

The Local Choice

*Health Benefits Program
July 1, 2000 through June 30, 2001*

Annual Report

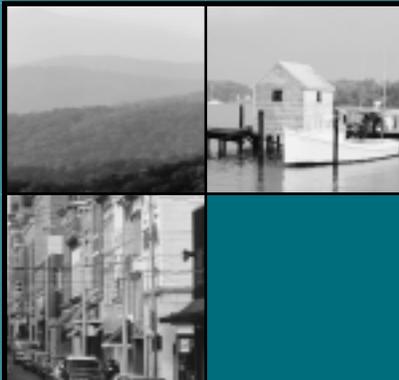


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Message From The Director

Since 1990 the mission of The Local Choice (TLC) has been to provide benefit plans that assist local governments and school jurisdictions to recruit and retain highly qualified employees. We strive to provide better than average benefits plans at reasonable cost to local employees while allowing them, whenever possible, a choice of plans that meet their specific family needs. During fiscal year 2000-2001, TLC provided coverage for over 35,000 local employees and family members.

Choice, strength and stability remain our primary objectives. During this plan year we recognized 103 groups that have been a part of TLC since its inception in 1990. We offered 13 different plan options to our groups with six Medicare program options and provided more than \$80,000,000 in plan benefits. Although our premium adjustments remain well below the industry average, we pledge to continue development of strategies to control the increasing cost of health care. TLC's position as a state government-endorsed program established for local governments allows for insight into the unique needs of our members.

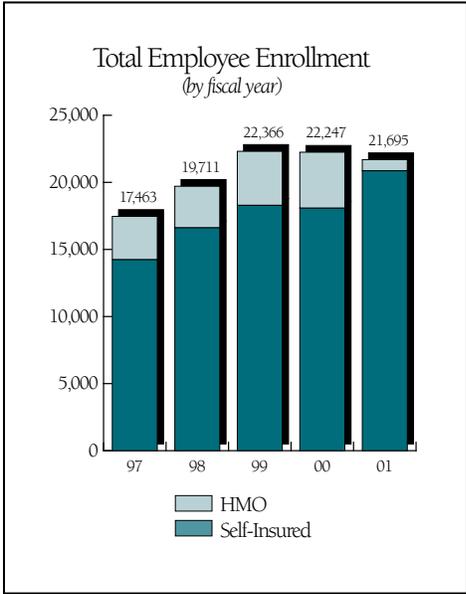


In an increasingly competitive health care environment, your commitment and support is vital to the effectiveness and success of TLC. As we complete 11 years of progress, we continue to offer you our thanks and on-going commitment to the mission and goals of The Local Choice.

Mary Habel
Director, State and Local
Health Benefits Programs

Enrollment Results

In fiscal year 2001, the Local Choice program membership decreased slightly from 213 member groups to 209, a decline of 2%. Although employee enrollment decreased slightly, total enrollment (employees and dependents) increased by more than 6,000. While the majority of groups selected Key Advantage with Expanded Benefits, an increasing number elected one of the Cost Alliance plans as an option for their employees. Membership in the 50-299 pool grew by 7% and the 300+ self-insured group had a 5% increase in enrollment. However, the 1-49 pool decreased by 15%.

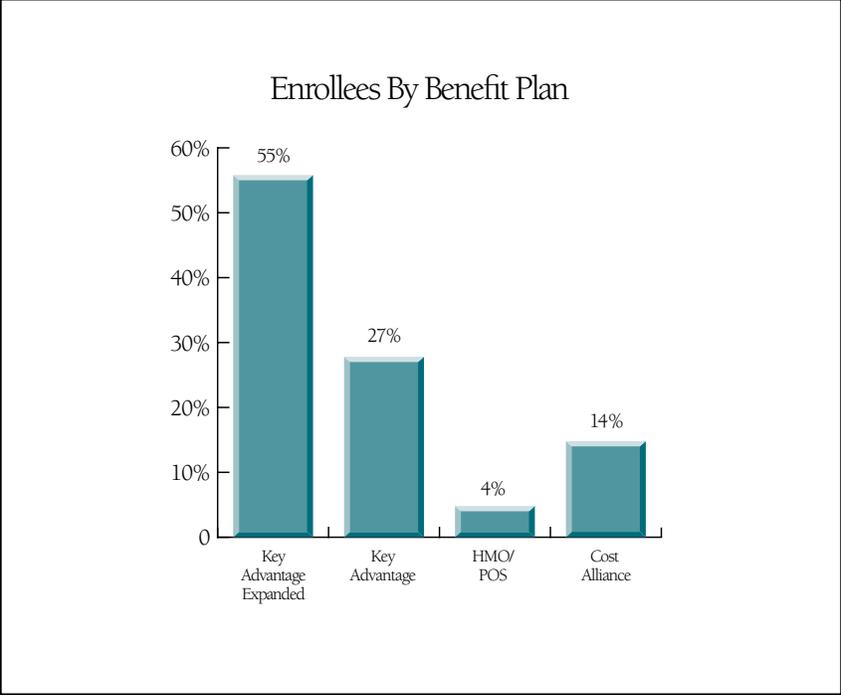
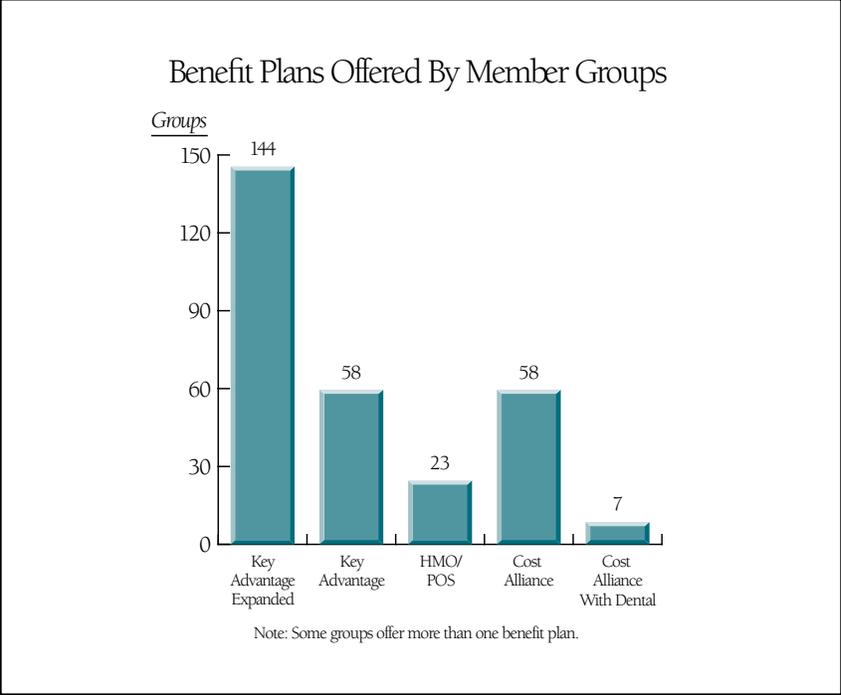


The chart shows total enrollment over the past five years.

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

The charts on the next page show which plans are being offered by member groups, and enrollment concentration by plan.

Enrollment By Benefit Plan



Utilization Results

Utilization figures in this report are based on self-funded plans only and do not include regional fully insured plans. Fiscal year 2001 saw Local Choice health care expenses increase to \$80.4 million, a 19% increase over fiscal year 2000. This is due primarily to increased utilization. Costs increased in several treatment settings led by hospital inpatient and outpatient prescription drugs. The average number of covered persons (employees plus covered dependents) increased 17% to 35,382.

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 1.0% to \$2,272.



Inpatient hospital expenses accounted for 25% of this year's expense, and were 20% higher than the previous year. The admission rate increased 7% but the length of stay decreased 12%, indicating increased transference to outpatient settings. The cost per admission decreased by 5%. The cost per member in this category increased by 2%.

Inpatient professional expenses increased by 23%. The cost per covered person increased 5%.

Outpatient hospital expenses accounted for 20% of this year's expense and increased by 27% from last year. The cost per case increased 4%. Cost per covered person rose 8%.

Outpatient professional expenses representing 27% of total expenses, increased 5% over the same period last year. This is a direct impact of the utilization. The cost per covered person declined 10% due to a 2% decrease in service rate and a 9% drop in cost per service.

Outpatient prescription drugs increased on a cost per covered person basis by 7%. Overall, prescription drug claims cost increased 26%, with 382,162 claims processed. Fully 86% of these claims were for maintenance drugs prescribed for chronic disorders. Approximately 3% of these claims were purchased through the Mail Service program, a 1% increase over last year.

Outpatient dental costs increased by 25%. The cost per service increased 7%, and the cost per covered person was up 7% over last year. Fully 99% of The Local Choice enrollees have dental coverage.

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

Self Insured Statewide Products (Non-HMO)

Total Claims Expense – All Groups Combined

<i>Site Of Care</i>	<i>July 1999 to June 2000</i>	<i>July 2000 to June 2001</i>	<i>% Change</i>
Hospital Inpatient	\$16,968,921	\$20,368,844	20%
Hospital Outpatient	\$12,865,563	\$16,285,008	27%
Physician Inpatient	\$3,535,541	\$4,342,068	23%
Outpatient Professional	\$17,521,305	\$18,482,424	5%
Dental	\$3,902,596	\$4,894,415	25%
Pharmacy Drug	\$12,737,928	\$16,010,091	26%
Total	\$67,531,854	\$80,382,850	19%
Expense Per Employee	\$3,984	\$4,093	3%
Expense Per Covered Person*	\$2,240	\$2,272	1%
Average Number Of Employees	16,951	19,637	16%
Average Number Of Covered Persons*	30,152	35,382	17%

* Covered persons=employee plus covered dependents

Claims Expense By Pool

Total Claims Expense For The 1-49 Pool

This year the cost for medical, prescription drug and dental benefits increased by 45% per employee and by 39% per covered person. However, overall expenses of \$8.9 million, an increase of 18%, were due to the increased utilization and cost for inpatient facility and professional services. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 1999 to June 2000</i>	<i>July 2000 to June 2001</i>	<i>% Change</i>
Hospital Inpatient	\$1,794,363	\$2,774,335	55%
Hospital Outpatient	\$1,410,243	\$1,769,744	25%
Physician Inpatient	\$345,261	\$506,786	47%
Outpatient Professional	\$1,804,360	\$1,784,818	-1%
Dental	\$535,036	\$453,904	-15%
Pharmacy Drug	\$1,652,852	1,638,906	-1%
Total	\$7,542,115	\$8,928,493	18%
Expense Per Employee	\$3,111	\$4,523	45%
Expense Per Covered Person*	\$1,728	\$2,405	39%
Average Number Of Employees	2,424	1,974	-19%
Average Number Of Covered Persons*	4,364	3,713	-15%

* Covered persons=employee plus covered dependents

Claims Expense By Pool

Total Claims Expense For The 50-299 Pool

Annual expenses for this pool were over \$36 million, an 18% increase over the previous year. Participation remained stable and increases are attributable to higher prescription drug costs.

<i>Site Of Care</i>	<i>July 1999 to June 2000</i>	<i>July 2000 to June 2001</i>	<i>% Change</i>
Hospital Inpatient	\$7,068,018	\$8,978,064	27%
Hospital Outpatient	\$6,068,696	\$7,745,758	28%
Physician Inpatient	\$1,611,982	\$1,940,197	20%
Outpatient Professional	\$7,774,488	\$8,452,998	9%
Dental	\$1,944,438	\$2,187,953	13%
Pharmacy Drug	\$6,264,726	\$6,967,844	11%
Total	\$30,732,348	\$36,272,814	18%
Expense Per Employee	\$3,550	\$3,908	10%
Expense Per Covered Person*	\$2,025	\$2,225	10%
Average Number Of Employees	8,656	9,282	7%
Average Number Of Covered Persons*	15,180	16,300	7%

* *Covered persons=employee plus covered dependents*

Key Indicators – All Groups Combined

Utilization Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

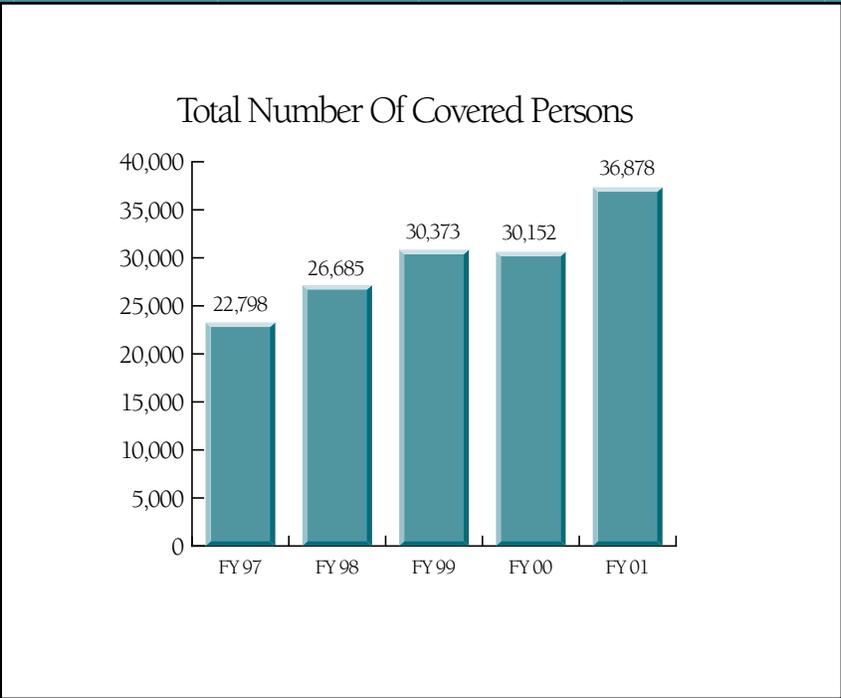
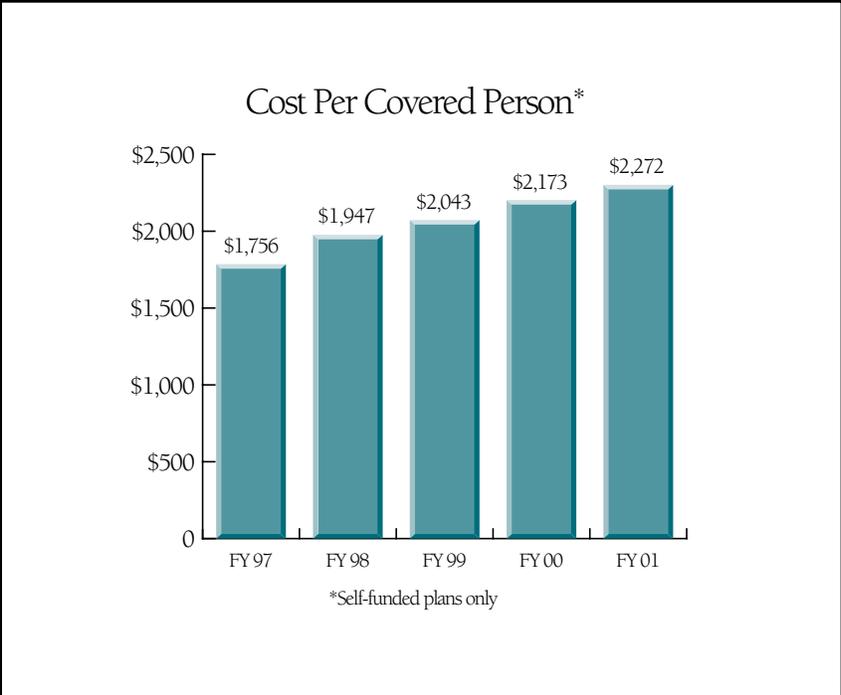
<i>Inpatient Hospital</i>	<i>July 1999 to June 2000</i>	<i>July 2000 to June 2001</i>	<i>% Change</i>
Admissions Per 1,000	72.40	77.60	7%
Days Per 1,000	293.60	275.30	-6%
Average Length Of Stay	4.05	3.55	-12%
Professional Services Per 1,000	537.80	548.80	2%
<i>Outpatient Facility</i>			
Case Rate Per 1,000	940.80	973.70	3%
<i>Outpatient Professional</i>			
Professional Services Per 1,000	11,628.40	11,439.80	-2%

Expense Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

<i>Inpatient Hospital Expenses</i>	<i>July 1999 to June 2000</i>	<i>July 2000 to June 2001</i>	<i>% Change</i>
Per Day	\$1,917	\$2,091	9%
Per Admission	\$7,773	\$7,420	-5%
Per Professional Service	\$218	\$224	3%
Per Member	\$680	\$699	3%
<i>Outpatient Facility</i>			
Per Case	\$454	\$473	4%
Per Member	\$427	\$460	8%
<i>Outpatient Professional</i>			
Per Professional Service	\$44	\$40	-9%
Per Member	\$515	\$462	-10%

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, 2001</i>)	\$7,893,626
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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>2000</i>	<i>2001</i>
Annual Premiums	\$72,667,829	\$87,951,613
Annual Expenses	\$76,384,494	\$94,696,816
Premiums Less Expenses	(\$3,716,665)	(\$6,745,203)
Operating Ratio	105.1%	107.7%

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>2000</i>	<i>2001</i>
Schools	\$6,976,461	\$1,355,717
Government	\$9,897,059	\$1,938,033
TOTAL	\$16,873,520	\$3,293,750

Value Added Benefits: Working For You

Advantages Inherent To Self-Insured Plans

Through sharing of catastrophic claims, member groups obtain important financial protection. Spreading the cost of claims in excess of \$50,000 over the program statewide helps stabilize premiums and eases the financial burden of large catastrophic claims on any particular member group. The groups also benefit from low administrative costs that could not be achieved by most localities independently.

The size of an individual member group is no longer relevant. The Local Choice is in a strong negotiating position because administrative costs are based on the total number of groups participating in the program and are combined with the Commonwealth of Virginia's employee group. Additionally, profit and risk cost normally associated with health care coverage is absent from the statewide Local Choice products.

- *Lower administrative costs.* The total number of groups participating in The Local Choice program determines administrative costs. Lower administrative costs are achieved because the program is able to take advantage of the Commonwealth's substantial purchasing power. Significant discounts are achieved through the program's large provider network.

- *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.

- *Performance guarantees.* Health plans offered under The Local Choice must meet minimum performance standards or face the prospect of monetary penalties. Our carriers are held accountable for claims payment accuracy and processing time and other measures of performance.

- *Employee Assistance Program services.* All health plan carriers participating in The Local Choice offer Employee Assistance Programs at no cost to enrollees. Confidential assessments, counseling, consultation and referral programs that address personal and work-related issues are provided. Up to four sessions are included in all health plans for mental health services, alcohol or drug abuse assessment, child or elder care, grief counseling, and legal or financial services.



- *CommonHealth wellness program.* The CommonHealth wellness program continues to add value to the benefits received by Local Choice enrollees. In the 2001 fiscal year, more than 1,900 individuals from 70 groups took part in our health assessment or medical screening process. This figure represents 38% of the eligible population. Participation in Baby Benefits was up 40%. Participation in CommonHealth continues to lower overall claims cost and helps the plan achieve significant savings.

- *Compliance with the Virginia Procurement Act.* The Local Choice program has been procured on your behalf under the Virginia Procurement Act. By joining The Local Choice program, member groups automatically save the time and expense of a separate procurement process.

For more information about The Local Choice program,
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