Comprehensive Annual Financial Report

State of West Virginia
Public Employees Insurance Agency

For the fiscal year ended June 30, 2009

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

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State of West Virginia
Public Employees Insurance Agency

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Joe Manchin III, Governor

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2009

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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State of West Virginia
Public Employees Insurance Agency

Comprehensive Annual Financial Report
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Introductory Section

Healthcare reform is again on Americans' minds as President Obama has focused on it during the early portion of his Presidency. Reform seemed imminent as the U.S. Senate and House of Representatives developed and passed their respective versions.

However, due to the Massachusetts election to fill the Senate seat vacated by the late Ted Kennedy resulting in the Democrats losing their super majority necessary to prevent filibuster, reform is now somewhat more in question. There is also the task of reconciling the differences of the Senate's and House of Representatives' versions of their respective reform bills.

It is currently anticipated that the House of Representatives will pass the Senate version and have it signed into law. The House will then ask the Senate to pass a new bill using the reconciliation process to amend the enacted legislation. This process allows the passage of the Budget Reconciliation Act with only a simple majority in the Senate. The Budget Reconciliation Act would address many issues including the Medicare Part D doughnut hole, the excise tax on high valued health insurance, and expanding Medicaid Funding for all states.[1]

[1] Stat! Health Reform Weekly (Segal Company, February 22, 2010) http://www.segalco.com/publications-and-resources/stat/index.php?id=1388

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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 9, 2010

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, 2009. 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 (GAAP) 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 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.

601 57th Street, S.E., Suite 2 ● Charleston, WV 25304-2345

The CAFR 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, 2009. 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 (PPB) plan 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 CAFR. 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 2009 year-end PEIA reserve of $109 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2010 through 2014. 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 2009.

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 2009 of $5,927,096 resulting in an end of year net asset amount of $109,232,035. PEIA had increases in premium revenues and decreases in claims expense. For further details regarding PEIA's financial condition, please see the MD&A portion of the financial section beginning on page 25 that incorporates a narrative introduction, overview and analysis of the financial statements.

PEIA and its Finance Board continue to struggle with the rising costs of healthcare. Increasing healthcare costs continue in all aspects of healthcare. The current rate of healthcare inflation continues to trend approximately four times greater than the annual increase in average hourly earnings. The rate of healthcare cost inflation also stands in contrast to the consumer price index which has been relatively flat.[2] Health insurance plans are annually forced to either cut costs by modifying benefits or raising premiums.

The previous paragraph indicates one of the many reasons healthcare reform is needed. Left unchecked, the country will eventually be spending the majority of its dollars on healthcare costs, leaving relatively little for anything else.

Although a final healthcare reform bill hasn't been passed into law by the print date of this report, PEIA does anticipate long-term financial impact. This is based on consistent themes

[2] 2010 Segal Health Plan Cost Trend Survey (Segal Company)

arising from both Bills and all parties involved. The current healthcare reform bills by the US Senate and House of Representatives are consistent in that they both attempt in some capacity to:

- Expand health insurance coverage
- Remove insurance coverage limitations
- Expand Medicaid eligibility
- Reduce Medicare hospital payment updates and payment restrictions

Health insurance coverage expansion could impact PEIA in a positive way. This would occur due to the increased number of covered individuals. These same individuals were utilizing healthcare without paying for it. This is what is known as uncompensated care.

United States hospitals reported $36.4 billion in uncompensated care in the year 2008. West Virginia hospitals reported $672 million for the same period. This uncompensated care is an expense to the hospitals that must be made up through charges to the paying population. This is known as the "cost shift". The amount of uncompensated care referenced previously underscores the impact this population has upon the healthcare industry.

The theory that expanded healthcare insurance could impact PEIA in a positive way is if these same non-paying healthcare customers become paying customers, the healthcare providers would no longer have to shift the cost of uncompensated care to the paying customers resulting in lower charges for healthcare. Obviously, for this to occur, the providers must reduce their charges commensurate to the increase in compensated care, or decrease in uncompensated care. Due to this, PEIA currently has no intention of assuming any savings from this possible change.

Removing coverage limitations includes items such as the cessation of pre-existing condition exclusions, benefit maximums, and providing coverage to dependent children less than 26 years of age. Of these, PEIA could possibly be negatively impacted by the cessation of pre-existing conditions and benefit maximums.

PEIA does not cover a pre-existing medical condition for a period of twelve months. Current enrollment data shows 4,000 members of PEIA with pre-existing conditions. Assuming the current per member per month cost of PEIA, and that pre-existing conditions represent 5%, PEIA could incur additional annual costs of $540,000.

PEIA currently has a $1 million lifetime benefit maximum. Using the actual rate of occurrence of members reaching the benefit maximum to date, PEIA could see annual cost increases of at least $5.3 million. This increase assumes a $3.00 per member per month increase to the plan's costs. A requirement of age 26 years or less for dependent children would not have an impact on PEIA as the current dependent eligibility policy already permits age 25 dependents.

Medicaid expansion could prove to be a possible positive as more West Virginians would have medical coverage. Medicaid uses the federal poverty level to determine eligibility. The current expansion concept would be by way of increasing the level of income that qualifies an individual for Medicaid. The income levels being proposed are 133% or 150% of the federal poverty level.

This could result in the same lowering of charges due to less cost shift as discussed earlier with healthcare coverage expansion.

Of the various changes discussed so far regarding healthcare reform, Medicare hospital payment reductions could most likely have the greatest impact. This is because PEIA utilizes Medicare's methodology for inpatient and outpatient hospital reimbursement and therefore could see savings as a result of any reductions to payment increases as proposed.

The current payment update reductions being discussed in the reform bills range from $102.7 to $119 billion over ten years. On a relative basis, it is unlikely this large of a reduction would actually be implemented by PEIA. Although PEIA follows Medicare payment methodologies and policies, there is an adjustment process that converts the various reimbursement weights of Medicare to reach specific payment levels for PEIA providers.

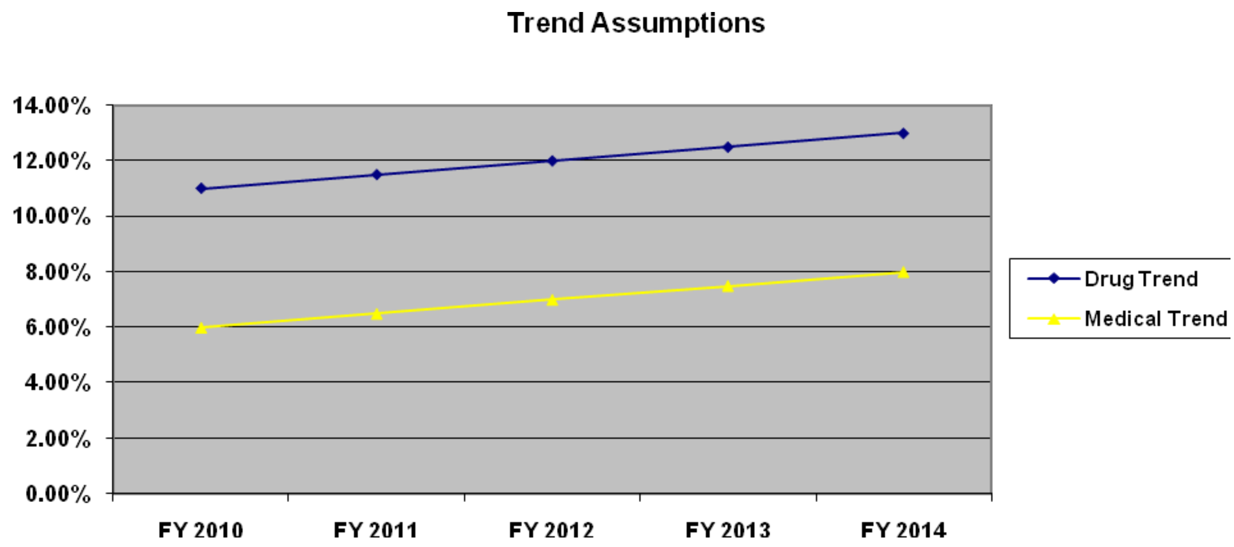
The Medicare payment update reductions will hopefully have ancillary impact. That is, not only will PEIA see some savings by way of the reduced payment updates, but also through efficiencies gained by tighter, more accurate payment of necessary and quality driven healthcare. Medicare has already implemented important healthcare utilization control procedures by disallowing payment on "never events" where a procedure was performed erroneously or for no cause and "present on admission", meaning payment will only be made for the conditions for which the patient came to the hospital.

One other item included in current reform is a mechanism that will deny payment on readmissions. This would result in less patients being released prematurely only having to be readmitted shortly after discharge. It is hoped that Medicare will continue to implement more of these necessary controls that PEIA will then also implement.

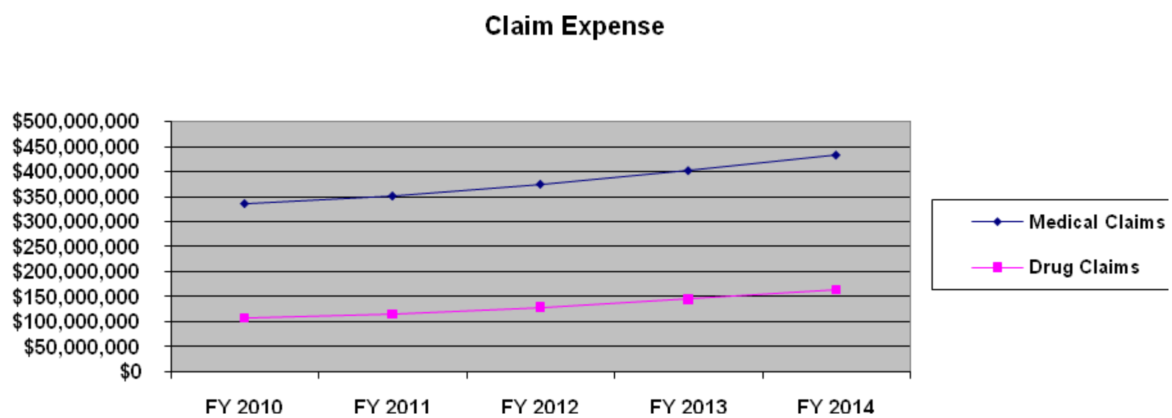
The Senate version currently allows existing group health plans to be grandfathered and removed from the health insurance changes. Obviously this would alleviate any concerns for PEIA regarding the reform pertaining to insurance, but due to the uncertainty still abounding, nothing is assured.

For this very reason, none of the possible current healthcare reform items have been assumed in the formal PEIA financial plan. But due to the magnitude of its possible implications, it is being reviewed and considered by PEIA for long-term, informal financial planning.

The chart below 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 60% in five fiscal years. The current financial plan forecast increases in healthcare costs as follows:

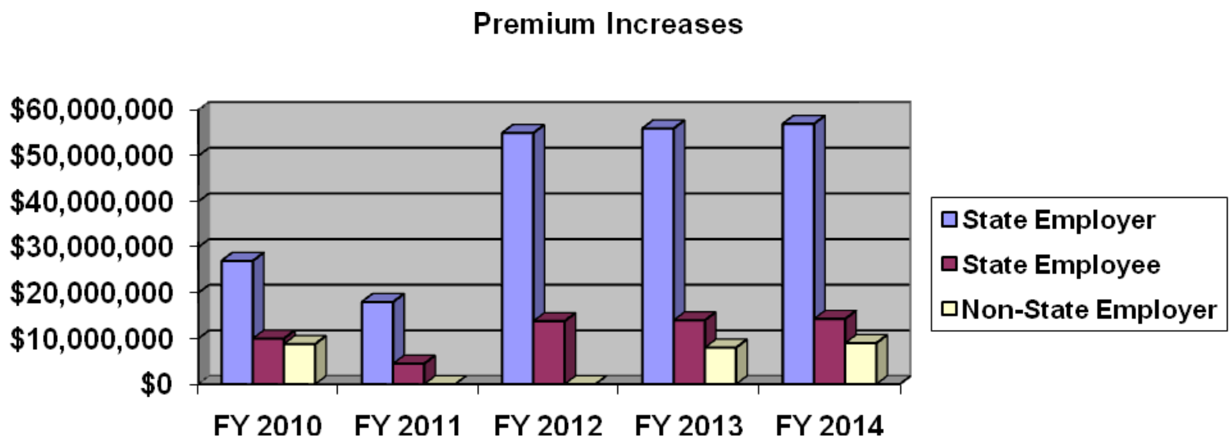


The 2010 Segal Health Plan Cost Trend Survey indicates the 2010 trend projection for preferred provider organizations with prescription drug benefits is 10.5%. For comparison purposes, PEIA's combined trend projection for fiscal year 2010 equals 7.3%. A more comprehensive discussion of PEIA trends is available in the PEIA Medical Trends Report at http://www.peia.wv.gov under financial reports. The above trend assumptions result in the following estimated claim expenses for FY 2010 through 2014:



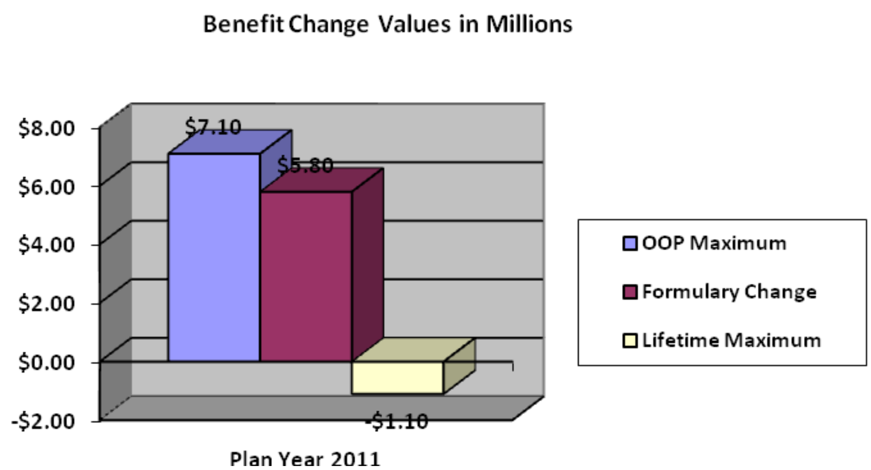
Based on the above trend assumptions, PEIA can expect to see an aggregate increase in medical and drug costs over the next five years of $98 and $55 million respectively.

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

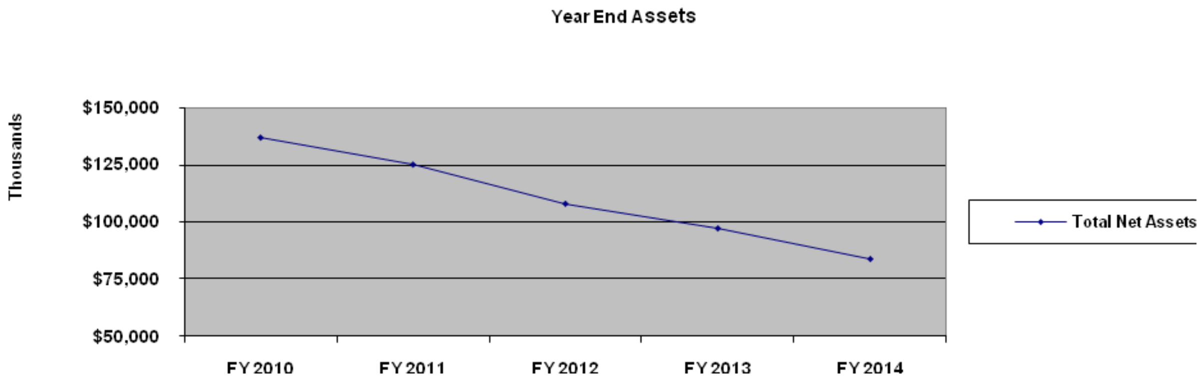


In aggregate, the Board has approved $213 million in State employer premium increases, $27 million for non-State employers and $55 million for State employees. Special attention should be paid to the above premium increases as all of the participants are reaching their revenue limitations and abilities to meet these scheduled increases.

The Board also approved benefit plan changes that will result in a net savings to the plan. These benefit changes include increases in out of pocket maximums for family plans, a more restrictive drug formulary and an increase in the lifetime benefit maximum. The chart below indicates the estimated value of these changes:



The above trend assumptions in claim expenses, benefit changes 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 above charts and trend numbers continue to enforce the necessity of national healthcare reform. Raise premiums, cut benefits is a recurring theme that cannot continue as many in the country have reached their maximum contribution for healthcare. Even with the changes referenced, the Year End Assets chart above indicates a dwindling reserve for PEIA. Healthcare costs are simply outpacing the changes.

Although the current healthcare reform bill is still not passed into law, it is hopefully a sign that the nation as a whole is now becoming aware of its necessity and will continue to be a priority. The current issues with national healthcare did not occur quickly and will not be solved quickly. This is hopefully the first of many healthcare reform bills that will provide a better, more efficient healthcare system in the United States of America.

MAJOR INITIATIVES

PEIA has two major initiatives in early implementation stages. The first being the recent passage by the PEIA Finance Board to offer a high deductible health plan. The plan has been developed to accommodate both healthcare savings accounts (HSA's) and healthcare reimbursement arrangements (HRA's). The PEIA management team has mulled over this issue for approximately four years. Due to the PEIA relatively aged, unhealthy demographic, this low benefit plan was always met with skepticism. Although the skepticism remains by many, the possible benefits to the plan members currently saddled with huge premium costs finally out-weighed the deferral of care concerns.

Due to these concerns, the new plan will be monitored very closely to ascertain the impact on all PEIA plans. Not only were there deferral of care concerns, but there are also concerns of de-stabilizing the richer plans of PEIA. This would occur if a large amount of the young healthy population migrates to the cheaper high deductible plan. If this were to occur PEIA could be faced with a plan that is unaffordable and of no use to anyone.

The plan as designed will attempt to mitigate this issue by hopefully pricing both plans in a manner that will give management time to evaluate the impact in a responsible manner. Premiums were set somewhat conservatively initially and will be gradually adjusted as more reliable, credible experience data is developed.

The next initiative continues PEIA's devotion to attempting the improvement of our members' lifestyles by raising personal health awareness and accountability. Policyholders will now be given an opportunity to save on premiums by performing actions believed to be conducive to both.

The first premium discount will be available to those who submit results of their health indices such as cholesterol levels, blood pressure and waist circumference. The current plan will allow a discount for those who submit the results. The next step is to do something with the data. Individuals who fail to be within certain parameters could be exposed to higher healthcare premiums in the future if they fail to comply with care plans or document their inability to resolve the issue, due to genetics as an example.

This initiative is an extremely sensitive issue as the term "big brother" has been bandied about regularly. Considering this, PEIA management is intent on implementing a plan that will not be punitive to those who truly cannot do anything about their health condition, while requiring the truly irresponsible to pay more. It is hoped that healthier lifestyles and more health awareness will result in better lifestyles and more affordable healthcare.

The second discount will be provided to those who sign an affidavit that they have a living will. This item was a hotly debated item in healthcare reform. For some reason it appears to have been removed from current versions. Thankfully, that was not the case for PEIA.

The PEIA management team was able to hold these same heated debate sessions and come out with a very reasonable approach to enhance end of life care awareness. Which at the end of the day is all anyone is truly trying to achieve. This is because there is a difference in the amount of money spent for end of life care when the discussion occurs between a patient and a doctor. More importantly, there is not a difference in quality or length of life between those who receive end of life consultation and those who do not.

Researchers at the Dana-Farber Cancer Institute interviewed 603 advanced-cancer patients about receiving End of Life (EOL) conversations. The researchers then calculated the final week's healthcare costs of patients who reported such conversations with those who did not.

They found that patients who reported having EOL conversations had an estimated average of $1,876 in healthcare expenses during their final week of life, compared to $2,917 for those who did not (a difference of $1,041, or 36%). The higher costs were the result of more intensive, life prolonging care and were associated with a worse quality of death during the final week. Additionally, patients typically did not live any longer.[3]

With a disproportionate share of healthcare costs at the end of one's life not resulting in extending life or quality of life, it appears more attention should be give to EOL discussions between physicians and their patients. It is PEIA's hope that this new incentive will be the catalyst for this.

[3]Baohui Zhang, End-of-Life Conversations Associated With Lower Medical Expenses (Harvard Science, March 8, 2009)

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) of the United States and Canada 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, 2008. 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, 2009.

Sincerely,

Jason A. Haught, CPA
Chief Financial Officer

Principal Officials

Joe Manchin, III, Governor
State of West Virginia

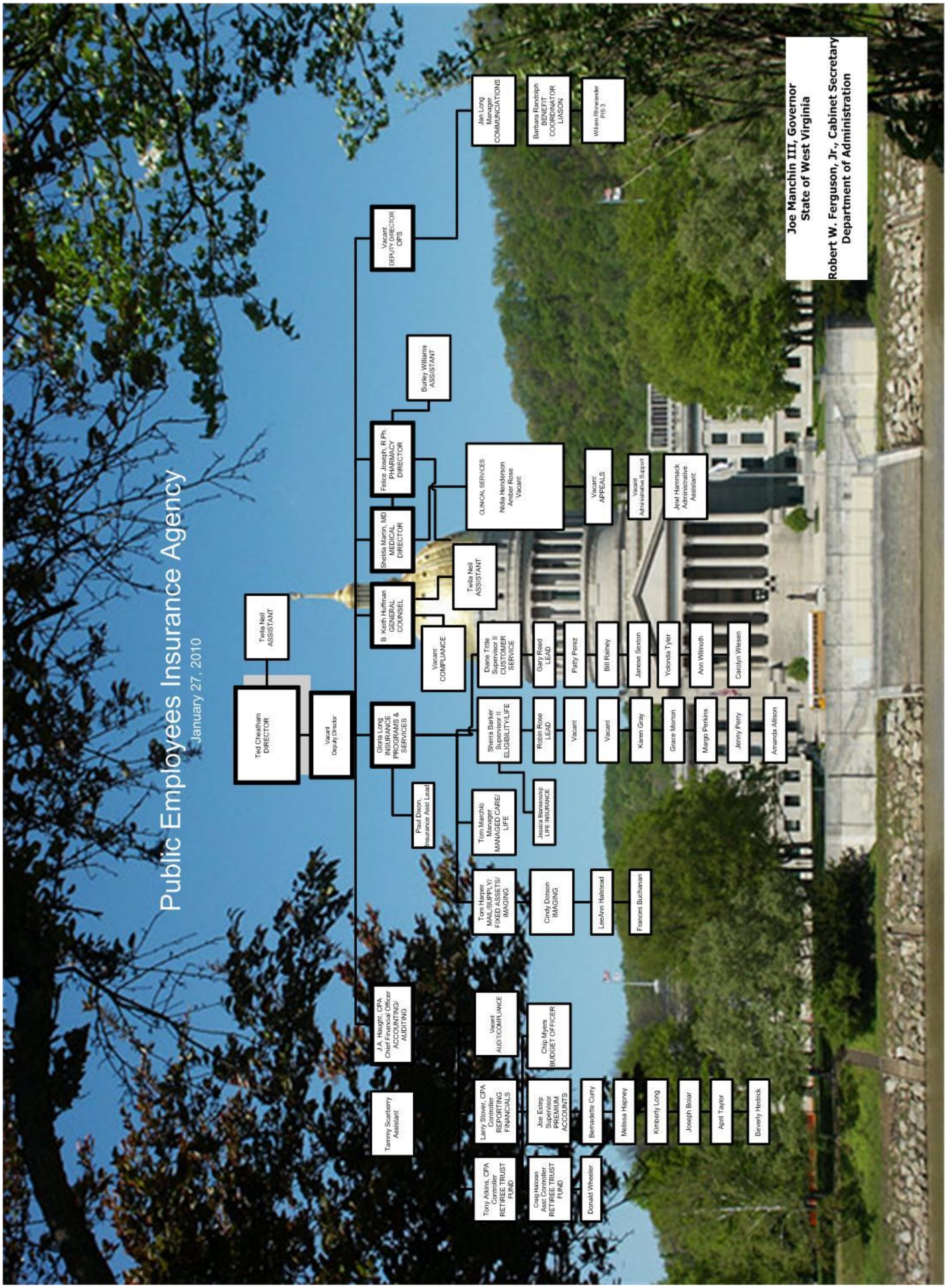
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Finance Board

Robert W. Ferguson, Jr, Chairman
Elaine Harris, Member
James W. Dailey, II, Member
John Ruddick, Member
Joshua Sword, Member
Michael Smith, Member
Michael Milam, Member
Troy Giatras, Member
William Ihlenfeld, Member

Executive Staff

Ted Cheatham, Director


Public Employees Insurance Agency
January 27, 2010
Ted Cheatham DIRECTOR
Twila Neil ASSISTANT
Vacant Deputy Director
Tammy Scarberry Assistant
J.A. Haught, CPA Chief Financial Officer ACCOUNTING/ AUDITING
Gloria Long INSURANCE PROGRAMS & SERVICES
Paul Dixon, Insurance Asst Lead
B. Keith Huffman GENERAL COUNSEL
Shelda Martin, MD MEDICAL DIRECTOR
Felice Joseph, R.Ph. PHARMACY DIRECTOR
Burley Williams ASSISTANT
Vacant DEPUTY DIRECTOR OPS
Vacant COMPLIANCE
Twila Neil ASSISTANT
CLINICAL SERVICES
Nidia Henderson
Amber Rose
Vacant
Vacant APPEALS
Vacant Administrative Support
Jewl Hammack Administrative Assistant
Tony Atkins, CPA Controller RETIREE TRUST FUND
Larry Stover, CPA Controller REPORTING FINANCIALS
Vacant AUDIT/COMPLIANCE
Craig Haloran Asst Controller RETIREE TRUST FUND
Joe Estep Supervisor PREMIUM ACCOUNTS
Chip Myers BUDGET OFFICER
Donald Wheeler
Bernadette Curry
Melissa Hapney
Kimberly Long
Joseph Bolar
April Taylor
Beverly Hedrick
Tom Harper MAIL/SUPPLY/ FIXED ASSETS/ IMAGING
Cindy Dotson IMAGING
LeeAnn Halstead
Frances Buchanan
Tom Marchio Manager MANAGED CARE/ LIFE
Jessica Blankenship LIFE INSURANCE
Sherra Barker Supervisor II ELIGIBILITY/LIFE
Robin Rose LEAD
Vacant
Vacant
Karen Gray
Grace Morton
Margo Perkins
Jenny Perry
Amanda Allison
Diane Tittle Supervisor II CUSTOMER SERVICE
Gary Reed LEAD
Patty Perez
Bill Rainey
Janese Sexton
Yolonda Tyler
Ann Wilmoth
Carolyn Wiesen
Jan Long Manager COMMUNCIATIONS
Barbara Randolph BENEFIT COORDINATOR LIASON
William Rhinelander PIS 3
Joe Manchin III, Governor
State of West Virginia
Robert W. Ferguson, Jr., Cabinet Secretary
Department of Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Public Employees Insurance Agency

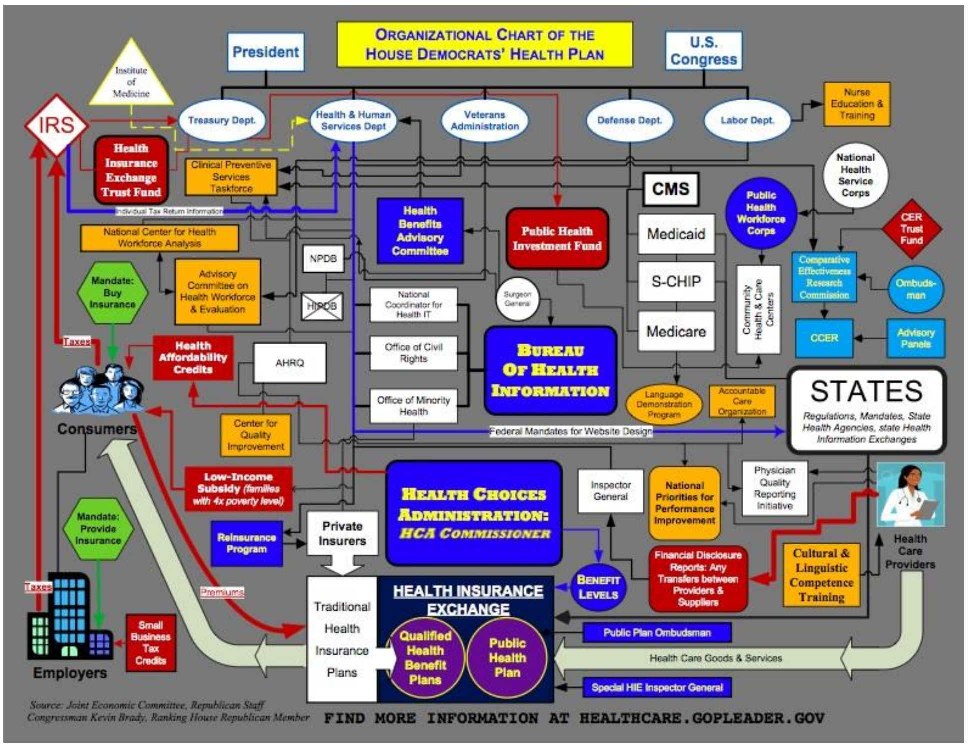
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008

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



This image is a cartoon spoofing the complexities of the United States' healthcare system and the difficulties inherent with reform. It was chosen to underscore the many factors involved in reforming healthcare and what an ominous task it is.

Not only do you first have to understand it, one must then determine what part needs reformed. Hopefully the end result of the reform bill(s) will be one that addresses the inefficiencies of all aspects as none are devoid of deficiencies.

Ernst & Young LLP
900 United Center
500 Virginia Street East
Charleston, West Virginia 25301
Tel: 304 343 8971
Fax: 304 357 5994
www.ey.com

Report of Independent Auditors

The Finance Board
West Virginia Public Employees Insurance Agency

We have audited the accompanying basic financial statements of the West Virginia Public Employees Insurance Agency (PEIA), an enterprise fund of the State of West Virginia, as of June 30, 2009 and 2008, and for the years then ended, as listed in the table of contents. 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. 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 opinions.

As discussed in Note 1, the financial statements of PEIA are intended to present the financial position, the changes in financial position, and the 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, 2009 and 2008, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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, as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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*

ERNST & YOUNG

Employers for Postemployment Benefits Other Than Pensions (GASB 45), which changed the accounting and reporting for postemployment benefits.

Management's discussion and analysis on pages 25 through 30 and the supplemental schedule of Ten-Year Claims Development Information on page 64 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 25 through 30 and the Ten-Year Claims Development Information on page 64, 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 purpose of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections 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

February 4, 2010

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2009

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, 2009. 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 U.S. generally accepted accounting principles 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

Year Ended June 30, 2009

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 2009 – 2008		Change 2008 – 2007	
	2009	**2008**	**2007**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and cash equivalents	**$ 2,700,245**	$ 15,425,536	$ 18,657,241	**$ (12,725,291)**	**(82.5)%**	$ (3,231,705)	(17.3)%
Equity position in internal investment pool	**33,294,218**	40,382,507	141,259,154	**(7,088,289)**	**(17.6)**	(100,876,647)	(71.4)
Premium receivable	**26,466,755**	14,355,794	13,564,676	**12,110,961**	**84.4**	791,118	5.8
Other current assets	**6,682,408**	13,730,357	7,296,181	**(7,047,949)**	**(51.3)**	6,434,176	88.2
Total current assets	**69,143,626**	83,894,194	180,777,252	**(14,750,568)**	**(17.6)**	(96,883,058)	(53.6)
Equity position in internal investment pools	**115,072,492**	122,360,685	169,996,583	**(7,288,193)**	**(6.0)**	(47,635,898)	(28.0)
Equity position in internal investment pool – restricted	**7,738,658**	7,738,658	3,942,911	–	–	3,795,747	96.3
Capital assets, net	**6,495,407**	5,153,924	568,064	**1,341,483**	**26.0**	4,585,860	807.3
Total assets	**198,450,183**	219,147,461	355,284,810	**(20,697,278)**	**(9.4)**	(136,137,349)	(38.3)
Claims payable	**56,461,892**	51,276,816	52,999,509	**5,185,076**	**10.1**	(1,722,692)	(3.3)
Other current liabilities	**25,017,598**	56,827,048	124,267,822	**(31,809,450)**	**(56.0)**	(67,440,774)	(54.3)
Total current liabilities	**81,479,490**	108,103,864	177,267,331	**(26,624,374)**	**(24.6)**	(69,163,466)	(39.0)
Noncurrent liabilities:							
Premium stabilization fund	**7,738,658**	7,738,658	3,942,911	–	–	3,795,747	96.3
Total liabilities	**89,218,148**	115,842,522	181,210,242	**(26,624,374)**	**(23.0)**	(65,367,720)	(36.1)
Net assets-invested in capital assets	**6,495,407**	5,153,924	568,064	**1,341,483**	**26.0**	4,585,860	807.3
Net assets-unrestricted	**102,736,628**	98,151,015	173,506,504	**4,585,613**	**4.7**	(75,355,490)	(43.4)
Total net assets	**$ 109,232,035**	$ 103,304,939	$ 174,074,568	**$ 5,927,096**	**5.7%**	$ (70,769,630)	(40.7)%
Premium revenue	**$ 464,263,863**	$ 416,040,777	$ 466,232,421	**$ 48,223,086**	**11.6%**	$ (50,191,644)	(10.8)%
Less: Payments to managed care organizations and life reinsurance premiums	**(60,186,506)**	(60,595,834)	(59,228,061)	**409,328**	**0.7**	(1,367,773)	(2.3)
Net premium revenue	**404,077,357**	355,444,943	407,004,360	**48,632,414**	**13.7**	(51,559,417)	(12.7)
Administrative fees, net	**4,693,824**	4,487,011	4,450,017	**206,813**	**4.6**	36,994	0.8
Total operating revenues	**408,771,181**	359,931,954	411,454,377	**48,839,227**	**13.6**	(51,522,423)	(12.5)
Claims expense, net	**371,015,676**	419,370,075	359,512,303	**(48,354,399)**	**(11.5)**	59,857,772	16.6
Administrative service fees	**14,810,235**	12,820,798	12,723,779	**1,989,437**	**15.5**	97,019	0.8
Other expenses	**10,107,845**	6,764,371	7,435,296	**3,343,474**	**49.4**	(670,925)	(9.0)
Total operating expenses	**395,933,756**	438,955,244	379,671,378	**(43,021,488)**	**(9.8)**	59,283,866	15.6
Operating income (loss)	**12,837,425**	(79,023,290)	31,782,999	**91,860,715**	**116.2**	(110,806,289)	(348.6)
Supplemental appropriation	–	–	6,700,000	–	–	(6,700,000)	(100.0)
Litigation settlement, net	–	–	3,085,000	–	–	(3,085,000)	(100.0)
Transfer out	**(7,320)**	–	(80,487,422)	**(7,320)**	**(100.0)**	80,487,422	100.0
Net investment (loss) income	**(6,903,009)**	7,978,307	22,126,245	**(14,881,316)**	**(186.5)**	(14,147,938)	(63.9)
Total nonoperating (loss) income	**(6,910,329)**	7,978,307	(48,576,177)	**(14,888,636)**	**(186.6)**	56,554,484	116.4
Change in net assets	**5,927,096**	(71,044,983)	(16,793,178)	**76,972,079**	**108.3**	(54,251,805)	(323.1)
Net assets, beginning of year	**103,304,939**	174,074,569	190,867,747	**(70,769,630)**	**(40.7)**	(16,793,178)	(8.8)
Change in accounting principle for other postemployment benefits	–	275,353	–	**(275,353)**	**(100.0)**	275,353	100.0
Net assets, end of year	**$ 109,232,035**	$ 103,304,939	$ 174,074,569	**$ 5,927,096**	**5.7%**	$ (70,769,630)	(40.7)%

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2009

The current portion of equity position in internal investment pool and cash and cash equivalents decreased $19.8 million as the result of $26.1 million used in operations. $6.9 million was used to cover investment losses, and $7.3 million was provided from liquidation of investments related to equity position in internal investment pool. $2.8 million of cash and cash equivalents was used for the purchase of capital assets, and $8.7 million was advanced to the Retiree Health Benefit Trust (RHBT).

In the previous year, the decrease of cash and cash equivalents and the current portion of equity position in internal investment pool is a result of $33.3 million used in operations. $10.3 million came from investment returns net of reinvestments, $61.9 million was provided from liquidation of investments, and $16.6 million used for purchase of investments in the equity position in internal investment pool. $5.0 million of cash and cash equivalents 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, and $3.8 million was transferred to noncurrent accounts.

Premium receivable at June 30, 2009, was $12.l million more than the prior year because several large employers did not remit their premium until after year-end. Premiums receivable at June 30, 2008, was $.8 million more than the prior year which is an insignificant increase.
At the current year-end, other current assets were down $7.0 million because the $7.2 million advance to RHBT in the prior year had been collected, prescription rebates receivable were up $.5 million and provided refunds receivable were down $.3 million. At year-end 2008, other current assets were up $6.4 million due to an increase in advances to RHBT for $7.2 million and prescription rebates receivable of $.8 million less the collection of prior year appropriations of $1.4 million.

Claims payable increased $5.2 million due to increased enrollment and medical cost inflation. For fiscal year 2008, the liability decreased approximately $1.7 million due to a large pay down of the claims inventory.

Other current liabilities decreased $31.8 million mainly resulting from a reduction of premium deficiency reserve for the new year by $27.7 million, $4.7 million decrease in accounts payable, $1.9 million reduction of accrued liabilities, less an advance from RHBT of $1.5 million and $1.0 million increase in unearned revenue.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2009

In the prior year, other current liabilities decreased $67.4 million resulting from the transfer of $48.2 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 unearned revenue, $3.6 million reduction of the amount due to RHBT, and $1.5 million reduction of accrued liabilities.

In 2009, the increase in net assets resulted primarily from an increase in premium revenues of $48.2 million over prior year and lower claims costs, less investment losses. The previous year decline resulted from the recognition of a premium deficiency reserve of $43.3 million, higher than anticipated claims expenses, and lower investment earnings.

Net premiums increased $48.6 million as a result of a reduction in the passthrough of postemployment benefit funding to RHBT, a $6.8 million decrease in provision for uncollectible accounts, and changes in policy holder counts. In 2008, the premium decrease of $51.6 million was primarily due to accrued actuarial liability funding of approximately $39.0 million taken from PEIA premiums to RHBT for the first time in 2008.

Medical and prescription drug claims were 94% of total plan operating expenses for the three-year period. In the current year, claims expense was reduced by $27.7 million to adjust the year-end 2009 premium deficiency reserve. Additionally, claims experience indicates a 5.8% increase in medical claims and a 6.8% increase in drug claims, net of premium deficiency. Fiscal year 2008 claims expense includes a $43.3 million premium deficiency charge. Claims experience indicated a 10.2% increase in medical claims and a 11.0% decrease in drug claims for a combined 4.6% increase.

Administrative service fees and other expenses have averaged approximately 5% to 6% of plan operating expenses for the three-year period. Administrative service fees expense increased 15.5% due to replacement of old contracts with new higher fee contracts, while other expenses increased 49.4% primarily due to a $0.9 million increase in wellness spending and a $1.1 million increase in depreciation relating to a new computer system. In the prior year, administrative service fees expense was level, while other expenses decreased 9.0% primarily due to 2008 professional service fees being capitalized as software costs.

There were no supplemental appropriations from the State in 2009 or 2008. Supplemental appropriations granted by the State Code in 2007 were $6.7 million.
There were no litigation settlements in 2009 and 2008. A settlement of $3.0 million was reached in 2007 between PEIA and its former Prescription Benefit Manager.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2009

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. In 2009 and 2008, the PEIA reserve levels did not reach the threshold requiring such a transfer.

PEIA sustained a net investment loss in fiscal year 2009, due to market value declines, resulting in a $14.9 million reduction in revenue from the prior year. Net investment income decreased $14.1 million in fiscal year 2008 due to lower average investible balances and the economic downturn which negatively impacted the rate of return on investments.

Net assets increased $5.9 million in fiscal year 2009. The 2009 increase resulted primarily from a reduction of claims expense of $27.7 million to adjust the year end premium deficiency reserve, lower than expected claims expenses, while partially offset by investment losses. When the reduction of the premium deficiency is excluded, current year net asset change becomes negative $21.8 million. Premium rate increases totaling $6.0 million were adopted for the current year. The Financial Plan for 2009 indicated a decrease in total net assets of $46.8 million. However, it did not include the $27.7 million reduction of expense related to the premium deficiency reserve. Total claims costs for current year were $18.4 million less, investment loss was $6.9 million more, and non-claims expenses were $0.8 million more than plan.

Net assets decreased approximately $71.0 million in the previous year. The 2008 decrease resulted primarily from the recognition of a premium deficiency reserve of $43.3 million, higher than anticipated claims expense, 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 2008 year. The Financial Plan indicated a decrease in total net assets of $20.9 million. The Plan did not include the $43.3 million premium deficiency reserve. Total claims costs were $4.3 million less, investment income was $4.8 million less, and non-claims expenses were $3.4 million less than planned.

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 $742.32 compared to the national average cost of $1,143.25. It should also be noted that PEIA incurred a reduction of plan assets of $21.8 million, excluding the effect of recording current premium deficiency reserve.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2009

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 2009, health insurance cost rose 5.0% nationally. During the same period, the overall inflation rate decreased 0.7% and wage gains were limited to 1.8%. 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.
Premium increases totaling $45.8 million were placed into effect for the year that began July 1, 2009.

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 computer software costs of $2.7 million and $4.5 million in fiscal years ended 2009 and 2008, respectively. These additions are expected to result in additional annual depreciation over the next five years of approximately $540,000 and $900,000, respectively. See Note 6 for further details.

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	
	2009	**2008**
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,700,245**	$ 15,425,536
Equity position in internal investment pool	**33,294,218**	40,382,507
Premiums receivable:		
Due from State of West Virginia	**2,324,756**	1,155,303
Other, less allowance for doubtful accounts of $4,971,000 and $6,262,000, respectively	**24,141,999**	13,200,491
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $452,000 and $389,000, respectively	**469,046**	792,014
Prescription rebates	**5,960,234**	5,537,230
Due from RHBT	**–**	7,178,893
Other	**253,128**	222,220
Total current assets	**69,143,626**	83,894,194
Noncurrent assets:		
Equity position in internal investment pools	**115,072,492**	122,360,685
Equity position in internal investment pool – restricted	**7,738,658**	7,738,658
Capital assets, net of accumulated depreciation of $2,393,849 and $974,092, respectively	**6,495,407**	5,153,924
Total noncurrent assets	**129,306,557**	135,253,267
Total assets	**198,450,183**	219,147,461
Liabilities		
Current liabilities:		
Claims payable	**56,461,892**	51,276,816
Premium deficiency reserve	**15,588,245**	43,301,816
Accounts payable	**3,078,470**	7,760,535
Unearned revenue	**1,329,780**	357,244
Other accrued liabilities	**3,483,904**	5,407,453
Due to RHBT	**1,537,199**	–
Total current liabilities	**81,479,490**	108,103,864
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	**7,738,658**	7,738,658
Total liabilities	**89,218,148**	115,842,522
Net assets		
Invested in capital assets	**6,495,407**	5,153,924
Unrestricted	**102,736,628**	98,151,015
Total net assets	**$ 109,232,035**	$ 103,304,939

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2009	**2008**
Operating revenues:		
Premiums net of provisions for bad debts of $(1,291,000)		
and $5,453,000, respectively	**$ 464,263,863**	$ 416,040,777
Less:		
Payments to managed care organizations	**(54,666,461)**	(55,127,294)
Life insurance premiums ceded	**(5,520,045)**	(5,468,540)
Net premium revenue	**404,077,357**	355,444,943
Administrative fees, net of refunds	**4,693,824**	4,487,011
Total operating revenues	**408,771,181**	359,931,954
Operating expenses:		
Claims expense, net	**371,015,676**	419,370,075
Administrative service fees	**14,810,235**	12,820,798
Other expenses	**10,107,845**	6,764,371
Total operating expenses	**395,933,756**	438,955,244
Operating income (loss)	**12,837,425**	(79,023,290)
Nonoperating revenues (expenses):		
Investment (loss) income, net of fees	**(6,903,009)**	7,934,895
On behalf of contributions	**–**	43,412
Transfer out	**(7,320)**	–
Total nonoperating (loss) income	**(6,910,329)**	7,978,307
Change in net assets	**5,927,096**	(71,044,983)
Total net assets, beginning of year	**103,304,939**	174,074,569
Change in accounting principle for other postemployment benefits	**–**	275,353
Total net assets, beginning of year adjusted	**103,304,939**	174,349,922
Total net assets, end of year	**$ 109,232,035**	$ 103,304,939

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2009	**2008**
Operating activities		
Cash received from participants	**$ 396,466,817**	$ 358,481,169
Cash received from pharmacy rebates	**13,632,097**	11,842,611
Cash paid to employees	**(1,564,977)**	(1,609,354)
Cash paid to suppliers and others	**(27,503,967)**	(12,445,580)
Cash paid for claims	**(407,176,268)**	(389,633,562)
Net cash used in operating activities	**(26,146,298)**	(33,364,716)
Noncapital financing activities		
Advances from (to) RHBT	**8,716,092**	(10,802,314)
Payment of prior years excess reserves to RHBT	**–**	(108,167,017)
Transfers	**(7,320)**	1,404,382
Net cash provided by (used in) noncapital financing activities	**8,708,772**	(117,564,949)
Capital and related financing activities		
Purchases of capital assets	**(2,761,240)**	(4,953,733)
Net cash used in capital and related financing activities	**(2,761,240)**	(4,953,733)
Investing activities		
Purchases of investments	**(89,145,903)**	(16,629,926)
Sale of investments	**81,735,951**	61,885,203
Investment earnings	**7,795,138**	10,315,516
Net cash provided by investing activities	**385,186**	55,570,793
Net decrease in cash and cash equivalents	**(19,813,580)**	(100,312,605)
Cash and cash equivalents at beginning of year	**63,546,701**	163,859,306
Cash and cash equivalents at end of year	**$ 43,733,121**	$ 63,546,701
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 2,700,245**	$ 15,425,536
Equity position in internal investment pool – current	**33,294,218**	40,382,507
Equity position in internal investment pool – restricted	**7,738,658**	7,738,658
	$ 43,733,121	$ 63,546,701
Reconciliation of operating (loss) income to net cash used in operating activities		
Operating income (loss)	**$ 12,837,425**	$ (79,023,290)
Adjustments		
Depreciation	**1,419,757**	367,873
Provision for uncollectible accounts	**(1,291,000)**	2,602,000
Decrease (increase) in operating assets:		
Premiums receivable	**(9,650,508)**	(4,484,826)
Due from State of West Virginia	**(1,169,453)**	1,091,708
Provider refunds receivable	**322,968**	(189,600)
Prescription refunds receivable	**(423,004)**	(749,611)
Other	**(30,908)**	279,546
Increase (decrease) in operating liabilities:		
Claims payable	**5,185,076**	(1,722,692)
Accounts payable	**(4,682,065)**	5,372,542
Premium deficiency	**(27,713,571)**	43,301,816
Unearned revenue	**972,536**	(2,835,950)
Other accrued liabilities	**(1,923,551)**	2,625,768
Total adjustments	**(38,983,723)**	45,658,574
Net cash used in operating activities	**$ (26,146,298)**	$ (33,364,716)
Noncash activities		
Decrease in fair value of investments	**$ (14,698,145)**	$ (2,380,621)
On behalf of contributions	**$ –**	$ 43,412

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

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 75,000 health and basic life insurance policyholders, and 13,000 policyholders with life insurance only. PEIA insures approximately 179,000 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 plan. 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, 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, 2009 and 2008, and the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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.

Annual Financial Plan

The Act requires the Finance Board of PEIA to prepare a proposed annual financial plan. The plan must be designed to generate sufficient revenues to meet all expected expenses, including insurance, administrative expenses, and incurred but not reported claims (IBNR) of PEIA. An independent professional actuary must review the plan and give an opinion stating that the plan may be reasonably expected to generate sufficient revenue to meet estimated insurance claims and administrative expenses. The financial plan must be presented to the governor and the legislature no later than January 1, prior to the beginning of the new plan year.

PEIA Finance Board establishes PEIA premiums based upon its approved annual financial plan. The financial plan projects the anticipated costs of the program for each fiscal year and the premium levels necessary to meet these costs. Any variances between projected and incurred

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

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 West Virginia State Treasurer's office, outside financial institutions, and amounts deposited in an internal investment pool managed by the West Virginia Board of Treasury Investments (BTI) that is reported as part of equity position in internal investment pool – current-unrestricted and noncurrent-restricted, respectively.

Premiums Receivable

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

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators 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.

Equity Position in Internal Investment Pools

PEIA owns equity positions in state government investment pools managed by the West Virginia Investment Management Board (WVIMB) and the Board of Treasury Investments (BTI). Some investment pool funds are subject to market risk because of changes in interest rates, bond prices,

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

and stock prices. Investment earnings and losses are allocated to PEIA based on the balance of PEIA's investments maintained in relation to the total investments of all state agencies participating in the pool. The Equity Position in Internal Investment Pools is reported at fair value and changes in fair value are included in investment income.

A thirteen-member Board of Trustees governs the WVIMB. Three members of the Board serve by virtue of their office: the Governor, the Auditor, and the Treasurer. The other ten are appointed by the Governor and confirmed by the Senate. All appointees must have experience in pension management, institutional management or financial markets. In addition, one must be an attorney experienced in finance and investment matters and another must be a Certified Public Accountant. Only six of the ten appointed Trustees may be from the same political party. The Governor serves as Chairman of the Board. A Vice-Chairman is elected by the Trustees. A Secretary, who need not be a member of the Board, is also elected by the Trustees to keep a record of the proceedings of the Board. Details regarding these investment pools and a copy of the WVIMB financial report can be obtained by contacting West Virginia Investment Management Board, 500 Virginia Street, East, Suite 200, Charleston, WV 25301 or by calling 304-645-5939.

A five-member Board of Directors governs the BTI. The Governor, Treasurer, and 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 website 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.

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 $1,419,757 and $367,873 for the years ended June 30, 2009 and 2008, respectively.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

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 statement of net assets 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 $14,055,101 and $12,592,222 for the years ended June 30, 2009 and 2008, 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 of $15,588,245 and $43,031,816 as of June 30, 2009 and 2008, respectively. Furthermore, in January 2009, the Finance Board approved the premium rates for fiscal year 2010. In making this determination, management took into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists. Adjustments to the estimated premium deficiency liability are reflected as a change in estimate in the year the actual results are known.

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

Unearned Revenue

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

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 2009 coverage month, PEIA provided health coverage to 119 State agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 539 local government entities with approximately 11,000 primary participants, and 23 college and university entities with approximately 10,000 primary participants. Approximately 91,000 dependents participated in PEIA health plans as well.

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

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

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 $13,417,453 and $10,324,716 during the fiscal years ended June 30, 2009 and 2008, respectively, and were remitted directly to the carrier. In this instance, PEIA functions as an agent and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

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

Administrative Service Fees

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

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.

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, 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

2. Summary of Significant Accounting Policies (continued)

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, 2009 and 2008, PEIA has sufficient net assets to comply with this code section. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess was to be remitted to the State of West Virginia Department of Administration. Accordingly, excess reserves of $80,487,422 and $27,679,595 were due to be transferred for years ended 2009 and 2008, respectively. 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, 2009.

Reclassifications

Certain 2008 amounts in the accompanying financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications did not impact the previously reported change in net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

3. Cash and Cash Equivalents

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

	2009	2008
Cash and cash equivalents on deposit with State Treasurer	**$ 1,399,113**	$ 14,417,841
Deposits with outside financial institutions	**1,301,132**	1,007,695
Cash and cash equivalents reported on statement of net assets	**2,700,245**	15,425,536
Equity position in internal investment pool with BTI – current-unrestricted	**33,294,218**	40,382,507
Equity position in internal investment pool with BTI – noncurrent-restricted	**7,738,658**	7,738,658
Total cash and cash equivalents	**$ 43,733,121**	$ 63,546,701

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, 2009 and 2008, the carrying amount of PEIA's bank deposits was $1,301,132 and $1,007,695, respectively, and the respective bank balances totaled $1,511,042 and $1,256,580. Of the total bank balance, $1,510,741 and $1,256,580, respectively, were uninsured and 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.

West Virginia Money Market Pool *(Formerly Cash Liquidity Pool)* – Equity Position in Internal Investment Pool – Current – Managed by BTI

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Credit Risk

The BTI administers the pool and limits exposure to credit risk by requiring all corporate bonds held by their West Virginia Money Market Pool 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 following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands).

	June 30, 2009			
	Credit Rating		Carrying	Percent of
Security Type	Moody's	S&P	Value	Pool Assets
Commercial paper	P1	A-1	$ 592,479	23.05%
Corporate bonds and notes	Aaa	AAA	10,000	0.39
	Aa1	AA	7,000	0.27
	Aa2	AA	10,000	0.39
	Aa3	AA	15,503	0.60
	A1	AA	19,309	0.75
	A1	A	12,000	0.47
Total corporate bonds and notes			73,812	2.87
U.S. agency bonds	Aaa	AAA	294,019	11.44
U.S. Treasury bills*	Aaa	AAA	483,714	18.82
Negotiable certificates of deposit	P1	A-1	128,402	5.00
U.S. agency discount notes	P1	A-1	635,602	24.73
Money market funds	Aaa	AAA	150,223	5.84
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AAA	165,110	6.43
U.S. agency notes	Aaa	AAA	46,900	1.82
Total repurchase agreements			212,010	8.25%
Total investments			$ 2,570,261	100.00%

* 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

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

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 at June 30, 2009.

Security Type	Carrying Value	WAM (Days)
	(In Thousands)	
Repurchase agreements	**$ 212,010**	**1**
U.S. Treasury bills	**483,714**	**69**
Commercial paper	**592,479**	**32**
Negotiable certificates of deposit	**128,402**	**56**
U.S. agency discount notes	**635,602**	**57**
Corporate bonds and notes	**73,812**	**38**
U.S. agency bonds/notes	**294,019**	**70**
Money market funds	**150,223**	**1**
Total investments	**$ 2,570,261**	**47**

PEIA's investment in the BTI WV Money Market Pool of $41,040,389 at June 30, 2009, represents approximately 1.6% of total investments in this pool.

Equity Position in Internal Investment Pools – Noncurrent-Unrestricted Managed by WVIMB

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

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.

West Virginia statute mandates that the Public Employees Insurance Agency Fund shall be managed by WVIMB, a public corporation.

Investment Objectives

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

Asset Allocation

Based upon the 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.) The asset values of the pools below are reported in equity position in internal investment pools – noncurrent-unrestricted on the statement of net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Asset Class	Policy Target 2009	Policy Target 2008
Large cap domestic equity	**7.5%**	7.5%
Non-large cap domestic equity	**–**	–
International equity	**7.5**	7.5
Total equity	**15.0%**	15.0%
Fixed income	**85.0%**	65.0%
Hedge fund	**–**	20.0

	Asset Value at June 30 2009	Asset Value at June 30 2008
	(In Thousands)	
Asset allocation (actual)		
Large cap domestic equity pool	**$ 7,324**	$ 7,648
Non-large cap domestic equity pool	**1,313**	1,559
International nonqualified pool	**3,054**	2,305
International equity pool	**6,258**	5,795
Short-term fixed income pool	**1**	27
Total return fixed income/fixed income pool	**53,033**	62,803
Core fixed income	**21,406**	–
Hedge fund	**22,683**	(1)
Fixed income nonqualified pool	–	42,225
Total	**$ 115,072**	$ 122,361

Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. PEIA's amount invested in the Large Cap Domestic Equity Pool of $7,324,000 and $7,648,000 at June 30, 2009 and 2008, respectively, represents approximately 0.4% and 0.4% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

Non-Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. PEIA's amount invested in the Non-Large Cap Domestic Equity Pool of $1,313,000 at June 30, 2009 and $1,559,000 at June 30, 2008, represents approximately 0.4% and 0.2% of total investments in this pool.

International Nonqualified Pool

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. West Virginia statue limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. The value of this investment was $101,246,000 and $57,888,000 at June 30, 2009 and 2008, respectively. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk through underlying investments. The specific currencies of the underlying investments were not available. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. PEIA's amount invested in the International Nonqualified Pool of $3,054,000 at June 30, 2009 and $2,305,000 at June 30, 2008, represents approximately 3.02% and 3.98% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risk. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. PEIA's amount invested in the International Equity Pool of $6,258,000 at June 30, 2009 and $5,795,000 at June 30, 2008, represents approximately 0.42% and 0.35% 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:

	2009		
Currency	**Equity Securities**	**Cash**	**Total**
Australian Dollar	$ 45,295,313	$ 187,926	$ 45,483,239
Brazil Cruzeiros Real	76,243,266	1,318,077	77,561,343
British Pound	175,318,942	1,551,666	176,870,608
Canadian Dollar	43,761,183	109,535	43,870,718
Czech Koruna	7,234,731	135	7,234,866
Danish Krone	10,935,831	33,982	10,969,813
Euro	266,768,796	6,226,567	272,995,363
Hong Kong Dollar	115,552,388	304,416	115,856,804
Hungarian Forint	11,566,434	781	11,567,215
Indonesian Rupiah	2,474,340	–	2,474,340
Israeli Shekel	13,692,033	81	13,692,114
Japanese Yen	214,493,385	2,000,670	216,494,055
Malaysian Ringitt	8,765,540	25,190	8,790,730
Mexican New Peso	20,204,832	54,161	20,258,993
New Taiwan Dollar	44,242,681	29,702	44,272,383
New Zealand Dollar	1,750,119	404,401	2,154,520
Norwegian Krone	9,140,372	127,263	9,267,635
Pakistani Rupee	1,371,114	–	1,371,114
Philippine Peso	4,738,490	–	4,738,490
Polish Zloty	4,768,257	39	4,768,296
Singapore Dollar	31,364,188	238,905	31,603,093
South African Rand	20,492,344	55,109	20,547,453
South Korean Won	75,285,153	527,742	75,812,895
Swedish Krona	19,034,030	75,507	19,109,537
Swiss Franc	58,766,408	928,122	59,694,530
Thailand Baht	–	2,202	2,202
Turkish Lira	30,584,716	42,029	30,626,745
Total	$ 1,313,844,886	$ 14,244,208	$ 1,328,089,094

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The fair value of the U.S. dollar denominated cash and securities is $181,239,129.

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, 2009.

			2009	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent**
Agency discount notes	P1	A-1	$ 88,452,922	33.3%
U.S. Treasury note	Aaa	AAA	92,585,804	34.9
Commercial paper	P1	A-1	12,999,680	4.9
U.S. Treasury bills	Aaa	AAA	43,996,249	16.6
Agency bonds	Aaa	AAA	27,496,451	10.3
Money market fund	Aaa	AAA	131	0.0
Total rated investments			$ 265,531,237	100.0%

This table includes securities received as collateral for repurchase agreements valued at $92,585,804 in 2009.

Custodial Credit Risk

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

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, 2009.

	2009	
Security Type	**Carrying Value**	**WAM (days)**
Repurchase agreements	$ 91,593,000	1
U.S. Treasury bills	43,996,249	23
Commercial paper	12,999,680	5
Agency discount notes	88,452,922	54
Agency bond	27,496,451	52
Money market fund	131	1
Total assets	$ 264,538,433	28

PEIA's amount invested in the Short-Term Fixed Income Pool at June 30, 2009 and 2008, was nominal.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Total Return Fixed Income Pool (Previously Named Fixed Income Pool)

Credit Risk

The WVIMB limits the exposure to credit risk in the Total Return Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the asset types in the fixed income pool as of June 30, 2009.

			2009	
Security Type	**Moody's**	**S&P**	**Fair Value**	**Percent of Assets**
Agency mortgage-backed securities	Aaa	AAA	$ 531,284,382	20.2%
Money market funds	Aaa	AAA	472,292,326	17.9
Corporate bonds and notes	Baa	BBB	466,052,257	17.7
Corporate collateralized mortgage obligations	Baa	AA	91,081,767	3.5
U.S. Treasury inflation protection bonds	Aaa	AAA	74,631,563	2.8
Agency notes	Aa	AA	3,866,877	0.1
U.S. Treasury bonds and notes	Aaa	AAA	1,678,244	0.1
Corporate preferred securities	C	C	965,455	0.0
Corporate asset-backed securities	Aa	AA	622,399	0.0
Agency collateralized mortgage obligations	Aaa	AAA	465,532	0.0
Total rated investments			$ 1,642,940,802	62.3%

Unrated securities include commingled investment pools valued at $987,106,348, swaps, options, and swaptions valued at $(10,205,602), future contracts valued at $6,356,507, foreign currency forward contracts valued at $(610,756), and cash of $16,705,447 pledged to brokers as collateral. These unrated securities represent 37.7% of the fair value of the pool's investments.

Custodial Credit Risk

At June 30, 2009, the Total Return Fixed Income Pool held no securities that were subject to custodial credit risk. Repurchase agreements, when held, 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 the WVIMB. All remaining securities are held by the WVIMB's custodian in the name of the WVIMB. Securities lending collateral is invested in the lending agent's money market fund.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating 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 Total Return Fixed Income Pool as of June 30, 2009.

Security Type	Fair Value	Modified Duration (Years)
Commingled investment pools	$ 987,105,348	2.5
Agency mortgage-backed securities	531,284,382	9.6
Money market fund	472,292,326	0.0
Corporate notes and bonds	466,052,257	5.7
Corporate collateralized mortgage obligations	91,081,767	5.1
U.S. Treasury inflation protection bonds	74,631,563	13.1
Agency bonds	3,866,877	2.8
U. S. Treasury notes and bonds	1,678,244	16.4
Corporate asset-backed securities	622,399	2.5
Agency collateralized mortgage obligations	465,532	1.0
Total assets	$ 2,629,080,695	5.4

The Total Return 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 Total Return Fixed Income Pool held $623,449,368 and $372,154,404 of these securities at June 30, 2009 and 2008, respectively, which represented approximately 24% and 13%, respectively, of the value of the Total Return Fixed Income Pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

PEIA's amount invested in the Total Return Fixed Income Pool of $53,033,000 and $62,803,000 at June 30, 2009 and 2008, respectively, represented approximately 2.0% and 2.3% of total investments in the pool.

Core Fixed Income Pool

Credit Risk

The WVIMB limits the exposure to credit risk in the Core Fixed Income Pool by maintaining at least an average rating of investment grade as defined by the Nationally Recognized Statistical Rating Organizations. The following table provides the weighted-average credit ratings of the rated assets in the Core Fixed Income Pool as of June 30, 2009.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Agency collateralized mortgage obligations	Aaa	AAA	$ 134,378,380	33.1%
Agency mortgage-backed securities	Aaa	AAA	117,952,526	29.1
U.S. Treasury bonds and notes	Aaa	AAA	69,633,643	17.2
Corporate bonds and notes	A	A	41,035,802	10.1
Corporate collateralized mortgage obligations	Baa	AA	25,367,921	6.3
Money market funds	Aaa	AAA	15,209,068	3.7
Corporate asset-backed securities	Aaa	AAA	2,191,003	0.5
Total rated investments			$ 405,768,343	100.0%

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The WVIMB monitors interest rate risk of the Core Fixed Income Pool by evaluating 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 Core Fixed Income Pool as of June 30, 2009.

Security Type	Fair Value	Modified Duration (Years)
Agency collateralized mortgage obligations	$ 134,378,380	3.4
Agency mortgage-backed securities	117,952,526	8.9
U.S. Treasury bonds and notes	69,633,643	6.4
Corporate bonds and notes	41,035,802	5.0
Corporate collateralized mortgage obligations	25,367,921	4.1
Money market funds	15,209,068	0.0
Corporate asset-backed securities	2,191,003	1.9
Total assets	$ 405,768,343	5.4

The Core Fixed Income Pool invests in commercial and residential mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. 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. At June 30, 2009, the Core Fixed Income Pool held $279,883,830 of these securities. This represents approximately 69% of the value of the pool's securities.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

4. Deposit and Investment Risk Disclosures (continued)

PEIA's amount invested in the Core Fixed Income Pool of $21,406.000 at June 30, 2009, represented approximately 5.28% of total investments in this pool. At June 30, 2008, PEIA had no investment in this pool.

Hedge Fund Pool

The Hedge Fund Pool holds shares in various commingled institutional funds and shares of a money market fund with the highest credit rating. The commingled institutional funds are not rated by any of the nationally recognized statistical rating agencies and thus any credit risk cannot be accurately reported. The pool is indirectly exposed to foreign currency risk as certain of the funds have investments denominated in foreign currencies. West Virginia statute limits the amount of international securities to no more than 30% of the total assets managed by the WVIMB. At June 30, 2009, approximately $456,938,000 or 41.00%, of the market value of the funds were held in foreign currencies. PEIA's amount invested in the Hedge Fund Pool of $22,683,000 at June 30, 2009, represented approximately 2.04% of total investments in this pool. PEIA had a nominal investment in this pool at June 30, 2008.

Fixed Income Nonqualified Pool

During the fiscal year the WVIMB liquidated the Fixed Income Nonqualified Pool. This pool held positions in institutional mutual funds with a combined value of $474,561,035 at June 30, 2008, that invested in mortgage-backed securities and corporate bonds. The mutual funds were unrated. The weighted-average modified duration of the underlying securities was 5.6 years. PEIA's amount invested in the Fixed Income Nonqualified Pool of $42,225,000 at June 30, 2008, represented approximately 8.9% of total investments in this pool. As of June 30, 2009, PEIA had no investment in the Fixed Income Nonqualified Pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

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

Optional life insurance premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. The premium stabilization fund is invested in the BTI Money Market Pool. See pages 21 and 23 for investment risk disclosures related to this pool. To the extent that these policyholder premiums are refunded to PEIA in the form of dividends and interest by the life insurance company, the funds are refunded to the related optional life policyholders by way of reductions in future premium increases. This account is utilized to track the accumulated balance due to optional life policyholders. Cash and cash equivalents include $7,738,658 as of June 30, 2009 and 2008, restricted to meet this obligation.

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

	2009	**2008**
Premium stabilization fund – beginning of the year	**$ 7,738,658**	$ 3,942,911
Life insurance dividends and interest refunds received	–	3,795,747
Premium stabilization fund – end of year	**$ 7,738,658**	$ 7,738,658

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 $2,655,890 and $4,503,244 were capitalized in 2009 and 2008, respectively, which is expected to result in an increase in depreciation/amortization expense of approximately $540,000 over the next five years.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

6. Capital Assets (continued)

Capital asset activity for the years ended June 30, 2009 and 2008 was as follows:

	June 30 2008	Additions	Disposals	June 30 2009
	(In Thousands)			
Intangible assets	$ 5,014	**$ 2,656**	**$ –**	**$ 7,670**
Equipment	1,114	**105**	**–**	**1,219**
Total capital assets	6,128	**2,761**	**–**	**8,889**
Accumulated depreciation	(974)	**(1,420)**	**–**	**(2,394)**
Total capital assets, net	$ 5,154	**$ 1,341**	**$ –**	**$ 6,495**

	June 30 2007	Additions	Disposals	June 30 2008
Intangible assets	$ 511	$ 4,503	$ –	$ 5,014
Equipment	663	451	–	1,114
Total capital assets	1,174	4,954	–	6,128
Accumulated depreciation	(606)	(368)	–	(974)
Total capital assets, net	$ 568	$ 4,586	$ –	$ 5,154

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

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:

	2009	2008	2007
		(In Thousands)	
Claims payable, beginning of year	**$ 51,277**	$ 52,999	$ 60,122
Incurred claims expenses:			
Provision for insured events of the current year	**400,289**	377,099	359,842
Decrease in provision for insured events of prior years	**(1,560)**	(1,030)	(330)
Total incurred claims expense	**398,729**	376,069	359,512
Payments:			
Claim payments attributable to insured events of:			
Current year	**354,773**	335,380	320,480
Prior years	**38,771**	42,411	46,155
Total payments	**393,544**	377,791	366,635
Claims payable, end of year	**$ 56,462**	$ 51,277	$ 52,999

The above payments are net of pharmacy rebates of $13,632,097, $11,842,611, and $13,771,022 for the years ended June 30, 2009, 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 5 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

June 30, 2009

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:

	2009	2008	2007
Employer contributions (10.5%)	**$ 163,469**	$ 167,079	$ 136,720
Employee contributions (4.5%)	**70,058**	71,605	58,594
Total contributions	**$ 233,527**	$ 238,684	$ 195,314

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, S.E., Charleston, West Virginia 25304-1636.

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, 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, SE, Suite 2, Charleston, West Virginia 25304-2345 or by calling 1-888-680-7342.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

9. Postemployment Benefits Other Than Pension Benefits (continued)

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 OPEBs (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.

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2009

9. Postemployment Benefits Other Than Pension Benefits (continued)

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 studies completed, the contractually required contribution rates were determined for the fiscal year ended June 30, 2009 and 2008. PEIA's contributions to the RHBT were $63,800 and $81,900 for fiscal years 2009 and 2008, respectively, which represent 48.5% and 49.4% of the contractually required contributions. The cumulative unpaid of $98,000 and $30,000 for fiscal year 2009 and 2008, respectively, is recorded in other accrued liabilities in the statements of net assets. The State on PEIA's behalf has paid $43,000 towards the annual required contribution for fiscal years 2008.

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.

Required Supplemental Schedule

West Virginia Public Employees Insurance Agency

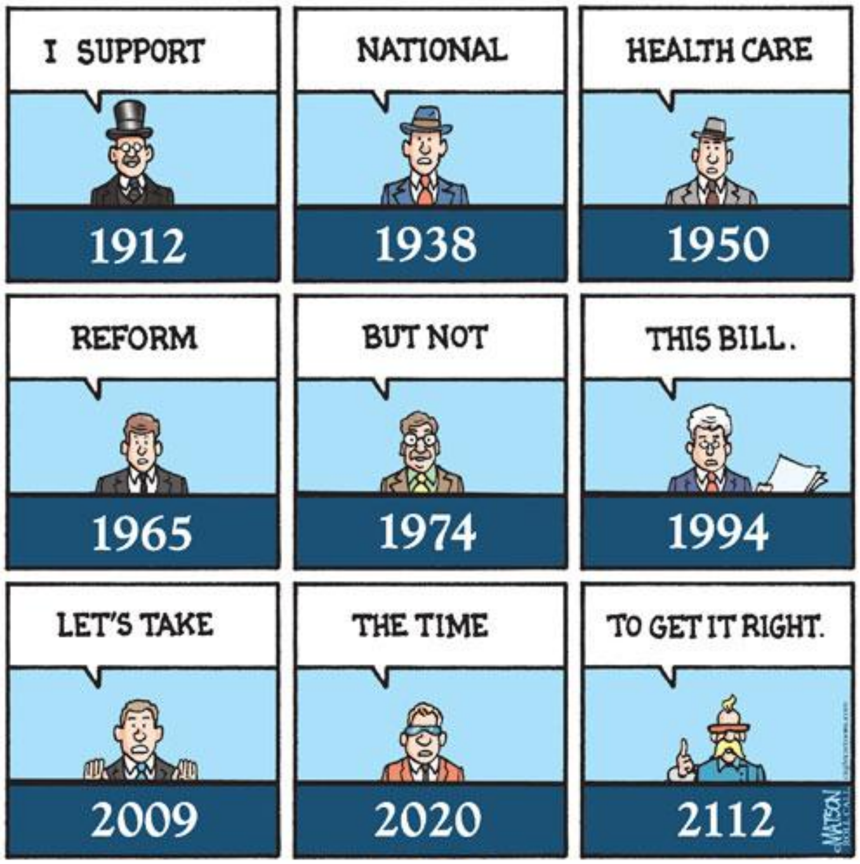
Ten-Year Claims Development Information (Unaudited)

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.

Statistical Section



This is a cartoon spoofing the number of times healthcare reform has been discussed, called to the nation's attention or actually attempted. It makes one reflect on the difficulties of achieving the objective. Healthcare is a very personal issue that creates spirited debate due to it being a core human need in survival.

Now couple this with the fact that it is a billion dollar industry in the United States, it is easy to see why healthcare reform has not succeeded in the past. An interesting point to go along with this cartoon was Segal's Annual Healthcare Trend Survey which commented the current healthcare reform bills being debated appeared to have no impact on projected trend results. This was not the case when healthcare reform was last attempted with the Clinton Administration, where trend projections decelerated dramatically. The country appears to have developed significant skepticism regarding healthcare reform and its success.[4]

[4] Segal Company

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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									
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Invested in capital assets, net of related debt	$6,495	$ 5,154	$ 568	$ 209	$ 155	$ 90	$ 115	$ 161	$ 221	$ 281
Unrestricted	102,737	98,151	173,507	190,659	168,428	139,655	76,057	42,078	57,550	49,447
Total	$109,232	$103,305	$174,075	$190,868	$168,583	$139,745	$76,172	$42,239	$57,771	$49,728

Note: The increase in "invested in capital assets, net of related debt" is due to the development of a new PEIA computer system.

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.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating Revenues:										
Premiums Less:	$464,263,863	$416,040,777	$466,232,421	$630,474,784	$580,985,961	$567,836,346	$494,803,110	$418,663,654	$396,494,659	$380,081,007
Payments to managed care organizations	(54,666,461)	(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)
Life reinsurance premiums	(5,520,045)	(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)
Net premium revenue	404,077,357	355,444,943	407,004,360	568,007,978	525,139,807	506,003,267	438,072,864	366,701,388	319,838,182	304,782,923
Administrative fees, net of refunds	4,693,824	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
Net operating revenues	408,771,181	355,444,943	411,454,377	574,066,927	531,151,218	512,038,660	442,839,774	371,357,776	324,451,020	308,735,307
Operating Expenses:										
Claims expense	371,015,676	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
Administrative service fees	14,810,235	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
Other operating expenses	10,107,845	6,764,371	7,435,296	10,318,185	7,462,489	8,264,151	6,750,109	5,614,074	5,283,378	5,247,246
Total operating expenses	395,933,756	438,955,244	379,671,378	545,429,525	506,785,296	450,014,021	410,506,930	395,789,831	332,974,024	268,335,170
Operating Income (loss)	12,837,425	(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
Nonoperating Revenues (Expenses):										
Investment income (loss), net of fees	(6,903,009)	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
Litigation settlement	-	-	3,085,000	-	-	-	-	-	-	-
Retiree drug subsidy	-	-	-	8,090,995	-	-	-	-	-	-
On behalf of contributions	-	43,412								
Supplemental Appropriations	(7,320)	-	6,700,000	4,887,369	-	-	-	5,800,000	10,000,000	1,000,000
Transfer out primary government	-	-	(80,487,422)	(27,679,595)						
Change in Net Assets	$5,927,096	$(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

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 net asset additions and deductions. Member and employer premium make up the majority of PEIA additions. 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.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Additions										
Member contributions	$101,571	$83,795	$78,491	$144,278	$138,544	$131,774	$107,457	$82,641	$41,344	$38,435
Employer contributions	367,386	336,733	392,191	495,171	451,043	444,534	393,943	342,165	360,558	346,229
Retiree drug subsidy	-	-	-	8,091	-	-	-	-	-	-
On behalf of contributions	-	43	-	-	-	-	-	-	-	-
Direct transfer	(7)	-	6,700	4,887	-	-	-	5,800	10,000	1,000
Investment income (loss) (net of expenses)	(6,903)	7,935	22,126	8,348	4,472	1,549	1,600	3,100	6,566	3,146
Total additions to plan net assets	462,047	$428,506	$499,508	$660,775	$594,059	$577,857	$503,000	$433,706	$418,468	$388,810
Deductions (See Schedule 2)										
Benefit payments	431,202	479,966	418,740	581,861	539,051	488,500	446,042	431,220	392,876	329,069
Administrative expenses	22,039	17,628	18,208	24,398	21,896	20,845	19,841	15,521	15,472	13,851
Retiree assistance program	-	-	-	2,914	2,591	2,436	1,830	1,487	794	631
Wellness expenses	2,879	1,957	1,951	1,638	1,683	2,502	1,354	1,010	1,283	713
Total deductions from plan net assets	456,120	$499,551	$438,899	$610,811	$565,221	$514,283	$469,067	$449,238	$410,425	$344,264
Litigation settlement	-	-	3,085	-	-	-	-	-	-	-
Transfer Out	-	-	80,487	$27,680	-	-	-	-	-	-
Change in net assets	$5,927	$(71,045)	$(16,793)	$22,284	$28,838	$63,574	$33,933	$(15,532)	$8,043	$44,546

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									
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
Type of Benefit										
Medical Claims	$280,156	$334,318	$263,995	$345,255	$327,242	$297,190	$271,009	$272,663	$234,047	$189,176
Prescription Drug Claims	90,860	85,052	95,517	174,139	155,964	129,477	118,303	106,595	82,173	64,595
Managed Care Capitations	54,666	55,127	53,052	56,019	49,442	55,471	50,336	46,818	71,609	70,757
Life Insurance Premiums	5,520	5,469	6,176	6,448	6,404	6,362	6,394	5,144	5,047	4,541
Total Benefits	$431,202	$479,966	$418,740	$581,861	$539,051	$488,500	$ 446,042	$431,220	$392,876	$329,069

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.

Average Monthly Premium	Fiscal Year 2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
State Policyholders										
PPB	$99	$100	$101	$108	$110	$106	$84	$58	$46	$44
Managed Care	$117	$114	$114	$129	$131	$123	$106	$84	$78	$67
State Employers										
PPB	$419	$433	$443	$556	$499	$499	$445	$393	$401	$377
Managed Care	$400	$415	$423	$537	$481	$476	$424	$381	$415	$358
Local Employers										
PPB	$537	$486	$482	$611	$593	$554	$486	$386	$368	$398
Managed Care	$477	$436	$464	$552	$525	$506	$428	$421	$505	$431
Retiree Policyholders										
PPB	-	-	-	$147	$136	$131	$113	$100	$98	$94
Managed Care	-	-	-	$442	$387	$359	$357	$459	$381	$218

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	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
County Schools	31,862	31,765	31,543	31,665	31,704	31,823	31,953	32,059	32,533	33,063
College and University	10,154	9,726	9,581	9,374	9,185	9,086	9,180	9,260	9,060	9,064
State Agencies	21,542	21,372	21,485	21,635	22,401	22,191	22,090	21,780	21,462	21,467
Local Governments	11,060	10,137	9,852	9,516	9,179	9,176	8,542	8,073	7,177	6,431
Retirees	-	-	-	29,297	28,331	27,401	26,207	25,817	25,561	24,917
Survivors	-	-	-	3,615	3,587	3,448	3,471	3,445	3,438	3,396
	74,618	73,000	72,461	105,102	104,387	103,125	101,443	100,434	99,231	98,338

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.

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Population										
West Virginia	1,814,468	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
Change	0.13%	-0.35%	0.24%	0.08%	0.12%	0.32%	0.17%	-0.33%	-0.24%	-0.21%
National	305,529,237	302,785,808	300,304,181	298,024,822	293,656,842	290,850,005	287,984,799	285,107,923	282,193,477	279,731,000
Change	0.91%	0.83%	0.76%	1.49%	0.97%	0.99%	1.01%	1.03%	0.88%	1.15%
Total Personal Income										
West Virginia (in millions)	$55,941	$53,181	$50,472	$47,565	$45,686	$43,841	$43,312	$41,902	$39,438	$37,472
Change	5.19%	5.37%	6.11%	4.11%	4.21%	1.22%	3.36%	6.25%	5.25%	2.00%
National (in millions)	$12,086,534	$11,634,322	$10,978,053	$10,252,973	$9,711,363	$9,150,320	$8,872,871	$8,716,992	$8,398,871	$7,779,521
Change	3.89%	5.98%	7.07%	5.58%	6.13%	3.13%	1.79%	3.79%	7.96%	4.87%
Per Capita Personal Income*										
West Virginia	$30,831	$29,349	$27,755	$26,220	$25,205	$24,217	$24,002	$23,260	$21,820	$20,682
Change	5.05%	5.74%	5.86%	4.02%	4.08%	0.90%	3.19%	6.60%	5.50%	2.21%
National	$39,559	$38,424	$36,556	$34,403	$33,070	$31,461	$30,810	$30,574	$29,763	$27,811
Change	2.95%	5.11%	6.26%	4.03%	5.12%	2.11%	0.77%	2.73%	7.02%	3.68%
Median Age	40.6	40.4	40.7	40.7	40.2	39.9	39.5	39.3	39.0	38.9
Educational Attainment										
9th Grade or Less	6.6%	7.0%	7.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	16.8%
Some High School, No Diploma	11.1%	11.8%	11.9%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	17.3%
High School Diploma	40.9%	41.1%	42.7%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	36.6%
Some College, No Degree	18.5%	16.7%	16.1%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	13.2%
Associate, Bachelor's or Graduate Degree	22.9%	23.4%	22.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	16.1%
Labor Force and Employment (people in thousands)										
Civilian Labor Force	806.0	813.0	810.0	798.0	788.0	790.0	796.0	801.0	809.0	813.0
Employed	772.0	778.0	773.0	759.0	747.0	742.0	749.0	759.0	765.0	762.0
Unemployed	34.0	35.0	37.0	39.0	41.0	47.0	47.0	42.0	44.0	51.0
Unemployment Rate	4.3%	4.3%	4.6%	4.9%	5.3%	6.0%	5.9%	5.2%	5.5%	6.3%
Nonfarm Wage and Salary Workers Employed in West Virginia										
Goods Producing Industries (people in thousands)										
Mining	30.7	27.5	28.1	25.9	23.8	22	23.1	23.5	21.4	22.3
Construction	38.4	38.7	39.2	36.8	34.6	32.7	33.4	34.9	34	33.8
Manufacturing-Durable Goods	35.2	37.2	38.4	38.8	39.2	39.7	42.2	44.5	46.6	46.7
Manufacturing-NonDurable Goods	21.1	21.8	22.6	23	23.8	24.9	26.5	27.7	29.2	30.2
Total Goods Producing Industries	125.4	125.2	128.3	124.5	121.4	119.3	125.2	130.6	131.2	133
Non-Goods Producing Industries (people in thousands)										
Trade	114.4	116.2	115.5	113.6	111.9	110.4	111.3	113.7	117.4	117
Service	374	369.5	367.8	364.9	360.5	355.5	353.7	350	344.1	335.1
State and Local Government	123.7	122.6	122.4	121.7	121.4	120.6	120.9	119.2	120.6	119.2
Federal Government	22.9	22.5	22.1	21.9	21.8	21.9	21.9	21.8	22.5	21.7
Total Non-Goods Producing Industries	635	630.8	627.8	622.1	615.6	608.4	607.8	604.7	604.6	593
Total Nonfarm Wage and Salary Employment	760.4	756	756.1	746.6	737	727.7	733	735.3	735.8	726

Various population, personal income, per capita personal income and labor force figures have been amended from last year's schedule. 2008 is the most recent year for which data is available.

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.

	2009			2000			
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Product or Service
State of West Virginia	21,542	1	28.87%	21,467	1	21.83%	State Government
West Virginia University	5,857	2	7.85	5,334	2	5.42	Higher Education
Kanawha Co Board of Education	3,161	3	4.23	3,234	3	3.29	K-12 Education
Berkeley Co Board Of Education	1,959	4	2.62	1,368	7	1.39	K-12 Education
Wood Co Board Of Education	1,524	5	2.04	1,425	6	1.45	K-12 Education
Marshall University	1,378	6	1.85	1,303	9	1.33	Higher Education
Cabell Co Board Of Education	1,333	7	1.79	1,438	4	1.46	K-12 Education
Raleigh Co Board Of Education	1,295	8	1.74	1,466	5	1.49	K-12 Education
Harrison Co Board Of Education	1,290	9	1.73	1,277	8	1.30	K-12 Education
Monongalia Co Bd Of Education	1,125	10	1.51	1,029	10	1.05	K-12 Education
All other [a]	34,154		45.77	58,997		59.99	
Total	74,618		100.00	98,338		100.00	

In 2009, "all other" consisted of:

Type	Number	Employees
Counties	43	2,687
Municipalities	92	2,165
School districts	48	20,175
Higher education	20	2,919
Political subdivisions & other	376	6,208
Total	579	34,154

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	2009 Total	Percent of Total	2000 Total	Percent of Total
State of West Virginia	$ 127,655,328	28%	$ 108,358,503	29%
West Virginia University	$ 37,961,949	8%	$ 28,277,865	7%
Kanawha County Board of Education	$ 20,738,435	4%	$ 16,528,664	4%
Berkeley County Board of Education	$ 11,787,937	3%	$ 6,721,164	2%
Wood County Board of Education	$ 9,903,095	2%	$ 7,216,654	2%
Marshall University	$ 9,493,140	2%	$ 6,770,662	2%
Cabell County Board of Education	$ 8,730,835	2%	$ 7,353,859	2%
Raleigh County Board of Education	$ 8,708,378	2%	$ 7,638,735	2%
Harrison County Board of Education	$ 8,793,355	2%	$ 6,777,685	2%
Monongalia County Board of Education	$ 7,469,670	2%	$ 5,325,640	1%
All other	$ 211,730,270	45%	$ 179,111,575	47%
Total	$ 462,972,392	100%	$ 380,081,006	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.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Eligibility	7	8	10	10	9	9	9	9	9	9
Customer Service	9	10	9	6	8	7	7	7	7	7
Finance	7	7	7	5	4	4	4	4	4	3
Premium Accounts	7	7	6	6	6	5	6	6	6	6
Health Benefits and Clinical Administration	5	7	6	10	9	8	6	0	0	0
Communications	7	3	2	3	3	2	2	3	3	2
Legal	3	1	2	3	3	3	3	2	2	2
Director's Office - Administration	1	2	4	5	4	4	5	5	5	5
Operations-Human Resources	2	4	3	3	3	3	3	3	3	3
Information Technology	4	-	3	3	3	3	3	2	2	2
Total	52	49	52	54	52	48	48	41	41	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.

	2009	2008
State Active Employees		
Preferred Provider Benefit	55,767	54,802
Managed Care	7,791	8,061
Local Active Employees		
Preferred Provider Benefit	10,405	9,474
Managed Care	655	663
Total	74,618	73,000

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 2009			Year End 2008		
	Medical Claims	Drug Claims	MCO Capitation	Medical Claims	Drug Claims	MCO Capitation
State Active Employees						
Preferred Provider Benefit	$ 397.00	$ 137.00	-	$ 375.00	$ 121.00	–
Managed Care	-	-	$ 548.00	–	–	$ 538.00
Local Active Employees						
Preferred Provider Benefit	$ 368.00	$ 118.00	-	$ 358.00	$ 104.00	-
Managed Care	-	-	$ 441.00	–	–	$ 438.00

Source: PEIA Actuarial Report