

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

Wednesday, August 17, 2016 | 9:30 a.m.  
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes Approved October 19, 2016

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

**Board Members Present Via Telephone:** Sheriff Leon Lott and Mr. Steve Matthews

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Ashley Brindle, Sarah Corbett, Heather Muller, Sheila Pinckney, Tammy Nichols, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Geoffrey Berg, Mike Hitchcock, and Danny Varat from the South Carolina Retirement System Investment Commission (RSIC); Cody Matthews from the South Carolina Office of the State Treasurer; Lisa Catalanotto and Erlinda Doherty from the Senate Finance Committee; Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company; Mike Orso with Summit Strategies Group; Nancy Ornduff and Danette Rausch with Empower Retirement; and Gilliane Isabelle, 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 9:30 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- July 20, 2016**

Mr. Steve Osborne made a motion, which was seconded by Mr. Leon Lott, and approved unanimously, to approve the July 20, 2016, Committee meeting minutes.

### **IV. Election of Committee Vice-Chairman**

Mr. Lott made a motion, which was seconded by Chairman Tigges, and approved unanimously, to elect Mr. Osborne to continue serving as the Retirement Policy Committee Vice-Chairman.

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

Mr. Mike Hitchcock from the South Carolina Retirement System Investment Commission (RSIC), updated the Board on the national search for a Chief Investment Officer. Mr. Hitchcock reported that RSIC hired a professional search firm to assist, and interviews will take place on August 31,

2016, and September 1, 2016. The top three candidates will be interviewed on September 21, 2016, with a selection being made the same day.

Mr. Hitchcock stated that during the past year, RSIC challenged their investment beliefs, conducted various portfolio allocation analyses, and refocused on asset allocation. Mr. Hitchcock explained that asset allocation is the biggest driver of return risk and cost to the portfolio. RSIC adopted a new asset allocation in February of 2016 that should be beneficial over the long-term, as well as the current expected low-return environment. Mr. Hitchcock stated that the most significant transition of the new asset allocation took effect on July 1, 2016, and will ultimately take three years to implement. Mr. Hitchcock reported that as of last week, the portfolio is up 2.42 percent, and ahead of the new policy benchmark.

Mr. Geoff Berg, Acting Chief Investment Officer, reviewed last fiscal years' performance ending June 30, 2016, and reported that the Plan underperformed the policy benchmark by -1.21 percent fiscal year-to-date, and total plan returns were -0.39 percent fiscal year-to-date.

Mr. Berg reviewed fiscal year-to-date performance ending June 30, 2016, relative to policy benchmarks, and noted that the underperformance came mostly from the mixed credit, global tactical asset allocation (GTAA), and hedge fund portfolios.

Ms. Peggy Boykin, Executive Director, 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 (see handout attached). Ms. Boykin stated the interest that had accrued on the unfunded actuarial accrued liability (UAAL) through June 30, 2015, is \$2.74 billion, and interest stops accruing on the UAAL when the amortization period decreases to approximately 20 years. Ms. Boykin added that moving from a 30-year amortization period down to a 20-year amortization period would cause employer and employee contributions to increase by approximately 1.63 percent each.

Mr. Danny White from Gabriel Roeder Smith & Company (GRS), discussed the estimated financial condition of SCRS as of July 1, 2016, and stated that the State Fiscal Accountability Authority (SFAA) approved the assumptions and methods adopted by PEBA, with the exception of the assumed rate of return which remains at 7.50 percent. Mr. White reported that the actual investment return for fiscal year 2016 was approximately 0.00 percent. Projections based on the new assumptions combined with a flat return and a 7.50 percent assumed rate of return, will increase the ultimate employer contribution rate from 11.56 percent to 12.87 percent, and the ultimate employee contribution rate from 8.66 percent to 9.97 percent in fiscal year 2022. Mr. White reported that investment losses would be smoothed in over a five-year period, and the total increase would be approximately 1.3 percent (70 basis points to absorb fiscal year 2016 investment losses, and 60 basis points for the approved actuarial assumptions).

Mr. White added that the UAAL is expected to increase on a smoothed basis from \$16.8 billion to 18.2 billion ending June 30, 2016.

Mr. White turned the discussion to member contribution efficiency. Mr. White advised the Committee that employer and member contribution rates are currently linked, but

approximately 20 percent of member contributions are returned as refund benefits, which renders member contributions less efficient than employer contributions in funding the plan.

Mr. Joe Newton from GRS provided an overview of 2011-2012 benefit assessment and legislation. Mr. Newton stated that GRS was hired in 2011 to provide consulting services to the South Carolina Budget and Control Board and the Retirement Systems. Deliverables included: an experience study; actuarial valuation; benefit structure analysis; and commentary on funding policies. Mr. Newton detailed significant recommendations from the 2011 experience study; the cost impact on SCRS based on the recommendations; the guiding principles of the benefit redesign; and benefit adequacy. Mr. Newton also discussed Act 278, the changes that impacted current and future members, and the cost impact of the changes as a result of Act 278.

#### **VI. Defined Contribution Quarterly Reports**

Ms. Nancy Ornduff, with Empower Retirement, presented the second quarter plan activity summary. Ms. Ornduff stated that as of June 30, 2016, Plan assets increased by \$51.29 million, or 1.4 percent, and incoming rollovers to the Program have increased to \$15,804,815.21. Outgoing rollovers decreased from 18.5 million to 16.5 million during the second quarter. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 102.2 percent.

Ms. Ornduff advised that contributions increased from \$49.82 million as of March 31, 2015, to \$53.64 million as of June 30, 2016, and the total number of participants investing 100 percent in Target Date Funds increased from 5,399 to 5,587. Ms. Ornduff reported that there are 726 total participating employers in the Program. Ms. Ornduff concluded by stating that as of June 30, 2016, 73 percent of employers are 100 percent compliant with the Business transformation Project.

Mr. Mike Orso, with Summit Strategies Group (Summit), discussed recent market conditions, and stated that US hourly wages increased by one of the highest rates since 2008 which historically also increases inflation. Mr. Orso discussed capital markets and reported that global stocks initially dropped sharply after the Brexit vote (Britain's vote to exit the European Union) on June 23, 2016, but most of the losses were recovered.

Mr. Orso stated that six 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 PIMCO Total Return fund, since both funds have been on the Watch List for four quarters.

Mr Orso reported that Summit completed a formal review on the T. Rowe Price Mid Cap Value fund, and recommends moving to the Institutional share class to reduce operational complexities related to the rebate of revenue share. It was noted that the Institutional share class will also rank more competitively as performance reflects a lower fee.

Mr. Orso reviewed the Optional Retirement Program (ORP) investment performance for the second quarter of 2016. Mr. Orso stated that as of June 30, 2016, ORP total assets were \$1.7 billion, with 54 percent of total assets being allocated to CREF; 22 percent of total assets dedicated to VALIC; 13 percent to MassMutual; and 11 percent of total assets with MetLife.

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

**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, 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

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