PEBA
SC Retirement Systems and State Health Plan

South Carolina Public Employee Benefit Authority
Serving those who serve South Carolina

Meeting agenda

Board of Directors Retreat
Friday, November 6, 2026
Wampee Conference Center | 2213 Pinopolis Road, Pinopolis, SC 29469

Board of Directors | 9:30 a.m.

I. Federal policy in focus: what's next for pharmacy benefits
Mr. Tanner Warbinton, Lead Director in Federal Government Affairs, CVS Health

II. Navigating the specialty drug landscape: biosimilars, innovation and sustainable savings
Mr. Josh Fredell, Senior VP of PBM, Payor and Life Science Solutions, CVS Health

III. State of the health insurance industry
Mr. Matt Shaffer, Senior VP of Major Group, BlueCross BlueShield of South Carolina

IV. Lunch and legislative/congressional political update
Mr. James D'Alessio, VP of Government Affairs, BlueCross BlueShield of South Carolina

V. Ethics Training
Ms. Suzanne Dugan, Special Counsel, Cohen Milstein

VI. Old business
a. Director's report
b. Roundtable discussion

VII. Executive session for the purpose of discussing personnel matters, discussing proposed contractual matters, and receiving legal advice pursuant to S.C. Code of Laws §30-4-70(a)(1), (2), if necessary

VIII. Potential action resulting from executive session

IX. Adjournment

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.

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD RETREAT

Meeting Date: November 6, 2026

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1. **Subject**: Federal Policy in Focus: What's Next for Pharmacy Benefits

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2. Summary: An overview of the federal legislative and regulatory landscape affecting the PBM industry, including key policy developments and emerging areas of focus. The session will also examine how post-election changes could influence the pharmacy benefit landscape in the year ahead.

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

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4. Supporting Documents: Federal Policy in Focus: What's Next for Pharmacy Benefits

Federal Policy in Focus:

What's Next for Pharmacy Benefits

Tanner Warbinton
Lead Director, Federal Government Affairs

November 6th, 2026

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Federal Landscape Post Midterm Elections

- Election Results / Takeaways
- Legislative and regulatory landscape effecting PBM industry
- Key policy developments
- Emerging areas of focus

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Election Results / Takeaways

- Winners / Losers
- New makeup of the House and Senate
- Key takeaways

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Midterm Outcome Scenarios

Democrats win the House, Republicans keep the Senate

- A narrow House majority must manage divisions between progressives and moderates, an early test for likely Speaker Hakeem Jeffries
- Cannot pass their agenda alone, but gain leverage over funding, the debt limit and expiring programs
- Expect oversight and an affordability push: health care costs, including enhanced ACA subsidies, housing, child care and energy

Democrats win the House and Senate

- Control of the calendar and every committee; can slow or block nominees, including judges
- Funding and debt limit standoffs could win concessions on health care costs, tariffs and agency funding
- Could pass a party-line affordability package reversing parts of H.R.1; bipartisan deals possible on AI and permitting

Republicans keep the House and Senate

- A slim majority and internal divisions make party-line bills hard to pass; small groups of members gain leverage
- Expect an early push on the debt limit and more tax changes beyond the One Big Beautiful Bill
- Other priorities: college athletics, crypto, online safety, AI, data centers and federal spending

Across all three scenarios: narrow margins give members leverage over must-pass items, including government funding, the debt limit and expiring programs.

Source: BGR Policy & Political Outlook, September 2026

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A Crowded Lame Duck Follows the Election



Fund the government

Funding expires Dec. 11. Congress must choose individual spending bills, an omnibus package or another continuing resolution.



Extend expiring programs

The Farm Bill is stalled and a full surface transportation bill is likely on the agenda. Extensions can be applied retroactively.



Move the larger packages

A compromise NDAA is expected in late November. A catch-all health and tax package and reconciliation are possible vehicles.

Possible PBM policies that could be included in a lame duck package: additional price transparency and public reporting, PBM and broker/consultant compensation changes, and FEP changes

Source: BGR Policy & Political Outlook, September 2026

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Legislative and Regulatory Landscape - 2027

Implementation of CAA, FTC agreements, and DOL rule will move forward regardless of who controls Congress

CAA 2026

- Rulemaking process and guidance will ramp up next year on CAA provisions:
- Medicare delinking, reporting, reasonable and relevant contract terms, AWP terms, essential retail pharmacy reporting
- Commercial rebate pass-through, reporting, bone fide service fees
- Medicare reforms go into effect 1/1/28
- Commercial changes go into effect 8/3/28

FTC Settlement

- Key changes to the standard offering will take place for implementation on 1/1/28:
- Delinked PBM compensation
- Low-WAC drug formulary inclusion
- Patient OOP costs tied to net cost

DOL Rule

- PBM reporting to ERISA self-insured group health plans with 100+ participants / employees
- Direct PBM compensation
- Indirect PBM compensation: manufacturer payments, spread, pharmacy recoupment, price protection agreements with manufacturers
- Formulary placement incentives
- Drug Pricing methodology
- Requirements apply to plan years beginning on or after 7/1/27

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Emerging Areas of Focus

Democratic Health Care Agenda:

- **Affordability, Healthcare costs, and Accountability**
  - Prescription drug prices, patient out-of-pocket costs, and insurance coverage will likely remain central components of this agenda.
  - PBM issues will continue to receive significant attention, but harsh criticism of pharma pricing practices is also expected to be a high priority.
- **PBM industry**
  - The most significant legislative threats could include additional PBM transparency and reporting requirements and expanded federal regulation of commercial market contracting and benefit design.
  - Democrats could also pursue policies that require point of sale rebates, expand patient out-of-pocket protections, and increase oversight of PBM reimbursement practices.
- **Dem Priorities**
  - Democrats are expected to prioritize ACA EPTCs, expanding Medicare drug price negotiation, addressing pharmaceutical manufacturer pricing practices, and increasing generic and biosimilar competition.
- **Progressive Dynamic**
  - Medicare for All is a central pillar for the progressive wing of the party. Sen. Ron Wyden, ranking Dem on the Senate Finance Committee, has endorsed Medicare for All. Sen. Bernie Sanders, ranking Dem on the Senate HELP Committee, has been the lead champion for years. Sen. Elizabeth Warren and Rep. Alexendra Ocasio-Cortez aim to break up large companies.

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Emerging Areas of Focus

Republican Health Care Agenda:

- **Affordability, Healthcare costs, and Accountability**
  - Populist influence of the party will be stronger than ever.
  - Prescription drug prices, insurance premiums, patient out-of-pocket costs, and transparency will be central to their healthcare agenda.
- **PBM industry**
  - Republicans could join with Democrats to support additional PBM transparency and reporting requirements, expanded federal regulation of commercial market contracting and benefit design, and increased oversight of PBMs.
- **Populist Dynamic**
  - There is a growing bloc of Republicans in both chambers that are populist and are not as concerned with growing the federal government's role in health care.
  - How far will they go in joining with Dems?
  - How do they react to the progressive agenda like Medicare for All?
- **Trump Factor**
  - Key question will be how much Congressional Republicans still feel beholden to supporting the Trump Admin agenda.

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Trump Admin Agenda

- **Administration Dynamics.** Expect the Trump Admin to rely more heavily on executive authority.
- **Regulatory action continues regardless of Congress.** The Department of Labor's PBM fee disclosure rulemaking and continued FTC scrutiny will advance independent of the election outcome.
- **Populist pressure on Republicans.** President Trump's focus on price transparency and anti-insurer rhetoric will keep pressure on congressional Republicans to deliver. This could lead to bipartisan passage of prior authorization reforms, additional transparency measures.
- **Potential for unconventional deals.** Under Democratic control, the President could seek a drug pricing deal with Congress, such as expanding IRA negotiation.
- **Oversight of Administration drug pricing initiatives.** A Democratic House would focus heavily on TrumpRx, Most-Favored-Nation pricing, and manufacturer deals.
- **Trump the Wild Card.** A fundamental question is how President Trump will react to Democratic Oversight efforts. Investigations may poison the well on any bipartisan dealmaking.

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PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD RETREAT

Meeting Date: November 6, 2026

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1. Subject: Navigating the Specialty Drug Landscape: Biosimilars, Innovation & Sustainable Savings

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2. Summary: An overview of the evolving specialty medication landscape, including key specialty, biosimilar, and specialty generic pipeline trends, and the strategies driving sustainable pharmacy savings. The session will also highlight Caremark's formulary philosophy and Specialty Guideline Management approach to promoting appropriate use and improving outcomes.

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

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4. Supporting Documents: Navigating the Specialty Drug Landscape: Biosimilars, Innovation & Sustainable Savings

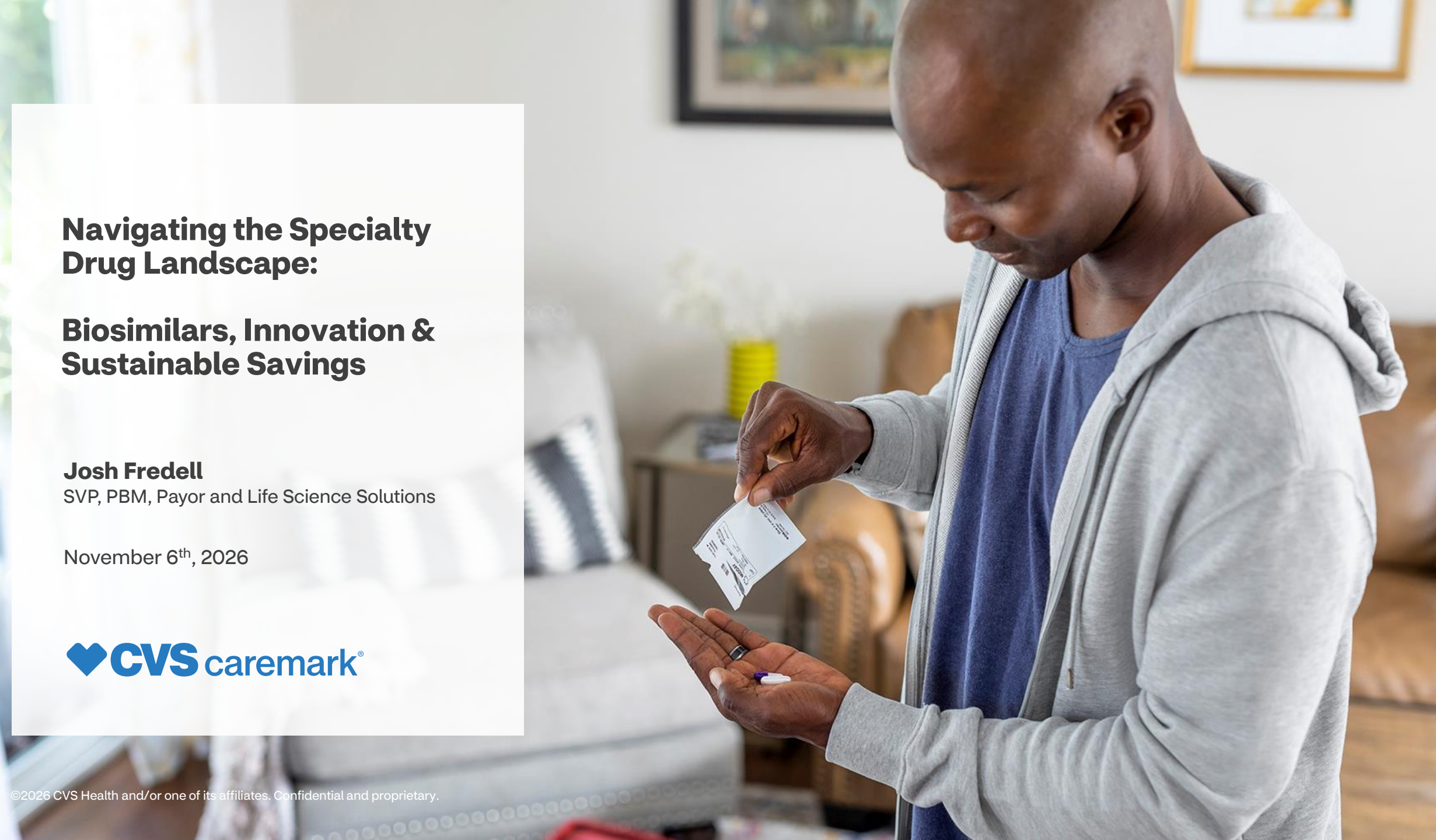
Navigating the Specialty Drug Landscape:

Biosimilars, Innovation & Sustainable Savings

Josh Fredell
SVP, PBM, Payor and Life Science Solutions

November 6th, 2026

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Active drug pipeline remains a key challenge for payors seeking to balance member access and cost

2025 look back

64 Total novel approvals
- 46 CDER approvals[1]
- 18 CBER approvals[2]

19 biosimilars approved[3]

84 supplemental specialty indications[4]

2026-2028 anticipated robust pipeline[4]

408 new specialty drugs

199 supplemental specialty indications

41 gene therapy products

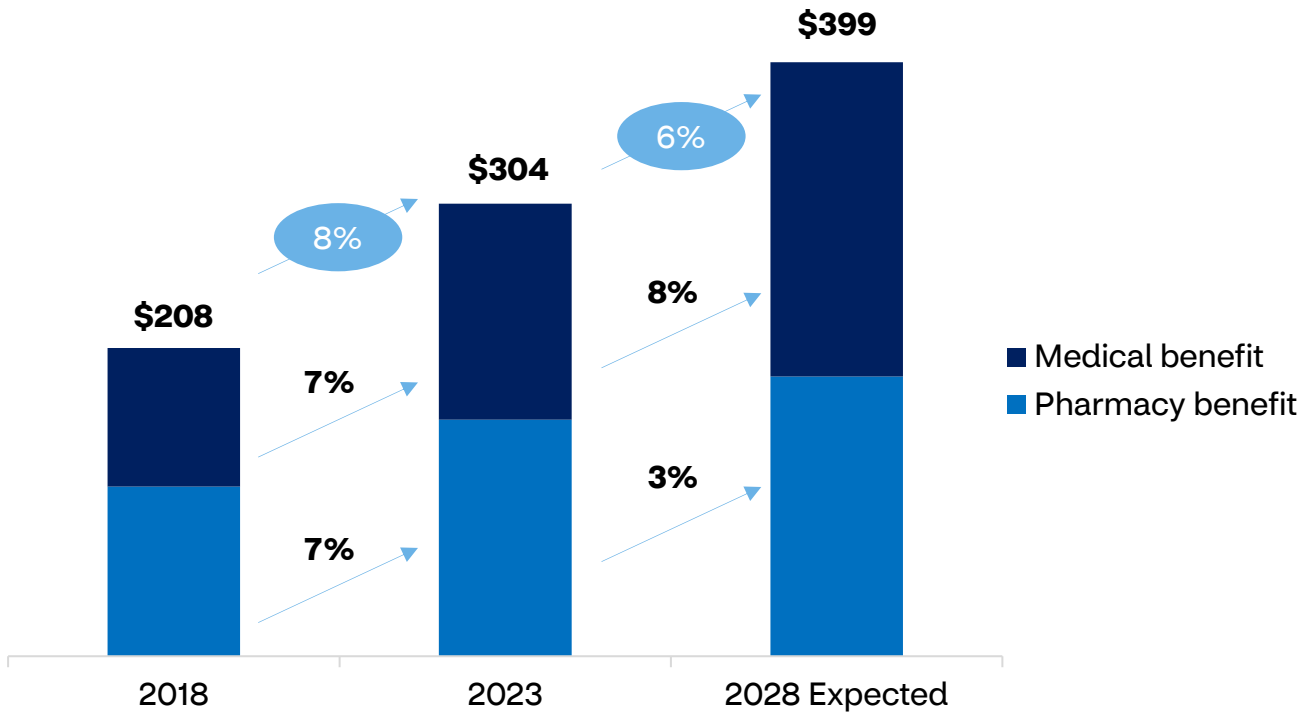
1. https://www.fda.gov/drugs/novel-drug-approvals-fda/novel-drug-approvals-2026 accessed September 2026. 22. https://www.fda.gov/vaccines-blood-biologics/development-approval-process-cber/2026-biological-approvals accessed September 2026 3. https://www.centerforbiosimilars.com/biosimilar-approvals . 4. Pipeline Services projections, data 2026 through 2028, as of August 2026. New drug count includes new molecular entities, new biologics, biosimilars, new combinations, new formulations, CAR-T and non CAR-T projections by Pipeline Services.

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Specialty market growth[1]

In billions, pharmacy vs medical benefit[1]



Key factors driving trend

Increasing utilization

- Robust pipeline
- Expanding indications
- Aging population

Increasing prices

- Brand-name drug price inflation
- Higher cost for innovative drugs

1 Based on route of administration. CVS Analysis based on Evaluate Pharma Ltd, January 2025 and market research; represents sales by pharma manufacturers, not dispensing revenue. Available at: **evaluate.com.** Pharmacy Benefit includes all drugs that are oral, subcutaneously injected or self-injected and are typically billed through pharmacy benefit. Medical benefit includes all drugs that are IV-infused and are typically billed through medical benefit.
Does not include full value of generics.

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12-month outlook

Significant FDA-anticipated approvals and pipeline highlights: Gray Highlights represent incremental spend

Q3 2026	Q4 2026		Q1 2027		Q2 2027
ONCOLOGY **Etcamah** (camizestrant) Oral, pharmacy benefit	**RESPIRATORY** **doruxapapogene ralaplasmid (INO3107)** IM	**ONCOLOGY** **ivonescimab** IV	**IMMUNOLOGIC** **povorcitinib** Oral, pharmacy benefit	**MUSCULAR DYSTROPHY** **zeleciment rostudirsen (z-rostudirsen)** IV	**ENDOCRINE AND METABOLIC** **pegadricase/ sirolimus** IV
NEUROLOGICAL AGENTS **apitegromab** IV	**IMMUNOLOGIC** **ianalumab** SC, pharmacy benefit	**bezuclastinib** Oral, pharmacy benefit	**lonvoguran ziclumeran (lonvo-z)** IV	**delpacibart zotadirsen** IV	**encaleret** Oral, pharmacy benefit
HEMATOLOGIC **denecimig** SC, pharmacy benefit	**NEUROMUSCULAR** **gefurulimab** SC, pharmacy benefit	**giredestrant** Oral, pharmacy benefit	**NEUROLOGICAL AGENTS** **ulixacaltamide*** Oral, pharmacy benefit	**RETINAL DISORDERS** **tinlarebant** Oral, pharmacy benefit	**ONCOLOGY** **mezigdomide** Oral, pharmacy benefit
	cemdisiran SC	**anitocabtagene autoleucel** IV	**ONCOLOGY** **zipalertinib** Oral, pharmacy benefit		**IMMUNOLOGIC** **deucrictibant** Oral, pharmacy benefit
	deramiocel IV	**RENAL DISORDERS** **povetacicept** SC, pharmacy benefit	**Ordspono** (odronextamab) IV		
	GASTROINTESTINAL **saroglitazar** Oral, pharmacy benefit	**HEPATITIS AGENTS** **bepirovirsen** SC, pharmacy benefit	**ENDOCRINE AND METABOLIC** **dersimelagon** Oral, pharmacy benefit		

**Specialty designation TBD*

FDA (U.S. Food and Drug Administration). HIV (Human immunodeficiency virus. SC (Subcutaneous). IV (Intravenous therapy).

The information contained herein is compiled from independent clinical sources and is provided for informational purposes only. Due to circumstances beyond CVS Health's control, prospective drug launch dates are subject to change without notice. This information should not be solely relied upon for decision-making purposes. This slide includes products that may fall under a general specialty drug benefit. All products contained herein may not be provided by CVS Specialty. Date provided is either the FDA-established Prescription Drug User Fee Act (PDUFA) date or best internal estimates from Pipeline Services. Dates included in this email are reflective of likely FDA approval date (otherwise known as PDUFA date). Actual approval date may occur before or after the date shown. Some drugs may not gain FDA approval at all. Dates do not reflect a projection for specialty distribution only. Source: RxPipeline, CVS Health Clinical Affairs information current as of 09/09/2026. This slide contains references to brand-name prescription drugs that are trademarks or registered trademarks of pharmaceutical manufacturers not affiliated with CVS Health and/or its affiliates.

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Select new and upcoming biosimilar launches

The biosimilar pipeline is focused on areas of high specialty spend[1]

Pharmacy benefit
Medical benefit
Medical/ Pharmacy benefit

2026

Simponi & Simponi Aria (3)
(golimumab)
Autoimmune
$3.7B

Xolair (3)
(omalizumab)
Asthma
$3.9B

Eylea (8)
(aflibercept)
Ocular
$6B

Prolia/Xgeva (13)
(denosumab)
Bone Health
$6.4B (combined)

2027

Orencia (1)
(abatacept)
Autoimmune
$4.9B

Entyvio (2)
(vedolizumab)
Autoimmune
$6.2B

2028

Keytruda (5)
(pembrolizumab)
Oncology
$21B

Perjeta (2)
(Pertuzumab)
Oncology
$1.2B

2029+

Enbrel (3)
(etanercept)
Autoimmune
$5.9B

Cosentyx (2)
(secukinumab)
Autoimmune
$8.8B

Ocrevus (3)
(Ocrelizumab)
Neurology (MS)
$7.1B

Opdivo (3)
(nivolumab)
Oncology
$6.4B

Reference brand products facing competition

- **Autoimmune (6)**
- **Asthma (1)**
- **Bone Health (2)**
- **Oncology (3)**
- **Ocular (1)**
- **Neurology (1)**

The numbers of biosimilars (in parentheses) are either in phase 3 development, pending U.S. Food and Drug Administration (FDA) approval , or FDA approved. Excludes most drugs in clinical trial phase and those that have already launched. List may not be all inclusive. Source

1. U.S. Gross Sales 2024, IPD Analytics. Biosimilar Pipeline Report: 1H 2026. December 2025. Accessed February 2, 2026. https://www.ipdanalytics.com

Multiple Sclerosis (MS) Paroxysmal Nocturnal Hemoglobinuria(PNH)

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Notable Generic Pipeline Products on the Horizon



2026	Pomalyst 2.3B (5) Ofev 3.1B (5+)	Xeljanz 600M (1-5+**) Opsumit 1.6B (5+)	Bosulif 500M (2) Cerdelga 200M (5+)	Adempas 300M (2) Envarsus XR 300M (1)	Inlyta 500M (1) Isentress 100M (TBD)	Jevtana Kit 348M (5+) *medical
2027	Ibrance 2.5B (1-5+*) Orenitram 500M (TBD)	*Uptravi* *1.2B (4)* **IV Product LDD* Wakix 1.1B (5+)	Xtandi 3.2B (1-3*) Gattex 600M (2)	Kyprolis 900M (5+) *medical		
2028	Kalydeco 100M (1) Jakafi 3.3B (1)	Otezla 1.7B (5+) Tivicay 900M (4)	Vyndamax 4.1B (1) *Vyondys 53* *168M (TBD)* **medical*	Triumeq 600M (5+) Yondelis 136M (3) *medical		

1. 2026-2030 Generic pipeline is based on CVSHealth analytics supported by Evaluate pharma; thresholds set for branded products with >100M US net sales and has a probability of generic launch per IPD Analytics, data as of March 2026. Note: Additional factors or litigation could delay expiration of patents *entrants dependent on specific formulation**2025 sales listed for multiple formulations. italicized products are LDD products that CVS currently does not have access to . Products in blue are medical benefit products. Sales are as of 3/10/2026

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Getting to low net cost is the foundation of our biosimilars approach

Maximizing value for clients and members

- Leverage competition and our negotiation experience to achieve low net cost for clients
- Flexible formulary options that help optimize value and manage net cost
- Innovative plan design options to lower member costs
- Personalized member and prescriber outreach

Formulary considerations

- Clinical appropriateness and efficacy
- Reliability of manufacturer supply chain
- Product attributes
- Ease of use; adherence
- Formulation (concentration, buffers)



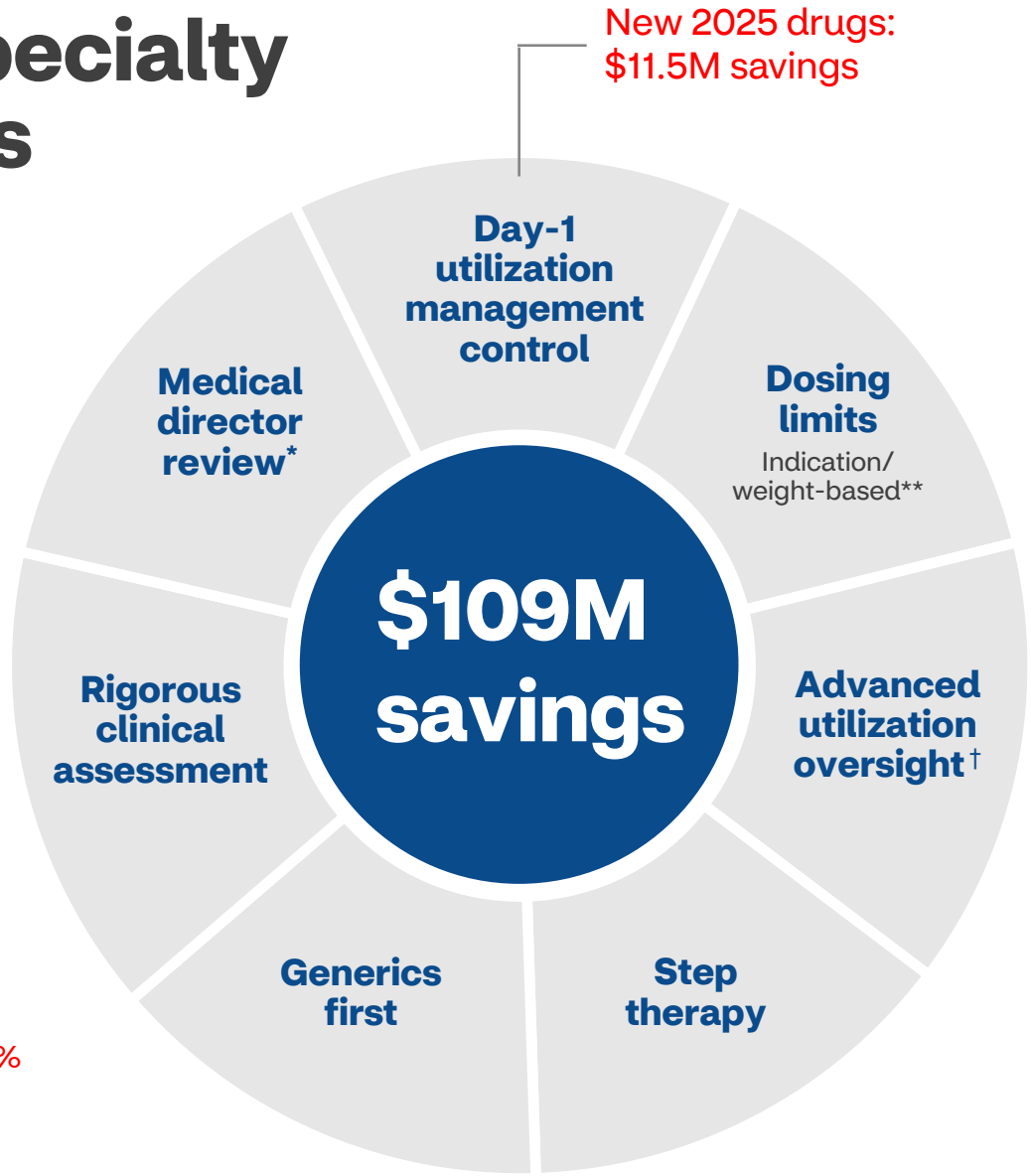
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Maximize your specialty utilization savings

Keeping costs in check while helping to ensure clinically appropriate coverage of specialty medications

69.6%
overall SGM approval rate

Key Classes:
- Psoriasis: 68%
- Rheumatoid Arthritis: 70%
- Atopic Derm: 78%
- Oncology: 89%



*Available for certain complex conditions. **Available for the autoimmune class. †Retrospective clinical review for complex and costly cases.

Continuous evolution of UM controls

More stringent criteria, including duration and documentation

Indication-/weight-based **dosing limits** for autoimmune class

~92% of criteria require **efficacy assessment** for renewal

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Thank You
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PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD RETREAT

Meeting Date: November 6, 2026

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1. Subject: State of the health insurance industry

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2. Summary: An overview of the evolving health insurance landscape, with a focus on key trends and emerging issues in South Carolina and across the nation, as well as BlueCross BlueShield of South Carolina's response to these developments.

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

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4. Supporting Documents: State of the Industry



November 6, 2026

State of the Industry

Matt Shaffer *Senior Vice President*

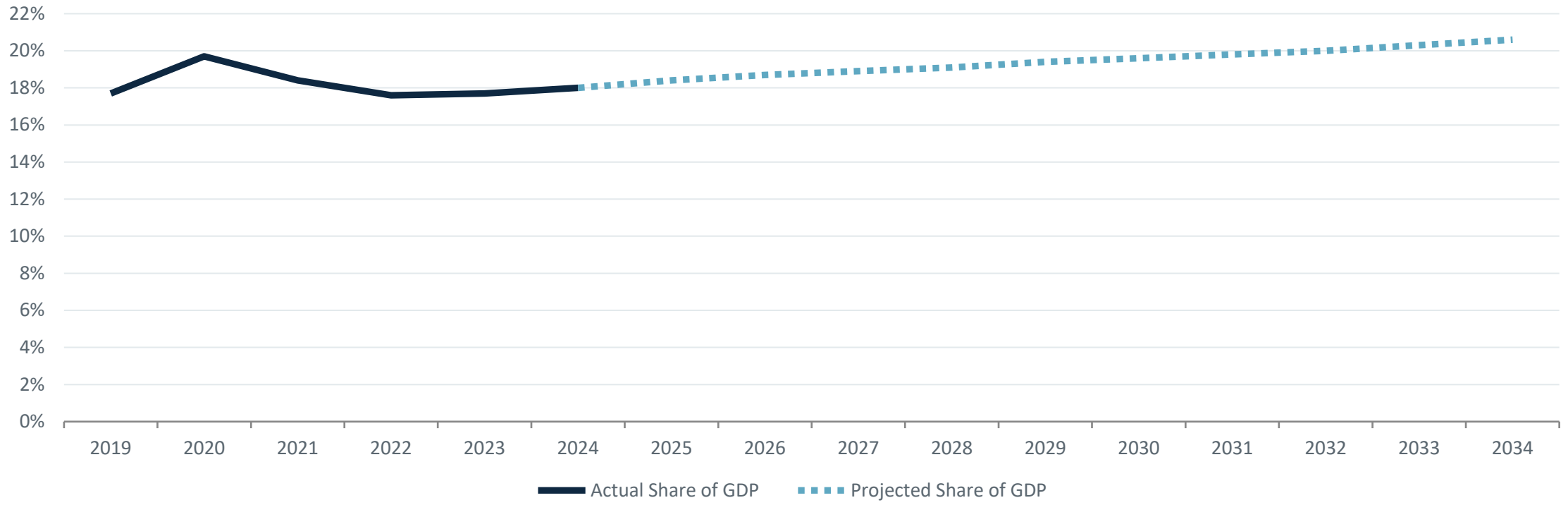
BlueCross BlueShield of South Carolina

The Economist’s View



Health spending is projected to account for over one-fifth of the U.S. economy in 2034

Health spending as a percent of Gross Domestic Product (GDP), 2019 - 2024; projected 2025 - 2034

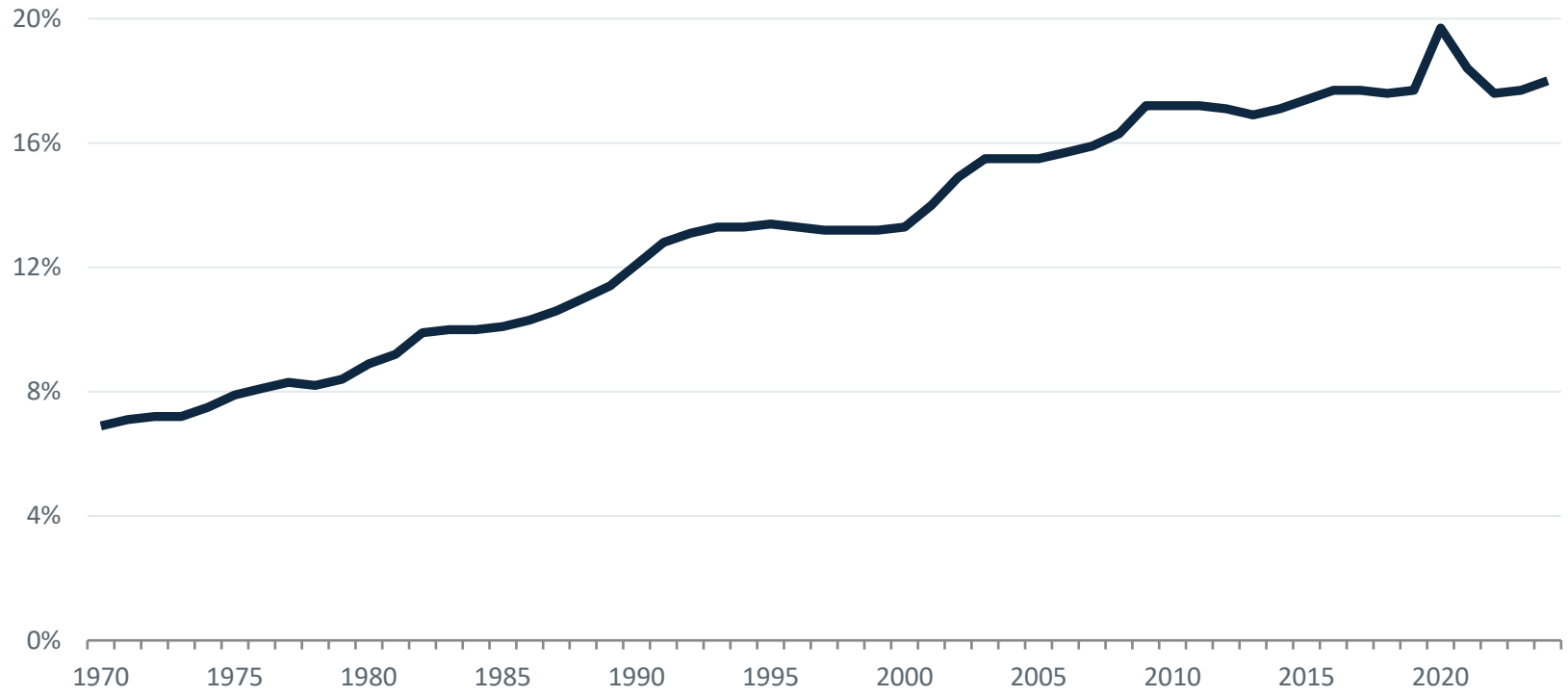


Source: KFF analysis of National Health Expenditure (NHE) data • Peterson-KFF Health System Tracker

National health expenditures as a share of GDP

1970-2024

Total national health expenditures as a percent of Gross Domestic Product, 1970-2024



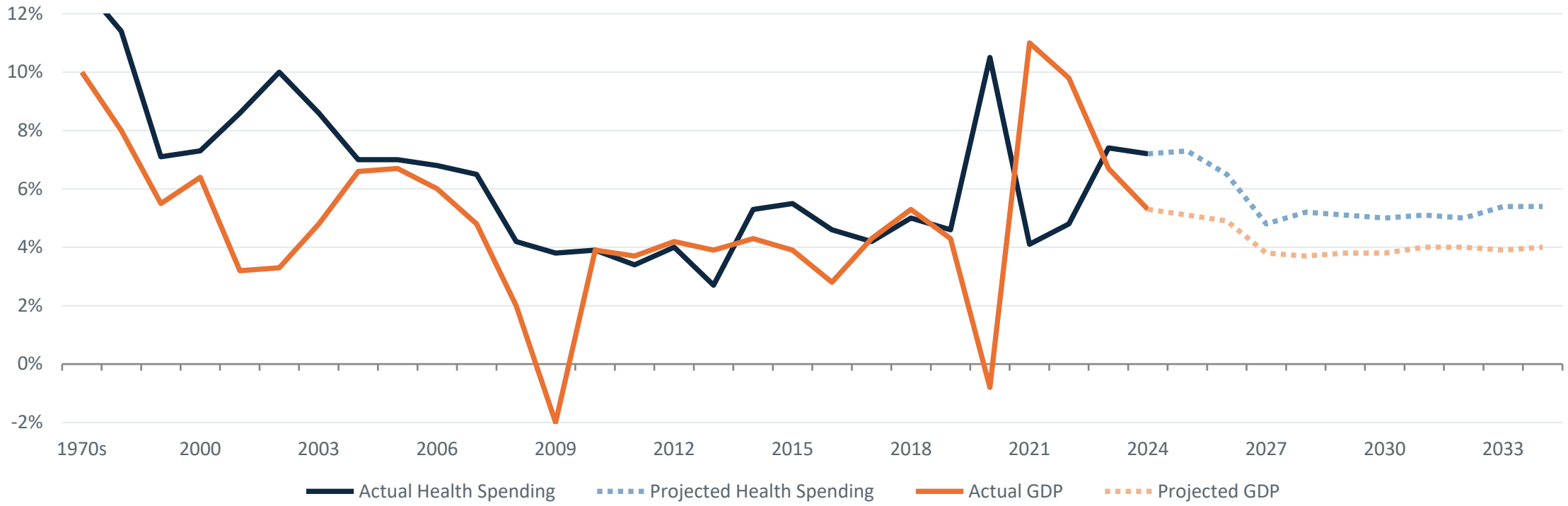
18.0%

2024

Note: Originally published in How has U.S. spending on healthcare changed over time?
Source: KFF analysis of National Health Expenditure (NHE) data • Peterson-KFF Health System Tracker

Health spending is expected to grow slower after 2026

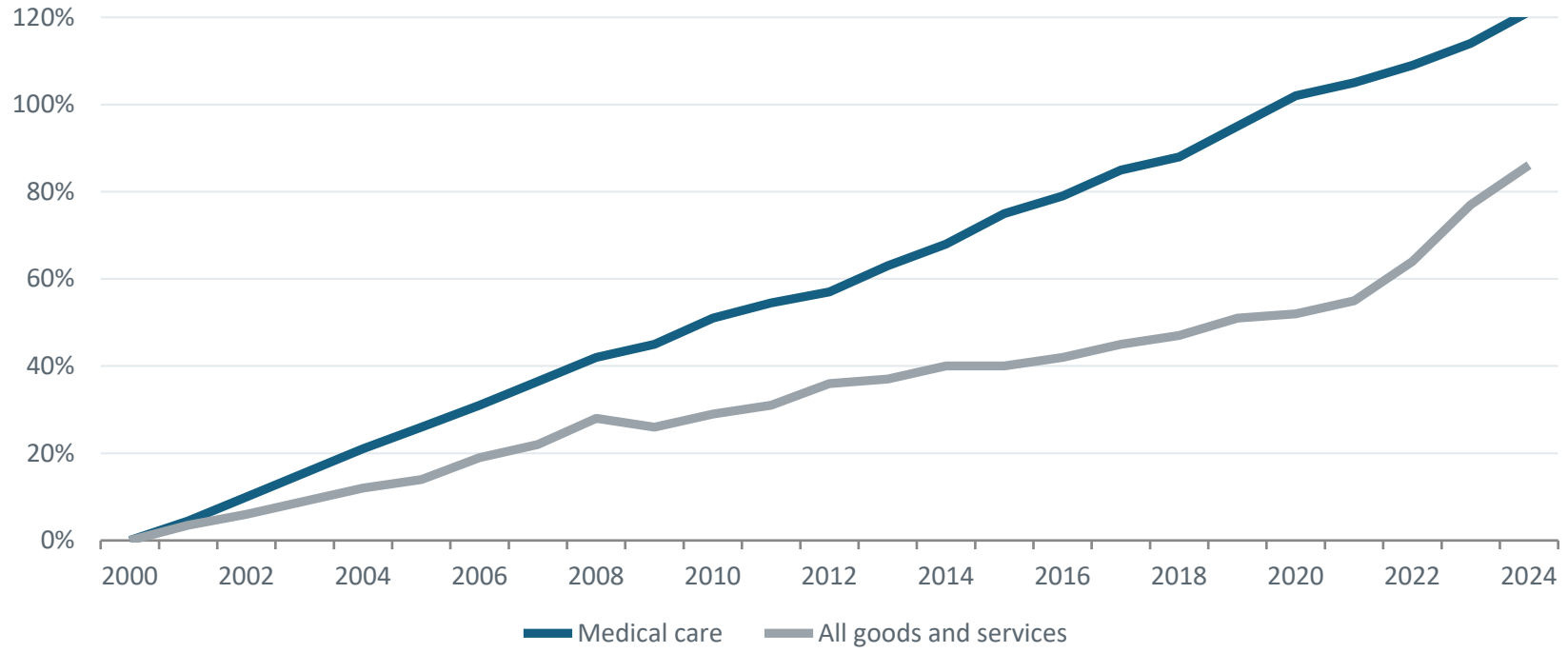
Annual percent change in total health spending and Gross Domestic Product (GDP), 1970s - 2024; projected 2025 - 2034



Note: Data in 1970s, 1980s and 1990s represent average growth within the decade.
Source: KFF analysis of National Health Expenditure (NHE) data • Peterson-KFF Health System Tracker

Medical care prices have generally grown faster than overall consumer prices

Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, January 2000 - June 2024



121.3%

Medical care

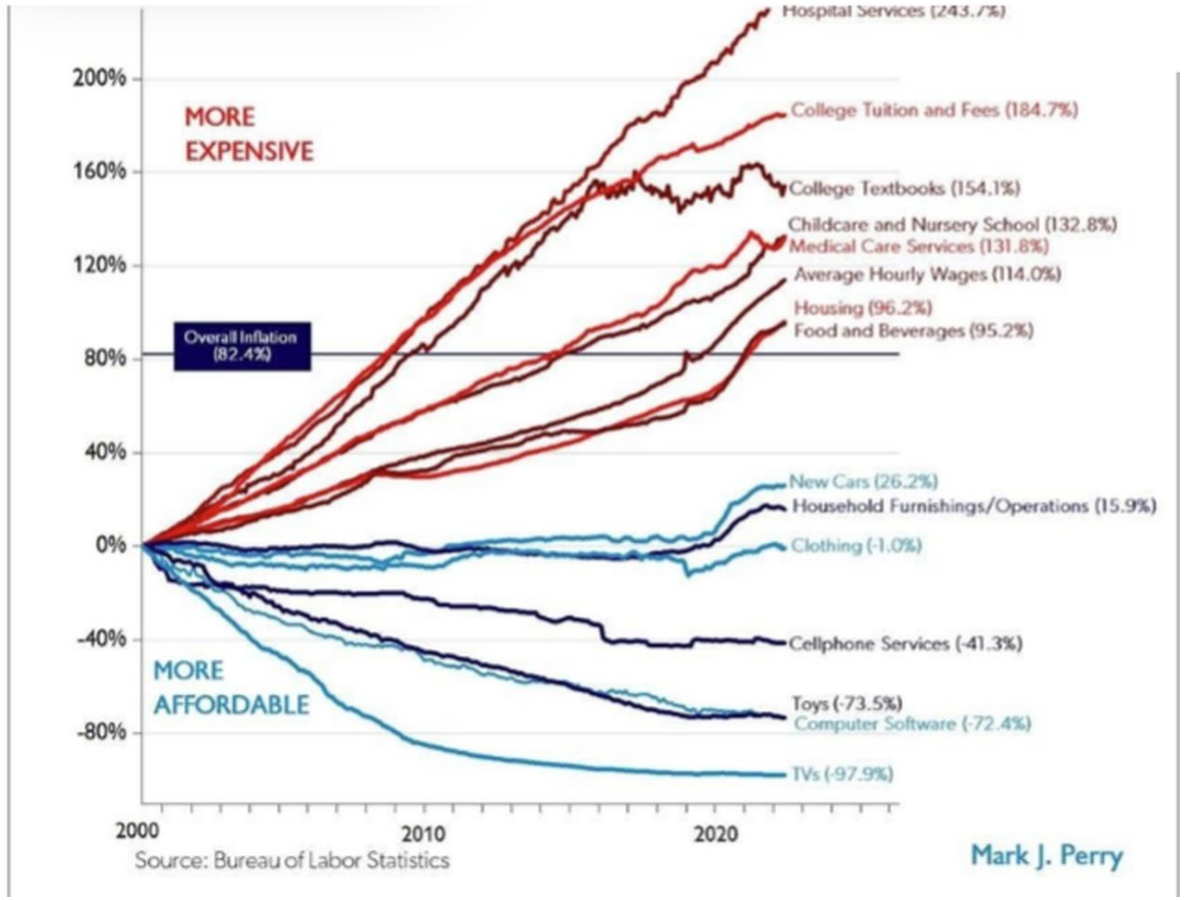
86.1%

All goods and services

Note: Data are not seasonally adjusted. Medical care includes medical services as well as commodities such as equipment and drugs.
Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data • Peterson-KFF Health System Tracker

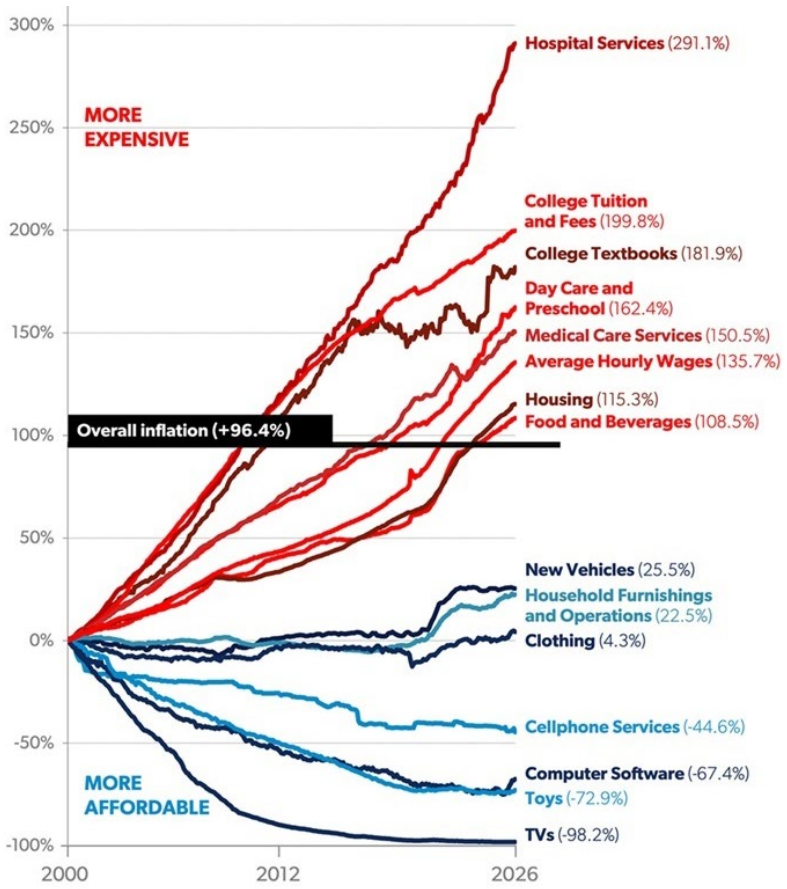
Consumer goods and services, wages

(Jan 2000-December 2023)



Consumer goods and services, wages

(Jan 2000-June 2026)



+291.1%

Hospital services

+150.5%

Medical care services

+135.7%

Average hourly wages

+96.4%

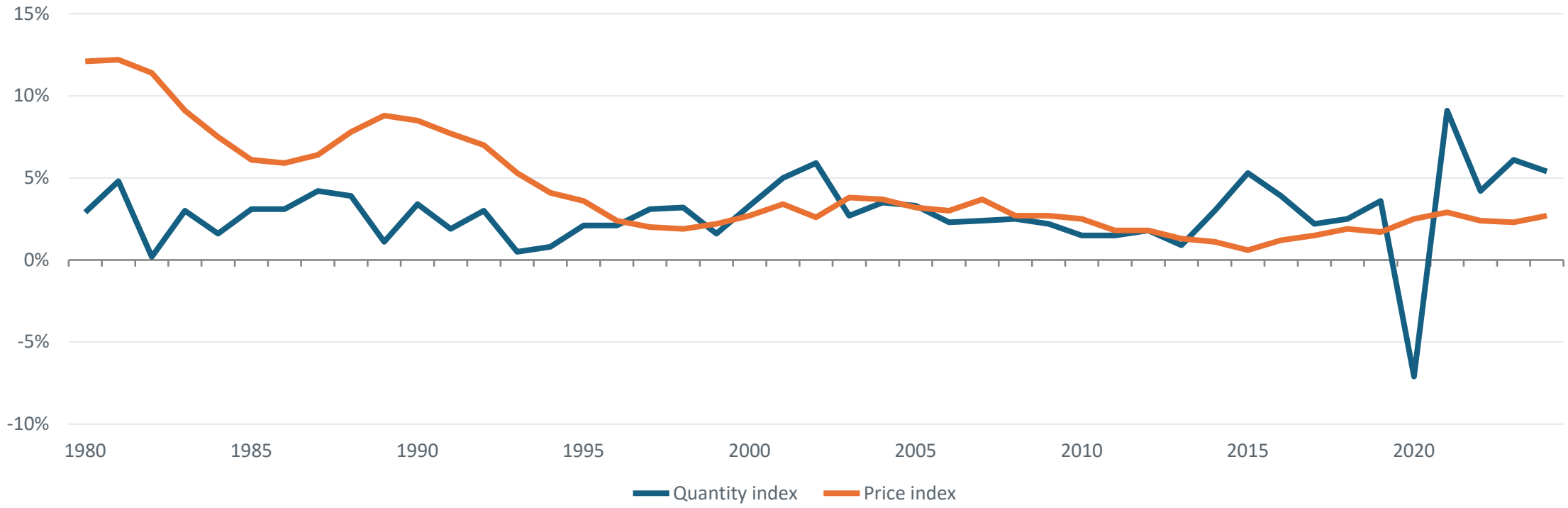
Overall inflation

Price change, January 2000 to June 2026. Perry's chart also shows TVs at -98.2% and college tuition and fees at +199.8%.

Source: Chart by Mark J. Perry, posted on X (@Mark_J_Perry). Data: U.S. Bureau of Labor Statistics, Consumer Price Index and average hourly earnings, January 2000 to June 2026.

Healthcare price & use indices

Annual change in price and quantity indexes of health services, 1980-2024, index numbers 2017=100



Note: Price and quantity indices are for health services consumption. Originally published in How has U.S. spending on healthcare changed over time?
Source: KFF analysis of Bureau of Economic Analysis data • Peterson-KFF Health System Tracker

Public Policy & Regulation



Federal public funding reductions will bring a generational rollback of safety net coverage.

Safety net access

The care ecosystem tipping point

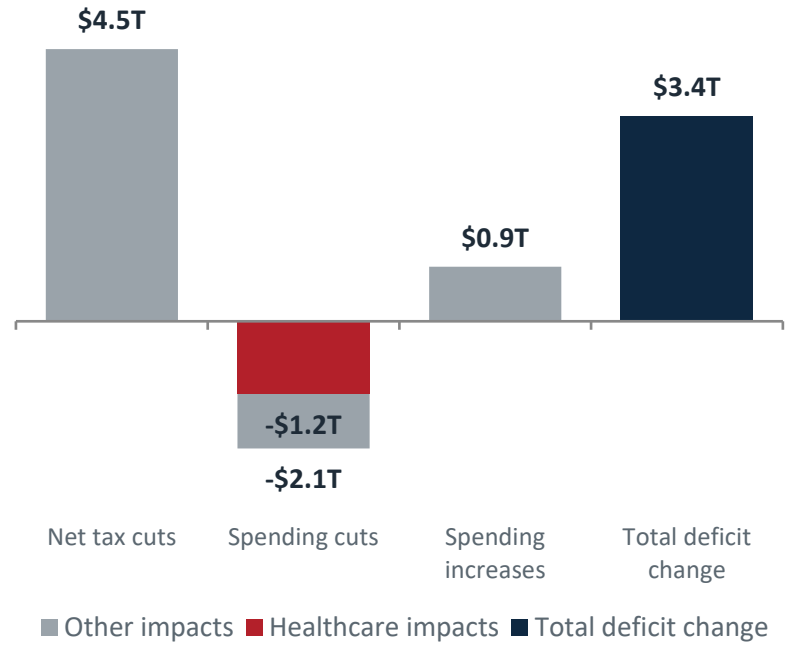
Baseline subsidy

Public funding enables a viable community access baseline.

The government subsidizes enough healthcare funding to make it **financially viable for private players to support a collective safety net,** preserving a minimum baseline level of access to care for the population.

OBBBA deficit impacts*

July 21 CBO estimates



Source: H.R.1. 119th Congress. July 3, 2025; CBO. Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline. July 21, 2025.

Major healthcare policies and potential healthcare impacts

Major healthcare policies

- Marketplace tax credit restrictions and Medicaid cost sharing
  → ***reduce affordability***
- Medicaid work requirements
  → ***increase admin burden***
- Medicaid and Marketplace enrollment restrictions and eligibility verification barriers
  → ***increase admin burden***
- State Medicaid financing restrictions
  → ***reduce federal funding to states***
- Medicare sequestration trigger
  → ***reduces federal spending***

Potential healthcare impacts*

14.2M *July 21 estimate*

Projected increase in uninsured people (includes sunset subsidies)

Potential consequences:

- ▲ Uncompensated care
- ▲ Exacerbated health conditions
- ▼ Elective volumes
- ▼ Health plan enrollment

$910B

July 21 estimate

Estimated direct reimbursement reduction (includes sequestration cuts)**

* Projected 10-year (2025–2034) impacts.

Estimated impacts of Medicaid state financing restrictions provisions (state-directed payments, MCO taxes, and provider taxes

Source: CBO. Estimated Effects on the Number of Uninsured People in 2034 Resulting From Policies Incorporated Within CBO's Baseline Projections and H.R. 1, the One Big Beautiful Bill Act. June 4, 2025; CBO. E&C Reconciliation Recommendations. May 11, 2025; CBO. Dynamic Estimate: H.R. 1, One Big Beautiful Bill Act. June 18, 2025.

No Surprises Act put out-of-network onus on plans

Three changes from the No Surprises Act that went into effect in 2022

Members are protected in surprise-bill situations

- Employees pay no more than in-network cost-sharing for covered surprise-bill scenarios, like OON ED or air ambulance
- These amounts count toward in-network deductibles/OOP max

Independent dispute resolution (IDR) was process created

- The NSA created the Independent Dispute Resolution (IDR) process where a certified arbitrator picks between offers before the member is asked to pay

Plans are responsible for adjusting operations to comply

- Plans must maintain provider directory accuracy and support continuity-of-care protections
- Plans must respond quickly to network-status questions

Health plans are overwhelmed by IDR disputes, that are often won by providers

1.46M
Federal IDR disputes were initiated in 2024

39%
Of IDR process claims deemed inappropriate by AHIP and BCBSA

85%
Of IDR disputes were won by providers in 2024

Sources: No Surprises Act: Independent Dispute Resolution (IDR) Process. Congressional Research Service. Updated 2025. https://www.congress.gov/crs-product/R48738; https://www.congress.gov/crs_external_products/R/PDF/R48738/R48738.2.pdf; Insurer report argues providers are flooding IDR process with ineligible claims. Fierce Healthcare. January 2025. https://www.fiercehealthcare.com/payers/insurer-report-argues-providers-are-flooding-idr-process-ineligible-claims.

CBO predicted NSA would reduce costs

Instead, 2.6M IDR disputes added $15B+ in costs to industry last year

Expectation:

IDR volumes originally estimated to be **17K to 22K per year.**

CBO estimated NSA would **reduce overall cost of care by 1%.**

Reality:

2.6M

(2025 IDR Volume)

1,500x more IDR volume than anticipated with **13x growth since 2022.** [1]

$15B+

(2025 Cost Impact to Healthcare System)[2]

Median provider awards **rising to 445% of the QPA in 2025,** intended to reflect median in-network rates. [2]

Challenges:

- 85% provider win rate [1]
- 75% of volume initiated by just two PE-backed providers, plus one IDR "middleman" (HaloMD) [2]
- IDRE awards can be nonsensical with almost no oversight, and limited paths for recourse

[1] CMS Federal IDR Public Use File (PUF) Data, Accessed Aug. 2026
[2] Health Affairs, "Spending On IDR Process Pushes No Surprises Act Costs To More Than $22.4 Billion Over Just Four Years" (Aug. 2026)
[3] Coalition Against Surprise Medical Billing, "No Surprises Act 101: How IDR Was Intended to Work & How It's Been Misused" (Feb. 2026)

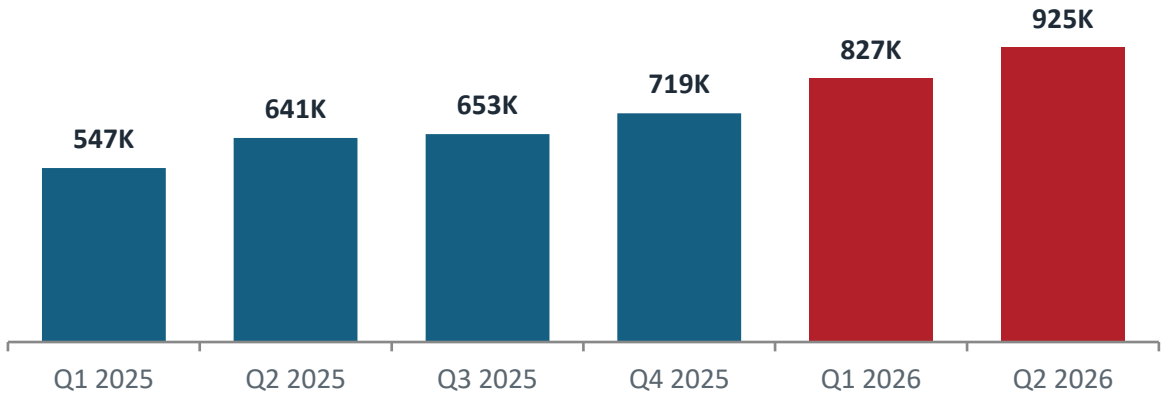
IDR volumes on pace to grow at least 50% in 2026

Out-of-scope, ineligible claim awards drove $3.4B in avoidable cost last year

THE OUT-OF-SCOPE INELIGIBLE PROBLEM (CY2025 DATA)

% DISPUTES CHALLENGED AS INELIGIBLE [2]	40%
% DISPUTES DISMISSED AS INELIGIBLE [1]	17%
AVOIDABLE COSTS DUE TO AWARDS ON INELIGIBLES [3]	$3.4B+

ACCELERATING DISPUTE VOLUMES Q1 2025 TO Q2 2026 [1]

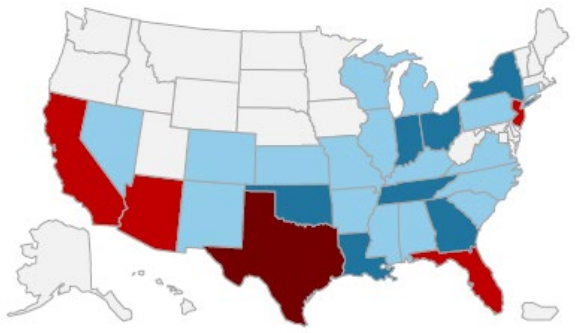


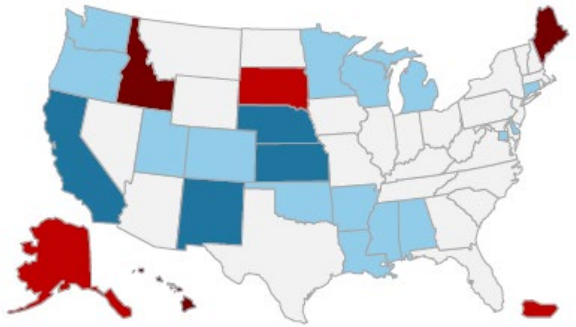
- **2026 volumes on pace to grow at least 50% vs. 2025,** adding more than $7B in additional costs to industry
- CMS data indicates **increased batching of claims per dispute,** meaning volume of disputed claims is accelerating even faster

[1] CMS Federal IDR Bi-Monthly Reports, Accessed August 2026; CMS Federal IDR Public Use File (PUF) Data, Accessed August 2026
[2] CMS Federal IDR Public Use File (PUF) Data, Accessed August 2026
[3] BCBSA Estimate based on ~23% of awards avoidable due to ineligibility, including all associated costs based on Health Affairs estimates (2026)

IDR volumes concentrated in small, but growing number of markets

Nearly 40% of all IDR volume originates in TX, just 7 states account for almost 70%





- Nearly **70% of all IDR volume originates in 7 states** (TX, AZ, FL, NJ, CA, NY, GA) [1]
- IDR volumes **accelerating in lower volume states** through 2025: [1]
- **Maine:** *2.5K disputes;* ***+1,296% y/y***
- **Idaho:** *6.7K disputes;* ***+882% y/y***
- **South Dakota:** *2.6K disputes;* ***+741% y/y***
- **26 states** saw IDR volumes more than double year-over-year from 2024 to 2025 [1]

Accelerating growth across states underscores need for the Blues' consistent approach to IDR management – **Roughly one-third of BCBS System IDR volume is estimated to be Inter-Plan** [2]

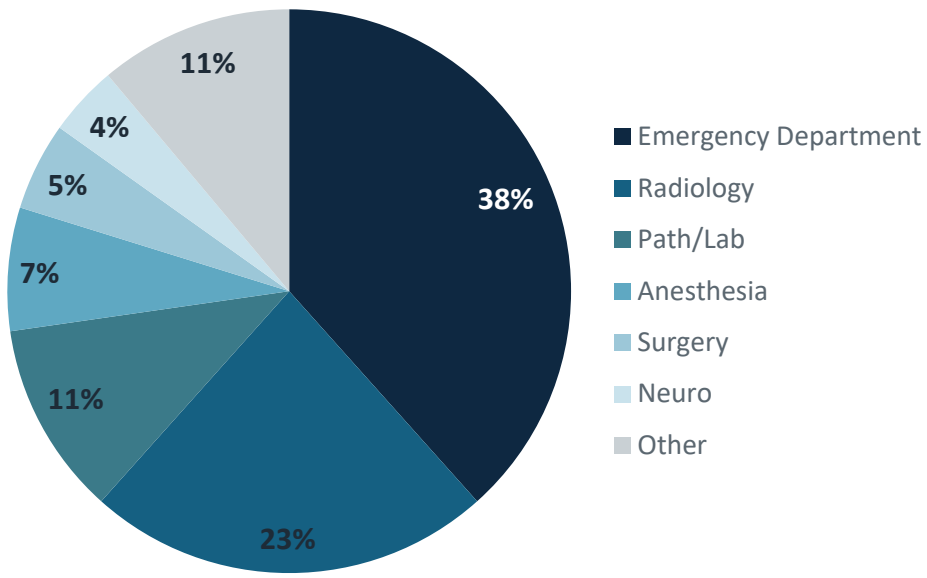
[1] CMS Federal IDR Public Use File (PUF) Data, Accessed August 2026

[2] BCBSA Estimate based on CMS Federal IDR Public Use File (PUF) Data (Q1 and Q2 2025) and BCBSA IPPER Data (2025 Quarterly Average Enrollment)

Emergency departments, radiology driving over half of IDR volume

Surgery and neuro services lines are commanding massive awards relative to QPA

IDR DISPUTE LINES AS % OF TOTAL, BY SPECIALTY (TOTAL ITEMS OR SERVICES) CY2025 [1]



MEDIAN PREVAILING PROVIDER AWARD AS PERCENT OF QPA BY SPECIALTY, CY2023 to CY2025 [2]

Specialty	IDR Dispute Lines (2025)	2023	2024	2025	2-yr CAGR
Emergency Dept. Services	1.70M	235%	280%	315%	**16%**
Radiology	1.03M	409%	559%	468%	**7%**
Pathology & Laboratory	508,000	100%	342%	416%	**104%**
Anesthesia	307,000	199%	247%	315%	**26%**
Surgery	235,000	712%	1,009%	1,335%	**37%**
Neurology / Neuromuscular	196,000	974%	1,464%	2,450%	**59%**

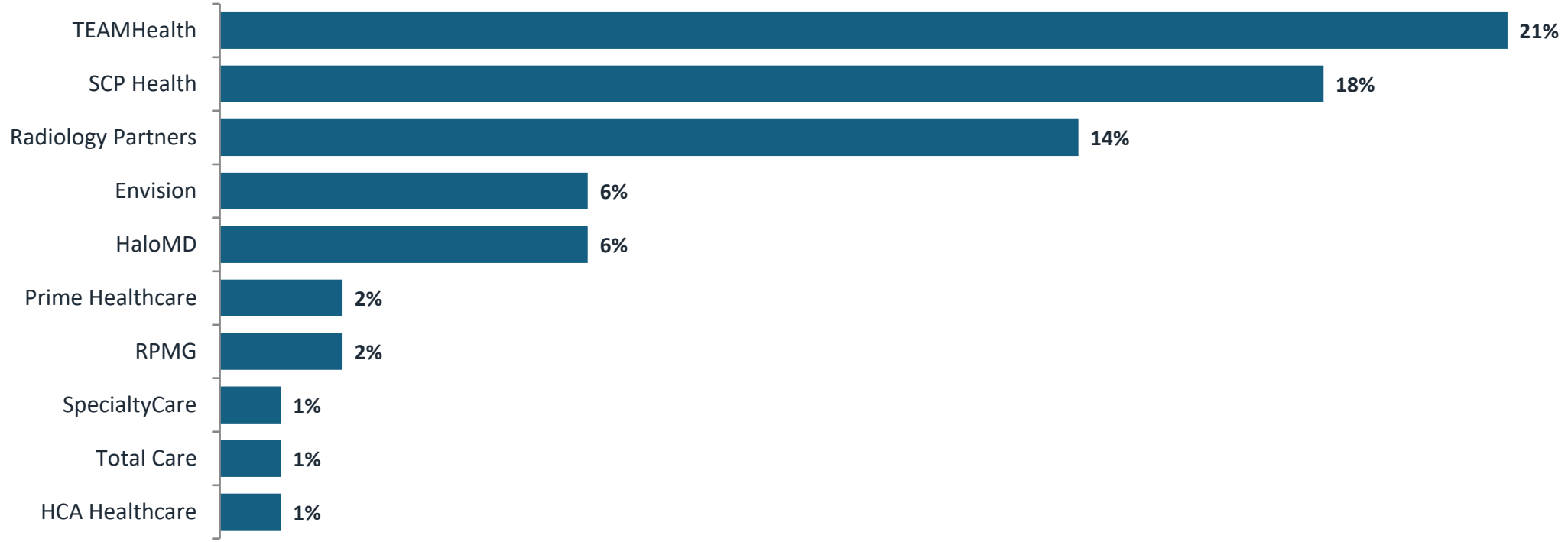
[1] CMS Federal IDR Public Use File (PUF) Data, Accessed August 2026

[2] Health Affairs, "Spending On IDR Process Pushes No Surprises Act Costs To More Than $22.4 Billion Over Just Four Years" (Aug. 2026)

The role of venture capital firms in IDR

Top 10 initiating parties ownership structure

Top 10 initiating parties for federal out-of-network disputes, 2023 Q1-2024 Q2



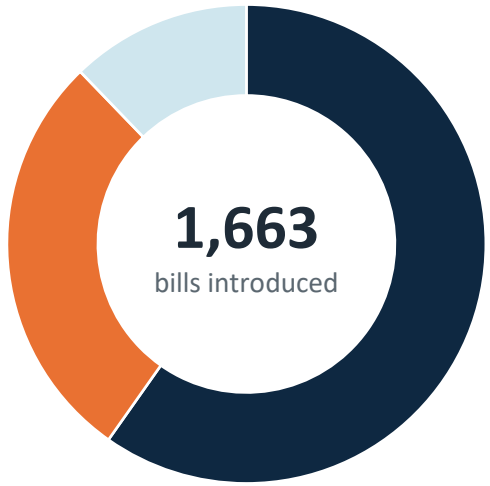
Note: Top initiating parties and share of disputes only among emergency and non-emergency services. Some of the above parties may not have been among the top 10 initiating parties in a quarter, and thus not had available data. Therefore, in some cases, these data represent an underestimate.

Source: KFF analysis of CMS data • Peterson-KFF Health System Tracker

2026 state legislative sessions

PBM reform still a major priority

PBM bill activity, 2026 sessions*



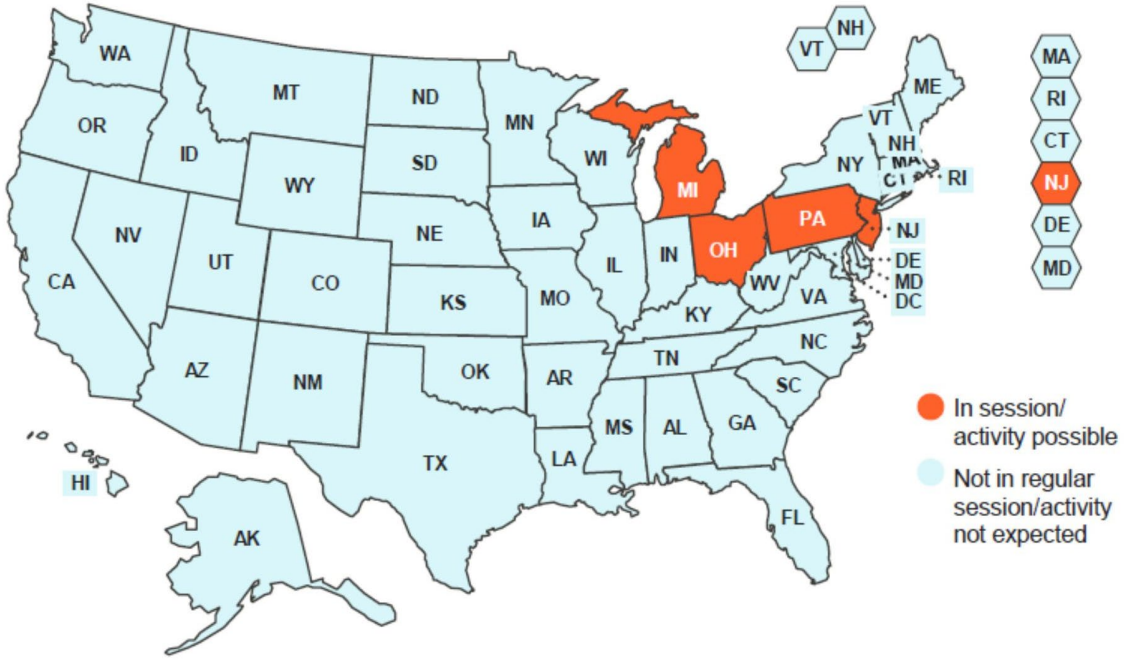
994 60%
Failed / Inactive

466 28%
Active

203 12%
Enacted

**Data current as of 10/26.*

States still in session (4)

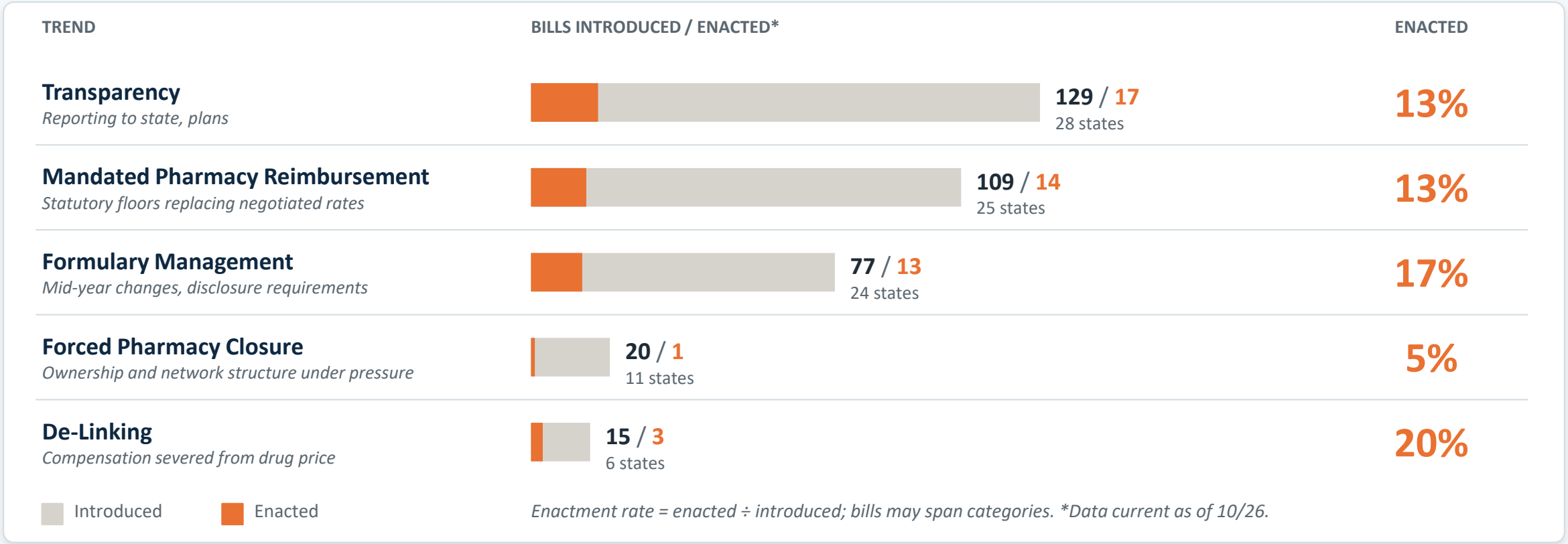


Also meeting: *Illinois veto session (Nov. 17–Dec. 3); North Carolina periodic sessions (Oct. 26–28 and later); Massachusetts informal session through Dec. 31.*

Source: Optum RX

Trends – 2026 state legislative sessions

PBM bills introduced vs. enacted, ranked by volume



Source: Optum RX

Consolidated Appropriations Act 2026

Commercial PBM Provisions

- Transparency and rebate pass-through mirror the state mandates on the prior slide (CO, KS, LA, VA, WV)
- These effective dates drive the implementation timeline that follows

Transparency Reporting

Sec. 6701

EFFECTIVE

Aug. 3, 2028 (30 months after enactment)

- Drug-, class-, and plan-level reporting to plans
- Disclosure of pricing flows, rebates, spread amounts, and affiliated pharmacy arrangements
- Penalties for failing to report or reporting false information

Rebate Pass-Through

Sec. 6702

EFFECTIVE

Plan years beginning on or after Aug. 3, 2028

- 100% of rebates passed through to plans
- Rebates disclosed to plans
- Calendar-year plans: first affected plan year begins Jan. 1, 2029

Covered Service Provider Disclosures

Sec. 6702(c)

EFFECTIVE

Contracts entered into, renewed, or extended on or after Feb. 3, 2026

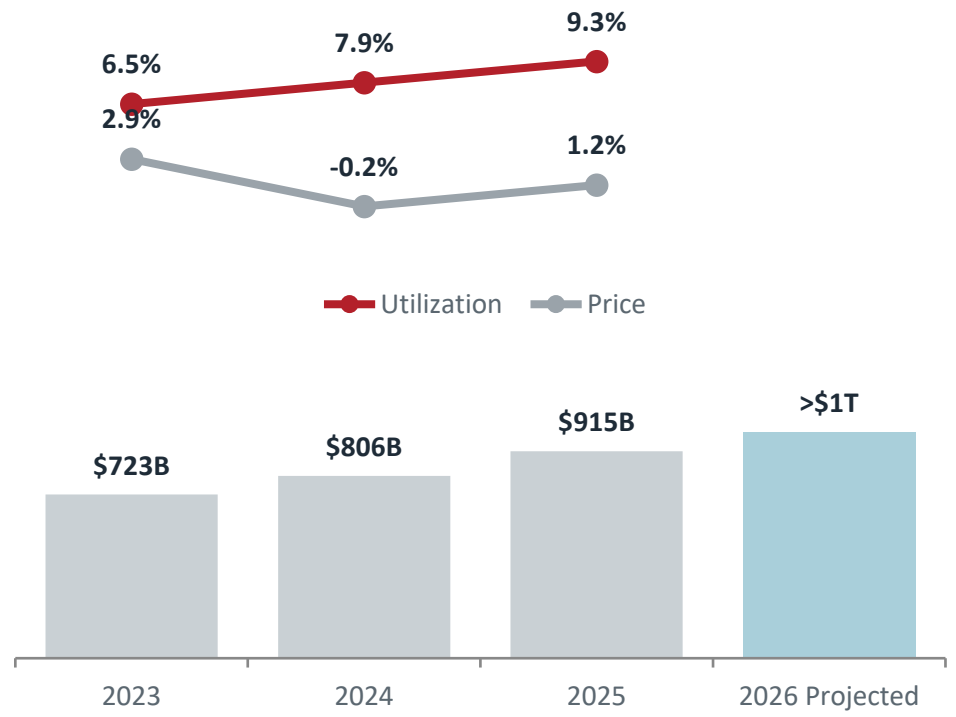
- Adds PBM services to the services that can make a provider a “covered service provider” under ERISA § 408(b)(2)(B)
- PBMs meeting the statutory definitions and compensation threshold must provide § 408(b)(2) disclosures
- No separate delayed effective date is stated

Effective dates reflect the statutory text as enacted; implementing rules and guidance may refine them.

Source: Optum RX

Drug spend crisis driven by utilization, not just price

National drug spending and YOY[1] growth in drug utilization and price



Lower costs per claim can't stem the tide for commercial payers

Pharmacy benefit commercial specialty drug spend trend, 2024-2025

-2.9%

Decrease in cost per claim

14%

Increase in claim utilization

10.7%

Increase in PMPY[2] trend

Biosimilars drive down spend, but competing brands quickly grow

Commercial specialty drug spend, 2024-2025

-21.6%

Decrease in PMPY trend for Stelara
7 biosimilars approved in 2024-2025

48.2%

Increase in PMPY trend for Skyrizi
4 overlapping indications with Stelara

32.9%

Of 2025 specialty drug spend attributed to inflammatory disorders

[1] Year-over-year. [2] Per member per year.

Sources: Tichy E, et al. National trends in prescription drug expenditures and projections for 2023. Am J Health Syst Pharm. July 7, 2023; Tichy E, et al. National trends in prescription drug expenditures and projections for 2024. Am J Health Syst Pharm. July 8, 2024; Tichy E, et al. National trends in prescription drug expenditures and projections for 2025. Am J Health Syst Pharm. July 12, 2025; Tichy E, et al. National trends in prescription drug expenditures and projections for 2026. Am J Health Syst Pharm. April 30, 2026; 2026 State of Specialty Spend and Trend Report. Pharmaceutical Strategies Group. July 23, 2026.

Commercial Market Impact

Employer Sponsored Healthcare

Perfect storm of headwinds continue spike in cost trend

Key drivers of increased medical spending

Specialty service utilization

- Specialty **drugs** (especially infusions and GLP-1s)
- **Downstream** specialty care and outpatient procedures in MA (especially orthopedics)
- **Behavioral** health services (especially applied behavior analysis (ABA) for autism)

Elevated unit costs

- Procedure coding and **billing intensity**, aided by AI and automation
- Rate **negotiation** pressure from input cost growth (especially labor)
- **Out-of-network** payment increases through No Surprises Act settlements

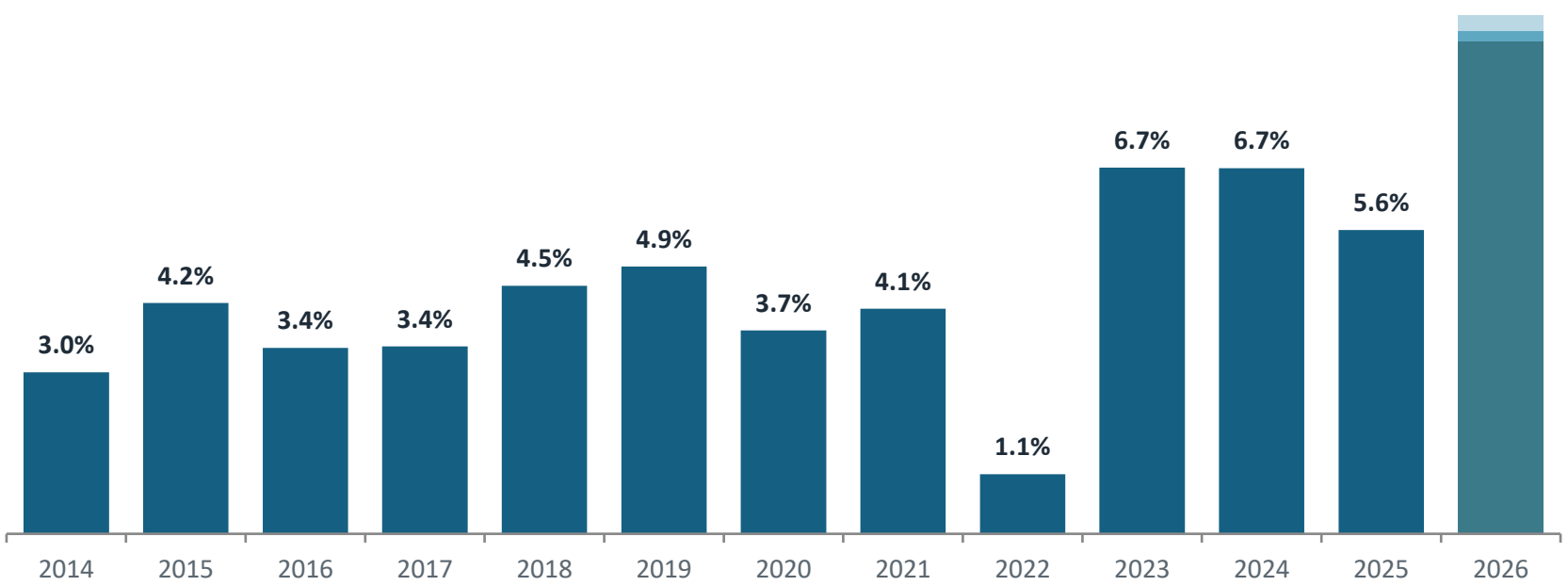
Insurance constraints

- **Demographic** shifts challenging actuarial pricing
- High-cost claimants outpacing **stop loss** pricing
- **Public scrutiny** on utilization management tactics

Sources: Advisory Board health plan executive interviews, 2025; Investor relations Q1 2025 and Q2 2025 earnings call transcripts for $CI, $CNC, $CVS, $ELV, $HUM, and $UNH; accessed through www.investing.com.

Rising costs continue to be a challenge for employers

Annual change in total health benefit cost per employee for family coverage



Projections (absent employer action):

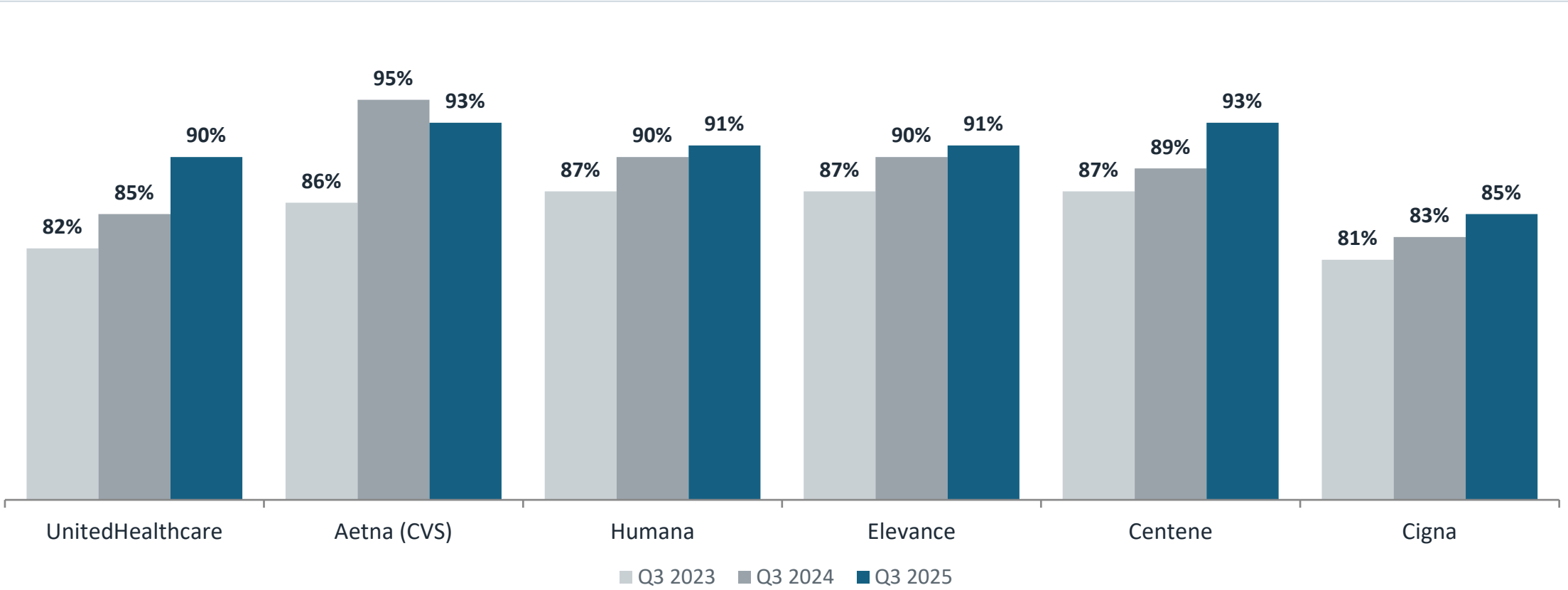
- **Aon** 9.5%
- **WTW** 9.2%
- **Mercer** 9.0%

59%

Of employers anticipate cost-cutting plan changes for 2026

Source: Premiums and Worker Contributions Among Workers Covered by Employer-Sponsored Coverage, 1999-2025. KFF. October 22, 2025; Aon: U.S. employer health care costs expected to rise 9.5 percent in 2026. Aon. September 10, 2025; "Survey: Employers expect third year of high health cost growth in 2025." Mercer. September 12, 2024; Casolo E. The forces driving 2026 health insurance price hike forecasts. Becker's Payer Issues. September 11, 2025; Employers prepare for the highest health benefit cost increase in 15 years. Mercer. September 3, 2025.

Largest insurers’ quarterly medical loss ratio (MLR)



* Advisory Board is a subsidiary of UnitedHealth Group, the parent company of UnitedHealthcare. All Advisory Board research, expert perspectives, and recommendations remain independent.

Sources: Tepper N. How Blue Cross and Blue Shield company finances fared in 2024. Modern Healthcare. April 2025; Minemyer P. Major payers saw mixed results in Q3. Here’s a look at how each fared. Fierce Healthcare. November 2024; 2025 Q3 earnings reports and 10-K filings from, $CI, $CNC, $CVS, $ELV, $HUM, and $UNH.

Blues plan operating margins

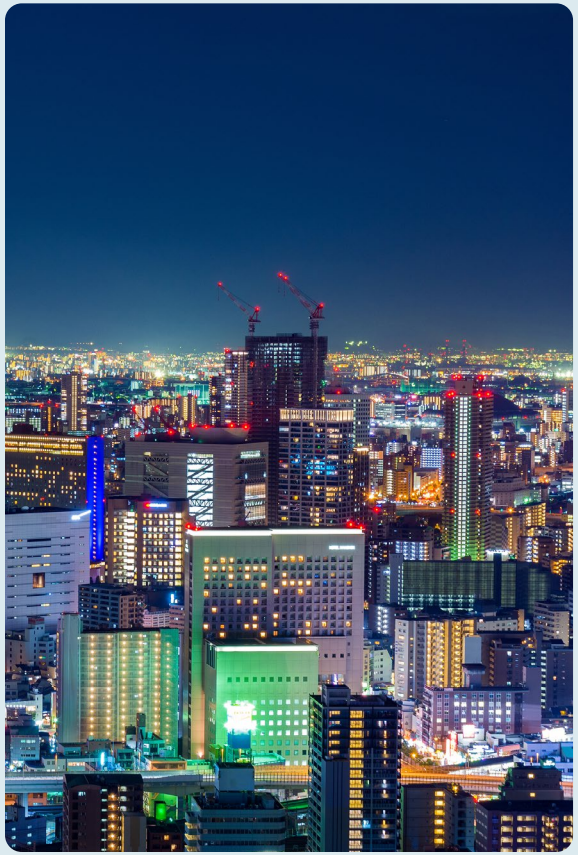
Average operating margin for Blues health plans

+0.3%

2023

-2.9%

2024



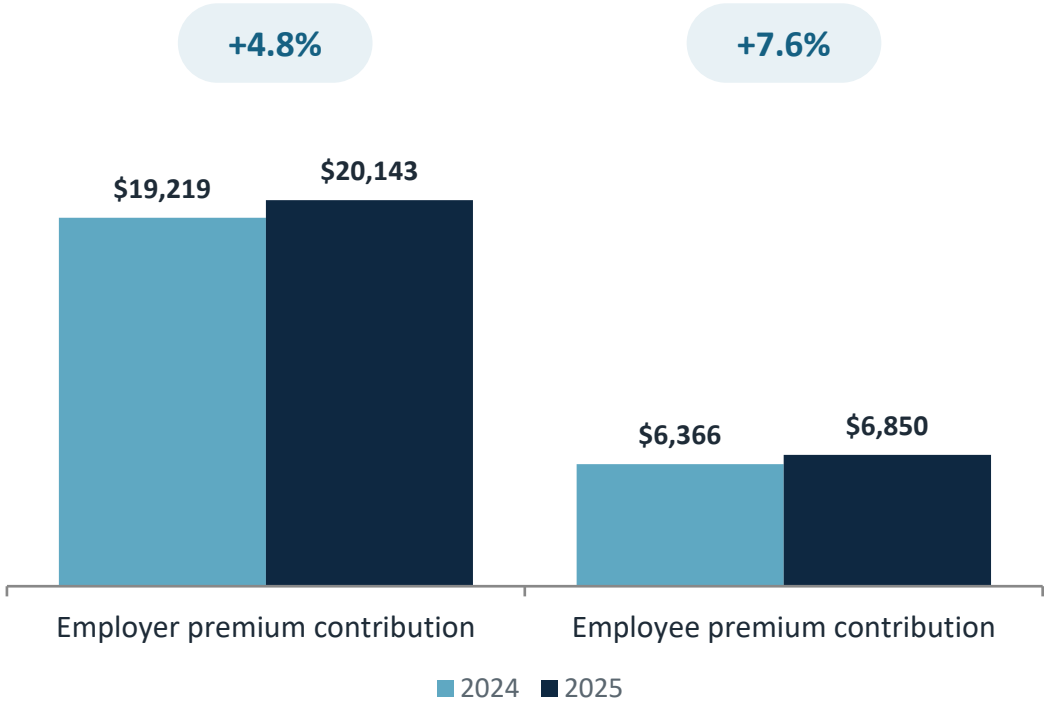
Highest operating margin for a Blues plan: **+3.7%**

Lowest operating margin for a Blues plan: **-19.7%**

Source: Tepper N. How Blue Cross and Blue Shield company finances fared in 2024. Modern Healthcare. April 2025.

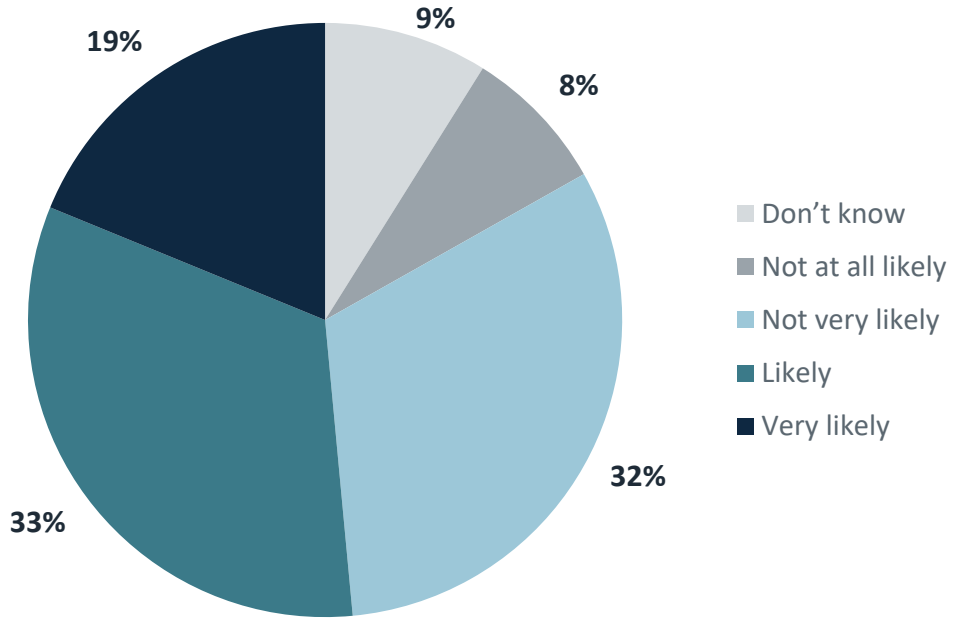
Employers passing along cost increases to employees

Employers passed along costs to employees in 2025[1]…



…and will likely also do so in 2026

How likely are you to raise employee cost sharing amounts in 2026?



[1] Data shown for family coverage.

Sources: 2025 Employer Health Benefits Survey, Kaiser Family Foundation; Mercer (2025). Survey on Health & Benefit Strategies for 2026. Mercer, A Marsh Business. https://www.mercer.com/en-us/insights/total-rewards/employee-benefits-strategy/2026-benefit-strategies-report/

What is fueling cost growth?



Drug spend

High-cost specialty drugs like GLP-1s and CGTs are driving up employer health plan expenses



Higher utilization

Employers are seeing higher claims as patients resume elective procedures and utilize mental health services



Higher provider rates

Higher negotiated rates with hospitals and specialists due to inflation are pushing premiums up

SAMPLE DATA POINTS

$50B Increase in pharmacy spending in 2024, up from $20B increase in 2023

45% Rise in utilization of behavioral health services claims between 2023 and 2024

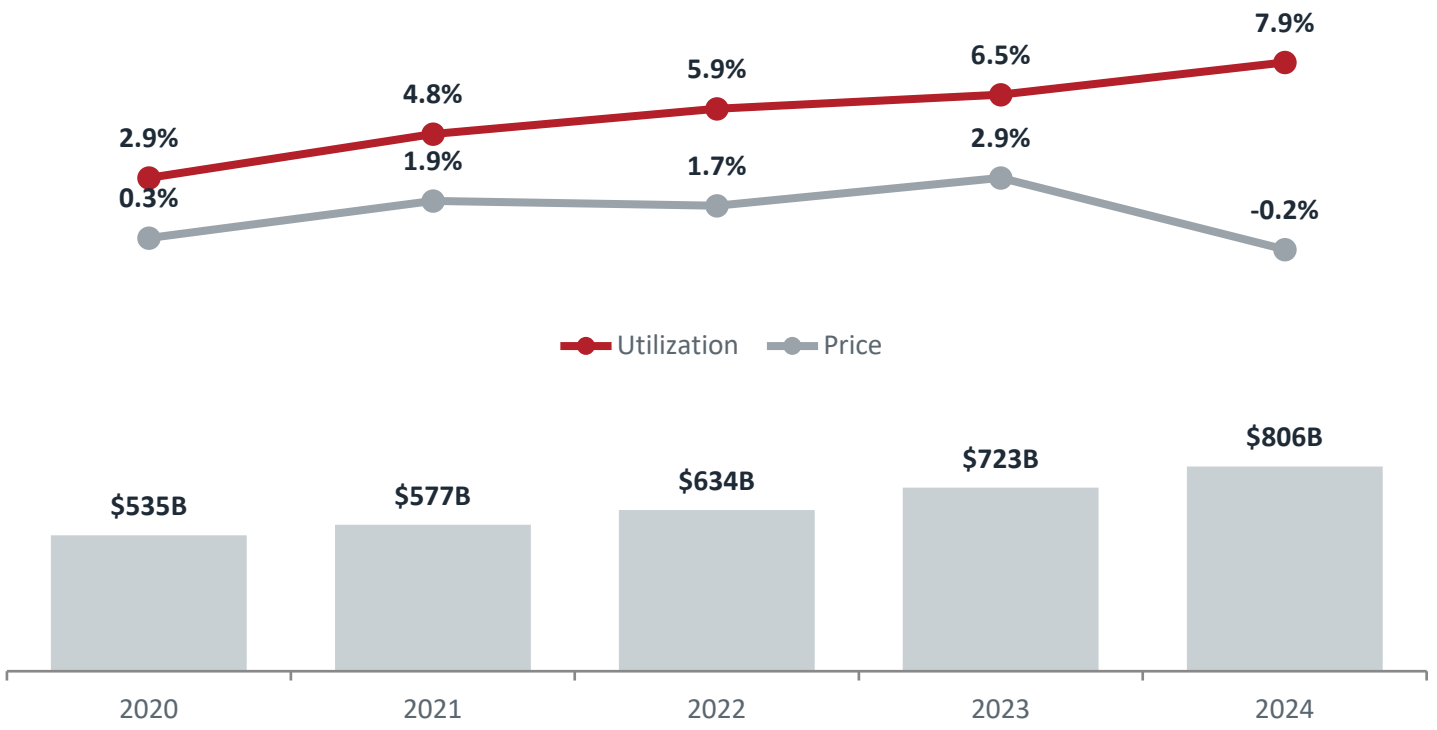
5.3% Increase[1] in costs for hospital inpatient and outpatient services as of August 2025

[1] On an annualized basis.

Source: Huzinger G, et al. No let up in sight. Medical cost trend set to grow at 8.5%. Is your playbook ready? pwc. July 16, 2025; Coombs B. Health care inflation rises as patients, employers brace for biggest jump in health spending in 15 years. CNBC. September 11, 2025.

Drug spend still on the rise, driven by GLP-1 utilization

National drug spending and YOY growth in drug utilization and price



11%

Increase in national drug spend from 2023 to 2024

47%

Portion of increase in drug spend attributed to **weight management drugs**

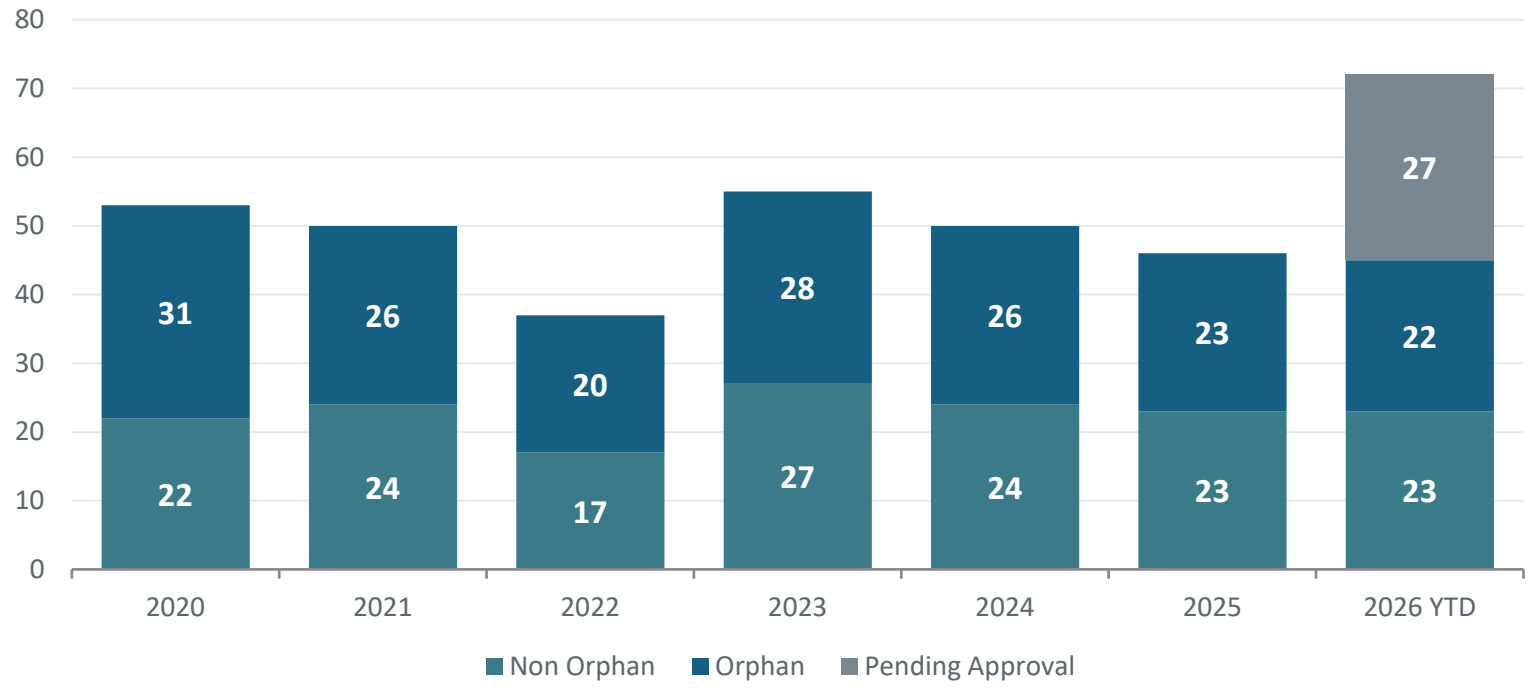
Sources: Tichy E, et al. National trends in prescription drug expenditures and projections for 2021. Am J Health Syst Pharm. July 9, 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2022. Am J Health Syst Pharm. July 8, 2022; Tichy E, et al. National trends in prescription drug expenditures and projections for 2023. Am J Health Syst Pharm. July 7, 2023; Tichy E, et al. National trends in prescription drug expenditures and projections for 2024. Am J Health Syst Pharm. July 8, 2024; Tichy E, et al. National trends in prescription drug expenditures and projections for 2025. Am J Health Syst Pharm. July 12, 2025; Pharmacy in Focus. Evernorth Health Services. Accessed July 2025.

Pipeline: approval pace increasing

2026 could set a new record for novel drug approvals

45 approvals to date plus 27 pending decisions could push the year-end total to 72

Novel FDA drug approvals by year and orphan drug status[1]



2026 Novel Drug Approvals[2]

69%

are specialty drugs

(76% in 2025)

52%

have orphan designation

(50% in 2025)

23%

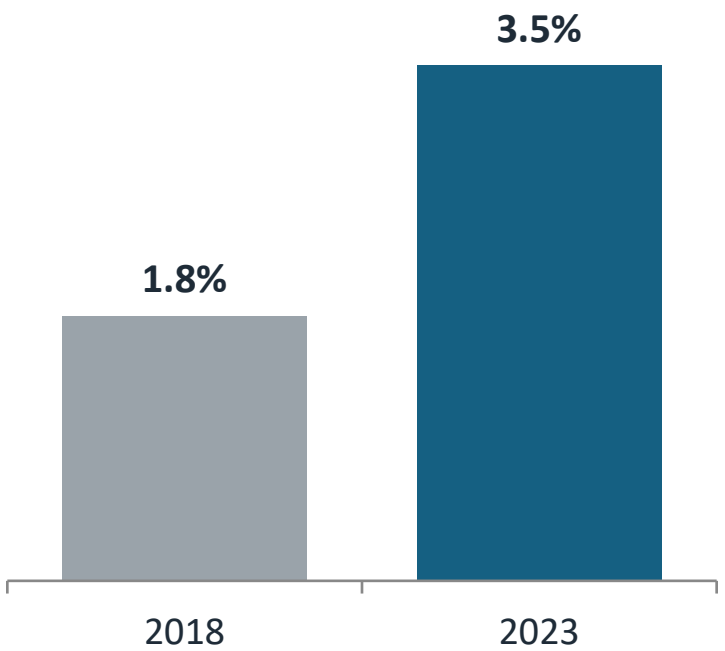
are oncology drugs

(33% in 2025)

1. New Drugs at FDA: CDER's New Molecular Entities and New Therapeutic Biological Products
2. Optum Rx Pipeline Database, Accessed October 7, 2026

Increased behavioral health access spikes utilization

Behavioral health claims as a percentage of total commercial claims



39%

increase in mental health* utilization from 2019 to 2022



* Includes ICD diagnostic codes for anxiety disorders, major depressive disorder, bipolar disorder, schizophrenia, and post-traumatic stress disorder

Sources: Cantor JH, et al. Telehealth and In-Person Mental Health Service Utilization and Spending, 2019 to 2022. JAMA. Aug 2023; Medical cost trend: Behind the numbers: PwC. PWC. July 2025.

Coding intensity - the AI arms race

Payer and provider approaches to reimbursement

Payers seek AI-enabled payment integrity solutions to manage utilization and reduce costs

"Payment integrity is an area where we shouldn't hold back. We're seeing an uptick in provider rev cycle activity."

Health plan strategy leader

Competing escalation today…

Emerging RCM & PI activities

- CPT severity code increases
- Auto appeals and denials
- Lengthening medical record

Providers seek AI-enabled revenue cycle solutions to avoid denials and optimize revenue

"We have to start using our own tools to keep up, if payers are going to keep using AI."

Hospital revenue cycle leader

Emerging mutual improvements

- Improve documentation accuracy
- Circumvent eligibility-based denials
- Reduce administrative costs

…toward a shared equilibrium in the future?

Potential capability transformation

- Consolidated patient billing
- Real-time claims adjudication
- Contracting for clinical appropriateness

Source: Advisory Board interviews.

Finger-pointing continues between providers and payers

Provider approaches to AI in revenue cycle

Code and document more completely
Leverage tools like ambient documentation and AI-supported coding to capture services more comprehensively

Industrialize appeals
Implement generative AI that lowers the cost of appeals and learns what gets paid or overturned

Payer approaches to AI in payment integrity

Scale error detection
Leverage large language models to combine contracts with claims history to identify potential coding errors

Identify coding spikes
Implement AI agents that monitor claims and flag unusual patterns to uncover cost spikes

INDUSTRY IMPLICATIONS

171
Payer-provider disputes reported in traditional media in 2025
Compared to 127 in 2024

$22M
Added cost to maternity admissions in one year across analyzed hospitals from the increase of postpartum anemia diagnoses alone

Sources: Emerson J. Inside the calculus of going out-of-network. Becker's Payer Issues. February 5, 2026; Study suggests AI is boosting hospital billing. Blue Cross Blue Shield Association. March 1, 2026.

Widespread use of AI, focusing on productivity

Adoption today is concentrated in near-term productivity use cases



	Workforce	Revenue cycle or payment integrity	Clinical AI	Treatment innovation	Patient or member experience
	***58%** of healthcare organizations use generative AI for clinical productivity*	***63%** of healthcare organizations use AI and automation in revenue cycle*	***90%** of health systems report deployment of AI for imaging and radiology workflows*	***72%** of life sciences executives have at least one generative AI use case in production*	***75%** of health systems use automated waitlists for scheduling*
Current applications	Administrative agents for drafting or workflow support	Coding assistance and denial management	Imaging interpretation and chart summarization	AI-assisted trial matching and target identification	Patient chatbots and self-service scheduling
Future potential	AI-orchestrated workforce scheduling and task management	Real-time adjudication and autonomous revenue cycle operations	Personalized clinical decision support at the point of care	AI-driven drug discovery and precision therapeutics	Intelligent care navigation across the patient journey

Source: Yang F, Graetz I. Ambient AI Tool Adoption in US Hospitals and Source: Associated Factors. The American Journal of Managed Care. January 2026; Most Healthcare Organizations Are Adopting AI in the Revenue Cycle: HFMA Poll. HFMA. May 2025; Woodcock E, et al. Automated Waitlists for Ambulatory Appointment Scheduling: Multisite, Mixed Methods Evaluation. Journal of Medical Internet Research. July 2026; Lamb J, et al. Generative AI in Healthcare: Adoption Matures as Agentic AI Emerges. McKinsey & Company. April 2026; AI Adoption in Pharmaceutical Innovation & Drug Development: 2025 Industry Report. Modern Data Analyst Annual Report, 2025.

Our Response

Collaboration between PEBA and
BlueCross BlueShield of South Carolina



12 main clinical cost management categories for health plans

Health management and improvement

- Care management
- Wellness programs
- Quality improvement

Utilization and navigation

- Utilization management
- Referral management
- Benefit design

Contracting and payment

- Network management
- Payment integrity
- Value based care

Cross-cutting categories

- SDOH services
- Behavioral health
- Pharmacy management

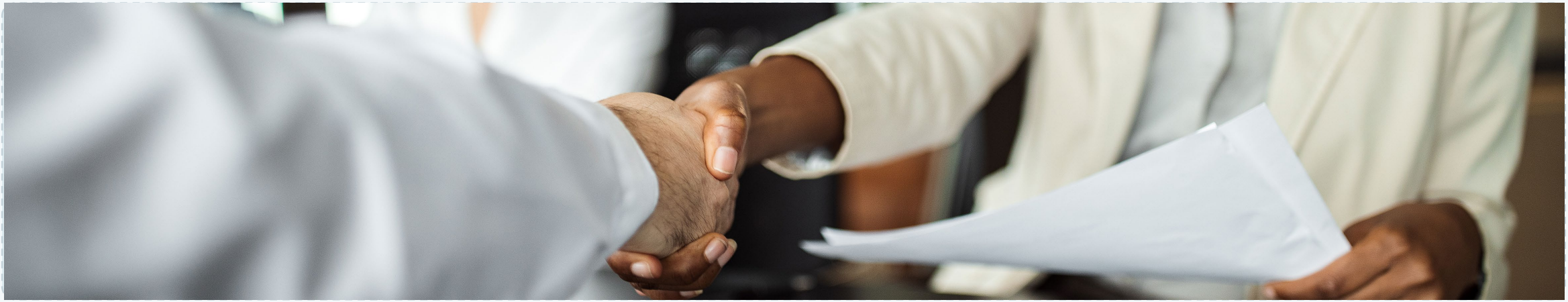
PEBA INITIATIVES

Vendors:
Virta (Diabetes)
Hello Heart (Hypertension)
Wondr Health (Weight Management)
Everlywell (Colorectal Screening)
Reema (SDOH)

Initiatives:
Maternal Health
Behavior Health
Oral Health
Site of Care

BlueCross BlueShield of South Carolina & PEBA partnership

- **Communication**
- **Vendor Integration**
- **Call Center Modernization**
- **Provider Contracting**
- **Innovation**



PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD RETREAT

Meeting Date: November 6, 2026

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1. Subject: Legislative/Congressional Political Update

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2. Summary: Over lunch, Mr. James D'Allesio, Vice President of Government Affairs for Blue Cross Blue Shield of South Carolina, will share his always informative insights into the current legislative and political environment, both in Washington and in Columbia.

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

---

4. Supporting Documents:

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD RETREAT

Meeting Date: November 6, 2026

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1. Subject: Ethics Training

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2. Summary: Ms. Suzanne Dugan, Special Counsel at Cohen Milstein, will provide the annual ethics training.

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3. What is the Board asked to do? Receive as information

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4. Supporting Documents:

(a) Attached: Ethics and Fiduciary Education

COHENMILSTEIN

PEBA: SC Retirement Systems and State Health Plan

Ethics and Fiduciary Education

Suzanne M. Dugan

November 6, 2026



Agenda

- Common ethics issues faced by public pension plan directors
- Common fiduciary issues
- Common governance issues
- Best Practices

Quiz

In a survey of pension trustees, what percentage of respondents reported that it is more challenging to be a trustee today than in the past?

A. 17%

B. 32%

C. 62%

D. 93%

How it feels to be a pension fund trustee...



Quiz

The same survey found that trustees spend about how many hours per year in service to their funds?

A. 30 hours

B. 60 hours

C. 90 hours

D. Enough hours to need a significant amount of aspirin

Quiz

The majority of trustees surveyed believe it takes how long to develop a competent trustee?

A. 3-5 years
B. 12-18 months
C. 6-12 months
D. A lifetime

Quiz

According to the same survey, the most valuable trait for good trustees is:

A. Committed to learning
B. Dependable
C. Ethical
D. Sense of humor

Ethics and Conflicts of Interest Policy

- PEBA Board of Directors are subject to:
  - The State Ethics Act, Chapter 13 of Title 8
  - Rules of Conduct set out in Section 8-13-700 et seq.
  - Additional Standards of Conduct (based upon standards imposed upon the Retirement System Investment Commission under Section 9-16-360)
  - Additional conflict of interest provisions
- Interplay between Ethics and Fiduciary Principles

The Fiduciary Standard

- Fiduciary duties have been called “the highest known to the law” (see, e.g., Howard v. Shay, 100 F.3d 1484, 1488 [9th Cir., 1996], cert. denied 520 U.S. 1237).
- The fiduciary standard is objective, not subjective to the trustee: “A pure heart and an empty head are not enough”. (Donovan v. Cunningham, 716 F. 2d 1455, 1467 [5th Cir., 1983]).
- Fiduciary duty goes beyond mere fairness and honesty. It obliges the trustee to act to further the beneficiary's interest.

Fiduciary Principles

- Exclusive Benefit Rule
- Duty of Loyalty
- Duty of Prudence
- Duty of Care

PEBA Governing Law

- (K) Members of the board and the executive director, and other employees or agents designated by the board, are fiduciaries of the authority and in discharging their duties as fiduciaries shall act:
  - (1) only in the interest of the participants and beneficiaries of the employee benefit plans administered by the authority;
  - (2) for the exclusive purpose of providing retirement and insurance benefits to participants and beneficiaries of the employee benefit plans administered by the authority and paying reasonable expenses of administering those employee benefit plans;
  - (3) with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;
  - (4) impartially, taking into account any differing interests of participants and beneficiaries;
  - (5) incurring only costs that are appropriate and reasonable; and
  - (6) in accordance with a good faith interpretation of this chapter and other applicable provisions of law.

Source: S.C. Code Ann. § 9-4-10(K)

Exclusive Benefit Rule

- Investments shall be for the exclusive benefit of the participants and beneficiaries.
- The trustees are fiduciaries and as such shall act solely in the interests of the members and beneficiaries of the systems.
- Under the Internal Revenue Code, "[no] part of the corpus or income [may] be … used for, or diverted to, purposes other than for the exclusive benefit of [the] employees or their beneficiaries."

Duty of Loyalty

- The fiduciary duty of loyalty is strictly construed in law and informed by the exclusive benefit rule.
- Trustees must act solely in the interest of the members and beneficiaries, without regard to the interest of any other person.
- The duty of loyalty means that a trustee wears only one hat.
- Trustees of public retirement systems are not fiduciaries for appointing authorities, employers who pay into the systems, constituencies, taxpayers or the public.

Duty of Loyalty

The One Hat Rule



Duty of Loyalty

Under the duty of loyalty, Trustees must avoid conflicts of interest, including:

- Prohibited Transactions
- Self-dealing
- Self-enrichment
- Appearance of impropriety

Duty of Loyalty

- Impartiality
  - The duty of loyalty contains a duty of impartiality, which means that a trustee owes the same duty to retirees, senior employees, and employees who were just hired.
- Confidentiality
  - Incident to the duty of loyalty is the trustee's duty to preserve the confidentiality and privacy of trust information from disclosure to third persons, except as required by law (e.g., rules of regulatory, supervisory, or taxing authorities) or as necessary or appropriate to proper administration of the trust.

Duty of Prudence

A fiduciary must act:

- with the care, skill, and caution (prudence and diligence)
- under the circumstances then prevailing
- as a prudent person acting in a like capacity and familiar with those matters
- in the conduct of an enterprise of a like character with like aims

Duty of Care

- Duty to follow plan documents
  - The duty of care includes a duty to follow plan documents establishing the governance, benefits, investment and administration of the plan.
- Diversification
  - The duty of care includes a duty of diversification.
- Delegation
  - A trustee has a duty to personally perform the responsibilities of trustee except as a prudent person might delegate those responsibilities to others.

Duty of Care

- Delegation
  - Trustees are authorized to delegate – indeed, it is a critical part of the proper exercise of fiduciary duty
  - The law recognizes that a trustee cannot personally perform every function and does not possess all required expertise.
  - When a fiduciary delegates authority, the fiduciary has an obligation to select the delegate prudently, provide the delegate with the resources or information necessary to carry out the functions, and monitor the appointment.

Application of Fiduciary Principles

- The duty of prudence requires **a standard of conduct**, not outcome or performance.

- A fiduciary is not judged by the results of decisions, but rather by the **process** undertaken to reach such decisions.

Process, Process, Process!

- Documentation of the process undertaken is key.

Document, Document, Document!

Application of Fiduciary Principles – Non-Investment Related Activity

Fiduciary responsibility extends to non-investment related activities, including:

- Selection of providers
- Administration of plans
- Governance and administration
- Allocation of expenses
- Preparation of reports and funding requirements
- Preservation of plan assets and recovery of amounts due

Breach of Fiduciary Duty

- Potential consequences of a breach:
  - Tax risk – disqualification from tax exempt status
  - Headline risk
  - Financial Consequences
  - Increased oversight/changes to the plan
  - Liability risk
  - Co-Fiduciary Liability

So, What Should a Prudent Fiduciary Do?

- "Process, process, process"
  - Fiduciaries are judged by the decision-making process they follow.
- Facts and Data
  - Do the trustees have sufficient information from experts, both staff and independent outside experts where appropriate.
- Rigorous Review
  - Trustees should engage in a rigorous decision-making process in a manner consistent with procedural prudence.
- "Document, document, document"
  - The process undertaken should be documented to demonstrate prudence in decision-making.
- Monitor
  - Fiduciaries have an ongoing duty to monitor decisions to make sure those decisions remain prudent.

Traits of Highly Effective Public Pension Plan Leaders

- They understand their fiduciary duties and understand to whom they owe them.
- They pay attention to their experts' guidance.
- They engage in effective oversight of those experts, both in-house experts and outside independent experts. Everybody understands their role.
- They have formal policies and procedures, which they regularly review and update when necessary.
- They follow their policies and procedures, plan documents, and the law.

Case Study 1

- **“AI Adoption and Strategy in Public Pension Administration”**

  NCPERS Research Brief, August 2026

  - 58% optimistic or very optimistic about AI’s impact in public pension administration over the next decade
  - 96% describe human judgment as the primary driver of decisions where AI is used
  - 63% identify lack of in-house expertise as top barrier to AI expansion
  - 43% identify cybersecurity vulnerabilities from AI systems or vendors as their top risk concern

How do Trustees exercise their fiduciary responsibility with regard to AI?



No differently than any other exercise of fiduciary duty!



Trustees' traditional fiduciary responsibilities extend to their oversight of PERA's use of AI.

- Exclusive Benefit Rule
- Duty of Loyalty
- Duty of Prudence/Care
  - Follow Plan Documents
  - Delegation
  - Monitoring

Case Study 2

- On January 2, 2024, a runway collision occurred at Haneda Airport in Tokyo, Japan involving an Airbus A 350.

- In the aftermath of the collision, news reports and commentators described the outcome as a “miracle” because all 379 passengers and crew evacuated safely from a burning aircraft ultimately destroyed by fire.

A "Miracle" or Something Else?

- Process
- Training
- Experts - delegation
- Listening
- Civility -decorum
- Following rules
- Stay in your lane – know your job

➲ Result of following process: a successful outcome even in a crisis situation under tremendous pressure.



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