

## **Meeting Minutes | Retirement Policy Committee**

Wednesday, January 11, 2017 | 9:30 a.m.  
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved March 23, 2017

**Board Members Present:** Chairman David Tigges

**Board Members Present Via Telephone:** Sheriff Lott and Mr. John Sowards

**Board Members Absent:** Mr. Steve Osborne

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Ashley Brindle, Sarah Corbett, Heather Muller, Sheila Pinckney, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt from the State Retirees Association of South Carolina; Paul Staples with Summit Strategies Group; Caryn Davis, Amy Heyel, Nancy Ornduff, Shelia Perkins, and Danette Rausche (via telephone) with Empower Retirement, and Rebecca Rochester with the South Carolina Education Association.

### **I. Call to Order**

Chairman David Tigges called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:34 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

### **II. Adoption of Proposed Agenda**

It was noted that the proposed Committee meeting agenda was adopted unanimously as presented.

### **III. Approval of Meeting Minutes- October 19, 2016**

It was noted that the October 19, 2016, Committee meeting minutes were adopted unanimously as presented.

### **IV. Defined Contribution Quarterly Reports**

Ms. Nancy Ornduff, with Empower Retirement, presented the third quarter plan activity summary. Ms. Ornduff stated that as of September 30, 2016, Plan assets increased by \$109.84 million, or 3.0 percent, and incoming rollovers to the Program have increased to \$22,146,438.51. Outgoing rollovers decreased 20 percent year over year from \$24 million in the third quarter of 2015, to \$20 million in the third quarter of 2016, and incoming rollovers increased 10 percent year over year from \$20 million in the third quarter of 2015, to \$22 million in the third quarter of 2016. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 101.9 percent.

Ms. Ornduff advised that contributions increased from \$53.64 million as of June 30, 2016, to \$59.45 million as of September 30, 2016, and the total number of participants investing 100 percent in Target Date Funds increased from 5,587 to 5,810. Ms. Ornduff reported that there are 729 total participating employers in the Program. Ms. Ornduff concluded by stating that as of the current date, 96 percent of employers are 100 percent compliant with the Business Transformation Project. Chairman Tigges congratulated Empower and PEBA staff on their tremendous accomplishment.

Mr. Paul Staples, with Summit Strategies Group (Summit), discussed recent market conditions, and stated that the US economy continues to improve, and unemployment decreased to approximately five percent. Mr. Staples added that US hourly wages increased by 2.6 percent as of September 2016.

Mr. Staples stated that three funds are on the watch list for this quarter, and Summit will conduct formal reviews on the Victory Munder Mid Cap Core Growth fund, and the Blackrock Inflation Protected Bond, since both funds have been on the Watch List for five or more quarters.

Mr. Staples reviewed the Optional Retirement Program (ORP) investment performance for the third quarter of 2016. Mr. Staples stated that as of September 30, 2016, ORP total assets were approximately \$1.9 billion, with 54 percent of total assets being allocated to TIAA-CREF; 22 percent of total assets dedicated to VALIC; 13 percent to MassMutual; and 11 percent of total assets with MetLife.

In conclusion, Mr. Staples stated that MassMutual has three funds on the watch list, and MetLife has one fund on the watch list for the quarter.

#### **V. Deferred Compensation Program Investment Options**

Mr. Staples advised that Summit recommends replacing the PIMCO Total Return fund with the Baird Aggregate Bond fund, which exhibits less risk, and is also less expensive at 30 basis points. Mr. Staples pointed out that while currently stable, PIMCO's future is not clear due to structural changes and headline risk.

In a response to a question from Chairman Tigges, Mr. Staples confirmed that the replacement fund recommendation is consistent with the PEBA Board's Investment Policy Statement criteria.

Mr. Leon Lott made a motion, which was seconded by Mr. John Sowards, and approved unanimously, to replace the PIMCO Total Return Fund with the Baird Aggregate Bond Fund.

Mr. Staples reminded the Committee that as of the third quarter, the Blackrock Inflation Protected Bond fund is on the watch list, and is subjected to a formal review to determine its suitability within the Plan. Mr. Staples stated that Summit recommends conducting a search to replace the Blackrock Inflation Protected Bond fund with a passive option.

Mr. Staples also reminded the Committee that the Victory Munder Mid Cap Core Growth fund has been on the watch list for five consecutive quarters, and Summit recommends conducting a search for a new fund that has demonstrated a history of adding value versus the mid cap growth benchmark on an absolute and risk-adjusted basis.

## **VI. Old Business/Director's Report**

Ms. Peggy Boykin, Executive Director, reported that the Joint Committee on Pension Systems Review met on January 10, 2017, and discussed key components of draft legislation that will be introduced this legislative session. Ms. Boykin stated that many of the components include the Funston Fiduciary Audit recommendations for both PEBA and the South Carolina Retirement System Investment Commission (RSIC), and includes a recommendation to cap the South Carolina Retirement System (SCRS) employee contribution rate at 9.0 percent, and the Police Officers Retirement System (PORS) employee contribution rate at 9.75 percent. Ms. Boykin added that it was also suggested to increase the employer rate by a minimum of one percent each year for an extended period of time to meet funding requirements.

Ms. Boykin stated that she advised the Joint Committee on Pension Systems Review that if the employee contribution rate is capped at 9.0 percent, the employer contribution rate will need to be raised approximately 3.5 percent to cover the \$3.5 billion in deferred investment losses which will be smoothed in over the next five years, and to cover reducing the assumed rate-of-return from 7.50 percent to 7.00 percent (which may be lowered in increments over the next two to three years).

Ms. Boykin reported that the Governor's office has posted the Executive Budget which includes a recurring \$94 million in general fund appropriations; approximately \$26.5 million for funding for the State Health Plan (including well visits), and to partially cover premium increases which will also be split between employees and employers; and \$10 million as requested for implementation of the Operational Assessment.

## **VII. Adjournment**

There being no further business, and upon motion by Mr. Sowards, which was seconded by Mr. Lott, and approved unanimously, the Committee meeting adjourned at 10:35 a.m.