

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS**

**AND**

**OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2018**

**WITH**

**INDEPENDENT AUDITORS' REPORT**



October 23, 2018

Members of the South Carolina Public Employee  
Benefit Authority  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Public Employee Benefit Authority, Insurance Benefits and Other Post Employment Benefits Trust Funds for the fiscal year ended June 30, 2018, was issued by CliftonLarsonAllen, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA  
State Auditor

GLKIII/cwc

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INSURANCE BENEFITS

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

WITH

INDEPENDENT AUDITORS' REPORT

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## INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, CPA  
State Auditor  
Office of the State Auditor and  
Members of the South Carolina Public  
Employee Benefit Authority  
South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina Retiree  
Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of South Carolina Public Employee Benefit Authority Insurance Benefits, an internal service fund of the State of South Carolina, the South Carolina Retiree Health Insurance Trust Fund, a fiduciary fund of the State of South Carolina, and the South Carolina Long-Term Disability Insurance Trust Fund, a fiduciary fund of the State of South Carolina, collectively referred to as "PEBA Insurance Benefits," as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise PEBA Insurance Benefits' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of PEBA Insurance Benefits as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only PEBA Insurance Benefits, and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our auditors' opinion was not modified with respect to this matter.

During fiscal year ended June 30, 2018, PEBA Insurance Benefits adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, PEBA, Insurance Benefits reported a restatement for the change in accounting principle (see Note 2). Our auditors' opinion was not modified with respect to the restatement.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-21, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Proportionate Share of the Net Pension Liability – South Carolina Retirement System on page 74, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employer Pension Contributions – South Carolina Retirement System on page 75, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Proportionate Share of the Net OPEB Liability on page 76, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employer OPEB Contributions on page 77, Schedule of Changes in Net OPEB Liability and Related Ratios on page 78, Schedule of Net OPEB Liability on page 80, and Schedule of OPEB Investment Returns on page 81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the PEBA Insurance Benefits' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of PEBA Insurance Benefits' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEBA, Insurance Benefits' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
October 23, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's discussion and analysis for the financial performance of South Carolina Public Employee Benefit Authority, Insurance Benefits (PEBA, Insurance Benefits), the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF) during the fiscal year ended June 30, 2018. This section should be read in conjunction with the financial statements and the notes, which follow this section.

Questions about this report, or requests for additional financial information should be addressed as follows:

Phyllis Buie, Insurance Finance Director  
PEBA, Insurance Benefits  
202 Arbor Lake Drive  
Columbia, SC 29223

Travis Turner, Chief Financial Officer  
South Carolina Public Employee Benefit Authority  
202 Arbor Lake Drive  
Columbia, SC 29223

### **SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY, INSURANCE BENEFITS**

The financial statement presentation required under governmental accounting standards provides a comprehensive perspective of the South Carolina Public Employee Benefit Authority, Insurance Benefits' assets, liabilities, deferred inflows and outflows of financial resources, net position, revenues, expenses, changes in net position and cash flows.

#### **Financial Highlights**

Business Type activities reported an increase in net position of \$42,487,371 and total net position of \$360,220,171 for the year ended June 30, 2018. In comparison, an increase in net position of \$46,359,228 and total net position of \$317,732,800 (as restated) was reported for the year ended June 30, 2017.

#### **Overview of Financial Statements**

PEBA, Insurance Benefits is a proprietary type internal service fund engaged in Business Type activities. Following is a condensed Statement of Net Position, a condensed Statement of Activities and a condensed Statement of Cash Flows.

The Statement of Net Position presents the financial position of PEBA, Insurance Benefits at the end of the fiscal year and requires classification of assets and liabilities into current and noncurrent categories. The difference between total assets, total liabilities, and deferred inflows and outflows of financial resources is reflected in the net position section, which displays net investment in capital assets and unrestricted net position. Net position is generally an indicator of the current financial condition of PEBA, Insurance Benefits, while the change in net position is generally an indicator of the overall financial condition for the year.

## Overview of Financial Statements (continued)

In accordance with the provisions of the SCRHITF, excess PEBA, Insurance Benefits' reserves above 140% of incurred but not reported claims, as of December 31 each year, to the extent available in order to maintain a reserve balance equal to not less than one and one-half months' claims expense, will be transferred to the SCRHITF the following January. This year, \$104,573,394 was transferred to the SCRHITF. The increase in net position before this transfer amounted to \$147,060,765, which is attributed to better than expected claims trend.

The Statement of Revenue, Expenses, and Changes in Net Position present revenue and expenses as operating and are detailed by classification.

The Statement of Cash Flows will aid readers in identifying the sources and uses of cash by the categories of operating, non-capital financing and investing activities.

The following schedule is a condensed version of PEBA, Insurance Benefits' assets, liabilities, and net position and is prepared from the Statement of Net Position.

	<b>Condensed Statements of Net Position</b>	
	<b>(in millions)</b>	
	<b>2018</b>	<b>2017 *</b>
<b>Assets</b>		
Current assets	\$ 651.1	\$ 581.3
Noncurrent assets	0.1	0.1
Total assets	<u>651.2</u>	<u>581.4</u>
Deferred outflow of resources	<u>3.3</u>	<u>2.8</u>
<b>Liabilities</b>		
Current liabilities	269.2	243.1
Noncurrent liabilities	24.1	23.4
Total liabilities	<u>293.3</u>	<u>266.5</u>
Deferred inflow of resources	<u>1.0</u>	<u>-</u>
<b>Net position</b>		
Net investment in capital assets	0.1	0.1
Unrestricted	360.1	317.6
Total net position	<u>\$ 360.2</u>	<u>\$ 317.7</u>

\* - Does not include the effects of GASB 75, Accounting & Financial Reporting for Post Employment Benefits Other Than Pensions.

## Overview of Financial Statements (continued)

The following schedule is a summary of PEBA, Insurance Benefits' operating results for the fiscal year.

### Condensed Statements of Revenues, Expenses, and Changes in Net Position Year Ended June 30, (in millions)

	2018	2017 *
Operating:		
Program revenue	\$ 2,873.1	\$ 2,700.1
Expenses	(2,839.3)	(2,661.6)
Total operating income	33.8	38.5
Non-operating:		
Earnings on investments	8.7	7.8
Total non-operating income	8.7	7.8
Change in net position	42.5	46.3
Net position, beginning of the year *	317.7	282.2
Net position, end of the year	\$ 360.2	\$ 328.5

\* - Does not include the effects of GASB 75, Accounting & Financial Reporting for Post Employment Benefits Other Than Pensions.

A condensed version of Statement of Cash Flows is presented as follows:

### Condensed Statements of Cash Flows Year Ended June 30, (in millions)

	2018	2017 *
Cash flows from operating activities	\$ 115.5	\$ 30.7
Cash flows used in capital and related financing activities	(0.1)	(0.1)
Cash flows from investing activities	9.3	7.2
Net increase in cash and cash equivalents	124.7	37.8
Cash and cash equivalents, beginning of year	418.0	380.2
Cash and cash equivalents, end of year	\$ 542.7	\$ 418.0

\* - Does not include the effects of GASB 75, Accounting & Financial Reporting for Post Employment Benefits Other Than Pensions.

## **Overview of PEBA, Insurance Benefits**

PEBA, Insurance Benefits manages group health, dental, life, accidental death and dismemberment, and disability programs as authorized in § 1-11-710 and § 1-11-720 of the South Carolina Code of Laws, as well as the flexible benefits program (MoneyPlus) as authorized in § 9-1-60, and the employee adoption assistance program, pursuant to Proviso 108.2 of the 2017-2018 General Appropriations Act.

Following is a list of benefits offered by PEBA, Insurance Benefits differentiated according to self-insured versus insured status.

### **Self-Insured Programs**

- State Health Plan:
  - Standard Plan (PPO)
  - Medicare Supplement
  - Savings Plan (HDHP)
- MUSC Patient Centered Medical Home Plan (Pilot)
- State Dental Plan
- Basic Long Term Disability
- Adoption Assistance Program

### **Insured Programs**

- Tricare Supplement
- Dental Plus
- State Life
- Optional Life
- Dependent Life
- Supplemental Long Term Disability
- Vision

Benefits are offered to eligible employees and retirees of all state agencies and public school districts, and many local governments. As of June 2018, 699 employers participate in the program. The State Health Plan is PEBA, Insurance Benefits' "flagship" product, a "Preferred Provider Organization" model plan which encompasses medical, prescription drug, and behavioral health coverage. The State Health Plan is the most significant driver of PEBA, Insurance Benefits' financial activity, accounting for approximately 87.5% of all medical revenue.

## Overview of the State Health Plan

The State Health Plan (Plan) consists of the Standard Plan, the Medicare Supplement Plan, and the Savings Plan. The majority of Plan subscribers (70.30%) are enrolled in the Standard Plan, a PPO option available to non-Medicare and Medicare enrollees. Of the remaining subscribers, 24.88% are enrolled in the Medicare Supplement, a retiree option for those enrolled in Medicare and 4.82% are enrolled in the Savings Plan. The Savings Plan is a qualified high deductible health plan (HDHP) available to non-Medicare enrollees.

The State Health Plan remains competitive with other southern state health plans in terms of plan deductibles, coinsurance, and prescription drug coverage. In aggregate, the employer contributes around 77.0% of the total contribution for State Health Plan coverage. The Plan self-contracts provider networks for hospitals and physicians. These networks continue to maintain extremely high participation rates. Following is a look at total enrollment in the State’s medical insurance programs and enrollment in the State Health Plan (as of June 2018).

	<u>All Medical Programs</u>	<u>State Health Plan</u>
<b>Total Insured Persons:</b>	<b>491,127</b>	<b>470,547</b>
Subscribers:	278,106	267,565
Spouses:	81,506	124,840
Children:	131,515	78,142
<b>Total Subscribers:</b>	<b>278,106</b>	<b>267,565</b>
Employees:	189,373	178,979
Retirees:	85,076	85,003
Survivors:	2,602	2,597
COBRA:	872	806
Former spouses:	183	180
<b>Active Employees:</b>	<b>189,373</b>	<b>178,979</b>
State Agencies:	61,100	56,729
School Districts:	86,724	86,577
Local Government	41,549	35,673

## State Health Plan Premiums

The State Health Plan operates under a 4-tier premium structure, varying contribution levels according to level of coverage. The coverage levels include Employee Only, Employee/Spouse, Employee/Child, and Full Family. As of June 30, 2018, 57.56% of subscribers had Employee Only coverage, and the remaining 42.44% covered at least one dependent.

Premiums range from \$5,671.68 annually for Employee Only coverage to \$14,837.52 annually for Full Family coverage. Following are the monthly 2018 State Health Plan employee and employer rates.

### 2018 State Health Plan (Standard Plan) Monthly Premiums

#### ACTUAL RATES

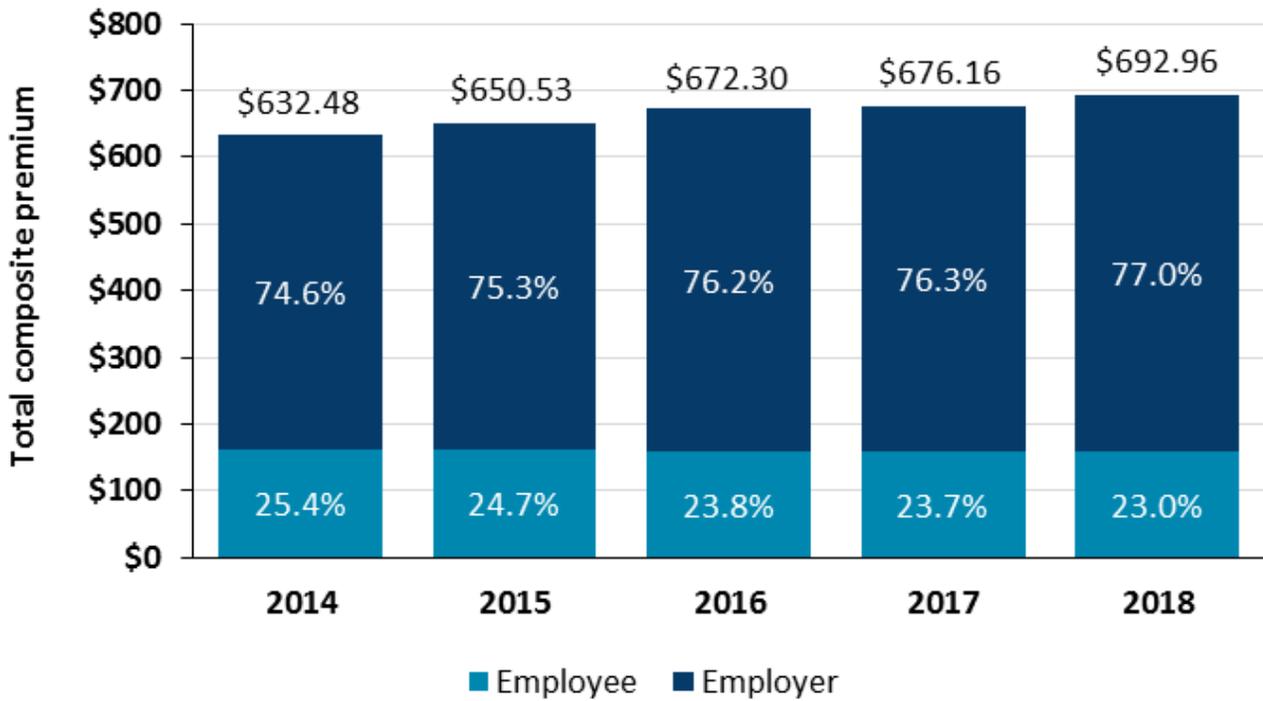
	Employee	Employer	Total
Employee Only	\$97.68	\$374.96	\$472.64
Employee / Spouse	\$253.36	\$742.72	\$996.08
Employee / Child(ren)	\$143.86	\$575.48	\$719.34
Full Family	\$306.56	\$929.90	\$1,236.46
<b>Composite Rate</b>	<b>\$159.71</b>	<b>\$533.25</b>	<b>\$692.96</b>

### State Health Plan Premiums (continued)

Premium revenue is shared between the employer and the employee (or retiree).

For 2018, the employer share of premiums increased 3.3% and the employee share dropped 0.2%. The 2018 employee share reflects approximately 23% of the total premium.

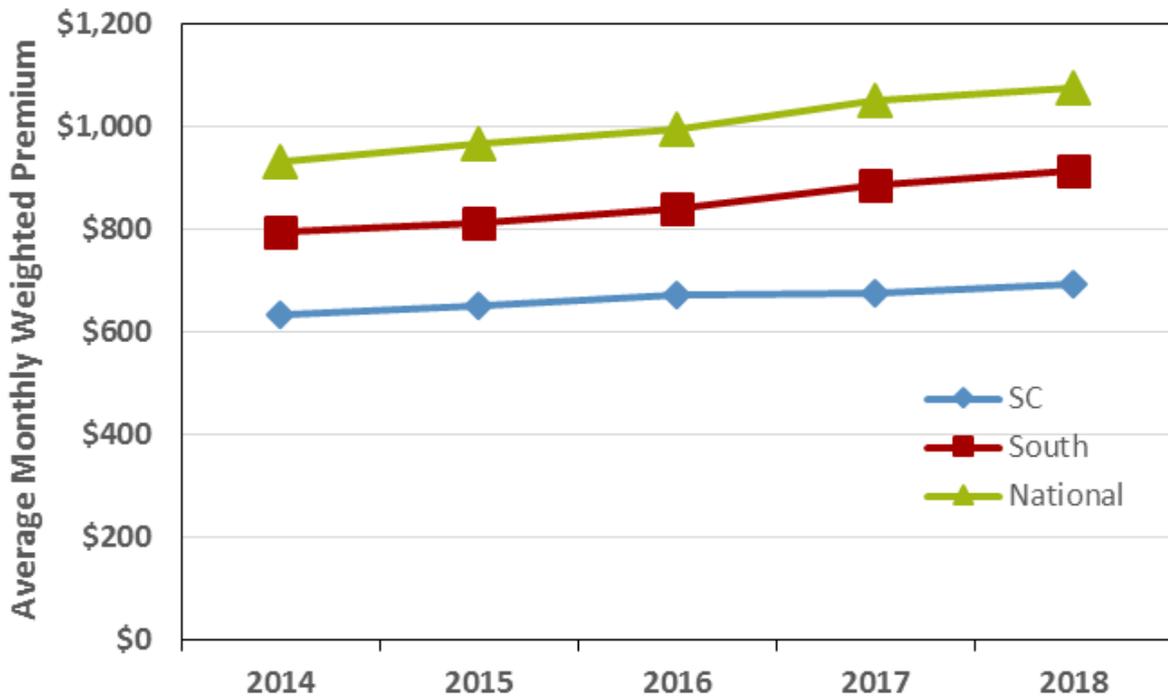
### South Carolina Employee/Employer Sharing of Total Composite



### State Health Plan Premiums (continued)

The 2018 composite total premium remains fairly well below both the regional and national levels. For 2018, the State Health Plan composite total premium was approximately 76% of the regional premium and 65% of the national premium.

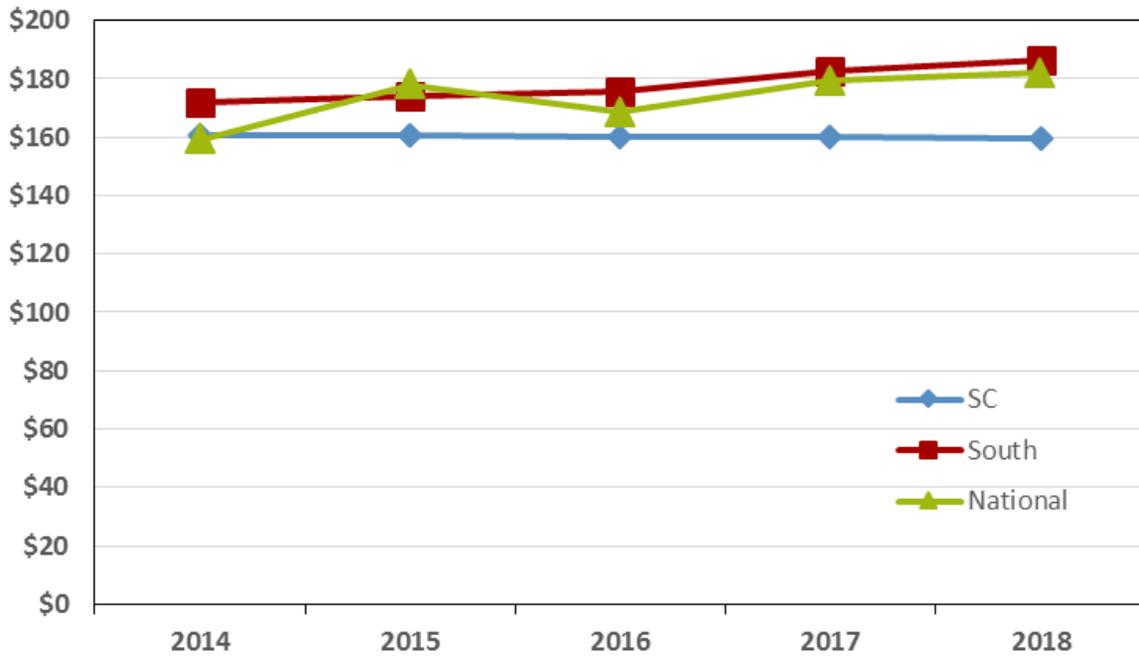
### Combined Employee and Employer Averaged Weighted Premiums for State Health Plan Compared to Regional and National Averages



### State Health Plan Premiums (continued)

For 2018, the State Health Plan employee composite remained below the regional and the national composites for the fourth consecutive year.

**Average Weighted Employee Premiums for State Health Plan Compared to Regional and National Averages**



## State Health Plan Contribution Increases

Contribution increases since 2000 are outlined below.

### State Health Plan Contribution Increases

<u>Plan Year</u>	<u>Employer Rate Increase</u>	<u>Employee Rate Increase</u>	<u>Overall Plan Increase</u>
2000	10.0%	0.0%	8.0%
2001	20.0%	10.4%	18.3%
2002	9.5%	22.6%	11.7%
2003	0.0%	36.9%	6.9%
2004	0.0%	27.6%	6.6%
2005	6.1%	29.7%	13.0%
2006	4.8%	0.0%	3.2%
2007	3.1%	0.0%	2.1%
2008	9.7%	0.0%	6.7%
2009	0.0%	0.0%	0.0%
2010	0.0%	0.0%	0.0%
2011	10.3%	0.0%	7.2%
2012	4.5%	4.5%	4.5%
2013	6.4%	0.0%	4.6%
2014	6.8%	0.0%	5.1%
2015	3.9%	0.0%	2.9%
2016	4.5%	0.0%	3.4%
2017	0.8%	0.0%	0.6%
2018	3.3%	0.0%	2.5%

## Status of the Plan

The State Health Plan is currently in a stable financial position and has been able to transfer excess cash reserves during this reporting period, as well as for the previous 10 reporting periods, to the South Carolina Retiree Health Insurance Trust Fund.

Following are the plan year changes in growth rate in payments per subscriber since 2001.

<u>Plan Year</u>	<u>Change in Payout/Subscriber</u>
2001	+11.0%
2002	+8.3%
2003	+12.9%
2004	-0.7%
2005	+4.7%
2006	+7.0%
2007	+6.3%
2008	+4.0%
2009	+8.7%
2010	+0.4%
2011	+3.6%
2012	+6.3%
2013	+3.3%
2014	+0.6%
2015	+8.3%
2016	+4.9%
2017	+5.6%

Change is payout/subscriber updated with the most current claims data to account for run-out.

## Status of the Plan (continued)

Following are the plan year medical utilization rates (and growth rates) per 1,000 insured persons (SHP primary) from 2006 through 2017 for office visits, ER visits, inpatient cases, and outpatient surgery.

	Office Visits		ER Visits		I/P Cases		O/P Surgery	
	Utilization	Growth	Utilization	Growth	Utilization	Growth	Utilization	Growth
2006	6,102.76		157.22		63.22		113.26	
2007	6,213.65	+1.8%	159.50	+1.5%	61.92	-2.1%	119.65	+5.6%
2008	6,251.72	+0.6%	158.49	-0.6%	59.95	-3.2%	118.40	-1.0%
2009	6,608.81	+5.7%	166.02	+4.8%	59.10	-1.4%	116.72	-1.4%
2010	6,268.74	-5.1%	160.53	-3.3%	57.74	-2.3%	114.58	-1.8%
2011	6,192.94	-1.2%	162.35	+1.1%	55.82	-3.3%	114.48	-0.1%
2012	6,624.21	+7.0%	173.03	+6.6%	59.30	+6.2%	113.56	-0.8%
2013	6,762.58	+2.1%	171.96	-0.6%	55.39	-6.6%	110.07	-3.1%
2014	6,645.51	-1.7%	181.82	+5.7%	53.20	-4.0%	110.33	+0.2%
2015*	7,100.12	+6.8%	188.08	+3.4%	53.84	+1.2%	109.67	-0.6%
2016*	7,420.53	+4.5%	193.56	+2.9%	52.14	-3.2%	114.70	+4.6%
2017*	7,915.69	+6.7%	197.76	+2.2%	53.24	+2.1%	114.05	-0.6%

\* Used new methodology to calculate volume by place of service. This methodology was updated in 2015.

Plan year prescription drug utilization has also moderated, as well as shifted to more cost effective delivery channels, as indicated below.

	Rx/Insured		Generic Share	Mail Service Share
	Utilization	Growth		
2006	17.99		50.5%	9.8%
2007	18.41	+2.3%	55.2%	9.9%
2008	18.22	-1.0%	61.3%	9.9%
2009	18.31	+0.5%	62.9%	9.2%
2010	18.06	-1.4%	67.4%	8.9%
2011	17.95	-0.6%	70.2%	8.5%
2012	18.21	+1.4%	74.2%	8.1%
2013	18.33	+0.7%	77.0%	7.7%
2014	18.16	-0.9%	79.5%	2.2%
2015*	18.60	+2.4%	81.5%	16.0%
2016*	18.22	-2.0%	84.7%	16.3%
2017*	17.91	-1.7%	85.6%	15.5%

\* Used new reporting method to include both 90-day retail and mail, which have the same copayments.

## Status of the Plan (continued)

Cost containment initiatives continue to influence the Plan's positive trend, including the following.

- Provider reimbursement pricing policy with provider networks (inpatient and outpatient hospital settings, professional fee schedules and pharmacy pricing)
- Utilization review and management (precertification of inpatient cases and certain outpatient procedures, disease management of specified conditions, complex care management and chronic kidney disease management)
- Chiropractic limit of \$2,000/person/year and limit of one manual therapy unit per visit (implemented 2010)
- Pre-authorization process for high-end radiology procedures (implemented 2010)
- Tobacco surcharge of \$40/contract/month for members with single coverage who use tobacco and \$60/contract/month for members with dependent coverage who use tobacco or cover a family member that does
- "Evidence-based medicine" initiative involving analysis of claims data and communications with doctors regarding best practices
- Mail service pharmacy through Pharmacy Benefits Manager
- Prior authorization/step therapy requirements for specified medications, including "preferred step therapy" program to steer business to "front-line" generics
- Preferred drug list
- "Pay-the-difference" policy for brand drugs with generic equivalents
- Managed care approach for behavioral health services
- "Gold standard" smoking cessation program
- Health education, disease management workshops, and preventive screenings provided through office wellness staff
- Voluntary Data Sharing Agreement with Medicare (maintain current Medicare eligibility on all subscribers yielding significant cost savings)
- Significant patient cost sharing for all service types
- Pharmaceutical manufacturer rebates (for all health plans); the Plan received approximately \$239.61 million in rebates during the current fiscal year
- Implementation of a Medicare Part D Prescription Drug Program; the Plan received about \$126.79 million in subsidies during the current fiscal year
- A Wellness Incentive, which provides free generic drugs for participants with cardiovascular disease or diabetes who participate in a wellness program for these conditions (implemented 2010)

## **Going Forward:**

Several points of interest going forward include the following.

- PEBA, Insurance Benefits will retain its “grandfathered” status under the Patient Protection and Affordable Care Act (ACA) for 2019.
- This year’s legislative session provided for a 7.4% increase in the employer contribution rates beginning January 2019; employee contribution rates will remain the same.
- Other changes to the State Health Plan, beginning January 2019, include:
  - Patient cost-sharing features, such as copayments and deductibles, will increase for Standard Plan members,
  - adult well visits will be a covered benefit under the Standard Plan, subject to copayments, deductibles, and coinsurance in covered years, and
  - introducing an online “Naturally Slim” program that will teach behavioral skills necessary to lose weight
- ASIFlex is the new flexible spending account administrator. There is no fee to participate in the Pretax Group Insurance Premium feature. Medical Spending Account participants are allowed to carry over up to \$500 of unused funds into 2020.
- The MUSC Health Plan will continue in 2019 as a pilot to employees and dependents of MUSC and the Medical University Hospital Authority to reduce health care costs while improving the health of an entire population.

## **SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND**

The SCRHITF was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the SCRHITF was created to provide for the employer costs of retiree post-employment health and dental insurance benefits for retired state employees and retired employees of public school districts. As of the SCRHITF valuation date of June 30, 2017 (the latest plan actuarial evaluation date), there were 231 participating employers and 272,201 eligible plan participants (182,850 active, 88,201 retired, and 1,150 vested terminated). The South Carolina Public Employee Benefit Authority (PEBA) administers the SCRHITF and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the SCRHITF and invests those funds in accordance with the statutes of the State.

### **Financial Highlights**

- Net position held in trust, as reported in the Statement of Plan Fiduciary Net Position, totaled \$1.217 billion at June 30, 2018, a change of \$101.755 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Fiduciary Net Position totaling \$567.942 million are a result of contributions, investment income, and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Fiduciary Net Position totaling \$466.187 million are a result of benefit and administrative expenses.

## Overview of Financial Statements

The SCRHITF has two basic financial statements, the notes to the financial statements and the three required supplementary schedules. The basic financial statements and the required disclosures comply with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Fiduciary Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities owed as of fiscal year end.

The following schedule is a condensed version of the SCRHITF's assets, liabilities, and fiduciary net position and is prepared from the Statement of Plan Fiduciary Net Position:

### Condensed Statements of Plan Fiduciary Net Position

	<b>2018</b>	<b>2017</b>
Total assets	\$ 1,224,074,265	\$ 1,116,734,760
Total liabilities	7,544,203	1,960,000
Net position held in trust for other postemployment benefits	<u>\$ 1,216,530,062</u>	<u>\$ 1,114,774,760</u>

The Statement of Changes in Plan Fiduciary Net Position is the second financial report. This report reflects all the activities that occurred during the fiscal year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate the condition of the SCRHITF's financial position over time.

## Overview of Financial Statements (continued)

The following schedule is a condensed version of the SCRHITF's additions, deductions and changes in plan net position and is prepared from the Statement of Changes in Plan Fiduciary Net Position:

### Condensed Statements of Changes in Plan Fiduciary Net Position

	<b>2018</b>	<b>2017</b>
Total additions	\$ 567,941,870	\$ 504,565,994
Total deductions	466,186,568	416,099,964
Net increase in net position held in trust for other postemployment benefits (OPEB)	101,755,302	88,466,030
Net position held in trust for OPEB, beginning of year	1,114,774,760	1,026,308,730
Net position held in trust for OPEB, end of year	<u>\$ 1,216,530,062</u>	<u>\$ 1,114,774,760</u>

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the period.

### Plan Assets and Key Percentages

As of June 30, 2018, the SCRHITF had \$1.217 billion in Net Position (total assets of \$1.224 billion exceeding total liabilities of \$7.544 million). The Plan Fiduciary Net Position represents funds available for future payments.

The SCRHITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2017 which was rolled forward to June 30, 2018 to determine the net OPEB liability to be \$14.171 billion. The Plan Fiduciary Net Position as a percentage of total OPEB liability was 7.91% at the valuation date. The net OPEB liability as a percentage of covered-employee payroll was 164.50% at the valuation date.

### Additions and Deductions to Plan Fiduciary Net Position

The primary sources which finance the health and dental benefits the SCRHITF provides are the collection of employer contributions, additional State appropriations, accumulated PEBA, Insurance Benefits reserve balances, and income generated from investments. For the period ending June 30, 2018, total additions amounted to \$567,941,870. Employer contributions accounted for \$460,477,569 that is a result of a surcharge of 5.50% on each employer's payroll. The surcharge is an estimated amount to cover the employer portion of the "pay go" costs of retiree claims and is collected by and transferred from the South Carolina Retirement System to the SCRHITF. Other additions were state appropriations of \$2,375,300, a transfer of \$104,573,394 based on the amount of PEBA, Insurance Benefits cash reserves available over 140% of the actuarial determined incurred but not reported claims (IBNR) at December 31, 2017, and

## **Overview of Financial Statements (continued)**

\$515,607 in investment income. It is composed of interest earnings and securities lending activities of \$27,477,653, net realized gains of \$2,245,209, net unrealized losses of \$29,092,370 and net unrealized losses from value in securities lending of \$114,885.

For the period ending June 30, 2018, total deductions amounted to \$466,186,568, which was a result of claims and administrative expenses.

### **Future Funding**

Going forward into 2019, the net OPEB liability will be funded primarily through the surcharge on employer's payroll. Effective July 1, 2018, the surcharge will increase to 6.05%. Other funding sources will include excess PEBA, Insurance Benefits reserves, additional State appropriations (which in this year's budget totaled \$2,375,300) and investment earnings.

## **SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND**

The SCLTDITF was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. As of June 30, 2017 (the latest plan actuarial valuation date), there were 693 participating employers and 185,782 eligible plan participants (184,758 active and 1,024 retired). The South Carolina Public Employee Benefit Authority (PEBA) administers the SCLTDITF and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the SCLTDITF and invests those funds in accordance with the statutes of the State.

### **Financial Highlights**

- Net position held in trust, as reported in the Statement of Plan Fiduciary Net Position, totaled \$36.200 million, a decrease of \$0.498 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Fiduciary Net Position of \$7.533 million represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Fiduciary Net Position of \$8.031 million represent benefit and administrative expenses.

## Overview of Financial Statements

The SCLTDITF has two basic financial statements, the notes to the financial statements, and the three required supplementary schedules. The basic financial statements and the required disclosures comply with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Fiduciary Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to beneficiaries and any current liabilities owed as of fiscal year end.

The following schedule is a condensed version of the SCLTDITF's assets, liabilities, and net position and is prepared from the Statement of Plan Fiduciary Net Position:

### Condensed Statements of Plan Fiduciary Net Position

	<b>2018</b>	<b>2017</b>
Total assets	\$ 37,456,066	\$ 37,362,134
Total liabilities	1,256,203	664,545
Net position held in trust for other postemployment benefits	<u>\$ 36,199,863</u>	<u>\$ 36,697,589</u>

The Statement of Changes in Plan Fiduciary Net Position is the second financial report. This report reflects all the activities that occurred during the fiscal year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate the condition of the SCLTDITF's financial position over time.

The following schedule is a condensed version of the SCLTDITF's additions, deductions and changes in plan net position and is prepared from the Statement of Changes in Plan Fiduciary Net Position:

### Condensed Statements of Changes in Plan Fiduciary Net Position

	<b>2018</b>	<b>2017</b>
Total additions	\$ 7,532,785	\$ 8,060,245
Total deductions	8,030,511	8,215,609
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	(497,726)	(155,364)
Net position held in trust for OPEB, beginning of year	36,697,589	36,852,953
Net position held in trust for OPEB, end of year	<u>\$ 36,199,863</u>	<u>\$ 36,697,589</u>

## **Overview of Financial Statements (continued)**

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the period.

### **Plan Assets and Key Percentages**

As of June 30, 2018, the SCLTDITF has \$36,199,863 in net position. The Plan Fiduciary Net Position represents funds available for future payments.

The SCLTDITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2017 which was rolled forward to June 30, 2018 to determine the net OPEB liability to be \$3,061,228. The Plan Fiduciary Net Position as a percentage of total OPEB liability was 92.20% at the valuation date.

### **Additions and Deductions to Plan Net Position**

The primary sources which finance the long-term disability benefits the SCLTDITF provides are investment income and the collection of employer contributions. For the period ended June 30, 2018, total additions amounted to \$7,532,786. Employer contributions to the SCLTDITF were \$7,479,841 for premiums that are billed and transferred by PEBA, Insurance Benefits on a monthly basis. At June 30, 2018, there was a net gain in investment income of \$52,944. It is composed of interest earnings and securities lending activities of \$1,055,239, net realized gains of \$20,609, net unrealized losses of \$1,006,687 and net unrealized losses from value in securities lending of \$16,217. For the period ending June 30, 2018, total deductions amounted to \$8,030,511 resulting from benefits expense (claims expense and administrative expenses).

### **Future Funding**

The Net OPEB Liability is 92.20% funded and going forward into 2019, the premium charged to employers will remain static.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS

STATEMENT OF NET POSITION

JUNE 30, 2018

**Assets**

Current assets:	
Cash and cash equivalents	\$ 542,751,546
Premiums receivable	880,109
Prescription drug rebate receivable	47,012,227
Medicare Part D subsidy receivable	59,163,258
Accrued interest	6,670
Prepaid items	289,992
Deposit	994,145
Total current assets	<u>651,097,947</u>
Non-current assets:	
Capital assets, net of accumulated depreciation	<u>60,892</u>
Total assets	<u>651,158,839</u>
Deferred outflow of resources	<u>3,357,212</u>

**Liabilities**

Current liabilities:	
Accounts payable and accrued payroll	812,026
Accrued compensated absences - current portion	600,555
Unearned premium revenue	21,043,144
Claims payable and administrative fees	81,857,210
Claims incurred but not reported	164,855,484
Total current liabilities	<u>269,168,419</u>
Long-term liabilities:	
Accrued compensated absences	225,086
Net OPEB liability	10,429,917
Net pension liability	13,478,904
Total long-term liabilities	<u>24,133,907</u>
Total liabilities	<u>293,302,326</u>
Deferred inflow of resources	<u>993,554</u>

**Net Position**

Net investment in capital assets	60,892
Unrestricted	360,159,279
Total net position	<u>\$ 360,220,171</u>

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS

STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2018

**Operating Revenue**

Insurance premiums:	
Active employees	\$ 1,773,816,529
Retirees	712,424,551
Total insurance premiums	<u>2,486,241,080</u>
Prescription drug rebates	239,608,634
Medicare Part D subsidy	126,786,492
Administrative fees and other	20,400,264
Total operating revenue	<u><u>2,873,036,470</u></u>

**Operating Expenses:**

Claims	2,486,175,649
Premiums	157,807,615
Non-employer contributions for OPEB	104,573,394
Third party administrative fees	76,265,558
Salaries and benefits	10,338,835
Other services	1,861,896
Professional services	616,800
Adoption assistance program	226,595
Other operating expenses	1,409,020
Total operating expenses	<u>2,839,275,362</u>
Operating income	33,761,108
Non-operating revenue:	
Income from deposits	8,726,263
Change in net position	<u>42,487,371</u>
Net position, beginning of year, as restated (Note 2)	317,732,800
Net position, end of year	<u><u>\$ 360,220,171</u></u>

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

**Cash Flows from Operating Activities**

Premiums received from customers	\$ 2,489,100,776
Other receipts	440,869,636
Payments to employees	(9,190,420)
Payments for other post employment benefits	(104,573,394)
Payments to providers, suppliers and others	(2,700,673,736)
Net cash provided by operating activities	<u>115,532,862</u>

**Cash Flows from Capital and Related Financing Activities**

Purchase of capital assets	(76,063)
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**Cash Flows from Investing Activities**

Interest received-deposits and investments	<u>9,277,725</u>
Net increase in cash and cash equivalents	124,734,524
Cash and cash equivalents, beginning of year	<u>418,017,022</u>
Cash and cash equivalents, end of year	<u><u>\$ 542,751,546</u></u>

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

**Reconciliation of operating income to net cash from operating activities**

Operating income	\$ 33,761,108
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	126,448
Pension charges	938,916
OPEB charges	229,448
Effect of changes in operating assets and liabilities:	
Premiums receivable	442,489
Prescription drug rebate receivable	40,260,356
Medicare Part D Subsidy receivable	13,813,891
Prepaid expenses	(4,759)
Deposits	(48,321)
Accounts payable, accrued payroll and compensated absences	(19,950)
Unearned premium revenue	2,417,206
Claims payable, administrative fees and incurred but not reported	23,616,030
Net cash provided by operating activities	<u>\$ 115,532,862</u>

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

STATEMENTS OF PLAN FIDUCIARY NET POSITION

JUNE 30, 2018

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
<b>Assets :</b>		
Cash and cash equivalents	\$ 9,414,568	\$ 980,098
Invested securities lending collateral	7,385,657	727,702
Due from South Carolina Retirement Systems	67,069,360	-
Accrued interest receivable	7,195,024	297,607
Investments	1,133,009,656	35,450,659
 Total assets	 1,224,074,265	 37,456,066
 <b>Liabilities :</b>		
Collateral for loaned securities	7,544,203	743,917
Claims payable	-	512,286
 Total liabilities	 7,544,203	 1,256,203
 Net position held in trust for other postemployment benefits	 \$ 1,216,530,062	 \$ 36,199,863

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
<b>Additions:</b>		
Contributions:		
Employer contributions	\$ 460,477,569	\$ 7,479,841
Nonemployer contributions	106,948,694	-
Total contributions	567,426,263	7,479,841
Investment income	467,297	51,142
Securities lending activities income:		
Gross earnings from interest and fees	229,223	7,784
Gross borrower rebates	(175,547)	(5,782)
Bank fees	(5,366)	(200)
Net earnings from securities lending activities	48,310	1,802
Total additions	567,941,870	7,532,785
<b>Deductions:</b>		
Benefits expense	466,121,568	8,020,511
Administrative expenses	65,000	10,000
Total deductions	466,186,568	8,030,511
Change in net position held in trust for OPEB	101,755,302	(497,726)
Net position held in trust for other postemployment benefits, beginning of year	1,114,774,760	36,697,589
Net position held in trust for other postemployment benefits	\$ 1,216,530,062	\$ 36,199,863

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**1. Description**

General

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 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 (SFFA), which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits.

The financial statements presented include the South Carolina Public Employee Benefit Authority, Insurance Benefits (PEBA, Insurance Benefits) and the other post-employment benefits trust funds, the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity and these financials are included in the *Comprehensive Annual Financial Report* of the State of South Carolina.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**Description (Continued)**

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g. employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and

- (1) it is able to impose its will on that organization or
- (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity.

The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget;
- (2) Levy taxes or set rates or charges without approval by another government
- (3) Issue bond debt without approval by another government.

Based on these criteria, this report has no component units or any other parts of the State of South Carolina primary government included.

PEBA, Insurance Benefits

The PEBA, Insurance Benefits manages the group health, dental, life, accidental death and dismemberment and disability programs as authorized in Sections 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended.

The PEBA, Insurance Benefits provides health insurance to eligible employees and retirees of State agencies and its political subdivisions who elect coverage. Coverage elections include three self-insured health plans. The State Health Plan offers a High Deductible Health Plan (SHP Savings Plan), a Preferred Provider Organization (SHP Standard Plan) and Medicare Supplement. Tricare Supplement Plan is a fully insured product. Dental coverage is through the State's self-insured plan, which is available to eligible employees and retirees. An additional dental option is offered to subscribers, Dental Plus, which is a fully-insured product. Dental Plus is an employee pay all plan that supplements the State Dental Plan. Dental coverage is required to elect Dental Plus. The Basic Long-Term Disability Plan is a self-insured group long-term disability plan available to eligible active employees enrolled in a State health plan. Supplemental long-term disability, Optional Life and Dependent and/or Spouse Life are fully insured products offered to eligible employees.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**Description (Continued)**

For active State employees, the employee share of monthly premiums is paid through payroll deductions and the respective employer pays the employer's monthly premium portion for active employees. For all other entities (School Districts, Higher Education Institutions, and Local Subdivisions), the employer is responsible for remitting the employer and employee monthly premium for active employees.

Retirees of the State and School Districts pay most of their monthly premiums through withholdings from individual retirement benefits, with the remaining individually billed. The employer portion is paid by the South Carolina Retiree Health Trust Fund through monthly employer surcharge contributions.

For Local Subdivisions, the employer is also responsible for collecting the retiree monthly premium and remitting the entire monthly premium to the PEBA, Insurance Benefits.

Details on Eligibility requirements and coverage for all plans are contained in the *Insurance Benefits Guide*. Premium rates for all plans are reviewed on a calendar year basis and adjusted as considered necessary after actuarial calculations.

The State of South Carolina as the predominant participant retains the risk of loss for the self-insured health, dental and basic long-term disability coverages.

Other Post-Employment Benefits Trust Funds

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 on 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.

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.

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.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**Description (Continued)**

Risks and Uncertainties

The OPEB Trusts invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of plan net position available for benefits.

**2. Summary of Significant Accounting Policies**

Basis of Presentations

The PEBA, Insurance Benefits is an internal service fund and in its stand-alone financial statements is considered a proprietary fund. The financial statement presentation provides a comprehensive, entity-wide perspective of the fund's net position, revenue, expenses and changes in net position and cash flows. Net position is segregated into net investment in capital assets, restricted net position and unrestricted net position components.

The OPEB Trusts exist for the benefit of each plan's participants and may not be utilized for any other purpose. They are part of the State of South Carolina's primary government and are included in the *Comprehensive Annual Financial Report of the State of South Carolina*. In making this determination, factors of financial accountability, governance and fiduciary responsibility of the state were considered.

Basis of Accounting

PEBA adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves accounting and financial reporting by state and local government employers whose employees are provided postemployment benefits other than pensions. PEBA is now required to record a liability for future other postemployment benefits in excess of accumulated plan contributions. This pronouncement requires the following restatement of the June 30, 2017 net position for PEBA – Insurance Benefits:

Net position, June 30, 2017, as previously stated	\$	328,527,961
Cumulative affect of application of GASB 75, Net OPEB Liability		(11,141,266)
Cumulative affect of application of GASB 75, Deferred Outflow of Resources		346,105
Net position, June 30, 2017, restated	\$	317,732,800

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**Summary of Significant Accounting Policies (continued)**

All financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues and contributions are recognized in the period in which they are earned and become measurable; expenses and benefits are recognized in the period incurred and payable, if measurable. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as cash and cash equivalents represent cash on hand, cash on deposit in banks and cash invested in various instruments as part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States, government sponsored entities and domestic corporations, certificates of deposit and collateralized repurchase agreements held in the State's name.

Most entities in the primary government participate in the cash management pool except for some agencies due to restrictions on the use of funds. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values and credit risk of the State Treasurer's investments is disclosed in the State's CAFR.

The State's cash management pool consists of a general deposit account and several special deposit accounts. The state records each fund's equity interest in the general deposit account. All earnings on that account are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

The amounts shown in the financial statements as cash and cash equivalents for PEBA, Insurance Benefits represents cash on deposit with the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Cash and cash equivalents for the OPEB Trusts consist mainly of collateralized repurchase agreements held by the State or its agent in the name of the State Treasurer as custodian and restricted to the related trust fund.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**Summary of Significant Accounting Policies (Continued)**

**Investments**

The State Treasurer is authorized by statute to be the custodian of and invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports and daily communication with brokers and financial institution investment officers.

To insure safety of principal, the State Treasurer's policy is to limit liquid investments, maturities not exceeding one year, to cash, repurchase agreements (collateralized by United States Treasury or federal agency obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities; those rated at least A by two leading national rating services. In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Investments are stated at fair value determined by the custodian from the last reported sales price as provided by Bank of New York Mellon. Net unrealized appreciation or depreciation for the year is reflected in the statement of changes in plan net position and is included as a component of investment income.

**Receivables**

For financial statement presentations enclosed herein, receivables are recorded when earned and due. No allowance for bad debt is required, as amounts are written-off when deemed uncollectible. Receivables due from other State Agencies are shown in Note 10.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are shown as prepaid items so to reflect consumption in the future reporting period.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
INSURANCE BENEFITS  
&  
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS  
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**Summary of Significant Accounting Policies (Continued)**

Capital Assets

Capital assets are valued at original acquisition cost less accumulated depreciation from the purchase date. Assets donated are valued at fair market value at the date of the gift. One class of capital assets, furniture and equipment, is used. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of 3-10 years. The capitalization dollar threshold limit for capital assets is \$5,000.

Unearned Premium Revenue

Premiums billed in advance or payments received in advance of when coverage is due, or collections of overpayments of amounts billed not earned are recorded as unearned premium revenue.

Claims Payable and Administrative Fees

Claims payable and administrative fees represent claims and fees related to health, dental and long-term disability expenses payable at June 30, 2018. The claims payable balance is based on claims that have been paid by the third party administrators for the fiscal year presented and total \$81,854,361. Administrative fees payable at June 30, 2018 total \$515,135.

Compensated Absences

Full-time employees earn 1.25 days of vacation leave per month and 1.25 days of sick leave. Employees with more than ten years of service earn an additional 1.25 days of vacation leave per year for each year of continuous State service in excess of ten years. This caps at 22 years in which an employee would earn 18.75 hours of vacation leave a month which equals 30 days, the maximum amount of vacation leave an employee can earn in any one calendar year. Sick leave earnings remain at 15 days per calendar year. Employees may carry forward 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination from State employment, a lump sum payment will be made to an employee for any unused accumulated vacation leave, not to exceed 45 days, at the rate the employee is being paid at the time of termination. The vacation leave payment is subject to retirement contribution if the employee is classified as a Class II membership, anyone hired prior to July 1, 2012. Employees are not paid for unused accumulated sick leave. However, at retirement, employees classified as a Class II membership receive service credit for not more than 90 days of unused accumulated sick leave. The additional service credit may not be used to qualify an employee for retirement.

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**Summary of Significant Accounting Policies (Continued)**

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources representing a consumption of net position that applies to a future period(s).

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources representing an acquisition of net position that applies to a future period(s).

The PEBA, Insurance Benefits statement of net position includes a deferred outflow and inflow related to the Net OPEB Liability as detailed in Note 4 and Net Pension Liability as detailed in Note 8. As of June 30, 2018, the deferred outflow amount of \$3,357,212 consists of \$391,391 from the Net OPEB Liability and \$2,965,821 from the Net Pension Liability. As of June 30, 2018, the deferred inflow amount of \$993,554 consists of \$986,083 from the Net OPEB Liability and \$7,471 from the Net Pension Liability.

Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. PEBA, Insurance Benefits recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or PEBA, Insurance Benefits' proportionate share thereof in the case of a cost-sharing multiple employer plan, measured as of PEBA, Insurance Benefits' fiscal year-end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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**Summary of Significant Accounting Policies (Continued)**

Net Position

Net position for PEBA, Insurance Benefits is recorded in three categories:

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on the use of net position are imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation. SC PEBA did not have restricted net position at June 30, 2018.

Unrestricted net position consists of net position that does not meet the definition of restricted net position or investment in capital assets.

The unrestricted net position of the PEBA, Insurance Benefits is required by State statute to be used for the purposes of providing insurance benefits for employees and retirees.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the need to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

**3. Deposits, Investments and Securities Lending Transactions**

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all deposits of the entities.

For purposes of the PEBA, Insurance Benefits statement of cash flows, all amounts held by the State Treasurer's Office are considered highly liquid securities with a maturity of three months or less at the time of purchase. Fair value of cash and cash equivalents reported approximates the carrying value.

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**Deposits, Investments and Securities Lending Transactions (Continued)**

Cash deposits held by the State Treasurer's Office as of June 30, 2018 for financials presented were as follows:

PEBA, Insurance Benefits	<u>\$ 542,751,546</u>
SCRHITF	<u>\$ 2,184,568</u>
SCLTDITF	<u>\$ 60,098</u>

Cash deposits held by the State Treasurer's Office and its third party administrator are exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the entities' deposits may not be returned. The entities do not have a deposit policy for custodial credit risk. As of June 30, 2018, the entities' deposits were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entities' name.

Deposits held by the State Treasurer's Office are classified by risk category in the Comprehensive Annual Financial Report of the State of South Carolina. Information about the classification of a portion of its pooled funds is not available.

The amounts classified as investments in the financial statements comprise investments held by the OPEB Trusts, which are legally restricted and earnings thereon and is revenue of the specific trust from which the investments were made. The OPEB Trusts' investments are specific, identifiable investment securities held at Bank of New York Mellon.

For investment classifications reported below, the balances therein fluctuated minimally in excess of the year-end balances throughout the fiscal year ended June 30, 2018. As discussed in Note 2, investments are reported at fair value.

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**Deposits, Investments and Securities Lending Transactions (Continued)**

The following represents the fair values of the OPEB Trusts investments at June 30, 2018:

	<b>Fair Value - OPEB Trust Funds</b>	
	<b>SCRHITF</b>	<b>SCLTDITF</b>
Collateralized mortgage-backed obligations	\$ 86,291,530	\$ 1,982,051
U.S. government and agency securities	502,382,141	11,723,023
Corporate bonds	448,112,328	16,581,303
Financial paper	96,223,657	5,164,282
Cash equivalents	7,230,000	920,000
<b>Total</b>	<b>\$ 1,140,239,656</b>	<b>\$ 36,370,659</b>

Due to higher cash flows at certain times during the year, the repurchase agreements fluctuated significantly throughout the fiscal year. The maximum amounts in this classification during the year ended June 30, 2018 were \$108,210,000 for the SCRHITF and \$5,285,000 for the SCLTDITF. Repurchase agreements are classified as cash and cash equivalents in the OPEB Trusts' Statement of Plan Net Position.

The OPEB Trusts investments are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. The State Treasurer's credit policy mitigates potential for loss of principal by purchasing only high investment grade fixed-income securities. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security.

As of June 30, 2018, the investments rated by Moody's stated at fair value were as follows:

	<b>Fair Value - OPEB Trust Funds</b>						<b>Total</b>
	<b>AAA/AA</b>	<b>A1/A2/A3</b>	<b>BAA/BA</b>	<b>B1/B2/B3</b>	<b>P-1/P-2</b>	<b>Not Rated</b>	
Collateralized mortgage-backed obligations	\$ 88,273,581	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,273,581
U.S. government and agency securities	514,105,164	-	-	-	-	-	514,105,164
Financial paper	8,254,118	48,628,879	44,504,942	-	-	-	101,387,939
Corporate bonds	36,432,934	138,986,472	233,518,844	2,471,900	42,967,366	10,316,115	464,693,631
Cash equivalents	-	-	-	-	8,150,000	-	8,150,000
<b>Total</b>	<b>\$ 647,065,797</b>	<b>\$ 187,615,351</b>	<b>\$ 278,023,786</b>	<b>\$ 2,471,900</b>	<b>\$ 51,117,366</b>	<b>\$ 10,316,115</b>	<b>\$ 1,176,610,315</b>

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**Deposits, Investments and Securities Lending Transactions (Continued)**

The OPEB Trusts investments are subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Treasurer's policy does not specifically address interest rate risk. Its objectives for preservation of capital and maintenance of adequate liquidity focus the management of interest rate sensitivity on investing in securities with a range of maturities from one day to thirty years.

At June 30, 2018 the maturities of the investments for the OPEB Trusts that will mature were limited according to the following segmented time distribution:

	<b>Fair Value - OPEB Trust Funds Maturities (in years)</b>				<b>Total</b>
	<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More than 10</b>	
Collateralized mortgage-backed obligations	\$ 5,200	\$ 96,544	\$ 1,750	\$ 88,170,087	\$ 88,273,581
U.S. government and agency securities	150,844	247,391,900	112,307,823	154,254,597	514,105,164
Financial paper	12,153,202	63,195,200	15,154,456	10,885,081	101,387,939
Corporate bonds	109,046,876	253,950,317	100,471,005	1,225,433	464,693,631
Cash equivalents	8,150,000	-	-	-	8,150,000
<b>Total</b>	<b>\$ 129,506,122</b>	<b>\$ 564,633,961</b>	<b>\$ 227,935,034</b>	<b>\$ 254,535,198</b>	<b>\$ 1,176,610,315</b>

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The State's policy for reducing the risk is to diversify and limit exposure to any single issuer to no more than 5%, except for United States Treasury and agency obligations. As of June 30, 2018, PEBA – Insurance Benefits' did not have any single issuers of debt that were not fully collateralized by the U.S. government.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The State Treasurer manages these risks as permitted by investment policy. There were no foreign investments at year end for either SCRHITF or SCLTDITF.

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**Deposits, Investments and Securities Lending Transactions (Continued)**

During the year, the following amounts earned from deposits or investments were included in investment earnings:

	<b>PEBA, Insurance</b>		<b>OPEB Trust Funds</b>	
	<b>Benefits</b>		<b>SCRHITF</b>	<b>SCLTDITF</b>
Interest earned from deposits	\$	8,726,263	\$ -	\$ -
Interest earned from investments		-	27,477,653	1,055,239
Net realized gains on investments		-	2,245,209	20,609
Net unrealized loss from change in value of investments		-	(29,092,370)	(1,006,687)
Net unrealized loss from change in value of securities lending collateral		-	(114,885)	(16,217)
Interest and investment earnings	<u>\$</u>	<u>8,726,263</u>	<u>\$ 515,607</u>	<u>\$ 52,944</u>

The following schedule reconciles the OPEB Trust Funds investments and deposits as reported in the statement of net positions to disclosures included in this note.

	<b>SCRHITF</b>		<b>SCLTDITF</b>	
	Statements	Note Disclosure	Statements	Note Disclosure
<b>Held by State Treasurer:</b>				
Cash and cash equivalents	\$ 9,414,568	\$ -	\$ 980,098	\$ -
Invested securities lending collateral	7,385,657	7,385,657	727,702	727,702
Investments	1,133,009,656	-	35,450,659	-
Deposits	-	2,184,568	-	60,098
Specifically identified investments	-	1,140,239,656	-	36,370,659
<b>Total</b>	<u>\$ 1,149,809,881</u>	<u>\$ 1,149,809,881</u>	<u>\$ 37,158,459</u>	<u>\$ 37,158,459</u>

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**Deposits, Investments and Securities Lending Transactions (Continued)**

Fair Value Measurements

The OPEB Trusts categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment. In determining the appropriate levels, the OPEB Trusts performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy. The Trusts did not have any such investments at June 30, 2018.

Investments classified according to the fair value hierarchy are valued according to pricing policy established by the OPEB Trusts' custodian bank. Pricing is based primarily on prices from several third-party vendors or other specified alternative sources which are considered to be reliable. Where available, the custodian bank uses more than one vendor for securities of each asset type, class or issue. The price received from a primary source is used in valuation unless a tolerance check, or price challenge, results in the use of a price from a secondary vendor.

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**Deposits, Investments and Securities Lending Transactions (Continued)**

The OPEB Trusts have the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	At 6/30/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateralized mortgage-backed obligations	\$ 88,273,581	\$ -	\$ 88,273,581	\$ -
U.S. government and agency securities	514,105,164	347,618,271	\$ 166,486,893	-
Repurchase agreement	8,150,000	8,150,000	-	-
Corporate bonds	464,693,631	-	464,693,631	-
Financial paper	101,387,939	-	101,387,939	-
<b>Total</b>	<b>\$ 1,176,610,315</b>	<b>\$ 355,768,271</b>	<b>\$ 820,842,044</b>	<b>\$ -</b>

Securities Lending Transactions

Through its custodial agent, the OPEB Trusts participates in a securities lending program whereby securities are loaned for generating additional income. The OPEB Trusts lend securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100%.

No restrictions are held on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2018 included U.S. Government securities and agencies, corporate and convertible bonds. The contractual agreement with the OPEB Trusts' custodial bank provides indemnification in the event the borrower fails to pay the OPEB Trusts income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The OPEB Trusts cannot pledge or sell collateral securities without a borrower default. The OPEB Trusts invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the OPEB Trusts must return the cash collateral to the borrower upon the expiration of the loan.

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**Deposits, Investments and Securities Lending Transactions (Continued)**

At June 30, 2018, the fair value of securities on loan and invested in cash collateral for SCRHITF and SCLTDITF were \$7,385,657 and \$727,702, respectively. Securities lending obligations at June 30, 2018 for the SCRHITF and SCLTDITF were \$7,544,203 and \$743,917, respectively, with the unrealized loss in invested cash collateral recorded in the Statement of Changes in Plan Net Position included in investment income.

With regard to custodial credit risk, the SCRHITF and SCLTDITF's cash collateral invested are held by the counterparty and are insured. All securities loaned can be terminated on demand by either the OPEB Trusts or the borrower. At year-end the average number of days the loans were outstanding was two days for SCRHITF and one day for SCLTDITF. The average weighted maturity of investments made with cash collateral was one day for both OPEB Trusts. At June 30, 2018, there had been no losses resulting from borrower defaults and both OPEB Trusts had no credit risk exposure to borrowers because the amounts the OPEB Trusts owed the borrowers exceeded the amounts the borrowers owed the OPEB Trusts.

The following table presents the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2018 for both Trust Funds:

	<u>SCRHITF</u>	<u>SCLTDITF</u>
Securities lent for cash collateral:		
U.S. government securities	\$ 5,851,225	\$ 304,414
Corporate bonds	<u>1,534,432</u>	<u>423,288</u>
Total securities lent for cash collateral	<u>\$ 7,385,657</u>	<u>\$ 727,702</u>
Cash collateral invested as follows:		
Repurchase agreements	\$ 7,130,609	\$ 50,192
U.S. government securities	<u>413,594</u>	<u>693,725</u>
Total for cash collateral invested	<u>\$ 7,544,203</u>	<u>\$ 743,917</u>

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**4. Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74**

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 on 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 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. PEBA, Insurance Benefits contributes to the SCRHITF and the SCLTDITF, cost sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the PEBA, Insurance Benefits, a part of the PEBA.

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.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA,

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**Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)**

Insurance Benefits, for its active employees who are not funded by State General Fund appropriations participating employers are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.50% of covered payroll for year ended June 30, 2018. At the beginning of the fiscal year, the Department of Administration Executive Budget Office sets annually the employer contribution rate based on a pay-as-you-go basis. The South Carolina Retirement System collects the monthly surcharge for all employers except Local Subdivisions, who do not participate in the SCRHITF, and remits it directly to the SCRHITF. PEBA, Insurance Benefits paid approximately \$373,470 for the payroll surcharge for year ended June 30, 2018. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. For the year ended June 30, 2018, PEBA, Insurance Benefits contributed \$104,573,394 to the SCRHITF.

BLTD benefits are funded through a person's premium charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee paid to PEBA, Insurance Benefits was \$3.22 for the fiscal year ended June 30, 2018. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

Contributions, State appropriations and mandatory transfers for the year ended June 30, 2018 were as follows:

	<b>SCRHITF</b>	<b>SCLTDITF</b>
Contributions	\$ 460,477,569	\$ 7,479,841
Transfer from IBNR reserves	104,573,394	-
State appropriations	2,375,300	-
	<u>\$ 567,426,263</u>	<u>\$ 7,479,841</u>

Administrative costs of the OPEB Trusts are paid from plan assets.

Eligible participants consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

	<b>SCRHITF</b>	<b>SCLTDITF</b>
Active participants	182,850	184,758
Retired participants	88,201	1,024
Vested terminated participants	1,150	-
Total participants	<u>272,201</u>	<u>185,782</u>
Number of participating employers	231	693

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**Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)**

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2017 census data
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.62% as of June 30, 2018
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Health Care Trend Rate:	Initial trend starting at 6.75% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 14 years
Aging Factors:	Based on plan specific experience
Participation Assumption:	79% for retirees that are eligible for Funded Premiums 59% for retirees that are eligible for Partially Funded Premiums 20% for retirees that are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 3.56% as of June 30, 2017 to 3.62% as of June 30, 2018. There was a small change to the tables used to develop the age-adjusted retiree claims.

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**Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)**

Additional information as of the latest actuarial valuation for SCLTDITF:

Valuation Date:	June 30, 2017 census data
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00, net of Plan investment expense; including inflation
Single Discount Rate:	3.91% as of June 30, 2018
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, 2015
Disability Incidence:	The disability incidence rates used in the valuation are based on 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 92% were assumed to recover after the first two years
Offsets:	40% 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:	The investment return assumption is net of the investment expenses; Third party administrative expenses are included in the benefit projections;
Notes:	The discount rate changed from 3.87% as of June 30, 2017 to 3.91% as of June 30, 2018

The following table represents the components of the net OPEB liability as of June 30, 2018:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	\$ 15,387,115,010	\$ 1,216,530,062	\$ 14,170,584,948	7.91%
SCLTDITF	\$ 39,261,091	\$ 36,199,863	\$ 3,061,228	92.20%

Roll Forward Disclosure

The actuarial valuation for both the SCRHITF and SCLTDITF were performed as of June 30, 2017. Update procedures were used to roll forward the total OPEB liability to June 30, 2018.

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Single Discount Rate

The Single Discount Rate of 3.62% 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. The Fidelity “20-Year Municipal GO AA Index” for fixed-income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds was used for reporting as of June 30, 2018. 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). In addition, the plan does not intend to ever use a Single Discount Rate for GASB 74 purposes which is less than the municipal bond rate.

A Single Discount Rate of 3.91% 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 4.00% and a municipal bond rate 3.62%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain \$38.64 per year for each 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 2040. As a result, the long-term expected rate of return on plan investments was applied to project benefit payments through the year 2040, and the municipal bond rate was applied to all benefit payments after that date.

Long-term Expected Rate of Return for both OPEB Trusts

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Allocation- Weighted Long- Term Expected Real Rate of Return</b>
U.S. Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
<b>Total</b>	100.00%		1.84%
Expected Inflation			2.25%
<b>Total Return</b>			4.09%
<b>Investment Return Assumption</b>			<b>4.00%</b>

For the SCRHITF and the SCLTDITF, the annual money-weighted rate of return on the plan investments were 0.27% and 0.14%, respectively.

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Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.62%, 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 2.62%</b>	<b>Current Discount Rate 3.62%</b>	<b>1% Increase 4.62%</b>
SCRHITF Net OPEB Liability	\$ 16,694,310,371	\$ 14,170,584,948	\$ 12,136,262,451

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 Cost Trend Rate</b>	<b>1% Increase</b>
SCRHITF Net OPEB Liability	\$ 11,660,103,553	\$ 14,170,584,948	\$ 17,416,172,438

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.91%, 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 2.91%</b>	<b>Current Discount Rate 3.91%</b>	<b>1% Increase 4.91%</b>
SCLTDITF Net OPEB Liability	\$ 4,574,989	\$ 3,061,228	\$ 1,583,837

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**Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75**

PEBA, Insurance Benefits' is a participant in the cost-sharing multiple-employer defined benefit plan of the OPEB SCRHITF. The following disclosures are to address PEBA, Insurance Benefits' proportionate share of the Net OPEB Liability.

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2017
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Expenses:	The investment return assumption is net of the investment expenses; Administrative expenses related to the health care benefits are included in the age-adjusted claims costs
Notes:	The discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

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Single Discount Rate

The Single Discount Rate of 3.56% 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. The Fidelity “20-Year Municipal GO AA Index” for fixed-income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds was used for reporting as of June 30, 2017. 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).

Long-term Expected Rate of Return

<b>Asset Class</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Allocation- Weighted Long- Term Expected Real Rate of Return</b>
U.S. Domestic Fixed Income	80.00%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
<b>Total</b>	<u>100.00%</u>		<u>1.84%</u>
Expected Inflation			<u>2.25%</u>
<b>Total Return</b>			<u><u>4.09%</u></u>
<b>Investment Return Assumption</b>			<u><u>4.00%</u></u>

For the SCRHITF, the annual money-weighted rate of return on the plan investments was 1.36%.

Net OPEB Liability

The allocation of each employer’s proportionate share of the collective Net OPEB Liability (NOL) and collective OPEB Expense for SCRHITF was determined using the employer’s payroll-related contributions over the measurement period.

At June 30, 2018, PEBA, Insurance Benefits reported a liability for the SCRHITF of \$10,429,917 for its proportionate share of PEBA, Insurance Benefits NOL. At June 30, 2017, PEBA’s proportion was 0.177569%, of which 43.37% was proportioned to PEBA, Insurance Benefits representing contributions of \$346,105.

For the year ended June 30, 2018 PEBA, Insurance Benefits recognized OPEB expense of \$634,805.

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**Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75 (continued)**

Reported deferred outflows of resources and deferred inflows of resources related to the SCRHITF are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,527
Net difference between projected and actual earnings on OPEB plan investments	17,921	-
Assumption changes	-	981,407
Contributions subsequent to the measurement date	373,470	-
Net difference in change proportional share	-	149
Total	\$ 391,391	\$ 986,083

Contributions subsequent to the measurement date of \$373,470 reported as deferred outflows of resources will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

The following schedule reflects the amortization of the net balance of remaining deferred outflows / (inflows) of resources at June 30, 2018 that will be recognized in OPEB expense as follows:

Measurement Period Ending June 30,	
2019	\$ (153,394)
2020	(153,394)
2021	(153,394)
2022	(153,394)
2023	(157,874)
Thereafter	(196,712)
Net Balance of Deferred Outflows / (Inflows) of Resources	\$ (968,162)

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**Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75 (continued)**

Sensitivity Analysis

The following table presents PEBA, Insurance Benefits' net OPEB liability calculated using a Single Discount Rate of 3.56%, as well as what PEBA, Insurance Benefits' 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 2.56%</b>	<b>Current Discount Rate 3.56%</b>	<b>1% Increase 4.56%</b>
PEBA, Insurance Benefits' proportionate share of the net OPEB liability	\$ 12,283,495	\$ 10,429,917	\$ 8,935,481

Regarding the sensitivity of PEBA – Insurance Benefit's net OPEB liability to changes in the healthcare cost trend rates, the following table presents PEBA, Insurance Benefits' 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 Cost Trend Rate</b>	<b>1% Increase</b>
PEBA, Insurance Benefits' proportionate share of the net OPEB liability	\$ 8,552,964	\$ 10,429,917	\$ 12,860,120

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain healthcare, dental and life insurance benefits to all permanent full-time and certain permanent part-time employees of PEBA, Insurance Benefits. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by PEBA, Insurance Benefits within the PEBA. PEBA, Insurance Benefits recorded benefit expenses for these insurance benefits for active employees in the amount of \$690,314 for the year ended June 30, 2018.

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**5. Premiums Receivable**

PEBA, Insurance Benefits premiums receivable at June 30, 2018 consist of the following:

State government (Note 10)	\$ 298,417
Local government	396,906
Schools	12,407
Individuals	172,379
	<u>\$ 880,109</u>

As of June 30, 2018, all of the receivables are considered by management to be collectible. No allowance for doubtful accounts has been recognized. In addition, as of June 30, 2018, no discounts have been applied to the receivables.

**6. Capital Assets**

The following summarizes PEBA, Insurance Benefits' changes in capital assets for the year.

	<b>Balance July 1, 2017</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2018</b>
Furniture and equipment	\$ 1,079,786	\$ 76,063	\$ -	\$ 1,155,849
Accumulated depreciation	(968,509)	(126,448)	-	(1,094,957)
Capital assets, net	<u>\$ 111,277</u>	<u>\$ (50,385)</u>	<u>\$ -</u>	<u>\$ 60,892</u>

Depreciation expense for the year ended June 30, 2018 was \$126,448.

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**7. Lease Obligations**

The PEBA leases office space from CB Richard Ellis (CBRE) and all three leases expired on June 30, 2018. All three leases are accounted for as operating leases. PEBA, Insurance Benefits' proportionate share of rental expense under these leases were calculated at 51% for the year ended June 30, 2018 using a weighted average of staff in the facility at the beginning of the fiscal year. The lease expense for PEBA, Insurance Benefits was \$219,945 for the year ended June 30, 2018. A new lease agreement was signed by PEBA and is effective beginning July 1, 2018 through June 30, 2023. The proportionate share percentage is updated near the end of each fiscal year and it was determined that the PEBA, Insurance Benefits proportionate share of the total lease expense for the year ending June 30, 2019 will be 44%. The current calculated proportionate share of the future minimum lease payments due under this lease is as follows:

<b>Year Ending June 30,</b>	<b>Total</b>
2019	\$ 87,953
2020	87,953
2021	87,953
2022	87,953
2023	87,953
Total	\$ 439,765

**8. Pension Plans**

The majority of employees of PEBA, Insurance Benefits are covered by a retirement plan through the South Carolina Retirement System (SCRS). The PEBA, which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. SCRS issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the 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, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

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**Pension Plans (continued)**

Plan Descriptions

The SCRS, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provision of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (9.00%) and a portion of the employer contribution (5.00%). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (8.41%) and an incidental death benefit contribution (0.15%), if applicable, which is retained by SCRS.

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**Pension Plans (continued)**

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA board may increase the percentage rate in SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

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**Pension Plans (continued)**

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increases employer contribution rates to 13.56 percent for SCRS and 16.24 percent for PORS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent and 9.75 percent for SCRS and PORS respectively. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

Required employee contribution rates for fiscal year 2017-2018 are as follows:

**SCRS**

Employee Class II	9.00% of earnable compensation
Employee Class III	9.00% of earnable compensation

Required employer contributions for fiscal year 2017-2018 are as follows:

**SCRS**

Employer Class II	13.41% of earnable compensation
Employer Class III	13.41% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

**State ORP**

Employer Contribution	13.41% of earnable compensation (1)
Employer Incidental Death Benefit	0.15% of earnable compensation

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**Pension Plans (continued)**

- (1) Of the employer contribution of 13.41% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the State ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015.

The June 30, 2017, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2017.

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

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**Pension Plans (continued)**

Assumptions used in the determination of the June 30, 2017, TPL are as follows.

<u>Former Job Class</u>	<u>Males</u>	<u>Females</u>
Educators	2016 PRSC multiplied by 92%	2016 PRSC multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC multiplied by 100%	2016 PRSC multiplied by 111%
Public Safety and Firefighter	2016 PRSC multiplied by 125%	2016 PRSC multiplied by 111%

Net Pension Liability

At June 30, 2018, PEBA, Insurance Benefits reported a liability of \$13,478,904 for its proportionate share of PEBA, Insurance Benefits net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PEBA, Insurance Benefits' proportion of the net pension liability was based on a projection of PEBA, Insurance Benefits' long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, PEBA's proportion was 0.143252%, of which 41.80% was proportioned to PEBA, Insurance Benefits representing contributions of \$703,121.

For the year ended June 30, 2018 PEBA, Insurance Benefits recognized pension expense of \$1,818,301.

Reported deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 60,089	\$ 7,471
Net difference between projected and actual earnings on pension plan investments	376,268	-
Assumption changes	789,045	-
Contributions subsequent to the measurement date	879,384	-
Net difference in change of proportional share	861,035	-
Total	<u>\$ 2,965,821</u>	<u>\$ 7,471</u>

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**Pension Plans (continued)**

Contributions subsequent to the measurement date of \$879,384 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

The following schedule reflects the amortization of the net balance of remaining deferred outflows / (inflows) of resources at June 30, 2018 that will be recognized in pension expense as follows:

Measurement Period Ending June 30,	
2019	\$ 820,688
2020	856,848
2021	498,488
2022	<u>(97,058)</u>
Net Balance of Deferred Outflows / (Inflows) of Resources	<u>\$ 2,078,966</u>

Average remaining services lives of all employees provided with pensions as determined by SCRS at June 30, 2017 was 4.073 years.

Discount Rate

The discount rate used to measure the SCRS total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

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**Pension Plans (Continued)**

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 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 and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
Global Public Equity	31.00%	6.72%	2.08%
Private Equity	9.00%	9.60%	0.86%
Equity Options Strategies	5.00%	5.91%	0.30%
Real Assets			
Real Estate (Private)	5.00%	4.32%	0.22%
Real Estate (REITs)	2.00%	6.33%	0.13%
Infrastructure	1.00%	6.26%	0.06%
Opportunistic			
GTAA/Risk Parity	10.00%	4.16%	0.42%
Hedge Funds (non-PA)	4.00%	3.82%	0.15%
Other Opportunistic Strategies	3.00%	4.16%	0.12%
Diversified Credit			
Mixed Credit	6.00%	3.92%	0.24%
Emerging Markets Debt	5.00%	5.01%	0.25%
Private Debt	7.00%	4.37%	0.31%
Conservative fixed income			
Core Fixed Income	10.00%	1.60%	0.16%
Cash and Short Duration (Net)	2.00%	0.92%	0.02%
Total Expected Real Return	<u>100.00%</u>		<u>5.31%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.56%</u>

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**Pension Plans (continued)**

Sensitivity Analysis

The following presents PEBA, Insurance Benefits' proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what PEBA, Insurance Benefits share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
PEBA, Insurance Benefits proportionate share of the net pension liability	\$ 17,372,456	\$ 13,478,904	\$ 11,116,433

**9. Deferred Compensation Plan**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Some employees of PEBA, Insurance Benefits have elected to participate.

The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), are administered by third parties and are not included in the State's CAFR. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment or prior to termination if they meet requirements specified by the applicable plan.

PEBA, Insurance Benefits did not contribute for the fiscal year ended June 30, 2018.

**10. Transactions with State Entities**

PEBA, Insurance Benefits has significant transactions with the State of South Carolina and various State agencies. Services received at no cost include payroll processing, disbursement processing and maintenance of certain accounting records from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.

Insurance services are provided for a fee to various State agencies and within the South Carolina Public Employee Benefit Authority. The fees are recorded as revenues in the financial statements for PEBA, Insurance Benefits. The insurance coverage provided consists of health, dental, vision, life and long-term disability.

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**Transactions with State Entities (continued)**

The following details the insurance premiums charged by PEBA, Insurance Benefits to other State agencies and divisions of the PEBA during the year ended June 30, 2018:

ADJUTANT GENERAL'S OFFICE	\$ 2,476,566
AID TO SUBDIVISIONS	537,568
AIKEN TECHNICAL COLLEGE	1,029,164
ATTORNEY GENERAL'S OFFICE	2,062,423
CENTRAL CAROLINA TECH COLLEGE	1,957,736
CLEMSON UNIVERSITY	44,221,648
COASTAL CAROLINA UNIVERSITY	13,328,372
COLLEGE OF CHARLESTON	12,766,845
COMMISSION ON HIGHER EDUCATION	309,458
COMPTROLLER GENERALS OFFICE	235,240
CONFEDERATE RELIC ROOM AND MILITARY COMMISSION	44,426
DENMARK TECHNICAL COLLEGE	695,366
DEPARTMENT OF ADMINISTRATION	5,928,937
DEPARTMENT OF AGRICULTURE	1,149,102
DEPARTMENT OF ARCHIVES & HISTORY	361,502
DEPARTMENT OF EDUCATION	10,158,086
DEPARTMENT OF HEALTH & ENVIRONMENTAL CONTROL	25,797,489
DEPARTMENT OF HEALTH AND HUMAN SERVICES	9,422,193
DEPARTMENT OF LABOR, LICENSING AND REGULATION	3,418,742
DEPARTMENT OF MENTAL HEALTH	30,672,221
DEPARTMENT OF PARKS RECREATION & TOURISM	3,696,375
DEPARTMENT OF REVENUE	5,870,932
DEPARTMENT OF SOCIAL SERVICES	29,688,407
DEPARTMENT OF TRANSPORTATION	37,779,059
FLORENCE-DARLINGTON TECHNICAL COLLEGE	2,458,394
FORESTRY COMMISSION	3,247,679
FRANCIS MARION UNIVERSITY	4,534,456
GOVERNOR'S OFFICE - EXECUTIVE CONTROL OF STATE	96,483
GOVERNOR'S OFFICE - MANSIONS AND GROUNDS	45,340
GREENVILLE TECHNICAL COLLEGE	6,489,573
HIGHER EDUCATION TUITION GRANTS COMMISSION	48,118
HORRY-GEORGETOWN TECH COLLEGE	3,246,499
HOUSE OF REPRESENTATIVES-CLERK	1,857,799
JOHN DE LA HOWE SCHOOL	338,802

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**Transactions with State Entities (continued)**

LANDER UNIVERSITY	3,611,822
LEGISLATIVE AUDIT COUNCIL	173,829
LEGISLATIVE COUNCIL	356,343
LEGISLATIVE PRINTING & INFO TC	332,792
LT GOVERNORS OFFICE	385,753
MEDICAL UNIVERSITY OF S C	42,380,290
MIDLANDS TECHNICAL COLLEGE	6,095,846
NORTHEASTERN TECHNICAL COLLEGE	754,916
OFFICE OF REGULATORY STAFF	607,109
OFFICE OF STATE AUDITOR	401,765
OFFICE OF STATE INFRASTRUCTURE BANK	35,528
OFFICE OF THE INSPECTOR GENERAL	49,559
ORANGEBURG - CALHOUN TECHNICAL COLLEGE	1,586,390
PATIENTS COMPENSATION FUND	44,443
PATRIOTS POINT DEVELOPMENT AUTHORITY	657,845
PIEDMONT TECHNICAL COLLEGE	2,326,295
PROCUREMENT REVIEW PANEL	6,549
PUBLIC SERVICE COMMISSION	366,457
RETIREMENT SYSTEM INVESTMENT COMMISSION	436,257
REVENUE AND FISCAL AFFAIRS OFFICE	736,750
S C ARTS COMMISSION	127,884
S C DEPARTMENT OF CONSUMER AFFAIRS	321,878
S C DEPARTMENT OF EMPLOYMENT AND WORKFORCE	5,190,161
S C DEPARTMENT OF INSURANCE	709,032
S C DEPARTMENT OF MOTOR VEHICLES	8,548,977
S C DEPARTMENT OF NATURAL RESOURCES	7,223,830
S C DEPARTMENT OF PROBATION PAROLE & PARDON SERV	5,388,344
S C EDUCATION OVERSIGHT COMMITTEE	38,402
S C EDUCATIONAL TELEVISION COMM	1,149,740
S C HUMAN AFFAIRS COMMISSION	227,117
S C JOBS ECONOMIC DEVELOPMENT AUTHORITY	15,309
S C SCHOOL FOR THE DEAF & BLIND	2,894,747
S C STATE LIBRARY	325,359
S C STATE SENATE - CLERICAL	1,388,348

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**Transactions with State Entities (continued)**

S C STATE UNIVERSITY	4,100,964
S C WORKERS' COMPENSATION COMMISSION	480,033
S.C. DEPARTMENT OF PUBLIC SAFETY	11,346,196
SC ADMINISTRATIVE LAW COURT	320,703
SC COMMISSION FOR THE BLIND	690,660
SC COMMISSION ON INDIGENT DEFENSE	573,544
SC COMMISSION ON PROSECUTION COORDINATION	386,336
SC DEPARTMENT OF COMMERCE	1,283,843
SC DEPARTMENT OF CORRECTIONS	36,712,492
SC DEPARTMENT OF JUVENILE JUSTICE	9,675,368
SC DEPT OF ALCOHOL & OTHER DRUG ABUSE SERVICES	406,511
SC DEPT OF DISABILITIES & SPECIAL NEEDS	11,546,080
SC PEBA BCBS	5,642
SC RURAL INFRASTRUCTURE AUTHORITY	74,851
SC STATE HOUSING FINANCE & DEVELOPMENT AUTHORITY	1,125,616
SEA GRANT CONSORTIUM	107,564
SECRETARY OF STATE	230,413
SOUTH CAROLINA AERONAUTICS DIVISION	126,716
SOUTH CAROLINA CONSERVATION BANK	8,217
SOUTH CAROLINA CRIMINAL JUSTICE ACADEMY	1,016,564
SOUTH CAROLINA JUDICIAL DEPARTMENT	4,913,600
SOUTH CAROLINA MUSEUM COMMISSION	300,329
SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY	2,215,570
SPARTANBURG COMMUNITY COLLEGE	2,930,220
STATE ACCIDENT FUND	533,562
STATE BOARD FOR TECHNICAL & COMPREHENSIVE EDUC	1,039,180
STATE BOARD OF FINANCIAL INSTITUTIONS	378,579
STATE COMMISSION FOR MINORITY AFFAIRS	101,432
STATE ELECTION COMMISSION	231,225
STATE ETHICS COMMISSION	72,602
STATE FISCAL ACCOUNTABILITY AUTHORITY	1,171,244
STATE LAW ENFORCEMENT DIVISION	5,167,892
STATE TREASURER	618,722
TECHNICAL COLLEGE OF LOW COUNTRY	1,149,662

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**Transactions with State Entities (continued)**

THE CITADEL	5,783,001
TRI COUNTY TECHNICAL COLLEGE	3,382,627
TRIDENT TECHNICAL COLLEGE	5,928,118
UNIVERSITY OF SOUTH CAROLINA	65,096,665
VOCATIONAL REHABILITATION	10,075,942
WIL LOU GRAY OPP SCHOOL	554,624
WILLIAMSBURG TECH COLLEGE	546,052
WINTHROP UNIVERSITY	7,383,911
YORK TECHNICAL COLLEGE	<u>2,593,250</u>
Total insurance premiums	<u><u>\$ 563,252,988</u></u>

PEBA, Insurance Benefits had other financial transactions with various State agencies during the fiscal year. Significant payments were made to other Divisions (Funds) of the State for retirement and insurance plans contributions, vehicle rental, printing, telephone, interagency mail, data processing services, purchasing, record maintenance, internal audit, personnel services, unemployment and workers' compensation coverage for employees.

The identifiable amounts of 2018 expenses applicable to related party transactions are as follows:

South Carolina Retirement Division	\$ 1,277,302
South Carolina State Accident Fund	810
South Carolina Department of Employment and Workforce	<u>1,129</u>
	<u><u>\$ 1,279,241</u></u>

A significant portion of PEBA, Insurance Benefits total insurance premium revenue is for insurance premiums charged to other state agencies and division of the PEBA. Premiums owed from these entities at June 30, 2018 are as follows:

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**Transactions with State Entities (continued)**

ADJUTANT GENERAL'S OFFICE	\$	17,111
AIKEN TECHNICAL COLLEGE		13
DENMARK TECHNICAL COLLEGE		2,534
DEPARTMENT OF ADMINISTRATION		1,884
DEPARTMENT OF AGRICULTURE		325
DEPARTMENT OF ARCHIVES & HISTORY		267
DEPARTMENT OF MENTAL HEALTH		22,937
DEPARTMENT OF PARKS RECREATION & TOURISM		31,065
DEPARTMENT OF REVENUE		1,170
DEPARTMENT OF TRANSPORTATION		24,880
GOVERNOR'S OFFICE - MANSIONS AND GROUNDS		138
JOHN DE LA HOWE SCHOOL		312
LEGISLATIVE COUNCIL		2,010
LT GOVERNORS OFFICE		19,316
OFFICE OF REGULATORY STAFF		1,533
OFFICE OF STATE INFRASTRUCTURE BANK		10,262
PATRIOTS POINT DEVELOPMENT AUTHORITY		2,846
REVENUE AND FISCAL AFFAIRS OFFICE		1,415
S C DEPARTMENT OF CONSUMER AFFAIRS		2,926
S C DEPARTMENT OF EMPLOYMENT AND WORKFORCE		3,196
S C DEPARTMENT OF INSURANCE		1,266
S C DEPARTMENT OF NATURAL RESOURCES		46,016
S C HUMAN AFFAIRS COMMISSION		11,427
S.C. DEPARTMENT OF PUBLIC SAFETY		72
SC COMMISSION ON INDIGENT DEFENSE		13,498
SC DEPARTMENT OF COMMERCE		8,311
SC DEPARTMENT OF CORRECTIONS		20,445
SC DEPT OF ALCOHOL & OTHER DRUG ABUSE SERVICES		13,532
SC DEPT OF DISABILITIES & SPECIAL NEEDS		17,789
SC PEBA BCBS		16,191
STATE BOARD OF FINANCIAL INSTITUTIONS		282
VOCATIONAL REHABILITATION		2,713
WIL LOU GRAY OPP SCHOOL		735
		735
Total premiums owed	\$	298,417

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**11. Contingencies**

By the nature of its operations and responsibilities as an insurer, PEBA, Insurance Benefits has been named in a number of lawsuits, many of which are pending. A provision has been made in the financial statements for the payment of routine insurance claims. Management is not aware of any other claims that, in their opinion, would have a material effect on the financial statements; therefore, no liability has been recorded.

**12. Risk Management/Reinsurance**

PEBA Insurance Benefits is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years.

PEBA, Insurance Benefits pays insurance premiums to itself and certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (PEBA, Insurance Benefits); and
4. Claims of covered property damage, theft, collision (automobile), liability, and general tort (Insurance Reserve Fund).

Employees elect health coverage through the State Health Plan or a fully funded health plan if available. The State Health Plan offered by PEBA, Insurance Benefits is a self-insured product. State agencies and other governmental entities in South Carolina are the primary participants in PEBA, Insurance Benefits.

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**Risk Management/Reinsurance (Continued)**

PEBA, Insurance Benefits obtains coverage of up to \$750,000 per loss through a commercial carrier for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. PEBA, Insurance Benefits has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories.

PEBA, Insurance Benefits has not transferred the portion of the risk of loss related to insurance policy deductibles and limits. Because information at June 30, 2018 did not indicate that an asset had been impaired or a liability had been incurred, no actual or estimated claims loss expense or related liability has been reported at June 30, 2018. A liability of claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2018 and the amount of loss can be reasonably estimated.

PEBA, Insurance Benefits self-insures health and dental insurance for all participating governmental employees, including those of PEBA, Insurance Benefits. PEBA, Insurance Benefits also offers a fully insured insurance product, Tricare Supplement Plan to qualifying members that elect this coverage. The basic long-term disability product is a self-insured product managed through the SCLTDITF. In addition a supplemental long-term disability product is available as a fully insured product. Dental Plus, Vision and various Life products offered are fully insured products.

PEBA, Insurance Benefits has not had any claims exceed coverage in the past three years.

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**Risk Management/Reinsurance (Continued)**

The schedule below presents PEBA, Insurance Benefits changes in claims liabilities for the past two years.

	<b>(in thousands)</b>	
	<b>2018</b>	<b>2017</b>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	<u>\$ 222,617</u>	<u>\$ 216,688</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,460,331	2,339,703
Increases in provision for insured events of prior fiscal years	<u>25,845</u>	<u>4,644</u>
Total incurred claims and claim adjustment expenses	<u>2,486,176</u>	<u>2,344,347</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	2,436,750	2,333,774
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>25,845</u>	<u>4,644</u>
Total Payments	<u>2,462,595</u>	<u>2,338,418</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 246,198</u>	<u>\$ 222,617</u>
The above totals are included in the following:		
Claims payable	\$ 81,342	\$ 69,471
Claims incurred but not reported	<u>164,856</u>	<u>153,146</u>
Total	<u>\$ 246,198</u>	<u>\$ 222,617</u>

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**13. Changes in Long-Term Liabilities**

Changes in long-term obligations for the year ended June 30, 2018 were as follows:

	Beginning Balance July 1, 2017	Increases	Decreases	Ending Balance June 30, 2018	Due Within One Year
Accrued compensated absences	\$ 906,769	\$ 372,121	\$ (453,249)	\$ 825,641	\$ 600,555
Net pension liability	12,367,845	1,111,059	-	13,478,904	-
Net OPEB liability	11,141,266	-	(711,349)	10,429,917	-
<b>Total</b>	<b>\$ 24,415,880</b>	<b>\$ 1,483,180</b>	<b>\$ (1,164,598)</b>	<b>\$ 24,734,462</b>	<b>\$ 600,555</b>

**14. Medicare Part D Subsidy**

The Medicare Part D prescription drug benefit became effective in January 2006. The State Health Plan, administered and managed by PEBA, Insurance Benefits, elected to maintain primary coverage for pharmaceuticals for its Medicare eligible retirees. By providing drug coverage at least as valuable as that in the standard Medicare Part D program, the State Health Plan qualifies for the Retiree Drug Subsidy (RDS), an incentive provided in the federal Part D law to encourage employers to retain good prescription benefits for retirees. The State Health Plan earned and recorded \$126,786,492 in RDS funding for the year ended June 30, 2018.

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**15. Direct Premium Revenues and Insurance Related Expenses**

Total insurance premium revenues and direct expenses by line of insurance are as follows.

	Premium Revenues			Expenses		
	Active Employees	Retirees	Total Premium Revenue	Claims Expenses	Premium Expenses	Third Party Administrative Expenses
Medical-PPO	\$ 1,595,405,934	\$ 667,690,947	\$ 2,263,096,881	\$ 1,406,690,480	\$ -	\$ 56,160,343
Medical-fully insured	505,023	74,990	580,013	-	580,012	-
Dental	104,836,645	39,768,053	144,604,698	60,527,452	79,274,144	1,733,077
Prescription drug (1)	-	-	-	1,018,891,717	-	18,372,138
Life and optional dependent life	44,242,680	-	44,242,680	60,000	44,236,574	-
Vision	19,460,823	4,890,561	24,351,384	-	24,351,491	-
Long-term disability	9,365,424	-	9,365,424	-	9,365,394	-
	<u>\$ 1,773,816,529</u>	<u>\$ 712,424,551</u>	<u>\$ 2,486,241,080</u>	<u>\$ 2,486,169,649</u>	<u>\$ 157,807,615</u>	<u>\$ 76,265,558</u>

(1) Prescription drug claims relate to the individual lines but are presented here in aggregate.

(2) Claims expense presented above does not include the \$104,573,394 contribution to the SCRHITF from PEBA, Insurance Benefits.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN

AS OF JUNE 30, 2018

Last 10 fiscal years <sup>1</sup> ending June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.06%	0.06%	0.05%	0.05%
Employer's proportionate share of the collective net liability	\$ 13,478,904	\$ 12,367,845	\$ 10,335,436	\$ 8,602,246
Employer's covered payroll	7,965,092	6,743,060	6,074,479	5,327,720
Employer's share of the liability as a percentage of covered payroll	169.22%	183.42%	170.15%	161.46%
Plan net position as a percentage of total pension liability	53.30%	52.90%	57.00%	59.90%

Note: The amounts presented were determined as of June 30th of the previous year.

<sup>1</sup> - PEBA, Insurance Benefits implemented GASB 68 during the fiscal year ending June 30, 2015.

As such, only the last four years of information are available.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
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SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN

AS OF JUNE 30, 2018

Last 10 fiscal years <sup>1</sup> ending June 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,818,301	\$ 1,456,265	\$ 948,643	\$ 602,912	\$ 480,935	\$ 428,654
Contributions in relation to the contractually required contribution	(879,384)	(712,738)	(636,918)	(557,218)	(480,935)	(428,654)
Contribution deficiency (excess)	<u>\$ 938,917</u>	<u>\$ 743,527</u>	<u>\$ 311,725</u>	<u>\$ 45,694</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 7,965,092	\$ 6,743,060	\$ 6,074,479	\$ 5,327,720	\$ 4,661,648	\$ 4,160,434
Contributions as a percentage of covered payroll	22.83%	21.60%	15.62%	11.32%	10.32%	10.30%

<sup>1</sup> - Amounts presented are representative of PEBA, Insurance Benefits that was formed July 1, 2012. Therefore, only the last five years are available. This schedule will be completed as more information becomes available.

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SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND OPEB PLAN

AS OF JUNE 30, 2018

Last 10 fiscal years <sup>1</sup> ending June 30,	<u>2018</u>
Employer's proportion of the net OPEB liability	0.08%
Employer's proportionate share of the collective net OPEB liability	\$ 10,429,917
Employer's covered payroll	\$ 6,493,527
Employer's share of the liability as a percentage of covered payroll	160.62%
Plan net position as a percentage of total OPEB liability	7.60%

Note: The amounts presented were determined as of June 30th of the previous year.

<sup>1</sup> - PEBA, Insurance Benefits implemented GASB 75 during the fiscal year ending June 30, 2018.

As such, only current year information is available.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,  
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SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND OPEB PLAN

AS OF JUNE 30, 2018

Last 10 fiscal years <sup>1</sup> ending June 30,	<u>2018</u>
Contractually required contribution	\$ 346,105
Contributions in relation to the contractually required contribution	(346,105)
Contribution deficiency (excess)	<u>\$ -</u>
Covered Payroll	\$ 6,493,527
Contributions as a percentage of covered payroll	5.33%

Note: The amounts presented were determined as of June 30th of the previous year.

<sup>1</sup> - PEBA, Insurance Benefits implemented GASB 75 during the fiscal year ending June 30, 2018.

As such, only current year information is available.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

AS OF JUNE 30, 2018

**South Carolina Retiree Health Insurance Trust Fund**

Fiscal year ending June 30,	2018	2017
<b>Total OPEB liability</b>		
Service cost	\$ 521,172,493	\$ 610,843,077
Interest on the total OPEB liability	522,862,057	455,295,633
Changes of benefit terms	-	-
Difference between expected and actual experience	246,504,202	(6,819,786)
Changes of assumptions	(96,913,144)	(1,478,557,636)
Benefit payments	(466,121,568)	(416,089,964)
<b>Net change in total OPEB liability</b>	<b>727,504,040</b>	<b>(835,328,676)</b>
<b>Total OPEB liability - beginning</b>	<b>14,659,610,970</b>	<b>15,494,939,646</b>
<b>Total OPEB liability - ending</b>	<b>\$ 15,387,115,010</b>	<b>\$ 14,659,610,970</b>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 460,477,569	\$ 411,799,086
Nonemployer contributing entities	106,948,694	79,306,737
OPEB plan net investment income	515,607	13,460,171
Benefit payments	(466,121,568)	(416,089,964)
OPEB plan administrative expense	(65,000)	(10,000)
Other	-	-
<b>Net change in plan fiduciary net position</b>	<b>101,755,302</b>	<b>88,466,030</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,114,774,760</b>	<b>1,026,308,730</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 1,216,530,062</b>	<b>\$ 1,114,774,760</b>
<b>Net OPEB liability - ending</b>	<b>\$ 14,170,584,948</b>	<b>\$ 13,544,836,210</b>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	7.91%	7.60%
<b>Covered payroll</b>	\$ 8,614,421,372	\$ 8,437,059,071
<b>Net OPEB liability as a percentage of covered payroll</b>	164.50%	160.54%

**Notes to Schedule:**

This ten year schedule will be completed as more information becomes available.

The discount rate changed from 3.56% as of June 30, 2017 to 3.62% as of June 30, 2018.

The discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS (CONTINUED)

AS OF JUNE 30, 2018

**South Carolina Long-Term Disability Insurance Trust Fund**

Fiscal year ending June 30,	2018	2017
<b>Total OPEB liability</b>		
Service cost	\$ 7,555,741	\$ 7,952,412
Interest on the total OPEB liability	1,481,366	1,399,527
Changes of benefit terms	-	-
Difference between expected and actual experience	(207,107)	-
Changes of assumptions	(58,966)	(182,868)
Benefit payments, including refunds of contributions	(8,020,511)	(8,205,609)
<b>Net change in total OPEB liability</b>	750,523	963,462
<b>Total OPEB liability - beginning</b>	38,510,568	37,547,106
<b>Total OPEB liability - ending</b>	\$ 39,261,091	\$ 38,510,568
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 7,479,841	\$ 7,288,566
Nonemployer contributing entities	-	400,000
OPEB plan net investment income	52,944	371,679
Benefit payments	(8,020,511)	(8,205,609)
OPEB plan administrative expense	(10,000)	(10,000)
<b>Net change in plan fiduciary net position</b>	(497,726)	(155,364)
<b>Plan fiduciary net position - beginning</b>	36,697,589	36,852,953
<b>Plan fiduciary net position - ending</b>	\$ 36,199,863	\$ 36,697,589
<b>Net OPEB liability - ending</b>	\$ 3,061,228	\$ 1,812,979
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	92.20%	95.29%
<b>Covered payroll</b>	N/A	N/A
<b>Net OPEB liability as a percentage of covered payroll</b>	N/A	N/A

**Notes to Schedule:**

This ten year schedule will be completed as more information becomes available.

The single discount rate changed from 3.87% as of June 30, 2017 to 3.91% as of June 30, 2018.

The single discount rate changed from 3.74% as of June 30, 2016 to 3.87% as of June 30, 2017.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULE OF NET OPEB LIABILITY

AS OF JUNE 30, 2018

**South Carolina Retiree Health Insurance Trust Fund**

<b>Fiscal Year Ending June 30,</b>	<b>Total OPEB Liability</b>	<b>Plan Net Position</b>	<b>Net OPEB Liability</b>	<b>Plan Net Position as a % of Total OPEB Liability</b>	<b>Covered Payroll</b>	<b>Net OPEB Liability as a % of Covered Payroll</b>
2016	15,494,939,646	1,026,308,730	14,468,630,916	6.62%	8,137,661,670	177.80%
2017	14,659,610,970	1,114,774,760	13,544,836,210	7.60%	8,437,059,071	160.54%
2018	15,387,115,010	1,216,530,062	14,170,584,948	7.91%	8,614,421,372	164.50%

**South Carolina Long-Term Disability Insurance Trust Fund**

<b>Fiscal Year Ending June 30,</b>	<b>Total OPEB Liability</b>	<b>Plan Net Position</b>	<b>Net OPEB Liability</b>	<b>Plan Net Position as a % of Total OPEB Liability</b>	<b>Covered Payroll</b>	<b>Net OPEB Liability as a % of Covered Payroll</b>
2016	37,547,106	36,852,952	694,154	98.15%	N/A	N/A
2017	38,510,568	36,697,589	1,812,979	95.29%	N/A	N/A
2018	39,261,091	36,199,863	3,061,228	92.20%	N/A	N/A

**Notes to Schedules:**

This ten year schedule will be completed as more information becomes available.

For SCRHTIF, the discount rate changed from 3.56% as of June 30, 2017 to 3.62% as of June 30, 2018.

For SCRHITF, the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017.

For SCLTDITF, the single discount rate changed from 3.87% as of June 30, 2017 to 3.91% as of June 30, 2018.

For SCLTDITF, the single discount rate changed from 3.74% as of June 30, 2016 to 3.87% as of June 30, 2017.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULE OF OPEB INVESTMENT RETURNS

AS OF JUNE 30, 2018

**South Carolina Retiree Health Insurance Trust Fund**

<b><u>Fiscal Year Ending June 30,</u></b>	<b><u>Annual Return<sup>1</sup></u></b>
2017	1.36%
2018	0.27%

**South Carolina Long-Term Disability Insurance Trust Fund**

<b><u>Fiscal Year Ending June 30,</u></b>	<b><u>Annual Return<sup>1</sup></u></b>
2017	1.00%
2018	0.14%

<sup>1</sup> - Annual money-weighted rate of return, net of investment expenses.

Note: This ten year schedule will be completed as more information becomes available.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mr. George L. Kennedy, CPA  
State Auditor  
Office of the State Auditor and  
Members of the South Carolina Public  
Employee Benefit Authority  
South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina Retiree  
Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund  
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund, collectively referred to as "PEBA Insurance Benefits," as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise PEBA Insurance Benefits' basic financial statements, and have issued our report thereon dated October 23, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PEBA Insurance Benefits' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEBA Insurance Benefits' internal control. Accordingly, we do not express an opinion on the effectiveness of PEBA Insurance Benefits' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings at 2018-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether PEBA Insurance Benefits' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **PEBA Insurance Benefits' Response to Finding**

PEBA Insurance Benefits' response to the finding identified in our audit is described in the accompanying Schedule of Findings. PEBA Insurance Benefits' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of PEBA Insurance Benefits' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEBA Insurance Benefits' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
October 23, 2018

**South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina  
Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance  
Trust Fund Schedule of Findings  
June 30, 2018**

**Finding 2018-001:**

**Participant Census Data**

**Criteria:** Errors were noted in the participant census data of South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund (the Plans) that was used by the Plans' actuary in preparing the OPEB valuations. The Plans' review of the participant census data did not detect the error.

**Condition:** Approximately 60 plan participants were erroneously duplicated in the participant census data of the South Carolina Retiree Health Insurance Trust Fund, and approximately 7,600 participants were erroneously duplicated in the participant census data of the South Carolina Long-Term Disability Insurance Trust Fund by the Plans' actuary during the completion of the Plans' OPEB valuation reports. An additional 8,800 participants of the South Carolina Long-Term Disability Insurance Trust Fund were erroneously excluded in the participant census data by the Plans' actuary during the completion of the Plans' OPEB valuation reports. Management did not have controls in place to prevent or detect the error.

**Context:** The South Carolina Retiree Health Insurance Trust Fund's participant count of approximately 272,000 was overstated by 60 participants and the South Carolina Long-Term Disability Insurance Trust Fund's participant count of approximately 186,000 was understated by approximately 1,200 participants.

**Cause:** Management relies on their third-party actuary to convert the Plans' participant data into a format that can be used in the completion of the Plans' actuarial valuation report. An error was made by the actuary in their formatting of the data, and management of the Plans did not detect the error.

**Effect:** The duplications were detected during our audit procedures prior to the actuary finalizing the valuation, which allowed the valuation to be corrected prior to issuance of the actuarial report. Were the duplications not found prior to issuance of the report, the disclosure of the Plans' OPEB liability in accordance with GASB 74 could have been misstated.

**Recommendation:** Management of the Plans should develop or enhance policies and procedures to review the participant census data prepared by their actuary to review for errors.

**Management Response:** PEBA – Insurance Benefits has developed and implemented policies and procedures to ensure accuracy and completeness of the actuarial file before it is sent to the external auditors as part of the annual independent audit.