

CATASTROPHIC LOSS BENEFITS CONTINUATION FUND
ANNUAL REPORT
JULY 1, 2011-JUNE 30, 2012



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PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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EXECUTIVE SUMMARY

The Pennsylvania Insurance Department's Bureau of Special Funds (Bureau) manages and oversees the administration activities of the Catastrophic Loss Benefits Continuation Fund (CAT Fund). The Bureau has the fiduciary responsibility to assure that all eligible claimants receive benefits in accordance with the Motor Vehicle Financial Responsibility Law (MVFRL). The MVFRL was enacted February 12, 1984 and amended by Act 24, which created the continuation of the CAT Fund on July 1, 1989.

A third party administrator, CSI/ACS Claim Service, Inc. is contracted to manage the claims administration activity on a daily basis. The current contract has been in effect since August 1, 2009. Beginning July 1, 2010 claimants began the transition to a new pharmacy program in order to more efficiently monitor, manage and provide prescriptions.

The CAT Fund has the fiduciary responsibility to continue benefits to all eligible claimants and to evaluate any new applications for benefit eligibility. These claims are administered in a manner consistent with the MVFRL and the insurance industry's best claim practices to include:

- Researching and investigating the eligibility of new CAT Fund applicants in accordance with the eligibility criteria set forth in the MVFRL;
- Recommending payment of CAT Fund benefits in a timely manner for medical treatment and rehabilitative services, in excess of \$100,000, deemed medically necessary, reasonable and accident related;
- Recommending denial of CAT Fund benefits for services which do not meet the criteria;
- Working closely with the CAT Fund and legal counsel should a denial be appealed and disputed/tried at the Insurance Department's Administrative Hearings level;
- Transferring all invoices for CAT Fund benefits deemed medically necessary, reasonable and accident related and recommended for payment to the Commonwealth for payment by the Commonwealth's Department of Treasury; and
- Seeking Fund approval for recommended expense payments for other expense related services such as legal fees, allocated expenses, etc.

As of June 30, 2012, the CAT Fund has an outstanding claim reserve of \$83,380,992. Ongoing claim reviews and re-evaluation assist the Bureau and the Bureau's actuary in determining the appropriate dollar funding requirements to meet the CAT Fund's fiduciary responsibility.

One highlight of the year was developing new procedures for handling replacement prosthetics for claimants who lost a limb as a result of their automobile accident. The cost for prosthetics continues to increase dramatically. As part of this process a speaker from a national prosthetics company provided us with current information on prosthetics which included a demonstration of different types of prosthetics. We currently have 21 open claims where claimants have lost either an arm or a leg.

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FUND BACKGROUND

In accordance with the Motor Vehicle Financial Responsibility Law (MVFRL) enacted on February 12, 1984 and amended by Act 24 on July 1, 1989, the Pennsylvania legislature established the Catastrophic Loss Benefits Continuation Fund (here forward referred to as CAT Fund). Coverage is provided by the CAT Fund for eligible individuals who suffered catastrophic losses arising from the maintenance or use of a motor vehicle on or after October 1, 1984 to June 1, 1989, with limited eligibility through December 31, 1989.

The CAT Fund assures that all eligible claimants receive benefits funding in accordance with the Motor Vehicle Financial Responsibility Law (MVFRL). The CAT Fund has the fiduciary responsibility to provide claims investigation and timely payment of medical benefits to any claimant deemed eligible in accordance with the MVFRL. The CAT Fund's purpose is to assure that every eligible claimant of the Fund is treated fairly in accordance with MVFRL's requirements, and to complete its responsibilities in a cost effective, cost efficient and responsible manner.

The MVFRL 75 Pa. C.S. created the Catastrophic Loss Trust Fund effective October 1, 1984. Act 144 of 1988, 75 Pa C.S. 1761-1769, repealed the provisions of the MVFRL but it did not address the continuation of benefits under the funding established by the MVFRL. Act 4 of 1989, 75 Pa. C.S. 1798.1 and 1798.2 terminated eligibility effective June 1, 1989 and provided for limited continued eligibility through December 31, 1989.

Act 24 of 1989 created the continuation of benefits for those individuals who were catastrophically injured in accordance with

the MVFRL. In addition, Act 24 imposed surcharges on motor vehicle violations (such as speeding tickets and moving violations) ranging from \$30 to \$300 and required the monies be used to pay for the continuation of benefits and administration of the CAT Fund. Act 13 of 2002 redirected these surcharges to a different Commonwealth program effective January 1, 2004.

As of June 30, 2012 since inception, the CAT Fund has provided a total of \$505,968,452 in benefits for medical treatment and rehabilitative services on behalf of 1,881 eligible claimants.

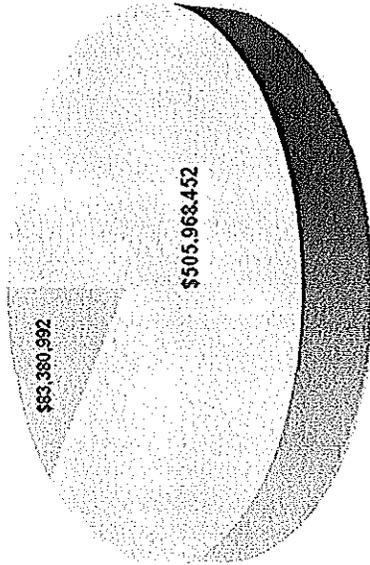
The Pennsylvania Insurance Department's Bureau of Special Funds oversees the administration of the CAT Fund. A contracted third party administrator, CSI/ACS Claim Service, Inc. provides claims administration services for the CAT Fund.

Today, the same benefit called the Extraordinary Medical Benefit is offered by law through automobile insurance as a voluntary coverage. To find out more about the Extraordinary Medical Benefit, contact your insurance agent or insurance carrier.

PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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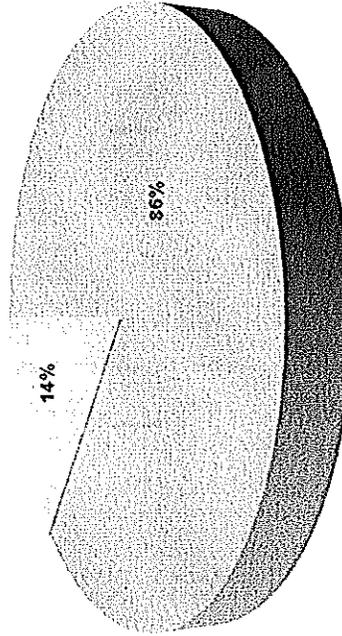
TOTAL PAID AND OUTSTANDING BENEFIT DOLLAR

INCURRED DOLLARS



■ Paid ■ Outstanding

INCURRED PERCENTAGE



■ Paid ■ Outstanding

PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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BENEFIT ELIGIBILITY

An individual who has suffered injuries in a motor vehicle accident may apply for CAT Fund benefits if the individual meets the following eligibility criteria:

1. The individual was a resident of this Commonwealth at the time of the accident.
2. The injury was the result of the maintenance or use of a motor vehicle accident on or after October 1, 1984, and prior to June 1, 1989. Eligibility may continue between June 1, 1989 and December 31, 1989 only if the accident involved a motor vehicle for which the CAT Fund fee had been paid and the accident occurred during the registration year for which the charge was paid. Other restrictions may apply.

Most motor vehicle injuries eligible for CAT Fund benefits occurred in 1988 (512) followed by 1987 (438) and 1986 (396). Today 65.3 percent of the open eligible claimants are between ages of 41 and 60.

3. The auto accident occurred in the United States, its territories or possessions or Canada.
4. The injured person was not the driver or occupant of a recreational vehicle not intended for highway use, a motorcycle, a motorized pedal cycle, a motor-driven cycle or any vehicle required to be registered under 75 P.A.C.S (relating to the Vehicle Code) but not subject to the CAT Fund charge.
5. As a result of the motor vehicle accident, the individual incurred reasonable and medically necessary medical and rehabilitative expenses exceeding \$100,000.

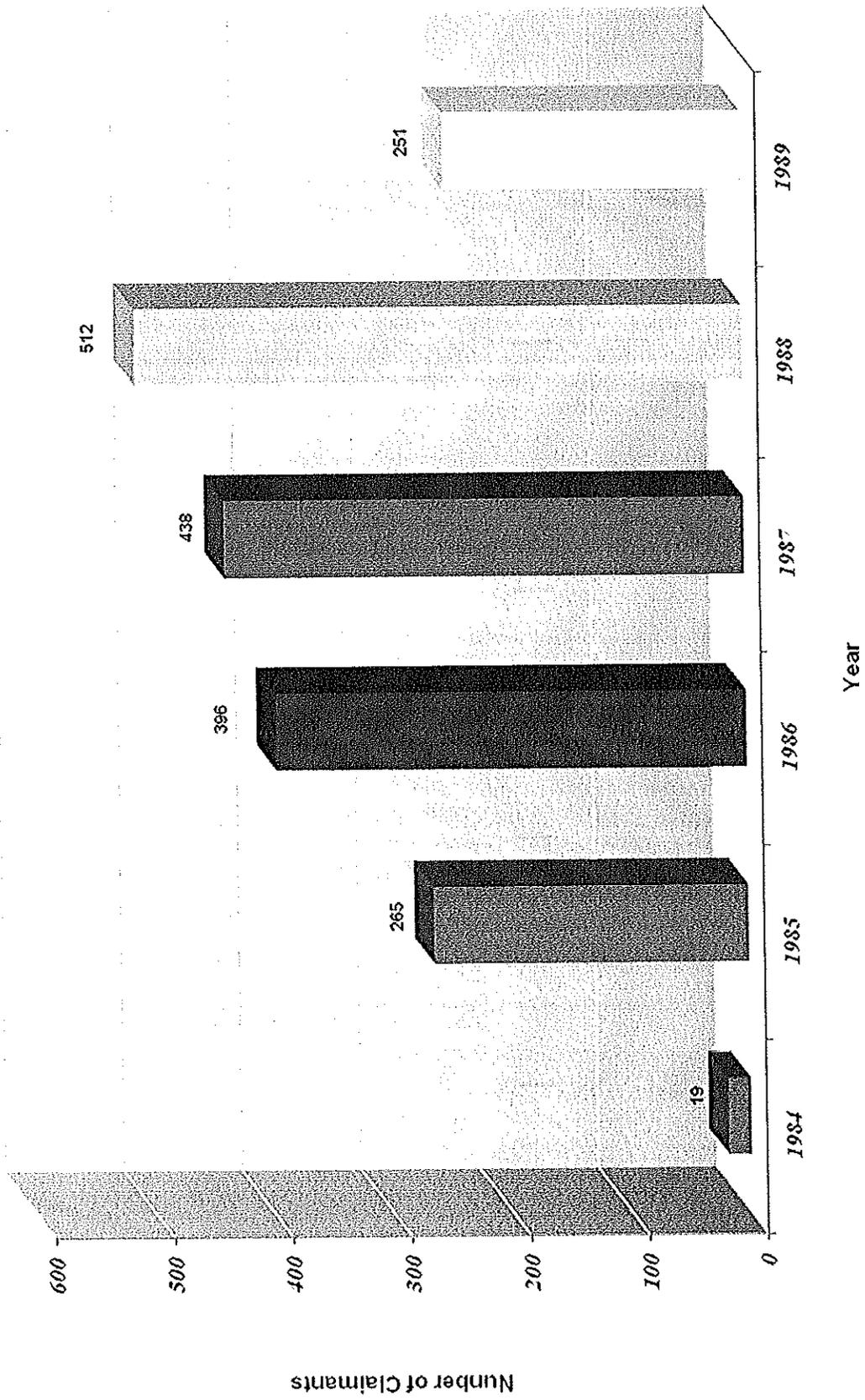
The majority of the injuries sustained by the CAT Fund claimants are of a catastrophic nature and include head injuries, multiple fractures, quadriplegia and paraplegia.

6. The individual's medical and rehabilitative expenses were not covered by workers' compensation.
7. The individual's medical and rehabilitative expenses were not covered by a policy issued under the Pennsylvania No-fault Motor Vehicle Insurance Act (Repealed).
8. The individual complied with the registration requirement of the PA Vehicle Code (Chapter 13) and had paid the applicable CAT Fund charge for any vehicle registered in the Commonwealth of Pennsylvania.

The CAT Fund continues to receive new applications for CAT Fund benefits each year. Out of a total of 2,873 claimants, 985 are considered ineligible, seven (7) are under review for eligibility and a total of 1,881 are considered eligible. Currently, 447 of those considered eligible are open and actively receiving ongoing benefits.

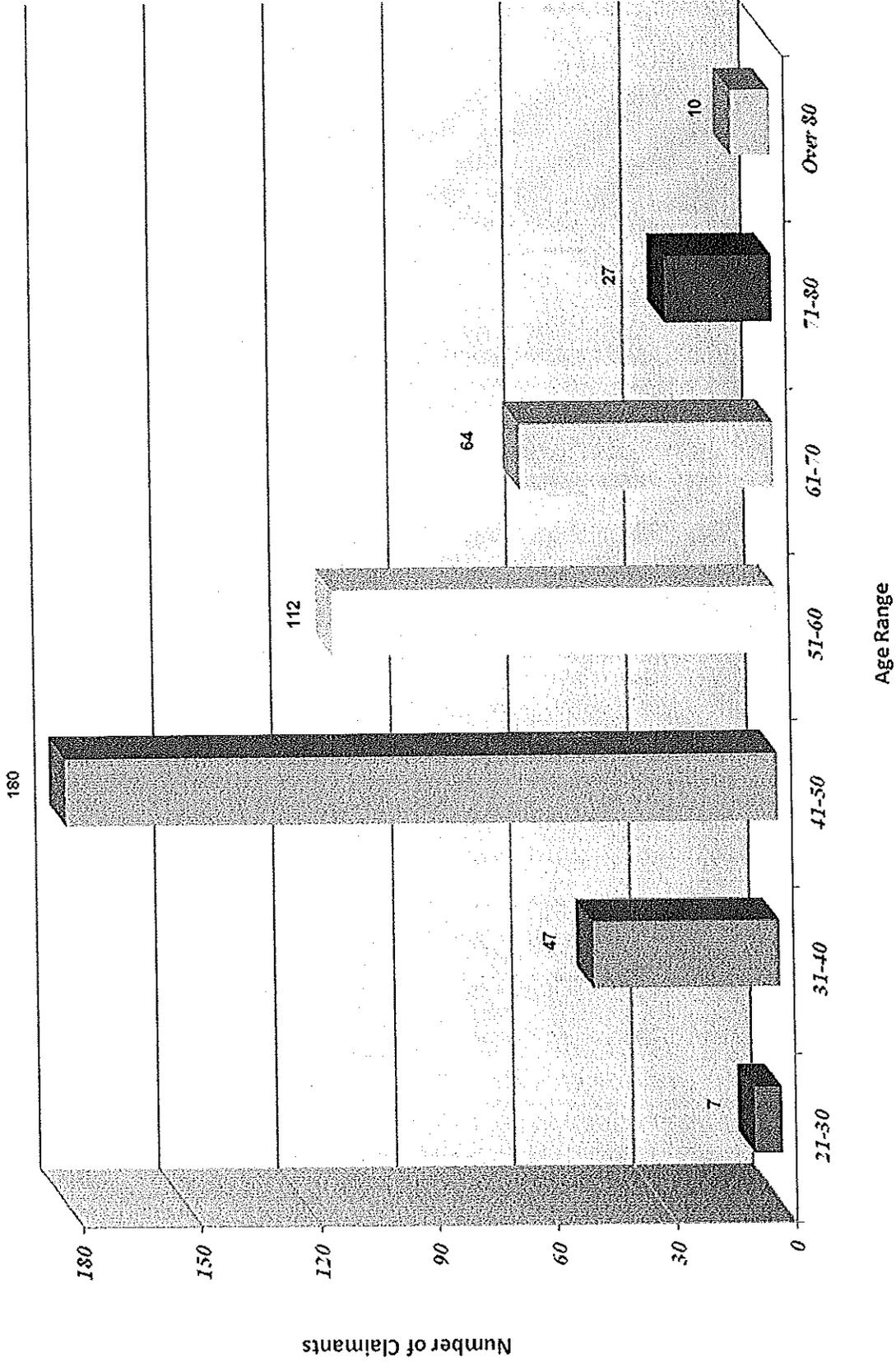
PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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TOTAL NUMBER OF ELIGIBLE CLAIMANTS BY ACCIDENT YEAR



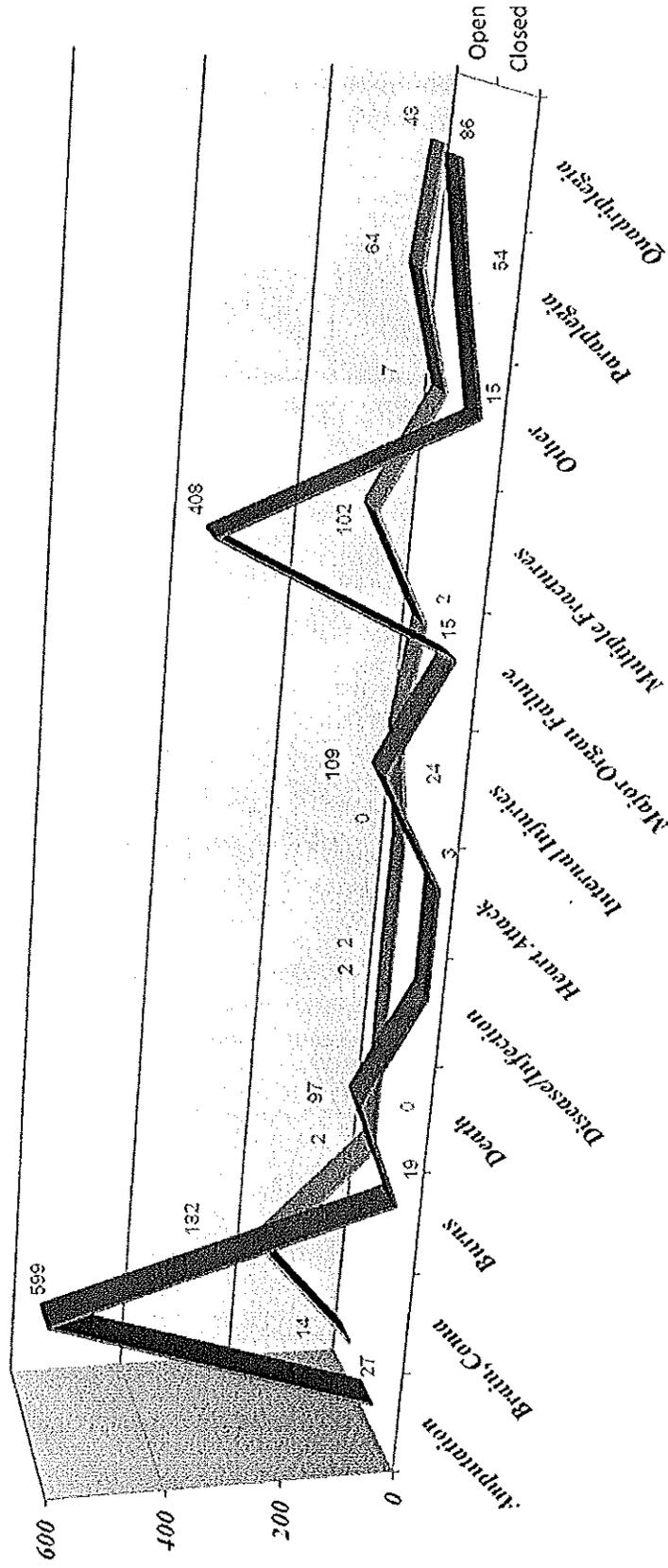
PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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CURRENT AGE OF ALL OPEN ELIGIBLE CLAIMANTS



PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
CONTINUATION FUND

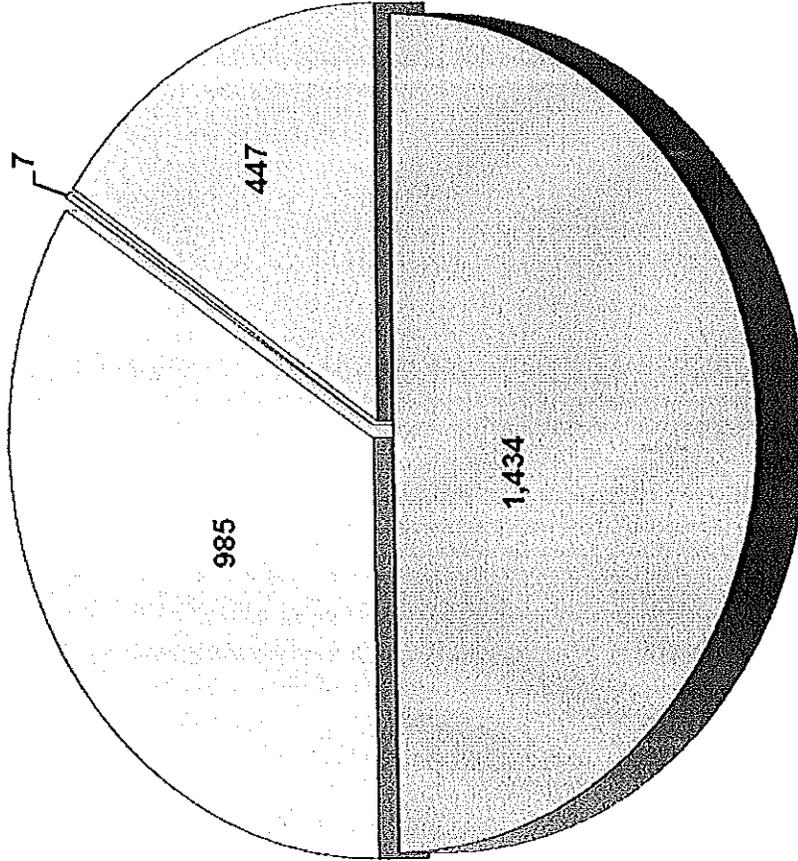
TOTAL NUMBER OF ELIGIBLE CLAIMANTS BY CATASTROPHIC INJURY



■ Closed ■ Open

PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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TOTAL NUMBER OF CLAIMANTS BY ELIGIBILITY (OPEN & CLOSED)



- Closed Eligible
- Closed Ineligible
- Eligibility Review
- Open Eligible

PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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BENEFIT FUNDING

As the third party administrator for the CAT Fund, CSI/ACS Claim Service, Inc. makes a recommendation relative to the eligibility of the claimant. Once a claimant's eligibility has been established, CSI/ACS Claim Service, Inc. reviews all requests and invoices for benefits to determine if the medical treatment or rehabilitative service is deemed medically necessary, reasonable and accident-related. CSI/ACS also reviews such requests and invoices to see that the medical treatment or rehabilitative service represents the most prudent expenditure of funds.

CAT Fund benefits are provided to eligible claimants at the catastrophic level of coverage or for payment of expenses for medical treatment and rehabilitative services in excess of \$100,000. The CAT Fund is not responsible for the first \$100,000 of expense for medical treatment and rehabilitative services incurred by an eligible claimant.

The maximum benefit paid by the CAT Fund on behalf of any one eligible claimant is \$50,000 per annual limit year and \$1,000,000 lifetime aggregate. During the first 18 months after the motor vehicle accident, benefits were provided without regard to the \$50,000 per annual period limit but subject to the \$1,000,000 lifetime aggregate.

Through June 30, 2012, the CAT Fund has provided over \$505 million in benefits for medical treatment and rehabilitative services on behalf of the 1,881 eligible CAT Fund claimants.

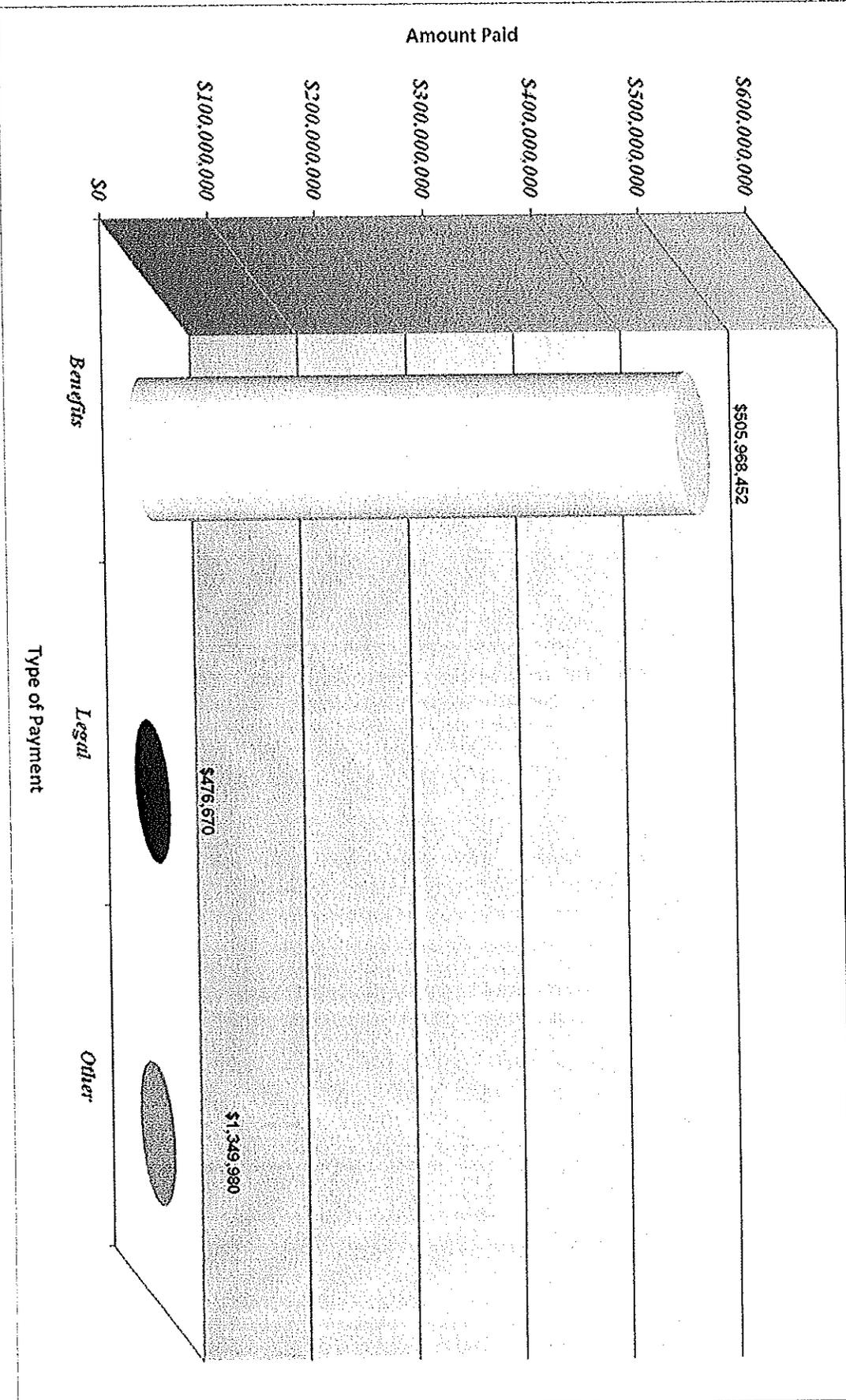
The CAT Fund is the primary funding source for medical treatment and rehabilitative expenses deemed medically necessary, reasonable and related to an eligible claimant's motor vehicle accident. The CAT Fund coordinates with the claimants' secondary funding sources such as Medicare, Medicaid, private and/or group health insurance carriers. Insurers may confirm whether the CAT Fund is the primary payer on a particular claim by contacting CSI/ACS Claim Service, Inc.

To date, 115 claimants have reached the \$1,000,000 maximum benefit expenditure. In the next year, approximately 6 claimants are expected to expend the lifetime maximum as well. Over the last year, the CAT Fund closed 12 claims, reopened 2 claims and opened 1 new claim.

All requests or invoices for CAT Fund benefits should be forwarded to:
CSI/ACS Claim Service, Inc/CAT Fund
P.O. Box 8861, Camp Hill, PA 17001

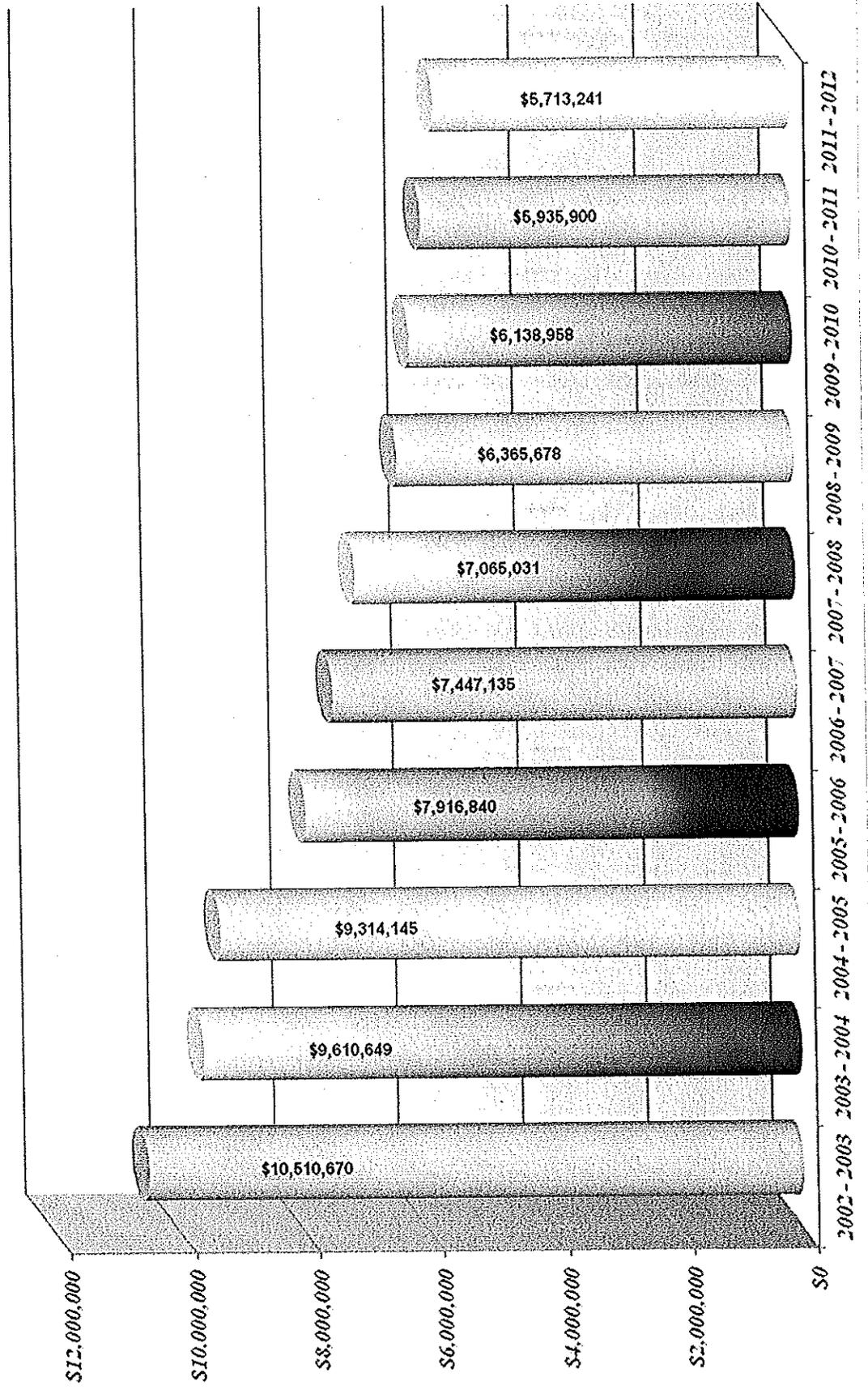
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TOTAL BENEFIT AND EXPENSE PAYMENTS



PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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TOTAL BENEFIT DOLLARS ISSUED FOR THE LAST TEN FISCAL YEARS



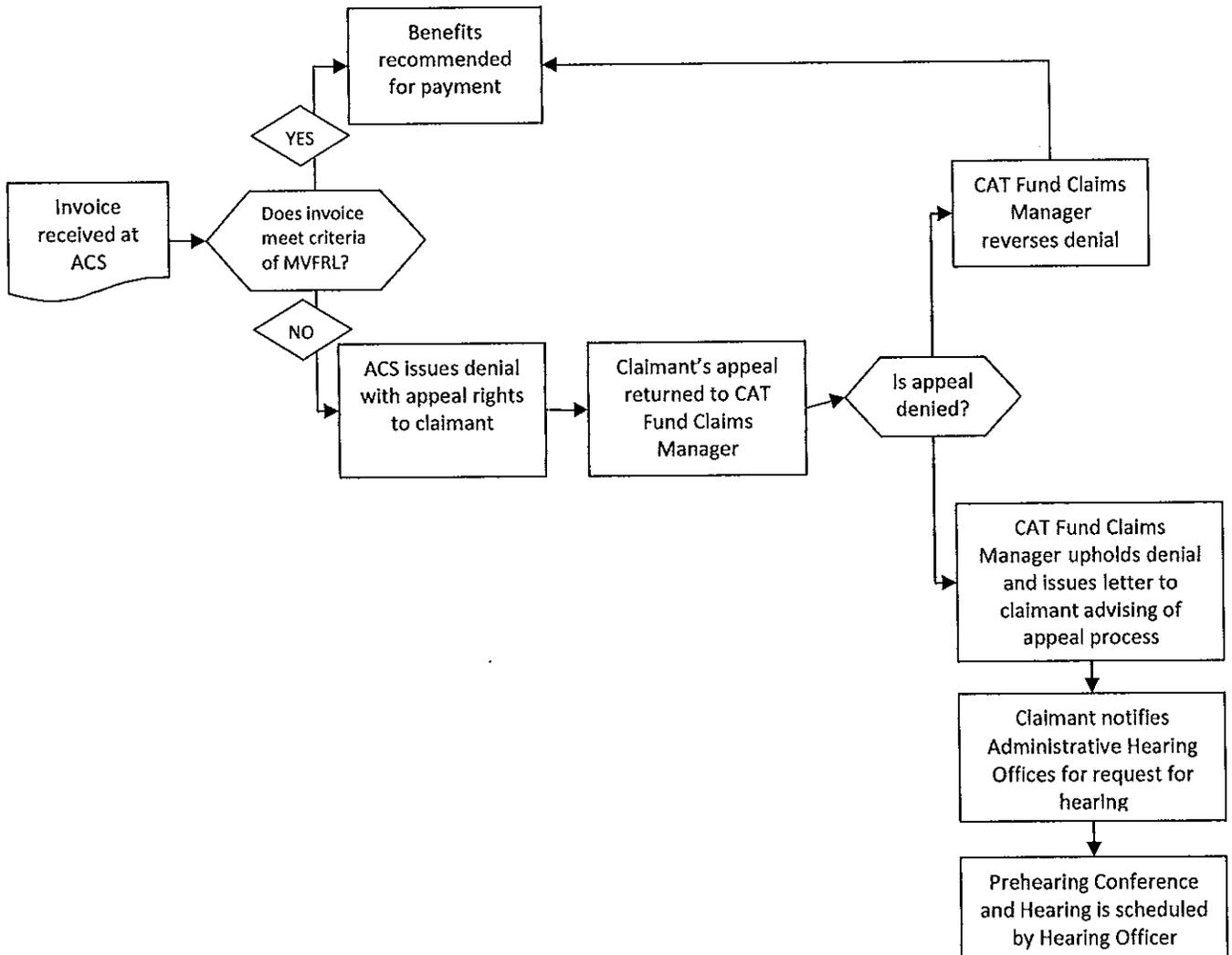
PENNSYLVANIA CATASTROPHIC LOSS BENEFITS
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APPEALS AND THE ADMINISTRATIVE HEARING PROCESS

Claimants who do not agree with a determination made by the CAT Fund may dispute the determination, as outlined in the regulations of Pennsylvania Insurance Department, 31 Pa. Code 67.6.

If a claim is denied, the claimant or designated representative will receive specific written instructions on the appeal process. At the first level of the appeal process, a claimant is issued written notification from the CAT Fund Claims Manager advising if the denial is upheld or reversed. If the denial is reversed, the invoice is processed for payment.

If the denial is upheld, the claimant receives written instruction on how to request a formal administrative hearing. A formal administrative hearing is conducted before a hearing officer appointed by the Insurance Commissioner. It is the claimant's responsibility to prove that the service(s) in dispute is/are medically necessary, reasonable and accident related.



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HIGHLIGHTS OF 2011-2012

NEGOTIATED SAVINGS

The CAT Fund utilizes cost saving programs to save benefit dollars for its claimants. A portion of the cost savings programs include concepts from past legislative amendments like the ones contained in the MVFRL 1990 Act 6 amendment.

By using ACT 6 repricing information, ACS negotiates payment amounts with providers of medical treatment and rehabilitative services including hospitals, doctors, physical therapists, and orthotic/prosthetic suppliers.

MONTH	CHARGED	PAID	SAVINGS	NEGOTIATION FEES	NET SAVINGS
July-2011	\$358,600.70	\$194,821.66	\$163,779.04	\$2,519.50	\$161,259.54
August-2011	\$247,578.66	\$106,426.20	\$141,152.46	\$2,338.00	\$138,814.46
September-2011	\$225,168.82	\$97,456.20	\$127,712.62	\$1,925.00	\$125,787.62
October-2011	\$213,184.00	\$124,697.16	\$88,486.84	\$1,821.00	\$86,665.84
November-2011	\$387,027.57	\$137,145.04	\$249,882.53	\$2,084.50	\$247,798.03
December-2011	\$669,133.67	\$173,001.92	\$496,131.75	\$2,009.50	\$494,122.25
January-2012	\$187,055.17	\$101,267.22	\$85,787.95	\$1,752.50	\$84,035.45
February-2012	\$194,545.04	\$103,282.23	\$91,262.81	\$1,709.00	\$89,553.81
March-2012	\$211,972.50	\$104,131.33	\$107,841.17	\$1,945.00	\$105,896.17
April-2012	\$231,511.18	\$101,406.68	\$130,104.50	\$1,917.00	\$128,187.50
May-2012	\$249,402.30	\$103,927.87	\$145,474.43	\$2,025.00	\$143,449.43
June-2012	\$518,814.11	\$139,310.31	\$379,503.80	\$2,164.00	\$377,339.80
TOTALS	\$3,693,993.72	\$1,486,873.82	\$2,207,119.90	\$24,210.00	\$2,182,909.90
<i>Monthly Average</i>	<i>\$307,832.81</i>	<i>\$123,906.15</i>	<i>\$183,926.66</i>	<i>\$2,017.50</i>	<i>\$181,909.16</i>

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PRESCRIPTION DRUG PROGRAM

In an effort to save the CAT Fund, and its claimants, additional benefit dollars, the CAT Fund utilized the services of a prescription billing program, TechHealth, from August 1, 2009 until June 30, 2010. TechHealth continues to supply prescriptions for out of state claimants and pharmacies not contracted with PACE.

As of July 1, 2010 the CAT Fund contracted with the prescription medication program, PACE, administered by Magellan Health Services, with the anticipation of additional benefit dollar savings. This program provides the CAT Fund claimants access to a comprehensive pharmaceutical cost management program with no out of pocket expense to the claimant. In order to more efficiently track and manage claimants' medications, Prescription ID cards were issued to all eligible claimants.

CSI/ACS Claim Service, Inc. adjusters monitor the prescription benefits closely and serve as the central contact to verify that the prescribed medications meet the benefit criteria. The adjusters have immediate access to approve or deny prescription eligibility statuses as necessary by phone, email or online via the website. Claimants and pharmacies have access to customer service by phone.

The PACE program provides the adjuster with direct access to a pharmacist as well as close communication with the Magellan Health administrators, allowing for increased efficiency in managing claimants' prescription formularies. In addition to these benefits, the program has offered reports to assist the adjusters in managing their claimants' prescriptions. These reports include:

- Opiate Review – monitoring for potential misuse.
- Max Dose – flagging claimants that hit or exceed the maximum adult or elderly dose.
- Therapeutic Duplication – assessing if claimant is using more than one drug in a class.
- Age Appropriate – validate prescribed dose with claimant's age.

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The majority of prescriptions paid by the CAT Fund are dispensed through PACE or TechHealth. The charts below show the total payments, savings and number of prescriptions dispensed through these programs. Approximately \$33,848 in pharmacy benefits were paid outside of the PACE and TechHealth programs. These were reimbursement for claimants' out of pocket pharmacy costs.

PACE	
<i>Charged</i>	<i>\$1,502,306</i>
<i>Reduction</i>	<i>\$647,447</i>
<i>Paid</i>	<i>\$854,859</i>
<i>Admin. Charge</i>	<i>\$50,647</i>
<i>Number Dispensed</i>	<i>6,941</i>

TECHHEALTH	
<i>Charged</i>	<i>\$342,312</i>
<i>Reduction</i>	<i>\$86,057</i>
<i>Paid</i>	<i>\$256,255</i>
<i>Admin. Charge</i>	<i>\$ 0</i>
<i>Number Dispensed</i>	<i>1,626</i>

Considering only the PACE and TechHealth programs, PACE processed 81% of the total number of CAT prescriptions and 77% of the dollar value of prescriptions. TechHealth processed 19% by number and 23% by cost. PACE generated 39% net savings under the charged amount. TechHealth was able to generate 25% savings under the charged amount. Both programs create significant savings for the CAT claimants and the CAT Fund.

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CMS/MSPRC

CSI/ACS Claim service, Inc. identifies the CAT Fund claimants that are Medicare beneficiaries and reports them, as required, to CMS as part of Section 111 of the Medicare, Medicaid and SCHIP Extension Act (MMSEA) of 2007.

Consent to Release forms are sent to Medicare eligible claimants along with the Annual Coordination of Benefits letter that is sent every June.

A CMS MSPRC Lien process was developed to respond to correspondence received from MSPRC, including but not limited to Conditional Payment Notice (CPN), Conditional Payment Letter (CPL) and Recovery Demand Letter. To date the CAT Fund has not received a Demand Letter.

INSURANCE FRAUD INVESTIGATIONS

Pursuant to Act 166 of 1994, the office of Attorney General was granted specific authority to create an Insurance Fraud Section empowered to investigate and prosecute insurance fraud. The CAT Fund considers falsification of a request or invoice for CAT Fund benefits insurance fraud.

The CAT Fund continues to receive restitution for past fraudulent criminal activity, which it restores to the appropriate claimant's benefits account. CSI/ACS Claim, Inc. continues to monitor claims and will investigate any potential cases of fraudulent activity. Where appropriate, CSI/ACS Claim Service, Inc. will refer the matter to the Office of Attorney General for criminal investigation.

ADMINISTRATIVE HEARINGS

The CAT Fund had one Administrative Hearing this year. An eligible claimant requested his claim be reopened to pay for a new diagnosis/treatment that surfaced more than twenty years after his last date of service. After a peer review, it was recommended to the CAT Fund that the current treatment be denied. The CAT Fund claimant appealed the decision. The hearing was held July 13, 2011. The Adjudication and Order from the Insurance Department affirmed the denial of payment for the medical treatment. No further appeal was received.