

Meeting Agenda | Board of Directors

Thursday, July 21, 2016 | 1:00 p.m.

200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

- I. Call to Order
- II. Adoption of Proposed Agenda
- III. Approval of Meeting Minutes- June 23, 2016
- IV. Chairman and Vice-Chairman Elections
- V. Committee Reports
 1. Health Care Policy Committee
 - A. 2017 State Health Plan Approval of Benefits and Contributions
 2. Retirement Policy Committee
 - A. Retirement/Pre-Retirement Advisory Panel Nominations
 3. Finance, Administration, Audit and Compliance (FAAC) Committee
 - A. PEBA Board Bylaw Revisions
 - B. Internal Audit Department Charter Revisions
 - C. Operational Assessment
- VI. Old Business
 1. Director's Report
 2. Roundtable Discussion
- VII. Executive Session for Discussion of Personnel Matters pursuant to S.C. Code of Laws § 30-4-70(a)(1).
- VIII. Adjournment

Notice of Public Meeting

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING**

Meeting Date: July 21, 2016

1. Subject: Chairman and Vice Chairman Elections

2. Summary: Each Committee has a Chairman which is appointed by the Chairman of the PEBA Board.

3. What is the Board asked to do? Approve the Committee Chairman appointments

4. Supporting Documents:

(a) Attached:

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING**

Meeting Date: July 21, 2016

1. Subject: 2017 State Health Plan Approval of Benefits and Contributions

2. Summary: Mr. Rob Tester, Health Care Policy Director, will review the 2017 changes to the State Health Plan.

3. What is the Board asked to do? Approve the 2017 State Health Plan Benefits and Contributions

4. Supporting Documents:

- (a) Attached:
1. State Health Plan Program Changes
 2. SHP Standard Plan
 3. SHP Contribution Rates

Proposed State Health Plan program changes effective January 1, 2017

All health plans

- Employer contribution increase of 0.8 percent
 - Amount funded by General Assembly in fiscal year 2017 Appropriations Act and memorialized in Proviso 108.6 of the Act
 - Funding is provided for the 0.8 percent employer increase for state agencies and school districts to the extent that their positions are funded by state general fund appropriations
- No enrollee contribution increase
- Composite contribution increase of 0.6 percent

State Health Plan

Proposals below are not applicable to Medicare-primary retirees with the exception of items processed through the pharmacy contractor for persons who have opted out of the Medicare Group Part D plan. However, the hospice services item is applicable to Medicare-primary retirees.

Pharmacy

- Adopt and transition to the Express Scripts National Preferred Formulary to maximize the State Health Plan's ability to obtain the lowest net cost for covered prescriptions, whether through reduction in ingredient cost or increase in pharmaceutical rebates, which are enhanced through adoption of the National Preferred Formulary. The National Preferred Formulary has exclusions from coverage for certain branded products in highly interchangeable categories, as determined by Express Scripts' Pharmacy and Therapeutics Committee. However, there is an exception process in place for situations in which there are clinical reasons to use the excluded product. Estimated annual savings from a reduction in pharmacy costs equal \$6.4 million with additional rebates earned in 2017 estimated at \$16.2 million.
- Adopt the Express Scripts Hepatitis C Cure Value Program to help ensure adherence and assistance with this high-cost medication and provide cost savings to the State Health Plan. This program will require all Hepatitis C medications to be dispensed through Accredo, Express Scripts' specialty pharmacy, and new users of Hepatitis C therapy who are genotype 1 will be required to use Viekira Pak, the preferred drug in this category. This program is estimated to save \$2.5 million annually. The State Health Plan spent \$16 million in 2015 for Hepatitis C medication.
- Adopt the Express Scripts Cholesterol Care Value Program to actively manage high-cost specialty cholesterol medications known as PCSK9s. PCSK9s are a new form of cholesterol therapy, currently available as an injection only, which went to market in 2015. The cost of PCSK9

medications far exceeds that of traditional cholesterol medication, at \$14,560 per year compared to \$604 per year for traditional therapy. All PCSK9 medications must be dispensed through Accredo, Express Scripts' specialty pharmacy. There is a rigorous clinical review process associated with this program with the intent of maintaining as many patients as possible on traditional, low-cost cholesterol medication.

Medical

- Add telehealth, clinically-appropriate virtual doctor's visits, through Blue CareonDemandSM as a regular, covered service with patient liability calculated in the same manner as other regular services. The cost impact of adding telehealth as a covered service is considered breakeven.
- Add coverage at no cost to the member for manual or electric breast pumps obtained from BlueCross BlueShield of South Carolina-contracted providers. Estimated additional expense to the Plan is approximately \$420,000 a year.
- Increase the lifetime limit for hospice services to \$7,500. The lifetime limit for hospice services is currently \$6,000 and has been since 1997.

State Dental Plan

- Employer contribution increase of 15 percent
 - Amount funded by General Assembly in fiscal year 2017 Appropriations Act
 - Funding is provided for the 15 percent employer increase for state agencies and school districts to the extent that their positions are funded by state general fund appropriations
- No enrollee contribution increase
- Composite contribution increase of 10.1 percent

MUSC Health Plan

- Add telehealth services from the MUSC panel of doctors as a Tier 1 benefit with a \$25 per virtual visit patient copayment.

State Health Plan

Benefit cost | All health plans

	General fund	Premium increase – employer (PEPM)	Premium increase – employee (PEPM)
Employer only	\$25.73 million	\$3.98	\$0.00

Benefit structure | Standard Plan

	2017	2016
Deductible	\$445/\$890	\$445/\$890
Coinsurance maximum	\$2,540/\$5,080	\$2,540/\$5,080
Physician copayment	\$12	\$12
Emergency room copayment	\$159	\$159
Outpatient hospital copayment	\$95	\$95
Pharmacy copayment	\$9/\$38/\$63	\$9/\$38/\$63

State Health Plan monthly contribution rates by level of coverage | Effective January 1, 2017

0.8 percent increase for employers/no increase for enrollees

2017 employer rates for all health plans

	2017	2016
Enrollee only	\$362.98	\$360.10
Enrollee/spouse	\$718.98	\$713.26
Enrollee/child	\$557.10	\$552.68
Full family	\$900.18	\$893.04

2017 employee rates (no change from 2016)

Savings Plan

Enrollee only	\$9.70
Enrollee/spouse	\$77.40
Enrollee/child	\$20.48
Full family	\$113

Standard Plan/Medicare Supplement

Enrollee only	\$97.68
Enrollee/spouse	\$253.36
Enrollee/child	\$143.86
Full family	\$306.56

Tobacco users will pay a \$40 (enrollee only) or \$60 (enrollee plus coverage) per month premium in addition to health premiums.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING**

Meeting Date: July 21, 2016

1. Subject: Retirement/Pre-Retirement Advisory Board Nominations

2. Summary: Section 9-2-20 of the South Carolina Code of Laws governs membership of the Retirement and Pre-Retirement Advisory Panel (Panel) and includes guidelines on its terms of offices, vacancies, and officers. All seats on the Panel are based on four-year terms, with each member being allowed to serve two consecutive four-year terms.

The Panel consist of eight members:

1 member representing municipal employees

1 member representing county employees

3 members representing state employees-1 must be retired, 1 must be an active or retired PORS member

2 members representing public school teachers, 1 must be retired

1 member representing the higher education teachers

3. What is Board to do? Approve the nominations

4. Supporting Documents:

- (a) Attached:
1. SC Code of Laws- Title 9, Chapter2
 2. List of current member and nominations
 3. Letters of recommendations

CHAPTER 2
Retirement and Preretirement Advisory Panel

Editor's Note

2008 Act No. 311, Section 55, provides as follows:

“Upon the effective date of this act, Regulations 19-900 through 19-997 of the South Carolina Code of Regulations shall have no application whatsoever to the operation of Title 9 of the 1976 Code.”

SECTION 9-2-10. Advisory panel.

There is created the South Carolina Retirement and Preretirement Advisory Panel for the purpose of advising the Director of the South Carolina Retirement System and the Director of the State Personnel Division on matters relating to retirement and preretirement programs and policies.

HISTORY: 1976 Act No. 696 Section 1; 2012 Act No. 278, Pt IV, Subpt 2, Section 45, eff July 1, 2012.

Effect of Amendment

The 2012 amendment removed “hereby” and substituted “Panel” for “Board”.

SECTION 9-2-20. Membership of panel; terms of offices; vacancies; officers.

(a) The panel shall consist of eight members appointed by the Board of Directors of the South Carolina Public Employee Benefit Authority and must be constituted as follows:

(1) one member representing municipal employees;

(2) one member representing county employees;

(3) three members representing state employees, one of whom must be retired and one of whom must be an active or retired law enforcement officer who is contributing to or receiving benefits from the Police Officers Retirement System. If this law enforcement member is retired, the other two members representing state employees do not have to be retired;

(4) two members representing public school teachers, one of whom must be retired;

(5) one member representing the higher education teachers. The board of directors shall invite the appropriate associations, groups, and individuals to recommend persons to serve on the panel.

(b) The terms of the members shall be for four years and until their successors have been appointed and qualify. No member shall serve more than two consecutive terms. After serving two consecutive terms a member shall be eligible to serve again, four years after the expiration of his second term. Provided that of those first appointed, four of the members shall serve for a term of two years. In the event of a vacancy, a successor shall be appointed in the same manner as the original appointment to serve the unexpired term.

(c) A chairman, vice chairman, and secretary shall be elected from among the membership to serve for terms of two years.

HISTORY: 1976 Act No. 696 Section 2; 1991 Act No. 170, Section 4, eff June 28, 1991; 2012 Act No. 278, Pt IV, Subpt 2, Section 45, eff July 1, 2012.

Editor's Note

1991 Act No. 170, Section 5, effective June 28, 1991, provides as follows:

“The three present members of the South Carolina Retirement and Preretirement Advisory Board representing state employees, as provided by Section 9-2-20(a)(3) of the 1976 Code, shall continue to serve their current terms of office. When the first of these three members' terms expires after the effective date of this act, his successor so appointed must be the active or retired law enforcement officer required by Section 9-2-20(a)(3) as amended by this act.”

Effect of Amendment

The 1991 amendment in subsection (a), item (3), inserted a requirement that one of the members representing state employees must be a law enforcement officer.

The 2012 amendment substituted “panel” for “board” and substituted “Board of Directors of the South Carolina Public Employee Benefit Authority” for “State Budget and Control Board” in subsection (a);

substituted “board of directors” for “Budget and Control Board” and “panel” for “board” in subsection (a)(5); (a)(5); and made other nonsubstantive changes.

SECTION 9-2-30. Meetings of panel.

The panel shall meet once a year with the Director of the South Carolina Retirement System, once a year with the State Personnel Director, and once a year with the Executive Director of the South Carolina Public Employee Benefit Authority. The chairman may call additional meetings of the panel at such other times as considered necessary and shall give timely notice of such meetings.

HISTORY: 1976 Act No. 696 Section 3; 2012 Act No. 278, Pt IV, Subpt 2, Section 45, eff July 1, 2012.

Effect of Amendment

The 2012 amendment substituted “panel” for “board” throughout; substituted “Executive Director of the South Carolina Public Employee Benefit Authority” for “State Budget and Control Board”; and, substituted “considered” for “deemed”.

SECTION 9-2-40. Duties of panel.

The panel shall review retirement and preretirement programs and policies, propose recommendations, and identify major issues for consideration.

HISTORY: 1976 Act No. 696 Section 4; 2012 Act No. 278, Pt IV, Subpt 2, Section 45, eff July 1, 2012.

Effect of Amendment

The 2012 amendment substituted “panel” for “board”, and made other nonsubstantive changes.

SECTION 9-2-50. Staff assistance from other agencies; other resources.

The panel is authorized to seek reasonable staff assistance from the South Carolina Retirement System, the State Personnel Division, and other state agencies which may be concerned with a particular area of study. The panel is also encouraged to use such resources as faculty and students at public universities, colleges, and technical education schools in South Carolina.

HISTORY: 1976 Act No. 696 Section 5; 2012 Act No. 278, Pt IV, Subpt 2, Section 45, eff July 1, 2012.

Effect of Amendment

The 2012 amendment substituted “panel” for “board” throughout, and made other nonsubstantive changes.

	<u>NAME</u>	<u>TERM</u> <u>BEGAN</u>	<u>TERM</u> <u>EXPIRES</u>	<u>SEAT</u>	<u>TERM</u> <u>SERVING</u>	<u>REPLACEMENT</u> <u>NAME</u>
	Ms. Beverly K. Barbee 105 Garmony Road Columbia, SC 29212 (803) 603-0333 bev.barbee@gmail.com bevbarbee@bellsouth.net	12/17/2014	12/17/2018	Public School Employees (Retired)	second	Ms. Rebecca Rochester 864-466-6981 rrochester@thescea.org (Retired)
			(Secretary) RESIGNED 6/10/16			
	Dr. Peggy Makins 823 Whitney Lane Lexington, SC 29072 803-356-2912 (H) 803-467-6521 C	12/17/2014	12/17/2018	Public School Employee (active)	First	
	Ms. Ruth Seigler P.O. Box 3601 Irmo, SC 29063 803-771-4740	12/17/2014	12/17/2018	Higher Education Employees (Retired)	first	
	Mr. Timothy Winslow Assistant General Counsel S.C. Association of Counties P O Box 8207 Columbia, SC 29202-8207 803-252-7255 twinslow@scac.sc	12/17/2014	12/17/2018	County Employees (Active)	First	

NOMINATING	TERM	TERM
AGENCY	<u>BEGAN</u>	<u>EXPIRES</u>
Municipal Assoc of SC	6/23/2016	6/23/2020
SC Troopers Assoc	6/26/2016	6/23/2020
State Employees Assoc	6/26/2016	6/23/2020
State Retirees Assoc		

NOMINATING	TERM	TERM
AGENCY	BEGAN	EXPIRES
SC Education Assoc	6/26/2016	6/23/2020
Palmetto State Teachers Assoc.		
State Retirees Assoc.		
S.C. Assoc. of Counties		

June 14, 2016

Heather Muller
Board Liaison
SC PEBA
202 Arbor Lake Dr.
Columbia, SC 29223

Dear Ms. Muller:

Thank you for requesting my recommendation for a municipal representative to serve on the Retirement and Preretirement Panel.

It is my recommendation that Scott Slatton serve in this position. Scott currently serves as the Legislative and Public Policy Advocate for the Municipal Association and prior to that he served as a field service manager.

Before his work with the Municipal Association, Scott served as a town manager in North Carolina and South Carolina.

Please let me know if I can provide any additional information.

Sincerely,



Miriam Hair
Executive Director
Municipal Association of South Carolina



South Carolina Troopers Association

4961 Broad River Road • Columbia, SC 29212 • Tel 800-633-2236 • Fax 803-772-1125

www.sctroopers.org

May 26, 2016

RECEIVED

MAY 31 2016

PEBA-ADMIN

S.C. PEBA
Attn: Lori Anna Varnadoe
202 Arbor Lake Drive
Columbia, SC

Dear Ms. Varnadoe,

We would like to nominate Captain Robert G. Woods, IV, of the South Carolina Highway Patrol to serve on your PEBA Advisory Panel. Contact information for Captain Woods is as follow:

Captain Robert G. Woods, IV
SC Highway Patrol
PO Box 1993
Blythewood, SC 29016-1993

Thank you for allowing us to participate in your nomination process.

Sincerely,

Mark A. Gosnell
Executive Director

/dr



South Carolina State Employees Association

Established 1943



Chartered 1946

June 13, 2016

Heather Muller
PEBA

Dear Mrs. Heather Muller:

Thank you for your call last week regarding the advisory committee. The South Carolina State Employees Association is recommending Walter G. Woodrum, III as our representative. Walt has served two terms as SCSEA President and was this year's Outstanding State Employee.

He has worked for the Forestry Commission since the early eighties and would serve employees well. Please call me if you have any questions.

Thank you,

Carlton B. Washington

Carlton B. Washington
SCSEA Executive Director

Office: 421 Zimalcrest Drive, Suite 302
Columbia, SC 29210
Phone: (803) 765-0680

Mailing: P.O. Box 8447
Columbia, SC 29202
Email: mail@scsea.com



421 Zimalcrest Drive • Columbia, South Carolina 29210-6899
803-772-6553 • 1-800-422-SCEA • FAX 803-772-0922
www.thescea.org

May 13, 2016

Ms. Lori Anna Varnadoe
202 Arbor Lake Drive
Columbia, SC 29223

Dear Ms. Varnadoe:

I am submitting Ms. Rebecca Rochester, President The South Carolina Education Association – Retired, as a candidate for consideration for appointment to Retirement and Pre-Retirement Advisory Panel. Ms. Rochester can be contacted at rrochester@thescea.org, or 864-466-6981.

Rebecca holds a B. S. degree in Elementary Education from Winthrop University, a Master of Education degree from The Citadel, and received her National Board for Professional Teaching Standards in Early Adolescence Language Arts in 2000. The one thing that helped her most in receiving her NBC was that she learned to answer the questions with as few words and as exact as possible.

Rebecca retired in 2004 after teaching in South Carolina public schools for over thirty three years. During her active teaching years, she served more than eight years on the Board of Directors for The South Carolina Education Association and on many of The SCEA's committees. Rebecca also served as president of both The York County Education Association and The York County Education Association Retired.

Rebecca continues to be active advocating for public education at the local, state and national levels. She sees that today's public school students and employees benefit from the years of experience of the retired teachers who provide hundreds of volunteer hours with youth across the state annually. Rebecca currently is serving in several roles using her teaching experience. She is immediate past dean of the South Carolina Conference United Methodist Women's mission school, Mission u and will be one of the twelve study leaders at the 2016 Mission u.

She also serves as vice president of the Friends of the Union County Carnegie Library, a group advocating and supporting this historic Carnegie public library. Rebecca is president of her local church's United Methodist Women. A member of the South Carolina Christian Action Council and the State Retirees' Association. A driving force in her continuing efforts to promote public education is her belief that the future begins in today's public schools. She lives with her husband Bill in Union, S. C. Contact her at rrochester@thescea.org or 864-466-6981.

Please give consideration to Ms. Rebecca Rochester. I strongly recommend her for this position. Should you choose Rebecca you will find a dedicated and fully engaged member of the Retirement and Pre-Retirement Advisory Panel.

Thank you and please do not hesitate to contact me should you have any questions.

Sincerely,


Roger Smith

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING**

Meeting Date: July 21, 2016

1. Subject: 2016 Bylaw Revisions

2. Summary: Attached are the proposed Bylaw changes related to the length of Committee terms.

3. What is the Board asked to do? Approve the proposed revisions

4. Supporting Documents:

(a) Attached: 1. June 2016 Bylaw Revisions

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS
BYLAWS**

I. PURPOSE

The South Carolina Public Employee Benefit Authority Board of Directors (“Board”) is the governing body of the South Carolina Public Employee Benefit Authority (“PEBA”), established by Act No. 278 of 2012 of the South Carolina General Assembly, as codified in Title 9 of the Code of Laws, Chapter 11 of Title 1 of the Code of Laws, and Chapter 23 of Title 8 of the Code of Laws, as amended from time to time (“Governing Law”); and the Board has the powers and responsibilities set out in the Governing Law. PEBA is an administrative agency charged by the Governing Law with administering the State’s public employee insurance programs, its retirement programs, and its deferred compensation program.

II. BOARD MEMBERSHIP

A. COMPOSITION

1. The Board shall consist of the number of members selected in the manner set forth in the Governing Law; each member, prior to commencing performance of the member’s duties, must meet the qualifications, comply with the requirements, and take the oath of office set forth therein and elsewhere in the Code of Laws of South Carolina 1976, as amended.
2. Copies of records of appointments and of notarized oaths of all Board members will be maintained by the secretary of the Board.

B. TERM OF OFFICE

1. Board members will serve for the periods determined in accordance with the Governing Law.
2. It shall be the responsibility of the Board secretary to notify the Secretary of State and the relevant appointing authority of any appointment to, resignation from, or vacancy in the membership of the Board and to insure that the requirements of Section II.A. ~~1~~ above are met.

III. GENERAL RESPONSIBILITIES AND DUTIES

The Board will fulfill the responsibilities, perform the duties, and exercise the powers assigned to it by the Governing Law and other relevant provisions of the Code of Laws of South Carolina 1976, as amended.

In discharging his or her duties with respect to PEBA, a Board member is entitled to rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by: (1) one or more officers or employees of the State whom the Board member reasonably believes to be reliable and competent in the matters presented; (2)

legal counsel, public accountants, actuaries, the South Carolina Retirement Systems Investment Commission or other persons as to matters the Board member reasonably believes are within the person's professional or expert competence; or (3) a committee of the board of directors of which a Board member is not a member if the Board member reasonably believes the committee merits confidence. A Board member is not acting in good faith under this section if he or she has knowledge concerning the matter in question that makes reliance otherwise permitted by this section unwarranted.

IV. BOARD MEETINGS

A. REGULAR MEETINGS

1. The Board shall meet at such times and intervals and in such places as it may determine to be necessary to meet its responsibilities, but not less often than may be required by law.
2. At or before its final regular meeting of any calendar year, the Board shall establish the calendar for its regular meetings during the upcoming calendar year.

B. SPECIAL MEETINGS

1. The Chairman of the Board or the Executive Director of PEBA or any two chairmen of the Board's standing committees may call a special meeting of the Board upon not less than forty-eight (48) hours notice, sent to members of the Board via e-mail to the e-mail address provided by the Board members to PEBA for that purpose.
2. The calling authority or the Board secretary may send the notice, which shall state the date, time, place, and purpose of the meeting; and the business to be transacted at such special meeting shall be limited to such purpose.
3. Any member may waive notice of any meeting. Except as provided in the next sentence, the waiver must be in writing, signed by the member entitled to the notice, and filed with the minutes or corporate records. The attendance of a member at a meeting shall constitute a waiver of notice of such meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business and at the beginning of the meeting (or promptly upon arrival) objects to holding the meeting or transacting business at the meeting, and does not thereafter vote for or assent to action taken at the meeting.

C. QUORUM

A majority of the statutorily authorized number of Board members shall constitute a quorum for the transaction of business at any meeting of the Board.

D. MANNER OF ACTING

1. Required Vote. The act of the majority of the members present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board, unless, by law, a supermajority is required.
2. Telephone Meeting. Any or all members may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all members participating may simultaneously hear each other during the meeting. A member participating in a meeting by this means is deemed to be present in person at the meeting. A member or invited non-member may participate in Executive Session by telephone provided the participant provides assurance to the Board or Committee, reflected in the minutes of the meeting, that no uninvited person is present and able to listen to the Executive Session portion of the meeting.
3. Failure To Object To Action. A member who is present at a meeting of the Board or a committee of the Board when corporate action is taken is deemed to have assented to the action taken unless: (1) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting; or (2) his dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the Executive Director immediately after adjournment of the meeting. The right of dissent or abstention is not available to a member who votes in favor of the action taken.

E. EXECUTIVE SESSION

The Board and its Committees may enter executive session during a public meeting in the manner and for the purposes authorized under the Code of Laws of South Carolina 1976, as amended.

F. ATTENDANCE

The attendance of members at Board meetings and of Board committee members at committee meetings shall be recorded, and the Board secretary shall transmit each member's attendance record for the preceding six (6) months to that member's appointing authority in each January and July. At the request of a member, the attendance record transmitted to a member's appointing authority may also reflect the reason for an absence from a meeting of the Board or a committee of the Board, provided that the member has also notified the Chairman of the Board or Chairman of the committee, as applicable, of the reason for the absence.

G. AGENDA

1. Proposed meeting agendas will be developed by the Executive Director in consultation with the Chairman of the Board and the chairmen of the Board's standing committees.
2. Any member of the Board may propose an item for the agenda of a Board meeting by submitting the proposed item to the Chairman or Executive Director not less than seven days prior to the date of the meeting or, for a special meeting called with less than seven days' notice, as soon

as practicable. Any such requests shall be taken into consideration in developing the proposed meeting agenda.

3. All meeting agendas are subject to final approval by the Chairman of the Board.

H. BOARD ASSESSMENT PROCESS

At least annually, the Board shall engage in a self-assessment process to evaluate the Board's performance. The results of the self-assessment process shall be taken into consideration by the Chairman and Executive Director in developing and recommending training and educational opportunities for Board members.

V. COMMITTEES

A. CREATION OF COMMITTEES

The Board may create one or more committees, and the Chairman shall appoint members of the Board to serve on them. Each committee must have not fewer than two nor more than five Board members. The term of standing committee members shall run from their appointment in July of an even-numbered year ~~be annual and shall run from July 1~~ through the succeeding June 30 of the next even-numbered year, and until their successors are appointed. Each committee shall have a chairman who shall be appointed by the Chairman of the Board, and a vice-chairman who shall be elected by the members of the committee. ~~A~~ Committee chairman of the standing committees shall serve a term running from their appointment in July of an even-numbered year ~~July 1~~ through the succeeding June 30 of the next even-numbered year, and until their successor is appointed. Provided, however, that the term of a committee member or committee chairman ends when the member no longer serves on the Board. Each committee may appoint one or more non-Board members to serve as non-voting members of a committee if the committee finds that the non-Board members possess expertise, skills or qualifications that would aid the committee in fulfilling its responsibilities.

The Finance, Administration, Audit and Compliance Committee, the Retirement Policy Committee, and the Health Care Policy Committee shall be standing committees of the Board. The Chairman of the Board shall be a member of each standing committee. The Board may establish ad hoc committees as it deems appropriate to address specific matters or issues.

1. Committee Assignment Process

No later than ~~May 30~~ July 31 of each even-numbered year, the Chairman shall appoint members of the Board to serve on the standing committees and appoint the chairmen of those committees for the ensuing term running through June 30 of the next even-numbered year. In making these appointments, the Chairman shall solicit and take into consideration input from the members of the Board regarding their desired committee assignments and recommended committee chairman for the ensuing term. for the committee term commencing July 1. In addition, no later than May 30 of each year, the members of each committee shall, by vote at a duly called committee meeting, make a recommendation to the Chairman for the committee chairman for the ensuing committee

~~term commencing July 1. The Chairman shall take these requests and recommendations into consideration in making committee assignments for the committee term commencing July 1. At the first committee meeting after the Chairman's appointment of the standing committee members and chairmen July 1 each even-numbered year, the each standing committee shall elect a vice-chairman to preside over the committee and oversee committee business in the absence of the committee chairman.~~

2. Removal of Committee Members

No member shall be removed from a committee or from the chairmanship of a committee during a committee term, except upon request by that committee member or upon a vote of the Board.

B. REQUIRED PROCEDURES

The provisions of these Bylaws that govern meetings, including calling and setting agendas for regular and special meetings, notice and waiver of notice, executive sessions, and voting requirements of the Board apply to committees and their members, mutatis mutandis. A majority of Board members assigned to a committee of Board members constitutes a quorum for that committee to conduct business, and a majority of the Board members present must vote for an item for the committee to take official action on the item.

C. AUTHORITY

The authority of committees of the Board shall be limited to information-gathering and advice and recommendations to, and on behalf of, the Board, and to ministerial acts. Authority delegated to the Board by law may be exercised only by the Board. Committees may invite administrators, consultants, staff, external auditors, and/or others to attend meetings and provide pertinent information as necessary.

D. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE COMMITTEE

The Finance, Administration, Audit and Compliance Committee (FAAC) will gather, analyze, and study information concerning PEBA's governance, financial reporting, audits, budgets, and regulatory compliance and will make recommendations and reports to the Board on those matters.

E. RETIREMENT POLICY COMMITTEE

The Retirement Policy Committee will gather, analyze, and study information concerning issues arising out of PEBA's administration of the retirement plans set out in Title 9 of the Code and the Deferred Compensation Program, and will make recommendations and reports to the Board on those matters.

F. HEALTH CARE POLICY COMMITTEE

The Health Care Policy Committee will gather, analyze, and study information concerning issues arising out of PEBA's administration of the insurance plans set out in Chapter 11 of Title 1 of the Code, and will make recommendations and reports to the Board on those matters.

VI. INDEMNIFICATION OF BOARD MEMBERS

PEBA shall indemnify and hold harmless members of the Board from and against all liabilities, costs, fees, and expenses, incurred as a result of their acts taken in their official capacity or as a result of allegations regarding those acts, to the full extent permitted by law, and shall insure its obligation hereunder from the insurers and in the amounts determined by the Board, if deemed reasonably necessary.

VII. OFFICER SELECTION PROCESS

A. The officers of the Board will be a Chairman, a Vice-Chairman, a secretary of the Board and the Executive Director of PEBA.

B. The Chairman and the Executive Director shall be selected in accordance with the Governing Law. The Board shall, in each regular meeting held in the month of July of even-numbered years, select one of its nonrepresentative members to serve as Chairman for a term ending June 30 of the next even-numbered year, and until a successor is elected. Provided, however, that the term as Chairman ends when the member no longer serves on the Board. If there is a vacancy in the Chairman position, the Vice-Chairman shall serve as Chairman until the next regularly scheduled meeting. At its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Chairman until the next election held in July of even-numbered years.

C. The Chairman shall (1) preside and conduct meetings of the Board, (2) convene and adjourn meetings, (3) appoint committee chairmen, and (4) propose agendas for Board meetings.

D. The Executive Director shall be the principal executive officer PEBA and, subject to the control of the Board of directors, shall, in general, perform and fulfill the statutory duties, responsibilities and powers conferred upon that office, and supervise and control all of the business and affairs of PEBA and have responsibility for the development and implementation of the strategic direction and initiatives of PEBA. The Board of Directors shall be responsible for selecting, evaluating the performance of, and, subject to the regulations of the Agency Head Salary Commission, setting the compensation of the Executive Director.

E. The Board shall, in each regular meeting held in the month of July of even-numbered years, select a Vice-Chairman from among its nonrepresentative members to serve for a term ending June 30 of the next even-numbered year, and until a successor is elected. Provided, however, that the term as Vice-Chairman ends when the member no longer serves on the Board. If there is a vacancy in the Vice Chairman position, at its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Vice Chairman until the next election held in July of even-numbered years. In the absence of the Chairman, the Vice Chairman shall preside at Board meetings.

F. At any meeting of the Board at which neither the Chairman or Vice-Chairman is in attendance, the meeting shall be called to order by the Executive Director who shall chair the meeting until a quorum elects a Chairman Pro Tempore as the meeting's first order of business. If the absence of the Chairman and Vice-Chairman is due to the holders of those officers having discontinued service on the Board, then the election shall be for both a Chairman and a Vice-Chairman for the remainder of the two-year term rather than pro tempore.

G. The Board shall, from time to time and with the advice of the Executive Director, select from among the PEBA employees, a person to serve as secretary of the Board, to serve at the pleasure of the Board. The secretary of the Board shall have the responsibilities prescribed herein and such other duties as the Board may from time to time require, including: (a) keep the minutes of the proceedings of the Board; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; and (c) be custodian of the records of the Board.

VIII. RULES OF ORDER

A. Board meetings should proceed in an informal and collegial manner with a design towards reaching consensus when possible.

B. The Chairman shall call for motions on items. Items presented to the Board for vote shall require a motion by a Board member other than the Chairman and a second of that motion by another Board member other than the Chairman.

C. The item can then be discussed by the Board. The Chairman shall manage the discussion of the item and may participate in the discussion.

D. The Chairman shall call for a vote on the item.

E. Questions of reconsideration, tabling or amendment of motions, etc., are all decided by majority vote.

F. The Board and its Committees may utilize the rules of order prescribed for small assemblies or similar small bodies in the most recently published revision of Robert's Rules of Order as a guide in conducting its meetings. Robert's Rules of Order shall not be binding on the Board, however. Rather, such rules of order will be construed to promote the orderly and efficient conduct of business and to avoid procedural complexity which may delay or hinder the taking of action required by law or advisable in the prudent exercise of the Board's fiduciary responsibilities.

G. The order of business will be at the discretion of the Chairman in the absence of instructions from the Board, but will normally be as follows:

- i. Call to Order
- ii. Approval of previous Board meeting minutes
- iii. Committee Reports
- iv. Executive Director Report

- v. Other Business
- vi. Adjournment

IX. MEETING MINUTES

- A. Minutes of the Board's meetings will be taken in accordance with law, and such records are open to public inspection.
- B. The Chairman will cause the minutes of all Board meetings to be prepared, recording therein the time and place of each meeting, the names of the Board members present, and the actions of the Board giving the affirmative and dissenting votes, except where the action is unanimous, and when requested, a Board member's dissent or approval with reasons.
- C. The Chairman will cause the minutes to be presented for approval at the next regular Board meeting. Board minutes will focus on describing any actions that occurred, and will provide sufficient detail to evidence the Board's due diligence in the matter. The minutes of a meeting during which an executive session is held will reflect the topic of the discussion at the executive session.
- D. The minutes as approved by the Board, will be preserved as a part of the public record of the Board, and will be kept open to public inspection in accordance with law.
- E. Board proceedings will be recorded on audio. The audio recordings will be kept at least until official minutes of the meeting are approved, after which time they may be destroyed.

X. REVIEW, HISTORY, AND AMENDMENT

- A. The Board will review the PEBA Bylaws at least every three years to ensure that they remain relevant and appropriate.
- B. No provision within these Bylaws shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.
- C. These Bylaws were adopted by a majority of the Board members at a duly convened meeting of the Board on November 21, 2012. These Bylaws were amended on December 12, 2012, September 18, 2013, December 17, 2014, March 28, 2015, ~~and on~~ March 17, 2016, and June 23, 2016.
- D. These Bylaws may be amended only upon a majority vote of the Board members at a duly convened meeting of the Board upon proper notice pursuant to the South Carolina Freedom of Information Act. For purposes of this provision, majority shall mean a majority of the total membership of the Board, not simply a majority of the Board members present at any meeting convened for the purpose of amending the Bylaws.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
BOARD MEETING**

Meeting Date: July 21, 2016

1. Subject: Operational Assessment

2. Summary: PEBA's core operational system was built in the early 1990's and cannot keep pace with future demands. This presentation reviews the Operational Assessment project scope, key findings and recommendations.

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

4. Supporting Documents:

(a) Attached: Operational Assessment Project



Serving those who serve South Carolina

Operational Assessment project

Executive summary
June 2016





Background

- PEBA's core operational system was built in the early 1990s on then-current Adabas/Natural technology foundation; 15-20 year system life typically expected
- 2012 creation of PEBA magnified the issue
 - Both retirement and insurance operational systems have Adabas/Natural as technology foundation; the systems are separate with no sharing of data and limited coordination of operational processes
 - Adabas/Natural customer base and market declining; no new sales since 1990s.
 - Limited product R&D and enhancements
 - Vendor license fee increases anticipated with dwindling customer base
 - PEBA continues to deploy resources to a declining business asset; risk increasing
- Estimated current system development costs
 - \$12M initial development cost with continuous enhancements
- PEBA has received significant value from its more than 20-year-old legacy system investment



Peer agency benchmark and audit findings



- 2015 CEM Retirement Peer Benchmark Study
 - PEBA's plans are more complex than peers
 - PEBA requires multiple system updates of the same data (names, addresses, statuses, terminations, deaths, etc.)
 - PEBA provides less real-time display of pension earnings/service and less online estimate capabilities
 - PEBA has lowest IT costs of 14 in peer group: 60% below peer average
- 2014 Funston audit findings
 - Administrative costs artificially low and not sustainable
 - PEBA's legacy system inflexible and will not keep pace with future demand
 - Significant PEBA institutional knowledge loss with coming retirements
 - Recommended migration to new technology platform
 - Conclusion: time to act now before impacts of technology obsolesce





Assessment scope and outcomes



+

Operational Assessment project scope



- Review PEBA's operational processes, technology and resources
- Linea Solutions selected to lead the effort
 - 20+ years consulting and supporting public sector benefit programs
 - Significant experience and benefits industry best practice knowledge
 - Currently engaged with 20 benefit and pension clients
- Assessment scope
 - Review current processes and highlight issues and non-standard industry operations
 - Define a future state operating model leveraging best practices
 - Analyze the current architecture and technology platform
 - Recommend the best approach to reduce risk and achieve the future state
 - Research the benefit solution market and available PEBA options
 - Formulate a recommended planning Roadmap, documenting required activity, costs and resources



Operational Assessment key findings



- Current systems are old and increasingly inflexible; required expertise increasingly scarce; dependent on a few individuals
- Significant technology risk with Adabas/Natural environment, jeopardizing future operational stability
- Many manual processes, system work-arounds and “side systems” required to adequately manage operations
- Significant project scope supported by many different and non-integrated current system technologies
- Many processes still based on paper
- Limited retirement and insurance business integration
- Inadequate Contact Center technology



Operational Assessment recommendations



- Replace current Adabas/Natural applications that make up about 75% of PEBA information systems
- Implement a configurable COTS software solution
- Achieve improvements in all areas by leveraging COTS system processes, new technology integration and contact center/customer service capabilities
 - Estimated 70-80% of functionality pre-built in the benefit industry solutions
- Reduce project costs by maximizing PEBA staff usage in their areas of expertise
- Enhance employer data capture and validation techniques
- Consider cloud-based technology solutions to reduce costs and minimize new technology risk
- Obtain best practice guidance and oversight from an industry client services vendor





Project benefits and value

- Create a new technology base to support PEBA for the next 20 years; eliminate legacy system vulnerability
- Establish strongest possible security infrastructure
- Enhance customer service and overall customer experience
- Create a common client profile enabling integration of enrollment, death and other PEBA functions
- Eliminate manual processes and increase efficiency
- Make system changes faster and easier by incorporating automated rules and reducing programming requirements
- Capture more accurate partner and employer data
- Automate controls and reconciliation processes





Employer project value

- Eliminate retirement and insurance duplicate data entry and large number of manual enrollment processes
- Provide new employer web capabilities including ability to correct data issues as they are transmitted to PEBA
- Enhance functionality
- Enable electronic uploads of paper forms





Industry view



Benefit system replacement project analysis



- Key outcomes
 - 30+ public benefit system replacements in last 5-7 years
 - Comparable peer project budget \$55 - \$60+ million



Other retirement/benefit funds' systems



Recent migration from Adabas/Natural

- CalPERS
- North Dakota PERS
- CalSTRS
- Texas Teachers
- Virginia
- Illinois Municipal

Still on Adabas/Natural

- New Jersey Pension and Benefits

Peer agency procurements



- Recent and representative peer agency project budgets; median budget is \$55M

Public retirement/ benefit agency	Year procured	Total cost	10% contingency	Total project budget	Primary implementation vendor	Active participant healthcare/insurance
Wisconsin Employee Trust Fund	2013	\$46,000,000	\$4,600,000	\$50,600,000	Vitech	Yes
University of California Retirement Fund	2014	\$50,000,000	\$5,000,000	\$55,000,000	Sagitec	No
Teacher Retirement System of Texas	2013	\$57,000,000	\$5,700,000	\$62,700,000	Hewlett Packard	No
New York City Teachers	2014	\$137,000,000	\$13,700,000	\$150,700,000	Sagitec	No
Ohio Public Employees Retirement	2013	\$46,000,000	\$4,600,000	\$50,600,000	Accenture	No
Average		\$67,200,000	\$6,720,000	\$73,920,000		
Median		\$50,000,000	\$5,000,000	\$55,000,000		



South Carolina large system projects



- Projects have many of the same common legacy system issues
- COTS implementation is the standard
- Losing institutional knowledge is a frequent project driver and concern

South Carolina state agency	Year procured	External vendor budget
South Carolina Department of Employment and Workforce UI Statewide Tax System	2016	\$25,000,000
South Carolina Department of Revenue Statewide Tax & Revenue System	2014	\$31,000,000
University of South Carolina Student Registration and Billing	2009	\$55,000,000
Average		\$36,500,000



South Carolina agencies and Adabas/Natural

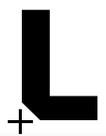


- Department of Health and Environmental Control
- State Personnel
- Comptroller General
- Treasurer's Office
- Department of Transportation
- Department of Social Services
- Department of Employment Workforce
- Budget Office
- PEBA
 - Insurance
 - Retirement

Still have critical systems running on Adabas/Natural



Going forward: PEBA's roadmap



Project roadmap highlights



- Cost estimate - \$50 million
- Proposed project duration - 5 years
 - First year – Detailed requirements, vendor procurement, project mobilization
 - Next 4 years – Design, implementation, staff and employer training, procedures and documentation updates
 - Adabas/Natural systems replaced by the end of 2021
- System delivered in 2 phases
 - Enrollment, employer reporting, customer service, insurance premiums
 - Retirement claims, benefit payments, taxes
- Significant PEBA resources will be dedicated and committed to the project



Project funding and financial plan



- \$50 million project implementation budget
 - \$10 million annually for 5 years
- COTS product and new technology tools have higher post production support costs
 - Additional \$1.9 to \$2.5 million in IT operational budget required
 - Higher IT funding required to keep future system current
 - Annual future IT cost per member will increase from \$7 to \$14 per member, but will still be 50% lower than the PEBA peer industry annual IT cost of \$28 per member





Recommended actions

- Initiate an operational system replacement project
- Secure funding and align resources for the project
- Secure benefit industry COTS solution and data vendor
- Reduce legacy system investment and allocate PEBA staff to the new project
- **Backfill critical business area staff assigned to the project and mitigate possible operational service level impacts**
- Start gradual project communication with stakeholder groups
- Secure consulting expertise to support client activities including requirements definition, procurement, design, testing and project management





Program execution risks

- PEBA project resources insufficient to execute project activity while also supporting day-to-day business operations
- Program management and project governance/authority not clearly defined
- Project goals and approach not aligned between management, business areas and stakeholders
- Significant development and training responsibilities placed on PEBA staff
- Project is not complete before key staff leave/retire
- Legacy system data contains significant errors and omissions
- PEBA data is compromised due to vendor processes





Next steps





Next steps

- Recommended third quarter 2016 activity
 - Externally communicate PEBA's IT system challenge, strategy and project
 - Internally communicate Operational Assessment outcomes, tempered with obvious budget constraints
 - Support project financing activity and external communication plan
 - Procure industry client services vendor
 - Organize business rules and document functional/technical rough draft requirements
- Recommended fourth quarter 2016 activity
 - Identify PEBA project participants and plan staff backfill
 - Define project governance and standards
 - Document detailed functional and technical requirements
 - Start insurance and retirement system data conversion and "common client profile" (name, address, demographics, etc.) analysis
 - Define scope and requirements for industry data vendor RFP





Disclaimer

This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.



In the early 90's the then SC Retirement Systems realized the need to address a host of issues concerning our technology and business processes.

We were facing backlogs and customer service problems:

- More than 60 days to process service retirement (initial request to first check)
- More than 180 days to finalize retirement
- Approximately 60 days to complete a service purchase request
- 30 – 45 days to respond to a benefit estimate request
- 75 employers late with June data, 43 more than 40 days late
- Approximately 3200 member/retiree telephone calls per day
- Complaints over unanswered telephone calls
- Telephone transfers around the agency to solve customer problems

With a new set of processes and technical solution, our goal was to:

- Improve customer service with faster turnaround time for calls and requests and fewer transfers
- Enhance the employer reporting process through better management on timeliness and quality of information
- Better align organization around critical processes; clear process understanding and more accountability
- Simplify service accounting rules, improve efficiency, and ease the history conversion process
- Improve employee skills and morale

That was more than 20 years ago – a wise investment that sustained us for over two decades. Now it is time to invest in our future again.

The current systems are becoming increasingly difficult to support due to aging technology and skill shortage.

The following are some of the retirement/benefit funds that have recently migrated away from Natural/Adabas:

- CalPERS (completed migration with custom development approach)
- North Dakota PERS (completed with Sagitec product)
- CalSTRS (in progress, migrating to Sagitec product)
- Texas Teachers (in progress, migrating to HP product)
- Virginia (in progress, migrating to Sagitec product)
- Illinois Municipal (in progress, migrating to new product - formerly moving to Deloitte product)

- Still on Adabas/Natural development environment
 - New Jersey Pension and Benefits

During the mid 80's the Natural/Adabas technology was becoming prevalent within central South Carolina state government. The following 11 state agencies built systems using Natural/Adabas and had resources to support the technology:

-
- Department of Health and Environmental Control
 - State Personnel
 - CG's Office
 - Treasurer's Office
 - Department of Transportation
 - Department of Social Services
 - Department of Employment Workforce (formerly Employment Security Commission)
 - Budget Office
 - South Carolina Retirement Systems
 - Employee Insurance Program

Today the below have critical systems running on Natural/Adabas:

- State Personnel (HRIS to support higher education; converting to SCEIS)
- Department of Transportation (Accounting System)
- Department of Social Services (Major system - working to get off Natural/Adabas for 20 years)
- Budget Office (SPIRS – converting to SCEIS)
- South Carolina Retirement Systems (75% of systems on Natural/Adabas)
- Employee Insurance Program (75% of systems on Natural/Adabas)

Not including PEBA, the agencies are primarily using contract, temporary and TERI employees to support their Natural/Adabas systems. Support of these systems is limited to routine maintenance, and mandatory changes, no new development is being done. It has been determined that none of the other state agencies have created a plan for sustainability of their systems that use the aging technology.

Notes from Consultants research on Software AG:

- Software Ag development platform very popular in 90's
- Of late, Software AG is making little investment in Natural development platform, as investment diverted to support new technology integration products (away from the Natural platform)
- No newly licensed Natural/Adabas customers in the last 20 years
- Number of Natural/Adabas customers decreasing each year
- Natural/Adabas skills continuing to decline. Shrinking replacement talent pool and "aging out" of current skills is a big risk for customers. Especially bad in South Carolina. Many of the remaining Natural/Adabas skills in SC are retired staff working on contract
- Software AG contracting terms, given a captive and shrinking customer base, are becoming stricter. Software AG demanding longer term contracts and higher renewal fees, given shrinking customer pool