



Annual Report

*Commonwealth of Virginia
Health Benefits Program*

Fiscal Year 2006



Department of Human Resource Management



Fiscal 2006 Annual Report

Table of Contents

Introduction	3
Health Plans	4
Enrollment	
Health Care Premiums	
Cost of Coverage	
Claims Expense	
Medical	
Prescription Drugs	
Dental	
Behavioral Health	
Other Benefits	12
Flexible Reimbursement Accounts	
Long-Term Care Insurance	
Cost Drivers	14
The Health Plan “Top Ten”	
Lifestyle Impact	
Aging Population	
Wellness and Preventive Care	18
CommonHealth	
Preventive Screenings	
Baby Benefits	
Health Benefits Program	21
Operating Statement	
Employee Satisfaction	

Fiscal 2006 Annual Report

Introduction

This report presents a financial overview of the statewide COVA Care self-insured health benefits plan, and where indicated, the regional, fully-insured Kaiser Permanente HMO plan offered only in Northern Virginia.

Unless otherwise indicated, this report is based on the experience of health plan members, including the active employee and non-Medicare eligible retiree group during fiscal year 2006 (July 1, 2005 through June 30, 2006). 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).

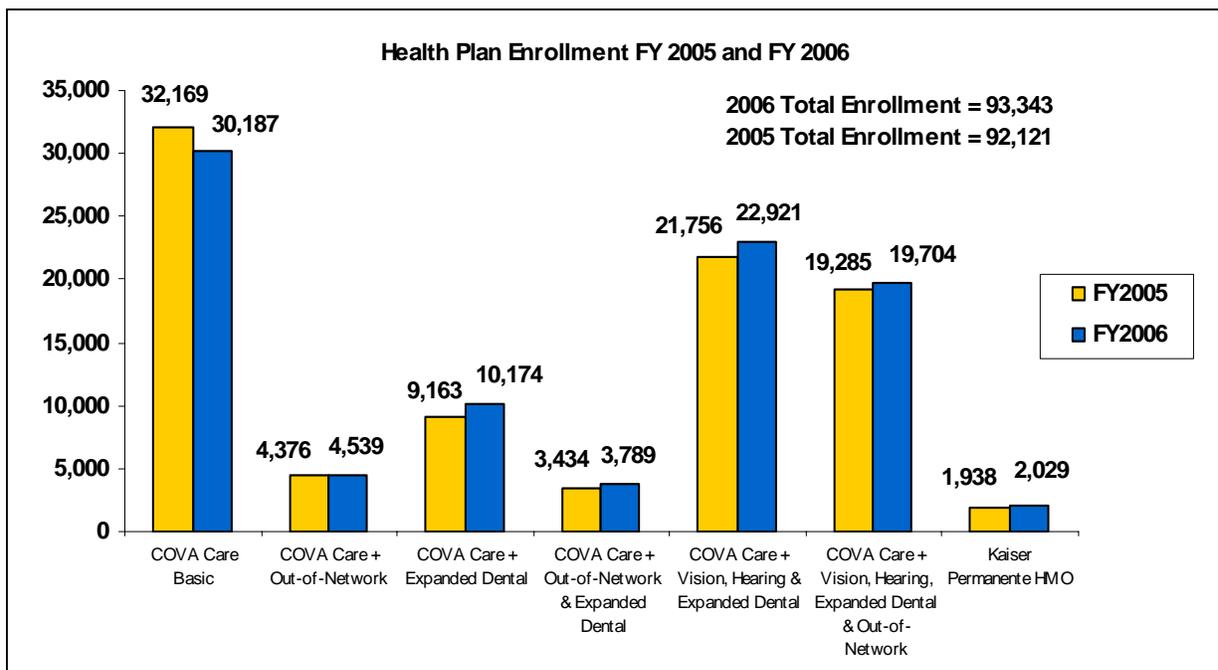
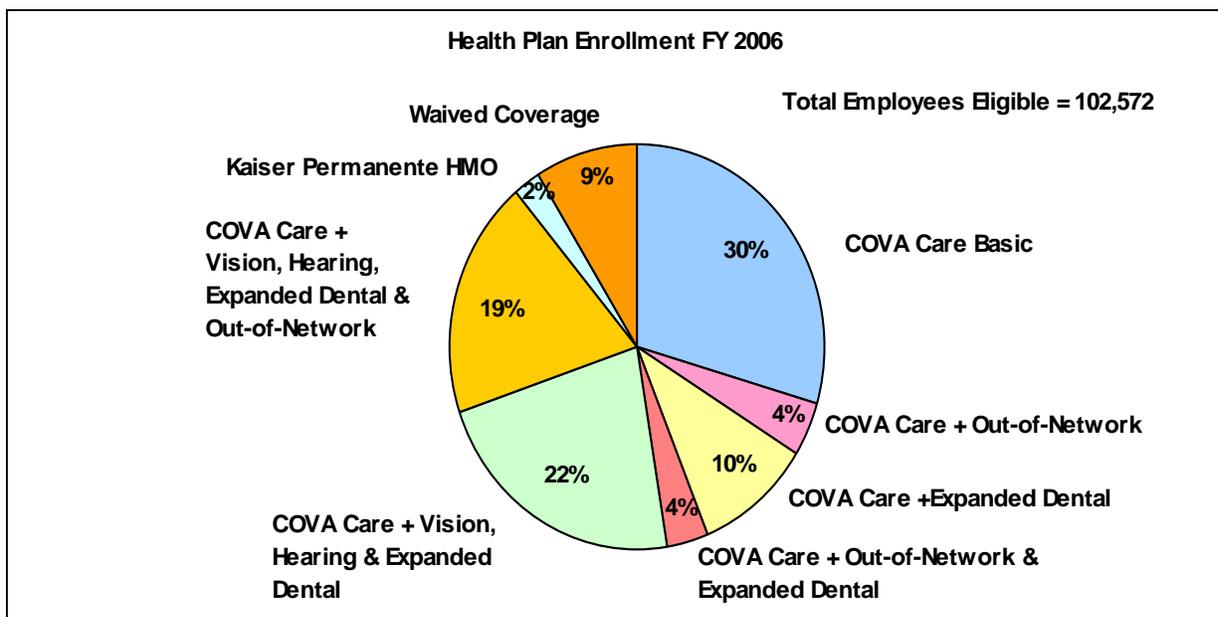
The statewide, self-insured COVA Care health plan was introduced in fiscal year 2004 to help control rising health care costs for state employees and to more effectively align the balance between plan premiums and out-of-pocket expenses.

Higher pharmacy, outpatient facility and lifestyle-related expenses, in conjunction with the aging of plan members, continue to drive the cost of health care for the state health benefits program.

Health Plans

Enrollment

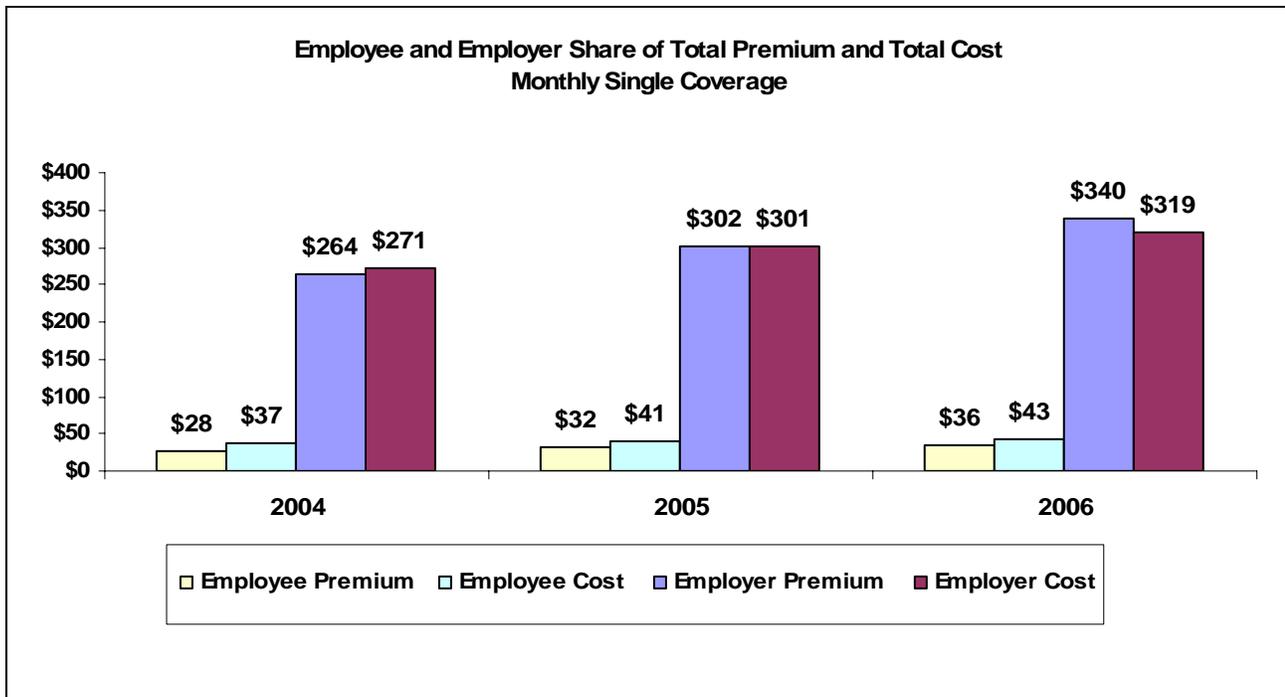
Total enrollment in the statewide COVA Care and regional Kaiser Permanente HMO plans grew in fiscal year 2006 by about 1,200 state employees or 1.3 percent. About one third of those enrolled were in the COVA Care basic plan. Enrollment in the COVA Care basic plan dropped approximately 7 percent in 2006 compared to the previous year, as members switched to options providing additional coverage. About 41 percent of employees eligible for the health plan opted for buy-ups that offered the most coverage. Kaiser Permanente HMO enrollment remained stable.



Health Plans

Health Care Premiums

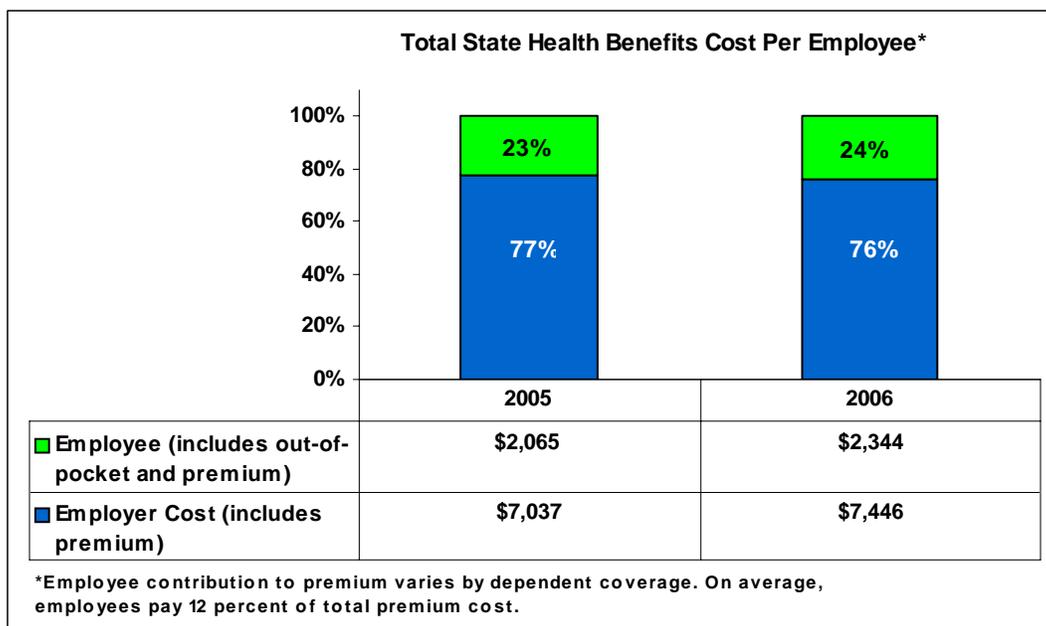
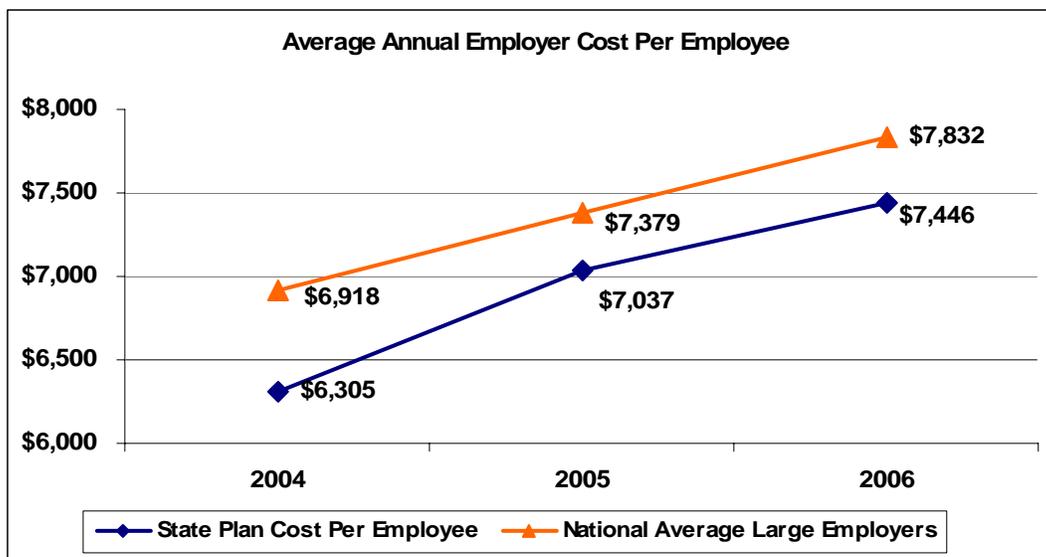
The monthly premium paid per employee provides the money for plan income, while the cost to provide coverage each month makes up the total expense to operate the plan. On average, the state pays 88 percent of the cost for state employee health care premiums, while the employee pays 12 percent. From 2003 to 2005, total expenses to operate the COVA Care plan were greater than the actual amount of money put into the plan. In 2006, the amount of dollars put in the plan exceeded total operation expenses.



Health Plans

Cost of Coverage

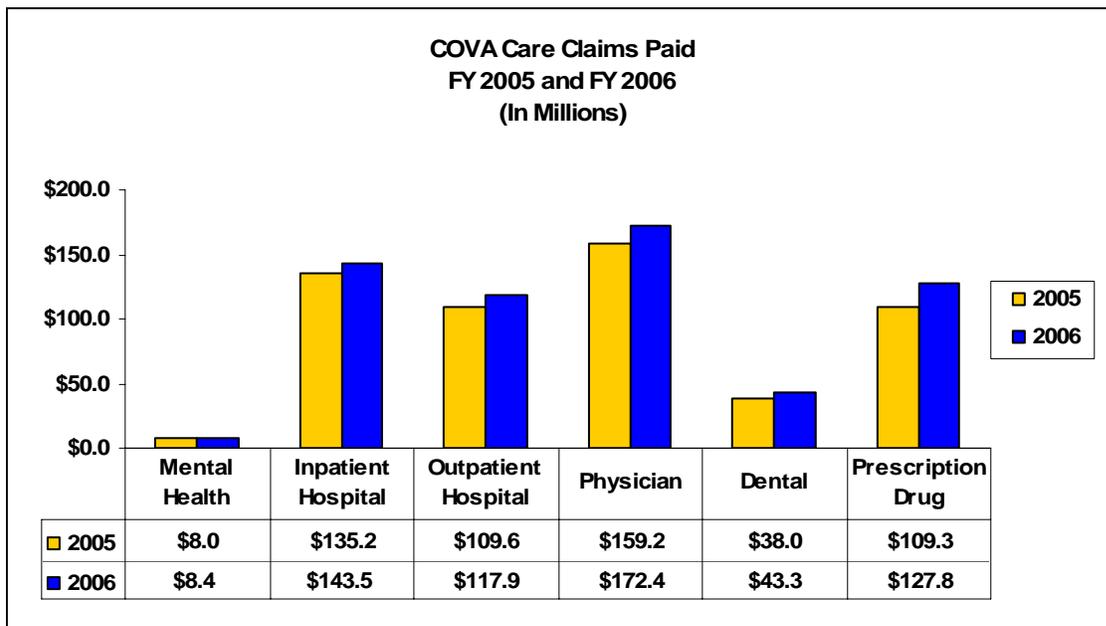
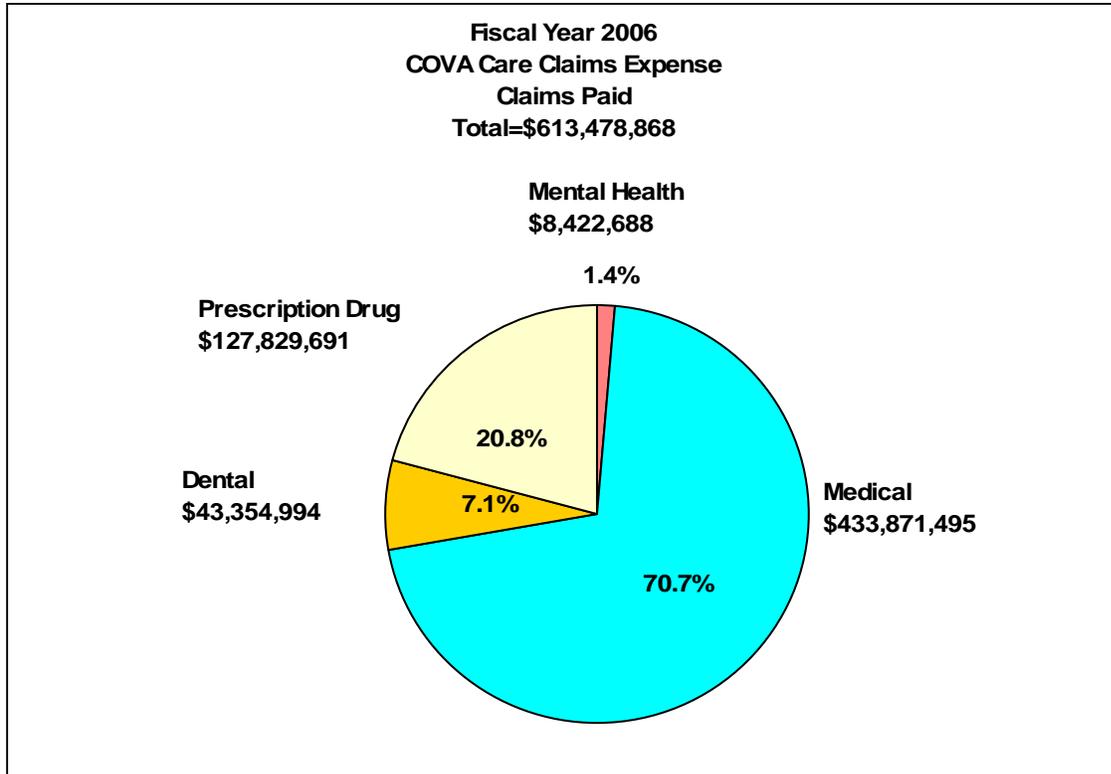
While the cost of providing health coverage continues to rise, the rate of increase slowed during 2006. The plan's average annual cost of providing health coverage per employee rose 5.8 percent from 2005 to 2006. Medical and prescription drug costs accounted for a significant part of the increase, driven by higher outpatient facility, prescription drug and physician expenses. The plan paid 76 percent of the annual total health benefits cost and the employee paid 24 percent in 2006, up 1 percent from the previous year. The employee share is the average amount of the total cost that each employee paid in premiums, deductibles, copayments and coinsurance.



Health Plans

Claims Expense

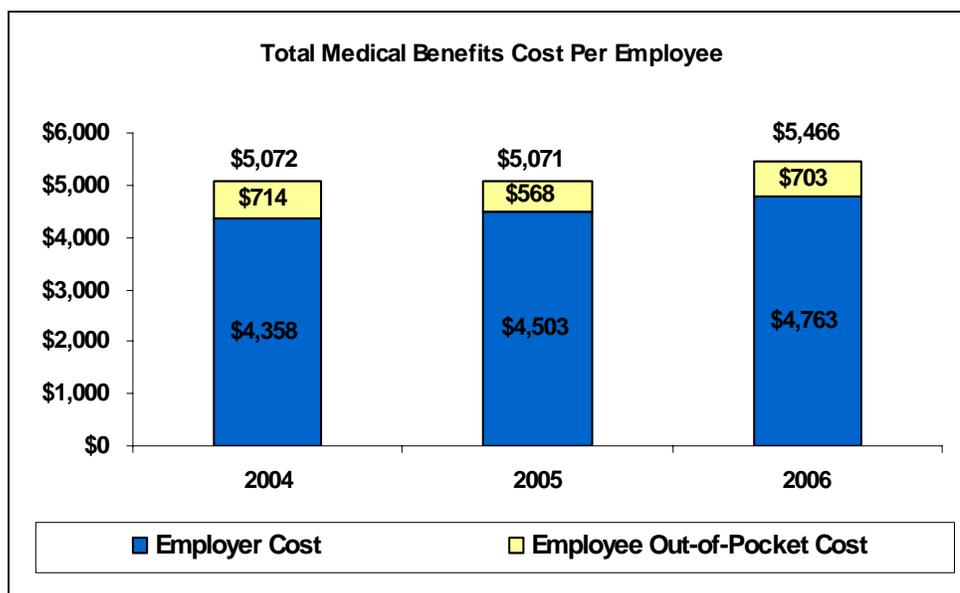
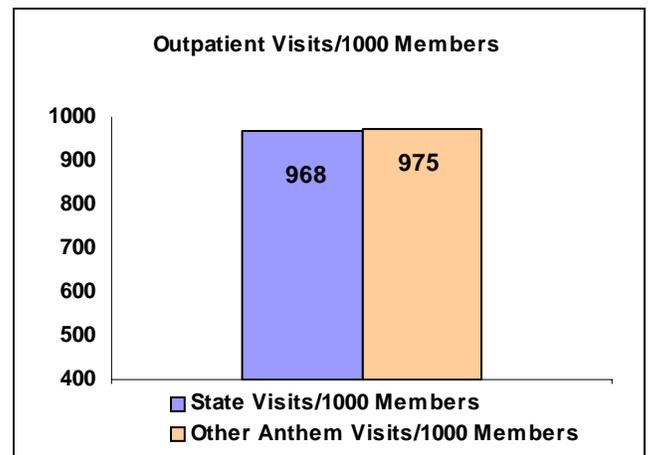
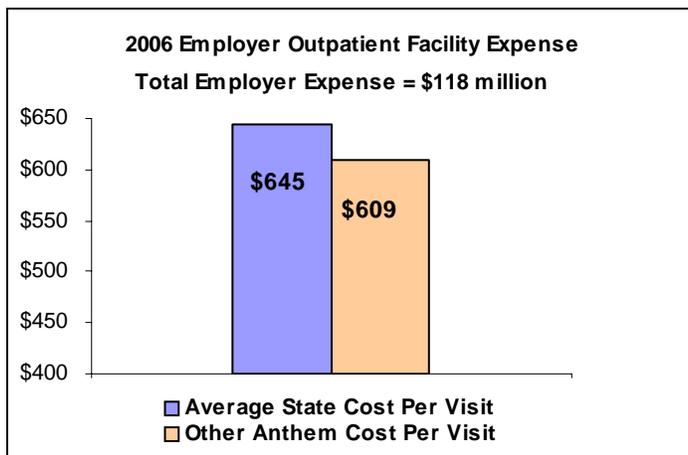
Approximately 5.8 million claims were processed for all COVA Care plan benefits during fiscal year 2006, up 5 and-a-half percent from the previous year. A majority of claims were medical, and almost 71 percent of total plan claims expense was from medical claims.



Health Plans

Medical

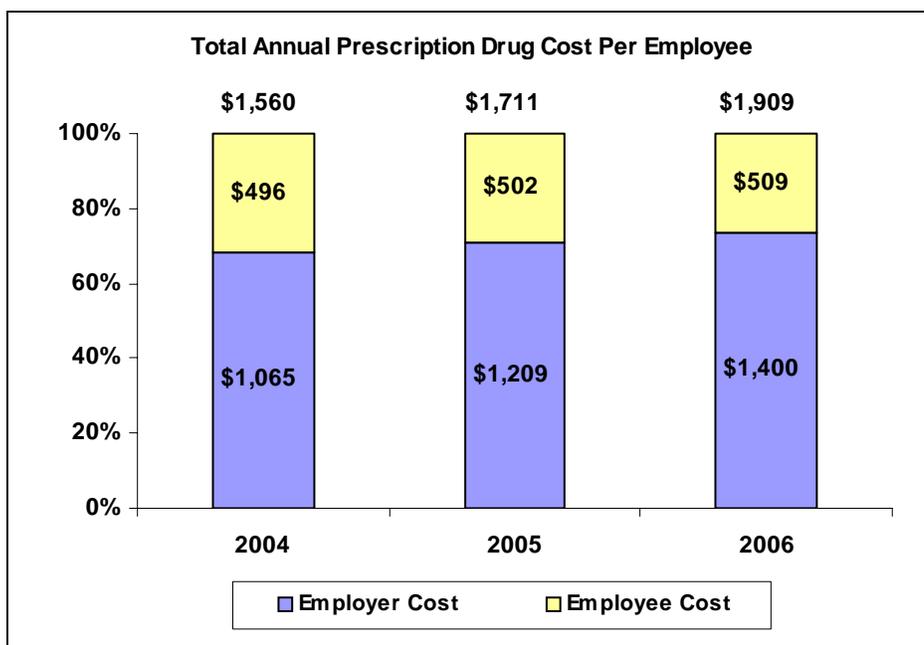
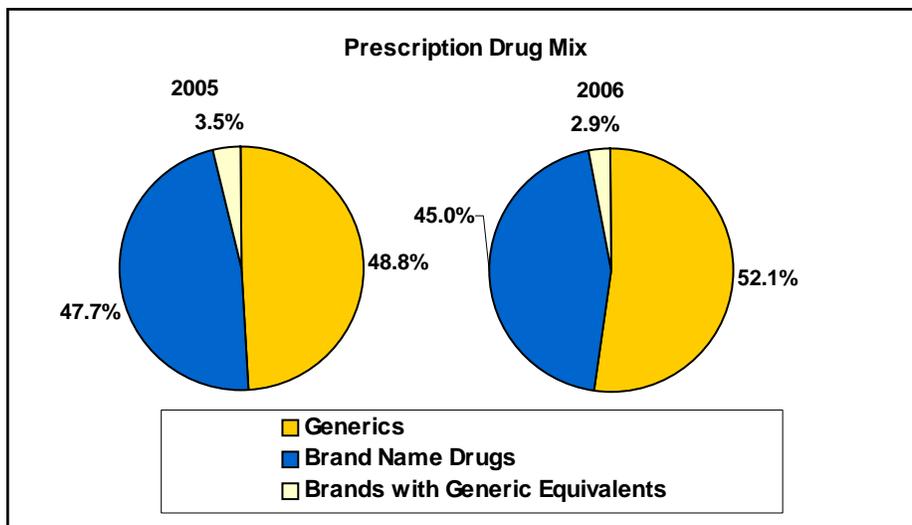
More medical care today is performed in an outpatient setting. Total outpatient facility expenses were up 7.5 percent, from \$109.6 million to \$117.9 million, from 2005 to 2006, and the average employer cost per outpatient facility visit rose nearly 8 percent. Costs were driven by an increase in the number of visits, combined with more expensive facility care. Total hospital and outpatient physician costs grew by 8.3 percent, from \$159.2 to \$172.4 million, driven by a greater number of office visits and higher costs for services. Inpatient facility expense increased 6.1 percent, from \$135.2 million to \$143.5 million, a reflection of growing expenses in every category of care. Employees paid 13 percent of total medical benefits cost in 2006, while the state plan paid 87 percent.



Health Plans

Prescription Drugs

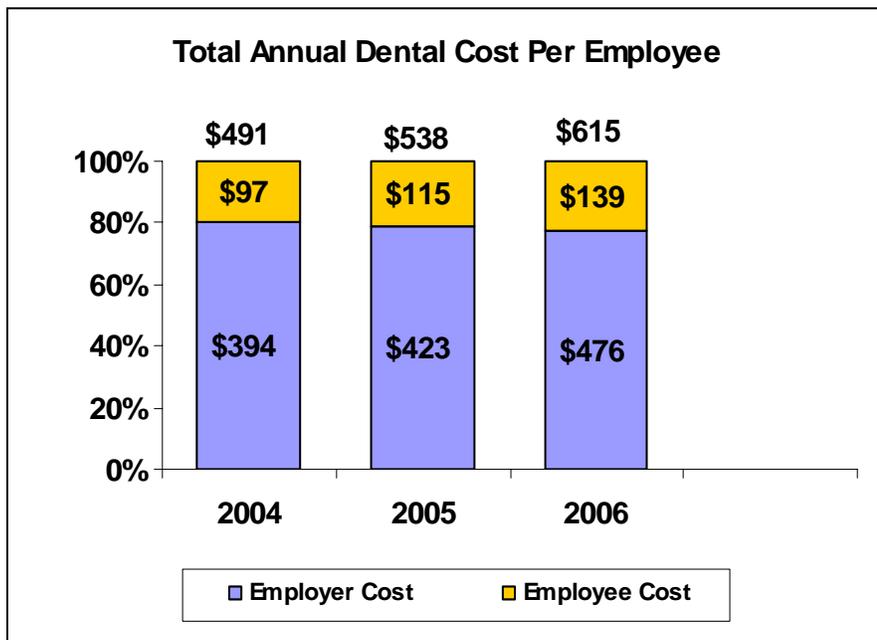
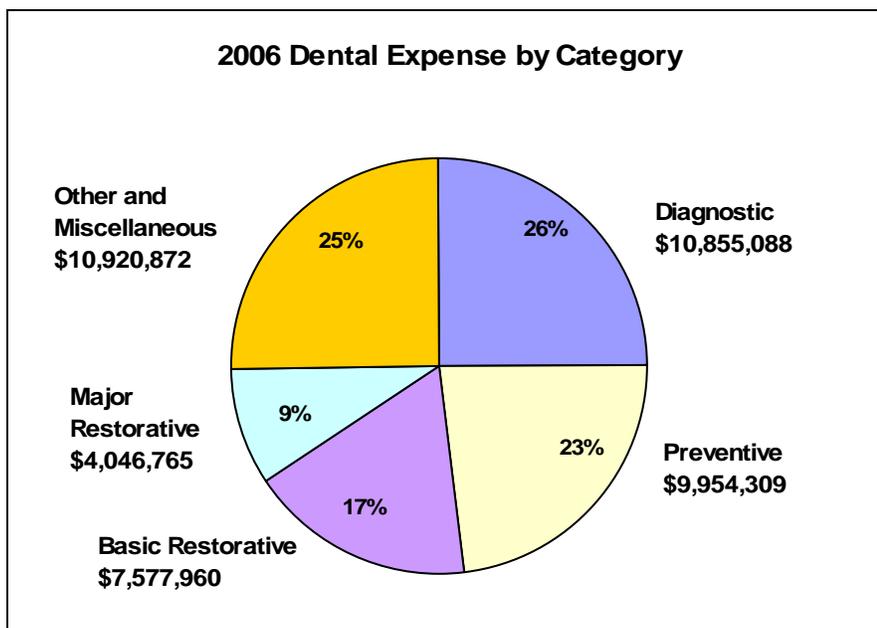
Total prescription drug costs for the state program increased approximately 17 percent from 2005 to 2006, reflecting higher utilization by members, the introduction of new drugs and changes to existing drug therapy. While the cost increased for brand name drugs, less expensive generic drugs represented more than 52 percent of the total drug mix, up over 3 percent from 2005. The increase in generics came in part from the expiration of patents on many highly utilized brand name drugs which then became generic drugs. Due in part to an increase in generics, health plan members paid 27 percent of total annual prescription drug costs in 2006, down 2 percent from the year before.



Health Plans

Dental

Dental benefits represent about 7 percent of total claims expense for the state plan and are provided at a modest cost to employees. About 347,000 dental claims were processed in 2006 and utilization continues to be stable. Preventive and diagnostic services are paid at 100% and accounted for nearly half of total plan dental claims expense in 2006.

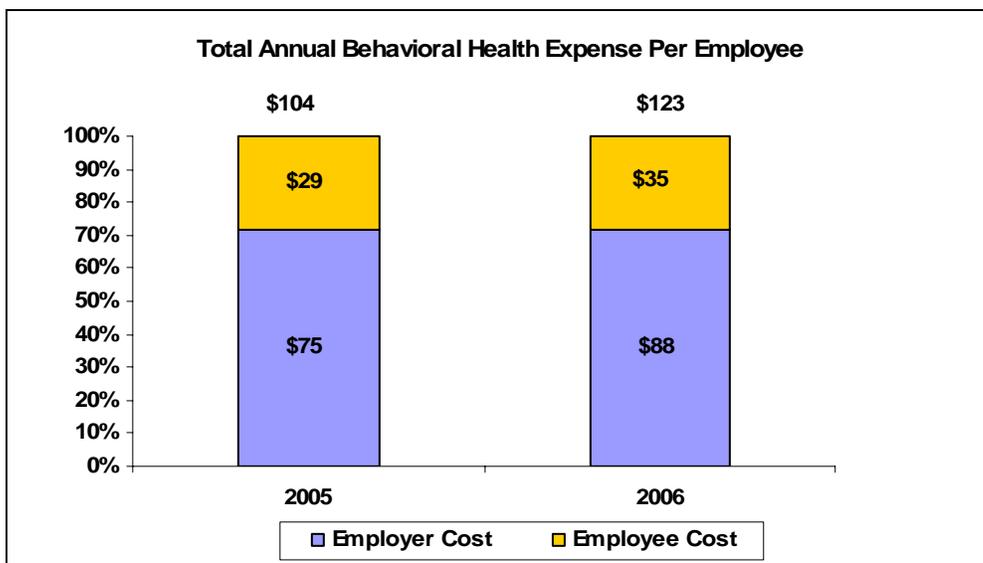
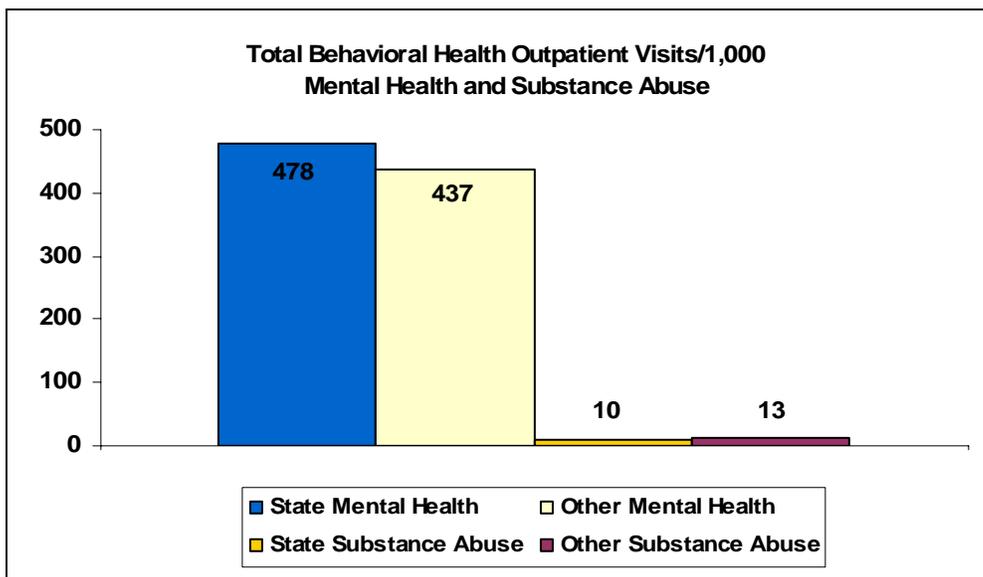


Health Plans

Behavioral Health

About 13,200, or 14 percent of those enrolled in the health plan, used the behavioral health benefit in 2006. Employees incurred 90 percent of claims, while 70 percent of all claims related to mood and adjustment disorders. Fifty-four percent of claims expense was for outpatient services, 38 percent for inpatient services, and 8 percent for alternative levels of care.

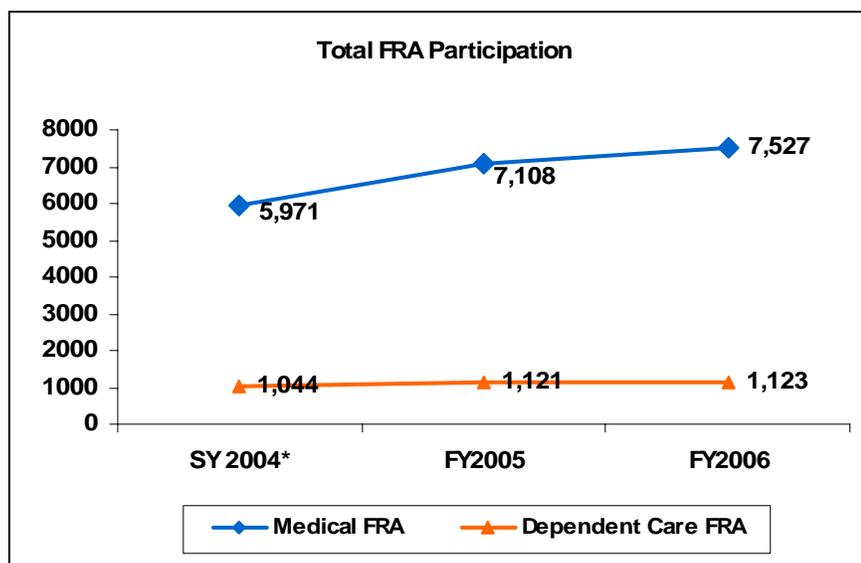
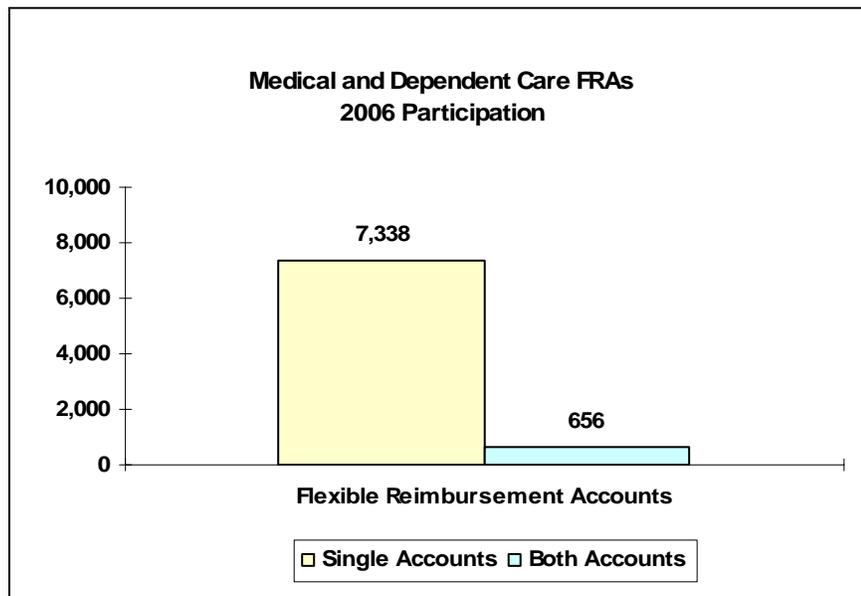
State employees and their family members also have access to an employee assistance program (EAP) in conjunction with the behavioral health benefit. Counselors are available around the clock to deal with a variety of family and workplace issues. During fiscal year 2006, the COVA Care EAP handled about 3,000 cases, up 15 percent from the prior year.



Other Benefits

Flexible Reimbursement Accounts

The number of employees participating in either a Medical or Dependent Care flexible reimbursement account or both accounts grew 23 percent in 2006 over the previous year. A Medical FRA allows employees to set aside part of their income before taxes to pay for certain non-covered health care expenses, while a Dependent Care FRA may be used to pay certain eligible costs for day or elder care.

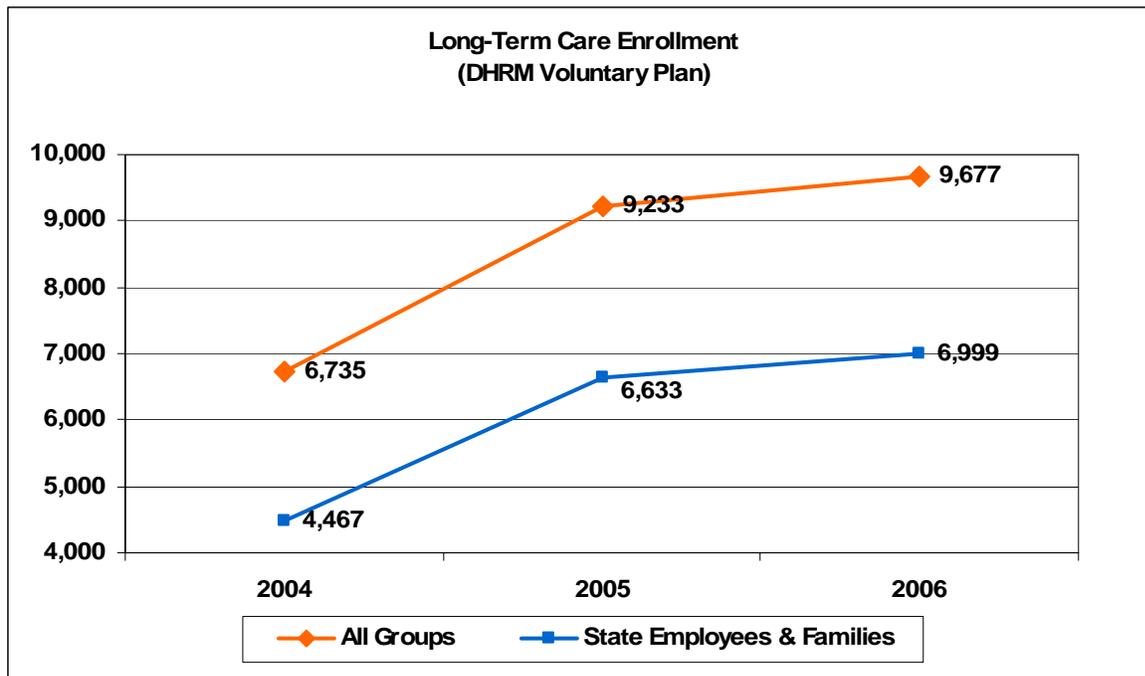


*Short plan year of 1/1 - 6/30/04

Other Benefits

Long-Term Care Insurance

All state employees enrolled in the Virginia Sickness and Disability Program automatically receive a long-term care insurance benefit. But all employees may also purchase coverage through the Department of Human Resource Management's voluntary program to better plan for their long-term care health needs. Almost 9,700 state and local employees, former state and local employees, and retirees enrolled in the plan during 2006, about a 5 percent increase from the prior year. Enrollment of current state employees and their eligible family members rose 5-and-a-half percent during the same period.



Source: Aetna Life Insurance Company

Cost Drivers

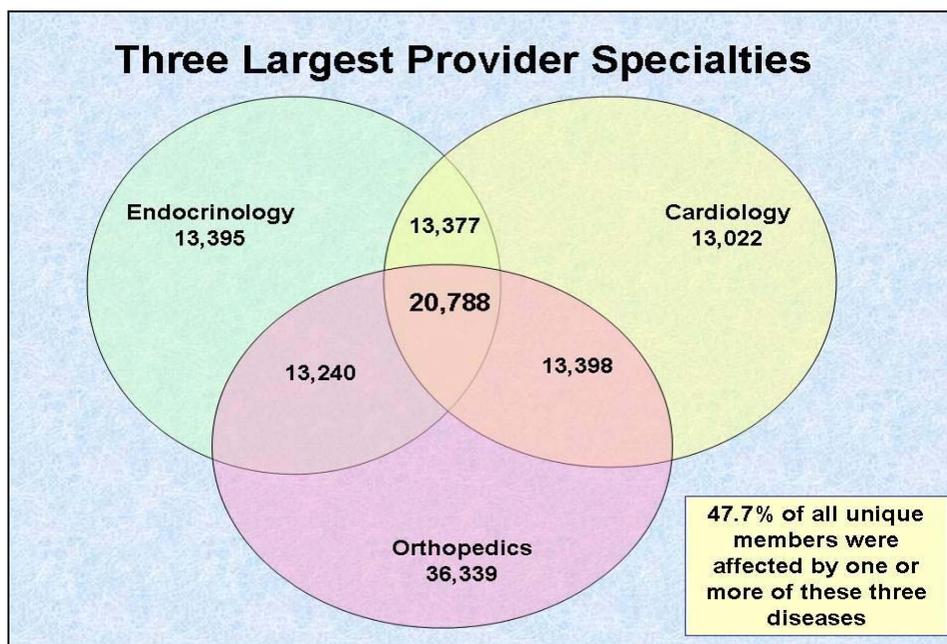
Employee lifestyle, age and the health plan's most expensive procedures, conditions and drugs had a significant impact on the cost of the health benefits program during 2006. Lifestyle includes such factors as smoking, physical activity and weight. The average age of state employees has been increasing over time. According to the American Medical Association, many diseases correlate with an aging population, and as people age, they are more likely to develop chronic conditions, such as high cholesterol, high blood pressure, heart disease and diabetes. The health plan "top ten" procedures, conditions and drugs accounted for over 75 percent of total 2006 claims expense.

Cost Drivers

The Health Plan “Top Ten”

The top ten most expensive types of medical procedures, preventable chronic conditions and prescription drugs cost the state plan almost \$465 million in 2006. Ranking high in the “top ten” are conditions that put individuals at risk for heart attack and stroke: for example, coronary artery and cerebrovascular disease, circulatory disorders, hypertension and high cholesterol. Overweight is identified with many as well: for example, diabetes, coronary artery disease, hypertension, musculoskeletal and digestive disorders and high cholesterol.

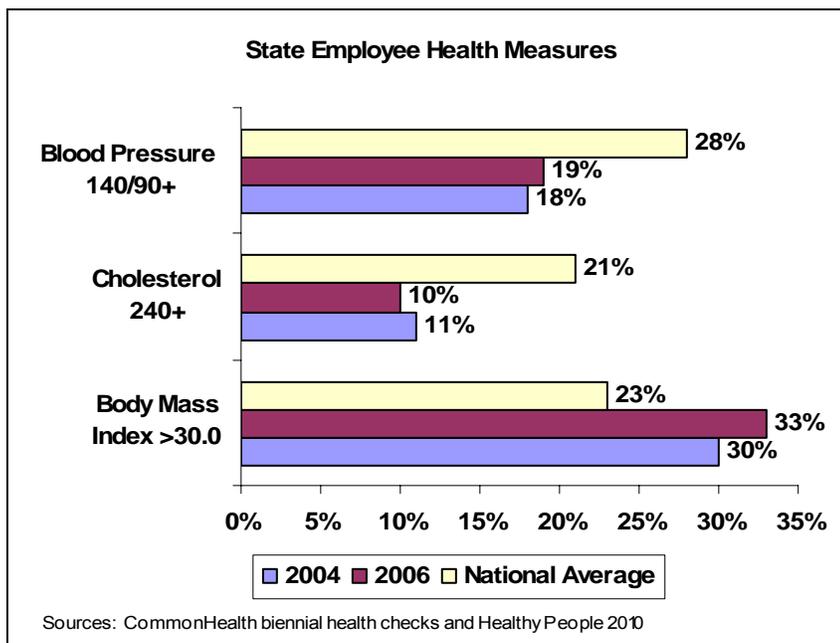
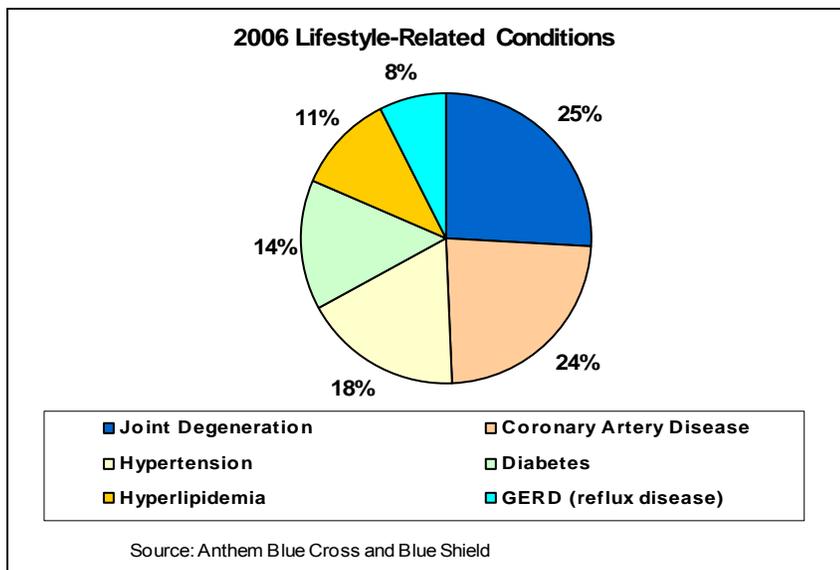
2006 Health Plan Top Ten		
Medical Procedures	Chronic Conditions	Prescription Drugs
1. Musculoskeletal	1. Coronary Artery Disease	1. Nexium (stomach acid)
2. Circulatory	2. Breast Cancer	2. Lipitor (high cholesterol)
3. Neoplasms (tumors)	3. Diabetes	3. Zocor (high cholesterol)
4. V-Codes (health services not classified as disease or injury)	4. Cerebrovascular Disease	4. Enbrel (rheumatoid arthritis)
5. Ill-defined symptoms (undetermined causes)	5. Hypertension	5. Advair diskus (asthma)
6. Digestive	6. Lung Cancer	6. Zoloft (depression)
7. Genitourinary	7. Skin Cancer	7. Actos (oral insulin)
8. Endocrine, nutritional, metabolic	8. Oral Cancer	8. Prevacid (stomach acid)
9. Accidental injury	9. Obesity	9. Effexor XR (depression)
10. Nervous system/sense organs	10. High blood cholesterol	10. Singulair (asthma)
57.6% of Total Claims Cost	9.9% of Total Claims Cost	8.3% of Total Claims Cost



Cost Drivers

Lifestyle Impact

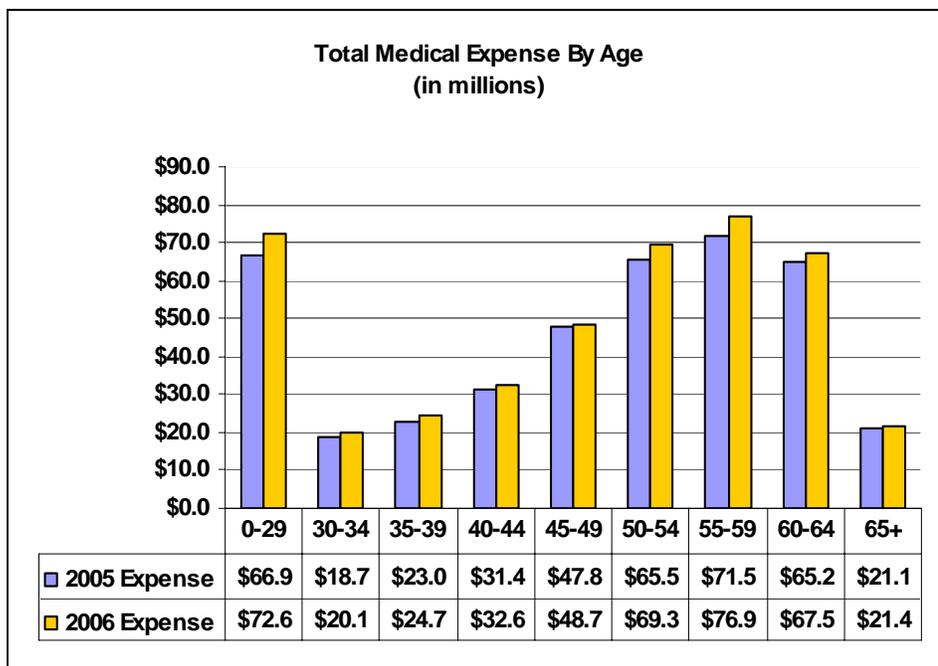
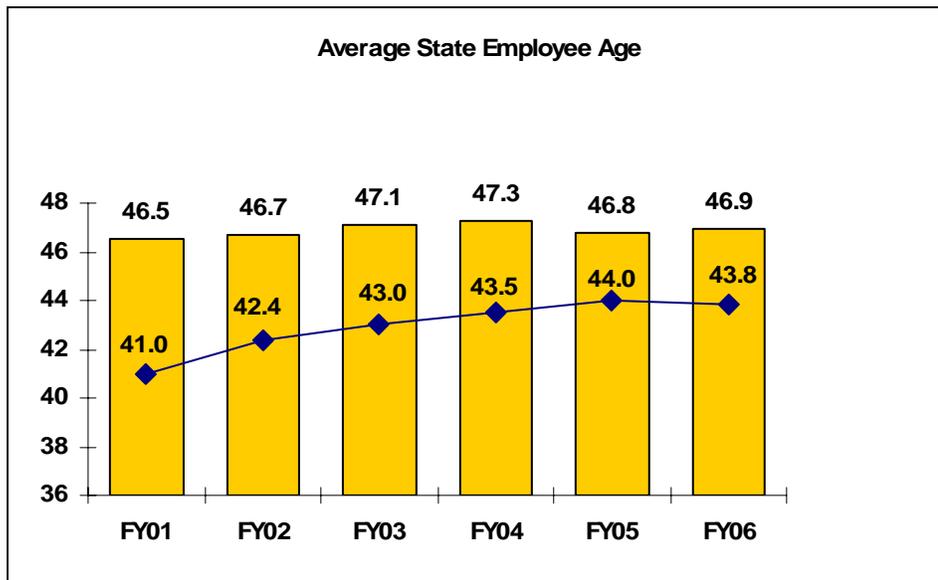
During fiscal year 2006, six conditions that correlate with overweight represented almost 24 percent, or \$137.6 million, of total medical expense incurred during the year. Approximately 9,000 employees in 2006 and 8,300 in 2004 took a health risk assessment. While the group was below the national average in the incidence of very high cholesterol and high blood pressure, it was significantly above average in body mass index of 30 or more, considered obese.



Cost Drivers

Aging Population

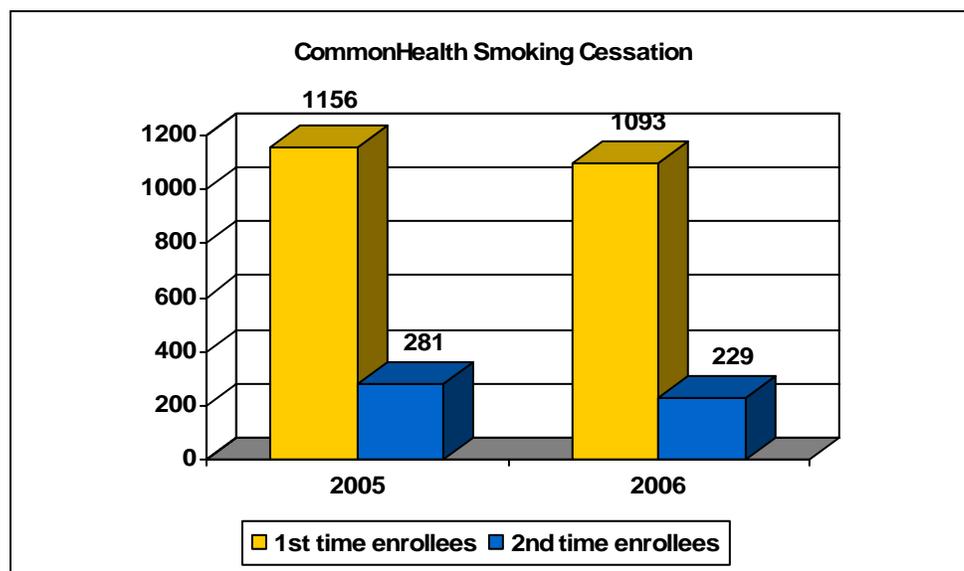
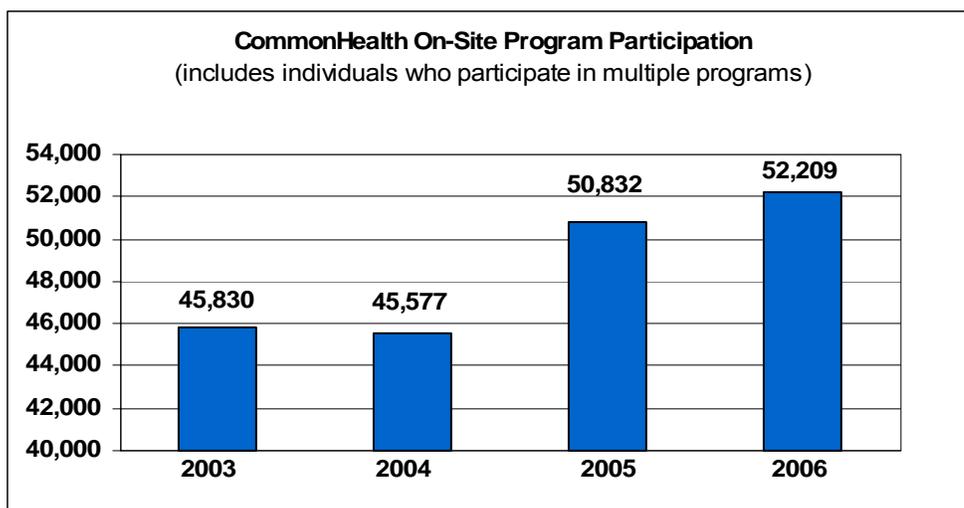
The age of the state workforce enrolled in the health benefits program is considerably higher than that of employees at other employers who offer Anthem medical benefits. Forty three percent of health plan members were ages 45 and above in 2006, and they were responsible for 65 percent of total medical expenses. Both the age of members and the percentage they represent of total medical claims remained constant compared to the prior year.



Wellness & Preventive Care

CommonHealth

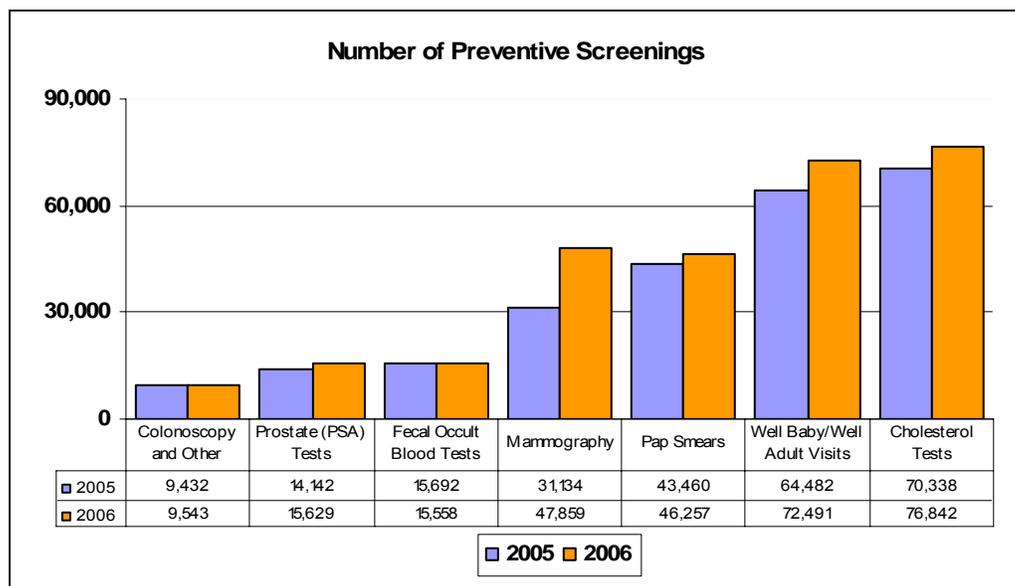
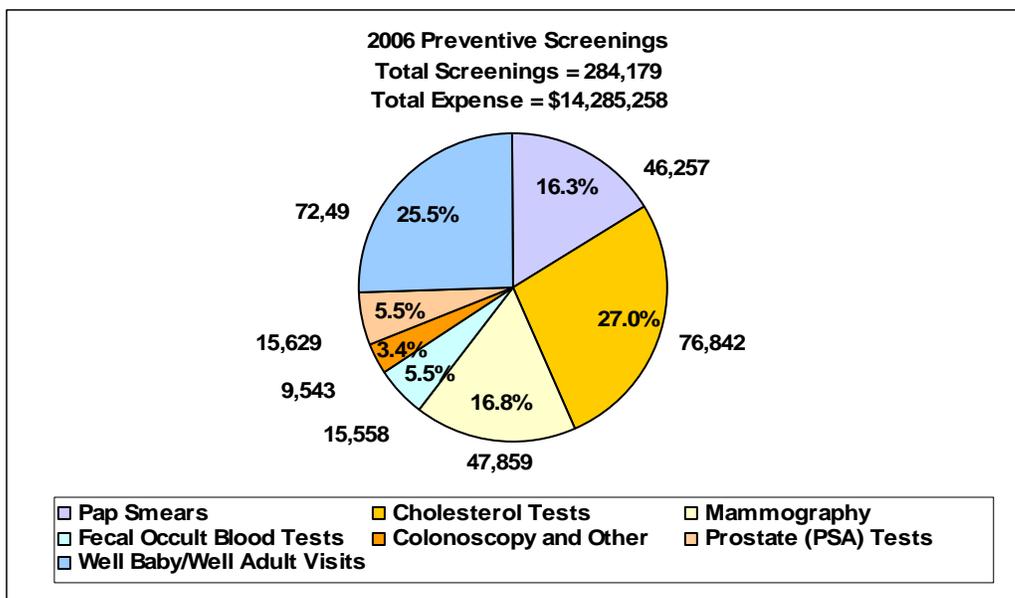
The *CommonHealth* wellness program, the workplace portion of *Healthy Virginians*, is a comprehensive program designed to promote healthy lifestyles. *CommonHealth* celebrated 20 years in 2006, and has encouraged the integration of health and physical activity into the work culture. The focus of *CommonHealth* in fiscal year 2006 was nutrition and fitness, combined with employee participation in health risk assessments. During the year, the program experienced a 49% participation rate for on-site sessions. *CommonHealth* is also addressing smoking among the 20 percent of state employees who smoke. The *CommonHealth* "Breaking Free From Tobacco" smoking cessation program has an average one-year quit rate of 26 percent compared to the 20% national average.



Wellness & Preventive Care

Preventive Screenings

The COVA Care plan in 2006 removed any financial barriers for employees to receive annual wellness and preventive care services, such as mammograms, annual physicals and prostate (PSA) tests. Routine wellness and preventive screenings are covered at no cost. Outpatient preventive screenings in 2006 represented a bit more than 3 percent of total medical expenses, and increased more than 14 percent over the prior year. More cholesterol tests, well baby and adult wellness check-ups are being done than other screenings. Cholesterol tests represented about 27 percent, and baby and adult wellness visits 25.5 percent, of total screenings.

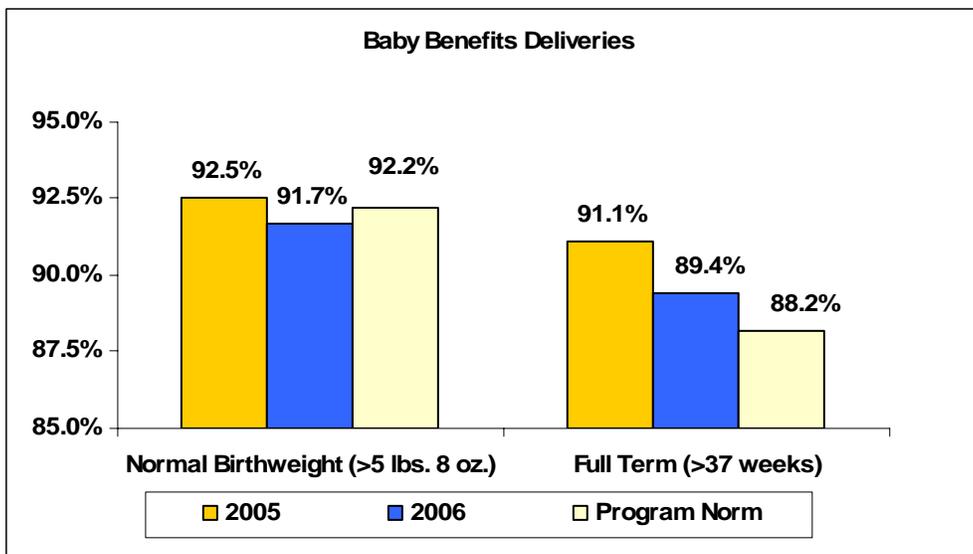
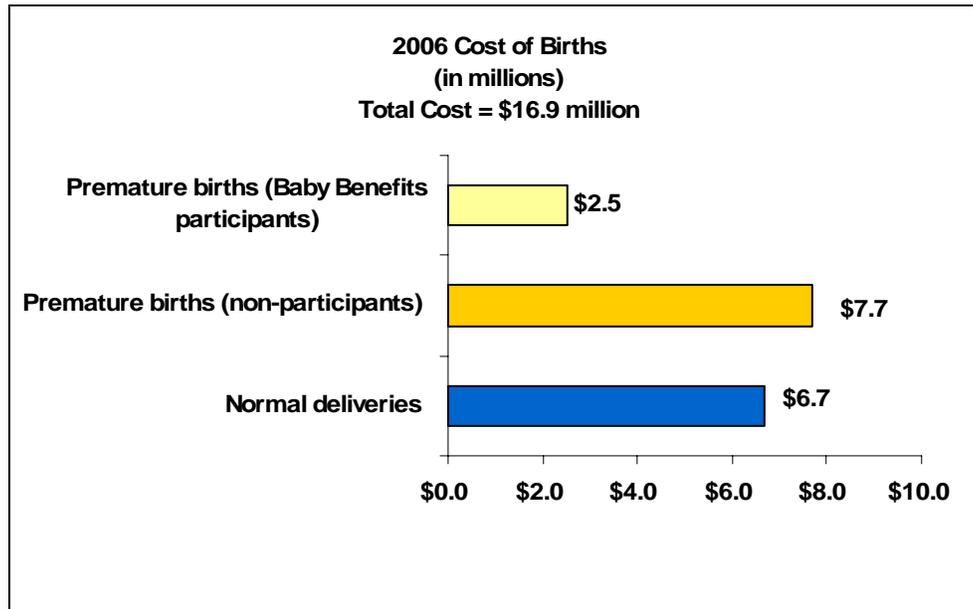


Wellness & Preventive Care

Baby Benefits

Claims for premature births were more than \$10 million in 2006. As part of its emphasis on preventive care, the state offers the *Baby Benefits* program at no cost to help expectant mothers have healthy babies. Special prenatal care during pregnancy can prevent premature birth. In general, birth weight impacts a child's overall lifetime health. Medical care for premature babies is very expensive. Of the more than 200 premature births among health plan members in 2006, six premature babies cost a total of \$2.6 million, including the cost of neonatal intensive care. Twelve infants died.

Of the pregnant members covered in 2006, 575 or about 26 percent participated in *Baby Benefits*. Almost 92 percent of women enrolled in the program had babies of normal birth weight.

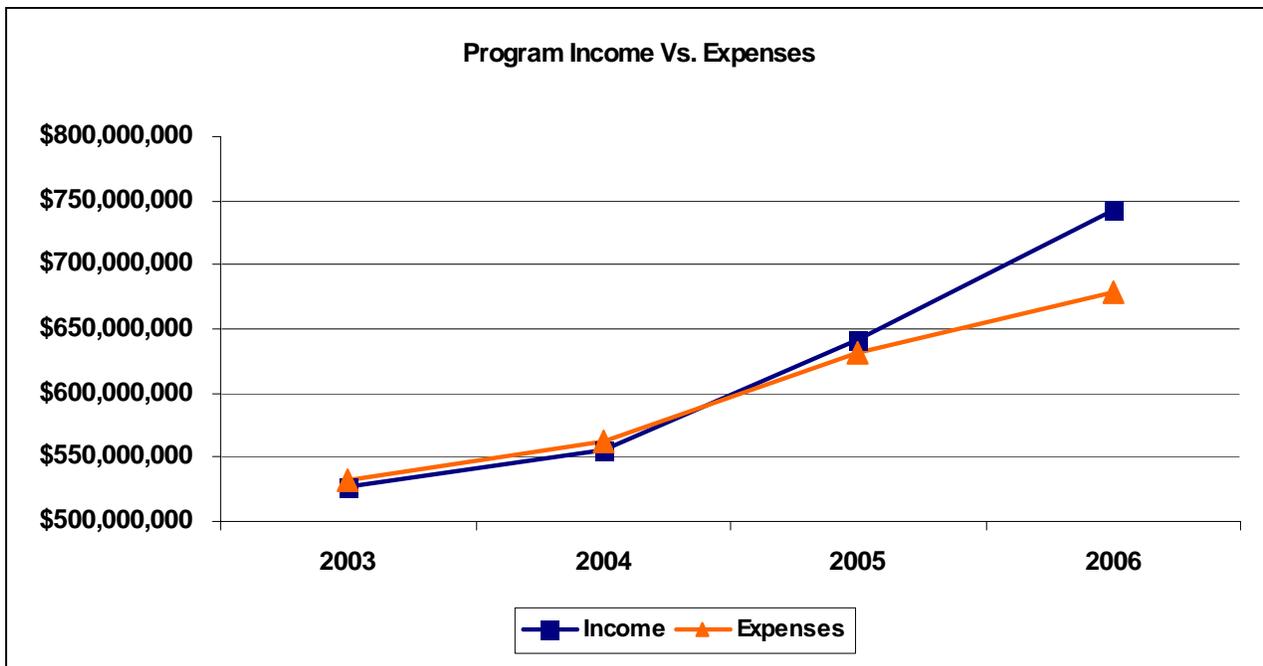


Health Benefits Program

Operating Statement

Premiums provide almost all of the health program's income, and claims payments represent 93 percent of expenses. The single statewide COVA Care plan was introduced in 2004. However, higher costs for prescription drugs, inpatient and outpatient facility expenses, and the aging of plan members contributed to a deficit in 2003 and 2004. In 2005 and 2006, the program experienced surpluses as a result of cost containment measures implemented under COVA Care combined with a slower rate nationally of health care cost increases.

PROGRAM TOTAL	FISCAL YEAR 2003	FISCAL YEAR 2004	FISCAL YEAR 2005	FISCAL YEAR 2006
Annual Income <i>(Premiums, Interest, Other)</i>	\$526,350,237	\$555,831,160	\$641,722,952	\$741,926,480
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$532,037,581	\$561,614,443	\$631,491,957	\$678,797,543
Income Less Expenses	(\$5,687,344)	(\$5,783,283)	\$10,230,995	\$63,128,937



Health Benefits Program

Employee Satisfaction

Input from employees is important to help the health benefits program measure its progress in improving the quality and covered services it provides. Surveys are conducted periodically to measure employees' level of satisfaction. State employees rate specific aspects of their health care. The medical plan satisfaction 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 medical benefits received the highest rating in 2006, improving 3 percent over the prior year. Overall satisfaction with the employee assistance program declined the most from 2005 to 2006, even though 100 percent of those surveyed expressed satisfaction with treatment goals and said they were likely or very likely to use EAP services again.

