



Serving those who serve South Carolina

Retirement Systems review

House Ways & Means
Constitutional Subcommittee

January 15, 2019

Roles in managing the Systems



- PEBA operates and administers the state's retirement programs, which were created and are defined by state statute.
- The S.C. General Assembly has authority to make changes to the laws that govern these retirement plans.
 - South Carolina Retirement Systems.
 - State Optional Retirement Program.
 - South Carolina Deferred Compensation Program.



Profile of the Systems

- South Carolina Retirement Systems is the defined benefit pension trust fund and includes five plans:
 - South Carolina Retirement System (SCRS);
 - South Carolina Police Officers Retirement System (PORS);
 - Retirement System for Members of the General Assembly of S.C. (GARS);
 - Retirement System for Judges and Solicitors of S.C. (JSRS); and
 - South Carolina National Guard Supplemental Retirement Plan (SCNG).



Profile of the Systems

- Net assets totaled \$31.7 billion at June 30, 2018.
- Collected \$2.7 billion in contributions during fiscal year 2018.
- Benefits disbursed by the Systems include ongoing monthly service and disability payments to over 170,000 payees in addition to one-time payments for refunds, TERS distributions and death benefits.
 - Paid \$4 billion in benefits during fiscal year 2018.
- Nearly 94 percent of annuitants live in South Carolina, representing a potential \$3.6 billion impact on our state's economy.
- SCRS and PORS cover employees of state agencies, counties, cities, public school districts, higher education institutions, fire districts and other political subdivisions.

State Optional Retirement Program (State ORP)



- PEBA sponsors State ORP, which is a defined contribution plan.
- State ORP is an alternative to the traditional SCRS plan and is available to newly hired employees of state agencies, higher education, school districts and individuals first elected to the General Assembly after the November 2012 election.
- Administered by four third-party service providers.
- State ORP had 50,776 participants and \$2.4 billion in assets as of June 30, 2018.
- Assets are outside the group trust of the Systems.

South Carolina Deferred Compensation Program



- S.C. Deferred Compensation Program is a defined contribution plan intended to supplement SCRS and State ORP.
- Member participation is optional.
- Offers both 401(k) and 457 plans.
- Administered by a third-party record keeper.
- The Program had 99,838 participants and \$4.4 billion in assets as of June 30, 2018.
- Assets are outside the group trust of the Systems.



Investment responsibility

- PEBA's Board of Directors develops and adopts an investment policy for State ORP and the Deferred Compensation Program.
- PEBA's Board engages an investment consultant who is a co-fiduciary to review and monitor the funds offered.
- PEBA's Board also selects the funds for the Deferred Compensation Program.
- State ORP service providers select the funds for State ORP.



Investment responsibility

- Assets of the Retirement Systems are held in a group trust fund and investment authority is statutorily delegated to another agency, the Retirement Systems Investment Commission (RSIC).
- Assets of the insurance trust funds are invested by the S.C. State Treasurer.
- Participants in State ORP and Deferred Compensation are responsible for individually managing their own investments through their third-party administrator.

Membership as of July 1, 2018



| | SCRS | PORS |
|----------------------------|----------------|---------------|
| Active | 196,184 | 27,093 |
| Inactive | 182,933 | 17,277 |
| Retirees and beneficiaries | 142,278 | 18,491 |
| Total | 521,395 | 62,861 |

Covered employers as of June 30, 2018



| | SCRS | PORS |
|-------------------------------------|------------|------------|
| State agencies and higher education | 34 | 31 |
| Public school districts | 117 | 58 |
| Other | 577 | 331 |
| Total | 728 | 420 |



Four sources of income

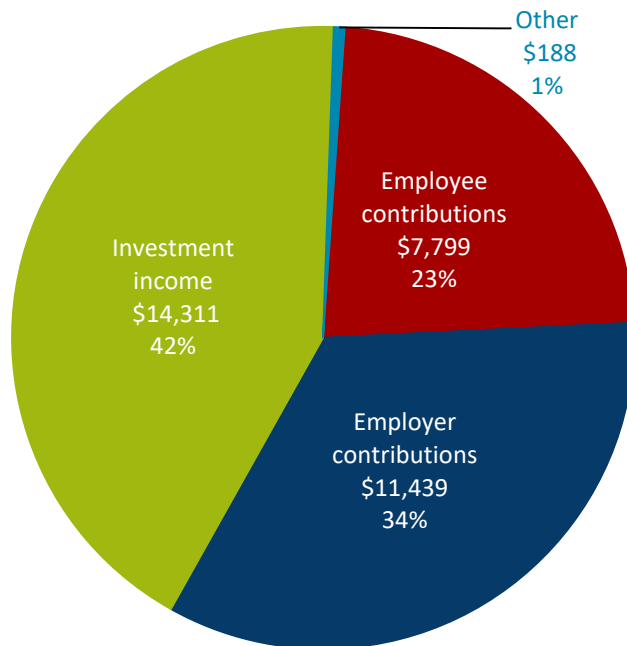
- Four sources of income fund benefits of the Retirement Systems:
 - Investment income;
 - Employee contributions;
 - Employer contributions; and
 - Non-employer contributions (state appropriations).
- If any source is reduced, the other sources must be increased, or benefits reduced, to keep the Systems sound.

Additions to pension trust funds (FY 2009-FY 2018)



Includes SCRS, PORS, GARS, JSRS and SCNG

Amounts expressed in millions



This chart depicts the revenue to the trust funds over a 10-year period. Investment income, employer contributions and employee contributions are the largest sources of revenue to the trust funds. The exact proportion of these numbers to each other will change over time as investment income changes (investment income will change each year depending upon investment strategy and market returns) and if any changes are made to employer and employee contributions.

Public pensions nationwide (2008-2017)¹

- Employee contributions: 13%
- Employer contributions: 33%
- Investment income: 54%

¹ Data from the National Association of State Retirement Administrators (NASRA).

Contributions as of July 1, 2018, actuarial valuation



Defined benefit participant (SCRS)

| | Normal cost | Unfunded liability | Total |
|----------|-------------|--------------------|--------|
| Member | 9.00% | - | 9.00% |
| Employer | 1.66% | 13.90% | 15.56% |
| Total | 10.66% | 13.90% | 24.56% |

Defined contribution participant (State ORP)

| | Member account | Unfunded liability | Total |
|----------|----------------|--------------------|--------|
| Member | 9.00% | - | 9.00% |
| Employer | 5.00% | 10.56% | 15.56% |
| Total | 14.00% | 10.56% | 24.56% |

Actuarial valuation data as of July 1, 2018



| | SCRS | PORS |
|------------------------------------|-----------------|----------------|
| Required contribution rates | | |
| Employee | 9% | 9.75% |
| Employer¹ | 15.56% | 18.24% |
| UAAL | \$22.07 billion | \$2.72 billion |
| Funded ratio | 55% | 63.1% |
| Funding period | 22 years | 20 years |

¹ Rates are effective July 1, 2019, and include incidental death benefit and accidental death benefit contributions for employers covered under these programs.



Act 278 of 2012

- Created Class Three tier of membership in SCRS for newly hired employees with membership dates on or after July 1, 2012.
 - Employees must be age 65 or satisfy the Rule of 90 requirement (age and years of service credit must add up to 90) to retire with full benefits.
 - Increased vesting period from five years to eight years.
 - Changed average final compensation calculations from 12 quarters of highest earnable compensation to 20 quarters.
 - Removed credit for unused annual and sick leave at retirement from benefit calculations.



Act 278 of 2012

- Changes affecting all members:
 - Closed TERI program effective June 30, 2018.
 - Changed cost of service purchase to be actuarially neutral.
 - Removed pay from overtime from SCRS earnable compensation if not mandated by employer.
- Changes affecting SCRS retirees:
 - Limited annual benefit adjustment, formally referred to as cost-of-living adjustment (COLA), to 1 percent up to a maximum of \$500 annually.



Act 278 of 2012

- Changed provisions for SCRS disability retirement.
- Closed GARS to newly elected officials after the general election of 2012.
 - New members may join SCRS or State ORP.
- Added \$10,000 earnings limit for certain SCRS and PORS members who retired on or after January 2, 2013 (some exemptions apply) and returned to work for a covered employer.
- Eliminated interest on inactive accounts.

Retirement System Funding and Administration Act of 2017



- Legislation did not change the benefits provided to members of the Retirement Systems.
- Goal of the legislation was to pay down the unfunded liability faster by:
 - Reducing the funding period;
 - Increasing contribution rates; and
 - Decreasing the negative amortization.

Retirement System Funding and Administration Act of 2017



- Decreased the assumed rate of return to 7.25 percent effective July 1, 2017.
 - Rate will remain in effect through July 1, 2021, at which time a new rate will be set by the General Assembly based upon a recommendation from the consulting actuary and PEBA.
- Changed employee and employer contribution rates effective July 1, 2017.
 - SCRS employee rate was increased to and capped at 9 percent.
 - PORS employee rate was increased to and capped at 9.75 percent.
 - Employer rates for SCRS and PORS increased by 2 percent. A schedule of rates includes annual 1 percent increases through July 1, 2022.

Retirement System Funding and Administration Act of 2017



- Gradually reduced the maximum funding period from 30 years to 20 years by July 1, 2027.
 - Schedule reflects a one year reduction in the funding period for each of the next 10 years, but also allows for future unforeseen investment losses.
- The legislation took several important steps to increase funding to the Retirement Systems, which improves the financial condition of the plans more quickly and incorporates a cushion for possible future adverse investment experience.

Schedule of employer retirement contribution increases¹



| July 1 | SCRS total employer rate | State ORP total employer rate ² | PORS total employer rate | Insurance surcharge ³ |
|--------|--------------------------|--|--------------------------|----------------------------------|
| 2012 | 10.60% | 10.60% | 12.30% | 4.55% |
| 2013 | 10.60% | 10.60% | 12.84% | 4.92% |
| 2014 | 10.90% | 10.90% | 13.41% | 5.00% |
| 2015 | 11.06% | 11.06% | 13.74% | 5.33% |
| 2016 | 11.56% | 11.56% | 14.24% | 5.33% |
| 2017 | 13.56% | 13.56% | 16.24% | 5.50% |
| 2018 | 14.56% | 14.56% | 17.24% | 6.05% |
| 2019 | 15.56% | 15.56% | 18.24% | TBD |
| 2020 | 16.56% | 16.56% | 19.24% | TBD |
| 2021 | 17.56% | 17.56% | 20.24% | TBD |
| 2022 | 18.56% | 18.56% | 21.24% | TBD |

¹ Rates include incidental death benefit and accidental death benefit contributions for employers covered under these programs.

² For State ORP participants, 5 percent of the employer contribution is remitted directly to the participant's State ORP investment provider.

³ Rates are applicable only to employers covered under these programs.

Authorized operating budget trends



| Trust Funds | Authorized budget | | | | | | FY 2020 request |
|----------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | |
| Personal services | \$14,593,889 | \$14,593,889 | \$14,593,889 | \$15,403,176 | \$16,221,729 | \$16,558,789 | \$16,558,789 |
| Other operating | \$11,963,734 | \$12,663,734 | \$12,663,734 | \$11,049,436 | \$9,704,626 | \$8,948,509 | \$8,948,509 |
| Adoption assistance | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 | \$300,000 |
| Employer contributions | \$4,472,468 | \$4,472,468 | \$4,472,468 | \$5,277,479 | \$5,803,736 | \$6,222,793 | \$6,222,793 |
| New IT system project | - | - | - | - | \$10,000,000 | \$10,000,000 | \$10,000,000 |
| Total Trust Funds | \$31,330,091 | \$32,030,091 | \$32,030,091 | \$32,030,091 | \$42,030,091 | \$42,030,091 | \$42,030,091 |
| General Funds ¹ | - | - | \$8,271,510 | \$7,495,020 | \$125,737,331 | \$109,468,739 | \$109,441,317 |
| Total | \$31,330,091 | \$32,030,091 | \$40,301,601 | \$39,525,111 | \$167,767,422 | \$151,498,830 | \$151,471,408 |

¹Details available on Slide 26.

FY 2019 statewide employer contributions



FY19 authorized FY20 budget request

III. Statewide Employer Contributions

| | | |
|----------------------------------|----------------------|----------------------|
| Ret Suppl-State Employee | \$233,258 | \$233,258 |
| Ret-Suppl-Public School Employee | \$199,855 | \$199,855 |
| Ret-Police Insur & Annuity Fund | \$960 | \$960 |
| Ret Suppl-Police Officer | \$17,506 | \$17,506 |
| Pension Ret-National Guard | \$5,289,727 | \$5,262,305 |
| OPEB Trust Fund Pymt | \$2,375,300 | \$2,375,300 |
| Subtotal | \$8,116,606 | \$8,089,184 |
| SCRS Trust Fund | \$88,230,143 | \$88,230,143 |
| PORS Trust Fund | \$13,121,990 | \$13,121,990 |
| Subtotal | \$101,352,133 | \$101,352,133 |
| Total pass through funds | \$109,468,739 | \$109,441,317 |



Proviso 117.139

(GP: SCRS & PORS Trust Fund) Unless otherwise provided in Paragraphs A through D of this provision, the funds appropriated to the Public Employee Benefit Authority (PEBA) for the South Carolina Retirement System Trust Fund and the Police Officers' Retirement System Trust Fund in Part IA, Section 108 of this act shall be credited toward the contributions due from participating employers in SCRS and PORS for Fiscal Year 2018-19. Each employer's credit shall be determined at the same rate as calculated by PEBA for the pension funding allocation credit for Fiscal Year 2017-18. A participating employer shall not receive a credit that exceeds the employer contributions due from the employer.

(A) From the funds available for allocation pursuant to this provision, no credits shall be issued for covered employees of special purpose districts, joint authorities, or non-profit corporations; however, this provision does not apply to the South Carolina State Ports Authority and the South Carolina Public Service Authority.

(B) From the funds available for allocation pursuant to this provision, no credits shall be issued for covered employees of hospitals; however this provision does not apply to the Medical University Hospital Authority.

(C) From the funds available for allocation pursuant to this provision, no credits shall be issued for covered employees of participating associations or service organizations as defined in Section 9-1-10(11)(e) of the 1976 Code.

(D) From the funds available for allocation pursuant to this provision, no credits shall be issued for state employees who are funded with federal funds. The Public Employee Benefits Authority shall collaborate with the Department of Administration, Executive Budget Office and the Revenue and Fiscal Affairs Office to determine the amount of credit exclusion for federally-funded employees of state agencies.

This proviso needs to conform to dollars and be updated for FY 2020.



Disclaimer

This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.