SOUTH CAROLINA
STATE ACCIDENT FUND
ANNUAL REPORT
2001-2002
The Honorable Mark Sanford, Governor, and Members of the General Assembly

Ladies and Gentlemen:

We are pleased to submit the report of activities of the State Accident Fund for Fiscal Year 2001-2002. The State Accident Fund is a single program state agency that provides workers’ compensation insurance to a wide range of customers. Our policyholders include state agencies and local and municipal entities. The State Accident Fund’s goals, objectives, customer requirements and performance measurements in this Annual Report are the direct result of our Agency’s continuous improvement efforts. They reflect the needs and concerns expressed by our customers and were developed as part of the Agency’s strategic planning process.

The Agency’s premium rates continue to be competitive and among the lowest in South Carolina. The State Accident Fund’s administrative cost ratio continues to remain well below those in the private sector. Our staff continues to provide assistance to our policyholders who are starting Drug and Alcohol Free Workplace policies to further reduce their costs. Our Safety and Loss Control Unit continues to provide training and assistance to policyholders in an effort to reduce their e-mods and thus their workers’ compensation premiums. We also have continued to reduce permanent staff through the use of technology and continuous improvement of our work processes.

The State Accident Fund has made significant progress in our effort to provide world-class customer service to our policyholders over the past several years. We look forward to continuing this tradition in the future.

Respectfully submitted,

Irvin D. Parker
Director
State Accident Fund
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Mission & Operational Strategies

**Enactment**

Created in 1947 by an Act of the General Assembly [1947(45)147], the State Accident Fund (formerly the State Workers' Compensation Fund) is one of twenty-seven state sponsored workers' compensation insurance funds.

**Mission**

Provide a cost effective guaranteed workers' compensation market for state agencies, other government entities and, if required by the legislature, businesses in the private sector.

**Objectives**

1. Contain costs by providing appropriate workers' compensation benefits and services promptly and efficiently.

2. Provide competitive premium rates that are sufficient to cover costs and claims liabilities.

3. Continue to receive 90% or greater positive responses on the annual customer satisfaction survey.

4. Ensure sound actuarial and financial management of the State Accident Fund.

**Agency Operations**

South Carolina, like many other states, is self-insured to meet its workers' compensation obligations. The program is administered through the State Accident Fund, a State Agency similar to leading commercial and self-insured providers. The State Accident Fund manages workers' compensation claims with a staff of claims adjusters, administrators, attorneys, contracted managed care providers and a loss control and safety team which assists policyholders in reducing their accident rates. Self insuring gives the state complete control to guarantee that all agencies, from those engaged in low risk administrative activities, to high risk law enforcement, health care, and construction activities, are covered and are covered at cost. To meet this requirement, SAF is directed to insure at cost all government entities applying for coverage, regardless of risk or accident history.
This year was the third year the new Management Information System (MIS) was fully operational. The system combines Claims Management, Policyholder Services, Payments, Imaging and Accounting functions into a single integrated system. This allows the Agency to electronically process all its Workers Compensation Claims from opening to close.

At the end of fiscal year 2002, the State Accident Fund completed its fifth consecutive year with a staffing level of less than 100 full time employees. The Agency has aggressively pursued a policy of private company outsourcing and increased use of technology to supply required services without increasing staffing. The SAF has deleted several positions and now has 92.12 authorized FTEs.

**Policyholders**

The State Accident Fund’s Policyholders consist of two distinctly different groups.

State Agencies are the first group. They are highly diverse, ranging from large multiple location facilities, to accounts that consist of a single person. The nature of the work and level of risk varies widely, from highway workers to elected officials, and public service volunteers. Prisoners who are under control of the State are also covered when they are working.

County and Municipal Government Entities may also participate in the Fund. This group includes local governments, schools, special purpose districts, volunteer fire departments, rescue squads and other governmental organizations. Because local governments participate voluntarily, the State Accident Fund must maintain a competitive position on par with other workers compensation providers within the state. This ensures that the Fund is operating efficiently, effectively and at the lowest cost. Over 500 of these accounts chose to purchase their workers’ compensation insurance from the State Accident Fund.
Objective 1: Cost Containment

**Objective**

Contain costs by providing appropriate workers’ compensation benefits and services, promptly and efficiently.

**Measure**

The State Accident Fund is a Governmental Agency whose performance is measured against other workers’ compensation providers from the private sector using industry data filed with the South Carolina Department of Insurance, the NCCI and other sources.

**Lower Administrative Costs**

The State Accident Fund continues to have lower than average administrative costs for South Carolina workers’ compensation insurance providers. Actuaries Bickerstaff, Whatley, Ryan & Burkhalter determined that the State Accident Fund’s Administrative Cost Ratio is approximately 61% lower than the average cost for other workers compensation carriers in the State as reported by the National Council of Compensation Insurers. During Fiscal Year 2001-2002, the SAF’s Cost Ratio was 17.2% as compared to the average of South Carolina private carriers 49.5%.

*Note: Administrative Cost Ratios measure claims processing and other administrative costs as a percentage of premiums collected. The measure defines the percentage of premium dollars taken in that is not paid out in claim benefits.

**Lower Overall Claims Costs**

The State Accident Fund claims costs continue to be below the average in South Carolina. To measure claim handling efficiency and effectiveness the State Accident Fund uses the National Council of Compensation Insurers data to compare the Agency’s average cost per claim with the average for other workers’ compensation carriers in the State. The comparison revealed that the State Accident Fund’s average medical and indemnity costs were lower than the average of other carriers in 1998 (the most recent year data is available from NCCI).

The SAF’s average medical cost per claim was $1,768 and indemnity cost per claim was $8,151. The state average cost during this period for commercial carriers per medical claim was $2,770* and indemnity costs were $12,600* per claim.

*Note: Data from 2001 NCCI Statistical Bulletin.
Objective 2: Equitable Rates that are Not Excessive Nor Inadequate

Objective

Provide competitive premium rates that are sufficient to cover costs and claims liabilities.

Measure

Average premium rate for five most frequently used job classifications.

Guaranteed Coverage

The State of South Carolina must have workers’ compensation insurance coverage for its employees for work-related accidents no matter what insurance market environment exists. South Carolina’s General Assembly created the State Accident Fund to guarantee that all Agencies, both low risk and high risk, have coverage regardless of market conditions or insurance industry financial trends.

Among Lowest Premium Rates

Premium rates paid by State and Local Governmental Agencies for workers' compensation insurance are among the lowest in South Carolina.

The State Accident Fund, when compared with the average rates for the most frequently used job classifications with those of the largest insurance writers of workers’ compensation in the state, had the third lowest rates. (Data: South Carolina Department of Insurance) This is improved from fifth the previous year. The data showed that even though the SAF could not selectively choose to underwrite its accounts, its rates remained competitive. The State Accident Fund must insure all Agencies regardless of risk or accident record when other workers’ compensation insurance carriers are able to selectively underwrite, and even deny or drop coverage.

Consistent Premium Rates

During strong financial market cycles some insurance companies set rates below their liability costs and insure higher risk entities in order to expand their market share. The differential between these rates and claims liabilities is offset by the company’s investment earnings. This strategy works only as long as there are adequate investment earnings to cover the shortfall in premium assets needed to cover claim liabilities.

When financial markets cycle downward or if companies oversell at rates below cost, funds are inadequate to cover liabilities. When this happens, companies will drop coverage on low premium and high-risk policies and raise their rates. We are beginning to again see this happen in the workers’ compensation market.
Objective 3: Customer Satisfaction

Objective

Maintain positive responses within the 90th percentile range.

Measure

The State Accident Fund uses the American Consumer Satisfaction Index for casualty insurance and government services to measure Customer Satisfaction.

SAF Customer Satisfaction Remains High

Customers determine the quality of the service provided. To measure customer satisfaction, the State Accident Fund has conducted a customer survey annually for the last seven years. Open ended questions are used to determine customer expectations and gather recommendations on improving current services and each customer evaluates the State Accident Fund’s performance using a four point Likert Scale. Space is provided on the survey form for written comments from our customers.

This information is compiled, trends are noted, and both the raw data and the refined scores are distributed to the staff.

The agency uses the percentage of positive responses to determine trends and adjust and refine services to meet customer expectations and needs.

Shown below are the results for the last seven years. The percentage of positive responses has consistently surpassed the 90% mark.
Objective 4: Sound Financial Management

Objective

The State Accident Fund, using Generally Accepted Accounting Principles for Governmental Agencies, maintains adequate assets to cover liabilities.

Measure

The State Accident Fund’s Annual Actuarial Review and CPA Audit.

Policyholder’s Coverage

Insurance coverage is secured through financial assets of the Workers’ Compensation Trust Fund which is administered by the State Accident Fund. The Agency’s assets are part of the State’s cash management system maintained by the State Treasurer.

The State Treasurer invests assets of the Trust Fund to provide interest income to help offset increases in the cost of medical and indemnity benefits.

Until 1992, the State annually transferred this investment income out of the Trust Fund into the State’s General Fund. Deficits in the Trust Fund resulted, which drove up insurance costs for the State Accident Fund’s Policyholders.

To halt further deficits the Legislature established the policy that Trust Fund assets, including investment income, should remain in the Workers’ Compensation Trust Fund to cover the State’s liabilities for workers’ compensation claims.

Actuarial Report

Like all other insurers, SAF rates are determined through actuarial calculations to determine financial needs to cover existing claims liabilities. The SAF uses nationally recognized consulting actuaries Bickerstaff, Whatley, Ryan & Burkhalter to annually provide these calculations.

Auditor’s Report

State Law requires that the SAF annually undergo an independent audit of its financial records. This is directed by the State Auditor’s Office which has oversight responsibility.

The audit for FY 2001-2002 was conducted by Rogers & Laban, PA. There were no findings in this audit.
Administration

Administration Highlights

The State Accident Fund has been aggressively pursuing new electronic technology and contractual partners to provide outstanding customer service to the Fund's Policyholders without increasing staff. The SAF has reduced the number of FTEs from 100 in 1994-95 to 92.12 authorized FTEs in 2001-2002.

During the Annual October Benefits Enrollment the Human Resources Team utilized the "Insurance Center" to ensure the staff was well informed of all the State benefits available to them. It is a one stop benefits information source for the Agency Staff.

In January 2002, each staff member received an annual Benefits Statement that indicates the actual worth or value of their job. It shows, in addition to salary, all of the hidden costs and benefits paid by the State for each employee.

Staff Training and Agency Communications

The Training Unit Manager performed the annual training needs assessment process and prepared the annual training plan, which was submitted to the Agency Quality Council for review and approval. Developmental and training needs were addressed using three different approaches. The Training Department tracks the level of participation and the amount of training successfully completed via each of these approaches. The first approach was self-study. The agency encouraged staff members to enroll in degree-granting courses at the Insurance Institute of America and CPCU Society. This program was implemented to meet the professional development needs of the staff. The second approach was the use of computer based training courses completed via the new computer based training contract the state implemented in 2001. The third approach was formal classroom instruction. This includes training delivered on-site and also classes and seminars provided by outside vendors. The average employee received over 16 hours of classroom instruction during the reporting period.

The SAF Source, the agency's newsletter, continues to be published and distributed quarterly to inform and educate policyholders, legislators and the general public.

Accounting Report

The Records Management Team is part of the Administrative Accounting Unit. This team handles all the mail, scans and indexes documents and enters & audits payments.

The Accounting Unit prints and issues workers' compensation checks in-house rather than through the State Treasurers Office. The Agency assumed this additional requirement without increasing the number of FTE's. The process enables the Agency to pay medical bills and other claim expenses faster.
Operations

Policyholder Services

The Policyholder Services Team focused on the reduction of premium processing time and revisions. Quality controls were implemented to maintain an error ratio of less than 3%. Processing cycle goals were based on the percentage of audits completed within 90 days after the policy period expires and the percentage of estimates completed 30 days prior to renewal.

The State Accident Fund was successful in maintaining premium costs to Policyholders with no increase in rates.

The Safety and Loss Control team focused on factors affecting the cost of work related injuries, training and strategies aimed at reducing both the incidence of injuries and the duration of incapacity.

Legal Services

The Legal Team's management of litigated cases continues to be cost effective and efficient.

The assignment of an Investigator to a particular Workflow Team to handle cases for that Team continues to be an effective and cost savings move. The Investigators can gather evidence, under the supervision of an Attorney, at a cost much lower than those charged by contract attorneys or private investigators.

Claims Management System Manages WC Claims

In May 1999, the Claims Unit began using the new Claims Management System (CMS) to manage their Policyholders' Workers Compensation Claim Files. The Claims Staff is also using the Imaging System and Workflow Programs to work with electronic documents in lieu of paper documents. The new System allows multiple users to simultaneously view and work the same WC File using the PC at their workstation. The Claims Unit, working with the Legal, Accounting and Policyholder Services Units, can now seamlessly provide outstanding customer service from the First Report of Injury to the closing of the claim.
Customer Service continues to be a priority for the claims staff. They provide on site training for our policyholders. Claims adjusters and supervisors team up with Legal and Policyholders Services staff to provide multi-disciplinary training and service to our policyholders.

The claims staff continually improves its processes to identify, settle and manage Third Party claims. Second Injury Fund claims are handled by a contractor which maximizes the Agency’s returns.

State Accident Fund began using a new Managed Comp company beginning January 2001. The new team of nurses handles the medical portion of the claim from completing the first report of injury to the closing of the file. The company uses a network of doctors and provides the State Accident Fund with the status of the doctor’s visit within 24 hours.

Management Information Systems

The Management Information Systems (MIS) Team continues to work on maintaining SAF’s computer systems and strives to continually improve service to the agency’s staff and customers. MIS is responsible for maintaining the SAF webpage, the Claims Management System, the Policyholders System, document imaging and local area network.

The MIS Team’s Help Desk is used to log, monitor, and analyze the agency’s computer problems. Monitoring the Help Desk and working on the problems submitted to it also functions as a tool for the MIS Team to continue to learn the intricacies of SAF’s computer system.
**SOUTH CAROLINA STATE ACCIDENT FUND**

**STATEMENT OF NET ASSETS, JUNE 30, 2002**

### ASSETS

**Current Assets:**
- Cash and cash equivalents: $23,253,496
- Premiums receivable: 45,123,380
- Claim recoveries & reimbursement receivables: 604,424
- Recoverable under reinsurance annuity contract: 120,364
- Accrued interest receivable: 268,989
- Prepaid expenses: 235,859
  - **Total current assets:** 69,606,512

**Noncurrent Assets:**
- Capital assets, net of accumulated depreciation: 4,158,612
- Prepaid expenses: 15,052
- Recoverable under reinsurance annuity contract: 111,175
- Investment in reinsurance annuity contract, net of accumulated amortization of $263,753: **1,018,541**
  - **Total noncurrent:** 5,303,380

  - **Total assets:** $74,909,892

### LIABILITIES AND NET ASSETS

**Current Liabilities:**
- Cash overdraft: $1,218,441
- Accounts payable: 538,513
- Accrued compensated absences and related benefits: 260,312
- Accrued payroll and related liabilities: 298,632
- Accrued refundable premiums: 6,878,025
- Deferred premium revenue: 45,729,334
- Unpaid claims liability and claims adjustment expenses – payable within one year - net: **24,242,600**
  - **Total current liabilities:** 79,165,857

**Noncurrent Liabilities:**
- Accrued compensated absences and related benefits: 64,043
- Unpaid claims liability and claims adjustment expenses – payable beyond one year - net: **44,078,400**
  - **Total noncurrent liabilities:** 44,142,443

  - **Total liabilities:** 123,308,300

**Net Assets:**
- Invested in capital assets: 4,158,612
- Unrestricted deficit: (52,557,020)

  - **Total net assets:** (48,398,408)

- **Total liabilities and net assets:** $74,909,892
**SOUTH CAROLINA STATE ACCIDENT FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2002**

**OPERATING REVENUES**
- Premiums: $45,274,268

**OPERATING EXPENSES**
- Claims: 48,402,537

Administrative expenses:
- Second Injury Fund assessment: 7,409,956
- Personal services & employee benefits: 3,981,365
- Contractual-services: 970,620
- Rent and insurance: 310,701
- Supplies and materials: 108,713
- Depreciation: 1,756,664
- Amortization expense – reinsurance annuity contract premium: 75,358
- Reinsurance premiums: 1,904,111
- Other Expense: 121,347
- Actuarial fee: 32,500
  - Total administrative expenses: 16,671,335

Total operating expenses: 65,073,872

**OPERATING INCOME (LOSS)**
- (19,799,604)

**NONOPERATING REVENUES (EXPENSES)**
- Interest/investment income: 1,392,056
  - Loss on disposal of assets: (2,190)

**INCOME (LOSS) BEFORE TRANSFERS**
- (18,409,738)

**TRANSFER TO GENERAL FUND OF THE STATE**
- (4,408)

**CHANGE IN NET ASSETS**
- (18,414,146)

**NET ASSETS (DEFICIT), AT BEGINNING OF YEAR-**
**AS PREVIOUSLY REPORTED**
- (29,857,917)

**PRIOR PERIOD ADJUSTMENTS**
- (126,345)

**NET ASSETS (DEFICIT), AT BEGINNING OF YEAR-**
**AS RESTATE**
- (29,984,262)

**NET ASSETS (DEFICIT), AT END OF YEAR**
- $(48,398,408)
SOUTH CAROLINA STATE ACCIDENT FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:
Cash received for premiums $47,413,861
Cash received for reimbursements of claims expense 10,304,944
Payments for claims (46,811,948)
Payments for salaries and related benefits (3,999,203)
Payments for other operating expenses (10,812,204)
Net cash used by operating activities (3,904,550)

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:
Transfer to General Fund of the State (4,408)
Repay cash overdraft (802,776)
Loans from cash overdraft 1,218,441
Net cash provided by non-capital and related financing activities: 411,257

CASH FLOW FROM CAPITAL & RELATED FINANCING ACTIVITIES:
Acquisition of capital assets (82,613)
Net cash used by capital and related financing activities (82,613)

CASH FLOWS FROM INVESTING ACTIVITIES:
Interest/Investment income received 1,415,990
Net cash provided by investing activities 1,415,990

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (2,159,916)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 25,413,412
CASH AND CASH EQUIVALENTS AT END OF YEAR $23,253,496
## STATE ACCIDENT FUND
PREMIUM RECEIPTS STATEMENT
FOR THE PERIOD JULY 1, 1996 TO JUNE 30, 2002

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State</th>
<th>Counties</th>
<th>Cities</th>
<th>Totals</th>
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<td>25,365,588</td>
<td>5,974,706</td>
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<td>5,283,720</td>
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<tr>
<td>FY 2002</td>
<td>38,478,896</td>
<td>5,866,857</td>
<td>3,402,182</td>
<td>47,747,935</td>
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![Graph showing premium receipts by fiscal year](image-url)
STATE ACCIDENT FUND
PREMIUM RECEIPTS STATEMENT
FOR THE PERIOD JULY 1, 1996 TO JUNE 30, 2002

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South Carolina State Accident Fund Annual Report 2001-2002
STATE ACCIDENT FUND
DISBURSEMENTS STATEMENT
FOR THE PERIOD JULY 1, 1996 TO JUNE 30, 2002

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![Bar chart showing disbursements from FY 1997 to FY 2002 for State, Counties, Cities, and Totals.]
STATE ACCIDENT FUND
CLAIMS OPENED & CLAIMS CLOSED
FOR THE PERIOD JULY 1, 1996 TO JUNE 30, 2002

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<tr>
<th>Fiscal Year</th>
<th>Opened</th>
<th>Closed</th>
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<td>FY 1996</td>
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South Carolina State Accident Fund

Information Request Procedure

Requests for information about the State Accident Fund by the general public may be made in writing, by telephone or by personal visit to the Agency.

Individuals uncertain of whom to address their problem or question may call toll free 1.800.521.6576 and ask to speak with the Ombudsman.

Submissions or suggestions designed to improve the operation of the State Accident Fund should be submitted in writing to the Agency Director. Requests for information by the media or for copies of publications or materials should also be addressed to the Director.

All requests for information which require a response in the form of a legal opinion or interpretation of a statement of official policy of position of the Agency must be submitted in writing to the Director.

The offices of the State Accident Fund are located at the following address:

800 Dutch Square Boulevard, Suite 160
Columbia, SC 29210

The mailing address of the State Accident Fund is as follows:

Post Office Box 102100
Columbia, SC 29221-5000

The telephone numbers for the State Accident Fund are as follows:

1.800.521.6576 (Toll Free)
1.803.896.5800 (Columbia Area)
Total Number of Documents Printed  50

Cost Per Unit  $1.49
Total Printing Cost  $74.50