



Serving those who serve South Carolina

Fiscal year 2019 budget request

House Ways and Means
Healthcare Subcommittee
January 31, 2018



What we will cover

- National medical cost trends are increasing.
- State Health Plan compares favorably to other public and private sector plans.
- Historical Plan increases and funding.
- PEBA's cost saving initiatives.
- State Health Plan's cost trend components.
- State Health Plan budget requirements for fiscal year 2019.

What contributes to general medical cost trend



- Increased medical and pharmacy costs.
 - Medical inflation.
 - Specialty pharmacy.
 - Pharmacy innovation.
- Increased utilization of services and medications.
- Increased prevalence of medical conditions such as high blood pressure, high cholesterol, diabetes, asthma and COPD.



Medical cost trend

- Just like other insurance plans nationally, the State Health Plan's cost trend is increasing.

	Public and private sector insurance plans ¹	State Health Plan ²
2013	5.6%	4.0%
2014	8.1%	-1.4%
2015	8.5%	8.9%
2016	7.5%	4.6%
2017	9.3%	5.0% (12/12) ³
5-year average (2013-2017)	7.8%	4.2%

¹Includes active participants and retirees under the age of 65 in private and public sector insurance plans.

²Trend is defined as claims paid per member (includes employee and dependents).

³Incurred in 12 months; paid in 12 months

State Health Plan enrollment as of January 2018



Subscribers		
Subscribers		278,041
Actives	189,452	
Retirees	84,890	
Others	3,699	
Spouses		81,413
Children		131,109
Total covered lives		490,563

Active subscribers	
State agencies	35,407
Higher education	25,837
School districts	86,783
Local subdivisions	32,905
Other	8,520
Total employees	189,452

Retirees	
Medicare	65,287
Non-Medicare	19,603
Total retirees	84,890

Total employer groups: 690



State Health Plan

- State Health Plan spends over \$2 billion per year.
- Cost is borne completely by employers and employees through premiums.

Annual base for calendar year 2018	
Employer premiums	\$1,763,300,000
Employee premiums	\$499,400,000
Total	\$2,262,700,000
State-appropriated portion of employer premiums (40.3%)	\$912,100,000

2017 average annual deductible



	Amount
State Health Plan	\$445
Large public and private sector employers ¹	\$856
Public and private sector employers in South ²	\$1,149

¹Lg. Public and Private Sector Employers: ≥ 200 employees in public and private sectors

²Public & 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

2018 composite monthly premiums¹



Compared to other state employee health plans

	Employer	Employee	Total
State Health Plan	\$533.25	\$159.71	\$692.96
South ²	\$726.00	\$186.19	\$912.19
United States	\$890.87	\$182.02	\$1,072.89

- State Health Plan employer premiums are 26.5 percent lower than other state employee health plans in the South.
- State Health Plan employee premiums are 14 percent lower than other state employee health plans in the South.
- Total State Health Plan premiums are 24 percent lower than other state employee health plans in the South.

¹Composite Monthly Premiums: Weighted average of all PEBA health subscribers enrolled in each coverage level

²South: Includes Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

Historical State Health Plan increases and funding



- Employees have only had one premium increase since 2006 and employee premiums have not increased since 2012.

	Employee increase	Employer increase	State \$ (M) ¹	Plan design changes
2009	0.0%	0.0%	\$0	
2010	0.0%	0.0%	\$0	
2011	0.0%	10.3%	\$48.060	
2012	4.5%	4.5%	\$63.601	
2013	0.0%	6.37%	\$51.528	
2014	0.0%	6.8%	\$54.0	Increased deductible and coinsurance maximum
2015	0.0%	3.9%	\$57.174	Increased deductible and coinsurance maximum
2016	0.0%	4.5%	\$35.70	
2017	0.0%	0.8%	\$25.727	
2018	0.0%	3.3%	\$25.456	
Total			\$361.246	

¹State \$ includes amounts for rate increase for January-June of the following year, annualization of rate increase for July-December of the current year and estimated retiree enrollment growth.



Cost saving initiatives

- PEBA maintains a favorable cost structure by continually focusing on cost containment and health outcomes.
- PEBA benchmarks against other public and private sector insurance plans, and researches and analyzes best practices and initiatives other plans are using successfully to contain costs.
- Efforts are focused on annual cost savings and a reduction in future costs to the Plan.



Cost saving initiatives

- Implementation of EGWP (Medicare Group Part D Plan) in 2014.
 - Annual savings of approximately \$60 million.
- Transition to new pharmacy benefits manager in 2016 and initiatives related to formulary management, network management, specialty pharmacy and utilization management.
 - Annual savings more than \$100 million.



PEBA Perks

- Value-based benefits are offered at no cost to State Health Plan primary members.
- Preventive screenings.
- Flu vaccine.
- Adult vaccinations.
- Well child benefits.
- Colorectal cancer screening.
- Cervical cancer screening.
- No-Pay Copay.
- Mammography.
- Diabetes education.
- Tobacco cessation.
- Breast pumps.

How does the State Health Plan stack up?



- State Health Plan expenditure growth is significantly below other public and private sector insurance plans.
- The State Health Plan experienced this lower expenditure growth trend while providing deductibles and employee and employer premiums that are significantly less than other public and private sector insurance plans.



Expenditure growth

- The primary driver of trend in 2017 was pharmacy growth¹.
 - Medical is 0.8 percent.
 - Pharmacy is 10.8 percent.
- Medical growth is primarily due to physician-administered drugs.
 - Accounts for almost all of the increase in medical expenses in 2017.
 - Implemented a prior authorization process for physician-administered drugs effective January 1, 2018.

State Health Plan medical trend contributors



- Claims expense is forecasted to increase 7.5 percent in 2019.
- Increase is attributable primarily to continued growth in prescription drug prices and pharmacy utilization.
- Higher retiree enrollment growth than in recent years.
 - Net growth for retirees with state-funded insurance is 2.9 percent this year, compared to 2.4 percent last year and 2.0 percent in previous two years.



Proposed adult well visit

- Well visits may help prevent or detect diseases earlier, which may save the Plan money.
- Included with this package is a document outlining several proposals for the State Health Plan to cover an annual adult well visit beginning with the January 1, 2019, plan year.
- The adult well visit at specified age intervals has a 1.4 percent impact based on no patient liability for the adult well visit. The impact is estimated at 0.9 percent if the visit is covered as a regular contractual service and is subject to copayments and deductibles.

	Percent	EE only EE+/month	ER and EE share proportionally State \$ (M)	ER only EE+/month	ER only State \$ (M)
Additional impact to add adult well visit	1.4%	\$9.58	\$6.4	\$2.12	\$8.2
Additional impact to add adult well visit as a regular contractual service	0.9%	\$6.16	\$4.1	\$1.36	\$5.3

State Health Plan budget requirements for FY 2019

State-appropriated funds only



	Percent	EE only	ER and EE share proportionally		ER only
		EE+/month	State \$ (M) ¹	EE+/month	State \$ (M) ¹
Stay Grandfathered Current Plan	6.5%	\$44.44	\$52.7	\$9.82	\$61.1
Stay Grandfathered Current Plan (plus adult well visit)	7.9%	\$54.00	\$59.2	\$11.92	\$69.4
Stay Grandfathered Current Plan (with increase in patient liability ²)	4.8%	\$32.82	\$44.9	\$7.24	\$51.1
Stay Grandfathered Current Plan (plus adult well visit and increase in patient liability ²)	6.2%	\$42.38	\$51.3	\$9.36	\$59.4
Stay Grandfathered Current Plan (plus adult well visit as a contractual service and increase in patient liability ²)	5.7%	\$38.96	\$49.0	\$8.60	\$56.4
Not Grandfathered Current Plan (plus annual adult well visit and other ACA-required benefits)	9.1%	\$62.20	\$64.7	\$13.74	\$76.5

¹State \$ includes amounts for 2019 rate increase for January-June 2019, annualization of 2018 rate increase for July-December 2018 (\$14.1 million) and estimated retiree enrollment growth (\$9.1 million).

²Projected permissible changes in patient liability available on Slide 18.

Projected permissible changes in patient liability



- Remain in ACA-grandfathered status.
- -1.7 percent Plan impact.

Standard Plan benefit design	2018	2019
Annual deductible	\$445	\$495
Annual coinsurance maximum	\$2,540	\$2,850
Outpatient copay	\$95	\$105
Emergency room copay	\$159	\$175
Office visit copay	\$12	\$14
Tier 2 (preferred brand) prescription drug copay	\$38	\$42
Tier 3 (non-preferred brand) prescription drug copay	\$63	\$71
Annual prescription drug copay maximum	\$2,500	\$3,000



FY 2019 budget request

	FY 2018 approved	FY 2019 budget request
I. Administration		
Personal Services	\$295,582	\$295,582
Other Operating	-	\$10,000,000
Administration Total	\$295,582	\$10,295,582
II. A. Employee Insurance Program		
Personal Services	\$6,932,129	\$7,044,995
Adoption Assistance ¹	\$300,000	\$300,000
Other Operating	\$4,477,172	\$3,945,263
Employee Insurance Program Total	\$11,709,301	\$11,290,258
II. B. Retirement Systems		
Personal Services	\$8,994,018	\$9,218,212
Other Operating	\$5,227,454	\$5,003,246
Retirement Systems Total	\$14,221,472	\$14,221,458
II. C. Operational IT Systems		
Capital/Other Operating	\$10,000,000	-
Operating IT Systems Total	\$10,000,000	-
III. Statewide Employer Contributions²	\$125,737,331	\$126,213,058
IV. Employee Benefits		
Employer Contributions	\$5,803,736	\$6,222,793
Employer Contributions Total	\$5,803,736	\$6,222,793
GRAND TOTAL	\$167,767,422	\$168,243,149

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

²Details available on Slide 21.

Authorized operating budget trend



	Authorized budget						FY 2019 request
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	
Trust Funds							
Personal Services Total	\$14,463,827	\$14,593,889	\$14,593,889	\$14,593,889	\$15,403,176	\$16,221,729	\$16,558,789
Other Operating Total	\$12,163,734	\$11,963,734	\$12,663,734	\$12,663,734	\$11,049,436	\$9,704,626	\$8,948,509
Adoption Assistance	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Employer Contributions	\$4,402,530	\$4,472,468	\$4,472,468	\$4,472,468	\$5,277,479	\$5,803,736	\$6,222,793
Total Trust Funds	\$31,330,091	\$31,330,091	\$32,030,091	\$32,030,091	\$32,030,091	\$32,030,091	\$32,030,091
General Funds¹				\$8,271,510	\$7,495,020	\$125,737,331	\$126,213,058
Capital/Other Operating						\$10,000,000	\$10,000,000
PEBA GRAND TOTAL	\$31,330,091	\$31,330,091	\$32,030,091	\$40,301,601	\$39,525,111	\$167,767,422	\$168,243,149
Actual Expenditures	\$24,585,242	\$23,804,351	\$29,433,025	\$26,428,117	\$27,134,568		

¹Details on Slide 21.

FY 2019 statewide employer contributions



FY 2018 approved FY 2019 budget request

III. Statewide Employer Contributions

Ret Suppl-State Employee	\$233,258	\$233,258
Ret-Suppl-Public School Employee	\$199,855	\$199,855
Ret-Police Insur & Annuity Fund	\$960	\$960
Ret Suppl-Police Officer	\$17,506	\$17,506
Pension Ret-National Guard	\$4,814,000	\$5,289,727
OPEB Trust Fund Pymt	\$2,375,300	\$2,375,300
Subtotal	\$7,640,879	\$8,116,606
SCRS Trust Fund	\$104,974,462	\$104,974,462
PORS Trust Fund	\$13,121,990	\$13,121,990
Subtotal	\$118,096,452	\$118,096,452
Fringe Benefits Total	\$125,737,331	\$126,213,058

SCNG contribution



GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

December 20, 2017

Peggy G. Boykin, CPA
Executive Director
South Carolina Public Employee Benefit Authority
PO Box 11960
Columbia, SC 29211-1960

Re: South Carolina National Guard Pension Fund Contribution for Fiscal Year 2019

Dear Peggy:

We have completed the actuarial valuation as of July 1, 2017 for the South Carolina National Guard Supplemental Retirement Plan. The results of the valuation determined that the State contribution requirement for the fiscal year ending June 30, 2019 is \$5,289,727. This is a \$475,538 increase compared to the contribution requirement for the fiscal year ending June 30, 2018.

The 2017 valuation report, dated December 18, 2017, provides discussion and details regarding the calculation of the contribution requirement, as well as a reconciliation of the change in the contribution requirement determined by the prior actuarial valuation.

Please do not hesitate to contact us if you have any questions or wish to discuss.

Sincerely,

Gabriel, Roeder, Smith & Co.

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Daniel J. White, FSA, MAAA, EA
Senior Consultant

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peba:connect



- \$50 million peba:connect implementation budget.
- Significant PEBA resources and personnel will be dedicated and committed to the project.
- Project manager on board and working with multiple PEBA teams.
- Client services vendor procurement was awarded in October 2017 after being delayed by protest of award.



Proviso 106.1

- (SEB: SCRS & PORS Allocation) The funds appropriated in the current fiscal year for SCRS Employer Contributions and PORS Employer Contributions shall be allocated to state agencies and school districts by the Department of Administration, Executive Budget Office for SCRS and PORS rate increases.



Proviso 108.1

- (PEBA: Lottery, Infrastructure Bank, and Magistrates 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. If a county is participating in the State Health and Dental Insurance Plan, magistrates and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon the magistrate paying the full premium costs as determined by the Public Employee Benefit Authority.



Proviso 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.



Proviso 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 nonusers 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).



Proviso 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.



Proviso 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 pretax 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.



Proviso 108.6

- (PEBA: State Health Plan) Of the funds authorized for the State Health Plan pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 3.3 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 2018. Copayments for participants of the State Health Plan in Plan Year 2018 shall not be increased. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year 2018 to ensure the fiscal stability of the Plan.



Proviso 108.7

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



Proviso 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 employees or teachers active State Optional Retirement Program account.



Proviso 108.9

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



Proviso 108.10

- (PEBA: Covered Contraceptives) In its Plan of Benefits effective January 1, 2017, the State Health Plan shall not apply patient cost sharing provisions to covered contraceptives. This provision does not alter the current approved list of contraceptives and complies with the requirements of proviso 108.4.



Proviso 108.11

- (PEBA: Former Spouses on the State Health Plan) In its Plan of Benefits effective January 1, 2018, the State Health Plan shall cover a subscribers former spouse, who is eligible to be covered pursuant to a court order, on the former spouses own individual policy and at the full amount of the premium for the coverage elected, with such rates, billing, and other administrative policies to be determined by the Public Employee Benefit Authority. The former spouses may only elect such health, dental, and vision coverage as required by the court order. The former spouses individual coverage may continue under the State Health Plan as long as authorized under the court order and the subscriber remains a participant in the State Health Plan. This proviso does not affect a subscribers ability to cover a current spouse on an employee/retiree and spouse or full family policy when the subscribers former spouse is covered on a separate policy.



Proviso 117.151

- (GP: SCRS & PORS Contribution Rates) If the employer contribution rates for the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) increase by more than one percentage point for Fiscal Year 2017-18, the funds appropriated to the Public Employee Benefit Authority (PEBA) for the South Carolina Retirement System Trust Fund and the Police Officers Retirement System Trust Fund in Part IA, Section 108 of this act shall be credited toward the contributions due from participating employers in SCRS and PORS for Fiscal Year 2017-18. In no event shall a participating employer receive a credit that exceeds the employer contributions due from the employer.



Proviso 117.152

- (GP: Retirement System Assets and Custodial Banking Relationship Transfer) In order to facilitate the transfer of custodianship of the assets of the Retirement System to the Public Employee Benefit Authority and governance of the custodial banking relationship to the Retirement System Investment Commission, all portions of contracts, agreements, and exemptions from the Consolidated Procurement Code providing for and relating to custodial banking, general banking, accounting, or any other ancillary services are transferred to, and devolved upon, the Public Employee Benefit Authority and the Retirement System Investment Commission in accordance with the authority transferred to the respective agency.



PEBA's key officials

- Peggy Boykin, CPA | Executive Director
pboykin@peba.sc.gov | 803.734.8117
- Sarah Corbett, CPA | Chief Operating Officer
scorbett@peba.sc.gov | 803.737.7551
- Travis Turner, CPA | Chief Financial Officer
tturner@peba.sc.gov | 803.734.0574
- Stephen Van Camp | General Counsel
svancamp@peba.sc.gov | 803.734.1228
- James Manning | Risk Management and Compliance Director
jmanning@peba.sc.gov | 803.737.6926
- Rob Tester | Healthcare Policy Director
rtester@peba.sc.gov | 803.734.0001

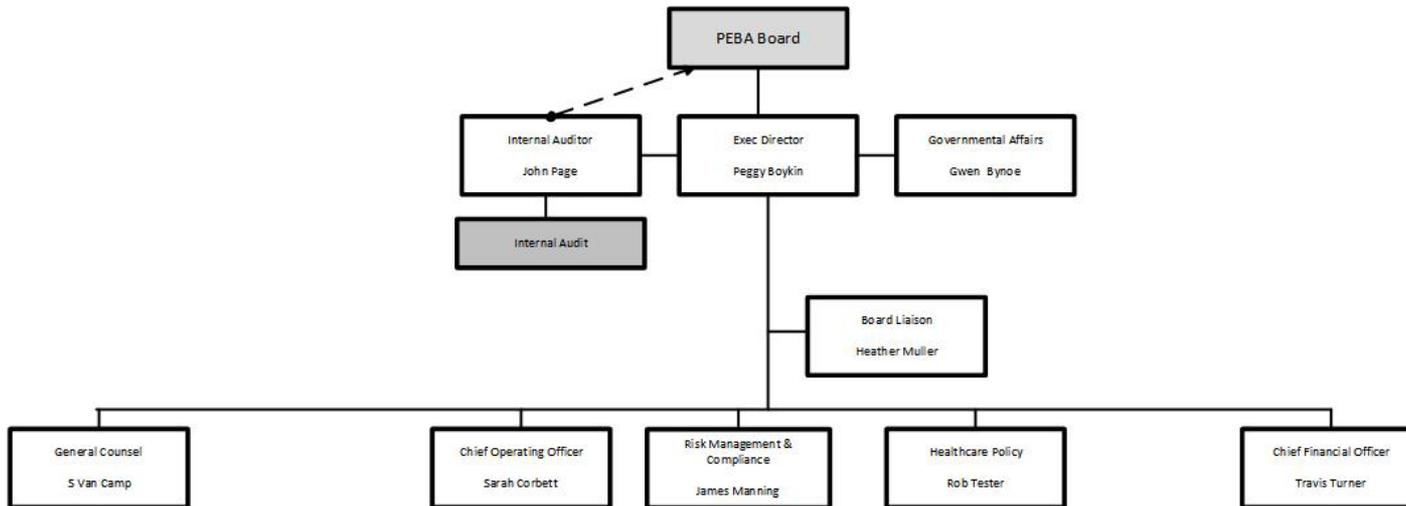


PEBA's key officials

- Gwen Bynoe | Governmental Affairs
gbynoe@peba.sc.gov | 803.737.6911
- John Page | Director of Internal Audit
jpage@peba.sc.gov | 803.737.6634
- Phyllis Buie, CPA | Director of Finance – Insurance
pbuie@peba.sc.gov | 803.734.0326
- Tammy Nichols, CPA | Director of Finance – Retirement
tnichols@peba.sc.gov | 803.737.6821
- Heather Muller | Board Liaison
hmuller@peba.sc.gov | 803.737.6859



Organizational chart





Disclaimer

This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. 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.