

Another factor contributing to the operating deficit during the fiscal year is the change in the prescription drug benefit methodology effective January 2000. The Plan went from a system in which prescription drugs were payable after filing of a paper claim by the patient to one in which prescriptions are electronically filed by the pharmacy. This change, estimated to be cost neutral over the course of a year, nonetheless resulted in an acceleration of drug claims payments, such that during the first half of Calendar 2000, the Plan was paying substantially for both 1999 and 2000 drug claims incurrals.

The Plan's critical funding situation has been addressed with a series of major actions that will become effective January 2001. The employer contribution will increase by 20% for Calendar Year 2001, and benefit payments will be reduced in the form of a hike in the annual deductible of \$50/person, \$100/family, and an increase in the patient share of coinsurance by 5%. In addition, enrollee contribution rates will increase by \$5/month regardless of level of coverage. Management is hopeful that these actions will result in positive movement toward restoration of Plan reserves and correction of the Plan's deficit financial position.

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This report is intended solely for the information of the State Auditor, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Milliano, DeLoach & Williamson, L.L.P.*

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