

SOUTH DAKOTA RISK

POOL 2007

FIFTH ANNUAL REPORT TO THE SOUTH

DAKOTA LEGISLATURE

BACKGROUND

The South Dakota legislature convened on June 26 and 27, 2003 for a special session requested by Governor M. Michael Rounds to consider legislation that would establish the South Dakota Risk Pool and related bills. On June 27, 2003, Governor Rounds signed the enabling bill that was passed by the legislature.

The FY07 Risk Pool Governing Board members are Chairman Kevin Forsch, Co-Chair Tom Martinec, Larry Iversen, Janet Griffin, Dave Hewett, Randy Moses and new member Dennis Studer. Members of the Advisory Panel include: Dr. Mary Carpenter, Bob Clark, Damian Prunty, Representative Kathy Miles, Dr. Tom Krafka, David Link, Lonnie McKittrick, David Owen, Cheryl Stone, Mike Shaw, Jean Reed, Rick Stracqulursi, and New Members Senator Jason Gant and Barb Smith.

RISK POOL OPERATIONS

The South Dakota Risk Pool was operational and accepting applications on July 28, 2003. Application to the Risk Pool can be made by contacting a local health insurance agent or on-line at the Risk Pool homepage at www.state.sd.us/bop/riskpool.htm.

The creation of the South Dakota Risk Pool established the methodology to allocate the risk and cost to the state; insurance carriers; medical providers, facilities, and pharmacists; insurance agents; and Risk Pool enrollees. The methodology included the premise the Risk Pool Members would pay a higher than average premium, the agents would receive a lower than normal commission, and the state, the

providers, and the carriers would have a financial partnership in the risk pool. The review of the FY07 data indicates the state paid \$600,411 of their appropriated \$604,878. The carriers through a set allocation by statute contributed \$862,311.87. To determine the financial contribution to the Risk Pool by medical providers, the difference between 85% of the billed charges (an average insurance company network discount) and the amount actually payable to providers for Risk Pool enrollees was calculated.

The specific contribution categories are as follows:

Contributions	
State	\$600,411.00
Insurance Carriers	\$862,311.87
Physicians	\$892,295.01
Hospitals	\$1,116,149.35

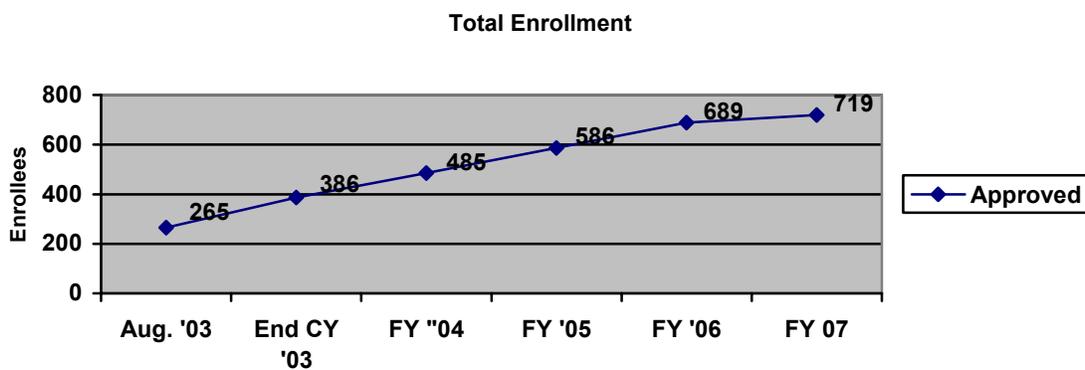
Grants	
Federal Grant	\$1,098,428.00

ENROLLMENT

The Risk Pool is currently providing coverage to the originally intended population, those individuals who lose their creditable coverage through no fault of their own and make application to the Risk Pool within sixty-three days of losing coverage. The Risk Pool was initiated in time to provide

coverage for the surge of South Dakotans seeking coverage in August and September of 2003 after a number of health carriers left the individual market.

The Risk Pool expanded eligibility to South Dakotans by allowing additional enrollees into the risk pool based on their having health insurance premiums at least 200% of the risk pool premiums. The target population is those individuals who are in closed blocks of business and whose premiums are spiraling upward. Senate Bill 200 was signed by Governor Rounds and was enacted on July 1, 2006. There were 719 individuals in the Risk Pool at the end of FY07. Of the 719 individuals, 39 have enrolled due to the passage of SB 200. There have been 648 individuals who have discontinued Risk Pool coverage since inception of the Risk Pool. Termination of coverage is primarily due to enrollees obtaining creditable coverage through another source. There have been 24 terminations due to failure to pay premiums. Seventy five (75) applications have been denied due to the applicant not meeting eligibility requirements and 122 applications have been denied due to the applicant not completing the application process.



The current population of the Risk Pool consists of approximately 49% men and 51% women with 14% being tobacco users. Approximately 62% of the Risk Pool enrollees are age 50 or older. The Risk

Pool offers three plans to members. Plan A is a \$1,000 deductible, Plan B is a \$3,000 deductible, and Plan C is a \$10,000 deductible. There is an additional option on Plan B that offers a Health Savings Account (HSA). There are approximately 46% of the Risk Pool members enrolled in the Plan A, 38% in Plan B, 2% in Plan B with the HSA option, and 14% in Plan C. The only differences in the three plans are the deductibles and out-of-pocket maximums.

CLAIMS

The claims for medical benefits are administered by Dakotacare Administrative Services. There is a delay between the time services are rendered and the time the claim for services are submitted. Due to the normal delay in payment of claims, claims paid data does not accurately reflect all of the claim expenses that have actually been incurred, but not reported. During FY 2007, \$3,854,842.70 was paid for in medical benefits with an additional \$1,118,182.00 estimated in incurred but not reported claims. Pharmacy claims are submitted electronically at the time the services are rendered. In FY 2007, \$1,770,924.96 was paid for in pharmacy benefits. Pharmacy claims were processed by Prescription Solutions.

the FY 07 paid claims includes claims incurred in FY06 but paid in FY07

EXPENSES

Operating expenses and expenditures, other than claim benefit payments, totaled \$402,117.79 during FY07. The expenses category includes costs for contracting for disease management, claims processing services, agent commissions, and other miscellaneous expenses.

ASSESSMENTS

Assessments to insurance carriers are set at \$0.25 per member per month based on the number of member months for the preceding calendar year. Carriers were asked for an updated report in January 2007 based on calendar year 2006 statistics. Carriers have previously had the option to submit quarterly payments or a lump sum. The Risk Pool Board modified the methodology and now insurance carriers are invoiced annually. The total amount of carrier assessments invoiced for calendar year 2007 was \$864,697.31. The carriers submitted \$862,311.87 in payments for calendar year 2007. The difference in the amount invoiced and the amount submitted is due to carriers having credits, due to overpayment. Carriers who pay in advance were provided credits for the next calendar year.

PREMIUMS

Risk Pool premiums are actuarially based on 150% of the average in force premiums that would be charged by the three carriers with the most individual health plans during the preceding year. The methodology is in accordance with the enacted legislation. Payments of premiums are collected by using automatic withdrawal unless other arrangements have been made with the Risk Pool Administrator. Premiums in the amount of just under \$3.9 million were received during FY07. There was an eleven percent (11.0%) increase in premium rates from FY06 to FY07.

MEDICAL MANAGEMENT & INTERVENTION

Many of the enrollees in the Risk Pool have serious health conditions that prevent them from obtaining an underwritten policy through the private insurance market. A Health Risk Assessment form is completed at the time of application to the risk pool. This Health Risk Assessment is reviewed by Health Care Medical Technology Inc. (HCMTI), the medical services management provider, and the enrollee is triaged into disease management programs to assist in management of the enrollee's healthcare requirements.

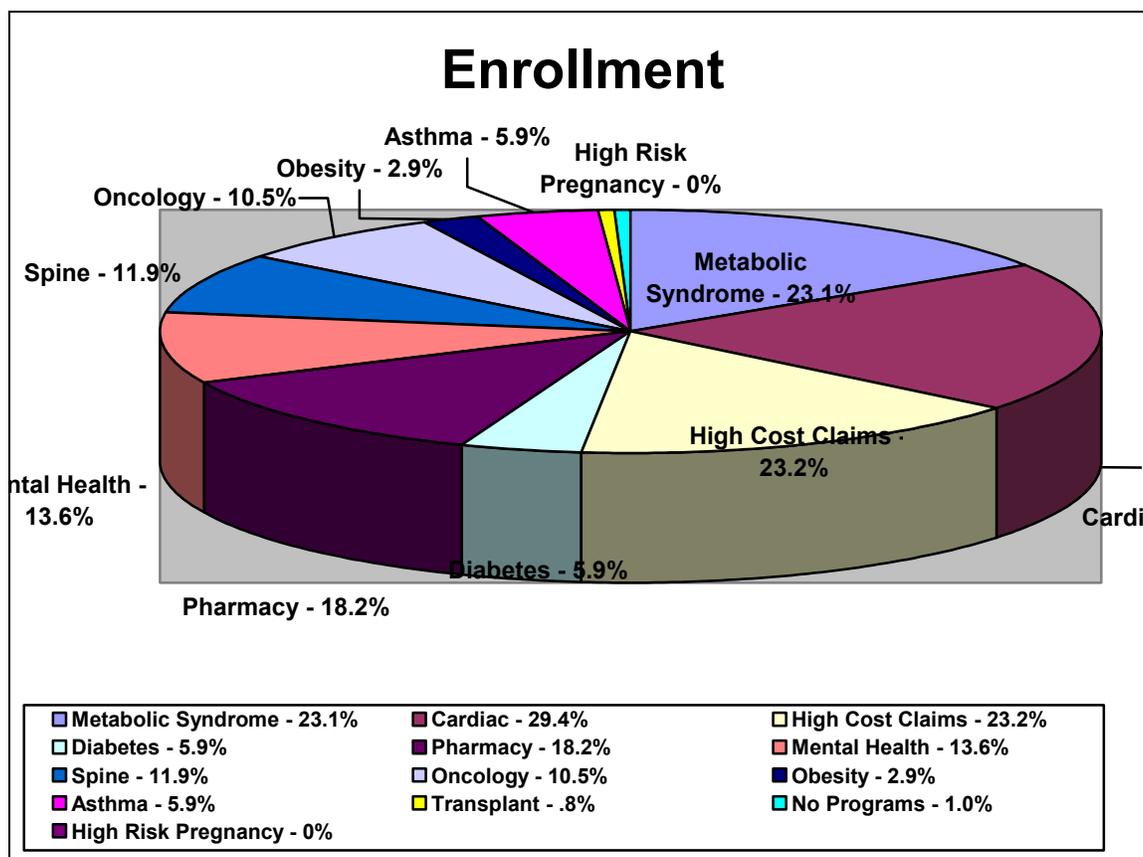
HCMTI's Disease Management Programs strive to assist members of the South Dakota Risk Pool with acute and chronic diseases. HCMTI assists in the management of their health conditions in reducing or delaying the effects of the disease, decreasing the costs and need for more intensive medical care. To achieve this purpose, HCMTI has established guidelines for each disease management program with the goal of delaying or avoiding complications of the disease. Attention is placed on wellness and self-care and members are encouraged to participate in improving their health status incrementally.

The HCMTI FY07 Annual Report reflected savings of \$280,174.69 to the South Dakota Risk Pool. These figures include hard savings from disease management programs along with pharmacy savings, case management, and benefit reduction savings.

There are 12 distinct categories in HCMTI's disease management programs. In the previous year's report, HCMTI included all enrollees with a diagnosis of diabetes, obesity or cardiac issues in the metabolic syndrome program, as well as the individual program. The current report places enrollees in one disease management program category such as diabetic, obesity, cardiac or Metabolic Syndrome

program and the number of Risk Pool members in the disease management programs show a decrease from FY06 to FY07. The cardiac program has the most members involved with 29.4% of the Risk Pool population.

A member may be enrolled in more than one Disease Management Program. Just over 69.7% of the Risk Pool population are enrolled in one program where as 25.4% of the population are enrolled in two programs.



GRIEVANCES & APPEALS

The South Dakota Risk Pool has grievance and appeal procedures in place. There were two appeals to the Risk Pool Administrator since the last annual report.

Appeals & Grievances	Eligibility	Covered Services	Administration	Other
	FY07	1		1

OVERVIEW

The South Dakota Risk Pool Governing Board has no proposed legislation for the upcoming 2008 Legislative Session. The Pools enrollment remains lower then predicted by the Actuaries at the time of the inception of the Pool in 2003. The actuaries had predicted that enrollment would be at approximately 1300-1800 enrollees at this point in time.

**Bureau of Personnel
South Dakota Risk Pool Fund
Statement of Net Assets
June 30, 2007, June 30, 2006, and 2005**

Assets	FY 2005	FY 2006	Unaudited FY 2007
	\$	\$	\$
Cash and Cash Equivalents	5,178,602	5,890,301	7,034,617
Accounts Receivable	0	24,533	0
Grants Receivable	0	0	0
Securities Lending Collateral	358,703	745,504	1,220,636
Interest and Dividends Receivable	32,113	57,623	76,133
Total Assets	5,569,418	6,717,961	8,331,386
Liabilities			
Current Liabilities:			
Accounts Payable	25,215	46,135	50,131
Accrued Liabilities	3,633	3,950	4,618
Compensated Absences Payable	3,909	3,252	2,567
Policy Claim Liabilities *	569,551	714,981	1,118,182
Securities Lending Collateral Liability	358,703	745,504	1,220,636
Due to Other Funds	11,632	0	0
Deferred Revenue	281,030	317,613	807,006
Total Current Liabilities:	1,253,673	1,831,435	3,203,140
Noncurrent Liabilities:			
Long Term Compensated Absences Payable	3,558	2,930	2,324
Total Liabilities	1,257,231	1,834,365	3,205,464
Equity			
Restricted for General Government	2,742,181	3,273,619	3,428,969
Unrestricted Net Assets	1,570,006	1,609,976	1,696,953
Total Liabilities and Fund Equity	\$ 4,312,187	\$ 4,883,595	\$ 5,125,923

*At year end the Policy Claims Liability is calculated by the actuarial firm of Oliver Wyman.

The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) applicable to government as prescribed by the Governmental Accounting Standards Board (GASB).

Bureau of Personnel
South Dakota Risk Pool Fund
Statement of Revenues, Expenses, and Changes in Net Fund Assets
For the Year ended June 30, 2007 and For the Fiscal Year Ended June 30, 2006 and 2005

	FY 2005	FY 2006	Unaudited FY 2007
Operating Revenue:			
Premiums	\$ 2,680,560	\$ 3,390,222	\$ 3,820,942
Carrier Assessments	839,646	891,426	834,060
Other Revenue	6,508	8,440	0
Interest and Dividends	107	301	388
Total Operating Revenue	3,526,821	4,290,389	4,655,390
Operating Expenses:			
Personal Services and Benefits	42,566	54,386	56,788
Travel	1,394	3,088	3,501
Contractual Services	297,640	336,970	345,202
Insurance Claims	3,302,583	3,965,916	6,028,969
Total Operating Expenses	3,644,183	4,360,360	6,434,459
Operating Income (Loss)	(117,362)	(69,971)	(1,779,069)
Non-operating Revenue (Expense):			
Interest Income	120,446	169,674	394,370
Other Expense/Income	(14,024)	(28,473)	(63,077)
Grant and Other Income	150,003	0	1,098,428
Total non-operating Revenue (Expense)	256,425	141,201	1,429,720
Income (Loss) Before Transfers	139,064	71,230	(349,349)
Transfers			
Operating Transfers In *	501,329	501,346	600,411
Net Transfers	501,329	501,346	600,411
Change in Net Assets	640,393	572,576	251,063
Beginning Net Assets	3,671,795	4,312,187	4,883,595
Prior Period Adjustment		(1,168)	(8,735)
Ending Fund Balance	\$ 4,312,187	\$ 4,883,595	\$ 5,125,923

*Represents the State's annual general fund appropriation.

RISK POOL FUND CONDITION STATEMENT 06/30/07

	GENERAL	FEDERAL	OTHER	TOTAL
Appropriation	\$604,878.00	\$1,098,428.00	\$0.00	\$1,703,306.00
Premiums			3,915,414.38	\$3,915,414.38
Carrier Assessments			\$1,253,513.38	\$1,253,513.38
Interest			125,144.19	\$125,144.19
Prior Period Adjustment			(\$8,735.10)	(\$8,735.10)
Total Revenues	\$604,878.00	\$1,098,428.00	\$5,285,336.85	\$6,988,642.85
Expenditures				
Personal Services	\$57,411.78			\$57,411.78
Total Personal Services	\$57,411.78	\$0.00	\$0.00	\$57,411.78
Operating Expenses				
Travel	\$2,434.02		\$1,066.86	\$3,500.88
Contractual	\$19,600.68		\$321,604.45	\$341,205.13
Claims Medical	\$401,002.08	\$1,098,428.00	\$2,355,412.62	\$3,854,842.70
Claims Pharmacy	\$119,962.84		\$1,650,962.12	\$1,770,924.96
Total Operating Expenses	\$542,999.62	\$1,098,428.00	\$4,329,046.05	\$5,970,473.67
Total Expenditures	\$600,411.40	\$1,098,428.00	\$4,329,046.05	\$6,027,885.45
Other Fund Cash Balance				
6/30/06			\$4,242,438.74	\$4,242,438.74
Risk Pool Available	\$4,466.60	\$0.00	\$5,198,729.54	\$5,203,196.14
Risk Pool Reserve Available	\$0.00	\$0.00	\$1,620,759.73	\$1,620,759.73
Total Available	\$4,466.60	\$0.00	\$6,819,489.27	\$6,823,955.87