

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS**

AND

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

WITH

INDEPENDENT AUDITORS' REPORT

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INSURANCE BENEFITS

OTHER POST EMPLOYMENT BENEFITS TRUST FUNDS

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YEAR ENDED JUNE 30, 2016
WITH
INDEPENDENT AUDITORS' REPORT

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**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

November 23, 2016

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, 2016, 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,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, CPA
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, 2016, 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 PEBA, Insurance Benefits as of June 30, 2016, 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 PEBA, Insurance Benefits, and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2016, 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.

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 69, Schedule of Pension Contributions on page 70, Schedules of Funding Progress on page 71, and Schedules of Employer Contributions on page 72 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 November 23, 2016, on our consideration of the PEBA, 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 PEBA, Insurance Benefits' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Columbia, South Carolina
November 23, 2016

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), the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF) during the fiscal year ended June 30, 2016. 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 an increase in net position of \$103,686,547 and total net position of \$282,168,733 for the year ended June 30, 2016. In comparison, a decrease in net position of \$45,272,558 and total net position of \$178,482,186 was reported for the year ended June 30, 2015.

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.

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.

Overview of Financial Statements (continued)

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, \$21,656,555 was transferred to the SCRHITF. The increase in net position before this transfer amounted to \$125,343,213, which is attributed to better than expected claims trend.

The Statement of Revenue, Expenses, and Changes in Net Position present revenue and expenses as 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.

This schedule is a condensed version of PEBA, Insurance Benefits' assets, liabilities, and net position and is prepared from the Statement of Net Position.

	June 30, 2016	June 30, 2015
Condensed Statements of Net Position (in millions)		
Assets		
Current assets	\$ 525.0	\$ 394.4
Noncurrent assets	0.2	0.4
Total assets	<u>525.2</u>	<u>394.8</u>
Deferred outflow of resources	<u>1.5</u>	<u>0.8</u>
Liabilities		
Current liabilities	234.9	208.1
Noncurrent liabilities	9.6	8.3
Total liabilities	<u>244.5</u>	<u>216.4</u>
Deferred inflow of resources	<u>-</u>	<u>0.7</u>
Net position		
Investment in capital assets, net	0.2	0.4
Unrestricted	282.0	178.1
Total net position	<u>\$ 282.2</u>	<u>\$ 178.5</u>

Overview of Financial Statements (continued)

The following schedule is a summary of PEBA, Insurance Benefits' operating results for the fiscal year.

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

	2016	2015
Operating:		
Program revenue	\$ 2,553.3	\$ 2,382.4
Expenses	(2,454.8)	(2,432.3)
Total operating income	98.5	(49.9)
Non-operating:		
Earnings on investments	5.2	4.6
Total non-operating income	5.2	4.6
Change in net position	103.7	(45.3)
Net position, beginning of the year	178.5	223.8
Restatement for GASB 68	-	(8.5)
Net position, end of the year	\$ 282.2	\$ 178.5

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

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

	2016	2015
Cash flows from (used in) operating activities	\$ 57.0	\$ (4.6)
Cash flows from capital and related financing	-	(0.4)
Cash flows from investing activities	5.2	4.7
Net increase (decrease) in cash and cash equivalents	62.2	(0.3)
Cash and cash equivalents, beginning of year	318.0	318.3
Cash and cash equivalents, end of year	\$ 380.2	\$ 318.0

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 108.2 of the 2015-2016 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

- 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 2016, 677 employers participate 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 88.2% 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 (72.47%) are enrolled in the Standard Plan, a PPO option available to non-Medicare and Medicare enrollees. Of the remaining subscribers, 23.05% are enrolled in the Medicare Supplement, a retiree option for those enrolled in Medicare and 4.48% 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 76.2% 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 2016).

	<u>Program</u>	<u>State Health Plan</u>
Total Insured Persons:	475,014	455,266
Subscribers:	270,015	259,866
Spouses:	78,095	74,847
Children:	126,904	120,553
Total Subscribers:	270,015	259,866
Employees:	186,209	176,163
Retirees:	80,565	80,505
Survivors:	2,565	2,561
COBRA:	676	637
Active Employees:	186,209	176,163
State Agencies:	60,556	56,311
School Districts:	85,040	84,910
Local Government	40,613	34,942

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, 2016, 57.70% of subscribers had Employee Only coverage, and the remaining 42.30% covered at least one dependent.

Premiums range from \$5,493.36 annually for Employee Only coverage to \$14,395.20 annually for Full Family coverage. Following are the monthly 2016 State Health Plan employee and employer rates.

2016 State Health Plan (Standard Plan) Monthly Premiums

ACTUAL RATES

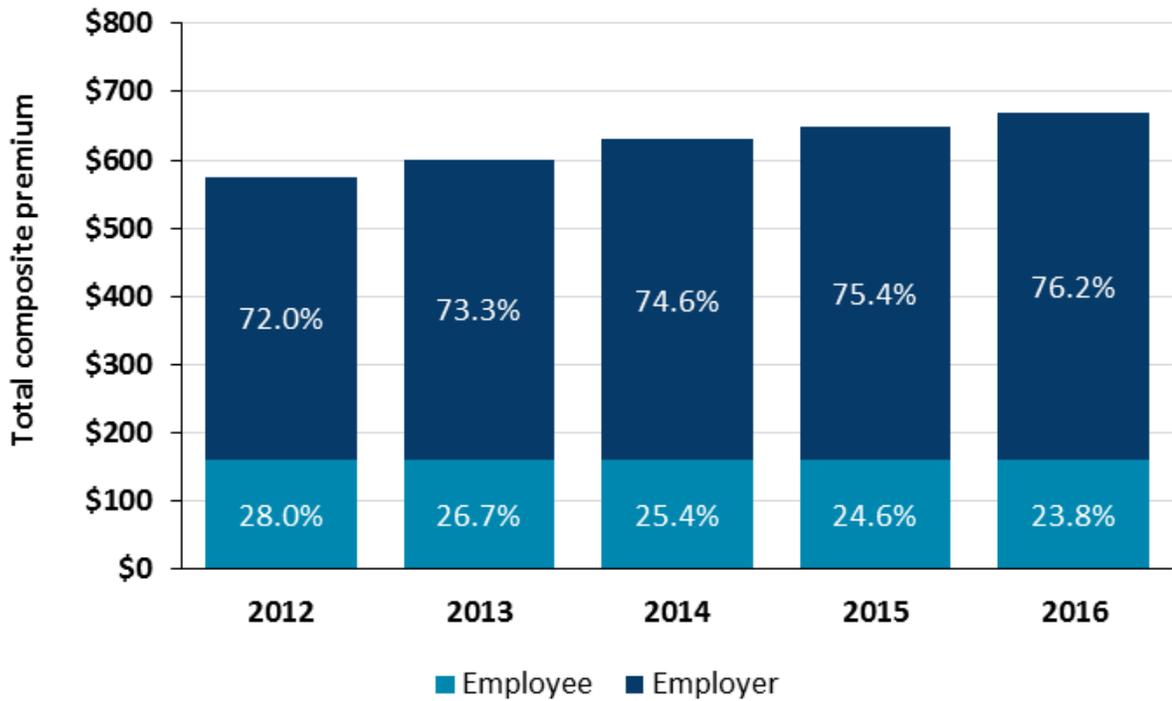
	Employee	Employer	Total
Employee Only	\$97.68	\$360.10	\$457.78
Employee / Spouse	\$253.36	\$713.26	\$966.62
Employee / Child(ren)	\$143.86	\$552.68	\$696.54
Full Family	\$306.56	\$893.04	\$1,199.60
Composite Rate	\$159.51	\$510.60	\$670.11

State Health Plan Premiums (continued)

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

For 2016, the employer share of premiums increased 4.5% and the employee share remained constant. The 2016 employee share reflects approximately 24% of the total premium.

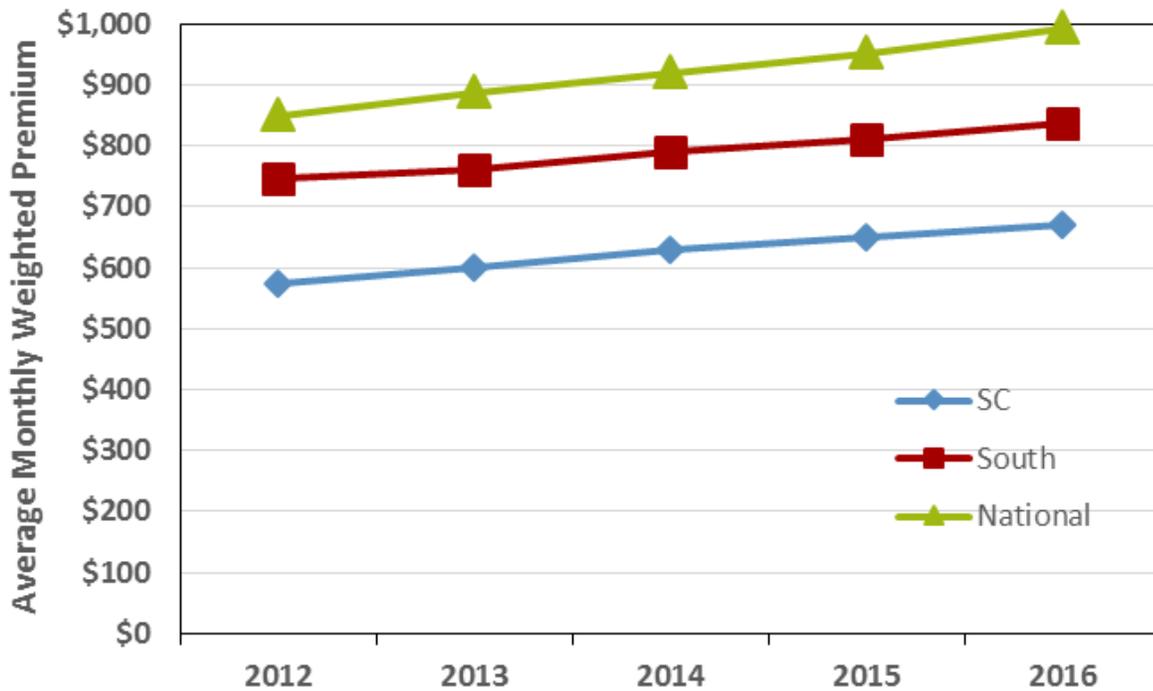
South Carolina Employee/Employer Sharing of Total Composite



State Health Plan Premiums (continued)

The 2016 composite total premium remains fairly well below both the regional and national levels. For 2016, the State Health Plan composite total premium was approximately 80% of the regional premium and 67% of the national premium.

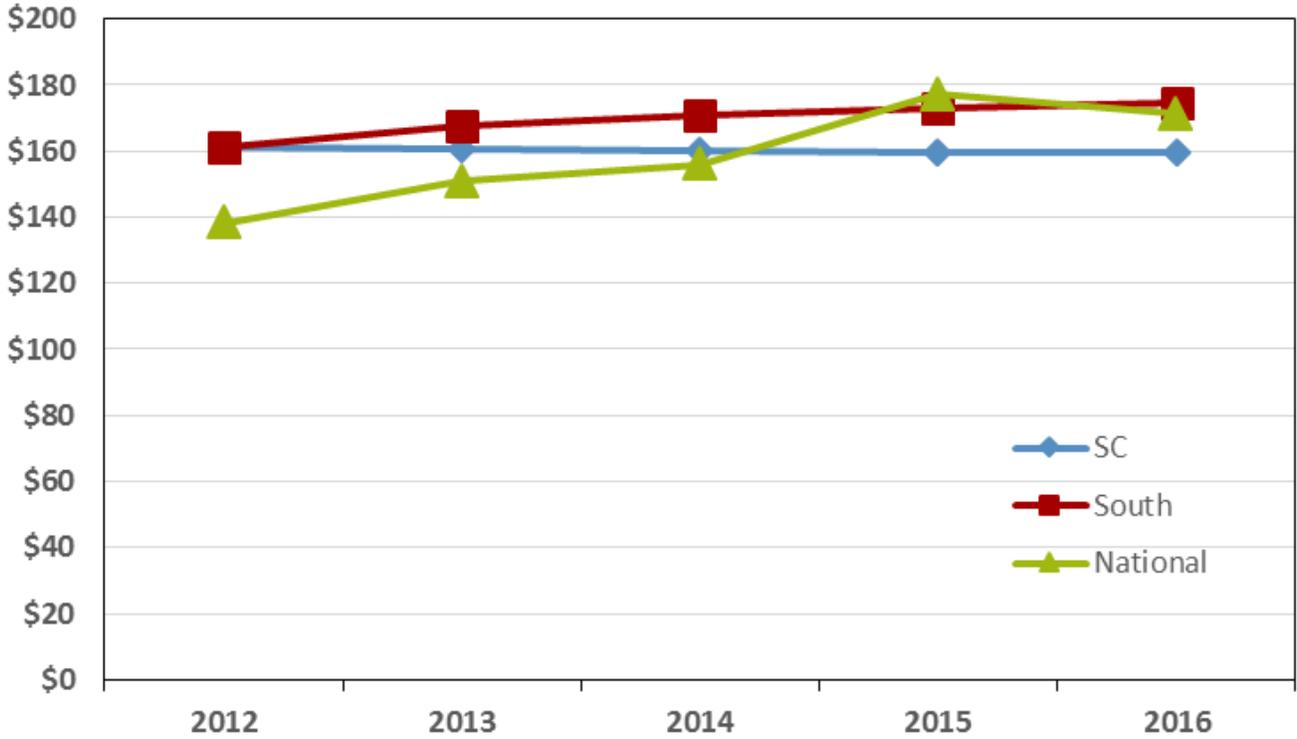
Combined Employee and Employer Averaged Weighted Premiums for State Health Plan Compared to Regional and National Averages



State Health Plan Premiums (continued)

For 2016, the State Health Plan employee composite remained slightly below the regional and the national composites for the second consecutive year.

Average Weighted Employee Premiums for State Health Plan Compared to Regional and National Averages



State Health Plan Contribution Increases

Contribution increases since 2000 are outlined below.

	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%	5.1%
2015	3.9%	0.0%	2.9%
2016	4.5%	0.0%	3.4%

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 eight 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.

<u>Plan Year</u>	<u>Change in Payout/Subscriber</u>
2001	+11.0%
2002	+8.3%
2003	+12.9%
2004	-0.7%
2005	+4.7%
2006	+7.0%
2007	+6.3%
2008	+4.0%
2009	+8.7%
2010	+0.4%
2011	+3.6%
2012	+6.3%
2013	+3.3%
2014	+0.5%
2015	+8.3%

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 2006 through 2015 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
2006	6,102.76		157.22		63.22		113.26	
2007	6,213.65	+1.8%	159.50	+1.5%	61.92	-2.1%	119.65	+5.6%
2008	6,251.72	+0.6%	158.49	-0.6%	59.95	-3.2%	118.40	-1.0%
2009	6,608.81	+5.7%	166.02	+4.8%	59.10	-1.4%	116.72	-1.4%
2010	6,268.74	-5.1%	160.53	-3.3%	57.74	-2.3%	114.58	-1.8%
2011	6,192.94	-1.2%	162.35	+1.1%	55.82	-3.3%	114.48	-0.1%
2012	6,624.21	+7.0%	173.03	+6.6%	59.30	+6.2%	113.56	-0.8%
2013	6,762.58	+2.1%	171.96	-0.6%	55.39	-6.6%	110.07	-3.1%
2014	6,645.51	-1.7%	181.82	+5.7%	53.20	-4.0%	110.33	+0.2%
2015*	7,100.12	+6.8%	188.08	+3.4%	53.84	+1.2%	109.67	-0.6%

* Used new methodology to calculate volume by place of service. This methodology was updated in 2015.

	Rx/Insured		Generic Share	Mail Service Share
	Utilization	Growth		
2006	17.99		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%
2015*	18.60	+2.4%	81.5%	16.0%

* Used new reporting method to include both 90-day retail and mail, which have the same copayments.

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 \$128.56 million in rebates during the current fiscal year
- Implementation of a Medicare Part D Prescription Drug Program; the Plan received about \$112.92 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 2017
- This year’s legislative session provided for a 0.8% increase in the employer contribution rates beginning January 2017; employee contribution rates will remain the same
- Other changes to the State Health Plan, beginning January 2017, include:
 - transitioning to the Express Scripts National Preferred Formulary to maximize the State Health Plan’s ability to obtain the lowest net cost for covered prescriptions through a combination of reduced ingredient cost and increased rebates,
 - addition of telehealth, clinically-appropriate virtual doctor’s visits, through Blue CareonDemand as a regular covered service,
 - additional coverage at no cost to the member for manual or electric breast pumps obtained from BCBSSC-contracted providers, and
 - increasing the lifetime limit for hospice services to \$7,500
- A Tricare supplement will again be offered to non-Medicare subscribers on an employee pay all basis
- The MUSC Health Plan will continue in 2017 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. Also, for 2017, addition of telehealth services from the MUSC panel of doctors as a Tier 1 benefit

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, 2015 (the latest plan actuarial evaluation date), there were 219 participating employers and 265,270 eligible plan participants (179,784 active, 83,970 retired, and 1,516 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 \$1.026 billion at June 30, 2016, a change of \$62.123 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Net Position totaling \$493.063 million 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 \$430.940 million 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, 2015, determined the annual required contribution (ARC) for the year ended June 30, 2016 to be \$749.713 million, of which 61.06% was contributed in the current period.

Overview of Financial Statements

This MD&A serves as an introduction to the basic financial statements. 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

	<u>2016</u>	<u>2015</u>
Total assets	\$ 1,034,818,010	\$ 977,526,964
Total liabilities	<u>8,509,280</u>	<u>13,341,457</u>
Net position held in trust for other postemployment benefits	<u>\$ 1,026,308,730</u>	<u>\$ 964,185,507</u>

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

	<u>2016</u>	<u>2015</u>
Total additions	\$ 493,062,917	\$ 584,826,727
Total deductions	<u>430,939,694</u>	<u>405,611,173</u>
Net increase in net position held in trust for other postemployment benefits (OPEB)	62,123,223	179,215,554
Net position held in trust for OPEB, beginning of year	<u>964,185,507</u>	<u>784,969,953</u>
Net position held in trust for OPEB, end of year	<u><u>\$ 1,026,308,730</u></u>	<u><u>\$ 964,185,507</u></u>

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, 2016, the SCRHITF had \$1.026 billion in net position (total assets of \$1.035 billion exceeding total liabilities of \$8.509 million). 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 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.

Plan Assets and Funding Ratio (continued)

The SCRHITF's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2015 and determined the actuarial accrued liability to be \$10.824 billion. The funded ratio was 9% 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, 2016, total additions amounted to \$493,062,917. Employer contributions accounted for \$433,737,367 that is a result of a surcharge of 5.33% 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 \$21,656,555 based on the amount of PEBA, Insurance Benefits cash reserves available over 140% of the actuarial determined incurred but not reported claims (IBNR) at December 31, 2015, and \$35,293,695 in investment income. It is composed of interest earnings and securities lending activities of \$22,831,203, net realized gains of \$1,216,663, discount amortization of \$27,367, net unrealized gains of \$10,988,377 and net unrealized gains from value in securities lending of \$230,085.

For the period ending June 30, 2016, total deductions amounted to \$430,939,694, which was a result of claims and administrative expenses.

Future Funding

Going forward into 2017, the actuarial accrued liability and the annual required contribution will be funded primarily through the surcharge on employer's payroll. Effective July 1, 2016, the surcharge will remain unchanged at 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, 2015 (the latest plan actuarial valuation date), there were 677 participating employers and 192,596 eligible plan participants (191,578 active and 1,018 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 \$36.853 million, a change of \$0.508 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Net Position of \$8.422 million represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position of \$7.914 million represent benefit and administrative expenses.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the SCLTDITF's independent actuary, as of June 30, 2015, determined annual required contribution (ARC) for the year ended June 30, 2016 to be \$13.103 million, of which 54.37% was contributed in the current period.

Overview of Financial Statements

This MD&A serves as an introduction to the basic financial statements. 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.

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

	2016	2015
Total assets	\$ 37,628,595	\$ 36,632,910
Total liabilities	775,642	287,980
Net position held in trust for other postemployment benefits	<u>\$ 36,852,953</u>	<u>\$ 36,344,930</u>

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.

Overview of Financial Statements (continued)

This schedule is a condensed version of the SCLTDITF'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

	2016	2015
Total additions	\$ 8,422,406	\$ 7,818,168
Total deductions	7,914,383	7,920,128
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	508,023	(101,960)
Net position held in trust for OPEB, beginning of year	36,344,930	36,446,890
Net position held in trust for OPEB, end of year	<u>\$ 36,852,953</u>	<u>\$ 36,344,930</u>

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, 2016, the SCLTDITF has \$36,852,953 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, 2015 and determined the actuarial accrued liability to be \$33,161,000. The funded ratio was 110% 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 investment income and the collection of employer contributions. For the period ended June 30, 2016, total additions amounted to \$8,422,406. Employer contributions to the SCLTDITF were \$7,124,704 for premiums that are billed and transferred by PEBA, Insurance Benefits on a monthly basis. At June 30, 2016, there was a net gain in investment income of \$1,297,702. It is composed of interest earnings and securities lending activities of \$1,063,068, premium amortization of \$1,984, net realized gains of \$118,999, net unrealized gains of \$129,142 and net unrealized losses from value in securities lending of \$11,523.

For the period ending June 30, 2016, total deductions amounted to \$7,914,383 resulting from benefits expense (claims expense and administrative expenses).

Future Funding

The Actuarial Accrued Liability is over 100% funded and going forward into 2017, the premium charged to employers will remain static.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
INSURANCE BENEFITS

STATEMENT OF NET POSITION

JUNE 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$ 380,171,355
Premiums receivable	2,335,056
Prescription drug rebate receivable	76,430,482
Medicare Part D Subsidy receivable	64,869,756
Accrued interest	2,626
Prepaid items	194,545
Deposit	945,824

Total current assets	524,949,644
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Non-current assets:

Capital assets, net of accumulated depreciation	214,767
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Total assets	525,164,411
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Deferred outflow of resources	1,515,809
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Liabilities

Current liabilities:

Accounts payable and accrued payroll	696,817
Accrued compensated absences - current portion	597,525
Unearned premium revenue	15,438,245
Claims payable and administrative fees	55,811,017
Claims incurred but not reported	161,329,063

Total current liabilities	233,872,667
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Long-term liabilities:

Accrued compensated absences - long term	284,901
Net pension liability	10,335,436

Total long-term liabilities	10,620,337
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Total liabilities	244,493,004
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Deferred inflow of resources	18,483
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Net Position

Net investment in capital assets	214,767
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Unrestricted	281,953,966
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Total net position	\$ 282,168,733
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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, 2016

Operating Revenue

Insurance premiums:	
Active employees	\$ 1,663,575,249
Retirees	644,106,577
Total insurance premiums	<u>2,307,681,826</u>
Prescription drug rebates	128,563,164
Medicare Part D Subsidy	112,922,170
Administrative fees and other	4,115,481
Total operating revenue	<u><u>2,553,282,641</u></u>

Operating Expenses:

Claims	2,196,034,678
Premiums	135,847,640
Other post employment benefits	21,656,555
Third party administrative fees	89,430,639
Salaries and benefits	8,635,369
Other services	1,402,392
Professional services	538,038
Adoption assistance program	279,331
Supplies	420,196
Telephone and utilities	94,042
Other operating expenses	483,591
Total operating expenses	<u>2,454,822,471</u>
Operating income	98,460,170
Non-operating revenue:	
Income from deposits	5,226,377
Change in net position	<u>103,686,547</u>
Net position, beginning of year	178,482,186
Net position, end of year	<u><u>\$ 282,168,733</u></u>

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, 2016

Cash Flows from Operating Activities

Insurance premiums from customers	\$ 2,307,951,582
Other receipts	175,465,516
Payments to employees	(8,178,529)
Payments for other post employment benefits	(21,656,555)
Payments to providers, suppliers and others	(2,396,578,045)
Net cash provided by operating activities	<u>57,003,969</u>

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(69,521)
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Cash Flows from Investing Activities

Interest received-deposits and investments	<u>5,233,537</u>
Net increase in cash and cash equivalents	62,167,985
Cash and cash equivalents, beginning of year	<u>318,003,370</u>
Cash and cash equivalents, end of year	<u><u>\$ 380,171,355</u></u>

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, 2016

Reconciliation of operating income to net cash from operating activities

Operating income	\$	98,460,170
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense		212,152
Pension charges		311,725
Effect of changes in operating assets and liabilities:		
Premiums receivable		(7,223)
Prescription drug rebate receivable		(62,614,756)
Medicare Part D Subsidy receivable		(7,520,542)
Claims receivable		1,812,989
Prepaid expenses		8,136
Deposit		(3,607)
Accounts payable, accrued payroll and compensated absences		145,114
Unearned premium revenue		276,979
Claims payable, administrative fees and incurred but not reported		25,922,832
Net cash provided by operating activities	\$	<u>57,003,969</u>

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, 2016

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Assets :		
Cash and cash equivalents	\$ 136,828,655	\$ 5,945,830
Invested securities lending collateral	8,344,302	490,977
Due from South Carolina Retirement Systems	65,257,687	-
Accrued interest receivable	5,320,447	260,755
Investments	819,066,919	30,931,033
Total assets	1,034,818,010	37,628,595
Liabilities :		
Collateral for loaned securities	8,509,280	502,500
Claims payable	-	273,142
Total liabilities	8,509,280	775,642
Net position held in trust for other postemployment benefits	\$ 1,026,308,730	\$ 36,852,953

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, 2016

	South Carolina Retiree Health Insurance Trust Fund	South Carolina Long-Term Disability Insurance Trust Fund
Additions:		
Contributions	\$ 457,769,222	\$ 7,124,704
Investment income <i>(Note 3)</i>	35,248,765	1,296,991
Securities lending activities income:		
Gross earnings from interest and fees	30,441	507
Gross borrower rebates	19,479	283
Bank fees	(4,990)	(79)
Net earnings from securities lending activities	44,930	711
Total additions	493,062,917	8,422,406
Deductions:		
Benefits expense	430,854,694	7,904,383
Administrative expenses	85,000	10,000
Total deductions	430,939,694	7,914,383
Net increase in net position held in trust for OPEB	62,123,223	508,023
Net position held in trust for other postemployment benefits, beginning of year	964,185,507	36,344,930
Net position held in trust for other postemployment benefits	\$ 1,026,308,730	\$ 36,852,953

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, 2016

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 State Fiscal Accountability Authority (SFFA), 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 Employee 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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 (SHPP Standard Plan) and Medicare Supplement. Tricare Supplement Plan is a fully insured product. 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 fully-insured product. Dental Plus is an employee pay all plan that supplements the State Dental Plan. 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Description (Continued)

For active State 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. For all other entities (School Districts, Higher Education Institutions, and Local Subdivisions), the employer is responsible for remitting the employer and employee monthly premium for active employees.

Retirees of the State and School Districts pay most of their monthly premiums through withholdings from individual retirement benefits, 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 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 5.33% of the employer's annual covered payroll. The South Carolina Retirement System collects the monthly surcharge for all employers except Local Subdivisions, who do not participate in the SCRHITF, 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, 2016 were as follows:

	SCRHITF	SCLTDITF
Monthly employer contributions	\$ 433,737,367	\$ 7,124,704
Transfer from IBNR reserves	21,656,555	-
State appropriations	2,375,300	-
	<u>\$ 457,769,222</u>	<u>\$ 7,124,704</u>

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

Eligible participants consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

	SCRHITF	SCLTDITF
Active participants	179,784	191,578
Retired participants	83,970	1,018
Vested terminated participants	1,516	-
Total participants	<u>265,270</u>	<u>192,596</u>
Number of participating employers	219	677

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 plan's participants and may not be utilized for any other purpose. They are part of the State of South Carolina's primary government and are 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 72, Fair Value Measurement and Application* were applied to the financials of PEBA, Insurance Benefits for the year ended June 30, 2016. This statement addresses accounting and financial reporting issues related to fair value measurements. It requires measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation techniques. It also enhances disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques.

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016. The claims payable balance is based on claims that have been paid by the third party administrators for the fiscal year presented and total \$55,358,923. Administrative fees payable at June 30, 2016 total \$452,094.

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.

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Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 reports 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, 2016.

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.

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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.

For purposes of the PEBA, Insurance Benefits statement of cash flows, all amounts held by the State Treasurer's Office are 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, 2016 for financials presented were as follows:

PEBA, Insurance Benefits	<u>\$ 380,171,355</u>
SCRHITF	<u>\$ 65,817,385</u>
SCLTDITF	<u>\$ 2,130,830</u>

Cash deposits held by the State Treasurer's Office and its third party administrator are exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the fund's deposits may not be returned. The fund does not have a deposit policy for custodial credit risk. As of June 30, 2016, the fund's deposits were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the fund's name.

Deposits held by the State Treasurer's Office are classified by risk category in the Comprehensive Annual Financial Report of the State of South Carolina. Information about the classification of a portion of its pooled funds is not available.

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, 2016. As discussed in Note 2, investments are reported at fair value.

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Deposits, Investments and Securities Lending Transactions (Continued)

The following represents the fair values of the OPEB Trusts investments at June 30, 2016:

	Fair Value - OPEB Trust Funds	
	SCRHITF	SCLTDITF
Collateralized mortgage-backed obligations	\$ 13,984,274	\$ 522,025
Other governmental guaranteed investments	117,124,622	6,144,822
Federal agencies	16,992,720	-
Sovereign bonds	2,200,800	-
Corporate bonds	613,628,581	23,371,286
Financial paper	55,135,922	892,900
Repurchase agreement	71,011,270	3,815,000
Total	\$ 890,078,189	\$ 34,746,033

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, 2016 was \$176,710,000 for the Retiree Health Trust and \$9,875,000 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, 2016, the investments rated by Moody's stated at fair value were as follows:

	Fair Value - OPEB Trust Funds						Total
	AAA/AA	A1/A2/A3	BAA/BA	B1/B2/B3	CAA/CA/C	Not Rated	
Collateralized mortgage-backed obligations	\$ 14,506,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,506,299
Other Governmental guaranteed investments	123,269,444	-	-	-	-	-	123,269,444
Federal agencies	16,992,720	-	-	-	-	-	16,992,720
Repurchase agreement	-	-	-	-	-	74,826,270	74,826,270
Sovereign bonds	-	2,200,800	-	-	-	-	2,200,800
Corporate bonds	68,630,783	208,244,222	354,302,395	3,529,870	1,092,500	1,200,096	636,999,866
Financial paper	4,000,140	30,055,548	21,973,135	-	-	-	56,028,823
Total	\$ 227,399,386	\$ 240,500,570	\$ 376,275,530	\$ 3,529,870	\$ 1,092,500	\$76,026,366	\$ 924,824,222

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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, 2016 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)				Total
	Less than 1	1 - 5	6 - 10	More than 10	
Collateralized mortgage-backed obligations	\$ -	\$ 296,720	\$ 2,947	\$ 14,206,632	\$ 14,506,299
Other Governmental guaranteed investments	-	5,465,899	6,520,898	111,282,647	123,269,444
Federal agencies	5,000,250	11,992,470	-	-	16,992,720
Repurchase agreement	74,826,270	-	-	-	74,826,270
Sovereign bonds	-	2,200,800	-	-	2,200,800
Corporate bonds	70,271,541	337,730,024	225,797,089	3,201,212	636,999,866
Financial paper	4,217,863	46,683,080	5,127,880	-	56,028,823
Total	\$ 154,315,924	\$ 404,368,993	\$ 237,448,814	\$ 128,690,491	\$ 924,824,222

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, 2016 the State Treasurer held investments in overnight repurchase agreements with Bank of America that was fully collateralized by U.S. Treasury and agency obligations of 8.1% for the SCRHITF and 11.1% 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. There were no foreign investments at year end for either SCRHITF or SCLTDITF.

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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		OPEB Trust Funds	
	Benefits		SCRHITF	SCLTDITF
Interest earned from deposits	\$	5,226,377	\$ -	\$ -
Interest earned from investments		-	22,831,203	1,063,068
Net realized gains on investments		-	1,216,663	118,999
Discount (Premium) amortization		-	27,367	(1,984)
Net unrealized gain from change in value of investments		-	10,988,377	129,142
Net unrealized gain/(loss) from change in value of securities lending collateral		-	230,085	(11,523)
Interest and investment earnings	<u>\$</u>	<u>5,226,377</u>	<u>\$ 35,293,695</u>	<u>\$ 1,297,702</u>

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	\$ 136,828,655	\$ -	\$ 5,945,830	\$ -
Invested securities lending collateral	8,344,302	8,344,302	490,977	490,977
Investments	819,066,919	-	30,931,033	-
Deposits	-	65,817,385	-	2,130,830
Specifically identified investments	-	890,078,189	-	34,746,033
Total	<u>\$ 964,239,876</u>	<u>\$ 964,239,876</u>	<u>\$ 37,367,840</u>	<u>\$ 37,367,840</u>

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Fair Value Measurements

The OPEB Trusts categorize fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These classifications are summarized as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk but are based upon the pricing transparency of the investment. In determining the appropriate levels, the OPEB Trusts performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

Investments classified according to the fair value hierarchy are valued according to pricing policy established by the OPEB Trusts' custodian bank. Pricing is based primarily on prices from several third-party vendors or other specified alternative sources which are considered to be reliable. Where available, the custodian bank uses more than one vendor for securities of each asset type, class or issue. The price received from a primary source is used in valuation unless a tolerance check, or price challenge, results in the use of a price from a secondary vendor.

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Deposits, Investments and Securities Lending Transactions (Continued)

The OPEB Trusts have the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value Level	At 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateralized mortgage- backed obligations	\$ 14,506,299	\$ -	\$ 14,506,299	\$ -
Other Governmental guaranteed investments	123,269,444	-	123,269,444	-
Federal agencies	16,992,720	-	16,992,720	-
Repurchase agreement	74,826,270	74,826,270	-	-
Sovereign bonds	2,200,800	-	2,200,800	-
Corporate bonds	645,835,145	-	645,835,145	-
Financial paper	56,028,823	-	56,028,822	-
Total	\$ 933,659,501	\$ 74,826,270	\$ 858,833,230	\$ -

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%.

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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, 2016 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.

At June 30, 2016, the fair value of securities on loan and invested in cash collateral for SCRHITF was \$8,344,302. Securities lending obligations at June 30, 2016 were \$8,509,280, 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 one day. At June 30, 2016, 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, 2016.

Securities lent for cash collateral:	
U.S. Corporate-fixed income	<u>\$ 8,322,679</u>
Cash collateral invested as follows:	
Repurchase agreements	<u>\$ 8,509,280</u>
Total for cash collateral invested	<u>\$ 8,509,280</u>

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Deposits, Investments and Securities Lending Transactions (Continued)

At June 30, 2016, the fair value of securities on loan and invested in cash collateral for SCLTDITF was \$490,977. Securities lending obligations at June 30, 2016 were \$502,500, 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 SCLTDITF's cash collateral invested is held by the counterparty and is insured. All securities loaned can be terminated on demand by either the SCLTDITF 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 one day. At June 30, 2016, there had been no losses resulting from borrower defaults and the SCLTDITF had no credit risk exposure to borrowers because the amounts the SCLTDITF owed the borrowers exceeded the amounts the borrowers owed the SCLTDITF.

The following table presents for the SCLTDITF the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2016.

Securities lent for cash collateral:	
U.S. Corporate-fixed income	<u>\$ 490,977</u>
Cash collateral invested as follows:	
Repurchase agreements	<u>\$ 502,500</u>
Total for cash collateral invested	<u>\$ 502,500</u>

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

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.

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

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, 5.33% of covered payroll for year ended June 30, 2016. At the beginning of the fiscal year, the Department of Administration Executive Budget Office sets annually the employer contribution rate based on a pay-as-you-go basis. PEBA, Insurance Benefits paid approximately \$327,339 for year ended June 30, 2016. 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, 2016.

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, 2016, PEBA, Insurance Benefits contributed \$21,656,555 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

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

for these insurance benefits for active employees in the amount of \$595,490 for the year ended June 30, 2016.

OPEB Trusts Funded Status and Funding Progress

The latest actuarial valuation for the OPEB Trusts was performed as of June 30, 2015 by the independent consulting actuary, Gabriel, Roeder, Smith and Company.

The June 30, 2016 required contributions in dollars (expressed in thousands) and the percentages of those dollars contributed were as follows:

	SCRHITF	SCLTDITF
Actuarially Required Contribution	\$ 749,713	\$ 13,103
Percentage Contributed	61.06%	54.37%

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, 2015	\$ 964,186	\$ 10,824,335	\$ 9,860,149	9%	\$ 7,908,625	125%
SCLTDITF	June 30, 2015	\$ 36,345	\$ 33,161	\$ (3,184)	110%	\$ 8,309,688	0%

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.

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

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, 2015
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%

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5. Premiums Receivable

PEBA, Insurance Benefits premiums receivable at June 30, 2016 consist of the following:

State government (Note 10)	\$	965,370
Local government		831,414
Schools		319,085
Individuals		219,187
		\$ 2,335,056

As of June 30, 2016, 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, 2016, 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, 2015	Additions	Deletions	Balance June 30, 2016
Furniture and equipment	\$ 955,685	\$ 69,521	\$ (21,822)	\$ 1,003,384
Accumulated depreciation	(598,287)	(212,152)	21,822	(788,617)
Capital assets, net	\$ 357,398	\$ (142,631)	\$ -	\$ 214,767

Depreciation expense for the year ended June 30, 2016 was \$212,152.

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7. Lease Obligations

The PEBA leases office space from CB Richard Ellis (CBRE) and all three leases are accounted for as operating leases. The three leases were signed by PEBA and have effective beginning dates of July 1, 2013, January 1, 2015, and June 15, 2016, and all three leases will expire on June 30, 2018. PEBA, Insurance Benefits proportionate share of rental expense under these leases was calculated at 62% for the year ended June 30, 2016 using a weighted average of staff in the facility at the beginning of the fiscal year. This percentage is updated near the end of each fiscal year and it was determined that the PEBA, Insurance Benefits proportionate share of the total lease expense for FY2017 will be 60%. The lease expense for PEBA, Insurance Benefits was \$138,855 for FY2016 and the current calculated proportionate share of the future minimum lease payments due under these leases are:

<u>Year Ending June 30,</u>	<u>Total</u>
2017	256,377
2018	139,140
	<u><u>\$ 395,517</u></u>

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.

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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 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 (8.16%) and a portion of the employer contribution (5%). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.91%) 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.

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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.

Contributions

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.

Required employee contribution rates for fiscal year 2015-2016 are as follows:

SCRS

Employee Class II	8.16% of earnable compensation
Employee Class III	8.16% of earnable compensation

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Required employer contributions for fiscal year 2015-2016 are as follows:

SCRS

Employer Class II	10.91% of earnable compensation
Employer Class III	10.91% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

State ORP

Employer Contribution	10.91% of earnable compensation (1)
Employer Incidental Death Benefit	0.15% of earnable compensation

(1) Of this employer contribution of 10.91% 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, performed on data through June 30, 2015, is currently underway.

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

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Pension Plans (Continued)

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2014 valuations for SCRS.

Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5% (varies by service)
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, 2016, PEBA, Insurance Benefits reported a liability of \$10,335,436 for its proportionate share of PEBA, Insurance Benefits net pension liability. The net pension liability was measured as of June 30, 2015 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, 2015, PEBA’s proportion was 0.139841%, of which 39% was proportioned to PEBA, Insurance Benefits representing contributions of \$549,222.

For the year ended June 30, 2016 PEBA, Insurance Benefits recognized pension expense of \$948,643. Reported deferred outflows of resources and deferred inflows of resources related to pensions are as follows:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 183,626	\$ 18,483
Net difference between projected and actual earnings on pension plan investments	69,180	-
Contributions subsequent to the measurement date	636,918	-
Net difference in change proportional share	626,085	-
Total	\$ 1,515,809	\$ 18,483

Contributions subsequent to the measurement date of \$549,222 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, 2016. Average remaining services lives of all employees provided with pensions as determined by SCRS at June 30, 2015 was 4.164 years.

Measurement Period Ending June 30,			
2016			\$ 242,126
2017			242,126
2018			179,053
2019			197,101
Net Balance of Deferred Outflows / (Inflows) of Resources			\$ 860,406

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.

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Pension Plans (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50% assumed annual investment rate of return set in statute and 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%	0.10%
Domestic fixed income	13.00%	0.42%
Global fixed income	9.00%	0.39%
Global public equity	31.00%	2.20%
Global tactical asset allocation	10.00%	0.49%
Alternatives	32.00%	2.40%
Total	<u>100.00%</u>	<u>6.00%</u>

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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 proportionate share of the net pension liability	\$ 13,030,022	\$ 10,335,436	\$ 8,076,869

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, 2016.

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.

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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.

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, 2016:

ADJUTANT GENERAL'S OFFICE	\$ 2,161,974
AID TO SUBDIVISIONS	561,772
AIKEN TECH COLLEGE	994,449
ATTORNEY GENERAL	1,493,030
SFAA - STATE AUDITOR	302,941
CENTRAL CAROLINA TECH COLLEGE	1,887,862
CLEMSON UNIVERSITY	40,291,389
COASTAL CAROLINA UNIVERSITY	11,915,595
COLLEGE OF CHARLESTON	12,583,761
COMMISSION ON HIGHER EDUCATION	264,069
COMPTROLLER GENERAL'S OFFICE	253,845
CONFEDERATE RELIC ROOM AND MILITARY COMMISSION	42,112
DENMARK TECHNICAL COLLEGE	830,751
DEPARTMENT OF AGRICULTURE	1,080,408
DEPARTMENT OF ARCHIVES & HISTORY	345,787
DEPARTMENT OF EDUCATION	8,977,288
DEPARTMENT OF HEALTH & ENVIRONMENTAL CONTROL	24,553,213
DEPARTMENT OF LABOR, LICENSING AND REGULATION	2,945,443
DEPARTMENT OF MENTAL HEALTH	30,119,242
DEPARTMENT OF PARKS RECREATION & TOURISM	3,291,362

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DEPARTMENT OF REVENUE AND TAXATION	5,266,628
DEPARTMENT OF SOCIAL SERVICES	28,162,664
DEPARTMENT OF TRANSPORTATION	36,375,730
EMPLOYMENT SECURITY COMMISSION	5,235,664
EXECUTIVE BUDGET OFFICE	5,837,785
FLORENCE-DARLINGTON TECHNICAL COLLEGE	2,301,268
FORESTRY COMMISSION	3,123,176
FRANCIS MARION UNIVERSITY	4,300,931
GOVERNOR'S OFFICE - EXECUTIVE CONTROL OF STATE	129,837
GOVERNOR'S OFFICE - EXECUTIVE POLICY & PROGRAMS	18,866
GOVERNOR'S OFFICE - MANSIONS AND GROUNDS	59,421
GREENVILLE TECHNICAL COLLEGE	6,207,162
HEALTH & HUMAN SERVICES FINANC	8,423,969
HIGHER EDUCATION TUITION GRANTS COMMISSION	32,298
HORRY-GEORGETOWN TECH COLLEGE	3,212,596
HOUSE OF REPRESENTATIVES-CLERK	1,766,733
JOHN DE LA HOWE SCHOOL	512,498
LANDER UNIVERSITY	3,314,175
LEGISLATIVE AUDIT COUNCIL	144,385
LEGISLATIVE COUNCIL	290,576
LEGISLATIVE PRINTING & INFO TC	257,376
LT GOVERNORS OFFICE	290,187
MEDICAL UNIVERSITY OF S C	39,501,049
MIDLANDS TECHNICAL COLLEGE	5,643,957
NORTHEASTERN TECHNICAL COLLEGE	788,577
OFFICE OF REGULATORY STAFF	594,788
OFFICE OF STATE INFRASTRUCTURE BANK	38,223
OFFICE OF THE INSPECTOR GENERAL	46,718
ORANGEBURG - CALHOUN TECHNICAL COLLEGE	1,572,218
PATIENTS COMPENSATION FUND	42,063
PATRIOTS POINT DEVELOPEMENT AUTHORITY	614,398
PIEDMONT TECHNICAL COLLEGE	2,446,054
PROCUREMENT REVIEW PANEL	6,243
PUBLIC EMPLOYEE BENEFIT AUTHORITY	4,996
PUBLIC SERVICE COMMISSION	357,585

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Transactions with State Entities (Continued)

RETIREMENT SYSTEM INVESTMENT COMMISSION	395,333
REVENUE AND FISCAL AFFAIRS OFFICE	714,133
S C ARTS COMMISSION	125,452
S C DEPARTMENT OF CONSUMER AFFAIRS	272,676
S C DEPARTMENT OF INSURANCE	700,291
S C DEPARTMENT OF MOTOR VEHICLES	8,444,011
S C DEPARTMENT OF NATURAL RESOURCES	6,872,474
S C DEPARTMENT OF PROBATION PAROLE & PARDON SERV	4,945,827
S C EDUCATION OVERSIGHT COMMITTEE	42,631
S C EDUCATIONAL TELEVISION COMM	1,004,811
S C HUMAN AFFAIRS COMMISSION	182,465
S C JOBS- ECONOMIC DEVELOPMENT AUTHORITY	14,157
S C SCHOOL FOR THE DEAF & BLIND	2,647,829
S C STATE LIBRARY	286,900
S C STATE SENATE - CLERICAL	1,362,251
S C STATE UNIVERSITY	4,304,845
S C WORKERS' COMPENSATION COMMISSION	422,964
S.C. DEPARTMENT OF PUBLIC SAFETY	10,767,325
SC ADMINISTRATIVE LAW COURT	289,354
SC COMMISSION FOR THE BLIND	684,278
SC COMMISSION ON INDIGENT DEFENSE	562,802
SC COMMISSION ON PROSECUTION COORDINATION	361,155
SC DEPARTMENT OF COMMERCE	728,736
SC DEPARTMENT OF JUVENILE JUSTICE	9,200,883
SC DEPT OF ALCOHOL & OTHER DRUG ABUSE SERVICES	362,440
SC DEPT OF DISABILITIES & SPECIAL NEEDS	11,408,968
SC RURAL INFRASTRUCTURE AUTHORITY	63,266
SC STATE HOUSING FINANCE & DEVELOPMENT AUTHORITY	1,052,835
SEA GRANT CONSORTIUM	100,565
SECRETARY OF STATE	211,121
SOUTH CAROLINA AERONAUTICS COMMISSION	110,740
SOUTH CAROLINA BUDGET & CONTROL BOARD	812
SOUTH CAROLINA CONSERVATION BANK	19,453
SOUTH CAROLINA CRIMINAL JUSTICE ACADEMY	905,999
SOUTH CAROLINA DEPARTMENT OF CORRECTIONS	36,313,177
SOUTH CAROLINA JUDICIAL DEPARTMENT	4,784,377

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SOUTH CAROLINA MUSEUM COMMISSION	255,228
SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY	2,071,914
SPARTANBURG COMMUNITY COLLEGE	2,660,630
STATE ACCIDENT FUND	501,276
STATE BOARD FOR TECHNICAL & COMPREHENSIVE EDUC	823,181
STATE BOARD OF FINANCIAL INSTITUTIONS	347,394
STATE COMMISSION FOR MINORITY AFFAIRS	86,720
STATE ELECTION COMMISSION	162,788
STATE ETHICS COMMISSION	62,536
STATE FISCAL ACCOUNTABILITY AUTHORITY	1,042,186
STATE LAW ENFORCEMENT DIVISION	4,688,407
STATE TREASURER	551,396
TECHNICAL COLLEGE OF LOW COUNTRY	1,093,351
THE CITADEL	5,487,172
TRI COUNTY TECHNICAL COLLEGE	3,030,182
TRIDENT TECHNICAL COLLEGE	6,166,188
UNIVERSITY OF SOUTH CAROLINA	60,520,145
VOCATIONAL REHABILITATION	9,626,105
WIL LOU GRAY OPP SCHOOL	513,856
WILLIAMSBURG TECH COLLEGE	526,368
WINTHROP UNIVERSITY	6,933,303
YORK TECHNICAL COLLEGE	2,418,650
Total	\$ 532,053,399

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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 2016 expenses applicable to related party transactions are as follows:

South Carolina Retirement Division	\$ 975,381
South Carolina State Accident Fund	18,448
South Carolina Department of Employment and Workforce	1,593
	\$ 995,422

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, 2016 were:

ADJUTANT GENERAL'S OFFICE	\$ 12,234
AIKEN TECH COLLEGE	70
ATTORNEY GENERAL	1,202
COMMISSION ON HIGHER EDUCATION	2,174
COMPROLLER GENERALS OFFICE	21
DEPARTMENT OF EDUCATION	9,315
DEPARTMENT OF MENTAL HEALTH	19,743
DEPARTMENT OF REVENUE AND TAXATION	2,810
DEPARTMENT OF SOCIAL SERVICES	71,064

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DEPARTMENT OF TRANSPORTATION	384,851
EXECUTIVE BUDGET OFFICE	5,301
GOVERNOR'S OFFICE - EXECUTIVE CONTROL OF STATE	4,251
GOVERNOR'S OFFICE - EXECUTIVE POLICY & PROGRAMS	26,910
GOVERNOR'S OFFICE - MANSIONS AND GROUNDS	234
GREENVILLE TECHNICAL COLLEGE	940
HEALTH & HUMAN SERVICES FINANC	28,264
HIGHER EDUCATION TUITION GRANTS COMMISSION	20
JOHN DE LA HOWE SCHOOL	4,436
LEGISLATIVE PRINTING & INFO TC	1
LT GOVERNORS OFFICE	1,888
OFFICE OF STATE INFRASTRUCTURE BANK	5,161
PATIENTS COMPENSATION FUND	8,105
PUBLIC EMPLOYEE BENEFIT AUTHORITY	4,997
PUBLIC SERVICE COMMISSION	140
RETIREMENT SYSTEM INVESTMENT COMMISSION	58
S C DEPARTMENT OF CONSUMER AFFAIRS	9,194
S C DEPARTMENT OF INSURANCE	341
S C DEPARTMENT OF MOTOR VEHICLES	53,436
S C DEPARTMENT OF NATURAL RESOURCES	17,994
S C DEPARTMENT OF PROBATION PAROLE & PARDON SERV	2,869
S C EDUCATIONAL TELEVISION COMM	9,791
S C SCHOOL FOR THE DEAF & BLIND	216
S C STATE LIBRARY	67
SC COMMISSION FOR THE BLIND	251
SC COMMISSION ON INDIGENT DEFENSE	20,274
SC DEPARTMENT OF COMMERCE	1,509
SC DEPARTMENT OF JUVENILE JUSTICE	312
SC DEPT OF ALCOHOL & OTHER DRUG ABUSE SERVICES	165
SC DEPT OF DISABILITIES & SPECIAL NEEDS	226,995
SC STATE HOUSING FINANCE & DEVELOPMENT AUTHORITY	261
SOUTH CAROLINA AERONAUTICS COMMISSION	815
SOUTH CAROLINA DEPARTMENT OF CORRECTIONS	3,264
SOUTH CAROLINA MUSEUM COMMISSION	3,586
SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY	358

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STATE ACCIDENT FUND	470
STATE BOARD FOR TECHNICAL & COMPREHENSIVE EDUC	4
STATE BOARD OF FINANCIAL INSTITUTIONS	1,592
STATE ELECTION COMMISSION	375
STATE FISCAL ACCOUNTABILITY AUTHORITY	2,564
STATE TREASURER	13,936
WIL LOU GRAY OPP SCHOOL	541
	\$ 965,370

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 accord with insurance policy and benefit program limits.

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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, 2016 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, 2016. A liability of claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2016 and the amount of loss can be reasonably estimated.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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)	
	2016	2015
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	<u>\$ 190,722</u>	<u>\$ 158,988</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,155,578	1,875,036
Increases in provision for insured events of prior fiscal years	<u>40,457</u>	<u>122,955</u>
Total incurred claims and claim adjustment expenses	<u>2,196,035</u>	<u>1,997,991</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	2,129,612	1,843,302
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>40,457</u>	<u>122,955</u>
Total Payments	<u>2,170,069</u>	<u>1,966,257</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u><u>\$ 216,688</u></u>	<u><u>\$ 190,722</u></u>
The above totals are included in the following:		
Claims payable	\$ 55,359	\$ 46,719
Claims incurred but not reported	<u>161,329</u>	<u>144,003</u>
Total	<u><u>\$ 216,688</u></u>	<u><u>\$ 190,722</u></u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

13. Changes in Long-Term Liabilities

Changes in long-term obligations for the year ended June 30, 2016 were as follows.

	Beginning Balance July 1, 2015	Increases	Decreases	Ending Balance June 30, 2016	Due Within One Year
Accrued compensated absences	\$ 800,594	\$ 532,794	\$ (450,962)	\$ 882,426	\$ 597,525
Net pension liability	8,602,129	1,737,730	(4,423)	10,335,436	-
Total	<u>\$ 9,402,723</u>	<u>\$ 2,270,524</u>	<u>\$ (455,385)</u>	<u>\$ 11,217,862</u>	<u>\$ 597,525</u>

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 \$112,922,170 in RDS funding for the year ended June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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	\$ 1,506,619,372	\$ 607,655,032	\$ 2,114,274,404	\$ 1,314,551,062	\$ -	\$ 68,434,415
Medical-fully insured	435,184	63,763	498,947	-	505,615	-
Dental	91,943,301	32,779,003	124,722,304	58,184,677	67,152,445	2,006,367
Prescription drug (1)	-	-	-	823,267,939	-	18,989,857
Life and optional dependent life	39,690,762	-	39,690,762	31,000	39,694,715	-
Vision	16,195,438	3,608,779	19,804,217	-	19,803,415	-
Long-term disability	8,691,192	-	8,691,192	-	8,691,450	-
	<u>\$ 1,663,575,249</u>	<u>\$ 644,106,577</u>	<u>\$ 2,307,681,826</u>	<u>\$ 2,196,034,678</u>	<u>\$ 135,847,640</u>	<u>\$ 89,430,639</u>

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

(2) Claims expense presented above does not include the \$21,656,555 contribution to the SCRHITF from PEBA, Insurance Benefits.

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN*

AS OF JUNE 30, 2016

	<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability	0.05%	0.05%
Employer's proportionate share of the collective net liability	\$ 8,602,246	\$ 10,335,436
Employer's covered payroll	4,661,648	5,327,720
Employer's share of the liability as a percentage of covered payroll	184.53%	193.99%
Plan net position as a percentage of total pension liability	59.90%	57.00%

* The amounts presented were determined as of June 30, 2015

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY,
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SCHEDULE OF PENSION CONTRIBUTIONS

SOUTH CAROLINA RETIREMENT SYSTEM PENSION PLAN*

AS OF JUNE 30, 2016

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 428,654	\$ 480,935	\$ 602,912	\$ 948,643
Contributions in relation to the contractually required contribution	(428,654)	(480,935)	(557,218)	(636,918)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,694</u>	<u>\$ 311,725</u>
Covered Employee Payroll	\$ 4,160,434	\$ 4,661,648	\$ 5,327,720	\$ 6,074,479
Contributions as a percentage of covered employee payroll	10.30%	10.32%	11.32%	15.62%

* 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, 2016

(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)	UAAAL as a Percentage of Covered Payroll (b - a) / c
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%	\$ 7,665,553	122%
June 30, 2015	\$ 964,186	\$ 10,824,335	\$ 9,860,149	9%	\$ 7,908,625	125%

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)	UAAAL as a Percentage of Covered Payroll (b - a) / c
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%
June 30, 2015	\$ 36,345	\$ 33,161	\$ (3,184)	110%	\$ 8,309,688	0%

SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY

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SCHEDULES OF EMPLOYER CONTRIBUTIONS

AS OF JUNE 30, 2016

(Amounts expressed in thousands)

South Carolina Retiree Health Insurance Trust Fund

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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	76.37%
2016	\$ 749,713	61.06%

South Carolina Long-Term Disability Insurance Trust Fund

Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%
2016	\$ 13,103	54.37%

**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. George L. Kennedy, CPA
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, 2016, and the related notes to the financial statements, which collectively comprise PEBA, Insurance Benefits' basic financial statements, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 PEBA, Insurance Benefits' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Columbia, South Carolina
November 23, 2016