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**AGENDA ITEM**

- Action Item
- Information Only

**Date:** December 3, 2009  
**Item Number:** XI D  
**Title:** Financial Report for the Quarter Ending September 30, 2009

**Summary**

This report addresses the following topics:

1. September 30, 2009 Budget Status
  - a. Budget Account 1338 – Operational Budget
  - b. Budget Account 1368 – Retired Employee Group Insurance (REGI)
  - c. Budget Account 1390 – Active Employee Group Insurance Subsidy (AEGIS)
2. September 30, 2009 Unaudited Financial Statements
3. State Retirees' Health and Welfare Benefits Fund

**Report**

***September 30, 2009 Budget Status***

Budget Account 1338 – Operational Budget - Shown below is a summary of the operational budget account 1338 status as of September 30, 2009 compared to the work program for FY 2010 with comparisons to FY 2009. 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 \$64.0 million. This compares to \$64.0 million for last year. After subtracting \$38.4 million for reserves for Incurred but not Reported (IBNR) claims and \$31.1 million for the Rate Stabilization Reserve, the remaining deficit of \$5.5 million is below recommended reserve levels. The decrease in net realized funding available is due to the premium holiday in July 2008, a

decrease in beginning cash and increases in IBNR and Rate Stabilization Reserve. Additionally, this budget status report does not include a transfer from the AEGIS budget account to the operating budget account of \$15.7 million made on October 23, 2009 to pay for September employee subsidies.

Operational Budget 1338

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 9/30/2009	Work Program	Percent	Actual as of 9/30/2008	Fiscal Year 2009 Close	Percent
Beginning Cash	81,003,579	81,003,579	100%	93,428,094	93,428,094	100%
Premium Income	70,583,974	361,576,807	20%	43,094,564	317,495,496	14%
All Other Income	540,125	5,557,600	10%	671	5,699,616	0%
Total Income	71,124,099	367,134,407	19%	43,095,235	323,195,112	13%
Personnel Services	420,554	2,179,552	19%	412,643	2,286,198	18%
Operating - Other than Personnel	498,301	2,255,182	22%	361,218	2,029,347	18%
Insurance Program Expenses	86,996,303	360,838,201	24%	71,260,290	330,663,533	22%
All Other Expenses	167,960	977,969	17%	516,965	640,549	81%
Total Expenses	88,083,118	366,250,904	24%	72,551,116	335,619,627	22%
Change in Cash	(16,959,018)	883,503		(29,455,881)	(12,424,515)	
REALIZED FUNDING AVAILABLE	64,044,561	81,887,082	78%	63,972,213	81,003,579	79%
Incurred But Not Reported Liability	(38,427,000)	(38,427,000)		(35,881,000)	(35,881,000)	
Rate Stabilization Reserve	(31,105,000)	(31,105,000)		(30,556,000)	(30,556,000)	
NET REALIZED FUNDING AVAILABLE	(5,487,439)	12,355,082		(2,464,787)	14,566,579	

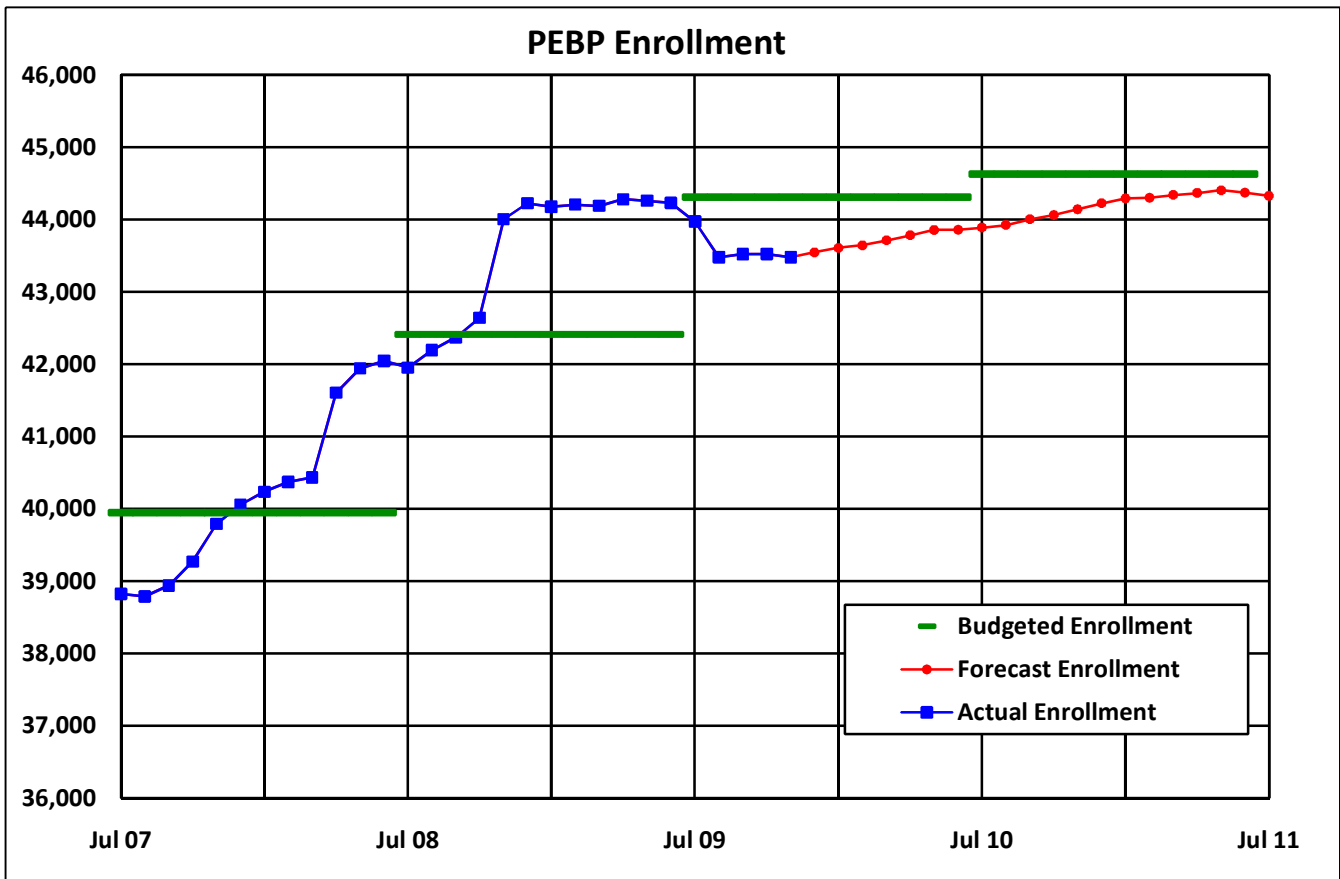
The actual premium income of \$70.6 million is \$27.5 million more than the first quarter of FY 2009. This increase is due to the premium holiday in July 2008, higher enrollment and timelier collection of accounts receivable. The \$540,000 increase in all other income is due to receipt of a prescription drug rebate from Catalyst Rx.

Operating expenses other than personnel are \$137,000 higher than first quarter of FY 2009 due to timelier billings and payment to Aon and printing, postage and travel costs associated with open enrollment. The All Other Expenses category, decreased \$350,000 due to decreased Purchasing and Attorney General assessments.

Insurance program costs for the first quarter of FY 2010 increased \$15.7 million (22.1%) over the same quarter in FY 2009. Of this amount, \$1.0 million is attributable to HMO rate and enrollment increases. Self-funded claims costs were \$14.9 million (28.9%) higher than the first quarter of FY 2009. The increase in claims and network costs is due to the Plan Year 2009 extension and increases in enrollment, inflation and utilization.

However, costs remain at expected levels. Self-funded network costs decreased \$122,000 due to the elimination of the HAQ.

As of September 30, 2009, there were 43,523 participants enrolled in PEBP. This is nearly 800 less than the average budgeted enrollment for FY 2010 of 44,311, mostly due to the contract termination for Southern Nevada Health District. Average enrollment in the self-funded plans increased by 2.7% from 30,185 in the first quarter of FY 2009 to 30,986 in the first quarter of FY 2010. Average enrollment in the HMO plans increased 5.7% from 11,988 to 12,675 during the same period. Below is a graphical representation of PEBP enrollment since July 2007.



Budget Account 1368 – Retired Employee Group Insurance (REGI) - Budget account 1368 is used to account for Retired Employee Group Insurance (REGI) funds. The budget account disburses funds to the operational budget (1338) based on actual costs of the State retiree subsidy. The budget is funded by an assessment of 2.30% of actual salaries to all State agencies.

Actual revenues for the first quarter of FY 2010 were \$6.3 million, an increase of \$3.1 million from the first quarter of FY 2009 due to premium holiday in July 2008. The \$7.6 million transferred to budget 1338 is \$5.0 million more than the first quarter of FY 2009 due to the premium holiday in July 2008 and the late transfer of September 2008 retiree subsidies.

Retired Employees' Group Insurance (REGI) Budget 1368

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 9/30/2009	Work Program	Percent	Actual as of 9/30/2008	Fiscal Year 2009 Close	Percent
Beginning Cash	2,392,505	2,392,505	100%	38,902	38,902	100%
Assessment Income	6,319,874	33,126,879	19%	3,209,678	32,271,451	10%
Treasurer's Interest	-	-	0%	-	58,146	0%
Total Income	6,319,874	33,126,879	19%	3,209,678	32,329,597	10%
Transfer to 1338	7,584,426	33,165,781	23%	2,618,621	29,975,994	9%
Transfer to Investment Trust	-	-	0%	-	-	0%
Total Expenses	7,584,426	33,165,781	23%	2,618,621	29,975,994	9%
Change in Cash	(1,264,552)	(38,902)		591,057	2,353,603	
REALIZED FUNDING AVAILABLE	1,127,953	2,353,603		629,959	2,392,505	

Budget Account 1390 – Active Employee Group Insurance Subsidy (AEGIS) - Budget account 1390 is used to account for the Active Employee Group Insurance Subsidy (AEGIS) funds. The budget is funded by a monthly assessment of \$626.52 for each filled benefit-eligible position (excluding those participants who decline coverage). The budget account disburses funds to the operating budget based on actual costs of the State employee subsidy.

Active Employees' Group Insurance Subsidy (AEGIS) Budget 1390

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Actual as of 9/30/2009	Work Program	Percent	Actual as of 9/30/2008	Fiscal Year 2009 Close	Percent
Beginning Cash	-	-	0%	-	-	0%
Assessment Income	47,641,418	195,829,700	24%	31,449,499	182,105,112	17%
Transfer to 1338	37,486,265	195,829,700	19%	23,706,199	182,105,112	13%
Change in Cash	10,155,153	-		7,743,300	-	
REALIZED FUNDING AVAILABLE	10,155,153	-		7,743,300	-	

Actual revenues for the first quarter of FY 2010 were \$47.6 million, an increase of \$16.2 million from the same period last year. Actual disbursements to budget account 1338 in

the first quarter of FY 2010 were \$37.5 million, an increase of \$13.8 million. Both the increased revenue and disbursements are due to the July 2008 premium holiday.

As of September 30, 2009, there was \$10.2 million in realized funding available. However, this budget status report does not include a transfer of \$15.7 million made on October 23, 2009 to pay for September employee subsidies. Once this transfer is included, there is a net deficit of \$5.5 million. The current deficit is due to the FY 2009 ending deficit of \$6.2 million which was budgeted to be made up by the end of the 2009-2011 biennium.

### ***September 30, 2009 Unaudited Financial Statements***

An unaudited statement of revenue, expenses and changes in fund net assets (income statement) for the quarter ending September 30, 2009 and the corresponding statement of net assets (balance sheet) are provided in Appendix A.

The income statement shows a net loss of \$11.0 million in the first quarter of FY 2010 due to the Plan Year 2009 extension and associated increases in claims costs. Ending Net Assets of \$40.6 million are available to fund the budgeted reserve for rate stabilization of \$31.1 million, leaving \$9.9 million of excess reserves.

From September 30, 2008 to September 30, 2009, current and non-current receivables decreased \$11.0 million to 12.5 million. During that period, current accounts receivables decreased \$300,000 due to a \$100,000 decrease in the estimated prescription drug rebate from Catalyst Rx and a decrease of \$200,000 in direct bill accounts receivable due to timelier collection. Current intergovernmental receivables increased \$400,000 due to delayed payment from local governments. Current due from other funds decreased \$2.1 million largely due to a delayed transfer from REGI to the operating account in the amount of \$2.6 million. Also contributing to the decrease in due from other funds was a \$200,000 decrease in treasurer's interest and timelier collection of AEGIS subsidies. Current due from component units decreased \$2.4 million largely due to timelier payment from the university due to improved procedures. Offsetting the decreases in current due from other funds and due from component units was a shift in the AEGIS shortfall described above (57% of which is now categorized as current) from noncurrent to current.

Noncurrent intergovernmental receivables decreased \$1.5 million due to payments made by the Las Vegas Metropolitan Police Department and the City of Caliente along with past due penalty write-offs. Noncurrent due from component units decreased \$585,000 due to payment from the universities for premiums owed between FY 2002 and FY 2007. The remaining noncurrent receivables decreased \$4.6 million due to the shift from noncurrent to current of much of the aforementioned shortfall in AEGIS.

There are several large changes in liabilities from September 30, 2008 to September 30, 2009. Bank overdraft increased \$1.6 million due to higher claims volume. Obligations under securities lending decreased by \$26.5 million with a corresponding decrease in collateral on loaned securities under current assets due to the decrease in funds available for investment with the State Treasurer. Unearned revenue decreased \$141,000 due to the incorrect placement of REGI receipts in AEGIS (now corrected). Accounts payable increased \$100,000. Reserve for losses (IBNR) increased \$1.3 million to \$36.5 million.

### ***State Retirees' Health and Welfare Benefits Fund***

In 2007, the Legislature enacted Senate Bill 547 which established the State Retirees' Health and Welfare Benefits Fund. The fund is used to account for the money set aside by the State to partially prefund the State's Other Post Employment Benefits (OPEB) liability. As of September 30, 2009, PEBP has invested \$26,048,775.23 in the Retiree Benefits Investment Fund (RBIF) managed by PERS. The State's rate of return of return since fund inception is -5.5% with an ending value of \$23.9 million as of September 30, 2009. The one year rate of return as of September 30, 2009 is 0.3%.

### **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 three months ending September 30, 2009 and September 30, 2008 and the twelve months ending June 30, 2009

	Unaudited September 30, 2009	Audited June 30, 2009	Unaudited September 30, 2008
<b>OPERATING REVENUES:</b>			
Insurance premiums	79,195,645	315,242,605	56,343,765
Other	849,991	3,513,725	20,388
Total Operating Revenues	<u>80,045,635</u>	<u>318,756,330</u>	<u>56,364,153</u>
<b>OPERATING EXPENSES:</b>			
Salaries and Benefits	558,742	2,304,365	467,200
Operating	772,228	2,712,582	1,072,246
Claims	66,324,624	238,691,260	51,948,671
Depreciation	16,510	30,156	14,545
Insurance premiums and contractual obligations	23,627,693	93,582,739	22,742,010
Total Operating Expenses	<u>91,299,797</u>	<u>337,321,102</u>	<u>76,244,672</u>
Operating Income (Loss)	<u>(11,254,161)</u>	<u>(18,564,772)</u>	<u>(19,880,519)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income	258,733	-	479,348
Interest Expense	-	(309,569)	-
Total Nonoperating Revenues	<u>258,733</u>	<u>(309,569)</u>	<u>479,348</u>
Change in Net Assets	(10,995,428)	(18,874,341)	(19,401,171)
Net Assets, Beginning	<u>51,567,140</u>	<u>70,441,481</u>	<u>70,713,611</u>
Net Assets, Ending	<u>40,571,712</u>	<u>51,567,140</u>	<u>51,312,440</u>
<b>Expense Ratio</b>	5.2%	5.1%	7.8%
<b>Claims Loss Ratio</b>	122.3%	108.6%	162.0%

State of Nevada  
Public Employees' Benefit Program  
Self Insurance Trust Fund  
Statement of Net Assets - **UNAUDITED**  
as of September 30, 2009, June 30, 2009 and September 30, 2008

	Unaudited September 30, 2009	Audited June 30, 2009	Unaudited September 30, 2008
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents			
Cash deposits with the State Treasurer	75,001,031	87,441,765	71,720,417
Collateral on loaned securities	-	-	26,508,050
Receivables:			
Accounts receivable	1,744,259	2,354,629	2,061,953
Intergovernmental receivable	4,985,054	4,551,436	4,588,531
Due from other funds	1,875,127	2,669,518	3,969,749
Due from component units	2,127,529	1,699,168	4,489,406
Total Current Assets	<u>85,733,000</u>	<u>98,716,516</u>	<u>113,338,106</u>
Noncurrent Assets:			
Receivables:			
Accounts receivable	11,530	19,726	40,639
Intergovernmental receivable	-	-	1,451,579
Due from other funds	1,167,862	1,998,033	4,116,362
Due from component units	625,583	1,070,276	2,790,338
	<u>1,804,975</u>	<u>3,088,035</u>	<u>8,398,918</u>
Capital Assets			
Property and equipment	458,144	433,902	434,856
Less: Accumulated depreciation	(379,861)	(363,351)	(289,620)
Total Capital Assets (net of accum depr)	<u>78,283</u>	<u>70,551</u>	<u>145,236</u>
Total Non Current Assets	1,883,258	3,158,586	8,544,154
<b>Total Assets</b>	<b><u>87,616,258</u></b>	<b><u>101,875,102</u></b>	<b><u>121,882,260</u></b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Bank overdraft	6,861,716	6,956,243	5,248,591
Accounts payable	3,217,662	6,514,784	3,117,284
Accrued payroll	133,903	92,017	51,790
Obligations under securities lending	-	-	26,508,050
Due to other funds	61,283	724,915	17,804
Unearned revenue	127,090	13,610	268,347
Compensated absences	86,780	86,780	72,653
Total Current Liabilities	<u>10,488,434</u>	<u>14,388,349</u>	<u>35,284,519</u>
Noncurrent Liabilities:			
Reserve for losses	36,517,500	35,881,000	35,252,750
Compensated absences	38,613	38,613	32,549
Total Noncurrent Liabilities	<u>36,556,113</u>	<u>35,919,613</u>	<u>35,285,299</u>
<b>Total Liabilities</b>	<b><u>47,044,547</u></b>	<b><u>50,307,962</u></b>	<b><u>70,569,818</u></b>
<b>NET ASSETS:</b>			
Invested in capital assets	78,283	70,551	145,236
Restricted for Losses	40,493,429	51,496,589	51,167,204
Unrestricted	-	-	-
<b>Total Net Assets</b>	<b><u>40,571,712</u></b>	<b><u>51,567,140</u></b>	<b><u>51,312,440</u></b>