

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS
Finance, Administration, Audit, and Compliance Committee- MINUTES [adopted 11/6/13]
202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor
Tuesday, October 1, 2013, 2:00 p.m.

FAAC Committee Members Present:

Mr. Steve Matthews, Chairman (in person)
Ms. Peggy Boykin (in person)
Mr. Leon Lott (by phone)
Mr. Art Bjontegard (in person)

Other Members Present:

Mr. Frank Fusco (in person)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Travis Turner, Justin Werner, Robert Brown, and Lisa Phipps from the South Carolina Public Employee Benefit Authority (PEBA).

AGENDA

1. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Mr. Matthews called the meeting to order at 2:00 p.m. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Ms. Boykin moved to adopt the proposed agenda. Mr. Lott seconded. Unanimously approved.

2. APPROVAL OF MEETING MINUTES- SEPTEMBER 6, 2013

Mr. Matthews asked for amendments to the September 6, 2013 committee minutes. There being none, Mr. Matthews asked for a motion to approve the minutes. Mr. Lott moved to approve and Ms. Boykin seconded. Unanimously approved.

3. OLD BUSINESS

Annual PEBA Agency HR Report

Mr. Matthews referred to PEBA Chief of Staff, Travis Turner, who advised that PEBA's HR Director can provide a presentation to the Committee summarizing the agency's overall Human Resource climate (i.e. terminations, new hires, succession planning, exit exam summaries, vacancies, and promotions).

Mr. Matthews directed PEBA staff to provide an annual HR report by fiscal year to the FAAC Committee in August of each year. He would like the Committee to receive the Agency's HR Report for FY 12/13 during the Committee's November 2013 meeting.

Mr. Bjontegard suggested that the Committee also receive a briefer annual HR report of the SC Retirement Systems Investment Commission as their employees are compensated from the Retirement Trust Fund for which the Board is a Trustee.

IG Fiduciary Audit

Each year in the general appropriations act, the SC General Assembly shall appropriate sufficient funds to the Office of the State Inspector General to employ a private audit firm to perform a

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fiduciary audit on the South Carolina Public Employee Benefit Authority (PEBA) and the South Carolina Retirement Systems Investment Commission (RSIC). PEBA Agency Interim Director, David Avant, reported that the Inspector General is in the process of creating two separate Request for Proposals (RFP) for private audit firms to conduct annual audits on each agency. The Fiscal Year 12/13 General Appropriation Act, by Proviso 117.126, directs \$700,000 to the Inspector General's office to be used for the FY 12/13 Fiduciary Audit of RSIC only. PEBA's fiduciary audit is planned to be completed once appropriations have been authorized by the General Assembly. There was discussion regarding the definition and purpose of a fiduciary audit. Staff was directed to provide SCRS's Fiduciary Audit completed in 2001, the RSIC survey results of fiduciary audit priorities, and continue to update the FAAC Committee on RSIC's fiduciary audit.

PEBA Education Policy [in notebook materials]

The Committee discussed amending the Education Policy to include the following components:

- Members shall participate in no less than eighteen hours of qualifying education training programs or conferences every two fiscal years.
- Each annual PEBA Board retreat will include six hours of qualifying education.
- Additional credit hours to be approved by the Chairman of the Board include, but is not limited to: attendance at educational training programs and conferences offered by organizations related to governmental retirement and insurance plans; attendance at training sessions provided by PEBA staff, consultants, and affiliates; and participation in professional continuing educational programs related to the member's qualifications to serve on the Board.
- Participation in educational training can be in person or by electronic means (webinars/online training modules).
- Reimbursement of reasonable registration fees and travel expenses associated with continuing education is approved at the discretion of the Chairman of the Board.
- Reporting of education credits should be to the Chairman of the Board. Annual reports will be provided to each member's appointing authority. Failure to participate in required education credits will be reported to the member's appointing authority.

Action:

Mr. Matthews directed staff to incorporate the changes above and distribute the amended version to FAAC Committee members. Upon the favorable review of the amended version, the item will then be submitted to the Board for approval at the October 16, 2013, Board meeting.

4. NEW BUSINESS

2014 PEBA Proposed Legislation [in notebook materials]

The Committee reviewed the following technical and substantive law changes to be presented to the General Assembly prior to the 2014 Legislative Session.

Technical

Section 1. Explanation: Amends Section 9-1-1085 to clarify that the differential between SCRS employer and employee contributions will be maintained at 2.9%. The current language could

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permit increased employee contributions beyond the 2.9% differential, which was not the intent of the legislation.

The FAAC Committee recommended **deleting** this section.

Section 2. **Explanation:** Amends Section 9-11-225 to clarify that the differential between PORS employer and employee contributions will be maintained at 5%. The current language could permit increased employee contributions beyond the 5% differential, which was not the intent of the legislation.

The FAAC Committee recommended **deleting** this section.

Section 3. **Explanation:** Amends Section 1-11-770(A) to return the 211 program to the Budget and Control Board. There was no intent to move the 211 program, which has never been part of either the retirement or insurance functions of the Budget and Control Board. PEBA has no responsibilities for the operation of the 211 program.

The FAAC Committee recommended **approval** of this section.

Section 4. **Explanation:** Amends the interest payment section of SCRS, JSRS, GARS and PORS to provide that interest would be paid on an inactive account in these systems if the member is prohibited from withdrawing their contributions from the account because of other provisions of law. For example, a member could not withdraw contributions from an inactive account if the member has an account in a correlated system or the ORP.

The FAAC Committee recommended **approval** of this section.

Substantive

Section 1. **Explanation:** Amends Section 9-4-10 to stagger Board terms. Six Board members will be appointed in odd-numbered years, and the remaining five Board members will be appointed in even-numbered years. All Board members would be appointed on July 1, 2014, but those six Board members to be appointed in odd-number years will serve a one-year term until July 1, 2015, so that their two-year terms will commence in an odd-numbered year.

Section 9-4-10 is further amended to provide for quarterly rather than monthly meetings.

Finally, Section 9-4-10 is amended to provide that PEBA's activities will be performed under the supervision of an Executive Director who will be appointed by the PEBA Board on and after January 1, 2014.

The FAAC Committee recommended **amending** this section as follows:

*Section 1. **Explanation:** Amends Section 9-4-10 to increase Board terms to three years from two years and to stagger Board terms. No Board member may serve more than two-*

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consecutive terms. A Board member may sit out one three-year term and become eligible to serve again.

The Board positions are identified by number and are placed into three different Term cycles:

Term A positions are appointed on July 1, 2014 for three-year terms.

Term B positions are appointed on July 1, 2015 for three-year terms.

Term C positions are appointed on July 1, 2016 for three-year terms.

Term A positions would serve an initial two-year term from July 1, 2012, until the later of June 30, 2014, or until their successors are appointed and qualify. Thereafter, Term A positions would have three-year terms.

Term C positions would serve an initial four-year term from July 1, 2012, until the later of June 30, 2016, or until their successors are appointed and qualify. Thereafter, Term C positions would have three-year terms.

Section 9-4-10 is further amended to provide for quarterly rather than monthly meetings.

Finally, Section 9-4-10 is amended to provide that PEBA's activities will be performed under the supervision of an Executive Director who will be appointed by the PEBA Board on and after January 1, 2014.

Section 2. Explanation: Amends Section 1-11-710(A)(2) to provide an August 1st rather than an August 15th deadline for the PEBA Board to approve the health plan for the next calendar year. The August 1st date will give PEBA enough time to consider the health plan in light of actions by the legislature but before the Budget and Control Board deadline established in Section 3.

The FAAC Committee recommended **amending** this section as follows:

Section 2. Explanation: Amends Section 1-11-710(A)(2) to provide an August 15th deadline for the health plan to be approved each year, including the approval of the Budget and Control Board or its successor under Section 9-4-45. This re-establishes the August 15th deadline for the Budget and Control Board (or its successor) to approve the health plan, which will give PEBA enough time to implement any changes prior to annual open enrollment in October.

Section 3. Explanation: This section amends Section 9-4-45 to re-establish the August 15th deadline for the Budget and Control Board to approve the health plan. This date will give PEBA enough time to implement any changes prior to annual open enrollment in October.

The FAAC Committee recommended **deleting** this section.

Additional Potential Legislative Agenda Items offered by Mr. Bjontegard:

Mr. Bjontegard suggested that the Board review potential legislation to allow automatic enrollment into SC's Deferred Compensation Program. The Committee directed staff to research how other states are implementing auto enrollment of subscribers into a deferred compensation program.

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Mr. Bjontegard suggested that the Board review potential legislation to clearly define criteria to close inactive accounts within the SC Retirement Defined Benefit Plan and the SC Deferred Compensation Plan with the caveat that the closure can be reversed at any time should a member or beneficiary request their funds.

Mr. Bjontegard suggested that the Board review potential legislation to better monitor compliance of participating employers of the SC Deferred Compensation Program. Due to continual audit findings, it has become apparent that certain employers are not promptly remitting contributions to the Deferred Compensation record keeper. Ms. Boykin suggested that PEBA's field auditors who are currently monitoring compliance of contribution remittance for the Defined Benefit Plan could also begin monitoring compliance for the Deferred Compensation Plan. In order to define proper monitoring mechanisms, the Committee directed staff to research how the states of Mississippi and North Carolina monitor compliance of their participating employers in their Deferred Compensation Programs.

Property Acquisition

There was discussion regarding potential property acquisition. The Committee directed staff to request the Budget and Control Board General Services Division to complete a property assessment and to contact the RSIC for investment potential.

5. EXECUTIVE SESSION PURSUANT TO S.C. CODE OF LAWS § 30-4-70 (A)(1) AND (A)(3)

At 3:40 p.m., upon a motion by Ms. Boykin and seconded by Mr. Bjontegard, the Committee voted unanimously to enter into executive session. Open meeting resumed at 4:20 p.m. No action was taken by the Committee while in Executive Session.

The Committee recessed at 4:30 p.m. to reconvene on Wednesday, October 2, 2013 at 3:30 p.m. for the purpose of going back into Executive Session pursuant to S.C. Code of Laws § 30-4-70 (a)(1) and (a)(3).

6. RECONVENED ON OCTOBER 2, 2013, AT 3:30 P.M.

The Committee reconvened on Wednesday, October 2, 2013, at 3:30 p.m. Mr. Matthews, Ms. Boykin, Mr. Lott, and Mr. Bjontegard attended by phone and Mr. Fusco attended in person. Upon a motion by Mr. Bjontegard and seconded by Mr. Lott, the Committee voted unanimously to enter into executive session. Open meeting resumed at 4:00 p.m. No action was taken by the Committee while in Executive Session.

7. ADJOURNMENT

There being nothing further to discuss, Mr. Bjontegard moved to adjourn and Mr. Matthews seconded. The committee adjourned at 4:01 p.m. on October 2, 2013.