South Carolina Retirement System

Overview of 2011/12 Benefit Assessment and Legislation

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2011 Benefit Analysis

- GRS was hired in 2011 to provide consulting to the SC Budget and Control Board and the Office of Executive Director for the Retirement Systems
- Deliverables included:
  - Experience study
  - Actuarial valuation
  - Benefit structure analysis
  - Provide commentary on funding policies
  - Provide possible modifications to be considered
  - Various meetings with Board, Staff, and Others
  - Presentations to the Senate Finance Subcommittee on Retirement and Employee Benefits

Significant Recommendations from the 2011 Experience Study

- Significant Proposed Changes
  - Decrease the inflation assumption from 3.00% to 2.75%
  - Decrease the investment return rate from 8.00% to 7.50%
  - Decrease the payroll growth assumption from 4.00% to 3.50%
  - Improve the mortality assumption

Cost Impact - SCRS

	Current Assumptions 2.0% COLA	Recommended Assumptions 2.0% COLA	Recommended Assumptions 1.0% COLA
	(1)	(2)	(3)
Actuarial Accrued Liability (AAL)	$38,774	$42,421	$38,729
Actuarial Value of Assets (AVA)	25,400	25,400	25,400
Unfunded Actuarial Accrued Liability (UAAL)	$13,374	$17,021	$13,328
Funded Ratio – Actuarial Value of Assets	66%	60%	66%
Funded Ratio – Market Value of Assets	51%	46%	51%
Current Contribution Rate	9.68%	9.68%	9.68%
Amortization Period – Current Rate	38 Years	Never	65 Years
30-Year Contribution Rate – Actuarial Assets	10.60%	14.76%	11.56%
30-Year Contribution Rate – Market Assets	13.84%	18.94%	15.67%

$ in millions

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Benefit Redisng: Suggested Guiding Principals

- Provide an adequate level of benefits so members may retire at an appropriate age
- Costs are appropriately shared by the employer and member
- Risks are appropriately shared between the employer and member
- Self-correcting mechanisms can substantially increase the plan's ability to withstand adverse experience

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Benefit Adequacy

- Provide an adequate level of benefits so members my retire at an appropriate age
- Financial planners often recommend a replacement ratio of 70% to 90% of preretirement income
  - Ratio could vary depending on family needs
- Members retiring after 28 years receive approximately 80% to 90% in preretirement income (without reflecting personal savings)
  - 50% from SCRS
  - 30% to 40% from Social Security

Strawman Design Alternatives

- Four strawman design alternatives were analyzed that were each fundamentally different in structure
- The guiding principles were considered when developing each of the alternative structures
  - Benefit adequacy
  - Cost sharing between employee and employer
  - Risk sharing between employee and employer
- Other Considerations
  - It may also be possible to provide future benefits in a new program for current employees[1]
  - Transitional cost to maintain funding to SCRS
  - Modifications to the EIP to maintain appropriate alignment in the retiree health program

[1] This is not a legal opinion. South Carolina will need to seek legal counsel to obtain an opinion regarding the implications of changes in benefits for current employees.

Characteristics of Alternative Benefit Structures

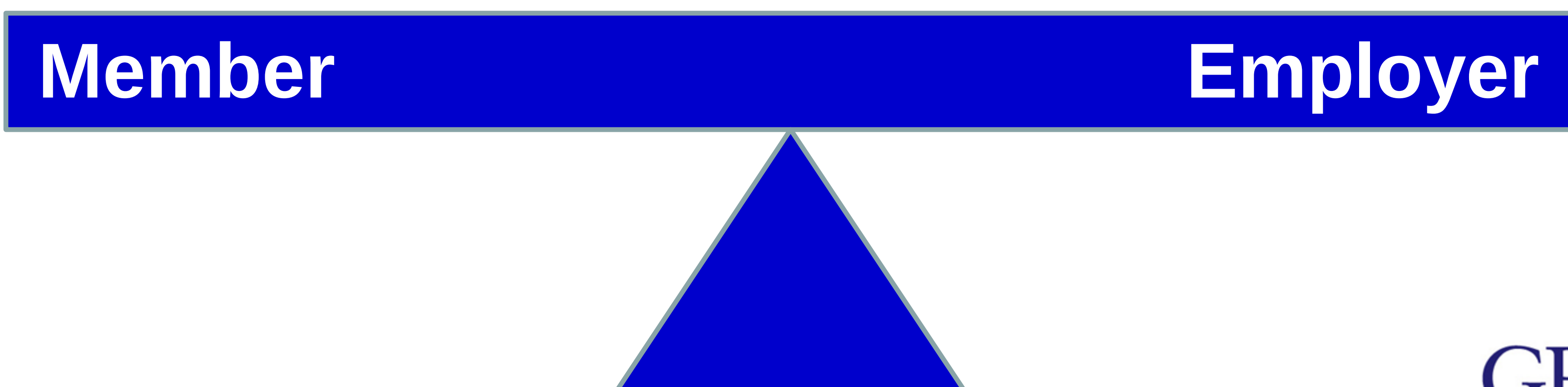
What is the Appropriate Balance for Sharing the Risk?

Defined Contribution (State ORP)

Cash Balance

Hybrid Plan (DB and DC)

Traditional Defined Benefit (SCRS)



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SC Legislation Enacted (Act 278)

Changes Impacting Current and Future Members

	SCRS	PORS
Member Contribution Rates	- Increased member contributions from 6.50% of pay - Maintain a 2.90% differential with the employer rate	- Increased member contributions from 6.50% of pay - Maintain a 5.00% differential with the employer rate
Benefit Adjustment (current and future retirees)	Lesser of 1.00% or $500 per annum	Lesser of 1.00% or $500 per annum
TERI	Phased-out by June 30, 2018	N/A
Return to Work (future retirees)	$10,000 annual earnings limit applies to members retiring before age 62	$10,000 annual earnings limit applies to members retiring before age 57
Service Purchase	Current rates but not less than true actuarial cost	Current rates but not less than true actuarial cost
Disability Retirement	Slight modification in eligibility and benefit amount	Slight modification in benefit amount
Earnable Compensation	Overtime pay is excluded (unless the additional hours are mandated by the employer)	No change

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SC Legislation Enacted (Act 278)

Significant Changes Impacting Future Members Only

	SCRS	PORS
Vesting	8 years of service	8 years of service
Average Final Compensation	5 year averaging period	5 year averaging period
Retirement Eligibility	The rule of 90 or age 60 with 8 years of service	27 years of service or age 55 with 8 years of service
Unused Sick and Annual Leave	Excluded from the calculation of benefits	Excluded from the calculation of benefits

Summary of Cost Impact ($ in millions)

Item	2011 Valuation Results — SCRS: H. 4967	SCRS: Prior to Enactment	PORS: H. 4967	PORS: Prior to Enactment
(1)	(2)	(3)	(4)	(5)
Actuarial accrued liability	$38,012	$40,016	$5,123	$4,825
Actuarial value assets	25,605	25,605	3,728	3,728
Unfunded liability (UAAL)	$12,407	$14,411	$1,395	$1,097
Funded ratio	67%	64%	73%	77%
Member contribution rate	7.50%	6.50%	7.84%	6.50%
Employer contribution rate	10.60%	12.23%	12.84%	12.30%
Total contribution rate (FY 2014)	18.10%	18.73%	20.68%	18.80%
Amortization period	25 Years	30 Years	30 Years	22 Years

Note: Providing PORS members a 1% benefit adjustment increased the actuarial accrued liability by approximately $460 million.

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Post-2011 Experience

- In General, on a smoothed asset basis, the actual valuation results have tracked relatively well with the projections from the Act 278 impact statement

	Projected 2015 Result	Actual 2015 Result
UAAL	$16,977	$16,753
Funded Ratio	61%	62%
Employer Contribution Rate	11.2%	11.1%

- However, the 2016 results will reflect the new assumptions (less the investment return assumption) and further recognition of the 2015 and 2016 investment underperformance. Projections that fully recognize the deferred asset losses as of June 30, 2015 anticipate ultimate contribution requirements approximately 3.00% higher in total that current levels

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- The strawman design alternatives are presented to provide a framework of different retirement benefit structures. We recommend obtaining a legal opinion to determine feasibility before enacting any changes that impact current members of SCRS
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.