



STATE OF NEVADA
PUBLIC EMPLOYEES' BENEFITS PROGRAM

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AGENDA ITEM

Action Item

Information Only

Date: September 22, 2011
Item Number: XII c.
Title: Chief Financial Officer Report

Summary

This report addresses the following topics:

1. June 30, 2011 Budget Status
 - a. Budget Account 1338 – Operational Budget
 - b. Budget Account 1368 – Retired Employee Group Insurance
 - c. Budget Account 1390 – Active Employee Group Insurance Subsidy
2. Current Budget Projections
3. June 30, 2011 Unaudited Financial Statements

Report

June 30, 2011 Budget Status

Budget Account 1338 – Operational Budget – Shown below is a summary of the operational budget account 1338 status as of June 30, 2011 compared to the work program (budgeted authority) for FY 2011 with comparisons to FY 2010. The budget status is reported on a cash basis and does not include incurred expenses and income owed to the fund.

The budget status report shows Realized Funding Available (cash) at \$98.1 million. This compares to \$72.8 million for last year. After subtracting \$33.8 million for reserves for Incurred but not Reported (IBNR) claims and \$33.3 million for the Catastrophic Reserve, the remaining balance is \$30.9 million. The increase in net realized funding available is largely due to:

1. Higher beginning cash (\$3.4 million); and

2. Increased premium income (includes state subsidies) caused by higher rates (\$28.7 million);

Offset by:

1. Increased claims costs (\$1.7 million);
2. Higher reserve requirements (\$1.6 million); and
3. Increases to HMO premiums (\$6.5 million).

The budget status is reported on a cash basis. Therefore this budget status report does not include a transfer from the AEGIS budget account to the operating budget account of \$16.9 million made on August 1, 2011 to pay for June state employee subsidies.

Operational Budget 1338

	FISCAL YEAR 2011			FISCAL YEAR 2010		
	Actual as of 6/30/2011	Work Program	Percent	Actual as of 6/30/2010	Fiscal Year 2010 Close	Percent
Beginning Cash	84,399,437	84,399,437	100%	81,003,579	81,003,579	100%
Premium Income	356,859,356	398,757,093	89%	328,181,942	344,796,021	95%
All Other Income	7,674,340	5,868,864	131%	7,178,758	8,249,990	87%
Total Income	364,533,696	404,625,957	90%	335,360,700	353,046,011	95%
Personnel Services	2,012,842	2,147,441	94%	2,042,578	2,137,872	96%
Operating - Other than Personnel	2,049,226	2,302,544	89%	2,033,009	2,131,955	95%
Insurance Program Expenses	345,864,962	372,895,255	93%	338,593,475	344,435,088	98%
All Other Expenses	889,946	985,942	90%	916,012	945,238	97%
Total Expenses	350,816,975	378,331,182	93%	343,585,074	349,650,153	98%
Change in Cash	13,716,721	26,294,775		(8,224,374)	3,395,858	
REALIZED FUNDING AVAILABLE	98,116,158	110,694,212	89%	72,779,205	84,399,437	86%
Incurred But Not Reported Liability	(33,849,000)	(33,849,000)		(34,473,000)	(34,473,000)	
Catastrophic Reserve	(33,327,000)	(33,327,000)		(31,105,000)	(31,105,000)	
NET REALIZED FUNDING AVAILABLE	30,940,158	43,518,212		7,201,205	18,821,437	

The actual premium income (includes state subsidies) of \$356.9 million is \$28.7 million more than FY 2010. This increase is due to rate increases.

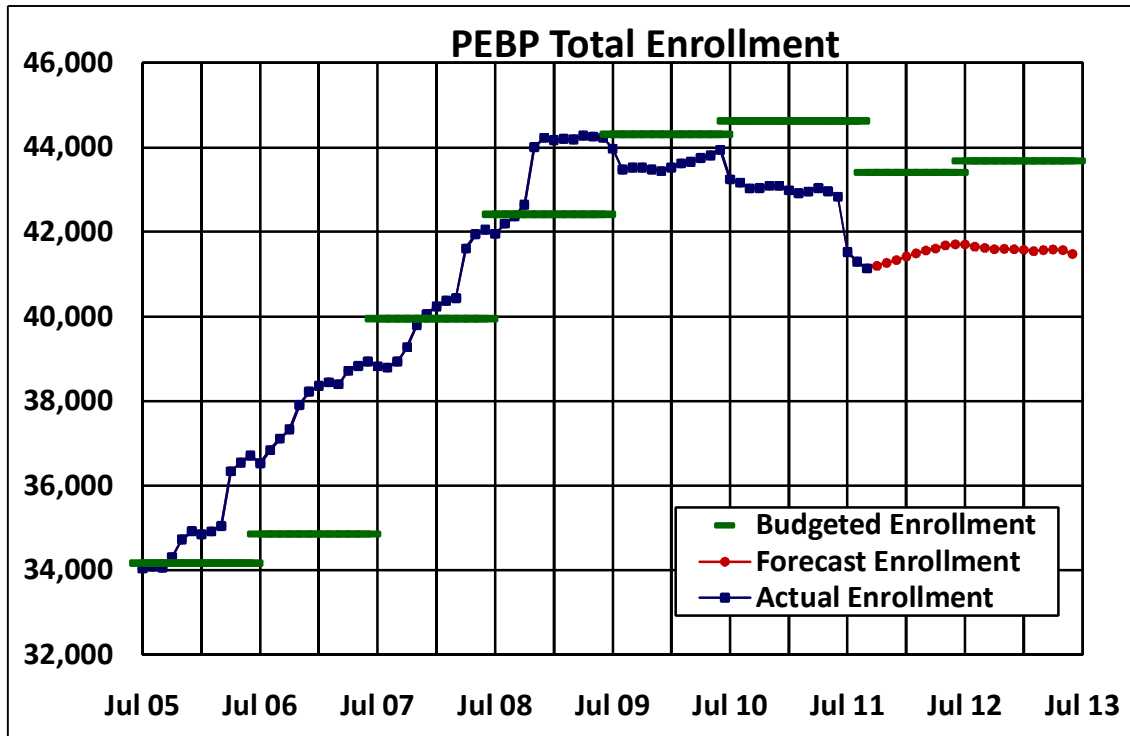
Insurance program costs for FY 2011 increased \$7.3 million (2.1%) from FY 2010 due to:

1. A \$6.5 million (7.7%) increase in fully insured product costs due to HMO rate and enrollment increases; and
2. A \$1.7 million (0.7%) increase in self-funded claims costs caused medical inflation and utilization increases;

Offset by:

1. A \$930,000 (8.5%) decrease in self-funded network costs due to decreased enrollment and contract penalties;

As of June 30, 2011, there were 42,830 participants enrolled in PEBP. This is 1,803 less than the average budgeted enrollment for FY 2011 of 44,633, due to reductions in statewide hiring and the contract terminations for Southern Nevada Health District and White Pine County School District. Average enrollment in the self-funded plans decreased 1.5% from 30,577 in FY 2010 to 30,114 in FY 2011. Average enrollment in the HMO plans decreased 1.2% from 13,069 to 12,914 during the same period. Below is a graphical representation of PEBP enrollment since July 2005.



Budget Account 1368 – Retired Employee Group Insurance – The Retired Employee Group Insurance (REGI) budget account (1368) is used to account for the state funds required to pay retiree subsidies. The REGI budget account is contained within the State Retirees’ Health and Welfare Benefits Fund which is used to account for the money set aside by the State to partially prefund the State’s Other Post Employment Benefits (OPEB) liability. REGI disburses funds to the operational budget (1338) based on actual costs of the State retiree subsidy. For FY 2011, REGI is funded by an assessment of 0.658% of actual salaries to all State agencies.

Actual revenues for FY 2011 were \$10.0 million, a decrease of \$21.6 million from the FY 2010 largely due to the reduction in the assessment rate made possible by the

withdrawal of \$24.7 million from the Retirees' Benefits Investment Fund (RBIF) as required by AB 3 of the 26th Special Session of the Nevada Legislature (2010). The \$35.2 million transferred to the operational budget (1338) from REGI is \$6.3 million more than FY 2010 due to increased rates. The resulting realized funding available of \$3.5 million is budgeted to be reduced over the 2011-2013 biennium.

Retired Employees' Group Insurance (REGI) Budget 1368

	FISCAL YEAR 2011			FISCAL YEAR 2010		
	Actual as of 6/30/2011	Work Program	Percent	Actual as of 6/30/2010	Fiscal Year 2010 Close	Percent
Beginning Cash	28,637,644	28,637,644	100%	2,392,505	2,392,505	100%
Assessment Income	9,972,545	10,749,659	93%	31,599,252	33,039,711	96%
Transfer from Investment Trust	-	-	0%	24,700,000	24,700,000	100%
Treasurer's Interest	81,404	164,088	50%	20,554	61,237	34%
Total Income	10,053,949	10,913,747	92%	56,319,806	57,800,948	97%
Transfer to 1338	35,159,114	36,599,117	96%	28,832,501	31,555,808	91%
Transfer to Investment Trust	-	-	0%	-	-	0%
Total Expenses	35,159,114	36,599,117	96%	28,832,501	31,555,808	91%
Change in Cash	(25,105,165)	(25,685,370)		27,487,305	26,245,139	
REALIZED FUNDING AVAILABLE	3,532,479	2,952,274		29,879,810	28,637,644	

The cash balance above is held in the State's General Portfolio managed by the State Treasurer. Not shown above is \$918,432.47 invested with the RBIF managed by PERS, as of June 30, 2011. The State's rate of return on the funds invested in the RBIF since fund inception is -0.8%. The one year rate of return as of June 30, 2011 is 19.0%.

Budget Account 1390 – Active Employee Group Insurance Subsidy – The Active Employee Group Insurance Subsidy (AEGIS) budget account (1390) is used to account for the state funds required to pay employee subsidies. For FY 2011, AEGIS is funded by a monthly assessment of \$680.84 to all state agencies for each filled benefit-eligible position (excluding those participants who decline coverage). AEGIS disburses funds to the operational budget (1338) based on actual costs of the State employee subsidy.

Actual revenues for FY 2011 were \$210.3 million, an increase of \$13.5 million over FY 2010. Actual disbursements to the operational budget (1338) in FY 2011 were \$194.7 million, an increase of \$10.5 million. Both the increased revenue and disbursements are due to normal rate increases.

As of June 30, 2011, there was \$15.7 million in realized funding available. However, this budget status report does not reflect a transfer from AEGIS to the operating budget account of \$16.9 million made on August 30, 2011 to pay for June state employee

subsidies. Once this transfer is included, there remains a net deficit of \$0.4 million owed to the operational budget (1338). This deficit is due to the FY 2009 ending deficit of \$6.2 million which is budgeted to be made up by the end of the FY 2012.

Active Employees' Group Insurance Subsidy (AEGIS) Budget 1390

	FISCAL YEAR 2011			FISCAL YEAR 2010		
	Actual as of 6/30/2011	Work Program	Percent	Actual as of 6/30/2010	Fiscal Year 2010 Close	Percent
Beginning Cash	-	-	0%	-	-	0%
Assessment Income	210,277,722	213,741,388	98%	196,822,345	198,072,608	99%
Treasurer's Interest	54,149	-	0%	-	-	0%
Total Income	210,331,871	213,741,388	98%	196,822,345	198,072,608	99%
Transfer to 1338	194,681,454	213,741,388	91%	184,209,560	198,072,608	93%
Change in Cash	15,650,417	-		12,612,785	-	
REALIZED FUNDING AVAILABLE	15,650,417	-		12,612,785	-	

Current Budget Projections

The following represents estimates for the Fiscal Year ending June 30, 2011 based on data available as of August 19, 2011. The assumptions and calculation methods used to create these estimates may be revised from time to time based on the best data available and could result in material differences in future projections from the estimates included here. While there may be a number of adjusting entries relating to the annual budget closing process, the final budget closing numbers should not change materially from those reflected below.

Premium income and state subsidies are projected to be lower than budgeted amounts by \$20.3 million (13.8%) and \$4.8 million (1.9%), respectively due to lower than expected enrollment caused by reductions in statewide hiring and the contract terminations for Southern Nevada Health District and White Pine County School District. Premium income has decreased more than state subsidies because of the disproportionately higher loss of non-state participants.

All other revenues are projected to be \$1.9 million (32.4%) greater than budgeted due to:

1. Larger PPO prescription drug rebates and faster collection of those rebates as a result of contract renegotiations that occurred in January 2010 (\$2.0 million); and
2. More efficient collection of Medicare D subsidies (\$600,000);

Offset by:

1. A decrease in treasurer's interest resulting from the State's General Portfolio loss on an investment with Lehman Brothers and the general decrease in market interest rates (\$700,000).

Budgeted and Projected Income (Budget Account 1338)					
Description	Budget	Actual 7/31/11	Projected	Difference	
Carryforward	84,399,437	84,399,437	84,399,437	0	0.0%
State Subsidies	251,478,268	229,840,363	246,714,918	(4,763,350)	-1.9%
Contributions	147,278,825	127,023,217	127,023,217	(20,255,608)	-13.8%
All Other	5,868,864	7,674,340	7,768,824	1,899,960	32.4%
Total	489,025,394	448,937,357	465,906,397	(23,118,997)	-4.7%
Budgeted and Projected Expenses (Budget Account 1338)					
Description	Budget	Actual 7/31/11	Projected	Difference	
Operating	5,435,927	5,156,344	5,266,640	169,287	3.1%
Self-Funded Admin	14,821,886	10,121,109	10,145,352	4,676,534	31.6%
Self-Funded Claims	252,333,323	247,261,008	247,261,008	5,072,315	2.0%
Fully Insured Products	105,740,046	98,421,108	98,410,150	7,329,896	6.9%
Reserves	110,694,212	87,977,788	104,823,247	5,870,965	5.3%
Total	489,025,394	448,937,357	465,906,397	23,118,997	4.7%

Expenses for FY 2011 are projected to be \$17.2 million (4.6%) less than budgeted when changes to reserves are excluded. Operating expenses are projected to be \$169,000 (3.1%) less than budgeted due to reduced payroll costs caused by position vacancies and \$50,000 that was set aside for a temporary employee for collection of data for the Early Retiree Reinsurance Program (the temporary position was never filled). Self-Funded Admin and Self-Funded Claims categories costs are projected to be \$4.7 million (31.6%) and \$5.1 million (2.0%) less than budgeted respectively due to reductions in enrollment.

Self-Funded Admin savings are disproportionately high on a percent basis compared to Self-Funded Claims because of:

1. Contract renegotiations;
2. Penalties charged to vendors for failure to meet contract performance guarantees (\$725,107.14);
3. A work program (budget revision) that was processed mid-year to reduce the Self-Funded Claims category budget (\$25.4 million) thereby reducing the percentage savings in this category; and
4. Lower than expected claims costs on a per participant per month basis.

Fully Insured Products costs are projected to be \$7.3 million (6.9%) under budget due to lower than expected enrollment.

Total reserves for FY 2011 are projected to be \$104.8 million. Reserves include \$33.8 million for Incurred but not Reported (IBNR) claims, \$33.3 million for the Catastrophic Reserve to insure plan solvency and a balance in excess of the required reserves of \$37.6

million. The balance in excess of required reserves is slightly more than the \$35.2 million that is included in the approved budget and scheduled to be spent down over the 2011-2013 biennium.

June 30, 2011 Unaudited Financial Statements

A draft statement of revenue, expenses and changes in fund net assets (income statement) for the year ending June 30, 2011 and the corresponding statement of net assets (balance sheet) are provided in Appendix A.

The income statement shows a net gain of \$23.9 million for FY 2011 resulting in a claims loss ratio of 91.3%. Ending Net Assets of \$78.5 million are available to fund the budgeted reserve for catastrophic losses of \$33.3 million, leaving \$45.2 million in excess of required reserves.

From June 30, 2010 to June 30, 2011, current receivables decreased \$5.5 million to \$9.3 million. During that period, current accounts receivables (see Assets; Current Assets; Receivables) increased \$0.6 million due to rate increases. Current intergovernmental receivables (see Assets; Current Assets; Receivables) decreased \$0.9 million due to the timing of Medicare D subsidy collections. Current due from other funds (see Assets; Current Assets; Receivables) decreased \$4.4 million due to partial collection of the AEGIS shortfall and timelier transfers from the REGI budget account. Current due from component units (see Assets; Current Assets; Receivables) decreased \$0.8 million due to partial collection of the AEGIS shortfall.

There are two significant changes in liabilities from June 30, 2010 to June 30, 2011. Bank overdraft (see Liabilities; Current Liabilities) decreased \$3.1 million due to the cessation of claims payment on June 23, 2011 to facilitate the transition to PEBP's new Third Party Administrator resulting in fewer outstanding checks as of June 30, 2011. Accounts payable (see Liabilities; Current Liabilities) increased \$2.6 million, due to a delay in the payment of June 2011 premiums to PEBP's Southern HMO. The premium payments were remitted in July.

Recommendations

None.

State of Nevada
Public Employees' Benefit Program
Self Insurance Trust Fund
Statement of Revenue, Expenses and Changes in Fund Net Assets - **UNAUDITED**
for the twelve months ending June 30, 2011, June 30, 2010 and June 30, 2009

	Draft June 30, 2011	Audited June 30, 2010	Audited June 30, 2009
OPERATING REVENUES:			
Insurance premiums	371,421,855	341,716,909	315,242,605
Other	3,975,271	4,016,840	3,513,725
Total Operating Revenues	<u>375,397,126</u>	<u>345,733,749</u>	<u>318,756,330</u>
OPERATING EXPENSES:			
Salaries and Benefits	2,165,511	2,164,391	2,304,365
Operating	3,148,919	3,020,097	2,712,582
Claims	239,059,007	238,725,223	238,691,260
Depreciation	50,067	32,942	30,156
Insurance premiums and contractual obligations	107,532,192	98,884,219	93,582,739
Total Operating Expenses	<u>351,955,696</u>	<u>342,826,872</u>	<u>337,321,102</u>
Operating Income (Loss)	<u>23,441,429</u>	<u>2,906,877</u>	<u>(18,564,772)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	414,457	215,882	(95,807)
Interest Expense	-	-	(213,762)
Total Nonoperating Revenues	<u>414,457</u>	<u>215,882</u>	<u>(309,569)</u>
Change in Net Assets	23,855,886	3,122,759	(18,874,341)
Net Assets, Beginning	<u>54,689,899</u>	<u>51,567,140</u>	<u>70,441,481</u>
Net Assets, Ending	<u><u>78,545,785</u></u>	<u><u>54,689,899</u></u>	<u><u>51,567,140</u></u>
Expense Ratio	4.2%	4.7%	5.1%
Claims Loss Ratio	91.3%	98.8%	108.6%

State of Nevada
 Public Employees' Benefit Program
 Self Insurance Trust Fund
 Statement of Net Assets - **UNAUDITED**
 as of June 30, 2011, June 30, 2010 and June 30, 2009

	Draft June 30, 2011	Audited June 30, 2010	Audited June 30, 2009
ASSETS:			
Current Assets:			
Cash and cash equivalents			
Cash deposits with the State Treasurer	113,591,565	85,199,531	87,441,765
Receivables:			
Accounts receivable	2,517,350	1,952,483	2,354,629
Intergovernmental receivable	5,081,028	5,995,145	4,551,436
Due from other funds	397,606	4,753,700	2,669,518
Due from component units	1,339,528	2,100,558	1,699,168
Total Current Assets	<u>122,927,077</u>	<u>100,001,417</u>	<u>98,716,516</u>
Noncurrent Assets:			
Receivables:			
Accounts receivable	-	-	19,726
Due from other funds	-	-	1,998,033
Due from component units	-	-	1,070,276
	<u>-</u>	<u>-</u>	<u>3,088,035</u>
Capital Assets			
Property and equipment	367,605	361,572	433,902
Less: Accumulated depreciation	(308,605)	(258,538)	(363,351)
Total Capital Assets (net of accum depr)	<u>59,000</u>	<u>103,034</u>	<u>70,551</u>
Total Non Current Assets	59,000	103,034	3,158,586
Total Assets	<u>122,986,077</u>	<u>100,104,451</u>	<u>101,875,102</u>
LIABILITIES:			
Current Liabilities:			
Bank overdraft	2,516,747	5,580,929	6,956,243
Accounts payable	7,665,966	5,022,771	6,514,784
Accrued payroll	103,194	88,192	92,017
Due to other funds	19,620	11,169	724,915
Unearned revenue	91,480	86,579	13,610
Compensated absences	124,423	106,048	86,780
Reserve for losses	33,849,000	34,473,000	35,881,000
Total Current Liabilities	<u>44,370,430</u>	<u>45,368,688</u>	<u>50,269,349</u>
Noncurrent Liabilities:			
Compensated absences	69,863	45,864	38,613
Total Noncurrent Liabilities	<u>69,863</u>	<u>45,864</u>	<u>38,613</u>
Total Liabilities	<u>44,440,293</u>	<u>45,414,552</u>	<u>50,307,962</u>
NET ASSETS:			
Invested in capital assets	59,000	103,034	70,551
Restricted for Losses	78,486,785	54,586,865	51,496,589
Unrestricted	-	-	-
Total Net Assets	<u>78,545,785</u>	<u>54,689,899</u>	<u>51,567,140</u>