

THE LOCAL CHOICE

2007 Annual Report

Statewide Self-Insured Products

Introduction

The 2007 The Local Choice (TLC) Annual Report is based on two years of paid medical claims data for the period of July 2005 through June 2006 and the current period of July 2006 through June 2007, 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 represent Anthem's combined product averages for the period ending June 2007.

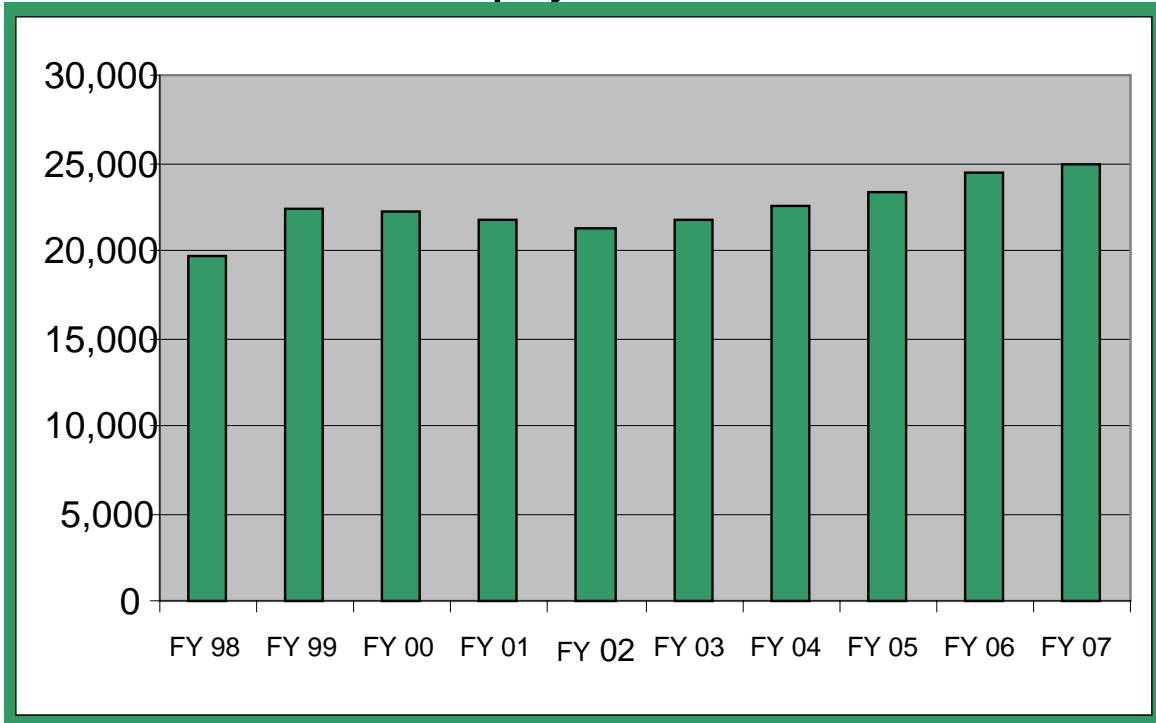
The annual report is based on the claims experience of the entire TLC medical program. It is intended to outline:

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

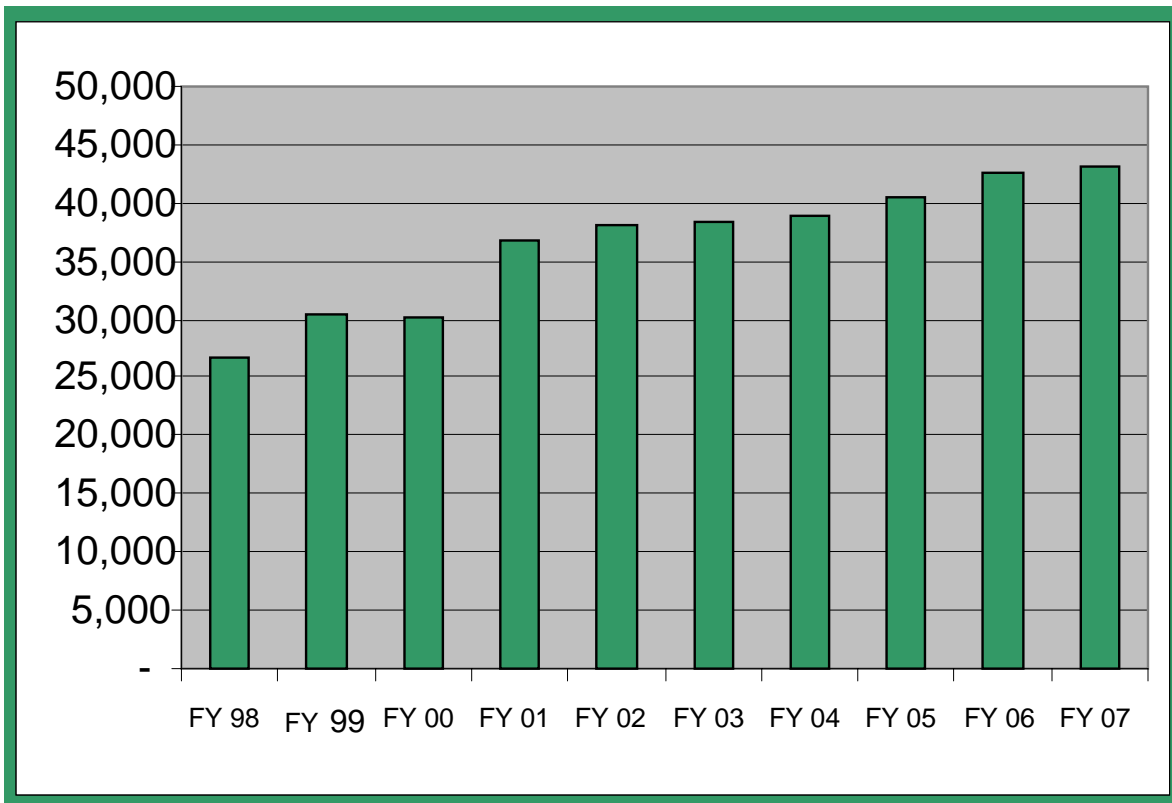
Enrollment Results

- Our average enrollment increased by 2% to 24,971 employees during the current year. The current period's enrollment shows 62% of our employees enrolled in an employee only contract. Twenty percent were enrolled in dual coverage and 17 % in family coverage. The average age of employees was 45, which was slightly older than Anthem's Par/PPO average age of 44. Employee sex distribution was 39% male and 61% female
- Total membership increased 2% to 43,182 members with an average age of 38; three years older than the Anthem norm. Total enrollment was 44% male and 56% female.

2007 Employee Enrollment



2007 Total Enrollment



Health Care Program Review

All Pools Combined

- During the current period the plan's total medical expense increased 9% from \$109 million in the prior period to \$119 million. All treatment settings showed an increase. The chart below shows year to year expense as well as the percent changes in each treatment setting.

The Local Choice Medical Expense from Year to Year

Period: 7/2006 - 6/2007	Prior Year	Current Year	% Change
Inpatient Facility	\$35,092,261	\$38,177,936	+9%
Outpatient Facility	\$30,673,397	\$33,230,119	+8%
Inpatient Professional	\$6,693,750	\$7,109,353	+6%
Outpatient Professional	\$36,980,844	\$40,872,444	+11%
Total Expense	\$109,440,252	\$119,389,852	+9%

- Even though different size TLC groups have different attachment points for catastrophic claims, for the purpose of this report, a catastrophic claimant is a patient who incurred medical expense in excess of \$85,000. The current year's catastrophic cases represent 18% of the total medical expense and were 2% higher than the average in the prior year. In terms of volume, 129 patients met the \$85,000 threshold in medical expense. When comparing raw dollars, this year our group averaged \$21 million in catastrophic expense. The top two catastrophic claimants were premature infants (3 admissions totaling 441 cumulative days) incurring over \$1.8 Million. Our third highest was a member with a respiratory condition having total medical expense of \$1.0 million.
- Preventive medicine is the branch of medicine concerned with preventing the occurrence of physical illness and disease. Coronary artery disease ranked highest of all medical conditions manageable through preventive medicine. Breast cancer, diabetes, hypertension and cerebrovascular disease ranked second through fifth in order of expense.

Inpatient Experience

- Inpatient facility expense increased 9% from \$35.0 million in the prior year to \$38.1 million in the current year and represented 32% of overall expense. In the inpatient facility setting 35% of expense was catastrophic related.
- Our admission rate decreased 1% to 80.8 from year to year and was above average. The inpatient day's rate also increased 3%. The days rate was 9% higher than average, involving more days than the Anthem average. While our average length of each admission increased 4% to 3.79 days, it was 8% below Anthem's average.
- The 2007 average cost per day increased 4% to \$2,890 and was 18% higher than average. The 4% increase in the cost per day combined with the 4% increase in the average length of stay, resulted in an 8% increase in the cost per admission. In the current year the cost per member in this setting increased 7% to \$884 per member.
- Since 56% of group members are female, our group is at a higher than average risk for premature births. Pregnancy represented 17% of inpatient admissions during the current year due to the high number of female members as well as the young age of our group (the average age of our group members was 37). When reviewing the top 10 catastrophic claimants (in terms of inpatient costs), there were 4 premature births that together incurred almost \$2 million in inpatient facility expense during a total of 6 admissions lasting 503 days.
- Of the current period's inpatient facility expense, circulatory conditions (\$7.8 million) were the highest level of expense. Conditions affecting the circulatory system represented 21% of inpatient facility expense, slightly higher than the 20% averaged by other large Anthem groups. The other top conditions in the inpatient facility setting ranked by expense were cancer and musculoskeletal at 11% and 10 % of total inpatient expense, respectively.
- Inpatient professional expense increased 6% to \$7.1 million with our inpatient professional service rate remaining stable at 688.2. The service rate was 7% above the 642.0 Anthem average. Cost per inpatient professional service increased 5% to \$239 per service and was higher than Anthem's average.
- A 2% increase in the number of services combined with the 5% 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 and can be attributed to the fact that pregnancy admissions represented the largest number of inpatient stays. The other top diagnostic categories ranked by expense were musculoskeletal conditions, circulatory conditions and cancer.

Outpatient Experience

- Outpatient facility expense increased 8% to \$33.2 million during the current year. The total number of outpatient facility cases was 48,196 in the current year; a 2% increase over the 47,349 cases in the prior year. The outpatient facility case rate remained stable from the prior year at 1,116.1 and was 13% higher than the 991.4 average. The utilization in this setting was mainly in radiology, lab and pathology services.
- During the current year, our annual cost per case increased 6% to \$689 and was 4% higher than average. Since 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 7% over the prior year to \$769.
- When reviewing medical utilization in the outpatient facility setting by diagnostic category, symptoms/ill-defined conditions (\$5.0 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 cancer (\$4.7 million), genitourinary conditions (\$3.8 million), and musculoskeletal conditions (\$3.7 million).
- Outpatient professional expense increased 11% to \$40.8 million. The actual number of services increased 4% from year to year to 760,744 services with the service rate increasing by 2% to 17,617.2. This equates to each member receiving about 17 services during the year. The service rate was 11% above the Anthem average of 15.8 services per year. The increase in utilization in this setting was primarily due to an increase in radiology, pathology and laboratory in a facility setting and evaluation and management of cardiovascular care, chemotherapy and physical therapy in the office setting. It also includes home health care.
- Our average cost per outpatient professional service increased 7% to \$54 per service primarily due to higher costs in the doctor's office. The average cost per service was equal to the Anthem average. During the current period, the annual cost per member for outpatient professional care totaled \$946 and was 9% higher from year to year, and 11% higher than the Anthem norm.
- For purposes of this report, an encounter is classified as a visit with a unique professional provider. Members incurred 389,646 encounters with professional providers, with 66% in a specialist's office. The average cost per encounter in the primary care provider's office was

\$73, while the average cost per specialist encounter was \$121. Four out of the top 20 specialty provider's were independent laboratories since symptoms/ill-defined was the second 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 2007, the program will continue 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, 2007.

Cash Balance (*June 30, 2007*) \$ 72,300,871

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>2005</i>	<i>2006</i>	<i>2007</i>
Annual Premiums	\$157,945,401	\$186,024,786	\$204,337,637
Annual Expenses	<u>\$155,771,036</u>	<u>\$166,066,550</u>	<u>\$180,140,899</u>
Premiums Less Expenses	\$ 2,174,365	\$ 20,818,236	\$ 24,196,738
Operating Ratio	98.6%	88.8%	88.2%

Fully Insured Regional Health Plan

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>2005</i>	<i>2006</i>	<i>2007</i>
Government & Schools	\$1,105,118	\$1,667,041	\$1,974,844

GENERAL 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 and pharmaceutical management, chronic conditions often result in catastrophic claims expense. Individual patient participation in the management of their own health and health care utilization is vital to obtain quality treatment outcomes. As the covered population ages, we should expect to see expense 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 will communicate awareness regarding manageable medical conditions. Active participation and involvement on the part of the covered members and Local Employer is needed to effectively manage and/or maintain personal health. We strongly encourage full utilization of CommonHealth Programs.
- We will continue promotion of Anthem's Disease Management program, ConditionCareSM (formerly called Better Prepared), to employees and their families which helps to alleviate some of the long term expense of certain chronic conditions. Controlling chronic conditions is the best way to reduce overall expense in the future. Diabetes ranks second in terms of total expense for those conditions deemed manageable through preventative medicine and first on the chronic disease report for The Local Choice. Through participation in the ConditionCareSM program, employees and their family members will be able to make well-informed decisions regarding the 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 our 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 4 premature births, combining for almost \$2 million in inpatient facility expense during a total of 6 admissions and 503 days. We will continue to promote the Future Moms program (formerly called Baby Benefits) 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 was our highest diagnostic category and had a significant impact on the outpatient settings since chemotherapy is typically administered on an outpatient basis. Expense associated with cancer increased 15% during the current year with breast cancer as one of the highest ranking medical conditions manageable through preventive medicine. We will continue to promote routine screenings such as mammograms and prostate testing to reduce the risk of preventive disease.