Pension reform legislation enrolled for ratification

April 11, 2017

Legislation addressing the funding of the state's public pension plans was recently enrolled for ratification. The House and Senate are currently in recess, but are expected to ratify acts when they return. After the act is ratified, it will be sent to the Governor and he has five days to sign the act into law or veto the act. If he fails to take action within the five days, the act will automatically become law.

The initial provisions of the act will take effect July 1, 2017. Among its provisions are funding schedules for the South Carolina Retirement System (SCRS), the largest of the state's public plans, and the Police Officers Retirement System (PORS). A summary of the legislation is below.

This legislation represents the culmination of efforts on the behalf of many people and organizations. Both the Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA) and the South Carolina General Assembly made the sustainability of our state's pension plans a priority that was handled deliberately.

Senate President Pro Tem Hugh Leatherman and House of Representatives Speaker Jay Lucas established a 12-member committee last year to study the funded status of the plans and look for solutions for long-term sustainability. Leatherman said, "This committee will take into account all the relevant factors involved in making this system as strong as possible. I'm confident we'll roll up our sleeves, work together and make sure South Carolina honors its obligations in a fiscally responsible way." Lucas said, "We owe it to them [state employees] to honor our commitments."

The Joint Committee on Pension Systems Review began meeting in August 2016, and PEBA actively worked with the Joint Committee members as they addressed these funding challenges. Former Senator Kevin Bryant, who co-chaired the committee until being named Lieutenant Governor, said this committee was asked to address the state's biggest problem of the decade.

In reviewing the plans' funding challenges, the Joint Committee set three funding priorities for the plans: recognizing and paying down deferred investment underperformance; lowering the assumed rate of return for the plans' investments; and reducing the period for paying off the plans' unfunded liabilities.

"The Joint Committee, as well as the House and Senate, was committed to taking action during this legislative session to put the retirement plans on sounder footing and help ensure the plans' financial sustainability. PEBA's Board of Directors and staff commend the members of the General Assembly and the Joint Committee who stood behind the state's commitment to its public workforce," said Peggy Boykin, PEBA's Executive Director.

Retirement System Funding and Administration Act summary

Funding of the Retirement System

Decreases the assumed rate of return effective July 1, 2017

- Lowers the current assumed annual rate of return from 7.5 percent to 7.25 percent.
- The assumed rate of return will expire July 1, 2021, and every four years thereafter. PEBA must propose an annual rate of return every four years, which will become effective if the General Assembly fails to enact a rate of return.

Changes employer and employee contribution rates effective July 1, 2017

- The employer contribution rate for SCRS and PORS increases by 2 percent to 13.56 percent and 16.24 percent respectively. The employer rates will continue to increase annually by 1 percent through July 1, 2022. The ultimate scheduled employer rate is 18.56 percent for SCRS and 21.24 percent for PORS.
- The employee contribution rate for SCRS increases to and is capped at 9 percent. The employee contribution rate for PORS increases to and is capped at 9.75 percent.
- Employer and employee contribution rates may be decreased in equal amounts once the system is 85 percent funded. The employee contribution rate may not be less than ½ of the normal cost for the system.

Reduces the funding period

- The funding period (or amortization period) of unfunded liabilities will be reduced from 30 years to 20 years over the next 10 years. A schedule is included that requires the funding period to meet at a minimum a cumulative 10 year reduction in the funding period by July 1, 2027.
- While the schedule reflects a one year reduction in the funding period for each of the next 10 years, it allows for future unforeseen investment losses.

Miscellaneous

- Addresses various governance issues, which were identified during the fiduciary audits of PEBA and RSIC, including the assignment of custodians and co-trustees of the trust funds.
- Allows RSIC to delegate the authority to invest up to 2 percent of total assets to the Chief Investment Officer (CIO) under the direct oversight of the Chief Executive Officer. RSIC's external investment consultant must provide an analysis of and recommendations regarding the delegation of authority, and RSIC must report a schedule of investment decisions that have been delegated to the CIO.
- Addresses proxy voting, fiduciary responsibility and prohibition on investments in an asset or entity that a Commissioner or his immediate family have any interest in, unless such investments are in publicly-traded securities.