

Meeting Minutes | Board of Directors

Wednesday, November 30, 2016 | 9:00 a.m.
Nexsen Pruet | 1230 Main St., Suite 700 Columbia, SC 29201

Minutes Approved January 12, 2017

Board Members Present: Mr. Frank Fusco, Mr. Steve Heisler, Sheriff Leon Lott, Mr. Steve Matthews, Mr. Steve Osborne, Vice Chairman Joe “Rocky” Pearce, Mr. Audie Penn, Chairman John Sowards, and Mr. David Tigges

Others Present for All or a Portion of the Meeting: Melissa Alexander, Peggy Boykin, Phyllis Buie, Amber Carter, Sarah Corbett, Jennifer Ford, James Manning, Heather Muller, Jacalin Shealy, Laura Smoak, Rob Tester, Travis Turner, Heather Young, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Hollie Debaro and Courtney Keith from the South Carolina Office of the State Treasurer; Joanie Lawson and Roger Smith from the South Carolina Education Association; Sam Griswold and Wayne Pruitt from the State Retirees Association of South Carolina; Brooks Goodman, Sarah Martin, Karen Patton, and Matt Shaffer from Blue Cross Blue Shield of South Carolina; Robin Scott and Mark Wermes from Express Scripts, Inc.; Joe Newton, Eric St. Pierre, and Danny White from Gabriel, Roeder, Smith & Company; Robert Gauss from Ice Miller; Michael Burchstead from the South Carolina State Ethics Commission; Geoffrey Berg and Danny Varat from the South Carolina Retirement System Investment Commission (RSIC); and Alex Tomlinson from Milliken Law Firm.

I. Call to Order

Chairman John Sowards called the PEBA Board of Director’s (Board) retreat to order at 9:00 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 Board meeting agenda was adopted unanimously as presented.

III. Executive Session to receive legal advice pursuant to S.C. Code Ann. Section 30-4-70(A)(2)

At 9:05 a.m., Mr. Frank Fusco made a motion, which was seconded by Mr. Steve Osborne, and passed unanimously, to recede into executive session for the purpose of receiving legal advice.

The Committee reconvened in open session at 10:35 a.m. Chairman Sowards announced that no action was taken by the Board while in executive session.

IV. Gabriel Roeder Smith & Company

Ms. Peggy Boykin, Executive Director, introduced Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS), to present the 2015 Other Post Employment Benefits (OPEB) and the 2016 Retirement Valuations.

Mr. Newton presented the 2015 OPEB Valuations and reviewed the current plan benefit and funding policy. Mr. Newton also discussed the impact of Governmental Accounting Standards Board (GASB) 74 and 75, which requires all participating employers to recognize a share of the unfunded actuarial accrued liability (UAAL) of OPEB effective for fiscal year 2018. PEBA will implement the new OPEB standard for the plan effective fiscal year 2017. Mr. Newton concluded his presentation by reviewing the historical and expected employer surcharge based on the current funding status.

Mr. Steve Heisler, made a motion, which was seconded by Mr. Steve Matthews, and passed unanimously, to accept the 2015 OPEB Valuations as presented for information.

Mr. White, Senior Consultant, presented the 2016 Retirement Systems Actuarial Valuations. It was noted that the actuarial assumptions adopted by the Board and approved by the State Fiscal Accountability Authority (SFAA), have been incorporated in the 2016 valuations, and the investment return assumption remains unchanged at 7.50 percent.

Mr. White reported that the investment return for fiscal year 2016 was -0.47 percent. Mr. White discussed the summary results of the 2016 valuation for the South Carolina Retirement System (SCRS), and the Police Officers Retirement System (PORS), and pointed out that the UAAL for SCRS increased from \$16,753 billion in 2015 to \$18,566 billion in 2016, which is a \$1.8 billion increase. Mr. White reported that \$500 million is attributed to the assumption changes, \$1.1 billion is the recognition of the deferred investment losses, and \$200 million is due to negative amortization.

Mr. White reminded the Board that they approved an increase to the employer and employee contribution rates for SCRS to 11.56 percent and 8.66 percent respectively, and the employer and employee rates for PORS to 14.24 percent and 9.24 percent respectively, effective July 1, 2016.

Mr. White advised that employer and employee contribution rates for PORS must increase four basis points for fiscal year 2018, and employer and employee contribution rates for SCRS must increase by a minimum of 43 basis points for fiscal year 2018, to maintain a 30-year funding period. Mr. White suggested that the Board consider increasing contribution rates above the minimum required amount for both SCRS and PORS, and develop a long-term strategy to obtain a better financial position in a shorter period of time.

Mr. White also provided the Valuation results for the Judges and Solicitors Retirement System (JSRS); the General Assembly Retirement System (GARS); the South Carolina National Guard Retirement (SCNG) System; and the expected increase in contributions necessary for each system.

Mr. White reviewed the actuarial projected employer and employee contribution rates for SCRS and incorporated various return assumption scenarios.

Mr. David Tigges, made a motion, which was seconded by Mr. Steve Osborne, and passed unanimously, to receive as information the actuarial valuations of SCRS, PORS, JSRS, GARS, and the SCNG Plan as of July 1, 2016.

Mr. Tigges, made a motion, which was seconded by Mr. Matthews, and passed unanimously, to increase the employee and employer contribution rates for SCRS by 50 basis points each, to 9.16% and 12.06%, respectively, effective July 1, 2017.

Mr. Tigges, made a motion, which was seconded by Mr. Audie Penn, and passed unanimously, to increase the employee and employer contribution rates for PORS by 50 basis points each, to 9.74% and 14.74%, respectively, effective July 1, 2017.

Mr. Tigges, made a motion, which was seconded by Mr. Heisler, and passed unanimously, to increase the employer contribution rate for JSRS to 49.42% effective July 1, 2018.

Mr. Tigges, made a motion, which was seconded by Mr. Heisler, and passed unanimously, to increase the employer contribution for GARS to \$5.4 million effective July 1, 2018.

Mr. Tigges, made a motion, which was seconded by Mr. Heisler, and passed unanimously, to increase the employer contribution for the SCNG Plan to \$4.8 million effective July 1, 2017.

Chairman Sowards thanked Mr. White and Mr. Newton for their presentations.

V. RSIC Report on Investments

Mr. Geoffrey Berg, Chief Investment Officer, from the South Carolina Retirement System Investment Commission (RSIC) provided a performance update for the period ending September 30, 2016. Mr. Berg stated that a new asset allocation was adopted in February 2016. Mr. Berg advised that most of the changes became effective June 2016, and have produced positive short term results for the three month period. Mr. Berg reviewed asset classes that performed better than the benchmark, as well as asset classes that underperformed the benchmark for fiscal year-to-date ending September 30, 2016.

Mr. Berg also discussed the impact of the presidential election on the markets including:

1. The US dollar rallied more than four percent
2. Equities are mixed
3. There has been a significant rally in US bond yields since July 2016

Mr. Berg also reviewed important changes to the RSIC portfolio including:

1. Tracking performance vs. peer group
2. New liquidity framework (cash target declined from five percent to two percent)
3. New asset allocation adopted in February 2016 (effective July 1, 2016)
4. Challenging the role of Hedge Funds in the portfolio

Chairman Sowards thanked Mr. Berg for his hard work and dedication as Chief Investment Officer of RSIC.

VI. State Health Plan

Ms. Sarah Martin from Blue Cross Blue Shield of South Carolina (BCBSSC), reviewed the Rally engagement platform that will begin January 1, 2017. Ms. Martin explained that Rally is a very

dynamic and interactive platform designed to engage members, and provide an updated avenue to promote sustained behavior change with healthy outcomes. Rally can be accessed through the internet or via a mobile device, and will provide targeted intervention based on individual health goals.

Ms. Karen Patton from BCBSSC led a discussion related to a new telehealth benefit that will be available to State Health Plan (SHP) members effective January 1, 2017. Blue CareOnDemand will enable members to connect with board-certified physicians via telecommunications and video technology. Ms. Patton emphasized that telehealth is not a replacement for a member's primary care physician, but allows members to be seen for urgent care issues when their primary care physician is not convenient or available, or as an alternative to an emergency room visit. Ms. Patton stated that doctors review a member's medical history; ask pertinent questions to address member concerns; provide treatment plans; and prescribe medications as needed. Ms. Patton reported that 85 percent of Blue CareOnDemand visits resolve a member's issue completely. If a member's issue cannot be resolved, they will be rerouted back to their primary care physician for follow-up.

VII. Fiduciary Education- Ice Miller

Mr. Robert Gauss, Partner, from Ice Miller, conducted a presentation on Fiduciary Duties and Considerations Regarding Recent Lawsuits Against Retirement Plans. Mr. Gauss stated that good fiduciary and ethical practices should follow the applicable South Carolina Code of Laws; the State Ethics Act; the PEBA Board's Ethics Policy; and the PEBA Board's Conflict of Interest Policy. Mr. Gauss reviewed the conflict of interest guidelines that Board members must follow, and stated that directors should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest.

Mr. Gauss described a fiduciary as any person who exercises any discretionary authority, control, or management of a plan, or exercises any authority, control, or disposition of its assets. A fiduciary also renders investment advice, and has any discretionary authority or discretionary responsibility in the administration of the plan. Mr. Gauss noted that the Board is one of multiple fiduciaries for the South Carolina Retirement Systems, and shares responsibility with the State Fiscal Accountability Authority (SFAA); the South Carolina Retirement System Investment Commission; the State Treasurer; and the state Legislature. Mr. Gauss stated that the Board is also a fiduciary for the State Health Insurance and OPEB trust Funds; the State Optional Retirement Program; and the South Carolina Deferred Compensation Program.

Mr. Gauss discussed several sources of fiduciary principles including the Internal Revenue Code; The Employee Retirement Income Security Act (ERISA) which only applies to private plans but is an excellent resource; and the Uniform Management of Public Retirement Systems Act (UMPERSA).

Mr. Gauss also reviewed the Exclusive Benefit Rule; prohibited transactions for fiduciary principles; adherence to the Trust; and detailed the overall fiduciary principles – Duty of Care, Duty of Skill, Duty of Loyalty, and Duty of Impartiality.

Mr. Gauss concluded his presentation by discussing several recent lawsuits against other retirement plans.

VIII. Strategic Planning

Prior to the beginning of the strategic planning section, there were several motions made to clarify the effective date of contribution rate increases for JSRS and GARS.

Mr. Tigges, made a motion, which was seconded by Mr. Penn, and passed unanimously to reconsider the motion to increase the contribution rate previously approved for JSRS to correct the effective date of the contribution rate increase.

Mr. Tigges, made a motion, which was seconded by Mr. Heisler, and passed unanimously, to increase the employer contribution rate for JSRS to 49.42% effective July 1, 2017.

Mr. Tigges, made a motion, which was seconded by Mr. Penn, and passed unanimously to reconsider the motion previously approved to increase the employer contribution for GARS to correct the effective date of the contribution rate increase.

Mr. Tigges, made a motion, which was seconded by Mr. Matthews, and passed unanimously, to increase the employer contribution for GARS to \$5.4 million effective July 1, 2017.

Ms. Sarah Corbett, Chief Operating Officer, presented the 2016-2018 Business Plan to the Board, and stated that each Committee has reviewed and approved their respective sections.

Mr. Matthews, made a motion, which was seconded by Mr. Rocky Pearce, and passed unanimously, to accept the 2016-2018 Business Plan as presented.

IX. Ethics Training

Mr. Michael Burchstead, General Counsel, from the South Carolina State Ethics Commission; presented information regarding the Ethics Commission jurisdiction, and the four subject areas of the Ethics Act including: Rules of Conduct; Financial Disclosure; Campaign Practices; and Lobbyist/Lobbyist Principals. Mr. Burchstead also reviewed the requirements of the Statement of Economics Interests, and discussed an additional income disclosure section that will become effective January 1, 2017. Mr. Burchstead noted that the deadline to file the Statement of Economics Interests is March 30th of each year.

X. Adjournment

There being no further business, and upon motion by Mr. Frank Fusco which was seconded by Mr. Penn, and approved unanimously, the Board meeting adjourned at 5:06 p.m.