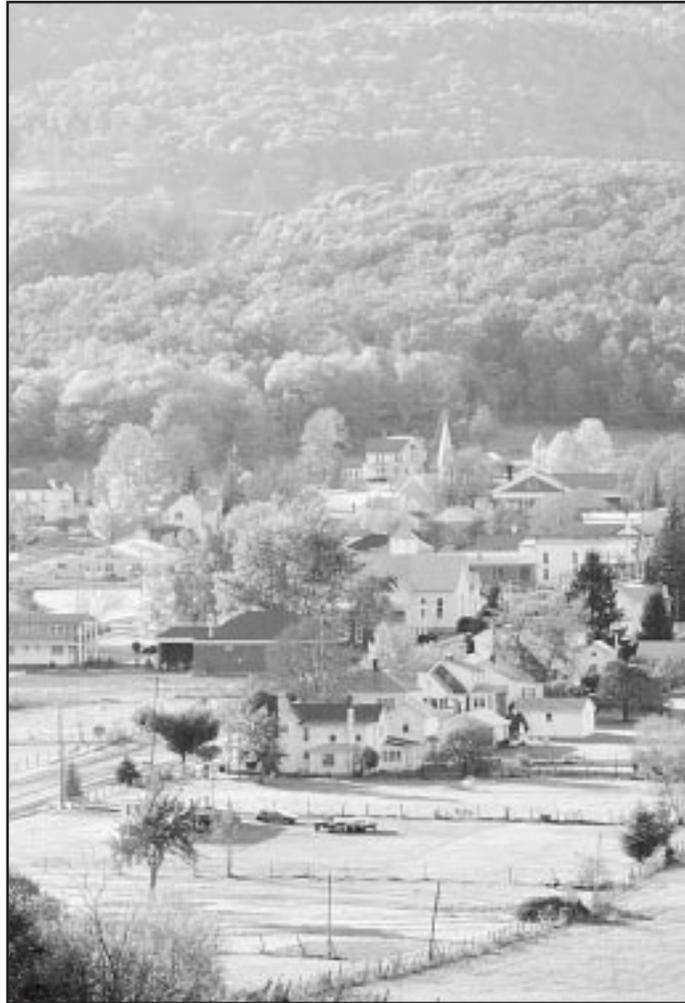


The Local Choice

Health Benefits Program



A n n u a l R e p o r t
July 1, 1998 through June 30, 1999

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Message From The Director

*Message From
The Director*

Fiscal year 1999 was a year of tremendous growth for The Local Choice Health Benefits Program. This year 17 new groups joined your program, increasing employee enrollment by 13.5%. Now in its ninth year, the program has proved its stability and value in an increasingly competitive environment.

The Local Choice program experienced an unexpected increase in utilization. Utilization outpaced the increase in membership in all areas, including inpatient, outpatient, and dental services. Prescription drug utilization showed the greatest increase—a situation that health care programs across the country are experiencing. We are examining the causes and possible strategies to help offset the inevitable cost increases that accompany greater utilization. We will continue to look for new ways to help you manage costs and keep premiums as stable as possible.

In the coming months, you will hear a great deal about the procurement results for The Local Choice program. We are confident you will find that the program continues to offer you a competitive choice for employee health benefits plans.

Thank you for your continued support of The Local Choice. Your participation is a vital component to assuring the growth and stability of the program.



Anthony C. Graziano
*Director, State and Local Choice
Health Benefits Programs*



Enrollment Results

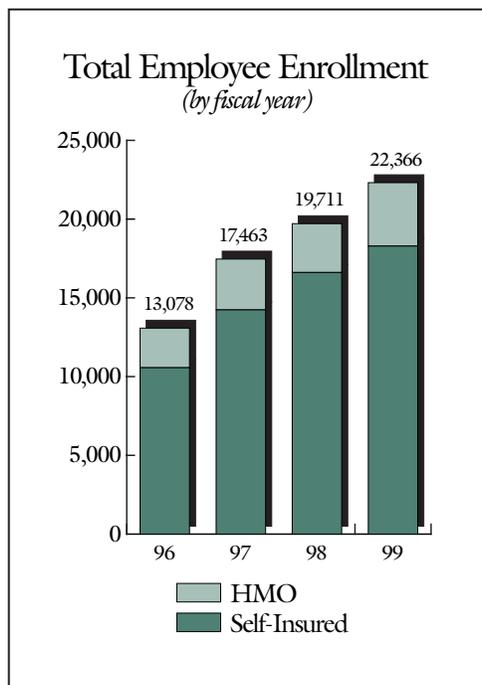
The Local Choice program continues to grow. Member group enrollment increased from 191 to 208. This represents a growth of 8.5%. While the majority of groups selected Key Advantage with Expanded Benefits, an increasing number are electing one of the Cost Alliance plans as an option for their employees. Growth in the two pools was led by the 50-299 pool with an increase of over 21% (12 groups) followed by the 1-49 pool with an increase of 5% (5 groups). The number of the 300+ self-insured groups did not change.

Employee enrollment, including the Medicare products, increased by 13.5% to 22,366. The chart below provides a

picture of how the program has grown over the past four years attesting to the value it brings to the localities.

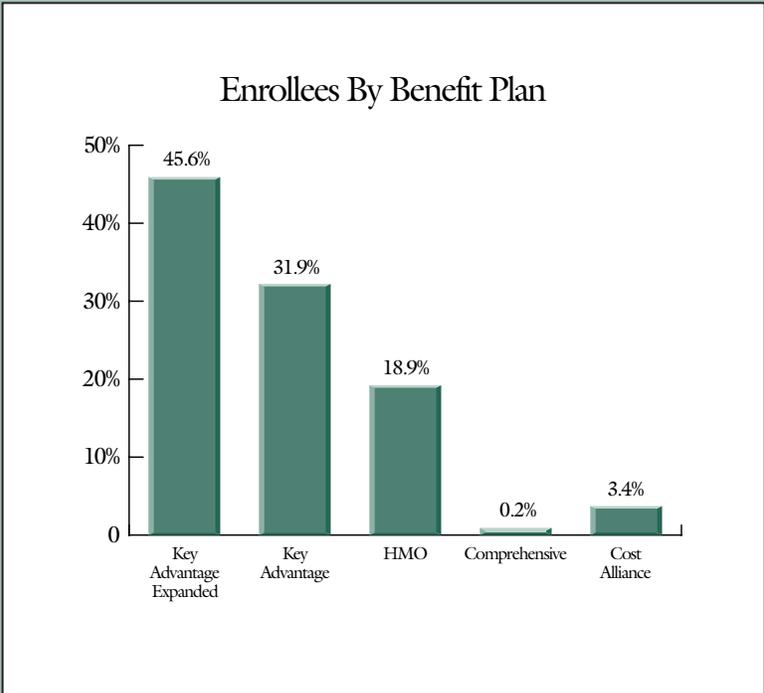
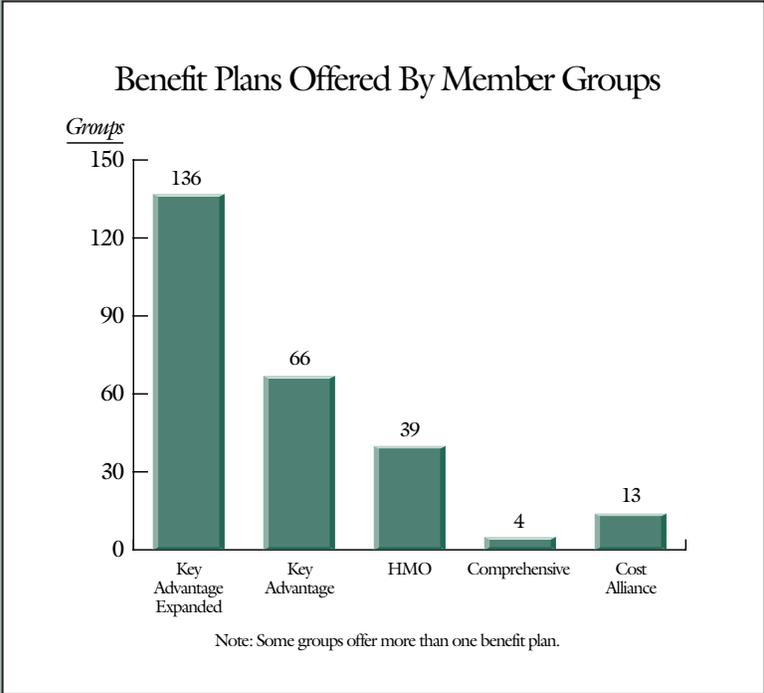
Although competition will be a growing force in the marketplace, the program's strong presence provides financial stability through competitive rates, quality benefit plans, and superior customer service. Low administrative costs, positive cash reserves, and value added benefits allow The Local Choice to compete effectively in this dynamic market.

The chart below illustrates the program's member group and employee enrollment growth over the past three years.



Enrollment By Benefit Plan

Benefit Plan



Utilization Results

Fiscal year 1999 saw Local Choice health care expenses increase to \$62,000,000, a 19% increase over Fiscal Year 1998. This is due to increased enrollment and utilization. Costs increased in all treatment settings led by outpatient prescription drugs and hospital outpatient services. The average number of covered persons (employees plus covered dependents) grew by 14% to 30,373 accounting for the increase in overall cost.

The cost per covered person is a good indicator of the true year-to-year shift in program expense. The cost per person for all treatment settings increased 5% to \$2,043.

Inpatient hospital expenses accounted for 26% of this year's expense, a 16% increase over the previous period. The admission rate and the length of stay increased, indicating a higher level of illness severity. However, even with a 7% higher admission rate, the cost per admission decreased 5%. The cost per covered person in this category increased 2%.

Inpatient physician expenses accounted for 6% of this year's expense, a 14% increase from the same period in 1998. Consistent with the higher admission rate and longer length of stay, the cost per covered person increased 1%.

Outpatient hospital expenses accounted for 21% of this year's expense, a 20% increase over the same period last year. The number of covered persons using this treatment setting increased by 9%. The cost per covered person increased 6% for outpatient hospital services.

Outpatient physician expenses accounted for 23% of total expenses, a 15% increase over the same period last year. This is a direct impact of the increased enrollment and above average utilization. The cost per covered person showed a marked reduction from the previous year with only a 2% increase.

Outpatient prescription drugs increased on a cost per covered person basis by 18%. Overall, prescription drug claims cost increased 35%, with over 300,000 claims processed. Fully 85% of these claims were for maintenance drugs prescribed for chronic disorders. Only 2% of these claims were purchased through the Mail Service program.

Outpatient dental costs increased by 13% due primarily to program growth. The cost per covered person dropped 1% over the previous year. The cost per covered service decreased 2%.

The charts that follow show claims expense, utilization by place of treatment, and an analysis of cost per covered person.

Self-Insured Statewide Self-Insured Statewide Products (Non-HMO) *Products Non-HMO*

Total Claims Expense – All Groups Combined

<u>Site Of Care</u>	<u>July 1997 to June 1998</u>	<u>July 1998 to June 1999</u>	<u>% Change</u>
Hospital Inpatient	\$13,748,150	\$15,984,709	16%
Hospital Outpatient	\$10,935,059	\$13,145,406	20%
Physician Inpatient	\$3,232,868	\$3,692,552	14%
Physician Outpatient	\$12,379,609	\$14,269,437	15%
Dental	\$3,325,581	\$3,772,224	13%
Physician Drug	\$347,169	\$413,905	19%
Pharmacy Drug	\$7,981,340	\$10,753,635	35%
Total	\$51,949,776	\$62,031,868	19%
Expense Per Employee	\$3,503	\$3,647	4%
Expense Per Covered Person*	\$1,947	\$2,043	5%
Average Number Of Employees	14,830	17,008	15%
Average Number Of Covered Persons*	26,685	30,373	14%

* Covered persons=employee plus covered dependents

Claims Expense Claims Expense By Pool *By Pool*

Total Claims Expense For The 1-49 Pool

This year the employee and covered person cost for medical, prescription drug, and dental benefits decreased by 3%. However, overall expenses, \$7.8 million, an increase of 7% were due to the increase in the number of covered persons with access to benefits. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 1997 to June 1998</i>	<i>July 1998 to June 1999</i>	<i>% Change</i>
Hospital Inpatient	\$2,301,404	\$2,065,278	-10%
Hospital Outpatient	\$1,497,915	\$1,654,392	10%
Physician Inpatient	\$467,541	\$428,949	-8%
Physician Outpatient	\$1,584,714	\$1,788,876	13%
Dental	\$444,973	\$496,624	12%
Physician Drug	\$18,394	\$29,489	60%
Pharmacy Drug	\$1,006,625	\$1,360,221	35%
Total	\$7,321,566	\$7,823,829	7%
Expense Per Employee	\$3,503	\$3,383	-3%
Expense Per Covered Person*	\$1,883	\$1,833	-3%
Average Number Of Employees	2,090	2,313	11%
Average Number Of Covered Persons*	3,888	4,269	10%

* Covered persons=employee plus covered dependents

Claims Expense Claims Expense By Pool *By Pool*

Total Claims Expense For The 50-299 Pool

*A*nnual expenses for this pool were \$30.8 million, a 24% increase over the previous year. This is due to a 19% increase in covered persons. With this significant change the cost per covered person only increased by 3%. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 1997 to June 1998</i>	<i>July 1998 to June 1999</i>	<i>% Change</i>
Hospital Inpatient	\$6,480,383	\$7,554,052	17%
Hospital Outpatient	\$5,600,098	\$7,102,682	27%
Physician Inpatient	\$1,493,799	\$1,790,285	20%
Physician Outpatient	\$5,835,262	\$7,040,054	21%
Dental	\$1,595,343	\$1,874,104	17%
Physician Drug	\$234,362	\$289,456	24%
Pharmacy Drug	\$3,685,208	\$5,152,979	40%
Total	\$24,924,455	\$30,803,612	24%
Expense Per Employee	\$3,509	\$3,565	2%
Expense Per Covered Person*	\$1,957	\$2,025	3%
Average Number Of Employees	7,104	8,640	22%
Average Number Of Covered Persons*	12,739	15,210	19%

* Covered persons=employee plus covered dependents

Key Indicators

Key Indicators – All Groups Combined

All Groups Combined

Utilization Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital</i>	<i>July 1997 to June 1998</i>	<i>July 1998 to June 1999</i>	<i>% Change</i>
Admissions Per 1,000	68.50	73.40	7%
Days Per 1,000	292.80	293.00	0%
Average Length Of Stay	4.27	3.99	-7%
Physician Services Per 1,000	525.50	562.00	7%
<i>Outpatient Hospital</i>			
Case Rate Per 1,000	940.00	1,025.60	9%
Physician Services Per 1,000	1,056.20	1,111.20	5%
<i>Doctor's Office</i>			
Physician Services Per 1,000	9,670.00	9,803.7	1%

Expense Indicators By Place Of Treatment

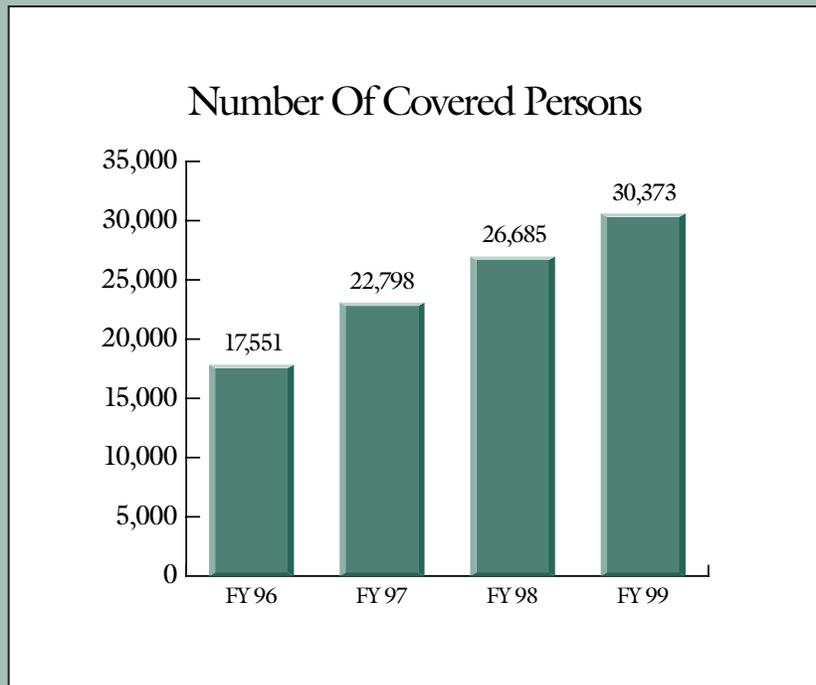
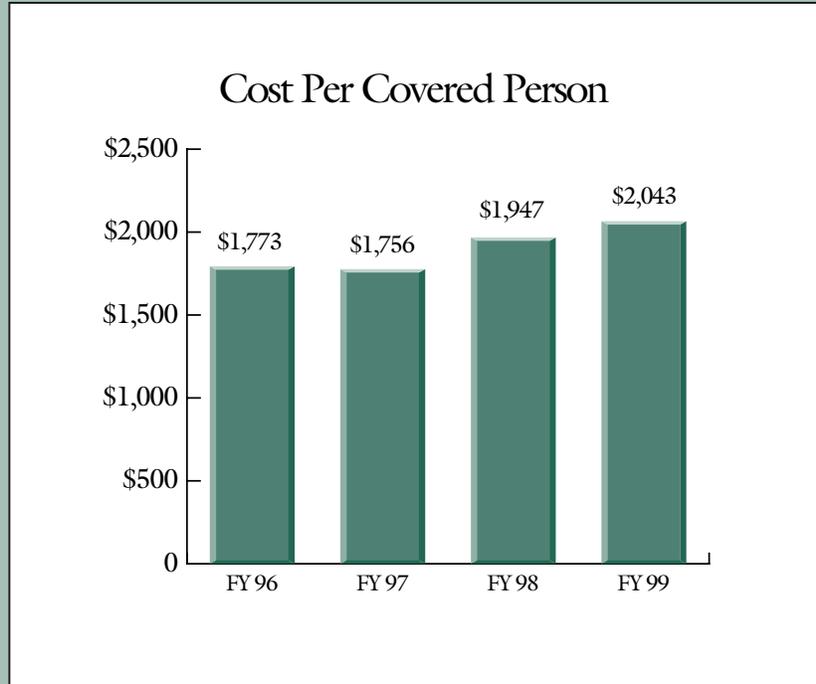
(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital Expenses</i>	<i>July 1997 to June 1998</i>	<i>July 1998 to June 1999</i>	<i>% Change</i>
Per Day	\$1,759	\$1,796	2%
Per Admission	\$7,521	\$7,174	-5%
Per Physician Service	\$231	\$216	-6%
Per Covered Person	\$636	\$648	2%
<i>Outpatient Hospital Expenses</i>			
Per Case	\$436	\$422	-3%
Per Physician Service	\$102	\$97	-4%
Per Covered Person	\$517	\$541	5%
<i>Doctor's Office Expenses</i>			
Per Physician Service	\$33	\$34	2%
Per Covered Person	\$322	\$333	3%

Individual Analysis – All Groups Combined

Individual Analysis

All Groups Combined



Financial Analysis

Financial Strength

The Local Choice continues to provide a strong financial base for its member groups. During this plan year the program continues to return excess reserves to member groups through its premium stabilization policies. The program also retained nearly \$5 million for future stabilization needs.

Cash Balance (<i>June 30, 1999</i>)	\$4,816,166
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Self-Insured Statewide Products

Annual premiums encompass all income including interest earned on reserves. Annual expenses include the cost of claims and administration, promotional materials, and the CommonHealth program. The analysis reflects the impact of returning excess reserves to member groups in the form of premium credits and a continued migration of enrollees to HMO offerings.

<i>Program Total</i>	<i>1998</i>	<i>1999</i>
Annual Premiums	\$54,089,485	\$64,419,458
Annual Expenses	\$61,419,232	\$72,038,294
Premiums Less Expenses	(\$7,329,747)	(\$7,618,836)
Operating Ratio	113.6%	111.8%

Fully Insured Health Maintenance Organizations (HMOs)

This contract year reflected growth in the number of employers and employees selecting HMO managed care products. The annual premiums collected by the HMOs are shown below.

<i>Annual Premiums</i>	<i>1998</i>	<i>1999</i>
Schools	\$5,265,178	\$5,573,588
Government	\$7,327,870	\$8,814,632
TOTAL	\$12,593,048	\$14,388,220

Value Added Benefits

Working For You

Advantages Inherent To Self-Insured Plans

Member groups gain financial protection through shared catastrophic claims. Spreading the cost of claims in excess of \$50,000 over the entire statewide program helps stabilize premiums and ease the financial burden of large catastrophic claims on any one member group.

Member groups also receive the benefit of low administrative costs which most localities could not achieve independently. It no longer matters what size an individual group may be. Administrative costs are based on the total number of groups participating in The Local Choice Program and the States employee group, allowing us to negotiate from a position of strength. Additionally, profit and risk cost normally associated with health care coverage is absent from the statewide Local Choice products.

- *Compliance with the Virginia Procurement Act.* The Local Choice program has been procured on your behalf under the Virginia Procurement Act to July 1, 2000. Member groups automatically save the time and expense of a separate procurement process when they join The Local Choice program.

- *Financial protection through shared claims experience.* All groups, regardless of size, share the benefit of pooling mental health, prescription drug, and dental costs over the entire Local Choice membership. This has a powerful stabilizing effect on premiums.

- *Lower administrative costs.* Administrative costs are based on the total number of groups participating in The Local Choice program. In addition, the program is able to take advantage of the Commonwealth of Virginia's substantial purchasing power, resulting in lower administrative costs.

- *CommonHealth wellness program.* The CommonHealth Wellness program was offered for a third year as a value-added benefit to Local Choice enrollees. In the 1999 fiscal year, 217 groups participated with more than 21,000 members. More than 5,600 individuals from 117 groups participated in the medical screening process. This participation figure represents 36% of the eligible population. Ninety-nine women enrolled in Baby Benefits, a slight increase over the previous year. Claims costs for program participants continue to be lower than non-participants, yielding a significant savings to the overall plan.

- *Effective training for local administrators.* Local administrators representing the member groups meet each year for special training. In addition, each local administrator is provided with a comprehensive, single-source administrative manual to help manage the program with ease.

For more information about The Local Choice program, contact:

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