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# ANNUAL REPORT

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*Commonwealth of Virginia  
Health Benefits Program*

*December 2001*



# Introduction

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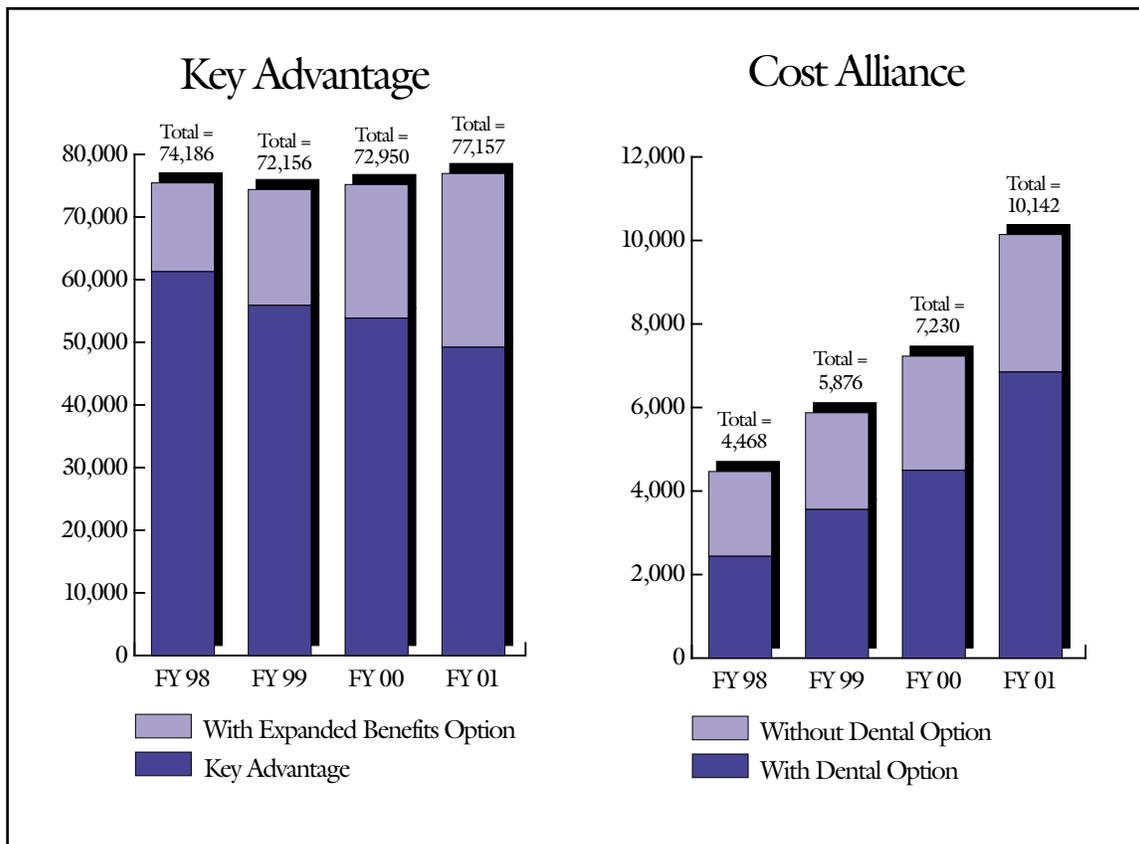
This report is a financial snapshot of the self-insured health benefits plans for the active employee and non-Medicare retiree group during fiscal year 2001 (July 1, 2000 through June 30, 2001). Note that most of the data you will see reflects the combined operations of Key Advantage and Cost Alliance because these plans are evaluated together as if they were one plan.

# Enrollment

The charts below show the total enrollment in the Key Advantage and Cost Alliance plans for fiscal years 1998 through 2001.

## *Employees Enrolled In Key Advantage And Cost Alliance*

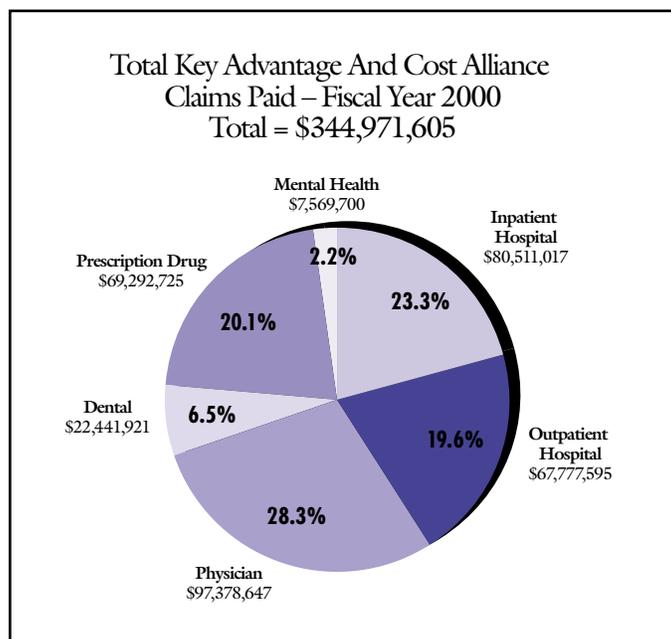
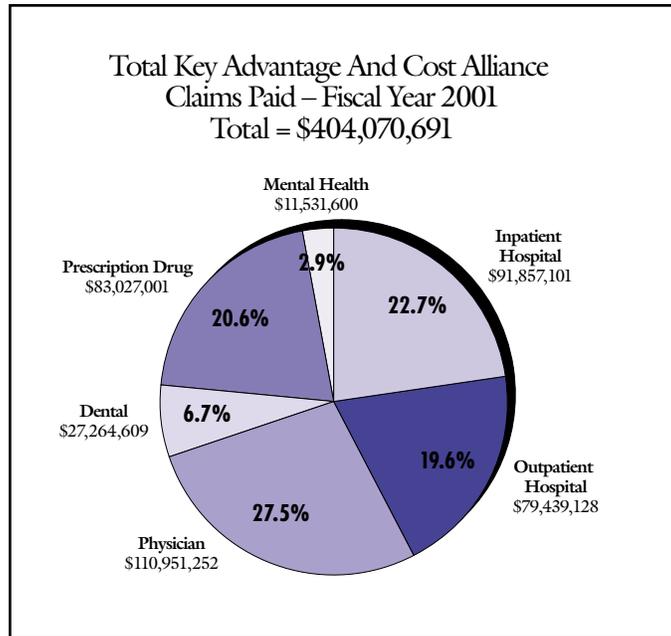
Fiscal Years 1998 through 2001



# Claims and Utilization

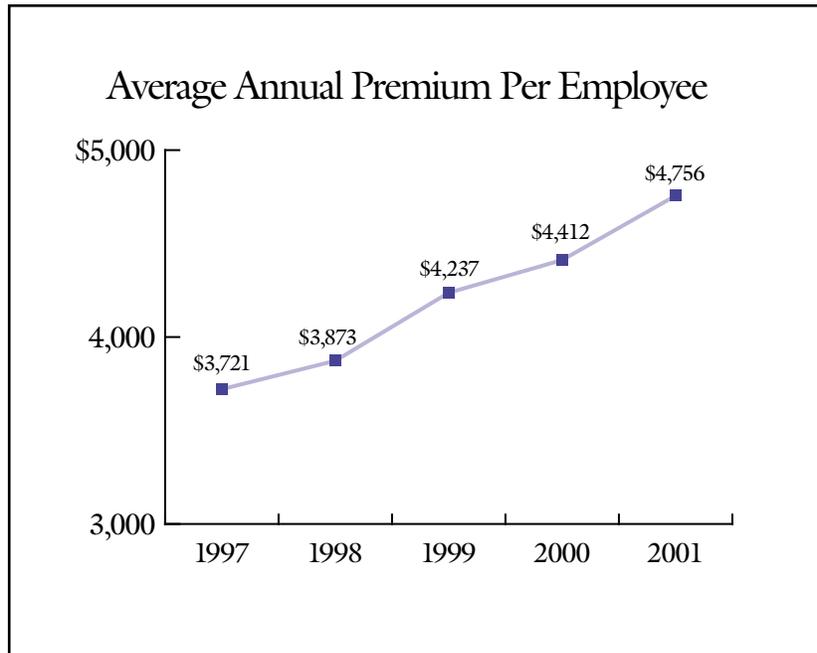
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The amount of claims paid for each component of the program is shown below for fiscal years 2000 and 2001.



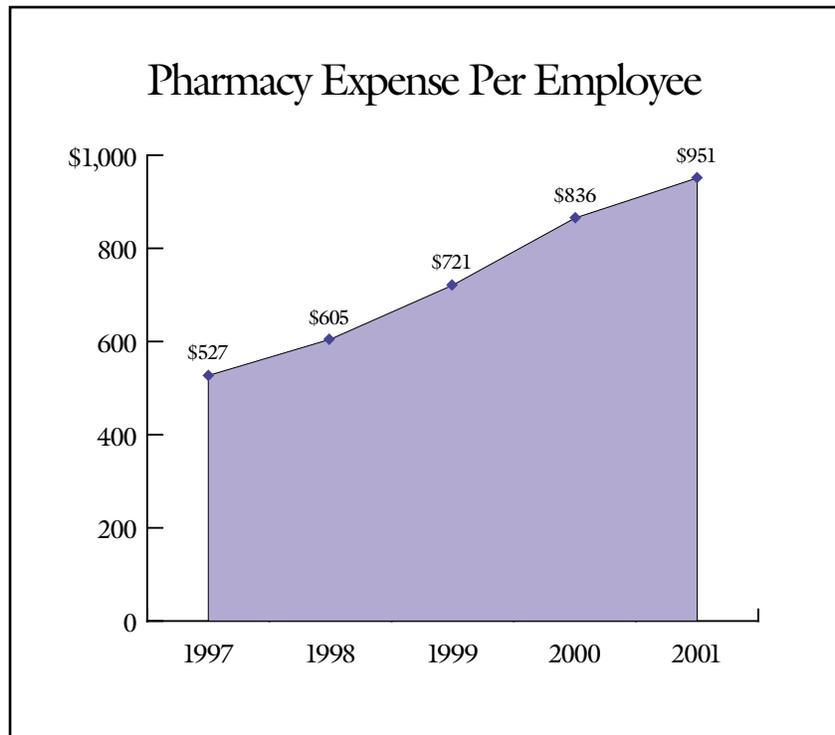
The cost of providing coverage is rising. For example, in 1997, the average annual premium for Key Advantage and Cost Alliance was \$3,721. In 2001, the cost rose to \$4,756, an increase of almost 28% since 1997.

The average annual premiums shown cover the costs for medical, dental, outpatient prescription drug, and mental health/substance abuse coverage.



## Prescription Drug Benefit

Increases in outpatient prescription drug costs have far outpaced other medical costs. This presents a difficult challenge as we strive to balance costs and benefits, and maintain a solid health benefits program. Left unchanged and conservatively assuming current trends, it is projected that drug costs will increase by approximately the same percentage per employee per year by 2002 as for this year.



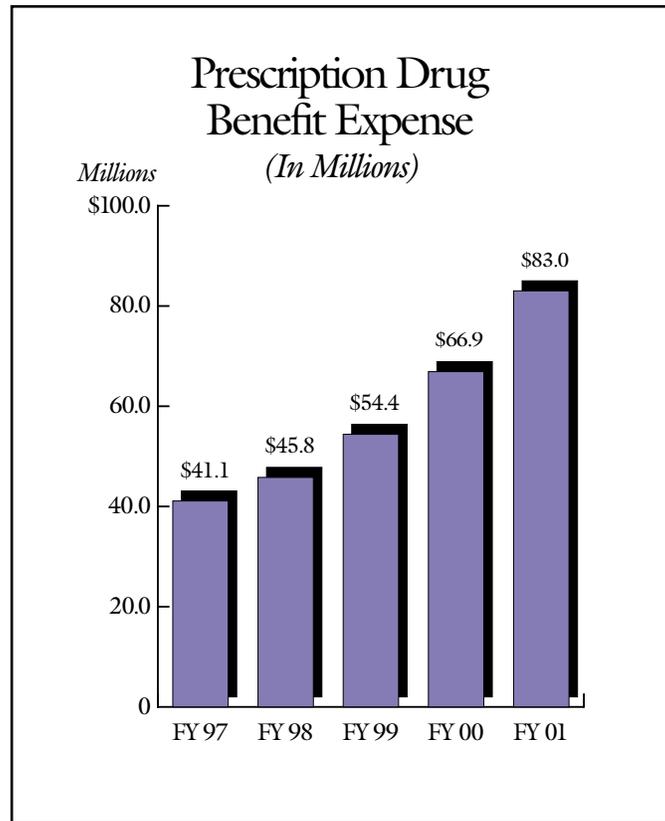
### Benefit Facts:

*Drug costs per employee increased nearly 14 percent in the last year. The number of prescriptions rose by 14 percent, and the cost per prescription (program and employee contribution) was up nearly 11 percent.*

## Prescription Drug Benefit

This chart illustrates how prescription drug expenses are increasing at an alarming rate. Drug costs for State employees have increased 102% since 1997.

This chart reflects only those expenses under the outpatient prescription drug card program, and does not include the cost of drugs provided in the hospital for inpatient care.

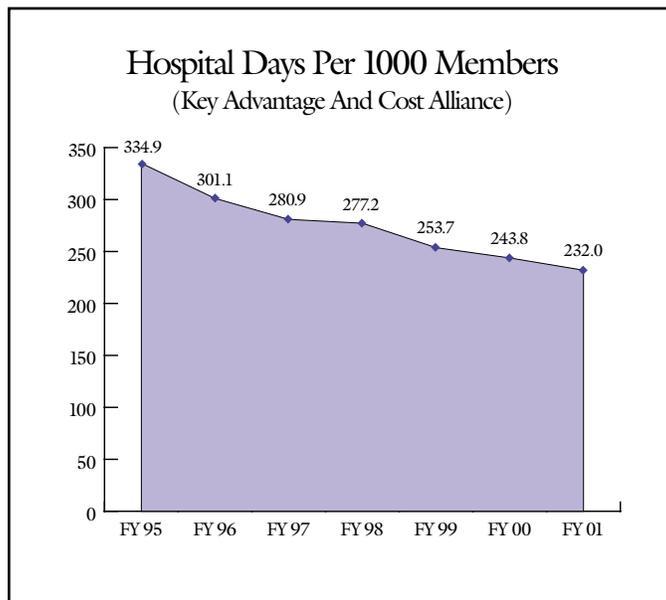


### Benefit Facts:

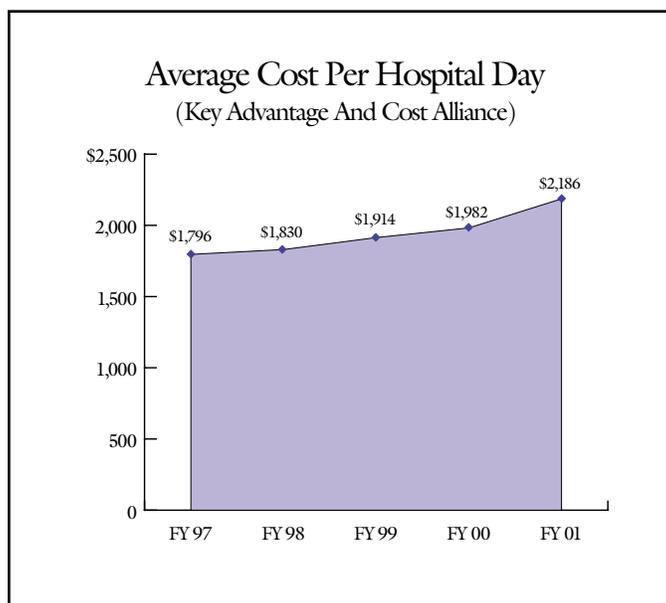
*Did you know...In 2001 the state health benefits program paid 77 percent of the total drug benefit expense? Employees paid the remaining 23 percent.*

## Inpatient Facility

As you can see from the chart below, our hospital days per thousand members have been going down. This reflects the positive effects of reducing the number of hospital days used. However, the cost per hospital day has been going up at a rate which has frustrated efforts to control costs.

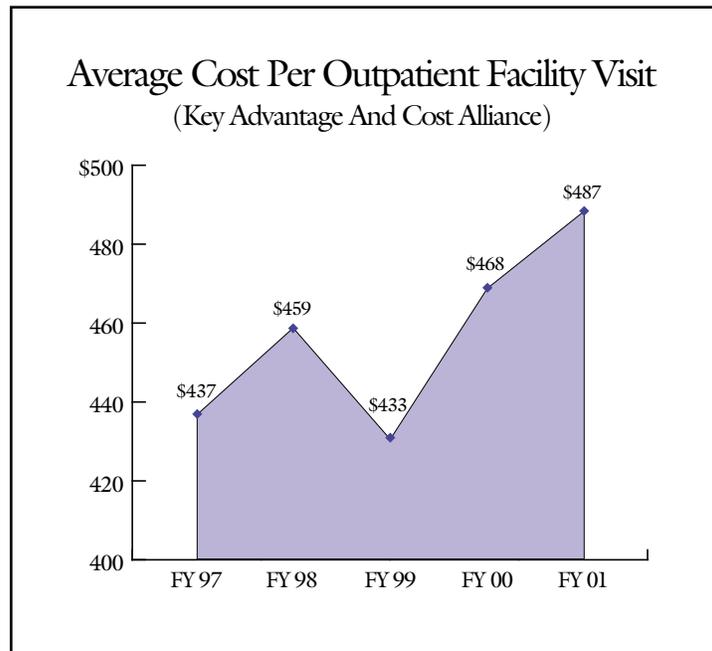
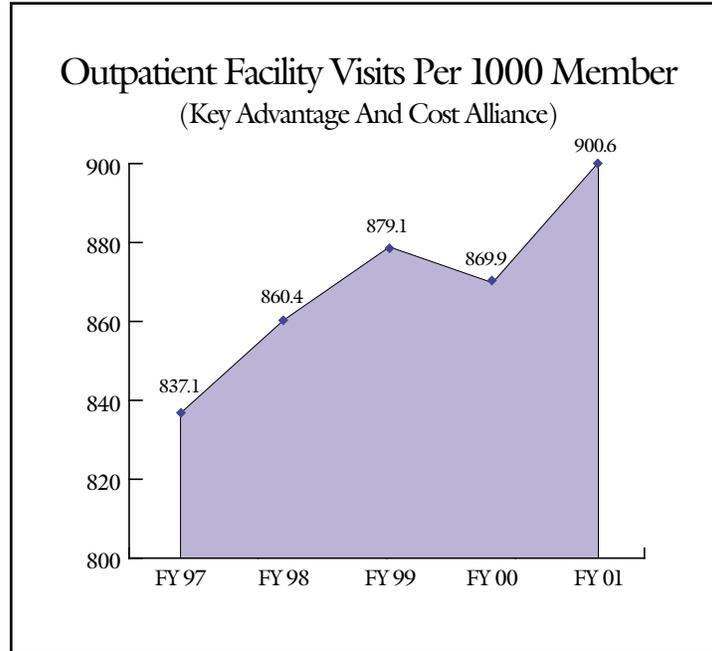


The average cost per hospital day reflects a net cost including the network facility discount. Costs have been climbing steadily each year. While the average length of a hospital stay decreased, facility costs increased, offsetting any savings gained from shorter stays.



## Outpatient Facility

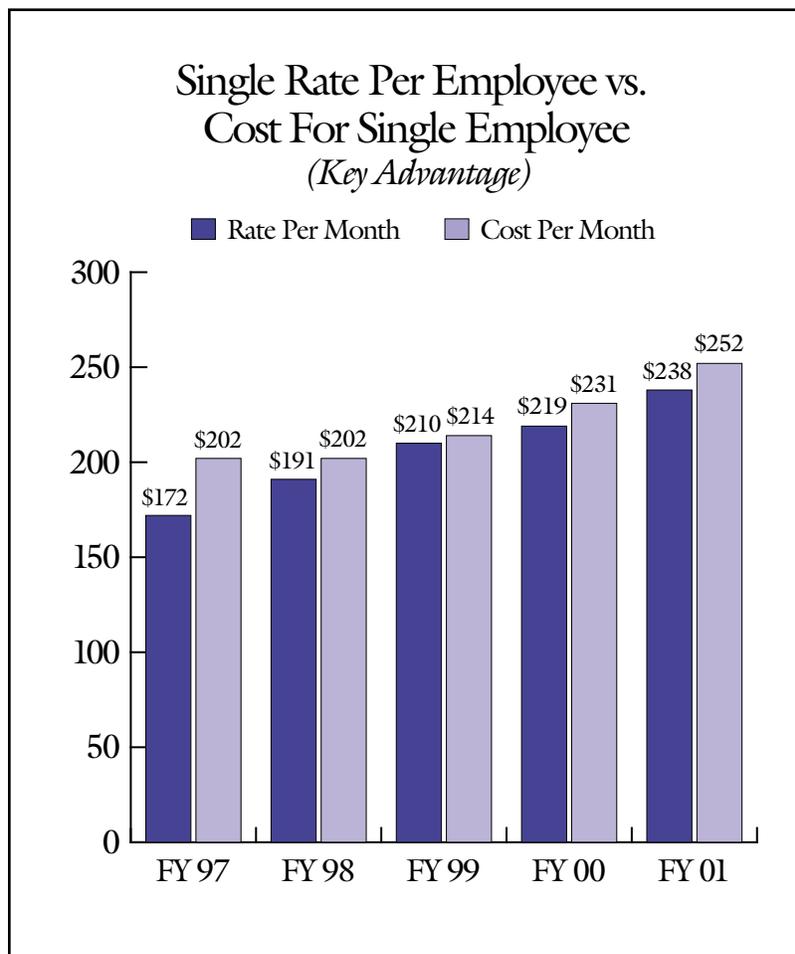
The number of outpatient visits increased 3.5% for 2001 and the cost per visit increased by 4%.



# Focus On Key Advantage

This chart compares the monthly rate paid per employee for Key Advantage coverage versus the cost to provide the coverage each month. The rate reflects how much money was actually put into the plan, and the cost reflects the total expenses to operate the plan. The cost to

operate the plan is greater than the amount of money in the plan, creating a deficit. Deficits must be paid through reserves or higher premiums. However, plan actuaries project that reserves will be exhausted prior to June 30, 2002.



# Operating Statement

Below are program income and expenses for Key Advantage and Cost Alliance during fiscal years 2000 and 2001. Premiums provided the major part, 98%, of our income in 2001. Claims payments represented 93% of our

expenses. Deficits occurred in fiscal years 2000 and 2001 in part because of rising prescription drug costs and greater use of medical services. The cost to operate the plan was more than the annual income collected for the plan.

PROGRAM TOTAL	FISCAL YEAR 2000	FISCAL YEAR 2001
<b>Annual Income</b> <i>(Premiums, Interest, Other)</i>	\$365,755,449*	\$424,669,779
<b>Annual Expenses</b> <i>(Claims, Contract Administration, Other)</i>	\$378,043,773*	\$447,950,334
<b>Income Less Expenses</b>	(\$12,288,324)	(\$23,280,555)

\* Revised from earlier data

Program losses may be paid using reserves or by an increase in future premiums. Contingency reserves covered the program loss in fiscal year 2000. However, the contingency reserves were depleted in fiscal year 2001 as increased costs continued to outpace program income.

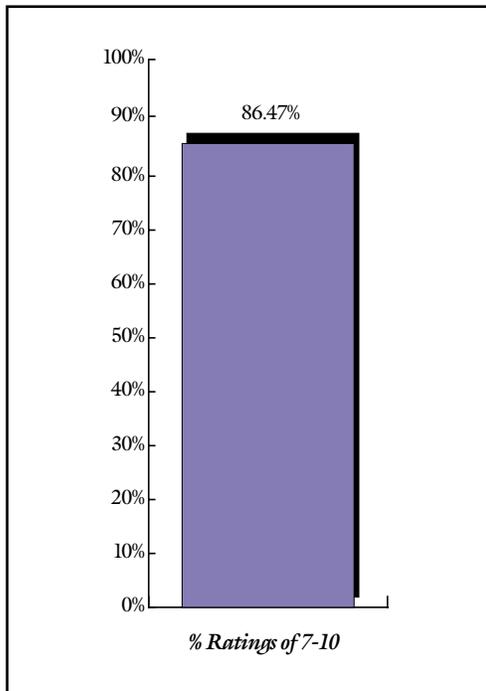
PROGRAM TOTAL	FISCAL YEAR 2000	FISCAL YEAR 2001
<b>Reserves Needed:</b>		
• <i>Claims Reserves</i>	\$ 47,300,000	\$ 64,000,000
• <i>Contingency Reserves</i>	\$ 29,900,000	\$ 45,000,000
	\$ 77,200,000	\$109,000,000
<b>Actual Reserves:</b>		
• <i>Claims Reserves</i>	\$ 47,300,000	\$ 64,000,000
• <i>Contingency Reserves</i>	\$ 32,400,000	\$ 10,500,000
	\$ 79,700,000	\$ 74,500,000
<b>Excess/(Deficit) In Reserves</b>	\$ 2,500,000	(\$34,500,000)

# Employee Satisfaction

It is important to know what employees think about their health benefits program. That's why periodically we conduct surveys to measure their level of satisfaction. The charts below show how State employees rate the plans according to the standard HEDIS NCQA Annual Member HealthCare Survey. The survey was conducted February through May 2001. More than 75% of State employees surveyed expressed high satisfaction with both their health care and health plan. However, in access to care, they rated getting a referral to a specialist as the area needing the most improvement.

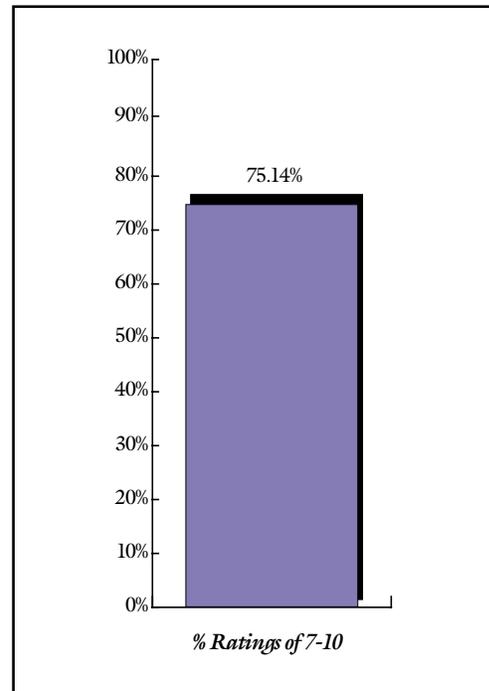
## How Would You Rate All Your Health Care?

Use any number between 1 to 10, where 0 is the worst care possible, and 10 is the best care possible.



## How Would You Rate Your Health Plan Now?

Use any number from 1 to 10, where 0 is the worst health plan possible, and 10 is the best health plan possible.



## Access To Care

<i>Getting a referral to a specialist I needed was not a problem.</i>	77.42%
<i>Getting the care that I or a doctor believed necessary was not a problem.</i>	85.20%
<i>Delays in health care while I waited for approval from my health plan was not a problem.</i>	85.13%





