

## Meeting Minutes | Board of Directors

Wednesday, April 20, 2016 | 3:30 p.m.  
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved May 19, 2016

**Board Members Present:** Mr. Frank Fusco, Mr. Steve Matthews, and Chairman John Sowards

**Board Members Present via Telephone:** Mr. Steve Heisler, Mr. Steve Osborne, Vice Chairman Joe “Rocky” Pearce, Mr. Audie Penn, and Mr. David Tigges

**Board Members Absent:** Ms. Stacy Kubu and Sheriff Leon Lott

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Sarah Corbett, Heather Muller, James Manning, Tammy Nichols, Darry Oliver, Jacalin Shealy, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Brooks Goodman from Blue Cross Blue Shield of South Carolina; Laura Dorn and Courtney Keith from the South Carolina Office of the State Treasurer; and Thompson Kinney from Milliken Law Firm.

### I. Call to Order

Chairman John Sowards called the PEBA Board of Director’s (Board) meeting to order at 3:30 p.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- March 17, 2016

Chairman Sowards asked for amendments to the previous meeting minutes. There being none, Mr. Sowards noted that the March 17, 2016, meeting minutes were approved as presented.

### IV. Committee Reports

#### A. Health Care Policy Committee

Mr. Rocky Pearce reported that the Health Care Policy Committee did not meet in April.

#### B. Retirement Policy Committee

Mr. David Tigges stated that the Retirement Policy Committee did not meet in April.

#### C. Finance, Administration, Audit and Compliance (FAAC) Committee

Mr. Steve Matthews noted that the FAAC Committee did not meet in April.

## **V. Old Business**

### **A. Director's Report**

Ms. Sarah Corbett, Chief Operating Officer, introduced and welcomed Mr. James Manning as the new Enterprise Risk Management and Compliance Director.

Ms. Boykin provided the Director's Report, and stated that the State Fiscal Accountability Authority (SFAA), held a special meeting to review funding issues in regards to PEBA and The South Carolina Retirement System Investment Commission (RSIC), on April 19, 2016. Ms. Boykin noted that SFAA will hold another special meeting to address pension funding issues prior to their regularly scheduled meeting on June 7, 2016. Ms. Boykin stated that Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS), attended the SFAA meeting, and discussed the results of the 2015 Actuarial Valuations and the 2016 Experience Study.

Ms. Boykin advised that based on the 2015 Actuarial Valuations, the Board approved and adopted a recommendation that would increase the employer and employee contribution rates for The South Carolina Retirement System (SCRS), by the required minimum three basis points effective July 1, 2017, to maintain a 30-year funding period. Ms. Boykin stated that the recommendation was made with the caveat that it could be amended after the completion of the Experience Study and the accompanying recommendations provided by GRS. Ms. Boykin explained that based on the 2015 Actuarial Valuations, the ramifications of fiscal year 2015 investment losses result in a one-half percent increase in contribution rates, which would normally be phased in during a five-year period to see if investment gains during the period would offset the contribution rate increase. Ms. Boykin reported that RSIC has repeatedly stated that they do not expect investment gains to occur in the near future. Ms. Boykin added that future contribution increases are expected as a result of the 2015 Experience Study, primarily with the reduction of the assumed rate of return, in addition to the current year's investment performance.

Ms. Boykin stated that the Governor's version of the fiscal year 2017 budget includes funding for the one-half percent employee and employer contribution increase that will be required to absorb the investment losses from fiscal year 2015, and would be effective July 1, 2016.

Ms. Boykin reported that the House version of the fiscal year 2017 budget includes funding that will cover only the general fund portion of the one-half percent increase in employer contribution rates. The House version includes a pay increase for state employees, and a one-half percent increase in the employer and employee contribution rates.

Ms. Boykin confirmed that Senate Finance is currently debating the budget, and PEBA was asked to testify before the full Senate Finance Committee earlier this morning regarding contribution and budgeting requirements. Ms. Boykin reported that the 2015 rate of return was 1.6 percent, and the assumed rate of return was 7.50 percent, which resulted in a \$1.5 billion loss due to underperformance. Ms. Boykin stated that since the underperformance is not expected to be recovered, in addition to increasing the employer and employee contribution rates for SCRS by the required minimum three basis points, further contribution increases would need to occur in each of the next four years to ultimately reach one-half percent increase to absorb the investment losses from fiscal year 2015.

Ms. Boykin reminded the Board that the assumptions based on the 2016 Experience Study recommend a reduction in the assumed rate of return from 7.50 percent to 7.25 percent which increases contributions further by over one-half percent for both employees and employers. Additional contribution increases are also expected due to mortality rates, payroll growth rate assumptions, and salary assumptions. Total contributions are expected to increase 1.19 percent as a result of the 2016 Experience Study. Combined contribution increases resulting from the 2015 Actuarial Valuations and the 2016 Experience Study total 1.75 percent.

Ms. Boykin reported that the fiscal year-to-date investment return is -2.0 percent, and added that the current year's underperformance will require at least an additional one-half percent contribution increase for both employees and employers, resulting in a total expected contribution increase of over 2.0 percent for both employees and employers.

Ms. Boykin stated that Senate Finance also discussed the ramifications of decreasing the amortization period for SCRS from 30 years to 20 years which would require further contribution increases of 1.63 percent for both employees and employers. Additionally, SFAA and Senate Finance discussed whether the assumed rate of return should be lowered from 7.50 percent to 7.25 percent as recommended by the actuaries, or lowered to 7.0 percent. Ms. Boykin reminded the Board that the recommended 7.25 percent rate of return is based on RSIC's use of a portable alpha strategy, in which positive results may be slower than originally expected. Ms. Boykin noted that reducing the assumed rate of return from 7.25 percent to 7.0 percent adds another one-half percent contribution increase for both employees and employers.

Ms. Boykin confirmed that the full Ways and Means Committee reported out favorably H5006 which is a governance bill that addresses governance provisions for RSIC; staggered terms of the PEBA Board; and was amended to require PEBA to meet quarterly instead of monthly. The full Ways and Means Committee also reported out favorably H5007 which provides that the assumed rate of return expires on July 1, 2016, and every four years thereafter, unless action is taken by the General Assembly to amend or reaffirm the rate of

return. If the General Assembly fails to act on the rate of return prior to the expiration, then the rate of return is set by SFAA.

Ms. Boykin stated that at this point, PEBA has not made a recommendation to SFAA regarding the additional assumptions in the 2015 Experience Study. Discussion ensued as to whether the PEBA Board should provide recommendations to SFAA with regards to the additional demographic and economic assumptions related to mortality, price inflation, and payroll growth rate prior to the next SFAA special meeting, or wait and see if the General Assembly decides on the assumed rate of return.

Chairman Sowards thanked Ms. Boykin for her excellent preparation and for her precise testimony to SFAA and the full House Ways and Means Committee. Ms. Boykin expressed her appreciation to PEBA staff for their extra efforts in preparing the materials needed for the meetings.

**B. Roundtable Discussion**

At the conclusion of the Director's Report, Chairman Sowards provided an opportunity for a roundtable discussion. Mr. Frank Fusco complemented Ms. Corbett on her presentation to the State Employees Association. Several Board members also thanked Ms. Boykin and PEBA staff for all of their hard work.

Chairman Sowards reminded the Board that their individual terms expire June 30, 2016, so they should reach out to their respective appointees as soon as possible to ensure reappointments of all Board members.

Chairman Sowards stated that since the Board will be unable to hold its educational retreat prior to the end of the 2014-2016 reporting period, the PEBA Board's Continuing Education Policy will be revised to require only 10 hours of educational credit for the current reporting period.

**VI. Adjournment**

There being no further business, and upon motion by Mr. Fusco, which was seconded by Mr. Matthews, and approved unanimously, the Board meeting adjourned at 4:15 p.m.