



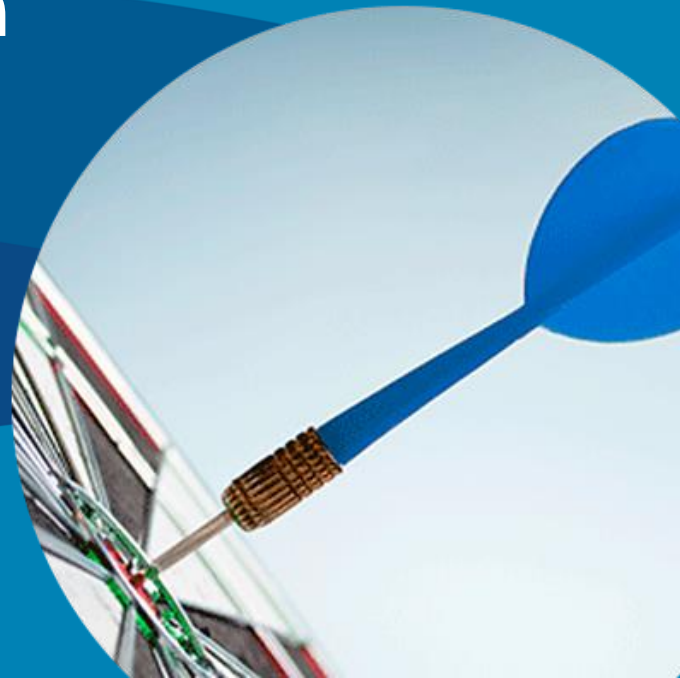
# South Carolina Senate Finance Retirement Systems Subcommittee

## Investment Return Assumption

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# Investment Return Assumption

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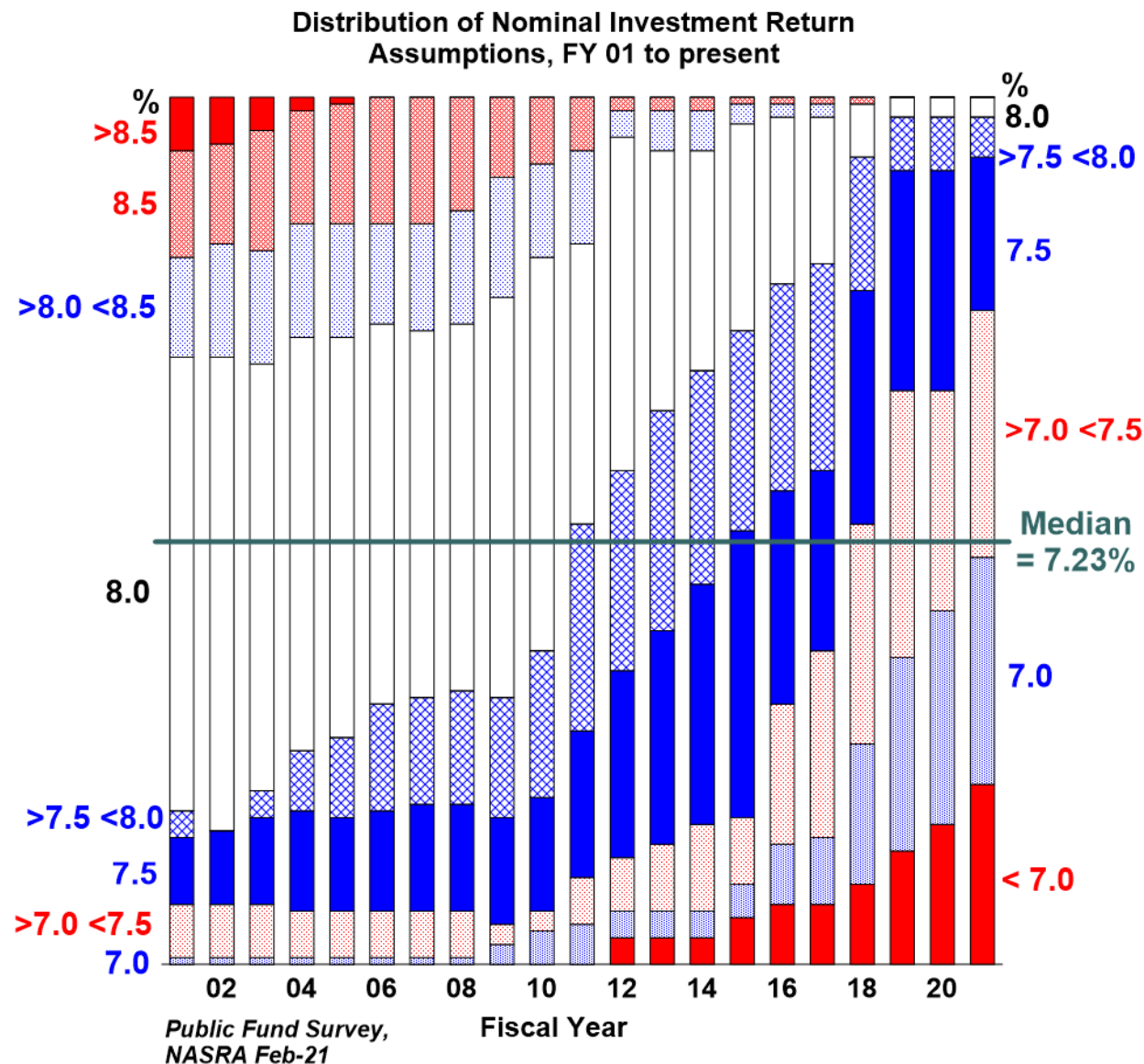
- From ASOP 27: “The investment return assumption reflects the **anticipated returns on the plan’s current and, if appropriate for the measurement, future assets.**”
- For Public Sector Plans, used as the discount rate to discount future benefit payments to determine liabilities
- Established in Statute for Systems maintained by PEBA
  - Currently 7.25% and will expire June 30, 2021

# How this Assumption Matters

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- The true cost of benefits will be borne out in actual experience
- Changing the return assumption is not expected to change the actual pattern of currently scheduled contributions or benefit levels
- Used for reporting and comparing against statutory requirements
- Having a best estimate assumptions provides for better decision making today

# Investment Return Assumption - National Trends



# Investment Return Assumption

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- Assumption is reviewed by mapping the investment policy to forward-looking return expectations developed by Meketa Investment Group (RSIC's investment consultant)
- Expected return based on 2020 capital market expectations

	Short-Term (10-Year)	Long-Term (20-Year)
Expected Geometric Return	6.57%	7.44%

# Investment Return Assumption

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- The PEBA Board has supported GRS' recommendation to lower the investment return assumption to 7.00%
  - 7.00% is the approximate mid point between the short term (6.57%) and long term (7.44%) expectations
  - If returns for first 10 years are close to 6.5%, returns after year ten have to rebound significantly to average 7.25% over the 20 year time horizon
  - 2017 Pension Reform: the contribution schedule in Statute was developed in anticipation the assumption would decrease to 7.00% in 2021
  - Assumption is set in Statute and may difficult to change before the next expiration four years from now (year 2025)

# Closing Comments

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- We recommend a 7.00% assumption be adopted in Statute for first use in 2021
- The 2017 pension reform legislation that enacted the scheduled increase in the contribution rates through FY 2023 was paramount in the future improvement of the financial security of the Retirement Systems
  - The scheduled contributions rates provided margin to weather some adverse experience as well as an orderly decrease the investment return assumption to 7.00% in 2021
  - Projections based on the 2020 valuation continue to show that the scheduled increase in the contribution rates (as amended by Act 135 in 2020) continue to be sufficient to maintain a funding period below the maximum permitted in State Code for SCRS and PORS

# Disclaimers

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- This presentation is intended to be used in conjunction with the 2020 experience study report. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
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