

A scenic landscape photograph of a river flowing through a forest. The river is filled with large, smooth, dark grey rocks of various sizes. The water is clear and reflects the surrounding trees. The forest is lush with green, yellow, and orange foliage, indicating autumn. In the background, there are rolling hills covered in dense forest under a bright sky.

State Group Insurance Program

**2009
Annual Report**



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
BENEFITS ADMINISTRATION
2600 William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

Dave Goetz
COMMISSIONER

Laurie Lee
EXECUTIVE DIRECTOR

June 30, 2010

Ladies and Gentlemen:

We are pleased to submit the 2009 Annual Program and Financial Report for Benefits Administration. Under the direction of the State, Local Education, and Local Government Insurance committees, this unit of the Department of Finance and Administration manages insurance benefits for more than 142,000 employees and 27,000 Medicare eligible retirees from public sector organizations in Tennessee. At the end of 2009, the state-sponsored plans provided health insurance coverage to more than 303,000 individuals.

The data presented here demonstrate program, statistical and financial trends for the plans. The financial statements reflect the fiscal year ended June 30, 2009.

While the state group insurance program sponsors the coverages and programs reviewed in this report, we work in partnership with 13 contractors and a number of other state agencies to deliver services to program participants. The results reported here reflect their contributions as well.

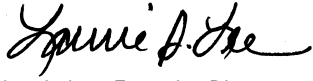
The rise in health care costs, coupled with the state's revenue shortfall, continue to create the greatest challenges for the health plans. Last year we reported the steps we took to control costs in the state-sponsored insurance plans. These steps included several changes to the pharmacy benefit and formulary to encourage use of generics. In 2009 we implemented these and other benefit changes. I am happy to report that, with these steps, we were able to keep the average cost increases over 2008 to just at 3 percent, well below the national average for premium increases. In 2009 we also restructured our pharmacy procurement to assure significantly better pricing, which will help us control costs even further and will provide consistency in our pharmacy benefit across carriers.

While this annual report is looking back, we continue to look forward. Most of the cost-saving efforts we have taken in 2009 and designed for 2010 have focused on reducing the cost of care through better purchasing and increased member cost-sharing. Our real challenge in the future, however, is reducing the utilization of services.

One of the principal drivers of the growth in costs appears to be the excess disease burden in the public sector plans. Members of the public sector plans appear to have a higher prevalence of chronic conditions and higher utilization than other comparable populations. Unless we arrest this trend and control costs, neither the public employers nor the employees will be able to afford the current, comprehensive benefits package. In short, we have to "bend" the health care cost in order to continue to provide a comprehensive benefit package.

Given the budgetary pressures that we are all facing, taking steps now to control costs in our health plans is imperative. We believe that the changes we have started and our future focus on shared accountability will help reduce future premium increases — and at the same time, preserve a comprehensive benefit structure for our plan members.

Sincerely,



Laurie Lee, Executive Director



M. D. Goetz Jr., Commissioner

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DEFINITIONS

Allowed Amount: The amount of submitted charges eligible for payment for all claims. It is the amount eligible after applying pricing guidelines, but before deducting third party, copayment, coinsurance or deductible amounts. Ultimately, it is the amount of payment that a provider of services will receive between the member (via copayments, coinsurance, etc.) and the plan.

Health Maintenance Organization (HMO): A health plan which provides comprehensive medical services to its members for a fixed copayment. Members are required to use participating providers; otherwise, benefits for services rendered typically are not covered.

Net Payment: The net amount paid for all claims. It represents the amount after all pricing guidelines have been applied, and all third party, copayment, coinsurance, and deductible amounts have been subtracted. In the end, this is what the plan pays to the provider of services after the member has paid any required out-of-pocket amounts.

Point of Service (POS): A type of insurance in which a member receives the maximum benefits when they see in-plan providers, but can also see an out-of-plan provider and still receive partial coverage of the costs.

Preferred Provider Organization (PPO): A type of insurance in which the managed care company pays a higher percentage of the costs when a preferred (in-plan) provider is used.



Tennessee Department of Finance and Administration.
Authorization Number 317238, 1,000 copies, June 2010. This
public document was promulgated at a cost of \$2.37 per copy.

OVERVIEW

Benefits Administration operates within the State of Tennessee's Department of Finance and Administration. A committed staff administers health, dental, life and long-term care insurance coverages for more than 303,000 public sector employees, retirees and their eligible dependents.

In addition to insurance coverages, the division also administers an employee assistance program and a state employee wellness program. These related programs complement insurance programs by educating employees and their families about prevention and behaviors that can affect their mental and physical health.

State group insurance program participants include state government and higher education employees, as well as employees of local school systems and local government agencies who elect to participate in one of the state-sponsored plans. Various quasi-governmental and nonprofit agencies receiving state support may also elect to participate in the local government plan.

The preferred provider organization (PPO) is available statewide. In 2009, this option was administered by BlueCross BlueShield of Tennessee.

Enrollment Highlights	
Total Group Health Lives	276,158
Employees:	
State PPO	23,294
State POSs	27,398
State HMOs	23,301
Local Education PPO	20,227
Local Education POSs	28,198
Local Education HMOs	7,685
Local Government PPO	2,719
Local Government POSs	6,457
Local Government HMOs	2,130
Local Government PPO Limited	1,571
Total Employee Group Health	142,980
Optional Dental Coverage	66,918
Optional Life Insurance Products	78,145
Optional Long-Term Care Coverage	2,567
Retiree Medicare Supplement	27,548

A point of service (POS) option is also available statewide. POS offerings in 2009 were administered by CIGNA Healthcare in all service areas.



Health maintenance organizations (HMOs) are offered in 72 of Tennessee's 95 counties. HMO offerings in 2009 were: CIGNA Healthcare Memphis, CIGNA Healthcare Nashville, United Healthcare Chattanooga, United Healthcare Knoxville and United Healthcare Tri-Cities.



In addition to health insurance, participants in all three plans may enroll in optional dental coverage choosing either the preferred provider plan administered by Delta Dental of Tennessee or the prepaid plan administered by Assurant Employee Benefits.

Medicare supplement coverage is available to Medicare eligible retirees who participate in the TN Consolidated Retirement System and certain state and local education plan members who participate in an optional retirement plan. Coverage is administered by the POMCO Group.

State employees are provided basic term life and accidental death and dismemberment coverage through Dearborn National Life while the optional term and universal life coverages are underwritten by Unum Group.

Long-term care insurance is available to state employees, retirees and eligible family members through MedAmerica Insurance Company.

GOVERNANCE

The authorization for providing group insurance benefits for public officers, state, local education and local government employees and retirees is found in Chapter 27 of Title 8, Tennessee Code Annotated.

The benefit plans authorized by this legislation are governed separately by three committees identified as the State, Local Education and Local Government Insurance Committees. Each of these committees represents the interests of the employer(s) and their employees and retirees in financially separate benefit plans.

Committee Members

M. D. Goetz Jr., Chairman — S, E, G
Commissioner, Department of Finance and Administration

Justin Wilson — S, E, G
Comptroller of the Treasury

David Lillard — S, E, G
State Treasurer

Leslie Newman — S, E
Commissioner, Department of Commerce and Insurance

Deborah Story — S
Commissioner, Department of Human Resources

Tim Poole — S
Employee Representative

Vicky Hutchings — S
Employee Representative

Cynthia Brooks — S
Higher Education Representative

Robert O'Connell — S
Tennessee State Employee Association

The responsibilities of each committee can be summarized under four broad areas:

- 1) To establish the benefit plans offered.
- 2) To approve premiums necessary to fund plan operations.
- 3) To provide for the administration of certain plan functions through the selection of contractors and monitoring of vendor performance.
- 4) To establish and review policy related to eligibility, benefits and appeals.

Wesley Robertson — E
Designee, Department of Education

Donna Barber — E
Middle Tennessee Teacher Representative

Barbie Buckner — E
East Tennessee Teacher Representative

Cindy Lumpkin — E
West Tennessee Teacher Representative

Phillip White — E
Tennessee School Boards Association

Kevin Krushenski — G
Tennessee Municipal League

Bob Wormsley — G
Tennessee County Services Association

S — State Insurance Committee

E — Local Education Insurance Committee

G — Local Government Insurance Committee

CONTRACT PARTNERS

The division works in partnership with the following entities in the administration of insurance benefits and related administrative functions:

BlueCross BlueShield of Tennessee

Providing administration of healthcare coverage for plan members in the preferred provider organization (PPO) and high-risk PPO limited programs.

CIGNA Healthcare

Providing administration of healthcare coverage for plan members in the point of service (POS) in all service areas and the health maintenance organization (HMO) in Memphis and Nashville.

United Healthcare

Providing administration of healthcare coverage for plan members in the health maintenance organization (HMO) east.

POMCO Group

Providing administration of retiree Medicare supplement coverage.

Dearborn National Life Insurance Company

Providing basic term and accidental death and dismemberment insurance for state plan members enrolled in a healthcare option and medical underwriting services for those applying for coverage as late applicants.

Unum Group

Providing optional term and universal life insurance to state plan members who choose to enroll in this coverage.

Assurant Employee Benefits

Providing optional prepaid dental insurance to participating plan members statewide.

Delta Dental of Tennessee

Providing optional preferred provider dental insurance to participating plan members statewide.

Magellan Health Services

Providing employee assistance program (EAP) services and administration of mental health and substance abuse coverage for plan members.

MedAmerica Insurance Company

Providing long-term care coverage to state plan members and their eligible family members who choose to enroll in this coverage.

Healthways

Providing support for wellness program services for central state plan members enrolled in a healthcare option.

Thomson Reuters

Providing analytical services to assess healthcare utilization and claims-based costs for our population.

Aon Consultants

Providing benefits and administrative consultant services to the division.

LOOKING BACK

During 2009, a dependent eligibility verification project was conducted to ensure that only those dependents who meet eligibility guidelines are enrolled in the plans. The services of an eligibility verification and enrollment counseling vendor were secured through the state's request for proposals (RFP) process. As a result of the verification process, 6,263 dependents were disenrolled from coverage. It is estimated that the state will save approximately \$11.9 million of which the state can retain \$8.5 million in recurring funds.

The insurance committees authorized an enhanced benefit for individuals with diabetes at the beginning of 2009. Individuals received diabetic medications and supplies at no cost for tier one and tier two drugs when utilizing in-network providers. As one of the top three costliest medical conditions, this decision was made to encourage an increase in compliance with treatment necessary for affected individuals. This benefit enhancement helped more than 13,000 participants receive needed medication to control diabetes.

As a result of the federal Recovery Act funds, 242 former employees were provided with financial assistance of a 65 percent subsidy contribution by the state to continue insurance coverage through COBRA.

Legislation was passed in 2009 to allow eligible retirees the option to enroll in dental coverage. Correspondence was sent to 100,000 individuals informing them of their options for coverage.

The insurance committees approved a tobacco cessation initiative for members who receive health coverage through the public sector health plans. Under the initiative, participants had access to expanded coverage of tobacco cessation supports for a \$5 copay. Nearly 13,000 unique members had a prescription filled and started using quit aids. Many members indicated that the generous coverage of quit aids was key to their decision.

A change was made in pharmacy benefits to require members to use generic proton pump inhibitors for the treatment of acid reflux. These generic PPIs are much less expensive than the brand-name drugs and are equally effective. Doctors can, of course, request exceptions for patients with special needs. This change has altered PPI utilization substantially. During the first half of the year, the plans saved roughly \$2.3 million and members saved nearly \$300,000 in copays and out-of-pocket costs.

In response to a massive flu outbreak, seasonal flu, H1N1 and pneumococcal (pneumonia) vaccines were provided to members without having to meet a deductible or paying coinsurance or copays. Additionally, copays for critical flu-related prescription drugs were lowered to \$25.

The state initiated a voluntary buyout program with the goal of reducing the workforce by approximately 2,000 employees in an effort to reduce the annual state budget by about \$64 million. The division assisted in this effort by implementing the insurance components of the program.

In situations where the state is seeking to expand our horizons and garner information from potential vendors about best practices and innovation, a request for information (RFI) will be issued. The information submitted can be linked to a resulting request for proposals. RFIs issued in 2009 included fitness centers, health management and third party claims administrators.

The appeals process established by the Insurance Committees received 109 requests for a benefits review; 82 were resolved by the division appeals coordinator without the need for a formal written appeal. Of the 27 cases reviewed by the Staff Appeals Committee, 17 were approved, 8 were denied and 2 were resolved after being referred back to claims administrators for further review.

The appeals section is also responsible for the review of certain eligibility and enrollment issues. The eligibility team reviewed 102 cases. Of these, 50 were approved, 29 were denied and 23 were either withdrawn by the requesting agency or were administrative errors that did not meet the criteria for review by this team.

During 2009, 61 agencies interested in joining the local government plan requested premium quotes. Of those, 9 agencies joined the plan.

The division continues to expand the information provided on our web site to allow participants ease of access to information, forms and publications. More than 340,000 publications and forms were downloaded from the site during the year.

LOOKING AHEAD

As part of the divisions continuing strategic planning process, restructured health insurance options will be provided to members beginning in 2011. Two new options will be available — a standard PPO and a partnership PPO. Both options will cover the same services; however, the partnership PPO will contain a wellness component to encourage members to take an active part in controlling their health. Members will be rewarded with incentives to participate in the plan while those who select the standard PPO will not. Several competitive procurements will be conducted for the redesign effort. These include:

- Select third-party claims administrators for the three grand divisions of the state. Two claims administrators will be selected per region and each will offer both the standard PPO and the partnership PPO to allow members to have more choice.
- For the health and wellness components of the new partnership PPO, we will secure the services of a single wellness vendor. The company selected will be responsible for scheduling and conducting health screenings, processing the results from the screenings and assigning a health coach to work with members who are identified as having one or more health risks.
- Secure the services of a single pharmacy benefit manager (PBM), commonly referred to as a pharmacy benefit “carve out.” PBMs provide value and savings because they are able to negotiate directly with drug companies for discounts on prescription drugs. Pooling our covered population together into one group will allow for greater buying power and increased discounts — a savings not only for the plans, but for all covered participants. Estimated annual savings are \$33.7 million.
- A major component of the redesign process is the communications effort to educate plan members about the new insurance options available to them. This will include monthly newsletters, an interactive website and a 24/7 call center.

The contracts for optional prepaid and preferred provider dental options will expire at the end of 2010. The division will conduct a competitive procurement to secure new contracts for this coverage.

The contracts for optional term and universal life will expire at the end of 2010. The division will attempt to extend the duration of these contracts into plan year 2011.

The financial responsibility for operation of the state employee health clinic will shift from the Department of Health to Benefits Administration. A request for proposals will be developed for consultation services to assess continued operation of the clinic and a recommendation will be made to the committees upon the outcome of this process.

The division will closely analyze the requirements of the federal healthcare reform act and take steps to ensure that the plans comply with the required provisions.

Due to the overwhelming response to the discount on tobacco quit aids, this benefit will continue in 2010.

The initiative to provide an enhanced benefit for individuals with diabetes will continue in 2010. Individuals will receive diabetic medications and supplies at no cost for tier one and tier two drugs when utilizing in-network providers. This benefit is provided to encourage an increase in compliance with treatment necessary for affected individuals.

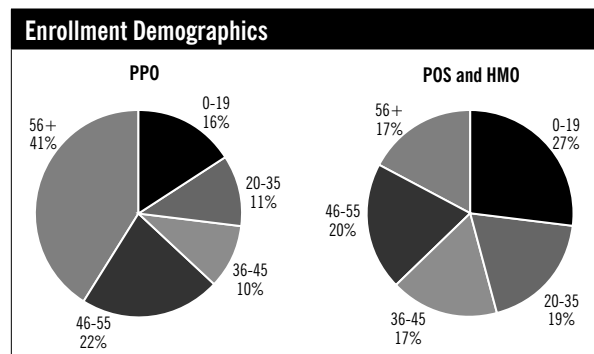
STATE PLAN

State employees, University of Tennessee and Board of Regents employees comprise the state plan. This plan provided coverage for 73,993 active employees, COBRA participants and qualified retirees.

For 2009, the portion of plan members selecting the POS option continued to increase, growing from 26,915 to 27,398. HMO selection decreased slightly from 23,771 to 23,301 and PPO participation declined from 25,672 to 23,294.

Health Contracts		
Preferred Provider Organization		
BlueCross BlueShield	23,294	
Percent of Total		31.5%
Health Maintenance Organization		
Nashville — CIGNA Healthcare	7,978	
Percent of Total		10.8%
Memphis — CIGNA Healthcare	3,618	
Percent of Total		4.9%
Knoxville — United Healthcare	5,941	
Percent of Total		8.0%
Chattanooga — United Healthcare	2,468	
Percent of Total		3.3%
Tri-Cities — United Healthcare	3,296	
Percent of Total		4.5%
Point of Service		
West — CIGNA Healthcare	8,181	
Percent of Total		11.1%
Middle — CIGNA Healthcare	14,042	
Percent of Total		19.0%
East — CIGNA Healthcare	5,175	
Percent of Total		7.0%

Enrollment demographics show that younger employees tend to select the POS and HMO options while older workers and retirees prefer the PPO. In 2009, 63 percent of the PPO members were at least 46 years of age while 27 percent were under age 36.



Alternately, 46 percent of POS and HMO members were under age 36; 37 percent were age 46 or over.

Employees may choose to participate in optional dental insurance. One prepaid dental plan and one preferred provider dental plan were available. State employees electing dental coverage totaled 47,644 at year end, an increase of 3,226 during the calendar year.

During 2009, Dearborn National received more than \$8.3 million in premium for the basic term life and the accidental death and dismemberment coverages. Expenses reported for 2009 included \$6 million in basic term and accidental death and dismemberment claims and \$90,282 in optional accidental death and dismemberment claims. Administrative fees were \$118,803, reserves were \$2.08 million, conversion expenses were \$76,774 and taxes were \$151,159.

Employee term life benefits exceeded \$4.89 million and were paid on behalf of 130 employees who died during 2009. An additional \$688,415 in employee accidental death and dismemberment benefits were provided by the plan. Employees received \$372,506 in benefit payments due to the death of a covered dependent and \$223,713 due to an accident involving the death or dismemberment of a dependent.

Optional Insurance Contracts		
	DEC. 31, 2009	DEC. 31, 2008
Dental Insurance		
Prepaid Plan	20,062	20,758
Preferred Provider Plan	27,582	23,660
Total Dental	47,644	44,418
Optional Life Coverages		
Term Life	34,941	29,176
Universal Life	13,780	8,472
Special Accident	29,033	30,119
Perma Plan	391	456
Total Life	78,145	68,223
Long-Term Care		
Employees	1,966	1,944
Retirees	78	77
Eligible Family Members	523	519
Total Long-Term Care	2,567	2,540

STATE PLAN

At 2009 year end, 17,963 employees were covered under the optional term life insurance plan, in addition to 7,878 spouses and 9,100 children. The coverage for employees exceeded \$1.5 billion, spouse coverage was more than \$172 million and the child term rider amount was \$44.4 million. Premiums for 2009 were \$4.6 million, while claims totaled almost \$5.2 million.

The optional universal life covered 11,542 employees and 2,238 spouses who maintained \$556 million in coverage. Premiums were almost \$4.2 million, claims payments were \$2.8 million and net claims payments were 1.8 million. At the end of December, the employee cash value had grown to more than \$71.8 million and spouse cash value to \$2.4 million.

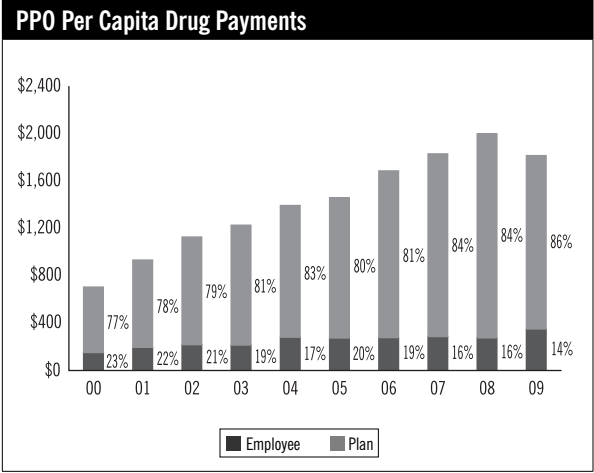
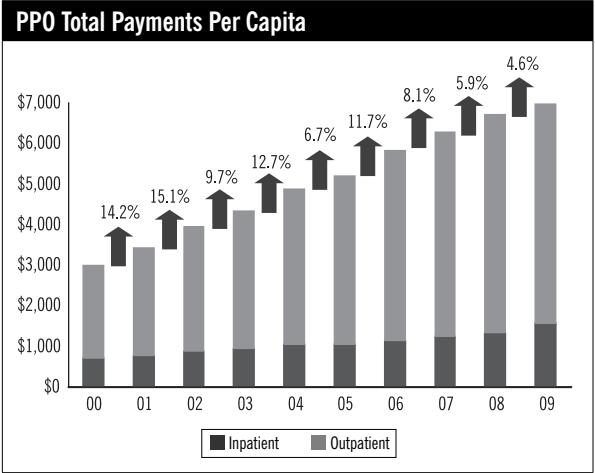
Former employees and covered dependents are offered the option to continue optional life insurance coverages under the portability feature of the programs. The data provided in this section includes this population as well.

Optional long-term care insurance covered 2,567 individuals at year end. Total premium payments exceeded \$2 million while claims payments totaled \$303,000.

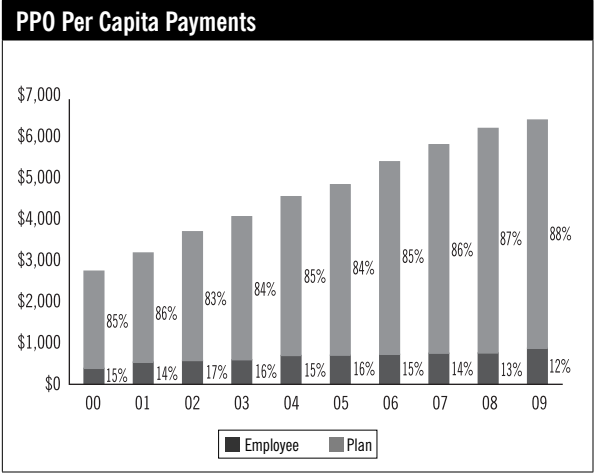
As has been the case for the past several years, benefit payments by the state plan increased again in 2009. For the PPO option, total allowed amounts per member increased 4 percent to \$6,977. Total allowed amounts per member for inpatient services increased by 17 percent while allowed amounts for outpatient services grew by 1 percent.

For 2009, payments for outpatient services in the PPO option represented 77 percent of the total — up from 76 percent in 2000. Outpatient payments grew at an average rate of 13.7 percent a year between 2000 and 2009. Payments for inpatient services grew an average of 10.4 percent a year during the same period.

Total allowed amounts per member for the POS dropped slightly to \$4,874 for 2009. Inpatient payments decreased by just 1 percent due to a decrease in both the number of hospital admissions per 1,000 members and the number of inpatient days per 1,000 admissions. Payments for outpatient services rose by 3 percent.



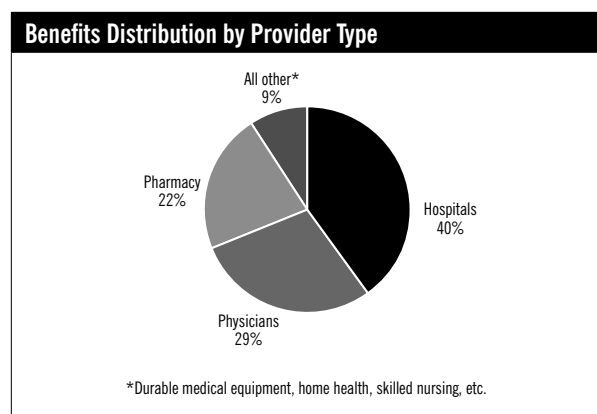
For the PPO, pharmacy plan benefit payments were \$1,467 per member — a 15 percent decrease from 2008. For the POS, plan payments were \$903 per member — a 12 percent drop from 2008. The substantial decrease in plan payments resulted



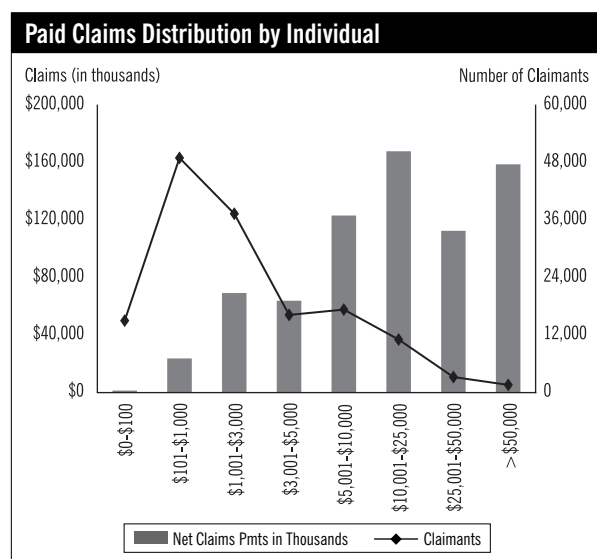
STATE PLAN

from cost shifting and a decline in drug use following increases in drug copayments at the beginning of 2009.

The state plan paid 86 percent of the eligible PPO expenses and 93 percent of the POS eligible expenses during 2009 while the remaining 14 and 7 percent, respectively, were paid by the plan member. The benefits paid by the HMO were 93 percent of eligible expenses — a 1 percent decrease from 2008.



PPO, POS and HMO total payments were \$735,090,910; a slight increase from \$734,940,475 in 2008. This amount reflects all health vendors submitting data for 2009. As a percent of the total, there was a net increase in payments to physicians and hospitals and a decrease in payments to pharmacy providers.



Paid claims distribution by individual shows about 11 percent of plan members received benefits in excess of \$10,000 and accounted for 61 percent of the benefit payments. The average net payment for this group was \$27,415.

A total of 15,018 individuals had net claims totaling between \$0-\$100; 17,327 individuals had net claims payments between \$5,001-\$10,000; and 1,616 individuals incurred claims payments greater than \$50,000.

	TOTAL PATIENTS	TOTAL COSTS
Infections—Ear, Nose, Throat	45,115	\$ 8,583,531
Joint Disorders	30,708	\$ 17,011,564
Hypertension	28,455	\$ 5,884,845
Skin Infection/Inflammation	26,205	\$ 6,855,954
Infections—Respiratory	23,912	\$ 3,974,590
Gastroint Disorders	22,089	\$ 20,034,390
Lipid Disorders	21,812	\$ 2,309,150
Ear, Nose, Throat Disorders	20,018	\$ 7,241,595
Respiratory Disorders	18,290	\$ 19,894,600
Spinal/Back, Low	17,286	\$ 17,188,789
Diabetes	14,363	\$ 7,880,592
Gynecological Disorders	12,725	\$ 6,192,201
Infections, NEC	12,694	\$ 7,061,905
Osteoarthritis	12,188	\$ 23,445,579

*principal diagnosis

The increasing price of medical services in both inpatient and outpatient settings will continue to impact the cost of plan benefits. Demographic changes, including the aging of the active workforce and the growth in the number of retirees, will continue exerting financial pressure on the state group health insurance programs. The state continues to monitor its plan benefits each year, with the goal of providing maximum value to plan members while sharing benefit expenses appropriately.

	TOTAL PATIENTS	TOTAL COSTS
Coronary Artery Disease	5,588	\$ 24,436,980
Osteoarthritis	12,188	\$ 23,445,579
Gastroint Disorders	22,089	\$ 20,034,390
Respiratory Disorders	18,290	\$ 19,894,600
Spinal/Back, Low	17,286	\$ 17,188,789

WELLNESS PROGRAM

The State Employee Wellness Program was initiated in 1992. It is designed to improve awareness of the factors that can affect health and longevity, as well as to enable employees to take increased responsibility for their health by adopting healthier lifestyles. The program is funded, in part, through flexible benefits savings. The information on this page provides components and participation for the various programs offered.

Screenings and Health Risk Assessments

In 2009, 2,652 individuals attended a health screening and completed a health risk assessment (HRA). The average participant age was 47 with 32 percent of participants being male and 68 percent female.

Health Risks by Prevalence	
Body Weight	77%
Blood Pressure	23%
Stress	33%
Safety Belt Use	30%
Medication/Drug for Relaxation	24%
Life Satisfaction	14%
Physical Inactivity	32%
Illness Days	17%
Perceived Health	14%
Low Job Satisfaction	19%
Existing Medical Conditions	12%
Smoking	8%
Cholesterol	11%
Alcohol	1%

My HealthIQ

My HealthIQ is an online tool that helps identify health risks and assesses the likelihood of developing chronic conditions such as heart disease, high blood pressure and diabetes. This tool was added to enable employees not able to attend a screening to receive this information and be eligible to participate in the coaching program if identified as having multiple health risks.

Coaching

Employees participating in the My HealthIQ personal health profile who were identified as having two or more high risks were invited to participate in the wellness coaching or high-risk intervention program — 49 percent of those eligible to participate enrolled. Each participant received intervention and follow-up calls from a qualified health educator or RN over a six-month period. The program was completed by 19 percent of participants and 52 percent eliminated or improved a risk factor.

Toll-Free HealthLine

The HealthLine made 2,432 calls. Health educators answer this line and initiate calls to participants as well.

Fitness Center Discount Program

Over 130 fitness centers across the state provide membership discounts to participants in the state group insurance program.

Commit to Quit

In conjunction with a broader insurance plan effort to reduce tobacco use among plan participants, the wellness program implemented the Commit to Quit challenge. This four-week program included a quitters resource guide as well as weekly tips by email on quitting and staying quit. A total of 126 participants completed the program. An additional 535 employees requested guides but chose not to register for the program. Due to heightened sensitivity at the time, no effort was made to determine what percentage of the group was successful in quitting.

Maintain Don't Gain Challenge

This program encouraged participants to not gain the average six to seven pounds from Thanksgiving to New Year's Day. Rather, the program focused on maintaining participant's pre-holiday weight. A total of 1,543 employees registered for the program and either maintained their pre-holiday weight or lost an average of 3-5 pounds.

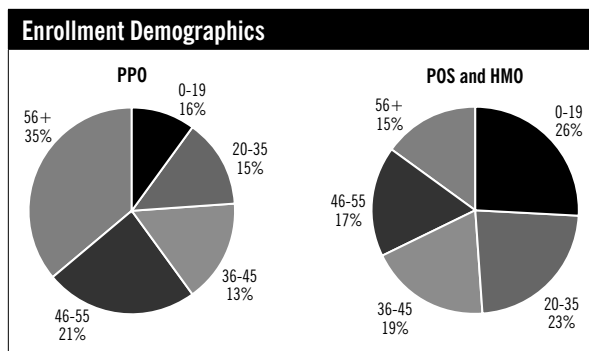
LOCAL EDUCATION PLAN

In 1985, the Tennessee General Assembly authorized creation of an insurance plan for local education employees. Funds were appropriated to pay part of the premiums for participating employees beginning January 1, 1986. School systems within the state may join the local education plan or must provide alternative coverage that is equal or superior to the state-sponsored program.

At 2009 year end, 125 school systems and educational co-ops were participating in the local education plan. Plan enrollment was 56,110 — up from 55,245 in 2008. The portion of plan members selecting the POS option continued to increase, growing from 26,014 to 28,198. PPO enrollment decreased from 21,563 to 20,227 and HMO selection increased slightly from 7,668 to 7,685.

Health Contracts		
Preferred Provider Organization		
BlueCross BlueShield	20,227	
Percent of Total		36.0%
Health Maintenance Organization		
Nashville — CIGNA Healthcare	711	
Percent of Total		1.3%
Memphis — CIGNA Healthcare	259	
Percent of Total		0.5%
Knoxville — United Healthcare	3,733	
Percent of Total		6.7%
Chattanooga — United Healthcare	576	
Percent of Total		1.0%
Tri-Cities — United Healthcare	2,406	
Percent of Total		4.3%
Point of Service		
West — CIGNA Healthcare	6,079	
Percent of Total		10.8%
Middle — CIGNA Healthcare	11,132	
Percent of Total		19.8%
East — CIGNA Healthcare	10,987	
Percent of Total		19.6%

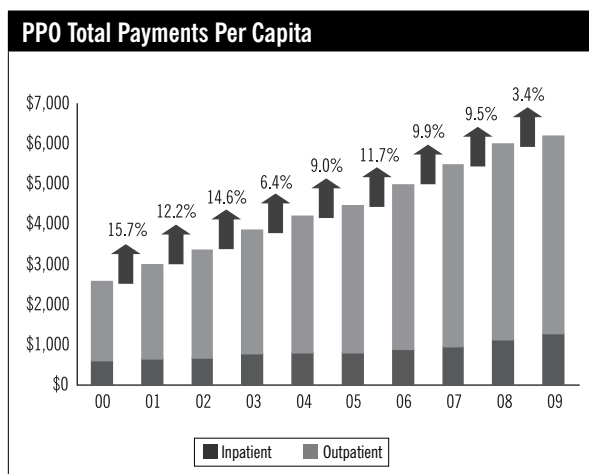
Enrollment demographics show that younger employees tend to select the POS and HMO options while older workers and retirees prefer the PPO. In 2009, 56 percent of the PPO members were at least 46 years of age while 31 percent were under age 36. Alternately, 49 percent of POS and HMO members were under age 36; 32 percent were age 46 or over.



Dental insurance is available as an option to participants in the local education plan. Participation in the dental plan increased from 9,176 to 14,977. Life insurance and long-term care coverage are not available options to members in the local education plan.

Optional Insurance Contracts		
	DEC. 31, 2009	DEC. 31, 2008
Dental Insurance		
Prepaid Plan	3,157	1,415
Preferred Provider Plan	11,820	7,761
Total Dental	14,977	9,176

In 2009, there was a 3 percent increase in the total allowed amount per member in the PPO option to \$6,202. The increase was mostly attributable to increasing inpatient costs, as the total allowed amount per member for inpatient acute services

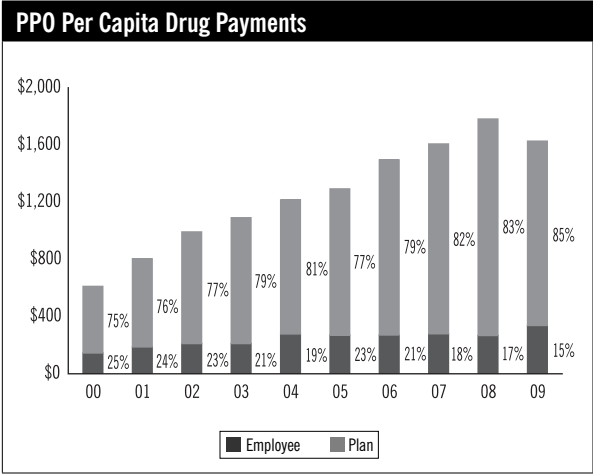
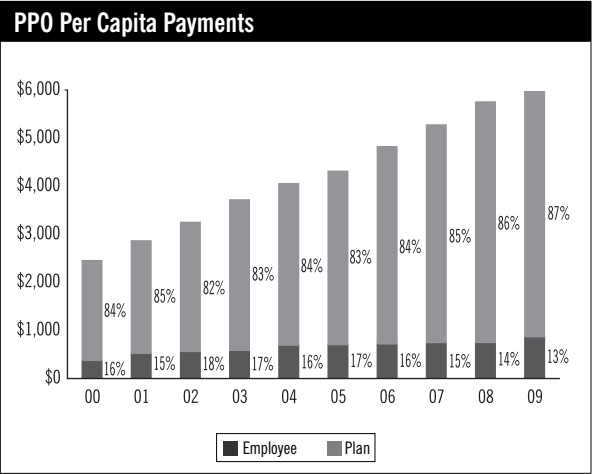


LOCAL EDUCATION PLAN

increased 13 percent to \$1,281. Conversely, the total allowed amount per member for outpatient medical and pharmacy payments increased 1 percent to \$4,921.

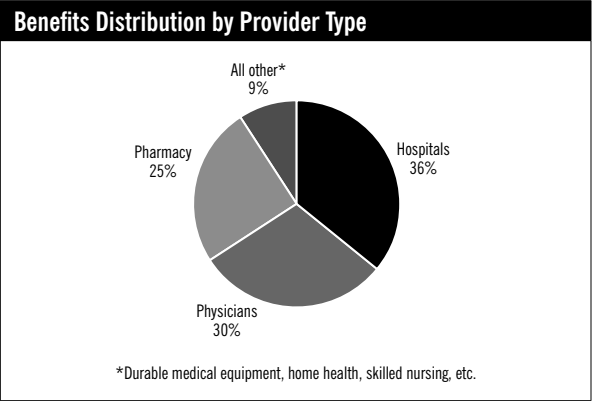
Per capita payments for outpatient services represented 79 percent of the total in the PPO — up from 77 percent in 2000. Outpatient payments grew an average of 11 percent per year between 2000 and 2009. Payments for inpatient services grew by an average of 9 percent per year during the same period.

Total allowed amounts per member in the POS option decreased 13 percent from 2008 primarily due to fewer hospital admissions and lower outpatient medical costs. The total allowed amounts per member in the HMO option decreased by 1 percent from 2008.



Lower overall pharmacy benefit costs offset increases in inpatient and outpatient medical costs. For the PPO option, the plan's cost for prescription drugs for each member decreased from \$1,514 in 2008 to \$1,289 in 2009 — a 15 percent decline. The substantial decrease in plan payments result from cost shifting and a decline in drug use following increases in drug copayments at the beginning of 2009.

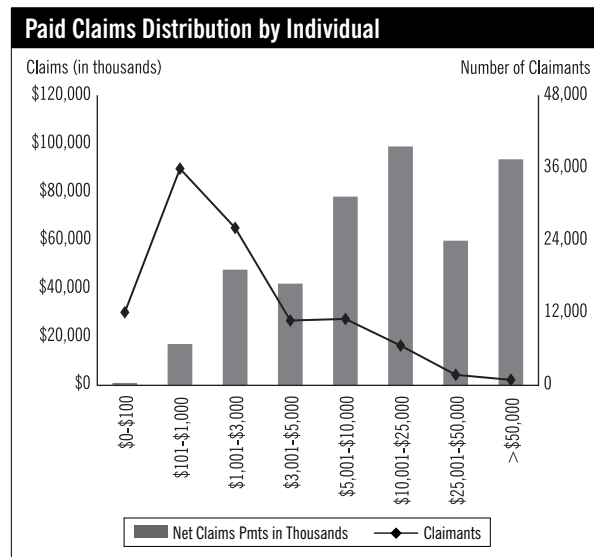
PPO, POS and HMO total payments were \$430,936,687; a decrease from \$444,963,299 in 2008. This amount reflects all health vendors submitting data for 2009. As a percent of the total, there was an increase in payments to hospitals and a decrease in payments to pharmacy providers.



LOCAL EDUCATION PLAN

Paid claims distribution by individual shows about 9 percent of plan members received benefits in excess of \$10,000 and accounted for 58 percent of the benefit payments. The average net payment for this group was \$27,172.

A total of 12,118 individuals had net claims totaling between \$1-\$100; 11,004 individuals had net claims payments between \$5,001-\$10,000; and 906 individuals incurred claims payments greater than \$50,000.



As indicated previously, the increasing price of medical services in both inpatient and outpatient settings will continue to impact the cost of plan benefits. Demographic changes, including the aging of the active workforce and the growth in the number of retirees, will continue exerting financial pressure on the

Most Utilized Services

	TOTAL PATIENTS	TOTAL COSTS
Infections—Ear, Nose, Throat	37,874	\$ 6,414,619
Infections—Respiratory	19,124	\$ 2,922,200
Joint Disorders	18,747	\$ 9,833,281
Skin Infection/Inflammation	16,892	\$ 3,375,043
Hypertension	16,311	\$ 2,904,481
Ear, Nose, Throat Disorder	15,009	\$ 5,290,763
Gastroint Disorders	13,534	\$ 11,995,551
Lipid Disorders	13,306	\$ 1,830,940
Spinal/Back—Lower	11,215	\$ 9,933,947
Respiratory Disorders	10,085	\$ 9,313,367
Gynecological Disorders	9,050	\$ 4,831,903
Spinal/Back (excluding lower)	8,149	\$ 6,224,338
Infections	8,008	\$ 2,614,117
Diabetes	7,540	\$ 4,273,867

*principal diagnosis

state group health insurance programs. The state continues to monitor its plan benefits each year, with the goal of providing maximum value to plan members while sharing benefit expenses appropriately.

Highest Claims Cost by Condition

	TOTAL PATIENTS	TOTAL COSTS
Osteoarthritis	7,020	\$ 14,073,445
Gastroint Disorders	13,534	\$ 11,995,551
Coronary Artery Disease	2,829	\$ 11,528,515
Spinal/Back, Low	11,215	\$ 9,933,947
Joint Disorders	18,747	\$ 9,833,281

LOCAL EDUCATION PLAN

Participants

Alamo City Schools	Fayette County Schools	Lawrence County Schools	Polk County Board of Education
Alcoa City Schools	Fayetteville City Schools	Lebanon – Tenth District Schools	Putnam County Schools
Anderson County Schools	Fentress County Schools	Lenoir City Schools	Rhea County Schools
Athens City Schools	Franklin County Schools	Lewis County Schools	Richard Hardy Memorial School
Bedford County Schools	Franklin Special School District	Lexington City Schools	Roane County Schools
Bells City Schools	Gibson County Schools	Lincoln County Schools	Robertson County Schools
Benton County Schools	Giles County Schools	Little TN Valley Education Co-op	Rogersville City Schools
Bledsoe County Schools	Grainger County Schools	Loudon County Schools	Scott County Schools
Bradford Special School District	Greene County Schools	Macon County Schools	Sequatchie County Schools
Bradley County Board of Education	Greenville City Schools	Manchester City Schools	Sevier County Schools
Bristol City Schools	Grundy County Schools	Marion County Schools	Smith County Schools
Campbell County Schools	Hamblen County Schools	Marshall County Schools	South Carroll County Special District
Cannon County Schools	Hancock County Schools	Maury County Schools	Stewart County Schools
Carroll County Schools	Hardeman County Schools	McKenzie Special School District	Sullivan County Board of Education
Carter County Schools	Hardin County Schools	McMinn County Schools	Sumner County Board of Education
Cheatham County Schools	Hawkins County Schools	McNairy County School System	Sweetwater City Schools
Chester County Schools	Haywood County Schools	Meigs County Board of Education	Tipton County Schools
Clay County Schools	Henderson County Schools	Milan Special School District	Trenton Special School District
Cleveland City Schools	Henry County Board of Education	Monroe County Board of Education	Tri-County Vocational Schools
Clinton City Schools	Hickman County Schools	Moore County Schools	Trousdale County Schools
Cocke County Schools	Hollow Rock – Bruceton Special School District	Morgan County Schools	Tullahoma City Schools
Coffee County Schools	Houston County Schools	Murfreesboro City Schools	Unicoi County Schools
Crockett County Schools	Humboldt City Schools	Newport City Schools	Union City Schools
Cumberland County Schools	Humphreys County Schools	Oak Ridge City Schools	Union County Schools
Dayton City Schools	Huntingdon Special Schools	Obion County Schools	Van Buren County Schools
Decatur County Schools	Jackson County Schools	Oneida Special School District	Warren County Schools
Dekalb County Schools	Jackson-Madison County Board of Education	Overton County Schools	Washington County Schools
Dickson County Board of Education	Jefferson County Schools	Paris Special School District	Wayne County Schools
Dyer County Schools	Kingsport City Schools	Perry County Schools	Weakley County Schools
Dyersburg City Schools	Knox County Schools	Pickett County Schools	West Carroll Special School District
Elizabethton City Schools	Lake County Schools		White County Schools
Etowah City Schools	Lauderdale County Schools		

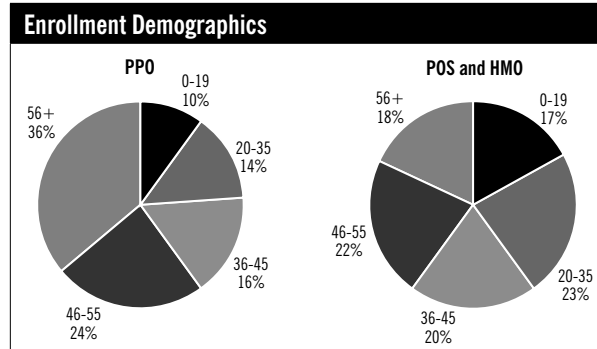
LOCAL GOVERNMENT PLAN

In 1989, the Tennessee General Assembly authorized creation of an insurance plan for local government agency and quasi-governmental agency employees. At 2009 year end, 383 counties, cities and quasi-governmental agencies were participating in the local government plan.

Plan enrollment was 12,877 at year end, a decrease from 13,344 in December 2008. Of the total enrollment, 2,719 participated in the PPO, while 2,130 were covered by HMOs. Enrollment in POSs totaled 6,457. The high-deductible PPO limited option established at the beginning of 2004 had a total enrollment of 1,571 at year end.

Health Contracts		
Preferred Provider Organization		
BlueCross BlueShield	2,719	
Percent of Total		21.1%
Health Maintenance Organization		
Nashville — CIGNA Healthcare	397	
Percent of Total		3.1%
Memphis — CIGNA Healthcare	431	
Percent of Total		3.3%
Knoxville — United Healthcare	687	
Percent of Total		5.3%
Chattanooga — United Healthcare	296	
Percent of Total		2.3%
Tri-Cities — United Healthcare	319	
Percent of Total		2.5%
Point of Service		
West — CIGNA Healthcare	1,861	
Percent of Total		14.5%
Middle — CIGNA Healthcare	3,190	
Percent of Total		24.8%
East — CIGNA Healthcare	1,406	
Percent of Total		10.9%
Preferred Provider Organization Limited		
BlueCross BlueShield	1,571	
Percent of Total		12.2%

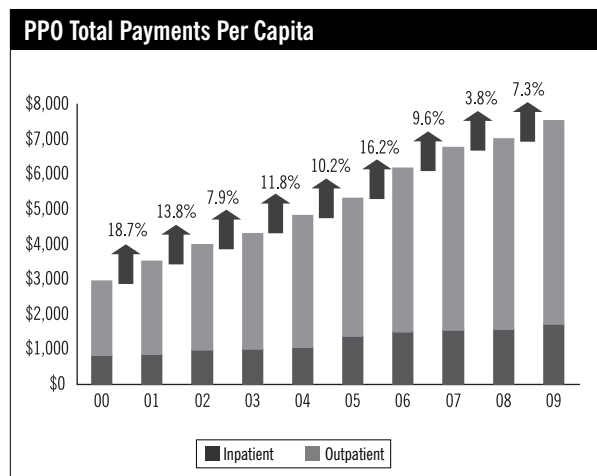
Enrollment demographics show that younger employees tend to select the POS and HMO options while older workers and retirees prefer the PPO. In 2009, 60 percent of the PPO members were at least 46 years of age while 24 percent were under age 36. Alternately, 40 percent of POS and HMO members were under age 36; 40 percent were age 46 or over.



Dental insurance became available as an option to participants in the local government plan in January 1993. Participation in the dental coverage at year end increased from 3,205 to 4,297. Life insurance and long-term care coverage are not available options to members in the local government plan.

Optional Insurance Contracts		
	DEC. 31, 2009	DEC. 31, 2008
Dental Insurance		
Prepaid Plan	1,353	906
Preferred Provider Plan	2,944	2,299
Total Dental	4,297	3,205

There was an 8 percent increase — to \$7,542 — in the allowed amount per PPO member during 2009. This increase was mostly attributable to increases in inpatient and outpatient activity, both in terms of cost and use. Payments for inpatient services in-

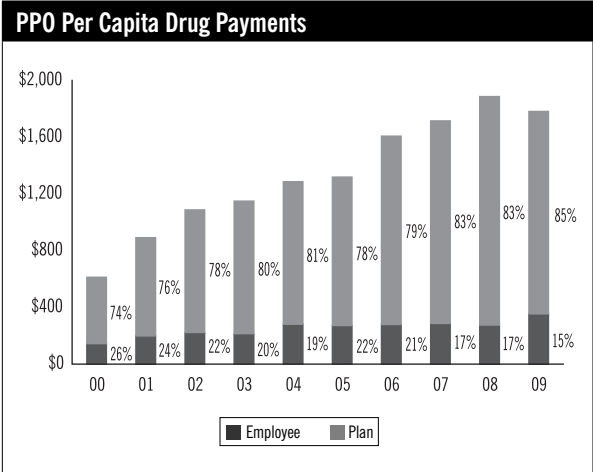


LOCAL GOVERNMENT PLAN

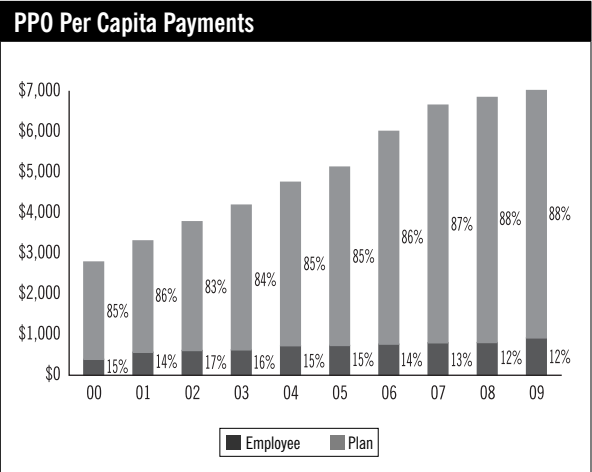
creased by nearly 10 percent — to \$1,716 per member — while payments for outpatient services rose 7 percent to \$5,825.

For 2009, per capita payments for outpatient services in the PPO represented 77 percent of the total — up from 72 percent in 2000. Outpatient payments grew at an average rate of 12 percent a year between 2000 and 2009. Payments for inpatient services grew at a rate of 9 percent a year during the same period.

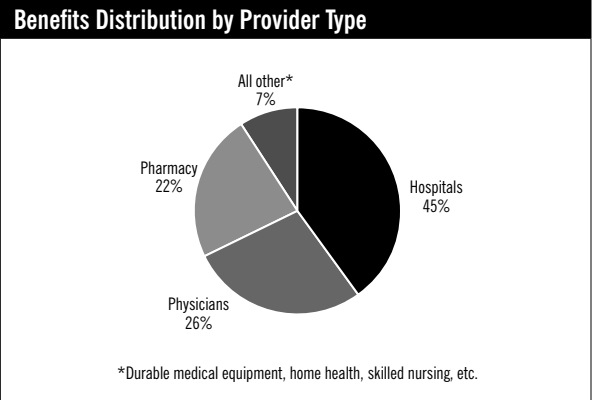
Total allowed amounts per member in the POS option were \$5,879 — up 4 percent over 2008. This was driven mostly by large increases in the cost of hospital admissions. The average allowed amount per admission rose nearly 18 percent in 2009 while the number of admissions per 1,000 members remained about the same.



Lower overall pharmacy benefit payments in the local government plan offset some of the increase in inpatient and outpatient medical costs. For the PPO option, the plan's cost for prescription drugs for each member dropped from \$1,611 in 2008 to \$1,428 in 2009 — an 11 percent decrease. The substantial decrease in plan payments result from cost shifting and a decline in drug use following increases in drug copayments at the beginning of 2009.



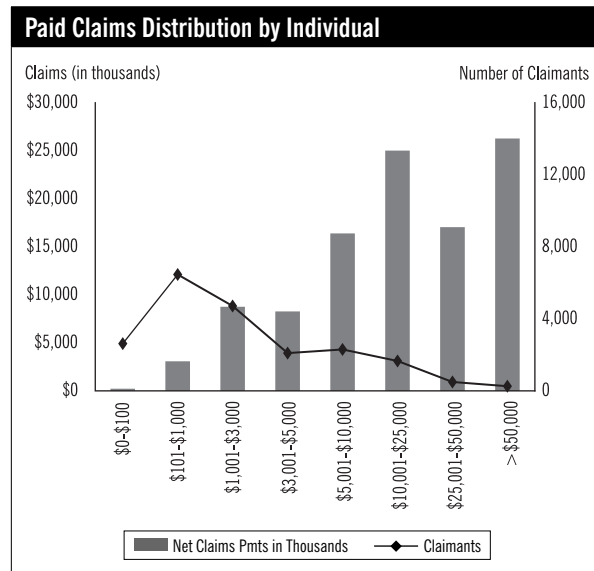
PPO, POS and HMO total disbursements were \$96,890,035; an increase from \$91,960,307 in 2008. This amount reflects all health vendors submitting data for 2009. As a percent of the total, there was an increase in payments to physicians and hospitals and a decrease in payments to pharmacy providers.



LOCAL GOVERNMENT PLAN

Paid claims distribution by individual shows about 12 percent of plan members received benefits in excess of \$10,000 and accounted for 65 of the benefit payments. The average net payment for this group was \$28,072.

A total of 546 individuals had net claims totaling between \$1-\$100; 2,095 individuals had net claims payments between \$5,001-\$10,000; and 262 individuals incurred claims payments greater than \$50,000.



As indicated previously, the increasing price of medical services in both inpatient and outpatient settings will continue to impact the cost of plan benefits. Demographic changes, including the aging of the active workforce and the growth in the number

Most Utilized Services		
	TOTAL PATIENTS	TOTAL COSTS
Infections—Ear, Nose, Throat	6,542	\$ 1,202,041
Hypertension	4,366	\$ 918,112
Joint Disorders	4,149	\$ 2,298,769
Infections—Respiratory	3,523	\$ 556,752
Gastroint Disorders	3,274	\$ 3,573,418
Skin Infection/Inflammation	3,183	\$ 1,131,913
Lipid Disorders	2,982	\$ 342,058
Spinal/Back Disorders—Lower	2,817	\$ 3,075,692
Respiratory Disorders	2,748	\$ 2,858,834
Ear, Nose, Throat Disorders	2,440	\$ 715,825
Diabetes	2,140	\$ 1,390,517
Osteoarthritis	1,763	\$ 4,051,622
Spinal/Back (excluding lower)	1,758	\$ 1,354,341
Gynecological Disorders	1,749	\$ 897,779

*principal diagnosis

of retirees, will continue exerting financial pressure on the state group health insurance programs. The state continues to monitor its plan benefits each year, with the goal of providing maximum value to plan members while sharing benefit expenses appropriately.

Highest Claims Cost by Condition		
	TOTAL PATIENTS	TOTAL COSTS
Coronary Artery Disease	979	\$ 4,854,104
Osteoarthritis	1,763	\$ 4,051,622
Gastroint Disorders	3,274	\$ 3,573,418
Spinal/Back, Low	2,817	\$ 3,075,692
Respiratory Disorders	2,748	\$ 2,858,834

LOCAL GOVERNMENT PLAN

Participants

Access Services
 Agape, Inc.
 Aging Services of the Upper Cumberland
 Aid Distressed Families – Anderson County
 Alamo, City of
 Alcohol and Drug Council of Middle TN
 Alpha-Talbot Utility District
 Anderson County CAC
 Anderson County Health Council
 Appalachian Education Community Corp.
 ARC of Davidson County
 ARC of Hamilton County
 ARC of Washington County
 ARC of Williamson County
 Atoka, Town of
 Atwood, Town of
 Avalon Center
 Bangham Utility District of Putnam and Jackson Counties
 Bedford County
 Belle Meade, City of
 Bells, City of
 Benton County
 Benton County Highway
 Better Decisions
 Big Creek Utility District
 Big Sandy, City of
 Bledsoe County
 Blount County CAA
 Bondecroft Utility
 Bradley/Cleveland CSA
 Bradley/Cleveland Services
 Bridge Refugee Services
 Bridges of Williamson County
 Bruceton, Town of
 Burns, City of
 Camden, City of
 Campaign for a Healthy and Responsible TN
 Campbell County 911
 Care of Savannah, Inc.
 Carroll County 911
 Carthage, Town of
 Caryville – Jacksboro Utility
 Caryville, Town of
 CASA – Juvenile Services
 CASA of the TN Heartland
 CASA, Inc.
 Castalian Springs – Bethpage Utility District
 CEASE, Inc.
 Center for Independent Living of Middle TN

Center for Living and Learning
 Centerville, Town of
 Chattanooga Cares, Inc.
 Chattanooga Endeavors, Inc.
 Chattanooga Housing Authority
 Cheatham County
 Cheatham County Highway
 Chester County
 Chester County Highway
 Children's Advocacy Center
 Clarksville Housing Authority
 Clarksville/Montgomery County CAA
 Clearfork Utility District
 Clifton, City of
 Clinchfield Senior Center
 Cocke County
 Cocke County 911
 Cocke County Highway
 Coffee County
 Community Anti-Drug Coalition Across TN
 Community Development Center
 Community Foundation of Middle TN
 Community Health Network, Inc.
 Community Network Services
 Comprehensive Care Center
 Cornerstone
 County Officials Association of TN
 County Wide Utility District
 Crab Orchard Utility District
 Crisis Intervention Services
 Crockett County
 Crockett County Highway
 Crockett County Public Utility District
 Cross Plains, City of
 Cumberland Community Options, Inc.
 Cumberland County
 Cumberland Utility District
 Cunningham Utility District
 Dayton, City of
 Decatur County
 Decherd, City of
 Dekalb County
 Dekalb County 911
 DeWhite Utility
 Dickson Electric Department
 Disability Resource Center
 Dover, Town of
 Downtown Ministry Center
 Dresden, City of
 Dunlap, City of

East TN Development District
 Eastside Utility District
 Engstrom Services, Inc.
 Erin, City of
 Erin Housing Authority
 Estill Springs, Town of
 Etheridge, City of
 Fairview Utility District
 Fayette County
 Fayette County 911
 Fayette County Public Works
 Fayetteville Housing Authority
 Fayetteville – Lincoln County Library
 Fentress County
 Fifty Forward
 First Utility District of Tipton County
 First Utility of Hawkins County
 Four Lake Regional Industrial Development Authority
 Franklin Consolidated Housing Authority
 Franklin County
 Franklin County Adult Activity Center
 Franklin County Highway
 Franklin County Industrial Development Board
 Friendship, City of
 Gainesboro, Town of
 Gallatin Housing Authority
 Gibson County Municipal Water
 Giles County
 Giles County 911
 Gladeville Utility District
 Gleason, City of
 Good Neighbor Mission and Crisis Center
 Goodwill Industries Knoxville, Inc.
 Gordonsville, Town of
 Gorham MacBane Library
 Greenbrier, City of
 Grundy County
 Grundy County Highway
 Grundy Housing Authority
 Hancock County
 Hardeman – Fayette Utility District
 Hardin County
 Hardin County Skills, Inc.
 Harpeth Valley Utility District
 Harriman, City of
 Hartsville/Trousdale County
 Hawkins County
 Henderson, City of

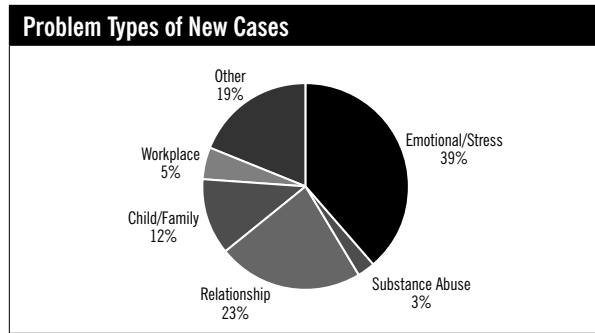
Henderson County
 Henderson County Highway
 Henry County Highway
 Hickman County
 Highland Rim Economic Corporation
 Hixson Utility District
 Hohenwald Housing Authority
 Homeplace, Inc.
 Homesafe of Sumner, Wilson and Robertson County
 Hope of East TN
 Humboldt, City of
 Humboldt Housing Authority
 Humphreys County
 Humphreys County 911
 Huntingdon, Town of
 Impact Center, Inc.
 Jacksboro, Town of
 Jackson Area Council on Alcohol and Drug Dependence
 Jackson Center for Independent Living
 James Developmental Center
 Jasper, Town of
 Jefferson City Housing
 Jefferson County
 Jefferson County 911
 Johnson County
 Jubilee Community Arts
 Kimball, Town of
 Kings Daughters Day Home
 Kingsport Housing and Redevelopment Authority
 Kingston, City of
 Kingston Springs, Town of
 Knoxville-Knox County CAC
 Lafayette, City of
 Lakeland, City of
 Lakesite, City of
 Lakewood, City of
 Lawrence County
 Lawrence County 911
 Lawrence County Chamber of Commerce
 Lawrenceburg, City of
 Lawrenceburg Housing Authority
 Lewis County Highway
 Lewisburg Housing Authority
 Lexington, City of
 Lexington Electric System
 Lincoln County
 Linden, City of
 Lobelville, City of
 Loretto, City of
 Madison Suburban Utility
 Manchester Housing Authority

LOCAL GOVERNMENT PLAN

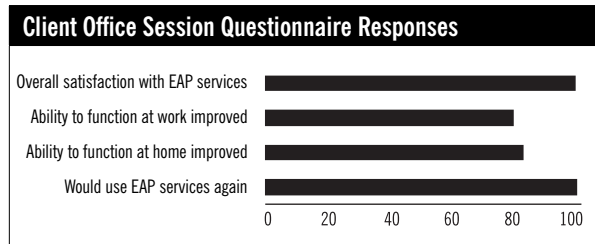
Marion County	Overton County Nursing Home	Southwest TN Development District	TN State Museum Foundation
Marion County Highway	Pathfinders, Inc.	Spectrum Support	TN State Veterans Home – Humboldt
Marion County 911	Pegram, Town of	Spring City, Town of	TN State Veterans Home – Knoxville
Marion Natural Gas	Perry County Highway	St. Joseph, City of	TN State Veterans Home – Murfreesboro
Mason, Town of	Perry County Medical Center	Statewide Independent Living Council of TN	TN Technology Development Corp.
McKenzie, City of	Perry County Officials	Stewart County	TN Voices for Children
McNairy County	Petersburg, Town of	Stewart County Highway	Tracey City Public Utility
Development Services	Pleasant View, Town of	Street Works	Tri-Cities/Sullivan Utility District
McNairy County Highway	Portland, City of	Sullivan County 911	Troy, Town of
Memphis and Shelby County CSA	Professional Care	Surgoinville Utility District	Tullahoma Housing Authority
Memphis Area Legal Services	Project Return	TARP, Inc.	Tullahoma Utilities
Memphis Center for Independent Living	Puryear, City of	TennCare Consumer Advocacy Program	Twenty-first Drug Task Force
Mental Health Association of Middle TN	Reelfoot Lake Regional Utility and Planning District	The Jason Foundation	Unicoi, Town of
Mid-Cumberland CAA	Rhea County	The Renewal House	Union City Electric System
Mid-Cumberland HRA	Rhea Medical Center	Tipton County	Union County Highway
Mid-East CAA	Riceville Utility District	Tipton County 911 District	United Cerebral Palsy Center
Milan Public Utilities	Ripley, City of	Tiptonville, Town of	Upper Cumberland CSA
Ministerial Association	Ripley Gas/Water	TN Alcohol and Drug Association	Upper Cumberland Development District
Temporary Shelter	Roane Central Utility	TN Alliance for Legal Services	Upper East TN Human Development Agency
Minor Hill Water Utility District	Roane County	TN Arts Center of Cannon County	Urban Housing Solutions
Monteagle, Town of	Roane County 911	TN Association of Assessing Officers	Vision Coordination
Mosheim, Town of	Rochelle Center	TN Association of County Executives	Vital Center
Mt. Carmel – Hawkins SCC	Rossville, Town of	TN Association of Craft Artists	Volunteer Memphis
Murfreesboro Electric Department	Rutherford County Adult Action Center	TN Association of Utility Districts	Walden, Town of
NAMI TN	Samaritan Recovery Community, Inc.	TN Association of Rescue Squads	Warren County
Nashville Cares	Savannah, City of	TN Business Enterprises	Wartburg, City of
Nashville Cares – Special Funding	Scotts Hill, Town of	TN Center for Nursing, Inc.	Wartrace, Town of
National Association of Social Workers	Second South Cheatham Utility District	TN Chapter of Children's Advocacy Center	Waverly, City of
National Healthcare for the Homeless Council	Selmer, Town of	TN Community Services Agency	WDVX Cumberland Communications
New Directions	Sequatchie County	TN County Commissioners Association	Weakley County
New Horizons Corporation	Sequatchie County Highway	TN County Highway Officials	Weakley County 911
New Johnsonville, City of	Sequatchie Valley Planning	TN County Services Association	Webb Creek Utility
New Market Utility District	Serenity Recovery Center	TN Healthcare Campaign	West Cumberland Utility
Newbern, City of	Sertoma Center	TN Historical Society	West Overton Utility
North Utility of Decatur/Benton County	Sexual Assault Center	TN Mental Health Consumers Association	West TN Forensic Services
Northeast Henry County Utility	Sexual Assault Crisis Center	TN Municipal Bond Fund	West TN Legal Services, Inc.
Northwest Dyersburg Utility	Sharon, City of	TN Municipal League	West TN Regional Art Center
Northwest Safeline	Shelby County 911	TN Organization of School Superintendents	West Warren – Viola Utility
Northwest TN Economic Development Council	Shelby Residential and Vocational Services, Inc.	TN Primary Care Association	Westmoreland, Town of
Northwest TN Head Start	Shelter, Inc.	TN School Board Association	White Bluff, City of
Oak Hill, City of	Smith County	TN Secondary School Athletic Association	Whiteville, City of
Oak Ridge, City of	Smith County Highway	TN State Employees Association	Whitwell, City of
Oak Ridge Housing Authority	Smithville, City of		Williamson County Child Advocacy Center
Old Hickory Utility	Smithville Electric System		Women/Men's Resource and Rape Assistance Program
Old Knoxville Highway Water District	Soddy-Daisy Falling Water Utility		Woodbury Housing Authority
Overton County	South Carthage, Town of		Workforce Solutions
Overton County Highway	South Central TN Development District		Youth Emergency Shelter
	South Central TN Workforce Alliance		
	South Pittsburg, City of		
	Southeast Mental Health Center		

EAP, MENTAL HEALTH AND SUBSTANCE ABUSE

The EAP provides counseling and referral services for personal and workplace situations. Eligible employees and their dependents may receive up to six counseling sessions per problem episode at no direct cost. The program is available to all state and higher education employees and dependents that are eligible to participate in the state group insurance program, all local education and local government employees who participate in a state-sponsored health plan. If more intensive treatment is needed, individuals may receive care through their insurance plan's mental health or substance abuse coverage.



Magellan Health Services reported 13,827 members accessing EAP services in 2009. As a percent of total, referral utilization by plan was 68 percent state plan, 26 percent local education plan and 6 percent local government plan.

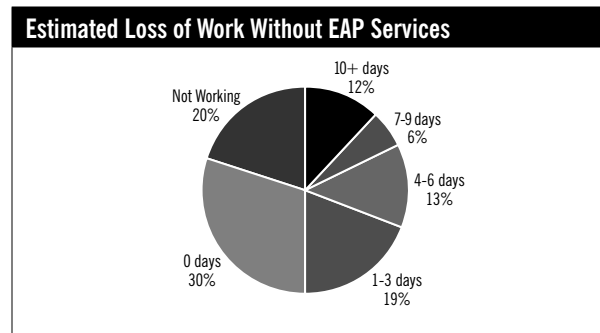


Training programs include employee orientations and supervisory training classes on the EAP services. Personal and professional growth seminars are held in nine locations across the state quarterly and upon request by agencies, departments and schools. There were 382 professional and personal growth seminars offered and attended by 4,047 employees.

Supervisory training sessions are offered to teach supervisors how to use the EAP as one of their managerial tools in promoting good job performance. A total of 57 sessions were provided with attendance totaling 651. Critical stress debriefings occurred on 38 occasions involving 181 employees.

Participation in consultation and training services continues to be in high demand. Counseling services were utilized by 4.4 percent of those eligible while training services were utilized by 3.8 of those eligible. A total of 840 hours were spent in training activities reaching 6,266 employees.

A total of 8,648 employees used on-line services at the Magellan website — consistent with last year's utilization rate.



The management of mental health and substance abuse benefits through Magellan Health Services for the integrated employee assistance and behavioral health program has continued to result in patients receiving care in more clinically appropriate and less costly settings.

Inpatient utilization for the PPO, POS and HMO plans combined showed a total of 933 cases reviewed. The number of admissions per 1,000 covered individuals was 3.9 and days of care per 1,000 covered individuals were 20.7 for the year.

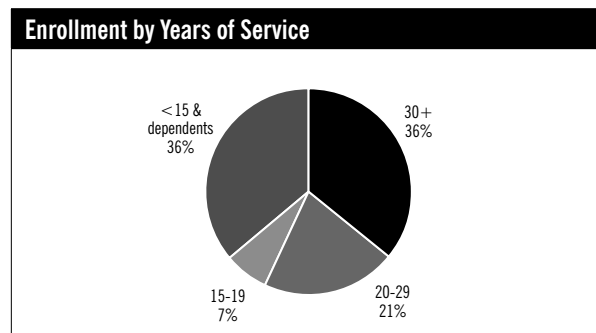
Outpatient utilization for the combined plans showed a total of 12,554 patients reviewed with sessions totaling 314.5 per 1,000 individuals. Intensive outpatient and partial hospitalization services were utilized by 400 patients with 16.2 sessions per 1,000 individuals.

Total utilization for the combined plans was 91,612 outpatient sessions with more than \$4.2 million in claims payments. Intensive outpatient and partial hospitalization resulted in claims payments of \$1,079,054 for 6,067 days. Inpatient days were 5,101 with more than \$3.9 million in claims payments. Residential treatment center days were 4,639 with a total of more than \$2.2 million in claims payments.

MEDICARE SUPPLEMENT PROGRAM

Since January 1989, the state has maintained a benefits program for Medicare-eligible, retired teachers and state employees. The program involves two elements: the sponsorship of Medicare supplement coverage and the provision of financial support for participating retirees.

The Medicare Modernization Act made significant changes to Medicare and to the rules that govern Medicare supplement coverage. It also authorized the new Medicare Part D prescription drug coverage. Based on the restrictions on the benefits that can be provided by Medicare supplement policies, all participants were combined into a single Medicare supplement plan at the beginning of 2006—The Tennessee Plan—with previous pharmacy benefits subsequently discontinued. To comply with standard plan requirements established by the National Association of Insurance Commissions (NAIC), The Tennessee Plan matches the NAIC level D benefits.



The state's financial support is based on a retiree's length of service. Retired teachers and state employees received \$50 per month for 30 or more years of service; \$37.50 for 15 to 19 years of service and \$25 per month for 15 to 19 years of service. This support is provided to Medicare supplement participants and to retired teachers in school districts which sponsor employee medical plans and permit Medicare-eligible retirees to continue coverage during retirement. The Tennessee Plan started 2009 with 27,289 members and ended the year with 27,548 members — an increase of 259 members for the year.

Claims are administered by the POMCO Group. Based on the lower administrative fees as compared to the previous provider, it is estimated that the state will save over \$4.5 million over the term of the initial contract.

Results of the annual member satisfaction survey conducted by POMCO showed 97.9% of members giving an overall satisfaction rating of excellent, very good or good. POMCO's dedicated customer service center received more than 59,000 calls in 2009 — 100 percent of which were answered in an average of 21 seconds. The customized web portal received more than 70,000 hits. The site provides members access to claim information, copies of explanation of benefits forms and direct links to other helpful sites.

POMCO has met or exceeded every performance guarantee required since contract inception.

STATE PLAN

The following unaudited financial statements for the state plan, local education plan, local government plan and retiree plan disclose the financial position and the results of operations for the year ended June 30, 2009. The state plan, local education plan, and local government plan financial statements include only active employees — retirees are disclosed separately. The Department of Finance and Administration, Benefits Administration prepared these statements which summarize transactions for

all coverages available through each plan. The complete financial statements, accompanying notes and supplemental schedules are included in the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee. The CAFR was prepared by the Department of Finance and Administration, Division of Accounts, and was audited by the Comptroller of the Treasury, Division of State Audit.

Comparative Statement of Net Assets

	30-JUN-09	30-JUN-08
Assets		
Cash and cash equivalents	\$ 249,671,602	\$ 267,633,180
Accounts receivable, net	5,727,383	3,457,246
Due from other governments	—	53,817
Total assets	\$ 255,398,985	\$ 271,144,243
Liabilities		
Accounts payable and accrued liabilities	\$ 50,247,155	\$ 52,965,631
Deferred revenue	38,497,878	41,743,586
Total liabilities	\$ 88,745,033	\$ 94,709,217
Net assets		
Unrestricted	\$ 166,653,952	\$ 176,435,026
Total net assets	\$ 166,653,952	\$ 176,435,026

STATE PLAN

Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-09	30-JUN-08
Operating revenues		
Premiums	\$ 663,099,641	\$ 660,672,254
Total operating revenues	\$ 663,099,641	\$ 660,672,254
Operating expenses		
Medical and mental health claims	\$ 639,507,943	\$ 632,145,310
Less: insurance recoveries	—	(11,055,999)
Administrative services	3,480,104	3,071,332
Contract services	30,488,408	23,850,308
Rent and insurance	3,652,417	8,753,769
Total operating expenses	\$ 677,128,871	\$ 656,764,720
Operating income (loss)	\$ (14,029,230)	\$ 3,907,534
Non-operating revenues		
Interest income	\$ 4,248,156	\$ 9,314,963
Total non-operating revenues	\$ 4,248,156	\$ 9,314,963
Income (loss) before transfers	\$ —	\$ 13,222,497
Transfers from general fund	—	757,418
Change in net assets	\$ (9,781,074)	\$ 13,979,915
Net assets, July 1	176,435,026	162,455,111
Net assets, June 30	\$ 166,653,952	\$ 176,435,026

STATE PLAN

Comparative Statement of Cash Flows

	30-JUN-09	30-JUN-08
Cash flows from operating activities		
Receipts from internal services provided	\$ 420,853,534	\$ 464,674,584
Receipts from customers and users	262,047,329	204,783,083
Payments to suppliers	(701,630,494)	(642,577,488)
Payments for internal services used	(3,480,104)	(3,071,332)
Net cash from (used for) operating activities	\$ (22,209,735)	\$ 23,808,847
Cash flows from noncapital financing activities		
Transfers in	\$ —	\$ 757,418
Net cash from (used for) noncapital financing activities	\$ —	\$ 757,418
Cash flows from investing activities		
Interest received	\$ 4,248,156	\$ 9,314,963
Net cash from (used for) investing activities	\$ 4,248,156	\$ 9,314,963
Net increase (decrease) in cash and cash equivalents	\$ (17,961,579)	\$ 33,881,228
Cash and cash equivalents, July 1	267,633,180	233,751,952
Cash and cash equivalents, June 30	\$ 249,671,602	\$ 267,633,180
Cash flows from operating activities		
Operating income (loss)	\$ (14,029,230)	\$ 3,907,534
Adjustments to reconcile operating income (loss) to net cash from operating activities		
(Increase) decrease in accounts receivable	\$ (2,216,321)	\$ 4,583,179
Increase (decrease) in accounts payable	(2,718,475)	11,115,900
Increase (decrease) in deferred revenue	(3,245,708)	4,202,234
Total adjustments	\$ (8,180,505)	\$ 19,901,313
Net cash from (used for) operating activities	\$ (22,209,735)	\$ 23,808,847

LOCAL EDUCATION PLAN

Comparative Statement of Net Assets

	30-JUN-09	30-JUN-08
Assets		
Cash and cash equivalents	\$ 153,331,114	\$ 163,082,715
Accounts receivable, net	2,961,865	2,313,512
Total assets	\$ 156,292,978	\$ 165,396,227
Liabilities		
Accounts payable and accrued liabilities	\$ 29,124,487	\$ 27,202,112
Deferred revenue	—	786,687
Total liabilities	\$ 29,124,487	\$ 27,988,799
Net assets		
Unrestricted	\$ 127,168,491	\$ 137,407,428
Total net assets	\$ 127,168,491	\$ 137,407,428

Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-09	30-JUN-08
Operating revenues		
Premiums	\$ 401,098,779	\$ 384,979,666
Total operating revenues	\$ 401,098,779	\$ 384,979,666
Operating expenses		
Medical and mental health claims	\$ 392,847,169	\$ 364,629,536
Less: insurance recoveries	—	(6,362,168)
Administrative services	1,812,109	1,679,703
Contract services	19,148,975	14,685,848
Rent and insurance	57,487	—
Total operating expenses	\$ 413,865,741	\$ 374,632,919
Operating income (loss)	\$ (12,766,962)	\$ 10,346,747
Non-operating revenues		
Interest income	\$ 2,528,025	\$ 5,854,836
Total non-operating revenues	\$ 2,528,025	\$ 5,854,836
Change in net assets	\$ (10,238,937)	\$ 16,201,583
Net assets, July 1	137,407,428	121,205,845
Net assets, June 30	\$ 127,168,491	\$ 137,407,428

LOCAL EDUCATION PLAN

Comparative Statement of Cash Flows

	30-JUN-09	30-JUN-08
Cash flows from operating activities		
Receipts from customers and users	\$ 403,140,214	\$ 387,556,596
Payments to suppliers	(413,607,730)	(370,847,193)
Payments for internal services used	(1,812,109)	(1,679,704)
Net cash from (used for) operating activities	\$ (12,279,626)	\$ 15,029,699
Cash flows from investing activities		
Interest received	\$ 2,528,025	\$ 5,854,836
Net cash from (used for) investing activities	\$ 2,528,025	\$ 5,854,836
Net increase (decrease) in cash and cash equivalents	\$ (9,751,601)	\$ 20,884,535
Cash and cash equivalents, July 1	163,082,715	142,198,180
Cash and cash equivalents, June 30	\$ 153,331,114	\$ 163,082,715
Cash flows from operating activities		
Operating income	\$ (12,766,962)	\$ 10,346,747
Adjustments to reconcile operating income (loss) to net cash from operating activities		
(Increase) decrease in accounts receivable	\$ (648,353)	\$ 2,351,135
Increase (decrease) in accounts payable	1,922,376	2,106,023
Increase (decrease) in deferred revenue	(786,687)	225,794
Total adjustments	\$ 487,336	\$ 4,682,952
Net cash from operating activities	\$ (12,279,626)	\$ 15,029,699

LOCAL EDUCATION PLAN

Required Supplementary Information — Active Employees

The table below illustrates how the local education group insurance fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the local education group insurance fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; some of these

amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years. Beginning with fiscal year 2007, the plan is reported in accordance with the Governmental Accounting Standards Board's Statement No. 43. Therefore, for accounting and financial reporting purposes, the table below only includes active employees of the local education plan; retirees of the plan are no longer included in the 2007 and 2008 column disclosures below.

Ten-Year Claims Development Information (expressed in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Required contribution and investment revenue earned (fiscal year)	126,918	166,476	203,669	250,090	287,814	323,053	359,963	356,328	390,835	403,627
(2) Unallocated expenses (fiscal year)	13,261	15,961	19,380	21,271	23,168	23,771	21,584	17,152	16,366	21,019
(3) Estimated claims and expenses, end of policy year, net incurred	141,005	185,219	210,650	248,618	263,345	296,509	320,702	342,692	389,270	*
(4) Net paid (cumulative) as of:										
End of policy year	124,084	162,993	189,585	223,756	238,934	268,863	295,687	313,376	359,949	*
One year later	139,458	182,699	211,337	247,014	263,694	296,441	320,503	342,800	*	
Two years later	139,349	182,569	211,053	246,969	263,699	296,434	320,454	*		
Three years later	139,340	182,461	211,041	246,917	263,759	296,405	*			
Four years later	139,366	182,454	210,953	246,888	263,730	*				
Five years later	139,320	182,446	210,952	246,880	*					
Six years later	139,315	182,444	210,951	*						
Seven years later	139,313	182,441	*							
Eight years later	139,311	*								
Nine years later	*									
(5) Reestimated net incurred claims and expenses:										
End of policy year	141,005	185,219	210,650	248,618	263,345	296,509	320,702	342,692	389,270	*
One year later	139,401	182,581	211,199	247,111	263,738	296,274	320,646	342,865	*	
Two years later	139,357	182,441	211,044	246,949	263,670	296,440	320,396	*		
Three years later	139,361	182,455	210,981	246,917	263,736	296,379	*			
Four years later	139,365	182,449	210,953	246,883	263,728	*				
Five years later	139,315	182,446	210,951	246,880	*					
Six years later	139,313	182,442	210,951	*						
Seven years later	139,311	182,441	*							
Eight years later	139,311	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(1,694)	(2,778)	301	(1,739)	382	(130)	(306)	172	0	*

* Data not available

LOCAL GOVERNMENT PLAN

Comparative Statement of Net Assets

	30-JUN-09	30-JUN-08
Assets		
Cash and cash equivalents	\$ 23,121,614	\$ 19,129,107
Accounts receivable, net	1,214,945	609,574
Total assets	\$ 24,336,560	\$ 19,738,681
Liabilities		
Accounts payable and accrued liabilities	\$ 7,581,608	\$ 5,843,688
Deferred revenue	—	377,868
Total liabilities	\$ 7,581,608	\$ 6,221,556
Net assets		
Unrestricted	\$ 16,754,952	\$ 13,517,125
Total net assets	\$ 16,754,952	\$ 13,517,125

Comparative Statement of Revenues, Expenses and Changes in Net Assets

	30-JUN-09	30-JUN-08
Operating revenues		
Premiums	\$ 102,872,920	\$ 95,823,183
Passthrough revenues	9,131	—
Total operating revenues	\$ 102,882,050	\$ 95,823,183
Operating expenses		
Medical and mental health claims	\$ 95,580,914	\$ 93,126,187
Less: insurance recoveries	—	(2,270,115)
Administrative services	439,749	512,126
Contract services	3,907,801	2,987,972
Total operating expenses	\$ 99,928,465	\$ 94,356,170
Operating income (loss)	\$ 2,953,586	\$ 1,467,013
Non-operating revenues		
Interest income	\$ 284,241	\$ 734,803
Total non-operating revenues	\$ 284,241	\$ 734,803
Change in net assets	\$ 3,237,826	\$ 2,201,816
Net assets, July 1	13,517,125	11,315,309
Net assets, June 30	\$ 16,754,952	\$ 13,517,125

LOCAL GOVERNMENT PLAN

Comparative Statement of Cash Flows

	30-JUN-09	30-JUN-08
Cash flows from operating activities		
Receipts from customers and users	\$ 102,770,389	\$ 96,496,041
Payments to suppliers	(98,622,374)	(95,240,795)
Payments for internal services used	(439,749)	(512,126)
Net cash from (used for) operating activities	\$ 3,708,267	\$ 743,120
Cash flows from investing activities		
Interest received	\$ 284,241	\$ 734,803
Net cash from (used for) investing activities	\$ 284,241	\$ 734,803
Net increase (decrease) in cash and cash equivalents	\$ 3,992,507	\$ 1,477,923
Cash and cash equivalents, July 1	19,129,107	17,651,184
Cash and cash equivalents, June 30	\$ 23,121,614	\$ 19,129,107
Cash flows from operating activities		
Operating income (loss)	\$ 2,953,586	\$ 1,467,013
Adjustments to reconcile operating income (loss) to net cash from operating activities		
(Increase) decrease in accounts receivable	\$ (605,371)	\$ 572,640
Increase (decrease) in accounts payable	1,737,920	(1,396,752)
Increase (decrease) in deferred revenue	(377,868)	100,219
Total adjustments	\$ 754,681	\$ (723,893)
Net cash from (used for) operating activities	\$ 3,708,267	\$ 743,120

LOCAL GOVERNMENT PLAN

Required Supplementary Information — Active Employees

The table below illustrates how the local government group insurance fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the local government group insurance fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative net amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years; some of these

amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years. Beginning with fiscal year 2007, the plan is reported in accordance with the Governmental Accounting Standards Board's Statement No. 43. Therefore, for accounting and financial reporting purposes, the table below only includes active employees of the local government insurance plan; retirees of the plan are no longer included in the 2007 and 2008 column disclosures below.

Ten-Year Claims Development Information (expressed in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Required contribution and investment revenue earned (fiscal year)	37,728	58,593	91,297	101,219	98,302	103,521	96,914	89,240	96,558	103,157
(2) Unallocated expenses (fiscal year)	4,251	6,315	9,396	8,576	7,194	6,651	5,038	3,398	3,500	4,348
(3) Estimated claims and expenses, end of policy year, net incurred	41,871	84,018	106,617	89,217	82,822	90,559	87,058	91,622	94,655	*
(4) Net paid (cumulative) as of:										
End of policy year	36,846	73,936	94,889	80,295	76,196	81,924	80,519	84,836	88,265	*
One year later	41,796	83,286	104,893	87,967	82,622	90,552	86,934	91,791	*	
Two years later	41,778	83,197	104,751	87,804	82,491	90,528	86,981	*		
Three years later	41,778	83,167	104,718	87,805	82,528	90,522	*			
Four years later	41,757	83,184	104,705	87,802	82,478	*				
Five years later	41,757	83,184	104,704	87,802	*					
Six years later	41,757	83,184	104,704	*						
Seven years later	41,756	83,184	*							
Eight years later	41,756	*								
Nine years later	*									
(5) Reestimated net incurred claims and expenses:										
End of policy year	41,871	84,018	106,617	89,217	82,822	90,559	87,058	91,622	94,655	*
One year later	41,782	83,241	104,826	87,880	82,529	90,476	86,948	91,801	*	
Two years later	41,778	83,183	104,729	87,792	82,485	90,525	86,977	*		
Three years later	41,758	83,186	104,710	87,803	82,481	90,517	*			
Four years later	41,757	83,185	104,705	87,802	82,475	*				
Five years later	41,757	83,184	104,704	87,802	*					
Six years later	41,756	83,184	104,704	*						
Seven years later	41,756	83,184	*							
Eight years later	41,756	*								
Nine years later	*									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(115)	(835)	(1,913)	(1,415)	(346)	(42)	(80)	179	0	*

* Data not available

RETIREE PLANS

Comparative Statement of Fiduciary Net Assets

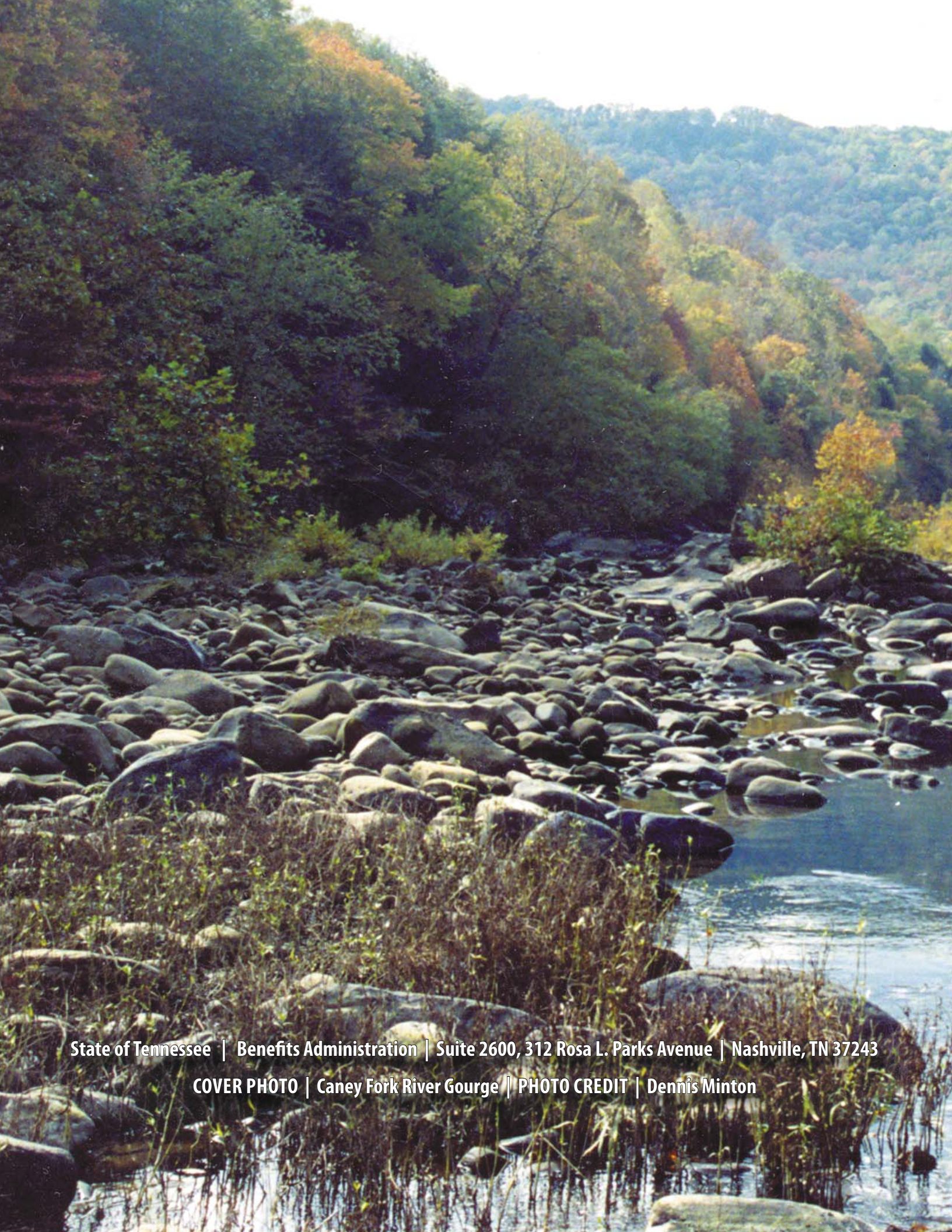
	30-JUN-09	30-JUN-08
Assets		
Cash and cash equivalents	\$ 21,486,624	\$ 22,012,172
Accounts receivable	1,445,834	1,642,956
Total assets	\$ 22,932,458	\$ 23,655,128
Liabilities		
Accounts payable	\$ 17,607,353	\$ 15,485,563
Amounts held in custody for others	5,325,105	8,169,565
Total liabilities	\$ 22,932,458	\$ 23,655,128

Comparative Statement of Changes in Assets and Liabilities

	BALANCE 01-JUL-08	ADDITIONS	DEDUCTIONS	BALANCE 30-JUN-09
Assets				
Cash and cash equivalents	\$ 22,012,457	\$ 210,001,160	\$ 210,526,993	\$ 21,486,624
Accounts receivable	1,642,956	4,555,390	4,752,512	1,445,834
Total assets	\$ 23,655,413	\$ 214,556,550	\$ 215,279,505	\$ 22,932,458
Liabilities				
Accounts payable	\$ 15,485,848	\$ 46,920,517	\$ 44,799,012	\$ 17,607,353
Amounts held in custody for others	8,169,565	16,618,219	19,462,678	5,325,105
Total liabilities	\$ 23,655,413	\$ 63,538,736	\$ 64,261,690	\$ 22,932,458

Comparative Statement of Changes in Assets and Liabilities

	BALANCE 01-JUL-07	ADDITIONS	DEDUCTIONS	BALANCE 30-JUN-08
Assets				
Cash and cash equivalents	\$ 27,737,541	\$ 194,483,146	\$ 200,208,515	\$ 22,012,172
Accounts receivable	66,991	2,476,082	900,117	1,642,956
Total assets	\$ 27,804,532	\$ 196,959,228	\$ 201,108,632	\$ 23,655,128
Liabilities				
Accounts payable	\$ 4,748,644	\$ 50,752,832	\$ 40,015,913	\$ 15,485,563
Amounts held in custody for others	23,055,888	30,121,473	45,007,796	8,169,565
Total liabilities	\$ 27,804,532	\$ 80,874,305	\$ 85,023,709	\$ 23,655,128



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