

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

MINUTES [Approved 3/1/14]

Wednesday, January 15, 2014 – 1:00 p.m.
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Board Members Present:

Ms. Peggy Boykin (in person)
Mr. Frank Fusco (in person)
Vice Chairman Joe “Rocky” Pearce (in person)
Mr. Audie Penn (in person)
Mr. John Sowards (in person)
Mr. David Tigges (in person)
Mr. Steve Heisler (in person)
Sheriff Leon Lott (by phone)
Chairman Bjontegard (in person)

Board Members Not Present:

Mr. Steve Matthews
Ms. Stacy Kubu

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Justin Werner, Travis Turner, Laura Smoak, Phyllis Buie, Breta Smith, Laura Smoak, Lisa Phipps, Robbie Brown, and Virginia Wetzel from the South Carolina Public Employee Benefit Authority (PEBA); Donald Tudor and Wayne Pruitt with the State Retirees Association; Ed Poliakoff with TIAA-CREF, Joe Mack and Tim Bryan with Prudential; Brooks Goodman, Emily Donaldson, Shelvie Belser with Blue Cross Blue Shield of South Carolina; and Carlton Washington with the SC State Employees Association.

I. Call to order

Vice Chairman Pearce called the meeting to order at 1:00 p.m. and Mr. Bjontegard gave the invocation. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Heisler moved to adopt the agenda and Mr. Penn seconded. The agenda was unanimously approved.

II. Approval of minutes from the last meetings - December 18, 2013

Mr. Pearce asked for amendments to the December 18, 2013, meeting minutes. There being no amendments, Mr. Sowards moved to adopt the minutes and Mr. Tigges seconded. The Board minutes from December 18, 2013, were unanimously approved.

III. Election of the Chairman of the Board

Mr. Pearce advised that the term of the Board Chairman appointed by the Governor expired December 31, 2013. Per Section VII, B, of the Board’s Bylaws, should there be a vacancy in the Chairman position the Vice Chairman shall serve until a new Chairman is elected. Only a non-representative member may serve as the PEBA Board Chair. Ms. Boykin, as the Representative member for Active employees, has agreed to conduct the election for the

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

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Chairman for the term which will end June 30, 2014. After that time, the members appointed or reappointed will elect a new Chairman.

Ms. Boykin opened the floor for nominations for the Chairman. Mr. Sowards moved to nominate Art Bjontegard. No other nominations were offered. Mr. Heisler moved to close the floor for nominations and Mr. Fusco seconded. By acclamation the PEBA Board named Art Bjontegard as the Board Chairman for the term which will end June 30, 2014.

Ms. Boykin turned the meeting over to Mr. Bjontegard.

IV. Executive Session Pursuant to S.C. Code of Laws 30-4-70 (1), (2), & (3)

As noted on the agenda, an Executive Session was called and entered into unanimously at 1:12 p.m.

Open meeting resumed at 2:11 p.m. following the Executive Session. No action was taken by the Board while in Executive Session.

Action:

Mr. Fusco moved the PEBA Board to appoint Travis Turner as the agency's Interim Director effective January 16, 2014. Mr. Sowards seconded. The motion was unanimously approved.

Action:

Mr. Heisler moved that the Board shall conduct the recruiting process for its new Executive Director as follows:

- The Finance, Administration, Audit and Compliance Committee of the Board (the "FAAC") shall be responsible for engaging the support of the South Carolina Office of Human Resources (the "OHR") to finalize the Executive Director position description and to initiate and manage the recruiting process.
- The Board shall appoint an ad hoc Search Committee (the "Search Committee"), made up of the Board Chairman and a representative of the three standing Committees (the FAAC, the Retirement Policy Committee and the Health Care Policy Committee) to evaluate and screen qualified candidates with the support of OHR.
- The Search Committee shall present a minimum of three (3) finalist candidates who meet the criteria for the Executive Director position to the PEBA Board for consideration as soon as practicable.

Mr. Sowards seconded. The motion was unanimously approved.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

MINUTES [Approved 3/1/14]

Wednesday, January 15, 2014 – 1:00 p.m.
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

V. Committee Reports

A. Retirement Policy Committee

Mr. Sowards reported that the Retirement Committee did not meet during the month of January 2014 but will meet on February 5, 2014, to review industry best practices for the South Carolina's Deferred Compensation Program.

B. Finance, Administration, Audit and Compliance (FAAC) Committee

Mr. Matthews reported that the FAAC Committee did not meet during the month of January 2014, but will be scheduling a meeting soon to review PEBA's Internal Auditor's quarterly report.

C. Health Care Policy Committee

Mr. Pearce advised that the Health Care Policy Committee met early in the morning and discussed the following agenda items:

Health Insurance Dependent Audit Review

Mr. Pearce advised that the Committee reviewed the audit origins and methodology. There was discussion regarding resulting savings calculations, future trends for decreasing claims, amnesty periods for submittal of required dependent documentation, and the estimated completion of the audit process. Mr. Pearce advised that the Committee will receive follow-up information during their next meeting regarding State Health Plan changes regarding coverage of non-traditional dependants, an analysis of annual savings and resulting claims trend decrease due to removal of ineligible dependants, and resources needed to accelerate the estimated completion date of the audit.

Long Term Disability Premium Study

Mr. Pearce advised the Committee received a report on the overfunded status of the Long Term Disability Trust Fund. It was noted that Gabriel Roeder Smith & Company, PEBA's actuary consultant, recommended no change to premiums at this time due to changes in disability eligibility pursuant to Act 278 of 2012. Mr. Pearce advised the Committee will receive follow-up information on the possibility of outsourcing to a third party provider instead of the current self-funded status.

Post Health Expenditure Analysis

Mr. Pearce advised the Committee received a report from Brooks Goodman with Blue Cross Blue Shield who described programs and processes to detect and prevent health claim fraud. During the next Committee meeting, Mr. Goodman has been directed to work with PEBA and Catamaran to create a patient engagement plan, the cost of fraud and what steps they could take to prevent future fraud. The Committee also requested a statistical report on past fraud cases.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

MINUTES [Approved 3/1/14]

Wednesday, January 15, 2014 – 1:00 p.m.
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

VI. Legislative Update [in notebook materials]

Mr. Avant, PEBA's Interim Director, reviewed the Governor's proposed Fiscal Year 2014-15 Budget recommendations to include employee benefits and the agency's appropriations. He also indicated The Board received this as information.

The Board requested a summary of the proposed staggered board member terms as stated in the proposed Senate Bill 954.

Mr. Pearce emphasized the fact that the Governor recommended the State Health Plan remained "grandfathered" for Fiscal Year 2015. He believes it is most important to dive towards an ACA compliant plan in the future.

Mr. Pearce also highlighted the success of the MUSC PCMH Pilot for plan year 2013. He suggested PEBA review MUSC's communication campaign for useful communication tips.

Ms. Boykin advised she has received inquires concerning the transition to the new pharmacy benefits manager, Catamaran.

VII. Old Business

There was no old business.

VIII. New Business

There was no new business to be discussed.

IX. Round Table Discussion

Director's Report, David Avant:

Mr. Avant announced that PEBA's IT Department has been asked to present a report on the agency's outstanding IT security efforts at DeLoitte & Touche's monthly meeting. The Board recognized PEBA's IT department, specifically Lisa Phipps and Robbie Brown present in the meeting.

At this time, PEBA has not been involved in the contract signed by the Treasurer for the custody of assets within the Retirement Trust Funds.

Board member tablets have been purchased and PEBA's IT department is in the process of securing the appropriate software.

Intent to Apply to the Governor's Explorer Award has been submitted and PEBA staff is in the process of completing the application which is due February 14, 2014.

PEBA is in the process of reviewing the efforts involved in becoming ISO certified.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

MINUTES [Approved 3/1/14]

Wednesday, January 15, 2014 – 1:00 p.m.
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Mr. Avant expressed his appreciation for the opportunity to serve as Interim Executive Director.

Board Member's Report:

Mr. Penn suggested that the Board analyze the agency's current processes to determine if additional resources are needed or the possibility of deploying existing resources.

Ms. Boykin suggested the agency catalog the key human resource assets that have been lost over the last couple of years in an effort to rebuild in those key areas.

Mr. Fusco suggested that PEBA develop a patient engagement plan to promote consumerism. He provided the Patient Engagement Framework created by the National eHealth Collaborative as a reference tool.

Action:

Mr. Heisler moved that the Board of Directors formally recognize the outstanding contributions and exemplary leadership of David Avant during his tenure as the Executive Director of the South Carolina Public Employee Benefit Authority. Mr. Sowards seconded. The motion was unanimously approved.

Chairman's Report:

Mr. Bjontegard requested each Committee Chairman to provide their nominations for the Executive Search Committee as soon as possible. Mr. Bjontegard advised that Committee assignments will be revisited at the end of July 2014. He reviewed a preliminary agenda for the 2014 Board Retreat.

He provided an inspirational quote regarding teamwork. He emphasized the importance of each person's efforts needed to produce a successful finished product. He would like the Board members and PEBA staff to keep this in mind.

Mr. Bjontegard summarized five important objectives he would like the Board and agency to review. He asked each board member to provide their recommended objectives during the 2014 PEBA Board Retreat.

X. Adjournment

There being nothing further to discuss, Mr. Bjontegard adjourned the meeting at 3:00 p.m.

**SC Public Employee Benefit Authority
Board of Directors Meeting**

200 Arbor Lake Drive, Columbia SC, 29223, 2nd Floor Conference Room

Wednesday, January 15, 2014 - 1:00 P.M.

AGENDA

- 1. Adoption of Proposed Agenda**
- 2. Minutes of Previous Meeting: December 18, 2013**
- 3. Election of the Chairman of the Board**
- 4. Executive Session Pursuant to S.C. of Laws § 30-4-70 (1), (2) and (3)**
- 5. Committee Reports**
 - a. Retirement Policy Committee**
 - b. Finance, Administration, Audit & Compliance Committee**
 - c. Health Care Policy Committee**
- 6. Legislative Update**
- 7. Old Business**
- 8. New Business**
- 9. Round Table Discussion**

NOTICE OF PUBLIC MEETING

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Board Members Present:

Ms. Peggy Boykin (in person)
Mr. Frank Fusco (in person)
Mr. Steve Matthews (in person)
Vice Chairman Joe “Rocky” Pearce (in person)
Mr. Audie Penn (in person)
Mr. John Sowards (in person)
Mr. David Tigges (in person)
Mr. Steve Heisler (in person)
Ms. Stacy Kubu (in person)
Sheriff Leon Lott (by phone)
Chairman Bjontegard (by phone for a portion of Executive Session)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Justin Werner, Travis Turner, Matt Davis, Laura Smoak, David Quiat, Sue Sadik, Colleen Clark, Phyllis Buie, Tammy Nichols, and Virginia Wetzel from the South Carolina Public Employee Benefit Authority (PEBA); Donald Tudor, Wayne Pruitt and Sam Griswald with the State Retirees Association; Daniel Brennan with the SC State Treasurer’s Office; Jami Craig with TIAA CREF, Joe Mack (retiree), Robert Kniceley with Prudential; Mike Madalena with Gabriel, Roeder, Smith & Company (GRS); Mike Shealy, Jennifer Yacoubian, and Senator Hugh Leatherman with SC Senate Finance Committee; William Kinney with Mullikin Law Firm; and Brooks Goodman with Blue Cross Blue Shield of South Carolina; and Whitney Williams with Fred Allen and Associates.

I. Call to order

In Chairman Bjontegard’s absence, Vice Chairman, Rocky Pearce conducted the meeting, called the meeting to order at 1:00 p.m. Mr. Penn gave the invocation. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Sowards moved to adopt the agenda and Mr. Penn seconded. The agenda was unanimously approved.

II. Approval of minutes from the last meetings – November 20, 2013

Mr. Pearce asked for amendments to the November 20, 2013, meeting minutes. There being no amendments, Mr. Sowards moved to adopt the minutes and Mr. Heisler seconded. The Board minutes from November 20, 2013, were unanimously approved.

III. Budget and Control Board – Chairman Hugh Leatherman

Mr. Pearce introduced Senator Hugh Leatherman, Chairman of the SC Senate Finance Committee and member of the SC Budget and Control Board.

Chairman Letterman’s remarks:

“Please allow me to begin my remarks by saying thank you for your service to the State and most importantly your service to the retirees and active employees of our various

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

systems. All of you know just how important your decisions are to the hundreds of thousands of South Carolinians who receive retirement benefits or health insurance coverage. Additionally, the active employee community pays close attention to your actions since they too count on this Board to protect their present and future. Your mission is truly important.

And thank you Rocky Pearce for filling in as the Chairman as Art Bjontegard could not be here today. I was most pleased when Rocky accepted my invitation to appoint him to the PEBA Board because of his background in the business of health care insurance. Likewise, I would be remiss if I did not recognize Mr. Frank Fusco and Ms. Peggy Boykin. Both of these Board members served with distinction as employees of the Budget and Control Board.

My service as a member of the Budget and Control Board began in 2001, almost 13 years ago. I think that Peggy and Frank will agree with me that as the 2000's passed by, it became increasingly difficult to make sound financial decisions and sound humanitarian decisions regarding our retirement and health insurance systems in a Budget and Control Board meeting setting. Now, that is not the fault of anyone. But, we do now live in a political world with instant messaging, Twitter, Facebook, bloggers and pundits whose attention span is in terms of seconds and minutes. Yet, the decisions you now make regarding our retirement systems and employee health insurance systems require the ability to think longer term, sometimes for a thirty year time horizon. And, now you understand why it was necessary to create the Public Employee Benefit Authority.

The concept of a PEBA Board emerged from a subcommittee I appointed three years ago. Senators Thomas Alexander, Greg Ryberg, Nikki Setzler, Phil Leventis, Darryl Jackson and Danny Verdin began by holding hearings across the state and learning about the needs of the retirement system and its employees. In short, they listened first, asked questions second, and then developed a plan based on what they had learned.

The result of many long hours of legislative deliberation resulted in the passage of H4967, Act 278 of 2012. That act changes many of the elements of our retirement systems so that the Systems would survive and eventually thrive for the longer run. And of course, the legislation created PEBA. Of all of the elements of this landmark piece of legislation, I am most proud that the General Assembly created seats at the table for those who have the biggest stake in the success of PEBA. So, included on this Board is a retiree of the SC Retirement Systems, an active SC Retirement Systems member, an active member of the Police Officers Retirement System and a Public School District employee. Lest you other seven feel left out, you are here for a very important reason also --- to represent the taxpayers.

I think you all know that I care very deeply for our public servants, and I believe we must deliver on our promises regarding retirement benefits. But, as we move forward, I expect health insurance matters will be the most difficult issues to address, not only because of the Affordable Care Act, but because technology constantly increases our longevity and improves the quality of our lives. Additionally, I am beginning to see a

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

trend for health insurance systems to offer incentives for better health style choices versus just purchasing medical procedures. In the longer run, it is smarter to underwrite exercise programs, better diets and screenings than to pay for catastrophic illnesses and extended hospital care. These types of changes need much study, and decisions must be based on hard data. And, I know this Board is up to that challenge.

I know that you are now in the midst of your search for a permanent Executive Director, and this may well be the most important collective decision you make here at PEBA. Both Bill Blume and David Avant served this Board very well in the role of interim director, and both gentlemen deserve our thanks. My challenge to you is that you find someone who is a sound manager, someone who is technologically savvy, and, above all an effective leader. A professional leader will help you create a vision that can act as a roadmap for your success as a Board. After you find that leader, the challenge before you will be to think long term and strategically.

Why is this important?

Number One- We have all made a promise to our government employees and retirees.

Number Two - A well run system of retirement benefits as well as health insurance system will attract leaders to serve in our government in the future.

Number Three - We must attain these goals while considering the cost constraints of public budgets.

So, in summary, thank you for your service on this Board that is at the heartbeat of our state and local governments, that is, the people who choose to serve as our teachers, policemen, prison guards, nurses, clerks, managers and all the rest.

Thank you again for the invitation to be with you today.”

The Board thanked Chairman Leatherman for coming to the meeting and offering his comments.

IV. Committee Reports

A. Retirement Policy Committee

Mr. Sowards reported that the Retirement Committee met on December 4, 2013, and reviewed the following agenda items:

ORP Quarterly Report [in notebook materials]

Mr. Sowards reported that the Committee reviewed the ORP third quarter report for 2013. The Board received it as information.

Retirement Systems Valuations [in notebook materials]

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Mr. Sowards reported that the Committee received a detailed report from Gabriel Roeder Smith & Company summarizing the actuarial valuations as of July 1, 2013, for SCRS, PORS, JSRS, GARS, and SCNG.

Action

Mr. Sowards asked the Board to accept as information the valuation prepared by the Board's actuary, Gabriel Roeder Smith ("GRS"),

For **SCRS** as of July 1, 2013, and **APPROVE** an increase in the employee contribution from 8.00 % to 8.16% and the employer contribution from 10.90% to 11.06% for the fiscal year beginning July 1, 2015.

For **PORS** as of July 1, 2013, and **APPROVE** an increase in the employee contribution from 8.41% to 8.74% and the employer contribution from 13.41% to 13.74% for the fiscal year beginning July 1, 2015.

For **JSRS** as of July 1, 2013, noting that the recommended employer contribution rate of 47.97% remains unchanged for the fiscal year beginning July 1, 2015.

For **GARS** as of July 1, 2013, and **APPROVE** an increase in the employer contribution from \$4.275 million to \$4.501 million for the fiscal year beginning July 1, 2015.

For **SCNG** as of July 1, 2013, and **APPROVE** an increase in the employer contribution from \$4.586 million to \$4.591 million for the fiscal year beginning July 1, 2014

The Board accepted each system's valuation and approved the associated contribution increases.

It was noted by Mr. Sowards that JSRS's valuation did not result in any changes to contribution rates for fiscal year beginning July 1, 2015. There was discussion as to whether this notation should be provided to the Budget and Control Board. It was the will of the Board to include this notation.

There was also discussion regarding the cumulative effects of smoothing, projected cost for each system, and the funding ratios of each system.

Defined Contribution Unit Best Practices

Mr. Sowards reported that the Committee reviewed ORP best practice recommendations from PEBA staff and PEBA's co-fiduciary, Summit Strategies Group. The Board received this as information.

B. Finance, Administration, Audit and Compliance (FAAC) Committee

Mr. Matthews advised that the FAAC Committee met on December 3, 2013, and reviewed the following agenda items:

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Internal Auditor Charter [in notebook materials]

Action:

Mr. Matthews moved to approve the Internal Auditor's Charter as recommended by the FAAC Committee. Mr. Pearce seconded. Unanimously approved.

Health Financial Statements Audit [in notebook materials]

Mr. Matthews reported that the Committee reviewed the Health Financial Statements Audits for PEBA's Insurance Benefits, Retiree Health Insurance Trust Fund, and Long-Term Disability Insurance Trust Fund. The Board received this as information.

Mr. Matthews advised the Committee discussed the following issues that will need to be further reviewed by the Health Care Policy Committee: the acceleration of the completion of the Health Insurance Dependent Audits and the 150% overfunded ratio of the Long Term Disability Trust Fund.

Other Committee Updates:

2014 Legislation Request

Mr. Matthews reminded Board members to contact their appointers to sponsor the Board approved 2014 legislative request.

V. Old Business

Tobacco User Differential Study Update [in notebook material]

Mr. Avant reported that PEBA's actuarial consultant, Mike Madalena with Gabriel, Roeder, Smith & Company (GRS), revised the initial Tobacco User Differential Study.

Action:

Mr. Sowards moved for the Board to accept the revised report to be publicized for the required period of public comment prior to submitting to the General Assembly. Mr. Matthews seconded. Unanimously approved.

VI. New Business

There was no new business to be discussed.

VII. Round Table Discussion

Director's Report, David Avant:

Mr. Avant announced that he will not be pursuing the position of PEBA Executive Director, but thanked the Board for allowing him to serve as the interim director. He assured the Board that he leaves the agency in the professional and capable hands of PEBA's staff while they conduct a search for a permanent director.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

DRAFT MINUTES

Wednesday, December 18, 2013 – 1:00 p.m.
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Chairman's Report:

Mr. Pearce advised that Chairman Bjontegard has asked all members to evaluate their subcommittee assignment and prepare to rank their preferences in January 2014 in the event that someone might want to change committee.

VIII. Executive Session Pursuant to S.C. Code of Laws 30-4-70 (1), (2), & (3)

At 1:50 p.m., upon a motion by Mr. Sowards and second by Mr. Matthews, the Board voted unanimously to enter into executive session for the purpose of discussing personnel and employment, receiving legal advice, and discussing security personnel or devices.

Open meeting resumed at 3:45 p.m. following Executive Session. Vice Chairman Pearce announced that no action was taken by the Board while in Executive Session.

IX. Adjournment

There being nothing further to discuss, Mr. Pearce adjourned the meeting at 3:46 p.m.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

(Health Care Policy Committee Report)

Meeting Date: January 15, 2014

1. Subject: SC Health Insurance. Dependant Audit Review

2. What is Board asked to do? Receive as information.

3. Supporting Documents:

- (a) Attached:
 - 1. Dependent Audit Report

Dependent Eligibility Audit January, 2014

History:

- Prior to 2011, dependent children and spouses were allowed on the Plan using much less stringent standards and documentation. To limit Plan exposure, the audit department performed FT student eligibility audits (random and claims) until January 2011. Effective January 2011, ACA requirements allowed dependent coverage up to age 26, regardless of student status.
- After reviewing other states that were performing dependent audits, we determined that those performing the audit in-house (vs. contract) experienced greater success (better management of workflow and communications, limited disruption to members and employers, and limited expense). Our management approved performing an in-house complete dependent audit. And, at that time, up front documentation was also required for newly added dependents.
- The audit first focused on auditing dependents considered to have a greater chance of being ineligible (number of dependents, age variation of dependents, different last names of dependents).
- Documentation requested to substantiate eligibility includes:
 - For natural and adopted children, a birth certificate or adoption orders identifying the subscriber as a parent.
 - For step children, the same documentation as a natural child, plus a marriage certificate/tax documentation proving the natural parent is a current spouse of the subscriber.
 - For all other children, court order or other legal documentation placing the child in the custody of the subscriber.
 - For current spouses, a marriage certificate/tax documentation proving the current relationship as a spouse.
 - For divorced spouses, a divorce decree ordering the subscriber to cover the spouse.
- All dependents are subject to audit. Dependents that are confirmed as eligible are updated in the enrollment system to prevent subsequent audits. For natural and adopted children, identification remains as long as the dependent is covered. For spouses and other dependent children, such as step children, identification is in place, but subject to potential future audit.
- Failing to submit required documentation results in dependents being removed from coverage. The decision was made by legal staff to terminate ineligible dependents current, rather than retroactive to last date of eligibility.

Update:

- Completion rate is nearly 50%; approximately 100,000 dependents remain to be audited and the goal is to complete the audit within 18 months.
- A total of 5,604 dependents have been removed from coverage since 2011 (out of about 75,000 audited). Estimated reduced plan liability, using current claims data, is \$16 million. In the event of a decrease in coverage level (employee/spouse to employee only), there is also a corresponding premium decrease. Because employers pay the majority of the cost (premium), to the extent dependent coverage is dropped, the majority savings is attributed to the employers.
- We are currently using existing PEBA staff to assist in the audit, and asking Benefits Administrators to help by requesting appropriate dependent documentation directly from their employees.
- We currently have one audit position posted, which will be dedicated to the dependent audit for the first 18 months, and then transition to employer compliance auditing.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

(Health Care Policy Committee Report)

Meeting Date: January 15, 2014

1. Subject: Long Term Disability Premium Study

2. Summary:

A 151% funded status for a Long Term Disability (LTD) program does not have the same meaning as for a pension plan because the liability for the LTD plan is measured differently. LTD programs are typically funded on a pay as you go basis, with some reserve in a trust to manage cash flow needs. As a result, a more practical size of reserve for these plans is measured in terms of how many days (or months) of benefit payments the current assets could provide before becoming exhausted. The benefit payments from the LTD plan are expected to increase as the new disability provisions in the retirement system become effective pursuant to Act 278 of 2012. The current reserve will provide some margin while change in utilization is monitored.

Gabriel Roeder Smith & Company's (GRS) Recommendation:

GRS does not recommend a refund or contribution holiday. If reserves continue to increase in the future, then an appropriate action would be to temporarily reduce, but not eliminate, the amount charged to employers for the LTD benefit until the reserve decreases to a target level.

3. What is Board asked to do? Receive as information. No action needed at this time.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

(Health Care Policy Committee Report)

Meeting Date: January 15, 2014

1. Subject: Post Health Expenditure Analysis

2. What is Board asked to do? Receive as information.

3. Supporting Documents:

(a) Attached:

1. Blue Cross Blue Shield Report



Fraud and Abuse, Audit Efforts for the State Health Plan

Fraud and Abuse

- Cases initiated through Fraud Hotline, BCBSSC Website, Direct Mail, Direct Phone calls, Internal Referral, External Referral, Plan Referral, Law Enforcement Referral, Pro-active Inquiries
- BCBSSC Investigations Unit works with operations areas and external resources to determine if fraud has occurred
- Resolutions include actions such as recouping claim payments, initiating legal cases, making settlements and referring to Law Enforcement where appropriate.

Audit/Recovery

- BCBSSC Corporate Audit Division efforts include
 - State Health Plan specific claims audits
 - Credit balance recovery efforts conducted by outside vendors
 - Provider bill audits for network hospitals
- Payment Integrity Committee, comprised of representatives from all lines of business
- Claims Operations efforts include
 - Audits on individual claims processors
 - Specialized unit to respond to focused audits and conduct claims research
 - A refunds area responsible for initiating and tracking recovery efforts
 - Claims system logic that is designed to detect issues such as duplicate claims, secondary surgical rules, possible cosmetic, medical necessity, etc.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

(Health Care Policy Committee Report)

Meeting Date: January 15, 2014

1. Subject: Legislative Update

2. What is Board asked to do? Receive as information.

3. Supporting Documents:

(a) Attached:

1. Governor's Budget
2. Tobacco User Differential Study Proviso 105.6
3. Tobacco User Differential Study Report to Legislature

Employee Benefits

Recommended Appropriations

The Governor's FY 2014-15 Executive Budget recommends:

- * A General Fund increase of \$57,174,000 to cover the state's share of the growth in employee benefit costs, assuming that the state covers the full premium increase for the upcoming year (3.9% projected) and the benefit package is revised within the confines of the plan's grandfathered status under the Affordable Care Act.

Provisos

- * There are no provisos in this section.

Goals and Objectives

This section of the budget isolates funding that is distributed for pay raises and employee pension and benefit plans. There are no associated goals or objectives for this section.

PROGRAM	ITEM	FY 2013-14 APPROPRIATIONS (ACTUAL)					FY 2014-15 EXECUTIVE BUDGET				
		GF	OF-E	OF-R	FF	Total	GF	OF-E	OF-R	FF	Total
I. State Employee Contributions											
	Unemployment Compensation Insurance.....	\$ 1,895	\$ -	\$ -	\$ -	\$ 1,895	\$ 1,895	\$ -	\$ -	\$ -	\$ 1,895
	St Ret-Mil & Non-Mem Serv Ret.....	\$ 77,014	\$ -	\$ -	\$ -	\$ 77,014	\$ 77,014	\$ -	\$ -	\$ -	\$ 77,014
	State Employee Retiree Supplement.....	\$ 623,357	\$ -	\$ -	\$ -	\$ 623,357	\$ 623,357	\$ -	\$ -	\$ -	\$ 623,357
	Public School Employee Supplement.....	\$ 980,600	\$ -	\$ -	\$ -	\$ 980,600	\$ 980,600	\$ -	\$ -	\$ -	\$ 980,600
	Police Insurance & Annuity Fund.....	\$ 11,041	\$ -	\$ -	\$ -	\$ 11,041	\$ 11,041	\$ -	\$ -	\$ -	\$ 11,041
	Police Officer Retiree Supplement.....	\$ 53,178	\$ -	\$ -	\$ -	\$ 53,178	\$ 53,178	\$ -	\$ -	\$ -	\$ 53,178
	National Guard Pension Supplement.....	\$ 4,585,560	\$ -	\$ -	\$ -	\$ 4,585,560	\$ 4,585,560	\$ -	\$ -	\$ -	\$ 4,585,560
	Total:	\$ 6,332,645	\$ -	\$ -	\$ -	\$ 6,332,645	\$ 6,332,645	\$ -	\$ -	\$ -	\$ 6,332,645
II. Employee Benefits											
	B. Base Employee pay increase.....	\$ 1,386,668	\$ -	\$ -	\$ -	\$ 1,386,668	\$ 1,386,668	\$ -	\$ -	\$ -	\$ 1,386,668
	Total:	\$ 1,386,668	\$ -	\$ -	\$ -	\$ 1,386,668	\$ 1,386,668	\$ -	\$ -	\$ -	\$ 1,386,668
C. Rate Increases											
	Health Insurance - State Contribution.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 57,174,000	\$ -	\$ -	\$ -	\$ 57,174,000
	OPEB Trust Fund.....	\$ 2,375,300	\$ -	\$ -	\$ -	\$ 2,375,300	\$ 2,375,300	\$ -	\$ -	\$ -	\$ 2,375,300
	Total:	\$ 2,375,300	\$ -	\$ -	\$ -	\$ 2,375,300	\$ 59,549,300	\$ -	\$ -	\$ -	\$ 59,549,300
AGENCY TOTAL:		\$ 10,094,613	\$ -	\$ -	\$ -	\$ 10,094,613	\$ 67,268,613	\$ -	\$ -	\$ -	\$ 67,268,613

Public Employee Benefit Authority

Recommended Appropriations

The Governor's FY 2014-15 Executive Budget recommends:

- † No changes from FY 2013-14 funding levels.

Provisos

- † There are 8 provisos in this section; the budget proposes to delete 2 and establish 1.

# / ACTION	TITLE / DESCRIPTION
105.6	Tobacco User Differential Study
Delete	<i>This proviso required that a one-time report on the tobacco differential be produced by December 31, 2013.</i>
105.7	FY 2014 State Health Plan
Delete and Replace	<i>This proviso established employer and subscriber premium rate changes for the 2014 State Health Plan.</i>
105.9*	FY 2015 State Health Plan
Establish	<i>This proviso will govern employer (3.9% increase) and subscriber premium rate changes (none) for the 2015 State Health Plan. Co-payments would be permitted to increase within the limits for a grandfathered plan.</i>

2013/2014 Appropriations Act

Proviso 105.6 (PEBA: Tobacco User Differential Study)

The Public Employee Benefit Authority shall conduct a study to determine if it is in the best interest of the state and the State Health Plan to differentiate between tobacco users by category of product used and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon the category of tobacco product used. In conducting the study, the authority shall offer a period for public comment. Recommendations shall include, but not be limited to an appropriate surcharge to be assessed and shall be submitted to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee by December 31, 2013.

December 16, 2013

Board of Directors
Public Employee Benefit Authority (PEBA)
202 Arbor Lake Drive
Columbia, SC 29223

Re: Tobacco User Differential Study

Background

This document is in response to Proviso 105.6. (PEBA: Tobacco User Differential Study). The proviso states:

“ The Public Employee Benefit Authority shall conduct a study to determine if it is in the best interest of the state and the State Health Plan to differentiate between tobacco users by category of product used and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon the category of tobacco product used. In conducting the study, the authority shall offer a period for public comment. Recommendations shall include, but not be limited to an appropriate surcharge to be assessed and shall be submitted to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee by December 31, 2013.”

According to numerous independent sources such as the Centers for Disease Control and the American Cancer Society, tobacco use has been linked to a number of disease states including cardiovascular disease and a variety of neoplasms. Cigarette smoking has been linked to lung, mouth, lip, nasal cavity and sinuses, larynx, pharynx, esophagus, stomach, pancreas, kidney, bladder, uterus, cervix, colon/rectum, and ovarian cancers as well as acute myeloid leukemia. Smokeless tobacco has been associated with cancer of the mouth and throat, lip, esophagus, and pancreas. Cigar smoking has been correlated with cancers of the lung, mouth, throat, larynx, esophagus and possibly the pancreas. State Health Plan expense associated with these diseases is considerable: total State Health Plan medical claims for the above disease states were approximately \$175.5 million in 2012. Please note that prescription drugs are not included in this total.

Data Sources

The following data sets were available for the analysis:

1. Paid claims for all State Health Plan members (1995 to present)

Board of Directors PEBA

December 16, 2013

Page 2

2. Enrollment history for all State Health Plan members. (1995 to present)
3. Current (as of 10/1/2013) list of subscribers that are paying the tobacco surcharge. The assignment is a subscriber level attribute that all members under that subscriber inherit. The assignment is boolean in nature and no other descriptors of the tobacco use attribute are captured (i.e. form of tobacco, frequency of use, etc).

Results

We are not able to determine that the State Health Plan should differentiate between types of tobacco users with respect to the premium surcharge based on empirical evidence derived from the State Health Plan's administrative data. We are not able to draw any conclusions because:

1. We are concerned that the self reported tobacco usage is significantly understated. Based on the CDC's Behavioral Risk Factor Surveillance System, we would expect approximately 20% of the population to be a tobacco user. Based upon our surcharge statistics, less than 10% of the SHP population is a tobacco user. Assuming the SHP population is consistent with CDC statistics, the non-tobacco user claims and utilization includes the claims and utilization for non-reported tobacco users. We are not able to satisfactorily identify the universe of tobacco users.
2. The "all or nothing" attribution of tobacco use at the subscriber level is distorting the rates of tobacco related conditions for tobacco and non-tobacco users. It would be highly desirable from an analytic perspective to make the attribution at a member level.
3. There is no reliable methodology for determining the form of tobacco associated with the contract (and the member). It would be highly desirable from an analytic perspective to gather tobacco form and frequency of use information at the member level. It is also likely that some State Health Plan members use multiple forms of tobacco and such information should be gathered as well.
4. Medical claims data do not capture sufficient detail in terms of diagnostic or procedural data to indicate disease or conditions cause by tobacco use (ICD9 or HCPCS).
5. Without reliable cause of condition or form of tobacco used information, it is not possible to accurately attribute a case (or member) in a disease state to the form of tobacco used. This becomes problematic when analyzing the neoplasms related to multiple forms of tobacco use (lip, mouth, throat, esophagus, pancreas, and lung) as well as cardiovascular disease where there are other significant risk factors in addition to tobacco use.