

**South Carolina Health Cooperative, Inc.,
a Multiple Employer Self-Insured Health Plan,
In Rehabilitation**

To: South Carolina Health Cooperative Member Employers
From: Raymond G. Farmer, in His Capacity as Receiver
Re: South Carolina Health Cooperative, Inc.
Date: January 7, 2015



Dear SCHC Member Employer,

I am writing in follow up to the South Carolina Department of Insurance communications dated November 25 and December 1, 2014 regarding the status of the South Carolina Health Cooperative, Inc., a multiple employer self-insured health plan that is financially impaired. It is also known as the South Carolina Health Cooperative Welfare Benefit Plan and, for purposes of this and future communications, we will refer to it as the "Plan."

First and foremost, please be reminded that any health benefits offered by the Plan were terminated effective November 30, 2014. The South Carolina Department of Insurance worked with the health insurance industry to identify four carriers that were able to write small group health insurance coverage with a December 1, 2014 effective date for the Plan's member employers if they signed up for coverage on or before December 12, 2014. Additionally, the Department, in coordination with the South Carolina Alliance of Health Plans, held three health insurance fairs in various locations throughout the state to connect impacted individuals with these four carriers. Department representatives also reached out to member employers to try to assist you with securing alternate coverage. Most member employers contacted indicated that they had transitioned to other coverage. If you have not secured alternate coverage by now, there will most likely be a break in coverage. If you need assistance or have questions regarding your options, please contact the Department of Insurance using the contact information at the bottom of this correspondence.

This letter details a few important updates regarding the Plan. As we continue to move forward, the South Carolina Department of Insurance will keep the SCHC-dedicated webpage on its website updated, which you can access directly at <http://doi.sc.gov/840/SCHC>. Of course, you are also welcome to call or email at any time using the contact information at the bottom of this correspondence.

Consent Order of Rehabilitation Issued December 23, 2014

As we have previously communicated, the South Carolina Department of Insurance filed a petition to begin rehabilitation proceedings on November 24, 2014. The Richland County Court of Common Pleas issued a Consent Order placing the Plan into rehabilitation effective December 23, 2014. The Consent Order appointed me as the Receiver and Mike FitzGibbons as the Special Deputy Receiver. Mike has extensive expertise in insurance company receiverships and we are fortunate to have his assistance and expertise. (For more information on Mike, you can view a copy of his bio on the SCHC-dedicated webpage.) The petition for rehabilitation, Consent Order, all official communications, and other documents related to the financial condition of the Plan, are posted on the above-referenced website.

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The Consent Order of Rehabilitation, in summary, does the following:

- Appoints the Director of Insurance as Receiver for the purposes of rehabilitation and Mr. FitzGibbons as the Special Deputy Receiver;
- Vests title to all assets in the Receiver; and
- Stays the transfer of property, waste of assets and accounts, levy of execution and prosecution of any actions or proceedings against the Plan, including actions against member employers, participants, employees, etc., and any other threatened or contemplated action that might lessen the value of the Plan's assets or prejudice the rights of the Plan's members, beneficiaries or creditors or interfere with the orderly administration of the receivership.

Importantly, this action effectively stays all litigation and collections proceedings pending or contemplated against the Plan, its Trustees, its employer members, or Plan participants and their beneficiaries. This is an important step in helping provide you with some relief because it prevents providers from pursuing you and your covered employees for the Plan's unpaid claims liability until further notice.

The purpose of the stay is to ensure an orderly claims adjudication process. On that same note, the Consent Order gives the Receiver the discretion to make partial disbursements of an equal amount to providers. Following the collection and analysis of all unpaid claims liabilities currently recorded, we anticipate the distribution of an initial, pro rata payment to providers. We estimate that this process will take 60 to 90 days, but are working diligently to see if we are able to expedite this process. This initial payout to providers is a good-faith effort to provide them with some relief through a partial, pro rata distribution of currently available funds.

We are in the process of collecting information on each provider's unpaid liability. As you can appreciate, it is incumbent upon us to treat all providers fairly without favoring one over the other; any distribution made must be based upon an equal pro rata payment to each of the Plan's providers based upon the unpaid liability for adjudicated claims as recorded in books maintained by the Plan's third party administrator.

In order to expedite this process, we are reaching out to the Plan's providers to request that each provider appoint one person at their organization with whom the Special Deputy Receiver and his staff can communicate regarding the ongoing rehabilitation and reconciliation of the unpaid liability. Mr. FitzGibbons, as Special Deputy Receiver, has written a letter to providers to update them on the status of the Plan, the Consent Order's impact on the Plan's outstanding claims liability, and to make this request. You can view that letter on the SCHC-dedicated webpage of the Department's website. We also ask that you provide a copy of this letter to any of your providers that have questions regarding your outstanding claims.

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Again, the initial payment will be based upon a percentage of the Plan's outstanding liability from the already adjudicated claims. After this proposed initial payment, the Special Deputy Receiver will work with providers to reconcile the amount of unpaid liability (less any early distribution amounts). Subsequent payments may be made based upon the results of this reconciliation process. The immediate goal, however, is to provide some relief to providers as is being provided to SCHC member employers and employees from collection efforts.

Please note that the Consent Order does not preclude the Receiver or Special Deputy Receiver from pursuing legal action against any and all parties related to this matter. As such, the Receiver plans to pursue collection or recovery of all assets available to the Plan to address the unpaid claims liability of the Plan. This is in keeping with the commitment to work diligently to marshal all assets available in order to minimize the impact on you and other small employers who faithfully paid their premiums.

PROPOSED REHABILITATION PLAN

Now that the Court has approved the commencement of rehabilitation proceedings, the next step in the legal process is the filing of a rehabilitation plan with the Court. The rehabilitation plan, which must be approved by the Court before it can be implemented, will provide for the quantification of all unpaid claim liability (less any early distribution amounts) and will also propose a plan to pay, at least in part, the unpaid claim amounts due from the Plan. We will provide additional details regarding the proposed rehabilitation plan in the next 60 days.

Once a rehabilitation plan has been approved by the Court, all approved and agreed to claims (less any early distribution amounts) will be submitted to the Court for approval. Even after any and all recoveries are made, it is likely that there will not be sufficient assets to pay claims at 100%. The assets that are available will be divided ratably among approved claims.

In terms of timing, it is far too early in the process to provide an accurate estimate of the percentage distribution that will ultimately be made on claims. Under ideal circumstances, the claim adjudication and final distribution process could take up to 18 to 24 months. We will do our best to expedite the claims process subject to approval by the Court; and, remember, we will make an initial distribution in accordance with the Consent Order as soon as we are able, which we estimate to be in the next 60 to 90 days.

Please note that the above is merely an overview of the next steps and what we will propose to the Court regarding the ultimate settlement of outstanding claims. We will not know the exact claims settlement process until we receive the Court's order approving a rehabilitation plan. In the meantime, the Department will be posting all correspondence and relevant materials along with FAQs to the SCHC-dedicated webpage that you might find helpful.

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UPDATED CONTACT INFORMATION

Any questions regarding the Plan or the rehabilitation process should now be directed to the Plan Office to the attention of Mike FitzGibbons (see contact information below). Now that the Plan has been placed into rehabilitation, he will handle most aspects of the rehabilitation process on behalf of the Receiver. Additionally, the Plan's Seneca office will continue to stay open and be staffed by Tracey Stone and Mary Teel. They will be assisting Mike in responding to your questions and inquiries.

Thank you for your continued patience and cooperation.

QUESTIONS REGARDING THE PLAN OR THE REHABILITATION PROCESS
Attn: Mike FitzGibbons | 1 (888) 721-2667 | t.stone@shealthco-op.com

TO CONTACT THE SCDOI REGARDING THE PLAN
(803) 737-6081 | SCHCinfo@doi.sc.gov

SCHC-DEDICATED WEBPAGE (FOR COPIES OF CORRESPONDENCE & RELATED DOCUMENTS)
www.doi.sc.gov/840/SCHC