Meeting Minutes | Board of Directors

Thursday, October 19, 2017 | 9:00 a.m.
Nexsen Pruet | 1230 Main St., Suite 700 Columbia, SC 29201

Minutes Approved December 13, 2017

Board Members Present: Mr. Steve Heisler, Vice Chairman Joe “Rocky” Pearce, Mr. Audie Penn, Mr. Alex Shissias, Chairman John Sowards, Mr. David Tigges, and Mr. Ed Walton

Board Members Absent: Mr. Frank Fusco, Sheriff Leon Lott, and Mr. Steve Matthews

Others Present for All or a Portion of the Meeting: Melissa Alexander, Peggy Boykin, Phyllis Buie, Ashley Brindle, Amber Carter, Sarah Corbett, Jennifer Ford, Joe Greene, James Manning, Heather Muller, Tammy Nichols, Jacalin Shealy, Laura Smoak, Rob Tester, Travis Turner, Heather Young, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Dori Ditty and Brad Gainey from the South Carolina Retirement System Investment Commission (RSIC); Joanie Lawson from the South Carolina Education Association; James D’Allessio, Brooks Goodman, Dr. Tripp Jennings, Matt Shaffer, and Carmen Wilson from Blue Cross Blue Shield of South Carolina; Dwight Cauthen, Johah Houts, Karen Russell, Ben Twilley, and Traci Young from Express Scripts, Inc.; Joe Newton and Danny White from Gabriel, Roeder, Smith & Company; Robert Gauss from Ice Miller; Dennis Gatlin; and Alex Tomlinson from Milliken Law Firm.

I. Call to Order
   Chairman John Sowards called the PEBA Board of Director’s (Board) retreat to order at 9:10 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

II. Gabriel Roeder Smith & Company
   Chairman Sowards introduced and welcomed Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS), for a presentation on retirement plan designs. Mr. White stated that the South Carolina Retirement System has a Defined Benefit (DB) Plan where the plan defines the benefit payable at retirement, and a Defined Contribution (DC) Plan, where the plan defines the contribution provided to the employee’s retirement account.

   Mr. Newton defined a Hybrid Plan as a retirement program that combines elements of both DB and DC plans. Some Hybrid Plans are true blends, while others designed where the member participates in multiple smaller versions of the basic plan types. Mr. Newton advised that the defined benefit portion of the Hybrid Plan is designed to provide a lifetime annuity, and investment and longevity risks are shared between the employee and employer. Mr. Newton explained the differences
between Stacked Hybrid Plans and Cash Balance Hybrid Plans, and described characteristics and advantages/disadvantages of Defined Contribution Plans versus alternative benefit structures.

Mr. Newton stated that programs with pooled assets and liabilities have distinct advantages such as achieving higher investment returns as compared to individual investors because of a broader universe of investments, professional management, and lower fees.

Mr. White concluded his presentation by providing examples of alternative benefit structures implemented by other states, and detailed a suggestion made by the PEW Charitable Trust that the South Carolina Retirement System become a Risk Managed Hybrid (RMH) Plan.

III. Fiduciary Education- Ice Miller
Mr. Robert Gauss, Partner, from Ice Miller, conducted a presentation on fiduciary education. Mr. Gauss stated that good fiduciary and ethical practices should follow the applicable South Carolina Code of Laws; the State Ethics Act; the PEBA Board’s Ethics Policy; and the PEBA Board’s Conflict of Interest Policy. Mr. Gauss reviewed the conflict of interest guidelines that Board members must follow, and stated that members of the PEBA Board should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest.

Mr. Gauss described a fiduciary as any person who exercises any discretionary authority, control, or management of a plan, or exercises any authority, control, or disposition of its assets. A fiduciary also renders investment advice, and has any discretionary authority or discretionary responsibility in the administration of the plan. Mr. Gauss noted that the Board is one of multiple fiduciaries for the South Carolina Retirement Systems, and shares responsibility with the State Fiscal Accountability Authority (SFAA); the South Carolina Retirement System Investment Commission (RSIC); the State Treasurer; and the state Legislature. Mr. Gauss stated that the Board is also a fiduciary for the State Health Insurance and OPEB trust Funds; the State Optional Retirement Program; and the South Carolina Deferred Compensation Program.

Mr. Gauss discussed several sources of fiduciary principles including the Internal Revenue Code; The Employee Retirement Income Security Act (ERISA) which only applies to private plans but is an excellent resource; and the Uniform Management of Public Retirement Systems Act (UMPERSA).

Mr. Gauss also reviewed the Exclusive Benefit Rule; prohibited transactions for fiduciary principles; adherence to the Trust; and detailed the overall fiduciary principles – Duty of Care, Duty of Skill, Duty of Loyalty, and Duty of Impartiality.

Mr. Gauss explained the “Pay to Play” Securities and Exchange Commission rule adopted in 2010. The “Pay to Play rule prohibits investment advisors from providing advisory services, for compensation, for a period of two years following a political contribution to a public official or candidate who is in a position to influence the selection or retention of advisors to manage public pension funds or other government client assets.

Mr. Gauss concluded his presentation by discussing several recent lawsuits against other retirement plans, and challenges for the Board going forward.
IV. Ethics Training
Mr. Stephen Van Camp, General Counsel, introduced Mr. Dennis Gatlin, Consultant, for an ethics presentation. Mr. Gatlin defined ethics as the study of “What do I Do?” while recognizing issues, judging possibilities, and acting appropriately. Mr. Gatlin discussed how ethics relates to PEBA’s mission, vision, core values, and standards of conduct.

Mr. Gatlin stated that morality is a descriptive science that studies the way things operate or behave, and ethics studies the norms or standards by which things are measured. Ethics goes beyond “what is” to “what ought to be.”

Mr. Gatlin described ethical behavior as how people behave when they are absolutely guaranteed no one will know what they have done. Ethical behavior is knowing the difference between what you have the right to do versus the right thing to do. It is beyond law to a stringent level of personal responsibility.

Mr. Gatlin outlined a seven step problem-solving process for an ethical dilemma:

1. Statement - State the problem exactly
2. Origin – Find the root cause
3. List – Brainstorm solutions
4. Verify – Pros and cons
5. Eliminate – Choose the best solution
6. Implement – Action is required
7. Test – Is it working?

Mr. Gatlin also discussed how different generations have different approaches to workplace characteristics such as work ethic and values, communication, and motivation, and described how to emphasize ethics to different generations.

At the end of his presentation, Mr. Gatlin gave the Board an opportunity to discuss two ethics cases, and describe what they would do in the outlined situations.

V. Healthcare Landscape
Ms. Sarah Corbett, Chief Operating Officer, introduced Dr. Tripp Jennings, Medical Director, and Mr. James D’Allessio, Vice President of Governmental Affairs, from Blue Cross Blue Shield of South Carolina, for a discussion regarding the healthcare landscape currently facing health plans. Mr. D’Allessio began the discussion which included information about health care reform options, and potential legislative changes at both national and state levels.

Dr. Jennings advised that multiple forces are currently transforming the healthcare landscape including: providers; health policy; employers; payer; and consumers.

Dr. Jennings stated that according to the Advisory Board Company, top healthcare executives are most concerned about:
1. Improving ambulatory access
2. Innovative approaches to expense reduction
3. Boosting outpatient procedural market share
4. Minimizing unwarranted clinical variation
5. Controlling avoidable utilization
6. Exploring diversified, innovative revenue streams

Dr. Jennings detailed innovative approaches to expense reduction including: reducing labor cost; mergers and partnerships; process improvement; analytics; clinical leadership; and elimination of programs.

Dr. Jennings discussed how the Medicare Access and CHIP Reauthorization Act (MACRA) of 2015 made substantial changes to the government’s healthcare payment system. MACRA permanently repealing the Sustainable Growth Rate (SGR) formula for determining provider payments and changing the Medicare physician fee schedule by establishing two new tracks for reimbursement: the Merit Based Incentive Payment System (MIPS) and Alternate Payment Models (APMs).

Dr. Jennings concluded his presentation by discussing the trend that national health expenditures continue to increase and consume a larger portion of the Gross Domestic Product (GDP), and compared the State Health Plan versus national trends.

Ms. Corbett introduced Mr. Johah Houts, Vice President, Corporate Government Affairs, from Express Scripts Inc., who presented highlights on anticipated pharmacy reforms including the development of an opioid task force, limits on initial opioid prescription duration, as well as an electronic prior authorization system for prescriptions. Mr. Houts advised that drug pricing remains a high priority for policymakers.

VI. Adjournment
There being no further business, and upon motion by Mr. Heisler, which was seconded by Mr. Penn, and approved unanimously, the Board meeting adjourned at 3:33 p.m.