SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY, INSURANCE BENEFITS

AND

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015
WITH
INDEPENDENT AUDITORS' REPORT

State of South Carolina

Office of the State Auditor

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September 14, 2015

The Honorable Nikki R. Haley, Governor
and
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, 2015, was issued by CliftonLarsonAllen, L.L.P., 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY, INSURANCE BENEFITS

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015
WITH
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy 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 Financial Statements

We have audited the accompanying financial statements of 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 (PEBA, Insurance Benefits), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise PEBA, Insurance Benefits' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Insurance Benefits as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only 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, and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2015, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our auditors' opinion was not modified with respect to this matter.

During fiscal year ended June 30, 2015, 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 adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* As a result of the implementation of GASB Statement No. 68, PEBA, Insurance Benefits reported a restatement for the change in accounting principle (see Note 2.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-22, Schedule of Proportionate Share of the Net Pension Liability on page 64, Schedule of Pension Contributions on page 65, Schedules of Funding Progress on page 66, and Schedules of Employer Contributions on page 67 be presented to supplement the basic financial statements. Such information, 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 September 14, 2015, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 Insurance Benefits' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Columbia, South Carolina
September 14, 2015

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), including the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF) during the year ended June 30, 2015. The SCRHITF and the SCLTDITF are Other Post Employment Benefit Trust Funds of the State of South Carolina administered by PEBA, Insurance Benefits. 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, Insurance Finance Director
PEBA, Insurance Benefits
202 Arbor Lake Drive
Columbia, SC 29223

Travis Turner, Chief Financial Officer
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 a decrease in net position of $45,272,558 and total net position of $178,482,186 for the year ended June 30, 2015. Beginning net position includes a reduction of $8,480,809 due to implementation of GASB 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*. See note 2 of the financial statements. For the year ended June 30, 2014, PEBA, Insurance Benefits had an increase in net position of $46,183,823 and a total net position of $232,235,553.

Overview of Financial Statements

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

Overview of Financial Statements (continued)

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, restricted net position 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.

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 will be transferred to the SCRHITF the following January. This year, $173,218,670 was transferred to the SCRHITF. The increase in net position before this transfer amounted to $127,946,112, which is attributed to a better than expected claims trend.

The Statement of Revenue, Expenses, and Changes in Net Position present revenue and expenses as operating and non-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 schedule below 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, 2015	June 30, 2014
Assets		
Current assets	$ 394.4	$ 413.3
Noncurrent assets:	0.4	0.2
Total assets	394.8	413.5
Deferred outflow of resources	0.8	-
Liabilities		
Current liabilities	208.1	180.9
Noncurrent liabilities	8.3	0.3
Total liabilities	216.4	181.2
Deferred inflow of resources	0.7	-
Net position		
Investment in capital assets	0.4	0.2
Unrestricted	178.1	232.1
Total net position	$ 178.5	$ 232.3

Overview of Financial Statements (continued)

The following schedule is a summary of PEBA, Insurance Benefits' operating results.

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

	2015	2014
Operating:		
Program revenue	$ 2,382.4	$ 2,245.4
Expenses	(2,432.3)	(2,204.5)
Total operating income	(49.9)	40.9
Non-operating:		
Earnings on investments	4.6	5.3
Total non-operating income	4.6	5.3
Change in net position	(45.3)	46.2
Net position, beginning of the year	*223.8	186.1
Net position, end of the year	$ 178.5	$ 232.3

* Beginning net position was restated due to implementation of GASB 68. See note 2 of the financial statements.

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

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

	2015	2014
Cash flows used in operating activities	$ (4.6)	$ (47.4)
Cash flows used in capital and related financing activities	(0.4)	(0.1)
Cash flows from investing activities	4.7	5.3
Net decrease in cash and cash equivalents	(0.3)	(42.2)
Cash and cash equivalents, beginning of year	318.3	360.5
Cash and cash equivalents, end of year	$ 318.0	$ 318.3

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 105.2 of the 2014-2015 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 Patient Centered Medical Home Plan (Pilot)
- State Dental Plan
- Basic Long Term Disability
- Adoption Assistance Program

Insured Programs

- BlueChoice (HMO- contract ended 12/31/14)
- Tricare Supplement
- Dental Plus
- State Life
- Optional Life
- Dependent Life
- Supplemental Long Term Disability
- Vision

Benefits are offered to eligible employees and retirees of all state agencies and public school districts, and many local governments. As of June 2015, 681 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 90.4% of all medical revenue.

Overview of the State Health Plan

The State Health Plan (Plan) consists of the Standard Plan, the Medicare Supplement Plan, and the Savings Plan. The majority of Plan subscribers (73.69%) are enrolled in the Standard Plan, a PPO option available to non-Medicare and Medicare enrollees. Of the remaining subscribers, 22.19% are enrolled in the Medicare Supplement, a retiree option for those enrolled in Medicare and 4.12% are enrolled in the Savings 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 75.4% 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 2015).

	Program	State Health Plan
Total Insured Persons:	**464,899**	**446,579**
Subscribers:	265,654	256,195
Spouses:	75,763	72,759
Children:	123,482	117,625
Total Subscribers:	**265,654**	**256,195**
Employees:	183,589	174,213
Retirees:	78,885	78,836
Survivors:	2,631	2,627
COBRA:	549	519
Active Employees:	**183,589**	**174,213**
State Agencies:	59,850	55,834
School Districts:	83,932	83,814
Local Government	39,807	34,565

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, 2015, 58.06% of subscribers had Employee Only coverage, and the remaining 41.94% covered at least one dependent.

Premiums range from $5,307.12 annually for Employee Only coverage to $13,933.68 annually for Full Family coverage. Following are the monthly 2015 State Health Plan employee and employer rates.

2015 State Health Plan
(Standard Plan)
Monthly Premiums

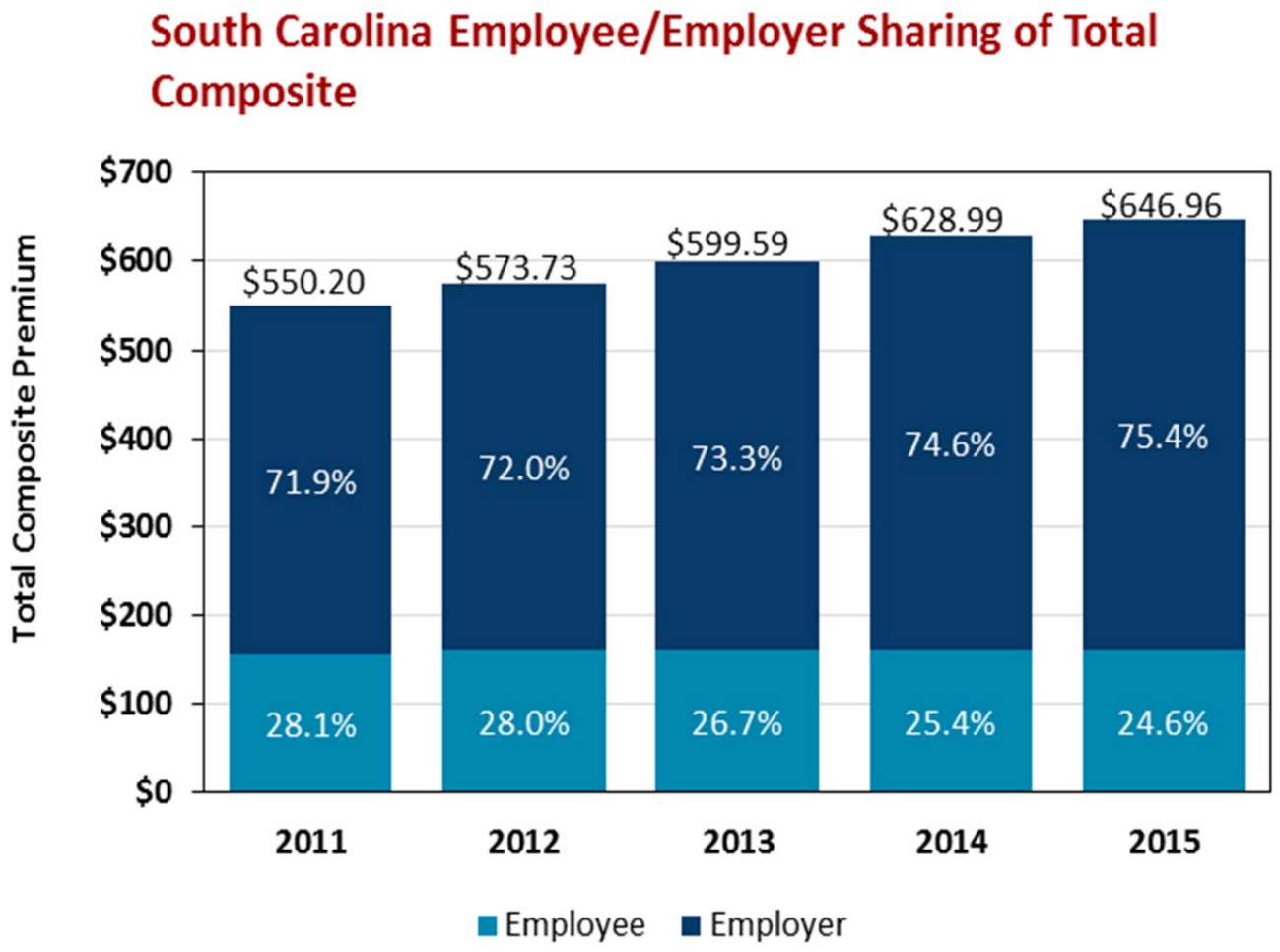
ACTUAL RATES

	Employee	Employer	Total
Employee Only	$97.68	$344.58	$442.26
Employee / Spouse	$253.36	$682.54	$935.90
Employee / Child(ren)	$143.86	$528.88	$672.74
Full Family	$306.56	$854.58	$1,161.14
Composite Rate	**$159.32**	**$487.64**	**$646.96**

State Health Plan Premiums (continued)

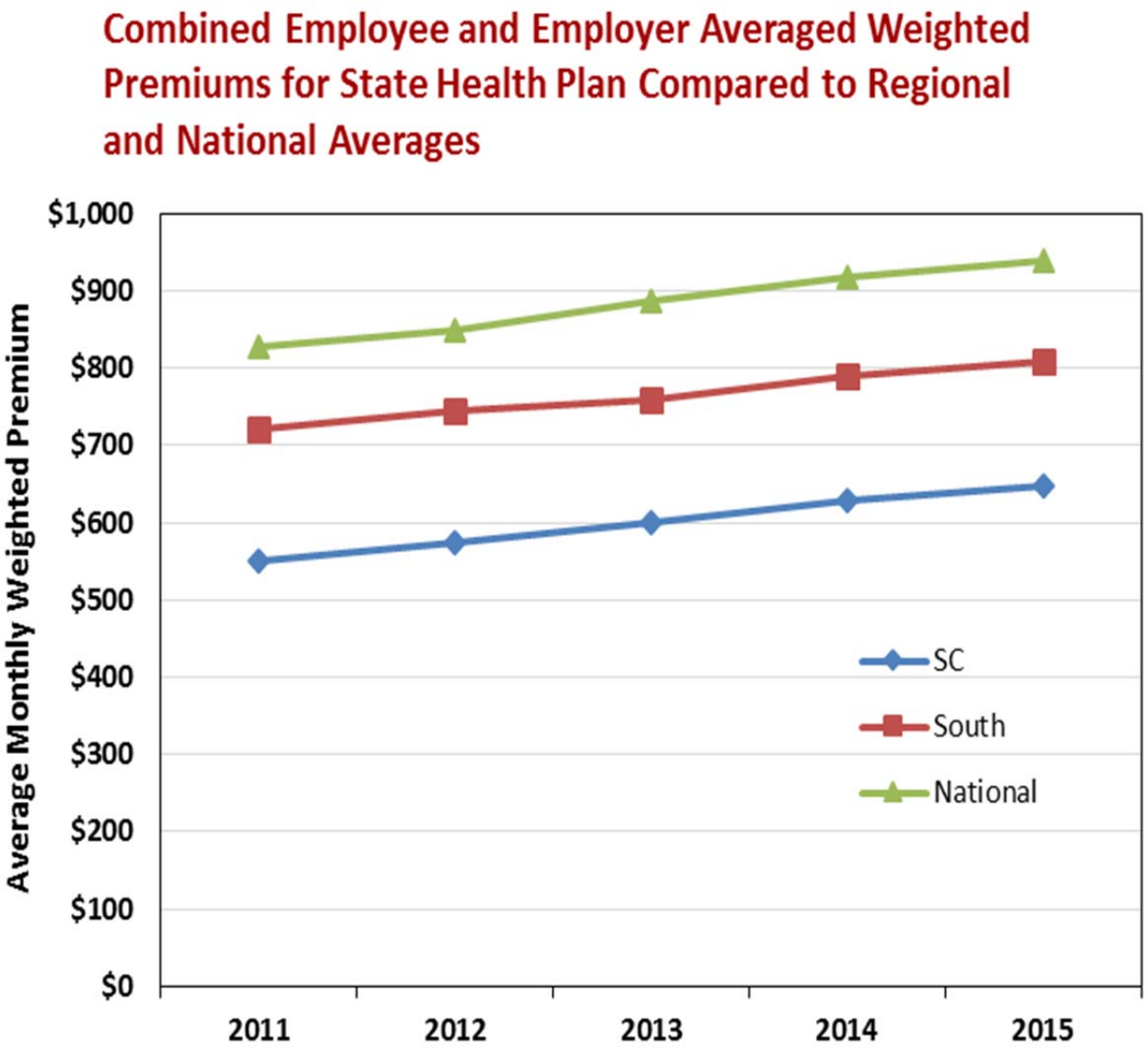
Premium revenue is shared between the employer and the employee (or retiree).

For 2015, the employer share of premiums increased 3.9% and the employee share remained constant. The 2015 employee share reflects approximately 25% of the total premium.



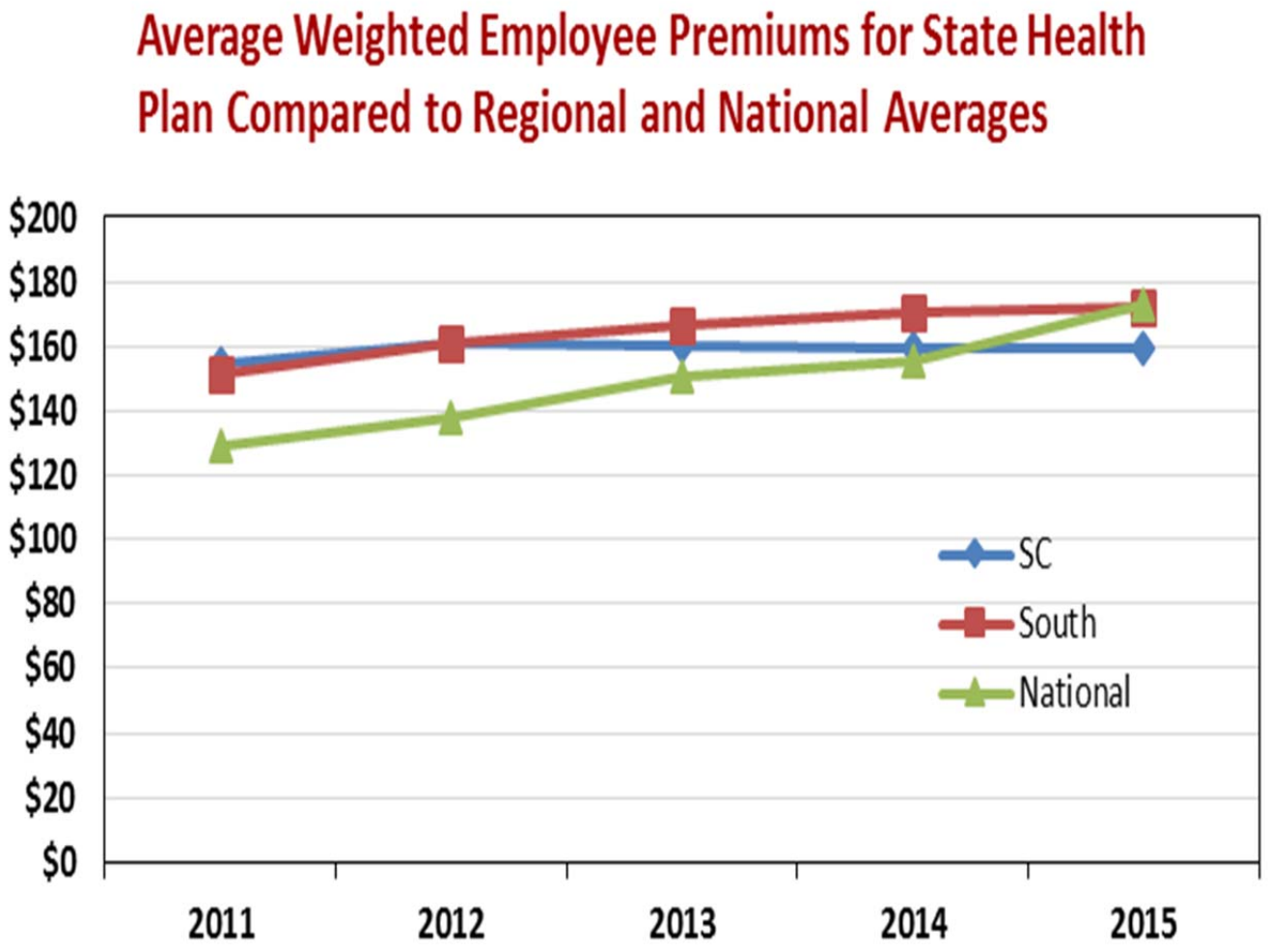
State Health Plan Premiums (continued)

The 2015 composite total premium remains fairly well below both the regional and national levels. For 2015, the State Health Plan composite total premium was approximately 80% of the regional premium and 69% of the national premium.



State Health Plan Premiums (continued)

For 2015, the SHP employee composite dropped slightly below the regional and the national composites. Requested premium increases over the past several years have been authorized by legislation and absorbed 100% by the employer.



State Health Plan Contribution Increases

Contribution increases since 2000 are outlined below.

State Health Plan Contribution Increases

	Employer Rate Increase	Employee Rate Increase	Total
2000	10.0%	0.0%	8.0%
2001	20.0%	10.4%	18.3%
2002	9.5%	22.6%	11.7%
2003	0.0%	36.9%	6.9%
2004	0.0%	27.6%	6.6%
2005	6.1%	29.7%	13.0%
2006	4.8%	0.0%	3.2%
2007	3.1%	0.0%	2.1%
2008	9.7%	0.0%	6.7%
2009	0.0%	0.0%	0.0%
2010	0.0%	0.0%	0.0%
2011	10.3%	0.0%	7.2%
2012	4.5%	4.5%	4.5%
2013	6.37%	0.0%	4.6%
2014	6.8%	0.0%	4.9%
2015	3.9%	0.0%	2.9%

Status of the Plan

The State Health Plan is currently in a stable financial position and has been able to transfer excess cash reserves during this reporting period, as well as for the previous seven reporting periods, to the South Carolina Retiree Health Insurance Trust Fund.

Following are the plan year changes in growth rate in payments per subscriber since 2001.

2002	+8.3%
2003	+12.9%
2004	-0.7%
2005	+4.7%
2006	+7.0%
2007	+6.3%
2008	+3.9%
2009	+8.8%
2010	+0.5%
2011	+3.5%
2012	+6.3%
2013	+3.2%
2014	-1.8%

Change is payout/subscriber updated with the most current claims data to account for run-out.

Status of the Plan (continued)

Following are the plan year medical utilization rates (and growth rates) per 1000 insured persons (SHP primary) from 2000 through 2014 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
2000	$ 5,492.54		$ 253.76		$ 67.76		$ 105.54	
2001	5,856.76	+6.6%	254.99	+0.5%	69.27	+2.2%	101.11	-4.2%
2002	5,936.99	+1.4%	251.34	-1.4%	68.99	-0.4%	102.66	+1.5%
2003	6,230.36	+4.9%	253.66	+0.9%	69.03	+0.1%	114.39	+11.4%
2004	6,119.04	-1.8%	235.97	-7.0%	68.88	-0.2%	115.19	+0.7%
2005	6,287.92	+2.8%	240.27	+1.8%	63.93	-7.2%	106.87	-7.2%
2006	6,391.54	+1.6%	239.22	-0.4%	62.82	-1.7%	99.57	-6.8%
2007*	6,519.21		184.15		63.23		205.58	
2008	6,495.30	-0.4%	181.69	-1.3%	61.29	-3.1%	208.18	+1.3%
2009	6,798.85	+4.7%	189.44	+4.3%	60.40	-1.5%	209.76	+0.8%
2010	6,365.96	-6.4%	181.97	-3.9%	58.44	-3.2%	219.12	+4.5%
2011	6,319.44	-0.7%	183.43	+0.8%	55.94	-4.3%	232.18	+6.0%
2012	6,816.70	+7.9%	190.90	+4.1%	59.17	+5.8%	236.20	+1.7%
2013	6,834.42	+0.3%	191.62	+0.4%	59.46	+0.5%	237.50	+0.6%
2014	6,635.09	-1.89%	179.91	4.62%	52.74	-4.78%	104.78	-4.81%

* Improved data collection methods beginning in 2007 more accurately capture place of service.

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

	Rx/Insured			
	Utilization	Growth	Generic Share	Mail Service Share
2000	$ 13.12		34.9%	n/a
2001	14.75	+12.5%	34.8%	n/a
2002	15.75	+6.9%	37.1%	3.8%
2003	17.10	+8.5%	39.1%	4.7%
2004	16.81	-1.7%	43.3%	9.6%
2005	17.46	+3.9%	47.1%	9.5%
2006	17.99	+3.0%	50.5%	9.8%
2007	18.41	+2.3%	55.2%	9.9%
2008	18.22	-1.0%	61.3%	9.9%
2009	18.31	+0.5%	62.9%	9.2%
2010	18.06	-1.4%	67.4%	8.9%
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%

Status of the Plan (continued)

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

- Provider reimbursement pricing policy with provider networks (inpatient and outpatient hospital settings, professional fee schedules and pharmacy pricing)
- 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)
- Tobacco surcharge of $40/contract/month for members with single coverage who use tobacco and $60/contract/month for members with dependent coverage who use tobacco or cover a family member that does
- "Evidence-based medicine" initiative involving analysis of claims data and communications with doctors regarding best practices
- Mail service pharmacy through Pharmacy Benefits Manager
- Prior authorization/step therapy requirements for specified medications, including "preferred step therapy" program to steer business to "front-line" generics
- Preferred drug list
- "Pay-the-difference" policy for brand drugs with generic equivalents
- Managed care approach for behavioral health services
- "Gold standard" smoking cessation program
- Health education, disease management workshops, and preventive screenings provided through office wellness staff
- Voluntary Data Sharing Agreement with Medicare (maintain current Medicare eligibility on all subscribers yielding significant cost savings)
- Significant patient cost sharing for all service types
- Pharmaceutical manufacturer rebates (for all health plans); the Plan received approximately $63.77 million in rebates during the current fiscal year
- Implementation of a Medicare Part D Prescription Drug Program; the Plan received about $100.29 million in subsidies during the current fiscal year
- A Wellness Incentive, which provides free generic drugs for participants with cardiovascular disease or diabetes who participate in a wellness program for these conditions (implemented 2010)

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 2016

- This year's legislative session provided for a 4.5% increase in the employer contribution rates beginning January 2016

- Other changes to the State Health Plan, beginning January 2016, include implementing referenced-based pricing (moving hospital pricing toward non-hospital levels for radiology, lab and endoscopy), waving the $12 physician office visit deductible and applying a 90% co-insurance (vs. 80%) for patient-centered medical home care, and eliminating patient cost share for colonoscopies, additional adult vaccinations, prescriptions associated with tobacco cessation and diabetic's education

- A Tricare supplement will again be offered to non-Medicare subscribers on an employee pay all basis

- The MUSC patient centered heath plan will continue in 2016 as a pilot to employees and dependents of MUSC and the Medical University Hospital Authority (to reduce health care costs while improving the health of an entire population)

Always a significant challenge is the anticipation of re-acceleration of health care trend. Although we continue to experience stable growth, the dynamics that drive health care expenditure growth remain present, including an aging population, advances in medical technology, third-party payment, and government regulations.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

Overview of the Financial Statements

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, 2014 (the latest plan actuarial evaluation date), there were 219 participating employers and 260,214 eligible plan participants (176,704 active, 82,191 retired, and 1,319 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 Net Position, totaled $964,185,507 at June 30, 2015, a change of $179,215,554 from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Net Position totaling $584,826,727 are a result of contributions, investment income, and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position totaling $405,611,173 are a result of benefit and administrative expenses.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the SCRHITF's independent actuary, as of June 30, 2014, determined the annual required contribution (ARC) for the year ended June 30, 2015 to be $747,746,000, of which 72.88% was contributed in the current period.

Overview of Financial Statements

This MD&A section serves as an introduction to the basic financial statements of the SCRHITF. The SCRHITF has two basic financial statements, the notes to the financial statements and the two 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 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.

This schedule is a condensed version of the SCRHITF's assets, liabilities, and net position and is prepared from the Statement of Plan Net Position.

Condensed Statements of Plan Net Position
(in millions)

	June 30, 2015	June 30, 2014
Total assets	$ 977.5	$ 792.7
Total liabilities	13.3	7.7
Net position held in trust for other postemployment benefits	$ 964.2	$ 785.0

Overview of Financial Statements (continued)

The Statement of Changes in Plan 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.

This 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 Net Position.

Condensed Statements of Changes in Plan Net Position
Years Ended June 30
(in millions)

	2015	2014
Total additions	$ 584.8	$ 496.8
Total deductions	405.6	380.8
Net increase in net position held in trust for other postemployment benefits (OPEB)	179.2	116.0
Net position held in trust for OPEB, beginning of year	785.0	669.0
Net position held in trust for OPEB, end of year	$ 964.2	$ 785.0

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.

The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the actuarially funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the Schedule of Employer Contributions, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Plan Assets and Funding Ratio

As of June 30, 2015, the SCRHITF had $964,185,507 in net position (total assets of $977,526,963 exceeding total liabilities of $13,341,456. Net position represents funds available for future payments.

Plan Assets and Funding Ratio (continued)

In order to determine whether total plan net position will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. On the valuation date, the assets available for the payment of health and dental benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the participating employers are needed to pay all expected future benefits.

The SCRHITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2014 and determined the actuarial accrued liability to be $10.125 billion. The funded ratio was 8% at the valuation date.

Additions and Deductions to Plan 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, 2015, total additions amounted to $584,826,727. Employer contributions accounted for $395,431,263 that is a result of a surcharge of 5.0% 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, a transfer of $173,218,670 based on the amount of PEBA, Insurance Benefits cash reserves available over 140% of the actuarial determined IBNR at December 31, 2014, and$13,801,494 in total investment income presented in the financial statements as $13,755,713 in investment income and $45,781 in net earnings from securities lending activities. Total investment income is composed of interest earnings of $19,132,194, premium amortization of $874,870, net unrealized losses of $10,714,294 and net unrealized gains from value in securities lending of $4,508,724.

For the period ending June 30, 2015, total deductions amounted to $405,611,173, which was a result of claims and administrative expenses.

Future Funding

Going forward into 2016, the actuarial accrued liability and the annual required contribution will be funded primarily through the surcharge on employer's payroll. Effective July 1, 2015, the surcharge will be 5.33%. 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

Overview of the Financial Statements

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, 2014 (the latest plan actuarial valuation date), there were 681 participating employers and 188,074 eligible plan participants (187,071 active and 1,003 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 Net Position, totaled $36,344,930, a reduction of $101,960 from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Net Position of $7,818,168 represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position of $7,920,128 represent benefit and administrative expenses.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the SCLTDIT's independent actuary, as of June 30, 2014, determined annual required contribution (ARC) for the year ended June 30, 2015 to be $10,392,000, of which 67.37% was contributed in the current period.

Overview of Financial Statements

This MD&A section serves as an introduction to the basic financial statements of the SCLTDITF. The SCLTDITF has two basic financial statements, the notes to the financial statements, and the two 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 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.

Overview of Financial Statements (continued)

This schedule is a condensed version of the SCLTDITF's assets, liabilities, and net position and is prepared from the Statement of Plan Net Position.

Condensed Statements of Plan Net Position
(in millions)

	June 30, 2015	June 30, 2014
Total assets	$ 36.6	$ 37.1
Total liabilities	0.3	0.7
Net position held in trust for other postemployment benefits	$ 36.3	$ 36.4

The Statement of Changes in Plan 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 SCLTDITF's financial position over time.

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

Condensed Statements of Changes in Plan Net Position
Years Ended June 30
(in millions)

	2015	2014
Total additions	$ 7.8	$ 8.2
Total deductions	7.9	7.2
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	(0.1)	1.0
Net position held in trust for OPEB, beginning of year	36.4	35.4
Net position held in trust for OPEB, end of year	$ 36.3	$ 36.4

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.

Overview of Financial Statements (continued)

The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the actuarially funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the Schedule of Employer Contributions, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Plan Assets and Funding Ratio

As of June 30, 2015, the SCLTDITF has $36,344,930 in net position. The net position represents funds available for future payments.

In order to determine whether total plan net position will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. On the valuation date, the assets available for the payment of disability benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the participating employers are needed to pay all expected future benefits.

The SCLTDITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2014 and determined the actuarial accrued liability to be $31,048,000. The funded ratio was 117% 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 the collection of employer contributions and income generated from investments. For the period ended June 30, 2015, total additions amounted to $7,818,168. Additions are employer contributions to the SCLTDITF of $7,001,214 for premiums that are billed and transferred by PEBA, Insurance Benefits on a monthly basis and total investment income of $816,954 presented in the financial statements as $816,587 in investment income and $367 in net earnings from securities lending activities. Total investment income is composed of interest earnings of $1,356,619, premium amortization of $97,141, net unrealized losses of $636,806.

For the period ending June 30, 2015, total deductions amounted to $7,920,128 resulting from benefits expense (claims expense and administrative expenses).

Future Funding

The Actuarial Accrued Liability is over 100% funded and going forward into 2016, the premium charged to employers will remain static.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

STATEMENT OF NET POSITION

JUNE 30, 2015

Assets		
Current assets:		
Cash and cash equivalents	$	318,003,370
Premiums receivable		2,327,833
Prescription drug rebate receivable		13,815,726
Medicare Part D Subsidy receivable		57,349,214
Claims receivable		1,812,989
Accrued interest		9,786
Prepaid expenses		202,681
Deposit		942,216
Total current assets		394,463,815
Non-current assets:		
Capital assets, net of accumulated depreciation		357,398
Total assets		394,821,213
Deferred outflow of resources		800,966
Liabilities		
Current liabilities:		
Accounts payable and accrued payroll		633,535
Accrued compensated absences - current portion		517,740
Net pension liability - current portion		573,880
Unearned premium revenue		15,161,266
Claims payable and administrative fees		47,214,152
Claims incurred but not reported		144,003,095
Total current liabilities		208,103,668
Long-term liabilities:		
Accrued compensated absences - long term		282,854
Net pension liability		8,028,249
Total long-term liabilities		8,311,103
Total liabilities		216,414,771
Deferred inflow of resources		725,222
Net Position		
Net investment in capital assets		357,398
Unrestricted		178,124,788
Total net position	$	178,482,186

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

YEAR ENDED JUNE 30, 2015

Operating Revenue	
Insurance premiums:	
Active employees	$ 1,594,405,014
Retirees	613,200,890
Total insurance premiums	2,207,605,904
Prescription drug rebates	63,770,081
Medicare Part D Subsidy	100,292,335
Administrative fees and other	10,721,146
Total operating revenue	2,382,389,466
Operating Expenses:	
Claims	1,997,991,225
Premiums	154,664,254
Other post employment benefits	173,218,670
Third party administrative fees	95,213,966
Salaries and benefits	7,506,994
Other services	1,477,801
Professional services	1,008,145
Adoption assistance program	299,995
Supplies	375,037
Telephone and utilities	84,177
Other operating expenses	460,596
Total operating expenses	2,432,300,860
Operating loss	(49,911,394)
Non-operating revenue:	
Income from deposits	4,638,836
Change in net position	(45,272,558)
Restated net position, beginning of year (Note 2)	223,754,744
Net position, end of year	$ 178,482,186

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities	
Insurance premiums from customers	$ 2,201,680,196
Other receipts	193,208,132
Payments to employees	(7,319,461)
Payments for other post employment benefits	(173,218,670)
Payments to providers, suppliers and others	(2,218,915,884)
Net cash used in operating activities	(4,565,687)
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(373,174)
Cash Flows from Investing Activities	
Interest received-deposits and investments	4,654,777
Net decrease in cash and cash equivalents	(284,084)
Cash and cash equivalents, beginning of year	318,287,454
Cash and cash equivalents, end of year	$ 318,003,370

The accompanying notes are an integral part of these Financial Statements

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

Reconciliation of operating income to net cash from operating activities		
Operating loss	$	(49,911,394)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense		188,668
Pension employer contribution increase		45,576
Effect of changes in operating assets and liabilities:		
Premiums receivable		(150,315)
Prescription drug rebate receivable		59,193,719
Medicare Part D Subsidy receivable		(40,769,149)
Claims receivable		1,100,132
Due from South Carolina Retiree Health Trust		252,246
Due from South Carolina Long Term Disability Trust		34,400
Prepaid expenses		(202,681)
Deposit		(942,216)
Accounts payable, accrued payroll and compensated absences		141,957
Unearned premium revenue		(5,775,393)
Claims payable, administrative fees and incurred but not reported		32,228,763
Net cash used in operating activities	$	(4,565,687)

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 NET POSITION

JUNE 30, 2015

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Assets :		
Cash and cash equivalents	$ 97,810,233	$ 2,056,756
Invested securities lending collateral	12,946,393	-
Due from South Carolina Retirement Systems	60,104,655	-
Accrued interest receivable	4,538,363	259,995
Investments	802,127,319	34,316,159
Total assets	977,526,963	36,632,910
Liabilities :		
Collateral for loaned securities	13,341,456	-
Claims payable	-	287,980
Total liabilities	13,341,456	287,980
Net position held in trust for other postemployment benefits	$ 964,185,507	$ 36,344,930

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 NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Additions:		
Contributions	$ 571,025,233	$ 7,001,214
Investment income *(Note 3)*	13,755,713	816,587
Securities lending activities income:		
Gross earnings from interest and fees	16,506	242
Gross borrower rebates	34,360	166
Bank fees	(5,085)	(41)
Net earnings from securities lending activities	45,781	367
Total additions	584,826,727	7,818,168
Deductions:		
Benefits expense	405,506,173	7,890,128
Administrative expenses	105,000	30,000
Total deductions	405,611,173	7,920,128
Net increase (decrease) in net position held in trust for OPEB	179,215,554	(101,960)
Net position held in trust for other postemployment benefits, beginning of year	784,969,953	36,446,890
Net position held in trust for other postemployment benefits	$ 964,185,507	$ 36,344,930

The accompanying notes are an integral part of these Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 two years and until their successors are appointed and qualify. Terms commence on July first of even numbered years. 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. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits.

The financial statements presented include the South Carolina Public 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 *Comprehensive Annual Financial Report* of the State of South Carolina.

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 are 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 (SHP Savings Plan), a Preferred Provider Organization (SHP Standard Plan) and Medicare Supplement. BlueChoice HMO and Tricare Supplement Plan are fully insured products. BlueChoice HMO was discontinued December 31, 2014. 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 full-insured product. 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.

Description (Continued)

For active State and School Districts 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. Retirees of the State and School Districts pay most of their monthly premiums through withholdings from individual retirement checks, 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 responsible for remitting the employer and employee monthly premium for active employees. 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 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.

Description (Continued)

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.

The OPEB Trusts receive employer contributions. The SCRHITF employer contributions are based on a surcharge of 5.0% of the employer's annual covered payroll. The South Carolina Retirement System collects the monthly surcharge for state agencies and school districts and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include additional State appropriated dollars, mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. 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, 2015 were as follows:

	SCRHITF	SCLTDITF
Monthly employer contributions	$ 395,431,263	$ 7,001,214
Transfer from IBNR reserves	173,218,670	-
State appropriations	2,375,300	-
	$ 571,025,233	$ 7,001,214

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

Eligible participants consisted of the following at June 30, 2014, the date of the latest actuarial valuation:

	SCRHITF	SCLTDITF
Active participants	176,704	187,071
Retired participants	82,191	1,003
Vested terminated participants	1,319	-
Total participants	260,214	188,074
Number of participating employers	219	681

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 plans participants and may not be utilized for any other purpose. They are part of the State of South Carolina's primary government and is included in the *Comprehensive Annual 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
The PEBA, Insurance Benefits financial statements have met the requirements of governmental accounting standards. GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* were applied to the financials of PEBA, Insurance Benefits for the year ended June 30, 2015. It resulted in a reduction to the beginning net position of $8,480,809 and is explained further in Note 8.

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.

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 State's CAFR.

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.

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 insure 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 100.0% 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 10.

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.

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 fair market 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 represents claims and fees related to health, dental and long-term disability expenses payable at June 30, 2015. The claims payable balance is based on claims that have been paid by the third party administrators for the fiscal year presented and total $46,718,661. Administrative fees payable at June 30, 2015 total $495,491.

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.

Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position will sometimes report 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 will sometimes report 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 a deferred outflow and inflow related to the pension liability as detailed in Note 8.

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, 2015.

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.

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.

Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Changes
For the fiscal year ended June 30, 2015, PEBA, Insurance Benefits implemented GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27.* It was issued in June 2012 and effective for fiscal years beginning after June 15, 2014.

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 fund.

No deposits were with financial institutions as of June 30, 2015. For purposes of the PEBA, Insurance Benefits statement of cash flows, all is 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.

Cash deposits held by the State Treasurer's Office as of June 30, 2015 for financials presented were as follows:

PEBA, Insurance Benefits	$ 318,003,370
SCRHITF (1)	$ (51,395)
SCLTDITF (1)	$ (269,630)

(1) Negative cash is timing differences of transfers between investments and cash.

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 was 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, 2015. As discussed in Note 2, investments are reported at fair value.

Deposits, Investments and Securities Lending Transactions (Continued)

The following represents the fair values of the OPEB Trusts investments at June 30, 2015:

	Fair Value - OPEB Trust Funds	
	SCRHITF	SCLTDITF
Collateralized mortgage-backed obligations	$ 18,124,986	$ 774,573
Other Governmental guaranteed investments	50,953,926	5,078,837
Federal agencies	25,012,500	-
Repurchase agreement	98,075,000	2,105,000
Sovereign bonds	4,242,460	-
Corporate bonds	693,739,608	27,303,518
Financial paper	10,053,839	1,159,231
Total	$ 900,202,319	$ 36,421,159

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, 2015 was $245,960,000 for the Retiree Health Trust and $5,090,000 for the Long-Term Disability Trust. Repurchase agreements are classified as cash and cash equivalents in the 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. As of June 30, 2015, the investments rated by Moody's stated at fair value were as follows:

	Fair Value - OPEB Trust Funds				
	AAA/AA	A1/A2/A3	BAA/BA	B1/B2/B3	Not Rated
Collateralized mortgage-backed obligations	$ 18,899,559	$ -	$ -	$ -	$ -
Other Governmental guaranteed investments	56,032,763	-	-	-	-
Federal agencies	25,012,500	-	-	-	-
Repurchase agreement	-	-	-	-	100,180,000
Sovereign bonds	1,999,960	2,242,500			
Corporate bonds	77,238,026	265,177,157	374,776,411	237,500	3,614,032
Financial paper	-	571,365	587,866	-	10,053,839
Total	$ 179,182,808	$ 267,991,022	$ 375,364,277	$ 237,500	$ 113,847,871

Deposits, Investments and Securities Lending Transactions (Continued)

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, 2015 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)			
	Less than 1	**1 - 5**	**6 - 10**	**More than 10**
Collateralized mortgage-backed obligations	$ -	$ 394,572	$ 3,449	$ 18,501,538
Other Governmental guaranteed investments	-	7,843,644	3,068,523	45,120,596
Federal agencies	15,006,850	10,005,650	-	-
Repurchase agreement	100,180,000	-	-	-
Sovereign bonds	1,999,960	2,242,500	-	-
Corporate bonds	94,116,215	423,333,009	200,478,425	3,115,477
Financial paper	10,053,839	1,159,231	-	-
Total	$ 221,356,864	$ 444,978,606	$ 203,550,397	$ 66,737,611

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, 2015 the State Treasurer investments in overnight repurchase agreements with Bank of America that was fully collateralized by U.S. Treasury and agency obligations of 10.9% for the SCRHITF and 5.8% for the SCLTDITF.

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. The SCRHITF has investments with Israel and Canada, with a fair value at June 30, 2015 of $2,242,500 and $1,999,960, respectively. The SCLTDITF did not have any foreign investments at year end.

Deposits, Investments and Securities Lending Transactions (Continued)

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	$ 4,638,836	$ -	$ -
Interest earned from investments	-	19,132,194	1,356,619
Premium amortization	-	874,870	97,141
Net unrealized loss on investments	-	(10,714,294)	(636,806)
Net unrealized gain from change in value of securities lending collateral	-	4,508,724	-
Interest and investment earnings	$ 4,638,836	$ 13,801,494	$ 816,954

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	$ 97,810,233	$ -	$ 2,056,756	$ -
Invested securities lending collateral	12,946,393	12,946,393	-	-
Investments	802,127,319	-	34,316,159	-
Deposits	-	(264,767)	-	(48,244)
Specifically identified investments	-	900,202,319	-	36,421,159
Total	$ 912,883,945	$ 912,883,945	$ 36,372,915	$ 36,372,915

Securities Lending Transactions

Through its custodial agent, the OPEB Trusts participates 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%.

Deposits, Investments and Securities Lending Transactions (Continued)

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, 2015 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.

Only the SCRHITF was participating in the securities lending program at June 30, 2015. At June 30, 2015, the fair value of securities on loan and invested in cash collateral was $12,946,393. Securities lending obligations at June 30, 2015 were $13,341,456, with the unrealized loss in invested cash collateral recorded in the Statement of Changes in Plan Net Position included in investment income.

With regard to custodial credit risk, the SCRHITF's cash collateral invested is held by the counterparty and is insured. All securities loaned can be terminated on demand by either the RHIT or the borrower. At year-end the average number of days the loans were outstanding was one day. The average weighted maturity of investments made with cash collateral was nine days. At June 30, 2015, there had been no losses resulting from borrower defaults and the RHIT had no credit risk exposure to borrowers because the amounts the SCRHITF owed the borrowers exceeded the amounts the borrowers owed the SCRHITF.

The following table presents for the SCRHITF the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2015.

Securities lent for cash collateral:	
U.S. Corporate-fixed income	$ 13,341,456
Cash collateral invested as follows:	
Repurchase agreements	$ 3,653,650
Asset backed securities	9,292,743
Total for cash collateral invested	$ 12,946,393

4. Other Post Employment Benefits, Funding Status and Funding Progress

During the current reporting period, dedicated collateral accounts for the OPEB Trusts were established at BNY Mellon, as well as a new account structure. Also, prior securities allocations were reviewed and revised, and the allocation adjustments are reflected in the current year ended June 30, 2015 financial statements.

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 the Office of the State Budget, 5.0% of covered payroll for year ended June 30, 2015. At the beginning of the fiscal year, the State Budget and Control Board sets annually the employer contribution rate based on a pay-as-you-go basis. PEBA, Insurance Benefits paid approximately $266,386 for year ended June 30, 2015. 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, 2015.

Other Post Employment Benefits, Funding Status and Funding Progress (Continued)

Effective May 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. For the year ended June 30, 2015, PEBA, Insurance Benefits transferred $173,218,670 to the SCRHITF.

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 $531,267 for the year ended June 30, 2015.

OPEB Trusts Funded Status and Funding Progress
The latest actuarial valuation for the OPEB Trusts was performed as of June 30, 2014 by the independent consulting actuary, Gabriel, Roeder, Smith and Company.

The June 30, 2015 required contributions in dollars (expressed in thousands) and the percentages of those dollars contributed were as follows:

	SCRHITF	SCLTDITF
Actuarially Required Contribution	$ 747,746	$ 10,392
Percentage Contributed	72.88%	67.37%

The funded status of each OPEB Trust as of the most recent actuarial valuation date is as follows (amounts expressed in thousands):

OPEB Trust	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of covered Payroll ({b-a}/c)
SCRHITF	June 30, 2014	$ 784,970	$ 10,124,467	$ 9,339,497	8%	$ 7,669,939	122%
SCLTDITF	June 30, 2014	$ 36,447	$ 31,048	$ (5,399)	117%	$ 8,047,421	0%

Other Post Employment Benefits, Funding Status and Funding Progress (Continued)

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the OPEB Trusts by employers in comparison to the annual required contributions (the ARC), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding exceed) over a period not to exceed 30 years.

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 follows:

Valuation date		June 30, 2014
Actuarial cost method		Individual entry age
Amortization method		Level percent open
Remaining amortization periods		30 years
Asset valuation method		Market
	SCRHITF	SCLTDITF
Actuarial assumptions:		
Investment rate of return	5.50%	6.00%
Payroll growth rate	3.50%	3.50%

5. Premiums Receivable

PEBA, Insurance Benefits premiums receivable at June 30, 2015 consist of the following:

State government (Note 10)	$ 1,085,933
Local government	878,421
Schools	195,883
Individuals	167,596
	$ 2,327,833

As of June 30, 2015, 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, 2015, 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, 2014	Additions	Deletions	Balance June 30, 2015
Furniture and equipment	$ 589,049	$ 373,174	$ (6,538)	$ 968,761
Accumulated depreciation	(416,157)	(188,668)	6,538	(611,363)
Capital assets, net	$ 172,892	$ 184,506	$ -	$ 357,398

Depreciation expense for the year ended June 30, 2015 was $188,668.

7. Lease Obligations

The PEBA leases office space from the State and is accounted for as an operating lease. Effective July 1, 2013, a new lease was signed by PEBA that expires on June 30, 2018. PEBA, Insurance Benefits share of rental expense under this lease was 74% for the year ended June 30, 2015 totaling $176,366. It was determined that the PEBA, Insurance Benefits share 62% of the total lease expense for FY16. PEBA, Insurance Benefits share of the future minimum lease payments due under this lease are:

Year Ending June 30,	Total
2016	$ 123,356
2017	125,817
2018	128,279
	$ 377,452

8. Pension Plans

The majority of employees of PEBA, Insurance Benefits are covered by a retirement plan through the South Carolina Retirement System (SCRS). The PEBA, which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. SCRS issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the State.

Plan Descriptions

The SCRS, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provision of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

Pension Plans (Continued)

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

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 individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State ORP, which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8%) and a portion of the employer contribution (5%). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75%) and an incidental death benefit contribution (0.15%), 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. A brief summary of the benefit terms for each system is presented below.

Pension Plans (Continued)

SCRS – A Class II 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 III 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 II and Class III 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 1% or $500 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.

<u>Contributions</u>
Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of 1% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities for the plan, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the 30 year amortization period; and, this increase is not limited to one-half of 1% per year.

Pension Plans (Continued)

Required employee contribution rates for fiscal year 2014-2015 are as follows:

SCRS	
Employee Class II	8.00% of earnable compensation
Employee Class III	8.00% of earnable compensation

Required employer contributions for fiscal year 2014-2015 are as follows:

SCRS	
Employer Class II	10.75% of earnable compensation
Employer Class III	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP	
Employer Contribution	10.75% of earnable compensation (1)
Employer Incidental Death Benefit	0.15% of earnable compensation

(1) Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the State ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Actuarial Assumptions and Methods

Actuarial valuations 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 during the valuation process 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 5 year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

Pension Plans (Continued)

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS), based on July 1, 2014 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013 valuations for SCRS.

Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	levels off at 3.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or $500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Males - RP-2000 Males multiplied by 100%
Females – RP-2000 Females multiplied by 90%

Net Pension Liability

At June 30, 2015, PEBA, Insurance Benefits reported a liability of $8,602,129 for its proportionate share of PEBA, Insurance Benefits net pension liability. The net pension liability was measured as of June 30, 2014 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, 2014, PEBA's proportion was 0.1335%, of which 37% was proportion to PEBA, Insurance Benefits of $481,052.

Pension Plans (Continued)

For the year ended June 30, 2015 PEBA, Insurance Benefits recognized pension expense of $602,912. Reported deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	$ 243,748	$ -
Net difference between projected and actual earnings on pension plan investments	-	725,222
Contributions subsequent to the measurement date	557,218	-
Total	$ 800,966	$ 725,222

Contributions subsequent to the measurement date of $557,218 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The following schedule reflects the amortization of the net balance of remaining deferred outflows / (inflows) of resources at June 30, 2015. Average remaining service lives of all employees provided with pensions as determined by SCRS at June 30, 2014 was 4.233 years.

Measurement Period Ending June 30,	
2015	$ 16,662
2016	16,662
2017	16,662
2018	25,758
Net Balance of Deferred Outflows / (Inflows of Resources	$ 75,744

Discount Rate

The discount rate used to measure the SCRS total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, fiduciary net position was projected to be available to make all 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 total pension liability.

Pension Plans (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30-year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation. For actuarial purposes, the 7.5% assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75% real rate of return and a 2.75 % inflation component.

The following table summarizes the RSIC target asset allocation and the actuarial determined long-term expected rate of return.

Asset Class	Target Asset Allocation	Long-Term Expected Portfolio Real Rate of Return
Short term	5.00%	0.03%
Domestic fixed income	13.00%	0.26%
Global fixed income	9.00%	0.27%
Global public equity	31.00%	2.42%
Global tactical asset allocation	10.00%	0.51%
Alternatives	32.00%	2.39%
Total	100.00%	5.88%

Pension Plans (Continued)

Sensitivity Analysis

The following presents PEBA, Insurance Benefits' proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 (6.5%) or 1% higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PEBA, Insurance Benefits proportionates share of the net pension liability	$ 11,131,687	$ 8,602,129	$ 6,491,752

9. Deferred Compensation Plans

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 CAFR. 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, 2015.

10. 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.

Transactions with State Entities (Continued)

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, 2015:

Adjutant General's Office	$ 1,934,179
Administrative Law Court	270,506
Aeronautics Division	112,645
Aid to Subdivisions	535,813
Aiken Technical College	965,169
Arts Commission	119,398
Attorney General's Office	1,415,552
Budget and Control Board	5,125,794
Budget and Control Board - State Auditor	320,601
Central Carolina Technical College	1,843,957
Clemson University	37,808,474
Coastal Carolina University	10,449,245
College of Charleston	11,938,859
Commission for the Blind	634,737
Commission on Higher Education	303,949
Commission on Indigent Defense	516,118
Commission on Prosecution Coordination	365,948
Comptroller General's Office	248,877
Conservation Bank	6,535
Criminal Justice Academy	870,045
Denmark Technical College	841,181
Department of Motor Vehicles	8,307,374
Department of Administration	79,845
Department of Agriculture	1,020,819
Department of Alcohol and Other Drug Abuse Services	350,144
Department of Archives and History	335,168
Department of Commerce	669,565
Department of Consumer Affairs	264,717
Department of Corrections	37,645,939
Department of Disabilities and Special Needs	11,711,626
Department of Education	8,315,860

Transactions with State Entities (Continued)

Department of Employment and Workforce	5,380,313
Department of Health and Environmental Control	24,282,306
Department of Health and Human Services	8,210,369
Department of Insurance	671,481
Department of Juvenile Justice	8,991,780
Department of Labor, Licensing and Regulation	2,766,654
Department of Mental Health	29,106,123
Department of Natural Resources	6,513,017
Department of Parks, Recreation and Tourism	3,100,763
Department of Probation, Parole and Pardon Services	4,838,183
Department of Public Safety	10,723,783
Department of Revenue	5,057,174
Department of Social Services	25,196,316
Department of Transportation	34,790,184
Education Oversight Committee	40,457
Educational Television Commission	1,004,097
Florence-Darlington Technical College	2,089,241
Forestry Commission	2,955,483
Francis Marion University	4,152,498
Governor's Office - Executive Control of State	101,212
Governor's Office - Executive Policy & Programs	1,785,611
Governor's Office - Mansions and Grounds	60,971
Greenville Technical College	6,164,590
Higher Education Tuition Grants Commission	33,258
Horry-Georgetown Technical College	2,936,557
House of Representatives	1,691,821
Human Affairs Commission	160,112
Jobs Economic Development Authority	13,170
John De La Howe School	490,522
Judicial Department	4,762,153
Lander University	3,083,799
Legislative Audit Council	125,927
Legislative Council	274,359
Legislative Printing, Information and Technology System	231,408
Lieutenant Governor's Office	292,787
Medical University of South Carolina	36,766,188

Transactions with State Entities (Continued)

Midlands Technical College	5,118,251
Museum Commission	251,418
Northeastern Technical College	770,292
Office of Regulatory Staff	528,356
Office of State Infrastructure Bank	33,015
Office of the Inspector General	41,794
Orangeburg-Calhoun Technical College	1,493,471
Patients Compensation Fund	42,369
Patriots Point Development Authority	578,072
Piedmont Technical College	2,389,508
Procurement Review Panel	5,592
Public Employee Benefit Authority	1,981,359
Public Service Comission	367,338
Retirement System Investment Commission	335,131
Revenue and Fiscal Affairs Office	689,070
Rural Infrastructure Authority	26,819
School for the Deaf and Blind	2,641,286
Sea Grant Consortium	101,765
Secretary of State's Office	208,768
South Carolina State University	4,611,792
Spartanburg Community College	2,577,298
State Accident Fund	517,451
State Board for Technical and Comprehensive Education	645,270
State Board of Financial Institutions	355,548
State Commission for Minority Affairs	82,316
State Election Commission	128,676
State Ethics Commission	53,447
State Housing Finance and Development Authority	1,023,292
State Law Enforcement Division	4,162,535
State Library	276,827
State Senate	1,323,789
State Treasurer's Office	547,426
Technical College of Low Country	1,094,620
The Citadel	5,223,694
Tri County Technical College	2,811,916
Trident Technical College	5,967,901

Transactions with State Entities (Continued)

University of South Carolina	57,640,525
Vocational Rehabilitation	9,193,998
Wil Lou Gray Opportunity School	491,883
Williamsburg Technical College	487,801
Winthrop University	7,117,297
Workers' Compensation Commission	426,583
York Technical College	2,291,226
Total	$ 510,830,091

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 2015 expenses applicable to related party transactions are as follows:

South Carolina Retirement Division	$ 892,689
South Carolina State Accident Fund	27,792
South Carolina Department of Employment and Workforce	15,041
	$ 935,522

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, 2015 were:

Adjutant General's Office	$ 14,047
Aid to Subdivisions	27
Attorney General's Office	3,623
Budget and Control Board	5,051
Commission on Higher Education	1,123
Commission on Indigent Defense	19,728
Commission on Prosecution Coordination	1,372
Department of Agriculture	1,877
Department of Alcohol and Other Drug Abuse Services	308

Transactions with State Entities (Continued)

Department of Archives and History	224
Department of Consumer Affairs	6,952
Department of Corrections	6,121
Department of Disabilities and Special Needs	223,572
Department of Education	3,659
Department of Health and Human Services	17,809
Department of Insurance	8,835
Department of Juvenile Justice	3,005
Department of Labor, Licensing and Regulation	606
Department of Mental Health	5,489
Department of Motor Vehicles	38,108
Department of Natural Resources	10,674
Department of Parks, Recreation and Tourism	154,075
Department of Revenue	8,780
Department of Social Services	45,453
Department of Transportation	333,211
Educational Television Commission	9,566
Governor's Office - Executive Control of State	2,539
Governor's Office - Executive Policy & Programs	6,803
Human Affairs Commission	1,075
Lieutenant Governor's Office	15,548
Museum Commission	1,482
Office of Regulatory Staff	452
Office of State Infrastructure Bank	3,128
Orangeburg-Calhoun Technical College	38,339
Patients Compensation Fund	4,303
Patriots Point Development Authority	361
Retirement System Investment Commission	998
Revenue and Fiscal Affairs Office	3,229
School for the Deaf and Blind	1,788
Sea Grant Consortium	29,307
Secretary of State's Office	4,483
State Accident Fund	1,060
State Library	90
State Treasurer's Office	1,362

Transactions with State Entities (Continued)

Vocational Rehabilitation	354
Wil Lou Gray Opportunity School	34,387
Workers' Compensation Commission	11,550
	$ 1,085,933

11. 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.

12. 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 accordance with insurance policy and benefit program limits.

Risk Management/Reinsurance (Continued)

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, 2015 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, 2015. A liability of claims must be reported only if information prior to issuance of the financial statements indicates that it is probably that an asset has been impaired or a liability has been incurred on or before June 30, 2015 and the amount of loss can be reasonably estimated.

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.

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

	(in thousands)	
	2015	**2014**
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	$ 158,988	$ 214,496
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,875,036	1,711,034
Increases in provision for insured events of prior fiscal years	122,955	125,439
Total incurred claims and claim adjustment expenses	1,997,991	1,836,473
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	1,843,302	1,766,542
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	122,955	125,439
Total Payments	1,966,257	1,891,981
Total unpaid claims and claim adjustment expenses at end of the fiscal year	$ 190,722	$ 158,988
The above totals are comprised of the following:		
Claims payable	$ 46,719	$ 10,980
Claims incurred but not reported	144,003	148,008
Total	$ 190,722	$ 158,988

There was no HMO self-insured managed care plan liability at June 30, 2015. The liability at June 30, 2014 was $44,664 and is included in the claims liability listed above

13. Changes in Long-Term Liabilities

Changes in long-term obligations for the year ended June 30, 2015 were as follows.

	Beginning Balance July 1, 2014	Increases	Decreases	Ending Balance June 30, 2015	Due Within One Year
Accrued compensated absences	$ 750,801	$ 440,540	$ (390,747)	$ 800,594	$ 517,740
Net pension liability	8,961,743	602,912	(962,526)	8,602,129	573,880
Total	$ 9,712,544	$ 1,043,452	$ (1,353,273)	$ 9,402,723	$ 1,091,620

14. Medicare Part D Subsidy

The new 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 $100,292,335 in RDS funding for the year ended June 30, 2015.

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	$ 1,419,736,145	$ 576,531,741	$ 1,996,267,886	$ 1,306,444,935	$ -	$ 71,817,293
Medical-fully insured	19,571,938	2,527,621	22,099,559	-	22,097,383	-
Dental	86,498,356	30,737,211	117,235,567	49,081,578	60,589,318	2,289,890
Prescription drug (1)	-	-	-	642,457,712	-	21,106,783
Life and optional dependent life	43,690,766	-	43,690,766	7,000	43,665,621	-
Vision	15,825,420	3,404,317	19,229,737	-	19,229,859	-
Long-term disability	9,082,389	-	9,082,389	-	9,082,073	-
	$ 1,594,405,014	$ 613,200,890	$ 2,207,605,904	$ 1,997,991,225	$ 154,664,254	$ 95,213,966

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

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN*

AS OF JUNE 30, 2015

		2015
Employer's proportion of the net pension liability		0.05%
Employer's proportionate share of the collective net liability	$	8,602,246
Employer's covered payroll		4,661,648
Employer's share of the liability as a percentage of covered payroll		184.53%
Plan net position as a percentage of total pension liability		59.90%

* The amounts presented were determined as of June 30, 2014

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

SCHEDULE OF PENSION CONTRIBUTIONS

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN*

AS OF JUNE 30, 2015

	2015	2014	2013
Contractually required contribution	$ 602,912	$ 480,935	$ 428,654
Contributions in relation to the contractually required contribution	(557,218)	(480,935)	(428,654)
Contribution deficiency (excess)	$ 45,694	$ -	$ -
Covered Employee Payroll	$ 5,327,720	$ 4,661,648	$ 4,160,434
Contributions as a percentage of covered employee payroll	11.32%	10.32%	10.30%

* Amounts presented are representative of PEBA, Insurance Benefits that was formed July 1, 2012

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULES OF FUNDING PROGRESS

AS OF JUNE 30, 2015
(Amounts expressed in thousands)

South Carolina Retiree Health Insurance Trust Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ({b - a} /c)
June 30, 2008	$ 270,153	$ 9,279,578	$ 9,009,425	3%	$ 7,596,053	119%
June 30, 2009	$ 439,903	$ 9,643,577	$ 9,203,674	5%	$ 7,736,161	119%
June 30, 2010	$ 487,496	$ 9,632,092	$ 9,144,596	5%	$ 7,570,126	121%
June 30, 2011	$ 477,124	$ 10,625,914	$ 10,148,790	4%	$ 7,127,657	142%
June 30, 2012	$ 592,337	$ 10,328,465	$ 9,736,128	6%	$ 7,161,059	136%
June 30, 2013	$ 668,972	$ 10,072,927	$ 9,403,955	7%	$ 7,471,142	126%
June 30, 2014	$ 784,970	$ 10,124,467	$ 9,339,497	8%	$ 7,669,939	122%

South Carolina Long-Term Disability Insurance Trust Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ({b - a} /c)
June 30, 2008	$ 27,468	$ 26,341	$ (1,127)	104%	$ 8,307,740	0%
June 30, 2009	$ 29,440	$ 23,610	$ (5,830)	125%	$ 8,418,750	0%
June 30, 2010	$ 32,690	$ 25,855	$ (6,835)	126%	$ 8,295,065	0%
June 30, 2011	$ 33,283	$ 24,957	$ (8,326)	133%	$ 7,837,796	0%
June 30, 2012	$ 35,576	$ 23,586	$ (11,990)	151%	$ 7,871,635	0%
June 30, 2013	$ 35,426	$ 28,248	$ (7,178)	125%	$ 8,163,269	0%
June 30, 2014	$ 36,447	$ 31,048	$ (5,399)	117%	$ 8,047,421	0%

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

SCHEDULES OF EMPLOYER CONTRIBUTIONS

AS OF JUNE 30, 2015
(Amounts expressed in thousands)

South Carolina Retiree Health Insurance Trust Fund

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 692,714	82.19%
2009	$ 727,079	50.87%
2010	$ 785,250	37.76%
2011	$ 815,825	37.11%
2012	$ 787,293	53.22%
2013	$ 818,861	50.02%
2014	$ 778,969	60.73%
2015	$ 747,746	72.88%

South Carolina Long-Term Disability Insurance Trust Fund

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 10,038	332.33%
2009	$ 9,469	73.57%
2010	$ 9,590	71.43%
2011	$ 9,456	71.25%
2012	$ 9,231	73.11%
2013	$ 9,410	72.23%
2014	$ 7,251	95.77%
2015	$ 10,392	67.37%

INDEPENDENT AUDITORS' 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. Richard H. Gilbert, Jr., CPA
Deputy 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, the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund (PEBA, Insurance Benefits), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise PEBA, Insurance Benefits' basic financial statements, and have issued our report thereon dated September 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the PEBA, Insurance Benefits' internal control over financial reporting (internal control) to determine the 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 may exist that have not been identified.

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 determination of financial statement amounts. 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 result of that testing, and not to provide an opinion on the effectiveness of PEBA, Insurance Benefits' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PEBA, Insurance Benefits' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Columbia, South Carolina
September 14, 2015