

Commonwealth of Virginia
Health Benefits Program

Fiscal Year 2007



Department of Human Resource Management



Fiscal 2007 Annual Report

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Fiscal 2007 Annual Report

Introduction

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

The COVA HDHP (High Deductible Health Plan) was introduced in fiscal year 2007 as another way to help control rising health care costs among state employees. This type of plan allows members to set up a Health Savings Account and to use the tax-deductible contributions to help pay for medical expenses.

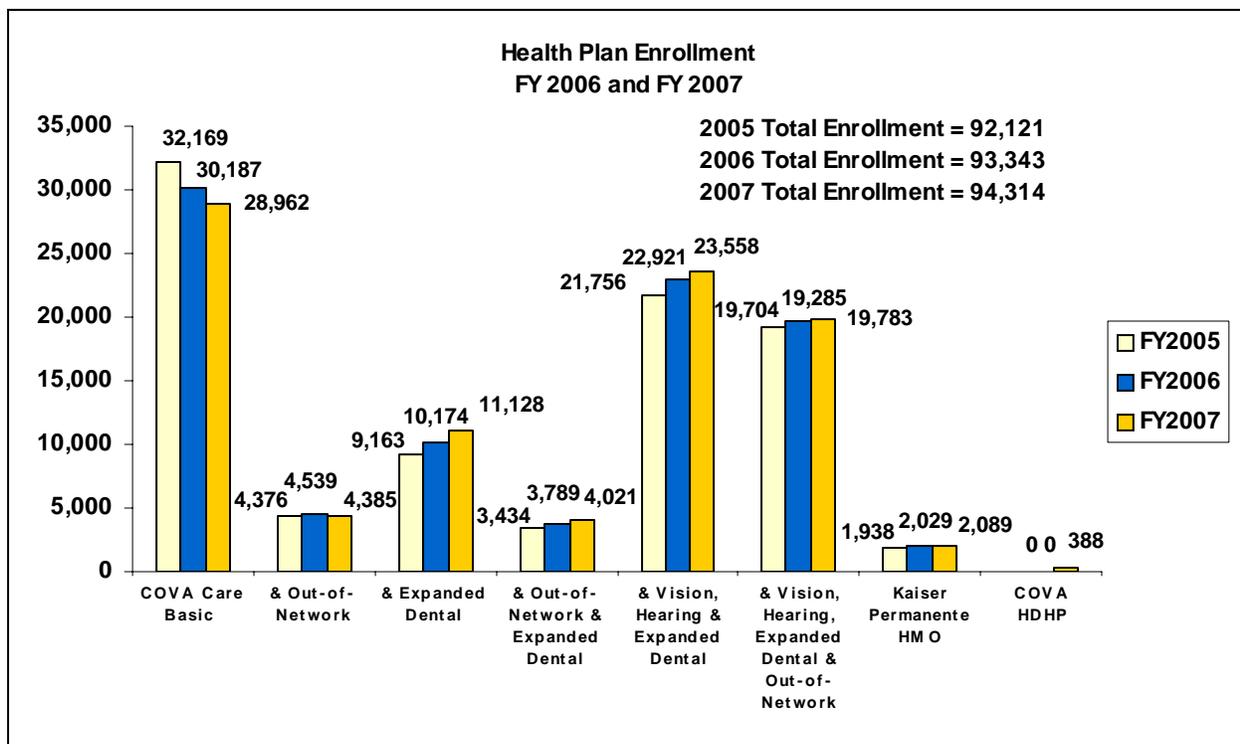
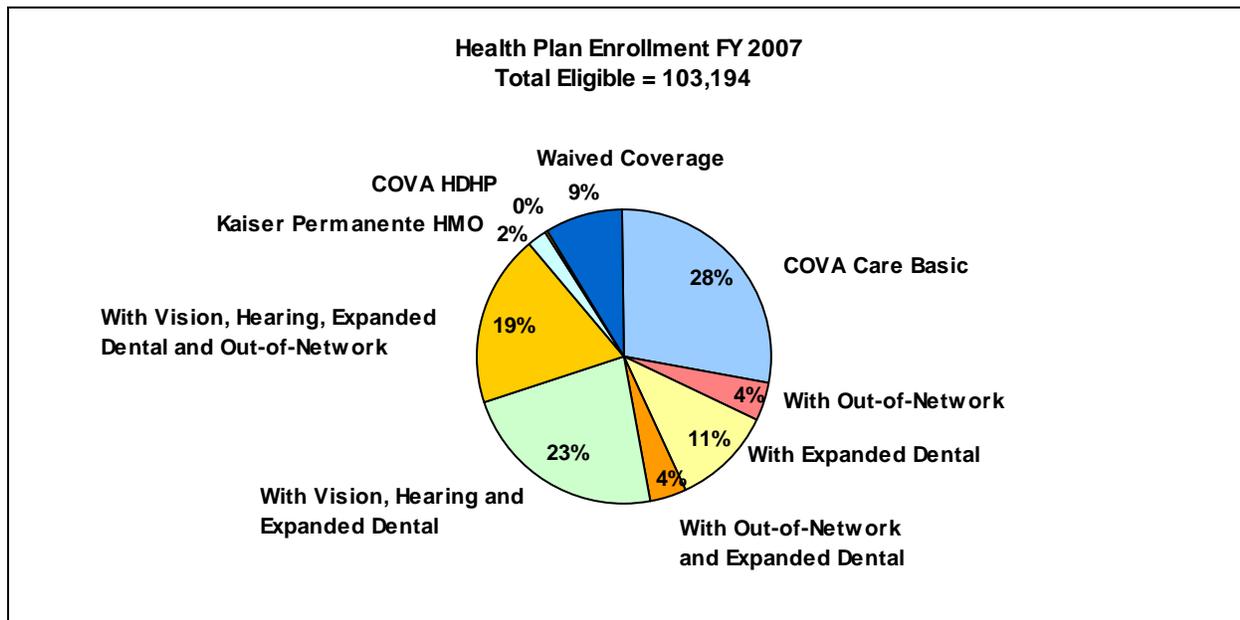
Unless otherwise indicated, this report is based on the experience of health plan members, including the active employee and non-Medicare eligible retiree group during fiscal year 2007 from July 1, 2006 through June 30, 2007. Statewide plan benefits were administered by Anthem Blue Cross and Blue Shield for medical; Delta Dental of Virginia for dental; Medco Health Solutions, Inc. for prescription drug; and ValueOptions, Inc. for behavioral health and employee assistance program services. Other plan administrators included Fringe Benefits Management Company for flexible benefits and Aetna Life Insurance Company for long-term care insurance.

As in prior years, higher pharmacy, outpatient facility and lifestyle-related expenses coupled with the aging of plan members are the four areas driving the cost of health care for the state health benefits program.

Health Plans

Enrollment

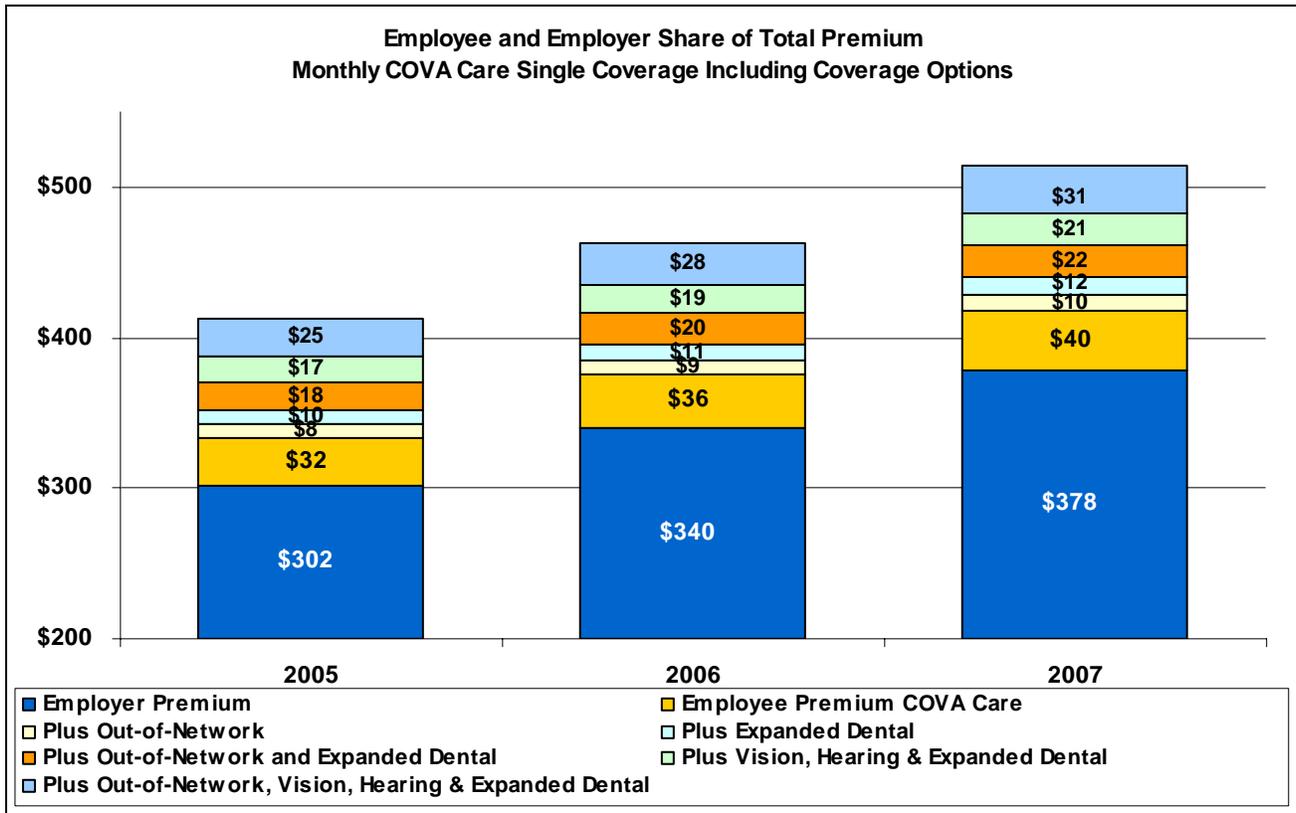
Total enrollment in the statewide COVA Care, COVA HDHP and regional Kaiser Permanente HMO plans was stable in fiscal year 2007, with minimal growth of about 1 percent. Enrollment in COVA Care Basic, representing about one-third of enrollees, was down approximately 4 percent in 2007 compared to the previous year, as members continued to prefer options providing additional coverage. About 42 percent of employees eligible for the health plan opted for buy-ups offering the most coverage. Kaiser Permanente HMO enrollment remained almost the same as the year before.



Health Plans

Health Care Premiums

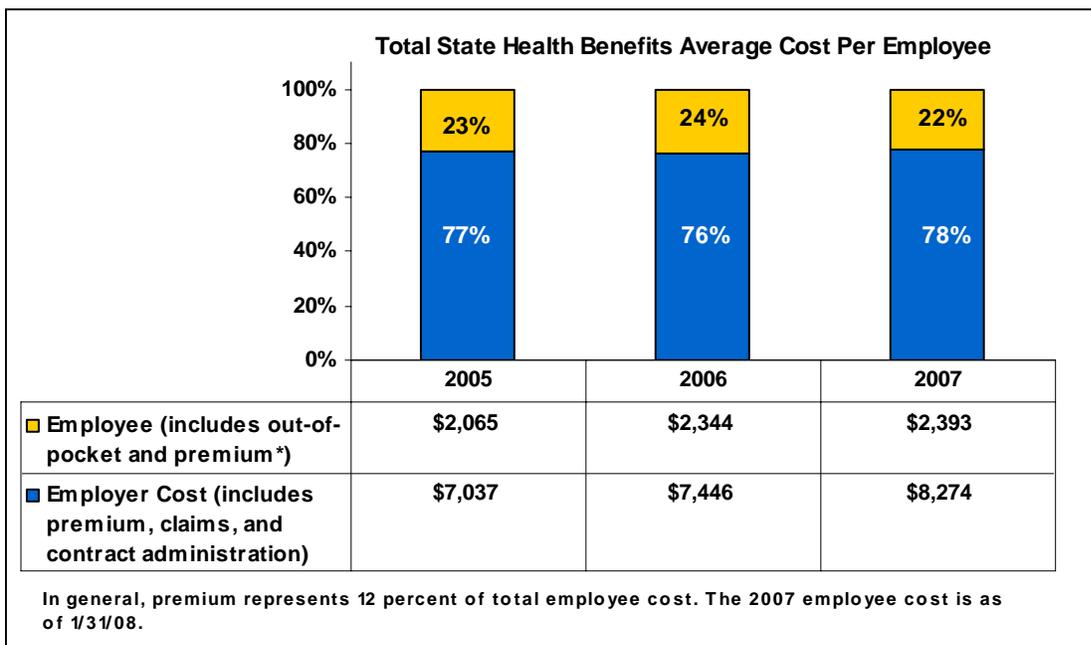
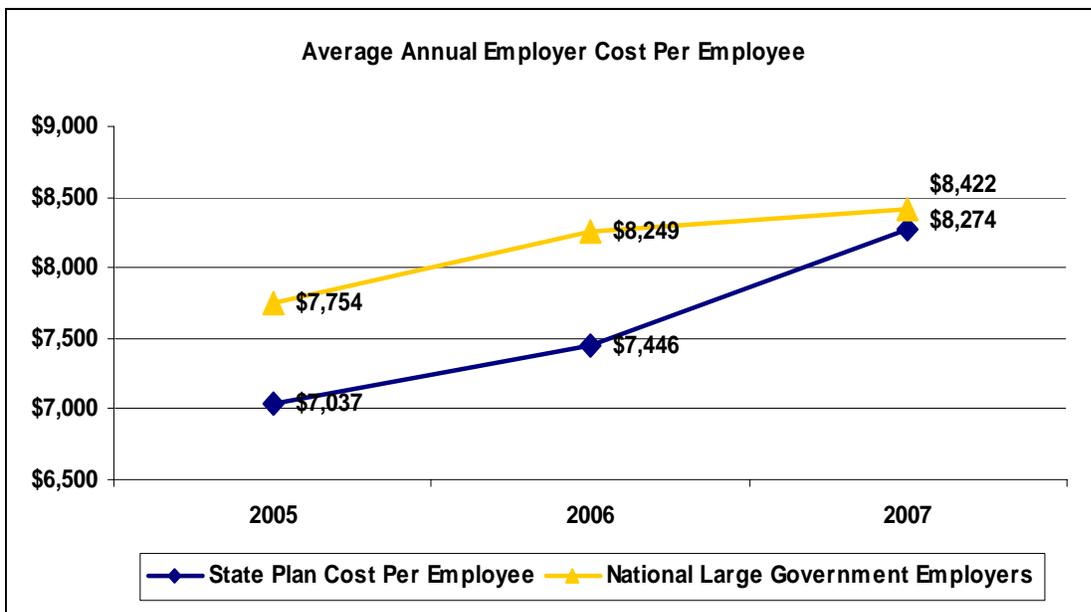
The monthly premium paid per employee funds the program to cover the cost of claims expense and administration. On average, the state pays 88 percent of the cost for state employee health care premiums, while the employee pays 12 percent. Employees pay the COVA Care Basic premium and may purchase additional coverage options. 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 and 2007, the amount of dollars put in the plan exceeded total operating expenses.



Health Plans

Cost of Coverage

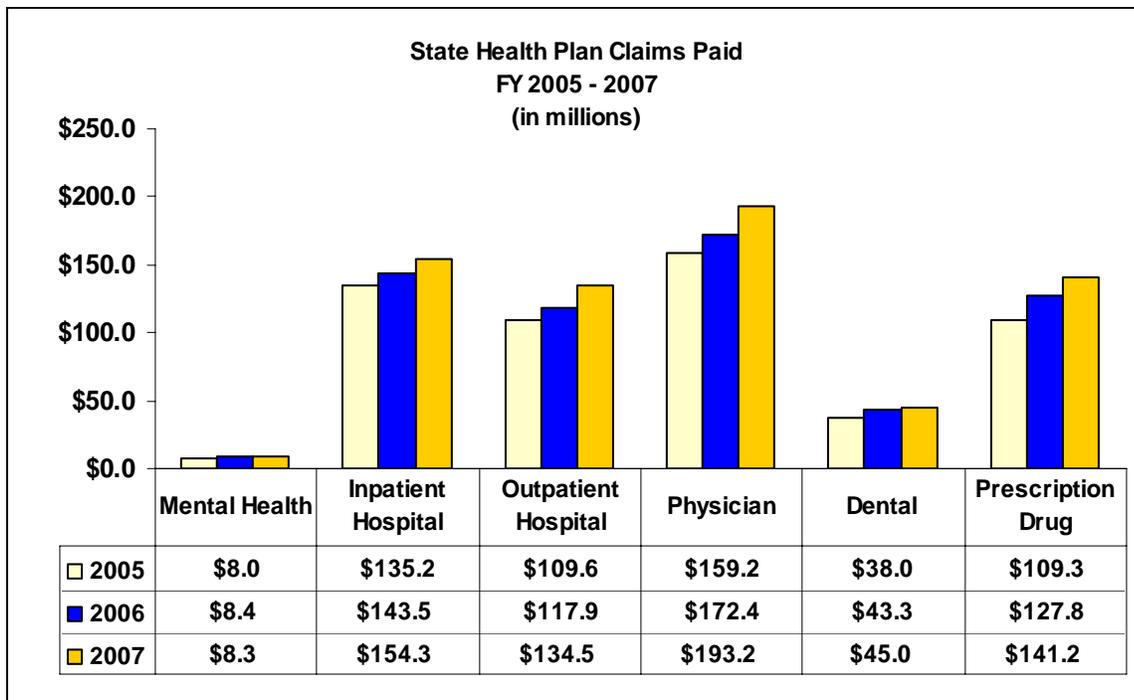
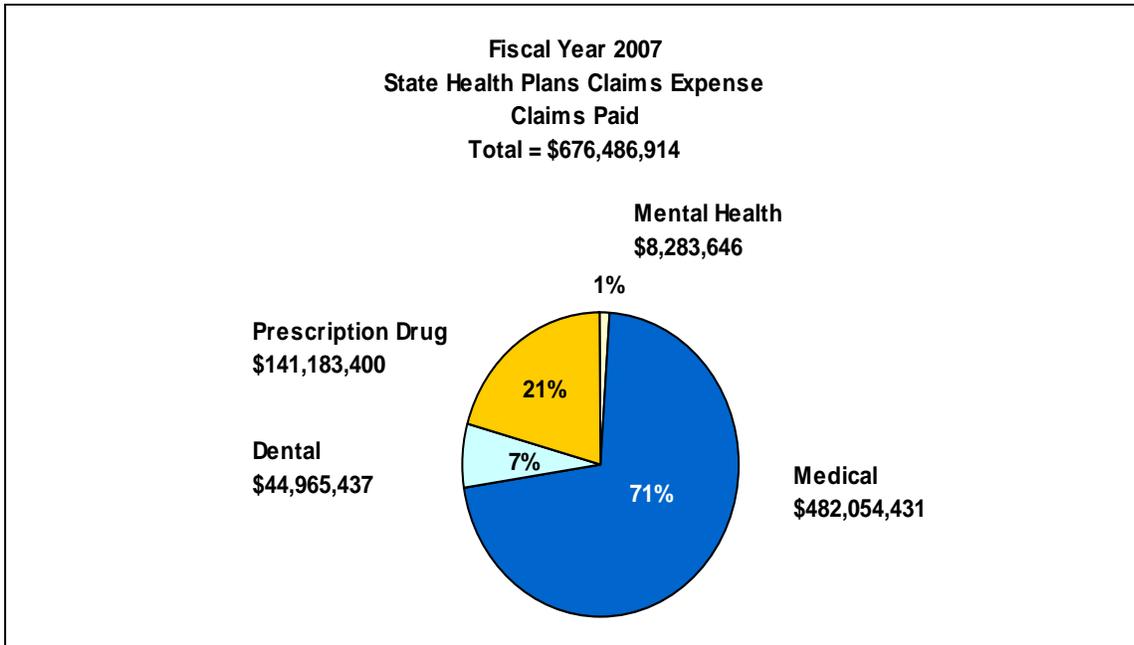
The average cost per employee nationally to large government employers providing health coverage rose during 2007 by 2 percent. The health benefits program's annual cost per employee was 1.8 percent below the national average in 2007, and 10.8 percent lower than the national trend in 2006. However, rising health care costs continued to have an impact on state plan costs. A significant part of the increase in 2007 came from medical and prescription drug costs, due to higher outpatient facility, prescription drug and physician expenses. The plan paid 78 percent of the annual total health benefits cost and the employee paid 22 percent, slightly less than 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

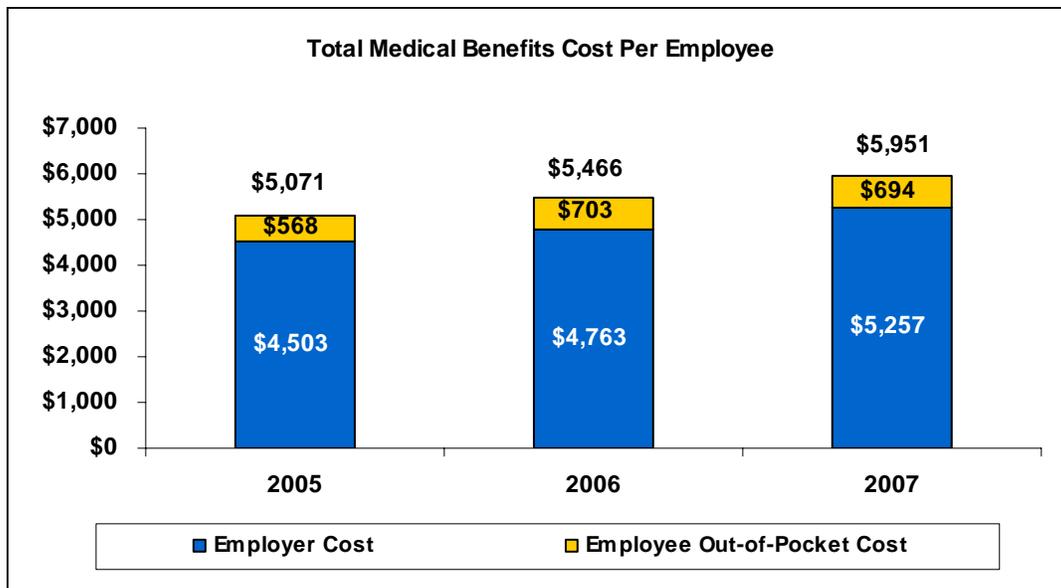
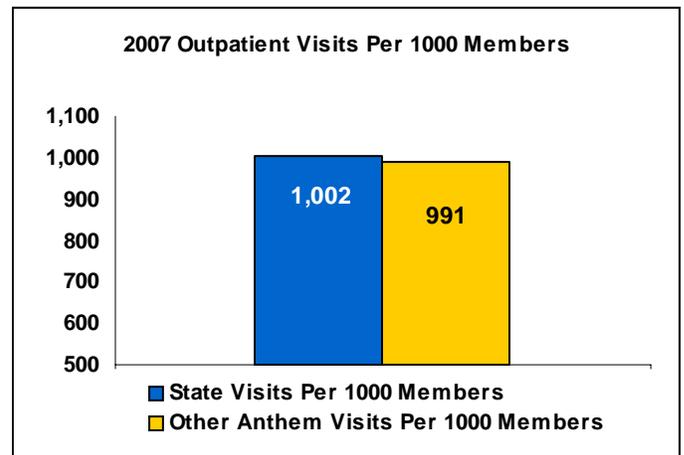
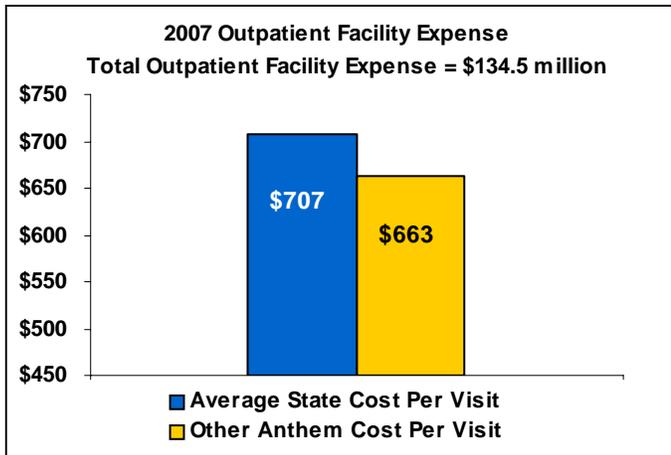
During fiscal year 2007, 6.1 million claims for the self-insured state plans were processed, up 5.2 percent from the previous year. The majority of claims were medical, including almost 195,000 claims for routine wellness and preventive screening services. Medical claims accounted for 71 percent of total plan claims expense.



Health Plans

Medical

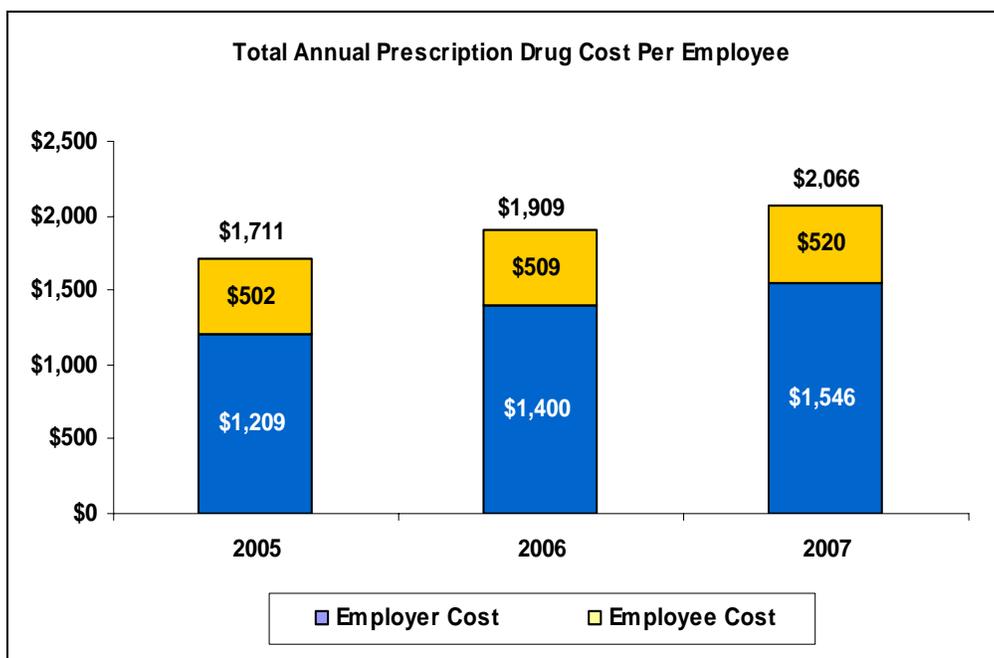
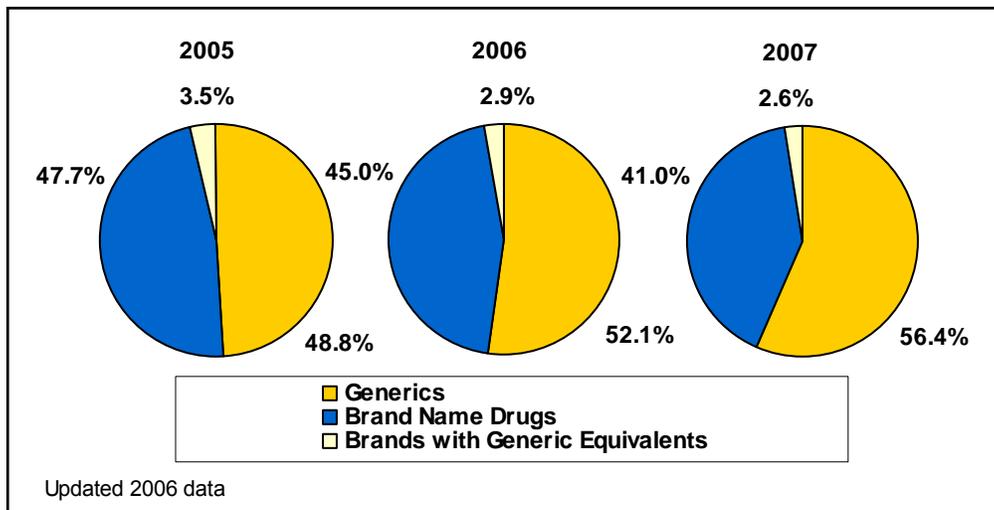
Outpatient facility and physician costs, along with inpatient facility expenses, were the primary drivers of higher state plan medical costs during fiscal year 2007. Total outpatient facility expenses were up 14.1 percent, from \$117.9 million in 2006 to \$134.5 million in 2007. Both the state plan cost per outpatient facility visit and the number of outpatient visits were higher than Anthem's other business. A combination of care, including an increase in physician visits, lab and x-rays, was responsible for the higher state plan cost per outpatient facility visit. Total outpatient physician costs grew 13.6 percent, from \$147.7 million to \$167.9 million, driven by an increase in office visits and higher costs for services. Inpatient facility expense was up 7.5 percent, from \$143.5 million to \$154.3 million, reflecting continued growth of expenses in all care categories. The state plan paid 88 percent of total medical benefits cost in 2007, and employees paid 12 percent.



Health Plans

Prescription Drugs

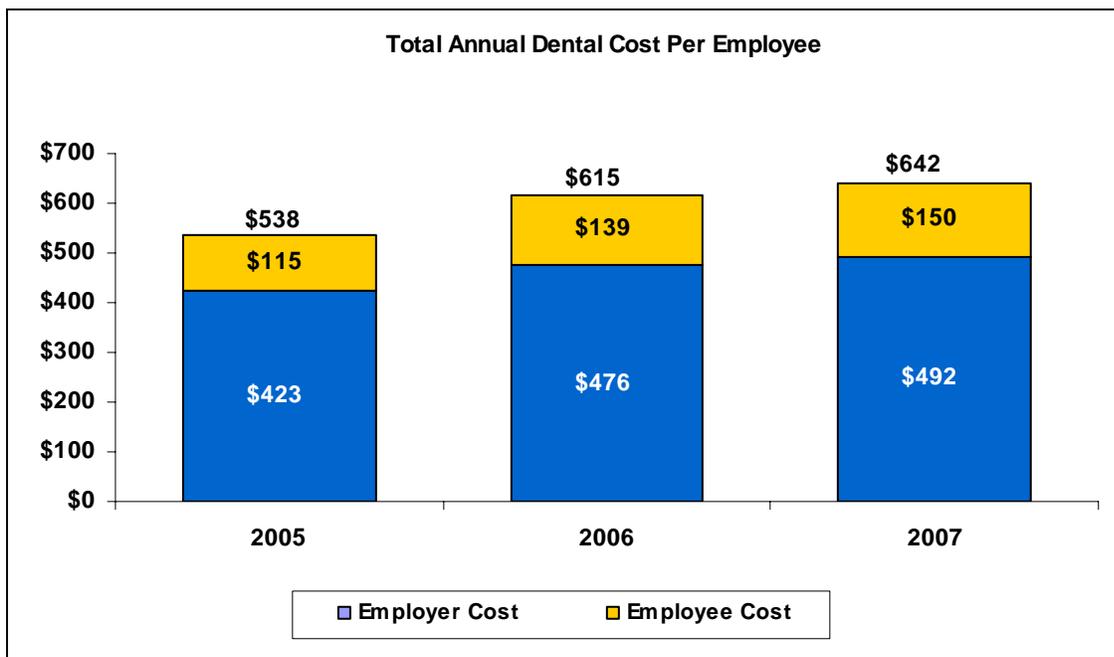
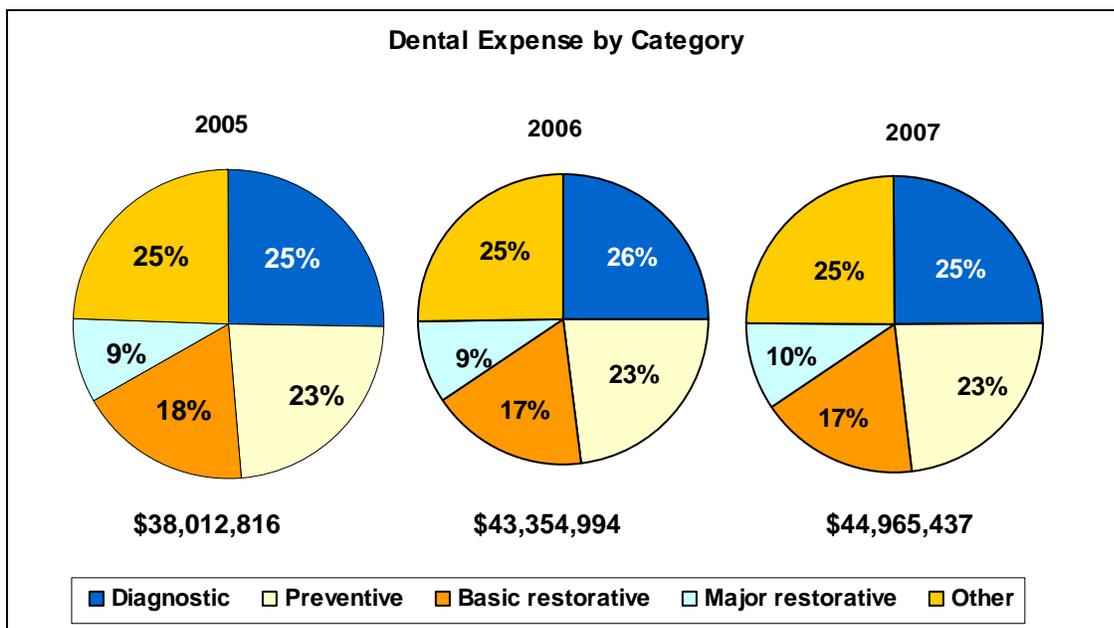
Total prescription drug costs for the state program increased about 11 percent from 2006 to 2007. Higher utilization by members, inflation and high-cost specialty drugs accounted for the cost increase. As specialty drugs were introduced in the marketplace, the state program experienced a corresponding 9 percent increase in specialty drug utilization by state employees. The state program continued to benefit from the high number of generic drugs in the total drug mix, more than 56 percent in 2007, up 4.3 percent over 2006. As in the prior year, the increase in generics was due in part to the expiration of patents on many highly utilized brand name drugs which then became generic drugs. Growth in the number of cheaper generic drugs impacted health plan members' share of total annual prescription drug costs, which dropped during 2007 to 25 percent.



Health Plans

Dental

While dental claims costs were up nearly 4 percent for the state program in 2007, dental benefits represent only 6.6 percent of total claims expense and are provided at a moderate cost to employees. More than 346,000 dental claims were processed in 2007, comparable to the year before, and utilization continues to be stable. The plan pays 100 percent for preventive and diagnostic services, which accounted in 2007 for 48 percent of total plan dental claims expense. However, only 25 percent of employees took advantage of free preventive care.

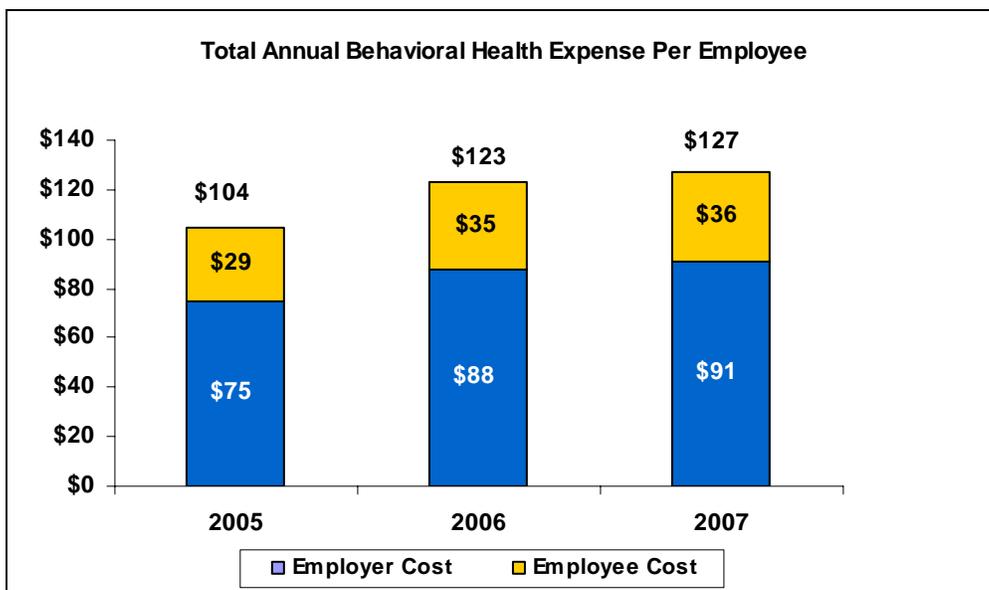
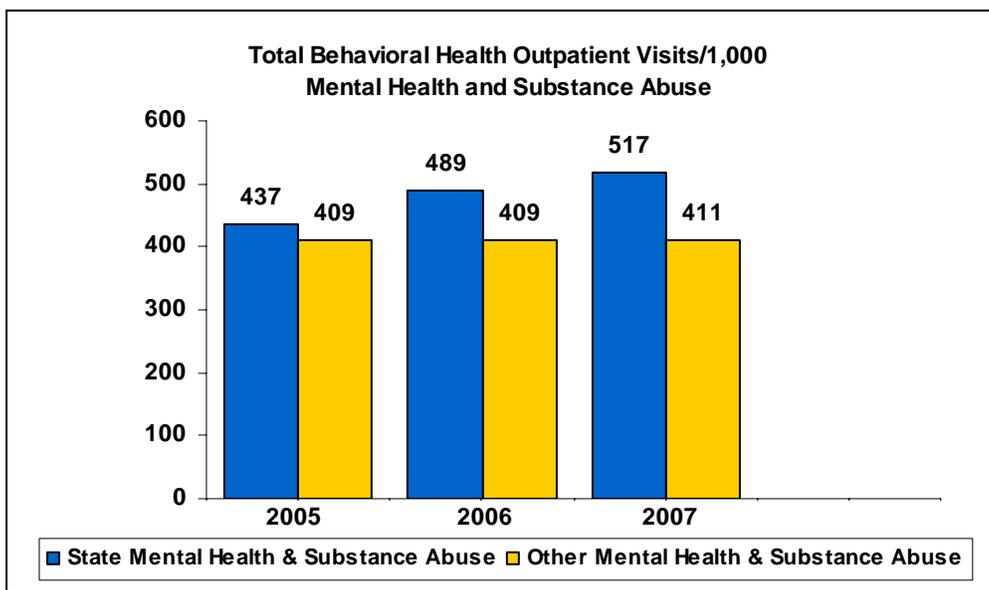


Health Plans

Behavioral Health

About 14 percent of those enrolled in the health plan used the behavioral health benefit during 2007. Over 69 percent of all claims related to mood and adjustment disorders, such as depression, anxiety and stress. More than 54 percent of claims expense was for outpatient services, 35 percent for inpatient services, and 10 percent for alternative levels of care. Inpatient services expense was down 3 percent and inpatient services expense was comparable to 2006. However, the cost for alternative levels of care rose 2 percent.

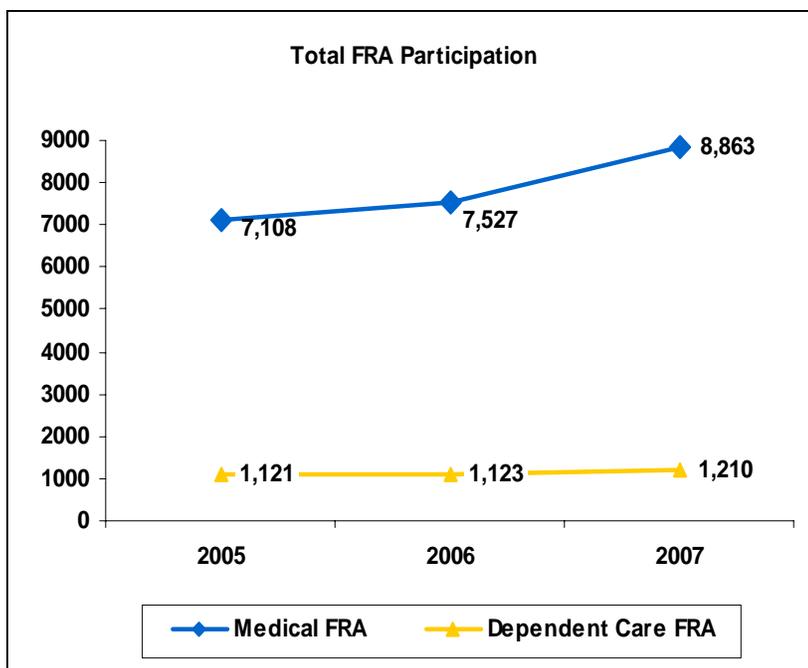
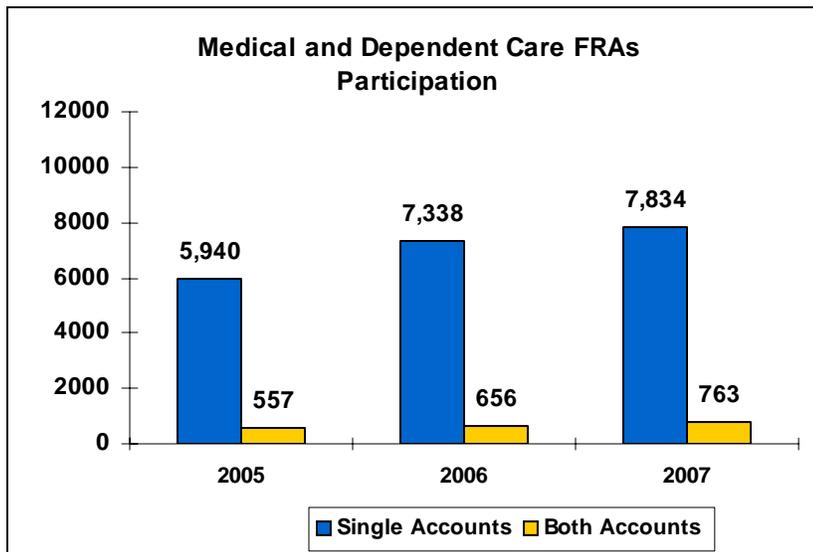
The state's Employee Assistance Program (EAP) gained additional significance in light of the April 16, 2007 Virginia Tech tragedy. Counselors were available around the clock to faculty, staff and family members, offering a total of 2,070 hours of on-site counseling. During the fiscal year, the COVA Care EAP handled more than 3,800 total cases from all sources, up 27 percent from 2006.



Other Benefits

Flexible Reimbursement Accounts

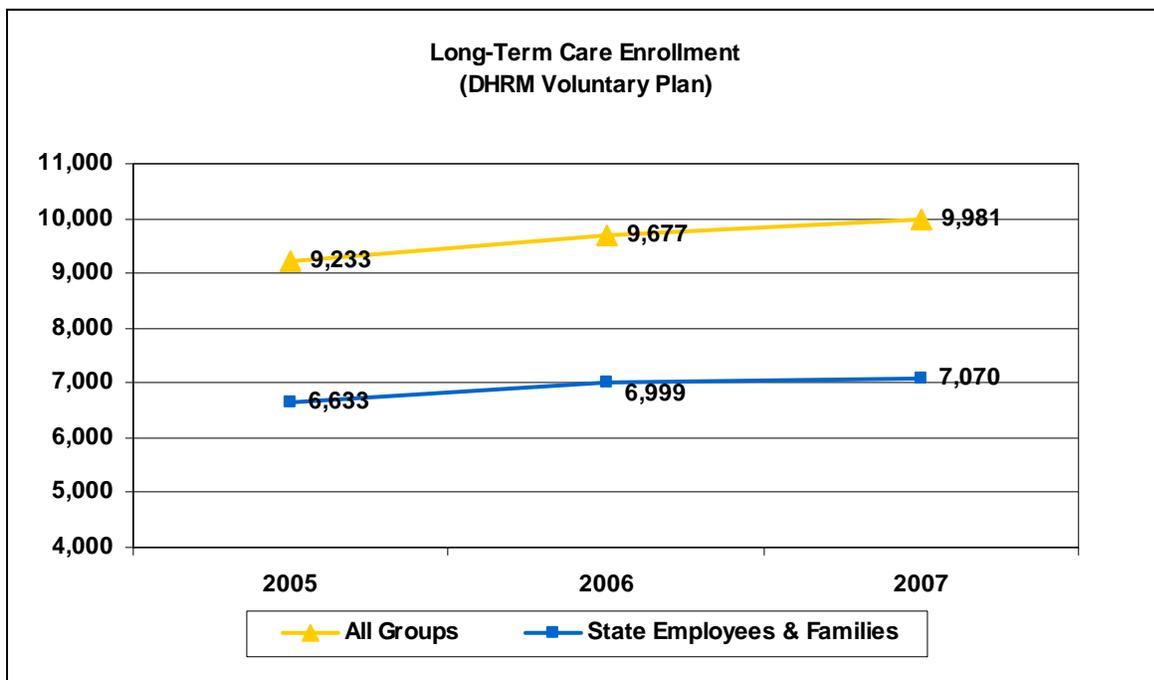
A Medical flexible reimbursement account (FRA) allows employees to set aside part of their income before taxes to pay for certain non-covered health care expenses, while a Dependent Care FRA may be used to pay certain eligible costs for day or elder care. Participation by employees in a Medical flexible reimbursement account grew 18 percent in 2007 over the year before, as more employees recognized the account's value in providing tax savings and also took advantage of a lower minimum contribution for each pay period. Dependent Care account participation remained unchanged. In 2007, a stored value card was introduced to provide a convenient way for Medical FRA participants to be reimbursed for eligible expenses.



Other Benefits

Long-Term Care Insurance

State employees enrolled in the Virginia Sickness and Disability Program automatically receive a long-term care insurance benefit. In addition, the Department of Human Resource Management offers a voluntary program that enables all employees to buy coverage to better plan for their long-term care health needs. Almost 10,000 state and local employees, former state and local employees, and retirees took advantage of this plan in fiscal year 2007, a 3 percent increase from the prior year. Enrollment of current state employees and their eligible family members remained unchanged. Both benefits were administered in 2007 by Aetna Life Insurance Company.



Source: Aetna Life Insurance Company

Cost Drivers

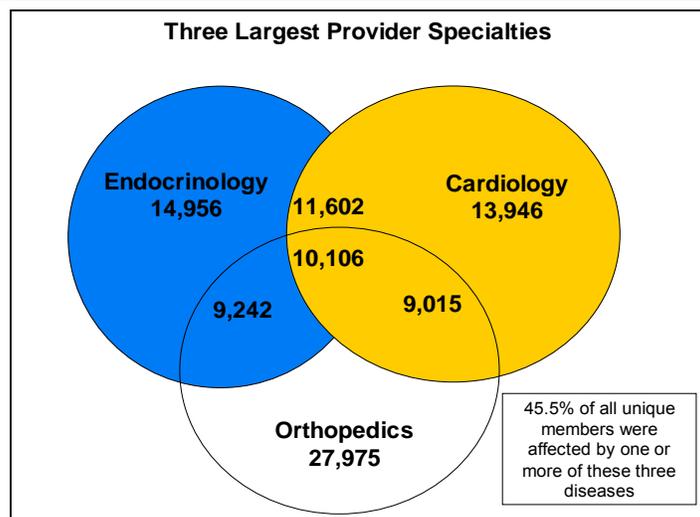
Employee lifestyle, age and the health plan's most expensive procedures, conditions and drugs were major factors impacting the health benefits program during 2007. Lifestyle includes such factors as smoking, physical activity and weight. The average age of state employees continues to increase. According to the American Medical Association, many diseases correlate with an aging population. 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 10" procedures, conditions and drugs accounted for approximately 80 percent of total 2007 claims expense.

Cost Drivers

The Health Plan “Top 10”

More than \$540 million in state plan expenses during 2007 came from the top ten most expensive types of medical procedures, preventable chronic conditions and prescription drugs. Conditions that put individuals at risk for heart attack and stroke rank high in the Top 10: coronary artery and cerebrovascular disease, circulatory disorders, hypertension and high cholesterol. Many of these conditions are also identified with being overweight: for example, diabetes, coronary artery disease, hypertension, musculoskeletal and digestive disorders and high cholesterol.

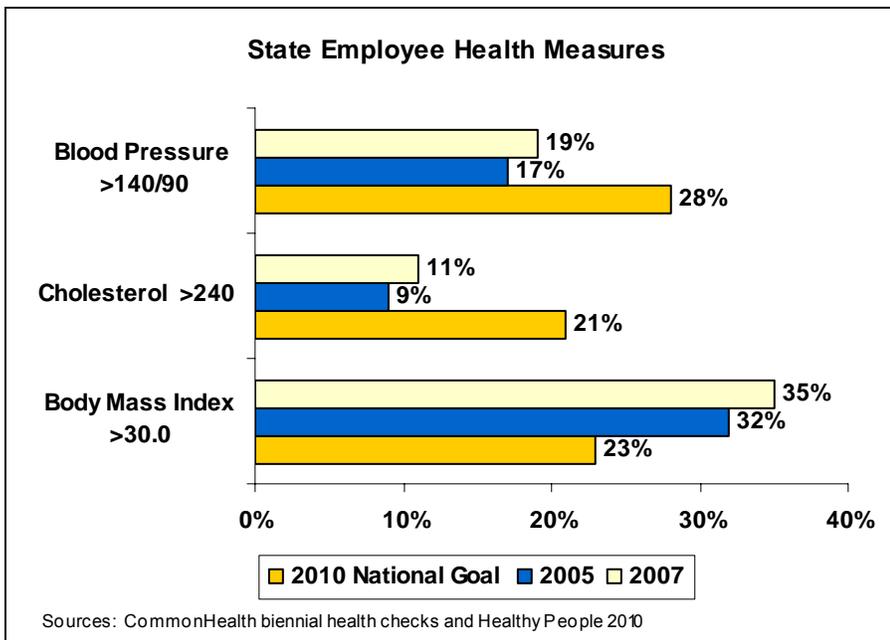
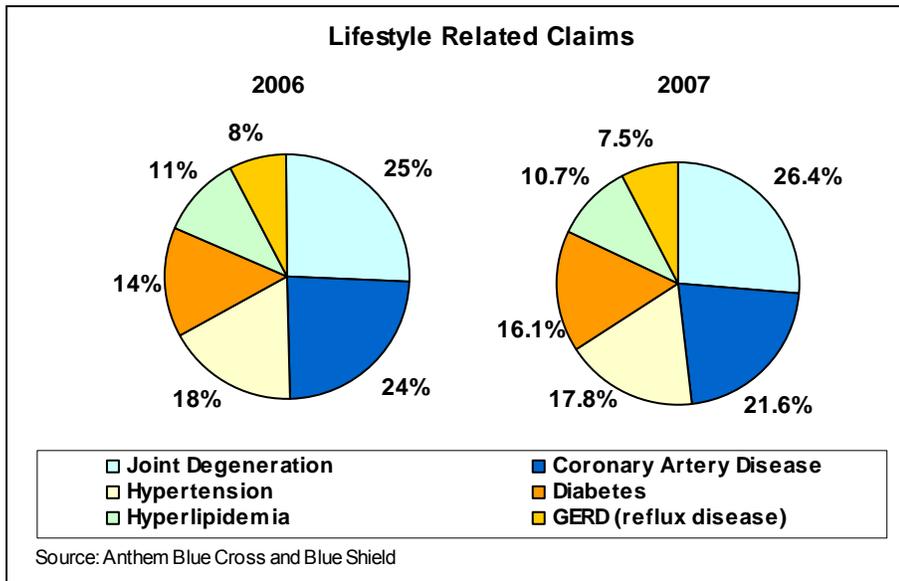
2007 Health Plan Top Ten		
Medical Procedures	Chronic Conditions	Prescription Drugs
1. Musculoskeletal	1. Coronary Artery Disease	1. <i>Nexium</i> (stomach acid)
2. Neoplasms (tumors)	2. Breast Cancer	2. <i>Lipitor</i> (high cholesterol)
3. Circulatory	3. Diabetes	3. <i>Enbrel</i> (rheumatoid arthritis)
4. V-Codes (health services not classified as disease or injury)	4. Cerebrovascular Disease	4. <i>Simvastatin</i> (high cholesterol)
5. Ill-defined symptoms (undetermined causes)	5. Hypertension	5. <i>Effexor XR</i> (depression)
6. Digestive	6. Lung Cancer	6. <i>Advair Diskus</i> (lung conditions)
7. Genitourinary	7. Skin Cancer	7. <i>Actos</i> (oral insulin)
8. Respiratory	8. Oral Cancer	8. <i>Singulair</i> (lung conditions)
9. Nervous system/sense organs	9. Obesity	9. <i>Avonex</i> (cancer)
10. Accidental injury	10. High blood cholesterol	10. <i>Topomax</i> (seizures)
62.5% of Total Claims Cost	9.5% of Total Claims Cost	7.9% of Total Claims Cost



Cost Drivers

Lifestyle Impact

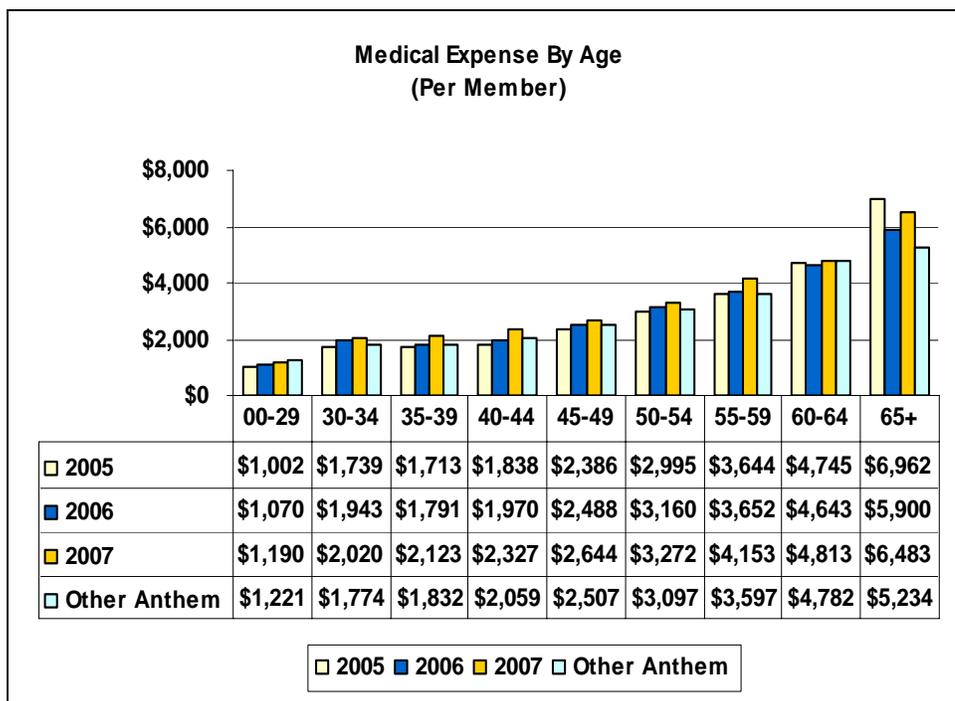
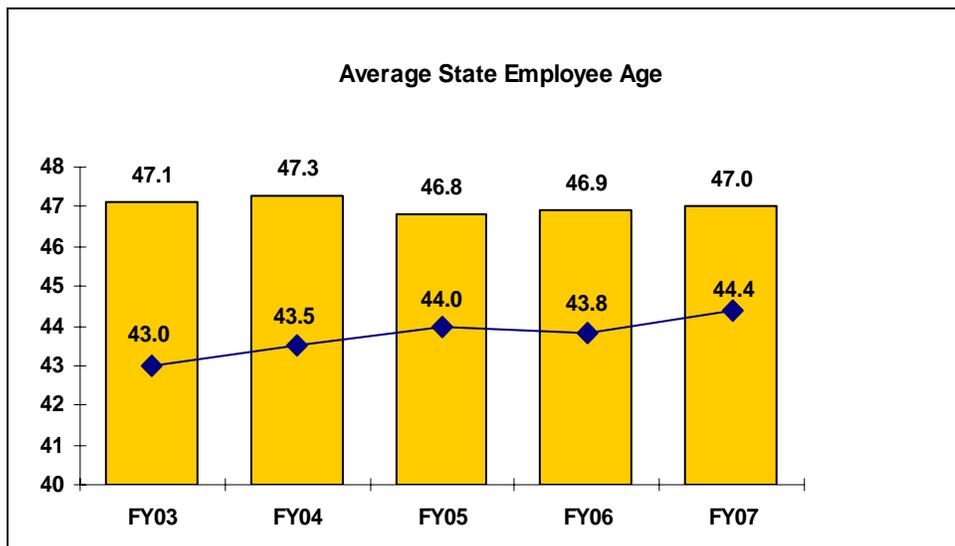
Six conditions that correlate with overweight represented more than \$141 million, or 22 percent, of the state plans' total medical expense in 2007. Approximately 8,500 employees in 2005 and 7,200 in 2007 took a health risk assessment through the CommonHealth wellness program. While the group was below the national average in the incidence of very high cholesterol and high blood pressure, it was 12 percent above average in body mass index of 30 or more, which is considered obese.



Cost Drivers

Aging Population

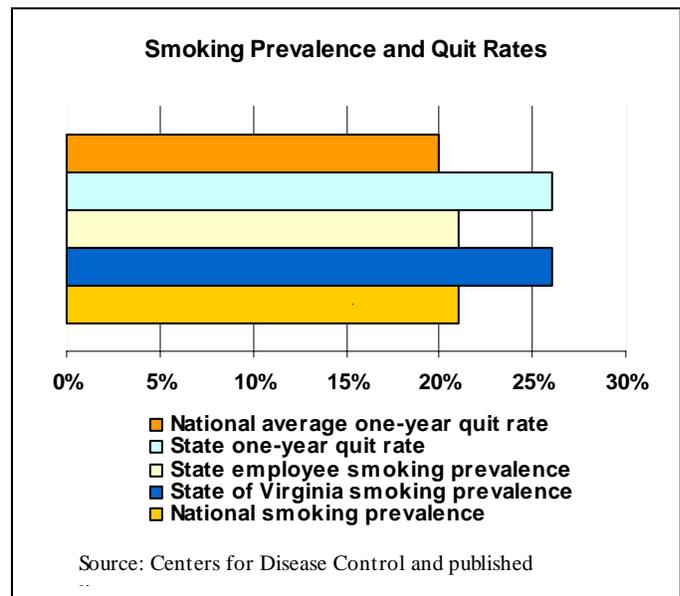
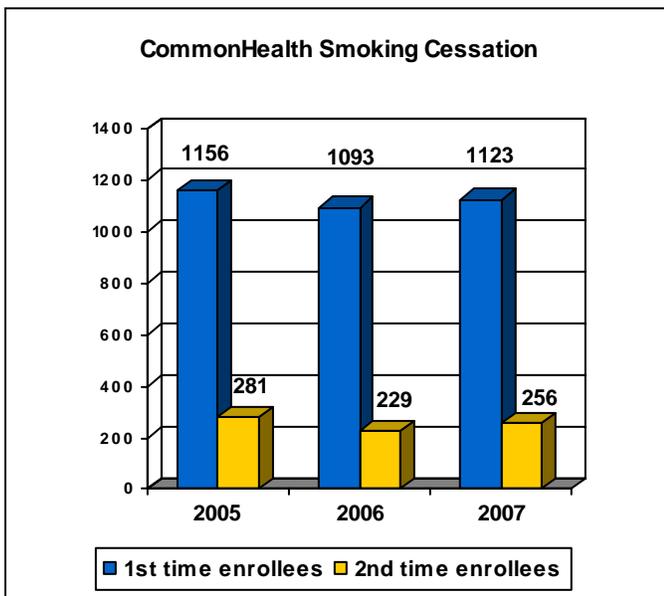
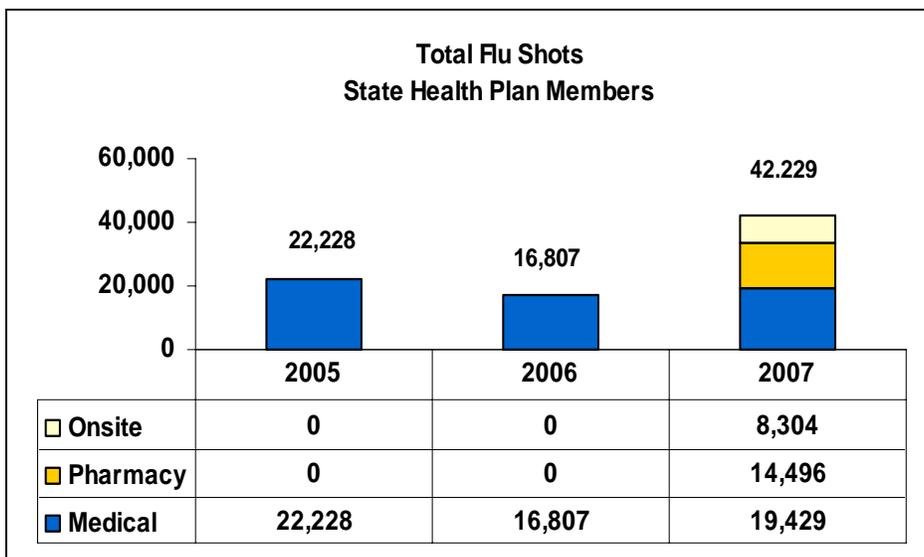
The state workforce enrolled in the health benefits program is considerably older than employees at other employers who offer Anthem medical benefits. Those ages 40 and above represented 41 percent of health plan members in 2007, and were responsible for 73 percent of total medical expenses. Both the age of members and the percentage they represent of total medical claims were comparable to the prior year's results. The 35-39 and 40-44 age groups experienced the largest increase in medical expense per member from 2006 to 2007, at more than 18 percent.



Wellness & Preventive Care

CommonHealth

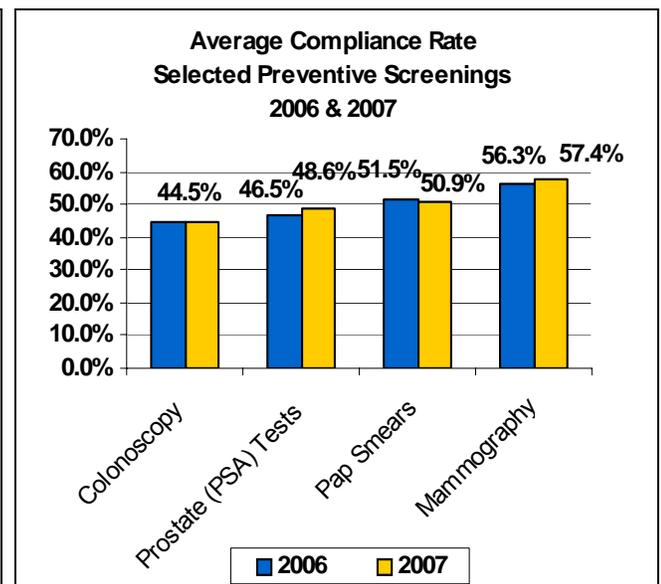
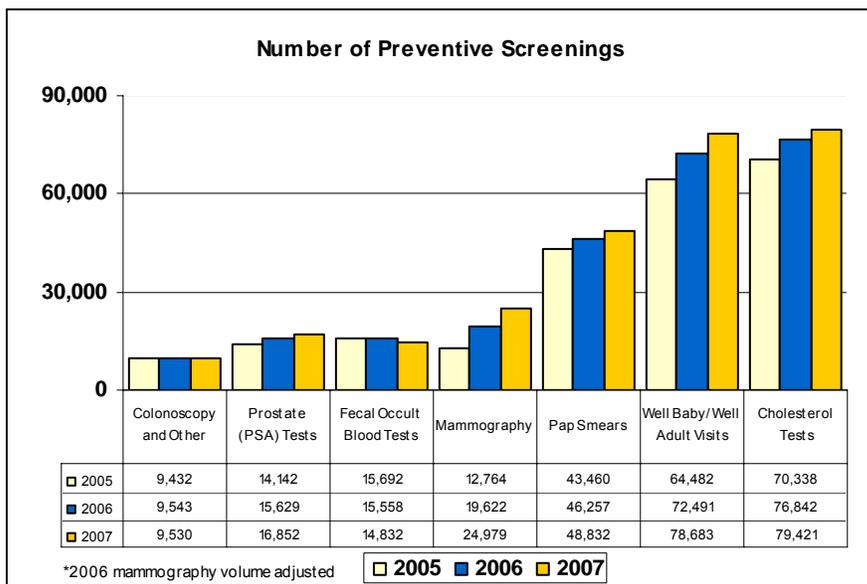
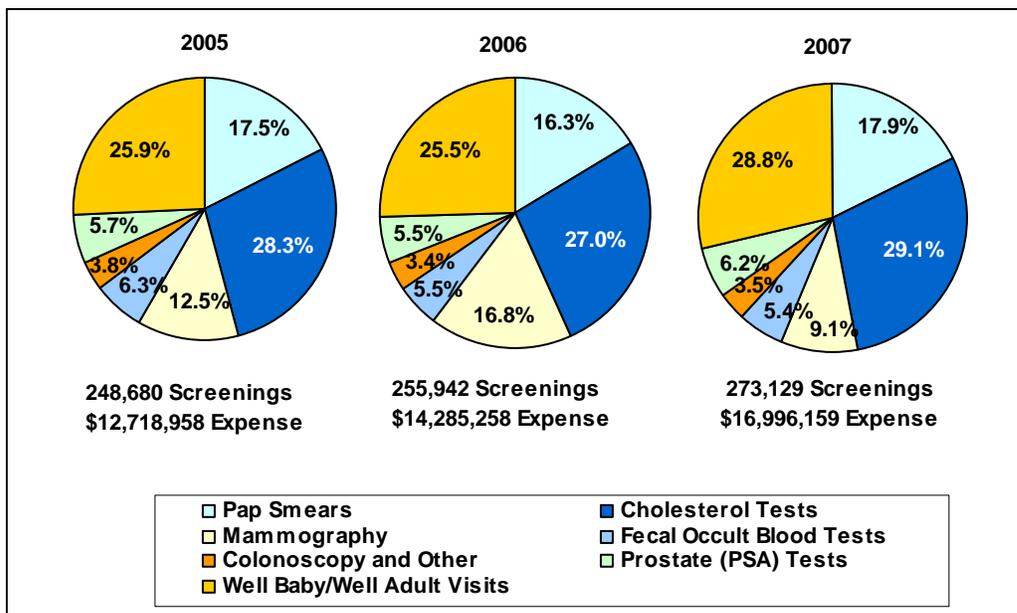
The *CommonHealth* wellness program, the 20-year-old comprehensive workplace component of *Healthy Virginians*, is designed to promote healthy employee lifestyles and encourage the integration of health and physical activity into the work culture. In fiscal year 2007, employee participation in *CommonHealth* was included as an executive agency measure on the Governor's Management Scorecard, with total individual participation at 23 percent. The program focused on ways to get fit at home, the importance of health screenings and controlling high blood pressure. More than two times the number of health plan members took advantage of a free flu shot program in 2007 through the state health plans than received flu shots in the previous two years when vaccine was in short supply. In addition, over 8,300 flu shots were given through CommonHealth. The "Breaking Free From Tobacco" smoking cessation program is available for the approximately 20 percent of state employees who smoke, and has an average one-year quit rate of 26 percent compared to the 20 percent national average for similar programs.



Wellness & Preventive Care

Preventive Screenings

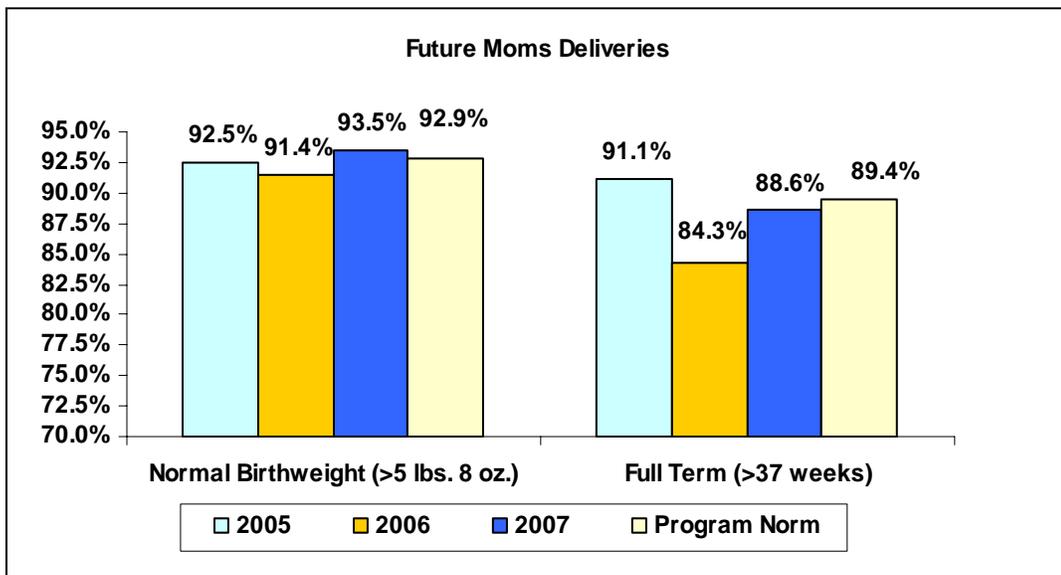
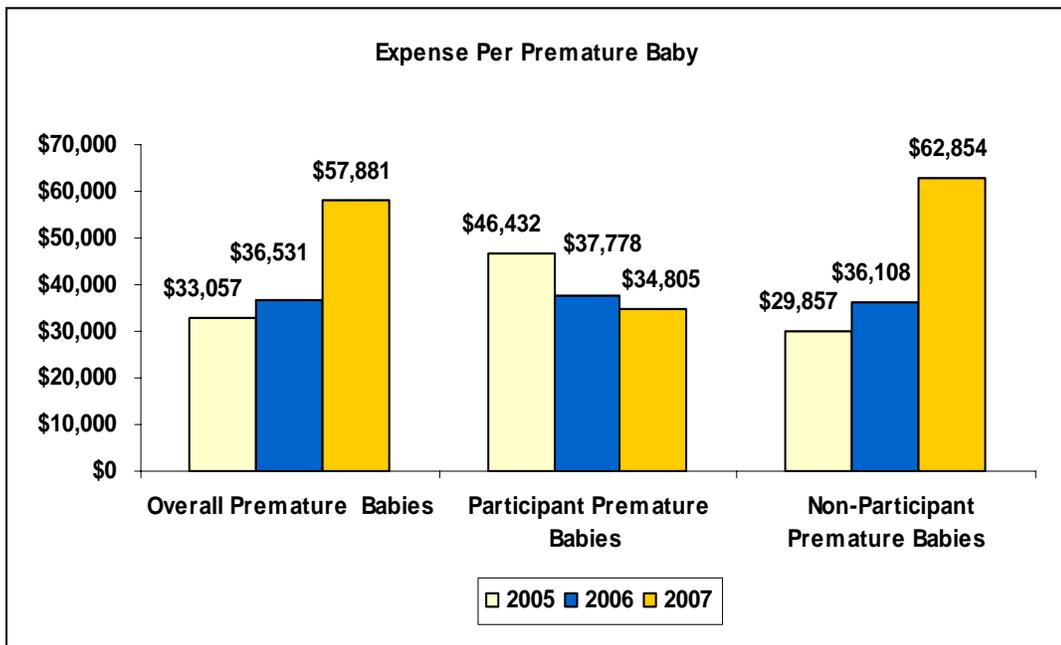
The Commonwealth has removed financial barriers to annual wellness visits and preventive care screenings in the state health plans. Services such as annual physicals, mammograms, and prostate (PSA) tests, are covered at no cost to state plan members. Outpatient wellness visits and preventive screenings in 2007 were 3.5 percent of total medical expenses, and increased approximately 7 percent over the prior year. Baby and adult wellness checkups were about 29 percent of total volume. Cholesterol, pap smears and mammograms represented 56 percent of preventive care screenings.



Wellness & Preventive Care

Future Moms

As part of its effort to stress preventive care, the state health benefits program offers the *Future Moms* prenatal program at no cost to help expectant mothers deliver healthy babies. In general, birth weight plays a major role in a child's overall lifetime health, and special prenatal care during pregnancy can prevent premature birth. Premature babies require expensive medical care at birth and over their lifetimes. Among state health plan members in fiscal year 2007, there were 141 premature births, costing more than \$8 million in claims. Of those premature infants, only 25 or 18 percent, were born to mothers enrolled in *Future Moms*. Four premature babies cost a total of \$2.4 million, including the cost of neonatal intensive care, and one died. Only one of these cases involved a *Future Moms* participant. Of the more than 1,800 pregnant members covered in 2007, about 22 percent participated in *Future Moms*. Nearly 94 percent of babies born to women in the program in 2007 had normal birth weight.

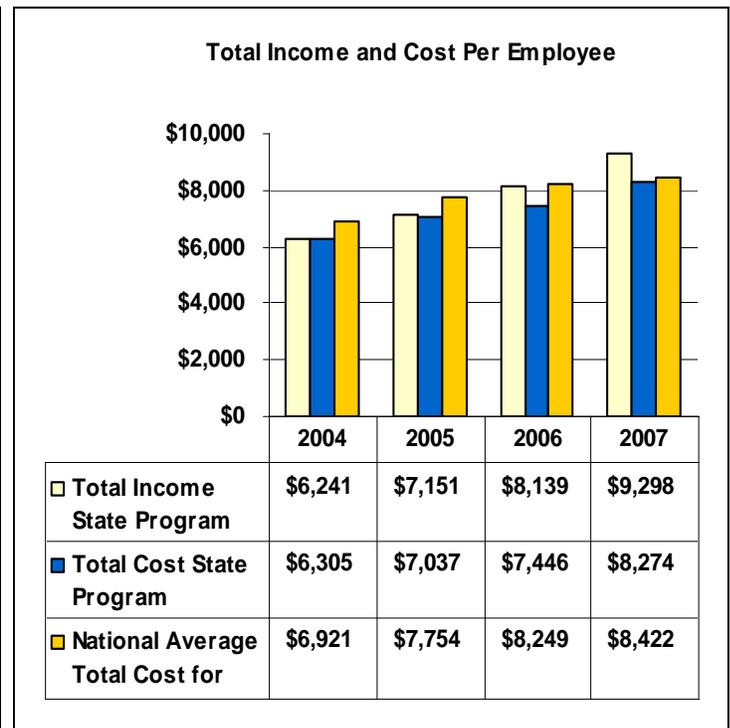
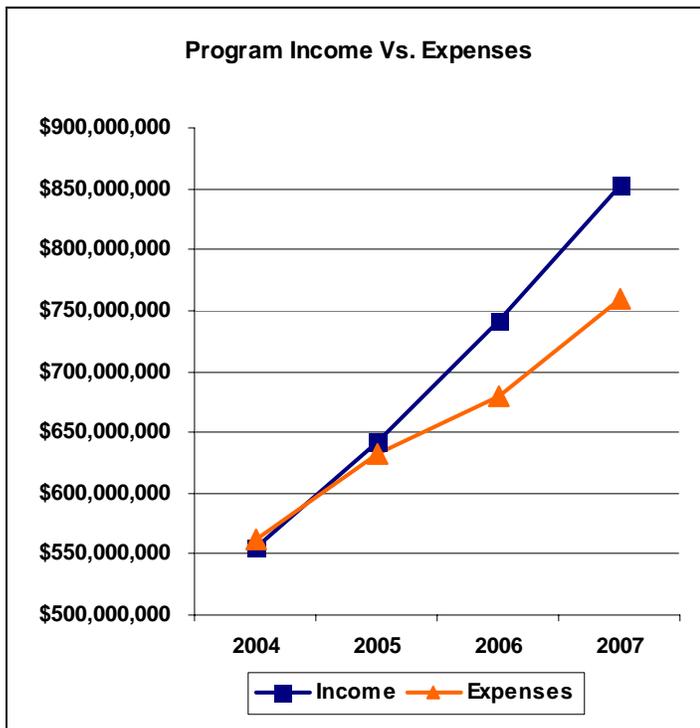


Health Benefits Program

Operating Statement

Premiums provide 98 percent of the health program's income, and claims payments represent 92 percent of expenses. The statewide COVA Care plan was introduced in 2004 to help better balance premiums and out-of-pocket costs. However, despite the new single plan, the program ran a deficit that year due in part to higher costs for prescription drugs, inpatient and outpatient facility expenses, and the aging of plan members. From 2005 through 2007, cost containment measures combined with a slower rate nationally of health care increases led to program surpluses.

PROGRAM TOTAL	FISCAL YEAR 2004	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007
Annual Income <i>(Premiums, Interest, Other)</i>	\$555,831,160	\$641,722,952	\$741,926,480	\$852,955,127
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$561,614,443	\$631,491,957	\$678,797,543	\$759,038,420
Income Less Expenses	(\$5,783,283)	\$10,230,995	\$63,128,937	\$93,916,707



Health Benefits Program

Employee Satisfaction

Input from employees is vital for the health benefits program to measure its progress in improving both the quality and the covered services provided. Employees' level of satisfaction is measured through periodic surveys. 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 administrator surveys for dental, prescription drug, behavioral health and employee assistance program services.

The health plan's dental benefits received the highest rating in 2007, improving 2 percent over the prior year, and satisfaction with prescription drug benefits also rose. Overall satisfaction with medical benefits dropped slightly during the year, while the behavioral health program rating remained the same as in 2006.

