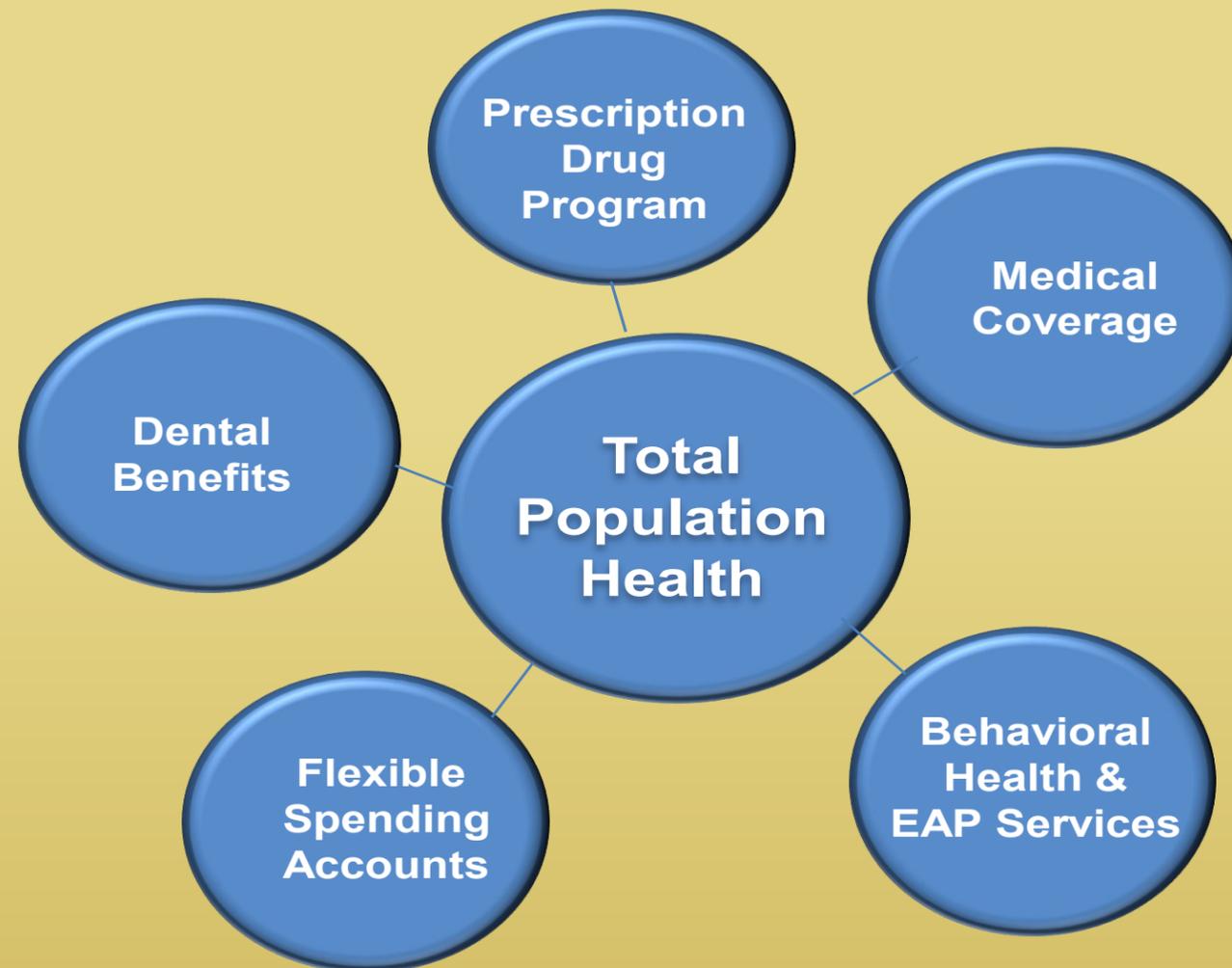


FISCAL YEAR 2015 HEALTH BENEFITS ANNUAL REPORT

Commonwealth of Virginia Health Benefits Program



Virginia Department of Human Resource Management



Table of Contents

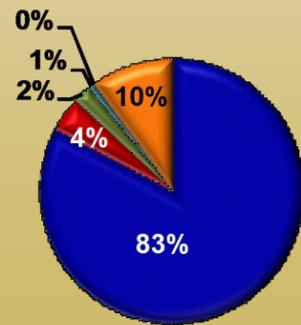
State Healthcare At A Glance	3
Overview	4
Total Population Health	5
Member Engagement for Better Health	6
Innovation, Incentives and Outcomes	7
The Health Plan “Top Ten”	8
Wellness and Preventive Care	9
Plan Enrollment and Premiums	10
Total Cost of Coverage	11
Total Claims Expense	12
Medical Benefits Expense	13
Prescription Drug Benefits	14
Dental Care Expense	15
Behavioral Health and Employee Assistance Program (EAP) Benefits	16
Flexible Spending Accounts	17
Cost Drivers: Age and Lifestyle	18
Operating Statement	19
Employee Satisfaction	20



2015 State Health Care At A Glance

This report presents an overview of the state's three self-insured health benefits plans, and where indicated, the regional, fully insured Kaiser Permanente HMO plan offered primarily in Northern Virginia. Unless otherwise stated, this report is based on the experience of health plan members, including the active employee and non-Medicare eligible retiree group, during FY 2015 from July 1, 2014 through June 30, 2015. The third party administrators for the state self-insured plans in FY 2015 were: Anthem Blue Cross and Blue Shield for medical, pharmacy, behavioral health and employee assistance program (EAP) services for COVA Care and COVA HDHP; Delta Dental of Virginia for those plans' dental benefits; and Aetna for all COVA HealthAware benefits. ActiveHealth Management administered the total population health program and Anthem administered flexible spending accounts (FSAs) for all eligible and enrolled employees.

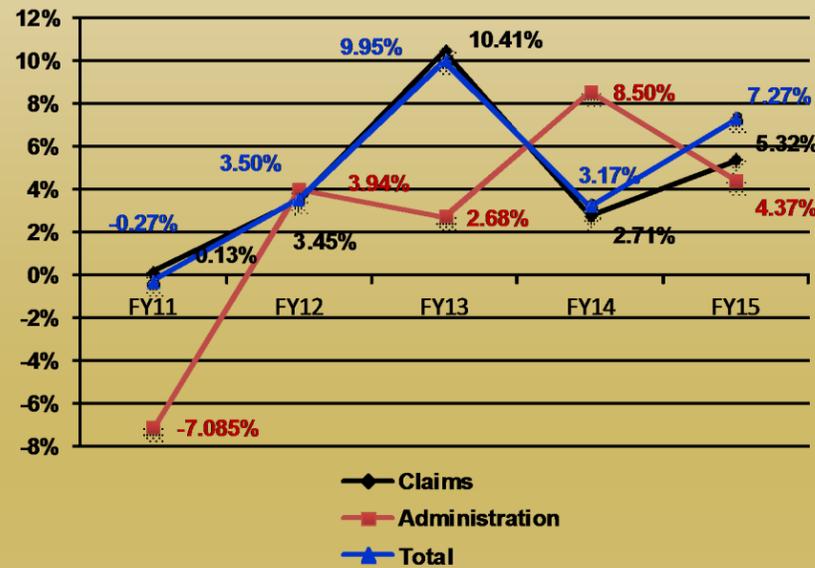
Health Plan Enrollment Total Eligible = 100,930



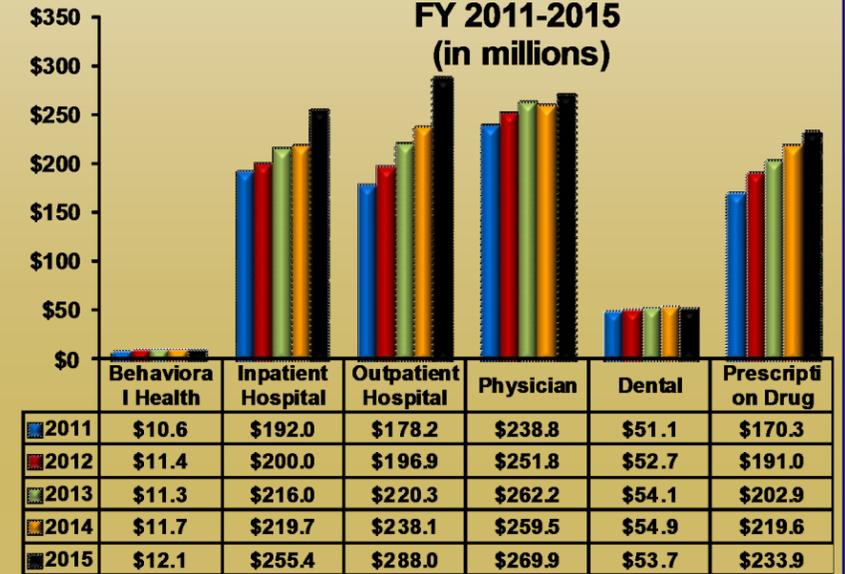
- COVA Care (all plan options)
- Kaiser Permanente HMO
- TRICARE
- COVA HealthAware (all plan options)
- COVA HDHP (all plan options)
- Waived

Note: Numbers less than 1% are shown as 0%

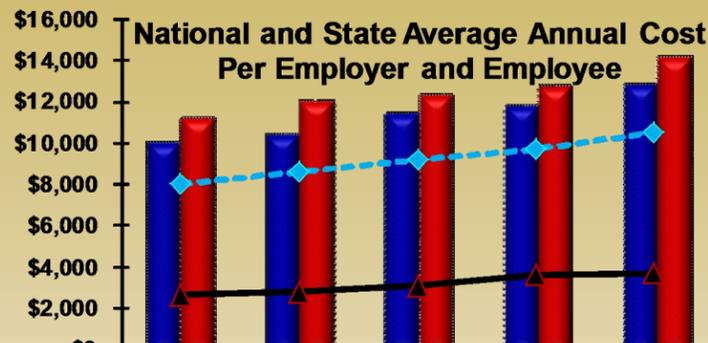
Health Benefits Expense Trend



State Health Plan Claims Paid FY 2011-2015 (in millions)



National and State Average Annual Cost Per Employer and Employee



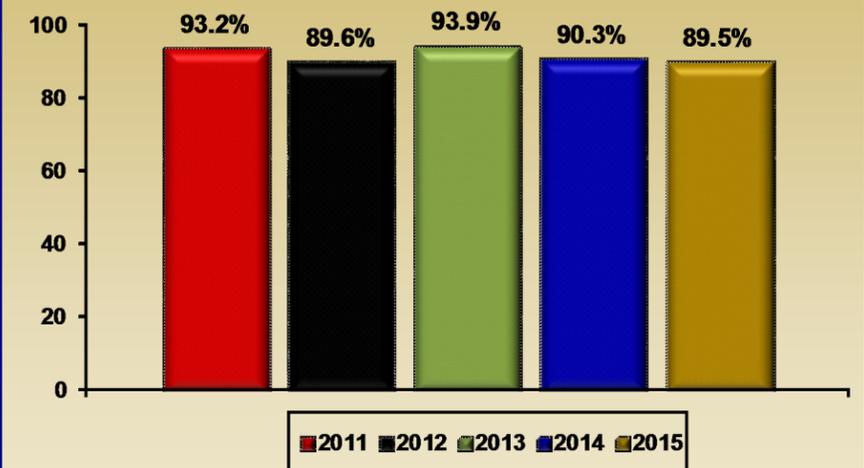
	2010	2011	2012	2013	2014
State Employer Cost Per Employee	\$10,043	\$10,431	\$11,471	\$11,835	\$12,883
National Large Government Employer Cost Per Employee	\$11,251	\$12,042	\$12,311	\$12,761	\$14,198
State Employee Cost	\$2,666	\$2,819	\$3,112	\$3,611	\$3,682
National Average Employee Cost	\$8,008	\$8,584	\$9,144	\$9,695	\$10,473

Average State Employee Age



*Employers with Anthem, Optima Health or Aetna depending on the year shown.

Overall Employee Satisfaction (weighted average)



Sources: State Health Benefits Program and data warehouse, Milliman Medical Index, Mercer National Survey of Employer-Sponsored Health Plans, Anthem Blue Cross and Blue Shield, Aetna, Delta Dental of Virginia



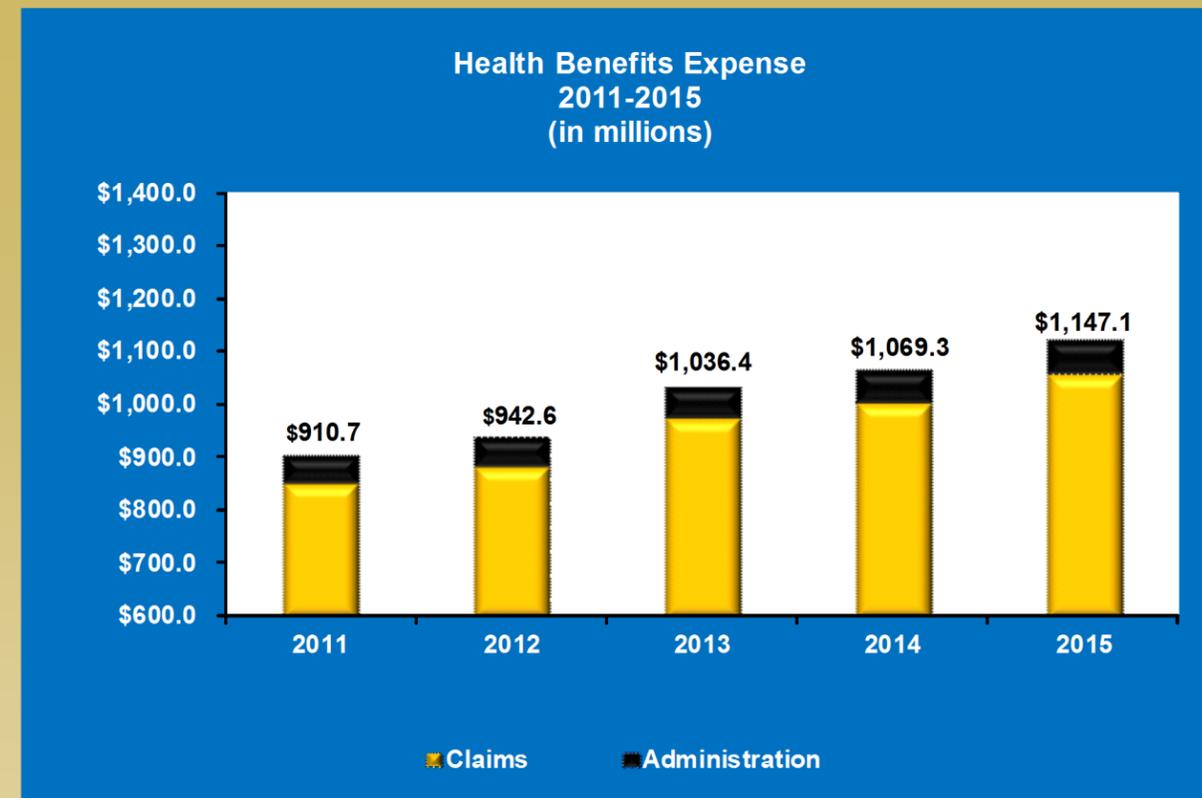
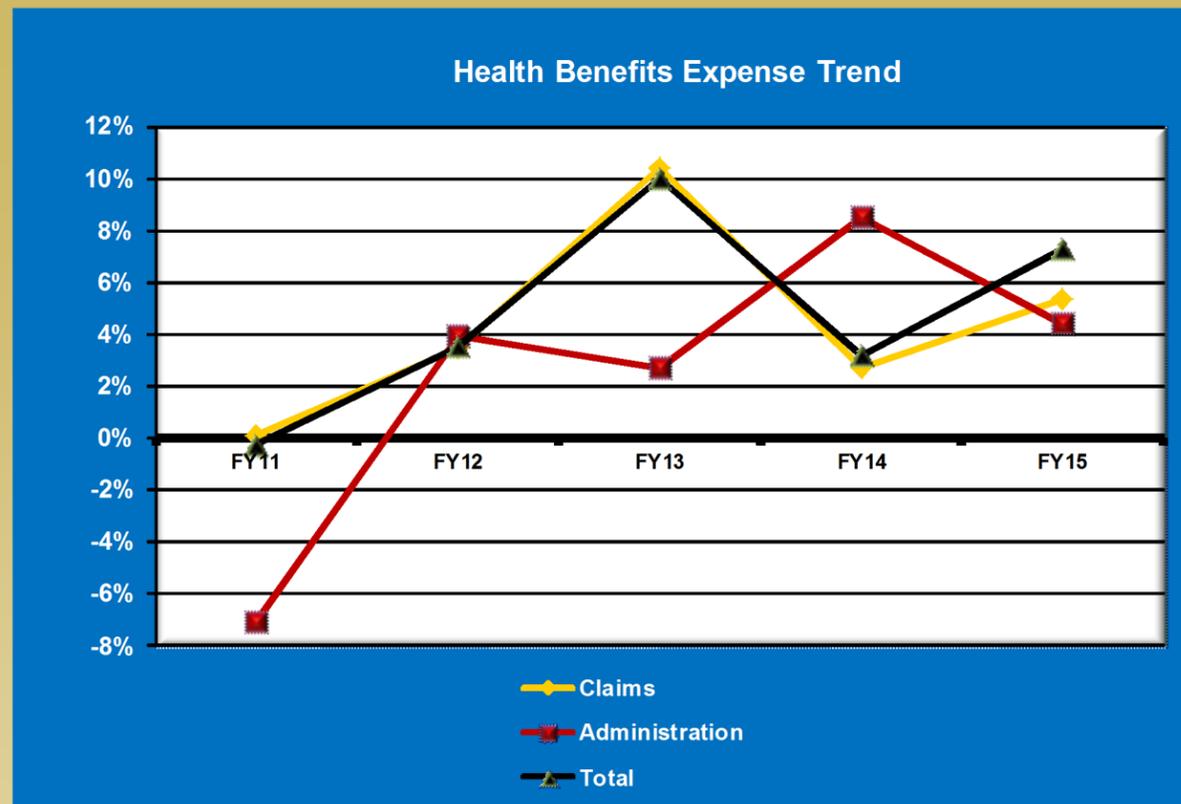
Overview: Pursuing Improved Member Well-Being

Seeking better health for employees, retirees and their families, the state health benefits program continued a health care initiative in fiscal year 2015 encouraging members to be more engaged in their own health, be better consumers of health care and understand the impact of higher costs. The program offers tools to evaluate quality and cost, to make better plan choices and health care decisions, and to help members live a healthier lifestyle. Expected outcomes are better health for members and reduced expenses for both members and the plan.

The “total population health” initiative also includes the COVA HealthAware consumer-driven health plan to help members budget their own health care spending. Employees, early retirees and spouses in COVA Care and COVA HealthAware may reduce monthly premiums by earning premium rewards for completing a health assessment and biometric screening. In FY 2015, the program:

- Continued a diabetes management value-based insurance design (VBID) initiative, and introduced hypertension, asthma and chronic obstructive pulmonary disease (COPD) VBID programs with incentives designed to help members with these conditions be better engaged in management of their health;
- Maintained a successful pre-bariatric surgery education program that has shown progress in improving participant health outcomes and a reduction in costs;
- Implemented provisions of the federal Affordable Care Act (ACA), including payment of employer reinsurance to subsidize the individual health insurance market;
- Removed a \$35,000 annual limit on applied behavioral analysis (ABA) services for children with autism to comply with mental health parity;
- Implemented increases in COVA Care prescription drug copayments for brand name, single source and specialty drugs.

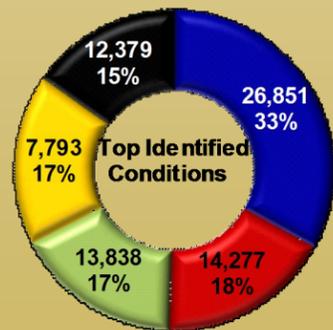
Despite increased claims expense and the cost of the ACA, the state health benefits self-insured plans’ cost per employee in FY 2015 was 9.3 percent lower than the projected national average for the calendar year. The Commonwealth’s benefits historically have cost less than the national trend. State operating costs totaled more than \$1.1 billion in 2015, up 7.3 percent from the prior year. Claims costs grew more than 5 percent. While administrative costs increased 4 percent in 2015, the rate of increase slowed from the prior year. ACA-related expenses were an estimated \$10.5 million in 2015.



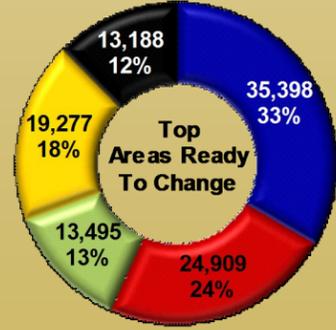


Total Population Health

Identified in Health Assessment As of June 30, 2015



- Stress Issues
- Sleep Disorders
- Exercise Issues
- Overweight
- Adult Obesity



- Healthier Diet
- Managing Stress
- Managing Weight
- Weight-bearing Exercises
- Physical Activity



- Losing Weight
- More Physical Activity
- Healthier Diet
- Better manage stress
- No preference

Source: ActiveHealth Management

The "total population health" initiative has provided tools to state plan members to help them engage in their health care, improve their health and reduce costs. These have included:

- *Cost and quality tools:* Help members make better decisions about plan choices and increase transparency on facility quality and cost.
- *Healthy lifestyle tools:* Offer the MyActive Health web portal to help members track their health, better manage chronic conditions and lead a healthier lifestyle through coaching on exercise, weight management, nutrition, stress and quitting tobacco.
- *Financial rewards:* Reduce premiums for COVA Care and COVA HealthAware members who complete a health assessment and biometric screening, and offer an incentive for complying with requirements for diabetes management.
- *Education:* Help members understand more about how to improve their own health, and impact both their own out-of-pocket costs and plan costs.

A health assessment open to members of COVA Care, COVA HealthAware and COVA HDHP has helped the health benefits program identify the top conditions of concern in the population. The top two conditions self-reported by members are stress issues and sleep disorders. These and lack of exercise all correlate with obesity, the fifth condition identified by members. Results of the health assessment indicate that 70 percent of members in these three plans are overweight or obese.

During the year, 35,253 eligible COVA Care and COVA HealthAware members earned \$9.5 million in premium rewards by completing the health assessment and a biometric screening.

2015 Weight of State Population

Source: ActiveHealth Management

Body Mass Index (BMI)



Under Weight 18.5-
345 (1%)



Healthy Weight 18.5-24.9
10,700 (29%)



Over Weight 25-29.9
12,174 (33%)

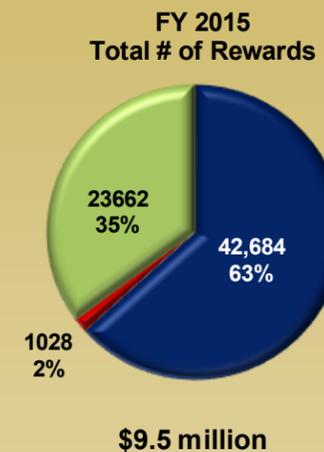


Obese 30-34.9
7,259 (20%)

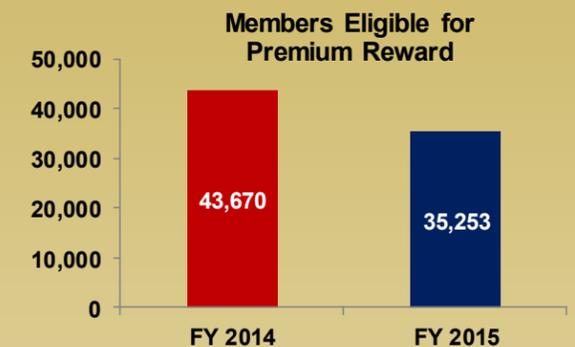


Morbid Obese 35+
6,113 (17%)

Member Premium Rewards



- Participant Only
- Spouse Only
- Both





Member Engagement for Better Health

2015 Commonwealth Member Compliance

	Members	Percent
Care Considerations % members who took healthy actions		44.5%
Identified for disease management opportunity	38,764	19.9%
Currently in disease management outreach	13,000	6.7%
Engaged with nurse	5,892	3.0%

In an effort to engage members to take better care of their health, the total population health initiative includes messaging about individual health issues. Mailed to members and their physicians, these “care considerations” include alerts on medication adherence, health screenings, flu shots, and healthy lifestyle actions. Care considerations also may recommend healthy actions related to disease management, healthy lifestyle coaching and other programs. Total care consideration compliance in 2015 was 44.5 percent, which exceeded by 8.3 percent the 36.2 percent nationwide for similar ActiveHealth Management programs.

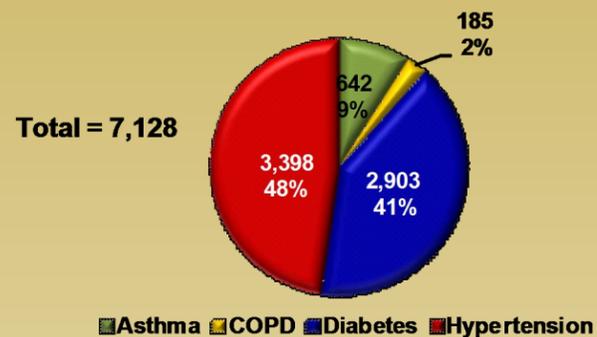
During 2015, more than 13,200 members were engaged by telephone with a disease management or lifestyle coach. The program identified 19.9 percent of plan members as potential candidates for disease management. It reached out to 13,000 members, or 6.7 percent of all eligible health plan members. A total of 5,892, or 3.0 percent of all eligible plan members, were engaged with a nurse in FY 2015 to help them better manage a chronic health condition, compared to 1.9 percent the previous year.

In addition to greater emphasis on engagement, the health benefits program continued its medication therapy management (MTM) pilot program in 2015. The confidential, voluntary program offers one-on-one medication consultations directly with a pharmacist to educate individual members about complying with their drug regimen, how to best use the drug formulary, possible drug reactions and other issues relating to their conditions. MTM includes a comprehensive annual visit with up to three follow-up visits for patients who have at least three of eight disease states and take seven or more medications for chronic illness. In 2015, almost 3,200 cases were served. There were 3,614 total safety alerts, eliminating 500 drugs; 707 validated alerts on medication adherence, with 75 members becoming adherent to at least one drug; and 1,416 validated alerts for gaps in care, with 59 members closing at least one omission gap. MTM cost the health benefits program almost \$205,000 during the year.

The basic premise of a VBIID program, such as the diabetes management program introduced in 2013, is to remove financial barriers to drive better compliance with medications and treatment, resulting in improved health and lower costs. The state health benefits program added to the list of VBIID programs in FY 2015, introducing hypertension, and asthma/chronic obstructive pulmonary disease (COPD) programs. Participants receive free medications for meeting certain compliance requirements. A total of 7,128 members were engaged in these programs during 2015. Diabetes management program results for calendar year 2014 showed that compliance in four of five diabetes metrics surpassed the rates in similar ActiveHealth Management programs. Member compliance was also higher in three of five measures than for members engaged in disease management programs.

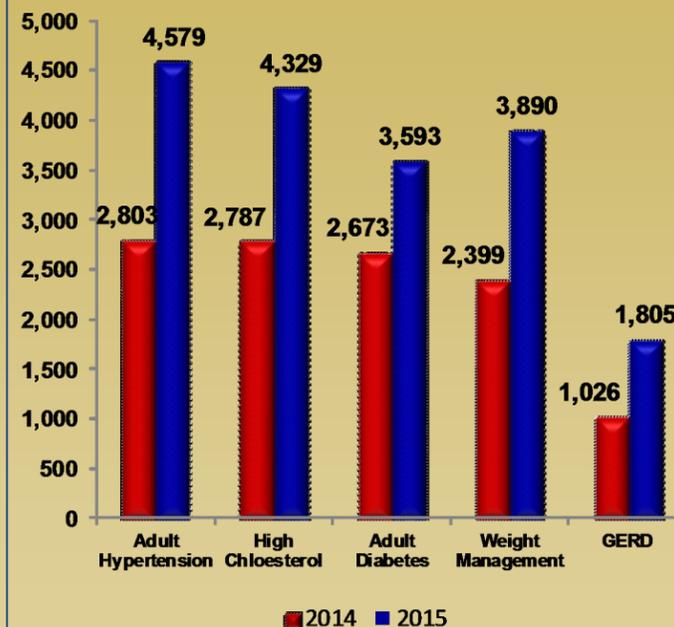
Value-Based Insurance Design COVA Care and COVA HealthAware

Participants in Incentive Programs FY 2015



Diabetes management outcomes for CY 2014:
 •4.8 conditions per member
 •92 percent had HbA1C test
 •VBIID-engaged had higher compliance than disease management-engaged members in 3 out of 5 diabetes metrics

Nurse Engaged Members Top Five Conditions Identified





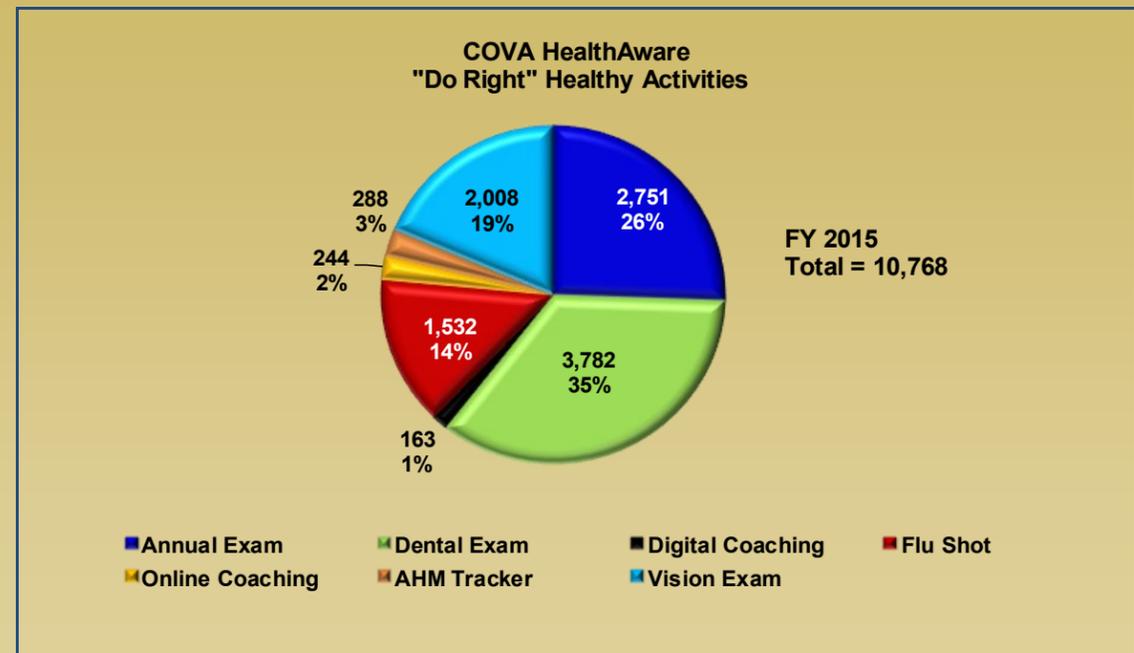
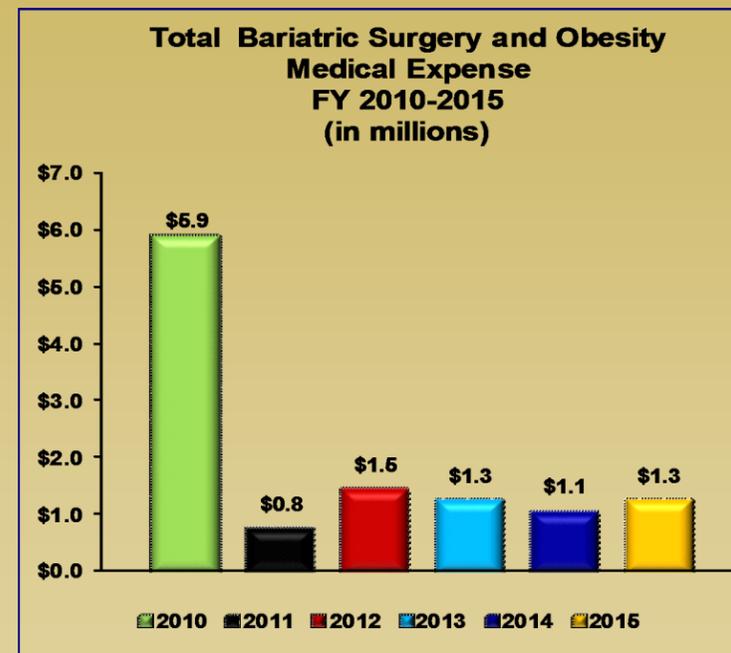
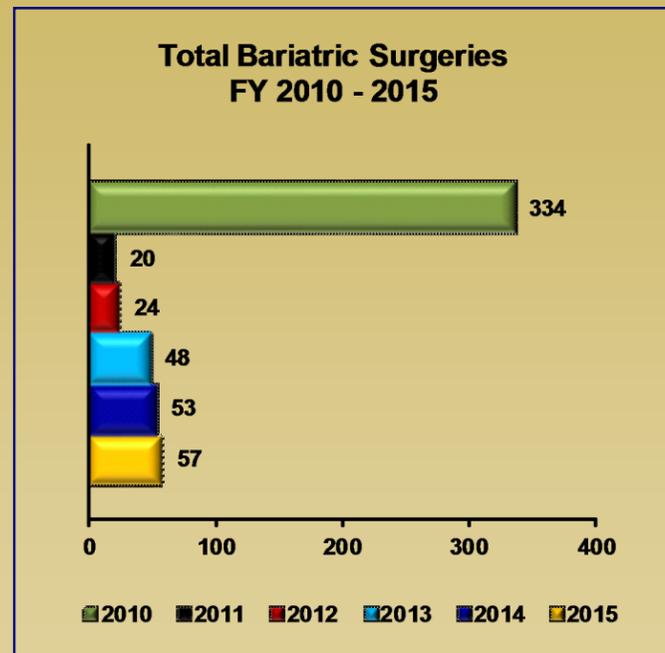
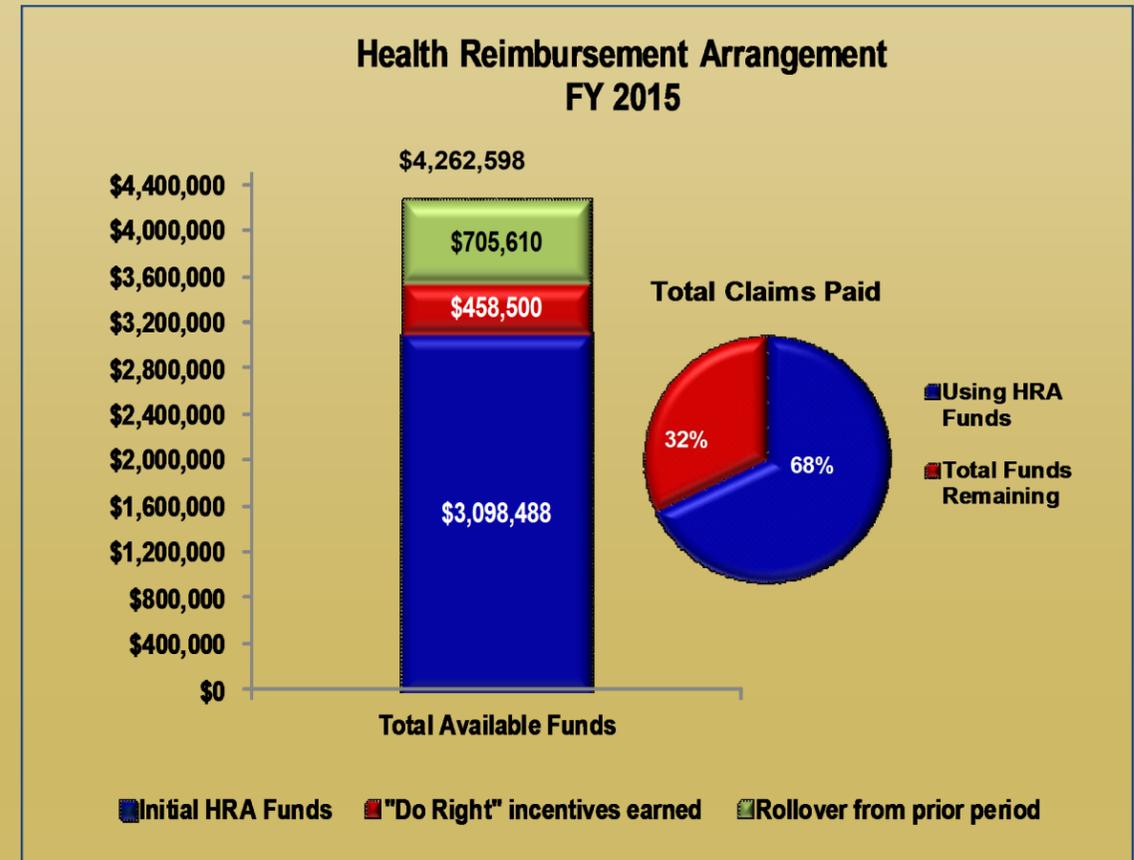
Innovation, Incentives and Outcomes

Introduction of the total population health initiative has brought new options to encourage employees and their families to take a more proactive role in their own health. A consumer-driven health plan includes built-in incentives for engagement, while value-based insurance design (VBID) programs on diabetes management, hypertension, and asthma/COPD have encouraged members to help prevent these conditions from getting worse. These options are driving engagement among members to take positive steps to improve their health.

The COVA HealthAware consumer-driven health plan allows individuals to budget their own health care spending and decide how best to spend their own money. The plan includes a health reimbursement arrangement (HRA), a fund to help members pay for family out-of-pocket medical and pharmacy expenses. In FY 2015, the Commonwealth continued to fund the HRA with \$600 for employees and early retirees, and \$1,200 for employees/early retirees with spouses enrolled in the COVA HealthAware plan. About 17 percent of the \$4.3 million in HRA funds available to plan members were from funds rolled over from FY 2014. In addition to the HRA, the plan offered several "do right" healthy activities in 2015 which members could complete to add funds to their account. Employees, early retirees, or their spouses could each receive up to \$150 in additional HRA funding by completing up to three "do rights": An annual routine exam, flu shot, dental exam, vision exam, online or digital coaching, and tracking certain activities on the MyActiveHealth web portal.

A total of 610 members have participated on a rolling basis since the inception of the Commonwealth's bariatric surgery program in 2010. The program includes prior medical authorization for the surgery and participation in a disease management program. In addition, weight management, nutritional counseling, and personalized coaching and support services are provided through the behavioral health benefit. If surgery is approved, the program offers continued support after surgery to ensure the best possible health outcomes. Positive outcomes have included weight loss, improved nutrition, better coping skills and increased activity/exercise. Bariatric surgery cases have declined by 88.3 percent, from 486 in 2009 to 57 in 2015, and overall bariatric surgery claims and other claims cost have dropped from \$10.6 million to \$1.3 million.

For more than a decade, the Commonwealth's maternity management program has helped at risk mothers deliver healthy babies. According to the March of Dimes, the rate of premature births is 10 percent nationally and 11 percent in Virginia. In FY 2015, the program had a 57 percent engagement rate among pregnant members and 7 percent of 480 live births were premature infants.





The Health Plan “Top 10”

“Top Ten” Claims Expense			
Medical Procedures	Chronic Conditions	Chronic Conditions Managed through Preventive Medicine	Prescription Drugs
<ol style="list-style-type: none"> V-Codes—health services not classified as disease or injury, ill-defined symptoms, undetermined causes Musculoskeletal Oncology Cardiovascular Gastrointestinal Obstetrics Accidental Injury Neurology Gynecology Pulmonary 	<ol style="list-style-type: none"> V-Codes—health services not classified as disease or injury, ill-defined symptoms, undetermined causes Musculoskeletal Oncology Cardiovascular Diabetes, Obesity and Lipid Disorders Gastrointestinal Neurology Mental health Pulmonary Renal/Urology 	<ol style="list-style-type: none"> Coronary artery disease Breast cancer Cerebrovascular disease Diabetes Hypertension Obesity Skin cancer Lung cancer Substance abuse Oral cancer 	<ol style="list-style-type: none"> Humira - rheumatoid arthritis Nexium - stomach acid Enbrel - rheumatoid arthritis Crestor - high cholesterol Abilify - depression Lantus solostar - diabetes Tecfidera - multiple sclerosis Harvoni - hepatitis C Victoza 3-Pak - diabetes Copaxone—multiple sclerosis
77.1% of Medical Services 82.9% of Medical Expense	77% of Medical Services 63% of Medical Expense	9.1% of Medical Services 11.8% of Medical Expense	2.7% of Prescriptions 20.9% of Pharmacy Expense

Note: These areas may not be mutually exclusive. Prescription drug list excludes compounded pharmaceuticals. Source: Health Data & Management Solutions, Inc. (HDMS).

Expensive procedures, treatment of chronic conditions and the cost of prescription drug therapy continue to have a major impact on the state program. Other significant cost drivers relate to employee lifestyle, including: smoking, level of physical activity and weight. Another factor is the average state employee age, which remains higher than the norm for other employers.

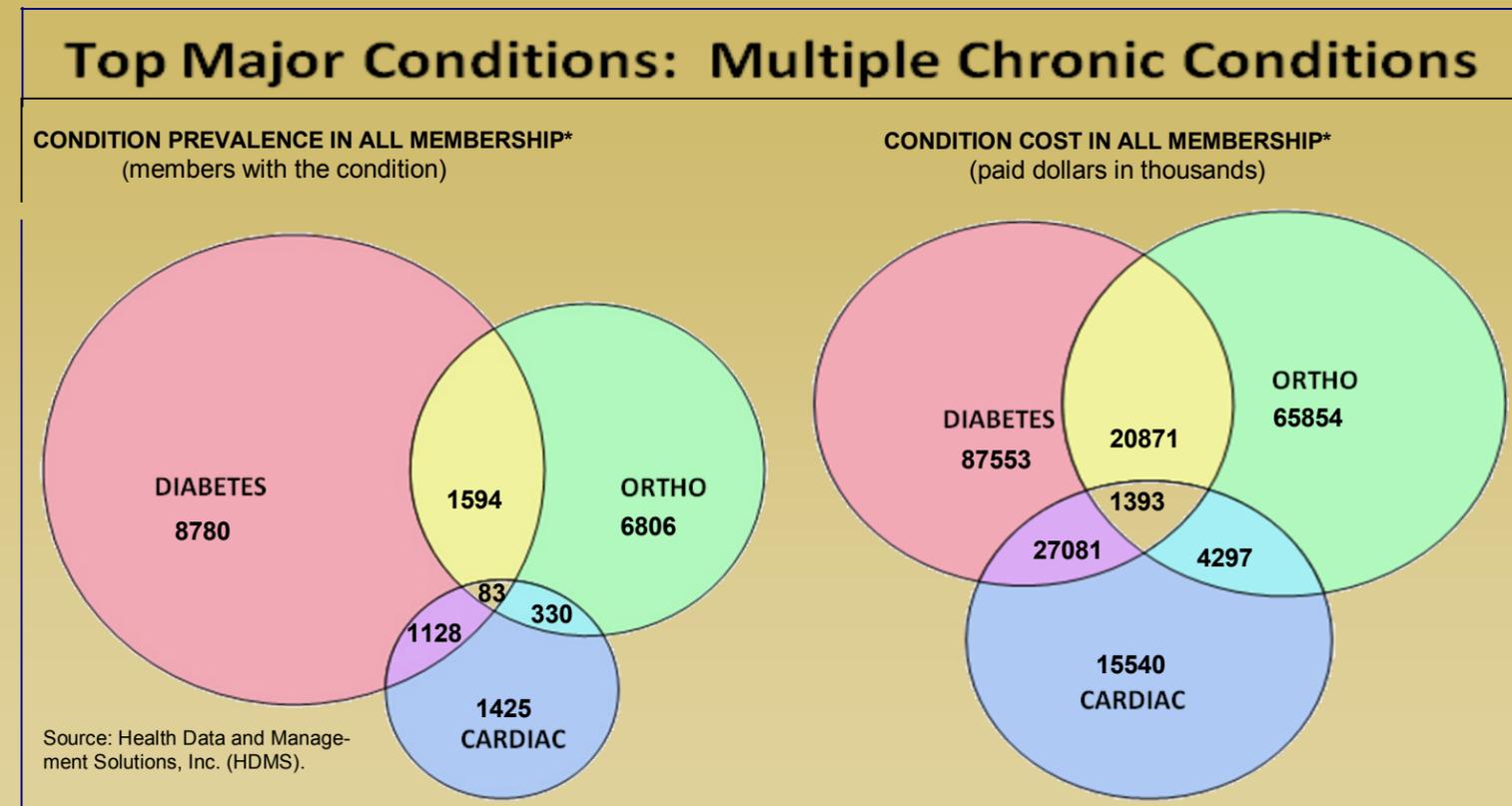
Chronic conditions require care over a long period, often lifelong, without a definitive cure. These types of conditions managed through preventive medicine can be avoided, or the effects controlled and limited, through proper, regular preventive care.

More than \$771 million, or almost 75 percent, of state medical and pharmacy expenses during FY 2015 came from claims for the top 10 medical procedures, chronic conditions, including those managed through preventive medicine, and prescription drugs. This compares to \$749 million in FY 2014, or an increase of 2.9 percent.

High in the top 10 for 2015 were conditions that are identified with obesity: diabetes, cardiovascular disease, musculoskeletal and gastrointestinal disorders. Many of these conditions also correlate with heart attack and stroke, like cardiovascular disease, diabetes and lipid disorders. For the first year in a decade, Nexium was not in first place among prescription drugs, displaced by Humira, a drug used to treat rheumatoid arthritis. Five of the top 10 drugs in FY 2015 were specialty medications used by about 3,900 members and costing \$61.7 million.

Many of the chronic conditions occurring among state employees are related to lifestyle. Smoking and overeating contribute to diabetes, heart disease, arthritis and other musculoskeletal issues. Treatment for diabetes, cardiac and orthopedic conditions cost the state program more than \$201 million compared to \$191 million in 2014. About 12.4 percent of members were treated in the categories of endocrinology, cardiology and orthopedics, which cost \$222.6 million in 2015. These members represented 45 percent of total plan claims.

Of the members treated for diabetes, cardiac and orthopedic conditions, 62 percent received diabetic services in 2015, up seven percent from 2014. The state program continues its diabetes management VBID initiative with participation incentives to help diabetics better manage their health. In 2015, state program participants had a better compliance rate than similar ActiveHealth programs in four of five diabetic metrics.





Wellness and Preventive Care

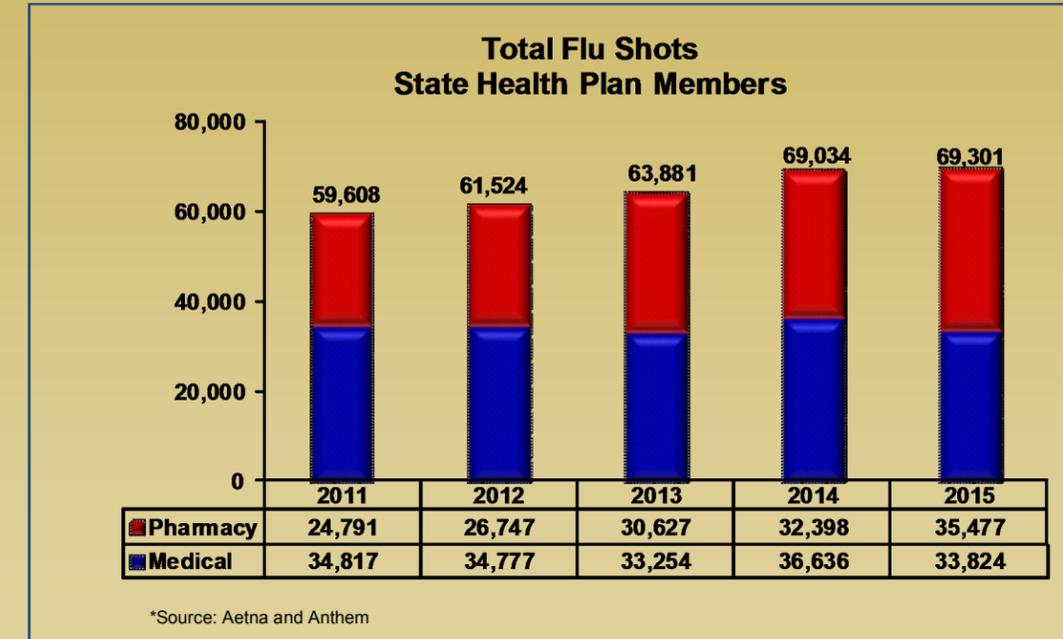
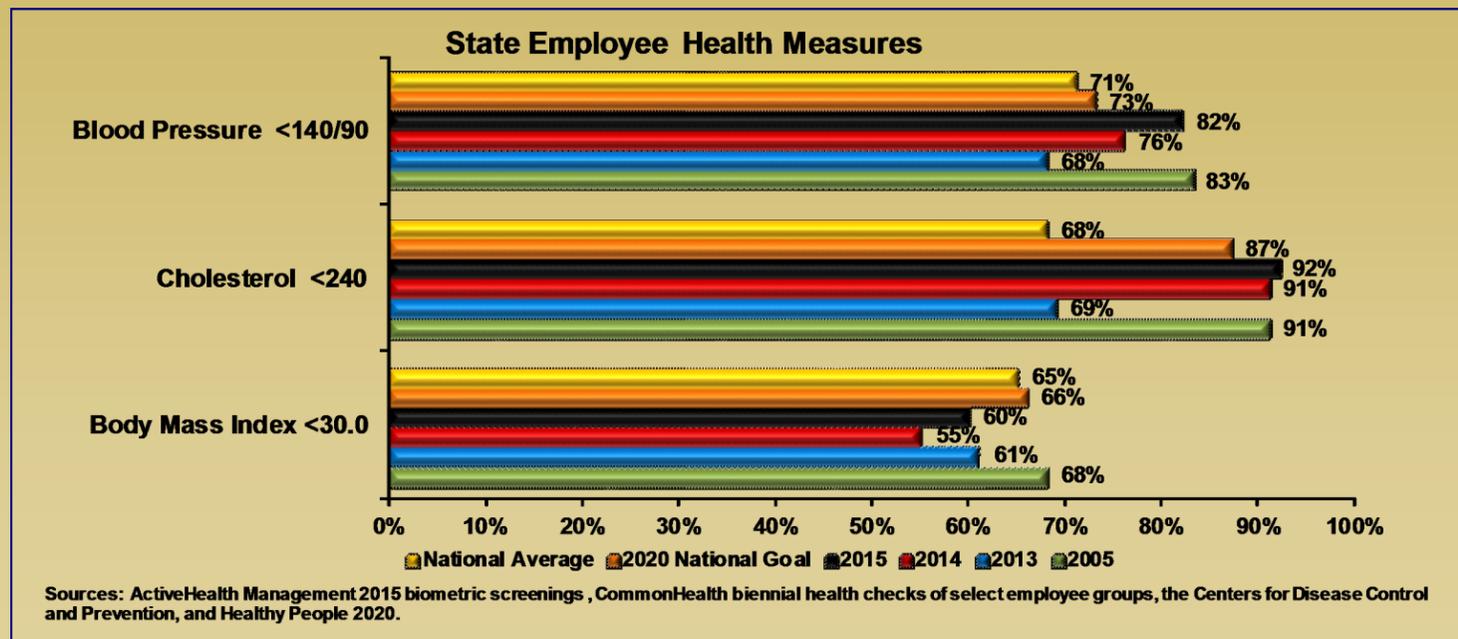
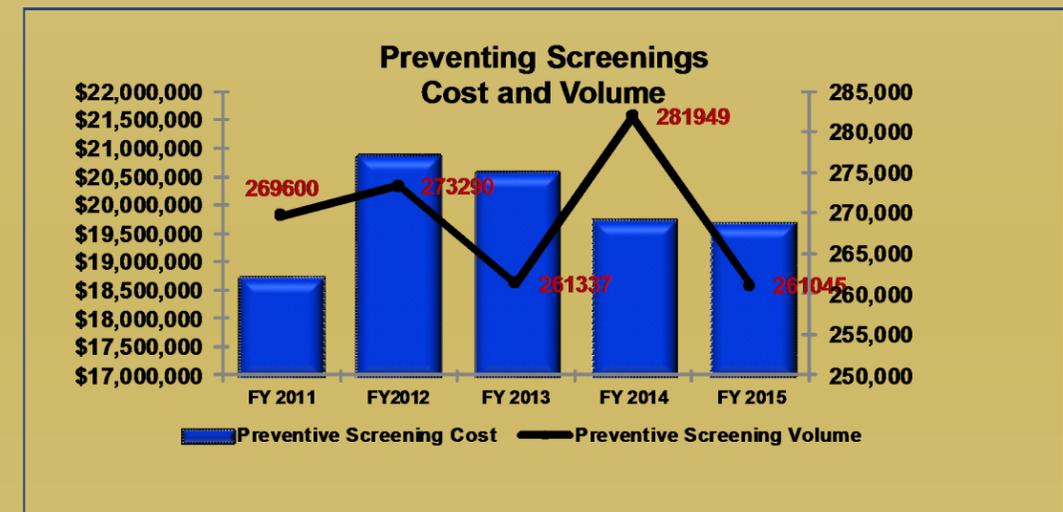
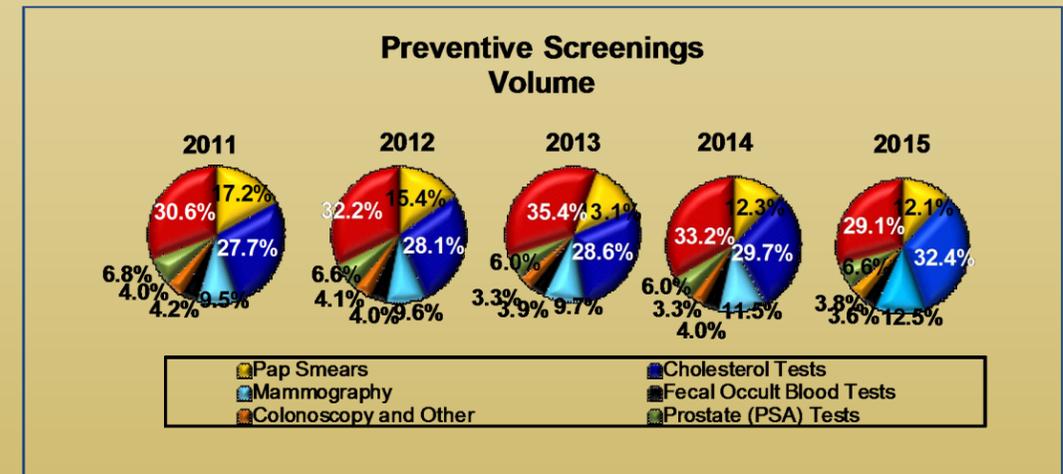
During 2015, the Commonwealth invested in programs that use workplace activities and coaching to help employees lead healthier lives. It also focused on ways to prevent illness by providing flu shots and preventive screenings at no cost to plan members. Offered in the employee workplace, the *CommonHealth* wellness education program encouraged employees to lead healthier lives. Directed by employees within the Department of Human Resource Management, the program promotes healthy employee lifestyles and encourages integration of health and physical activity into the work culture.

The Governor addressed agency heads during the year about the importance of employee participation in *CommonHealth*, helping to drive growth in the participation rate. Total participation grew to 31 percent of the workforce, or more than one-and-a-half times the participation level of 18 percent in FY 2012. *CommonHealth* programs focused in 2015 on ergonomics, asthma, COPD and allergies.

The *Healthy Lifestyles* program helps members who are generally healthy but need a little extra support staying on the right track. It includes coaching on nutrition, exercise, stress management and quitting tobacco. During the plan year, the program reached out to more than 15,000 members. Nearly 3,300 members were engaged in telephonic and online coaching. The top areas of focus were weight management, fitness and exercise, and reducing cholesterol.

Getting a flu shot is one of the best ways to stay healthy, and the state program offers free flu shots each year. The number of flu shots in 2015 increased slightly over 2014. *CommonHealth* offered 59 flu shot clinics onsite at state agencies, increasing convenience for plan members and contributing to the number delivered by pharmacies. Getting a flu shot also was a “do right” healthy activity for COVA HealthAware members.

In 2015, the Commonwealth continued to provide annual wellness visits and preventive care screenings at no cost to members. The plan also paid 100 percent for additional preventive care measures. Baby and adult wellness checkups and cholesterol tests represented about 62 percent of total screening volume, compared to 63 percent in 2014. About 31 percent of preventive care screenings in 2015 were pap smears, mammograms and PSA tests. The average screening compliance rate was highest in 2015 for mammography tests at 65 percent of women age 40 and older, followed by prostate (PSA) tests at 59 percent for men 50 and older, and colorectal cancer at 16 percent. While about 40 percent of women age 18 or older received pap smears, this is not an annually recommended screening exam for low risk women. The state health benefits program continues to evaluate screening compliance and consider ways to increase preventive screenings.





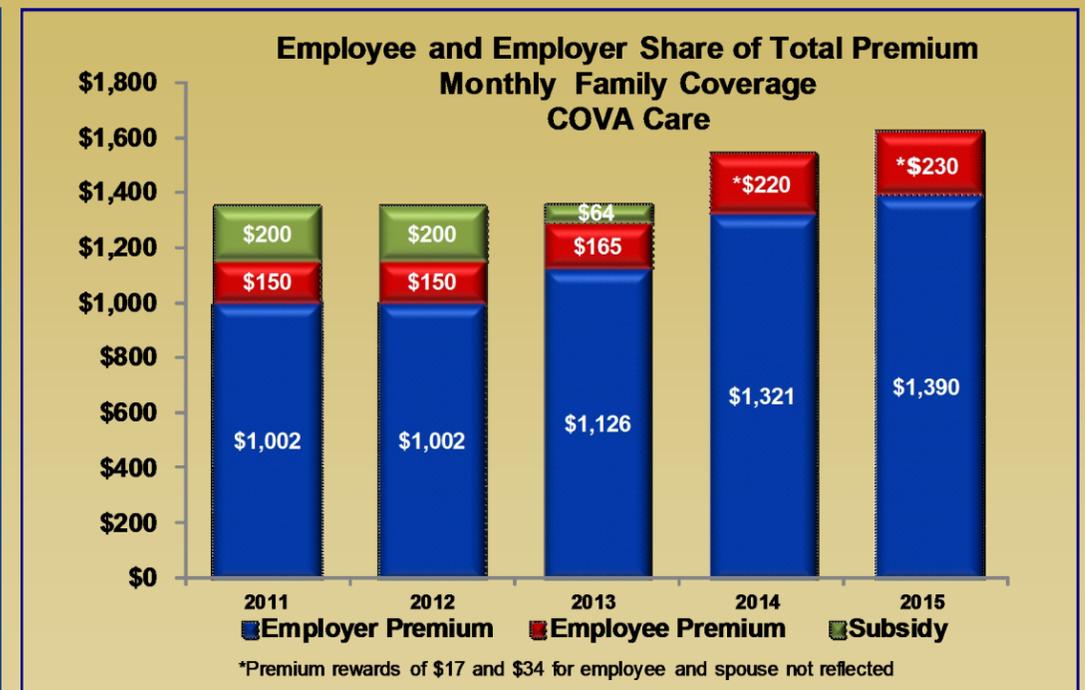
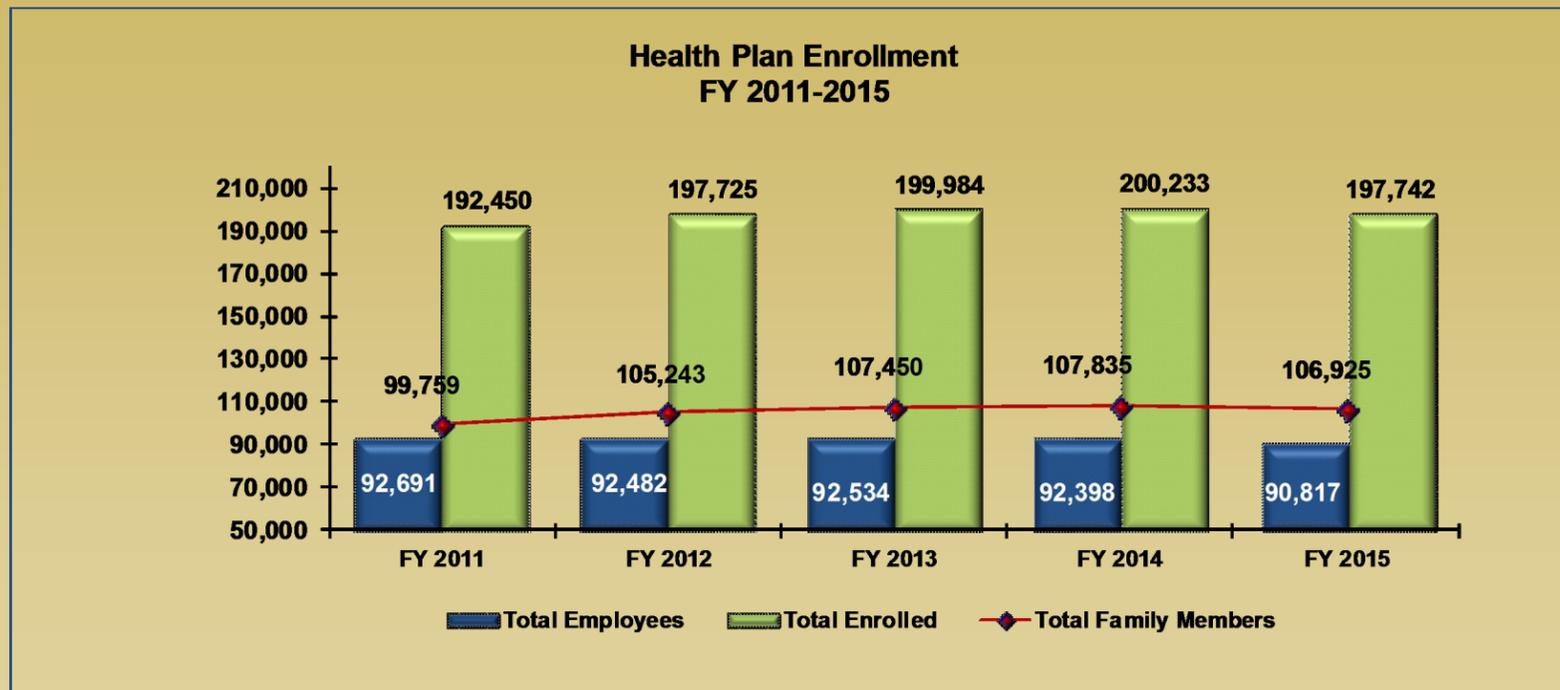
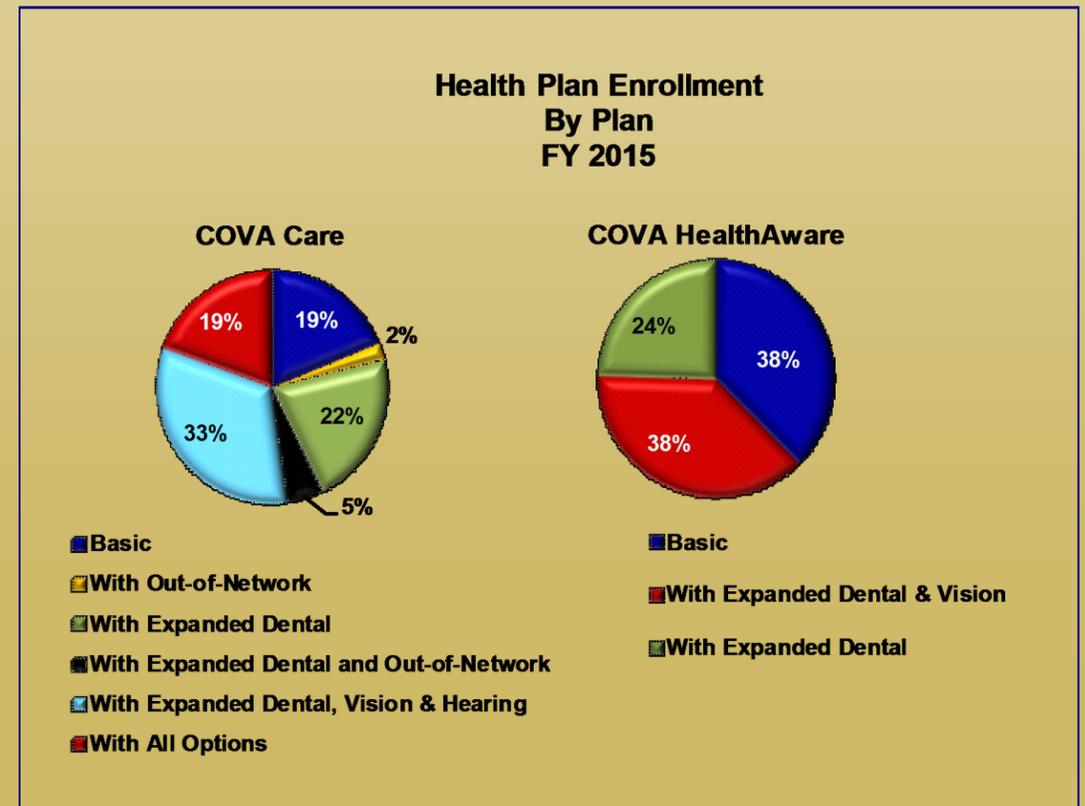
Plan Enrollment and Premiums

Total enrollment in the state health benefits program dropped almost 2 percent in FY 2015 compared to the previous year, to 90,817 from 92,398. This decline was due in part to a reduction in the number of employees eligible for the program coupled with an increase in those who waived coverage. Of eligible members in 2015, 83 percent enrolled in the COVA Care plan, a 1 percent reduction compared to the prior year, followed by the new COVA HealthAware consumer-driven health plan with 4 percent enrollment. Kaiser Permanente represented about 2 percent of enrollment, while COVA HDHP accounted for about 1 percent.

Most employees signed up for additional coverage options in 2015, with 52 percent of employees opting for the two COVA Care buy-ups with the most coverage. Sixty-two percent of COVA HealthAware members enrolled in either the Expanded Dental or Expanded Dental and Vision option.

The cost of program claims expense and administration is covered by plan premiums. On average, employees pay 16 percent of premiums for all coverage, and the Commonwealth pays 84 percent. For additional coverage buy-ups, employees pay 100 percent. The amount of total plan premium is taking on additional significance due to the Affordable Care Act (ACA) excise tax, scheduled to take effect in 2018. Plans with total premiums in excess of designated caps will have to pay a 40 percent excise tax on the excess amount.

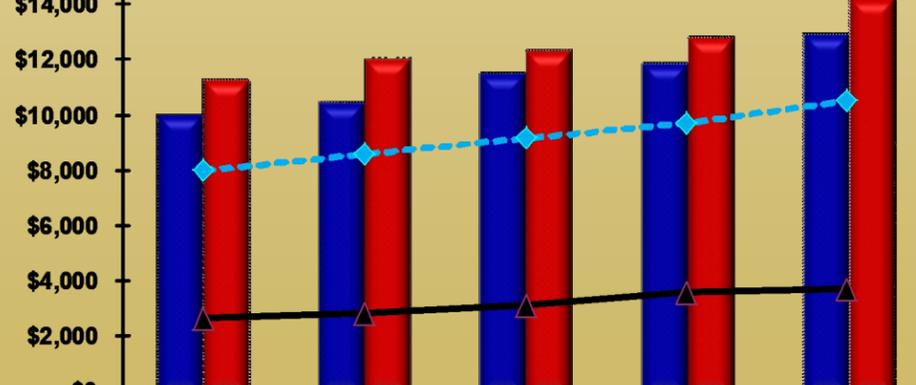
Employees, early retirees and their spouses enrolled in COVA Care and COVA HealthAware were able to earn a reduction in monthly premiums in 2015 by taking a health assessment and, in some cases, a biometric screening at specified periods during the plan year. These “premium rewards” were offered as part of the total population health management program for improving member health. During the year, 43,316 individual employees and early retirees, as well as 1,021 spouses, earned \$17 per month in premium rewards. A total of 25,125 participants and spouses who both met the requirements earned \$34 per month. Together, these members received a total of \$9.5 million in reduced premiums.





Cost of Total Coverage

National and State Average Annual Cost Per Employer and Employee



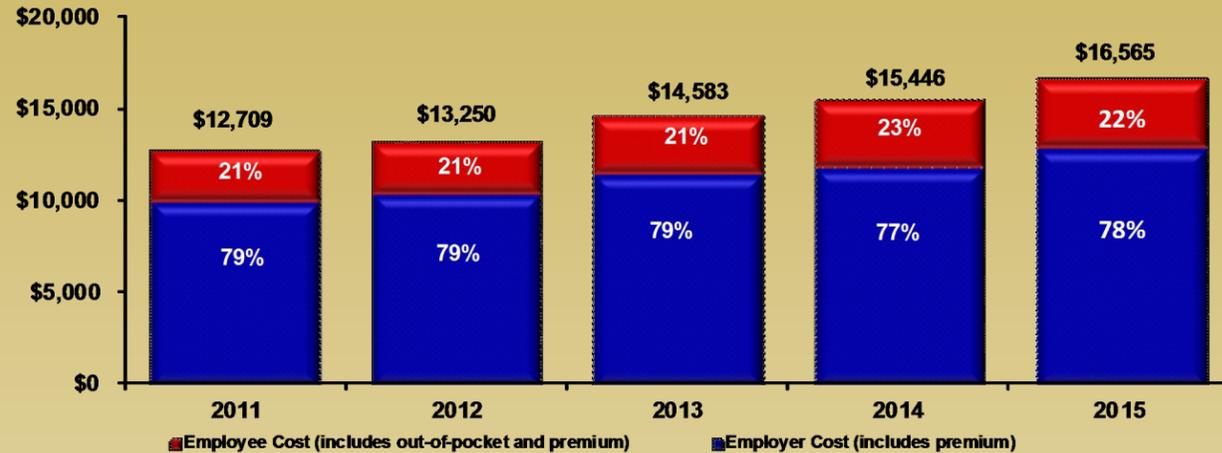
*National average employer and employee costs projected for 2015 by Milliman Medical Index. Health care cost projections vary. The Henry J. Kaiser Family Foundation shows a national average employer cost per employee of \$12,591 for CY 2015 and an employee premium contribution of \$4,955. Other national data shown is from Milliman and the Mercer National Survey of Employer-Sponsored Health Plans. State data is total expense including claims from fully-insured plans.

The national average cost per employee for all employers providing health coverage is projected by Milliman Medical Index to rise to \$14,198 in calendar year 2015. For many years the state health benefits program's annual expenses have been consistently lower than the national average, and the same was true in 2015. State expenses were 9.3 percent less than the projected national average. Driven by a 5.3 percent increase in claims costs and the impact of expenses relating to the Affordable Care Act (ACA), the state's cost increased 8.8 percent over the previous year. While plan costs have risen, employee costs have remained significantly lower than the national average.

Total state employer cost per employee in fiscal year 2015 was \$12,883. The COVA Care plan's employer cost per employee was \$12,710, or 5.6 percent higher than in 2014, while COVA HealthAware's employer cost per employee in 2015 was \$9,159, or 51.3 percent more than the year before. The increased cost for COVA HealthAware was due primarily to a 41 percent increase in claims cost, to \$28.4 million from \$20.1 million in 2014. COVA HealthAware's cost per employee for out-of-pocket expenses and premium was \$3,334, representing 27 percent of total cost, while COVA Care's cost per employee was \$3,643, or a 22 percent cost share. If premium costs are not included, the employee cost share drops to 15 percent for COVA HealthAware and 11 percent for COVA Care.

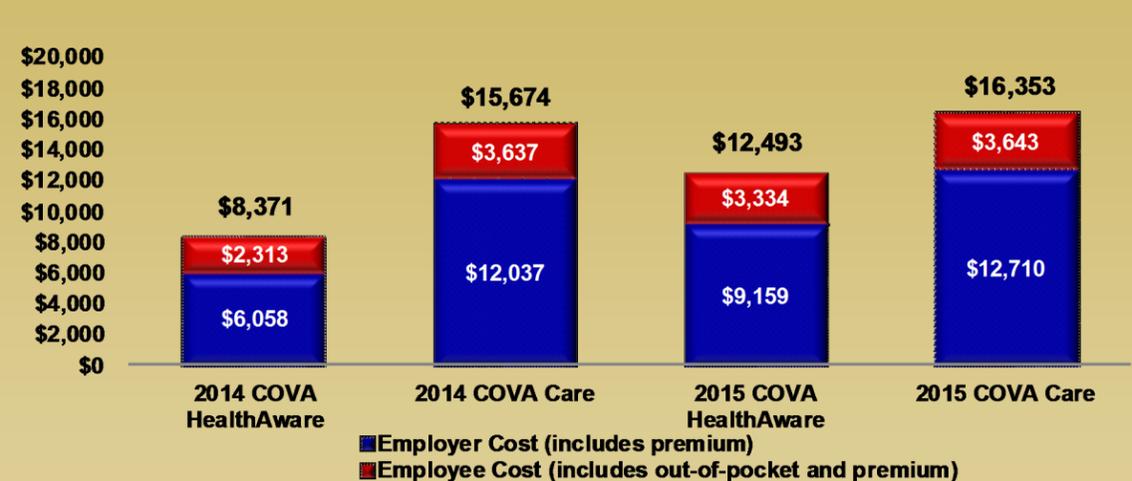
Higher pharmacy, medical inpatient and outpatient facility, and physician costs continued to be significant factors in the overall increase for 2015. The plan's share of total costs grew and the employee share declined. While the plans paid 78 percent of the annual total health benefits cost, up 1 percent from 2014, employees paid 1 percent less, or 22 percent, in 2015. Employees' overall out-of-pocket costs, including deductibles, copayments and coinsurance, decreased 5.6 percent in 2015 from 2014 and their premium share remained at 16 percent in 2015. State employee costs were about a third of the national average in 2013, 2014 and 2015.

Total State Health Benefits Cost Per Employee*



*Employee contribution to premium varies by dependent coverage. Employees paid 16 percent of premium costs in 2015. The Henry J. Kaiser Family Foundation projects a total average national health benefits cost per employee of \$17,546 for CY 2015. State data is total expense including claims from fully insured plans.

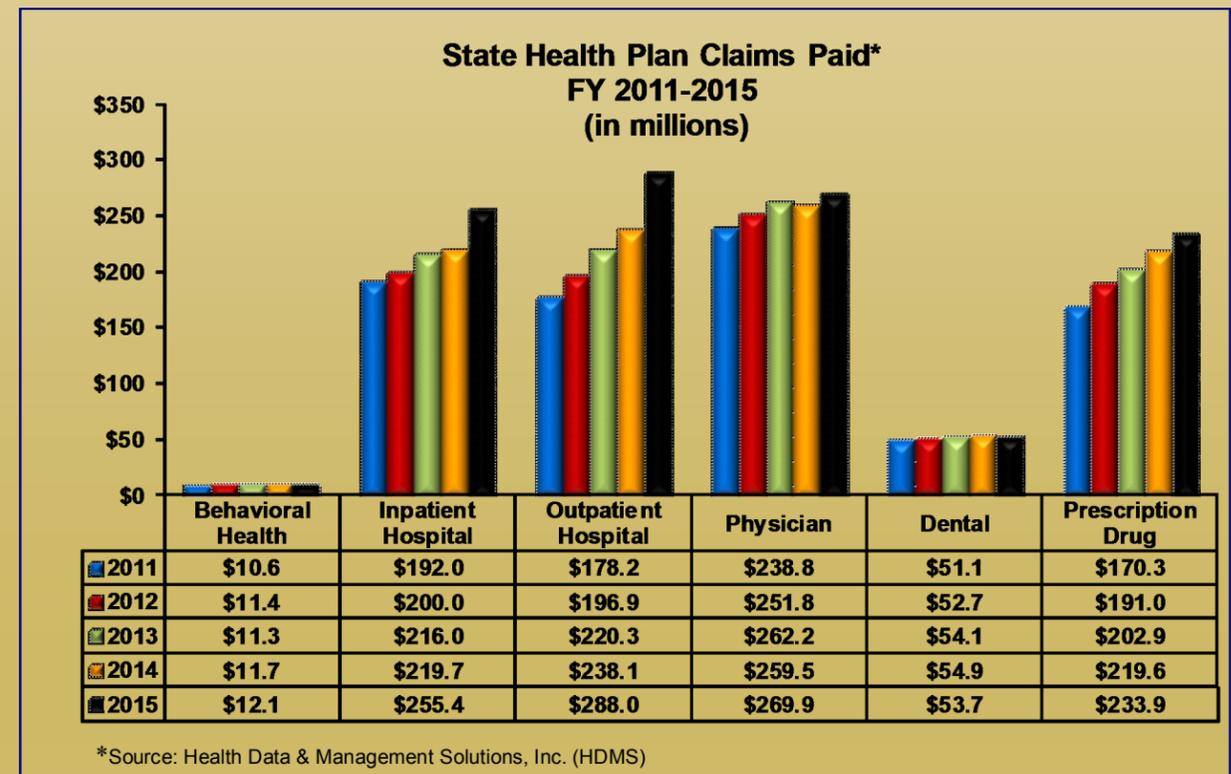
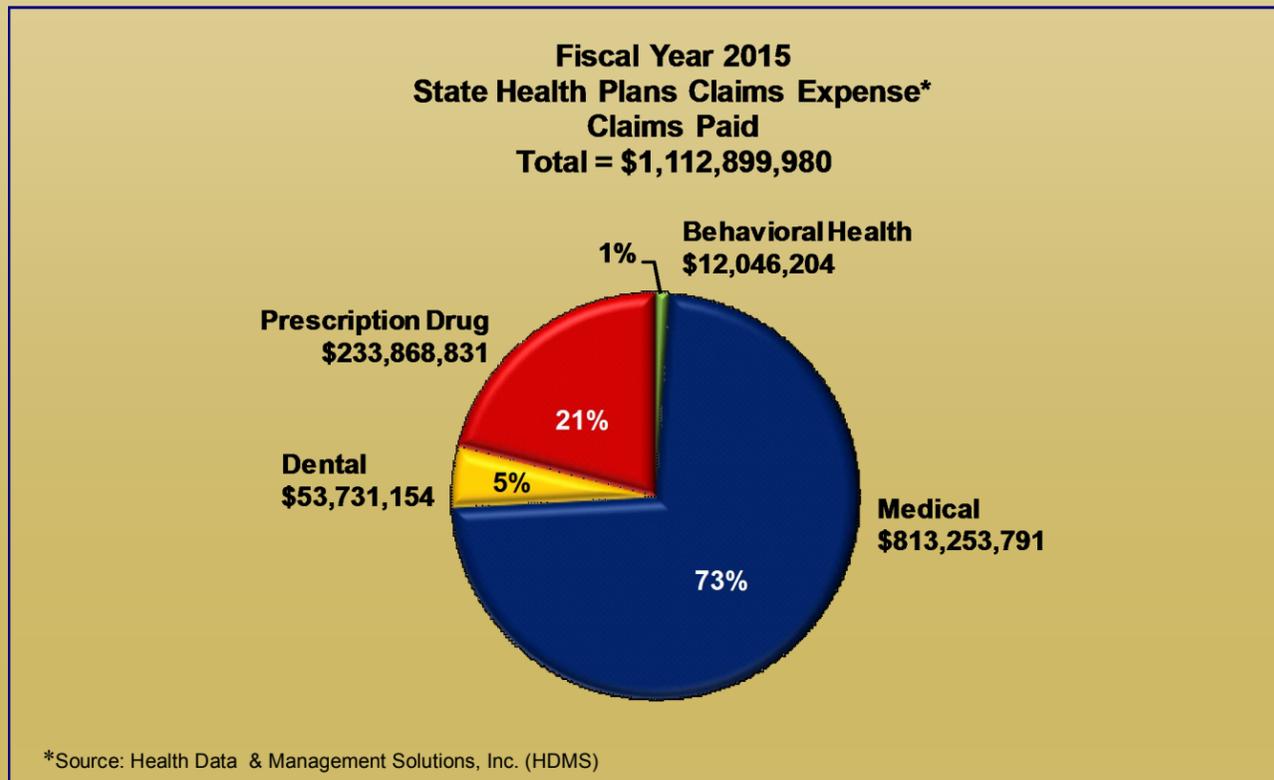
State Cost Per Employee Per Plan COVA Care and COVA HealthAware*



*Employee contribution to premium varies by dependent coverage. In general, premium represented 16 percent of total employee cost in 2015.



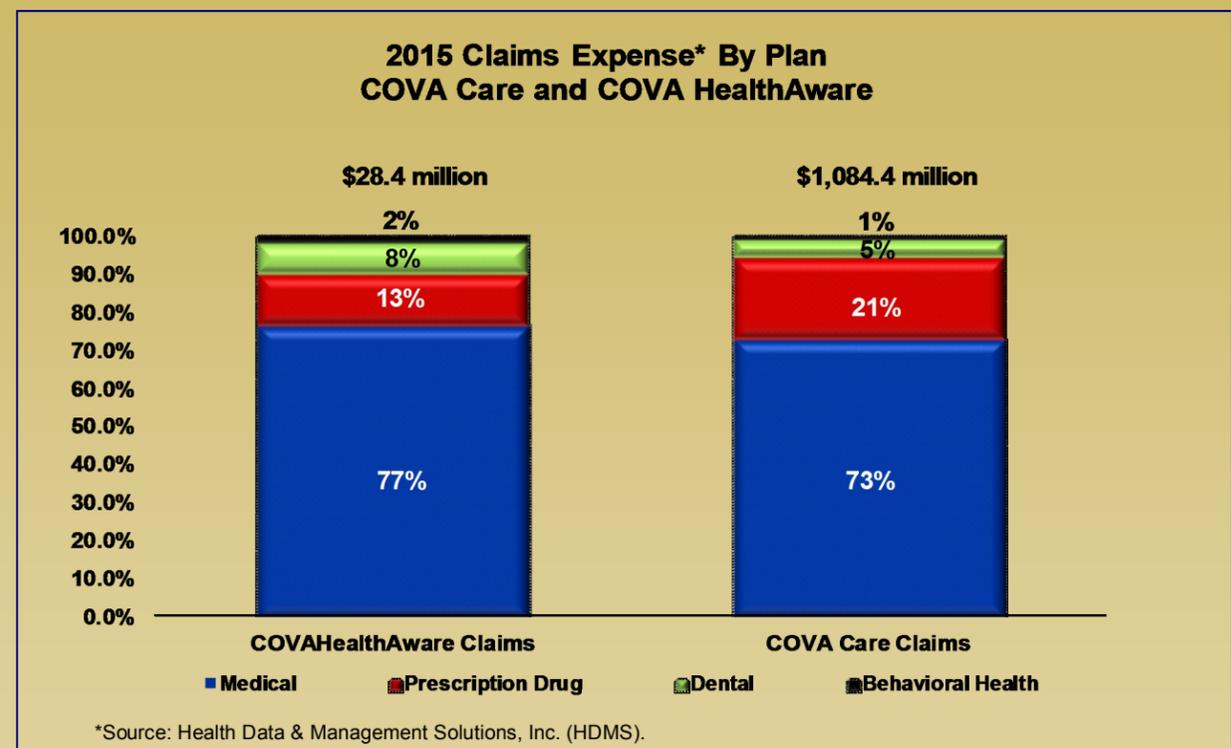
Total Claims Expense



More than 7.3 million claims were processed for the self-insured state plans in FY 2015, about 1.4 percent higher than the 7.2 million claims for the previous year. Total expense increased, due in part to higher medical and prescription drug claims costs. Fifty-eight percent of claims were medical, accounting for 73 percent of total plan claims expense. In FY 2015, the Commonwealth's overall strategy was to drive members to outpatient services, which generally cost less than inpatient procedures. In line with plan design changes, the outpatient hospital category experienced the highest cost increase, growing 20.9 percent in 2015 to \$288.0 million from \$238.1 million the previous year. Inpatient facility expense was the second highest increase at 16.2 percent.

For the COVA Care plan, 7.1 million claims were processed in FY 2015. An average of 185,370 employees, early retirees and family members were eligible for plan services. Medical expenses were 73 percent, prescription drug expenses were 21 percent, and dental claims accounted for five percent of total claims costs, consistent with prior years.

For the COVA HealthAware plan, 211,573 claims were processed in FY 2015. An average of 8,692 employees, early retirees and family members were eligible for plan services during the year. Medical expense represented 77 percent, prescription drugs claims accounted for 13 percent, and dental claims represented 8 percent of total claims expense.





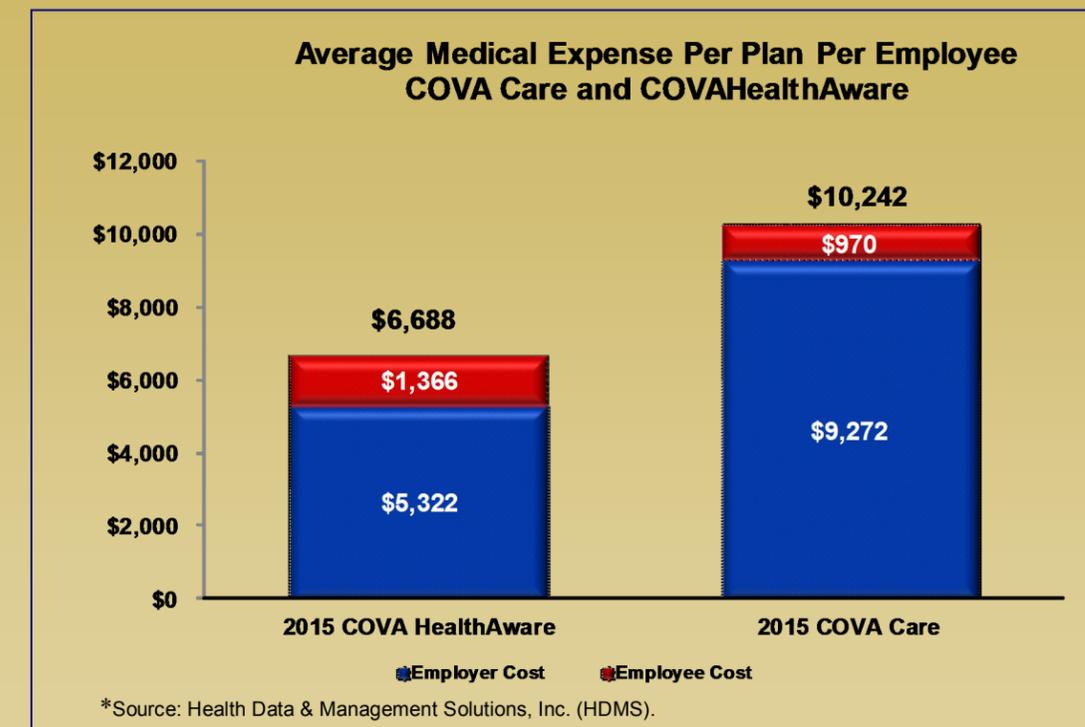
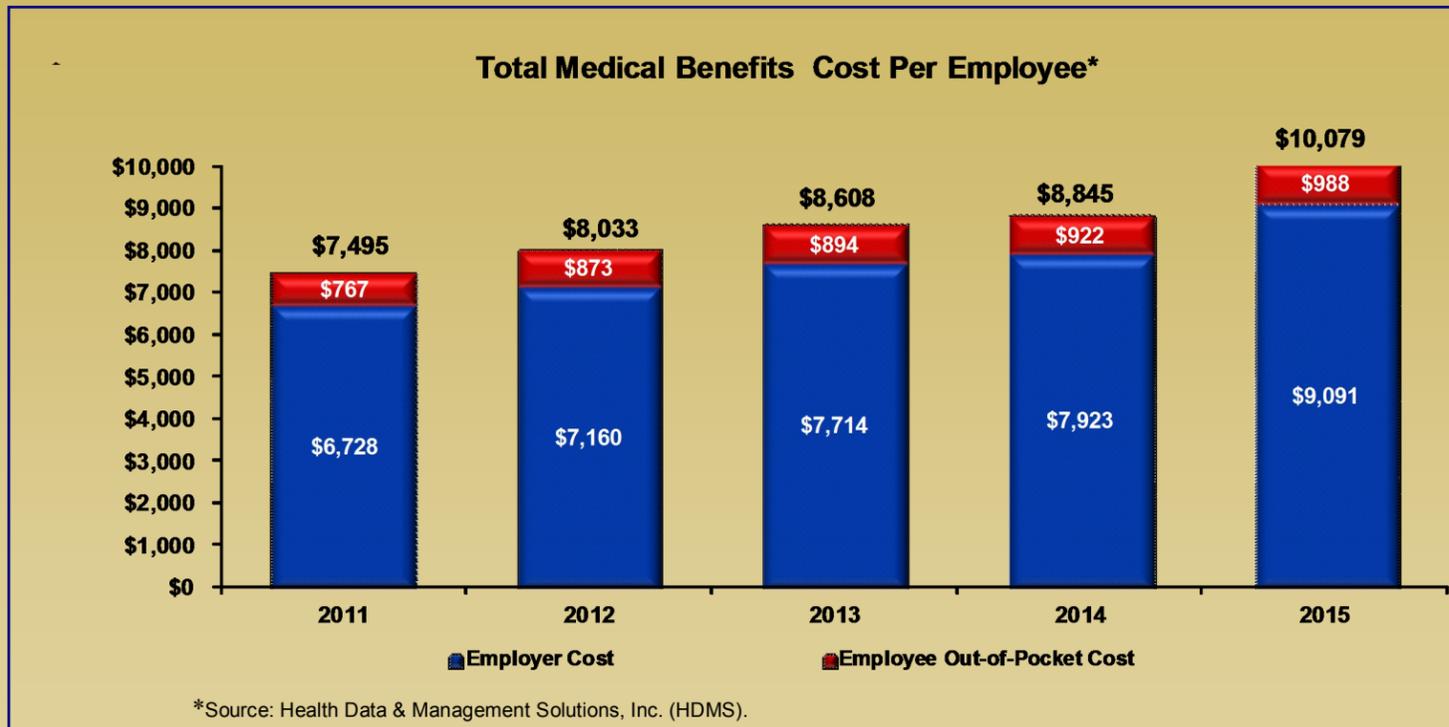
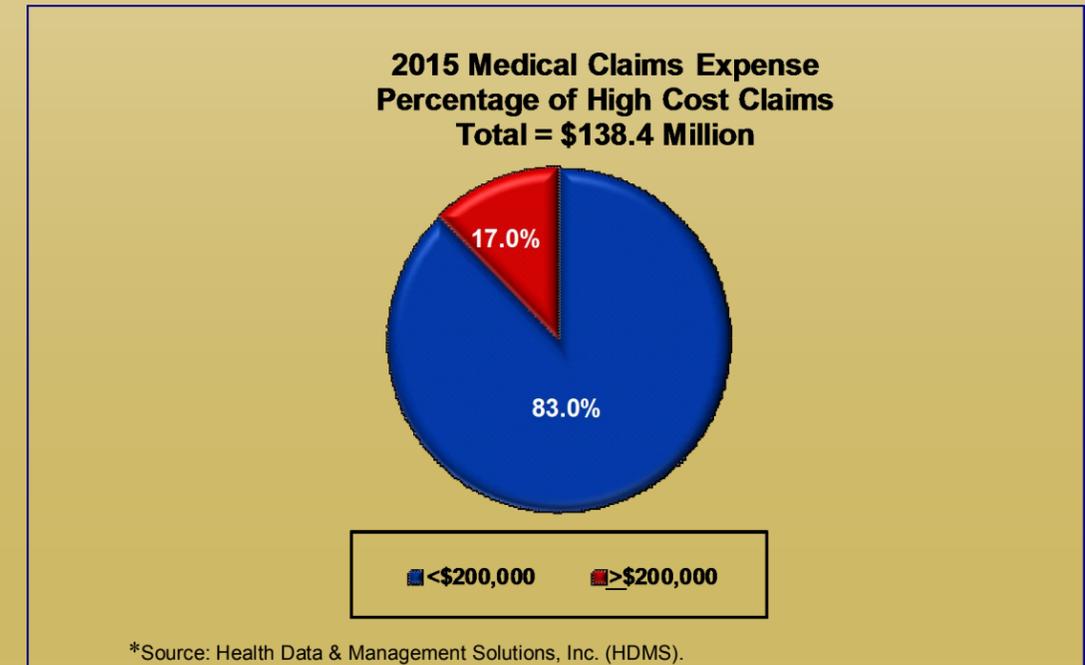
Medical Benefits Expense

Total medical inpatient and outpatient facility and physician costs increased 13.4 percent in 2015, to \$813.3 million from \$717.3 million in 2014. The largest components of medical costs were outpatient hospital costs, inpatient facility and inpatient catastrophic claims, which are those claims greater than \$200,000. Outpatient hospital costs rose 20.9 percent. Overall physician expense was up 4 percent.

There were 377 catastrophic claims in 2015, coming from less than 0.2 percent of members yet representing 17 percent of total medical expense. These claims were driven primarily by treatment for cancer, conditions related to heart disease, blood-related diseases and premature births. Catastrophic claims expense totaled \$138.4 million in 2015, up 57.3 percent over the \$88.0 million cost in 2014.

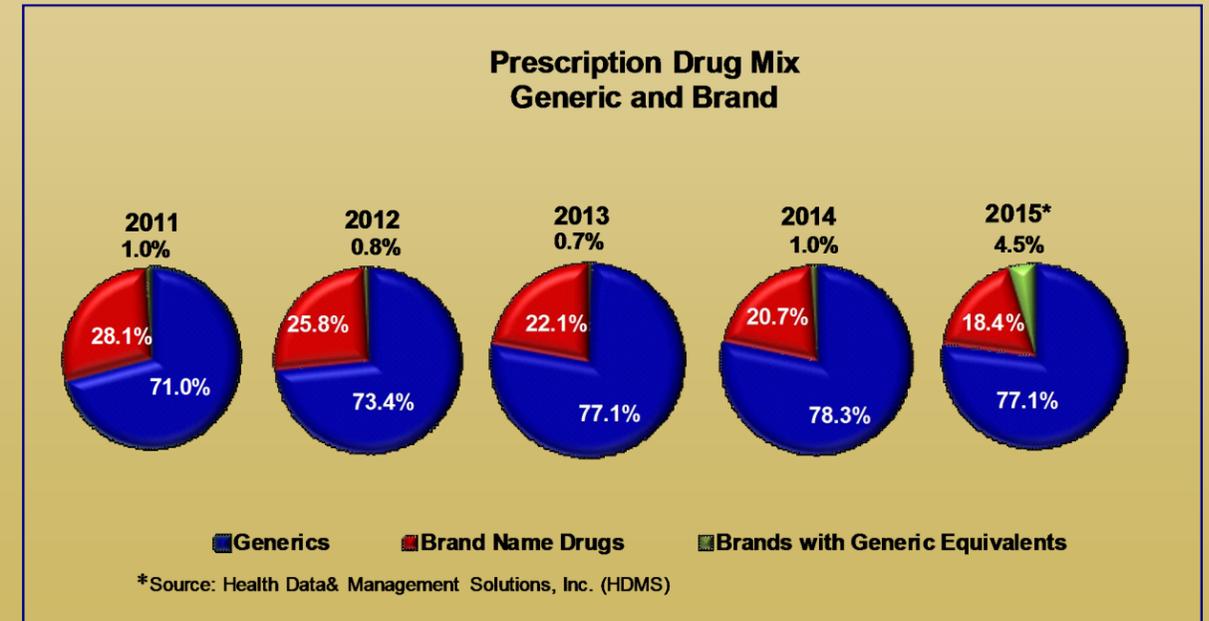
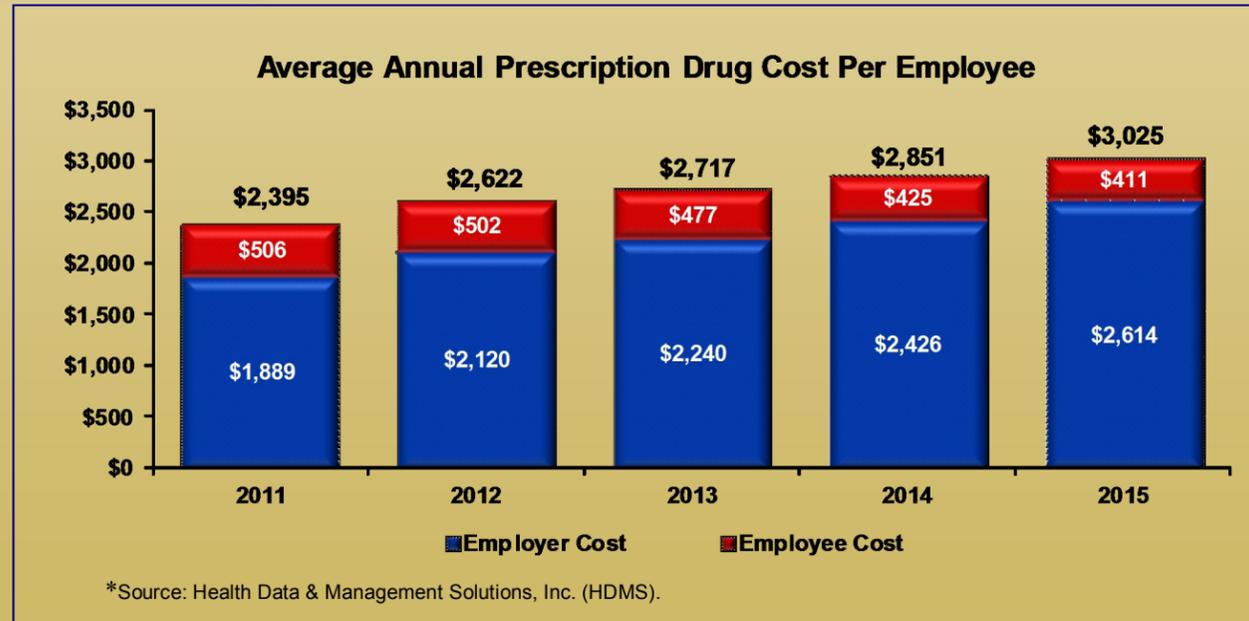
While outpatient services increased, outpatient care in general is less expensive than inpatient procedures. There were more than 209,000 outpatient hospital claims with over 10,000 inpatient hospital claims filed in 2015. The average cost per outpatient hospital claim was \$1,376, while the average cost per inpatient hospital claim was \$25,380.

The employer portion of total medical benefits cost in 2015 was 90.2 percent, up from 89.6 percent the prior year. Employees paid 9.8 percent in 2015, down from 10.4 percent in 2014.





Prescription Drug Expense

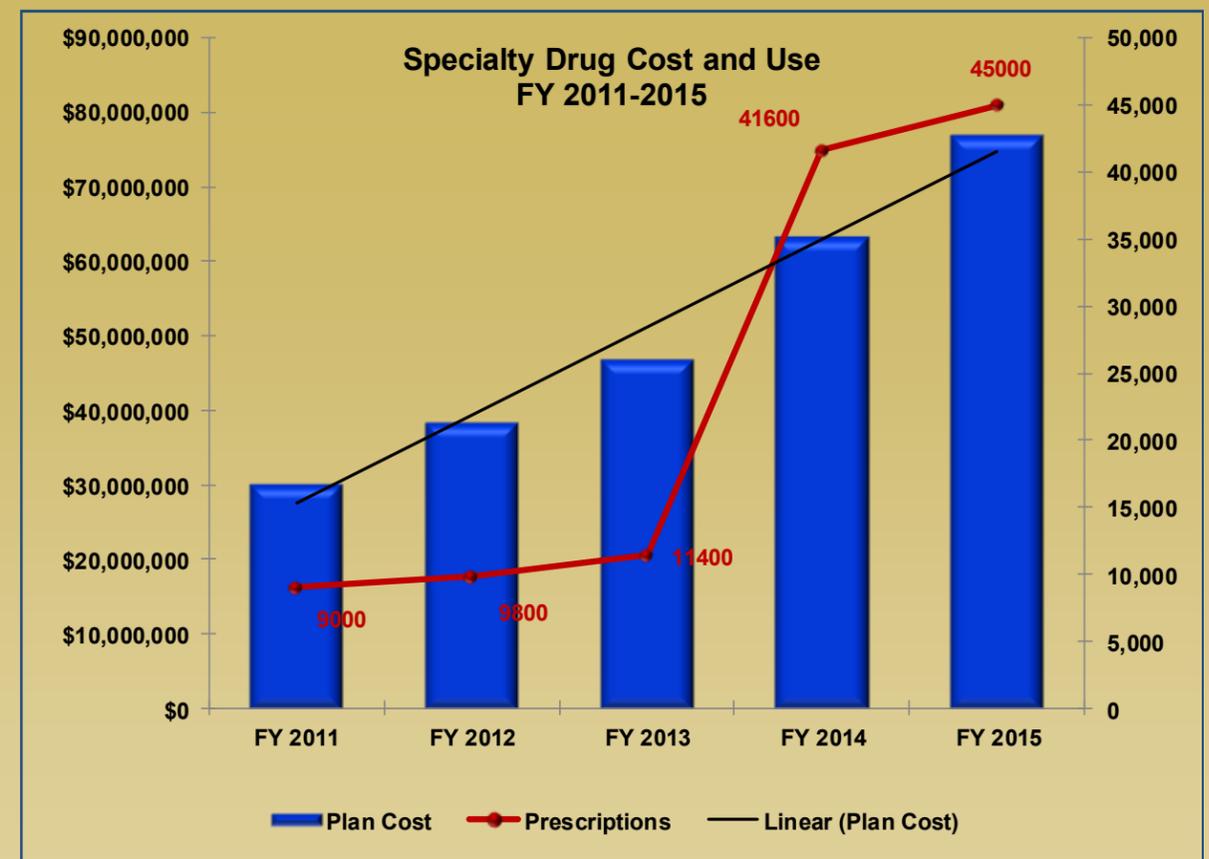


The market for high cost specialty drugs continues to grow along with their impact on the state program. These drugs may be paid as medical or pharmacy claims depending on the type of drug and method or setting of delivery. Specialty drug costs are 2.5 times what they were in FY 2011, and specialty prescriptions are five times more than five years ago. Specialty prescription drug costs were up 21.1 percent in FY 2015, to \$76.8 million from \$63.4 million the prior year. Almost 45,000 specialty prescriptions were filled by state plan members during the 2015 plan year, representing 31 percent of drug cost during 2015.

Total prescription drug costs for the state program were up 6.5 percent in 2015, to \$233.8 million from \$219.6 million in 2014. Inflation remained a major driver of overall pharmacy trend, at close to 9 percent for the Commonwealth's non-specialty drugs. Significant factors in inflation were manufacturer price increases as brand drugs approached patent expiration, higher costs for generic drugs, and cost increases for newer specialty medications. The program has implemented several cost control measures. The use of generic drugs is mandatory for members, and they pay more if there is a generic equivalent to a brand name drug. Members are encouraged to fill subscriptions at lower cost retail pharmacies or mail order, and reduce unnecessary prescriptions. Factors also helping the plan control expenses include prior authorization and step therapy.

The generic drug portion of the prescription drug mix was about the same as in 2013, and less than 2014, at 77.1 percent. Drug patents continued to expire on many highly utilized brand name drugs. Health plan members' share of total annual prescription drug costs fell to 13.5 percent from 14.0 percent the previous year.

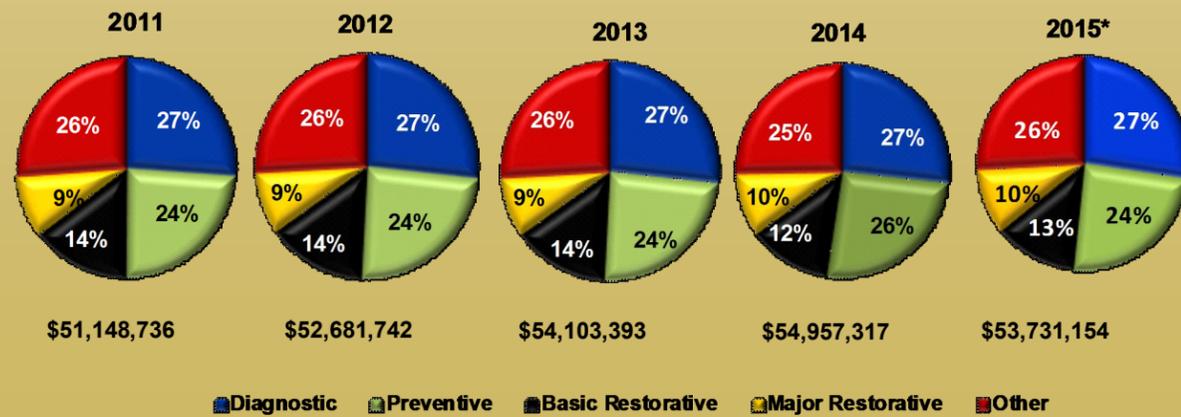
COVA Care's prescription drug expense per employee was almost three times more than the comparable expense for COVA HealthAware. The cost increase was driven by treatment for diabetes, inflammatory conditions, multiple sclerosis, high cholesterol and heartburn/ulcer disease. Humira, Nexium and compound drugs accounted for \$30 million of pharmacy expense.





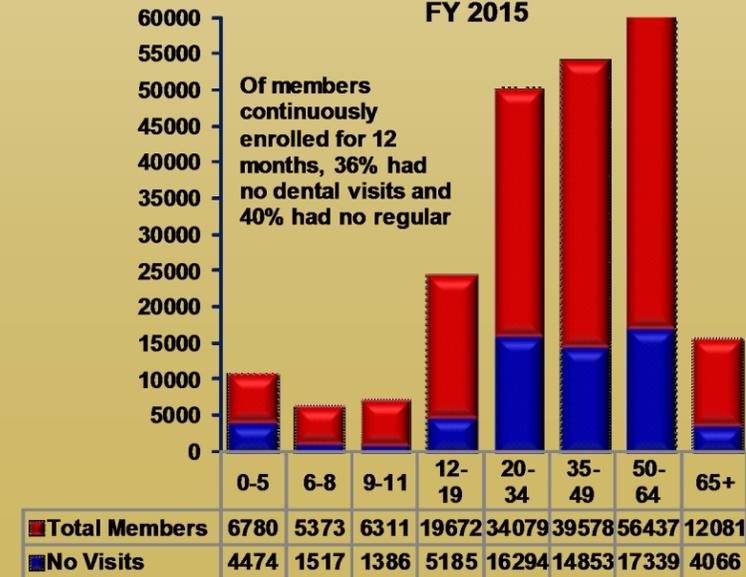
Dental Care and Expense

Dental Expense by Category

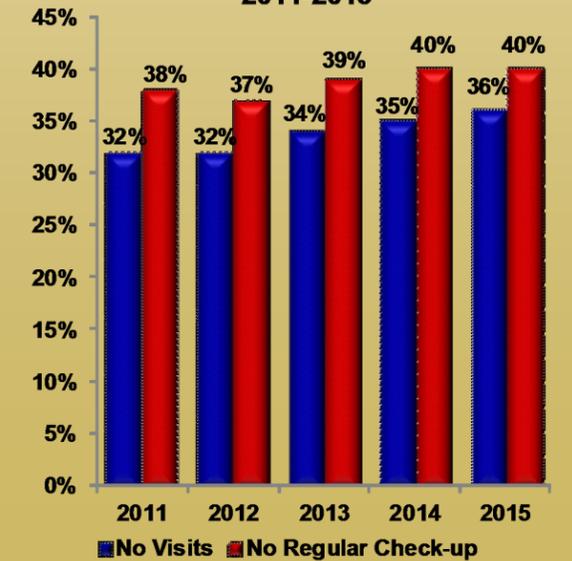


*Source: Health Data & Management Solutions, Inc. (HDMS).

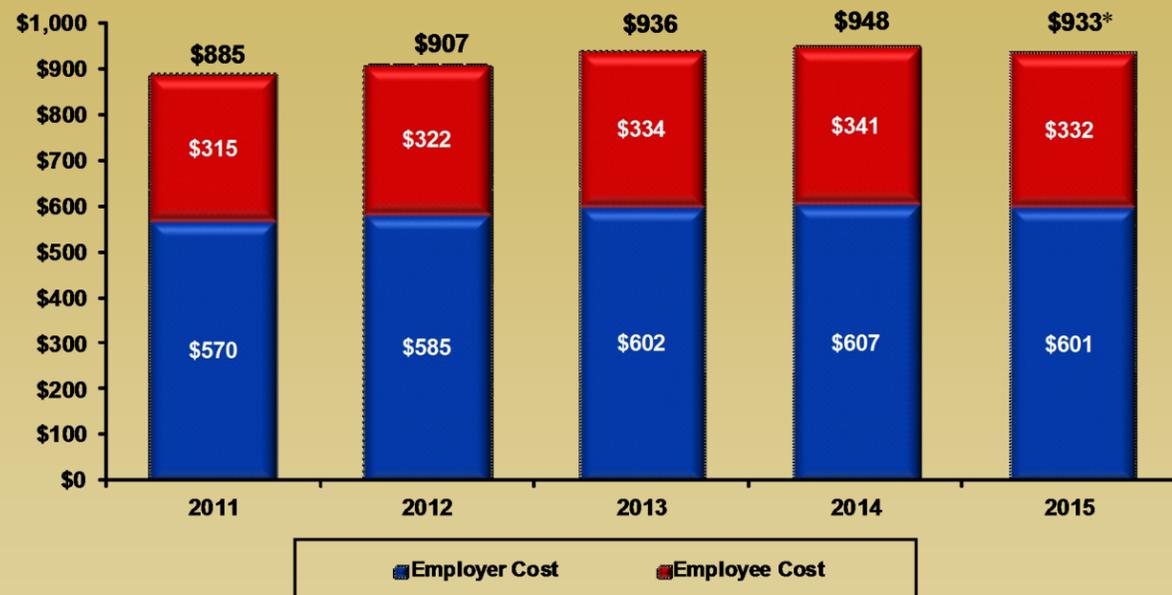
Members with No Dental Visits By Age FY 2015



Members with No Dental Care 2011-2015



Annual Dental Cost Per Employee



*Source: Health Data & Management Solutions, Inc. (HDMS).

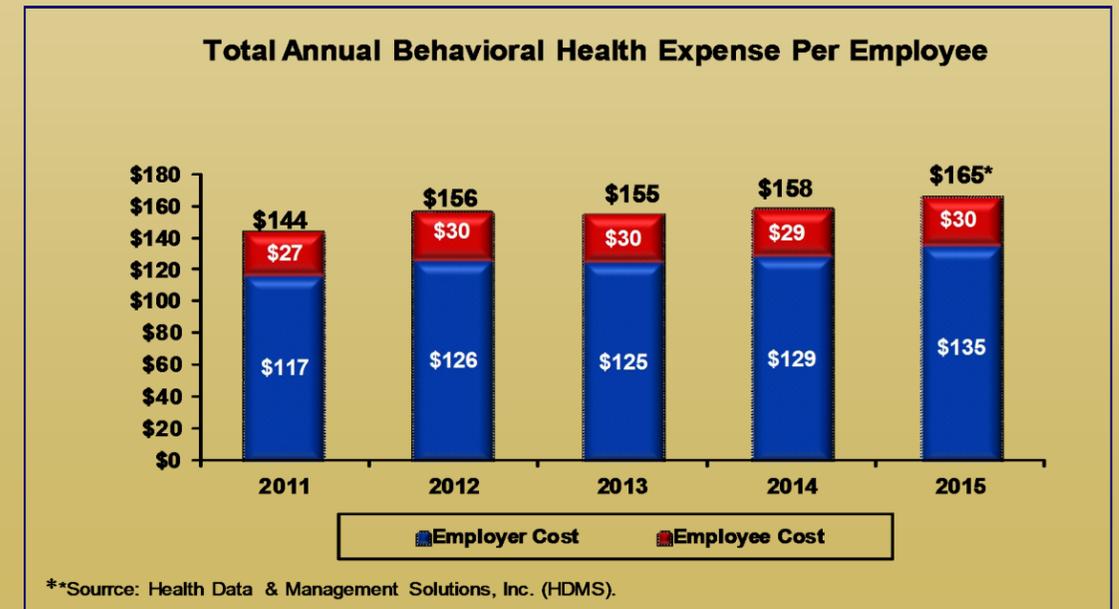
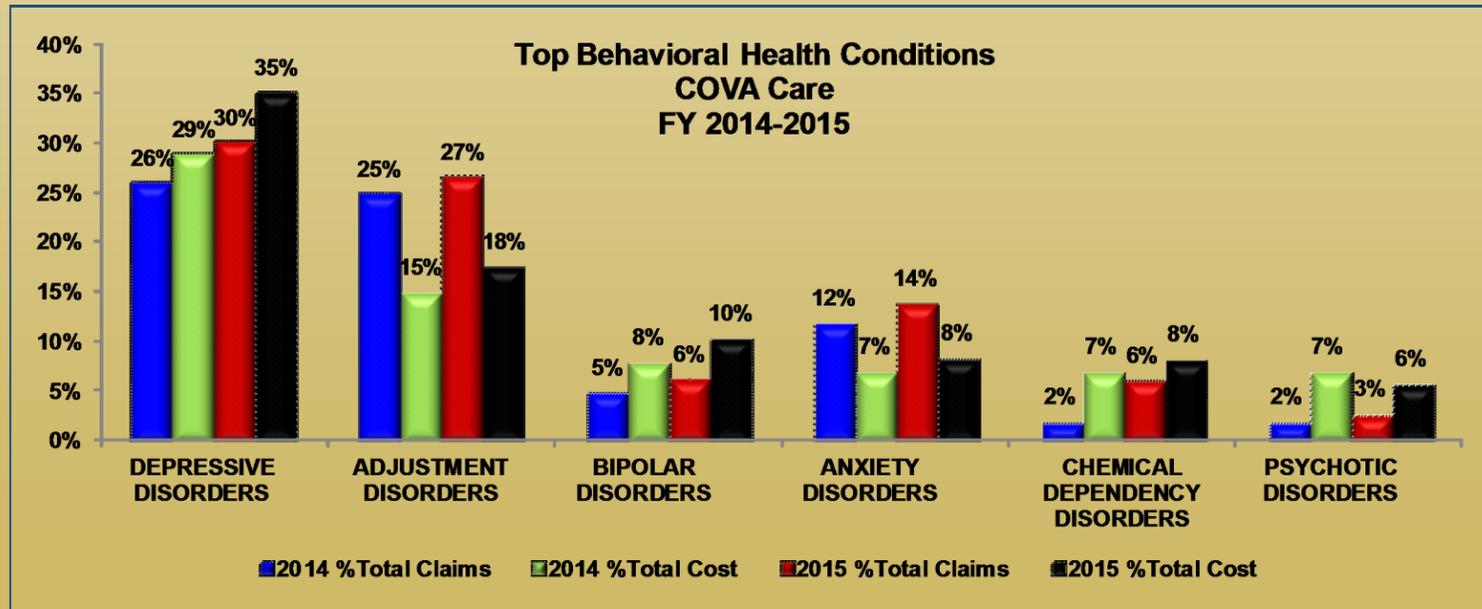
Enrollment in dental benefits was stable in FY 2015 compared to the year before, with an increase of 2,292 participants in COVA HealthAware offset by a 1.9 percent decline in COVA Care participants, from 86,984 to 85,362.

Regular dental check-ups prevent major dental problems and reduce overall dental expense. It costs \$343 less for each member who has at least one preventive oral exam each year. A utilization report indicates that about 36 percent of plan members are not visiting the dentist at all, an increase of 1 percent over the year before. The number who do not have regular dental check-ups remained at 40 percent of members. A communications campaign is in development with new tools to more effectively target the no dental visit population.

The employee share of total dental cost declined by about 2.7 percent in FY 2015, due primarily to a reduction in dental claims from the prior year. Approximately 350,000 dental claims were processed in 2015, 6 percent less than the 372,000 the prior year. Dental benefits continue to represent only 5 percent of total claims expense. Dental claim costs for the state program were down 2.2 percent in 2015, to \$53.7 million from \$54.9 million the previous year. Diagnostic and preventive services, which are paid 100 percent by the plan, accounted for more than half of claims expense at 51 percent compared to 53 percent in 2013. A change in the dental benefits structure in FY 2014 to comply with Affordable Care Act (ACA) provisions moved some services previously covered at 100 percent to the Expanded Dental program with a deductible and coinsurance paid by the member.



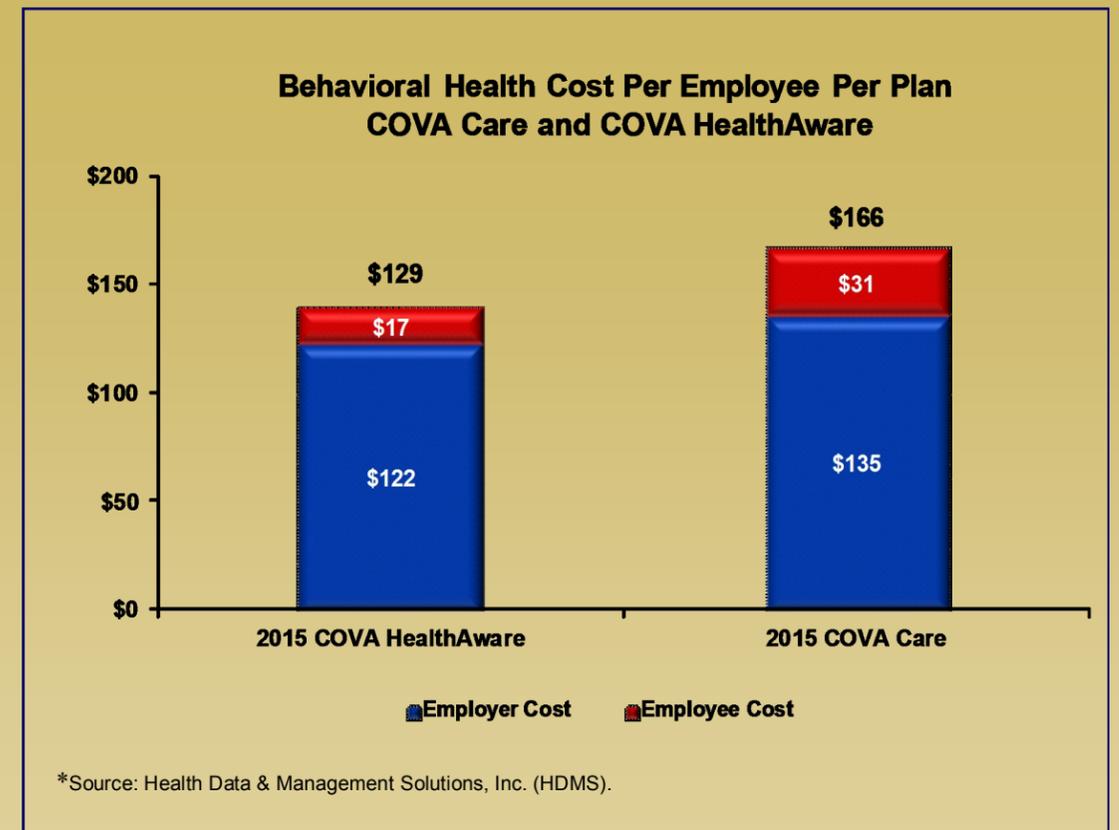
Behavioral Health and EAP



The Commonwealth's behavioral health benefit experienced a 2 percent increase in utilization during FY 2015, to 8 percent of those enrolled in the health plan compared to about 6 percent in FY 2014. Six behavioral health conditions accounted for 86 percent of claims expense compared to 73 percent the prior year: depressive, adjustment, bipolar, anxiety, chemical dependency and psychotic disorders. Total claims cost increased 4.3 percent to \$12.1 million in FY 2015 from \$11.6 million in FY 2014, driven by higher inpatient facility costs, including new residential treatment centers introduced during the plan year. There was also a 51 percent increase in cost by diagnosis. Total cost per member per month (PMPM) was \$5.90 in 2015 compared to \$4.98 in 2014. Outpatient services cost \$2.91 PMPM in 2015 compared to \$3.05 in 2014. The top 10% highest-cost members using behavioral health accounted for 71 percent of behavioral health costs. Forty-nine percent of claims expense was for outpatient services; 42 percent for inpatient treatment, including new residential treatment services; and 9 percent for alternative levels of care.

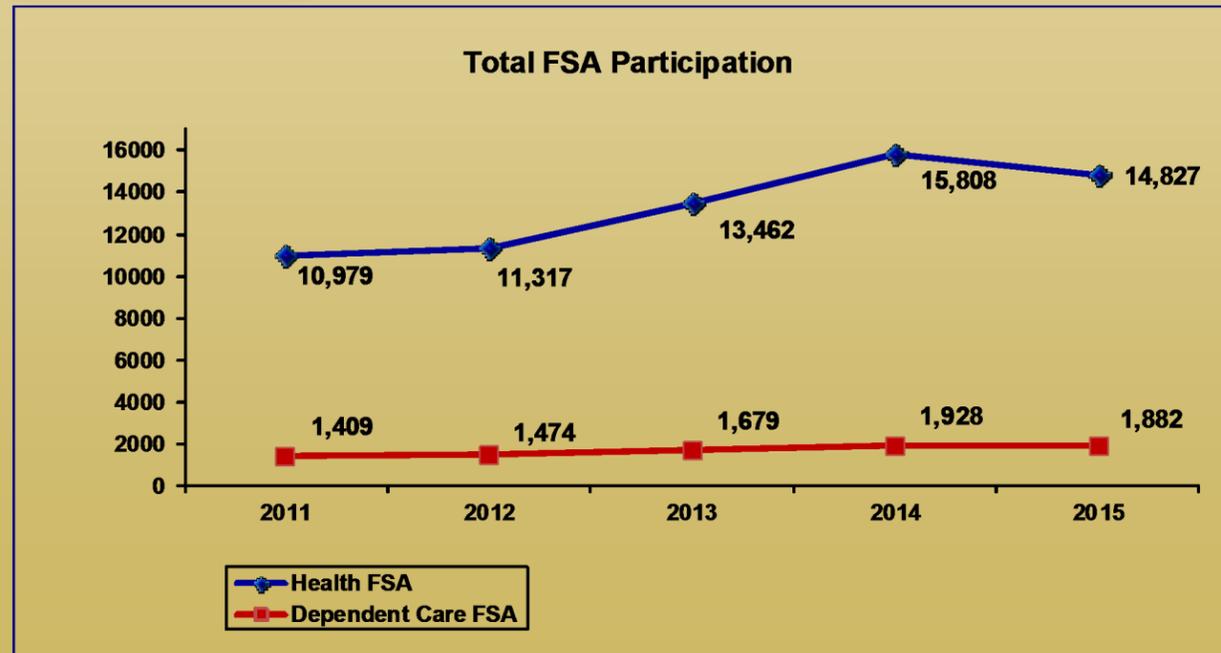
In both FY 2014 and 2015, 28 members used the Applied Behavior Analysis (ABA) benefit for autism spectrum disorder for children ages 2 through 6. In previous years, the benefit was capped at \$35,000 per year to comply with mental health parity. In January 2015, the dollar cap was removed. Were it still in place, seven members would have exceeded the limit. ABA claims costs were three times higher for FY 2015 than the previous year, \$584,000 to \$175,200 in FY 2014. The increase was driven primarily by higher utilization from COVA Care members (12 more members), increased costs per member and removal of the benefit limit. The average cost per participant was about \$20,900 compared to \$6,000 the prior year.

The Employee Assistance Program (EAP) handled 6,216 calls and referred 4,163 cases to a counselor in 2015, up 2.6 percent from the 4,059 cases in 2014. The annualized 6.6 percent utilization rate in 2015 remained above the 6.4 percent national utilization rate. Of members who used the EAP, 89 percent sought services for the top three assessed problems: emotional and psychological concerns, family relationships and legal issues. A total of 592 members used legal and financial services compared to 964 the year before, or a decline of 38.6 percent from 964 the year before. The EAP handled 160 onsite trainings, 35 critical incidents and gave onsite counseling to 299 state employees.





Flexible Spending Accounts

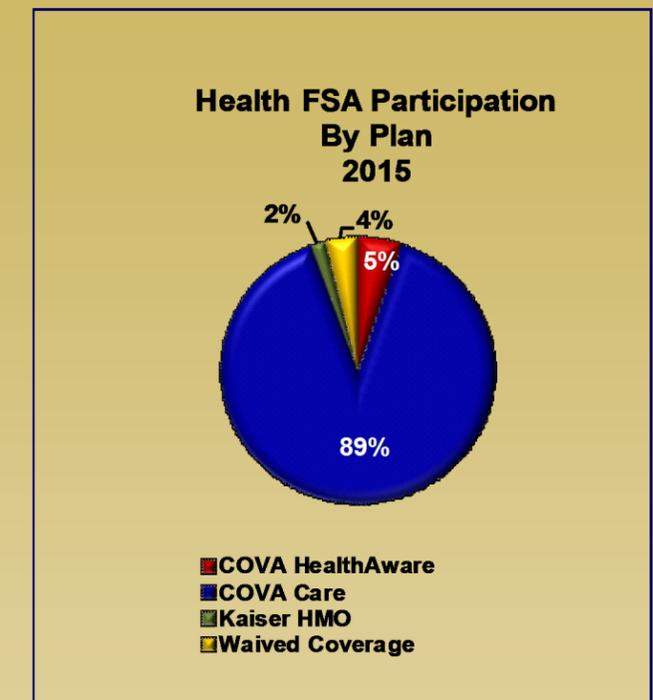
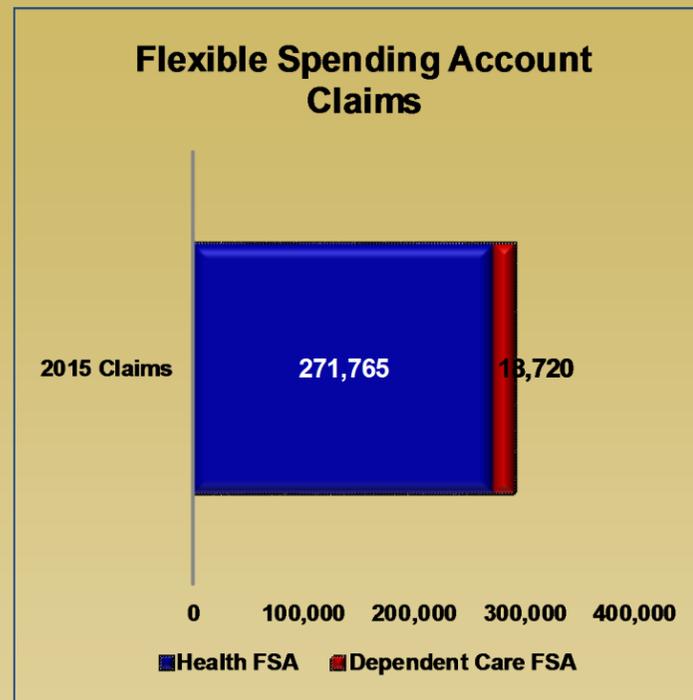
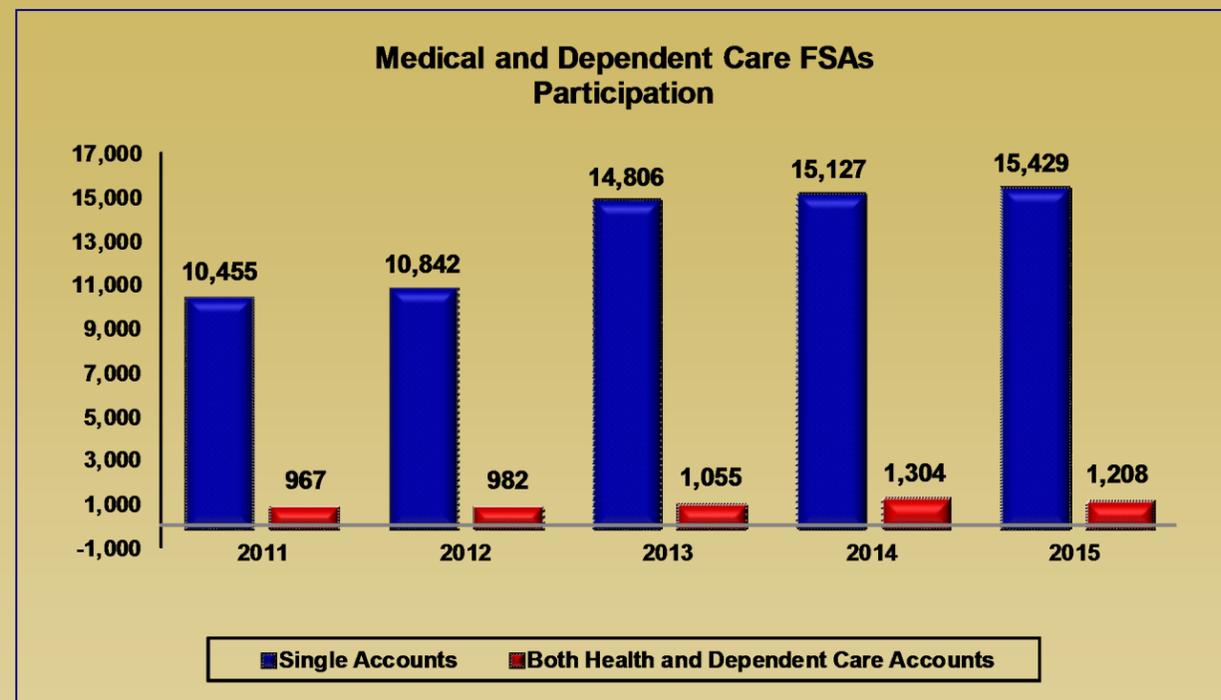


Flexible spending accounts (FSAs) allow employees to set aside part of their income before taxes to pay for certain health or day care expenses not covered by the plan. Health FSAs may be used for non-covered eligible health care expenses, while Dependent Care FSAs may be used to pay eligible costs for day care.

While FSA participation has been relatively stable in past years, employee interest in these accounts has fluctuated in the last two years. FSAs declined in FY 2015 due in part to perceptions of complexity and concerns about year-end forfeiture of funds. Younger employees often do not have enough health care expenses to make participation in a Health FSA worthwhile. Older employees nearing retirement tend to forego participation, and for lower income employees, the tax savings may be inconsequential. The number of Health FSAs decreased 6.2 percent in FY 2015 after increasing 17 percent in FY 2014, and Dependent Care FSAs were down 2.4 percent after rising nearly 15 percent the year before.

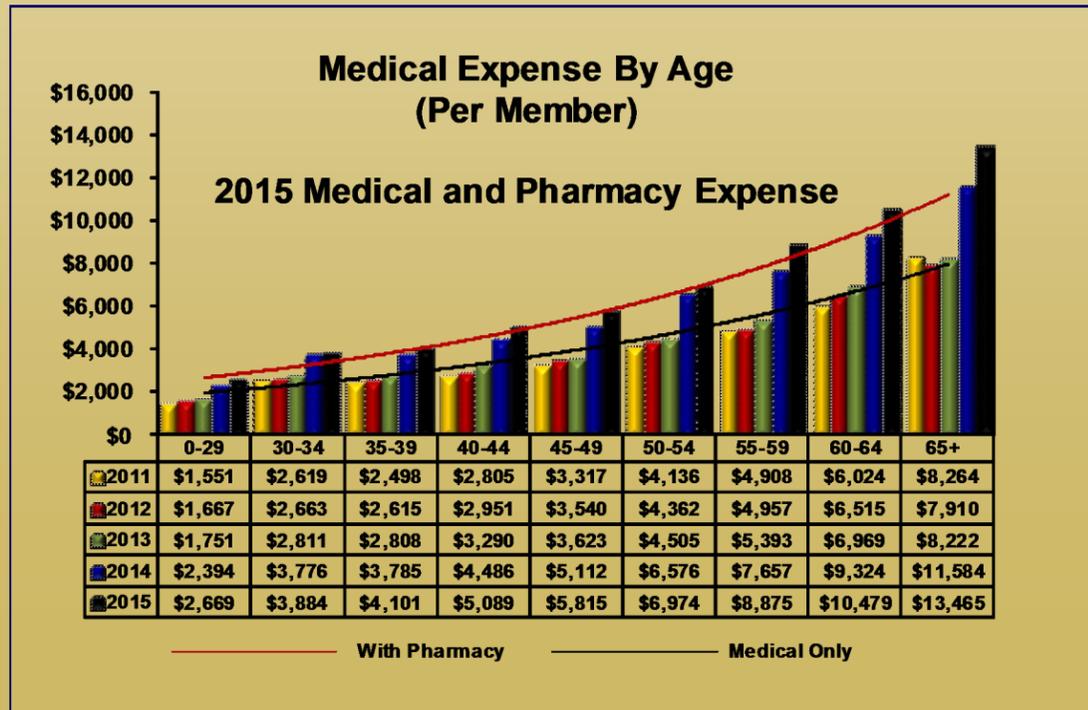
In 2015, COVA Care and COVA HDHP members represented 89 percent of Health FSA participants, followed by COVA HealthAware at 5 percent, and Kaiser Permanente HMO at 2 percent, which generally is reflective of the total population in each plan. Employees who waive health coverage remain eligible for an FSA, and approximately 4 percent of employees in that category had a Health FSA account.

A stored value card, similar to a debit card, remained popular for Health FSAs to pay for eligible health care expenses at the point of service. Of total FSA claims, the Health FSA represented 94 percent, and the Dependent Care FSA 6 percent, with 18.33 claims per HFSA and 9.95 claims per DCFSA participant.





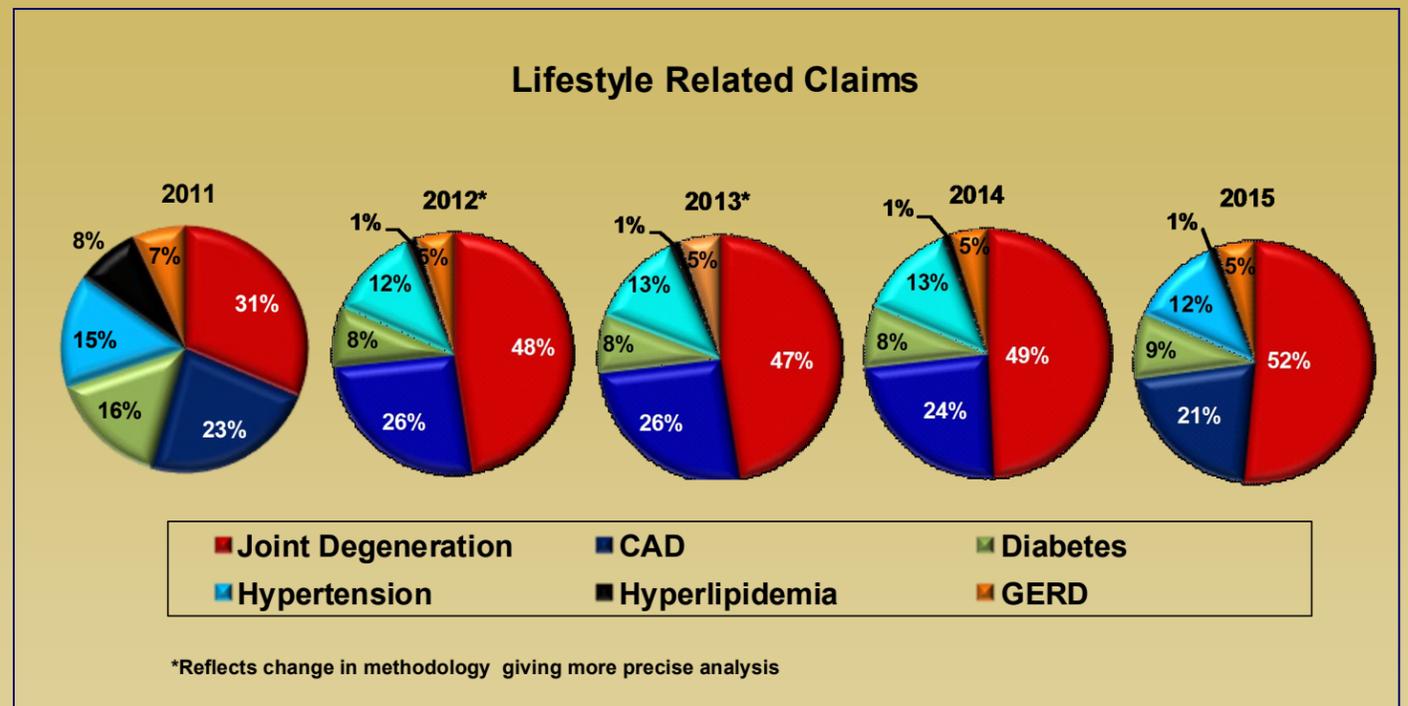
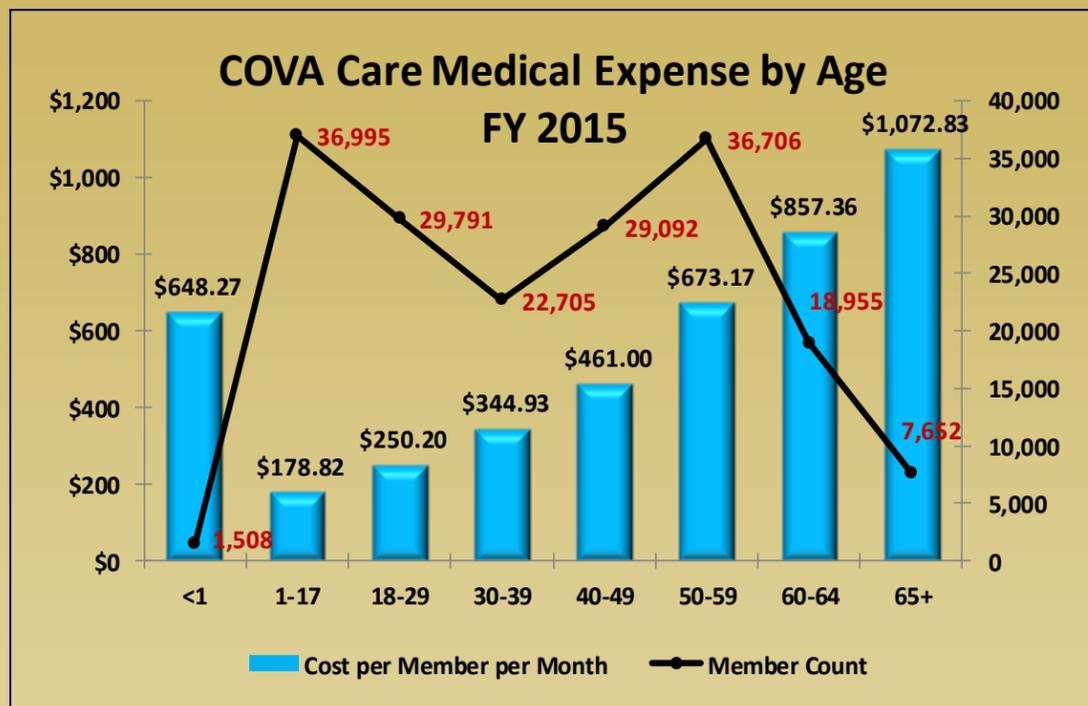
Cost Drivers: Age and Lifestyle



The state's average employee age increased slightly from the prior year, to 48.2 compared to 48.0. Employees in the state workforce enrolled in the health benefits program were older than employees at other employers, whose average age was 46.2. 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.

More than 50 percent of total plan members were over the age of 40. Those over the age of 50 represented 35 percent of COVA Care health plan members in FY 2015, and were responsible for 58 percent of COVA Care total plan medical expenses. Members 60 and over were 14.5 percent of membership and accounted for 43 percent of plan medical expenses. Employees in COVA Health Aware had an average age of 46.7 or more than a year younger than those in COVA Care.

According to the National Institutes of Health, more than two-thirds of American adults and one in three children are overweight or obese. In the state population, that rate is even greater at 70 percent. Weight issues are being addressed through healthy lifestyle programs from CommonHealth and the total population health initiative. Six conditions that correlate with being overweight represented more than \$183.9 million or 18 percent of the state plan's total medical and pharmacy expense in 2015. Of the six conditions, coronary artery disease and joint degeneration accounted for 73 percent of claims expense, unchanged from the prior year. In the past five years, the percentage of lifestyle claims expense from joint degeneration has increased 21 percent.



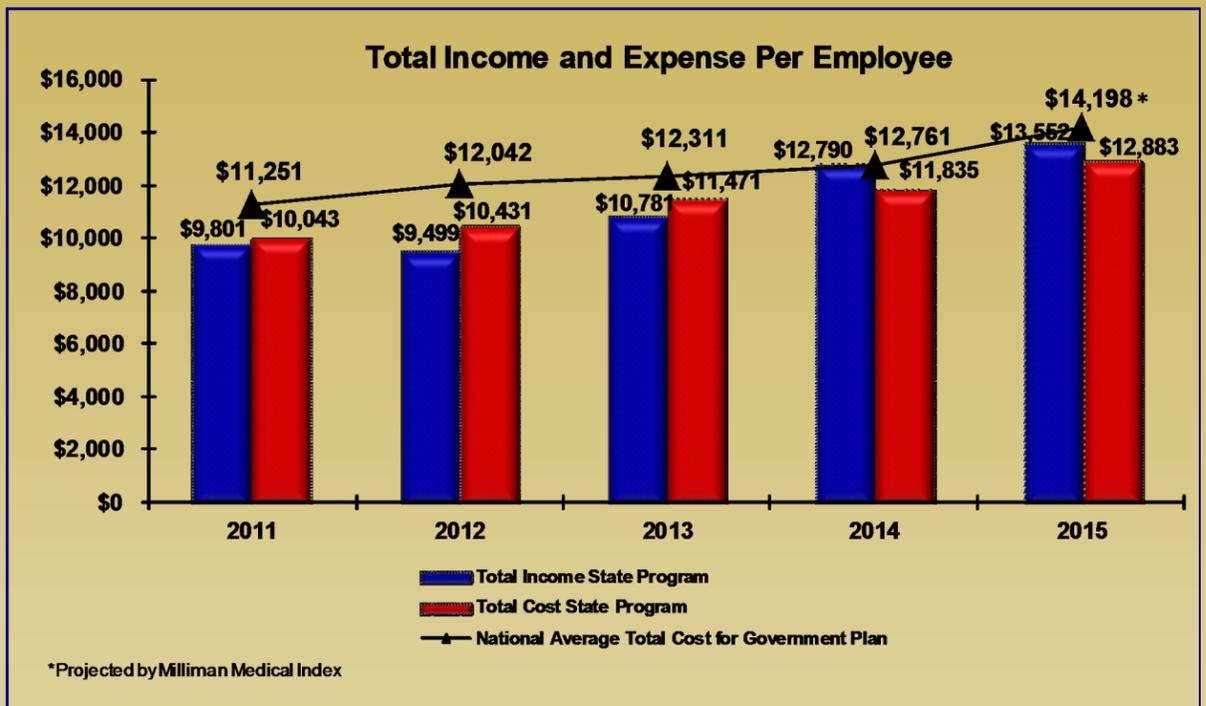
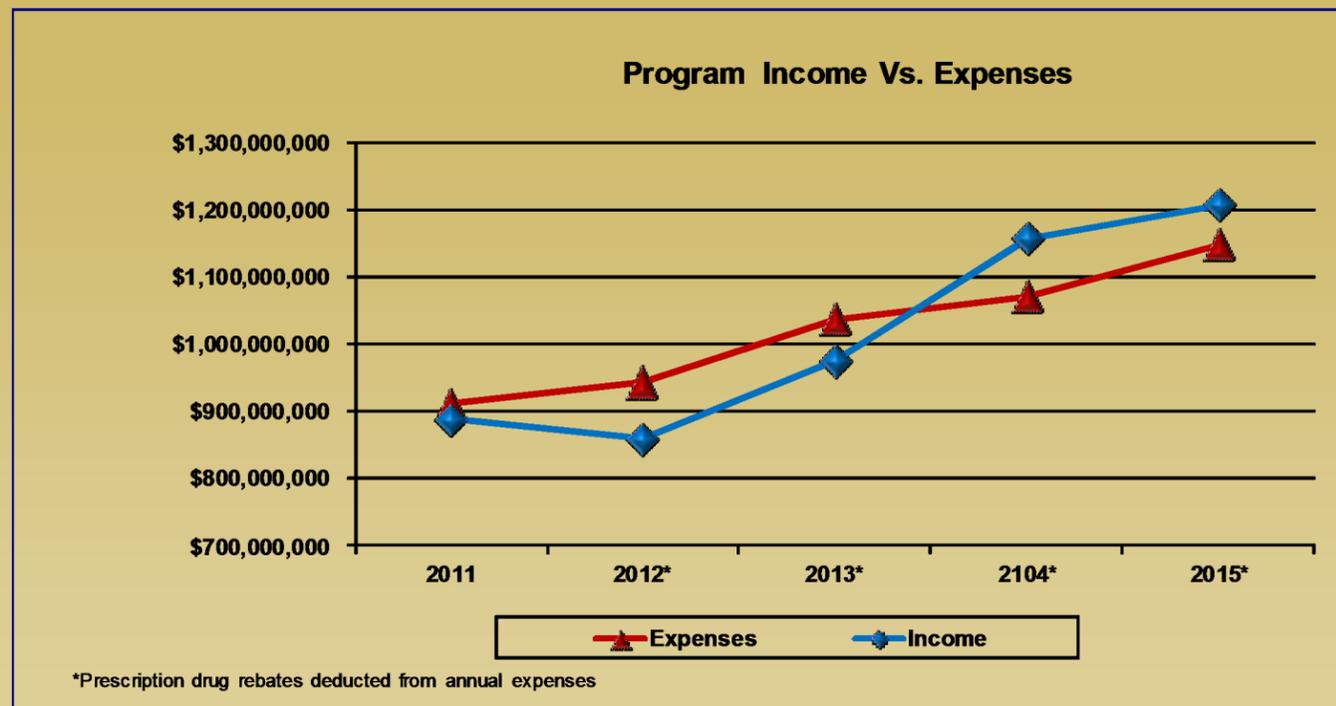


Program Operating Statement

PROGRAM TOTAL	FISCAL YEAR 2011	FISCAL YEAR 2012	FISCAL YEAR 2013	FISCAL YEAR 2014	FISCAL YEAR 2015
Annual Income <i>(Premiums, Interest, Other)</i>	\$888,755,794	\$858,355,689	\$974,121,189	\$1,155,553,236	\$1,206,651,640
Annual Expenses <i>(Claims, Contract Administration, Other)</i>	\$910,706,267	\$942,600,413*	\$1,036,411,426*	\$1,069,307,832*	\$1,147,096,057*
Income Less Expenses	(\$21,950,473)	(\$84,244,724)	(\$62,290,237)	\$86,245,404	\$59,555,583
		*Prescription drug rebates deducted			

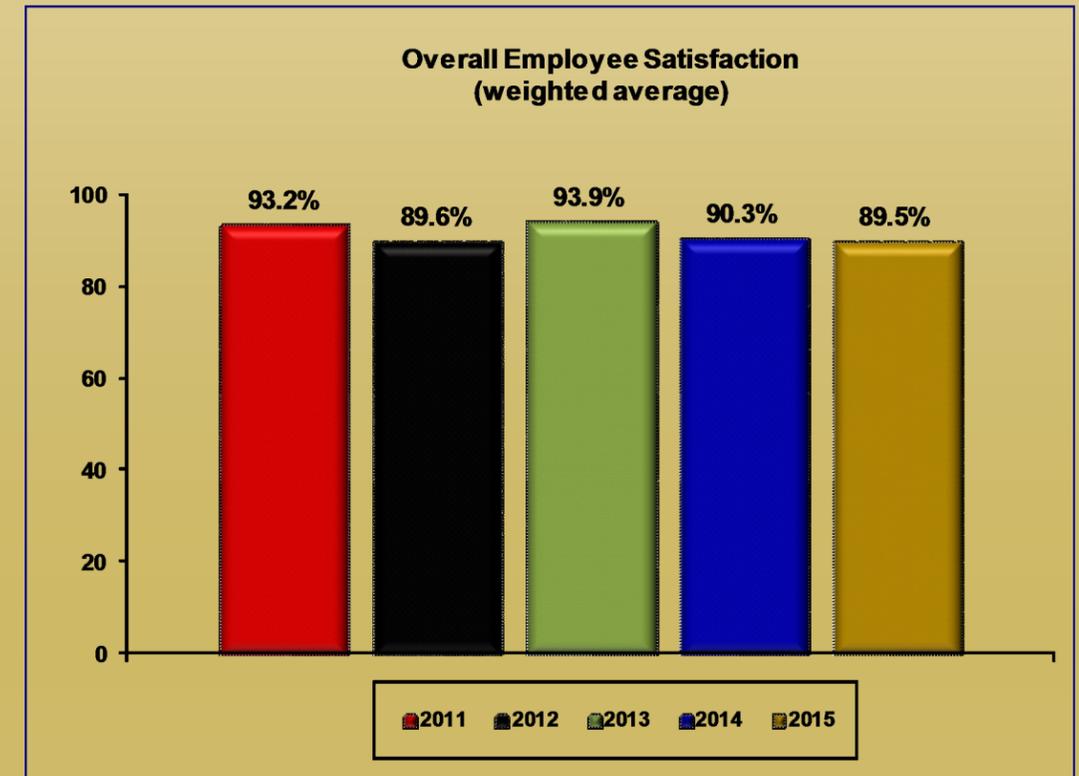
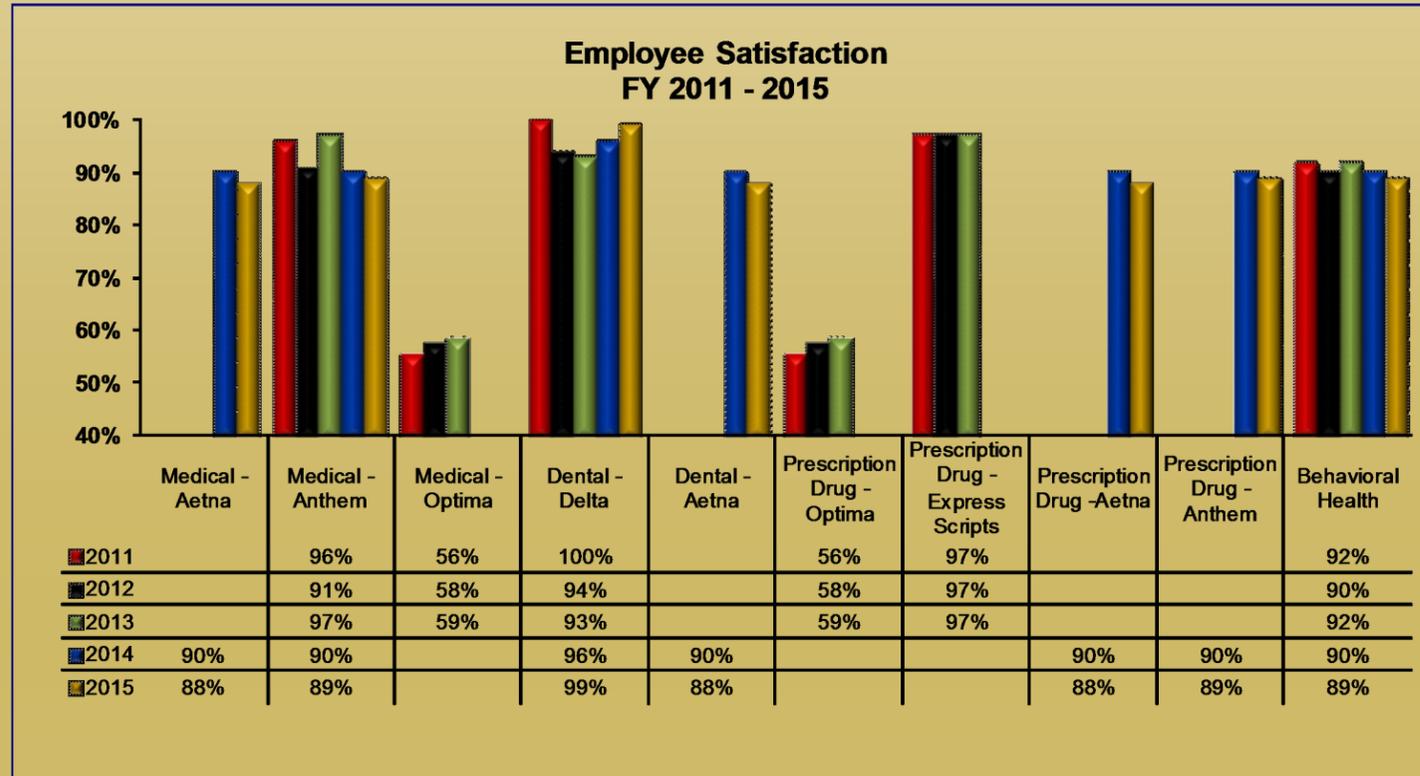
Premiums provided 99.9 percent of the health program's income, with the remainder coming from interest paid to the program. Claims payments represented 92 percent of expenses in 2015, with the other 8 percent the cost of contract administration, the employer reinsurance fee and other expenses related to the Affordable Care Act (ACA). Claims expense was augmented by \$9.8 million in incurred but not reported (IBNR) claims.

Cost containment measures combined with less than expected program expense led to program surpluses from 2005-2008. From FY 2009-2013, the program used its reserves to fund premium subsidies during difficult financial times. These funds, including required program reserves, were exhausted in FY 2013. In fiscal years 2014 and 2015, the program increased premiums to replenish reserves, and to fund Affordable Care Act (ACA) fees and required plan changes. A lower than expected increase in claims cost in 2014 favorably impacted program expenses, resulting in a continued surplus for the program, with the balance directed to pay for claim contingencies and to fund program reserves. The surplus in FY 2015 was due primarily to lower than expected utilization coupled with fewer member premium rewards.





Employee Satisfaction



Input from employees is essential for the health benefits program to measure its progress in improving both the quality and the effectiveness of covered services. Employee satisfaction is one of the Governor’s key performance measures for the Department of Human Resource Management. Employees’ level of satisfaction is measured through periodic surveys, with state employees rating specific aspects of their health care. Other measurements are from the administrator surveys for the health plans, which in 2015 included medical, prescription drug, and behavioral health services. Since the surveys are random, results may vary depending on which members are surveyed and the experience respondents have with their benefits.

The medical plan satisfaction results are from the standard Healthcare Effectiveness Data and Information Set (HEDIS®) 2015 Consumer Assessment of Healthcare Providers and Systems (CAHPS®) Adult Commercial Survey done in cooperation with the National Committee for Quality Assurance. Members surveyed are asked the question “using any number from 0 to 10, where 0 is the worst plan possible and 10 is the best plan possible, what number would you use to rate your health plan?”

Overall satisfaction with the health plan in FY 2015 decreased slightly to 89.5 percent from 90.3 percent in 2014, as members continue to adjust to health care initiatives and the consumer-driven health plan introduced in FY 2014. COVA Care’s dental benefits had the highest rating again in 2015, at 99 percent. Both the COVA Care and COVA HealthAware plans experienced a slight decline in employee satisfaction to 89 percent and 88 percent respectively, from 90 percent for both plans the previous year. DHRM is reviewing these results with Aetna and Anthem to identify and address the underlying causes of the reduced employee satisfaction rate.

On other survey questions, COVA Care received the highest scores on doctors’ communication with patients (97%), handling claims quickly and correctly (92%), and the ease of getting care (91%). COVA HealthAware scored above 90 percent on courteous treatment by customer service (96%), doctor communication (95%) and ease of getting care (91%).