
ANNUAL REPORT

*Commonwealth of Virginia
Health Benefits Program*

December 2002

Introduction

In fiscal year 2002, expenses for the self-insured health benefits plans continued to rise due to increased inpatient facility and pharmacy costs, greater utilization and an aging workforce.

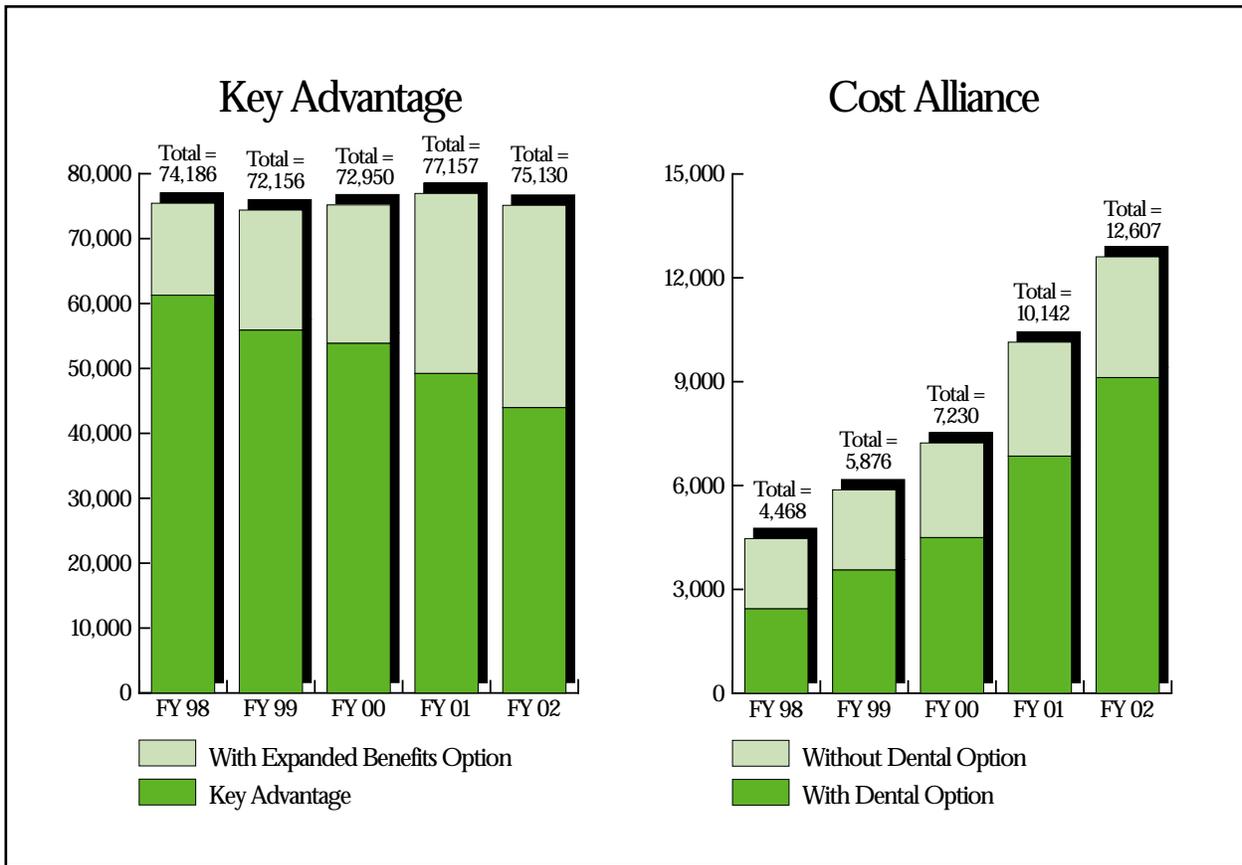
This report is a financial snapshot of the self-insured health benefits plans for the active employee and non-Medicare retiree group during fiscal year 2002 (July 1, 2001 through June 30, 2002). Note that most of the data you will see reflects the combined operations of Key Advantage and Cost Alliance 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 2002.

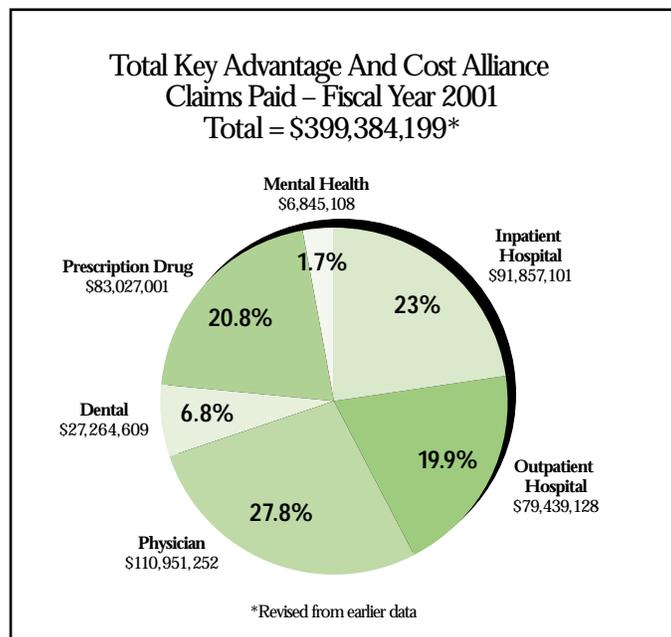
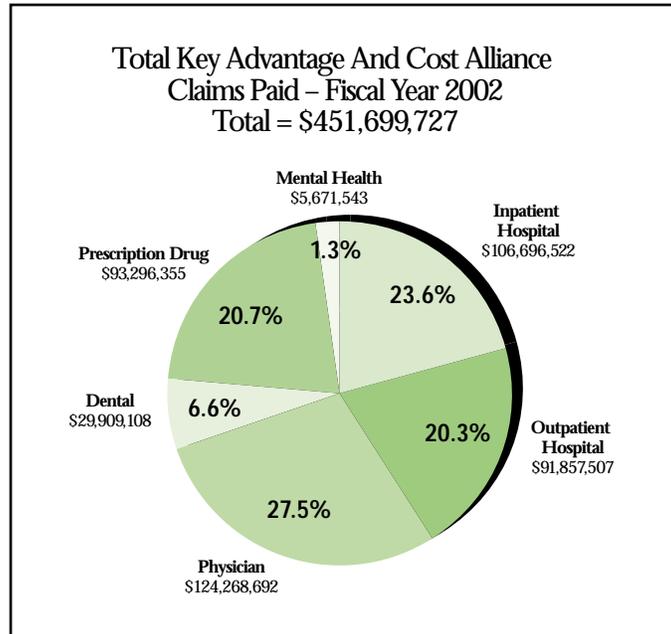
Employees Enrolled In Key Advantage And Cost Alliance

Fiscal Years 1998 through 2002



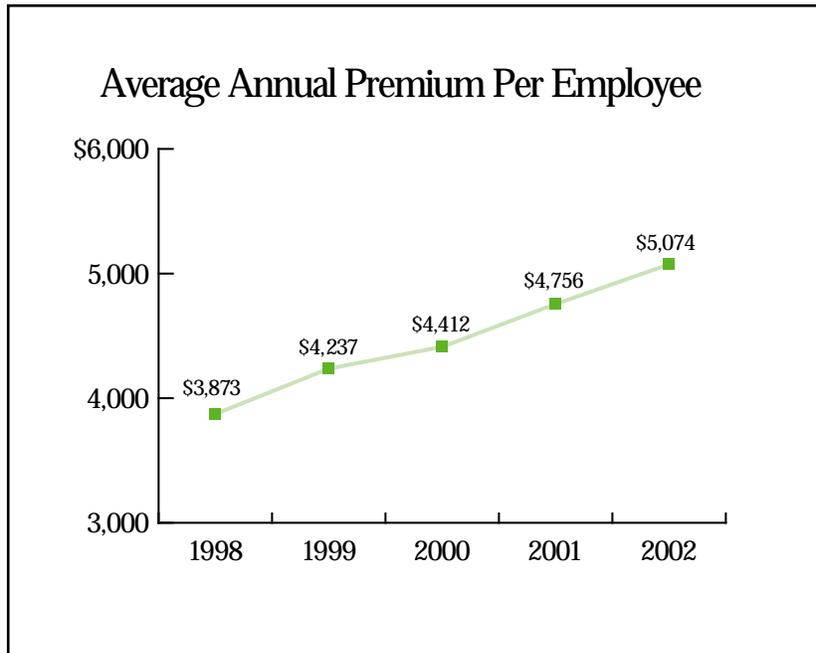
Claims and Utilization

The amount of claims paid for each component of the program is shown below for fiscal years 2001 and 2002. Higher health care costs continue to be a factor in increased expenses. Over the past five years, claims have increased 43% and utilization of medical services has risen 31%.



The cost of providing coverage is rising. For example, in 1998, the average annual premium for Key Advantage and Cost Alliance was \$3,873. In 2002, the cost rose to \$5,074, an increase of 31% since 1998.

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



Prescription Drug Benefit

Increases nationally 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 our drug costs will increase by about 13% per employee in 2003 over 2002.



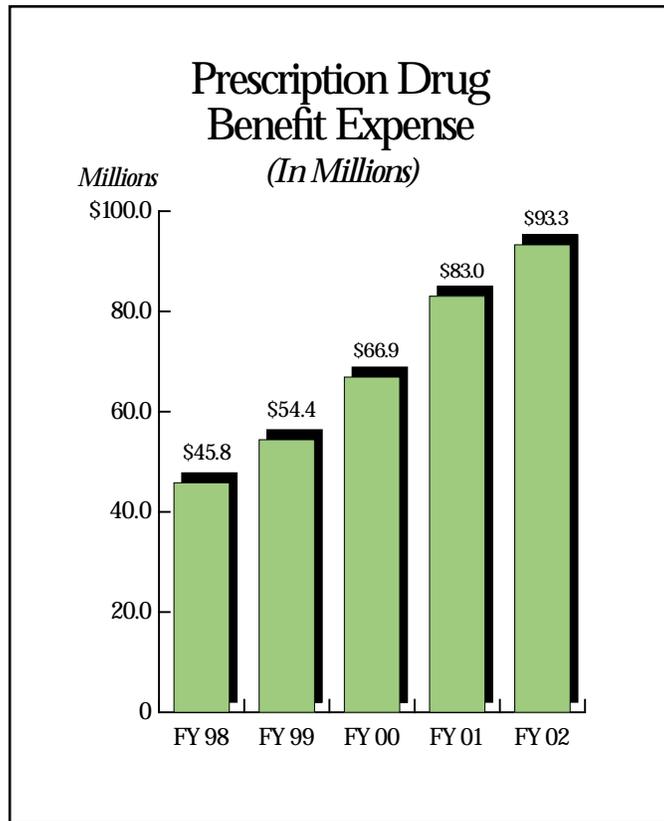
Benefit Facts:

Drug costs per employee increased nearly 12% in the last year. The number of prescriptions per member has risen by nearly 21% since 1998 and the average cost per prescription by 51%.

Prescription Drug Benefit

This chart illustrates how prescription drug expenses continue to rise at an alarming rate. Drug costs for State employees have increased 103% since 1998.

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.



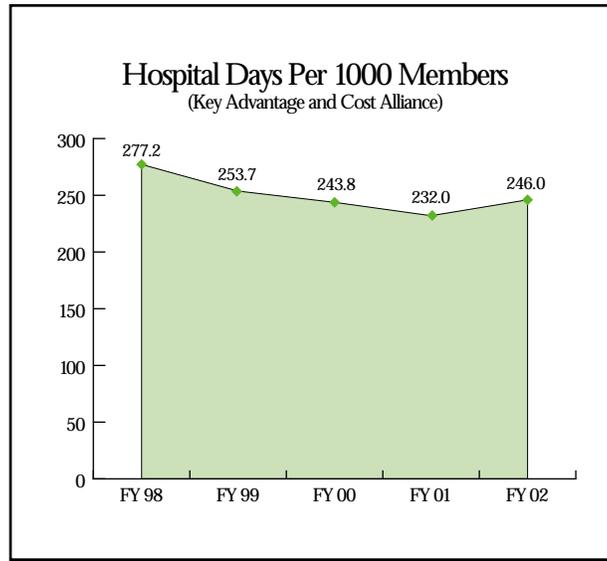
Benefit Facts:

Did you know...

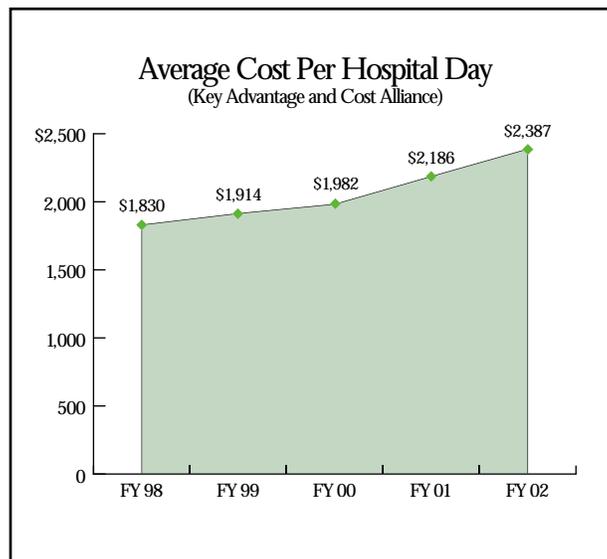
In 2002 the state health benefits program paid 77% of the total drug benefit expense? Employees paid the remaining 23%.

Inpatient Facility

Total inpatient facility costs increased 16% in fiscal year 2002 over the previous year. As you can see from the chart below, our hospital days per thousand members are on the rise. This increase reflects a higher number of admissions and days per admission. In addition, the cost per hospital day has been going up at a rate which has frustrated efforts to control costs.

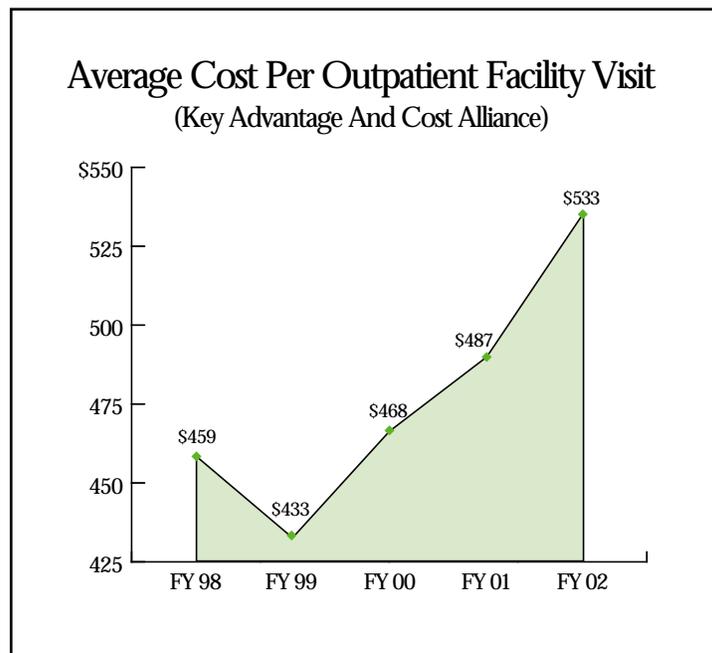
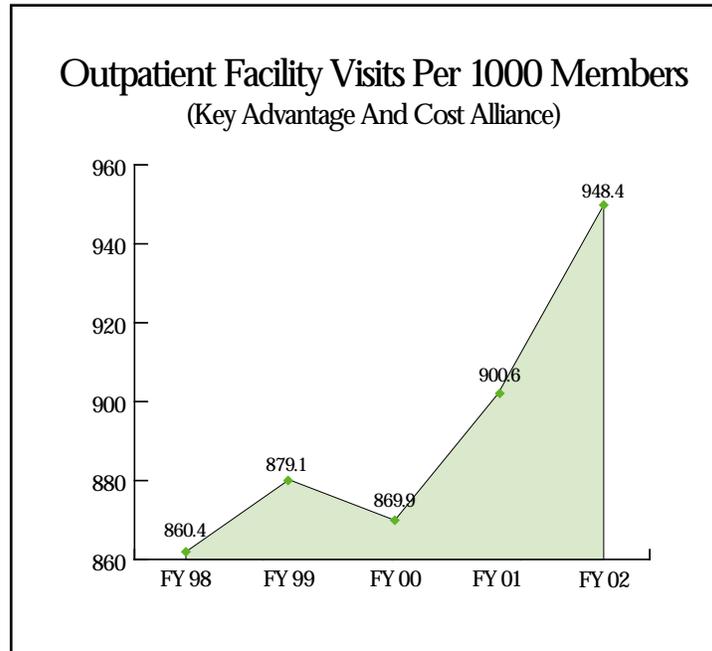


The average cost per hospital day reflects a net cost including the network facility discount. Costs have been climbing steadily each year. Both the average length of a hospital stay and the cost per admission have risen partly due to an increasingly older employee population.



Outpatient Facility

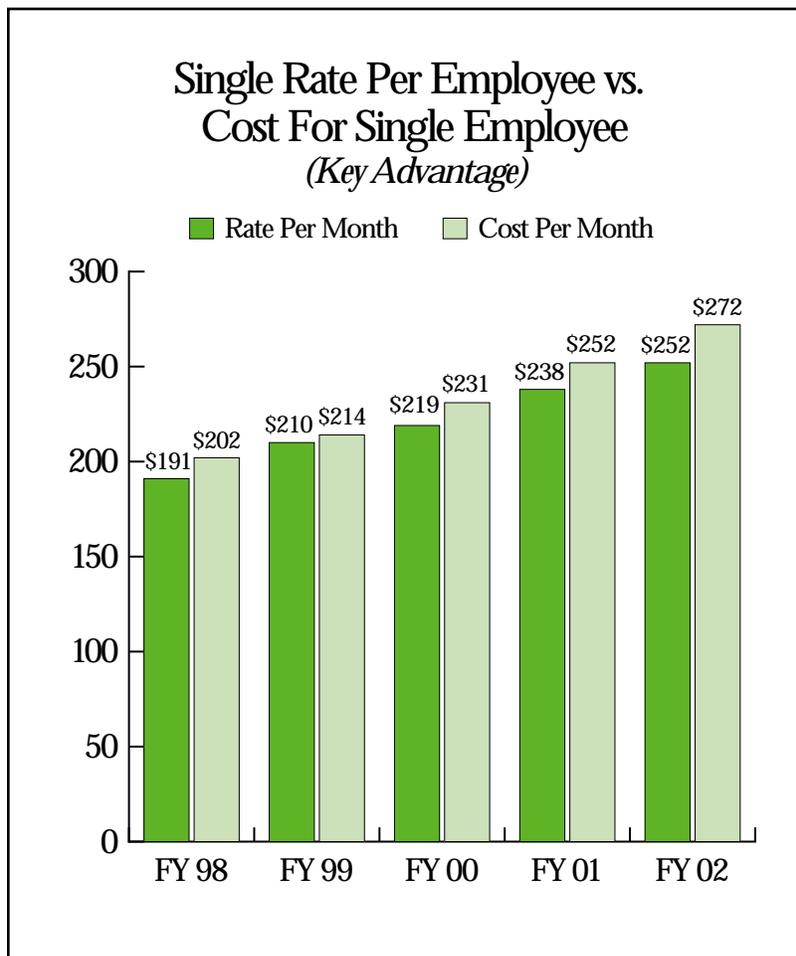
The number of outpatient visits increased 5% for 2002 and the cost per visit increased by 9%.



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. In 2002, contingency, or excess, reserves no longer existed and required reserves (incurred but not reported claims) were funded to only a 49% level.



Operating Statement

Below are program income and expenses for Key Advantage and Cost Alliance during fiscal years 2001 and 2002. Premiums provided the major part, 99%, of our income in 2002. Claims payments represented 93% of our

expenses. Deficits occurred in fiscal years 2001 and 2002 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 2001	FISCAL YEAR 2002
Annual Income <i>(Premiums, Interest, Other)</i>	\$424,669,779	\$451,751,017
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$447,950,334	\$487,476,739
Income Less Expenses	(\$23,280,555)	(\$35,725,722)

* Revised from earlier data

Program losses may be paid using reserves or by an increase in future premiums. However, the contingency reserves were depleted in fiscal year 2001, and the additional loss was paid from claims reserves in fiscal year 2002.

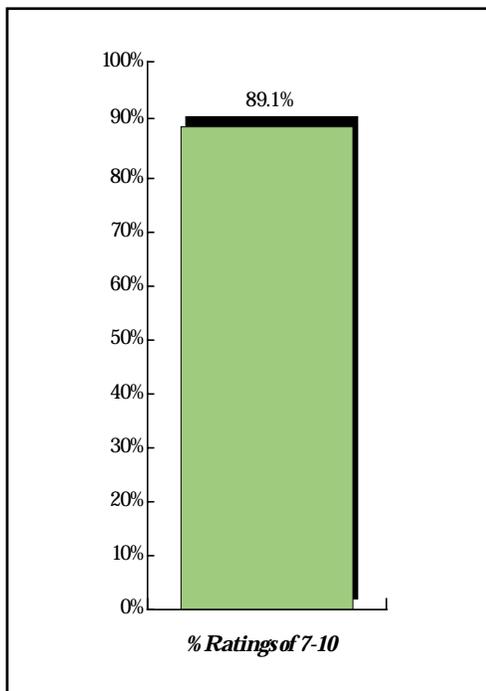
PROGRAM TOTAL	FISCAL YEAR 2001	FISCAL YEAR 2002
Reserves Needed:		
• <i>Claims Reserves</i>	\$ 64,000,000	\$ 68,000,000
• <i>Contingency Reserves</i>	\$ 45,000,000	\$ 44,000,000
	\$109,000,000	\$112,000,000
Actual Reserves:		
• <i>Claims Reserves</i>	\$ 64,000,000	\$ 34,900,000
• <i>Contingency Reserves</i>	\$ 10,500,000	-0-
	\$ 74,500,000	\$ 34,900,000
Excess/(Deficit) In Reserves	(\$34,500,000)	(\$77,100,000)

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 2002. More than 77% 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.

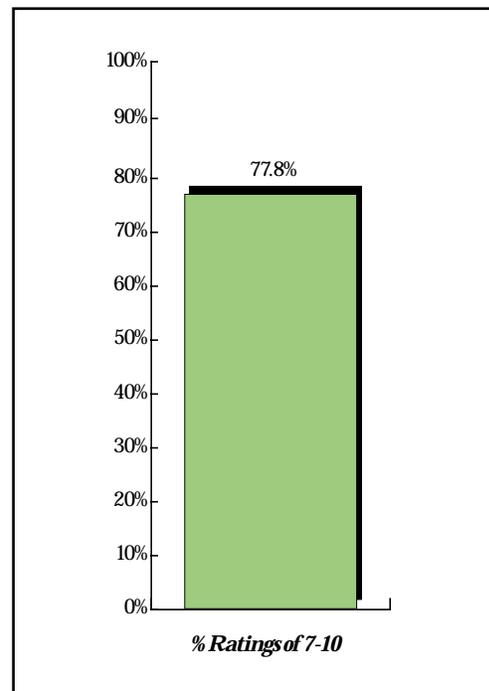
How Would You Rate All Your Health Care?

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>	79.80%
<i>Getting the care that I or a doctor believed necessary was not a problem.</i>	84.90%
<i>Delays in health care while I waited for approval from my health plan was not a problem.</i>	82.90%

