

# INTRODUCTION OF PEIA

Through the Public Employees Insurance Act of 1971<sup>1</sup>, the West Virginia Public Employees Insurance Agency (PEIA) was established to provide health benefits for eligible employees, including state workers and educators. Today, the insurance plan faces significant financial instability, raising urgent questions about how to provide sustainable health coverage without placing additional strain on the state's budget.



As an enterprise fund, PEIA is partially sustained through premiums collected from employees but also relies on legislative appropriations and a reserve fund that can be depleted during fiscal shortfalls. Over the years, PEIA has undergone numerous adjustments due to budgetary shortfalls, rising healthcare costs, and political pressure. Reforms have ranged from increasing employee premiums to shifting retirees to alternative coverage plans.<sup>2</sup>

The agency currently serves over 200,000 public employees, retirees, and their dependents, making it one of the largest health coverage providers in the state (rivaling Medicare and Medicaid). This growing uncertainty has intensified policy debates over PEIA's long-term solvency and the enduring challenges of providing high-quality, affordable health benefits for West Virginians.

## Key Features of PEIA:

- Provides medical, prescription drug, dental, and vision coverage to eligible state employees, retirees, and their families.
- Funded through premiums paid by employees and their employers, with state contributions.
- Governed by a Finance Board that determines funding levels, benefits, and premium structures.
- Requires legislative approval for significant funding changes or modifications to benefits.

## The Unsustainability of PEIA

Repeated funding gaps have often required last-minute legislative interventions to sustain PEIA coverage levels. These challenges stem from reliance on the state budgeting processes, which are inherently vulnerable based on political and economic conditions.

In response, PEIA has implemented cost-containment measures such as premium hikes, increased deductibles, and larger out-of-pocket expenses for beneficiaries. These measures have drawn pushback from public employees and unions, who argue that state workers are unfairly absorbing the system's financial burden.

<sup>1</sup> West Virginia Code §5-16-2

<sup>2</sup> "PEIA finance board approves rate increases for 2026," West Virginia Watch, December 5, 2024: <https://westvirginiawatch.com/2024/12/05/peia-finance-board-approves-rate-increases-for-2026/>, "PEIA cuts, higher premiums proposed by WV lawmakers," Mountain State Spotlight, February 21, 2023: <https://mountainstatespotlight.org/2023/02/21/peia-cuts-spouses-raises-premiums-ss/>

There is a growing consensus that PEIA, in its current form, faces structural challenges that jeopardize any chance of sustainability. Structural issues underlying its persistent instability include:

- **Cost Growth:** So far, PEIA costs have been managed through subsidies and premium freezes that have delayed necessary operational changes. Continual politically driven short-term fixes have ultimately set the stage for future budget crises.
- **Limited Flexibility:** Unlike private insurers, PEIA lacks the ability to innovate rapidly in response to market trends.
- **Taxpayer Risk:** Funding gaps routinely translate to three difficult choices: reducing benefits, raising employee contributions, or increasing taxpayer subsidies. A defined-contribution approach could reduce the state's financial exposure while offering employees more control over their healthcare spending.

## Policy Considerations and Reform Proposals

Addressing PEIA's long-term viability requires a combination of cost-control measures, structural reforms, and innovative approaches to healthcare financing.

Several policy solutions, particularly those favoring market-driven mechanisms, are worth exploring:

### A. Increasing Cost-Sharing and Deductibles

One immediate approach to reducing premium costs is increasing deductibles and cost-sharing. However, it is politically contentious as it shifts financial risk to employees and is not effective as a long-term solution.

### B. Transitioning to Health Savings Accounts (HSAs)

Shifting PEIA beneficiaries to high-deductible health plans (HDHPs) paired with Health Savings Accounts (HSAs) could yield multiple benefits:

- Employees gain tax-advantaged savings for medical expenses.
- Encourages more prudent healthcare spending.
- Reduces the financial burden on the state.

Because individuals directly control their HSA funds, they have an incentive to seek cost-effective care, leading to downward pressure on medical prices, overall. Under PEIA, there is little incentive to shop for lower-cost services. Moreover, PEIA benefits are tied to government employment, whereas HSAs stay with employees if they leave the public sector, increasing long-term financial health security.

### C. Implementing Reference Pricing

Reference pricing sets a fixed reimbursement rate for specific procedures and services, allowing enrollees to choose providers within that price range or pay the difference out-of-pocket. For example, if PEIA sets a reference price of \$1,500 for a knee MRI, enrollees choosing a provider that charges \$2,000 would pay the \$500 difference out-of-pocket.

This approach fosters price competition among healthcare providers and discourages excessive charges.

- **Direct Primary Care (DPC) Options:** A privatized system could include employer-sponsored DPC memberships, which provide unlimited primary care for a flat monthly fee, reducing the need for expensive hospital visits.
- **Telemedicine and Alternative Care Models:** Unlike government-run systems, private insurers can rapidly adopt cost-saving innovations like telehealth, which reduces expenses for both patients and insurers.

#### D. Expanding Private Sector Competition

Introducing more private insurance competition into the PEIA system could drive efficiency and lower costs. Options include:

- Allowing employees to choose from multiple private insurers rather than a single state-run plan.
- Implementing a defined contribution model, where the state provides a fixed subsidy, and employees select their preferred insurance plan.

### A Sounder Fiscal Policy

A noticeable flaw in current statutory language surrounding PEIA shows that there is a minimum reimbursement rate of 110% of Medicare for all providers under state and non-state health plans.

See Below:

*§5-16-5(c)(1) The minimum level of reimbursement at 110 percent of the Medicare amount for all providers: Provided, That the plan shall reimburse a West Virginia hospital that provides inpatient medical care to a beneficiary, covered by the state and non-state plans, at a minimum rate of 110 percent of the Medicare diagnosis-related group rate for the admission, or the Medicare per diem, per day rate applicable to a critical access hospital, as appropriate: Provided, however, That the rates established pursuant to this subdivision do not apply to any Medicare primary retiree health plan.*

The Code **does not establish a maximum rate**, allowing health care providers to demand significantly higher payments. This problematic piece of Code may lead to increased costs for the state, beneficiaries, and taxpayers if health providers are unchecked on price power.

With the provision simply setting a floor, not a ceiling, no statutory law prevents providers from charging 150%, 180%, or more. This noticeable loophole:

- Undermines intent to control healthcare spending
- Creates unequal pricing practices
- Leads to a budget overrun in state-funded health plans, and
- Weakens bargaining power of insurers and state plans

West Virginia would be wise to amend the statute to establish both a minimum and maximum reimbursement threshold such as:

*“Health plans shall reimburse providers at a standard rate of **110 percent of the Medicare amount and shall not exceed the amount.**”*

This modification would ensure predictability in provider payments, support cost containment, and prevent opportunistic pricing while maintaining flexibility when truly needed.

# FREE MARKET REFORMS ARE THE BEST PATH FORWARD

Fixing PEIA requires a multi-faceted approach that balances cost control, efficiency, and employee welfare. Market-based reforms such as HSAs, reference pricing, and private-sector competition offer promising paths toward sustainability.

- ✧ **Introduce Competition:** Giving employees multiple private insurance options forces insurers to compete, leading to better service and lower costs.

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- ✧ **Empower Employees:** HSAs and defined-contribution models allow employees to choose the coverage that best suits their individual needs.

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- ✧ **Reduce Taxpayer Burden:** Shifting to a privatized system ensures that state healthcare costs are predictable and do not require constant bailouts.

## ABOUT THE AUTHOR



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Jessica Dobrinsky is the Chief of Staff at the Cardinal Institute for West Virginia Policy, where she oversees operations, supports fundraising, coordinates events, and researches state policy, focusing on certificate-of-need laws.

She previously served as the Institute's Policy Analyst and Staff Writer, specializing in healthcare policy with work published in outlets such as The Spectator, The Washington Examiner, Forbes, and Real Clear Markets. Jessica also wrote a national healthcare column.

A West Virginia University graduate in Criminology and Judith A. Herndon Fellow in the State Senate, she gained experience in legislative research and bill drafting. She went on to work as a Policy Analyst for the Department of Health and Human Resources and managed a statewide campaign.

Jessica earned her Master of Public Administration and Policy from American University in 2021.