

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

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Interim Executive Director
Retirement Benefits

MEMORANDUM

Subject: Disclosure of Pension Information as of June 30, 2014

From: Tammy B. Nichols, CPA
Director of Retirement Systems Finance

The Governmental Accounting Standards Board (GASB) issued Statement No. 27 entitled "Accounting for Pensions by State and Local Governmental Employers" in November 1994. In May 2007, this statement was amended with the issuance of GASB Statement No. 50 "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27". GASB 50 requires enhanced information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans.

The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraph 20 of GASB 27 and paragraph 7 of GASB 50.

The following information is provided in order to meet the current disclosure requirements.

a. Plan description

1. The South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) are cost sharing, multiple employer defined benefit pension plans administered by the Retirement Division of the SC Public Employee Benefit Authority (SC PEBA). The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The SC PEBA assumes no liability for State ORP benefits, as they are the liability of the investment providers.
2. Both the SCRS and PORS offer retirement, disability, survivor, and death benefits to eligible members or beneficiaries. Death benefits are also available to active State ORP participants. The Plans' provisions are established under Title 9 of the SC Code of Laws.

The SC PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the SCRS and PORS. The CAFR is publicly available on our website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to the SC PEBA, PO Box 11960, Columbia, SC 29211-1960.

b. Funding policy

1. Both employees and employers are required to contribute to the Plans under authority of Title 9 of the SC Code of Laws. Reference §9-1-1085(A) and §9-11-225. The base contribution rates are set by statute, but are required to be increased by the trustees on the basis of the annual actuarial valuation if necessary to maintain a thirty-year amortization period for the Plans' unfunded liabilities.
2. Required employee contribution rates to the Plans for fiscal year 2013-2014 are as follows:

SCRS

Employee Class II	7.50% of earnable compensation
Employee Class III	7.50% of earnable compensation

State ORP Employee

7.50% of earnable compensation

PORS

Employee Class I	\$21 per month
Employee Class II	7.84% of earnable compensation
Employee Class III	7.84% of earnable compensation

3. Required employer contributions for fiscal year 2013-2014 are as follows:

SCRS

Employer Class II	10.45% of earnable compensation
Employer Class III	10.45% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

State ORP

Employer Contribution	10.45% of earnable compensation ¹
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class I	7.80% of earnable compensation
Employer Class II	12.44% of earnable compensation
Employer Class III	12.44% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

¹ Of this employer contribution of 10.45% of earnable compensation, 5% of earnable compensation is remitted directly to the ORP vendor to be allocated to the member's account with the remainder remitted to SCRS.

SUMMARY OF BASIC PROVISIONS FISCAL YEAR 2013– 2014

		SCRS	PORS
1.	Membership	<p>All permanent, full-time or part-time employees of covered employers must join unless specifically exempted by statute or are eligible for and elect to participate in the State ORP.</p> <p>Individuals first elected to serve in the General Assembly in the general election in November 2012 or after must elect membership in either SCRS or State ORP or elect to be a nonmember.</p>	<p>To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position or be a peace officer employed by the Department of Corrections, Department of Juvenile Justice, or the Department of Mental Health. Probate judges may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per fiscal year to this work, unless exempted by statute.</p>
2.	Employee Contributions	<p><u>Class II</u> – 7.50% of earnable compensation</p> <p><u>Class III</u> – 7.50% of earnable compensation</p> <p>Effective January 1, 2013, earnable compensation does not include pay for non-mandatory overtime.</p>	<p><u>Class I</u> - \$21 per month</p> <p><u>Class II</u> – 7.84% of earnable compensation</p> <p><u>Class III</u> – 7.84% of earnable compensation</p>
3.	Employer Contributions	<p><u>Class II</u> 10.45% of earnable compensation</p> <p><u>Class III</u> 10.45% of earnable compensation</p> <p><u>Incidental Death Benefit Program</u> 0.15% of earnable compensation</p>	<p><u>Class I</u> 7.80% of earnable compensation</p> <p><u>Class II</u> 12.44% of earnable compensation</p> <p><u>Class III</u> 12.44% of earnable compensation</p> <p><u>Incidental Death Benefit Program</u> 0.20% of earnable compensation</p> <p><u>Accidental Death Program</u> 0.20% of earnable compensation</p>
4.	Requirements for Full Service Retirement	<p><u>Class II</u> Age 65 or 28 years of credited service</p> <p>The member must have a minimum of 5 years of earned service to qualify for retirement.</p> <p><u>Class III</u> Age 65 or meet the rule of 90 requirement. This means that the member's age plus the years of service must add up to a total of at least 90.</p> <p>The member must have a minimum of 8 years of earned service to qualify for retirement.</p>	<p><u>Class II</u> Age 55 or 25 years of credited service</p> <p>The member must have a minimum of 5 years of earned service to qualify for retirement.</p> <p><u>Class III</u> Age 55 or 27 years of credited service</p> <p>The member must have a minimum of 8 years of earned service to qualify for retirement.</p>
5.	Early Retirement	<p><u>Class II</u> Age 55 and at least 25 years of service with 4% reduction of each year of service under 28 Age 60 with 5% reduction for each year under age 65</p> <p><u>Class III</u> Age 60 with 5% reduction for each year under age 65</p>	Not applicable

		SCRS	PORS
6.	Formula for Normal Service Retirement	<p><u>Class II</u> 1.82% of Average Final Compensation (AFC) times years of credited service (annual benefit amount). AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave.</p> <p><u>Class III</u> 1.82% of Average Final Compensation times years of credited service. AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is <u>not</u> included.</p>	<p><u>Class I</u> \$10.97 per month for each year of service</p> <p><u>Class II</u> 2.14% of Average Final Compensation (AFC) times years of credited service (annual benefit amount). AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave.</p> <p><u>Class III</u> 2.14% of Average Final Compensation times years of credited service. AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is <u>not</u> included.</p>
7.	Requirements for Disability Retirement	<p><u>Class II</u> <u>Prior to January 1, 2014</u> - Permanent incapacity to perform regular duties of the member's job. 5 years of earned service, unless injury is job related.</p> <p><u>After December 31, 2013</u> – Member must first be approved for disability benefits from the federal Social Security Administration which generally requires the incapacity to perform any gainful occupation. The disability onset date established by the Social Security Administration must be no more than one year after the date of the member's termination from employment. 5 years of earned service, unless injury is job related.</p> <p><u>Class III</u> <u>Prior to January 1, 2014</u> - Permanent incapacity to perform the regular duties of the member's job. 8 years of earned service, unless injury is job related.</p> <p><u>Class III</u> <u>After December 31, 2013</u> – Member must first be approved for disability benefits from the federal Social Security Administration which generally requires the incapacity to perform any gainful occupation. The disability onset date established by the Social Security Administration must be no more than one year after the date of the member's termination from employment. 8 years of earned service, unless injury is job related.</p>	<p><u>Class II</u> Permanent incapacity to perform regular duties of the member's job. 5 years of earned service, unless injury is job related.</p> <p><u>Class III</u> Permanent incapacity to perform regular duties of the member's job. 8 years of earned service, unless injury is job related.</p>
8.	Formula for Disability Retirement	<p><u>Prior to January 1, 2014</u> - The disability retirement benefit is based on a projection of service credit to age 65 with an actuarial reduction. Minimum benefits of 15% of AFC at any age.</p> <p><u>After December 31, 2013</u> – The disability retirement benefit is based on years of credited service at retirement, average final compensation at retirement and current benefit multiplier for service retirement benefits. There will be no projection of additional service or contributions. Minimum benefits of 15% of AFC at any age.</p>	<p><u>Prior to January 1, 2014</u> - The disability retirement benefit is based on a projection of service to age 55. Minimum benefits of 15% of AFC at any age.</p> <p><u>After December 31, 2013</u> - The disability retirement benefit is based on a projection of service, limited to the service necessary to reach age 55 or 25 years of service credit, whichever is less. Minimum benefits of 15% of AFC at any age.</p>

		SCRS	PORS
9.	Benefit Options	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 6 Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 6 Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>
10.	Teacher and Employee Retention Incentive (TERI)	<p><u>Class II</u> TERI is a deferred retirement option program (DROP). Upon meeting normal retirement eligibility, a member can elect to retire and continue working under the TERI program for a maximum of five years, after which employment will cease. During the TERI participation, the retirement annuity is not paid to the TERI retirees, but monthly benefits are accumulated in TERI accounts and are distributed to the members upon termination of employment. For members retiring after June 30, 2005, a payment for annual leave is not included in calculating benefits. Upon termination, however, benefits are increased prospectively to include payment for up to 45 days annual leave paid at termination of employment. No interest is credited to the TERI account. TERI participants who entered the program after June 30, 2005, must continue to contribute at the same rate as active members. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits.</p> <p>The TERI program will end effective June 30, 2018. New enrollees in the TERI program after June 30, 2012, must end their participation within 5 years after their retirement date or June 30, 2018, whichever is earlier.</p> <p><u>Class III</u> TERI program is not available.</p>	<p>Not applicable.</p>
11.	Return-to-work Provisions (Continued on next page)	<p>For members retiring after 1/1/2013, in order to return to work for a covered employer after retirement, the member must first have a complete, bona fide severance or termination of employment. After 30 days of retirement, he may be hired by an employer covered by one of the retirement systems administered by PEBA Retirement Benefits. If the member is under age 62 at retirement and returns to covered employment, he will be subject to a \$10,000 per year earnings limitation. A member can earn up to \$10,000 per year and continue to receive his monthly annuity. If wages earned exceed \$10,000 in a calendar year, the monthly</p>	<p>For members retiring after 1/1/2013, in order to return to work for a covered employer after retirement, the member must first have a complete, bona fide severance or termination of employment. After 30 days of retirement, he may be hired by an employer covered by one of the retirement systems administered by PEBA Retirement Benefits. If the member is under age 57 at retirement and returns to covered employment, he will be subject to a \$10,000 per year earnings limitation. A member can earn up to \$10,000 per year and continue to receive his monthly annuity. If wages earned exceed \$10,000 in a calendar year,</p>

		SCRS	PORS
	Return-to-work Provisions (Cont'd)	annuity will be suspended for the remainder of that year. The \$10,000 earnings limitation does not apply to a retired member who receives compensation for service as an elected official, service as an appointee of the Governor with confirmation by the Senate, or service by appointment or election by the General Assembly. A retired member may return to covered employment without affecting his monthly annuity if he is a certified teacher and is employed by a school district to teach in the classroom in his area of certification. The \$10,000 earnings limitation does not apply if the State Department of Education determines that no qualified, non-retired member is available for employment in the position, and 1) that a certified teacher is teaching in a critical academic need area or a geographic need area as defined by the State Board of Education, or 2) that a retired certified school teacher or certified employee is employed in a school or school district that has received a "below average" or "unsatisfactory" academic performance rating pursuant to the Education Accountability Act. After approval is received from the Department of Education, school districts must notify PEBA Retirement Benefits of the member's exemption from the earnings limitation.	the monthly annuity will be suspended for the remainder of that year. The \$10,000 earnings limitation does not apply to a retired member who receives compensation for service as an elected official, service as an appointee of the Governor with confirmation by the Senate, or service by appointment or election by the General Assembly.
12.	Post Retirement Increase	Eligible annuitant payees receive an annual benefit adjustment equal to the lesser of 1% or \$500.	Eligible annuitant payees receive an annual benefit adjustment equal to the lesser of 1% or \$500.
13.	Accidental Death Program	Not applicable	Provides 50% of earnable compensation at the time of accidental death in the line of duty as an annuity to the surviving spouse, children, or parents. The annuity to surviving children ends upon each child's 18 th birthday.
14.	Incidental Death Benefits	Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member or working retired contributing member with at least one year of service. No service requirement for death resulting from actual performance of duties for an active member. Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for an increased death benefit equal to their annual salary in lieu of the standard retired member benefit.	Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member or working retired contributing member with at least one year of service. No service requirement for death resulting from actual performance of duties for an active member. Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. Retired contributing members are eligible for an increased death benefit equal to their annual salary in lieu of the standard retired member benefit.
15.	Withdrawal of Employee Contributions	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment. Effective July 1, 2012, no interest is accrued on inactive accounts.	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment. Effective July 1, 2012, no interest is accrued on inactive accounts.
16.	Actuarial Cost Method	The valuation uses the Entry Age Normal Cost method. Under this cost method, the cost of each member's projected pension benefit is allocated on a level percent of payroll over the member's projected service with the Retirement System. Employers also finance the unfunded actuarial accrued liability as a level percentage of pay over a funding period that does not exceed 30 years.	The valuation uses the Entry Age Normal Cost method. Under this cost method, the cost of each member's projected pension benefit is allocated on a level percent of payroll over the member's projected service with the Retirement System. Employers also finance the unfunded actuarial accrued liability as a level percentage of pay over a funding period that does not exceed 30 years.

		SCRS	PORS
17.	Actuarial Investment Rate of Return Assumption	Assumed annual rate of 7.5% composed of a 2.75% inflation component and a 4.75% real rate of return, net of investment and administrative expenses.	Assumed annual rate of 7.5% composed of a 2.75% inflation component and a 4.75% real rate of return, net of investment and administrative expenses.
18.	Unfunded Actuarial Accrued Liability (UAAL) as of July 1, 2013 (in millions)	\$15,443	\$1,742
19.	Unfunded Actuarial Accrued Liability Liquidation/Funding Period as of July 1, 2013	30 years	30 years

New Pension Reporting Standards

In June 2012, the Governmental Accounting Standards Board (GASB) approved two new standards which impact the accounting and financial reporting of pension assets and liabilities by pension plans and state and local governments that participate in the plans. GASB Statement No. 67, Financial Reporting for Pension Plans, replaces the requirements of Statement No. 25 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2013. This statement affects the reporting requirements for pension plans that administer benefits. GASB Statement No. 68, Accounting and Financial Reporting for Pensions, replaces the requirements of Statement No. 27 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2014. This statement revises and establishes new financial reporting requirements for participating employers.

Under GASB 67, pension plans are required to use the entry age normal actuarial cost method when determining projected benefit payments as part of the calculation of the plan's Total Pension Liability (TPL). This is the same method currently used by the pension plans administered by the SC PEBA when determining contribution rates for funding purposes. In addition, projected benefit payments are required to be discounted to the actuarial present value using a single rate that reflects (1) the long-term expected rate of return on pension plan investments to the extent that pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met. In the case of the plans administered by the SC PEBA, the actuarial assumption for the long-term expected rate of return, currently 7.5%, is also expected to be the discount rate used for GASB reporting purposes.

Under GASB 68, participating employers will be required to report their proportionate share of the pension plan's Net Pension Liability (NPL), in their financial statements. The NPL is the pension plan's TPL less the plan's Fiduciary Net Position (FNP). The FNP is based on the market value of pension plan assets as of the measurement date. In the case of the plans administered by the SC PEBA, this will represent a change from the method used in determining the actuarial funded status of the plans where fluctuations in market value are recognized using actuarial smoothing methods. Smoothing techniques defer investment gains and losses to dampen the short-term volatility inherent in investment markets by allowing only a portion of investment gains and losses to be recognized each year. This helps mitigate sharply fluctuating market returns over a long-term period and is intended to produce an actuarial asset value that is fairly consistent with market values during periods of ordinary investment returns.

Smoothing is intended to result in more stable contribution rates and a more level funded status, and is also a valuable methodology for governmental entities because it permits budgetary planning over more than one fiscal year. Since the market value of assets is currently less than the actuarial value of assets, the new GASB reporting requirements are expected to increase net pension liabilities and decrease funded levels currently reported for financial disclosure purposes. In addition to the requirements above, under GASB 68 participating employers will be required to reflect a pension expense amount in their financial statements that will differ from the actual amount expended based on the required contributions remitted. Finally, participating employers will be required to include several new footnotes that provide information related to pension costs and obligations.