PEBA
SC Retirement Systems and State Health Plan

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

Meeting Agenda

|Health Care Policy Committee |Finance, Administration, Audit and Compliance Committee |Retirement Policy Committee| Board of Directors

Wednesday, October 22, 2025 | 202 Arbor Lake Drive., Columbia, SC 29223| 1st Floor Conference Room

Board of Directors | 2 p.m.

I. Call to order
II. Approval of meeting minutes (August 20, 2025) (August 21, 2025)
III. OPEB investment performance update
IV. State and federal policy update
V. Committee reports
    i. Health Care Policy Committee
        a) State Health Plan budget requirements for 2027
    ii. Retirement Policy Committee
    iii. Finance, Administration, Audit and Compliance Committee
VI. Old business
    i. Director's report
    ii. RoundTable discussion
VII. Executive Session for the purpose of discussing personnel matters and legal advice pursuant to S.C. Code of Laws § 30-4-70(a)(1)(2)
VIII. 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 MEETING

Meeting Date: October 22, 2025

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1. Subject: OPEB Investment Performance Report

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2. Summary: Mr. Brian Dingle from Federated Investors will present the OPEB Investment Performance report.

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

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4. Supporting Documents:

(a) Attached: Public Employee Benefit Authority Meeting

Public Employee Benefit Authority Meeting

October 2025

Hon. Curtis M. Loftis, Jr.
South Carolina State Treasurer

Melissa Simmons, CPA, CFP
Deputy State Treasurer

Bryan Dingle, CFA
Federated Investment Counseling
Vice President
Senior Portfolio Manager

Curtis M. Loftis, Jr.
South Carolina State Treasurer

Curtis Loftis is the State Treasurer of South Carolina. As Treasurer, he is the state's "private banker," managing, investing and retaining custody of approximately $75 billion in public funds. He also serves as administrator of the state's Unclaimed Property Program, Future Scholar 529 College Savings Plan and Palmetto ABLE Savings Program [treasurer.sc.gov], which provides eligible individuals with disabilities the opportunity to save and invest money while maintaining eligibility for important needs-based benefits.

Treasurer Loftis is a fierce advocate for greater accountability, transparency and fiscal management in state government. As Treasurer, he has championed a number of causes for the benefit of state government and all South Carolinians.

Melissa Simmons, CPA, CFP
Deputy State Treasurer

Melissa joined the State Treasurer's Office staff in August 2016. She currently serves as Deputy State Treasurer. Melissa oversees the divisions that coordinate and provide banking, investment and Treasury services for state agencies, colleges and universities.

Melissa has proudly served the State of South Carolina for over 25 years in various auditing, investment , treasury, management and financial roles. She has also served in the private sector for 8 years as a financial advisor at Ameriprise Financial Advisors. Her experience includes portfolio analysis and implementation, investment planning, tax planning, insurance planning and estate planning.

Bryan Dingle, CFA
Vice President, Senior Portfolio Manager
Federated Investment Counseling

Responsible for portfolio management and research in the domestic fixed income area concentrating on high grade corporate securities. Previous associations: Senior Credit Analyst, Fixed Income Corporate Bond Research, MTB Investment Advisors; Relationship Manager, M&T Bank. B.S., University of Delaware; M.B.A., University of Maryland. Professional affiliation: Member, CFA Society of Pittsburgh. Joined Federated Hermes 2006; Investment Experience: 30 Years.

Table of Contents

Portfolio Overview and Objectives

	Long-Term Disability Insurance	Retirees Health Insurance Trust Fund
Trustee	PEBA Board	PEBA Board
Administrator	PEBA	PEBA
Custodian/Investor	SC Treasurer	SC Treasurer
Underlying Liabilities	Employer costs of state's basic long-term disability income benefit plan	Employer costs of post-employment health and dental insurance benefits for retired state employees and retirees of public school districts
Assets (9/30/25)	$33,594,602	$1,850,285,237

Sources: SC Comprehensive Investment Policy and custodian bank.

Performance Summary – As of 9/30/25

	Market Value	(%) YTD	1 Year	3 Years	5 Years	Since Inception
LTDI TRUST FUND	$33,594,602					
Total Gross Of Fees		6.28	3.39	5.29	-0.30	2.10
Total Net Of Fees		6.25	3.35	5.25	-0.33	2.06
Index*		5.93	2.67	4.87	-0.61	1.76
Excess Gross Return		*0.35*	*0.72*	*0.42*	*0.31*	*0.34*
SCRHI TRUST FUND	$1,850,285,237					
Total Gross Of Fees		5.71	4.28	5.26	1.06	2.36
Total Net Of Fees		5.68	4.24	5.23	1.02	2.32
Index**		5.70	4.01	5.17	0.81	2.16
Excess Gross Return		*0.01*	*0.27*	*0.09*	*0.25*	*0.20*

Performance periods over one year are annualized.

Performance inception date is 10/01/2017.

*Effective November 2017, the index changed to the Bloomberg Intermediate Gov't Credit index from the custom index of 20% ICE BofAML 3 month T-Bills / 80% Bloomberg Barclays Aggregate.

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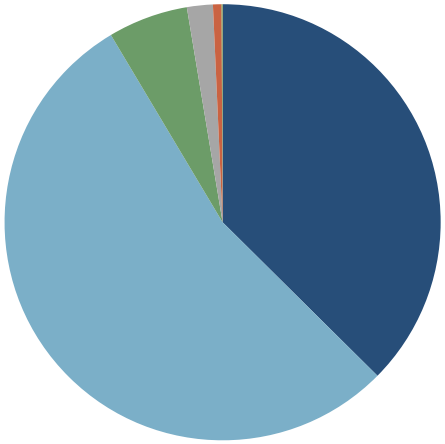
Long-Term Disability Insurance – Characteristics

As of 9/30/25

Total Market Value	$33.6 M
Coupon:	3.25%
Yield To Maturity:	4.62%
Effective Duration:	7.18 Years
Average Quality:	A+

S&P Rating	Weight (%)
AAA	1.92
AA- to AA+	41.07
A- to A+	24.20
BBB- to BBB+	25.80
BB+ and Below*	0.22
Not Rated**	0.86
Cash & Cash Equivalents	5.93

Portfolio Composition



- U.S. Treasury Securities 37.43%
- Investment Grade Corporate Securities 54.01%
- Cash & Cash Equivalents 5.93%
- Asset Backed Securities 1.92%
- Commercial Mortgage Backed Securities 0.63%
- Mortgage Backed Securities 0.08%

*Holdings rated BB+ and below by S&P include Paramount Global, Sr Unsecured, 4.95%, due 5/19/2050 and Occidental Petroleum Corporation, Sr Unsecured, 6.05%, due 10/1/2054

**Holdings not rated by S&P include Coca-Cola Femsa 1.85% due 9/1/2032 (A3/A), Suncor energy Inc 4% due 11/15/2047 (Baa1/BBB+), Suncor energy Inc 3.75% due 03/04/2051 (Baa1/BBB+), Canadian natural resource 4.95%, 06/01/2047 (Baa1/BBB+)

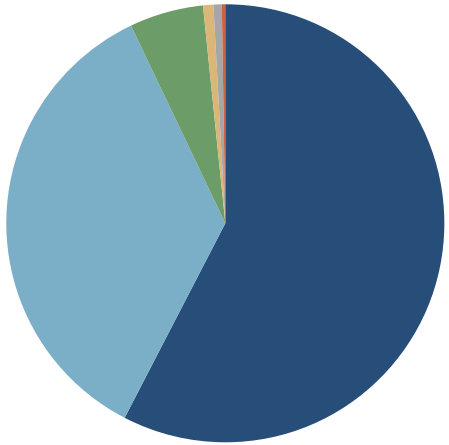
Retirees Health Insurance Trust Fund – Characteristics

As of 9/30/25

Total Market Value	$1.85 B
Coupon:	3.32%
Yield To Maturity:	4.05%
Effective Duration:	3.46 Years
Average Quality:	AA-

S&P Rating	Weight (%)
AAA	0.61
AA- to AA+	59.72
A- to A+	13.12
BBB- to BBB+	20.28
BB+ and Below*	0.30
Not Rated**	0.50
Cash & Cash Equivalents	5.46

Portfolio Composition



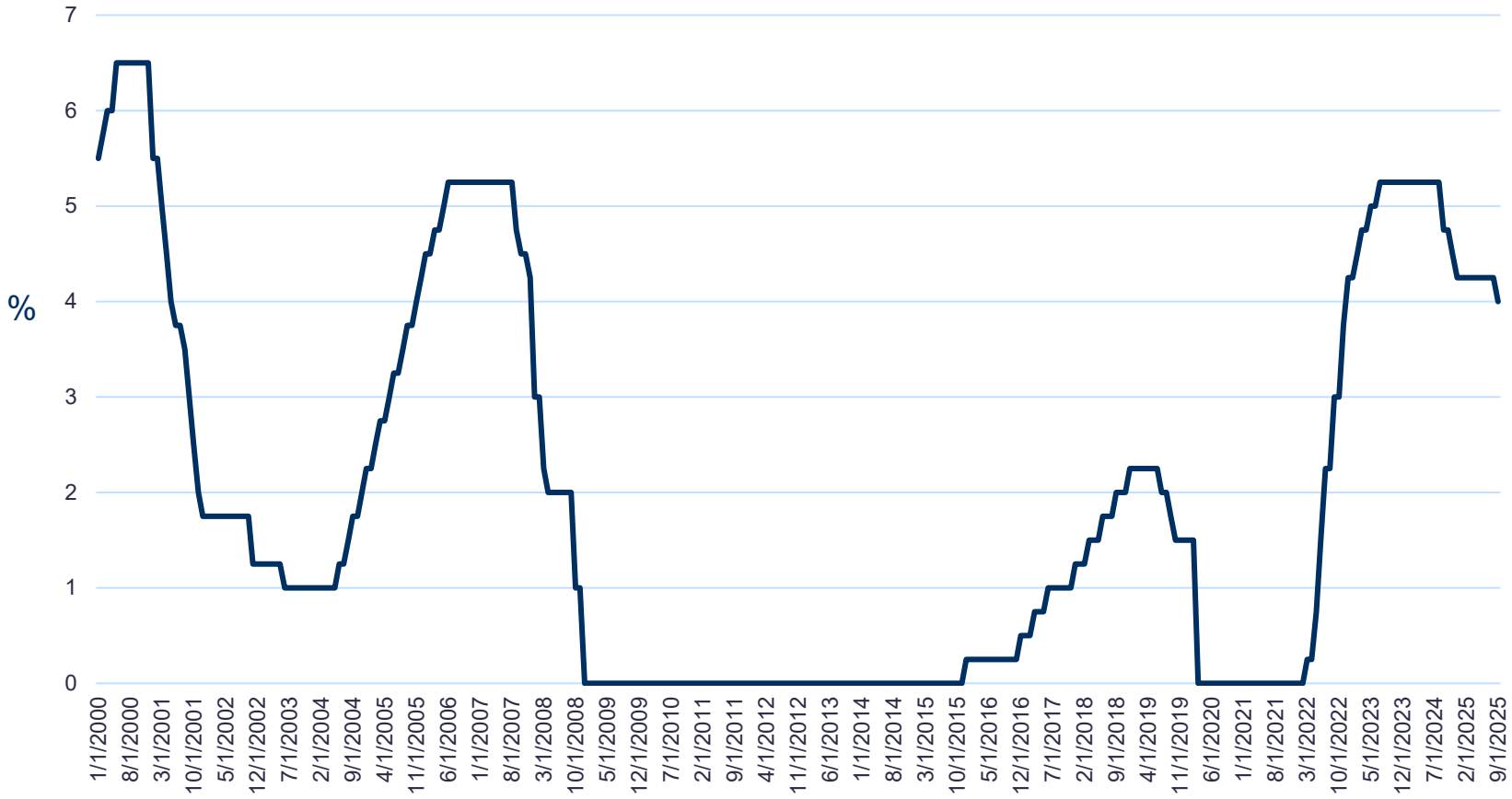
- US Treasury Securities 57.60%
- Investment Grade Corporate Securities 35.31%
- Cash & Cash Equivalents 5.46%
- Commercial Mortgage Backed Securities 0.76%
- Asset Backed Securities 0.61%
- Investment Grade Corporate at Time of Purchase 0.23%
- Mortgage Backed Securities 0.02%

*Holdings rated BB+ and below by S&P include Advance Auto Parts, Inc., Company Guarantee, 1.75%, due 10/1/2027, Advance Auto Parts, Inc., Company Guarantee, 3.9%, due 4/15/2030, Advance Auto Parts, Inc., Company Guarantee, 5.95%, due 3/9/2028, and Paramount Global, Sr Unsecured, 4.95%, due 1/15/2031

**Holdings not rated by S&P include Coca-Cola Femsa 2.75% due 1/22/30 (A3/NR/A), Microchip Technology Incorporated, Company Guarantee 5.05% due 3/15/2029 (Baa1/NR/BBB), Valspar Corp. 3.95% and S&P Global 2.9% due 3/1/2032 (A3/NR/A-)

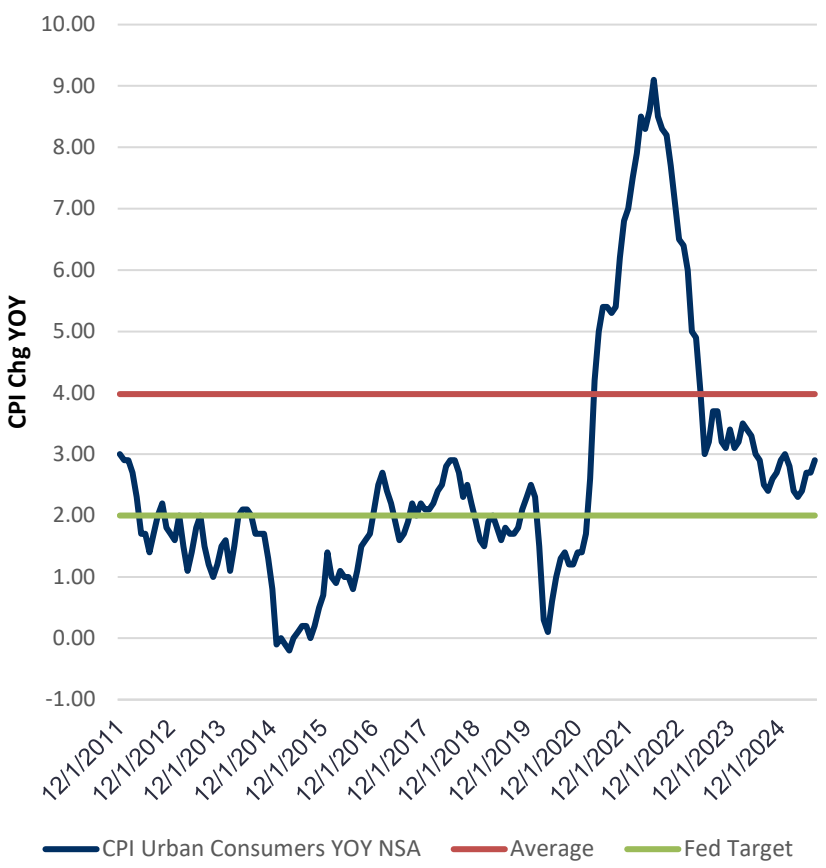
Economic Outlook

Fed Funds – Lower Bound

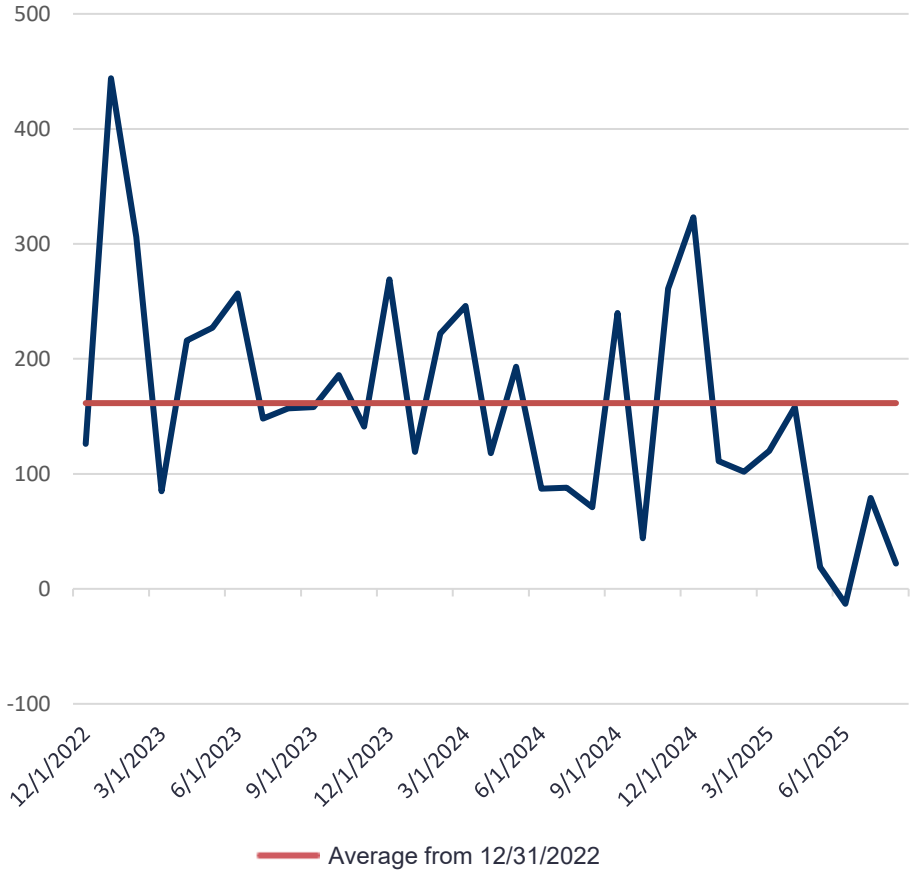


Source: Bloomberg

CPI Change Year-Over-Year

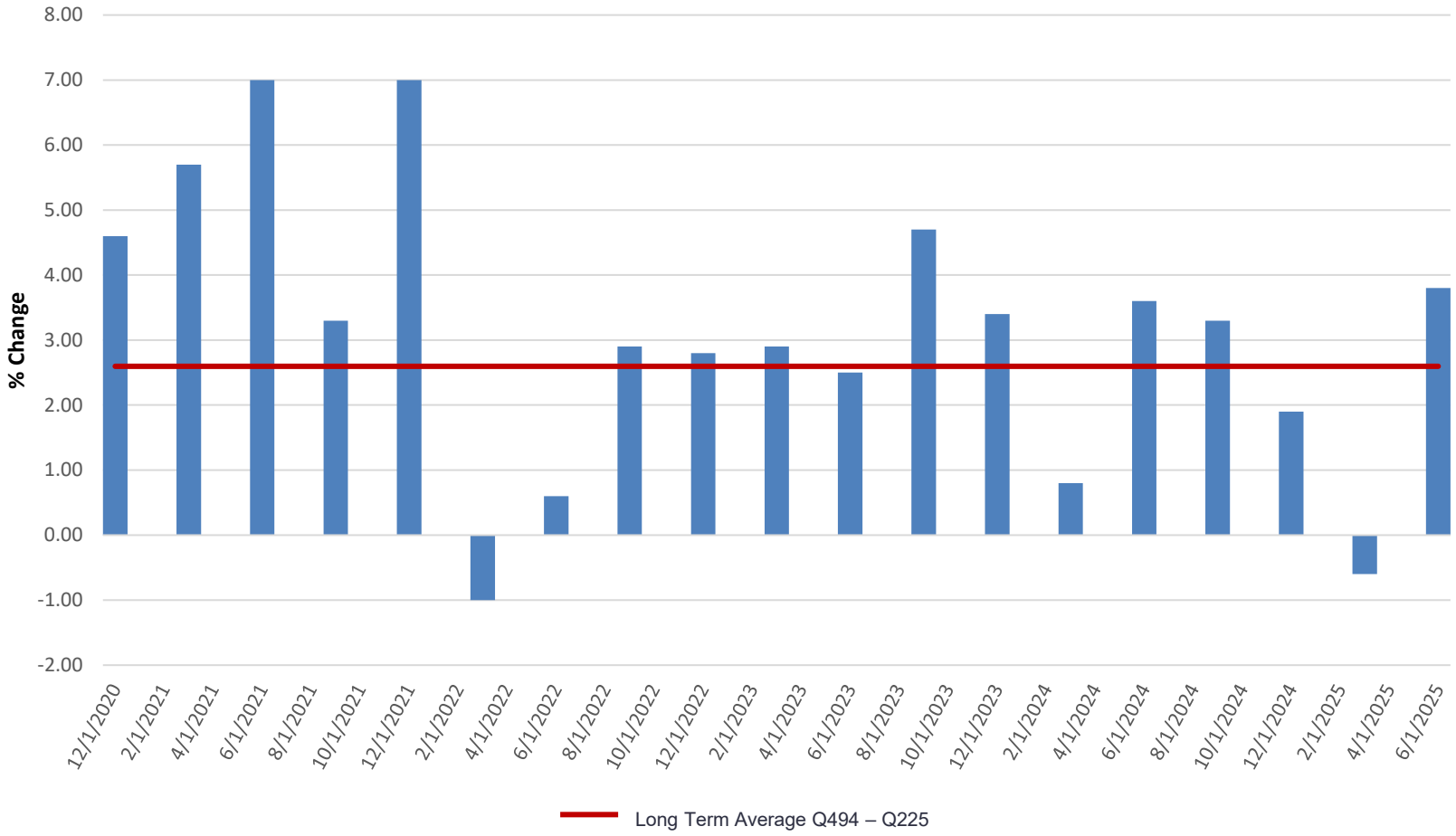


Change in Non-Farm Payrolls (m/m, 000s)



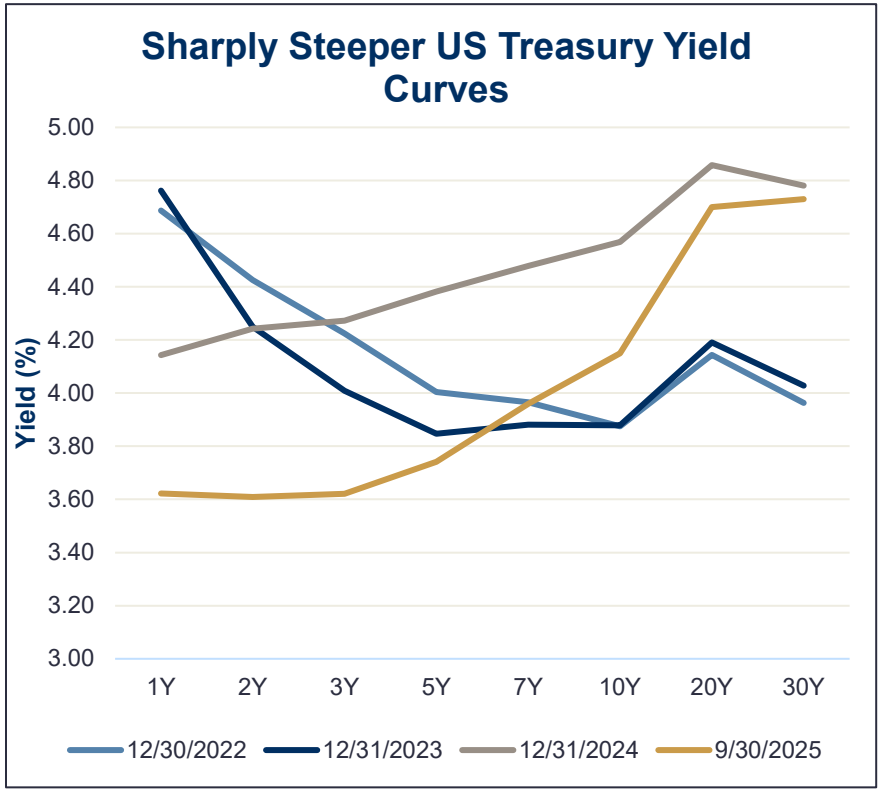
Source: Bloomberg

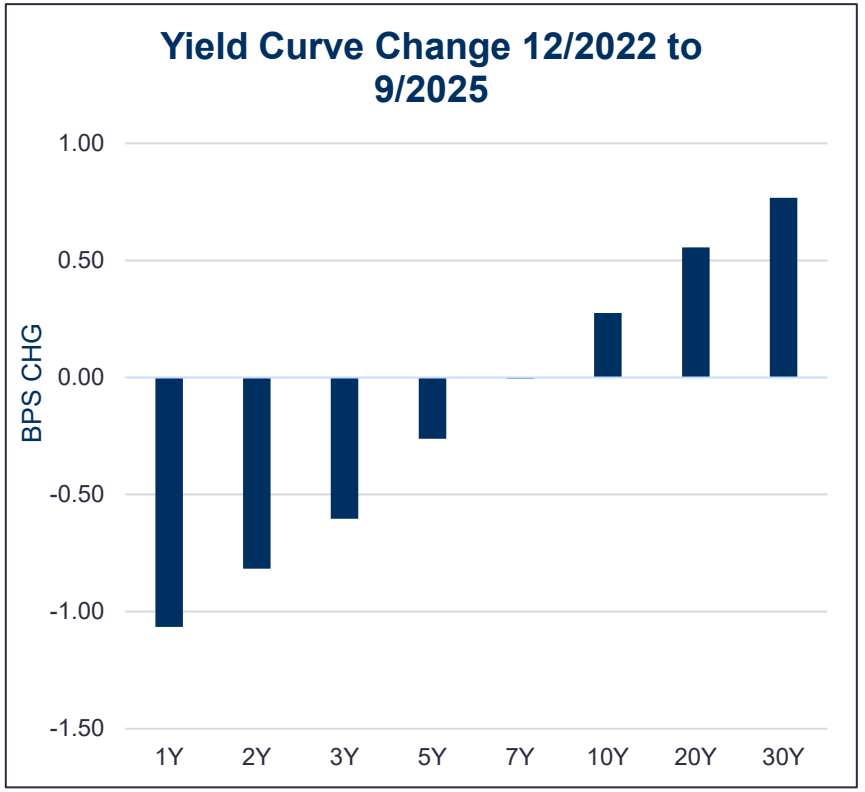
US GDP Quarter-Over-Quarter Annualized



Source: Bloomberg

Sharply Lower US Treasury Yields





Source: Bloomberg

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING

Meeting Date: October 22, 2025

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1. Subject: State and federal policy update

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2. Summary: Our longtime friend James D'Alessio, Vice-President, Government Affairs with BlueCross BlueShield of South Carolina, will discuss the current national and state political and policy landscape. The session was originally scheduled for the Board Retreat.

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

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4. Supporting Documents:

(a) Attached:

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING

Meeting Date: October 22, 2025

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1. Subject: State Health Plan Budget Requirements Approval for 2027

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2. Summary: Rob Tester will present and discuss the State Health Plan's budget requirements for 2027 in anticipation of the upcoming legislative appropriation cycle.

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3. What is the Board asked to do? Approve the 2027 State Health Plan budget requirements.

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4. Supporting Documents:

(a) Attached: 2027 State Health Plan Budget Information and Continuation Requirements

State Health Plan Budget Information and Continuation Requirements

Annual Base – Calendar Year 2026

Employer funds: $3,076.6 M.
Enrollee funds: $ 565.0 M.
Total: $3,641.6 M.

State-appropriated portion of Employer funds = $1,569.5 M.

Funds are spread throughout the budget in Employer Contributions lines of agencies and State Aid to Classsrooms lines of the State Department of Education.

Current composite monthly contribution rate effective January 2026:

Employer rate: $829.16 (79.3% of regional State employee plan average)
Enrollee rate: $159.16 (67.9% of regional average)
Total: $988.32 (77.2% of regional average)

FY 2026-27 Budget Requirements for ongoing SHP operations in 2027

- **Annualization**: There is a 4.6% Employer Only rate increase going into effect January 2026. Funding in the amount of **$34.525 M.** was appropriated for the January-June 2026 period. A like amount will be required in the upcoming budget for the July-December 2026 period to make agencies and school districts whole for the rate increase.
- **Retiree Enrollment Growth**: Net retiree enrollment growth continues at a historically low level. It is estimated that **$2.169 M.** is required for the estimated net number of new retirees with State-funded insurance. This number is based on the continued recent experience of 0.3% net growth in retirees.
- **2027 Rate Increase:**
    - There is no increase required for 2027 to sustain the current State Health Plan. It is projected that contribution rates going in force January 1, 2026 will be adequate to maintain the Plan through 2027.

Summary (State funds):

Annualization of 2026 4.6% employer only increase	**$34.525 M.**
2026-27 base Retiree Enrollment Growth	**$ 2.169 M.**
No 2027 Employer Increase	**$0**
TOTAL CONTINUATION OF CURRENT PLAN (NO INCREASE)	**$ 36.694 M.**

Recommend deletion of Proviso 108.12, which suspends the statutory sweep of Plan surplus funds at year end into the OPEB (retiree health) account. This proviso dates back to the COVID lockdown and the delay of health care services at that time. With the delay, any year-end surplus was overstated, and it was necessary to retain those funds to pay for later-delivered care. There is no longer evidence of any material delay in care, and as such the proviso is no longer needed.

10.15.2025

State Health Plan Budget Requirements for 2027

Contributing Factors

1. Continued High Expenditure Trends

As reported at the Board Retreat, the State Health Plan (Plan) continues to experience growth in claims expenditure above historic norms. This trend is occurring in both medical and pharmacy settings.

Medical trend (referring to claims processed by medical claims administrator BlueCross Blue Shield of South Carolina) this year through September equals a 7.0% increase in payments per member over the same period in 2024. Whereas the Plan is a secondary payer for the Medicare primary membership, paid trend this year to date is higher for that population at 8.2% versus 6.8% for the non-Medicare (active employees and retirees under age 65) membership. Key drivers include:

1) Expenditure for physician-administered medications has increased 18.7%, driven almost entirely by unit cost (up 16.4%) This is largely a result of the use of different, more expensive products, not growth in price of the same product. There has been an increase in the number of patients taking physician-administered medications as well.
2) Outpatient hospital has increased 6.7%, driven primarily by additional utilization volume (up 4.6%).
3) Spend in the inpatient hospital setting has increased approximately 5%, driven roughly in equal measure by utilization (more services) and unit cost (higher price per unit of service). Again, unit cost may increase not just through a higher price for the same admission, but the replacement of a lower-priced case with a higher-priced case.

On the pharmacy side (claims processed through pharmacy benefits manager Express Scripts), we do not yet have additional post-rebate reporting beyond the January-June information presented at the Board Retreat. Looking at cash payments only (pre-rebate), Plan pharmacy expenditure is up 9.5% per member year-over-year through nine months of 2025. We observed a 4-percentage point reduction in pharmacy trend in the 6-month period after adding rebates, so assuming this difference holds true when Q3 is added, we can estimate 5.5% post-rebate pharmacy trend through nine months of 2025.

Specialty pharmacy is the primary prescription drug trend driver this year. Pre-rebate, specialty medication spend is up 15.0% per member through September over the same period last year, while non-specialty spend is up a relatively modest 4.1% per member in 2025 over 2024.

A notable feature of the Plan's pharmacy trend is taking place with our Medicare membership. Overall, the paid prescription drug paid and incurred PMPM trend (pre-rebate) is 9.5% (covered PMPM, which includes Plan payment and patient cost share is 8.1%). A significant trend driver is revealed when comparing the prescription drug trends of members

that are Medicare primary to those who are not. The following table summarizes those differences (all numbers in table are pre-rebate):

Population	RX Covered PMPM Trend	RX Paid PMPM Trend
Medicare primary	11.8%	15.2%
SHP primary	6.3%	6.5%

There are three factors contributing to the Medicare primary trends:

1) The SHP could not implement the full suite of GLP1 management strategies it implemented for the SHP primary population on the Medicare primary population, reportedly because of CMS regulations.
2) The large leveraging effect (15.2% paid vs 11.8% covered) is because of the $2,000 phantom out of pocket maximum that went into effect on January 1, 2025.
3) Once a Medicare member reaches the phantom out of pocket maximum, it's likely that changes in mix (e.g. higher probability to use a brand drug vs. a generic) and utilization (e.g. more prescriptions) will occur.

While we are confident our new pharmacy benefits management approach described below will promote cost containment in our prescription drug sector, the effects of the Inflation Reduction Act changes to the Medicare pharmacy benefits in the Plan are enduring.

Mitigating Factors

1. New Pharmacy Benefits Manager approach and contract

PEBA's current Pharmacy Benefits Manager (PBM) contract with Express Scripts expires at the end of 2025. The PBM performs numerous functions related to State Health Plan prescription benefits. These duties include public-facing activities such as developing and managing the pharmacy network, operating specialty and home delivery pharmacies, and establishing the formulary, or preferred drug list. They also include backroom actions such as negotiating pricing with retail pharmacies and negotiating rebates from pharmaceutical companies.

When writing the PBM contract requirements in 2019 for the current 2021-2025 agreement, PEBA used what was then state-of-the-art methods. The pricing exhibit was based on pharmacy dispensing fees, pricing discount guarantees, and rebate guarantees. The continuous learning process led the PEBA team to a different approach in writing the requirements for the contract to commence in 2026. Pricing and rebate guarantees were not included, and in their place PEBA asked for a global financial guarantee tied to net prescription drug expenditure less pharma revenue, with the contractor putting significant fees at risk. In addition, PEBA mandated acquisition cost-based reimbursement for prescriptions filled at PBM-owned specialty and home delivery pharmacies.

CVS Caremark (Caremark) was hired as the State's new PBM, and very positive financial results are anticipated from this process. The net pricing guarantee for 2026 is materially less than projected net spend for 2025, and these savings will be attained through both reduced expenditure in real time and enhanced rebates. In addition, the contract requirements cap growth in 2027 to a national benchmark. The new PBM approach and outcome is a major mitigating factor in our 2027 budget requirements.

2. Managing unit cost in direct-contracted networks

The State Health Plan has operated direct-contracted hospital and physician networks for over 30 years, since the early 1990s. This is atypical among state employee health plans, as most will rely on the networks of their third-party administrators. Operating our own networks has given the Plan a critical tool in managing its expenditure over the years. Near universal provider participation in the networks is an essential component of the Plan's value; all general hospitals and over 99% of the physicians represented by claim dollars are in-network. It is important that PEBA maintain these networks in a manner that promotes participation while aligning with the Plan's and the State's fiscal realities.

This year we have observed expenditure growth in the hospital setting well above the effective pricing update for 2025. While the effective unit cost update was slightly above 1%, our hospital trend for non-Medicare members this year to date is 6.5%. This nearly 5.5-point delta over pure inflation exceeds what has been observed historically from volume and intensity changes. We believe this difference will persist, at least in the short term, so it is vital that unit cost growth be limited to the extent practical.

For 2026, we have implemented unit cost neutrality for our hospital pricing update. On the inpatient side, we provided increased pay for general case rates, while offsetting that increase by amending the formula that moves a case into high outlier status and reducing excess pay for those outlier admissions. In the outpatient setting, we again provided for a general case rate increase but offset with various methods: adopting CMS policy for non-reimbursement of ancillary services (removing incentive for the hospital to bill such services), continued movement toward site-neutral pricing, and upping the default discount off charges (this change was also made for inpatient cases).

Managing provider reimbursement such that the Plan's financial and value objectives are achieved will continue to be a challenge. Our unit cost neutrality in hospital pricing for 2026 is a mitigating factor in our budget requirements for 2027.

3. Pushing back on GLP-1 growth

The GLP-1 (Glucagon-like Peptide 1 agonists) class of medication, used for diabetes management and weight loss, have been a national phenomenon in recent years and a major cost driver for the State Health Plan in 2023 and 2024. While the State Health Plan covers these products for diabetes, weight loss is a general Plan exclusion.

PEBA worked with its present pharmacy benefits contractor and, with the Board's approval, began to address this surging spend late in 2024. For our Commercial (non-Medicare) membership, we began limiting supply of GLP-1s to 30 days per fill beginning in November 2024 to reduce waste, and initiated phase-in of a new prior approval process to require documentation that a patient's condition qualifies this individual to obtain the prescription under the terms of the Plan. This process was fully phased in by early 2025.

Along with pricing improvements obtained by our contractor, GLP-1 trends have turned around. Net GLP-1 expenditure was down 16.0% through June 2025 from the same period in 2024. The effects of the management changes are illustrated through comparison of the Commercial and Medicare membership (the Plan was only able to begin a more rigorous prior approval for Medicare members in July 2025). While the number of GLP-1 days of therapy grew 23.5% year-over-year through June 2025 in the unmanaged Medicare group, days declined 1.0% in the Commercial group.

We presented to our Board Committee in June 2024 a comprehensive analysis as to the cost effectiveness of anti-obesity medication coverage in the Plan, with the conclusion that this coverage is cost prohibitive. This analysis was updated in early 2025 and will continue to be revisited annually with potential pricing changes and as more information becomes available.

GLP-1 management is not a solved problem, but our partial success in stemming growth and continuing to take a hard line on non-diabetic usage is a mitigating factor in 2027 rate requirements.

10.15.2025