Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

State of West Virginia
Public Employees Insurance Agency

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

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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, 2006

Joe Manchin, III, Governor
State of West Virginia

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

Ted Cheatham, Director
West Virginia Public Employees Insurance Agency

Prepared by:
J.A. Haught, CPA
Chief Financial Officer
West Virginia Public Employees Insurance Agency

State of West Virginia
Public Employees Insurance Agency

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For the fiscal year ended June 30, 2006

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Introductory Section

West Virginia retirees and surviving dependents represent 31% of PEIA's policyholders and continue to be the most consistently growing group. Since 1997, retirees and surviving dependent enrollment have increased 24.5%. When joined with rising healthcare costs, it is imperative that the State of West Virginia monitor the critical situation to assure this benefit in the future.

Joe Manchin III
Governor

Ted Cheatham
Director

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December 27, 2006

The Honorable Joe Manchin III, Governor
State of West Virginia

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

Mr. Ted Cheatham, Director
West Virginia Public Employees Insurance Agency

Gentlemen:

It is a privilege to submit to you the Comprehensive Annual Financial Report (CAFR) of the West Virginia Public Employees Insurance Agency (PEIA) for the fiscal year ended June 30, 2006. This report was prepared by the office of the PEIA Chief Financial Officer. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the management of PEIA. To the best of our knowledge, the data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds, account groups and component units of the State. All disclosures necessary to enable the reader to gain an understanding of PEIA's financial activities have been included. The financial statements of PEIA have been prepared on an accrual basis in conformity with generally accepted accounting principles for governmental entities as prescribed or permitted by the Governmental Accounting Standards Board (GASB).

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

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

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

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

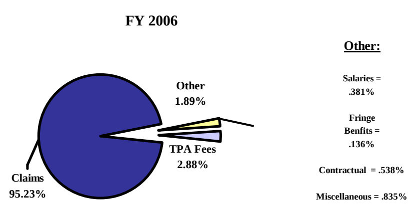
PEIA is required by the Financial Accounting and Reporting Section of the Department of Administration to have an annual independent audit. The firm of Ernst & Young, LLP was selected to perform the audit for fiscal year ended June 30, 2006. Their report is included in the financial section of this report.

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. See Note 2 (Summary of Significant Accounting Policies) for a comprehensive discussion of PEIA's accounting policies.

As an insurance benefit providing agency, PEIA's expenses are predominantly medical and prescription drug claims. The below chart demonstrates the levels of the various expenses in graphic format. Administrative expenses represent 4.77% of total expenses and include payments to third party administrators (TPA), wages and benefits of PEIA employees.



RELEVANT FINANCIAL POLICIES

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 2006 year-end PEIA reserve of $191 million did meet the mandated 10% reserve requirement. The current financial plan also forecasts PEIA meeting the 10% reserve requirement for fiscal years 2007 through 2011.

The PEIA funding policy has a significant impact on PEIA's financial statements. 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 to be 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	FY 2008
State Employer	N/A	$39,500	$39,200	$8,000	$40,000	$5,000	($34,000)
State Employee	N/A	19,700	15,600	-0-	5,700	11,700	-0-
Total	N/A	$59,200	$54,800	$8,000	$45,700	$16,700	($34,000)
State Employer Share	86%	83%	82%	82%	83%	81.5%	80%
State Employee Share	14%	17%	18%	18%	17%	18.5%	20%

Due to a large contribution by the State in FY 2006, a significantly smaller increase for employees and no employee increase in 2005, the progress towards the required ratio regressed in fiscal year 2006. The mandated transition has been a difficult one has been challenged by employee advocates in past legislative sessions. These challenges resulted in a one year delay to establish the required ratio. The resulting delay did however require the ratio be what is depicted in the chart above of 81.5% for employers and 18.5% for employees. The current proposed financial plan assumes the required ratio will be met by a reduction of current employer premium. The reduction, however, will not revert back to the employers' budgets, but will be utilized as beginning employer contributions towards the other post employment benefit liability.

LONG-TERM FINANCIAL PLANNING

The PEIA had a change in net assets for fiscal year 2006 of $22,284,467 resulting in an end of year net asset amount of $190,867,747. 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 12 that incorporates a narrative introduction, overview and analysis of the financial statements.

The state's public employers (employers) are now required to formally acknowledge a liability that has long been known by accounting professionals in the public sector, but never formally reported. This is commonly known as other post employment benefits or OPEB. OPEB is any post employment benefit besides pensions. The employers' OPEB plan consists of providing retiree health insurance at a discounted rate. Any state public employee retiree with more than five years of service is currently able to receive this benefit.

The employers have to this point recognized this OPEB on a "pay as you go" basis. As the eligible retirees claims are paid, the expense is recognized. For fiscal year 2006, this expense was $104 million (net of retiree premiums). However, upon adopting the Governmental Accounting Standards Board's recent pronouncements 43 and 45, this is no longer acceptable. Upon adoption of GASB 45, which will be fiscal year 2008 for the State of West Virginia, the employers are required to recognize this benefit as it is earned by the eligible employees. Additionally, the employers must also recognize the OPEB already accrued in the past but never expensed. The GASB does however allow this aspect of the OPEB liability to be amortized over a 30 year period.

During the 2006 West Virginia Legislative regular session, the WV Retiree Health Benefits Trust Fund (Trust) was created to account for the OPEB plan. The enabling legislation also charged the PEIA and its Finance Board as the administrators of the Trust. The PEIA hired an independent actuarial firm to estimate the employer's OPEB liability. The result of this actuarial valuation was an estimated OPEB liability of $8 billion. The fiscal year 2008 annual required contribution to fully fund this "new" liability is estimated to be $600 million. Obviously, this has created some significant financial concerns for the State's leadership, tax payers and all involved with the State's ability to acquire capital for the States continued maintenance and expansion of its infrastructure.

Although PEIA and the State have both had favorable fiscal results in recent years, the OPEB liability unfortunately quells any adulation one could have had over the reserves these favorable results created. With the continued trending of healthcare costs, although thankfully lower than past years, and increasing retiree enrollment, the outlook for the State's and PEIA's economic condition continues to be a concern. As shown below, PEIA's trend assumptions have been decreased. It is an unfortunate reality of healthcare costs when the below trend assumptions of 6.5% and 12%, or 8.7% combined, are considered favorably.

Eligibility	FY 2007 Medical Trend	FY 2007 Drug Trend
Non-Medicare	6.5%	12.0%
Medicare	6.0%	12.0%

These trend assumptions are not only favorable for PEIA in comparison to years past but are also favorable when compared with findings from The 2007 Segal Health Plan Cost Trend Survey (the survey). The survey's trend projections for preferred provider organizations in 2007 are 11.7%. The combined trend assumption for PEIA, as mentioned, is 8.7%.

The above trend assumptions result in the following estimated claim expenses for FY 2007:

Claim Type	
Medical	$367.2 million
Prescription Drugs	$196.9 million
Managed Care Capitations	$61.6 million

In order to offset such growth in program expenses and mitigate the State's unaffordable $8 billion OPEB liability, premium revenues will have to be increased or changes in benefit structure to reduce costs will need to be made. PEIA cannot assume the option of increasing revenues will be available. Therefore, benefit revisions, health awareness and disease management initiatives will be in order.

Regarding long term financial planning, PEIA anticipates that participating employers begin development of a funding plan for the OPEB liability. The changes to the plan will hopefully reduce the liability but there must still be a funding plan developed. In regards to the active PEIA fund, PEIA currently anticipates continued premium increases through five years worth $185.8 million to fund the plans projected cost increases. Additionally, the plan is anticipating benefit revisions that will lower cost an estimated $43.5 million in FY 2008. The current increased cost assumptions for both the Trust and PEIA are 44% over a five year period.

As shown below the updated financial plan forecast spending down the current reserve to 14% of plan expenses. With the new reporting requirements of GASB 45, it is hoped that the Finance Board will reconsider this strategy. 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 2007	FY 2008	FY 2009	FY 2010	FY 2011
$40,496,560	($5,513,509)	($36,531,309)	($39,745,982)	($32,383,248)

MAJOR INITIATIVES

One major initiative for PEIA is to determine means of lowering the State's OPEB liability. The State has many options to reduce this liability but not all are tenable. Unlike private companies that were able to simply stop covering their retirees in reaction to Financial Accounting Standards Board (FASB) Statement 106, after which GASB is modeled. Therefore the State must determine means of lowering the cost of the benefit and determine if more lucrative arrangements of coverage for Medicare eligible retirees exists.

During the OPEB valuation process, one aspect of the Medicare retiree benefit was identified as a possible change. PEIA currently pays secondary to Medicare on Medicare eligible retiree benefits in a process known as coordination of benefits. That is, Medicare receives the claim from the healthcare provider, adjudicates the claim and pays the provider. The provider then forwards the remaining portion of the claim to PEIA as the secondary insurance. With PEIA's current coordination of benefit process, PEIA almost exclusively pays the entire remaining amount leaving virtually no out of pocket expense for the Medicare eligible retirees.

Therefore, PEIA is currently proposing to its Finance Board a revision in this process that requires the member to first pay their deductible, then co-insurance or co-pay before PEIA will pay as secondary. This obviously will transfer costs to the States retirees so the final impact financially for both the State and retirees will not be ascertainable until the actual amounts of out of pocket are determined. Regardless of the final amount determined, PEIA believes it is imperative that the Medicare eligible retiree be included in the purchase of their health care services on a go forward basis, even if premium revenues are returned to the retirees in exchange.

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, 2005. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Special thanks are extended to Governor Joe Manchin III, for his support in stressing the importance of fiscal responsibility and financial reporting. Acknowledgement is also given to the Legislature and its leadership, whose continued support will promote the future success and stability of the program. Finally, this report would not have been possible without the dedication and effort of PEIA's Director, Ted Cheatham. Respectfully, we submit the Comprehensive Annual Financial Report for the West Virginia Public Employees Insurance Agency for the year ended June 30, 2006.

Sincerely,

J.A. Haught, CPA
Chief Financial Officer

Principal Officials

Joe Manchin III, Governor
State of West Virginia

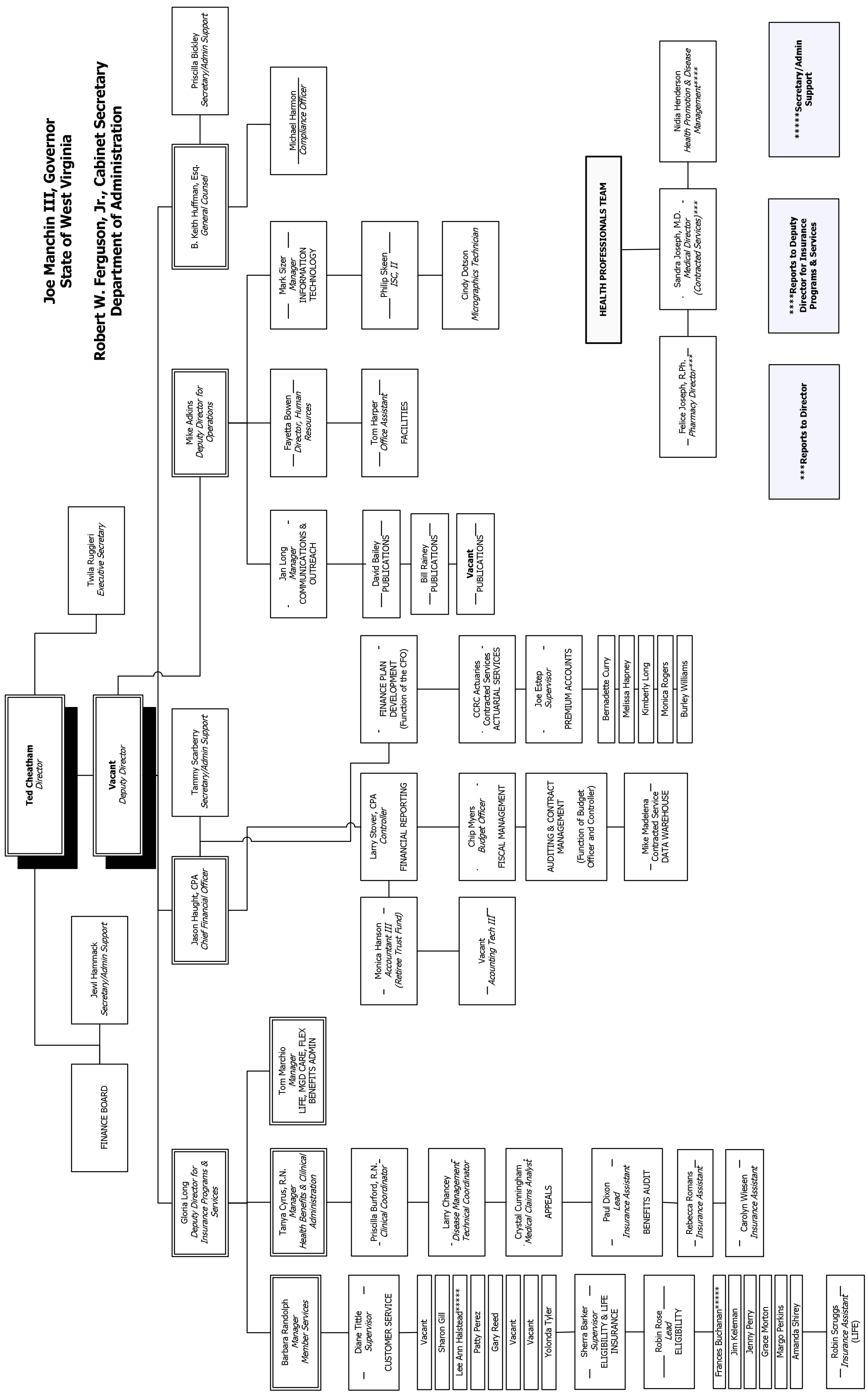
Robert W. Ferguson, Jr., Cabinet Secretary
West Virginia Department of Administration

Finance Board

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

Executive Staff

Ted Cheatham, Director



Joe Manchin III, Governor
State of West Virginia
Robert W. Ferguson, Jr., Cabinet Secretary
Department of Administration
Ted Cheatham
Director
Vacant
Deputy Director
Twila Ruggieri
Executive Secretary
Jewl Hammack
Secretary/Admin Support
FINANCE BOARD
Priscilla Bickley
Secretary/Admin Support
B. Keith Huffman, Esq.
General Counsel
Michael Harmon
Compliance Officer
Mike Adkins
Deputy Director for Operations
Mark Sizer
Manager
INFORMATION TECHNOLOGY
Philip Skeen
ISC, IT
Cindy Dotson
Micrographics Technician
Fayetta Bowen
Director, Human Resources
Tom Harper
Office Assistant
FACILITIES
Jan Long
Manager
COMMUNICATIONS & OUTREACH
David Bailey
PUBLICATIONS
Bill Rainey
PUBLICATIONS
Vacant
PUBLICATIONS
Tammy Scarberry
Secretary/Admin Support
Jason Haught, CPA
Chief Financial Officer
FINANCE PLAN DEVELOPMENT
(Function of the CFO)
CCRC Actuaries
Contracted Services
ACTUARIAL SERVICES
Joe Estep
Supervisor
PREMIUM ACCOUNTS
Bernadette Curry
Melissa Hapney
Kimberly Long
Monica Rogers
Burley Williams
Larry Stover, CPA
Controller
FINANCIAL REPORTING
Chip Myers
Budget Officer
FISCAL MANAGEMENT
AUDITING & CONTRACT MANAGEMENT
(Function of Budget Officer and Controller)
Mike Madelena
Contracted Service
DATA WAREHOUSE
Monica Hanson
Accountant III
(Retiree Trust Fund)
Vacant
Acounting Tech III
Gloria Long
Deputy Director for Insurance Programs & Services
Tom Marchio
Manager
LIFE, MGD CARE, FLEX BENEFITS ADMIN
Tanya Cyrus, R.N.
Manager
Health Benefits & Clinical Administration
Priscilla Burford, R.N.
Clinical Coordinator
Larry Chancey
Disease Management Technical Coordinator
Crystal Cunningham
Medical Claims Analyst
APPEALS
Paul Dixon
Lead
Insurance Assistant
BENEFITS AUDIT
Rebecca Romans
Insurance Assistant
Carolyn Wiesen
Insurance Assistant
Barbara Randolph
Manager
Member Services
Diane Tittle
Supervisor
CUSTOMER SERVICE
Vacant
Sharon Gill
Lee Ann Halstead*****
Patty Perez
Gary Reed
Vacant
Vacant
Yolonda Tyler
Sherra Barker
Supervisor
ELIGIBILITY & LIFE INSURANCE
Robin Rose
Lead
ELIGIBILITY
Frances Buchanan*****
Jim Keleman
Jenny Perry
Grace Morton
Margo Perkins
Amanda Shirey
Robin Scruggs
Insurance Assistant
(LIFE)
HEALTH PROFESSIONALS TEAM
Nidia Henderson
Health Promotion & Disease Management****
Sandra Joseph, M.D.
Medical Director
(Contracted Services)***
Felice Joseph, R.Ph.
Pharmacy Director***
*****Secretary/Admin Support
****Reports to Deputy Director for Insurance Programs & Services
***Reports to 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, 2005

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

President

Executive Director

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Financial Section

An average American couple retiring this year will need $200,000 to cover their healthcare costs for the next 20 years in retirement, not including the expense of long-term care. That alarming news is according to Fidelity Investments, which released its fourth annual estimate of retiree medical expenses in March 2006.

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, 2006 and 2005, 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 PEIA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEIA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of PEIA are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEIA at June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, 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 2006 audit.

Management's discussion and analysis on pages 12 through 16 and the unaudited supplemental schedule of Ten-Year Claims Development Information on page 46 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 46 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 30, 2006

A Member Practice of Ernst & Young Global

West Virginia Public Employees Insurance Agency
Management's Discussion and Analysis

Year ended June 30, 2006

This section of the annual financial report of the West Virginia Public Employees Insurance Agency (PEIA) presents a discussion and analysis of the financial performance of PEIA for the year ended June 30, 2006. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Statement of Revenues, Expenses, and Changes in Net Assets—This statement reflects PEIA's operating revenues and expenses, as well as nonoperating revenues during the 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 2006 - 2005		Change 2005 - 2004	
	2006	**2005**	**2004**	**Amount**	**Percent**	**Amount**	**Percent**
Cash and cash equivalents	**$ 105,520,119**	$ 219,340,506	$ 187,668,484	$($113,820,387)	(51.9)%	$ 31,672,022	16.9%
Premium receivable	**19,295,117**	18,014,063	15,525,418	1,281,054	7.1	2,488,645	16.0
Other current assets	**9,762,462**	4,617,395	6,508,802	5,145,067	111.4	(1,891,407)	(29.1)
Total current assets	**134,577,698**	241,971,964	209,702,704	(107,394,266)	(44.4)	32,269,260	15.4
Investments	**154,630,459**	–	–	154,630,459	N/A	–	N/A
Cash and cash equivalents	**3,942,740**	3,942,557	3,942,557	183	–	–	–
Capital assets, net	**208,900**	155,149	90,070	53,751	34.6	65,079	72.3
Total assets	**293,359,797**	246,069,670	213,735,331	47,290,127	19.2	32,334,339	15.1
Claims payable	**60,122,393**	65,398,596	61,689,785	(5,276,203)	(8.1)	3,708,811	6.0
Other current liabilities	**38,426,917**	8,145,237	8,357,775	30,281,680	371.8	(212,538)	(2.5)
Total current liabilities	**98,549,310**	73,543,833	70,047,560	25,005,477	34.0	3,496,273	5.0
Noncurrent liabilities:							
Premium stabilization fund	**3,942,740**	3,942,557	3,942,557	183	–	–	–
Net assets-invested in capital assets	**208,900**	155,149	90,070	53,751	34.6	65,079	72.3
Net assets-unrestricted	**190,658,847**	168,428,131	139,655,144	22,230,716	13.2	28,772,987	20.6
Total net assets	**$ 190,867,747**	$ 168,583,280	$ 139,745,214	$ 22,284,467	13.2	$ 28,838,006	20.6
Premium revenue	**$ 630,474,784**	$ 580,985,961	$ 567,836,346	$ 49,488,823	8.5	$ 13,149,615	2.3
Less: payments to managed care organizations and life reinsurance	**(62,466,806)**	(55,846,154)	(61,833,079)	(6,620,652)	11.9	5,986,925	(9.7)
Net premium revenue	**568,007,978**	525,139,807	506,003,267	42,868,171	8.2	19,136,540	3.8
Administrative fees, net	**6,058,949**	6,011,411	6,035,393	47,538	0.8	(23,982)	(0.4)
Total operating revenue	**574,066,927**	531,151,218	512,038,660	42,915,709	8.1	19,112,558	3.7
Claims expense, net	**519,393,700**	483,206,286	426,667,298	36,187,414	7.5	56,538,988	13.3
Administrative service fees	**15,717,640**	16,116,521	15,082,572	(398,881)	(2.5)	1,033,949	6.9
Other expenses	**10,318,185**	7,462,489	8,264,151	2,855,696	38.3	(801,662)	(9.7)
Total operating expenses	**545,429,525**	506,785,296	450,014,021	38,644,229	7.6	56,771,275	12.6
Operating income	**28,637,402**	24,365,922	62,024,639	4,271,480	17.5	(37,658,7170)	(60.7)
Retiree drug subsidy	**8,090,995**	–	–	8,090,995	N/A	–	N/A
Supplemental appropriation	**4,887,369**	–	–	4,887,369	N/A	–	N/A
Transfer out primary government	**(27,679,595)**	–	–	(27,679,595)	N/A	–	N/A
Net investment income	**8,348,296**	4,472,144	1,549,114	3,876,152	86.7	2,923,030	188.7
Total nonoperating income	**(6,352,935)**	4,472,144	1,549,114	(10,825,079)	(242.1)	2,923,030	188.7
Changes in net assets	**22,284,467**	28,838,066	63,573,753	6,553,599	(22.7)	(34,735,687)	(54.6)
Net assets, beginning of year	**168,583,280**	139,745,214	76,171,461	28,838,066	20.6	63,573,753	83.5
Net assets, end of year	**$ 190,867,747**	$ 168,583,280	$ 139,745,214	$ 22,284,467	13.2	$ 28,838,066	20.6

West Virginia Public Employees Insurance Agency
Management's Discussion and Analysis (continued)

Net assets at year ended June 30, 2006, increased approximately $22.3 million after increasing $28.8 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, 2006, was $1.3 million more than the prior year due to the late billing of certain employers. At year-end 2005, premium receivable was at $2.5 million more than the prior year due to a temporary unplanned staff vacancy.

The current portion of cash and cash equivalents decreased $113.8 million during the current year as a result of the purchase of $155 million in investments less cash provided in operating and nonoperating activities. The increase of approximately $31.7 million during the previous year was primarily due to increased operational earnings.

Other current assets were up $5.1 million at year-end 2006 due to $4.4 million in retiree drug subsidy payments receivable from Medicare and estimated drug rebates. The prior year, other current asset level had decreased $1.9 million due to a smaller year-end drug rebate receivable. Premium stabilization fund cash remained substantially unchanged through the period.

Claims payable decreased $5.3 million due to a large pay down of claims in inventory during the last months of Fiscal Year 2006. The prior year-end increase of $3.7 million was due to an increase in average claim cost and member count.

Other current liabilities increased $30.3 million primarily due to a $27.7 million payable to the primary government of an excess reserve, required by State Code, and a $3.6 prepayment of premium by a large employer. The prior year decrease of $.2 million was due to a decrease in accounts payable and other liabilities.

The $42.9 million increase in net premium resulted from an increase in health insurance premium rates of an average of 9.9% less an increase in managed care premium payments of 11.9%. Fiscal Year 2005 saw an increase in health insurance premium rates of an average of 2.3% and a 9.7% decrease in payments to managed care organizations due to loss of enrollment to PEIA self-insured preferred provider benefit plan which produced a total of $19.1 million.

Medical and prescription drug claims expense represents approximately 95% of total plan operating expenses of the three-year period. In the current year, medical claims increased by $18 million or 5.5% and prescription drug claims increased $18.2 million or 11.7%. For Fiscal Year 2005, medical claims increased by $30 million or 10.1% and prescription drug claims increased $26.5 million or 20.5%. Current year medical claims expense increase is the result of a 1% increase in enrollment, increased utilization, and very modest increase in cost per encounter. The drug claims cost increase for year-end 2006 is the product of the enrollment increase, a 1.3% utilization increase, and a 9.1% increase for the average claim cost. Last year's increases were attributable to 2.3% increase in enrollment, 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.

West Virginia Public Employees Insurance Agency
Management's Discussion and Analysis (continued)

Through the three-year period, administrative service fees and other expenses represented approximately 5% of the total plan operating expenses. In the current year, administrative service fees decreased by $.4 million as the result of new contract provisions, while other expenses increased $2.9 million due to an addition to the provision for doubtful accounts of $2.4 million and expenditures of $.5 million for third-party administrator audits. Fiscal Year 2005 included an increase of $1 million in administrative service fees as a result of increased member count and the expansion of case management services, while other expenses decreased $.8 million due to lower wellness program spending.

Beginning in January 2006, the federal Medicare program began paying a retiree drug subsidy to employers who continued drug coverage for their Medicare eligible retirees. PEIA has recognized $8.1 million of revenue from this source.

State Code, through the budget bill, granted PEIA $4.9 million for Fiscal Year 2006. No such appropriations were granted during either of the two previous years.

As the result of year-end 2006 earnings, PEIA's reserve levels were increased beyond the level allowed by State Code requiring a transfer of $27.7 million to a separate State fund which is outside the direct control of PEIA.

During Fiscal Year 2006, yields on short-term cash investments improved dramatically. PEIA placed $155 million in investments, and short-term working cash balances improved. These events resulted in an increase in net investment income of $3.9 million. Investment income improved by $2.9 million in Fiscal Year 2005 due to improvement in short-term cash investment returns.

As previously mentioned, PEIA experienced an increase of approximately $22.3 million or 13.2% in total net assets for the year ended June 30, 2006, and $28.8 million or 20.6% in the previous year. The premium rates adopted for the current year were based on assumptions used in developing the financial plan for 2006, which reflected an expected increase in total net assets of approximately $.6 million; however, total claims costs for the year ended at $46.8 million less, payments to managed care were $2.2 million more, investment revenue was $5.7 million more, other areas contributed $.4 million, and the $27.7 million payable to the primary government was not included in the original plan.

Plan Year 2005 had an original finance plan which included a 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 approximately $1 million less than planned.

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, PEIA's average active employee family monthly premium cost is $751.77 compared to the national average cost of $980.42. It should also be noted that PEIA's monthly premium cost above has not been adjusted to reflect the $29.3 million surplus that is forecast for these coverages.

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 2005, health insurance cost rose 7.7% nationally. During the same period, the overall inflation rate held to 3.5% and wage gains were limited to 3.8%. 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 mandates in the State Code that the State employees contribute 20% of their total healthcare premium cost, these premiums were increased $11.7 million for the year that began July 1, 2006, and premiums for other groups were increased $11.1 million. Fiscal Year 2007 is currently forecast to produce an increase in net assets of approximately $33.7 million.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

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

REQUESTS FOR INFORMATION

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

West Virginia Public Employees Insurance Agency

Statements of Net Assets

	June 30 2006		June 30 2005	
Assets				
Current assets:				
Cash and cash equivalents	**$**	**105,520,119**	$	219,340,506
Premiums receivable:				
Due from State of West Virginia		**5,071,484**		4,856,210
Other, less allowance for doubtful accounts of $2,770,000 and $574,000, respectively		**14,223,633**		13,157,853
Accounts receivable:				
Provider refunds, less allowance for doubtful accounts of $890,000 and $651,000, respectively		**518,556**		458,923
Prescription rebates		**4,609,483**		3,845,106
Retiree drug subsidy		**4,421,606**		–
Other		**212,817**		313,366
Total current assets		**134,577,698**		241,971,964
Noncurrent assets:				
Investments		**154,630,459**		–
Cash and cash equivalents		**3,942,740**		3,942,557
Furniture and equipment, net of accumulated depreciation of $587,103 and $567,005, respectively		**208,900**		155,149
Total noncurrent assets		**158,782,099**		4,097,706
Total assets		**293,359,797**		246,069,670
Liabilities				
Current liabilities:				
Claims payable		**60,122,393**		65,398,596
Accounts payable		**2,977,791**		4,081,551
Deferred revenue		**6,601,080**		3,019,696
Other accrued liabilities		**1,168,451**		1,043,990
Due to State of West Virginia		**27,679,595**		–
Total current liabilities		**98,549,310**		73,543,833
Noncurrent liabilities:				
Other accrued liabilities: Premium Stabilization Fund		**3,942,740**		3,942,557
		3,942,740		3,942,557
Total liabilities		**102,492,050**		77,486,390
Net assets				
Invested in capital assets		**208,900**		155,149
Unrestricted		**190,658,847**		168,428,131
Total net assets	**$**	**190,867,747**	$	168,583,280

See accompanying notes

West Virginia Public Employees Insurance Agency

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30 2006	2005
Operating revenues:		
Premiums	**$ 630,474,784**	$ 580,985,961
Less:		
Payments to managed care organizations	**(56,018,955)**	(49,441,787)
Life reinsurance premiums	**(6,447,851)**	(6,404,367)
Net premium revenue	**568,007,978**	525,139,807
Administrative fees, net of refunds	**6,058,949**	6,011,411
Total operating revenues	**574,066,927**	531,151,218
Operating expenses:		
Claims expense, net	**519,393,700**	483,206,286
Administrative service fees	**15,717,640**	16,116,521
Other expenses	**10,318,185**	7,462,489
Total operating expenses	**545,429,525**	506,785,296
Net operating income	**28,637,402**	24,365,922
Nonoperating revenues (expenses):		
Investment income, net of fees	**8,348,296**	4,472,144
Retiree drug subsidy	**8,090,995**	–
Supplemental appropriation	**4,887,369**	–
Transfer out primary government	**(27,679,595)**	–
Total nonoperating income (loss)	**(6,352,935)**	4,472,144
Change in net assets	**22,284,467**	28,838,066
Net assets at beginning of year	**168,583,280**	139,745,214
Net assets at end of year	**$ 190,867,747**	$ 168,583,280

See accompanying notes.

West Virginia Public Employees Insurance Agency

Statements of Cash Flows

	Year Ended June 30	
	2006	2005
Operating activities		
Cash received from participants	**$ 569,625,779**	$ 530,537,396
Cash received from pharmacy rebates	**11,053,560**	13,298,826
Cash paid to employees	**(2,076,134)**	(2,092,638)
Cash paid to suppliers and others	**(18,900,691)**	(21,648,338)
Cash paid for claims	**(535,723,463)**	(492,796,301)
Net cash provided by operating activities	**23,979,051**	27,298,945
Noncapital financing activities		
Supplemental appropriation	**4,887,369**	–
Retiree drug subsidy	**3,669,389**	–
Net cash provided by noncapital financing activities	**8,556,758**	–
Capital and related financing activities		
Cash purchases of furniture and equipment	**(73,850)**	(99,067)
Net cash used in capital and related financing activities	**(73,850)**	(99,067)
Investing activities		
Purchase of investments	**(154,630,459)**	–
Cash received from investment earnings (net)	**8,348,296**	4,472,144
Net cash provided by (used in) investing activities	**(146,282,163)**	4,472,144
Net increase (decrease) in cash and cash equivalents	**(113,820,204)**	31,672,022
Cash and cash equivalents at beginning of year	**223,283,063**	191,611,041
Cash and cash equivalents at end of year	**$ 109,462,859**	$ 223,283,063
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 28,637,402**	$ 24,365,922
Adjustments		
Depreciation	**20,099**	33,988
Decrease (increase) in operating assets:		
Premium receivable	**(1,065,780)**	(2,261,723)
Due from State of West Virginia	**(215,274)**	(226,922)
Provider refunds receivable	**(59,633)**	(209,356)
Prescription refunds receivable	**(764,377)**	2,131,705
Other	**100,549**	(30,942)
Increase (decrease) in operating liabilities:		
Claims payable	**(5,276,203)**	3,708,811
Accounts payable	**(1,103,760)**	(204,115)
Deferred revenue	**3,581,384**	151,359
Other accrued liabilities	**124,644**	(159,782)
Total adjustments	**(4,658,351)**	2,933,023
Net cash provided by operating activities	**$ 23,979,051**	$ 27,298,945

See accompanying notes.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements

Years ended June 30, 2006 and 2005

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 222,000 individuals, including participants and dependents.

The financial statements of PEIA are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the State of West Virginia that is attributable to the transactions of PEIA. They do not purport to, and do not, present fairly the financial position of the State of West Virginia as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 not reported claims (IBNR) of PEIA. An independent professional actuary must review the plan and give an opinion stating that the plan may be reasonably expected to generate sufficient revenue to meet estimated insurance claims and administrative expenses. The financial plan must be presented to the governor and the legislature no later than January 1, prior to the beginning of the new plan year.

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

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. Cash and cash equivalents principally consist of amounts on deposit with the Board of Treasury Investments (BTI) in 2006 and Investment Management Board (IMB) in 2005 that are pooled funds. PEIA makes interest-earning deposits in the cash liquidity pools that are available to PEIA with overnight notice. Interest income is prorated to PEIA at rates specified by BTI and 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)

Interest risk exists as the value of the investment pool's underlying investment assets may decline because of an increase in interest rates. The carrying value of the deposits reflected in the financial statements approximates fair value of the shares in the investment pool.
The 2005 West Virginia Legislature established the BTI, effective July 8, 2005, as a public corporation of the State of West Virginia to make short-term operating funds of the State more accessible to state government. Previous to the creation of BTI, PEIA's principal cash and cash equivalents were managed by the IMB.

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

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)

Retiree Drug Subsidies

PEIA recorded retiree drug subsidy (RDS) revenue from the federal government under the provisions of Medicare Part D approximating $8,091,000 for the year ended June 30, 2006. PEIA has accounted for the RDS revenue as voluntary nonexchange transactions in accordance with GASB technical bulletin 2006-1. Accordingly, RDS estimated revenue is recognized as PEIA incurs Medicare-eligible retiree prescription drug expenditures.

Investments

PEIA invests in certain IMB investment pools. Some of these pools invest in longer term securities and are subject to market fluctuation because of changes in interest rates or a decline in stock prices. Investments are reported by IMB at fair value and are accounted for by PEIA accordingly with changes in fair value included in investment income. Income from these investments is prorated to PEIA at rates specified by IMB based on the balance of PEIA's deposits maintained in relation to the total deposits of all State agencies participating in the pool.

Capital Assets

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 $11,817,937 and $11,167,121 for the years ended June 30, 2006 and 2005, 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.

Deferred Revenue

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

Insurance Programs and Related Premium Revenues

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

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

PEIA participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to PEIA. If the assets of PEIA were to be exhausted, participants would not be responsible for the liabilities.

As of the June 2006 coverage month, PEIA provides health coverage to 108 State agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 491 local government entities with approximately 9,000 primary participants, 19 college and university entities with approximately 9,000 primary participants and other groups and individual accounts which include the governmental and educational retirement systems, COBRA, and survivors with approximately 33,000 primary participants. Approximately 102,000 dependents participated in PEIA health plans as well. Included in the participation indicated above are approximately 9,000 primary participants and 11,000 dependents that were covered by MCOs.

As of the June 2005 coverage month, PEIA provided health coverage to 108 State agency divisions with approximately 22,000 primary participants (not including dependents), 55 county school boards with approximately 32,000 primary participants, 483 local government entities with approximately 9,000 primary participants, 18 college and university entities with approximately 9,000 primary participants and other groups and individual accounts which include the governmental and educational retirement systems, COBRA, and survivors with approximately 32,000 primary participants. Approximately 101,000 dependents participated in PEIA health plans as well. Included in the participation indicated above are approximately 10,000 primary participants and 11,000 dependents that were covered by MCOs.

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

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 $20,620,328 and $19,843,496 during the fiscal years ended June 30, 2006 and 2005, respectively, and were remitted directly to the carrier. In this instance, PEIA functions as an agent and, accordingly, neither these premiums nor the related costs are reflected in the financial statements.

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

Administrative Service Fees

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

Supplemental Appropriations

Supplemental appropriations represent legally authorized appropriations under West Virginia State Code by the West Virginia Legislature. A supplemental appropriation of $4,887,369 was received in Fiscal Year 2006. PEIA did not receive any supplemental appropriations in 2005. The purpose of the transfer was to offset state employee healthcare insurance premium increase rates for Fiscal Year 2006.

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 healthcare 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 Statement 34, PEIA displays net assets in three components, if applicable: invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in Capital Assets, Net of Related Debt—This component of net assets consists of capital assets, including restricted capital assets (if any), net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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 PEIA's ability to use the resources to pay current liabilities. When both restricted and unrestricted resources are available for use, it is 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, 2006 and 2005, PEIA has sufficient net assets to comply with this code section. Additionally, excess reserves of $27,679,595 were due to be transferred at June 30, 2006, while no transfer was required for the previous year.

3. Cash and Cash Equivalents

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

	2006	**2005**
Cash deposited with IMB (Cash Liquidity pool):		
Premium stabilization fund	**$ –**	$ 3,942,557
Other	**–**	215,271,338
Total cash deposited with IMB	**–**	219,213,895
Cash on deposit with BTI (Cash Liquidity pool):		
Premium stabilization fund	**3,942,740**	–
Other	**104,699,647**	–
Total cash deposited with BTI	**108,642,387**	–
Cash on deposit with State Treasurer's Office	**–**	2,745,782
Deposits with outside financial institutions	**820,472**	1,323,386
	$ 109,462,859	$ 223,283,063

4. Deposit and Investment Risk Disclosures

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

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

In 2005, PEIA adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosers*, which requires additional disclosures relating to risk 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.

As of June 30, 2006 and 2005, the carrying amount of PEIA's bank deposits was $820,472 and $1,323,386, respectively, and the respective bank balances totaled $955,138 and $1,477,728. Of the total bank balance, $954,827 and $1,475,568 were collateralized with government-sponsored enterprise securities held by financial institutions. These securities are held in the name of the financial institution and not that of PEIA.

PEIA is mandated by statute to have its cash managed by the BTI and its investments managed by the IMB.

Cash and Cash Equivalents

Cash Liquidity Pools

The BTI for 2006 and IMB for 2005 limited exposure to credit risk by requiring all corporate bonds held by their cash liquidity pools to be rated AA - by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

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

	June 30, 2006				June 30, 2005			
	Credit Rating		Carrying	Percent of	Credit Rating		Carrying	Percent of
Security Type	Moody's	S&P	Value	Pool Assets	Moody's	S&P	Value	Pool Assets
Commercial paper	P1	A-1	$ 943,057	54.14%	P1	A-1	$ 598,241	37.9%
Corporate bonds and	Aaa	AAA	61,992	3.56	Aaa	AAA	155,559	9.9
	Aa	AA	55,063	3.16				
	Aa	A	12,000	0.69				
			129,055	7.41				
U.S. agency bonds	Aaa	AAA	43,663	2.51	Aaa	AAA	147,955	9.4
U.S. Treasury bills	Aaa	AAA	306,279	17.58	Aaa	AAA	259,398	16.4
Certificates of deposit	P1	A-1	99,000	5.68	P1	A-1	152,999	9.7
	NR	NR	23,800	1.37				
			122,800	7.05				
U.S. agency discount	P1	A-1	93,851	5.39	P1	A-1	119,564	7.6
Money market funds	Aaa	AAA	758	0.04	Aaa	AAA	4,241	0.3
Repurchase agreements	NR	NR	102,339	5.88	NR	NR	141,050	8.9
			$ 1,741,802	100.00%			$ 1,579,007	100%

NR = Not Rated

Not rated securities include repurchase agreements which are collateralized by U.S. Treasury and government agency securities, all of which carry a high credit rating.

The Cash Liquidity pool has not been rated.

Concentration of Credit Risk

West Virginia statutes prohibit the Fixed Income pools from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Custodial Credit Risk

At June 30, 2006, the Fixed Income 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 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.

	June 30, 2006		June 30, 2005	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	**$ 102,339**	**3**	$ 141,050	1
U.S. Treasury bills	**306,279**	**32**	259,398	30
Commercial paper	**943,057**	**25**	598,241	49
Certificates of deposit	**122,800**	**105**	152,999	42
U.S. agency discount notes	**93,851**	**89**	119,564	52
Corporate notes	**129,055**	**77**	155,559	53
U.S. agency bonds/notes	**43,663**	**208**	147,955	88
Money market funds	**758**	**1**	4,241	1
Total investments	**$ 1,741,802**	**42**	$ 1,579,008	45

Foreign Currency Risk

None of the BTI Cash Liquidity pool investment interests are in foreign currencies or interests valued in foreign currencies.

PEIA's investment in the BTI Cash Liquidity pool of $108,642,387 at June 30, 2006, represents approximately 6.2% of total investments in this pool. While PEIA's investment in the IMB liquidity pool of $219,213,895 at June 30, 2005, represented approximately 13.9% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Investments

Public Employees Insurance Agency Fund

This investment fund was specifically designed for PEIA by IMB based on PEIA's unique cash flow needs. PEIA is the only State agency participating in this fund and owns 100% of the total assets in the fund. The fund invests in various pools managed by IMB.

Investment Objectives

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

Asset Allocation

Based upon the IMB's determination of the appropriate risk tolerance for the fund, the IMB has adopted the following broad asset allocation guidelines for the assets managed for the Public Employees Insurance Agency Fund. (Policy targets have been established on a market value basis.)

Asset Class	Policy Target
Domestic large cap equity	6%
Domestic non-large cap equity	4%
International equity	4%
Total equity	14%
Domestic fixed income	86%

	June 30, 2006 Asset Value *(In Thousands)*
Asset allocation (actual)	
Domestic large cap equity pool	$ 9,245
Domestic non-large cap equity pool	5,590
International equity pool	4,683
International non-qualified pool	2,627
Fixed income pool	70,523
Fixed income non-qualified pool	46,269
Short-term fixed income pool	15,693
Total	$ 154,630

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

IMB calculates total rates of return using the time-weighted rate of return methodology. The time-weighted method determines the rate of return exclusive of the effects of participant contributions or withdrawals. Amortization of discounts and premiums on securities purchased are recognized over the lives of the respective securities using the scientific method of amortization. This method maintains a constant book yield over the life of the security. The amortization of mortgaged-backed securities considers the effect of prepayments on the life of the security. Historical prepayment speeds are obtained from market data vendors and are updated annually. The effect of changing prepayment assumptions is reported in the year of the change.

Asset Class Risk Disclosures

Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. PEIA's amount invested in the large cap domestic pool of $9,245,000 at June 30, 2006, represents approximately 0.5% of total investments in this pool.

Non-Large Cap Domestic

This pool holds equity securities of U.S. companies and money market funds with the highest credit rating. These types of securities are not exposed to credit risk, interest rate risk, custodial credit risk, or foreign currency risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. PEIA's amount invested in the non-large cap domestic pool of $5,590,000 at June 30, 2006, represents approximately 0.6% of total investments in this pool.

International Non-Qualified

This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2006, was $51,221,273. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk. This pool is not exposed to credit risk, interest rate risk, custodial credit risk, or concentration of credit risk. PEIA's amount invested in the international non-qualified pool of $2,627,000 at June 30, 2006, represents approximately 5.1% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

International Equity

This pool is not exposed to credit risk, interest rate risk, or custodial credit risk. At June 30, 2006, this pool did not hold securities of any one issuer in excess of 5.0% of the value of the pool in accordance with West Virginia statutes. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. PEIA's amount invested in the international equity pool of $4,683,000 at June 30, 2006, represents approximately 0.5% of total investments in this pool. The amounts (in U.S. dollars) of the securities and cash denominated in foreign currencies as of June 30, 2006, are as follows:

Currency	Equity Securities	Cash	Total
Australian Dollar	$ 28,417,291	$ 503,062	$ 28,920,353
Brazil Cruzeiros Real	27,320,423	–	27,320,423
British Pound	104,894,989	211,063	105,106,052
Canadian Dollar	41,912,340	238,194	42,150,534
Danish Krone	5,385,073	582,993	5,968,066
Euro	158,816,456	2,046,349	160,862,805
Hong Kong Dollar	53,458,323	105,793	53,564,116
Hungarian Forint	1,119,004	875	1,119,879
Indian Rupee	4,516,671	–	4,516,671
Indonesian Rupiah	3,111,767	–	3,111,767
Israeli Shekel	14,745,331	27	14,745,358
Japanese Yen	152,317,717	1,080,867	153,398,584
Malaysian Ringitt	5,204,528	51,887	5,256,415
Mexican New Peso	2,732,703	15,656	2,748,359
New Taiwan Dollar	40,139,064	1,205,781	41,344,845
New Zealand Dollar	4,972,328	32,024	5,004,352
Norwegian Krone	16,073,400	24,192	16,097,592
Philippine Peso	8,713,984	–	8,713,984
Singapore Dollar	23,907,881	80,420	23,988,301
South African Rand	4,810,546	1,467	4,812,013
South Korean Won	42,993,136	–	42,993,136
Swedish Krona	21,267,899	339,294	21,607,193
Swiss Franc	32,687,834	646,132	33,333,966
Thailand Baht	7,331,607	6,843	7,338,450
Total	$ 806,850,295	$ 7,172,919	$ 814,023,214

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Short-Term Fixed Income

Credit Risk

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

The following table provides information on the weighted-average credit ratings of the Short-Term Fixed Income pool's investments as of June 30, 2006.

Security Type	Moody's	S&P	Carrying Value	Percent
Agency discount notes	P1	A-1	$ 129,607,724	32.2%
Agency bonds	Aaa	AAA	98,439,621	24.8%
U.S. Treasury bills	Aaa	AAA	74,890,958	18.6%
Commercial paper	P1	A-1	63,853,052	15.8%
U.S. Treasury note	Aaa	AAA	33,660,098	8.5%
Money market fund	Aaa	AAA	514,400	0.1%
Total rated investments			$ 400,965,853	100.0%

This table includes securities received as collateral for repurchase agreements valued at $226,026,191.

Concentration of Credit Risk

West Virginia statutes prohibit the Short-Term Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2006, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2006, the Short-Term Fixed Income 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 is invested in the lending agent's money market fund.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk
The weighted-average maturity of the investments of the Short-Term Fixed Income pool is not to exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term Fixed Income pool as of June 30, 2006.

Security Type	Carrying Value	WAM (days)
Repurchase agreements	$ 223,000,000	3
U.S. Treasury bills	74,890,958	13
Commercial paper	63,853,052	17
Agency discount notes	32,706,881	64
Agency bond	2,974,372	168
Money market fund	514,400	1
Total assets	$ 397,939,663	13

Foreign Currency Risk

The Short-Term Fixed Income pool has no securities that are subject to foreign currency risk.

PEIA's amount invested in the Short-Term Fixed Income pool of $15,693,000 at June 30, 2006, represents approximately 3.9% of total investments in this pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Fixed Income

Credit Risk

The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted-average credit ratings of the asset types in the Fixed Income pool as of June 30, 2006.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate bonds and notes	Baa	BBB	$ 363,865,256	16.9%
U.S. Treasury bonds and notes	Aaa	AAA	324,878,457	15.1
Corporate asset backed securities	Aaa	AAA	90,536,055	4.2
U.S. Treasury bill	Aaa	AAA	39,716,631	1.9
Agency bonds	Aaa	AAA	23,241,525	1.1
Agency discount notes	P1	A-1	1,776,834	–
Money market funds	Aaa	AAA	829,720	–
Total rated investments			$ 844,844,478	39.2%

Unrated securities include commingled investment pools valued at $1,303,551,314 and a Canada Treasury bill valued at $2,566,995. This table includes securities received as collateral for repurchase agreements valued at $10,505,935.

Concentration of Credit Risk

West Virginia statutes prohibit the Fixed Income pool from investing more than 5% of its assets in securities issued by a single private corporation or association that represented more than 5% of assets. At June 30, 2006, the Fixed Income pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk

At June 30, 2006, the Fixed Income 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 is invested in the lending agent's money market fund.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Interest Rate Risk

The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Fixed Income pool as of June 30, 2006.

Security Type	Fair Value	Modified Duration (Years)
Commingled investment pools	$ 1,303,551,314	5.0
Corporate notes and bonds	363,865,256	6.6
U.S. Treasury notes and bonds	324,878,457	8.3
Corporate asset backed securities	90,536,055	8.3
U.S. Treasury bill	39,716,631	0.2
Agency bonds	12,735,590	6.1
Repurchase agreements	10,300,000	–
Canada Treasury bill	2,566,995	0.2
Agency discount notes	1,776,834	0.2
Money market fund	829,720	–
Total assets	$ 2,150,756,852	5.8

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2006, the Fixed Income pool held $90,536,055 of these securities. This represents approximately 4% of the value of the Fixed Income pools.

Foreign Currency Risk

The Fixed Income pool has no securities that are exposed to foreign currency risk.

PEIA’s amount invested in the Fixed Income pool of $70,523,000 at June 30, 2006, represents approximately 3.3% of total investments in the pool.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

4. Deposit and Investment Risk Disclosures (continued)

Fixed Income Non-qualified

This pool holds positions in institutional mutual funds with a combined value of $369,891,016 at June 30, 2006, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.5 years. This pool is not exposed to custodial credit risk, concentration of credit risk, or foreign currency risk. PEIA's amount invested in the Fixed Income Non-Qualified pool of $46,269,000 at June 30, 2006, represents approximately 12.5% of total investments in this pool.

5. Premium Stabilization Fund

Optional life premiums are funded entirely by program participants. The premium stabilization fund consists of accumulated dividends and interest on the participant optional life insurance policies. To the extent that these policyholder premiums are refunded to PEIA in the form of dividends and interest by the life insurance company, the funds are refunded to the related optional life policyholders by way of reductions in future premium increases. This account is utilized to track the accumulated balance due to optional life policyholders. Cash and cash equivalents include $3,942,740 and $3,942,557 as of June 30, 2006 and 2005, respectively, designated by management to meet this obligation.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

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:

	2006	2005
	(In Thousands)	
Claims payable, beginning of year	**$ 65,399**	$ 61,690
Incurred claims expenses:		
Provision for insured events of the current year	**518,094**	486,666
Increase (decrease) in provision for insured events of prior years	**1,300**	(3,460)
Total incurred claims expense	**519,394**	483,206
Payments:		
Claim payments attributable to insured events of:		
Current year	**460,973**	426,562
Prior years	**63,698**	52,935
Total payments	**524,671**	479,497
Claims payable, end of year	**$ 60,122**	$ 65,399

The above payments are net pharmacy rebates of $11,053,560 and $13,298,826 for the years ended June 30, 2006 and 2005, 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.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

7. Employee Benefit Plans (continued)

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

	2006	2005	2004
Employer contributions (10.5%)	**$ 220,258**	$ 220,517	$ 221,187
Employee contributions (4.5%)	**93,576**	94,989	93,625
Total contributions	**$ 313,834**	$ 315,506	$ 314,812

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.

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, 2006 and 2005, for sick leave postretirement benefits of $316,993 and $285,346, respectively, is included in other accrued liabilities in the statements of net assets. During the years ended June 30, 2006 and 2005, PEIA disbursed $8,724 and $6,260, respectively, from the liability balances discussed above to fund health insurance premiums for one of its retirees, who had elected to use his 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 annual required 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. Funds have not been set aside to pay future costs of retirees, but the West Virginia Legislature, in response to the GASB Statement, has made statutory changes to create the West Virginia Retiree Health Benefit Trust

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Postemployment Benefits Other Than Pension Benefits (continued)

Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested and which is expected to facilitate the separate financial reporting of OPEB. However, participation in the costs of the health benefit plans remains subject to the annual appropriations process, and the plan terms, benefits, and cost to participants remain within the discretion of PEIA.

Policy, budget, and program areas of State of West Virginia government are actively considering and planning proper responses to healthcare costs in general, and specifically, retiree health costs. A preliminary actuarial study has been done to facilitate evaluation of possible reduction in the OPEB benefits offered, including plan modifications, increasing levels of employee contributions, or other cost-sharing provisions. The preliminary actuarial evaluation estimated the current discounted unfunded actuarial liability ranging from $3 to $7 billion depending on variations of the actuarial assumptions, using discount rates of 4.6% to 7.8%.

Currently, PEIA administers the State of West Virginia cost–sharing, multi-employer, post-employment health care plan (OPEB). PEIA collects healthcare premiums from retirees and their former employers on a pay-as-you-go basis and uses these funds for retiree healthcare claims and related administration expenses. For Fiscal Year 2006, these retiree healthcare costs totaled approximately $175 million and total retiree revenues were approximately the same amount, when $104 million of retiree subsidy generated from active member premiums are included. At June 30, 2006, approximately $10 million of the claims payable reflected on PEIA statement of net assets relate to retiree healthcare claims. In order to comply with the provisions of GASB No. 43 and No. 45, the RHBT will administer the State's OPEB Plan in subsequent years. Therefore, the retiree revenues, expenses, and claims liabilities will no longer be accounted for within PEIA financial statements beginning in Fiscal Year 2007. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB No. 43, the ARC which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with any residue funds held in trust for future OPEB costs. Because the necessary actuarial study has not yet been completed, the annual required contribution rates are not yet available.

West Virginia Public Employees Insurance Agency

Notes to Financial Statements (continued)

8. Postemployment Benefits Other Than Pension Benefits (continued)

At the present time, PEIA cannot reasonably estimate the ultimate impact on the financial statements of implementing the new standards. However, based on the current level of expenditures/expenses and other preliminary analysis of the OPEB obligations as described above, management expects that the implementation of the proposed standards will have a material effect on PEIA’s financial position, changes in financial position, and cash flows. In conjunction with the establishment of the RHBT, the OPEB activity will be reflected in the financial statements of the RHBT, instead of PEIA’s financial statements.

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 its 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.

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Required Supplemental Schedule

Statistical Section

Another unsetting trend in healthcare costs for retirees is Rx medications.

In fiscal year 2006, prescription drug costs represented 33.5% of PEIA's total claim costs, our retiree population's share was 48%. Without modification to the current healthcare delivery system and a reduction in plan costs and utilization of prescription drugs, it is not reasonable to expect West Virginia to be able to afford healthcare in the future. The system simply won't be sustainable.

West Virginia Public Employees Insurance Agency

Ten-Year Claims Development Information (Unaudited)

The table below illustrates how PEIA's earned premiums (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by PEIA as of the end of each of the years presented. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating, and investment revenues. (2) This line shows each fiscal year's other operating costs of PEIA including overhead and unallocated claims expense not allocable to individual claims. (3) This line shows PEIA's incurred and ceded claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred (called accident year). (4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. (5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. (6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known 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.

(In Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1) Premiums, investment, and other revenues:										
Earned	$ 312,476	$ 329,296	$ 373,698	$ 388,179	$ 417,673	$ 432,220	$ 501,170	**$ 575,420**	**$ 591,470**	**$ 638,272**
Ceded	90,070	85,859	74,201	75,298	76,656	51,962	56,730	**61,833**	**55,846**	**62,467**
Net earned	222,406	243,437	299,497	312,881	341,017	380,258	444,440	**513,587**	**535,624**	**575,805**
2) Unallocated expenses	15,349	12,117	14,376	14,564	16,754	16,531	21,195	**23,347**	**23,579**	**26,036**
3) Estimated incurred claims and allocated claims adjustment expense, end of accident year:										
Incurred	318,791	333,067	351,082	334,802	388,645	431,544	450,592	**493,230**	**542,512**	**580,561**
Ceded	90,070	85,859	74,201	75,298	76,656	51,962	56,730	**61,833**	**55,846**	**62,467**
Net incurred	228,721	247,208	276,881	259,504	311,989	379,582	393,862	**431,397**	**486,666**	**518,094**
4) Paid (cumulative) claims and allocated claims adjustment expense as of:										
End of accident year	177,598	198,058	236,905	217,771	262,116	327,451	343,939	**379,101**	**426,562**	**460,973**
One year later	228,783	235,214	271,547	254,001	310,090	374,269	390,420	**428,176**	487,303	
Two years later	230,653	235,719	272,155	254,852	310,047	374,685	388,999	**428,218**		
Three years later	230,283	235,341	272,355	254,887	309,981	374,465	388,911			
Four years later	230,283	235,341	272,355	254,887	309,981	374,465				
Five years later	230,283	235,341	272,355	254,887	309,981					
Six years later	230,283	235,341	272,355	254,887						
Seven years later	230,283	235,341	272,355							
Eight years later	230,283	235,341								
Nine years later	230,283									
5) Re-estimated ceded claims and expenses	90,070	85,859	74,201	75,298	76,656	51,962	56,730	61,833	55,846	–
6) Re-estimated net incurred claims and allocated claims adjustment expense:										
End of accident year	228,721	247,208	276,881	259,504	311,989	379,582	393,862	**431,397**	486,666	518,094
One year later	230,636	235,542	272,337	256,492	319,539	375,350	389,662	**428,567**	487,656	
Two years later	229,216	234,523	272,337	255,440	319,306	375,050	389,162	**428,687**		
Three years later	229,046	234,523	272,757	255,355	319,076	374,920	389,352			
Four years later	229,046	234,523	272,757	255,270	319,076	374,920				
Five years later	229,046	234,523	272,757	255,270	319,076					
Six years later	229,046	234,523	272,757	255,270						
Seven years later	229,046	234,523	272,757							
Eight years later	229,046	234,523								
Nine years later	229,046									
7) *I*ncrease (decrease) in estimated net incurred claims and allocated claims adjustment expense from end of accident year	325	(12,685)	(4,124)	(4,234)	7,087	(4,662)	(4,510)	(2,710)	990	–

Schedule 1

Net Assets, Last Ten Fiscal Years *(dollars in thousands)*

	Fiscal Year									
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Invested in capital assets, net of related debt	$209	$155	$90	$115	$161	$221	$281	$295	208	$72
Unrestricted	190,659	168,428	139,655	76,057	42,078	57,550	49,447	4,888	(16,198)	(8,959)
Total	$190,868	$168,583	$139,745	$76,172	$42,239	$57,771	$49,728	$5,183	$(15,990)	$(8,887)

Note: Upon passage of the law requiring PEIA to maintain a minimum reserve in 2000, PEIA's reserve and financial position have shown steady improvement. PEIA is in compliance with the statutory reserve requirements.

Source: PEIA Financial Statements

Schedule 2

Changes in Net Assets, Last Ten Fiscal Years

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Revenues:										
Premiums	$630,474,784	$580,985,961	$567,836,346	$494,803,110	$418,663,654	$396,494,659	$380,081,007	$365,771,569	$321,955,257	$309,463,427
Less:										
Payments to managed care organizations	(56,018,955)	(49,441,787)	(55,471,086)	(50,336,032)	(46,818,034)	(71,609,138)	(70,757,209)	(69,713,292)	(81,392,367)	(85,331,092)
Life reinsurance premiums	(6,447,851)	(6,404,367)	(6,361,993)	(6,394,214)	(5,144,232)	(5,047,339)	(4,540,875)	(4,488,068)	(4,467,264)	(4,738,484)
Net premium revenue	568,007,978	525,139,807	506,003,267	438,072,864	366,701,388	319,838,182	304,782,923	291,570,209	236,095,626	219,393,851
Administrative fees, net of refunds	6,058,949	6,011,411	6,035,393	4,766,910	4,656,388	4,612,838	3,952,384	3,101,354	3,025,674	2,443,298
Net operating revenues	574,066,927	531,151,218	512,038,660	442,839,774	371,357,776	324,451,020	308,735,307	294,671,563	239,121,300	221,837,149
Operating Expenses:										
Claims expense	519,393,700	483,206,286	426,667,298	389,312,256	379,258,215	316,219,643	253,771,160	263,947,359	238,423,500	234,821,774
Administrative service fees	15,717,640	16,116,521	15,082,572	14,444,565	10,917,542	11,471,003	9,316,764	9,186,157	8,229,978	9,502,029
Other operating expenses	10,318,185	7,462,489	8,264,151	6,750,109	5,614,074	5,283,378	5,247,246	5,190,317	3,887,511	5,846,761
Total operating expenses	545,429,525	506,785,296	450,014,021	410,506,930	395,789,831	332,974,024	268,335,170	278,323,833	250,540,989	250,170,564
Operating Income (loss)	28,637,402	24,365,922	62,024,639	32,332,844	(24,432,055)	(8,523,004)	40,400,137	16,347,730	(11,419,689)	(28,333,415)
Nonoperating Revenues (Expenses):										
Investment income, net of fees	8,348,296	4,472,144	1,549,114	1,599,711	3,099,867	6,565,677	3,145,719	1,274,911	766,126	569,736
Retiree drug subsidy	8,090,995									
Supplemental Appropriations	4,887,369	-	-	-	5,800,000	10,000,000	1,000,000	3,550,000	3,550,000	-
Other revenue	-	-	-	-	-	-	-	-	-	300,000
Transfer out primary government	(27,679,595)									
Change in Net Assets	22,284,467	28,838,066	63,573,753	33,932,555	(15,532,188)	8,042,673	44,545,856	21,172,641	(7,103,563)	(27,463,679)

Source: PEIA Financial Statements

Schedule 3

Changes in Net Assets, Last Ten Fiscal Years *(dollars in thousands)*

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Additions										
Member contributions	$144,277	$138,544	$131,774	$107,457	$82,641	$41,343	$38,435	$31,948	$28,908	$20,724
Employer contributions	495,171	451,043	444,534	393,943	342,165	360,558	346,229	336,925	296,073	291,483
Retiree drug subsidy	8,091	-	-	-	-	-	-	-	-	-
Direct transfer	4,887	-	-	-	5,800	10,000	1,000	3,550	3,550	-
Investment income (net of expenses)	8,348	4,472	1,549	1,600	3,100	6,566	3,146	1,275	766	570
Total additions to plan net assets	$660,775	$594,059	$577,857	$503,000	$433,706	$418,468	$388,810	$373,698	$329,297	$312,777
Deductions (See Schedule 2)										
Benefit payments	581,861	539,051	488,500	446,043	431,220	392,876	329,069	338,149	324,283	324,891
Administrative expenses	24,398	21,896	20,845	19,841	15,521	15,472	13,851	12,703	10,702	14,268
Retiree assistance program	2,914	2,591	2,436	1,830	1,487	794	631	756	756	684
Wellness expenses	1,638	1,683	2,502	1,354	1,010	1,283	713	917	660	398
Total deductions from plan net assets	$610,811	$565,221	$514,283	$469,067	$449,239	$410,425	$344,264	$352,525	$336,401	$340,241
Transfer Out	$27,680									
Change in net assets	$22,284	$28,838	$63,574	$33,933	$(15,532)	$8,043	$44,546	$21,173	$(7,104)	$(27,464)

NOTE: This version of Changes in Net Assets presents major components of the revenue base and major components of the expenses.

Source: PEIA Financial Statements

Schedule 4

Benefit Deductions from Net Assets by Type, Last Ten Fiscal Years
(dollars in thousands)

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Type of Benefit										
Medical Claims	$345,255	$327,242	$297,190	$271,009	$272,663	$234,047	$189,176	$192,606	$182,978	$183,721
Prescription Drug Claims	174,139	155,964	$129,477	$118,303	$106,595	$82,173	$64,595	71,341	55,445	51,101
Managed Care Capitations	56,019	49,442	$55,471	$50,336	$46,818	$71,609	$70,757	69,714	81,392	85,331
Life Insurance Premiums	6,448	6,404	$ 6,362	$6,394	$5,144	$5,047	$ 4,541	4,488	4,467	4,738
Total Benefits	$581,861	$539,051	$488,500	$ 446,043	$431,220	$392,876	$329,069	$338,149	$ 324,282	$324,891

Source: PEIA Financial Statements

Schedule 5

Employer and Employee Health Contribution Rates, Last Ten Fiscal Years

	Fiscal Year									
Average Monthly Premium	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
State Policyholders										
PPB	$108	$110	$106	$84	$58	$46	$44	$38	$38	$29
Managed Care	$129	$131	$123	$106	$84	$78	$67	$49	$35	$22
State Employers										
PPB	$556	$499	$499	$445	$393	$401	$377	$368	$331	$305
Managed Care	$537	$481	$476	$424	$381	$415	$358	$327	$290	$328
Local Employers										
PPB	$611	$593	$554	$486	$386	$368	$398	$407	$334	$299
Managed Care	$552	$525	$506	$428	$421	$505	$431	$423	$314	$330
Retiree Policyholders										
PPB	$147	$136	$131	$113	$100	$98	$94	$90	$82	$76
Managed Care	$442	$387	$359	$357	$459	$381	$218	$223	$160	$124

Source: PEIA Actuarial Reports

Schedule 6

Health Policyholder Count by Employer Type, Last Ten Fiscal

	Fiscal Year									
June Policy Count	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
County Schools	31,665	31,704	31,823	31,953	32,059	32,533	33,063	33,293	33,421	33,774
College and University	9,374	9,185	9,086	9,180	9,260	9,060	9,064	9,142	9,129	9,247
State Agencies	21,635	22,401	22,191	22,090	21,780	21,462	21,467	21,225	20,549	20,815
Local Governments	9,516	9,179	9,176	8,542	8,073	7,177	6,431	6,505	7,454	7,474
Retirees	29,297	28,331	27,401	26,207	25,817	25,561	24,917	26,429	26,071	25,353
Survivors	3,615	3,587	3,448	3,471	3,445	3,438	3,396	1,181	1,135	1,085
	105,102	104,387	103,125	101,443	100,434	99,231	98,338	97,775	97,759	97,748

NOTE: Retiree enrollment increases is yet another factor in the OPEB liability discussed in the transmittal letter. Survivors are considered retirees. PEIA's actuary assumes a 1,000 retiree member increase per year.

Source: PEIA Eligibility System Billings

Schedule 7

Demographic and Economic Information

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Population										
West Virginia	1,816,856	1,812,548	1,810,347	1,804,529	1,801,438	1,807,442	1,811,799	1,815,609	1,819,113	1,822,808
Change	0.24%	0.12%	0.32%	0.17%	-0.33%	-0.24%	-0.21%	-0.19%	-0.20%	-0.05%
National	296,410,404	293,656,842	290,850,005	287,984,799	285,107,923	282,193,477	279,731,000	276,553,000	273,368,000	270,115,000
Change	0.94%	0.97%	0.99%	1.01%	1.03%	0.88%	1.15%	1.17%	1.20%	2.78%
Total Personal Income										
West Virginia	47,290,313	45,245,399	43,342,170	43,311,515	41,902,494	39,582,040	37,557,062	36,721,626	35,004,858	33,622,403
Change	4.52%	4.39%	0.07%	3.36%	5.86%	5.39%	2.28%	4.90%	4.11%	4.00%
National (in billions)	10,295	9,713	9,169	8,882	8,724	8,430	7,802	7,423	6,915	6,512
Change	5.99%	5.93%	3.23%	1.81%	3.49%	8.05%	5.11%	7.35%	6.19%	6.79%
Per Capita Personal Income*										
West Virginia	26,029	24,962	23,941	24,002	23,261	21,899	20,729	20,226	19,243	18,445
Change	4.27%	4.26%	-0.25%	3.19%	6.22%	5.64%	2.49%	5.11%	4.33%	4.05%
National	34,495	33,090	31,463	30,810	30,574	29,845	27,939	26,883	25,334	24,175
Change	4.25%	5.17%	2.12%	0.77%	2.44%	6.82%	3.93%	6.11%	4.79%	4.17%
Median Age – West Virginia	40.7	40.2	39.9	39.5	39.3	39.0	38.9	38.5	38.1	37.7
Educational Attainment										
9th Grade or Less	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	16.8%	16.8%	16.8%	16.8%
Some High School, No Diploma	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	17.3%	17.3%	17.3%	17.3%
High School Diploma	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	36.6%	36.6%	36.6%	36.6%
Some College, No Degree	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%	13.2%	13.2%	13.2%	13.2%
Associate, Bachelor's or Graduate Degree	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	16.1%	16.1%	16.1%	16.1%
Resident Civilian Labor Force and Employment in West Virginia (thousands)										
Civilian Labor Force	800.0	791.0	794.0	798.0	801.0	809.0	813.0	807.0	801.0	795.0
Employed	761.0	749.0	746.0	751.0	759.0	765.0	762.0	755.0	746.0	736.0
Unemployed	40.0	42.0	48.0	47.0	42.0	44.0	51.0	52.0	54.0	59.0
Unemployment Rate	5.0%	5.3%	6.0%	5.9%	5.2%	5.5%	6.3%	6.5%	6.8%	7.4%
Nonfarm Wage and Salary Workers Employed in West Virginia Goods Producing Industries										
Mining	25.9	23.8	22	23.1	23.5	21.4	22.3	24.6	25.1	26.2
Construction	36.8	34.6	32.7	33.4	34.9	34	33.8	34.4	34.9	34.3
Manufacturing-Durable Goods	38.8	39.2	39.7	42.2	44.5	46.6	46.7	46.5	45.6	45.5
Manufacturing-NonDurable Goods	23	23.8	24.9	26.5	27.7	29.2	30.2	31.2	31.3	32.1
Total Goods Producing Industries	**124.5**	**121.4**	**119.3**	**125.2**	**130.6**	**131.2**	**133**	**136.7**	**136.9**	**138.1**
Non-Goods Producing Industries										
Trade	113.6	111.9	110.4	111.3	113.7	117.4	117	115.4	114.3	113.5
Service	364.9	360.5	355.5	353.7	350	344.1	335.1	326.4	317.4	308.3
State & Local Government	121.7	121.4	120.6	120.9	119.2	120.6	119.2	119	117.9	118.8
Federal Government	21.9	21.8	21.9	21.9	21.8	22.5	21.7	21.8	21.1	19.9
Total Non-Goods Producing Industries	**622.1**	**615.6**	**608.4**	**607.8**	**604.7**	**604.6**	**593**	**582.6**	**570.7**	**560.5**
Total Nonfarm Wage and Salary Employment	**746.6**	**737**	**727.7**	**733**	**735.3**	**735.8**	**726**	**719.3**	**707.6**	**698.6**

Sources: Workforce West Virginia Research, Information, and Analysis Office and the Census

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

Schedule 8

Principal Participating Employers, Current Year and Nine Years Ago

Participating Government	2006 Covered Employees	2006 Rank	2006 % of Total System	1997 Covered Employees	1997 Rank	1997 % of Total System	Product or Service
State of West Virginia	21,635	1	20.58%	20,815	1	21.29%	State Government
WV Teachers Retirement Board	17,525	2	16.67	12,328	2	12.61	Retirement Trust
Consolidated Pub.Emp.Ret.Bd.	11,162	3	10.62	8,108	3	8.29	Retirement Trust
West Virginia University	5,518	4	5.25	5,885	4	6.02	Higher Education
Kanawha Co Board of Education	3,162	5	3.01	3,263	5	3.34	K-12 Education
Berkeley Co Board Of Education	1,715	6	1.63	1,236	10	1.26	K-12 Education
Wood Co Board Of Education	1,493	7	1.42	1,486	8	1.52	K-12 Education
Marshall University	1,375	8	1.31	1,209	11	1.24	Higher Education
Cabell Co Board Of Education	1,349	9	1.28	1,652	6	1.69	K-12 Education
Raleigh Co Board Of Education	1,292	10	1.23	1,525	7	1.56	K-12 Education
All other [a]	38,876		36.99	40,241		41.18	
Total	105,102		100.00	97,748		100.00	

In 2006, "all other" consisted of:

Type	Number	Employees
Counties	41	2,369
Municipalities	95	2,318
School districts	51	22,656
Higher education	17	2,482
Other	3833	9,051
Total	4037	38,876

NOTE: As shown, as a single employer, the State and its agencies represent the largest employer with two retiree groups representing the 2nd and 3rd.

Source: PEIA Eligibility System Billings

Schedule 9

Principal Participating Employers Revenue
Current Year and Nine Years Ago Revenue

Participating Government	2006 Total	Percent of Total	1997 Total	Percent of Total
State of West Virginia	$ 174,606,483.36	28%	$ 85,481,742.96	28%
West Virginia Teachers Retirement Board	$ 20,958,784.08	3%	$ 10,976,130.24	4%
Consolidated Public Employees Retirement Board	$ 13,599,135.48	2%	$ 7,643,795.40	2%
West Virginia University	$ 45,900,307.32	7%	$ 23,044,973.88	7%
Kanawha County Board of Education	$ 26,217,551.76	4%	$ 14,881,569.60	5%
Berkeley County Board of Education	$ 13,206,428.64	2%	$ 5,160,646.32	2%
Wood County Board of Education	$ 12,277,148.28	2%	$ 6,184,445.64	2%
Marshall University	$ 11,564,294.40	2%	$ 5,219,963.28	2%
Cabell County Board of Education	$ 11,144,917.80	2%	$ 6,818,660.64	2%
Raleigh County Board of Education	$ 11,101,265.76	2%	$ 6,391,840.32	2%
All other	$ 289,898,467.12		$ 137,659,658.72	
Total	$ 630,474,784.00		$ 309,463,427.00	

NOTE: This version of Principal Participating Employers denotes the top 10 employers' revenue.

Schedule 10

Number of Employees by Identifiable Activity
Filled Full Time Equivalent Employees as of June 30,

	2006	2005	2004	2003	2002	2001	2000	1999	1998
Eligibility	10	9	9	9	9	9	9	9	9
Customer Service	6	8	7	7	7	7	7	7	7
Finance	5	4	4	4	4	4	3	3	4
Premium Accounts	6	6	5	6	6	6	6	6	6
Health Benefits and Clinical Administration	10	9	8	6	0	0	0	0	0
Communications	3	3	2	2	3	3	2	2	2
Legal	3	3	3	3	2	2	2	2	2
Director’s Office - Administration	5	4	4	5	5	5	5	5	5
Operations-Human Resources	3	3	3	3	3	3	3	3	3
Information Technology	3	3	3	3	2	2	2	2	2
Total	54	52	48	48	41	41	39	39	40

NOTE: Until June 2002, 9 members of eligibility, customer service and premium accounts were contract employees of PEIA’s third party administrator.

Source: PEIA Personal Service Budgets

Schedule 11

Policyholder Count by Type of Healthcare Benefit
Current Year and Previous Year

	2006	2005
State Active Employees		
Preferred Provider Benefit	54,508	54,724
Managed Care	8,166	8,566
Local Active Employees		
Preferred Provider Benefit	8,864	8,538
Managed Care	652	641
Retirees Medicare		
Preferred Provider Benefit	25,392	24,867
Managed Care	-	
Retirees Non Medicare		
Preferred Provider Benefit	7,148	6,693
Managed Care	372	358
Total	105,102	104,387

Source: PEIA Eligibility System Billings

Schedule 12

Average Monthly Claims Cost per Policy/Contract
Current Year and Previous Year

	Year End 2006			Year End 2005		
	Medical Claims	Drug Claims	MCO Capitation	Medical Claims	Drug Claims	MCO Capitation
State Active Employees						
Preferred Provider Benefit	$ 352.00	$ 121.00		$ 331.00	$ 111.00	
Managed Care			$ 493.00			$ 423.00
Local Active Employees						
Preferred Provider Benefit	$ 327.00	$ 105.00		$ 314.00	$ 92.00	
Managed Care			$ 425.00			$ 348.00
Retirees Medicare						
Preferred Provider Benefit	$ 161.00	$ 224.00		$ 156.00	$ 206.00	
Managed Care			-			-
Retirees Non Medicare						
Preferred Provider Benefit	$ 371.00	$ 190.00		$ 404.00	$ 161.00	
Managed Care			$ 958.00			$ 871.00

Source: PEIA Actuarial Report