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**South Carolina Public Employee Benefit Authority**  
**Meeting Minutes** (as adopted April 17, 2013)

**Wednesday, March 20, 2013, 10:00 A.M.**

2<sup>nd</sup> Floor Conference Room  
202 Arbor Lake Drive  
Columbia, South Carolina 29223

**Board Members Present:**

Mr. Art Bjontegard, Chairman (in person)  
Ms. Peggy Boykin (in person)  
Mr. Frank Fusco (in person)  
Ms. Stacy Kubu (in person)  
Sheriff Leon Lott (in person)  
Mr. Steve Matthews (via telephone)  
Mr. Joe "Rocky" Pearce (in person)  
Mr. Audie Penn (in person)  
Mr. John Sowards (in person)  
Mr. David Tigges (in person)

**Others present for all or a portion of the meeting:**

David Avant, Lil Hayes, Stephen Van Camp, Justin Werner, Robbie Bell, Matthew Davis, and Travis Turner from the South Carolina Public Employee Benefit Authority (PEBA); Carlton Washington and Roger Smith from the State Employees Association; Brooks Goodman from BlueCross BlueShield of South Carolina; Lynn Murray from McNair Law Firm; Wayne Pruitt and Wayne Bell from the State Retirees Association; and Sam Craig from TIAA-CREF.

**I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard called the meeting to order at 10:00 a.m. Mr. Sowards gave the invocation. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Chairman Bjontegard requested an amendment to the agenda to swap items II and IV because David Avant was scheduled to meet with the Senate Finance Retirement Subcommittee and would need to leave the meeting early. Mr. Fusco moved to accept the amended agenda. Mr. Pearce seconded.

**II. COMMITTEE REPORTS**

**Retirement**

Committee Chairman Sowards began by introducing the Salary Spiking Study. He explained that the report is posted on the Board's extranet. This report is mandated by Act 278 and is due to the General Assembly by April 15. He explained that the study does not have any unexpected conclusions of severity, but that there is a trend noticeable that there is a 1-2% incidence of spiking in both SCRS and PORS. Mr. Avant explained that the report has been passed back and forth between PEBA staff and the actuarial firm, GRS, prior to being submitted in this draft form. Mr. Fusco pointed out that a 4% salary increase for three years in a row does not necessarily constitute spiking. He explained that spiking is back-end loading salaries to greatly increase a member's retirement benefit. He explained that the Board should take the stance that, even though spiking is difficult to define or identify, spiking is an unacceptable practice. Mr. Sowards pointed out that the actuaries defined

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categories of spiking in contrast to standard merit raises and other regular pay increases. Mr. Avant explained that PEBA and GRS worked together to establish a standard definition of spiking. He also explained that the expected increase is about 4%. He added that PEBA monitors significant changes in earnable compensation at the end of an employee's career. He also explained that non-mandatory overtime income is, going forward, excluded from the Average Final Compensation calculation. Mr. Avant described the process of addressing apparent spiking. He explained that if compensation reported at the end of an employee's salary is identified as non-earnable compensation according to the statute, PEBA will return all of the contributions for that amount and will not consider it in the AFC calculation. Mr. Sowards asked the Board to continue reviewing the report draft in preparation of a final report to submit to the GA. Mr. Sowards pointed out that the due date of the report to the GA is before the Board's next meeting. He asked that Board members review the report and submit their comments and suggestions. He added that the Retirement Policy Committee can convene a meeting and incorporate the comments of the Board and develop a policy suggestion to the GA.

Mr. Sowards then talked about legislation currently being considered, which would reduce the number ORP vendors to two. He noted that Mr. Tigges continues to recuse himself from ORP vendor discussions due to a conflict of interest as noted in the February 1, 2013 meeting minutes. He explained that two vendors may be less confusing and easier to administer than four. He made the recommendation from the Retirement Policy Committee that the PEBA Board and staff be delegated the authority to make a policy determination regarding the appropriate number of ORP vendors. Mr. Matthews asked whether participants in the ORP have discretion to choose which vendors they use. Mr. Sowards confirmed they do. Mr. Fusco interjected that, as fiduciaries, the Board should be considering criteria such as administrative costs, benefit to the employees, etc. Mr. Matthews asked what criteria participants use to determine which vendor they use. Mr. Fusco added that the previously mentioned criteria should be used. Mr. Avant noted that they choose vendors when they sign up and can change annually during the enrollment period. Mr. Avant introduced Matthew Davis, who oversees the ORP at PEBA. Mr. Davis explained that the draw for participants from one vendor to another is based upon the fund lineups for each vendor. He added that the vendors differ in their service models too. Mr. Van Camp added that an employee may have also had experience with certain vendors with other employers. Chairman Bjontegard noted that he has dealt with two of the four current ORP vendors—VALIC and TIAA-Cref. He explained that TIAA-Cref is "the gold standard" in education, so many education employees will likely deal with them. He added that the decisions are often based upon the success of the funds, rather than the user experience. Mr. Avant explained that the recommendation on the table would be that PEBA would support any legislation that gives the Board the authority to determine the appropriate number and lineup of vendors. Mr. Sowards moved to recommend that the authority be delegated to the PEBA Board to choose vendors for ORP. Mr. Penn asked whether the Board has a sense of the intent of the legislation to change the number of ORP vendors. Mr. Sowards suggested that the decision is likely an economic decision—the fewer the number of vendors, the more lucrative it will be for those vendors. Mr. Fusco noted that this method of choosing conflicts with the Board's fiduciary duties—which are to the employees, not private businesses. Mr. Matthews agreed with Mr. Fusco's assertion. Mr. Sowards added that there could be benefits to the employees by narrowing the number of vendors in the form of lower fees. Ms. Boykin asked whether this decision would be premature. She noted that the PEBA Board has responsibility not only for ORP, but will also assume responsibility for the Deferred Compensation program on January 1, 2014. She stated that deciding now may ignore possible decisions in the future with regard to Deferred Compensation. Mr. Sowards interjected that he would be happy to amend his motion to take affect January 1, 2014. Mr. Avant concurred that waiting until Deferred Compensation becomes the Board's responsibility may be a preferable way to go. Chairman Bjontegard asked Ms. Hayes to read the motion as it exists at this point. She stated that the motion took no stance on the pending legislation, but that the Board's

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recommendation would be to delegated authority to use best practices in determining vendors for ORP. Mr. Sowards volunteered to restate his motion. He moved to recommend that the PEBA Board be granted the authority to choose the number and lineup of vendors for the ORP. The Board voted unanimously to make this recommendation.

### **III. DIRECTOR'S REPORT**

Chairman Bjontegard asked to insert Mr. Avant's report at this point, so that he would not be late to his meeting with the Senate Finance Retirement Subcommittee. Mr. Avant explained that he would advise the subcommittee on matters such as disability retirement standards for PORS, including EMS in PORS, and the prohibition of including private contractors in the state's retirement systems. Mr. Fusco stated his belief that there may not be sufficient information to decide on the current setup and that the Board be permitted to continue researching the issue before making a recommendation to the GA. He added that there is no real recommendation as to what the best practice or methodology should be. Chairman Bjontegard noted that the Social Security Disability evaluation process takes much longer than the current process and that this creates a hardship on the member who has no means of support while the determination is being made. Mr. Avant noted that the SSA process involves more stringent requirements than the current process, because the PORS member must be determined to be unable to perform any occupation after the three year initial period. Sheriff Lott asked what PEBA staff's recommendation is. Mr. Avant responded that staff advised the GA, but did not recommend anything regarding the legislation. Chairman Bjontegard asked Mr. Avant what his response would be in the subcommittee meeting if he is asked for a recommendation. Mr. Avant responded that he would advise the subcommittee that the decision is theirs to make. Mr. Avant noted that one fiscal impact of the change to SSA standards would be an overall savings to current active members. If the GA undoes the SSA standard provision, that savings will be forfeited by current active members. Mr. Sowards stated he did not believe PEBA staff should make a recommendation to the subcommittee. Mr. Avant agreed that, unless the Board gives him a directive, he did not feel comfortable making a recommendation. Mr. Avant concluded that the relationship between PEBA and the SCRSIC has been enhanced since the February 1, 2013 meeting. Chairman Bjontegard asked Mr. Avant to send something to the Board members detailing the developments in the relationship between PEBA and the SCRSIC. He excused himself to attend to the Senate Finance Retirement Subcommittee.

### **IV. COMMITTEE REPORTS (continued)**

#### **FAAC**

Committee Chairman Matthews began by explaining that Mr. Avant would be addressing the proposed indemnification bill with the Senate Finance Retirement Subcommittee. He added that the committee charters will be considered in the next committee meeting. He noted that two important issues will be IT structure and data integrity. He stated his belief that in light of the Department of Revenue's recent breach, PEBA must be diligent in protecting the data it houses and uses. He suggested that, given the large number of issues the FAAC may need to address, there may be a need in the future to break the committee into multiple committees. Mr. Fusco added that the increase in funding requests for technology by both the SCRSIC and PEBA should be coordinated so that they make the best use of the funds and resources. Mr. Penn asked whether decisions regarding administrative issues are weighed in light of return-on-investment—specifically the IT upgrades that are being proposed. Mr. Matthews responded by explaining that as much as ROI, the upgrades are a matter of obsolescence. He noted that many of the filing and operating systems used by PEBA are very dated and are no longer supported. He also added that the security of the data being housed and used by PEBA is directly tied to the technology used to the store and transmit it.

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**Health**

New Committee Chair Pearce began by commended Cindy Hartley for her work as the former chair of the Health Policy Committee. He stated that it is a “new day” in healthcare. He expressed his belief that PEBA remain in the front of the changes in healthcare, not behind it. He introduced Mr. Turner who began by explaining the proposed increase requirement communicated to House Ways and Means. He explained that the Governor’s office budget suggested the 13.05% increase be added to the both the employer and employee contributions. He noted that the House budget includes an employer contribution increase of 6.8% and a 20% increase in the “copays” within the plan design. He explained that Senate Finance viewed the House budget plan as a starting point. He also noted that the House added a proviso that specifically directs PEBA with regard to how it spends the funds being offered by the House. He added that the Senate may likely do the same thing in order to avoid another issue like the one that occurred in 2012, when the Budget and Control Board revised the contribution rate structure for 2013. Mr. Fusco stated his concern that the proviso negates the need for the PEBA Board to take any action. Mr. Van Camp agreed. Mr. Fusco continued by suggesting the Board have discussions with the GA to explain the need for flexibility with regard to how the Board changes the plan design and/or contribution rates. Mr. Penn expressed his frustration at the way the Board is being made to respond to decisions by other bodies, rather than be a proactive agent in developing ways to contain, manage, and decrease costs to the health plan. Mr. Fusco agreed, noting that the Board is in the unique position of being able to devote resources and staff to, not only the economic aspect of plan design, but the scientific aspect. The Board and staff of PEBA are in positions to do the research and evaluate where the best improvements can be obtained with the greatest financial benefit. Mr. Van Camp added that the Board may want to consider looking to 2015 for its impact, as the 2014 decisions have more-or-less been made.

Mr. Turner then introduced a study required by legislation on the outcome of the plan paying for bariatric surgery for 100 patients. He noted that the report is required annually and that it appears preliminarily that weight-loss surgery is not cost-effective for the plan. Mr. Fusco asked what the cost for each surgery was. Mr. Turner responded that the average cost was about \$25,000 per surgery. Ms. Hayes noted that the legislation did not specify what procedures would be covered, but that most patients who participated in this study opted for gastric bypass rather than lap-band. Mr. Fusco expressed concern that the control group used in the study was not an accurate measure against the study’s outcomes. Chairman Bjontegard expressed frustration that the Board seems to receive information like this study without enough time to review it prior to a meeting. Mr. Turner apologized, stating that it was difficult to obtain the information and that it was his fault the information was not available sooner.

Mr. Turner went on to update the Board on the Pharmacy Benefits Manager procurement process. He described a study in which other plans served by ExpressScripts saw a decrease in traditional drug costs, but the State Health Plan’s costs have gone up. Mr. Pearce stated that the current request for proposal for a new PBM will help the plan manage costs in the form of a better plan structure and better rebates. He added that the plan has a responsibility to inform members on how to properly manage their prescription use. Mr. Penn added that the members should be better informed about the self-funded nature of the plan. Mr. Pearce explained that there is a lot the Board and staff can do to improve the health and knowledge of the members. Mr. Turner added that it is difficult to come up with solutions to the current cost pressures when the Governor is offering a large amount of funds to maintain current plan structure. He noted that PEBA has already opted to introduce an Employer Group Waiver Plan to save the plan money with no impact on the members. Mr. Bjontegard asked whether there would be a concern about appeals to the procurement decision. Mr. Fusco noted that an entity can continue with the procurement in the face of a challenge if the decision is critical to the agency’s mission. Mr. Penn asked what changes are being targeted with

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the new PBM proposal. Mr. Turner responded that the savings and improvements to the plan are evaluated by price, communication, and service. He explained that there is a procurement panel, which will evaluate all the factors to determine the best plans.

Mr. Turner concluded that PEBA executive staff has developed a short-range timeline of things the agency and/or Board are responsible for on an annual basis. It includes logistical concerns, technological concerns, and statutorily required deadlines.

**V. HIPAA presentation**

Due to time constraints, Chairman Bjontegard asked whether any Board member objected to rescheduling the Board's HIPAA training presentation. No members objected, so Chairman Bjontegard advised staff to reschedule the HIPAA training for a future meeting.

**VI. Round Table Discussion**

Chairman Bjontegard then asked each Board member to provide any additional comments or input. Ms. Kubu stated that she would like to have the meeting materials in advance of the meeting day so she could have a chance to review it.

Mr. Fusco agreed that having materials in advance would benefit the Board members when they are required to make decisions. He added that he would like PEBA staff to compile a timeline of the important decisions the Board is required to make on a regular basis. He also explained that he wants the Board to use the accountability report used by the B&C Board to measure the success of the PEBA agency.

Mr. Matthews did not have anything to add.

Mr. Pearce did not have anything to add.

Mr. Penn echoed Mr. Fusco and Ms. Kubu's sentiments that the material is extensive enough that it should be provided to the Board members as early as possible.

Sheriff Lott showed the Board a uniform shirt of a sheriff's deputy who had been shot the previous week. The shirt had a bullet hole in the chest. Sheriff Lott stated that the deputy had not been hurt because she was wearing a bullet-proof vest, but that she may likely require counseling as a result of the incident—especially because she shot and killed the suspect. He added that Post Traumatic Stress Disorder is not covered by Workers' Compensation. He expressed concern that with the new disability requirements adopted by the PEBA legislation July 1, 2012, public safety officers will have a much more difficult time in situations like this.

Ms. Boykin explained that in addition to getting the materials ahead of time, she also believes the Board's extranet could be better-organized so that they can find new material quickly and easily. She added that she would like the Board's notebooks to have action sheets noting which items in the notebook require the Board to take an action.

Mr. Tigges expressed concern that the Board doesn't get too involved in the day-to-day operations of the PEBA agency. He explained that the Board could get bogged down if it goes into day-to-day operations instead of sticking to policy decisions.

Mr. Sowards did not have anything to add.

Chairman Bjontegard asked for a motion to move into executive session to receive legal advice from PEBA counsel. Mr. Sowards moved to go into executive session. Sheriff Lott seconded. Board voted unanimously to go into executive session.

**VII. Executive Session to Discuss Legal Matters Pursuant to S.C. Code of Laws § 30-4-70(a)(2)**

**Adjournment**

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Upon concluding executive session, Chairman Bjontegard noted that the Board must vote to appoint Steven Van Camp as the parliamentarian. Sheriff Lott moved to appoint Mr. Van Camp as parliamentarian. Mr. Pearce seconded. Unanimously approved. Chairman Bjontegard requested a motion to adjourn the meeting. Mr. Sowards moved to adjourn and Mr. Fusco seconded. The Board then unanimously voted to adjourn at 12:40 pm.

**South Carolina Public Employee Benefit Authority  
Board of Directors Meeting**

**Wednesday, March 20, 2013, 10:00 a.m.**

Main Conference Room  
202 Arbor Lake Drive, Columbia, SC 29223

**Agenda**

- I. Call to Order, Adoption of Agenda,  
Adoption of Minutes from January 31, 2013 and  
February 1, 2013 meetings**
  
- II. Committee Reports**
  - Retirement: Salary Spiking Study; ORP discussion; Report on Senate Finance Retirement Subcommittee meeting ; Committee Charter and Long Range Plans
  - FAAC: Update on Indemnification Bill; Committee Charter and Long Range Plans
  - Health: Recap of House of Representatives' Budget; presentation to Senate Finance Committee; Obesity Pilot Results Report ; Update on Pharmacy Benefits Manager (PBM) Procurement; ExpressScripts report on drug utilization; Committee Charter and Long Range Plans
  
- III. HIPAA presentation**
  
- IV. Director's Report**
  
- V. Round Table Discussion**
  
- VI. Executive Session to Discuss Legal Matters Pursuant to  
S.C. Code of Laws § 30-4-70(a)(7)**
  
- VII. Adjourn**

**DRAFT**

**South Carolina Public Employee Benefit Authority  
Meeting/Educational Session Minutes**

**Thursday, January 31, 2013, 9:00 A.M.**

Wampee Conference Center  
Assembly Hall  
1274 Chicora Dr, Pinopolis SC 29469

**Board Members Present:**

Mr. Art Bjontegard, Chairman (in person)  
Ms. Peggy Boykin (in person)  
Mr. Frank Fusco (in person)  
Ms. Cynthia Harley (in person)  
Ms. Stacy Kubu (in person)  
Sheriff Leon Lott (in person)  
Mr. Steve Matthews (in person)  
Mr. Joe "Rocky" Pearce (in person)  
Mr. Audie Penn (in person)  
Mr. John Sowards (in person)  
Mr. David Tigges (in person)

**Others present for all or a portion of the meeting:**

David Avant, Lil Hayes, Robbie Bell, Geneva McIntosh, Stephen Van Camp, from the South Carolina Public Employee Benefit Authority (PEBA); Mike Madalena, Bill Hickman and Amy Cohen from Gabriel, Roeder, Smith & Company (GRS); Donald Tudor, Wayne Bell and Wayne Pruitt from the State Retirees Association; Matt Schafer, Brooks Goodman, Dr. Will Harms and Maria Platanis from Blue Cross Blue Shield; Robin Scott Karen Cathcart from Express Scripts; Judy Baskins from Palmetto Health; and Tony Keck from DHHS.

**I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard called the meeting to order at 9:00 a.m. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act.

**II. DISCUSSION OF HEALTH TRENDS by GRS**

Chairman Bjontegard introduced Mike Madalena, Bill Hickman and Amy Cohen from Gabriel, Roeder, Smith & Company. A lengthy program followed with discussion on health trends, Health Plan data and policies. Mr. Hickman began by explaining the background of the State Health Plan. He described the historic increases in composite monthly premiums. He also described the history of the plan's deductibles, coinsurance percentages, coinsurance maximums, and per-occurrence deductibles. He explained the current design of the State Health Plan, commenting that it is essentially a 1990's health plan model.

Mr. Hickman went on to explain that the greatest single source of cost-sharing within health plans is provider discounts. These are the portions of fees for which providers agree to waive reimbursement. It also includes rebates from drug manufacturers for brand drug utilization. The next

largest source is the Federal government—in the form of Medicare, the Retiree Drug Subsidy for plans providing prescription coverage for Medicare-eligible members, and the Early Retirement Reinsurance Program. Mr. Hickman stated that the third largest source of healthcare funds is employer contributions. Subscriber contributions and coordination of benefits are the remaining significant sources for healthcare funds.

Mr. Hickman went on to explain that 0.8% of the total number of lives insured by the State Health Plan is responsible for 24.7% of claims paid by the plan. He listed significant sources of claims expenses. These include breast cancer, “encounter procedures,” chronic renal failure, heart disease, and single live-born children. He also listed the top 10 providers to whom the plan pays claims and the top prescription drugs.

Next, Mr. Hickman explained that there are certain programs available for Medicare-eligible members. These include Medicare Advantage Plans and the Employer Group Waiver Plan (EGWP). He also listed potential programs and plan design considerations that could be included in a long-term strategic initiative to reduce costs by the Board.

Ms. Hartley commented on the success of the State Health Plan’s network reimbursement model. She praised the efforts made by the Employee Insurance Program (pre-PEBA) management to reduce and keep down network reimbursements. She acknowledged that provider reimbursements make up a component she and the Healthcare Policy Committee had not considered in keeping down costs.

A discussion began between Board members and various presenters about considerations for reducing prescription drug costs. Dr. Will Harms from BlueCross BlueShield of South Carolina spoke up from the back of the room to assert that a major unnecessary cost regarding prescription drugs involves “drug-seeking” patients. These are patients who, due to likely dependence and/or addiction, attempt to obtain greater quantities of strong drugs—such as narcotics and psychotropic medications—for themselves or to sell. Because there are limits to the quantity of such drugs a physician can and will prescribe, Dr. Harms explained, patients will visit many different providers and/or facilities to obtain duplicate prescriptions.

## **Lunch Break**

### **III. Educational Session and Discussion**

Chairman Bjontegard introduced Matt Schafer, Brooks Goodman, Maria Platanis and Dr. Will Harms from Blue Cross Blue Shield. Their program focused on Patient-centered Medical Homes. Mr. Schafer described the changing dynamics of increased costs in healthcare. He explained that payment amounts are moving from mere quantity of services rendered to the actual quality of care given. He added that more costs are being incurred in outpatient settings whereas in previous decades hospitals were the primary venue of care. Mr. Schafer mentioned that care is being more customized to the individual patient and that record keeping is becoming less-and-less paper-driven and increasingly electronic.

Mr. Schafer then explained that new healthcare models are being developed on the basis of rewarding quality care over volume. Examples of these models include the Patient-centered Medical Homes and Accountable Care Organizations. He then introduced the Triple Aim Platform for improving health care in South Carolina. This includes increasing the experience of care, improving population health, and reducing per capita cost. The result will be a healthier population in South Carolina.

Mr. Schafer continued by explaining the Patient-centered Medical Home approach. He described the way the PCMH is designed to reduce costs, increase quality of care, and improve the relationship between healthcare providers and health plans. This method requires moving from fee-for-service to rewarding higher performance. This higher performance, he added, is based upon overall improvement in health outcomes. These include reduced hospitalization, reduced Emergency Room

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utilization, and an overall increase in patient satisfaction. The PCMH is a model which integrates several components to create a complete health care model which is based upon improvement of outcomes, increased communication, and streamlining of the payment structure. This payment structure, he explained is a blend of fee-for-service, regular prospective payments, and bonuses for high-quality outcomes. He concluded by describing the implementation methods for creating the PCMH in South Carolina.

The Chairman introduced Robin Scott and Karen Cathcart from Express Scripts. Ms. Cathcart explained the various approaches currently being taken by the State Health Plan to contain prescription costs. These include regularly-revised formularies to keep up with a changing drug market, step-therapy, and volume-pricing using the mail order pharmacy. Mr. Penn asked if patients are being directed to certain pharmacies or if the payments are the same at any pharmacy. Ms. Cathcart explained that Express Scripts has a mail-order pharmacy which fills maintenance drugs on a volume-pricing basis, but that this is not exclusive. She continued by explaining that step-therapy is a system in which the plan requires certain less-costly alternative treatments be attempted or considered before the plan will authorize payment on a more expensive treatment. This usually involves a pre-authorization request to be submitted by the physician.

The Chairman introduced Ms. Judy Baskins, VP of Operations, Palmetto Health, who spoke on Clinically Integrated Physician Networks. Ms. Baskins began by explaining who Palmetto Health is and their vision. She explained that the Integrated Physician Network system includes physician practices, home health and hospice services, ambulatory and outpatient services, residency programs and education, and PACE—the Program of All-inclusive Care for the Elderly. Ms. Baskins then explained the purpose for Clinically Integrated Physician Networks. She explained that there are basically four forces which will shape health care costs in the future. These are: decelerating price growth, continuing cost pressure, shifting payer mix, and deteriorating case mix. She explained that the only two ways of stabilizing these forces are to reduce pricing or to reduce utilization. She explained that reducing prices will require a narrower network to ensure sufficient volume. Ms. Baskins added that this will also help reduce redundancy and waste, standardize processes, and establish internal protocols which would reduce harm and quality issues which can result in higher cost and more utilization. She introduced the PACE program, adding that Palmetto SeniorCare was the first PACE program in South Carolina. SeniorCare is an integrated system which provides coordinated, comprehensive care for the frail elderly. She concluded by explaining the Palmetto Health Quality Collaborative, which resulted in a 7% reduction in costs last fiscal year and is projected to result in an 11% reduction for the current fiscal year.

Chairman Bjontegard introduced Mr. Tony Keck, Director, SC Department of Health and Human Services. Mr. Keck explained the implications of South Carolina's decision to expand Medicaid. He explained that an expansion of Medicaid could result in an increase of enrollment of nearly 100%, due to eligible citizens dropping private insurance to go on Medicaid as well as overall increase in the number of eligible citizens. He explained that South Carolina's Medicaid expenditures have increased 38.21% since FY2007. He explained that enrollment growth is the major driver of increased costs to Medicaid. He reiterated the Triple Aim Platform previously discussed by Mr. Schafer. He pointed out those areas of the state where there are higher and lower concentrations of disease. The higher concentrated areas are in the Midlands/Pee Dee region, whereas the lower concentrated areas are the upstate and the low-country. Mr. Keck explained that the implementation of the Affordable Care Act will likely strain the health care system in South Carolina due to rapid growth in the number of citizens gaining access to affordable health insurance coverage. He explained that this number is projected to be 71% of the uninsured population in South Carolina—even without an expansion of Medicaid. He added that this would assist in improving health care

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costs in South Carolina by increasing revenue. He concluded by echoing the need to improve outcomes, decrease utilization, and integrate care to avoid duplication and waste.

Chairman Bjontegard thanked all the presenters for the day. He then requested a motion to adjourn. Mr. Sowards moved to adjourn. Mr. Penn seconded. The Board unanimously voted to adjourn at 5:15 p. m.

**DRAFT**

**South Carolina Public Employee Benefit Authority  
Meeting Minutes**

**Friday, February 1, 2013, 8:30 A.M.**

2<sup>nd</sup> Floor Conference Room  
202 Arbor Lake Drive  
Columbia, South Carolina 29223

**Board Members Present:**

Mr. Art Bjontegard, Chairman (in person)  
Ms. Peggy Boykin (in person)  
Mr. Frank Fusco (in person)  
Ms. Cynthia Harley (in person)  
Ms. Stacy Kubu (in person)  
Sheriff Leon Lott (in person)  
Mr. Steve Matthews (in person)  
Mr. Joe "Rocky" Pearce (in person)  
Mr. Audie Penn (in person)  
Mr. John Sowards (arrived in person at 9:08am)  
Mr. David Tigges (arrived in person at 10:21am)

**Others present for all or a portion of the meeting:**

David Avant, Lil Hayes, Robbie Bell, Geneva McIntosh, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Terry Mumford with Ice Miller; Joe Newton and Danny White from Gabriel, Roeder, Smith & Company (GRS), Hershall Harper and Sarah Corbett from the SC Retirement Investment Commission; Suzanne Bernard with Hewitt, Ennisknupp; Donald Tudor, Wayne Bell and Wayne Pruitt from the State Retirees Association,

**I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard called the meeting to order at 8:30 a.m. Steve Matthews gave the invocation. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. The Chairman asked for a motion to adopt the agenda which was made, seconded by Sheriff Lott and adopted unanimously. A motion was made by Ms. Hartley to adopt the minutes from the December 12, 2012 meeting, which was seconded by Mr. Matthews and adopted. The Chairman mentioned that the Past Action Report had been updated and posted for the members on their Extranet. He said after items had been completed, they would be removed from the list after one month.

**II. Terry Mumford Ice Miller LLC – Fiduciary Responsibilities**

Chairman Bjontegard introduced Terry Mumford, partner with Ice Miller, LLC. Ms. Mumford began by explaining that for the South Carolina Retirement Systems, the PEBA Board is one of four fiduciaries: PEBA, Budget and Control Board, Retirement System Investment Commission, and the State Treasurer. She explained that the legislature is considered the "settlor" and, as such, determined the scope of each fiduciary's responsibility. She then explained each fiduciary's role. The PEBA Board is responsible to administer the benefits in accordance with the plan, to engage experts, establish contribution rates, and establish rules and regulations.

Ms. Mumford continued by explaining that the Board must carry out its responsibilities in accordance with fiduciary principles. She explained that these principles are established by the Internal Revenue Code, ERISA, the *Restatement of Third—Trusts, Uniform Management of Public Retirement Systems Act*, and South Carolina state law. She explained the exclusive benefit rule, which requires a fiduciary to discharge his duties solely in the interest of the participants and beneficiaries of the plan. She also stated that a fiduciary must not deal with plan assets in his own interest or in the interest of a “third party.”

Ms. Mumford concluded by explaining that although the RSIC is granted investment responsibility by the legislature, the PEBA Board is a co-trustee of the trust assets and is responsible to act in the best interests of the trust—including with respect to investments. This means the PEBA Board has a duty to be informed about the actions of its co-trustees, to make reasonable effort to avoid a breach by a co-trustee, and to make reasonable effort to redress any breaches by co-trustees.

### **III. SCRS Investment Commission: Asset Liability Modeling (ALM) Study Overview, and Risk Assessment Update**

Hershal Harper and Sarah Corbett from the SC Retirement Systems Investment Commission (RSIC) and Suzanne Bernard with Hewitt Ennisknupp conducted a presentation regarding the RSIC. Ms. Corbett began by explaining the RSIC’s history and governing laws. She explained that until 1997, the Retirement Systems assets were only invested in domestic fixed income investments. In the 1990’s, the Retirement Systems Investment Panel was created to advise the Budget and Control Board on the domestic equity portfolio. The RSIC was then created in 2005 and was constitutionally permitted to invest across all asset classes in 2007. Ms. Corbett went on to explain the makeup of the seven-member RSIC. There are four political appointees—one each from the Governor, the Chairman of the Senate Finance Committee, the Chairman of the House Ways and Means Committee, and the Comptroller General. The remaining three members include a retiree representative, the Executive Director of PEBA (non-voting member), and the State Treasurer (ex-officio). She then explained the RSIC’s governing policies and compensation structure. She explained that, in an effort to recruit and keep top investment talent to serve at the RSIC agency, they initiated a Performance Incentive Compensation program to reward good performance in investments. Ms. Corbett also explained that the RSIC publishes an Annual Investment Plan each fiscal year to spell out the policies and objectives of the RSIC.

Ms. Corbett went on to describe the RSIC’s Due Diligence Guidelines. She explained that a set of guidelines was adopted on November 8, 2012 to create a uniform method of conducting and recording due diligence on investment managers. Chairman Bjontegard asked about “allegations” being made that the RSIC had not conducted due diligence on some of its managers. Mr. Harper—after responding that was not aware that actual allegations had been made, but rather believed they were currently just suggestions—explained that due diligence was done on all managers, but that some had been recorded differently from others. Ms. Corbett added that this is the reason for the newly-adopted guidelines.

Ms. Corbett concluded by explaining that the RSIC was currently in process of trying to acquire new FTE positions for the agency. They are also seeking to improve their information technology resources. She emphasized the RSIC’s desire to work with PEBA to pool resources and share IT systems to allow greater transparency between the two organizations and to alleviate any concern on the part of the PEBA Board members over the actions of the RSIC.

#### **IV. COMMITTEE REPORTS**

##### **Retirement**

Committee Chairman Sowards asked that the ORP Vendors item be struck from the agenda, which was agreed to by the Board. Mr. Tigges recused himself on any votes dealing with the ORP Vendors as he has a conflict of interest.

Mr Sowards introduced and requested Joe Newton and Danny White with GRS give information on the Actuarial Valuations of 6/30/2012 before the group for approval. After the presentation by GRS, Mr. Sowards moved to accept the GRS valuations for SCRS, PORS, JSRS, GARS, and National Guard Retirement System for FY2014. Ms. Hartley seconded. Mr. Matthews then voiced concern that the valuation given for SCRS did not appear to meet the statutory requirement to accept contribution increases that maintain no more than a thirty-year amortization period. Discussion ensued. Mr. Matthews and Mr. Sowards asked General Counsel to weigh in. Mr. Van Camp advised the Board that based upon the projected amortization period as described by GRS, the recommended contribution increase for FY2014 would, in fact, satisfy the statutory requirement. Mr. Matthews restated his concern. Mr. Sowards then withdrew his previous motion and amended it. He moved to accept the GRS valuations for the five retirement systems, contingent upon a written decision by PEBA General Counsel on the legality of accepting the GRS recommended contribution increases. Ms. Hartley seconded. The Board voted to accept the GRS valuations for the five retirement system for FY2014, contingent upon General Counsel's written decision. All Board members voted in favor of the motion, except Mr. Matthews, who voted against the motion.

Mr. Sowards then discussed the necessity of adopting a Group Trust Resolution, and further explained that on January 25th, PEBA received favorable Determination Letters from the IRS on the 4 contributory defined benefit plans (SCRS, PORS, GARS and JSRS). With these letters, we now have updated favorable determination letters or private letter rulings for all qualified plans including, SCRS, PORS, GARS, JSRS, ORP and the Deferred Comp plans (401k & 457). With no further discussion the Resolution was adopted.

##### **FAAC**

Committee Chairman Matthews gave an update that as of January 30, no legislation had been introduced concerning the Indemnification of the Board members. He mentioned a few other items that he also felt were of a technical nature that should be brought to the attention of the Legislature so they could be addressed.

##### **Health**

Committee Chair Hartley gave an update of what the Governor had recommended for the agency and the State Health Plan in her Executive Budget Recommendation. Ms. Hartley also gave a brief description of the budget hearing at the House of Representatives Budget Subcommittee hearing that was on January 22.

#### **Lunch Break**

#### **V. Executive Session to Discuss Legal Matters Pursuant to S.C. Code of Laws § 30-4-70(a)(2)**

#### **Adjournment**

South Carolina  
PUBLIC EMPLOYEE BENEFIT AUTHORITY

**PEBA**

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Upon concluding executive session, Mr. Bjontegard requested a motion to adjourn the meeting. Mr. Sowards moved to adjourn and Mr. Fusco seconded. The Board then unanimously voted to adjourn at 3:15 pm.

March 18, 2013

David K. Avant  
Executive Director  
South Carolina Retirement Systems  
PO Box 11960  
Columbia, SC 29211-1960

**Re: Analysis of Members in SCRS and PORS Experiencing Large Salary Increases Prior to Retirement**

Dear David:

Act 278 requires the Public Employee Benefit Authority to perform an investigation to identify the impact on the Retirement System from salary spiking. The purpose of this letter is to document the results of this investigation and to quantify the cost of this behavior on the Retirement System.

Salary spiking is defined as an employee's behavior that intentionally increases their compensation during their final years of service for the purpose of increasing their pension benefit. The most common forms of salary spiking include full-time employees increasing their overtime hours, and part-time and dual-employment employees increasing the number of hours they work. While employees who change jobs or earn promotions close to retirement also often experience a unusually large salary increase, we do not consider these members to salary spike their pension benefit because the increased compensation is associated with increased responsibility with their employer.

**Summary**

Based on an investigation of members who retired between July 1, 2007 and June 30, 2012, an estimated 4% to 5% of the retirees in SCRS and PORS salary spike their pension benefit before retiring and, on average, increase their monthly pension benefit by \$188 in SCRS and \$182 in PORS. This represents a 9.3% and 7.9% increase in their total monthly pension benefit, respectively. Based on a review of a random sample of retirees, the most common behavior to abnormally increase compensation in SCRS was due to part-time employees moving to a full-time status prior to retirement in SCRS. The majority of the salary spiking in PORS was attributable to increased overtime.

Based on our assessment, the membership's employment behavior to increase their pension benefit is increasing the actuarial accrued liability in SCRS by \$8.6 million per year, or about 0.02% of the plan's total actuarial accrued liability. Similarly, this behavior in PORS is

increasing the actuarial accrued liability by \$1.6 million per year, which is 0.03% of the plan's total actuarial accrued liability.

If legislation was enacted that substantially eliminated current spiking behaviors, there would be a long-term 3 to 5 basis point (0.03% to 0.05%) reduction in the actuarially calculated employer rate for SCRS and a 5 to 7 basis point (0.05% to 0.07%) reduction in the actuarially calculated employer contribution rate for PORS. Changes in the actuarially determined contribution rates would not be immediate, but would occur gradually over the next 10 to 15 years as actuarial losses due to salary spiking are reduced. Note that this projected change in the contribution rate does not reflect the requirement in the State Code that employer and member contribution rates are maintained until the plan attains a 90% funded ratio. There is no change in the projected year either plan is expected to attain a 100% funded ratio.

Based on this analysis, we do not consider there to be a rampant behavior salary spiking or these actions having a significant financial impact on the Retirement Systems. However, it may be appropriate from a policy standpoint to explore modifications that would reduce the prevalence and severity of this behavior.

## **Background**

Salary spiking activity can have a negative impact on contribution rates since the pension benefits for members are based on their highest average salaries prior to retirement. A member's average final compensation (AFC) is the monthly average of their highest 12 consecutive quarters of earnable compensation (i.e. a three-year final average pay). Earnable compensation includes extraordinary compensation, such as overtime.

Members who are employed on a part-time basis can potentially spike their pension benefit by increasing the number of hours they work during the last few years of employment. For example, a member could work for 27 years as a part-time employee and work on a full-time basis their last three years. In this situation, the pension benefit would be based on the member's 30 years of service and an AFC that is determined using their much larger compensation earned in their final years of employment as a full-time employee.

The AFC for Class two members, members hired prior to July 1, 2012, will also include up to 45 days pay for unused annual leave at their termination from employment. However, since the plan specifically permits this remuneration, it is not considered salary spiking and is excluded from the compensation used in this analysis. The actuarial valuation includes an assumption for increased AFC attributable to unused annual leave. Also, not all unusual increases in compensation are considered to be salary spiking behaviors. The most common examples of these instances where the pay increases are associated with an increase in duties and responsibilities, such as promotions and job changes. Therefore, the investigation included a review of a random sample of retirees with unusual salary increases to understand the reason for the increase in salary (job change, promotion, overtime, additional duties, dual employment, etc.).

## Analysis

The Retirement System provided GRS a list of all members who retired from SCRS and PORS in the five year period between July 1, 2007 and June 30, 2012. For purposes of this analysis, a member participating in TERI is considered to be retired as of his/her TERI entry date since the member's pension benefit is based on the member's AFC at the time they enter TERI. In other words, a member is unable to salary spike their pension benefit after entering TERI.

The analysis excluded the following retirees:

- Members who retired with less than 10 years of credited service because they have not been employed for a sufficient amount of time to materially spike their pension benefit.
- Members who retired with less than \$15,000 in annual salary for each of their last ten years of employment because the actuarial accrued liability associated with these retirees is relatively small. This compensation threshold was selected because it is approximately equal to earnings of a full-time employee earning minimum wage.
- Members who had an extended break in their employment in the last 10 years of their employment. For this purpose, an extended service break was identified by not having any compensation in at least one of their last 10 fiscal years of employment.
- Members who retired on disability retirement.

There were 32,582 members who retired from SCRS in the last five years. 11,213 members were removed due to meeting at least one of the exclusion criteria described above, leaving 21,369 retirees to review in the analysis. Similarly, 1,835 of the 4,894 members who retired in PORS over the last five years were also removed before conducting the analysis for PORS.

An AFC for each retiree was estimated by calculating the three-year average of the member's compensation earned each fiscal year during each of their last 10 years of employment. To identify members who potentially salary spiked their pension benefit, the member's AFC at retirement was compared to their AFC three years, five years, and seven years prior to retirement. If the member's actual AFC exceeded their expected AFC, adjusted for expected annual salary increases at the rate of 4.00% per annum, then they have potentially salary spiked their benefit.

The retirees were sorted into four categories according to the increase in the AFC during their final years of employment. The categories were established as follows:

Category	Category Description	Actual % increase in AFC compared to Expected
0	No salary spiking	% increase in AFC less than 2 times the expected increase.
1	Mild salary spiking	% increase in AFC between 2 times and 4 times the expected.
2	Moderate salary spiking	% increase in AFC between 4 times and 6 times the expected.
3	Severe salary spiking	% increase in AFC is more than 6 times the expected increase.

The analysis shows that about 12% of the members who retired in SCRS and 16% of the members who retired in PORS over the last five years had unusual salary increases. A summary

of the results of this analysis is as follows. Note, the summary below includes all members with unusual salary increases, which includes members who changed jobs or experienced a promotion.

Retirement System	Salary Spiking Category				Total
	0	1	2	3	
SCRS	18,849	2,205	188	127	21,369
PORS	2,579	429	41	10	3,059

The relative number of retirees with higher than expected salary increases in SCRS was evenly distributed among local government and school district employers, but the relative percentage of retirees in categories 1-3 from higher education employers was noticeably higher. Retirees from State employers had the fewest number of retirees in categories 1-3 (in absolute number and on relative percentage basis). While there was not a significant difference in the number of retirees from local government and state employers in PORS, there were approximately twice as many retirees from local government employers in categories 1-3. Please refer to the attached Exhibit 1. for additional detail regarding the number of retirees by employer type and spiking category.

Next, the Retirement System researched a sample of 100 retirees (61 in SCRS and 39 in PORS) to understand the reasons for the unusual salary increases (e.g. job change, promotion, overtime, additional duties, dual employment, etc.). Approximately 50% of the unusual increases in AFC were due to job changes and promotions, 20% were the result of increased overtime, and 30% were due to a change from part-time to full-time status or increased hours due to dual employment. Members in PORS were significantly more likely to salary spike their benefit due to overtime than going from part-time to full-time employment. Spiking incidences in PORS were more prevalent with local employers than State employers. Please review to Exhibit 2., attached, for more detailed information regarding the results of the research performed by the Retirement System.

Of those members who are salary spiking their benefits in SCRS, their monthly benefit is increasing, on average, from \$2,019 to \$2,206, or about 9.3%. Likewise, members in PORS who spiked their pension benefit are increasing their monthly pension benefit, on average, from \$2,317 to 2,499, a 7.9% increase.

### **Actuarial Impact on Contribution Rates**

In order to measure the fiscal impact of salary spiking, which includes spiking due to changing from part-time to full-time status, we calculated the retiree's benefit liability based on their actual pension benefit and a hypothetical pension benefit assuming there had been plan provisions in place that limited the increase in the member's AFC to the maximum increase considered to be a Category 0 retiree (i.e. a percentage increase that is equal to 2 times the assumed 4.00% annual salary increase).

Based on the random sample research conducted by the Retirement System, we have assumed that 50% of the individuals on the spiking list in each category are a result of salary spiking

behavior, such as overtime, part-time to full-time employment, and dual employment. We calculate that each cohort of members retiring from SCRS each fiscal year with a salary spiked benefit is costing the Retirement System \$709,000 in increased annual benefits, which corresponds to an \$8.6 million increase in the actuarial accrued liability. Similarly, each cohort of members retiring from PORS each fiscal year with a salary spiked benefit costs the Retirement System \$131,000 in increased annual benefits, which corresponds to a \$1.6 million increase in the actuarial accrued liability.

If legislation is enacted to substantially eliminate salary spiking behaviors, there would likely be a 3 to 5 basis point (0.03% to 0.05%) reduction in the actuarially calculated employer rate for SCRS and a 5 to 7 basis point (0.05% to 0.07%) reduction in the actuarially calculated employer contribution rate for PORS. Changes in the contribution rates would not be immediate, but would occur gradually over the next 10 to 15 years as actuarial losses due to salary spiking are reduced. This projected change in the contribution rate is without regard to the requirement in the State Code that requires a maintenance of the employer and member contribution rates until the plan attains a 90% funded ratio. This change is not significant enough to change the projected year either plan is expected to attain a 100% funded ratio.

### **Other Comments**

The analysis shows that employees spiking their salary in their final years of employment are not a significant cost burden to the Retirement System. However, there may be prudent, policy reasons for limiting an employee's ability to salary spike their pension benefit. Recent provisions intended to reduce the rate of incidence and severity of salary spiking include the provision in Act 278 that requires compensation related to overtime earned after 2012 for members in SCRS to be excluded for purposes of determining a member's AFC unless that overtime is mandated by the employer. Overtime compensation continues to be included on an unrestricted basis for determining the AFC for members in PORS.

This pension reform bill requires the AFC for all employees who become members in SCRS and PORS after June 30, 2012, be determined using a 20-quarter averaging period (i.e. a five year average).

The most common salary spiking occurrences in SCRS are attributable to part-time employees. Current provisions allow part-time employees who earn at least \$100 per month to participate in the Retirement System. Employees below this threshold may also voluntarily participate. Increasing the current earnings threshold or changing the eligibility requirements to a more common, minimum-hours based threshold may reduce the rate of incidence and the severity of pension spiking among part-time employees. The Retirement System could allow part-time employees that do not satisfy a more stringent eligibility to participate in the State Optional Retirement Program (State ORP) to ensure they are still earning retirement benefits. The Retirement System may have other comments regarding issues related to the administration of benefits to part-time members.

A few retirement systems have utilized other methods to address salary spiking issues. This includes limiting a member's annual increase in compensation for purposes of determining their

David K. Avant  
March 18, 2013  
Page 6

AFC. For example, a member's compensation that exceeds their pay for the prior year by more than a certain percentage, such as 15%, is excluded in determining the member's AFC. Exceptions could be considered for job changes and promotions. A few retirement systems charge employers a "surcharge" equal to the increase in the unfunded liability attributable to employees who retire from them with a salary spiked benefit.

We recommend that legal, administrative, and human resource issues be explored and reviewed before enacting legislation that impacts current member benefits.

Nothing in this letter should be construed as providing legal, tax, or investment advice. Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our estimates, depending on actual plan experience.

If you have any questions about the above information please do not hesitate to contact us.

Sincerely,

Joseph P. Newton, FSA, EA  
Senior Consultant

Daniel J. White, FSA, EA  
Senior Consultant

Enclosure

cc: Mr. Steven Van Camp  
Mr. Justin Werner

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## Exhibit 1. Summary of Salary Spiking Experience (Retirements from July 1, 2007 to June 30, 2012)

**Table 1. Salary spiking categories selected for the analysis**

Category	Description	Range of Actual % Increase in the AFC
0	No spiking	% increase in AFC is less than 2 times the expected % increase
1	Mild spiking	% increase in AFC is between 2 times and 4 times the expected % increase
2	Moderate spiking	% increase in AFC is between 4 times and 6 times the expected % increase
3	Severe spiking	% increase in AFC is more than 6 times the expected % increase

**Table 2. Retirees by salary spiking category and employer type for SCRS and PORS**

	SCRS - Counts by Spiking Category				Total
	0	1	2	3	
Higher ED	2,119	360	22	19	2,520
Local Gov	3,418	400	33	37	3,888
School Districts	9,109	1,103	114	61	10,387
State	4,203	342	19	10	4,574
Total	18,849	2,205	188	127	21,369

	PORS - Counts by Spiking Category				Total
	0	1	2	3	
Higher ED	34	16	2	0	52
Local Gov	1,315	278	33	7	1,633
School Districts	3	1	0	0	4
State	1,227	134	6	3	1,370
Total	2,579	429	41	10	3,059

**Table 3. Relative distribution of salary spiking by category for SCRS and PORS**

Spiking Category by Relative Percentage		
Category	SCRS	PORS
0	88.2%	84.4%
1	10.3%	14.0%
2	0.9%	1.3%
3	0.6%	0.3%
Total	100.0%	100.0%

Note: The experience shown in the tables above includes experience due to all reasons for unusual salary increases which include: (1) overtime, (2) dual employment, (3) Part-time to full-time employment, (4) promotion, and (5) job changes. Some of the causes for unusual salary increases, such as promotions and job changes, may not be considered to be "salary spiking".

**Exhibit 2. Review of a Random Sample of Retirees  
With Unusual Salary Increases  
(Retirements from July 1, 2007 to June 30, 2012)**

**Table 1. Summary of investigation on a random sample of retirees in SCRS**

Reason for Unusual Salary Increase	Employer Type				Total
	State	Local Gov	School Districts	Higher Education	
1. Salary Spiking Occurance					
a. Dual Employment	0	4	1	4	9
b. Overtime	1	2	6	0	9
c. Part-Time/Full-Time	0	1	8	4	13
d. Total	1	7	15	8	31
2. Non Salary Spiking Occurance					
a. Promotions	3	4	12	0	19
b. Job Changes	2	2	3	4	11
c. Total	5	6	15	4	30
3. Total Occurances Reviewed	6	13	30	12	61

**Table 2. Summary of investigation on a random sample of retirees in PORS**

Reason for Unusual Salary Increase	Employer Type		
	State	Local Gov	Total
1. Salary Spiking Occurance			
a. Dual Employment	0	1	1
b. Overtime	2	13	15
c. Part-Time/Full-Time	1	1	2
d. Total	3	15	18
2. Non Salary Spiking Occurance			
a. Promotions	6	14	20
b. Job Changes	1	0	1
c. Total	7	14	21
3. Total Occurances Reviewed	10	29	39

## **Suggested Amendments concerning the Optional Retirement Program:**

### **Version 1: Minor changes:**

**SECTION 9-20-30.** Administration of program; designation of investment companies.

The South Carolina Retirement System shall provide for the administration of the State Optional Retirement Program under this chapter. ~~The Director of the South Carolina Retirement System acting on behalf of~~ The Board of Directors of the South Carolina Public Employee Benefit Authority shall designate ~~no fewer than four~~ one or more companies to provide annuity contracts, mutual fund accounts, or similar investment products offered through state or national banking institutions, or a combination of them, under the program. In making the designation, selection criteria must include:

- (1) the nature and extent of the rights and benefits to be provided by the contracts or accounts, or both, of participants and their beneficiaries;
- (2) the relation of the rights and benefits to the amount of contributions to be made;
- (3) the suitability of these rights and benefits to the needs of the participants;
- (4) the ability and experience of the designated company or companies in providing suitable rights and benefits under the contracts or accounts, or both;
- (5) the ability and experience of the designated company or companies to provide suitable education and investment options.

~~Companies participating in the optional retirement program for publicly supported four year and postgraduate institutions of higher education as of July 1, 2002, or the optional retirement program for teachers and school administrators as of July 1, 2001, may continue to participate in this program and participation is governed by their existing contracts.~~

HISTORY: 2000 Act No. 268, Section 1, eff July 1, 2000; 2001 Act No. 54, Section 2, eff July 1, 2001; 2012 Act No. 278, Pt IV, Subpt 2, Section 59, eff July 1, 2012.

**Version 2: Broader changes mirroring Deferred Compensation language:**

**SECTION 9-20-30.** Administration of program; designation of investment companies.

The South Carolina Retirement System shall provide for the administration of the State Optional Retirement Program under this chapter. ~~The Director of the South Carolina Retirement System acting on behalf of~~ The Board of Directors of the South Carolina Public Employee Benefit Authority shall make such administrative appointments and contracts as are necessary to carry out the purpose and intent of this chapter and in the administration of account assets. For purposes of administering this program an individual account shall be maintained in the name of each employee.

The Board shall select, through competitive bidding and contracts, plans for purchase of fixed and variable annuities, savings, mutual funds, insurance and such other investments as the Board may approve.

The Board shall establish such rules and regulations as it deems necessary to implement and administer the program.

~~designate no fewer than four companies to provide annuity contracts, mutual fund accounts, or similar investment products offered through state or national banking institutions, or a combination of them, under the program. In making the designation, selection criteria must include:~~

~~(1) the nature and extent of the rights and benefits to be provided by the contracts or accounts, or both, of participants and their beneficiaries;~~

~~(2) the relation of the rights and benefits to the amount of contributions to be made;~~

~~(3) the suitability of these rights and benefits to the needs of the participants;~~

~~(4) the ability and experience of the designated companies in providing suitable rights and benefits under the contracts or accounts, or both;~~

~~(5) the ability and experience of the designated companies to provide suitable education and investment options.~~

~~Companies participating in the optional retirement program for publicly supported four-year and postgraduate institutions of higher education as of July 1, 2002, or the optional retirement program for teachers and school administrators as of July 1, 2001, may continue to participate in this program and participation is governed by their existing contracts.~~

HISTORY: 2000 Act No. 268, Section 1, eff July 1, 2000; 2001 Act No. 54, Section 2, eff July 1, 2001; 2012 Act No. 278, Pt IV, Subpt 2, Section 59, eff July 1, 2012.

Additional conforming amendment: change “companies” to “company or companies” in Section 9-21-50

**SECTION 9-20-50.** Contributions.

Each participant shall contribute monthly to the program the same amount he would be required to contribute to the South Carolina Retirement System if the participant were a member of that

system. Participant contributions must be made by employer pick up in accordance with Section 9-1-1160(B) and any applicable provisions of the Internal Revenue Code of 1986. Each employer shall contribute on behalf of each participant five percent of compensation. Deductions must not be made from this five percent contribution. Each employer shall remit to the designated company or companies for application to participants' contracts or accounts, or both, an amount equal to the participant's contribution plus the employer's contribution in accordance with the guidelines established by the Internal Revenue Service for payroll tax remittance. The employer shall remit to the retirement system the percentage of the employee's compensation that is the difference between the system employer contribution rate set in Section 9-1-1175 and the five percent allocated to member accounts in this section in accordance with the guidelines established for remitting retirement contributions to the South Carolina Retirement System. The South Carolina Retirement System may retain from this employer contribution an amount as determined by the director to defray any reasonable expenses incurred in performing services regarding the plan. These services may include, but are not limited to:

- (1) participant education regarding the merits and risks associated with selection of defined contribution plans versus defined benefit plans;
- (2) on-going investment education, where appropriate;
- (3) recordkeeping; and
- (4) monitoring contract compliance.

HISTORY: 2000 Act No. 268, Section 1, eff July 1, 2000; 2001 Act No. 54, Section 2, eff July 1, 2001; 2005 Act No. 153, Pt II, Section 5.B, eff July 1, 2005.

**South Carolina General Assembly**  
120th Session, 2013-2014

**H. 3624**

**STATUS INFORMATION**

General Bill

Sponsors: Reps. Herbkersman, Bingham, Merrill, Harrell, Newton and White

Document Path: I:\council\bill\bbm\10853htc13.docx

Introduced in the House on February 26, 2013

Introduced in the Senate on March 7, 2013

Currently residing in the Senate Committee on **Finance**

Summary: PEBA

**HISTORY OF LEGISLATIVE ACTIONS**

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
2/26/2013	House	Introduced and read first time ( <a href="#">House Journal-page 10</a> )
2/26/2013	House	Referred to Committee on <b>Labor, Commerce and Industry</b> ( <a href="#">House Journal-page 10</a> )
2/28/2013	House	Committee report: Favorable <b>Labor, Commerce and Industry</b> ( <a href="#">House Journal-page 4</a> )
3/6/2013	House	Read second time ( <a href="#">House Journal-page 74</a> )
3/6/2013	House	Roll call Yeas-111 Nays-0 ( <a href="#">House Journal-page 75</a> )
3/7/2013	House	Read third time and sent to Senate ( <a href="#">House Journal-page 23</a> )
3/7/2013	Senate	Introduced and read first time ( <a href="#">Senate Journal-page 13</a> )
3/7/2013	Senate	Referred to Committee on <b>Finance</b> ( <a href="#">Senate Journal-page 13</a> )

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**VERSIONS OF THIS BILL**

[2/26/2013](#)

[2/28/2013](#)

1 COMMITTEE REPORT

2 February 28, 2013

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## H. 3624

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6 Introduced by Reps. Herbkersman, Bingham, Merrill, Harrell,  
7 Newton and White

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9 S. Printed 2/28/13--H.

10 Read the first time February 26, 2013.

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**THE COMMITTEE ON  
LABOR, COMMERCE AND INDUSTRY**

14

15 To whom was referred a Bill (H. 3624) to amend the Code of  
16 Laws of South Carolina, 1976, by adding Section 9-4-15 so as to  
17 provide that the State shall defend members of the Board of  
18 Directors, etc., respectfully

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**REPORT:**

20 That they have duly and carefully considered the same and  
21 recommend that the same do pass:

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23 WILLIAM E. SANDIFER III for Committee.

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**A BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 9-4-15 SO AS TO PROVIDE THAT THE STATE SHALL DEFEND MEMBERS OF THE BOARD OF DIRECTORS OF THE SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY (PEBA) AGAINST CLAIMS AND SUITS ARISING OUT OF THE PERFORMANCE OF THEIR OFFICIAL DUTIES, AND REQUIRE THAT THE STATE INDEMNIFY THESE DIRECTORS FOR ANY LOSS OR JUDGMENT INCURRED BY THEM WITH RESPECT TO SUCH A CLAIM OR SUIT, TO PROVIDE THAT THE STATE SHALL DEFEND PEBA OFFICERS AND MANAGEMENT EMPLOYEES AGAINST CLAIMS AND SUITS ARISING OUT OF THE PERFORMANCE OF THEIR OFFICIAL DUTIES UNLESS THE OFFICER OR MANAGEMENT EMPLOYEE WAS ACTING IN BAD FAITH, AND REQUIRE THAT THE STATE INDEMNIFY PEBA OFFICERS AND MANAGEMENT EMPLOYEES FOR ANY LOSS OR JUDGMENT INCURRED BY THEM WITH RESPECT TO SUCH A CLAIM OR SUIT, AND TO EXTEND THE REQUIREMENT TO DEFEND AND INDEMNIFY MEMBERS OF THE BOARD OF DIRECTORS, OFFICERS, AND MANAGEMENT EMPLOYEES OF PEBA TO SUCH PERSONS AFTER LEAVING OFFICE OR EMPLOYMENT WITH PEBA FOR OFFICIAL DUTIES UNDERTAKEN BY THEM WHILE SERVING AS A DIRECTOR, OFFICER, OR MANAGEMENT EMPLOYEE OF PEBA.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Article 1, Chapter 4, Title 9 of the 1976 Code is amended by adding:

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“Section 9-4-15. The State shall defend the members of the Board of Directors of the South Carolina Public Benefit Authority (PEBA) established pursuant to this article against a claim or suit that arises out of or by virtue of their performance of official duties on behalf of the authority and must indemnify these directors for a loss or judgment incurred by them as a result of the claim or suit, without regard to whether the claim or suit is brought against them in their individual or official capacities, or both. The State shall defend officers and management employees of PEBA against a claim or suit that arises out of or by virtue of performance of official duties unless the officer or management employee was acting in bad faith and must indemnify these officers, and management employees for a loss or judgment incurred by them as a result of such claim or suit, without regard to whether the claim or suit is brought against them in their individual or official capacities, or both. This commitment to defend and indemnify extends to PEBA directors, officers, and management employees after they have left their office or employment with PEBA, as applicable, if the claim or suit arises out of or by virtue of their performance of official duties on behalf of PEBA.”

SECTION 2. This act takes effect upon approval by the Governor and applies with respect to any official duties undertaken by directors, officers, and management employees of the South Carolina Public Employee Benefit Authority after June 30, 2012.

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## **FY 2013-2014 Budget Process H.3710**

### **Governor's Recommendation:**

“An additional \$78,371,427 for increased employer contributions for employee healthcare and benefits, assuming that the split between the employer and the employee's share of these costs remains as it is today.”

### **House of Representatives passed (March):**

\$ 58,991,000 Recurring

\$ 15,819,245 (Agency Beginning Base)

\$ 74,810,245 Recurring

\* Includes a 6.8% Employer-only premium increase; no subscriber premium increase but increases co-pays by 20%. (Pursuant to Proviso 105.7)

### **New provisos:**

**105.6.** *(PEBA: Tobacco User Differential Study) The Public Employee Benefit Authority shall conduct a study to determine if it is in the best interest of the state and the State Health Plan to differentiate between tobacco users by category of product used and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon the category of tobacco product used. Recommendations shall include, but not be limited to an appropriate surcharge to be assessed and shall be submitted to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee by October 1, 2013.*

**105.7.** *(PEBA: FY 2014 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year 2014 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 6.8% and a subscriber premium increase of 0% for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2014. Co-payment increases for participants of the State Health Plan in Plan Year 2014 shall not exceed 20%. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year 2014 to ensure the fiscal stability of the Plan.*

South Carolina  
PUBLIC EMPLOYEE BENEFIT AUTHORITY

**PEBA**

# **State Health Plan Budget**

**FY 2013-2014**

# 2014 Premium Requirements

- State Health Plan (SHP) actuaries have determined the plan needs a 13.05% increase in total premiums for plan year 2014 (Jan-Dec 2014) if the plan wishes to maintain its “grandfathered” status under the ACA and retain the current plan design

## **2014 Premium Requirements Grandfathered Current Plan (Governor's Office Budget)**

- If both employer and enrollee premiums increase by 13.05%, the enrollee premium increases by \$21.62 per member per month (PMPM) and the employer premium increases by \$56.28 PMPM

- **Total requirements would be:**

2014 Employer Increase	\$44.634M
Annualization	\$14.836M
2013-2014 New Retiree	<u>\$25.497M</u>
Total	\$84.967M

## 2014 Premium Requirements Grandfathered 20% Co-Pay Increase (House Budget)

- If the employer pays the total premium increase, it is a 6.8% increase and equates to an additional \$29.36 PMPM
- **Total requirements would be:**

2014 Employer Increase	\$23.259M
Annualization	\$14.836M
2013-2014 New Retiree	<u>\$15.896M</u>
Total	\$53.991M

# Benefit Structure

	Current	10% Increase	20% Increase
Deductible	\$350/\$700	\$385/\$770	\$420/\$840
Coinsurance max	\$2000/\$4000	\$2200/\$4400	\$2400/\$4800
Physician co-pay	\$10	\$11	\$12
Emergency room co-pay	\$125	\$137.50	\$150
Outpatient Hospital co-pay	\$75	\$82.50	\$90
Pharmacy co-pay	\$9/\$30/\$50	\$9/\$33/\$55	\$9/\$36/\$60

**FY 2010-2011 Appropriations Act Proviso 80A.55: Obesity Treatment Pilot Program**

**80A.55.** (BCB: State Health Plan Obesity Treatment Pilot Program) (A) The Budget and Control Board, when establishing the State Health Plan of Benefits for Plan Year 2011, shall establish a one-year pilot program designed to address the problem of the high rate of obesity in South Carolina by providing for the treatment and management of obesity and related conditions through various methods including, but not limited to, bariatric surgery as a treatment option. The State Health Plan through the Budget and Control Board must conduct this program as provided in this proviso. The program will operate only in Plan Year 2011.

(B)(1) The State Health Plan shall develop criteria for patient and facility eligibility for the program which shall include, but not be limited to, bariatric surgical guidelines and criteria of the American Association of Clinical Endocrinologists (AACE), The Obesity Society (TOS), and American Society for Metabolic & Bariatric Surgery (ASMBS) Guidelines for Clinical Practice for the Perioperative Nutritional, Metabolic, and Nonsurgical Support of the Bariatric Surgery Patient.

(2) In addition to the considerations required in item (1) of this subsection, criteria for patient participation must include that a person may be eligible for bariatric surgery in the program if he is a State Health Plan participant covered as either a subscriber or spouse and is not eligible for Medicare and:

- (a) (i) has a body mass index greater than forty; or
- (ii) has a body mass index greater than thirty-five and with a co-morbidity such as diabetes, hypertension, gastro esophageal reflux disease, sleep apnea, or asthma;
- (b) has participated in the State Health Plan for at least the immediately preceding two years;
- (c) has documented with his primary practitioner at least two failed attempts at sustained weight loss using programmatic methods as approved by the Plan; and
- (d) has presented a pre-operative psychological evaluation indicating the patient is a satisfactory candidate for surgery.

(3) In addition to the considerations required in item (1) of this subsection, a medical center or hospital may be eligible to deliver bariatric surgery in the program if it:

(a) is a nationally designated ASMBS Center of Excellence for Bariatric Surgery, an American College of Surgeons (ACS) Bariatric Surgery Center Network member, or a Blue Distinction Center for Bariatric Surgery;

(b) has all the critical post-surgical patient support in place including, but not limited to:

- (i) a nutritionist or dietician for patient access;
- (ii) individual and group support meetings;
- (iii) development of personalized weight loss goals and management and support for lifelong life style changes; and
- (iv) a physical activity component; and

(c) imposes an initial surgical fee that must include eighteen months follow-up care for the patient that includes, but is not limited to, clinical complications, all band adjustments, use of

COE support staff, use of nutritionists, and access to group meetings.

(C) The program may approve not more than one hundred patients from different regions in the state for the program based on the guidelines developed by the State Health Plan.

(D)(1) The State Health Plan shall report annually to the Chairman of the House Ways and Means Committee and the Chairman of the Senate Finance Committee with detailed information on the program's trends including, but not limited to, pre-surgical medical and prescription costs, including those associated with obesity and its co-morbidities, and postsurgical medical and prescription costs, including those related to complications from the surgery. A patient must serve as his own control by comparing health care costs in the preceding two years to his health care costs following surgery.

(2) Surgeries performed under this program shall be that determined most medically appropriate for participating patients.

## Bariatric Surgery Pilot Analysis

Longitudinal data on the 100 patients participating in the bariatric surgery pilot has been compiled. These data include medical and prescription drug claims for the incurred period of 1/1/2009 to 12/31/2012. The data are paid through 2/23/2013 and are adjusted for incurred but not reported claims. In addition to the claims data, patient attributes have been merged from information compiled by Blue Cross and Blue Shield of South Carolina.

To measure prospective risk over time, the PEBA medical and prescription drug claims experience was analyzed and grouped using Adjusted Clinical Group (ACG) software version 10. This model examines the demographic characteristics of a member along with the member's diagnostic and pharmacy data to calculate a prospective / predictive risk score.

The following table summarizes the per capita claim expenses of the bariatric surgery population and the overall PEBA group:

Type of Service	2009	2010	2011	2012	Change from 2009
Inpatient Hospital	1,842.06	1,147.61	20,045.58	3,278.31	77.97%
Outpatient Hospital	1,680.33	1,591.62	4,345.99	1,848.03	9.98%
Professional	1,962.89	1,997.49	7,110.25	2,130.49	8.54%
Pharmacy	2,009.17	2,445.66	2,304.11	2,089.12	3.98%
Total Per Capita					
Cost	7,494.45	7,182.39	33,805.94	9,345.94	24.70%
Overall PEBA	3,853.07	3,869.44	3,910.41	4,166.60	8.14%

In the above table, the types of service per capita are limited to the bariatric surgery population. Ignoring the surgery year (2011), it is interesting to note the substantial difference in claim costs between the bariatric surgery population and the overall PEBA group.

The following table summarizes the prospective risk scores for the bariatric surgery population and the overall PEBA group:



At this point, the data indicate a significantly different (higher) increase in cost from the base period for the bariatric surgery population compared to the overall group. (24.7% vs. 8.14%) Ignoring the surgery year (2011), the observed per capita claim expense for the bariatric surgery population increased 30.12% from 2010 to 2012 compared to 7.7% for the overall group for the same period.

Risk score comparisons yield similar, but not as pronounced, results: prospective risk score increased 10.7% for the bariatric surgery population while the overall population risk score increased 2.2% during the same period. It is interesting to note that the risk score for the bariatric surgery population decreased slightly in 2012 compared to 2010 (3.1078 in 2012 and 3.1152 in 2010).

Because of timing of surgeries in 2011, it is difficult to reach conclusions with respect to the long term financial impact of bariatric surgery. Procedures for the population occurred as late as 12/20/2011 and many of the postoperative costs (and complications) for such patients would have occurred in 2012. For this reason, it is recommended that 2013 data be analyzed before arriving at any conclusions about the long term financial and risk impact of bariatric surgery. At this time, potential cost savings from adding bariatric surgery coverage are not indicated by emerging claims experience.

<b>Trend Comparison - Drug Trend Report</b>						
	State of South Carolina	GAP Peer	National Peer	Medicare Peer (Drug Trend)	Commercial Peer (Drug Trend)	
<b><i>Traditional</i></b>						
PMPY	\$1,075.68	\$1,036.75	\$791.04	\$1,908.70	\$639.66	
Trend	8.1%	(0.3%)	(2.1%)	(0.7%)	(1.5%)	
<b><i>Specialty</i></b>						
PMPY	\$277.08	\$259.80	\$228.72	\$353.62	\$207.19	
Trend	20.9%	21.4%	22.0%	24.1%	18.4%	
% of Specialty Spend (Plan Cost)	20.5%	20.0%	22.4%	15.6%	24.5%	
<b><i>TOTAL</i></b>						
PMPY	\$1,352.76	\$1,296.48	\$1,019.64	\$2,262.32	\$846.85	
Trend	10.5%	3.4%	2.5%	2.5%	2.7%	

Source: Express Scripts, March 2013

South Carolina  
PUBLIC EMPLOYEE BENEFIT AUTHORITY

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**PEBA**

**SECURITY, PRIVACY, AND HIPAA  
COMPLIANCE TRAINING**

# Compliance Training

This presentation is an introduction to the Health Insurance Portability and Accountability Act (HIPAA) of 1996. You will be required to read the HIPAA Privacy and Security Policies and Procedures manual located in the I: drive folder. Additionally, you are required to complete the PowerPoint training. You will also be required to complete a quiz. A score of below 90 will require you to retake the training and the quiz.

# **HIPAA**

**The Health Insurance Portability and Accountability Act was passed in 1996 as part of a broad Congressional attempt at healthcare reform.**

# Federal Healthcare Legislation

- **Federal floor of health information privacy protection**
- **More protective SC laws remain in force**
- **Assures an individual's rights in health information**
- **Imposes restrictions on uses and disclosures of Protected Health Information (PHI)**
- **Provides for civil and criminal penalties for violations**

# **Security, Privacy and HIPAA Compliance**

## **Purpose:**

**To establish protocol for maintaining security and privacy standards during PEBA business operations**

# Protected Health Information (PHI)

- **PHI is defined as individually identifiable health information (IIHI) that has been maintained or transmitted by a covered entity regardless of form, whether it is kept on paper or has been entered on the computer or transmitted electronically.**
- **PHI is health information that identifies an individual, or with respect to which there is a reasonable basis to believe that the information can be used to identify an individual.**

# Protected Health Information (PHI)

- **Name**
- **5 digit ZIP codes**
- **All elements of dates (except year) for dates directly related to an individual: DOB, admit, discharge, DOD, all ages over 89**
- **Age**
- **Telephone numbers**
- **Fax numbers**
- **Electronic mail addresses**
- **Social Security numbers**
- **Medical record numbers**
- **Health plan beneficiary numbers**
- **Account numbers**
- **Certificate/license numbers**
- **Vehicle identifiers and serial numbers, including license plate numbers**
- **Device identifiers and serial numbers**
- **Web Universal Resource Locators (URLs)**
- **Internet Protocol address numbers (IPs)**
- **Biometric identifiers, including finger and voice prints**
- **Full face photographic images and comparable images**
- **Any other unique identifying number, characteristic, or code**

# **Covered Entity**

**A covered entity is a healthcare provider, a health plan, or a healthcare clearinghouse. A covered entity must comply with the Privacy and Security Rules.**

# Healthcare Providers

**A healthcare provider is any person or entity that furnishes bills or is paid for health care in the normal course of business, including:**

- Physicians
- Nursing homes
- Pharmacists
- Hospitals

# Health Plan

**A health plan is an individual or group plan that provides for, or pays the cost of, medical care including:**

- HMOs
- Insurance companies
- Employee benefit plans
- Medicare

# What is a Clearinghouse?

**Clearinghouses are organizations that receive health information from providers and plans and then help standardize information in the payer's required format for claims processing.**

# **PEBA**

**As an employee benefit plan, PEBA is a covered entity.**

# **What is a covered entity's responsibility?**

**As a covered entity, PEBA is required to ensure health information that identifies any participant in its Health Benefits Plans is kept confidential.**

# Privacy vs. Security

- **Privacy standards address issues patients may face with the way health information is used, how it is to be protected and how and to whom it is to be disclosed.**
- **Security standards are the measures organizations take to protect their information.**

# HIPAA Privacy Rule Requirements

- **A covered entity must train all of its workforce.**
- **A covered entity must develop policies and procedures addressing HIPAA rights and duties.**
- **A covered entity must send a Notice of Privacy Practices to those it serves to explain what rights they have.**

# Information Covered by the Privacy Rule

- **The Privacy Rule protects both electronic records and paper records that contain individually identifiable health information.**

# **Compliance Training**

## **Minimum Necessary Use and Disclosure**

# Minimum Necessary Use and Disclosure

Under the Privacy Rule....

USE is the employment, application, utilization, examination or analysis of information within PEBA.

DISCLOSURE is the release, transfer, provision of access to or divulging in any other manner of information outside PEBA.

# Minimum Necessary Use and Disclosure

The Minimum Necessary Standard governs both the use of information within PEBA and disclosure of information outside PEBA. Minimum Necessary limits the PHI to which employees have access, which PEBA employees have access to PHI, and to which PHI they have access. If your job function requires that you have access to PHI, and you cannot do your job without it, then you will have access to only that part which you need.

- PEBA supervisors will identify the position(s) or classes of positions that require employees to have access to Protected Health Information (PHI).
- All PEBA employees will read and sign the Employee Confidentiality Agreement.
- PEBA will maintain standard protocols to limit PHI disclosures or requests to that which is the minimum necessary for routine or recurring requests and/or disclosures.
- Non-routine disclosures require consultation with a team leader or supervisor.
- PEBA employees will only forward emails to individuals outside PEBA with authorization of the original sender and in accordance with electronic transmission protocols.

## **Health Information Rights Created by HIPAA Privacy Rule**

- Right to inspect and copy your PHI.
- Right to amend your PHI.
- Right to receive an accounting of disclosures of PHI.
- Right to limit use and disclosures of PHI.
- Right to receive confidential communications.
- Right to receive a copy of Notice of Privacy Practices.
- Right to file a complaint.

# Right to Inspect and Copy

An individual has the right to:

- See his /her information;
- Receive a copy of his/her health information; or
- Receive a summary, if he/she agrees in advance to a summary and to pay the cost of preparing such a summary.

## **Exceptions to an Individual's Right to Inspect or Copy**

- Psychotherapy notes
- Information prepared for litigation
- Information to which the Clinical Laboratory Improvements Amendment prohibits access
- Information subject to the United States Privacy Act

## Exceptions to an Individual's Right to Inspect or Copy

- Psychotherapy notes
- Information prepared for litigation
- Information to which the Clinical Laboratory Improvements Amendment prohibits access
- Information subject to the United States Privacy Act

PEBA may **deny** a request to inspect and copy if the access to information:

- Would endanger life or safety of requester or another;
- Could cause domestic violence or abuse or;
- If the information was obtained under a promise of confidentiality.

# Right to Amend

- An individual has the right to amend his/her health information if the information is incorrect or incomplete
- An individual may request an amendment for as long as PEBA keeps the information
- A request to amend may be denied if:
  - The information was not created by PEBA
  - The information is not part of the information an individual would be permitted to inspect and copy; or
  - The information on file is accurate and complete.

# Right to an Accounting of Disclosures

- An individual has the right to request a list of the disclosures of his/her health information that PEBA made.
- The first list requested within a 12-month period will be provided free of charge.
- PEBA may charge for additional lists within a 12-month period.

# Use and Disclosure

- PEBA will ask for written permission before it uses or discloses PHI for purposes not covered in the Notice of Privacy Practices.
- If an individual gives written permission to use or disclose information, he/she may revoke that permission at any time by notifying PEBA in writing, and PEBA will no longer use or disclose the information for that purpose.

## **Right to Request Restrictions of Use and Disclosure**

- An individual may request that PEBA restrict the use and disclosure of his/her PHI.
- PEBA is not required to agree to this request.
- If PEBA does agree, PEBA will comply with the request unless the information is needed to provide emergency treatment.

# Right to Receive Confidential Communications

An individual has the right to receive information:

- At an alternative location;
- By alternative means; and,
- To request that PEBA communicate by certain means or at a certain location.

# Notice of Privacy Practices (NPP)

- Effective April 14, 2003
- All Plan members and new enrollees receive NPPs when enrolled.
- NPP is posted in PEBA's lobby and on its website, [www.eip.sc.gov](http://www.eip.sc.gov).
- NPP is available upon request.
- NPP explains all the privacy rights under the HIPAA privacy rule.
- PEBA employees must follow practices described in the NPP.

# Right to File Complaints

If an individual believes his HIPAA rights have been violated, he may file a complaint with the:

- Public Employee Benefit Authority's Privacy Officer;
- Secretary of the U.S. Department of Health and Human Services;  
or
- Both offices.

Complaints can be filed by anyone, for themselves or on behalf of someone else. PEBA will not intimidate, threaten, coerce, discriminate against or take other retaliatory actions against any individual who files a complaint.

# HIPAA Security Rule Requirements

There are three Security Rule requirements:

- Administrative standards are the administrative actions, policies, and procedures to manage the selection, development, implementation and maintenance of security measures to protect PHI and to manage the conduct of PEBA workforce in relation to the protection of that information.
- Physical safeguards are physical measures, policies, and procedures to protect a Covered Entity's electronic information systems and related buildings and equipment, from natural and environmental hazards, and unauthorized intrusion.
- Technical safeguards mean technology and the policy and procedures for its use that protect electronic health information and control access to it.

# **Compliance Training**

## **Workstation Use and Security**

# Workstation Use and Security

- Access of PHI without subscriber authorization must be limited to purposes permitted and PEBA policies and procedures and federal and state laws.
- Staff shall not load unauthorized software, programs, or files onto PEBA workstations.
- Staff shall not copy PEBA records onto personal devices.
- Monitors should be positioned such that unauthorized persons cannot view information. Offices and cubicles facing the parking garage need to have the shades drawn when there are workers outside.
- All computer users must comply with the Password Management Policy. Passwords must be a minimum of 15 characters.
- Do not share your password with anyone. This includes IT and your supervisor. Additionally, do not write your password on sticky notes or other paper and leave it around or near your computer.

# Workstation Use and Security

- Do not use someone else's account or spoof
- or send emails that appear to have originated from one source when actually they were sent by another source.
- All workstations, laptops, and Personal Digital Assistants (PDAs) must have power-on passwords activated.
- Staff must lock their computers when leaving workstations unattended.
- Staff must lock their workstations when leaving work area for extended periods.
- Workstations will be inspected to assess their compliance with PEBA Physical Security guidelines (e.g. monitors out of direct view of unauthorized individuals, etc).
- If you give someone access to your account or they learn your password because you did not secure it or your computer, you may be subject to disciplinary action up to, and including, termination of employment with PEBA.

# Email and Malicious Software

- Do not open emails unless you know the sender. If you receive email from an unknown sender, contact IT. Please inspect email addresses carefully to ensure they are from a legitimate source.
- Do not open links in emails without confirming with the sender the validity of the links.
- Do not give your work email address for any personal emails.
- Never download files from the Internet.
- Never install any software yourself; IT staff should install all software on PEBA computers.
- Never install any personal software on PEBA computers.
- Do not make illegal copies of any software.
- Notify your Security Officer if you suspect your password has been compromised.

# Log-ins

Immediately report any of the following to your supervisor or the Security Officer:

- If someone is using another's password;
- If someone is asking for your password;
- If your screen suddenly looks different; or
- If there is any other unusual or out-of-the ordinary situation.
- PEBA's internal systems are for conducting PEBA's business as authorized by PEBA management.
- Unauthorized use of PEBA assets is not permitted.
- Users of PEBA systems shall access only those resources for which they are authorized.
- Your activities and the computer resources you access will be monitored.

# Transmissions

- Every effort will be made to avoid or limit the transmission of PHI via electronic means (e.g. faxing or emailing); and then, only with the proper protocols and disclaimers in place.
- Any documents to be sent via fax should be sent via electronic fax, if possible. If not possible, the sender must remain at the machine until the transmission is complete to remove material from the machine.
- Fax machines and copiers should also be regularly checked for, and cleared of, material containing PHI. This is the responsibility of every staff member.
- Emails containing PHI should be sent using the secure email function.
  - Instructions for sending secure emails are located on the I: drive in the HIPAA Privacy and Security Policies and Procedures folder.

# Transmissions

- Documents containing PHI must be placed in the locked shred bins located throughout PEBA offices. No materials containing PHI may be left on photocopiers, fax machines or exposed on any work area.
- Telephones, voicemail and answering machines are not secure. Do not discuss PHI over speakerphone, and do not leave messages containing PHI on an answering machine.
- Be certain that you are talking to the subscriber or their authorized representative when giving subscriber information over the phone, just as if you were providing the information in person.

# Physical Security Safeguards

PEBA shall make every effort to control access to its offices.

- PEBA employees shall wear their picture ID badges while on PEBA premises.
- All external doors providing external access (except for the reception entrance) will remain locked at all times.
- The reception area must be attended by at least one PEBA employee at all times that the reception entrance doors are open (regular business hours).
- ALL visitors (non-PEBA employees) are required to sign in with reception, wear a visitor's badge, and be escorted while in any area where PHI may be present. Even if the visitors have a visitor's badge, they must still be escorted.
- Visitors to PEBA
- are only allowed inside the offices during regular business hours.

# Physical Security Safeguards

- Designated locked doors shall not be temporarily unlocked or propped open, with the exception of emergency situations.
- All PEBA employees must have an access swipe card, provided by PEBA administration, to access PEBA offices.
- Do not lend your badge or swipe card to anyone.
- Employees are responsible for the security and possession of their access cards.
- Employees should escort unidentified and unauthorized persons to the reception entrance during regular business hours. If an employee is concerned about a visitor, he or she should call the receptionist and ask the receptionist
- to contact the Bureau of Protective Services.

# Physical Security Safeguards

- Employees must clear desks and workspaces of any sensitive documents or PHI at the end of each workday and place these documents in a secure location to prevent inadvertent disclosure.
- All unsecured areas (desks, work areas, faxes, copiers, etc.) should be cleared of all documents containing PHI when not in use.
- If an employee loses a swipe card or keys to his or her desk or office, the employee
- must notify the HIPAA Security Officer.

# Records Retention

PEBA must maintain all records for a minimum of six years from the date of creation or the date it last was in effect, whichever is later.

This includes:

- Any information pertaining to a request of disclosure of PHI.
- Complaints and their dispositions.
- The designee for the position of Privacy Officer, who is responsible for developing policies and procedures and receiving complaints.
- Documentation of PEBA policies and procedures along with changes.
- Changes to the Notice of Privacy Practices.
- Documentation of any restriction or disclosure to which PEBA had agreed pursuant to a request.
- Documentation of training of PEBA personnel regarding HIPAA.

# Software Change Requests

Do not use PHI as examples to define problems for software changes.

# Security Issues

- Virus attack
- Misdirected Fax
- E-mail to wrong person
- Corrupt back-up tape
- Stolen computer/CD
- Using another's password
- Posting passwords
- Any improper disposal of PHI
- Workstation logged on while not in use
- Unsupervised visitors
- Impersonating another
- Theft of PHI
- Providing a terminated employee access to any PEBA information

# Reporting Security Issues

- Notify your supervisor immediately. If a supervisor is not available, notify the Security or Privacy Officer. Notification may be verbal or in writing. If the notification is initially verbal, you may also be asked to put the notification in writing.
- PEBA will not retaliate against anyone for reporting an incident or a potential incident.

# Reporting Authorities

Incidents should be reported to:

- Your supervisor
- Security Officer Sue Sadik 737-2066
- Privacy Officer 734-2267

# Enforcement of HIPAA Provisions

The Secretary of the Department of Health and Human Services (HHS) has the authority to impose:

- Civil penalties;
- Criminal penalties; or
- Both

for violations of HIPAA provisions.

## **Accountability Report Transmittal Form**

**Agency Name:** South Carolina Public Employee Benefit Authority

**Date of Submission:**

**Agency Director:** David K. Avant

**Agency Director's Email:** [davant@peba.sc.gov](mailto:davant@peba.sc.gov)

**Agency Contact Person:**

**Agency Contact Person's Email:**

**Agency Contact's Telephone Number:**

DRAFT

## Section I – Executive Summary

### I.1. Organization's stated purpose, mission, vision, and values

#### Purpose

The South Carolina Public Employee Benefit Authority's (PEBA's) primary purpose is to provide a comprehensive and affordable insurance and retirement benefits package for the state's public employers and employees. PEBA also performs fiduciary and administrative duties to oversee the contributions and disbursements for these benefits, and ensures the cost efficiency and effectiveness of the programs and services it administers.

#### Mission

PEBA's mission is to provide retirement and insurance benefits to the state's public workforce and perform fiduciary and administrative duties to oversee the contributions and disbursements for these benefits.

#### Vision

Do we have one yet? What about something like this: PEBA's vision is to establish itself as a premier state agency known for its exceptional customer service, innovative and efficient use of technology, and fiscally responsible stewardship of the funds with which it has been entrusted.

Comment [CK1]: I like it.

#### Values

Do we have these yet?

### I.2. Major achievements from the past year

- **PEBA established as new state agency.** The South Carolina General Assembly created the South Carolina Public Employee Benefit Authority (PEBA), which consists of two former divisions of the South Carolina Budget and Control Board, the Employee Insurance Program and South Carolina Retirement Systems, effective July 1, 2012.
- **PEBA board of directors appointed.** Between July 2012 and September 2012, appointments were made to the 11-member PEBA board of directors. Orientation sessions were held for the board and appropriate governance documents were put into place. **WHAT ELSE BOARD RELATED?**
- In-depth review and analysis of the two former Budget and Control Board divisions that make up PEBA
- Strategic reorganization to consolidate some functions – Administration, Customer Service Call Center, Visitors Center/Subscriber Services, Field Services, Communications

- Modifications to Arbor Lake Drive building to accommodate additional staff
- Ongoing moves of staff from 1201 Main Street to Arbor Lake Drive
- Developed a website for PEBA and created an extranet for the PEBA board members
- PEBA Retirement Benefits launched Member Access, the online resource that allows members to view and update their personal information on file with the Retirement Systems.
  - Active and inactive members may:
    - View and print their member statements;
    - Request and view Service Purchase estimates and invoices; and
    - Update home and email addresses.
  - Retired members may:
    - View retirement and payment information;
    - View payment method;
    - Update payment method or change to direct deposit;
    - View and print 1099-R tax documents;
    - View and print TERI statement;
    - View and print annuity verification letter;
    - Update tax withholdings (W4); and
    - Update home and email addresses.
- Retirement Benefits saved \$XX by not mailing annual member statements. These statements are available online via the member access system
- Retirement Benefits implemented online submission of Forms 6201, 6210 and 4201 via the Electronic Employer Services system which eliminated use of paper forms.
- Retirement Benefits launched a live chat feature on our website
- Retirement Benefits restructured the State ORP and Deferred Compensation areas into one Defined Contribution unit
- PEBA Insurance Benefits enrolled approximately x,xxx new employees and dependents representing xx governmental entities during FY13.
- PEBA Insurance Benefits averaged x,xxx customer contacts per day. This includes Call Center, emails, letters and employer calls.
- More than xx,xxx subscribers made changes to their insurance benefits using the MyBenefits system.
- Issued two Requests for Proposals (RFPs) for major contracts, including the flexible benefits plan and the fully-insured health maintenance organization.
- Removed xx,xxx ineligible spouses and children from insurance plans through the Dependent Eligibility Audit, reducing the State Health Plan's liability by an estimated \$xx,xxx.

**Comment [CK2]:** Helen Everson will likely have this information.

**Comment [CK3]:** Dayle and Thelma will have these statistics.

**Comment [CK4]:** Chuck Wilson can plug in this number.

**Comment [CK5]:** Phyllis can provide these figures.

- Development and dissemination of Summaries of Benefits and Coverage mandated by the Patient Protection and Affordable Care Act.

**1.3. Key strategic goals for the present and future years**

As a new state agency, PEBA has multiple goals with varying degrees of priority; however, the four most significant goals that filter through the fabric of the agency are: customer satisfaction; continued provision of a comprehensive yet affordable benefits package; fiduciary stewardship of the contributions with which the agency has been entrusted and the efficient use of fiscal and other resources; and employee well being.

PEBA is committed to: providing excellent customer service; working with public policymakers to sustain a comprehensive benefit package for the state's public employers and employees that remains affordable; being fiduciary stewards of the contributions with which PEBA has been entrusted and efficiently using fiscal and other resources; and making sure PEBA employees are valued, respected, and empowered to perform their duties.

**1.4. Key strategic challenges**

Some of the critical issues that could affect the administration of the state's employee insurance programs and retirement systems in fiscal year 2014 include:

- Federal health care reform requirements. PEBA will face challenges in how to address the expanding eligibility and preventive care mandated by the Patient Protection and Affordable Care Act that must go into effect by 2014.
- Public policy concerning State Health Plan – driven in part by ever-increasing health care costs which result in premium increases that must be borne by employers, employees, or both
- Legal exposure relative to insurance and retirement benefits
- Continued and even heightened need for sustained efforts required to protect the agency's information systems from potential security breaches
- Increasing demand for instantaneous access to account information that allows customers to conduct transactions online

**1.5. How is the accountability report used to improve organizational performance?**

????

Do you want to say something like management will use the report to evaluate PEBA's development as new agency; measure progress toward our overall goals/mission. [the Board list internal and external uses like training

tool/orientation piece and communicating agency performance to external stakeholders]

## Section II – Organizational Profile

### **II.1. Organization’s main products and services and the primary methods by which these are delivered**

PEBA administers and manages and state’s public employee insurance programs and retirement systems. Employee insurance programs are delivered through the agency and contracted vendors. Most retirement services are delivered through agency employees or online information systems.

### **II.2. Key customer groups and their key requirements/expectations**

PEBA’s key customer groups are the public employers who participate in the state’s employee insurance programs and/or the retirement systems administered by PEBA and the public employees who are covered through these programs and by these systems.

The state’s public employers expect the state to provide a comprehensive and competitive benefits package that is both attractive to prospective and current employees, and affordable for employees, employers and taxpayers.

### **II.3-4. Key stakeholder groups, suppliers and partners**

Among PEBA’s external stakeholder groups, suppliers and partners are:

- State agencies
- Higher education institutions
- Public school districts
- Local subdivisions of government
- Public employees
- S.C. Retirement System Investment Commission
- S.C. Budget and Control Board
- South Carolina General Assembly
- South Carolina taxpayers
- Office of the State Treasurer
- Office of the Comptroller General
- BlueCross BlueShield of S.C.
- BlueChoice HealthPlan of S.C.
- Companion Benefit Alternatives
- BlueCard
- National Imaging Associates
- EyeMed Vision Care
- Fringe Benefits Management Company, a Division of WageWorks
- Express Scripts
- MetLife
- The Prudential Insurance Company of America
- Standard Insurance Company
- TIAA-CREF

- Great-West Retirement Services
- Valic
- MassMutual

**II.5. Operating locations**

PEBA has employees at two locations: 202 Arbor Lake Drive and 1201 Main Street, both in Columbia, South Carolina. All employees are expected to be in the Arbor Lake Drive location by **MONTH YEAR**.

**II.6. Number of employees you have, segmented by employee category**

[INSERT CHART WITH NUMBER OF EMPLOYEES BY UNCLASSIFIED FTE, CLASSIFIED FTE, TEMPORARY, TIME-LIMITED, AND GRANT CATEGORY.]

**II.7. Regulatory environment under which your organization operates**

PEBA operates under auspices of an 11-member board of directors. The administration of the retirement systems is set forth in the S.C. Code of Laws, Title 9, **ANY OTHER SECTIONS? The administration of the employee insurance programs is set forth in the S.C. Code of Laws, Title 1, Sections 11-703 – 11-750, 11-780; Title 9, Section 1-60; Title 38, Section 71-280.**

**PEBA Board of Directors**



**Arthur M. Bjontegard**  
Chairman



**Peggy G. Boykin, CPA**



**Frank W. Fusco**



**Stacy Kubu**



**Sheriff Leon Lott**



**Steve A. Matthews**



**Joe W. Pearce, Jr.**



**Audie Penn**



**John A. Sowards**



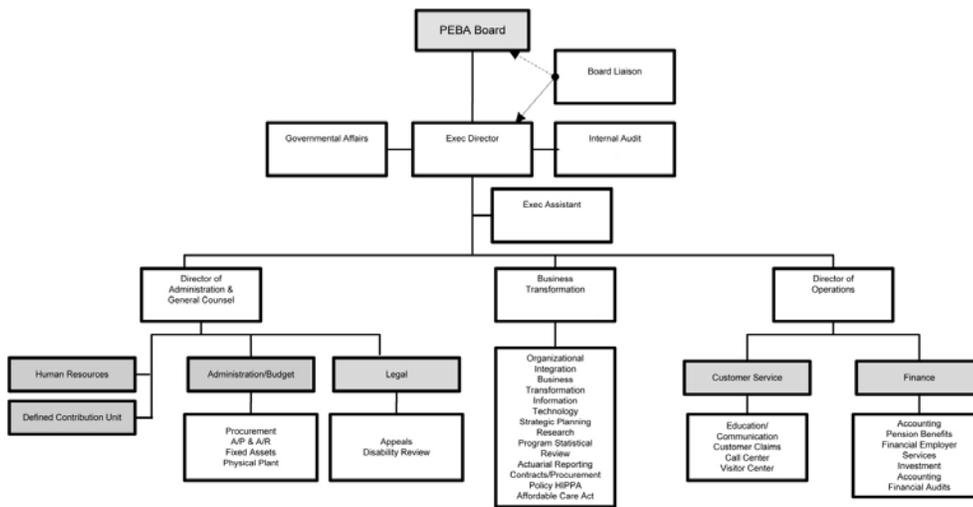
**David J. Tigges**

**II.8. Performance improvement system(s)**

PEBA senior leaders meet weekly to report and discuss the agency’s performance within all areas of operations. Strategies and action plans are developed for areas in which opportunities for performance improvement are identified. Regular and periodic meetings are also held at all levels to monitor performance, identify opportunities for improvement, and track the resultant progress. In addition, operational areas collect and analyze statistics relative to volume, timeliness, **quality (IS THIS TRUE?)**, satisfaction, **WHAT ELSE?**

Customer satisfaction surveys are conducted in multiple operational areas to gauge satisfaction with the agency’s services. An online suggestion box and open commenting on the agency’s Facebook and Twitter sites also allow for honest feedback from the agency’s customers.

**II.9. Organizational structure**



**II.10. Expenditures/Appropriations**

**Base Budget Expenditures and Appropriations**

Major Budget Categories	FY 11-12 Actual Expenditures		FY 12-13 Actual Expenditures		FY 13-14 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds

Personal Services	\$	\$	\$	\$	\$	\$
Other Operating	\$	\$	\$	\$	\$	\$
Special Items	\$	\$	\$	\$	\$	\$
Permanent Improvements	\$	\$	\$	\$	\$	\$
Case Services	\$	\$	\$	\$	\$	\$
Distributions to Subdivisions	\$	\$	\$	\$	\$	\$
Fringe Benefits	\$	\$	\$	\$	\$	\$
Non-recurring	\$	\$	\$	\$	\$	\$
<b>Total</b>	\$	\$	\$	\$	\$	\$

**Other Expenditures**

Sources of Funds	FY 11-12 Actual Expenditures	FY 12-13 Actual Expenditures
Supplemental Bills	\$	\$
Capital Reserve Funds	\$	\$
Bonds	\$	\$

**II.11. Major Program Areas**

Program Number and Title	Major Program Area Purpose	FY-11-12 Budget Expenditures	FY12-13 Budget Expenditures	Key Cross References for Financial Results*
I believe the numbers/titles come from the activity budget spreadsheets that are sent to us each year		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State:	State:	

		Federal: Other: Total: % of Total Budget:	Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	
		State: Federal: Other: Total: % of Total Budget:	State: Federal: Other: Total: % of Total Budget:	

Below: List any programs not included above and show the remainder of expenditures by source of funds.

Remainder of Expenditures:	State:	State:
	Federal:	Federal:
	Other:	Other:
	Total:	Total:
	% of Total Budget:	% of Total Budget:

\*Key Cross-References are a link to the Category 7 – Business Results. These references provide a Chart number that is included in the seventh section of this document. [\[FYI – The B&CB report does not include this column.\]](#)

### Section III – Elements of Malcolm Baldrige Criteria Category 1 – Senior Leadership, Governance, and Social Responsibility

**III.1.1. How do senior leaders set, deploy, and ensure two-way communication throughout the organization and with customers and stakeholders, as appropriate for: a) short and long term organizational direction and organizational priorities, b) performance expectations, c) organizational values, and d) ethical behavior?**

Senior leaders use the following methods to set, deploy, and ensure two-way communication of the agency’s direction, priorities, performance expectations, values, and ethical behavior:

- Weekly executive management team meetings
- Daily face-to-face interaction with employees
- Informal discussion
- Emails
- Regularly or periodically scheduled departmental and/or unit meetings
- Operational reporting
- Work process measurement
- Planning and evaluation stages of the Employee Performance Management System (EPMS)
- Employee Intranet
- External websites, news feeds, social media platforms
- Personal comportsment and general discussion of cases and policy decisions
- Agency's ethics and use policies, as well as human resource policies, must be reviewed and signed by employees each year

### **III.1.2. How do senior leaders establish and promote a focus on customers and other stakeholders?**

PEBA is statutorily and programmatically a customer-focused organization. Employees are made aware of the agency's customer centric values from their first day on the job. Senior leaders continually review customer-related performance results throughout the year, and work with staff to realign resources to respond to changes in service demand.

### **III.1.3. How does the organization address the current and potential impact on the public of its programs, services, facilities and operations, including associated risks?**

In addition to regular weekly executive management team meetings, senior leaders meet with other internal staff as well as legislative and Budget and Control Board liaisons, constitutional officers, members of the General Assembly, and outside consultants to provide information about potential risks to the public from the programs the agency administers.

Currently, senior leaders and other staff are analyzing and working through what can be done to contain the costs of the state's health insurance programs, costs which directly impact the public through contributions made by public employers supported by the state's taxpayers. Of concern as well is the unfunded liability of retiree health insurance, commonly referred to as the other post employment benefits, or OPEB, liability.

Since 2004, senior leaders worked very closely with the General Assembly to determine what action could be taken to shore up the funding of the state's largest public pension

systems. In FY12, significant reforms to the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) were enacted. While the immediate cost savings are negligible, the long-term impact of the reforms should help sustain the retirement systems for years to come.

#### **III.1.4. How do senior leaders maintain fiscal, legal, and regulatory accountability?**

Senior leaders maintain fiscal accountability through automated systems designed with internal control edits to ensure accuracy of information; thoroughly tested and closely monitored automated systems changes; and monthly, daily, and yearly balancing and reconciliation with external and internal data sources validates the agency's data. Annual audits of financial records by an external, independent auditor further ensure fiscal accountability.

PEBA is a statutorily based organization, and legal and regulatory accountability are maintained by operating within the parameters of the statutes and regulations that govern the organization. Senior leaders also ensure that PEBA's employee health insurance plans maintain compliance with the provisions of federal health care reform, which requires continual review of federal health care laws throughout the year.

#### **III.1.5. What performance measures do senior leaders regularly review to inform them on needed actions? [Actual results are reported in Category 7.]**

Senior leaders regularly review the following key performance measures: customer and stakeholder satisfaction; call center volume and wait times; visitor volume and wait times; refund, death and retirement claims volume and processing time; **WHAT ELSE?** In addition, most areas have extensive measures they use to monitor group and individual work performance.

#### **III.1.6. How do senior leaders use organizational performance review findings and employee feedback to improve their leadership effectiveness, the effectiveness of management throughout the organization including the head of the organization, and the governance board/policy making body? How do their personal actions reflect a commitment to organizational values?**

Senior leaders use opportunities for improvement identified through the organizational performance review process and employee feedback to reassess their leadership and management effectiveness so the senior leaders may modify their style, approach, and/or behavior to accommodate findings and feedback. PEBA's senior leaders are working managers with tangible job duties in addition to managerial and administrative oversight of their respective operational areas. Senior leaders' comportment while performing these duties demonstrates their commitment to the agency's organizational values. If data

indicate changes need to be made, senior leaders investigate and make changes as necessary and appropriate.

### **III.1.7. How do senior leaders promote and personally participate in succession planning and the development of future organizational leaders?**

As part of regularly scheduled departmental and leadership team meetings, senior leaders identify areas in which succession planning is essential and evaluate the human resources available for the present and the future. Throughout the year, senior leaders identify staff capable of attaining requisite job and process knowledge to ensure uninterrupted service to stakeholders and ascertain which individuals have the potential for future leadership opportunities. PEBA takes advantage of training programs offered through the Budget and Control Board, such as the Certified Public Manager program, that provide mechanisms through which staff can learn more about public administration. Senior leaders also encourage participation in professional organizations and continuing professional education programs as way to provide knowledge and maintain competencies for employees.

### **III.1.8. How do senior leaders create an environment for performance improvement and the accomplishment of strategic objectives?**

By regularly reviewing established performance measures and results, and discussing any performance issues that may impede goal achievement, senior leaders maintain an environment for performance improvement. **WHAT ELSE?**

### **III.1.9. How do senior leaders create an environment for organizational and workforce learning?**

Senior leaders encourage and support internal training initiatives through which employees may learn about programs and services other than those with which they work directly. In some cases, this may create awareness of the business processes of another department. In most cases, internal training opportunities provide basic and intermediate information about the various employee insurance programs and retirement systems PEBA administers. Employees are encouraged to attend any of these training sessions if interested.

### **III.1.10. How do senior leaders engage, empower, and motivate the entire workforce throughout the organization? How do senior leaders take an active role in reward and recognition processes to reinforce high performance throughout the organization?**

**III.1.11. How do senior leaders actively support and strengthen the communities in which your organization operates? Include how senior leaders determine areas of emphasis for organizational involvement and support, and how senior leaders, the workforce, and the organization contribute to improving these communities.**

Senior leaders encourage and support involvement in the community through participation in the annual United Way campaign and other charitable efforts. Senior leaders are involved in the communities in which they live through support of and participation in activities sponsored by area public and private schools, recreation leagues, faith-based organizations, and **WHAT ELSE?**

## **Category 2 – Strategic Planning**

**III.2.1. What is your Strategic Planning process, including key participants, and how does it address: a) your organization’s strengths, weaknesses, opportunities, and threats; b) financial, regulatory, societal and other potential risks; c) shifts in technology and customer preferences; d) workforce capabilities and needs; e) organizational continuity in emergencies; and f) your ability to executive the strategic plan?**

**III.2.2. How do your strategic objectives address the strategic challenges you identified in your Executive Summary?**

**III.2.3. How do you develop and track action plans that address your key strategic objectives, and how do you allocate resources to ensure the accomplishment of your action plans?**

**III.2.4. How do you communicate and deploy your strategic objectives, action plans, and related performance measures?**

**III.2.5. How do you measure progress on your action plans?**

**III.2.6. How do you evaluate and improve your strategic planning process?**

**III.2.7. If the agency's strategic plan is available to the public through the agency's internet homepage, please provide a website address for that plan.**

### **Category 3 – Customer Focus**

#### **III.3.1. How do you determine who your customers are and what their key requirements are?**

PEBA's customers, subscribers of the state's employee insurance programs, members of the retirement systems, and the covered employers for which these individuals work, are established in statute. Our customers' key requirements vary depending on whether they are an active or retired employee, or a surviving beneficiary of a deceased employee. Employer key requirements are fundamentally tied to operational processes, financial reporting and member/subscriber information.

#### **III.3.2. How do you keep your listening and learning methods current with changing customer/business needs and expectations?**

PEBA's commitment to customer satisfaction flows throughout the organization and feedback is received for many of the programs and services provided to customers. PEBA conducted its first annual customer satisfaction survey as a new agency in FY13; therefore, comparable trend data is not available. Other satisfaction survey results are provided, however, in **Category 7 – Results**, for certain programs and services provided to customers relative to either their insurance or retirement benefits.

In addition to ad hoc feedback through direct contact with customers, PEBA staff monitor the agency's Facebook and Twitter pages for customer comments, "likes," and "shares," as well as comments on news articles pertaining the programs and services the agency administers.

An example of being aware of and responding to changing customer needs is PEBA's continued efforts to provide more options for online self-service. In FY13, the following features were added to member access: **LIST**. In FY14, members will be able to file a service retirement application online. Another example is the addition to the call center of a live chat feature, through which customers may "text" in real time with a benefits consultant.

#### **III.3.3. What are your key customer access mechanisms, and how do these access mechanisms enable customers to seek information, conduct business, and make complaints?**

PEBA has multiple key customer access mechanisms, which include: in-person visits, telephone calls, emails, website suggestion box comments, secure online access, online live

chat with benefits consultant, and open commenting on the agency's Facebook and Twitter pages. Customers can, and do, contact PEBA through traditional letters as well. All of these mechanisms provide opportunities for customers to seek information, conduct business, make complaints, and offer suggestions for ways PEBA can improve its programs and services.

**III.3.4. How do you measure customer/stakeholder satisfaction or dissatisfaction, and use this information to improve?**

PEBA formally measures customer/stakeholder satisfaction throughout the year through call center quality checks and call-backs, **WHAT ELSE? – TRAINING EVALS? – NEED TO LIST HERE** as well as ad hoc discussion and communication. PEBA also conducted its first annual customer satisfaction survey during the fiscal year, so while the results are reported in **Category 7 – Results**, there is no comparable trend data. Information specific to the state's insurance and retirement benefits is provided as well in **Category 7 – Results**.

**III.3.5. How do you use information and feedback from customers/stakeholders to keep services and programs relevant and provide for continuous improvement?**

Each year, PEBA analyzes the results of the formal customer satisfaction and training surveys. The results are also used to gauge the effectiveness of services. Individual survey responses are shared with appropriate departmental staff for attention in addition to senior leaders. Stakeholder feedback is also received through the call center's quality checks and call-backs, daily contact, field visits, and other ad hoc conversation. When possible, both manual and automated processes are modified in response to stakeholder feedback, all with the goal of improving service delivery.

**III.3.6. How do you build positive relationships with customers/stakeholders to meet and exceed their expectations? Indicate any key distinctions between different customer and stakeholder groups.**

Positive relationships with stakeholders evolve from individual employee/customer contact, formal participation by senior leaders in legislative and other meetings, and speaking engagements. The types of services provided to our member/subscriber customers and employer customers varies based on differing business requirements and processes, but the delivery of services by PEBA employees is consistently responsive and professional.

**Category 4 – Measurement, Analysis, and Knowledge Management**

**III.4.1. How do you decide which operations, processes and systems to measure for tracking financial and operational performance, including progress relative to strategic objectives and action plans?**

PEBA senior leaders determine which operations, processes and systems to measure for tracking financial and operational performance based on stakeholder needs and statutory requirements. For example, as a service organization, stakeholder satisfaction with customer service is critical to the overall success of the organization. PEBA's management focuses on ensuring that business processes and training result in timely and accurate handling of insurance and retirement benefits. **WHAT ELSE? WOULD ANYTHING ABOUT HOW PROCESSING A RETIREMENT CLAIM WITHIN 30 DAYS SO A MEMBER HAS CONTINUOUS INCOME AFTER LEAVING EMPLOYMENT OR CORRECTLY PROCESSING THE ADDITION OF A SERIOUSLY ILL NEWBORN TO HEALTH INSURANCE COVERAGE CAN NEGATIVELY IMPACT A CUSTOMER'S LIFE IF WE DON'T FOCUS ON CERTAIN PROCESSES AND SYSTEMS?**

**Comment [CK6]:** I think these are covered in the "timely and accurate handling."

#### **III.4.2. How do you select, collect, align, and integrate data/information for analysis to provide effective support for decision making and innovation throughout your organization?**

Staff selects data and information that support the agency's key strategic goals, in particular, those related directly to service delivery. PEBA uses multiple information systems to collect data and information, such as volume, cycle time, and quality assurance. PEBA uses volume measures to support decisions about the allocation of human and other resources to accommodate service demand. Cycle time performance data is used to assess the timeliness of service delivery. The agency also analyzes trend, financial impact, quality assurance, and customer satisfaction data to support decision making. Staff uses these analyses to identify potential efficiencies in business processes, reallocation of resources, and to identify and develop additional self-service features for member access.

#### **III.4.3. What are your key measures, how do you review them, and how do you keep them current with organizational service needs and directions?**

PEBA's key measures are customer satisfaction, service delivery and process improvement, and employee well being. Senior leaders review these measures through regular and ad hoc meetings and discussions to ensure that immediate and future business needs and directives are reflected therein.

#### **III.4.4. How do you select and use key comparative data and information to support operational and strategic decision making and innovation?**

PEBA uses volume and trend data to gauge fluctuations in workloads and peak service demand period so that resources can be allocated accordingly. **WHAT ELSE?**

#### **III.4.5. How do you ensure data integrity, reliability, timeliness, accuracy, security and availability for decision making?**

Information systems have built-in safeguards and controls to ensure that data is not compromised. An internal auditor routinely conducts random audits to further ensure data integrity and accuracy. Additionally, PEBA's financial accounting records are audited annually by an independent, external auditor. Systems safeguards and upgrades also ensure data availability and timeliness. Employees attend annual Health Insurance Portability and Accountability Act refresher classes that reinforce the importance of keeping protected health information secure. **WE NEED TO ADD ANY IT SECURITY INFO HERE RELATIVE TO INTERNALLY ACCESSED DATA.**

**III.4.6. How do you translate organizational performance review findings into priorities for continuous improvement?**

Senior leaders review and compare organizational performance findings with current business needs, stakeholder demands and industry practices to better prioritize action plans for continued improvement.

**III.4.7. How do you collect, transfer, and maintain organizational and workforce knowledge (knowledge assets)? How do you identify, share and implement best practices, as appropriate?**

PEBA uses succession planning to ensure that accumulated employee knowledge is not lost when a long-time employee terminates employment. Formal cross training, and formal and informal coaching and mentoring are also used to collect and transfer accumulated employee knowledge of benefits provisions and business processes. Best practices are identified and shared through performance measurement and informal comparison to peer public benefit administrators. PEBA has memberships in several professional public benefits organizations. Querying these groups is sometimes our only source for peer data and best practices information. Participation in these groups has been and continues to be a vital part of identifying best practices.

**Category 5 – Workforce Focus**

**III.5.1. How does management organize and measure work to enable your workforce to: 1) develop to their full potential, aligned with the organization's objectives, strategies, and action plans; and 2) promote cooperation, initiative, empowerment, teamwork, innovation, and your organizational culture?**

PEBA management uses the Employee Performance Measurement System (EPMS) to both organize and measure work. While this measurement tool is used annually, PEBA also conducts at least three coaching sessions per year with each employee. These coaching sessions provide one-on-one interaction between supervisors and employees, and help identify an employee's potential and address opportunities for improvement.

Senior leaders encourage and expect interdepartmental cooperation and teamwork throughout the organization. Individual employees are encouraged to take initiative and make recommendations that would help the agency achieve its service delivery and customer satisfaction goals while ensuring that employees have the opportunity to develop to their full potential within the organization.

**III.5.2. How do you achieve effective communication and knowledge/skill/best practice sharing across departments, jobs, and locations? Give examples.**

Departmental and unit management teams meet regularly to provide updates and review current business needs and issues. Input from all participants is encouraged and typically provided. Unit managers work cooperatively to resolve issues that affect one or more areas of operations and to identify misaligned service delivery mechanisms.

For example, PEBA's Customer Service Department includes, among other areas of operations, the agency's call center, visitors center, field services, and communications. The respective consolidations of insurance and retirement benefits staff within each of these units has resulted in the identification of misaligned and/or overlapping job duties. Through regular weekly discussion and ad hoc conversations, unit managers developed plans to resolve the issues and implemented the resultant changes by fiscal year end.

**III.5.3. How does management recruit, hire, place, and retain new employees? Describe any barriers that you may encounter.**

When at all possible, job openings are posted internally so that PEBA employees have the opportunity to apply. When job requirements render this infeasible, PEBA posts job openings to the state's job portal, [www.jobs.sc.gov](http://www.jobs.sc.gov). **WHAT ELSE?**

**III.5.4. How do you assess your workforce capability and capacity needs, including skills, competencies, and staffing levels?**

**NEED INFO FOR THIS ONE.**

**III.5.5. How does your workforce performance management system, including feedback to and from individual members of the workforce, support high performance work and contribute to the achievement of your action plans?**

The planning and evaluation stages of the EPMS, as well as the three quarterly one-on-one coaching sessions, provide two-way communication opportunities for supervisors and employees. In addition to any written comments in an EPMS or coaching session, face-to-face discussion and review of the EPMS planning and evaluation stages, and coaching session notes allow employees a regularly scheduled opportunity to find out what is expected of them and allow supervisors to inform staff of these expectations.

**III.5.6. How does your development and learning system for leaders address the following: a) development of personal leadership attributes; b) development of organizational knowledge; c) ethical practices; and d) your core competencies, strategic challenges, and accomplishment of action plans?**

**NEED INFO FOR THIS ONE.**

**III.5.7. How do you identify and address key developmental training needs for your workforce, including job skills training, performance excellence training, diversity training, management/leadership development, new employee orientation, and safety training?**

Immediate and prospective customer needs and statutory requirements, as well as ongoing strategic and succession planning, drive the agency's key development and training needs. IN FY13, consolidation of insurance and retirement benefits staff in several units necessitated cross training to enhance job knowledge across all benefits programs and plans. This cross training will be integrated into new employee orientation in certain service delivery operational areas. Employees are encouraged to maintain their professional certifications and designations through opportunities for continued professional education. All employees attend annual emergency preparedness, information systems security/social engineering and HIPAA training. Other training is provided on an as-needed or intermittent basis. Senior leaders identify and select high potential employees for management and leadership development for enrollment in programs like the Certified Public Manager program. All employees are made aware of the performance measures within their operational area and, through their individual EPMS, are made aware of what is expected of them as it relates to the agency's performance. Current performance measure statistics are posted within many departments' and units' common areas.

**III.5.8. How do you encourage on-the-job use of new knowledge and skills?**

**NEED INFO FOR THIS ONE.**

**III.5.9. How does employee training contribute to the achievement of your action plans?**

Internal employee training, in particular, interdepartmental cross training, contributes to PEBA's plans to ensure that the agency has a workforce with at least a basic understanding of all of the various benefits being administered. While some very preliminary cross training began during FY13, action plans for FY14 were developed and finalized, which included a multitude of interdepartmental cross training.

Other action plans relate to the agency's succession planning and include employee participation in external training required to ensure the continuous of certain products and services. Succession planning action plans that involve employee training are implemented

to make sure there are no interruptions in services or to products being provided, and to ensure that such internal transitions are transparent to our customers.

**III.5.10. How do you evaluate the effectiveness of your workforce and leader training and development systems?**

NEED INFO FOR THIS ONE.

**III.5.11. How do you motivate your workforce to develop and utilize their full potential?**

NEED INFO FOR THIS ONE.

**III.5.12. What formal and/or informal assessment methods and measures do you use to obtain information on workforce well-being, satisfaction, and motivation? How do you use other measures such as employee retention and grievances?**

NEED INFO FOR THIS ONE.

**III.5.13. How do you manage effective career progression and effective succession planning for your entire workforce throughout the organization?**

NEED INFO FOR THIS ONE.

**III.5.14. How do you maintain a safe, secure, and healthy work environment?**

**(Include your workplace preparedness for emergencies and disasters.)**

Workplace safety, security, and health are ensured through regular observation, inspection, maintenance, and repair of the physical plant. The agency ensures that there are several employees on each of the building's three floors who are currently certified in cardiopulmonary resuscitation (CPR) and emergency first aid. Emergency and disaster preparedness plans are updated as necessary and fire drills are carried out at least annually to ensure that all employees know what to do and where to go in the event of an emergency or disaster. Employees are also required to attend the agency's Emergency Preparedness and Information Systems Security (NAME?) class each year. Additionally, all employees must pass an initial Health Insurance Portability and Accountability Act certification and attend a refresher class annually thereafter. The Retirement Systems also has a disaster recovery program in place for payments and will be expanding this program to include all areas of operations [Lisa P – has this been done (this was pulled from 2007 report)?].

## **Category 6 – Process Management**

**III.6.1. How do you determine and what are your organization's core competencies, and how do they relate to your mission, competitive environment, and action plans?**

The agency's core competencies are determined by statutory and programmatic requirements, and customer needs. PEBA's core competencies include exceptional customer service and the in-house development and implementation of proprietary information systems. During the latter part of FY12 and throughout FY13, online self-service options became another core competency as secure online member access was introduced and enhanced.

It is through these core competencies that the agency delivers the programs and services for which it is responsible. Some of the agency's action plans relate directly to continual development and implementation of additional online service delivery options and features. These options and features will help the agency reduce staff in the coming years through attrition.

**III.6.2. How do you determine and what are your key work processes that produce, create or add value for your customers and your organization and how do they relate to your core competencies? How do you ensure these processes are used?**

Two value-added key processes are the incorporation of customer requirements into new technology and the continual cross-training of staff in response to peak service demands. The services provided to customers by PEBA are customer-driven and technologically-based. By furthering technological means in addition to empowering human resources in FY13, PEBA continued to improve service delivery. By cross-training staff, PEBA ensures that human resources are available when and where needed without an increase in staffing. Other key processes that add value for our customers are: 1) Tracking of all customer requests for information, benefit estimates and other services on a centralized computer system; 2) Employees have instantaneous access to member information through document imaging and Unix systems, which facilitates fast response times to customer inquiries; 3) Customer participation in secure online access to certain account information and in electronic banking processes such as electronic fund transfer (EFT); 4) Employers' ability to submit reporting data electronically; 5) Web-based technology that allows PEBA to not only make brochures, handbooks, forms, and other current news and information readily available to customers but to provide on the spot news feed and social media updates; 6) Continual updates to automated systems as a result of legislative changes, process improvements, and customer feedback. When information systems modifications are made, input is requested from all impacted departments and project teams meet on up to a daily basis to ensure that internal and external customer needs are met and projects are completed on deadline.

**III.6.3. How do you incorporate organizational knowledge, new technology, cost controls, and other efficiency and effectiveness factors, such as cycle time, into process design and delivery?**

PEBA incorporates organizational knowledge into process and design delivery through ad hoc conversation, discussion, and regularly scheduled meetings. To ensure that organizational knowledge is constant and continuous, the agency practices succession planning, mentoring and coaching. New technology is incorporated into process and design delivery as a result of customer and statutory requirements. As customer and mission-related requirements change, senior leaders reassess business requirements and make necessary modifications to the agency's processes. PEBA is able to control costs associated with process and design delivery through in-house systems programming. Key performance measures are primarily used to identify shifting customer and/or business requirements that are not related to enactment of federal or state laws that impact the agency's programs and services.

**III.6.4. How does your day-to-day operation of these processes ensure meeting key performance measurements?**

Through continuous monitoring and assessment, PEBA can identify opportunities for improvement and take immediate corrective action or integrate a longer term solution into its strategic plans.

**III.6.5. How do you systematically evaluate and improve your key product and service related work processes?**

PEBA empowers its employees by providing the necessary tools to perform their jobs and by providing learning and growth opportunities. The agency relies heavily on technology and the information systems with which many job functions are intertwined. By continuously evaluating our human and technological resource needs and adapting our processes accordingly, PEBA can improve these processes and the key services they support.

**III.6.6. What are your key support processes, and how do you evaluate, improve and update these processes to achieve better performance?**

The agency's key support processes include: automated information systems; financial and accounting management; facilities and contracts management; and intergovernmental relations. **COMMUNICATIONS? WHAT ELSE?** PEBA management regularly reviews and analyzes the effectiveness of each key support process. Processes needing improvement are identified and revised to better accommodate both internal and external customer requirements and service delivery. Technology is an integral part of almost all PEBA processes and continued development and streamlining of our technological capabilities allows staff to better meet our customers' needs and, thus, achieve better performance.

**III.6.7. How does your organization determine the resources needed to meet current and projected budget and financial obligations?**

NEED INFO FOR THIS ONE.

## Category 7 – Results

These are typically displayed in chart form, but need to provide the following type of information.

7.1 – What are your performance levels and trends for your key measures of mission accomplishment/product and service performance that are important to your customers? How do your results compare to those of comparable organizations?

7.2 What are your performance levels and trends for your key measures on customer satisfaction and dissatisfaction (a customer is defined as an actual or potential user of your organization's products or services)? How do your results compare to those of comparable organizations?

7.3 What are your performance levels for your key measures on financial performance, including measures of cost containment, as appropriate?

7.4 What are your performance levels and trends for your key measures of workforce engagement, workforce satisfaction, the development of your workforce, including leaders, workforce retention, workforce climate including workplace health, safety, and security?

7.5 What are your performance levels and trends for your key measures of organizational effectiveness/operational efficiency, and work system performance (these could include measures related to the following: product, service, and work system innovation rates and improvement results; improvements to cycle time; supplier and partner performance; and results related to emergency drills or exercises)?

7.6 What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?