

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

**Public Employee Benefit Authority
Budget Presentation
House Ways and Means Healthcare Subcommittee**

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Preliminary SHP Budget Requirements for FY 2016

		EE Only	ER and EE Share Proportionally		ER Only
	%	EE +/-Month	State \$ ¹	EE +/-Month	State \$ ¹
Stay Grandfathered Current Plan (includes preventive care enhancements ²)	3.4%	\$21.88	\$31.5 M	\$5.28	\$35.7 M
Not Grandfathered Current Plan + ACA Benefits	6.7%	\$43.14	\$44.4 M	\$10.42	\$52.7 M

¹State \$ includes amounts for 2016 rate increase for Jan-Jun 2016 (\$13.2 M for GF plan/\$26.1 M for non-GF plan), annualization of 2015 rate increase for Jul-Dec 2015 (\$13.9 M) and estimated retiree enrollment growth (\$4.4 M).

²Preventive care enhancements include waiving patient copay for biometric screening for 2015, waiving patient copay for Shingles vaccinations for 2015 and covering Flu shots without patient copay for 2015-16 Flu season

Note: This estimate is subject to revision during 2015 with analysis of additional claims experience.

FY 2016 Budget Request

Funded Program	FY15 Appropriations	FY16 Budget Request
I. Administration		
Personal Services	\$1,382,237	\$1,382,237
Other Operating	\$3,089,262	\$3,089,262
Administration Total	\$4,471,499	\$4,471,499
II. A. Employee Insurance Program		
Personal Services	\$4,946,532	\$4,946,532
Adoption Assistance ¹	\$300,000	\$300,000
Other Operating	\$4,686,663	\$3,986,663
Employee Insurance Program Total	\$9,933,195	\$9,233,195
II. B. Retirement Systems		
Personal Services	\$8,265,120	\$8,265,120
Other Operating	\$4,887,809	\$4,887,809
Retirement Systems Total	\$13,152,929	\$13,152,929
III. C. Employer Contributions		
Employer Contributions	\$4,472,468	\$4,472,468
Employer Contributions Total	\$4,472,468	\$4,472,468
GRAND TOTAL	\$32,030,091	\$31,330,091

¹Adoption Assistance is funded from the State Health Plan. Requests for reimbursement are expected to be more than \$300,000.

FY 2016 Budget Request

- PEBA is not seeking an operating budget increase for FY 2016.
- PEBA's operating budget has remained consistent since FY 2012.
- The only increase was for \$700,000 in FY 2015 for the Fiduciary Audit which is a non-recurring expense.
- PEBA is funded by trust funds¹, not the general fund.
- For retirement systems assets, the Investment Commission invests the assets to help fund the system over time. The State Treasurer's Office invests the insurance assets.
- PEBA does not set aside a budget in a separate account for deferred maintenance.
- To maximize investment income, money is left in trust funds until needed for operational expenses.
- The Investment Commission is also funded by the trust funds.

¹Funded by trust funds according to statute in Sections 1-11-710(A)(4) and 9-1-310 of the S.C. Code of Laws.

Operating Budget Trend

	FY 2012 Authorized	FY 2013 Authorized	FY 2014 Authorized	FY 2015 Authorized	FY 2016 Authorized
Personal Services Total	\$15,163,827	\$14,463,827	\$14,593,889	\$14,593,889	\$14,593,889
Other Operating Total	\$11,463,734	\$12,163,734	\$11,963,734	\$12,663,734	\$11,963,734
Adoption Assistance	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Employer Contributions	\$4,402,530	\$4,402,530	\$4,472,468	\$4,472,468	\$4,472,468
PEBA GRAND TOTAL	\$31,330,091	\$31,330,091	\$31,330,091	\$32,030,091	\$31,330,091

Note: All appropriations are from the Trust Funds, not General Funds, and are recurring except for \$700,000 in FY15 Administration Other Operating expenses which was for the Fiduciary Audit.

Operating Budget Trend

	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual
Personal Services Total	\$12,843,542	\$12,937,753	\$12,595,592
Other Operating Total	\$8,230,706	\$7,305,921	\$6,790,160
Adoption Assistance	\$249,626	\$271,275	\$293,200
Employer Contributions	\$4,043,194	\$4,070,293	\$4,125,399
PEBA GRAND TOTAL	\$25,367,068	\$24,585,242	\$23,804,351

Note: All appropriations are from the Trust Funds, not General Funds, and are recurring except for \$700,000 in FY15 Administration Other Operating expenses which was for the Fiduciary Audit.

FY 2016 Budget Request

- CEM¹ Highlights – Retirement
 - PEBA's total retirement administration cost per active member and annuitant was \$35, \$41 below the peer average of \$76, and \$87 below the "all average" of \$122.
 - PEBA's total service score was 68 out of 100, below the peer median of 76.
- For FY 2014, PEBA's budget authorization was 6.7 basis points to administer the retirement system. Actual expenditures were 4.5 basis points. A basis point is 1/100th of a percent or .0001 in decimal form.

¹CEM stands for Cost Effective Measurement, Inc. These highlights are from the June 30, 2013, fiscal year. PEBA recently submitted its FY14 data to CEM.

Governor's Executive Budget

The Governor's FY 2015-16 Executive recommends transferring statewide employer contributions lines from F30 – Employee Benefits as part of Act 121 of 2014 restructuring.

	FY 2015-16 General Fund
III. Statewide Employer Contributions	
Unemployment Compensation Insurance	\$1,895
St Ret-Mil & Non-Mem Serv Ret	\$77,014
State Employee Retiree Supplement	\$623,357
Public School Employee Supplement	\$980,600
Police Insurance & Annuity Fund	\$11,041
Police Officer Retiree Supplement	\$53,178
National Guard Pension Supplement	\$4,590,798
OPEB Trust Fund	\$2,375,300
Total	\$8,713,183

PEBA Proviso

- **105.1 (108.1)** (PEBA: Lottery & Infrastructure Bank Health Insurance) South Carolina Lottery Commissioners and South Carolina Transportation Infrastructure Bank Board members and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon paying the full premium costs as determined by the Public Employee Benefit Authority.
 - There are nine (9) Lottery Commissioners and seven (7) SC Transportation Infrastructure Bank Board Directors. Given the small number of possible subscribers, and assuming they are demographically similar to all other State Health Plan members, there would be no impact on the SHP.

PEBA Proviso

- **105.2 (108.2) (PEBA: Adoption Assistance Program)** The Employee Adoption Assistance Program is established to provide grants to eligible employees to assist them with the direct costs of adoption. The program shall be an employee benefit through the Public Employee Benefit Authority (PEBA) and shall be funded from the appropriation for the State Health Plan as provided in this act. Total funding for the Adoption Program shall not exceed the amount authorized by the General Assembly in the annual appropriations act. Employees are eligible for the Adoption Program if they participate in PEBA insurance benefits, have adopted a child during the prior fiscal year, apply for the grant during the annual application period and meet any other Adoption Program criteria. The application period shall be July first through September thirtieth of the current fiscal year for an adoption in the prior fiscal year. The maximum grant amounts shall be \$10,000 in the case of the adoption of a special needs child and \$5,000 for all other child adoptions. Should the total amount needed to fund grants at the maximum level exceed the amount authorized, the amount of a grant to an eligible employee shall be determined by dividing the authorized amount evenly among qualified program applicants, with the adoption of a special needs child qualifying for two times the benefit of a non-special needs child.
 - This program is funded by the premiums remitted to the State Health Plan. For FY 2015 there were 54 (14 special needs and 40 non-special needs) children adopted by 51 employees for a total reimbursement of \$299,995.

PEBA Proviso

- **105.3 (108.3) (PEBA: Health Plan Tobacco User Differential)**
For health plans adopted under the authority of Section 1-11-710 of the 1976 Code by the Public Employee Benefit Authority during the current fiscal year, the board is authorized to differentiate between tobacco users and non-users regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon tobacco use. The surcharge for tobacco use may not exceed \$40 per month per subscriber or \$60 per month per subscriber and dependent(s).
 - As of calendar year ended December 31, 2014, PEBA collected \$13,990,680. This equates to 24,027 subscribers paying the surcharge.

PEBA Proviso

- **105.4 (108.4) (PEBA: Funding Abortions Prohibited)** No funds appropriated for employer contributions to the State Health Insurance Plan may be expended to reimburse the expenses of an abortion, except in cases of rape, incest or where the mother's medical condition is one which, on the basis of the physician's good faith judgment, so complicates the pregnancy as to necessitate an immediate abortion to avert the risk of her death or for which a delay will create serious risk of substantial and irreversible impairment of major bodily function, and the State Health Plan may not offer coverage for abortion services, including ancillary services provided contemporaneously with abortion services. The Public Employee Benefit Authority must determine the amount of the total premium paid for health coverage necessary to cover the risks associated with reimbursing participants in the plan for obtaining an abortion in the circumstances covered by this provision. The determination must be based on actuarial data and empirical study in the same manner and by the same method that other risks are adjusted for in similar circumstances. The plan must report this determination annually to the respective Chairmen of the Senate Finance Committee and the House Ways and Means Committee.
 - In plan year 2013 the SHP incurred claims of \$4,693, or \$.002 per subscriber per month in premiums.

PEBA Proviso

- **105.5 (108.5) (PEBA: TRICARE Supplement Policy)** The Public Employee Benefit Authority (PEBA) shall offer a group TRICARE Supplement policy or policies to its TRICARE-eligible subscribers through its flexible benefits program to provide that subscribers may pay premiums for such policies on a pre-tax basis, in accordance with federal law and regulations. PEBA may charge TRICARE Supplement subscribers an amount not to exceed \$2 per subscriber per month for any associated administrative costs.
 - This is currently being done.

PEBA Proviso

- **105.7 (108.6)** (PEBA: FY 2015 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year 2015 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 3.9 percent and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2015. Co-payment increases for participants of the State Health Plan in Plan Year 2015 shall not exceed nine percent. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Play Year 2015 to ensure the fiscal stability of the Plan.
 - Needs to be deleted or amended for FY 16 numbers. This proviso is updated by the General Assembly after the budget is determined.

PEBA Proviso

- **105.8 (108.7)** (PEBA: Exempt National Guard Pension Fund) In the calculation of any across-the-board cut mandated by the Budget and Control Board or General Assembly, the amount of the appropriation for the National Guard Pension Fund shall be excluded.

PEBA Proviso

- **105.9 (108.8)** (PEBA: Inactive SCRS Account Transfer) A current employee or teacher who is an active participant in the State Optional Retirement Program but who has an inactive account in the South Carolina Retirement Program due to previous service in that system, shall be allowed to transfer previous contributions to the employee's or teacher's active State Optional Retirement Program account.
 - PEBA is in compliance with this proviso.

PEBA Proviso

- **105.11 (108.9)** (PEBA: Network Pharmacy Publications) All pharmacy publications or lists must include independent retail pharmacies. Abridged pharmacy lists are prohibited.

PEBA Proviso

- **105.12 (108.10)** (PEBA: Pharmacy Benefit Manager Audit) By September 1, 2014, the Public Employee Benefit Authority shall have prepared a detailed report and have prepared an independent audit of its contract with Catamaran for Pharmacy Benefit Manager services to ensure, among other things, that fair and equitable reimbursement practices are being followed. The independent auditor must have experience in conducting Pharmacy Benefit Manager services audits.
 - Deletion requested as report has been completed.

PEBA Proviso

- **105.13 (108.11) (PEBA: Litigation Review)** The Public Employee Benefit Authority shall submit to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee, no later than December 1, 2014, a report on the settlement between the State of South Carolina and the Bank of New York Mellon that provides review and comment upon the benefits of the settlement for the employees and retirees of South Carolina. In conducting the review and preparing the report, the Public Employee Benefit Authority may use appropriated or available funds as necessary to retain independent expert assistance, including legal counsel of its choosing.
 - Deletion requested as report has been completed and submitted.

PEBA Proviso

- **105.15 (108.12)** (PEBA: Self-Insured Group Health Benefits Plan) Effective January 1, 2015, the self-insured group health benefits plan for state employees and retirees established under Section 1-11-710 et seq. (the State Health Plan) and administered by the Public Employee Benefit Authority pursuant to Section 9-4-10 et seq. (PEBA) shall reimburse all pharmacies participating in the State Health Plan's retail pharmacy network on an equal and uniform per-product basis. This requirement applies whether the network is established via direct contract with the State Health Plan or via an authorized pharmacy benefit manager.
 - Deletion requested as pricing for pharmacy was resolved with an amendment to the contract with the pharmacy benefit manager.

General Proviso

- **117.114 (117.108) (GP: Fiduciary Audit)** ~~Of the funds authorized for the Public Employee Benefit Authority, the authority shall transfer \$700,000 to the Office of Inspector General. The funds transferred shall be utilized by the Inspector General to employ a private audit firm to perform the fiduciary audit on the Public Employee Benefit Authority as required by Section 9-4-40 of the 1976 Code, as amended.~~ For the current fiscal year, the provisions of Section 9-4-40 requiring the Inspector General to employ a private audit firm to perform the fiduciary audit on the Public Employee Benefit Authority as required by Section 9-4-40 of the 1976 Code shall be suspended.
 - Recommend modification in accordance with Inspector General's recommendation.

Overview of Catamaran

- Catamaran was selected via RFP to become the new Pharmacy Benefits Manager (PBM) for PEBA with an effective date of 1/1/2014.
- Immediately after implementation, problems began to arise regarding both members and pharmacies, particularly the reimbursement rates for independent pharmacies.
- Over time, many of the issues with service to the members were resolved, but there remained tremendous difficulties regarding the level of reimbursement to pharmacies.
- PEBA engaged in numerous discussions with Catamaran, the independent pharmacies and the Legislature on how best to rectify the problems.
- Legislative meetings were held to attempt to resolve the issues.

Overview of Catamaran

- Towards the end of the 2014 legislative session a proviso (105.15) was introduced which would require PEBA to reimburse all pharmacies participating in the State Health Plan at the same rates beginning January 1, 2015.
- In August 2014, an agreement was reached between PEBA and Catamaran which rectified the pricing issues being experienced by independent pharmacies.
- Proviso 105.15 then became unnecessary, and if implemented, would undo the negotiated agreement between Catamaran and PEBA. As such S225 was introduced to nullify the proviso. S225 was reported out of Senate Finance favorably on January 21.
- An RFP for PBM services was issued by PEBA the first week of January 2015 for an implementation date of January 1, 2016.

Disclaimer

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This presentation is meant to serve as a guide but does not constitute a binding representation of the South Carolina Public Employee Benefit Authority. Title 9 of the South Carolina Code of Laws contains a complete description of the retirement benefits, their terms and conditions, and governs all retirement benefits offered by the state. State statutes are subject to change by the General Assembly.

Employers covered by the South Carolina Public Employee Benefit Authority are not agents of the South Carolina Public Employee Benefit Authority.