

**REPORT OF THE
GENERAL GOVERNMENT,
PERSONNEL & BENEFITS SUBCOMMITTEE**
(Anthony, Pitts, Herbkersman, Hayes & Whitmire - Staff Contact: Blythe Littlefield)

HOUSE BILL 5007

H. 5007 -- Reps. Lucas, Pope, Merrill, Bradley, Finlay, Stringer and Norman: A BILL TO AMEND SECTION 9-16-335, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO THE ASSUMED RATE OF RETURN FOR RETIREMENT SYSTEM FUNDS, SO AS TO PROVIDE THAT THE ASSUMED RATE OF RETURN EXPIRES EVERY FOUR YEARS UNLESS ACTION IS TAKEN BY THE GENERAL ASSEMBLY, AND IF NOT, THE RATE IS SET BY THE STATE FISCAL ACCOUNTABILITY AUTHORITY; AND TO AMEND SECTION 9-1-1085, RELATING TO EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR PURPOSES OF THE RETIREMENT SYSTEM, SO AS TO REDUCE THE AMORTIZATION SCHEDULE FROM THIRTY YEARS TO TWENTY YEARS.

Summary of Bill:

This bill states that the assumed rate of return for retirement system funds expires every four years unless the General Assembly amends the rate. If the General Assembly does not take action on the rate, then it is the responsibility of the State Fiscal Accountability Authority to set the rate. The proposed assumed rate of return must be developed in consultation with the board's actuary. This bill also revises the amortization schedule to be the greater of twenty years or the amortization schedule set forth in the system's actuarial valuation for the prior fiscal year.

Introduced:

02/25/2016

Received by Ways and Means:

02/25/2016

Estimated Fiscal Impact:

This bill would have no immediate impact to the General, Federal or Other Funds. However, it would result in higher employer and employee contribution rates in a year in which the funding period is between 20 and 30 years and the plan incurred adverse expense.

Subcommittee Recommendation:

Favorable with Amendment

Full Committee Recommendation:

Pending

Other Notes/Comments:

The subcommittee amendment deletes the section of the bill (section 2) that would have required that the amortization schedule go from 30 years to 20 years.

HOUSE
AMENDMENT

THIS AMENDMENT
ADOPTED

GOOD/MELTON
APRIL 12, 2016

CLERK OF THE HOUSE

THE GENERAL GOVERNMENT, PERSONNEL AND
BENEFITS SUBCOMMITTEE PROPOSES THE FOLLOWING
AMENDMENT No. TO H. 5007 (H-
WM\STAFF\BLYTHE\LEGISLATION\2016\5007\5007C0
01 BBM DG16 (002))):

REFERENCE IS TO THE BILL AS INTRODUCED.

**AMEND THE BILL, AS AND IF AMENDED, BY
DELETING SECTION 2.**

RENUMBER SECTIONS TO CONFORM.
AMEND TITLE TO CONFORM.



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 5007
Author: Lucas
Subject: SC Retirement System funds
Requestor: House Ways and Means
RFA Analyst(s): Fulmer and Kokolis
Impact Date: March 9, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would have no immediate expenditure impact to the General Fund, Federal Funds, or Other Funds. It would, however, result in higher employer and employee contribution rates in a year in which the funding period is between 20 and 30 years and the plan incurred adverse expense.

Explanation of Fiscal Impact

State Expenditure

This bill amends Section 9-16-335 to require that the current 7.5% assumed annual rate of return on the retirement system investments expires on July 1, 2016, and every four years after, unless the General Assembly amends the assumed rate of return at any time during that four-year period. If the General Assembly does not continue or amend the assumed rate of return prior to expiration, then the assumed rate of return must be set by vote of the State Fiscal Accountability Authority. This bill also amends Section 9-1-1085, which would change the amortization schedule for employer and employee contribution rates to an amortization schedule of no more than the greater of twenty years or the amortization schedule set forth in the system's actuarial valuation for the prior fiscal year.

Public Employee Benefit Authority. The agency indicates that this bill would modify the process for establishing the assumed rate of return used to perform the actuarial valuation of the Retirement Systems. Because the proposed legislation does not actually change the assumed rate of return, there would be no immediate expenditure impact to the Retirement System Funds. In addition, this bill would modify the provisions for determining the contribution rate for the South

South Carolina General Assembly
121st Session, 2015-2016

H. 5007

STATUS INFORMATION

General Bill

Sponsors: Reps. Lucas, Pope, Merrill, Bradley, Finlay, Stringer, Norman, Ballentine and Felder

Document Path: I:\council\bill\bbm\9446dg16.docx

Companion/Similar bill(s): 527, 675

Introduced in the House on February 25, 2016

Currently residing in the House Committee on **Ways and Means**

Summary: SC Retirement System funds

HISTORY OF LEGISLATIVE ACTIONS

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
2/25/2016	House	Introduced and read first time (<u>House Journal-page 72</u>)
2/25/2016	House	Referred to Committee on Ways and Means (<u>House Journal-page 72</u>)
3/2/2016	House	Member(s) request name added as sponsor: Ballentine
3/3/2016	House	Member(s) request name added as sponsor: Felder

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VERSIONS OF THIS BILL

2/25/2016

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A BILL

11 TO AMEND SECTION 9-16-335, CODE OF LAWS OF SOUTH
12 CAROLINA, 1976, RELATING TO THE ASSUMED RATE OF
13 RETURN FOR RETIREMENT SYSTEM FUNDS, SO AS TO
14 PROVIDE THAT THE ASSUMED RATE OF RETURN
15 EXPIRES EVERY FOUR YEARS UNLESS ACTION IS TAKEN
16 BY THE GENERAL ASSEMBLY, AND IF NOT, THE RATE IS
17 SET BY THE STATE FISCAL ACCOUNTABILITY
18 AUTHORITY; AND TO AMEND SECTION 9-1-1085,
19 RELATING TO EMPLOYER AND EMPLOYEE
20 CONTRIBUTION RATES FOR PURPOSES OF THE
21 RETIREMENT SYSTEM, SO AS TO REDUCE THE
22 AMORTIZATION SCHEDULE FROM THIRTY YEARS TO
23 TWENTY YEARS.

24
25 Be it enacted by the General Assembly of the State of South
26 Carolina:

27
28 SECTION 1. Section 9-16-335 of the 1976 Code, as added by Act
29 278 of 2012, is amended to read:

30
31 “Section 9-16-335. (A) For all purposes of this title, the assumed
32 annual rate of return on the investments of the Retirement System
33 must be established by the General Assembly pursuant to this
34 section. Effective July 1, 2012, the assumed annual rate of return on
35 retirement system investments is seven and one-half percent.

36 (B) The assumed rate of return established in subsection (A)
37 expires on July 1, 2016, and every four years thereafter unless, at
38 any time during that four year period, the General Assembly, by
39 joint resolution, amends the assumed rate of return for the remainder
40 of the current four year period.

41 (C) No later than January first of each year in which the assumed
42 rate of return is due to expire, the board shall submit a proposed

1 assumed rate of return for the corresponding four years to the
2 President Pro Tempore of the Senate, the Speaker of the House of
3 Representatives, and the State Fiscal Accountability Authority. The
4 proposed assumed rate of return must be developed in consultation
5 with the board's actuary. Along with the proposed rate, the board
6 shall submit an actuarially based explanation for the rate proposed.

7 (D) If the General Assembly does not continue or amend the
8 assumed rate of return prior to expiration, the assumed rate of return
9 must be set by vote of the State Fiscal Accountability Authority."

10
11 SECTION 2. Section 9-1-1085(C) and (D) of the 1976 Code, as
12 added by Act 278 of 2012, is amended to read:

13
14 "(C) If the scheduled employer and employee contributions
15 provided in subsection (A), or the rates last adopted by the board
16 pursuant to subsection (B), are insufficient to maintain a ~~thirty~~
17 ~~twenty~~ year amortization schedule for the unfunded liabilities of the
18 system, then the board shall increase the contribution rate as
19 provided in subsection (A) or as last adopted by the board in equal
20 percentage amounts for employer and employee contributions as
21 necessary to maintain an amortization schedule of no more than
22 ~~thirty~~ the greater of (i) twenty years or (ii) the amortization schedule
23 set forth in the system's actuarial valuation for the prior fiscal year.
24 Such adjustments may be made without regard to the annual limit
25 increase of one-half percent of earnable compensation provided
26 pursuant to subsection (B), but the differential in the employer and
27 employee contribution rates provided in subsection (A) or
28 subsection (B), as applicable, of this section must be maintained at
29 the rate provided in the schedule for the applicable fiscal year.

30 (D)(1) After June 30, 2015, if the most recent annual actuarial
31 valuation of the system shows a ratio of the actuarial value of system
32 assets to the actuarial accrued liability of the system (the funded
33 ratio) that is equal to or greater than ninety percent, then the board,
34 effective on the following July first, may decrease the then current
35 contribution rates upon making a finding that the decrease will not
36 result in a funded ratio of less than ninety percent. Any decrease in
37 contribution rates must maintain the 2.9 percent differential between
38 employer and employee contribution rates provided pursuant to
39 subsection (B) of this section.

40 (2) If contribution rates are decreased pursuant to item (1) of
41 this subsection and the most recent annual actuarial valuation of the
42 system shows a funded ratio of less than ninety percent, then
43 effective on the following July first, and annually thereafter as

1 necessary, the board shall increase the then current contribution
2 rates as provided pursuant to subsection (B) of this section until a
3 subsequent annual actuarial valuation of the system shows a funded
4 ratio that is equal to or greater than ninety percent.

5 (3) The General Assembly may appropriate funds in any
6 fiscal year for the purpose of shortening the amortization schedule.
7 If the funds are appropriated it is in addition to any lessening of the
8 amortization schedule allowed by the provisions of subsection
9 (C)(ii)."

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11 SECTION 3. This act takes effect upon approval by the Governor.

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