

Meeting Agenda

**| Health Care Policy Committee | Finance, Administration, Audit and Compliance Committee
| Retirement Policy Committee | Board of Directors**

Wednesday, October 23, 2024 | 202 Arbor Lake Drive., Columbia, SC 29223 | 1st Floor Conference Room

Board of Directors | 2:00 p.m.

- I. Call to Order
- II. Approval of Meeting Minutes- August 28, 2024 and August 29, 2024
- III. OPEB Investment Performance Update
- IV. Ethics Training
- V. Accountability Report Review
- VI. Committee Reports
 - i. Health Care Policy Committee
 - a) State Health Plan Budget Requirement Approval for 2026 with Contributing and Mitigating Factors
 - ii. Retirement Policy Committee
 - iii. Finance, Administration, Audit and Compliance Committee
- IV. Old Business
 - i. Director's Report
 - ii. RoundTable Discussion
- V. Adjournment

Notice of public meeting

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

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

Meeting Date: October 23, 2024

1. Subject: OPEB Investment Performance Report

2. Summary: Mr. Brian Dingle from Federated Investment Counseling will present the OPEB Investment Performance report.

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

4. Supporting Documents:

(a) Attached: Public Employee Benefit Authority Meeting



Public Employee Benefit Authority Meeting

October 2024

Hon. Curtis M. Loftis, Jr.
South Carolina State Treasurer

Melissa Simmons, CPA, CFP
Deputy State Treasurer

Bryan Dingle, CFA
Federated Investment Counseling
Vice President
Senior Portfolio Manager



Curtis M. Loftis, Jr.
South Carolina State Treasurer

Curtis Loftis is the State Treasurer of South Carolina. As Treasurer, he is the state's "private banker," managing, investing and retaining custody of approximately \$75 billion in public funds. He also serves as administrator of the state's Unclaimed Property Program, Future Scholar 529 College Savings Plan and Palmetto ABLE Savings Program [treasurer.sc.gov], which provides eligible individuals with disabilities the opportunity to save and invest money while maintaining eligibility for important needs-based benefits.

Treasurer Loftis is a fierce advocate for greater accountability, transparency and fiscal management in state government. As Treasurer, he has championed a number of causes for the benefit of state government and all South Carolinians.



Melissa Simmons, CPA, CFP
Deputy State Treasurer

Melissa joined the State Treasurer's Office staff in August 2016. She currently serves as Deputy State Treasurer. Melissa oversees the divisions that coordinate and provide banking, investment and Treasury services for state agencies, colleges and universities.

Melissa has proudly served the State of South Carolina for over 25 years in various auditing, investment, treasury, management and financial roles. She has also served in the private sector for 8 years as a financial advisor at Ameriprise Financial Advisors. Her experience includes portfolio analysis and implementation, investment planning, tax planning, insurance planning and estate planning.



Bryan Dingle, CFA
Vice President, Senior Portfolio Manager
Federated Investment Counseling

Responsible for portfolio management and research in the domestic fixed income area concentrating on high grade corporate securities. Previous associations: Senior Credit Analyst, Fixed Income Corporate Bond Research, MTB Investment Advisors; Relationship Manager, M&T Bank. B.S., University of Delaware; M.B.A., University of Maryland. Professional affiliation: Member, CFA Society of Pittsburgh. Joined Federated Hermes 2006; Investment Experience: 30 Years.



Table of Contents

- Portfolio Overview
- Portfolio Performance
- Portfolio Characteristics
- Economic Outlook



Portfolio Overview and Objectives

	Long-Term Disability Insurance	Retirees Health Insurance Trust Fund
Trustee	PEBA Board	PEBA Board
Administrator	PEBA	PEBA
Custodian/Investor	SC Treasurer	SC Treasurer
Underlying Liabilities	Employer costs of state's basic long-term disability income benefit plan	Employer costs of post-employment health and dental insurance benefits for retired state employees and retirees of public school districts
Assets (9/30/24)	\$33,609,007	\$1,747,065,864

Sources: SC Comprehensive Investment Policy and custodian bank.



Performance Summary – As of 9/30/24

		(%)				
	Market Value	YTD	1 Year	3 Years	5 Years	Since Inception
LTDI TRUST FUND	\$33,609,007					
Total Gross Of Fees		5.05	11.60	-1.21	0.68	1.92
Total Net Of Fees		5.04	11.57	-1.25	0.64	1.88
Index*		5.10	11.31	-1.50	0.41	1.64
<i>Excess Gross Return</i>		-0.05	0.29	0.29	0.27	0.28
SCRHI TRUST FUND	\$1,747,065,864					
Total Gross Of Fees		4.05	9.51	0.45	1.46	2.09
Total Net Of Fees		4.04	9.48	0.41	1.42	2.05
Index**		4.17	9.45	0.17	1.26	1.90
<i>Excess Gross Return</i>		-0.12	0.06	0.28	0.20	0.19

Performance periods over one year are annualized.

Performance inception date is 10/01/2017.

*Effective November 2017, the index changed to the Bloomberg Intermediate Gov't Credit index from the custom index of 20% ICE BofAML 3 month T-Bills / 80% Bloomberg Barclays Aggregate.

**Effective November 2017, the index changed to the Bloomberg Gov't Credit index from the custom index of 20% ICE BofAML 3 month T-Bills / 80% Bloomberg Barclays Aggregate



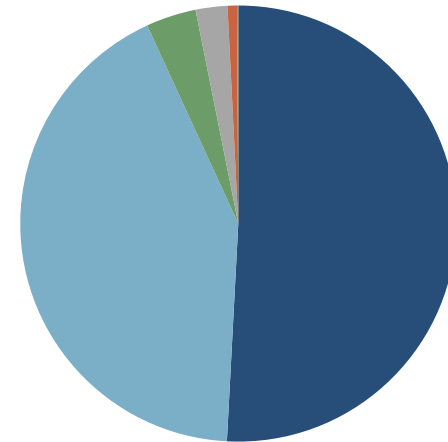
Long-Term Disability Insurance – Characteristics

As of 9/30/24

Total Market Value	\$33.6 M
Coupon:	2.65%
Yield To Maturity:	4.28%
Effective Duration:	6.16 Years
Average Quality:	AA-

S&P Rating	Weight (%)
AAA	2.35
AA- to AA+	53.00
A- to A+	14.55
BBB- to BBB+	25.79
BB+ and Below*	0.22
Not Rated**	0.37
Cash & Cash Equivalents	3.72

Portfolio Composition



- U.S. Treasury Securities 50.83%
- Investment Grade Corporate Securities 42.30%
- Cash & Cash Equivalents 3.72%
- Asset Backed Securities 2.35%
- Commercial Mortgage Backed Securities 0.70%
- Mortgage Backed Securities 0.09%

*Holdings rated BB+ and below by S&P include Paramount Global, Sr Unsecured, 4.95%, due 5/19/2050 and Occidental Petroleum Corporation, Sr Unsecured, 6.05%, due 10/1/2054

**Holdings not rated by S&P include Coca-Cola Femsa 1.85% due 9/1/2032 (A3/NR/A)



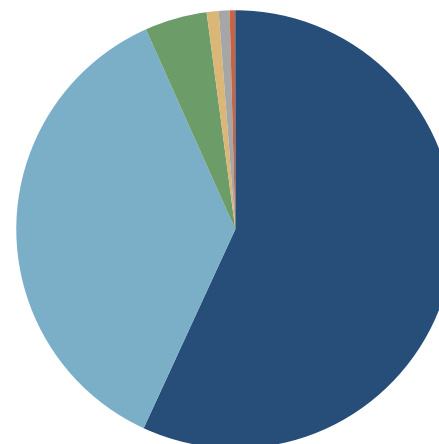
Retirees Health Insurance Trust Fund – Characteristics

As of 9/30/24

Total Market Value	\$1.75 B
Coupon:	2.85%
Yield To Maturity:	4.12%
Effective Duration:	3.58 Years
Average Quality:	AA-

S&P Rating	Weight (%)
AAA	0.80
AA- to AA+	59.61
A- to A+	10.91
BBB- to BBB+	23.32
BB+ and Below*	0.46
Not Rated**	0.30
Cash & Cash Equivalents	4.60

Portfolio Composition



- US Treasury Securities 56.87%
- Investment Grade Corporate Securities 36.44%
- Cash & Cash Equivalents 4.60%
- Commercial Mortgage Backed Securities 0.88%
- Asset Backed Securities 0.80%
- Investment Grade Corporate at Time of Purchase 0.39%
- Mortgage Backed Securities 0.02%

*Holdings rated BB+ and below by S&P include Advance Auto Parts, Inc., Company Guarantee, 1.75%, due 10/1/2027, Advance Auto Parts, Inc., Company Guarantee, 3.9%, due 4/15/2030, Advance Auto Parts, Inc., Company Guarantee, 5.95%, due 3/9/2028, Associated Banc-Corp, Subordinated, 4.25%, due 1/15/2025 and Paramount Global, Sr Unsecured, 4.95%, due 1/15/2031

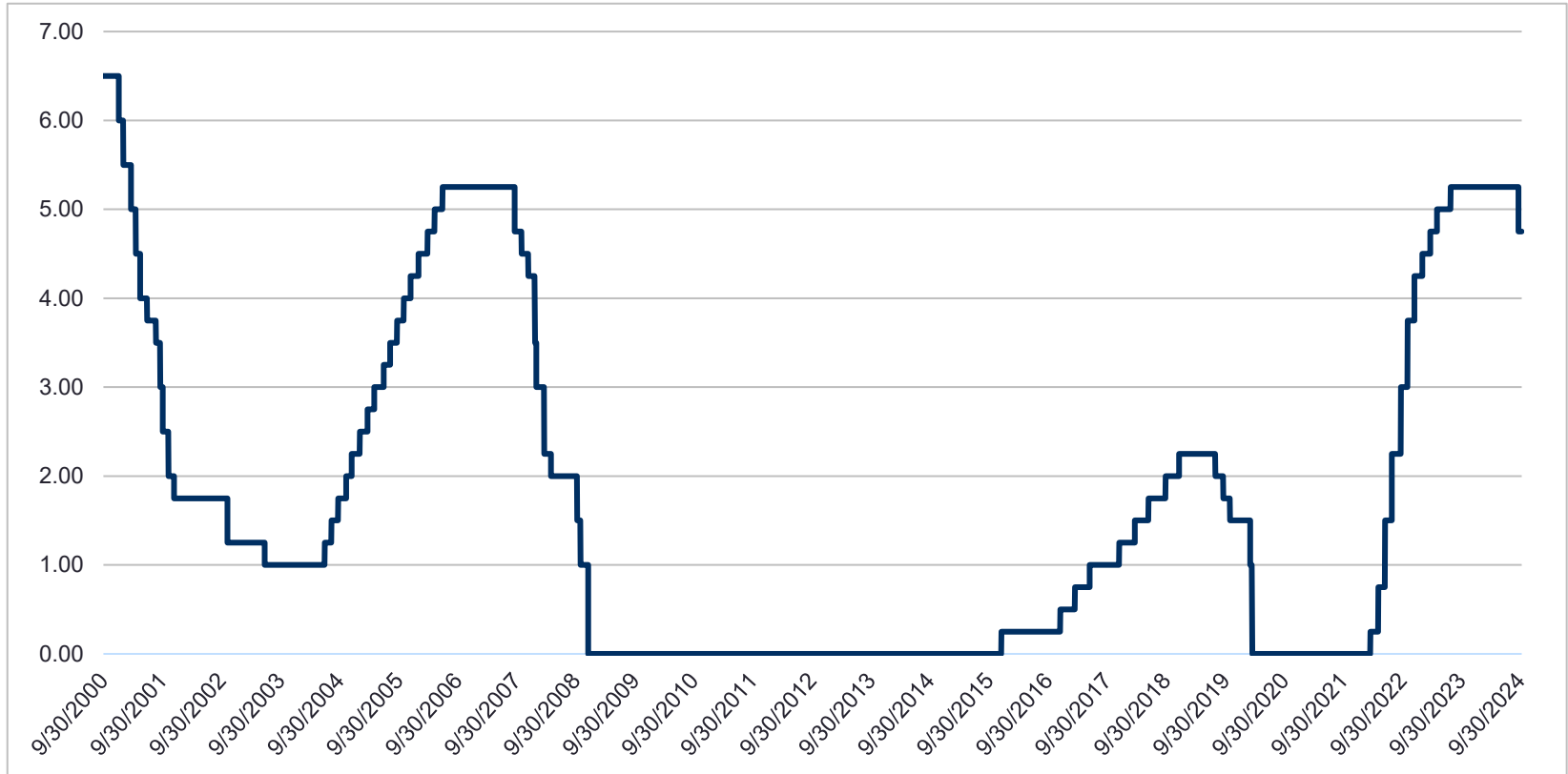
**Holdings not rated by S&P include Coca-Cola Femsa 2.75% due 1/22/30 (A3/NR/A), Microchip Technology Incorporated, Company Guarantee 5.05% due 3/15/2029 (Baa1/NR/BBB) and S&P Global 2.9% due 3/1/2032 (A3/NR/A-)



Economic Outlook



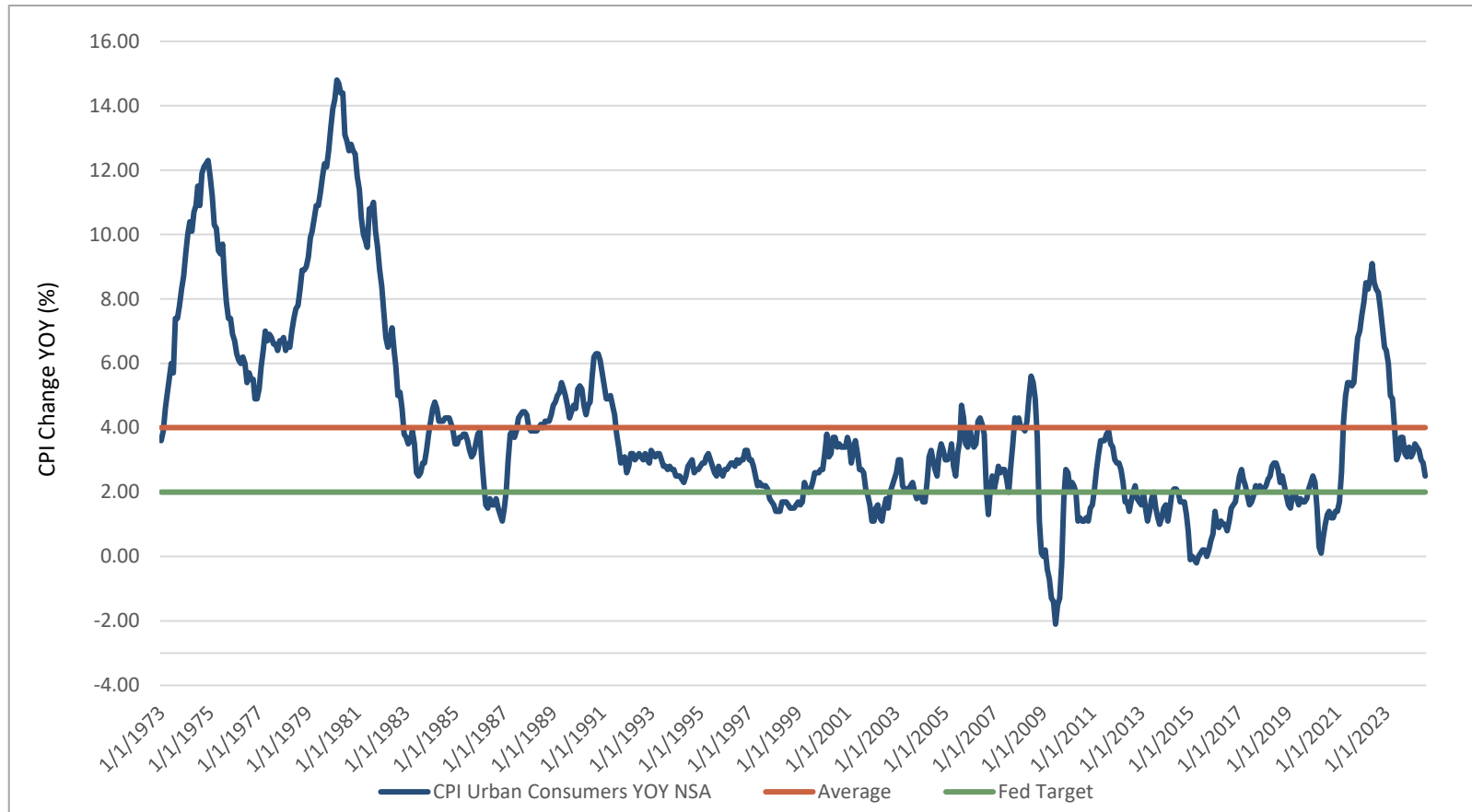
Fed Funds – Lower Bound



Source: Bloomberg



CPI Change Year-Over-Year

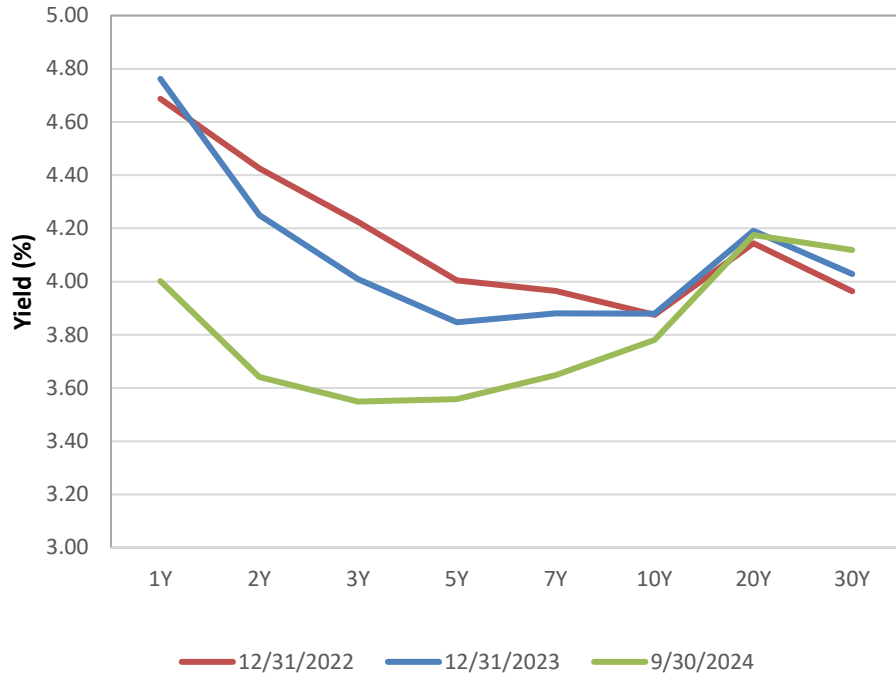


Source: Bloomberg

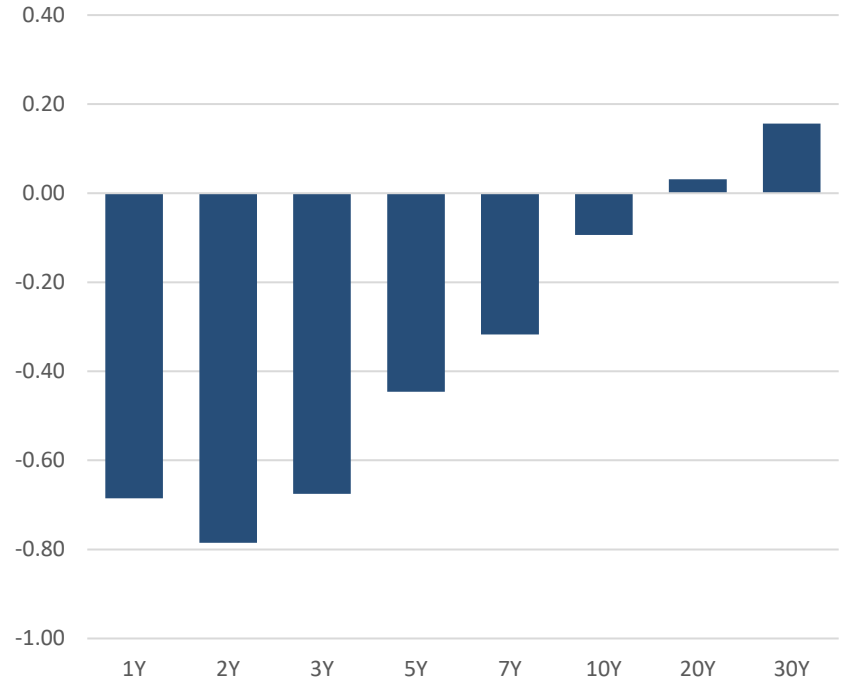


Sharply Lower US Treasury Yields

US Treasury Yield Curve Since 12/31/22



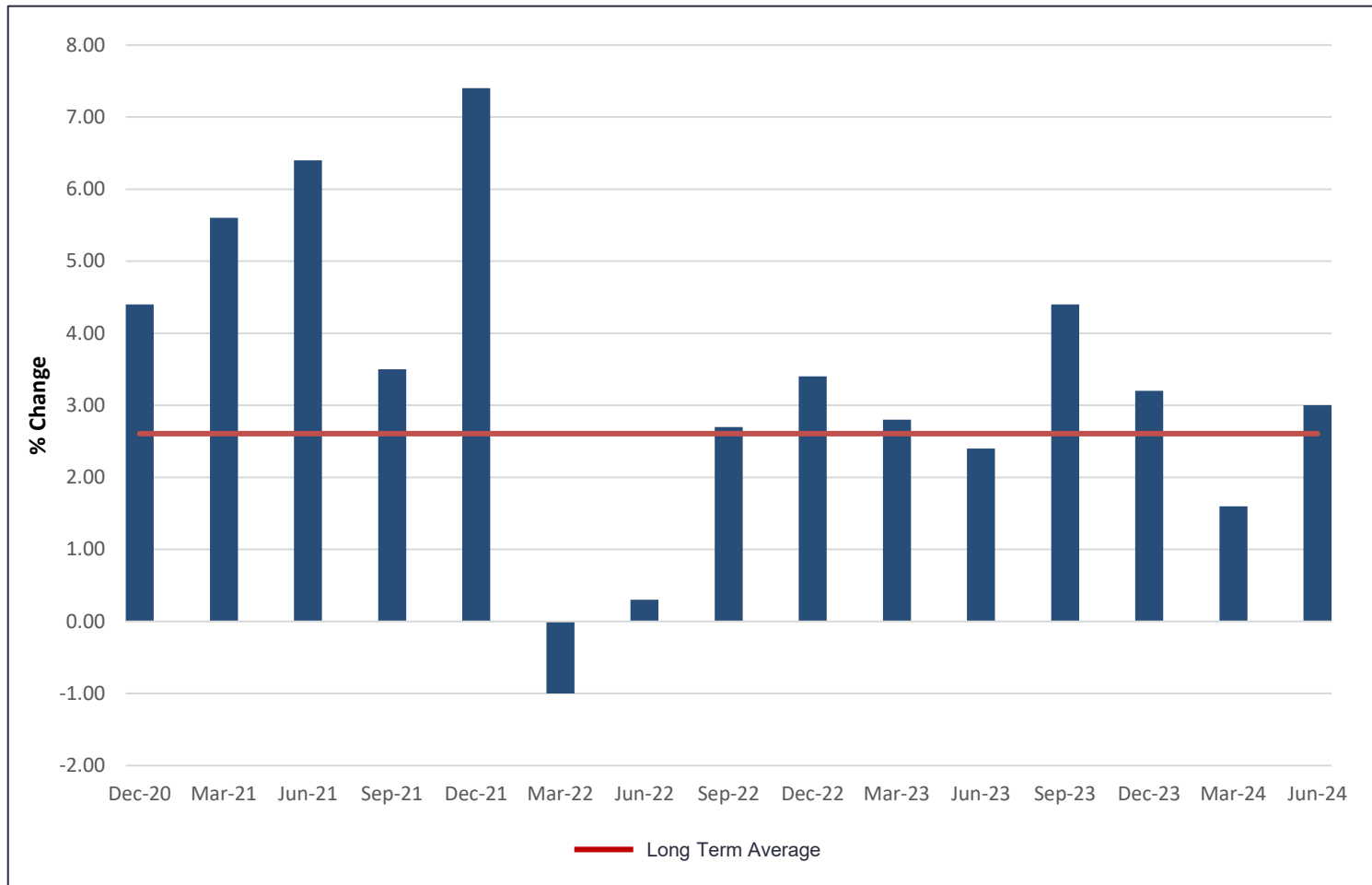
Yield Curve Change (%)



Source: Bloomberg



US GDP Quarter-Over-Quarter Annualized



Source: Bloomberg



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

Meeting Date: October 23, 2024

1. Subject: Ethics Training

2. Summary: Ms. Meghan Walker Dayson, Executive Director of the South Carolina State Ethics Commission, will provide an ethics educational presentation as part of the Board's continuing education requirements.

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

4. Supporting Documents:

(a) Attached: Avoiding the \$10,000 Fine



AVOIDING THE \$10,000.00 FINE

ETHICS REFORM ACT OF 1991

MEGHAN DAYSON

EXECUTIVE DIRECTOR

STATE ETHICS COMMISSION



Who Does the Act Cover?

- Public Officials

- Any elected or appointed official of the state (excluding judges) and any candidate for such office.

- Public Members

- An individual appointed to a noncompensated, part-time position on a board, commission or council.

- Public Employees

- Any person employed by the state.

STATEMENTS OF ECONOMIC INTERESTS

Every public member *must* file
an SEI every year.

WHEN TO FILE YOUR SEI

When first appointed:

File before assuming your official responsibilities.

Every year that you are on the Board:

File by MARCH 30TH.

Information Required On Your SEI

- The source, type, and amount or value of income, not to include tax refunds, of substantial monetary value received from a governmental entity by the filer or the filer's immediate family.
- Description, value and location of real property owned/options to purchase real property by filer or immediate family if:
 - Public improvements were made in excess of \$200.00
 - OR
 - The interest can reasonably be expected to be the subject of a conflict of interest.
 - If a sale, lease, or rental of personal property is to a state, county or municipal instrumentality of government, a copy of the contract, lease or rental agreement must be attached to the SEI.

Required On Your SEI

The name of each organization which paid for or reimbursed actual expenses of the filer for speaking before a public or private group, the amount of such payment or reimbursement, and the purpose, date and location of the speaking engagement.

SEI Report 2024 | Disclosures for 2023

Original Report: Submitted March 30, 2024 [Create PDF](#)

Go to: [Positions](#) [Personal Income](#) [Family Income](#) [Businesses](#) [Property](#) [Lobbyists](#) [Creditors](#) [Additional](#)

Positions Reported

Elected Official

Governor

Office Term

1/2023 - 1/2027

Personal Income for 2023

Private Income

Source	Income Type
PJM Properties, LLC	Income

Income from an SC Governmental Entity

Source	Income Type	Income Amount for 2023
State of South Carolina	Personal Income	\$106,078.00
State of South Carolina	Use of State Car	\$1.00
State of South Carolina	Use of State Residence	\$1.00
State of South Carolina	Use of State Plane	\$1.00

BEWARE OF AN SEI THAT LOOKS LIKE THIS...

Select a tab to view more.

Summary

Position

Income & Benefits

Reg. Bus. Assoc.

Property

More »



**** Filer does not have any personal income and benefit items to disclose. ****



**** Filer does not have any family income and benefit items to disclose. ****

SEI ADVISORY OPINION

SEC AO2020-001

September 17, 2020

SUBJECT: Reporting Government Income on a Statement of Economic Interests (SEI)

SUMMARY: Individuals reporting government income on a Statement of Economic Interests should report the amount of gross income received. Gross income means the amount of wages earned prior to any deductions or withholdings.

NONCOMPLIANCE

- Remember that this covers information from the previous year.
- Due upon assumption of official duties and then by March 30th of each calendar year.

PENALTIES

- Initial \$100.00 penalty.
- After certified letter is delivered: \$10.00 dollars a day after ten days.
- After ten days: \$100.00 day until maximum penalty of \$5,000.00 is reached.
- There may also be a complaint filed which means possible additional fines and fees.

NONDISCLOSURE

- Must disclose all information required in your SEI.
- If you fail to disclose the required information, you may be given a chance to correct the omission.

PENALTIES

- Maximum fine of \$2,000.00
- Complaint can be filed which may mean additional fees.

ACCEPTING GIFTS

What is a Gift?

- A gift is anything of value, including entertainment, food, beverage, travel and lodging given or paid to a public official, public member or public employee to the extent that consideration of equal or greater value is not received.
- A gift includes a rebate or discount on the price of anything of value unless it is made in the ordinary course of business without regard to that person's status.

Can You Accept the Gift?

- You must make an analysis of this on a case-by-case basis.
- Ask the following questions:
 - *Who is the donor?*
 - *What is the gift?*
 - *What is the gift's value?*
 - *Are there pending issues relating to the donor that may come before your body?*
 - *Are multiple people receiving the gift or just you?*

INFLUENCING THE OUTCOME OF AN ELECTION

No person may use government funds, property or time to influence the outcome of an election.

This includes using government time and resources to influence the outcome of an election or ballot measure. For purposes of this statute, ballot measure means:

- *Referendum*, proposition, or measure submitted to voters for their approval.

This is not a prohibition against a governmental entity preparing informational materials, conducting public meetings or responding to news media or citizens' inquiries concerning a ballot measure affecting the governmental entity.

CONFLICTS OF INTEREST

SELF DEALING AND NEPOTISM

- Section 8-13-700(A)
 - “No public official, public member, or public employee may knowingly use his official office, membership, or employment to obtain an economic interest for himself, a family member, an individual with whom he is associated, or a business with which he is associated.”
 - Exception for incidental use not resulting in additional public expense.
- Section 8-13-700(B)
 - “No public official, public member, or public employee may make, participate in making, or in any way attempt to use his office, membership, or employment to influence a governmental decision in which he, a family member, an individual with whom he is associated, or a business with which he is associated has an economic interest.”

FAMILY MEMBERS

Your parents, siblings, spouse, children, parents-in-law, siblings-in-law, children-in-law, grandparent or grandchild.

Dictionary defines brother-in-law as:

- a - the husband of one's sibling
- b - the husband of one's spouse's sibling

ECONOMIC INTEREST

An interest distinct from that of the general public in a purchase, sale, lease, contract, option, or other transaction or arrangement involving property or services in which a public official, public member, or public employee may gain an economic benefit of fifty dollars or more.

Person with whom you are associated

- An individual with whom the person or a member of his immediate family mutually has an interest in any business of which the person or a member of his immediate family is a director, officer, owner, employee, compensated agent, or holder of stock worth one hundred thousand dollars or more at fair market value and which constitutes five percent or more of the total outstanding stock of any class.

Business with which you are associated.

- A business of which the person, or a member of his immediate family, is a director, an officer, owner, employee, a compensated agent, or holder of stock worth one hundred thousand dollars or more at fair market value and which constitutes five percent or more of the total outstanding stock of any class.

Violations of 720

- You may not solicit or receive money in addition to that received in your official capacity for advice or assistance given in the course of your employment.

PENALTIES

- Maximum fine of \$2,000.00
- Complaint can be filed which may mean additional fees.

UNDER NO CIRCUMSTANCES MAY YOU...

- RECEIVE ANYTHING OF VALUE WITH THE INTENT OF INFLUENCING YOU IN YOUR OFFICIAL CAPACITY.
- ACCEPT ADDITIONAL MONEY FOR ASSISTANCE GIVEN WHILE PERFORMING YOUR OFFICIAL DUTIES.
- USE CONFIDENTIAL INFORMATION GAINED THROUGH EMPLOYMENT/APPOINTMENT FOR YOUR PERSONAL GAIN.
- REPRESENT ANOTHER PERSON BEFORE YOUR GOVERNMENT BODY.
- MAY NOT ACCEPT AN HONORARIUM FOR SPEAKING ENGAGEMENTS.

IF YOU HAVE A
CONFLICT THEN
YOU **MUST**
RECUSE
YOURSELF!

HOW TO RECUSE YOURSELF

- 1) Prepare a written statement describing the matter requiring action or decision and the nature of your potential conflict of interest with respect to the action or decision.
- 2) Public Members: Furnish a copy to the presiding officer of your board, who shall cause the statement to be printed in the minutes and shall require that you be excused from any votes, deliberation and other actions on the matter in question.

REQUESTING AN OPINION

- As a public member, public official, or public employee, you can request either an informal or formal opinion from the State Ethics Commission.
- A formal opinion is issued by the Commission and is binding.
- An informal opinion issued by Commission staff is not binding.
- For sensitive matters, you may request a confidential formal or informal opinion. Requests must be made in writing and emailed to claster@ethics.sc.gov.

EVALUATE WHAT, IF ANY, CONFLICT YOU HAVE

- 1) Is there an economic interest for you?
- 2) Is there an economic interest for a family member of yours?
- 3) Is there an economic interest for a person with whom you are associated?
- 4) Is there an economic interest for a business with which you are associated?

IF YOU ARE NOT SURE OF THE ANSWER TO ANY OF THESE QUESTIONS,
CONTACT US AND REQUEST A FORMAL OR INFORMAL OPINION

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

Meeting Date: October 23, 2024

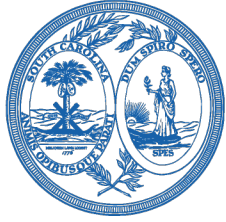
1. Subject: Accountability Report Review

2. Summary: Travis Turner, Deputy Director and Chief Financial Officer will discuss the Fiscal year 2024 annual Accountability Report.

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

4. Supporting Documents:

(a) Attached: Accountability Report process and results



PEBASM
SC Retirement Systems
and State Health Plan

Accountability Report process and results

Board of Directors

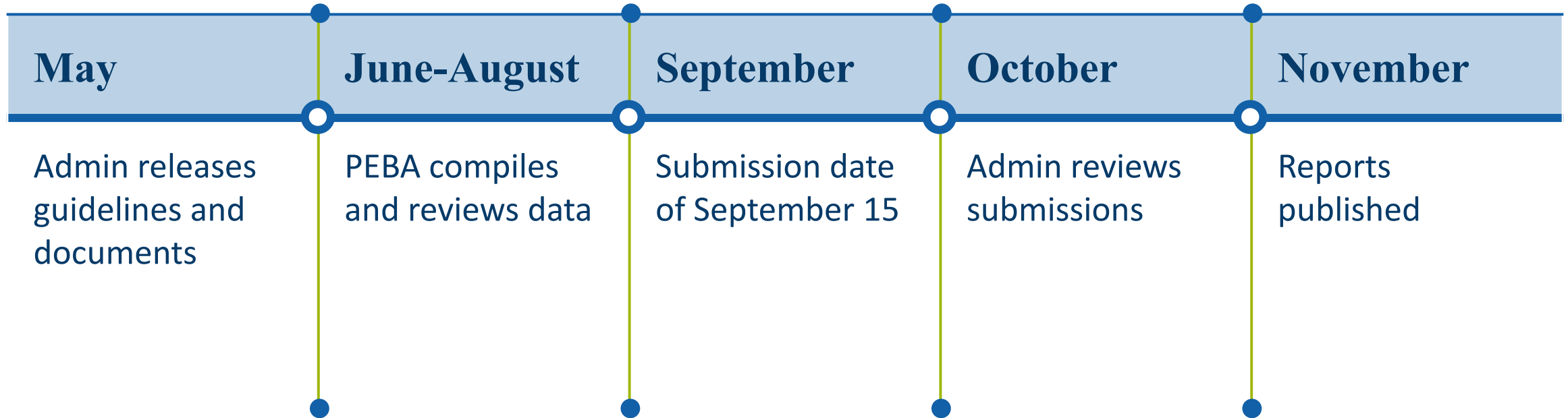
October 23, 2024

Serving those who serve South Carolina

Purpose of annual *Accountability Reports*

- Transparency and accountability.
- Link to statewide enterprise objectives.
- Return on investment for key performance indicators.
- Link to programmatic funds.
- Data-based decision making.

Annual timeline



Components

Discussion and analysis

Includes information about significant projects, agency successes and factors impacting agency

Datasheet

Spreadsheet with tabs for various data categories, including strategic plan results, services, partnerships and budget

Organizational chart

Shows structure and first three levels of agency organization

Submission form

Signed by Executive Director and Chairman of Board of Directors

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Promote financially sound PEBA Programs

- Core strategic goals and strategies continue to drive business on a day-to-day basis, but the PEBA:Connect project required a shift in strategic focus in fiscal year 2022.
- All goals, strategies and action items continue to be viewed as they relate to the new system implementation.
- Funding reform that occurred in 2017 has continued to prove to be successful. The General Assembly suspended the statutory employer contribution rate increase for fiscal year 2021, but rate increases resumed in fiscal year 2022 and the final scheduled rate increase went into effect July 1, 2023.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Promote financially sound PEBA Programs

- Through July 2024, the State Health Plan expense per member per month has increased 6.2% from the same period in 2023.¹ Actual inflation is a small factor influencing trend. More substantial considerations are:
 - Utilization;
 - Acuity (more intensive mix of services, such as inpatient and outpatient hospital services); and
 - Demographics (aging of the population, increases in prevalence of conditions).
- Specialty pharmacy, which was the leading Plan cost driver last year, is essentially level with that in 2023. PEBA's action to limit the specialty supply to 30 days per fill is thought to play a significant role in this trend.
- Through July 2024, 80% of the Plan's increased spend is attributed to medical sources.²
 - Outpatient hospital spend is up 9.2%; and
 - Professional office spend is up 11.1%.

¹Through September 2024, State Health Plan expenses per member per month has increased 5.8% from the same period in 2023.

²Through September 2024, outpatient hospital spend is up 9.1% and professional office spend is up 9.2%.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Promote financially sound PEBA Programs

- The only material pharmacy cost driver this year is GLP-1s. Plan spend for this medication class post-rebate is up 35.5% from 2023. ¹
- GLP-1s account for 21% of Plan spend growth in 2024. ²
- Continue to address non-covered use of these products and is implementing a new prior authorization process for GLP-1s in November 2024, as well as limiting a supply to 30-day fills.
- Added annual well woman exam coverage and birth control coverage for dependent children to the State Health Plan for plan year 2024. Both were added at no cost to the member.
- Successfully implemented continued site-neutral pricing for endoscopic, radiology and lab services such that prices in a hospital setting are set at the non-hospital price and expanded to include surgical procedures commonly performed in an office setting.

¹As of September 2024, Plan spend for this medication class post-rebate is up 44.2% from 2023.

²As of September 2024, GLP-1s account for 32% of Plan spend growth in 2024.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Promote financially sound PEBA Programs

- Continued monitoring and enforcement of prescription drug pricing and rebate guarantees, and collection of Retiree Drug Subsidies (RDS) and EGWP subsidies. Guarantees and subsidies received by PEBA help offset potential premium increases to the State Health Plan.
- Terminated participation in the pharmacy benefit manager's Patient Assurance Program, which was implemented in January 2020. This program had been expanded to include a broader selection of brand-named products, including GLP-1s, and was not producing the desired results.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Promote financially sound PEBA Programs

- Successfully resolicited and awarded several contracts during the fiscal year:
 - State Health Plan's medical services administration contract;
 - Vision benefits contract; and
 - Flexible Benefits Plan contract.
- PEBA's external actuary also conducted annual actuarial valuations for the five defined benefit retirement systems.
- Completed an actuarial experience study to review plan assumptions and compare actual experience to these assumptions.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Enhance the customer service experience for members and employers

- The Customer Services Scheduled Services team provided nearly 18,000 consultations with 72% of the consultations being in-person and 28% being scheduled phone or video appointments.
- The Customer Contact Center received approximately 258,000 calls and nearly 30,000 emails.
- The Customer Contact Center also started the transition to a new call center vendor to improve reliability of service, increase functionality of the phone tree and decrease wait times. The successful transition occurred in August 2024.
- Staff conducted more than 38 employer training events with more than 2,000 employer representatives attending.
- Thirty-three new employer groups, consisting of just under 1,000 covered lives, joined the insurance programs during the fiscal year.
- Twenty-five new employers joined the retirement systems, and 10 existing retirement employers added coverage.
- Eleven existing retirement employers added insurance coverage.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Enhance the customer service experience for members and employers

- A new hire training process produces Customer Service representatives who are fully cross trained in both retirement and insurance. To date, 90% of Customer Service representatives are fully cross trained within 18 months of hire.
- Sent annual Employer Group Report to the executive-level contact and primary benefits administrator at each participating employer. The customized report provides a better understanding of the health of each employer's active employees and their dependents at the group level.
- Continued to improve member and employer education for a variety of topics through the *Navigating Your Benefits* series.
- Promoted value-based benefits available at no cost to State Health Plan primary members throughout the year.
- In collaboration with insurance vendors, developed numerous marketing toolkits to promote benefits.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Enhance the customer service experience for members and employers

- For the retirement systems, PEBA received:
 - 7,123 service retirement applications;
 - 265 disability applications;
 - 11,355 refund requests; and
 - 6,302 death claims.
- For insurance benefits, PEBA processed:
 - 51,633 electronic enrollments;
 - 49,567 paper enrollments; and
 - 32,232 eligibility determinations for retirees, COBRA subscribers and survivors.
- PEBA received 5,657 requests for review.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Responsibly manage risk to the organization

- Through enterprise risk management, we plan, organize, lead and control the activities of our organization to minimize the effects of risk.
- The Information Technology team and the Director of Enterprise Risk Management worked closely on the PEBA:Connect project to ensure the IT infrastructure is being developed, managed and secured properly.
- Updated and tested the Business Continuity Plan.
- Updated the Enterprise Risk Assessment.
- Updated the Physical Safety and Security Plan.
- Continued to manage vendor risk, which is an increasing risk to the agency.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Maintain a workforce and work environment conducive to achievement of agency goals and objectives

- Succession planning continues to be a priority for executive leadership. We continue to actively monitor succession plans based on a workforce plan that was developed for the agency.
- The hybrid telecommuting program continues to be an effective tool for recruitment and retention. The current telecommuting policy allows most PEBA staff to work remotely up to 50% of the time.
- Hired 44 staff members and conducted extensive new employee onboarding training.
- Provided all staff mandatory annual privacy, safety and security training.
- Intake Center staff received active workplace violence training.
- Safety team members participated in adult first aid/CPR/AED certification training.
- Updated the visitor and temporary badge policies to enhance the overall physical safety of the workplace.

FY 2024 agency highlights

July 1, 2023, through June 30, 2024

Improve internal efficiencies through new system implementation

- The PEBA:Connect project is one of the largest initiatives the agency has ever tackled.
- There are 197 people on the PEBA:Connect team, including PEBA staff and individuals from each of the three vendors.
- The project is estimated to be completed in 2027.
- The project is in Phase 4. PEBA staff are viewing the system and providing input during comprehensive demonstrations.
- Staff conducted user acceptance testing during the fiscal year.
- The intensity level of the project has significantly increased; however, production support within the aging IT systems is being successfully maintained through retention of critically skilled employees and collaboration of our Operational Research and Development staff with business areas.

Risk assessment and mitigation strategies

- PEBA's current IT systems that cover critical operational functions are written in a dying language.
 - PEBA is actively implementing a replacement for our custom information technology systems. The process to implement a new technology system will be a multi-year effort.
- PEBA covers approximately 10% of the state's population through its retirement and insurance programs. A disruption in services for either one of these populations would affect the members themselves as well as the local economies.
- Health care costs are continually increasing. PEBA manages its cost with the goal of being below the national trend in health care expenses. However, even with prudent program management, health care costs continue to increase.

FY 2024 Strategic Plan results

Statewide enterprise objective	Agency strategic goal	Strategy	Performance measure	FY 2023 actual	Target	FY 2024 actual	Desired outcome
Maintaining safety, integrity and security	Promote financially sound PEBA programs	Research best practices, and recommend and implement health plan design changes, and promote the use of high-value health services to improve health outcomes.	State Health Plan net expenditures to revenue loss ratio less than or equal to 1.0	1.027	1	0.963	Equal to or less than
Maintaining safety, integrity and security	Promote financially sound PEBA programs	Research best practices, and recommend and implement health plan design changes, and promote the use of high-value health services to improve health outcomes.	Cumulative cash balance of self-funded health plan reserves is at least 140 percent of current estimated outstanding liability.	129%	140%	172%	Equal to or greater than

FY 2024 Strategic Plan results

Statewide enterprise objective	Agency strategic goal	Strategy	Performance measure	FY 2023 actual	Target	FY 2024 actual	Desired outcome
Government and citizens	Enhance the customer service experience for members and employers	Implement cost effective integrated systems and processes that are intuitive and practical, and provide value for members and employers	Contact Center Customer Satisfaction Survey results	99.26%	95%	98.55%	Equal to or greater than
Government and citizens	Enhance the customer service experience for members and employers	Implement cost effective integrated systems and processes that are intuitive and practical, and provide value for members and employers	Visitor Customer Satisfaction Survey results	98%	95%	99%	Equal to or greater than

FY 2024 Strategic Plan results

Statewide enterprise objective	Agency strategic goal	Strategy	Performance measure	FY 2023 actual	Target	FY 2024 actual	Desired outcome
Government and citizens	Enhance the customer service experience for members and employers	Implement cost effective integrated systems and processes that are intuitive and practical, and provide value for members and employers	State Health Plan medical third-party administrator after-call survey average with at least 80% of members saying call was resolved.	82%	80%	85%	Equal to or greater than
Government and citizens	Enhance the customer service experience for members and employers	Implement cost effective integrated systems and processes that are intuitive and practical, and provide value for members and employers	State Health Plan medical third-party administrator after-call survey average with at least 80% of members saying they were very satisfied.	82%	80%	86%	Equal to or greater than

FY 2024 Strategic Plan results

Statewide enterprise objective	Agency strategic goal	Strategy	Performance measure	FY 2023 actual	Target	FY 2024 actual	Desired outcome
Government and citizens	Enhance the customer service experience for members and employers	Implement cost effective integrated systems and processes that are intuitive and practical, and provide value for members and employers	Deferred Compensation third-party administrator customer satisfaction, average score of at least 4.5 (1 means very dissatisfied, 5 means very satisfied).	4.54	4.5	4.58	Equal to or greater than

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

Meeting Date: October 23, 2024

1. Subject: State Health Plan Budget Requirements Approval for 2026 with Contributing and Mitigating Factors

2. Summary: Rob Tester will present the Plan's estimated budget needs for the next fiscal year, which includes the projected rate increase for Plan Year 2026. He will preface these numbers with discussion as to the causes of budgetary stress, as well as matters that are helping to curb Plan spending. With the Board's approval, these requirements will be presented at the Governor's Budget Hearing next Wednesday, October 30, the kickoff to the upcoming year's budget season.

3. What is the Board asked to do? Approve the 2026 State Health Plan budget requirements.

4. Supporting Documents:

(a) Attached: 2026 State Health Plan Budget Information and Continuation Requirements

State Health Plan Budget Requirements for 2026

Contributing Factors

1. Continued High Expenditure Trends

Overall Medical and Pharmacy Trends through September

State Health Plan expenditure this year incurred and paid through September is up 5.8% over the same period in 2023. Medical expense (processed through Blue Cross of SC) is up 5.7%, while pharmacy expense (processed through Express Scripts) is up 6.0%.

- **Cost Drivers**

- **Outpatient Hospital:** The most significant cost driver in the Plan year-to-date is the Outpatient Hospital sector. Year over year claims expenditure trend for 2024 in this service type or place of service, is 9.1%, and this category's growth accounts for over 40% of the total increase in Plan spend. Surgery and Emergency Room (ER) are the two most costly service types in the Outpatient Hospital setting, accounting for over 62% of the spend in this category. Both of these types are growing at a substantial rate: outpatient surgery spend is up 8.8%, while ER spend is up by an even more sizeable 15.9%. Volume is driving the ER growth, with encounters per person up 10.0%. Intensity (replacement of a lower-cost service with a higher-cost service) appears to be the main growth driver for outpatient surgery; the average payout per encounter is up 6.9%, well above this year's pricing update of 2.0%.
- **Office:** Professional office expense has increased 9.2% per member year over year through September 2024. It accounts for a full quarter of the growth in Plan expenditure this year. The lion's share of this growth, 7 out of 8 of the new dollars, is attributable to "sick" visits (encounters with a diagnosis on the claims form). The remainder comes from increased spend on care coordination fees (associated with the Patient Centered Medical Home program) and well visits. Well adult visit expense has increased about 11% this year (the annual well woman exam with no patient cost share was added for 2024); however, it still accounts for just over 5% of the growth in the professional office setting. Well child visit spend is essentially flat.
- **GLP-1s:** The GLP-1(Glucagon-like Peptide 1 agonists) class of medication continues in a second year as a major cost driver in the Plan. GLP-1s refer to a class of medication designed for treatment of type 2 diabetes. This class has been around for several years—the newest and now best-known GLP-1 products are Ozempic and Mounjaro. Widespread misuse facilitated by social media promotion of GLP-1s has led to increased use for weight loss. Weight loss coverage is a Plan exclusion, and neither of these products is FDA-approved for weight loss. Nonetheless, spend for GLP-1s continues to increase at an alarming pace. Following the 47.8% increase in per member spend in 2023, GLP-1 post-rebate expenditure in 2024 year-to-date has increased an estimated 44.2% per member (\$14.82 to \$21.37 per member per month). The number of GLP-1 patients over last year

continues to increase at an accelerating pace; however, these persons still only comprise just over 5% of Plan membership.

- **Other Observations**

- **High Dollar Claims:** The effect of high-dollar claims on overall Plan expense continues to grow. In 2023, the less than 0.1% of Plan members with attributable medical spend for the year at \$250,000 or more accounted for 11.1% of Plan expenditures on the medical side, up from 9.4% in 2022 and a mere 6.1% back in 2013. Expanding this pool to those claimants with at least \$50,000 in 2023 expense, still only about 1% of membership, accounts for 37.2% of total medical spend—the highest percentage to date and well over the 31% this group accounted for in 2013. It is expected that high dollar claims will continue to have a disproportionate impact on Plan expense.
- **Adverse Selection:** Our staff, consultants, and contractors have long thought the Plan is subject to adverse selection, whereby persons who are more likely to use health care resources seek out our coverage. With a history of stable insurance benefits and over 800 employers as access points, the Plan certainly has higher-than-usual exposure to this phenomenon. We'll describe two ways in which this is manifested. Anecdotally, we have been informed that our membership's incidence of rare diseases (defined as a condition that affects no more than 200,000 people in the United States), with their accompanying expensive treatment, is notably higher than that seen in a general population. And in our most recent high-dollar claimant analysis, five of the most expensive 10 adults in terms of claims expense in the past year joined the Plan relatively recently (in the past 5 years), as is the case for 12 of the top 25. There is no identifiable solution to the Plan's adverse selection exposure, given the Plan's program structure and federal prohibition of pre-existing condition limitations, but all should be aware of its effect of distorting the risk pool and creating a "non-normal" population to insure.

2. Inflation Reduction Act (IRA) changes to Medicare prescription drug plan

As reported at the June Committee meeting, the federal Inflation Reduction Act (IRA), enacted in 2022, is bringing about considerable change to the Medicare Part D prescription drug benefit. PEBA sponsors a group Part D plan, which now includes about 95,000 Medicare-eligible members. Two noteworthy changes regarding this program affecting the budget become effective with plan year 2025.

One, the Part D Standard Defined Benefit has been restructured. Beginning in 2025, a Part D beneficiary will have no out-of-pocket expense for prescriptions once the member cost share (known as TrOOP, or True Out-of-Pocket), reaches \$2000 for the year. However, this amount is not what would be commonly understood as member cost share for a copay-based plan as is the State Health Plan. The Standard Defined Benefit for 2025 includes a \$590 member deductible with the member paying 25% coinsurance in the Initial Coverage phase. PEBA Plan Part D members pay copays equal to that paid by non-Medicare members; however, for purposes of the Part D cost share accumulator, "phantom" cost share as embodied in the Standard Defined Benefit deductible and coinsurance count toward the TrOOP. Because of this methodology, PEBA Plan Part D members will pay copays only until the accumulator reaches the \$2000 TrOOP, which is substantially lower than the current \$8000 TrOOP. It is projected that around 28,000 Plan

Medicare Part D beneficiaries will reach the TrOOP limit next year and achieve zero cost share status. Our actuaries predict that having such a significant number of members with zero cost share for at least part of the year will have material cost impact on the Plan.

Two, the federal subsidy structure associated with the group Part D offering has been altered significantly. This is a material revenue source for the Plan accounting for almost 6% of overall income. Following the Part D restructuring, the Manufacturer Subsidy and Catastrophic Reinsurance elements of the program are expected to reduce greatly in value, and although the Direct Subsidy will increase substantially, it will not compensate completely for the loss from the other sources. As a result, Medicare Part D subsidy income to the Plan is expected to decline.

Together, the increase spend from reduced patient cost share on the part of Medicare retirees and the reduced Part D subsidy will bring about a \$22.184 M/year negative impact on the Plan and will increase budget requirements by 0.6 percentage points.

3. Source of Funds—additional State appropriations to schools

The Executive Budget Office provides guidance to PEBA each year as to the share of State appropriations funding health insurance for each of the groups funded in at least some measure by the State: employees of State agencies (including colleges and universities), employees of school districts, and State-funded retirees (retired employees of State agencies, school districts, and the MUSC health system). This year, PEBA has been instructed by key state budget actors (Executive Budget Office, RFA, Governor's Office, legislative budget committee staff) to increase the State-funded share on behalf of school employees from 70% to 75%, on account of the formula in the new State Aid to Classrooms program. This adds about \$1 M. to this year's budget requirements State appropriations total in a shift from local school funds to State funds.

Mitigating Factors

1. Board actions from this summer

- **GLP-1 management**

The GLP-1(Glucagon-like Peptide 1 agonists) class of medication continues as a major cost driver in the State Health Plan, as noted above. The Board at its June meeting approved a staff recommendation to address this surging spend through two actions. One, limiting supply of GLP-1s to 30 days per fill, to reduce waste as there are a material number of users who prove not to tolerate the product. Two, placing a new prior approval process for GLP-1s to now require documentation that a patient's condition qualifies this individual to obtain the prescription under the terms of the Plan. This process will begin in November and be fully phased in by January 2025.

These actions affect our Commercial (non-Medicare) plan only. Our pharmacy benefits contractor has informed us that federal CMS rules will not permit the 30-day fill limit for

Medicare beneficiaries for a single class of drug. Likewise, Medicare rules prohibit the type of prior authorization that will go into effect soon for the non-Medicare membership.

It is conservatively estimated that these rules will save the Plan \$18 M/year, and as a result budget requirements are reduced by 0.5 percentage points.

- **Removal of PCMH preferential patient cost share**

At the June meeting, the Board adopted a staff recommendation to remove the preferential patient cost share at Patient-Centered Medical Home (PCMH) practices effective January 2025. Services received at a PCMH will be subject to regular copays and coinsurance next year. We continue to collaborate with Blue Cross to improve the PCMH program and better align it with Plan objectives.

This action will save the Plan around \$14 M/year and will reduce Plan budget requirements by 0.4 percentage points.

- **Realign copays for diabetic supplies**

At the June meeting, the Board adopted a staff recommendation to place high-cost diabetic supplies in the regular pharmacy copay structure. Beginning in January, high-cost supplies such as Continuous Glucose Monitors, Insulin Pumps, and their associated supplies will have applied the appropriate preferred or non-preferred brand copay. “Old school” supplies such as low-cost needles, syringes, lancets, and test strips will continue to have the generic copay in force.

This action is estimated to save the Plan around \$2 M/year in direct expenditure and will reduce budget requirements by 0.1 percentage point.

2. Movement to biosimilars

Although specialty pharmacy trend has moderated this year, it has historically been the most significant cost driver in the State Health Plan. Specialty accounts for over half of the Plan’s pharmacy expense, though only around 2% of Plan members use a specialty drug.

Payers have long anticipated biosimilars for relief from the accelerating expense associated with specialty pharmacy. Below is basic information from the US Food & Drug Administration (FDA) pertaining to biosimilars:

- A biosimilar is a biological product. FDA-approved biosimilars have been compared to an FDA-approved biologic, known as the reference product.
- A biosimilar is highly similar to a reference product. For approval, the structure and function of an approved biosimilar were compared to a reference product, looking at key characteristics such as purity, molecular structure, and bioactivity. The data from these comparisons must show that the biosimilar is highly similar to the reference product.
- A biosimilar has no clinically meaningful differences from a reference product. Studies were performed to show that biosimilars have no clinically meaningful differences in safety, purity, or potency compared to the reference product.

- A biosimilar is approved by the FDA after rigorous evaluation and testing by the applicant manufacturer. Prescribers and patients should have no concerns about using these medications instead of reference products because biosimilars meet the FDA’s rigorous standards for approval, are manufactured in FDA-licensed facilities, and are tracked as part of post-market surveillance to ensure continued safety.

Specialty product Humira has long been the single most expensive item in the State Health Plan. There is now an interchangeable biosimilar for Humira on the market, and the Plan’s pharmacy benefits contractor is removing Humira from the formulary effective the beginning of 2025. We calculate the difference in expense for a “patient year” of Humira (post-rebate) vs. the biosimilar to be around \$65,700 to \$13,000. These numbers bring about a conservative savings estimate of \$20.5 M/year and reduce budget requirements by 0.6 percentage points.

There are additional biosimilar products on the horizon, and we will press forward to maximize replacement of reference specialty products with biosimilars where feasible.

10.18.2024

State Health Plan Budget Information and Continuation Requirements

Annual Base – Calendar Year 2025

Employer funds: \$2,894.6 M.
Enrollee funds: \$ 555.6 M.
Total: \$3,450.1 M.

State-appropriated portion of Employer funds = \$1,455.3 M.

Funds are spread throughout the budget in Employer Contributions lines of agencies and State Aid to Classrooms lines of the State Department of Education.

Current composite monthly contribution rate effective January 2025:

Employer rate: \$791.07 (86.0% of regional State employee plan average)
Enrollee rate: \$159.36 (76.0% of regional average)
Total: \$950.43 (84.1% of regional average)

FY 2025-26 Budget Requirements for ongoing SHP operations in 2026

- **Annualization:** There is a 11.8% Employer Only rate increase going into effect January 2025. Funding in the amount of **\$75.862 M.** was appropriated for the January-June 2025 period. A like amount will be required in the upcoming budget for the July-December 2025 period to make agencies and school districts whole for the rate increase.
- **Retiree Enrollment Growth:** Net retiree enrollment growth continues at a historically low level. It is estimated that **\$1.579 M.** is required for the estimated net number of new retirees with State-funded insurance. This number is based on the recent experience of 0.3% net growth in retirees, compared to last year's 0.8% rate.
- **2026 Rate Increase:**
 - **3.9%** increase in total contribution rate.
 - This percentage equates to **\$36.76/subscriber/month.**
 - Rate increase will become effective January 1, 2026.
 - If increase is distributed proportionately to the Employer and Enrollee, State-appropriated funding for rate increase equals **\$ 29.166 M.** for January-June 2026 and average enrollee rate increase equals **\$5.92/month.**
 - If increase is provided entirely through the Employer, State-appropriated funding for rate increase equals **\$34.794 M.** for January-June 2026.
 - State-appropriated funding for 2026 rate increase will require annualization in fiscal 26-27 budget.

Summary (State funds):

Annualization of 2025 11.8% employer only increase	\$75.862 M.	
2025-26 base Retiree Enrollment Growth	\$1.579 M.	
2026 Employer Increase (w/ proportional enrollee increase)		<u>\$29.166 M.</u>
2026 Employer Increase (w/ no enrollee increase)(4.6% Employer Only)		<u>\$ 34.794 M.</u>
TOTAL CONTINUATION OF CURRENT PLAN (3.9% INCREASE)	\$ 106.607 M.	\$112.234 M.
	w/EE increase	no EE increase

10.18.2024