south carolina peba
state health plan | retirement systems

Serving those who serve South Carolina

Insurance and retirement benefit updates

South Carolina Association of Counties
August 3, 2019

Past pension reform

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.

Retirement System Funding and Administration Act of 2017

- 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.

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.

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.

Contributions effective July 1, 2019

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)

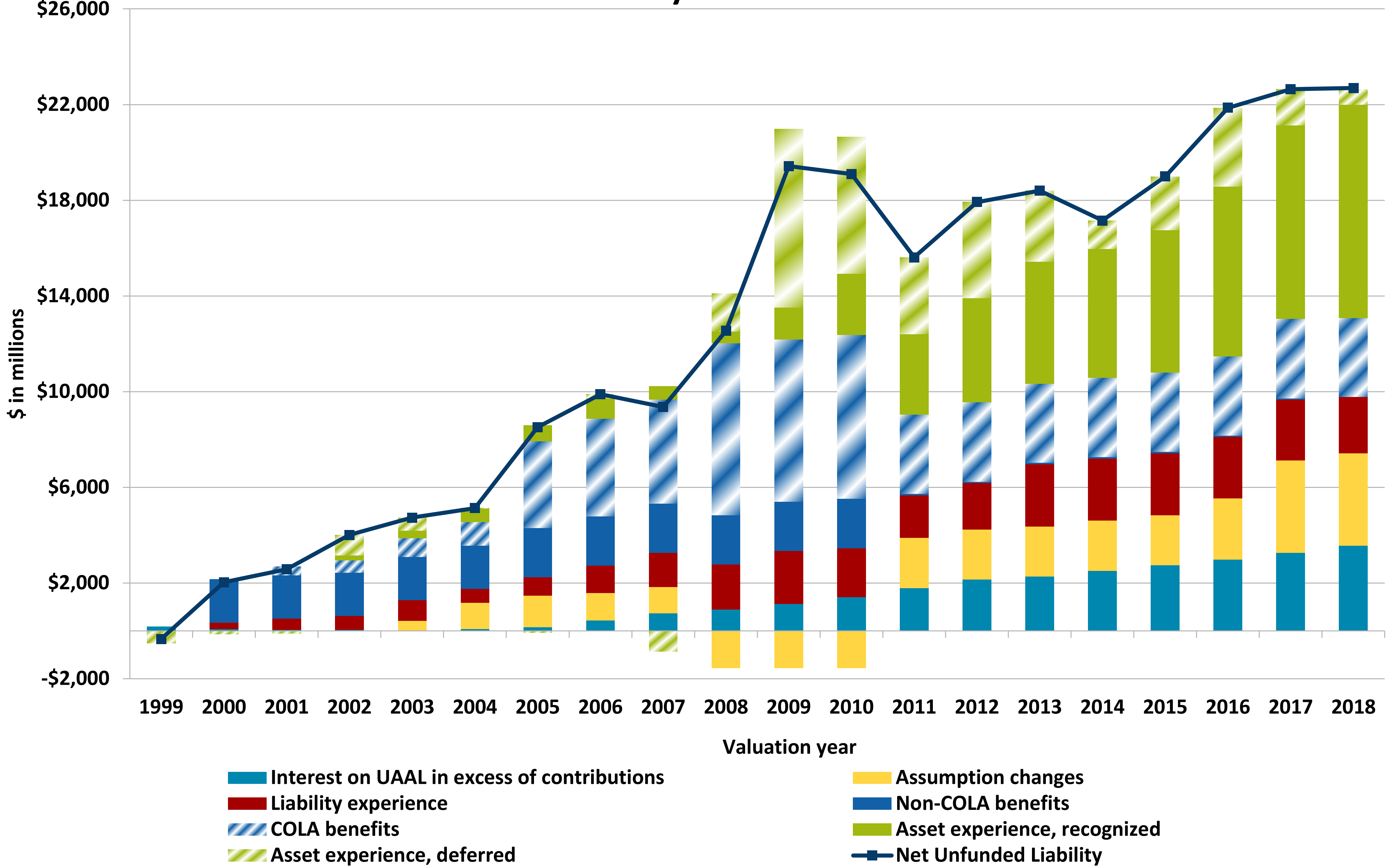
	Member account	Unfunded liability	Total
Member	9.00%	-	9.00%
Employer	5.00%	10.56%	15.56%
Total	14.00%	10.56%	24.56%

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.

Current retirement Systems funding

SCRS
Net unfunded liability on a market value basis

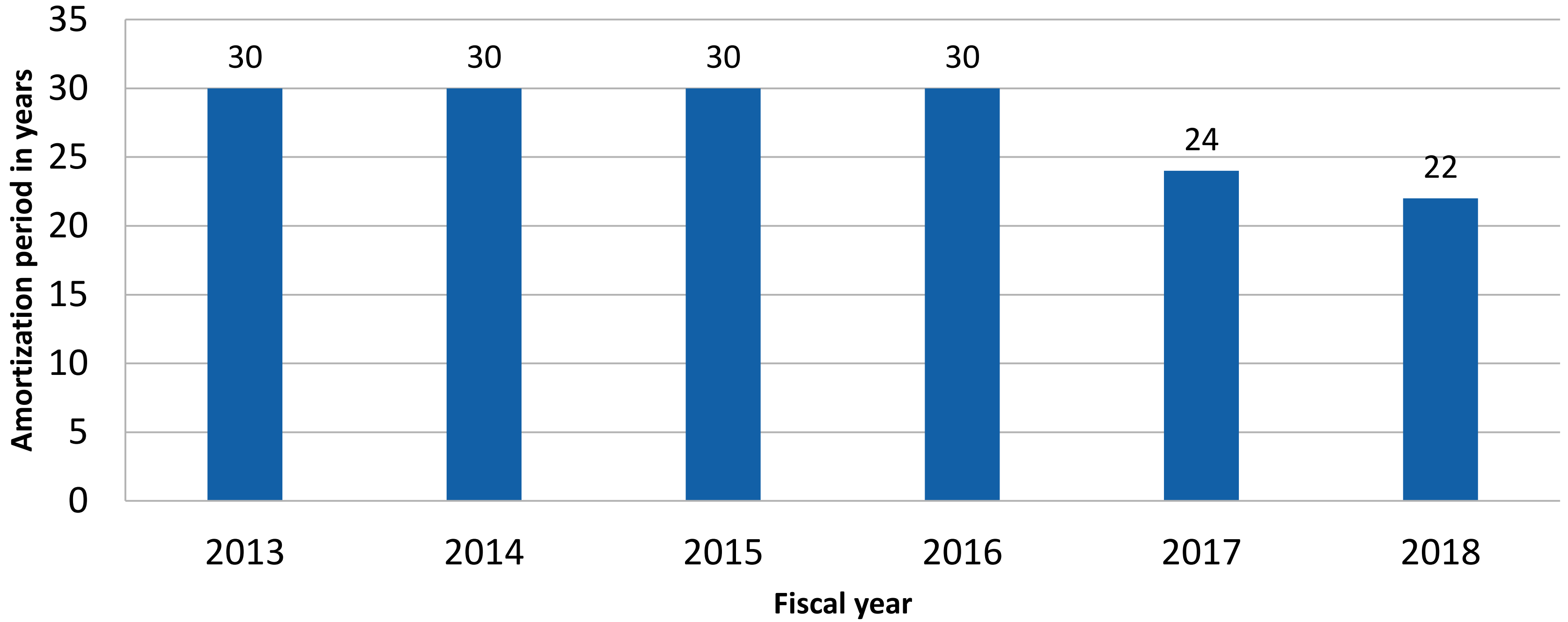


SCRS unfunded liability as of June 30, 2018

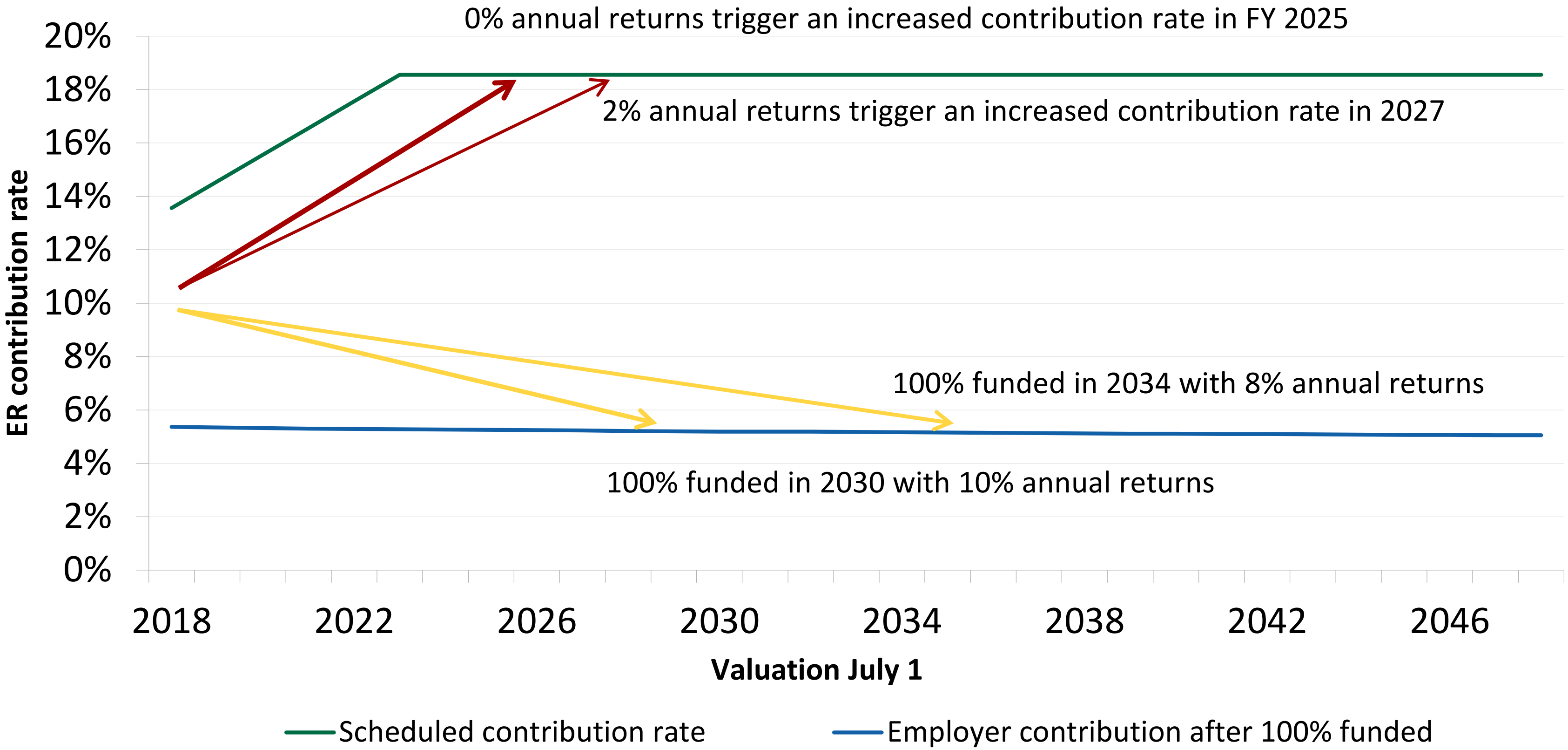
	Market value $22.689 billion	Actuarial value $22.073 billion
Investment experience	$8.928 billion	$8.928 billion
Deferred investment losses	$616 million	Not applicable
Interest on the unfunded actuarial accrued liability (UAAL)	$3.566 billion	$3.566 billion
COLAs	$3.312 billion	$3.312 billion
Non-COLA benefit changes	$63 million	$63 million
Liability experience	$2.338 billion	$2.338 billion
Assumption changes	$3.866 billion	$3.866 billion

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.



Test comparing multiple outcomes over different time horizons



Based on Scenario 5.b with various emerging investment experience.

Fiscal year 2019 investment returns

- Insert data after June 30

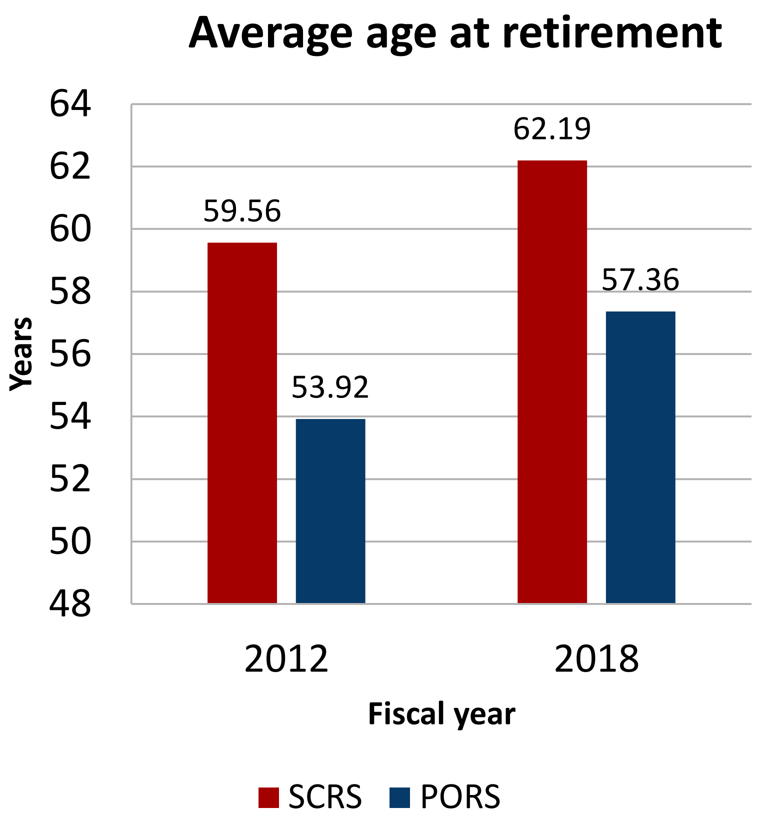
Working retirees and the earnings limitation

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.

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.



Background

- 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.

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 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 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.

Pension reform in other states

From the National Association of State Retirement Administrators

Pension reform in other states

- Since 2009, nearly every state has passed reform to one or more of its pension plans.

Most common types of pension reform

- Employees are required to pay more.
- Benefits are reduced.
- Cost-of-living adjustments are reduced.
- Employees are required to work longer.
- Decision to retain traditional pension plan.

State Health Plan

State Health Plan

- Self-funded insurance plan:
  - Employees' and employers' premiums are held in a trust fund, which pays for claims.
  - BlueCross BlueShield of South Carolina processes medical claims.
- Cost of the State Health Plan compares favorably to other plans.

State Health Plan enrollment as of July 2019

Participants		
Subscribers		284,829
Actives	190,643	
Retirees	90,757	
Others	3,429	
Spouses		83,580
Children		135,229
Total covered lives		**503,638**

Total employer groups: 760

Active subscribers	
State agencies	35,026
Higher education	26,025
School districts	82,202
Optional employers	35,343
Other	12,047
Total active subscribers	**190,643**

Retirees	
Medicare	70,054
Non-Medicare	20,703
Total retirees	**90,757**

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

State Health Plan versus national trends

Claims expenditure growth

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

	Public and private sector insurance plans[1]	State Health Plan[2]
2015	8.5%	8.9%
2016	7.5%	4.0%
2017	5.5%	5.5%
2018	8.8%	4.1%
2019	7.3%	4.7%[3]
5-year average (2015-2019)	7.5%	5.4%

[1]Includes active participants and retirees under the age of 65 in private and public sector insurance plans.
[2]Trend is defined as claims paid per member (includes employee and dependents).
[3]Incurred in 6 months; paid in 6 months.

Data from the most recent *Segal Health Plan Cost Trend Survey*

2018 Average monthly total premiums[1]

	Single	Family
State Health Plan	$473	$1,236
Large public and private sector employers[2]	$597	$1,714
Public and private sector in South[3]	$587	$1,624
Public employers	$646	$1,752
Private – manufacturing	$563	$1,618
Private – financial services	$613	$1,617

[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

2018 Average annual deductible[1]

	Amount
State Health Plan	$445
Large public and private sector employers[2]	$1,012
All employers	$1,204

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

2018 Average annual deductible[1]

	Amount
State Health Plan	$445
Large public and private sector employers[2]	$1,012
All employers	$1,204

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

Historical State Health Plan increases and funding

Employees have had one premium increase since 2006; employee premiums have not increased since 2012.

Plan year	Employee increase	Employer increase	Plan design changes
2009	0.0%	0.0%	
2010	0.0%	0.0%	
2011	0.0%	10.3%	
2012	4.5%	4.5%	
2013	0.0%	6.37%	
2014	0.0%	6.8%	Increased deductible and coinsurance maximum
2015	0.0%	3.9%	Increased deductible and coinsurance maximum
2016	0.0%	4.5%	
2017	0.0%	0.8%	
2018	0.0%	3.3%	
2019	0.0%	7.4%	Increased copayments, deductible and coinsurance maximum
2020	0.0%	0.0%	

[1]State $ 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 containment and plan design changes

- PEBA continually evaluates and implements State Health Plan design changes to control costs for members and employers and ensure the fiscal sustainability of the Plan.
- January 1, 2014: Implementation of EGWP (Medicare Group Part D Plan).
- January 1, 2016:
  - Transitioned to new pharmacy benefits manager, Express Scripts.
  - Added patient-centered medical home (PCMH) benefit to State Health Plan.

Cost containment and plan design changes

- **January 1, 2017:**
  - Implemented new contract for third-party administration of State Health Plan with BlueCross.
  - Transitioned to Express Scripts' National Preferred Formulary.
  - Added telehealth benefit (Blue CareOnDemand) to State Health Plan.
- **October 1, 2017:** Added new pharmacy clinical rules to assure appropriateness of medication use.

Cost containment and plan design changes

- **January 1, 2018:**
  - Requirement for specialty medications to be filled at pharmacies in the Custom Credentialed Specialty Network.
  - Implementation of Express Scripts' narrow retail maintenance network to obtain better pricing for 90-day prescriptions.
  - Implementation of prior authorization for physician-administered specialty medications through BlueCross BlueShield of South Carolina.

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.