

ANNUAL REPORT

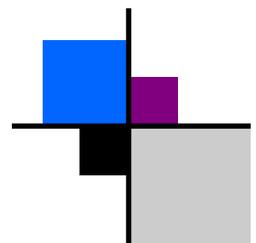
Commonwealth of Virginia

Medicare Retiree Health Benefits Program

Plan Year 2011



Virginia 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 year 2011, 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. A state enhanced Medicare Part D prescription drug benefit continues to provide outpatient prescription drug coverage.

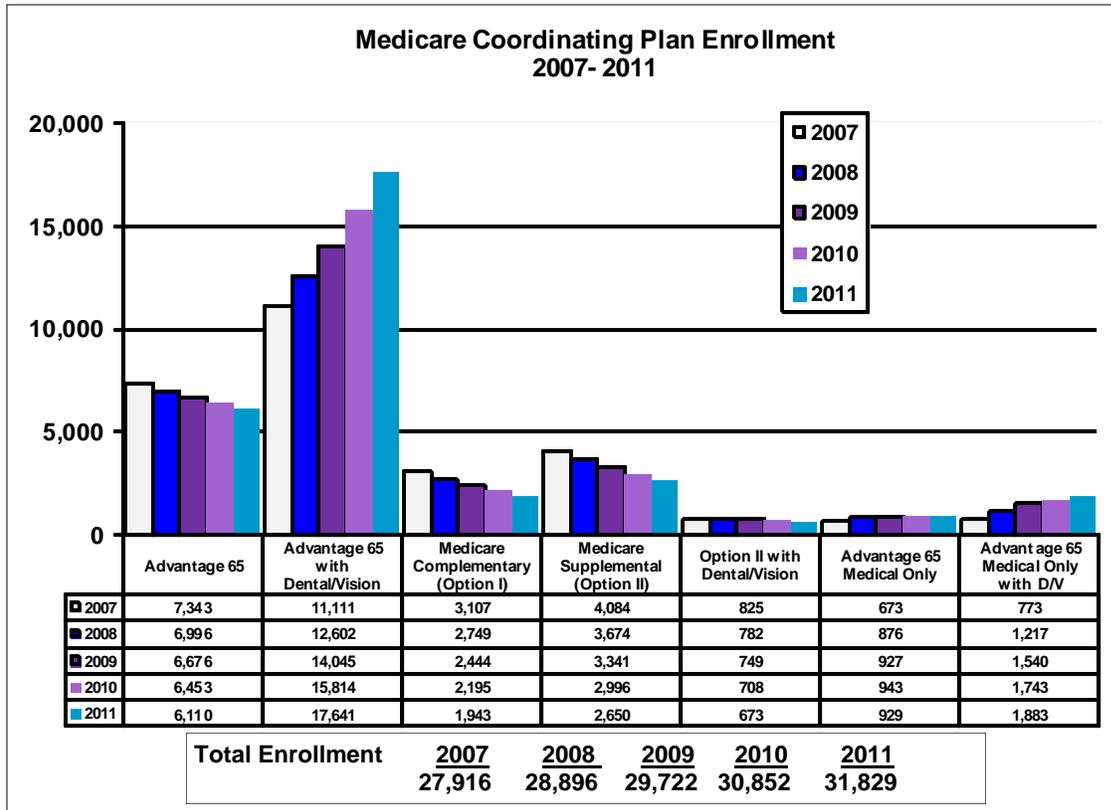
This report presents a financial overview of the statewide, Medicare-coordinating health benefits plans for retirees administered by Anthem Blue Cross and Blue Shield for medical benefits, Delta Dental of Virginia for dental benefits, and the enhanced Medicare Part D prescription drug program administered by Medco Health Solutions, Inc., during calendar year 2011. 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 public employers for Medicare-coordinating plans have mirrored the increase in health care expenses nationally. More than half of the Commonwealth's plan expenses in 2011 resulted from inpatient facility, inpatient and outpatient physician, and dental claims costs. While prescription drugs represented 52 percent of claims cost for the program in 2010, the percentage declined in 2011 to less than half of the program's expenses. This is a reflection of the federal subsidy for the Commonwealth's enhanced Medicare Part plan.

ENROLLMENT

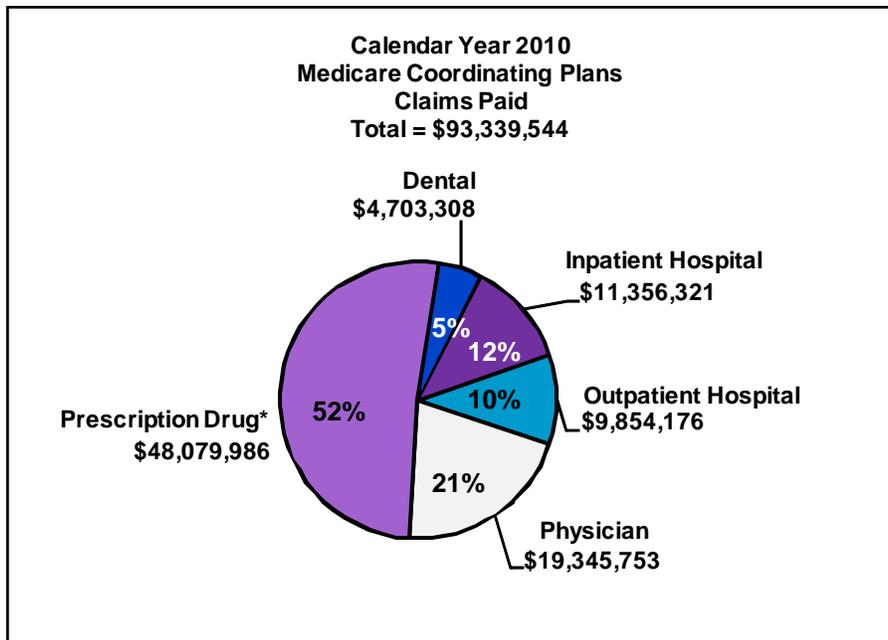
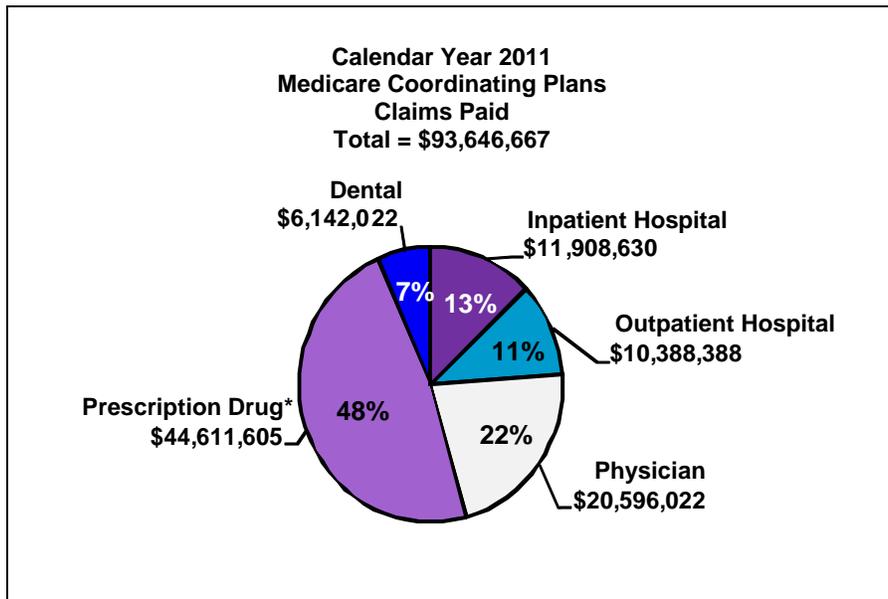
Enrollment in the statewide plans that coordinate with Medicare rose 3 percent in 2011 over the prior year, after increasing almost 11 percent from 2007 to 2010. The Advantage 65 plans are offered to all eligible state retirees, survivors and long-term disability participants. Option I and Option II are closed to new enrollment. Since 2006, all of these plans have included an enhanced Medicare Part D prescription drug benefit. Two additional plans, Advantage 65 Medical Only and Advantage 65 Medical Only with Dental/Vision, give members the option of medical coverage without a prescription drug benefit.

Dental and vision benefits remain popular with Medicare retiree group members. From 2007 to 2011, enrollment continued to move away from the Advantage 65 plan to Advantage 65 with Dental/Vision. Enrollment in Advantage 65 with Dental/Vision has risen 59 percent in the past five years. In 2011, enrollment in this plan increased nearly 12 percent, while Advantage 65 enrollment fell by 5 percent.



CLAIMS AND UTILIZATION

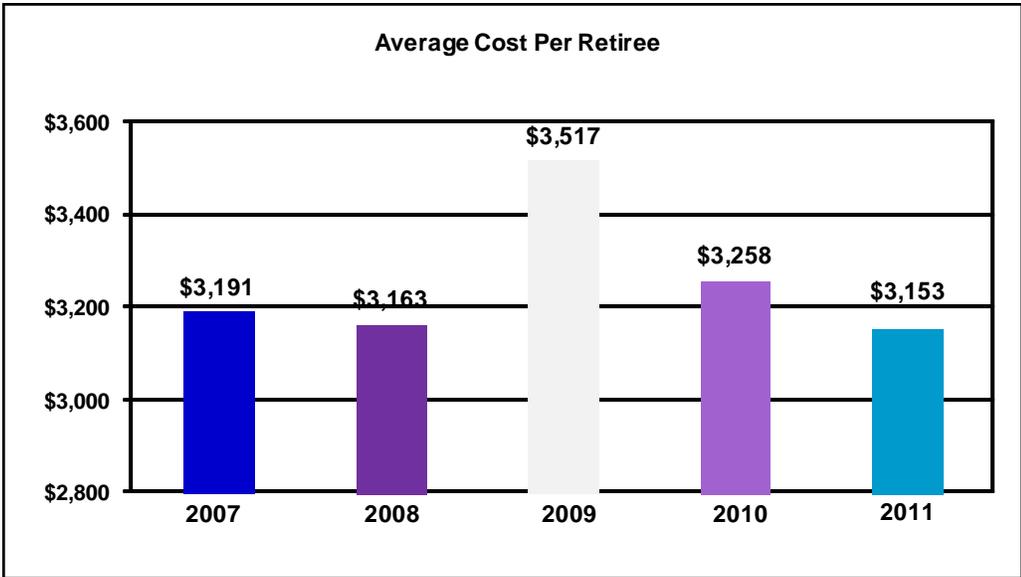
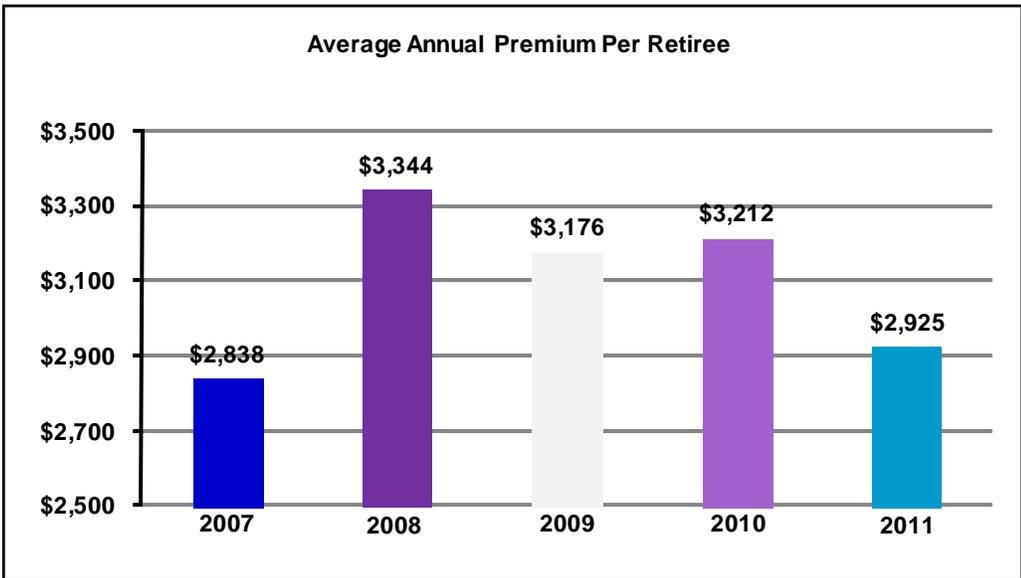
Total claims expense increased three tenths of a percent from 2010 to 2011. Medical and dental claims represented the largest part of Medicare retiree group expense in 2011, at 52 percent. Prescription drug claims expense was 48 percent of total expense in 2011, down 7 percent. This was due in part to the Medicare Part D federal subsidy the program received. Dental claims administered in 2011 by Delta Dental of Virginia rose 31 percent from 2010, when Anthem was the administrator. The higher claims expense resulted from enhancements to the dental benefit in 2011, which increased the claims cost per retiree. Physician claims costs were up more than 6 percent, and inpatient and outpatient facility claims expense rose 5 percent in 2011. The 2011 increase in medical costs can be primarily attributed to a 3 percent rise in the number of members covered within the Medicare population.



*Includes federal Medicare Part D subsidy

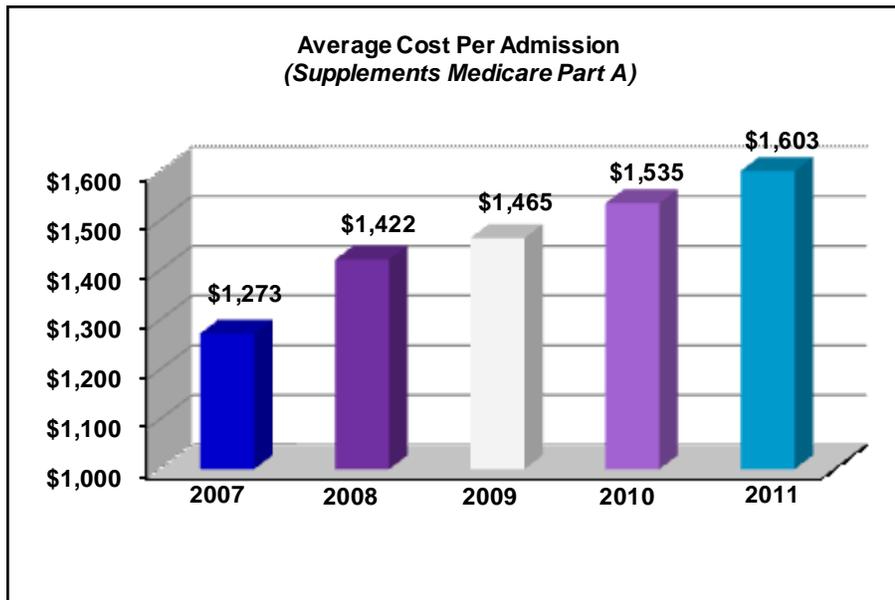
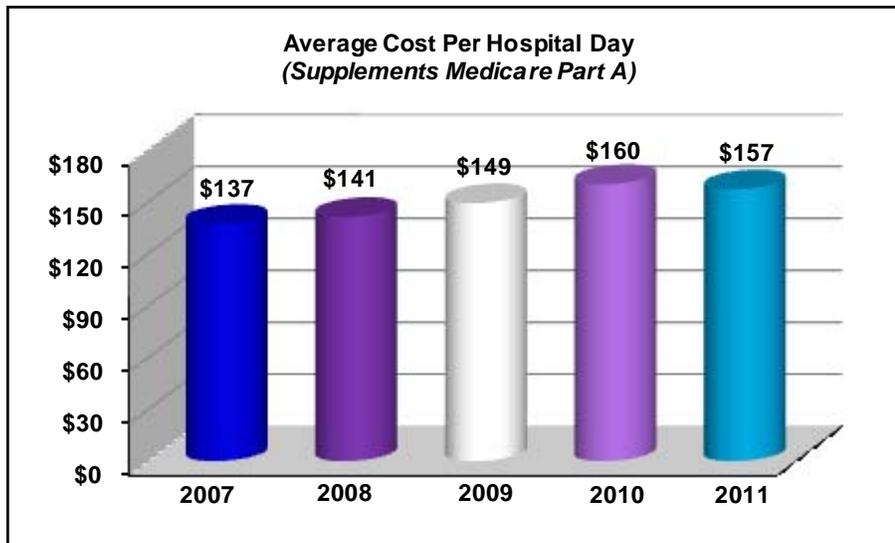
COST OF COVERAGE

In 2006, introduction of the state enhanced Medicare Part D prescription drug benefit resulted in an overall reduction in premiums since the federal Medicare program partially subsidized the cost of Medicare Part D. The average annual premium per retiree declined 9 percent from 2010 to 2011. Since 2008, it has shown a downward trend overall of 13 percent, a result in part of lower prescription drug costs. In 2009, the average cost of coverage per retiree increased 11 percent from the year before, due in part to higher average claims costs per retiree. The total cost of coverage dropped in 2010, and the cost per retiree declined 7 percent that year. It declined another 3 percent in 2011.



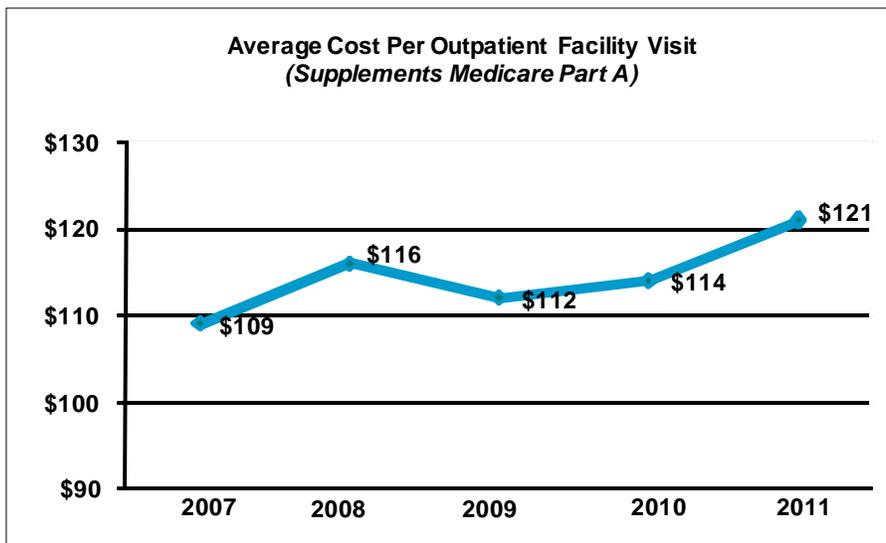
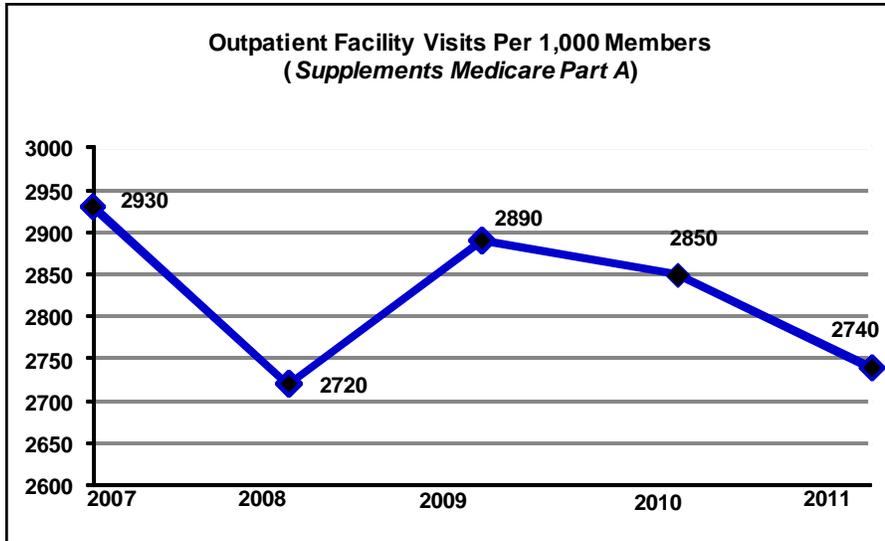
INPATIENT FACILITY

Total inpatient facility costs rose 5 percent in calendar year 2011, to \$11.9 million from \$11.4 million in 2010. Since 2007, these expenses have risen almost 15 percent. The average cost per hospital day decreased about 2 percent in 2011 from the previous year, although it rose 7 percent from 2009 to 2010. The cost per admission was up 4 percent. An increasingly older retiree population is partially responsible for the overall growth in these categories. Inpatient facility costs also continue to catch up with a higher deductible for Medicare Part A.



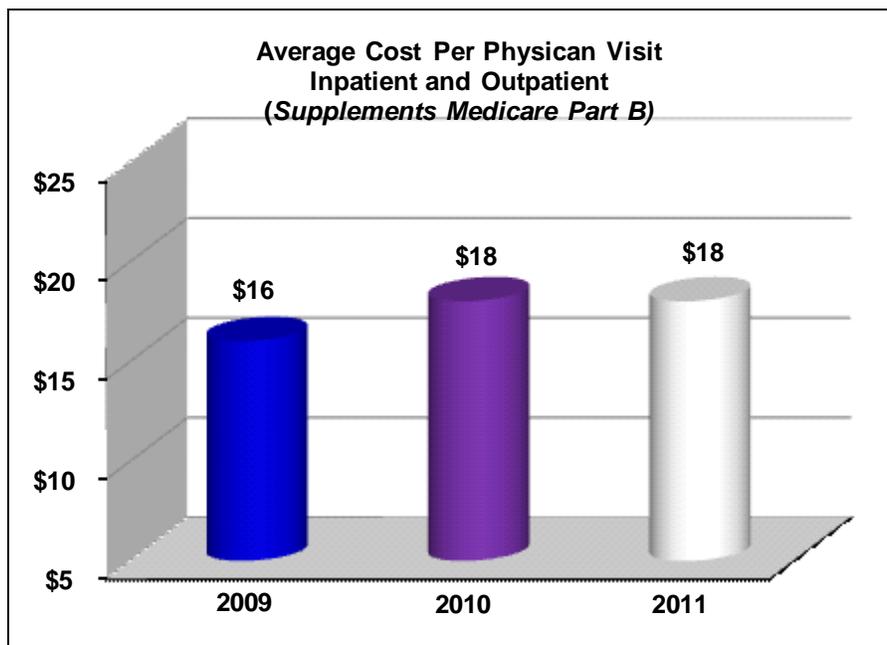
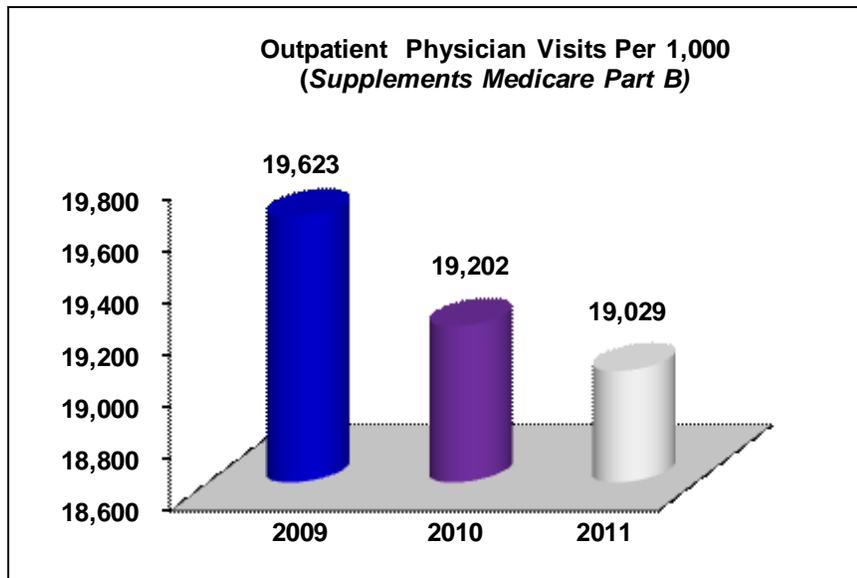
OUTPATIENT FACILITY

Total outpatient facility expenses increased 5 percent between 2010 and 2011, to \$10.4 million from \$9.9 million. Outpatient visits per 1,000 have decreased by more than 6 percent overall since 2007, reflecting the aging population's greater need for inpatient services. The services members received per visit cost 6 percent more in 2011 than in the prior year, due primarily to the increased cost of care in the outpatient setting.



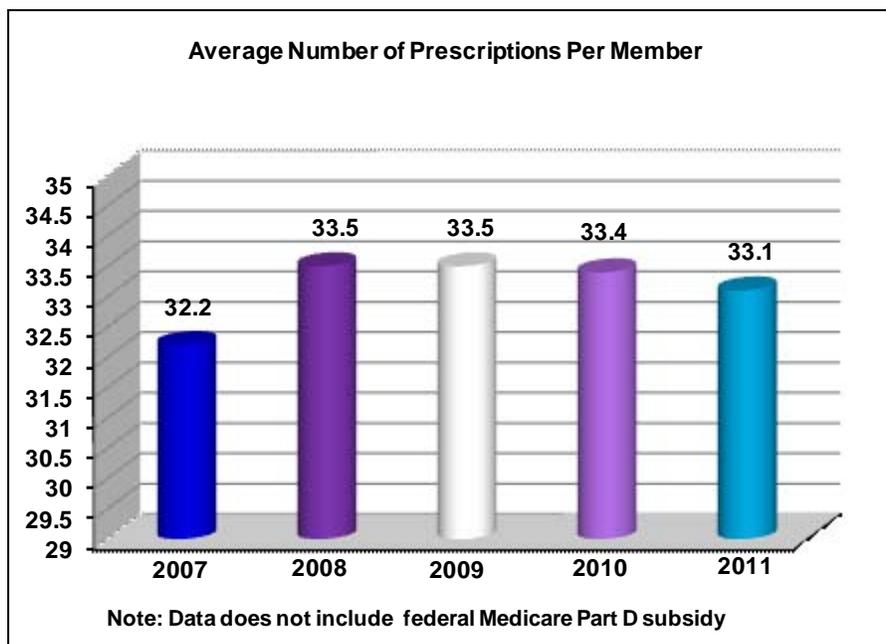
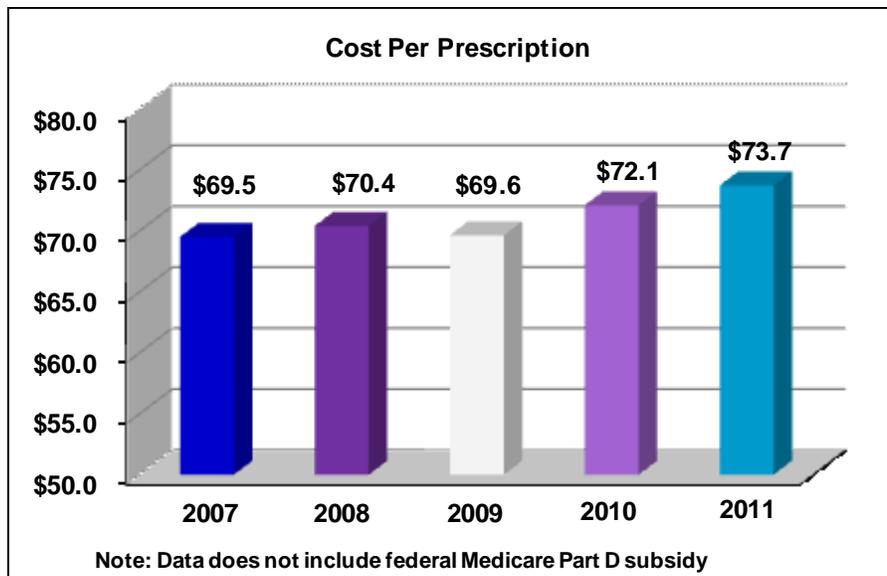
PHYSICIAN

Inpatient and outpatient physician claims expense for the Commonwealth's Medicare-coordinating plans increased more than 6 percent in 2011, a reflection of the continual growth in medical costs nationwide. While outpatient physician visits per 1,000 members were down in the past two years, the average cost per inpatient and outpatient visit has increased more than 12 percent since 2009.



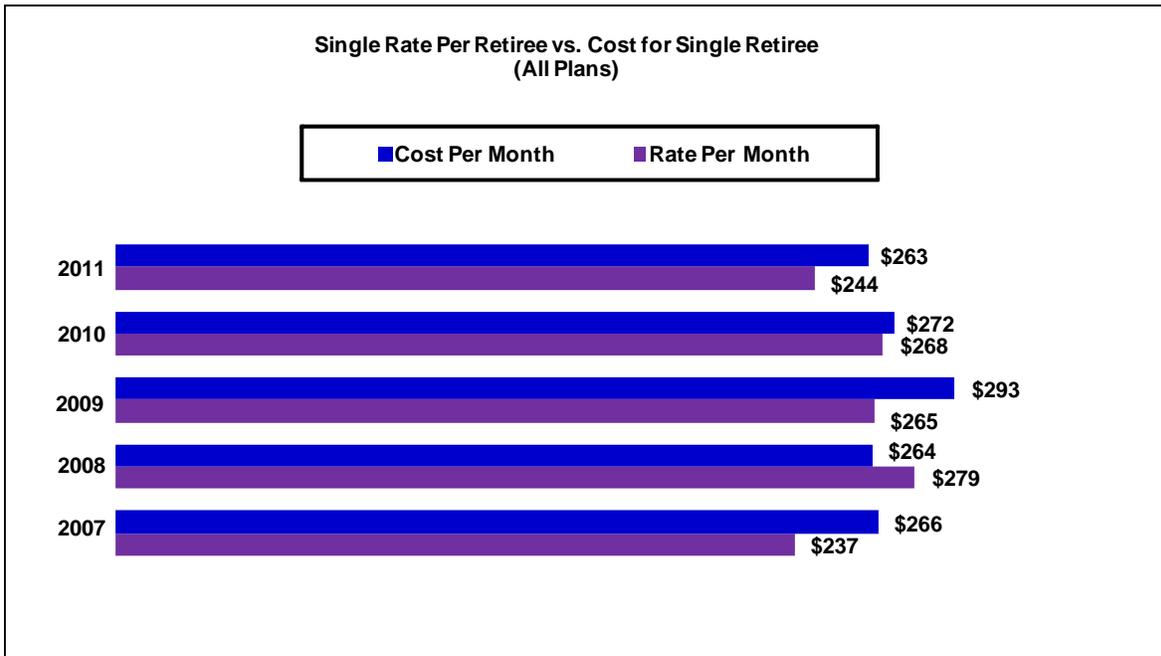
PRESCRIPTION DRUGS

If the federal subsidy for Medicare Part D is not included, prescription drug claims expense rose more than 4 percent in 2011 for the Commonwealth's enhanced Medicare Part D prescription drug program, to \$69.7 million from \$66.7 million in 2010. The Commonwealth's cost per prescription increased about 2 percent in 2011 from the prior year, while the prescriptions per member decreased slightly during the same period.



FOCUS ON RETIREE PROGRAM

The 2011 average monthly premium for all state Medicare-coordinating plans dropped 9 percent over the 2010 rate, due to a reduction in the Medicare Part D portion of the premium based on projected claims expenses. In 2011, average monthly premiums were 7 percent lower than average monthly expenses, while premiums and expenses were comparable during the prior year. In addition to premium income, revenue for both years included other income from miscellaneous recovery of plan expenses.



OPERATING STATEMENT

Premiums represented 88 percent of income for all Medicare-coordinating plans in 2011, with the remainder coming from Medicare Part D prescription drug rebates. In 2010, premiums accounted for 91 percent of income. Claims payments represented 95 percent and 94 percent respectively of expenses in 2010 and 2011, compared to 95 percent for 2009. Annual income and expenses for all three years included revenue and costs associated with the state enhanced Medicare Part D prescription drug program. In 2007, the retiree program had a deficit due primarily to higher medical and prescription drug benefit costs. In 2008, a significant increase in the prescription drug premium helped create a surplus of revenues over expenses. The surplus has continued since that time, despite an overall reduction in drug premiums.

| PROGRAM TOTAL | 2008 | 2009 | 2010 | 2011 |
|---|---------------|---------------|---------------|---------------|
| Annual Income <i>(Premiums, Interest, Other)</i> | \$112,908,453 | \$107,538,188 | \$106,457,070 | \$105,344,512 |
| Annual Expenses <i>(Claims, Contract Administration, Other)</i> | \$91,395,601 | \$104,537,144 | \$98,616,955 | \$100,355,197 |
| Income Less Expenses | \$21,512,852 | \$3,001,044 | \$7,840,115 | \$4,989,315 |