PEBA
SC Retirement Systems and State Health Plan

Serving those who serve South Carolina

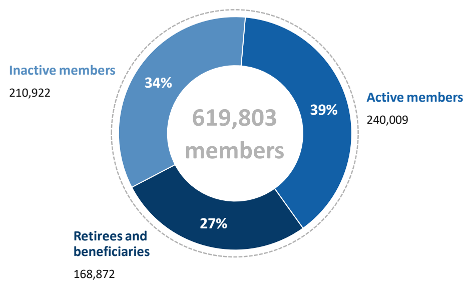
Retirement and insurance benefits update

Hometown Legislation Action Day
February 4, 2020

Retirement

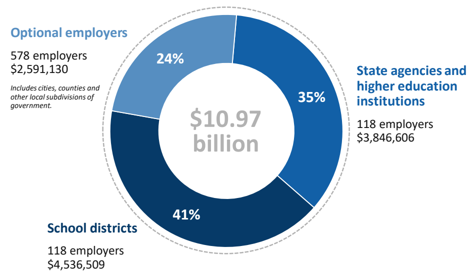
Retirement Systems membership as of July 1, 2019

Includes SCRS, PORS, GARS, JSRS and SCNG



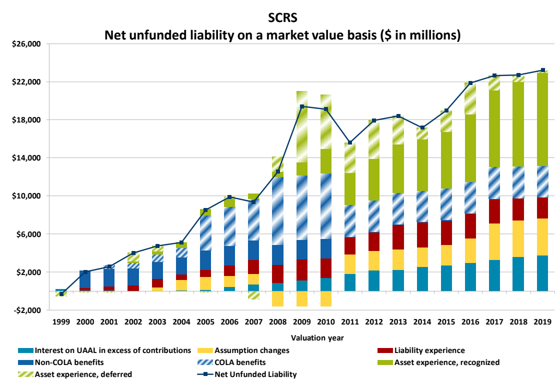
FY 2019 total annual compensation by employer type for SCRS

Amounts expressed in thousands



SCRS unfunded liability as of June 30, 2019

	Market value $23.200 billion	Actuarial value $22.995 billion
Investment experience	$9.775 billion	$9.775 billion
Deferred investment losses	$205 million	Not applicable
Interest on the unfunded actuarial accrued liability (UAAL)	$3.729 billion	$3.729 billion
COLAs	$3.312 billion	$3.312 billion
Non-COLA benefit changes	$63 million	$63 million
Liability experience	$2.250 billion	$2.250 billion
Assumption changes	$3.866 billion	$3.866 billion



Contribution schedules set by Retirement System Funding and Administration Act of 2017

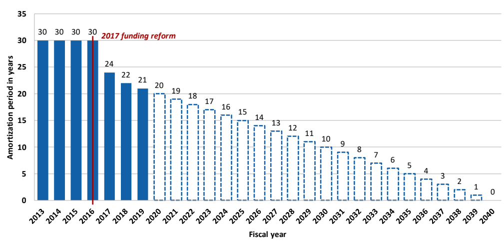
SCRS		
Fiscal year	Employer contribution	Employee contribution
2017	11.56%	8.66%
2018	13.56%	9.00%
2019	14.56%	9.00%
2020	15.56%	9.00%
2021	16.56%	9.00%
2022	17.56%	9.00%
2023	18.56%	9.00%

PORS		
Fiscal year	Employer contribution	Employee contribution
2017	14.24%	9.24%
2018	16.24%	9.75%
2019	17.24%	9.75%
2020	18.24%	9.75%
2021	19.24%	9.75%
2022	20.24%	9.75%
2023	21.24%	9.75%

Rates include incidental death benefit and Accidental Death Program contributions when applicable.

Effects of 2017 legislation on SCRS

While the UAAL has continued to rise, the additional contributions required by the 2017 legislation have reduced the funding period. If actuarial assumptions are met, the funding period is expected to shorten over time. The actual reduction in the amortization period will depend upon emerging experience, including investment experience.



What is the earnings limitation?

- Provisions do not actually limit the ability of a retiree to return to covered employment or restrict the amount of compensation a retiree may receive; provisions are limitations on the receipt of benefits.
- Once a member earns more than $10,000 in a calendar year from covered employment, his retirement benefit is suspended for the remainder of the year. His retirement benefit payments will be reinstated the next January.
  - Benefit will be reinstated before the next January if he terminates covered employment before the end of the year.

Earnings limitation

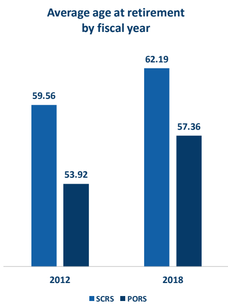
- Contribution and benefit structures are designed to provide a retirement benefit that replaces a portion of a member's income after retirement.
- Ability to return to covered employment after retirement without affecting benefits incentivizes members to retire earlier than they would have without the availability of unlimited post-retirement employment.
- Acceleration of members' retirement dates has a cost to the systems because it results in the systems paying benefits earlier and longer than would otherwise be expected.
  - Earnings limitation is intended to remove incentives.

To whom does the earnings limitation apply?

- Members who retire on or after January 2, 2013, and are younger than age 62 (SCRS) or age 57 (PORS) on the date of retirement, unless they meet an exception:
  - Retired before January 2, 2013, regardless of age at retirement.
  - Retirement after age 62 (SCRS) or age 57 (PORS).
  - Compensation from certain public offices.
  - Compensation from certain critical needs positions in the school system.

What is the earnings limitation?

- Earnings limitation was put into place to encourage members to delay the start of their monthly retirement benefit.
- The TERI program and generous return-to-work provisions encouraged members to retire earlier than expected, resulting in additional costs to the plan.



Other return-to-work considerations

- Member must have a complete, bona fide termination from all covered employment to retire and begin receiving a monthly benefit.
- If member returns to covered employment sooner than 30 consecutive calendar days after retirement, he is not eligible to receive his benefit until the separation requirements are satisfied.
- If an employer fails to notify PEBA when it hires a retired member, the employer may be responsible for reimbursing the retirement systems for any benefits wrongly paid to the retired member.

Pending retirement legislation: H.3620

- Intent is to protect the financial integrity of the Retirement Systems.
- Requires participating employers to make an employer contribution to the System if a retired member is engaged to perform services for the employer for compensation in any capacity, whether as an independent contractor, a consultant, a leased employee or other classification of worker, unless the employer can establish that the services have not traditionally been performed by its employees.
- Provides PEBA with the authority to audit and enforce compliance with the new employer contribution requirement.

Pending retirement legislation: H.3620

- Compensation received by a retired member engaged to perform services in one of those capacities is also considered earnings from covered employment for the purposes of the service retirement earnings limitation.
- Adds a new exception to the service retirement earnings limitation, which would allow a retired member to be exempt if he has not performed any services for a participating employer for a period of at least 12 consecutive months after retirement and returns to covered employment.
  - Senate subcommittee amended the exception to extend the period to 24 months.

Other pending retirement legislation

- There are multiple structural changes being suggested for the pension plans.
- Many recommend closing the current defined benefit structure and replacing it with a defined contribution plan or hybrid plan.
- Two separate and distinct issues involved:
  - Plan structure for employees going forward.
  - Funding mechanism for current unfunded liability.
- Currently, the unfunded liability is amortized by a percentage of the employer contributions from all participants in the plans.

Funding of the UAAL

Defined benefit participant (SCRS)

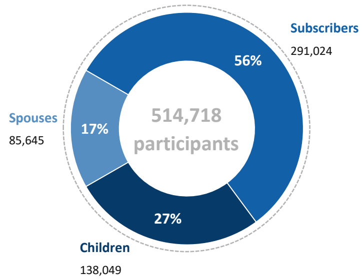
	Normal cost		Unfunded liability		Total
Member	9.00%	+	-	=	9.00%
Employer	1.66%	+	13.90%	=	15.56%
Total	10.66%	+	13.90%	=	24.56%

Defined contribution participant (State ORP)

	Member account		Unfunded liability		Total
Member	9.00%	+	-	=	9.00%
Employer	5.00%	+	10.56%	=	15.56%
Total	14.00%	+	10.56%	=	24.56%

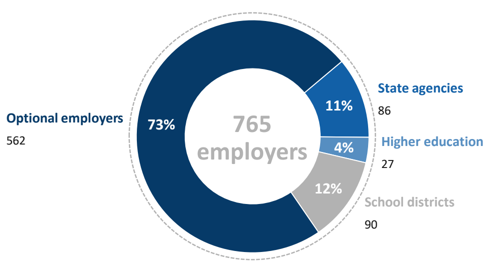
Insurance

State Health Plan enrollment as of January 2020



Numbers represent enrollment in the State Health Plan, the MUSC Health Plan and TRICARE Supplement Plan.

State Health Plan participating employers as of January 2020



State Health Plan versus national trends

Target is to maintain net expenditure growth at least two points below benchmark.

	Benchmark	State Health Plan
2015	7.2%	7.9%
2016	6.9%	0.2%
2017	6.6%	2.4%
2018	6.6%	3.4%
2019	6.6%	2.3%[1]
5-year average (2015-2019)	6.8%	3.2%

The benchmark is a blended number derived from annual health care cost trend surveys produced by national consulting firms including Aon, Buck, PriceWaterhouseCoopers and Segal.
[1]Incurred in nine months; paid in nine months.

2019 Average monthly total premiums[1]

	Single	Family
State Health Plan	$500	$1,305
Large public and private sector employers[2]	$640	$1,807
Public and private sector in South[3]	$620	$1,758
Public employers	$711	$1,880
Private – manufacturing	$592	$1,725
Private – financial services	$651	$1,884

[1]Average monthly total premiums in PPO (Preferred Provider Organization) plans
[2]Large public and private sector employers: ≥ 200 employees in public and private sectors
[3]Public and private sector employers in South includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

Data from the *Kaiser Family Foundation Employer Health Benefits 2019 Annual Survey*

2019 Average annual deductible[1]

	Amount
State Health Plan	$490
Large public and private sector employers[2]	$986
All employers	$1,206

[1]Average annual deductible in PPO (Preferred Provider Organization) plans
[2]Large public and private sector employers: ≥ 200 employees in public and private sectors

Data from the *Kaiser Family Foundation Employer Health Benefits 2019 Annual Survey*

Other post employment benefits (OPEB)

	As of June 30, 2019
Number of retirees and beneficiaries	94,814
Covered payroll	$8,748,981,785
Surcharge rate (generated $533 million)	6.05%
Single discount rate	3.13%

	As of June 30, 2019
Total OPEB liability	$16,516,264,617
Plan fiduciary net position	- 1,394,740,049
Net OPEB liability	$15,121,524,568

Other post employment benefits

	Funding status of Other Post Employment Benefits Trust *Amounts expressed in thousands*			
	South Carolina Retiree Health Insurance Trust Fund		South Carolina Long Term Disability Insurance Trust Fund	
	Net position held in trust	Plan fiduciary net position as a percent of total OPEB liability	Net position held in trust	Plan fiduciary net position as a percent of total OPEB liability
2019	$1,394,740	8.44%	$38,775	95.17%
2018	$1,216,530	7.91%	$36,199	92.20%
2017	$1,114,774	7.60%	$36,697	95.29%

- The Other Post-Employment Benefits Trust Funds, 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 part of Act 195 of 2008, which became effective in May 2008.

Other post employment benefits

- The 2008 legislative change also moved the threshold for funded retiree insurance from 10 years of service to 25 years, which should lead to a long-term reduction in the growth of OPEB.
- Legislative changes made in 2012 to pension benefit eligibility have increased the average age of retirement, which has had a positive impact on funded retiree growth.
- Unlike the pension unfunded liability, the liability for OPEB is much more variable and is dependent upon the plan of benefits offered through the health plan. PEBA has the ability to make changes to these benefits to address budgetary limitations, which should also reduce the growth rate of the OPEB liability.

New telehealth option | MUSC Health Virtual Care

- State Health Plan members, including Medicare-primary members, have access to MUSC's telehealth option at no cost.
- Opt for non-video visits or video visits.
- Common conditions treated include allergies, pinkeye, sinus infections, skin rashes, sore throat, urinary tract infections and flu.
- A member does not need to be a South Carolina resident; however, a member must be in South Carolina at the time of the visit.
- Members ages 18 and older can create an account.
- Members can also add dependents to their account. Visits for dependent children under age 18 must be completed by a parent.
- www.MUSChealth.org/virtual-care.

Lower copayment for preferred insulin

- The Patient Assurance Program enables State Health Plan primary members to get a 30-day supply of their preferred insulin for $25 (90-day supply for $75) at a network pharmacy or through home delivery from Express Scripts Pharmacy.
- Members can see if their insulin medication is eligible for the reduced copayment by logging in to their account at express-scripts.com or by calling Express Scripts at 855.612.3128.

Appendix

Roles in managing the Systems

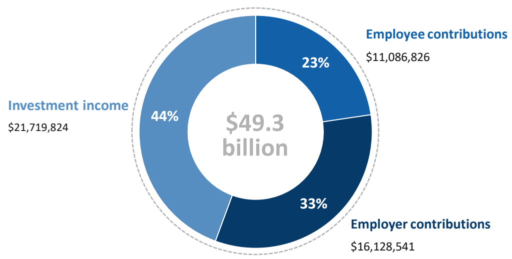
- PEBA operates and administers the state's retirement programs, which were created and are defined by state statute.
- The S.C. General Assembly has authority to make changes to the laws that govern these retirement plans.
  - South Carolina Retirement Systems.
  - State Optional Retirement Program.
  - South Carolina Deferred Compensation Program.

PEBA’s retirement plans

- Defined benefit plans:
  - South Carolina Retirement System (SCRS).
  - Police Officers Retirement System (PORS).
  - General Assembly Retirement System (GARS).
  - Judges and Solicitors Retirement System (JSRS).
  - South Carolina National Guard Supplemental Retirement Plan (SCNG).
- Defined contribution plan:
  - State Optional Retirement Program (State ORP).
- Voluntary, supplemental retirement savings plan:
  - South Carolina Deferred Compensation Program.

Additions to pension trust funds | 2005-2019

Includes SCRS, PORS, GARS, JSRS and SCNG
Amounts expressed in thousands



Past pension reform

- Benefit reform was done in 2012.
- Funding reform was done in 2017.

Act 278 of 2012

- Created Class Three tier of membership in SCRS and PORS for newly hired employees with membership dates on or after July 1, 2012.
  - Increased service requirements for retirement with full benefits
    - Rule of 90 for SCRS; 27 years of service for PORS.
    - Age-based retirement requirements were unchanged.
  - Increased vesting period from five years to eight years.
  - Changed average final compensation calculations from 12 quarters of highest earnable compensation to 20 quarters.
  - Removed credit for unused annual and sick leave at retirement from benefit calculations.

Act 278 of 2012

- Changes affecting Class Two and Three members:
  - Closed TERI program effective June 30, 2018.
  - Changed cost of service purchase to be actuarially neutral.
  - Excluded pay for non-mandatory overtime from SCRS earnable compensation.
  - Changed eligibility for SCRS disability retirement.
  - Eliminated interest on inactive accounts.

Act 278 of 2012

- Changes affecting retirees:
  - Limited annual benefit adjustment, formally referred to as a COLA, to 1 percent up to a maximum of $500 annually.
  - Added $10,000 earnings limit for members who retired after January 1, 2013, and return to work for a covered employer, unless the member was over age 62 (SCRS) or age 57 (PORS) at retirement.
    - Other exceptions to the earnings limitation include compensation from certain elected and appointed offices and for certain critical needs positions in public schools.
- Closed GARS to newly elected officials after the general election of 2012; new members may join SCRS or State ORP.

Retirement System Funding and Administration Act of 2017

- Legislation did not change the benefits provided to members of the Retirement Systems.
- Goal of the legislation was to pay down the unfunded liability faster by:
  - Reducing the funding period;
  - Increasing contribution rates; and
  - Decreasing the negative amortization.
- Decreased the assumed rate of return from 7.5 percent to 7.25 percent effective July 1, 2017.
  - Rate will remain in effect through July 1, 2021, at which time a new rate will be set by the General Assembly.
  - PEBA provides a proposed rate based upon a recommendation from the systems actuary and in consultation with RSIC.

South Carolina Public Employee Benefit Authority 37

Retirement System Funding and Administration Act of 2017

- Changed employee and employer contribution rates effective July 1, 2017.
  - SCRS employee rate was increased to and capped at 9 percent.
  - PORS employee rate was increased to and capped at 9.75 percent.
  - Employer rates for SCRS and PORS increased by 2 percent. A schedule of rates includes additional 1 percent increases annually through July 1, 2022.
  - The General Assembly provided funding in fiscal years 2018, 2019 and 2020 for credits towards employer contributions for most employers participating in SCRS and PORS.

South Carolina Public Employee Benefit Authority 38

Retirement System Funding and Administration Act of 2017

- Gradually reduced the maximum funding period from 30 years to 20 years by July 1, 2027.
  - Schedule reflects a one year reduction in the funding period for each of the next 10 years, but also allows for future unforeseen investment losses.
- The legislation took several important steps to increase funding to the Retirement Systems, which improves the financial condition of the plans more quickly and incorporates a cushion for possible future adverse investment experience.

South Carolina Public Employee Benefit Authority 39

Disclaimer

This presentation does not constitute a comprehensive or binding representation of the employee benefit programs PEBA administers. The terms and conditions of the employee benefit programs PEBA administers are set out in the applicable statutes and plan documents and are subject to change. Benefits administrators and others chosen by your employer to assist you with your participation in these employee benefit programs are not agents or employees of PEBA and are not authorized to bind PEBA or make representations on behalf of PEBA. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.