Comprehensive Annual Financial Report

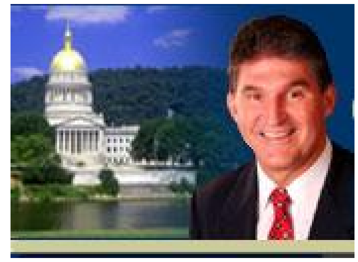
For the fiscal year ended June 30, 2007

State of West Virginia
Public Employees Insurance Agency

(an enterprise fund of the primary government of West Virginia)

State of West Virginia
Public Employees Insurance Agency

(an enterprise fund of the primary Government of West Virginia)



Joe Manchin III, Governor

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2007

Joe Manchin, III, Governor
State of West Virginia

Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Ted Cheatham, Director
West Virginia Public Employees Insurance Agency

Prepared by:
J.A. Haught, CPA
Chief Financial Officer
West Virginia Public Employees Insurance Agency

State of West Virginia
Public Employees Insurance Agency

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2007

Table of Contents

Introductory Section

One prescription drug classification PEIA is observing due to its cost is specialty drugs. Specialty drugs are high-cost drugs, often self-injected and used to treat complex or rare conditions including multiple sclerosis, rheumatoid arthritis, hepatitis C and hemophilia. They are making a tremendous impact on the costs of prescription drugs. Below is an excerpt from the July 2007 issue of Specialty Pharmacy News:

> Pharmacy benefit managers (PBMs) Express Scripts, Inc. and Medco Health Solutions, Inc. recently released drug trend reports for 2006, and specialty pharmacy continues to be a growing concern. According to an Express Scripts analysis of IMS Health data, 2006 U.S. specialty drug spend was $54 billion, or 20% of the overall prescription drug spend. The PBM also estimates that by 2010, specialty drug spend will represent 26% of the overall prescription drug spend - $99 billion.
>
> In the Express Scripts 2006 Drug Trend Report, specialty drugs' per-member, per-year costs rose 21% from the 2005 level, as opposed to a 6% increase for non specialty drugs' PMPY costs. "I don't think anyone was surprised by how much the [specialty pharmacy] field is growing," says Steve Miller, M.D., chief medical officer for Express Scripts and vice president of that company's specialty pharmacy, CuraScript.

Joe Manchin III
Governor

Ted Cheatham
Director

WV Toll-free: 1-888-680-7342 · Phone: 1-304-558-7850 · Internet: www.wvpeia.com

December 21, 2007

The Honorable Joe Manchin, III, Governor
State of West Virginia

Mr. Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Mr. Ted Cheatham, Director
West Virginia Public Employees Insurance Agency

Gentlemen:

It is a privilege to submit to you the Comprehensive Annual Financial Report (CAFR) of the West Virginia Public Employees Insurance Agency (PEIA) for the fiscal year ended June 30, 2007. This report was prepared by the office of the PEIA Chief Financial Officer. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the management of PEIA. To the best of our knowledge, the data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups and component units of the State. All disclosures necessary to enable the reader to gain an understanding of PEIA's financial activities have been included. The financial statements of PEIA have been prepared on an accrual basis in conformity with generally accepted accounting principles for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

PEIA's management is responsible for establishing and maintaining internal controls designed to ensure that the assets of PEIA are protected from loss, theft or misuse and to provide that financial statements are prepared in conformity with generally accepted accounting principles (GAAP). Internal controls are designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost to administer the control should not exceed the benefits derived from the control. An annual budget is prepared each fiscal year to be used by management for planning and evaluating performance.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. This introductory section contains this transmittal letter, a list of the principal officials of PEIA and PEIA's organizational chart. The financial section includes the financial statements and auditor's opinion, as well as certain required supplementary information as described in more detail in the table of contents. The statistical section includes selected financial, economic and demographic data for PEIA.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. PEIA's MD&A can be found immediately following the report of the independent auditors.

PEIA is required by the Financial Accounting and Reporting Section of the Department of Administration to have an annual independent audit. The firm of Ernst & Young, LLP was selected to perform the audit for fiscal year ended June 30, 2007. Their report is included in the financial section of this report.

PROFILE OF THE PEIA

PEIA was established under the Public Employees Insurance Act of 1971, to provide hospital, surgical, group major medical, prescription drug, group life, and accidental death and dismemberment insurance coverage to eligible employees; and to establish and promulgate rules for the administration of these plans. Benefits are made available to all active employees of the State of West Virginia and various related State agencies and local governments. Participants may elect health insurance coverage through a fully self-insured preferred provider benefit plan (PPB) or through external managed care organizations (MCO). Additionally, all participants may elect to purchase additional life insurance under the optional life insurance policy. For revenue, PEIA relies almost solely on the premiums paid directly by its participating employers and employees.

PEIA is reported as an enterprise fund in the State of West Virginia's Comprehensive Annual Financial Report. After applying the criteria set forth in generally accepted accounting principles, PEIA management has determined there are no organizations that should be considered component units of PEIA. See Note 2 (Summary of Significant Accounting Policies) for a comprehensive discussion of PEIA's accounting policies.

As an insurance benefit providing agency, PEIA's expenses are predominantly medical and prescription drug claims. Medical and pharmaceutical claim expenses represent 95.77% of total expenses with administrative expenses representing 4.77%. Administrative expenses include payments to third party administrators (TPA), wages and benefits of PEIA employees.

RELEVANT FINANCIAL POLICIES

The PEIA Finance Board (Board) is required to develop five-year financial plans each fall that begin with the next fiscal year commencing in July. The financial plan must incorporate a mandated reserve fund equal to 10% of total forecast plan expenses for that fiscal year. The fiscal year 2007 year-end PEIA reserve of $174 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2008 through 2012.

The PEIA funding policy has a significant impact on PEIA's financial statements. As noted in previous years, PEIA is required to adjust the State employer and State employee aggregate cost sharing percentages over a five year period. These adjustments began in fiscal year 2003 with the required ratio to be established by fiscal year 2008. The adjustments will result in a change in the plan's contribution level of State employers and State employees from the original 90% from State employers and 10% from the State employees, to 80% from employers and 20% from employees. The following chart depicts an updated percentage of contribution levels due to various factors such as enrollment fluctuations and plan migration.

Employer/Employee Contribution Increases
(in thousands)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
State Employer	N/A	$39,500	$39,200	$8,000	$40,000	$5,000	($34,000)
State Employee	N/A	19,700	15,600	-0-	5,700	11,700	-0-
Total	N/A	$59,200	$54,800	$8,000	$45,700	$16,700	($34,000)
State Employer Share	86%	83%	82%	82%	83%	81.5%	80%
State Employee Share	14%	17%	18%	18%	17%	18.5%	20%

The mandated transition has been a difficult one has been challenged by employee advocates in past legislative sessions. These challenges resulted in a one year delay to establish the required ratio. The resulting delay did however require the ratio be what is depicted in the chart above of 81.5% for employers and 18.5% for employees. The current proposed financial plan assumes the required ratio will be met by a reduction of current employer premium. The reduction, however, will not revert back to the employers' budgets, but will be utilized as beginning employer contributions towards the other post employment benefit liability.

In fiscal year 2007 The West Virginia Retiree Health Benefits Trust Fund (RHBT) completed its first fiscal year. Accordingly, all retiree activity previously accounted for in PEIA's financial statements were accounted for in the RHBT in 2007 as a defined benefit cost-sharing multiple employer OPEB plan. The RHBT was established in response to Governmental Accounting Standards Board (GASB) Statement 43 (GASB 43). The establishment of RHBT results in considerable difference in PEIA's FY 2007 financial statements compared to the prior year as over 35,000 policyholders' premium revenues, medical claims and administrative costs are now presented in the RHBT financial statements.

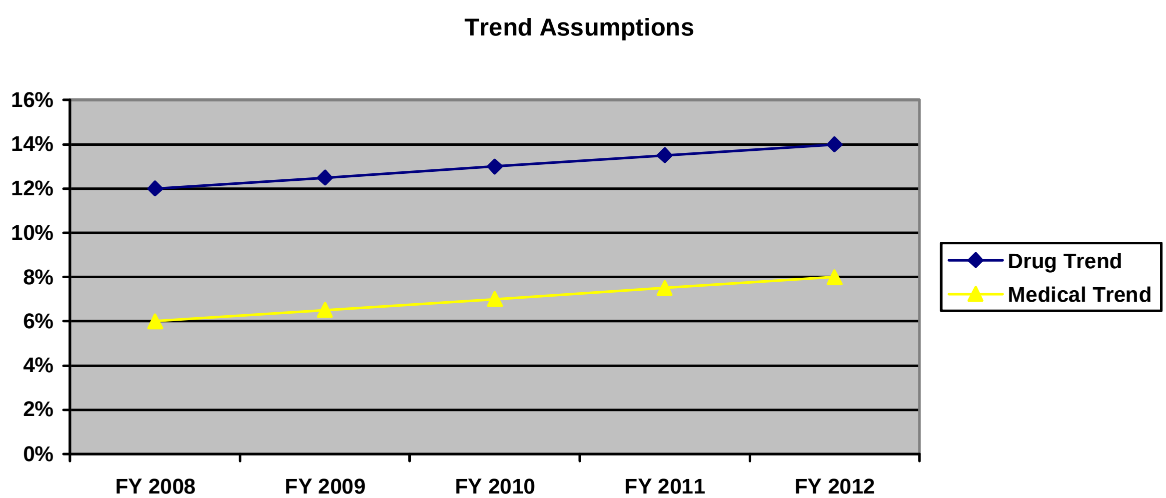
LONG-TERM FINANCIAL PLANNING

The PEIA had a change in net assets for fiscal year 2007 of ($16,793,178) resulting in an end of year net asset amount of $174,074,569. PEIA had decreases in premium revenues and claims expense. For further details regarding PEIA's financial condition, please see the Management's Discussion and Analysis section in the financial section beginning on page 13 that incorporates a narrative introduction, overview and analysis of the financial statements.

As mentioned previously, the retirees are now accounted for in the RHBT. Although, PEIA may have shifted the financial reporting over to the RHBT, the underlying issues still remain for both retirees and active employees. Although there has been a respite from medical and prescription drug cost increases in the past few fiscal years, those that have been around long enough realize this is temporary. The below excerpt from the Kaiser Foundation Employer Benefits survey sums up the employer outlooks regarding the recent lull in healthcare cost trends.

> "The employer-sponsored health benefits market did not experience large changes in 2007. Employers and employees benefited from the continued moderation in the rate of premium increases, a welcome relief from the much higher growth rates earlier in the decade. History suggests that premium trends are cyclical,[10] and after four years of downward premium trends, it is unclear how much longer this relative lull in premium growth will continue before pressures on health insurers to improve profitability will push premium trends on an upward path."[1]

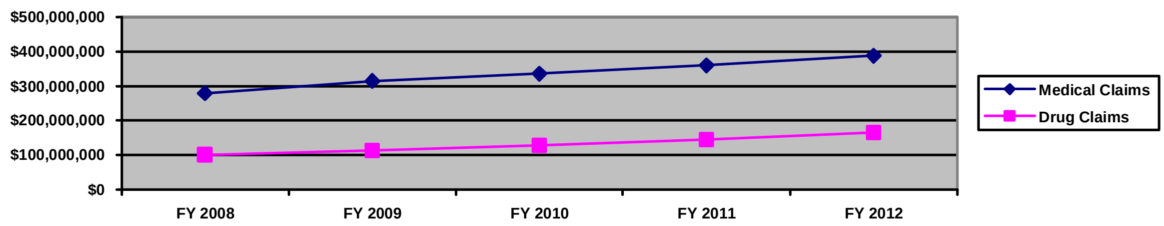
The current financial plan calls for increases in healthcare costs as follows:



The 2008 Segal Health Plan Cost Trend Survey indicates the 2008 trend projection for preferred provider organizations with prescription drug benefits is 10.5%. For comparison purposes, PEIA's combined trend projection for fiscal year 2008 equals 7.6%.

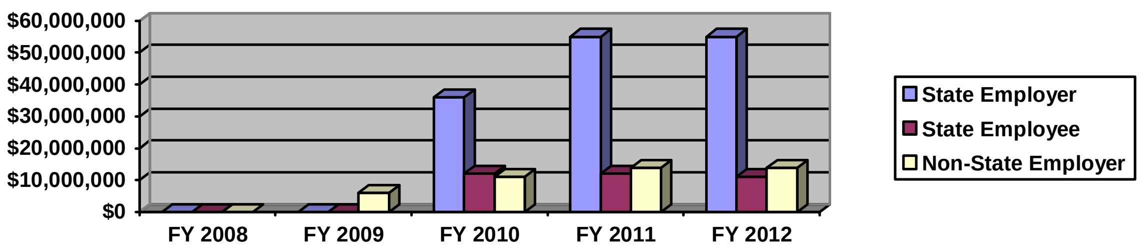
[1] The Kaiser Family Foundation and Health Research and Educational Trust, "Employer Health Benefits – 2007 Summary of Finding"

The above trend assumptions result in the following estimated claim expenses for FY 2008 through 2012:



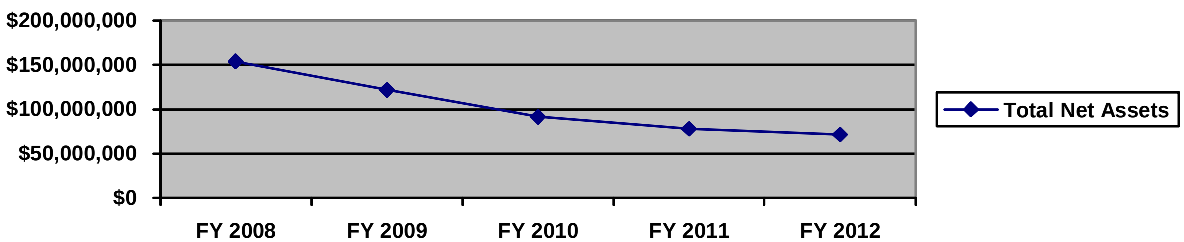
Based on the above trend assumptions, the PEIA can expect to see an aggregate increase in medical and drug costs over the next five years of $109 and $58 million respectively.

In order to offset these scheduled increases in costs the PEIA Finance Board has approved the following premium increases:



In aggregate, the Board has approved $146 million in state employer premium increases, $41 million for non-state employers and $38.6 million for state employees.

The year end assets based on the current financial plan are as follows:



As the above graph indicates, the Board has determined it necessary to utilize reserves to assist in offsetting increasing costs. However, this is somewhat deceiving. This is due to the fact that the Board, in this same financial plan, is allocating a portion of active employee premium to the retirees. These allocations over a five year span result in an estimated ending reserve in the Trust of $584 million.

In order to maintain, or exceed the above financial plan assumptions PEIA must continue:

- To pursue efficiencies in the delivery of healthcare to our members through the use of specialized service networks and new technology such as "e-prescribing",
- Improve the health status of our members through expansion of existing disease management programs and development of new programs,
- Monitor medical service provider reimbursement levels maintaining a proper balance of reasonable reimbursement to the provider while maintaining appropriate member access to medical care,
- Maintain fiduciary responsibilities through investment of plan assets in a manner that provides an equal balance of interest revenue and asset preservation, and
- Provide proper oversight of the third party administrators, pharmacy benefit managers and managed care organizations that provide services to our members.

Through the above efforts PEIA management hopes to continue to exceed the actuary's assumptions and maintain existing reserves. By doing so, PEIA may be able to mitigate the above cost increases and necessary premium increases. To date, PEIA has increased its reserve to unprecedented levels and is now capable of utilizing investment earnings to offset premium increases.

In the long-term, it is imperative that PEIA maintain its diligence in plan management as the current PEIA employers and employees are reaching their respective limits to afford healthcare. Annually these concerns are expressed by all parties with employers leaving the plan and employees simply choosing to not purchase healthcare insurance. The long-term financial plan consists of a combination of continued plan management, premium increases, reserve expansion and prudent investment practices.

MAJOR INITIATIVES

The possibility that Americans will cease expecting the very best in healthcare when needed is extremely low. Therefore, PEIA's major initiatives begin with affecting change in our policyholders' well-being by committing itself to the enhancement of our members' health. Until proven otherwise, this appears to be one of the few true methodologies to curb the frightening pace of healthcare cost increases witnessed over the past thirty years.

PEIA's Pathways to Wellness program has long provided worksite health screenings and participants were eligible to win various low-cost commodity prizes. Participants could also win prizes for achievement of certain benchmarks while participating in a particular wellness program. Beginning early 2008, PEIA will move its efforts to improve our members' health into a simple but effective method of cold hard cash.

The program will provide cash prizes to participants who have an aggregate score based on certain health indicators such as weight, blood pressure, cholesterol and whether you use tobacco. If you receive a high score you will receive a $50 cash card, a moderate score participant will obtain a $25 card and folks with the lowest score will be provided the option to enroll in health improvement programs. Although early conservative projections indicate this program could increase costs initially by approximately $700,000 annually, the return on investment for the plan would be 5% if it reduced claim cost increases by only one-fifth of a percent.

The next major initiative is implementation of PEIA's Benefits Administration System (BAS). This will provide PEIA's members and employers with web based eligibility and premium remittance capabilities. The BAS will also entail a new core eligibility database, financial system and a customer relationship management, imaging and work-flow management system. The new system will enhance the ability of the agency to service our member needs and provide more timely financial data greatly reducing manual efforts currently involved in the monthly reporting process.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to West Virginia Public Employees Insurance Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Special thanks are extended to Governor Joe Manchin III, for his support in stressing the importance of fiscal responsibility and financial reporting. Acknowledgement is also given to the Legislature and its leadership, whose continued support will promote the future success and stability of the program. Finally, this report would not have been possible without the dedication and effort of PEIA's Director, Ted Cheatham. Respectfully, we submit the Comprehensive Annual Financial Report for the West Virginia Public Employees Insurance Agency for the year ended June 30, 2007.

Sincerely,

J.A. Haught

Jason A. Haught, CPA
Chief Financial Officer

Principal Officials

Joe Manchin, III, Governor
State of West Virginia

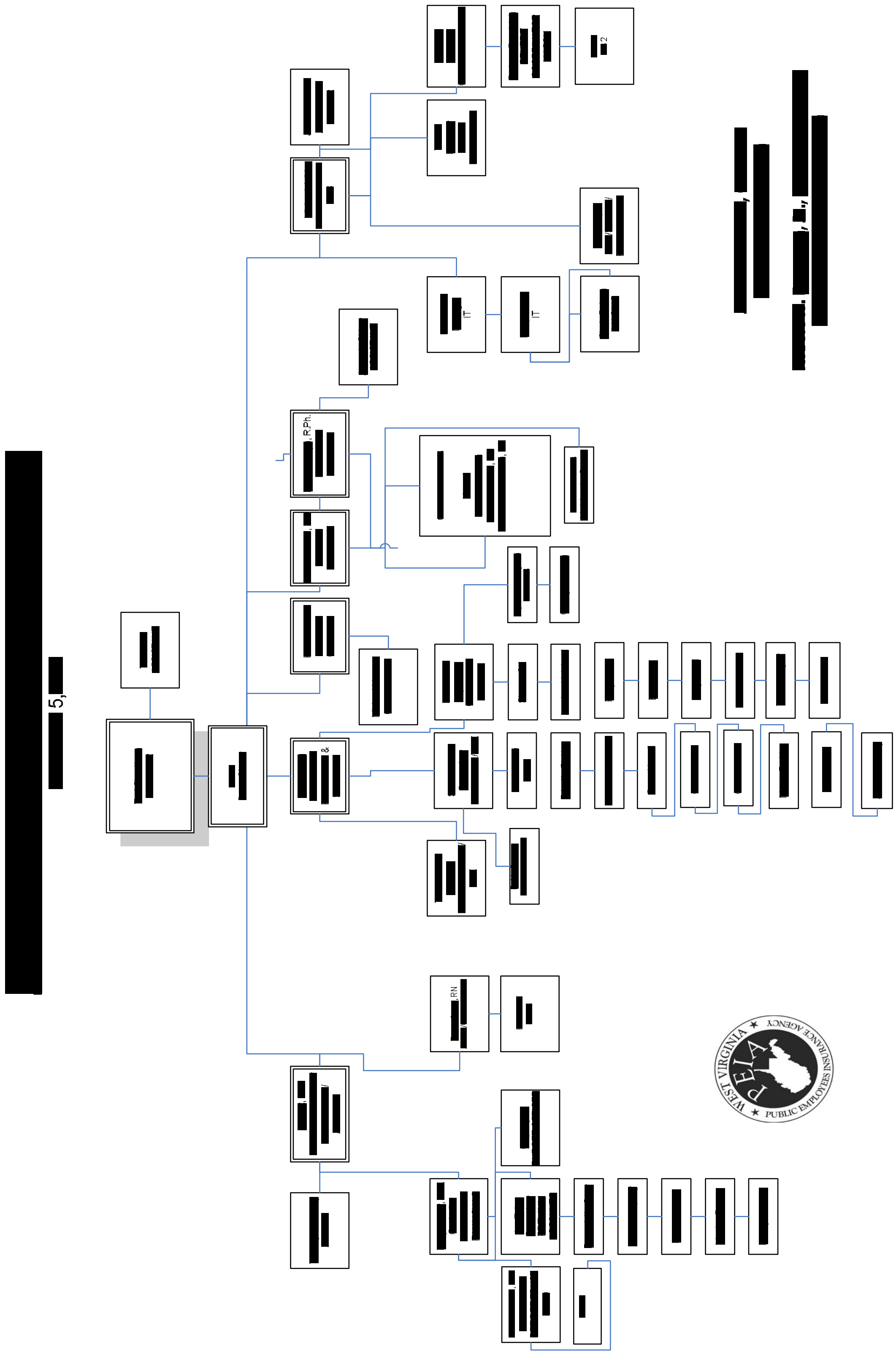
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Finance Board

Robert W. Ferguson, Jr, Chairman
Perry Bryant, Member
James W. Dailey, II, Member
Troy Giatras, Member
Elaine Harris, Member
William Ihlenfeld, Member
John Ruddick, Member
Joe Smith, Member
Michael Smith, Member

Executive Staff

Ted Cheatham, Director



Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Public Employees Insurance Agency

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

This Page Was Left Blank Intentionally

Financial Section

PEIA is not only observing specialty drugs due to their costs, but also because of their anticipated expansion. Below is an excerpt from IMS Health article titled **IMS Health Predicts 5 to 6 Percent Growth for Global Pharmaceutical Market in 2008, According to Annual Forecast:**

> • **Patient use of innovative specialty products expands.** IMS anticipates up to 29 innovative new medicines will be launched in 2008 – 80 percent of which will be primarily prescribed by specialists. These include four new oncology drugs for treating melanoma, prostate cancer and acute myeloid leukemia. Products used in the treatment of oncology are expected to exceed $45 billion in value in 2008, contributing nearly 17 percent of audited market growth. Overall growth in the audited specialty-driven market is forecast to grow to $295 - 305 billion, reflecting 14 – 15 percent growth next year.

ERNST & YOUNG

Ernst & Young LLP
900 United Center
500 Virginia Street East (25301)
P.O. Box 2906
Charleston, West Virginia 25330

Phone: (304) 343-8971
Fax: (304) 357-5994
www.ey.com

Report of Independent Auditors

The Finance Board
West Virginia Public Employees Insurance Agency

We have audited the accompanying statements of net assets of the West Virginia Public Employees Insurance Agency (PEIA) as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of PEIA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether these financial statements are free of material misstatement. We were not engaged to perform an audit of PEIA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEIA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of PEIA are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEIA at June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2007, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2007 audit.

Management's discussion and analysis on pages 13 through 18 and the unaudited supplemental schedule of Ten-Year Claims Development Information on page 47 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to management's discussion and analysis on pages 13 through 18 and the Ten-Year Claims Development Information on page 47, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on PEIA's basic financial statements. The introductory and statistical sections of this report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The data included in the introductory and statistical sections of this report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst & Young LLP

December 6, 2007

A Member Practice of Ernst & Young Global

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year ended June 30, 2007

This section of the annual financial report of the West Virginia Public Employees Insurance Agency (PEIA) presents a discussion and analysis of the financial performance of PEIA for the year ended June 30, 2007. 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 of West Virginia 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 Assets—This statement presents information reflecting PEIA's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets 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 which are collectible or become due within 12 months of the statement date.

Statement of Revenues, Expenses, and Changes in Net Assets—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 assets 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 investing activities. Cash collections and payments are reflected in this statement to arrive at net increase or decrease in cash for the fiscal year.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

The following tables summarize the financial position and the changes in financial position as of and for the years ended June 30:

	2007	2006	2005	Change 2007 - 2006 Amount	Change 2007 - 2006 Percent
Cash and cash equivalents	**$ 159,916,395**	$ 105,520,119	$ 219,340,506	$ 54,396,276	51.6%
Premium receivable	**13,564,676**	19,295,117	18,014,063	(5,730,441)	(29.7)
Other current assets	**7,296,181**	9,762,462	4,617,395	(2,466,281)	(25.3)
Total current assets	**180,777,252**	134,577,698	241,971,964	46,199,554	34.3
Investments	**169,996,583**	154,630,459	–	15,366,124	9.9
Cash and cash equivalents					
Premium stabilization fund	**3,942,911**	3,942,740	3,942,557	171	–
Capital assets, net	**568,064**	208,900	155,149	359,164	171.9
Total assets	**355,284,810**	293,359,797	246,069,670	61,925,013	21.1
Claims payable	**52,999,509**	60,122,393	65,398,596	(7,122,884)	(11.8)
Other current liabilities	**124,267,822**	38,426,917	8,145,237	85,840,905	223.4
Total current liabilities	**177,267,331**	98,549,310	73,543,833	70,047,560	79.9
Noncurrent liabilities:					
Premium stabilization fund	**3,942,911**	3,942,740	3,942,557	171	–
Net assets-invested in capital assets	**568,064**	208,900	155,149	359,164	171.9
Net assets-unrestricted	**173,506,505**	190,658,847	168,428,131	(17,152,343)	(9.0)
Total net assets	**$ 174,074,569**	$ 190,867,747	$ 168,583,280	$ (16,793,179)	(8.8)
Premium revenue	**$ 466,304,259**	$ 630,474,784	$ 580,985,961	$ (164,170,525)	(26.0)
Less: payments to managed care organizations and life reinsurance premiums	**(59,228,061)**	(62,466,806)	(55,846,154)	3,238,745	(5.2)
Net premium revenue	**407,076,198**	568,007,978	525,139,807	(160,931,780)	(28.3)
Administrative fees, net	**4,450,017**	6,058,949	6,011,411	(1,608,932)	(26.6)
Total operating revenue	**411,526,215**	574,066,927	531,151,218	(162,540,712)	(28.3)
Claims expense, net	**359,512,303**	519,393,700	483,206,286	(159,881,397)	(31.8)
Administrative service fees	**12,723,779**	15,717,640	16,116,521	(2,993,861)	(19.0)
Other expenses	**7,507,134**	10,318,185	7,462,489	(2,811,053)	(3.8)
Total operating expenses	**379,743,216**	545,429,525	506,785,296	(165,686,309)	(30.9)
Operating income	**31,782,999**	28,637,402	24,365,922	3,145,597	21.8
Retiree drug subsidy	–	8,090,995	–	(8,090,995)	(100.0)
Supplemental appropriation	**6,700,000**	4,887,369	–	1,812,631	37.1
Litigation settlement, net	**3,085,000**	–	–	3,085,000	
Transfer out primary government	**(80,487,422)**	(27,679,595)	–	(52,807,827)	190.8
Net investment income	**22,126,245**	8,348,296	4,472,144	13,777,949	165.0
Total nonoperating income	**(48,576,177)**	(6,352,935)	4,472,144	(42,223,242)	713.2
Changes in net assets	**(16,793,178)**	22,284,467	28,838,066	(39,007,645)	(175.4)
Net assets, beginning of year	**190,867,747**	168,583,280	139,745,214	22,284,467	13.2
Net assets, end of year	**$ 174,074,569**	$ 190,867,747	$ 168,583,280	$ (16,793,178)	(8.8)

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43 (GASB 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 45 (GASB 45), *Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions,* which establish standards for accounting and reporting of postemployment benefits other than pensions by units of state and local governments. In order for the State of West Virginia to administer its defined benefit cost-sharing multiple employer other postemployment benefit (OPEB) plan through a qualifying trust as defined by GASB 43, the West Virginia Legislature created the West Virginia Retiree Health Benefit Trust (RHBT). Effective July 1, 2006, all retiree health premium revenues, claims expenses, other expenses and certain other revenues that had previously been reported in the operations of the PEIA are reported in RHBT's basic financial statements. As a result of this change, many of the financial amounts reported for Fiscal Year 2007 are significantly different from prior years.

Premiums receivable at June 30, 2007, was $5.7 million less than the prior year due to the movement of the retiree health insurance plans to RHBT. At year end 2006, premiums receivable was approximately $1.3 million more than the prior year due primarily to a temporary unplanned staff vacancy, which caused a delay in billing and timing of collection of receivables.

The current portion of cash and cash equivalents increased $54.4 million as the result of $34.7 million provided by operations, $6.8 million from investment returns net of reinvestment, non-operating revenues of $13.3 million less a small investment in capital assets. In the previous year, investment purchases of $155.0 million, $23.9 million produced by operations and other changes resulted in a net decrease of $113.8 million.

Other current assets were down $2.5 million principally because PEIA no longer provides coverage for Medicare retirees, which had resulted in a $4.4 million retiree drug subsidy receivable from the federal government at the prior year end. Offsetting the loss of federal funds is $1.4 million appropriation due from the State at the current year end. At year-end 2006, other current assets were up $5.1 million due to retiree drug subsidy indicated above and increased year end drug rebates receivable.

Claims payable decreased $7.1 million due to the movement of retiree health claims to RHBT and current year trend increases. The fiscal year-end 2006 liability was $5.3 million lower due to a large pay down of claims in inventory.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Other current liabilities increased $85.8 million primarily due to a $80.5 million payable to the State of West Virginia related to excess reserves as required by State Code, $3.6 million in net premiums collected for RHBT but not yet remitted, and various other year end payable increases. In the prior year, the increase was $30.3 million primarily due to a $27.7 million payable to the State related to excess reserves and a $3.6 million prepayment of premium by a large employer.

Net assets at year ended June 30, 2007, decreased approximately $16.8 million after increasing $22.3 million in the previous year. The 2007 decline resulted primarily from an increase of $52.8 million in transfer out to the State, which was partially offset by a $6.2 million improvement in operating income and an increase of $7.5 million in nonoperating revenue. The previous year increase was derived primarily from an increase in operating earnings.

Net premiums decreased $160.9 million primarily due to movement of the retiree coverages to RHBT, which was offset by fiscal year premium increases approximating $18.7 million and a reduction of $3.0 million in payments to managed care organizations relating to retiree coverages. The previous year saw an increase of $42.9 million resulting from an increase in health insurance premium rates of an average of 9.9% less an increase in managed care premium payments of 11.9%.

Medical and prescription drug claims cost represented approximately 95% of total plan operating expenses for the three-year period. In the current year, claims decreased by $159.8 million primarily due to the transfer of retiree claims to RHBT. Claims experience indicates a 2% decrease in medical claims and a 5% increase in drug claims for a combined 0.2% decrease exclusive of the retiree risk. Fiscal Year 2006 saw an increase of $18 million or 5.5% for medical claims and $18.2 million for 11.7% for drugs. Active policyholder count increased less than 1% for 2007 versus 2006.

Administrative service fees and other expenses have averaged approximately 5% of the total plan operating expenses for the three-year period. In the current year, administrative service fees decreased approximately $3.0 million primarily as a result of the transfer of retiree policyholders while other expenses decreased $2.8 million as a result of movement of retiree related expenses to RHBT.

In the previous year, administrative service fees decreased by $0.4 million as the result of new contract provisions, while other expenses increased $2.9 million due to an addition to the provision for doubtful accounts of $2.4 million and expenditures of $0.5 million for third-party administrator audits.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Retiree drug subsidy revenue moved to RHBT for reporting purposes, along with the related claims expense for the entire Fiscal Year 2007. The retiree drug subsidy became effective in January 2006; therefore, the $8.0 million reflected on the fiscal year-end 2006 financial statement was not available for the prior year.

Supplemental appropriations granted by the State Code were increased $1.8 million over the previous year. The appropriation for Fiscal Year 2006 was $4.9 million.

As a result of Fiscal Year 2007 earnings, PEIA's reserve levels were increased beyond the level allowed by State Code requiring a transfer which was $52.8 million larger than the prior year amount. Fiscal year 2006 was the first year that PEIA's exceeded the reserve threshold requiring that a $27.7 million transfer be made. The increase for 2007 was also impacted by the transfer of the retiree activity to RHBT, which reduced the PEIA allowed base reserve level.

Net investment income increased $13.8 million due to substantial improvement in both the domestic and international equity and fixed income markets. During Fiscal Year 2006, yields on short-term cash investments improved dramatically. PEIA placed $155.0 million in investments, and short-term working cash balances improved.

As previously mentioned, PEIA experienced a decrease of approximately $16.8 million in total net assets for the year ended June 30, 2007. When the required transfer of $80.5 million is excluded from the computation of current year operating results, the net assets change becomes a positive $63.7 million. The premium rates adopted for the current year were based on assumptions used in developing the Financial Plan for 2007, which provided for an expected decrease in total net assets of approximately $7.5 million; however total claims costs for the year ended at $52.4 million less, payments to managed care were $4.2 million less, and investment income was $14.8 million more and other areas used $0.2 million more than planned. The required transfer was not included in the original plan.

Fiscal Year 2006 experienced an increase of approximately $22.3 million or 13.2% in total net assets and $28.8 million or 20.6% in the previous year. The premium rates adopted for 2006 were based on assumptions used in developing the annual financial plan, which reflected an expected increase in total net assets of approximately $0.6 million; however, total claims costs for the year ended at $46.8 million less, payments to managed care were $2.2 million more, investment income was $5.7 million more, other areas contributed $0.4 million, and the $27.7 million transfer out was not included in the original plan.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

ECONOMIC CONDITIONS

After allowing for the contribution to help fund retiree healthcare costs which is included in the active policyholder premium amount, PEIA's average active employee family monthly premium cost is $751.77 compared to the national average cost of $1,036.92. It should also be noted that PEIA's monthly premium cost above has not been adjusted to reflect the $63.7 million (exclusion of the transfer) surplus that was achieved for these coverages.

The rate of healthcare premium inflation is directly driven by new and more expensive medical technology including medical equipment and prescription drugs, direct to the consumer advertising, and the reluctance of employers and policyholders to limit their financial exposure.

In 2006, health insurance cost rose 6.1% nationally. During the same period, the overall inflation rate held to 2.6% and wage gains were limited to 3.7%. Such disparity reduces disposable incomes of policyholders as they are asked to bear a larger share of healthcare cost and stresses the operations of their employers.

No premium increases were placed into effect for the year that began July 1, 2007.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

PEIA has minimal capital assets that are not fully depreciated and has no long-term debt.

REQUESTS 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 any questions about this report or need additional information, contact the Chief Financial Officer at (304) 558-7850.

West Virginia Public Employees Insurance Agency

Statements of Net Assets

	June 30 2007	June 30 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 159,916,395**	$ 105,520,119
Premiums receivable:		
Due from State of West Virginia	**2,247,011**	5,071,484
Other, less allowance for doubtful accounts of $3,660,000 and $2,770,000, respectively	**11,317,665**	14,223,633
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $410,000 and $890,000, respectively	**602,414**	518,556
Prescription rebates	**4,787,619**	4,609,483
Due from State of West Virginia	**1,404,382**	–
Retiree drug subsidy	**–**	4,421,606
Other	**501,766**	212,817
Total current assets	**180,777,252**	134,577,698
Noncurrent assets:		
Investments	**169,996,583**	154,630,459
Cash and cash equivalents	**3,942,911**	3,942,740
Furniture and equipment, net of accumulated depreciation of $606,219 and $587,103, respectively	**568,064**	208,900
Total noncurrent assets	**174,507,558**	158,782,099
Total assets	**355,284,810**	293,359,797
Liabilities		
Current liabilities:		
Claims payable	**52,999,509**	60,122,393
Accounts payable	**7,856,850**	2,977,791
Deferred revenue	**3,193,194**	6,601,080
Other accrued liabilities	**1,427,340**	1,168,451
Due to State of West Virginia	**108,167,017**	27,679,595
Due to RHBT	**3,623,421**	–
Total current liabilities	**177,267,331**	98,549,310
Noncurrent liabilities:		
Other accrued liabilities: Premium Stabilization Fund	**3,942,911**	3,942,740
	3,942,911	3,942,740
Total liabilities	**181,210,242**	102,492,050
Net assets		
Invested in capital assets	**568,064**	208,900
Unrestricted	**173,506,505**	190,658,847
Total net assets	**$ 174,074,569**	$ 190,867,747

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2007	**2006**
Operating revenues:		
Premiums	**$ 466,304,259**	$ 630,474,784
Less:		
Payments to managed care organizations	**(53,051,579)**	(56,018,955)
Life reinsurance premiums	**(6,176,482)**	(6,447,851)
Net premium revenue	**407,076,198**	568,007,978
Administrative fees, net of refunds	**4,450,017**	6,058,949
Total operating revenues	**411,526,215**	574,066,927
Operating expenses:		
Claims expense, net	**359,512,303**	519,393,700
Administrative service fees	**12,723,779**	15,717,640
Other expenses	**7,507,134**	10,318,185
Total operating expenses	**379,743,216**	545,429,525
Operating income	**31,782,999**	28,637,402
Nonoperating revenues (expenses):		
Investment income, net of fees	**22,126,245**	8,348,296
Litigation settlement, net	**3,085,000**	–
Retiree drug subsidy	**–**	8,090,995
Supplemental appropriation	**6,700,000**	4,887,369
Transfer out	**(80,487,422)**	(27,679,595)
Total nonoperating loss	**(48,576,177)**	(6,352,935)
Change in net assets	**(16,793,178)**	22,284,467
Net assets at beginning of year	**190,867,747**	168,583,280
Net assets at end of year	**$ 174,074,569**	$ 190,867,747

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2007	**2006**
Operating activities		
Cash received from participants	**$ 413,404,125**	$ 573,207,163
Cash received from pharmacy rebates	**13,771,022**	11,053,560
Cash paid to employees	**(1,473,160)**	(2,076,134)
Cash paid to suppliers and others	**(13,528,850)**	(22,482,075)
Cash paid for claims	**(380,584,176)**	(535,723,463)
Net cash provided by operating activities	**31,588,961**	23,979,051
Noncapital financing activities		
Advances to RHBT, net	**3,623,420**	–
Proceeds from litigation settlement, net	**3,085,000**	–
Supplemental appropriation	**5,295,618**	4,887,369
Retiree drug subsidy	**4,421,606**	3,669,389
Net cash provided by noncapital financing activities	**16,425,644**	8,556,758
Capital and related financing activities		
Cash purchases of furniture and equipment	**(378,279)**	(73,850)
Net cash used in capital and related financing activities	**(378,279)**	(73,850)
Investing activities		
Purchases of investments, net	**(15,366,124)**	(154,630,459)
Cash received from investment earnings (net)	**22,126,245**	8,348,296
Net cash provided by (used in) investing activities	**6,760,121**	(146,282,163)
Net increase (decrease) in cash and cash equivalents	**54,396,447**	(113,820,204)
Cash and cash equivalents at beginning of year	**109,462,859**	223,283,063
Cash and cash equivalents at end of year	**$ 163,859,306**	$ 109,462,859
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 31,782,999**	$ 28,637,402
Adjustments		
Depreciation	**19,115**	20,099
Decrease (increase) in operating assets:		
Premium receivable, net	**2,905,968**	(1,065,780)
Due from State of West Virginia	**2,824,473**	(215,274)
Provider refunds receivable	**(83,858)**	(59,633)
Prescription refunds receivable	**(178,136)**	(764,377)
Other	**(288,949)**	100,549
Increase (decrease) in operating liabilities:		
Claims payable	**(7,122,884)**	(5,276,203)
Accounts payable	**4,879,059**	(1,103,760)
Deferred revenue	**(3,407,886)**	3,581,384
Other accrued liabilities	**259,060**	124,644
Total adjustments	**(194,038)**	(4,658,351)
Net cash provided by operating activities	**$ 31,588,961**	$ 23,979,051

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

Years ended June 30, 2007 and 2006

1. Reporting Entity

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

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 of West Virginia (State) and various related State and non-State agencies. Additionally, all participants may elect to purchase additional life insurance under the optional life insurance policy. All premium rates are established based upon projected coverage costs as reviewed and approved by the Finance Board of PEIA. See "Budgetary Requirements" for further discussion of this process. PEIA's enrollment consists of approximately 73,000 health and basic life insurance policyholders, and 12,000 policyholders with life insurance only. PEIA insures approximately 172,000 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 (RHBT) Fund for the purpose of providing for and administering retiree post employment health care benefits, and the respective revenues and costs of those benefits as a cost-sharing multiple employer plans. As a consequence of the legislation, health insurance policies covering approximately 33,000 retirees and their dependents, along with the related revenues, claims costs, and expenses were transferred to RHBT effective July 1, 2006. RHBT and PEIA jointly share administrative duties relating to the OPEB operations. Both entities are housed in the same office space and share expenses. Expenses directly attributable to the OPEB plan are charged to RHBT. Other operating expenses, except personnel, are allocated based on policyholder count between PEIA and RHBT. Personnel expenses attributable to three dedicated employees are charged in full to 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, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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 accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). Revenues mainly are derived from premiums earned net of related reinsurance premiums, plus administrative fees billed. Expenses consist primarily of claims, administrative service fees, and various general and administrative costs. In September 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

As permitted by the Statement, PEIA has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from management's estimates.

Budgetary Requirements

The Act requires the Finance Board of PEIA 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. An independent professional actuary must review the plan and give an opinion stating that the plan may be reasonably expected to generate sufficient revenue to meet estimated insurance claims and administrative expenses. 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.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 Board of Treasury Investments (BTI) that are pooled funds. PEIA makes interest-earning deposits in the cash liquidity pools that are available to PEIA with overnight notice. Interest income is prorated to PEIA at rates specified by BTI based on the balance of PEIA's deposits maintained in relation to the total deposits of all state agencies participating in the pool.

Interest risk exists as the value of the investment pool's underlying investment assets may decline because of an increase in interest rates. The carrying value of the deposits reflected in the financial statements approximates fair value of the shares in the investment pool.

The 2005 West Virginia Legislature established the BTI, effective July 8, 2005, as a public corporation of the State of West Virginia to make short-term operating funds of the State more accessible to state government. Prior to the creation of BTI, PEIA's principal cash and cash equivalents were managed by the West Virginia Investment Management Board (IMB).

A five-member Board of Directors governs the BTI. The State Governor, State Treasurer, and State Auditor serve as ex-officio members of the Board. 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 Web site or a published copy from the West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard, East, Building 1, Room E-122, Charleston, West Virginia 25305.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators which are due to PEIA and estimated prescription refunds and rebates that are due 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. These receivables have been 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.

Retiree Drug Subsidies

PEIA recorded retiree drug subsidy (RDS) revenue from the federal government under the provisions of Medicare Part D of $8,090,995 for the year ended June 30, 2006. PEIA has accounted for the RDS revenue as voluntary nonexchange transactions in accordance with GASB technical bulletin 2006-1. Accordingly, RDS estimated revenue was recognized as PEIA incurs Medicare-eligible retiree prescription drug expenditures. No RDS revenue was recorded for the 2007 year because the revenue and related Medicare retiree drug claims are reported by RHBT.

Investments

PEIA invests in certain IMB investment pools. Some of these pools invest in longer term securities and are subject to market fluctuation because of changes in interest rates or a decline in stock prices. Investments are reported by IMB at fair value and are accounted for by PEIA accordingly with changes in fair value included in investment income. Income from these investments is prorated to PEIA at rates specified by IMB based on the balance of PEIA's deposits maintained in relation to the total deposits of all State agencies participating in the pool.

Capital Assets

Furniture and equipment with an initial cost of $1,000 or greater are recorded at cost. PEIA has assigned a useful life of three to five years for the furniture and equipment. Depreciation expense is computed using the straight-line method.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 balance sheet 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 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 6). 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. Claims expense is reported net of pharmacy rebate income of $13,948,990 and $11,817,937 for the years ended June 30, 2007 and 2006, respectively.

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. PEIA has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists.

Deferred Revenue

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

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 payments to MCOs on the financial statements.

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.

As of the June 2007 coverage month, PEIA provides health coverage to 111 State agency divisions with approximately 21,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 498 local government entities with approximately 10,000 primary participants, 19 college and university entities with approximately 10,000 primary participants. Approximately 99,000 dependents participated in PEIA health plans as well. Included in the participation indicated above are approximately 9,000 primary participants and 8,000 dependents that were covered by MCOs.

As of the June 2006 coverage month, PEIA provided health coverage to 108 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 491 local government entities with approximately 9,000 primary participants, 19 college and university entities with approximately 9,000 primary participants and other groups and individual accounts that include the governmental and educational retirement systems, COBRA, and survivors with approximately 33,000 primary participants. Approximately 102,000 dependents participated in PEIA health plans as well. Included in the participation indicated above are approximately 9,000 primary participants and 11,000 dependents that were covered by MCOs.

Employees covered through PEIA are eligible to obtain life insurance coverage under basic and optional life insurance plans. Basic life benefits and AD&D benefits of $10,000 are provided to active State employees under the age of 65 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 $2,500 to $5,000 depending on age. For these basic life benefits, PEIA collects premiums and submits them to the insurance carrier. PEIA has reinsured 100% of these basic benefits; however, PEIA remains contingently liable in the event the insurer

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 life reinsurance premiums on the financial statements.

Active employees may elect to obtain additional optional coverage for both life and AD&D with coverage from $5,000 to $500,000 that decreases with age. Active employees may also elect dependent optional life coverage and AD&D at a level up to $20,000 per spouse and $10,000 per child. Retirees may obtain optional life insurance coverage from $5,000 to $150,000 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 $20,000 for spouse and $10,000 per child. Amounts collected by PEIA from employees for optional coverage totaled $20,990,016 and $20,620,328 during the fiscal years ended June 30, 2007 and 2006, respectively, and were remitted directly to the carrier. In this instance, PEIA functions as an agent and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

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.

Supplemental Appropriations

Supplemental appropriations represent legally authorized appropriations under West Virginia State Code by the West Virginia Legislature. Supplemental appropriations amounted to $6,700,000 and $4,887,369 during the fiscal years ended June 30, 2007 and 2006, respectively. The purpose of the transfers was to offset state employee healthcare insurance premium increase rates.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Compensated Absences, Including Postretirement 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 postretirement healthcare coverage through PEIA, or be converted into a greater retirement benefit under the State's Public Employees' Retirement System. The estimated obligation for such benefits, as they relate only to those persons employed directly by PEIA presently or in the past, is recorded as a liability in the accompanying financial statements.

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 managed care organizations 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 Assets

As required by GASB Statement 34, PEIA displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in Capital Assets, Net of Related Debt—This component of net assets consists of capital assets, including restricted capital assets (if any), 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.

Unrestricted Net Assets—Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net 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 statement of net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

West Virginia Code Section 5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and provide future plan stability. As of June 30, 2007 and 2006, PEIA has sufficient net assets to comply with this code section. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess was to be remitted to the State of West Virginia Department of Administration. Accordingly, excess reserves of $80,487,422 and $27,679,595 are due to be transferred for years ended 2007 and 2006, respectively. Such amounts are reflected in the accompanying financial statements as Due to the State of West Virginia. Senate Bill 129, which became effective July 1, 2007, amended 5-16-25 indicating that the excess reserve funds shall be transferred to the West Virginia Retiree Health Benefit Trust Fund in fiscal 2008. The impact of the accounting for this amended legislation will be reflected in the fiscal year 2008 financial statements.

3. Cash and Cash Equivalents

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

	2007	**2006**
Cash on deposit with BTI (Cash Liquidity pool):		
Premium stabilization fund	**$ 3,942,911**	$ 3,942,740
Other	**158,640,965**	104,699,647
Total cash deposited with BTI	**162,583,876**	108,642,387
Deposits with outside financial institutions	**1,275,430**	820,472
	$ 163,859,306	$ 109,462,859

4. Cash and Cash Equivalents Risk 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

As of June 30, 2007 and 2006, the carrying amount of PEIA’s bank deposits was $1,275,430 and $820,472, respectively, and the respective bank balances totaled $1,637,859 and $955,138. Of the total bank balance, $1,637,779 and $954,827 were collateralized with government-sponsored enterprise securities held by financial institutions. These securities are held in the name of the financial institution and not that of PEIA.

Cash Liquidity Pool

Credit Risk

The BTI limits exposure to credit risk by requiring all corporate bonds held by their cash liquidity pools to be rated AA - by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A1 by Standard & Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the credit ratings of the cash liquidity pool’s investments (in thousands).

	June 30, 2007				June 30, 2006			
	Credit Rating		Carrying	Percent of	Credit Rating		Carrying	Percent of
Security Type	Moody’s	S&P	Value	Pool Assets	Moody’s	S&P	Value	Pool Assets
Commercial paper	P1		$ 1,015,926	48.89%	P1	A-1	$ 943,057	54.14%
Corporate bonds and notes	Aaa	AAA	98,999	4.76	Aaa	AAA	61,992	3.56
	Aa3	AA	20,001	0.96	Aa	AA	55,063	3.16
	Aa3	A	23,002	1.11	Aa	A	12,000	0.69
	Aa2	AA	15,000	0.72				
	Aa2	A	27,000	1.30				
	Aa1	AA	77,023	3.71				
			261,025	12.56			129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	Aaa	AAA	306,279	17.58
Negotiable Certificates of deposit	P1	A-1	76,500	3.68	P1	A-1	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	NR	NR	23,800	1.37
Money market funds	Aaa	AAA	185	0.01			758	–
Repurchase agreements (underlying securities): U.S. agency notes	Aaa	AAA	246,821	11.88			102,339	5.88%
Total investments			2,027,831	97.59%			1,741,802	100.00%
Deposits:								
Non-negotiable certificates of deposit	NR*	NR*	50,000	2.41				
			$ 2,077,831	100.00%			$ 1,741,802	100.00%

**** NR = Not Rated***

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Not rated securities include repurchase agreements which are collateralized by U.S. Treasury and government agency securities, all of which carry a high credit rating.

The cash liquidity pool has not been rated.

Concentration of Credit Risk

West Virginia statutes prohibit the BTI pools from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2007 and 2006, the cash liquidity pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

Repurchase agreements included in BTI's investment portfolio are collateralized by at least 102% of their value and the collateral is held in the name of the BTI. Securities lending collateral is invested in the lending agent's money market fund in BTI's name.

Interest Rate Risk

The policy to address interest rate risk is that the weighted-average maturity of the investments of the cash liquidity pool cannot exceed 60 days and the maturity of individual securities cannot exceed 397 days from the date of purchase. The following table provides the weighted-average maturities (WAM) for the various asset types in the cash liquidity pool.

	June 30, 2007		June 30, 2006	
Security Type	**Carrying Value**	**WAM (Days)**	**Carrying Value**	**WAM (Days)**
	(In Thousands)		*(In Thousands)*	
Repurchase agreements	**$ 246,821**	**2**	$ 102,339	3
U.S. Treasury bills	**358,725**	**30**	306,279	32
Commercial paper	**1,015,926**	**52**	943,057	25
Certificates of deposit	**126,500**	**76**	122,800	105
U.S. agency discount notes	**21,655**	**113**	93,851	89
Corporate notes	**261,025**	**58**	129,055	77
U.S. agency bonds/notes	**46,994**	**156**	43,663	208
Money market funds	**185**	**1**	758	1
Total investments	**$ 2,077,831**	**48**	$ 1,741,802	42

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Foreign Currency Risk

None of the BTI cash liquidity pool investment interests are in foreign currencies or interests valued in foreign currencies.

PEIA's investment in the BTI cash liquidity pool of $162,583,876 at June 30, 2007, represents approximately 7.8% of total investments in this pool. PEIA's investment in the BTI cash liquidity pool of $108,642,387 at June 30, 2006, represented approximately 6.2% of total investments in this pool.

Investments

West Virginia statute mandates that PEIA's investments shall be managed by the West Virginia Investment Management Board (IMB), a public corporation.

Public Employees Insurance Agency Fund

This investment fund was specifically designed for PEIA by IMB based on PEIA's unique cash flow needs. PEIA is the only State agency participating in this fund and owns 100% of the total assets. The fund invests in various pools managed by IMB.

Investment Objectives

This fund's investment objective is to achieve a total rate of return of at least 5.4% per annum, net of fees.

Asset Allocation

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Asset Class	2007 Policy Target	2006 Policy Target
Domestic large cap equity	6%	6%
Domestic non-large cap equity	4%	4%
International equity	5%	4%
Total equity	15%	14%
Domestic fixed income	85%	86%

	June 30, 2007 Asset Value	June 30, 2006 Asset Value
	(In Thousands)	
Asset allocation (actual)		
Domestic large cap equity pool	$ 10,886	$ 9,245
Domestic non-large cap equity pool	6,637	5,590
International equity pool	2,630	4,683
International non-qualified pool	6,228	2,627
Fixed income pool	86,120	70,523
Fixed income non-qualified pool	57,495	46,269
Short-term fixed income pool	1	15,693
Total	$ 169,997	$ 154,630

IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. Amortization of discounts and premiums on securities purchased are recognized over the lives of the respective securities using the scientific method of amortization. This method maintains a constant book yield over the life of the security. The amortization of mortgage-backed securities considers the effect of prepayments on the life of the security. Historical prepayment speeds are obtained from market data vendors and are updated annually. The effect of changing prepayment assumptions is reported in the year of the change.

Asset Class Risk Disclosures

Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2007 and 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. PEIA's amount invested in the large cap domestic pool of $10,886,000 and $9,245,000 at June 30, 2007 and 2006, respectively, represents approximately 0.5% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Non-Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2007 and 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. PEIA's amount invested in the non-large cap domestic pool of $6,637,000 at June 30, 2007 and $5,590,000 at June 30, 2006, represents approximately 0.5% and 0.6% of total investments in this pool.

International Non-Qualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment was $63,693,000 and $51,221,273 at June 30, 2007 and 2006, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. PEIA's amount invested in the international non-qualified pool of $6,222,630 at June 30, 2007 and $2,627,000 at June 30, 2006, represents approximately 9.8% and 5.1% of total investments in this pool.

International Equity

At June 30, 2007 and 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. PEIA's amount invested in the international equity pool of $2,636,227 at June 30, 2007 and $4,683,000 at June 30, 2006, represents approximately 0.2% and 0.5% of total investments in this pool. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30 are as follows:

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

	2007			2006		
Currency	Equity Securities	Cash	Total	Equity Securities	Cash	Total
Australian Dollar	**$ 46,223,161**	**$ 511,319**	**$ 46,734,480**	$ 28,417,291	$ 503,062	$ 28,920,353
Brazil Cruzeiros Real	**45,999,956**	**2**	**45,999,958**	27,320,423	–	27,320,423
British Pound	**140,476,291**	**302,597**	**140,778,888**	104,894,989	211,063	105,106,052
Canadian Dollar	**60,122,086**	**2,566,263**	**62,688,349**	41,912,340	238,194	42,150,534
Danish Krone	**3,851,377**	**63,533**	**3,914,910**	5,385,073	582,993	5,968,066
Euro	**266,416,058**	**3,821,725**	**270,237,783**	158,816,456	2,046,349	160,862,805
Hong Kong Dollar	**79,936,951**	**613,522**	**80,550,473**	53,458,323	105,793	53,564,116
Hungarian Forint	**12,073,967**	**114,414**	**12,188,381**	1,119,004	875	1,119,879
Indian Rupee	**13,748,116**	**–**	**13,748,116**	4,516,671	–	4,516,671
Indonesian Rupiah	**–**	**–**	**–**	3,111,767	–	3,111,767
Israeli Shekel	**17,010,706**	**25,201**	**17,035,907**	14,745,331	27	14,745,358
Japanese Yen	**125,202,715**	**2,100,776**	**127,303,491**	152,317,717	1,080,867	153,398,584
Malaysian Ringitt	**8,346,813**	**184,506**	**8,531,319**	5,204,528	51,887	5,256,415
Mexican New Peso	**22,321,990**	**50,806**	**22,372,796**	2,732,703	15,656	2,748,359
New Taiwan Dollar	**68,582,811**	**51,895**	**68,634,706**	40,139,064	1,205,781	41,344,845
New Zealand Dollar	**3,476,562**	**39,666**	**3,516,228**	4,972,328	32,024	5,004,352
Norwegian Krone	**20,171,136**	**53,776**	**20,224,912**	16,073,400	24,192	16,097,592
Philippine Peso	**7,226,908**	**–**	**7,226,908**	8,713,984	–	8,713,984
Singapore Dollar	**32,274,713**	**511,686**	**32,786,399**	23,907,881	80,420	23,988,301
South African Rand	**15,480,425**	**16,520**	**15,496,945**	4,810,546	1,467	4,812,013
South Korean Won	**97,467,405**	**223,670**	**97,691,075**	42,993,136	–	42,993,136
Swedish Krona	**26,486,686**	**772,632**	**27,259,318**	21,267,899	339,294	21,607,193
Swiss Franc	**49,566,642**	**625,996**	**50,192,638**	32,687,834	646,132	33,333,966
Thailand Baht	**15,602,098**	**–**	**15,602,098**	7,331,607	6,843	7,338,450
Total	**$ 1,178,065,573**	**$ 12,650,505**	**$ 1,190,716,078**	$ 806,850,295	$ 7,172,919	$814,023,214

Short-Term Fixed Income

Credit Risk

The IMB limits the exposure to credit risk in the Short-Term Fixed Income pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income pool’s investments as of June 30.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

			2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent**	**Carrying Value**	**Percent**
Agency discount notes	P1	A-1	**$ 400,340,793**	**32.8%**	$ 129,607,724	32.2%
U.S. Treasury note	Aaa	AAA	**274,589,706**	**22.5%**	33,660,098	8.5%
Commercial paper	P1	A-1	**257,164,860**	**21.0%**	63,853,052	15.8%
U.S. Treasury bills	Aaa	AAA	**186,905,168**	**15.3%**	74,890,958	18.6%
Agency bonds	Aaa	AAA	**102,656,880**	**8.4%**	98,439,621	24.8%
Money market fund	Aaa	AAA	**571**	**0.0%**	514,400	0.1%
Total rated investments			**$ 1,221,657,978**	**100.0%**	$ 400,965,853	100.0%

This table includes securities received as collateral for repurchase agreements valued at $582,723,099 in 2007 and $226,026,191 in 2006.

Concentration of Credit Risk

West Virginia statutes prohibit the Short-Term Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2007 and 2006, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral is invested in the lending agent's money market fund.

Interest Rate Risk

The weighted-average maturity of the investments of the Short-Term Fixed Income pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term Fixed Income pool as of June 30.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

	2007		2006	
Security Type	**Carrying Value**	**WAM (days)**	**Carrying Value**	**WAM (days)**
Repurchase agreements	**$ 570,709,000**	**3**	$ 223,000,000	3
U.S. Treasury bills	**186,905,168**	**7**	74,890,958	13
Commercial paper	**257164,860**	**17**	63,853,052	17
Agency discount notes	**194,864,281**	**8**	32,706,881	64
Agency bond	**–**	**–**	2,974,372	168
Money market fund	**571**	**1**	514,400	1
Total assets	**$ 1,209,643,880**	**7**	$ 397,939,663	13

PEIA's amount invested in the Short-Term Fixed Income pool at June 30, 2007, was nominal, while the $15,693,000 invested at June 30, 2006, represented approximately 3.9% of total investments in this pool.

Fixed Income

Credit Risk

The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted-average credit ratings of the asset types in the Fixed Income pool as of June 30.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

			2007		2006	
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Fair Value**	**Percent of Assets**
Corporate bonds and notes	Baa	BBB	**$ 407,966,034**	**17.2%**	$363,865,256	16.9%
U.S. Treasury bonds and notes	Aaa	AAA	**261,067,200**	**11.0%**	324,878,457	15.1
Corporate asset backed securities	Aaa	AAA	**80,498,053**	**3.4%**	90,536,055	4.2
Agency mortgage backed securities	Aaa	AAA	**46,473,560**	**2.0%**	–	–
U.S. Treasury bill	Aaa	AAA	–	–	39,716,631	1.9
Agency bonds	Aa	AA	**38,485,188**	**1.6%**	23,241,525	1.1
Money market funds	Aaa	AAA	**27,039,310**	**1.1%**	829,720	–
Agency discount notes	P1	A-1	**2,514,911**	**0.1%**	1,776,834	–
Total rated investments			**$ 864,044,256**	**36.4%**	$844,844,478	39.2%

Unrated securities include commingled investment pools valued at $1,512,436,613 and an interest rate swap valued at $(1,886,869) for 2007. These securities represent 63.6 percent of the fair value of the pool's investments. For 2006, unrated securities include commingled investment pools valued at $1,303,551,314 and a Canada Treasury bill valued at $2,566,995. This table includes securities received as collateral for repurchase agreements valued at $10,505,935 for 2006.

Concentration of Credit Risk

West Virginia statutes prohibit the Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2007, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Investments in commingled funds are held in an account in the name of IMB. All remaining securities are held by the IMB custodian in the name of the IMB. Securities lending collateral is invested in the lending agent's money market fund.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Interest Rate Risk

The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Fixed Income pool as of June 30.

	2007		2006	
Security Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Commingled investment pools	**$ 1,512,436,613**	**04.7**	$ 1,303,551,314	5.0
Corporate notes and bonds	**407,966,034**	**6.5**	363,865,256	6.6
U.S. Treasury notes and bonds	**261,067,200**	**6.6**	324,878,457	8.3
Corporate asset backed securities	**80,498,053**	**8.3**	90,536,055	8.3
U.S. Treasury bill	**–**	**–**	39,716,631	0.2
Agency mortgage back securities	**46,473,560**	**10.6**	–	–
Agency bonds	**38,485,188**	**4.8**	12,735,590	6.1
Repurchase agreements	**–**	**–**	10,300,000	–
Canada Treasury bill	**–**	**–**	2,566,995	0.2
Money market fund	**27,039,310**	**0.0**	829,720	–
Agency discount notes	**2,514,911**	**0.7**	1,776,834	0.2
Total assets	**$ 2,376,480,869**	**5.4**	$ 2,150,756,852	5.8

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. The Fixed Income pool held $126,971,613 and $90,536,055 of these securities at June 30, 2007 and 2006, respectively, which represented approximately 5% and 4% of the value of the Fixed Income pools.

PEIA's amount invested in the Fixed Income pool of $85,949,000 and $70,523,000 at June 30, 2007 and 2006, respectively, represented approximately 3.6% and 3.3% of total investments in the pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Cash and Cash Equivalents Risk Disclosures (continued)

Fixed Income Non-qualified

This pool holds positions in institutional mutual funds with a combined value of $420,696,395 and $369,891,016 at June 30, 2007 and 2006, respectively, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.7 years. PEIA's amount invested in the Fixed Income Non-Qualified pool of $57,495,000 and $46,269,000 at June 30, 2007 and 2006, respectively, represented approximately 13.7% and 12.5% of total investments in this pool.

5. Premium Stabilization Fund

Optional life premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. 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. Cash and cash equivalents include $3,942,911 and $3,942,740 as of June 30, 2007 and 2006, respectively, designated by management to meet this obligation.

6. 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:

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

6. Unpaid Claims Liabilities (continued)

	2007	2006
	(In Thousands)	
Claims payable, beginning of year	**$ 60,122**	$ 65,399
Incurred claims expenses:		
Provision for insured events of the current year	**359,842**	518,094
(Decrease) increase in provision for insured events of prior years	**(330)**	1,300
Total incurred claims expense	**359,512**	519,394
Payments:		
Claim payments attributable to insured events of:		
Current year	**320,480**	460,973
Prior years	**46,155**	63,698
Total payments	**366,635**	524,671
Claims payable, end of year	**$ 52,999**	$ 60,122

The above payments are net of pharmacy rebates of $13,948,989 and $11,053,560 for the years ended June 30, 2007 and 2006, respectively.

7. Employee Benefit Plans

All full-time PEIA employees are eligible to participate in the State of West Virginia Public Employees Retirement System (PERS), a cost-sharing, multiple-employer, public employee retirement system. Employees who retire at or after age 60 with five or more years of contributory service or who retire at or after age 55 and have completed 25 years of credited service are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to 2% of the employee’s final average salary, multiplied by the number of years of the employee’s credited service at the time of retirement. PERS also provides deferred retirement, early retirement, and death and disability benefits, and issues an annual report which can be obtained by contacting PERS.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

Covered employees are required to contribute 4.5% of their salary to PERS. PEIA is required to contribute 10.5% of covered employees' salaries to PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. PEIA and employee contributions, both the statutorily required and actual contributions made, for the three years ended June 30 are as follows:

	2007	2006	2005
Employer contributions (10.5%)	**$ 136,720**	$ 220,258	$ 220,517
Employee contributions (4.5%)	**58,594**	93,576	94,989
Total contributions	**$ 195,314**	$ 313,834	$ 315,506

PEIA's contributions to the retirement plan for each of the years indicated above were equal to its required contributions. The contributions are included in other operating expenses in the basic financial statements.

The Consolidated Public Retirement Board (CPRB) administers the State's retirement systems CPRB prepares separately issued financial statements covering the State's retirement systems, including PERS which can be obtained from the Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

8. Postemployment Benefits Other Than Pension Benefits

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to RHBT or to obtain a greater benefit under PERS. The estimated liability at June 30, 2007 and 2006, for sick leave postretirement benefits of $275,353 and $316,993, respectively, is included in other accrued liabilities in the statements of net assets. During the years ended June 30, 2007 and 2006, PEIA disbursed $6,100 and $8,724, respectively, from the liability balances discussed above to fund health insurance premiums for one of its retirees, who had elected to use his accumulated leave time for health coverage.

PEIA contributes to the RHBT, a cost-sharing multiple employer defined benefit postemployment health care plan. RHBT provides medical benefits to retired employees of the State of West Virginia, State colleges and universities, county boards of education, and various other West Virginia governmental entities. Chapter 15 of the Code of the State of West Virginia assigns the authority to establish and amend benefit provisions to the RHBT Finance Board. The RHBT issues a publicly available financial report that includes financial statements and required

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Postemployment Benefits Other Than Pension Benefits (continued)

supplementary information for the plan. The report may be obtained by writing to West Virginia Retiree Health Benefit Trust, Building, 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia 25305-0710 or by calling 1-888-680-7342.

The Code provides that contribution requirements of the members and the participating employers are established and may be amended by the RHBT Finance Board. A non-Medicare plan member or beneficiaries receiving benefits contributes monthly premiums ranging from $208 to $919 per month for retiree only coverage, and from $421 to $2,184 per month for retiree and spouse coverage. Medicare covered retirees are charged premiums ranging from $68 to $453 per month for retiree only coverage, and from $113 to $945 per month for retiree and spouse coverage. Monthly premiums vary based on years of service and choice of coverage.

9. Litigation

PEIA is engaged in various legal actions that it deems to be in the ordinary course of business. 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 its financial performance in the period in which these legal actions are ultimately decided.

During Fiscal Year 2007, settlement was reached between PEIA and its former Prescription Benefit Manager (PBM) in the dispute that involved prescription drug rebates and other matters. The provisions of the settlement agreement resulted in a gross award in the amount of $5,500,000 to PEIA. From the gross award, PEIA paid $2,415,000 in legal fees. The net settlement is reflected in nonoperating revenues in the accompanying financial statements.

This Page Was Left Blank Intentionally

Required Supplemental Schedule

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare to 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, and investment revenues. (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 reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and reestimated 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.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
				(In Thousands)						
1) Premiums, investment, and other revenues:										
Earned	$ 329,296	$ 373,698	$ 388,179	$ 417,673	$ 432,220	$ 501,170	$ 575,420	$ 591,470	$ 657,858	**$502,666**
Ceded	85,859	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	**59,228**
Net earned	243,437	299,497	312,881	341,017	380,258	444,440	513,587	535,624	595,391	**443,438**
2) Unallocated expenses	12,117	14,376	14,564	16,754	16,531	21,195	23,347	23,579	26,036	**20,321**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	333,067	351,082	334,802	388,645	431,544	450,592	493,230	542,512	580,561	**419,070**
Ceded	85,859	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	**59,228**
Net incurred	247,208	276,881	259,504	311,989	379,582	393,862	431,397	486,666	518,094	**359,842**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	198,058	236,905	217,771	262,116	327,451	343,939	379,101	426,562	460,973	**320,480**
One year later	235,214	271,547	254,001	310,090	374,269	390,420	428,176	487,303	507,194	
Two years later	235,719	272,155	254,852	310,047	374,685	388,999	428,218	487,237		
Three years later	235,341	272,355	254,887	309,981	374,465	388,911	428,218			
Four years later	235,341	272,355	254,887	309,981	374,465	388,911				
Five years later	235,341	272,355	254,887	309,981	374,465					
Six years later	235,341	272,355	254,887	309,981						
Seven years later	235,341	272,355	254,887							
Eight years later	235,341	272,355								
Nine years later	235,341									
5) Reestimated ceded claims and expenses	85,859	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of accident year	247,208	276,881	259,504	311,989	379,582	393,862	431,397	486,666	518,094	**359,842**
One year later	235,542	272,337	256,492	319,539	375,350	389,662	428,567	487,656	517,884	
Two years later	234,523	272,337	255,440	319,306	375,050	389,162	428,687	487,536		
Three years later	234,523	272,757	255,355	319,076	374,920	389,352	428,687			
Four years later	234,523	272,757	255,270	319,076	374,920	389,352				
Five years later	234,523	272,757	255,270	319,076	374,920					
Six years later	234,523	272,757	255,270	319,076						
Seven years later	234,523	272,757	255,270							
Eight years later	234,523	272,757								
Nine years later	234,523									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	(12,685)	(4,124)	(4,234)	7,087	(4,662)	(4,510)	(2,710)	870	(210)	–

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.

This Page Was Left Blank Intentionally

Statistical Section

One issue regarding specialty drugs that PEIA must also consider regarding the expansion of specialty drugs is not simply cost driven. PEIA is very interested in the efficacy of these new treatments. This is due to the fact that if these new drugs prove to be effective in providing our members with a better, healthier life, the cost of the drug will be worth it. Specialty drugs may very well save insurers on claims expense if the member is healthier and not requiring hospitalization. PEIA will continue to monitor this very important issue in the coming years.

Schedule 1

Net Assets, Last Ten Fiscal Years *(dollars in thousands)*

Over the past five fiscal years PEIA has passed premium increases sufficient to cover the actuarial cost trend assumptions. PEIA has beaten these assumptions with lower actual cost trends. The below schedule indicates the significant impact the lower actual cost trends have had on net assets.

	Fiscal Year									
	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Invested in capital assets, net of related debt	$568	$209	$155	$90	$115	$161	$221	$281	$295	208
Unrestricted	173,507	190,659	168,428	139,655	76,057	42,078	57,550	49,447	4,888	(16,198)
Total	$174,075	$190,868	$168,583	$139,745	$76,172	$42,239	$57,771	$49,728	$5,183	$(15,990)

Source: PEIA Financial Statements

Schedule 2

Changes in Net Assets, Last Ten Fiscal Years

This schedule provides additional information on how PEIA has accomplished the positive change in net assets. Premium revenue increases have outpaced the claim expense increases a minimum of $24 million over the past five fiscal years.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Operating Revenues:										
Premiums	$466,304,259	$630,474,784	$580,985,961	$567,836,346	$494,803,110	$418,663,654	$396,494,659	$380,081,007	$365,771,569	$321,955,257
Less:										
Payments to managed care organizations	(53,051,579)	(56,018,955)	(49,441,787)	(55,471,086)	(50,336,032)	(46,818,034)	(71,609,138)	(70,757,209)	(69,713,292)	(81,392,367)
Life reinsurance premiums	(6,176,482)	(6,447,851)	(6,404,367)	(6,361,993)	(6,394,214)	(5,144,232)	(5,047,339)	(4,540,875)	(4,488,068)	(4,467,264)
Net premium revenue	407,076,198	568,007,978	525,139,807	506,003,267	438,072,864	366,701,388	319,838,182	304,782,923	291,570,209	236,095,626
Administrative fees, net of refunds	4,450,017	6,058,949	6,011,411	6,035,393	4,766,910	4,656,388	4,612,838	3,952,384	3,101,354	3,025,674
Net operating revenues	411,526,215	574,066,927	531,151,218	512,038,660	442,839,774	371,357,776	324,451,020	308,735,307	294,671,563	239,121,300
Operating Expenses:										
Claims expense	359,512,303	519,393,700	483,206,286	426,667,298	389,312,256	379,258,215	316,219,643	253,771,160	263,947,359	238,423,500
Administrative service fees	12,723,779	15,717,640	16,116,521	15,082,572	14,444,565	10,917,542	11,471,003	9,316,764	9,186,157	8,229,978
Other operating expenses	7,507,134	10,318,185	7,462,489	8,264,151	6,750,109	5,614,074	5,283,378	5,247,246	5,190,317	3,887,511
Total operating expenses	379,743,216	545,429,525	506,785,296	450,014,021	410,506,930	395,789,831	332,974,024	268,335,170	278,323,833	250,540,989
Operating Income (loss)	31,782,999	28,637,402	24,365,922	62,024,639	32,332,844	(24,432,055)	(8,523,004)	40,400,137	16,347,730	(11,419,689)
Nonoperating Revenues (Expenses):										
Investment income, net of fees	22,126,245	8,348,296	4,472,144	1,549,114	1,599,711	3,099,867	6,565,677	3,145,719	1,274,911	766,126
Litigation settlement	3,085,000									
Retiree drug subsidy	-	8,090,995								
Supplemental Appropriations	6,700,000	4,887,369	-	-	-	5,800,000	10,000,000	1,000,000	3,550,000	3,550,000
Other revenue	-	-	-	-	-	-	-	-	-	-
Transfer out primary government	(80,487,422)	(27,679,595)								
Change in Net Assets	(16,793,178)	22,284,467	28,838,066	63,573,753	33,932,555	(15,532,188)	8,042,673	44,545,856	21,172,641	(7,103,563)

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Financial Statements

Schedule 3

Changes in Net Assets, Last Ten Fiscal Years *(dollars in thousands)*

This version of the changes in net assets schedule gives a detailed look at the major components in PEIA's revenues and expenses. Member and employer premium make up the majority of PEIA revenue. However, of these two employer premium revenues is the most critical due to its share. There are concerns at PEIA regarding the revenue capacity of our employers as health costs continue to demand more of their limited resources.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Additions										
Member contributions	$78,491	$144,277	$138,544	$131,774	$107,457	$82,641	$41,343	$38,435	$31,948	$28,908
Employer contributions	392,263	495,171	451,043	444,534	393,943	342,165	360,558	346,229	336,925	296,073
Retiree drug subsidy	-	8,091	-	-	-	-	-	-	-	-
Direct transfer	6,700	4,887	-	-	-	5,800	10,000	1,000	3,550	3,550
Investment income (net of expenses)	22,126	8,348	4,472	1,549	1,600	3,100	6,566	3,146	1,275	766
Total additions to plan net assets	$499,580	$660,775	$594,059	$577,857	$503,000	$433,706	$418,468	$388,810	$373,698	$329,297
Deductions (See Schedule 2)										
Benefit payments	418,740	581,861	539,051	488,500	446,043	431,220	392,876	329,069	338,149	324,283
Administrative expenses	18,280	24,398	21,896	20,845	19,841	15,521	15,472	13,851	12,703	10,702
Retiree assistance program	-	2,914	2,591	2,436	1,830	1,487	794	631	756	756
Wellness expenses	1,951	1,638	1,683	2,502	1,354	1,010	1,283	713	917	660
Total deductions from plan net assets	$438,971	$610,811	$565,221	$514,283	$469,067	$449,239	$410,425	$344,264	$352,525	$336,401
Litigation settlement	3,085									
Transfer Out	80,487	$27,680								
Change in net assets	$(16,793)	$22,284	$28,838	$63,574	$33,933	$(15,532)	$8,043	$44,546	$21,173	$(7,104)

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Financial Statements

Schedule 4

Benefit Deductions from Net Assets by Type, Last Ten Fiscal Years
(dollars in thousands)

Of note in this schedule is the trend of prescription drugs. Excepting fiscal year 2007 when PEIA transferred the reporting of retirees to the RHBT, prescription drugs have increased over 200% in the past ten years.

	Fiscal Year									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Type of Benefit										
Medical Claims	$263,995	$345,255	$327,242	$297,190	$271,009	$272,663	$234,047	$189,176	$192,606	$182,978
Prescription Drug Claims	95,517	174,139	155,964	$129,477	$118,303	$106,595	$82,173	$64,595	71,341	55,445
Managed Care Capitations	53,052	56,019	49,442	$55,471	$50,336	$46,818	$71,609	$70,757	69,714	81,392
Life Insurance Premiums	6,176	6,448	6,404	$ 6,362	$6,394	$5,144	$5,047	$ 4,541	4,488	4,467
Total Benefits	$418,740	$581,861	$539,051	$488,500	$ 446,043	$431,220	$392,876	$329,069	$338,149	$ 324,282

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Financial Statements

Schedule 5

Employer and Employee Health Contribution Rates, Last Ten Fiscal Years

The below schedule indicates the level of premium for various policyholder types over the past ten years. The rate of increase should be noted for further indications of revenue capacity concerns.

	Fiscal Year									
Average Monthly Premium	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
State Policyholders										
PPB	$101	$108	$110	$106	$84	$58	$46	$44	$38	$38
Managed Care	$114	$129	$131	$123	$106	$84	$78	$67	$49	$35
State Employers										
PPB	$443	$556	$499	$499	$445	$393	$401	$377	$368	$331
Managed Care	$423	$537	$481	$476	$424	$381	$415	$358	$327	$290
Local Employers										
PPB	$482	$611	$593	$554	$486	$386	$368	$398	$407	$334
Managed Care	$464	$552	$525	$506	$428	$421	$505	$431	$423	$314
Retiree Policyholders										
PPB	-	$147	$136	$131	$113	$100	$98	$94	$90	$82
Managed Care	-	$442	$387	$359	$357	$459	$381	$218	$223	$160

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Actuarial Reports

Schedule 6

Health Policyholder Count by Employer Type, Last Ten Fiscal

County schools represent the largest population within PEIA. Of note in this schedule is the fact that the rate of member increase is minimal over the ten year period. This indicates that the increases in claim costs is due to the cost of healthcare, not larger enrollment.

	Fiscal Year									
June Policy Count	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
County Schools	31,543	31,665	31,704	31,823	31,953	32,059	32,533	33,063	33,293	33,421
College and University	9,581	9,374	9,185	9,086	9,180	9,260	9,060	9,064	9,142	9,129
State Agencies	21,485	21,635	22,401	22,191	22,090	21,780	21,462	21,467	21,225	20,549
Local Governments	9,852	9,516	9,179	9,176	8,542	8,073	7,177	6,431	6,505	7,454
Retirees	-	29,297	28,331	27,401	26,207	25,817	25,561	24,917	26,429	26,071
Survivors	-	3,615	3,587	3,448	3,471	3,445	3,438	3,396	1,181	1,135
	72,461	105,102	104,387	103,125	101,443	100,434	99,231	98,338	97,775	97,759

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Eligibility System Billings

Schedule 7

Demographic and Economic Information

The below schedule gives an overview of the demographic and economic statistics of the State of West Virginia. The per capita income in comparison to national levels is to be noted in considering our populations ability to afford escalating healthcare cost.

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Population										
West Virginia	1,818,470	1,814,083	1,812,548	1,810,347	1,804,529	1,801,438	1,807,442	1,811,799	1,815,609	1,819,113
Change	0.24%	0.08%	0.12%	0.32%	0.17%	-0.33%	-0.24%	-0.21%	-0.19%	-0.20%
National	300,888,812	298,024,822	293,656,842	290,850,005	287,984,799	285,107,923	282,193,477	279,731,000	276,553,000	273,368,000
Change	0.96%	1.49%	0.97%	0.99%	1.01%	1.03%	0.88%	1.15%	1.17%	1.20%
Total Personal Income										
West Virginia (in millions)	51,039	47,955	45,731	43,841	43,312	41,902	39,438	37,472	36,738	35,202
Change	6.43%	4.86%	4.31%	1.22%	3.36%	6.25%	5.25%	2.00%	4.36%	4.24%
National (in millions)	10,966,808	10,284,378	9,711,271	9,150,320	8,872,871	8,716,992	8,398,871	7,779,521	7,418,497	6,928,545
Change	6.64%	5.90%	6.13%	3.13%	1.79%	3.79%	7.96%	4.87%	7.07%	5.97%
Per Capita Personal Income*										
West Virginia	28,067	26,435	25,230	24,217	24,002	23,260	21,820	20,682	20,235	19,351
Change	6.17%	4.77%	4.18%	0.90%	3.19%	6.60%	5.50%	2.21%	4.56%	4.45%
National	36,448	34,508	33,070	31,461	30,810	30,574	29,763	27,811	26,825	25,345
Change	5.62%	4.35%	5.12%	2.11%	0.77%	2.73%	7.02%	3.68%	5.84%	4.71%
Median Age	40.7	40.7	40.2	39.9	39.5	39.3	39.0	38.9	38.5	38.1
Educational Attainment										
9th Grade or Less	7.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	16.8%	16.8%	16.8%
Some High School, No Diploma	11.9%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	17.3%	17.3%	17.3%
High School Diploma	42.7%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	36.6%	36.6%	36.6%
Some College, No Degree	16.1%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	13.2%	13.2%	13.2%
Associate, Bachelor's or Graduate Degree	22.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	16.1%	16.1%	16.1%
Labor Force and Employment (people in thousands)										
Civilian Labor Force	807.0	794.0	791.0	794.0	798.0	801.0	809.0	813.0	807.0	801.0
Employed	767.0	754.0	749.0	746.0	751.0	759.0	765.0	762.0	755.0	746.0
Unemployed	40.0	40.0	42.0	48.0	47.0	42.0	44.0	51.0	52.0	54.0
Unemployment Rate	4.9%	5.0%	5.3%	6.0%	5.9%	5.2%	5.5%	6.3%	6.5%	6.8%
Nonfarm Wage and Salary Workers Employed in West Virginia										
Goods Producing Industries (people in thousands)										
Mining	28.1	25.9	23.8	22	23.1	23.5	21.4	22.3	24.6	25.1
Construction	39.2	36.8	34.6	32.7	33.4	34.9	34	33.8	34.4	34.9
Manufacturing-Durable Goods	38.4	38.8	39.2	39.7	42.2	44.5	46.6	46.7	46.5	45.6
Manufacturing-NonDurable Goods	22.6	23	23.8	24.9	26.5	27.7	29.2	30.2	31.2	31.3
Total Goods Producing Industries	**128.3**	**124.5**	**121.4**	**119.3**	**125.2**	**130.6**	**131.2**	**133**	**136.7**	**136.9**
Non-Goods Producing Industries (people in thousands)										
Trade	115.5	113.6	111.9	110.4	111.3	113.7	117.4	117	115.4	114.3
Service	367.8	364.9	360.5	355.5	353.7	350	344.1	335.1	326.4	317.4
State and Local Government	122.4	121.7	121.4	120.6	120.9	119.2	120.6	119.2	119	117.9
Federal Government	22.1	21.9	21.8	21.9	21.9	21.8	22.5	21.7	21.8	21.1
Total Non-Goods Producing Industries	**627.8**	**622.1**	**615.6**	**608.4**	**607.8**	**604.7**	**604.6**	**593**	**582.6**	**570.7**
Total Nonfarm Wage and Salary Employment	**756.1**	**746.6**	**737**	**727.7**	**733**	**735.3**	**735.8**	**726**	**719.3**	**707.6**

Various population, personal income, per capita personal income and labor force figures have been amended from last year's schedule.

Sources: Workforce West Virginia Research, Information, and Analysis Office and the Census

*Per capita personal income is calculated by dividing total personal income by population.

Schedule 8

Principal Participating Employers, Current Year and Nine Years Ago

The below schedule indicates the top employers in the plan. Interesting is the increase in the Berkeley Co Board of Education, one of the few areas in West Virginia with increasing population trends.

	2007			1998			
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Product or Service
State of West Virginia	21,485	1	31.47%	20,449	1	20.92%	State Government
West Virginia University	5,632	2	8.46	5,330	2	5.45	Higher Education
Kanawha Co Board of Education	3,228	3	4.74	3,165	3	3.24	K-12 Education
Berkeley Co Board Of Education	1,792	4	2.38	1,236	8	1.26	K-12 Education
Wood Co Board Of Education	1,497	5	2.22	1,453	6	1.49	K-12 Education
Marshall University	1,407	6	2.25	1,057	9	1.08	Higher Education
Cabell Co Board Of Education	1,336	7	2.03	1,579	4	1.62	K-12 Education
Raleigh Co Board Of Education	1,297	8	2.04	1,475	5	1.51	K-12 Education
Harrison Co Board Of Education	1,213	9	1.91	1,292	7	1.32	K-12 Education
Monongalia Co Bd Of Education	1,104	10	1.69	1,042	10	1.07	K-12 Education
All other [a]	32,470		40.81	59,681		61.04	
Total	72,461		100.00	97,759		100.00	

In 2007, "all other" consisted of:

Type	Number	Employees
Counties	41	2,439
Municipalities	95	2,012
School districts	48	20,076
Higher education	17	2,542
Political subdivisions & other	366	5,401
Total	550	32,470

Source: PEIA Eligibility System Billings

Schedule 9

Principal Participating Employers Revenue
Current Year and Nine Years Ago Revenue

The principal employers are listed below with the State ranking as number one in employer revenue. The next largest employer is West Virginia University. Note the striking increase in total premium dollars.

Participating Government	2007 Total	Percent of Total	1998 Total	Percent of Total
State of West Virginia	$ 146,732,772	31%	$ 91,770,019	29%
West Virginia University	$ 39,435,946	8%	$ 24,513,595	8%
Kanawha County Board of Education	$ 22,111,227	5%	$ 15,627,947	5%
Berkeley County Board of Education	$ 11,086,849	2%	$ 5,688,154	2%
Wood County Board of Education	$ 10,370,147	2%	$ 6,536,081	2%
Marshall University	$ 10,502,335	2%	$ 5,929,695	2%
Cabell County Board of Education	$ 9,456,022	2%	$ 7,058,186	2%
Raleigh County Board of Education	$ 9,490,910	2%	$ 6,911,836	2%
Harrison County Board of Education	$ 8,926,213	2%	$ 6,216,848	2%
Monongalia County Board of Education	$ 7,884,134	2%	$ 4,962,158	2%
All other	$ 190,307,704		$ 146,740,738	
Total	$ 466,304,259		$ 321,955,257	

Schedule 10

Number of Employees by Identifiable Activity
Filled Full Time Equivalent Employees as of June 30

PEIA maintains a very limited staff relying on vendors to perform the claim adjudication process. PEIA has a ratio of approximately 4,000 members to 1 employee.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Eligibility	10	10	9	9	9	9	9	9	9	9
Customer Service	9	6	8	7	7	7	7	7	7	7
Finance	7	5	4	4	4	4	4	3	3	4
Premium Accounts	6	6	6	5	6	6	6	6	6	6
Health Benefits and Clinical Administration	6	10	9	8	6	0	0	0	0	0
Communications	2	3	3	2	2	3	3	2	2	2
Legal	2	3	3	3	3	2	2	2	2	2
Director’s Office - Administration	4	5	4	4	5	5	5	5	5	5
Operations-Human Resources	3	3	3	3	3	3	3	3	3	3
Information Technology	3	3	3	3	3	2	2	2	2	2
Total	52	54	52	48	48	41	41	39	39	40

NOTE: Until June 2002, 9 members of eligibility, customer service and premium accounts were contract employees of PEIA’s third party administrator.

Source: PEIA Personal Service Budgets

Schedule 11

Policyholder Count by Type of Healthcare Benefit
Current Year and Previous Year

The following schedule demonstrates the high rate of participation in the PEIA self-funded preferred provider benefit plan.

	2007	2006
State Active Employees		
Preferred Provider Benefit	54,532	54,508
Managed Care	8,077	8,166
Local Active Employees		
Preferred Provider Benefit	9,200	8,864
Managed Care	652	652
Retirees Medicare		
Preferred Provider Benefit	-	25,392
Managed Care	-	-
Retirees Non Medicare		
Preferred Provider Benefit	-	7,148
Managed Care	-	372
Total	72,461	105,102

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Eligibility System Billings

Schedule 12

Average Monthly Claims Cost per Policy/Contract
Current Year and Previous Year

Below is the average monthly claim cost by policyholder. The preferred provider benefit plan shows a lower cost per month than the capitated managed care plans.

	Year End 2007			Year End 2006		
	Medical Claims	Drug Claims	MCO Capitation	Medical Claims	Drug Claims	MCO Capitation
State Active Employees						
Preferred Provider Benefit	$ 346.00	$ 128.00	–	$ 352.00	$ 121.00	
Managed Care	–	–	$ 518.00			$ 493.00
Local Active Employees						
Preferred Provider Benefit	$ 367.00	$ 115.00		$ 327.00	$ 105.00	
Managed Care	–	–	$ 443.00			$ 425.00
Retirees Medicare						
Preferred Provider Benefit	-	-	–	$ 161.00	$ 224.00	–
Managed Care	–	–	-	–	–	-
Retirees Non Medicare						
Preferred Provider Benefit	-	-	–	$ 371.00	$ 190.00	
Managed Care	–	–	-			$ 958.00

Note: Retirees and Survivors are now accounted for in the WV RHBT beginning in 2007.

Source: PEIA Actuarial Report