South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY
PEBA

South Carolina Public Employee Benefit Authority
Meeting Minutes (as Adopted 12/13/2012)

Wednesday, November 21, 2012

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Board Members Present:

Mr. Art Bjontegard, Chairman (in person)
Mrs. Peggy Boykin (in person)
Mr. Frank Fusco (in person)
Ms. Cynthia Hartley (in person)
Mrs. Stacy Kubu (in person)
Sheriff Leon Lott (in person)
Mr. Steve Matthews (in person)
Mr. Joe “Rocky” Pearce (in person)
Mr. John Sowards (in person)
Mr. David Tigges (in person)

Others present for all or a portion of the meeting:

Bill Blume, Robbie Bell, Susan Brownlee, Travis Turner, Lil Hayes, Justin Werner, David Avant, Laura Smoak from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Bell and Wayne Pruitt from the State Retirees Association; Sarah Corbitt from SCRSIC; Ed Poliakoff for TIAA-Cref; Daniel Brennan from the State Treasurer’s Office; Adam Beam from *The State Newspaper*; Brooks Goodman from BlueCross BlueShield of South Carolina; Josh Rhodes from the SC Association of Counties; Jennifer Hyler and Joel Deason from Senate Finance; Mary Elizabeth Van Horne from Mullikin Law Firm; Mike MAdalena, Bill Hickman, and Amy Cohen from GRS.

I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Bjontegard called the meeting to order at 1:02 P.M. Sheriff Lott gave the invocation. Ms. Brownlee confirmed completion of oaths of office and statements of economic interest by the board members and meeting notice compliance with the Freedom of Information Act.
Chairman Bjontegard asked attendees to introduce themselves.

A. Adoption of Proposed Agenda

Chairman Bjontegard requested a motion to adopt the proposed agenda. Mr. Sowards moved to adopt. Sheriff Lott seconded. The agenda was unanimously approved.
Chairman Bjontegard asked Bill Blume to address the issue of his leaving to go to the Department of Revenue. Mr. Blume explained that this was a quick decision and action. Chairman Bjontegard wished Mr. Blume well.

B. Approval of Meeting Minutes — October 16, 2012

Chairman Bjontegard requested motion to approve previous minutes. Mrs. Hartley moved to approve the minutes. Mr. Sowards seconded. The minutes were unanimously approved.

II. COMMITTEE REPORTS

A. FAAC COMMITTEE

Chairman Bjontegard requested discussion on the proposed Bylaws. Mr. Sowards asked whether the Bylaws are submitted upon recommendation of the FAAC Committee. Chairman Bjontegard explained that they are. Mr. Matthews explained that the committees may have non-Board members sit on committees, but that they cannot constitute a part of the required majority to take actions. Sowards questioned the provision about insurance. He suggested adding the language "if deemed reasonably necessary." Chairman Bjontegard requested a motion to approve the Bylaws. Matthews recommended acceptance of the Bylaws with Mr. Sowards' proposed change. Mr. Sowards recommended not allowing telephonic participation in executive session. Mr. Tigges agreed. Chairman Bjontegard suggested a change to exclude telephonic participation during executive sessions. Mr. Fusco expressed concern about the provision allowing destruction of the audio recordings of meetings after the minutes are approved. Mr. Sowards suggested not keeping them. Mr. Matthews asked counsel whether FOIA requires keeping the audio recordings. Counsel stated it does not. Chairman Bjontegard requested a vote. Mr. Sowards stated his two amendments (to exclude executive session from telephonic participation and to add the language to the insurance provision which states "if deemed reasonably necessary." Unanimously approved. Mr. Matthews explained that the insurer for PEBA agreed to expand coverage to all plans managed by PEBA without additional cost. Mr. Matthews then explained the proposed indemnification bill drafted by PEBA staff and the FAAC Committee, to protect PEBA Board Members in the same way that members of the Budget and Control Board and the SC Retirement Investment Commission members are protected. He then described the operational budget discussion from the 11/7 FAAC Committee meeting. He explained the data security presentation given at the 11/7 meeting—which explained that PEBA is making good faith and comprehensive efforts to protect the security of its data. Chairman Bjontegard requested a motion to approve the indemnification bill and accept as information the operating budget and the report about data security. Mr. Matthews made the motion. Mr. Fusco asked why there is no language regarding the Budget and Control Board in PEBA's indemnification bill. Counsel explained that it was thought to be preferable to leave the B&C Board out of the bill to avoid future difficulties should the B&C Board cease to exist. Mrs. Boykin explained that the FAAC Committee discussed amending the submitted operating budget. She stated they can submit amendments in January when the House begins their budget debates. Chairman Bjontegard requested a vote on the proposed indemnification bill, which was unanimously approved.

B. HEALTHCARE POLICY COMMITTEE

Committee Chair Hartley explained the presentation given by David Quiat in the 11/21 HCP Committee meeting concerning Long Term Care (LTC). She explained that PEBA staff recommended discontinuing the LTC program currently offered by PEBA as a result of the current vendor withdrawing from the business. Chairman Bjontegard requested vote on the LTC recommendation of the HCP Committee, which was unanimously approved. Mrs. Hartley introduced Bill Hickman, Mike Madalena, and Amy Cohen from Gabriel Roeder Smith & Company (GRS). She explained the plan design and budgeting presentation made by GRS in the 11/21/12 HCP Committee Meeting. She explained that in 2014, the State Health Plan can choose to remain grandfathered or become compliant to the Affordable Care Act of 2010 (ACA). She gave the numbers given by GRS during the 11/21 HCP Committee Meeting for increases to funding requirements both as a grandfathered plan and an ACA compliant plan. Mrs. Hartley explained that the HCP Committee recommends that the Board accept as information the plan actuaries' estimation of the required increase to funding requirements—which would be $238.5 million—while maintaining the same plan design. Chairman Bjontegard requested a motion to accept this proposed increase. Mr. Sowards asked whether Ms. Hartley's proposal from the HCP Committee is based upon the information provided by the consultants and is well-informed. Ms. Hartley confirmed it is. Ms. Hartley made the motion to accept this proposed funding increase for the initial budget proposal. Mr. Madalena gave a brief explanation of the advantages and disadvantages of maintaining ACA grandfathered status or becoming ACA compliant. He explained that there are limits as to how much a plan may increase premiums as well as a differential limit between the employer and employee contributions. He explained that grandfathering allows the plan to avoid some of the costs associated with the requirements of ACA. He also explained that becoming ACA compliant would remove the limits to the premium increases and contribution differential. Mrs. Boykin asked whether maintaining grandfathered status for 2014 would preclude becoming ACA compliant later. Mr. Madalena responded that it would not. Chairman Bjontegard requested a vote on the HCP Committee's recommendation. The motion was unanimously approved.

III. EXECUTIVE DIRECTOR REPORT

Bill Blume explained that there is a proposed meeting for January 31, 2013 and February 1, 2013 at Wampee. He explained that it would be educational in nature, with various speakers giving presentations. He suggested making decisions about the proposed speakers soon, as adequate notice would need to be given to the presenters. He explained that having the meeting on January 31, 2013 and February 1, 2013 would satisfy the statutory requirement that the Board meet monthly for both January and February. Mr. Sowards asked whether the operating budget that has already been approved included the expenses associated with the Wampee meetings. Mr. Blume explained it did include those expenses. Mr. Fusco explained that he would like to have a speaker from USC or MUSC to speak to the Board regarding research and statistics on health outcomes. Mrs. Hartley explained that the Board's focus should be on decreasing overall costs and in making changes that would have a more immediate impact on plan costs for 2014. Mr. Sowards asked whether a consultant has compared the State Health Plan design to others in the market to assess their value. Mrs. Hartley explained that GRS does that. Mr. Fusco suggested having PEBA staff provide the Board information about the primary drivers of plan expenses and recruiting speakers who can provide meaningful information on these primary drivers.

Mr. Blume explained that the financial statements for the retirement plans have not been finalized. He explained that the letters of representation have been signed by both the SCRSIC and PEBA.

IV. OLD BUSINESS

Mr. Blume explained that the motion passed at the 10/16 PEBA Board meeting was rejected by the B&C Board. He proposed that the Board approve 5 separate motions and submit them to the B&C Board as 5 separate agenda items. He explained that the B&C Board rejected the two-tiered approach to the contribution increase for JSRS. He explained that the economics of the RSIC investments have yielded no return, despite an assumption of a 7% return. He explained that the numbers for contribution adjustments will become significantly higher regardless of whether the increase is split. Mr. Sowards proposed voting on 5 motions simultaneously and submitting them as 5 agenda items. He moved to approve the following: 1) accept as information the actuarial valuation of SCRS; 2) accept as information the actuarial valuation of PORS and increase the employer contribution by 12.84 percent; 3) accept as information the actuarial valuation of JSRS and increase the employer contribution by 47.33 percent; accept as information the actuarial valuation of GARS and increase the employer contribution to $4.1 million; accept as information the actuarial valuation of National Guard Retirement System and increase the employer contribution to $4.5 million. Mr. Matthews seconded. Mr. Fusco asked whether the B&C Board would have approved the action if it had not included the step contribution of the JSRS. Chairman Bjontegard confirmed he thought it would have. Mr. Blume agreed. Mr. Fusco asked whether the precedence of having to submit separate items for each system is how the Board would like to move forward. Chairman Bjontegard explained that the Board is in the position of having to submit things for the B&C Board's approval. Mr. Sowards explained that the law requires the Board to act once it accepts as information the actuarial valuations. The pending motions were approved unanimously.

V. NEW BUSINESS

There was no new business.

VI. ROUNDTABLE DISCUSSION

Mr. Matthews expressed encouragement about what the Board has already done and wished Mr. Blume well. Mr. Fusco commended the committees and the Board. Sheriff Lott expressed gratitude for the efforts of the Board and staff to educate members of the Board who are not familiar with the subject matter. Mr. Pearce commented on the volume of the information being given to the Board requiring action. Mrs. Kubu commented that since she does not live in Columbia, she does not get the State Newspaper. She suggested the Board be provided with links to those articles not published statewide.

VII. EXECUTIVE SESSION TO DISCUSS EMPLOYMENT MATTERS AND DEVELOPMENT OF SECURITY PERSONNEL AND DEVICES PURSUANT TO S.C. CODE OF LAWS § 30-4-70(A)(1) AND (3)

Chairman Bjontegard called an executive session at 2:30 p.m. The Board returned from executive session at 3:00 p.m. Chairman Bjontegard requested the record reflect that no actions were taken and no votes taken during executive session.

There being nothing further to discuss, Chairman Bjontegard requested a motion to adjourn. Mr. Fusco moved to adjourn and Mr. Tigges seconded. It was unanimously voted to adjourn at 3:01 p.m.

South Carolina Public Employee Benefit Authority
Board of Directors Meeting

Wednesday, November 21, 2012

1:00 p.m.

South Carolina Public Employee Benefit Authority
Main Conference Room
202 Arbor Lake Drive, Columbia, SC 29223

Draft Agenda

I. Call to Order

A. Adoption of Proposed Agenda
B. Approval of Meeting Minutes — October 16, 2012

II. Committee Reports

A. FAAC Committee (bylaws, insurance endorsement, indemnification bill, operating budget, data security)
B. Health Care Policy Committee
(Long Term Care program update, State Health Plan budget/plan design)
Medical and Pharmacy Benefits Overview: Mike Madalena, Bill Hickman and Amy Cohen from Gabriel, Roeder Smith & Co.

III. Executive Director Report (financial statements, Wampee retreat/meetings)

IV. Old Business

A. Revisit October 30, 2012, Budget and Control Board Action on Contribution Rate Increases

V. New Business

VI. Roundtable Discussion

VII. Executive Session to Discuss Personnel and Security Matters Pursuant to S.C. Code of Laws § 30-4-70(a)(1) and (3)

Adjournment

DRAFT

South Carolina Public Employee Benefit Authority Meeting Minutes

Tuesday, October 16, 2012

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Board Members Present:

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

Others present for all or a portion of the meeting:

David Avant, Robbie Bell, Susan Brownlee, Geneva McIntosh, Greg Meetze, Lisa Phipps, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Paul Patrick and Kara Brurok from Ways and Means, Daniel Brannon and Brian Deroy from the State Treasurer's Office, Will Kinney from Mullikin Law Firm, Mike Shealy from Senate Finance, Hershel Harper and Sara Corbett from the South Carolina Retirement Systems Investment Commission, Wayne Bell from the South Carolina State Retirees Association, Melissa Carter from the Municipal Association of South Carolina, Greg King from the Palmetto State Teachers Association, Comptroller General Richard Eckstrom, Eric Ward and Jim Holly from the Comptroller General's Office, Rachel Fulmer from the State Budget Office, Adam Beam from The State, Jeff Moore from the South Carolina Sheriff's Association, Cathy Hazelwood from the South Carolina State Ethics Commission

I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Bjontegard called the meeting to order at 10:00 a.m., and Mr. Pearce gave the invocation. Ms. Brownlee confirmed meeting notice compliance with the Freedom of Information Act. Following introductions, Chairman Bjontegard announced the Finance, Administration, Audit and Compliance Committee would meet at 2:00 p.m. and then introduced a discussion of future Board and committee meeting dates The November meeting is scheduled for November 21, 2012, and the December meeting for December 12,

2012. The Chairman also announced that most of the 2013 Board meetings will be held the 3rd Wednesday of every month, except for a proposed retreat at Wampee, possibly January 31-February 1, 2013.

A motion was made by Mr. Matthews to approve the proposed agenda. It was seconded by Mr. Penn and approved unanimously.

Several amendments were recommended to the draft minutes of the September 26, 2012, Board meeting. Mr. Sowards moved to approve minutes as amended. The motion was seconded by Mr. Matthews and was approved unanimously.

II. OVERVIEW OF THE STATE ETHICS ACT

PEBA General Counsel Stephen Van Camp introduced Cathy Hazelwood, Deputy Director and General Counsel for the SC State Ethics Commission. Ms. Hazelwood presented an overview of the State Ethics Act. All PEBA Board members must file a Statement of Economic Interests or amend their existing forms. She explained lobbyist and lobbyist principals law, referred to a list of registered lobbyists and principals on the Ethics Commission website and noted several examples. She explained that should a lobbyist principal invite one of the Board members to an event in his/her official capacity, all Board members should be invited, and the cost per person cannot exceed $60. Upon questions from Chairman Bjontegard, Mr. Fusco, and Mr. Sowards, Ms. Hazelwood advised the Board members to check the online list themselves when in doubt as to whether an individual or group is a lobbyist or lobbyist principal and/or check with General Counsel. Ms. Hartley asked for clarification regarding matters unrelated to PEBA, and Ms. Hazelwood confirmed matters related to the Board members' private lives are not at issue. She also confirmed that attendance at any events for a lobbyist principal must be declared on their Statement of Economic Interests. Reimbursement for travel for speaking must be reported as well.

Ms. Hazelwood then explained the Rules of Conduct and conflicts of interest. Board members may not use their position for their own financial gain and may not use PEBA staff for matters related to their private affairs and/or personal business/employment. Board members must recuse themselves any time there is a conflict of interest. Recusal must be in writing and must be included in the minutes. Using Mr. Pearce's work with Chartis, a health insurance company as an example, she explained that Mr. Pearce would have to recuse himself if Chartis ever brought business before the Board. Ms. Boykin inquired whether this would apply to her husband—a physician—if he did not have direct interaction with the Board. Ms. Hazelwood responded that Ms. Boykin's husband's interest would be on a large-class scale as he would be affected the same as all other physicians as a group. Upon question by Chairman Bjontegard, Ms. Hazelwood clarified that a law firm with a particular client would not require a lawyer/Board member to recuse, but that the lawyer should be mindful of any potential lawsuit. Mr. Fusco asked what a Board member should do with respect to executive session if he/she were affiliated with a firm who is representing a party in a lawsuit against PEBA. Ms. Hazelwood responded that the Board member would need to leave the room, refraining from participation in any discussion. She further explained that lawyers may not personally represent someone before the Board—though their firms may. She also explained that, for a Board member to be awarded a contract solicited by the Board, the state procurement/bidding guidelines must be followed and the member must recuse himself as soon as relevant discussions begin.

Ms. Hazelwood briefly discussed penalties for not filing the Statement of Economic Interests or filing late. Chairman Bjontegard asked whether a member's status as a retiree of an affiliated business or organization would pose any ethics concern with serving on the Board, and Ms. Hazelwood responded it does not generally pose a concern.

III. OVERVIEW OF THE INVESTMENT COMMISSION

Chairman Bjontegard introduced Hershel Harper, the Chief Investment Officer for the SC Retirement System Investment Commission (RSIC). Mr. Harper began with a brief historical overview of the RSIC which was established, October 1, 2005. He gave various statistical information regarding the net-of-fee and benchmark returns as of June 30, 2012, and the portfolio returns from 1970 forward. He also provided information on the portfolio's 3-year return ranking and the 2012 portfolio characteristics. Chairman Bjontegard asked about the change in the assumed rate of return from 8 to 7.5 percent and whether Mr. Harper would have come to the same conclusion if SCRSIC were responsible for deriving this rate. Mr. Harper answered that he would not have used this rate of return for the short term. Upon question by Mr. Penn, Mr. Harper explained that the RSIC investment portfolio looks more like that of a foundation or endowment and then explained the investment philosophy of the RSIC with regard to risk/cost/return considerations Mr. Matthews asked about the final maturity on a direct-lending transaction, and Mr. Harper responded it would typically be written for a five-year term, with the possibility to refinance within three years.

Upon questions by Ms. Hartley and Mr. Matthews, Mr. Harper explained the process of determining the need for new managers and conducting due diligence and that the managers have discretion over their individual investments. Mr. Penn asked whether there are assessments conducted to ensure mangers are not all investing in the same things, and Mr. Harper confirmed analyses to ensure diversity of investments. Chairman Bjontegard suggested Mr. Harper provide the Board with copies of the *Annual Investment Plan* and the *Statement of Investment Objectives and Policies.* Mr. Harper noted these documents are posted on the SCRSIC website and agreed to provide copies to the Board members. Mr. Sowards asked Mr. Harper whether he had seen the actuarial report provided by GRS to the Board in the September 26, 2012, meeting. Mr. Harper stated that he had seen projections included in the report, but not the final. Upon question by Mr. Sowards, Mr. Harper explained how the RSIC communicates with PEBA, working with actuary and consultants, along with Mr. Blume. In response to a question by Mr. Fusco regarding comparing manager performance, Mr. Harper responded that RSIC seeks managers in the upper 50%, but that they will not fire a manger for poorer performance during short time periods; they would be more likely fire a manager for extended periods of performance below benchmarks, significant changes in investment team, organizational structure, and/or style drift. Mr. Matthews asked how the General Assembly arrived at the 7.5 percent rate of return, noting the actuary's area of expertise is not market performance. Mr. Harper surmised that the actuaries have certain general assumptions they can make to come up with this rate. Chairman Bjontegard noted Mr. Blume's serves as the PEBA Board's liaison to the RSIC.

IV. BUDGET AND CONTROL BOARD AND PEBA

Chairman Bjontegard introduced Comptroller General Richard Eckstrom. Gen. Eckstrom explained that, as co-trustees, the Budget and Control Board (BCB) maintains some responsibility and explained that the PEBA Board's responsibility extends beyond just the liability. Both the PEBA Board and the BCB have a duty to maintain communication with the RSIC. The BCB also has the responsibility to communicate with the PEBA Board and vice versa. He encouraged representation at each other's board meetings.

He reconfirmed that, the assumed rate of return is an estimate and the rate-setting responsibility resides with the General Assembly. He encouraged the PEBA Board to have open discussions with the actuary about the assumed rate of return. Gen. Eckstrom explained the retirement formula and the actuarial information used to make various assumptions regarding the unfunded liability. If the unfunded liability gets too large, you must increase contribution rates. If too small, benefit enhancements may result through legislation that re-extend the liability. He stated the General Assembly made changes last year to make the system more sustainable, and the BCB decided that the contribution rates should be increased and shared.

Chairman Bjontegard asked General Eckstrom to speak to the health insurance side. Gen. noted it is also a balancing act; health care costs are increasing and that benefit adjustments would be necessary to help hold premium contribution increases down. He encouraged the Board to make its decisions based on mathematics rather than politics. Upon question by Mr. Matthews, Gen. Eckstrom confirmed the PEBA Board does not have any oversight authority over the RSIC, and Mr. Matthews voiced his concern.

Gen. Eckstrom concluded by explaining the spending transparency requirement for state agencies, with regard to posting transaction data online. He explained that new entities are granted a six-month grace period to comply.

At 11:45 a.m., Chairman Bjontegard requested to break for a few minutes and return for executive session.

V. EXECUTIVE SESSION

At 11:55 a.m., upon motion by Mr. Matthews and second by Mr. Sowards, the Board voted unanimously to enter into executive session to receive legal advice and information on data security. The Board then entered into executive session.

Meeting resumed at 1:00 p.m. following the executive session. No action was taken.

VI. OLD BUSINESS

Chairman Bjontegard asked whether there was any old business. There was none.

VII. NEW BUSINESS

A. Electronic File Sharing

Robbie Bell gave a brief overview of the PEBA SharePoint site to allow the Board to review reading material between meetings and manage their personal calendars according to events on the Board's calendar. He advised that if they have any information they would like posted on the site to send that information to Ms. Brownlee. Any problems with accessing the site should also be directed to her.

B. Round Table Comments

Mr. Fusco recommended the PEBA Board see the three-year forecast for the general fund request for insurance benefits before it is sent.

Chairman Bjontegard asked the members what more or less or different can be done that will help the board, particularly with the information being received. Mr. Fusco stated that he appreciated Chairman Bjontegard's quote in the article in *The State* newspaper. He explained that, as the Board starts looking at health insurance, they employ the research capabilities available to determine how to achieve the best, most effective health care with the dollars available. Mr. Fusco expressed his hope that the Board will review the administrative costs to the health plan. He distributed a draft framework for consideration. Chairman Bjontegard stated that he believed the Board has "triaged" the needs of the retirement systems and now must change direction to focus on health care. Mr. Penn commented that the pace for getting the Board members up-to-speed has been good.

There being no further business, Mr. Matthews moved to adjourn, Mr. Sowards seconded and the Board voted unanimously to adjourn at 1:15 p.m.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
BOARD OF DIRECTORS
BYLAWS

DRAFT

I. PURPOSE

The South Carolina Public Employee Benefit Authority Board of Directors ("Board") is the governing body of the South Carolina Public Employee Benefit Authority ("PEBA"), established by Act No. 278 of 2012 of the South Carolina General Assembly, as codified in Title 9 of the Code of Laws, Chapter 11 of Title 1 of the Code of Laws, and Chapter 23 of Title 8 of the Code of Laws, as amended from time to time ("Governing Law"); and the Board has the powers and responsibilities set out in the Governing Law. PEBA is an administrative agency charged by the Governing Law with administering the State's public employee insurance programs, its retirement programs, and, after December 31, 2013, its deferred compensation program.

II. BOARD MEMBERSHIP

A. COMPOSITION

- **i.** Members of the Board are "public officers" and "public officials" under the Code of Laws of South Carolina 1976, as amended.
- **ii.** The Board shall consist of the number of members selected in the manner set forth in the Governing Law; each member, prior to commencing performance of the member's duties, must meet the qualifications, comply with the requirements, and take the oath of office set forth therein and elsewhere in the Code of Laws of South Carolina 1976, as amended.
- **iii.** At any regular meeting of the Board that includes a newly appointed or re-appointed Board member, it shall be announced on the record and included in the minutes that each such new or re-appointed members has complied with Section II.A.ii above.
- **iv.** Copies of records of appointments and of notarized oaths of all Board members will be maintained as exhibits to the meeting minutes.

B. TERM OF OFFICE

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

III. GENERAL RESPONSIBILITIES AND DUTIES

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

In discharging his or her duties with respect to PEBA, a Board member is entitled to rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by: (1) one or more officers or employees of the State whom the Board member reasonably believes to be reliable and competent in the matters presented; (2) legal counsel, public accountants, actuaries, the South Carolina Retirement Systems Investment Commission or other persons as to matters the Board member reasonably believes are within the person's professional or expert competence; or (3) a committee of the board of directors of which a Board member is not a member if the Board member reasonably believes the committee merits confidence. A Board member is not acting in good faith under this section if he or she has knowledge concerning the matter in question that makes reliance otherwise permitted by this section unwarranted.

IV. BOARD MEETINGS

A. REGULAR MEETINGS

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

B. SPECIAL MEETINGS

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

C. QUORUM

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

D. MANNER OF ACTING

- **i.** Required Vote. The act of the majority of the members present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board, unless, by law, a supermajority is required.

ii. Telephone Meeting. Any or all members may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all members participating may simultaneously hear each other during the meeting. A member participating in a meeting by this means is deemed to be present in person at the meeting.

iii. Failure To Object To Action. A member who is present at a meeting of the Board or a committee of the Board when corporate action is taken is deemed to have assented to the action taken unless: (1) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting; or (2) his dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the Executive Director immediately after adjournment of the meeting. The right of dissent or abstention is not available to a member who votes in favor of the action taken.

E. EXECUTIVE SESSION

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

F. ATTENDANCE

The attendance of members at Board meetings and of Board committee members at committee meetings shall be recorded, and the Board secretary shall transmit each member's attendance record for the preceding six (6) months to that member's appointing authority in each January and July.

V. COMMITTEES

A. CREATION OF COMMITTEES

The Board may create one or more committees, and the Chairman shall appoint members of the Board to serve on them. Each committee must have not fewer than two nor more than five Board members. The term of committee members shall be annual and shall run from July 1 through the succeeding June 30; provided, however, that committee members shall serve at the pleasure of the Chairman. Each committee shall have a chairman who shall be appointed by the Chairman of the Board. Each committee may appoint one or more non-Board members to serve as voting members of a committee if the committee finds that the non-Board members possess expertise, skills or qualifications that would aid the committee in fulfilling its responsibilities. Such non-Board members may vote only on committee matters and may not vote at meetings of the Board as a whole.

B. REQUIRED PROCEDURES

The provisions of these By-Laws that govern meetings, notice and waiver of notice, executive sessions, and voting requirements of the Board apply to committees and their members. A majority of Board members assigned to a committee of Board members constitutes a quorum for that committee to conduct business, and a majority of the Board members present must vote for an item for the committee to take official action on the item.

C. AUTHORITY

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

D. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE COMMITTEE

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

E. RETIREMENT POLICY COMMITTEE

The Retirement Policy Committee will gather, analyze, and study information concerning issues arising out of PEBA's administration of the retirement plans set out in Title 9 of the Code, and after December 31, 2013, the Deferred Compensation Program, and will make recommendations and reports to the Board on those matters.

F. HEALTH CARE POLICY COMMITTEE

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

G. EXECUTIVE COMMITTEE

The Executive Committee consists of the Board's Chairman, and the Chairmen of the Finance, Administration, Audit and Compliance Committee, the Retirement Policy Committee, and the Health Care Policy Committee. The Executive Committee shall be responsible for evaluations of performance and changes in compensation for the Board's Executive Director.

VI. INDEMNIFICATION OF BOARD MEMBERS

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

VII. OFFICER SELECTION PROCESS

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

B. The Chairman and the Executive Director shall be selected in accordance with the Governing Law. At its regularly scheduled meeting in January 2014, the Board shall select one of its nonrepresentative members to serve as Chairman until the election held in July 2014. Beginning with the regular meeting scheduled for July 2014, the Board shall, in each regular meeting held in the month of July of even-numbered years, select one of its nonrepresentative members to serve as Chairman for the ensuing twenty-four months. If there is a vacancy in the Chairman position, the Vice-Chairman shall serve as Chairman until the next regularly scheduled meeting. At its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Chairman until the next election held in July of even-numbered years.

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

D. The Executive Director shall be the principal executive officer PEBA and, subject to the control of the Board of directors, shall, in general, perform and fulfill the statutory duties, responsibilities and powers conferred upon that office, and supervise and control all of the business and affairs of PEBA and have responsibility for the development and implementation of the strategic direction and initiatives of PEBA.

E. The Board shall, in each regular meeting held in the month of July of even-numbered years, select a Vice-Chairman from among its nonrepresentative members to serve for the ensuing twenty-four months. If there is a vacancy in the Vice Chairman position, at its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Vice Chairman until the next election held in July of even-numbered years. In the absence of the Chairman, the Vice Chairman shall preside at Board meetings.

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

VIII. RULES OF ORDER

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

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

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

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

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

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

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

i. Call to Order
ii. Approval of previous Board meeting minutes
iii. Committee Reports
iv. Executive Director Report
v. Other Business
vi. Adjournment

IX. MEETING MINUTES

A. Minutes of the Board's meetings will be taken in accordance with law, and such records are open to public inspection.

B. The Chairman will cause the minutes of all Board meetings to be prepared, recording therein the time and place of each meeting, the names of the Board members present, and the actions of the Board giving the affirmative and dissenting votes, except where the action is unanimous, and when requested, a Board member's dissent or approval with reasons.

C. The Chairman will cause the minutes to be presented for approval at the next regular Board meeting. Board minutes will focus on describing any actions that occurred, and will provide sufficient detail to evidence the Board's due diligence in the matter. The minutes of a meeting during which an executive session is held will reflect the topic of the discussion at the executive session.

D. The minutes as approved by the Board, will be preserved as a part of the public record of the Board, and will be kept open to public inspection in accordance with law.

E. Board proceedings will be recorded on audio. The audio recordings will be kept at least until official minutes of the meeting are approved, after which time they may be destroyed.

X. REVIEW, HISTORY, AND AMENDMENT

A. The Board will review the PEBA Bylaws at least every three years to ensure that they remain relevant and appropriate.
B. No provision within these Bylaws shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.
C. As indicated by the signatures of the Board members below, these Bylaws were adopted by a majority of the Board members at a duly convened meeting of the Board on November 21, 2012.
D. These Bylaws may be amended only upon a majority vote of the Board members at a duly convened meeting of the Board upon proper notice pursuant to the FOIA. For purposes of this provision, majority shall mean a majority of the total membership of the Board, not simply a

majority of the Board members present at any meeting convened for the purpose of amending the Bylaws.

As approved and adopted:

THE BOARD OF DIRECTORS FOR THE
SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

By: ______________________________ By: ______________________________

By: ______________________________ By: ______________________________

By: ______________________________ By: ______________________________

By: ______________________________ By: ______________________________

By: ______________________________ By: ______________________________

By: ______________________________

Dated: ______________________________

Effective date of
this endorsement: **July 1, 2012**

Insurer: **RLI Insurance Company**

Issued to: **South Carolina Retirement System**

To be attached to and form part of
Policy No.: **EPG0011357**

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY

AMEND ITEM 6. INSURED PLANS AND ANY OTHER ADDITIONAL INSUREDS

It is agreed that Item 6. of the Declarations includes the following **Insured Plans** and/or additional **Insureds**:

PEBA Retirement Plans and Trust

Retirement Plans

South Carolina Retirement System
Police Officers Retirement System
Retirement System for Members of the General Assembly
Retirement System for Judges and Solicitors
National Guard Retirement System
State Optional Retirement Program

Trust

Retirement Group Trust

PEBA Insurance Plans and Trusts

Self Insured Plans

State Health Plan Standard
State Health Plan Savings
Blue Choice HMO
Cigna HMO
State Dental Plan
Basic Long-Term Disability
Basic Life Insurance Program

Fully Insured Plans

Blue Choice HMO
Dental Plus
Supplemental Long-Term Disability

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED.

Optional Life Insurance
Dependent Life Insurance
State Vision Plan
Long Term Care

<u>Trusts</u>

Retiree Health Insurance Trust Fund
Long-Term Disability Insurance Trust Fund

ALL OTHER TERMS AND CONDITIONS OF THIS POLICY REMAIN UNCHANGED.

DRAFT

A BILL

A BILL TO PROVIDE DEFENSE AND INDEMNIFICATION TO MEMBERS OF THE BOARD OF DIRECTORS OF THE PUBLIC EMPLOYEE BENEFIT AUTHORITY FOR PERFORMANCE OF OFFICIAL DUTIES AND TO DEFEND AND INDEMNIFY OFFICERS AND MANAGEMENT EMPLOYEES OF THE PUBLIC EMPLOYEE BENEFIT AUTHORITY WHO ARE NOT ACTING IN BAD FAITH FOR THE PERFORMANCE OF OFFICIAL DUTIES, AND TO PROVIDE IMMUNITY FROM LIABILITY FOR DIRECTORS, OFFICERS AND MANAGEMENT EMPLOYEES OF PEBA COMPLYING WITH THE GOOD FAITH AND RELIANCE PROVISIONS OF THIS SECTION, AND TO PROVIDE THAT THIS SECTION DOES NOT GIVE RISE TO A CAUSE OF ACTION AGAINST DIRECTORS, OFFICERS AND MANAGEMENT EMPLOYEES OF PEBA.

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

Section 1. Section 9-4-15 of the South Carolina Code of Laws, is hereby enacted:

(A) The State must defend the members of the Public Employee Benefit Authority Board of Directors (PEBA Board) against a claim or suit that arises out of, or by virtue of, their performance of official duties on behalf of the PEBA Board and must indemnify these members for a loss or judgment incurred by them as a result of the claim or suit, without regard to whether the claim or suit is brought against them in their individual or official capacities, or both. The State shall defend and indemnify a member of the PEBA Board without regard to whether the Board member complied with the provisions set out in subsections (C), (D), and (E) of this section. This commitment to defend and indemnify extends to members of the PEBA Board after they have left their employment with PEBA, if the claim or suit arises out of, or by virtue of, their performance of official duties on behalf of PEBA.

(B) The State must defend officers and management employees of the Public Employee Benefit Authority (PEBA) against a claim or suit that arises out of, or by virtue of, performance of official duties unless the officer or management employee was acting in bad faith and must indemnify these officers and management employees for a loss or judgment incurred by them as a result of such claim or suit, without regard to whether the claim or suit is brought against them in their individual or official capacities, or both, unless the officer or management employee was acting in bad faith. This commitment to defend and indemnify extends to officers and management employees of PEBA after they have left their employment with PEBA, if the claim or suit arises out of, or by virtue of, their performance of official duties on behalf of PEBA.

(C) A member of the PEBA Board, or an officer or management employee of PEBA, shall discharge his official duties as a director, including his duties as a member of a committee, or as an officer or management employee of PEBA:

(1) in good faith;
(2) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
(3) in a manner he reasonably believes to be in the best interests of PEBA's employee benefit plans and the participants and beneficiaries of PEBA's employee benefit plans.

(D) In discharging his duties, a director, officer or management employee of PEBA is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

(1) one or more officers or employees of the State whom the director, officer or management employee reasonably believes to be reliable and competent in the matters presented;
(2) legal counsel, public accountants, actuaries or other persons as to matters the director, officer or management employee reasonably believes are within the person's professional or expert competence; or
(3) a committee of the board of directors of which a director is not a member if the director reasonably believes the committee merits confidence.

(E) A director, officer or management employee of PEBA is not acting in good faith if he has knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (D) unwarranted.

(F) A director, officer, or management employee of PEBA is not liable for any action taken as a director, officer, or management employee, or any failure to take any action, if he performed his official duties in compliance with subsections (C), (D) and (E) of this section.

(G) Nothing in this section shall be construed as creating or otherwise giving rise to a cause of action against a member of the PEBA Board or against an officer or management employee of PEBA.

Section 2. If any section, subsection, paragraph, subparagraph, sentence, clause, phrase, or word of this Act is for any reason held to be unconstitutional or invalid, such holding shall not affect the constitutionality or validity of the remaining portions of this act, the General Assembly hereby declaring that it would have passed this act, and each and every section, subsection, paragraph, subparagraph, sentence, clause, phrase, and word thereof, irrespective of the fact that any one or more other sections, subsections, paragraphs, subparagraphs, sentences, clauses, phrases, or words hereof may be declared to be unconstitutional, invalid, or otherwise ineffective.

Section 3. This Act shall take effect on July 1, 2012.

DRAFT

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY
PEBA

Public Employee Benefit Authority (F500)

Budget Request - Fiscal Year 2013-2014

Funded Program Name	Line		2012-2013 Appropriation (Current Year)	2013-2014 Agency Request
I. Public Employee Benefit Authority - Administration				
PEBA Administration				
	Director		$ -	$ 140,000
	PEBA Board Member Salary		$ -	$ 132,000
	Classified Positions		$ -	$ 693,547
	Other Operating		$ -	$ 971,817
		Total	$ -	$ 1,937,364
II. Employee Benefit Programs & Services				
A. Employee Insurance Program				
	Classified Positions		$ 4,694,833	$ 4,064,027
	Unclassified Positions		$ 328,057	$ 423,899
	Other Personal Services		$ 240,000	$ 174,000
	Other Operating		$ 4,162,981	$ 4,219,814
	Adoption Assistance		$ 300,000	$ 300,000
		Total	$ 9,725,871	$ 9,181,740
B. Retirement Systems				
	Classified Positions		$ 8,680,777	$ 8,048,098
	Unclassified Positions		$ 947,331	$ 711,489
	Other Personal Services		$ 272,829	$ 206,829
	Other Operating		$ 7,300,753	$ 6,772,103
		Total	$ 17,201,690	$ 15,738,519
III. Employee Benefits	Employer Contributions		$ 4,402,530	$ 4,472,468
		Total	$ 4,402,530	$ 4,472,468
Agency Total			$ 31,330,091	$ 31,330,091

Recommendation to Discontinue Offering a Group Long Term Care Program

The State has offered a Voluntary (the employee pays all premiums) Group Long Term Care Insurance benefit, without a medical underwriting requirement, since 1988. S.C. Code § 1-11-740 allows the South Carolina Public Employee Benefit Authority (PEBA) to offer a Long Term Care product, depending on the availability of a qualified vendor, but PEBA is not required to do so. Since the establishment of the Voluntary Group Long Term Care Insurance benefit, the State has contracted with two insurers, Aetna Life Insurance Company (Aetna) and Prudential Life Insurance Company (Prudential). Aetna ceased offering Group Long Term Care in 2008. Prudential, which has been the insurer since 2009, discontinued sales of its Group Long Term Care Insurance products effective August 1, 2012, and will no longer accept new enrollments as of midnight, June 30, 2013.

The State currently has only 11,000 persons (approximate) enrolled in the Group Long Term Care program. There are 4,373 active employees, 2,424 retirees, 365 terminated employees, and 1,258 classified as “others” (parents, parents-in-law, grandparents, grandparents-in-law, adult children, and adult children's spouses) enrolled in the Prudential Group Long Term Care Insurance Plan. In addition, there are approximately 2,500 people who chose to remain in Aetna’s Long Term Care benefit program.

After discussions with Prudential, MetLife, Genworth, Transamerica, and our actuarial consultants, Gabriel Roeder Smith & Company, conducted in September and October of this year, we recommend discontinuing the Group Long Term Care Program at this time. The basis for this recommendation is as follows:

- The State issued a Request for Information on August 30, 2012, to identify companies that are interested in, and capable of, issuing Voluntary Group Long Term Care Insurance without a medical underwriting requirement and with or without a reserve funds transfer for the State of South Carolina. Only one response was received, from Transamerica Life Insurance Company. In its response, Transamerica stated it does not offer Group Long Term Care. In addition, Transamerica will not agree to a reserves transfer from the current contractor.

  Genworth Life Insurance, thought to be the only company now offering true Group Long Term Care policies for large employers, was contacted regarding Genworth’s interest in providing Group Long Term Care Insurance to the State. Per Cathi-Lynne Ames, National Sales Vice President at Genworth Group Long Term Care, Genworth will not agree to a reserves transfer from the current contractor and will not provide a quote without a medical underwriting requirement.

It is apparent that more and more companies are ceasing to offer true Group Long Term Care policies for large employers like the State due to the impact of the continued low interest rate environment. In addition to Aetna and Prudential, MetLife and Unum have also recently halted sales of Group Long Term Care policies.

Based on the lack of responses to our Request for Information, and our subsequent research, securing Group Long Term Care replacement coverage with a new carrier without a medical underwriting requirement and with or without funds transfer is not an option under the current market conditions.

- In its response to our Request for Information, Transamerica stated it does not offer Group Long Term Care. All Long Term Care Insurance policies sold by Transamerica are individual policies; however, policies can be offered on a Multi-Life platform.

  Multi-Life platform policies are individual policies with individual medical underwriting, and no guaranteed issue (multi-life policies are essentially bundled Long Term Care Insurance written as individual policies but with a 5 percent to 15 percent discount for the group).

  We understand that Genworth, John Hancock, MedAmerica and Transamerica all currently offer products on a Multi-Life platform.

  Based on the fact that every person must undergo medical underwriting to qualify, which they did not for the State's current Group Long Term Care Insurance benefit, we do not think it is prudent to enter into a contract to offer long term care Multi-Life platform policies. While PEBA cannot and would not be involved in underwriting decisions for a fully insured product, subscribers would have underwriting issues for which PEBA's assistance would be expected. In addition, our active subscribers have always been allowed to enroll in new products as a guaranteed issue; initial underwriting may cause frustration and misunderstanding. As such, securing a carrier to offer long term care Multi-Life platform policies is not recommended.

Based on our research, the most favorable option under the current market conditions is to discontinue offering a Group Long Term Care program at this time.

Existing plan participants would continue to be covered under the terms and conditions of their Prudential Long Term Care Insurance certificates, which are guaranteed renewable. This means that as long as premiums are paid on time, and benefits are not exhausted, coverage cannot be cancelled. Prudential pays claims, provides inflation increase offers, and members may decrease their coverage at any time.

Rates are not currently changing as a result of Prudential's decision to disengage. Consistent with Prudential's existing policy language, Prudential may adjust rates based on experience, on a class basis, subject to regulatory review and approval.

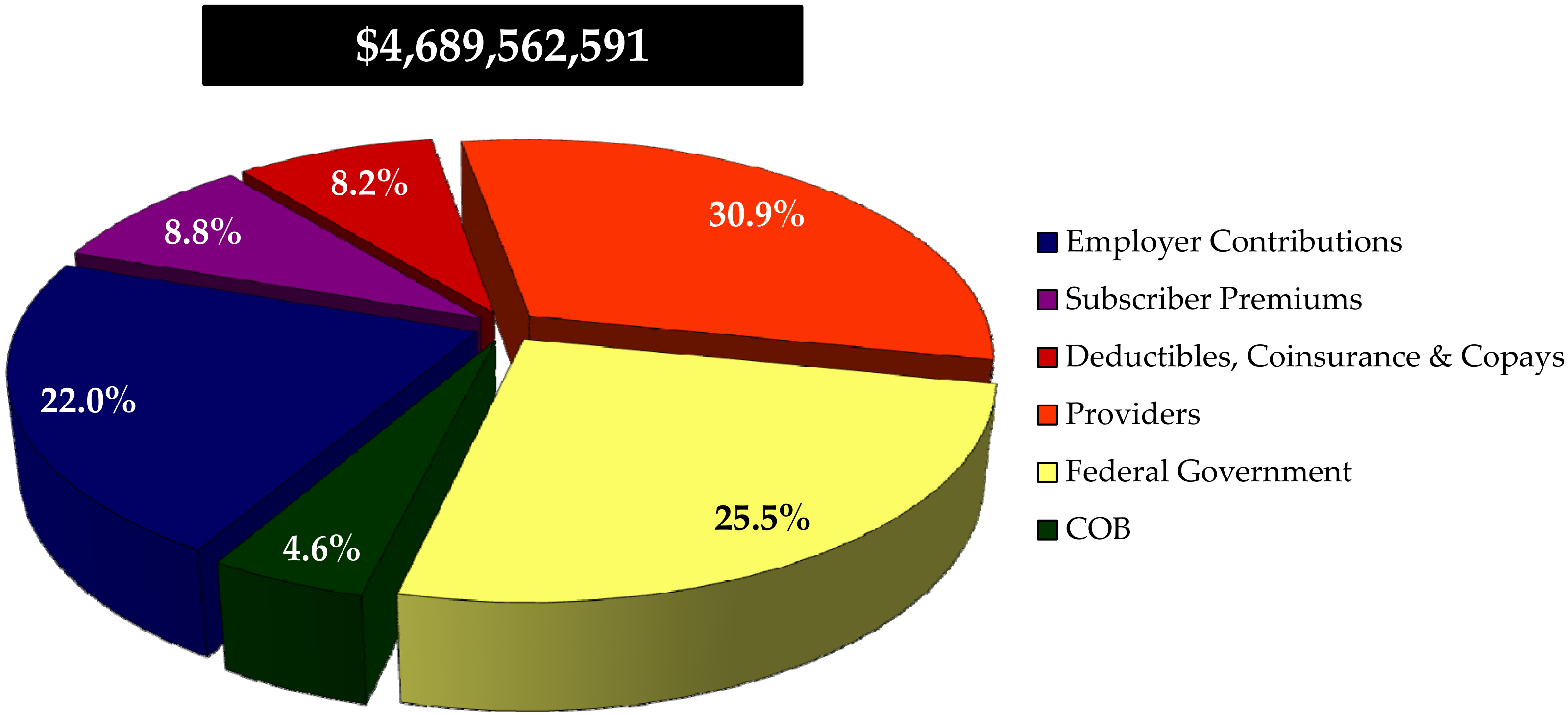
State of South Carolina

Medical & Pharmacy Benefits Overview

November 21, 2012

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Who Pays the Cost of Healthcare?



The chart above is based on Plan Year 2011 data as of September 30, 2012.

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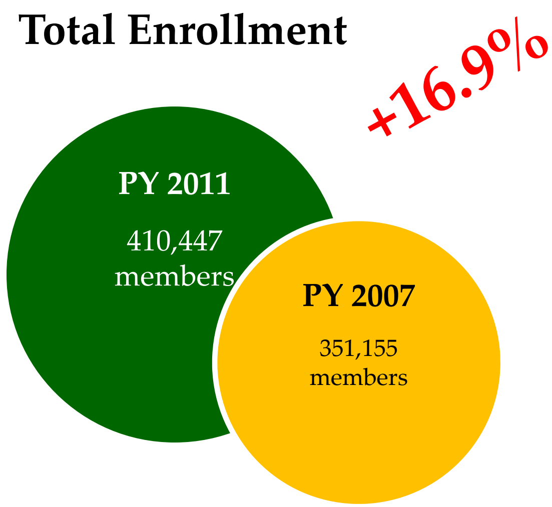
Four-Year Growth



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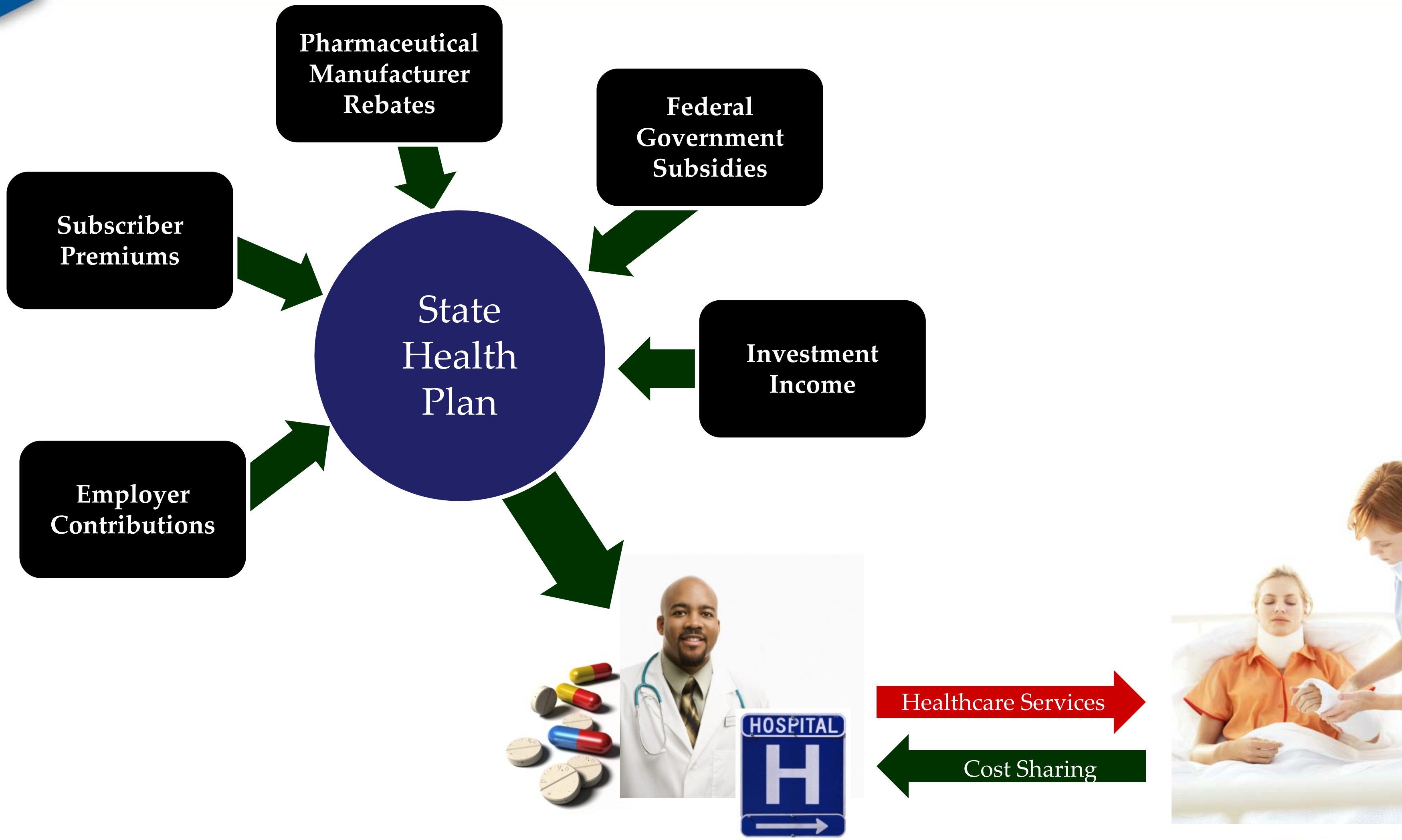
State Health Plan Revenue Model



Annual Benefits Budget

	State Health Plan Budget (in Millions)				
	2009	2010	2011	2012	2013 Projected
Beginning Balance	$263.2	$181.2	$202.8	$306.1	$298.1
INCOME					
Employer Contribution	913.5	976.0	1,102.7	1,170.8	1,224.7
Subscriber Contribution	389.3	425.2	442.4	466.4	487.2
OPEB Implicit Subsidy Transfer	13.5	15.8	38.1	0	0
Investment Income	10.5	5.7	7.2	7.0	7.3
RDS Subsidy	27.2	34.0	40.8	43.2	45.6
ERRP[1]	0	0	0	27.1	0
Pharmaceutical Rebates & Litigation[2]	50.9	66.4	66.1	86.8	65.8
EXPENSES					
Claims	1,315.9	1,404.1	1,517.8	1,649,9	1,804.3
Administrative Expenses	53.0	58.2	55.6	58.6	59.8
Transfer to OPEB Trust	97.3	26.9	16.1	100.8	42.5
Ending Balance	**$181.2**	**$202.8**	**$306.1**	**$298.1**	**$222.1**
Premium Increases					
Employer	0%	0%	10.3%	4.5%	4.6%
Employee/Retiree	0%	0%	0%	4.5%	4.6%

[1] The Early Retirement Reinsurance Program (ERRP) was a temporary program under the Affordable Care Act (ACA). This program is not anticipated to be available in the future.

[2] Due to the unpredictability of the timing and amount of income received by the State as a result of litigation, no income has been projected for future plan years for this line item.

GRS

Current Per Capita Trend

Component	Medical	Pharmacy
Utilization	3.49%	4.72%
Inflation & Mix of Services	2.37%	6.91%
Leverage	1.12%	2.71%
Total Trend	**6.98%**	**14.34%**

Based on claims paid through 10/26/2012 and enrollment as of 10/1/2012.

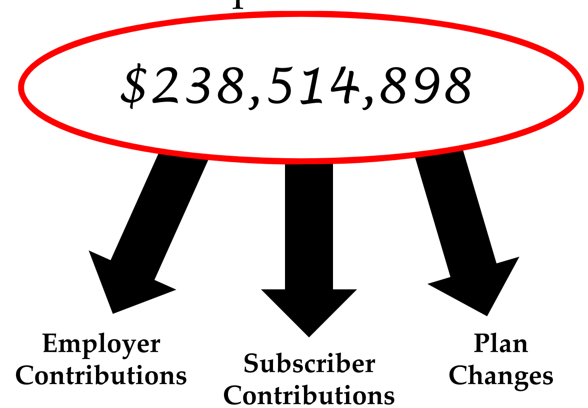
- Utilization trend – the change in the frequency of services provided to members.
- Inflation - the change in allowed price per service for the same service.
- Mix of Services – the change in types of services being rendered.
- Leverage – the change in value (to the member) of an unchanged plan design.

GRS

Annual Benefits Budget

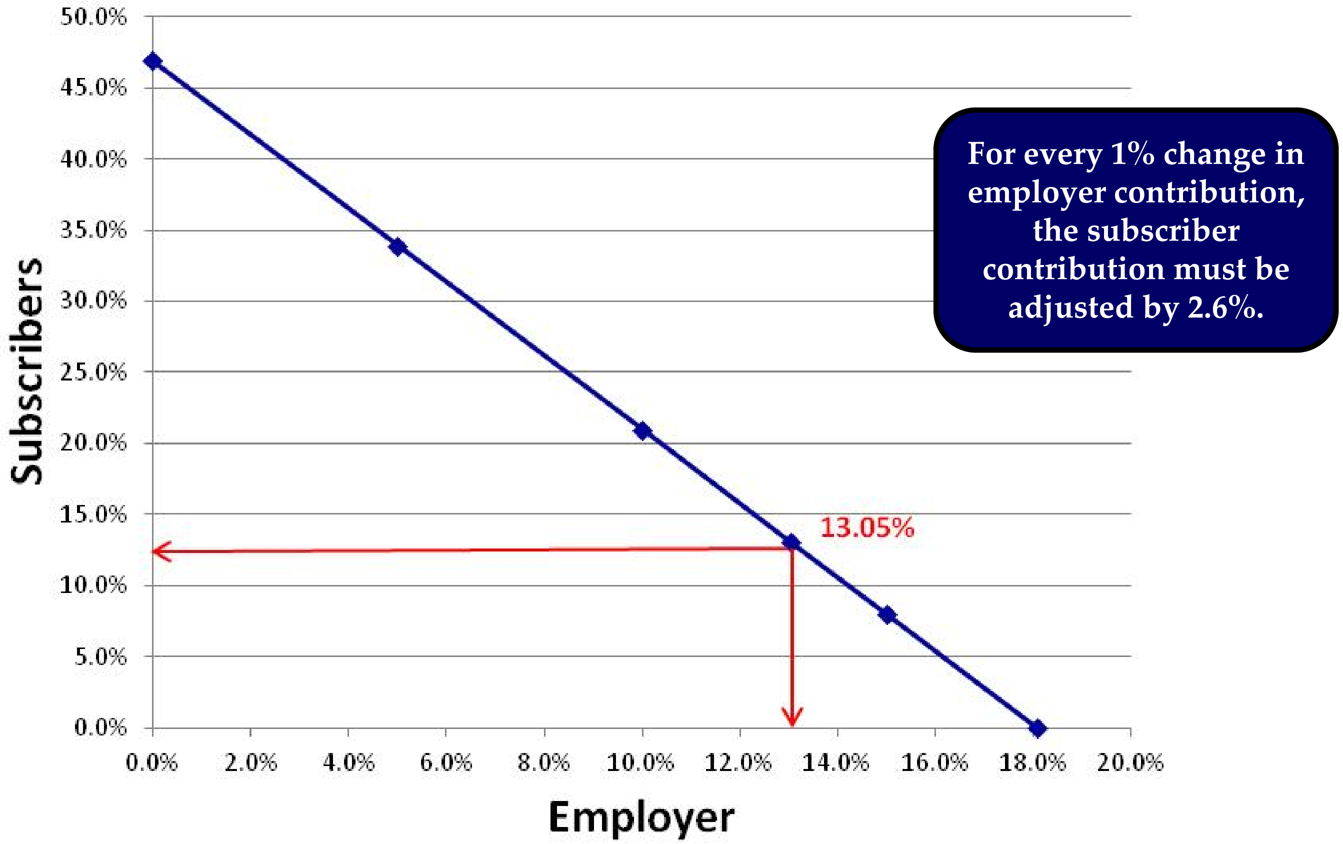
	Projected Budget (in Millions)	
	PY 2013	PY 2014
Beginning Balance	$298.1	$222.1
INCOME		
Employer Contribution	1,224.7	1,394.9
Subscriber Contribution	487.2	552.9
Investment Income	7.3	7.3
RDS Subsidy	45.6	48.2
Pharmaceutical Rebates	65.8	65.8
Sub-total	1,830.6	2,069.1
EXPENSES		
Claims	1,804.3	1,993.6
Administrative Expenses	59.8	61.0
Transfer to OPEB Trust	42.5	0
Sub-total	1,906.6	2,054.6
Ending Balance	**$222.1**	**$236.7**

Total Additional Funding Requirement



Increased Contributions

- Assuming current enrollment levels, the $238 million additional funding requirement equates to $77.90 per subscriber per month.



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Plan Design Options

Maintain Grandfathered Status	
Plan Design Feature	**Estimated Savings (PEPM)**
☐ Increase Deductibles to $420/$840	($7.48)
☐ Increase Coinsurance Maximum to $2,400/4,800	($3.58)
☐ Increase Physician Office Visit copay to $12	($3.19)
☐ Increase Emergency Room copay to $150	($1.11)
☐ Increase Outpatient Hospital copay to $90	($8.00)
☐ Pharmacy Benefit Retail copay: $9/36/60 Mail Order copay: $22/90/150 Copay maximum of $3,000 PBM procurement for current market pricing	($11.84)
☐ Implement EGWP + Wrap Plan[1]	($13.34)
☐ Restructured medical provider network	($21.80)
☐ Restructured pharmacy network	($8.59)
TOTAL	**($78.93)**

[1] Medicare eligible individuals only.

- If the State's objective is to keep its Grandfathered status, the plan has limited flexibility in making plan design changes.
  - Fixed dollar deductibles and copayments may be increased by an amount not to exceed 15% plus the increase in medical CPI since March 23, 2010.

GRS

Plan Design Options

ACA Compliant	
Plan Design Feature	Estimated Savings (PEPM)
☐ Increase Deductibles to $500/$1,000	($16.57)
☐ Increase Coinsurance Maximum to $3,000/6,000	($22.40)
☐ Implement PCP Non-Well Office Visit Copay of $10	$0
☐ Implement Specialist Office Visit Copay of $25	($15.37)
☐ Increase Emergency Room copay to $150	($1.14)
☐ Increase Outpatient Hospital copay to $90	($5.77)
☐ Implement Outpatient Hospital High End Radiology copay of $175	($2.01)
☐ Implement Inpatient Hospital copay of $250	($4.23)
☐ Pharmacy Benefit Retail copay: $9/40/80 Mail Order copay: $22/100/200 Implement Specialty coinsurance of 10% *($125 minimum and $250 maximum)* PBM procurement for current market pricing	($10.80)
☐ Restructured medical provider network	($22.48)
☐ Restructured pharmacy network	($8.86)
☐ Implement Medicare Advantage Plan[1]	Unknown
☐ Implement EGWP + Wrap Plan[1]	($13.76)
TOTAL	**($123.39)**

[1] Medicare eligible individuals only.

- In order to become ACA compliant, certain additional preventive care benefits must be covered by the plan with no out-of-pocket costs to the member. (See the USPSTF A and B recommendations for a complete listing of preventive care benefits.)
- ACA compliance gives the plan greater flexibility for making changes to existing plan design features.

GRS

Plan Design Options

	Maintain Grandfathered Status	ACA Compliant
Additional Funding Requirement (PEPM)	$77.90	$77.90
ACA Compliance	+ 0	+ 22.38
Sub-total	$77.90	$100.28
Total Plan Design Adjustments[1]	($78.93)	($123.39)
TOTAL	**($1.03)**	**($23.11)**

[1] Total Plan Design Adjustments represents the sum of each plan design change under consideration. Results will vary based on actual changes selected.

GRS

Long-term Strategic Initiatives

- Payment reform pilot programs
  - Accountable Care Organizations
  - Global and Case Rate reimbursement
  - Patient Centered Medical Homes
  - On-site clinics operated by the State
- Plan Design
  - Value based plan design
    - Rewarding members for efficient use of health care through incentives (e.g. plan design, cash, etc.)
  - Specialty pharmacy
    - Implement higher levels of management on high cost pharmaceuticals
- Network Structure
  - High performance networks
    - Contract only with hospitals and physicians that meet quality and cost standards

Possible Wampee Schedule

Day 1 (Thursday, 1/31)

10 a.m. –1:00 p.m.

- 15 minute Introductory presentations (Will finalize with several from this list)
    - Vicki Duckworth, Palmetto Primary Care Physicians (PPCP):Patient-Centered Medical Home
    - Judy Baskins, Palmetto Health Baptist, Accountable Care Organization (ACO)
    - University of Michigan: Value Based Medical Insurance
    - Tony Keck, Director of SC Department of Health and Human Services
    - Duke Endowment
    - Mike Madalena, Bill Hickman
    - Jonathan Gruber, "Mr. Mandate," who was involved with development of the ACA.
    - Kaiser Family Foundation researchers/analysts, such as Larry Levitt, Robin Rudowitz, Anthony Damico, Gary Claxton, Laura Snyder, Karen Pollitz. (Can speak to such topics as potential trend of federal reforms, role of preventive care in future healthcare expenditures, etc.)
    - Vernon Smith, Kathleen Gifford or Eileen Ellis, Health Management Associates

- Ms. Hartley to moderate round table discussion

1:00 p.m. – 2:00 p.m. Lunch *(Tentative time)*

2:00 p.m.- 3:00 p.m.

- Retirement Systems Fiduciary Audit presented by Ice Miller*

3:00 p.m.- 4:00 p.m.

- Ennis Knupp/Hershel Harper, SCRS Investment Commission: Asset allocations, ALM Study of the Plan and Performance

4:00 p.m. – 5:00 p.m.

- GRS: *(Tentative)* Future Economic and other Considerations for Defined Benefit Plans

5:30 p.m.-7:30 Dinner

7:30 p.m. – 8:15 p.m.

- Bill Hickman: Other Post Employment Benefits (OPEB) Discussion

Day 2 (Friday, 2/1)

9 a.m. - 11 a.m.

- Workshops
    - Governance document and best practices
    - IT systems redevelopment project planning
    - Mission/vision statement and customer satisfaction benchmarks

11 a.m. - 1 p.m.

- Official Board meeting
    - Committee reports
    - Legislation status update (Indemnification Bill, Amendments to Act 278)
    - Approval of Actuarial Valuations, GRS

Below are five recommendations for the PEBA Board of Directors to accept as information the actuarial valuations for the retirement systems administered by PEBA as of July 1, 2011, and, where necessary, to adopt the contribution rates recommended therein for the fiscal year beginning July 1, 2013. This action is required because the PEBA Board's prior action on these valuations was not approved by a decision of the South Carolina Budget and Control Board at its October 30, 2012 meeting.

These action items will require five separate motions by the PEBA Board. If approved, they will be presented at the Budget and Control Board's December 12 meeting as five separate agenda items for recommendation and approval.

1. Pursuant to Section 9-1-260, accept as information the actuarial valuation for the South Carolina Retirement System (SCRS) as of July 1, 2011.

2. Pursuant to Sections 9-11-30(6) and 9-11-225(C), accept as information the actuarial valuation for the South Carolina Police Officers' Retirement System (PORS) as of July 1, 2011, and adopt an employee contribution rate of 7.84% and an employer contribution rate of 12.84% for the fiscal year beginning July 1, 2013, based upon that valuation.

3. Pursuant to Sections 9-8-30(5) and 9-8-140, accept as information the actuarial valuation for the Retirement System for Judges and Solicitors (JSRS) as of July 1, 2011, and adopt an employer contribution rate of 47.33% for the fiscal year beginning July 1, 2013, based upon that valuation.

4. Pursuant to Sections 9-9-30(5) and 9-9-130, accept as information the actuarial valuation for the Retirement System for Members of the General Assembly (GARS) as of July 1, 2011, and adopt an employer contribution of $4.063 million for the fiscal year beginning July 1, 2013, based upon that valuation.

5. Pursuant to Sections 9-10-20(G) and 9-10-60(D), accept as information the actuarial valuation for the National Guard Retirement System (NGRS) as of July 1, 2011, and adopt an employer contribution of $4.539 million for the fiscal year beginning July 1, 2013, based upon that valuation.