

## **Meeting Minutes | Board of Directors**

Wednesday, October 2, 2019 | 9:30 a.m.  
202 Arbor Lake Dr., Columbia, SC 29223 | First Floor Conference Room

### **Minutes approved December 4, 2019**

**Board Members Present:** Ms. Jennifer Blumenthal, Mr. Calvin Elam, Mr. Steve Heisler, Ms. Paige Lewis, Sheriff Leon Lott, Mr. Steve Matthews, Vice Chairman Joe “Rocky” Pearce, Mr. Chuck Richardson, Mr. Alex Shissias, Chairman John Sowards, and Mr. Ed Walton.

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Phyllis Buie, Amber Carter, Sarah Corbett, Georgia Gillens, Joe Greene, James Manning, Heather Muller, Tammy Nichols, Katie Simmons, Laura Smoak, Rob Tester, Travis Turner, Stephen Van Camp, Angie Warren, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Kara Brurok and Mike Hitchcock from the South Carolina Retirement System Investment Commission (RSIC); Sam Griswold from the State Retirees Association of South Carolina; James D’Alessio, Brooks Goodman, Dr. Tripp Jennings, and Carmen Wilson from Blue Cross Blue Shield of South Carolina; Gia Elesvier, Karen Russell, Robin Scott, and Dr. Wigneswaran from Express Scripts, Inc.; Danny White from Gabriel, Roeder, Smith & Company; Samantha Harper from the South Carolina Office of the State Treasurer; Joanie Lawson from the South Carolina Education Association; and Charlie Mullikin from Mullikin Law Firm.

#### **I. Call to Order**

Chairman John Sowards called the PEBA Board of Director’s (Board) retreat to order at 9:31 a.m. and stated that the public meeting notice was posted in compliance with the Freedom of Information Act. Chairman Sowards announced that Mr. Ed Walton will be joining the meeting in the afternoon.

#### **II. Approval of Meeting Minutes- July 24, 2019**

It was noted that the July 24, 2019, Board meeting minutes were approved as presented.

#### **III. Financial Condition of the System Overview**

Mr. Travis Turner, Chief Financial Officer, introduced Mr. Danny White from Gabriel, Roeder, Smith & Company (GRS), to present on the financial condition of the system. Mr. White discussed a summary of the expected July 1, 2019, Valuation results for the South Carolina Retirement System (SCRS), and the Police Officers Retirement System (PORS), as well as the expected results of the July 1, 2019, Valuation for the Judges and Solicitors Retirement System (JSRS).

Mr. White detailed a comparison of funded ratio and employer contribution rates of SCRS to other statewide retirement systems. Mr. White also discussed a summary of the 2017 reform, which increased the SCRS employer rate to 18.56 percent by fiscal year 2023 and capped the employee rate at 9.00 percent. The 2017 reform also reduced the assumed rate of return from 7.50 percent to 7.25

percent, and decreases the maximum funding period by one each year to a 20-year funding period in 2027.

Mr. White turned the discussion to financial stress testing, which is an analysis designed to determine the ability of a given financial instrument to deal with an economic crisis. Mr. White advised that stress testing identifies the stressors to the system for purposes of optimizing policies and procedures to improve sustainability, and educate stakeholders of the potential risk.

Mr. White outlined the experience study timeline and process, and stated that the Board adopted the assumptions that will be used to prepare the 2020 actuarial valuation at the April 2019 Board meeting. Key assumptions include the retiree mortality assumption; payroll growth assumption; other demographic assumptions; and the investment return assumption.

Mr. White discussed information related to his second presentation on challenges that many systems encounter, including the implications of increasing pension cost and the implications of increasing contribution rates, and discussed possible alternatives to each.

It was noted Mr. Steve Matthews recused himself and left the room during a discussion related to Santee Cooper. Mr. Matthews provided Chairman Sowards and appropriate staff with a copy of his recusal letter which is attached, for the record.

#### **IV. RSIC Investment Performance Update**

Mr. Mike Hitchcock, Chief Executive Officer, from the South Carolina Retirement System Investment Commission (RSIC), presented an investment performance update for the period ending June 30, 2019, and stated that fiscal year 2019 Plan return was 5.84 percent, which was equivalent to the median pension fund return for funds of similar size (net of fees). Mr. Hitchcock advised that investment performance has improved as a result of adding US public equity exposure; improving liquidity framework; attacking the structural cost of the portfolio; de-risking real estate and private credit portfolios; and raising the bar quantitatively for private market managers. Mr. Hitchcock pointed out that prudently taking on additional risk has enhanced Plan returns, but stressed that additional risks, although necessary to achieve better returns, also increases volatility of the Plan.

Mr. Hitchcock stated that investment fees saving is a top priority and described the three types of fees including management fees; performance fees; and fund expenses. Mr. Hitchcock advised that RSIC reports all three types of fees and is a leader in investment fee transparency. Many institutions only report management fees which may represent less than half of their total fees.

Mr. Hitchcock reported that the Pension Reform Bill passed in 2017, drastically improved the cashflow profile of SCRS, which reduces Plan risk and supports asset growth. Mr. Hitchcock concluded by adding that RSIC's investments have generated a compound, annualized return of 8.48 percent over the past three years, which has significantly exceeded expectations.

#### **V. The Future of Pharmacy**

Mr. Rob Tester, Insurance Policy Director, introduced Dr. John Wigneswaran with Express Scripts, Inc., who reported on the future of pharmacy initiatives. Dr. Wigneswaran stated that there are approximately 300,000 health care applications, and many providers are currently developing an integrated central health care application to provide members the best care possible. Real-time data dictates how a patient is medically treated, and Dr. Wigneswaran provided examples of how dynamic

consumer incentives and formularies can provide the most efficient and financially beneficial outcomes.

Dr. Wigneswaran also discussed how behavioral health platforms can help identify patients with certain behavioral health tendencies which is a critical aspect to a patient's overall health. Behavioral health platforms can also help physicians provide the correct medical and prescription drug treatment.

Dr. Wigneswaran concluded his presentation by outlining a new program called Embarc, which provides patients gene therapy medications with no out-of-pocket expenses. With the Embarc program, providers pay an amount per-member-per-month and the pharmacies and distributors are paid for the drugs through the Embarc program.

It was noted that Mr. Ed Walton joined the meeting at 1:00pm.

#### **VI. National Health Care Legislative Update**

Mr. Tester introduced Mr. James D'Alessio with Blue Cross Blue Shield of South Carolina, to present on current federal legislative efforts in healthcare, particularly around the high cost of prescription drug pricing and surprise medical billing. Mr. D'Alessio stated that there is a high public demand to curtail the rising cost of prescription drugs, and pharmaceutical lobbyists are by far the largest and most well-funded lobbyists in Washington, DC.

Mr. D'Alessio turned the discussion to current legislation created to limit surprise medical balance billing, which is not prevalent in South Carolina, but is a major concern in larger states throughout the country. Both bills were discussed within the context of the current political environment and its impact on the chances of enactment.

#### **VII. Approval of 2021 Initial State Health Plan Budget Requirements**

Mr. Tester reviewed the preliminary fiscal year 2021 State Health Plan budget requirements and stated that no increase in State Health Plan employer or employee rates will be required to sustain the Plan of Benefits for 2020. Accordingly, there will be no health insurance annualization required for the July-December 2020 period. Mr. Tester advised that effective January 1, 2021, total contribution rates are expected to increase 3.9 percent.

Mr. Rocky Pearce made a motion, which was seconded by Mr. Matthews and passed unanimously, to approve the 2021 initial State Health Plan budget, and to request full funding of the adult well visits on an annual basis with no patient cost sharing.

#### **VIII. 2019- 2021 Strategic Plan Approval**

Ms. Sarah Corbett, Chief Operating Officer, presented an update to the 2019-2021 Strategic Plan to the Board for approval. It was noted that the updated Strategic Plan incorporates four different documents including the 2019-2021 Strategic Plan; 2019-2021 Strategic Staff Actions; FY 2019 Completed Strategic Staff Actions; and 2019-2021 Strategic Key Measures. Ms. Corbett reviewed the six goals of the Strategic Plan which remains the same and stated that there are additional staff action items along with updated key measures.

Mr. Pearce made a motion, which was seconded by Mr. Steve Heisler, and passed unanimously, to approve the 2019-2021 Strategic Plan as presented.

#### **IX. Approval of 2020 Board and Committee Meeting Dates**

Ms. Peggy Boykin, Executive Director, reviewed the proposed 2020 quarterly Board and Committee meeting dates, and noted that the Board retreat next year will be two days with the first day dedicated to educational training and the second day dedicated to Committee meetings and regular Board meeting agenda items.

Mr. Alex Shissias made a motion, which was seconded by Mr. Heisler and passed unanimously, to approve the 2020 Board and Committee meeting date schedule.

#### **X. Old Business**

##### **Director's Report**

Ms. Boykin stated that draft financial statements have been submitted to the Comptroller General's Office and PEBA's external auditor, CliftonLarsonAllen, will be at the December 4, 2019, Board meeting to present the audited financial statements to the Board.

Ms. Boykin advised that Funston Advisory Services is completing the final stages of the fiduciary audit and they will also be at the December 4, 2019, Board meeting to present the final fiduciary audit to the Board.

Ms. Boykin reported that PEBA will present the 2021 State Health Plan Budget to the Governor's office Thursday, October 3, 2019, at 3:45 p.m.

Ms. Boykin stated that the Senate Finance Retirement Special Subcommittee met on September 24, 2019 and heard an update on investment performance by Mr. Mike Hitchcock from RSIC. The Subcommittee expects to meet again before the end of the year to begin discussions on retirement system plan design.

Ms. Boykin pointed out that Mr. White from GRS will present the Retirement Systems Actuarial Valuations at the December 4, 2019 Board meeting. GRS will also conduct the 2020 Actuarial Experience Study which should be presented at the March 4, 2020, Board meeting.

Ms. Boykin advised that Empower Retirement was selected through the Request for Proposal (RFP) process to continue as PEBA's third party administrator for the South Carolina Deferred Compensation Plan with a new contract period beginning January 1, 2020.

Ms. Boykin reported that PEBA conducted an on-site disaster recovery and business continuity test with Sunguard Availability Services in August 2019, and PEBA is working with the State Information Technology department on a potential transition to a new state contract with TierPoint.

Ms. Boykin added that the 2019 Benefits at Work (BAW) conference was held August 26-28, 2019, at the Columbia Metropolitan Convention Center. This conference is dedicated to informing employers on open enrollment and benefit changes for 2020, and PEBA has received excellent feedback from employers on the presentations provided.

Ms. Boykin stated that PEBA's fiscal year 2018-2019 Accountability Report has been submitted to the General Assembly and highlighted some of PEBA's recent efforts to lower State Health Plan (SHP) costs including:

1. Implementation of the site-of-care initiative for the SHP which is estimated to save the Plan approximately \$625,000;
2. Effective January 1, 2019, PEBA transitioned to the new Preferred 90 Network for an annual estimated savings of \$1.66 million;
3. PEBA has obtained \$15.9 million in prescription drug pricing guarantee reconciliation and has validated \$603.2 million in pharmacy rebates and \$370.5 million in Medicare subsidies through the life of the current contract;
4. Effective January 1, 2019, adult well visits were added as a covered benefit for SHP members and has been significantly well received by members. Ms. Boykin stated that PEBA's employee wellness program, Yes2Health, continues to be successful as well;
5. Based on the latest CEM Benchmarking survey, PEBA's total pension administration cost was \$36 per active member and annuitant, compared to the peer average of \$80 per active member and annuitant. This demonstrates that PEBA provides a high level of customer service at a relatively low cost.

#### **Roundtable Discussion**

At the conclusion of the Director's Report, Chairman Sowards provided an opportunity for a roundtable discussion. Board members praised Ms. Boykin and PEBA staff for their hard work and tremendous efforts throughout the year.

Chairman Sowards reminded Board members about the 2017 legislation that states Board members may serve two consecutive four-year terms and protects Board members from being removed before their term expires, unless approved by the Governor. It was noted that terms of Board members appointed by the Governor, along with representative and nonrepresentative Board members appointed by members of the General Assembly have staggered term limits.

#### **XI. Adjournment**

There being no further business, and upon motion by Mr. Heisler, which was approved unanimously, the Board meeting adjourned at 3:17 p.m.

**HAYNSWORTH  
SINKLER BOYD**

HAYNSWORTH SINKLER BOYD, P.A.  
1201 MAIN STREET, 22<sup>ND</sup> FLOOR (29201-3226)  
P.O. BOX 11889 (29211-1889)  
COLUMBIA, SOUTH CAROLINA  
MAIN 803.779.3080  
FAX 803.765.1243  
www.hsblawfirm.com

**STEVE A. MATTHEWS**  
DIRECT 803.540.7827  
smatthews@hsblawfirm.com

June 5, 2019

**VIA USPS FIRST CLASS MAIL**

John A. Sowards  
Chairman, South Carolina Public Employee  
Benefit Authority Board of Directors  
Nexsen Pruet  
1230 Main Street  
Suite 700  
Columbia, South Carolina 29201

Re: Recusal of Steve A. Matthews

Dear John:

My law firm provides representation in matters that have recently become affected by Joint Resolution H. 4287, enacted by the South Carolina General Assembly on May 21, 2019, and approved by the Governor on May 22, 2019. Section 2(A)(8) of that Joint Resolution addresses certain matters that are related to the responsibilities of the South Carolina Public Employee Benefit Authority Board of Directors. Consequently, should any issue related to H. 4287 (including but not limited to Section 2(A)(8) thereof) come within the purview of the Board, I hereby recuse myself from participating in any discussions or actions related to each such issue.

In addition, I request that a copy of this letter be included in the minutes of the Board. With best regards, I remain

yours truly,



Steve A. Matthews

Copy to: Peggy Boykin, Executive Director  
Stephen R. Van Camp, General Counsel

HSB 5849540 v.1