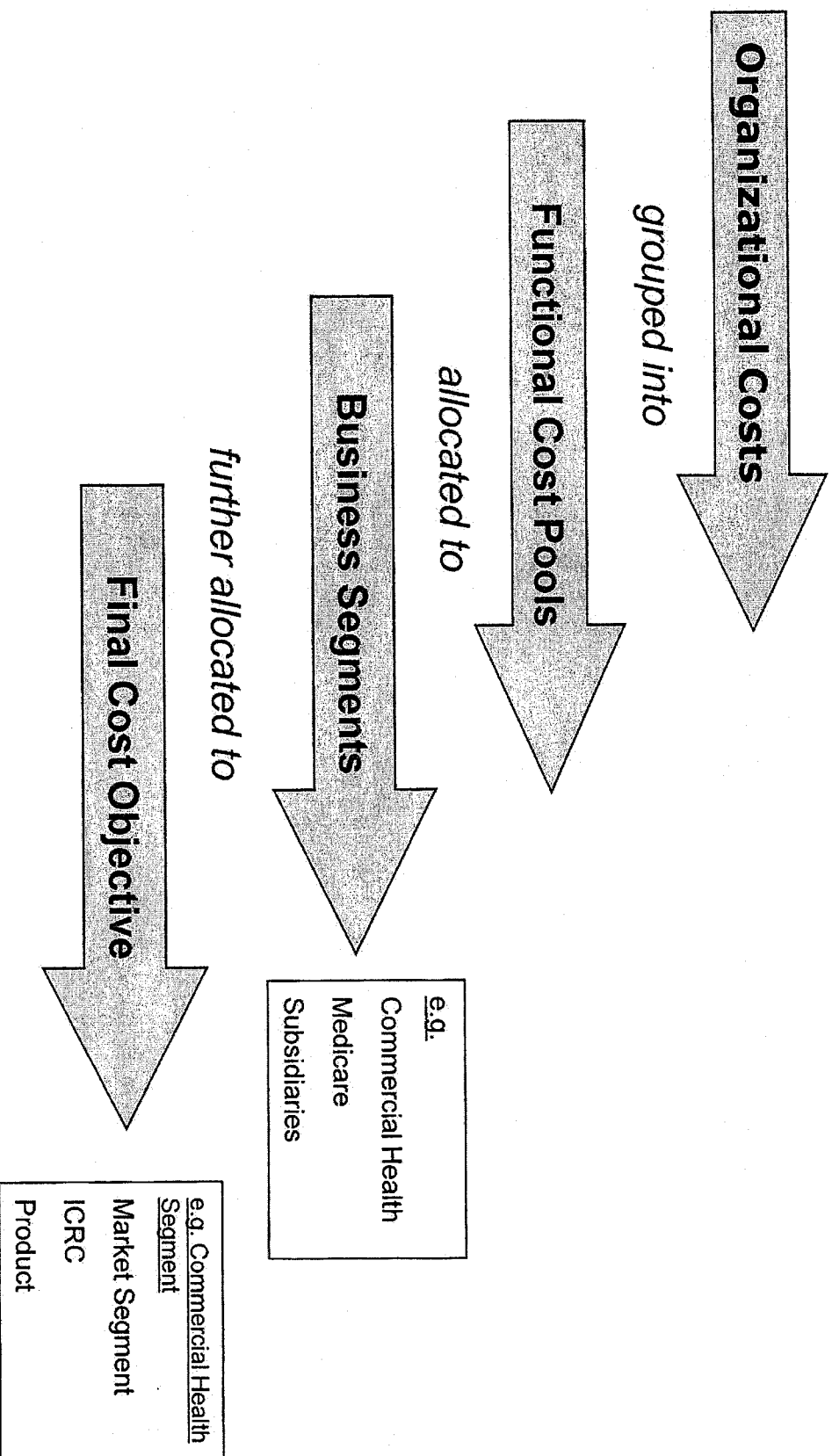
Highmark Cost Allocation

Overview

- Scope
 - 670 Highmark and subsidiary cost centers
 - 145 Cost pools
 - 1 Highmark Commercial Health Segment (Regional, National, WV, Senior)
 - 26 Subsidiary business segments
- Routine Activities:
 - Allocation methodology changes – January (otherwise as appropriate)
 - Annual true-up process – February
 - Pool Reviews – March through July
 - Cost Center Reviews – May through November
 - CAS Disclosure Statement update – October (or other times throughout the year as warranted by changes in the allocation process)
 - Allocation/Forecast team meetings – July through September
 - Government allowability review of invoices/check requests – ongoing daily activity

** Proprietary and Confidential Draft **

Highmark Cost Allocation Process Flow

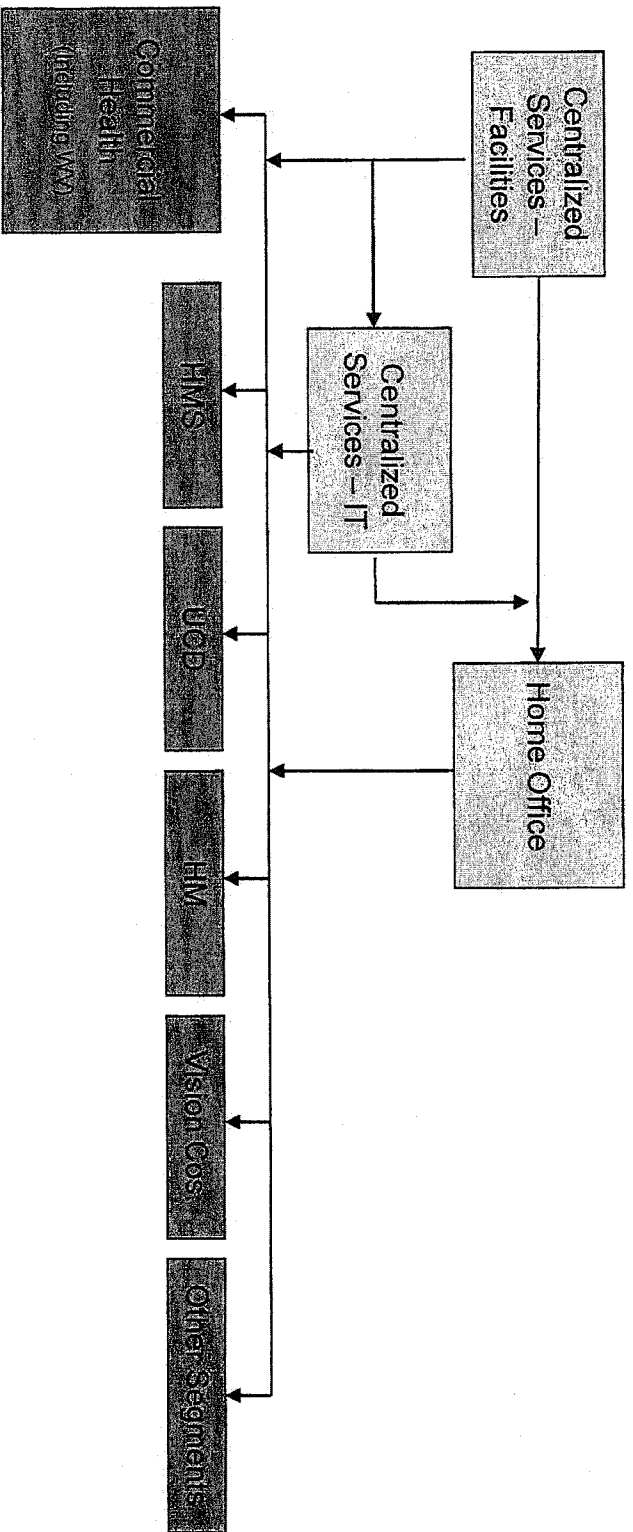


** Proprietary and Confidential Draft **

Highmark Cost Allocation

Home Office & Centralized Services

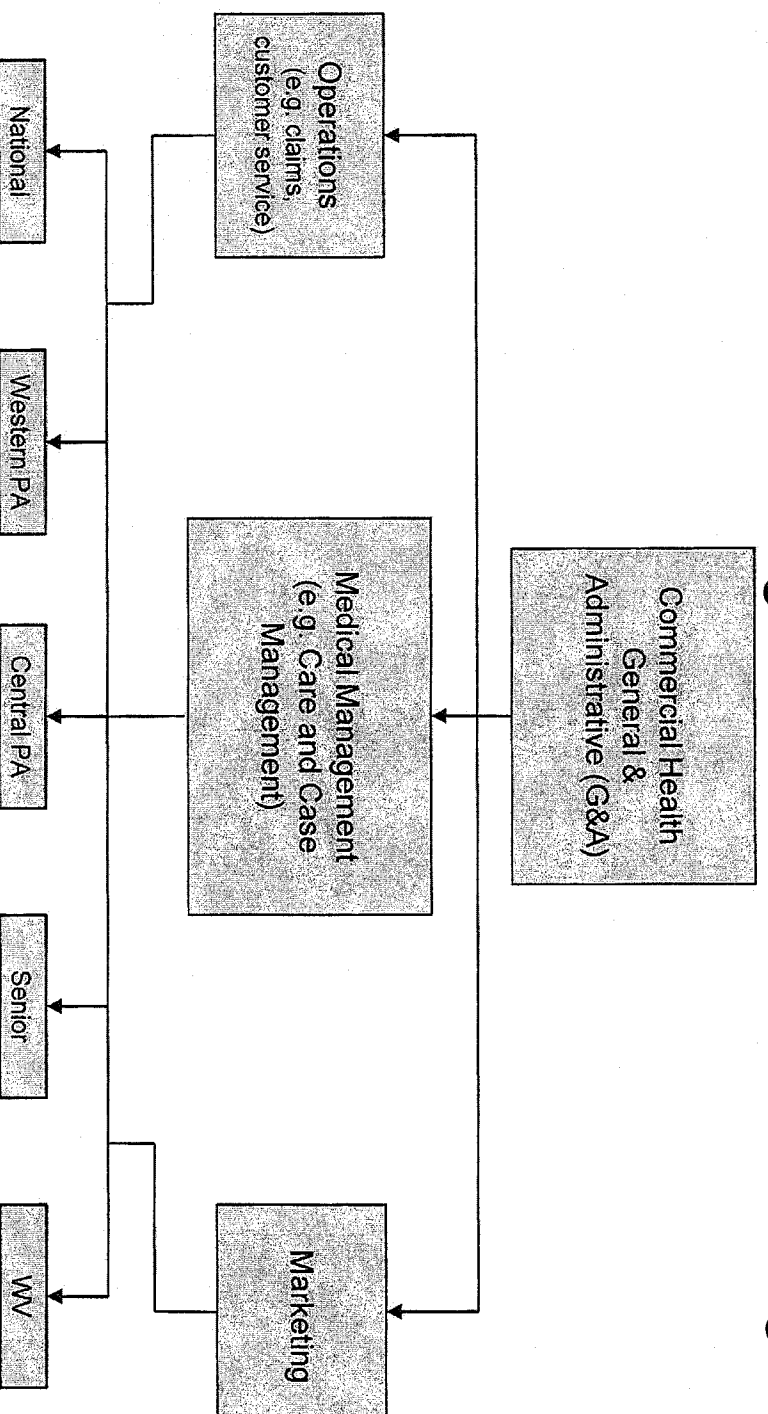
Costs to Business Segment



** Proprietary and Confidential Draft **

Highmark Cost Allocation Cost Flow

Commercial Health Segment Costs to Market Segment



** Proprietary and Confidential Draft **

Highmark Cost Allocation

Functional Cost Pools (examples)

Home Office Expense:

- Home Office (Residual)
- Audit Services
- 1099 Reporting
- Human Resources

Basis of Allocation

Weighted Salaries
Time Reporting
1099 Forms Volume
FTEs

Centralized Services:

- Application Support
- Computer Processing
- Network Services

Actual Hours x Rate
Actual CPU Minutes x Rate
Actual Workstations x Rate

Shared Services:

- Claims Processing Systems
- Enrollment and Billing Systems

Claims Processed
Membership

Direct Charges:

- External charges paid by Highmark on behalf of subsidiaries

Pass-Thru at Actual Cost

Examples - HM Claims Adjudication Jobs

Allocation Illustration

April 2011 YTD

Cost Center is Pool P0117

01244 - HM Claims Adjudication Jobs

\$ 19,978,640

Allocated to:	Claims Processed	% to Total	Expenses	% to Total
Highmark				
Agency	160,540	0.6%	\$ 114,034	0.6%
Central	2,466,349	8.7%	1,747,596	8.7%
Individual	533,170	1.9%	376,469	1.9%
National	7,913,306	28.1%	5,617,705	28.1%
Host	4,008,921	14.2%	2,833,116	14.2%
Partnership	604,953	2.1%	432,114	2.2%
Other	22,644	0.1%	16,001	0.1%
Senior	4,091,540	14.5%	2,907,125	14.6%
Social_Mission	356,410	1.3%	249,183	1.2%
Supplemental	2,699	0.0%	1,936	0.0%
Western	5,047,480	17.9%	3,568,624	17.9%
WV	2,253,183	8.0%	1,591,326	8.0%
BCNEPA	739,404	2.6%	523,412	2.6%
Total	28,200,599	100.0%	\$ 19,978,640	100.0%

Examples - Membership Services

Allocation Illustration

April 2011 YTD

Highmark Cost Centers

West Virginia Cost Centers

P0030 - Membership Services \$ 6,549,842 Cost Center 09438, 09491, 09495, and 09496 \$ 1,149,105

Allocated to:	Highmark Cost Centers				West Virginia Cost Centers			
	Weighted Member Months	% to total	Expenses	% to total	Weighted Member Months	% to total	Expenses	% to total
Central	2,651,253	16.7%	\$ 1,092,516	16.7%	-	0.0%	-	0.0%
Individual	468,062	2.9%	193,335	3.0%	-	0.0%	-	0.0%
National	5,759,425	36.2%	2,375,430	36.3%	-	0.0%	-	0.0%
Host	-	0.0%	0	0.0%	-	0.0%	-	0.0%
Partnership	734,674	4.6%	302,888	4.6%	-	0.0%	-	0.0%
Senior	1,043,824	6.6%	431,011	6.6%	-	0.0%	-	0.0%
Social_Mission	80,301	0.5%	32,779	0.5%	-	0.0%	-	0.0%
Supplemental	181,871	1.1%	75,120	1.1%	-	0.0%	-	0.0%
Western	4,713,377	29.7%	1,940,550	29.6%	-	0.0%	-	0.0%
WV	256,581	1.6%	106,213	1.6%	682,638	100.0%	1,149,105	100.0%
Total	15,889,367	100.0%	\$ 6,549,842	100.0%	682,638	100.0%	\$ 1,149,105	100.0%

Examples - Human Resources and Employee Benefits

Allocation Illustration

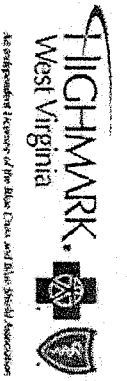
April 2011 YTD

Allocated to:	FTEs	% to Total	Total	
			Highmark Cost Center Expenses	WV Cost Center Expenses
			Expenses	% to Total
Commercial Health	4,952	45.3%		
Highmark			2,745,327	43.1%
Highmark West Virginia			145,403	2.3%
Highmark Medicare Services	810	7.4%	472,936	7.4%
HM Insurance Group	497	4.6%	290,137	4.6%
United Concordia Dental	1,219	11.2%	711,240	11.2%
Centralized Services*	2,394	21.9%	1,398,507	21.9%
Corporate/Home Office *	459	4.2%	268,399	4.2%
Other	588	5.4%	342,984	5.4%
Total	10,919	100.0%	6,219,763	100.0%
			155,172	6,374,935
				100.0%

*These two segments are further allocated to final cost objective based on utilization of centralized services and weighted salaries, respectively.

2011 MSBCBS Admin Forecast

Key	Forecast												Total 2011
	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	
PPO11Individual	163,623	155,396	169,563	162,721	163,137	166,777	165,210	170,165	167,460	184,545	170,006	173,732	2,012,335
TRAD11Individual	950	889	941	887	870	865	840	847	814	879	879	811	10,381
PPORBIndividual	376	360	393	371	373	378	370	376	373	389	382	269	4,408
HCTCIndividual	11,666	11,108	12,023	11,467	11,477	11,645	11,590	11,759	11,590	12,493	11,767	11,837	140,370
PPO_2to95small Group	298,821	280,563	302,350	289,764	289,628	294,102	289,694	294,963	289,444	313,626	291,163	295,751	3,529,869
WVSBP_2to95small Group	27,531	26,139	28,387	27,201	27,245	27,828	27,575	28,203	27,796	30,338	28,218	28,646	335,108
TRAD_2to95small Group	3,345	3,160	3,415	3,212	3,195	3,217	3,141	3,167	3,103	3,268	3,109	3,086	38,417
PPO_10to50small Group	5,004	4,731	5,095	4,845	4,822	4,882	4,798	4,866	4,768	5,138	4,779	4,709	58,435
WVSBP_10to50small Group	264,417	250,648	271,803	258,728	257,923	262,854	259,150	264,268	259,785	281,917	262,429	266,988	3,160,909
PPO_10to50small Group	2,535	2,380	2,558	2,426	2,403	2,430	2,380	2,412	2,348	2,548	2,326	2,383	29,128
POS_10to50small Group	2,857	2,713	2,991	2,822	2,833	2,877	2,808	2,876	2,834	3,013	2,887	2,856	34,456
TRAD_10to50small Group	1,463	1,374	1,460	1,368	1,347	1,343	1,305	1,300	1,262	1,321	1,237	1,139	15,919
PPO_51Mid-Large	1,182,698	1,123,258	1,217,746	1,163,530	1,164,731	1,188,639	1,174,361	1,193,886	1,178,879	1,270,512	1,197,361	1,215,531	14,271,134
PPO_MP/GMid-Large	55,152	52,746	56,834	54,595	54,678	55,716	55,270	56,185	55,637	59,951	56,683	57,598	671,044
VEBA_US5Mid-Large	32,657	31,226	33,811	32,329	32,419	32,882	32,584	33,310	32,882	35,459	33,517	34,063	397,140
POS_51Mid-Large	3,713	3,535	3,858	3,665	3,678	3,742	3,684	3,754	3,711	3,959	3,785	3,721	44,805
TRAD_51Mid-Large	1,764	1,665	1,755	1,651	1,626	1,618	1,575	1,564	1,521	1,586	1,493	1,530	19,348
MEDSPAMedSupp	1,783	1,703	1,839	1,769	1,773	1,796	1,783	1,840	1,806	1,990	1,833	1,825	21,740
MEDSPCMedSupp	24,330	23,146	24,797	23,700	23,641	23,641	23,491	24,017	23,479	25,544	23,619	23,840	287,384
MEDSPFMedSupp	124,442	118,382	127,060	121,634	121,405	122,324	120,895	123,931	121,154	132,475	123,959	123,208	1,478,868
MEDSPHMedSupp	275	263	284	273	274	277	275	283	279	305	283	288	3,361
MEDSPNMedSupp	723	692	746	717	719	728	723	743	731	799	744	744	8,932
MEDSPKMedSupp	4,639	4,395	4,682	4,453	4,420	4,421	4,345	4,419	4,297	4,651	4,276	4,370	53,369
MEDSPHMedSupp	4,334	4,128	4,408	4,203	4,191	4,205	4,153	4,223	4,134	4,445	4,163	4,238	50,824
MEDSPRLMedSupp	37,486	35,826	38,605	37,083	37,179	37,611	37,340	38,366	37,709	41,203	38,346	38,975	455,729
MEDSPVMedSupp	33,130	31,527	33,384	31,679	31,486	31,882	30,882	31,107	30,392	32,170	30,427	30,162	377,735
FS_RxFreestanding	2,157	2,042	2,246	2,204	2,189	2,163	2,154	2,435	2,276	2,905	2,204	2,303	27,279
FS_VISFreestanding	8,476	8,157	8,792	8,548	8,525	8,511	8,492	9,053	8,750	10,160	8,734	8,970	105,167
TRAD_ASCMID-Large	1,630,962	1,544,013	1,689,517	1,591,894	1,602,808	1,649,358	1,624,531	1,615,733	1,617,617	1,689,926	1,672,289	1,679,367	19,608,017
PPO_ASCMID-Large	57,626	54,322	59,836	56,205	56,639	58,505	57,501	57,194	57,270	60,129	59,256	59,479	693,961
VIS_ASCMID-Large	22,992	22,323	23,726	22,709	22,772	23,058	23,055	22,896	23,054	23,695	23,830	24,017	278,127
VIS_LOCMID-Large	50,963	49,504	52,521	50,502	50,558	51,074	51,112	51,198	51,286	53,376	52,702	53,342	618,136
VIS_LOCSmall Group	7,437	7,163	7,539	7,190	7,136	7,145	7,088	7,054	6,995	7,248	7,053	7,050	86,097
FEP/Mid-Large	1,375,899	1,334,940	1,423,459	1,380,805	1,379,247	1,418,722	1,403,316	1,406,473	1,443,566	1,458,381	1,455,041	1,467,533	16,947,383
STOP_LOSSSTR/LOS	45,860	41,668	47,624	43,608	44,371	45,596	45,037	45,042	44,939	48,906	47,210	46,980	546,841
HIM TPA	2,390,419	2,226,857	2,515,883	2,962,808	2,191,768	2,177,728	2,178,331	2,182,485	2,156,873	2,208,618	2,216,803	2,346,426	27,755,001
BlueCard	1,978,997	1,884,591	2,032,691	1,934,377	1,939,585	2,027,783	1,983,081	1,945,305	1,949,129	2,030,502	2,006,599	2,016,046	23,728,685
Parker	6,500	-	50,000	-	150	50,000	9,643,869	150	50,000	1,458,381	150	50,000	206,950
Total without Commissions	9,868,002	9,347,535	10,264,618	10,307,944	9,553,223	9,807,968	9,643,869	9,647,849	9,679,940	10,048,371	9,849,452	10,094,023	118,112,794
Commissions	1,600,569	1,601,827	1,610,688	1,598,726	1,580,583	1,579,356	1,568,602	1,563,720	1,558,425	1,562,232	1,566,322	1,570,089	18,961,137
Total with Commissions	11,468,570	10,949,363	11,875,305	11,906,670	11,133,806	11,387,324	11,212,471	11,211,569	11,238,365	11,610,603	11,415,774	11,664,112	137,073,932



**Highmark WV
Administrative Expense Analysis
YTD 2011
(\$ In Thousands)**

	Apr			Y-T-D (Apr)			2011 Budget			Monthly Staff		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Audit & Compliance	\$191	\$204	(\$13)	\$786	\$856	(71)	\$2,409	17.0	20.0	(3.0)		
Corp Communications & Strat Png	20	53	(33)	130	211	(81)	631	3.0	4.0	(1.0)		
Human Resources	47	77	(30)	221	301	(80)	919	7.6	11.0	(3.5)		
Information Services	221	280	(59)	805	1,256	(451)	3,477	13.0	13.0	-		
Finance & Administrative Services												
Finance & Actuary	298	888	(589)	1,264	2,030	(766)	5,300	48.6	53.0	(4.4)		
Risk Officer & Administration	512	490	22	2,004	2,007	(3)	5,830	9.6	10.0	(0.5)		
Total Finance & Administrative Services	810	1,378	(568)	3,268	4,036	(769)	11,130	58.2	63.0	(4.9)		
Health Services												
Reg Mkts & Prov Contracts	799	668	130	2,767	2,941	(174)	8,596	63.3	67.0	(3.7)		
Prov Strat, Svc & Informatics	210	312	(102)	973	1,178	(206)	3,495	35.6	39.0	(3.5)		
Health Affairs	1,153	1,086	67	3,944	4,323	(378)	13,383	73.0	71.0	2.0		
Health Plan Operations	2,748	2,937	(189)	10,994	11,856	(862)	34,214	573.3	605.0	(31.7)		
Total Health Services	4,909	5,003	(94)	18,677	20,299	(1,621)	59,687	745.1	782.0	(36.9)		
Other												
Out of Area Processing (ITS)	331	275	56	1,122	1,100	22	3,300					
Corporate Incentive	133	152	(19)	540	607	(67)	1,821					
Subsidiary Fees	49	52	(2)	190	207	(18)	622					
Miscellaneous Fees	326	220	106	1,124	880	244	2,640					
Bad Debt Expense	(30)	-	(30)	(30)	-	(30)	-					
CPOC	(371)	(58)	(313)	(371)	(233)	(138)	(700)					
Seasonal Budget Adjustment	-	(277)	277	-	(80)	880	-					
Total Other	439	364	75	2,574	1,681	893	7,683					
Total Highmark WV	\$6,637	\$7,358	(\$721)	\$26,461	\$28,640	(\$2,179)	\$85,937	843.8	893.0	(49.2)		
Highmark PC Charges	367	471	(104)	1,507	1,885	(378)	5,650					
Highmark Charges	2,696	2,478	218	10,778	9,205	1,573	26,319					
Agent Commissions	1,820	1,599	221	6,290	6,412	(122)	18,961					
Parker Benefits	27	-	27	97	58	39	207					
Grand Total Highmark WV	\$11,547	\$11,907	(\$360)	\$45,133	\$46,200	(\$1,067)	\$137,074					

Proprietary & Confidential

**Mountain State
Health Business Operating Expenses
Apr-11**

Total Health Business including Commissions

Risk	Current Month \$		YTD \$		YTD Member Months			YTD PMPM			Variance PMPM		Total Year PMPM	
	Actual	Plan	Actual	Plan	Actual	Plan	Prior Year	Actual	Plan	Prior Year	Act vs. Plan	Yr vs. Yr	Plan	Actual
Small Group	1,263	1,159	5,098	4,890	5,329	5,329	142	126	150	35.86	37.34	35.58	37.36	35.55
Experienced	1,899	2,035	7,443	8,165	8,028	8,165	239	260	269	31.14	31.47	29.90	32.04	30.30
FEP	1,319	1,381	5,305	5,515	5,963	5,963	225	221	222	23.54	24.93	26.90	25.54	27.95
Direct Pay	382	321	1,378	1,302	1,165	1,165	40	38	36	34.77	34.54	32.58	33.86	33.52
Medicare Supplemental	208	268	866	1,085	972	1,085	31	31	33	28.12	35.56	29.27	36.32	28.57
Other (F/S, Stop Loss)	56	56	243	228	213	213	8	8	8					
Non Risk														
ASC	2,325	1,790	8,179	7,231	6,756	6,756	400	383	359	20.45	19.90	18.79	19.19	19.18
BlueCard	1,526	1,934	6,100	7,831	7,831	7,831								
TPA Processing Arrangements	2,608	2,963	10,520	10,152	18,644	18,644								
Health Business Total	11,547	11,907	45,133	46,200	47,071	47,071	1,084	1,065	1,076	26.29	26.50	26.42	27.04	26.92
Commercial Health	7,413	7,009	28,513	28,217	28,426	28,426	1,077	1,057	1,068	26.48	26.69	26.61	27.04	26.92

Total Health Business Less Commissions

Risk	Current Month \$		YTD \$		YTD Member Months			YTD PMPM			Variance PMPM		Total Year PMPM	
	Actual	Plan	Actual	Plan	Actual	Plan	Prior Year	Actual	Plan	Prior Year	Act vs. Plan	Yr vs. Yr	Plan	Actual
Small Group	626	598	2,593	2,415	2,735	2,735	142	126	150	18.24	19.23	18.26	19.70	18.37
Experienced	1,176	1,306	4,881	5,262	5,272	5,272	239	260	269	20.42	20.28	19.63	20.69	19.82
FEP	1,319	1,381	5,305	5,515	5,963	5,963	225	221	222	23.54	24.93	26.90	25.54	27.95
Direct Pay	197	175	756	703	703	703	40	38	36	19.07	18.64	16.63	19.02	17.35
Medicare Supplemental	226	226	704	913	821	913	31	31	33	22.86	29.90	24.74	30.67	23.35
Other (F/S, Stop Loss)	54	54	236	221	206	221	8	8	8					
Non Risk														
ASC	2,051	1,671	7,747	6,776	6,375	6,375	400	383	359	19.37	17.71	17.73	17.96	18.06
BlueCard	1,526	1,934	6,100	7,831	7,831	7,831								
TPA Processing Arrangements	2,608	2,963	10,520	10,152	18,644	18,644								
Health Business Total	8,728	10,308	38,843	39,788	40,612	40,612	1,084	1,065	1,076	20.49	20.48	20.41	21.04	20.88
Commercial Health	5,593	5,411	22,223	21,805	21,968	21,968	1,077	1,057	1,068	20.64	20.63	20.56	21.04	20.88