Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

State of West Virginia
Public Employees Insurance Agency

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

State of West Virginia
Public Employees Insurance Agency

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

Joe Manchin III, Governor

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

Joe Manchin, III, Governor
State of West Virginia

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

B. Keith Huffman, Acting Co-Director and General Counsel
West Virginia Public Employees Insurance Agency

Prepared by:
J.A. Haught, CPA
Acting Co-Director and Chief Financial Officer
West Virginia Public Employees Insurance Agency

State of West Virginia
Public Employees Insurance Agency

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

Table of Contents

Introductory Section

State Capitol Building

Designed by renowned architect Cass Gilbert, the West Virginia State Capitol sits along the Kanawha River in Charleston. Gilbert, who also designed the United States Supreme Court Building, designed the statehouse to embody both simplicity and beauty. Completed in 1932, the Capitol occupies 16 acres and is one of the few state capitol buildings to have a gold-leafed dome.

Joe Manchin III
Governor

Keith Huffman
Co-Acting Director

WV Toll-Free: 1-888-680-PEIA ● Phone: 1-304-558-7850 ● Fax: 1-304-558-2516 ● Internet: www.wvpeia.com

December 21, 2005

The Honorable Joe Manchin III, Governor
State of West Virginia

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

Mr. Keith Huffman, Co-Acting Director
West Virginia Public Employees Insurance Agency

Gentlemen:

It is a privilege to submit to you the Comprehensive Annual Financial Report (CAFR) of the West Virginia Public Employees Insurance Agency (PEIA) for the fiscal year ended June 30, 2005. This report was prepared by the office of the PEIA Co-Acting Director and Chief Financial Officer. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the management of PEIA. To the best of our knowledge, the data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups and component units of the State. All disclosures necessary to enable the reader to gain an understanding of PEIA's financial activities have been included. The financial statements of PEIA have been prepared on an accrual basis in conformity with generally accepted accounting principles for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

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

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

State Capitol Complex ● Building 5, Room 1001 ● 1900 Kanawha Boulevard, E. ● Charleston, WV 25305-0710

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

PEIA is required by the Financial Accounting and Reporting Section of the Department of Administration to have an annual independent audit. The firm of Ernst & Young, LLP was selected to perform the audit for fiscal year ended June 30, 2005. Their report is included in the financial section of this report.

PROFILE OF THE PEIA

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

PEIA is reported as an enterprise fund in the State of West Virginia's Comprehensive Annual Financial Report. After applying the criteria set forth in generally accepted accounting principles, PEIA management has determined there are no organizations that should be considered component units of PEIA.

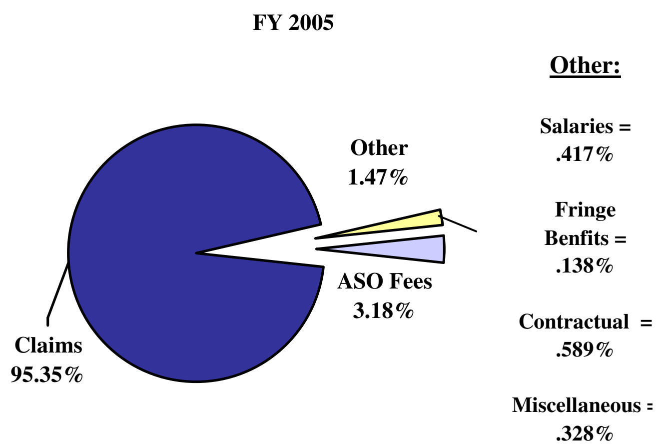
The PEIA Finance Board is required to develop five-year financial plans each fall that begin with the next fiscal year commencing in July. The financial plan must incorporate a mandated reserve fund equal to 10% of total forecast plan expenses for that fiscal year. The fiscal year 2005 year-end PEIA reserve of $168 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2006 through 2010.

As noted in previous years, PEIA is required to adjust the State employer and State employee aggregate cost sharing percentages over a five year period. These adjustments began in fiscal year 2003 with the required ratio established by fiscal year 2007. The adjustments will result in a change in the plan's contribution level of State employers and State employees from the original 90% from State employers and 10% from the State employees, to 80% from employers and 20% from employees. The following chart depicts an updated percentage of contribution levels due to various factors such as enrollment fluctuations and plan migration.

Employer/Employee Contribution Increases (in thousands)						
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
State Employer	N/A	$39,500	$39,200	$8,000	$40,000	$5,000
State Employee	N/A	19,700	15,600	0	5,700	18,400
Total	N/A	$59,200	$54,800	$8,000	$45,700	$23,400
State Employer Share	86%	83%	82%	82%	83%	80%
State Employee Share	14%	17%	18%	18%	17%	20%

Unfortunately, due to an anticipated large contribution by the State in FY 2006, a significantly smaller anticipated increase for employees and no employee increase in 2005, the progress towards the required ratio has regressed. This necessitates a large increase for employees in fiscal year 2007. The mandated transition has been a difficult one and may be challenged by employee advocates in the next legislative session.

Administrative expenses include payments to third party administrators and the wages and benefits of PEIA employees.



ECONOMIC CONDITION AND OUTLOOK FOR THE FUTURE

The PEIA had a change in net assets for fiscal year 2005 of $28,838,066 resulting in an end of year net asset amount of $168,583,280. PEIA had increases in premium revenues and claims expense. For further details regarding PEIA's financial condition, please see the Management's Discussion and Analysis section in the financial section beginning on page 11 that incorporates a narrative introduction, overview and analysis of the financial statements.

PEIA's outlook for the future continues to be a concern. Although the agency has done well financially, this is been due to better than anticipated claim expense trends and increased premiums revenues. These two factors have allowed PEIA to develop a sufficient reserve to offset unanticipated claim losses in the future. Current reserve level is 27% of the subsequent years total expenses. This is an important measurement in evaluating the economic condition of the agency. The reserve ensures PEIA is prepared for unanticipated claims losses.

However, all good things must come to an end. PEIA cannot assume that the economic conditions of the State will continue to permit increased premium revenues for the Agency. Nor can PEIA assume trend results will continue to be lower than anticipated. It is for these reasons PEIA must continue to strategically plan its future considering all influencing factors.

The implementation of the Medicare Part D Prescription Benefit Plan (Part D) January 1, 2006 will provide some financial relief to PEIA. Estimated savings from Part D in FY 2006 are $8 million. This will continue to increase as the cost of drugs and utilization continue to rise.

PEIA will also continue to review various provider reimbursement models to control costs and possibly affect change in provider performance. The newest was effective January 1, 2005 and is known as ambulatory procedure classes or APC's. This affected the reimbursement of outpatient hospital services. At this point, PEIA has been satisfied with its results. PEIA now has more control for this service classification by setting the reimbursement amount versus being subject to charges. Last evaluation indicated the new method did hit the target of being revenue neutral to the hospitals. PEIA will be updating APC's effective January 1, 2006 and will determine what increases, or decreases, for particular services within this category will occur.

In order to properly discuss the future, forecast trends for the plan must be discussed.
Below are PEIA's anticipated trends for FY 2006:

Eligibility	Medical Trend	Drug Trend
Non-Medicare	8.5%	17.0%
Medicare	9.0%	17.0%

These trend assumptions are actually favorable when compared with findings from The 2006 Segal Health Plan Cost Trend Survey (the survey). The survey's trend projections for preferred provider organizations in 2006 is 12.7%. The combined trend assumption for PEIA is 11.42%.

The above trend assumptions result in the following estimated claim expenses for FY 2006:

Claim Type	
Medical	$358.5 million
Prescription Drugs	$177.7 million
Managed Care Capitations	$57.9 million

In order to offset such growth in program expenses, the plan will have to increase premium revenues, spend existing reserves or reduce costs. As mentioned, PEIA cannot assume the option of increasing revenues will be available. Therefore, further expansion of health awareness initiatives and plan benefit revisions will be in order.

MAJOR INITIATIVES

Disease Management

PEIA implemented a pilot disease management program on May 2004 in six different WV counties known as the Face to Face Diabetes management program. Due to the positive response from the pilot program participants and results, PEIA decided to implement the program statewide July 1, 2005.

The program is designed to assist participants in managing their Diabetes. Pharmacists, in conjunction with the participants' physicians orders, are utilized in this program to monitor the participants' compliance with the various requirements. The participants are required to have sessions with a participating pharmacist that evaluates the participants' key indications relative to diabetes, such as various blood tests results.

If the participant is compliant with the program, their co-pays for Diabetic prescriptions and blood testing equipment are waived. As of December 2005, there are 1,736 active participants. To date, the program has at least one pharmacist in 41 WV counties and one in OH. The total number of participating pharmacists is 125.

PEIA is also preparing to roll out the next phase of its disease management program for cardiac diseases. It is hoped that these disease management programs will heighten awareness of our policyholders diseases to promote more healthy lifestyles, thus improving their quality of life while lowering their premiums. Further, to increase the effectiveness of existing programs, PEIA is also exploring the uploading of health screening results into a database for additional information to identify disease management candidates.

Provider Reimbursement

As mentioned in the Economic Condition and Outlook for the Future section previously, PEIA continues to review provider reimbursement methodologies. One method PEIA is anticipating implementation is that of "pay for performance." Pay for performance is already utilized by the Centers for Medicare and Medicaid Services (CMS).

This methodology of reimbursement determination requires the provider to report particular performance measurements to CMS. CMS then tabulates this data to determine the providers performance in particular categories. The better the provider does, the more the provider can expect to be paid for that category. Inversely, the payments will not be increased if the standard is not met.

The objective of this particular methodology is to promote better care. This results in healthier patients and less costs overall. PEIA is currently anticipating using the performance reports of CMS, using internal performance standards. Annually when PEIA updates the reimbursement systems, hospitals that scored well will receive not only the normal update, but additional reimbursement based on a predetermined basis of allocation.

The current plan design and funding mechanism under the baseline projection model forecasts the following increases (decreases) in net assets over the next five years:

FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
$15,683,189	($10,747,265)	($39,866,574)	($22,941,048)	$9,890,502

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to West Virginia Public Employees Insurance Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Special thanks are extended to Governor Joe Manchin III, for his support in stressing the importance of fiscal responsibility and financial reporting. Acknowledgement is also given to the Legislature and its leadership, whose continued support will promote the future success and stability of the program. Finally, this report would not have been possible without the dedication and effort of PEIA's Director, Keith Huffman. Respectfully, we submit the Comprehensive Annual Financial Report for the West Virginia Public Employees Insurance Agency for the year ended June 30, 2005.

Sincerely,

J.A. Haught, CPA
Co-Acting Director and Chief Financial Officer

Principal Officials

Joe Manchin III, Governor
State of West Virginia

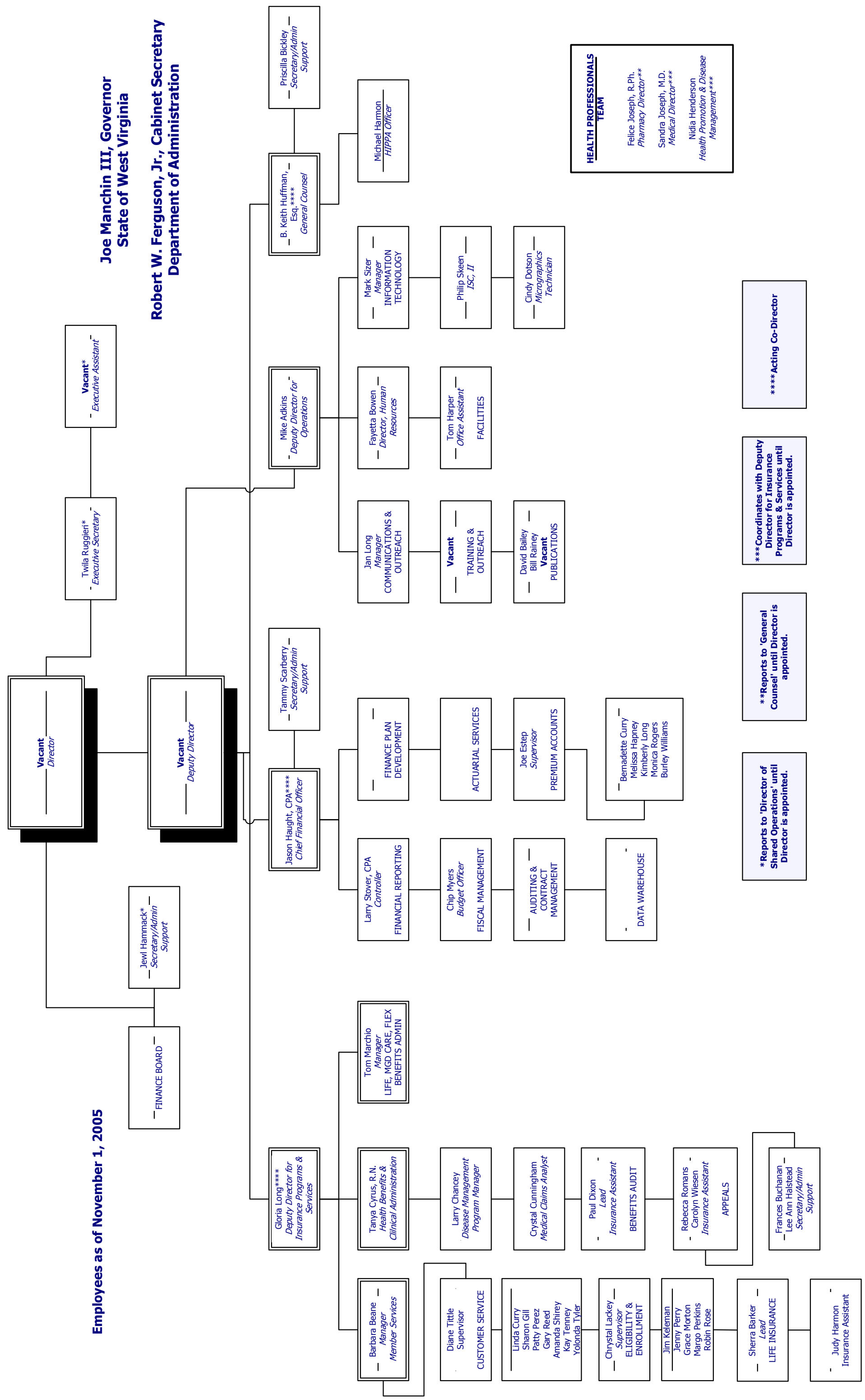
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Finance Board

Robert W. Ferguson, Jr, Chairman
Perry Bryant, Member
Michael Garrison, Member
Elaine Harris, Member
William Ihlenfeld, Member
John Ruddick, Member
James Schneider, Member
Joe Smith, Member

Executive Staff

Keith Huffman, Co-Acting Director and General Counsel
Gloria Long, Co-Acting Director and Deputy Director for Insurance Programs & Services
J.A. Haught, CPA, Co-Acting Director and Chief Financial Officer


Joe Manchin III, Governor
State of West Virginia
Robert W. Ferguson, Jr., Cabinet Secretary
Department of Administration
Employees as of November 1, 2005
Vacant
Director
Vacant
Deputy Director
Twila Ruggieri*
Executive Secretary
Vacant*
Executive Assistant
FINANCE BOARD
Jewl Hammack*
Secretary/Admin Support
Gloria Long****
Deputy Director for Insurance Programs & Services
Jason Haught, CPA****
Chief Financial Officer
Tammy Scarberry
Secretary/Admin Support
Mike Adkins
Deputy Director for Operations
B. Keith Huffman, Esq.****
General Counsel
Priscilla Bickley
Secretary/Admin Support
Michael Harmon
HIPPA Officer
Barbara Beane
Manager
Member Services
Tanya Cyrus, R.N.
Health Benefits & Clinical Administration
Tom Marchio
Manager
LIFE, MED CARE, FLEX BENEFITS ADMIN
Diane Tittle
Supervisor
CUSTOMER SERVICE
Linda Curry
Sharon Gill
Patty Perez
Gary Reed
Amanda Shirey
Kay Tenney
Yolonda Tyler
Chrystal Lackey
Supervisor
ELIGIBILITY & ENROLLMENT
Jim Keleman
Jenny Perry
Grace Morton
Margo Perkins
Robin Rose
Sherra Barker
Lead
LIFE INSURANCE
Judy Harmon
Insurance Assistant
Larry Chancey
Disease Management Program Manager
Crystal Cunningham
Medical Claims Analyst
Paul Dixon
Lead
Insurance Assistant
BENEFITS AUDIT
Rebecca Romans
Carolyn Wiesen
Insurance Assistant
APPEALS
Frances Buchanan
Lee Ann Halstead
Secretary/Admin Support
Larry Stover, CPA
Controller
FINANCIAL REPORTING
Chip Myers
Budget Officer
FISCAL MANAGEMENT
AUDITING & CONTRACT MANAGEMENT
DATA WAREHOUSE
FINANCE PLAN DEVELOPMENT
ACTUARIAL SERVICES
Joe Estep
Supervisor
PREMIUM ACCOUNTS
Bernadette Curry
Melissa Hapney
Kimberly Long
Monica Rogers
Burley Williams
Jan Long
Manager
COMMUNICATIONS & OUTREACH
Vacant
TRAINING & OUTREACH
David Bailey
Bill Rainey
Vacant
PUBLICATIONS
Fayetta Bowen
Director, Human Resources
Tom Harper
Office Assistant
FACILITIES
Mark Sizer
Manager
INFORMATION TECHNOLOGY
Philip Skeen
ISC, II
Cindy Dotson
Micrographics Technician
HEALTH PROFESSIONALS TEAM
Felice Joseph, R.Ph.
Pharmacy Director**
Sandra Joseph, M.D.
Medical Director***
Nidia Henderson
Health Promotion & Disease Management****
*Reports to 'Director of Shared Operations' until Director is appointed.
**Reports to 'General Counsel' until Director is appointed.
***Coordinates with Deputy Director for Insurance Programs & Services until Director is appointed.
****Acting Co-Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Virginia Public Employees Insurance Agency

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

Financial Section

Dome Completion

The Capitol Dome, as pictured after restoration, has been remade to the original specifications in architect Cass Gilbert's designs. The dark panels offset by the gold-leafed symbols and borders now harken back to the early 1930's in the Kanawha Valley. The restoration project was unveiled in October 2005

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
West Virginia Public Employees Insurance Agency

We have audited the accompanying statements of net assets of the West Virginia Public Employees Insurance Agency (PEIA) as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of PEIA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of PEIA are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of the PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEIA at June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 4 to the financial statements, in 2005, PEIA adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which required additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2005, on our consideration of PEIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our 2005 audit.

Management's discussion and analysis on pages 12 through 16 and the unaudited supplemental schedule of Ten-Year Claims Development Information on page 36 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to management's discussion and analysis on pages 12 through 16 and the Ten-Year Claims Development Information on page 36 which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ernst + Young LLP

October 6, 2005

A Member Practice of Ernst & Young Global

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis

Year ended June 30, 2005

This section of the annual financial report of the West Virginia Public Employees Insurance Agency (the Plan) presents a discussion and analysis of the financial performance of the Plan for the year ended June 30, 2005. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Plan's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities. The primary purpose of the Plan is to provide group health and prescription drug insurance for the employees of state agencies, colleges and universities, county school boards, and other governmental units as set forth in the West Virginia Public Employees Insurance Act of 1971 as amended. The Plan operates in a manner similar to any other insurance company. The Plan is an enterprise fund of the State of West Virginia and is combined with other similar funds to comprise the enterprise funds of the State of West Virginia. The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

Statement of Net Assets—This statement presents information reflecting the Plan's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and noncurrent assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or become due within 12 months of the statement date.

Statement of Revenues, Expenses and Changes in Net Assets—This statement reflects the Plan's operating revenues and expenses, as well as non-operating revenues during the operating year. The major source of operating revenues is premium income, while major expense areas include medical and prescription drug claims costs. The change in net assets for an enterprise fund is similar to net profit or loss for any other insurance company.

Statement of Cash Flows—The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, capital, and investing activities. Cash collections and payments are reflected in this statement to arrive at net increase or decrease in cash for the fiscal year.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

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

				Change 2005 – 2004		Change 2004 – 2003	
	2005	2004	2003	Amount	Percent	Amount	Percent
Cash and cash equivalents	$ 219,340,506	$ 187,668,484	$ 119,019,129	$ 31,672,022	16.9%	$ 68,649,355	57.7%
Premium receivable	18,014,063	15,525,418	19,127,688	2,488,645	16.0	(3,602,270)	(18.8)
Other current assets	4,617,395	6,508,802	6,559,431	(1,891,407)	(29.1)	(50,629)	(0.8)
Total current assets	241,971,964	209,702,704	144,706,248	32,269,260	15.4	64,996,456	44.9
Cash and cash equivalents:							
Premium stabilization fund	3,942,557	3,942,557	1,350,738	–	0.0	2,591,819	191.9
Capital assets, net	155,149	90,070	114,789	65,079	72.3	(24,719)	(21.5)
Total assets	246,069,670	213,735,331	146,171,775	32,334,339	15.1	67,563,556	46.2
Claims payable	65,398,596	61,689,785	60,954,556	3,708,811	6.0	735,229	1.2
Other current liabilities	8,145,237	8,357,775	7,695,.20	(212,538)	(2.5)	662,775	8.6
Total current liabilities	73,543,833	70,047,560	68,649,556	3,496,273	5.0	1,398,004	2.0
Noncurrent liabilities:							
Premium stabilization fund	3,942,557	3,942,557	1,350,738	–	0.0	2,591,819	191.9
Net assets-invested in capital assets	155,149	90,070	114,789	65,079	72.3	(24,719)	(21.5)
Net assets-unrestricted	168,428,131	139,655,144	76,056,672	28,772,987	20.6	63,598,472	83.6
Total net assets	$ 168,583,280	$ 139,745,214	$ 76,171,481	$ 28,838,066	20.6	$ 63,573,753	83.5
Premium revenue	$ 580,985,961	$ 567,836,346	$ 494,803,110	$ 13,149,525	2.3	$ 73,033,236	14.8
Less: Payments to managed care organizations and life reinsurance premiums	(55,846,154)	(61,833,079)	(56,730,246)	5,986,925	-9.7	(5,102,833)	9.0
Net premium revenue	525,139,807	506,003,267	438,072,864	19,136,540	3.8	67,930,403	15.5
Administrative fees, net	6,011,411	6,035,393	4,766,910	(23,982)	-0.4	1,268,483	26.6
Total operating revenue	531,151,218	512,038,660	442,839,774	19,112,558	3.7	69,198,886	15.6
Claims expense, net	483,206,286	426,667,298	389,312,256	56,538,988	13.3	37,355,042	9.6
Administrative service fees	16,116,521	15,082,572	14,444,565	1,033,949	6.9	638,007	4.4
Other expenses	7,462,489	8,264,151	6,750,109	(801,662)	-9.7	1,514,042	22.4
Total operating expenses	506,785,296	450,014,021	410,506,930	56,771,275	12.6	39,507,091	9.6
Operating income	24,365,922	62,024,639	32,332,844	(37,658,717)	-60.7	29,691,795	91.8
Net investment income	4,472,144	1,549,114	1,599,711	2,923,030	188.7	(50,597)	-3.2
Changes in net assets	28,838,066	63,573,753	33,932,555	(34,735,687)	-54.6	29,641,198	87.4
Net assets, beginning of year	139,745,214	76,171,461	42,238,906	63,573,753	83.5	33,932,555	80.3
Net assets, end of year	$ 168,583,280	$ 139,745,214	$ 76,171,461	$ 28,838,066	20.6	$ 63,573,753	83.5
Total Revenues	$ 535,623,362	$ 513,587,774	$ 444,439,485	$ 22,035,588	4.2	$ 69,148,289	15.6

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Net assets at year ended June 30, 2005 increased approximately $28.8 million after increasing $63.6 million in the previous year. These improvements resulted primarily from the increases in operation earnings achieved in each of the two years.

Premium receivable at June 30, 2005 was $2.5 million more than the prior year due to a temporary unplanned staff vacancy. At year-end 2004 premium receivable was at $3.6 million less than year-end 2003 due to increased collection efforts.

Cash and cash equivalents, exclusive of the premium stabilization fund, increased by approximately $31.7 million during the current year after having increased $68.6 million in the previous year. These increases are primarily due to increases in operational earnings.

Other current assets were down $1.9 million or 29.1% primarily as the result of lower prescription drug rebates receivable at the end of the current year. The year-end 2004 other current asset level remained substantially unchanged from the prior year.

No additional premium stabilization funds were collected in 2005. The fund, which represents cash received from optional life insurance dividends, increased by approximately $2.6 million in 2004 as a result of fund deposits.

Claims payable increased $3.7 million due to an increase in average claim cost and member count. The year-end 2004 increase of $.7 million resulted from a somewhat slower claims processing timeframe.

Other liabilities decreased $.2 million due to decreases in accounts payable and other liabilities. The prior year increase of $3.3 million was primarily due to a $2.6 million increase in premium stabilization cash which is due to be paid for the optional life policyholders and an increase in deferred revenues of approximately $.7 million.

The $19.1 million increase in net premium resulted from an increase in health insurance premium rates of an average of 2.3% and a 10.9% decrease in payments to managed care organizations due to loss of enrollment to the PEIA self-insured preferred provider benefit plan. The prior year net increase of $67.9 million resulted from an increase in health insurance premium rates of an average of 14% plus an increase in policy count of approximately 1.6% less an increase in payments to managed care of approximately $5.1 million due to increased per policy capitation rates.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

Medical and prescription drug claims expense represent approximately 95% of total Plan operating expenses over the three-year period. In the current year, medical claims increased by $30 million or 10.1% and prescription drug claims increased $26.5 million or 20.5%. The current year increases are attributable to 2.3% increase in PPB plan membership, 4.6% increased utilization per member, 7.5% increase per average medical claim cost, 14.4% brand name drug price increase and reduced drug rebates. In 2004, total claims expense increased $37.4 million or 9.6% above the prior year which consisted of a medical claims increase of $26.2 million or 9.7% and a prescription drug claims increase of $11.2 million or 9.4%. The primary drives of the prior year claims cost increases were higher member counts, increased utilization, and new and more expensive medical technology and prescription drugs.

Through the three-year period, administrative service fees and other expenses have represented approximately 5% of total Plan operating expenses. In the current year, administrative service fees increased $1 million as a result of increased member count and the expansion of case management services, while other expenses decreased $0.8 million due to lower wellness program spending. For plan year 2004, administrative service fees increased $0.6 million as the result of increased member count and utilization, while other expenses increased $1.5 million primarily as a result of increased Plan investment in the wellness program producing a combined increase of approximately $2.2 million or 10.2% above the previous year.

As previously mentioned, the Plan experienced an increase of approximately $28.8 million or 20.6% in total net assets for the year ended June 30, 2005, and $63.6 million or 83.5% in the previous year. The premium rates adapted for the current year were based on assumptions used in developing the financial plan for 2005, which reflected an expected decrease in total net assets of approximately $13.9 million; however, total claims costs for the year ended at $28.3 million less, payments to managed care were $8.7 million less, investment revenue was $2.9 million more, premium revenue was $1.9 million more and wellness expense reduction plus other areas ended at $1.0 million less than planned. Plan year 2004 had an original finance plan which indicated an expected increase in total net assets of approximately $39 million; however, total claims costs for the year ended at $18 million less than plan while premium revenues and other areas increased approximately $6 million and $1 million over plan respectively.

West Virginia Public Employees Insurance Agency

Management's Discussion and Analysis (continued)

ECONOMIC CONDITIONS

After allowing for the contribution to retiree healthcare cost which is included in the active policyholder premium amount, the Plan's average active employee family monthly premium cost is $705.47 compared to the national average cost of $924.17. It should also be noted that the Plan's monthly premium cost above has not been adjusted to reflect the $28.8 million earned during the year that will be used to mitigate future premium increases.

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

In 2004, health insurance cost rose 9.2% nationally. During the same period, the overall inflation rate held to 3.5% and wage gains were limited to 2.7%. Such disparity reduces disposable incomes of policyholders as they are asked to bear a larger share of healthcare cost and stresses the operations of their employers.

Due to very significant claims cost increases in recent years, the Plan has increased premiums by $50.7 million for the year that began July 1, 2005, and is presently forecasted to end fiscal year 2006 with an increase in net assets of approximately $11.5 million.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

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

West Virginia Public Employees Insurance Agency

Statements of Net Assets

	June 30 2005	June 30 2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 219,340,506**	$ 187,668,484
Premiums receivable:		
Due from State of West Virginia	**4,856,210**	4,629,288
Other, less allowance for doubtful accounts of $574,000 and $680,000, respectively	**13,157,853**	10,896,130
Accounts receivable:		
Provider refunds, less allowance for doubtful accounts of $651,000 and $545,000, respectively	**458,923**	249,567
Prescription rebates	**3,845,106**	5,976,811
Other	**313,366**	282,424
Total current assets	**241,971,964**	209,702,704
Noncurrent assets:		
Cash and cash equivalents: premium stabilization fund	**3,942,557**	3,942,557
Furniture and equipment, net of accumulated depreciation of $567,005 and $533,017, respectively	**155,149**	90,070
Total assets	**246,069,670**	213,735,331
Liabilities		
Current liabilities:		
Claims payable	**65,398,596**	61,689,785
Accounts payable	**4,081,551**	4,285,666
Deferred revenue	**3,019,696**	2,868,337
Other accrued liabilities	**1,043,990**	1,203,772
Total current liabilities	**73,543,833**	70,047,560
Noncurrent liabilities:		
Other accrued liabilities: Premium stabilization fund	**3,942,557**	3,942,557
	3,942,557	3,942,557
Total liabilities	**77,486,390**	73,990,117
Net assets		
Invested in capital assets	**155,149**	90,070
Unrestricted	**168,428,131**	139,655,144
Total net assets	**$ 168,583,280**	$ 139,745,214

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30	
	2005	**2004**
Operating revenues:		
Premiums	**$ 580,985,961**	$ 567,836,346
Less:		
Payments to managed care organizations	**(49,441,787)**	(55,471,086)
Life reinsurance premiums	**(6,404,367)**	(6,361,993)
Net premium revenue	**525,139,807**	506,003,267
Administrative fees, net of refunds	**6,011,411**	6,035,393
Total operating revenues	**531,151,218**	512,038,660
Operating expenses:		
Claims expense, net	**483,206,286**	426,667,298
Administrative service fees	**16,116,521**	15,082,572
Other expenses	**7,462,489**	8,264,151
Total operating expenses	**506,785,296**	450,014,021
Net operating income	**24,365,922**	62,024,639
Nonoperating revenues:		
Investment income, net of fees	**4,472,144**	1,549,114
Change in net assets	**28,838,066**	63,573,753
Net assets at beginning of year	**139,745,214**	76,171,461
Net assets at end of year	**$ 168,583,280**	$ 139,745,214

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Years ended June 30	
	2005	**2004**
Cash flows from operating activities		
Cash received from participants	**$ 530,537,396**	$ 516,319,881
Cash received from pharmacy rebates	**13,298,826**	15,043,481
Cash paid to employees	**(2,092,638)**	(2,093,351)
Cash paid to suppliers and others	**(21,648,338)**	(18,580,659)
Cash paid for claims	**(492,796,301)**	(440,975,550)
Net cash provided by operating activities	**27,298,945**	69,713,802
Cash flows from capital and related financing activities		
Cash purchases of furniture and equipment	**(99,067)**	(21,742)
Net cash used in capital and related financing activities	**(99,067)**	(21,742)
Cash flows from investing activities		
Cash received from investment earnings (net)	**4,472,144**	1,549,114
Net cash provided by investing activities	**4,472,144**	1,549,114
Net increase in cash and cash equivalents	**31,672,022**	71,241,174
Cash and cash equivalents at beginning of year	**191,611,041**	120,369,867
Cash and cash equivalents at end of year	**223,283,063**	191,611,041

West Virginia Public Employees Insurance Agency

Statements of Cash Flows (continued)

	Years ended June 30	
	2005	**2004**
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**24,365,922**	62,024,639
Adjustments		
Depreciation	**33,988**	46,462
Decrease (increase) in operating assets:		
Premium receivable	**(2,261,723)**	4,526,517
Due from State of West Virginia	**(226,922)**	(924,247)
Provider refunds receivable	**(209,356)**	199,694
Prescription refunds receivable	**2,131,705**	(599,482)
Other	**(30,942)**	450,417
Increase (decrease) in operating liabilities:		
Claims payable	**3,708,811**	735,229
Accounts payable	**(204,115)**	(25,397)
Deferred revenue	**151,359**	655,644
Other accrued liabilities	**(159,782)**	2,624,326
Total adjustments	**2,933,023**	7,689,163
Net cash provided by operating activities	**$ 27,298,945**	$ 69,713,802

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

Years ended June 30, 2005 and 2004

1. Reporting Entity

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

PEIA provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug coverage for active and retired employees of the State of West Virginia (State) and various related State and non-State agencies. Additionally, all participants may elect to purchase additional life insurance under the optional life insurance policy. All premium rates are established based upon projected coverage costs as reviewed and approved by the Finance Board of PEIA. See "Budgetary Requirements" for further discussion of this process. PEIA's enrollment consists of approximately 105,000 health and basic life insurance policyholders, and 15,000 policyholders with life insurance only. PEIA insures approximately 221,000 individuals, including participants and dependents.

The financial statements of the PEIA are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of the PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Reporting

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

Use of Estimates

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

Budgetary Requirements

The Act requires the Finance Board of PEIA to prepare a proposed annual financial plan. The plan must be designed to generate sufficient revenues to meet all expected expenses, including insurance, administrative expenses, and incurred but unreported claims of the PEIA. An independent professional actuary must review the plan and give an opinion stating that the plan may be reasonably expected to generate sufficient revenue to meet estimated insurance claims and administrative expenses. The financial plan must be presented to the governor and the legislature no later than January 1, prior to the beginning of the new plan year.

The PEIA Finance Board establishes PEIA premiums based upon its approved annual financial plan. The financial plan projects the anticipated costs of the program for each fiscal year and the premium levels necessary to meet these costs. Any variances between projected and incurred costs are incorporated into subsequent financial plans and subsequent premiums are adjusted accordingly on a prospective basis. Premiums assessed by PEIA are not subject to retroactive adjustment based upon actual costs incurred.

Cash and Cash Equivalents

Cash and cash equivalents are short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit in the State Treasurer's Office (STO) that are pooled funds managed by the West Virginia Investment Management Board (IMB). In addition, PEIA makes interest-earning deposits in certain investment pools maintained by IMB that are available to PEIA with overnight notice. Interest income from these investments is prorated to PEIA at rates specified by IMB based on the balance of PEIA's deposits maintained in relation to the total deposits of all state agencies participating in the pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Market risk exists as the value of the investment pools underlying investment assets may decline because of an increase in interest rates or a decline in stock prices. The carrying value of the deposits reflected in the financial statements approximates fair value and approximates the value of the shares in the external investment pool.

The STO has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards, and commissions. The STO determines which funds to transfer to the IMB for investment in accordance with the West Virginia Code, policies set by the IMB, and provisions of bond indentures and trust agreements when applicable. The IMB is governed by a 13-member Board of Trustees. The Governor, the State Auditor and the State Treasurer are members of the Board and the other members are appointed by the Governor. The Board was formed in 1997 to serve as the Trustee to hold certain public pension funds and insurance funds, as well as to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds. The IMB prepares separately issued financial statements covering the pooled funds, which can be obtained from the West Virginia Investment Management Board, 500 Virginia Street, East, Suite 200, Charleston, West Virginia 25301.

Premiums Receivable

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

Accounts Receivable

Accounts receivable include overpayments made by third-party administrators which are due to PEIA and estimated prescription refunds and rebates which are due PEIA from third-party administrators and other drug companies. The estimated prescription refunds/rebate receivable estimate is based upon estimated prescription claim count and historical average rebate per claim. These receivables have been reduced by the estimated portion that is expected to be uncollectible based upon management's review of the payment status of the underlying accounts and other economic factors that are deemed necessary in the circumstances.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Capital Assets

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

Claims Payable and Expense

The liability for unpaid claims and claims processing costs is based on an actuarial estimate of the ultimate cost of settling such claims incurred as of the balance sheet date (including claims reported and in process of settlement, claims reported but not yet processed for settlement, and claims incurred but not yet reported or processed for settlement). The estimated actuarial liability reflects certain assumptions, which include such factors as enrollment, utilization, inflation, and other societal and economic factors. Adjustments to the estimated actuarial liability for the final settlement of claims will be reflected in the year that the actual results of the settlement of the claims are made and are known. The estimated liability is adjusted annually based on the most current claim incurrence and claim settlement history (see Note 6). Claims relating to participants in Managed Care Organizations (MCOs) as well as claims relating to participants covered under the optional life insurance plan are not considered in the liability as PEIA has no liability for the participants who elect such coverage. Additionally, the estimated liability for unpaid claims and claims processing costs is recorded net of amounts ceded to reinsurers for basic life benefits as management believes these reinsured risks are fully recoverable. However, in the event a reinsurer is unable financially to satisfy an obligation, PEIA is responsible for such liability. Claims expense is reported net of pharmacy rebate income of $11,167,121 and $15,642,963 for the years ended June 30, 2005 and 2004, respectively.

Premium deficiency is required when policies in force as of the financial statement date are expected to produce a loss when claims cost (including IBNR), plus expected claims adjustment expenses, are expected to exceed related premiums. PEIA has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated premium revenue and claims costs. PEIA did not include anticipated investment income in determining whether a premium deficiency exists.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Revenue

Deferred revenue included premium revenues collected for future contract periods and unexpended grant proceeds. These revenues will be recognized in the operating periods in which they are earned or related eligible grant expenditures are incurred.

Insurance Programs and Related Premium Revenues

PEIA offers the following types of coverage to its participants: health coverage through a self-insured preferred provider benefit (PPB) plan, health coverage through external MCOs, and life and accidental death and dismemberment (AD&D) insurance benefits under basic and optional plans. PEIA collects premiums for participants in the PPB plan and uses these premiums in the administration of the plan. Additionally, PEIA has the statutory authority to raise additional revenues in the form of premiums without the need for external (legislative) action.

For participants who elect coverage through MCOs, PEIA collects premiums from employers and remits a capitation fee to an MCO carrier. The capitation fees paid by PEIA to each MCO are in accordance with their respective contracts. Benefits are the responsibility of each MCO carrier. The premiums earned by PEIA have been included in gross premium revenue while the capitation fees submitted to each MCO carrier are reflected as payments to MCOs on the financial statements.

Employees covered through PEIA are eligible to obtain life insurance coverage under basic and optional life insurance plans. Basic life benefits and AD&D benefits of $10,000 are provided to active State employees under the age of 65 at no cost to the employee. Coverage amounts decrease with age. No AD&D benefits are available to retirees. Basic life benefits are available to retirees with coverage ranging from $2,500 to $5,000 depending on age. For these basic life benefits, PEIA collects premiums and submits them to the insurance carrier. PEIA has reinsured 100% of these basic benefits; however, PEIA remains contingently liable in the event the insurer does not honor its obligation. The premiums earned for basic life insurance are reflected in gross premiums and the related amounts ceded to the reinsurer are reflected as life reinsurance premiums on the financial statements.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Active employees may elect to obtain additional optional coverage for both life and AD&D with coverage from $5,000 to $500,000 that decreases with age. Active employees may also elect dependent optional life coverage and AD&D at a level up to $20,000 per spouse and $10,000 per child. Retirees may obtain optional life insurance coverage from $5,000 to $150,000 depending on age; however, optional AD&D insurance is not available to retirees. Retirees may also elect dependent optional life coverage at levels up to $20,000 for spouse and $10,000 per child. Amounts collected by PEIA from employees for optional coverage totaled $19,843,496 and $19,854,948 during the fiscal years ended June 30, 2005 and 2004, respectively, and were remitted directly to the carrier. In this instance, PEIA functions as an agent and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

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

Administrative Service Fees

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

Supplemental Appropriations

Supplemental appropriations represent legally authorized appropriations under West Virginia State Code by the West Virginia Legislature. PEIA did not receive any supplemental appropriations in 2005 or 2004.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Compensated Absences, Including Postretirement Benefits

Employees fully vest in all earned but unused annual leave and PEIA accrues for obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. In accordance with State personnel policies, employees vest in any remaining unused sick leave only upon retirement, at which time any unused compensated absence time can be converted into employer paid premiums for postretirement health care coverage through PEIA, or be converted into a greater retirement benefit under the State's Public Employees' Retirement System. The estimated obligation for such benefits, as they relate only to those persons employed directly by PEIA presently or in the past, is recorded as a liability in the accompanying financial statements.

Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those that comprise PEIA's ongoing operations. Principal operating revenues include health insurance premiums, life insurance premiums and insurance administration fees, less amounts paid to managed care organizations and life insurance reinsurers. Operating expenses include the cost of medical claims, drug claims, claims adjudication, administration and depreciation of capital assets. Other revenues and expenses are classified as nonoperating in the financial statements.

Net Assets

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

> *Invested in Capital Assets, Net of Related Debt*—This component of net assets consists of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> *Restricted Net Assets*—Restricted net assets should be reported when constraints placed on the net assets use are either externally imposed (for instance, by creditors, laws, or grantors) or imposed by law through constitutional provisions or enabling legislation. Such constraints limit the PEIA's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is the PEIA's policy to use restricted resources first, then unrestricted resources as needed.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Unrestricted Net Assets—Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." In the governmental environment, net assets are often *designated* to indicate that management does not consider them to be available for general operations. These types of constraints on resources are internal and management can remove or modify them. Such internal designations are not reported on the face of the statement of net assets.

West Virginia Code section 5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and provide future plan stability. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess is to be remitted to the Department of Administration. As of June 30, 2004 and 2003, PEIA has sufficient net assets to comply with this code section. Additionally, there were no excess amounts due to the Department of Administration.

3. Cash and Cash Equivalents

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

	2005	2004
Cash deposited with IMB (cash liquidity pool):		
Premium stabilization fund	**$ 3,942,557**	$ 3,942,557
Other	**215,271,338**	176,033,987
Total cash deposited with IMB	**219,213,895**	179,976,544
Cash on deposit with State Treasurers Office	**2,745,782**	9,537,430
Deposits with outside financial institutions	**1,323,386**	2,097,067
	$ 223,283,063	$ 191,611,041

4. Deposit and Investment Risk Disclosures

Custodial credit risk is the risk that, in the event of a bank failure, the PEIA's deposits might not be recovered. The PEIA has no deposit policy for custodial credit risk.

In 2005, PEIA adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which requires additional disclosures relating to risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk associated with investments. Such disclosures required by GASB No. 40 are reflected in this Note 4 to the financial statements.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

As of June 30, 2005, the carrying amount of PEIA's bank deposits was $1,323,386 and the respective bank balances totaled $1,477,728. Of the total bank balance, $1,475,568 was collateralized with government-sponsored enterprise securities held by financial institutions. These securities are held in the name of the financial institution and not that of PEIA.

Through year-end 2005, PEIA was mandated by statute to have its cash and investments managed by the West Virginia Investment Management Board (WVIMB). Furthermore, participation was limited to the cash liquidity pool.

Cash Liquidity Pool

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

The following table provides information on the weighted-average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9%
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,955,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	4,241,278	0.3
Total rates investments			$ 1,437,958,293	91.2%

Unrated securities include repurchase agreements of $141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

Concentration of Credit Risk

West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

At June 30, 2005, the Cash liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest Rate Risk

The weighted-average maturity of the investments of the cash liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the cash liquidity pool.

Security Type	Carrying Value	WAM
Commercial paper	$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	4,241,278	1
Total rates investments	$ 1,579,008,293	45

The cash liquidity pool has not been rated.

PEIA's investment in the WVIMB cash liquidity pool of $219,213,895 at June 30, 2005, represents approximately 13.9% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

5. Premium Stabilization Fund

The premium stabilization fund consists of accumulated dividends and interest on participant optional life insurance policies. This account was established in 1979 for the sole purpose of accumulating optional life insurance policy dividends and defraying future premium increases. Because these amounts are designated internally for the purpose, management does not intend on using these resources for operations. For cash flow purposes, cash and cash equivalents include $3,942,557 as of June 30, 2005 and 2004, respectively, related to this fund.

6. Unpaid Claims Liabilities

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

	2005	2004
	(In Thousands)	
Claims payable, beginning of year	**$ 61,690**	$ 60,955
Incurred claims expenses:		
Provision for insured events of the current year	**486,666**	431,397
Decrease in provision for insured events of prior years	**(3,460)**	(4,730)
Total incurred claims expense	**483,206**	426,667
Payments:		
Claim payments attributable to insured events of:		
Current year	**426,562**	379,101
Prior years	**52,935**	46,831
Total payments	**479,497**	425,932
Claims payable, end of year	**$ 65,399**	$ 61,690

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

6. Unpaid Claims Liabilities (continued)

The above payments are net of cash received from pharmacy rebates of $13,298,826 and $15,043,481 for the years ended June 30, 2005 and 2004, respectively.

7. Employee Benefit Plans

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

Covered employees are required to contribute 4.5% of their salary to PERS. PEIA is required to contribute 10.5%, effective in year 2004, of covered employees' salaries to PERS. The required employee and employer contribution percentages are determined by actuarial advisement within ranges set by statute. PEIA and employee contributions, both the statutorily required and actual contributions made, for the three years ended June 30 are as follows:

	2005	**2004**	**2003**
Employer contributions (10.5% in 2005 and 2004, and 9.5% in 2003)	**$ 220,517**	$ 221,187	$ 192,351
Employee contributions (4.5%)	**94,989**	93,625	91,114
Total contributions	**$ 315,506**	$ 314,812	$ 283,465

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Postemployment Benefits Other Than Pension Benefits

Upon retirement, an employee may apply unused sick leave or annual leave, or both to reduce their future insurance premiums paid to PEIA or to obtain a greater benefit under PERS. The estimated liability at June 30, 2005 and 2004, for sick leave postretirement benefits of $285,346 and $268,681, respectively, is included in other accrued liabilities in the statements of net assets. During the years ended June 30, 2005 and 2004, PEIA disbursed $6,260 and $5,700, respectively, from the liability balances discussed above to fund health insurance premiums for one of its retirees, who had elected to use their accumulated leave time for health coverage.

The GASB has issued Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEBs). This OPEB obligation will need to be actuarially determined; an actuarially determined contribution (ARC) in accordance with the GASB requirements will be required, an OPEB obligation and related expense will need to be recorded, and there will be additional disclosures. Management has not completed the complex analysis that will be required to comply with the new standards which will not be effective until fiscal year 2007 for Statement 43 and fiscal year 2008 for Statement 45. Accordingly, the PEIA cannot reasonably estimate the impact on the financial statements of the new standards.

9. Litigation

PEIA is engaged in various legal actions that it deems to be in the ordinary course of business. PEIA believes that it has adequately provided for probable costs of current litigation. As these legal actions are resolved, however, PEIA could realize positive and/or negative impact to its financial performance in the period in which these legal actions are ultimately decided.

PEIA is the defendant in a dispute with its former prescription benefit manager (PBM), which essentially maintains that PEIA owes it approximately $3 million based upon a shared savings provision in the contract. PEIA is also the plaintiff in a dispute with its former PBM maintaining the PBM did not live up to their contract and owes PEIA damages in an unspecified amount. The ultimate outcome of this matter cannot be determined at the present time. In the opinion of management, after consultation with legal counsel, resolution of this matter is not expected to have a material adverse effect on net assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

10. Subsequent Event – Investments with the IMB

In the spring of 2005, the West Virginia Code was amended to allow the PEIA to invest its funds with IMB pools other than the cash liquidity pool.

Upon approval of its Finance Board, PEIA transferred $150 million in July 2005 to the following pools:

	(In Thousands)
Short-term fixed income	$ 15,000
Fixed income	67,500
Fixed income nonqualified	45,000
Large cap domestic	9,563
Non-large cap domestic	5,625
International equity	7,312
Total	$ 150,000

Required Supplemental Schedule

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (unaudited)

(In Thousands)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PEIA as of the end of each of the years presented. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating and investment revenues. (2) This line shows each fiscal year's other operating costs of PEIA including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows PEIA's incurred and ceded claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred (called accident year). (4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. (5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. (6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on know claims, as well as emergence of new claims not previously known. (7) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

	Fiscal and Policy Years Ended June 30									
	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
					(In Thousands)					
1) Premiums, investment, and other revenues:										
Earned	$295,559	$ 312,476	$329,296	$373,698	$ 388,179	$ 417,673	$432,220	$ 501,170	$575,420	**$ 591,470**
Ceded	67,357	90,070	85,859	74,201	75,298	76,656	51,962	56,730	61,833	**55,846**
Net earned	228,202	222,406	243,437	299,497	312,881	341,017	380,258	444,440	513,587	**535,624**
2) Unallocated expenses	15,647	15,349	12,117	14,376	14,564	16,754	16,531	21,195	23,347	**23,579**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	293,681	318,791	333,067	351,082	334,802	388,645	431,544	450,592	493,230	**542,512**
Ceded	67,357	90,070	85,859	74,201	75,298	76,656	51,962	56,730	61,833	**55,846**
Net incurred	226,324	228,721	247,208	276,881	259,504	311,989	379,582	393,862	431,397	**486,666**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	174,540	177,598	198,058	236,905	217,771	262,116	327,451	343,939	379,101	**426,562**
One year later	225,963	228,783	235,214	271,547	254,001	310,090	374,269	390,420	428,176	
Two years later	229,191	230,653	235,719	272,155	254,852	310,047	374,685	388,999		
Three years later	229,052	230,283	235,341	272,355	254,887	309,981	374,465			
Four years later	228,912	230,283	235,341	272,355	254,887	309,981				
Five years later	228,912	230,283	235,341	272,355	254,887					
Six years later	228,912	230,283	235,341	272,355						
Seven years later	228,912	230,283	235,341							
Eight years later	228,912	230,283								
Nine years later	228,912									
5) Re-estimated ceded claims and expenses	67,357	90,070	85,859	74,201	75,298	76,656	51,962	56,730	61,833	_
6) Re-estimated net incurred claims and allocated claims adjustment expense:										
End of accident year	226,324	228,721	247,208	276,881	259,504	311,989	379,582	393,862	431,397	**486,666**
One year later	227,191	230,636	235,542	272,337	256,492	319,539	375,350	389,662	428,567	
Two years later	228,512	229,216	234,523	272,337	255,440	319,306	375,050	389,162		
Three years later	231,224	229,046	234,523	272,757	255,355	319,076	374,920			
Four years later	231,224	229,046	234,523	272,757	255,270	319,076				
Five years later	231,224	229,046	234,523	272,757	255,270					
Six years later	231,224	229,046	234,523	272,757						
Seven years later	231,224	229,046	234,523							
Eight years later	231,224	229,046								
Nine years later	231,224									
7) (Decrease) increase in estimated net incurred claims and allocated claims adjustment expense from end of accident year	4,900	325	(12,685)	(4,124)	(4,234)	7,087	(4,662)	(4,700)	(2,830)	_

Note: The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of change in net assets as determined on a contract-year basis will differ from that included in PEIA's fiscal year financial statements.

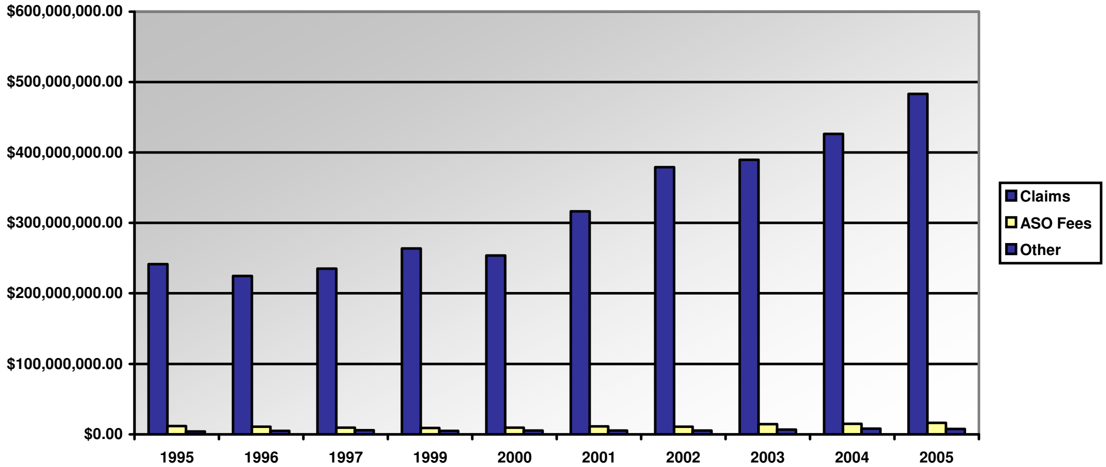
Statistical Section

Capitol at Night

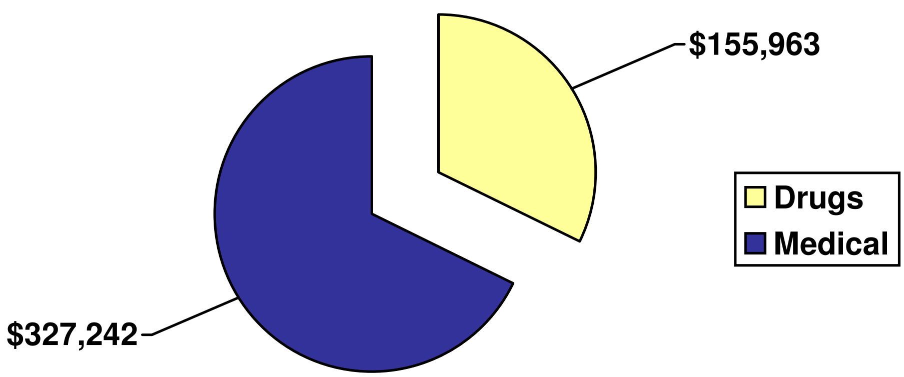
The Capitol, seen here at night and decorated for the holiday season, has been the meeting place for state politics since 1932. The dome is 293 feet high, five feet higher than that of the U.S. Capitol.

Table 1

Operating Expenses



Fiscal Year 2005
Claim Expenses
(in thousands)



Source: Financial Statements/Internal Claims Data

Table 2

Comparative Statement of Net Assets *(Year Ended June 30)*

	2005	2004	2003	2002
Assets:				
Current Assets				
Cash and cash equivalents	219,340,506	187,668,484	$119,019,129	$91,169,031
Accounts receivable:				
Due from State of West Virginia	4,856,210	4,629,288	3,705,041	3,936,444
Other, net of allowance for doubtful accounts	17,775,248	17,404,932	21,982,078	15,573,188
Total Current Assets	$241,971,964	$209,702,704	$144,706,248	$110,678,663
Noncurrent Assets				
Furniture and equipment, net of accumulated depreciation	155,149	90,070	114,789	160,731
Restricted cash-premium stabilization	3,942,557	3,942,557	1,350,738	1,698,206
Total Assets	246,069,670	213,735,331	146,171,775	112,537,600
Liabilities:				
Current Liabilities				
Claims payable	65,398,596	61,689,785	60,954,556	62,392,297
Premium deficiency reserve				
Accounts payable	4,081,551	4,285,666	4,308,112	2,783,945
Deferred revenue	3,019,696	2,868,337	2,212,693	2,583,614
Other accrued liabilities	1,043,990	1,203,772	1,174,215	840,632
Total Current Liabilities	73,543,833	70,047,560	68,649,576	68,600,488
Noncurrent Liabilities				
Other accrued liabilities: Premium stabilization fund	3,942,557	3,942,557	1,350,738	1,698,206
Net Assets				
Invested in capital assets, net of related debt	$155,149	$90,070	$114,789	$160,731
Unrestricted	$168,428,131	$139,655,144	$76,056,672	$42,078,175
Total Net Assets	$168,583,280	$139,745,214	$76,171,461	$42,238,906

Source: Financial Statements

2001	2000	1999	1998	1997	1996
$110,799,153	83,168,671	33,826,295	33,616,551	44,043,709	64,760,765
1,331,225	1,665,317	6,375,786	5,909,807	10,986,255	7,165,849
11,024,741	7,896,748	7,069,711	6,713,069	13,457,896	8,999,706
$123,155,119	$92,730,736	$47,271,792	$46,239,427	$68,487,860	$80,926,320
221,531	281,346	295,313	208,452	72,283	63,882
3,607,558	2,025,790		976,343	924,669	875,785
126,984,208	95,037,872	47,567,105	47,424,222	69,484,812	81,865,987
52,371,174	41,966,795	40,605,000	49,890,000	52,703,000	52,934,000
7,242,000			2,560,000	13,900,000	
5,278,175	731,744	878,539	9,791,560	10,716,077	1,345,982
714,207	585,122	901,001	196,395	127,579	115,054
65,605,556	43,283,661	42,384,540	62,437,955	77,446,656	54,395,036
3,607,558	2,025,790	0	976,343	924,669	875,785
$221,531	$281,346	$295,313	$208,452	$72,283	$63,882
$57,549,563	$49,447,075	$4,887,252	($16,198,528)	($8,958,796)	$26,531,284
$57,771,094	$49,728,421	$5,182,565	($15,990,076)	($8,886,513)	$26,595,166

Table 3

Comparative Statements of Revenues, Expenses and Changes in Net Assets (*Year Ended June 30*)

	2005	2004	2003	2002
Operating Revenues:				
Premiums	$580,985,961	$567,836,346	$494,803,110	$418,663,654
Less:				
Payments to managed care organizations	(49,441,787)	(55,471,086)	(50,336,032)	(46,818,034)
Life reinsurance premiums	(6,404,367)	(6,361,993)	(6,394,214)	(5,144,232)
Net premium revenue	525,139,807	506,003,267	438,072,864	366,701,388
Administrative fees, net of refunds	6,011,411	6,035,393	4,766,910	4,656,388
Net operating revenues	531,151,218	512,038,660	442,839,774	371,357,776
Operating Expenses:				
Claims expense	483,206,286	426,667,298	389,312,256	379,258,215
Administrative service fees	16,116,521	15,082,572	14,444,565	10,917,542
Other operating expenses	7,462,489	8,264,151	6,750,109	5,614,074
Total operating expenses	506,785,296	450,014,021	410,506,930	395,789,831
Operating Income (loss)	24,365,922	62,024,639	32,332,844	(24,432,055)
Nonoperating Revenues:				
Investment income, net of fees	4,472,144	1,549,114	1,599,711	3,099,867
Supplemental Appropriations				5,800,000
Other revenue				
Change in Net Assets	28,838,066	63,573,753	33,932,555	(15,532,188)
Net Assets, Beginning of Year	139,745,214	76,171,461	42,238,906	57,771,094
Net Assets, End of Year	168,583,280	139,745,214	76,171,461	42,238,906

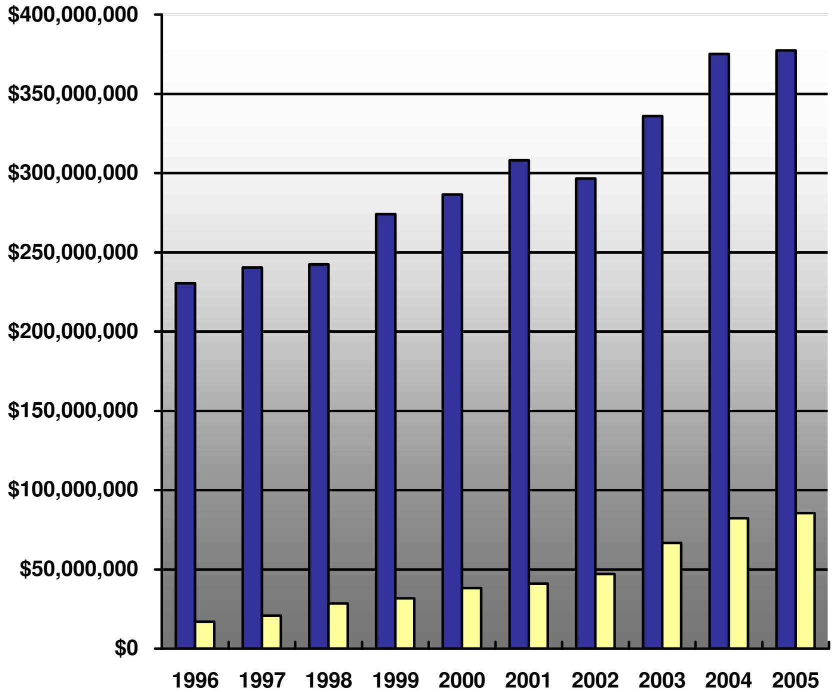
Source: Financial Statements

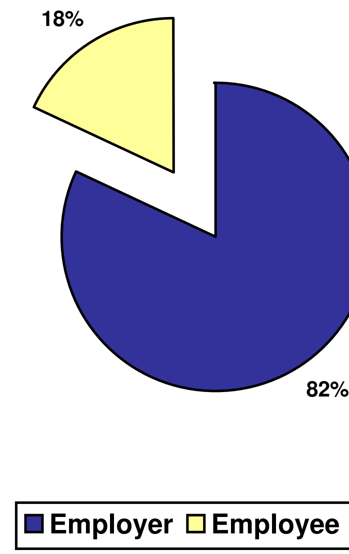
2001	2000	1999	1998	1997	1996
$396,494,659	$380,081,007	$365,771,569	$321,955,257	$309,463,427	$293,022,029
(71,609,138)	(70,757,209)	(69,713,292)	(81,392,367)	(85,331,092)	(62,874,260)
(5,047,339)	(4,540,875)	(4,488,068)	(4,467,264)	(4,738,484)	(4,482,996)
319,838,182	304,782,923	291,570,209	236,095,626	219,393,851	225,664,773
4,612,838	3,952,384	3,101,354	3,025,674	2,443,298	2,142,011
324,451,020	308,735,307	294,671,563	239,121,300	221,837,149	227,806,784
316,219,643	253,771,160	263,947,359	238,423,500	234,821,774	224,420,109
11,471,003	9,316,764	9,186,157	8,229,978	9,502,029	10,728,050
5,283,378	5,247,246	5,190,317	3,887,511	5,846,761	4,919,411
332,974,024	268,335,170	278,323,833	250,540,989	250,170,564	240,067,570
(8,523,004)	40,400,137	16,347,730	(11,419,689)	(28,333,415)	(12,260,786)
6,565,677	3,145,719	1,274,911	766,126	569,736	395,135
10,000,000	1,000,000	3,550,000	3,550,000	-	-
-				300,000	
8,042,673	44,545,856	21,172,641	(7,103,563)	(27,463,679)	(11,865,651)
49,728,421	5,182,565	(15,990,076)	(8,886,513)	18,577,166	38,460,817
$57,771,094	$49,728,421	$5,182,565	($15,990,076)	($8,886,513)	$26,595,166

Note: Prior period adjustments were made in fiscal years 1996 and 1997 due to the correction of an error and implementation of GASB 30. As a result, retained earnings balances do not carry forward in the above table for those years.

Table 4

Source of Premium Revenues
(State Fund Only)





Source: Actuarial Financial Reports

Table 5

Enrollment

The following tables depict PEIA's enrollment for the past ten years. These tables illustrate the growth of the retiree population and the total population, as well as the peak of managed care enrollment in 1997 and the subsequent decline excepting 2003 and 2004.

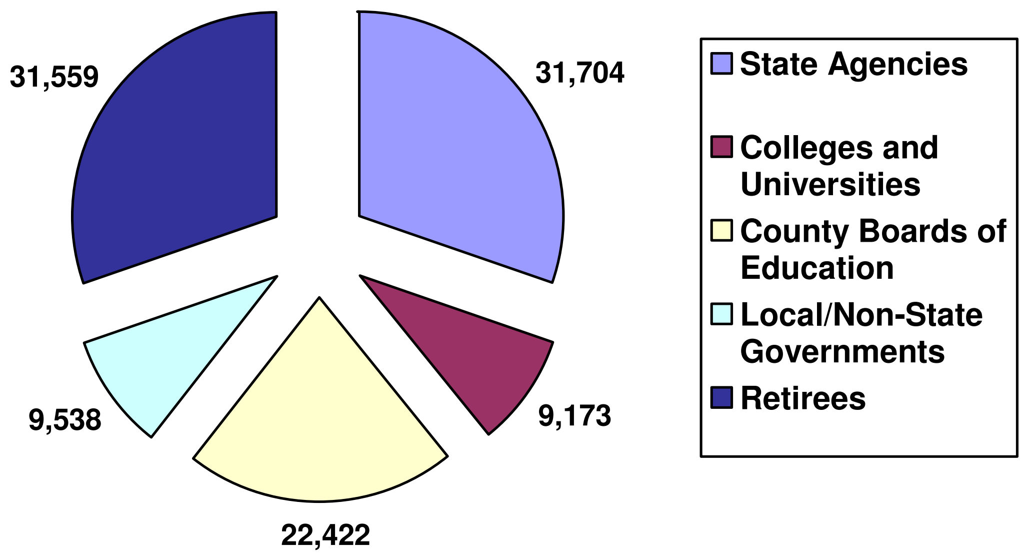
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Active Lives	72,837	72,811	72,120	71,419	70,751	70,533	70,483	71,019	71,705	71,165
Retirees	31,559	30,539	29,349	28,920	28,480	27,789	27,035	26,004	25,128	24,907
Total Enrollment	104,396	103,350	101,469	100,339	99,231	98,322	97,518	97,023	96,833	96,072

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
PPB Enrollment	93,085	90,872	90,056	90,083	82,664	80,436	79,245	74,216	73,009	77,470
MCO Enrollment	11,311	12,478	11,413	10,256	16,567	17,886	18,273	22,807	23,824	18,602
Total Enrollment	104,396	103,350	101,469	100,339	99,231	98,322	97,518	97,023	96,833	96,072

Source: PEIA Eligibility System Reports

Table 6

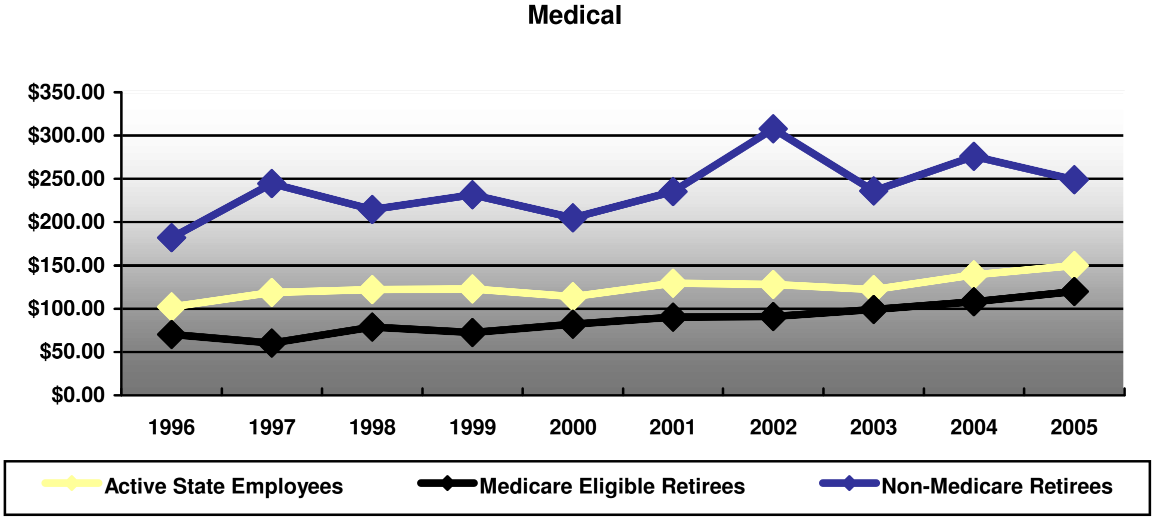
FY 2005 PEIA Policies by Employer Group or Eligibility Type

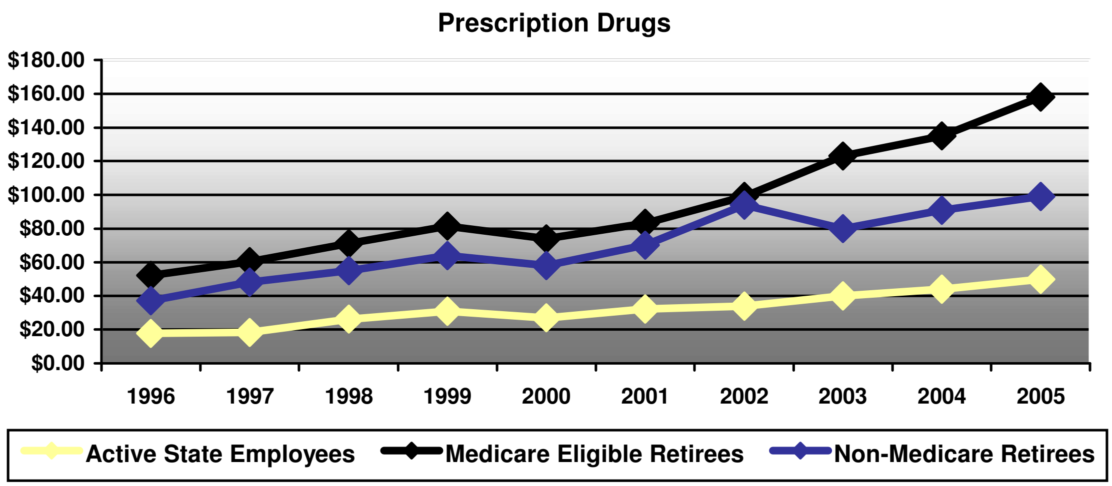


Source: PEIA Eligibility System Reports

Table 7

Average Cost Per Member Per Month



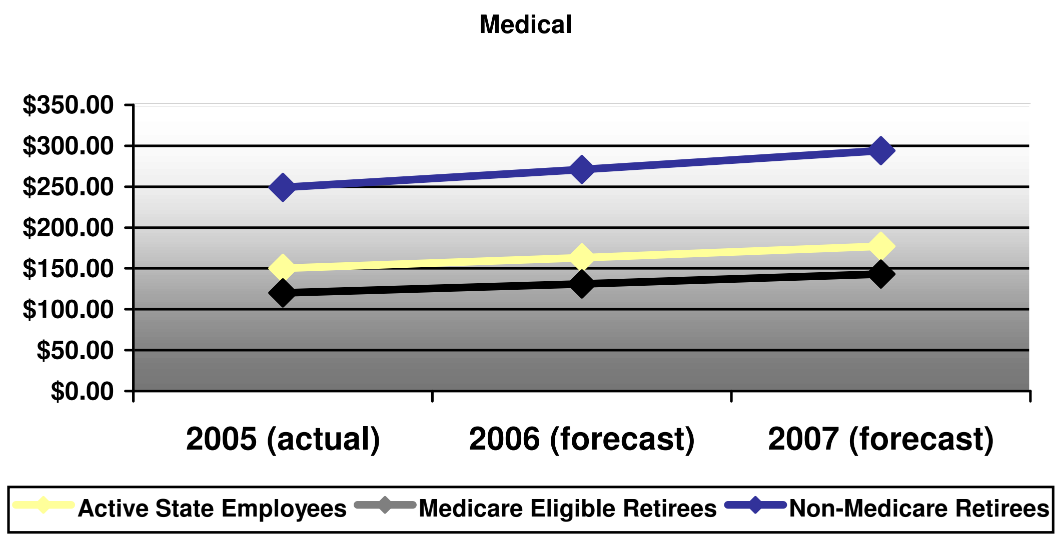


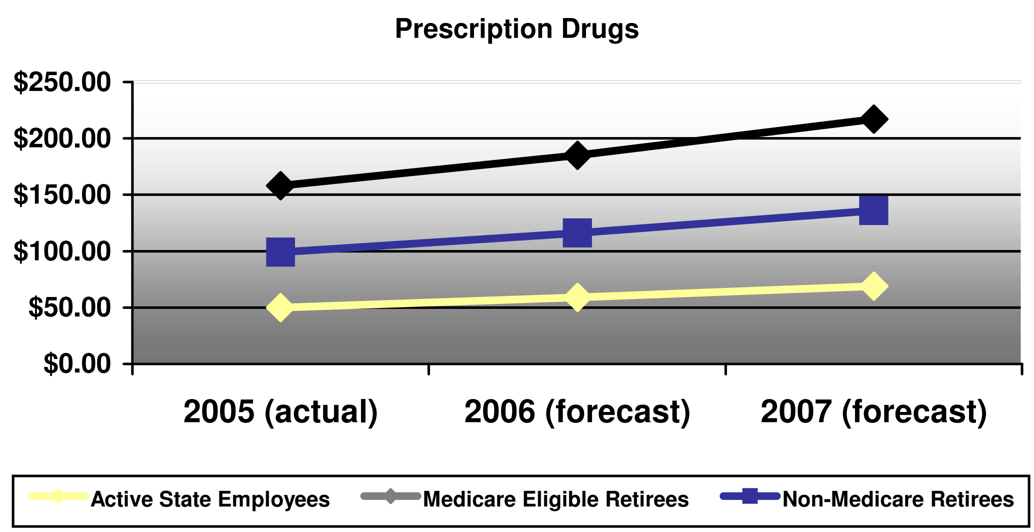
Source: Actuarial Financial Reports

Table 8

Trends

(Average Cost Per Member Per Month)





Source: Actuarial Financial and Trend Reports

Table 9

PEIA Trend vs. National Survey Results

	PEIA*	National Survey**
FY 2003	1.13%	12.0%
FY 2004	9.60%	10.9%
FY 2005	13.45%	13.1% Projected
FY 2006	11.42% Projected	12.7% Projected

*Actuarial Fiscal Year Report (PEIA trend is unadjusted)
**2006 and 2005 Segal Health Plan Cost Trend Survey – PPO's

Table 10

Top 10 Prescription Drugs

National	
	Sales ($ Billions)
LIPITOR	8.2
ZOCOR	4.4
NEXIUM	4.1
PREVACID	3.8
ADVAIR DISKUS	3.3
PLAVIX	3.3
ZOLOFT	3.1
PROCRIT	3.0
EPOGEN	3.0
ZYPREXA	2.8

Source: IMS Health NPA+

PEIA		
	PEIA's Annual Cost ($ Millions)	% of Total Drug Spend
Lipitor	13.77	8.23%
Plavix	4.81	2.88%
Prevacid	4.19	2.51%
Nexium	3.99	2.39%
Zocor	3.30	1.98%
Advair Diskus	3.30	1.97%
Omeprazole	3.26	1.95%
Norvasc	3.19	1.91%
Effexor	3.15	1.88%
Actos	3.03	1.81%

Source: PEIA Annual Rx Report from PBM

Table 11

Top 10 Diagnostic Categories by Claims Paid

Diagnostic Category	Paid Claims (in thousands)	# Claims	% Paid
Diseases of Circulatory System	$31,664	185,594	9.83
Injury and poisoning	$27,761	203,659	8.60
Neoplasms	$25,566	118,738	7.92
Diseases of genitourinary system	$19,151	159,793	5.93
Systems signs and ill defined conditions	$18,686	177,084	5.79
Musculoskeletal & connective tissue disease	$18,012	168,953	5.58
Infectious and Parasitic Diseases	$17,866	168,126	5.53
Supplemental Factors Influencing Health	$15,168	141,141	4.70
Diseases of digestive system	$15,066	57,953	4.67
Diseases of respiratory system	$13,811	155,455	4.28
Diseases of nervous system & sense organs	$10,615	92,943	3.29

Source: PEIA Monthly Healthcare Management Reports

Table 12

Top 25 Participating Agencies

(as of June 30, 2005)

West Virginia University
Department of Transportation
Kanawha County Board of Education
Teachers Retirement Board
Department of Health and Human Resources
Public Employees Retirement Board
Berkeley County Board of Education
Wood County Board of Education
Department of Corrections
Raleigh County Board of Education
Marshall University
Cabell County Board of Education
Harrison County Board of Education
Monongalia County Board of Education
Mercer County Board of Education
Marion County Board of Education
Putnam County Board of Education
Supreme Court / Judicial
Public Safety
Wayne County Board of Education
Fayette County Board of Education
Division of Environmental Protection
Natural Resources
Jefferson County Board of Education
Logan County Board of Education
West Virginia University
Department of Transportation

Source: Records of PEIA Premium Accounts