

THE LOCAL CHOICE

2006 Annual Report

Statewide Self-Insured Products

Introduction

The 2006 The Local Choice (TLC) Annual Report is based on the claims experience of the entire TLC medical program. It is intended to outline:

- Where our health care dollars were spent over the review periods, and
- How our experience compared to other similar groups and the average of all groups covered by Anthem Blue Cross and Blue Shield (Anthem).

The report is based on two years of paid medical claims data for our group, (the prior period of July 2004 through June 2005 and the current period of July 2005 through June 2006), and reflects paid claims during this period. Comparisons of overall year to year total expense have been made within the report in order to show the impact to our group's health care expense for this time frame. The normative values in the tables represent Anthem's combined product averages for the period ending June 2006.

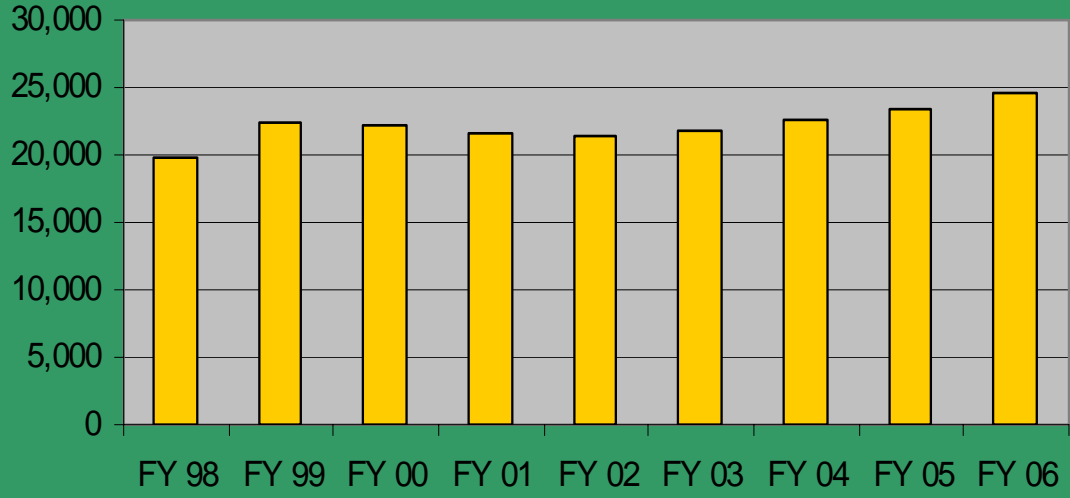
Enrollment Results

We are pleased that our membership and enrollment continue to expand each year. Although the number of total TLC groups remained relatively constant, the program continues to grow and prosper.

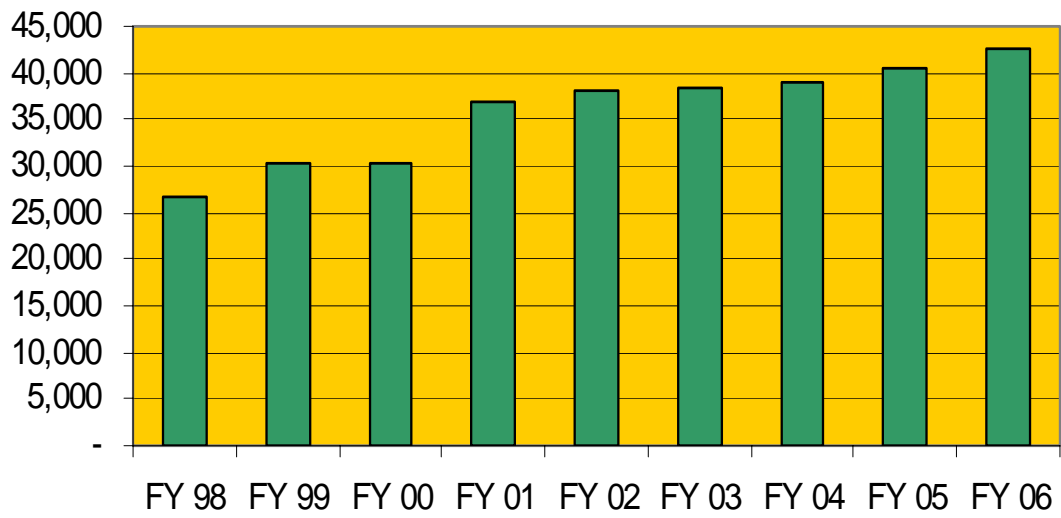
Average enrollment increased 5% to 24,516 employees during the current year. The average employee was 45 years old. The sex make-up of the covered employees was 40% male and 60% female. Sixty-one percent of members elect single coverage, 21% employee plus one and 18% have family coverage.

Total enrollment grew 5% from 40,452 to 42,497 with an average age of 37 years. Total membership was 44% male and 56% female. Both groups are slightly older than the typical commercial Anthem group of similar size. The following charts document the participant growth in the program.

2006 TLC Employee Enrollment



2006 TLC Total Enrollment



Health Care Program Review

All Pools Combined

- During the current period total expenses (excluding pharmacy) increased 8% from \$100 million in the prior period up to \$109 million in the current period. All treatment settings experienced a rise in expense with the outpatient facility setting experiencing the largest increase. Since Anthem no longer provides outpatient prescription coverage, pharmacy expenses have been carved out of the total expense to offer an accurate picture of the change in expense from year to year.
- Expense in the inpatient facility setting increased by a modest 2% up to \$35 million. This was influenced by the 8% decrease in inpatient expenses resulting from catastrophic cases.
- Although each pool has a different attachment point for catastrophic status, we use claims in excess of \$85,000 in this report. Catastrophic cases represented 16% of the total medical expense, 2% lower than the 18% in the prior year. In terms of volume during the current review period, 110 patients met the \$85,000 threshold in medical expense. When comparing raw dollars, this year's plan averaged \$18.0 million in catastrophic medical expense. The top three catastrophic claimants were premature infants incurring over \$668,000, \$474,000 and \$458,000 respectively in total medical expense.
- The plan registered fewer catastrophic admissions with fewer inpatient days when compared to last year. Catastrophic related expense represented 31% of overall expense in the inpatient facility setting. The following chart shows year to year expense along with the percent changes in each treatment setting.

The Local Choice Medical Expense from Year to Year

Period: 7/2005 - 6/2006	Prior Year	Current Year	% Change
Inpatient Facility	\$34,572,908	\$35,092,261	+2%
Outpatient Facility	\$26,677,529	\$30,673,397	+15%
Inpatient Professional	\$6,067,229	\$6,693,750	+10%
Outpatient Professional	\$32,914,696	\$36,980,844	+12%
Total Medical Expense	\$100,232,363	\$109,440,252	+8%

- The outpatient facility site of care witnessed a 10% increase in the cost per member since utilization increased 5% while the cost per service increased 10% from year to year. Diagnostic testing and screening services were cost drivers in the outpatient facility setting. Symptoms/ill defined conditions accounted for 15% of outpatient facility expense and accounted for 10% of our total medical expense. The outpatient professional setting witnessed a 7% rise in the cost per member due to a rise in costs associated with office visits, consultations, home health care, and diagnostic testing.
- Preventive medicine is the branch of medicine concerned with preventing the occurrence of both mental and physical illness and disease. Coronary artery disease ranked highest of all medical conditions manageable through preventive medicine. Diabetes, breast cancer, hypertension and cerebrovascular disease ranked second through fifth in order of expense.
- The chronic medical conditions of diabetes, hypertension, asthma, rheumatoid arthritis and chronic respiratory disease exist within our covered population. Each of these conditions will generate long-term medical expense.

Inpatient Experience

- Inpatient facility expense increased 2% from \$34.5 million in the prior year to \$35.0 million in the current year and represented 32% of overall expense. In the inpatient facility setting 31% of expense was catastrophic related in the current review period. This year, the top catastrophic claimant in the inpatient facility setting was a premature infant with \$596,784 in expense incurred during one admission which lasted 125 days.
- Our admission rate decreased 6% to 81.6 from year to year and was 18% higher than average. The inpatient day's rate decreased 12% since there were fewer days, on average, per admission. The days rate was 6% higher than average since surgical and obstetrical admissions involved more days than the normative average. The average length of each admission decreased 7% to 3.66 days in the current period and was 10% below average.
- During the current year the average cost per day increased 10% to \$2,767; 24% higher than the average. The 10% increase in the cost per day, offset by the 7% decrease in the average length of stay, resulted in a 3% increase in the cost per admission. In the current year, inpatient cost per member decreased 3% to \$826 per member.
- Since 56% of our members are female, we are at a higher than average risk for premature births. Pregnancy represented 11% of inpatient admissions during the current year partly due to the high number of female members and the relatively young age of our group (the average age of our members was 37). Out of the total pregnancy expense incurred by our female members, complications represented 60% of pregnancy related expenses. When reviewing the top 10 catastrophic claimants, there were 5 pre-mature births that totaled almost \$2 million in inpatient facility expense during a total of 17 admissions that lasted a combined 473 days.
- Of the current period's inpatient facility expense, circulatory conditions (\$7.7 million) created the highest level of expense, representing 22% of inpatient facility expense; a level higher than the 21% averaged by other large groups. The other top conditions in the inpatient facility setting ranked by expense were neoplasm (cancer) at 10% of total and musculoskeletal at 9%.
- During the current period, inpatient professional expense increased 10% to \$6.6 million. The inpatient professional service rate decreased 3% to 688.0. The service rate was 7% above the 645.6 average. The cost per inpatient professional service increased 8% to \$229 per

service. The higher than average expense was mainly due to elevated costs associated with maternity care, evaluation/management services and miscellaneous services.

- A 2% increase in the number of services combined with an 8% increase in the cost per service resulted in a 5% increase in the cost per member.
- When reviewing total medical utilization in the inpatient professional setting, the top diagnostic category for the current year was pregnancy (\$1.3 million). This was attributed to the fact that pregnancy admissions represented the largest number of inpatient stays during the current year. The other top diagnostic categories ranked by expense were musculoskeletal conditions (\$873,386), circulatory conditions (\$831,083) and neoplasm (\$643,638).

Outpatient Experience

- Outpatient facility expense increased 15% to \$30.6 million during the current year. The number of total outpatient facility cases registered at 47,349 in the current year; a 5% increase from the 45,317 cases in the prior year. Our outpatient facility case rate remained stable from the prior year at 1,114.2 and was 14% higher than the 974.8 average. The utilization in this setting was mainly in the areas of, therapy, obstetrical and medical services.
- During the current year the annual cost per case increased 10% to \$648 and was 6% higher than the \$609 average. The increase in the cost per case was influenced by higher costs associated with surgeries, medical and obstetrical services. Since neoplasm (cancer) was the second highest diagnostic category in this setting, chemotherapy was also a significant cost driver in the outpatient facility. The cost per member increased 10% from the prior year to \$722 and was 22% above average.
- When reviewing medical utilization in the outpatient facility setting by diagnostic category symptoms/ill-defined conditions (\$4.6 million) created the highest level of expense. This diagnostic category includes all types of rule out care prior to a diagnosis being made. The three other top categories in the outpatient facility setting were neoplasm (\$3.7 million), genitourinary conditions (\$3.6 million), and musculoskeletal conditions (\$3.5 million).
- Outpatient professional expense increased 12% to \$36.9 million in the current period. The actual number of services increased 14% from year to year to 733,990 services. The service rate increased by 8% to 17,271.6, which equates to each member receiving about 17 services during the year. The service rate was 14% above the Anthem average of 15.10 services per year. The increase in utilization in this setting was primarily due to an increase in screening services, diagnostic testing in a facility setting and lab/x-rays, medicine services (i.e. cardiovascular care, chemotherapy, physical therapy) in the office setting and home health care.
- Our average cost per outpatient professional service dropped 1% to \$50.00 per service primarily due to lower costs in the doctor's office. The average cost per service was 3% higher than Anthem's average. During the current period the annual cost per member for outpatient professional care totaled \$814, a 12% increase from year to year, and 11% higher than the Anthem norm.
- For the current period members incurred 352,117 encounters with professional providers, 66% occurred in a specialist's office. For purposes of this report, an encounter is classified as a visit with a unique

professional provider. The average cost per encounter in the primary care provider's office was \$73, while the average cost per specialist encounter was \$122. Four of the top 20 specialty providers were hematology/oncology treatment since cancer was our third highest diagnostic category in the outpatient professional site of care.

Financial Summary

The Local Choice continues to provide a strong financial base for its member groups. During FY 2005, 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, 2006.

Cash Balance (*June 30, 2006*) \$ 45,404,951

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. Participation in the statewide self-funded products continues to increase.

<i>Program Total</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Annual Premiums	\$137,526,773	\$157,945,401	\$186,024,786
Annual Expenses	<u>\$131,157,793</u>	<u>\$155,771,036</u>	<u>\$166,066,550</u>
Premiums Less Expenses	\$ 6,368,980	\$ 2,174,365	\$ 20,818,236
Operating Ratio	95.4%	98.6%	88.8%

Fully Insured Regional Health Plans

The annual premium collected by the Regional Health Plan is 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.

<i>Annual Premiums</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Government & Schools	\$904,284	\$1,105,118	\$1,667,041

SUMMARY OBSERVATIONS

- The current level of expense within the chronic and manageable medical conditions suggests the need for programs to support healthy lifestyles. Without proper medical management, chronic conditions can result in catastrophic claims. Individual patient participation in the management of their own health and health care is vital to obtain quality treatment outcomes. As our covered population ages, we may see expenses associated with chronic disorders increase. Diabetes, hypertension, asthma chronic respiratory diseases already exist within the population. Since these and many other chronic and manageable disorders develop over time, we should encourage awareness regarding manageable medical conditions. Active participation and involvement on the part of the covered members and support from the local group's management is needed to effectively manage personal health.
- We encourage our groups to continue the promotion of Anthem's Disease Management program, Better PreparedSM, to employees and their families in order to help alleviate some of the long term expense of chronic conditions. Controlling chronic conditions is the best way to reduce overall expense. This program is particularly important for our group as two of the four conditions that are targeted by the Better PreparedSM program are found in high volume within our group's experience. Diabetes ranks second in terms of total expense for those conditions deemed manageable through preventative medicine and diabetes ranks first on the chronic disease report. Through the promotion of the Better PreparedSM program, employees and their family members will be able to make well-informed decisions regarding the potential benefits of the program to them personally. There are both short and long term benefits to participants that monitor and manage their chronic health conditions.
- Pregnancy represented the third highest number of inpatient admissions. Since 56% of our membership is female we are at a higher risk for catastrophic claims expense related to premature births. When reviewing the top 10 catastrophic claimants, there were 5 pre-mature births that incurred almost \$2 million in inpatient facility expense during a total of 17 admissions that lasted 473 days. Our local employers should continue promoting the Baby Benefits program which further educates expectant mothers about pre-natal care and the warning signs of pre-term labor to reduce the risk of premature births.
- Cancer (neoplasm) was our third highest diagnostic category and had a significant impact on the outpatient settings since chemotherapy is typically administered on an outpatient basis. Expenses associated with cancer increased 11% during the current year and breast cancer was our third highest medical condition that is manageable through preventive medicine. Our groups should continue to promote routine screenings such as mammograms and prostate testing to reduce risk from preventable diseases.