Annual Report

Commonwealth of Virginia
Health Benefits Program

Fiscal Year 2009

Virginia Department of Human Resource Management
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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 2009 from July 1, 2008 through June 30, 2009. 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 in conjunction with the aging of plan members.
Total enrollment in the statewide COVA Care, COVA HDHP and regional Kaiser Permanente HMO plans was down slightly in fiscal year 2009, with a loss of less than one percent from the prior year. Enrollment in COVA Care Basic represented 30 percent of enrollees and was down approximately 5 percent. A significant number of members continued to prefer options providing additional coverage. About 43 percent of employees eligible for the health plan opted for the two buy-ups offering the most coverage. Kaiser Permanente HMO enrollment grew about 1 percent from the year before.
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. In 2009 total expenses to operate the COVA Care plan were greater than the actual amount of money put into the plan due to an employee premium increase credit from surplus revenues. Actual premiums without the subsidy are shown. From 2006 to 2008, the amount of dollars put in the plan exceeded total operating expenses.
Cost of Coverage

The average cost per employee nationally to employers providing health coverage is expected to rise during calendar year 2009 by about 8 percent. The health benefits program’s annual cost per employee in fiscal year 2009 continued to be comparable to the national average while just slightly less. The rising cost of health care continues to impact state plan costs.

A significant part of the increase in 2009 came from medical and prescription drug costs, due to higher inpatient and outpatient facility, prescription drug and physician expenses. The plan paid more of the annual total health benefits cost, 79 percent, and the employee less of the cost, 21 percent, than in the previous three years. The reason may be due in part to a state subsidy of the employee premium increase combined with no change in other employee out-of-pocket costs. The employee share is the average amount of the total cost that each employee paid in premiums, deductibles, copayments and coinsurance.

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee Share</th>
<th>Employer Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>24%</td>
<td>76%</td>
</tr>
<tr>
<td>2007</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>2008</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>2009</td>
<td>21%</td>
<td>79%</td>
</tr>
</tbody>
</table>

*Employee contribution to premium varies by dependent coverage. In general, premium represents 12 percent of total employee cost.
Claims Expense

During fiscal year 2009, more than 6.7 million claims were processed for the self-insured state plans, up 3 percent from the previous year. The majority of claims were medical, including more than 219,000 claims for routine wellness and preventive screening services. Medical claims accounted for 72 percent of total plan claims expense.
Inpatient and outpatient facility expenses and physician costs continued to be the primary drivers of higher state plan medical costs during fiscal year 2009. Total expenses for inpatient and outpatient facility, and outpatient physician, increased 9 percent during the period. Inpatient facility expenses grew from $178.5 million in 2008 to $189.2 million in 2009. Catastrophic claims, or claims greater than $200,000, were up nearly 25 percent. There were slightly more admissions which required fewer days used at a higher cost of care. Total outpatient facility expenses increased by $18.8 million from 2008 to 2009. 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 average cost were responsible for the higher state plan cost per outpatient facility visit. Total outpatient physician costs increased by $16.9 million in 2009 over the prior year, driven by growth in the volume of care provided and higher costs for services. The state plan paid more than 90 percent of total medical benefits cost in 2009, slightly more than for the prior year. Employees paid almost 10 percent of the cost, down about 1 percent from 2008.
Prescription Drugs

Total prescription drug costs for the state program increased 11 percent from 2008 to 2009. Inflation on brand drugs continued to be the larger cost driver, along with greater utilization by members and high-cost specialty drugs. Specialty drugs represented 15 percent of the state plan’s drug cost for 2009. The plan took measures such as prior authorization of drugs and step therapy to help stem specialty drug costs. One benefit to the program was the continued high number of generic drugs in the total drug mix, which reached almost 64 percent in 2009, up nearly 4 percent over 2008. 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 to 21 percent in 2009 from 23 percent the previous year.
Dental

While dental claims costs were up 5 percent for the state program in 2009, dental benefits continue to represent only 6 percent of total claims expense and are provided at a moderate cost to employees. Almost 376,000 dental claims were processed in 2009, up 3 percent from the year before. Utilization continued to be stable. The plan pays 100 percent for preventive and diagnostic services, which accounted in 2009 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 more than 30 percent of members in 2009.
Behavioral Health

About 14 percent of those enrolled in the health plan used the behavioral health benefit during 2009. More than half of all employee claims related to mood and adjustment disorders, such as depression, anxiety and stress. Total claims cost dropped slightly in 2009 to $9.0 million from $9.1 million in 2008. Fifty-one percent of claims expense was for outpatient services, 10 percent for inpatient services, and 39 percent for alternative levels of care. Claims paid for high-cost members decreased from 18.5 percent in 2008 to 13.2 percent in 2009.

The COVA Care Employee Assistance Program (EAP) handled more than 4,200 total cases from all sources, up 8 percent on an annualized basis from 2008. The annual 4.6 percent utilization rate is significantly higher than the 3.4 percent rate for other employer groups with ValueOptions, which administers the behavioral health benefit. EAP claims in 2009 totaled about $450,000.

* Other employers with ValueOptions, which administers the COVA Care behavioral health benefit.
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 in a Medical flexible reimbursement account grew 10 percent in 2009 from 2008 and has increased more than 85 percent over the past five years. Besides recognizing the account's value in providing tax savings, nearly 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 almost 10 percent in 2009 compared to the previous year.
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 2009. 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 69 percent of total 2009 claims expense.
The Health Plan “Top 10”

Nearly $567 million in state plan expenses during 2009 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 and hypertension. Many of these conditions are also identified with being overweight: for example, diabetes, coronary artery disease, hypertension, musculoskeletal and digestive disorders.

<table>
<thead>
<tr>
<th>Medical Procedures</th>
<th>Chronic Conditions</th>
<th>Prescription Drugs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Neoplasms (tumors)</td>
<td>2. Breast cancer</td>
<td>2. Lipitor (high cholesterol)</td>
</tr>
<tr>
<td>3. V-Codes (health services not classified as disease or injury)</td>
<td>3. Cerebrovascular disease</td>
<td>3. Enbrel (rheumatoid arthritis)</td>
</tr>
<tr>
<td>5. Ill-defined symptoms (undetermined causes)</td>
<td>5. Hypertension</td>
<td>5. Singulair (lung conditions)</td>
</tr>
<tr>
<td>7. Genitourinary</td>
<td>7. Skin cancer</td>
<td>7. Advair Diskus (lung conditions)</td>
</tr>
</tbody>
</table>

54.9% of Total Claims Cost  
8.8% of Total Claims Cost  
4.8% of Total Claims Cost

Three Largest Provider Specialties

Endocrinology 14,326  
Cardiology 13,250  
Orthopedics 36,763

14,107  
13,769  
14,529  
23,176  
55.0% of all unique members were affected by one or more of these three diseases

55.0% of all unique members were affected by one or more of these three diseases
Lifestyle Impact

According to the National Institutes of Health, one in three adults nationwide is obese and one in five children is overweight. Six conditions that correlate with overweight represented about $159 million, or 26.7 percent, of the state plans' total medical expense in 2009. About 8,600 employees in 2008 and 6,852 in 2009 took part in health screenings 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 13 percent above average in body mass index of 30 or more, which is considered obese.

Source: Anthem Blue Cross and Blue Shield

State Employee Health Measures

Blood Pressure >140/90

Cholesterol >240

Body Mass Index >30.0

Sources: CommonHealth biennial health checks and Healthy People 2010
Aging Population

The age gap continued in 2009 between the state workforce enrolled in the health benefits program and employees at other employers who offer Anthem medical benefits. Those ages 50 and above represented 33 percent of state health plan members in 2009, and were responsible for 57 percent of total medical expenses. The 30-34 age group experienced the largest increase in medical expense per member from 2008 to 2009, at more than 14 percent.
Healthier lifestyles mean healthier employees. The CommonHealth wellness program promotes healthy employee lifestyles and encourages integration of health and physical activity into the work culture. In fiscal year 2009, moving the CommonHealth program from an outside vendor to state employee direction in the Department of Human Resource Management saved the state $4 million in a tight budget environment. State executive agencies continued to report employee participation in CommonHealth as a measure on the Governor’s Management Scorecard, with total individual participation at 25 percent. The program focused on ways to control stress, eat healthy, and prevent skin cancer and other illness. Participation in the state health plan’s free flu shot program has risen 14 percent since its inception in 2007. Enrollment in the “Breaking Free From Tobacco” smoking cessation program increased 28 percent during 2009, after a significant decline the year before. In addition, more than 3,500 individuals purchased smoking cessation drugs under the state plan prescription drug benefit.
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 5 percent over the prior year. Baby and adult wellness checkups and cholesterol tests represented 59 percent of total screening volume. About one-third of preventive care screenings were pap smears, mammograms and PSA tests.
Future Moms

As part of an emphasis on preventive care, the state plans offer 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. There were 139 premature births among plan members in fiscal year 2009, costing more than $9 million in claims. Fifty-seven, or 41 percent, of those infants were born to mothers enrolled in Future Moms. Five premature babies cost a total of $2.9 million, including the cost of neonatal intensive care. Only two of these cases involved a Future Moms participant. Of the nearly 2,100 pregnant members covered in 2009, over 42 percent participated in Future Moms. Nearly 92 percent of babies born to women in the program in 2009 had normal birth weight. Program participation increased 70 percent over the previous year. The growth in participation can be tied to an incentive introduced in 2009 waiving the maternity inpatient copayment for participants who completed special program requirements. Forty-two-point-five (42.5) percent of total deliveries involved program participants, up from 23.2 percent in 2008.

Expense Per Premature Baby

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall Premature Babies</th>
<th>Participant Premature Babies</th>
<th>Non-Participant Premature Babies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$33,057</td>
<td>$36,531</td>
<td>$35,000</td>
</tr>
<tr>
<td>2006</td>
<td>$57,881</td>
<td>$50,015</td>
<td>$50,000</td>
</tr>
<tr>
<td>2007</td>
<td>$65,283</td>
<td>$46,432</td>
<td>$42,016</td>
</tr>
<tr>
<td>2008</td>
<td>$54,313</td>
<td>$37,778</td>
<td>$34,808</td>
</tr>
<tr>
<td>2009</td>
<td>$62,854</td>
<td>$29,857</td>
<td>$36,108</td>
</tr>
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</table>

Future Moms Deliveries

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal Birthweight (&gt;5 lbs. 8 oz.)</th>
<th>Full Term (&gt;37 weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>92.5% 91.4% 93.5%</td>
<td>91.1%</td>
</tr>
<tr>
<td>2006</td>
<td>91.5% 92.9%</td>
<td>84.3%</td>
</tr>
<tr>
<td>2007</td>
<td>87.7%</td>
<td>84.2%</td>
</tr>
<tr>
<td>2008</td>
<td>88.6%</td>
<td>90.3%</td>
</tr>
<tr>
<td>2009</td>
<td>89.4%</td>
<td>Program Norm</td>
</tr>
</tbody>
</table>
Operating Statement

Premiums provide 97 percent of the health program’s income, and claims payments represent 93 percent of expenses. The statewide COVA Care plan was introduced in 2004 to help better balance premiums and out-of-pocket costs. 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 and the aging of plan members. Cost containment measures combined with a slower rate nationally of health care increases led to program surpluses from 2005-08. In 2009, a deficit resulted from the use of program reserves to fund an employee premium increase credit (EPIC) to mitigate the lack of employee pay raises during the budget crunch.

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</thead>
<tbody>
<tr>
<td>Annual Income</td>
<td>$641,722,952</td>
<td>$741,926,480</td>
<td>$852,955,127</td>
<td>$906,826,957</td>
<td>$871,914,528</td>
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<tr>
<td>(Premiums, Interest, Other)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Expenses</td>
<td>$631,491,957</td>
<td>$678,797,543</td>
<td>$759,038,420</td>
<td>$858,812,728</td>
<td>$914,296,899</td>
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<tr>
<td>(Claims, Contract Administration, Other)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Less Expenses</td>
<td>$10,230,995</td>
<td>$63,128,937</td>
<td>$93,916,707</td>
<td>$48,014,229</td>
<td>($42,382,371)</td>
</tr>
</tbody>
</table>

Program Income Vs. Expenses

Total Income and Cost Per Employee

- **Total Income State Program**: $7,151, $8,139, $9,298, $9,744, $9,430
- **Total Cost State Program**: $7,037, $7,446, $8,274, $9,224, $9,889
- **National Average Total Cost for**: $7,754, $8,249, $8,422, $9,226, $9,947
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 about half a percentage point in 2009 over the year before. The plan’s medical and prescription drug benefits received the highest rating in 2009, with the medical rating 1 percent higher than in 2008. Overall satisfaction with behavioral health benefits dropped during the year, while ratings for both prescription drug and dental benefits did not change.