

The Local Choice 2004 Annual Report Statewide Self-Insured Products

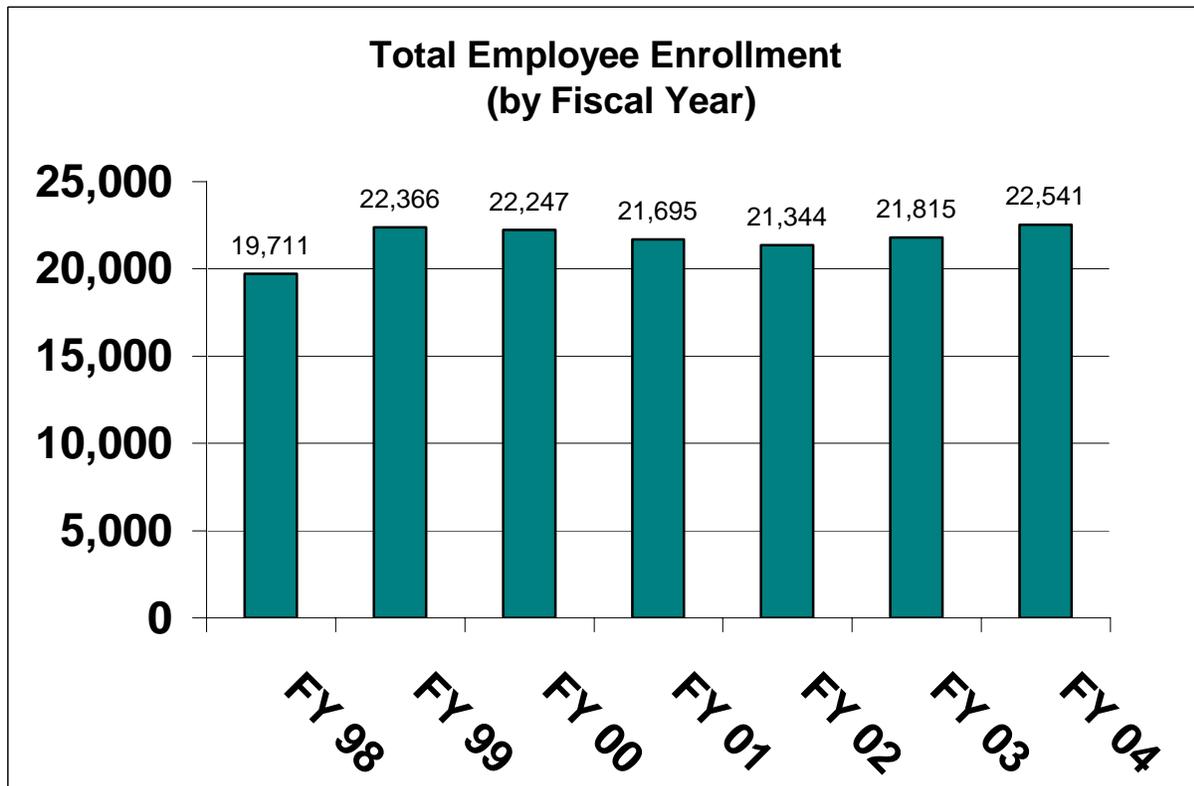
Introduction

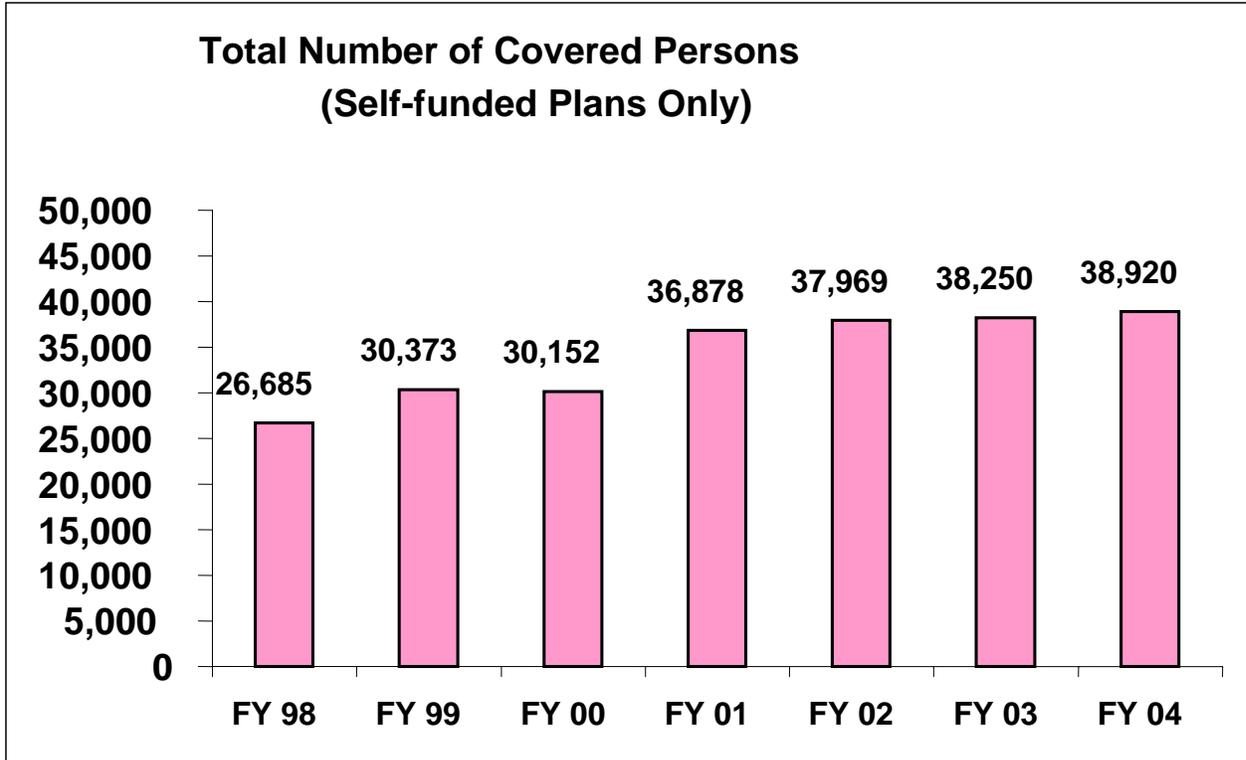
The 2004 Annual Report is an analysis based on claims experience of The Local Choice Health Benefits Program for the period July 2003 through June 2004 and will outline where health care dollars were spent. The analysis is based on two years of paid claims data, the prior year (July 2002 through June 2003) compared to the current year. Comparisons of overall year-to-year total expenses have been made in order to show the impact on our health care expenses.

Reported expense totals are based on post-discount amounts. Expense for facility claims reflects retail charges for covered services less facility claims discounts and amounts payable by our members as deductibles, co-payments, and/or coinsurance. Professional expenses reflect actual amount reimbursed. Mental Illness and Substance Abuse expenses are not included in this report.

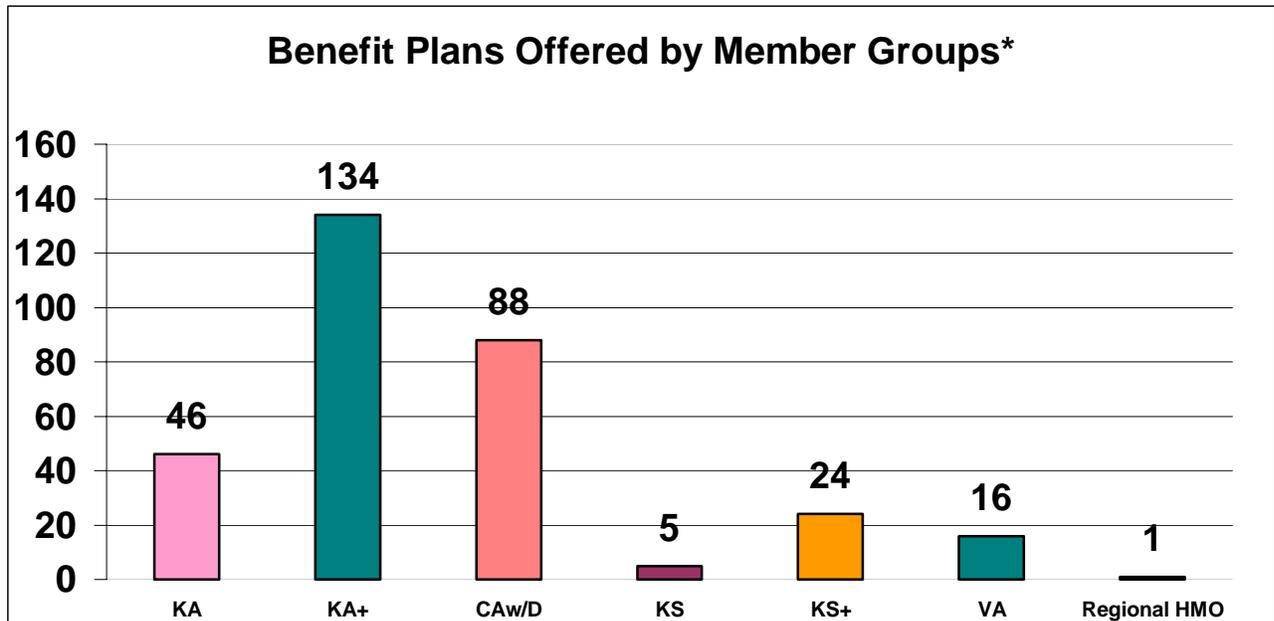
Enrollment Results

Fiscal 2004 saw average enrollment increased by 4% up to 22,541 employees. Employee only contracts accounted for 61% of membership, 20% were employee plus one and 19% were family coverage. Total group membership increased 5% to 38,920 members.

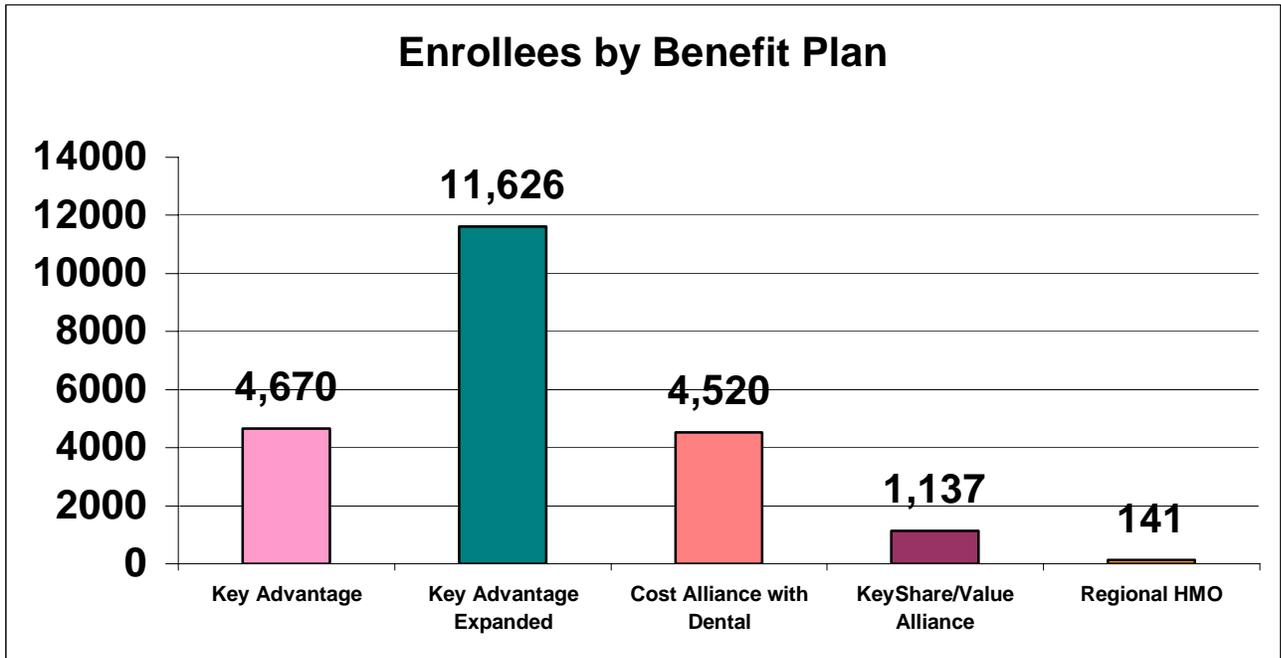




Membership in The Local Choice continued to grow with 234 member groups. Key Advantage with Expanded Benefits continues to be our most popular plan selection with over 130 groups selecting that plan as at least one of their offerings.



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



Experience Summary– All Pools Combined

Total medical expense saw an increase of 16% from \$96.7 million to \$111.8 million due to increases in all treatment settings with the outpatient facility setting experiencing the largest increase.

Average cost per covered member rose 11% to \$2,873. Outpatient facility expenses increased by 24% up to \$26.7 million, due in large part to several catastrophic claims in excess of \$85,000 each. Large claims included those for hemophilia, breast cancer, lymphoma and renal failure. (Chemotherapy, renal dialysis and drug treatments are administered in the outpatient setting.) The outpatient professional site of care witnessed a 12% increase in the cost per member and utilization increased 13%. In the pharmacy setting, the prescription rate increased 2% while the cost per prescription increased 1%, creating a 3% increase in the cost per member.

Inpatient settings experienced a minimal increase in the per member rate which was attributed to expense rates increasing slightly from year to year. Despite this nominal increase, catastrophic cases (in excess of \$85,000) represented 13% of the total medical/pharmacy expense compared to the 6% averaged by most large Anthem groups. In terms of volume, 102 patients met or exceeded the \$85,000 threshold in medical/pharmacy expense. By converting utilization to a per 1000 member rate, 2.6 members per 1000 exceeded the threshold as compared to an expected rate of 2.4 per 1000. Our experience in the inpatient setting was higher than average even though the rates from year to year did not increase significantly.

Coronary artery disease ranked highest of all medical conditions manageable through preventative medicine. Breast cancer, cerebrovascular disease, diabetes and hypertension ranked second through fifth in order of expense. Preventative medicine is the branch of medicine concerned with preventing the occurrence of both mental and physical illness and disease. The chronic conditions of diabetes, hypertension, asthma, chronic respiratory disease and cirrhosis of the liver exist within our member groups. Each of these conditions will generate long-term medical and pharmaceutical expense.

Inpatient Experience – All Pools Combined

Inpatient facility expense increased 13% to \$31.3 million and represented 28% of overall expense. In the inpatient facility setting 28% of expense was catastrophic related in both the current and prior year. Although the catastrophic claims expense remained stable from year to year the actual dollar amount of catastrophic claims increased in this setting by 12% up to \$8.7 million.

The admission rate increased 4%. Our rate of 85.6 per 1,000 was 17% higher than the Anthem large group average; however the average length of each admission remained stable at 3.66 days and was 11% below the Anthem large group norm.

Average cost per day increased to \$2,568, creating a 5% increase in the cost per admission. The cost per member increased 8% to \$803 per member.

Pregnancy represented the largest number of inpatient admissions during the current year. Three of our top 50 catastrophic claims were for premature infants incurring almost \$750,000 in inpatient facility expenses. This year, the top catastrophic claimant in the inpatient facility setting was a premature infant who incurred close to \$400,000 in inpatient facility expense during one 137-day admission. The second highest catastrophic claimant suffered from septicemia as a result of gallbladder disease and incurred a little over \$300,000 in inpatient facility expense during one 30-day admission. The third highest catastrophic claimant was also a premature infant who incurred a little over \$240,000 in inpatient facility expenses during two admissions which lasted 83 days. Since 55% of our members are female and 30% of them are in their child bearing years, we are at a higher than average risk for premature births.

Circulatory conditions created the highest level of inpatient facility expense for FY 2004 (\$7.5 million), representing 24% of inpatient facility expense. Of the top 50 catastrophic claimants, 17 suffered from conditions affecting the circulatory system. Digestive disorders ranked second at \$2.8 million while neoplasm (cancer) was third with \$2.7 million.

Inpatient professional expense increased 10% to \$5.5 million with a service rate increase of 12%, driven predominantly by evaluation/management and lab/x-ray utilization increases. The cost per inpatient professional service decreased 6% down to \$205 per service but was still 13% higher than Anthem's average. The utilization increase combined with the decline in cost per service resulted in a 5% increase in cost per member.

The top diagnostic category for inpatient professional was pregnancy with \$1.1 million in expense with pregnancy admissions representing the largest number of inpatient stays during the current year. Other top diagnostic categories ranked by expense were circulatory conditions at \$825,050, musculoskeletal conditions at \$677,299 and neoplasm at \$434,804.

Outpatient Experience – All Pools Combined

Outpatient facility experience increased 26% to \$26.7 million on 41,489 registered cases. This represents an 11% increase in number of cases over last year. The rise is primarily due to more emergency room services and lab/x-rays during the plan year.

The annual cost per case increased 13% to \$638 and was 11% higher than the Anthem average. The increase in cost per case is influenced by higher costs associated with surgeries, therapy services and emergency room services. Chemotherapy services are included in the therapy category and influenced the overall increase in this procedure category since neoplasm represented 12% of the total outpatient facility expense.

Cost per member went up 20% from the prior year to \$686 and was 24% above the Anthem average. This increase was primarily due to a rise in surgical, therapy and emergency room care.

When reviewing medical utilization in the outpatient facility setting by diagnostic category, symptoms and ill defined conditions created the highest level of expenses at \$4.3 million. This diagnostic category includes all types of “rule out” care prior to a diagnosis. Other top categories in the outpatient facility setting were musculoskeletal conditions at \$3.5 million, genitourinary conditions at \$3.3 million and neoplasm at \$3.2 million of expense.

Outpatient professional expenses increased 17% to \$28.3 million. The actual number of services increased by 18% over the prior year to 588,266 services. Our service rate increased by 13% and equates to each member receiving approximately 15 services during the year. This service rate was 8% above the Anthem average of 14.03 services per year. Our expense increase was primarily due to an increase in office visits, lab/x-rays, medicine services such as immunizations, physical therapy and chiropractic care and surgeries in the doctor’s office.

Our average cost per outpatient professional service remained stable at \$48.03 per service, primarily due to lower costs in the doctor’s office and was comparable to the Anthem average. The annual cost per member for outpatient professional care totaled \$726, an increase of 12% over the prior year and 7% higher than the Anthem norm.

The plan year saw our members incur 316,014 encounters with professional providers. (An encounter is classified as a visit with a unique professional provider.) The overall encounter rate increased 8% and was 11% above the Anthem average. The average cost per encounter increased \$3 to \$89 and was 4% below average. Among encounters in an office setting, our members utilized primary care providers 51% of the time. The average cost per encounter with a primary care physician was \$64.72 or 36% lower than the \$101.68 average per counter with a specialist.

Of all medical conditions treated in the outpatient professional setting, ranked by expense, musculoskeletal conditions rated the highest at \$3.6 million followed by symptoms/ill-defined at \$3.3 million and v-codes at \$3.2 million.

Pharmacy Experience – Pooled

Pharmacy experience increased by 8% to \$20.1 million, representing 18% of our overall expenses. Our prescription rate increased by 2% to 11.61. This means that each member purchased almost 12 prescriptions during the plan year.

Per prescription cost also increased by 2% to \$44.53 while patient liability increased by 3% to \$21.29. Cost per member increased to \$517, up 3% due to higher cost associated with brand and generic drug.

Sixty seven percent of the 303,512 prescriptions purchased were for maintenance drugs. The expense associated with maintenance prescriptions represented 80% of our total pharmacy expense.

The top five therapeutic categories ranked by total number of prescriptions were: antihypertensive, psychotherapeutic agents, cardiovascular agents, analgesics and antihyperlipidemics. When ranked by total expense, the top five therapeutic categories were: ulcer drugs, antihyperlipidemics, psychotherapeutic agents, antidiabetics and antihypertensives.

Dental Experience – Pooled

Total experience for dental increased by 12.5% to \$7.03 million with the total number of services increasing by 7.9% to 135,807. Our average service expense increased by 4.3% to \$51.76 while the average expense per member increased to \$181 or 7.6%

Experience Summary – 1 to 49 Pool

Average enrollment in the 1 to 49 TLC pool increased by 3% to 2,230 employees and 3,960 total members. Employee only contracts accounted for 57% of membership, 23% were employee plus one and 20% were family coverage. Total expenses for this pool increased 22% to \$11.7 million with an average cost per employee of \$5,250 or \$2,956 per member.

Inpatient Experience – 1 to 49 Pool

Inpatient facility expense increased by 24% to \$3.9 million with the admission rate increasing by 8% to 91.9 per 1,000. The inpatient days rate increased 8% and was 12% higher than the Anthem average. The overall mix of inpatient care created a stable average length of stay of 3.63 days. This is 11% shorter than the Anthem PPO average.

Average cost per day increased by 12% to \$2,911 and the average cost per admission also increased by 12% to \$10,581. Inpatient facility cost per member increased by 21% and, along

with the cost per day and average cost per admission, was significantly higher than the Anthem norm.

Inpatient professional expense increased by 5% over the prior year but when combined with the 3% increase in membership, the annual cost per member for inpatient professional care decreased 2% down to \$142. Professional expense related to surgery procedure categories created 42.2% of the current period's expense.

Inpatient professional service rate decreased by 4% and can be attributed to a decrease in the lab/x-ray utilization. Even with the decline, our service rate was 6% higher than the norm and can be linked to higher than average surgery, maternity and evaluation/management utilization. The average cost per inpatient professional service increased by 2% to \$209 and was 15% higher than the Anthem norm. The decrease in utilization combined with the small increase in the cost per service resulted in a 2% decline in the cost per member.

Outpatient Experience - 1 to 49 Pool

Outpatient facility expense increased by 31% to \$2.6 million due to higher costs associated with surgeries, lab/x-rays, and medical services. This setting was impacted by a rise in utilization and expense rates during the current year. The number of total outpatient facility cases registered at 4,464 in the current year, a 9% increase over the prior year. When combined with the 3% increase in membership this pool's outpatient facility case rate increased 6% to 1,127.3, 17% above norm due to significantly above average lab/x-ray utilization.

The annual cost per case was up 21% at \$585. Average cost per member rate also increase by 27%, at \$659 in the current period.

Outpatient professional expenses increased by 23%, up to \$2.7 million, while the actual volume of services increased by 20%. Seventy one percent of these 57,293 services were performed in the doctor's office.

The outpatient professional services rate increased by 17% to an average of 14.5 procedures/services per member per year. This rate is only 3% higher than the normative average of Anthem.

This pool's average cost per outpatient professional service increased 2% to \$48 per service but was 2% lower than the Anthem average. During the current period, the annual cost per member for outpatient professional care totaled \$689, 20% higher than the prior year but only 1% above the Anthem average.

Members incurred 31,257 encounters with professional providers giving an overall encounter rate 7% higher than the prior year. Members utilized primary care providers 53% of the time with an average cost of \$62.50 as compared to \$100.75 per specialist encounter.

Experience Summary – 50 to 299 Pool

Total expense for this segment in 2003-2004 was \$48.1 million, which was 13% above the prior year. Average cost per covered member increased by 8% to \$2,956 with cost per employee increasing by 9% to \$4,991. Average employee enrollment increased by 4% to 9,645 with total membership increasing by 4% also. Average total enrollment was 16,338. Employee only contracts accounted for 62% of enrollment, 20% were in employee plus one and 18% were family contracts.

Inpatient Experience – 50 to 299 Pool

Inpatient facility expense for our 50 to 299 pool increased by 10% to \$14.1 million. Our admission rate increased 7% to 90.0 and was 23% higher than the Anthem norm. Our inpatient days rate increased by 2% to 331.8 which was 11% higher than average. The overall mix of inpatient care created a % reduction in the length of stay at 3.69days, 10% shorter than the Anthem norm.

During the current year, the average cost per day registered 3% higher than the prior year at \$2,597 per day. Our average cost per admission declined 2% from prior year to \$9,579. Within the mix of care required for this segment, inpatient facility cost per member increased 5% to \$862.

Inpatient professional expense increased by 10% to \$2.3 million. When combined with the 4% increase in membership, the annual cost per member for inpatient professional care increased 6% to \$144. Surgeries followed by maternity were the top two procedure categories.

This segment's inpatient professional service rate increased by 17% to 756.0 and was predominantly influenced by maternity and lab/x-ray utilization. Our service rate was 18% higher than the Anthem norm.

Average cost per inpatient professional service declined by 10% to \$190 and was 5% above the Anthem average. When our increase in utilization is combined with the decrease in the cost per service, our cost per member increased by 6% to \$14.

Outpatient Experience - 50 to 299 Pool

At \$12 million, outpatient facility expense increased by 22%. Our total number of outpatient facility cases was 18,572 which was an 8% increase over the prior year. When combined with our 4% increase in membership our outpatient facility case rate increased 3% to 1,136.7.

Annual cost per case is \$648, a 13% increase over prior year and 13% higher than the Anthem norm. The annual cost per member was 17% higher than prior year and increased to \$737.

Outpatient professional expense increased 12% to \$11.6 million. The actual volume of services increased by 17% to 244,679 services, 69% of which were performed in the doctor's office. At the same time, our average cost per outpatient professional service decreased by 4% to \$47.32

per service and was 3% lower than the norm. The annual cost per member for outpatient professional care totaled \$709, 7% higher than the prior year and 4% above the Anthem average.

During the plan year, members incurred 131,214 encounters with professional providers. The overall encounter rate increased by 7% and was 9% higher than the norm. Among encounters in an office setting, primary care providers were used 53% of the time with an average cost per primary care provider of \$61.95. Specialists were seen 47% of the time with an average cost of \$103.88.

Experience Summary – 300 + Groups

During plan year 2003-2004, total expense for the 300 + segment of TLC equaled \$52.0 million, or 17% above the prior year. Average enrollment and membership both increased by 5% to 10,667 and 18,622, respectively. Sixty one percent of employees were enrolled as single members, 20% in employee plus one and 19% were enrolled in family membership.

Annual cost per covered member increased by 12% to \$2,792, while cost per covered employee also increased by 12% to \$4,873.

Inpatient Experience – 300 + Groups

Inpatient facility expense increased to \$13.3 million, a 14% increase. The admission rate remained stable at 80.3 which was 10% above Anthem's norm. The inpatient days rate increased by 8% to 291.5 which was 3% below the average. The overall mix of inpatient care created an 8% increase in length of stay at 3.63 days, 11% lower than average.

During the current year, average cost per day remained stable at \$2,454 while the average cost per admission increased to \$8,907, 4% above the average. Within the mix of care required for this segment, the inpatient facility cost per member increased 9% up to \$716, 14% above the normative average.

Inpatient professional expense increased 12% year to year to \$2.6 million. When combined with the 5% increase in membership, the annual cost per member of inpatient professional care increased 7% to \$139. Professional expense related to surgical procedures created 49.2% of the current period's expense.

The inpatient professional service rate increased by 13% to 632.2, one percent lower than the Anthem norm. The average cost per inpatient professional service decreased 5% from the prior year to \$221.

The increase in utilization combined with the decrease in the cost per service resulted in a 7% increase in the cost per member. Cost per member for this segment's inpatient professional experience, at \$139, was 20% higher than Anthem's large group average.

Outpatient Experience – 300 + Groups

Outpatient facility expense increased by 28% to \$12.1 million. This setting was impacted by a rise in utilization and expense rates during the current year. The number of total outpatient facility cases increased to 18,813 or 15% over the prior year. When combined with the 5% increase in membership, the outpatient facility case rate increased by 9% to 1,010.3 and was 5% above the normative average.

The annual cost per case in the current year was \$641, a 12% increase over the prior year. This was 12% above the Anthem large group average. Annual cost per member increased by 22% to \$647.

Outpatient professional expense increased 20% to \$13.9 million. The actual volume of services increased by 18% over last year to 286,294 services of which 68% were performed in the doctor's office. The outpatient professional service rate increase by 13% to 15,374 per 1,000 members. This is an average of 15 procedures/services per member per year and is 10% higher than the Anthem averages.

Our cost per outpatient professional service remained stable from year to year at \$48.72. During the current period the annual cost per member for outpatient professional care totaled \$749, 14% higher than the prior year.

During the year, members incurred 153,543 encounters with professional providers. The overall encounter rate increased by 7% over the prior year and was 12% higher than the average. In an office setting, members utilized primary care providers 48% of the time. The average cost per encounter with the primary care physician was \$67.77 with specialist encounters averaging \$100.16. Specialists accounted for 61% of the expense incurred in the doctor's office.

Financial Summary

The Local Choice continues to provide a strong financial base for its member groups. During FY 2004, 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, 2004.

Cash Balance (<i>June 30, 2004</i>)	\$18,835,143
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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. Participation in the statewide self-funded products continues to increase.

<i>Program Total</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Annual Premiums	\$ 99,903,248	\$118,320,791	\$137,526,773
Annual Expenses	\$102,176,549	\$110,654,123	\$131,157,793
Premiums Less Expenses	(\$ 2,273,301)	\$ 7,666,668	\$ 6,368,980
Operating Ratio	102.3%	93.5%	95.4%

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. FY 2003 saw a decrease in the number of Regional Health plan options resulting in fewer employers and employees selecting the Regional Health Plan (fully insured HMO/POS product).

<i>Annual Premiums</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Schools	\$1,749,419	\$ 214,202	0
Government	\$1,165,881	\$3,017,629	\$904,284
TOTAL	\$2,915,300	\$3,231,831	\$904,284

TLC PROVIDES MANY VALUE ADDED BENEFITS

TLC self-insured plans 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 catastrophic claims. The program negotiates from a position of strength since administrative costs are based not only on the total number of TLC groups but are combined with the Commonwealth of Virginia's (COVA) employee health benefits program. In addition, profit margins and commissions usually associated with private health care coverage are eliminated. A closer look at the advantages of The Local Choice shows:

- **Administrative costs** are based on the number of TLC participants 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 pooling is achieved for** all non-cost plus groups, regardless of size. Mental health, prescription drug, and dental cost are pooled over the entire The Local Choice 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 The Local Choice. If established standards are not met, 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.** The Local Choice is procured under and complies with the Virginia Public Procurement Act. TLC regularly re-procures the entire program.

- **Our Employee Assistance Program is provided** at no cost to 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.** CommonHealth adds value by reducing claims cost and providing significant plan savings. Over 40% of TLC enrollment participated in the program including the health assessment and medical screening service. Enrollment in our tobacco cessation program, *Breaking Free from Tobacco* continues to increase. The program provides support for the decision to quit as well as a free 8-week supply of nicotine patches or gum. The *Baby Benefits* program continues to minimize maternity costs. All TLC members are eligible to participate in CommonHealth with no direct employer costs.

- **Anthem's Better Prepared program** is designed to help members 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 Anthem plan members under The Local Choice. Participants 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.