

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

AND

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

WITH

INDEPENDENT AUDITORS' REPORT

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INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

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YEAR ENDED JUNE 30, 2023
WITH
INDEPENDENT AUDITORS' REPORT

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October 16, 2023

Members of the South Carolina Public Employee
Benefit Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Public Employee Benefit Authority, Insurance Benefits and Other Post Employment Benefits Trust Funds for the fiscal year ended June 30, 2023, was issued by Crowe LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor and
Members of the South Carolina Public
Employee Benefit Authority
South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina Retiree
Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund
Columbia, South Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of South Carolina Public Employee Benefit Authority Insurance Benefits (PEBA), an internal service fund of the State of South Carolina, the South Carolina Retiree Health Insurance Trust Fund, a fiduciary fund of the State of South Carolina, and the South Carolina Long-Term Disability Insurance trust Fund, a fiduciary fund of the State of South Carolina, collectively referred to as "PEBA Insurance Benefits," as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise PEBA Insurance Benefits' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of PEBA Insurance Benefits as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PEBA Insurance Benefits, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only South Carolina Public Employee Benefit Authority Insurance Benefits (PEBA), an internal service fund of the State of South Carolina, the South Carolina Retiree Health Insurance Trust Fund, a fiduciary fund of the State of South Carolina, and the

South Carolina Long-Term Disability Insurance Trust Fund, a fiduciary fund of the State of South Carolina, and do not purport to, and do not present fairly the financial position of the State of South Carolina, as of June 30, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PEBA Insurance Benefits' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEBA Insurance Benefits' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PEBA Insurance Benefits' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

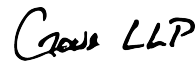
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-22, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employers' Proportionate Share of the Net Pension Liability – South Carolina

Retirement System on page 71, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employer Pension Contributions – South Carolina Retirement System on page 72, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employer's Proportionate Share of the Net OPEB Liability on page 73, Schedule of South Carolina Public Employee Benefit Authority, Insurance Benefits' Employer OPEB Contributions on page 74, Schedule of Changes in Net OPEB Liability and Related Ratios on page 75, Schedule of Net OPEB Liability on page 77, and Schedule of OPEB Investment Returns on page 78 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2023 on our consideration of PEBA Insurance Benefits' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PEBA Insurance Benefits' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PEBA Insurance Benefits' internal control over financial reporting and compliance.



Crowe LLP

Dallas, Texas
October 16, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis for the financial performance of South Carolina Public Employee Benefit Authority, Insurance Benefits (PEBA, Insurance Benefits), the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF) during the fiscal year ended June 30, 2023. This section should be read in conjunction with the financial statements and the notes, which follow this section.

Questions about this report, or requests for additional financial information should be addressed as follows:

Phyllis Buie, Director of Insurance Operations
PEBA, Insurance Benefits
202 Arbor Lake Drive
Columbia, SC 29223

Travis Turner, Deputy Director
South Carolina Public Employee Benefit Authority
202 Arbor Lake Drive
Columbia, SC 29223

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY, INSURANCE BENEFITS

The financial statement presentation required under governmental accounting standards provides a comprehensive perspective of the South Carolina Public Employee Benefit Authority, Insurance Benefits' assets, liabilities, deferred inflows and outflows of financial resources, net position, revenues, expenses, changes in net position and cash flows.

Financial Highlights

Business Type activities reported an increase in net position of \$36,699,876 and a total net position of \$408,936,614 for the year ended June 30, 2023. In comparison, a decrease in net position of \$108,938,073 and total net position of \$372,236,738 was reported for the year ended June 30, 2022.

Overview of Financial Statements

PEBA, Insurance Benefits is a proprietary type internal service fund engaged in Business Type activities. Following is a condensed Statement of Net Position, a condensed Statement of Activities and a condensed Statement of Cash Flows.

The Statement of Net Position presents the financial position of PEBA, Insurance Benefits at the end of the fiscal year and requires classification of assets and liabilities into current and noncurrent categories. The difference between total assets, total liabilities, and deferred inflows and outflows of financial resources is reflected in the net position section, which displays net investment in capital assets and unrestricted net position. Net position is generally an indicator of the current financial condition of PEBA, Insurance Benefits, while the change in net position is generally an indicator of the overall financial condition for the year.

Overview of Financial Statements (continued)

In accordance with the provisions of the SCRHITF, excess PEBA, Insurance Benefits' reserves above 140% of incurred but not reported claims, as of December 31 each year, to the extent available in order to maintain a reserve balance equal to but not less than one and one-half months' claims expense, will be transferred to the SCRHITF the following January. However, due to the impact of Covid-19 to the State Health Plan, legislators granted PEBA, Insurance Benefits a special exemption and waived the transfer for this fiscal year to the SCRHITF.

The Statement of Revenue, Expenses, and Changes in Net Position present revenue and expenses as operating and are detailed by classification.

The Statement of Cash Flows will aid readers in identifying the sources and uses of cash by the categories of operating, non-capital financing and investing activities.

The following schedule is a condensed version of PEBA, Insurance Benefits' assets, liabilities, and net position and is prepared from the Statement of Net Position.

Condensed Statements of Net Position (in millions)		
	June 30, 2023	June 30, 2022
Assets		
Current assets	\$ 781.3	\$ 689.9
Noncurrent assets	0.1	0.1
Total assets	781.4	690.0
Deferred outflow of resources	6.9	7.3
Liabilities		
Current liabilities	347.9	292.9
Noncurrent liabilities	26.3	29.1
Total liabilities	374.2	322.0
Deferred inflow of resources	5.2	3.1
Net position		
Net investment in capital assets	0.1	0.1
Unrestricted	408.8	372.1
Total net position	\$ 408.9	\$ 372.2

Overview of Financial Statements (continued)

The following schedule is a summary of PEBA, Insurance Benefits' operating results for the fiscal year.

Condensed Statements of Revenues, Expenses, and Changes in Net Position Year Ended June 30, (in millions)

	2023	2022
Operating:		
Program revenue	\$ 3,838.5	\$ 3,428.7
Expenses	(3,813.3)	(3,546.0)
Total operating income/(loss)	25.2	(117.3)
Non-operating:		
Earnings on investments	11.5	8.3
Total non-operating income	11.5	8.3
Change in net position	36.7	(109.0)
Net position, beginning of the year	372.2	481.2
Net position, end of the year	<u>\$ 408.9</u>	<u>\$ 372.2</u>

A condensed version of Statement of Cash Flows is presented as follows:

Condensed Statements of Cash Flows Year Ended June 30, (in millions)

	2023	2022
Cash flows provided by / (used in) operating activities	\$ 60.6	\$ (1.6)
Cash flows used in capital and related financing activities	-	-
Cash flows provided by investing activities	11.5	8.3
Net increase in cash and cash equivalents	72.1	6.7
Cash and cash equivalents, beginning of year	491.9	485.2
Cash and cash equivalents, end of year	<u>\$ 564.0</u>	<u>\$ 491.9</u>

Overview of PEBA, Insurance Benefits

PEBA, Insurance Benefits manages group health, dental, life, accidental death and dismemberment, and disability programs as authorized in § 1-11-710 and § 1-11-720 of the South Carolina Code of Laws, as well as the flexible benefits program (MoneyPlus) as authorized in § 9-1-60, and the employee adoption assistance program, pursuant to Proviso 108.2 of the 2022-2023 General Appropriations Act.

Following is a list of benefits offered by PEBA, Insurance Benefits differentiated according to self-insured versus insured status.

Self-Insured Programs

- State Health Plan:
Standard Plan (PPO)
Medicare Supplement
Savings Plan (HDHP)
MUSC Health Plan
- State Dental Plan
- Basic Long Term Disability
- Adoption Assistance Program

Insured Programs

- Tricare Supplement
- Dental Plus
- State Life
- Optional Life
- Dependent Life
- Supplemental Long Term Disability
- Vision
- MoneyPlus

Benefits are offered to eligible employees and retirees of all state agencies and public school districts, and many local governments. As of June 2023, 826 employers participated in the program. The State Health Plan is PEBA, Insurance Benefits' "flagship" product, a "Preferred Provider Organization" model plan which encompasses medical, prescription drug, and behavioral health coverage. The State Health Plan is the most significant driver of PEBA, Insurance Benefits' financial activity, accounting for approximately 91.5% of all medical revenue.

Overview of the State Health Plan

The State Health Plan (Plan) consists of the Standard Plan, the Medicare Supplement Plan, the Medical University of South Carolina (MUSC) Health Plan, and the Savings Plan. The MUSC Health Plan is a non-grandfathered, ACA-compliant plan offered only to employees and their eligible dependents of MUSC, the Medical University Hospital Authority, and its owned hospitals. The Standard Plan and Savings Plan are grandfathered ACA-compliant plans. The majority of Plan subscribers (64.26%) are enrolled in the Standard Plan, a PPO option available to non-Medicare and Medicare enrollees. Of the remaining subscribers, 26.41% are enrolled in the Medicare Supplement, a retiree option for those enrolled in Medicare, 5.16% are enrolled in the MUSC Health Plan, 3.99% are enrolled in the Savings Plan, and 0.18% are enrolled in the TRICARE Supplement Plan. The Savings Plan is a qualified high deductible health plan (HDHP) available to non-Medicare enrollees.

The State Health Plan remains competitive with other southern state health plans in terms of plan deductibles, coinsurance, and prescription drug coverage. In aggregate, the employer contributes around 81.0% of the total contribution for State Health Plan coverage. The Plan self-contracts provider networks for hospitals and physicians. These networks continue to maintain extremely high participation rates. Following is a look at total enrollment in the State's medical insurance programs and enrollment in the State Health Plan (as of June 2023).

	<u>All Medical Programs</u>	<u>State Health Plan</u>
Total Insured Persons:	522,649	521,625
Subscribers:	295,969	295,431
Spouses:	88,087	87,882
Children:	138,593	138,312
Total Subscribers:	295,969	295,431
Employees:	199,172	198,694
Retirees:	93,555	93,495
Survivors:	2,443	2,443
COBRA:	682	682
Former spouses:	117	117
Active Employees:	199,172	198,694
State Agencies:	59,058	58,872
School Districts:	85,187	85,016
Local Government:	37,982	37,895
Other:	16,945	16,911

State Health Plan Premiums

The State Health Plan operates under a 4-tier premium structure, varying contribution levels according to level of coverage. The coverage levels include Employee Only, Employee/Spouse, Employee/Child, and Full Family. As of June 30, 2023, 57.63% of subscribers had Employee Only coverage, and the remaining 42.37% covered at least one dependent.

Premiums range from \$6,729.36 annually for Employee Only coverage to \$18,348.00 annually for Full Family coverage. Following are the monthly 2023 State Health Plan employee and employer rates.

2023 State Health Plan (Standard Plan) Monthly Premiums

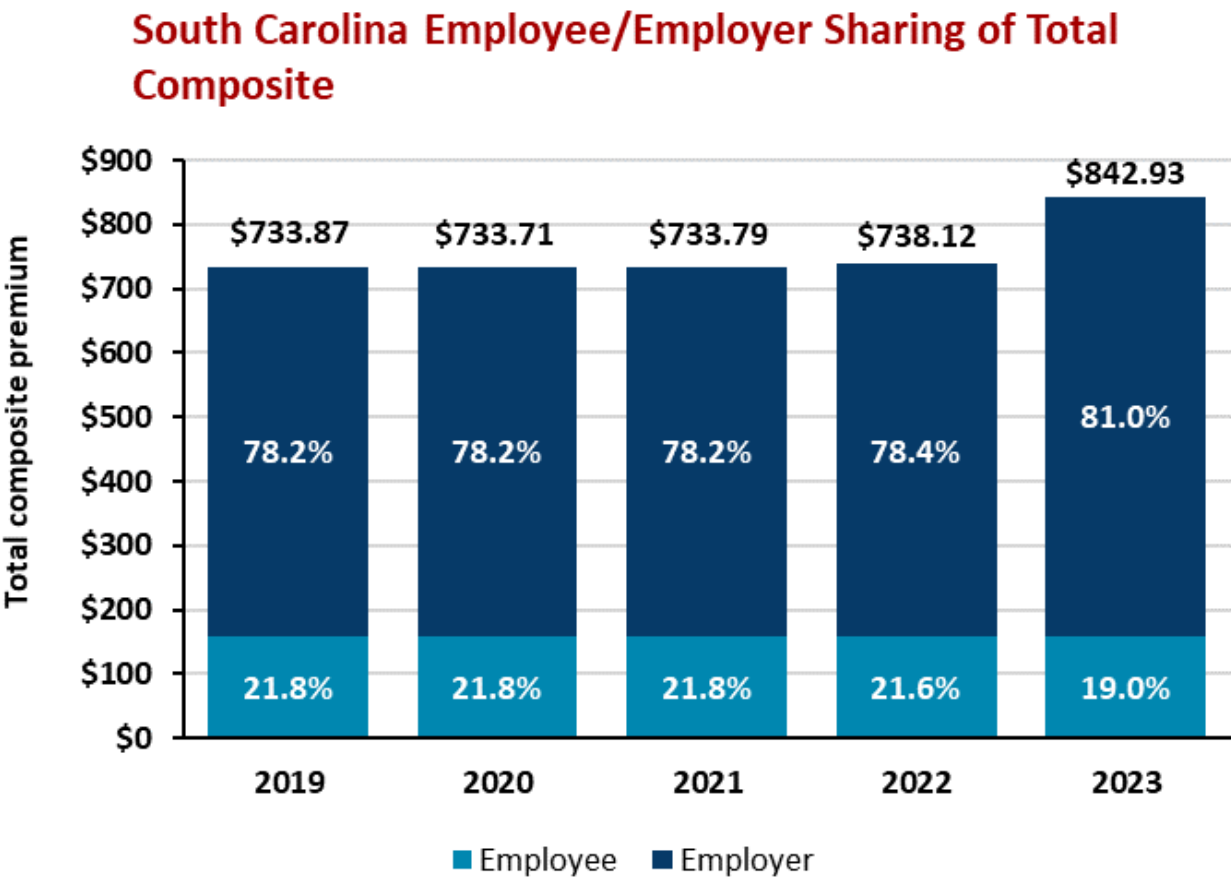
ACTUAL RATES

	Employee	Employer	Total
Employee Only	\$97.68	\$463.10	\$560.78
Employee / Spouse	\$253.36	\$964.88	\$1,218.24
Employee / Child(ren)	\$143.86	\$756.84	\$900.70
Full Family	\$306.56	\$1,222.44	\$1,529.00
Composite Rate	\$159.77	\$683.16	\$842.93

State Health Plan Premiums (continued)

Premium revenue is shared between the employer and the employee (or retiree).

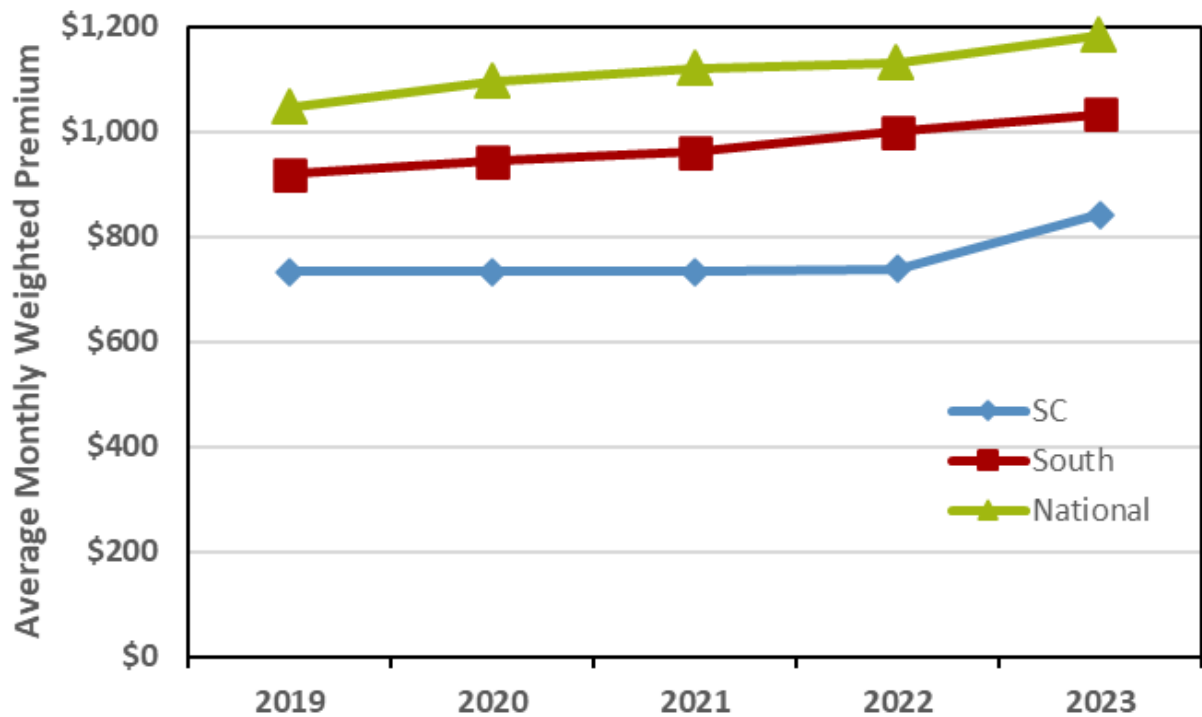
For 2023, the employer share grew while the employee share decreased slightly. The 2023 employee share reflects approximately 19% of the total premium.



State Health Plan Premiums (continued)

The 2023 composite total premium remains fairly well below both the regional and national levels. For 2023, the State Health Plan composite total premium was approximately 82% of the regional premium and 71% of the national premium.

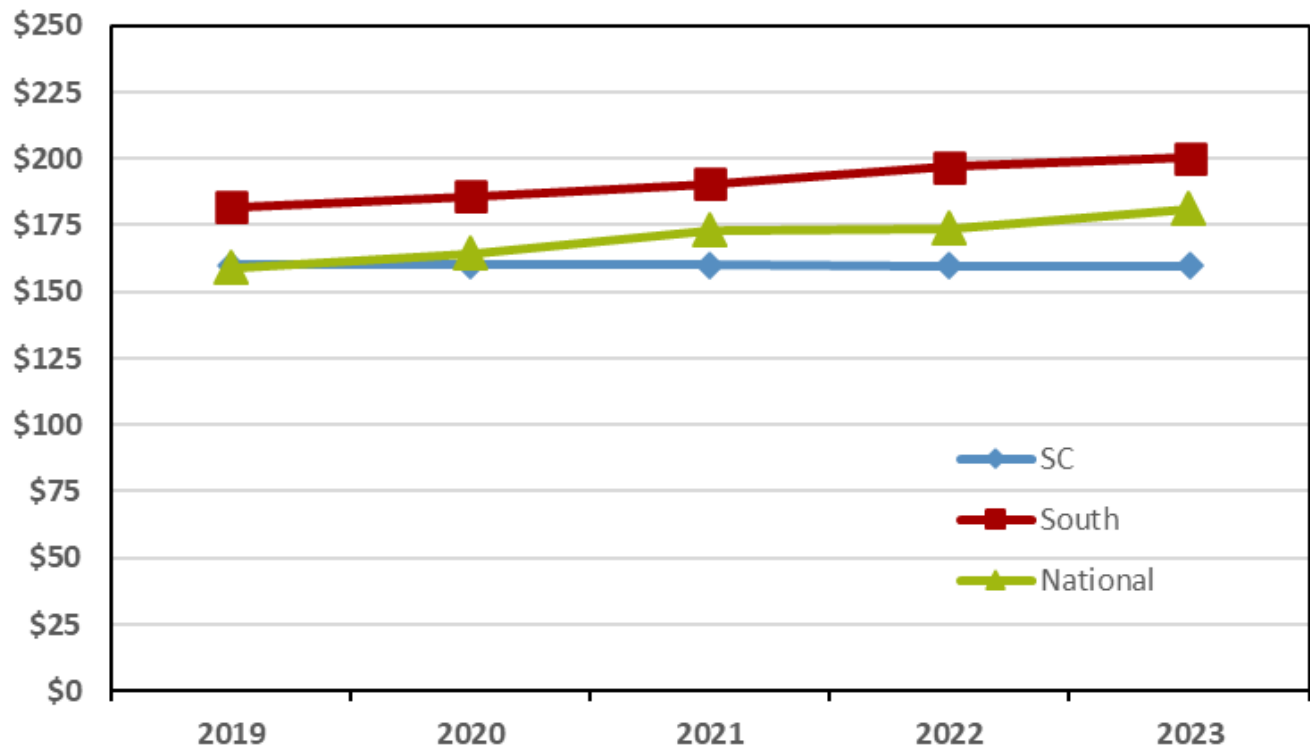
Combined Employee and Employer Averaged Weighted Premiums for State Health Plan Compared to Regional and National Averages



State Health Plan Premiums (continued)

For 2023, the State Health Plan employee composite remained below both the regional composite and the national composite.

Average Weighted Employee Premiums for State Health Plan Compared to Regional and National Averages



State Health Plan Contribution Increases

Contribution increases since 2011 are outlined below.

State Health Plan Contribution Increases			
Plan Year	Employer Rate Increase	Employee Rate Increase	Overall Plan Increase
2011	10.3%	0.0%	7.2%
2012	4.5%	4.5%	4.5%
2013	6.4%	0.0%	4.7%
2014	6.8%	0.0%	5.1%
2015	3.9%	0.0%	2.9%
2016	4.5%	0.0%	3.4%
2017	0.8%	0.0%	0.6%
2018	3.3%	0.0%	2.5%
2019	7.4%	0.0%	5.7%
2020	0.0%	0.0%	0.0%
2021	0.0%	0.0%	0.0%
2022	0.8%	0.0%	0.6%
2023	18.1%	0.0%	14.2%

Status of the Plan

The State Health Plan is currently in a stable financial position and has been able to transfer excess cash reserves for the previous 12 reporting periods, to the South Carolina Retiree Health Insurance Trust Fund. However, due to the uncertain impact of Covid-19 to the State Health Plan, legislators granted PEBA, Insurance Benefits a special exemption and waived the transfer for this fiscal year.

Following are the plan year changes in growth rate in payments per subscriber since 2013.

2013	+4.5%
2014	+1.0%
2015	+7.9%
2016	+0.4%
2017	+2.3%
2018	+3.2%
2019	+2.5%
2020	+3.7%
2021	+7.3%
2022	+0.6%

Change is payout/subscriber updated with the most current claims data to account for run-out. The reporting method takes rebates, Medicare subsidies and administrative fees into account.

Status of the Plan (continued)

Following are the plan year medical utilization rates (and growth rates) per 1,000 insured persons (SHP primary) from 2011 through 2022 for office visits, ER visits, inpatient cases, and outpatient surgery.

	Office Visits		ER Visits		I/P Cases		O/P Surgery	
	Utilization	Growth	Utilization	Growth	Utilization	Growth	Utilization	Growth
2011	6,192.94	-1.2%	162.35	+1.1%	55.82	-3.3%	114.48	-0.1%
2012	6,624.21	+7.0%	173.03	+6.6%	59.30	+6.2%	113.56	-0.8%
2013	6,762.58	+2.1%	171.96	-0.6%	55.39	-6.6%	110.07	-3.1%
2014	6,645.51	-1.7%	181.82	+5.7%	53.20	-4.0%	110.33	+0.2%
2015*	7,100.12	+6.8%	188.08	+3.4%	53.84	+1.2%	109.67	-0.6%
2016*	7,420.53	+4.5%	193.56	+2.9%	52.14	-3.2%	114.70	+4.6%
2017*	7,915.69	+6.7%	197.76	+2.2%	53.24	+2.1%	114.05	-0.6%
2018*	8,147.92	+2.9%	196.10	-0.8%	51.98	-2.4%	110.67	-3.0%
2019*	6,898.66	-15.3%	191.83	-2.2%	50.56	-2.7%	108.22	-2.2%
2020*	6,569.25	+4.8%	155.64	-18.9%	50.60	+0.1%	101.49	-6.2%
2021*	7,821.68	+19.1%	181.12	+16.4%	52.17	+3.1%	119.80	+18.0%
2022*	7,502.15	-4.1%	188.67	+4.7%	48.70	-4.8%	121.87	+1.7%

* Used new methodology to calculate volume by place of service. This methodology was updated in 2015.

Plan year prescription drug utilization has also moderated, as well as shifted to more cost effective delivery channels, as indicated below.

	Rx/Insured		Generic Share	Mail Service Share
	Utilization	Growth		
2011	17.95	-0.6%	70.2%	8.5%
2012	18.21	+1.4%	74.2%	8.1%
2013	18.33	+0.7%	77.0%	7.7%
2014	18.16	-0.9%	79.5%	2.2%
2015*	18.60	+2.4%	81.5%	16.0%
2016*	18.22	-2.0%	84.7%	16.3%
2017*	17.91	-1.7%	85.6%	15.5%
2018*	17.46	-2.5%	85.6%	22.3%
2019*	16.88	-3.3%	86.0%	24.6%
2020*	16.09	-4.7%	86.0%	28.3%
2021*	16.40	1.9%	85.8%	32.1%
2022*	16.06	1.9%	87.3%	37.8%

* Used new reporting method to include both 90-day retail and mail, which have the same copayments.

Status of the Plan (continued)

Cost containment initiatives continue to influence the Plan's trend, including the following:

- Provider reimbursement pricing policy with direct-contracted provider networks (inpatient and outpatient hospital settings, and professional fee schedules)
- Pharmacy reimbursement pricing policy that takes advantage of Contractor discounts as part of its national networks
- Utilization review and management (precertification of inpatient cases and certain outpatient procedures, disease management of specified conditions, complex care management and chronic kidney disease management)
- Chiropractic limit of \$2,000/person/year and limit of one manual therapy unit per visit (implemented 2010)
- Pre-authorization process for high-end radiology procedures (implemented 2010)
- "Evidence-based medicine" initiative involving analysis of claims data and communications with doctors regarding best practices
- Prior authorization/step therapy requirements for specified medications, including "preferred step therapy" program to steer business to "front-line" generics
- "Pay-the-difference" policy for brand drugs with generic equivalents
- Voluntary Data Sharing Agreement with Medicare (maintain current Medicare eligibility on all subscribers yielding significant cost savings)
- Laboratory services management program which uses evidence-based medicine to develop and deploy appropriate policies and protocols in lab services. This program leverages a laboratory network and reimbursement rates with laboratories and other testing facilities in South Carolina and nationally. In 2022, savings from this program totaled \$12.1 million.
- Pharmaceutical manufacturer rebates (for all health plans); the Plan received approximately \$483.12 million in rebates during the current fiscal year.
- Implementation of a Medicare Part D Prescription Drug Program; the Plan received about \$210.38 million in subsidies during the current fiscal year
- Implementation of the SaveonSP (Specialty Pharmacy) program for the MUSC Health Plan. This program captures pharma money for certain specialty medications which ultimately reduces both Plan and patient cost share. This product is only available to non-grandfathered, ACA-compliant plans which the MUSC Health Plan is eligible.
- A pharmacy benefit solution that allows for Medicare to pay its 80 percent share for a Medicare Part B product purchased by a Medicare beneficiary at a pharmacy and the Plan pay the 20 percent Part B coinsurance. Currently, a Medicare beneficiary would pay the appropriate Plan copayment but instead will have no cost share under this scenario. The annual savings for the Plan associated with this strategy are calculated to be approximately \$14.9 million for Plan Year 2022.

Going Forward:

Several points of interest going forward include the following:

- PEBA, Insurance Benefits will retain its “grandfathered” status under the Patient Protection and Affordable Care Act (ACA) for 2023 for the Standard and Savings plans. With the 2024 additions of the annual well woman exam and routine birth control for members covered as dependent children, the financial residual of grandfathered and non-grandfathered status is relatively small.
- For 2024, there will be a 13.7 percent rate increase for employers and no increase for employees for continuation of the ongoing plan of benefits.
- In 2024, eligible female State Health Plan primary members can receive a well woman exam with no patient cost share in addition to their annual well visit. Services included with the well woman exam are those recommended by the U.S. Preventative Services Task Force.
- Coverage for routine birth control, including pills and injectables, filled at a participating pharmacy or through the Plan’s provider network, is extended to members covered as a dependent child and at no member cost share. This coverage became effective immediately following Act70 becoming law.
- Specialty medications are a major cost driver for the Plan. To help address the unprecedented growth in trend in the Plan, beginning in 2024, the Plan will limit specialty medications to 30-days per fill. This action is by no means a fix to high specialty expense growth, but it should reduce waste and provide a meaningful start to bringing some measure of cost control to this Plan sector. Limiting specialty medications to a 30-day supply per fill is common practice among insurers and self-funded employers.
- PEBA’s analytic team is conducting a thorough evaluation of the cost-effectiveness of the Patient-Centered Medical Home (PCMH) program. The PCMH program has been in place for the State Health Plan since 2009, and since 2017 members have had a patient cost share incentive to obtain services at a PCMH practice. The number of participating practices has grown substantially in recent years, and questions have been raised as to Plan benefits in relation to its expense. This analysis will examine both the program as a whole as well as differences among the individual participating practices.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

The SCRHITF was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the SCRHITF was created to provide for the employer costs of retiree post-employment health and dental insurance benefits for retired state employees and retired employees of public school districts. As of the SCRHITF valuation date of June 30, 2022 (the latest plan actuarial evaluation date), there were 250 participating employers and 287,300 eligible plan participants (186,168 active, 99,509 retired, and 1,623 vested terminated). The South Carolina Public Employee Benefit Authority (PEBA) administers the SCRHITF and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the SCRHITF and invests those funds in accordance with the statutes of the State.

Financial Highlights

- Net position held in trust, as reported in the Statement of Plan Fiduciary Net Position, totaled \$1.658 billion at June 30, 2023, a net increase of \$34.492 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Fiduciary Net Position totaling \$606.082 million are a result of contributions, investment income, and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Fiduciary Net Position totaling \$571.591 million are a result of benefit and administrative expenses.

Overview of Financial Statements

The SCRHITF has two basic financial statements, the notes to the financial statements and the three required supplementary schedules. The basic financial statements and the required disclosures comply with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Fiduciary Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries and any current liabilities owed as of fiscal year end.

The following schedule is a condensed version of the SCRHITF's assets, liabilities, and fiduciary net position and is prepared from the Statement of Plan Fiduciary Net Position:

Condensed Statements of Plan Fiduciary Net Position

	2023	2022
Total assets	\$ 1,710,937,057	\$ 1,655,172,292
Total liabilities	52,784,134	31,510,889
Net position held in trust for other postemployment benefits	<u>\$ 1,658,152,923</u>	<u>\$ 1,623,661,403</u>

Overview of Financial Statements (continued)

The Statement of Changes in Plan Fiduciary Net Position is the second financial report. This report reflects all the activities that occurred during the fiscal year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate the condition of the SCRHITF's financial position over time.

The following schedule is a condensed version of the SCRHITF's additions, deductions and changes in plan net position and is prepared from the Statement of Changes in Plan Fiduciary Net Position:

Condensed Statements of Changes in Plan Fiduciary Net Position

	2023	2022
Total additions	\$ 606,082,444	\$ 451,838,627
Total deductions	571,590,924	511,594,216
Net increase in net position held in trust for other postemployment benefits (OPEB)	34,491,520	(59,755,589)
Net position held in trust for OPEB, beginning of year	1,623,661,403	1,683,416,992
Net position held in trust for OPEB, end of year	<u>\$ 1,658,152,923</u>	<u>\$ 1,623,661,403</u>

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the period.

Plan Assets and Key Percentages

As of June 30, 2023, the SCRHITF had \$1.658 billion in Net Position (total assets of \$1.711 billion exceeding total liabilities of \$52.784 million). The Plan Fiduciary Net Position represents funds available for future payments.

The SCRHITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2022 which was rolled forward to June 30, 2023 to determine the net OPEB liability to be \$13.092 billion. The Plan Fiduciary Net Position as a percentage of total OPEB liability was 11.24% at the valuation date. The net OPEB liability as a percentage of covered-employee payroll was 124.88% at the valuation date.

Overview of Financial Statements (continued)

Additions and Deductions to Plan Fiduciary Net Position

The primary sources which finance the health and dental benefits the SCRHITF provides are the collection of employer contributions, additional State appropriations, accumulated PEBA, Insurance Benefits reserve balances, and income generated from investments. For the period ending June 30, 2023, total additions amounted to \$606,082,444. Employer contributions accounted for \$600,558,699 that is a result of a surcharge of 6.25% on each employer's payroll. The surcharge is an estimated amount to cover the employer portion of the "pay go" costs of retiree claims and is collected by and transferred from the South Carolina Retirement System to the SCRHITF. Other additions were state appropriations of \$2,375,300 and a net gain of \$3,148,445 in investment income. It is composed of interest earnings and securities lending activities of \$33,184,577, net realized gains of \$194,565, net unrealized losses of \$29,756,064 and net unrealized losses from value in securities lending of \$474,633.

For the period ending June 30, 2023, total deductions amounted to \$571,590,924, which was a result of claims and administrative expenses.

Future Funding

Going forward into 2024, the net OPEB liability will be funded primarily through the surcharge on employer's payroll. Effective July 1, 2024, the payroll surcharge will increase to 6.35%. Other funding sources will include excess PEBA, Insurance Benefits reserves, additional State appropriations (which in this year's budget totaled \$2,375,300) and investment earnings.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

The SCLTDITF was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. As of June 30, 2022 (the latest plan actuarial valuation date), there were 809 participating employers and 196,091 eligible plan participants (195,075 active and 1,016 retired). The South Carolina Public Employee Benefit Authority (PEBA) administers the SCLTDITF and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the SCLTDITF and invests those funds in accordance with the statutes of the State.

Financial Highlights

- Net position held in trust, as reported in the Statement of Plan Fiduciary Net Position, totaled \$32.544 million, a decrease of \$2.280 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Fiduciary Net Position of \$7.522 million represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Fiduciary Net Position of \$9.802 million represent benefit and administrative expenses.

Overview of Financial Statements

The SCLTDITF has two basic financial statements, the notes to the financial statements, and the three required supplementary schedules. The basic financial statements and the required disclosures comply with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Fiduciary Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to beneficiaries and any current liabilities owed as of fiscal year end.

The following schedule is a condensed version of the SCLTDITF's assets, liabilities, and net position and is prepared from the Statement of Plan Fiduciary Net Position:

Condensed Statements of Plan Fiduciary Net Position

	2023	2022
Total assets	\$ 34,008,985	\$ 39,026,300
Total liabilities	1,464,544	4,201,453
Net position held in trust for other postemployment benefits	<u>\$ 32,544,441</u>	<u>\$ 34,824,847</u>

The Statement of Changes in Plan Fiduciary Net Position is the second financial report. This report reflects all of the activities that occurred during the fiscal year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate the condition of the SCLTDITF's financial position over time.

The following schedule is a condensed version of the SCLTDITF's additions, deductions and changes in plan net position and is prepared from the Statement of Changes in Plan Fiduciary Net Position:

Condensed Statements of Changes in Plan Fiduciary Net Position

	2023	2022
Total additions	\$ 7,521,522	\$ 3,194,998
Total deductions	9,801,928	9,571,398
Net increase in net position held in trust for other postemployment benefits (OPEB)	(2,280,406)	(6,376,400)
Net position held in trust for OPEB, beginning of year	34,824,847	41,201,247
Net position held in trust for OPEB, end of year	<u>\$ 32,544,441</u>	<u>\$ 34,824,847</u>

Overview of Financial Statements (continued)

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the period.

Plan Assets and Key Percentages

As of June 30, 2023, the SCLTDITF has \$32,544,441 in net position. The Plan Fiduciary Net Position represents funds available for future payments.

The SCLTDITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2022 which was rolled forward to June 30, 2023 to determine the net OPEB liability to be \$15,311,083. The Plan Fiduciary Net Position as a percentage of total OPEB liability was 68.01% at the valuation date.

Additions and Deductions to Plan Net Position

The primary sources which finance the long-term disability benefits the SCLTDITF provides are investment income and the collection of employer contributions. For the period ended June 30, 2023, total additions amounted to \$7,521,522. Employer contributions to the SCLTDITF were \$7,638,864 for premiums that are billed and transferred by PEBA, Insurance Benefits on a monthly basis. At June 30, 2023, there was a net loss in investment income of \$117,342. It is composed of interest earnings and securities lending activities of \$916,807, net realized losses of \$607, net unrealized losses of \$1,076,398 and net unrealized gains from value in securities lending of \$42,856.

For the period ending June 30, 2023, total deductions amounted to \$9,801,928 resulting from claims expense and administrative expenses.

Future Funding

The Net OPEB Liability is 68.01% funded and going forward into 2024, the premium charged to employers will remain static.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**STATEMENT OF NET POSITION
JUNE 30, 2023**

Assets and Deferred Outflows of Resources

Current assets:

Cash and cash equivalents	\$ 563,921,919
Premiums receivable	841,786
Prescription drug rebate receivable	117,996,222
Medicare Part D subsidy receivable	98,305,997
Accrued interest	17,528
Prepaid items	208,358
Total current assets	<u>781,291,810</u>

Non-current assets:

Capital assets, net of accumulated depreciation	<u>66,039</u>
Total assets	<u>781,357,849</u>

Deferred outflow of resources:

Pension	3,610,967
Other postemployment benefits	3,379,584
Total deferred outflow of resources	<u>6,990,551</u>

Liabilities, Deferred Inflows of Resources, and Net Position

Current liabilities:

Accounts payable and accrued payroll	914,366
Accrued compensated absences	803,560
Unearned premium revenue	26,688,768
Claims payable and administrative fees	70,377,822
Claims incurred but not reported	249,073,819
Total current liabilities	<u>347,858,335</u>

Non-current liabilities:

Accrued compensated absences, net of current portion	454,205
Net OPEB liability	11,353,184
Net pension liability	14,501,122
Total non-current liabilities	<u>26,308,511</u>
Total liabilities	<u>374,166,846</u>

Deferred inflow of resources:

Pension	63,195
Other postemployment benefits	5,181,745
Total deferred inflow of resources	<u>5,244,940</u>

Net Position:

Net investment in capital assets	66,039
Unrestricted	408,870,575
Total net position	<u>\$ 408,936,614</u>

The accompanying notes are an integral part of these financial statements.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Operating revenue:

Insurance premiums:	
Active employees	\$ 2,150,829,894
Retirees	902,709,979
Total insurance premiums	3,053,539,873
Prescription drug rebates	483,119,672
Medicare Part D subsidy	210,383,918
ARPA Federal Grant	71,000,000
Administrative fees and other	20,510,996
Total operating revenue	<u>3,838,554,459</u>

Operating expenses:

Claims	3,524,494,147
Premiums	189,261,187
Non-employer contributions for OPEB (<i>see Note 4</i>)	-
Third party administrative fees	83,309,922
Salaries and benefits	10,737,877
Other services	3,580,512
Professional services	743,376
Adoption assistance program	178,279
Other operating expenses	1,018,131
Total operating expenses	<u>3,813,323,431</u>
Operating income	25,231,028
Non-operating revenue:	
Income from deposits	11,468,848
Change in net position	36,699,876
Net position, beginning of year	372,236,738
Net position, end of year	<u><u>\$ 408,936,614</u></u>

The accompanying notes are an integral part of these financial statements.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Cash Flows from Operating Activities

Premiums received from customers	\$ 3,063,973,119
Other receipts	761,969,587
Payments to employees	(10,938,942)
Payments for other post employment benefits	-
Payments to providers, suppliers and others	(3,754,371,132)
Net cash provided by operating activities	<u>60,632,632</u>

Cash Flows Used in Capital and Related Financing Activities

Purchase of capital assets	(40,787)
Net cash used in capital and related financing activities	<u>(40,787)</u>

Cash Flows from Investing Activities

Interest received-deposits and investments	11,461,710
Net cash provided by investing activities	<u>11,461,710</u>
Net increase in cash and cash equivalents	72,053,555

Cash and cash equivalents:

Beginning of year	491,868,364
End of year	<u>\$ 563,921,919</u>

Reconciliation of operating income to net cash from operating activities:

Operating income	\$ 25,231,028
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	52,628
Deferred outflows of resources - pension	(582,237)
Deferred inflows of resources - other postemployment benefits	304,197
Effect of changes in operating assets and liabilities:	
Premiums receivable	3,770,271
Prescription drug rebate receivable	(15,240,385)
Medicare Part D Subsidy receivable	(7,804,614)
Prepaid expenses	(17,668)
Accounts payable, accrued payroll and compensated absences	76,977
Unearned premium revenue	6,662,974
Claims payable, administrative fees and incurred but not reported	48,179,461
Net cash provided by operating activities	<u>\$ 60,632,632</u>

The accompanying notes are an integral part of these financial statements.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**STATEMENTS OF PLAN FIDUCIARY NET POSITION
JUNE 30, 2023**

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Assets :		
Cash and cash equivalents	\$ 90,920,408	\$ 1,251,438
Invested securities lending collateral	51,679,039	728,697
Due from South Carolina Retirement Systems	85,677,579	-
Accrued interest receivable	9,656,624	240,528
Investments - Domestic Fixed Income	1,473,003,407	31,788,322
Total assets	1,710,937,057	34,008,985
Liabilities :		
Collateral for loaned securities	52,784,134	745,102
Claims payable	-	719,442
Total liabilities	52,784,134	1,464,544
Fiduciary net position restricted for other postemployment benefits	\$ 1,658,152,923	\$ 32,544,441

The accompanying notes are an integral part of these financial statements.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**STATEMENTS OF CHANGES IN PLAN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Additions:		
Contributions:		
Employer contributions	\$ 600,558,699	\$ 7,638,864
Nonemployer contributions	2,375,300	-
Total contributions	602,933,999	7,638,864
Investment income:		
Interest income	33,067,408	912,383
Net realized gains on investments	194,565	(607)
Net change in unrealized losses on investments	(30,230,697)	(1,033,542)
Less: Investment manager/custody fees	(873,551)	(19,611)
Securities lending activities income:		
Gross earnings from interest and fees	2,703,339	64,476
Gross borrower rebates	(2,573,156)	(59,562)
Less: Bank fees	(13,014)	(490)
Total additions	605,208,893	7,501,911
Deductions:		
Benefits expense	570,651,217	9,716,161
Administrative expenses	66,156	66,156
Total deductions	570,717,373	9,782,317
Net change in net position restricted for OPEB	34,491,520	(2,280,406)
Net position restricted for other postemployment benefits, beginning of year	1,623,661,403	34,824,847
Net position restricted for other postemployment benefits	\$ 1,658,152,923	\$ 32,544,441

The accompanying notes are an integral part of these financial statements.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. Description

General

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

The governing board of PEBA is a board of 11 members. The membership composition is three members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, two members appointed by the Chairman of the Senate Finance Committee, two members appointed by the Speaker of the House of Representatives and two members appointed by the Chairman of the House Ways and Means Committee. Individuals appointed to the PEBA board must possess certain qualifications. Members of the PEBA board serve for terms of four years and until their successors are appointed and qualify. The PEBA board appoints the Executive Director. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of PEBA.

The financial statements presented include the South Carolina Public Employee Benefit Authority, Insurance Benefits (PEBA, Insurance Benefits) and the other post-employment benefits trust funds, the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity and these financials are included in the *Annual Comprehensive Financial Report* of the State of South Carolina.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Description (Continued)

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g. employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and

- (1) it is able to impose its will on that organization or
- (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity.

The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget;
- (2) Levy taxes or set rates or charges without approval by another government
- (3) Issue bond debt without approval by another government.

Based on these criteria, this report has no component units or any other parts of the State of South Carolina primary government included.

PEBA, Insurance Benefits

The PEBA, Insurance Benefits manages the group health, dental, life, accidental death and dismemberment and disability programs as authorized in Sections 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended.

The PEBA, Insurance Benefits provides health insurance to eligible employees and retirees of State agencies and its political subdivisions who elect coverage. Coverage elections include three self-insured health plans. The State Health Plan offers a High Deductible Health Plan (SHD Savings Plan), a Preferred Provider Organization (SHD Standard Plan) and Medicare Supplement. Tricare Supplement Plan is a fully insured product. Dental coverage is through the State's self-insured plan, which is available to eligible employees and retirees. An additional dental option is offered to subscribers, Dental Plus, which is a fully-insured product. Dental Plus is an employee pay all plan that supplements the State Dental Plan. Dental coverage is required to elect Dental Plus. The Basic Long-Term Disability Plan is a self-insured group long-term disability plan available to eligible active employees enrolled in a State health plan. Supplemental long-term disability, Optional Life and Dependent and/or Spouse Life are fully insured products offered to eligible employees.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Description (Continued)

For active State employees, the employee share of monthly premiums is paid through payroll deductions and the respective employer pays the employer's monthly premium portion for active employees. For all other entities (School Districts, Higher Education Institutions, and Local Subdivisions), the employer is responsible for remitting the employer and employee monthly premium for active employees.

Retirees of the State and School Districts pay most of their monthly premiums through withholdings from individual retirement benefits, with the remaining individually billed. The employer portion is paid by the South Carolina Retiree Health Trust Fund through monthly employer surcharge contributions.

For Local Subdivisions, the employer is also responsible for collecting the retiree monthly premium and remitting the entire monthly premium to the PEBA, Insurance Benefits.

Details on Eligibility requirements and coverage for all plans are contained in the *Insurance Benefits Guide*. Premium rates for all plans are reviewed on a calendar year basis and adjusted as considered necessary after actuarial calculations.

The State of South Carolina as the predominant participant retains the risk of loss for the self-insured health, dental and basic long-term disability coverages.

Other Post-Employment Benefits Trust Funds

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan.

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees.

The SCLTDITF is a long-term disability plan that covers employees of the State of South Carolina, including all agencies and public school districts and all participating local governmental entities. The SCLTDITF provides disability payments to eligible employees.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Description (Continued)

Risks and Uncertainties

The OPEB Trusts invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of plan net position available for benefits.

2. Summary of Significant Accounting Policies

Basis of Presentations

The PEBA, Insurance Benefits is an internal service fund and in its stand-alone financial statements is considered a proprietary fund. The financial statement presentation provides a comprehensive, entity-wide perspective of the fund's net position, revenue, expenses and changes in net position and cash flows. Net position is segregated into net investment in capital assets, restricted net position and unrestricted net position components.

The OPEB Trusts exist for the benefit of each plan's participants and may not be utilized for any other purpose. They are part of the State of South Carolina's primary government and are included in the *Annual Comprehensive Financial Report of the State of South Carolina*. In making this determination, factors of financial accountability, governance and fiduciary responsibility of the state were considered.

Basis of Accounting

All financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues and contributions are recognized in the period in which they are earned and become measurable; expenses and benefits are recognized in the period incurred and payable, if measurable. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements as cash and cash equivalents represent cash on hand, cash on deposit in banks and cash invested in various instruments as part of the State's cash management pool, an internal investment pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States, government sponsored entities and domestic corporations, certificates of deposit and collateralized repurchase agreements held in the State's name.

Most entities in the primary government participate in the cash management pool except for some agencies due to restrictions on the use of funds. For activities excluded from the pool, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values and credit risk of the State Treasurer's investments is disclosed in the *Annual Comprehensive Financial Report (ACFR) of the State of South Carolina*.

The State's cash management pool consists of a general deposit account and several special deposit accounts. The state records each fund's equity interest in the general deposit account. All earnings on that account are recorded in the General Fund. In contrast, each special deposit account retains its own earnings.

The amounts shown in the financial statements as cash and cash equivalents for PEBA, Insurance Benefits represents cash on deposit with the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Cash and cash equivalents for the OPEB Trusts consist mainly of collateralized repurchase agreements held by the State or its agent in the name of the State Treasurer as custodian and restricted to the related trust fund.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS
AND
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Summary of Significant Accounting Policies (Continued)

Investments

The State Treasurer is authorized by statute to be the custodian of and invest all State funds. The State Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity and obtaining the best yield possible within prescribed parameters. To meet those objectives, the State Treasurer uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports and daily communication with brokers and financial institution investment officers.

To ensure safety of principal, the State Treasurer's policy is to limit liquid investments, maturities not exceeding one year, to cash, repurchase agreements (collateralized by United States Treasury or federal agency obligations with a market value in excess of 100.00% of funds advanced), United States Treasury bills, federal agency discount notes and commercial paper. The State Treasurer further preserves principal by investing in only the highest investment grade securities; those rated at least A by two leading national rating services. In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Investments are stated at fair value determined by the custodian from the last reported sales price as provided by Bank of New York Mellon. Net unrealized appreciation or depreciation for the year is reflected in the statement of changes in plan net position and is included as a component of investment income.

Receivables

For financial statement presentations enclosed herein, receivables are recorded when earned and due. No allowance for bad debt is required, as amounts are written-off when deemed uncollectible. Receivables due from other State Agencies are shown in Note 9.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are shown as prepaid items so to reflect consumption in the future reporting period.

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Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are valued at original acquisition cost less accumulated depreciation from the purchase date. Assets donated are valued at acquisition value at the date of the gift. One class of capital assets, furniture and equipment, is used. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of 3-10 years. The capitalization dollar threshold limit for capital assets is \$5,000.

Unearned Premium Revenue

Premiums billed in advance or payments received in advance of when coverage is due, or collections of overpayments of amounts billed not earned are recorded as unearned premium revenue.

Claims Payable and Administrative Fees

Claims payable and administrative fees represent claims and fees related to health, dental and long-term disability expenses payable at June 30, 2023. The claims payable balance is based on claims that have been paid by the third party administrators for the fiscal year presented and total \$69,690,481. In addition to the claims payable amount, the administrative fees payable at June 30, 2023 total \$687,341.

Compensated Absences

Full-time employees earn 1.25 days of vacation leave per month and 1.25 days of sick leave. Employees with more than ten years of service earn an additional 1.25 days of vacation leave per year for each year of continuous State service in excess of ten years. This caps at 22 years in which an employee would earn 18.75 hours of vacation leave a month which equals 30 days, the maximum amount of vacation leave an employee can earn in any one calendar year. Sick leave earnings remain at 15 days per calendar year. Employees may carry forward 45 days of vacation leave and 180 days of sick leave from one calendar year to the next. Upon termination from State employment, a lump sum payment will be made to an employee for any unused accumulated vacation leave, not to exceed 45 days, at the rate the employee is being paid at the time of termination. The vacation leave payment is subject to retirement contribution if the employee is classified as a Class II membership, anyone hired prior to July 1, 2012. Employees are not paid for unused accumulated sick leave. However, at retirement, employees classified as a Class II membership receive service credit for not more than 90 days of unused accumulated sick leave. The additional service credit may not be used to qualify an employee for retirement.

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Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources representing a consumption of net position that applies to a future period(s).

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources representing an acquisition of net position that applies to a future period(s).

The PEBA, Insurance Benefits statement of net position includes deferred outflows and inflows related to the Net OPEB Liability as detailed in Note 4 and Net Pension Liability as detailed in Note 7.

Pensions

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. PEBA, Insurance Benefits recognizes their pension related liabilities and expenses on the same basis as the separately issued statements provided by the South Carolina Retirement System (*please see note 8*). PEBA, Insurance Benefits recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or PEBA, Insurance Benefits' proportionate share thereof in the case of a cost-sharing multiple employer plan, measured as of PEBA, Insurance Benefits' fiscal year-end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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Summary of Significant Accounting Policies (Continued)

Net Position

Net position for PEBA, Insurance Benefits is recorded in three categories:

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on the use of net position are imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation. SC PEBA did not have restricted net position at June 30, 2022.

Unrestricted net position consists of net position that does not meet the definition of restricted net position or investment in capital assets.

The unrestricted net position of the PEBA, Insurance Benefits is required by State statute to be used for the purposes of providing insurance benefits for employees and retirees.

Medicare Part D Subsidies and Prescription Drug Rebate Revenue

PEBA, Insurance Benefits has elected to recognize Medicare Part D subsidies and Prescription Drug rebates as operating revenue as this revenue directly relates to the operations of the State Health Plan.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the need to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

3. Deposits, Investments and Securities Lending Transactions

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all deposits of the entities.

For purposes of the PEBA, Insurance Benefits statement of cash flows, all amounts held by the State Treasurer's Office are considered highly liquid securities with a maturity of three months or less at the time of purchase. Fair value of cash and cash equivalents reported approximates the carrying value.

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Cash deposits held by the State Treasurer's Office as of June 30, 2023 for financials presented were as follows:

PEBA, Insurance Benefits	<u>\$ 563,921,919</u>
SCRHITF	<u>\$ 1,355,634</u>
SCLTDITF	<u>\$ 47,191</u>

The following schedule reconciles the OPEB Trust Funds investments and deposits as reported in the statement of net positions to disclosures included in this note:

	SCRHITF		SCLTDITF	
	Statements	Note Disclosure	Statements	Note Disclosure
Held by State Treasurer:				
Cash and cash equivalents	\$ 90,920,408	\$ -	\$ 1,251,438	\$ -
Invested securities lending collateral	51,679,039	51,679,039	728,697	728,697
Investments	1,473,003,407	-	31,788,322	-
Deposits	-	1,355,634	-	47,191
Specifically identified investments	-	1,562,568,181	-	32,992,569
Total	<u>\$ 1,615,602,854</u>	<u>\$ 1,615,602,854</u>	<u>\$ 33,768,457</u>	<u>\$ 33,768,457</u>

Cash deposits held by the State Treasurer's Office and the third party administrator are exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the entities' deposits may not be returned. The entities do not have a deposit policy for custodial credit risk. As of June 30, 2023, the entities' deposits were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the entities' name.

Deposits held by the State Treasurer's Office are classified by risk category in the *Annual Comprehensive Financial Report of the State of South Carolina*. Information about the classification of a portion of its pooled funds is not available.

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Deposits, Investments and Securities Lending Transactions (Continued)

The amounts classified as investments in the financial statements comprise investments held by the OPEB Trusts, which are legally restricted and earnings thereon and is revenue of the specific trust from which the investments were made. The OPEB Trusts' investments are specific, identifiable investment securities held at Bank of New York Mellon.

For investment classifications reported below, the balances therein fluctuated minimally in excess of the year-end balances throughout the fiscal year ended June 30, 2023. As discussed in Note 2, investments are reported at fair value.

The following represents the fair values of the OPEB Trusts investments at June 30, 2023:

	Fair Value - OPEB Trust Funds		
	SCRHITF	SCLTDITF	Total
Collateralized mortgage-backed obligations	\$ 17,185,466	\$ 295,132	\$ 17,480,598
U.S. government and agency	892,334,632	17,627,660	909,962,292
Corporate bonds	356,804,928	9,355,840	366,160,768
Financial paper	206,678,381	4,509,690	211,188,071
Cash equivalents	89,564,774	1,204,247	90,769,021
Total	<u>\$ 1,562,568,181</u>	<u>\$ 32,992,569</u>	<u>\$ 1,595,560,750</u>

Due to higher cash flows at certain times during the year, the repurchase agreements fluctuated significantly throughout the fiscal year. The maximum amounts in this classification during the year ended June 30, 2023 were \$81,006,000 for the SCRHITF and \$1,950,000 for the SCLTDITF. Repurchase agreements are classified as cash and cash equivalents in the OPEB Trusts' Statement of Plan Net Position.

The OPEB Trusts investments are subject to credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State. The State Treasurer's credit policy mitigates potential for loss of principal by purchasing only high investment grade fixed-income securities. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security.

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As of June 30, 2023, the investments rated by Moody's stated at fair value were as follows:

	Fair Value - OPEB Trust Funds						Total
	AAA/AA	A1/A2/A3	BAA/BA/BBB	B1/B2/B3	P-1/P-2	Not Rated	
Collateralized mortgage-backed obligations	\$ 17,480,598	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,480,598
U.S. government and agency securities	909,962,292	-	-	-	-	-	909,962,292
Corporate bonds	23,106,118	86,282,706	252,971,824	-	-	3,800,120	366,160,768
Financial paper	-	143,596,285	67,591,786	-	-	-	211,188,071
Cash equivalents	14,817,600	995,940	2,501,732	-	72,453,749	-	90,769,021
Total	<u>\$ 965,366,608</u>	<u>\$ 230,874,931</u>	<u>\$ 323,065,342</u>	<u>\$ -</u>	<u>\$ 72,453,749</u>	<u>\$ 3,800,120</u>	<u>\$ 1,595,560,750</u>

The OPEB Trusts investments are subject to interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State Treasurer's policy does not specifically address interest rate risk. Its objectives for preservation of capital and maintenance of adequate liquidity focus the management of interest rate sensitivity on investing in securities with a range of maturities from one day to thirty years.

At June 30, 2023, the maturities of the investments for the OPEB Trusts that will mature were limited according to the following segmented time distribution:

	Fair Value - OPEB Trust Funds Maturities (in years)				Total
	Less than 1	1 - 5	6 - 10	More than 10	
Collateralized mortgage-backed obligations	\$ -	\$ 347	\$ 5,431	\$ 17,474,820	\$ 17,480,598
U.S. government and agency securities	24,084,890	557,963,012	312,007,235	15,907,155	909,962,292
Corporate bonds	27,099,805	183,382,028	147,098,623	8,580,312	366,160,768
Financial paper	3,626,299	119,121,355	67,886,361	20,554,056	211,188,071
Cash equivalents	90,769,021	-	-	-	90,769,021
Total	<u>\$ 145,580,015</u>	<u>\$ 860,466,742</u>	<u>\$ 526,997,650</u>	<u>\$ 62,516,343</u>	<u>\$ 1,595,560,750</u>

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Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The State's policy for reducing the risk is to diversify and limit exposure to any single issuer to no more than 5%, except for United States Treasury and agency obligations. As of June 30, 2023, the PEBA – Insurance Benefits did not have any single issuers of debt that were not fully collateralized by the U.S. government.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The State Treasurer manages these risks as permitted by investment policy. There were no foreign investments at year end for either SCRHITF or SCLTDITF.

During the year, the following amounts earned from deposits or investments were included in investment earnings:

	PEBA, Insurance Benefits	OPEB Trust Funds	
		SCRHITF	SCLTDITF
Interest earned from deposits	\$ 11,468,848	\$ -	\$ -
Interest earned from investments	-	33,184,577	916,807
Net realized gain/(loss) on investments	-	194,565	(607)
Net unrealized loss from change in value of investments	-	(29,756,064)	(1,076,398)
Net unrealized gain/(loss) from change in value of securities lending collateral	-	(474,633)	42,856
Interest and investment earnings	<u>\$ 11,468,848</u>	<u>\$ 3,148,445</u>	<u>\$ (117,342)</u>

Fair Value Measurements

The OPEB Trusts categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

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Deposits, Investments and Securities Lending Transactions (Continued)

Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment. In determining the appropriate levels, the OPEB Trusts performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy. The Trusts did not have any such investments at June 30, 2023.

Investments classified according to the fair value hierarchy are valued according to pricing policy established by the OPEB Trusts' custodian bank. Pricing is based primarily on prices from several third-party vendors or other specified alternative sources which are considered to be reliable. Where available, the custodian bank uses more than one vendor for securities of each asset type, class or issue. The price received from a primary source is used in valuation unless a tolerance check, or price challenge, results in the use of a price from a secondary vendor.

The OPEB Trusts have the following recurring fair value measurements as of June 30, 2023:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level	At 6/30/2023			
Collateralized mortgage- backed obligations	\$ 17,480,598	\$ -	\$ 17,480,598	\$ -
U.S. government and agency securities	909,962,292	893,036,887	\$ 16,925,405	-
Corporate bonds	366,160,768	-	366,160,768	-
Financial paper	211,188,071	-	211,188,071	-
Cash equivalents	90,769,021	14,818,798	75,950,223	-
Total	<u>\$ 1,595,560,750</u>	<u>\$ 907,855,685</u>	<u>\$ 687,705,065</u>	<u>\$ -</u>

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Deposits, Investments and Securities Lending Transactions (Continued)

Securities Lending Transactions

Through its custodial agent, the OPEB Trusts participate in a securities lending program whereby securities are loaned for generating additional income. The OPEB Trusts lend securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100%.

No restrictions are held on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2023 included U.S. Government securities and agencies, corporate and convertible bonds. The contractual agreement with the OPEB Trusts' custodial bank provides indemnification in the event the borrower fails to pay the OPEB Trusts income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The OPEB Trusts cannot pledge or sell collateral securities without a borrower default. The OPEB Trusts invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the OPEB Trusts must return the cash collateral to the borrower upon the expiration of the loan.

At June 30, 2023, the fair value of securities on loan and invested in cash collateral were \$51,679,039 for SCRHITF and \$728,697 for SCLTDITF. Securities lending obligations at June 30, 2023 were \$52,784,134 for SCRHITF and \$745,102 for SCLTDITF. The unrealized gains and losses in invested cash collateral are recorded in the Statement of Changes in Plan Net Position and included in investment income.

With regard to custodial credit risk, the SCRHITF and the SCLTDITF's cash collateral invested are held by the custodial bank and is insured. All securities loaned can be terminated on demand by either the OPEB Trusts or the borrower. At year-end the average number of days the loans were outstanding was one day and the average weighted maturity of investments made with cash collateral was one day for both OPEB Trusts. At June 30, 2023, there had been no losses resulting from borrower defaults and both OPEB Trusts had no credit risk exposure to borrowers because the amounts the OPEB Trusts owed the borrowers exceeded the amounts the borrowers owed the OPEB Trusts.

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Deposits, Investments and Securities Lending Transactions (Continued)

The following table presents the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2023 for both OPEB Trusts:

	<u>SCRHITF</u>	<u>SCLTDITF</u>
Securities lent for cash collateral:		
U.S. government securities	\$ 36,678,955	\$ -
Corporate bonds	15,000,084	728,697
Total securities lent for cash collateral	<u>\$ 51,679,039</u>	<u>\$ 728,697</u>
Cash collateral invested as follows:		
Repurchase agreements	\$ 37,421,297	\$ -
U.S. government securities	\$ 1,885,842	\$ 85,902
Corporate bonds	13,476,995	659,200
Total for cash collateral invested	<u>\$ 52,784,134</u>	<u>\$ 745,102</u>

4. Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans. The SCLTDITF was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trusts are cost-sharing multiple-employer defined benefit plans. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plans, including its benefits and contributions, as necessary to insure the fiscal stability of the plans.

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Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. PEBA, Insurance Benefits contributes to the SCRHITF and the SCLTDITF, cost sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the PEBA, Insurance Benefits, a part of the PEBA.

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA,

Insurance Benefits, for its active employees who are not funded by State General Fund appropriations participating employers are mandated by State statute to contribute at a rate assessed each year by PEBA, 6.25% of covered payroll for year ended June 30, 2023. At the beginning of the fiscal year, the PEBA sets annually the employer contribution rate based on a pay-as-you-go basis. The South Carolina Retirement System collects the monthly surcharge for all employers except Local Subdivisions, who do not participate in the SCRHITF, and remits it directly to the SCRHITF. PEBA, Insurance Benefits paid approximately \$486,782 for the payroll surcharge for year ended June 30, 2023.

Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves, state appropriations, and income generated from investments. However, due to the uncertainty of the impact of Covid-19, PEBA, Insurance Benefits received a special exemption from the legislators to not transfer any reserve funds for the year ended June 30, 2023.

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Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)

BLTD benefits are funded through a person's premium charged to State agencies, public school districts and other participating local governments. The monthly premium per active employee paid to PEBA, Insurance Benefits was \$3.22 for the fiscal year ended June 30, 2023. The SCLTDITF premium is billed monthly by PEBA, Insurance Benefits and transferred monthly to the SCLTDITF. It is also funded through investment income.

Contributions, State appropriations and mandatory transfers for the year ended June 30, 2023 were as follows:

	SCRHITF	SCLTDITF
Contributions	\$ 655,193,006	\$ 7,638,864
Transfer from IBNR reserves	-	-
State appropriations	2,375,300	-
	<u>\$ 657,568,306</u>	<u>\$ 7,638,864</u>

Administrative costs of the OPEB Trusts are paid from plan assets.

Eligible participants consisted of the following at June 30, 2023, the date of the latest actuarial valuation:

	SCRHITF	SCLTDITF
Active participants	186,168	195,075
Retired participants	99,509	1,016
Vested terminated participants	<u>1,623</u>	<u>-</u>
Total participants	<u>287,300</u>	<u>196,091</u>
Number of participating employers	250	809

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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Other Post Employment Benefits – Plan Reporting in Accordance with GASB 74 (continued)

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2022 census data; rolled forward to June 30, 2023
Actuarial Cost Method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.86% as of June 30, 2023
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Health Care Trend Rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 13 years
Aging Factors:	Based on plan specific experience
Participation Assumption:	79% for retirees that are eligible for Funded Premiums 59% for retirees that are eligible for Partially Funded Premiums 20% for retirees that are eligible for Non-Funded Premiums
Notes:	The single discount rate changed from 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023. Also, the demographic and salary increase assumptions were updated to reflect the 2020 SCRS experience study, and the health care trend rates were reset to better reflect the plan's anticipated experience.

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Additional information as of the latest actuarial valuation for SCLTDITF:

Valuation Date:	June 30, 2022 census data; rolled forward to June 30, 2023
Actuarial Cost Method:	Individual Entry-Age Normal
Inflation:	2.25%
Investment Rate of Return:	3.00%, net of Plan investment expense; including inflation
Single Discount Rate:	3.57% as of June 30, 2023
Salary, Termination, and Retirement Rates:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Disability Incidence:	The disability incidence rates used in the valuation are 165% of the rates developed for the South Carolina Retirement Systems pension plans.
Disability Recovery:	For participants in payment, 1987 CGDT Group Disability; for active employees, 60% were assumed to recover after the first year and 93% were assumed to recover after the first two years.
Offsets:	45% are assumed to be eligible for Social Security benefits; assumed percentage who will be eligible for a pension plan offset varies based on employee group.
Expenses:	Third party administrative expenses are included in the benefit projections;
Notes:	The Single Discount Rate changed from 3.41% as of June 30, 2022 to 3.57% as of June 30, 2023.

The following table represents the components of the net OPEB liability as of June 30, 2023:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	\$ 14,749,639,155	\$ 1,658,152,923	\$ 13,091,486,232	11.24%
SCLTDITF	\$ 47,855,524	\$ 32,544,441	\$ 15,311,083	68.01%

Roll Forward Disclosure

The actuarial valuation for both the SCRHITF and SCLTDITF were performed as of June 30, 2022. Update procedures were used to roll forward the total OPEB liability to June 30, 2023.

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Single Discount Rate

The Single Discount Rate of 3.86% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. The Fidelity “20-Year Municipal GO AA Index” for fixed-income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds was used for reporting as of June 30, 2023. Due to the plan’s investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent). Therefore, the plan used a Single Discount Rate for GASB 74 purposes which is equal to the municipal bond rate.

A Single Discount Rate of 3.57% was used to measure the total OPEB liability for the SCLTDITF. This Single Discount Rate was based on an expected rate of return on plan investments of 3.00% and a municipal bond rate 3.86%. The projection of cash flows to determine this Single Discount Rate assumed that employer contributions will remain \$38.64 per year for each covered active employee.

Long-term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments is based upon 20-year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below.

Asset Class	Target Asset Allocation	SCRHITF		SCLTDITF	
		Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	0.95%	0.76%	0.95%	0.76%
Cash	20.00%	0.35%	0.07%	0.35%	0.07%
Total	100.00%		0.83%		0.83%
Expected Inflation			2.25%		2.25%
Total Return			3.08%		3.08%
Investment Return Assumption			2.75%		3.00%

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The annual money-weighted rate of return on the OPEB plan investments expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested. For the SCRHITF and the SCLTDITF, the annual money-weighted real rate of returns on the OPEB plan investments, net of OPEB plan investment expenses were -3.60% and -0.34%, respectively.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. The State's policy for reducing the risk is to diversify and limit exposure to any single issuer to no more than 5% of the OPEB plan's fiduciary net position, except for United States Treasury and agency obligations. As of June 30, 2023, the PEBA – Insurance Benefits did not have any single issuers of debt that were not fully collateralized by the U.S. government.

Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.86%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease 2.86%	Current Discount Rate 3.86%	1% Increase 4.86%
SCRHITF Net OPEB Liability	\$ 15,453,969,157	\$ 13,091,486,232	\$ 11,186,124,585

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
SCRHITF Net OPEB Liability	\$ 10,870,392,254	\$ 13,091,486,232	\$ 15,945,111,529

The following table presents the SCLTDITF's net OPEB liability calculated using a Single Discount Rate of 3.57%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease 2.57%	Current Discount Rate 3.57%	1% Increase 4.57%
SCLTDITF Net OPEB Liability	\$ 17,199,965	\$ 15,311,083	\$ 13,485,832

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Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75

PEBA, Insurance Benefits' is a participant in the cost-sharing multiple-employer defined benefit plan of the OPEB SCRHITF and SCLTDITF. The following disclosures are to address PEBA, Insurance Benefits' proportionate share of the Net OPEB Liability with a measurement date of June 30, 2022. Please note that PEBA Insurance Benefits' proportionate share of the Net OPEB Liability for the SCLTDITF is insignificant and has not been included in the financial statements or note disclosures.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2021 census data; rolled forward to June 30, 2022
Actuarial Cost Method:	Individual Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.69% as of June 30, 2022
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Health Care Trend Rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
Participation Assumptions:	79% participation for retirees who are eligible for Funded Premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022. In addition, the demographic and salary increases assumptions were updated to reflect the 2020 SCRS experience study and the health care trend rates were reset to better reflect the plan's anticipated experience.

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Single Discount Rate

The Single Discount Rate of 3.69% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. The Fidelity “20-Year Municipal GO AA Index” for fixed-income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds was used for reporting as of June 30, 2022. Due to the plan’s investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments is based upon 20-year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
U.S. Domestic Fixed Income	80.00%	0.95%	0.76%
Cash	20.00%	0.35%	0.07%
Total	100.00%		0.83%
Expected Inflation			2.25%
Total Return			3.08%
Investment Return Assumption			2.75%

Net OPEB Liability

The allocation of each employer’s proportionate share of the collective Net OPEB Liability (NOL) and collective OPEB Expense for SCRHITF was determined using the employer’s payroll-related contributions over the measurement period.

At June 30, 2023 and 2022, PEBA, Insurance Benefits reported a liability for the SCRHITF of \$11,353,184 and \$15,642,619 respectively for its proportionate share of PEBA’s total NOL. At June 30, 2023 and 2022, PEBA’s total proportionate share was 0.166380% and 0.169765%, of those total percentages, 44.86% and 44.25% was allocated to PEBA, Insurance Benefits representing contributions of \$458,484 and \$437,854.

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Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75 (continued)

For the year ended June 30, 2023 and 2022 PEBA, Insurance Benefits recognized OPEB expense of \$567,690 and \$1,254,832.

Reported deferred outflows of resources and deferred inflows of resources related to the SCRHITF are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 243,682	\$ 998,264
Net difference between projected and actual earnings on OPEB plan investments	89,269	-
Assumption changes	2,559,851	3,649,433
Contributions subsequent to the measurement date	486,782	-
Net changes in proportion and differences between employer contributions and proportionate share of contributions	-	534,048
Total	<u>\$ 3,379,584</u>	<u>\$ 5,181,745</u>

Contributions subsequent to the measurement date of \$486,782 reported as deferred outflows of resources will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

The following schedule reflects the amortization of the net balance of remaining deferred outflows / (inflows) of resources at June 30, 2023 that will be recognized in OPEB expense as follows:

Measurement Period Ending June 30,	
2023	\$ (373,521)
2024	(254,110)
2025	(208,319)
2026	(260,357)
2027	(520,149)
Thereafter	<u>(672,487)</u>
Net Balance of Deferred Outflows / (Inflows) of Resources	<u>\$ (2,288,943)</u>

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Other Post Employment Benefits – Employer Reporting in Accordance with GASB 75 (continued)

Sensitivity Analysis

The following table presents PEBA, Insurance Benefits' net OPEB liability calculated using a Single Discount Rate of 3.69%, as well as what PEBA, Insurance Benefits' net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1% Decrease 2.69%	Current Discount Rate 3.69%	1% Increase 4.69%
PEBA, Insurance Benefits' proportionate share of the net OPEB liability	\$ 13,422,534	\$ 11,353,184	\$ 9,690,180

Regarding the sensitivity of PEBA – Insurance Benefit's net OPEB liability to changes in the healthcare cost trend rates, the following table presents PEBA, Insurance Benefits' net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
PEBA, Insurance Benefits' proportionate share of the net OPEB liability	\$ 9,336,884	\$ 11,353,184	\$ 13,707,325

Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain healthcare, dental and life insurance benefits to all permanent full-time and certain permanent part-time employees of PEBA, Insurance Benefits. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by PEBA, Insurance Benefits within the PEBA. PEBA, Insurance Benefits recorded benefit expenses for these insurance benefits for active employees in the amount of \$833,573 for the year ended June 30, 2023.

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5. Premiums Receivable

PEBA, Insurance Benefits premiums receivable at June 30, 2023 consists of the following:

State government (Note 9)	\$ 192,484
Local government	489,946
Schools	1,070
Individuals and other quasi-governmental entities	158,286
	<u>\$ 841,786</u>

As of June 30, 2023, all of the receivables are considered by management to be collectible. No allowance for doubtful accounts has been recognized. In addition, as of June 30, 2023, no discounts have been applied to the receivables.

6. Capital Assets

The following summarizes PEBA, Insurance Benefits' changes in capital assets for the year.

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Furniture and equipment	\$ 1,329,743	\$ 40,787	\$ (70,550)	\$ 1,299,980
Accumulated depreciation	(1,251,863)	(52,628)	70,550	(1,233,941)
Capital assets, net	<u>\$ 77,880</u>	<u>\$ (11,841)</u>	<u>\$ -</u>	<u>\$ 66,039</u>

Depreciation expense for the year ended June 30, 2023 was \$52,628.

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7. Pension Plans

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the retirement systems and benefit programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report (ACFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The ACFR is publicly available through PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the ACFR for the state

Plan Descriptions

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts and participating charter schools, public higher education institutions, other participating local subdivisions of government and first-term individuals elected to the South Carolina General Assembly.

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Pension Plans (continued)

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to newly hired state, public higher education institution and public school district employees, as well as first-term individuals elected to the South Carolina General Assembly. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and first-term individuals elected to the South Carolina General Assembly. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP - As an alternative to membership in SCRS, newly hired state, public higher education institution and public school district employees, as well as first-term individuals elected to the South Carolina General Assembly have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

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Pension Plans (continued)

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. The Retirement Funding and Administration Act of 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. The General Assembly postponed the one percent increase in the SCRS and PORS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. In accordance with the legislative funding schedule, employer contribution rates will continue to increase by 1 percentage point each year until reaching 18.56 percent for SCRS and 21.24 percent for PORS but may be increased further, if the scheduled contributions are not sufficient to meet the funding periods set for the applicable year. The board shall increase the employer contribution rates as necessary to meet the amortization period set in statute.

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Pension Plans (continued)

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS and PORS to the maximum amortization S.C. PEBA | 4 period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS and PORS may not be decreased until the plans are at least 85 percent funded.

Required employee contribution rates¹ are as follows:

	<u>Fiscal Year 2023¹</u>	<u>Fiscal Year 2022¹</u>
SCRS		
Employee Class II	9.00%	9.00%
Employee Class III	9.00%	9.00%
State ORP		
Employer Contribution	9.00%	9.00%

Required employer contribution rates¹ are as follows:

	<u>Fiscal Year 2023¹</u>	<u>Fiscal Year 2022¹</u>
SCRS		
Employer Class II	17.41%	16.41%
Employer Class III	17.41%	16.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution ²	17.41%	16.41%
Employer Incidental Death Benefit	0.15%	0.15%

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the State ORP service provider to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

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Pension Plans (continued)

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2022, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2021. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2022, using generally accepted actuarial principles. There was no legislation enacted during the 2022 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2022.

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	3.0% to 11.0% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2022, TPL are as follows.

Former Job Class	Males	Females
Educators	2020 PRSC multiplied by 95%	2020 PRSC multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC multiplied by 97%	2020 PRSC multiplied by 107%
Public Safety and Firefighters	2020 PRSC multiplied by 127%	2020 PRSC multiplied by 107%

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Pension Plans (continued)

Net Pension Liability

At June 30, 2023 and 2022, PEBA, Insurance Benefits reported a liability of \$14,501,122 and \$12,972,240 for its proportionate share of PEBA, Insurance Benefits net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. PEBA, Insurance Benefits' proportion of the net pension liability was based on a projection of PEBA, Insurance Benefits' long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2022 and 2021, PEBA's proportionate share was 0.134785% and 0.136792%, of which 44.38% and 43.82% was proportioned to PEBA, Insurance Benefits representing contributions of \$2,578,360 and \$2,325,764.

For the year ended June 30, 2023 and 2022, PEBA, Insurance Benefits recognized pension expense of \$747,061 and \$389,759.

Reported deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 125,988	\$ 63,195
Net difference between projected and actual earnings on pension plan investments	22,364	-
Assumption changes	465,085	
Contributions subsequent to the measurement date	1,329,298	-
Net changes in proportion and differences between employer contributions and proportionate share of contributions	1,668,232	-
Total	<u>\$ 3,610,967</u>	<u>\$ 63,195</u>

Contributions subsequent to the measurement date of \$1,329,298 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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Pension Plans (continued)

The following schedule reflects the amortization of the net balance of remaining deferred outflows / (inflows) of resources at June 30, 2022 that will be recognized in pension expense as follows:

Measurement Period Ending June 30,	
2023	\$ (1,206,998)
2024	(697,375)
2025	64,080
2026	<u>(378,180)</u>
Net Balance of Deferred Outflows / (Inflows) of Resources	<u>\$ (2,218,473)</u>

Average expected remaining services lives of all employees provided with pensions as determined by SCRS at June 30, 2022 was 3.767 years.

Discount Rate

The discount rate used to measure the TPL was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

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Pension Plans (continued)

Public Equity¹	46.00%	6.79%	3.12%
Bonds	26.00%	-0.35%	-0.09%
Private Equity^{1,2}	9.00%	8.75%	0.79%
Private Debt²	7.00%	6.00%	0.42%
Real Assets			
Real Estate ²	9.00%	4.12%	0.37%
Infrastructure ²	3.00%	5.88%	0.18%
Total Expected Real Return ³	<u>100.00%</u>		<u>4.79%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.04%</u>

¹ RSIC staff and consultant will notify the Commission if the collective exposure to Private Equity, Private Debt and Private Real Assets exceeds 30% of total plan assets.

² Portable Alpha Strategies, which are not included in the Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 15% of total assets.

Sensitivity Analysis

The following presents PEBA, Insurance Benefits' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what PEBA, Insurance Benefits share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
PEBA, Insurance Benefits proportionate share of the net pension liability	\$ 18,592,228	\$ 14,501,122	\$ 11,099,899

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8. Deferred Compensation Plan

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Some employees of PEBA, Insurance Benefits have elected to participate.

The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), are administered by third parties and are not included in the State's ACFR. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment or prior to termination if they meet requirements specified by the applicable plan.

PEBA, Insurance Benefits did not contribute for the fiscal year ended June 30, 2023.

9. Transactions with State Entities

PEBA, Insurance Benefits has significant transactions with the State of South Carolina and various State agencies. Services received at no cost include payroll processing, disbursement processing and maintenance of certain accounting records from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.

Insurance services are provided for a fee to various State agencies and within the South Carolina Public Employee Benefit Authority. The fees are recorded as revenues in the financial statements for PEBA, Insurance Benefits. The insurance coverage provided consists of health, dental, vision, life and long-term disability.

The following details the insurance premiums charged by PEBA, Insurance Benefits to other State agencies and divisions of the PEBA during the year ended June 30, 2023:

STATE ENTITY	AMOUNT	STATE ENTITY	AMOUNT
ADJUTANT GENERAL'S OFFICE	\$ 2,966,824	DENMARK TECHNICAL COLLEGE	\$ 706,386
AID TO SUBDIVISIONS-COUNTY AUDITORS & TREASURERS	657,684	DEPARTMENT OF ADMINISTRATION	4,345,301
AIKEN TECHNICAL COLLEGE	1,303,596	DEPARTMENT OF AGRICULTURE	1,278,244
ATTORNEY GENERAL'S OFFICE	2,442,440	DEPARTMENT OF ARCHIVES & HISTORY	394,366
CENTRAL CAROLINA TECH COLLEGE	2,123,428	DEPARTMENT OF CHILDREN'S ADVOCACY	1,628,031
CLEMSON UNIVERSITY	55,418,212	DEPARTMENT OF EDUCATION	11,307,351
COASTAL CAROLINA UNIVERSITY	14,903,700	DEPARTMENT OF HEALTH & ENVIRONMENTAL CONTROL	29,940,809
COLLEGE OF CHARLESTON	13,729,717	DEPARTMENT OF HEALTH AND HUMAN SERVICES	11,696,361
COMMISSION ON HIGHER EDUCATION	404,154	DEPARTMENT OF LABOR, LICENSING AND REGULATION	3,808,134
COMPTROLLER GENERAL'S OFFICE	230,131	DEPARTMENT OF MENTAL HEALTH	31,416,700
CONFEDERATE RELIC ROOM AND MILITARY COMMISSION	56,427	DEPARTMENT OF REVENUE	6,125,243

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Transactions with State Entities (continued)

STATE ENTITY	AMOUNT	STATE ENTITY	AMOUNT
DEPARTMENT OF SOCIAL SERVICES	\$ 34,346,700	PROCUREMENT REVIEW PANEL	\$ 25,937
DEPARTMENT OF TRANSPORTATION	35,669,409	PUBLIC SERVICE COMMISSION	357,714
DEPARTMENT OF VETERAN AFFAIRS	273,429	RETIREMENT SYSTEM INVESTMENT COMMISSION	396,885
DEPARTMENT ON AGING	470,002	REVENUE AND FISCAL AFFAIRS OFFICE	709,476
DEPT OF PARKS RECREATION & TOURISM	4,270,118	S C ARTS COMMISSION	220,899
FLORENCE-DARLINGTON TECHNICAL COLLEGE	2,248,776	S C DEPARTMENT OF CONSUMER AFFAIRS	400,726
FORESTRY COMMISSION	3,781,850	S C DEPARTMENT OF EMPLOYMENT AND WORKFORCE	4,997,572
FRANCIS MARION UNIVERSITY	4,928,810	S C DEPARTMENT OF INSURANCE	817,556
GOVERNOR'S OFFICE - EXECUTIVE CONTROL OF STATE	200,816	S C DEPARTMENT OF MOTOR VEHICLES	9,702,367
GOVERNOR'S OFFICE - MANSIONS AND GROUNDS	49,837	S C DEPARTMENT OF NATURAL RESOURCES	9,195,842
GREENVILLE TECHNICAL COLLEGE	6,745,787	S C DEPARTMENT OF PROBATION PAROLE & PARDON SERV	6,264,706
HIGHER EDUCATION TUITION GRANTS COMMISSION	41,306	S C EDUCATION OVERSIGHT COMMITTEE	75,842
HORRY-GEORGETOWN TECH COLLEGE	3,913,446	S C EDUCATIONAL TELEVISION COMM	1,246,386
HOUSE OF REPRESENTATIVES-CLERK	2,430,328	S C HUMAN AFFAIRS COMMISSION	324,544
JOHN DE LA HOWE SCHOOL	498,969	S C JOBS ECONOMIC DEVELOPMENT AUTHORITY	22,628
LANDER UNIVERSITY	4,634,916	S C SCHOOL FOR THE DEAF & BLIND	2,984,767
LEGISLATIVE AUDIT COUNCIL	206,030	S C STATE LIBRARY	375,793
LEGISLATIVE COUNCIL	349,289	S C STATE SENATE - CLERICAL	1,703,698
LEGISLATIVE PRINTING & INFO TC	395,201	S C STATE UNIVERSITY	4,509,784
MEDICAL UNIVERSITY OF S C	52,152,905	S C WORKERS' COMPENSATION COMMISSION	505,019
MIDLANDS TECHNICAL COLLEGE	5,997,833	S.C. DEPARTMENT OF PUBLIC SAFETY	12,596,866
NORTHEASTERN TECHNICAL COLLEGE	863,261	SC ADMINISTRATIVE LAW COURT	340,998
OFFICE OF REGULATORY STAFF	1,001,690	SC COMMISSION FOR THE BLIND	730,957
OFFICE OF STATE AUDITOR	462,915	SC COMMISSION ON INDIGENT DEFENSE	612,608
OFFICE OF STATE INFRASTRUCTURE BANK	23,963	SC COMMISSION ON PROSECUTION COORDINATION	460,616
OFFICE OF THE INSPECTOR GENERAL	85,592	SC DEPARTMENT OF COMMERCE	1,099,595
ORANGEBURG - CALHOUN TECHNICAL COLLEGE	1,775,283	SC DEPARTMENT OF CORRECTIONS	34,789,796
PATRIOTS POINT DEVELOPMENT AUTHORITY	626,284	SC DEPARTMENT OF JUVENILE JUSTICE	8,576,462
PIEDMONT TECHNICAL COLLEGE	2,853,592	SC DEPT OF ALCOHOL & OTHER DRUG ABUSE SERVICES	388,278

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Transactions with State Entities (continued)

STATE ENTITY	AMOUNT	STATE ENTITY	AMOUNT
SC DEPT OF DISABILITIES & SPECIAL NEEDS	\$ 9,465,901	STATE BOARD OF FINANCIAL INSTITUTIONS	\$ 452,156
SC GOVERNOR'S SCHOOL FOR ARTS & HUMANITIES	753,070	STATE COMMISSION FOR MINORITY AFFAIRS	140,036
SC GOVERNOR'S SCHOOL FOR SCIENCE & MATHEMATICS	815,145	STATE ELECTION COMMISSION	273,650
SC PUBLIC EMPLOYEE BENEFIT AUTHORITY	2,546,057	STATE ETHICS COMMISSION	169,716
SC RURAL INFRASTRUCTURE AUTHORITY	127,703	STATE FISCAL ACCOUNTABILITY AUTHORITY	1,238,134
SC STATE HOUSING FINANCE & DEVELOPMENT AUTHORITY	1,326,490	STATE LAW ENFORCEMENT DIVISION	6,527,867
SEA GRANT CONSORTIUM	169,350	STATE TREASURER	742,583
SECRETARY OF STATE	333,520	TECHNICAL COLLEGE OF LOW COUNTRY	1,338,865
SOUTH CAROLINA AERONAUTICS COMMISSION	109,344	THE CITADEL	6,198,299
SOUTH CAROLINA CONSERVATION BANK	27,950	TRI COUNTY TECHNICAL COLLEGE	3,956,161
SOUTH CAROLINA CRIMINAL JUSTICE ACADEMY	1,113,764	TRIDENT TECHNICAL COLLEGE	5,677,894
SOUTH CAROLINA JUDICIAL DEPARTMENT	6,021,325	UNIVERSITY OF SOUTH CAROLINA	73,343,657
SOUTH CAROLINA MUSEUM COMMISSION	371,910	VOCATIONAL REHABILITATION	8,622,667
SOUTH CAROLINA OFFICE OF RESILIENCE	400,359	WIL LOU GRAY OPP SCHOOL	581,727
SPARTANBURG COMMUNITY COLLEGE	3,634,984	WILLIAMSBURG TECH COLLEGE	636,667
STATE ACCIDENT FUND	749,382	WINTHROP UNIVERSITY	6,875,617
STATE BOARD FOR TECHNICAL & COMPREHENSIVE EDUC	1,598,478	YORK TECHNICAL COLLEGE	2,666,943
		Total premiums received from state agencies	\$ 621,623,264

PEBA, Insurance Benefits had other financial transactions with various State agencies during the fiscal year. Significant payments were made to other Divisions (Funds) of the State for retirement and insurance plans contributions, vehicle rental, printing, telephone, interagency mail, data processing services, purchasing, record maintenance, internal audit, personnel services, unemployment and workers' compensation coverage for employees.

The identifiable amounts of 2023 expenses applicable to related party transactions are as follows:

South Carolina Retirement Division	\$ 1,802,425
South Carolina State Accident Fund	15,954
South Carolina Department of Employment Workforce	215
	<u>\$ 1,818,594</u>

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Transactions with State Entities (continued)

A significant portion of PEBA, Insurance Benefits total insurance premium revenue is for insurance premiums charged to other state agencies and division of the PEBA. Premiums owed from these entities at June 30, 2023 are as follows:

STATE ENTITY	AMOUNT	STATE ENTITY	AMOUNT
ADJUTANT GENERAL'S OFFICE	\$ 3,216	S C DEPT OF EMPLOYMENT AND WORKFORCE	\$ 2,082
ATTORNEY GENERAL'S OFFICE	5,882	S C EDUCATIONAL TELEVISION COMM	5,832
DEPARTMENT OF AGRICULTURE	1,273	S C HUMAN AFFAIRS COMMISSION	366
DEPARTMENT OF CHILDREN'S ADVOCACY	1,385	S C SCHOOL FOR THE DEAF & BLIND	2,839
DEPARTMENT OF EDUCATION	5,729	S C STATE LIBRARY	813
DEPARTMENT OF HEALTH AND HUMAN SERVICES	6,353	SC ADMINISTRATIVE LAW COURT	5,157
DEPARTMENT OF MENTAL HEALTH	9,020	SC COMM ON PROSECUTION COORDINATION	43
DEPARTMENT OF REVENUE	1,977	SC DEPARTMENT OF COMMERCE	8,499
DEPARTMENT OF SOCIAL SERVICES	12,457	SC DEPARTMENT OF CORRECTIONS	17,065
DEPARTMENT OF TRANSPORTATION	18,654	SC DEPT OF DISABILITIES & SPECIAL NEEDS	40,243
DEPARTMENT OF VETERAN AFFAIRS	1,097	SC GOVERNOR'S SCHOOL FOR SCIENCE & MATH	693
DEPARTMENT ON AGING	2,844	SC PEBA BCBS	24,591
HIGHER EDUCATION TUITION GRANTS COMMISSION	615	SOUTH CAROLINA MUSEUM COMMISSION	4,624
JOHN DE LA HOWE SCHOOL	483	STATE FISCAL ACCOUNTABILITY AUTHORITY	31
LEGISLATIVE PRINTING & INFO TC	207	STATE LAW ENFORCEMENT DIVISION	370
OFFICE OF STATE AUDITOR	200	VOCATIONAL REHABILITATION	2,755
OFFICE OF THE INSPECTOR GENERAL	663	WIL LOU GRAY OPP SCHOOL	2,076
S C DEPARTMENT OF CONSUMER AFFAIRS	2,350		
		TOTAL PREMIUMS OWED BY STATE ENTITIES	\$ 192,484

10. Contingencies

By the nature of its operations and responsibilities as an insurer, PEBA, Insurance Benefits has been named in a number of lawsuits, many of which are pending. A provision has been made in the financial statements for the payment of routine insurance claims. Management is not aware of any other claims that, in their opinion, would have a material effect on the financial statements; therefore, no liability has been recorded.

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11. Risk Management/Reinsurance

PEBA Insurance Benefits is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years.

PEBA, Insurance Benefits pays insurance premiums to itself and certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (PEBA, Insurance Benefits); and
4. Claims of covered property damage, theft, collision (automobile), liability, and general tort (Insurance Reserve Fund).

Employees elect health coverage through the State Health Plan or a fully funded health plan if available. The State Health Plan offered by PEBA, Insurance Benefits is a self-insured product. State agencies and other governmental entities in South Carolina are the primary participants in PEBA, Insurance Benefits.

PEBA, Insurance Benefits obtains coverage of up to \$750,000 per loss through a commercial carrier for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. PEBA, Insurance Benefits has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories.

PEBA, Insurance Benefits has not transferred the portion of the risk of loss related to insurance policy deductibles and limits. Because information at June 30, 2023 did not indicate that an asset had been impaired or a liability had been incurred, no actual or estimated claims loss expense or related liability has been reported at June 30, 2023. A liability of claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2023 and the amount of loss can be reasonably estimated.

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Risk Management/Reinsurance (Continued)

PEBA, Insurance Benefits self-insures health and dental insurance for all participating governmental employees, including those of PEBA, Insurance Benefits. PEBA, Insurance Benefits also offers a fully insured insurance product, Tricare Supplement Plan to qualifying members that elect this coverage. The basic long-term disability product is a self-insured product managed through the SCLTDITF. In addition a supplemental long-term disability product is available as a fully insured product. Dental Plus, Vision and various Life products offered are fully insured products.

PEBA, Insurance Benefits has not had any claims exceed coverage in the past three years.

The schedule on the following page presents PEBA, Insurance Benefits changes in claims liabilities for the past two years.

	(in thousands)	
	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 270,634	\$ 244,358
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	3,529,457	3,214,077
Increases/(decreases) in provision for insured events of prior fiscal years	(4,963)	52,651
Total incurred claims and claim adjustment expenses	<u>3,524,494</u>	<u>3,266,728</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	3,481,326	3,187,801
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(4,963)	52,651
Total Payments	<u>3,476,363</u>	<u>3,240,452</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 318,765</u>	<u>\$ 270,634</u>
The above totals are included in the following:		
Claims payable	\$ 69,691	\$ 78,938
Claims incurred but not reported	249,074	191,696
Total	<u>\$ 318,765</u>	<u>\$ 270,634</u>

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12. Changes in Long-Term Liabilities

Changes in long-term obligations for the year ended June 30, 2023 were as follows:

	Beginning Balance July 1, 2022	Increases	Decreases	Ending Balance June 30, 2023	Due Within One Year
Accrued compensated absences	\$ 1,241,562	\$ 622,663	\$ (606,460)	\$ 1,257,765	\$ 803,560
Net pension liability	12,972,240	1,528,882	-	14,501,122	-
Net OPEB liability	15,642,619	-	(4,289,435)	11,353,184	-
Total	<u>\$ 29,856,421</u>	<u>\$ 2,151,545</u>	<u>\$ (4,895,895)</u>	<u>\$ 27,112,071</u>	<u>\$ 803,560</u>

13. Medicare Part D Subsidy

The Medicare Part D prescription drug benefit became effective in January 2006. The State Health Plan, administered and managed by PEBA, Insurance Benefits, elected to maintain primary coverage for pharmaceuticals for its Medicare eligible retirees. By providing drug coverage at least as valuable as that in the standard Medicare Part D program, the State Health Plan qualifies for the Retiree Drug Subsidy (RDS), an incentive provided in the federal Part D law to encourage employers to retain good prescription benefits for retirees. The State Health Plan earned and recorded \$210,383,918 in RDS funding for the year ended June 30, 2023.

14. American Rescue Plan Act Federal Grant

For the year ending June 30, 2023, the South Carolina General Assembly passed proviso 118.21 that appropriated to the State Health Plan, from unallocated American Rescue Plan Act funds, an amount not to exceed \$200,000,000, as necessary to ensure the uninterrupted payment of claims, if there are not sufficient funds available from its own reserves to pay such claims. The State Health Plan requested and received \$71,000,000 for reimbursement of Covid-19 related expenses to maintain adequate reserves to pay future claims.

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15. Direct Premium Revenues and Insurance Related Expenses

Total insurance premium revenues and direct expenses by line of insurance are as follows.

	Premium Revenues			Expenses		
	Active Employees	Retirees	Total Premium Revenue	Claims Expenses	Premium Expenses	Third Party Administrative Expenses
Medical-PPO	\$ 1,947,647,645	\$ 846,979,521	\$ 2,794,627,166	\$ 1,921,145,390	\$ -	\$ 61,895,586
Medical-fully insured	556,506	64,911	621,417	-	621,418	-
Dental	123,769,685	49,835,760	173,605,445	90,093,194	103,979,110	-
Prescription drug (1)	-	-	-	1,513,255,563	-	21,414,336
Life and optional dependent life	46,029,064	-	46,029,064	-	46,003,456	-
Vision	18,914,494	5,829,787	24,744,281	-	24,745,378	-
Long-term disability	13,912,500	-	13,912,500	-	13,911,825	-
	<u>\$ 2,150,829,894</u>	<u>\$ 902,709,979</u>	<u>\$ 3,053,539,873</u>	<u>\$ 3,524,494,147</u>	<u>\$ 189,261,187</u>	<u>\$ 83,309,922</u>

(1) Prescription drug claims relate to the individual lines but are presented here in aggregate.

(2) Claims expense presented above does not include any contribution to the SCRHITF from PEBA, Insurance Benefits.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE PLAN YEAR ENDED JUNE 30, 2023**

South Carolina Retirement System

Plan year ended June 30¹,	Employer's proportion of the net pension liability	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's share of the liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of total pension liability
2022	0.059818%	\$ 14,501,122	\$ 7,258,109	199.79%	57.10%
2021	0.059942%	12,972,240	6,936,907	187.00%	60.70%
2020	0.062771%	16,038,987	7,170,369	223.68%	50.70%
2019	0.062958%	14,375,970	6,818,615	210.83%	54.40%
2018	0.062879%	14,089,173	7,965,092	176.89%	54.10%
2017	0.059875%	13,478,904	6,743,060	199.89%	53.30%
2016	0.057902%	12,367,845	6,074,479	203.60%	52.90%
2015	0.054496%	10,335,436	5,327,720	193.99%	57.00%
2014	0.045357%	8,602,246	4,661,648	184.53%	59.90%

Notes to the Schedule:

¹ - This schedule will present 10 years of information once it is accumulated.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Retirement System

Fiscal year ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of employer's covered payroll
2023	\$ 747,061	\$ 1,329,298	\$ (582,237)	\$ 7,570,034	9.87%
2022	389,759	1,201,943	(812,184)	7,258,109	5.37%
2021	938,226	1,079,383	(141,157)	6,936,907	13.53%
2020	2,106,765	1,115,709	991,056	7,170,369	29.38%
2019	1,970,109	992,790	977,319	6,818,615	28.89%
2018	1,818,301	879,384	938,917	7,965,092	22.83%
2017	1,456,265	712,738	743,527	6,743,060	21.60%
2016	948,643	636,918	311,725	6,074,479	15.62%
2015	602,912	557,218	45,694	5,327,720	11.32%
2014	480,935	480,935	-	4,661,648	10.32%
2013	428,654	428,654	-	4,160,434	10.30%

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
FOR THE PLAN YEAR ENDED JUNE 30, 2023**

South Carolina Retiree Health Insurance Trust Fund

Plan year ended June 30¹,	Employer's proportion of the net OPEB liability	Employer's proportionate share of the net OPEB liability	Employer's covered payroll	Employer's share of the net OPEB liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2022	0.074634%	\$ 11,353,184	\$ 7,335,736	154.77%	9.64%
2021	0.075121%	15,642,619	7,005,658	223.29%	7.48%
2020	0.079702%	14,387,388	7,346,819	195.83%	8.39%
2019	0.079079%	11,958,964	6,916,706	172.90%	8.44%
2018	0.078745%	11,158,027	6,790,371	164.32%	7.91%
2017	0.077012%	10,429,917	6,493,527	160.62%	7.60%

Notes to the Schedule:

¹ - This schedule will present 10 years of information once it is accumulated.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
INSURANCE BENEFITS**

**SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Retiree Health Insurance Trust Fund

Fiscal year ended June 30¹,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of employer's covered payroll
2023	\$ 486,782	\$ 486,782	\$ -	\$ 7,788,513	6.25%
2022	458,484	458,484	-	7,335,736	6.25%
2021	437,854	437,854	-	7,005,658	6.25%
2020	459,177	459,177	-	7,346,819	6.25%
2019	418,461	418,461	-	6,916,706	6.05%
2018	373,470	373,470	-	6,790,371	5.50%
2017	346,105	346,105	-	6,493,527	5.33%

Notes to the Schedule:

¹ - This schedule will present 10 years of information once it is accumulated.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Retiree Health Insurance Trust Fund							
Fiscal year ending June 30,	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability:							
Service cost	\$ 474,883,891	\$ 862,552,785	\$ 759,721,682	\$ 636,259,701	\$ 510,940,536	\$ 521,172,493	\$ 610,843,077
Interest on the total OPEB liability	619,463,139	435,503,577	485,243,030	518,306,015	556,576,392	522,862,057	455,295,633
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(2,243,529,371)	(1,073,786,474)	(237,319,945)	433,120,608	(567,028,397)	246,504,202	(6,819,786)
Changes of assumptions	(366,029,880)	(5,384,572,423)	2,350,744,687	2,149,988,446	1,163,754,700	(96,913,144)	(1,478,557,636)
Benefit payments	(570,651,217)	(510,792,861)	(555,537,137)	(550,193,715)	(535,093,624)	(466,121,568)	(416,089,964)
Net change in total OPEB liability	(2,085,863,438)	(5,671,095,396)	2,802,852,317	3,187,481,055	1,129,149,607	727,504,040	(835,328,676)
Total OPEB liability - beginning	16,835,502,593	22,506,597,989	19,703,745,672	16,516,264,617	15,387,115,010	14,659,610,970	15,494,939,646
Total OPEB liability - ending	\$ 14,749,639,155	\$ 16,835,502,593	\$ 22,506,597,989	\$ 19,703,745,672	\$ 16,516,264,617	\$ 15,387,115,010	\$ 14,659,610,970
Plan fiduciary net position:							
Employer contributions	\$ 600,558,699	\$ 558,629,410	\$ 581,528,115	\$ 572,237,512	\$ 533,327,819	\$ 460,477,569	\$ 411,799,086
Nonemployer contributing entities	2,375,300	2,375,300	2,375,300	133,360,738	103,178,492	106,948,694	79,306,737
OPEB plan net investment income	2,274,894	(109,166,082)	3,849,643	103,173,562	77,682,485	515,607	13,460,171
Benefit payments	(570,651,217)	(510,792,861)	(555,537,137)	(550,193,714)	(535,093,624)	(466,121,568)	(416,089,964)
OPEB plan administrative expense	(66,156)	(801,356)	(1,098,114)	(1,018,962)	(885,185)	(65,000)	(10,000)
Other	-	-	-	-	-	-	-
Net change in plan fiduciary net position	34,491,520	(59,755,589)	31,117,807	257,559,136	178,209,987	101,755,302	88,466,030
Plan fiduciary net position - beginning	1,623,661,403	1,683,416,992	1,652,299,185	1,394,740,049	1,216,530,062	1,114,774,760	1,026,308,730
Plan fiduciary net position - ending	\$ 1,658,152,923	\$ 1,623,661,403	\$ 1,683,416,992	\$ 1,652,299,185	\$ 1,394,740,049	\$ 1,216,530,062	\$ 1,114,774,760
Net OPEB liability - ending	\$ 13,091,486,232	\$ 15,211,841,190	\$ 20,823,180,997	\$ 18,051,446,487	\$ 15,121,524,568	\$ 14,170,584,948	\$ 13,544,836,210
Plan fiduciary net position as a percentage of total OPEB liability	11.24%	9.64%	7.48%	8.39%	8.44%	7.91%	7.60%
Covered payroll	\$ 10,483,088,096	\$ 9,846,492,976	\$ 9,367,714,944	\$ 9,261,422,144	\$ 8,748,981,785	\$ 8,614,421,372	\$ 8,437,059,071
Net OPEB liability as a percentage of covered payroll	124.88%	154.49%	222.29%	194.91%	172.84%	164.50%	160.54%
Single discount rate used in each year	3.86%	3.69%	1.92%	2.45%	3.13%	3.62%	3.56%

Notes to Schedule:

These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

Changes of assumptions reflects the effects of changes in the Single Discount Rate each period.

For fiscal year 2022, there was a slight update to the healthcare trend assumption.

For fiscal year 2021, the demographic and salary increase assumptions were updated to reflect the 2020 SCRS experience study, and the healthcare trend rates were reset to better reflect the plan's anticipated experience.

For fiscal year 2020, there were updates to the healthcare trend assumption; including an adjustment to reflect the repeal of the "Cadillac Tax."

For fiscal year 2019, there was a slight update to the healthcare trend assumption.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Long-Term Disability Insurance Trust Fund							
Fiscal year ending June 30,	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability:							
Service cost	\$ 8,454,529	\$ 8,740,142	\$ 8,676,335	\$ 8,410,412	\$ 7,941,182	\$ 7,555,741	\$ 7,952,412
Interest on the total OPEB liability	1,561,081	1,091,274	1,212,045	1,246,540	1,536,123	1,481,366	1,399,527
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	1,444,821	3,404,056	(1,367,092)	(40,459)	(1,329,978)	(207,107)	-
Changes of assumptions	(299,067)	(1,712,085)	1,659,414	310,807	1,224,654	(58,966)	(182,868)
Benefit payments, including refunds of contributions	(9,716,160)	(9,491,998)	(8,584,087)	(7,888,739)	(7,889,317)	(8,020,511)	(8,205,609)
Net change in total OPEB liability	1,445,204	2,031,389	1,596,615	2,038,561	1,482,664	750,523	963,462
Total OPEB liability - beginning	46,410,320	44,378,931	42,782,316	40,743,755	39,261,091	38,510,568	37,547,106
Total OPEB liability - ending	\$ 47,855,524	\$ 46,410,320	\$ 44,378,931	\$ 42,782,316	\$ 40,743,755	\$ 39,261,091	\$ 38,510,568
Plan fiduciary net position:							
Employer contributions	\$ 7,638,864	\$ 7,571,283	\$ 7,575,758	\$ 7,557,968	\$ 7,532,690	\$ 7,479,841	\$ 7,288,566
Nonemployer contributing entities	-	-	-	-	-	-	400,000
OPEB plan net investment income	(117,342)	(4,376,285)	(177,801)	4,141,005	2,972,915	52,944	371,679
Benefit payments	(9,716,160)	(9,491,998)	(8,584,087)	(7,888,739)	(7,889,317)	(8,020,511)	(8,205,609)
OPEB plan administrative expense	(85,768)	(79,400)	(91,729)	(106,628)	(40,651)	(10,000)	(10,000)
Net change in plan fiduciary net position	(2,280,406)	(6,376,400)	(1,277,859)	3,703,606	2,575,637	(497,726)	(155,364)
Plan fiduciary net position - beginning	34,824,847	41,201,247	42,479,106	38,775,500	36,199,863	36,697,589	36,852,953
Plan fiduciary net position - ending	\$ 32,544,441	\$ 34,824,847	\$ 41,201,247	\$ 42,479,106	\$ 38,775,500	\$ 36,199,863	\$ 36,697,589
Net OPEB liability - ending	\$ 15,311,083	\$ 11,585,473	\$ 3,177,684	\$ 303,210	\$ 1,968,255	\$ 3,061,228	\$ 1,812,979
Plan fiduciary net position as a percentage of total OPEB liability	68.01%	75.04%	92.84%	99.29%	95.17%	92.20%	95.29%
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net OPEB liability as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Single discount rate used in each year	3.57%	3.41%	2.48%	2.83%	3.04%	3.91%	3.87%

Notes to Schedule:

These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

Changes of assumptions reflects the effects of changes in the Single Discount Rate each period.

For fiscal year 2021, the salary, termination rates, and retirement rates assumptions were updated to reflect the 2020 experience study for the SCRS' pension valuations. In addition, the disability incidence, disability recovery, administration fee and offset assumptions were updated to better reflect the plan's anticipated experience.

For fiscal year 2019, the long-term rate of return assumption was changed from 4.00% to 3.00%.

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**SCHEDULE OF NET OPEB LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Retiree Health Insurance Trust Fund

Fiscal Year Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as a % of Total OPEB Liability	Covered Payroll	Net OPEB Liability as a % of Covered Payroll
2023	\$ 14,749,639,155	\$ 1,658,152,923	\$ 13,091,486,232	11.24%	\$ 10,483,088,096	124.88%
2022	16,835,502,593	1,623,661,403	15,211,841,190	9.64%	9,846,492,976	154.49%
2021	22,506,597,989	1,683,416,992	20,823,180,997	7.48%	9,367,714,944	222.29%
2020	19,703,745,672	1,652,299,185	18,051,446,487	8.39%	9,261,422,144	194.91%
2019	16,516,264,617	1,394,740,049	15,121,524,568	8.44%	8,748,981,785	172.84%
2018	15,387,115,010	1,216,530,062	14,170,584,948	7.91%	8,614,421,372	164.50%
2017	14,659,610,970	1,114,774,760	13,544,836,210	7.60%	8,437,059,071	160.54%
2016	15,494,939,646	1,026,308,730	14,468,630,916	6.62%	8,137,661,670	177.80%

South Carolina Long-Term Disability Insurance Trust Fund

Fiscal Year Ending June 30,	Total OPEB Liability	Plan Net Position	Net OPEB Liability	Plan Net Position as a % of Total OPEB Liability	Covered Payroll	Net OPEB Liability as a % of Covered Payroll
2023	\$ 47,855,524	\$ 32,544,441	\$ 15,311,083	68.01%	N/A	N/A
2022	46,410,320	34,824,847	11,585,473	75.04%	N/A	N/A
2021	44,378,931	41,201,247	3,177,684	92.84%	N/A	N/A
2020	42,782,316	42,479,106	303,210	99.29%	N/A	N/A
2019	40,743,755	38,775,500	1,968,255	95.17%	N/A	N/A
2018	39,261,091	36,199,863	3,061,228	92.20%	N/A	N/A
2017	38,510,568	36,697,589	1,812,979	95.29%	N/A	N/A
2016	37,547,106	36,852,952	694,154	98.15%	N/A	N/A

Notes to Schedules:

These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

The following are the Single Discount Rates used in each period:

	SCRHITF	SCLTDITF
2023	3.86%	3.57%
2022	3.69%	3.41%
2021	1.92%	2.48%
2020	2.45%	2.83%
2019	3.13%	3.04%
2018	3.62%	3.91%
2017	3.56%	3.87%
2016	2.92%	3.74%

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY
OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS**

**SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

South Carolina Retiree Health Insurance Trust Fund

Fiscal Year Ending June 30,	Annual Return¹
2023	-3.60%
2022	-6.62%
2021	0.39%
2020	7.70%
2019	6.77%
2018	0.27%
2017	1.36%

South Carolina Long-Term Disability Insurance Trust Fund

Fiscal Year Ending June 30,	Annual Return¹
2023	-0.34%
2022	-10.67%
2021	-0.42%
2020	10.57%
2019	8.13%
2018	0.14%
2017	1.00%

¹ - Annual money-weighted rate of return, net of investment expenses.

Notes to Schedules:

These schedules are presented to illustrate the requirement to present information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which the information is available.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor and
Members of the South Carolina Public
Employee Benefit Authority
South Carolina Public Employee Benefit Authority Insurance Benefits, the South Carolina Retiree
Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina Public Employee Benefit Authority Insurance Benefits (PEBA), an internal service fund of the State of South Carolina, the South Carolina Retiree Health Insurance Trust Fund, a fiduciary fund of the State of South Carolina, and the South Carolina Long-Term Disability Insurance trust Fund, a fiduciary fund of the State of South Carolina, collectively referred to as "PEBA Insurance Benefits," as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise PEBA Insurance Benefits' basic financial statements, and have issued our report thereon dated October 16, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PEBA Insurance Benefits' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PEBA Insurance Benefits' internal control. Accordingly, we do not express an opinion on the effectiveness of PEBA Insurance Benefits' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether PEBA Insurance Benefits' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe LLP". The signature is stylized, with the "C" being large and the "LLP" being written in a more compact, cursive-like font.

Crowe LLP

Dallas, Texas
October 16, 20223