



The Local Choice

Health Benefits Program

Annual Report

July 1, 2002 through June 30, 2003

Message From The Director

Fourteen years ago, the General Assembly recognized the unique health coverage needs of Virginia's local jurisdictions by establishing The Local Choice (TLC) health benefits program for towns, cities, counties and school systems. Since that time, TLC has demonstrated a continuing commitment to cost effective and high quality health plans for a growing number of member groups. Our partnership with the Commonwealth of Virginia employee health benefits program gives us access to strategically negotiated vendor contracts, affording member groups exceptionally low administrative fees and a pooling advantage that cannot be duplicated by other health coverage providers or consortiums.

During fiscal year (FY) 2003, member group participation increased by 4% to more than 38,000 local employees and family members. Paid claims rose 13%, with almost \$103 million in plan benefits paid on behalf of 226 member groups. The primary cost drivers of inpatient and outpatient facility and professional expenses yielded a 9% increase in the cost per covered member, due at least in part to catastrophic claims experienced by a number of groups. While admission rates (up 1%) and average length of stay (up 3%) also contributed to the increase, lifestyle related claims continue to be a major factor in overall claim cost. Lifestyle related expenses accounted for fully 38% of total claims cost, with \$15 million of the total from heart disease claims alone.

On a more positive note, greater than anticipated savings have been realized by the implementation of the three-tier prescription drug program, resulting in a 5% per member and 1% overall *decrease* in the cost of outpatient prescription drugs. In addition, utilization of the mail service program showed a significant increase - 8% of total outpatient drug spending, up from 3.8% in the prior year.

The wide appeal of the CommonHealth wellness program (provided at no cost to member groups) continues to attract many TLC participants, with 40% of enrollees engaging in one or more CommonHealth activities. During FY 2003, the new Breaking Free from Tobacco smoking cessation program drew 198 participants, and Baby Benefits, the pre-natal program for at-risk mothers and infants, had 126 new enrollees.

Choice, strength and stability remain our primary objectives as we continue to offer quality programs to Virginia's local government and school employees. The success and effectiveness of the The Local Choice is due in large part to your commitment and support, and we look forward to your continued input as we complete another year of service to our members.

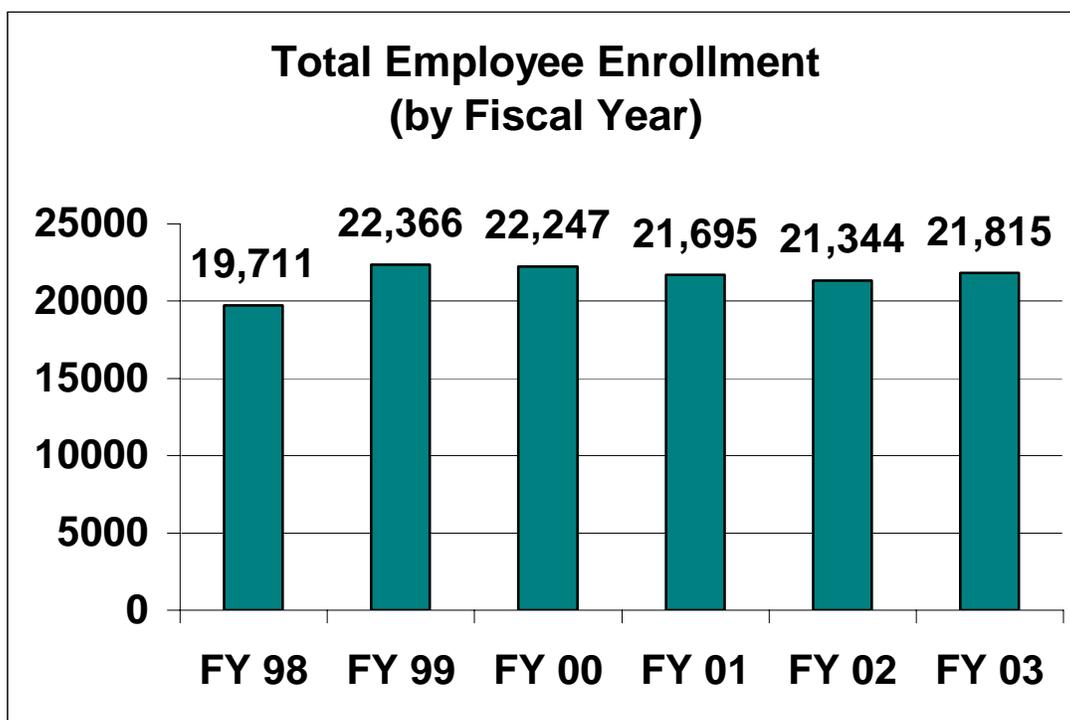
Mary P. Habel
Director, State and Local
Health Benefits Programs

Enrollment Results

In fiscal year 2003, The Local Choice total program membership increased over 4%, from 217 to 226 member groups. Total enrollment (employees and dependents) increased by 4%, with a 6% increase in the number of covered employees. The majority of groups continued to select Key Advantage with Expanded Benefits, but a growing number are electing Cost Alliance with Dental or Value Package products as cost-efficient options for their employees. Membership grew 5% in the 1-49 pool. The 50-299 pool experienced a 4% decrease and the 300+ self-insured classification had an 11% increase in enrollment.

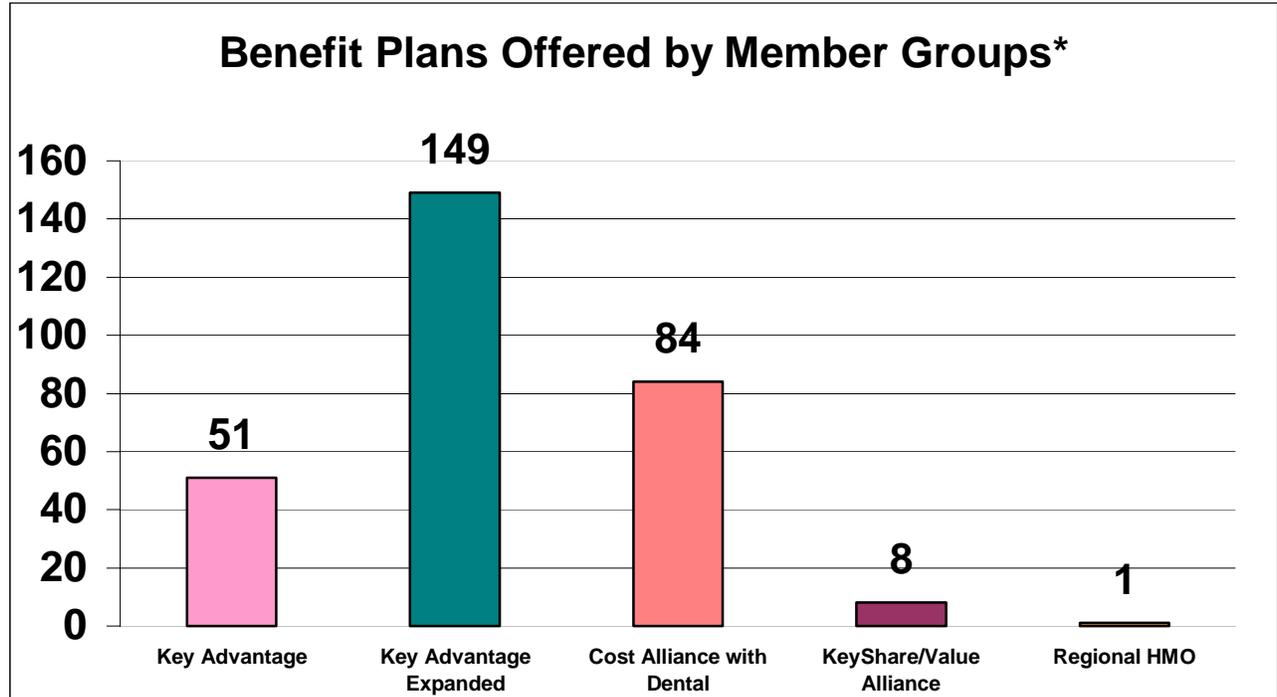
The chart below shows total enrollment over the past six years. In fiscal year 2003, 99% of TLC employees were in self-funded plans.

Low administrative costs, competitive trend estimates and value added benefits allow TLC to compete effectively in today's changing marketplace. TLC provides financial stability through competitive rates, quality benefit plans and superior customer service.

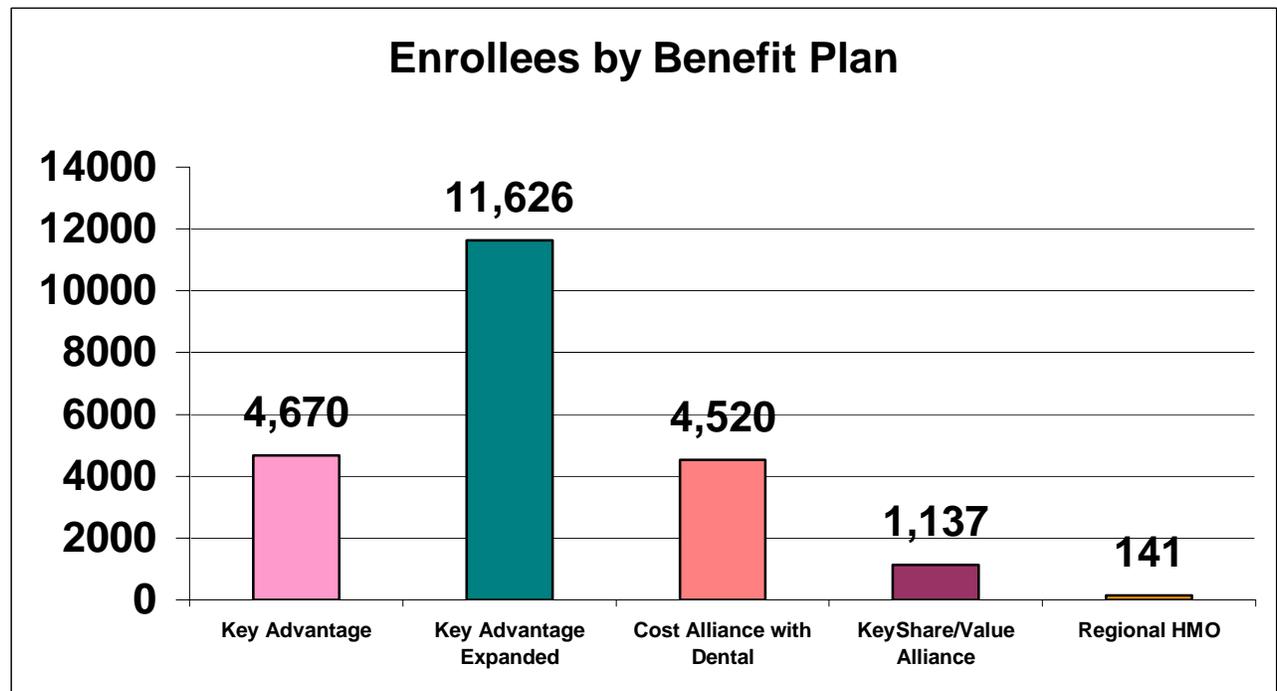


The charts on the next page show which plans member groups offer and the enrollment concentration by plan.

Enrollment By Benefit Plan



*Multiple plans may be offered, so totals are higher than the total number of groups



Utilization Results

Total 2003 self-funded paid claims were almost \$103 million, a 13% increase over FY 2002. Note that the comparative utilization figures in this report exclude regional fully insured plans and claims for Medicare eligible members. Increased utilization of medical services and medical inflation were the primary factors contributing to the increase in paid claims. Costs rose in several treatment settings, led by inpatient hospital and inpatient professional services. The average number of covered persons (employees plus covered dependents) also grew by 4% to 38,250.

The cost per covered person is a good indicator of the true year-to-year shift in program expense. For all treatment settings, the cost per person increased 9% in FY 2003 to \$2,691.

Inpatient hospital expenses accounted for 27% of this year's claims at \$27.6 million, and were 24% higher than the previous year. The admission rate was up 1% while the average length of stay grew by 3%. There was a 19% increase in the cost per admission.

The overall ***inpatient physician expense*** increased, boosting the cost per covered employee by 16%.

Outpatient facility expenses accounted for 21% of this year's expense and grew 13% over last year. The cost per case increased 9% while the cost per covered person rose 9%.

Outpatient professional expenses represented 24% of total expenses and were up 14% over the same period last year. The cost per covered person rose 9% due to increases in service rate and in cost per service.

Our implementation of the three-tier drug program led to a *decline in the cost of outpatient prescription drugs for 2003*. The cost per covered member dropped 5%, and overall prescription drug claims experienced a 1% decrease. Over 424,600 claims were processed. Approximately 8% of these claims were from Home Delivery Pharmacy Service prescriptions, up significantly from 3.8% in fiscal year 2002. Members purchased an average of 11.1 prescriptions during the plan year.

Dental costs rose 12% in fiscal year 2003 to almost \$6.2 million. The cost per service was up 6% and the cost per covered member increased 7% over last year. One hundred percent of TLC enrollees now have dental coverage.

The charts that follow show claims expense, prescription drug card group experience, utilization by place of treatment and an analysis of cost per covered person. Data is provided for the total program and individual pools.

SELF-INSURED STATEWIDE PRODUCTS (NON-HMO/POS)

Total Claims Expense – All Groups Combined

<i>Site Of Care</i>	<i>July 2001 to June 2002</i>	<i>July 2002 to June 2003</i>	<i>% Change</i>
Hospital Inpatient	\$22,243,066	\$27,639,967	24%
Hospital Outpatient	\$18,773,860	\$21,267,601	13%
Physician Inpatient	\$ 4,319,646	\$ 4,997,262	16%
Outpatient Professional	\$21,261,526	\$24,208,649	14%
Dental	\$ 5,525,919	\$ 6,186,542	12%
Pharmacy Drug	<u>\$18,845,782</u>	<u>\$18,624,104</u>	-1%
Total	\$90,969,799	\$102,924,125	13%
Expense Per Employee	\$4,435	\$ 4,749	7%
Expense Per Covered Person*	\$2,464	\$ 2,691	9%
Average Number Of Employees	20,513	21,474	6%
Average Number Of Covered Persons*	36,915	38,250	4%

*Covered persons=employee plus covered dependents

CLAIMS EXPENSE BY POOL

Total Claims Expense For The 1-49 Pool

Overall expenses in the 1-49 pool increased by 1% to almost \$10 million. This is a small increase over last fiscal year. The chart below provides key cost and utilization summaries for this market segment.

<i>Site Of Care</i>	<i>July 2001 to June 2002</i>	<i>July 2002 to June 2003</i>	<i>% Change</i>
Hospital Inpatient	\$2,955,972	\$2,949,027	0%
Hospital Outpatient	\$2,067,415	\$1,961,071	-5%
Physician Inpatient	\$ 490,155	\$ 534,291	19%
Outpatient Professional	\$2,051,619	\$2,197,811	7%
Dental	\$ 491,199	\$ 562,401	14%
Pharmacy Drug	<u>\$1,710,463</u>	<u>\$1,691,452</u>	-1%
Total	\$9,766,823	\$9,896,052	1%
Expense Per Employee	\$ 4,792	\$ 4,567	-5%
Expense Per Covered Person*	\$ 2,611	\$ 2,518	-4%
Average Number Of Employees	2,038	2,167	6%
Average Number Of Covered Persons*	3,741	3,930	5%

*Covered persons=employee plus covered dependents

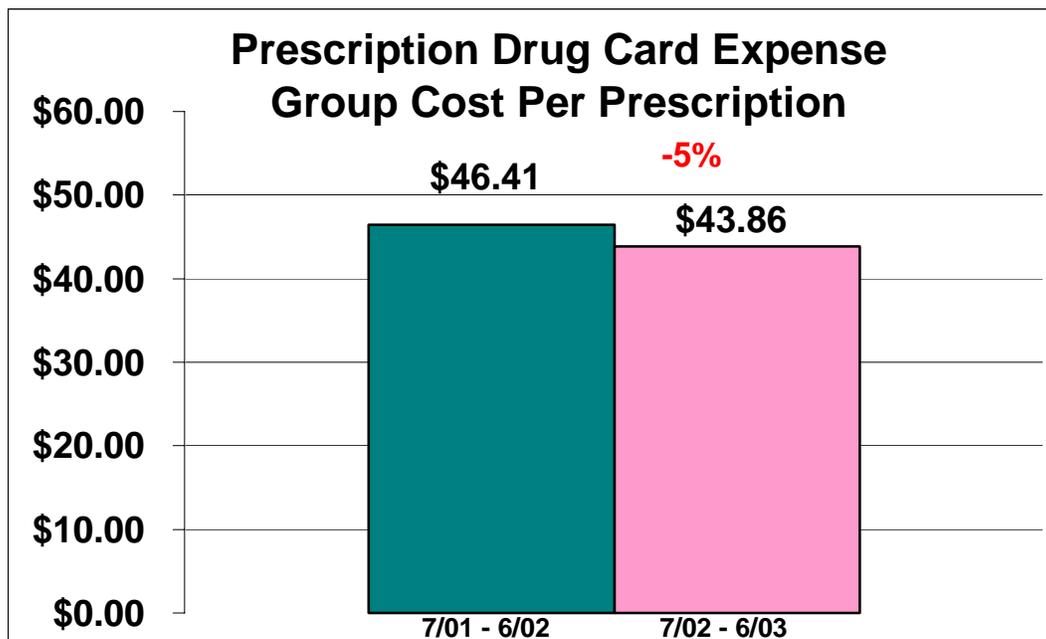
CLAIMS EXPENSE BY POOL

Total Claims Expense For The 50-299 Pool

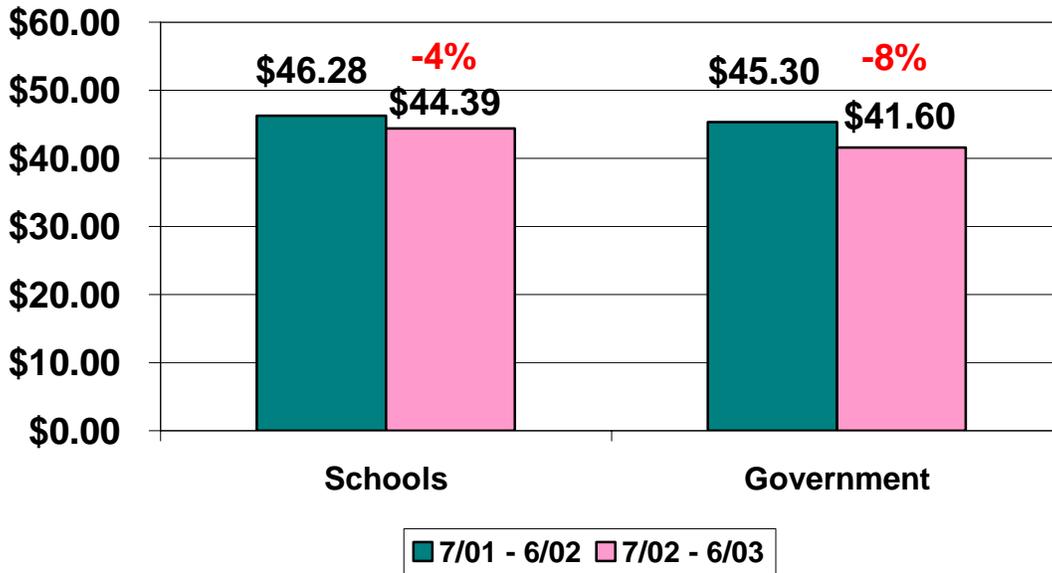
Annual expenses for this pool were more than \$45.5 million, a 10% increase over the previous year. Increases in Hospital Inpatient and Hospital Outpatient costs were the fastest increasing components of the pool while Pharmacy Drug declined.

<i>Site Of Care</i>	<i>July 2001 to June 2002</i>	<i>July 2002 to June 2003</i>	<i>% Change</i>
Hospital Inpatient	\$10,659,398	\$12,994,644	22%
Hospital Outpatient	\$ 8,740,401	\$ 9,881,846	13%
Physician Inpatient	\$ 1,973,287	\$ 2,151,025	9%
Outpatient Professional	\$ 9,415,613	\$10,340,770	10%
Dental	\$ 2,420,320	\$ 2,559,615	6%
Pharmacy Drug	\$ 8,234,645	\$ 7,591,735	-8%
Total	\$41,443,664	\$45,519,635	10%
Expense Per Employee	\$ 4,377	4,890	12%
Expense Per Covered Person*	\$ 2,476	2,818	14%
Average Number Of Employees	9,468	9,308	-2%
Average Number Of Covered Persons*	16,740	16,153	-4%

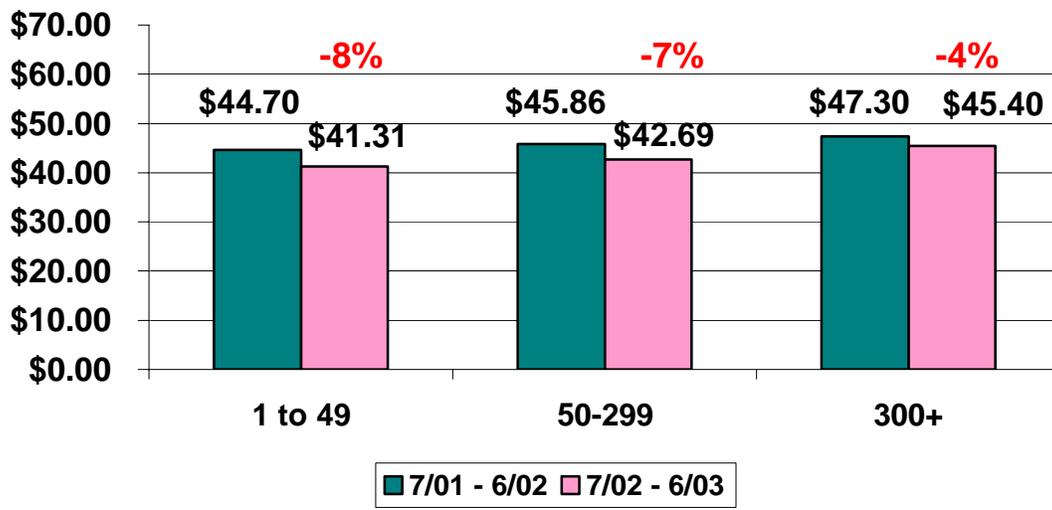
*Covered persons=employee plus covered dependents



Prescription Drug Cost Per Prescription Schools/Government



Prescription Drug Cost Per Prescription By Group Size



KEY INDICATORS – ALL GROUPS COMBINED

Utilization Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

	<i>July 2001 to June 2002</i>	<i>July 2002 to June 2003</i>	<i>% Change</i>
<u>Inpatient Hospital</u>			
Admissions Per 1,000	79.70	80.5	1%
Days Per 1,000	278.80	289.5	4%
Average Length Of Stay	3.50	3.59	3%
Professional Services Per 1,000	559.60*	596.7	7%
<u>Outpatient Facility</u>			
Case Rate Per 1,000	980.90	983.9	0%
<u>Outpatient Professional</u>			
Professional Services Per 1,000	12,096.2	12,452.3	3%

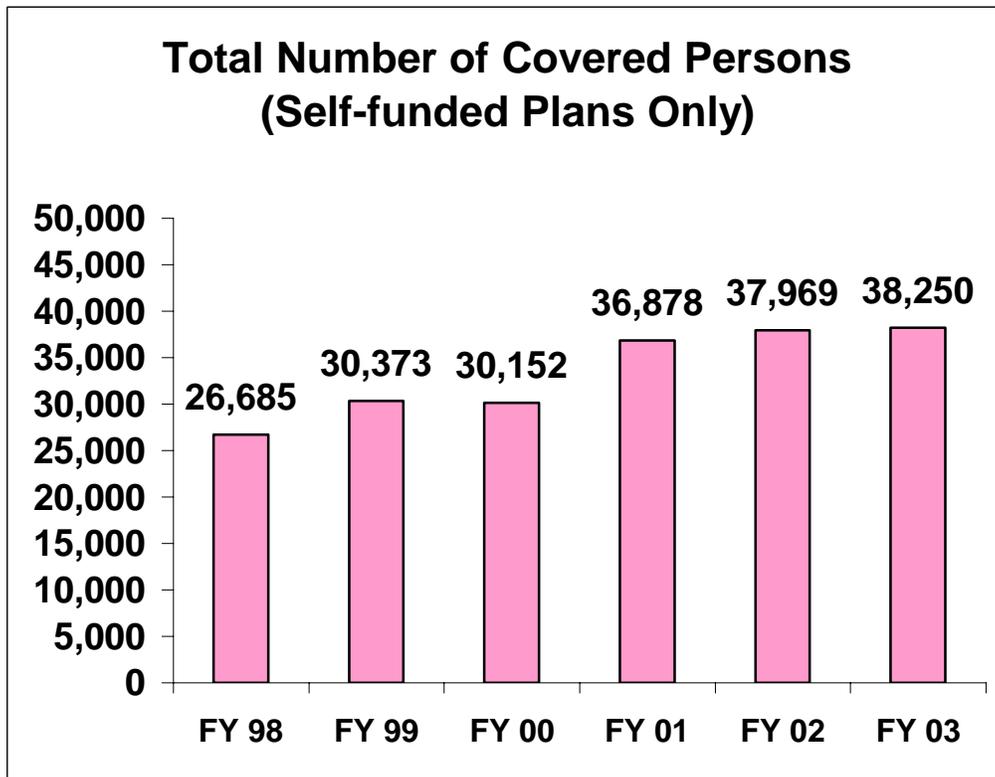
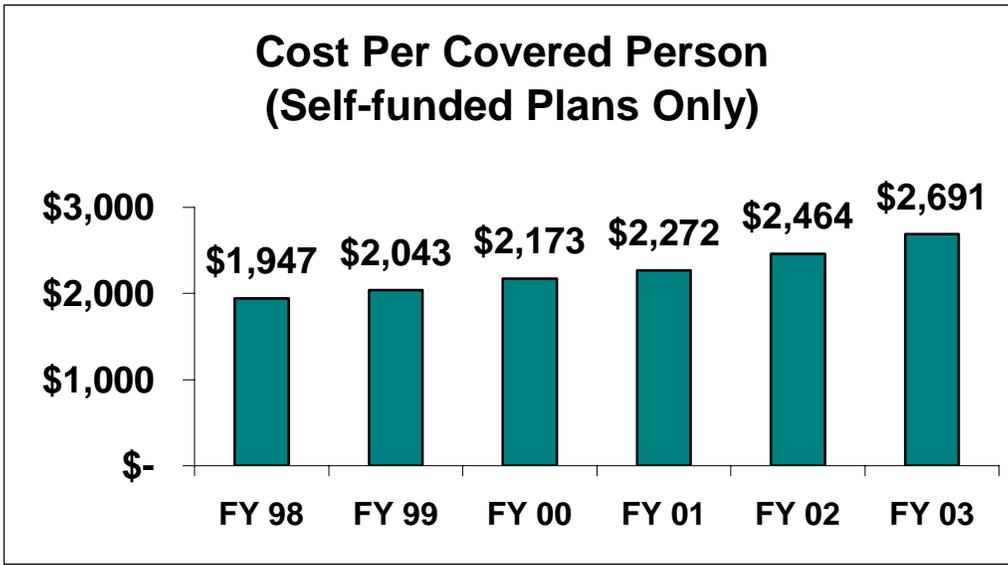
*A typographical error was discovered in the FY 2002 annual report. The chart above reflects the corrected information.

Expense Indicators By Place Of Treatment

(Excludes Mental Health And Substance Abuse)

	<i>July 2001 to June 2002</i>	<i>July 2002 to June 2003</i>	<i>% Change</i>
<u>Inpatient Hospital Expenses</u>			
Per Day	\$2,161	\$2,496	16%
Per Admission	\$7,561	\$8,971	19%
Per Professional Service	\$ 209	\$ 219	5%
Per Member	\$ 720	\$ 854	19 %
<u>Outpatient Facility</u>			
Per Case	\$ 518	\$ 565	9%
Per Member	\$ 509	\$ 556	9%
<u>Outpatient Professional</u>			
Per Professional Service	\$ 42	\$ 44	5%
Per Member	\$ 507	\$ 551	9%

INDIVIDUAL ANALYSIS - ALL GROUPS COMBINED



Financial Analysis

Financial Strength

The Local Choice continues to provide a strong financial base for its member groups. During FY2003, the program continued to return excess reserves to member groups through its premium stabilization policies. The Cash Balance figure listed below represents actual cash on hand as of June 30, 2003.

Cash Balance (<i>June 30, 2003</i>)	\$11,954,433
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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.

<i>Program Total</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Annual Premiums	\$87,951,613	\$ 99,903,248	\$118,320,791
Annual Expenses	\$94,696,816	\$102,176,549	\$110,654,123
Premiums Less Expenses	(\$6,745,203)	(\$ 2,273,301)	\$ 7,666,668
Operating Ratio	107.7%	102.3%	93.5%

Fully Insured Regional Health Plan

The annual premiums collected by the Regional Health Plan are shown below. Since this is a fully insured product, paid claims are not a part of the self-funded plan accounting and are not listed. Since the number of Regional Health plan options decreased in FY 2003, fewer employers and employees selected this plan category (fully insured HMO/POS products). New group participation in the Regional Health Plan accounts for the increase in Government Regional Health Plan premiums.

<i>Annual Premiums</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Schools	\$1,355,717	\$1,749,419	\$ 214,202
Government	\$1,938,033	\$1,165,881	\$3,017,629
Total	\$3,293,750	\$2,915,300	\$3,231,831

TLC PROVIDES MANY VALUE ADDED BENEFITS

The self-insured plans offered through The Local Choice (TLC) provide financial protection, stable premiums and low administrative costs since administrative costs and major catastrophic claims are spread throughout the entire program. In the process, there is less of a financial hardship on any specific member group for large catastrophic claims. The program negotiates from a position of strength since administrative costs are based not only on the total number of participating groups but are combined with the Commonwealth of Virginia's (COVA) employee health benefits program. In addition, profit margins and commissions usually associated with other group health care coverage are eliminated. A closer look at the advantages of TLC shows:

- *Administrative costs* are determined by the total number of groups participating in TLC program combined with the COVA program. This achieves lower administrative expenses through substantial purchasing power. Significant discounts are also obtained through the program's provider network contracts.
- *Financial protection through shared claims experience* is possible since all current groups, regardless of size, share the advantage of mental health, prescription drug, and dental cost pooling over the entire TLC membership. The result is a powerful stabilizing effect on premiums.
- *Minimum performance standards must be met* by all health plans and claims administrators offered under TLC. If established standards are not met, our contractors face strong monetary penalties. Our carriers and administrators are held accountable for claims payment accuracy, processing time, and other measures of performance.
- *Member groups save the time and expense of separately procuring health coverage.* TLC is procured under and complies with the Virginia Public Procurement Act. TLC regularly re-procures the entire program, eliminating group procurement requirements.
- *Employee Assistance Program services are available at no cost* to all TLC participants and their families. Confidential assessments, counseling, consultation and referral programs that address personal and work-related issues are provided. Up to four sessions per incident are included in all plans at no cost to the member.
- *The CommonHealth wellness program has wide appeal* to member groups, with 92% (214) of the TLC groups and sub-groups participating in the annual health education program. CommonHealth adds value by reducing overall claims cost and providing significant plan savings. A total of 9,002 TLC enrollees participated in FY 2003, representing 40% of TLC enrollment. During the year, 4,290 individuals from 81 groups took part in the health assessment and medical screening service. There were 198 enrollments in a new tobacco cessation program, Breaking Free from Tobacco, which provides support for the decision to quit as well as a free 8-week supply of nicotine patches or gum. The *Baby Benefits* program had 126 new enrollees. All TLC members are eligible to participate in CommonHealth.
- *Anthem's Better Prepared program* is designed to help individuals better understand and manage four important medical conditions: asthma, diabetes, coronary artery disease and congestive heart failure. This voluntary, confidential program is available at no charge to all self-funded plan members. Enrolled members receive educational materials as well as 24-hour access to registered nurses who work with the member's physician to coordinate a plan of care.