

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS MEETING**

Wednesday, June 18, 2014 1:00 p.m. MINUTES Adopted 7.16.14  
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

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**Board Members Present:**

Chairman Art Bjontegard  
Vice Chairman Joe "Rocky" Pearce (Via Telephone)  
Ms. Peggy Boykin  
Mr. Frank Fusco  
Mr. Audie Penn  
Mr. John Sowards  
Ms. Stacy Kubu  
Mr. Steve Matthews  
Mr. David Tigges  
Mr. Steve Heisler  
Sheriff Leon Lott (Via Telephone)

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

Kevin Crosby, Matt Davis, Lil Hayes, Heather Muller, Laura Smoak, Travis Turner, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Sarah Corbett and Erlinda Doherty from the South Carolina Retirement System Investment Commission (RSIC); Brian Lamkin and Patrick Maley from the South Carolina Office of Inspector General; Daniel Brennan from the South Carolina Office of the State Treasurer; Wayne Pruitt and Donald Tudor from the State Retirees Association; Nancy Ornduff from Great-West Retirement Services; Joe Mack from Prudential; Brooks Goodman from Blue Cross Blue Shield of South Carolina; Alex Tomlinson from Millikin Law Firm; Gantt Taylor from Capitol Consultants; and Ed Poliakoff from TIAA-CREF Financial Services.

**1. CALL TO ORDER**

Chairman Art Bjontegard called the PEBA Board of Director's (Board) meeting to order at 1:00 p.m.

**2. ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard asked to amend the agenda by noting that Mr. Steve Heisler will present the Health Care Policy Committee Report, and adding a roundtable discussion under section six related to Old Business. Mr. Heisler made a motion, which was seconded by Mr. John Sowards, and approved unanimously, to adopt the agenda as amended.

**3. APPROVAL OF MEETING MINUTES – MAY 16, 2014**

Chairman Bjontegard asked for a motion to adopt the May 16, 2014, meeting minutes. Mr. Heisler made the motion, which was seconded by Mr. Audie Penn, and approved unanimously, to adopt the May 16, 2014, meeting minutes as presented.

**4. LEGISLATIVE UPDATE**

Mr. Travis Turner, Interim Director, provided the legislative update to the Board. Mr. Turner stated that the proviso requiring the Pharmacy Benefit Manager Audit by September 1, 2014,

# **SC Public Employee Benefit Authority - Board of Directors**

200 Arbor Lake Drive, Columbia SC, 29223 2<sup>nd</sup> Floor Conference Room

PEBA's Mission: To recommend, offer and administer competitive programs of retirement and insurance benefits for SC public employers, employees and retirees.

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**Wednesday, June 18, 2014 – 1:00 p.m.**

## **AGENDA**

- 1. Adoption of Proposed Agenda**
- 2. Minutes of Previous Meeting – May 16, 2014**
- 3. Presentation on PEBA's FY 15-16 Fiduciary Audit Process,  
Mr. Patrick Maley, SC Inspector General**
- 4. Legislative Update**
- 5. Committee Reports**
  - a. Retirement**
    - i. Adopt Defined Contribution Best Practices Recommendations**
  - b. Health**
    - i. Adopt ACA Requirement for Non-Permanent Employees**
  - c. FAAC**
    - i. Adopt Board Conflict of Interest Policy**
- 6. Old Business/Director's Report**
- 7. Executive Session: Pursuant to SC Code of Laws §30-4-70 (a)(1) and (a)(2)**

## **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.

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS MEETING**

Friday, May 16, 2014 8:00 a.m. MINUTES **DRAFT**  
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

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**Board Members Present:**

Chairman Art Bjontegard  
Vice Chairman Joe "Rocky" Pearce  
Ms. Peggy Boykin  
Mr. Frank Fusco  
Mr. Audie Penn  
Mr. John Sowards  
Ms. Stacy Kubu  
Mr. Steve Matthews  
Sheriff Leon Lott  
Mr. David Tigges (Via Telephone)  
Mr. Steve Heisler (Via Telephone)

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

Kim Brown, Robbie Bell, Lil Hayes, Megan Lightle, Heather Muller, Laura Smoak, Travis Turner, Stephen Van Camp, Angie Warren, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Senator Ronnie Cromer, Chairman, South Carolina Senate Rules Committee; Wayne Bell, Sam Griswold, and Donald Tudor, with the State Retirees Association; Carlton Washington with the South Carolina State Employees Association; David McClaskey with the Business Excellence Institute; Joe Mack with Prudential; Shelvie Belser, Emily Donaldson, and Brooks Goodman with Blue Cross Blue Shield of South Carolina; Miranda Yeager with Catamaran; Deborah Abrams with Yorkville Pharmacy; and Candice Berry.

**I. Performance Excellence: Committee Work Sessions with David McClaskey**

**A. Retirement Policy Committee: 8:15 a.m. – 10:00 a.m.**

Mr. John Sowards introduced Mr. David McClaskey, the president of the Business Excellence Institute. Mr. McClaskey, as an independent consultant and Baldrige expert, guided the Retirement Policy Committee members through an interactive session to clearly define the Committee's mission and strategic plan.

During the session with Mr. McClaskey, the Retirement Policy Committee (Committee) developed their mission to fulfill all fiduciary responsibilities related to all aspects of the retirement plans, and the oversight of the staff related thereto; accomplished through the following four areas: Administrative; Policy; Financial; and Reporting.

The Committee discussed scheduling a follow-up session with Mr. McClaskey to establish strategic priorities. It was noted that the next Retirement Policy Committee meeting will be May 27, 2014 starting at 10:00 a.m.

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**B. Health Care Policy Committee: 10:20 a.m. – 12:50 p.m.**

During the session with Mr. McClaskey, the Health Care Policy Committee (Committee) developed their mission to ensure a financially sustainable health program that improves member health, provides a positive member experience, and gives the participating employers, a competitive, productively engaged workforce.

The Committee defined three strategic priorities that will most impact the accomplishment of their mission including: emphasizing wellness; ensuring accountability of all involved parties; and developing an agreed upon strategic plan.

The Committee also designed a four-step action plan including:

1. Establishing a Health Strategy Team;
2. Earmarking \$10 to \$20 million in funds for health related incentives;
3. Use the Baldrige Criteria to help accomplish the strategy; and
4. Choosing the date for the next Health Care Policy Committee meeting.

**C. Finance, Administration, Audit and Compliance (FAAC) Committee:  
12:50 p.m. – 2:45 p.m.**

During the session with Mr. McClaskey, The FAAC Committee (Committee) determined their mission is to monitor and coordinate the operational integrity of PEBA. It was noted that operational integrity contains both specific and generic factors.

The Committee defined three strategic priorities that will most impact the accomplishment of their mission including:

1. Developing a comprehensive governance manual, including orientation of new Board members, and defining roles of Board and staff members;
2. Conducting technology transformation; and
3. Establishing a habit of systematic fact-based improvement.

The Committee also identified key measures of success including:

1. The absence of negative headlines;
2. A high ratio of compliments to complaints;
3. A decrease in cost on a per transaction basis while maintaining or improving quality;
4. Crisis avoidance;
5. Low employee turnover and high productivity; and
6. No adverse regulatory findings.

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**II. Adoption of Agenda**

Chairman Art Bjontegard called the PEBA Board meeting to order at 3:05 p.m. and asked for a motion to approve the agenda. Mr. Audie Penn made a motion to approve the agenda as presented. Hearing no objections, the agenda was unanimously approved.

**III. Senator Ronnie Cromer**

Chairman Bjontegard introduced Senator Ronnie Cromer, Chairman of the South Carolina Senate Rules Committee. Senator Cromer addressed the Board related to concerns with Catamaran, and spoke on behalf of constituents, state employees, and community pharmacist. Senator Cromer stated that many constituents and independent pharmacies are concerned that Catamaran is cutting the reimbursement amount to the community pharmacist.

Senator Cromer recognized Mr. Travis Turner, Interim Director, and staff as being extremely attentive to state employees' needs regarding the change to Catamaran from Express Scripts Medco.

Senator Cromer stated that there is a proviso in the South Carolina Senate for an independent audit of Catamaran, and an additional proviso that requires all pharmacies to be reimbursed at the same rate effective January 1, 2015.

Chairman Bjontegard thanked Senator Cromer for his comments.

**IV. Approval of Minutes – April 16, 2014 meeting**

Chairman Bjontegard asked for a motion to adopt the April 16, 2014, meeting minutes. Mr. Sowards made the motion, which was seconded by Sheriff Leon Lott, and approved unanimously, to adopt the April 16, 2014 meeting minutes as presented.

**V. Legislative Update**

Mr. Turner provided the legislative update to the Board, and reiterated that the proviso requiring an independent audit of Catamaran would have to be completed by September 1, 2014.

Mr. Turner advised the Board of two additional provisos currently in the Senate. One would require PEBA to study and provide a report by September 1, 2014, related to why PEBA has determined that Medicare Advantage would not be beneficial to members. The second proviso would require PEBA to hire external counsel to provide a report concerning the validity and impact of the Bank of New York Mellon (BONY) settlement on retirees and active members by December 1, 2014.

Mr. Turner also provided an update regarding S1008 which concerns an administrative law judge in the Judges and Solicitors Retirement System (JSRS). Mr. Turner stated that S1008 is moving through the House of Representatives, and has an amendment that would allow a

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JSRS retiree to return to covered employment under the same terms and conditions as a South Carolina Retirement Systems (SCRS) retiree.

**VI. Performance Excellence: Board Work Session Committee Reports**

**A. Committee Reports**

**i. Health Care Policy Committee**

Mr. “Rocky” Pearce advised that the Health Care Policy Committee met earlier with Mr. McClaskey and developed a solid strategic plan. Mr. Pearce made a motion to adopt the Health Care Policy Committee’s mission statement as follows: “to ensure a financially sustainable health program that improves member health; provides a positive member experience; and gives the participating employers, a competitive, productively engaged workforce”. Chairman Bjontegard reminded the Board that a committee motion does not require a second. The motion passed unanimously.

Mr. Pearce advised the Board on several action plans that the Health Care Policy Committee designed, including setting the next strategic planning meeting for June 6, 2014.

**ii. Retirement Policy Committee**

Mr. Sowards made a motion to adopt the Retirement Policy Committee’s mission statement as follows: “to fulfill all fiduciary responsibilities related to all aspects of the retirement plans, and the oversight of the staff related thereto; accomplished through the following four areas: Administrative; Policy; Financial; and Reporting”. The motion passed unanimously.

Mr. Sowards advised the Board that the Retirement Policy Committee is in process of completing their strategic plan, and the next strategic planning meeting will be May 27, 2014.

**iii. Finance, Administration, Audit and Compliance (FAAC) Committee**

Mr. Steve Matthews made a motion to adopt the FAAC Committee’s mission statement as follows: “to monitor and coordinate the operational integrity of PEBA”. The motion passed unanimously.

Mr. Matthews also reviewed the FAAC Committee’s strategic priorities and key measures of success.

Chairman Bjontegard thanked Mr. McClaskey for his help in facilitating the development of strategic plans for each Committee.

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**B. New Business**

Chairman Bjontegard reported that Board terms expire June 30, 2014, and will need to be renewed prior to committee assignments being distributed at the June 18, 2014 Meeting.

**C. Executive Session**

At 3:50 p.m., Sheriff Lott made a motion, which was seconded by Mr. Sowards, and passed unanimously, to recede into executive session to receive legal advice and discuss personnel matters pursuant to S.C. Code Ann. § 30-4-70 (a)(1), (a)(2).

The Board reconvened in open session at 5:00 p.m. It was noted that no action was taken by the Board while in executive session.

There being no further business, Chairman Bjontegard adjourned the meeting at 6:21 p.m.

# PEBA FIDUCIARY PERFORMANCE AUDIT OBJECTIVE AND PROCESS

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Office of the Inspector General  
Patrick J. Maley, Inspector General

# OVERARCHING OBJECTIVES

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The Fiduciary Performance Audit is designed to:

- Examine PEBA's structure, policies, functions, and processes
- Identify opportunities for improvement, as well as recognize examples of "best practice" being employed by PEBA fiduciaries and staff
- Assess the fiduciaries' standard of care responsibilities

# AGENCY FUNCTIONAL AREAS

Sampling of key questions to be answered:

- How are governance policies developed and implemented?
- Does the organizational structure provide for effective governance to the fiduciaries?
- Do the daily operations of PEBA provide for effective communication to its stakeholders?
- Do the key benefit administrative functions provide for effective customer service to its beneficiaries in a cost effective and secure manner?

# DEFINING SUCCESS

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Render macro opinion for major categories:

*The firm will make recommendations to improve in both the general category and specific areas of analysis...according to the following format”:*

-  Fulfills fiduciary responsibility at a best practice level
-  Fulfills fiduciary responsibility
-  Fulfills fiduciary responsibility with minor findings
-  Fulfills fiduciary responsibility with significant deficiency(s)
-  Does Not fulfill fiduciary responsibility

# PARTICIPANTS

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- Inspector General's Office
- PEBA Board of Directors
- PEBA Audit Committee
- PEBA Staff
- RSIC Commissioners
- RSIC Audit Committee
- RSIC Staff
- State Treasurer's Office

Legislative Update as of June 6, 2014

Major Bills						
<u>Bill Number</u>	<u>Companion</u>	<u>Description</u>	<u>Primary Sponsor</u>	<u>Known Opposition</u>	<u>Implications for PEBA</u>	<u>Status</u>
<b>S0952</b>		Would allow retired members of SCRS to cease making employee contributions if the employee's monthly retirement contribution exceeds the monthly retirement benefit	Peeler		Very few members impacted. Total employee contribution decrease estimated under \$100k per year. However, could begin a dangerous precedence of allowing retired members to not contribute	Did not meet May 1 crossover deadline
<b>S0954</b>		PEBA Technical Corrections bill	Courson/Leatherman	Davis	Technical corrections, staggered terms for PEBA Board members along with term limits, move from monthly to quarterly required PEBA meetings	Still on Senate calendar
<b>S0962</b>	<b>H4536</b>	Would allow all newly hired hospital employees to opt out of participation in SCRS	Peeler/ Allison		Major implications monetarily as this could lead to an increase of up to .11% in both member and employer cont. Also, implications of setting a precedence	Did not meet May 1 crossover deadline
<b>S1008</b>	<b>H4828</b>	Would allow administrative law judges to elect to be a member of JSRS	Setzler/Lourie		Slight increase in JSRS unfunded liability	On 6/5/14 Bill Ratified 283

## Other Bills Being Tracked

<u>Bill Number</u>	<u>Companion</u>	<u>Description</u>	<u>Primary Sponsor</u>	<u>Known Opposition</u>	<u>Implications for PEBA</u>	<u>Status</u>
<b>H3021</b>		Prohibits certain investments and contracts with persons who are engaged in investment activities in Iran	Clemmons, Sellers, R.L. Brown, Putnam, Kennedy, Gilliard, Toole, Branham, Rutherford, King and Cobb-Hunter			On 6/5/14 Ratified 291
<b>H4701</b>		General Appropriations Bill	House Ways & Means			On 6/5/14 Ratified 304
<b>H4702</b>		Capital Reserve Fund	House Ways & Means Committee			On 6/5/14 Ratified 305
<b>H4623</b>		Provides that a return to work retiree who returns to covered employment is exempted from the \$10,000 earnings limit if the member is hired by certain municipalities based on population, county, depending on the budget amounts and covered under PORS	Rivers			Did not meet May 1 crossover deadline
<b>H0105</b>		Provides for the creation of prepaid medical service agreements through which employers, individuals and non-employer org. may contract directly with health care providers and health care services with certain provisions	Bright			Did not meet May 1 crossover deadline
<b>S0897</b>	<b>H4462</b>	Would allow persons retiring from a solicitor's office to participate in health and dental plans regardless if their county of employment participates	Coleman			On 6/5/14 Ratified 277
<b>H3108</b>		Increases annual salary of general assembly members to \$50,000	King			Did not meet May 1 crossover deadline
<b>S0618</b>		Prohibits employer contributions to the state health plans from being used to pay for abortions	Bright, Hutto, Bryant, Verdin, Fair, L. Martin, Massey, S. Martin, Davis, Shealy and Campsen			Did not meet May 1 crossover deadline
<b>S290</b>		Provides definitions and require coverage of telemedicine services by PEBA and by establishing the telemedicine advisory council	Cleary, Hutto, Hembree, Davis, Alexander			Did not meet May 1 crossover deadline

<b>S1251</b>		Provides that the funds of any trust fund established by law for funding post employment benefits for state employees and teachers may be invested and reinvested in equity securities	Bryant, Campsen, Lourie, Cleary, Leatherman, Alexander, Cromer, Campbell, Grooms, Henbree, Young, Turner, S. Martin and Fair			House referred to Ways and Means on 6-3-14



**SC PUBLIC BENEFIT AUTHORITY ADOPTED PROVISOS  
AS RATIFIED BY THE GENERAL ASSEMBLY ON JUNE 5, 2014**

**SECTION 105 - F50-PUBLIC EMPLOYEE BENEFIT AUTHORITY**

**105.1.** (PEBA: Lottery & Infrastructure Bank Health Insurance) South Carolina Lottery Commissioners and South Carolina Transportation Infrastructure Bank Board members and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon paying the full premium costs as determined by the Public Employee Benefit Authority.

**105.2.** (PEBA: Adoption Assistance Program) The Employee Adoption Assistance Program is established to provide grants to eligible employees to assist them with the direct costs of adoption. The program shall be an employee benefit through the Public Employee Benefit Authority (PEBA) and shall be funded from the appropriation for the State Health Plan as provided in this act. Total funding for the Adoption Program shall not exceed the amount authorized by the General Assembly in the annual appropriations act. Employees are eligible for the Adoption Program if they participate in PEBA insurance benefits, have adopted a child during the prior fiscal year, apply for the grant during the annual application period, and meet any other Adoption Program criteria. The application period shall be July first through September thirtieth of the current fiscal year for an adoption in the prior fiscal year. The maximum grant amounts shall be \$10,000 in the case of the adoption of a special needs child and \$5,000 for all other child adoptions. Should the total amount needed to fund grants at the maximum level exceed the amount authorized, the amount of a grant to an eligible employee shall be determined by dividing the authorized amount evenly among qualified program applicants, with the adoption of a special needs child qualifying for two times the benefit of a non-special needs child.

**105.3.** (PEBA: Health Plan Tobacco User Differential) For health plans adopted under the authority of Section 1-11-710 of the 1976 Code by the Public Employee Benefit Authority during the current fiscal year, the board is authorized to differentiate between tobacco users and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon tobacco use. The surcharge for tobacco use may not exceed \$40 per month per subscriber or \$60 per month per subscriber and dependant(s).

**105.4.** (PEBA: Funding Abortions Prohibited) No funds appropriated for employer contributions to the State Health Insurance Plan may be expended to reimburse the expenses of an abortion, except in cases of rape, incest or where the mother's medical condition is one which, on the basis of the physician's good faith judgment, so complicates the pregnancy as to necessitate an immediate abortion to avert the risk of her death or for which a delay will create serious risk of substantial and irreversible impairment of major bodily function, and the State Health Plan may not offer coverage for abortion services, including ancillary services provided contemporaneously with abortion services. The Public Employee Benefit Authority must determine the amount of the total premium paid for health coverage necessary to cover the risks associated with reimbursing participants in the plan for obtaining an abortion in the circumstances covered by this provision. The determination must be based on actuarial data and empirical study in the same manner and by the same method that other risks are adjusted for in similar circumstances. The plan must report this determination annually to the respective Chairmen of the Senate Finance Committee and the House Ways and Means Committee.

**105.5.** (PEBA: TRICARE Supplement Policy) The Public Employee Benefit Authority (PEBA) shall offer a group TRICARE Supplement policy or policies to its TRICARE-eligible subscribers through its flexible benefits program to provide that subscribers mayiums for such policies on a pre-tax basis, in accordance with federal law and regulations. PEBA may charge TRICARE Supplement subscribers an amount not to exceed \$2 per subscriber per month for any associated administrative costs.

**105.6. DELETED**

**105.7.** (PEBA: FY 2015 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year 2015 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 3.9% and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2015. Co-payment increases for participants of the State Health Plan in Plan Year 2015 shall not exceed nine percent. 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 2015 to ensure the fiscal stability of the Plan.

**105.8.** (PEBA: Exempt National Guard Pension Fund) In the calculation of any across-the-board cut mandated by the Budget and Control Board or General Assembly, the amount of the appropriation for the National Guard Pension Fund shall be excluded.

**105.9.** (PEBA: Inactive SCRS Account Transfer) A current employee or teacher who is an active participant in the State Optional Retirement Program but who has an inactive account in the South Carolina Retirement Program due to previous service in that system, shall be allowed to transfer previous contributions to the employee's or teacher's active State Optional Retirement Program account.

**105.10. DELETED**

**105.11.** (PEBA: Network Pharmacy Publications) All pharmacy publications or lists must include independent retail pharmacies. Abridged pharmacy lists are prohibited.

**105.12.** (PEBA: Pharmacy Benefit Manager Audit) By September 1, 2014, the Public Employee Benefit Authority shall have prepared a detailed report and have prepared an independent audit of its contract with Catamaran for Pharmacy Benefit Manager services to ensure, among other things, that fair and equitable reimbursement practices are being followed. The independent auditor must have experience in conducting Pharmacy Benefit Manager services audits.

**105.13.** (PEBA: Litigation Review) The Public Employee Benefit Authority shall submit to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee, no later than December 1, 2014, a report on the settlement between the State of South Carolina and the Bank of New York Mellon that provides review and comment upon the benefits of the settlement for the employees and retirees of South Carolina. In conducting the review and preparing the report, the Public Employee Benefit Authority may use appropriated or available funds as necessary to retain independent expert assistance, including legal counsel of its choosing.

**105.14. DELETED**

**105.15.** (PEBA: Self-Insured Group Health Benefits Plan) Effective January 1, 2015, the self-insured group health benefits plan for state employees and retirees established under Section 1-11-710 et seq. (the State Health Plan) and administered by the Public Employee Benefit Authority pursuant to Section 9-4-10 et seq. (PEBA) shall reimburse all pharmacies participating in the State Health Plan's retail pharmacy network on an equal and uniform per-product basis. This requirement applies whether the network is established via direct contract with the State Health Plan or via an authorized pharmacy benefit manager.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY  
AGENDA ITEM**

**(Retirement Policy Committee Report)**

**Meeting Date: June 18, 2014**

**Tab**

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**1. Subject:** Defined Contribution Unit

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**2. Summary:** Best Practice Recommendations

**Background Information:** Management has collaborated with Segal Rogerscasey and Summit Strategies Group to compile a list of recommendations to better align the S. C. Deferred Compensation Program and the S. C. Optional Retirement Program with industry trends and best practices.

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**3. What is Committee asked to do?** Please see meeting materials.

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. Best Practice Recommendations
  - 2. Segal Memorandum
  - 3. Summit Memorandum
  
- (b) List those not attached but available:
  - 1. NAGDCA Best Practices Comparison

Management has developed the below recommendations in order to better align the Programs with industry trends and best practices. Our goal in making these recommendations is to design the Programs so that the average participant will be more likely to succeed by default, leveraging the principle of inertia, while still addressing the needs of the more sophisticated investor.

### **South Carolina Deferred Compensation Program**

#### **I. Automatic Features (*Legislative Change*):**

- **Management Recommendation:** Management recommends that the Board support and seek sponsorship of a bill to provide PEBA with the flexibility to implement automatic enrollment, should this feature be deemed appropriate. In the interim, Management recommends that active choice be implemented, requiring new hires to affirmatively choose whether or not to participate in the Program.

*Supporting Rationale:* The implementation of automatic features has proven to be, by far, the most effective way to increase participation and contribution rates in defined contribution plans. Active choice is a step toward automatic features and, in conjunction with current efforts, should have a significant impact toward increasing overall participation.

*Considerations:* It would be helpful to solicit input from stakeholder groups (e.g., General Assembly, State Employees Association, participating employers) prior to implementing automatic features.

*Implementation:* January 1, 2015 (or as soon as administratively possible following that date).

- **Retirement Committee Action:** Management should survey stakeholders regarding the prospect of implementing automatic enrollment. Upon review of this feedback, the Retirement Committee will consider whether to pursue automatic enrollment legislation. Active choice was approved for implementation.
- **What is the Board asked to do?** Receive as information.

#### **II. Participant Fee Disclosure:**

- **Management Recommendation:** Management recommends that participants be provided with annual fee disclosures, conforming to ERISA Section 404(a).

*Supporting Rationale:* Every practical step should be taken to enhance fee transparency for participants.

*Considerations:* There is currently a formatting conflict between the Securities and Exchange Commission and the Department of Labor, which must be resolved prior to implementation.

*Implementation:* January 1, 2015 (or as soon as administratively possible following that date).

- **Retirement Committee Action:** This recommendation was approved for implementation.
- **What is the Board asked to do?** Receive as information.

### III. In-Plan Roth Conversion:

- **Management Recommendation:** Management recommends that participants be allowed to convert pre-tax assets to Roth assets within the Program.

*Supporting Rationale:* The availability of this feature would provide participants with additional flexibility in saving for retirement.

*Considerations:* Unless eligible for a distribution, participants may not use assets within the Program to pay taxes related to these conversions. This message would be clearly communicated to participants prior to processing the conversion.

*Implementation:* January 1, 2015. This change would require plan amendments.

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation. If the Board approves the recommendation, Management will prepare the necessary plan document amendments for subsequent review and approval by the Board prior to implementation.

### IV. Participant Loans:

- **Management Recommendation:** Management recommends that the number of available participant loans be reduced from two to one and that loans must be repaid via payroll deduction while the participant is working for a participating employer. Loans taken prior to the implementation date would not be affected by this new procedure.

*Supporting Rationale:* The loan default rate for the Program is very high. Payroll deduction appears to be the only repayment method proven to materially affect this rate. This change should cause a significant reduction in the default rate and in overall Program leakage.

*Considerations:* Most participating employers do not currently allow participant loans to be repaid via payroll deduction. Unless these employers change that policy, about half of all current participants would be unable to take out a new loan as a result of this change.

*Implementation:* January 1, 2015. This change would require plan amendments.

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation. If the Board approves the recommendation, Management will prepare the necessary plan document amendments for subsequent review and approval by the Board prior to implementation.

**V. Modernization Project:**

- **Management Recommendation:** Management recommends that all participating employers offer all features of the Program and adhere to standardized remittance and reporting requirements to the extent economically feasible in the reasonable judgment of PEBA.

*Supporting Rationale:* Some participating employers do not offer certain Program features and services (e.g., Roth contribution options, payroll deduction for participant loans). Remittance methods and reporting formats are also different from employer to employer. This change would eliminate these differences and standardize the experience for all participants. Implementation of this change would ultimately benefit participants, participating employers, and the Plan sponsor.

*Considerations:* Standardized reporting may be required in order to employ future enhancements such as automatic enrollment or online enrollment. If provided with ample time and training, this change should be feasible for all participating employers.

*Implementation:* January 1, 2017.

- **Retirement Committee Action:** This recommendation was approved for implementation.
- **What is the Board asked to do?** Receive as information.

**VI. Self-Directed Brokerage (SDB) Option:**

- **Management Recommendation:** Management recommends that access to investments within the SDB option be limited as specified in the provided sample change form. Management recommends that participants be required to have at least \$2,500.00 in Program assets in order to utilize the SDB option and that all transfers to this option be at least \$1,000.00. Management recommends that participants be allowed to invest no more than 50% of their Program assets within the SDB option. This new procedure would only impact SDB transactions that occur after the implementation date.

*Supporting Rationale:* The recommended restrictions would better align the Program with industry trends by limiting more exotic investments and would prepare PEBA in the event governing bodies (e.g., SEC, DOL) place greater emphasis on plan sponsor oversight of the SDB option.

*Considerations:* Less than 0.5% of Program assets are currently invested within the SDB option, and less than 0.5% of participants currently utilize this option. The SDB option helps to address the desires and needs of the more sophisticated investor without significantly impacting the average participant.

*Implementation:* January 1, 2015. This change would require an amendment to the investment policy statement.

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation. If the Board approves the recommendation, Management will prepare the revised investment policy statement for subsequent review and approval by the Board prior to implementation.

**VII. 84-Month Certificate Option:**

- **Management Recommendation:** Management recommends that the 84-month Certificate option be frozen to new investments and that all assets in maturing certificates, as well as all contributions directed to this option, be automatically mapped to the SSgA Target Retirement Income Fund, unless otherwise directed by the participant.

*Supporting Rationale:* The Stable Value Fund offers participants a capital preservation option without sacrificing liquidity and currently credits a higher rate of return than the 84-Month Certificate option. In addition, the proposed mapping strategy should help to improve overall investment diversification.

*Considerations:* The majority of participants affected by this change are in the 60+ age group. Written communication should be mailed before and after the mapping, giving participants ample opportunity to direct assets and contributions as they see fit. Field service representatives should be prepared to assist participants with any questions or concerns regarding this change.

*Implementation:* January 1, 2015. This change would require an amendment to the investment policy statement.

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation. If the Board approves the recommendation, Management will prepare the revised investment policy statement for subsequent review and approval by the Board prior to implementation.

**South Carolina Optional Retirement Program****I. Vendor Structure (*Legislative Change*):**

- **Management Recommendation:** Management recommends that the Board support and seek sponsorship of a bill to provide PEBA with the flexibility to determine the appropriate vendor structure.

*Supporting Rationale:* PEBA currently has the ability to determine the vendor structure of the South Carolina Deferred Compensation Program. As the Plan sponsor, PEBA is the appropriate governing body to also determine how best to design this Program to benefit participants.

*Considerations:* Management and Summit Strategies Group are conducting ongoing research to determine how best to structure the Program.

*Implementation:* To be determined.

- **Retirement Committee Action:** The Committee recommends pursuing this statutory change.
- **What is the Board asked to do?** Approve the Committee recommendation. If the Board approves the recommendation, Management will prepare draft legislation for the Board's consideration.

## II. Revenue Sharing:

- **Management Recommendation:** Management recommends that all revenue generated by the mutual fund investment options be returned to PEBA and not used to compensate record keepers.

*Supporting Rationale:* This change would remove any revenue-related bias from the current fund selection process and provide a more fair and transparent fee assessment. It would allow PEBA to utilize the least expensive available share class for each mutual fund investment option, with the intent of eliminating shared revenue altogether. If revenue remains, then it could be returned to participants in a manner consistent with that of the South Carolina Deferred Compensation Program.

*Considerations:* Since this change would create an explicit recordkeeping fee on participant statements, some might believe it represents a new fee. However, VALIC voluntarily implemented this change to its compensation structure last year and reported minimal participant disturbance as a result.

*Implementation:* July 1, 2015 (or as soon as administratively possible following that date).

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation.

## III. Investment Advice:

- **Management Recommendation:** Management recommends that investment advice, including a managed account service, be made available to all participants.

*Supporting Rationale:* There is little empirical data to support that investment advice materially improves participant investment decisions. Although plan design has proven to be much more effective at improving outcomes, participants should also have access to tools that could help them make better choices. A managed account service is a fee-based service that selects and maintains a customized and appropriately diversified portfolio. Unlike other investment advice, this method employs a do-it-for-me strategy that ensures action is taken as a result of the provided advice.

*Considerations:* VALIC is the only record keeper that currently offers a managed account service within the Program.

*Implementation:* July 1, 2015.

- **Retirement Committee Action:** The Committee recommends approval of this change.
- **What is the Board asked to do?** Approve the Committee recommendation.

# Schwab Personal Choice Retirement Account® (PCRA)

## Plan Trading Menu Change Form

Plan Name <b>South Carolina Deferred Compensation Program</b>	
Plan-Level Account Number	Plan Tax ID Number

**Complete each section below to indicate the securities that PCRA Participants have the ability to trade. These changes to the Plan Trading Menu apply to any PCRA associated with the Plan referenced above.**

The Trustee(s)/Custodian(s) and/or Plan Sponsor authorize Schwab to allow any Participant who completes a Schwab PCRA Limited Power of Attorney (LPOA) for Participant form to make trades in the Participant's PCRA. A Participant will never be restricted from selling a position unless Schwab is instructed to restrict the sale by the Trustee(s)/Custodian(s) and/or Plan Sponsor. The Trustee(s)/Custodian(s) and/or Plan Sponsor acknowledge that they are responsible for determining whether any of the investments selected below (including any employer securities) are permissible under the terms of the Plan, the Internal Revenue Code (the "Code"), or the Employee Retirement Income Security Act of 1974 ("ERISA") and that Schwab shall have no responsibility or liability with respect to such determination. Please note that, generally, 403(b) contributions can only be invested in SEC-registered fund shares.

**Trading restrictions.** PCRAs may not include trading on collectibles, currencies, precious metals, real estate, futures, commodities, private placements, margin accounts, or short sales. If specifically allowed by a Participant's retirement plan, a Participant may be able to write covered calls and buy protective puts. A Participant should complete a **Schwab Personal Choice Retirement Account (PCRA) Options Application—Participant form** to be approved to trade options.

**A. Taxable Mutual Funds:**

- All except those listed in Section I
- Schwab Mutual Fund OneSource®/Schwab Funds® only<sup>1</sup>
- None except those listed in Section I

**B. Tax-Exempt Mutual Funds:**

- All except those listed in Section I
- Schwab Mutual Fund OneSource/Schwab Funds only<sup>1</sup>
- None except those listed in Section I

**C. Equities:** (To include foreign securities that trade over-the-counter, you must select "All" below.)

- All except those listed in Section I
- Listed only<sup>2</sup>
- Listed and NASDAQ market securities only<sup>3</sup> (Selecting this will exclude all foreign securities on other exchanges, including over-the-counter securities.)
- Exchange-traded funds (ETFs) only<sup>4</sup>
- Schwab ETF OneSource™ funds only
- Closed-end mutual funds only
- ETFs and closed-end mutual funds only
- None except those listed in Section I

**D. Publicly Traded Limited Partnerships:**<sup>5</sup> (Please read important footnote on the next page.)

- All except those listed in Section I
- None except those listed in Section I

**E. Taxable Fixed Income:**<sup>6</sup>

- All except those listed in Section I
- None except those listed in Section I
- Certificates of deposit (CDs) only

**F. Tax-Exempt Fixed Income:**

- All except those listed in Section I
- None except those listed in Section I
- Treasuries only

**G. Foreign Securities:**<sup>7</sup>

- All except those listed in Section I
- None except those listed in Section I

**H. Options:** (Options trading is limited to writing covered calls and buying protective puts.)

- Yes. Options trading is permitted on the plan-level account by the Plan document and on all associated PCRAs. **Note:** All parties with trading authority must complete a separate Schwab Options Application.
- No. Options trading is not permitted.

**I. Please list all exceptions below.** If you have more than four exceptions, please attach an additional sheet.

Please check whichever applies.

Fund/Security Description	CUSIP Number	Symbol	Permitted	Not Permitted
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>

FOR CHARLES SCHWAB USE ONLY:									
Approved by			Print Name of Approver				Date Approved		
Index as Document Number <b>68</b>	Plan ID Number	Account Number							



**Trustee/Custodian Signature****Signature(s) and Date(s) Required**

<b>X</b> Trustee/Custodian Signature	Print Name	Date
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<b>X</b> Trustee/Custodian Signature	Print Name	Date
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**Plan Sponsor Signature****Signature and Date Required**

<b>X</b> Plan Sponsor Signature	Date
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Print Name	Title
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<sup>1</sup> Charles Schwab & Co., Inc. (Member SIPC) receives remuneration from fund companies for recordkeeping and shareholder services and other administrative services for shares purchased through Schwab's Mutual Fund OneSource® program. Schwab also may receive remuneration from transaction fee fund companies for certain administrative services.

Trades in no-load mutual funds available through OneSource (including Schwab Funds®), as well as certain other funds, are available without transaction fees when placed through Schwab.com or our automated phone channels. Schwab reserves the right to change the funds we make available without transaction fees and to reinstate fees on any funds. Funds are also subject to management fees and expenses.

Schwab's short-term redemption fee will be charged on redemption of funds (except certain Schwab Funds) bought through Schwab's Mutual Fund OneSource program (and certain other funds) with no transaction fee and held for 90 days or less. Schwab reserves the right to exempt certain funds from this fee, including Schwab Funds, which may charge a separate redemption fee, and funds that accommodate short-term trading.

<sup>2</sup> Equity trading is limited to securities listed on the New York Stock Exchange (NYSE), NYSE Amex Equities, and other exchanges (excludes the NASDAQ Stock Market, Inc. [NASDAQ] and over-the-counter [OTC] securities).

<sup>3</sup> Securities that are not available to trade include pink sheets, OTC securities, and Bulletin Board stocks.

<sup>4</sup> Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. All ETFs are subject to management fees and expenses. Schwab ETFs™ are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with Charles Schwab & Co., Inc. Learn more at schwab.com/SchwabETFs.

<sup>5</sup> Restricting publicly traded limited partnerships will exclude the purchase of any publicly traded security (which may include certain ETFs, royalty trusts, and other possible securities) that reports income via a Schedule K-1 Form and, as a result, could generate Unrelated Business Taxable Income (UBTI).

<sup>6</sup> Excludes debt securities issued by Charles Schwab & Co., Inc. and its affiliates. These securities are not allowed to be purchased in a PCRA.

<sup>7</sup> Restricting foreign securities does not include American Depositary Receipt (ADR) securities traded on a domestic equity market, but does restrict the purchase of non-ADR foreign securities available on the U.S. OTC market.



**To:** The South Carolina Public Employee Benefit Authority (PEBA)  
**From:** Rosemary E. Guillette, Senior Consultant, Segal Rogerscasey  
Robert Liberto, Senior Vice President, Segal Rogerscasey  
**Date:** March 25, 2014  
**Re:** "Best Practices"

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## MEMORANDUM

This memo is in response to questions surrounding the use of "Best Practices" within the State of South Carolina's Deferred Compensation Program (Program). Segal Rogerscasey advocates that all our clients use industry "Best Practices" within their defined contribution programs. These practices include:

- A "best in class" approach to choosing investment options
- An open architecture format
- Clear record keeping fees
- Participant fee disclosure
- Descriptive investment policy guidelines outlining both risk and performance standards for investment options
- Subject to Plan costs, the lowest share class option
- Reduce or eliminate revenue sharing and instead charge a per participant record keeping fee

With the exception of fee disclosure, which is still being clarified, all of these items have been implemented by the Program.

As was discussed at the last meeting, there are further ways to enhance the Program, which the State reviews each year through the development of strategic objectives and a strategic plan. Segal Rogerscasey would make the following recommendations for improvements to the Program:

- **Automatic Enrollment & Automatic Escalation:**
  - *Recommendation:* Add auto-enrollment and auto-escalation as features to the Program. The Board should sponsor legislation to allow the flexibility to include these options in the future.
  - *Rationale:* Auto-enrollment would result in increased participation in the Program. Auto-escalation, which increases annual contributions automatically, would help improve retirement outcomes by increasing the amount saved.
  - *Time Frame:* Dependent on legislative change

- **Loans:**
  - *Recommendation:* Reduce the number of loans from two to one and require new loans to be repaid through payroll deduction or bank draft (ACH).
  - *Rationale:* Reduces the administrative burden, reduces Plan leakage, and reduces high default rate.
  - *Time Frame:* 1/1/15 to coincide with the new record keeping contract or as soon as administratively possible.
- **Brokerage Window:**
  - *Recommendation:* Limit the investment options to publically traded stocks, bonds and mutual funds as well as placing a limit on the percentage or dollar amount invested in brokerage.
  - *Rationale:* Eliminates “exotic” securities from being purchased and keeps more assets in the core options, which lowers overall Plan costs.
  - *Time Frame:* 1/1/15 to coincide with the new record keeping contract or as soon as administratively possible.
- **404(a) Participant Fee Disclosure:**
  - *Recommendation:* The Program should provide 404(a) fee disclosure to participants.
  - *Rationale:* Providing fee disclosure consistent with 404(a) is in-line with industry best practices.
  - *Time Frame:* As soon as administratively possible once the SEC and DOL have reconciled their formatting differences.
- **In-Plan Roth Conversions:**
  - *Recommendation:* Allow participants to convert current 401(k) and 457 balances into the recently added Roth feature.
  - *Rationale:* The in-plan conversion is just another tool allowing participants to manage and enhance their retirement outcomes. This feature provides additional flexibility in how participants invest their assets.
  - *Time Frame:* As soon as administratively possible.
- **84-month Certificates:**
  - *Recommendation:* Eliminate the 84-month certificates as an investment option in the Program. Freeze future contributions to the 84-month certificates and map all maturing certificates to the SSgA Target Retirement Income Fund (unless directed otherwise by the participant).
  - *Rationale:* There is direct overlap with the Stable Value strategy. Not only do the certificates not provide participants additional diversification, but they are administratively burdensome and lock up participant assets for the 84-months.
  - *Time Frame:* 1/1/15 to coincide with the new record keeping contract.

We are open to discussing any of these topics in further detail and exploring the benefits of changes to the Program. Please let us know if there are further questions or concerns.

cc: Matthew Davis, Program Manager, State of South Carolina Defined Contribution Program



Date: March 26, 2014  
To: South Carolina Public Employee Benefit Authority  
From: Paul Staples, Senior Vice President, Director of Defined Contribution Services

## **Background**

This memo will serve to affirm the recommendations Summit has made to PEBA regarding best practices in plan design pertaining to the South Carolina Optional Retirement Program (“ORP”). This memo will address five specific areas of focus that Summit believes will be most impactful to improving the participant experience and helping participants achieve their desired retirement goals.

### **1. Statute requiring at least four vendors**

*Implementation Date: July 1, 2018*

While offering participants multiple vendors does promote greater choice, it can also increase participant confusion, make the enrollment process more cumbersome, and may in some cases be counterproductive to current best practices. Over the years, there has been a trend by multi-vendor plans to consolidate vendors for the following reasons:

- Administrative ease (participant and sponsor)
- Economies of scale (greater pricing power)
- Consistency of communication and education

Summit believes a better practice would be for PEBA to be given the discretion to determine the optimal number of vendors included in the ORP. This decision can be made based on the potential benefits to participants of a multi-vendor structure versus the potential added expense and complexity of such a structure.

### **2. Utilization of zero revenue share investment options**

*Implementation Date: July 1, 2015*

With the exception of VALIC, each record keeper is compensated by revenue share and other payments included in the investment options’ expense ratios. As such, the selection of a new or replacement investment option must take into account this revenue share, possibly restricting the universe of available options.

Consistent with the approach taken by VALIC in late 2013, Summit believes a best practice would be to use the least expensive institutional share class of each option (void of revenue share) and assess an account level charge equal to the vendor’s fee requirement. For example, instead of collecting 20 bps from the funds, a vendor would assess a 20 bps annualized charge (billed quarterly) to each participant’s account. This separation of investment selection from payment of vendor fees will improve the flexibility the Program has in creating a high quality investment menu for participants. Furthermore, the fees paid for recordkeeping and administration will be more transparent to participants, consistent with existing best practices within the marketplace and promoted by the Department of Labor.

### **3. Utilization of a single investment menu across all vendors**

*Implementation Date: July 1, 2015*

Currently, the ORPs \$1.4 billion in total assets is allocated among four vendors and 81 unique investment options. This distribution of assets is dilutive to leveraging economies of scale and could result in participants paying higher fees for recordkeeping and asset management. Participants may pay lower recordkeeping and investment management fees if the Program's assets were concentrated among fewer vendors/options or invested in lower priced commingled fund and separate accounts where investment management fees decrease with the size of the investment due to tiered fee schedules.

Furthermore, the use of a single investment menu would allow an independent third party acting as a Fiduciary to select and be accountable for the quality of the investment menu. Each of the four vendors has indicated they would be agreeable to a single investment menu given sufficient implementation time and the ability to keep their proprietary insurance products.

### **4. Addition of a self-directed brokerage account**

*Implementation Date: July 1, 2015*

A self-directed brokerage account would allow participants to invest in a universe of individual stocks, bonds, ETFs, mutual funds and in some cases, derivative products (e.g., futures) to supplement the existing core option menu. The availability of an account should not be positioned as a replacement for the core menu, which is strictly monitored for quality and is entirely sufficient to allow participants to construct a diversified portfolio to meet their risk and return objectives. Should the ORP adopt a single investment menu across all vendors, the self-directed brokerage window may allow participants to retain an investment in a terminated fund at their own risk.

Offering a self-directed brokerage account is quite common within the defined contribution marketplace. Only the participants who elect to use the window pay additional fees. These fees can include annual account maintenance charges, transaction fees, and the investment fees on the individual holdings. In practice, very few assets or participants typically utilize this option given the increased complexity of self-management.

The ORP can customize the manner in which the window is employed including, limiting the universe of options to just mutual funds (versus stocks/bonds), establishing a minimum threshold to open a self-directed brokerage account, and capping the portion of total assets held in that account versus the core menu of options.

### **5. Addition of advice and/or managed account services**

*Implementation Date: July 1, 2015*

Research into the investment behavior of ORP participants indicates participants often allocate in a manner inconsistent with their age and investment time horizon. This often manifests itself in asset allocations which are overly conservative and may result in final account balances that are not sufficient to meet retirement income needs.

There are two services that can help participants improve their asset allocation decisions. The first is investment advice. Advice is rendered on plan assets only by credentialed and experienced registered investment advisors. The second is a managed account service. For an additional fee, the participant can enroll in a service that will create and implement a customized asset allocation based on the participant's unique objectives and investment constraints. VALIC currently offers such a service to ORP participants enrolled on its platform.

These services are not mutually exclusive and can both be offered to participants based on their desired level of engagement.

Summit believes any one, or all, of the best practice recommendations above will enhance the ORP's administration of the Program as well as the participant experience. They are also consistent with existing best practices within the governmental and corporate marketplace.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
Health Care Policy Committee**

Monday, May 12, 2014

Agenda 5

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**1. Subject: ACA Nonpermanent Full-time Employee Coverage**

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**2. Summary:** The current State Health Plan (SHP) provides coverage to only permanent full-time employees. Effective January 1, 2015, the ACA requires participating employers in the SHP to offer health coverage to nonpermanent full-time employees or face catastrophic penalties. The Committee and PEBA Board need to decide whether or not to accommodate these employers by either extending coverage under the SHP to nonpermanent employees or creating a self-insured plan to cover these nonpermanent employees.

**Background Information:** See attached: “ACA Requirements Regarding Full-time Nonpermanent Employees For Plan Year 2015”

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**3. What is Board asked to do? Adopt action recommended by Health Care Policy Committee**

**Action:** Amend the SHP to include Nonpermanent Full-time Employees, while allowing employers to opt out of the SHP for the Nonpermanent Full-time Employees and select and purchase their own ACA-compliant coverage for these employees.

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**4. Supporting Documents:**

- (a) Attached:  
**“ACA Requirements Regarding Full-time Nonpermanent Employees For Plan Year 2015”**

## **ACA Requirements Regarding Full-time Nonpermanent Employees For Plan Year 2015**

### **Background**

The State Health Plan (SHP) currently covers permanent full-time employees. “Full-time” for the purpose of the SHP generally refers to an employee who works 30 hours per week. Nonpermanent full-time employees are not covered by the SHP.

Beginning January 1, 2015, the ACA requires large employers (100 + employees) participating in the SHP to offer health coverage to nonpermanent employees who work at least 30 hours per week. This requirement applies to employers participating in a grandfathered health plan. PEBA estimates that 3,000 to 5,000 nonpermanent full-time employees of SHP participating employers would have to be offered health coverage in 2015.

Failure of employers to offer coverage to nonpermanent employees could result in catastrophic IRS penalties for large employers, not the SHP. An employer failing to offer minimum essential coverage to at least 70% of the employer’s employees, plus their dependents, can face a penalty of up to \$2000/year for each full-time employee if at least one employee receives subsidized coverage from a health exchange. The \$2000 penalty would apply to all employees, not just those who were not offered coverage. If the State of South Carolina failed to offer coverage to at least 70% of its employees and dependents, the State could incur penalties in excess of \$80 million. Widespread failure of participating employers, including the State, the school districts, colleges and universities and local subdivisions, to comply with the new ACA requirements could result in penalties exceeding \$300 million to the various employers.

Some employers, primarily universities, have indicated to PEBA that they did not budget enough money to cover their nonpermanent full-time employees under the SHP. These employers inquired whether PEBA could offer a lower cost option that provides minimally adequate ACA-compliant coverage for the nonpermanent full-time employees. These employers were hoping such a minimal policy would have premiums 50% less than current SHP premiums.

Other employers have indicated they are adjusting the hours of part-time employees below the 30-hour threshold to avoid the health coverage mandate.

### **Explanation of Action: Amend the SHP to Include Nonpermanent Full-time Employees**

The action is to amend the SHP to include Nonpermanent Full-time employees within the definition of “Employee”. With the deletion of the word “permanent” in the Plan of Benefits, PEBA can extend health coverage to both permanent and nonpermanent full-time employees and enable participating employers to satisfy ACA requirements.

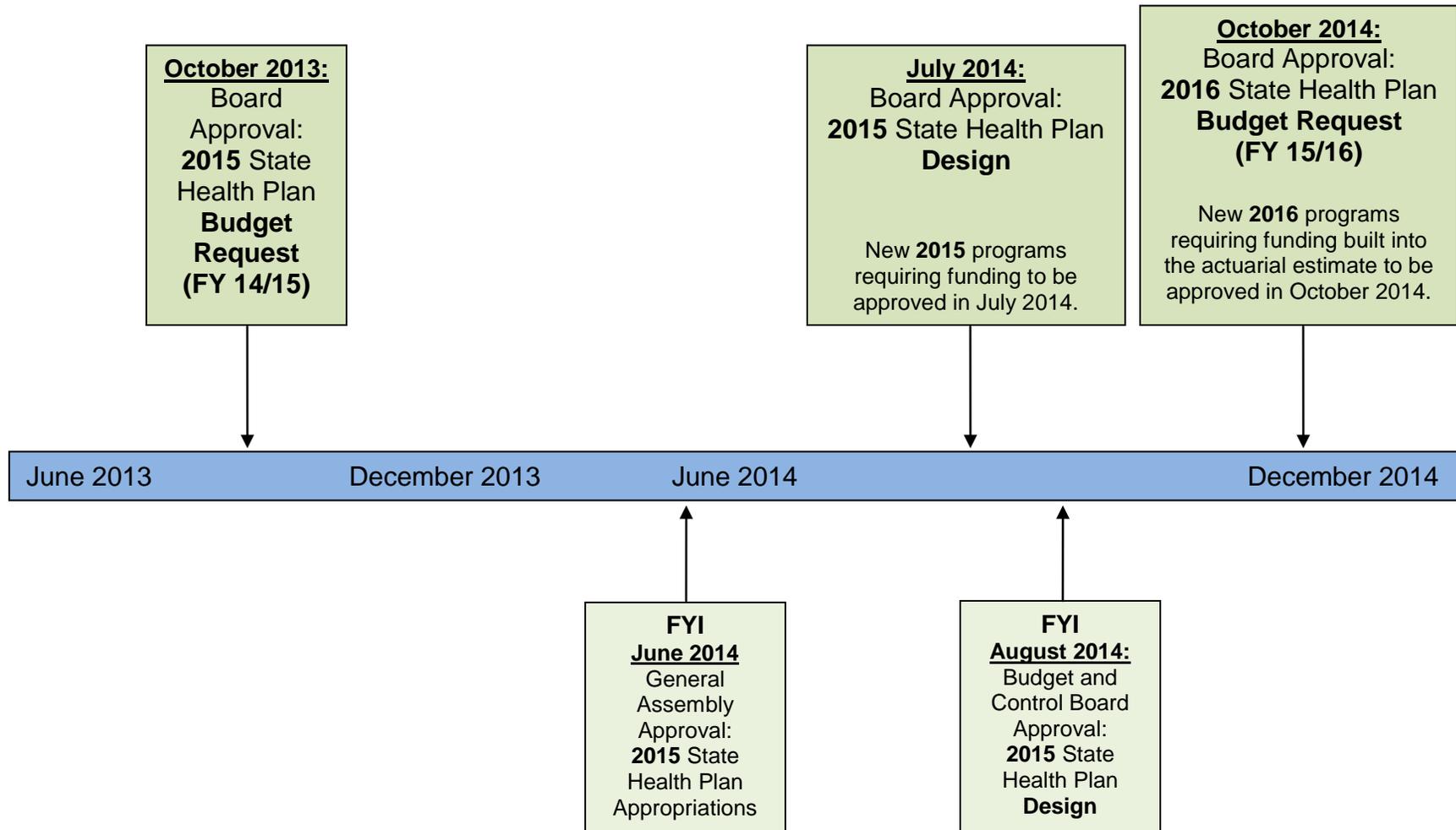
Consultants have determined that the addition of a relatively small number of nonpermanent employees and dependents (likely less than 5,000) would have no material impact on the finances of the large health plan (with over 400,000 participants). Moreover, the addition of these nonpermanent employees would not increase the State’s Other Post-Employment

**ACA Requirements Regarding Full-time Nonpermanent Employees For Plan  
Year 2015 (continued)**

Benefits (OPEB) liability for retiree health benefits because only service in a full-time permanent position counts toward vesting for retiree health benefits. S.C. Code Ann. Section 1-11-730.

If PEBA amends the SHP to include nonpermanent full-time employees, we will be consistent with the approach taken by many other governmental health plans working with GRS and Ice Miller across the country.

# 2015 State Health Plan Timeline: 18 Months



January 2015:  
2015 State Health Plan Year Begins

**South Carolina Public Employee Benefit Authority**  
**Board of Directors Ethics and Conflicts-of-Interest Policy**

**I. State Ethics Act Rules of Conduct**

The members of the PEBA Board of Directors are subject to, and must comply with, the provisions of the laws of the State of South Carolina. Members must be familiar with, and to the extent required must comply with, the State Ethics Act, found in Chapter 13 of Title 8 of the South Carolina Code of Laws, including the Rules of Conduct set out in Section 8-13-700 et seq. of the South Carolina Code of Laws and any successor provisions. The interpretation of terms used in this Policy should be guided where appropriate by the definitions of similar terms in that Act.

**II. Additional Standards of Conduct**

In addition to and not in lieu of the requirements of state law, the members of the PEBA Board of Directors shall also be subject to the following standards of conduct in the performance of their official duties as Directors:

- (1) A Director shall take no action concerning matters before PEBA where the Director, his family, or his business associates have a financial interest in the action;
- (2) A Director shall take no action to commit funds administered by PEBA if the Director, his family, or his business associates have an interest in, are underwriters of, or receive any fees from the transaction;
- (3) A Director shall have no interest in the profits or receive any benefit from a contract entered into by PEBA;
- (4) A Director shall not use his position to secure, solicit, or accept things of value, including gifts, travel, meals and lodging, consulting fees or other payment for outside employment, or other valuable business relationships from parties doing or seeking to do business with or who are interested in matters before PEBA;
- (5) A Director shall not represent, while serving on the PEBA Board of Directors and for one year after leaving the PEBA Board of Directors, any person, in any fashion, before any public agency, with respect to any matters in which the Director personally participated while serving on the PEBA Board of Directors;
- (6) A Director shall not take any official action on matters that will result in a benefit to himself, his family, or his business associates;

(7) A Director shall not, during or after his term of service, disclose or use confidential information acquired in his official capacity as a member of the PEBA Board of Directors without proper authorization;

(8) A Director shall not use assets administered by PEBA for his own interest; and,

(9) A Director shall not act on behalf of a party whose interests are adverse to PEBA, even if the Director receives no personal gain.

[Note: These additional standards of conduct are based upon the standards of conduct imposed upon the Retirement System Investment Commission under Section 9-16-360 of the Code of Laws.]

### **III. Conflicts of Interest**

(A) No member of the Board of Directors may make, participate in making, or in any way attempt to use his membership to influence a Board 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. A Board member who, in the discharge of his official responsibilities, is required to take action or make a decision which affects an economic interest of himself, a family member, an individual with whom he is associated, or a business with which he is associated shall:

(1) Prepare a written statement describing the matter requiring action or decisions and the nature of his potential conflict of interest with respect to the action or decision;

(2) Furnish a copy of the statement to the Board Chairman, who shall cause the statement to be printed in the minutes and require that the member be excused from any votes, deliberations, and other actions on the matter on which the potential conflict of interest exists and shall cause the disqualification and the reasons for it to be noted in the minutes.

(B) The members of the PEBA Board of Directors must abide by the following additional conflict-of-interest guidelines:

(1) Directors should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest.

(2) Directors may not under any circumstances accept offers, by reason of their service, relationship or employment with PEBA, to trade in any security or other investment on terms more favorable than those available to the general investing public or, in the case of private market investments, a similarly situated investor.

(3) A conflict of interest exists for a Director whenever the Director has or is seeking a personal or private commercial or business relationship that could reasonably be expected to diminish the Director's independence of judgment in the performance of the Director's responsibilities to PEBA.

#### (4) Curing Conflicts of Interest

(a) All Directors who become aware of a personal conflict of interest have an obligation not only to disclose that conflict, but to cure it. A person normally cures a conflict of interest by promptly eliminating it.

(b) A Director can cure a conflict by prudently withdrawing from action on a particular matter in which a conflict exists provided that:

- (i) the person may be and is effectively separated from influencing the action taken;
- (ii) the action may properly be taken by others; and
- (iii) the nature of the conflict is not such that the person must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to PEBA.

(c) Directors must disclose any conflicts-of-interest regarding matters which are before the Board, absent themselves from any relevant deliberations, and not vote on the matter. Such Directors may be required to disclose additional relevant information with respect to the matter in question.

[Note: These additional conflict-of-interest provisions are modeled upon the Model Ethics and Conflict-of-Interest Policy for Texas Public Retirement Systems.]

#### IV. Exceptions

The following exceptions apply to the requirements of this Policy. These exceptions **do not** apply to any similar requirements imposed by the laws of the State of South Carolina or by any professional code of conduct; and members must be aware of and comply with the requirements of those laws and such codes to which they are subject.

(1) A Director who is a representative member on the PEBA Board shall not be prohibited from taking action on, and is not considered to have a conflict of interest in, a matter before the PEBA Board if the only economic benefit or reasonably foreseeable benefit that may accrue to the Director from the matter: (a) would accrue to the Director solely because of the Director's membership in a benefit plan offered by PEBA and (b) would be of no greater extent than the economic benefit or potential benefit that could reasonably be foreseen to accrue to all other similarly situated members of the affected benefit plan.

(2) A Director is not precluded from being associated with a business that represents a party (a) with respect to a matter before the PEBA Board of Directors or (b) whose interests are adverse to PEBA in a matter if (y) the Director does not personally participate in the representation and is otherwise properly screened from communications related to the representation and (z) the Director appropriately discloses the conflict of interest to the PEBA Board and withdraws from any action on the matter before the PEBA Board as required by this Policy.

(3) A Director shall not be considered to have acted in violation of this Policy with regard to a matter before the PEBA Board if (a) the Director did not have personal knowledge of an actual or potential conflict of interest with regard to the matter at the time the Director acted on the matter and (b) upon learning of an actual or potential conflict of interest regarding the matter, the Director appropriately cures the conflict of interest in connection with any future actions.

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS MEETING**

Wednesday, June 18, 2014 1:00 p.m. MINUTES Adopted 7.16.14  
200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

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and the proviso that would require PEBA to hire an external counsel to provide a report concerning the validity and impact of the Bank of New York Mellon (BONY) settlement on retirees and active members by December 1, 2014, were ratified and passed by the General Assembly.

Mr. Stephen Van Camp, General Counsel, stated that bill S0897 which would allow persons retiring from a solicitor's office to participate in health and dental plans regardless if their county of employment participates, was also ratified by the General Assembly, but would have no fiscal impact on the Judges and Solicitors Retirement System (JSRS), since the employee would have to pay both employee and employer costs to participate.

**5. PRESENTATION ON PEBA'S FY 2015-2016 FIDUCIARY PROCESS**

Mr. Patrick Maley, South Carolina Inspector General, provided information related to the upcoming fiduciary performance audit. Mr. Maley advised that the fiduciary audit will be conducted over a three-month time period starting in approximately October 2014. Mr. Maley stated that the fiduciary audit is designed to examine PEBA's structure, policies, functions, and processes; identify opportunities for improvement; and recognize examples of best practices being employed by PEBA fiduciaries and staff.

Mr. Brian Lampkin, from the South Carolina Inspector General's Office, provided a sample of key questions to be answered including:

- How are governance polices developed and implemented?
- Does the organizational structure provide for effective governance to the fiduciaries?
- Do the daily operations of PEBA provide for effective communication to its stakeholders?
- Do the key benefit administrative functions provide for effective customer service to its beneficiaries in a cost effective and secure manner?

Chairman Bjontegard thanked Mr. Maley and Mr. Lampkin for their presentation.

**6. COMMITTEE REPORTS**

Chairman Bjontegard reminded the Board that several Committee assignments will be changing including Mr. Frank Fusco moving to the Health Care Policy Committee; Ms. Peggy Boykin moving to the Retirement Policy Committee; and Ms. Stacy Kubu moving to the Finance, Administration, Audit, and Compliance Committee (FAAC).

**A. HEALTH CARE POLICY COMMITTEE**

Mr. Heisler reported that the Health Care Policy Committee met on June 6, 2014, and June 18, 2014, and updated the Board on the Wellness Research Strategy Team (WeReST). Mr. Heisler stated that the goal of WeReST is to establish at least one pilot project for Plan Year 2015 that focuses on improved health and lower cost, with appropriate evaluation methods of health

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outcomes, costs, and resources identified. The pilot project will be presented to the PEBA Board at the July 16, 2014, meeting.

Mr. Heisler reported that the Health Care Policy Committee recommends amending the State Health Plan in 2015 to allow nonpermanent full-time employees to participate in the State Health Plan, with the provision that an employer can elect to obtain their own coverage for those nonpermanent full-time employees if they can obtain a more affordable private sector option. Following further discussion, the motion was amended to read: "the Health Care Policy Committee recommends amending the State Health Plan in 2015 to allow nonpermanent full-time employees to participate in the State Health Plan, with the provision that an employer can elect to obtain their own coverage for those nonpermanent full-time employees."

Chairman Bjontegard stated that the motion presented is a Committee motion which does not require a second. The motion passed unanimously.

Mr. Heisler reported that the Health Care Policy Committee updated their Committee Charter, and the updated version will be presented at the July 16, 2014, PEBA Board meeting.

**B. RETIREMENT POLICY COMMITTEE**

Mr. John Sowards reported that the Retirement Policy Committee met on June 4, 2014, and stated that the Retirement Policy Committee received as information the Defined Contribution Unit Quarterly Reports for the Deferred Compensation Plan and the Optional Retirement Plan (ORP).

Mr. Sowards reported that the actuarial valuations were presented to the Budget and Control Board on June 17, 2014.

Mr. Sowards stated that the Retirement Policy Committee Charter will be updated and presented to the PEBA Board at the July 16, 2014, meeting.

Mr. Sowards reported that the Retirement Policy Committee approved accepting the following Defined Contribution Unit best practice recommendations for the South Carolina Deferred Compensation Program:

The Retirement Policy Committee moved to recommend that the PEBA Board support and seek input to provide PEBA with the flexibility to implement automatic enrollment to the Deferred Compensation Program if this feature is deemed appropriate. It was noted that management will survey stakeholders regarding the prospect of implementing automatic enrollment, and active choice was approved for implementation.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that participants be provided with annual fee disclosures.

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The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that participants be allowed to convert pre-tax assets to Roth assets within the Program. Mr. Matthew Davis, Defined Contribution Manager, stated that this motion would require an amendment to the Plan document, which must be approved by the PEBA Board. Chairman Bjontegard stated that the motion presented is a Committee motion and does not require a second. The motion passed unanimously.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that the number of available participant loans be reduced from two to one, and that the loans must be repaid via payroll deduction while the participant is working for a participating employer. Mr. Davis stated that some smaller employers do not have the capability to offer payroll deduction, and would have to alter their remittance methods to provide participant loans in the future. Following further discussion, Mr. Fusco amended the previous motion by recommending that the PEBA board only accept the Defined Contribution Unit recommendation that the number of available participant loans be reduced from two to one. There was no second to the motion; therefore, the amended motion failed. The original motion passed with Mr. Fusco abstaining.

The Retirement Policy Committee moved to recommend that the PEBA Board require all participating employers to offer all features of the Program, effective January 1, 2017, and adhere to standardized remittance and reporting requirements, if economically feasible, and includes the reasonable judgment of PEBA Staff.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that effective January 1, 2015, access to investments within the Self-Directed Brokerage (SDB) Option be limited with the following specifications: (1) Participants would be required to have at least \$2,500 in Program assets in order to utilize the SDB option; (2) All transfers to the SDB option be at least \$1,000; and (3) Participants be allowed to invest no more than 50 percent of their Program assets within the SDB option. Mr. Sowards stated that this recommendation would require an amendment to the investment policy statement, which must be approved by the PEBA Board. The motion passed unanimously.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that the 84-month Certificate option be frozen to new investments and that all assets in maturing certificates, as well as all contributions directed to this option, be automatically mapped to the SSgA Target Retirement Income Fund, unless otherwise directed by the participant. Mr. Sowards stated that this recommendation would require an amendment to the investment policy statement, which must be approved by the PEBA Board. The motion passed unanimously.

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Mr. Sowards reported that the Retirement Policy Committee approved accepting the following Defined Contribution Unit best practice recommendations for the Optional Retirement Program:

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that the PEBA Board support and seek sponsorship of a bill to provide PEBA with the flexibility to determine the appropriate vendor structure. It was noted that the Defined Contribution Unit Management and Summit Strategies Group are conducting research to determine how to best structure the program. Mr. Sowards stated that this recommendation would require a statutory change which must first be approved by the PEBA Board. The motion passed unanimously.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that all revenue generated by the mutual fund investment options be returned to PEBA and not used to compensate record keepers. Mr. Sowards stated that this recommendation would require a plan amendment which must first be approved by the PEBA Board. The motion passed unanimously.

The Retirement Policy Committee moved to recommend that the PEBA Board accept the Defined Contribution Unit recommendation that effective July 1, 2015, investment advice, including a managed account service be made available to all participants. Mr. Sowards stated that this recommendation would require a plan amendment which must first be approved by the PEBA Board. The motion passed unanimously.

Mr. Sowards concluded the Retirement Policy Committee update by stating that Segal Rogerscasey and Summit Strategies Group have provided written best practices recommendations which mirrors the Defined Contribution Unit best practices recommendations.

Upon recommendation from Chairman Bjontegard, Mr. Heisler made a motion for the Health Committee to take responsibility of the pilot project from inception to completion, and Mr. Fusco made a motion to delegate oversight and direction of the securities lending issue to the Retirement Policy Committee. The motion was seconded, and passed unanimously.

**C. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE COMMITTEE (FAAC)**

Mr. Steve Matthews stated that the FAAC Committee met on June 3, 2014, and received as information a Human Resources Quarterly Report, Workforce Planning Update, and a Performance Excellence Update.

Mr. Matthews stated that revisions have been made to the PEBA Boards Ethics and Conflict-of-Interest Policy. After further discussions, Mr. Sowards made a motion, which was second by Mr. Heisler, and passed unanimously, to approve the PEBA Boards Ethics and Conflict-of-Interest Policy as amended.

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**7. OLD BUSINESS/DIRECTOR'S REPORT**

Mr. Turner provided a brief update regarding the RSIC investment retreat at Wampee, SC on June 16-17, 2014.

Chairman Bjontegard provided an opportunity for roundtable discussions.

**8. EXECUTIVE SESSION**

At 2:15 p.m., Mr. Heisler made a motion, which was seconded by Mr. Matthews, and passed unanimously, to recede into executive session to receive legal advice and discuss personnel matters pursuant to S.C. Code Ann. § 30-4-70 (a)(1), (a)(2).

The Board reconvened in open session at 5:15 p.m. It was noted that no action was taken by the Board while in executive session.

**9. ADJOURNMENT**

There being no further business, Chairman Bjontegard adjourned the meeting at 5:20 p.m.