

SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
OFFICE OF INSURANCE SERVICES

NOTES TO COMBINED FINANCIAL STATEMENTS

(CONTINUED)

13. Pension Plans

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Retirement Division, Post Office Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Office are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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13. Pension Plans (Continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. For the years ended June 30, 2001, 2000 and 1999 the employer contribution rate was 7.55 percent (before a surcharge to fund retiree health and dental insurance coverage). The Office's actual contributions to the SCRS for those years were approximately \$532,000 \$473,000 and \$427,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Office paid employer group-life insurance contributions at the rate of .15 percent of compensation for the years ended June 30, 2001, 2000 and 1999.

The amounts paid by the Office for pension and group-life benefits are reported as employer contribution expenditures within the applicable administrative expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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13. Pension Plans (Continued)

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Office's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Office's liability under the pension plans is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Office recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of services) for up to 90 days for accumulated unused sick leave.

14. Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Office are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Office for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Office for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 20,100 State retirees meet these eligibility requirements.

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14. Post-Employment and Other Employee Benefits (Continued)

The Office recorded employer contributions expenditures within the applicable administrative expenditure categories for these insurance benefits for active employees of approximately \$384,000, \$332,000 and \$288,000 for the years ended June 30, 2001, 2000 and 1999, respectively. As discussed in *Note 13*, the Office paid approximately \$131,000, \$94,000 and \$91,000 for the years ended June 30, 2001, 2000 and 1999, respectively, applicable to the surcharge included with the employer contributions for retirement benefits (2.52% for 2001, 1.95% for 2000, and 2.03% for 1999).

Information regarding the cost of insurance benefits applicable to Office retirees is not available. By State law, the Office has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

15. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Office have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401 (k), and 403 (b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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15. Deferred Compensation Plans (Continued)

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the portion of contributions paid from State General Funds to 401(k) accounts of eligible state employees. The 401(k) match is limited to \$300. To be eligible, an employee must be a permanent full-time state employee or temporary grant employee who is actively contributing to a 401(k), 457 or 403(b) account on the date of distribution. Permanent full-time employees making less than \$20,000 as of July 1, 2000, are not required to contribute in order to receive the match.

This Office contributed \$25,900 for the fiscal year ending June 30, 2001.

16. Transactions with State Entities

The Office has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost include payroll processing, disbursement processing and maintenance of certain accounting records from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.

The following services are provided for a fee to various State agencies and within the South Carolina State Budget and Control Board. The fees are recorded as revenues in the financial statements for the Insurance Reserve Fund and the Health, Life, and Disability Insurance Reserve Fund. Total amounts of premiums received from other state agencies is not readily available.

Health, Life, and Disability Insurance Fund:

Health, dental, basic group-life and disability, and State Life and Long-Term Disability insurance coverage for state agencies and local governments

Insurance Reserve Fund:

Property coverage for state and local governments

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16. Transactions with State Entities (Continued)

A significant portion of the Office's total insurance premium revenue is for insurance premiums charged to other state agencies and divisions of the South Carolina State Budget and Control Board. Premiums owed from these entities were \$2,744,509 and \$9,223,822 at June 30, 2001 and 2000, respectively.

The following details the insurance premiums charged by the Office to other state agencies and divisions of the South Carolina State Budget and Control Board during the years ended June 30, 2001 and 2000:

	2001	2000
Tort liability	\$ 13,306,169	\$ 13,928,475
Auto liability	5,883,712	5,228,448
Professional liability	5,107,838	5,138,563
Comprehensive and collision	235,024	223,177
School bus liability	3,080,188	31,107
Fire	2,326,329	3,292,996
Extended coverage	1,158,676	1,642,421
Inland Marine	660,678	915,687
Active employees:		
Health	246,457,296	221,770,332
Dental	16,089,416	16,376,868
Life	2,248,445	2,096,207
Long-term disability	4,704,888	5,091,545
Dependent/optional life	11,683,161	10,468,539
HMO-point of service	9,911,735	5,092,262
Retirees:		
Health	17,881,737	15,814,628
Dental	1,177,134	1,112,711
Retiree surcharge	55,639,468	46,612,711
HMO-point of service	115,709	22,637
Other premium revenues	1,720,340	1,628,281
	\$ 399,387,943	\$ 356,487,595

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16. Transactions with State Entities (Continued)

The Office had financial transactions with various State agencies during the fiscal year. Significant payments were made to Divisions (Offices) of the State Budget and Control Board for retirement and insurance plans contributions, vehicle rental, surplus property disposal fees, office supplies, printing, and telephone, interagency mail, data processing services, purchasing, record maintenance, internal audit and personnel services. Significant payments were also made for unemployment and workers' compensation coverage for employees to other agencies. The amounts of 2001 and 2000 expenditures applicable to related party transactions are not readily available.

The following services are received from other Divisions (Offices) of the South Carolina State Budget and Control Board at no charge:

- Division of Operations
 - Record storage
- Division of Retirement
 - Collection of health and dental premiums from retirees
 - Retirement plan administration
 - Collection of retiree insurance surcharge from employers

The Office acted as fiduciary for premiums collected from state agencies for State Life and Long-Term Disability. During the year ended June 30, 2001 and 2000, \$2,026,604 and \$1,969,841, respectively was collected from state agencies and disbursed to the State Life and Long-Term Disability carrier.

Additionally, refer to *Note 6* for a description of the amounts due from South Carolina Division of Retirement.

The Office offers a managed care pilot program to MUSC's employees living in Charleston, Dorchester or Berkeley counties. Refer to *Note 1* for a complete description.

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17. Contingencies

By the nature of its operations and responsibilities as an insurer, the Office has been named in a number of lawsuits, many of which are pending. A provision has been made in the financial statements for the payment of routine claims. Management is not aware of any other claims that, in their opinion, would have a material effect on the financial statements and, therefore, no liability has been recorded.

18. Risk Management/Reinsurance

The Office is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years.

The Office pays insurance premiums to itself, certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

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18. Risk Management/Reinsurance (Continued)

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Office and other entities pay premiums to the Insurance Reserve Fund which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Office assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Auto liability for non-state owned vehicles; and
3. General torts.

State agencies and other entities are the primary participants in the HLDIRF and in IRF.

The Office obtains coverage of up to \$750,000 per loss through a commercial carrier for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

The Office has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories.

The Office has not transferred the portion of the risk of loss related to insurance policy deductibles and limits. The Office has not reported an estimated claims loss expense, and the related liability at June 30, 2001 or 2000, based on the requirements of GASB 10 because information at June 30 did not indicate that an asset had been impaired or a liability had been incurred. GASB 10 states that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30 and the amount of loss is reasonably estimable.

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18. Risk Management/Reinsurance (Continued)

The Insurance Reserve Fund purchases insurance and reinsurance and separately reports the related reinsurance premium and premium expenses. Insurance is purchased to cover risks where the Insurance Reserve Fund has limited expertise (aircraft insurance and ocean marine insurance). Reinsurance is purchased to limit the Insurance Reserve Fund's liability for catastrophic loss (property reinsurance and medical professional liability reinsurance), to obtain specialized engineering services (boiler and machinery reinsurance), or to obtain services for which the Insurance Reserve Fund is not adequately staffed (automobile liability reinsurance).

The Office of Insurance Services, Health, Life, and Disability Insurance Reserve Fund self-insures health and dental insurance for all participating governmental employees, including those of the Office. Additionally, effective January 1, 1999, the HLDIRF began offering a self-insured HMO point of service plan to certain employees of MUSC. The HLDIRF purchases coverage for basic group life, dependent life, optional supplemental life, group optional life and basic disability from commercial carriers. The State Life and Long-Term Disability program is also self-insured.

The Office of Insurance Services, Insurance Reserve Fund self insures Tort Liability Insurance, Automobile Physical Damage Insurance, and the self insured retention for Property, Medical Professional Liability, and Boiler and Machinery Insurance.

Reinsurance for catastrophic losses is purchased for losses above the following loss levels:

Property-\$2,000,000 per location/\$10,000,000 per occurrence
Medical malpractice-\$250,000