

West Virginia Retiree Health Benefit Trust Fund

Financial Statements

Years Ended June 30, 2015 and 2014

Table of Contents

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statements of Plan Net Position.....	12
Statements of Changes in Plan Net Position	13
Notes to Financial Statements	14
Required Supplementary Information:	
Schedule of Funding Progress	36
Schedule of Employer Contributions	37
Schedule of the Proportionate Share of the Net Pension Liability - PERS	38
Schedule of Contributions - PERS	39
Other Financial Information	
Form 7, Deposits Disclosure	40
Form 8, Investments Disclosure	41
Form 8-A, Deposits and Investments Disclosure	42
Form 9, Accounts Receivable	43
Form 10, Due (To) From Primary Government - Restated	44
Form 11, Component Unit – A/R Balances	48
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	49

Report of Independent Auditors

Finance Board and Management
West Virginia Retiree Health Benefit Trust Fund
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State of West Virginia, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the RHBT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the net position of the RHBT, a fiduciary fund of the State of West Virginia, as of June 30, 2015, and the changes in its net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

New Accounting Pronouncements

As discussed in Note 4 to the financial statements, during the year ended June 30, 2015, the RHBT adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made*



Subsequent to the Measurement Date. As a result of adopting these standards, the Board restated net position as of July 1, 2014, to record the net pension liability. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the RHBT as of and for the year ended June 30, 2014, were audited by other auditors whose report dated November 7, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the required supplementary information on pages 36 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the RHBT's basic financial statements as a whole. The accompanying schedules on pages 40 through 48 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of the RHBT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the RHBT's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charleston, West Virginia

October 29, 2015 except for Form 10, Due (To) From Primary Government, as to which the date is February 15, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis

This section of the West Virginia Retiree Health Benefit Trust Fund's (RHBT) annual financial report presents management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the financial statements, which follow this section.

Fund Overview

The RHBT is a fiduciary fund of the State of West Virginia (State), established July 1, 2006, as an irrevocable trust (Code section 5-16D-2). The RHBT revenues pay costs of the defined benefit, cost-sharing, multiple employer Other Postemployment Benefit (OPEB) Plan (the Plan). The Plan provides medical, prescription drug, and life insurance for retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code (Employers) and has approximately 41,000 policyholders and 61,000 covered lives.

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

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

Effective July 1, 2012, the RHBT contracted with Humana to provide a Medicare Advantage Plan (Humana MAPD) benefit to Medicare-eligible retired employees and their Medicare-eligible dependents. Under this arrangement, Humana assumes the financial risk of providing comprehensive medical and drug coverage with limited co-payments. Non-Medicare retirees will continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option.

Life insurance is provided through Minnesota Life Insurance Company and is fully funded by member contributions.

Major Developments

Senate Bill (SB) No. 469 was passed February 10, 2012 granting Other Employment Benefits Liability relief to the 55 County Boards of Education effective July 1, 2012. Section 18-9A-24 states "any amount of the employer annual required contribution allocated and billed to the county boards on or after July 1, 2012, and any amount of the employer annual required contribution allocated and billed to the county boards prior to that date for employees who are employed as professional employees within the limits authorized by section four of this article, employees who are employed as service personnel within the limits authorized by section five of this article, and employees who are employed as professional student support personnel within the limits authorized by section eight of this article, shall be charged to the state." In compliance with SB 469, for fiscal year 2012, the RHBT transferred \$715 million in annual required contribution liability from the County Boards of Education to the State.

With the passage of SB 469, effective July 1, 2012, amended by West Virginia Code §11-21-96, the State has identified a supplemental pre-funding source dedicating \$30 million annually to the RHBT Fund. These funds will be transferred from personal income tax that is currently collected for payment of the unfunded liability of the Workers' Compensation Fund to the RHBT. Transfers will not commence until the Workers' Compensation Fund has been certified by the Governor to the Legislature as paid or provided for in its entirety. Thereafter, transfers will be made until the RHBT's unfunded liability has been provided for in its entirety or July 1, 2037, whichever date is later. Presently, it is estimated that the aforementioned \$30 million transfers may commence in 2017. This pre-funding will be to the advantage of all West Virginia OPEB participating agencies and allow the Plan to accumulate assets.

Effective January 1, 2012, the Humana MAPD contract provided sharing of financial incentives with the RHBT based on favorable medical loss ratios. As defined in the contract medical loss ratios, fewer than 89.4% will be eligible for gain share incentives. During fiscal year 2015, the RHBT received financial incentives from Humana to

**West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis**

reduce capitation payment cost savings of \$1.3 million, which is down \$2.5 million from the savings recorded in 2014.

Overview of The Financial Statements

The two basic financial statements (described below) are presented on the accrual basis of accounting:

Statement of Plan Net Position – Presents information reflecting assets, liabilities, and plan net position. Plan net position represents the amount of total assets less total liabilities. The statement of plan net position is the government version of a for-profit balance sheet.

Statement of Changes in Plan Net Position – Presents contributions and deductions to the Plan during the fiscal year. The primary source of contributions is premium income. The primary sources of deductions are medical and prescription drug claims costs. The statement of changes in plan net position is the government version of a for-profit income statement.

Financial Highlights

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

Statements of Plan Net Position (\$000's)

	2015	2014	Change 2015 – 2014	
			Amount	Percent
Assets				
Cash and cash equivalents	\$ 72	\$ 423	\$ (351)	(83)%
Equity position in internal investment pools	711,463	694,137	17,326	2
Contributions receivable	2,798	1,940	858	44
Due from the State	206	316	(110)	(35)
Due from PEIA	3,785	1,055	2,730	259
Other receivables	4,889	5,519	(630)	(11)
Total assets	<u>723,213</u>	<u>703,390</u>	<u>19,823</u>	<u>3</u>
Deferred Outflows of Resources				
Deferred outflows of resources related to pension	<u>104</u>	<u>-</u>	<u>104</u>	<u>100%</u>
Liabilities				
Claims payable	12,330	10,200	2,130	21
Other liabilities	6,172	1,631	4,541	278
Total liabilities	<u>18,502</u>	<u>11,831</u>	<u>6,671</u>	<u>56</u>
Deferred Inflows of Resources				
Deferred inflows of resources related to pensions	<u>223</u>	<u>-</u>	<u>223</u>	<u>100%</u>
Net Position				
Net position restricted for OPEB	<u>\$ 704,592</u>	<u>\$ 691,559</u>	<u>\$ 13,033</u>	<u>2%</u>

**West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis**

Comparative year-to-year major variance explanations (2015 vs. 2014) for the statements of plan net position are as follows (dollars in thousands):

Equity position in internal investment pools (\$17,326 increase)

A \$17,326 increase is generated from operations and the availability of funds to invest with the Board of Treasury Investments (BTI) and the net effect of the change in fair value of investments with the West Virginia Investment Management Board (WVIMB).

Due from PEIA (\$2,730 increase)

A \$2,730 increase is the net change in the timing of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of the RHBT.

Deferred outflows of resources related to pension (\$104 increase)

A \$104 increase is due to the adoption of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in fiscal year 2015.

Claims payable (\$2,130 increase)

A \$2,130 increase is due to higher claims incurred but not paid at year end.

Other liabilities (\$4,541 increase)

A \$4,541 increase is due to the change in the timing of payments for services provided. In addition, in 2015 a net pension liability of \$210 was established due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Deferred inflows of resources related to pension (\$223 increase)

A \$223 increase is due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015.

Statements of Plan Net Position (\$000's)

	<u>2014</u>	<u>2013</u>	<u>Change 2014 – 2013</u>	
			<u>Amount</u>	<u>Percent</u>
Assets				
Cash and cash equivalents	\$ 423	\$ 362	\$ 61	17%
Equity position in internal investment pools	694,137	588,617	105,520	18
Contributions receivable	1,940	3,602	(1,662)	(46)
Due from the State	316	991	(675)	(68)
Due from PEIA	1,055	5,180	(4,125)	(80)
Other receivables	<u>5,519</u>	<u>3,444</u>	<u>2,075</u>	<u>60</u>
Total assets	703,390	602,196	101,194	17
Liabilities				
Claims payable	10,200	9,400	800	9
Other liabilities	<u>1,631</u>	<u>2,566</u>	<u>(935)</u>	<u>(36)</u>
Total liabilities	<u>11,831</u>	<u>11,966</u>	<u>(135)</u>	<u>(1)</u>
Net position restricted for OPEB	<u>\$ 691,559</u>	<u>\$ 590,230</u>	<u>\$ 101,329</u>	<u>17%</u>

**West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis**

Comparative year-to-year major variance explanations (2014 vs. 2013) for the statement of plan net position are as follows (dollars in thousands):

Equity position in internal investment pools (\$105,520 increase)

A \$105,520 increase is generated from operations and the availability of funds to invest.

Contributions receivable (\$1,662 decrease)

A \$1,662 decrease is attributable to increased collection efforts.

Due from PEIA (\$4,125 decrease)

A \$4,125 decrease is the change in the timing of payments to PEIA for allocated services and receipts from PEIA for monies collected on behalf of the RHBT.

Other receivables (\$2,075 increase)

A \$2,075 increase is the net result of gain share financial incentives from Humana and an increase of drug rebate collections.

Statements of Changes in Plan Net Position (\$000's)

	2015	2014	Change 2015 – 2014	
			Amount	Percent
Additions				
Employers	\$ 148,508	\$ 159,632	\$ (11,124)	(7)%
Plan members	83,024	83,424	(400)	-
Total contributions	231,532	243,056	(11,524)	(5)
Retiree drug subsidy	1,481	422	1,059	251
Interest and dividend income	3,046	2,691	355	13
Net appreciation in fair value of investments	20,096	85,786	(65,690)	(77)
Total additions	256,155	331,955	(75,800)	(23)
Deductions				
Payments to managed care organizations	136,797	129,963	6,834	5
Claims expense, net	100,736	95,994	4,742	5
Administrative service fees	1,954	1,713	241	14
Other expenses	3,225	2,956	269	9
Total deductions	242,712	230,626	12,086	5
Change in net position	13,443	101,329	(87,886)	(87)
Net position at beginning of year	691,559	590,230	101,329	17
Cumulative effect of adoption of accounting principle	(410)	-	(410)	-
Net position restricted for OPEB:				
Beginning of period, as restated	691,149	590,230	101,919	17
End of period	\$ 704,592	\$ 691,559	\$ 13,033	2%

**West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis**

Comparative year-to-year major variance explanations (2015 vs. 2014) for the statements of changes in plan net position are as follows (dollars in thousands):

Employer Contributions (\$11,124 decrease)

An \$11,124 decrease is primarily due to a decrease in the Pay-go monthly policyholder premium from \$176 in FY 2014 to \$164 in FY 2015.

Retiree drug subsidy (\$1,059 increase)

A \$1,059 increase is due to the change in the timing of payments received from Centers for Medicare Services (CMS) under the provisions of Medicare Part D.

Net appreciation in fair value of investments (\$65,690 decrease)

A \$65,690 decrease is due to investment depreciation from investments managed by WVIMB because of unfavorable market conditions.

Payments to managed care organizations (\$6,834 increase)

A \$6,834 increase is due to an increase in members, an increase in monthly capitation per member & a decrease in the gain share incentive received in FY 2015.

Claims expense, net (\$4,742 increase)

A \$4,742 increase primarily results from inflationary cost increases of 4% for health and 8% for prescription drug claims.

Statements of Changes in Plan Net Position (\$000's)

	2014	2013	Change 2014 – 2013	
			Amount	Percent
Additions				
Employers	\$ 159,632	\$ 161,088	\$ (1,456)	(1)%
Plan members	83,424	81,352	2,072	3
Total contributions	243,056	242,440	616	-
Retiree drug subsidy	422	1,000	(578)	(58)
ERRP revenue	-	3,901	(3,901)	(100)
Interest and dividend income	2,691	3,677	(986)	(27)
Net appreciation in fair value of investments	85,786	49,216	36,570	74
Total additions	331,955	300,234	31,721	11
Deductions				
Payments to managed care organizations	129,963	110,588	19,375	18
Claims expense, net	95,994	87,491	8,503	10
Administrative service fees	1,713	1,808	(95)	(5)
Other expenses	2,956	2,896	60	2
Total deductions	230,626	202,783	27,843	14
Change in net position	101,329	97,451	3,878	4
Net position restricted for OPEB:				
Beginning of period	590,230	492,779	97,451	20
End of period	\$ 691,559	\$ 590,230	\$ 101,329	17%

West Virginia Retiree Health Benefit Trust Fund Management's Discussion and Analysis

Comparative year-to-year major variance explanations (2014 vs. 2013) for the statements of changes in plan net position are as follows (dollars in thousands):

ERRP revenue (\$3,901 decrease)

A \$3,901 decrease is due to the receipt of Early Retiree Reinsurance Program revenues in fiscal year 2013 to reduce member premiums but not received in fiscal year 2014.

Net appreciation in fair value of investments (\$36,570 increase)

A \$36,570 increase is due to investment gains from investments managed by the WVIMB because of favorable market conditions.

Payments to managed care organizations (\$19,375 increase)

A \$19,375 increase is due to a larger monthly capitation to Humana for the Medicare retirees MAPD program and increased enrollment compared to FY 2013.

Claims expense, net (\$8,503 increase)

An \$8,503 increase results from inflationary cost increases of 10% for health and 9% for prescription drug claims.

Economic Conditions

Health care cost inflation continued to significantly exceed general economic inflationary costs. The primary factors contributing to rising health care costs are:

- Medical equipment technology
- New drug therapies
- Consumer-driven advertising for health care services
- Aging population – baby boomers reaching prime years of health care utilization

OPEB Liability

The projected actuarial accrued liability (AAL), at June 30, 2015, is \$3.6 billion, which is based on an actuarial valuation date of June 30, 2013. The \$3.6 billion AAL less \$675 million of actuarial value of assets results in a projected unfunded liability of \$2.9 billion at June 30, 2015. This is a substantial unfunded liability for the Employers. The State has demonstrated its intent to deal with the substantial unfunded liability by the passage of Senate Bill 129, which became effective July 1, 2007. This bill amended West Virginia Code (the Code) Section 5-16-25, indicating that the PEIA excess reserve funds shall be transferred to the RHBT. Funds totaling \$108.2 million were transferred to the Plan in fiscal year 2008 related to this provision in the Code. In fiscal year 2009, the State transferred \$91.0 million to pay for general funded employers' portion of the AAL. Senate Bill 469, effective July 1, 2012, amended Code section 11-21-96 by dedicating \$30 million to be transferred annually from personal income tax previously collected for payment of the unfunded liability of the Workers' Compensation fund to the RHBT. Transfers will not commence until the Workers' Compensation fund has been certified by the governor to the legislature to be paid or provided for in its entirety. Thereafter, transfers will be made until the RHBT fund has been provided for in its entirety or July 1, 2037, whichever date is later. Presently, the RHBT estimates that the aforementioned \$30 million transfers may commence in 2017. All Employers will receive benefit of these contributions. The West Virginia PEIA and the RHBT Finance Board has also demonstrated its intent to address the OPEB liability by their ruling to no longer provide subsidized health care insurance for retirees with a hire date after July 1, 2010. The most significant change occurred in December 2011, when the PEIA Finance Board passed a finance plan that placed a 3% cap on the amount participating employers will now pay in retiree premium subsidy annual increases. By doing this, the Employer is no longer exposed to ever-increasing trends in health care costs, significantly reducing future retiree premium subsidy costs.

West Virginia Retiree Health Benefit Trust Fund Management's Discussion and Analysis

Pension Liability

Effective July 1, 2014, the RHBT adopted the provisions of GASB Statement No.68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No.27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. Statement 68 requires the RHBT to recognize a liability equal to its proportionate share of the net pension liability of the State's Public Employees' Retirement System (PERS). The RHBT determined that it was not practical to restate all periods presented and has recorded a cumulative effect adjustment of \$410 as of July 1, 2014, to decrease the 2015 beginning net position. The \$410 cumulative effect adjustment as of July 1, 2014, is comprised of the net pension liability of \$520 less deferred outflows of resources related to pension plan contributions of \$110 as of that date. Decisions regarding the allocations are made by the administrators of the pension plan, not by the RHBT management. Further, as a result of the adoption, the Statement of Plan Net Position as of June 30, 2015, reflect a net pension liability of \$210, and related deferred outflows of resources of \$104 and deferred inflows of resources of \$223 related to pension.

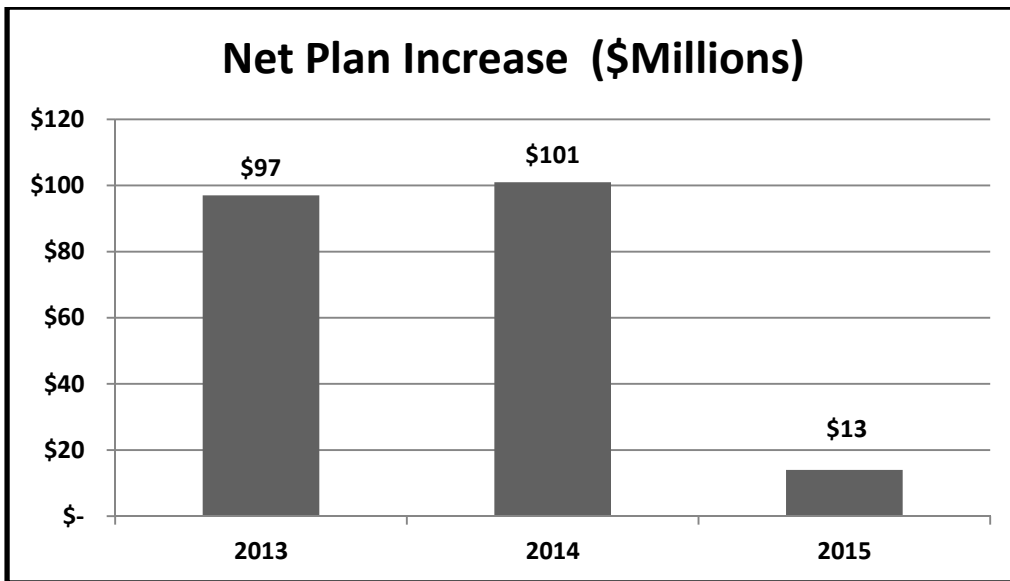
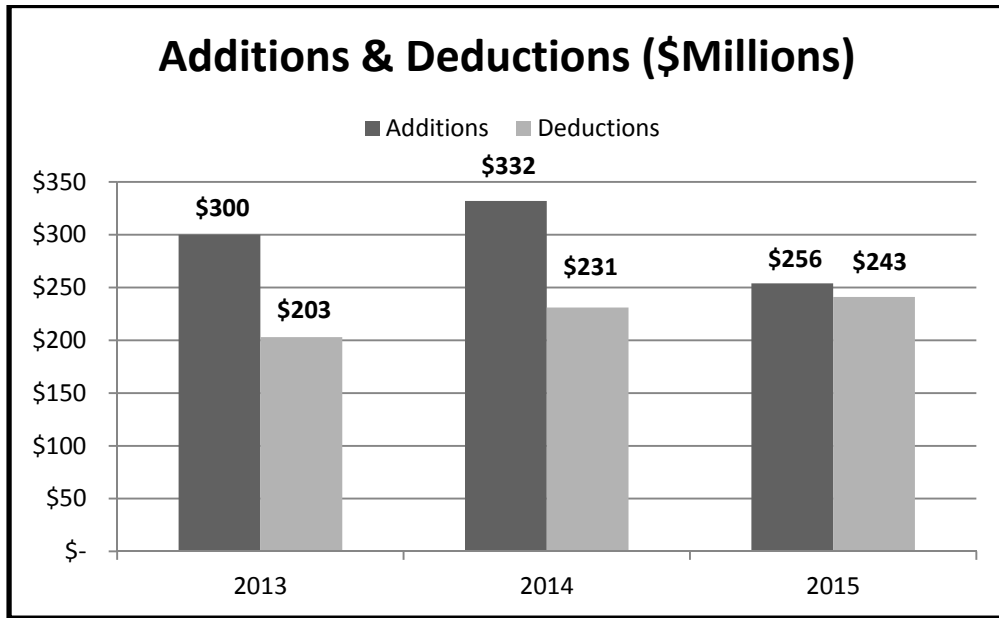
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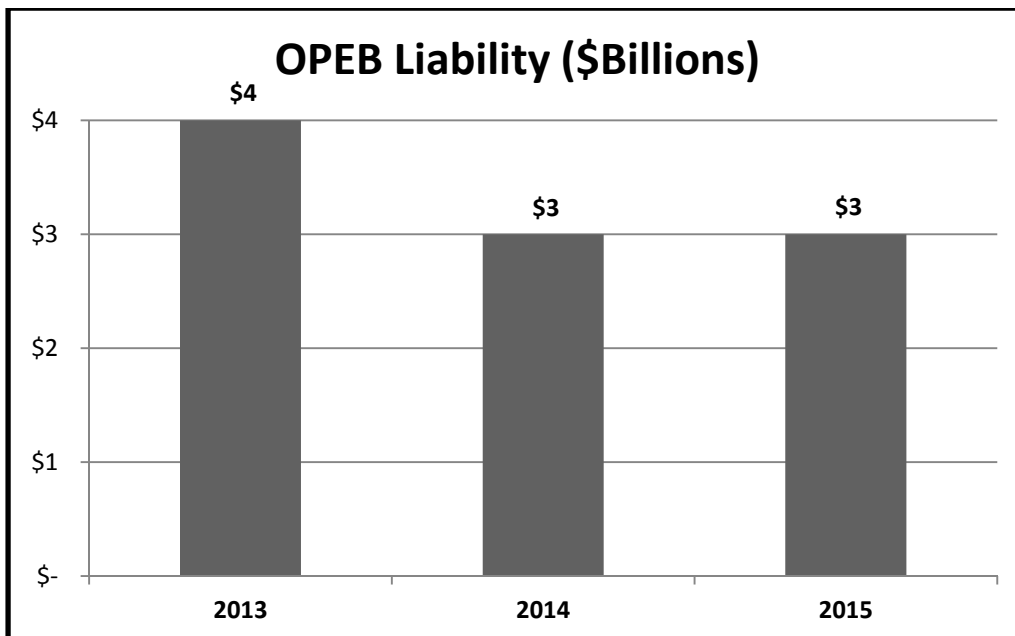
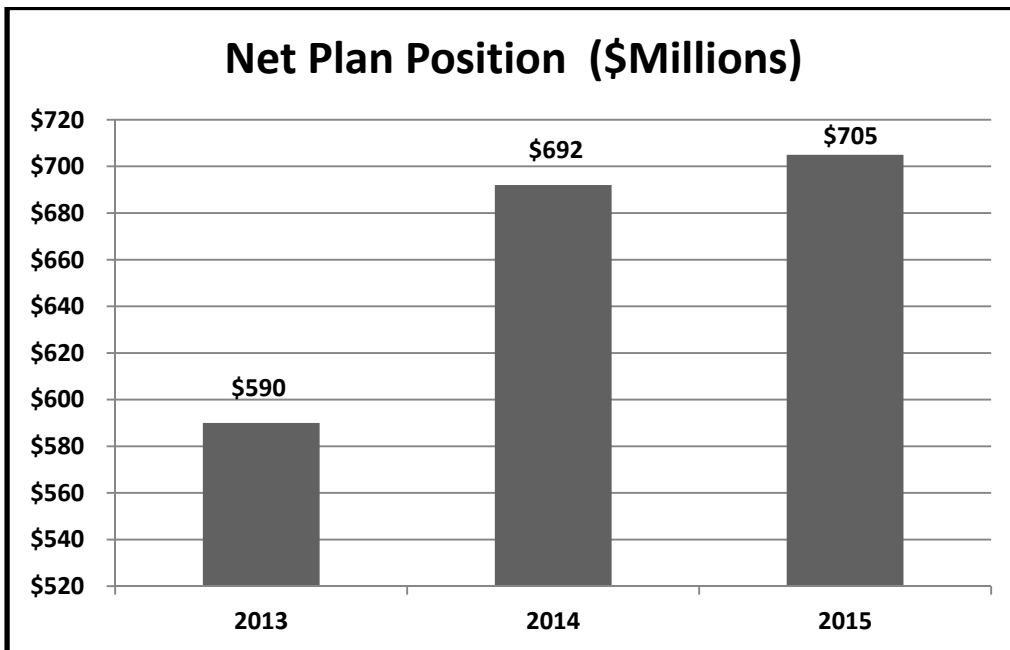
On July 1, 2014, the RHBT, as well as all other state government agencies transitioned to a new statewide accounting system. The WV Our Advanced Solution with Integrated System (wvOASIS) is an ERP system offering full double entry accounting capabilities. The wvOASIS replaces the WV Financial Information Management System (WVFIMS), which served as the state's accounting system from October 1, 1993 through June 30, 2014. The fiscal year 2015 financial statements are the first statements prepared since the transition of accounting systems.

Requests for Information

This financial report is designed to provide the RHBT's participants, governing officials, legislators, citizens, and taxpayers with a general overview of the RHBT's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Chief Financial Officer, Jason Haught, at (304) 558-7850, ext. 52642.

**West Virginia Retiree Health Benefit Trust Fund
Management's Discussion and Analysis**





Financial Statements

West Virginia Retiree Health Benefit Trust Fund
Statements of Plan Net Position
June 30
(In Thousands)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 72	\$ 423
Equity position in internal investment pools	711,463	694,137
Contributions receivable – net of allowance for doubtful accounts of \$372 and \$288, respectively	2,798	1,940
Due from the State	206	316
Due from PEIA	3,785	1,055
Other receivables	4,889	5,519
Total assets	<u>723,213</u>	<u>703,390</u>
Deferred outflows of resources related to pension	104	-
Total deferred outflows of resources	<u>104</u>	<u>-</u>
LIABILITIES		
Claims payable	12,330	10,200
Other liabilities	6,172	1,631
Total liabilities	<u>18,502</u>	<u>11,831</u>
Deferred inflows of resources related to pension	223	-
Total deferred inflows of resources	<u>223</u>	<u>-</u>
Net position restricted for other postemployment benefits	<u>\$ 704,592</u>	<u>\$ 691,559</u>

West Virginia Retiree Health Benefit Trust Fund
Statements of Changes in Plan Net Position
Years Ended June 30
(In Thousands)

	<u>2015</u>	<u>2014</u>
Additions:		
Employers	\$ 148,508	\$ 159,632
Plan members	83,024	83,424
Total contributions	<u>231,532</u>	<u>243,056</u>
Other additions:		
Retiree drug subsidy	1,481	422
Interest and dividend income	3,046	2,691
Net appreciation in fair value of investments	20,096	85,786
Total additions	<u>256,155</u>	<u>331,955</u>
Deductions:		
Payments to managed care organizations	136,797	129,963
Claims expense, net	100,736	95,994
Administrative service fees	1,954	1,713
Other expenses	3,225	2,956
Total deductions	<u>242,712</u>	<u>230,626</u>
Change in net position	13,443	101,329
Net position restricted for other postemployment benefits:		
Net position, beginning of year	691,559	590,230
Cumulative effect of adoption of accounting principle	<u>(410)</u>	<u>-</u>
Net position, beginning of year, as restated	691,149	590,230
Net position, end of year	<u>\$ 704,592</u>	<u>\$ 691,559</u>

Notes to Financial Statements (In Thousands)

Notes to Financial Statements (In Thousands)

1. Reporting Entity

The West Virginia Retiree Health Benefit Trust Fund (RHBT) is a fiduciary fund of the State of West Virginia (State), established July 1, 2006, as an irrevocable trust (Code section 5-16D-2). The RHBT's financial results are included in the State's Comprehensive Annual Financial Report.

The RHBT's basic financial statements present the plan net position and the changes in plan net position for the State's activities attributable only to the transactions of the RHBT. The RHBT's basic financial statements do not purport to, and do not, present fairly the financial position of the State as of June 30, 2015 and 2014, or the changes in its financial position for the years then ended in conformity with generally accepted accounting principles in the United States of America (GAAP).

2. Plan Description and Contribution Information

The Other Postemployment Benefit (OPEB) Plan (the Plan) is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code (the Code). Financial activities of the Plan are accounted for in the RHBT. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with the approval of their Finance Boards.

The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life and accidental death insurance

The Plan Medical and Prescription Drug benefits are provided through two options:

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

The RHBT Medicare-eligible retired employees and their Medicare-eligible dependents receive medical and drug coverage from a Medicare Advantage Plan ("Humana MAPD") administered by Humana. Under this arrangement, Humana assumes the financial risk of providing comprehensive medical and drug coverage with limited copayments. Non-Medicare retirees will continue enrollment in PEIA's Preferred Provider Benefit or the Managed Care Option.

The RHBT collects employer contributions for Managed Care Organization (MCO) participants and remits capitation payments to the MCO. Medical and prescription drug benefits paid by the MCO are not reflected in the RHBT's financial statements. Contributions earned by the RHBT are included in employer and plan member contributions. MCO capitation fee payments are recorded as a deduction on the financial statements.

Survivors of retirees have the option of purchasing the medical and prescription drug coverage.

Life insurance is provided through Minnesota Life Insurance Company – fully funded by member contributions.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

The Plan has the following characteristics:

- Other post-employment benefit plan
- Cost-sharing
- Multiemployer
- Defined benefit

Eligible participants of the Plan are retirees of:

- State government agencies
- State colleges and universities
- County boards of education
- Other government entities (towns, county commissions, etc.)

Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement.

Plan administration is provided by:

- Claims adjudication – Health Smart (third-party administrator)
- The staff of PEIA and the RHBT
- Finance Board comprised of nine members

Finance Board members are appointed by the Governor, serve a term of four years, and are eligible for reappointment. The State Department of Administration cabinet secretary serves as Chairman of the Board. Four members represent labor, education, public employees, and public retirees. Four remaining members represent the public-at-large.

Members may obtain optional life insurance coverage from \$2,500 to \$150,000 depending on age; however, optional accidental death and dismemberment insurance is not available. Members may also elect dependent optional life coverage at levels up to \$40,000 for spouse and \$15,000 per child. Amounts collected by the RHBT from members for optional coverage totaled \$18.3 million and \$17.7 million during the fiscal years ended June 30, 2015 and 2014, respectively, and were remitted directly to the carrier. The RHBT functions as an agent for these optional benefits and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

Membership consists of the following as of June 30:

	<u>2015</u>		<u>2014</u>	
	<u>Policyholders</u>	<u>Covered Lives</u>	<u>Policyholders</u>	<u>Covered Lives</u>
Retirees and beneficiaries	41,016	61,049	39,908	59,418
Active members	<u>76,762</u>	<u>173,188</u>	<u>76,739</u>	<u>173,276</u>
Totals	<u><u>117,778</u></u>	<u><u>234,237</u></u>	<u><u>116,647</u></u>	<u><u>232,694</u></u>
Number of participating employers		628		612

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

A non-Medicare plan member or beneficiaries receiving benefits contributes monthly health care premiums ranging from \$264 to \$1,055 per month for retiree-only coverage, and from \$529 to \$2,510 per month for retiree and spouse coverage. Medicare covered retirees are charged health care premiums ranging from \$84 to \$437 per month for retiree-only coverage, and from \$139 to \$1,464 per month for retiree and spouse coverage. Monthly premiums vary based on years of service and choice of coverage.

West Virginia Code section 5-16D-6 also assigns to the PEIA and the RHBT Finance Boards the authority to establish and amend contribution requirements of the plan members and the participating employers. Participating employers are required by statute to contribute at a rate assessed each year by the RHBT. The annual contractually required rate is the same for all participating employers. The annual contractually required per active policyholder per month rates for State non-general funded agencies and other participating employers effective June 30, 2015 and 2014, respectively, were:

	<u>2015</u>	<u>2014</u>
Paygo premium	\$ 164	\$ 176
Annual Required Contribution (ARC) premium	<u>225</u>	<u>94</u>
Total	<u>\$ 389</u>	<u>\$ 270</u>

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 to provide future plan stability. In the event the reserve fund exceeds certain parameters specified in the Code, the excess is to be remitted to the RHBT in accordance with Senate Bill 129, which became effective July 1, 2007. In fiscal year 2009, the State transferred \$91 million to pay for general funded employers' portion of the actuarial accrued liability (AAL).

3. Summary of Significant Accounting Policies

Basis of Reporting

The RHBT is accounted for as a fiduciary fund, and the basic financial statements are prepared using the accrual basis of accounting in conformity with GAAP for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB). The primary sources of revenue are plan members and employer contributions. Members' contributions are recognized in the period in which the contributions are due. Employer contributions and related receivables to the trust are recognized pursuant to a formal commitment from the employer or statutory contractual requirement, when there is a reasonable expectation of collection. Benefits and refunds are recognized when due and payable.

Changes in Accounting Principles

Effective July 1, 2014, the RHBT adopted the provisions of GASB Statement No.68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No.27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Budgetary Requirements

The Code requires the RHBT Finance Board (the Board) to set the annual required contribution sufficient to maintain the fund in an actuarially sound manner. The Board shall annually allocate to the respective employers the employers' portion of the annual required contribution.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and investments with maturities of three months or less when purchased. Cash and cash equivalents are monies deposited on account with the West Virginia State Treasurer and used primarily to fund operating expenses.

Equity Position in Internal Investment Pools

The RHBT owns equity positions in State government investment pools managed by the West Virginia Investment Management Board (WVIMB) and the Board of Treasury Investments (BTI). Some investment pool funds are subject to market risk because of changes in interest rates, bond prices, and stock prices. Investment earnings and losses are allocated to the RHBT based on the balance of the RHBT's investments maintained in relation to the total investments of all State agencies participating in the pool. The equity position in internal investment pools is reported at fair value and changes in fair value are included in investment income.

A 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 (304) 645-5939.

A five-member Board of Directors governs the BTI. The Governor, Treasurer, and Auditor serve as ex-officio members of the Board. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney, and both shall have experience in finance, investing, and management. The State Treasurer is Chairman of the Board. The BTI prepares separately issued financial statements covering the pooled fund, which can be obtained from its website or a published copy from the West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard, East, Building 1, Room E-122, Charleston, West Virginia 25305.

Due To/From PEIA

This balance represents the deficiency or excess of the RHBT contributions collected by PEIA over expenses paid by PEIA for the RHBT.

Contributions Receivable

Contributions receivable are reported net of an allowance for amounts estimated to be uncollectible based on management's review of the payment status of the underlying accounts and other economic factors that are deemed necessary in the circumstances.

Due from the State

Due from the State are contributions receivable due to the RHBT from primary government entities and their component units.

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Balances of deferred outflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. At June 30, 2015, deferred outflows in the

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Statements of Plan Net Position were composed of \$104 related to employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the measurement date.

Prescription Drug Rebates

Through arrangements with its Prescription Benefit Manager, the RHBT collects rebates from prescription drug manufacturers. The estimated prescription rebates receivable is based on prescription claims counts and historical average rebate per claim.

Retiree Drug Subsidy

The RHBT records retiree drug subsidy (RDS) payments from Centers for Medicare Services (CMS) under the provisions of Medicare Part D. For fiscal years 2015 and 2014, the RHBT received a drug subsidy for Medicare-eligible members covered by PEIA PPB plans – transitioning to Medicare coverage beginning with the new plan year. The Medicare-eligible Drug Subsidy is recorded as revenue.

The RDS revenue has been accounted for as voluntary non-exchange transactions. Accordingly, RDS estimated collections from CMS are recognized as the RHBT incurs Medicare-eligible retiree prescription drug expenditures.

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 due and payable as of the statements of plan net position date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred for services provided but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment and utilization. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that actual results of the settlement of the claims are made and are known. The estimated liability is adjusted periodically based on the most current claim incurrence and claim settlement history.

Claims relating to participants in MCOs, as well as claims relating to participants covered under the optional life insurance plan, are not considered in the liability, as the RHBT 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, the RHBT is responsible for such liability.

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. Balances of deferred inflows of resources may be presented in the Statements of Plan Net Position as aggregations of different types of deferred amounts. At June 30, 2015, deferred inflows in the Statements of Plan Net Position were composed of \$222 related to investment earnings in excess of actuarial assumptions for the net pension liability and \$1 related to changes in proportion and differences between RHBT contributions and proportionate share of contributions.

Humana Gain Share

Effective January 1, 2010, the Humana MAPD contract provided sharing of financial incentives with the RHBT based on favorable medical loss ratios. The financial incentive receipts from Humana are recorded as reductions in the MCO payments. During fiscal year 2015, the RHBT received financial incentives from Humana to reduce capitation payment cost savings of \$1.3 million, which is down \$2.5 million from the savings recorded in 2014.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Administrative Service Fees

The RHBT contracts with two external third-party administrators (TPA) for claims adjudication precertification reviews, utilization reviews, and various other duties. TPA fees are assessed monthly based upon the number of covered members without regard to the period in which a claim is incurred. TPA contracts are either on an annual or biannual basis.

Other Operating Expenses

Other operating expenses are comprised primarily of:

- Professional fees
- Personnel costs
- Lease costs from PEIA

RHBT and PEIA share:

- Office space
- Personnel
- Computer systems
- Third-party administrators

Expenses directly attributable to the OPEB plan are charged to the RHBT. Shared expenses with PEIA are allocated based on membership count between PEIA and the RHBT. Personnel expenses attributable to the RHBT full-time dedicated employees are charged in full to the RHBT; while the balance of the combined personnel expense is allocated between the two entities based on estimated time requirements.

Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has also issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Management has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulate for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. Management has not yet determined the effect that the adoption of GASB Statement No. 73 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

provided by other entities. Management has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

GASB has also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for fiscal years beginning after June 15, 2015. The requirements of this Statement will identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management has not yet determined the effect that the adoption of GASB Statement No. 76 may have on its financial statements.

Subsequent Events

In preparing these financial statements, the RHBT has evaluated events and transactions for potential recognition or disclosure through October 29, 2015, the date the financial statements were available for issuance. No items were noted that merit recognition or disclosure in the financial statements.

4. Adoption of New Accounting Pronouncements and Restatement of Beginning Net Position

Effective July 1, 2014, the West Virginia Retiree Health Benefit Trust Fund adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* — an Amendment of GASB Statement No. 68. As summarized below, a cumulative effect adjustment of \$410 has been recorded to decrease net position previously reported at the beginning of fiscal year 2015. The RHBT determined that it was not practical to restate the prior year financial statements as the information was not provided by the West Virginia Consolidated Public Retirement Board (WVCPRB), which administers, this cost-sharing multiple-employer plan. These statements reclassified some items previously reported as expenses as deferred outflows and now requires the RHBT to record the net pension liability and a more comprehensive measure of pension expense.

Net Position at the Beginning of the Year Required Statement:

Net Position beginning of year, as previously reported	\$ 691,559
Total cumulative effect adjustment	<u>(410)</u>
Net Position at June 30, 2014, restated	<u>\$ 691,149</u>

Employer contributions to the Public Employees Retirement System (PERS) made during the current fiscal year subsequent to the pension liability measurement date are recorded as deferred outflows of resources. For the fiscal year ended June 30, 2015, the RHBT reported deferred outflows of resources relating to these payments of \$104. Additionally, investment earnings in excess of actuarial assumptions and changes in proportionate share of contributions are required to be recorded as deferred inflows and amortized over the average remaining service lives of 5 and 4.27 years, respectively. For the fiscal year ended June 30, 2015, the RHBT reported deferred inflows of resources relating to these earnings and contribution changes of \$222 and \$1, respectively.

See Note 7 for additional pension disclosures.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

5. Deposit and Investment Risk Disclosures

Equity Position in Internal Investment Pool Managed by BTI

WV Money Market Pool (Formerly Cash Liquidity Pool)

The RHBT's investment in the BTI West Virginia Money Market Pool of \$104,212 and \$109,880 at June 30, 2015 and 2014, respectively, represents approximately 5.8% and 5.6%, respectively, of total investments in this pool and is reported as part of equity position in internal investment pools on the statements of plan net position.

Credit Risk

The BTI 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 P-1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the credit ratings of the West Virginia Money Market Pool's investments at June 30, 2015.

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u> (In Thousands)	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S&P</u>		
Commercial paper	P-1	A-1+	\$ 186,737	9.88%
	P-1	A-1	660,027	34.91
Corporate bonds and notes	Aa3	A+	10,005	0.53
	Aa3	AA-	10,000	0.53
	Aa3	NR	10,000	0.53
U.S. agency bonds	Aaa	AA+	81,994	4.34
U.S. Treasury notes*	Aaa	AA+	229,760	12.15
U.S. Treasury bills*	P-1	A-1+	92,059	4.87
Negotiable certificates of deposit	Aa2	AA-	10,000	0.53
	P-1	A-1+	51,000	2.70
	P-1	A-1	142,000	7.51
U.S. agency discount notes	P-1	A-1+	304,342	16.10
Money market funds	Aaa	AAAm	90,017	4.76
Repurchase agreements (underlying securities):				
U.S. Treasury notes*	Aaa	AA+	1,323	0.07
U.S. agency notes	Aaa	AA+	11,200	0.59
			<u>\$ 1,890,464</u>	<u>100.00%</u>

NR = Not Rated

*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 Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The West Virginia Money Market Pool is subject to interest rate risk.

The weighted-average maturity of the investments of the West Virginia Money Market Pool cannot exceed 60 days. The maturity of individual securities cannot exceed 397 days from the date of purchase.

The following table provides the weighted-average maturities (WAM) for the various asset types in the West Virginia Money Market Pool at June 30, 2015.

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 12,523	1
U.S. Treasury notes	229,760	75
U.S. Treasury bills	92,059	123
Commercial paper	846,764	30
Certificates of deposit	203,005	51
U.S. agency discount notes	304,342	60
Corporate bonds and notes	30,000	75
U.S. agency bonds	81,994	58
Money market funds	90,017	1
	\$ 1,890,464	47

Equity Position in Internal Investment Pools Managed by WVIMB

The RHBT's investments in the following pools are managed by the WVIMB. Such investments, which are stated at fair value (actual asset allocation), are reported as part of equity position in internal investment pools on the statements of plan net position.

	June 30	
	2015	2014
	(In Thousands)	
Large cap domestic equity pool	\$ 133,328	\$ 120,106
Non-large cap domestic equity pool	31,606	41,500
International equity pool	110,303	109,001
International non-qualified pool	53,223	53,117
Total return fixed income pool	62,717	59,850
Core fixed income pool	27,261	25,670
Short-term fixed income pool	112	15
TIPS pool	-	4,535
Hedge funds pool	61,028	57,458
Private equity	63,600	59,423
Real estate	64,073	53,582
	\$ 607,251	\$ 584,257

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Liquidity Needs and Investment Objectives

The RHBT is expected to have minimal liquidity needs until fiscal year 2015, upon which time annual liquidity needs are expected to increase. The investment objective is to provide for stable, long-term growth of assets, while seeking to minimize risk of loss. There is no specifically identified rate of return target.

Asset Allocation

Based upon the WVIMB's determination of the appropriate risk tolerance for the fund, the WVIMB adopted the following broad asset allocation guidelines for the assets managed for the RHBT. (Policy targets and strategic allocations are established on a market value basis.)

Asset Class	Policy Target		Strategic Allocation	
	2015	2014	2015	2014
Domestic equity	30.0%	30.0%	27.5%	27.5%
International equity	30.0	30.0	27.5	27.5
Private equity	-	-	10.0	10.0
Fixed income	40.0	40.0	15.0	15.0
TIPS	-	-	-	-
Hedge funds	-	-	10.0	10.0
Real estate	-	-	10.0	10.0
Total equity	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Cash		*		*

*Cash levels to be reviewed as needed, at least annually, collaboratively with management staff from PEIA.

Asset Class Risk Disclosures

Large Cap Domestic Equity Pool

This pool holds equity securities of U.S. companies, exchange traded stock index futures, and money market funds with the highest credit rating. These types of securities are exposed to no or minimal credit risk, custodial credit risk, or foreign currency risk. The RHBT's amount invested in the large cap domestic pool of \$133,328 and \$120,106 at June 30, 2015 and 2014, respectively, represents approximately 3.9% and 3.9%, 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. These types of securities are exposed to no or minimal credit risk, custodial credit risk, or foreign currency risk. The RHBT's amount invested in the non-large cap domestic pool of \$31,606 and \$41,500 at June 30, 2015 and 2014, respectively, represents approximately 3.9% and 3.9%, respectively, of total investments in this pool.

International Equity Pool

The pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2015, the pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the pool. The pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. 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, 2015, the WVIMB was in compliance with this limitation. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2015, were as follows:

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

<u>Currency</u>	<u>Investments</u>	<u>Cash</u> (In Thousands)	<u>Total</u>
Australian Dollar	\$ 71,411	\$ 21	\$ 71,432
Brazil Real	113,460	829	114,289
British Pound	272,285	1,049	273,334
Canadian Dollar	130,182	62	130,244
Czech Koruna	11,113	-	11,113
Danish Krone	24,755	1	24,756
Egyptian Pound	3,762	-	3,762
Emirati Dirham	3,773	-	3,773
Euro Currency Unit	410,970	(51)	410,919
Hong Kong Dollar	267,032	979	268,011
Hungarian Forint	9,379	106	9,485
Indian Rupee	49,212	1,019	50,231
Indonesian Rupiah	19,720	39	19,759
Israeli Shekel	19,243	3	19,246
Japanese Yen	401,766	2,410	404,176
Malaysian Ringgit	12,366	252	12,618
Mexican Peso	35,498	5	35,503
New Taiwan Dollar	70,408	2,623	73,031
New Zealand Dollar	1,056	57	1,113
Norwegian Krone	26,742	34	26,776
Pakistan Rupee	5,610	-	5,610
Philippine Peso	8,810	-	8,810
Polish Zloty	10,753	71	10,824
Qatari Riyal	300	9	309
Singapore Dollar	13,923	151	14,074
South African Rand	48,901	551	49,452
South Korean Won	174,570	1,238	175,808
Swedish Krona	48,637	1	48,638
Swiss Franc	97,333	14	97,347
Thailand Baht	25,382	29	25,411
Turkish Lira	45,967	-	45,967
Total	<u>\$ 2,434,319</u>	<u>\$ 11,502</u>	<u>\$ 2,445,821</u>

This table excludes cash and securities held by the pool that are denominated in U.S. dollars. The market value of the U.S. dollar denominated cash and investments is \$527,419 or 17.7%.

The RHBT's amount invested in the International Equity Pool of \$110,303 and \$109,001 at June 30, 2015 and 2014, respectively, represents approximately 4.0% and 3.9%, respectively, of total investments in this pool.

International Non-qualified Pool

The pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this pool at June 30, 2015, was \$153,554. This pool, although denominated in U.S. dollars, is exposed to foreign currency risk through the underlying investments. The specific currencies of the underlying investments were not available.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Funds are invested in Silchester International Investors' Value Equity Trust. The pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's EAFE index by 200 basis points on an annualized basis over three- to five-year periods, net of external investment management fees. The pool exists for participants who are not "qualified" (as defined by the Internal Revenue Code).

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, 2015, the WVIMB was in compliance with this limitation. The RHBT's amount invested in the International Non-qualified Pool of \$53,223 and \$53,117 at June 30, 2015 and 2014, respectively, represents approximately 34.7% and 34.7%, respectively, of total investments in this pool.

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, 2015.

<u>Investment Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u> <u>(In Thousands)</u>	<u>Percent of</u> <u>Assets</u>
Corporate asset-backed issues	A	AA	\$ 116,267	4.8%
Corporate CMO	B	B	101,927	4.2
Corporate CMO interest-only	C	Not Rated	7,706	0.3
Corporate preferred security	Ba	BB	10,430	0.4
Foreign asset-backed issues	A	A	20,876	0.9
Foreign corporate bonds	Baa	BB	286,053	11.9
Foreign government bonds	Baa	BBB	212,335	8.8
Municipal bonds	A	A	51,734	2.2
Short-term issue	Aaa	AAA	102,153	4.3
Time deposits	P-1	A-1	7,174	0.3
U.S. corporate bonds	Baa	BBB	578,292	24.2
U.S. Government agency bonds	Aaa	AA	2,579	0.1
U.S. Government agency CMO	Aaa	AA	80,795	3.4
U.S. Government agency CMO interest-only	Aaa	AA	3,819	0.2
U.S. Government agency MBS	Aaa	AA	298,744	12.4
U.S. Government agency TBA	Aaa	AA	884	0.0
U.S. Treasury bonds	Aaa	AA	113,459	4.7
U.S. Treasury inflation-protected securities	Aaa	AA	20,616	0.9
Total rated investments			<u>\$ 2,015,843</u>	<u>84.0%</u>

Unrated investments include investments in other funds valued at \$356,277, investments in common stock valued at \$7,266, investments in corporate CMO residuals valued at \$21,983, and option contracts purchased valued at \$1,114. These unrated securities represent 16.0% of the fair value of the pool's investments.

Interest Rate Risk

The WVIMB monitors interest rate risk of the Total Return Fixed Income Pool by evaluating the effective duration of the investments in the pool. The following table provides the weighted-average effective duration for the various asset types in the Total Return Fixed Income Pool as of June 30, 2015.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

<u>Investment Type</u>	<u>Fair Value</u> (In Thousands)	<u>Effective Duration</u> (Years)
Corporate asset-backed issues	\$ 115,952	2.2
Corporate CMO	101,802	1.8
Corporate CMO interest-only	7,706	18.8
Corporate preferred security	10,428	0.3
Foreign asset-backed issues	20,849	1.6
Foreign corporate bonds	285,960	6.0
Foreign government bond	212,324	6.3
Investments in other funds	356,277	3.2
Municipal bonds	51,734	8.4
Repurchase agreements	14,948	0.0
Short-term issues	102,153	0.0
Time deposits	7,173	0.0
U.S. corporate bonds	578,249	6.6
U.S Government agency bonds	2,566	4.3
U.S. Government agency CMO	80,795	2.1
U.S. Government agency CMO interest-only	3,816	2.2
U.S. Government agency MBS	292,921	2.6
U.S. Government agency TBA	884	2.1
U.S. Treasury bonds	111,398	4.2
U.S. Treasury inflation-protected securities	<u>20,616</u>	<u>14.0</u>
Total investments	<u>\$ 2,378,551</u>	<u>4.5</u>

The 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, 2015, the pool held \$623,846 of these securities. This represents approximately 26.0% of the value of the pool's securities.

The RHBT's amount invested in the Total Return Fixed Income Pool of \$62,717 and \$59,850 at June 30, 2015 and 2014, respectively, represented approximately 2.6% and 2.6%, 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, 2015.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

<u>Investment Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u> (In Thousands)	<u>Percent of Assets</u>
Corporate asset-backed issues	A	A	\$ 76,880	7.0%
Corporate CMO	A	A	87,661	8.0
Corporate CMO interest-only	Ba	AAA	1,198	0.1
Corporate CMO principal-only	B	AA	278	0.0
Foreign asset-backed issues	Aa	AA	2,813	0.3
Foreign corporate bonds	A	A	46,435	4.3
Foreign government bonds	Aa	A	7,814	0.7
Municipal bonds	Aa	AA	8,646	0.8
Preferred stock	A	A	2	0.0
Short-term issue	Aaa	AAA	41,293	3.8
Time deposits	P-1	A-1	7,044	0.6
U.S. corporate bonds	A	A	222,329	20.4
U.S. Government agency bonds	Aaa	AA	21,742	2.0
U.S. Government agency CMO	Aaa	AA	144,364	13.2
U.S. Government agency CMO interest-only	Aaa	AA	6,921	0.6
U.S. Government agency CMO principal only	Aaa	AA	10,501	1.0
U.S. Government agency MBS	Aaa	AA	194,546	17.8
U.S. Treasury bonds	Aaa	AA	204,400	18.7
U.S. Treasury inflation protected security	Aaa	AA	415	-
Total rated investments			<u>\$ 1,085,282</u>	<u>99.3%</u>

Unrated securities include investments made with cash collateral for securities loaned valued at \$7,134 or 0.7% of the fair value of the Pool's investments.

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, 2015.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

<u>Investment Type</u>	<u>Fair Value</u> <u>(In Thousands)</u>	<u>Modified</u> <u>Duration</u> <u>(Years)</u>
Corporate asset-backed issues	\$ 76,574	2.0
Corporate CMO	87,539	2.0
Corporate CMO interest-only	1,198	(8.5)
Corporate CMO principal-only	278	3.2
Foreign asset-backed issues	2,786	0.1
Foreign corporate bonds	46,346	5.7
Foreign government bonds	7,800	8.7
Municipal bonds	8,646	13.9
Repurchase agreements	14,676	0.0
Short-term issue	41,293	0.0
Time deposits	7,044	0.0
U.S. Corporate bonds	222,273	6.1
U.S. Government agency bonds	21,730	4.7
U.S. Government agency CMO	144,364	3.7
U.S. Government agency CMO interest-only	6,919	7.6
U.S. Government agency CMO principal only	10,501	7.4
U.S. Government agency MBS	188,831	4.8
U.S. Treasury bonds	202,383	7.2
U.S. Treasury inflation protected security	415	5.4
Total investments	<u>\$ 1,091,596</u>	<u>4.8</u>

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.

The RHBT's amount invested in the Core Fixed Income Pool of \$27,261 and \$25,670 at June 30, 2015 and 2014, respectively, represented approximately 2.6% and 2.5%, respectively, of total investments in this pool.

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 A-1 by Standard & Poor's and P-1 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, 2015.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

<u>Investment Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u> (In thousands)	<u>Percent</u>
Commercial paper	Aaa	AA	\$ 22,999	8.5%
U.S. Government agency issues	Aaa	AA	136,763	50.5
U.S. Treasury issues	Aaa	AA	<u>110,922</u>	<u>41.0</u>
Total rated investments			<u>\$ 270,684</u>	<u>100.0%</u>

This table includes U.S. Treasury notes received as collateral for repurchase agreements with a fair value of \$65,365 as compared to the amortized cost of the repurchase agreements of \$64,341.

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 WAM for the various asset types in the Short-Term Fixed Income Pool as of June 30, 2015.

<u>Investment Type</u>	<u>Carrying Value</u> (In thousands)	<u>WAM (Days)</u>
Commercial paper	\$ 22,999	19
Repurchase agreement	64,341	1
U.S. government agency issues	136,763	52
U.S. Treasury issues	<u>45,557</u>	<u>70</u>
Total investments	<u>\$ 269,660</u>	<u>40</u>

The RHBT's amount invested in the Short-Term Fixed Income Pool of \$112 and \$15 at June 30, 2015 and 2014, respectively, represented approximately 0.04% and 0.004%, respectively of total investments in this pool.

U.S. Treasury Inflation-Protected Securities (TIPS)

Credit Risk

The WVIMB limits the exposure to credit risk in the 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 pool as of June 30, 2015.

<u>Investment Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u> (In thousands)	<u>Percent</u>
Short-term issue	Aaa	AAA	\$ 228	0.1%
U.S. Treasury inflation-protected securities	Aaa	AA	<u>427,774</u>	<u>99.9</u>
Total rated investments			<u>\$ 428,002</u>	<u>100.0%</u>

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Interest Rate Risk

The WVIMB monitors interest rate risk of the pool by evaluating the real modified duration of the investments in the pool. The following table provides the weighted-average real modified duration for the various asset types in the pool as of June 30, 2015.

Investment Type	Fair Value (In Thousands)	Real Modified Duration (Years)
Short-term issue	\$ 228	0.0
U.S. Treasury inflation-protected securities	<u>427,774</u>	<u>7.9</u>
Total investments	<u>\$ 428,002</u>	<u>7.9</u>

The pool invests in TIPS and its objective is to match the performance of the Barclay's Capital U.S. TIPS Bond Index on an annualized basis over rolling three-year to five-year periods, gross of fees. Assets are managed by State Street Global Advisors (SSgA). The RHBT's amount invested in the TIPS Pool of \$0 and \$4,535 at June 30, 2015 and 2014, respectively, represented approximately 0.0% and 0.8%, respectively, of total investments in this pool.

Hedge Funds Pool

The pool was established to hold the WVIMB's investments in hedge funds. Albourne America, LLC has been retained by the WVIMB to provide consulting services for this investment strategy.

The pool holds shares in hedge funds and shares of a money market fund with the highest credit rating. The investments in hedge funds might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk. At June 30, 2015, the Pool, in accordance with West Virginia statutes, did not hold securities of any one issuer in excess of 5% of the value of the Pool and is not exposed to concentration of credit risk.

The RHBT's amount invested in the Hedge Funds Pool of \$61,028 and \$57,458 at June 30, 2015 and 2014, respectively, represented approximately 3.7% and 3.7%, respectively, of total investments in this pool.

Private Equity Pool

The pool was established to hold the WVIMB's investments in various types of private equity funds. Franklin Park Associates, LLC has been retained by the WVIMB to provide consulting services for this asset class.

The pool holds limited partnerships, shares in a hedge funds and shares of a money market fund with the highest credit rating. The investments in limited partnerships and a hedge fund might be indirectly exposed to foreign currency risk, credit risk, interest rate risk, and/or custodial credit risk.

The RHBT's amount invested in the Private Equity Pool of \$63,600 and \$59,423 at June 30, 2015 and 2014, respectively, represented approximately 4.5% and 4.4%, respectively, of total investments in this pool.

Real Estate Pool

The pool holds the WVIMB's investments in real estate funds, real estate limited partnerships and real estate investment trusts (REITs). Courtland Partners, LTD. has been retained by the WVIMB to provide consulting services for the real estate funds and limited partnerships. The REITs are managed by EII Capital Management, Inc. (EII)

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

through September 24, 2014, CBRE Clarion Securities, LLC (CBRE); and Security Capital Research & Management Inc. (SCRM).

Credit Risk

The WVIMB limits the exposure to credit risk in the 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 pool as of June 30, 2015.

<u>Investment Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Fair Value</u> (In Thousands)	<u>Percent of Assets</u>
Corporate asset backed issues	Aaa	AAA	\$ 154	0.0%
Corporate CMO	Aaa	AAA	58	0.0
Foreign asset backed issues	Aaa	AAA	13	0.0
Foreign corporate bonds	Aa	A	44	0.0
Foreign government bond	Aa	A	6	0.0
Short-term issue	Aaa	AAA	37,584	2.5
Time deposits	P-1	A-1	3,422	0.2
U.S. corporate bonds	A1	A	48,954	3.3
U.S. Government agency bond	Aaa	AA	6	0.0
U.S. Government agency CMO interest only	Aaa	AA	1	0.0
U.S. Government agency MBS	Aaa	AA	2,776	0.2
U.S. preferred stock	Baa	BB	72,960	4.9
U.S. Treasury issues	Aaa	AA	981	0.1
Total rated investments			<u>\$ 166,959</u>	<u>11.2%</u>

Unrated investments include investments in common stock valued at \$165,490 and investments in real estate limited partnerships and funds valued at \$1,166,391. These unrated securities represent 88.8% of the fair value of the pool's investments.

Interest Rate Risk

The WVIMB monitors interest rate risk of the pool by evaluating the effective duration of the investments in the pool. The weighted-average effective duration for U.S. corporate bonds was 1.3 years as of June 30, 2015. All remaining investments do not have an effective duration.

The RHBT's amount invested in the Real Estate Pool of \$64,073 and \$53,582 at June 30, 2015 and 2014, respectively, represented approximately 4.3% and 4.2%, respectively, of total investments in this pool.

6. Funded Status and Funding Progress

The funded status of the Plan as of the most recent actuarial valuation is as follows (in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>AAL – Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2013	\$ 590,230	\$ 3,262,553	\$ 2,672,323	18.09%	\$ 3,921,147	68.15%

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial valuation. Accordingly, it reflects the impact of transferring Medicare covered participants to the MAPD plan. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The purpose of the disclosure is to provide information that approximates the funding progress of the plan.

The accompanying schedule of employer contributions, also presented as required supplementary information, presents trend information about the amounts contributed to the Plan by employers in comparison to the amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43 (the ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation of any estimate of future postretirement costs requires consideration of a broad array of complex social and economic events. Future changes in the MAPD program, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs option, changes in the investment rate of return, and other matters increase the level of uncertainty of such estimates. As such, the estimate of postretirement program costs contains considerable uncertainty and variability, and actual experience may vary significantly by the current estimated obligation.

Additional information for the latest actuarial valuations follows:

	<u>Valuation Date – June 30, 2013</u>
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Remaining amortization period	25 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.7% blended rate reflecting long-term expected returns on the RHBT and State investments held by BTI and WVIMB
Health care cost trend rate	5.0% Medicare and non-Medicare medical 8.0% Medicare drug and non-Medicare drug

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

7. Pension Plan

Plan Description

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

Benefits Provided

Employees who retire at or after age 60 with 5 or more years of credited service, or at least age 55 with age and service equal to 80 or greater, are entitled to a retirement benefit established by State statute, payable monthly for life, in the form of a straight-line annuity equal to 2% of the employees' final average salary. Final average salary is the average of the highest annual compensation received by an employee during any period of 3 consecutive years of credited service included within 15 years of credited service immediately preceding the termination date of employment with a participating public employer or, if the employee has less than 3 years of credited service, the average of the annual rate of compensation received by the employee during the total years of credited service.

Terminated members with at least 5 years of contributory service who do not withdraw their accumulated contributions may elect to receive their retirement annuity beginning at age 62.

Contributions

Per Chapter 5, Article 10, members contribute 4.5% of annual earnings. Effective July 1, 2015 the employee contribution increased to 6.0% for new hires. Current funding policy requires Employer contributions of 14.0%, 14.5% and 14.0% for the 3 years ended June 30, 2015, 2014 and 2013, respectively. Contributions as a percentage of payroll for members are established by statutes, subject to legislative limitations and are not actuarially determined. Contributions as a percentage of payroll for employers are established by the CPRB. The RHBT's contributions to the Plan were \$104, \$110 and \$107 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the RHBT reported a liability of \$210 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to the measurement date of June 30, 2014. The RHBT's proportion of the net pension liability was based on the RHBT's share of contributions to the pension plan relative to the contributions of all employers participating in PERS for the year ended June 30, 2014. At June 30, 2014, the RHBT's proportionate share was 0.0569%, which was a decrease of 0.0002% for its proportionate share measured as of June 30, 2013.

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

For the year ended June 30, 2015, the RHBT recognized pension expense of \$23. At June 30, 2015, the RHBT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 222
Changes in proportion and differences between RHBT contributions and proportionate share of contributions	-	1
RHBT's contributions made subsequent to the measurement date	<u>104</u>	<u>-</u>
Total	<u>\$ 104</u>	<u>\$ 223</u>

A deferred outflows of resources of \$104 was reported related to pensions resulting from the RHBT contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense</u>
2016	\$ 52
2017	\$ 52
2018	\$ 52
2019	\$ 52
2020	\$ 15

Actuarial Assumptions and Methods

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.2%
Salary increase	4.25 – 6.0%, average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense

Mortality rates were based on the 1983 Group Annuity Mortality (GAM) for healthy males, 1971 GAM for healthy females, 1971 GAM for disabled males, and Revenue Ruling 96-7 for disabled females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results from an actual experience study for the period July 1, 2004 through June 30, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset

West Virginia Retiree Health Benefit Trust Fund
Notes to Financial Statements
(In Thousands)

allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	15.0%	2.9-4.8%
Domestic equity	27.5%	7.6%
International equity	27.5%	8.5%
Real estate	10.0%	6.8%
Private equity	10.0%	9.9%
Hedge funds	10.0%	5.0%
Total	<u>100.0%</u>	

Discount rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will continue to be made at statutorily required rates, which are determined by actuarial valuations. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Although discount rates are subject to change between measurement dates, there were no changes in the discount rate in the current period.

Sensitivity of the RHBT's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability of the RHBT, calculated using the discount rate of 7.5%, as well as what the RHBT's net pension liability would be if it were calculated using a discount rate that is 1 percentage - point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

Net Pension Liability		
1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
\$ 593	\$ 210	\$ (117)

Required Supplementary Information

West Virginia Retiree Health Benefit Trust Fund
Schedule of Funding Progress
(In Thousands)
June 30

Required Supplementary Information

Schedule of Funding Progress
(In Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>AAL – Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll [(B-A)/C]</u>
June 30, 2013	\$ 590,230	\$ 3,262,553	\$ 2,672,323	18.1%	\$ 3,921,147	68.15%
June 30, 2011	472,079	3,841,243	3,369,165	12.3	3,649,954	92.31
June 30, 2009	397,414	7,410,241	7,012,827	5.4	3,342,136	209.83
June 30, 2008	254,818	6,362,640	6,107,822	4.0	3,298,252	185.18
June 30, 2007	3,167	3,079,933	3,076,766	0.1	3,312,102	92.89

The estimated actuarial accrued liability reflected above is based on the substantive plan in place at the time of the latest actuarial valuation. Accordingly, it reflects the impact of transferring Medicare-covered participants to a Medicare Advantage Prescription Drug Plan.

The investment rate of return changed from 6.1% as of June 30, 2011, to 6.7% as of June 30, 2013, due to the change in long-term expected returns on the RHBT and State investments held by BTI and WVIMB.

West Virginia Retiree Health Benefit Trust Fund
Schedule of Employer Contributions
(In Thousands)
Years Ended June 30

Required Supplementary Information

Schedule of Employer Contributions
(In Thousands)

	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$ 261,896	58%
2014	\$ 253,220	65%
2013	\$ 289,725	59%

West Virginia Retiree Health Benefit Trust Fund
Schedule of the Proportionate Share of the Net Pension Liability of PERS
(In Thousands)
June 30

Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability PERS
(In Thousands)

	<u>2015</u>
RHBT's proportionate (percentage) of the net pension liability	0.0569%
RHBT's proportionate share of the net pension liability	\$ 210
RHBT's covered employee payroll	\$ 745
RHBT's proportionate share of the net pension's liability as a percentage of its covered employee payroll	28.190%
Plan fiduciary net position as a percentage of the total pension liability*	93.980%

* This is the same percentage for all participant employers in the PERS plan.

Note A - Trend Information

The accompanying schedules of the RHBT's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

West Virginia Retiree Health Benefit Trust Fund
Schedule of Contributions to PERS
(In Thousands)
Years Ended June 30

Required Supplementary Information

Schedule of Contributions to PERS
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 104	\$ 110	\$ 107
Contributions in relation to the statutorily required contribution	<u>(104)</u>	<u>(110)</u>	<u>(107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RHBT's covered employee payroll	\$ 745	\$ 761	\$ 764
Contributions as a percentage of covered employee payroll	14.0%	14.5%	14.0%

Note A - Trend Information

The accompanying schedules of the RHBT's proportionate share of the net pension liability and contributions to PERS are required supplementary information to be presented for 10 years. However, until a full 10 year trend is compiled, information is presented in the schedules for those years for which information is available.

Other Financial Information

West Virginia Retiree Health Benefit Trust Fund
Form 7, Deposits Disclosure
June 30, 2015

(In Thousands)

	<u>Carrying Amount</u>
Cash with Treasurer	\$ 72
Total carrying amount of deposits	<u>\$ 72</u> ⁽¹⁾

⁽¹⁾ Agrees to audited statement of plan net position

West Virginia Retiree Health Benefit Trust Fund
Form 8, Investments Disclosure
June 30, 2015

Investment Pool	(In Thousands)			Fair Value
	Amount Unrestricted	Amount Restricted	Amount Reported	
West Virginia Board of Treasury Investments (BTI):				
West Virginia Money Market Pool	\$ 104,212 ⁽³⁾	\$ -	\$ 104,212	\$ 104,212 ⁽¹⁾
Total equity position in internal investment pool with BTI	<u>\$ 104,212</u>	<u>\$ -</u>	<u>\$ 104,212</u>	<u>\$ 104,212</u>
West Virginia Investment Management Board (WVIMB) Investment Pool:				
Short-term fixed income	\$ 112	\$ -	\$ 112	\$ 112 ⁽³⁾
Core – fixed income	27,261	-	27,261	27,261 ⁽³⁾
Large cap domestic	133,328	-	133,328	133,328 ⁽³⁾
Non-large cap domestic	31,606	-	31,606	31,606 ⁽³⁾
International non-qualified	53,223	-	53,223	53,223 ⁽³⁾
Hedge	61,028	-	61,028	61,028 ⁽³⁾
Private equity	63,600	-	63,600	63,600 ⁽³⁾
Real estate	64,073	-	64,073	64,073 ⁽³⁾
Total return fixed income	62,717	-	62,717	62,717 ⁽³⁾
International equity	110,303	-	110,303	110,303 ⁽³⁾
Total equity position in internal investment pool with WVIMB	<u>\$ 607,251</u>	<u>\$ -</u>	<u>\$ 607,251</u>	<u>\$ 607,251</u> ⁽¹⁾

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

Equity position in internal investment pools:

BTI	\$ 104,212
WVIMB	\$ 607,251
Equity position in internal investment pools	<u>\$ 711,463</u> ⁽²⁾

⁽²⁾ Agrees to audited statement of plan net position

⁽³⁾ Agrees to footnote 5, Deposit and Investment Risk Disclosures

West Virginia Retiree Health Benefit Trust Fund
Form 8-A, Deposits and Investments Disclosure
June 30, 2015

(In Thousands)

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

Cash and cash equivalents as reported \$ 72 ⁽¹⁾⁽²⁾

Equity position in internal investment pools as reported \$ 711,463 ⁽¹⁾⁽³⁾

⁽¹⁾ Agrees to audited statement of plan net position

⁽²⁾ Agrees to Form 7

⁽³⁾ Agrees to Form 8

West Virginia Retiree Health Benefit Trust Fund
Form 9, Accounts Receivable
June 30, 2015

(In Thousands)

External accounts receivable:	
Premium contributions	\$ 3,170
Less allowance for doubtful accounts	<u>(372)</u>
Net receivable	<u>\$ 2,798</u> ⁽¹⁾
Other receivables:	
Retiree drug subsidy	\$ 718
Prescription rebates	2,589
Other:	
Drug subsidies	269
Other	<u>1,313</u>
Total other receivable	<u>\$ 4,889</u> ⁽¹⁾
Form 9 – Net receivable	\$ 2,798 ⁽¹⁾
Form 10 – Net receivable	42 ⁽³⁾
Form 11 – Net receivable	<u>164</u> ⁽⁴⁾
Total	<u>\$ 3,004</u> ⁽²⁾

⁽¹⁾ Agrees to audited statement of plan net position

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

Contributions receivable	\$ 2,798 ⁽¹⁾
Due from State	<u>206</u> ⁽¹⁾
	<u>\$ 3,004</u>

⁽³⁾ Agrees to Form 10

⁽⁴⁾ Agrees to Form 11

West Virginia Retiree Health Benefit Trust Fund
Form 10, Due (To) From Primary Government - Restated
June 30, 2015

(In Thousands)

<u>Agency</u>	<u>Total</u>
West Virginia Lottery Commission	\$ 4,632
Workforce WV/Payroll-05303	10,830
Workers' Compensation Commission	-
WV Public Employees Retirement Board	(208)
WV Public Employees Retirement Board	(51)
WV Teachers Retirement Board	(258)
Consolidated Retirement Bd/Judges Ret.	-
Deputy Sheriffs Retirement	(1)
Public Safety/Con.Pub.Emp.Ret.Bd.	(12)
Anthony Correctional Center	2,054
Attorney General	4,291
Auditors Office	4,806
Culture and History	3,078
Department of Corrections	6,819
Department of Education	806,906
Division of Forestry	2,922
EMSRS Emergency Medical Services Retirement System	3
Governors Office	1,804
Homeland Security – Emergency Management	1,243
House of Delegates	1,728
Huttonsville Correctional Center	8,375
Joint Comm on Govt and Finance	3,447
Library Commission	1,271
Pruntytown Correctional Center	2,977
Secretary of State	1,241
Senate	1,295
Supreme Court/Judicial	31,976
Tax Department	10,237
Tax Department – Budget Office	128
Tax Department - Office of Appeals	241
Treasurer of State's Office	3,834
WV Enterprise Planning Board	78
*ABC Commission	2,025
*Adjutant General	180
*Aeronautics Commission	66
*Agriculture	8,491
*Board of Coal Mine Health & Safety	29
*Board of Exam Speech, Language Path & Audio	3
*Board of Examiners in Counseling	36
*Board of Examiners of Psychologists	37

West Virginia Retiree Health Benefit Trust Fund
Form 10, Due (To) From Primary Government - Restated
June 30, 2015

(In Thousands)

<u>Agency</u>	<u>Total</u>
*Board of Funeral Service Examiners	43
*Board of Medicine	299
*Board of Respiratory Care	3
*Bureau of Senior Services	885
*Coal Heritage Highway Authority	82
*Courthouse Facilities Imp	14
*Department of Administration	19,396
*Department of Commerce, Office of Secretary	79
*Department of Corrections/Denmar Facility	2,047
*Corrections/St. Marys Corr, Dept of	5,702
*Corrections/Salem Corr, Dept of	343
*Department of Education and Arts	681
*Department of Highways	126,686
*Human Services, Dept of	81,940
*Department of Labor	2,371
Division of Environmental Protection	21,461
Division of Financial Institution	333
Division of Protective Services	810
Division of Rehabilitation Services	14,477
Division of Tourism	1,813
Environmental Quality Board	69
Fire Commission	1,192
Gas and Oil Conservation	37
Geological Survey	950
Health Care Authority	1,016
Health Department	19,661
Hopemont State Hospital	3,864
Human Rights Commission	791
Insurance Commission	9,323
Jackie Withrow Hospital	3,892
John Manchin Sr. Health Care	1,769
Justice and Community Service	817
Lakin Correctional Facility	3,722
Lakin State Hospital	3,886
Martinsburg Correctional Center	1,559
Medical Imaging Board	27
Mildred Mitchell-Bateman Hospital	8,123
Military Affairs and Public Safety	395
Miners Health Safety & Training	(8)
Motor Vehicles	15,927
Mt Olive Correctional Facility	7,818

West Virginia Retiree Health Benefit Trust Fund
Form 10, Due (To) From Primary Government - Restated
June 30, 2015

(In Thousands)

Agency	Total
Municipal Bond Commission	102
Natural Resources	19,989
Northern Correctional Facility	2,825
Office of Miners Health, Safety and Training	2,015
Ohio County Correctional Center	696
Osteopathy, Board of	41
Physical Therapy, Board of	65
Public Port Authority	91
Public Safety	27,131
Public Service Commission	7,427
Public Transit	226
Real Estate Commission	146
Veterans Affairs	4,952
Welch Emergency Hospital	6,513
William R Sharpe Jr Hospital	9,062
WV Advisory Council on Vocational Ed	(2)
WV Armory Board	236
WV Barbers and Beauticians Commission	170
WV Bd of Examiners/Registered Nurses	301
WV Board of Accountancy	72
WV Board of Chiropractic Examiners	34
WV Board of Dental Examiners	35
WV Board of Optometry	34
WV Board of Pharmacy	132
WV Board of Social Worker Examiners	108
WV Board of Veterinary Medicine	33
WV Center for Nursing	65
WV Division of Energy	197
WV Division of Juvenile Services	16,214
WV DOT Office of Administrative Hearings	413
WV Economic Development Authority	2
WV Engineers Registration Board	33
WV Massage Therapy Licensure Board	28
WV Military Authority	7,125
WV Municipal Pensions Oversight Board	7
WV Real Estate Appraiser/Lic Cert Bd	28
WV School for the Deaf and Blind	4,678
WV Secondary Schools Activity Commission	331

West Virginia Retiree Health Benefit Trust Fund
Form 10, Due (To) From Primary Government - Restated
June 30, 2015

(In Thousands)

Agency	Total
WV State Board of Architects	6
WV State Board of Examiners for LPNs	48
Total due to/from	1,402,457
Less: Allowance for ARC	(1,402,415)
Net total – due to/from	\$ 42

* Indicates an earlier version of this Form incorrectly named this agency.

West Virginia Retiree Health Benefit Trust Fund
Form 11, Component Unit - A/R Balances
June 30, 2015

(In Thousands)

Unit	Amount
Higher Education	\$ 308,979
Parkways, EDA, and Tourism	10,279
Regional Jail and Correction Facility Authority	23,615
Public Defender Corporation	3,965
WV EDA	2,571
Educational Broadcasting	2,389
Department of Transportation - Rail	507
School Building Authority	250
Racing Commission	1,050
WV Jobs Investment Trust	-
Housing Development Corporation	-
Water Development Authority	198
SWMB	319
WSWP - TV	-
Total Component Units	354,122
Less: Allowance for ARC receivables	(353,958)
Net accounts receivable – component units	\$ 164

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

Finance Board and Management
West Virginia Retiree Health Benefit Trust Fund
Charleston, West Virginia

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Retiree Health Benefit Trust Fund (RHBT), which comprise the statement of plan net position as of June 30, 2015, and the related statement of changes in plan net position, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

Dixon Hughes Goodman LLP

**Charleston, West Virginia
October 29, 2015**