

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

Wednesday, July 20, 2016 | 11:00 a.m.  
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes Approved August 17, 2016

**Board Members Present:** Mr. Steve Osborne and Chairman David Tigges

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

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Ashley Brindle, 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); Sam Griswold from the State Retirees Association of South Carolina; Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (via telephone); and Gary Parker and Billy Peebles with VALIC.

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

Chairman David Tigges called the PEBA Retirement Policy Committee (Committee) meeting to order at 11:03 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. Approval of Meeting Minutes- May 18, 2016**

Mr. Leon Lott made a motion, which was seconded by Mr. Steve Osborne, and approved unanimously, to approve the May 18, 2016, Committee meeting minutes.

### **IV. Retirement/Pre-Retirement Advisory Panel Nominations**

It was noted that the Retirement/Pre-Retirement Advisory Panel nominations would be tabled to the next Committee meeting.

### **V. Strategic Planning**

Ms. Sarah Corbett, Chief Operating Officer, reviewed a revised version of the 2016-2018 Strategic Plan. Ms. Corbett advised that the modified version includes an updated format; the addition of key measures; new action items; and the alignment of core values to reflect the Characteristics of High Performance. Ms. Corbett also noted that the Strategic Plan's Vision has been revised to read "Serving those who serve South Carolina". The Committee discussed several possible modifications to the Strategic Plan for review at a later meeting.

## **VI. Review of the Defined Benefit Plan**

Ms. Peggy Boykin, Executive Director, stated that Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS) are on the phone to answer questions, and will attend the next Retirement Policy Committee meeting on August 17, 2016.

Ms. Boykin provided historical information regarding the value of the South Carolina Retirement System (SCRS) unfunded liability as of June 30, 2015, and explained the difference between Actuarial Value and Market Value of the SCRS unfunded liability. Ms. Boykin also summarized the 2012 Retirement Reform, the current state of SCRS, and the history of employee and employer contributions (see handout attached).

Ms. Boykin noted that all of the assumptions recommended by GRS have been adopted, with the exception of the Rate of Return, which is determined by the General Assembly. Ms. Boykin added that the 2016 Valuations will use the 7.50 percent Rate of Return since the General Assembly did not reduce the Rate of Return to 7.25 percent as recommended by GRS.

Ms. Boykin reported that the final returns ending June 30, 2016, appear to be flat, and noted that Mike Hitchcock and Geoff Berg from the South Carolina Retirement System Investment Commission (RSIC) will also attend the next Retirement Policy Committee meeting on August 17, 2016, to provide updated performance numbers.

Ms. Boykin explained that a zero percent return for fiscal year 2016 will increase the deferred losses to \$3.4 billion, which would be phased in over a five-year period. Mr. Danny White explained that the recommended assumptions that were approved by the PEBA Board and adopted by the State Fiscal Accountability Authority (SFAA), will increase the ultimate employer and employee contribution rates by approximately 60 basis points. Mr. White added that the underperformance for 2016 will result in ultimate employer and employee contribution rate increases by an additional 70 basis points (130 basis points in total).

Ms. Boykin advised that GRS updated their projections of employer and employee contribution rates based on the recommended assumptions, and 7.50 percent investment return assumption versus a 7.25 percent investment return assumption. Projections that included a 7.50 percent rate of return and assumed that the Plan will earn 0.00 percent for fiscal year 2016, and 7.50 percent each year thereafter, resulted in ultimate contribution rates for employers at 12.87 percent and 9.97 percent for employees. Projections that included a 7.25 percent rate of return and assumed that the Plan will earn 0.00 percent for fiscal year 2016, and 7.25 percent each year thereafter, resulted in ultimate contribution rates for employers at 13.50 percent and 10.60 percent for employees.

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

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

## **VIII. Adjournment**

There being no further business, and upon motion by Mr. Osborne, which was seconded by Mr. Lott, and approved unanimously, the Committee meeting adjourned at 11:40 a.m.

# Funding history: South Carolina Retirement System (SCRS)

## Historical information

- Value of the SCRS unfunded liability as of June 30, 2015:

### Market value - \$18.99 billion

- COLAs - \$3.31 billion
- Investment losses - \$5.96 billion
- Deferred investment losses - \$2.23 billion
- Liability experience - \$2.59 billion
- Assumption changes - \$2.09 billion
- Interest on the UAAL - \$2.74 billion
- Non-COLA benefit changes - \$63 million

### Actuarial value - \$16.75 billion

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- Liability experience - \$2.59 billion
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## 2012 retirement reform summary

- Legislature met from March 2011 through June 2012
- Created PEBA
- No decrease in contribution rates may be made until the System is at least 90 percent funded
- Increased employer and employee contribution rate and require future increases to maintain a 2.90 percent difference
- Budget and Control Board decreased assumed rate of return from 8 percent to 7.50 percent prior to reform in 2012. Reform put 7.50 percent assumed rate of return in statute.
- Created Class Three tier of membership in SCRS
  - Newly hired employees with membership dates on or after July 1, 2012
  - Employees must be age 60 or satisfy the Rule of 90 requirement (age and years of service credit must add up to 90) to retire with full benefits
    - For example, an employee who is 55 years old can retire if he has 35 years of service
  - Increased vesting period from five years to eight years
  - Increased average final compensation calculations from 12 quarters to 20 quarters of highest earnable compensation
  - Removed unused leave at retirement from benefit calculations
- Changes effecting all members
  - Closed TERI program effective June 30, 2018
  - Changed cost of service purchase to be actuarially neutral
  - Removed pay from overtime from earnable compensation if not mandated by employer

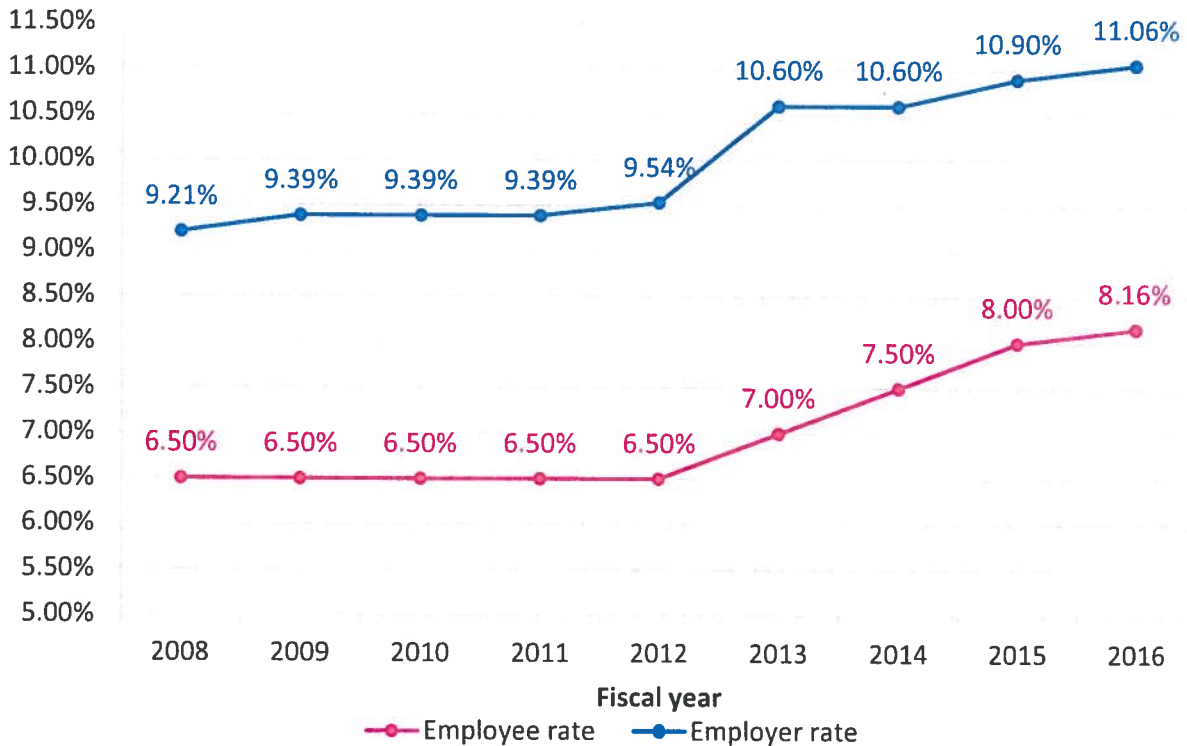
- Changes effecting SCRS retirees
  - Limited annual benefit adjustment, formally referred to as cost-of-living adjustment (COLA), to 1.00 percent up to a maximum of \$500
  - Previously, a 2.00 percent COLA was guaranteed (since FY 2008)
- Changed provisions for SCRS disability retirement
- Closed GARS to newly elected officials after the general election of 2012
  - New members may join SCRS or State ORP
- Added \$10,000 earnings limit for certain SCRS return-to-work employees who retired on or after January 2, 2013 (some exemptions apply)
- Eliminated interest on inactive accounts

#### **Current state of SCRS**

- Total SCRS unfunded liability as of June 30, 2015:
  - \$16.75 billion on actuarial value
  - \$18.99 billion on market value
- 65 percent of the SCRS unfunded liability is attributable to current retirees
  - \$10.88 billion (actuarial value)
  - \$12.34 billion (market value)
- Unfunded actuarial accrued liability (UAAL)
  - Currently at a 30-year amortization period
  - Given the current projections for investment returns, the UAAL will continue to increase until the amortization period is reduced to approximately 20 years
- Investment returns
  - Systems' funding is based on the investment program earning 7.50 percent
  - If the investment program does not earn 7.50 percent, there will be a funding shortfall
  - The 10-year annualized return, net of fees and expenses, of the investment program as of June 30, 2015, was 5.06 percent

## Contribution levels

- History of employer and employee contributions



- Approximate projections of future employee and employer contributions in SCRS
  - Minimum increase of 3 basis points required from 2015 valuations
    - Employee rate: 8.19 percent; employer rate: 11.09 percent
    - Historically increases have been effective two years from date of valuation
  - Fully recognizing fiscal year 2015 loss would be an approximate increase of 50 basis points
  - Adopting Experience Study assumptions and lowering the assumed rate of return to 7.25 percent would increase rates by 1.19 percent
  - Fully recognizing fiscal year 2016 loss when projecting a 0.00 percent return would be an approximate increase of 75 basis points
  - Decreasing to a 20-year amortization period with an assumed rate of return of 7.25 percent would be an approximate increase of 1.63 percent
  - Adopting Experience Study assumptions and lowering the assumed rate of return to 7.00 percent would increase rates by approximately 1.75 percent