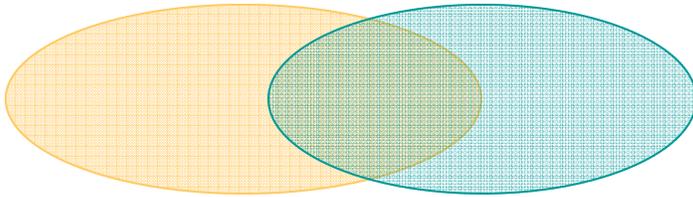


Annual Report



Commonwealth of Virginia Medicare Retiree Health Benefits Program

Plan Year 2009



Department of Human Resource Management

INTRODUCTION

The Commonwealth's retiree health benefits program includes both Medicare-eligible retirees and those not eligible for Medicare. Only health plans for Medicare-eligible retirees are included in this report. In plan year 2009, the program offered seven 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 physician services and home health care. A state enhanced Medicare Part D prescription drug benefit continues to provide outpatient prescription drug coverage.

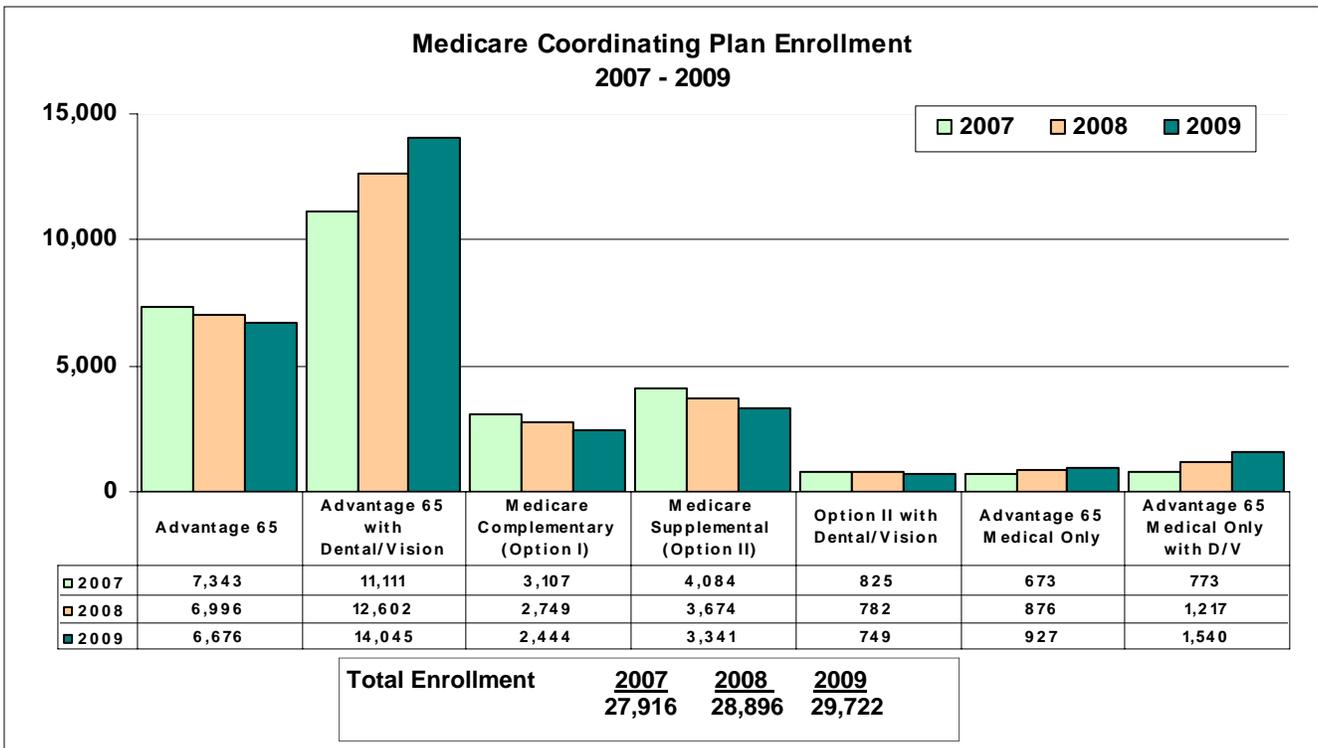
This report presents a financial overview of the statewide, Medicare-coordinating health benefits plans for retirees administered by Anthem Blue Cross and Blue Shield, and the enhanced Medicare Part D prescription drug program administered by Medco Health Solutions, Inc., during calendar year 2009. Most of the data reflects the combined operations of the seven plans – Advantage 65, Advantage 65 with Dental/Vision coverage, Advantage 65-Medical Only, Advantage 65-Medical Only with Dental/Vision, Medicare Complementary (Option I), Medicare Supplemental (Option II) and Option II with Dental/Vision.

Costs to regional and local employers for Medicare-coordinating plans have mirrored the increase in health care expenses nationally. The major cost driver continues to be prescription drugs, which represented more than half of claims expense for the plans during both calendar years 2008 and 2009. The cost to the state program for dental, physician, outpatient and inpatient facility services rose as well. About 30 percent of plan expenses in 2009 resulted from inpatient facility, and inpatient and outpatient physician costs.

ENROLLMENT

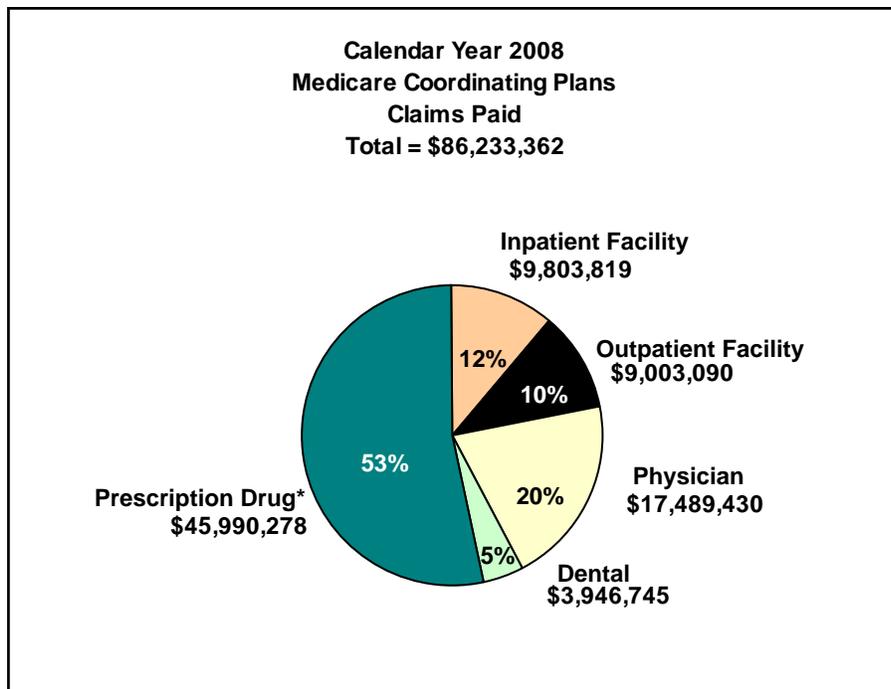
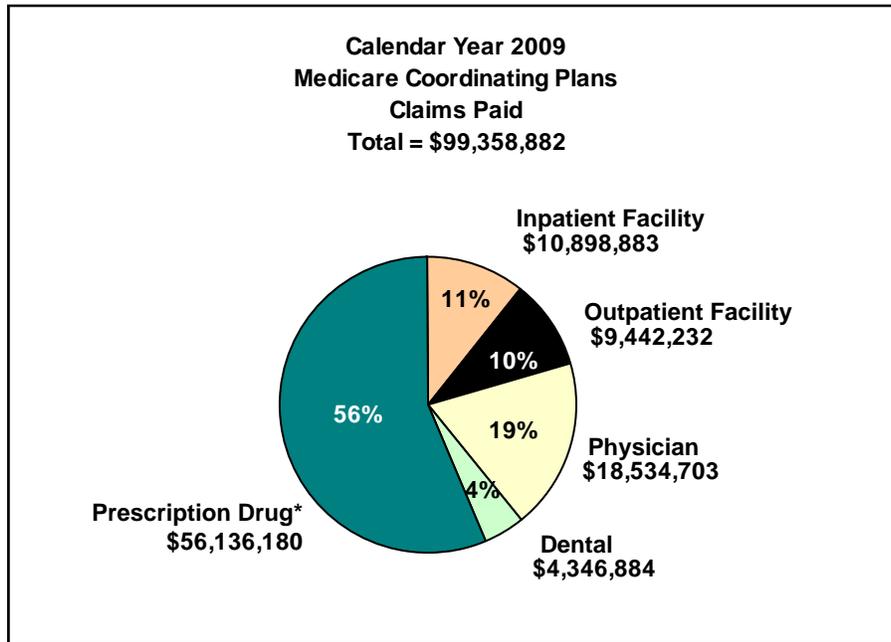
Enrollment in the statewide plans that coordinate with Medicare rose 3 percent in 2009 over the prior year, after increasing about 4 percent from 2007 to 2008. The Advantage 65 plans are offered to all eligible state retirees, survivors and long-term disability participants. Option I and Option II are closed to new enrollment. Since 2006, all of these plans have included an enhanced Medicare Part D prescription drug benefit. Two additional plans, Advantage 65 Medical Only and Advantage 65 Medical Only with Dental/Vision, give members the option of medical coverage without a prescription drug benefit.

Dental and vision benefits remain popular with Medicare retiree group members. From 2007 to 2009, enrollment continued to move away from the Advantage 65 plan to Advantage 65 with Dental/Vision. Enrollment in Advantage 65 with Dental/Vision has risen 46 percent in the past four years. In 2009, enrollment in this plan increased nearly 12 percent, while Advantage 65 enrollment decreased 5 percent.



CLAIMS AND UTILIZATION

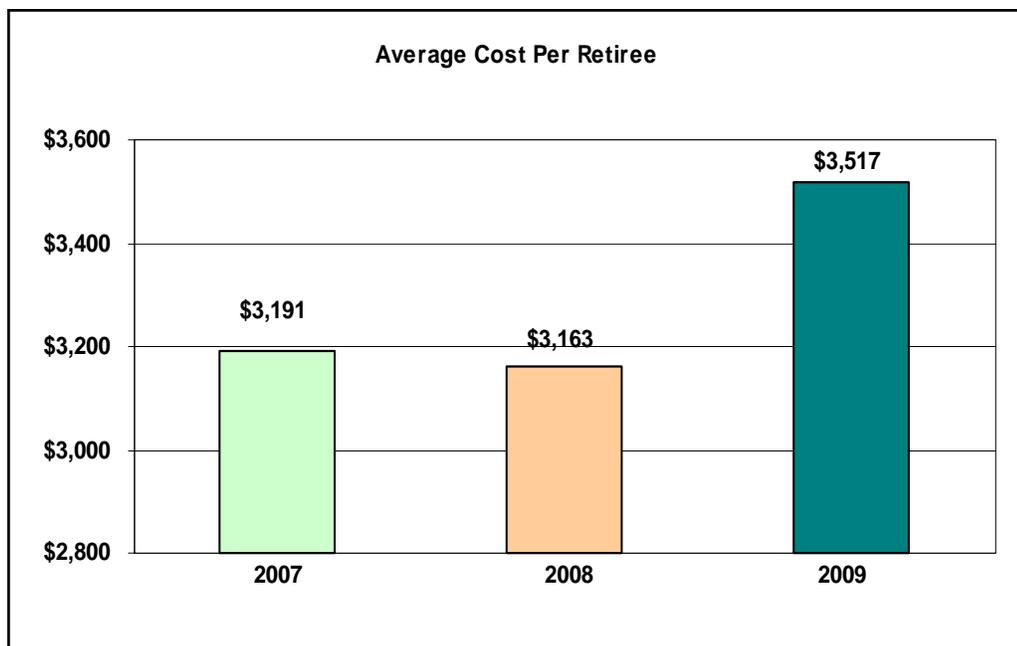
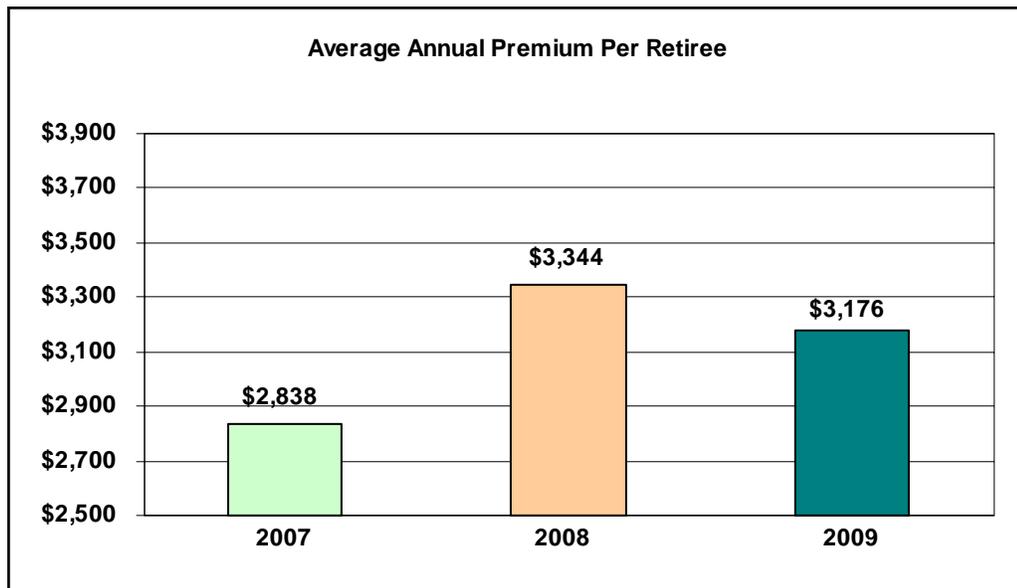
Total claims expense increased 15 percent from 2008 to 2009. Prescription drug costs under the Commonwealth's enhanced Medicare Part D program continued to represent the largest part of state Medicare retiree group expenses, accounting for more than half of retiree plan costs for 2008 and 2009. Dental claims rose 10 percent, physician claims were up 6 percent and inpatient facility claims rose 12 percent in 2009. However, the rate of increase was lower than the year before. The 2009 increase can be attributed to greater overall use of medical and dental services by the retiree group, and the higher cost of office visits and inpatient hospital services.



*Revised based on updated data. Includes federal subsidy.

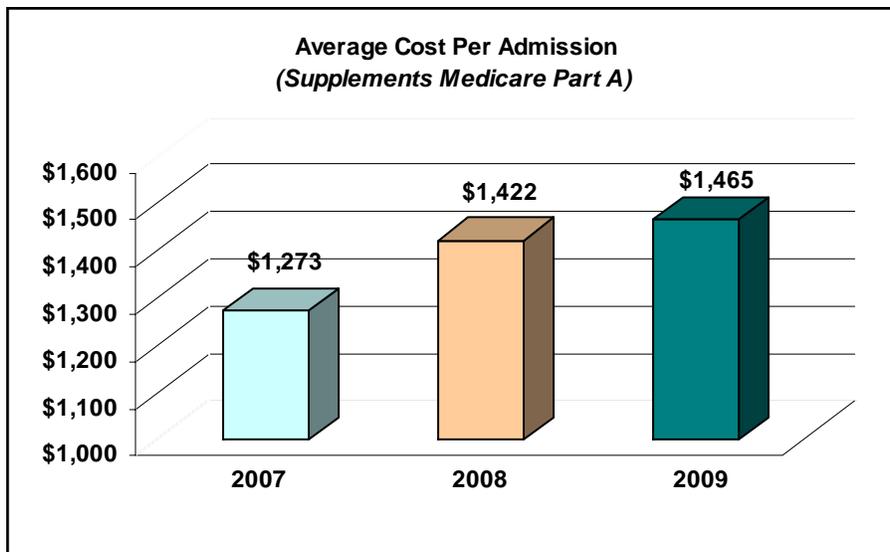
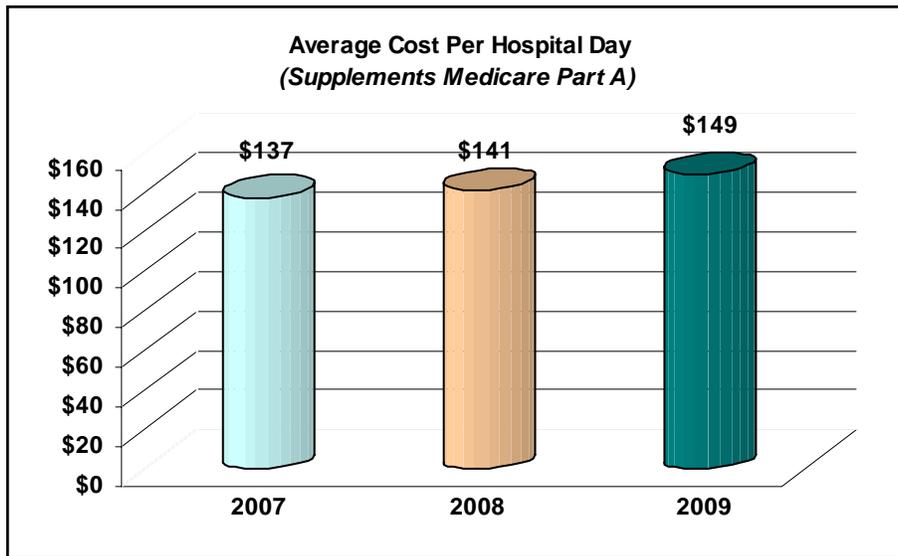
COST OF COVERAGE

Prescription drug costs for all Medicare-coordinating plans continue to increase. In 2006, introduction of the state enhanced Medicare Part D prescription drug benefit resulted in an overall reduction in premiums since the federal Medicare program partially subsidized the cost of Medicare Part D. Costs for Medicare Part D rose in 2007, with the average cost per retiree up 16 percent. While the average cost per retiree for all plans in 2008 remained stable, the average annual premium per retiree rose 18 percent. In 2009, the average annual premium decreased by 5 percent due to lower Medicare Part D expenses. However, the average cost of coverage per retiree increased 11 percent from the year before, due in part to higher average claims costs per retiree.



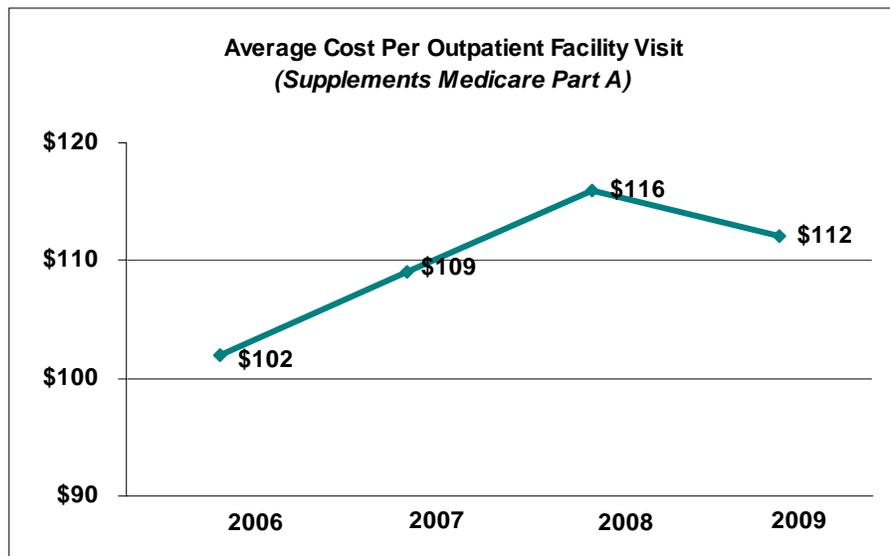
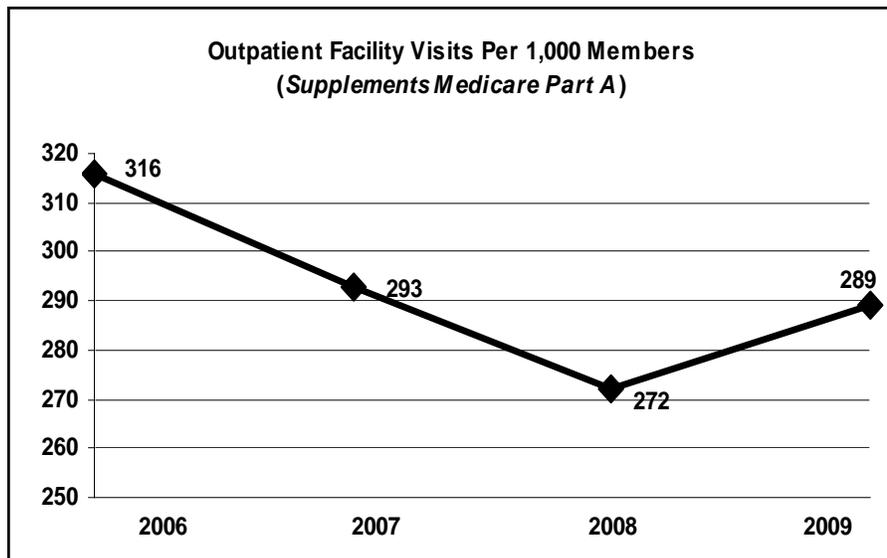
INPATIENT FACILITY

Total inpatient facility costs rose 11 percent in calendar year 2009, to \$10.9 million from \$9.8 million in 2008. The average cost per hospital day increased about 6 percent, and the cost per admission was up 3 percent in 2009 from the previous year. An increasingly older retiree population is partially responsible for the overall growth in these categories. Inpatient facility costs also continue to catch up with a higher deductible for Medicare Part A.



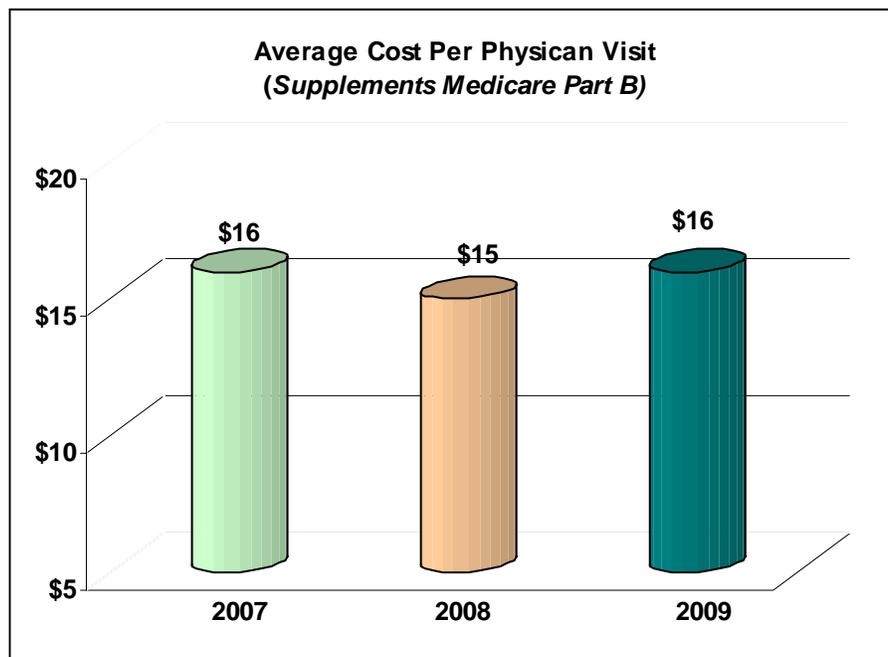
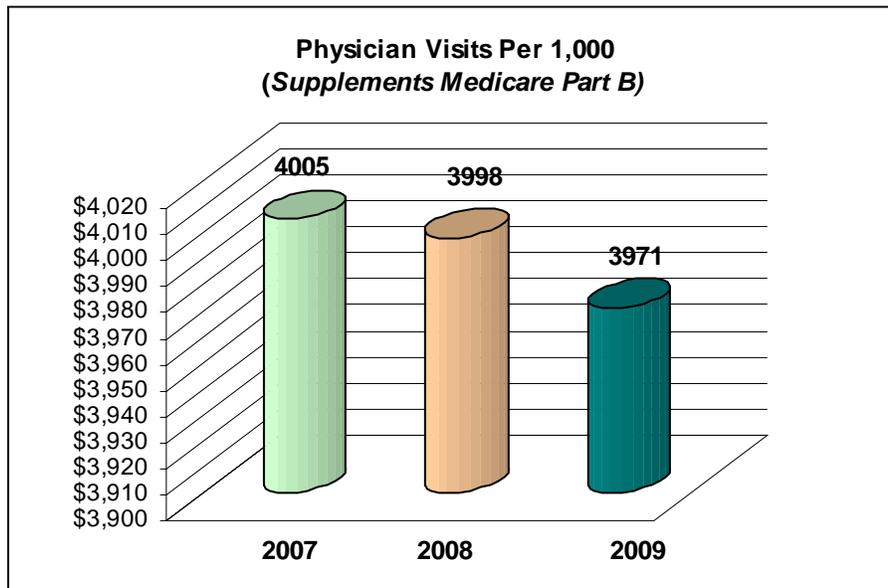
OUTPATIENT FACILITY

Total outpatient facility expenses increased 4 percent between 2008 and 2009, to \$9.4 million from \$9.0 million. While outpatient visits per 1,000 members decreased 16 percent from 2006 to 2008, this category increased 6 percent in 2009. The services members received per visit cost 3 percent less in 2009, due primarily to a drop in overall expenses for the genitourinary and digestive disease categories among others.



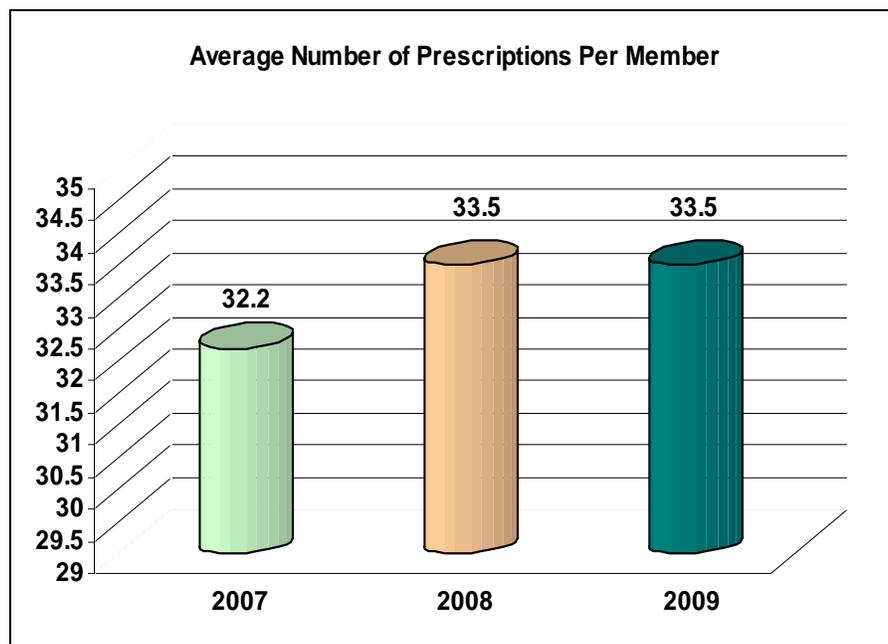
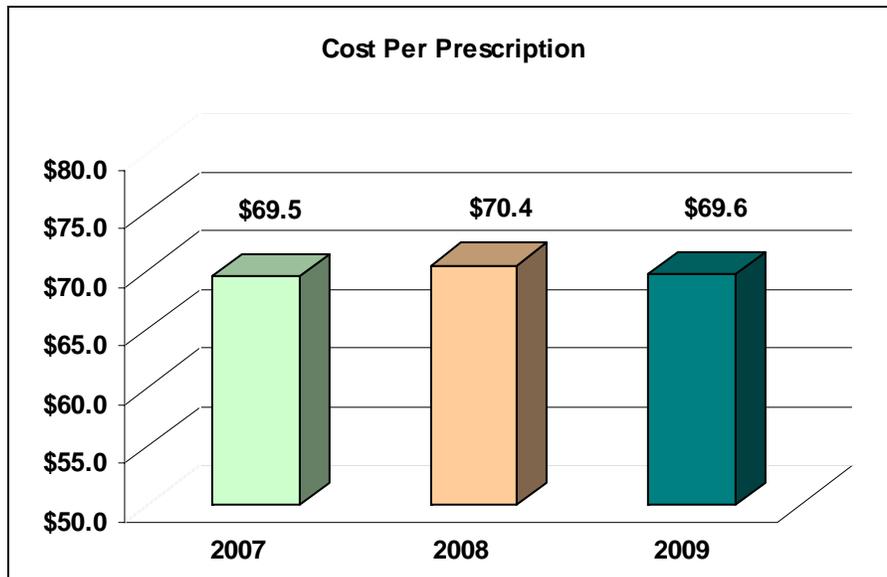
PHYSICIAN

Inpatient and outpatient physician claims expense for the Commonwealth's Medicare-coordinating plans increased 6 percent in 2009, a reflection of higher medical costs nationwide. While inpatient and outpatient physician visits were down in the past two years, the average cost per visit was up 7 percent in 2009 from 2008.



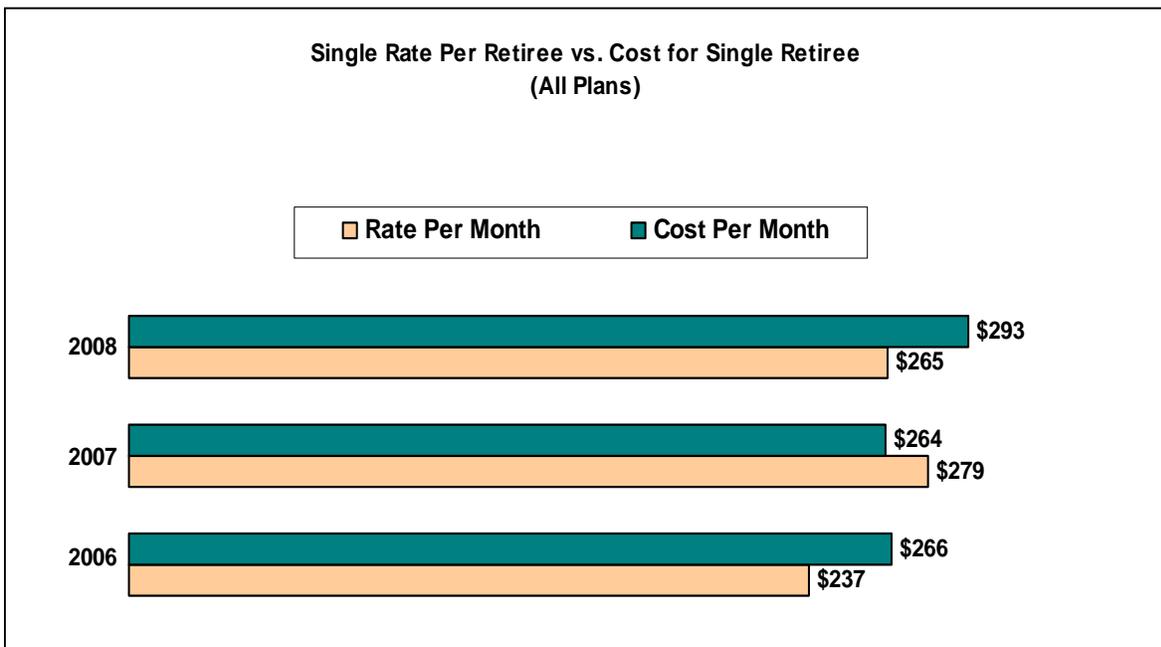
PRESCRIPTION DRUGS

Higher prescription drug costs nationwide, especially in the specialty drug category, were reflected in increased prescription drug claims expense for the Commonwealth's enhanced Medicare Part D program during 2009. The Commonwealth's cost per prescription decreased slightly, while the prescriptions per member were stable during the year, following a 4 percent increase in 2008.



FOCUS ON RETIREE PROGRAM

The 2009 average monthly premium for all state Medicare-coordinating plans dropped 5 percent over the 2008 rate, due to a reduction in the Medicare Part D portion of the premium based on projected claims expenses. In 2008, average monthly premiums were higher than monthly expenses, yielding a surplus of revenue over expenses. In addition to premium income, revenue for all three years included other income from miscellaneous recovery of plan expenses.



OPERATING STATEMENT

Premiums represented 91 percent of income for all Medicare-coordinating plans in 2009, with the remainder coming from Medicare Part D prescription drug rebates. In 2008 and 2007, premiums accounted for 86 percent and 99 percent of income, respectively. Claims payments represented 95 percent of expenses in 2008 and 2009, compared to 94 percent for 2007. Annual income and expenses for all three years included revenue and costs associated with the state enhanced Medicare Part D prescription drug program. In 2007, the retiree program had a deficit due primarily to higher medical and prescription drug benefit costs. In 2008, a significant increase in the prescription drug premium helped create a surplus of revenues over expenses. The surplus continued in 2009, despite a reduction in drug premiums.

PROGRAM TOTAL	CALENDAR YEAR 2007	CALENDAR YEAR 2008	CALENDAR YEAR 2009
Annual Income <i>(Premiums, Interest, Other)</i>	\$79,253,569	\$112,908,453	\$107,538,188
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$89,079,844	\$91,395,601	\$104,537,144
Income Less Expenses	-\$9,826,275	\$21,512,852	\$3,001,044