

MEETING OF THE BOARD OF DIRECTORS
BLUE CROSS & BLUE SHIELD OF DELAWARE, INCORPORATED

JUNE 25, 1980

A regular meeting of the Board of Directors of Blue Cross & Blue Shield of Delaware, Inc., was held on Wednesday, June 25, 1980 at 3:00 p.m. in the Corporate offices. The following members of the Board, constituting a quorum were present:

Gene Derrickson, Presiding
Robert H. Bolling, Jr.
Robert C. Cole, Jr.
Ben Corballis, M.D.
L. Vincent Croze, Jr.
Bernard J. Daney
Edward K. Hannigan
Alfred Lazarus, M.D.
John M. Levinson, M.D.
Harry W. Lynch, Jr.
C. Raeford Minix
Howard W. Papen
Frances M. West
Morris E. Williams

The following members of staff were also in attendance: Messrs. Charles R. Richards, W. Michael Ireland, Ms. Patricia Nolan and Ms. Brenda Betty. Distributed to each member prior to the meeting was a kit containing:

- A Corporate Bylaws Resolution - Confirmation of Approval
- A Certificate of Incorporation Resolution - Adoption of Amendments
- Financial Report of May, 1980
- A Board of Directors and a Committee Roster

I. Announcements

Mr. Derrickson noted:

- The resignations of Dr. Dobson and Mr. Wiley from the Board though Dr. Dobson will continue to serve on the Board of the Blue Shield Association.
- Mr. Dugan's letter expressing his appreciation for his retirement party, and his years of employment with the Company.

II. Minutes of the Meetings of the Board, March 26, 1980 and May 14, 1980

The minutes of March 26, 1980 meeting and the actions therein were approved as mailed.

The minutes of the special meeting of May 14, 1980 and the actions therein were approved with a correction to reflect the attendance of Mr. Bolling at the meeting.

III. Bylaws and Certificate of Incorporation Amendments

- A. Based upon the discussions and vote of the Board at its May 14, 1980 special meeting, Mr. Ireland read to the Board the following resolution:

RESOLUTION

WHEREAS, The Board of Trustees of Blue Cross & Blue Shield of Delaware, Incorporated adopted new Bylaws for the Corporation on May 14, 1980 at a special meeting of said Board which was convened upon proper notice; and

WHEREAS, the Board of Trustees did make certain changes to said Bylaws at the May 14, 1980 special meeting which were not part of the Bylaws described in the notice for the special meeting:

NOW THEREFORE BE IT RESOLVED That the Board of Trustees of Blue Cross & Blue Shield of Delaware, Incorporated reaffirms its adoption of the attached Bylaws which are identical to the Bylaws presented for adoption at the May 14, 1980 special meeting except for the incorporation of certain changes made at said May 14, 1980 special meeting and for the correction of certain typographical errors.

The resolution was made, seconded and unanimously adopted.

- B. Mr. Ireland then read the following resolution in regard to the Corporation's Certificate of Incorporation:

WHEREAS, the Board of Trustees of Blue Cross & Blue Shield of Delaware, Incorporated did, at a special meeting of said Board held upon proper notice, on May 14, 1980, declare the advisability of the following amendments to the Certificate of Incorporation of said Corporation;

RESOLVED That the Board of Trustees of Blue Cross & Blue Shield of Delaware, Incorporated hereby adopts the following amendments to the Certificate of Incorporation of said Corporation:

- a) Amend the Second Article of Incorporation by deleting the word "resident" and inserting in lieu thereof the word "registered".

- b) Amend the Third Article of Incorporation by deleting it in its entirety and insert in lieu thereof the following:

Third: The purposes of this Corporation shall be: to develop, market and underwrite all types of health insurance and other employee benefit programs at reasonable cost; to promote policies and programs which foster effective health care cost containment; to act as underwriter or administrator for the administration of governmental health care programs; to provide all types of health services; to assist individuals in defraying the costs of all types of health services; to do all things in any way related to or connected with these purposes and to engage in any lawful act for which corporations may be organized under the General Corporation Law of the State of Delaware.

- c) Amend the Fourth Article of Incorporation by deleting the phrase "is not a Corporation organized for profit and shall not have the authority to issue capital stock" and inserting in lieu thereof the phrase "shall be operated as a private not-for-profit Corporation and shall not have the authority to issue capital stock".
- d) Amend the Eighth Article of Incorporation by changing the name of the Corporation's governing body from "Board of Trustees" to "Board of Directors" and effectuate such a change by deleting the words "carried on by a Board of Trustees" and inserting in lieu thereof the words "managed under the direction of a Board of Directors" and by deleting the word "Trustees" as it last appears in such article and inserting in lieu thereof the word "Directors". Aside from the change in title of the incumbent members of the governing body, their status shall not otherwise be impacted.
- e) Amend the Ninth, Tenth, Twelfth and Thirteenth Articles of Incorporation by deleting the word "Trustees" wherever it appears and inserting in lieu thereof the word "Directors".

FURTHER RESOLVED That the President and Secretary of the Corporation are hereby authorized to integrate these amendments into the existing Certificate of Incorporation to form a single instrument to be known as the "Restated Certificate of Incorporation" and to execute, acknowledge, file and record such Restatement as required by law and to take such other actions as may be required to implement and effectuate such Restatement

The resolution was moved, seconded and unanimously adopted.

IV. Committee Reports:

Medical Advisory Committee - Dr. Lazarus, Committee Chairman, reported that at its last meeting the Committee had dealt with a number of issues. Specifically, he noted that the Committee had:

- Reviewed a request from the Urology Department of the Wilmington Medical Center for the reimbursement of urological surgical assistants and then determined that such request should be denied.
- Reviewed the Corporation's reimbursement policy in regard to assistants at surgery in the downstate Delaware hospitals and a report from a subcommittee of the State Medical Society's Medical Review Committee. The Medical Advisory Committee reaffirmed the policy of reimbursement based upon an hourly rate of reimbursement and agreed with management's recommendation that the current hourly rate be revised to a more reasonable amount related to the services being rendered with the provision that the reimbursement allow for individual review of exceptional cases.
- Reviewed the issue of whether a new procedure code should be established for the day of discharge for medical visits and determined that such a code should not be established, since routine, intermediate and extended Blue Shield codes for medical visits already exist, and physicians have ample Blue Shield codes to identify the level of care rendered.
- Reviewed the issue of whether a separate code should be established for flexible sigmoidoscopy and agreed to the establishment of a separate code and allowance for the procedure, since a flexible sigmoidoscopy is a procedure that is distinctly different (both professional and technical component) from a rigid sigmoidoscopy.

Further, Dr. Lazarus reported that the Committee had received information status reports in regard to the physician lecture series, the annual recomputation of fees and the Corporation's new footcare guidelines.

The report was adopted as presented.

Nominating Committee - Dr. Levinson, Committee Chairman, noted that he had held a meeting with Mr. Cole and Mr. Derrickson to discuss the role of the Committee. He stated that there are opportunities for three new members on the Board. He noted that the Corporation needs individuals on the board which represent a variety of interests, skills and experience rather than only representing a segment of the population. For example, a needed skill is in the area of dentistry, because of our growing dental

IV. Committee Reports: (Cont'd)

program. Dr. Levinson indicated that if any Board member had individuals in mind for the vacant board position, he or she should report the name to Mr. Cole or Dr. Levinson so that the Nominating Committee can consider such suggestions at a future meeting. It was noted that the Nominating Committee will be meeting within the next several months to work on these nominations.

Audit Committee - Mr. Bolling, Committee Chairman, noted that at the last meeting of the Committee, it had:

- Recommended to the Executive Committee the continued retention of Arthur Anderson and Company as the Corporation's auditors, and
- Reviewed the progress of the Corporation's Internal Auditors.

The report was accepted as presented.

Health Care Costs Committee - Chairman Frances West reported that at its meeting of May 21, 1980, no issues were raised that would require Board approval; however, the Committee had received an informational presentation on the HMO project. The Committee was advised that Corporate management, in order to thoroughly assess the nature and extent of Corporate possible involvement in HMOs, five to six months of further analysis would be required prior to making a recommendation to the Board. However, the Corporation is prepared to move more quickly if competition threatens. In addition, it was reported that the Corporation has responded to the DuPont Company's position on competition and is working through the issue with officials of that organization.

In addition to the above, the Committee received a report on hospital contract negotiations, which compared the principles the Corporation had sought in negotiations and what has been agreed to in principle with the hospitals. Further, it was reported that a new hospital contract is expected to be effective July 1, 1980 and will embody virtually all of the principles sought by the Corporation.

The report was accepted as presented.

Executive Committee - Mr. Derrickson reviewed with the Board the activities of the Executive Committee at its April, May and June, 1980 meetings. In summarizing the activities, he noted that among other items the Committee had:

IV. Committee Reports: (Cont'd)

- reviewed reports from Management in regard to the financial position of the Corporation and its relations with the State Insurance Commissioner;
- reviewed the Corporation's decision as to the Brandywine Gateway Project;
- reviewed routine reports on legislative matters, the HMO and litigation with Milford Hospital under the Medicare Part A subcontractor;
- reviewed reports and discussed the Customer Service Improvement Project;
- approved W. Michael Ireland as Vice President Corporate Relations, Peter Sparber as Vice President Public Affairs and Brenda Betty as Assistant Corporate Secretary (replacing Patricia Nolan who had been promoted).
- reviewed the Corporation's additional office space. He noted that Management is reviewing the Corporation's future growth and the Corporation's space needs on a long-term basis (five to fifteen years).

The report was accepted as presented.

Personnel Committee - In the absence of the Committee Chairman, Mr. Cole reported that at the Committee's June 4, 1980 meeting, the Personnel Committee had reviewed the thrift plan study prepared by Management. Included in this review was:

- introduction of the concept of a thrift plan;
- advantages of a thrift plan both to the employer and to the employee;
- thrift plan provisions;
- implementation process;
- costs;
- COWPS considerations.

Management had asked that the Committee approve the concept of the program design and the implementation process. These steps would allow further work to proceed but without a firm commitment to implement the plan. Following discussion, the Committee approved the concept of a thrift plan and asked Management to come back with firmer details on its administration including fiduciary accountabilities and greater detail as to implementation.

After a discussion, during which it was noted that the Board would continue to receive reports on this subject, the report was adopted.

V. Financial Report

Mr. Crouch reviewed with the Board the May, 1980 Financial Report noting specifically:

- On page 2, that the year-to-date operating loss of \$1.9 million was due primarily to a postponement of the Corporation's rate increases, while a new rate making and implementation process was being effected.
- On page 3, that the majority of the operating loss had occurred in the Medical/Surgical area where utilization was on the up-swing for the first time in a number of years.
- On page 4, that the Corporation was overbudget on a year-to-date basis due primarily to unexpected overtime costs associated with the claim backlogs during the first part of the year.
- On page 5, that the difference in the Corporation's investment portfolio between market value and carrying value had been reduced from \$7.5 million to \$3.3 million.
- On page 7, that the Corporation's reserves were now at 2.2 months and decreasing. He indicated that the situation was not yet critical and will be reversed as the required rate increases are put into effect.

VI. Management Report

Mr. Cole reviewed the May 1980 Management Report. He noted that the Medicare Part B contract negotiations with the Federal Government had resulted in a move to combine this Corporation's Medicare Part B functions with those of Blue Shield of Pennsylvania. He indicated that this action was consistent with the Health Care Financing Administration's (HCFA) objectives of integrating Medicare Parts A & B and Medicaid contracts and reducing the number of Medicare contractors. He pointed out that this action in Delaware has been a long term goal of HCFA, having tried to cancel the contract in 1976 or 1977. However, the Corporation had been able to convince them to reverse that decision at that time.

The HCFA direction could be considered logical since this Corporation processes only 350,000 claims per year compared to Pennsylvania Blue Shield's 8 million claims per year. Recognizing that one of HCFA's goals was to improve performance, the Corporation previously negotiated with HCFA to install a new computer system called Model B System, which was a federally financed program. The new Model B

VI. Management Report (Cont'd)

System was installed in October 1979 and is now running smoothly. On June 12, 1980, HCFA called a meeting at which time they indicated that the government was not going to renew the Corporation's Medicare Part B contract and that they would give the Corporation a written notice on June 30 of such non renewal. Government representatives, however, stated that their real desire was to encourage this Corporation to become a subcontractor under Pennsylvania Blue Shield with Delaware performing certain functions locally. Management agreed to explore this opinion and given a configuration which would be in the best interests of the Corporation, Delaware Medicare beneficiaries and providers, and the tax payers, the Corporation would participate.

Under the initial HCFA proposal, the Medicare claims would go directly to Pennsylvania Blue Shield in Camp Hill. Management proposed a more significant subcontracting role for this Corporation which would still save administrative costs for the Medicare Program while maintaining local provider and beneficiary service. While no decisions had been made as of this date, Mr. Cole indicated that it would be a long and difficult process and that he would keep the Board advised on this topic.

VII. Other Business

Mr. Cole then asked Mr. Richards to review with the Board the Corporation's progress against its cost containment program.

Mr. Richards reviewed the cost containment program started in 1977 which was to be carried out over time and which would directly and indirectly impact increases in health care costs. Further, he noted the program was divided into two distinct elements - price and utilization.

- 1) On the price side he reported the following activities:

Hospital Contract Negotiations -

- * 6 of the 7 state hospitals are in agreement in principle as to a new hospital contract. There will probably be a meeting in July to see if the outstanding concerns can be resolved.
- * Rockford Center and Kent General Hospital - The Corporation actively opposed the purchase of the Rockford Center by another party because the sale would increase the center's costs without any corresponding benefit. In the Kent General matter, the Corporation had opposed a part of that Hospital's expansion project on a cost basis.

VII. Other Business

- Cat Scanner - The Corporation is active in health planning process in regard to decisions for additional CAT Scanners in Delaware.
 - Physician Charges - The Corporation negotiated annual prevailing fee limitation agreements and is presently working with Medical Society to resolve inequities with U&C System.
- 2) On the Utilization or volume side of the equation Mr. Richards reported that:
- The Hospital Contract - A new utilization review provision under which each Hospital agrees to undertake a utilization review program for Blue Cross subscribers with ability on the part of the Corporation to monitor and evaluate the effectiveness of each Hospital and meet to resolve any ineffectiveness.
 - Physician Utilization Review - The Corporation has worked with the physicians on a number of issues including the National Medical Necessity project, the utilization of Ultra Sound Devices, Second Opinion Program and the Pre-Admission Program.
 - Alternative Systems - The Board was reminded of the Corporation's HMO project and its progress to date. Further, it was reported that competition from one of the Philadelphia HMOs was possible in Northern Delaware.
 - Benefit Administration - Progress has been made in updating the Corporation's Surgical/Medical and Dental Claims policies and tightening up the administration of noncovered services contractual provisions.
 - Subscriber Education - The Corporation has made significant strides in this regard in the establishment of Governor's Health Week; participation and sponsorship of various fitness activity - Fitness days and Marathons; and Lifecourse in State and County parks; and in the creation and continued publication of SNOOPER.
 - Employee Health Education - The Corporation has begun to test its Employee Health Education program with its own employees. As the experiment continues, it will be expanded into other employers' work sites.

VII. Other Business (Cont'd)

He summarized that the programs that the Corporation had offered have helped cut down on our hospital in-patient care. The admission rate dropped 4% in 1979. This is the lowest drop since 1969. He noted that many of the Corporation's initiatives can not be quantitatively measured as to their effectiveness and thus a need exists to develop more significant effectiveness measures.

Dr. Lazarus reminded the Board that there was another side to the CAT Scanner issue. He commented that rather than limiting the growth of the diagnostic tools, the Corporation should be encouraging more both upstate and downstate. His opinion was based upon the fact that the Scanners are valuable improvements in the diagnostic techniques and also that they are used in lieu of additional hospital utilization and surgical explorations; thus, they have a positive impact on cost containment.

Dr. Levinson suggested that in developing measurement means that the Corporation consider working with DELRO. Management indicated that exploration of this was already underway.

Mr. Derrickson complemented Management on its efforts and requested that the subject of the alcoholism and drug abuse be addressed at a future meeting.

VIII. Adjournment

The meeting adjourned at 4:50 p.m.

Respectfully submitted,



W. Michael Ireland
Secretary