



CCRC
Actuaries, LLC

STATE OF WEST VIRGINIA



PUBLIC EMPLOYEES INSURANCE AGENCY

**Quarterly Report
December 31, 2006**

Fiscal Years 2007-2011

April 2007



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Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC (“CCRC Actuaries”).

CCRC Actuaries has been retained by the West Virginia Public Employees Insurance Agency Finance Board (“Board”) to assist it as provided under of the West Virginia Public Employees Insurance Act (“Act”), 1931, as amended. The Board has asked CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2007 (“FY 2007”) and to provide quarterly financial reports. Our analysis is developed on an accrued and incurred reporting basis for a projection period of five years.

It should be noted that this is the first report to reflect the transfer of retiree coverages to the West Virginia Retiree Health Benefit Trust Fund (“Trust Fund”).

Under the statutory provisions the Act, it is the Board’s responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency (“PEIA”). The Board is required to provide a financing plan in which the State Fund revenue costs are financed 81% by state employers and 19% by state employees in FY 2007, and 80% by state employers and 20% by state employees in subsequent fiscal years. In FY 2008, the 80% employer share and 20% employee share were achieved through a transfer of employer funds to the West Virginia Retiree Health Benefit Fund.

The Board is also charged with the responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of PEIA for the fiscal year are met. We have been asked to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of PEIA through FY 2011.

The Medicaid / PEIA Hospital Bill has been extended and is anticipated to continue to provide PEIA with hospital savings. These hospital savings are assumed to increase by the medical trend assumptions through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense. However, this increase in plan expense will be somewhat offset by the assumed direct transfer of \$6,000,000 in FY 2009 and later years.

CCRC Actuaries has provided preliminary forecasts for the fiscal years ending June 30, 2008 ("FY 2008"), June 30, 2009 ("FY 2009"), June 30, 2010 ("FY 2010"), and June 30, 2011 ("FY 2011"). Our opinion of plan adequacy is based on the projections through FY 2011 using updated future revenue and plan modifications provided by the Board in the financial plan adopted in December 2006. This forecast is prepared for the Public Employee Insurance Agency, and does not include actuarial projections for the Trust Fund.

In reviewing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by PEIA, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that since the adoption of the financial plan in December 2006, PEIA has experienced favorable claim expense. In the circumstances and subject to the conditions described herein, we believe the financial plan approved by the Board for FY 2006 through FY 2011 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of PEIA. In addition, we are forecasting that PEIA will meet the 80% employer cost share and 20% employee cost share requirement for state revenue in FY 2008 based on the scheduled revenue increases of the financial plan approved and amended by the Board in December 2006. In FY 2007, PEIA received a direct transfer of \$6.7 million to offset the loss of employee premiums, which resulted in the 81% employer share and 19% employee share.

The conclusion of long-term solvency for the program over the five-year forecast is based on significant revenue increases in employer and employee premiums in later fiscal years of the plan through FY 2011 as approved by the Board in December 2006.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.

Respectfully,



Dave Bond, F.S.A., M.A.A.A.
Managing Partner



Bradley Paulis
Reviewing Partner

West Virginia Public Employees Insurance Agency

Report of Independent Actuary

Financial Plan for FY 2007 – FY 2011

OVERVIEW

This report analyzes revenues and expenses related to funding the health and life insurance benefits of active employees of the State and various Local Agencies, together with their dependents. This report is intended for the sole use of the Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled utilizing claims data collected by PEIA's third party administrators through January 2007 for prescription drugs and medical claims. Enrollment data, administrative expenses, managed care capitations, and plan revenues were provided at special request from PEIA. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the West Virginia Legislature. In addition, other information became available through presentations made at the Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA on an incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue for a period not to exceed five years. At the request of the Board, the reporting basis is based upon the separation of employees into two funds: Active Local Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The State Fund represents active state employees, college and university employees and county boards of education employees. The Active Local Fund and the State Fund are allocated administrative costs based on each fund's proportionate total revenue levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit (“PPB”) and managed care enrollment will not change from March 2007 enrollment levels for the duration of these forecasts for active employees.

In aggregate, March 2007 enrollment for active employees has slightly increased by 161 coverages since the end of FY 2006. Aggregate PPB enrollment has increased by 238 in total over the same period, while managed care enrollment experienced a slight decline with 77 fewer coverages.

In the State Fund, there continues to be a transfer of coverage from managed care to PPB coverage with overall active State enrollment increasing by 79 coverages from the end of FY 2006 to March 2007. In the Local Fund, the same phenomena have occurred with overall active State enrollment increasing by 82 coverages from the end of FY 2006 to March 2007.

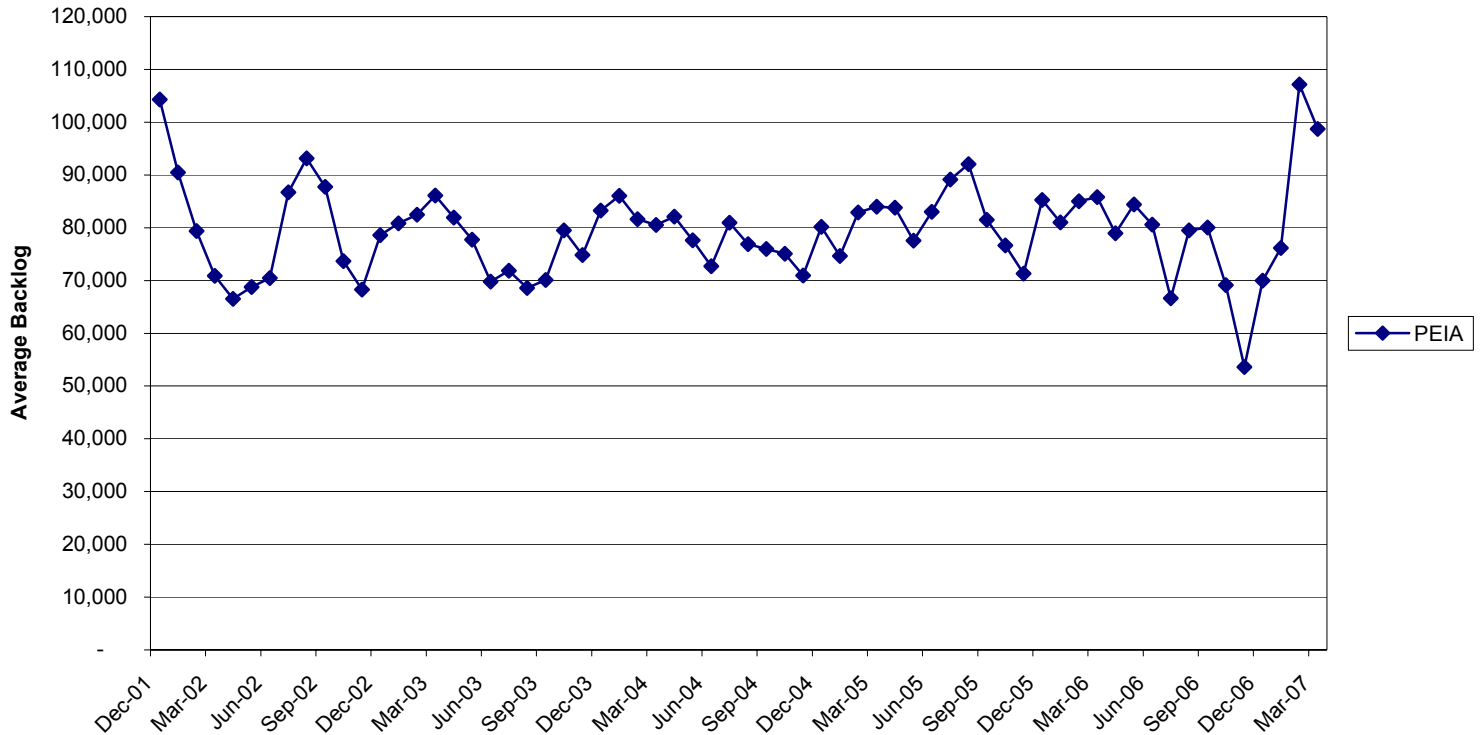
The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2005, June 2006 and March 2007 for purposes of comparison:

PEIA Fund	Coverage	Preferred Provider Benefit			Managed Care		
		Jun-05	Jun-06	Mar-07	Jun-05	Jun-06	Mar-07
State Active	Single	18,783	18,838	19,418	3,476	3,388	3,474
	Children	4,948	4,933	4,897	708	673	629
	Family	30,993	30,737	30,337	4,382	4,105	3,998
	Total	54,724	54,508	54,652	8,566	8,166	8,101
Local Active	Single	3,549	3,767	3,781	383	376	378
	Children	592	594	561	155	157	150
	Family	4,397	4,503	4,616	103	119	112
	Total	8,538	8,864	8,958	641	652	640
Plan Total		63,262	63,372	63,610	9,207	8,818	8,741
Grand Total					72,469	72,190	72,351

B. Changes in Claim Backlog

With the exception of the most recent increases in February 2007 and March 2007, the medical claim backlog has been relatively stable throughout Fiscal Year 2006 and Fiscal Year 2007.

WV PEIA Claim Backlog through February 2007



C. Trend Analysis

CCRC Actuaries performed the detailed medical and prescription drugs trend analysis in the report titled, “Medical & Prescription Drugs Claims Trend Report - September, 2006”. This report includes the detailed trend analysis of PEIA experience by medical and prescription drugs. Based on the analysis, we have reduced the FY 2007 Non-Medicare medical claim trend to 6.5%. Additionally, due to PEIA’s favorable prescription drug experience, we have reduced our trend assumption for all prescription drugs coverage to 12.0% in FY 2007.

The current projection assumes the trends in the following table:

Claim Type	Previous Assumption FY 2007 Trend	Updated Assumption FY 2007 Trend
Active Local – Medical	8.5%	6.5%
State – Medical	8.5%	6.5%
Active Local – Drugs	17.0%	12.0%
State – Drugs	17.0%	12.0%

In addition, we have assumed that trends will remain the same for FY 2008 and then increase by 0.5% in each successive fiscal year beginning in FY 2009. At the Board’s request, the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The following chart summarizes the trend results observed for the plan using data through February 2007. It is important to note that these trends ***have not*** been adjusted to reflect savings as a result of the expansion of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies, nor the changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumption.

PEIA Historical Trends (Active Local and State)

Fiscal Year	Active Local Medical	State Medical	Active Local Drugs	State Drugs	Total
2003	2%	4%	19%	14%	7%
2004	-2%	10%	9%	7%	8%
2005	16%	7%	7%	20%	11%
2006	0%	2%	18%	7%	3%

D. Enrollment, Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through February 2007 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for the State Fund and the Local Fund for both self-funded and managed care coverages. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective expected claim cost for each coverage type. The adjusted exposure methodology weighs the expected claim cost under each coverage type for single, member and children, and family coverages based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. Based on this methodology, the projection of FY 2007 claims and expenses are summarized in the following chart. It should be noted that the chart reflects per policy information.

Fiscal Year 2007 Projection			Revenue		Expenses		
Fund	Program	Policies	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drugs Costs	Monthly Capitation Costs
State	PPB	54,240	\$ 448	\$ 102	\$ 337	\$ 132	
	<u>Managed Care</u>	7,993	\$ 430	\$ 116			\$ 523
	Total	62,233					
Local	PPB	8,821	\$ 504	\$ -	\$ 349	\$ 117	
	<u>Managed Care</u>	630	\$ 481	\$ -			\$ 447
	Total	9,451					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund. The following chart summarizes the additional revenues from employers, employees and direct transfers assumed in the report.

Board Decisions – December 2006

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Additional State Employer Revenue	\$5,000,000	\$0	\$30,000,000	\$40,000,000	\$55,000,000
Additional Local Agency Revenue	\$2,000,000	\$0	\$2,000,000	\$11,000,000	\$11,000,000
Additional Employee Premiums	\$11,700,000	\$0	\$7,500,000	\$10,000,000	\$13,800,000
Direct Transfer	\$6,700,000	\$0	\$6,000,000	\$6,000,000	\$6,000,000

Under House Bill 4654, enacted during the 2006 Regular Legislative Session, the Public Employees Insurance Agency Finance Board is allowed to delay the eighty-twenty split between employer and employee due to a partial offset by a legislative appropriation. As a result, the scheduled employee premium increase of \$18,400,000 has been reduced by \$6,700,000 to \$11,700,000 in FY 2007.

Future fiscal year state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund

E. Provider Reimbursement Changes

The Medicaid / PEIA Hospital Bill has been extended and is anticipated to continue to provide PEIA with hospital savings. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, and will be somewhat offset by the assumed direct transfer of \$6,000,000 in Fiscal Year 2009.

FISCAL YEAR 2007 FORECAST

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007 projects accrued revenue of \$497,399,301 and incurred plan expenses of \$435,571,394 to produce a fiscal year surplus of \$61,827,907.

For this report and subsequent reports, we will base the adequacy of the ending reserves for both programs by combining the results for PEIA and the Trust Fund and comparing these reserves to the combined programs' expenditures.

Under the Baseline Scenario, FY 2007 is projected to end with the combined reserves of \$293,447,811 and the combined FY 2008 expenditures of \$677,700,068, which represents 43% of projected expenditures. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$298,654,782 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$288,271,225.

FISCAL YEAR 2008 FORECAST

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008 projects accrued revenue of \$482,653,132 and incurred plan expenses of \$464,394,482 to produce a fiscal year surplus of \$18,258,650.

Under the Baseline Scenario, FY 2008 is projected to end with the combined reserves of \$316,905,455 and the combined FY 2009 expenditures of \$766,096,745, which represents 41% of projected expenditures. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$338,429,884 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$295,239,980.

FISCAL YEAR 2009 FORECAST

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009 projects accrued revenue of \$514,484,646 and incurred plan expenses of \$520,251,568 to produce a fiscal year deficit of (\$5,766,922).

Under the Baseline Scenario, FY 2009 is projected to end with the combined reserves of \$310,851,792 and the combined FY 2010 expenditures of \$845,313,149, which represents 37% of projected expenditures. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$363,325,038 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$257,355,292.

FISCAL YEAR 2010 FORECAST

The financial forecast for FY 2010 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2010 projects accrued revenue of \$561,390,939 and incurred plan expenses of \$565,408,362 to produce a fiscal year deficit of (\$4,017,423).

Under the Baseline Scenario, FY 2010 is projected to end with the combined reserves of \$305,369,993 and the combined FY 2011 expenditures of \$936,971,111, which represents 33% of projected expenditures. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$405,874,897 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$201,595,360.

FISCAL YEAR 2011 FORECAST

The financial forecast for FY 2011 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2011 projects accrued revenue of \$625,819,651 and incurred plan expenses of \$617,144,707 to produce a fiscal year surplus of \$8,674,944.

Under the Baseline Scenario, FY 2011 is projected to end with the combined reserves of \$313,594,916 and the combined FY 2012 expenditures of \$1,043,324,574, which represents 30% of projected expenditures. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$482,891,916 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$136,542,701.

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

SUMMARY

With projected changes to the plan as adopted by the PEIA Finance Board, we are forecasting that the plan will meet the 10% reserve target through the projection period ending with the Fiscal Year 2011 using the Baseline assumptions. These projections are based on significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement, possible changes in methodology of managed care premium calculation, and changes in the prescription drugs program, can be expected to further exacerbate the difficulty of projecting future medical and drugs claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as universal health insurance initiatives and Medicaid reform. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the legislatively mandated requirement of a five-year projection, it should be assumed that constant modifications would be required.

**APPENDIX - BASELINE SCENARIO
PEIA - ACTIVE LOCAL AND STATE**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2007**

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	State Fund	PEIA Total
<u>Revenues</u>			
Employer Premiums - PPB	\$ 53,296,553	\$ 291,501,795	\$ 344,798,348
Employer Premiums - MCO	3,635,275	41,258,635	44,893,910
Employee Premiums - PPB	-	66,338,712	66,338,712
Employee Premiums - MCO	-	11,109,382	11,109,382
Direct Transfers	-	6,700,000	6,700,000
Investment Income	1,800,722	14,199,278	16,000,000
COBRA Premiums	343,373	1,156,627	1,500,000
Administrative Fees	445,018	5,613,931	6,058,949
Total Revenue	\$ 59,520,941	\$ 437,878,360	\$ 497,399,301
<u>Program Expenses</u>			
Medical Claims	\$ 36,917,556	\$ 219,148,338	\$ 256,065,894
Prescription Drug Claims	12,406,241	86,028,925	98,435,166
Managed Care Capitations	3,379,904	50,194,536	53,574,440
Administration	2,472,700	17,497,177	19,969,877
Life Insurance	786,073	4,607,155	5,393,228
Wellness	182,773	1,293,327	1,476,100
Director's Discretionary Fund	91,369	565,320	656,689
Total Expenses	\$ 56,236,616	\$ 379,334,778	\$ 435,571,394
Initial UAAL OPEB Funding	\$ -	\$ -	\$ -
Fiscal Year Results	\$ 3,284,325	\$ 58,543,582	\$ 61,827,907
Beginning Plan Reserve	22,669,888	197,222,454	219,892,342
Ending Plan Reserve	\$ 25,954,213	\$ 255,766,036	\$ 281,720,249

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 5,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 11,700,000	Active Local	6.5%	12.0%
Direct Transfers	\$ 6,700,000	State	6.5%	12.0%
Provider/Benefit Reductions	\$ -	Capitations		10.0%
		Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
PEIA - ACTIVE LOCAL AND STATE**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2008**

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	State Fund	PEIA Total
<u>Revenues</u>			
Employer Premiums - PPB	\$ 51,823,525	\$ 284,179,788	\$ 336,003,313
Employer Premiums - MCO	3,534,802	40,222,291	43,757,093
Employee Premiums - PPB	-	64,672,401	64,672,401
Employee Premiums - MCO	-	10,830,334	10,830,334
Direct Transfers	-	-	-
Investment Income	2,048,248	17,820,471	19,868,719
COBRA Premiums	334,749	1,127,574	1,462,323
Administrative Fees	445,018	5,613,931	6,058,949
Total Revenue	\$ 58,186,342	\$ 424,466,790	\$ 482,653,132
<u>Program Expenses</u>			
Medical Claims	\$ 39,800,929	\$ 233,870,661	\$ 273,671,590
Prescription Drug Claims	13,357,427	91,694,572	105,051,999
Managed Care Capitations	3,548,899	52,704,263	56,253,162
Administration	2,596,335	18,372,036	20,968,371
Life Insurance	825,376	4,837,513	5,662,889
Wellness	182,773	1,293,327	1,476,100
Director's Discretionary Fund	183,926	1,126,445	1,310,371
Total Expenses	\$ 60,495,665	\$ 403,898,817	\$ 464,394,482
Initial UAAL OPEB Funding	\$ 4,761,728	\$ 34,000,000	\$ 38,761,728
Fiscal Year Results	\$ (2,309,323)	\$ 20,567,973	\$ 18,258,650
Beginning Plan Reserve	25,954,213	255,766,036	281,720,249
Ending Plan Reserve	\$ 18,883,162	\$ 242,334,009	\$ 261,217,171

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ -	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ -	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ -	Active Local	6.5%	12.0%
Direct Transfers	\$ -	State	6.5%	12.0%
Provider/Benefit Reductions	\$ 6,514,218	Capitations		5.0%
		Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
PEIA - ACTIVE LOCAL AND STATE**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2009**

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	State Fund	PEIA Total
<u>Revenues</u>			
Employer Premiums - PPB	\$ 52,075,489	\$ 302,489,184	\$ 354,564,673
Employer Premiums - MCO	3,551,987	42,813,769	46,365,756
Employee Premiums - PPB	-	69,182,211	69,182,211
Employee Premiums - MCO	-	11,585,567	11,585,567
Direct Transfers	-	6,000,000	6,000,000
Investment Income	1,680,235	17,489,252	19,169,487
COBRA Premiums	356,651	1,201,352	1,558,003
Administrative Fees	445,018	5,613,931	6,058,949
Total Revenue	\$ 58,109,380	\$ 456,375,266	\$ 514,484,646
<u>Program Expenses</u>			
Medical Claims	\$ 42,496,743	\$ 267,191,086	\$ 309,687,829
Prescription Drug Claims	14,997,096	102,950,391	117,947,487
Managed Care Capitations	3,903,789	57,974,689	61,878,478
Administration	2,726,151	19,290,638	22,016,789
Life Insurance	866,645	5,079,389	5,946,034
Wellness	182,773	1,293,327	1,476,100
Director's Discretionary Fund	174,625	1,124,226	1,298,851
Total Expenses	\$ 65,347,822	\$ 454,903,746	\$ 520,251,568
Initial UAAL OPEB Funding	\$ -	\$ -	\$ -
Fiscal Year Results	\$ (7,238,442)	\$ 1,471,520	\$ (5,766,922)
Beginning Plan Reserve	18,883,162	242,334,009	261,217,171
Ending Plan Reserve	\$ 11,644,720	\$ 243,805,529	\$ 255,450,249

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 30,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 7,500,000	Active Local	7.0%	12.5%
Direct Transfers	\$ 6,000,000	State	7.0%	12.5%
Provider/Benefit Reductions	\$ -	Capitations		10.0%
		Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
PEIA - ACTIVE LOCAL AND STATE**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2010**

PERIOD 7/1/2009 - 6/30/2010

	Active Local Fund	State Fund	PEIA Total
<u>Revenues</u>			
Employer Premiums - PPB	\$ 60,590,739	\$ 328,782,670	\$ 389,373,409
Employer Premiums - MCO	4,132,800	46,535,301	50,668,101
Employee Premiums - PPB	-	75,621,372	75,621,372
Employee Premiums - MCO	-	12,663,898	12,663,898
Direct Transfers	-	6,000,000	6,000,000
Investment Income	1,343,167	18,002,099	19,345,266
COBRA Premiums	379,987	1,279,957	1,659,944
Administrative Fees	445,018	5,613,931	6,058,949
Total Revenue	\$ 66,891,711	\$ 494,499,228	\$ 561,390,939
<u>Program Expenses</u>			
Medical Claims	\$ 45,587,718	\$ 286,625,071	\$ 332,212,789
Prescription Drug Claims	16,913,053	116,102,842	133,015,895
Managed Care Capitations	4,294,168	63,772,158	68,066,326
Administration	2,862,459	20,255,170	23,117,629
Life Insurance	909,977	5,333,358	6,243,335
Wellness	182,773	1,293,327	1,476,100
Director's Discretionary Fund	171,462	1,104,826	1,276,288
Total Expenses	\$ 70,921,610	\$ 494,486,752	\$ 565,408,362
Initial UAAL OPEB Funding	\$ -	\$ -	\$ -
Fiscal Year Results	\$ (4,029,899)	\$ 12,476	\$ (4,017,423)
Beginning Plan Reserve	11,644,720	243,805,529	255,450,249
Ending Plan Reserve	\$ 7,614,821	\$ 243,818,005	\$ 251,432,826

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 11,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 10,000,000	Active Local	7.5%	13.0%
Direct Transfers	\$ 6,000,000	State	7.5%	13.0%
Provider/Benefit Reductions	\$ -	Capitations		10.0%
		Administrative Expense		5.0%

**APPENDIX - BASELINE SCENARIO
PEIA - ACTIVE LOCAL AND STATE**

**WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
FINANCIAL FORECAST
FISCAL YEAR 2011**

PERIOD 7/1/2010 - 6/30/2011

	Active Local Fund	State Fund	PEIA Total
<u>Revenues</u>			
Employer Premiums - PPB	\$ 68,927,754	\$ 367,375,088	\$ 436,302,842
Employer Premiums - MCO	4,701,455	51,997,603	56,699,058
Employee Premiums - PPB	-	85,070,088	85,070,088
Employee Premiums - MCO	-	14,246,224	14,246,224
Direct Transfers	-	6,000,000	6,000,000
Investment Income	1,193,384	18,480,551	19,673,935
COBRA Premiums	404,850	1,363,705	1,768,555
Administrative Fees	445,018	5,613,931	6,058,949
Total Revenue	\$ 75,672,461	\$ 550,147,190	\$ 625,819,651
<u>Program Expenses</u>			
Medical Claims	\$ 49,131,541	\$ 308,906,255	\$ 358,037,796
Prescription Drug Claims	19,158,381	131,516,315	150,674,696
Managed Care Capitations	4,723,585	70,149,374	74,872,959
Administration	3,005,582	21,267,928	24,273,510
Life Insurance	955,476	5,600,026	6,555,502
Wellness	182,773	1,293,327	1,476,100
Director's Discretionary Fund	168,357	1,085,787	1,254,144
Total Expenses	\$ 77,325,695	\$ 539,819,012	\$ 617,144,707
Initial UAAL OPEB Funding	\$ -	\$ -	\$ -
Fiscal Year Results	\$ (1,653,234)	\$ 10,328,178	\$ 8,674,944
Beginning Plan Reserve	7,614,821	243,818,005	251,432,826
Ending Plan Reserve	\$ 5,961,587	\$ 254,146,183	\$ 260,107,770

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 55,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 11,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 13,800,000	Active Local	8.0%	13.5%
Direct Transfers	\$ 6,000,000	State	8.0%	13.5%
Provider/Benefit Reductions	\$ -	Capitations		10.0%
		Administrative Expense		5.0%

**Attachment - PEIA
Historical Monthly Medical and Drug Trends
FY 2003 to FY 2006**

Fiscal Year 2003												
Exposure	<u>Jul-02</u>	<u>Aug-02</u>	<u>Sep-02</u>	<u>Oct-02</u>	<u>Nov-02</u>	<u>Dec-02</u>	<u>Jan-03</u>	<u>Feb-03</u>	<u>Mar-03</u>	<u>Apr-03</u>	<u>May-03</u>	<u>Jun-03</u>
Local Medical	16,558	16,454	16,395	16,334	16,332	16,383	16,099	16,368	16,225	17,583	16,156	16,123
State Medical	121,509	121,141	121,292	121,630	121,774	121,747	121,170	122,009	121,970	121,962	121,838	121,677
Local Drugs	16,558	16,454	16,395	16,334	16,332	16,383	16,099	16,368	16,225	17,583	16,156	16,123
State Drugs	121,509	121,141	121,292	121,630	121,774	121,747	121,170	122,009	121,970	121,962	121,838	121,677
Local Medical	\$102.25	\$116.90	\$116.08	\$122.53	\$106.73	\$126.95	\$128.69	\$127.35	\$132.19	\$115.69	\$149.93	\$139.80
State Medical	113.64	116.51	113.10	120.28	117.72	113.44	132.42	116.33	134.65	133.84	131.67	146.37
Local Drugs	19.82	30.77	33.56	37.98	36.61	41.08	41.88	38.32	43.23	39.78	44.84	48.65
State Drugs	<u>23.70</u>	<u>36.42</u>	<u>39.93</u>	<u>42.64</u>	<u>41.82</u>	<u>45.79</u>	<u>45.47</u>	<u>41.58</u>	<u>47.00</u>	<u>46.03</u>	<u>48.31</u>	<u>52.06</u>
Total	\$259.41	\$300.60	\$302.66	\$323.42	\$302.89	\$327.26	\$348.46	\$323.58	\$357.07	\$335.34	\$374.75	\$386.89
Change From Prior Year - Month to Month Analysis												
Local Medical	-3.3%	-2.1%	19.4%	-3.4%	-3.6%	32.7%	-4.5%	-0.7%	-8.3%	-9.2%	9.9%	6.1%
State Medical	11.1%	3.7%	9.7%	-0.4%	-2.2%	2.3%	10.2%	0.4%	8.7%	1.0%	1.3%	7.6%
Local Drugs	26.3%	12.5%	23.6%	18.1%	14.9%	24.6%	21.9%	16.8%	19.5%	8.7%	17.9%	23.7%
State Drugs	<u>26.7%</u>	<u>17.7%</u>	<u>24.7%</u>	<u>16.2%</u>	<u>16.0%</u>	<u>17.7%</u>	<u>12.0%</u>	<u>7.9%</u>	<u>11.1%</u>	<u>7.8%</u>	<u>11.9%</u>	<u>11.9%</u>
Total	7.0%	3.6%	16.6%	2.2%	1.3%	17.5%	5.7%	2.6%	3.1%	-1.2%	7.8%	9.4%
Change From Prior Year - Quarter to Quarter Analysis												
Local Medical			4.0%			6.9%			-4.6%			2.5%
State Medical			8.0%			-0.2%			6.5%			3.4%
Local Drugs			19.9%			19.3%			19.4%			16.9%
State Drugs			<u>22.5%</u>			<u>16.7%</u>			<u>10.4%</u>			<u>10.6%</u>
Total			8.9%			6.7%			3.8%			5.4%
Change From Prior Year - Year to Year Analysis												
Local Medical			-3.9%			-2.3%			0.8%			1.8%
State Medical			21.1%			2.6%			3.6%			4.3%
Local Drugs			15.7%			16.0%			18.9%			18.7%
State Drugs			<u>67.5%</u>			<u>24.5%</u>			<u>16.5%</u>			<u>14.2%</u>
Total			13.0%			4.2%			5.5%			6.0%

**Attachment - PEIA
Historical Monthly Medical and Drug Trends
FY 2003 to FY 2006**

Fiscal Year 2004												
Exposure	<u>Jul-03</u>	<u>Aug-03</u>	<u>Sep-03</u>	<u>Oct-03</u>	<u>Nov-03</u>	<u>Dec-03</u>	<u>Jan-04</u>	<u>Feb-04</u>	<u>Mar-04</u>	<u>Apr-04</u>	<u>May-04</u>	<u>Jun-04</u>
Local Medical	18,570	18,760	18,857	18,772	18,947	19,019	18,994	18,920	18,945	19,120	18,407	18,411
State Medical	120,687	120,102	120,226	120,850	121,139	119,665	119,945	119,896	119,922	120,013	120,053	119,944
Local Drugs	18,570	18,760	18,857	18,772	18,947	19,019	18,994	18,920	18,945	19,120	18,407	18,411
State Drugs	120,687	120,102	120,226	120,850	121,139	119,665	119,945	119,896	119,922	120,013	120,053	119,944
Local Medical	\$117.42	\$101.01	\$108.28	\$122.59	\$105.85	\$102.43	\$116.92	\$121.08	\$142.25	\$130.40	\$133.49	\$147.18
State Medical	114.50	133.61	117.09	134.32	117.78	136.15	135.26	132.75	157.24	144.77	146.53	171.25
Local Drugs	22.34	33.72	39.04	41.72	38.24	55.37	44.36	42.57	49.25	45.84	43.32	40.64
State Drugs	21.44	40.32	35.23	48.13	46.05	66.71	51.22	49.17	56.07	51.29	47.06	31.49
Total	\$275.70	\$308.66	\$299.65	\$346.76	\$307.92	\$360.66	\$347.77	\$345.57	\$404.80	\$372.30	\$370.40	\$390.56
Change From Prior Year - Month to Month Analysis												
Local Medical	14.8%	-13.6%	-6.7%	0.1%	-0.8%	-19.3%	-9.1%	-4.9%	7.6%	12.7%	-11.0%	5.3%
State Medical	0.8%	14.7%	3.5%	11.7%	0.0%	20.0%	2.1%	14.1%	16.8%	8.2%	11.3%	17.0%
Local Drugs	12.7%	9.6%	16.3%	9.9%	4.5%	34.8%	5.9%	11.1%	13.9%	15.2%	-3.4%	-16.5%
State Drugs	-9.5%	10.7%	-11.8%	12.9%	10.1%	45.7%	12.7%	18.3%	19.3%	11.4%	-2.6%	-39.5%
Total	6.3%	2.7%	-1.0%	7.2%	1.7%	10.2%	-0.2%	6.8%	13.4%	11.0%	-1.2%	0.9%
Change From Prior Year - Quarter to Quarter Analysis												
Local Medical			-2.5%			-7.1%			-2.1%			1.4%
State Medical			6.4%			10.5%			10.9%			12.3%
Local Drugs			13.0%			17.0%			10.3%			-2.6%
State Drugs			-3.1%			23.5%			16.7%			-11.3%
Total			2.5%			6.5%			6.7%			3.3%
Change From Prior Year - Year to Year Analysis												
Local Medical			0.4%			-2.9%			-2.2%			-2.4%
State Medical			4.0%			6.6%			7.7%			10.2%
Local Drugs			17.3%			16.8%			14.3%			8.7%
State Drugs			9.1%			11.2%			12.9%			6.5%
Total			4.6%			4.6%			5.4%			4.8%

**Attachment - PEIA
Historical Monthly Medical and Drug Trends
FY 2003 to FY 2006**

Fiscal Year 2005												
Exposure												
	<u>Jul-04</u>	<u>Aug-04</u>	<u>Sep-04</u>	<u>Oct-04</u>	<u>Nov-04</u>	<u>Dec-04</u>	<u>Jan-05</u>	<u>Feb-05</u>	<u>Mar-05</u>	<u>Apr-05</u>	<u>May-05</u>	<u>Jun-05</u>
Local Medical	18,373	18,414	18,320	18,319	18,306	18,299	18,246	18,257	18,212	18,273	18,323	18,285
State Medical	122,468	121,480	121,782	122,279	122,346	122,599	122,844	122,799	122,800	122,948	123,051	123,004
Local Drugs	18,373	18,414	18,320	18,319	18,306	18,299	18,246	18,257	18,212	18,273	18,323	18,285
State Drugs	122,468	121,480	121,782	122,279	122,346	122,599	122,844	122,799	122,800	122,948	123,051	123,004
Local Medical	<u>\$128.14</u>	<u>\$120.17</u>	<u>\$151.54</u>	<u>\$133.35</u>	<u>\$130.74</u>	<u>\$117.65</u>	<u>\$128.47</u>	<u>\$128.76</u>	<u>\$135.42</u>	<u>\$146.16</u>	<u>\$165.45</u>	<u>\$193.66</u>
State Medical	128.50	143.54	135.30	130.49	138.98	142.57	147.00	153.80	154.35	152.54	154.68	180.07
Local Drugs	33.78	38.01	50.73	38.01	46.78	54.05	48.22	47.82	43.21	35.91	37.80	55.91
State Drugs	<u>52.31</u>	<u>42.67</u>	<u>54.75</u>	<u>42.56</u>	<u>53.25</u>	<u>59.37</u>	<u>54.62</u>	<u>53.59</u>	<u>60.01</u>	<u>55.88</u>	<u>57.71</u>	<u>63.97</u>
Total	\$342.73	\$344.40	\$392.31	\$344.42	\$369.75	\$373.63	\$378.31	\$383.98	\$392.99	\$390.49	\$415.65	\$493.61
Change From Prior Year - Month to Month Analysis												
Local Medical	9.1%	19.0%	39.9%	8.8%	23.5%	14.9%	9.9%	6.3%	-4.8%	12.1%	23.9%	31.6%
State Medical	12.2%	7.4%	15.5%	-2.8%	18.0%	4.7%	8.7%	15.9%	-1.8%	5.4%	5.6%	5.1%
Local Drugs	51.2%	12.7%	30.0%	-8.9%	22.3%	-2.4%	8.7%	12.3%	-12.3%	-21.7%	-12.7%	37.6%
State Drugs	<u>143.9%</u>	<u>5.8%</u>	<u>55.4%</u>	<u>-11.6%</u>	<u>15.6%</u>	<u>-11.0%</u>	<u>6.6%</u>	<u>9.0%</u>	<u>7.0%</u>	<u>8.9%</u>	<u>22.6%</u>	<u>103.2%</u>
Total	24.3%	11.6%	30.9%	-0.7%	20.1%	3.6%	8.8%	11.1%	-2.9%	4.9%	12.2%	26.4%
Change From Prior Year - Quarter to Quarter Analysis												
Local Medical			22.4%			15.4%			3.3%			22.9%
State Medical			11.5%			6.1%			7.0%			5.3%
Local Drugs			28.8%			2.6%			2.3%			-0.1%
State Drugs			<u>54.4%</u>			<u>-3.6%</u>			<u>7.5%</u>			<u>36.8%</u>
Total			22.1%			7.1%			5.2%			14.7%
Change From Prior Year - Year to Year Analysis												
Local Medical			3.1%			8.4%			9.8%			15.9%
State Medical			11.3%			10.2%			9.2%			7.3%
Local Drugs			12.1%			8.3%			6.1%			6.8%
State Drugs			<u>17.6%</u>			<u>9.8%</u>			<u>7.5%</u>			<u>19.6%</u>
Total			9.1%			9.3%			8.8%			11.9%

**Attachment - PEIA
Historical Monthly Medical and Drug Trends
FY 2003 to FY 2006**

Fiscal Year 2006												
Exposure	<u>Jul-05</u>	<u>Aug-05</u>	<u>Sep-05</u>	<u>Oct-05</u>	<u>Nov-05</u>	<u>Dec-05</u>	<u>Jan-06</u>	<u>Feb-06</u>	<u>Mar-06</u>	<u>Apr-06</u>	<u>May-06</u>	<u>Jun-06</u>
Local Medical	18,398	18,387	18,285	18,385	18,333	18,668	18,733	18,741	18,849	18,784	18,820	18,826
State Medical	122,500	121,838	121,777	122,675	122,882	122,768	122,200	122,059	122,144	122,294	122,315	122,251
Local Drugs	18,398	18,387	18,285	18,385	18,333	18,668	18,733	18,741	18,849	18,784	18,820	18,826
State Drugs	122,500	121,838	121,777	122,675	122,882	122,768	122,200	122,059	122,144	122,294	122,315	122,251
Local Medical	\$106.86	\$145.98	\$128.38	\$142.97	\$120.81	\$139.28	\$144.83	\$142.05	\$163.42	\$153.15	\$150.20	\$149.51
State Medical	129.43	152.49	141.74	138.12	139.04	148.28	151.53	141.75	162.92	145.40	166.53	179.23
Local Drugs	29.20	46.36	48.56	49.30	51.02	53.15	53.91	53.91	59.58	54.53	60.50	65.84
State Drugs	33.96	50.78	53.16	55.40	56.90	60.52	60.88	58.37	65.76	61.13	66.17	71.05
Total	\$299.45	\$395.61	\$371.84	\$385.79	\$367.77	\$401.22	\$411.15	\$396.09	\$451.68	\$414.21	\$443.40	\$465.63
Change From Prior Year - Month to Month Analysis												
Local Medical	-16.6%	21.5%	-15.3%	7.2%	-7.6%	18.4%	12.7%	10.3%	20.7%	4.8%	-9.2%	-22.8%
State Medical	0.7%	6.2%	4.8%	5.8%	0.0%	4.0%	3.1%	-7.8%	5.6%	-4.7%	7.7%	-0.5%
Local Drugs	-13.5%	22.0%	-4.3%	29.7%	9.0%	-1.7%	11.8%	12.7%	37.9%	51.8%	60.1%	17.8%
State Drugs	-35.1%	19.0%	-2.9%	30.2%	6.9%	1.9%	11.5%	8.9%	9.6%	9.4%	14.7%	11.1%
Total	-12.6%	14.9%	-5.2%	12.0%	-0.5%	7.4%	8.7%	3.2%	14.9%	6.1%	6.7%	-5.7%
Change From Prior Year - Quarter to Quarter Analysis												
Local Medical			-4.7%			5.6%			14.7%			-10.4%
State Medical			4.0%			3.3%			0.2%			0.8%
Local Drugs			1.3%			10.5%			20.2%			39.5%
State Drugs			-7.9%			11.4%			10.0%			11.7%
Total			-1.2%			6.2%			9.0%			1.8%
Change From Prior Year - Year to Year Analysis												
Local Medical			9.1%			6.9%			9.7%			0.5%
State Medical			5.6%			4.9%			3.2%			2.0%
Local Drugs			1.5%			3.6%			8.3%			18.0%
State Drugs			7.0%			11.0%			11.7%			6.7%
Total			6.6%			6.3%			7.3%			3.9%