



Serving those who serve South Carolina

South Carolina Retirement Systems

August 30, 2016



History and background



Profile of the Systems

- The South Carolina Public Employee Benefit Authority (PEBA) administers five defined benefit pension plans that provide lifetime retirement annuities, disability benefits and death benefits to eligible members and their beneficiaries.
- Each plan's terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The benefit amount specified is a function of a formula based on years of service, compensation and age.
- PEBA also provides a defined contribution retirement plan (State Optional Retirement Program) which is an alternative to membership in the traditional defined benefit plan for the South Carolina Retirement System.



Summary of retirement plans

- The South Carolina Retirement System (SCRS) was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the state and its political subdivisions.
- The State Optional Retirement Program (State ORP) was first established as the Optional Retirement Program for Higher Education in 1987. The State ORP is an alternative to the SCRS defined benefit plan and is now available to certain state, public school and higher education employees of the state.
- The Police Officers Retirement System (PORS) was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.



Summary of retirement plans

- The General Assembly Retirement System (GARS) was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly. Retirement reform legislation closed the plan to individuals first elected to the South Carolina General Assembly at or after the general election in November 2012.
- The Judges and Solicitors Retirement System (JSRS) was established July 1, 1979, to provide retirement and other benefits to state judges, solicitors and circuit public defenders.
- The South Carolina National Guard Supplemental Retirement Plan (SCNG) was established July 1, 1975, to provide supplemental retirement benefits to members who served in the South Carolina National Guard. The Retirement Systems assumed administrative responsibility for this fund in 2006.

Membership and annuitant composition as of June 30, 2015



	SCRS	PORS
Total membership		
Active	187,386 ¹	26,582
Inactive	160,259	12,705
Retirees & Beneficiaries ²	134,634	16,810
Active members		
Average Age	45	39
Average Years of Service	10	9
Average Annual Salary	\$37,724	\$37,776
Annuitants and beneficiaries		
Average Current Age	69	65
Average Age at Retirement ³	59	55
Average Years of Service at Retirement	23	19
Average AFC ⁴ at Retirement	\$42,677	\$44,201
Average Current Annual Benefit ⁵	\$19,774	\$19,638

¹Due to timing differences, there is a slight variation in the number of members listed in the *Popular Annual Financial Report* (slide 6) and the actuarial valuation (slide 7).

²Represents members who retired, including those who participate in the Teacher and Employee Retention Incentive (TERI) program or who returned to employment as a working retiree, and surviving beneficiaries of former members.

³Represents retired members who are currently receiving annuity benefits, including members who may have received benefits under a deferred retirement option (i.e. TERI). Disability retirees and surviving beneficiary payees are excluded.

⁴Average Final Compensation (AFC) is a component used in the formula for calculating annuity benefits.

⁵Includes benefit adjustments applied since retirement.

Summary of contributing membership data for SCRS

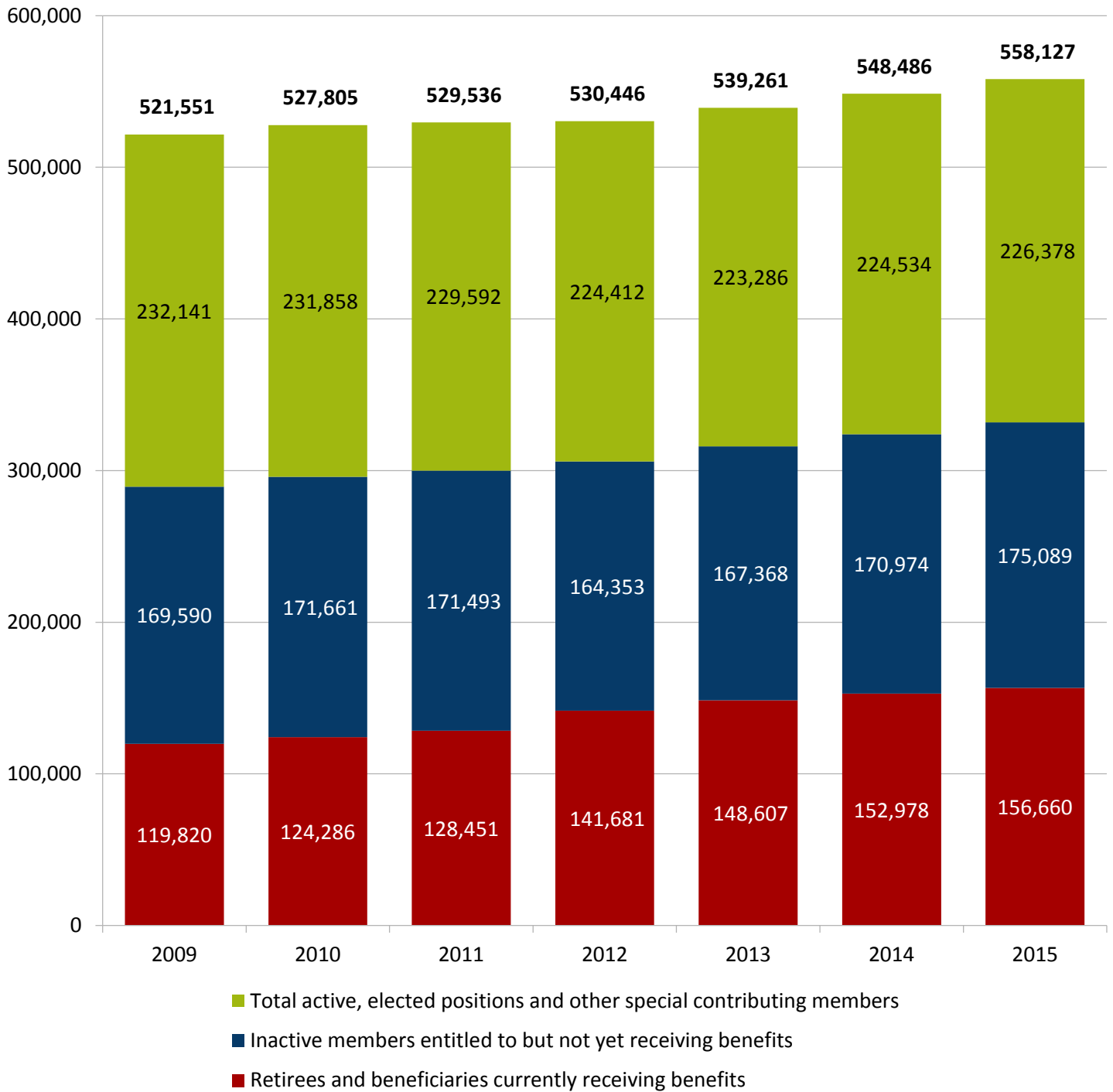


June 30, 2015	
Active members	
Total active members	187,318 ¹
Total annual compensation ²	\$7,418,513
TERI participants	
Total active members	8,765
Total annual compensation ²	\$482,914
Rehired retired participants	
Total active members	14,238
Total annual compensation ²	\$512,069
All groups combined	
Total active members	210,321
Total annual compensation ²	\$8,413,496

¹Due to timing differences, there is a slight variation in the number of members listed in the *Popular Annual Financial Report* (slide 6) and the actuarial valuation (slide 7).

²Dollar amounts expressed in thousands. Total compensation is the annualized pay for the prior year.

Total membership by fiscal year for all five defined benefit plans



Defined contribution membership data



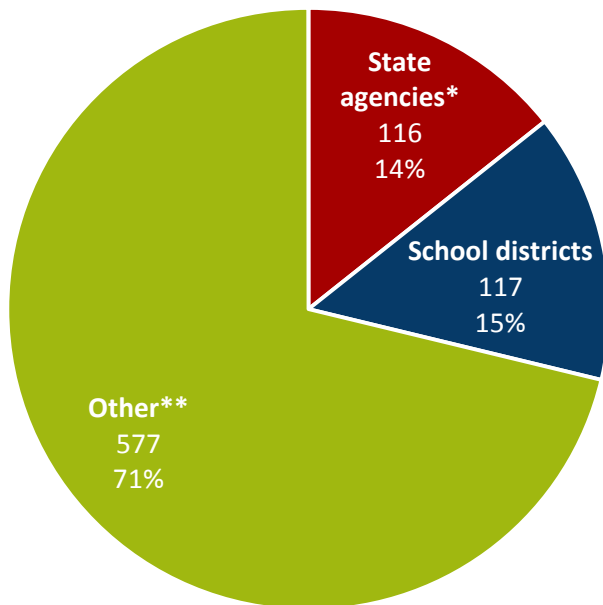
	June 30, 2015
State ORP participants	
Total members (active and inactive)	41,676
Total assets under management	\$1,666,760,570
Deferred Compensation Program participants	
Total members (active and inactive)	99,107
Total assets under management	\$3,717,052,000

- Two defined contribution plans
 - State Optional Retirement Program (State ORP)
 - Option for members not participating in SCRS
 - South Carolina Deferred Compensation Program
 - Supplemental, voluntary plan

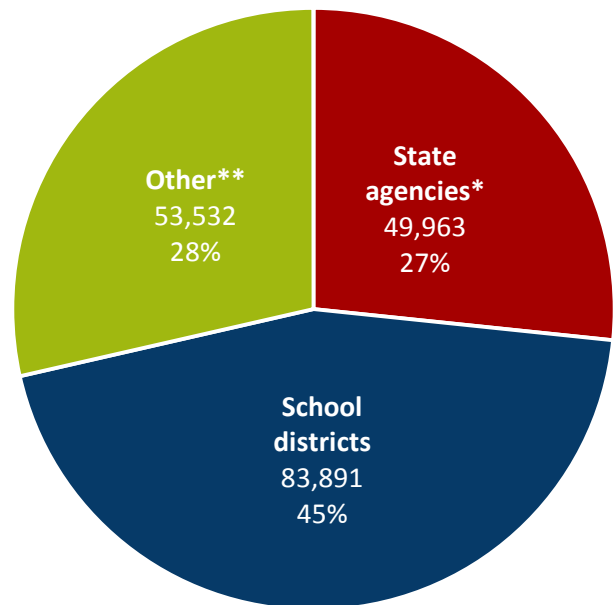
SCRS employers, active members as of June 30, 2015



Participating employers



Active members



*Includes higher education institutions.

**This category is comprised of cities, counties and other local subdivisions of government.



Three sources of income

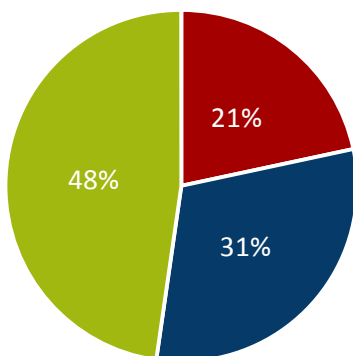
- There are three sources of income to provide benefits in the Retirement Systems: investment income, employee contributions and employer contributions.
- If any source of funding is reduced, the other sources must be increased, or benefits reduced, to keep the Systems sound.

Breakdown of additions to pension trust funds



Additions to PEBA's Pension Trust Funds 2005-2014

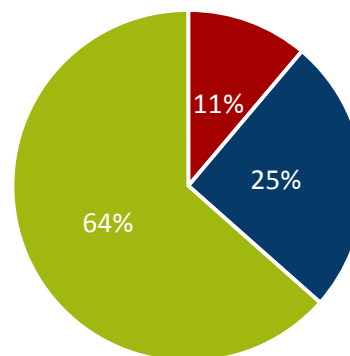
Includes five defined benefit plans



- Employee contributions
- Employer contributions
- Investment income

Additions to public pensions 2005-2014

Information provided by NASRA



- Employee contributions
- Employer contributions
- Investment income

State of South Carolina
SC Retirement System & Police Officers Retirement System
Impact of Increase in Employer Contribution Rate

	FY 15-16	
	Current Rate	Estimated Impact
	Effective 7/1/2015	Proposed Increase 50 bps
<u>SCRS</u>	11.06%	11.56%
Teachers:		
General Fund	\$ 184,887,985	\$ 8,358,408
Federal/other	214,007,843	9,674,857
EIA	63,324,135	2,862,755
Total Teachers	<u>462,219,963</u>	<u>20,896,020</u>
State Agencies:		
General Fund	121,845,666	5,508,394
Federal/Other	258,922,041	11,705,337
Total State Agencies	<u>380,767,707</u>	<u>17,213,731</u>
Other—Local Govt Entities	250,980,156	11,346,300
Total SCRS	<u><u>\$ 1,093,967,826</u></u>	<u><u>\$ 49,456,051</u></u>
<i>Totals by Funding Source: ⁴</i>		
General Fund	\$ 306,733,651	\$ 13,866,802
EIA	63,324,135	2,862,755
Federal & Other	472,929,884	21,380,194
Other—Local Govt Entities	250,980,156	11,346,300
Total SCRS	<u><u>\$ 1,093,967,826</u></u>	<u><u>\$ 49,456,051</u></u>
<u>PORS</u>	13.74%	14.24%
State:		
General Fund	\$ 45,315,520	\$ 1,649,037
Federal/Other	9,947,309	361,984
Other:		
Other Entities	114,521,663	4,167,455
Total PORS	<u><u>\$ 169,784,492</u></u>	<u><u>\$ 6,178,476</u></u>

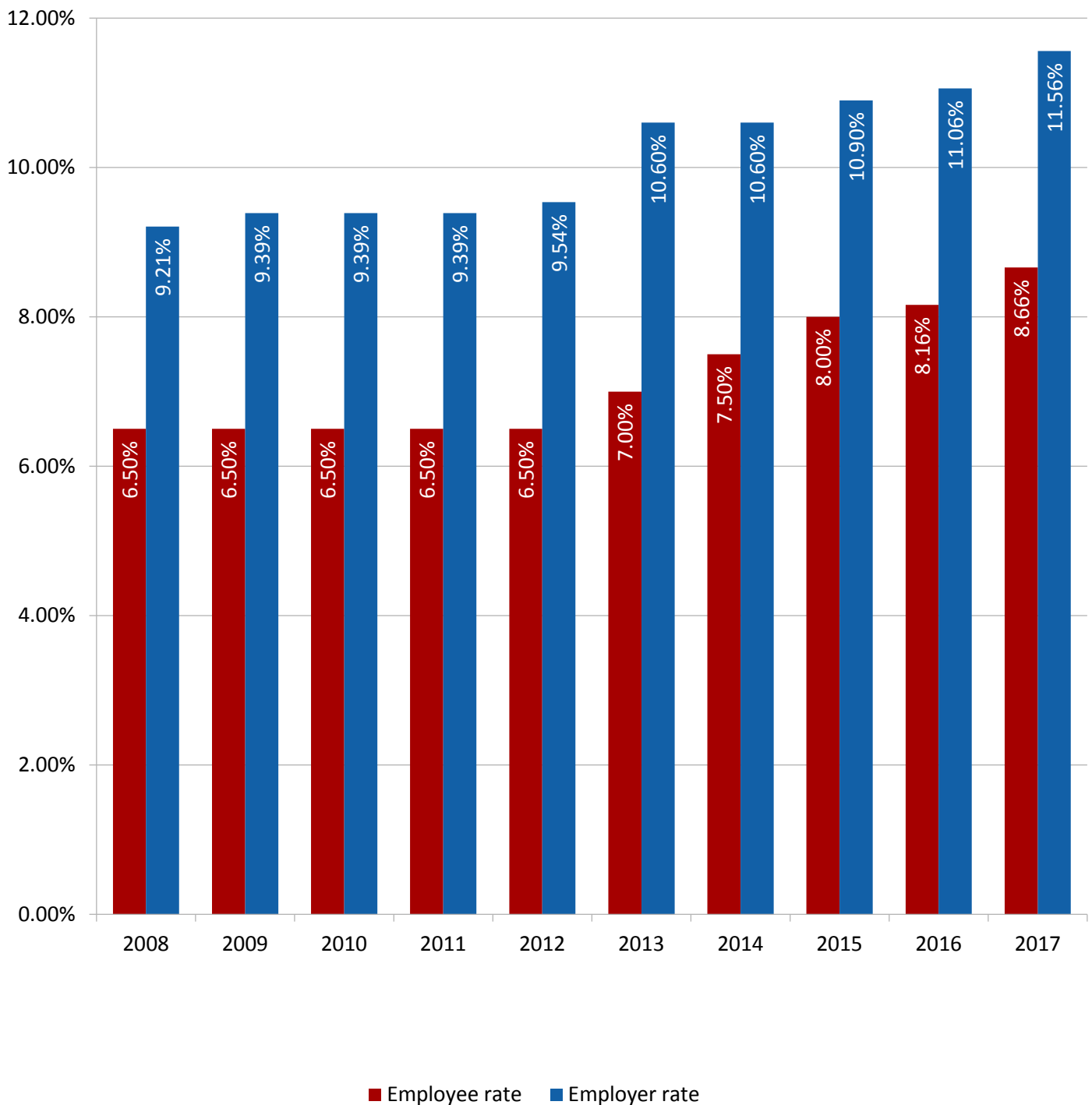
⁴ Estimates By Funding Source are based on FY 15-16 budgeted personal service expenditures.



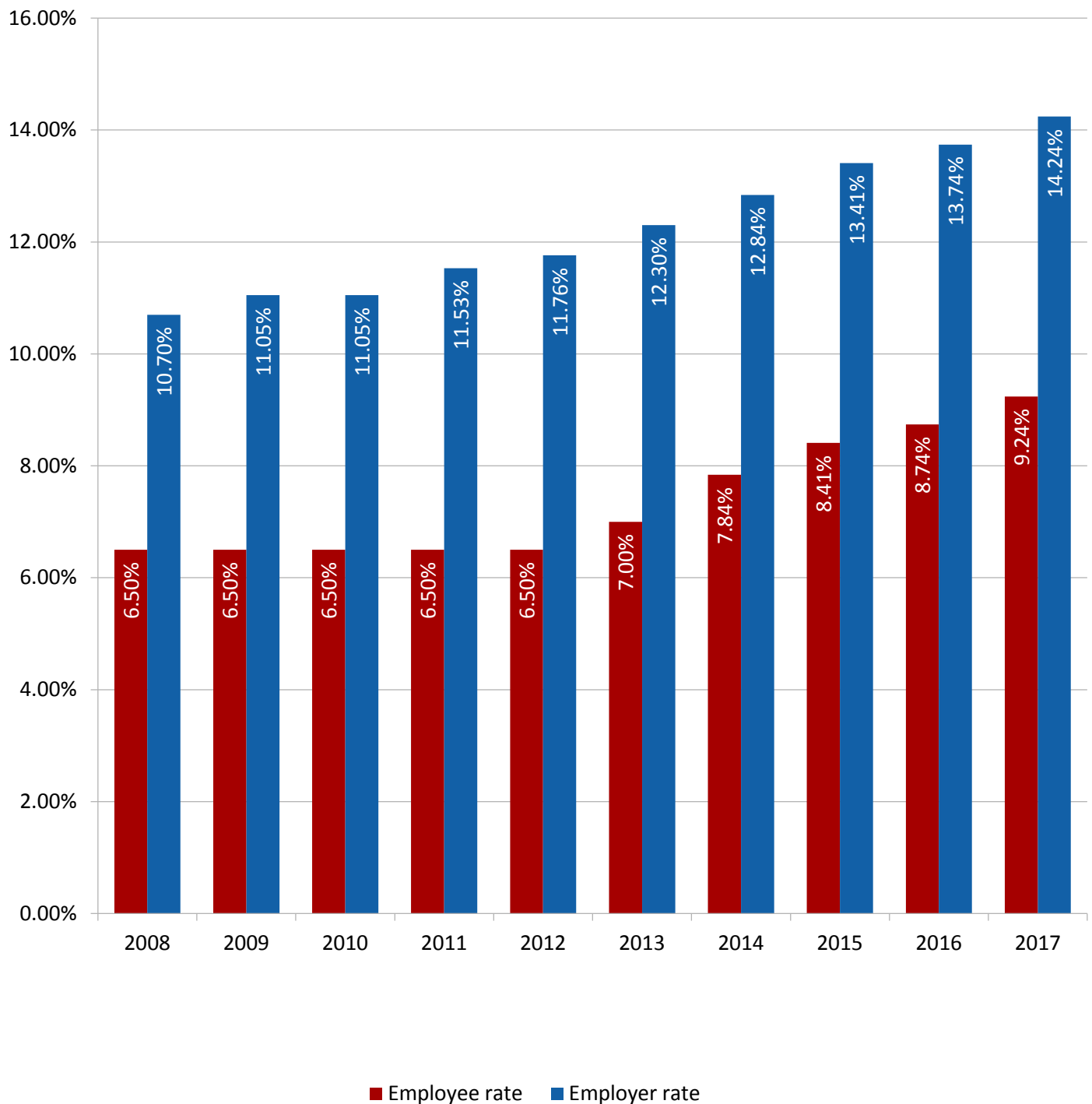
Median contribution rates

- Median rates provided by NASRA related to general employees and teachers only (not public safety) who are eligible for Social Security for FY 2014:
 - Median employee contribution rate is 5.98 percent.
 - Median employer contribution rate is 11.51 percent.

SCRS contribution rates by fiscal year



PORS contribution rates by fiscal year





Actuarial role



Actuary's responsibilities

- PEBA is required by statute (Sections 9-1-230 and 9-1-240) to hire an actuary; the current actuary is Gabriel Roeder Smith & Company (GRS).
- The actuary's responsibilities include:
 - Conducting annual actuarial valuations (Sections 9-1-260);
 - Completing an Experience Study every five years (Section 9-1-250); and
 - Developing Fiscal Impact Statements.
- As a result of the fiduciary audit completed in January 2015, PEBA will hire a separate actuary to do an actuarial audit in 2017.

Summary of process for selection of a second actuary in July 2010



- At the request of members of the S.C. Budget and Control Board and the Office of the Executive Director, the Retirement Systems solicited bids from actuarial firms to provide the services listed on the next two slides. Confirmation of the previous actuary's valuation was the primary driver for selecting a second valuation.

Summary of process for selection of a second actuary in July 2010



- **Experience Study** Review the data related to the economic and demographic experiences of the Retirement Systems and suggest any changes to assumptions used to value assets and liabilities of the Systems.
- **Actuarial valuation** Determine the actuarial value of the assets and liabilities of the Systems and the contribution rates necessary to maintain the funding of the Systems in accordance with the Budget and Control Board's policies.

Summary of process for selection of a second actuary in July 2010



- **Structure analysis** Analyze the structure of the employee and employer contributions relative to benefits provided for each of SCRS and PORS plan structures.
- **Possible modifications** Present scenarios and recommendations for alternative benefit designs that could be considered by the Retirement Systems.
- **Meetings with Board, staff and others** Be available to meet onsite with Board members and/or their staff, members of the Senate subcommittee and others necessary to explain and evaluate reports, assumptions, valuations, options and recommendations.



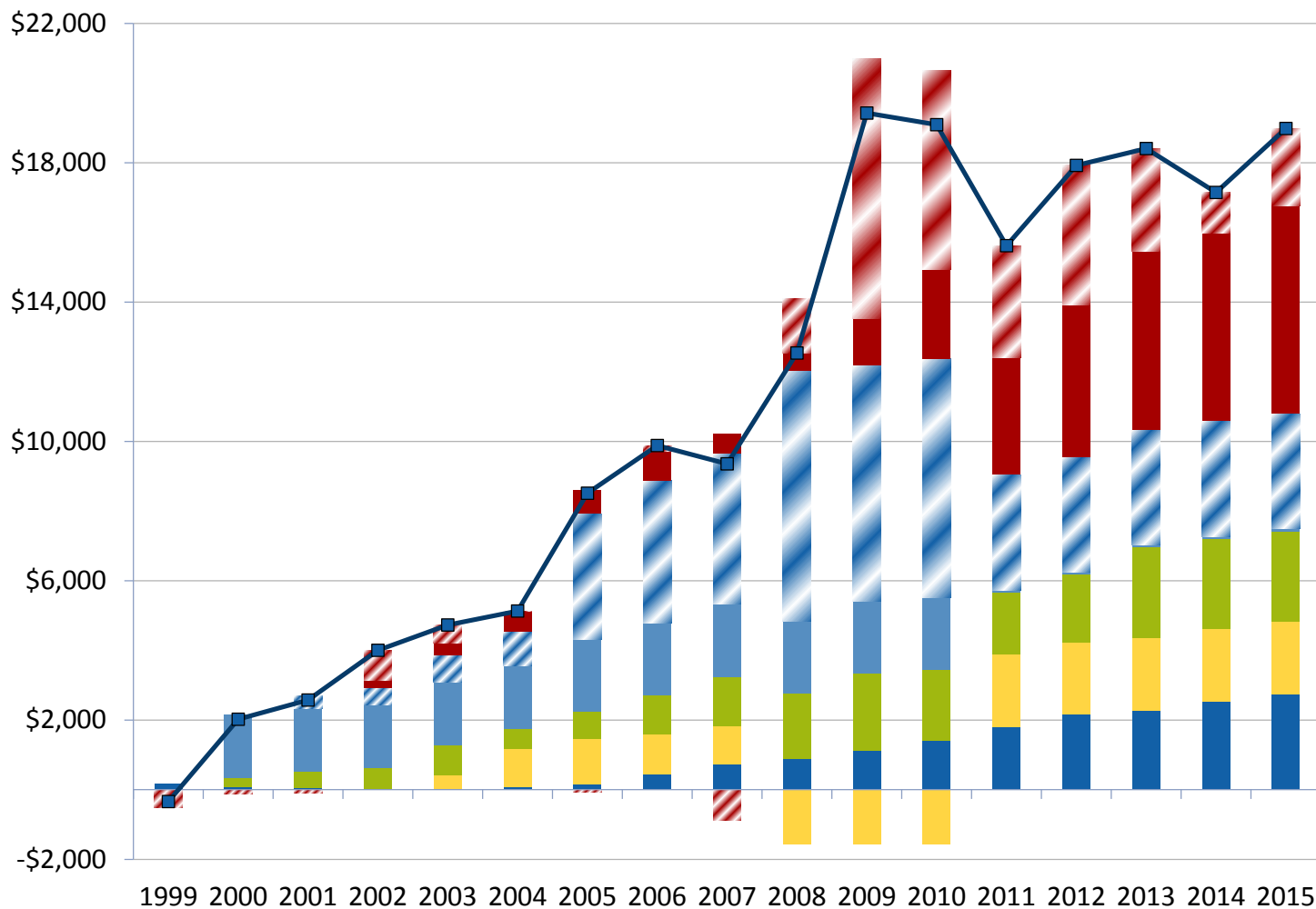
Funding history

Value of SCRS unfunded liability as of June 30, 2015



	Market value	Actuarial value
COLAs	\$3.31 billion	\$3.31 billion
Investment losses	\$5.96 billion	\$5.96 billion
Deferred investment losses	\$2.23 billion	-
Liability experience	\$2.59 billion	\$2.59 billion
Assumption changes	\$2.09 billion	\$2.09 billion
Interest on the UAAL	\$2.74 billion	\$2.74 billion
Non-COLA benefit changes	\$63 million	\$63 million
Total	\$18.99 billion	\$16.75 billion

SCRS net unfunded liability on a market value basis



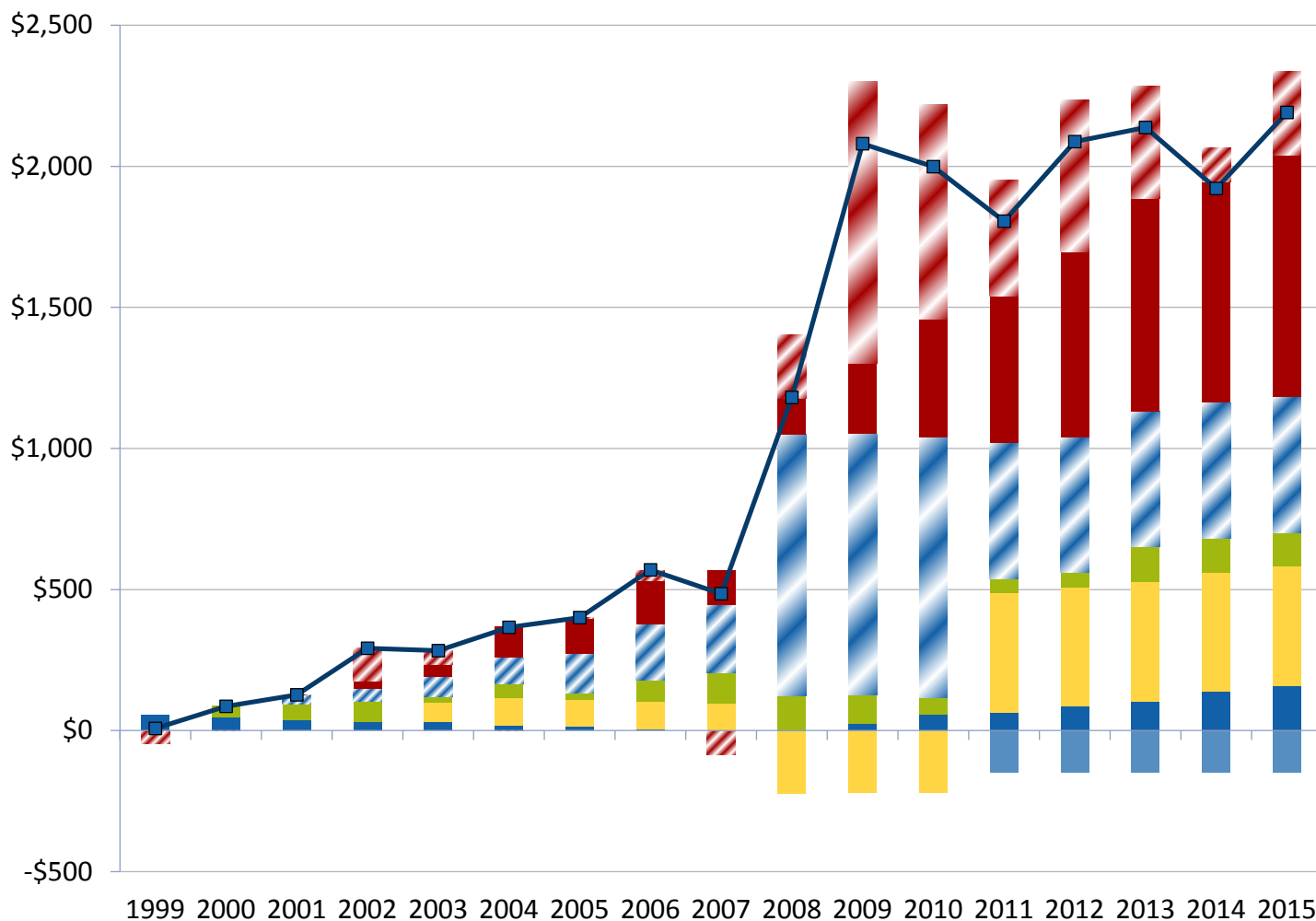
- Interest on UAAL in Excess of Contributions
- Assumption Changes
- Liability Experience
- Non-COLA Benefits
- COLA Benefits
- Investment Gains/Losses - Recognized
- Investment Gains/Losses - Deferred
- Net Unfunded Liability

Value of PORS unfunded liability as of June 30, 2015



	Market value	Actuarial value
COLAs	\$481 million	\$481 million
Investment losses	\$858 million	\$858 million
Deferred investment losses	\$295 million	-
Liability experience	\$120 million	\$120 million
Assumption changes	\$422 million	\$422 million
Interest on the UAAL	\$160 million	\$160 million
Non-COLA benefit changes	(\$147 million)	(\$147 million)
Total	\$2.19 billion	\$1.9 billion

PORS net unfunded liability on a market value basis



- Interest on UAAL in Excess of Contributions
- Assumption Changes
- Liability Experience
- Non-COLA Benefits
- COLA Benefits
- Investment Gains/Losses - Recognized
- Investment Gains/Losses - Deferred
- Net Unfunded Liability



Benefit provision changes



Benefit provision changes

- Fiscal years 1999 to 2007: ad hoc COLAs granted
 - Fiscal year 1999: 2.7 percent
 - Fiscal year 2000: not applicable (change in actuarial recognition of COLAs)
 - Fiscal year 2001: 3.4 percent
 - Fiscal year 2002: 1.3 percent
 - Fiscal year 2003: 2.4 percent
 - Fiscal year 2004: 1.6 percent
 - Fiscal year 2005: 2.4 percent plus 1 percent automatic
 - Fiscal year 2006: 2.5 percent plus 1 percent automatic
 - Fiscal year 2007: 1.4 percent plus 1 percent automatic



Benefit provision changes

- Fiscal year 2000: 28-year retirement and the Teacher and Employee Retention Incentive (TERI) program were enacted
- Fiscal year 2005
 - Retirement System Investment Commission created
 - 1 percent automatic COLA granted
 - S.618 enacted
 - Increased employee, employer and return-to-work contribution rates
 - Removed retiree earnings limit
 - Eliminated annual leave payout during TERI
 - Changed interest credited on member accounts from 6 percent to 4 percent
- Fiscal year 2008: 1 percent COLA granted (2 percent total)

2012 retirement reform summary: Act 278



- Legislature met from March 2011 through June 2012
- Created PEBA
- No decrease in contribution rates may be made until the System is at least 90 percent funded
- Increased employer and employee contribution rate and require future increases to maintain a 2.90 percent difference for SCRS
- Budget and Control Board decreased assumed rate of return from 8 percent to 7.50 percent prior to reform in 2012; reform put 7.50 percent assumed rate of return in statute

2012 retirement reform summary: Act 278



- Created Class Three tier of membership in SCRS
 - 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
 - For example, an employee who is 55 years old can retire if he has 35 years of service
 - Increased vesting period from five years to eight years
 - Increased average final compensation calculations from 12 quarters to 20 quarters of highest earnable compensation
 - Removed unused leave at retirement from benefit calculations

2012 retirement reform summary: Act 278



- Changes effecting all members
 - Closed TERI program effective June 30, 2018
 - Changed cost of service purchase to be actuarially neutral
 - Removed pay from overtime from earnable compensation if not mandated by employer
- Changes effecting SCRS retirees
 - Limited annual benefit adjustment, formally referred to as cost-of-living adjustment (COLA), to 1 percent up to a maximum of \$500
 - Previously, a 2 percent COLA was guaranteed (since FY 2008)

2012 retirement reform summary: Act 278



- 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 return-to-work employees who retired on or after January 2, 2013 (some exemptions apply)
- Eliminated interest on inactive accounts



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.