



Annual Report

Commonwealth of Virginia Health Benefits Program

Fiscal Year 2005

Introduction

Fiscal year 2005 was the second implementation year for the single, statewide self-insured COVA Care plan, introduced the previous year to better control rising health care costs for state employees and to better align the balance between plan premiums and out-of-pocket expenses.

Higher pharmacy, inpatient and outpatient facility expenses, combined with the aging of plan members, continue to drive the cost of health care for the state program.

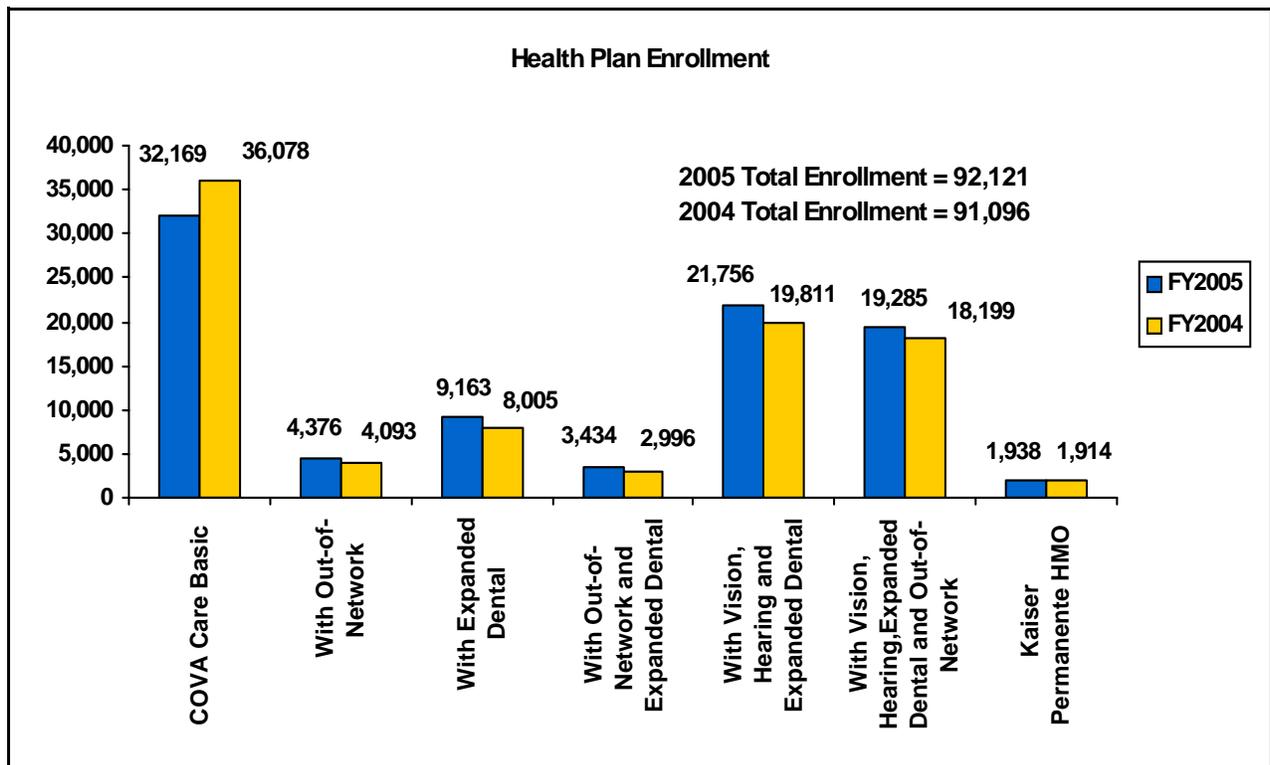
This report presents a financial overview of the COVA Care self-insured health benefits plan, and where indicated, the fully-insured Kaiser Permanente HMO plan. The program's Employee Assistance Program (EAP) and long-term care insurance program also are featured, along with data reflecting the impact of lifestyle on the program and employee health.

Unless otherwise indicated, this report is based on the experience of the active employee and non-Medicare eligible retiree group during fiscal year 2005 (July 1, 2004 through June 30, 2005). Benefits were administered by Anthem Blue Cross and Blue Shield (medical), Delta Dental of Virginia (dental), Medco Health Solutions, Inc. (prescription drug) and ValueOptions, Inc. (behavioral health and employee assistance program services).

HEALTH PLANS

Enrollment

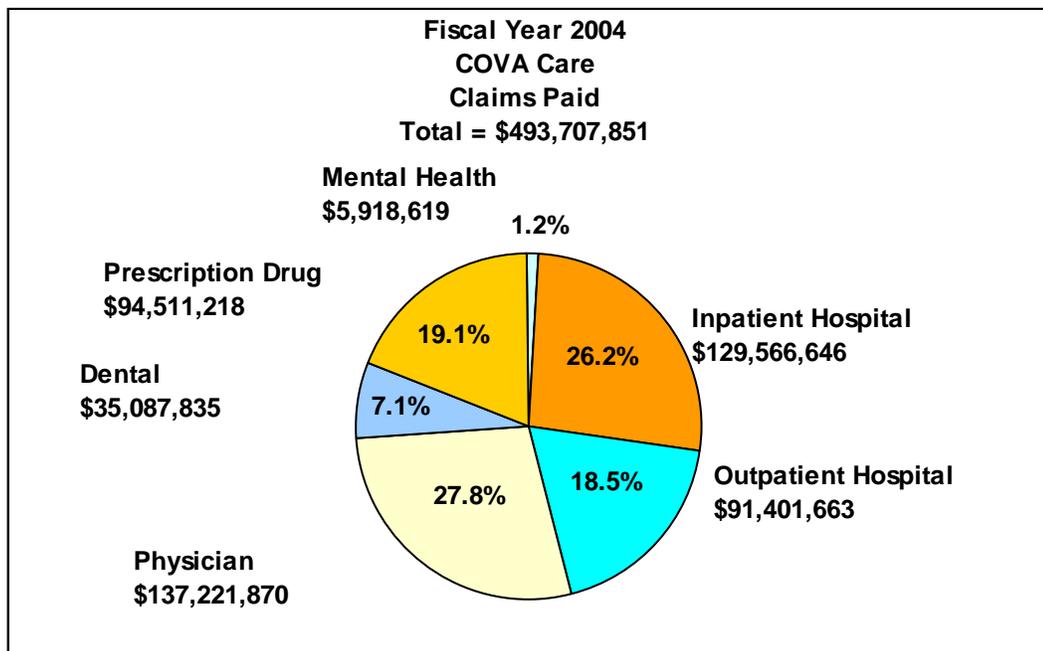
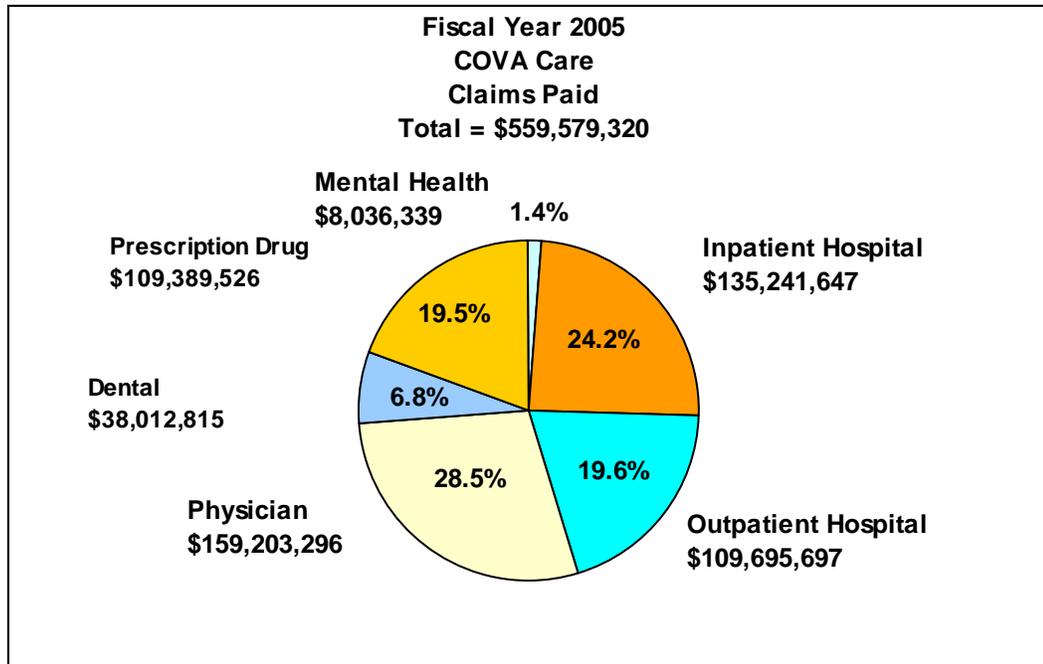
Total enrollment in the statewide COVA Care and regional Kaiser Permanente HMO plans grew in fiscal year 2005 by about 1,000 state employees, due to new enrollments, plan changes and eligibility for part-time classified employees. More than a third of those enrolled were in the COVA Care Basic Plan. Another 45 percent opted for COVA Care with Vision, Hearing and Expanded Dental, and COVA Care with Vision, Hearing Expanded Dental and Out-of-Network coverage. Enrollment in the COVA Care basic plan dropped approximately 12 percent in 2005 compared to the year before, as members changed to plans with additional coverage options. Kaiser Permanente HMO enrollment remained stable.



HEALTH PLANS

Claims and Utilization

Approximately 5.5 million claims were processed for all COVA Care plan benefits during fiscal year 2005. The number of medical claims grew by 4.3 percent, from 3 million to 3.1 million claims. Higher claims costs, continued growth in catastrophic claims, and more enrollees led to a 13 percent increase in medical claims expense over the prior year.



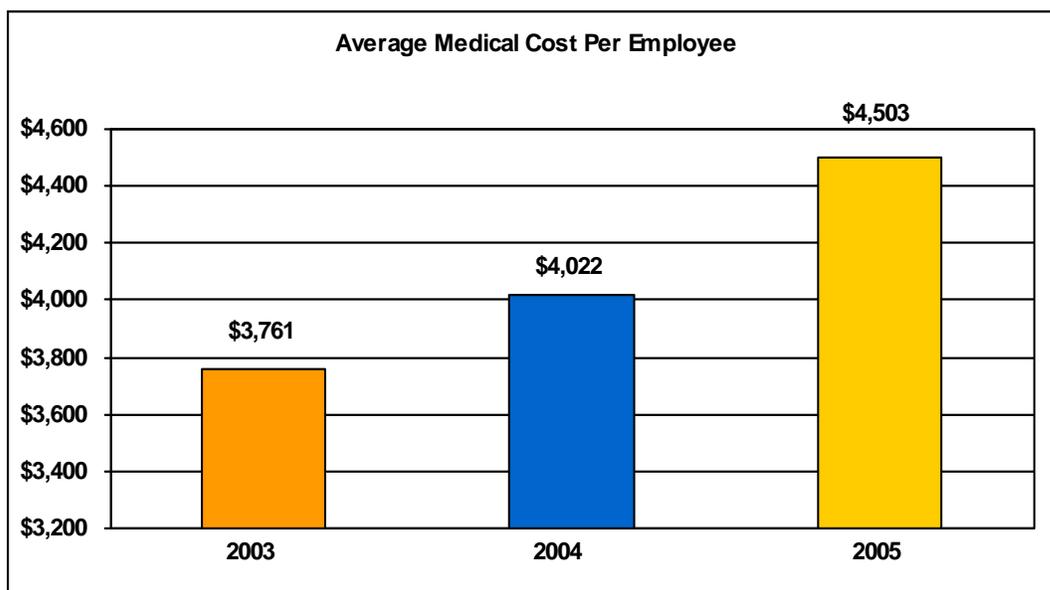
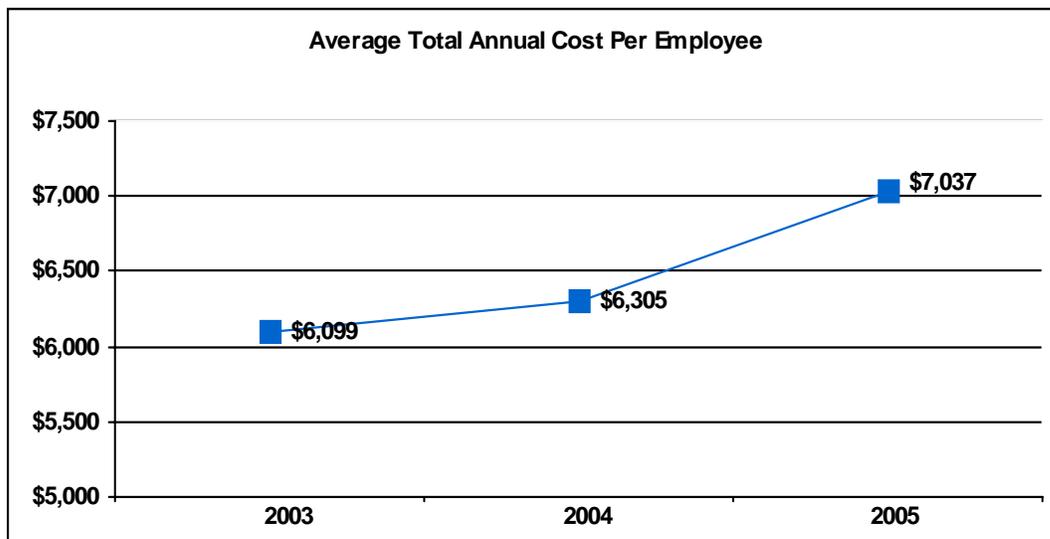
Note: Medical expenses in this report were revised due to separate contracts for medical, dental and prescription drug administration effective July 1, 2004.

HEALTH PLANS

Cost of Coverage

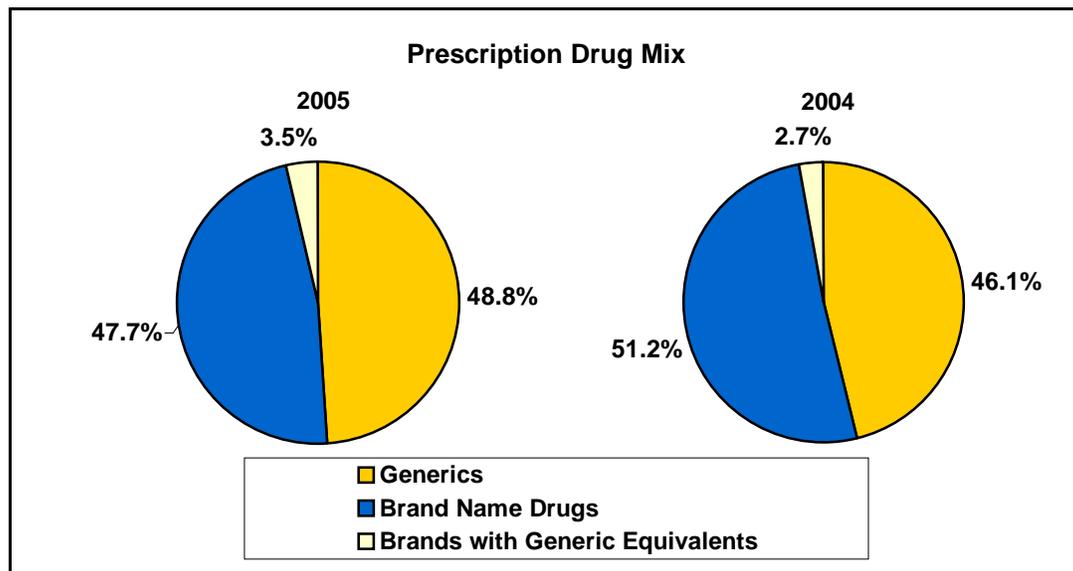
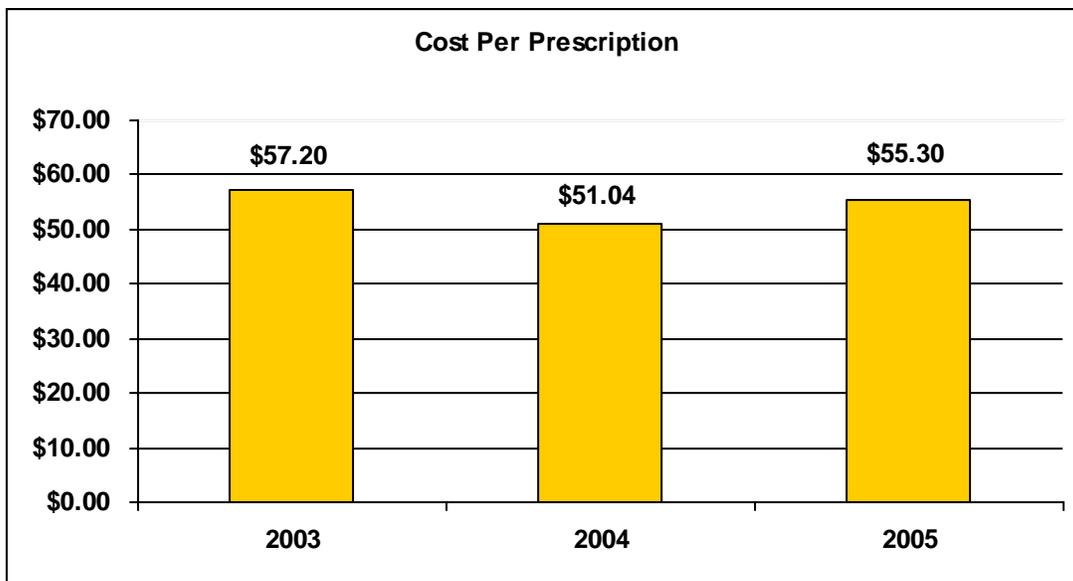
The average annual cost of providing health coverage per employee rose 11.6 percent from 2004 to 2005, after slowing to 3.4 percent in 2004. Medical and surgical costs accounted for a significant part of the increase, driven by higher inpatient facility expenses.

Under COVA Care, the average medical cost per employee increased 12 percent from 2004 to 2005. The average medical cost per member in 2005 was \$2,170, above the comparable cost of \$2,015 for other Anthem plans.



Prescription Drug Benefit

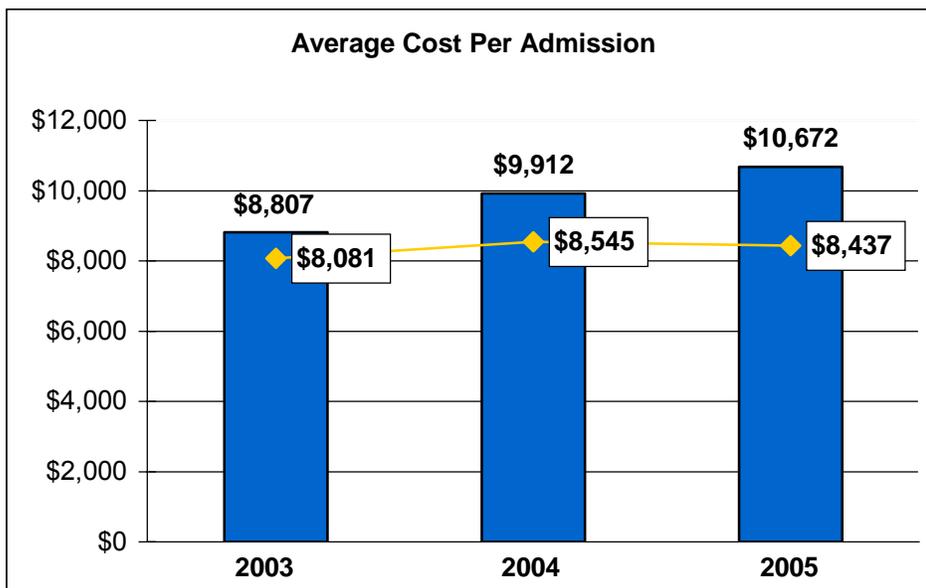
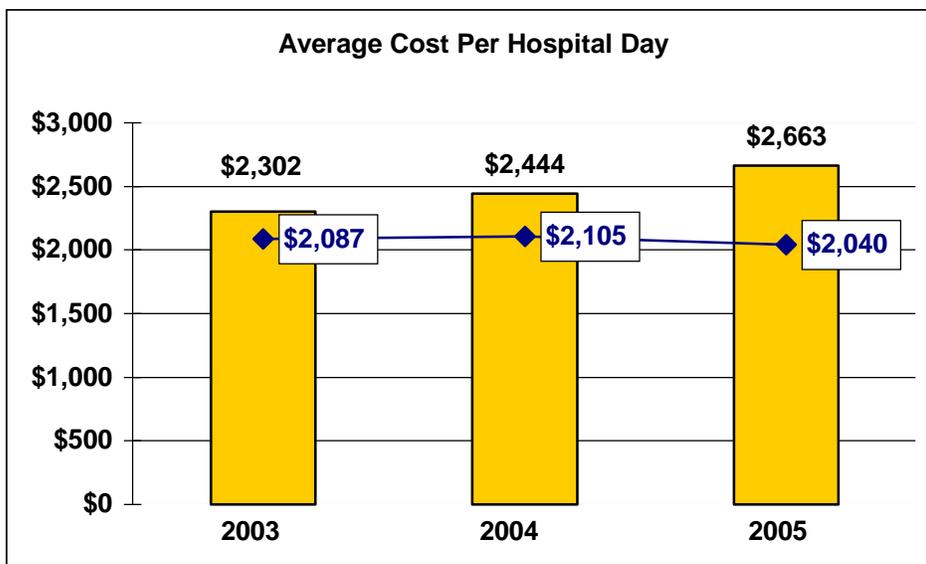
Until recently, outpatient prescription drug costs nationally were eclipsing other medical costs. While the rate of increase has slowed, pharmacy expenses continue to rise. While implementation of COVA Care's three-tier drug program helped reduce total drug expenses by about 10 percent in 2004 over the previous year, total prescription drug costs for the state program increased nearly 16 percent from 2004 to 2005. Cost per prescription also declined in 2004 but grew more than 8 percent in 2005.



HEALTH PLANS

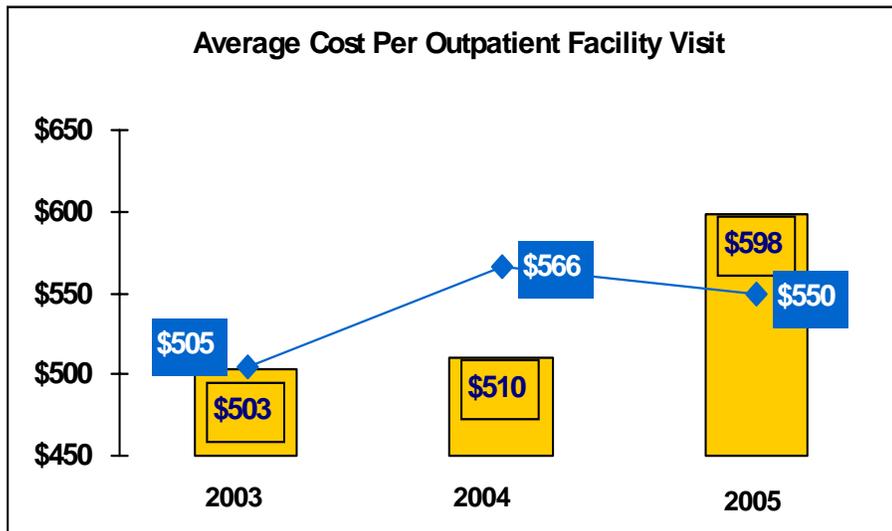
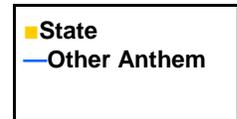
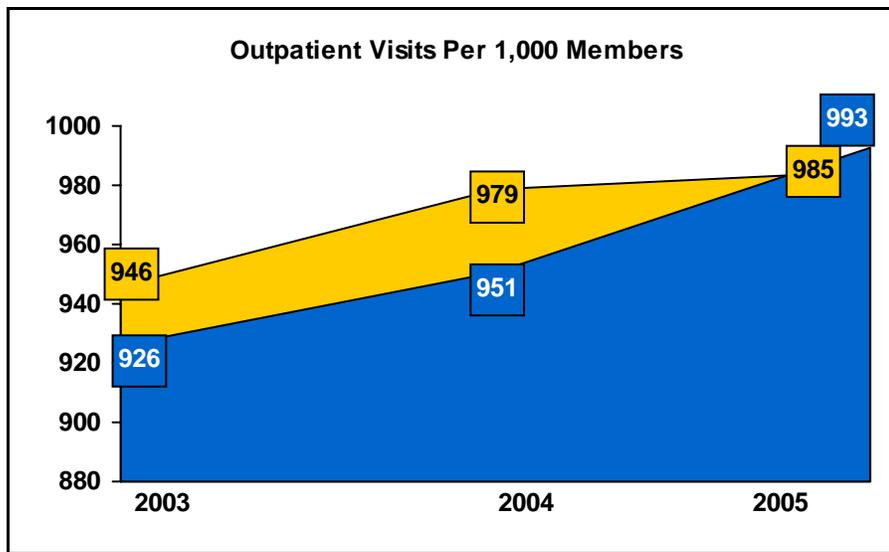
Inpatient Facility

Total inpatient facility costs continued to rise in fiscal year 2005, up 4.4% from the same period in 2004. Our average cost per hospital day has grown steadily over five years, and remains higher than for other Anthem employer group plans during the same period. The majority of the increase in inpatient facility expenses is due to an older employee population, admissions for more serious illnesses and continued growth in high cost catastrophic claims.



Outpatient Facility

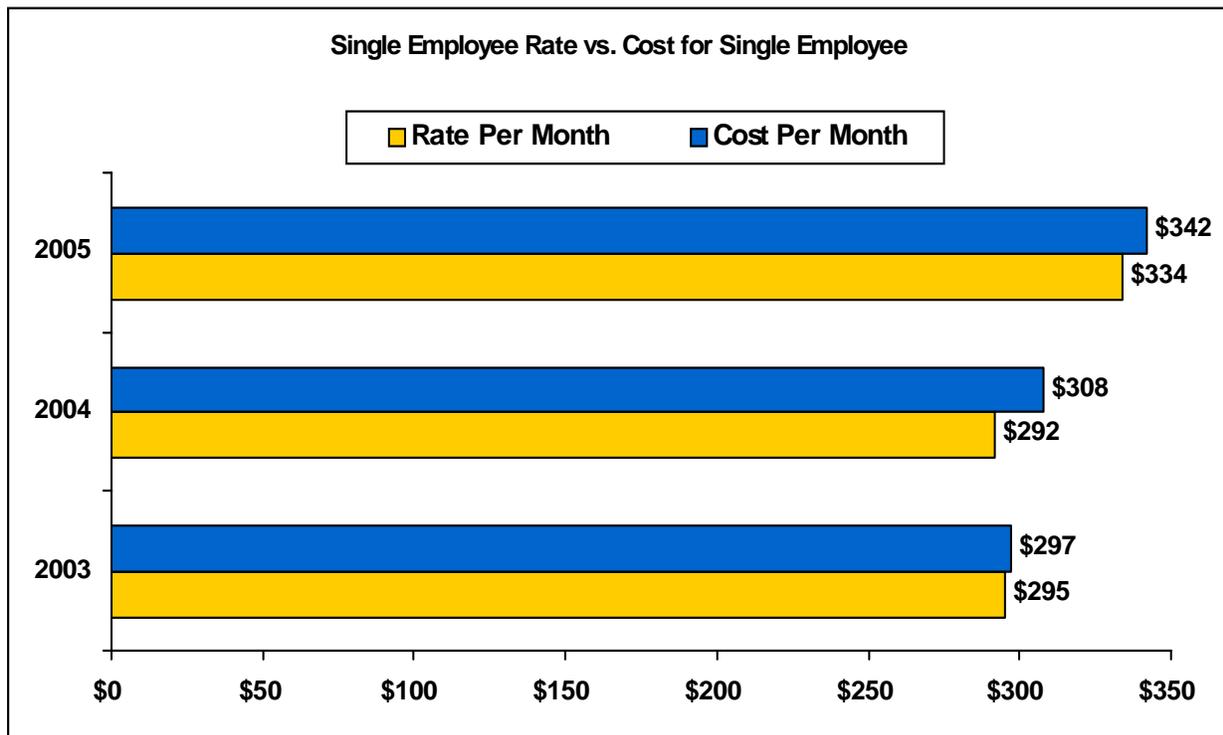
More medical care continues to be performed in an outpatient setting. Total outpatient facility expenses were up almost 27% from 2003 to 2005. However, in 2005 the increase in plan membership kept pace with the volume of care. While expenses increased, the volume of COVA Care outpatient facility visits was less in 2005 than for other Anthem plans. COVA Care outpatient facility visits increased by less than 1 percent, while other Anthem plans experienced 4.4 percent growth in outpatient facility visits.



HEALTH PLANS

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. Since 2003, total expenses to operate the COVA Care plan have been greater than the actual amount of money put into the plan. 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).



HEALTH PLANS

Operating Statement

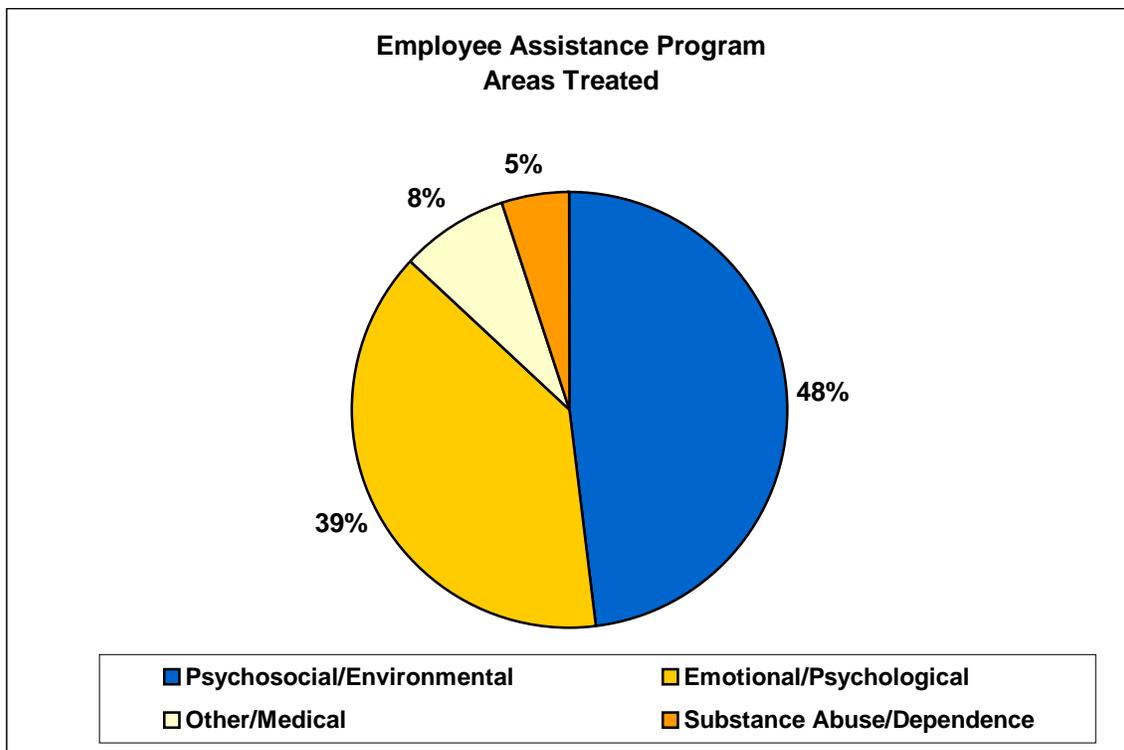
Premiums provide almost all of the health program's income, and claims payments represent more than 90 percent of expenses. In 2004, the program was restructured to offer the single statewide COVA Care plan. However, higher costs for prescription drugs, inpatient and outpatient facility expenses, and the aging of plan members contributed to a deficit. The cost to operate the plan was more than the annual income collected for the plan. In 2005, the program reaped the benefit of cost containment measures implemented in the COVA Care plan year combined with a slower rate nationally of health care cost increases.

PROGRAM TOTAL	FISCAL YEAR 2004	FISCAL YEAR 2005
Annual Income <i>(Premiums, Interest, Other)</i>	\$555,831,160	\$641,722,952
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$561,614,443	\$631,491,957
Income Less Expenses	(\$5,783,283)	\$10,230,995

Employee Assistance Program

State employees and their dependents have access to an employee assistance program (EAP) through their health plan coverage. Up to four sessions per incident are included at no charge for such services as mental health, alcohol or drug abuse assessment, child or elder care, grief counseling and legal or financial services. EAP counselors are available to assist employees with problems related to their family, workplace, health, housing and many other issues.

During fiscal year 2005, the EAP under COVA Care handled more than 2,600 cases that were either self-referred or referred by a supervisor or a human resources representative. Depression was the top problem assessed, followed by marital/relationship and anxiety, and family.

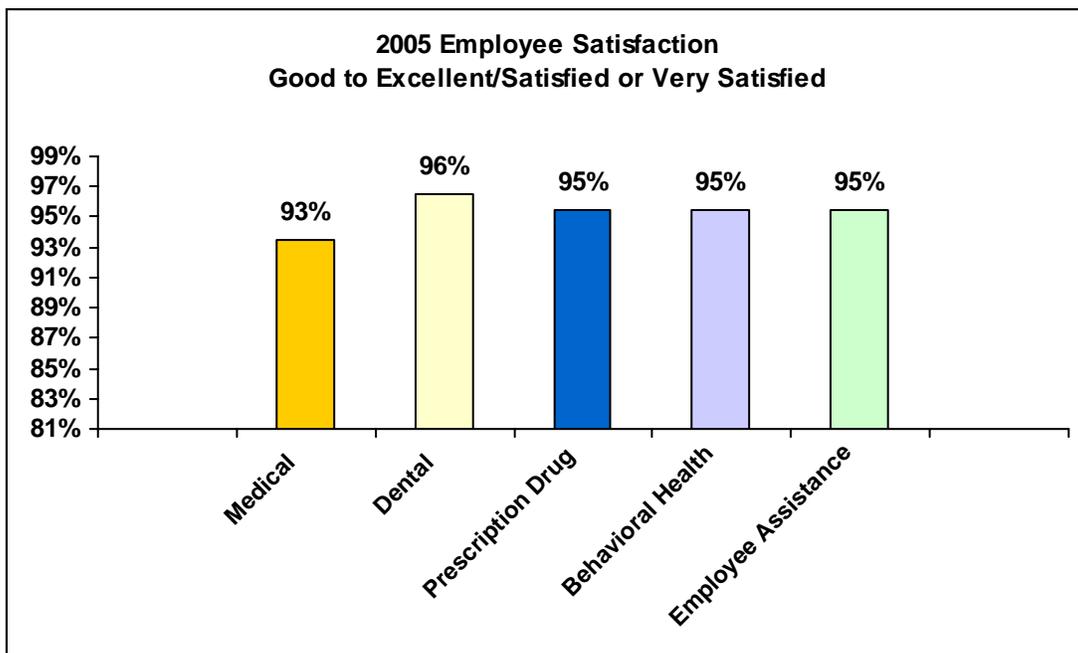


HEALTH PLANS

Employee Satisfaction

We continually work to improve the quality and covered services provided by the health benefits program. Employee input is important to help us measure our progress. Periodically surveys are conducted to measure employees' level of satisfaction. The chart below shows how state employees rate specific aspects of their health care. The medical survey results are from the standard HEDIS® 2005 CAHPS 3.0H Adult Commercial Survey done in cooperation with the National Committee for Quality Assurance. Other measurements are from the administrators for dental, prescription drug, behavioral health and EAP services.

The health plan's dental program received the highest rating, while medical benefits were on the lower end of the scale. However, no service received lower than a 93% satisfaction rating.

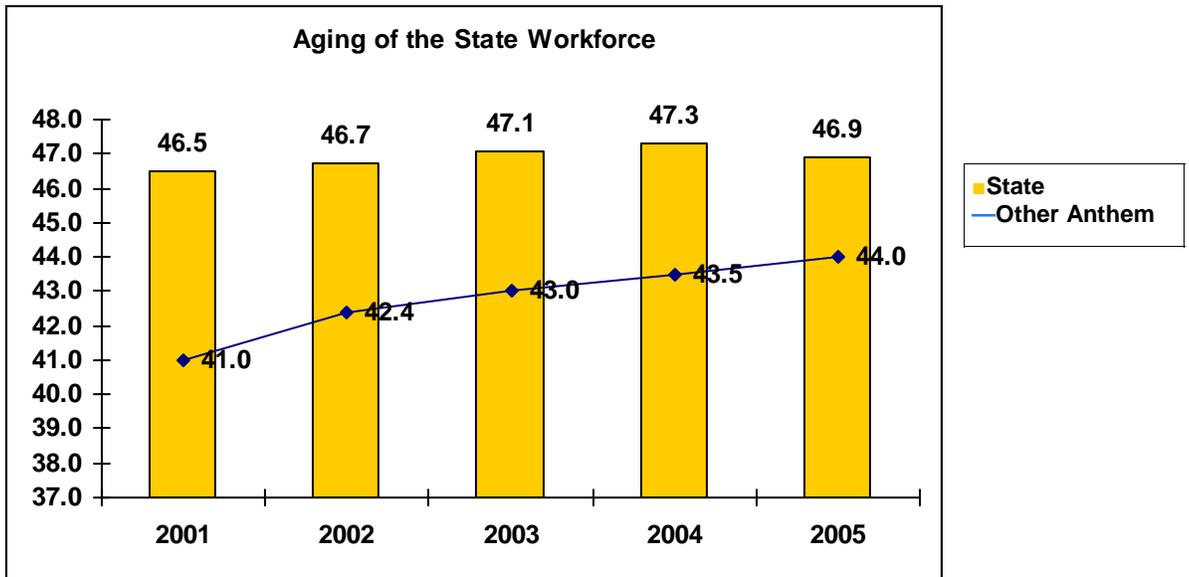
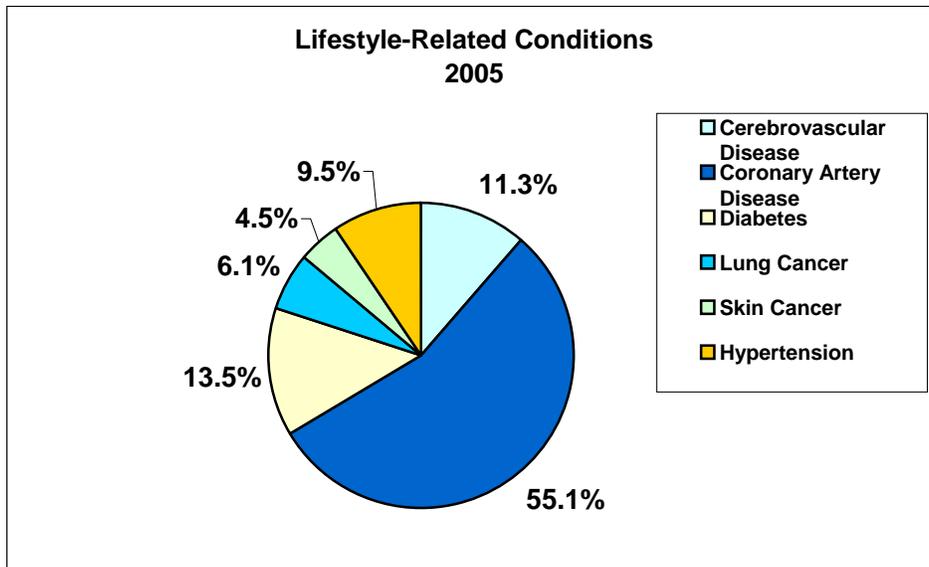


WELLNESS AND PREVENTIVE CARE

Lifestyle Claims Cost

Employee lifestyle, including such factors as physical activity, weight and smoking, has become more significant to the cost of the health benefits program. More than \$57 million in medical claims, or 14 percent, was related to lifestyle during fiscal year 2005. The six conditions shown in the chart below represented more than 11 percent, or \$45.6 million, of total medical expense.

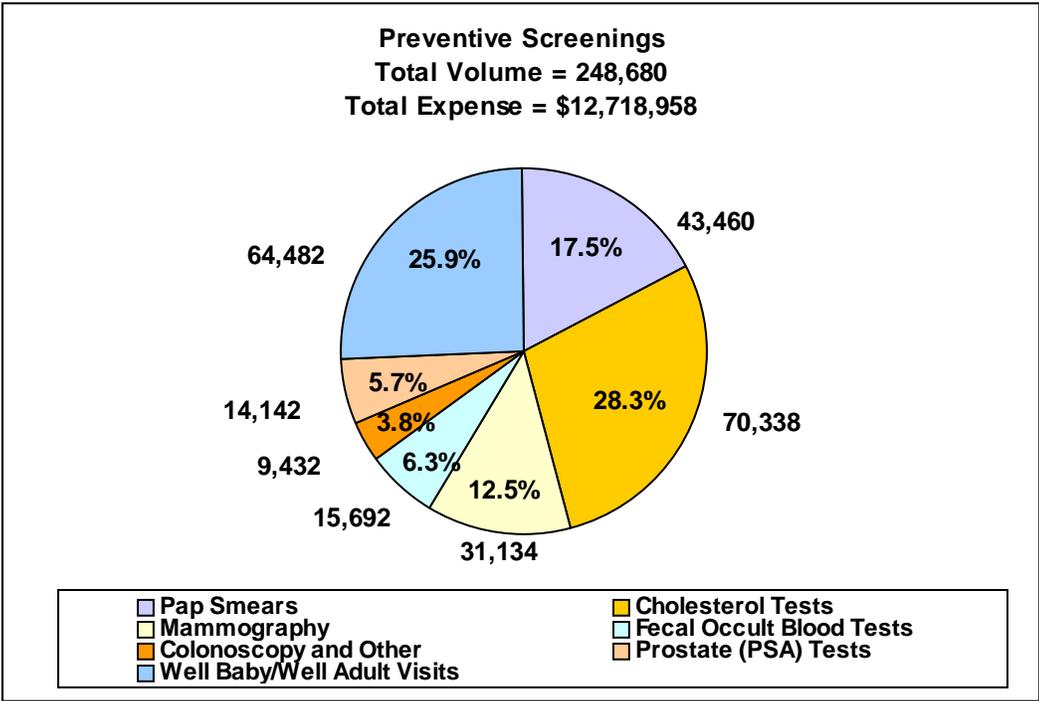
As state employees age, chronic conditions such as high cholesterol, high blood pressure, heart disease and diabetes become more prevalent. With the exception of 2005, the age of the state workforce enrolled in the health benefits program has been increasing each year.



WELLNESS AND PREVENTIVE CARE

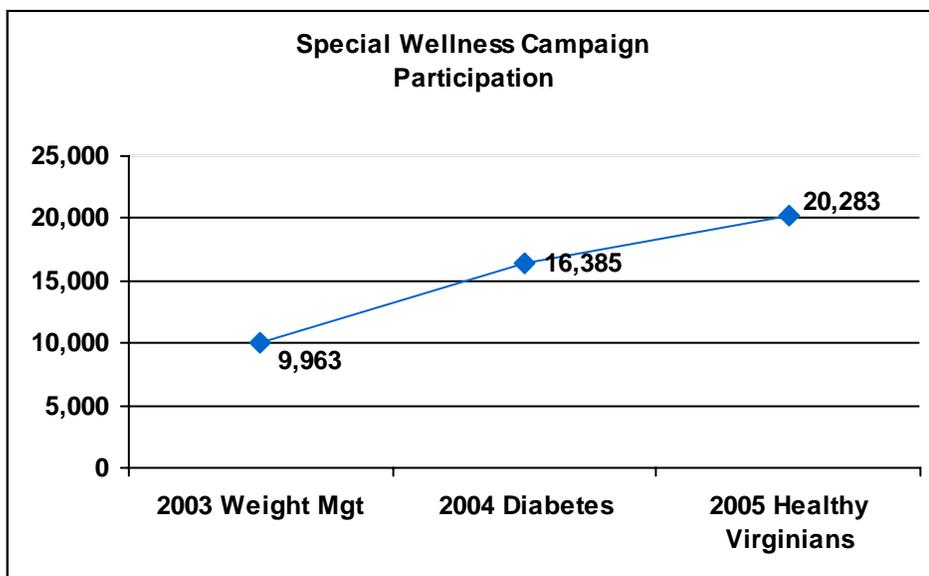
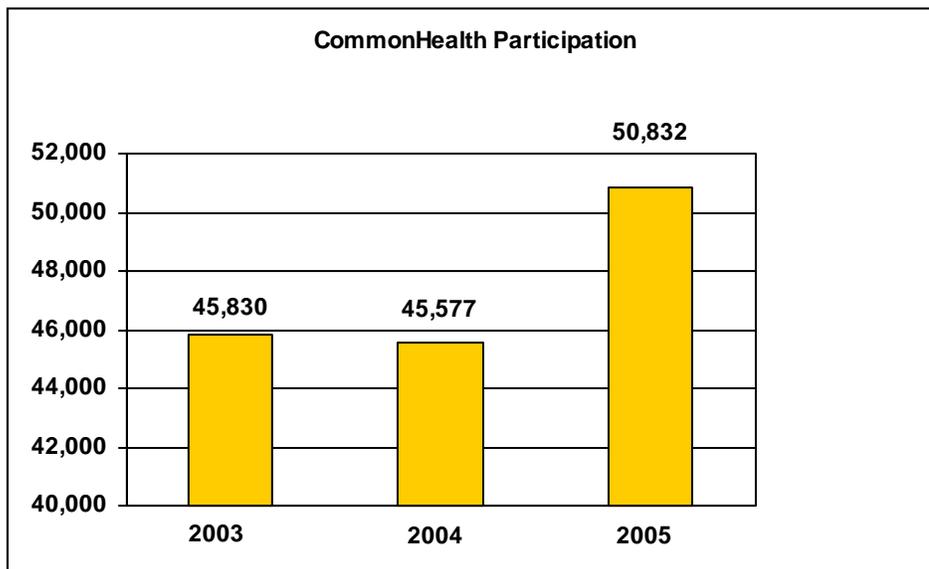
Preventive Screenings

With the introduction of the COVA Care health plan in fiscal year 2004, the health benefits program began a more intense focus on wellness and preventive care. During 2005, outpatient preventive screening services increased by 9.4 percent over the prior year. Cholesterol tests represented about 28 percent of total screenings, followed by baby and adult wellness visits at 26 percent and pap smears for women at 17.5 percent.



Governor's Initiative Healthy Virginians

In November 2004, Governor Mark Warner introduced the *Health Virginians* initiative for state employees. Part of a comprehensive program to promote healthy lifestyles among students and families, the program has encouraged integration of health and physical activity into the work culture. State employees were given a goal of walking 2,000 more steps and eating 100 less calories each day. More than 20 percent of the employee population participated, logging about 284,000 miles (equal to walking around the world 11 times). *Healthy Virginians* also spurred higher participation in the CommonHealth wellness program and special wellness campaigns.



Governor's Initiative Own Your Future Campaign

Governor Mark Warner's 2005 statewide effort to increase Virginians' awareness of the importance of planning for long-term health care needs had a significant impact on the voluntary long-term care insurance program offered through the Department of Human Resource Management. More than 9,200 eligible individuals and family members enrolled in the plan, including both state and local employees, former state and local employees, and retirees. The initiative was largely responsible for a 48 percent increase in enrollment of state employees and their eligible family members.

All state employees enrolled in the Virginia Sickness and Disability Program automatically receive a long-term care benefit but may supplement their coverage through the DHRM program. Both benefits are administered by Aetna Life Insurance Company.

