

Annual Report

Commonwealth of Virginia Medicare Retiree Health Benefits Program

Plan Years 2006 & 2007



Department of Human Resource Management

INTRODUCTION

The Commonwealth's retiree health benefits program includes both Medicare-eligible retirees and those not eligible for Medicare. Only health plans for Medicare-eligible retirees are included in this report. In plan years 2006 and 2007, the program offered seven plans that coordinate with the federal Medicare program. These plans supplement Medicare Part A coverage for hospital and skilled nursing care, and portions of Medicare Part B coverage for physician services and home health care. Coverage for outpatient prescription drugs was provided through a state enhanced Medicare Part D prescription drug benefit.

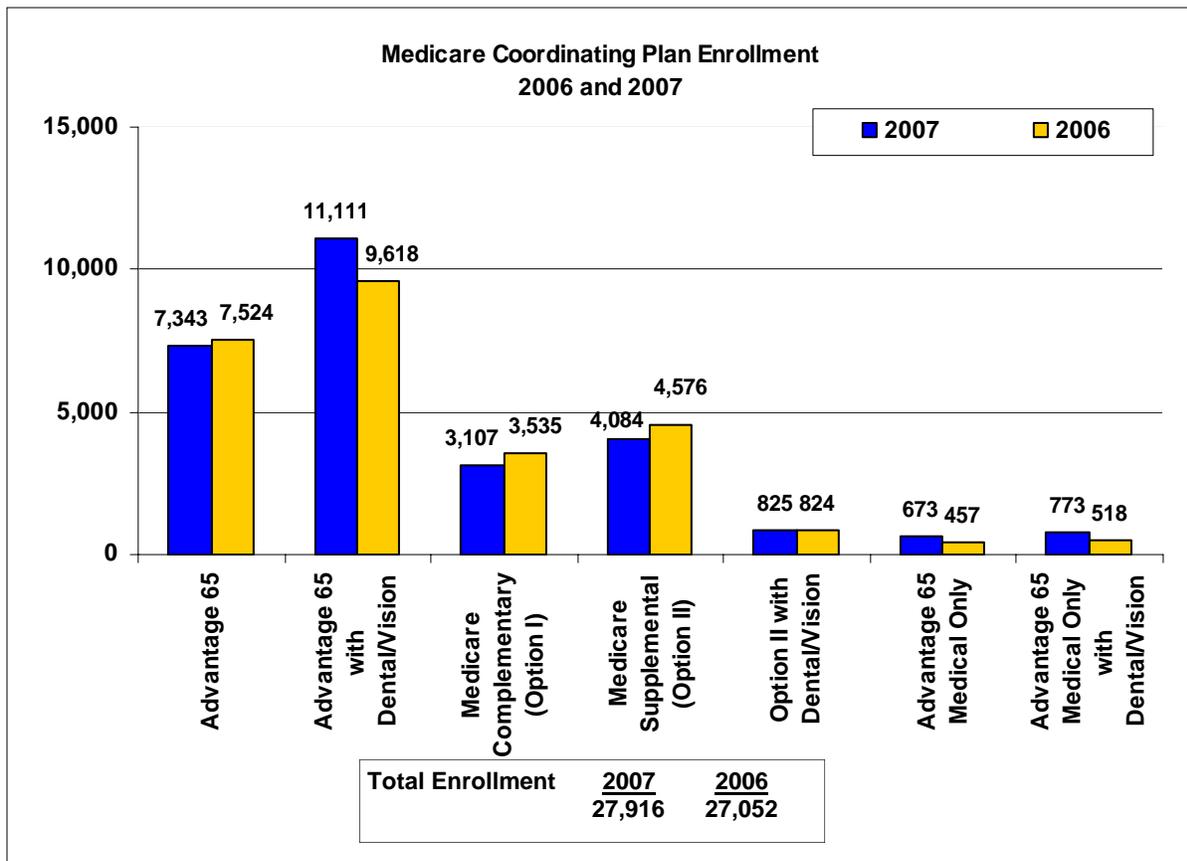
This report presents a financial overview of the statewide, Medicare-coordinating health benefits plans for retirees administered by Anthem Blue Cross and Blue Shield, and the enhanced Medicare Part D prescription drug program administered by Medco Health Solutions, Inc., during calendar years 2006 and 2007. Most of the data reflects the combined operations of the seven plans — Advantage 65, Advantage 65 with Dental/Vision coverage, Advantage 65-Medical Only, Advantage 65-Medical Only with Dental/Vision, Medicare Complementary (Option I), Medicare Supplemental (Option II) , and Option II with Dental/Vision.

Costs to regional and local employers for Medicare-coordinating plans have mirrored the increase in health care expenses nationally. The major cost driver continues to be prescription drugs, which represented more than half of claims expenses for the plans during both calendar years 2006 and 2007. Prescription drug costs rose an estimated 13 percent in 2007 over the prior year. The cost to the state program for physician, outpatient and inpatient facility services also continued to increase. A quarter of plan expenses in 2007 resulted from outpatient facility, and inpatient and outpatient physician costs.

ENROLLMENT

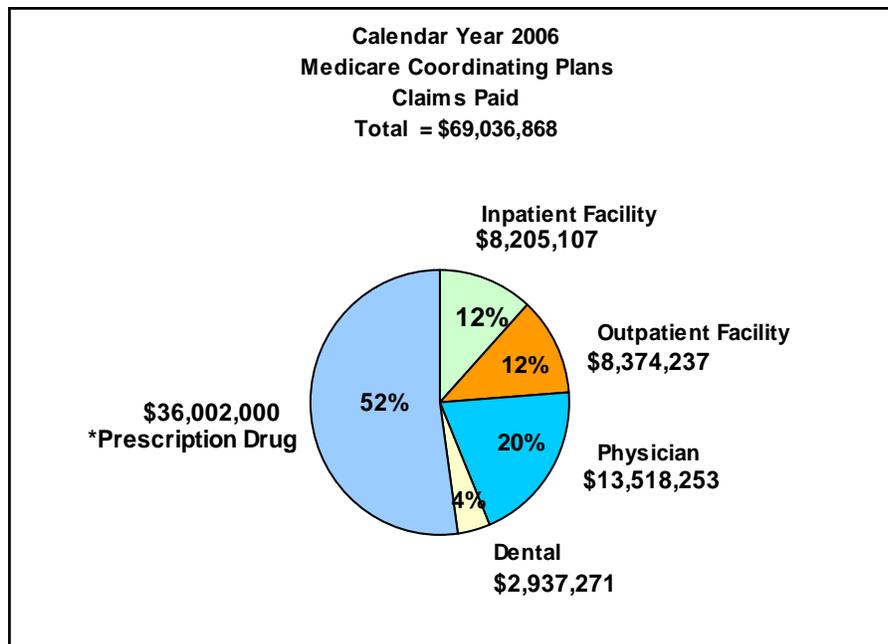
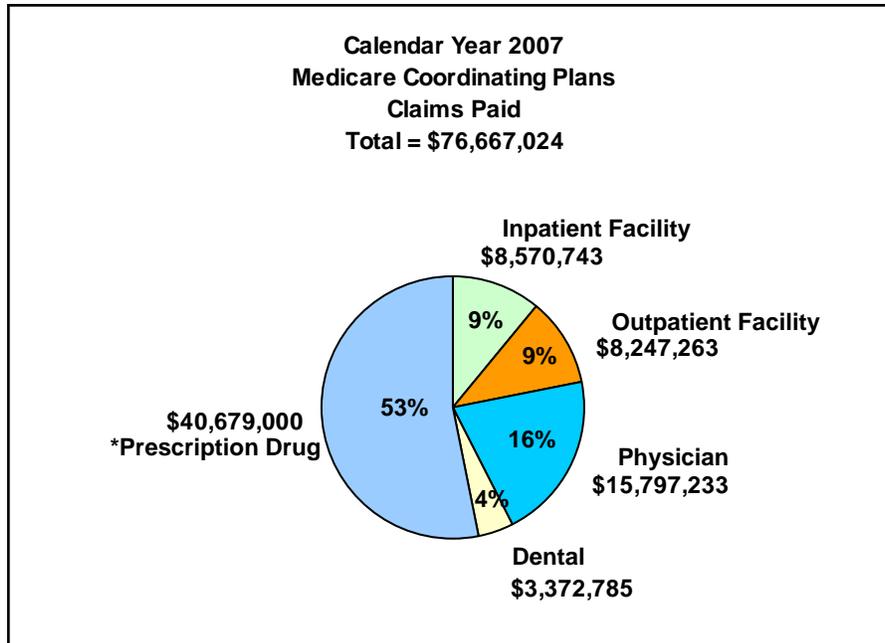
Enrollment in the statewide plans that coordinate with Medicare remains relatively stable, up about 3 percent from 2006 to 2007. The Advantage 65 plans are offered to all eligible state retirees, survivors, and long-term disability participants; however, the Option I and Option II plans are closed to new enrollment. In 2006 and 2007, all of these plans included an enhanced Medicare Part D prescription drug benefit. Two new plans offered in 2006, Advantage 65 Medical Only and Advantage 65 Medical Only with Dental/Vision, gave members the option of medical coverage without prescription drug coverage.

Dental and vision benefits continue to be popular with Medicare retiree group members. From 2006 to 2007, enrollment moved into Advantage 65 with Dental/Vision and out of the Advantage 65 plan. Enrollment in Advantage 65 with Dental/Vision increased almost 16 percent, while Advantage 65 enrollment dropped almost 3 percent.



CLAIMS AND UTILIZATION

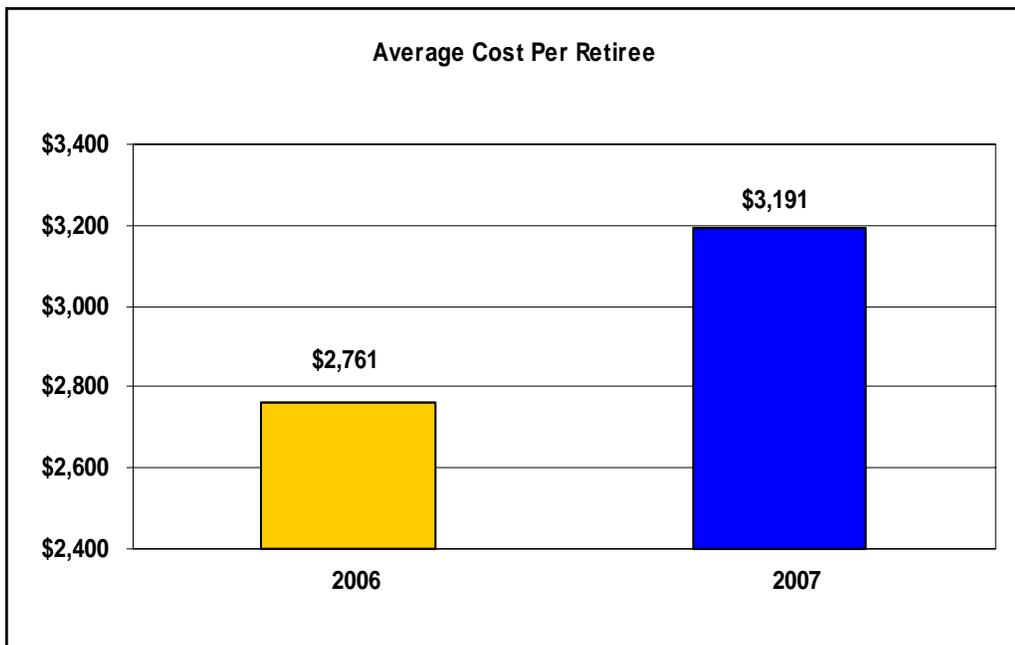
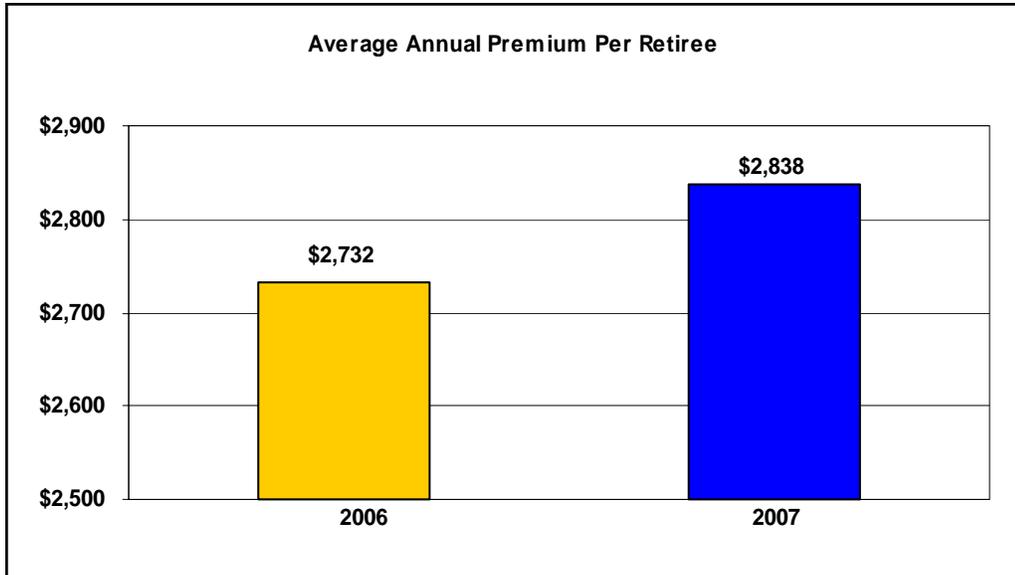
Total claims expense increased 11 percent from 2006 to 2007. Prescription drug claims paid under the Commonwealth's enhanced Medicare Part D program represented the largest part of state Medicare retiree group expenses, accounting for more than half of retiree plan costs in both 2006 and 2007. However, when the Part D program was implemented in 2006, prescription drug costs dropped 12 percent over the prior year. Physician claims were up 17 percent and inpatient facility claims rose 4.5 percent from 2006 to 2007. The increase can be attributed to greater use of medical services by the retiree group, including doctor's office visits and inpatient hospital services.



*Estimated data including federal subsidy

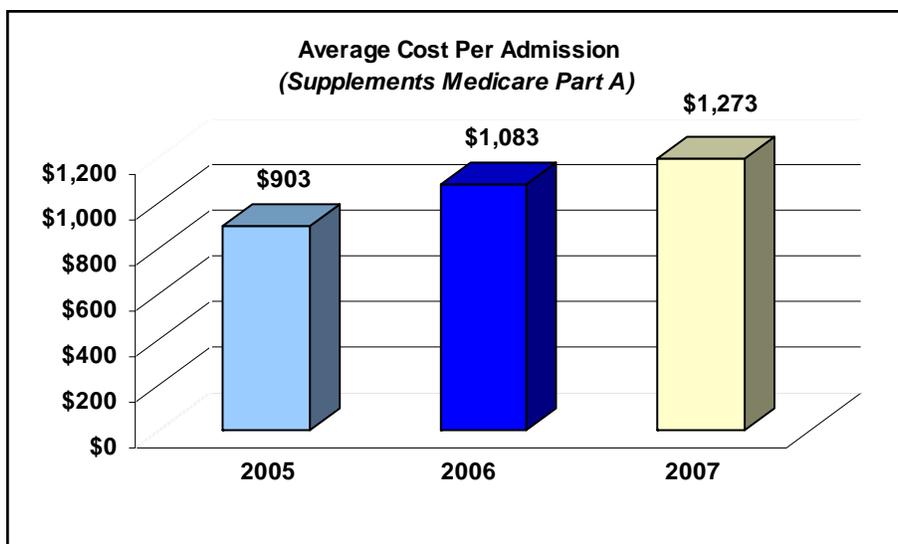
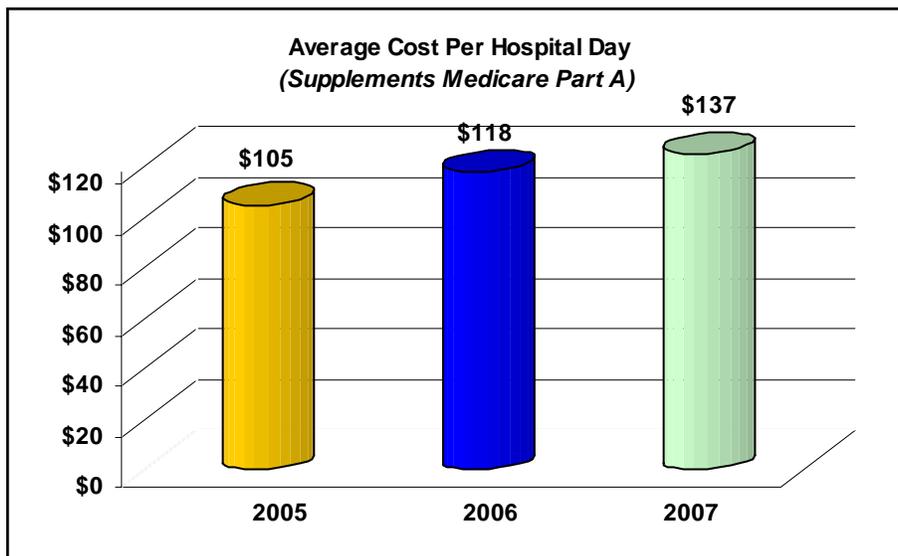
COST OF COVERAGE

Introduction of the state enhanced Medicare Part D prescription drug benefit in calendar year 2006 resulted in an overall reduction in state Medicare-coordinating plan premiums since the cost of Medicare Part D was partially subsidized by the federal Medicare program. However, prescription drug costs continue to increase. In 2007, the average annual premium per retiree for all plans increased 4 percent, while the average cost per retiree rose 16 percent.



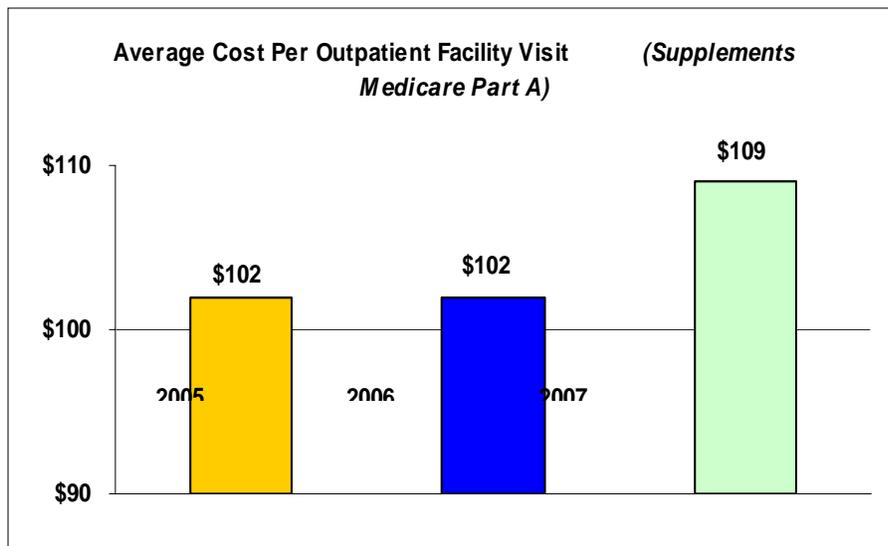
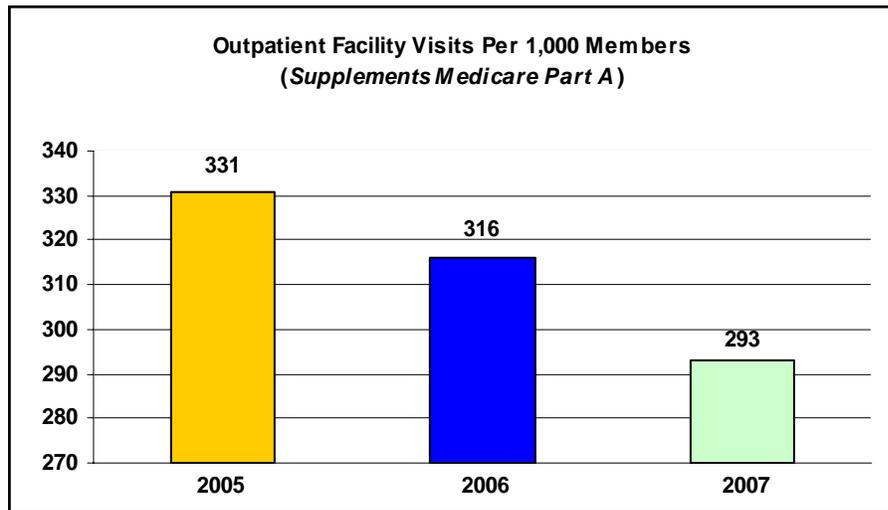
INPATIENT FACILITY

Total inpatient facility costs rose 4.5 percent in fiscal year 2007, from \$8.2 million in 2006 to \$8.5 million. Both the average cost per hospital day and the cost per admission increased significantly in 2007, up 16 percent and 17.5 percent respectively. An increasingly older retiree population is partially responsible for the overall growth in these categories. Inpatient facility costs are also catching up with a higher deductible for Medicare Part A.



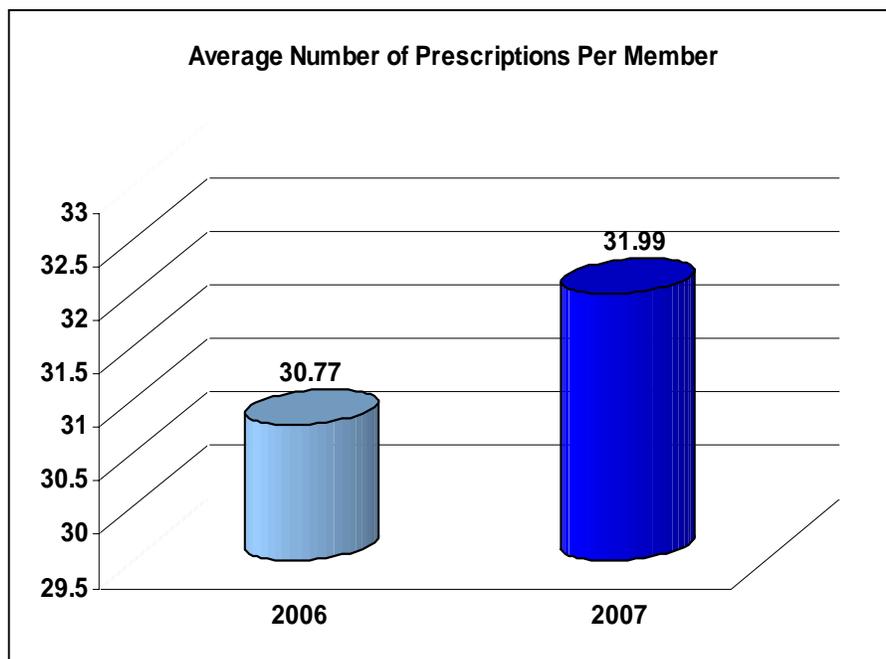
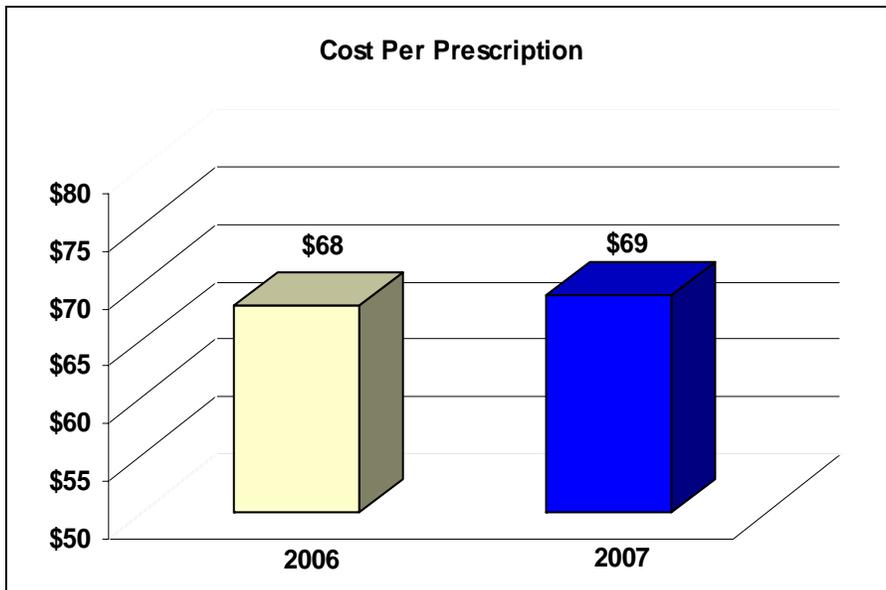
OUTPATIENT FACILITY

Total outpatient facility expenses were down 1.5 percent between 2006 and 2007. Members received fewer services during outpatient visits in 2007, even though the services they received cost about 7 percent more per visit. Outpatient visits per 1,000 members among the retiree group were down 7.6 percent in 2007 compared to visits the year before, while the cost per outpatient facility visit was \$7 higher in 2007 than the year before.



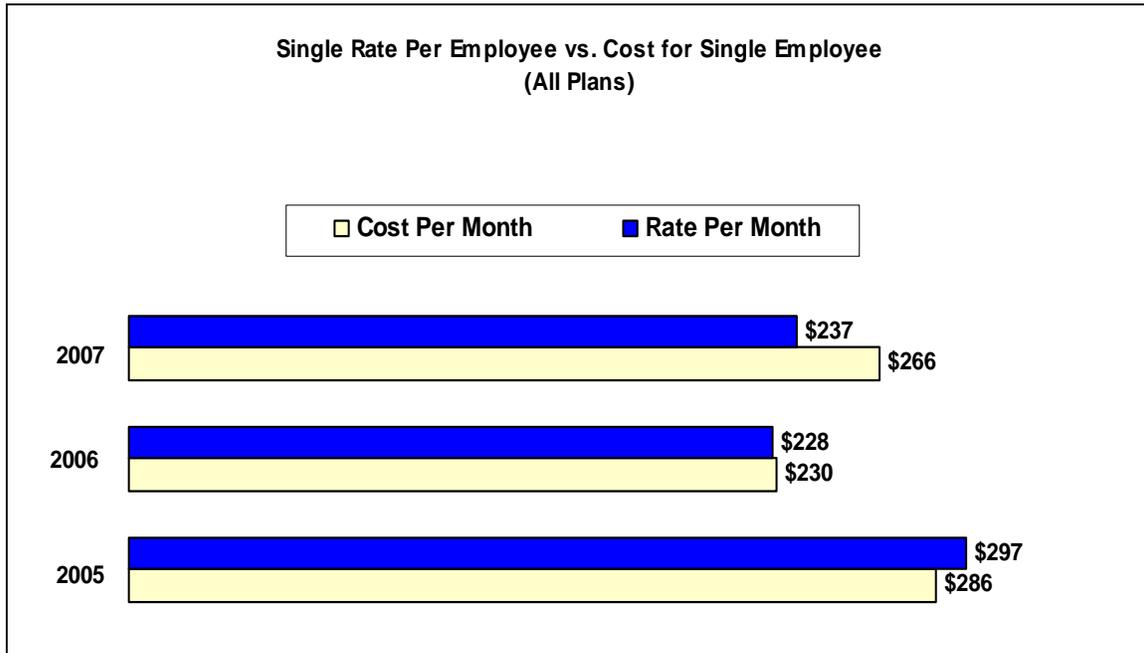
PRESCRIPTION DRUGS

Prescription drug claims expense for the Commonwealth's enhanced Medicare Part D program increased 13 percent between 2006 and 2007, reflecting the nationwide trend in higher prescription drug costs. While the cost per prescription remained stable, retiree group members continued to purchase higher drug quantities. The average number of prescriptions per member increased by about 4 percent during the period.



FOCUS ON RETIREE PROGRAM

In the 2005 plan year, the average monthly premiums for all Medicare-coordinating health plans were higher than monthly expenses, yielding a surplus of revenue over expenses. The 2006 average monthly premium dropped 30 percent over the rate a year earlier, due primarily to a drop in the portion of the premium paid for prescription drugs as a result of Medicare Part D. The cost and rate per month increased in 2007 as Medicare Part D prescription drug costs trended higher than the year before. In addition to premium income, revenue for all three years included other income from miscellaneous recovery of plan expenses.



OPERATING STATEMENT

Premiums represented 98 percent of income in 2006 and 99 percent of income in 2007 for the Medicare-coordinating plans. Claims payments represented 94 percent of expenses for both years. Annual income and expenses for both 2006 and 2007 included revenue and costs associated with the state enhanced Medicare Part D prescription drug program. The program experienced surpluses in 2005 and 2006, but had a deficit in 2007 due primarily to higher costs for medical and prescription drug benefits.

PROGRAM TOTAL	CALENDAR YEAR 2005	CALENDAR YEAR 2006	CALENDAR YEAR 2007
Annual Income <i>(Premiums, Interest, Other)</i>	\$95,431,048	\$75,244,396	\$79,253,569
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$90,276,153	\$74,708,216	\$89,079,844
Income Less Expenses	\$5,154,895	\$536,180	-\$9,826,275