Comprehensive Annual Financial Report

State of West Virginia
Public Employees Insurance Agency

For the fiscal year ended June 30, 2008

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

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Public Employees Insurance Agency
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Joe Manchin III, Governor

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2008

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:
Jason A. Haught, CPA
Chief Financial Officer
West Virginia Public Employees Insurance Agency

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Introductory Section

The affects of medical technology is very evident in the treatment of cancer, also known as oncology. Oncology drug costs were $9.5 million in fiscal year 2008. Much of this is attributable to the emergence of new, extremely expensive oncology drugs that can cost $100,000 or more.

The cost of the new oncology drugs is not the only contributing factor in increased treatment expenses. The inpatient cost for oncology treatment was $12 million. This represents a 26% increase. Taking all of the associated costs into consideration, PEIA spent approximately $39 million in cancer treatment. This represents a 13% increase over last year.

In addition to oncology drugs, specialty drugs, or biological drugs, continue to contribute to the high cost increases of prescription drugs. Specialty drug costs rose 7.41% in fiscal year 2008. This resulted in them making up 9.33% of the total drug spend in fiscal year 2008. They represented $14.3 million in total costs in fiscal year 2008.

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Joe Manchin III
Governor

Ted Cheatham
Director

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

March 31, 2009

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, 2008. 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, 2008. Their report is included in the financial section of this report.

PROFILE OF 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). Furthermore, 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 GAAP, 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% of total expenses with administrative expenses representing 5%. 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 2008 year-end PEIA reserve of $103 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2009 through 2013. PEIA is also required to transfer any reserve amounts that are in excess of approximately 26% of the recommended reserve to the West Virginia Retiree Health Benefit Trust Fund. PEIA's reserve did not have required excess reserve transfers in fiscal year 2008.

PEIA maintains two separate insurance risk pools based on employer type. The two pools are different based on the employer being deemed a State or non-State employer. Also, the participants in the State risk pool are mandatory participants in PEIA, while the non-State risk pool participants are not mandatory participants. Both of which must maintain the aforementioned 10% minimum reserve.

The PEIA funding policy for employers in the State risk pool has an impact on PEIA's financial statements. PEIA is required to maintain the State employer and State employee aggregate cost sharing percentages of 80% from employers and 20% from employees. Although enrollment fluctuations cause difficulties in attaining the required ratio, the current financial plan indicates the plan is in compliance with this requirement.

LONG-TERM FINANCIAL PLANNING

PEIA had a change in net assets for fiscal year 2008 of ($71,044,983) resulting in an end of year net asset amount of $103,304,939. PEIA had decreases in premium revenues and claims expense. For further details regarding PEIA's financial condition, please see the MD&A section in the financial section beginning on page 23 that incorporates a narrative introduction, overview and analysis of the financial statements.

PEIA has seen unprecedented reserve levels due to the favorable results in fiscal years 2006 and 2007. These favorable results ceased in fiscal year 2008. The plan saw a re-emergence of significant healthcare claim cost increases. This re-emergence of increases, in conjunction with no premium revenue increases in fiscal year 2008, provided a sobering reminder of the dramatic impact healthcare cost increases can have on insurance plan reserves.

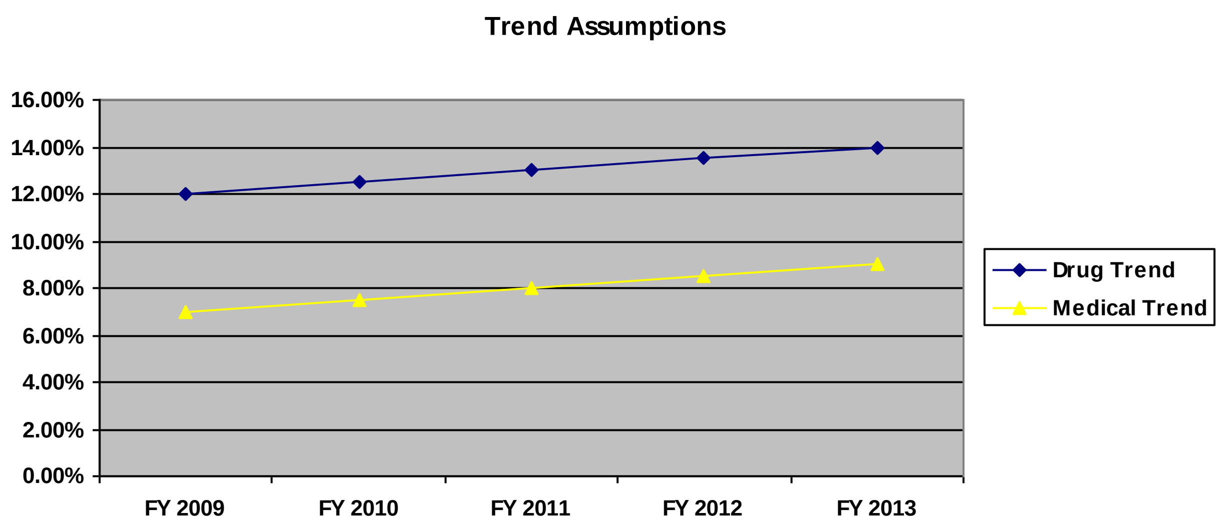
A frequent question received by PEIA when reporting increased costs is: "Why are they increasing?" To individuals in the insurance industry, this is a question that has very obvious answers. To some extent, it would be easier to answer: Why wouldn't they increase?

The reason is "trend". The "2009 Segal Health Plan Cost Trend Survey" has a brief explanation of trend on the front page. Within this explanation, it lists seven factors that influence trend. Of these seven factors identified, three of them are directly related to technological change in healthcare. An article by Daniel Callahan, Ph.D., of the Hastings Center, indicates that economists estimate that new or increased use of medical technology contributes 40-50% to annual cost increases in healthcare.[1]

The fact is, if everyone continued to receive the same level of care from the same type of service at the same rate of utilization, you could expect flat, or no trend. Actually, it wouldn't be surprising to see this same scenario result in a reducing trend due to efficiencies in providing those services. But this situation doesn't occur in U.S. healthcare.

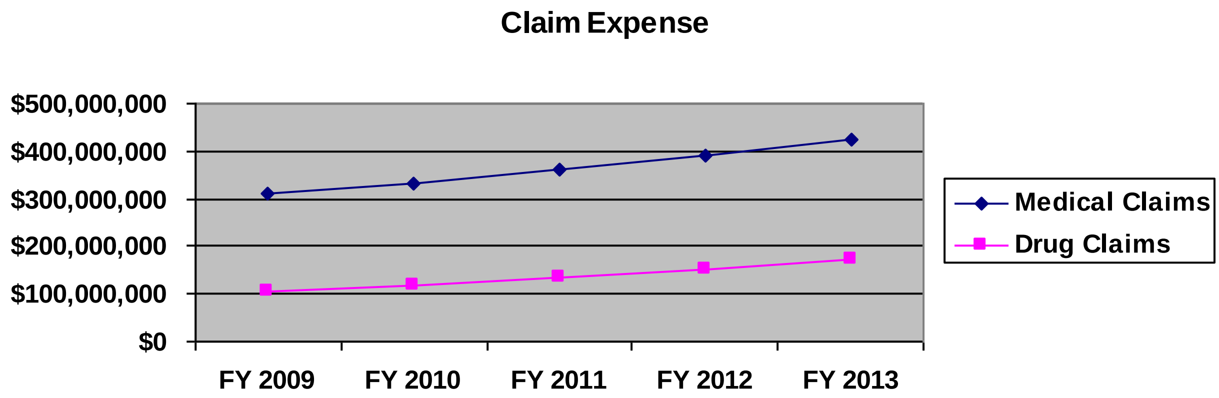
This is where technology comes into the equation. The level of care and types of services do not stay the same. Advancements in healthcare technology create new ways to diagnose, treat and, hopefully, cure conditions. As with any type of new technology, it generally costs more to obtain it and it is highly sought after by the multitude.

The below chart indicates the assumptions PEIA has adopted in its most recent financial plan. This chart indicates that the plan anticipates increases in healthcare costs of over 40% in five fiscal years. Utilizing the statistics cited by Dr. Callahan, 16% to 20% of this trend assumption is due to technology. The current financial plan forecast increases in healthcare costs as follows:



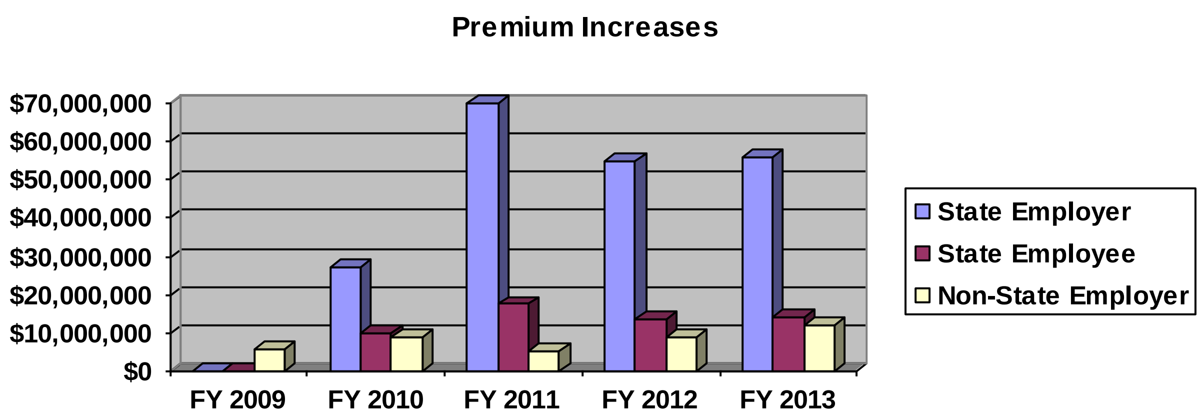
The 2009 Segal Health Plan Cost Trend Survey indicates the 2009 trend projection for preferred provider organizations with prescription drug benefits is 10.4%. For comparison purposes, PEIA's combined trend projection for fiscal year 2009 equals 8.3%. The above trend assumptions result in the following estimated claim expenses for FY 2009 through 2013:

[1] Daniel Callahan, "Health Care Costs and Medical Technology," in *From Birth to Death and Bench to Clinic: The Hastings Center Bioethics Briefing Book for Journalists, Policymakers, and Campaigns*, ed. Mary Crowley (Garrison, NY: The Hastings Center, 2008), 79-82.



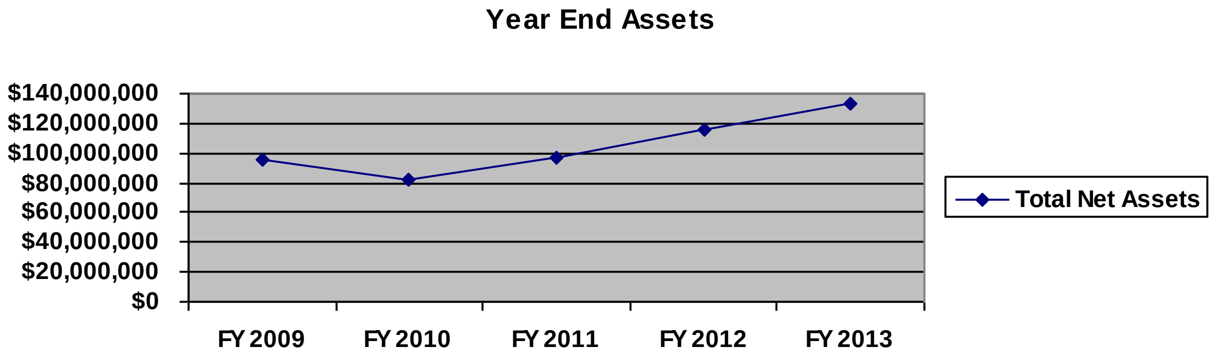
Based on the above trend assumptions, PEIA can expect to see an aggregate increase in medical and drug costs over the next five years of $135 and $78 million respectively. Considering the earlier reference that medical technology represents 40% to 50% of annual increases, $85 to $107 million of the total five-year increase is attributable to medical technology.

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



In aggregate, the Board has approved $208 million in State employer premium increases, $42 million for non-State employers and $54 million for State employees. Special attention should be paid to the above premium increases as all of the participants are reaching their revenue limitations and abilities to meet these scheduled increases. The current State budget is already under scrutiny due to the economic down turn.

The above trend assumptions in expenses and scheduled premium increases result in the year end asset table below. The projected year-end assets based on the current financial plan are as follows:



The discussion regarding medical technology and its related costs now results in a logical discussion regarding what we are getting for our money. There is a significant amount of debate regarding how much these technological advancements actually result in improved healthcare. This is evident when looking at the United State's cost of healthcare and its ranking.

Rita F. Redberg, MD, MSc, Director of Women's Cardiovascular Services at UCSF Medical Center, stated "Any new technology is only valuable to the extent that it leads to improved patient care. The current 'pay now, benefits might follow' model is in part to blame for why the U.S. spends more per capita on health care than any other nation yet its system ranks only 37th in performance." Dr. Redberg continues in this same publication to provide a case study of computed tomography angiography (CTA) to demonstrate that there needs to be more evidence based technology assessments. This would help ensure that the patient has a net benefit from a drug or procedure and the net benefit justifies the costs. The case study highlights the "…rapid adoption of the technology due to advances in imaging, entrepreneurial activity by physicians and increased patient demand due to media attention and direct to consumer advertising." However, the "…adoption is occurring despite little evidence showing CTA leads to better patient care than alternative procedures."[2]

A July 2008 article in BusinessWeek delved into this same topic. It cited the Congressional Budget Office estimated "that less than half of all medical treatments are supported by rigorous evidence proving they work." This same article goes on to reference cancer drugs that "can cost $100,000 or more, though they add only a few months of life for most patients. They do offer, however, a slim chance of a longer benefit to some patients. So cancer victims demand them, and doctors recommend them in hope they might get lucky."

The writer lays claim that this would not have occurred in countries with universal healthcare. "In Europe, for example, the cost-benefit of a new treatment is part of its evaluation." Not only is there no such review process widely accepted in the U.S., an "insurer will rarely deny payment for a treatment based on price."[3]

[2] Rita Redberg, "Evidence, Appropriateness, And Technology Assessment In Cardiology: A Case Study Of Computed Tomography", Health Affairs, 26, No. 1 (2007), 86-95.
[3] Catherine Arnst, "Behind Rising Health-Care Costs", BusinessWeek, July 14, 2008.

In conclusion, PEIA cannot assume that it can continue to simply increase premiums to cover increasing costs. Reasonable long-term financial planning must involve getting serious in assuring our limited healthcare dollars are spent effectively through evidence based healthcare. Dr. Daniel Callahan of the Hasting Center paper on the topic of technology driven healthcare costs stated "Universal care is the only tried and effective way to control costs. …These methods work well but are culturally and politically unacceptable here. For me, that is the fundamental dilemma in trying to think through the problem. Controlling health care costs requires a change in culture, not just in the management of health care."[4] This is the monumental task before PEIA and every other payer in the U.S., convincing people that technology can't cure anything and everything.

The fact is, some of the most effective means to health have nothing to do with technology and everything to do with preventive measures that cost very little. Dr. Daniel Jones, chief of minimally invasive surgery at Beth Israel was quoted in the earlier referenced article out of BusinessWeek as saying, "We could think of improving the quality of a patient's life rather than the length, by spending more money on preventive care. Getting patients to lose weight, quit smoking, and exercise more would go a long way toward reducing medical costs. In medicine, the low-tech solution can be the most productive."[5]

MAJOR INITIATIVES

PEIA's major initiatives focus on the aforementioned preventive services. PEIA will be moving into its second year of the Improve Your Score program that pays policyholders cash rewards based on their composite score of various health parameters and lifestyles. It is hoped that this program will continue to encourage healthier lifestyles, if not raise awareness of the issue.

In the spirit of the aforementioned, evidence based healthcare, PEIA will be participating in such a program for the first time. The Oregon Medicaid Evidence-Based Decisions Project (MED) is a contract between WV Medicaid, PEIA, and the WV Health Care Authority, and a collaboration of 11 other states to support a center which provides high quality scientific evidence to support benefit design and coverage decisions. MED's clinical research allows states to selectively cut ineffective and unnecessary services. This ensures that medical directors do not waste money on marginal treatments or overutilization of interventions and diagnostics. The average cost of a scientific systematic review or technology assessment on a single topic ranges between $100,000 and $300,000. By combining resources, MED states have been able to commission over 75 summary reports in the last 2.5 years. West Virginia has utilized MED specifically to obtain Autism Spectrum Disorder Reports and Dental Services for Pregnant women to date.

PEIA will be initiating a pilot program known as the West Virginia PEIA Comprehensive Care Pilot Program. This program will develop contracts with participating medical clinics within the Cabin Creek system, a Federal Qualified Health Clinic (FQHC), to pay a monthly global capitation to provide all of certain primary health care services to certain PEIA members who voluntarily enter the program.

[4] Daniel Callahan, "Health Care Costs and Medical Technology," in *From Birth to Death and Bench to Clinic: The Hastings Center Bioethics Briefing Book for Journalists, Policymakers, and Campaigns*, ed. Mary Crowley (Garrison, NY: The Hastings Center, 2008), 79-82.

[5] Catherine Arnst, "Behind Rising Health-Care Costs", BusinessWeek, July 14, 2008.

All services not covered under the capitation will be a risk pool and will be analyzed in four major areas: Hospital, Emergency Room, Specialist, and Pharmacy. Overall savings from expected to actual results within the risk pools will be split 50% PEIA - 50% clinic. It is the expectation that all primary care services will be performed within the Cabin Creek system, with the exception of emergency and out-of-state situations.

PEIA will retain 10% of the final risk adjusted capitation amount as an incentive to improve process and clinical outcomes. Failure of the clinic to achieve 70% of process and outcome measures will void any risk pool cost sharing for that time period. It is hoped that this delivery system will create healthier, less costly members within the plan.

PEIA is also developing a juvenile weight management program known as the West Virginia Health Improvement Institute Childhood Obesity Primary Prevention Pilot. This is a collaborative of the Multi-payor Group (Medicaid, Blue Cross Blue Shield, PEIA, West Virginia Children's Health Insurance Program, Coventry, and The Health Plan) with lead group: Joan Phillips MD (AAP), Shelda Martin MD (PEIA), Nidia Henderson (PEIA), and Lisa Marsh (BCBS).

The aim of this project is to prevent obesity and the complications associated with it by targeting children at risk. By identifying children early on, this will decrease the incidence of obese children and thereby have an overall impact on quality of life, and reduce the burden of illness on the health care system (reduced pre-diabetes, diabetes, avoid emergency room visits and hospitalizations, etc.).

There are three areas of this study design that will be evaluated in depth: 1) The ability to systematize screening of obesity for every child at every child visit, 2) To engage patients in self management for obesity using the Maine 5210 Program, and 3) To evaluate the impact of targeted physician practice coaching on patient's risk status using a three-visit intervention model. Children at or above the 85th percentile will be recruited for the intervention program.

The pilot is targeted to children between the ages of two and eighteen in ten pediatric practice sites, which include a diversity of settings (Federal Qualified Health Clinic, academic and private practice - both urban and rural) throughout the State. Payors will provide reimbursement for phase three of the pilot. This program was initiated in March 2009, and will be evaluated in March 2010.

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 the West Virginia Public Employees Insurance Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2007. 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, 2008.

Sincerely,

Jason A. Haught, CPA
Chief Financial Officer

Principal Officials

Joe Manchin, III, Governor
State of West Virginia

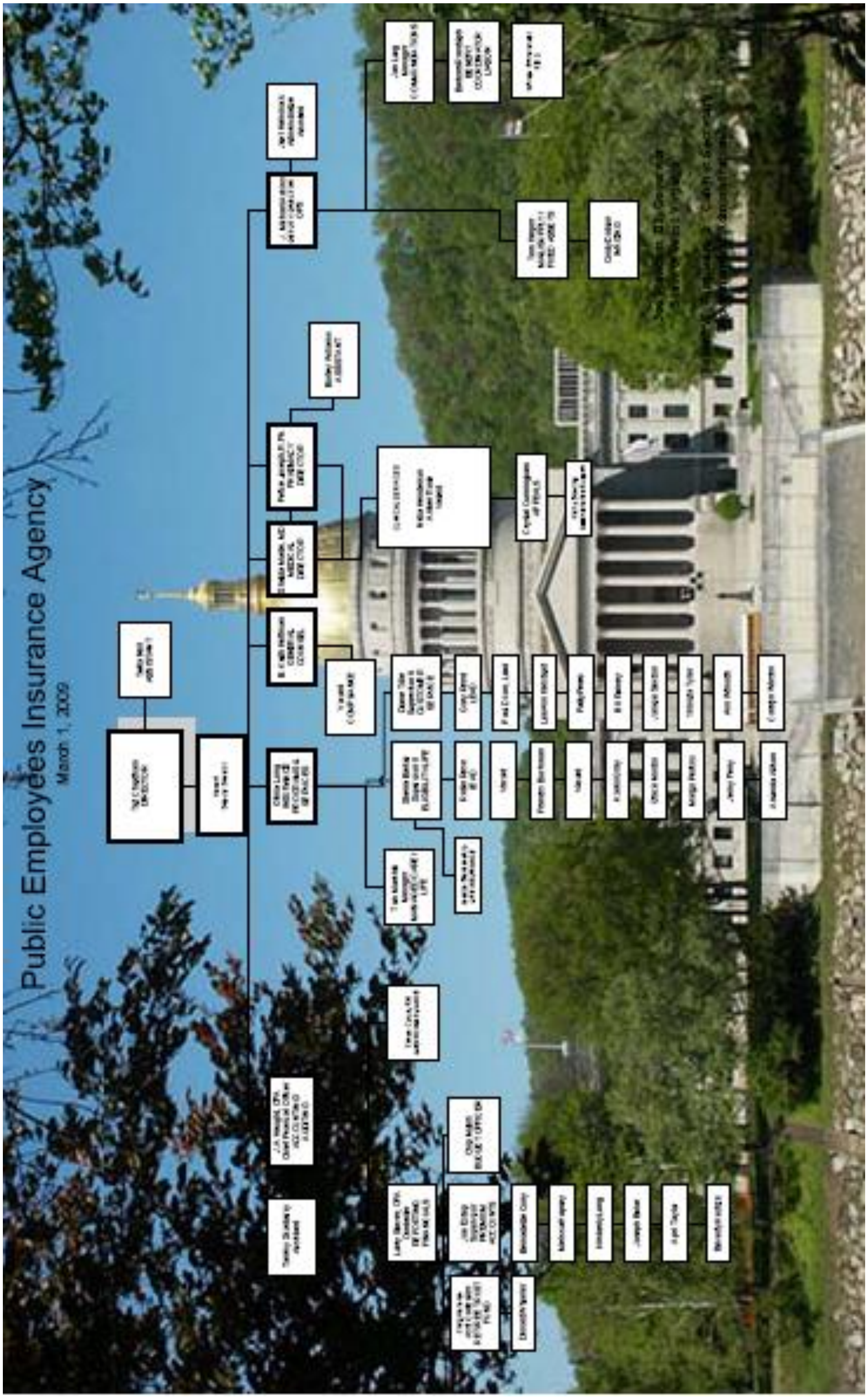
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

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


Public Employees Insurance Agency
March 1, 2009

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, 2007

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.

President

Executive Director

Financial Section

The da Vinci minimally invasive surgery system is a substantial achievement in medical technology. This device allows a physician to perform a highly complex procedure on a patient with a minimal incision and, therefore, less recovery time, pain, blood loss, scarring and, in some cases, better clinical outcomes. The da Vinci surgery system can perform procedures such as hysterectomies, mitral valve repair, prostatectomy and many other general surgeries. The physician is generally about three feet away from the patient looking into a 3D screen and operating a set of robotic arms that actually perform the procedure by the physician's direction. However, the drawback is that the system itself costs approximately $1.5 million, and it increases operation time by 50 to 90 minutes, which costs the hospital money and further increases the overall cost per surgery.

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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), an enterprise fund of the State of West Virginia, as of June 30, 2008 and 2007, 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 the 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, 2008 and 2007, 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, an enterprise fund of the State of West Virginia, at June 30, 2008 and 2007, 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.

As more fully described in Notes 6 and 9 to the financial statements, in fiscal year 2008, PEIA adopted Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* which changed the methodology for capitalization of computer software costs, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), which changed the accounting and reporting for postemployment benefits.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2009, 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 2008 audit.

Management's discussion and analysis on pages 23 through 29 and the unaudited supplemental schedule of Ten-Year Claims Development Information on page 61 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 23 through 29 and the Ten-Year Claims Development Information on page 61, 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

March 23, 2009

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2008

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, 2008. 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:

				Change 2008 – 2007	
	2008	**2007**	**2006**	**Amount**	**Percent**
Cash and cash equivalents	**$ 55,808,043**	$ 159,916,395	$ 105,520,119	$(104,108,352)	(65.1)%
Premium receivable	**14,355,794**	13,564,676	19,295,117	791,118	5.8
Other current assets	**13,730,357**	7,296,181	9,762,462	6,434,176	88.2
Total current assets	**83,894,194**	180,777,252	134,577,698	(96,883,058)	(53.6)
Investments	**122,360,685**	169,996,583	154,630,459	(47,635,898)	(28.0)
Cash and cash equivalents:					
Premium stabilization fund	**7,738,658**	3,942,911	3,942,740	3,795,747	96.3
Capital assets, net	**5,153,924**	568,064	208,900	4,585,860	807.3
Total assets	**219,147,461**	355,284,810	293,359,797	(136,137,349)	(38.3)
Claims payable	**51,276,816**	52,999,508	60,122,393	(1,722,692)	(3.3)
Other current liabilities	**56,827,048**	124,267,822	38,426,917	(67,440,774)	(54.3)
Total current liabilities	**108,103,864**	177,267,330	98,549,310	(69,163,466)	(39.0)
Noncurrent liabilities:					
Premium stabilization fund	**7,738,658**	3,942,911	3,942,740	3,795,747	96.3
Net assets–invested in capital assets	**5,153,924**	568,064	208,900	4,585,860	807.3
Net assets–unrestricted	**98,151,015**	173,506,505	190,658,847	(75,355,490)	(43.4)
Total net assets	**$ 103,304,939**	$ 174,074,569	$ 190,867,747	$ (70,769,630)	(40.7)%
Premium revenue	**$ 421,493,808**	$ 466,304,259	$ 630,474,784	$ (44,810,451)	(9.6)%
Less payments to managed care organizations and life insurance premiums ceded	**(60,595,834)**	(59,228,061)	(62,466,806)	(1,367,773)	2.3
Net premium revenue	**360,897,974**	407,076,198	568,007,978	(46,178,224)	(11.3)
Administrative fees, net	**4,487,011**	4,450,017	6,058,949	36,994	0.8
Total operating revenue	**365,384,985**	411,526,215	574,066,927	(46,141,230)	(11.2)
Claims expense, net	**419,370,075**	359,512,303	519,393,700	59,857,772	16.6
Administrative service fees	**12,820,798**	12,723,779	15,717,640	97,019	0.8
Other expenses	**12,217,402**	7,507,134	10,318,185	4,710,268	62.7
Total operating expenses	**444,408,275**	379,743,216	545,429,525	64,665,059	17.0
Operating (loss) income	**(79,023,290)**	31,782,999	28,637,402	(110,806,289)	(348.6)
Retiree drug subsidy	**–**	–	8,090,995	–	–
Supplemental appropriation	**–**	6,700,000	4,887,369	(6,700,000)	(100.0)
Litigation settlement, net	**–**	3,085,000	–	(3,085,000)	(100.0)
Transfer out to primary government	**–**	(80,487,422)	(27,679,595)	80,487,422	(100.0)
Net investment income and other	**7,978,307**	22,126,245	8,348,296	(14,147,938)	(63.9)
Total nonoperating income (loss)	**7,978,307**	(48,576,177)	(6,352,935)	56,554,484	(116.4)
Change in net assets	**(71,044,983)**	(16,793,178)	22,284,467	(54,251,805)	323.1
Total net assets, beginning of year	**174,074,569**	190,867,747	168,583,280	(16,793,178)	(8.8)
Change in accounting principle for other post employment benefits	**275,353**	–	–	–	–
Net assets, beginning of year	**174,349,922**	190,867,747	168,583,280	(16,517,825)	(8.7)
Net assets, end of year	**$ 103,304,939**	$ 174,074,569	$ 190,867,747	$ (70,769,630)	(40.7%)

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

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, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, 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 Years 2008 and 2007 are significantly different from the 2006 balances.

Premiums receivable at June 30, 2008, was $.8 million more than the prior year which is an insignificant increase. Premiums receivable at June 30, 2007, was $5.7 million less than the prior year due to the movement of the retiree health premiums to RHBT.

The current portion of cash and cash equivalents decreased $104.1 million as the result of $33.3 million used in operations, $10.3 million from investment returns net of reinvestment, $61.9 million was provided from liquidation of investments, $5.0 million was used for the purchase of capital assets, $108.2 million was transferred to RHBT, $10.8 million was advanced to RHBT, $1.4 million was collected from the prior year appropriation, less $3.8 million transferred to non-current accounts and $16.6 million used for purchase of investments.

In the previous year, $31.6 million was provided by operations, $6.8 million from investment returns net of reinvestment, noncapital financial revenues of $16 million less a small investment in capital assets.

Other current assets were up $6.4 million due to an increase in advances to RHBT of $7.2 million and prescription rebates receivable of $.8 million less the collection of prior year appropriations of $1.4 million. At year-end 2007, other current assets were down $2.5 million principally because PEIA no longer provides coverage for Medicare retirees, which resulted in a $4.4 million reduction in retiree drug subsidy receivable. Offsetting the loss of federal funds is $1.4 million appropriation due from the State.

Claims payable decreased approximately $1.7 million due to a larger pay down of the claims inventory. For fiscal year 2007, this liability decreased $7.1 million due to the movement of retiree health claims to RHBT and trend increases.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Other current liabilities decreased $67.4 million mainly resulting from the transfer of the $108.2 million prior year excess reserves to RHBT, increased by the accrual of $43.3 million premium deficiency reserve, $5.3 million increase in accounts payable less a $2.8 million reduction of deferred revenue, $3.6 million reduction of the amount due to RHBT, and $1.5 million reduction of accrued liabilities.

In the prior year, the increase was $85.8 million primarily due to a $80.5 million payable to the State related to excess reserves and a $3.6 million in net premium collected for RHBT but not yet remitted, and various other year-end payable increases.

The 2008 decrease in net assets resulted primarily from the recognition of a premium deficiency reserve of $43.3 million, higher than anticipated claims expenses and lower investment earnings. The previous year decline resulted primarily from an increase of $52.8 million in transfer out to the State, which was partially offset by $6.2 million improvement in operating income and an increase of $7.5 million in nonoperating revenue.

Net premiums decreased $46.2 million primarily due to the movement of accrued actuarial and life insurance premiums to RHBT. In 2007 the premium decrease of $160.9 million was primarily due to the movement of 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.

Medical and prescription drug claims cost represented approximately 95% of total plan operating expenses for the three-year period. In the current year, claims expense includes a $43.3 million premium deficiency charge. Additionally, claims experience indicates a 10.2% increase in medical claims and a 11% decrease in drug claims for a combined 4.6% increase. Fiscal year 2007 saw a claims decrease of $159.8 million primarily due to the transfer of retiree claims to RHBT. Otherwise, claims experience indicates a 2.0% decrease in medical claims and a 5.0% increase in drug claims for 0.2% decrease.

Administrative service fees and other expenses have averaged approximately 5% to 6% of the total plan operating expenses for the three-year period. Administrative service fee expense was level with the prior year, while other expenses increased 62.7% primarily due to a large increase in allowance for bad debt. In the prior 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.

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 in 2007 or 2008.

There was no supplemental appropriation from the State in 2008. Supplemental appropriations granted by the State Code in 2007 were $6.7 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 exceeded the reserve threshold requiring that a $27.7 million transfer be made. In 2008, the PEIA reserve levels did not reach the threshold requiring such a transfer.

Net investment income decreased $14.2 million in Fiscal Year 2008 due to lower average investible balances and the economic downturn which negatively impacted the rate of return on investments. In 2007, net investment income increased $13.8 million due to substantial improvement in both the domestic and international equity and fixed income markets.

Net assets as of June 30, 2008 decreased approximately $70.8 million. The 2008 decrease resulted primarily from the recognition of a premium deficiency reserve of $43.3 million, higher than anticipated claims expenses, and lower investment earnings. When the premium deficiency reserve is excluded, the loss becomes $27.5 million. No premium rate increases were adopted for the current year. The Financial Plan for 2008 indicated a decrease in total net asset of $20.9 million. However, it did not include the $43.3 million premium deficiency reserve. Total claim costs for current year were $4.3 million less, investment income was $4.8 million less, and non-claim expenses were $3.4 million less than planned.

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.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

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.

ECONOMIC CONDITIONS

After allowing for the contribution to help fund retiree health care 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 $1,078.08. It should also be noted that PEIA incurred a reduction of plan assets of $27.4 million, excluding the effect of recording current premium deficiency reserve.

The rate of health care 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. Another concern that arises is supported by medical academia. They have concluded that current scientific data does not support a reasonable cost/risk/quality of life/benefit ratio for a large number of the most expensive medical procedures performed today.

In 2008, health insurance cost rose 5.0% nationally. During the same period, the overall inflation rate held to 0.1% and wage gains were limited to 2.4%. Such disparity reduces disposable incomes of policyholders as they are asked to bear a larger share of health care cost and stresses the operations of their employers.

No premium increases were placed into effect for the year that began July 1, 2008.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During fiscal year 2008, PEIA adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* in conjunction with our implementation of new computer software. Following the provisions of Statement No. 51, we capitalized $4,503,244 of computer software costs, which is expected to result in an increase in depreciation/amortization expense of approximately $900,000 over the next five years.
PEIA 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 2008	2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 55,808,043**	$ 159,916,395
Premiums receivable:		
Due from State of West Virginia	**1,155,303**	2,247,011
Other, less allowance for doubtful accounts of $6,262,000 and $3,250,000, respectively	**13,200,491**	11,317,665
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $389,000 and $410,000, respectively	**792,014**	602,414
Prescription rebates	**5,537,230**	4,787,619
Due from State of West Virginia	**–**	1,404,382
Due from RHBT	**7,178,893**	
Other	**222,220**	501,766
Total current assets	**83,894,194**	180,777,252
Noncurrent assets:		
Investments	**122,360,685**	169,996,583
Cash and cash equivalents	**7,738,658**	3,942,911
Capital assets, net of accumulated depreciation of $974,092 and $606,219, respectively	**5,153,924**	568,064
Total noncurrent assets	**135,253,267**	174,507,558
Total assets	**219,147,461**	355,284,810
Liabilities		
Current liabilities:		
Claims payable	**51,276,816**	52,999,508
Premium deficiency reserve	**43,301,816**	–
Accounts payable	**7,760,535**	2,387,993
Deferred revenue	**357,244**	3,193,194
Other accrued liabilities	**5,407,453**	6,896,197
Due to State of West Virginia	**–**	108,167,017
Due to RHBT	**–**	3,623,421
Total current liabilities	**108,103,864**	177,267,330
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	**7,738,658**	3,942,911
Total liabilities	**115,842,522**	181,210,241
Net assets		
Invested in capital assets	**5,153,924**	568,064
Unrestricted	**98,151,015**	173,506,505
Total net assets	**$ 103,304,939**	$ 174,074,569

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
Operating revenues:		
Premiums	**$ 421,493,808**	$ 466,304,259
Less:		
Payments to managed care organizations	**(55,127,294)**	(53,051,579)
Life insurance premiums ceded	**(5,468,540)**	(6,176,482)
Net premium revenue	**360,897,974**	407,076,198
Administrative fees, net of refunds	**4,487,011**	4,450,017
Total operating revenues	**365,384,985**	411,526,215
Operating expenses:		
Claims expense, net	**419,370,075**	359,512,303
Administrative service fees	**12,820,798**	12,723,779
Other expenses	**12,217,402**	7,507,134
Total operating expenses	**444,408,275**	379,743,216
Operating (loss) income	**(79,023,290)**	31,782,999
Nonoperating revenues (expenses):		
Investment income, net of fees	**7,934,895**	22,126,245
Litigation settlement, net	**–**	3,085,000
On behalf of contributions	**43,412**	–
Supplemental appropriation	**–**	6,700,000
Transfer out	**–**	(80,487,422)
Total nonoperating income (loss)	**7,978,307**	(48,576,177)
Change in net assets	**(71,044,983)**	(16,793,178)
Total net assets, beginning of year	**174,074,569**	190,867,747
Change in accounting principle for other postemployment benefits	**275,353**	–
Total net assets, beginning of year adjusted	**174,349,922**	190,867,747
Total net assets, end of year	**$ 103,304,939**	$ 174,074,569

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2008	**2007**
Operating activities		
Cash received from participants	**$ 358,481,169**	$ 413,404,125
Cash received from pharmacy rebates	**11,842,611**	13,771,022
Cash paid to employees	**(1,609,354)**	(1,473,160)
Cash paid to suppliers and others	**(12,445,580)**	(13,528,850)
Cash paid for claims	**(389,633,562)**	(380,584,176)
Net cash (used in) provided by operating activities	**(33,364,716)**	31,588,961
Noncapital financing activities		
Advances to RHBT, net	**(10,802,314)**	3,623,420
Payment of prior years excess reserves to RHBT	**(108,167,017)**	–
Proceeds from litigation settlement, net	**–**	3,085,000
Supplemental appropriation	**1,404,382**	5,295,618
Retiree drug subsidy	**–**	4,421,606
Net cash (used in) provided by noncapital financing activities	**(117,564,949)**	16,425,644
Capital and related financing activities		
Purchases of capital assets	**(4,953,733)**	(378,279)
Net cash used in capital and related financing activities	**(4,953,733)**	(378,279)
Investing activities		
Purchases of investments, net	**(16,629,926)**	(23,768,026)
Sale of investments	**61,885,203**	20,876,009
Investment earnings	**10,315,516**	9,652,138
Net cash provided by investing activities	**55,570,793**	6,760,121
Net (decrease) increase in cash and cash equivalents	**(100,312,605)**	54,396,447
Cash and cash equivalents at beginning of year	**163,859,306**	109,462,859
Cash and cash equivalents at end of year	**$ 63,546,701**	$ 163,859,306
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities		
Operating (loss) income	**$ (79,023,290)**	$ 31,782,999
Adjustments		
Depreciation	**367,873**	19,115
Decrease (increase) in operating assets:		
Premium receivable, net	**(1,882,826)**	2,905,968
Due from State of West Virginia	**1,091,708**	2,824,473
Provider refunds receivable	**(189,600)**	(83,858)
Prescription refunds receivable	**(749,611)**	(178,136)
Other	**279,546**	(288,949)
Increase (decrease) in operating liabilities:		
Claims payable	**(1,722,692)**	(7,122,884)
Accounts payable	**5,372,542**	4,879,059
Premium deficiency	**43,301,816**	–
Deferred revenue	**(2,835,950)**	(3,407,886)
Other accrued liabilities	**2,625,768**	259,060
Total adjustments	**45,658,574**	(194,038)
Net cash (used in) provided by operating activities	**$ (33,364,716)**	$ 31,588,961
Noncash activities		
(Decrease) increase in fair value of investments	**$ (2,380,621)**	$ 12,474,107
On behalf of contributions	**$ 43,412**	$ –

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2008

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 13,000 policyholders with life insurance only. PEIA insures approximately 175,000 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 postemployment 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 34,000 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 other postemployment benefit (OPEB) operations. Both entities are housed in the same office space and share expenses. Expenses directly attributable to the OPEB plan are charged to 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, 2008 and 2007, 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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 WV Money Market 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.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Premiums Receivable

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

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators 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.

Investments

PEIA invests in certain West Virginia Investment Management Board (WVIMB) 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 WVIMB 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 WVIMB 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

Capital assets 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 capital assets. Depreciation expense computed using the straight-line method was $367,873 and $19,115 for the years ended June 30, 2008 and 2007, respectively.

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 7). 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 $12,592,222 and $13,948,990 for the years ended June 30, 2008 and 2007, respectively.

Premium Deficiency Reserve

Premium deficiency is required when policies in force as of the financial statement date are expected to produce a loss when claims cost (including IBNR), plus expected claims adjustment expenses, are expected to exceed related premiums. Management has recorded a premium deficiency reserve approximating $43,031,816 at June 30, 2008. Furthermore, subsequent to year-end, in January 2009, the Finance Board approved the premium rates for fiscal year 2010. Based on this rate information, management estimates that the related premium deficiency for fiscal year 2010 approximates $18,800,000 which is not reflected in the accompanying financial statements. 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. Adjustments to the estimated premium deficiency liability are reflected as a change in estimate in the year the actual results are known.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

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.

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.

As of the June 2008 coverage month, PEIA provided health coverage to 119 State agency divisions with approximately 21,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 524 local government entities with approximately 10,000 primary participants, and 23 college and university entities with approximately 10,000 primary participants. Approximately 88,000 dependents participated in PEIA health plans as well.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

As of the June 2007 coverage month, PEIA provided 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, and 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.

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 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 $19,308,319 and $20,990,016 during the fiscal years ended June 30, 2008 and 2007, 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. The purpose of the transfers was to reduce state employee health care insurance premium rate increases.

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 health care coverage through RHBT, or be converted into a greater retirement benefit under the State’s Public Employees’ Retirement System.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 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, 2008 and 2007, 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 $80,487,422 and $27,679,595 were due to be transferred for years ended 2008 and 2007, respectively. This obligation totaling $108,167,017 was reflected in the accompanying 2007 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 beginning in fiscal 2008. Accordingly, the monies were transferred to RHBT in fiscal year 2008. There were no excess reserves to be transferred for the year ended June 30, 2008.

Reclassifications

Certain 2007 amounts in the accompanying financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications did not impact the previously reported change in net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

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

	2008	2007
Cash and cash equivalents with BTI (WV Money Market pool):		
Premium stabilization fund	**$ 7,738,658**	$ 3,942,911
Other	**54,800,348**	158,640,965
Total cash on deposit with State Treasurer	**62,539,006**	162,583,876
Deposits with outside financial institutions	**1,007,695**	1,275,430
Total cash and cash equivalents	**$ 63,546,701**	$ 163,859,306

4. Deposit and Investment 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.

As of June 30, 2008 and 2007, the carrying amount of PEIA's bank deposits was $1,007,695 and $1,275,430, respectively, and the respective bank balances totaled $1,256,580 and $1,637,859. Of the total bank balance, $1,256,580 and $1,637,779 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.

WV Money Market Pool (formerly Cash Liquidity Pool)

Credit Risk

The BTI limits exposure to credit risk by requiring all corporate bonds held by their WV Money Market pool 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

The following table provides information on the credit ratings of the WV Money Market pool's investments (in thousands).

	June 30, 2008				June 30, 2007			
	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	A-1	$ 658,879	27.94%	P1		$ 1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	40,000	1.70	Aaa	AAA	98,999	4.76
	Aa3	AA	20,000	0.85	Aa3	AA	20,001	0.96
	Aa3	A	–		Aa3	A	23,002	1.11
	Aa2	AA	–		Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.14	Aa2	A	27,000	1.30
	Aa1	AA	71,000	3.01	Aa1	AA	77,023	3.71
Total corporate bonds and notes			158,000	6.70			261,025	12.56
U.S. agency bonds	Aaa	AAA	254,019	10.77	Aaa	AAA	46,994	2.26
U.S. Treasury bills(1)	Aaa	AAA	406,426	17.23	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	147,001	6.23	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	212,924	9.03	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	150,058	6.36	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):								
U.S. Treasury notes(1)	Aaa	AAA	62,265	2.64				
U.S. agency notes	Aaa	AAA	308,898	13.10	Aaa	AAA	246,821	11.88
Total repurchase agreements			371,163	15.74			246,821	11.88
Total investments			2,358,470	100%			2,027,831	97.59%
Deposits:								
Non-negotiable certificates of deposit	NR*	NR*	–	–	NR*	NR*	50,000	2.41
			$ 2,358,470	100.00%			$ 2,077,831	100.00%

*** NR = Not Rated***

(1) U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment 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 BTI limits the exposure to credit risk in the WV Money Market pool by requiring all corporate bonds to be rated AA– by Standard & Poor's (or its equivalent) or higher Commercial paper must be rated at least A–1 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 WV Money Market pool has not been rated for credit risk by any organization.

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, 2008 and 2007, the WV Money Market 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 weighted-average maturity of the investments of the WV Money Market pool cannot exceed 60 days. 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 WV Money Market pool.

	June 30, 2008		June 30, 2007	
Security Type	**Carrying Value**	**WAM (Days)**	**Carrying Value**	**WAM (Days)**
	(In Thousands)		*(In Thousands)*	
Repurchase agreements	**$ 371,163**	**1**	$ 246,821	2
U.S. Treasury bills	**406,426**	**31**	358,725	30
Commercial paper	**658,879**	**29**	1,015,926	52
Certificates of deposit	**147,001**	**95**	126,500	76
U.S. agency discount notes	**212,924**	**84**	21,655	113
Corporate notes	**158,000**	**21**	261,025	58
U.S. agency bonds/notes	**254,019**	**111**	46,994	156
Money market funds	**150,058**	**1**	185	1
Total investments	**$ 2,358,470**	**40**	$ 2,077,831	48

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Foreign Currency Risk

None of the BTI WV Money Market pool investment interests are in foreign currencies or interests valued in foreign currencies.

PEIA's investment in the BTI WV Money Market pool of $48,121,138 at June 30, 2008, represents approximately 2.0% of total investments in this pool. PEIA's investment in the BTI cash liquidity pool of $162,583,876 at June 30, 2007, represented approximately 7.8% of total investments in this pool.

Investments

West Virginia statute mandates that PEIA's investments shall be managed by WVIMB, a public corporation.

Public Employees Insurance Agency Fund

This investment fund was specifically designed for PEIA by WVIMB 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 WVIMB.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB 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.)

Asset Class	2008 Policy Target	2007 Policy Target
Domestic large cap equity	**7.5%**	6%
Domestic non-large cap equity	–	4%
International equity	**7.5%**	5%
Total equity	**15.0%**	15%
Domestic fixed income	**65.0%**	85%
Hedge fund	**20.0%**	–

	June 30, 2008 Asset Value	June 30, 2007 Asset Value
	(In Thousands)	
Asset allocation (actual)		
Domestic large cap equity pool	**$ 7,648**	$ 10,886
Domestic non-large cap equity pool	**1,559**	6,637
International equity pool	**5,795**	6,228
International non-qualified pool	**2,305**	2,630
Fixed income pool	**62,803**	86,120
Fixed income non-qualified pool	**42,225**	57,495
Short-term fixed income pool	**27**	1
Hedge fund	**(1)**	–
Total	**$ 122,361**	$ 169,997

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

Domestic Large Cap Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2008 and 2007, 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 $7,648,000 and $10,886,000 at June 30, 2008 and 2007, respectively, represents approximately 0.4% and 0.5% of total investments in this pool.

Domestic Non-Large Cap Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. At June 30, 2008 and 2007, 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 $1,559,000 at June 30, 2008 and $6,637,000 at June 30, 2007, represents approximately 0.2% and 0.5% of total investments in this pool.

International Non-Qualified Pool

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment was $57,888,000 and $63,693,000 at June 30, 2008 and 2007, 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 $2,305,000 at June 30, 2008 and $2,630,000 at June 30, 2007, represents approximately 3.98% and 4.13% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

At June 30, 2008 and 2007, 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 $5,795,000 at June 30, 2008 and $6,228,000 at June 30, 2007, represents approximately 0.35% and 0.47% 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:

	2008			2007		
Currency	**Equity Securities**	**Cash**	**Total**	**Equity Securities**	**Cash**	**Total**
Australian Dollar	**$ 56,458,401**	**$ 1,147,727**	**$ 57,606,128**	$ 46,223,161	$ 511,319	$ 46,734,480
Brazil Cruzeiros Real	**78,980,550**	**377,270**	**79,357,820**	45,999,956	2	45,999,958
British Pound	**169,390,722**	**2,625,082**	**172,015,804**	140,476,291	302,597	140,778,888
Canadian Dollar	**87,262,255**	**1,994,596**	**89,256,851**	60,122,086	2,566,263	62,688,349
Czech Koruna	**1,519,907**	**–**	**1,519,907**			
Danish Krone	**5,533,777**	**99,697**	**5,633,474**	3,851,377	63,533	3,914,910
Euro	**338,300,401**	**1,682,586**	**339,982,987**	266,416,058	3,821,725	270,237,783
Hong Kong Dollar	**91,548,567**	**2,012,170**	**93,560,737**	79,936,951	613,522	80,550,473
Hungarian Forint	**18,046,560**	**182,258**	**18,228,818**	12,073,967	114,414	12,188,381
Indian Rupee	**4,653,903**	**–**	**4,653,903**	13,748,116	–	13,748,116
Indonesian Rupiah	**10,703,375**	**–**	**10,703,375**	–	–	–
Israeli Shekel	**11,519,751**	**54,371**	**11,574,122**	17,010,706	25,201	17,035,907
Japanese Yen	**190,163,595**	**4,773,663**	**194,937,258**	125,202,715	2,100,776	127,303,491
Malaysian Ringitt	**10,536,586**	**1,212,918**	**11,749,504**	8,346,813	184,506	8,531,319
Mexican New Peso	**23,344,620**	**406,186**	**23,750,806**	22,321,990	50,806	22,372,796
New Taiwan Dollar	**73,448,408**	**363,885**	**73,812,293**	68,582,811	51,895	68,634,706
New Zealand Dollar	**2,281,221**	**35,031**	**2,316,252**	3,476,562	39,666	3,516,228
Norwegian Krone	**27,781,461**	**(707,346)**	**27,074,115**	20,171,136	53,776	20,224,912
Pakistani Rupee	**2,159,612**	**–**	**2,159,612**	–	–	–
Philippine Peso	**2,637,913**	**–**	**2,637,913**	7,226,908	–	7,226,908
Polish Zloty	**3,909,848**	**230,158**	**4,140,006**	–	–	–
Singapore Dollar	**40,965,990**	**288,581**	**41,254,571**	32,274,713	511,686	32,786,399
South African Rand	**39,201,393**	**43,223**	**39,244,616**	15,480,425	16,520	15,496,945
South Korean Won	**120,845,929**	**11,380**	**120,857,309**	97,467,405	223,670	97,691,075
Swedish Krona	**26,805,371**	**406,838**	**27,212,209**	26,486,686	772,632	27,259,318
Swiss Franc	**67,886,106**	**1,186,931**	**69,073,037**	49,566,642	625,996	50,192,638
Thailand Baht	**11,858,415**	**2,244**	**11,860,659**	15,602,098	–	15,602,098
Turkish Lira	**23,039,547**	**–**	**23,039,547**	–	–	–
Total	**$ 1,540,784,184**	**$ 18,429,449**	**$ 1,559,213,633**	$ 1,178,065,573	$ 12,650,505	$1,190,716,078

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and securities is $131,020,647.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Short-Term Fixed Income Pool

Credit Risk

The WVIMB 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.

			2008		2007	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent**	**Carrying Value**	**Percent**
Agency discount notes	P1	A-1	**$ 27,640,155**	**11.8%**	$ 400,340,793	32.8%
U.S. Treasury note	Aaa	AAA	**26,096,607**	**11.1%**	274,589,706	22.5%
Commercial paper	P1	A-1	**69,169,330**	**29.4%**	257,164,860	21.0%
U.S. Treasury bills	Aaa	AAA	**37,994,460**	**16.2%**	186,905,168	15.3%
Agency bonds	Aaa	AAA	**74,229,589**	**31.5%**	102,656,880	8.4%
Money market fund	Aaa	AAA	**852**	**0.0%**	571	0.0%
Total rated investments			**$ 235,130,993**	**100.0%**	$ 1,221,657,978	100.0%

This table includes securities received as collateral for repurchase agreements valued at $76,827,545 in 2008 and $582,723,099 in 2007.

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, 2008 and 2007, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

Repurchase agreements are collateralized at 102% and the collateral is held in the name of the WVIMB. 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.

	2008		2007	
Security Type	**Carrying Value**	**WAM (days)**	**Carrying Value**	**WAM (days)**
Repurchase agreements	**$ 75,621,000**	**1**	$ 570,709,000	3
U.S. Treasury bills	**37,994,460**	**5**	186,905,168	7
Commercial paper	**69,169,330**	**27**	257,164,860	17
Agency discount notes	**27,640,155**	**51**	194,864,281	8
Agency bond	**23,498,651**	**35**	–	–
Money market fund	**852**	**1**	571	1
Total assets	**$ 233,924,448**	**19**	$ 1,209,643,880	7

PEIA's amount invested in the short-term fixed income pool at June 30, 2008 and 2007 was nominal.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the fixed income pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. 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.

			2008		2007	
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**	**Fair Value**	**Percent of Assets**
Corporate bonds and notes	Baa	BBB	**$ 609,696,835**	**22.0%**	$ 407,966,034	17.2%
U.S. Treasury bonds and notes	Aaa	AAA	**76,318,725**	**2.7%**	261,067,200	11.0%
Corporate asset-backed securities	Aaa	AAA	**137,308,217**	**5.0%**	80,498,053	3.4%
Agency mortgage-backed securities	Aaa	AAA	**234,846,187**	**8.5%**	46,473,560	2.0%
Agency bonds	Aaa	AAA	**5,282,195**	**0.2%**	38,485,188	1.6%
Money market funds	Aaa	AAA	**135,041,247**	**4.9%**	27,039,310	1.1%
Agency discount notes	P1	A-1	**17,537,793**	**0.6%**	2,514,911	0.1%
Total rated investments			**$ 1,216,031,199**	**43.9%**	$ 864,044,256	36.4%

Unrated securities include commingled investment pools valued at $1,549,051,012 and an interest rate swap valued at $(4,248,293), and cash of $11,984,018 pledged to brokers as collateral for 2008. These securities represent 56.1% of the fair value of the pool's investments. For 2007, 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% of the fair value of the pool's investments.

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, 2008, the fixed income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

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

Interest Rate Risk

The WVIMB 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.

	2008		2007	
Security Type	**Fair Value**	**Modified Duration (Years)**	**Fair Value**	**Modified Duration (Years)**
Commingled investment pools	**$ 1,549,051,012**	**3.3**	$ 1,512,436,613	04.7
Corporate notes and bonds	**609,696,835**	**6.2**	407,966,034	6.5
U.S. Treasury notes and bonds	**76,318,725**	**7.9**	261,067,200	6.6
Corporate asset-backed securities	**137,308,217**	**7.0**	80,498,053	8.3
Agency mortgage-backed securities	**234,846,187**	**10.8**	46,473,560	10.6
Agency bonds	**5,282,195**	**8.5**	38,485,188	4.8
Money market fund	**135,041,247**	**0.0**	27,039,310	0.0
Agency discount notes	**17,537,793**	**0.5**	2,514,911	0.7
Total assets	**$ 2,765,082,211**	**5.4**	$ 2,376,480,869	5.4

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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 $372,154,404 and $126,971,613 of these securities at June 30, 2008 and 2007, respectively, which represented approximately 13% and 5% of the value of the fixed income pools.

PEIA's amount invested in the fixed income pool of $62,803,000 and $86,120,000 at June 30, 2008 and 2007, respectively, represented approximately 2.3% and 3.6% of total investments in the pool.

Fixed Income Non-Qualified Pool

This pool holds positions in institutional mutual funds with a combined value of $474,561,035 and $420,696,395 at June 30, 2008 and 2007, 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 5.6 years. PEIA's amount invested in the fixed income non-qualified pool of $42,225,000 and $57,495,000 at June 30, 2008 and 2007, respectively, represented approximately 8.9% and 13.7% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

5. Premium Stabilization Fund

Optional life insurance premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. 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 $7,738,658 and $3,942,911 as of June 30, 2008 and 2007, respectively, designated by management to meet this obligation.

6. Capital Assets

During fiscal year 2008, PEIA adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in conjunction with the implementation of new computer software. Following the provisions of Statement No. 51, computer software costs of $4,503,244 were capitalized, which is expected to result in an increase in depreciation/amortization expense of approximately $900,000 over the next 5 years.

Capital asset activity for the year ended June 30, 2008, was as follows:

	June 30, 2007	Additions	Disposals	June 30, 2008
Capital assets	$ 1,174,283	$ 4,953,733	$ –	$ 6,128,016
Accumulated depreciation	(606,219)	(367,873)	–	(974,092)
Capital assets, net	$ 568,064	$ 4,585,860	$ –	$ 5,153,924

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

7. 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:

	2008	2007
	(In Thousands)	
Claims payable, beginning of year	**$ 52,999**	$ 60,122
Incurred claims expenses:		
Provision for insured events of the current year	**377,099**	359,842
Decrease in provision for insured events of prior years	**(1,030)**	(330)
Total incurred claims expense	**376,069**	359,512
Payments:		
Claim payments attributable to insured events of:		
Current year	**335,380**	320,480
Prior years	**42,411**	46,155
Total payments	**377,791**	366,635
Claims payable, end of year	**$ 51,277**	$ 52,999

The above payments are net of pharmacy rebates of $11,842,611 and $13,771,022 for the years ended June 30, 2008 and 2007, respectively.

8. 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)

8. 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:

	2008	2007	2006
Employer contributions (10.5%)	**$ 167,079**	$ 136,720	$ 220,258
Employee contributions (4.5%)	**71,605**	58,594	93,576
Total contributions	**$ 238,684**	$ 195,314	$ 313,834

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, 4101 MacCorkle Avenue, South East Charleston, West Virginia 25304-1636.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

9. Postemployment Benefits Other Than Pension Benefits

Other Postemployment Benefits

PEIA participates in a cost-sharing, multiemployer, defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the OPEB plan are accounted for in the RHBT. The plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured plan and through external managed care organizations MCOs, basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. Details regarding this plan and a copy of the RHBT financial report can be obtained by contacting Public Employees Insurance Agency, 601 57th Street South East, Charleston West Virginia 25304-2345 or by calling 1-888-680-7342.

Upon retirement, an employee may apply unused sick leave and/or annual leave to reduce their future insurance premiums paid to RHBT. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for PEIA. According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988 and June 30, 2001, can receive health care credit against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

Beginning July 1, 2007, PEIA adopted GASB Statement No. *45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) which provides guidance on all aspects of other postemployment benefit reporting by employers. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefit (OPEB) (including health care and life insurance) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The GASB statement is based on the premise that the “costs” of employee services should be reported during the periods when the services are rendered. For “employer” OPEB reporting, the State and PEIA report “expense” on an accrual basis in the amount of the “annual required contribution” and a “liability” for the amount of the “annual required contribution” that was not actually paid.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

9. Postemployment Benefits Other Than Pension Benefits (continued)

Historically, PEIA recorded compensated absences under the provisions of GASB Statement No. 16, *Accounting for Compensated Absences,* and recorded a liability for the conversion of sick leave into OPEB health care benefits, which was included as part of the compensated absences liability. Under GASB 45, the conversion of sick leave into OPEB health care benefits is now required to be accounted for as part of the OPEB obligation. In conjunction with the adoption of GASB 45, which was adopted prospectively, PEIA adjusted the net asset balance as of July 1, 2007, to account for the effect of this change in accounting principle by reducing the OPEB portion of the compensated absences liability recorded under the old methodology to zero.

	(In Thousands)
Net assets balance as reported June 30, 2007	$ 174,074
Cumulative effect of change in accounting principle for other postemployment benefits	275
Net asset balance as adjusted July 1, 2007	$ 174,349

Legislation requires RHBT to determine through an actuarial study, the contractually required contribution (CRC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The CRC is allocated to respective cost-sharing employers including PEIA who are required by law to fund at least the minimum annual premium component of the CRC. Revenues collected by RHBT shall be used to fund current OPEB health care claims and administrative expenses with residual funds held in trust for future OPEB costs. Based on the actuarial study completed, the contractually required contribution rates were determined for the fiscal year ended June 30, 2008. PEIA's OPEB expense for fiscal year 2008 was approximately $166,000 of which approximately $30,000 is unpaid and recorded as a liability at June 30, 2008. The State on PEIA's behalf has paid $43,000 towards the ARC for fiscal year 2008. PEIA's policy is to fund at least the minimum annual premium component of the ARC. Prior to the adoption of GASB 45, the benefit was funded on a pay-as-you-go basis and the related expense was $6,100 for 2007. There are currently 30 employees eligible to receive such benefits.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

9. Postemployment Benefits Other Than Pension Benefits (continued)

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.

10. 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.

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 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.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
					(In Thousands)					
1) Premiums, investment, and other revenues:										
Earned	$ 373,698	$ 388,179	$ 417,673	$ 432,220	$ 501,170	$ 575,420	$ 591,470	$ 657,858	$ 502,666	**$ 433,959**
Ceded	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	59,228	**60,596**
Net earned	299,497	312,881	341,017	380,258	444,440	513,587	535,624	595,391	443,438	**373,363**
2) Unallocated expenses	14,376	14,564	16,754	16,531	21,195	23,347	23,579	26,036	20,321	**25,038**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	351,082	334,802	388,645	431,544	450,592	493,230	542,512	580,561	419,070	**437,694**
Ceded	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	59,228	**60,596**
Net incurred	276,881	259,504	311,989	379,582	393,862	431,397	486,666	518,094	359,842	**377,098**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	236,905	217,771	262,116	327,451	343,939	379,101	426,562	460,973	320,480	**335,380**
One year later	271,547	254,001	310,090	374,269	390,420	428,176	487,303	507,194	362,605	
Two years later	272,155	254,852	310,047	374,685	388,999	428,218	487,237	507,479		
Three years later	272,355	254,887	309,981	374,465	388,911	428,218	487,237			
Four years later	272,355	254,887	309,981	374,465	388,911	428,218				
Five years later	272,355	254,887	309,981	374,465	388,911					
Six years later	272,355	254,887	309,981	374,465						
Seven years later	272,355	254,887	309,981							
Eight years later	272,355	254,887								
Nine years later	272,355									
5) Reestimated ceded claims and expenses	74,201	75,298	76,656	51,962	56,730	61,833	55,846	62,467	59,228	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of accident year	276,881	259,504	311,989	379,582	393,862	431,397	486,666	518,094	359,842	**377,099**
One year later	272,337	256,492	319,539	375,350	389,662	428,567	487,656	517,884	358,832	
Two years later	272,337	255,440	319,306	375,050	389,162	428,687	487,536	517,854		
Three years later	272,757	255,355	319,076	374,920	389,352	428,687	487,556			
Four years later	272,757	255,270	319,076	374,920	389,352	428,687				
Five years later	272,757	255,270	319,076	374,920	389,352					
Six years later	272,757	255,270	319,076	374,920						
Seven years later	272,757	255,270	319,076							
Eight years later	272,757	255,270								
Nine years later	272,757									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	(4,124)	(4,234)	7,087	(4,662)	(4,510)	(2,710)	890	(240)	(1,010)	–

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.

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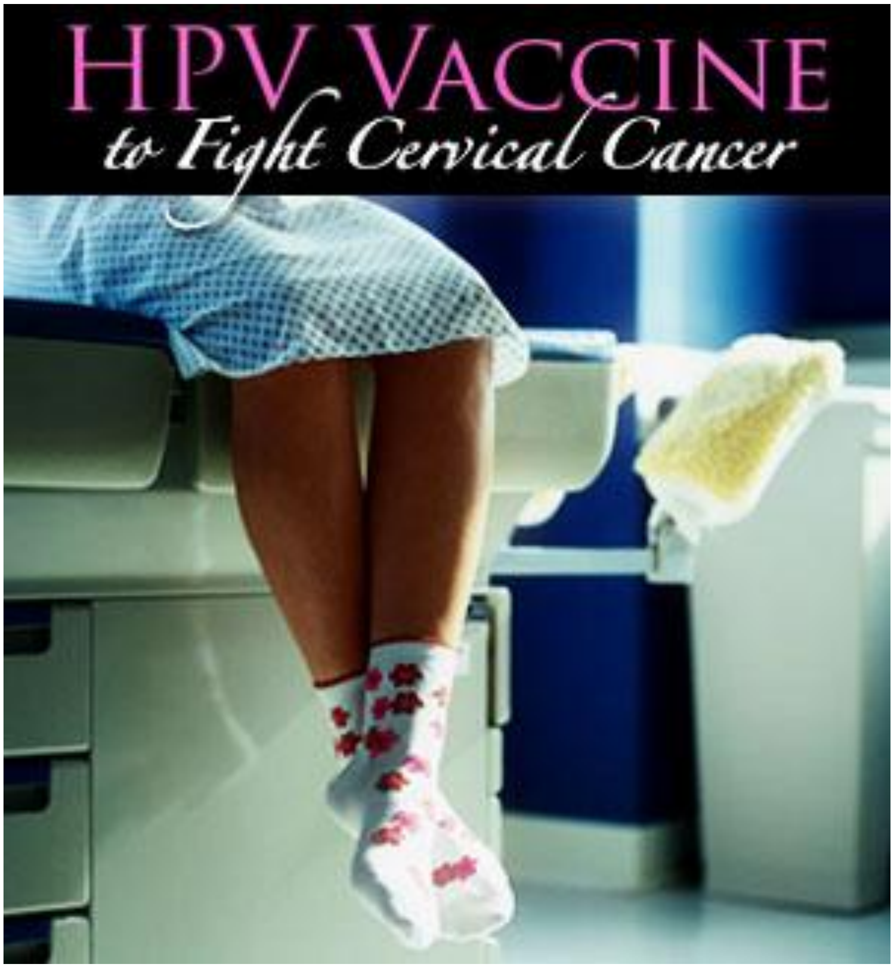
Statistical Section



Advancement in immunization technology occurred in fiscal year 2008 also. The human papillomavirus (HPV) is a major cause of cervical cancer. Adolescent aged girls can now be immunized to significantly reduce the chance that they will contract this virus and cervical cancer. Due to the large population this advancement affects, it created a 24% increase in PEIA's immunization expenses in fiscal year 2008.

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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									
	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**
Invested in capital assets, net of related debt	$ 5,154	$ 568	$ 209	$ 155	$ 90	$ 115	$ 161	$ 221	$ 281	$ 295
Unrestricted	98,151	173,507	190,659	168,428	139,655	76,057	42,078	57,550	49,447	4,888
Total	$103,305	$174,075	$190,868	$168,583	$139,745	$76,172	$42,239	$57,771	$49,728	$5,183

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.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Operating Revenues:										
Premiums	$421,493,808	$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
Less:										
Payments to managed care organizations	(55,127,294)	(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)
Life reinsurance premiums	(5,468,540)	(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)
Net premium revenue	360,897,974	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
Administrative fees, net of refunds	4,487,011	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
Net operating revenues	365,384,985	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
Operating Expenses:										
Claims expense	419,370,075	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
Administrative service fees	12,820,798	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
Other operating expenses	12,217,402	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
Total operating expenses	444,408,275	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
Operating Income (loss)	(79,023,290)	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
Nonoperating Revenues (Expenses):										
Investment income, net of fees	7,934,895	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
Litigation settlement	-	3,085,000	-	-	-	-	-	-	-	-
Retiree drug subsidy	-	-	8,090,995	-	-	-	-	-	-	-
On behalf of contributions	43,412									
Supplemental Appropriations	-	6,700,000	4,887,369	-	-	-	5,800,000	10,000,000	1,000,000	3,550,000
Other revenue	-	-	-	-	-	-	-	-	-	-
Transfer out primary government	-	(80,487,422)	(27,679,595)							
Change in Net Assets	$(71,044,983)	$(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

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.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Additions										
Member contributions	$83,795	$78,491	$144,278	$138,544	$131,774	$107,457	$82,641	$41,344	$38,435	$31,948
Employer contributions	342,186	392,263	495,171	451,043	444,534	393,943	342,165	360,558	346,229	336,925
Retiree drug subsidy	-	-	8,091	-	-	-	-	-	-	-
On behalf of contributions	43	-	-	-	-	-	-	-	-	-
Direct transfer	-	6,700	4,887	-	-	-	5,800	10,000	1,000	3,550
Investment income (net of expenses)	7,935	22,126	8,348	4,472	1,549	1,600	3,100	6,566	3,146	1,275
Total additions to plan net assets	$433,959	$499,580	$660,775	$594,059	$577,857	$503,000	$433,706	$418,468	$388,810	$373,698
Deductions (See Schedule 2)										
Benefit payments	479,966	418,740	581,861	539,051	488,500	446,042	431,220	392,876	329,069	338,149
Administrative expenses	23,081	18,280	24,398	21,896	20,845	19,841	15,521	15,472	13,851	12,703
Retiree assistance program	-	-	2,914	2,591	2,436	1,830	1,487	794	631	756
Wellness expenses	1,957	1,951	1,638	1,683	2,502	1,354	1,010	1,283	713	917
Total deductions from plan net assets	$505,004	$438,971	$610,811	$565,221	$514,283	$469,067	$449,238	$410,425	$344,264	$352,525
Litigation settlement	-	3,085	-	-	-	-	-	-	-	-
Transfer Out	-	80,487	$27,680	-	-	-	-	-	-	-
Change in net assets	$(71,045)	$(16,793)	$22,284	$28,838	$63,574	$33,933	$(15,532)	$8,043	$44,546	$21,173

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									
Type of Benefit	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Medical Claims	$334,318	$263,995	$345,255	$327,242	$297,190	$271,009	$272,663	$234,047	$189,176	$192,606
Prescription Drug Claims	85,052	95,517	174,139	155,964	129,477	118,303	106,595	82,173	64,595	71,341
Managed Care Capitations	55,127	53,052	56,019	49,442	55,471	50,336	46,818	71,609	70,757	69,714
Life Insurance Premiums	5,469	6,176	6,448	6,404	6,362	6,394	5,144	5,047	4,541	4,488
Total Benefits	$479,966	$418,740	$581,861	$539,051	$488,500	$ 446,042	$431,220	$392,876	$329,069	$338,149

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	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
State Policyholders										
PPB	$100	$101	$108	$110	$106	$84	$58	$46	$44	$38
Managed Care	$114	$114	$129	$131	$123	$106	$84	$78	$67	$49
State Employers										
PPB	$433	$443	$556	$499	$499	$445	$393	$401	$377	$368
Managed Care	$415	$423	$537	$481	$476	$424	$381	$415	$358	$327
Local Employers										
PPB	$486	$482	$611	$593	$554	$486	$386	$368	$398	$407
Managed Care	$436	$464	$552	$525	$506	$428	$421	$505	$431	$423
Retiree Policyholders										
PPB	-	-	$147	$136	$131	$113	$100	$98	$94	$90
Managed Care	-	-	$442	$387	$359	$357	$459	$381	$218	$223

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 are due to the cost of healthcare, not larger enrollment.

	Fiscal Year									
June Policy Count	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
County Schools	31,765	31,543	31,665	31,704	31,823	31,953	32,059	32,533	33,063	33,293
College and University	9,726	9,581	9,374	9,185	9,086	9,180	9,260	9,060	9,064	9,142
State Agencies	21,372	21,485	21,635	22,401	22,191	22,090	21,780	21,462	21,467	21,225
Local Governments	10,137	9,852	9,516	9,179	9,176	8,542	8,073	7,177	6,431	6,505
Retirees		-	29,297	28,331	27,401	26,207	25,817	25,561	24,917	26,429
Survivors		-	3,615	3,587	3,448	3,471	3,445	3,438	3,396	1,181
	73,000	72,461	105,102	104,387	103,125	101,443	100,434	99,231	98,338	97,775

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.

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Population										
West Virginia	1,812,035	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
Change	-0.35%	0.24%	0.08%	0.12%	0.32%	0.17%	-0.33%	-0.24%	-0.21%	-0.19%
National	303,146,284	300,304,181	298,024,822	293,656,842	290,850,005	287,984,799	285,107,923	282,193,477	279,731,000	276,553,000
Change	0.95%	0.76%	1.49%	0.97%	0.99%	1.01%	1.03%	0.88%	1.15%	1.17%
Total Personal Income										
West Virginia (in millions)	53,522	51,016	47,890	45,686	43,841	43,312	41,902	39,438	37,472	36,738
Change	4.91%	6.53%	4.82%	4.21%	1.22%	3.36%	6.25%	5.25%	2.00%	4.36%
National (in millions)	11,645,882	10,968,393	10,284,356	9,711,363	9,150,320	8,872,871	8,716,992	8,398,871	7,779,521	7,418,497
Change	6.18%	6.65%	5.90%	6.13%	3.13%	1.79%	3.79%	7.96%	4.87%	7.07%
Per Capita Personal Income*										
West Virginia	29,537	28,054	26,399	25,205	24,217	24,002	23,260	21,820	20,682	20,235
Change	5.28%	6.27%	4.74%	4.08%	0.90%	3.19%	6.60%	5.50%	2.21%	4.56%
National	38,417	36,524	34,508	33,070	31,461	30,810	30,574	29,763	27,811	26,825
Change	5.18%	5.84%	4.35%	5.12%	2.11%	0.77%	2.73%	7.02%	3.68%	5.84%
Median Age	40.4	40.7	40.7	40.2	39.9	39.5	39.3	39.0	38.9	38.5
Educational Attainment										
9th Grade or Less	7.0%	7.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	16.8%	16.8%
Some High School, No Diploma	11.8%	11.9%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	17.3%	17.3%
High School Diploma	41.0%	42.7%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	36.6%	36.6%
Some College, No Degree	16.7%	16.1%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	13.2%	13.2%
Associate, Bachelor's or Graduate Degree	23.4%	22.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	16.1%	16.1%
Labor Force and Employment (people in thousands)										
Civilian Labor Force	809.0	805.0	794.0	786.0	790.0	796.0	801.0	809.0	813.0	807.0
Employed	772.0	768.0	755.0	744.0	742.0	749.0	759.0	765.0	762.0	755.0
Unemployed	37.0	38.0	39.0	42.0	47.0	47.0	42.0	44.0	51.0	52.0
Unemployment Rate	4.6%	4.7%	5.0%	5.3%	6.0%	5.9%	5.2%	5.5%	6.3%	6.5%
Nonfarm Wage and Salary Workers Employed in West Virginia										
Goods Producing Industries (people in thousands)										
Mining	27.5	28.1	25.9	23.8	22	23.1	23.5	21.4	22.3	24.6
Construction	38.7	39.2	36.8	34.6	32.7	33.4	34.9	34	33.8	34.4
Manufacturing-Durable Goods	37.2	38.4	38.8	39.2	39.7	42.2	44.5	46.6	46.7	46.5
Manufacturing-Non-Durable Goods	21.8	22.6	23	23.8	24.9	26.5	27.7	29.2	30.2	31.2
Total Goods Producing Industries	125.2	128.3	124.5	121.4	119.3	125.2	130.6	131.2	133	136.7
Non-Goods Producing Industries (people in thousands)										
Trade	116.2	115.5	113.6	111.9	110.4	111.3	113.7	117.4	117	115.4
Service	342.7	367.8	364.9	360.5	355.5	353.7	350	344.1	335.1	326.4
State and Local Government	122.6	122.4	121.7	121.4	120.6	120.9	119.2	120.6	119.2	119
Federal Government	22.5	22.1	21.9	21.8	21.9	21.9	21.8	22.5	21.7	21.8
Total Non-Goods Producing Industries	604	627.8	622.1	615.6	608.4	607.8	604.7	604.6	593	582.6
Total Nonfarm Wage and Salary Employment	729.2	756.1	746.6	737	727.7	733	735.3	735.8	726	719.3

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

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, the Census, and the Survey of Current Business

*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.

	2008			1999			
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Product or Service
State of West Virginia	21,372	1	29.28%	21,064	1	21.60%	State Government
West Virginia University	5,732	2	7.85	5,329	2	5.46	Higher Education
Kanawha Co Board of Education	3,175	3	4.35	3,199	3	3.28	K-12 Education
Berkeley Co Board Of Education	1,902	4	2.61	1,308	7	1.34	K-12 Education
Wood Co Board Of Education	1,495	5	2.05	1,454	6	1.49	K-12 Education
Marshall University	1,408	6	1.93	1,031	9	1.06	Higher Education
Cabell Co Board Of Education	1,340	7	1.84	1,479	4	1.52	K-12 Education
Raleigh Co Board Of Education	1,288	8	1.76	1,460	5	1.50	K-12 Education
Harrison Co Board Of Education	1,284	9	1.76	1,292	8	1.32	K-12 Education
Monongalia Co Bd Of Education	1,115	10	1.53	1,030	10	1.06	K-12 Education
All other [a]	32,889		45.04	58,872		60.37	
Total	73,000		100.00	97,518		100.00	

In 2008, "all other" consisted of:

Type	Number	Employees
Counties	43	2,634
Municipalities	92	2,159
School districts	48	20,166
Higher education	16	2,586
Political subdivisions & other	372	5,344
Total	571	32,889

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	2008 Total	Percent of Total	1999 Total	Percent of Total
State of West Virginia	$ 120,297,495.43	29%	$ 94,789,253	26%
West Virginia University	$ 34,275,714.32	8%	$ 26,869,743	7%
Kanawha County Board of Education	$ 18,506,745.03	4%	$ 17,495,954	5%
Berkeley County Board of Education	$ 10,090,252.71	2%	$ 6,626,990	2%
Wood County Board of Education	$ 8,846,024.64	2%	$ 6,661,018	2%
Marshall University	$ 8,898,634.00	2%	$ 6,507,035	2%
Cabell County Board of Education	$ 7,850,451.09	2%	$ 7,276,168	2%
Raleigh County Board of Education	$ 7,874,393.68	2%	$ 7,503,126	2%
Harrison County Board of Education	$ 7,834,669.62	2%	$ 6,729,158	2%
Monongalia County Board of Education	$ 6,720,623.27	2%	$ 5,377,696	1%
All other	$ 190,298,804.23	45%	$ 179,935,428	49%
Total	$ 421,493,808.02	100%	$ 365,771,569	100%

Source: PEIA Eligibility System Billings

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.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Eligibility	8	10	10	9	9	9	9	9	9	9
Customer Service	10	9	6	8	7	7	7	7	7	7
Finance	7	7	5	4	4	4	4	4	3	3
Premium Accounts	7	6	6	6	5	6	6	6	6	6
Health Benefits and Clinical Administration	7	6	10	9	8	6	0	0	0	0
Communications	3	2	3	3	2	2	3	3	2	2
Legal	1	2	3	3	3	3	2	2	2	2
Director’s Office - Administration	2	4	5	4	4	5	5	5	5	5
Operations-Human Resources	4	3	3	3	3	3	3	3	3	3
Information Technology	-	3	3	3	3	3	2	2	2	2
Total	49	52	54	52	48	48	41	41	39	39

Note: Until June 2002, nine (9) members of eligibility, customer service and premium accounts were contract employees of PEIA’s third party administrator. Effective FY 2008, information technology employees were moved to the State Office of Technology.

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.

	2008	2007
State Active Employees		
Preferred Provider Benefit	54,802	54,532
Managed Care	8,061	8,077
Local Active Employees		
Preferred Provider Benefit	9,474	9,200
Managed Care	663	652
Total	73,000	72,461

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 2008			Year End 2007		
	Medical Claims	Drug Claims	MCO Capitation	Medical Claims	Drug Claims	MCO Capitation
State Active Employees						
Preferred Provider Benefit	$ 375.00	$ 121.00	–	$ 346.00	$ 128.00	–
Managed Care	–	–	$ 538.00	–	–	$ 518.00
Local Active Employees						
Preferred Provider Benefit	$ 358.00	$ 104.00		$ 367.00	$ 115.00	
Managed Care	–	–	$ 438.00	–	–	$ 443.00

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

Source: PEIA Actuarial Report