



# **ANNUAL REPORT**

## *Commonwealth of Virginia Health Benefits Program*

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***Fiscal Year 2004***



Department of Human Resource Management



# **INTRODUCTION**

In fiscal year 2004, the former Key Advantage and Cost Alliance health plans were combined into the new, single statewide self-insured COVA Care health plan. The new plan was part of an effort to better control rising health care costs for state employees at a time of budget challenges. A loss of revenue due to higher plan costs, coupled with fewer state resources, led to a re-evaluation of the balance between plan premiums and out-of-pocket expenses.

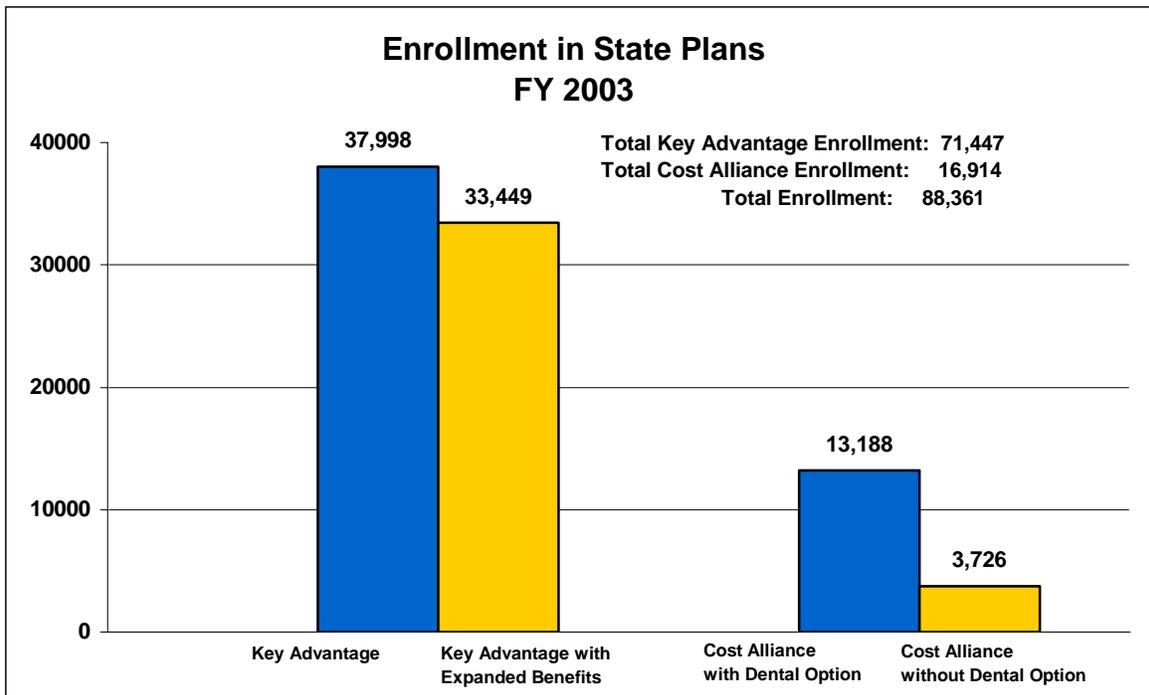
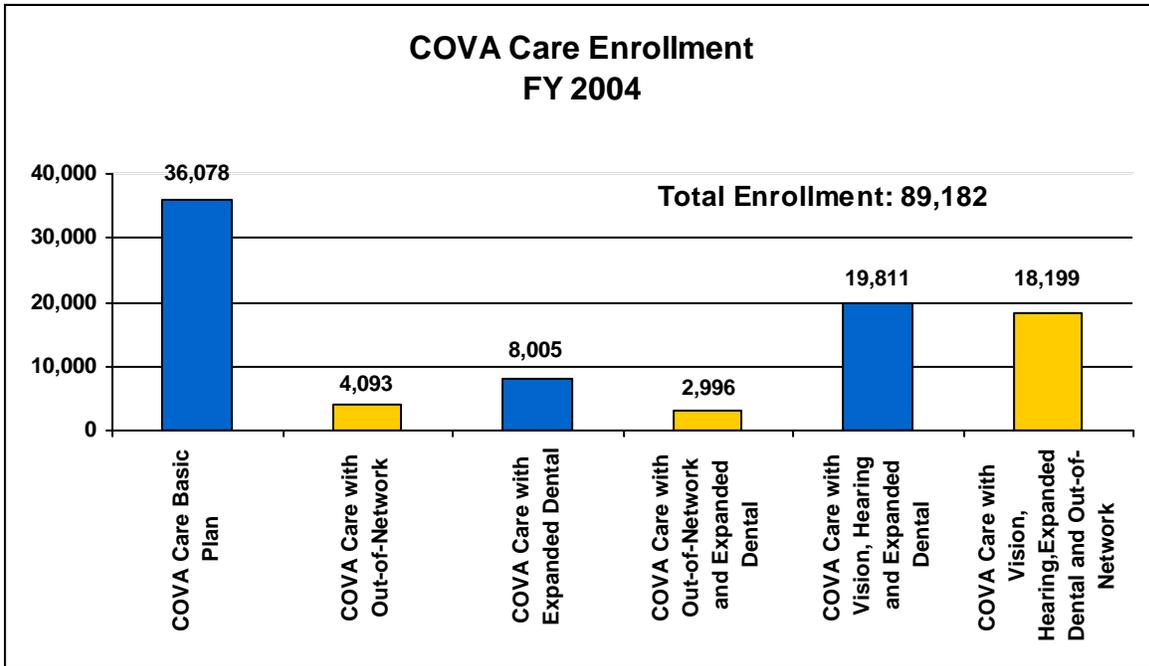
Steps taken to address higher costs included merging the former plans into one plan to reduce the costs of plan administration, an annual deductible for certain covered services, a renewed emphasis on wellness and preventive care, and the introduction of a three-tier prescription drug program.

Health care cost drivers continue to be higher inpatient and outpatient facility expenses, along with the aging of plan members. Pharmacy expenses declined during the year, even though the average number of prescriptions per member remained the same.

This report presents a financial overview of the COVA Care self-insured health benefits plan administered by Anthem Blue Cross and Blue Shield for the active employee and non-Medicare eligible retiree group during fiscal year 2004 (July 1, 2003 through June 30, 2004).

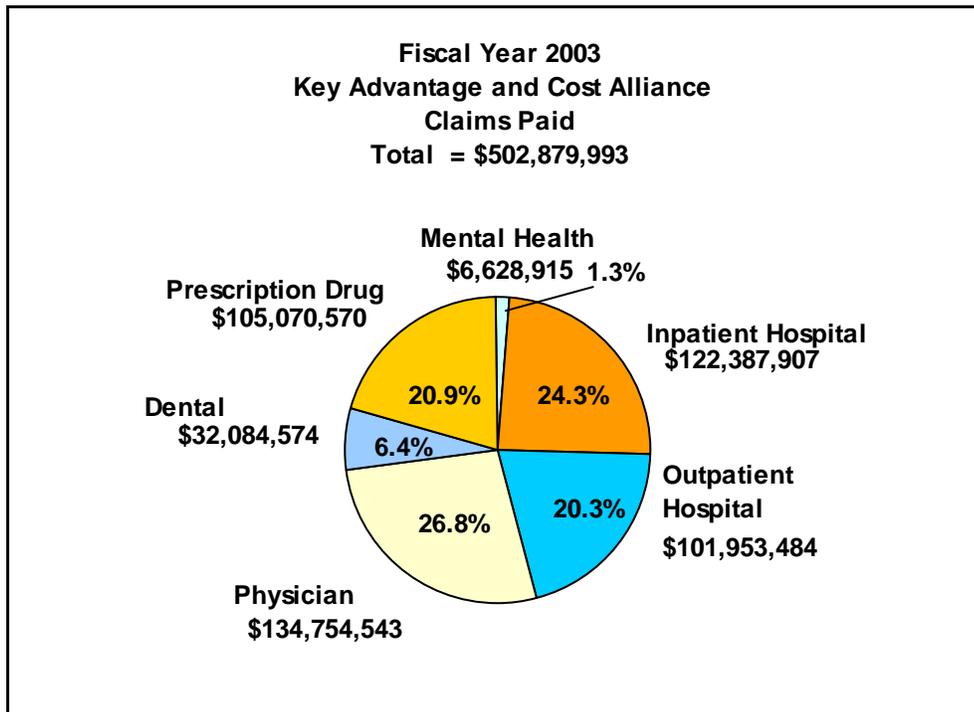
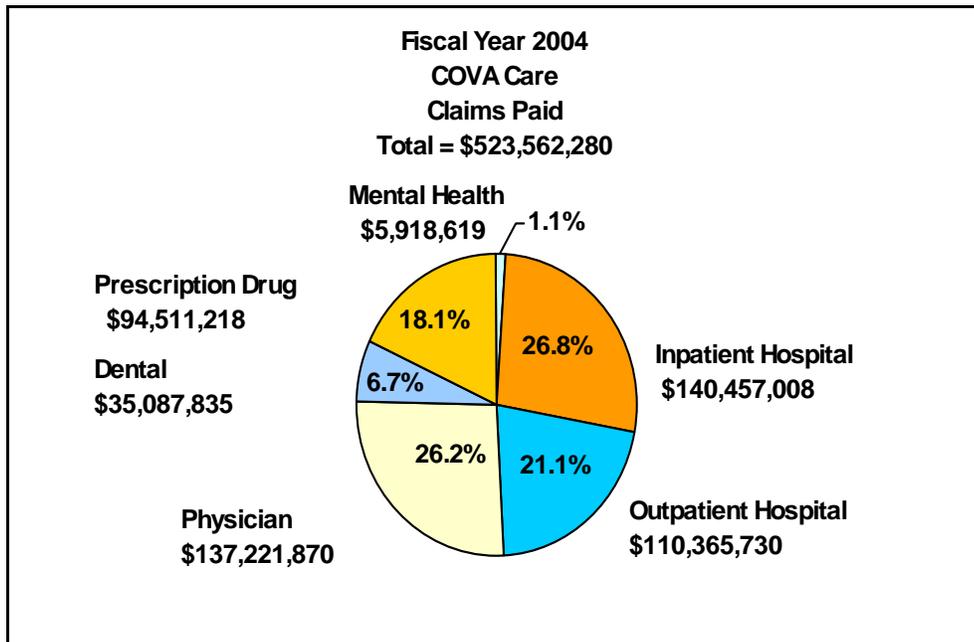
# ENROLLMENT

The majority of those enrolled in the statewide COVA Care plan for fiscal year 2004 were in the COVA Care Basic Plan. This plan was the default for those who did not make an election during the spring Open Enrollment period. Both the Aetna and Piedmont HMO plans left the state program in 2004, which accounts for most of the increase in COVA Care enrollment over the former Key Advantage and Cost Alliance plans.



# CLAIMS AND UTILIZATION

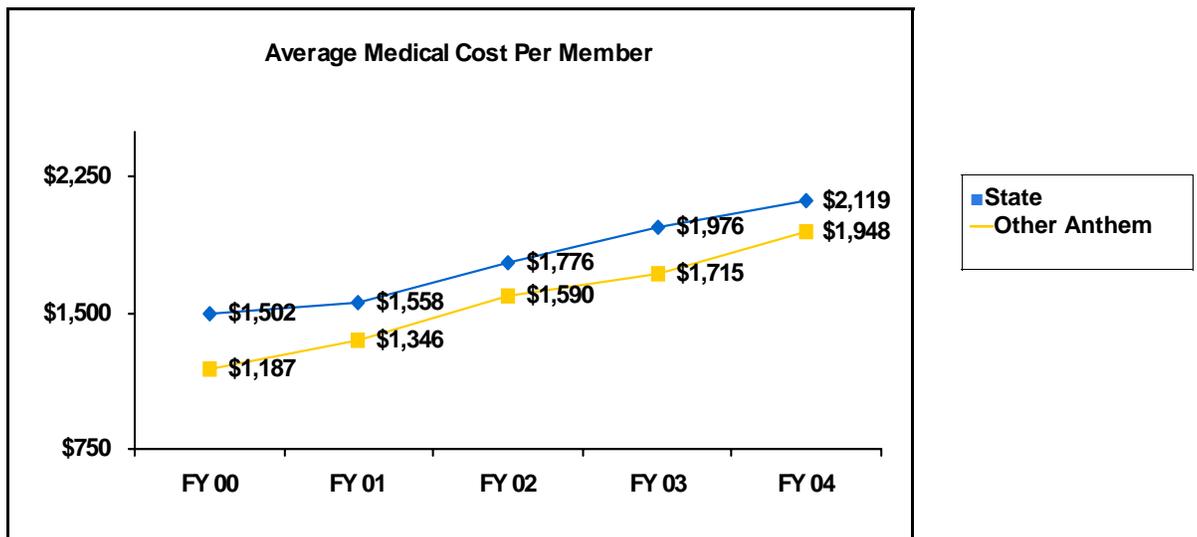
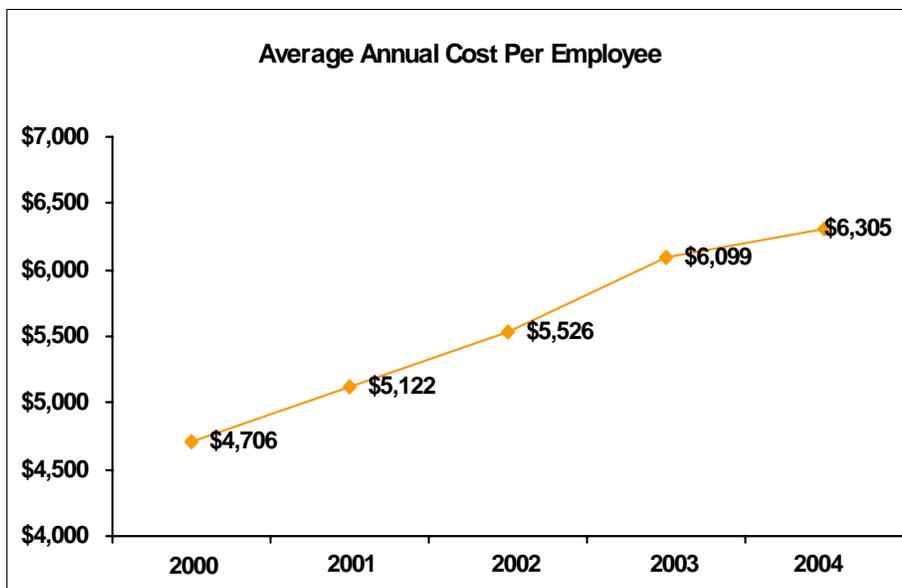
The number of medical claims processed during 2004 increased by 14 percent over the year before, from 2.6 million to 3 million claims. A greater number of catastrophic claims, combined with more enrollees and higher claims costs, resulted in a total medical claims expense increase of 8 percent.



# COST OF COVERAGE

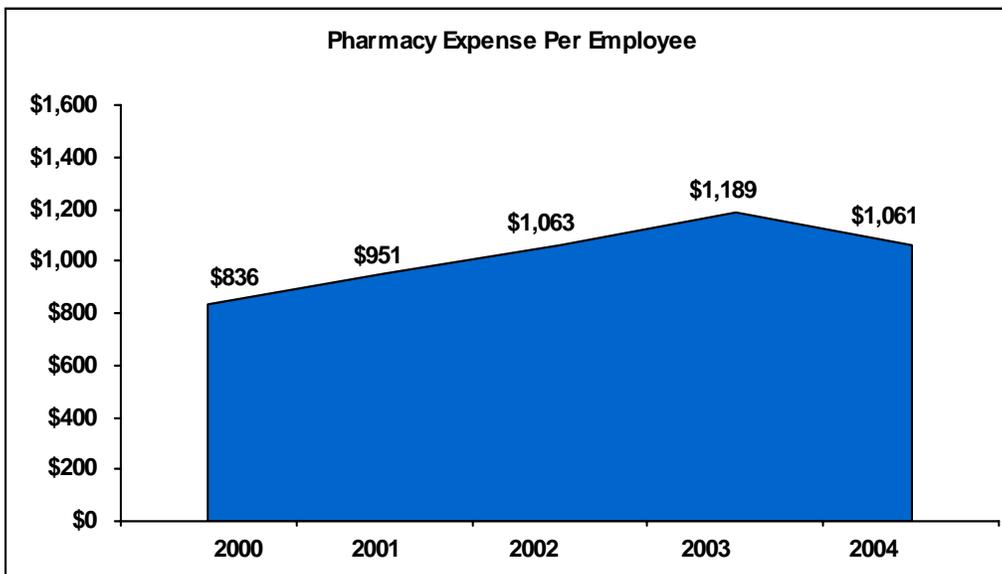
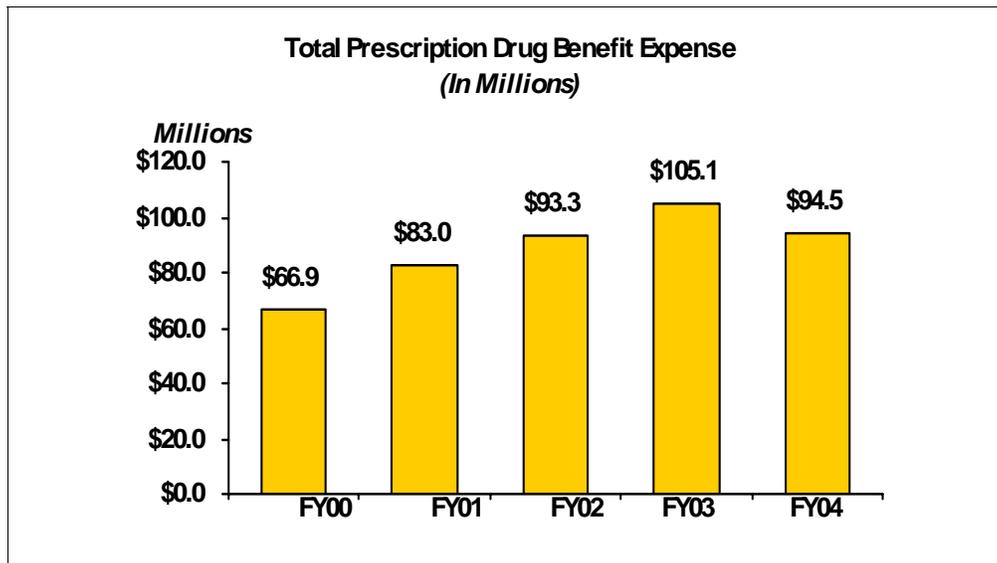
The average annual cost of providing health coverage per employee rose 30 percent from 2000 to 2003, under the former Key Advantage and Cost Alliance health plans. While still trending upward, the rate of increase under COVA Care slowed to 3.4% in 2004.

Medical and surgical costs account for a significant part of expenses. Under COVA Care, the average medical cost per member increased 7 percent from 2003 to 2004. However, the cost rose at a lower rate than the 11 percent increase under the former Key Advantage and Cost Alliance plans from 2002 to 2003. The Commonwealth's average medical cost per member remains higher than comparable costs for other Anthem plans.



# PRESCRIPTION DRUG BENEFIT

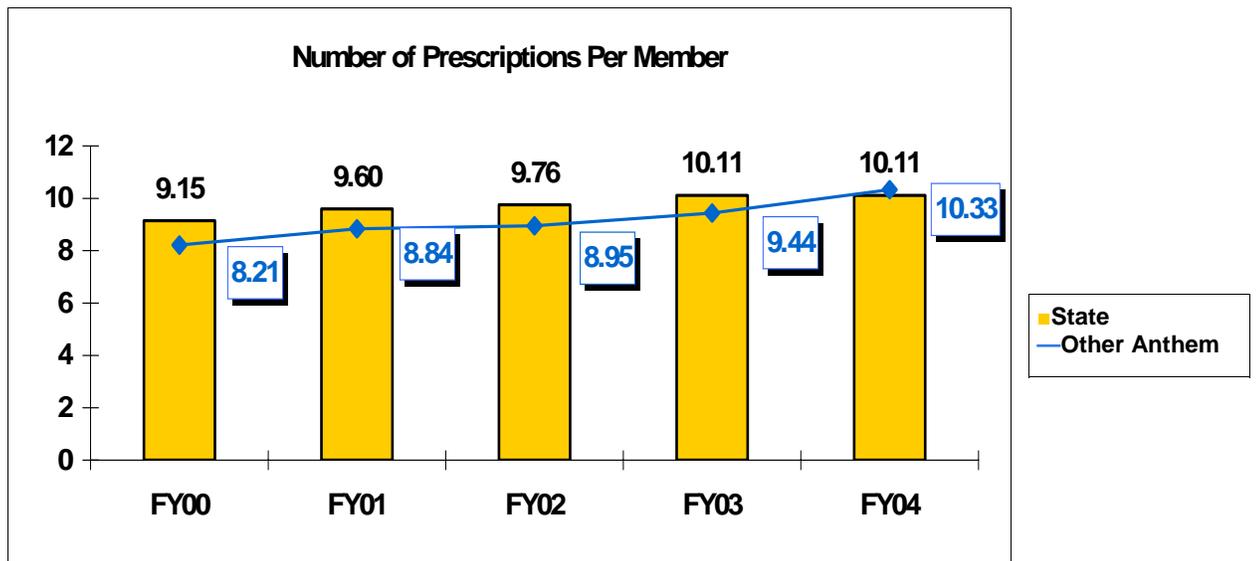
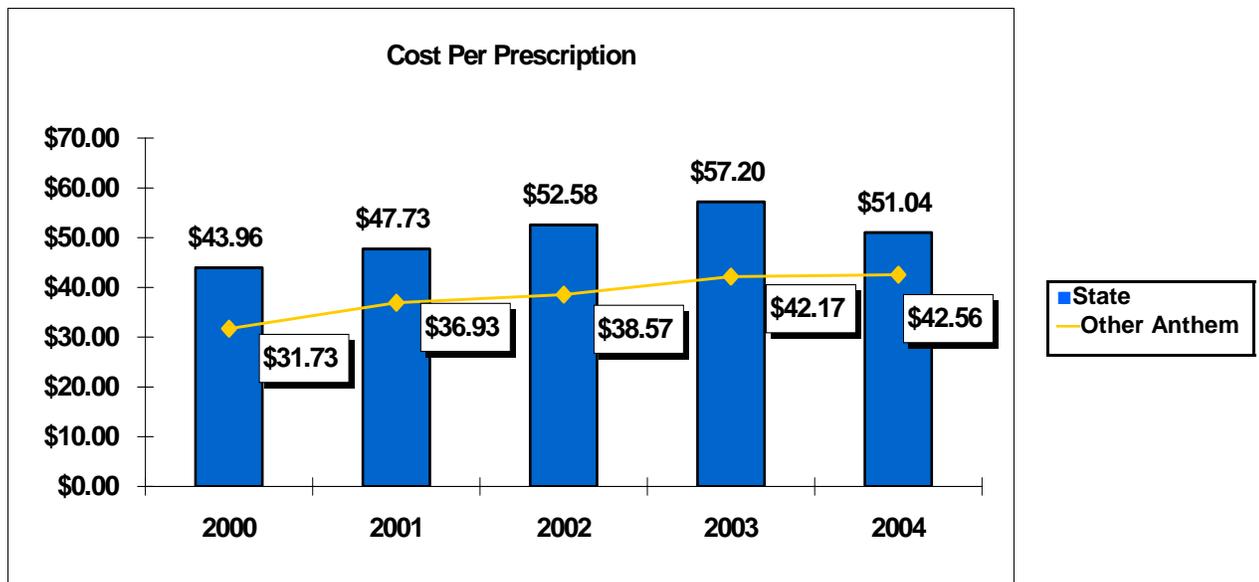
Over the past five years, increases nationally in the cost of outpatient prescription drugs have eclipsed other medical costs. Balancing costs and benefits while maintaining a viable health benefits program continues to be a difficult challenge. Total prescription drug expense increased 57% from 2000 to 2003. However, drug costs declined 10% within the past year, due in part to the introduction of the three-tier drug program under COVA Care. Drug costs per employee, up 12% from 2002 to 2003, *dropped* by the same amount in 2004 from the year before.



# PRESCRIPTION DRUG BENEFIT

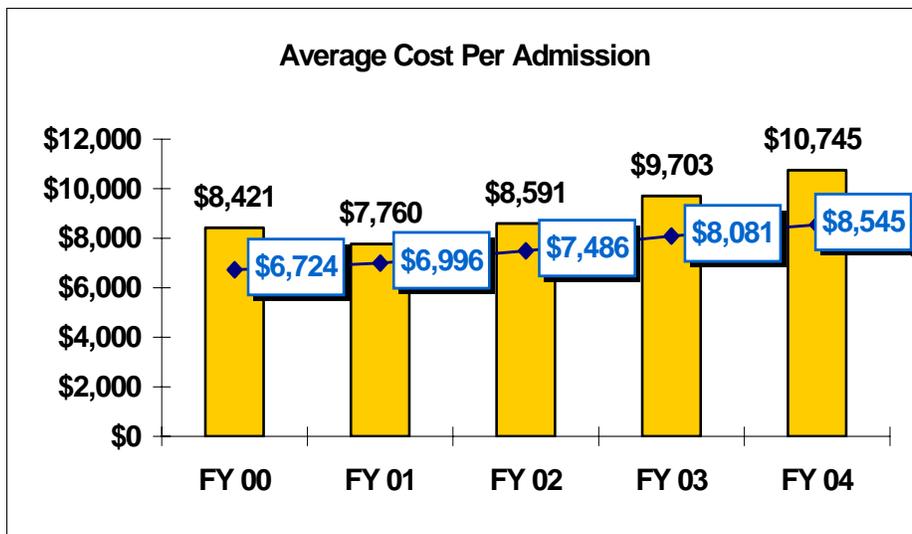
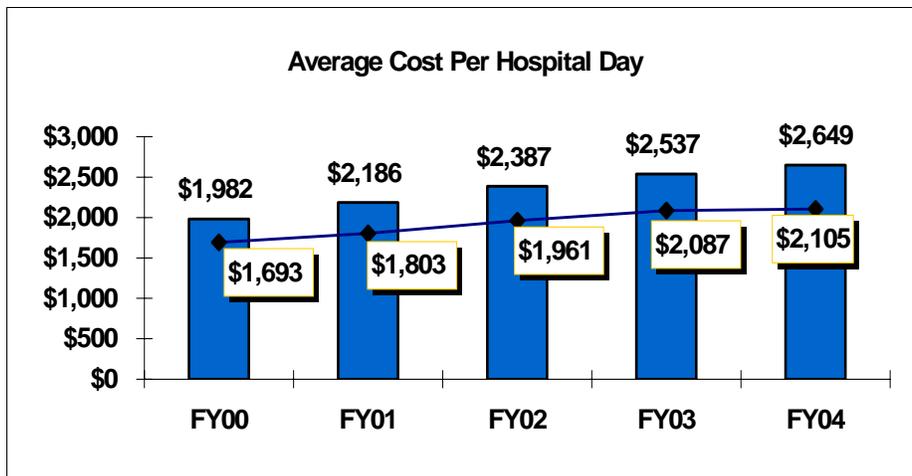
The new three-tier drug program under COVA Care also impacted costs per prescription and the number of prescriptions per member for the Commonwealth's program. For the first time in five years, the cost per prescription declined in 2004. However, our average cost per prescription is still higher than that for other Anthem employer group plans. In addition, the Commonwealth's program experienced an 8% increase in the use of less-costly generic drugs.

The program's number of prescriptions per member, which had increased more than 10% over the last five years, stabilized in 2004.



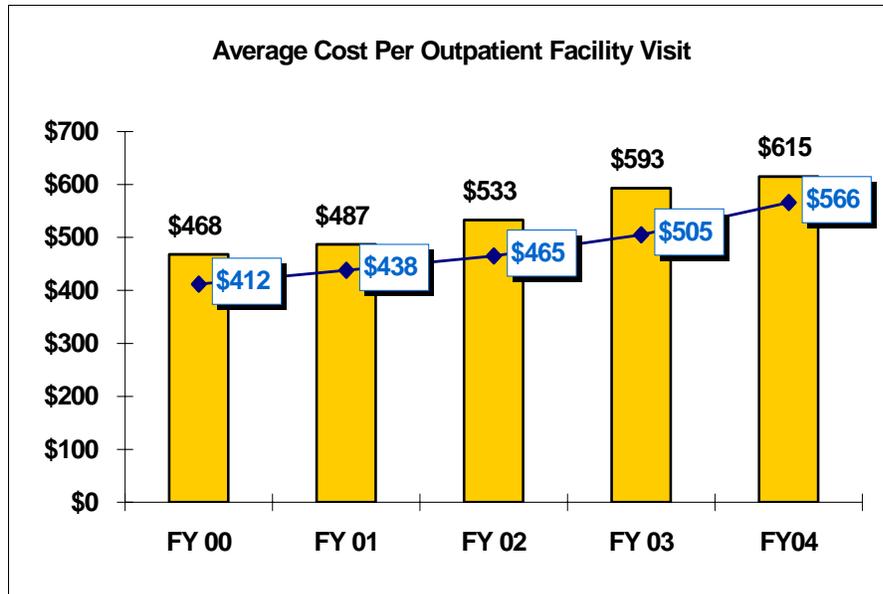
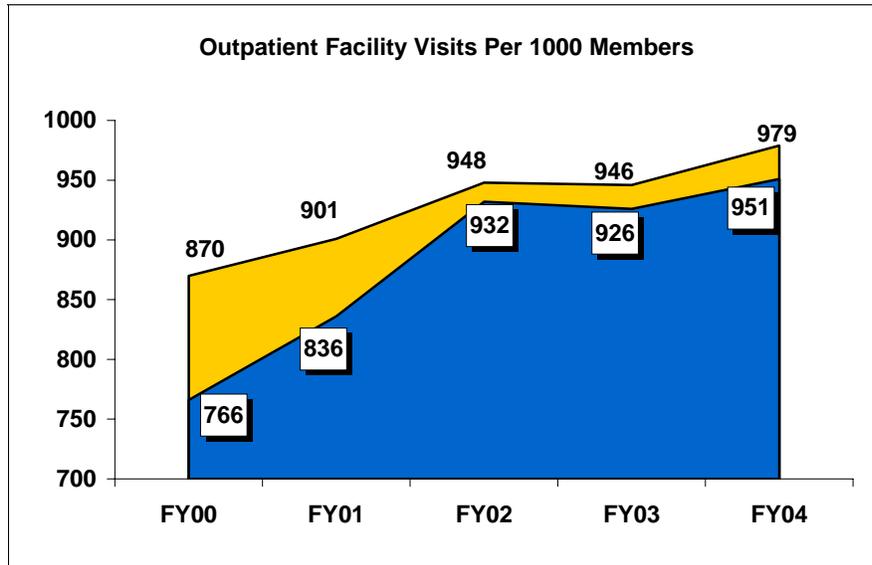
# INPATIENT FACILITY

Total inpatient facility costs continued to increase for the program in fiscal year 2004, rising 15% from the same period in 2003. Our average cost per hospital day has risen steadily since 2000, and remains higher than for other Anthem employer group plans during the same period. An increasingly older employee population, admissions for more serious illnesses and a growth in high cost catastrophic claims account for the majority of the increase in inpatient facility expenses.



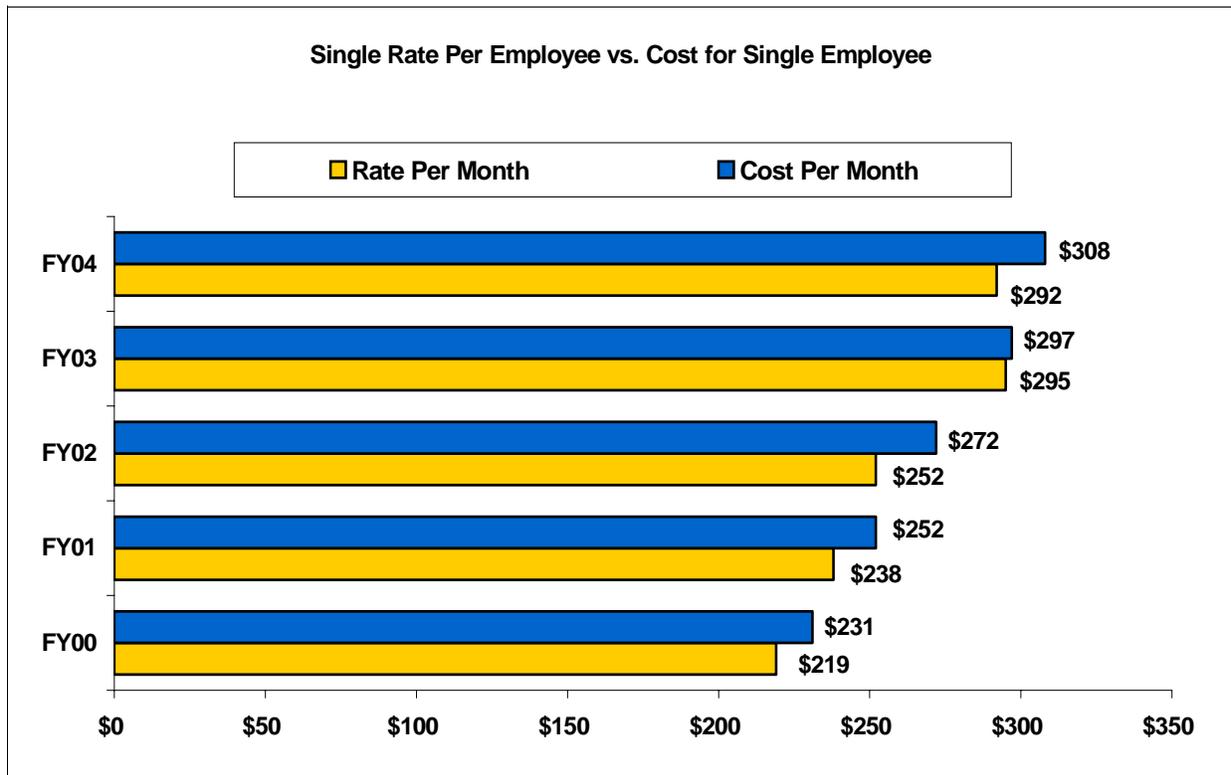
# OUTPATIENT FACILITY

Total outpatient facility expenses for our program have risen 63% since fiscal year 2000, as more medical care continues to be performed on an outpatient basis. While outpatient facility visits and costs have risen, an emphasis under COVA Care on preventive care contributed in fiscal year 2004 to a 15% increase in the number of preventive screenings over the year before. While the number of outpatient facility screenings increased, screening costs dropped more than 3% over 2003.



# FOCUS ON COVA CARE

On average, the state pays 88 percent of the cost for state employee health care, while the employee pays 12 percent. Total expenses to operate the COVA Care plan were greater in fiscal year 2004 than the actual amount of money put into the plan, creating a deficit. The chart below compares the monthly rate paid per employee (money put into the plan) with the cost to provide the coverage each month (total expenses to operate the plan). The data from fiscal year 2000 to fiscal year 2003 is from the former Key Advantage plan.



# OPERATING STATEMENT

Premiums provided almost all of our income in 2003 and 2004. Claims payments represented about 94% of our expenses both years. Deficits have occurred for the past two years in part because of higher prescription drug costs through 2003, higher inpatient and outpatient facility costs, and the aging of plan members. The cost to operate the plan was more than the annual income collected for the plan.

In response to higher health care costs and the impact on employees, the former Key Advantage and Cost Alliance plans were merged into one restructured plan (COVA Care) in 2004.

<b>PROGRAM TOTAL</b>	<b>FISCAL YEAR 2003</b>	<b>FISCAL YEAR 2004</b>
<b>Annual Income</b> <i>(Premiums, Interest, Other)</i>	\$526,350,237	\$555,831,160
<b>Annual Expenses</b> <i>(Claims, Contract Administration, Other)</i>	\$532,037,581	\$561,614,443
<b>Income Less Expenses</b>	(\$5,687,344)	(\$5,783,283)

# EMPLOYEE SATISFACTION

Employee input is important to help us measure our progress in working to continually improve the quality and covered services provided by the health benefits program. Periodically we conduct surveys to measure employees' level of satisfaction. The chart below shows how state employees rate specific aspects of their health care according to the standard HEDIS® 2004 CAHPS 3.0H Adult Commercial Survey done in cooperation with the National Committee for Quality Assurance.

The health plan's highest ratings were in access to needed care and customer service, both of which were above the 90th percentile when compared to similar preferred provider organization (PPO) plans nationwide. On the lower end of the scale, the new COVA Care plan placed a bit below the mean, or middle rating, among comparable plans.

## 2004 HEDIS Employee Satisfaction Survey

Category	Benchmark Mean	COVA Care Mean	COVA Care Percentile
Health Plan	2.13	2.00	25 <sup>th</sup> to 50 <sup>th</sup> percentile
Health Care	2.39	2.34	50 <sup>th</sup> to 75 <sup>th</sup> percentile
Access to Needed Care	2.65	2.77	Above 90 <sup>th</sup> percentile
Customer Service	2.53	2.69	Above 90 <sup>th</sup> percentile
Claims Processing	2.32	2.45	75 <sup>th</sup> to 90 <sup>th</sup> percentile