

MINUTES OF
BUDGET AND CONTROL BOARD
MEETING

April 13, 1989

MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING

APRIL 13, 1989

10 A. M.

The Budget and Control Board met at 10 a.m. on Thursday, April 13, 1989, in the Governor's conference room in the State House, with the following members in attendance:

Governor Carroll A. Campbell, Jr., Chairman;
Mr. Grady L. Patterson, Jr., State Treasurer;
Mr. Earle E. Morris, Jr., Comptroller General;
Senator James M. Waddell, Jr., Chairman, Senate Finance Committee;
Representative Robert N. McLellan, Chairman, House Ways & Means Committee.

Also attending were:

Jesse A. Coles, Jr., Ph.D.	Executive Director
William A. McInnis	Secretary
J. Samuel Griswold, Ph.D.	Deputy Executive Director
Philip G. Grose, Jr.	Assistant Executive Director
Charles H. Smith	Assistant Executive Director
Donna K. Williams	Assistant to Secretary
Other Board staff	
Joseph D. Shine	Chief Deputy Attorney General
Q. Whitfield Ayres, Ph.D.	Governor's Senior Executive Assistant for Budget and Policy
Luther F. Carter, Ph.D.	Governor's Senior Executive Assistant for Finance and Administration
Charlie Sanders	Senior Assistant State Treasurer
George M. Lusk	Senior Assistant Comptroller General
J. Michael Ey	Finance Committee Director of Research
Scott R. Inkley, Jr.	Ways & Means Committee Dir. of Research

[Secretary's Note: This meeting followed Meeting 4 of the South Carolina Resources Authority.]

Adoption of Agenda

Dr. Coles distributed a revised regular session agenda index.

Upon a motion by Mr. McLellan, seconded by Mr. Morris, the Board adopted the revised agenda as proposed which showed that the executive session item on the agenda proposed originally relating to the Tax Commission had been withdrawn and that two executive session items had been added, one from the Executive Director on the receipt of legal advice in connection with the health insurance program and, the second, a discussion of negotiations incident to a proposed contractual matter involving the Patriots Point Development Authority.

Retirement Systems: Group Benefits Actuarial/Financial Study (R1)

Dr. Coles asked that Dr. Griswold present the results obtained thus far in the study of the Retirement Systems group benefits program being undertaken with the assistance of The Wyatt Company.

Dr. Griswold reminded the Board that The Wyatt firm was hired to undertake a second actuarial study of the group benefits programs of the Retirement Systems. He said the representatives of The Wyatt Company have been an exceptionally strong professional group to work with. He advised that the firm has completed Phase 1 of its study which he said is intended to deal with what is needed to get the programs through December 31 of this year and to set the stage for the Phase 2 work which is to address longer-term solutions. He noted that Insurance Commissioner John Richards had worked closely with the group and he introduced Mr. William J. Hickman and Mr. John D. Fortin of The Wyatt Company's Dallas office.

Mr. Hickman distributed a copy of the Phase 1 report to Board members and reviewed it in detail.

Section I dealt with background. It traced reserve accumulations for the medical and dental plans and noted significant events, such as transfers of funds, which impacted those plans and the reserves for the fiscal year 1984-85 through December 1988.

Mr. Hickman then reviewed Section II which was a projection of future experience (through December of 1989). He indicated that the following assumptions were used in developing the projections: (1) 1988 general utilization patterns were assumed for 1989; (2) 1988 funding levels would be continued for 1989; (3) first quarter 1989 data served as the basis for estimating expense levels for 1989; (4) investment return for the remainder of 1989 was based on preliminary first quarter data; and (5) active employee claims and retiree costs will increase by 20.7% and 23.3%, respectively.

On these bases, Mr. Hickman stated that 1989 medical claims of some \$250.5 million are expected and that, if current benefits and current contribution rates are continued, a year-end medical plan deficit of \$44.9 million will occur. He also reported that a dental plan surplus of about \$16.1 million had been estimated, producing a combined deficit of about \$28.8 million.

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Mr. Hickman then reviewed Section III of the report which dealt with alternatives. He stated that, for calendar year 1989, an increase in revenue or a decrease in expenses of about \$28.6 million is projected to keep the combined medical-dental program solvent and that \$64.3 million is projected to keep the program solvent and establish reserves. The combined figures for 1989 and 1990, as reported by Mr. Hickman, are \$121.5 million and \$159.1 million, respectively.

[Secretary's Note: Both Governor Campbell and Senator Waddell left the meeting at about this point in the discussion of this item. Mr. Patterson assumed the chair until Governor Campbell returned prior to the beginning of executive session.]

Mr. Hickman then reviewed the series of alternatives presented in Section III. Possible changes which could be made effective July 1, 1989, with their estimated 1989 and 1990 impacts, were presented, along with others which could be made effective January 1, 1990.

Mr. Hickman advised Mr. McLellan that the Phase 2 report will be available in early May.

Mr. Morris asked Dr. Coles and his staff to ensure that a copy of the Phase 1 report is distributed to each association or organization participating in the insurance program.

Mr. Patterson observed that The Wyatt Company has presented an outstanding report which he said measures up to the Company's prior reputation.

Mr. Collins indicated that he had received a copy of the report last night. He said he had worked with the consultants and that he, too, had been impressed with the quality of their work. He expressed the view that the report is a good one. He said the Systems will be making specific recommendations to the Board for 1990.

Mr. Morris observed that this second opinion from The Wyatt Company is just as bad as the first opinion from the Systems. Mr. Collins commented that the independent study had arrived at the same numbers as those presented by the Systems' ongoing actuaries. Mr. Patterson noted that fact also.

The Board received as information a report by representatives of The Wyatt Company on its study of the Retirement Systems group benefits programs.

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Information relating to this matter has been retained in these files and is identified as Exhibit 1.

Executive Session and Recess

Dr. Coles advised that two items had been proposed for consideration during executive session. He recommended that the Board recess the meeting to the call of the Chairman until Governor Campbell's return prior to considering items in executive session.

Upon a motion by Mr. Morris, seconded by Mr. McLellan, the Board agreed to recess the meeting until Governor Campbell's return and then to consider these items in executive session:

- | | |
|--|--|
| Item 1: Executive Director | Receipt of Legal Advice (Health Insurance Program) |
| Item 2: Patriots Point Development Authority | Discussion of Negotiations Incident to Proposed Contractual Matter |

Governor Campbell returned to the meeting and declared the meeting to be in executive session.

Vote on Matters Discussed in Executive Session

Following the executive session, the meeting was opened, and the Board voted on the following items which had been discussed during executive session:

- (a) Executive Director: Receipt of Legal Advice (Health Insurance Program (Executive #1)

Upon a motion by Governor Campbell, seconded by Mr. Morris, the Board received as information legal advice on the Health Insurance Program and gave notice that the Program is subject to adjustment.

- (b) Patriots Point Development Authority: Receipt of Legal Advice (Executive #2)

The Board received as information legal advice relating to the Patriots Point Development Authority but took no action on it.

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Adjournment

Upon a motion by Mr. Patterson, the meeting was adjourned at 12:40 p.m.

[Secretary's Note: In compliance with Code §30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room in the State House, near the Board Secretary's office in the Wade Hampton Building, and in the lobby of the Wade Hampton Office Building at 8:45 a.m. on Wednesday, April 12, 1989.]

[Secretary's Note: At the April 13, 1989, meeting, this item was described and published as "Patriots Point Development Authority: Discussion of Negotiations Incident to Proposed Contractual Matter." Legal advice was presented in the course of the Board's discussion of this item.

At the April 25 meeting when these minutes were approved by the Board, counsel advised that, since the Board had no direct contractual relationship with the Authority, the item should be categorized as the receipt of legal advice.]

State of South Carolina
South Carolina Resources Authority

CARROLL A. CAMPBELL, JR.
GOVERNOR, CHAIRMAN
GRADY L. PATTERSON, JR.
STATE TREASURER
EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



Box 12444
Columbia
29211

JAMES M. WADDELL, JR., CHAIRMAN
SENATE FINANCE COMMITTEE
ROBERT N. McLELLAN, CHAIRMAN
WAYS AND MEANS COMMITTEE

April 13, 1989

MEMORANDUM

TO: SC Resources Authority Members
FROM: William A. McInnis, Secretary *WAM*
SUBJECT: Summary of Authority Actions at Meeting 4 (April 13, 1989)

At meeting 4, held on April 13, 1989, the South Carolina Resources Authority took the following actions [this is an unofficial summary of the actions, not the minutes of the meeting]:

1. Adopted the agenda as proposed;
2. Approved the minutes of meeting 3, held on April 11, 1989;
3. Approved and authorized the execution of a contract of purchase whereby Donaldson, Lufkin & Jenrette Securities Corporation agrees to purchase the Authority's bonds at a 1.493% discount;
4. Adopted a resolution:
 - (a) approving the refinancing of water supply, sewer systems, sewage and waste water treatment facilities of fifteen local governments, including the Town of Branchville; the Edgefield County Water and Sewer Authority; the Town of Edisto Beach; the Georgetown County Water and Sewer District; the Town of Hemingway; the Town of Pageland; the Town of Ridgeway; the Town of Saluda; the Town of Santee; the Town of Summerton; the Town of Timmonsville; the Town of Varnville; the City of Westminster; the Town of Williamston; and the Town of Williston;
 - (b) approving and authorizing the execution of bond purchase contracts whereby the local governments agree to issue and sell and the Authority agrees to purchase bonds of the referenced local governments, the proceeds of which will be applied to refinance the projects;

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Summary of SCRA Actions
Meeting 4, April 13, 1989
Page 2

- (c) approving and authorizing the execution of a trust indenture prescribing the terms and conditions of the Authority's bonds and securing the same;
 - (d) approving and authorizing the execution of a contract of purchase whereby Donaldson, Lufkin & Jenrette Securities Corporation agrees to purchase the Authority's bonds;
 - (e) authorizing the issuance of \$16,810,000 South Carolina Resources Authority Local Government Program Revenue Bonds, Series A of 1989, pursuant to the trust indenture;
 - (f) approving and authorizing the use of a preliminary official statement and a final official statement in connection with the sale of the Authority's bonds; and
 - (g) authorizing the execution and delivery of all documents necessary or incidental to the issuance and sale of the Authority's bonds;
- 5. Adopted a seal, choosing the prosaic version suggested by staff which incorporated the Authority's name and the word "seal," after considering briefly a more elaborate design by House Ways and Means Committee staff;
 - 6. Authorized the Authority Secretary to apply for a tax identification number for the Resources Authority;
 - 7. Agreed to receive recommendations from Comptroller General Morris on a procedure for rotating the selection of accounting firms for work in connection with future Authority bond issues;
 - 8. Agreed that the selection of bond counsel for work on future Authority issues would be handled under the procedures established by the Budget and Control Board for revenue bond counsel services; and
 - 9. Agreed to hold the next meeting in response to the call of the Chairman.

M

EXHIBIT

APR 13 1989

NO. 1

STATE BUDGET & CONTROL BOARD

SOUTH CAROLINA
STATE BUDGET AND CONTROL BOARD
GROUP BENEFITS STUDY
PHASE 1 REPORT

Prepared by
The Wyatt Company
April 13, 1989

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EXHIBIT

APR 13 1989

NO. 1

STATE BUDGET & CONTROL BOARD

SECTION I BACKGROUND

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SECTION I
BACKGROUND

INTRODUCTION

In order to evaluate the adequacy of current funding levels and to project future fund balances, we developed fund analysis models for plan years beginning July 1, 1984. These models compare plan income to plan expenses and calculate cumulative surplus (in the form of reserves) or cumulative deficit. Plan income consists of state contributions, employee contributions, investment income and other non-routine cash infusions. Plan expenses are made up of claim payments, administrative expenses, HMO premiums and non-routine cash withdrawals.

The following illustrations, each entitled Reserve Accumulation, begin with the 1984-1985 plan year and trace the growth of reserve funds followed by the emergence of the current medical plan deficit.

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EXHIBIT I.1 - Reserve Accumulation - July 1, 1984 - June 30, 1985

A. During the 1984-1985 plan year, a number of significant events impacting the health insurance plan occurred.

1. On July 1, 1984, the health insurance Administrative Services Only Contract was awarded to Blue Cross Blue Shield of South Carolina.

2. Effective July 1, the State Treasurer assumed control of claim reserve funds and took over the investment function.

3. On February 15, 1985, dental coverage was introduced.

4. During the year, the following non-routine cash transactions took place:

a. \$26,716,572 was transferred to General Reserve Fund.

b. \$6,121,239 was transferred to Dental Fund.

c. \$2,594,888 was received as a refund from Liberty Life.

B. Because data detailing the split between employer and employee contributions were not available, only total quarterly contributions are shown.

C. During the year, medical plan disbursements exceeded contributions by \$16,234,210.

EXHIBIT I.1

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL PLAN JULY 1, 1984 - JUNE 30, 1985

	7/84 - 9/84	10/84 - 12/84	1/85 - 3/85	4/85 - 6/85	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 39,511,973	\$18,158,718	\$ 23,068,348	\$ 25,402,711	\$ 39,511,973
2. CONTRIBUTION INCOME					
A. EMPLOYER	-----	-----	-----	-----	-----
B. EMPLOYEE	-----	-----	-----	-----	-----
C. TOTAL	30,765,441	32,517,870	32,550,647	32,780,740	128,614,698
3. INVESTMENT INCOME	476,971	355,776	236,669	217,788	1,287,204
4. OTHER INCOME	0	0	0	2,594,888 (2)	2,594,888
5. TOTAL INCOME	31,242,412	32,873,646	32,787,316	35,593,416	132,496,790
6. CLAIMS PAID	25,267,216	27,326,059	29,804,714	30,943,190	113,341,179
7. PREMIUM TO HMO	0	0	0	0	0
8. ADMINISTRATIVE EXPENSES	611,879	637,957	648,239	653,935	2,552,010
9. OTHER DISBURSEMENTS	26,716,572 (1)	0	0	6,121,239 (3)	32,837,811
10. TOTAL DISBURSEMENTS	52,595,667	27,964,016	30,452,953	37,718,364	148,731,000
11. RESERVE CHANGE	(21,353,255)	4,909,630	2,334,363	(2,124,948)	(16,234,210)
12. ENDING RESERVE	\$ 18,158,718	\$23,068,348	\$ 25,402,711	\$ 23,277,763	\$ 23,277,763

(1) TRANSFER TO GENERAL FUND

(2) REFUND - LIBERTY LIFE

(3) TRANSFER TO DENTAL PLAN

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EXHIBIT I.2 - Reserve Accumulation - July 1, 1985 - June 30, 1986

A. During the 1985-1986 plan year, several key developments took place:

1. On July 1, 1985, a 7% rate increase was implemented and State employees were allowed to elect coverage offered through a Health Maintenance Organization (HMO).
2. On July 1, 1985, the Insurance Benefits Section began operation as part of the South Carolina Retirement Systems.
3. During the year, the following non-routine cash transactions took place:
 - a. \$1,598,253 was transferred to operations.
 - b. \$500,000 was transferred to the dental plan.

B. During the 1985-1986 plan year, disbursements exceeded income by \$7,207,251 for medical and, for the dental plan, income exceeded disbursement by \$244,836.

EXHIBIT I.2

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL PLAN JULY 1, 1985 - JUNE 30, 1986

	7/85 - 9/85	10/85 - 12/85	1/86 - 3/86	4/86 - 6/86	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 23,277,763	\$ 20,749,133	\$ 22,768,023	\$ 18,323,173	\$ 23,277,763
2. CONTRIBUTION INCOME					
A. EMPLOYER	25,377,362	26,335,617	26,554,935	26,913,262	105,181,176
B. EMPLOYEE	9,534,459	9,319,431	7,333,007	7,712,154	33,899,051
C. TOTAL	34,911,821	35,655,048	33,887,942	34,625,416	139,080,227
3. INVESTMENT INCOME	320,604	2,147,441	426,992	380,403	3,275,440
4. OTHER INCOME	0	0	0	0	0
5. TOTAL INCOME	35,232,425	37,802,489	34,314,934	35,005,819	142,355,667
6. CLAIMS PAID	35,043,266	33,230,003	30,045,433	29,727,399	128,046,101
7. PREMIUM TO HMO	395,766	1,845,877	7,624,135	6,951,223	16,817,001
8. ADMINISTRATIVE EXPENSES	723,770	707,719	590,216	579,858	2,601,563
9. OTHER DISBURSEMENTS	1,598,253 (1)	0	500,000 (2)	0	2,098,253
10. TOTAL DISBURSEMENTS	37,761,055	35,783,599	38,759,784	37,258,480	149,562,918
11. RESERVE CHANGE	(2,528,630)	2,018,890	(4,444,850)	(2,252,661)	(7,207,251)
12. ENDING RESERVE	\$ 20,749,133	\$ 22,768,023	\$ 18,323,173	\$ 16,070,512	\$ 16,070,512

(1) TRANSFER TO OPERATIONS

(2) TRANSFER TO DENTAL PLAN

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EXHIBIT

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APR 13 1989 NO. 1

STATE BUDGET & CONTROL BOARD

EXHIBIT I.2 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

DENTAL PLAN JULY 1, 1985 - JUNE 30, 1986

	7/85 - 9/85	10/85 - 12/85	1/86 - 3/86	4/86 - 6/86	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 1,030,048	\$ 826,260	\$ 407,804	\$ 1,334,728	\$ 1,030,048
2. CONTRIBUTION INCOME					
A. EMPLOYER	3,683,841	3,975,750	3,961,616	3,983,679	15,604,886
B. EMPLOYEE	1,798,675	1,509,103	1,724,180	1,733,913	6,765,871
C. TOTAL	5,482,516	5,484,853	5,685,796	5,717,592	22,370,757
3. INVESTMENT INCOME	0	0	0	27,629	27,629
4. OTHER INCOME	0	0	500,000 (1)	0	500,000
5. TOTAL INCOME	5,482,516	5,484,853	6,185,796	5,745,221	22,898,386
6. CLAIMS PAID	5,379,054	5,589,584	4,938,329	5,481,136	21,388,103
7. PREMIUM TO HMO	0	0	0	0	0
8. ADMINISTRATIVE EXPENSES	307,250	313,725	320,543	323,929	1,265,447
9. OTHER DISBURSEMENTS	0	0	0	0	0
10. TOTAL DISBURSEMENTS	5,686,304	5,903,309	5,258,872	5,805,065	22,653,550
11. RESERVE CHANGE	(203,788)	(418,456)	926,924	(59,844)	244,836
12. ENDING RESERVE	\$ 826,260	\$ 407,804	\$ 1,334,728	\$ 1,274,884	\$ 1,274,884

(1) TRANSFER FROM MEDICAL PLAN

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EXHIBIT I.2 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL AND DENTAL PLANS JULY 1, 1985 - JUNE 30, 1986

	7/85 - 9/85	10/85 - 12/85	1/86 - 3/86	4/86 - 6/86	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 24,307,811	\$ 21,575,393	\$ 23,175,827	\$ 19,657,901	\$ 24,307,811
2. CONTRIBUTION INCOME					
A. EMPLOYER	29,061,203	30,311,367	30,516,551	30,896,941	120,786,062
B. EMPLOYEE	11,333,134	10,828,534	9,057,187	9,446,067	40,664,922
C. TOTAL	40,394,337	41,139,901	39,573,738	40,343,008	161,450,984
3. INVESTMENT INCOME	320,604	2,147,441	426,992	408,032	3,303,069
4. OTHER INCOME	0	0	500,000	0	500,000
5. TOTAL INCOME	40,714,941	43,287,342	40,500,730	40,751,040	165,254,053
6. CLAIMS PAID	40,422,320	38,819,587	34,983,762	35,208,535	149,434,204
7. PREMIUM TO HMO	395,766	1,845,877	7,624,135	6,951,223	16,817,001
8. ADMINISTRATIVE EXPENSES	1,031,020	1,021,444	910,759	903,787	3,867,010
9. OTHER DISBURSEMENTS	1,598,253	0	500,000	0	2,098,253
10. TOTAL DISBURSEMENTS	43,447,359	41,686,908	44,018,656	43,063,545	172,216,468
11. RESERVE CHANGE	(2,732,418)	1,600,434	(3,517,926)	(2,312,505)	(6,962,415)
12. ENDING RESERVE	\$ 21,575,393	\$ 23,175,827	\$ 19,657,901	\$ 17,345,396	\$ 17,345,396

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EXHIBIT I.3 - Reserve Accumulation - July 1, 1986 - June 30, 1987

A. During the 1986-1987 plan year, significant events included the following:

1. Effective July 1, 1986, retiree contribution rates became the same as active employee rates.

2. Effective July 1, 1986, an 8% dental rate increase was implemented.

3. The following non-routine cost transactions took place:

a. \$3,002,719 was received as a refund from Metropolitan Life.

b. \$2,006,604 was transferred to operations.

c. \$1,395,617 was received as a dividend from Metropolitan Life.

B. Records indicate that a 27% medical rate increase, to be effective July 1, was requested and that an increase of 8% was received.

C. During the year, medical disbursements exceeded medical income by \$467,474, while dental income exceeded dental disbursements by \$2,797,666.

EXHIBIT I.3

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL PLAN JULY 1, 1986 - JUNE 30, 1987

	7/86 - 9/86	10/86 - 12/86	1/87 - 3/87	4/87 - 6/87	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 16,070,512	\$ 18,573,728	\$ 15,256,608	\$ 19,306,141	\$ 16,070,512
2. CONTRIBUTION INCOME					
A. EMPLOYER	29,006,056	30,348,477	30,564,656	30,363,931	120,283,120
B. EMPLOYEE	9,380,297	9,282,530	9,117,695	9,070,716	36,851,238
C. TOTAL	38,386,353	39,631,007	39,682,351	39,434,647	157,134,358
3. INVESTMENT INCOME	226,484	258,626	259,553	239,600	984,263
4. OTHER INCOME	3,002,719 (1)	0	1,395,617 (3)	0	4,398,336
5. TOTAL INCOME	41,615,556	39,889,633	41,337,521	39,674,247	162,516,957
6. CLAIMS PAID	34,443,833	37,019,514	29,513,821	36,436,036	137,413,204
7. PREMIUM TO HMO	3,422,172	4,910,279	6,127,509	6,214,686	20,674,646
8. ADMINISTRATIVE EXPENSES	711,335	737,374	714,640	717,628	2,880,977
9. OTHER DISBURSEMENTS	535,000 (2)	539,586 (2)	932,018 (2)	9,000 (4)	2,015,604
10. TOTAL DISBURSEMENTS	39,112,340	43,206,753	37,287,988	43,377,350	162,984,431
11. RESERVE CHANGE	2,503,216	(3,317,120)	4,049,533	(3,703,103)	(467,474)
12. ENDING RESERVE	\$ 18,573,728	\$ 15,256,608	\$ 19,306,141	\$ 15,603,038	\$ 15,603,038

(1) REFUND - METROPOLITAN LIFE

(2) TRANSFER TO OPERATIONS

(3) DIVIDEND - METROPOLITAN LIFE

(4) PHP

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EXHIBIT I.3 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

DENTAL PLAN JULY 1, 1986 - JUNE 30, 1987

	7/86 - 9/86	10/86 - 12/86	1/87 - 3/87	4/87 - 6/87	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 1,274,884	\$ 1,392,051	\$ 2,091,871	\$ 3,176,586	\$ 1,274,884
2. CONTRIBUTION INCOME					
A. EMPLOYER	4,268,794	4,465,702	4,429,191	4,457,278	17,620,965
B. EMPLOYEE	1,845,134	2,030,035	2,091,403	2,088,855	8,055,427
C. TOTAL	6,113,928	6,495,737	6,520,594	6,546,133	25,676,392
3. INVESTMENT INCOME	12,273	23,783	37,845	50,047	123,948
4. OTHER INCOME	0	0	0	0	0
5. TOTAL INCOME	6,126,201	6,519,520	6,558,439	6,596,180	25,800,340
6. CLAIMS PAID	5,689,277	5,490,334	5,140,889	5,365,921	21,686,421
7. PREMIUM TO HMO	0	0	0	0	0
8. ADMINISTRATIVE EXPENSES	319,757	329,366	332,835	334,295	1,316,253
9. OTHER DISBURSEMENTS	0	0	0	0	0
10. TOTAL DISBURSEMENTS	6,009,034	5,819,700	5,473,724	5,700,216	23,002,674
11. RESERVE CHANGE	117,167	699,820	1,084,715	895,964	2,797,666
12. ENDING RESERVE	\$ 1,392,051	\$ 2,091,871	\$ 3,176,586	\$ 4,072,550	\$ 4,072,550

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EXHIBIT I.3 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL AND DENTAL PLANS JULY 1, 1986 - JUNE 30, 1987

	7/86 - 9/86	10/86 - 12/86	1/87 - 3/87	4/87 - 6/87	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 17,345,396	\$ 19,965,779	\$ 17,348,479	\$ 22,482,727	\$ 17,345,396
2. CONTRIBUTION INCOME					
A. EMPLOYER	33,274,850	34,814,179	34,993,847	34,821,209	137,904,085
B. EMPLOYEE	11,225,431	11,312,565	11,209,098	11,159,571	44,906,665
C. TOTAL	44,500,281	46,126,744	46,202,945	45,980,780	182,810,750
3. INVESTMENT INCOME	238,757	282,409	297,398	289,647	1,108,211
4. OTHER INCOME	3,002,719	0	1,395,617	0	4,398,336
5. TOTAL INCOME	47,741,757	46,409,153	47,895,960	46,270,427	188,317,297
6. CLAIMS PAID	40,133,110	42,509,848	34,654,710	41,801,957	159,099,625
7. PREMIUM TO HMO	3,422,172	4,910,279	6,127,509	6,214,686	20,674,646
8. ADMINISTRATIVE EXPENSES	1,031,092	1,066,740	1,047,475	1,051,923	4,197,230
9. OTHER DISBURSEMENTS	535,000	539,586	932,018	9,000	2,015,604
10. TOTAL DISBURSEMENTS	45,121,374	49,026,453	42,761,712	49,077,566	185,987,105
11. RESERVE CHANGE	2,620,383	(2,617,300)	5,134,248	(2,807,139)	2,330,192
12. ENDING RESERVE	\$ 19,965,779	\$ 17,348,479	\$ 22,482,727	\$ 19,675,588	\$ 19,675,588

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EXHIBIT I.4 - Reserve Accumulation - July 1, 1987 - December 31, 1988

A. During the plan year beginning July 1, 1987, the following took place:

1. In order to change from a July through June plan year to a January through December plan year, it was decided that the eighteen-month period beginning July 1, 1987 would constitute one plan year. Thereafter, plan years would coincide with calendar years.
2. A 35.8% medical rate increase, effective July 1, 1987, was requested. An increase of 11% was received.
3. During the year, the following non-routine cash transactions occurred:
 - a. \$3,848,980 was transferred to operations.
 - b. \$154,276 was received as a reimbursement from Travelers and Healthsource.
 - c. \$58,876 was received as a reimbursement from R. E. Harrington.

B. During the year, medical plan disbursements exceeded income by \$18,376,747, while dental plan income exceeded plan disbursements by \$6,019,242.

EXHIBIT I.4
STATE OF SOUTH CAROLINA
RESERVE ACCUMULATION
MEDICAL PLAN JULY 1, 1987 - DECEMBER 31, 1988

	7/87 - 9/87	10/87 - 12/87	1/88 - 3/88	4/88 - 6/88	7/88 - 9/88	10/88 - 12/88	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 15,603,038	\$ 15,287,676	\$ 18,211,046	\$ 14,486,188	\$ 12,076,912	\$ 2,194,560	\$ 15,603,038
2. CONTRIBUTION INCOME							
A. EMPLOYER	35,853,228	33,551,853	38,960,246	36,621,289	35,844,568	36,636,271	217,467,455
B. EMPLOYEE	11,648,632	11,401,840	11,639,082	11,634,894	11,638,462	11,547,051	69,509,961
C. TOTAL	47,501,860	44,953,693	50,599,328	48,256,183	47,483,030	48,183,322	286,977,416
3. INVESTMENT INCOME	214,236	286,418	329,311	285,734	174,611	112,694	1,403,004
4. OTHER INCOME	0	0	0	0	154,276 (2)	0	154,276
5. TOTAL INCOME	47,716,096	45,240,111	50,928,639	48,541,917	47,811,917	48,296,016	288,534,696
6. CLAIMS PAID	40,290,862	35,086,447	47,502,089	43,726,107	50,276,643	46,179,430	263,061,578
7. PREMIUM TO HMO	6,237,623	5,712,605	5,706,631	5,771,131	5,803,139	5,510,644	34,741,773
8. ADMINISTRATIVE EXPENSES	849,336	864,052	876,165	885,343	889,782	894,434	5,259,112
9. OTHER DISBURSEMENTS	653,637 (1)	653,637 (1)	568,612 (1)	568,612 (1)	724,705 (1)	679,777 (1)	3,848,980
10. TOTAL DISBURSEMENTS	48,031,458	42,316,741	54,653,497	50,951,193	57,694,269	53,264,285	306,911,443
11. RESERVE CHANGE	(315,362)	2,923,370	(3,724,858)	(2,409,276)	(9,882,352)	(4,968,269)	(18,376,747)
12. ENDING RESERVE	\$ 15,287,676	\$ 18,211,046	\$ 14,486,188	\$ 12,076,912	\$ 2,194,560	\$ (2,773,709)	\$ (2,773,709)

(1) TRANSFER TO OPERATIONS

(2) REIMBURSEMENT FROM TRAVELERS & HEALTHSOURCE

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EXHIBIT I.4 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

DENTAL PLAN JULY 1, 1987 - DECEMBER 31, 1988

	7/87 - 9/87	10/87 - 12/87	1/88 - 3/88	4/88 - 6/88	7/88 - 9/88	10/88 - 12/88	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 4,072,550	\$ 4,933,032	\$ 6,153,250	\$ 7,052,795	\$ 7,795,715	\$ 8,489,381	\$ 4,072,550
2. CONTRIBUTION INCOME							
A. EMPLOYER	4,419,087	4,533,173	4,552,525	4,568,868	4,523,134	4,626,715	27,223,502
B. EMPLOYEE	2,054,263	1,829,841	2,603,897	2,345,185	2,329,569	2,402,274	13,565,029
C. TOTAL	6,473,350	6,363,014	7,156,422	6,914,053	6,852,703	7,028,989	40,788,531
3. INVESTMENT INCOME	77,860	85,393	106,246	116,269	150,017	186,893	722,678
4. OTHER INCOME	0	0	0	0	0	58,876 (1)	58,876
5. TOTAL INCOME	6,551,210	6,448,407	7,262,668	7,030,322	7,002,720	7,274,758	41,570,085
6. CLAIMS PAID	5,400,613	4,934,194	6,064,778	5,986,589	6,010,198	5,372,692	33,769,064
7. PREMIUM TO HMO	0	0	0	0	0	0	0
8. ADMINISTRATIVE EXPENSES	290,115	293,995	298,345	300,813	298,856	299,655	1,781,779
9. OTHER DISBURSEMENTS	0	0	0	0	0	0	0
10. TOTAL DISBURSEMENTS	5,690,728	5,228,189	6,363,123	6,287,402	6,309,054	5,672,347	35,550,843
11. RESERVE CHANGE	860,482	1,220,218	899,545	742,920	693,666	1,602,411	6,019,242
12. ENDING RESERVE	\$ 4,933,032	\$ 6,153,250	\$ 7,052,795	\$ 7,795,715	\$ 8,489,381	\$ 10,091,792	\$ 10,091,792

(1) REIMBURSEMENT FROM R. E. HARRINGTON

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EXHIBIT I.4 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL AND DENTAL PLANS JULY 1, 1987 - DECEMBER 31, 1988

	7/87 - 9/87	10/87 - 12/87	1/88 - 3/88	4/88 - 6/88	7/88 - 9/88	10/88 - 12/88	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 19,675,588	\$ 20,220,708	\$ 24,364,296	\$ 21,538,983	\$ 19,872,627	\$ 10,683,941	\$ 19,675,588
2. CONTRIBUTION INCOME							
A. EMPLOYER	40,272,315	38,085,026	43,512,771	41,190,157	40,367,702	41,262,986	244,690,957
B. EMPLOYEE	13,702,895	13,231,681	14,242,979	13,980,079	13,968,031	13,949,325	83,074,990
C. TOTAL	53,975,210	51,316,707	57,755,750	55,170,236	54,335,733	55,212,311	327,765,947
3. INVESTMENT INCOME	292,096	371,811	435,557	402,003	324,628	299,587	2,125,682
4. OTHER INCOME	0	0	0	0	154,276	58,876	213,152
5. TOTAL INCOME	54,267,306	51,688,518	58,191,307	55,572,239	54,814,637	55,570,774	330,104,781
6. CLAIMS PAID	45,691,475	40,020,641	53,566,867	49,712,696	56,286,841	51,552,122	296,830,642
7. PREMIUM TO HMO	6,237,623	5,712,605	5,706,631	5,771,131	5,803,139	5,510,644	34,741,773
8. ADMINISTRATIVE EXPENSES	1,139,451	1,158,047	1,174,510	1,186,156	1,188,638	1,194,089	7,040,891
9. OTHER DISBURSEMENTS	653,637	653,637	568,612	568,612	724,705	679,777	3,848,980
10. TOTAL DISBURSEMENTS	53,722,186	47,544,930	61,016,620	57,238,595	64,003,323	58,936,632	342,462,286
11. RESERVE CHANGE	545,120	4,143,588	(2,825,313)	(1,666,356)	(9,188,686)	(3,365,858)	(12,357,505)
12. ENDING RESERVE	\$ 20,220,708	\$ 24,364,296	\$ 21,538,983	\$ 19,872,627	\$ 10,683,941	\$ 7,318,083	\$ 7,318,083

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EXHIBIT

APR 13 1989 NO. 1

STATE BUDGET & CONTROL BOARD

SECTION II

PROJECTION OF FUTURE EXPERIENCE

11448

SECTION II
PROJECTION OF FUTURE EXPERIENCE

Fund projections for 1989 are based on a number of critical assumptions as to the size and characteristics of the covered population; contributions from the State and from employees; expense levels; investment return; and the volume of claims expected to be paid during the year.

1. Size and Characteristics of the Covered Population

Effective January 1, 1989, due primarily to employees leaving HMOs, the number of participants covered under Plans A and B increased by approximately 14%. Available statistics indicate that the average age of the covered population did not change materially as a result of the influx of HMO members. Therefore, general utilization patterns observed during 1988 were assumed for 1989.

2. Contributions From the State and From Employees

The projection for 1989 is based on the continuation of 1988 funding levels. Increased contributions from 1988-1989 reflect the increased number of covered individuals.

3. Expense Levels

Plan expenses consist of funds paid to Blue Cross Blue Shield under the Administrative Services Only arrangement, funds transferred to operations, and case management expenses. Preliminary first quarter data served as the basis for estimating expense levels for 1989.

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4. Investment Return

As with expenses, estimated investment return is based on preliminary first quarter data extended through the remainder of the year.

5. Claims Paid During The Year

Exhibit II.1 illustrates actual claim payments during each of the last three calendar years. Claims are broken down by type and are shown separately for active and retired employees.

Blue Cross Blue Shield utilization data provided insight into the growth of claim costs. A key concept to the analysis of claim patterns is that claims on a per member basis increase as a result of increased utilization of medical services combined with the increased cost of those services. Exhibit II.2 provides a breakdown of key utilization rates and payment rates by type of expense for each of the last three calendar years. Quarterly reports were analyzed and combined to produce the rates that are shown. Using these statistics, we developed trend factors for projecting 1989 claims. We have estimated that active employee claims will increase by 20.7% per covered individual and that retiree costs will increase by 23.3%. Variation in these factors between active employees and retirees stems from different utilization patterns exhibited by these two segments of the population. Medicare policy in determining its liability is also reflected. Additionally, our projection of claims includes the expected impact of Medicare Catastrophic Legislation on retiree experience.

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Based upon these assumptions, we have estimated that 1989 medical claims will amount to \$250,503,447. As Exhibit II.2 illustrates, we have projected that if current benefits are continued, along with current contribution rates, a year-end medical plan deficit equal to \$44,876,983 will occur. For the same period, we have estimated a dental plan surplus equal to \$16,081,314. These two amounts produce a combined deficit equal to \$28,795,669.

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EXHIBIT

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APR 13 1989 NO. 1

STATE BUDGET & CONTROL BOARD

EXHIBIT II.1

CLAIMS HISTORY

INPATIENT HOSPITAL

CALENDAR YEAR	ACTIVE		RETIRED		TOTAL	
	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS
1986	192,112	\$55,069,956	31,219	\$7,315,419	223,331	\$62,385,375
1987	203,012	\$51,979,075	34,511	\$10,064,387	237,523	\$62,043,462
1988	215,162	\$70,382,603	36,987	\$14,513,073	252,149	\$84,895,676

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EXHIBIT II.1 (cont'd)

CLAIMS HISTORY

OUTPATIENT HOSPITAL

CALENDAR YEAR	ACTIVE		RETIRED		TOTAL	
	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS
1986	192,112	\$11,908,467	31,219	\$1,571,197	223,331	\$13,479,664
1987	203,012	\$14,388,892	34,511	\$2,851,840	237,523	\$17,240,732
1988	215,162	\$20,472,251	36,987	\$3,619,170	252,149	\$24,091,421

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EXHIBIT II.1 (cont'd)

CLAIMS HISTORY

INPATIENT MEDICAL SURGICAL

CALENDAR YEAR	ACTIVE		RETIRED		TOTAL	
	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS
1986	192,112	\$17,582,095	31,219	\$2,200,284	223,331	\$19,782,379
1987	203,012	\$18,089,392	34,511	\$3,415,559	237,523	\$21,504,951
1988	215,162	\$21,595,973	36,987	\$3,726,014	252,149	\$25,321,987

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EXHIBIT II.1 (cont'd)

CLAIMS HISTORY

OFFICE MEDICAL SURGICAL

CALENDAR YEAR	ACTIVE		RETIRED		TOTAL	
	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS
1986	192,112	\$8,365,905	31,219	\$1,735,252	223,331	\$10,101,157
1987	203,012	\$9,312,327	34,511	\$2,697,563	237,523	\$12,009,890
1988	215,162	\$12,991,728	36,987	\$3,213,977	252,149	\$16,205,705

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EXHIBIT II.1 (cont'd)

CLAIMS HISTORY

OUTPATIENT MEDICAL SURGICAL

CALENDAR YEAR	ACTIVE		RETIRED		TOTAL	
	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS	MEMBERS	PAYMENTS
1986	192,112	\$6,053,116	31,219	\$705,196	223,331	\$6,758,312
1987	203,012	\$7,589,721	34,511	\$1,171,366	237,523	\$8,761,087
1988	215,162	\$10,339,748	36,987	\$1,622,324	252,149	\$11,962,072

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EXHIBIT

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APR 13 1989 NO. 1

STATE BUDGET & CONTROL BOARD

EXHIBIT II.2

ANALYSIS OF PLAN COST

INPATIENT HOSPITAL

CALENDAR YEAR	DAYS PER 1,000			PAYMENT PER DAY			MONTHLY PAYMENT PER MEMBER		
	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL
1986	645	1,539	770	\$445	\$152	\$363	\$23.92	\$19.49	\$23.29
1987	445	1,696	627	\$576	\$172	\$417	\$21.36	\$24.31	\$21.79
1988	482	1,712	662	\$679	\$229	\$508	\$27.27	\$32.67	\$28.02

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EXHIBIT II.2 (cont'd)

ANALYSIS OF PLAN COST

OUTPATIENT HOSPITAL

CALENDAR YEAR	CLAIMS / 1,000			PAYMENT / CLAIM			MONTHLY PAYMENT PER MEMBER		
	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL
1986	439	621	465	\$141	\$81	\$130	\$5.16	\$4.19	\$5.04
1987	433	863	495	\$164	\$96	\$147	\$5.92	\$6.90	\$6.06
1988	482	891	542	\$198	\$110	\$176	\$7.95	\$8.17	\$7.95

11458

EXHIBIT II.2 (cont'd)
ANALYSIS OF PLAN COST
IMPATIENT MEDICAL SURGICAL

CALENDAR YEAR	PROCEDURES PER 1,000			PAYMENT / PROCEDURE			MONTHLY PAYMENT PER MEMBER		
	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL
1986	728	1,619	853	\$125	\$44	\$104	\$7.58	\$5.94	\$7.39
1987	589	2,181	820	\$151	\$45	\$110	\$7.41	\$8.18	\$7.52
1988	631	2,117	849	\$159	\$48	\$118	\$8.36	\$8.47	\$8.35

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EXHIBIT II.2 (cont'd)
ANALYSIS OF PLAN COST
OUTPATIENT MEDICAL SURGICAL

CALENDAR YEAR	PROCEDURES PER 1,000			PAYMENT / PROCEDURE			MONTHLY PAYMENT PER MEMBER		
	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL
1986	368	763	423	\$86	\$30	\$72	\$2.64	\$1.91	\$2.54
1987	371	1,074	473	\$101	\$32	\$78	\$3.12	\$2.86	\$3.07
1988	437	1,245	555	\$110	\$35	\$85	\$4.01	\$3.63	\$3.93

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EXHIBIT II.2 (cont'd)
ANALYSIS OF PLAN COST
OFFICE MEDICAL SURGICAL

CALENDAR YEAR	PROCEDURES PER 1,000			PAYMENT / PROCEDURE			MONTHLY PAYMENT PER MEMBER		
	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL	ACTIVE	RETIRED	TOTAL
1986	1,857	5,600	2,380	\$23	\$10	\$19	\$3.56	\$4.67	\$3.77
1987	1,731	6,255	2,388	\$27	\$12	\$21	\$3.89	\$6.26	\$4.18
1988	2,236	6,462	2,856	\$27	\$13	\$23	\$5.03	\$7.24	\$5.36

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EXHIBIT II.3

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL PLAN JAN 1, 1989 - DEC 31, 1989

(PROJECTED)

	1/89 - 3/89	4/89 - 6/89	7/89 - 9/89	10/89 - 12/89	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ (2,773,709)	\$ (5,993,875)	\$(18,954,911)	\$(31,915,947)	\$ (2,773,709)
2. CONTRIBUTION INCOME					
A. EMPLOYER	41,502,650	41,380,515	41,380,515	41,380,515	165,644,195
B. EMPLOYEE	15,171,653	15,459,366	15,459,366	15,459,366	61,549,751
C. TOTAL	56,674,303	56,839,881	56,839,881	56,839,881	227,193,946
3. INVESTMENT INCOME	42,856	64,284	64,284	64,284	235,708
4. OTHER INCOME	0	0	0	0	0
5. TOTAL INCOME	56,717,159	56,904,165	56,904,165	56,904,165	227,429,654
6. CLAIMS PAID	55,106,868	65,132,193	65,132,193	65,132,193	250,503,447
7. PREMIUM TO HMO	2,658,223	2,501,814	2,501,814	2,501,814	10,163,665
8. ADMINISTRATIVE EXPENSES	1,492,457	1,551,417	1,551,417	1,551,417	6,146,708
9. OTHER DISBURSEMENTS	679,777	679,777	679,777	679,777	2,719,108
10. TOTAL DISBURSEMENTS	59,937,325	69,865,201	69,865,201	69,865,201	269,532,928
11. RESERVE CHANGE	(3,220,166)	(12,961,036)	(12,961,036)	(12,961,036)	(42,103,274)
12. ENDING RESERVE	\$ (5,993,875)	\$(18,954,911)	\$(31,915,947)	\$(44,876,983)	\$(44,876,983)

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EXHIBIT II.3 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

DENTAL PLAN JAN 1, 1989 - DEC 31, 1989

(PROJECTED)

	1/89 - 3/89	4/89 - 6/89	7/89 - 9/89	10/89 - 12/89	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 10,091,792	\$ 12,011,271	\$ 13,367,952	\$ 14,724,633	\$ 10,091,792
2. CONTRIBUTION INCOME					
A. EMPLOYER	4,807,822	4,728,963	4,728,963	4,728,963	18,994,711
B. EMPLOYEE	2,508,004	2,481,585	2,481,585	2,481,585	9,952,759
C. TOTAL	7,315,826	7,210,548	7,210,548	7,210,548	28,947,470
3. INVESTMENT INCOME	138,499	207,749	207,749	207,749	761,746
4. OTHER INCOME	0	0	0	0	0
5. TOTAL INCOME	7,454,325	7,418,297	7,418,297	7,418,297	29,709,216
6. CLAIMS PAID	5,225,066	5,750,000	5,750,000	5,750,000	22,475,066
7. PREMIUM TO HMO	0	0	0	0	0
8. ADMINISTRATIVE EXPENSES	309,780	311,616	311,616	311,616	1,244,628
9. OTHER DISBURSEMENTS	0	0	0	0	0
10. TOTAL DISBURSEMENTS	5,534,846	6,061,616	6,061,616	6,061,616	23,719,694
11. RESERVE CHANGE	1,919,479	1,356,681	1,356,681	1,356,681	5,989,522
12. ENDING RESERVE	\$ 12,011,271	\$ 13,367,952	\$ 14,724,633	\$ 16,081,314	\$ 16,081,314

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EXHIBIT II.3 (cont'd)

STATE OF SOUTH CAROLINA

RESERVE ACCUMULATION

MEDICAL AND DENTAL PLAN JAN 1, 1989 - DEC 31, 1989

(PROJECTED)

	1/89 - 3/89	4/89 - 6/89	7/89 - 9/89	10/89 - 12/89	PLAN YEAR TOTAL
1. BEGINNING RESERVE	\$ 7,318,083	\$ 6,017,396	\$ (5,586,959)	\$(17,191,314)	\$ 7,318,083
2. CONTRIBUTION INCOME					
A. EMPLOYER	46,310,472	46,109,478	46,109,478	46,109,478	184,638,906
B. EMPLOYEE	17,679,657	17,940,951	17,940,951	17,940,951	71,502,510
C. TOTAL	63,990,129	64,050,429	64,050,429	64,050,429	256,141,416
3. INVESTMENT INCOME	181,355	272,033	272,033	272,033	997,454
4. OTHER INCOME	0	0	0	0	0
5. TOTAL INCOME	64,171,484	64,322,462	64,322,462	64,322,462	257,138,870
6. CLAIMS PAID	60,331,934	70,882,193	70,882,193	70,882,193	272,978,513
7. PREMIUM TO HMO	2,658,223	2,501,814	2,501,814	2,501,814	10,163,665
8. ADMINISTRATIVE EXPENSES	1,802,237	1,863,033	1,863,033	1,863,033	7,391,336
9. OTHER DISBURSEMENTS	679,777	679,777	679,777	679,777	2,719,108
10. TOTAL DISBURSEMENTS	65,472,171	75,926,817	75,926,817	75,926,817	293,252,622
11. RESERVE CHANGE	(1,300,687)	(11,604,355)	(11,604,355)	(11,604,355)	(36,113,752)
12. ENDING RESERVE	\$ 6,017,396	\$ (5,586,959)	\$(17,191,314)	\$(28,795,669)	\$(28,795,669)

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EXHIBIT

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STATE BUDGET & CONTROL BOARD

SECTION III

ALTERNATIVES

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SECTION III
ALTERNATIVES

INTRODUCTION

The State of South Carolina will need to address the current financial situation as discussed in Sections I. and II. For calendar year 1989, an increase in revenue or decrease in expenses of \$28.8 million is projected to keep the combined medical - dental program solvent. For the same period, \$64.3 million is projected to keep the program solvent and establish reserves.

It is too early to predict 1990 with any degree of precision. It appears, however, that an increase (for 1989 and 1990 combined) of \$121.5 million will be needed to meet expenses thru December 31, 1990. In order to cover expenses and establish necessary reserve targets, a combined increase of \$159.1 million will be needed.

The purpose of this Section is to outline possible alternatives and a preliminary estimate of their financial impact. These and other alternatives will be explored in more detail during Phase 2 of the Study. That Phase will address the feasibility and rationale of each change. Note that medical and dental are combined in projecting the budgetary needs. If funds can be combined, the overfunded coverage's surplus can be used to offset a deficit situation in the other coverage.

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POSSIBLE CHANGES EFFECTIVE

JULY 1, 1989

Possible changes include the following:

Alternative A

Concept: Defer the HIAA update of allowances as reasonable and customary medical claims to an annual update.

Impact: \$1.1 million in 1989
\$2.6 million in 1990

Alternative B

Concept: Use 80% of HIAA as the maximum reasonable and customary expense.

Impact: \$.8 million in 1989
\$1.8 million in 1990

Alternative C

Concept: Update COBRA rates to reflect current expense levels (subject to legal requirement that rates are guaranteed for 12 months).

Impact: \$.2 million in 1989
\$.4 million in 1990

Alternative D

Concept: Implement mandatory utilization review program for all non-emergency hospital admissions including precertification, concurrent review and large case management.

Impact: \$1.4 million in 1989.
\$3.3 million in 1990
(relatively low due to shift from inpatient to outpatient and doctor office expense).

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Alternative E

Concept: Use carve-out coordination of benefits for retirees eligible for Medicare.

Impact: \$2.1 million in 1989
\$6.3 million in 1990
(relatively low due to underlying Base Plus Comprehensive type of coverage).

Alternative F

Concept: Introduce co-payments.

- o Doctor's office visit \$10
- o Outpatient hospital \$75
- o Emergency room \$25
- o Emergicenter \$25
- o Additional hospital deductible of \$50 (i.e., \$200 total)

Impact:

	Savings (in Millions)	
	1989	1990
o Doctor's office visit	\$ 3.7	\$ 8.2
o Outpatient hospital	3.0	7.2
o Emergency room	0.9	2.2
o Emergicenter	0.5	1.5
o Hospital deductible	0.7	1.7
Total	\$ 8.8	\$20.8

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POSSIBLE CHANGES EFFECTIVE

JANUARY 1, 1990

There are additional changes that can be considered. Some of these work best in certain combinations with other changes. The cumulative effect of savings is not simply the addition of the alternatives savings. Some of these changes are a significant departure from the current plan and require considerable research and discussion prior to reaching any conclusions as to feasibility.

Alternative G

Concept: Change to Basic Comprehensive coverage with deductibles and coinsurance.

Impact: To be determined during Phase 2.

Alternative H

Concept: In addition to Alternative G, use carve-out coverage for retirees eligible for Medicare.

Impact: To be determined during Phase 2.

Alternative I

Concept: Tighten underwriting rules related to late entrants, evidence of insurability, preexisting conditions, etc.

Impact: To be determined during Phase 2.

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Alternative J

Concept: Increase employee contributions.

Impact:	For Each \$10 Increase in Monthly Contribution	1990 Savings
	Employee	\$ 7.5 million
	Employee and Spouse	1.3 million
	Employee and Children	3.3 million
	Full Family	2.5 million
	Total	\$14.6 million

Alternative K

Concept: Reevaluate pricing among active employees, retirees under 65 and retirees age 65 and over.

Impact: Could be revenue neutral but would be more equitable structure.

Alternative L

Concept: Reevaluate Plan A vs. Plan B pricing.

Impact: Could be revenue neutral but would be more equitable structure.

Alternative M

Concept: Reevaluate pricing by family tier.

Impact: Could be revenue neutral but would be more equitable structure.

Alternative N

Concept: Implement Preferred Provider Organization (PPO) or other Managed Care Approach.

Impact: Significant savings in provider discounts are possible if plan design and controls address utilization.

EXHIBIT

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CONCLUSION

STATE BUDGET & CONTROL BOARD

South Carolina has numerous alternatives available. Some of the alternatives lend themselves to immediate implementation while others will require a phased approach. We are pleased to assist the Budget and Control Board in the completion of this assignment and we look forward to the on-going success of the program.

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T H E E N D

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