

2/13/03



11 West Forty-second Street
New York, NY 10036
www.empireblue.com
212-476-3527 FAX 212-476-1694

Kathryn A. McKinnon, F.S.A.
Vice President
Chief Underwriter

January 31, 2003

Mr. Robert DuBois
Director, Employee Benefits Division
New York State Department of Civil Service
The State Office Building Campus
Albany, New York 12239

Re: State Health Benefits Plan

Dear Mr. DuBois:

As we have discussed, the purpose of this letter is to summarize the agreement reached between the Department of Civil Service, the Division of Budget, and Empire Blue Cross Blue Shield relating to the Hospital Service Plan Group Contract dated September 10, 1957, as thereafter amended and modified (the "Contract"), which provides for furnishing hospital services to employees of the State of New York, and public authorities, public benefit corporations, and other appropriate agencies of the State of New York electing to participate in the plan, and the dependents of such employees, between Empire Blue Cross Blue Shield and the New York State Department of Civil Service ("DCS"). The terms of our agreement are as follows:

1. The Contract shall be renewed on the terms herein for the period January 1, 2003 through December 31, 2005.

2. [Redacted]

3.

4. The Administrative costs for Contract years 2003, 2004, and 2005 shall be determined as follows:

a. Administrative fees shall be based on a Per Contract Per Month (PCPM) fee which shall vary in accordance with the table presented below. Furthermore, there is no need of any year end reconciliation of the administrative fees to actual costs, except for the reconciliations provided below and in paragraph 9. Average annual membership shall be estimated as of January 1 of each year, and the amount charged on a monthly basis, to the dedicated cash management account (CMA), shall be based on such estimate; provided that at the end of the calendar year, actual average annual enrollment from the premium remittances and verified by Empire for accuracy shall be used to calculate the annual administrative fee chargeable to the Plan in accordance with the table presented below. A reconciliation between the annual administrative charge and the amounts charged to the cash management account shall be performed at year end and a corresponding adjustment to the CMA shall be made.

Effective with the signing of this letter, the [Redacted]

Average Annual Enrollment	2003 Administrative Reimbursement
500,000+ Contracts	
Below 500,000 Contracts	

b. [REDACTED]

c. [REDACTED] shall be applied to Contract years 2003, 2004 and 2005 to reduce the administrative costs. These credits shall not impact (a) and (b) above, are independent of actual enrollment levels, and are one time credits which shall not continue beyond 2005.

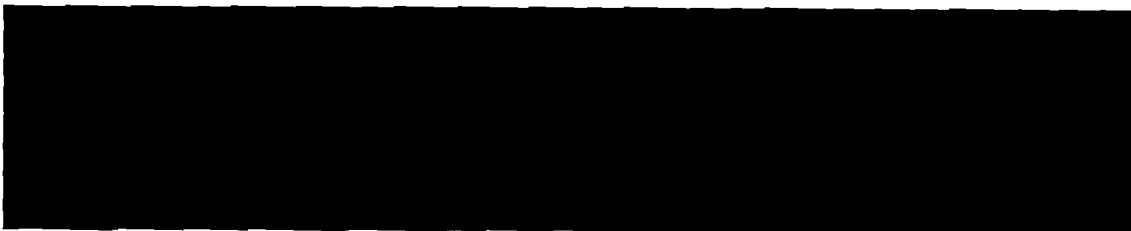
5. The Parties may renew the contract, with a January 1, 2006 effective date, only on the following terms:
 - a. Empire will provide the administrative cost component of the renewal rate for the Contract period commencing 1/1/06 to the DCS and the Division of Budget on or around 5/1/05 for the upcoming 1/1/06 renewal date. The claim portion of the renewal rate will be provided on or around 9/1/05.
 - b. The Parties shall agree on the Contract renewal rates by December 1, 2005. Payment of the new rate will be due beginning on 1/1/06. If the parties do not agree to rates by December 1, 2005; then the Contract will expire on December 31, 2005, except that DCS may, upon thirty (30) days prior written notice to Empire, extend the Contract through June 30, 2006 by continuing to pay the 2005 administrative rates plus the greater of the change in the CPI-W +1.50%, or 3%, for the first six months of 2006 (the "termination period"). Payment for claims during this period will be at a good faith maximum claim liability rate proposed by Empire specifically for this termination period. The good faith maximum claim liability rate would be defined to include all projected claims for the 6 month period as well as any current and projected deficits.
6. Notwithstanding that the administrative cost component of the 2004 and 2005 Contract rate is set under the terms of this agreement, the claims portion of the 2004 and 2005 rates shall be set by no later than December 1, 2003 and 2004, respectively. The claim portion of each upcoming 1/1 Contract renewal will be provided to DCS by Empire on or around 9/1 of the preceding year. The maximum claim liability rate shall be established by Empire. Premium payment rates, as mutually agreed upon by Empire and DCS, shall be effective January 1 of the contract year. In the event the claims component of the mutually agreed upon payment rate is less than the maximum claim liability, a retrospective premium payment of the difference between the claims component of the premium payment rate and the actual claim liability shall be paid to Empire up to the maximum claim liability.
7. Either party may terminate the entire Contract at any time on 6 months prior written notice and in accordance with applicable laws and regulations. In the event notice of termination is provided under this paragraph 7 subsequent to the provision of any notice by Empire of rate renewals, the termination notice shall supercede and nullify Empire's rate renewal notice. Further, in the event the 6 month period extends beyond the term of any agreed upon Contract rate period, the administrative rates for any period prior to January 1, 2006 shall be as described in paragraph 4 above, the administrative rates

Mr. Robert DuBois
January 31, 2003
Page 3

for any period extending beyond January 1, 2006, shall be determined as described in paragraph 5(b) above. The claim rate for any 6 month termination period, which extends beyond the term of any agreed upon contract rate period, shall be established by Empire, as described in paragraph 5(b) above.

8. Both parties shall have the right to renegotiate the administrative fees if service and/or benefit levels change.

9.

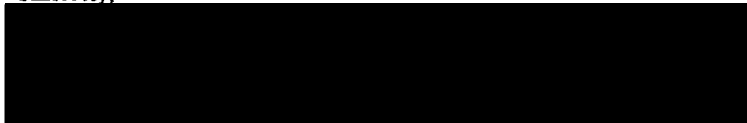


10. The provisions described in this letter will override and control any conflicting terms or conditions of the Contract. All other terms and conditions of the Contract shall remain in full force and effect.

11. This agreement shall be subject to the approval of the New York State Division of the Budget as shown below.

We look forward to continuing to work with you in the future.

Sincerely,



cc: Michael A. Stocker, M.D. - Chief Executive Officer, Empire
John Remshard - SVP & Chief Financial Officer, Empire
Linda Tiano - SVP & General Counsel, Empire
James Christ, VP of Underwriting, Empire

AGREED TO AND ACCEPTED

New York State Department of Civil Service



Print Name: Robert W. DuBois
Title: Director Employee Benefits Div
Date: 2/7/03

APPROVED BY THE

New York State Division of the Budget



Print Name: John E. Burke
Title: Chief Budget Examiner
Date: 2/6/03