Financial Statements, Required Supplementary Information, and Other Supplementary Information

West Virginia Public Employees Insurance Agency
Years Ended June 30, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

West Virginia Public Employees Insurance Agency

Financial Statements, Required Supplementary Information, and Other Supplementary Information

Years Ended June 30, 2022 and 2021

Contents

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Report of Independent Auditors

Finance Board and Management
West Virginia Public Employees Insurance Agency

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the West Virginia Public Employees Insurance Agency (PEIA), an enterprise fund of the State of West Virginia, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise PEIA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the net position of PEIA at June 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PEIA, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PEIA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PEIA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the PEIA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-12 and the Ten-Year Claims Development Information on pages 48-49 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PEIA's basic financial statements. The accompanying other supplementary information: Form 7, Deposits Disclosure; Form 8, Investments Disclosure; Form 8-A, Deposits and Investment Disclosure; Form 9, Accounts Receivable; Form 10, Due (To) From Primary Government; and Form 11, Component Unit – A/R Balances on pages 50-56 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 14, 2022, on our consideration of PEIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PEIA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEIA's internal control over financial reporting and compliance.

Ernst + Young LLP

October 14, 2022

Management's Discussion and Analysis
(Dollars In Thousands)

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis
(Dollars In Thousands)

This section of the West Virginia Public Employees Insurance Agency's (PEIA) annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2022 and 2021. Please read it in conjunction with the basic financial statements, which follow this section.

Overview of the Financial Statements

PEIA's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities. The primary purpose of PEIA is to provide group health and prescription drug insurance for the employees of State agencies, colleges and universities, county school boards, and other governmental units as set forth in the West Virginia Public Employees Insurance Act of 1971, as amended. PEIA operates in a manner similar to any other insurance company. PEIA is an enterprise fund of the State and is combined with other similar funds to comprise the enterprise funds of the State of West Virginia. The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

Statement of Net Position – This statement presents information reflecting PEIA's assets, liabilities, and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or are collectible or become due within 12 months of the statement date.

Statement of Revenues, Expenses, and Changes in Net Position – This statement reflects PEIA's operating revenues and expenses, as well as nonoperating revenues during the fiscal year. The major source of operating revenues is premium income, while major expense areas include medical and prescription drug claims costs. The change in net position for an enterprise fund is similar to net profit or loss for any other insurance company.

Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, capital, and noncapital financing and investing activities. Cash collections and payments are reflected on this statement to arrive at net increase or decrease in cash for the fiscal year.

Overview of financial condition

As seen in the upcoming Financial Highlights PEIA has experienced significant losses in the last three years. PEIA has a statutory requirement to maintain a reserve at no less than 10% of the total plan costs in any fiscal year for the purposes of offsetting unanticipated claims losses. As of June 30. 2022, 2021, and 2020 ending plan reserves as a percentage of plan expenses, certified by PEIA's actuary, are reported at 19%, 34%, and 39%, respectively. Recognizing the abundance of plan reserves, PEIA's Finance Board has not been approved rate increases for State employees participating with PEIA. PEIA has been operating at a premium level below plan costs utilizing excess reserves over the requirements of WV Code 15-16-25.

At this time, the PEIA Finance Board has not approved rate increases in the Financial Plan for participating State employees through June 30, 2023. After the submission of the approved Financial Plan to the Governor, the PEIA Finance Board may not increase costs to the participating employers or change the average of premiums, deductibles, and copays for employees, except in the event of an emergency as defined in WV Code 5-16-5g. The most recent actuarial projection has PEIA ending the year ended June 30, 2023, with a 13% ending plan reserve as a percentage of expenses. Future Financial Plans will be certified by the plan actuaries with projections that adhere to the ending reserve requirements for the year to be taken to public hearings. and thereafter, will be voted on by the Finance Board for approval.

Adoption of GASB Statement No. 87, Leases (GASB 87)

PEIA has adopted GASB 87 with a retroactive application beginning July 1, 2020. As of June 30, 2021, the Statement of Net Position has been adjusted to include lease assets and liabilities, and the Statement of Revenue, Expenses, and Changes in Net Position has been adjusted for interest and amortization expense related to PEIA's lease arrangement. The combination of these adjustments results in adjusted Net Position as of June 30, 2021, from $162,374 to $162,360. Additionally, on the Statement of Cash Flows, net cash used in operating activities and the corresponding reconciliation has been adjusted to $71,772 from $72,648, net cash used in capital and related financing activities has been adjusted from $17 to $893, but there was no change to the overall net decrease in cash and cash equivalents of $11,874 as of June 30, 2021.

(In Thousands)

Financial Highlights

The following table summarizes the statement of net position as of June 30:

	2022	2021 (As Restated – Note 7)	2020	Change 2022–2021 Amount	Change 2022–2021 Percentage	Change 2021–2020 Amount	Change 2021–2020 Percentage
Assets							
Cash and cash equivalents	**$ 19,256**	$ 20,330	$ 7,411	$ (1,074)	-5.3%	$ 12,919	174.3%
Equity position in – investment pool	**33,612**	10,057	30,436	23,555	234.2%	(20,379)	-67.0%
Premium receivable	**15,616**	9,005	9,407	6,611	73.4%	(402)	-4.3%
Other current assets	**71,132**	59,187	58,951	11,945	20.2%	236	0.4%
Total current assets	**139,616**	98,579	106,205	41,037	41.6%	(7,626)	-7.2%
Equity position in investment pools	**134,812**	270,948	260,386	(136,136)	-50.2%	10,562	4.1%
Equity position in investment pool – restricted	**4,111**	9,403	13,817	(5,292)	-56.3%	(4,414)	-31.9%
Capital assets, net	**513**	679	101	(166)	-24.4%	578	572.3%
Postemployment Benefits- Pension & OPEB	**933**	–	–	933	100.0%	–	0.0%
Total assets	**279,985**	379,609	380,509	(99,624)	-26.2%	(900)	-0.2%
Deferred outflows of resources							
Pension and OPEB	**586**	706	358	(120)	-17.0%	348	97.2%
Total deferred outflows of resources	**586**	706	358	(120)	-17.0%	348	97.2%
Liabilities							
Claims payable	**103,734**	98,087	73,366	5,647	5.8%	24,721	33.7%
Other current liabilities	**77,148**	108,466	67,031	(31,318)	-28.9%	41,435	61.8%
Total current liabilities	**180,882**	206,553	140,397	(25,671)	-12.4%	66,156	47.1%
Noncurrent liabilities:							
Other noncurrent liabilities	**490**	1,379	819	(889)	-64.5%	560	68.4%
Premium stabilization fund	**4,111**	9,403	13,817	(5,292)	-56.3%	(4,414)	-31.9%
Total liabilities	**185,483**	217,335	155,033	(31,852)	-14.7%	62,302	40.2%
Deferred inflows of resources							
Pension and OPEB	**1,662**	620	432	1,042	168.1%	188	43.5%
Total deferred inflows of resources	**1,662**	620	432	1,042	168.1%	188	43.5%
Net position:							
Investment in capital assets	**513**	679	101	(166)	-24.4%	578	572.3%
Unrestricted	**92,913**	161,681	225,301	(68,768)	-42.5%	(63,620)	-28.2%
Total net position	**$ 93,426**	$ 162,360	$225,402	$(68,934)	-42.5%	$(63,042)	-28.0%

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

(In Thousands)

Financial Highlights

The following table summarizes the statement of changes net position for the year ended June 30:

	2022	2021 (As Restated – Note 7)	2020	Change 2022–2021 Amount	Change 2022–2021 Percentage	Change 2021–2020 Amount	Change 2021–2020 Percentage
Premium revenue	**$685,940**	$ 628,089	$607,152	$ 57,851	9.2%	$ 20,937	3.4%
Less payments to managed care organizations and life insurance premiums	**(56,731)**	(56,514)	(51,664)	(217)	0.4%	(4,850)	9.4%
Net premium revenue	**629,209**	571,575	555,488	57,634	10.1%	16,087	2.9%
Administrative fees, net	**4,982**	4,915	4,817	67	1.4%	98	2.0%
Total operating revenues	**634,191**	576,490	560,305	57,701	10.0%	16,185	2.9%
Claims expense, net	**684,802**	677,841	571,036	6,961	1.0%	106,805	18.7%
Administrative service fees	**19,681**	19,491	20,209	190	1.0%	(718)	-3.6%
Other expenses	**3,593**	3,817	6,014	(224)	-5.9%	(2,197)	-36.5%
Total operating expenses	**708,076**	701,149	597,259	6,927	1.0%	103,890	17.4%
Operating loss	**(73,885)**	(124,659)	(36,954)	50,774	-40.7%	(87,705)	237.3%
State appropriation	**21,000**	21,000	31,000	–	0.0%	(10,000)	100.0%
Net investment income (loss)	**(16,049)**	40,617	4,969	(56,666)	-139.5%	35,648	717.4%
Total nonoperating income (loss)	**4,951**	61,617	35,969	(56,666)	-92.0%	25,648	71.3%
Change in net position	**(68,934)**	(63,042)	(985)	(5,892)	9.3%	(62,057)	6300.2%
Net position, beginning of year	**162,360**	225,402	226,387	45,508	20.2%	45,508	20.1%
Net position, end of year	**$ 93,426**	$ 162,360	$225,402	$(68,934)	-42.5%	$(63,042)	-28.0%

Cash and Cash Equivalents

Cash and cash equivalents plus the current and restricted portion of equity position in investment pool at the end of the year increased $17,189 as the result of $116,841 net cash used in operating activities, $13,943 net cash provided by capital and noncapital financing activities, and $120,087 net cash provided by investing activities.

Last year, cash and cash equivalents plus the current and restricted portion of equity position in investment pool at the end of the year decreased $11,874 as the result of 71,772 net cash used in operating activities, $28,842 net cash provided by capital and noncapital financing activities, and $30,056 net cash provided by investing activities.

Equity Position in Investment Pools Current and Noncurrent

The current and noncurrent portion of the equity position in investment pool decreased $117,873 because of a $136,136 decrease in noncurrent not restricted equity reflecting investment losses experienced and PEIA's withdrawal from reserves to mitigate operating at premium levels below expected annual plan costs. Funds liquidized but not immediately needed for plan obligations were transferred into the current equity, increasing the current equity by $23,555. Further, there was a decrease of $5,292 in noncurrent restricted portion for funds used to offset the plan deficit experienced by the life insurance carrier in the current period.

Last year, the current and noncurrent portion of the equity position in investment pool decreased $14,231 as a result of a $20,379 decrease in the current equity caused by timing of payments of obligations at year-end, a $10,562 increase in noncurrent not restricted equity because of favorable investment appreciation in the pool, and a decrease of $4,414 in noncurrent restricted equity due to utilization of the Minnesota Life Premium Stabilization Fund to offset life insurance premiums.

Total Assets

Total assets for the current year decreased $99,600 primarily because of investment losses combined with withdrawals from plan reserves in long-term investments to mitigate operating at premium levels below expected plan costs.

Last year, as described in detail above, total assets for the current year decreased $966 due to operating results, market appreciation in the non-current portion of the equity position in investment pool, investment of the $21,000 State Appropriation received, a decrease in premiums receivable, offset by an increase in capital assets.

Claims Payable

Claims payable increased $5,647 due to slightly higher claims Incurred but Not Reported (IBNR) and higher claims cost for the last claims run of the fiscal year compared to the prior year. Last year, claims payable increased $24,721, resulting from an increase in claims IBNR of $23,680 combined with an increase in current claims payable of 1,041.

Other Current Liabilities

A premium deficiency reserve (PDR) is required when policies in force as of the financial statement date are expected to produce a loss when claims cost (including IBNR) plus expected claims adjustment expenses are expected to exceed related premiums. In the current year, the PDR decreased $24,517. The balance in unearned revenue is made up of surplus funds held for the Department of Education to offset its budget shortfalls and any deferred premiums that have been paid in advance by agencies. Unearned revenue decreased by $8,697 because Department of Education withdrew funds from the account to pay current year premiums. Both the PDR and unearned revenue changes in aggregate with the changes other minor liabilities make up the overall decrease in other current liabilities of $31,318. Last year, other current liabilities increased $41,435, or 61.8%, due to an increase in the PDR.

Premium Stabilization Reserve

In the current year, there was a decrease of $5,292 in the premium stabilization reserve (PSR) held at Minnesota Life on behalf of PEIA because of a transfer from the PSR used offset the plan deficit experienced by the life insurance carrier. Life insurance claims were higher than anticipated resulting in an operational loss in the plan. The contract with this carrier ended on June 30, 2022, and funds are no longer held by the carrier on PEIA's behalf. The remaining PSR balance of $4,111 is held exclusively by PEIA and will be transferred to long-term equity in plan year 2023. These funds and any interest earned will be used to mitigate premium increases on the life insurance plan in future years.

Last year, the premium stabilization reserve decreased $4,414. PEIA utilized dollars held in the PSR to stabilize member costs by offering lower premiums than the plan anticipated to incur for life claims expense.

Total Operating Revenue

In the current year operating revenue increased 10%, or $57,701. The total premium charged for a health policy by PEIA is comprised a "PayGo" premium paid to the Retiree Health Benefits and Trust (RHBT) fund. A rate reduction in the "PayGo" premium effective February 2022 redirected more of the total health policy premiums to the PEIA fund.

Similarly last year, operating revenue increased 2.9%, or $16,185, due to the reduction in the PayGo premium charges owed to the RHBT fund redirecting more of the total employer health premiums to the PEIA fund. Payments to managed care organizations and life insurance premiums increased $4,850.

Claims Expense

In total claims expense increased $6,691 in the current year. As reported, medical claims expense decreased $20,382 and drug claims expense increased $27,343.

In years when a premium deficiency reserve exists adjustments to the reserve impacts medical claims expense reported for the year. Medical claims expense was reduced when the premium deficiency reserve was adjusted resulting in an annual medical claims expense that is understated. Removing the impact of the PDR adjustment results in an increase of $4,135 in medical claims expense. The increase in drug claims expense is reflective of the consistent upward trend of price inflation in the pharmaceutical industry.

Last year, medical claims expense increased $74,985, primarily resulting from the premium deficiency reserve increase of $36,631 and less than favorable claims experience. Unfavorable claims experience is due to the pent-up demand for medical care in the fourth quarter of 2020 shifting to the 2021 plan year because of denial of elective procedures at the start of the pandemic to give hospitals relief. Drug claims expense increased $31,820.

To mitigate the impact of the materially increasing drug costs experienced by the plan in recent years, PEIA has negotiated a contract with a new Pharmacy Benefits Manager (PBM), Express Scripts, effective July 1, 2022. The contract is expected to provide significant plan savings by way of increase rebate revenue and reduced drug pricing.

Net investment loss

Net investments decreased $56,666 for an overall net loss of $16,049 in the current year. Market experience has been volatile and unpredictable as the world recovers economically from effects of the pandemic. In contrast, last year, PEIA's net investments increased $35,648 for an overall net investment income of $40,617.

From a historical perspective, the recent investment losses are uncommon for PEIA's portfolio. The bulk of PEIA's investments are held with the West Virginia Investment Management Board (WVIMB), and in cooperation with the WVIMB, PEIA will be introducing a small amount of private investments to diversify and reduce its exposure to volatility in its portfolio in future years.

Nonoperating Income

Non-operating income is down 92% at $4,951. This directly relates to net investment income losses. Last year, nonoperating income increased 71.3% to $61,617 because of market appreciation on investments of $35,648 offset by a $10,000 decrease in budget appropriations awarded by the State.

Net Position

PEIA's net position decreased by $68,934. The bulk of this decrease is attributable to investment losses, the rising costs of healthcare, and operating at premium levels below expected plan costs utilizing plan reserves to offset the shortfall in lieu of premium increases.

Last year, net position decreased $63,042. The decrease in net position comprises both the $124,659 operating loss because of increased claims expense and $61,617 in non-operating income generated by the $21,000 State funding appropriation and investment income of $40,617.

Economic Conditions and Other Matters

Like many organizations, PEIA has felt the effects of the most recent economic recession. Across many industries prices have risen to a breaking point, financial conditions have tightened, and adjustments made to the Federal Reserve rate in response. PEIA will continue to seek advisement from professional consultants within the health insurance industry to negotiate new and existing contracts as mitigation strategy to respond to the rapidly changing economic conditions.

As described in several instances of the management's discussion and analysis, PEIA has been operating at premium levels below plan costs and thus experiencing significant losses. PEIA was fortunate to have excess reserves to offset the volatile and unexpected effects of the pandemic and has appreciated being able to avoid premium increases for State employees during this difficult time. PEIA intends to work collaboratively with plan actuaries, its Finance Board, and participants to build a plan that maintains a balance approach to fiscal solvency and adequate reserve levels in future years. PEIA expects to adjust plan premiums, benefits designs or request legislative appropriations to maintain the 10% required reserve as necessary in any given year.

Legislative Matters

There were no legislative matters causing material effects to the operations of PEIA as of June 30, 2022, or June 30, 2021.

Request for Information

This financial report is designed to provide PEIA's customers, governing officials, legislators, citizens, and taxpayers with a general overview of PEIA's accountability for the money it receives. If you have questions about this report or need additional information, contact the PEIA's Controller, April Taylor, at +1 304 342 0286.

West Virginia Public Employees Insurance Agency

Statements of Net Position
(In Thousands)

	June 30	
	2022	**2021 (As Restated – Note 7)**
Assets		
Current assets:		
Cash and cash equivalents	**$ 19,256**	$ 20,330
Equity position in investment pool	**33,612**	10,057
Premiums receivable:		
Other, less allowance for doubtful accounts of $38 and $66, respectively	**7,570**	5,197
Premiums due from State of West Virginia	**8,046**	3,808
Accounts receivable:		
Due from RHBT	**8,658**	1,722
Prescription rebates	**60,369**	56,762
Other	**2,105**	703
Total current assets	**139,616**	98,579
Noncurrent assets:		
Equity position in investment pool	**134,812**	270,948
Equity position in investment pool – restricted	**4,111**	9,403
Capital assets, net of accumulated depreciation of $10,844 and $10,557, respectively		
Right to use assets	**471**	613
Furniture, equipment, and other	**42**	66
Postemployment Benefits- Pension & OPEB	**933**	–
Total noncurrent assets	**140,369**	281,030
Total assets	**279,985**	379,609
Deferred outflows of resources related to:		
Pension	**454**	468
OPEB	**132**	238
Total deferred outflows of resources	**586**	706

West Virginia Public Employees Insurance Agency

Statements of Net Position (continued)

(In Thousands)

	June 30	
	2022	**2021 (As Restated – Note 7)**
Liabilities		
Current liabilities:		
Claims payable	**$ 103,734**	$ 98,087
Premium deficiency reserve	**58,649**	83,166
Accounts payable	**4,532**	2,963
Unearned revenue	**11,192**	19,889
Other accrued liabilities	**2,775**	2,448
Total current liabilities	**180,882**	206,553
Noncurrent liabilities:		
Other accrued liabilities:		
Other noncurrent liabilities	**–**	752
Premium stabilization fund	**4,111**	9,403
Lease liability	**490**	627
Total noncurrent liabilities	**4,601**	10,782
Total liabilities	**185,483**	217,335
Deferred inflows of resources related to:		
Pension	**1,200**	38
OPEB	**462**	582
Total deferred inflows of resources	**1,662**	620
Net position		
Investment in capital assets	**513**	679
Unrestricted	**92,913**	161,681
Total net position	**$ 93,426**	$ 162,360

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Position

(In Thousands)

	Year Ended June 30	
	2022	**2021 (As Restated – Note 7)**
Operating revenues:		
Premiums net of recoveries (provisions) of bad debts of ($28) and ($177), respectively	**$ 685,940**	$ 628,089
Less:		
Payments to managed care organizations	**(54,624)**	(53,971)
Basic life insurance premiums ceded	**(2,107)**	(2,543)
Net premium revenue	**629,209**	571,575
Administrative fees, net of refunds	**4,982**	4,915
Total operating revenues	**634,191**	576,490
Operating expenses:		
Claims expense, net	**684,802**	677,841
Administrative service fees	**19,681**	19,491
Other expenses	**3,593**	3,817
Total operating expenses	**708,076**	701,149
Operating loss	**(73,885)**	(124,659)
Nonoperating revenues:		
Investment income, net of fees	**(16,049)**	40,617
State appropriation	**21,000**	21,000
Total nonoperating income	**4,951**	61,617
Change in net position	**(68,934)**	(63,042)
Net position:		
Net position, beginning of year	**162,360**	225,402
Net position, end of year	**$ 93,426**	$ 162,360

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2022	2021 (As Restated – Note 7)
Cash flows from operating activities		
Cash received from participants	**$ 622,543**	$ 567,098
Cash received from pharmacy rebates	**113,638**	81,912
Cash paid to employees for salaries and benefits	**(136)**	(1,917)
Cash paid to suppliers and others	**(35,576)**	(20,464)
Cash paid for claims	**(817,310)**	(698,401)
Net cash used in operating activities	**(116,841)**	(71,772)
Cash flows from noncapital financing activities		
Advances to RHBT	**(6,936)**	4,735
State appropriation	**21,000**	26,000
Net cash provided by noncapital financing activities	**14,064**	30,735
Cash flows from capital and related financing activities		
Purchases of capital assets	**(121)**	(893)
Net cash used in capital and related financing activities	**(121)**	(893)
Cash flows from investing activities		
Purchases of investments	**(117,754)**	(138,575)
Sale of investments	**253,890**	128,014
Investment earnings	**(16,049)**	40,617
Net cash used in investing activities	**120,087**	30,056
Net increase (decrease) in cash and cash equivalents	**17,189**	(11,874)
Cash and cash equivalents at beginning of year	**39,790**	51,664
Cash and cash equivalents at end of year	**$ 56,979**	$ 39,790
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 19,256**	$ 20,330
Equity position in investment pool – current	**33,612**	10,057
Equity position in investment pool – restricted	**4,111**	9,403
	$ 56,979	$ 39,790

West Virginia Public Employees Insurance Agency

Statements of Cash Flows (continued)
(In Thousands)

	Year Ended June 30 2022	2021 (As Restated – Note 7)
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (73,885)**	$ (124,659)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	**287**	315
Provision for uncollectible accounts	**28**	(177)
Pension and OPEB expense	**(327)**	9
(Increase) decrease in operating assets:		
Premiums receivable	**(2,401)**	2,299
Due from State of West Virginia	**(4,238)**	(1,720)
Prescription rebates receivable	**(3,607)**	(15,838)
Other	**(1,402)**	5,867
(Decrease) increase in operating liabilities:		
Claims payable	**5,647**	24,721
Accounts payable	**1,569**	(1,141)
Premium deficiency	**(24,517)**	36,631
Unearned revenue	**(8,697)**	6,035
Other accrued liabilities	**327**	(90)
Lease liability	**(137)**	627
Premium stabilization fund	**(5,292)**	(4,414)
Deferred outflows of resources, pension, and OPEB	**(196)**	(237)
Total adjustments	**(42,956)**	52,887
Net cash used in operating activities	**$ (116,841)**	$ (71,772)
Noncash investing activities		
Increase in fair value of investments	**$ (16,136)**	$ 40,561

See accompanying notes.

1. Reporting Entity

The State of West Virginia Public Employees Insurance Agency (PEIA) was established under the Public Employees Insurance Act of 1971. PEIA is an agency of the State of West Virginia (State) and, accordingly, is reported as an enterprise fund of the primary government in the State's Comprehensive Annual Financial Report.

PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active employees of the State and various related State and non-State agencies. Additionally, all participants may elect to purchase life insurance under the optional life insurance policy. All premium rates are established based upon projected coverage costs as reviewed and approved by the PEIA Finance Board. See "Annual Financial Plan" for further discussion of this process. PEIA's enrollment consists of 75,053 health and basic life insurance policyholders and 8,187 policyholders with life insurance only. PEIA insures 167,206 individuals, including participants and dependents.

During the 2006 Regular Session of the West Virginia Legislature, House Bill 4654 was enacted creating the West Virginia Retiree Health Benefit Trust Fund (RHBT) for the purpose of providing for and administering retiree postemployment health care benefits and the respective revenues and costs of those benefits as a cost-sharing multiple employer plan. As a result of the legislation, health insurance policies covering 43,036 retirees and their dependents, along with the related revenues, claims costs, and expenses, were transferred to the RHBT effective July 1, 2006. The RHBT and PEIA jointly share administrative duties relating to the other postemployment benefit (OPEB) operations. Both entities are housed in the same office space and share expenses. Expenses directly attributable to the OPEB plan are charged to the RHBT. Other operating expenses, except personnel, are allocated based on policyholder count between PEIA and the RHBT. Personnel expenses attributable to two dedicated employees are charged in full to the RHBT, while the balance of the combined expense is allocated between the two entities based on estimated time requirements.

The basic financial statements of PEIA are intended to present the financial position, changes in financial position, and cash flows of only that portion of the business-type activities of the State that is attributable to the transactions of PEIA. They do not purport to and do not present fairly the net position of the State as of June 30, 2022 and 2021, or the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

2. Summary of Significant Accounting Policies

Basis of Reporting

PEIA operates as an enterprise fund. Accordingly, the financial statements of PEIA have been prepared on the accrual basis in conformity with GAAP for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). Operating revenues are derived mainly from premiums earned net of related reinsurance premiums plus administrative fees billed. Operating expenses consist primarily of claims, administrative service fees, and various general and administrative costs. All other items are considered nonoperating.

Annual Financial Plan

West Virginia Code 5-16-5 requires the PEIA Finance Board to prepare a proposed annual financial plan. The plan must be designed to generate sufficient revenues to meet all expected expenses, including insurance, administrative expenses, and incurred but not reported claims (IBNR) of PEIA. Any financial plans developed pursuant to WV Code 5-16-5 may not be submitted to the Governor or to the Legislature without the actuary's written professional opinion that the plan may be reasonably expected to generate sufficient revenues to meet all estimated program and administrative costs for the fiscal year for which the plan is proposed. The financial plan must be presented to the Governor and the Legislature no later than January 1, prior to the beginning of the new plan year.

The PEIA Finance Board establishes PEIA premiums based upon its approved annual financial plan. The financial plan projects the anticipated costs of the program for each fiscal year and the premium levels necessary to meet these costs. Any variances between projected and incurred costs are incorporated into subsequent financial plans and subsequent premiums are adjusted accordingly on a prospective basis. Premiums assessed by PEIA are not subject to retroactive adjustment based upon actual costs incurred.

PEIA Reserve Funds

West Virginia Code Section 5-16-25 requires the PEIA Finance Board to maintain a reserve of 10% of projected plan costs for the purpose of offsetting unanticipated claim losses in any fiscal year and to provide future stability.

2. Summary of Significant Accounting Policies (continued)

West Virginia Code Section 11B-2-15a established a special account, designated as the PEIA Rainy Day Fund, which is an interest-bearing account administered by the Secretary of Revenue. The PEIA Rainy Day Fund consists of moneys appropriated by the Legislature, income from investment of moneys held in the special revenue account, and all other sums available for deposit to the account, public or private. The Secretary of Revenue, upon approval of the Governor, may transfer funds from this account to PEIA in any fiscal year for the purpose of reducing or preventing benefit cuts and premium rate increases. On March 9, 2019, West Virginia House Bill 2665 enacted an appropriation transfer of $105 million from the State's General Revenue Fund to the PEIA Rainy Day Fund. There have been no transfers from the PEIA Rainy Day Fund to PEIA through June 30, 2022.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the West Virginia State Treasurer's office, outside financial institutions, and amounts deposited in an investment pool managed by the West Virginia Board of Treasury Investments (BTI) that is reported as part of equity position in investment pool – current – unrestricted and noncurrent – restricted, respectively.

Premiums Receivable

All premiums receivable are reported at their gross premium value due from employers and individual subscribers. The gross value is then reduced by the estimated portion that is expected to be uncollectible based upon management's review of the payment status of the underlying accounts and other economic factors that are deemed necessary in the circumstances.

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators that are due to PEIA and estimated prescription refunds and rebates that are due to PEIA from third-party administrators and other drug companies. The estimated prescription refunds/rebate receivable is based upon estimated prescription claim count and historical average rebate per claim.

2. Summary of Significant Accounting Policies (continued)

Equity Position in Investment Pools

PEIA owns equity positions in the State government investment pools managed by the West Virginia Investment Management Board (WVIMB) and the BTI. Some investment pool funds are subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to PEIA based on the balance of PEIA's investments maintained in relation to the total investments of all State agencies participating in the Pool. The equity position in investment pools is reported at amortized cost or fair value which is measured based on the units of ownership at a value per unit reported by the respective pool, and changes in fair value are included in investment income.

A 13-member Board of Trustees governs the WVIMB. Three members of the Board of Trustees serve by virtue of their office: the Governor, the Auditor, and the Treasurer. The other ten are appointed by the Governor and confirmed by the State Senate. All appointees must have experience in pension management, institutional management, or financial markets. In addition, one must be an attorney experienced in finance and investment matters and another must be a certified public accountant. Only six of the ten appointed Trustees may be from the same political party. The Governor serves as Chairman of the Board. A Vice-Chairman is elected by the Trustees. A Secretary, who need not be a member of the Board of Trustees, is also elected by the Trustees to keep a record of the proceedings of the Board. Details regarding these investment pools and a copy of the WVIMB financial report can be obtained by contacting West Virginia Investment Management Board, 500 Virginia Street, East, Suite 200, Charleston, West Virginia 25301, or by calling +1 304 645 2672.

A five-member Board of Directors governs the BTI. The Governor, Treasurer, and Auditor serve as ex-officio members of the Board of Directors. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney and both shall have experience in finance, investing, and management. The State Treasurer is Chairman of the Board. The BTI prepares separately issued financial statements covering the pooled fund, which can be obtained from its website or a published copy from the West Virginia Board of Treasury Investments, 315 70th Street, South East, Charleston, West Virginia 25304, or by calling +1 304 340 5030.

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Fair value of an investment is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

Investments are classified in a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not considered active, observable inputs other than observable quoted prices for the asset or liability, or inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable pricing inputs for assets and liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

GAAP does not require external investment pools to categorize within the fair value hierarchy table investments for which fair value is measured using the net asset value (NAV) per share practical expedient. All the investments held with the WVBTI and the WVIMB are valued using the NAV per share practical expedient.

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Furniture, equipment, and other capital assets with an initial cost of $500 (in dollars) or greater are recorded at cost. PEIA has assigned a useful life of three to five years for these capital assets.

Leasing arrangements with a cost greater than $25,000 (in dollars) annually are recognized as a right-to-use asset in accordance with provisions of GASB 87 and are presented separately from other capital assets. Lease assets are measured and recorded at the amount of the initial lease liability, plus any payments made to a lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Depreciation expense computed using the straight-line method was $287 and $315 for the years ended June 30, 2022 and 2021, respectively.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented on the statements of net position as aggregations of different types of deferred amounts. Deferred outflows also consisted of other amounts related to differences between projected and actual earnings on pension plan investments, differences between expected and actual experience related to pension or OPEB, and changes in proportion and differences between PEIA's contributions and proportionate share of contributions.

Claims Payable and Expense

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims incurred as of the statement of net position date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment, utilization, inflation, and other societal and economic factors. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that the actual results of the settlement

2. Summary of Significant Accounting Policies (continued)

of the claims are made and are known. The estimated liability is adjusted annually based on the most current claim incurrence and claim settlement history (see Note 8). Year-end claims payable balances are generally liquidated within the next fiscal year. Claims relating to participants in managed care organizations (MCOs) as well as claims relating to participants covered under the optional life insurance plan are not considered in the liability as PEIA has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, PEIA is responsible for such liability.

Premium Deficiency Reserve

Premium deficiency is required when policies in force as of the financial statement date are expected to produce a loss when claims cost (including IBNR) plus expected claims adjustment expenses are expected to exceed related premiums. In making its determination, management took into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists. Adjustments to the estimated premium deficiency liability are reflected as a change in estimate in the year the actual results are known. Management has determined a premium deficiency reserve of $58,649 and $83,166 is necessary as of June 30, 2022 and 2021, respectively.

PEIA participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to PEIA. If the assets of PEIA were to be exhausted, participants would not be responsible for the liabilities.

Unearned Revenue

Unearned revenue includes premium revenues collected for future contract periods. These revenues will be recognized in the operating periods in which they are earned.

2. Summary of Significant Accounting Policies (continued)

Lease Liabilities

PEIA measures lease liabilities at the present value of payments expected to be made during the lease term (less any lease incentives). Payments included in the measurement of PEIA's lease liabilities include fixed payments defined by the lease terms. If applicable, variable payments that depend on an index or rate, any variable payments that are fixed in substance, any amounts required to be paid by PEIA under residual value guarantees, exercise price of purchase options, payments for penalties for terminating a lease, any lease incentives, and any other payments that are reasonably certain of being required based on assessment of all relevant factors would also be included in the measurement of the lease liabilities.

Lease liabilities are reduced as payments are made and PEIA recognizes an outflow of resources for interest on the liabilities. PEIA discounts future lease payments using an estimated incremental borrowing rate. Management has estimated an incremental borrowing rate of 4.75% and $3.25% to be used as the discount rate for the years ended June 30, 2022, and 2021, respectively.

See Note 7 – Leasing Arrangements for additional disclosures related to lease liabilities.

Compensated Absences, Including Postemployment Benefits

Employees fully vest in all earned but unused annual leave and PEIA accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer paid premiums for postemployment health care coverage through the RHBT or be converted into a greater retirement benefit under the State's Public Employees' Retirement System. Employees hired after July 1, 2001, are not eligible to convert unused time to employer paid premiums.

2. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented on the statements of plan net position as aggregations of different types of deferred amounts. Deferred inflows on the statements of plan net position are composed of amounts related to differences between projected and actual earnings on pension investments, changes in proportion and differences of PEIA's contributions, and the proportionate share of contributions and differences in assumptions. Deferred inflows of resources related to OPEB relate to differences between expected and actual experience, net different between expected and actual earnings on OPEB plan investments and changes in proportion, and differences between employer contributions and the proportionate share of contributions.

Insurance Programs and Related Premium Revenues

PEIA offers the following types of coverage to its participants: health coverage through a self-insured preferred provider benefit (PPB) plan, health coverage through external MCOs, and life and accidental death and dismemberment (AD&D) insurance benefits under basic and optional plans. PEIA collects premiums for participants in the PPB plan and uses these premiums in the administration of the plan. Additionally, PEIA has the statutory authority to raise additional revenues in the form of premiums without the need for external (legislative) action.

For participants who elect coverage through MCOs, PEIA collects premiums from employers and remits a capitation fee to an MCO carrier. The capitation fees paid by PEIA to each MCO are in accordance with their respective contracts. Benefits are the responsibility of each MCO carrier. The premiums earned by PEIA have been included in gross premium revenue while the capitation fees submitted to each MCO carrier are reflected as a reduction in premium revenue on the financial statements.

Effective July 1, 2017, the Finance Board approved that opt-out employers (OPEB ineligible) were no longer required to pay a retiree subsidy contribution to RHBT, but instead would be responsible for the equivalent full active health PEIA premium. Accordingly, all payments received by opt-out employers subsequent to July 1, 2017, are recorded as PEIA premiums.

2. Summary of Significant Accounting Policies (continued)

As of the June 2022 coverage month, PEIA provided health coverage to 131 State agency divisions with approximately 19,696 primary participants (not including dependents), 55 county school boards and 3 multi-county vocational centers with approximately 29,718 primary participants, 709 local government entities with approximately 15,617 primary participants and 24 college and university entities with approximately 10,022 primary participants. Approximately 167,206 dependents participated in PEIA health plans as well.

Employees covered through PEIA are eligible to obtain decreasing term life insurance under a basic and optional life insurance plan. Basic life benefits, which include AD&D averaging from $0.88 to $1.76 a month for a $5,000 to $10,000 policy (depending on age), are available to active State employees at no cost to the employee. Coverage amounts decrease with age. No AD&D benefits are available to retirees. Basic life benefits are available to retirees with coverage ranging from $5.56 to $11.14 per month for a $2,500 or $5,000 policy, depending on age. PEIA has reinsured 100% of these basic benefits; however, PEIA remains contingently liable in the event the insurer does not honor its obligation. The premiums earned for basic life insurance are reflected in gross premiums and the related amounts ceded to the reinsurer are reflected as a reduction in premium revenue on the financial statements.

Active employees may elect to obtain additional optional coverage for both life and AD&D with coverage from $0.30 (in dollars) to $444 (in dollars) per month that decreases with age. Active employees may also elect dependent optional life coverage and AD&D at a level up to $40,000 per spouse and $15,000 per child ranging from $3.00 to $20.00 per month. Retirees may obtain optional life insurance coverage from $0.40 (in dollars) to $501 (in dollars) per month depending on age; however, optional AD&D insurance is not available to retirees. Retirees may also elect dependent optional life coverage at levels up to $40,000 for a spouse and $15,000 per child ranging from $9.00 to $68.00; however, dependent optional AD&D insurance is not available to retirees. Amounts collected by PEIA acting in an agency capacity from employees for optional coverage totaled $2,107 and $2,543 during the fiscal years ended June 30, 2022 and 2021, respectively, and were remitted directly to the carrier. Accordingly, such amounts do not impact the financial statements.

2. Summary of Significant Accounting Policies (continued)

Revenues include an administrative fee that PEIA charges to all participating entities in the plan. The fee is based on the participating entities' number of employees enrolled in the plan.

Administrative Service Fees

PEIA contracts with and pays administrative service fees to two third-party administrators. Services include processing of insurance claims, precertification reviews, utilization reviews, and various other duties. The majority of related fees are assessed each month based upon the number of covered participants or claims processed at predetermined rates without regard to the period in which a claim is incurred, processed, or settled.

Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those that comprise PEIA's ongoing operations. Principal operating revenues include health insurance premiums, life insurance premiums, and insurance administration fees, less amounts paid to MCOs and life insurance reinsurers. Operating expenses include the cost of medical claims, drug claims, claims adjudication, administration, and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Net Position

PEIA reports net position in three components, if applicable: net investment in capital assets, restricted, and unrestricted.

Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Summary of Significant Accounting Policies (continued)

Restricted – The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. There are no restrictions at June 30, 2022 or 2021.

Unrestricted Assets – Unrestricted assets consist of assets that do not meet the definition of "restricted" or "investment in capital assets." In the governmental environment, assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statements of net position.

New Accounting Pronouncements

The GASB has issued Statement No. 87 (GASB 87), *Leases*. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements. Accordingly, PEIA has adopted GASB 87 with a retroactive application beginning July 1, 2020, and thus financial statement presentations for year ended June 30, 2021, have been restated.

See Note 7- Leasing Arrangements for additional information.

The GASB has issued Statement No. 96 (GASB 96), *Subscription-based information technology arrangements*. Subscription-based information technology arrangements (SBITAs) is defined as a contract that conveys control of the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified by the contract for a period of time in exchange or exchange like transactions. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. PEIA has not yet determined the effect, if any, this statement will have on its financial statements.

(Dollars In Thousands)

3. Cash and Cash Equivalents

Following is a summary of PEIA's cash and cash equivalents as of June 30:

	2022	2021
Cash and cash equivalents on deposit with State Treasurer	**$ 15,962**	$ 17,550
Deposits with outside financial institutions	**3,294**	2,780
Cash and cash equivalents reported on statement of net assets	**19,256**	20,330
Equity position in investment pool with BTI – current – unrestricted	**33,612**	10,057
Equity position in investment pool with BTI – noncurrent – restricted	**4,111**	4,949
Equity position in investment pool with Minnesota Life – noncurrent – restricted	**-**	4,454
Total cash and cash equivalents	**$ 56,979**	$ 39,798

4. Deposit and Investment Disclosures

Deposits With Outside Financial Institutions

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, PEIA's deposits might not be recovered. PEIA has no deposit policy for custodial credit risk.

As of June 30, 2022 and 2021, the carrying amount of PEIA's outside bank deposits was $3,294 and $2,780, and the bank balances totaled $3,294 and $2,780, respectively.

4. Deposit and Investment Disclosures (continued)

Equity Position in Investment Pools Managed by BTI

West Virginia Money Market Pool

PEIA participates in the BTI's West Virginia Money Market Pool, which reported at amortized cost. The criteria specify that the pool must transact with its participants at a stable NAV per share and meet requirements for portfolio maturity, portfolio quality, portfolio diversification, portfolio liquidity, and shadow pricing. The BTI does not place limitations or restrictions on participant withdrawals from the pool, such as redemption notice periods or maximum transaction amounts, or any authority to impose liquidity fees or redemption gates. Accordingly, as a pool participant PEIA measures its investment in this pool at amortized cost, which approximates market value of $37,723 and $19,460 at June 30, 2022 and 2021, respectively. These deposits are reported as equity position in investment pools. Investment income earned is prorated to PEIA at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the Pool. Such funds are available to PEIA with overnight notice. The BTI's audited financial statements, including the West Virginia Money Market Pool, are available on its website, wvbti.com.

Credit Risk, Interest Rate Risk, and Custodial Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The West Virginia Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated "AAAm" has an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts have been rated for credit risk by any organization. The West Virginia Money Market Pool is subject to credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PEIA does not have a policy to limit interest rate risk.

(Dollars In Thousands)

4. Deposit and Investment Disclosures (continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, PEIA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their fair value, and the collateral is held in the name of the BTI. PEIA does not have a policy for custodial credit risk.

Equity Position in Investment Pools Managed by the WVIMB

PEIA's investments in the following investment pools are managed by the WVIMB. Such investments, which are stated at fair value (actual asset allocation), are reported as part of equity position in investment pools on the statements of net position. PEIA can withdraw directly from the short-term fixed income pool. If additional funds are requested, the WVIMB would need to liquidate holdings in the individual investment.

	Asset Value at June 30	
	2022	**2021**
Asset allocation (actual):		
TIPS pool	**$ 24,630**	$ 40,744
Domestic equity – large cap	**14,756**	32,032
Domestic equity – non-large cap	**3,321**	5,426
International nonqualified pool	**5,296**	9,573
International equity pool	**10,572**	23,308
Total return fixed income	**33,321**	75,233
Core fixed income	**10,862**	32,254
Hedge fund	**32,054**	52,378
Short-term fixed income pool	**–**	–
Total	**$ 134,812**	$ 270,948

(Dollars In Thousands)

4. Deposit and Investment Disclosures (continued)

Asset Allocation

Based upon WVIMB's determination of the appropriate risk tolerance for the fund, WVIMB has adopted the following broad asset allocation guidelines for the assets managed for PEIA. (Policy targets have been established on a market value basis.)

	Policy Target		**Strategic Allocation**	
Asset Class	**2022**	**2021**	**2022**	**2021**
Equity	**20%**	20%	**25%**	25%
Fixed income	**80**	80	**40**	40
TIPS	**–**	–	**15**	15
Hedge funds	**–**	–	**20**	20
Total	**100%**	100%	**100%**	100%
Cash	*	*	*	*

* WVIMB staff has authority to change the cash allocation plus or minus 10%, as necessary, in consultation with the appropriate representatives with PEIA. Not all cash is invested with the WVIMB.

Redemption

The Short-Term Fixed Income Pool is a stable dollar fund that is used to hold monies awaiting withdrawal or investment. Redemptions from the Short-Term Fixed Income Pool may be completed on any WVIMB business day to the extent there are funds available. For cash to be available for withdrawal from the Short-Term Fixed Income Pool, redemptions will be required from the primary, long term investment pools based on the notification requirements in the following paragraph.

If the PEIA plans to withdraw funds beyond the established cash target, if any, then advance notice is required to allow the WVIMB to raise the cash for the investment redemption request. Advanced notice is required to be provided to the WVIMB by the 18th of the preceding month to effectuate the transactions required to raise the cash. As an example, for cash to be available for withdrawal in the month of April, notice should be provided before March 18.

4. Deposit and Investment Disclosures (continued)

Cash withdrawn from the primary, long term investment pools will be deposited into the WVIMB's Short Term Fixed Income Pool until an Investment Redemption request is submitted.

Credit Risk, Interest Rate Risk, and Custodial Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. Each of the WVIMB investments is considered to be pooled investments and are unrated. PEIA does not have a policy to limit credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. PEIA does not have a policy to limit interest rate risk.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, PEIA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The WVIMB investments, which are pooled investments, are exempt from custodial credit disclosure. PEIA does not have a policy for custodial credit risk.

Investment Objectives

PEIA's investments with WVIMB's objective is to provide adequate liquidity to meet cash flow requirements and allow for growth of assets in an amount at least equal to inflation. The following is additional information of each pool's investment objective:

U.S. Treasury Inflation Protected Securities (TIPS)

The pool was established to offer an additional level of diversification over and above the nominal fixed-income securities in an attempt to mitigate the risk of inflation. The main objective for the Pool is to generate a return that exceeds the rate of inflation over a market cycle, to provide investment income and stability of principal and to diversify interest rate exposure. The Pool's performance is measured against the Bloomberg Barclays U.S. Treasury Inflation Protection Index on an annualized basis over rolling three- to five-year periods, gross of fees. The Pool invests in BlackRock U.S. Treasury Inflation Protected Securities Fund B (BlackRock). BlackRock invests primarily in a portfolio of debt securities with the objective of closely approximating the total rate of return for all outstanding U.S. Treasury Inflation Protected Securities with a maturity of one year or greater.

4. Deposit and Investment Disclosures (continued)

Large Cap Domestic Equity Pool

On July 1, 2020, the IMB created the Large Cap Domestic Equity Pool to invest in U.S. equities of large-cap growth and value stocks. This pool's objective is to equal or exceed, net of external investment management fees, the S&P 500 Stock Index over three- to five-year periods. The pool invests in the BlackRock Equity Index Fund B (BlackRock). BlackRock uses a replication indexing approach to achieve investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P 500 Stock index.

Non-Large Cap Domestic Equity Pool

On July 1, 2020, the IMB created the Non-Large Cap Domestic Equity Pool to invest in U.S. equities of small- and mid-cap growth and value stocks. This pool's objective is to equal or exceed, net of external investment management fees, the Russell 2500 Index over three- to five-year periods.

International Non-Qualified Pool

This pool invests in a commingled equity fund, specifically The Silchester International Investors International Value Equity Trust (Silchester). The pool's objective is to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East Index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. The pool exists for participants who are not "qualified" (as defined by the Internal Revenue Code). Silchester invests in a diversified developed country, non-U.S. equity, bottom-up, value-oriented portfolio of securities with limited exposure to emerging markets and no unreasonable concentration exposure to any single issuer or country.

4. Deposit and Investment Disclosures (continued)

International Equity Pool

This pool invests in the equities of international companies. The objective of the pool is to outperform the international equity market as measured by Morgan Stanley Capital International's All Country World Free Ex US Index over a full market cycle (three to five years), net of external investment management fees.

Total Return Fixed Income Pool

This pool's objective is to generate investment income, provide stability, and enhance diversification but not at the expense of total return. The pool's investment objective is to outperform the Bloomberg Barclays U.S. Universal Bond Index over three- to five-year periods, net of external investment management fees.

Core Fixed Income Pool

The main objective of this pool is to generate investment income, provide stability, and enhance diversification but not at the expense of the total return. The pool's investment objective is to outperform the Bloomberg Barclays U.S. Aggregate Bond Index over three- to five-year periods, net of external investment management fees.

Short Term Fixed Income

The main objective of the Pool is to maintain sufficient liquidity to meet the daily disbursements requested by participants and to invest any contributions until the time the money is transferred to other WVIMB operated investment pools without sustaining capital losses while earning a small return above inflation. The Pool's benchmark, net of external investments management fees, is the FTSE 3 Month US T-Bill Index.

Hedge Fund Pool

This pool was established to hold the WVIMB's investments in hedge funds. The objective of the pool is to reduce risk through diversification of participants' assets. The primary performance benchmark is the Hedge Funds Research, Inc. Fund of Funds Composite Index plus 100 Basis points. The secondary benchmark is the FTSE 3 Month US T-Bill Index plus 500 basis points.

(Dollars In Thousands)

5. Equity Position in Investment Pool – Restricted (Premium Stabilization Fund) Managed by BTI and Minnesota Life

Optional life insurance premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. The premium stabilization fund is invested in the BTI Money Market Pool (see Note 4 for investment disclosures related to this Pool). To the extent that these policyholder premiums are refunded to PEIA in the form of dividends and interest by the life insurance company, the funds are refunded to the related optional life policyholders by way of reductions in future premium increases. This account is utilized to track the accumulated balance due to optional life policyholders. Noncurrent assets include $4,111 and $9,403 as of June 30, 2022 and 2021, respectively, restricted to meet this obligation.

The following table represents changes in the premium stabilization fund for the years ended June 30:

Rating	**2022**	**2021**
Premium stabilization fund – beginning of year	**$ 9,403**	$ 13,817
Life insurance dividends, interest received, and pool results	**(5,292)**	(4,414)
Premium stabilization fund – end of year	**$ 4,111**	$ 9,403

(Dollars In Thousands)

6. Capital Assets

Capital asset activity was as follows:

Assets	**June 30 2021 (As Restated)**	**Additions**	**Disposals**	**June 30, 2022**
Intangibles	**$ 9,026**	**$ –**	**$ –**	**$ 9,026**
Equipment	**1,334**	**1**	**–**	**1,335**
Right to use	**876**	**120**	**–**	**996**
Total capital assets	**11,236**	**121**	**–**	**11,357**
			–	
Intangibles	**(8,815)**	**–**	**–**	**(8,815)**
Equipment	**(1,479)**	**(25)**	**–**	**(1,504)**
Right to use	**(263)**	**(262)**	**–**	**(525)**
Total accumulated depreciation	**(10,557)**	**(287)**	**–**	**(10,844)**
Total capital assets, net	**$ 679**	**$ (166)**	**$ –**	**$ 513**

Assets (As Restated)	**June 30 2020**	**Additions**	**Disposals**	**June 30, 2021**
Intangible assets	$ 9,026	$ –	$ –	$ 9,026
Equipment	1,317	17	–	1,334
Leases	–	876	–	876
Total capital assets	10,343	893	–	11,236
Intangible assets	(8,815)	–	–	(8,815)
Equipment	(1,427)	(52)	–	(1,479)
Leases	–	(263)	–	(263)
Total accumulated depreciation	(10,242)	(315)	–	(10,557)
Total capital assets, net	$ 101	$ (578)	$ –	$ 679

7. Leasing Arrangements and GASB 87 restatement

GASB Statement No. 87, Leases (GASB 87), is a comprehensive change by the governmental accounting standards board for leasing arrangements. Previous GASB lease guidance, including GASB 13 and GASB 62, did not require all leases to be recognized on the statement of financial position. Instead, only those classified as capital leases were recognized and disclosed as assets and liabilities in the financial statements.

Per GASB 87, a lease is defined as a contract that conveys control of the right-to-use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. The lease term is defined as the period during which a lessee has the noncancelable right to use an underlying asset, plus periods covered by a lessee's option to extend the lease and to terminate the lease. A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease, or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Leases should be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation of GASB 87.

The West Virginia Department of Administration, Real Estate Division subleases to PEIA 16,638 rentable square feet of Building #37, located at 601 57^{th} Street, SE, in the City of Charleston, West Virginia. PEIA has adopted GASB 87 with an implementation date of July 1, 2020, with an original lease term of 40 months. This lease was modified in June 2022, for an additional term of 24 months effective through June 30, 2024. The basis for the lease to be discounted includes fixed monthly payments by PEIA as defined in the terms of the contract. No variable payments or residual value guarantees are included in the terms of the contract or the basis of the lease.

The adoption of GASB 87 resulted in an increase to total assets of $613 and total liabilities of $490 in the statement of net position as of June 30, 2021. On the statements of cash flows net cash used in operating activities and the corresponding reconciliation has been adjusted to $71,772 from $72,648, net cash used in capital and financing activities has been adjusted from $17 to $893, but there was no change to the overall decrease in cash for the year ending June 30, 2021.

(Dollars In Thousands)

7. Leasing Arrangements and GASB 87 restatement (continued)

The following table summarizes the PEIA's lease asset balance and amortization by class of asset as of June 30:

Building #37 **601 57th Street, S.E. Charleston, WV 25304**	**2022**	**2021**
Gross asset balance- Building	**$ 613**	$ 876
Less: accumulated amortization	**525**	263
Net asset balance- building	**$ 471**	$613

A maturity analysis of the lease liability balance has been prepared by PEIA to present principal and interest requirements until maturity.

Year	**Interest Expense**	**Liability Reduction**
2023	$ 18	$ 246
2024	6	244
	$ 24	$ 490

(Dollars In Thousands)

8. Unpaid Claims Liabilities

As discussed in Note 2, PEIA establishes a liability for both reported and unreported insured events, which includes an estimate of future payments of losses. The following represents changes in those aggregate liabilities for PEIA for the years ended June 30:

Rating	2022	2021
Claims payable, beginning of year	**$ 98,087**	$ 73,366
Incurred claims expenses:		
Provision for insured events of the current year	**713,639**	650,370
Decrease in provision for insured events of prior years	**(4,320)**	(9,160)
Total incurred claims expense	**709,319**	641,210
Payments:		
Claim payments, net of rebates, attributable to insured events of:		
Current year	**617,247**	564,186
Prior years	**86,425**	52,303
Total payments, net	**703,672**	616,489
Claims payable, end of year	**$ 103,734**	$ 98,087

The above payments are net of pharmacy rebates earned of $117,245 and $97,750 for the years ended June 30, 2022 and 2021, respectively.

9. Other Postemployment Benefits (OPEB)

Plan Description

PEIA participates in the West Virginia Other Postemployment Benefit Plan (the Plan) a cost-sharing, multiple employer, defined benefit other postemployment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code Section 5-16D-2 (the Code). The financial activities of the Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia. The Plan is administered by a combination of the PEIA and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with approval of the Finance Board. The Finance Board comprises nine members. Finance Board members are appointed by the Governor, serve a term of four years, and are eligible for reappointment. The State Department of Administration cabinet secretary serves as Chairman of the Board. Six members represent labor, education, public employees, public retirees, hospitals, and non-hospital health care providers. Four remaining members represent the public at large. The Plan had approximately 42,764 policyholders and 62,694 covered lives at June 30, 2022.

Active employees who retire are eligible for the PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement is a participating employer under the Consolidated Public Retirement Board (CPRB) and, as of July 1, 2008, forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the nonparticipating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium himself or herself. Active employees who are members of the Teacher's Defined Contribution Retirement (TDCR) plan must be either 55 years of age and have 12 or more years of credited service or be at least 60 years of age with five years of service, and their last employer immediately prior to retirement must be a participating employer under TDCR plan, or the CPRB system to qualify to continue PEIA insurance benefits upon retirement. Employees who participate in non-State retirement systems but are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and similar plans), or are approved, in writing, by the PEIA Director must, in the case of education

9. Other Postemployment Benefits (OPEB) (continued)

employees, meet the minimum eligibility requirements of the State Teacher's Retirement System and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

For additional financial information, please refer to the audited financial statements of the RHBT. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at peia.wv.gov. If you have any questions about this report or need additional information, contact the RHBT Controller, Jennifer Priddy, at +1 304 558 7850, ext. 20298. You can also submit your questions in writing to West Virginia Public Employees Insurance Agency, 601 57th Street, SE Suite 2, Charleston, WV 25304.

Benefits Provided

The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life insurance

The medical and prescription drug insurance is provided through two options:

- Self-Insured Preferred Provider Benefit Plan – primarily for non-Medicare-eligible retirees and spouses
- External MCOs – primarily for Medicare-eligible retirees and spouses

Contributions

Contributions into the RHBT include PayGo, retiree leave conversion billings, and other matters, including billing adjustments. PayGo premiums are established by the Finance Board annually. All participating employers are required by statute to contribute to the RHBT this premium at the established rate for every active policyholder per month. PEIA's contributions to the RHBT were $33, $29, and $60 for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

(Dollars In Thousands)

9. Other Postemployment Benefits (OPEB) (continued)

OPEB Liabilities (Asset) and OPEB Expense

At June 30, 2022 and 2021, PEIA reported an OPEB asset of $98 and a liability of $186, respectively, for its proportionate share of the net OPEB liability (Asset). PEIA's proportion of the net OPEB Liability (Asset) each year is based on PEIA's share of contributions to the OPEB plan relative to the contributions of all employers participating in the RHBT for the respective year. At June 30, 2022, PEIA's proportionate share was 0.0322%, which was an decrease of 0.0099% from its proportionate share as of June 30, 2021.

For the years ended June 30, 2022 and 2021, PEIA recognized OPEB expense of $(176) and $(115), respectively.

Sensitivity of PEIA's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

A Single Discount Rate of 6.65% was used to measure the total OPEB Liability (Asset). The following presents PEIA's proportionate share of the net OPEB Liability (Asset) calculated using the discount rate of 6.65%, as well as what PEIA's proportionate share of the net OPEB Liability (Asset) would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1.00% Decrease (6.15%)	Discount Rate (7.15%)	1.00% Increase (8.15%)
PEIA's proportionate share of net OPEB liability (asset)	$ 51	$ (10)	$ 60

(Dollars In Thousands)

9. Other Postemployment Benefits (OPEB) (continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Health Care Cost Trend Rates

The following presents PEIA's proportionate share of the net OPEB Liability (Asset) of the Plan, as well as what PEIA's net OPEB liability (Asset) would be if it were calculated using health care cost trend rates that are 1 percentage point lower:

	1% Decrease	Health Care Cost Trend Rates	1% Increase
Net OPEB liability (Asset)	$ (71)	$ (10)	$ 65

10. Pension Plan

Plan Description

All full-time PEIA employees are eligible to participate in the State's Public Employees' Retirement System (PERS), a multiple-employer defined benefit cost-sharing public employee retirement system administered by the West Virginia CPRB. Chapter 5, Article 10 of the West Virginia Code assigns the authority to establish and amend benefit provisions to the PERS Board of Trustees. Benefits under PERS include deferred retirement, early retirement, and death and disability benefits and have been established and may be amended by action of the State Legislature. The CPRB issues a publicly available financial report that includes financial statements and actuarial information for PERS that may be obtained at wvretirement.com.

Benefits Provided

Employees are eligible for normal retirement at age 60 with 5 or more years of credited service, or at least age 55 with age and service equal to 80 or greater. For all employees hired on or after July 1, 2015, qualification for normal retirement is age 62 with 10 years of service or at least age 55 with 30 or more years of service. The straight-life annuity retirement benefit, established by State statute, is equivalent to 2% of the employee's final average salary multiplied by years of

10. Pension Plan (continued)

service. Final average salary is the average of the 3 consecutive highest annual earnings out of the last 15 years of earnings. For all employees hired on or after July 1, 2015, average salary is the average of the 5 consecutive highest annual earnings out of the last 15 years of earnings. Terminated members with at least 5 years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62. For all employees hired on or after July 1, 2015, who have separated from employment with a participating PERS agency prior to retirement, the retirement age increases to age 64.

Contributions

While contribution rates are legislatively determined, actuarial valuations are performed to assist PERS and the State Legislature in determining contribution rates. The funding policy required employer contributions of 9.0%, 10.0% and 10.0% for the years ended June 30, 2022, 2021, and 2020. Beginning February 7, 2012, new hires are required to pay the employee's contribution of 4.5%. For all employees hired on or after July 1, 2015, the employee contribution increased to 6.0%. PEIA's contributions to the plan were $162, $178, and $167 for the fiscal years ended June 30, 2022, 2021, and 2020, respectively.

Pension Liabilities (Asset), and Pension Expense

At June 30, 2022 and 2021, PEIA reported an asset of $924 and a liability of $566, respectively, for its proportionate share of the net Pension Liability (Asset). PEIA's proportion of the net Pension Liability (Asset) was based on PEIA's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2021. At June 30, 2022, PEIA's proportionate share was 0.15467%, which was a decrease of 0.003478% for its proportionate share measured as of June 30, 2020.

For the years ended June 30, 2022 and 2021, PEIA recognized pension expense of $(153) and $147, respectively.

(Dollars In Thousands)

10. Pension Plan (continued)

Sensitivity of PEIA's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The discount rate used to measure the total Pension Liability (Asset) was 7.25%. The following presents the proportionate share of the net Pension Liability (Asset) of PEIA, calculated using the discount rate of 7.25%, as well as what PEIA's net Pension Liability (Asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	Net Pension Asset (Liability)	
1.00% Decrease 6.25%	**Current Discount Rate 7.25%**	**1.00% Increase 8.25%**
$ (11)	$ 924	$ 1,712

11. Litigation

PEIA is engaged in various legal actions that it deems to be in the ordinary course of business. The ultimate outcome of these matters is unknown. PEIA believes that it has adequately provided for probable costs of current litigation, as these legal actions are resolved; however, PEIA could realize positive and/or negative impact to financial performance in the period in which these legal actions are ultimately decided.

Required Supplementary Information

(In Thousands)

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information

(In Thousands)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare with related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PEIA as of the end of each of the years presented. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating income, State appropriations, and investment income net of fees. (2) This line shows each fiscal year's other operating costs of PEIA, including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows PEIA's incurred and ceded claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred (called accident year). (4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. (5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. (6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims and reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest re-estimated net incurred claims amount with the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual accident years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

	Year Ended June 30									
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
1) Premiums, investment, and other revenues:										
Earned	$ 582,682	$ 606,681	$ 578,350	$ 562,179	$ 652,785	$ 626,836	$ 641,618	$ 647,938	$ 694,621	**$ 685,940**
Ceded	52,720	50,623	51,599	51,176	48,953	44,457	47,942	51,664	56,514	**56,731**
Net earned	529,962	556,058	526,751	511,003	603,832	582,379	593,676	596,274	638,107	**629,209**
2) Unallocated expenses	22,484	25,253	28,553	22,421	18,199	18,580	19,169	26,223	23,294	**23,274**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	531,589	566,392	607,350	608,128	591,410	557,883	580,267	593,274	706,884	**771,409**
Ceded	52,720	50,623	51,599	51,176	48,953	44,457	47,942	51,664	56,514	**56,731**
Net incurred	478,869	515,769	555,751	556,952	542,457	513,426	532,325	541,610	650,370	**714,678**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	436,560	471,415	474,120	500,897	480,228	460,173	484,495	462,582	564,186	**617,247**
One year later	489,742	528,128	532,549	571,120	535,595	507,701	551,304	514,885	650,611	
Two years later	490,133	528,128	532,549	571,120	535,595	507,701	551,304	514,885		
Three years later	490,133	528,128	532,549	571,120	535,595	507,701	551,304			
Four years later	490,133	528,128	532,549	571,120	535,595	507,701				
Five years later	490,133	528,128	532,549	571,120	535,595					
Six years later	490,133	528,128	532,549	571,120						
Seven years later	490,133	528,128	532,549							
Eight years later	490,133	528,128								
Nine years later	490,133									

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (continued)

(In Thousands)

	Year Ended June 30									
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
5) Re-estimated ceded claims and expenses	$ 52,720	$ 50,623	$ 51,599	$ 51,176	$ 48,953	$ 44,457	$ 47,942	$ 51,664	$ 56,514	**$**
6) Re-estimated net incurred claims and allocated claims adjustment expense:										
End of accident year	478,869	515,769	555,751	556,952	542,457	513,426	532,325	541,610	650,370	**713,639**
One year later	479,329	515,689	557,931	553,322	546,787	509,436	529,555	528,990	**648,040**	
Two years later	479,339	515,689	557,931	554,012	547,687	508,636	535,785	**542,550**		
Three years later	479,339	515,689	557,981	554,092	547,507	508,636	**529,395**			
Four years later	479,339	515,689	557,981	554,092	547,507	**508,636**				
Five years later	479,339	515,689	557,981	554,092	**547,507**					
Six years later	479,339	515,689	557,981	**554,092**						
Seven years later	479,339	515,689	**557,981**							
Eight years later	479,339	**515,689**								
Nine years later	**479,339**									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of accident year	470	(80)	2,230	(2,860)	5,050	(4,790)	(2,930)	940	**(2,330)**	–

Note: The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of change in net assets as determined on a contract-year basis will differ from that included in PEIA's fiscal year financial statements.

Other Supplementary Information

(In Thousands)

West Virginia Public Employees Insurance Agency

Form 7, Deposits Disclosure

(In Thousands)

June 30, 2022

		Carrying Amount	
Cash with State Treasurer	$	15,962	
Deposit in transit		–	
Cash in outside bank accounts		3,294	
Total carrying amount of deposits		19,256	
Cash equivalents (with BTI and Minnesota Life)		37,723	
Total cash	$	56,979	(1)(3)

See independent auditor's report on other financial information.

(1) Agrees to audited statement of net position as follows:

Cash and cash equivalents	$	19,256	(2)
Equity position in investment pool – current		33,612	(2)
Equity position in investment pool – noncurrent and restricted		4,111	(2)
Total cash equivalents	$	56,979	(2)(3)

(2) Agrees to audited statement of cash flows.

(3) Agrees to Note 4, cash and cash equivalents.

West Virginia Public Employees Insurance Agency

Form 8, Investments Disclosure

(In Thousands)

June 30, 2022

Investment Pool	Amount Unrestricted	Amount Restricted	Amount Reported	Fair Value
West Virginia Board of Treasury Investments (BTI):				
WV Money Market Pool	$ 33,612	$ 4,111	$ 37,723	$ 37,723
Total equity position in investment pool with BTI	$ 33,612 (1)	$ 4,111 (3)	$ 37,723	$ 37,723 (5)
Minnesota Life Insurance:				
Cash and cash equivalents	$ –	$ – (3)	$ –	$ –
West Virginia Investment Management Board (IMB) Investment Pools:				
Total return fixed income	$ 33,321	$ –	$ 33,321	$ 33,321
Core fixed income	10,862	–	10,862	10,862
TIPS	24,630	–	24,630	24,630
Domestic equity – Large Cap	14,756	–	14,756	14,756
Domestic equity – Non-Large Cap	3,321	–	3,321	3,321
International nonqualified	5,296	–	5,296	5,296
Hedge fund	32,054	–	32,054	32,054
International equity	10,572	–	10,572	10,572
Total equity position in investment pools with IMB	$ 134,812	$ –	$ 134,812	$ 134,812 (1)

See independent auditor's report on other financial information.

(1) Agrees to the audited statement of net position.

(2) Agrees to audited statement of net position as follows:

Equity position in investment pool – current	$ 33,612 (1)
Equity position in investment pool – noncurrent and restricted	138,923 (1)
Total	$ 172,535 (4)

(3) Agrees to audited statement of net position as follows:

Total equity position in investment pool with BTI	$ 37,723
Cash and cash equivalents	19,256
Total	$ 56,979 (1)

(4) Agrees to Form 8a.

(5) Amortized cost approximates fair value.

West Virginia Public Employees Insurance Agency

Form 8-A, Deposits and Investments Disclosure

(In Thousands)

June 30, 2022

Reconciliation of cash and cash equivalents and investments as reported in the financial statements to the amounts disclosed in the footnotes:

Cash and cash equivalents as reported	$	19,256 [(1)(2)]
Equity position in investment pools as reported	$	172,535 [(3)]

See independent auditor's report on other financial information.

(1) Agrees to audited statement of net position.

(2) Agrees to Form 7.

(3) Agrees to Form 8.

West Virginia Public Employees Insurance Agency

Form 9, Accounts Receivable

(In Thousands)

June 30, 2022

Total accounts receivable	$	86,786 [1]
Less allowance for doubtful accounts		(38) [1]
Total accounts receivable, net	$	86,748

See independent auditor's report on other financial information.

[1] Agrees to audited statement of net position as follows:

Premium receivable:		
Due from State of West Virginia	$	8,046 [2]
Other, net		7,570 [2]
Accounts receivable:		
Due from RHBT		8,658 [2]
Prescription rebates		60,369 [2]
Other		2,105 [2]
Total accounts receivable, net	$	86,748

[2] Agrees to the audited statement of net position.

West Virginia Public Employees Insurance Agency

Form 10, Due (To) From Primary Government

(In Thousands)

June 30, 2022

Agency		Total
Workforce WV / Payroll-05303		(11)
		(11)
WV PERS State		4
WV Teachers Retirement Board		(2)
Separated Pre-Retirement		1
		3
Adjutant General	$	(3)
Administration, Dept of		2
Aeronautics Commission		(1)
Agriculture		(3)
Anthony Correctional Center		(8)
Architects, Board of		(1)
Auditors Office		(1)
Board of Medicine		(4)
Bureau of Senior Services		(2)
Corrections / Denmar Facility, Dept of		(3)
Corrections / Salem Corr, Dept of		(15)
Culture and History		(11)
Department of Corrections		(3)
Department of Education		(51)
Department of Highways		77
Department of Labor		(3)
Environmental Protection, Department of		2
Examiners/Registered Nurses, Board of		(1)
Forestry, Division of		(1)
Health Care Authority		(1)
Health Dept		(54)
Homeland Security - Emergency Management		(2)
Hopemont State Hospital		(5)
House of Delegates (Staff)		(4)
Human Rights Commission		(12)
Human Services, Dept of		(19)
Jackie Withrow Hospital		(2)
John Manchin Sr. Health Care		(1)
Joint Comm on Govt & Finance		1
Lakin State Hospital		(3)

West Virginia Public Employees Insurance Agency

Form 10, Due (To) From Primary Government (continued)

(In Thousands)

Agency	Total
Library Commission	(2)
Martinsburg Correctional Center	(1)
Mildred Mitchell-Bateman Hospital	(4)
Military Authority	(8)
Motor Vehicles	(39)
National Coal Heritage Area Authority	(1)
Natural Resources	(19)
Northern Correctional Facility	(1)
Off of Miners Health, Safety & Training	2
Ohio Co Correctional Center	(1)
Pharmacy, Board of	(1)
Public Safety	(27)
Public Service Commission	(54)
Public Transit	(1)
Real Estate Commission	(1)
Rehabilitation Services, Division of	(5)
Secretary of State	(1)
Senate	(1)
Senate	(25)
Supreme Court/Judicial	3
Treasurer of State's Office	(1)
Welch Emergency Hospital	(33)
William R Sharpe Jr Hospital	(1)
WV Board of Barbers and C	(15)
WV Center for Nursing	(3)
WV Division of Juvenile Services	(2)
WV Enterprise Planning Board	(1)
WV Massage Therapy Licensure Bd	(3)
WV Parole Board	(1)
WV School for the Deaf and Blind	(51)
	(430)
Total primary government	(438)
Total component units	8,484 [2]
Due from State of West Virginia, net	$ 8,046 [1]

See independent auditor’s report on other financial information.

[1] Agrees to the audited statement of net position.

[2] Agrees to Form 11.

West Virginia Public Employees Insurance Agency

Form 11, Component Unit – A/R Balances
(In Thousands)

June 30, 2022

Unit		Amount
Blue Ridge Community & Technical College	$	(29)
Bluefield State College		(19)
BridgeValley Community and Technical College		(5)
Concord College		(6)
Development Office		1
Division of Corrections and Rehabilitation		19
Educational Broadcasting		1
Fairmont State University		(3)
Glenville State College		(5)
Higher Education Policy Commission		(4)
Kanawha Valley CTC		(1)
Marshall University		(9)
Mountwest Community & Tec		(18)
New River Comm. & Tech.		(29)
Pierpont Community & Technical College		(2)
Public Defender Corp/15th Judicial		9
Public Defender Corp/30th Jud Circuit		5
Public Defender/7th Judicial Circuit		3
Public Defender-13th Circuit		19
Racing Commission		(1)
Railroad Maintenance Authority		(5)
Reg Jail & Correctional Fac Auth		(4)
School of Osteopathic Medicine		(7)
Shepherd University		(23)
West Liberty State College		(7)
West Virginia University		8,340
WV Assoc. of Rehabilitation Facilities		4
WV Network for Educational Telecom		(3)
WV Northern Community College		(14)
WV Parkways Econ. Dev. & Tourism Auth.		4
WV State University		(14)
WVU Parkersburg		287
Total component units	$	8,484 [1]

See independent auditor's report on other financial information.

[1] Agrees to Form 10.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Finance Board and Management
West Virginia Public Employees Insurance Agency

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the West Virginia Public Employees Insurance Agency (PEIA), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 14, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PEIA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEIA's internal control. Accordingly, we do not express an opinion on the effectiveness of PEIA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PEIA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 14, 2022

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