

STATE OF WEST VIRGINIA

**PRELIMINARY PERFORMANCE REVIEW OF THE
PUBLIC EMPLOYEES INSURANCE AGENCY FINANCE BOARD**

**The Board has not Provided
Financial Stability to the
Public Employees Insurance Agency**

**OFFICE OF LEGISLATIVE AUDITOR
Performance Evaluation and Research Division
Building 1, Room W-314
State Capitol Complex**

**CHARLESTON, WEST VIRGINIA 25305
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February 2001

PE00-39-197

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February 2001

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John Sylvia
Director

February 11, 2001

The Honorable Edwin J. Bowman
State Senate
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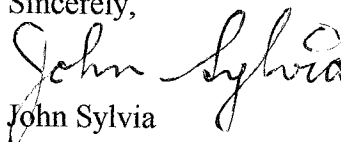
The Honorable Vicki V. Douglas
House of Delegates
Building 1, Room E-213
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

Dear Chairs:

Pursuant to the West Virginia Sunset Law, we are transmitting a *Preliminary Performance Review of the Public Employees Insurance Agency Finance Board*, which will be presented to the Joint Committee on Government Operations on Sunday, February 11, 2001. The issue covered herein is "*The Board has not Provided Financial Stability to the Public Employees Insurance Agency.*"

We delivered a draft copy of the report to the PEIA Finance Board on January 19, 2001. The agency felt there was no need for an exit conference. The agency responded to the report and we received their response on February 2, 2001.

Let me know if you have any questions.

Sincerely,

John Sylvia

JS/wsc

Joint Committee on Government and Finance

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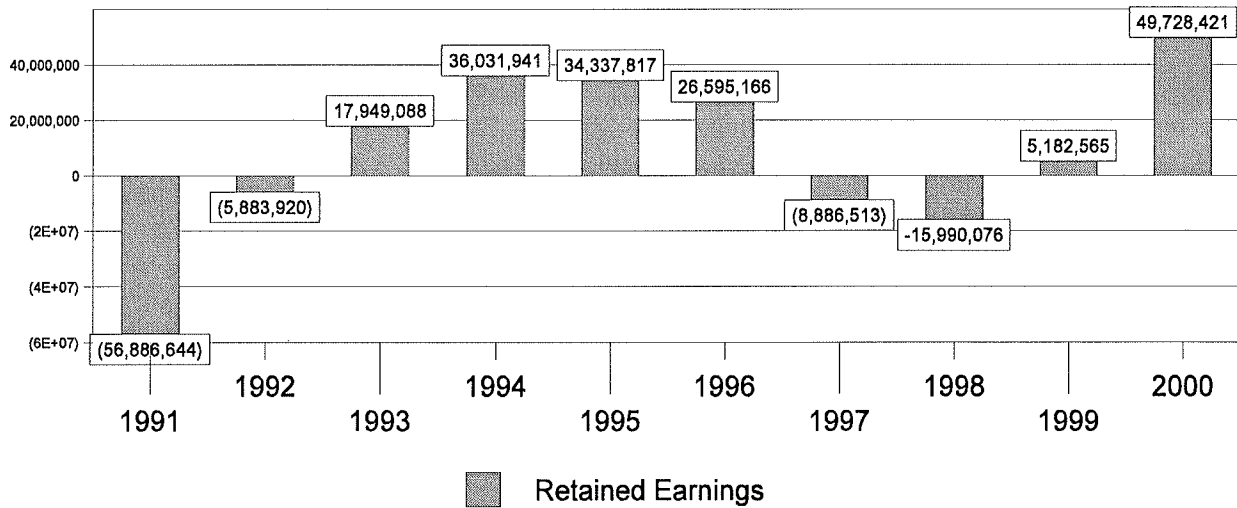
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Executive Summary

The Public Employees Insurance Agency (PEIA) Finance Board was created in 1990 to eliminate a financial deficit of over \$56 million, and to develop financial plans providing financial stability for the agency. An important element of financial stability is to avoid the recurrence of financial deficits. Although the Board should be commended for eliminating the deficit of 1990, the Board has not been successful in preventing a similar situation to occur in 1997 and 1998 (see Figure 1). Although the deficits of 1997 and 1998 are not as large as that in 1990, the Legislative Auditor finds that **the Board has not provided financial stability to PEIA.**

Figure 1

Accrual Basis Retained Earnings



Causes for Financial Instability

This report identifies five causes for the financial instability; these are:

- 1) For most of the years from 1990, the Board did not develop balanced financial plans in which current expenses would be paid for by current revenues. Instead, the Board relied on existing surpluses to balance the financial plans.
- 2) The Board's financial planning lacks objectives that promote financial stability. No policy is established on whether or not to always have balanced financial plans, and how much of a surplus should be maintained at all times.

- 3) The Board is reluctant to raise premiums on employees and particularly retirees.
- 4) Retiree costs are growing at a faster rate than the State's contributions. This has put pressure on the Legislature to increase funding, or require PEIA to reduce the subsidization of retirees.
- 5) Employees' and retirees' utilization rates of PEIA's insurance may be high compared to other insurance plans. Not until 1998 did the Board begin to address utilization through increasing out-of-pocket expenses, deductibles, and co-payments. However, addressing utilization became necessary because the Board was faced with a financial deficit. Given that employees and retirees are charged a relatively low percentage of the costs, it stands to reason that this encourages a high utilization rate of various medical services.

Review Objective, Scope and Methodology

The preliminary performance review of the PEIA Finance Board is required and authorized by the West Virginia Sunset Law, Chapter 4, Article 10, Section 5 of the West Virginia *Code*, as amended. The Finance Board is mandated to bring fiscal stability to PEIA through the development of annual financial plans and long-range plans and apportion costs equitably among participating employers, employees, retired employees, and providers of health care services.

Objective

The objective of this review is to determine if the PEIA Finance Board's has provided financial stability to the PEIA agency as required by law.

Scope

The scope of this report examined the Finance Board's activities from its inception in 1990 to fiscal year 2000.

Methodology

The report includes a review of the PEIA Finance Board minutes, financial plans, PEIA financial reports, the Segal report, and a survey of Finance Board members. Financial stability is judged to be achieved primarily in the Board's ability to avoid financial conditions similar to the 1990 deficit for which the board was created to eliminate.

Issue Area 1: The Board has not Provided Fiscal Stability to the Public Employees Insurance Agency.

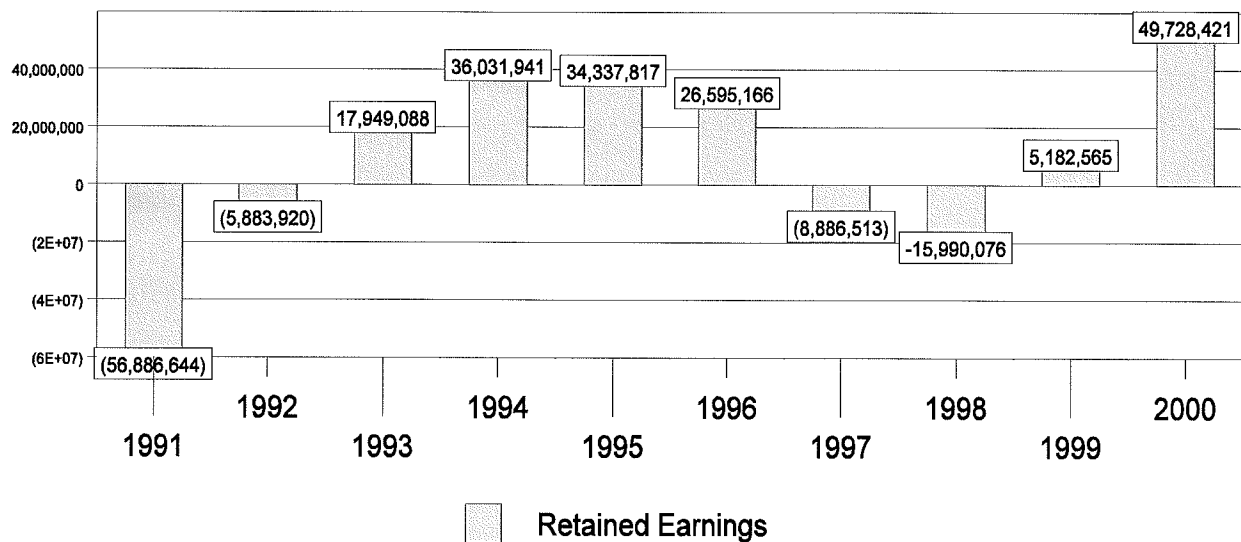
The Public Employees Insurance Agency (PEIA) Finance Board was established in 1990 during a time in which PEIA experienced a significant financial loss. The Board was created to eliminate the deficit and develop financial plans providing financial stability for the agency. Although the Board should be commended for eliminating the deficit of 1990, the Board has not been successful in preventing a similar situation from occurring in 1997 and 1998 (see Figure 1). According to WV Code §5-16-5 the Finance Board:

...is to bring fiscal stability to the public employees insurance agency through development of annual financial plans and long-range plans designed to meet the agency's estimated total financial requirements, taking into account all revenues projected to be made available to the agency...

Figure 1 shows that in 1997 and 1998, the agency's financial condition returned to a similar state that the Board was created to avoid, however not nearly to the same magnitude. Although the Board eliminated the deficits of the early 1990's and accumulated surpluses, those surpluses were eventually exhausted causing deficits to recur. This recurrence does not fit the definition of financial stability. The Board was created to return the agency to solvency, and to avoid a similar situation in the future. In this regard, the Board was not successful.

Figure 1

Accrual Basis Retained Earnings



Causes for Financial Instability

There are five primary causes for the instability that has occurred. These are as follows:

- 1) The Board has not developed consistent balanced financial plans in which current expenses will be paid for by current revenues. Consequently, the Board relies on existing surpluses to balance the financial plans.
- 2) The Board's financial planning lacks objectives that promote financial stability.
- 3) The Board is reluctant to raise premiums on employees and particularly retirees.
- 4) Retiree costs are growing at a faster rate than the State's contributions. This has put pressure on the Legislature to increase funding, or require PEIA to reduce the subsidization of retirees.
- 5) Employees' and retirees' utilization rates of PEIA's insurance may be high compared to other insurance plans. Not until 1998 did the Board begin to address utilization through increasing out-of-pocket expenses, deductibles, and co-payments. However, addressing utilization became necessary because the Board was faced with a financial deficit. Given that employees and retirees are charged a relatively low percentage of the costs, it stands to reason that this encourages a high utilization rate of various medical services.

Cause #1: The Board Implements Deficit Financial Plans for Current Operations.

The Board has not developed a balanced financial plan for current operations in six of the last seven years (FY 1994 - FY 2000). Table 1 shows that plans for 1994, 1995, 1996 and 1998 **expected** claim expenses to exceed **expected** premium revenues. When other expenses are included, Table 1 shows that the result has been forecasted deficits for current operations in six of the last seven years. **These imbalanced financial plans for current operations were approved and implemented by the Board.** In order to balance the expected deficits for current operations, the Board relied on existing surpluses accumulated in previous years. Consequently, the Board has whittled away existing surpluses each year from 1994 through 1999 in amounts between \$5 million and \$36 million (see Table 1). As Figure 1 illustrates, by 1997 and 1998, the surplus was eliminated.

Table 1
Projected Premiums, Claim Expenses, and Retained Earnings
for Current Year Operations

Period	Premiums Revenues	Claims Expenses	Retained Earnings Surplus/(Deficit)
1994	\$270 million	\$271 million	-\$22.5 million
1995	\$274 million	\$289 million	-\$36.4 million
1996	\$278 million	\$286 million	-\$30.5 million
1997	\$304 million	\$301 million	-\$18.6 million
1998	\$315 million	\$324 million	-\$30.1 million
1999	\$358 million	\$342 million	-\$5.5 million
2000	\$374 million	\$350 million	\$2.7 million

The Board was aware in 1995 that the surplus was dwindling and use of the surplus to balance financial plans would be exhausted at some point. In March 1995, the Board considered appropriate actions that could be taken. One idea the Board considered is the following:

...adopting a policy which would allow the actuaries, in doing their financial forecast, to base their forecast on a percentage of the surplus subsidy offsetting financial needs on a fiscal year basis, rather than using all the surplus in a couple of years and implementing major cost adjustments. In theory, the Finance Board would instruct the actuaries, to apply, say, 15% of the surplus towards offsetting projected cost increases. Premiums could be set based on the lower projected utilization. This approach would give us a two to three year time-frame in which to deal with incremental increases, if they are necessary, rather than a severe magnitude increase like what occurred in 1989 and 1990. [PEIA Finance Board Meeting, March 29, 1995, page 4.]

Essentially, the Board was considering using only a portion of the surplus and raising costs gradually over several years to avoid exhausting the surplus and being forced to raise costs substantially over a shorter period of time. It is apparent that the Board did not implement this idea. It continued to use all of the surplus to offset the deficits in current financial plans. By FY 1997 the Board was faced with raising additional funds. The Board requested \$7.1 million from the Legislature in FY 1998 to avoid raising deductibles for employees and retirees to offset the deficits. This amount was split between FY 1998 and FY 1999 in order to balance the PEIA's budget in FY 2000. The Board's financial plan for FY 2000 was the first, in the last seven years, in which it forecasted balanced current operations. This may have been because the Board did not have an existing surplus to draw upon. Therefore there was a need to plan to balance current operations.

Cause #2: The Board Lacks Plan Objectives that Would Promote Financial Stability.

A review of Board minutes suggests that even though there is often discussion concerning long-range plans, the Board has not planned very far beyond the forecasted year. The Board was not required to provide long-range plans which would include projections for future fiscal year costs until 1999 (WVC §5-16-5). The financial plans were calculated on a year to year basis before the 1999 legislation. The Board members appear to be ambivalent to reducing existing surpluses and producing a balanced financially solvent plan. Over the years, surpluses have been reduced by as much as \$36 million. Examples of the reluctance to use the surplus but the hesitancy to do anything about the financial instability can be seen in 1992 -1997 Board minutes which include the following:

“The Finance Board recognizes that PEIA is facing significant financial instability possibly for this year and certainly for the coming years.” (January 16, 1992)

“...the Finance Board needs to consider, on some basic level, where the Board is in terms of spending the surplus.” (April 17, 1992)

“...the 1994 plan is not within itself a balanced plan and that it is a deficit spending plan which is only made possible by using the surplus.” (January 25, 1993)

“...even though the plan is reporting a surplus it is actually depleting the existing surplus that has been formed over time.” (October 13, 1994)

Finally, when the surplus had been exhausted the Board members discussed that *“...We have used a state surplus to subsidize these years of operation and now we’re passing it on to the state taxpayers or on the employees.”* The members also indicated that **they did not “...feel there was enough long term planning.”** (Oct 29, 1997). This gradual progression of concern for the stability of the plan and yet the reluctance of the members to actively produce a balanced plan caused the elimination of the surplus. A surplus is an important cushion to provide stability against unexpected events, and forecasting errors.

The Board needs to establish written objectives that will guide the planning process and promote financial stability, such as:

- 1) Determine if all projected plans are to be balanced for current operations.
- 2) If plans are not always to be balanced for current operations, what is the predetermined minimum surplus amount that must be maintained at all times if any existing surplus is to be used.
- 3) What is an appropriate percentage of costs that employees should pay?
- 4) What is an appropriate and responsible rate of subsidization for retirees?

Cause #3: Reluctancy to Raise Premiums on Employees and Retirees

Another reason the surplus was eliminated is that the Board is reluctant to raise premiums on employees and retirees. As indicated previously, the Board considered not using the entire surplus which would have involved making changes to premiums or benefits to avoid severe cost increases when the surplus was eroded. Significant cost increases to employees and retirees were implemented in 1991. However, the Finance Board did not raise premiums again for employees and retirees until 1997 when the financial circumstance which presented itself was similar to the 1990 situation. Out-of-Pocket maximums stayed static for employees until the 2000 plan year. Deductibles were implemented in 1991 and remained the same until the 2000 plan year.

Table 2 Premium Changes			
Period	Single Employee	Employee Family	Single Retiree
7/1990	10%	10%	0%
11/1990	0%	0%	0%
1/1991	-100%	65%	83%
7/1991	0%	0%	0%
1992	0%	0%	0%
1993	0%	0%	0%
1994	0%	0%	0%
1995	0%	0%	0%
1996	0%	0%	0%
1/1997	n/a	25%	13%
7/1997	0%	0%	0%
1998	0%	-4%	0.4%
1/1999	0%	0%	0%
7/1999	0%	0%	0%

The Board minutes show an aversion to raising premiums on employees and retirees. According to meeting minutes the following standards were passed by the Finance Board:

“...the Board eliminate(s) the retiree increase. ...eliminate(s) the drug co-payment increase.” (March 25, 1992)

“...graduated contribution increases of \$10 (ten dollars) based on salary effective January 1, 1997, with the proviso that any increase in revenue beyond the expected \$7.0 million from the State be returned to employees by decreasing employee contributions...” (October 26, 1995)

“...stated that they would not consider changes or increase in retiree premiums or the subsidization.” (December 18, 1996)

“...last year we needed \$50 million and \$40 million came directly from the employer and nothing came from the employee.” (November 13, 1998)

The Board went years without increasing premiums, co-pays, out-of-pocket maximums and deductibles from 1991-1996. It has been forced to raise many costs, especially within the 2000 and 2001 healthcare plans, in order to restore fiscal stability and cut costs for PEIA. The following provides an example of some of the recent changes in medical expenses and prescription drug costs implemented by the Finance Board:

- 1) FY 2000 Raising the Out-of-Pocket Maximum from \$750-\$1,500 (based on salary) to \$750-\$1,750 (based on salary).
- 2) FY 2000/2001 Family deductible rose from In-network \$200 to \$200-\$500 (based on salary). Individual deductible rose from In-network individual \$100 to \$100-\$250 (based on salary). Out-of-network individual/family from \$500 to twice the in-network deductible.
- 3) FY 2000 Copay per physician office visit-primary care rose from 20% copay to \$15 in-network.
- 4) FY 1999 Prescription drug formulary introduced.
- 5) FY 2000/2001 Prescription drug deductibles rose from \$50 individual/\$100 family to \$75 individual/\$125 family.
- 6) FY 2000 Copay generic rose from \$2 to \$5.
- 7) FY 2000 Copay brand necessary rose from 20% to \$15.
- 8) FY 2001 Copay brand requested by patient from \$2 plus cost difference to \$5 plus cost difference.
- 9) In July 1999 non-formulary brand introduced, for FY 2001 copay \$25.

The reluctance to raise premiums during this period occurred despite a rise in inflation for medical care. Table 3 shows that inflation for medical care and sub-components of medical care rose on average five to six percent a year between 1990 and 2000.

Table 3				
Medical Care Inflation & Medical Care Sub-components				
Year	Medical Care	Physicians' Services	Prescription Drugs	Hospital Services
1990	9.0%	7.1%	10.0%	10.9%
1991	8.7%	6.0%	9.9%	10.2%
1992	7.4%	6.3%	7.5%	9.1%
1993	5.9%	5.6%	3.9%	8.4%
1994	4.8%	4.4%	3.4%	5.9%
1995	4.5%	4.5%	1.9%	5.0%
1996	3.5%	3.6%	3.4%	4.5%
1997	2.8%	3.0%	2.6%	3.3%
1998	3.2%	3.0%	3.7%	3.3%
1999	3.5%	2.8%	5.7%	4.2%
2000	4.1%	3.7%	4.4%	5.9%
Average	5.2%	4.5%	5.1%	6.4%
<i>Source: Bureau of Labor Statistics, Consumer Price Index</i>				

Cause #4: Employer Contributions to Cover Retiree Costs

In 1992, the Legislature gave the Finance Board the option to use a portion of employer contributions to cover part of the costs to insure retirees. This is indicated in WVC §5-16-5:

In addition, the finance board may allocate a portion of the premium costs charged to participating employers to subsidize the cost of coverage for participating retired employees, on such terms as the finance board determines are equitable and financially responsible.

The Board exercised this authority soon after the legislation passed. Although the Board did not have statutory authority to subsidize retiree costs until 1992, the Board was in fact subsidizing retirees prior to 1992. This is indicated in the 1992 minutes:

The Finance Board has allowed for a State subsidy for retirees over the last few years and in the 1993 plan, even though it is not allowed in legislation. (January 16, 1992)

Table 4 illustrates how a portion of employers' contributions are used to cover retirees' costs. The first column shows that retirees' expenses exceeded their premium payments by \$55.8 million for FY 2000. State and Local employers were charged an amount that exceeded what was needed to provide coverage for State and Local employees. The excess of \$91.2 million from the State and \$7.9 million from Local employers was used to cover the retiree imbalance. What remained after the allocation to cover retiree costs was surplus revenue.

Retirees	Millions	State Employees	Millions	Local Employees	Millions
Retiree Premium Payments	\$32.1	Employer Contributions	\$286.5	Employer Contributions	\$30.4
		Employee Premium Payments	<u>\$38.1</u>	Employee Premium Payments	<u>\$0.3</u>
		Total	\$324.6	Total	\$30.7
Total Expenses	\$88.0	Total Expenses	\$233.4	Total Expenses	\$22.8
Balance	-55.8		\$91.2		\$7.9
Towards Retirees' Imbalance*			\$49.6		\$4.7
Towards Surplus			\$41.6		\$3.2

* *Approximately \$1.5 million of the retiree imbalance is covered by the Terminated Local fund.*

Although the Board has authority to subsidize retiree costs, the statute requires that this be done in an equitable and financially responsible way. The Board needs to assess whether the level of subsidization for retirees is equitable and responsible. The choice of the Finance Board to take on the retiree costs has put significant pressure on the fiscal stability of the financial plans. From 1993 to 1999 State and Local employers have subsidized 60% to 70% of retirees' total medical insurance expenses. This necessity to rely on legislative assistance has caused an inequitable distribution of costs, with employers incurring most of the cost burden. The maintenance of the retiree costs has subsequently not been borne on retirees or active employees through premium increases.

Another factor is that the growth in the retiree imbalance between premium payments and costs is increasing at a faster rate than the State's contribution. Table 5 shows the growth rate in the

retiree cost imbalance and state contributions from 1993 to 2000. The retiree imbalance is growing twice as fast as the amount the State provides for employees and retirees. This disparity in growth rates will put pressure on the Legislature to either increase its rate of funding for PEIA, or PEIA will have to find ways to reduce the subsidy.

Table 5				
Growth Rate of Retiree Cost Imbalance & State Contributions				
Fiscal Year	Retiree Cost Imbalance	% increase	State Contributions	% increase
1993	\$34 million		\$217.0 million	
2000	\$55.8 million	64%	\$286.5 million	32%

The Legislature may want to consider separating the employer's amounts charged for employees and retirees. This would allow the Legislature to have a better accounting of what is needed for each population (employees and retirees) which have different health care needs, utilization, and different growth rates in claim expenses. Retiree claim expenses are growing nearly twice as fast as state employee claim expenses (see Table 6). This would also help the planning process and provide greater equity distribution. Currently, the way the system works, the Legislature provides a lump sum for both employees and retirees based on what General Revenue growth allows. The Finance Board must develop plans that make do with what the Legislature provides. Given that retirees and employees have different claim expense histories, the Board must ensure that what is available for both populations is sufficient. If retiree expenses are growing disproportionately higher than employees this requires an accommodation for retirees by adjusting rates that affect employees.

Table 6				
Growth Rates in Total Claim Expenses for State Employees and Retirees				
Fiscal Year	Retirees	% Increase	State Employees	% Increase
1993	\$52.8 Million		\$156.7 Million	
2000	\$85.8 Million	62.5%	\$217.5 Million	38.8%

Cause #5: Utilization of PEIA Insurance may be High

Much discussion is given to rising medical and drug costs. However, an equally important component of the total cost for PEIA insurance is the rate at which the insurance is used, or the utilization rate. There is evidence that utilization of PEIA insurance is high. A report provided to the Board for 1999 showed that each enrollee with PEIA insurance averaged one drug prescription per month, and retiree enrollees averaged 2.4 drug scripts per month. These statistics initiated discussion concerning whether the drug utilization rates were high compared to other programs. The actuary indicated that a possible explanation is in the State's demographic circumstances, for example the older West Virginia population.

In addition, PEIA initiated a comparison of West Virginia's utilization of office visits, and emergency room utilization with three peer states (Alabama, South Carolina, Texas), and similar private sector indemnity plans. Table 7 shows that for these two categories, West Virginia's utilization rate was significantly higher than comparison states. A possible explanation for the high utilization could be West Virginia's high rural population. However, when the emergency room utilization is shown for the State's 55 counties, several of the State's urban counties are over 200 visits per 1,000 enrollees. For example, *Monogalia* county had utilization of 273; *Wood* 255; *Harrison* 238; *Cabell* 219; and *Kanawha* 198. The Legislative Auditor attempted to find comparable statistics for other components of health insurance from other programs, but was unsuccessful.

Emergency Room Utilization	1996	1997	1998
PEIA Indemnity Plan	273	308	267
Peer States	163	158	159
Other Similar Indemnity Plans	169	170	169
Office Visit Utilization	1996	1997	1998
PEIA Indemnity Plan	3,678	3,507	4,267
Peer States	3,051	3,110	3,161
Other Similar Indemnity Plans	2,913	3,004	3,016

It was not until around 1998 that the Board began to address utilization through increasing co-payments, deductibles, out-of-pocket maximums, and developing a formulary drug plan in which drugs that are used that are not on the formulary list would cost more. This is indicated under cause

number three. However, addressing utilization became necessary in part because the Board had to find ways to eliminate a financial deficit. For several years prior to 1998, the Board did not raise deductibles, co-payments, or out-of-pocket maximums. It is a logical conclusion that with most of the insurance costs being borne by employers, employees have little incentive to reduce their utilization of their insurance. The Board should continue to evaluate the utilization rate to determine if it remains too high for medical or drug use, and if so examine ways to reduce the utilization rate.

Conclusion

Although the Finance Board eliminated the large deficit that existed in 1990, which it was created to do, the Board allowed a similar situation to occur in 1997 and in 1998. The magnitude of the deficits in these two years was not as large as in 1990; however, the intent of the Board is to provide financial stability. To allow financial deficits, which the Board was created to avoid, does not fit the definition of financial stability.

A primary cause is the Board's reluctance to raise premiums on employees and retirees. The Board also does not operate with established objectives that would encourage financial stability. Furthermore, the Board needs to assess the utilization rate, and whether the retiree subsidization at its current level is financially responsible.

Recommendation 1:

The Finance Board should establish written objectives to guide the process of providing financial plans that promote financial stability. These objectives should determine whether or not all plans should be balanced for current operations, to what extent surpluses should be used and what minimum level should be maintained at all times, what is an appropriate percentage of costs that employees should pay, and what is a financially responsible rate of subsidization for retirees.

Recommendation 2:

The Finance Board should continue to monitor the utilization rate of its insurance plans to determine if medical or drug utilization continues to be excessive, and if so, evaluate ways to reduce excessive utilization.

Recommendation 3:

The Legislature should consider providing a lump sum appropriation to cover the portion of retiree costs for health insurance.

APPENDIX A

Transmittal Letter to Agency

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

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John Sylvia
Director

January 25, 2001

Tom Susman, Executive Director
Public Employees Insurance Agency
Building 5, Room 1001
1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Mr. Susman:

Enclosed is the second report on the PEIA Finance Board which will be presented at the February Legislative Interims on February 11, 2001. I will inform you on the time and location of the interim meeting. Please review the enclosed report and contact us to schedule an exit conference for next week to discuss any concerns or factual errors.

Please provide your written response by Thursday, February 1, 2001. If you have any questions give me a call.

Sincerely,

Handwritten signature of John Sylvia in cursive script.
John Sylvia

Joint Committee on Government and Finance

APPENDIX B
Agency Response

Bob Wise
Governor



Tom Susman
Director

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February 2, 2001

Mr. John Sylvia, Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, WV 25305

Dear Mr. Sylvia:

Thank you for the opportunity to respond to the Performance Evaluation and Research Division's second report on the Public Employees Insurance Agency's (PEIA) Finance Board (Board). It is evident that you and your staff have devoted significant time and effort in preparing this analysis. Although the Board concurs with the substance of the report's findings, we would like to provide you with additional information that influenced the Board's actions.

In the year 1998, our plan was based on reports and forecasts prepared by our actuary which only included medical claims costs to the extent that they were expected to be paid in the plan year. This cash basis reporting, as required by legislation, indicated a substantially larger surplus than you indicated in your report.

In addition, the Board wants to remind the legislature that it does not operate in a vacuum. The report data indicates that the Board's financial plan had the agency operating out of its reserves. During some of these years, governmental offices exerted pressure that caused the Board to refrain from enacting premium increases on the state agencies or the employees.

Although the Board was created to remove the agency from the political arena, as well as provide financial stability, the reality is that the past operation of the Board and the agency has been influenced by political pressure, including the desires of stakeholders and requirements for financial integrity.

It is the intent of the agency to develop a strategic operational and financial plan that will address the concerns of the auditor's report. As part of this effort, the agency and the Board will adopt specific financial goals and operational procedures that will provide a more comprehensive plan. This strategic initiative will also help to demonstrate the need for additional revenue as the plan moves forward and incurs ever-increasing health care costs. This methodology will also further remove the plan from the political process.

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The question of retiree premiums is one the Board and the legislature must deal with in the near future. Historically the state has, through its current arrangement, provided 71% subsidy of retiree premiums. The report provides a good snapshot of the situation.

The increase in claim costs shown in table 6 indicates the difference in costs between the two groups. Causes for this increase could be attributed to the increased cost of medical treatment including drugs, health status and the number of new retirees who entered the system because of the early retirement program in the late 1980's. A great number of those individuals were pre-Medicare eligible and had accrued sick leave that was converted to PEIA insurance. This is not an additional cost to PEIA since former employers paid the premiums.

In terms of splitting the premium allocation to separate retiree subsidy from current employer premiums, the Board is prepared to work with the legislature on this proposal. The current system substantially overstates the premium cost to active employees. This overstatement results in a public perception that the PEIA's healthcare costs are greater than those for profit insurance underwriters, when in fact the opposite is true. However, present methodology provides an efficient manner to assess participating employers for the cost of insurance for each agency's retirees.

West Virginia policymakers will need to examine the political and economic fallout from such a change.

In terms of utilization, the state as a whole, due to its demographics and health status, experiences a higher utilization than most states. While this reality exists, the Board must do a better job of controlling utilization costs. Efforts under review include: participating with Medicaid in its Surveillance and Utilization Review Unit; developing a more intense approach to provider monitoring and Disease State Management Programs, as well as other initiatives designed to address inappropriate utilization. Any measure developed to monitor our success in this area must take into account the rural nature of this state, the lack of providers, and the inability of a portion of our residents to access a primary care practitioner after office hours. For many, the Emergency Room is the only after hours care available.

Recommendation 1:

This summer the Board will undertake the development of a strategic plan for the Board and the agency. The goal will be to establish procedures for the development of meaningful annual financial plans.

Recommendation 2:

The Board is committed to monitoring appropriate utilization as well as implementing programs that would decrease utilization. These efforts will be aggressive and outcomes will be monitored to determine success. Conversely, we will more proactively promote disease prevention and early detection measures, resulting in improved health and fiscal outcomes.

Performance Evaluation and Research Division

February 2, 2001

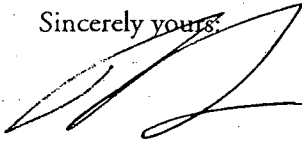
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Recommendation 3:

This is a decision that must be made by the legislature and the executive. Prior to implementing the change contemplated in this recommendation all parties need to consider the impact. The reality is the change could be far reaching. All effects of such a change must be considered before implementation of the policy.

Again, thank you for the opportunity to comment on your report. If you have further questions please do not hesitate to contact me at 558-6244, ext. 225.

Sincerely yours:



Tom Susman
Director

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