



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 5008
Author: Lucas
Subject: Retirement Allowance Adjustments
Requestor: House Ways and Means
RFA Analyst(s): Fulmer and Shuford
Impact Date: April 11, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Expenditure					
General Fund	\$0	\$0	(\$11,000,000)	(\$23,000,000)	(\$37,000,000)
Other and Federal	\$0	\$0	\$0	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00	0.00	0.00	0.00
State Revenue					
General Fund	\$0	\$0	\$0	\$0	\$0
Other and Federal	\$0	\$0	\$0	\$0	\$0
Local Expenditure	\$0	\$0	\$0	\$0	\$0
Local Revenue	\$0	\$0	\$0	\$0	\$0

Fiscal Impact Summary

This bill would have no expenditure impact to the General Fund, Federal Funds, or Other Funds in FY 2016-17 and FY 2017-18. Beginning in FY 2018-19, required state agency employer contributions would decline by \$11,000,000, \$23,000,000 in FY 2019-20, and by \$37,000,000 in FY 2020-21. These savings are based the current assumed 7.5 percent capital market rate of return and no changes in asset investment practices.

Explanation of Fiscal Impact

State Expenditure

This bill amends Section 9-1-1815 by changing the annual retirement benefit adjustment for retirees in the South Carolina Retirement System (SCRS) from the lesser of one percent or \$500 to a percentage determined by subtracting the assumed annual rate of return from the five-year average of the system’s actual investment performance. The proposed annual retirement benefit adjustment may not exceed two and one-half percent and may not be less than zero. The bill also provides that an increase in the retirement allowance will only occur when the actual investment returns for the prior year exceeds the assumed rate of return, regardless of the five-year average performance. This bill will not affect the annual benefit adjustment for retirees of the Police Officers Retirement System.

For example, annual financial reports indicate that the five-year average performance of the SCRS through June 30, 2015, was 8.87 percent, or 1.37 percent above the current assumed

annual rate of return of 7.5 percent. However, the system's annual return for FY 2014-15 was 1.6 percent, which would eliminate any increase in the annual retirement benefit amounts for 2016.

Any change in the projected employer contributions for state agencies will determine the expenditure impact of this proposed legislation. Based on an actuarial review of the bill provided to the South Carolina Public Employee Benefit Authority, the projected amount of employer contributions to the SCRS, pursuant to this bill, would remain the same as under current statutes for FY 2016-17 and FY 2017-18. Based on current assumptions, the employer contribution to SCRS would remain at \$1,071,000,000 in FY 2016-17 and \$1,104,000,000 in FY2017-18. Beginning in FY 2018-19, the projected amount of employer contributions would decline, compared to current assumptions. The actuarial report indicates that the proposed changes in this bill will reduce the long-term expected annual retirement benefit adjustment to 0.7 percent per year on average. Since this expected adjustment is less than the current annual adjustment of the lesser of one percent or \$500, required state agency employer contributions would decline by \$11,000,000 beginning in FY 2018-19, \$23,000,000 in FY 2019-20, and by \$37,000,000 in FY 2020-21. These savings are based the current assumed 7.5 percent capital market rate of return and no changes in asset investment practices.

Please note, since this bill will impact the employer contribution rate for state agencies, the projected member contribution rate will also decline beginning in FY 2018-19 based on the requirement in Section 9-1-1085 that the member contribution rate be 2.90% less than the employer contribution rate.

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director