

DRAFT Meeting Minutes | Retirement Policy Committee

Wednesday, December 2, 2015 | 9:30 a.m.
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes Approved March 16, 2016

Board Members Present: Mr. Arthur Bjontegard, Chairman John Sowards, and Mr. David Tigges

Board Members Present Via Telephone: Sheriff Leon Lott

Others Present for All or a Portion of the Meeting: Peggy Boykin, Ashley Brindle, Gwen Bynoe, Tom Cone, Sarah Corbett, Jennifer Dolder, Georgia Gillens, Heather Muller, Tammy Nichols, Cameron Kirksey, Travis Turner, Stephen Van Camp, Lori Anna Varnadoe, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Geoffrey Berg and Mike Hitchcock from the South Carolina Retirement System Investment Commission (RSIC); Wayne Bell, Sam Griswold, and Wayne Pruitt from the State Retirees Association of South Carolina; Carlton Washington from the South Carolina State Employees Association; Danny White from Gabriel Roeder Smith & Company; and Jonathan Rauh from the South Carolina Association of School Administrators.

I. Call to Order

Chairman John Sowards called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:35 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- November 18, 2015

Chairman Sowards asked for amendments to the previous meeting minutes. There being none, Mr. Sowards noted that the November 18, 2015, Committee meeting minutes were approved as presented.

IV. Strategic Planning Update

Ms. Sarah Corbett, Chief Operating Officer, reviewed the PEBA Board Strategic Plan-Staff Action Plans related to the Retirement Policy Committee, and provided a progress report on each action item that will be completed by December 31, 2015.

V. Actuarial Valuations

Mr. Danny White, Senior Consultant, Gabriel Roeder Smith & Company (GRS), presented the 2015 Actuarial Valuations. Mr. White reported that the investment return for fiscal year 2015 was approximately 1.60 percent, and the funded ratios on a market value basis for the South Carolina Retirement System (SCRS), and the Police Officers Retirement System (PORS), decreased by approximately three percent. Mr. White advised the Committee that employer and employee contribution rates for SCRS must increase by three basis points for fiscal year 2018 to maintain a 30-year funding period. Mr. White added that the funding period for PORS is projected to remain under 30 years. Mr. White reviewed projected liability and assets; projected employee and employer contribution rates; and the unfunded actuarial accrued liability (UAAL) for both SCRS and PORS.

Mr. White also provided the Valuation results for the Judges and Solicitors Retirement System (JSRS); The General Assembly Retirement System (GARS); and the South Carolina National Guard Retirement (SCNG) System.

Mr. White discussed alternative funding strategies, and suggested that the PEBA Board consider developing a funding policy. Ms. Peggy Boykin, Executive Director, agreed and recommended that if the Board increases contribution rates outside of the statutory funding requirements, a funding policy should be developed and followed so the Board can make appropriate funding determinations.

Mr. White stated that the five-year experience study ending June 30, 2015, will be provided to PEBA in early 2016, and assumptions adopted by the PEBA Board are first applied to the July 1, 2016, actuarial valuation.

Mr. Art Bjontegard made a motion, which was seconded by Mr. David Tigges, and passed unanimously, to accept the 2015 Actuarial Valuations as information, and adopt the contribution rates set forth therein.

VI. Review of the Defined Benefit Plan

Mr. Geoffrey Berg, Acting Chief Investment Officer, South Carolina Retirement System Investment Commission (RSIC), and Mr. Mike Hitchcock, Chief Executive Officer, reviewed the asset allocation and investment returns for RSIC. Mr. Hitchcock stated that RSIC staff have challenged their investment beliefs, and have conducted various portfolio allocation analysis to further evaluate the portfolio and the investment returns. Mr. Hitchcock advised that every asset class and percentage allocation is being challenged to determine the best combination of assets that will provide the maximum opportunity to earn the assumed rate of return of 7.5 percent.

In response to a question from Chairman Sowards who asked if the assumed rate of return would average 7.5 percent over an extended period of time, Mr. Berg replied that a long-term assumed rate of return is largely conditioned by the fluctuation in cash rates.

Mr. David Tigges asked how the Commission defines and calculates risk. Discussion ensued regarding volatility and risk, and standard deviation of returns. Ms. Corbett expressed her desire for the Commission and PEBA to work collectively to ensure a common understanding of the Commission's risk tolerance, since investment results directly impact the action of the PEBA Board in setting the contribution rates.

Discussion ensued regarding the minimal cash allocation that RSIC must have in order to meet beneficiary obligations. Mr. Berg advised that cash allocation is directly connected to determining the appropriate months of benefit payments that must be readily available for disbursement. Mr. Berg added that the Commission is currently reviewing the cash allocation, and have already reduced the cash level from five percent to two percent.

Chairman Sowards turned the discussion to the cost associated with changing investment strategies. Mr. Berg stated that the characteristics of each asset determines the expense, and the pace of the change may also increase the cost of altering the investment. Mr. Berg advised that the greatest challenge is determining the portfolio that is most advantageous to the Commission, while considering the structure of the liabilities, and the constraints related to pension funds.

Mr. Berg explained the RSIC staff's internal investment review process, and how investment recommendations are ultimately made to the Investment Commission. Mr. Berg also discussed RSIC's hedge fund investment strategy and performance. Mr. Berg stated that the hedge fund portfolio is a low beta hedge fund allocation which seeks to invest in managers that are not giving market beta.

Discussion ensued regarding identifying the appropriate peer group for benchmarking investment returns. Mr. Hitchcock stated that RSIC staff have spent an extensive amount of time researching and gaining intelligence regarding other institutional investors' asset allocation and investment returns. RSIC determines asset allocation by using peer review in collaboration with their investment consultant Hewitt EnnisKnupp (HEK). It was noted that the Investment Commission has a statutory obligation to adopt an asset allocation by April each year.

Chairman Sowards thanked Mr. Berg and Mr. Hitchcock for responding to the Committee's questions and concerns.

VII. Old Business/Director's Report

Ms. Boykin stated that she did not have any additional information to report.

VIII. Executive Session

At 12:45 p.m., Mr. Leon Lott made a motion, which was seconded by Mr. Tigges, and passed unanimously, to recede into executive session to discuss proposed contractual matters regarding an Investment Consultant pursuant to S.C. Code of Laws § 30-4-70 (a)(2).

The Board reconvened in open session at 1:08 p.m. Chairman Sowards announced that no action was taken by the Committee while in executive session.

IX. Adjournment

There being no further business, the Committee meeting adjourned at 1:10 p.m.