

THE LOCAL CHOICE 2005 Annual Report Statewide Self-Insured Products

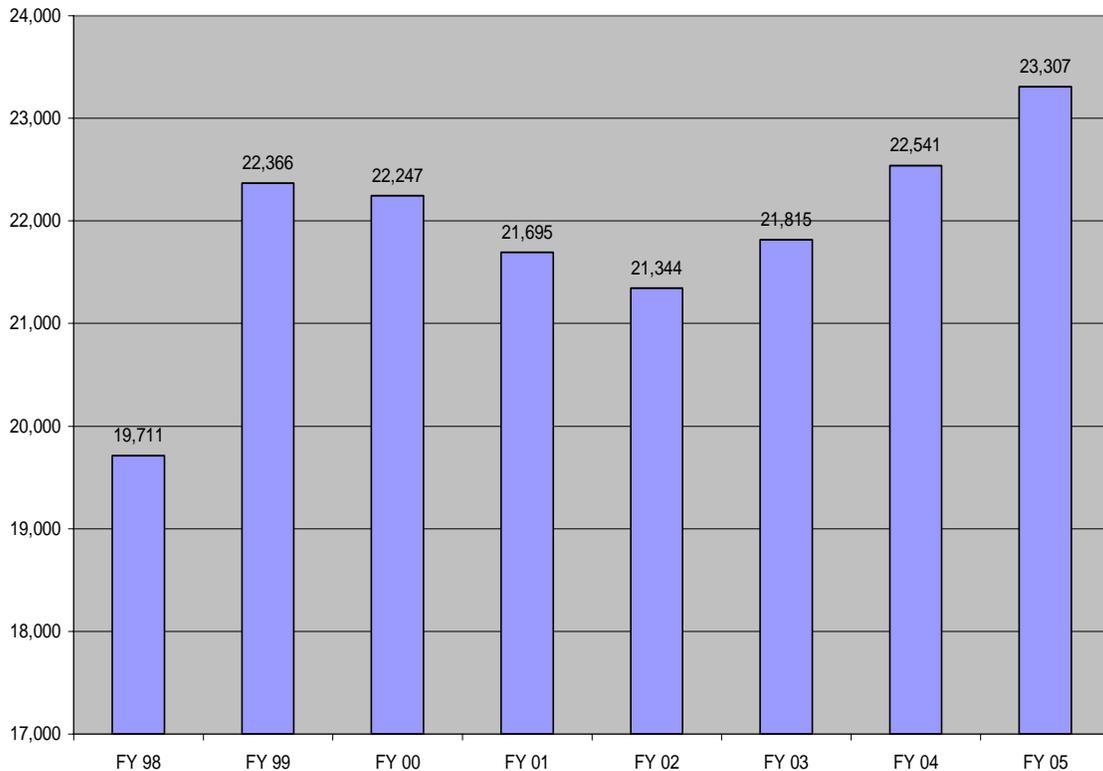
Introduction

This Annual Report is an analysis based on the medical claims experience of The Local Choice and is based on two years of paid claims data, (the prior period of July 2003 through June 2004 and the current period of July 2004 through June 2005), and reflects paid claims during this period. The normative values referenced represent Anthem's combined product averages for the period ending June 2005.

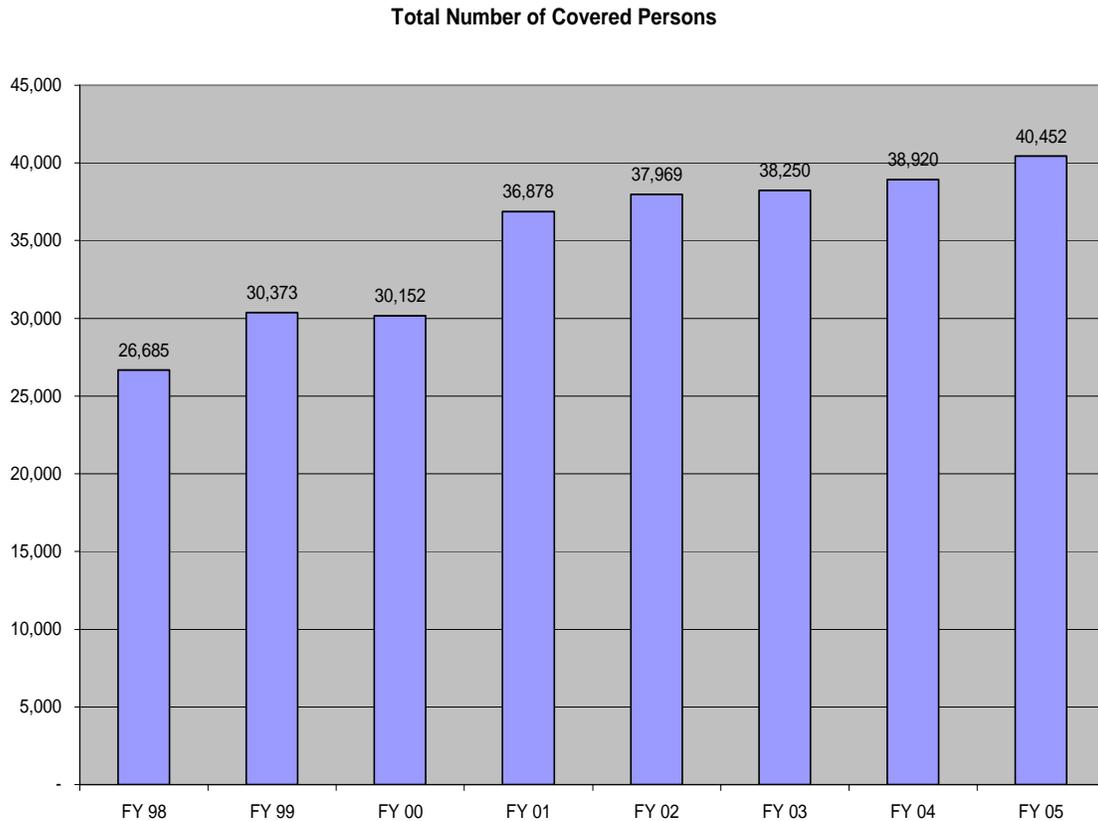
Enrollment Results

Average enrollment increased 3% up to 23,307 employees during the current year. Of the current period's enrollment, 61% of employees were enrolled in an employee only contract. Twenty-one percent were enrolled in employee plus one policies and 18% were enrolled in family policies. The average age of our employees was 45, which was slightly older than the Par/PPO average age of 44.

Total Employee Enrollment



During the current year total membership increased 4% up to 40,452 members.



Experience Summary – All Pools Combined

During the current period our total medical expense (excluding outpatient pharmacy) increased 17% from \$85.5 million in the prior period up to \$100.2 million in the current period due to a rise in expense in all treatment settings, with the inpatient facility setting experiencing the largest increase.

Catastrophic cases over \$85,000 represented 18% of total medical expense which was higher than the 16% averaged in the prior year. When comparing raw dollars, this year we averaged \$17.9 million in catastrophic medical expense, which was a 29% increase from the prior year's \$13.8 million. For purposes of this report, a catastrophic claimant is a patient who incurred medical expense in excess of \$85,000.

In terms of volume during the current review period, 118 patients met the \$85,000 threshold in medical expense. When this utilization is converted to a per 1000 rate, our group averaged 2.9 members per 1000 with expense greater than \$85,000, a level higher than the normative average of 2.4 expected members per 1000.

The top catastrophic claimant suffered from complications as a result of gastric bypass surgery and incurred over \$800,000 in total medical expense. The second highest catastrophic claimant suffered from heart transplant complications and incurred over

\$400,000 in inpatient facility expense during 4 admissions which lasted 127 days. The third highest catastrophic claimant suffered from an acute myocardial infarction (heart attack) and incurred over \$350,000 in inpatient facility claims during 13 admissions which lasted total of 133 days. When reviewing the top 50 catastrophic claimants, there were 3 pre-mature births that together incurred almost \$573,000 in inpatient facility expense during a total of 7 admissions lasting 298 days. Out of the total pregnancy expense incurred by our female members, complications represented 51% of pregnancy related expense.

The following chart shows year to year expense as well as the percent change in each treatment setting (excluding outpatient pharmacy).

The Local Choice Medical Expense from Year to Year

Period: 7/04 - 6/05	Prior Year	Current Year	% Change
Inpatient Facility	\$28,748,954	\$34,572,908	+20%
Outpatient Facility	\$22,966,391	\$26,677,529	+16%
Inpatient Professional	\$5,506,584	\$6,067,229	+10%
Outpatient Professional	\$28,255,266	\$32,914,696	+17%
Total Medical Expense	\$85,477,195	\$100,232,362	+17%

During the current period the annual cost per covered member (excluding outpatient pharmacy) increased 13% up to \$2,478 due to all treatment settings witnessing higher per member rates, with the inpatient facility experiencing the largest increase. The inpatient facility cost per member was 40% higher than average since catastrophic cases rose during the current year.

The outpatient facility site of care witnessed a 12% increase in the cost per member with utilization increasing 4% while the cost per service increased 7% from year to year. Chemotherapy expense was a cost driver in the outpatient facility setting since cancer treatment is typically administered on an outpatient basis. Cancer (neoplasm) expense increased 26% in the current year up to \$11.1 million and represented 11% of the group's total medical expense. The outpatient professional setting saw a 12% rise in the cost per member due to a rise in per member rates associated with outpatient surgeries, lab/x-rays, chemotherapy and therapeutic injections.

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. Preventive medicine is the branch of medicine concerned with preventing the occurrence of both mental and physical illness and disease.

The chronic medical conditions of diabetes, hypertension, asthma, chronic respiratory disease and cirrhosis of the liver exist within our covered population. Each of these conditions will generate long-term medical and pharmaceutical expense.

Inpatient Experience

Inpatient facility expense increased 20% from \$28.7 million in the prior year up to \$34.5 million in the current year and represented 20% of overall expense.

Our admission rate remained stable at 86.8 from year to year and was 20% higher than average. The inpatient day's rate increased 9% and was 14% higher than the Anthem average since surgical and obstetrical admissions involved more days than the normative average. The average length of each admission increased 7% up to 3.93 days in the current period and was 5% below average.

During the current year the average cost per day increased 6% up to \$2,507 and was 23% higher than the average. The 6% increase in the cost per day, combined with the 7% increase in the average length of stay, resulted in a 14% increase in the cost per admission. In the current year the cost per member in this setting increased 16% up to \$855 per member, a level 40% higher than average.

Since 55% of our group members are female and 31% of them are in their child bearing years (average age 37), we are at a higher than average risk for premature births. Pregnancy represented the largest number of inpatient admissions during the current year.

Of the current period's inpatient facility expense, circulatory conditions (\$8.2 million) created the highest level of expense representing 24% of inpatient facility expense, 20% higher on average than other large groups. Other top conditions in the inpatient facility setting ranked by expense were endocrine (10% of total) and neoplasm (9% of total).

During the current period inpatient professional expense increased 10% up to \$5.5 million. The inpatient professional service rate increased 3% and was 6% above average. The cost per inpatient professional service increased 3% up to \$212 per service and was 18% higher than Anthem's average.

The 3% increase in utilization combined with the 3% increase in the cost per service resulted in a 6% increase in the cost per member. Our per member rate was 26% above the Par/PPO average of \$119 due to higher than average utilization and expense rates.

When reviewing total medical utilization in the inpatient professional setting, the top diagnostic category for the current year was pregnancy (\$1.2 million). With pregnancy admissions representing the largest number of inpatient stays during the current year. The other top diagnostic categories ranked by expense were circulatory conditions (\$891,392), musculoskeletal conditions (\$799,735) and neoplasm (\$527,411).

Outpatient Experience

Outpatient facility expense increased 16% up to \$26.7 million during the current year. The number of total outpatient facility cases was 45,317; an 8% increase from the 41,849 cases in the prior year. When combined with the 4% increase in membership, our group's outpatient facility case rate increased 4% from the prior year up to 1,120.3 and was 13% higher than the 992.6 average.

During the current year the annual cost per case increased 7% up to \$589 and was 7% higher than the \$550 average. Neoplasm (cancer) was the second highest diagnostic category in this setting making chemotherapy a significant cost driver in the outpatient facility. The cost per member increased 12% from the prior year up to \$659 and was 21% above average.

When reviewing medical utilization in the outpatient facility setting by diagnostic category symptoms/ill-defined conditions (\$4.3 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 (\$3.5 million), musculoskeletal conditions (\$3.4 million), and genitourinary conditions (\$3.3 million).

Outpatient professional expense increased 17% up to \$32.9 million in the current period. The actual number of services increased 10% to 645,357. The service rate increased by 6% and the service rate was 7% above the Anthem average of 14.86 services per year. The increase in utilization in this setting was primarily due to an increase in evaluation/management services (which is comprised mostly of office visits), lab/x-rays, medicine services (i.e. cardiovascular care, chemotherapy, physical therapy) and surgeries in the doctor's office.

The average cost per outpatient professional service increased 6% up to \$51.00. 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, which was a 12% increase from year to year, and 11% higher than the Anthem norm.

Of our members 346,485 encounters with professional providers, 64% 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 \$66.11, while the average cost per specialist encounter was \$111.34. Four out of the top 20 specialty provider's specialized in hematology/oncology treatment since cancer was the 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 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, 2005.

Cash Balance (June 30, 2005)	\$25,261,733
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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.

Program Total	2003	2004	2005
Annual Premiums	\$118,320,791	\$137,526,773	\$157,945,401
Annual Expenses	\$110,654,123	\$131,157,793	\$155,771,036
Premiums Less Expenses	\$ 7,666,668	\$ 6,368,980	\$ 2,174,365
Operating Ratio	93.5%	95.4%	98.6%

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 2004 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).

Annual Premiums	2003	2004	2005
Schools	\$ 214,202	0	0
Government	\$3,017,629	\$904,284	\$1,105,118
TOTAL	\$3,231,831	\$904,284	\$1,105,118