



Annual Report

Commonwealth of Virginia Medicare Retiree Health Benefits Program

Plan Year 2005



Department of Human Resource Management

INTRODUCTION

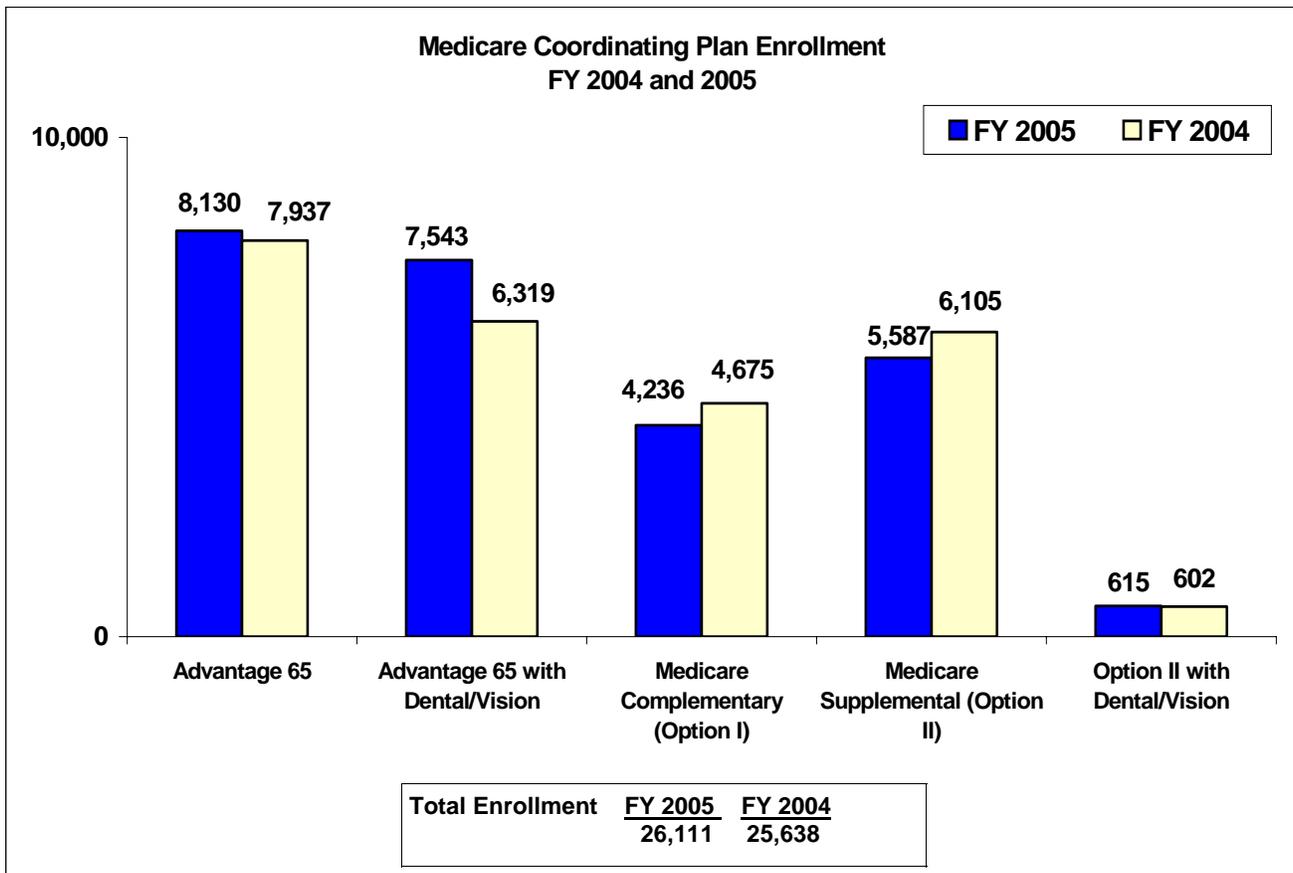
The Commonwealth's retiree health benefits program includes both Medicare-eligible retirees and those not eligible for Medicare. This report focuses only on health plans for Medicare-eligible retirees. In plan year 2005, the program offered five plans that coordinate with the federal Medicare program. These plans supplement Medicare Part A coverage for hospital and skilled nursing care, and portions of Medicare Part B coverage for physicians services and home health care. Coverage was also provided in 2005 under these plans for outpatient prescription drugs, either through pharmacy or medical benefits.

Costs to regional and local employers for Medicare coordinating plans have mirrored the increase in health care expenses nationally. The cost to the program for inpatient facility services and prescription drugs continued to rise in 2005, with prescription drugs representing approximately 63 percent of the overall retiree premium for the Commonwealth's plans.

This report presents a financial overview of the statewide, Medicare-coordinating health benefits plans for retirees administered by Anthem Blue Cross and Blue Shield during fiscal year 2005 (July 1, 2004 through June 30, 2005). Most of the data reflects the combined operations of the five plans — Advantage 65, Advantage 65 with Dental/Vision coverage, Medicare Complementary (Option I), Medicare Supplemental (Option II) and Option II with Dental/Vision.

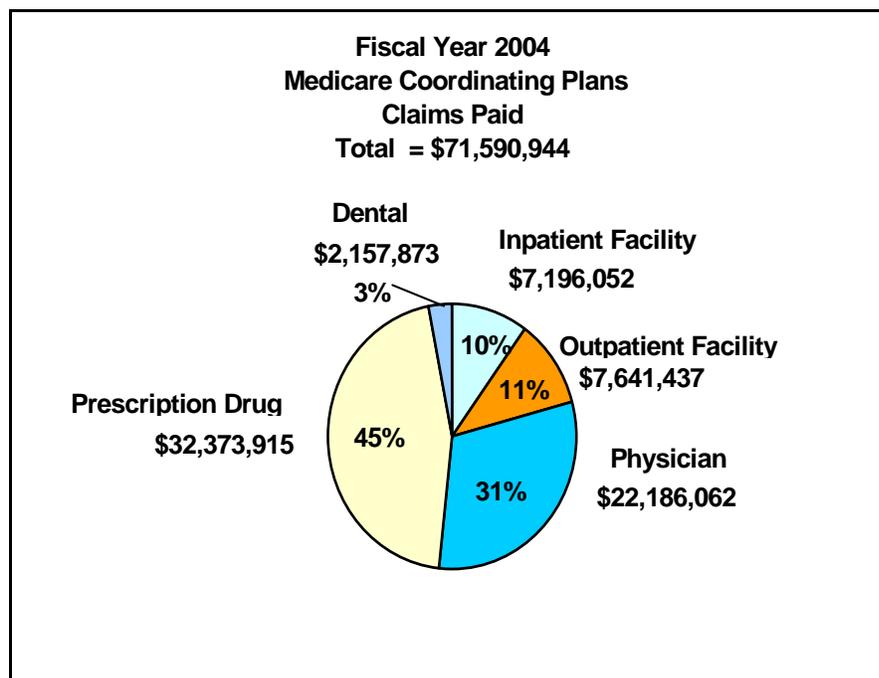
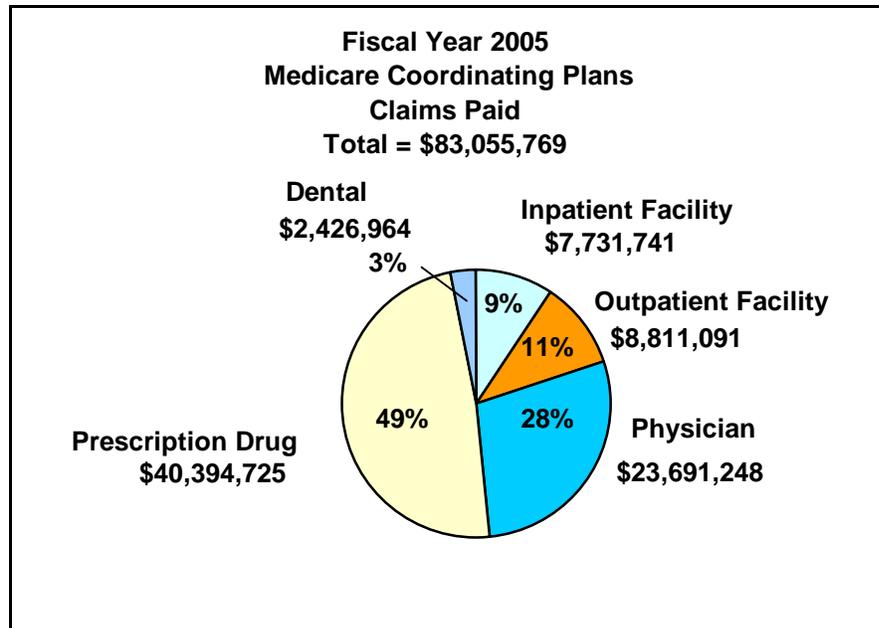
ENROLLMENT

Enrollment in the statewide plans that coordinate with Medicare remains relatively stable. The Advantage 65 plans are offered to all eligible state retirees, survivors and family members; however, the Option I and Option II plans are closed to new enrollment. From fiscal year 2004 to 2005, enrollment continued to move into Advantage 65 and Advantage 65 with Dental/Vision. Enrollment in Advantage 65 rose 2.4 percent, and Advantage 65 with Dental/Vision experienced more than a 19 percent increase. This trend shows the popularity not only of dental and vision benefits, but also of wide-ranging Medicare supplemental coverage.



CLAIMS AND UTILIZATION

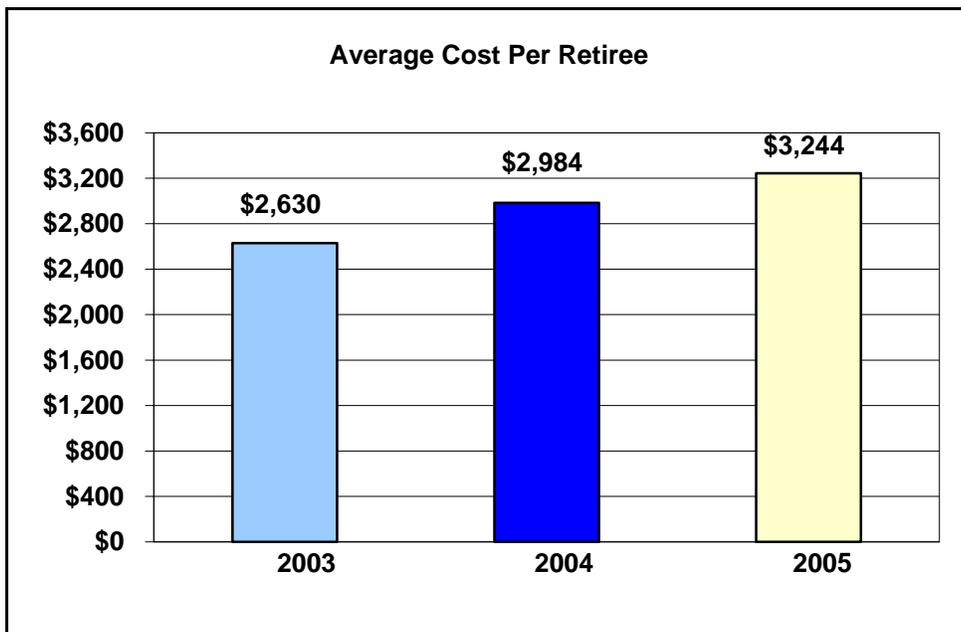
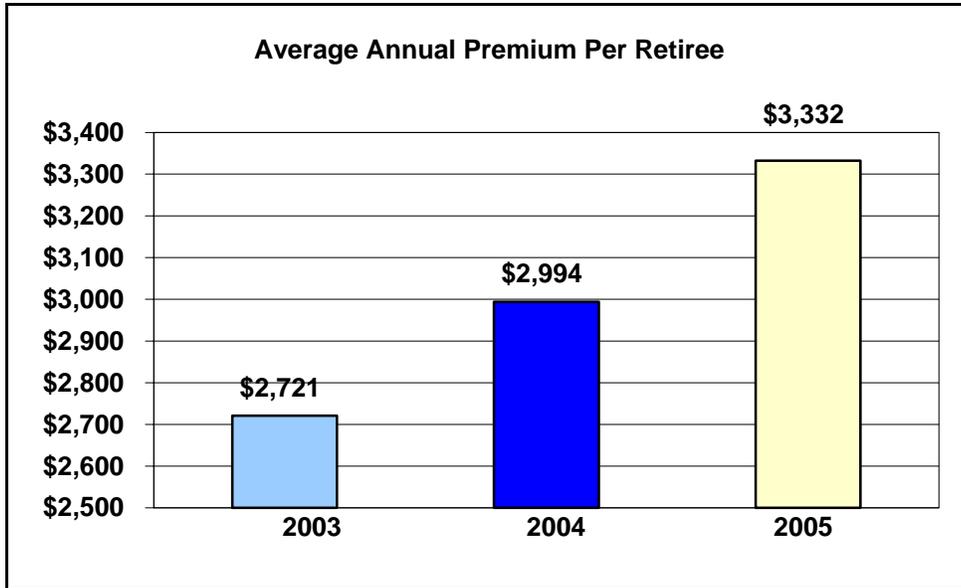
Inpatient and outpatient physician services and prescription drugs continue to represent the largest portion of expenses. Prescription drug expense accounted for nearly half of all retiree plan costs in 2005. The retiree group uses medical services more, and purchases both higher quantities of drugs and more expensive medications. In addition, prescription drug coverage under Option II, previously reflected under medical services, is now shown under the prescription drug program.



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

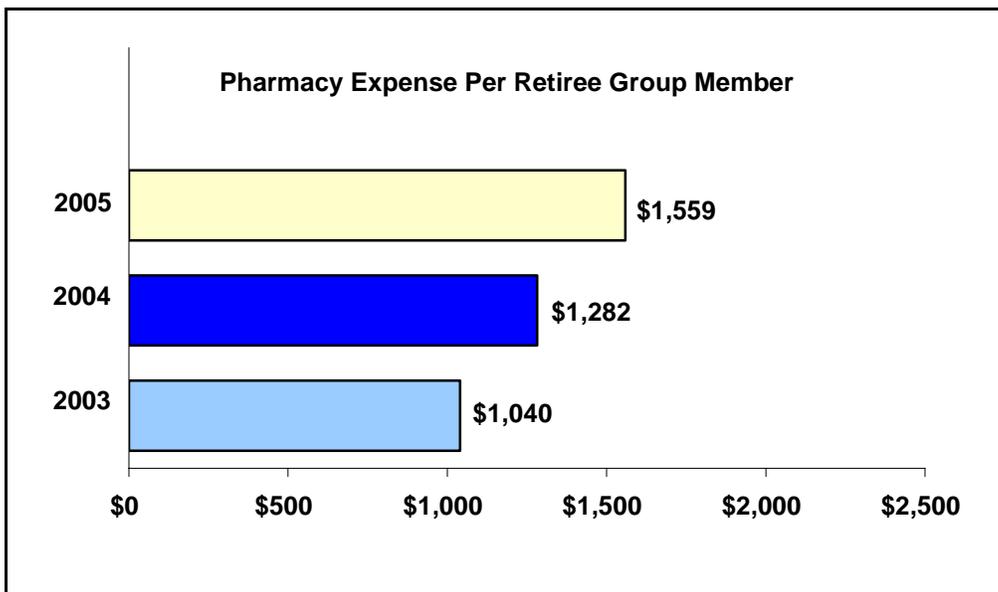
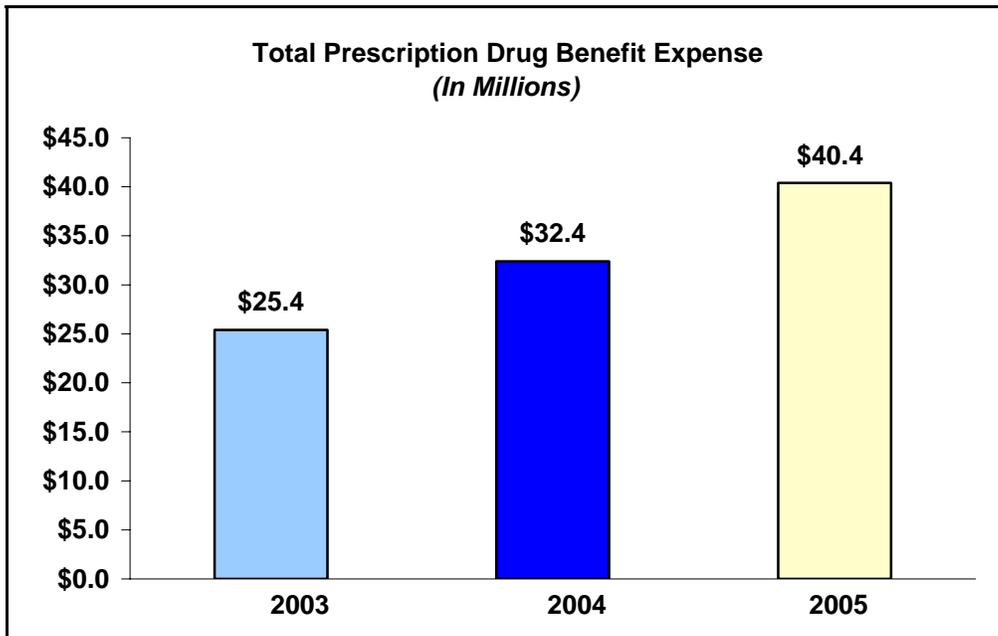
COST OF COVERAGE

During fiscal year 2005, the change in the Medicare deductible and reimbursement levels had an impact on costs for the Commonwealth's Medicare-coordinating plans. The average annual premium per retiree for all plans increased 11 percent, while the average cost per retiree went up 9 percent.



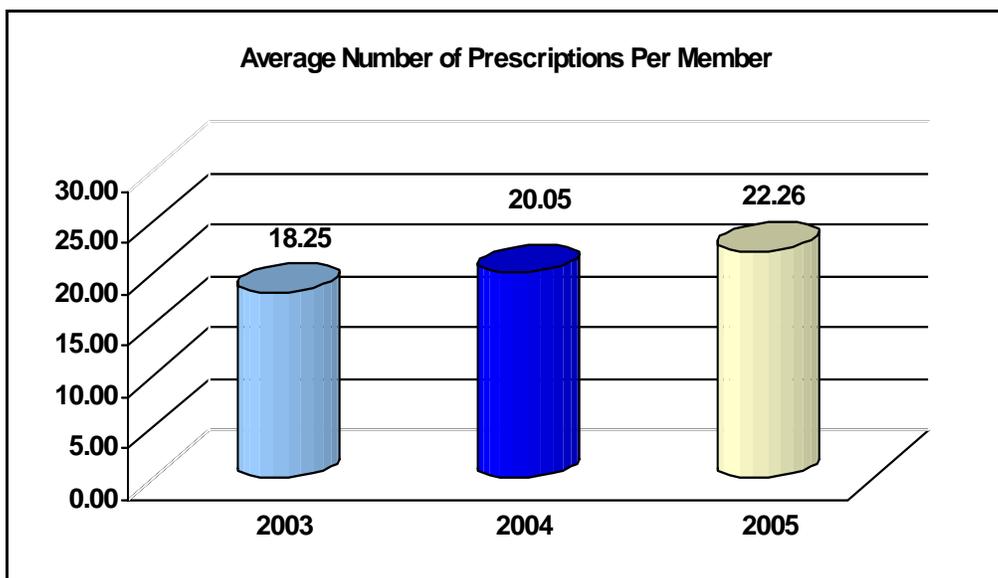
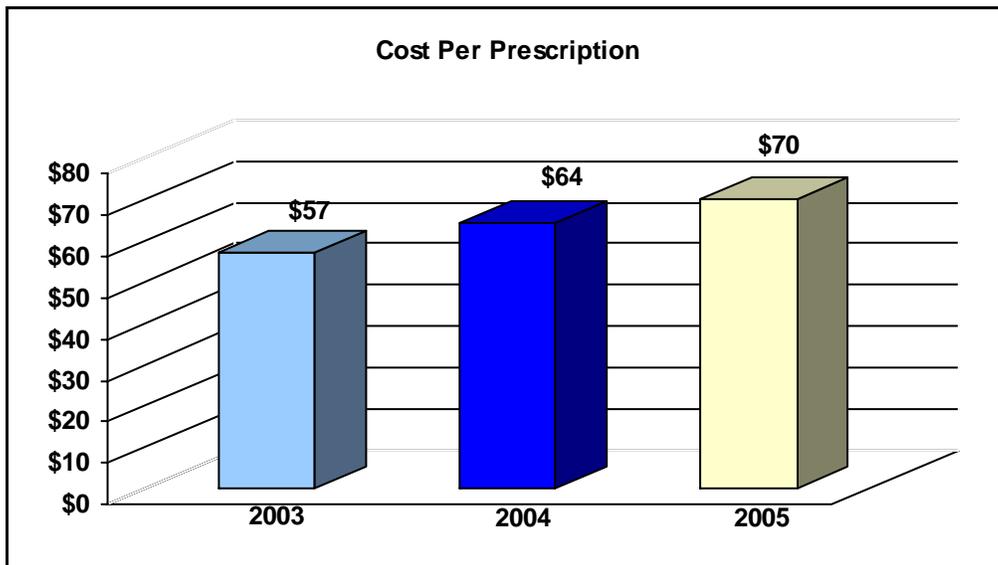
PRESCRIPTION DRUGS

The Medicare retiree group bore the full cost of prescription drugs in the 2005 plan year, since drug costs were not covered under Medicare until January 1, 2006. Over the past five years, increases nationally in the cost of outpatient prescription drugs have eclipsed other medical costs. Total prescription drug expenses under the prescription drug program experienced an increase of nearly 25 percent during fiscal year 2005, and total pharmacy expense per retiree group member rose approximately 22 percent.



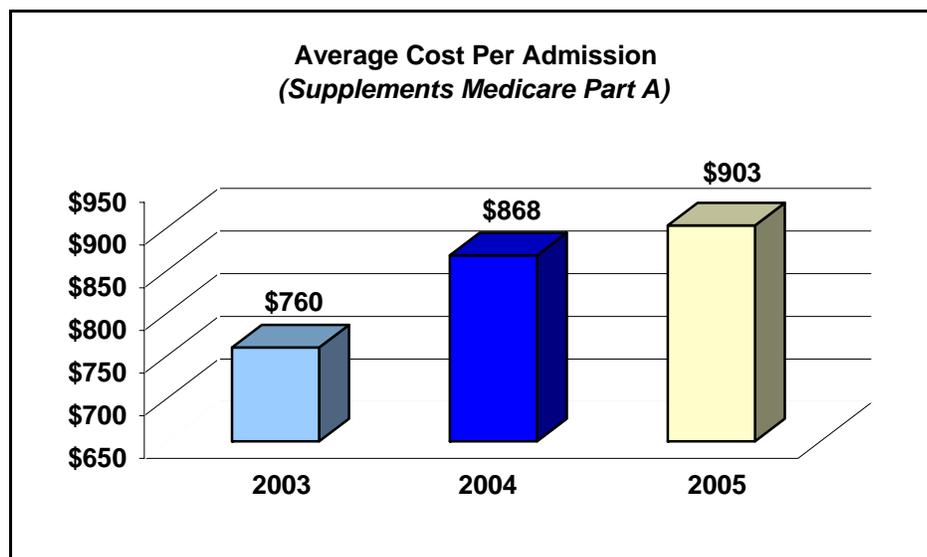
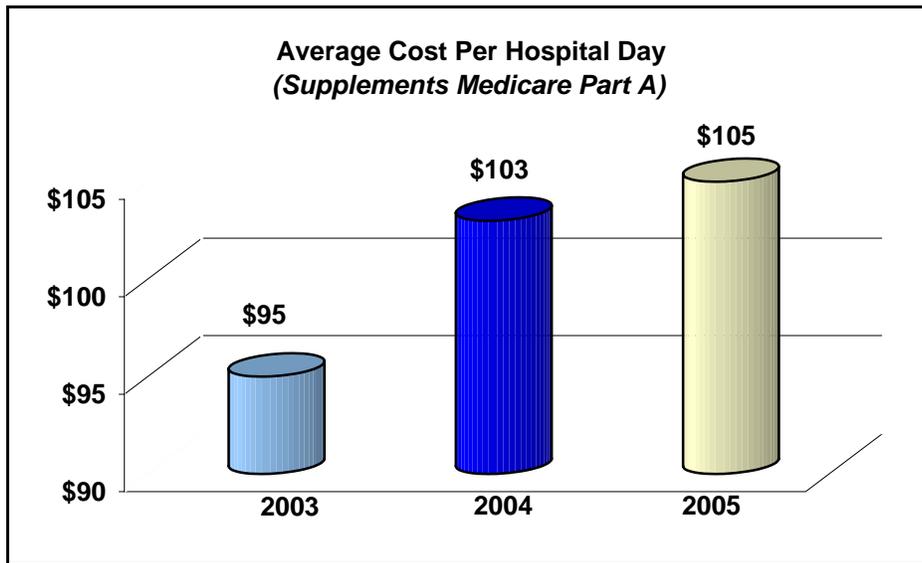
PRESCRIPTION DRUG BENEFIT

Higher prescription drug costs show no signs of abating, and retiree group members continue to purchase higher drug quantities. For the Commonwealth's Medicare-coordinating plans, the cost per prescription under the prescription drug program increased more than 9 percent from fiscal 2004 to 2005, and the average number of prescriptions per member grew by 11 percent.



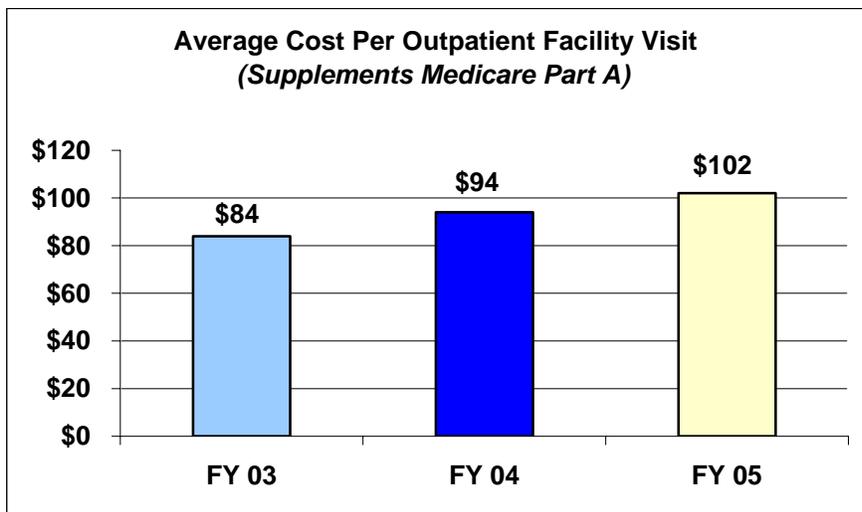
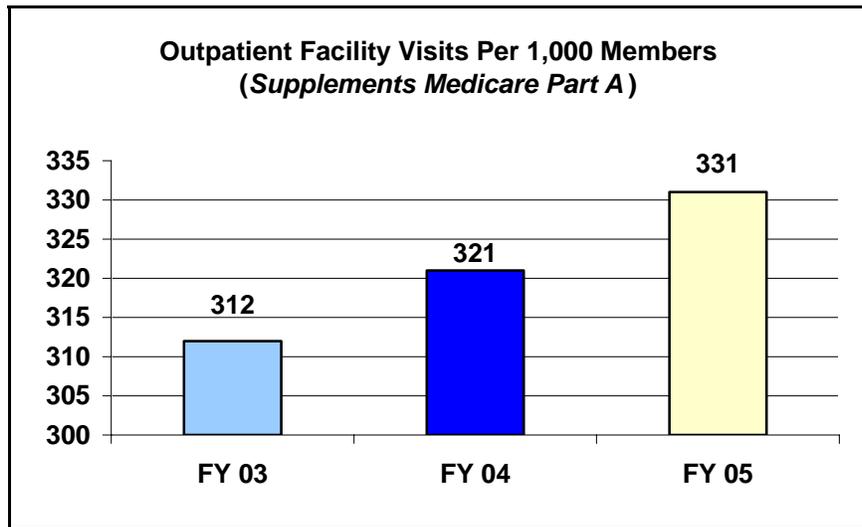
INPATIENT FACILITY

Total inpatient facility costs continued to rise in fiscal year 2005 for the program, up almost 7.5 percent from the same period in 2004, from \$7.2 million to \$7.7 million. The increase in both the average cost per hospital day and the cost per admission slowed in 2005. The overall growth in these categories is due in part to an increasingly older retiree population. Inpatient facility costs are also catching up with a higher deductible for Medicare Part A.



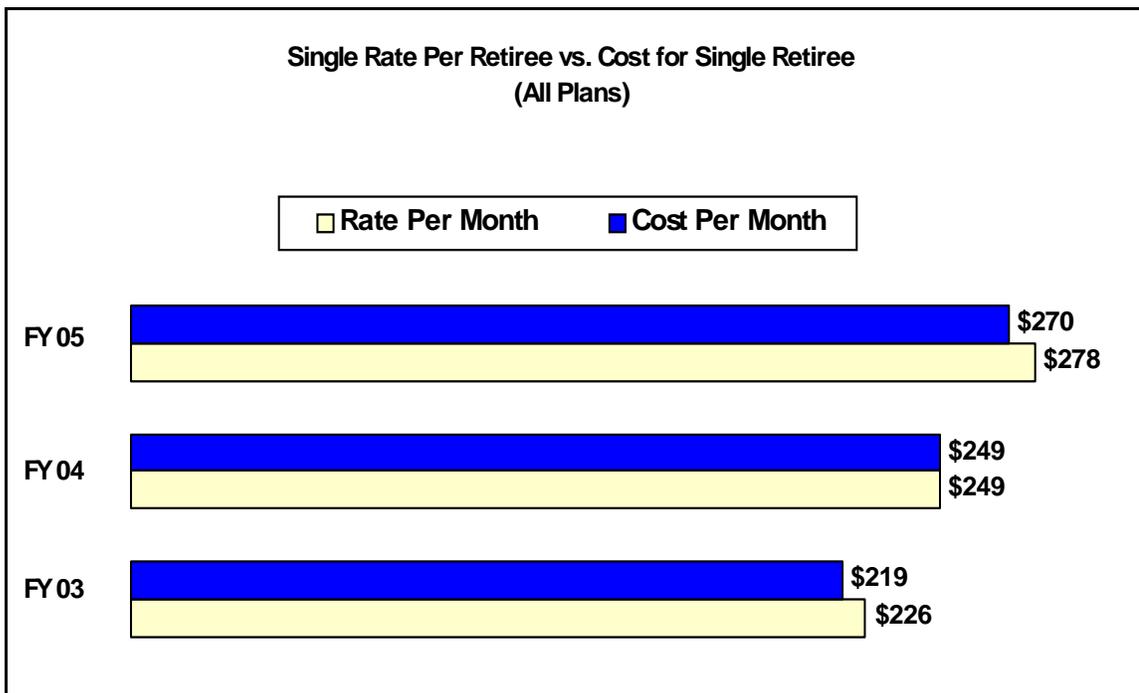
OUTPATIENT FACILITY

Total outpatient facility expenses for the Medicare-coordinating plans rose more than 15 percent between fiscal 2004 and 2005. Retiree group members had an average of 10 more visits per 1,000 members and the cost per outpatient facility visit was \$8 higher in 2005 than the year before.



FOCUS ON RETIREE PROGRAM

The monthly premiums paid by retiree group members in fiscal year 2005 were higher than monthly expenses, yielding a surplus of revenue over expenses. In the 2004 plan year, monthly premiums covered total monthly expenses. In addition to premium income, 2005 revenue included other income from miscellaneous recovery of plan expenses.



OPERATING STATEMENT

Premiums provided almost all of our income in 2004 and 2005 for the Medicare-coordinating plans. Claims payments represented about 95 percent of our expenses both years. The program experienced a surplus in the past two years. Other miscellaneous income added to premium income resulted in a surplus for 2005. The surplus was smaller in 2004 as annual expenses more nearly reflected annual income. The ongoing increase in health care costs, especially for prescription drugs, continued in 2005 to present a challenge to the program's financial health.

PROGRAM TOTAL	FISCAL YEAR 2004	FISCAL YEAR 2005
Annual Income <i>(Premiums, Interest, Other)</i>	\$78,370,763	\$88,326,228
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$76,514,143	\$84,713,626
Income Less Expenses	\$1,856,620	\$3,612,602