

Meeting Minutes | Retirement Policy Committee

Tuesday, February 9, 2016 | 9:30 a.m.
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved March 16, 2016

Board Members Present: Mr. Frank Fusco, Chairman John Sowards, and Mr. David Tigges

Board Members Present Via Telephone: Mr. Arthur Bjontegard

Board Members Absent: Sheriff Leon Lott

Others Present for All or a Portion of the Meeting: Peggy Boykin, Ashley Brindle, Tom Cone, Sarah Corbett, Heather Muller, Tammy Nichols, Travis Turner, Stephen Van Camp, 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 and Sam Griswold from the State Retirees Association of South Carolina; Carlton Washington from the South Carolina State Employees Association; Joseph Newton and Danny White from Gabriel Roeder Smith & Company; and Grant Gillespie from the State Fiscal Accountability Authority (SFAA).

I. Call to Order

Chairman John Sowards 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.

There was not a quorum of the Retirement Policy Committee present and no action will be taken.

II. Adoption of Proposed Agenda

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

III. 2016 Experience Study

Ms. Peggy Boykin, Executive Director, introduced Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS), to present the 2016 experience study. Ms. Boykin stated that the experience study is required by statute to be completed every five years.

Mr. Newton advised that the actuarial assumptions develop expectations for future contributions, investment returns, and benefit payments, but do not affect the cost of benefits. Mr. Newton stated that based on the results of the experience study, GRS recommends revised actuarial assumptions, and the PEBA Board can either accept, reject, or modify the

recommendations. Mr. Newton reminded the Committee that the General Assembly ultimately determines the Retirement Systems actuarial rate of return which is currently 7.50 percent.

Mr. Newton reviewed the historical experience of the funded ratio of the South Carolina Retirement System (SCRS), and reported that it has steadily decreased over the last ten years.

Mr. Newton advised that the assumptions studied included economic and demographic assumptions, and the guidelines for the assumption setting process conforms to the Actuarial Standards of Practice. Mr. White added that the current inflation assumption is 2.75 percent per year, and noted that although the inflation assumption is not used directly in the actuarial valuation, it impacts the development of the investment return assumption; the salary increase assumptions for individuals; and the overall payroll growth rate. Mr. Newton reported that GRS recommends decreasing the inflation assumption to 2.25 percent, which is closer to historical levels and more consistent with forward-looking expectations.

Mr. Newton reported that the current investment return assumption is 7.50 percent net of all investment and administrative expenses. Mr. White stated that GRS recommends removing the administrative expenses from the return assumption which provides additional transparency, and conforms with the Governmental Accounting Standards Board (GASB) 67 and 68 accounting rules. Mr. White stated that the investment return assumption considers the investment policy that was adopted February 4, 2016, by the South Carolina Retirement System Investment Commission (RSIC), and capital market expectations developed by the RSIC's investment consultant, Aon Hewitt. Mr. White added that the investment return model also reflects RSIC's use of a portable alpha investment strategy.

Mr. Geoffrey Berg, Acting Chief Investment Officer, and Mr. Mike Hitchcock, Chief Executive Officer, from RSIC, attended the Committee meeting at the request of Chairman Sowards to answer any questions that the Committee had in relation to the investment return assumption, or the adoption of the recent investment allocation. Mr. Berg explained the portable alpha investment strategy and how it influences the investment return assumption.

Mr. White advised that GRS recommends decreasing the current investment return assumption from 7.50 percent to 7.25 percent, which includes 0.30 percent to 0.35 percent in annual returns attributable to advanced recognition of a portable alpha investment strategy. Mr. White added that GRS recommends lowering the investment return assumption to 7.0 percent if the portable alpha investment strategy is not used.

Art Bjontegard joined the Committee meeting via telephone at 11:00 a.m., resulting in a quorum of the Committee.

Mr. White reported that GRS recommends decreasing the long-term salary increase assumption by 50 basis points for both SCRS and the Police Officers Retirement System (PORS), to 3.00 percent and 3.50 percent respectively. Mr. White stated that GRS also recommends decreasing the overall payroll growth assumption for both SCRS and PORS by 50 basis points to 3.00 percent. It was noted that the overall payroll growth is used to project contribution revenue growth over the amortization period.

Mr. White detailed the cost difference between the current assumptions and the recommended assumptions for both SCRS and PORS. Mr. White concluded his presentation by outlining the projected employer contribution rate and unfunded actuarial accrued liability based on the current assumptions and the actuarial assumptions recommended by GRS, using a 7.25 percent assumed rate of return.

Chairman Sowards stated that the experience study and the recommended assumptions will be provided to the General Assembly for review to determine if the assumed rate of return should be lowered to 7.25 as recommended by GRS. Chairman Sowards requested that staff prepare a summary of the experience study to be presented to the full Board at the March 17, 2016, meeting, and advised that the Committee will make a recommendation to the full Board regarding the recommended assumptions after further review and follow-up discussions with GRS.

IV. Old Business/Director's Report

Ms. Boykin did not have any additional information to report.

V. Adjournment

There being no further business, the Committee meeting adjourned at 11:50 a.m.