

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

Saturday, March 1, 2014 2014 – 9:00 a.m. MINUTES Adopted 04-16-2014
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Retreat Location

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

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 (in person)
Chairman Bjontegard (in person)
Mr. Steve Matthews (in person)
Ms. Stacy Kubu (in person)

Others present for all or a portion of the meeting:

Travis Turner, Lil Hayes, Stephen Van Camp, Justin Werner, Virginia Wetzel from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt with the State Retirees Association; Tim Bryan with Prudential; Brooks Goodman with Blue Cross Blue Shield of South Carolina; John Wienges with McNair Law Firm; and Sarah Corbett and Betsy Burn with the Retirement Systems Investment Consultant.

I. Call to order

Chairman Bjontegard called the meeting to order at 9:00 a.m. and gave the invocation. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Heisler moved to adopt the agenda and Sheriff Lott seconded. The agenda was unanimously approved.

II. Approval of minutes from the last meetings – January 15, 2014

Mr. Bjontegard asked for amendments to the January 15, 2014, meeting minutes. There being no amendments, Mr. Pearce moved to adopt the minutes and Mr. Sowards seconded. Unanimously approved.

III. Committee Reports

A. Retirement Policy Committee

South Carolina Retirement Systems Group Trust Amendment

Mr. Sowards introduced Sarah Corbett and Betsy Burn with the Retirement Systems Investment Commission who explained the need for an amendment to the South Carolina Systems Group Trust Resolution.

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS

Saturday, March 1, 2014 2014 – 9:00 a.m. MINUTES Adopted 04-16-2014
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Action:

Mr. Sowards moved to approve an amendment to Section 6 of the South Carolina Retirement Systems Group Trust to read as follows:

The assets of this Group Trust shall be invested and managed exclusively by the Investment Commission in accordance with the provisions of Sections 9-1-1310 and 9-16-10 et seq. of the South Carolina Code of Laws, as amended. Without limiting the generality of the foregoing, in compliance with Revenue Ruling 81-100, as amended, while assets of the Group Trust are invested in a collective trust or group trust, the provisions of the collective trust or group trust shall be adopted as a part of this Group Trust, so long as the Investment Commission has received a copy of a determination letter or otherwise received assurances that the collective trust or group trust is a group trust arrangement in accordance with Revenue Ruling 81-100, as amended.

Mr. Fusco seconded the motion to approve the amendment. Unanimously Approved.

Mr. Sowards advised that Hershel Harper, the Retirement Systems Investment Commission's Chief Investment Officer, will be offering innovative recommendation on how PEBA can work together with RSIC. It was noted that PEBA and RSIC are separate but both work for the good of those that benefit from the Trust. There was discussion regarding the SC Senate panel investigation on RSIC regarding investment fees in which there were no findings. RSIC reported that they are eager to see the results of the fiduciary audit by the SC Inspector General.

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

Mr. Matthews advised that the FAAC Committee will be meeting on March 4, 2014, to receive PEBA's Internal Auditor quarterly report to include an approval of the Internal Auditor's 2014 Audit Plan. They will also be reviewing the agreed upon procedures for the SC Deferred Compensation Program.

Mr. Matthews advised that the Ad Hoc Executive Director Search Committee has worked with the SC Office of Human Resources to post the Executive Director's position and will be scheduling follow-up meetings to review applications submitted. He also advised that the Committee is exploring the option of procuring an external Executive Director search firm.

C. Health Care Policy Committee

Mr. Pearce announced that the Health Care Policy Committee will be scheduling a meeting soon to review a potential USC Health Care Pilot proposal.

IV. Old Business

- a. Legislative Update [in notebook materials]
The Board reviewed the status of PEBA related legislation and future strategies on how to stay better informed.
- b. State Health Plan: Fraud Prevention

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS**

Saturday, March 1, 2014 2014 – 9:00 a.m. MINUTES Adopted 04-16-2014
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Brooks Goodman with Blue Cross Blue Shield provided a report on their efforts to prevent fraud. There was discussion regarding the amount of savings as a result of fraud prevention that was directly related to PEBA and efforts towards engaging State Health Plan participants to actively monitor their Explanation of Benefits to prevent fraud. Mr. Brooks also provided information regarding medical tourism.

V. New Business

There was no new business discussed.

VI. Round Table Discussion

Each board member provided their feedback on the 2014 retreat. In general the retreat was well received and the members agreed that there should be a follow-up session with Mr. McClaskey regarding performance excellence.

The Board also received an update on the implementation of Catamaran as the new Pharmacy Benefits Manager. There was discussion regarding initial implementation issues and PEBA is working with Catamaran to seek resolution to the problems.

VII. Adjournment

There being nothing further to discuss, Mr. Bjontegard adjourned the meeting at 11:39 a.m.

SC Public Employee Benefit Authority Board of Directors Retreat and Meeting

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

Retreat Location

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

Friday, February 28, 2014 – 9:30 A.M.

EDUCATION PROGRAM SESSIONS

1. Organizational Performance Excellence
David J. McClaskey, Business Excellence Institute

Lunch Break
2. Pension Administration Benchmarking
Jan Hartford, CEM Benchmarking
3. New GASB Standards for Pension Accounting
Joe Newton & Danny White, Gabriel Roeder Smith & Company
4. Patient Engagement
Brooks Goodman, Blue Cross Blue Shield

Saturday, March 1, 2014 – 9:00 a.m.

BUSINESS MEETING AGENDA

1. Adoption of Proposed Agenda
2. Minutes of Previous Meeting: January 15, 2014
3. Committee Reports
 - a. Retirement Policy Committee
 - i. Group Trust Document Amendment
 - b. Finance, Administration, Audit & Compliance Committee
 - c. Health Care Policy Committee
4. Old Business
 - a. Legislative Update
 - b. Blue Cross Blue Shield
5. New Business
6. Round Table Discussion
7. Executive Session Pursuant to §30-4-70(a)(2) [if necessary]

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, 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

DRAFT MINUTES

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

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

DRAFT MINUTES

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

DRAFT MINUTES

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

DRAFT MINUTES

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.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

Meeting Date: March 1, 2014

Agenda 3

1. Subject: Group Trust Document Amendment

2. Summary:

By law, the assets of the defined benefit pension plans administered by PEBA are held collectively in a group trust for the comingling and collective investment of those pension funds. The PEBA Board of Directors are the trustees of the group trust and, in that capacity, the Board adopted a Resolution for Declaration of the South Carolina Retirement Systems Group Trust on February 1, 2013, to memorialize the group trust created by statute.

As long as the group trust satisfies certain IRS requirements, the group trust can enjoy the same tax-exempt treatment as the underlying pension trusts that are included in the group trust. By a determination letter issued on September 27, 2013, the IRS found that the South Carolina Retirement Systems Group Trust, as memorialized in the Board's declaration, satisfies those requirements and is exempt from federal income tax. Notably, one of the IRS requirements that a group trust must satisfy is that the terms of the group trust document be adopted as part of the underlying pension plans.

Recently, the Investment Commission has approved two relatively large investments in passively managed index funds. Both of these investments would be made in collective investment trusts, which are, themselves, created as tax-exempt group trusts under the IRS requirements. Consequently, in order for the collective investment trusts to maintain their tax-exempt status upon the inclusion of funds from our group trust, the terms of the collective investment trust must be adopted as part of our group trust. Without an amendment to our group trust to adopt the provisions of the collective investment trusts in question, the Investment Commission will not be able to make the investments in the collective investment trusts.

3. What is Board asked to do?

Adopt the proposed amendment to the Declaration of the South Carolina Retirement Systems Group Trust to facilitate investment of the trust's assets in qualified collective investment trusts or group trusts.

Amend Section 6 of the South Carolina Group Trust to read as follows:

The assets of this Group Trust shall be invested and managed exclusively by the Investment Commission in accordance with the provisions of Sections 9-1-1310 and 9-16-10 et seq. of the South Carolina Code of Laws, as amended. Without limiting the generality of the foregoing, in compliance with Revenue Ruling 81-100, as amended, while assets of the Group Trust are invested in a collective trust or group trust, the provisions of the collective trust or group trust shall be adopted as a part of this Group Trust, so long as the Investment Commission has received a copy of a determination letter or otherwise received assurances that the collective trust or group trust is a group trust arrangement in accordance with Revenue Ruling 81-100, as amended.

4. Supporting Documents:

- (a) Attached:
 - 1. RSIC Presentation. SC Retirement Systems Group Trust Proposed CIT Amendment

SOUTH CAROLINA RETIREMENT SYSTEMS GROUP TRUST

PROPOSED CIT AMENDMENT

March 1, 2014

Background on the Group Trust

- The State has 5 defined benefit public pension plans.
- Each plan is managed separately on the benefit side; however, the assets are invested as one pool – as a “group trust”.
- Investing assets of the 5 plans as a group trust instead of separate portfolios creates economic and operational benefits to the plans.
- The Group Trust created by SC statute (S.C. Code Ann. § 9-16-20) enables the Commission to collectively invest the assets of all 5 plans, rather than managing 5 different pools of assets.
- The statute provides, in part, that the assets will be held in a group trust under Section 401(a)(24) of the Internal Revenue Code.
- In February 2013 PEBA executed a Resolution for Declaration of the South Carolina Retirement Systems Group Trust to formalize the Group Trust.
- In October 2013, PEBA received a determination letter from the IRS for the Group Trust stating that the Group Trust qualifies as tax exempt.

Description of Proposed CIT Amendment

We are proposing to amend Section 6 of the South Carolina Retirement Systems Group Trust (the “Group Trust”) to read as follows:

The assets of this Group Trust shall be invested and managed exclusively by the Investment Commission in accordance with the provisions of Sections 9-1-1310 and 9-16-10 et seq. of the South Carolina Code of Laws, as amended. *Without limiting the generality of the foregoing, in compliance with Revenue Ruling 81-100, as amended, while assets of the Group Trust are invested in a collective trust or group trust, the provisions of the collective trust or group trust shall be adopted as a part of this Group Trust, so long as the Investment Commission has received a copy of a determination letter or otherwise received assurances that the collective trust or group trust is a group trust arrangement in accordance with Revenue Ruling 81-100, as amended.*

Background on CITs (Collective Investment Trusts)

- The Commission recently approved two CIT investments. The investments will be made into passively managed index funds.
- CITs are commingled investment vehicles and are often preferred for institutional investors, including for reasons of cost savings and efficient, at-source foreign dividend tax reclamation.
- CITs are established as group trusts.
- Maintaining the tax exempt status of a group trust is an essential requirement of these structures.
- Group trusts often rely on the provisions of IRS Revenue Ruling 81-100, as amended, in order to maintain their tax exempt status.

Background on the Approved Investments

- The Commission unanimously approved two investments into CITs. The investments are passively managed index funds run by BlackRock and State Street, the two of the largest money managers in the world.
- These are two very large mandates (up to approx. \$6-\$7 billion) for the Commission into very low-cost strategies (for example, BlackRock's management fee is 0.025% on the first \$1 billion and 0.015% on the balance. State Street's management fee is 0.02% on the first \$500 million, 0.01% on the next \$1 billion and 0.005% on the balance. If \$2.5 billion is allocated to each manager, the total cost of management would be \$725,000 or a blended 0.015).
- The investments went through extensive investment and operational due diligence prior to the Commission vote.
- Once approved, RSIC Legal began the negotiation process with BlackRock and State Street to formalize the contracts.

Background Continued

- Because both the BlackRock and State Street investments are set up in collective investment trusts, both BlackRock and State Street will require that our Group Trust comply with applicable tax rules and regulations before we can invest in order to preserve BlackRock and State Street CITs' status as group trusts.

Recent IRS Rule Changes

- The IRS amended Rev. Rul. 81-100 in 2011 by adopting Rev. Rul. 2011-1.
- Rev. Ruling 2011-1 expressly requires that the group trust be adopted “as a part of” each investor in the group trust. (Prior to Rev. Rul. 2011-1 arguments were made that governmental plans were not subject to this requirement.)
- The IRS has determined that the Group Trust is a group trust under Rev. Rul. 81-100 and is, therefore, tax exempt.
- Any group trust, such as the Group Trust, that wants to invest into a group trust type investment (such as a CIT), is required to comply with Rev. Rul. 81-100, as amended by Rev. Rul. 2011-1.

What is the need for the proposed amendment?

- Because the Group Trust SCGT does not presently have a provision which adopts the provisions of CITs in which it invests “as a part of” the Group Trust, the amendment is required as a condition for the Group Trust to invest in group trust CITs.
- The amendment was drafted to track the requirements of new IRS Rev. Rule 2011-1 and Section 3 of the Group Trust.

Impact of Proposed Amendment

- The “adopt as a part of” language has been routinely included in trusts of ERISA-covered plans for decades (since Rev. Rul. 81-100 was adopted).
- RSIC’s counsel has advised that they are not aware of the “adopt as a part of” language creating unintended losses for ERISA or other CIT investors.
- CIT investors diligently review and negotiate (or obtain clarification of) terms of a CIT’s governing instruments to obtain comfort regarding the adopted CIT’s terms. The staff of the Commission performs this review, and undertakes negotiations (where needed) as a part of its fiduciary duties.

The Commission Closing Process

- Once the Commission reviews an investment, a vote is taken.
- The Commission will vote to approve an investment, subject to legal contract negotiation and the 30 day review period.
- After RSIC Legal concludes the contractual negotiations, all final contractual documents are posted to a secure portal for review by all Commissioners.
- RSIC Legal signs a Certification of Legal Sufficiency and circulates this to all Commissioners, which, among other things, advises the Commission that the 30 day review period has begun, certifies that RSIC Legal has signed off on the legal sufficiency of all relevant contractual documents, and states that all other preconditions to closing have occurred.

Closing Process Continued

- During the 30 day review process all Commissioners (and certain of their senior staff that have executed an NDA) have full access to all pre-investment due diligence, as well as all the final draft contracts for review.
- Once the 30 day review period ends (during which time RSIC Legal and Investment staff address any concerns/questions raised by the Commissioners or their staff), RSIC Legal executes a second certification to verify the end of the review period.
- The final contracts are then forwarded to the Commission's Chairman for final review and authorization to close the investment.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY
AGENDA ITEM**

Meeting Date: March 1, 2014

Item 4

1. Subject: Legislative Update – House Ways & Means State Health Plan Budget Recommendation & S.954 Status update

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

3. Supporting Documents:

(a) Attached:

1. 2015 State Health Plan Budget Request Submitted to Legislature
2. House of Representatives Ways & Means Committee FY2014-2015 Budget Proviso recommendations
3. S.954 PEBA Omnibus Bill – Explanation/Details of Staggered Board Terms as introduced.

2014-2015 SHP Plan Design Options with Projected Fiscal Impacts*

	I. State Health Plan Standard Plan—2014 Plan Design	II. State Health Plan Standard Plan—Minimum Allowed Benefit Changes	III. State Health Plan Standard Plan—2014 Plan Design plus ACA Coverage Requirements	IV. Revised State Health Plan with ACA Coverage Requirements	
				Saving Plan	Standard Plan
ACA Status	Grandfathered	Grandfathered	Non-Grandfathered	Non-Grandfathered	Non-Grandfathered
Budget Impacts					
<i>Option 1: Shared Increase/Savings</i>	\$60.633 M	\$53.620 M	\$76.264 M	\$60.633 M	
<i>Option 2: Employer-Only</i>	\$66.147 M	\$57.174 M	\$85.945 M	\$66.147 M	
<i>Option 3: Enrollee-Only</i>	\$45.094M	\$43.606M	\$48.945 M	\$45.094 M	
Premium Increase					
<i>Option 1: Shared Increase/Savings</i>	4.5%	2.9%	7.9%	4.5%	
<i>Option 2: Employer-Only</i>	6.1%	3.9%	10.7%	6.1%	
<i>Option 3: Enrollee-Only</i>	17.2%	11.1%	30.2%	17.2%	
Plan Design Features					
	2014 design	Deductible: \$450/\$900	2014 Standard Plan design plus preventative benefits required to be covered by ACA with no cost-sharing	Deductible: \$1250/\$2500	Deductible: \$480/\$960
		Out-of-Pocket Max: \$2600/\$5200 (includes Deductible)		Out-of-Pocket Max: \$6250/\$12,500 (includes deductible)	Out-of-Pocket Max: \$3380/\$6760 (includes deductible)
		Coinsurance: 80%		Coinsurance: 80%	Coinsurance: 80%

2014-2015 SHP Plan Design Options with Projected Fiscal Impacts*

	I. State Health Plan Standard Plan—2014 Plan Design	II. State Health Plan Standard Plan—Minimum Allowed Benefit Changes	III. State Health Plan Standard Plan—2014 Plan Design plus ACA Coverage Requirements	IV. Revised State Health Plan with ACA Coverage Requirements	
				Saving Plan	Standard Plan
		ER Per Occurrence Copay: \$160		Preventative benefits with no cost sharing	Preventative benefits with no cost sharing
		Outpatient Hospital Per Occurrence Copay: \$97		HSA-qualifying	ER Per Occurrence Copay: \$150
		Office Visit Per Occurrence Copay: \$13		Integrated Prescription Drug Benefit (Pay full drug price, contributes to deductible)	
		Prescription Drug Copay (Retail): \$9/\$39/\$65			Outpatient Hospital Per Occurrence Copay: \$90
		Prescription Drug Copay (Mail Order): \$22/\$97/\$162			Inpatient Hospital Per Occurrence Copay: \$250
					High End Radiology Per Occurrence Copay: \$150
					Chiropractic Annual Visit Maximum: 40 visits
					Prescription Drug Copay (Retail): \$9/\$40/\$80

2014-2015 SHP Plan Design Options with Projected Fiscal Impacts*

	I. State Health Plan Standard Plan—2014 Plan Design	II. State Health Plan Standard Plan—Minimum Allowed Benefit Changes	III. State Health Plan Standard Plan—2014 Plan Design plus ACA Coverage Requirements	IV. Revised State Health Plan with ACA Coverage Requirements	
				Saving Plan	Standard Plan
					Prescription Drug Copay (Mail Order): \$22/\$100/\$200
					Specialty Prescription Drugs: 10% coinsurance with floor of \$125 and cap of \$250
					Prescription Drug Out-of-Pocket Max: \$3000

Above table assumes:

- 1) Total plan growth of 7.00% on 2013 and 2.3% (net of plan design changes) on 2014
- 2) Implementation of EGWP in 2014

***Numbers presented are current as of October 15, 2013, and are based on preliminary projections as of 14 months prior to Plan year in question. Subsequent data may alter and amend the above projection as Plan Year 2015 approaches.**

PEBA BASE PROVISOS:

SECTION 105 - F50-PUBLIC EMPLOYEE BENEFIT AUTHORITY

105.1. (PEBA: Lottery & Infrastructure Bank Health Insurance) South Carolina Lottery Commissioners and South Carolina Transportation Infrastructure Bank Board members and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon paying the full premium costs as determined by the Public Employee Benefit Authority.

105.2. (PEBA: Adoption Assistance Program) The Employee Adoption Assistance Program is established to provide grants to eligible employees to assist them with the direct costs of adoption. The program shall be an employee benefit through the Public Employee Benefit Authority (PEBA) and shall be funded from the appropriation for the State Health Plan as provided in this act. Total funding for the Adoption Program shall not exceed the amount authorized by the General Assembly in the annual appropriations act. Employees are eligible for the Adoption Program if they participate in PEBA insurance benefits, have adopted a child during the prior fiscal year, apply for the grant during the annual application period, and meet any other Adoption Program criteria. The application period shall be July first through September thirtieth of the current fiscal year for an adoption in the prior fiscal year. The maximum grant amounts shall be \$10,000 in the case of the adoption of a special needs child and \$5,000 for all other child adoptions. Should the total amount needed to fund grants at the maximum level exceed the amount authorized, the amount of a grant to an eligible employee shall be determined by dividing the authorized amount evenly among qualified program applicants, with the adoption of a special needs child qualifying for two times the benefit of a non-special needs child.

105.3. (PEBA: Health Plan Tobacco User Differential) For health plans adopted under the authority of Section 1-11-710 of the 1976 Code by the Public Employee Benefit Authority during the current fiscal year, the board is authorized to differentiate between tobacco users and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon tobacco use. The surcharge for tobacco use may not exceed \$40 per month per subscriber or \$60 per month per subscriber and dependent(s).

105.4. (PEBA: Funding Abortions Prohibited) No funds appropriated for employer contributions to the State Health Insurance Plan may be expended to reimburse the expenses of an abortion, except in cases of rape, incest or where the mother's medical condition is one which, on the basis of the physician's good faith judgment, so complicates the pregnancy as to necessitate an immediate abortion to avert the risk of her death or for which a delay will create serious risk of substantial and irreversible impairment of major bodily function, and the State Health Plan may not offer coverage for abortion services, including ancillary services provided contemporaneously with abortion services. The Public Employee Benefit Authority must determine the amount of the total premium paid for health coverage necessary to cover the risks associated with reimbursing participants in the plan for obtaining an abortion in the circumstances covered by this provision. The determination must be based on actuarial data and empirical study in the same manner and by the same method that other risks are adjusted for in similar circumstances. The plan must report this determination annually to the respective Chairmen of the Senate Finance Committee and the House Ways and Means Committee.

105.5. (PEBA: TRICARE Supplement Policy) The Public Employee Benefit Authority (PEBA) shall offer a group TRICARE Supplement policy or policies to its TRICARE-eligible subscribers through its flexible benefits program to provide that subscribers may pay premiums for such policies on a pre-tax basis, in accordance with federal law and regulations. PEBA may charge TRICARE Supplement subscribers an amount not to exceed \$2 per subscriber per month for any associated administrative costs.

105.8. (PEBA: Exempt National Guard Pension Fund) In the calculation of any across-the-board cut mandated by the Budget and Control Board or General Assembly, the amount of the appropriation for the National Guard Pension Fund shall be excluded.

Governor Recommended FY14-15

Funding Recommendation: \$57,174,000

Proviso Additions, Changes & Deletions

DELETE: 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.~~

DELETE: 105.7. (PEBA: FY 2014 State Health Plan) ~~Of the funds authorized for the State Health Plan in Plan Year 2014 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 6.8% and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2014. Co-payment increases for participants of the State Health Plan in Plan Year 2014 shall not exceed twenty percent. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year 2014 to ensure the fiscal stability of the Plan.~~

ADDED: 105.9. (PEBA: Plan Year 2015 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year 2015 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 3.9% and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2015. Co-payments may be increased for participants of the State Health Plan in Plan Year 2015 within the limitations of the plan's grandfathered status under the Patient Protection and Affordable Care Act. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year 2015 to ensure the fiscal stability of the Plan.

Ways & Means Recommended FY14-15

Funding Recommendation: \$57,174,000

Proviso Additions, Changes & Deletions

DELETE: 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.~~

AMEND: 105.7. (PEBA: FY 2014 2015 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year ~~2014~~ 2015 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of ~~6.8%~~ 3.9% and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2014. Co-payment increases for participants of the State Health Plan in Plan Year ~~2014~~ 2015 shall not exceed ~~twenty~~ nine percent. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year ~~2014~~ 2015 to ensure the fiscal stability of the Plan.

NEW: 105.iat. (PEBA: Inactive SCRS Account Transfer) A current employee or teacher who is an active participant in the State Optional Retirement Program but who has an inactive account in the South Carolina Retirement Program due to previous service in that system, shall be allowed to transfer previous contributions to the employee's or teacher's active State Optional Retirement Program account.

NEW: 105.mfc.(PEBA: Market Forces Competition) For the 2015 paln year the Public Employee Benefit Authority shall adopt new policies for the state health plan that introduce market forces of competition and price conscientious in to the state plan. These policies may include, but are certainly not limited to, financial incentives for participants who make certain decisions regarding health care utilization. Any cost associated with these new policies shall be covered by the imbedded savings of the policy. The authority shall mnonitor the effectiveness of these policies and report back to the Governor and the General Assembly their findings.

AMEND: 117.114. (GP: Fiduciary Audit) Of the funds authorized for the ~~Retirement System Investment Commission~~ Public Employee Benefit Authority, the ~~commission~~ authority shall transfer \$700,000 to the Office of Inspector General. The funds transferred shall be utilized by the Inspector General to employ a private audit firm to perform the fiduciary audit on the ~~Retirement System Investment Commission~~ Public Employee Benefit Authority as required by Section ~~9-16-380~~ 9-4-40 of the 1976 Code, as amended.

Legislative Session 2014. Senate Bill 954 (As introduced in the Senate)
Staggered Board Member Terms

Term A Cycle Positions:

#1 Governor's Appointee (Board Chairman)
#5 President Pro Tempore's Appointee (Representative)
#6 Senate Finance Chairman's Appointee (Non-representative)
#9 House Speaker's Appointee (Representative)

Term B Cycle Positions:

#2 Governor's Appointee
#4 President Pro Tempore's Appointee (Non-Representative)
#8 House Speaker's Appointee (Non-representative)
#11 House Ways and Mean's Appointee (Representative)

Term C Cycle Positions:

#3 Governor's Appointee
#7 Senate Finance Chairman's Appointee (Representative)
#10 House Ways and Mean's Appointee (Non-Representative)

7/1/2012 – 6/30/2013	7/1/2013 – 6/30/2014	7/1/2014 – 6/30/2015	7/1/2015 – 6/30/2016
----------------------	----------------------	----------------------	----------------------

Term A Cycle Positions – Initial Term (2 years)

Term B Cycle Positions – Initial Term (3 years)

Term C Cycle Positions – Initial Term (4 years)

Additional notes:

- Board Seat positions will be appointed on July 1st of every subsequent third year after their initial term ends.
- No member of the Board may serve more than two consecutive terms.
- A Board member may sit out one three-year term and become eligible to serve again.
- If a Board member is appointed at a time other than the beginning of a term, the Board member will serve the remainder of the defined unexpired term for that particular Board seat.