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South Carolina Senate Finance Retirement Subcommittee

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Public Sector Retirement Systems Project

Agenda

- Introduction
- Update on national economic outlook
- 50-State and South Carolina pension research and insights
- 50-state research and insights on plan design

The Pew Charitable Trusts

- An independent, nonprofit and nonpartisan research and policy organization.
- More than 40 active, evidence-based research projects in areas such as public health, conservation, public safety.
- All follow a common approach: data-driven, non-partisan, and transparent.

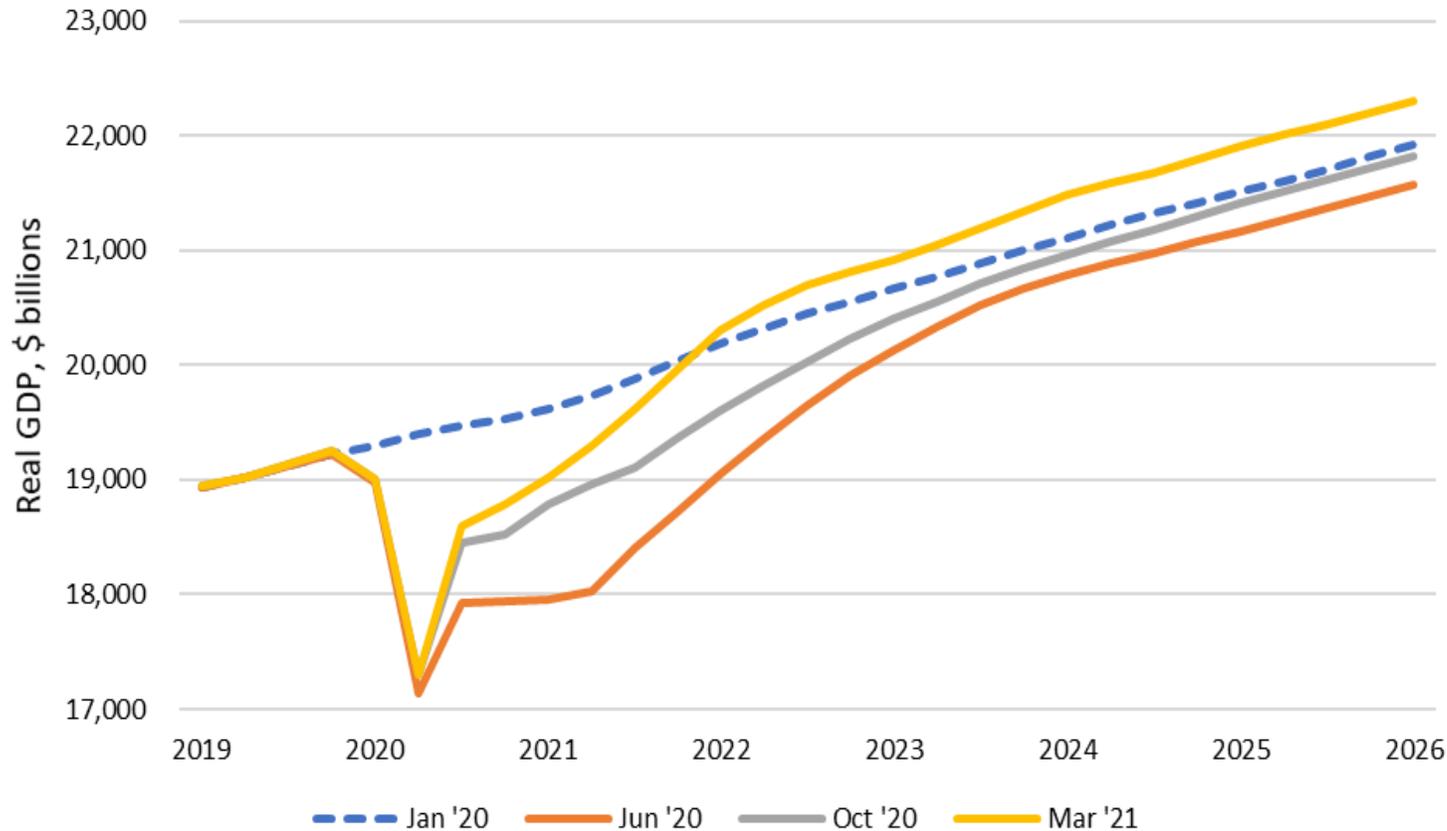
Pew's Public Sector Retirement Systems Project

- Research since 2007 includes 50-state trends on public pensions and retiree health benefits covering funding, investments, governance, plan design, and retirement security
- Technical assistance for over 20 states and cities since 2011 – including SC Joint Committee on Pension Systems Review in 2016/17.
- Policy development – comprehensive risk reporting for public pensions; defining the habits of highly successful model retirement systems

Update on National Economic Outlook

Improved National Economic Outlook

Moody's Analytics Real GDP Forecasts: COVID-19 Progression



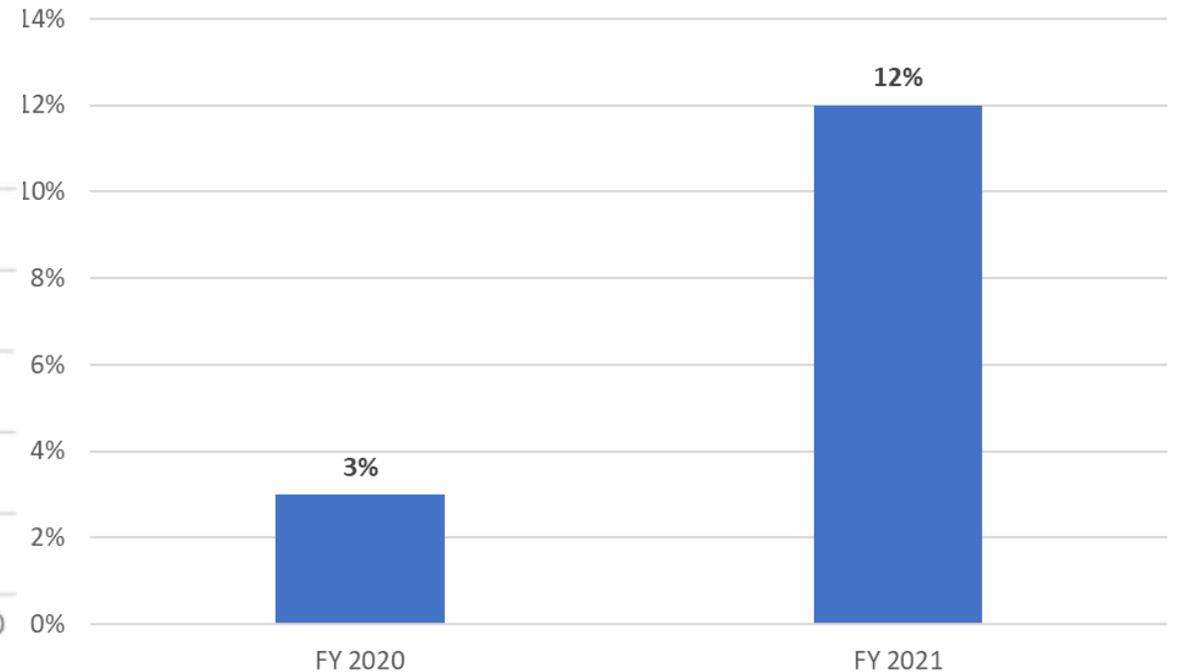
- Real GDP forecasts have improved steadily since the initial shock in spring/summer 2020, when damage was expected to be on par with the Great Recession
- Now, the impact is expected to be mostly cyclical in nature, with real GDP returning to—and even exceeding—its previous expected trajectory
- Key reasons for consistent upgrades include historic fiscal support for the economy, accommodative monetary policy, and fast development/distribution of effective vaccines

Pandemic Impacts: Public Pension Investments

Stock Market Reeled Initially Before Turning Positive in FY 2020
However, state government revenues could be down 6% to 11% in FY 2021



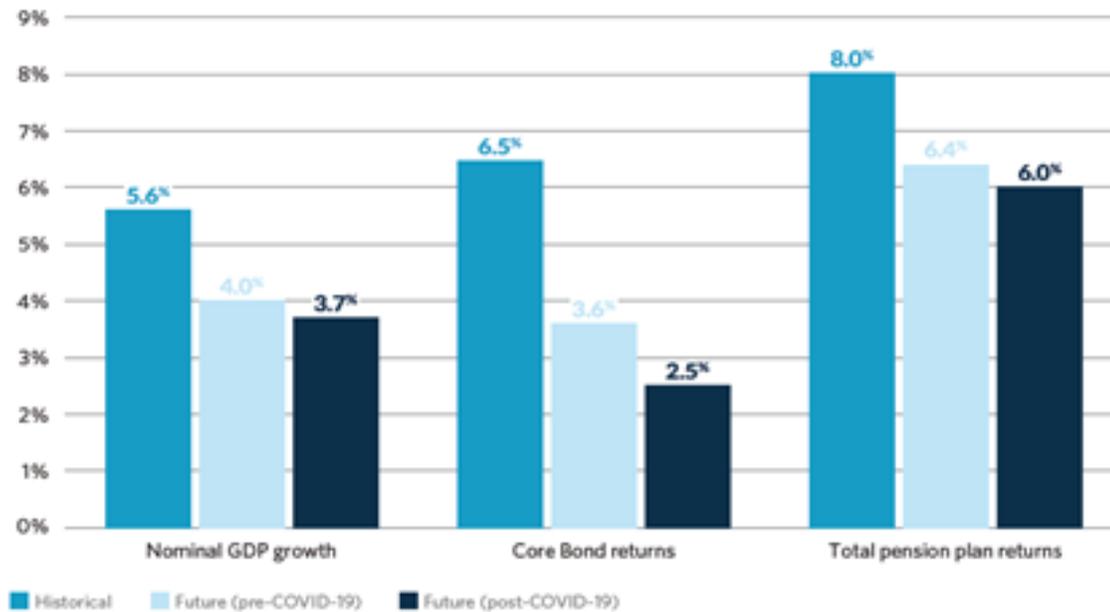
Median Public Pension Fund Investment Returns: FY 2020/2021



Economic Outlook: Public Pension Investment Returns

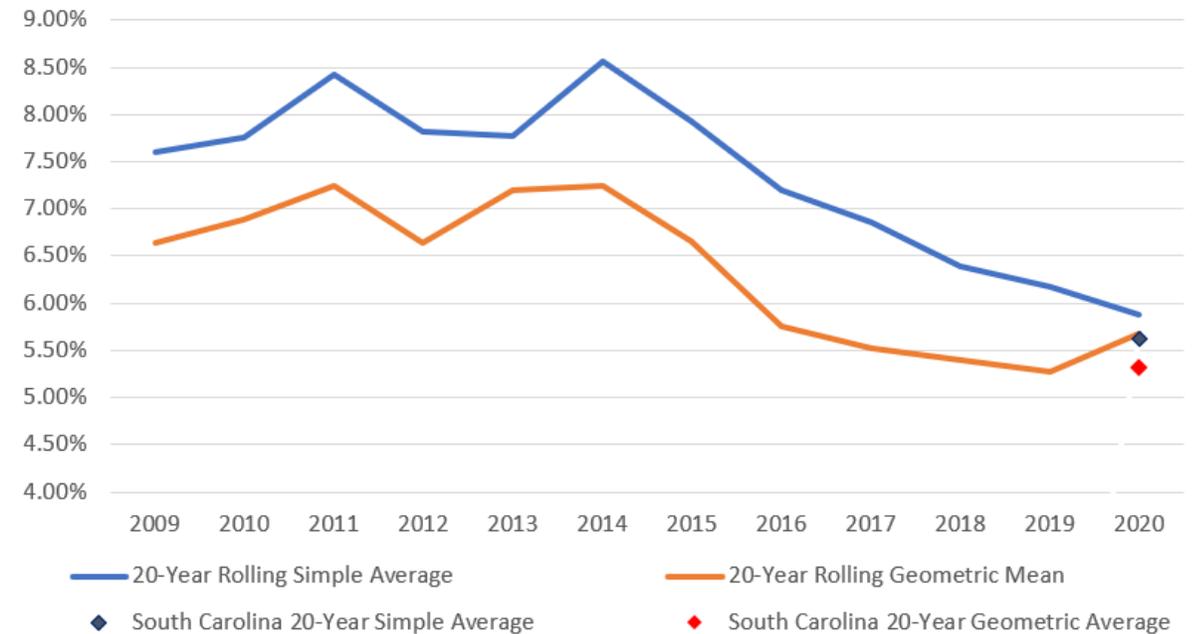
Long-Run Expected Average Annual Returns Pre- and Post-COVID-19 Relative to Historical Experience

Pew now expects the average pension fund investment portfolio to earn 6% annually, down from 6.4% pre-COVID-19 and 8% historically



Public Pension 20-Year Rolling Average of Investment Returns

TUCs Median Plan Performance By Fiscal Year



Note: Results reported net of fees.

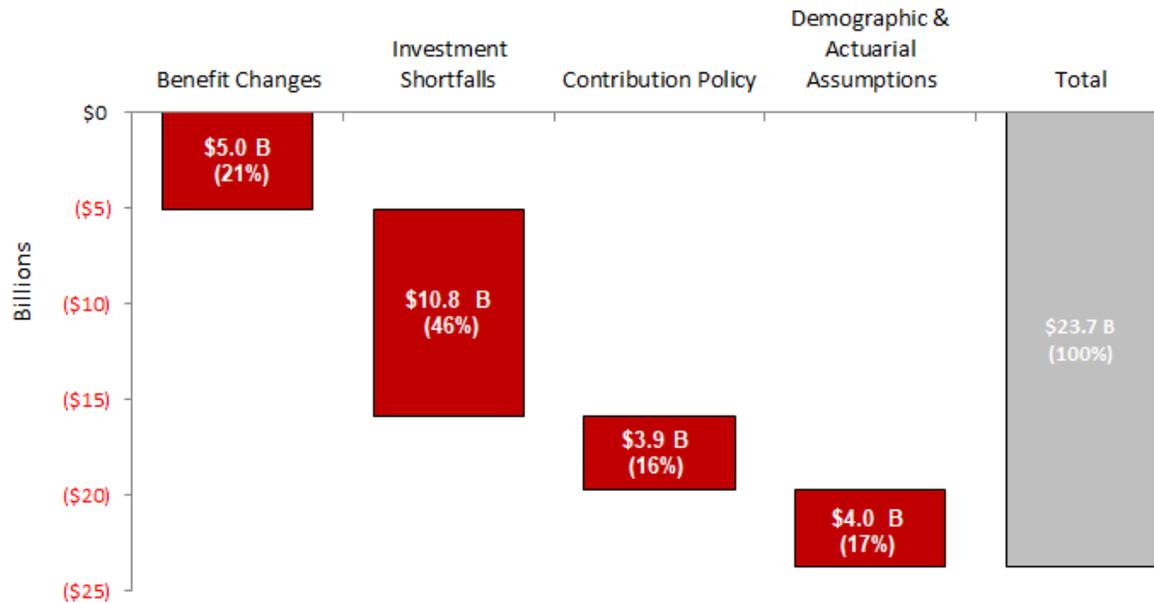
50-state and South Carolina Pension Research and Insights

South Carolina Overview and 50-State Comparison

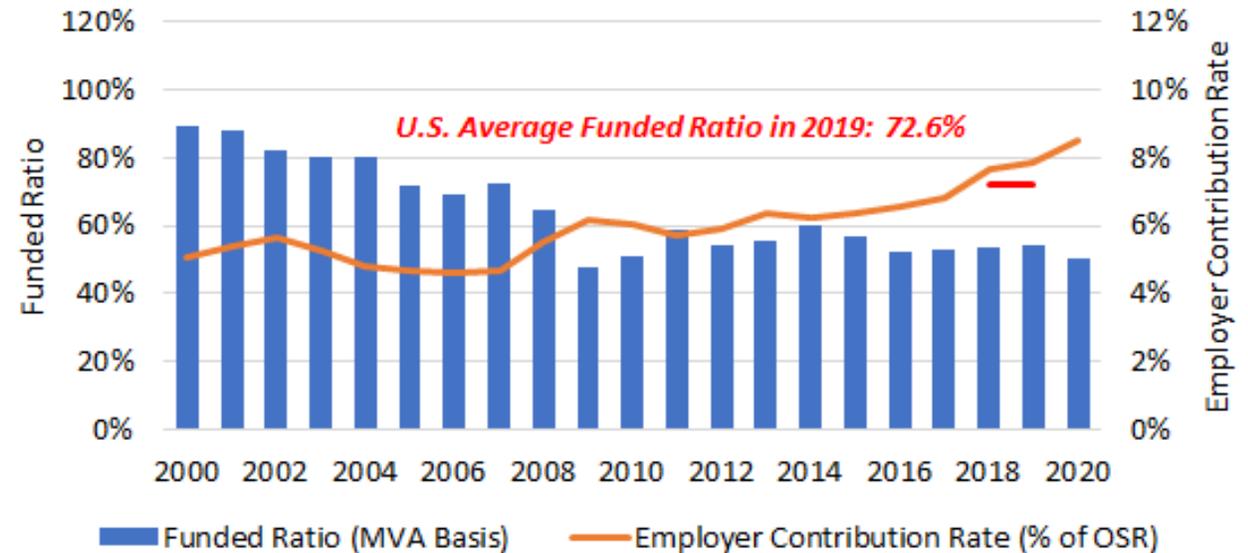
- South Carolina's funded ratio has steadily decreased from 89% in 2000 to about 55% in 2019, placing them in the bottom 10 of states.
- Contribution increases adopted in 2017 are instrumental in improving plan metrics and the funding outlook for SCRS.
 - The operating cash flow ratio improved from -4.4% in 2017 to -1.5% in 2020, currently more than a full percentage point above national average.
 - Pew's analysis shows that these increases have stabilized the funding outlook for SCRS.
- The state could consider additional measures to reduce risk, including adopting the proposed reduction in the assumed rate of return to 7% or an alternative plan design for new hires.

South Carolina Historical Funding and Contributions

SCRS Sources of Growth in Unfunded Liability (AVA), 2000-2020
South Carolina Retirement System (SCRS)



Historical Funded Ratio and Employer Contribution Rates
South Carolina Retirement System (SCRS)



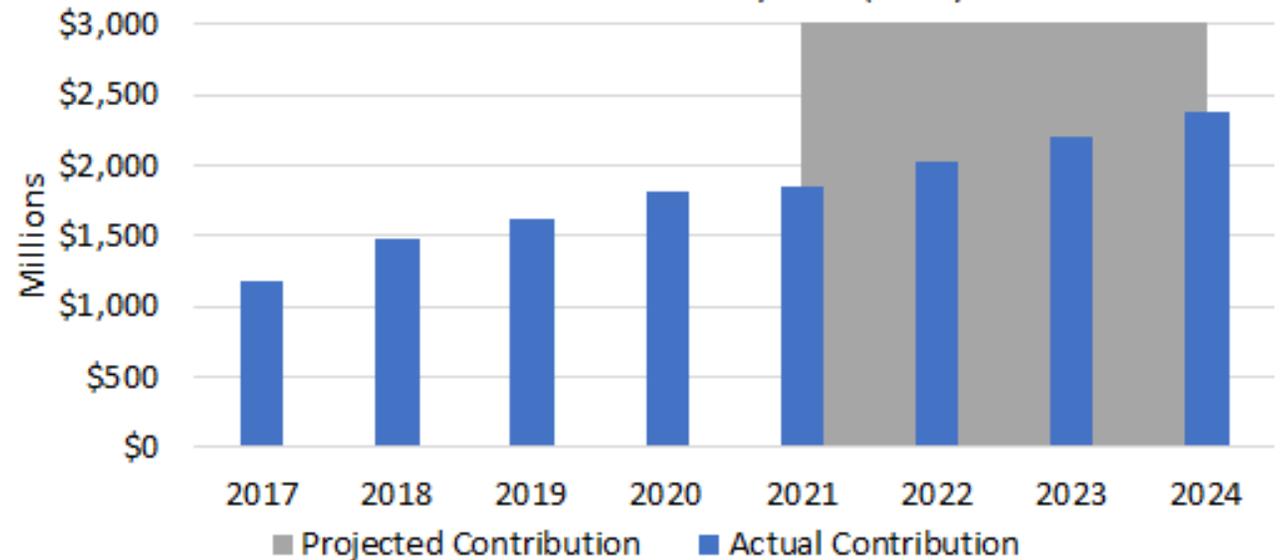
- Lower than expected investment returns have been the largest source of increasing pension debt.
- The state will need to continue to increase contributions to stabilize and improve funding levels.

Retirement System Funding and Administration Act of 2017

- Policymakers in 2017 approved Act 13, which provided a much-needed increase in funding and streamlined the state's complex pension governance structure.
- The legislation was the result of careful deliberation by the Joint Committee on Pension Systems Review based on input and analysis from the South Carolina Public Employee Benefit Authority (PEBA), the Retirement System Investment Commission (RSIC), as well as Pew and other outside experts.

Increases in Employer Contribution, 2017-2024

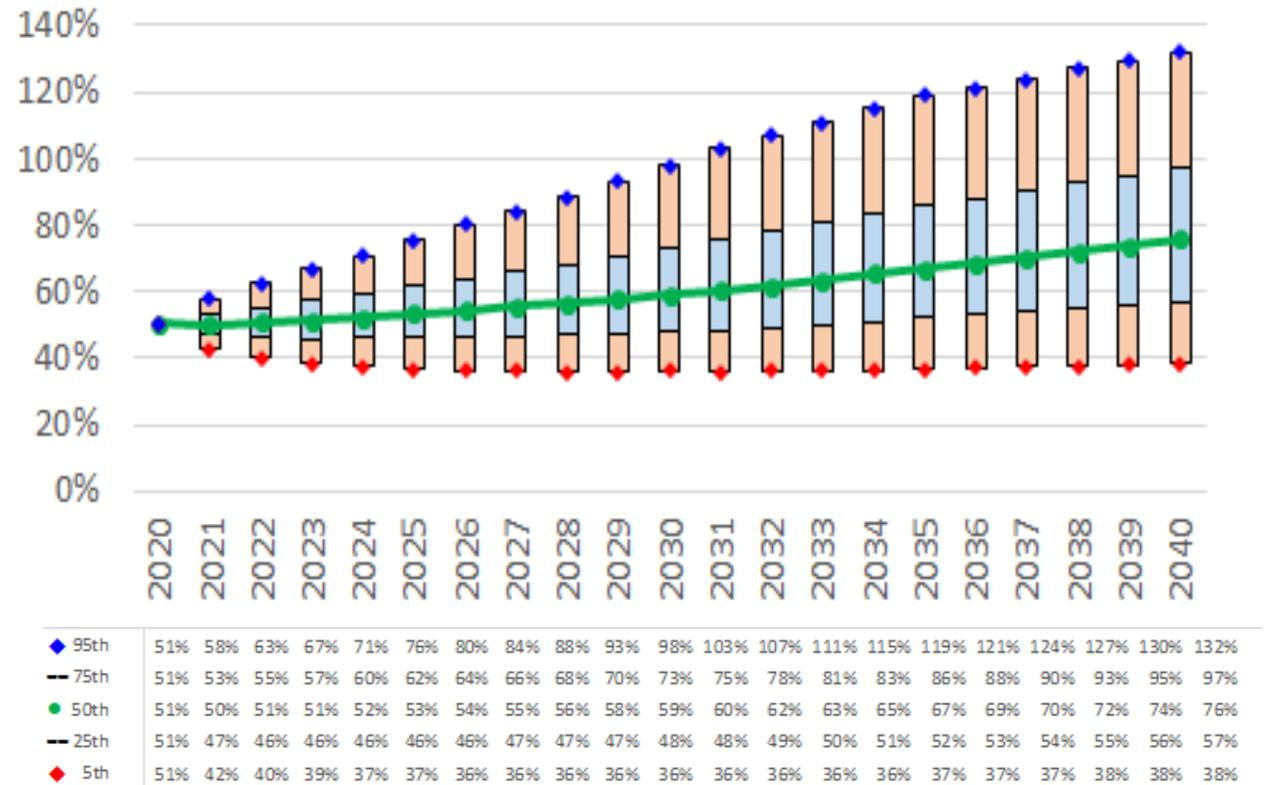
South Carolina Retirement System (SCRS)



2017 Contribution Commitment Stabilizes SCRS Funding Outlook

- Assuming the state adheres to the scheduled increases, Pew's simulation analysis shows that funding stabilizes, even under our worst scenarios.
- Pew's analysis assumes a median return of 6%, and shows relatively stable costs after the scheduled increases, as the state transitions to a 20-year amortization target.
- However, the state faces the risk of high costs for the foreseeable future, with Pew's analysis showing significant declines in contribution levels in less than 25% of trials.

Range of Projected Funded Ratios
South Carolina Retirement System



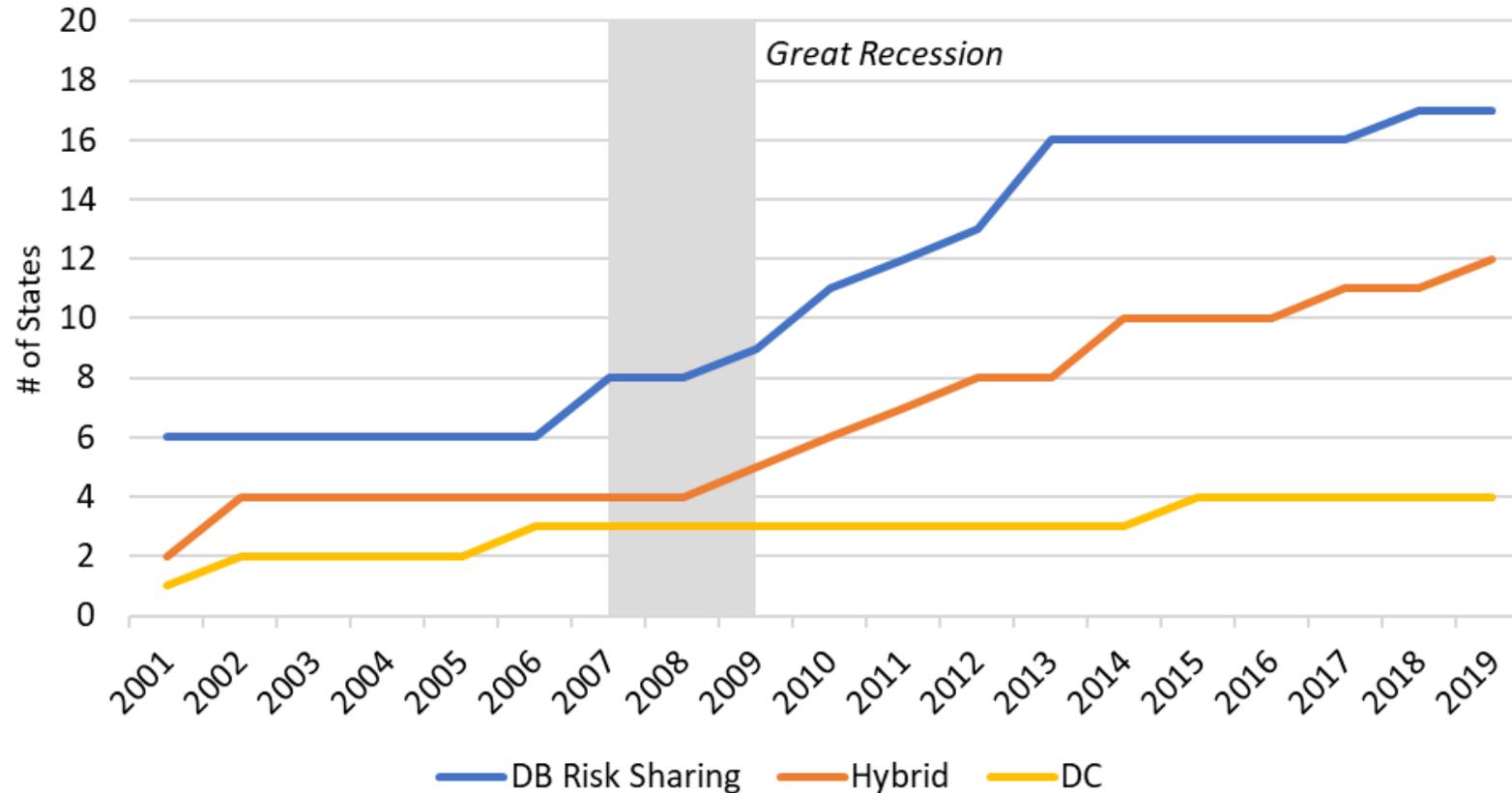
50-State Research and Insights on Plan Design

Plan Design Considerations

- Plan Design Type
 - Defined Benefit (DB)
 - Defined Contribution (DC)
 - DB/DC Hybrid and Cash Balance
- Retirement Security
 - Replacement Income
 - Retirement Savings Rate
- Cost and Cost Predictability
- Legal Framework

50-State Research and Insights on Plan Design

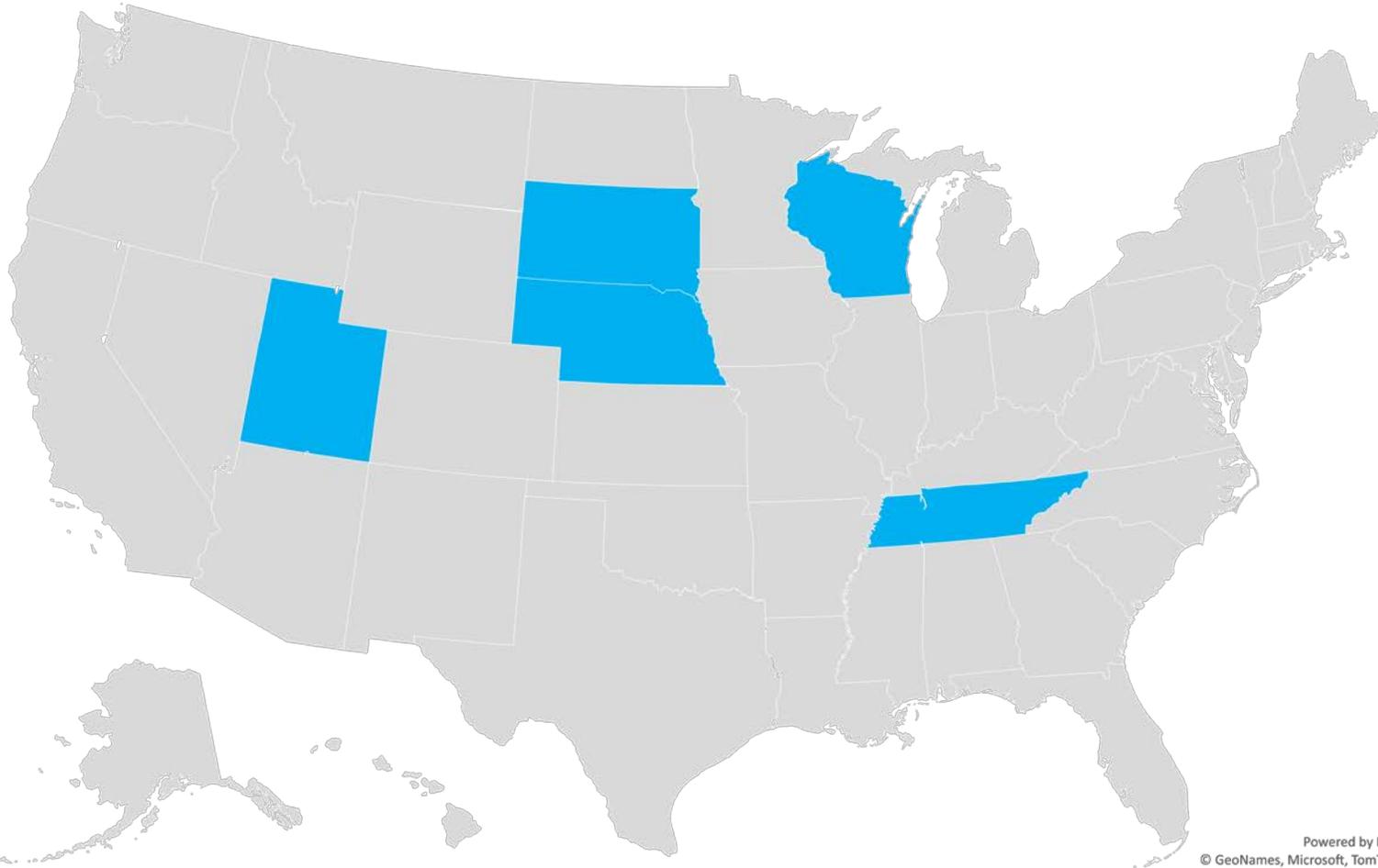
Trends in Variable Benefits and Alternative Plan Designs



Note: For DB risk sharing and DC, only includes plans that serve as the mandatory or otherwise default option for new hires. DB risk sharing includes cash balance plans in Kansas, Kentucky, and Nebraska.

Spotlight on State Pension Plans

Well-funded, path to retirement security across the workforce, Social Security coverage



Plans Identified by Pew:

- Nebraska – State and County Employees Pension Plans
- South Dakota Retirement System (SDRS)
- Tennessee – Public Employees Retirement Plan
- Utah Retirement System (URS)
- Wisconsin Retirement System (WRS)

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Spotlight on State Pension Plans

Model retirement systems achieve cost predictability and meet retirement security goals

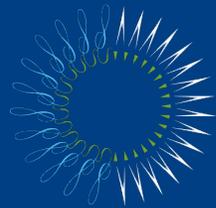
Plan	Plan Type	2019 Funded Ratio	Risk Sharing/ Predictable Costs*	Career Replacement Income**	Retirement Savings Rate > 10%
Wisconsin Retirement System	Defined Benefit w/ Money Purchase	103%	✓	✓	Yes
South Dakota Retirement System	Defined Benefit	100%	✓	✓	Yes
Tennessee – Public Employees Retirement Plan	DB/DC Hybrid	95%	✓	✓	Yes
Nebraska – State and County Employees Pension Plans	Cash Balance	107%	✓	✓	Yes
Utah Retirement System	DB/DC Hybrid with Optional DC	91%	✓	✓	Yes

*Criteria is met if the potential increase of expected employer costs, expressed as a percent of payroll, in a lower than expected return scenario is less than two percentage points and if the range of employer contributions rates between 2007 and 2017 is less than five percentage points.

**Criteria is met if the retirement benefit is at least 90 percent of take-home pay, on average (adjusted for inflation) in retirement, including Social Security.

Conclusion

- National economic outlook has improved but expert forecasts point to lower pension plan investment returns moving forward.
 - The proposed assumed rate reduction to 7% will reduce risk and policymakers could consider further reduction to align with updated long-term expectations.
- Phased-in contribution increase from 2017 were instrumental in improving key SCRS metrics and necessary to stabilize and improve funding going forward.
- Successful approaches to alternative plan designs in other states can help inform what Phase 2 looks like in SC.
 - The most successful systems have predictable costs through risk sharing and put career and shorter-term workers on a path to maintaining standard of living in retirement.



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