

***Annual Report***

**Commonwealth of Virginia  
Health Benefits Program**

**Fiscal Year 2008**



Virginia Department of Human Resource Management

# ***FY 2008 Annual Report***

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# ***FY 2008 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 plan option to help control rising health care costs among state employees. This plan type enables members to set up a Health Savings Account and to use the tax-deductible contributions to help pay for medical expenses.

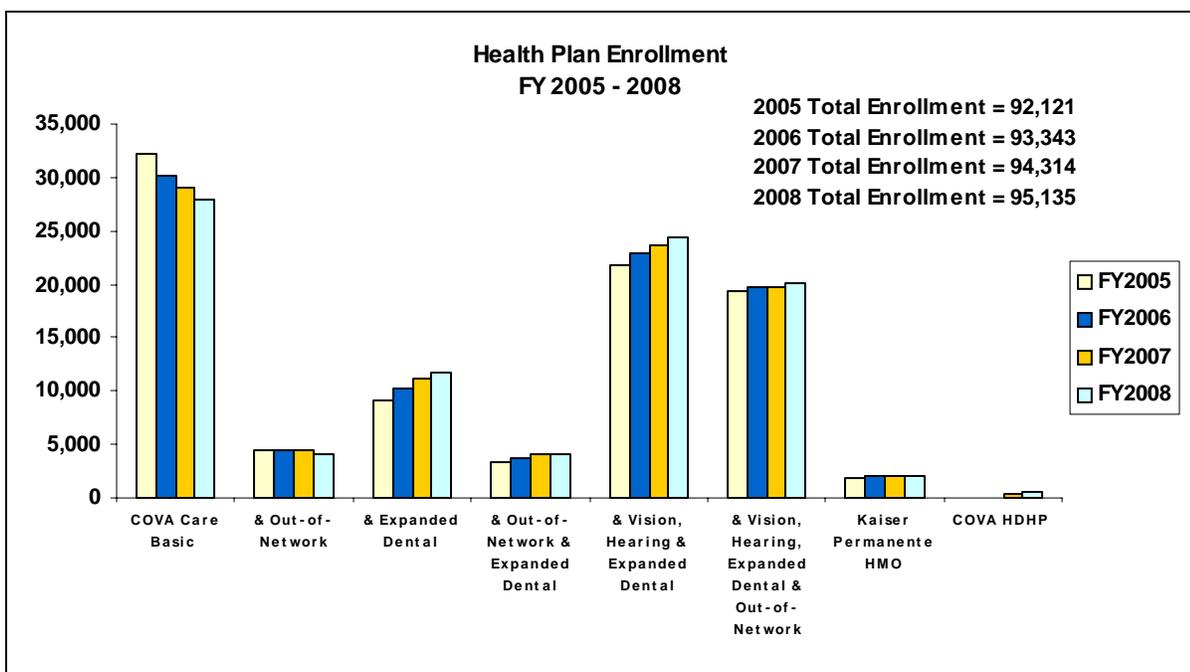
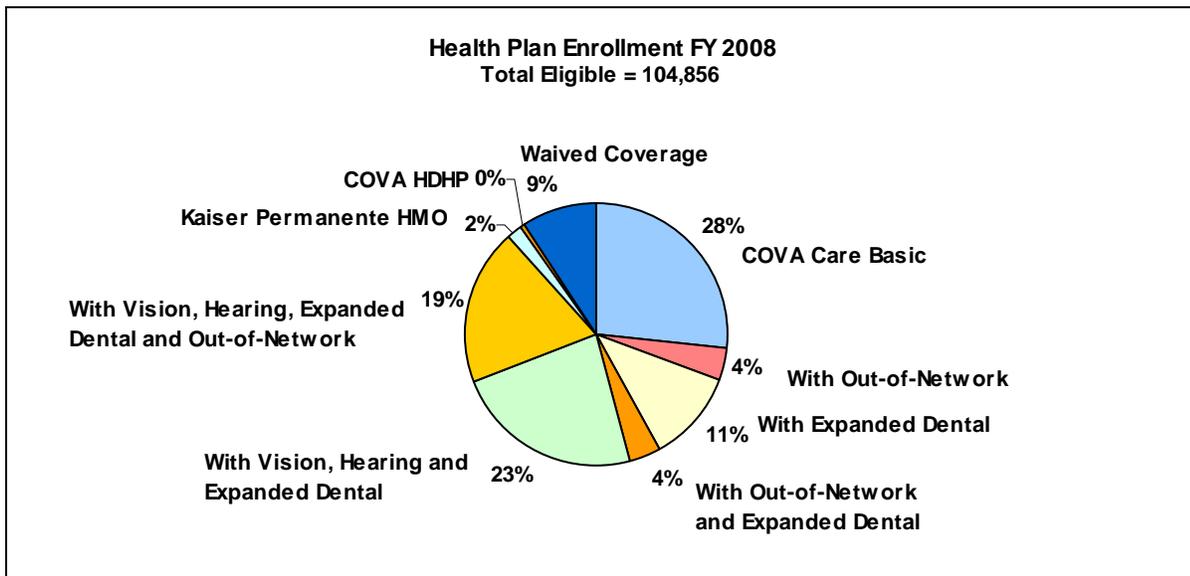
Unless otherwise indicated, this report is based on the experience of health plan members, including the active employee and non-Medicare eligible retiree group during fiscal year 2008 from July 1, 2007 through June 30, 2008. Statewide plan benefits were administered by Anthem Blue Cross and Blue Shield 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. Fringe Benefits Management Company administered flexible benefits.

Four areas continue to drive the cost of health care for the state health benefits program: higher pharmacy, outpatient facility and lifestyle-related expenses coupled with the aging of plan members.

# Health Plans

## Enrollment

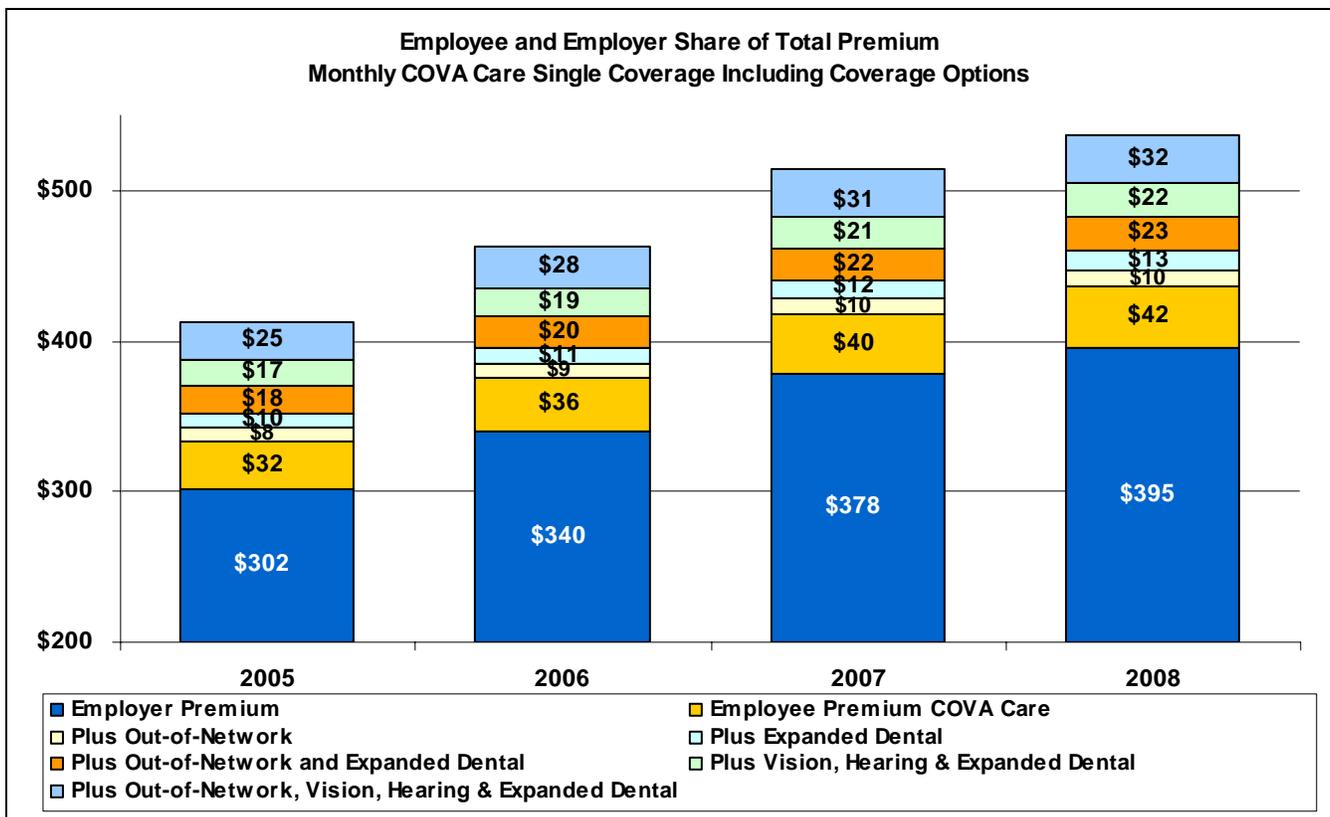
Total enrollment in the statewide COVA Care, COVA HDHP and regional Kaiser Permanente HMO plans changed very little in fiscal year 2008, with growth of less than one percent from the prior year. Enrollment in COVA Care Basic represented about one-third of enrollees and was down approximately 4 percent. A significant number of 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 dropped slightly from 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. From 2006 to 2008, the amount of dollars put in the plan exceeded total operating expenses.

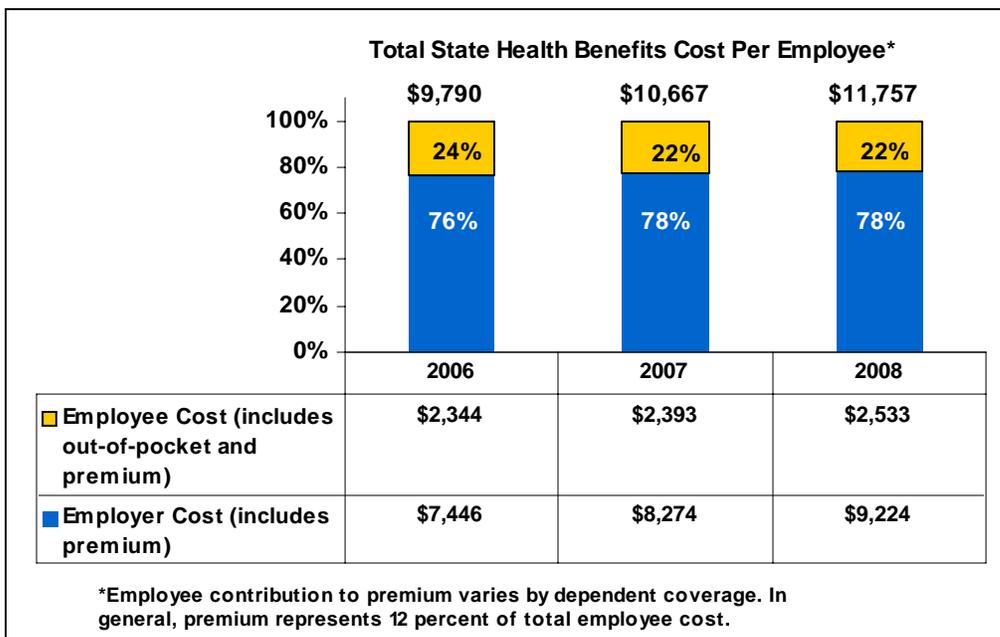
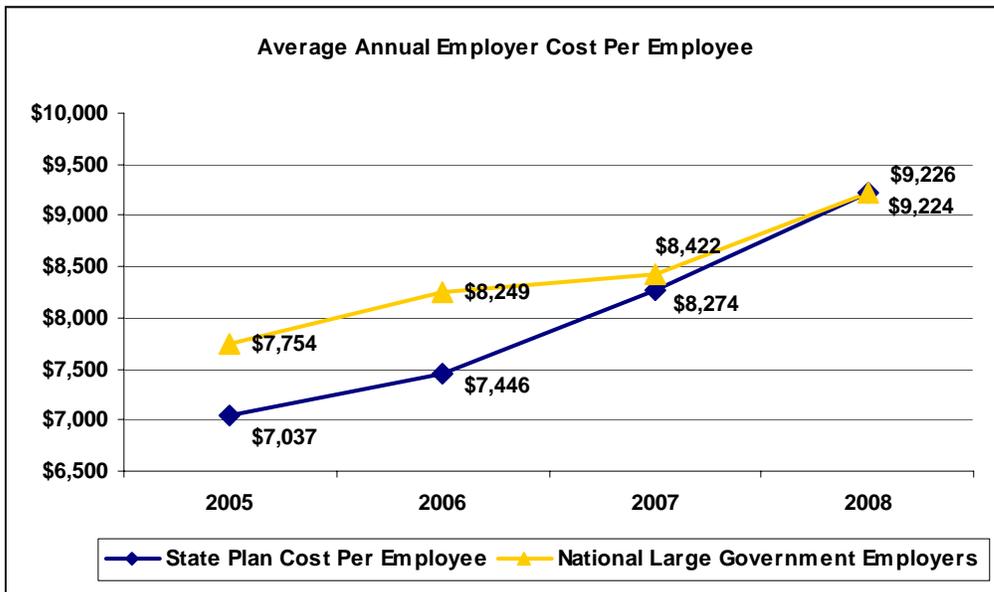


# Health Plans

## Cost of Coverage

The average cost per employee nationally to large government employers providing health coverage rose during 2008 by nearly 10 percent. The health benefits program's annual cost per employee was comparable to the national average in 2008 after ranking 1.8 percent below the national average in 2007. The rising cost of health care continues to impact state plan costs.

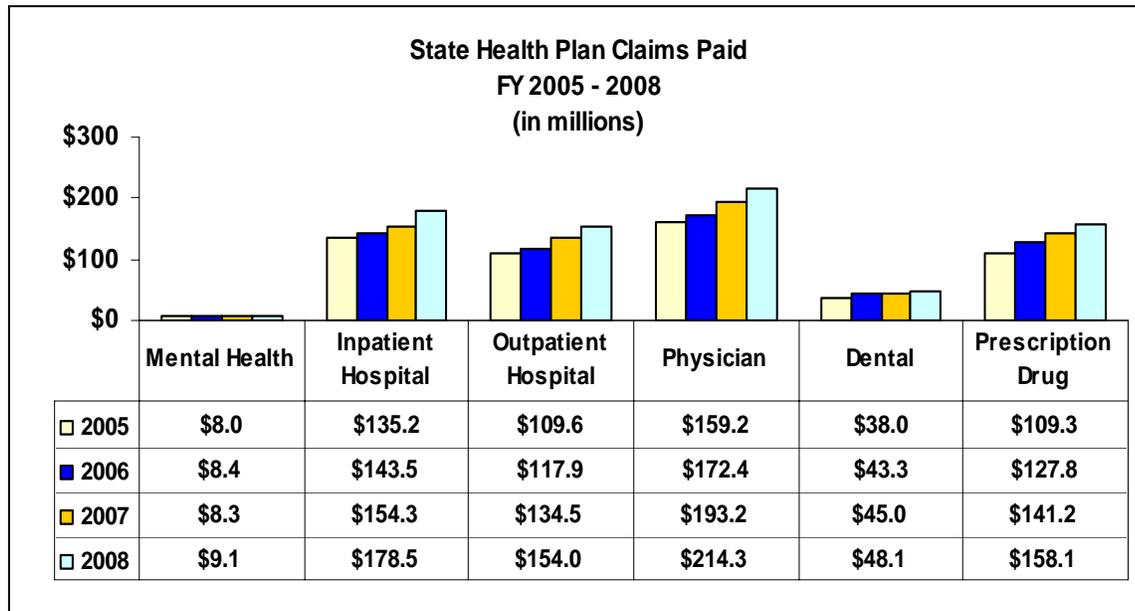
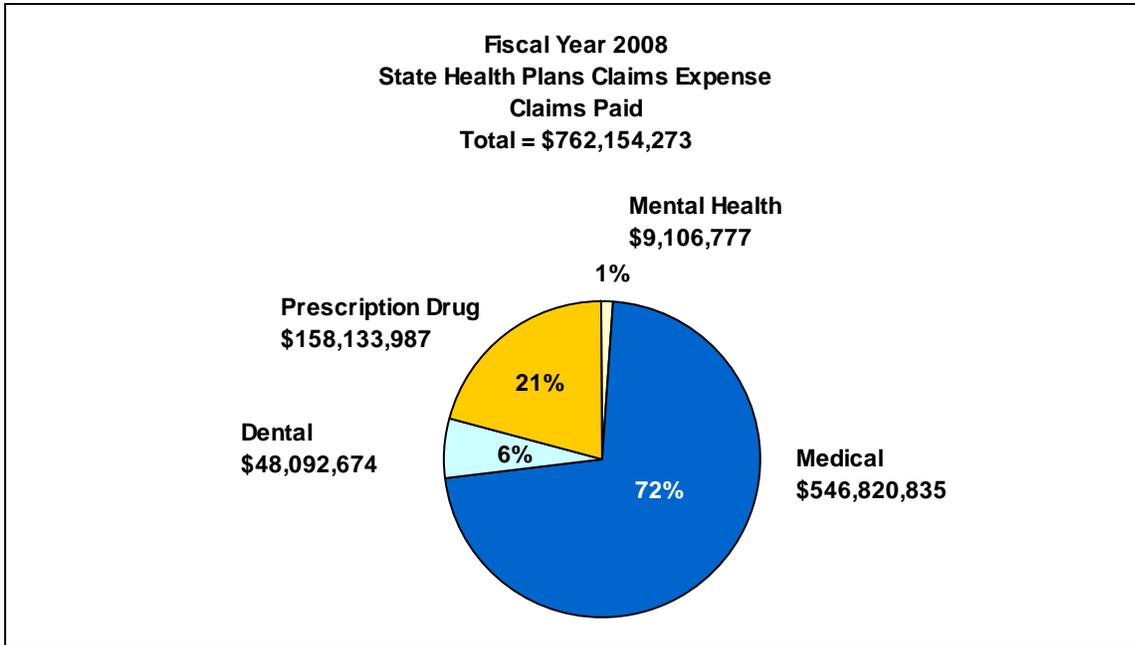
A significant part of the increase in 2008 came from medical and prescription drug costs, due to higher inpatient and outpatient facility, prescription drug and physician expenses. The plan paid 78 percent of the annual total health benefits cost and the employee paid 22 percent, the same as in the previous 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

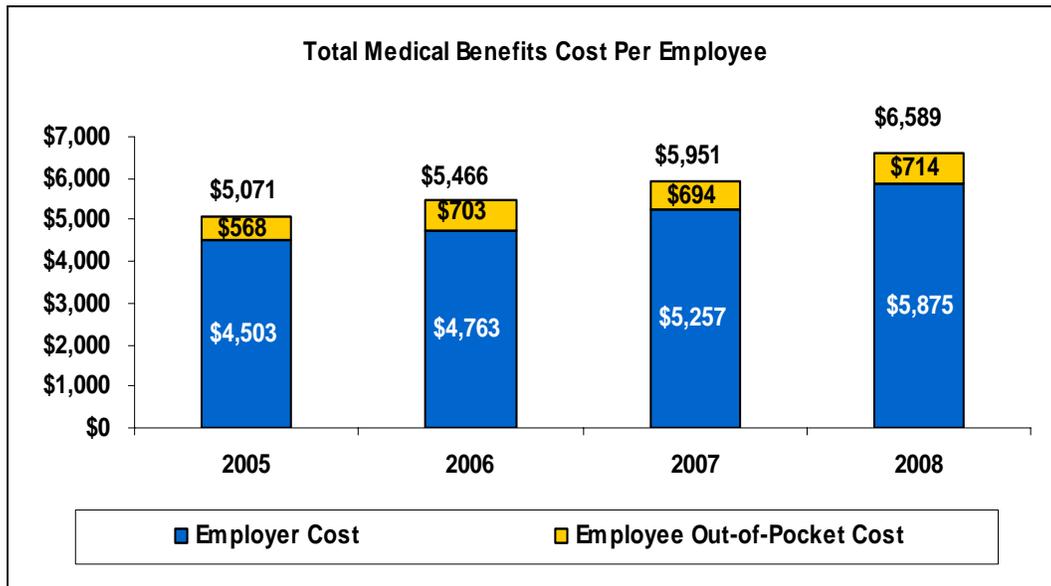
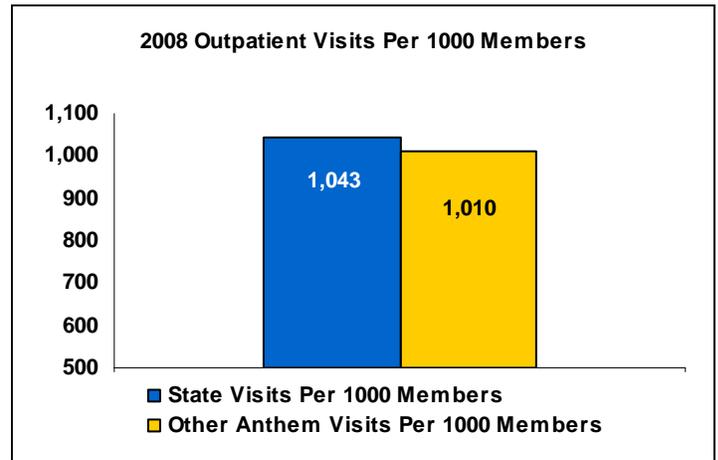
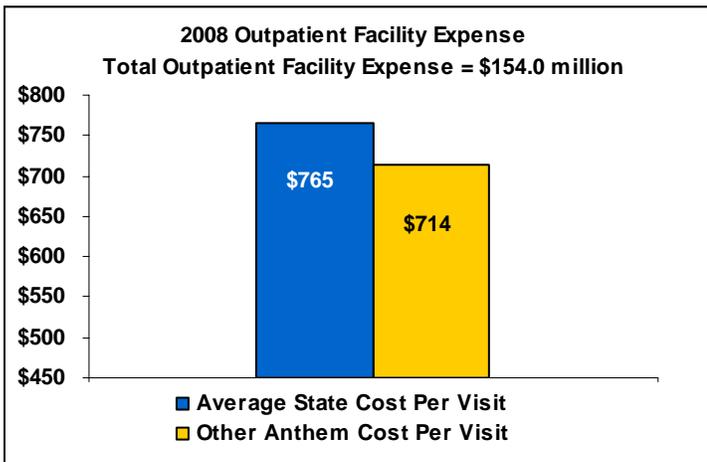
During fiscal year 2008, more than 6.5 million claims were processed for the self-insured state plans, up 6.5 percent from the previous year. The majority of claims were medical, including more than 229,000 claims for routine wellness and preventive screening services. Medical claims accounted for 72 percent of total plan claims expense.



# Health Plans

## Medical

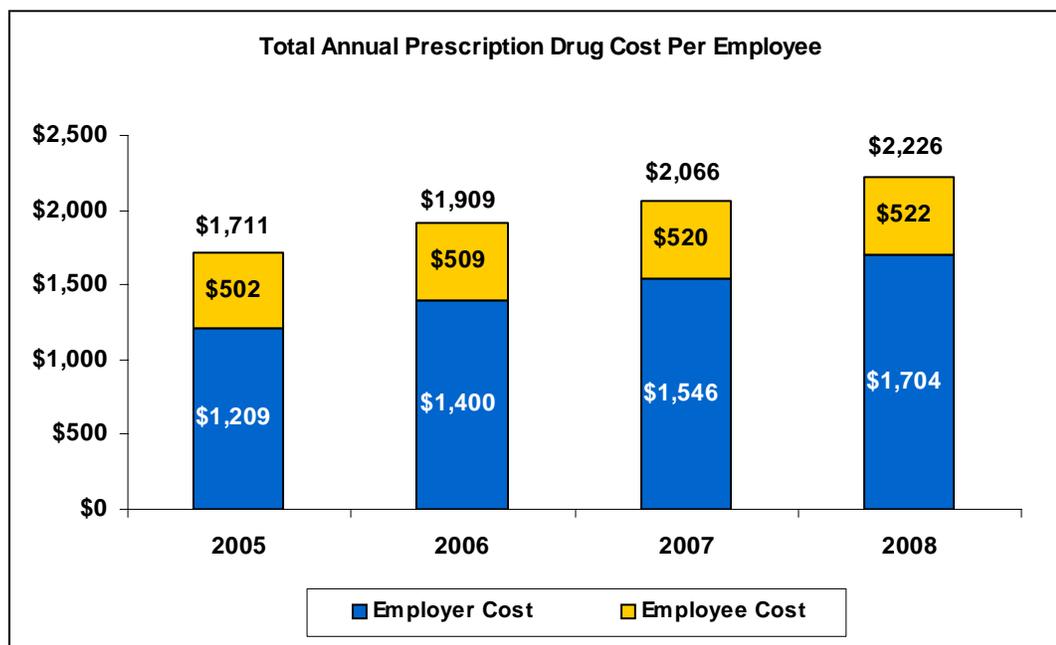
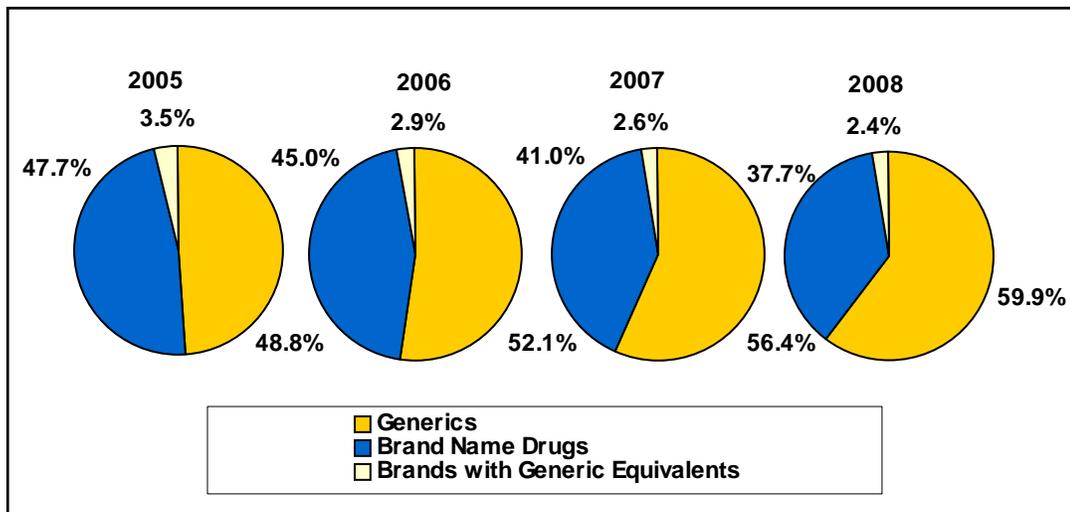
Inpatient and outpatient facility expenses and physician costs were the primary drivers of higher state plan medical costs during fiscal year 2008. Expenses for inpatient and outpatient facility, and inpatient physician, increased 15 percent or more during the period. Inpatient facility expenses grew from \$154.3 million in 2007 to \$178.5 million in 2008. There were fewer admissions which required more days used at a higher cost of care, and catastrophic claims were up nearly 7 percent. Total outpatient facility expenses increased by \$19.5 million from 2007 to 2008. Both the state plan cost per outpatient facility visit and the number of outpatient visits were higher than Anthem's other business. Increases in medical and surgical care, lab and x-rays and were responsible for the higher state plan cost per outpatient facility visit. Total outpatient physician costs increased by \$17.4 million in 2008 over the prior year, driven by growth in the volume of care provided and higher costs for services. The state plan paid 89 percent of total medical benefits cost in 2008, and employees paid 11 percent.



# Health Plans

## Prescription Drugs

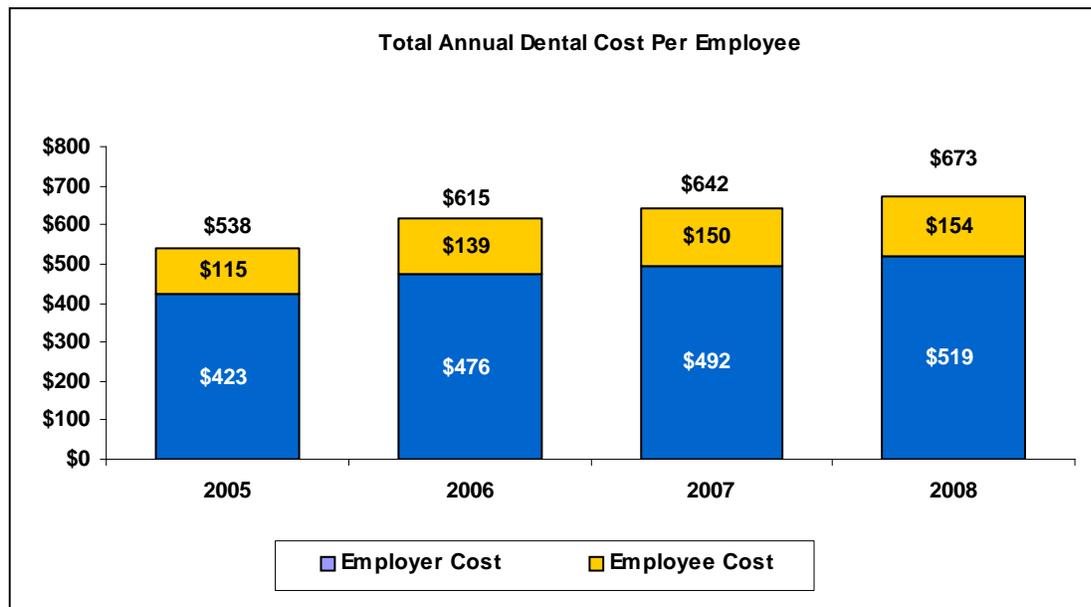
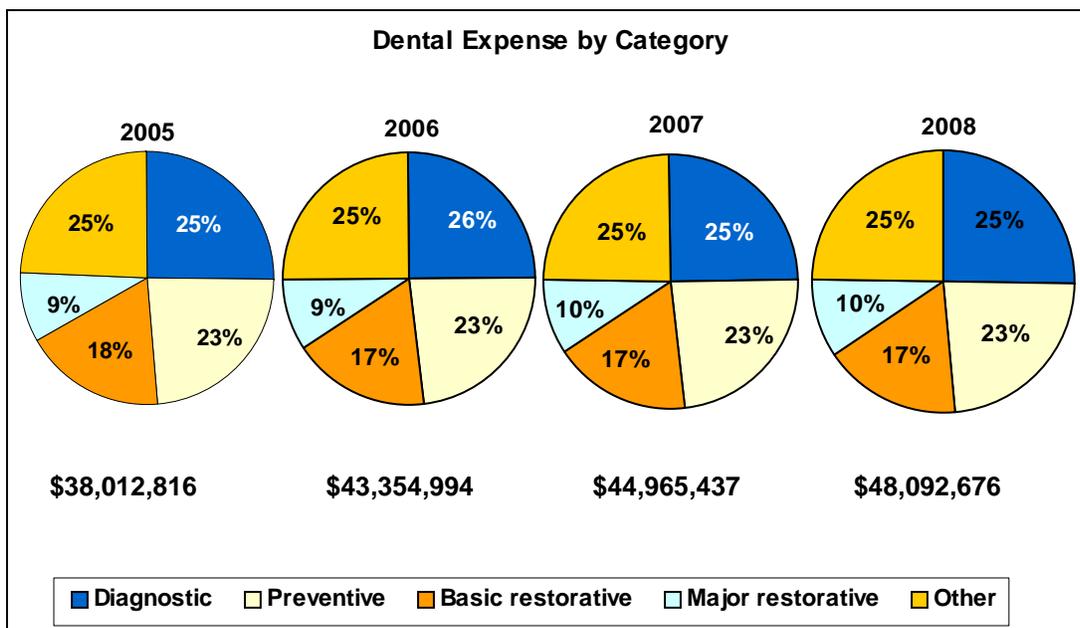
Total prescription drug costs for the state program increased 12 percent from 2007 to 2008. As in the previous year, inflation on brand drugs, greater utilization by members and high-cost specialty drugs continued to account for the cost increase. The state plan's utilization trend for specialty drugs was up 14 percent in 2008, and the plan took measures such as prior authorization of drugs and step therapy to help the increase. One benefit to the program was the continued high number of generic drugs in the total drug mix, which reached about 60 percent in 2008, up 3.5 percent over 2007. Drug patents continued to expire 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 two percentage points during 2008 to 23 percent. In addition, diabetic supplies were covered under the prescription drug benefit for the first time in 2008, and more than 7,600 members generally paid less for diabetic strips and meters.



# Health Plans

## Dental

While dental claims costs were up 7 percent for the state program in 2008, dental benefits continue to represent only about 6 percent of total claims expense and are provided at a moderate cost to employees. More than 365,000 dental claims were processed in 2008, up 5.5 percent from the year before. Utilization continued to be stable. The plan pays 100 percent for preventive and diagnostic services, which accounted in 2008 for 48 percent of total plan dental claims expense. A major challenge to the program continues to be the number of plan members who are not visiting a dentist at all, representing about one-third of members in 2008.

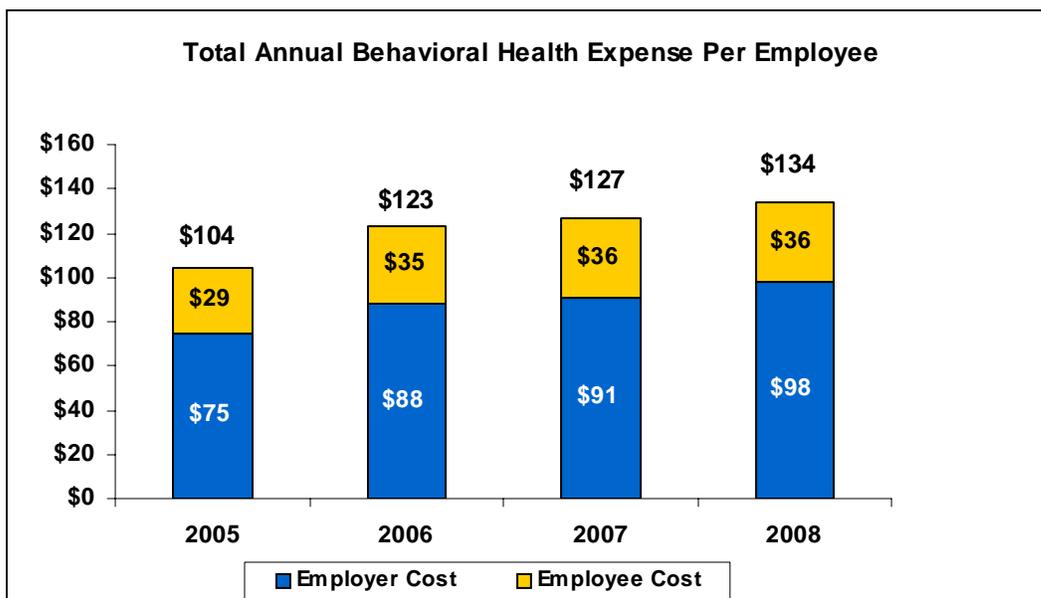
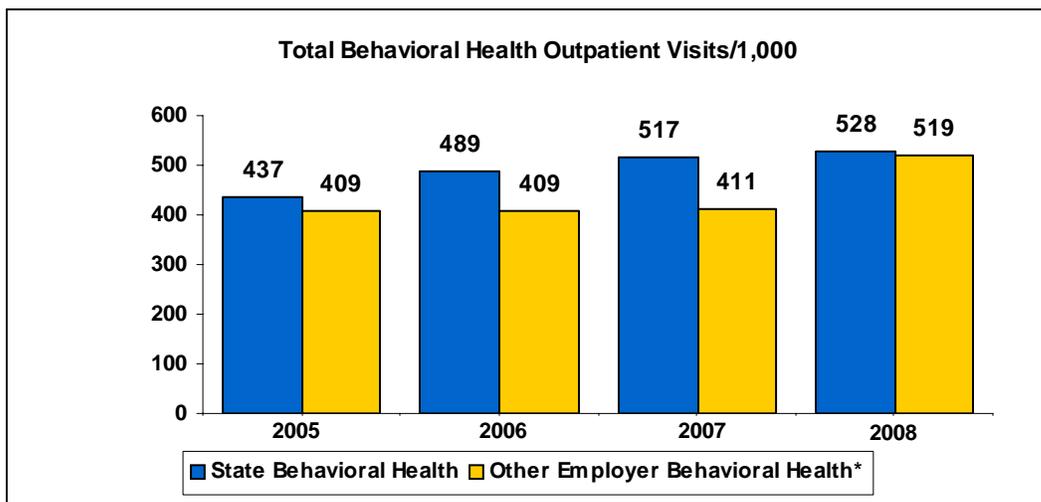


# Health Plans

## Behavioral Health

About 14 percent of those enrolled in the health plan used the behavioral health benefit during 2008. Over 50 percent of all employee claims related to mood and adjustment disorders, such as depression, anxiety and stress. About 50 percent of claims expense was for outpatient services, 39 percent for inpatient services, and 11 percent for alternative levels of care. Expense for inpatient services and alternative levels of care rose about 20 percent, due primarily to new high-cost members in care management. Outpatient services expense increased 2 percent.

The COVA Care Employee Assistance Program (EAP) handled almost 3,700 total cases from all sources, down about 4 percent from 2007. The decrease was expected based on the heavy utilization of the EAP by Virginia Tech employees in the fourth quarter of 2007 resulting from the April 2007 tragedy. While EAP use was down, the annual 4 percent utilization rate is still significantly higher than for other employer groups with ValueOptions, which administers the behavioral health benefit.

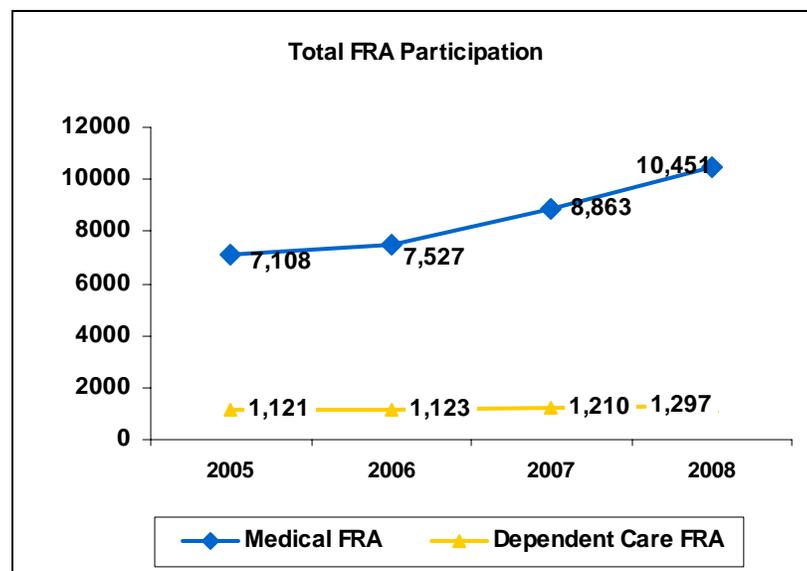
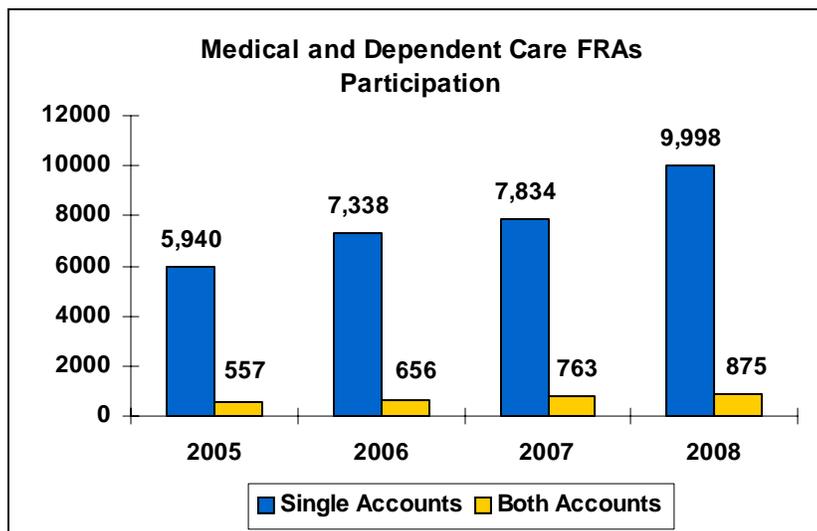


\* Other employers with ValueOptions, which administers the COVA Care behavioral health benefit.

# 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 2008 over the year before. In addition to recognizing the account's value in providing tax savings, more than 6,000 employees took advantage of a stored value card as a convenient way to be reimbursed for qualifying expenses. Dependent Care account participation grew about 7 percent in 2008 compared to the previous year.



# *Cost Drivers*

## **Factors Impacting Expense**

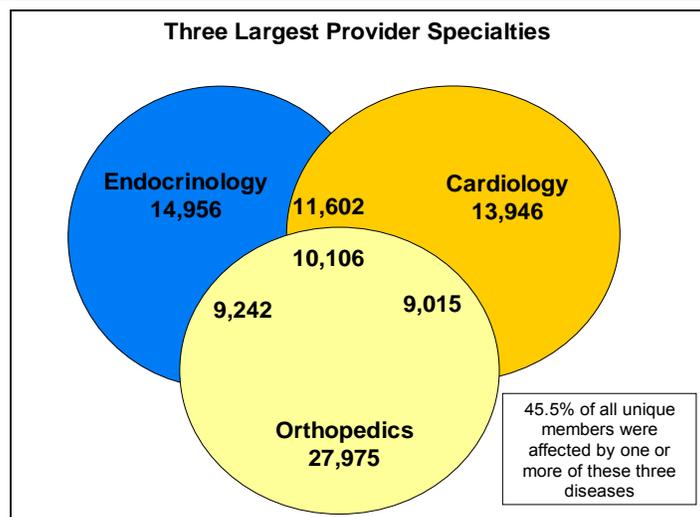
Employee lifestyle, age and the health plan's most expensive procedures, conditions and drugs were major factors impacting the health benefits program during 2008. Lifestyle includes such factors as smoking, physical activity and weight. The average age of state employees continues to increase. According 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 73 percent of total 2008 claims expense.

# Cost Drivers

## The Health Plan “Top 10”

More than \$559 million in state plan expenses during 2008 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.

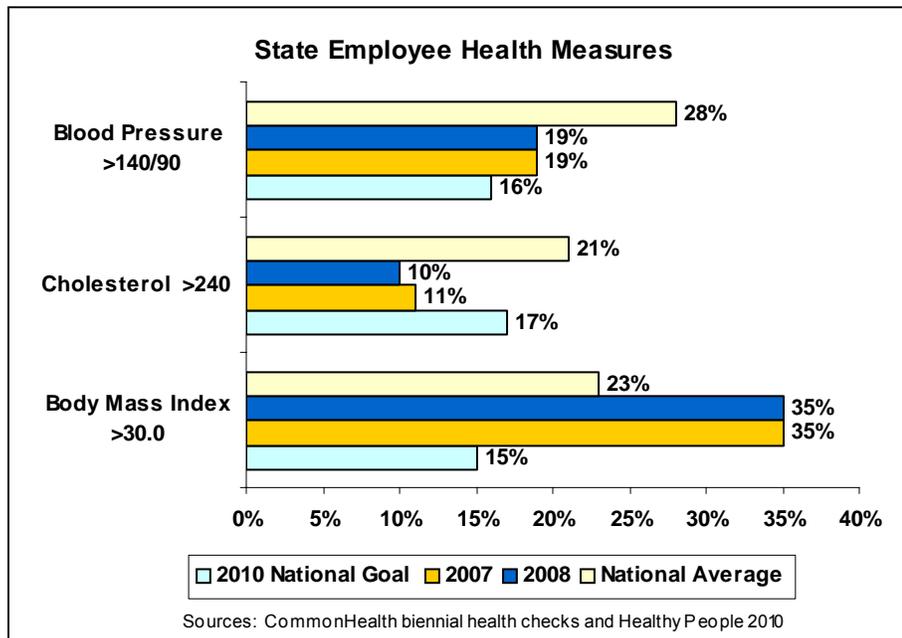
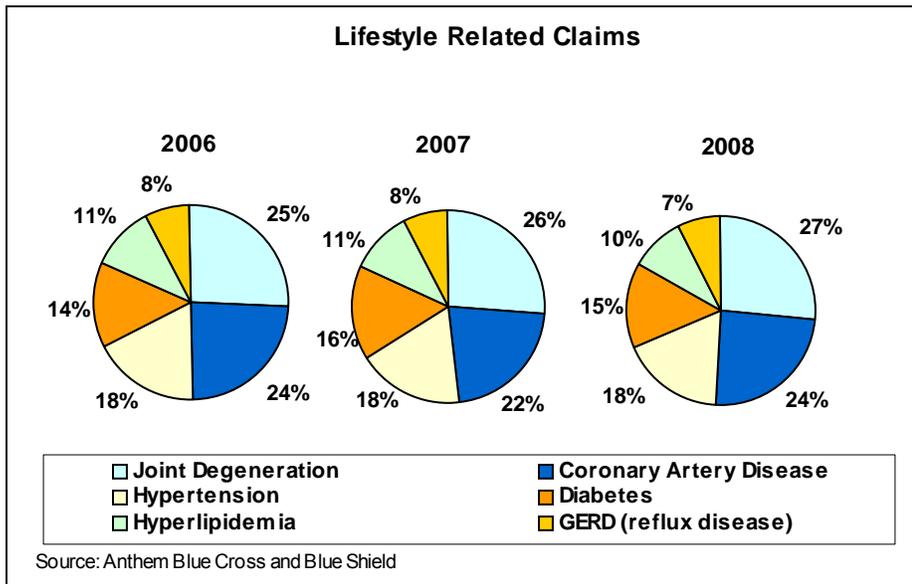
2008 Health Plan Top Ten		
Medical Procedures	Chronic Conditions	Prescription Drugs
1. Neoplasms (tumors)	1. Coronary Artery Disease	1. <i>Nexium</i> (stomach acid)
2. Musculoskeletal	2. Breast Cancer	2. <i>Lipitor</i> (high cholesterol)
3. Circulatory	3. Cerebrovascular Disease	3. <i>Enbrel</i> (rheumatoid arthritis)
4. V-Codes (health services not classified as disease or injury)	4. Diabetes	4. <i>Effexor XR</i> (depression)
5. Ill-defined symptoms (undetermined causes)	5. Hypertension	5. <i>Singulair</i> (lung conditions)
6. Digestive	6. Lung Cancer	6. <i>Actos</i> (oral insulin)
7. Genitourinary	7. Skin Cancer	7. <i>Advair Diskus</i> (lung conditions)
8. Nervous system/sense organs	8. Oral Cancer	8. <i>Topomax</i> (seizures)
9. Respiratory	9. Obesity	9. <i>Avonex</i> (cancer)
10. Accidental injury	10. High blood cholesterol	10. <i>Humira</i> (rheumatoid arthritis)
<b>59.5% of Total Claims Cost</b>	<b>8.9% of Total Claims Cost</b>	<b>4.8% of Total Claims Cost</b>



# Cost Drivers

## Lifestyle Impact

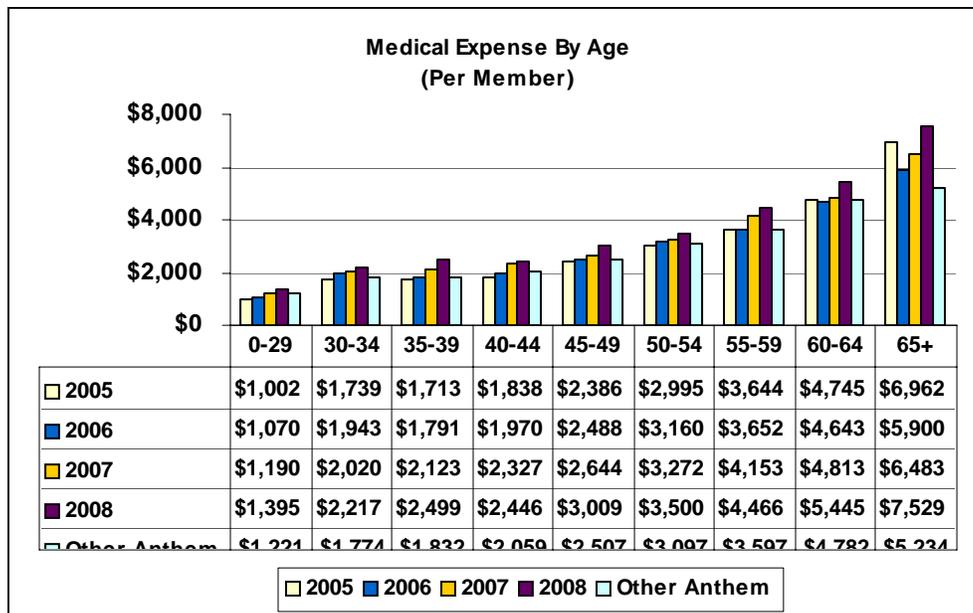
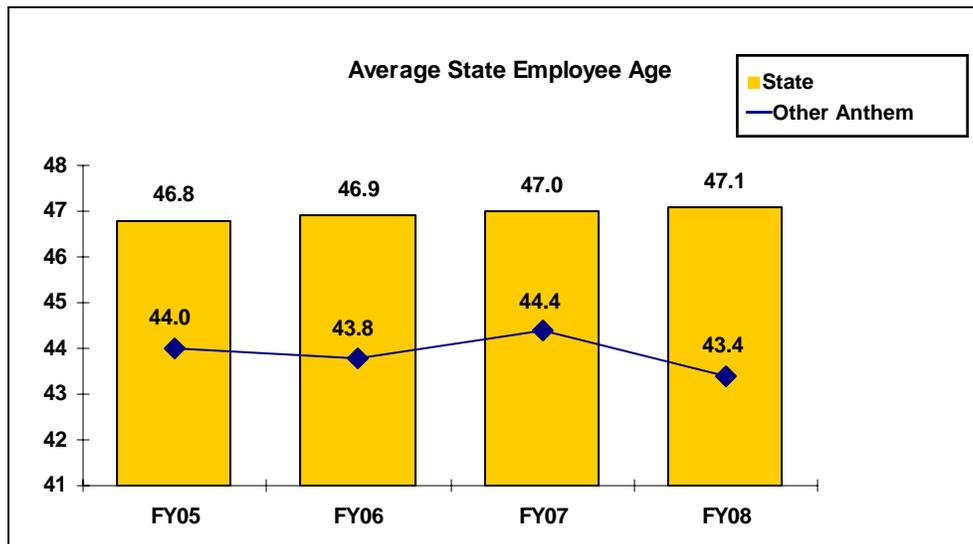
Six conditions that correlate with overweight represented more than \$158 million, or 22.6 percent, of the state plans' total medical expense in 2008. More than 7,200 employees in 2007 and 8,600 in 2008 took a health risk assessment through the CommonHealth wellness program. While the group was below the national average in the incidence of very high cholesterol and high blood pressure, it continued to be 12 percent above average in body mass index of 30 or more, which is considered obese.



# Cost Drivers

## Aging Population

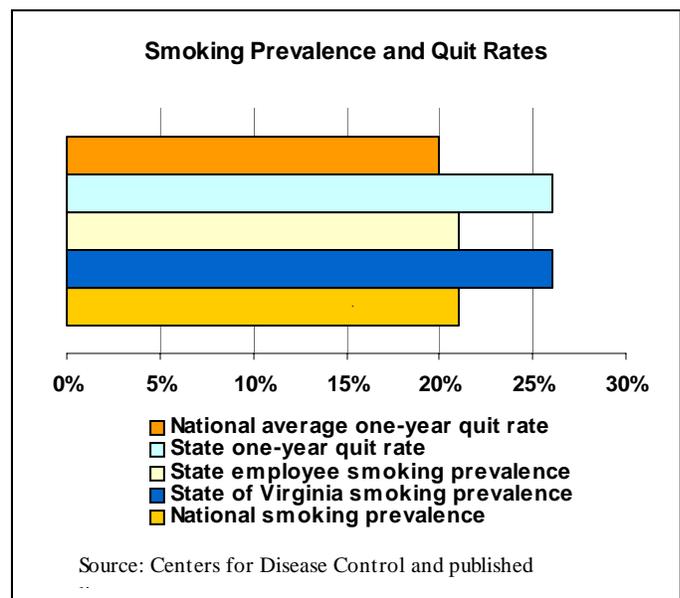
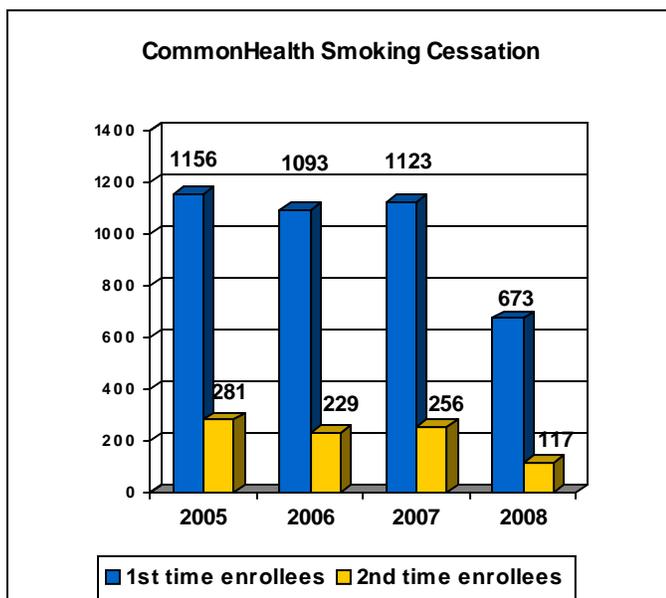
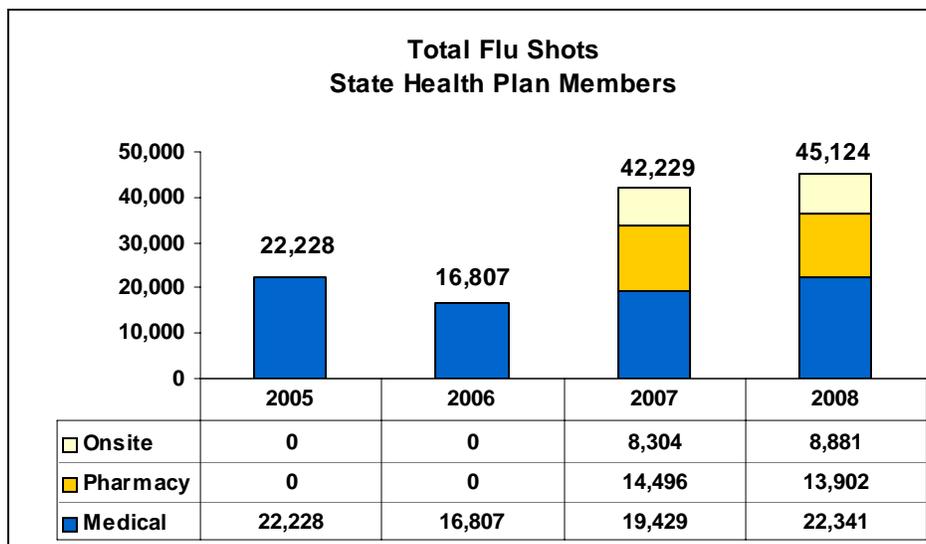
The age gap widened in 2008 between the state workforce enrolled in the health benefits program and employees at other employers who offer Anthem medical benefits. Those ages 40 and above represented 51 percent of state health plan members in 2008, and were responsible for 72 percent of total medical expenses. The 35-39 and 0-29 age groups experienced the largest increase in medical expense per member from 2007 to 2008, at more than 17 percent.



# Wellness and Preventive Care

## CommonHealth

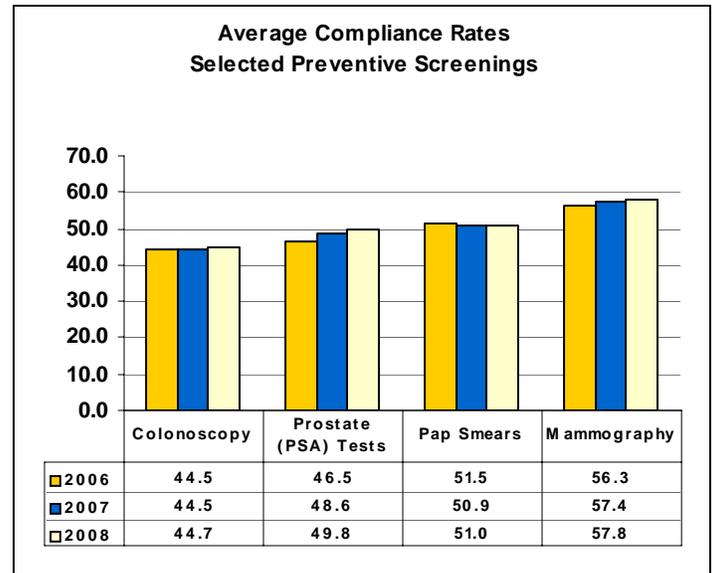
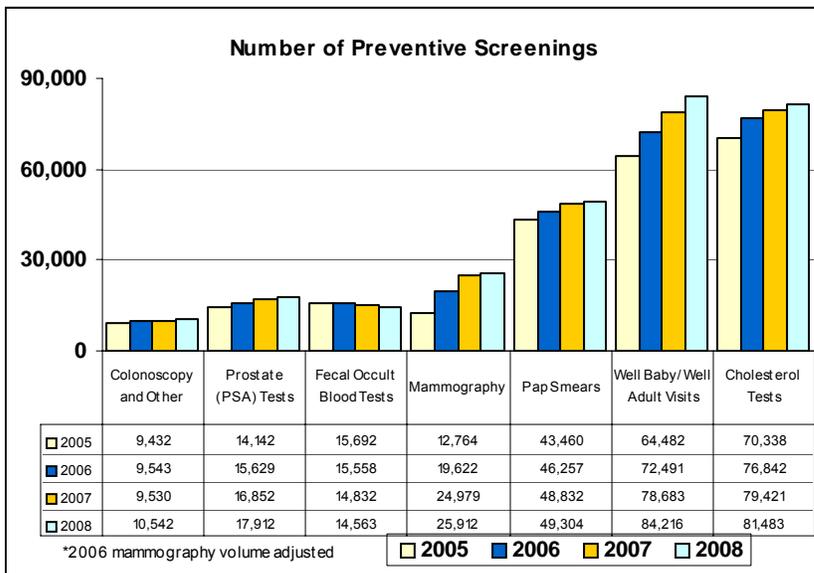
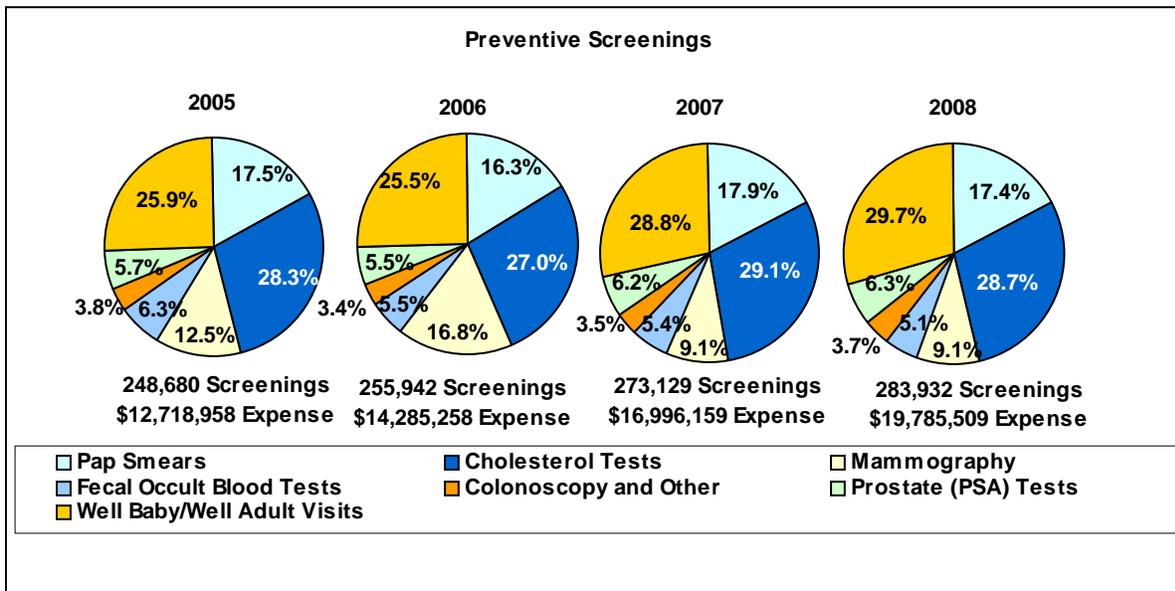
The *CommonHealth* wellness program promotes healthy employee lifestyles and encourages integration of health and physical activity into the work culture. State executive agencies continued to report employee participation in *CommonHealth* as a measure on the Governor's Management Scorecard, with total individual participation at 21 percent. The program focused on ways to control high blood pressure, prevent lower back pain, and sharpen memory. Approximately 7 percent more health plan members took advantage of a free flu shot program in 2008 through the state health plans than did the year before. Nearly 8,900 free flu shots were given onsite through CommonHealth. Participation in the "Breaking Free From Tobacco" smoking cessation program dropped during 2008, which was the first year that the state health plan covered certain smoking cessation drugs under the prescription drug benefit. More than 4,600 individuals purchased these drugs during the plan year.



# Wellness and Preventive Care

## Preventive Screenings

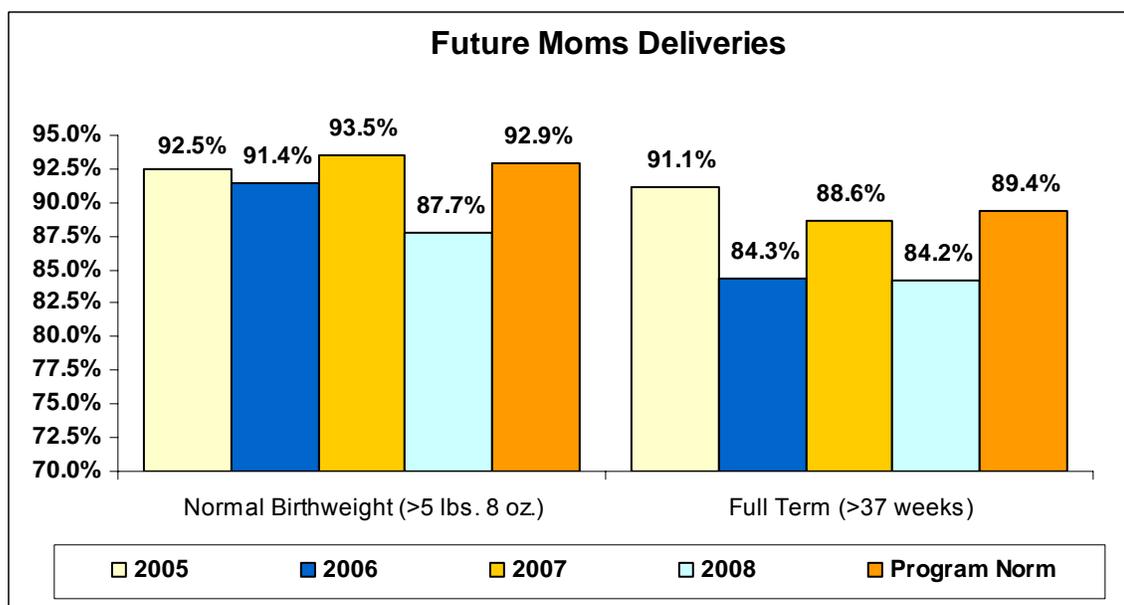
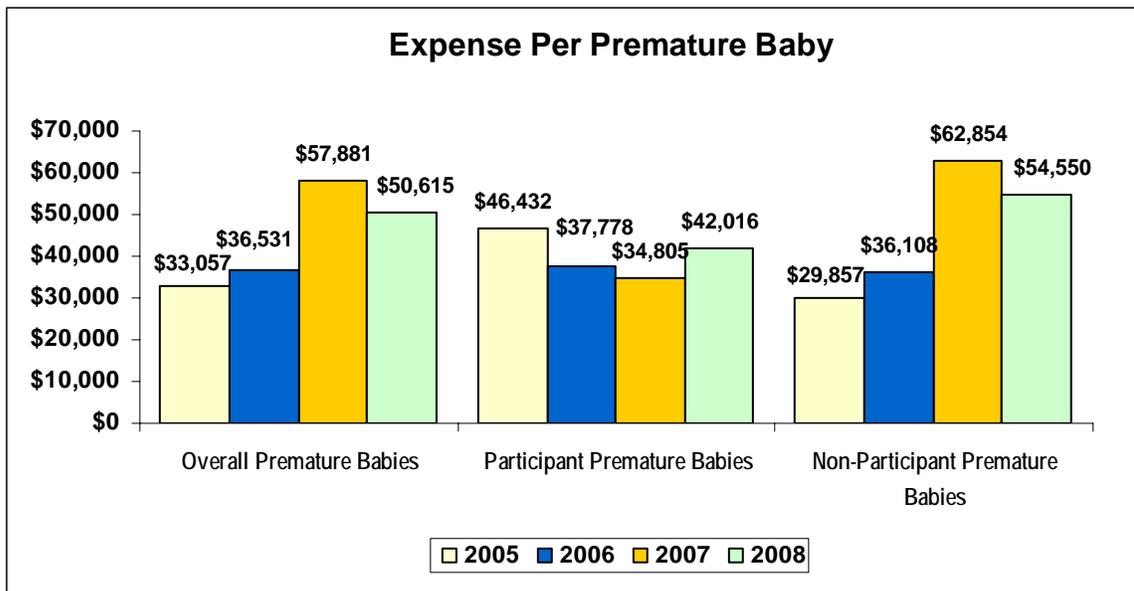
The Commonwealth continued to provide annual wellness visits and preventive care screenings at no cost to members. Annual physicals, mammograms, and prostate (PSA) tests are examples of services in these categories. Outpatient wellness visits and preventive screenings in 2008 were 3.6 percent of total medical expenses, and increased approximately 4 percent over the prior year. Baby and adult wellness checkups were about 30 percent of total volume. Cholesterol, pap smears and mammograms represented 55 percent of preventive care screenings.



# Wellness and 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. Five premature babies during fiscal year 2008 cost the state plan a total of \$3.2 million, including the cost of neonatal intensive care, and one died. Only two of these cases involved a Future Moms participant. Less than one-third of the total 172 premature births during the year costing \$11 million were born to mothers enrolled in Future Moms. Of the more than 2,250 pregnant members covered in 2008, about 23 percent participated in Future Moms. Nearly 88 percent of babies born to women in the program in 2008 had normal birth weight.

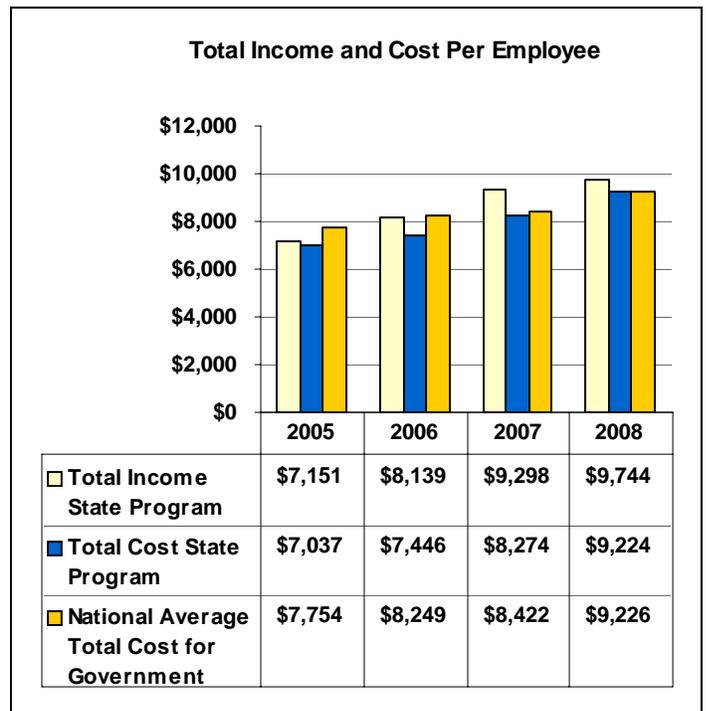
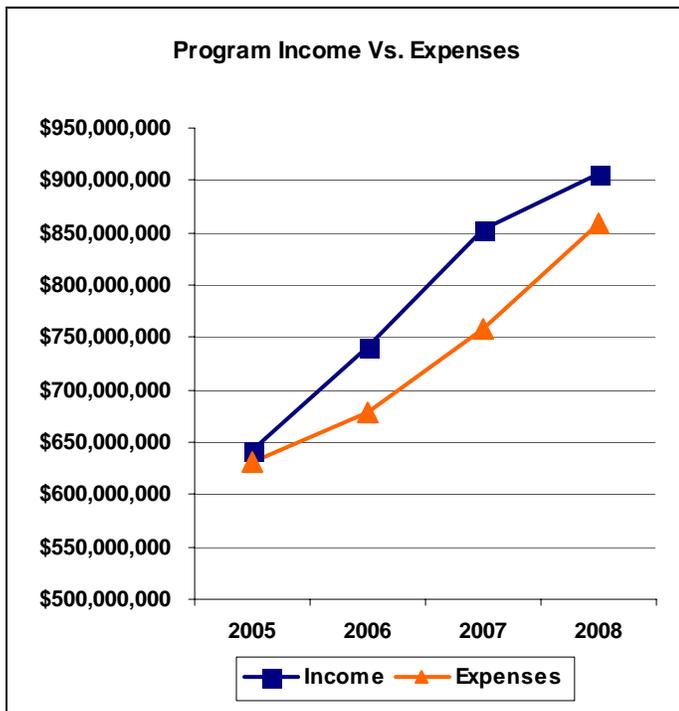


# Health Benefits Program

## 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 2008, cost containment measures combined with a slower rate nationally of health care increases led to program surpluses.

PROGRAM TOTAL	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008
<b>Annual Income</b> <i>(Premiums, Interest, Other)</i>	\$641,722,952	\$741,926,480	\$852,955,127	\$906,826,957
<b>Annual Expenses</b> <i>(Claims, Contract Administration, Other)</i>	\$631,491,957	\$678,797,543	\$759,038,420	\$858,812,728
<b>Income Less Expenses</b>	\$10,230,995	\$63,128,937	\$93,916,707	\$48,014,229



# 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.

Overall satisfaction with the health plan was up in 2008 after decreasing slightly the year before. The plan's medical and prescription drug benefits received the highest rating in 2008, improving 1 percent over the prior year. Overall satisfaction with dental benefits dropped slightly during the year, while the behavioral health program rating increased by 1 percent.

