

**South Carolina OPEB Trusts**  
**Notes to the Schedules of Employer Allocations and**  
**OPEB Amounts by Employer**  
**For the Fiscal Year Ended June 30, 2022**

**Note 1: Description of the Entity and Summary of Significant Accounting Policies**

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA – Insurance Benefits is a state agency responsible for the administration and management of the state’s employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

The governing board of PEBA is a board of 11 members. The membership composition is three members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, two members appointed by the Chairman of the Senate Finance Committee, two members appointed by the Speaker of the House of Representatives and two members appointed by the Chairman of the House Ways and Means Committee. Individuals appointed to the PEBA board must possess certain qualifications. Members of the PEBA board serve for terms of two years and until their successors are appointed and qualify. Terms commence on July first of even numbered years. The PEBA board appoints the Executive Director. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of PEBA. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB).

**Plan Descriptions**

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State’s retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State’s Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA – Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit OPEB plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

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**Benefits**

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees that have been approved for disability.

**Contributions and Funding Policies**

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2022 was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves. However, due to the COVID-19 pandemic and the impact it has had on the PEBA – Insurance Benefits reserves, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income.

The SCLTDITF is funded through employer contributions for active employees that elect health insurance coverage. For this group of active employees, PEBA – Insurance Benefits bills and collects premiums charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee was \$3.22 for the fiscal year ended

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June 30, 2022. The SCLTDITF premium is billed monthly by PEBA – Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

The allocation percentage of the OPEB amounts are calculated differently for each OPEB Trust. For the SCRHITF, the allocation percentage is based on the covered payroll surcharge contribution for each employer. Please note that actual covered payroll contributions received from SCRS for the fiscal year 2022 totaled \$615,405,810. However, the covered payroll contributions total includes prior year covered payroll contribution adjustments and true-ups that net to a total of \$1,094,627.

In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA – Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the PEBA – Insurance Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov) or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

**Note 2: Actuarial Assumptions and Methods**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

Additional information as of the latest actuarial valuation for SCRHITF:

|                            |  |
|----------------------------|--|
| Valuation Date:            | June 30, 2021  |
| Actuarial Cost Method:     | Individual Entry – Age Normal  |
| Inflation:                 | 2.25%  |
| Investment Rate of Return: | 2.75%, net of OPEB Plan investment expense; including inflation  |
| Single Discount Rate:      | 3.69% as of June 30, 2022  |
| Demographic Assumptions:   | Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019   |
| Mortality:                 | For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with multipliers based on plan experience; the rates are projected on a fully generational basis using 80% of the ultimate rates of Scale MP-2019 to account for future mortality improvements. |
| Health Care Trend Rate:    | Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years  |
| Aging Factors:             | Based on plan specific experience  |
| Retiree Participation:     | 79% for retirees who are eligible for funded premiums<br>59% participation for retirees who are eligible for Partial Funded Premiums<br>20% participation for retirees who are eligible for Non-Funded Premiums  |
| Notes:                     | The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022.   |

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Additional information as of the latest actuarial valuation for SCLTDITF:

|  |   |
|--|---|
| Valuation Date:                            | June 30, 2021   |
| Actuarial Cost Method:                     | Individual Entry – Age Normal   |
| Inflation:                                 | 2.25%   |
| Investment Rate of Return:                 | 3.00%, net of Plan investment expense; including inflation  |
| Single Discount Rate:                      | 3.41% as of June 30, 2022   |
| Salary, Termination, and Retirement Rates: | Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019  |
| Disability Incidence:                      | The disability incidence rates used in the valuation are 165% of the rates developed for the South Carolina Retirement Systems pension plans  |
| Disability Recovery:                       | For participants in payment, 1987 CGDT Group Disability; for active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years |
| Offsets:                                   | 45% are assumed to be eligible for Social Security benefits; assumed percentage who will be eligible for a pension plan offset varies based on employee group                             |
| Expenses:                                  | Third party administrative expenses were included in the benefit projections  |
| Notes:                                     | The discount rate changed from 2.48% as of June 30, 2021 to 3.41% as of June 30, 2022.  |

**Roll Forward Disclosures**

The actuarial valuations were performed as of June 30, 2021. Update procedures were used to roll forward the total OPEB liabilities to June 30, 2022.

**Note 3: Net OPEB Liability**

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

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The following table represents the components of the net OPEB liability as of June 30, 2022, 2021, 2020, 2019, 2018, and 2017:

| <b>SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND</b> |                             |                                    |                           |   |
|---|-----------------------------|------------------------------------|---------------------------|---|
| <b>Fiscal Year Ending</b>                                 | <b>Total OPEB Liability</b> | <b>Plan Fiduciary Net Position</b> | <b>Net OPEB Liability</b> | <b>Plan Fiduciary Net Position as a % of Total OPEB Liability</b> |
| June 30, 2022   | \$ 16,835,502,593           | \$ 1,623,661,403                   | \$ 15,211,841,190         | 9.64%   |
| June 30, 2021   | \$ 22,506,597,989           | \$ 1,683,416,992                   | \$ 20,823,180,997         | 7.48%   |
| June 30, 2020   | \$ 19,703,745,672           | \$ 1,652,299,185                   | \$ 18,051,446,487         | 8.39%   |
| June 30, 2019   | \$ 16,516,264,617           | \$ 1,394,740,049                   | \$ 15,121,524,568         | 8.44%   |
| June 30, 2018   | \$ 15,387,115,010           | \$ 1,216,530,062                   | \$ 14,170,584,948         | 7.91%   |
| June 30, 2017   | \$ 14,659,610,970           | \$ 1,114,774,760                   | \$ 13,544,836,210         | 7.60%   |

| <b>SOUTH CAROLINA LONG-TERM INSURANCE DISABILITY TRUST FUND</b> |                             |                                    |                           |   |
|---|-----------------------------|------------------------------------|---------------------------|---|
| <b>Fiscal Year Ending</b>                                       | <b>Total OPEB Liability</b> | <b>Plan Fiduciary Net Position</b> | <b>Net OPEB Liability</b> | <b>Plan Fiduciary Net Position as a % of Total OPEB Liability</b> |
| June 30, 2022   | \$ 46,410,320               | \$ 34,824,847                      | \$ 11,585,473             | 75.04%  |
| June 30, 2021   | \$ 44,378,931               | \$ 41,201,247                      | \$ 3,177,684              | 92.84%  |
| June 30, 2020   | \$ 42,782,316               | \$ 42,479,106                      | \$ 303,210                | 99.29%  |
| June 30, 2019   | \$ 40,743,755               | \$ 38,775,500                      | \$ 1,968,255              | 95.17%  |
| June 30, 2018   | \$ 39,261,091               | \$ 36,199,863                      | \$ 3,061,228              | 92.20%  |
| June 30, 2017   | \$ 38,510,568               | \$ 36,697,589                      | \$ 1,812,979              | 95.29%  |

The TOL is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

**Single Discount Rate**

The Single Discount Rate of 3.69% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

A Single Discount Rate of 3.41% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 3.00% and a municipal bond rate of 3.69%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain at \$38.64 per year for each

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covered active employee. Based on these assumptions, the plan's Fiduciary Net Position and future contributions were sufficient to finance the benefit payments through the year 2034. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2034, and the municipal bond rate was applied to all benefit payments after that date.

**Long-term Expected Rate of Return**

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

| <b>SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND</b> |                                |  |   |
|---|--------------------------------|--|---|
| <b>Asset Class</b>  | <b>Target Asset Allocation</b> | <b>Expected Arithmetic Real Rate of Return</b> | <b>Allocation-Weighted Long-Term Expected Real Rate of Return</b> |
| U.S. Domestic Fixed Income                                | 80.00%                         | 0.95%  | 0.76%   |
| Cash equivalents  | 20.00%                         | 0.35%  | 0.07%   |
| <b>Total</b>  | <b>100.00%</b>                 |  | <b>0.83%</b>  |
| Expected Inflation  |                                |  | 2.25%   |
| <b>Total Return</b>                                       |                                |  | <b>3.08%</b>  |
| <b>Investment Return Assumption</b>                       |                                |  | <b>2.75%</b>  |

| <b>SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND</b> |                                |  |   |
|---|--------------------------------|--|---|
| <b>Asset Class</b>  | <b>Target Asset Allocation</b> | <b>Expected Arithmetic Real Rate of Return</b> | <b>Allocation-Weighted Long-Term Expected Real Rate of Return</b> |
| U.S. Domestic Fixed Income                                      | 80.00%                         | 0.95%  | 0.76%   |
| Cash equivalents  | 20.00%                         | 0.35%  | 0.07%   |
| <b>Total</b>  | <b>100.00%</b>                 |  | <b>0.83%</b>  |
| Expected Inflation  |                                |  | 2.25%   |
| <b>Total Return</b>   |                                |  | <b>3.08%</b>  |
| <b>Investment Return Assumption</b>                             |                                |  | <b>3.00%</b>  |

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**Sensitivity Analysis**

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.69%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

|                            | <b>1% Decrease</b> | <b>Current<br/>Discount Rate</b> | <b>1% Increase</b> |
|----------------------------|--------------------|----------------------------------|--------------------|
|                            | <b>2.69%</b>       | <b>3.69%</b>                     | <b>4.69%</b>       |
| SCRHITF Net OPEB Liability | \$ 17,984,510,157  | \$ 15,211,841,190                | \$ 12,983,624,409  |

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

|                            | <b>1% Decrease</b> | <b>Current Healthcare<br/>Cost Trend Rate</b> | <b>1% Increase</b> |
|----------------------------|--------------------|---|--------------------|
| SCRHITF Net OPEB Liability | \$ 12,510,252,447  | \$ 15,211,841,190                             | \$ 18,366,093,156  |

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.41%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

|                             | <b>1% Decrease</b> | <b>Current<br/>Discount Rate</b> | <b>1% Increase</b> |
|-----------------------------|--------------------|----------------------------------|--------------------|
|                             | <b>2.41%</b>       | <b>3.41%</b>                     | <b>4.41%</b>       |
| SCLTDITF Net OPEB Liability | \$ 13,426,023      | \$ 11,585,473                    | \$ 9,805,378       |

The SCLTDITF's net OPEB liability is not affected by changes in the healthcare cost trend rates due to the method used to calculate benefit payments. Therefore, the sensitivity to changes in the healthcare cost trend rates have not been calculated.



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**Note 4: OPEB Expense**

Components of collective OPEB expense reported in the Schedule of OPEB Amounts by Employer for the fiscal year ended June 30, 2022 are presented below.

| Description  | SCRHITF                      | SCLTDITF                   |
|--|------------------------------|----------------------------|
| Service Cost   | \$ 862,552,785               | \$ 8,740,142               |
| Interest on the Total OPEB Liability                               | 435,503,577                  | 1,091,274                  |
| Projected Earnings on Plan Investments                             | (46,973,362)                 | (1,206,036)                |
| OPEB Plan Administrative Expense                                   | 801,356                      | 79,400                     |
| Recognition of Outflow (Inflow) of Resources<br>due to Liabilities | (367,689,255)                | 165,726                    |
| Recognition of Outflow (Inflow) of Resources<br>due to Assets      | 30,899,402                   | 780,955                    |
|  | <hr/>                        | <hr/>                      |
| <b>Total Aggregate OPEB Expense</b>                                | <b><u>\$ 915,094,503</u></b> | <b><u>\$ 9,651,461</u></b> |

Additional items included in Total Employer OPEB Expense are the current period amortized portions of deferred outflows and/or inflows of resources related to changes in employers' proportionate share of the collective NOL and differences between actual employer contributions and proportionate share of total plan employer contributions.

**Note 5: Deferred Outflows and Inflows of Resources**

As discussed in paragraph 86 of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided OPEB through the OPEB plan (active and inactive members) determined as of the beginning of the measurement period.

Additionally, differences between projected and actual earnings on OPEB plan investments should be recognized in OPEB expense using a systematic and rational method over a closed five-year period. For this purpose, the deferred outflows and inflows of resources are recognized in the OPEB expense as a level dollar amount over the closed period identified above.

The schedules on the following pages reflects the amortization of collective deferred outflows/(inflows) of resources related to OPEB outstanding at June 30, 2022.

As a reminder, in addition to recognizing a proportionate share of the deferred outflows and inflows shown on the following page, employers will also need to establish:

- a. Deferred outflows and inflows related to changes in proportionate shares and differences between contributions and proportionate share of contributions;
- b. A deferred outflow related to contributions made after the measurement date. This deferred outflow should include payroll-related surcharge contributions and implicit subsidies.

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**Note 6: Additional Financial and Actuarial Information**

Information contained in these Notes to the Schedules of OPEB Amounts by Employer (the Schedules) were compiled from the OPEB Trust Funds audited financial statements for the fiscal year ended June 30, 2022, and the accounting and financial reporting actuarial valuations as of June 30, 2022. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is available in the OPEB Trust Funds audited financial statements. Employers are encouraged to review Illustration II in Appendix C of GASB Statement No. 75, which provides a sample footnote disclosure and required supplementary information for a cost-sharing multiple-employer defined benefit OPEB plan.