COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2010

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

PUBLIC EMPLOYEES INSURANCE AGENCY

This Page Was Left Blank Intentionally

State of West Virginia
Public Employees Insurance Agency

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

Earl Ray Tomblin, Governor

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2010

Earl Ray Tomblin, 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

This Page Was Left Blank Intentionally

State of West Virginia
Public Employees Insurance Agency

Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2010

Table of Contents

This Page Was Left Blank Intentionally

Introductory Section

A proven methodology in controlling healthcare costs and improving healthcare quality is evidence based practice. Intermountain Healthcare, through Dr. Brent James, has created a high quality healthcare system due to its use of evidence based practice. Intermountain utilizes healthcare data to determine the most effective protocols to treat various healthcare issues.

The system incorporates a committee of physicians, nurses and administrators for each medical condition or procedure for which they wish to develop treatment protocols. Intermountain has 23 hospitals and dozens of clinics. This system has created 50 protocols for treatment of various conditions. Physicians with good results are asked what they're doing and also receive monetary incentives. Physicians with poor results receive friendly advisement about what they may be doing wrong.

Some have stated that the program at Intermountain is possibly the answer to reforming healthcare. "It's the best model in the country of how you can actually change health care," states Dr. Jack Wennberg of Dartmouth.

Anthony Staines, a health scholar and hospital regulator in Switzerland who recently completed a study of some of the world's most-admired hospitals said that "Intermountain was really the only system where there was evidence of improvement in a majority of departments."

However, Dr. James is most proud of his imitators. More and more reputable healthcare systems are adopting his system of quality care based on evidence. Hopefully, for everyone's sake, this trend will continue and evidence based practice will become the norm.[1]

[1] David Leonhardt, "Making Health Care Better", The New York Times (November 3, 2009)

This Page Was Left Blank Intentionally

Earl Ray Tomblin
Governor

Ted Cheatham
Director

WV Toll-free: 1-888-680-7342 · Phone: 1-304-558-7850 · Fax: 1-304-558-2470 · Internet: www.wvpeia.com

December 21, 2010

The Honorable Earl Ray Tomblin, 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, 2010. 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 PEIA. 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, 2010 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 94% of total expenses with administrative expenses representing 6%. 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 2010 year-end PEIA reserve of $174 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2011 through 2015. 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 2010.

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.

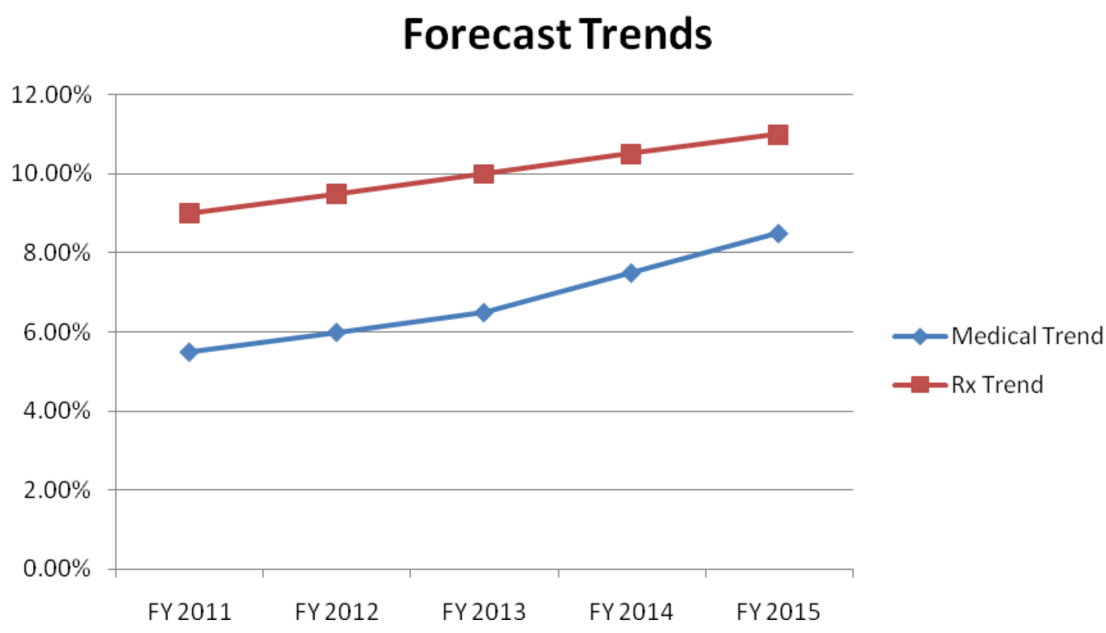
LONG-TERM FINANCIAL PLANNING

PEIA had a change in net assets for fiscal year 2010 of $ 64,372,148 resulting in an end of year net asset amount of $173,604,183. PEIA had increases in premium revenues and in claims expense. For further details regarding PEIA's financial condition, please see the MD&A portion of the financial section beginning on page 27 that incorporates a narrative introduction, overview and analysis of the financial statements.

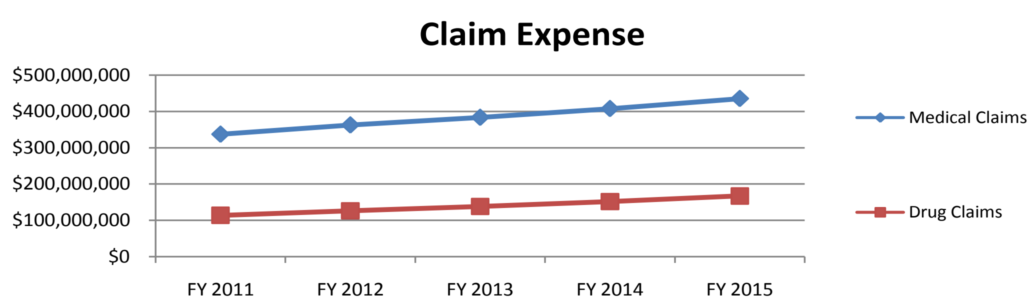
PEIA and its Finance Board continue to struggle with the rising costs of healthcare. Increasing healthcare costs continue in all aspects of healthcare. The current rate of healthcare inflation continues to trend approximately five times greater than the annual increase in average hourly earnings, which was 1.8% as of July 2010. The rate of healthcare cost inflation is also eight times greater than the consumer price index which was 1.2% as of July 2010. [2]

The chart below indicates the most recent medical and prescription drug trend assumptions for PEIA. This chart indicates that the plan anticipates increases in healthcare costs of over 40% in five fiscal years. The current financial plan forecast increases in healthcare costs as follows:

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

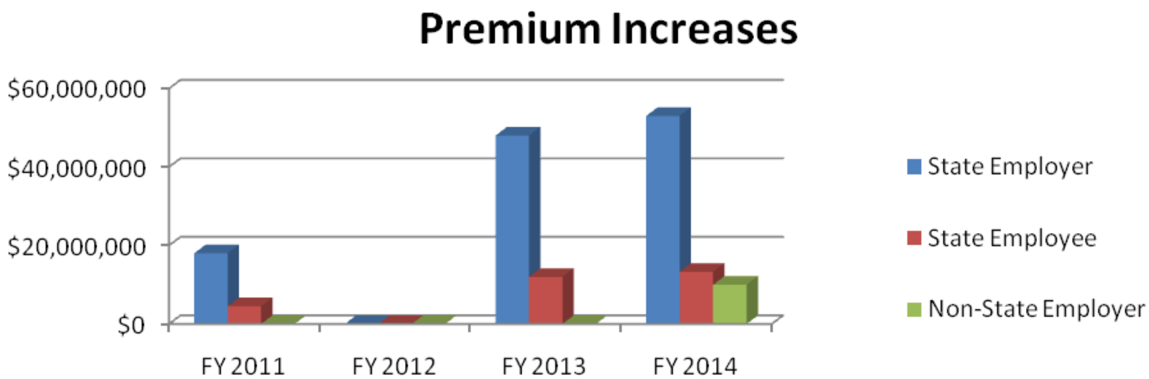


The 2011 Segal Health Plan Cost Trend Survey indicates the 2011 trend projection for preferred provider organizations with prescription drug benefits is 10.6%. This trend assumption includes the impact of the Patient Protection and Affordable Care Act (PPACA), or health care reform. In the survey, 78% of respondents indicate the PPACA would be an additional increase of 1.1%. For comparison purposes, PEIA's combined trend projection for fiscal year 2011 equals 7.7% with no impact due to the PPACA, as PEIA will not be implementing the PPACA requirements until plan year 2012. 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 2011 through 2015:



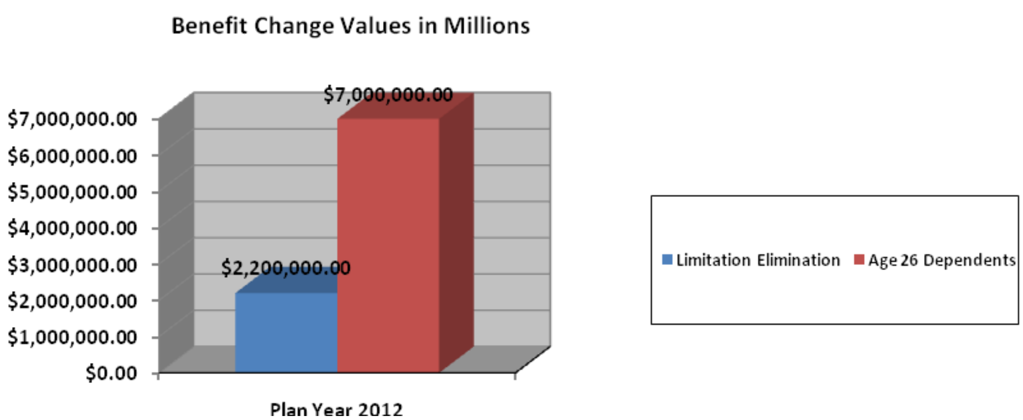
Based on the above trend assumptions, PEIA can expect to see an aggregate increase in medical and drug costs over the next five years of $114 and $59 million respectively.

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

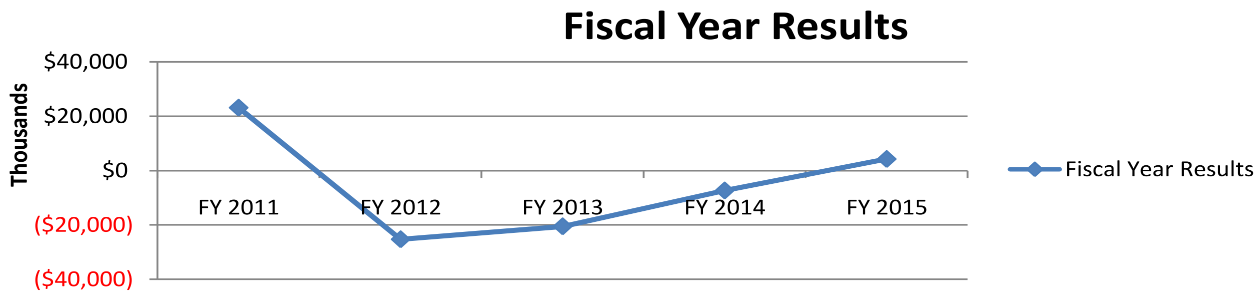


In aggregate, the Board has proposed $159 million in State employer premium increases, $21 million for non-State employers and $40 million for State employees. In addition to premium increases, the board is also proposing utilization of over $50 million in existing reserves to offset healthcare cost inflation. 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 has not included benefit plan changes in the current financial plan proposal. The Board's financial plan proposal does include the required adoption of an estimated $9 million of increased costs due to the PPACA. The changes include the elimination of lifetime limitations on plan benefits and coverage of dependent children up to age 26:



The above trend assumptions in claim expenses, benefit changes and scheduled premium increases based on the current financial plan result as follows:



The above charts and trend numbers continue to enforce the necessity of a more efficient healthcare system. Raising premiums and cutting benefits is a recurring theme that cannot continue as many in the country have reached their maximum contribution for healthcare. Although the PPACA is an indication our country is acknowledging the issue, it has yet to resolve the overall issue of providing efficient, affordable healthcare to the levels all wish to have.

It is also too early to determine the impact of all its policies. For instance, the higher rate of insured citizens should decrease the level of uncompensated care and increased healthcare provider (provider) revenue. Theoretically, the provider may be able to lower their average charges for healthcare services and make healthcare more affordable.

Regardless, plans such as PEIA cannot set idle to await these possible results. PEIA continues to explore various means of affecting the cost of healthcare in coordination with increasing the quality of care for our members. With continued revisions to its existing disease management, wellness and care management models, PEIA hopes to maintain this delicate balance.

Healthcare delivery can be a unique economic transaction. Many times it is the reverse, actually, of all other economic transactions. In a typical transaction, a buyer initiates the transaction when it determines it needs or wants a product or service and then makes the decision to purchase it from the supplier. A demand is created for the supply. In many healthcare transactions, the supplier initiates the transaction. So you have the supply creating the demand. A physician orders tests, office visits and procedures routinely for which a patient may have no desire or scientific evidence based need.

But who wants to be the one to say, "You know Doc, I don't want to do that… Let's wait for me to do some research and confirm your orders are the best for my health?" Based on this country's utilization rate of healthcare, not many! Providers aren't always to blame though as the patient can also create utilization by failing to understand or treat their condition appropriately and seek professional healthcare services when they are not required. Not surprisingly, one survey found that 49 % believe unnecessary care is a major problem, but only 16% think they have received unnecessary care.[3] It is apparent to me that much of us realize we shouldn't utilize so many healthcare services but we don't tend to practice this belief.

[3] Tim Foley, Who Receives Unnecessary Health Care? "Not Me!", Change.Org, Health (April 22, 2009)

What this discussion is driving at is necessary versus un-necessary healthcare utilization. How do we as patients know what is necessary care and what is unnecessary? We can't always know when our child's fever is due to the common cold, (which your physician can't prescribe anything to cure it, regardless what many may think), and when it is due to a condition that does require a professional medical treatment.

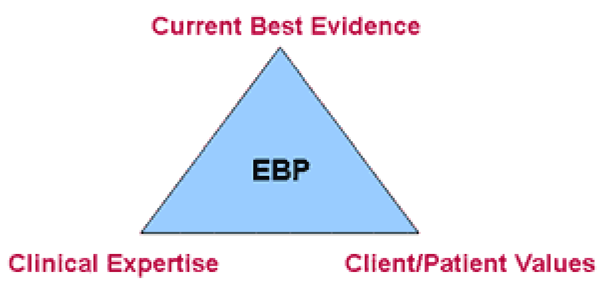
The means to curb unnecessary utilization remains one of the more formidable challenges of the US healthcare system. The most prevalent procedure in doing so is known as utilization management (UM) where certain procedures must receive prior authorization before the insurance benefits will "kick-in." This allows the payer to confirm that the process is medically appropriate before scarce resources are used to pay for the service. Providers argue this is one of the reasons the system doesn't work as efficiently as it should. Many providers argue the payers' UM processes are burdensome and reduces their time otherwise spent on practicing medicine. It is also speculated that once the providers know the requirements to receive approval, the procedure is rarely denied and the UM process loses effectiveness.

Another major factor adding to the rate of unnecessary care is known as defensive medicine. Many physicians practice defensive medicine due to threat of malpractice suits. Defensive medicine drives up utilization of healthcare services. By ordering a large number of procedures to assure proper diagnosis and treatment, a physician is less likely to be found liable for malpractice if the patient's outcome is unfavorable.

To put this issue in perspective, the table below offers some anecdotal data that indicates estimates of the amount of unnecessary health care utilized by the U.S.

Estimated Unnecessary Care Spend/Utilization Annually	Cause	Comments
$700 Billion or 30% of Total Healthcare	Ineffective Healthcare	This represented 5% of the nation's Gross Domestic Product.[4]
$650 Billion or 26% of Total Healthcare	Defensive Medicine	This is an estimate of the amount of money spent annually due to unnecessary tests being ordered to mitigate malpractice liability.[5]
$50 Billion	Deceptive Drug Marketing	Marketing costs represent an estimated 20% to 30% of the total drug cost[6]
$35 Billion	Unnecessary CT/MRI Screenings	The annual price tag for imaging runs about $100 billion. It is estimated that 35% of them are unnecessary.[7]
7.5 Million	Unnecessary Medical and Surgical Procedures	Coronary bypasses, hysterectomies and cesareans are some of the most common unnecessary surgeries that can cause greater health problems.[8]

A possible solution to the issue is developing nationally recognized standards of care based on three factors. This concept is also known as Evidence Based Medicine or Evidence Based Practice (EBP). The goal of EBP is the integration of: (a) clinical expertise, (b) best current evidence, and (c) client/patient perspectives to provide high-quality services reflecting the interests, values, needs, and choices of the patients. Conceptually, the trilateral principles forming the bases for EBP can be represented through a simple figure[9]:



[4] David B. Kendall, "Improving Health Care – By 'Spreading The Mayo' (The Mayo Clinic Model, That Is)", Progressive Policy Institute (January 15, 2009)
[5] Kristina Fiore, "Unnecessary Tests Drive Up Cost of Healthcare", Medpage Today, Health Policy (February 22, 2010)
[6] Merill Goozner, "Unnecessary, Illegal Marketing Drives Up Healthcare Costs", MedCity News (September 7, 2010)
[7] Dr. Jonathan LaPook, "Too Many Unnecessary MRIs and CT Scans?" (September 24, 2009)
[8] Alexis Black, "Unnecessary surgery exposed! Why 60% of all surgeries are medically unjustified and how surgeons exploit patients to generate profits." NaturalNews.com http://www.naturalnews.com/012291.html (October 7, 2005)
[9] "Evidence-Based Practice (EBP)", American Speech-Language-Hearing Association (ASHA) (http://www.asha.org/members/ebp/)

This issue is somewhat addressed by the PPACA. The PPACA includes the creation of the Patient Centered Outcome Research Institute (PCORI) that will compare the effectiveness of various medical treatments and prescription drugs. This 19 member panel was appointed in September 2010. But the PCORI was not given the ability to recommend practice guidelines or policy changes. It will simply disseminate the findings of its research. It will be up to payers to adjust benefit packages to promote the procedures found to be most effective by the research, and providers to choose to comply with the research.

This is where the PPACA falls short of resolving the issue and where EBP could be implemented. There already are a number of highly regarded standards of practice for various health issues. The problem is getting everyone to agree on one that will be the way healthcare is delivered and for how it will be paid.

Using the PCORI to develop the agreed upon EBP guidelines, the PPACA could later be revised to allow the PCORI to enforce these policies as the only services reimbursable by payers. If implemented properly, the EBP guidelines could remove the malpractice issue as physicians would be following nationally accepted guidelines. This could also allow a physician to quell overly concerned patients demanding additional procedures by providing documentation that proves it not worthwhile.

Does EBP work? One example of the impact of EBP is Intermountain Healthcare (Intermountain). This full service healthcare system based in Utah has demonstrated the effectiveness of EBP through improved patient outcomes, the true barometer of effectiveness.[10]

One of the earliest examples of EBP in practice at Intermountain involved the development of protocols for the treatment of acute respiratory distress syndrome, ARDS. The protocols were developed to study whether a new approach to ventilator care could help treat the condition. The protocol resulted in a 50 page binder and was left by the patients' beds. These initial protocols were later, as anticipated, found to be flawed, but since the protocols reduced the variation of what the doctors did, and all data was tracked when they varied from the protocol, the study was able to determine what treatment methods made a difference. The team met regularly and revised the protocols as outcomes were known so they developed the most effective treatment. The result of their study resulted in a survival rate of 40 percent. Which in comparison of an earlier study by Massachusetts General Hospital with a survival rate of 10 percent, appeared to result in an effective treatment.

Although these better outcomes were obviously a pleasant result, also significant was the researchers had managed to bring a group of physicians together and develop a complex set of clinical guidelines. Since the ARDS study, Intermountain has gone through the same exercise for 50 clinical conditions, accounting for over half of their patient cases.

The results of these programs have been impressive. Intermountain has reduced the number of pre-term deliveries and utilization of the neonatal intensive care unit. Adverse drug events such as overdoses and allergic reactions were reduced by 50 percent. A protocol for treating one broad category of pneumonia cut the mortality rate by 40 percent. The mortality rate for

[10] David Leonhardt, "Making Health Care Better", The New York Times (November 3, 2009)

coronary bypass surgery was reduced to 1.5 percent from the national average of 3 percent. Medicare data indicates Intermountain has a lower readmission rate for heart failure and pneumonia patients. It is estimated that the changes have saved thousands of lives a year across Intermountain's Network.

To further demonstrate the fallacy of the current system, Intermountain cut the number of premature babies that went on a ventilator by more than 75 percent. This achievement of higher quality care was rewarded in the current healthcare system by a reduction in reimbursement revenue of $329,000. Since many payers use a fee for service, Intermountain's efficient, high quality care resulted in less procedures billed which reduced their revenue.

This is a perfect example of how the medical transaction is in an inverse relationship to a typical economic transaction. These types of achievements should result in a higher payment, not less. There are forms of payment that do just that, but not all providers are quite ready for this shift in reimbursement philosophy. The system has developed a population of providers and patients that are devoted to the concept more medicine is better medicine and this will not change quickly.

However, the achievements of Intermountain with EBP and many other healthcare systems across the nation at such locations as Johns Hopkins and the Mayo Clinic must be the goal of our country's policy makers so we can reverse the current trend of bill and spend without the necessary regard to quality or outcomes. Considering the outcomes in reimbursement would be extremely beneficial to all.

PEIA is dedicated to investing it's time and resource to implementing reimbursement methodologies that will focus on quality, not quantity. PEIA currently reimburses all inpatient and outpatient facility services based on the diagnosis, not the number of services. It is PEIA's belief that the further implementation of EBP by the providers and reimbursement for quality will mitigate the rate of increases in healthcare cost inflation that are currently unsustainable long term and provide better healthcare to our citizens.

MAJOR INITIATIVES

PEIA is currently conducting a pilot program of reimbursing providers on a capitated basis. The project entails an agreement with a group of providers that have the ability to serve many patients for a vast array of healthcare needs. The providers have their own pharmacies, x-ray machines/imaging services, lab and a wide array of physicians with varying specialties.

All services are provided to our members with no limit in their utilization for a flat monthly fee. Regardless of the utilization rates, the same amount is paid. A patient could use the services every day or not at all and the capitated provider receives the same payment each month. The patients have a much lower out of pocket using these capitated providers so they are incented to seek care from them only.

The data for all of the patients at the capitated providers is then compared with the plan as a whole. If the patients at the capitated providers show a savings in costs in comparison to the plan, the plan shares the savings with the capitated providers. Beyond the fact that lower utilization by patients results in margin for the providers, the shared savings is further incentive for the providers to provide quality healthcare and reduce unnecessary utilization.

The goal here is that the providers will better manage the care of the patient and the patient will not require as much healthcare, nor the more intensive and expensive healthcare such as hospitalization. The first pilot data results are promising. There remain items for improvement, but as a pilot project, the program can continue to be tweaked as it moves forward.

The first data set represented 2,760 member months. The pilot group had 10 out of 13 measures with a positive outcome in comparison with the overall PEIA population. Also, on a risk adjusted per member per month cost, the pilot group was $16.95 cheaper. The estimated total savings was $46,782. As mentioned, fifty percent of this amount will be shared with the provider group.

PEIA is planning on expanding this pilot to more providers in the future that will encompass different provider types. In doing so, PEIA will be able to modify the policies and procedures during the pilot for the different provider types in a manner that will assure efficiencies if it is eventually moved into production plan wide.

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, 2009. 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 Earl Ray Tomblin, 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 Director, Ted Cheatham and PEIA Controller, Larry Stover, CPA. Respectfully, we submit the Comprehensive Annual Financial Report for the West Virginia Public Employees Insurance Agency for the year ended June 30, 2010.

Sincerely,

Jason A. Haught, CPA
Chief Financial Officer

Principal Officials

Earl Ray Tomblin, Governor
State of West Virginia

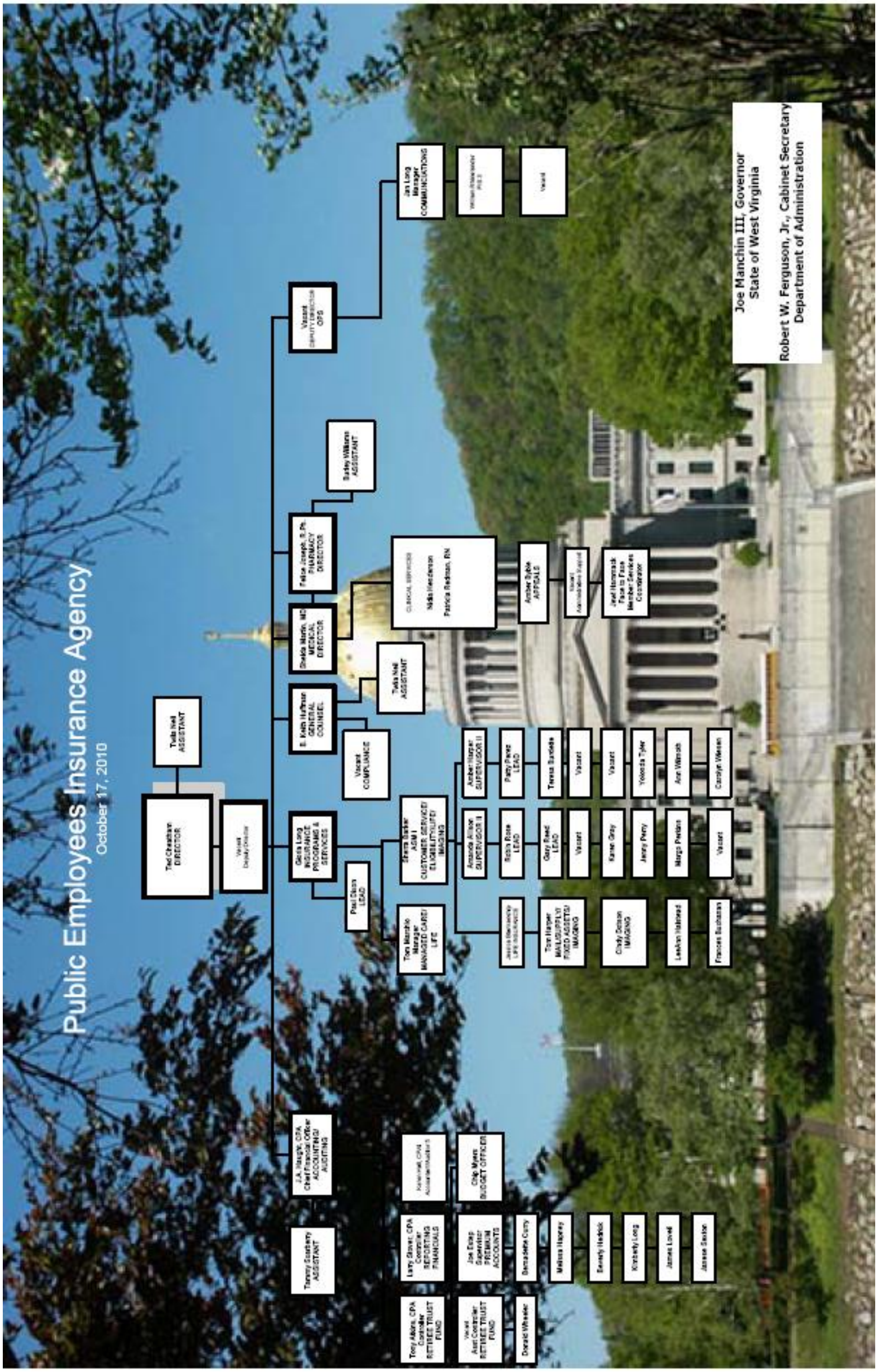
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Finance Board

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

Executive Staff

Ted Cheatham, Director


Public Employees Insurance Agency
October 17, 2010
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, 2009

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

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

Financial Section

Although evidence based practice may have its supporters, it also has its detractors. Many physicians still believe that practicing by intuition is more effective in treating their patients. A perfect example of this resistance is a list developed by a Johns Hopkins Physician, Dr. Peter J. Pronovost. This is a simple list of steps to perform that reduce the rate of infections when inserting catheters. The list has resulted in a significant reduction in infection rates.

Most notable was its use in 108 intensive care units in Michigan. It's reported that one-half of intensive care patients receive catheters; about 80,000 a year become infected and 28,000 die, with an economic cost of $2.3 billion.

Using the checklist, in 18 months, the intensive care units reduced their infection rate to zero, from 4 percent. The checklist saved more than 1,500 lives and nearly $200 million. The program itself cost only $500,000.

Amazingly, this simple list has yet to be adopted as standard protocol in our nation's hospitals. This anecdotal example of resistance to medical procedures with positive evidence to support their use is why evidence based practice has yet to be adopted by more hospitals. With the evidence of quality care coupled with lower costs, it appears that simple processes such as the list should be part of "health care reform".[11]

[11] Jane E. Brady, "A Basic Hospital To-Do List Saves Lives", The New York Times (January 22, 2008)

Ernst & Young LLP
900 United Center
500 Virginia Street East
Charleston, West Virginia 25301
Tel: +1 304 343 8971
Fax: +1 304 357 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, 2010 and 2009, 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 opinion.

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, 2010 and 2009, 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, 2010 and 2009, 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.

ERNST & YOUNG

Management's discussion and analysis on pages 27 through 32 and the supplemental schedule of Ten-Year Claims Development Information on page 65 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, 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

October 15, 2010

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year Ended June 30, 2010

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, 2010. 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 (continued)

FINANCIAL HIGHLIGHTS

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

	2010	2009	2008	Change 2010 – 2009 Amount	Change 2010 – 2009 Percent	Change 2009 – 2008 Amount	Change 2009 – 2008 Percent
Cash and cash equivalents	**$ 5,045,348**	$ 2,700,245	$ 15,425,536	**$ 2,345,103**	**86.8%**	$ (12,725,291)	(82.5)%
Equity position in internal investment pool	**53,584,267**	33,294,218	40,382,507	**20,290,049**	**60.9**	(7,088,289)	(17.6)
Premium receivable	**16,339,136**	26,466,755	14,355,794	**(10,127,619)**	**(38.3)**	12,110,961	84.4
Other current assets	**30,682,749**	6,682,408	13,730,357	**24,000,341**	**359.2**	(7,047,949)	(51.3)
Total current assets	**105,651,500**	69,143,626	83,894,194	**36,507,874**	**52.8**	(14,750,568)	(17.6)
Equity position in internal investment pools	**131,127,040**	115,072,492	122,360,685	**16,054,548**	**14.0**	(7,288,193)	(6.0)
Equity position in internal investment pool – restricted	**7,738,706**	7,738,658	7,738,658	**48**	**–**	–	–
Capital assets, net	**5,760,478**	6,495,407	5,153,924	**(734,929)**	**(11.3)**	1,341,483	26.0
Total assets	**250,277,724**	198,450,183	219,147,461	**51,827,541**	**26.1**	(20,697,278)	(9.4)
Claims payable	**64,455,468**	56,461,892	51,276,816	**7,993,576**	**14.2**	5,185,076	10.1
Other current liabilities	**4,479,415**	25,017,598	56,827,048	**(20,538,183)**	**(82.1)**	(31,809,450)	(56.0)
Total current liabilities	**68,934,883**	81,479,490	108,103,864	**(12,544,607)**	**(15.4)**	(26,624,374)	(24.6)
Noncurrent liabilities:							
Premium stabilization fund	**7,738,658**	7,738,658	7,738,658	**–**	**–**	–	–
Total liabilities	**76,673,541**	89,218,148	115,842,522	**(12,544,607)**	**(14.1)**	(26,624,374)	(23.0)
Net assets – invested in capital assets	**5,760,478**	6,495,407	5,153,924	**(734,929)**	**(11.3)**	1,341,483	26.0
Net assets – unrestricted	**167,843,705**	102,736,628	98,151,015	**65,107,077**	**63.4**	4,585,613	4.7
Total net assets	**$ 173,604,183**	$ 109,232,035	$ 103,304,939	**$ 64,372,148**	**58.9%**	$ 5,927,096	5.7%
Premium revenue	**$ 542,095,539**	$ 464,263,863	$ 416,040,777	**$ 77,831,676**	**16.8%**	$ 48,223,086	11.6%
Less: Payments to managed care organizations and life reinsurance premiums	**(60,911,524)**	(60,186,506)	(60,595,834)	**(725,018)**	**(1.2)**	409,328	0.7
Net premium revenue	**481,184,015**	404,077,357	355,444,943	**77,106,658**	**19.1**	48,632,414	13.7
Administrative fees, net	**4,742,682**	4,693,824	4,487,011	**48,858**	**1.0**	206,813	4.6
Total operating revenues	**485,926,697**	408,771,181	359,931,954	**77,155,516**	**18.9**	48,839,227	13.6
Claims expense, net	**412,334,128**	371,015,676	419,370,075	**41,318,452**	**11.1**	(48,354,399)	(11.5)
Administrative service fees	**15,971,306**	14,810,235	12,820,798	**1,161,071**	**7.8**	1,989,437	15.5
Other expenses	**9,372,861**	10,107,845	6,764,371	**(734,984)**	**(7.3)**	3,343,474	49.4
Total operating expenses	**437,678,295**	395,933,756	438,955,244	**41,744,539**	**10.5**	(43,021,488)	(9.8)
Operating income	**48,248,402**	12,837,425	(79,023,290)	**35,410,977**	**275.8**	91,860,715	116.2
Transfer out	**(262)**	(7,320)	–	**7,058**	**96.4**	(7,320)	(100.0)
Net investment income (loss)	**16,124,008**	(6,903,009)	7,978,307	**23,027,017**	**333.6**	(14,881,316)	(186.5)
Total nonoperating (loss) income	**16,123,746**	(6,910,329)	7,978,307	**23,034,075**	**333.3**	(14,888,636)	(186.6)
Change in net assets	**64,372,148**	5,927,096	(71,044,983)	**58,445,052**	**986.1**	76,972,079	108.3
Net assets, beginning of year	**109,232,035**	103,304,939	174,074,569	**5,927,096**	**5.7**	(70,769,630)	(40.7)
Change in accounting principle for other postemployment benefits	**–**	–	275,353	**–**	**–**	(275,353)	(100.0)
Net assets, end of year	**$ 173,604,183**	$ 109,232,035	$ 103,304,939	**$ 64,372,148**	**58.9%**	$ 5,927,096	5.7%

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

The current portion of equity position in internal investment pool and cash and cash equivalents increased $22.6 million as the result of $47.3 million produced from operations less $23.6 million advanced to the Retiree Health Benefit Trust (RHBT), and $1.1 million used for the purchase of capital assets.

In the previous year, the decrease of cash and cash equivalents and the current portion of equity position in internal investment pool of $19.8 million was the result of $26.1 million used in operations, $6.9 million used to cover investment losses, and $7.3 million was provided from liquidation of investments, $2.8 million was used to purchase capital assets, and $8.7 million was advanced to RHBT.

Premium receivable at June 30, 2010 was $10.1 million less than the prior year because of several large employers who held their premium last year-end that did not do so this year.

As of the previous year-end, premiums receivable were $12.1 million more than the prior year because several large employers did not remit their premium until after year-end.

Other current assets were up $24.0 million as of the end of this year because $22.1 million was advanced to RHBT, prescription receivable increased $1.1 million because the Pharmacy Benefit Manager has begun quarter remittance in the current year from monthly remittance, provider refunds receivable is up $.4 million and other increases of $.4 million.

At year-end 2009, other current assets were down $7.0 million due to a $7.2 million advance to RHBT having been collected, prescription rebates receivable were up $.5 million and provider refunds receivable were down $.3 million.

Claims payable increased $8.0 million due to increased enrollment and medical cost inflation. In fiscal year 2009, this liability increased $5.2 million due to the same reasons.

Other current liabilities decreased $20.5 million mainly resulting from the elimination of the $15.6 million deficiency reserve, repayments of $1.5 million to RHBT, and a $3.4 million reduction of accounts payable and other current liabilities.

In the previous year, other current liabilities decreased $31.8 million mainly resulting from a reduction of premium deficiency reserve 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 (continued)

In 2010, the increase in net assets resulted from an increase in premium of $77.8 million, primarily achieved through increased policy premium rates, recovery of market value of investments producing an improvement of $23.0 million, and a reduction of $.7 million of other operating expenses. These improvements were offset by increased claim costs of $41.3 million, increased administrative service fees of $1.2 million, and an increase of $.7 million in payments to managed care organizations.

The 2009 increase in net assets resulted primarily from an increase in premium revenue of $48.2 million over prior year and lower claim costs, less investment losses.

Net premiums increased $77.1 million mainly due to premium increases and reduction of paygo pass-through to RHBT, a further reduction of $.8 million in provision for uncollectible accounts offset by an increase of $.7 million in managed care and life insurance expenses.

In the prior year, net premiums increased $48.6 million as a result of a reduction in the pass-through of post-employment benefit funding to RHBT, a $6.8 million decrease in provision for uncollectible accounts, and changes in policyholder counts.

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 $15.6 million to write-off the premium deficiency reserve. Additionally, claims experience indicates a 5.7% increase in medical claims and a 13.6% increase in drug claims, net of premium deficiency. Fiscal year 2009 included a $27.7 million reduction to reduce the deficiency reserve and reflected a net 5.8% increase in medical claims and a 6.8% increase in drug claims.

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 7.8% due to expanded services written into new contracts, which became effective in 2010. Other expenses decreased 7.3% primarily due to $0.7 million decrease in wellness spending, $0.4 increase in depreciation and $0.3 reduction of professional fees and computer services. In the prior year, 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 $0.9 million increase in wellness spending, $1.1 million increase in depreciation relating to a new computer system.

During fiscal year 2010, PEIA recovered the prior-year investment loss, as markets recovered, and ended the year with $23.0 million above year 2009. For the previous year, a decrease of $14.9 million from the prior year was recognized.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Net assets increased $64.4 million in fiscal year 2010. The 2010 increase resulted primarily from a $45.8 million increase produced by rate increases, $18.0 million reduction in the pass-through of post-employment benefit funding to RHBT, reduction of claims expense of $15.6 million to adjust the year-end premium deficiency reserve, $29.7 million increase in claims incurred, and improved investment income. The financial plan for 2010 indicated a decrease in total net assets of $13.5 million. However, it did not include the $15.6 million reduction of expense related to the premium deficiency reserve. Total claim costs for the current year were $40.2 million less, investment income was $8.9 million above plan, premium revenues were $19.0 million more, managed care capitations were $10.2 million less than plan and other non-claim expenses were $0.4 million more than plan.

In the prior year, net assets increased $5.9 million. This increase resulted primarily from a reduction of claim expenses of $27.7 million to adjust the year-end premium deficiency reserve; lower than expected claim expenses were partially offset by investment losses. When the reduction of the premium deficiency is excluded, the year 2009 net asset change becomes negative $21.8 million. Premium rate increases totaling $6.0 million were adopted for year 2009. The financial plan for last year 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 claim costs were $18.4 million less, investment loss was $6.9 million more, and non-claim expenses were $0.8 million more than plan.

ECONOMIC CONDITIONS

After allowing for the contribution to help fund retiree health care costs, which is included in the active policyholder premium amount, PEIA's average active employee family monthly premium cost is $772.31 compared to the national average cost of $1,169.42. It should be noted that PEIA achieved an increase in plan assets of $48.8 million, excluding the effect of eliminating the prior-year premium deficiency reserve.

Actuaries have estimated that the new federal Patient Protection and Affordable Care Act will cost PEIA policyholders and employers between $30 million and $38 million per year beginning with fiscal year 2012. It has been reported, based on inescapable relevant science, that many high-ticket medical interventions, which account for the majority of the direct cost of health care, either do not advantage patients at all or do so minimally. New U.S. Department of Health and Human Services rules are expected to be completed in 2013, which aim to improve quality of care. The rules require the exchange of patient data in structured formats, the use of "evidence-based medicine," and the use of standards and best practices for treating patients. It is hoped that the new evidence-based medicine requirement will significantly reduce health care costs and provide better medical outcomes for all.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

In 2010, PEIA's claims costs rose 7.5%. State employee premium rates were increased 11.6%, state employer premium rates were increased 8.5%, and local employer premium rates were increased 15.1%. No pay increases were granted to the state employees. The 2010 premium increases have reduced disposable incomes of policyholders and stressed the operations of their employers.

Premium increases totaling $22.5 million were placed into effect for the year that began July 1, 2010.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During fiscal year 2008, PEIA adopted Governmental Accounting Standard 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 $1.0 million, $2.7 million and $4.5 million in fiscal years ended 2010, 2009 and 2008, respectively. These additions are expected to result in additional annual depreciation over the next five years of $210,000, $540,000 and $900,000, respectively (see Note 6).

PEIA has no long-term debt.

REQUEST FOR INFORMATION

This financial report is designed to provide PEIA's customers, governing officials, legislators, citizens, and taxpayers with a general overview of PEIA's accountability for the money it receives. If you have questions about this report or need additional information, contact the Chief Financial Officer at (304) 558-7850.

West Virginia Public Employees Insurance Agency

Statements of Net Assets

	June 30 2010	June 30 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 5,045,348	$ 2,700,245
Equity position in internal investment pool	53,584,267	33,294,218
Premiums receivable:		
Due from State of West Virginia	2,010,784	2,324,756
Other, less allowance for doubtful accounts of $4,025,000 and $4,971,000, respectively	14,328,352	24,141,999
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $635,000 and $452,000, respectively	828,917	469,046
Prescription rebates	7,091,216	5,960,234
Due from RHBT	22,105,569	–
Other	657,047	253,128
Total current assets	105,651,500	69,143,626
Noncurrent assets:		
Equity position in internal investment pools	131,127,040	115,072,492
Equity position in internal investment pool – restricted	7,738,706	7,738,658
Capital assets, net of accumulated depreciation of $4,199,981 and $2,393,849, respectively	5,760,478	6,495,407
Total noncurrent assets	144,626,224	129,306,557
Total assets	250,277,724	198,450,183
Liabilities		
Current liabilities:		
Claims payable	64,455,468	56,461,892
Premium deficiency reserve	–	15,588,245
Accounts payable	1,475,560	3,078,470
Unearned revenue	583,523	1,329,780
Other accrued liabilities	2,420,332	3,483,904
Due to RHBT	–	1,537,199
Total current liabilities	68,934,883	81,479,490
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	7,738,658	7,738,658
Total liabilities	76,673,541	89,218,148
Net assets		
Invested in capital assets	5,760,478	6,495,407
Unrestricted	167,843,705	102,736,628
Total net assets	$ 173,604,183	$ 109,232,035

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2010	**2009**
Operating revenues:		
Premiums net of provisions for bad debts of $(762,000) and $(1,291,000), respectively	**$ 542,095,539**	$ 464,263,863
Less:		
Payments to managed care organizations	**(55,278,092)**	(54,666,461)
Life insurance premiums ceded	**(5,633,432)**	(5,520,045)
Net premium revenue	**481,184,015**	404,077,357
Administrative fees, net of refunds	**4,742,682**	4,693,824
Total operating revenues	**485,926,697**	408,771,181
Operating expenses:		
Claims expense, net	**412,334,128**	371,015,676
Administrative service fees	**15,971,306**	14,810,235
Other expenses	**9,372,861**	10,107,845
Total operating expenses	**437,678,295**	395,933,756
Operating income	**48,248,402**	12,837,425
Nonoperating revenues (expenses):		
Investment income (loss), net of fees	**16,124,008**	(6,903,009)
Transfer out	**(262)**	(7,320)
Total nonoperating income (loss)	**16,123,746**	(6,910,329)
Change in net assets	**64,372,148**	5,927,096
Total net assets, beginning of year	**109,232,035**	103,304,939
Total net assets, end of year	**$ 173,604,183**	$ 109,232,035

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30 2010	2009
Operating activities		
Cash received from participants	$ 494,921,545	$ 396,466,817
Cash received from pharmacy rebates	12,607,269	13,632,097
Cash paid to employees	(1,497,116)	(1,564,977)
Cash paid to suppliers and others	(26,215,658)	(27,503,967)
Cash paid for claims	(432,536,066)	(407,176,268)
Net cash provided by (used in) operating activities	47,279,974	(26,146,298)
Non-capital financing activities		
Advances (to) from RHBT	(23,642,768)	8,716,092
Transfers	(262)	(7,320)
Net cash (used in) provided by noncapital financing activities	(23,643,030)	8,708,772
Capital and related financing activities		
Purchases of capital assets	(1,071,203)	(2,761,240)
Net cash used in capital and related financing activities	(1,071,203)	(2,761,240)
Investing activities		
Purchases of investments	(41,417,116)	(89,145,903)
Sale of investments	38,868,421	81,735,951
Investment earnings	2,618,154	7,795,138
Net cash provided by investing activities	69,459	385,186
Net increase (decrease) in cash and cash equivalents	22,635,200	(19,813,580)
Cash and cash equivalents at beginning of year	43,733,121	63,546,701
Cash and cash equivalents at end of year	$ 66,368,321	$ 43,733,121
Cash and cash equivalents consist of:		
Cash and cash equivalents	$ 5,045,348	$ 2,700,245
Equity position in internal investment pool – current	53,584,267	33,294,218
Equity position in internal investment pool – restricted	7,738,706	7,738,658
	$ 66,368,321	$ 43,733,121
Reconciliation of operating income to net cash used in operating activities		
Operating income	$ 48,248,402	$ 12,837,425
Adjustments		
Depreciation	1,806,134	1,419,757
Provision for uncollectible accounts	(762,000)	(1,291,000)
Decrease (increase) in operating assets:		
Premiums receivable	10,575,646	(9,650,508)
Due from State of West Virginia	313,972	(1,169,453)
Provider refunds receivable	(359,871)	322,968
Prescription refunds receivable	(1,130,982)	(423,004)
Other	(403,919)	(30,908)
Increase (decrease) in operating liabilities:		
Claims payable	7,993,576	5,185,076
Accounts payable	(1,602,910)	(4,682,065)
Premium deficiency	(15,588,245)	(27,713,571)
Unearned revenue	(746,257)	972,536
Other accrued liabilities	(1,063,572)	(1,923,551)
Total adjustments	(968,428)	(38,983,723)
Net cash used in operating activities	$ 47,279,974	$ (26,146,298)
Noncash activities		
Increase (decrease) in fair value of investments	$ 13,505,854	$ (14,698,145)

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

June 30, 2010

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 14,000 policyholders with life insurance only. PEIA insures approximately 177,000 individuals, including participants and dependents.

During the 2006 Regular Session of the West Virginia Legislature, House Bill 4654 was enacted creating the West Virginia Retiree Health Benefit Trust (RHBT) Fund for the purpose of providing for and administering retiree post-employment health care benefits, and the respective revenues and costs of those benefits as a cost-sharing multiple employer 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 post-employment 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, 2010 and 2009, 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 (GAAP).

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Reporting

PEIA operates as an enterprise fund. Accordingly, the financial statements of PEIA have been prepared on the accrual basis in conformity with GAAP 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.

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 costs are incorporated into subsequent financial plans and subsequent premiums are adjusted accordingly on a prospective basis. Premiums assessed by PEIA are not subject to retroactive adjustment based upon actual costs incurred.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the 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 that 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 BTI. Some investment pool funds are subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to PEIA based on the balance of PEIA's investments maintained in relation to the total investments of all state agencies participating in the pool. The equity position in internal investment pools is reported at fair value and changes in fair value are included in investment income.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

A 13-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, West Virginia 25301 or by calling 1-304-345-2672.

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 $1,806,132 and $1,419,757 for the years ended June 30, 2010 and 2009, respectively.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Claims Payable and Expense

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims incurred as of the 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). Year-end claims payable balances are generally liquidated within the next fiscal year. Claims relating to participants in managed care organizations (MCOs) as well as claims relating to participants covered under the optional life insurance plan are not considered in the liability, as PEIA has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits, as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, PEIA is responsible for such liability. Claims expense is reported net of pharmacy rebate income of $13,738,251 and $14,055,101 for the years ended June 30, 2010 and 2009, 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 as of June 30, 2009. No such reserve was required as of the end of fiscal year 2010. In making its determination, management took into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists. Adjustments to the estimated premium deficiency liability are reflected as a change in estimate in the year the actual results are known.

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 (continued)

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 2010 coverage month, PEIA provided health coverage to 121 state agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 547 local government entities with approximately 11,000 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.

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 10,000 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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 $13,707,677 and $13,417,453 during the fiscal years ended June 30, 2010 and 2009, 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 (continued)

2. Summary of Significant Accounting Policies (continued)

Compensated Absences, Including Postretirement Benefits

Employees fully vest in all earned but unused annual leave and PEIA accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with state personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer paid premiums for postretirement 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.
>
> *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 statements of net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

West Virginia Code Section 5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and provide future plan stability. As of June 30, 2010 and 2009, 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 2007 and 2006, 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 years ended June 30, 2010 or 2009.

3. Cash and Cash Equivalents

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

	2010	2009
Cash and cash equivalents on deposit with State Treasurer	**$ 3,744,497**	$ 1,399,113
Deposits with outside financial institutions	**1,300,851**	1,301,132
Cash and cash equivalents reported on statement of net assets	**5,045,348**	2,700,245
Equity position in internal investment pool with BTI – current-unrestricted	**53,584,267**	33,294,218
Equity position in internal investment pool with BTI – noncurrent-restricted	**7,738,706**	7,738,658
Total cash and cash equivalents	**$ 66,368,321**	$ 43,733,121

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

As of June 30, 2010 and 2009, the carrying amount of PEIA's bank deposits was $1,300,851 and $1,301,132, respectively, and the respective bank balances totaled $1,430,000 and $1,511,042, respectively. Of the total bank balance, $1,428,856 and $1,510,741, 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

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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

	June 30, 2010			
	Credit Rating		Carrying	Percent of
Security Type	Moody's	S&P	Value	Pool Assets
Commercial paper	P1	A-1	$ 855,844	29.75%
Corporate bonds and notes	Aa1	AA	10,000	0.35
	Aa2	AA	10,000	0.35
Total corporate bonds and notes			20,000	0.70
U.S. agency bonds	Aaa	AAA	246,990	8.59
U.S. Treasury notes*	Aaa	AAA	65,153	2.26
U.S. Treasury bills*	Aaa	AAA	476,670	16.57
Negotiable certificates of deposit	P1	A-1	281,000	9.77
U.S. agency discount notes	P1	A-1	606,048	21.07
Money market funds	Aaa	AAA	150,026	5.21
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AAA	101,280	3.52
U.S. agency notes	Aaa	AAA	73,700	2.56
Total repurchase agreements			174,980	6.08%
Total investments			$ 2,876,711	100.00%

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

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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All pools and accounts are subject to interest rate risk.

The overall weighted-average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the West Virginia Money Market Pool.

Security Type	Carrying Value *(In Thousands)*	WAM (Days)
Repurchase agreements	$ 174,980	1
U.S. Treasury notes	65,153	140
U.S. Treasury bills	476,670	35
Commercial paper	855,844	18
Negotiable certificates of deposit	281,000	45
U.S. agency discount notes	606,048	52
Corporate bonds and notes	20,000	19
U.S. agency bonds/notes	246,990	55
Money market funds	150,026	1
	$ 2,876,711	33

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

PEIA's investment in the BTI West Virginia Money Market Pool of $61,322,973 at June 30, 2010, represents approximately 2.1% of total investments in this pool.

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

PEIA 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 PEIA 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 5.54% per annum, net of fees.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB has adopted the following broad asset allocation guidelines for the assets managed for the PEIA 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.

Asset Class	Strategic Target 2010	Strategic Target 2009
Domestic equity	**7.5%**	7.5%
International equity	**7.5**	7.5
Total equity	**15.0%**	15.0%
Fixed income	**65.0%**	65.0%
Hedge fund	**20.0%**	20.0%

	Asset Value at June 30 2010	Asset Value at June 30 2009
	(In Thousands)	
Asset allocation (actual)		
Large cap domestic equity pool	**$ 7,297**	$ 7,324
Non-large cap domestic equity pool	**1,383**	1,313
International non-qualified pool	**3,282**	3,054
International equity pool	**6,204**	6,258
Short-term fixed income pool	**1**	1
Total return fixed income	**42,750**	53,033
Core fixed income	**44,179**	21,406
Hedge fund	**26,031**	22,683
Total	**$ 131,127**	$ 115,072

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Asset Class Risk Disclosures

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 $7,297,000 and $7,324,000 at June 30, 2010 and 2009, respectively, represents approximately 0.43% and 0.41%, respectively, of total investments in this pool.

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 $1,383,000 and $1,313,000 at June 30, 2010 and 2009, respectively, represents approximately 0.40% and 0.41%, respectively, of total investments in this pool.

International Non-qualified Pool

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. West Virginia statute 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 $53,797,000 and $101,246,000 at June 30, 2010 and 2009, 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 Non-qualified Pool of $3,282,000 and $3,054,000 at June 30, 2010 and 2009, respectively, represents approximately 6.10% and 3.02%, respectively, of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Equity Pool

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 $6,204,000 and $6,258,000 at June 30, 2010 and 2009, respectively, represents approximately 0.41% and 0.42%, respectively, 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 were as follows:

	2010		
Currency	**Equity Securities**	**Cash**	**Total**
		(In Thousands)	
Australian Dollar	$ 28,001	$ 8	$ 28,009
Brazil Cruzeiros Real	82,624	1,605	84,229
British Pound Sterling	141,897	435	142,332
Canadian Dollar	58,467	59	58,526
Czech Koruna	10,106	5	10,111
Danish Krone	7,115	6	7,121
Egyptian Pound	741	12	753
Euro Currency Unit	242,635	379	243,014
Hong Kong Dollar	137,405	848	138,253
Hungarian Forint	11,994	39	12,033
Indian Rupee	1,938	1	1,939
Indonesian Rupiah	4,049	24	4,073
Israeli Shekel	22,323	–	22,323
Japanese Yen	162,122	1,834	163,956
Malaysian Ringitt	10,960	206	11,166
Mexican New Peso	23,959	422	24,381
New Taiwan Dollar	51,582	2,875	54,457
New Turkish Lira	44,480	1	44,481
New Zealand Dollar	1,025	–	1,025
Norwegian Krone	11,570	33	11,603
Pakistani Rupee	923	–	923
Philippine Peso	6,158	15	6,173
Polish Zloty	7,912	5	7,917
Singapore Dollar	29,787	113	29,900
South African Rand	38,417	132	38,549
South Korean Won	103,072	1,207	104,279
Swedish Krona	18,257	45	18,302
Swiss Franc	41,481	417	41,898
Thailand Baht	8,775	180	8,955
Total	$ 1,309,775	$ 10,906	$ 1,320,681

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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 $185,968,000.

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, 2010.

			2010	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent**
			(In Thousands)	
Agency discount notes	P-1	A-1	$ 89,973	29.3%
U.S. Treasury note	Aaa	AAA	25,572	8.4
Commercial paper	P-1	A-1	38,997	12.7
U.S. Treasury bills	Aaa	AAA	126,984	41.4
Agency notes	Aaa	AAA	24,999	8.2
Money market fund	Aaa	AAA	1	0.0
Total rated investments			$ 306,526	100.0%

This table includes securities received as collateral for repurchase agreements with a fair value of $70,971,000 as compared to the amortized cost of the repurchase agreements of $69,861,000.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

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

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, 2010.

	2010	
Security Type	**Carrying Value**	**WAM (days)**
	(In Thousands)	
Repurchase agreements	$ 69,861	1
U.S. Treasury bills	81,586	32
Commercial paper	38,997	11
Agency discount notes	89,973	48
Agency notes	24,999	41
Money market fund	1	1
Total assets	$ 305,417	28

PEIA's amount invested in the Short-Term Fixed Income Pool at June 30, 2010 and 2009, was nominal.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Total Return 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, 2010.

Security Type	Moody's	S&P	2010 Fair Value *(In Thousands*	2010 Percent of Assets
Agency mortgage-backed securities	Aaa	AAA	$ 200,978	11.2%
Money market funds	Aaa	AAA	268,245	14.9
Corporate bonds and notes	Baa	BBB	572,512	31.8
Corporate collateralized mortgage obligations	Ba	BB	65,134	3.6
U.S. Treasury inflation protection bonds	Aaa	AAA	30,997	1.7
Agency notes	Aa	A	4,004	0.2
U.S. Treasury bonds and notes	Aaa	AAA	165,854	9.2
Corporate preferred securities	NR	NR	891	0.0
Corporate asset-backed securities	Aaa	AAA	13,213	0.7
Agency collateralized mortgage obligations	Aaa	AAA	7,258	0.4
Municipal Bonds	Aa	A	26,929	1.5
Total rated investments			$ 1,356,015	75.2%

Unrated securities include commingled investment pools valued at $441,720,000 and a contract purchased valued at $1,349,000. These unrated securities represent 24.8% of the fair value of the pool's investments.

Custodial Credit Risk

At June 30, 2010, 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 (continued)

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, 2010.

Security Type	Fair Value *(In Thousands)*	Modified Duration (Years)
Commingled investment pools	$ 441,720	0.5
Agency mortgage-backed securities	200,978	3.8
Money market fund	268,245	0.0
Corporate notes and bonds	572,512	6.3
Corporate collateralized mortgage obligations	65,134	4.8
U.S. Treasury inflation protection bonds	30,997	13.1
Agency notes	4,004	2.0
U. S. Treasury notes and bonds	165,854	3.9
Corporate asset-backed securities	13,213	17.5
Agency collateralized mortgage obligations	7,258	5.2
Municipal Bonds	26,929	17.7
Total assets	$ 1,796,844	4.1

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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 $286,583,000 and $623,449,368 of these securities at June 30, 2010 and 2009, respectively, which represented approximately 16% and 24%, respectively, of the value of the Total Return Fixed Income Pool.

PEIA's amount invested in the Total Return Fixed Income Pool of $42,750,000 and $53,033,000 at June 30, 2010 and 2009, respectively, represented approximately 2.38% and 2.00%, respectively, 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, 2010.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Security Type	Moody's	S&P	Fair Value *(In Thousands)*	Percent of Assets
Agency collateralized mortgage obligations	Aaa	AAA	$ 245,849	15.7%
Agency mortgage-backed securities	Aaa	AAA	138,487	8.9
U.S. Treasury bonds and notes	Aaa	AAA	334,152	21.4
Corporate bonds and notes	A	A	153,804	9.9
Corporate collateralized mortgage obligations	Aa	AAA	122,349	7.9
Money market funds	Aaa	AAA	53,413	3.4
Corporate asset-backed securities	Aaa	AAA	10,679	0.7
Agency notes	Aaa	AAA	13,494	0.9
Municipal bonds	Aa	A	273	0.0
Total rated investments			$ 1,072,500	68.8%

Unrated securities include a commingled investment pool valued at $488,243,000. The unrated securities represent 31.2% of the fair value of the pool's investments.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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, 2010.

Security Type	Fair Value	Modified Duration (Years)
	(In Thousands)	
Agency collateralized mortgage obligations	$ 245,849	3.7
Agency mortgage-backed securities	138,487	3.0
U.S. Treasury bonds and notes	334,152	5.8
Corporate bonds and notes	153,804	5.9
Corporate collateralized mortgage obligations	122,349	3.4
Money market funds	53,413	0.0
Corporate asset-backed securities	10,679	1.7
Commingled investment pools	488,243	4.3
Agency notes	13,494	6.0
Municipal bonds	273	12.0
Total assets	$ 1,560,743	4.4

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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, 2010, the Core Fixed Income Pool held $44,179,058 of these securities. This represents approximately 33.7% of the value of the pool's securities.

PEIA's amount invested in the Core Fixed Income Pool of $44,179,000 at June 30, 2010, represented approximately 2.83% of total investments in this pool. At June 30, 2009, PEIA had $21,406,000, which represented approximately 5.28% of total investments 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 risks 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, 2010, approximately $393,329,000 or 35.00%, of the market value of the funds were held in foreign currencies. PEIA's amount invested in the Hedge Fund Pool of $26,031,000 and $22,683,000 at June 30, 2010 and 2009, respectively, represented approximately 2.34% and 2.04%, respectively, of total investments in this pool.

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 to 24 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 $7,738,706 as of June 30, 2010 and 2009, restricted to meet this obligation.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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

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

	2010	2009
Premium stabilization fund – beginning of the year	**$ 7,738,658**	$ 7,738,658
Life insurance dividends and interest refunds received	**48**	–
Premium stabilization fund – end of year	**$ 7,738,706**	$ 7,738,658

6. Capital Assets

Capital asset activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30 2009	Additions	Disposals	June 30 2010
		(In Thousands)		
Intangible assets	$ 7,670	$ 1,060	$ –	**$ 8,730**
Equipment	1,219	11	–	**1,230**
Total capital assets	8,889	1,071	–	**9,960**
Intangible assets	(1590)	(1,699)	–	**(3,289)**
Equipment	(804)	(107)	–	**(911)**
Total accumulated depreciation	(2,394)	(1,806)	–	**(4,200)**
Total capital assets, net	$ 6,495	$ (735)	$ –	**$ 5,760**

	June 30 2008	Additions	Disposals	June 30 2009
Intangible assets	$ 5,014	$ 2,656	$ –	$ 7,670
Equipment	1,114	105	–	1,219
Total capital assets	6,128	2,761	–	8,889
Intangible assets	(282)	(1,307)	–	(1,590)
Equipment	(692)	(113)	–	(804)
Total accumulated depreciation	(974)	(1,420)	–	(2,394)
Total capital assets, net	$ 5,154	$ 1,341	$ –	$ 6,495

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

7. Unpaid Claims Liabilities

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

	2010	2009	2008
		(In Thousands)	
Claims payable, beginning of year	**$ 56,462**	$ 51,277	$ 52,999
Incurred claims expenses:			
Provision for insured events of the current year	**427,392**	400,289	377,099
Increase (decrease) in provision for insured events of prior years	**530**	(1,560)	(1,030)
Total incurred claims expense	**427,922**	398,729	376,069
Payments:			
Claim payments attributable to insured events of:			
Current year	**375,571**	354,773	335,380
Prior years	**44,358**	38,771	42,411
Total payments	**419,929**	393,544	377,791
Claims payable, end of year	**$ 64,455**	$ 56,462	$ 51,277

The above payments are net of pharmacy rebates of $12,607,269, $13,632,097, and $11,842,611 for the years ended June 30, 2010, 2009, and 2008, 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 that can be obtained by contacting PERS.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Employee Benefit Plans (continued)

Covered employees are required to contribute 4.5% of their salary to PERS. Effective July 1, 2009, the PEIA contribution rate was increased to 11.0%. PEIA was required to contribute 10.5% of covered employees' salaries to PERS through year-end 2009. 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:

	2010	2009	2008
Employer contributions	**$ 167,945**	$ 163,469	$ 167,079
Employee contributions	**68,705**	70,058	71,605
Total contributions	**$ 236,650**	$ 233,527	$ 238,684

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 post-employment 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 (continued)

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.

Legislation requires RHBT to determine through an actuarial study, the contractually required contribution (CRC) that 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, 2010, 2009, and 2008. PEIA's contributions to the RHBT were $55,596, $63,800, and $81,900 for fiscal years 2010, 2009, and 2008, respectively, which represent 16.0%, 48.5%, and 49.4%, respectively, of the contractually required contributions. The cumulative unpaid balances of $384,690, $98,000, and $30,000 for fiscal years 2010, 2009, and 2008, respectively, is recorded in other accrued liabilities in the statements of net assets. The State, on PEIA's behalf, paid $43,000 toward the annual required contribution for fiscal year 2008.

The West Virginia State 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 $227 to $812 per month for retiree only coverage, and from $457 to $1,937 per month for retiree and spouse coverage. Medicare covered retirees are charged premiums ranging from $46 to $349 per month for retiree only coverage, and from $249 to $1,176 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 first year in which the event that triggered coverage occurred (called accident year). (4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. (5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. (6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual accident years 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.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
						(In Thousands)				
1) Premiums, investment, and other revenues:										
Earned	$ 417,673	$ 432,220	$ 501,170	$ 575,420	$ 591,470	$ 657,858	$ 502,666	$ 433,959	$ 460,756	$ **562,962**
Ceded	76,656	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	**60,912**
Net earned	341,017	380,258	444,440	513,587	535,624	595,391	443,438	373,363	400,569	**502,050**
2) Unallocated expenses	16,754	16,531	21,195	23,347	23,579	26,036	20,321	25,038	23,627	**25,344**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	388,645	431,544	450,592	493,230	542,512	580,561	419,070	437,694	460,476	**488,304**
Ceded	76,656	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	**60,912**
Net incurred	311,989	379,582	393,862	431,397	486,666	518,094	359,842	377,098	400,289	**427,392**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	262,116	327,451	343,939	379,101	426,562	460,973	320,480	335,380	354,773	**375,571**
One year later	310,090	374,269	390,420	428,176	487,303	507,194	362,605	373,609	398,798	
Two years later	310,047	374,685	388,999	428,218	487,237	507,479	363,147	373,942		
Three years later	309,981	374,465	388,911	428,218	487,237	507,479	363,147			
Four years later	309,981	374,465	388,911	428,218	487,237	507,479				
Five years later	309,981	374,465	388,911	428,218	487,237					
Six years later	309,981	374,465	388,911	428,218						
Seven years later	309,981	374,465	388,911							
Eight years later	309,981	374,465								
Nine years later	309,981									
5) Reestimated ceded claims and expenses	76,656	51,962	56,730	61,833	55,846	62,467	59,228	60,596	60,187	–
6) Reestimated net incurred claims and allocated claims adjustment expense:										
End of accident year	311,989	379,582	393,862	431,397	486,666	518,094	359,842	377,099	400,289	**427,392**
One year later	319,539	375,350	389,662	428,567	487,656	517,884	358,832	374,948	401,109	
Two years later	319,306	375,050	389,162	428,687	487,536	517,854	359,112	374,778		
Three years later	319,076	374,920	389,352	428,687	487,556	518,154	359,002			
Four years later	319,076	374,920	389,352	428,687	487,556	518,144				
Five years later	319,076	374,920	389,352	428,687	487,556					
Six years later	319,076	374,920	389,352	428,687						
Seven years later	319,076	374,920	389,352							
Eight years later	319,076	374,920								
Nine years later	319,076									
7) Increase (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	7,087	(4,662)	(4,510)	(2,710)	890	50	(840)	(2,320)	820	–

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

One of the issues with our current healthcare system is the method of reimbursement for healthcare provider services. The method is known as fee-for-service. As the name implies, a fee is paid per billed service. Many critics of this system claim this form of reimbursement leads to unnecessary healthcare utilization, as there is no financial incentive for a physician to not order more procedures than may be necessary to diagnose or treat a condition.

One of a few provider groups that have changed this is the Mayo Clinic. The Mayo Clinic Model[12], as it is known, has removed its physicians from this reimbursement methodology. The model uses a simple but effective means to achieve this. Mayo's physicians are simply paid by salary. By paying them on a salary basis, the physicians have no financial incentive to order more procedures than absolutely necessary to treat their patients.

This model also focuses more on a teamwork approach to treating their patients. All patients receive a primary care physician to administer the overall care, but there is a team of physicians working on the patient. This teamwork approach is facilitated with an integrated data system for all physicians involved in the care. This approach reduces medical errors, costs, and improves the patient's experience and quality of care.[13]

[12] "Mayo Clinic Model of Care" (http://www.mayoclinic.org/tradition-heritage/model-care.html)
[13] Robert H. Frank, "Maybe a New Day for Doctors' Pay", The New York Times (November 7, 2009)

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									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Invested in capital assets, net of related debt	$5,760	$6,495	$ 5,154	$ 568	$ 209	$ 155	$ 90	$ 115	$ 161	$ 221
Unrestricted	167,844	102,737	98,151	173,507	190,659	168,428	139,655	76,057	42,078	57,550
Total	$173,604	$109,232	$103,305	$174,075	$190,868	$168,583	$139,745	$76,172	$42,239	$57,771

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.

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating Revenues:										
Premiums Less:	$542,095,539	$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
Payments to managed care organizations	(55,278,092)	(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)
Life reinsurance premiums	(5,633,432)	(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)
Net premium revenue	481,184,015	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
Administrative fees, net of refunds	4,742,682	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
Net operating revenues	485,926,697	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
Operating Expenses:										
Claims expense	412,334,128	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
Administrative service fees	15,971,306	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
Other operating expenses	9,372,861	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
Total operating expenses	437,678,295	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
Operating Income (loss)	48,248,402	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)
Nonoperating Revenues (Expenses):										
Investment income (loss), net of fees	16,124,008	(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
Litigation settlement	-	-	-	3,085,000	-	-	-	-	-	-
Retiree drug subsidy	-	-	-	-	8,090,995	-	-	-	-	-
On behalf of contributions	-	-	43,412	-	-	-	-	-	-	-
Supplemental Appropriations	-	-	-	6,700,000	4,887,369	-	-	-	5,800,000	10,000,000
Transfer out primary government	(262)	(7,320)	-	(80,487,422)	(27,679,595)	-	-	-	-	-
Change in Net Assets	$64,372,148	$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

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.

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Additions										
Member contributions	$91,524	$101,571	$83,795	$78,491	$144,278	$138,544	$131,774	$107,457	$82,641	$41,344
Employer contributions	455,314	367,386	336,733	392,191	495,171	451,043	444,534	393,943	342,165	360,558
Retiree drug subsidy	-	-	-	-	8,091	-	-	-	-	-
On behalf of contributions	-	-	43	-	-	-	-	-	-	-
Direct transfer	-	(7)	-	6,700	4,887	-	-	-	5,800	10,000
Investment income (loss) (net of expenses)	16,124	(6,903)	7,935	22,126	8,348	4,472	1,549	1,600	3,100	6,566
Total additions to plan net assets	562,962	462,047	$428,506	$499,508	$660,775	$594,059	$577,857	$503,000	$433,706	$418,468
Deductions (See Schedule 2)										
Benefit payments	473,246	431,202	479,966	418,740	581,861	539,051	488,500	446,042	431,220	392,876
Administrative expenses	23,171	22,039	17,628	18,208	24,398	21,896	20,845	19,841	15,521	15,472
Retiree assistance program	-	-	-	-	2,914	2,591	2,436	1,830	1,487	794
Wellness expenses	2,173	2,879	1,957	1,951	1,638	1,683	2,502	1,354	1,010	1,283
Total deductions from plan net assets	498,590	456,120	$499,551	$438,899	$610,811	$565,221	$514,283	$469,067	$449,238	$410,425
Litigation settlement	-	-	-	3,085	-	-	-	-	-	-
Transfer Out	-	-	-	80,487	$27,680	-	-	-	-	-
Change in net assets	$64,372	$5,927	$(71,045)	$(16,793)	$22,284	$28,838	$63,574	$33,933	$(15,532)	$8,043

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									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Type of Benefit										
Medical Claims	$309,155	$280,156	$334,318	$263,995	$345,255	$327,242	$297,190	$271,009	$272,663	$234,047
Prescription Drug Claims	103,180	90,860	85,052	95,517	174,139	155,964	129,477	118,303	106,595	82,173
Managed Care Capitations	55,278	54,666	55,127	53,052	56,019	49,442	55,471	50,336	46,818	71,609
Life Insurance Premiums	5,633	5,520	5,469	6,176	6,448	6,404	6,362	6,394	5,144	5,047
Total Benefits	$473,246	$431,202	$479,966	$418,740	$581,861	$539,051	$488,500	$ 446,042	$431,220	$392,876

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 2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
State Policyholders										
PPB	$121	$99	$100	$101	$108	$110	$106	$84	$58	$46
Managed Care	$129	$117	$114	$114	$129	$131	$123	$106	$84	$78
State Employers										
PPB	$475	$419	$433	$443	$556	$499	$499	$445	$393	$401
Managed Care	$461	$400	$415	$423	$537	$481	$476	$424	$381	$415
Local Employers										
PPB	$631	$537	$486	$482	$611	$593	$554	$486	$386	$368
Managed Care	$542	$477	$436	$464	$552	$525	$506	$428	$421	$505
Retiree Policyholders										
PPB	-	-	-	-	$147	$136	$131	$113	$100	$98
Managed Care	-	-	-	-	$442	$387	$359	$357	$459	$381

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	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
County Schools	32,113	31,862	31,765	31,543	31,665	31,704	31,823	31,953	32,059	32,533
College and University	10,424	10,154	9,726	9,581	9,374	9,185	9,086	9,180	9,260	9,060
State Agencies	21,658	21,542	21,372	21,485	21,635	22,401	22,191	22,090	21,780	21,462
Local Governments	11,403	11,060	10,137	9,852	9,516	9,179	9,176	8,542	8,073	7,177
Retirees	-	-	-	-	29,297	28,331	27,401	26,207	25,817	25,561
Survivors	-	-	-	-	3,615	3,587	3,448	3,471	3,445	3,438
	75,598	74,618	73,000	72,461	105,102	104,387	103,125	101,443	100,434	99,231

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 population ability to afford escalating healthcare cost.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Population										
West Virginia	1,819,777,	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
Change	0.27%	0.13%	-0.35%	0.24%	0.08%	0.12%	0.32%	0.17%	-0.33%	-0.24%
National	307,006,550	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
Change	0.86%	0.91%	0.83%	0.76%	1.49%	0.97%	0.99%	1.01%	1.03%	0.88%
Total Personal Income										
West Virginia (in millions)	$58,631	$55,941	$53,181	$50,472	$47,565	$45,686	$43,841	$43,312	$41,902	$39,438
Change	2.13%	5.19%	5.37%	6.11%	4.11%	4.21%	1.22%	3.36%	6.25%	5.25%
National (in millions)	$12,015,535	$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
Change	-1.72%	3.89%	5.98%	7.07%	5.58%	6.13%	3.13%	1.79%	3.79%	7.96%
Per Capita Personal Income*										
West Virginia	$32,219	$30,831	$29,349	$27,755	$26,220	$25,205	$24,217	$24,002	$23,260	$21,820
Change	1.85%	5.05%	5.74%	5.86%	4.02%	4.08%	0.90%	3.19%	6.60%	5.50%
National	$39,138	$39,559	$38,424	$36,556	$34,403	$33,070	$31,461	$30,810	$30,574	$29,763
Change	-2.56%	2.95%	5.11%	6.26%	4.03%	5.12%	2.11%	0.77%	2.73%	7.02%
Median Age	40.5	40.6	40.4	40.7	40.7	40.2	39.9	39.5	39.3	39.0
Educational Attainment										
9th Grade or Less	6.5%	6.6%	7.0%	7.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Some High School, No Diploma	10.7%	11.1%	11.8%	11.9%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%
High School Diploma	41.0%	40.9%	41.1%	42.7%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%
Some College, No Degree	18.5%	18.5%	16.7%	16.1%	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%
Associate, Bachelor's or Graduate Degree	23.2%	22.9%	23.4%	22.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%
Labor Force and Employment (people in thousands)										
Civilian Labor Force	797.9	806.0	813.0	810.0	798.0	788.0	790.0	796.0	801.0	809.0
Employed	734.6	772.0	778.0	773.0	759.0	747.0	742.0	749.0	759.0	765.0
Unemployed	63.4	34.0	35.0	37.0	39.0	41.0	47.0	47.0	42.0	44.0
Unemployment Rate	7.9%	4.3%	4.3%	4.6%	4.9%	5.3%	6.0%	5.9%	5.2%	5.5%
Nonfarm Wage and Salary Workers Employed in West Virginia										
Goods Producing Industries (people in thousands)										
Mining	29.6	30.7	27.5	28.1	25.9	23.8	22	23.1	23.5	21.4
Construction	34.1	38.4	38.7	39.2	36.8	34.6	32.7	33.4	34.9	34
Manufacturing-Durable Goods	30.9	35.2	37.2	38.4	38.8	39.2	39.7	42.2	44.5	46.6
Manufacturing-NonDurable Goods	19.8	21.1	21.8	22.6	23	23.8	24.9	26.5	27.7	29.2
Total Goods Producing Industries	114.4	125.4	125.2	128.3	124.5	121.4	119.3	125.2	130.6	131.2
Non-Goods Producing Industries (people in thousands)										
Trade	110	114.4	116.2	115.5	113.6	111.9	110.4	111.3	113.7	117.4
Service	369.9	374	369.5	367.8	364.9	360.5	355.5	353.7	350	344.1
State and Local Government	126.3	123.7	122.6	122.4	121.7	121.4	120.6	120.9	119.2	120.6
Federal Government	23.6	22.9	22.5	22.1	21.9	21.8	21.9	21.9	21.8	22.5
Total Non-Goods Producing Industries	629.8	635	630.8	627.8	622.1	615.6	608.4	607.8	604.7	604.6
Total Nonfarm Wage and Salary Employment	744.2	760.4	756	756.1	746.6	737	727.7	733	735.3	735.8

Various population, personal income, per capita personal income and labor force figures have been amended from last year's schedule. 2009 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.

	2010			2001			
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Product or Service
State of West Virginia	21,658	1	28.65%	21,366	1	21.53%	State Government
West Virginia University	5,937	2	7.85	5,355	2	5.40	Higher Education
Kanawha Co Board of Education	3,128	3	4.14	3,456	3	3.48	K-12 Education
Berkeley Co Board of Education	2,048	4	2.71	1,431	6	1.44	K-12 Education
Wood Co Board of Education	1,530	5	2.02	1,453	4	1.46	K-12 Education
Marshall University	1,409	6	1.86	1,284	8	1.29	Higher Education
Cabell Co Board of Education	1,337	7	1.77	1,425	7	1.44	K-12 Education
Harrison Co Board of Education	1,320	8	1.75	1,273	9	1.28	K-12 Education
Raleigh Co Board of Education	1,296	9	1.71	1,447	5	1.46	K-12 Education
Monongalia Co Bd of Education	1,145	10	1.52	1,065	10	1.07	Education
All other [a]	34,790		46.02	59,676		60.15	
Total	75,598		100.00	99,231		100.00	

In 2010, "all other" consisted of:

Type	Number	Employees
Counties	40	2,651
Municipalities	90	2,134
School districts	48	20,309
Higher education	21	3,078
Political subdivisions & other	374	6,618
Total	573	34,790

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	2010 Total	Percent of Total	2001 Total	Percent of Total
State of West Virginia	$ 137,146,244	25%	$ 113,797,223	29%
West Virginia University	$ 42,016,753	8%	$ 29,137,751	7%
Kanawha County Board of Education	$ 21,601,031	4%	$ 17,499,703	4%
Berkeley County Board of Education	$ 13,193,556	2%	$ 6,987,863	2%
Wood County Board of Education	$ 10,604,579	2%	$ 7,419,977	2%
Marshall University	$ 10,212,800	2%	$ 6,933,425	2%
Harrison County Board of Education	$ 9,497,025	2%	$ 6,769,125	2%
Raleigh County Board of Education	$ 9,435,039	2%	$ 7,913,500	2%
Cabell County Board of Education	$ 9,207,499	2%	$ 7,434,180	2%
Monongalia County Board of Education	$ 8,010,257	1%	$ 5,523,912	1%
All other	$ 271,170,756	50%	$ 187,078,000	47%
Total	$ 542,095,539	100%	$ 396,494,659	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.

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Eligibility	8	8	8	10	10	9	9	9	9	9
Customer Service	6	9	10	9	6	8	7	7	7	7
Finance	7	7	7	7	5	4	4	4	4	4
Premium Accounts	7	7	7	6	6	6	5	6	6	6
Health Benefits and Clinical Administration	6	5	7	6	10	9	8	6	0	0
Communications	2	7	3	2	3	3	2	2	3	3
Legal	1	3	1	2	3	3	3	3	2	2
Director’s Office - Administration	2	1	2	4	5	4	4	5	5	5
Operations	7	2	4	3	3	3	3	3	3	3
Information Technology	-	-	-	3	3	3	3	3	2	2
Total	46	49	49	52	54	52	48	48	41	41

Note: Until June 2002, nine (9) members of eligibility, customer service and premium accounts were contract employees of PEIA’s third party administrator. Information technology personnel transferred to state information technology department.

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.

	2010	2009
State Active Employees		
Preferred Provider Benefit	56,681	55,767
Managed Care	7,514	7,791
Local Active Employees		
Preferred Provider Benefit	10,692	10,405
Managed Care	711	655
Total	75,598	74,618

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 2010			Year End 2009		
	Medical Claims	Drug Claims	MCO Capitation	Medical Claims	Drug Claims	MCO Capitation
State Active Employees						
Preferred Provider Benefit	$400	$136		$ 397	$ 137	-
Managed Care	-	-	$573	-	-	$ 548
Local Active Employees						
Preferred Provider Benefit	$402	$119		$ 368	$ 118	-
Managed Care	-	-	$504	-	-	$ 441

Source: PEIA Actuarial Report