Approved as Amended

South Carolina Public Employee Benefit Authority Meeting Minutes

Wednesday, September 26, 2012

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Board Members Present:

Mr. Art Bjontegard, Chairman (in person)
Ms. Peggy Boykin (in person)
Mr. Frank Fusco (in person)
Ms. Cynthia Hartley (in person)
Ms. Stacy Kubu (in person)
Sheriff Leon Lott (in person)
Mr. Steve Matthews (in person)
Mr. Joe "Rocky" Pearce (in person)
Mr. Audie Penn (in person)
Mr. John Sowards (in person)
Mr. David Tigges (in person)

Others present for all or a portion of the meeting:

Bill Blume, David Avant, Robbie Bell, Geneva McIntosh, Stephen Van Camp, Justin Werner, Lisa Phipps from the South Carolina Public Employee Benefit Authority (PEBA); Joe Newton and Danny White from Gabriel, Roeder, Smith & Company, Paul Patrick from Ways and Means, Kara Brurok from Ways and Means, Daniel Brannon from the State Treasurer's Office, Cindy Konduros from Stewart Konduros & Associates consulting, Jeff Moore from Sheriffs of SC, Jarrod Bruder from SCLEOA, Wayne Bell from the State Retirees Association, Rob Tester, Wayne Pruitt from the State Retirees Association, Sara Corbett from the South Carolina Retirement Systems Investment Commission, Warren Harley from the Municipal Association of South Carolina, Greg King from the Palmetto Teachers Association, Brian Gaines from the South Carolina Budget and Control Board (BCB), Rachel Fulmer from the State Budget Office, Adam Beam from the State Newspaper, Shelvie Belser from BlueCross BlueShield of South Carolina,
Joanie Lawson from South Carolina Education Association, Carlton Washington from the South Carolina State Employees Association, Robert Croom from the S.C. Association of Counties, Angie Willis from Senate Finance Committee, Deanne Gray from Senate Minority Leaders Office

I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Bjontegard called the meeting to order at 10:10 a.m. Ms. Brownlee confirmed completion of oaths of office and statements of economic interest by the board members and meeting notice compliance with the Freedom of Information Act.

II. INTRODUCTION OF BOARD MEMBERS AND STAFF

Chairman Bjontegard gave the invocation and asked the board members to provide some unique information, not included in the biographical information provided in the meeting notebooks. Each member shared something meaningful with the group. At the chairman's request, the visitors introduced themselves, and then Mr. Blume introduced himself and the PEBA staff in attendance.

III. REQUEST FOR APPROVAL OF PEBA RETIREMENT BENEFITS ACTUARIAL VALUATION AND EMPLOYEE/EMPLOYER INCREASE IN COSTS

Chairman Bjontegard asked for, and received, unanimous consent to use the Interim Board Meeting Procedures, so the Board may conduct necessary business at its first meeting. Chairman Bjontegard then asked Mr. Blume to proceed with the business at hand. Mr. Blume explained the latest actuarial valuations of the five retirement plans managed by PEBA, and he provided background information on the change in actuarial assumptions and the need to stay within a 30-year amortization period for funding future annuity obligations. To meet this amortization, which is a government accounting standard, contribution rates would be adjusted. Mr. Blume explained each of the increases needed for each of the retirement plans, based on revised actuarial information, and summarized the items requiring Board action:

1. Accept the GRS actuarial valuations for Fiscal Year 2013-14 for the South Carolina Retirement System (SCRS), Police Officers Retirement System (PORS), General Assembly Retirement System (GARS), Judges and Solicitors Retirement System (JSRS) and the National Guard Retirement System (NGRS)
2. Approve the needed increase in PORS contribution rates to 7.84 percent for employees and to 12.84 percent for employers, effective July 1, 2013 (increase of approximately $8 million per year)
3. Approve the needed $4.063 GARS employer contribution increase, effective July 1, 2013 (funded by the General Assembly)
4. Approve the needed increase in the JSRS employer contribution rate to 47.33 percent July 1, 2013 (increase of approximately $400,000 per year; the employee contribution rate is set by statute).
5. Approve the needed NGRS employer contribution increase to $4.539 million, effective July 1, 2013 (funded by the General Assembly; the employee contribution rate is set by statute)

There were questions and discussions of the information and the action items. The need for changing actuarial assumptions was explained by Mr. Blume and Mr. Newton. Changes in mortality rates, increases in pay, and experience-rating data all necessitated the change in assumptions. He also explained that if the amortization period is not held within 30 years, it adversely affects the state's credit rating. If the PEBA Board accepts the valuations and approves the increases, the BCB will then vote whether to approve the PEBA Board's decision. Mr. Blume further explained that the timing for this is tied to the budget process in progress. Mr. Tigges expressed concern for taking action at this first meeting without more familiarity with the information and process. Once the SCRS and PORS contribution rates are increased, they cannot be decreased until the plans are 90 percent funded.

Ms. Boykin asked whether any attempt was made to phase in the contribution rate for the JSRS. Mr. Blume responded that there was no opportunity or discussion to phase it in, noting a parallel study and experience study investigation by GRS occurred during the legislative process. Significant differences in the experience, led to the changes and timing. It was asked whether the JSRS increase could be phased in, such as over two years. It was also noted that the increase should not exceed the recommended 30-year amortization, although not required by statute. Mr. Newton noted the funding policies and accounting standards will be changing in the near future. Upon question by Mr. Fusco, it was confirmed that the SCRS contribution rate increase would result in a 25-year amortization.

Mr. Blume reviewed several presentation slides, noting a $13.4 billion unfunded liability as of July 1, 2010. Adding unamortized losses to this shows the magnitude of the situation. There were both demographic as well as economic losses that are trending in the wrong direction. This is what prompted the parallel study. Mr. Newton noted the assumption change in the cost-of-living adjustment, unrecognized asset losses and the smoothing concept to adjust for market volatility and to avoid having to react to adjust to short-period market swings, such as for contribution rates. He confirmed using a five-year smoothing period vs. ten. He reviewed the main adjustments in assumptions, based on their findings:

- Decrease the inflation assumption from 3.00 percent to 2.75 percent
- Decrease the investment return rate from 8.00 percent to 7.50 percent
- Improve the mortality assumption
- Modify the asset smoothing method (this, combined with the amortization period is the funding policy)

Mr. Newton confirmed all investment expectations are lower than they were a few years ago. Most funds are split 60/40, risky vs. non-risky assets. Mr. Blume added that the demographic information for the plans is pretty accurate, while the inflation and investment assumptions are both the most critical and hardest to pinpoint. Some of the South Carolina Retirement Systems' investments, such as hedge funds, are difficult to classify as to risk.

Mr. White continued the presentation, explaining the legislative changes and their impact on the retirement plans. He reviewed a chart that shows the changes for both SCRS and PORS plans, including contribution rate increases, benefit adjustments, the TERI program ending, earnings limitation for retirees, service purchase costs, disability retirement criteria, vesting, average final compensation calculation, retirement eligibility, and no longer being able to include unused leave in retirement benefit calculations.

Mr. Newton then reviewed the information on the valuation results for SCRS and PORS, explaining the unfunded actuarial accrued liability (UAAL), noting the funding ratios and how they have declined the past ten years. Part of the employer contributions are applied toward the UAAL; employee contributions go toward actual benefits, not toward the UAAL, since they may withdraw their contributions. Mr. White noted the investment return assumption for Fiscal Year 2012-13 is projected at 0.6 percent. Upon question by Mr. Sowards, Mr. Newton confirmed $6-6.6 billion in deferred investment losses. Based on smoothing, the data will be readjusted in 2015 to determine the actual investment performance, whether the assumptions held and their impact on the amortization period.

Mr. White reviewed the valuation results for GARS, JSRS and NGRs, noting their funding requirements are based on dollars vs. contribution percentages. Mr. Newton gave the closing comments.

Chairman Bjontegard asked for a motion. Mr. Sowards moved that the PEBA Board accept the actuarial valuations of July 1, 2011, for SCRS, PORS, GARS, JSRS and NGRS. The motion was seconded by Ms. Hartley for further discussion. Mr. Fusco asked for point of clarification that additional motions would be forthcoming, and Chairman Bjontegard confirmed this. Mr. Sowards asked for discussion. He echoed understanding of Mr. Tigges' earlier concern and asked Mr. Tigges whether he was comfortable with moving forward. Mr. Tigges asked for legal clarification; this is a substantive vote that we are obligated to increase the contribution rate. Mr. Van Camp confirmed that, by accepting the valuation and amortization period, the statutory increases for SCRS and PORS would apply. Chairman Bjontegard asked for further discussion, there being none, the vote was called, and the motion passed unanimously.

Mr. Sowards then read the motion that the PEBA Board approve:
1. The contribution rate increases in the actuarial report, as required, effective July 1, 2013, for PORS to 7.84 percent for employees and to 12.84 percent for employers to maintain a 30-year amortization period, according to Act 278, splitting the contribution rate equally between the employer and the employee.
2. The increase GARS employer contribution in the actuarial report, as required, to $4.1 million from $2.8 million
3. The increase JSRS employer contribution in the actuarial report, as required, effective July 1, 2013, to 47.33 percent from 45.09 percent
4. The increase NGRS contribution in the actuarial report, as required, to $4.5 million from $3.9 million.

Ms. Hartley seconded the motion for discussion. Mr. Fusco asked about the phase in for the JSRS; if the motion passes as is, whether the BCB could modify the PEBA Board's decision to phase it in. Mr. Van Camp confirmed that Board "approval" as stated in the Act, would imply an approval or rejection authority, not to modify or alter a PEBA Board decision. Upon question from Mr. Sowards and point of clarification from Ms. Boykin regarding budget concerns for the JSRS, given this increase, Mr. Blume confirmed the General Assembly did not have the JSRS contribution increase information when they phased in the SCRS and PORS rate increases. Mr. Sowards offered to amend his motion with respect to the JSRS plan to permit the BCB to consider phasing in that contribution. Ms. Hartley seconded. There was additional discussion and concerns expressed regarding the budget process and where funds would come from to cover the increase. Mr. Matthews suggested separating the 3rd part of the second motion made by Mr. Sowards into two parts: one to approve the amount of increase and another to phase it in. Upon request by Chairman Bjontegard, Mr. Sowards withdrew his proposed amendment to the second motion and restated his original motion. It was noted that phasing in the JSRS contribution rate increase would extend the amortization period beyond 30 years, although there is no statutory requirement to stay within a 30 year amortization period for JSRS. Chairman Bjontegard called for a vote on the motion carried unanimously. Mr. Sowards then made a motion that the BCB consider phasing the JSRS increase over a period of time to be determined. The motion was seconded for discussion. Mr. Penn asked over what time period and by what amounts would the increase occur. Mr. Van Camp confirmed a more specific decision would need to be presented to the BCB. Mr. Sowards then withdrew his motion.

IV. QUESTIONS

There being no additional questions at this time, the Board broke for lunch at 12:30 p.m. [Sheriff Lott excused himself from the meeting at this point due to another commitment.] and reconvened at 12:50 p.m.

Based on data just presented by GRS, Mr. Matthews presented a summary of two motions: one to reopen and reconsider what was just passed. Under reconsideration, the first motion would be to amend the JSRS contribution increase. The second motion would be to recommend the increase be phased in over two years. This would accomplish both goals of phasing in the increase while keeping the amortization period within 30 years: Motion was made to reopen the previously passed motion. Ms. Boykin seconded for discussion. There was no discussion, and the motion carried unanimously. Mr. Matthews proposed an amendment to Mr. Sowards' motion that the increase in the JSRS contribution rate increase be changed from the originally proposed 47.33 percent to 47.39 percent. Mr. Sowards accepted the amendment. Ms. Hartley seconded, and the Board voted unanimously to amend Mr. Sowards' motion. The original motion, as amended, was seconded by Ms. Hartley and carried unanimously. Mr. Matthews made a new motion that the PEBA Board recommend to the BCB to implement the recommended JSRS contribution increase in two equal installments over two fiscal years, effective July 1, 2013: 46.24 percent the first year, then to 47.39 the second year. The motion was seconded by Mr. Penn, and the motion carried unanimously. [Mr. Matthews excused himself from the meeting due to another commitment.]

V. CONFIRMATION OF NEXT MEETINGS

Chairman Bjontegard asked for a set meeting date. He asked for shorter meetings and to meet Tuesdays, Wednesdays or Thursdays, preferably toward the end of the month. Upon discussion, the next meeting was scheduled for Tuesday, October 16, 10 a.m. – 1:00 p.m.

VI. INTRODUCTION TO THE PEBA BOARD STRUCTURE

Mr. Van Camp presented a high-level overview of the laws affecting PEBA and its new Board. He noted that, aside from Act 278 which created PEBA and the PEBA Board, Title 9 of the S.C. Code of Laws governs much of the retirement benefits; Title 1 governs much of the insurance benefits. Mr. Van Camp continued his explanation of the PEBA Board structure, detailing the composition of the Board; qualifications needed to be a member; length of terms; and minimum meeting requirements. He explained the Board's duties as they related to the retirement and insurance plans. He stated that policy determinations made by the PEBA Board are subject to approval by the State Budget and Control Board who serves as co-trustee of the retirement and insurance plans.

Mr. Van Camp noted that members of the PEBA Board are public officials and are subject to the same rules and standards as other elected officials. He discussed the Freedom of

Information Act (FOIA) and how it applies to the Board and provided a list of other laws that Board members should be mindful of as they conduct the Board's business. He concluded that the Board has the power to set its own governance policies and procedures. There was additional discussion.

Justin Werner gave an overview of the Fiduciary Duties and Liability of the Board. He explained the basic fiduciary duties as trustees of the retirement and insurance plans. He stated that the three principle duties that govern fiduciary responsibilities are the duty of loyalty, duty of prudence and the duty to comply with plan terms and applicable law. He then provided an explanation for each principle duty. Mr. Werner then discussed how each trustee must personally perform their fiduciary duties. He concluded by reviewing fiduciary liability insurance coverage and the potential liability that can result from breach of trust.

There were a few questions and brief discussion following the presentation.

VII. PEBA RETIREMENT BENEFITS OVERVIEW

David Avant gave a retirement benefits overview. He briefly described the plans administered by PEBA. He provided various statistical data for all the plans, including total membership, number of participating employers, average benefit amount and total benefits paid. Mr. Avant explained the Teachers and Employees Retention Incentive (TERI) program; how benefits are calculated and how employee and employer rates are set. He also detailed the provisions of Act 278. There was brief discussion. Mr. Avant concluded by advising the Board that, after December 31, 2013, they will also be trustees over the South Carolina Deferred Compensation program.

VIII. PEBA INSURANCE BENEFITS OVERVIEW

Robbie Bell gave an insurance benefits overview. He outlined some specifics about what drives the decision-making process regarding insurance benefits, including federal laws, the Public Service Act of 1944 and the various applicable regulations and statutes. He outlined the types of participating employers and discussed the eligibility requirements for subscribers and dependents.

Mr. Bell briefly reviewed the employee benefits provided by PEBA: several health plans, two dental plans, vision insurance programs, four life insurance products, two long term disability programs, a long term care program and four pretax MoneyPlu$ programs under a cafeteria plan. The MoneyPlu$ programs are only available to active employees. He explained that the State Health Plan is self-insured (self-funded) and explained the difference between self-insured and fully insured. Mr. Bell then reviewed the program changes for January 1, 2013. He also explained how insurance premiums are established and how contributions are set.

Mr. Bell commented on a 50-state survey, conducted every year to compare the State Health Plan's design and the total employee and employer composite premiums not only to national averages, but also to regional averages. He reviewed and discussed some of the data from the last survey with the Board.

He talked briefly about the local subdivision groups which are permitted by statute to enter into the plan and withdraw under statutory guidelines with minimum four-year participation.

He explained how these groups are experience rated and how their premiums are calculated.

IX. APPOINTMENT OF HEALTH CARE POLICY COMMITTEE AND DISCUSSION OF OTHER COMMITTEES AND COMMITTEE MEMBERSHIP

Chairman Bjontegard referred to the proposed committees, noting four: Finance, Administration, Audit and Compliance (FAAC); Health Care Policy; Retirement Policy; and Executive. He confirmed the four Board members who agreed to serve as chair. He asked the FAAC to determine whether bylaws are needed and to draft those bylaws or operating procedures. He also asked that a Vice Chair be selected and that the structure of the committees be determined. Committee chairs will determine when and how to meet. Chairman Bjontegard also introduced Susan Brownlee, the Board Liaison.

He stated that there may be a number of technical amendments needed to be made to Act 278 and asked the three committees to review the amendments and discuss whether and how to proceed. With respect to a media policy, upon discussion, the consensus of the Board was for Chairman Bjontegard to represent the Board in addressing media inquiries.

Chairman Bjontegard asked for input on how to make the meetings productive and asked for suggestions. All board members provided input, and it was agreed to include these suggestions in upcoming meetings. Chairman Bjontegard then asked Mr. Blume if he had any remarks. Mr. Blume confirmed that a lot of the Board's work will be done within the various committees. He also noted that the retirement benefits side of PEBA experienced a tough legislative year trying to get the reform legislation passed. While he thinks work on the retirement side is not complete, the next legislative session will probably be devoted to health care issues. Mr. Penn asked about electronic files being distributed to the committees so the information can be available electronically. Mr. Blume confirmed development of electronic file sharing was in progress. There was brief discussion regarding various electronic data-sharing programs.

There being no further comments, the meeting was adjourned at 4:10 p.m.

Staff Note: In compliance with S.C. Ann. §30-4-80, public notice of and the agenda for this meeting were posted to the PEBA websites, to parties who requested notice, and were posted at the entrance, in the lobbies, and near the 2nd Floor Conference Room at 202 Arbor Lake Drive, Columbia, SC, on September 24, 2012.

South Carolina Pubic Employee Benefit Authority
Board of Directors Meeting
Wednesday, September 26, 2012

10:00 a.m.

South Carolina Public Employee Benefit Authority
Main Conference Room
202 Arbor Lake Drive, Columbia, SC 29223

Agenda

I. Call to Order; Adoption of Proposed Agenda

II. Introduction of Board Members and Staff

III. Request for Approval of PEBA Retirement Benefits Actuarial Valuation and Employee/Employer Increase in Costs

IV. Questions

V. Confirmation of Next Meetings

WORKING LUNCH

VI. Introduction to the PEBA Board Structure

Overview of Governing Statute (Act 278); Board Responsibilities, FOIA, Fiduciary Stewardship and Liability

VII. PEBA Retirement Benefits Overview

BREAK

VIII. PEBA Insurance Benefits Overview

IX. Appointment of Health Care Policy Committee and Discussion of Other Committees and Committee Membership

Adjournment

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY BOARD

NAME	TERM BEGAN	TERM EXPIRES	SEAT	TERM SERVING
PRESIDENT PRO TEMPORE OF SENATE (2 - 1 REP AND 1 NONREP)				
SHERIFF LEON LOTT Sheriff, Richland County 5623 Two Notch Road Phone: 803-576-3021 803-576-3021 (Janell) sheriff@rcsd.net	7/1/2012	6/30/2014	PORS **(R)**	First
JOHN A. SOWARDS Nexsen Pruet, LLC 1230 Main Street, Suite 700 Columbia, SC 29201 PO Drawer 2426 Columbia, SC 29202 Phone: 803-803-771-8900 (Regina Maples) Fax: 803-727-1426 jsowards@nexsenpruet.com	7/1/2012	6/30/2012	**(NR)**	First
CHAIRMAN - SENATE FINANCE COMMITTEE (2 - 1 REP AND 1 NONREP)				
FRANK FUSCO 3540 Overcreek Road Columbia, SC 29206-4354 Phone: 803-240-7280 frankwfusco@gmail.com	7/1/2012	6/30/2014	Retired **(R)**	First
JOE W. "ROCKY" PEARCE, Jr. 1945 West Palmetto Street, Unit 105 Florence, SC 29501-3966 Phone: 843-669-9846, X 261 (April Wilson) Cell: 843-260-7536 Fax: 843-667-9712 Toll Free: 800-222-6491, X 261 rocky@pearceinvestments.com	7/1/2012	6/30/2014	**(NR)**	First
GOVERNOR (3 NONREPRESENTATIVES)				
CYNTHIA A. HARTLEY	7/1/2012	6/30/2014	**(NR)**	First

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ARTHUR M. BJONTEGARD, JR.
Chairman **(NR)** First
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STEVE A. MATTHEWS 7/1/2012 6/30/2014 **(NR)** First
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SPEAKER - HOUSE OF REPRESENTATIVES (2 - 1 REP AND 1 NONREP)

PEGGY G. BOYKIN 7/1/2012 6/30/2012 Active **(R)** First
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DAVID J. TIGGES 7/1/2012 6/30/2012 **(NR)** First
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803-753-3309 (Mindy Koon)
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CHAIRMAN - HOUSE WAYS AND MEANS COMMITTEE (2 - 1 REP AND 1 NONREP)

STACY KUBU 7/1/2012 6/30/2014 Pub Sch Emp **(R)** First

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Cell: 864-940-4413
sbkubu@gmail.com

AUDIE M. PENN
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Sheriff Leon Lott

Representative Member of the Police Officers Retirement System

Lott is the sheriff of Richland County. He was first elected to this position in 1996. Lott came to the Richland County Sheriff's Department in 1975 as a patrol officer. He advanced thereafter to various positions, including Criminal Investigator, Narcotics Agent, Lieutenant and Captain of Narcotics Division, Administrative Captain, Uniform Patrol Captain, and Watch Commander. In 1993, Lott took the position of Chief of Police of St. Matthews, SC, which he held until his successful run for Richland County sheriff.

Born in Aiken, South Carolina, in 1953, Sheriff Lott attended the University of South Carolina - Aiken, earning an Associate Degree in Police Administration. He went on to attend the University of South Carolina - Columbia, earning a Bachelor Degree in Sociology and continued with graduate study for a Masters in Criminal Justice. Later, Sheriff Lott graduated from the FBI National Academy, FBI National Executive Institute, Harvard University's John F. Kennedy School of Government, and Furman University's SC Diversity Leadership Academy.

Sheriff Lott is a member of various civic and community oriented boards and committees, a sampling of which include: USO Advisory Council, President - SC Law Enforcement Officers' Association, SC Correctional Association - Board of Directors, D.A.R.E. America - Board of Directors, Fight Crime- Invest in Kids - Advisory Committee, Washington, DC, Cooperative Ministry - Advisory Board, Communities in Schools - Advisory Board, Boy Scouts of America - Indian Waters Council - Board of Directors, SC Public Safety Coordinating Council – Chairman, SC Police Corps - Advisory Council, United Way - Local Government Division Chairman, American Heart Association - Industry Leader Division, March of Dimes - Luxury Lockup – Chairman, American Red Cross - Division Chair, and SC Center for Family Policy - Board of Directors.

Since 1996, Sheriff Lott has received numerous awards and honors including:

- 2012 DEA / DARE America Law Enforcement Executive of the Year
- 2012 Human Rights Presidential Citation, SC NAACP
- 2011 Local Government Official of the Year, SC Recreation and Parks Association
- 2011 Richard Allen Award, Allen University
- 2010 Columbia Chamber of Commerce Military Advocate Award
- 2010 New Ebenezer Baptist Church Outstanding Public Service Award
- 2010 Horatio Gates Honorary Medal
- 2007 Order of the Palmetto
- 2006 Greater Irmo Chamber of Commerce, Community Service Award
- 2004 "SC Sheriff of the Year"
- 2004 "Strom Thurmond Award of Excellence in Law Enforcement"
- 2004 SC Law Enforcement Officers' Association - "Toughest Cop"
- 2004 SC Vocational Rehabilitation Association - "Citation for Individual Contributions" (accessibility rights for people with disabilities)

Sheriff Lott, a member of the First Baptist Church of Columbia, is married and has four daughters.

John A. Sowards

Sowards is chairman of the board for Nexsen Pruet. In this position Sowards is responsible for shaping the firm's vision and strategy.

Sowards' practice is focused on the areas of real estate, corporate and finance law. He represents commercial lenders, real estate developers and closely held businesses on a variety of matters. His practice includes extensive experience with all aspects of shopping center and hotel development, as well as all aspects of commercial lending including troubled debt restructuring and workouts. Sowards' corporate practice consists of general representation of businesses on all matters related thereto including finance, acquisitions, mergers, employment, contracts and business negotiations.

Sowards grew up in Texas. He received his undergraduate degree in political science from the University of Tennessee and his law degree from the University of South Carolina School of Law. He was commissioned as a Second Lieutenant in the United States Army in 1975 and served for four years on active duty before heading to law school. Sowards spent 10 years as an active reservist.

Sowards is active in his community and served as a leader in a Boy Scout troop for nearly 12 years and as a youth sports coach for almost 14 years.

Sowards has been married to his high school sweetheart for more than 35 years and has two grown sons.

Frank W. Fusco
Representative Member for the Retired State Employees

Fusco assists organizations interested in improving performance and achieving excellence, provided the organization is committed to the endeavor. His primary career interest is organizational performance excellence.

Fusco retired in January 2011 as the Executive Director of the SC Budget and Control Board after serving about nine years in that capacity. He has 37 years of experience in both the legislative and executive branches of state government, including financial auditing, performance auditing, budgeting, performance improvement and leadership roles.

After graduating from Florida Southern College, he completed a two-year tour of duty in the United States Army, from which he was honorably discharged as a First Lieutenant in 1972.

Fusco services on the National Baldrige Foundation Board and received the Milliken Medal of Quality Award from the South Carolina Quality Forum. In the fall of 2011, he was named the Distinguished Public Service Practitioner for the Southeastern Region by the American Society for Public Administration and for South Carolina by the State Chapter.

Fusco writes and performs original rock and roll music with his band, “The Thunder Pigs.”

Joe W. “Rocky” Pearce, Jr.

Pearce is Vice President of Chartis Insurance, a world leader in insurance serving more than 70 million clients around the world. Pearce specializes in the educational markets providing accident and health insurance coverage to college and K-12 school students across the country including the South Carolina Consortium and the North Carolina UNC System.

Pearce has more than 42 years of experience in the insurance industry having begun his career in 1970 with Pearce & Pearce, Inc., the business established by his parents in 1948. His experience encompasses every aspect of claims administration including premium administration, waiver administration and underwriting implementation.

Pearce served two terms as Mayor of Florence from 1983-1991. During his eight years as Mayor, Florence experienced unprecedented economic growth with many new industries locating in Florence County. New construction permit dollar totals in the City of Florence almost tripled during his terms. After serving as Mayor, Pearce became Chairman of the Florence County Economic Development Partnership.

In 2002, Pearce was awarded The Order of the Palmetto by the Governor of South Carolina and was named the 2002 South Carolina Ambassador for Economic Development. He has served as Chairman of Florence County Recreation Committee as well as President of the Florence County Gamecock Club and was instrumental in bringing Habitat for Humanity to Florence County. Pearce served as Junior and Senior Warden of his church and has been the leader of his men’s weekly Bible study group for the last 17 years. He was the President of Pearce & Pearce Coldwell Banker Real Estate Company and President of the Florence Board of Realtors. Most recently, Mr. Pearce served on the South Carolina State Board for Technical and Comprehensive Education.

Pearce is married to the former Carolyn Gibbons Coker. They have four sons, three granddaughters and one grandson.

Cynthia A. Hartley

Hartley retired in 2011 as the Senior Vice President of Sonoco Products Company, a $4 billion global packaging company with approximately 20,000 employees in more than 35 countries, and more than 300 locations worldwide. While at Sonoco, she provided key management support for three Board of Directors committees: Compensation, Governance and Nominating, and Employee and Public Responsibility.

Hartley restructured Sonoco's U.S., Canadian and U.K. defined benefit pension plans, resulting in neutral cash and improved expense positions. She maintained the company's group insurance costs below industry averages through innovative cost management efforts.

Hartley earned a Bachelor of Arts degree in English from Roosevelt University in Chicago; a Master of Science degree in Organization Behavior from George Williams College in Illinois; and a Master of Business Administration from the University of Chicago.

Hartley is a member of the Board of Directors for South Carolina Bank and Trust. She also serves on the Coker College Board of Trustees and is a member of the Board of Directors of the Charleston Symphony Orchestra.

Hartley was featured in a Harvard Business Review Case Study entitled, "Sonoco Products Company: Building a World-Class HR Organization." She designed and implemented comprehensive succession planning and talent management processes globally including regular updates to Sonoco's Board of Directors regarding succession planning for the chief executive officer and other executive management positions. Sonoco was chosen three consecutive times by *Fortune* magazine as one of the top 25 companies in North America for developing leaders.

Arthur M. Bjontegard, Jr., Chairman

Bjontegard is a retired President of South Carolina's largest bank holding company, the former South Carolina National (SCN), and retired Chief Executive Officer of the South Carolina Independent College Association.

He is a past member of the former Investment Panel of the South Carolina Retirement Systems where he served as Vice Chairman; former head of the Pension, Investment, and Bond departments at SCN; and former Director and Chairman of the Investment Committee of the Palmetto Health System.

Bjontegard earned a Bachelor of Arts degree from Duke University and a Doctor of Laws degree from the University of Virginia Law School. He graduated from the Advanced Management Program at Harvard University and the executive education program at Stonier Graduate School of Banking

Bjontegard is a Past President or Chairman of the United Way of South Carolina, the United Way of Midlands, the Central Carolina Community Foundation, University Associates (USC), the Capital Senior Center, the Greater Columbia Community Relations Council, the South Carolina Council for Economic Education, the Trust Division- South Carolina Bankers Associations, the South Carolina Association of Non Profit Associations (SCANPO), and the Security Division of the American Bankers Association.

He received the Order of the Palmetto from former South Carolina Governor Carroll Campbell, and was named Urban League Man of the Year and South Carolina Bankers Association Young Banker of the Year.

Bjontegard is married with two children and five grandchildren.

Steve A. Matthews

Matthews is a former managing director of Haynsworth, Sinkler, Boyd, a position he held for seven years. Prior to holding that position, Matthews practiced corporate law with the Wall Street firm of Dewey Ballantine in its Washington office, and served in the U.S. Department of Justice during President Reagan's second term. At the Department of Justice, he advised Attorney General Edwin Meese III and the White House on the selection of nominees for federal judgeships and served as special counsel to Attorney General Meese on the Iran-Contra investigation.

Much of Matthews' current practice is concentrated in the area of entrepreneurial start-ups where he represents both developers and licensee-purchasers of software, hardware and other innovative technology. He is also an active litigator in complex corporate, IP, information technology and appellate matters involving mission critical aspects of our clients' businesses. Matthews is also a certified mediator for civil court actions in South Carolina.

President Bush nominated Matthews to a judgeship on the U.S. Fourth Circuit Court of Appeals in Richmond. That nomination was one of 10 federal appellate court nominations that expired when the 110th Congress adjourned without Senate action.

Matthews' professional and civic activities include:

- American Intellectual Property Law Association
- South Carolina Public Employee Benefit Authority (board member)
- South Carolina Governor's School for Science and Mathematics Foundation (board member)
- South Carolina Chamber of Commerce (board member)
- National Association of Bond Lawyers (former officer and board member)
- American College of Bond Counsel (founding member, former officer and board member)
- Federalist Society for Law and Public Policy Studies (former state chapter president)
- South Carolina Bar (former member, House of Delegates)
- Governor's South Carolina Education Reform Council (chair, 2006-2007)
- Graduate, The Riley Institute Midlands Diversity Leadership Initiative, Class 1
- Graduate, Leadership South Carolina, Class of 1995

Peggy G. Boykin, CPA

Representative Member of the South Carolina Retirement System

Boykin is Director of Special Projects at the College of Charleston. She is a former Director of the South Carolina Retirement Systems. Prior to her appointment as Director, Boykin was Assistant Director and Executive Manager of Benefits Payroll for the Retirement Systems. Prior to working for the Retirement Systems, she worked in private practice as a Certified Public Accountant and was a partner in the firm of Ham, Wood & Company, PA, in Mullins, South Carolina.

A native of Wagener, South Carolina, Boykin earned a bachelor's degree in business administration from the College of Charleston in 1981. She earned her certified public account (CPA) accreditation in 1985. She is a graduate of the Budget and Control Board's Executive Institute and the Governor's Center at Duke University. She received her certified retirement administrator designation in 1999.

Boykin is a member of the American Institute of Certified Public Accountants, the South Carolina Association of Public Accountants, the Government Finance Officers Association, the South Carolina Government Finance Officers Association, the National Council on Teacher Retirement, the National Association of State Retirement Administrators, and the National Association of Government Defined Contribution Administrators.

David J. Tigges

As Managing Shareholder, David J. Tigges is the McNair Law Firm's Chief Executive officer.

An Ohio native, Tigges graduated from the University of Toledo and Capital University. He served as an intern for the Ohio Supreme Court and the Federal District Court in Columbus, Ohio. He practiced law in Savannah, Georgia before attending William & Mary Marshall-Wythe School of Law. He also practiced with the accounting firm of Deloitte & Touche in Philadelphia, Pennsylvania until relocating to Hilton Head Island and where he began practicing with Bethea, Jordan & Griffin, P.A. From 2004 through 2009 Tigges served as the Unit Manager of the Beaufort County operations of McNair Law Firm.

Tigges served as Treasurer, Assistant Secretary, member of the Management Committee, and managed the Business Law Department of Bethea, Jordan & Griffin, P.A. from 1999 to 2004. He was responsible for the negotiation and implementation of the merger between Bethea Jordan & Griffin, P.A. and McNair Law Firm, P.A. in August 2004.

His practice concentration has been in the areas of Business Law, Tax Law, and Mergers and Acquisitions.

Tigges professional and community activities include:
- Member of the Board of Directors, South Carolina Public Employee Benefit Authority (PEBA), 2012-2014
- Member of the Board of Directors and Immediate Past Chairman of the Board of Directors, Hilton Head Island-Bluffton Chamber of Commerce
- Member of the Board of Directors, Heritage Classic Foundation
- Member of the Board of Directors, South Carolina Aquarium
- Member, Beaufort County Task Force on Economic Development
- Member, Mayor's Task Force for the Island's Future, Hilton Head Island
- Former Member of the Board of Directors, The Sandbox, An Interactive Children's Museum
- Former Director, Member of Executive Committee, and Chairman of the Educational Committee, Arts Center of Coastal Carolina
- Former Director and Member of the Executive Director Search Committee, The Sandbox: a Hilton Head Area Children's Museum, Inc.
- South Carolina Governor's Blue Ribbon Committee on Conservation Easements
- South Carolina Governor's Blue Ribbon Committee on Tax Incentives for Historic Preservation

Tigges was selected for inclusion in *Chambers USA, American Leading Lawyers for Business*.

Stacy Kubu

Representative Member for Teachers

Education: Francis Marion University, B.A. Early Childhood Education; Anderson University, Masters Elementary Education.

Business: First grade teacher at Midway Elementary School in Anderson District 5.

Audie M. Penn

Penn is Senior Director of Benefits, Compensation, and Employee Services at Michelin North America, Inc. He is responsible for the development and implementation of the benefits, pension, compensation, payroll and disability management strategies and policies for the United States and Canada.

Penn first joined Michelin in 1984 as an Electrical Design Engineer. He advanced to various positions within the company, including Project/Process Engineer, Technical Recruiter, Industrial Engineer, Production Manager, Human Resources Manager, Director of Human Resources – Michelin Americas Research Corp. and Director of Employee Services. Prior to Michelin, Penn served as a Mechanical Designer at Vulcan Metal Products and Electrical Design and Process Control Engineer at Proctor & Gamble.

Penn earned a Bachelor of Science degree in Engineering from the University of Alabama in Birmingham. He served two years in the United State Marine Corps and also two years in the United States Marine Corps Reserves.

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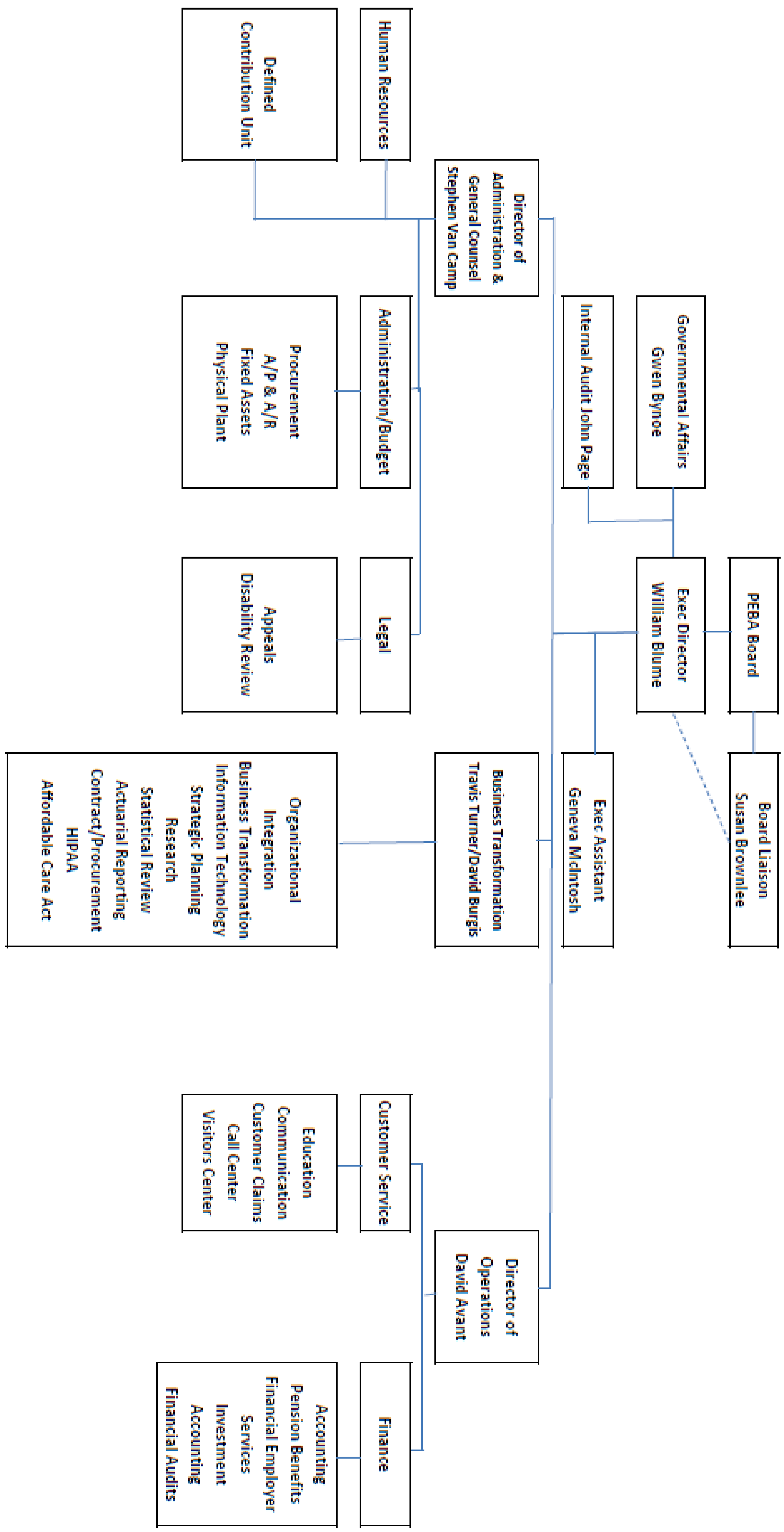
South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

William M. Blume, Jr., CPA
Executive Director



Interim PEBA Board Meeting Procedures

Interim Procedures Adopted
By a simple majority vote of those present, the PEBA Board may adopt these Interim PEBA Board Meeting Procedures.

Permanent Procedures Shall Be Proposed and Adopted
A PEBA Board governance committee shall draft and/or propose permanent Board meeting procedures for the conduct of PEBA Board business. Until adoption of such permanent procedures, or the adoption of other Interim Procedures by the Board, these Interim Procedures shall govern the conduct of PEBA Board business.

Collegial Meetings

Board meetings should proceed in an informal and collegial manner with a design towards reaching consensus when possible.

Quorum

Six Board members must be present for the PEBA Board to conduct business. In the absence of a quorum, the Board may take no action other than adjournment.

A majority of Board members assigned to a committee of Board members constitutes a quorum for that committee to conduct business.

Duties of Chairman

The Chairman shall:

- Preside and conduct meetings of the Board.
- Convene and adjourn meetings.
- Assign Board members to committees.
- Propose agendas for Board meetings.

Vice Chairman

The Board may select a Vice Chairman. In the absence of the Chairman, the Vice Chairman shall preside at Board meetings.

Items to Be Presented to the Board by Motion

The Chairman shall call for motions on items. Items presented to the Board for vote shall require a motion by a Board member other than the Chairman and a second of that motion by another Board member other than the Chairman.

The item can then be discussed by the Board. The Chairman shall manage the discussion of the item and may participate in the discussion.

The chairman shall call for a vote on the item.

Majority Vote

All matters before the Board shall be decided by a majority vote of those present and voting, unless, by law, a supermajority is required.

Questions of reconsideration, tabling or amendment of motions etc., are all decided by majority vote.

Adoption of Agenda

The Board shall, by motion and majority vote, adopt the agenda for the meeting. Amendments to the Board's agenda may be made by motion and majority vote.

Adoption of Minutes of Prior Meetings

The Board shall adopt the minutes of prior Board meetings by motion and majority vote.

Public Meetings

All meetings of the Board, including its committees, are public meetings that must comply with the open meeting and notice provisions of the Freedom of Information Act (FOIA) set out in Chapter 4 of Title 30 of the Code.

Executive Session

The Board or its Committees may enter executive session in the manner, and for the purposes set forth in the Freedom of Information Act (FOIA), including, but not limited to, the discussion of personnel matters, discussion of proposed contracts or purchase of property, receipt of legal advice, and discussion of agency positions in adversarial proceedings.

The Board shall enter executive session pursuant to a motion and majority vote. The board may not take any votes in executive session except the vote to exit executive session.

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

Actuarial Information Provided as Background for Valuations, Rate Increases and Increased Employer Contributions

September 18, 2012

www.peba.sc.gov

September 19, 2012

PEBA Board Members
202 Arbor Lake Drive
Columbia, SC 29223

Dear Board Members:

Enclosed for your review, and in chronological order, are the actuarial valuations beginning July 1, 2010, by Cavanaugh MacDonald (CAVMAC) and ending with Gabriel Roeder Smith's (GRS) final valuation and costs as a result of the legislative changes made by the General Assembly on June 21, 2012.

You should review these changes and the Budget and Control Board's (B&CB) minutes to familiarize yourself with the ordering and consequences of the valuations. We realize there will be numerous questions which can be addressed at the September 26, 2012, board meeting.

In addition, there will be a PowerPoint presentation relating to the valuations and costs to the Systems as well as a review of the Experience Investigation by Joe Newton, the lead GRS actuary on the Retirement Benefits' account, and me.

CHRONOLOGY:

- GRS was engaged to perform a parallel study of the prior actuaries' valuations and to perform an Experience Investigation.
- The CAVMAC valuation and employee/employer costs were subsequently approved by the Budget and Control Board on November 2011, based upon the earlier experience study (2007).
- In addition, GRS provided a new Experience Study that was approved by the Budget and Control Board on the same date.
- GRS was subsequently employed by the Budget and Control Board and engaged to prepare a valuation based on the newly approved Experience Investigation.
- The Budget and Control Board believed that the General Assembly was considering changes to the retirement plans, therefore, the Budget and Control Board never acted upon the new valuations.
- The final costs and valuations were amended by GRS reflecting the changes made to H.4967 (since the bill was not signed until June 26, 2012).

The PEBA Board will be asked to approve the following:

ITEMS REQURING BOARD ACTION

- Accept the GRS Actuarial Valuations for fiscal year beginning July 1, 2013, for all five plans.

- Approve Police Officers Retirement System employer/employee contribution rate increase effective July 1, 2013: Employee - 7.84 percent; Employer - 12.84 percent.

- Approve employer contribution effective July 1, 2013, for the General Assembly Retirement System of $4.063 million.

- Approve employer contribution rate increase for the Judges and Solicitors Retirement System required July 1, 2013, (from 45.09 percent to 47.33 percent).

- Approve National Guard Retirement System employer contribution rate increase from $3.937 million for fiscal year 2013 to $4.539 million for fiscal year beginning July 1, 2013.

We look forward to the first meeting of the PEBA Board and your involvement.

Sincerely,

William M. Blume Jr.

William M. Blume, Jr., CPA
Executive Director
Public Employee Benefit Authority

/gjm

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To: Members of the South Carolina Public Employee Benefit Authority

From: William M. Blume, Jr. CPA
Executive Director

Date: September 19, 2012

Re: Items Requiring Board Action

At the PEBA meeting scheduled for September 26, 2012, in its administration of the Retirement Division, the Board of Directors will be asked to take action on the following policy determinations, subject to approval by the State Budget and Control Board as required under section 9-4-45 of the SC Code of Laws.

1. Accept as information the actuary valuation package for Fiscal Year 2011.

In accordance with laws governing the operation and administration of the South Carolina Retirement Systems, actuarial valuations of the assets and liabilities of each System are conducted annually on each of the five defined benefit plans; the South Carolina Retirement System (SCRS), Police Officers Retirement System (PORS), Retirement System for Members of General Assembly (GARS), Retirement System for Judges and Solicitors (JSRS) and National Guard Retirement System (NGRS).

Typically there is a two year lag involved with actuary valuations. Data files are provided to the actuary in September after the plan's fiscal year ended June 30th is closed and reconciled. The actuary analyzes the data and provides a report by January which summarizes the results. The Board is then required to formally take action to accept the reports and adopt any recommended assumption or contribution changes. Recommended changes to the contribution rate are normally approved with an effective date at the beginning of the following fiscal year, giving sufficient time for employers to implement and incorporate any required increase in their budgets.

Actuary valuation reports for fiscal year 2011 were timely prepared and presented to the Budget and Control Board; however, given legislative activity regarding the retirement plans, action was delayed until the end of the legislative session. As expected, enactment of the pension reform bill, Act 278, changed the actuarial results that were originally reported for SCRS and PORS. Therefore, the package presented to the PEBA Board for consideration also includes a subsequent actuary certification letter that provides updated liability and cost information. These valuations, in the opinion of the consulting actuary, correctly present the conditions of the South Carolina Retirement Systems as to those benefits that are funded on an actuarial basis. The valuations also set out the contribution rates necessary to maintain the appropriate amortization periods for each system.

Act 278, among other things, created schedules for employer and employee contributions in SCRS and PORS. For SCRS, the employer and employee contribution rates are scheduled as follows:

Fiscal Year	Employer Contribution	Employee Contribution
2012-2013	10.60	7.00
2013-2014	10.60	7.50
2014-2015 and after	10.90	8.00

For PORS, the employer and employee contribution rates are scheduled as follows:

Fiscal Year	Employer Contribution	Employee Contribution
2012-2013	12.30	7.00
2013-2014	12.50	7.50
2014-2015 and after	13.00	8.00

Sections 9-1-1085 and 9-11-320(C) provide a statutory mechanism for increasing contributions if necessary. Should the actuarial valuations for a given year indicate that the amortization period for either SCRS or PORS would exceed 30 years based on the scheduled contribution rates, then the employer and employee rates must be increased equally to an amount necessary to maintain the 30 year period.
The SCRS valuation for fiscal year 2011 confirms that the scheduled contribution rates for the fiscal year beginning July 1, 2013 are sufficient to maintain an amortization period of no more than 30 years. As discussed immediately below, the PORS rates for both employer and employee must be increased in accordance with Section 9-11-320(C).

2. **Approve PORS contribution rate increases required effective July 1, 2013.**

   In order to maintain a 30-year amortization period, the PORS rates originally set forth in the actuary valuation report and in Act 278 of 2012 were contingent upon completion of the 2012 legislativesession. Once the bill became law, the actuary subsequently determined the impact on the future funding of the plan based on changes made to the Systems made during the session. With regard to the necessary increase in the PORS contribution rates, Act 278 added S.C. Code §9-11-320(C) which requires that any needed increase in contributions be split equally between employer and employee. The necessary increases are reflected on the chart below. (Please note that it was not possible for the actuary to have done their analysis on the final Bill in time for the General Assembly to have changed the schedule in H.4967.)

3. **Approve JSRS employer contribution rate increase required effective July 1, 2013.**

   The 2011 Actuary Valuation report recommends increasing the employer contribution rate from 45.09% to 47.33% in order for the unfunded actuarial accrued liability (UAAL) to be amortized over a period that does not exceed 30 years. The change in the actuarial assumptions and the asset experience (on a smoothed basis) were the two largest causes for the increase in the recommended contribution rate. Absent legislative changes or significant favorable investment experience, the actuary expects the contribution rate to continue to increase as deferred investment losses are recognized.

4. **Approve employer contribution required for GARS effective July 1, 2013**

The 2011 Actuary Valuation report recommends $4.063 million as the appropriate employer contribution rate for GARS (see the chart below).

Summary of Contribution Rates

	Per 2010 Actuary Valuation	Per 2011 Actuary Valuation	Contributions Set By Legislation (Schedule in Act 278)		Subsequent Adjustment Required
	July 1, 2012 - June 30, 2013	July 1, 2013 - June 30, 2014	July 1, 2012 - June 30, 2013	July 1, 2013 - June 30, 2014	July 1, 2013 - June 30, 2014
SCRS					
Employee	6.50%	6.50%	7.00%	7.50%	-
Employer	10.60%	12.23%	10.60%	10.60%	-
PORS					
Employee	6.50%	6.50%	7.00%	7.50%	**7.84%**
Employer	12.30%	12.30%	12.30%	12.50%	**12.84%**
GARS					
Employee	10.00%	10.00%	11.00%	11.00%	-
Employer	$2.831 million	**$4.063 million**	-	**$4.063 million**	-
JSRS					
Employee	10.00%	10.00%	-	-	-
Employer	45.09%	**47.33%**	-	-	-

Action required by PEBA Board to adopt

2

South Carolina Retirement Systems – Summary of Results

	SCRS July 1,		PORS July 1,	
	2010	2009	2010	2009
Number of Active Members and Compensation				
State and Higher Education Employees	53,142	54,347		
Compensation	$ 2,367,943	$ 2,396,568		
Public School Employees	83,935	85,491		
Compensation	$ 3,372,435	$ 3,378,593		
Others	53,162	52,481		
Compensation	$ 2,029,442	$ 1,986,645		
Total Number of Active Members	190,239	192,319	26,568	26,598
Total Compensation	$ 7,769,820	$ 7,761,808	$ 1,076,467	$ 1,084,154
Number of Persons Receiving Benefits and Benefits				
Total Number Receiving Benefits	111,394	108,014	12,566	11,950
Total Amount of Benefits	$ 2,081,376	$ 1,974,077	$ 234,376	$ 217,499
Trust Fund Assets				
Market Value	$ 19,681,137	$ 17,724,414	$ 2,851,474	$ 2,483,581
Actuarial Value	$ 25,400,331	$ 25,183,062	$ 3,612,700	$ 3,482,220
Unfunded Actuarial Accrued Liability (UAAL)	$ 13,373,698	$ 11,967,253	$ 1,237,757	$ 1,081,891
Remaining Liquidation Period (Years)	30	30	30	30
Required Contribution as a Percent of Compensation				
Normal Cost Contribution	3.51%	3.36%	7.24%	7.04%
UAAL Contribution	6.17%	5.88%	4.755%	4.09%
Incidental Death Contribution	N/A	0.15%	N/A	0.20%
Accidental Death Contribution (PORS Only)	N/A	N/A	N/A	0.20%
Total	9.68%	9.39%	11.995%	11.53%
Employer Contribution Rate for 30-Year Funding				
One-step Rate Increase Alternative				
FYE 2012		9.535%		11.7625%
FYE 2013	10.60%	9.68%	12.30%	11.995%
FYE 2014	10.60%		12.30%	
Two-step Rate Increase Alternative				
FYE 2012		9.535%		11.7625%
FYE 2013	10.16%	9.68%	12.1525%	11.995%
FYE 2014	10.64%		12.31%	
Contribution Rate - Alternate Salary Assumption				
One-step Rate Increase Alternative				
FYE 2012	9.535%	9.535%		11.7625%
FYE 2013	10.37%	9.68%	11.995%	11.995%
FYE 2014	10.37%		11.995%	
Two-step Rate Increase Alternative				
FYE 2012	9.535%	9.535%		11.7625%
FYE 2013	10.04%	9.68%	11.995%	11.995%
FYE 2014	10.40%		11.995%	

South Carolina Retirement Systems – Summary of Results

	GARS July 1,				JSRS July 1,			
	2010		2009		2010		2009	
Number of Active Members and Compensation								
Total Number of Active Members		170		170		141		144
Total Compensation	$	3,854	$	3,854	$	18,661	$	18,661
Number of Persons Receiving Benefits and Benefits								
Total Number Receiving Benefits		346		353		194		184
Total Amount of Benefits	$	6,412	$	6,525	$	14,361	$	13,745
Trust Fund Assets								
Market Value	$	32,770	$	31,505	$	111,226	$	99,989
Actuarial Value	$	43,712	$	45,891	$	142,871	$	141,797
Unfunded Actuarial Accrued Liability (UAAL)	$	24,959	$	22,600	$	72,952	$	72,566
Remaining Liquidation Period (Years)		15		16		16		16
Required Contribution as a Percent of Compensation								
Normal Cost Contribution	$	298	$	299		12.16%		12.02%
UAAL Contributions	$	2,533	$	2,233		32.93%		33.07%
Total	$	2,831	$	2,532		45.09%		45.09%

South Carolina Retirement Systems – Summary of Results

	NGRS July 1, 2010	NGRS July 1, 2009
Number of Active Members and Compensation		
Total Number of Active Members	12,445	12,599
Total Compensation	N/A	N/A
Number of Persons Receiving Benefits and Benefits		
Total Number Receiving Benefits	3,951	3,785
Total Amount of Benefits	$ 3,674	$ 3,536
Trust Fund Assets		
Market Value	$ 15,053	$ 12,773
Actuarial Value	$ 19,458	$ 18,600
Unfunded Actuarial Accrued Liability (UAAL)	$ 34,695	$ 34,821
Remaining Liquidation Period (Years)	22	23
Required Contribution as a Percent of Compensation		
Normal Cost Contribution	$ 524	$ 534
UAAL Contribution	$ 3,413	$ 3,371
Total	$ 3,937	$ 3,905

3

MINUTES OF STATE BUDGET AND CONTROL BOARD MEETING

March 22, 2011 -- 9:30 A. M.

The Budget and Control Board (Board) met at 9:30 a.m. on Tuesday, March 22, 2011, in Room 252 in the Edgar A. Brown Building, with the following members in attendance:

Governor Nikki R. Haley, Chair;
Mr. Curtis M. Loftis, Jr., State Treasurer;
Mr. Richard Eckstrom, Comptroller General; and
Senator Hugh K. Leatherman, Sr., Chairman, Senate Finance Committee.

Representative Daniel T. Cooper, Chairman, Ways and Means Committee, participated via telephone.

Also attending were Budget and Control Board Executive Director Eleanor Kitzman; Chief of Staff Marcia Adams; General Counsel Edwin E. Evans; Governor's Deputy Chief of Staff for Policy, Budget, and Cabinet Affairs Ted Pitts; Treasurer's Chief of Staff Bill Leidinger; Comptroller General's Chief of Staff James M. Holly; Senate Finance Committee Budget Director Mike Shealy; Ways and Means Committee Chief of Staff Beverly Smith; Board Secretary Delbert H. Singleton, Jr., and other Budget and Control Board staff.

Adoption of Agenda for Budget and Control Board

Mr. Loftis moved to amend the agenda to add an item to accept the actuarial report of the South Carolina Retirement Systems. He said that the Board will only need to accept the report and not act on it. He noted that there is an $88 million unfunded liability over the last year. He said that it is important for transparency and accountability rules that the report be accepted so that the General Assembly, taxpayers, and those that depend on the Retirement System can see the draft report. Senator Leatherman stated that the legislature is in the process of looking at the entire Retirement System under Governor Haley's leadership. He stated that the Board should wait to get the next actuarial report like the one Governor Haley is proposing so that they know what they are dealing with. Mr. Loftis asked whether there was a timetable for getting another actuary. Governor Haley said they are now going through the process of looking at the Retirement Systems from a fresh perspective. She said the fact that the State has gone from being solvent ten years ago to having unfunded liability of $14 billion to $40 billion and if the only action item is to put $100 million on the backs of the taxpayers she is not willing to do that.

She noted that Senator Leatherman has started a Senate subcommittee to look at this and Ms. Kitzman is looking for a new director for the Retirement Systems. Governor Haley said that the new Retirement Director can obtain the new actuary and get the numbers to compare to the current actuarial report. She said that she would like to present all of the information at once so that the Board can look at the big story of where they are and where they want to go.

Mr. Eckstrom said that the Board should look at the current report as a work in progress. He said he does not think the State is complete in evaluating the Retirement System's unfunded liability. He said that he has looked at the details of the reports and has questioned some of the details and that some of the details have been modified as a result. Mr. Eckstrom commented that the Board does not want to rush this matter because it is a liability of huge proportions. He said that there is nothing to gain by speeding through the process now or going out piecemeal with information. He said the Board needs to be very thoughtful in dealing with this matter. Mr. Loftis said that he agreed with Mr. Eckstrom and noted that this is the second actuarial firm the State has had in three years. He noted that there is a ten year history of unfunded liability from $198 million to the present unfunded liability of $14 billion or $15 billion. He said that he does not know how this should be fixed, but the taxpayers need to be put on alert that there is $88 million in unfunded liability. He said this is a bill that has been handed to the Board and as trustees of the Retirement System the Board needs to talk about that. Mr. Loftis further stated that most State employees do not realize that year after year the State comes up short. He said the Board can wait, but it will be one more year to pay interest on the unfunded liability. He reiterated that he is not asking for a decision to be made now, but the report should be accepted and allow the General Assembly take this matter up if it chooses to do so. Governor Haley stated that she could not in good conscience put the $100 million in the hands of the taxpayers and that she is fearful for the State employees because they are thinking they will get retirement benefits that are not there. She said new leadership and a new actuary have to be brought in and get new numbers to determine what is needed to fix the Retirement System for the long term in order to get it solvent again.

Mr. Loftis said that he would withdraw his motion because it was obvious he would lose on the motion. He noted that the Board presently has options and will have fewer options in the coming months. He said that by June there will be but one option and that is to put the entire burden on the taxpayers. He said the taxpayers will get the full brunt of this which is $88 million at a minimum. He further stated that he is not convinced that new leadership and a new actuary can completely redo the system in two months. Senator Leatherman responded that he has charged his subcommittee to come back with a plan that fixes the situation.

Upon a motion by Senator Leatherman, seconded by Mr. Eckstrom, the Board adopted the agenda as proposed.

Minutes of Previous Meeting

Upon motion by Mr. Eckstrom, seconded by Mr. Loftis, the Board approved the minutes of the February 8, 2011, Budget and Control Board meeting; and, acting as the Tobacco Settlement Revenue Management Authority, approved the minutes of the February 8, 2011, Authority meeting.

Blue Agenda

Upon a motion by Senator Leatherman, seconded by Mr. Cooper, the Board approved the blue agenda items, except as otherwise noted herein.

Division of General Services: Easements (Blue Agenda Item #1)

The Board approved the following easements as recommended by the Division of General Services in accordance with SC Code of Laws:

(a)	County Location:	Charleston
	From:	Budget and Control Board
	To:	South Carolina Electric and Gas Company
	Consideration:	$1,400
	Description/Purpose:	To grant a 0.640 acre easement and a 0.443 acre easement for the relocation, installation, operation and maintenance of overhead power lines to accommodate SCDOT's replacement of SC 171 Bridges over the Folly River and Folly Creek near the City of Folly Beach.
(b)	County Location:	Charleston
	From:	Budget and Control Board
	To:	South Carolina Electric and Gas Company

Information relating to this matter has been retained in these files and is identified as Exhibit 14.

Comptroller General: System Valuations as of July 1, 2010 (Regular Session Item 7A)

The laws governing the operation of the South Carolina Retirement Systems provide that actuarial valuations of the assets and liabilities of the System shall be made annually (Sections 9-1-260, 9-8-30, 9-9-30, 9-10-20, 9-11-30).

Each year a valuation is conducted on the five defined benefit plans administered by the Retirement Division. These valuations, in the opinion of the consulting actuary, correctly present the condition of the South Carolina Retirement Systems as to those benefits that are funded on an actuarial reserve basis.

Mr. Eckstrom noted that this is a very important issue and is one of the greatest financial challenges facing the State. He said there are a couple of hundred thousand beneficiaries of the plan that are looking for the plan to be solvent long-term. He said that by many measures of solvency and strength, the security of those contributions is becoming more and more imperiled as the years go on. He noted that the actuaries have given a valuation that shows the unfunded liability grew by a very large amount since last year's valuation to $13.4 billion and that the funded ratio has now declined to 65.5%. Mr. Eckstrom further commented that the funded ratio was at 68% last year when the Pew Foundation rated the State's plan as one of the weakest state plans nationwide in terms of funding. He said that adequate funding is a pretty good surrogate for security and that if there is a very large deficit in the plan that is a bad signal for the long-term security of contributions. He said that the Board members as trustees of the Retirement System must do what it can to address the long-term needs of the Retirement System.

After further discussion concerning employer and employee contribution rates over the last 20 years, Mr. Eckstrom noted that the actuaries are recommending that an additional employer contribution rate increase and spread it out over a couple of years. Mr. Eckstrom stated that he has serious objections to that recommendation. He said the Board should move toward parity between employer and employee contribution rates. He said that means the Board should not be looking just to employers year after year to make up the deficits that are growing in the plan. He said the Board cannot deal with employee contribution rates. Mr. Eckstrom said his recommendation and motion would be for the Board to accept the annual valuations as information, for the Board to reconfirm its strong commitment to its policy that the amortization periods for the Systems' actuarial unfunded accrued liability be constant or declining and not exceed 30 years, and for the Board to recommend to the General Assembly that prior to July 1, 2012, it increase the contributions to the State Retirement System and Police Officers Retirement System to maintain the 30-year amortization period through a structure that moves toward the goal of having employees and employers share more equally in contributions. He noted the actuaries have said that there does not have to be a contribution rate increase in the coming budget year beginning July 1, 2011, to June 30, 2012.

Senator Leatherman said he hopes that the Board knows that a committee has been formed to look at the Retirement System and that he has instructed the committee to take its time to fix the situation. He stated that with 15 or 16 legislative days left in the session the problem cannot be fixed in that short period of time. Senator Leatherman asked Ms. Kitzman whether there is an RFP process currently in progress for a second actuary to which Ms. Kitzman responded that is correct. Governor Haley also noted that in addition to the RFP for a new actuary there is a new director for the Retirement System. Senator Leatherman said that the new actuary should be chosen, the committee should continue to work, and they should collectively come up with what the General Assembly should do to solve this problem once and for all. He said for that reason he is fine with sections one and two of Mr. Eckstrom's motion, but with regard to section three he does not think the Board can tell the General Assembly what to do even though Mr. Eckstrom's motion says recommendation. Senator Leatherman asked that the question be divided and for the Board to vote on sections one and two of Mr. Eckstrom's motion and then vote separately on section three of the motion.

Mr. Eckstrom commented that he does not think the motion would tie the legislative committee's hands in any way. He said the solution the committee is developing is a solution that should consider both benefit structure and better splitting of contribution rates between employers and employees. He noted the Board now has information from the actuary that unless contributions are increased in FY 2012/13, the amortization period for the unfunded liability will extend to 37.5 years. Mr. Eckstrom said he is uneasy letting that happen. He said the General Assembly should consider dealing with the contribution increase because otherwise it would reflect adversely on the State's management this year of the pension liability. Senator Leatherman noted there is an RFP in progress for a second actuary and what he is looking for is a second actuarial opinion. He said he is not advocating going beyond 30 years and will never do so. He said he wants to make sure that what this State has promised its retirees, the State will be able to do. Mr. Eckstrom further responded that it is not likely that another actuary will come to a different conclusion with regard to the State's unfunded liability. He said the value the State will receive from a new actuarial firm is the assurance of total independence of thought at a point in time when the State is considering all options for plan structure. He said the new actuary will provide information that is independent in thought, but the independence of the new actuary will not go to the heart of what the State's unfunded liability is. Mr. Eckstrom reiterated that not doing anything with contribution rates will extend the amortization period for the State's unfunded liability as of July 1, 2010, beyond 30 years. He said that he is recommending the General Assembly deal with this issue because only the General Assembly can deal with employer and employee rates. Governor Haley asked Mr. Eckstrom whether what he was asking would go into effect in July 2012 to which Mr. Eckstrom said that it would.

In further discussion, Senator Leatherman asked Mr. Eckstrom whether the State is wasting money getting a second actuarial opinion if the results will not change much. Mr. Eckstrom stated that the value of the second actuarial report is that the new actuaries will bring new ideas for the State to consider in the management of the growth of its unfunded liability. Governor Haley commented that what the second actuarial report will show is that the 4% payroll growth and the 8% rate of return are not adequate numbers to use and the report will show bigger differences.

Upon a motion by Senator Leatherman to divide the question posed by Mr. Eckstrom, seconded by Mr. Cooper, the Board agreed to divide Mr. Eckstrom's earlier motion. Senator Leatherman, Mr. Cooper, Mr. Loftis, and Mr. Eckstrom voted for the motion to divide the question. Governor Haley voted against the motion.

Upon a motion by Mr. Eckstrom, seconded by Senator Leatherman, the Board accepted as information the annual actuarial valuations as information and reconfirmed its strong commitment to its policy that the amortization periods for the Systems' actuarial unfunded accrued liability be constant or declining and not exceed 30 years.

In discussion on the second part of Mr. Eckstrom's motion, the Board considered recommending to the General Assembly that prior to July 1, 2012, the General Assembly increase the contributions to the State Retirement System and Police Officers Retirement System to maintain the 30-year amortization period through a structure that moves toward the goal of having employees and employers share more equally in contributions. Mr. Eckstrom stated that motion gives the State several months to deal with this issue and that the General Assembly does not have to deal with it in the remaining days of the current legislative session and can deal with it during the next legislative session. He said that if Senator Leatherman is committed to doing that he is comfortable moving forward on that basis. The motion failed for lack of a second.

Information relating to this matter has been retained in these files and is identified as Exhibit 15.

Future Meeting

The Board agreed to meet at 10:00 a.m. on Monday, June 14, 2011, in Room 252 in the Edgar A. Brown Building.

Adjournment

The meeting adjourned at 11:00 a.m.

[Secretary's Note: In compliance with Code Section 30-4-80, public notice of and the agenda for this meeting were posted on bulletin boards in the office of the Governor's Press Secretary and in the Press Room, near the Board Secretary's office in the Wade Hampton Building, and in the lobbies of the Wade Hampton Building and the Edgar A. Brown Building at 10:30 a.m. on Friday, April 29, 2011.]

Grantee:	Town of Honea Path
Grant Request:	$95,500
Purpose/Description:	The project, known as the Shirmadon Street Sewer Replacement project, entails the open cut replacement and relocation of a defective run of existing gravity sewer line that runs congruent to Shirmadon Street for approximately 520 LF near Ervin Street. The existing 10-inch diameter sewer is in immediate need of repair and could collapse at any time causing an emergency service and environmental situation, particularly since the line serves a large portion of the Town.
Project Impact:	Completion of this project will prevent collapse of the existing line and will alleviate existing potential problems due to private property and accessibility issues.
Cost of Project:	$95,500
OLG Recommendation:	$95,500

The Board approved the following grant request as recommended by the Office of Local Government: Town of Honea Path, $95,500.

Information relating to this matter has been retained in these files and is identified as Exhibit 5.

Executive Director: Revenue Bonds (Blue Agenda Item #6)

The Board approved the following proposal to issue revenue bonds:

Issuing Authority:	Jobs-Economic Development Authority
Amount of Issue:	Not Exceeding $30,500,000 Solid Waste Disposal Facility Revenue Bonds
Allocation Needed:	-0-
Name of Project:	Tire International Environmental Solutions, Inc.
Employment Impact:	approximately 105 new, full-time jobs
Project Description:	establishing a solid waste disposal facility in Berkeley County
Note:	*public sale or privately placed*
Bond Counsel:	Ray E. Jones, Parker Poe Adams & Bernstein LLP
(Exhibit 6)	

State Treasurer's Office: Unfunded Liability (Regular Session Item #1)

At its meeting on May 2, 2011, the Board accepted the actuarial valuations for the South Carolina Retirement Systems prepared by Cavanaugh Macdonald Consulting, LLC, dated

February 24, 2011, which valuations reflect the amortization period to liquidate the unfunded liability at 37.6 years, 32.8 years, 25.0 years, 16.0 years, and 22.0 years for the SCRS, PORS, GARS, JSRS, and SCNG systems, respectively. However, in accepting these valuations, the Board did not take action to maintain compliance with the 30-year maximum amortization period prescribed by the Governmental Accounting Standards Board (GASB). The credit rating agencies have expressed as a condition of maintaining its high credit rating, that the retirement plans show improvement in the funded ratio over time and continue making annual required contributions. Accordingly, the Board was asked to meet its fiduciary duties as trustee and stewardship to the taxpayer by taking action to maintain a 30-year amortization period as prescribed by GASB and continuing the policies of the board in support of this precedent; commit to policies that promote full funding of the annual required contribution; give deference to provisions of state law that require availability of funds to meet all normal and accrued liabilities on an actuarially sound actuarial basis; and through these actions, address the expressed concerns of the rating services that the State continue making its annual required contributions.

Mr. Loftis moved for adoption of regular session agenda item #1. There was no second to the motion.

The Board took no action on a request from the State Treasurer's Office to adopt the proposed increases in employer contributions beginning in July 2012, as recommended in the actuarial valuations received by the Board at its previous meeting.

Information relating to this matter has been retained in these files and is identified as Exhibit 7.

Office of State Budget: Agency Deficit Update – Department of Health and Human Services (Regular Session Item #2)

On February 8, 2011, the Board considered the Department of Health and Human Services' (DHHS) request to recognize an operating deficit within the Medicaid program estimated at $227,786,198. At that meeting the Board determined that the operating deficit incurred by the Department was unavoidable and recognized the operating deficit not to exceed $100,000,000. On March 22nd the Board subsequently increased the deficit recognition amount to a total of $200,000,000. The Board further directed the Department to continue working with

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September 27, 2011

State Budget and Control Board
South Carolina Retirement Systems
P.O. Box 11960
Columbia, SC 29211

Re: Parallel Valuation Results for SCRS and PORS

Dear Members of the Board:

We have completed our comparison of the principal valuation results for the July 1, 2010 valuation of the South Carolina Retirement System (the actuarial valuations for SCRS and PORS). We have compared the results in Cavanaugh MacDonald's (CavMac's) actuarial valuation reports dated February 24, 2011, for the above mentioned plans, with the results we have independently calculated using the census data we received directly from South Carolina and the actuarial assumptions described in the valuation report by CavMac. This letter is not expressing an opinion as to the appropriateness of the methods and assumptions used by CavMac except as noted herein. However, we will note that part of the scope of GRS's engagement with South Carolina includes performing an experience study and recommend actuarial assumptions to use in performing actuarial valuations for SCRS.

An actuarial valuation is a complex set of calculations that requires the interpretation of details regarding census data, statutes of benefit provisions, plan administration practices, and the application of these things in conjunction with actuarial mathematics. Differences in valuation results can arise from different interpretations of the data, benefits, and operation of the plan and from subtle differences in the ways complex actuarial valuation software programs encompass this data and assumptions to calculate these results.

We should note for reference that when a new actuary is retained in the private sector, the IRS accepts the new actuary's results, without additional explanation, if the liabilities are within 2.00% of the prior actuary's liabilities. As you will find, we have matched the actuarial accrued liabilities to those calculated by CavMac within 0.14% (i.e. 14 basis points) for SCRS and 0.11% (i.e. 11 basis points) for PORS. Additionally, due to SCRS funding policy, we made considerable effort to match the calculated amortization period based on current contribution rates as well as the contribution necessary to attain a 30-year amortization period. Note, that small differences in the unfunded actuarial accrued liability and/or estimated payroll can result in differences in calculated contribution rates by several basis points or amortization periods that differ by several years (especially when calculating amortization periods that are greater than 20 years).

We are comfortable with the relative small differences in results between our calculated funding periods and contribution rates for both SCRS and PORS, which can be found on lines 13. and 14. of the attached exhibits.

As a result, we have attained a calculation baseline that is appropriate to begin performing an assumption review and plan design assessment.

Please do not hesitate to contact either of the consultants below if you have any questions or wish to discuss any of the information provided.

Sincerely,

Joseph P. Newton, FSA, EA, MAAA
Senior Consultant

Daniel J. White, FSA, EA, MAAA
Senior Consultant

Attachement

Exhibit 1. Parallel Valuation Results – SCRS
($ amounts in '000s)

	CavMac (1)	GRS (2)	% Difference (3)
Membership Information			
1. Active Members	190,239	190,273	0.02%
2. Members in Payment Status[1]	111,394	111,571	0.16%
3. Other Members	156,871	156,902	0.02%
4. Payroll[2]	$ 7,769,820	$ 7,750,215	-0.25%
Liability Information			
5. Actuarial Present Value of Benefits			
a. Active Members	$ 20,986,309	$ 20,840,075	-0.70%
b. Members in Payment Status	22,585,243	22,652,703	0.30%
c. Other Members	794,381	795,064	0.09%
d. Total Present Value of Future Benefits	$ 44,365,933	$ 44,287,841	-0.18%
6. Total Normal Cost	10.01%	10.01%	0.02%
7. Actuarial Accured Liability			
a. Active Members	$ 15,394,405	$ 15,379,576	-0.10%
b. Members in Payment Status	22,585,243	22,652,703	0.30%
c. Other Members	794,381	795,064	0.09%
d. Total Actuarial Accrued Liability	$ 38,774,029	$ 38,827,342	0.14%
8. Actuarial Value of Assets	$ 25,400,331	$ 25,400,331	0.00%
9. Unfunded Actuarial Accured Liability (6.d. - 7.)	$ 13,373,698	$ 13,427,011	0.40%
Statutory Contribution Rate Information			
10. Employer Normal Cost	3.51%	3.51%	0.00%
11. Amortization of Unfunded Liability	6.17%	6.17%	0.00%
12. Total Employer Contribution Rate	9.68%	9.68%	0.00%
13. Amortization Period - Current Contribution Rate	37.6	37.9	0.83%
14. 30-Year Funding Contribution Rate	10.60%	10.56%	-0.41%

[1] Includes members in TERI.

[2] Projected payroll for fiscal year 2011 (excludes compensation attributable to members in TERI and return to work retirees).

Exhibit 2. Parallel Valuation Results – PORS
($ amounts in '000s)

	CavMac (1)	GRS (2)	% Difference (3)
Membership Information			
1. Active Members	26,568	26,568	0.00%
2. Members in Payment Status	12,566	12,559	-0.06%
3. Other Members	11,899	11,901	0.02%
4. Payroll[1]	$ 1,076,467	$ 1,075,203	-0.12%
Liability Information			
5. Actuarial Present Value of Benefits			
a. Active Members	$ 3,256,790	$ 3,248,716	-0.25%
b. Members in Payment Status	2,577,772	2,580,981	0.12%
c. Other Members	110,574	110,930	0.32%
d. Total Present Value of Future Benefits	$ 5,945,136	$ 5,940,627	-0.08%
6. Total Normal Cost	13.74%	13.82%	0.57%
7. Actuarial Accured Liability			
a. Active Members	$ 2,162,111	$ 2,163,764	0.08%
b. Members in Payment Status	2,577,772	2,580,981	0.12%
c. Other Members	110,574	110,930	0.32%
d. Total Actuarial Accrued Liability	$ 4,850,457	$ 4,855,675	0.11%
8. Actuarial Value of Assets	$ 3,612,700	$ 3,612,700	0.00%
9. Unfunded Actuarial Accured Liability (6.d. - 7.)	$ 1,237,757	$ 1,242,975	0.42%
Statutory Contribution Rate Information			
10. Employer Normal Cost	7.240%	7.320%	1.10%
11. Amortization of Unfunded Liability	4.755%	4.675%	-1.68%
12. Total Employer Contribution Rate	11.995%	11.995%	0.00%
13. Amortization Period - Current Contribution Rate	32.8	34.7	5.92%
14. 30-Year Funding Contribution Rate	12.30%	12.44%	1.11%

[1] Projected payroll for fiscal year 2011 (excludes compensation attributable to return to work retirees).

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South Carolina Retirement Systems

2011 Experience Investigation

Presented by:
Joe Newton and Danny White
September, 2011

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Gabriel Roeder Smith & Company
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Purpose of Experience Study

- Assumptions are established to provide a best estimate of future anticipated experience
- Should occasionally change to reflect
  - New information
  - Mortality improvement
  - Changing patterns of retirements, terminations, etc.
  - Changing economic conditions
- Results of our experience study
  - Actuary recommends revised assumptions
  - Board considers recommendations for adoption

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Process

- Compared economic assumptions to:
  - Various sources of forward looking-estimates and statistics
  - Participant specific salary increases
  - Expected return using alternative capital market assumption sets
  - Economic assumptions should be consistent with each other
- Analyzed demographic assumptions
  - Reviewed SCRS's actual experience
  - Analysis compares actual-to-expected (A/E) experience

Significant Recommendations

- Significant Proposed Changes
  - Decrease the inflation assumption from 3.00% to 2.75%
  - Decrease the investment return rate from 8.00% to 7.50%
  - Improve the mortality assumption

Other Recommendations

- Other recommended assumption changes
  - Updated rates of termination and retirement
  - Overall decrease in the rates of individual salary increases
  - Decrease the payroll growth assumption
  - Inclusion of a service purchase assumption

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Inflation

- Current Assumption is 3.00%
- Observations
  - Actual average increase over the last 25 years is 2.81%
  - Investment firms: 2.02% - 3.00%
  - Social Security Trustee's Report: 2.80% (intermediate)
  - TIPs vs. Nominal US Treasuries: 2.54%
  - Professional forecasters: 2.40% average
- We recommend decreasing to 2.75%
  - Closer to levels expected in the bond market and professional forecaster estimates
  - Assumption change impacts other economic assumptions

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Investment Return Assumption

- The current assumption is 8.00%
  - Assumption equals 3.00% inflation plus 5.00% real return, net of investment and administrative expenses
- Assumption is reviewed using a process that considers:
  - Retirement System's investment policy
  - Analyzed using capital market expectations
    - NEPC – SCRSIC's Investment Consultant
    - PCA – Investment consultant engaged by GRS to assist in the independent assessment

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Investment Return Assumption

Development of the Adjusted Arithmetic and Geometric Nominal Return Averages to Identify an Appropriate Investment Return Assumption

Investment Consultant (IC)	NEPC	PCA
1. Expected Arithmetic Return – IC	**8.11%**[1]	**8.00%**[2]
2. IC's Inflation Assumption	3.00%	2.75%
3. Real Return (2. – 1.)	5.11%	5.25%
4. Actuary's Recommend Inflation	2.75%	2.75%
5. Actuary's Expense Assumption	(0.30%)	(0.30%)
6. Adjusted Arithmetic Return Estimate (3. + 4. + 5.)	**7.56%**	**7.70%**
7. Adjusted Geometric Return Estimate[3]	**6.95%**	**7.10%**

[1] Approximate arithmetic return developed using a 7.50% geometric return and an 11.0% standard deviation documented in the NEPC document titled 2011 Asset Allocation Update dated June 16, 2011.
[2] Per summary of PCA analysis dated August 1, 2011.
[3] Developed from the investment consultants' 5-year geometric returns.

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Retirement Systems that Recently Changed their Assumption

Retirement System	Prior	New	Change
Arizona PS	8.50%	8.25%	-0.25%
California STRS	8.00%	7.75%	-0.25%
Colorado PERA	8.50%	8.00%	-0.50%
Colorado FPPA	8.00%	7.75%	-0.25%
Hawaii ERS	8.00%	7.75%	-0.25%
Illinois (ERS & URS)	8.50%	7.50%	-0.50%
Indiana PERF	7.25%	7.00%	-0.25%
Indiana TRS	7.50%	7.00%	-0.50%
NY State and Local ERS	8.00%	7.50%	-0.50%
Pennsylvania SERS	8.50%	8.00%	-0.50%
Rhode Island ERS	8.25%	7.50%	-0.75%
Virginia Retirement System	7.50%	7.00%	-0.50%
Wisconsin Retirement System	7.80%	7.20%	-0.60%

All of the above changes were made in 2010 or 2011.

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Actuary' Recommendation

- GRS recommends decreasing the current net investment return assumption from 8.00% to 7.50%
  - Mid-point between the arithmetic and geometric return estimates using capital market assumptions developed by NEPC and PCA

Development of the Return Assumption

	Current	Recommended	Change
Inflation	3.00%	2.75%	(0.25%)
Real Return	5.00%	4.75%	(0.25%)
Net Nominal Return	**8.00%**	**7.50%**	**(0.50%)**

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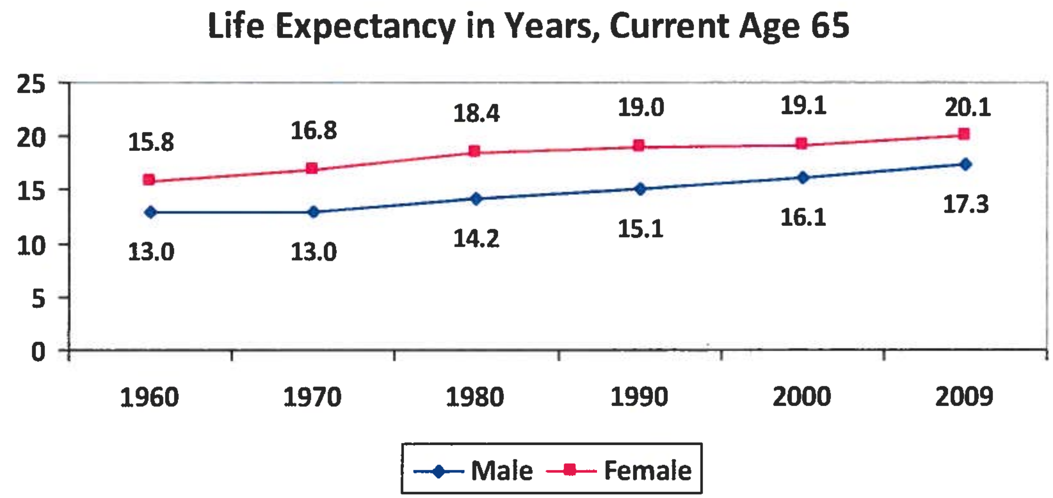
Post-retirement Mortality

- Life Expectancy has been increasing across the country[1]



- Retirees of SCRS have also been living longer

Group	Public School District Employees		PORS		General Employees	
Gender	Males	Females	Males	Females	Males	Females
Life Expectancy at Age 65 (Years)						
Experience from 2000-2003	17.2	21.3	14.8	N/A	17.0	20.8
Experience from 2007-2010	18.7	22.0	16.7	N/A	18.4	21.5
Increase in Life Expectancy	1.5	0.7	1.9	N/A	1.4	0.7

[1] Source: National Vital Statistics Reports, Vol 58, No 21, June 2010, National Vital Statistics Reports, Vol 59, No 4, March 2011

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Post-retirement Mortality

- Recommend updating the mortality assumption to reflect improvement in the life expectancy of SCRS retirees
- Include an explicit assumption for future improvement in life expectancy
  - Assumes life expectancy will continue to improve every year going forward
  - Becoming more prevalent to assume continued increases in life expectancy

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Post-retirement Mortality

Life Expectancy of an Age 65 Retiree under the Current and Recommended Assumptions

Retiree Group	Current Assumption	Proposed Assumptions			
	All Years	2015	2020	2025	2030
General Retirees – Male	17.3	19.6	20.0	20.4	20.7
General Retirees – Female	21.6	22.3	22.5	22.7	22.9
Public School District Employees – Male	18.1	19.5	19.9	20.3	20.6
Public School District Employees – Female	21.6	22.4	22.6	22.8	22.9
Public Safety/Fire – Male	15.2	17.8	18.2	18.6	19.0
Public Safety/Fire - Female	21.6	19.7	19.9	20.1	20.4

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Cost Impact - SCRS

	Current Assumptions 2.0% COLA	Recommended Assumptions 2.0% COLA	Recommended Assumptions 1.0% COLA
	(1)	(2)	(3)
Actuarial Accrued Liability (AAL)	$38,774	$42,421	$38,729
Actuarial Value of Assets (AVA)	25,400	25,400	25,400
Unfunded Actuarial Accrued Liability (UAAL)	$13,374	$17,021	$13,328
Funded Ratio – Actuarial Value of Assets	66%	60%	66%
Funded Ratio – Market Value of Assets	51%	46%	51%
Current Contribution Rate	9.68%	9.68%	9.68%
Amortization Period – Current Rate	38 Years	Never	65 Years
30-Year Contribution Rate – Actuarial Assets	10.60%	14.76%	11.56%
30-Year Contribution Rate – Market Assets	13.84%	18.94%	15.67%

$ in millions

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Cost Impact - PORS

	Current Assumptions 2.0% COLA	Recommended Assumptions 2.0% COLA	Recommended Assumptions 0.0% COLA
	(1)	(2)	(3)
Actuarial Accrued Liability (AAL)	$4,850	$5,492	$4,564
Actuarial Value of Assets (AVA)	3,613	3,613	3,613
Unfunded Actuarial Accrued Liability (UAAL)	$1,237	$1,879	$951
Funded Ratio – Actuarial Value of Assets	75%	66%	79%
Funded Ratio – Market Value of Assets	59%	52%	63%
Current Contribution Rate	11.995%	11.995%	11.995%
Amortization Period – Current Rate	33 Years	Never	20 Years
30-Year Contribution Rate – Actuarial Assets	12.30%	18.06%	10.87%
30-Year Contribution Rate – Market Assets	16.07%	23.60%	16.11%

 $ in millions

GRS

SECTION II
SUMMARY OF RECOMMENDATIONS

Summary of Recommendations

Our recommended changes to the current actuarial assumptions may be summarized as follows:

Economic Assumptions

1. We recommend reducing the current 3.00% inflation assumption to 2.75%, placing it closer to recent inflation levels and closer to the levels expected in the financial markets, forecasts by economists, and investment professionals. As you will see, this change affects other economic assumptions.

2. Reduce the nominal investment return assumption from 8.00% to 7.50%, taking into account the lower inflation assumption and decreasing the expected net real return by 0.25%. Based on current capital market assumptions from NEPC and PCA, a 7.50% investment return would be in an ideal range that is between the expected arithmetic return based on the target asset allocation and the median expected geometric return (compounded over a 10 year period).

3. Reduce the productivity component of the salary scale assumption by 0.25%, from 1.00% to 0.75% for SCRS and from 1.50% to 1.25% for PORS. This recommendation reflects a reduction in the spread between inflation and salary increases experienced in the overall economy and the expectation of lower future salary increases due to continued budgetary constraints for employers. Combining with the inflation rate of 2.75% results in an ultimate wage inflation assumption of 3.50% for SCRS and 4.00% for PORS.

4. In accordance with the observed experience, increase the service-based promotional/longevity component of the salary scale for all groups.

5. In conjunction with the reduced price and wage inflation assumptions, reduce the payroll growth rate assumption from 4.00% to 3.50%. In addition, we recommend changing the current assumption that the proportion of payroll represented by members in TERI or RTW status will remain consistent throughout time. Due to changing demographics and the size of the baby boomer generation, the total number of members in these two programs will decrease from current levels over the next 10-15 years. We recommend an assumption that the payroll in this category will remain flat for 10 years and then begin to grow at the payroll growth rate. Changing the payroll growth assumption has no impact on the liabilities, but does assume there is a lower growth in the future payroll to amortize the UAAL, which results in an increase in the current contribution requirements.

6. It is our understanding that the Board's adoption of an investment return assumption that is less than 8.00% will lower the maximum amount of the automatic COLA from 2.0% to 1.0% for SCRS and completely eliminate the 2% automatic COLA for PORS. If correct, then we will need to discuss with Staff and Board the likelihood of granting future ad hoc COLAs for these

groups to identify whether a COLA assumption should be incorporated into the assumptions for these future increases.

Mortality Assumptions

7. Update the post-retirement mortality tables for non-disabled retirees to the RP-2000 mortality tables with adjustments to better fit the Plan's experience. In addition, we are proposing to add an explicit assumption for continuous increases in life expectancy by projecting future mortality improvements by scale AA. Because of this assumption of continuous improvement, life expectancies for today's younger active members are expected to be materially longer than those of today's retirees. This recommended assumption change has a significant impact on costs and liabilities.

8. Update the disabled post-retirement mortality assumption to the RP-2000 disabled mortality tables with adjustments to be a better fit to the Plan's experience.

9. Recommend adjustments to the current client specific table used for active mortality across all groups.

Other Demographic Assumptions

10. Change the structure of the retirement pattern from solely being age based with an additional increase at first eligibility to a distinct age based table if the member attains the age retirement condition first (age 65 for SCRS and age 60 for PORS) and service related pattern if the member attains the service retirement condition first (28 years of eligibility service for SCRS and 25 years of eligibility service for PORS). Overall, there were fewer actual retirements during the experience period than expected under the current assumption which is consistent with national trends. The recommended tables expect slightly lower patterns of retirement.

11. Recommend no change to the current termination assumptions for the first 10 years of employment for SCRS. Recommend changing the assumption during the ultimate period (after 10 years) to be based on years from retirement eligibility instead of the current age related assumptions. This methodology has shown to more closely match the experience for a plan with multiple retirement eligibility conditions (age 60&5, age 55&25, 28&out). Overall, the recommended assumptions will assume more members reach retirement once they are within 10 years of retirement.

    For PORS, the entry ages for members are clustered closer together at younger ages and a majority of members attain the 25&out condition for retirement eligibility. Therefore, we recommend modifying the structure of the termination assumption to be based only on the member's service. We also recommend increasing the overall termination rates to better match anticipated experience.

12. Recommend continued methodology for modeling the TERI and return to work (RTW) provisions by accruing all the liability for active members before they enter TERI or initially retire. This is a conservative approach versus accruing the liability over the total active career (including time in TERI or while returned to work).

    Recommend no longer differentiating between members who will enter the TERI program in the future from members who will utilize the RTW provisions. From the Plan's perspective, these two programs are similar in cost and in many circumstances the RTW provisions are slightly more favorable to the member.

13. Recommend adding an explicit assumption to model the experience that members often purchase service to enable them to immediately become eligible for retirement. An assumption will be added for portions of the active population to begin purchasing service to enable them to retire under the service only eligibility conditions when they are within five years away from retirement.

14. Make no change to the rates of disability.

15. Make no change to the current 100% marriage assumption and spousal age difference.

16. Make no change to the current unused sick leave or annual leave adjustments used in the calculation of a member's retirement benefit.

Actuarial Methods and Policies

17. Our recommendation is to change to a 5-year asset smoothing method without a corridor. Under this method, investment gains and losses will be recognized at the rate of 20% per year for each of the five years after they occur. Alternatively, if the 10-year smoothing method is continued to be used, we recommend adopting an asset corridor, such that the actuarial value of assets does not deviate more than 20% of the market value as of that date. If either recommendation is adopted, they would be applied on a prospective basis; so there will be no change to actuarial value of assets calculated as of June 30, 2010.

18. The individual Entry Age Normal cost method (EAN) is the current funding method being used to allocate the actuarial costs of the System. The Entry Age Normal method will generally produce relatively level contribution amounts as a percentage of payroll from year to year, and allocates costs among various generations of taxpayers in a reasonable manner. It is by far the most commonly used actuarial cost method for large public retirement systems. We continue to believe this is the most appropriate funding method and recommend no change.

    For members who have correlated service with another employer, the cost method will assume the member has no accrued liability at the date of hire and will accrue all benefits from the hire

Table 1.
Impact of Recommended Assumption Changes on SCRS

	UAAL ($000s) (1)	30-Year Contribution Rate (2)
June 30, 2010 Valuation (Current Assumptions):	$ 13,373,698	10.60%
Increase / (Decrease) due to:		
a. Replication of valuation results by GRS	53,313	-0.04%
b. Other changes[1]	264,818	0.31%
c. Modification to the termination assumption	123,685	0.09%
d. New assumption to reflect service purchase behavior	158,810	0.17%
e. Update post-retirement mortality assumption	1,062,459	0.93%
f. Decrease inflation assumption from 3.00% to 2.75%[2]	972,570	0.86%
g. Decrease the rate of compensation increases from 4% to 3.5%	(204,655)	0.14%
h. Decrease the payroll growth rate from 4% to 3.50%	0	0.66%
i. Decrease the interest rate assumption from 8% to 7.50%	1,216,486	1.04%
j. Total for all assumption changes (items a. though i.)	$ 3,647,486	4.16%
k. Effect of decreasing the COLA from 2.00% to 1.00%	$ (3,692,845)	-3.20%
June 30, 2010 Valuation (Recommended Assumptions):	$ 13,328,339	11.56%

[1] Inclusion of correlated service for determining retirement eligibility, no longer differentiating the different types of working retirees (i.e. TERI and return to work), updated mortality assumption for active employees, and updated rates of retirement.

[2] Includes a 0.25% decrease in the nominal investment return assumption.

Table 2.
Impact of Recommended Assumption Changes on PORS

	UAAL ($000s) (1)	30-Year Contribution Rate (2)
June 30, 2010 Valuation (Current Assumptions):	$ 1,237,757	12.30%
Increase / (Decrease) due to:		
a. Replication of valuation results by GRS	5,218	0.14%
b. Other changes[1]	54,012	0.23%
c. New assumption to reflect service purchase behavior	32,212	0.35%
d. Update post-retirement mortality assumption	281,685	2.33%
e. Decrease inflation assumptiôn from 3.00% to 2.75%[2]	133,252	1.10%
f. Decrease the rate of compensation increases from 4.5% to 4%	41,653	-0.03%
g. Decrease the payroll growth rate from 4% to 3.5%	0	0.62%
h. Decrease the interest rate assumption from 8% to 7.50%	93,321	1.02%
i. Total for all assumption changes (items a. though h.)	$ 641,353	5.76%
j. Effect of decreasing the COLA from 2.00% to 0.00%	$ (927,524)	-7.19%
June 30, 2010 Valuation (Recommended Assumptions):	$ 951,586	10.87%

[1] Inclusion of correlated service for determining retirement eligibility, updated rates of disability incidence, termination, retirement, and mortality while actively employed.

[2] Includes a 0.25% decrease in the nominal investment return assumption.

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Appointment Capacity	Appointee	Recommendation
Municipal Employee	Melissa Carter	Municipal Association of South Carolina
Retired State Employee (PORS)	J. Douglas Connelly	SC Law Enforcement Officers

Information relating to this matter has been retained in these files and is identified as Exhibit 21.

Retirement Division: System Valuations and Parallel Systems Valuations as of July 1, 2010; and Experience Study for the Period Ending June 30, 2010 (Regular Session Item 6)

A) The laws governing the operation of the South Carolina Retirement Systems (Retirement Systems) provide that actuarial valuations of the assets and liabilities of the Systems shall be made annually (Sections 9-1-260 [SCRS], 9-8-30 [JSRS], 9-9-30 [GARS], 9-11-30 [PORS], 9-10-20 [NGRS]).

Each year a valuation is conducted on the five defined benefit plans administered by the Retirement Division. The purpose of these valuations is to, in the opinion of the consulting actuary, correctly present the condition of the Retirement Systems as to those benefits that are funded on an actuarial reserve basis. Cavanaugh Macdonald performed System valuations as of July 1, 2010. Based on volatile economic and market conditions, a second independent valuation for the Cavanaugh Macdonald valuations of SCRS and PORS was sought.

Accordingly, an RFP was issued and contractual arrangements were entered with Gabriel, Roeder, Smith and Co.(GRS) to conduct parallel valuations of SCRS and PORS for the July 2010 principal valuation results provided by Cavanaugh Macdonald. The parallel valuations performed by GRS confirm the results reached by Cavanaugh Macdonald and confirm the required employer contribution rate increases necessary to maintain a 30 year funding period for purposes of the 2010 valuations. As described below, the Cavanaugh Macdonald valuations gives the Board two options for implementing the required increases to employer contribution rates for SCRS and PORS. It should also be noted that, should the General Assembly amend the retirement code such that the valuation is affected, the Board may consider implementing changes to employer contribution rates as needed.

(B) In addition to the requirement for annual valuations, at least once every five years an experience study is conducted for the Retirement Systems. Again based on volatile economic and market conditions and as part of the above mentioned RFP and contract with GRS, the Board had GRS perform an experience study in the summer of 2011 for SCRS and PORS rather than waiting five years from the last experience study done in 2007. GRS has now completed the experience study for the Board's consideration for the period ending June 30, 2010. GRS has recommended adjustments to several actuarial assumptions, methods and policies related to the funding of SCRS and PORS. Some of the more significant changes recommended by GRS include changing the assumed annual inflation rate from 3% to 2.75%; reducing the payroll growth rate assumption from 4% to 3.5%; changing the assumed rate of return from 8% to 7.5%; updating the mortality tables to reflect continuous increases by projecting future mortality improvements; and changing the smoothing period for recognizing investment gains/losses from 10 years to 5 years. A complete listing of the recommended assumptions, methods and policies is attached hereto. GRS has indicated that the recommended assumptions, methods and policies as part of the experience study must be taken as a set. If any single assumption, method or policy change or group consisting of less than the entire set of changes is not accepted by the Board, the entire set would have to be re-examined for appropriateness. If accepted by the Board, the assumptions, methods and policies will be applied to future actuarial valuations for SCRS and PORS beginning with the valuation for the fiscal year ending June 30, 2011. Finally, as the assets of all five plans that make up the Retirement Systems are pooled for investment purposes in a group trust, the recommended changes to the assumed rate of return and the period for smoothing the recognition of investment gains and losses will also be applied to future actuarial valuations for GARS, JSRS and NGRS beginning with the valuation for the fiscal year ending June 30, 2011.

Mr. Blume, Division Director for the Retirement Division, appeared before the Board on this matter along with Joe Newton of Gabriel Roeder Smith & Company and Neal Rue of Pension Consulting Alliance, Inc. Mr. Newton provided the Board with a summary of the assumptions. He noted that there were two significant strategies that were taken with the new assumptions. He said that one is an estimate of lower future economic growth across the board in all of the economic assumptions to include lower investment returns, lower salaries, lower growth in the State's budget, and lower growth in the general economy. Mr. Newton said the second thing to consider is that people are living longer and that when a pension plan is being funded the length of payment to an individual is a significant portion of the cost. He stated that if the assumption is that someone is going to receive an annuity for 20 years but receives it for 22 years that is a 10% difference in underestimating the cost. He said this is a national trend and not just a South Carolina trend and since people are living longer, increases are expected. He stated that more needs to be contributed to the plan to cover the beneficiaries.

Mr. Loftis asked whether the Board action requested was two different motions. Governor Haley said that it is one motion that has two elements to the motion. Mr. Loftis asked for discussion on the Cavanaugh Macdonald recommendation. Mr. Newton said the Board is looking at the contribution rate for fiscal year 2013 and that is what the Board is to consider. Mr. Loftis asked what the rates are. Mr. Newton said the rate is 10.6 for the SCRS plan and 12.3 for PORS.

Mr. Loftis stated that he does not see the wisdom in putting this matter in one motion and that it should be two different motions. He noted that the Cavanaugh Macdonald proposal was based on a set of data which the Board has had a lot of time to discuss and the public to digest, but the second part is very much different and there should be a conversation about it. He said that one motion sets the Retirement System right and puts it back to square one. He said the other motion sets the Retirement System forward. He stated that he would not want to see one part of the motion put the other part in jeopardy.

Mr. Loftis made a motion to separate the Board action requested so that part "A)" is one motion and part "B)" is another motion. Governor Haley commented that the Board has known from the beginning that this year was going to hurt. She said the Board has agreed that it will not bury its head in the sand. She said that those who are retired should get what they are supposed to get and that there must be stability for current state employees so they know there will be something for them when they retire. She said this is something the Board can piecemeal and put off the inevitable, but this is something that should be done and done right the first time. She said she has full faith in her conversations with Mr. White and Senator Leatherman that the legislature is committed to a solution. She stated that she offers her guidance along with Mr. Blume's to ensure stability and predictability to the plan. Governor Haley further stated that this should be done to be in accord with federal requirements, to protect the State's rating agency rankings, and to give the taxpayers of the State predictability. Senator Leatherman asked for a second to Mr. Loftis' motion before it is discussed. Governor Haley asked for a second to Mr. Loftis' motion. There was no second to the motion to split the question. The motion failed.

In further discussion, Mr. Eckstrom asked whether those issues were linked with regard to the valuations and parallel valuations which tells the Board what has to be done with contribution rates but in order to continue to deal with plan management the Board has to deal with the matter of assumptions, estimates, policies, and those sorts of things in order for the next annual valuation to be performed. Mr. Eckstrom asked whether an experience study is done every five years and whether that is what has been done in this case to which Mr. Blume responded that is correct. Mr. Eckstrom asked whether the practice has been to rely on advice of the actuarial firms in preparing the experience studies. Mr. Blume said the practice is that the Board relies on whoever does the study. Mr. Blume noted that the experience study should have been done in 2012, but it was moved up to the end of 2010. He also stated that the valuations and the experience study are connected. He said this is not saying that the 10.6 has to be met and then go out and consider another set of assumptions. He said there are another set of assumptions now. Mr. Eckstrom stated that the 10.6 is based on current assumptions to which Mr. Blume said it was based on current assumptions for 2010. Mr. Eckstrom asked whether the recommended assumption changes would apply from that point forward to which Mr. Blume said that is correct. Mr. Eckstrom said one of the reasons the assumptions needed to be revisited is that one of the results of the annual actuarial valuation shows that the assumptions continue to miss the mark yearly. Mr. Blume said since 2000 there has been nothing but actuarial losses or investment losses. He said investment losses cannot be changed, but the actuarial losses and assumptions can be changed. He said the only gain that has been seen since that period of time is when the investment rate was changed from 7.25% to 8%. He said this is an unusual situation. Mr. Eckstrom said this shows the assumptions that are in place have not been reliable. Mr. Eckstrom said the fact that the assumptions produce losses year after year indicates that the inevitable is being forestalled. He said the inevitable is that the retirement system is in worse shape than what has been acknowledged. He stated that the Board has managed the bad news by assuming that the news is not so bad.

In further discussion, Mr. Loftis said that the Cavanaugh Macdonald valuation is 18 months away looking back. He said that is being added to the assumptions for two of five systems and that not all assumptions can be spread across all five systems. He said that he has not heard the kind of academic conversation about the underlying assumptions that he wants to have. He said one concern is whether the Board should take inflation from 3.0% to 2.5%. He said he has talked to three world class economists one of which said that 2.5% is too low. He said the same economist said that he would not bet on 30-year or 10-year. He said the Board is about to accept the assumptions and has not worked through them. Mr. Loftis stated that if 2.5 is defensible, is 2.75 defensible. He said he has looked at the charts for major states pension plans across the country and most of them are still at 8%, but each of them is defensible. He said what the Board is about to do is to accept the assumptions without looking at them. He said his fear is that overstating the State's liabilities is as bad as understating the liabilities. He commented that he has had a problem with Retirement's charts and that the charts do not reflect the current status. He said when linking the two issues together legitimacy is given to one that is not deserved. Mr. Loftis said looking at the issue from Mr. Eckstrom's standpoint, he does not know why the Board does not take the assumptions and apply them to the Cavanaugh Macdonald valuations. He said if the point is to right the system now then that is what should be done, but he does not think that is prudent. He said the Board has not had public comment and that this action requires a lot of thought and consideration and does not need to happen now. He said the Board should wait until the charts and other information are available so that the public can understand it.

Senator Leatherman stated that the Board members are sitting as trustees of the Retirement System and they have a fiduciary responsibility to the system, but more importantly to the State employees and retirees to make absolutely sure that the system will ensure they get what they are supposed to get. He said he will not be a party to anything the State does that does not live up to its promises. He said the Board has to do what it needs to in order to get the system healthy and keep it healthy. He noted that the Board also has to take into account the State's credit rating because the rating agencies look at the State's credit rating. Senator Leatherman further commented that over the past five years there has been a 3.97% rate of return and over the past ten years a 5.02% rate of return. He said to think that there is going to be an

8% rate of return is foolish. He said he met with State employees and some retirees and posed the question that if someone is getting $100 and receives $102 this year based on the current 2% COLA increase which is based on 8% and if the rate of return is dropped from 8% causing the COLA to go to a guaranteed 1% and they get $101, would they be willing to jeopardize the long term integrity of the Retirement System for a dollar. He said the employees and the retirees he talked to have said no and they understand the situation when explained that way. He said the system is in trouble and he has a subcommittee working and Mr. White has an ad hoc committee working to find a solution that will fix the Retirement System. Senator Leatherman said the Board has to move forward to give current employees and retirees what was promised to them.

Mr. Eckstrom commented that he agrees with Senator Leatherman and said that the Board's task is to act upon the actuarial advice that has been given to make adjustments in employer contribution rates. He said the Board will also need to take a second step to act on the advice the actuarial experts have given and decide whether to adjust the estimates that are used. He said there is ample evidence in place that shows those estimates need to be adjusted. He said that the estimates the Board has been given are defensible and move in a direction that experience shows need to be moved in adjusting the estimates. He noted that the data the Board is using is 18 months old because the Board has been studying the data for six months and that is something the Board has not done before. He commented that the Board has an obligation to act by the end of the year so that as of the next fiscal year the employer contribution rates are changed. Mr. Eckstrom said that is the Board's responsibility and there is no reason to forestall making those changes. He stated that the actuaries need to begin work now to prepare the next valuations and that new assumptions need to be made to do the valuations. Mr. Eckstrom stated that the Board needed to adopt the action now to sure up the estimates. He said that he wanted to so move.

Governor Haley said to Mr. Eckstrom that as accountants they are conservative by nature and always assume the worst and not count on the best. She stated that if the Board is going to fix the Retirement System it has to be fixed right and it has to be fixed this year.

Governor Haley recognized Mr. Eckstrom's motion. Mr. Eckstrom asked to clarify his motion. He moved that the Board adopt the Cavanaugh Macdonald 2010 annual actuarial valuation that includes the need to increase the employer contribution rates for the South

Carolina Retirement System by .92% and for the Police Officers Retirement System by .305%, which is just under a third of a percent. He further stated that the valuation, as Mr. Loftis noted, is based on the old assumptions and he moved that the Board proceed to accept that valuation and adjust the employer contribution rates accordingly; then, secondly, that the Board receive the experience study performed by Gabriel-Roeder and apply those assumption changes to the South Carolina Retirement System, because it was only the South Carolina Retirement System and the Police Officers System that the experience study related to; apply the investment recommendation to the other three plans as well because the State invests as a pool and any practice in one would affect the other three as well; and then come back and do an experience study on the other three plans. Mr. Eckstrom reiterated that that was his motion. Governor Haley asked for a second to Mr. Eckstrom's motion.

Mr. White said that he would second the motion so the Board could have discussion on Mr. Eckstrom's motion. Governor Haley asked Mr. White if he wanted discussion to which Mr. White responded yes. Mr. White said that Senator Leatherman is correct that the Board has to go with Cavanaugh Macdonald. He said he knows this is painful and is hard on everyone. He said that as Trustees of the Retirement System the Board has a fiduciary duty to the Retirement System and its solvency. He noted that he has a committee working on this issue as well and that he is certain that the House will work to make changes within the system to keep it solvent.

Senator Leatherman asked for clarification of whether the Board action requested is a one-step annual employer increase. Mr. Eckstrom said that it is the one step.

Upon a motion by Mr. Eckstrom, seconded by Mr. White, the Board:

A) Adopted the Cavanaugh Macdonald 2010 Systems Valuations of the five retirement systems, including the employer contribution increases of .92% for South Carolina Retirement System (SCRS) and .305% for the Police Officers Retirement System (PORS) recommended as a one step annual employer contribution rate increase; and

B) Received the experience study performed by Gabriel Roeder Smith and Company and adopted the changes in actuarial assumptions as recommended by the Experience Study performed by GRS for the period ending June 30, 2010, and apply those changes to the valuations for the period ending June 30, 2011. The assumptions related to assets will apply to all five retirement systems;

Governor Haley, Mr. Eckstrom, Mr. White, and Senator Leatherman voted for the motion. Mr. Loftis did not vote on the motion.

Information relating to this matter has been retained in these files and is identified as Exhibit 22.

State Treasurer's Office: Department of Transportation Cash Flow (Regular Session #7)

At its September 20, 2011, meeting the Budget and Control Board requested that the Secretary of the Department of Transportation provide the Board members and the Board Secretary with the following information in a written report no later than October 14, 2011. The Secretary of the Department of Transportation was further requested to attend the November 3, 2011, Board meeting to make a brief and concise report.

1. As of August 15, 2011, what were the totals of all DOT outstanding payables due to all parties and entities, including contractors, consultants and the State Infrastructure Bank, that were overdue by 30 days, 45 days, 60 days and 90 days?

2. What were the sources and amounts of the financial 'infusion" from all sources utilized by DOT to assist in resolving the DOT cash flow deficiency, including but not limited to the $12 million from the State Infrastructure Bank projects which were "under runs", the $52 million advance from the Federal government, interdepartmental "borrowing" from other projects and programs not in need of current funding and delayed and/or postponed projects or programs?

3. Identify each project and program that has been delayed or postponed, the dollar amount from each that will assist in resolving the cash flow problem, the location of each delayed or postponed project and program and the length of the delay or postponement.

4. What are DOT's current cash flow forecasts by month for the next 12 and 24 months?

5. A discussion of the State's capacity for and the Department's April, 2011, action to pursue issuance of up to $344 million General Obligation State Highway Bonds, with particular emphasis on the following considerations:

    a. How much of the Department's capacity will be depleted, and for what period of time, following issuance of this indebtedness?

    b. Are each of the projects to be funded from the proceeds of this issuance included in the Department's Statewide Transportation Improvement Plan, and if so, what is each project's priority ranking?

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SUMMARY OF 2011 VALUATION RESULTS

South Carolina Retirement System
(SCRS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active Members	187,611	190,239
- TERI Members	5,254	5,164
- Retirees and Beneficiaries	110,296	106,230
- Inactive Members	158,086	156,871
- Total	461,247	458,504
• Projected payroll of active members	$7,687,558	$7,769,820
• Projected payroll for all members, including members in ORP, TERI, and working retirees	$9,379,634	$9,641,717
Contribution Rates		
• Employer contribution rate[1]	12.23%	10.60%
• Member	6.50%	6.50%
Assets		
• Market value	$22,395,029	$19,681,137
• Actuarial value	25,604,823	25,400,331
• Return on market value	18.6%	14.6%
• Return on actuarial value	4.3%	3.3%
• Ratio of actuarial to market value of assets	114.3%	129.1%
• External cash flow %	-4.1%	-3.9%
Actuarial Information		
• Normal cost %	10.68%	10.01%
• Actuarial accrued liability (AAL)	$40,015,772	$38,774,029
• Unfunded actuarial accrued liability (UAAL)	14,410,949	13,373,698
• Funded ratio	64.0%	65.5%
• Funding period (years)	30	30
Reconciliation of UAAL		
• Beginning of Year UAAL	$13,373,698	$11,967,253
- Interest on UAAL	999,625	957,380
- Amortization payment with interest	(618,048)	(662,414)
- Assumption/method changes[2]	(45,359)	0
- Asset experience	802,448	1,212,929
- COLA	154,945	0
- Salary experience	(477,773)	(344,630)
- Other liability experience	221,413	168,477
- Incidental death benefit	0	74,703
• End of Year UAAL	$14,410,949	$13,373,698

[1] The contribution rate determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.

[2] Includes the change in liability due to the change in automatic COLA provisions.

Police Officers Retirement System (PORS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active members	26,650	26,568
- Retirees and beneficiaries	13,358	12,566
- Inactive members	11,980	11,899
- Total	51,988	51,033
• Projected payroll of active members	$1,087,587	$1,076,467
• Projected payroll for all active members, including working retirees	$1,173,772	$1,158,390
Contribution Rates		
• Employer contribution rate	12.30%	12.30%
• Member	6.50%	6.50%
Assets		
• Market value	$3,317,533	$2,851,474
• Actuarial value	3,728,241	3,612,700
• Return on market value	18.3%	14.3%
• Return on actuarial value	4.6%	3.2%
• Ratio - actuarial value to market value	112.4%	126.7%
• External cash flow %	-1.6%	-1.5%
Actuarial Information		
• Normal cost %	13.39%	13.74%
• Actuarial accrued liability (AAL)	$4,824,941	$4,850,457
• Unfunded actuarial accrued liability (UAAL)	1,096,700	1,237,757
• Funded ratio	77.3%	74.5%
• Funding period (years)	22.2	30.0
Reconciliation of UAAL		
• Beginning of Year UAAL	$1,237,757	$1,081,891
- Interest on UAAL	71,369	86,551
- Amortization payment with interest	(64,459)	(52,536)
- Assumption/method changes[1]	(286,171)	0
- Asset experience	102,677	167,396
- COLA	40,124	0
- Salary experience	(41,879)	(80,056)
- Other liability experience	37,282	34,524
- Incidental death benefit	0	(13)
• End of Year UAAL	$1,096,700	$1,237,757

[1] Includes the change in liability due to the change in automatic COLA provisions.

Retirement System for Judges and Solicitors
(JSRS)

Executive Summary
(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active members[1]	144	144
- Retirees and beneficiaries	184	180
- DROP and Retired-in-Place members	14	14
- Inactive members	4	4
- Total	332	328
• Projected payroll of active members	$18,661	$18,661
Contribution Rates		
• Employer contribution rate[2]	47.33%	45.09%
• Member	10.00%	10.00%
Assets		
• Market value	$127,152	$111,226
• Actuarial value	144,927	142,871
• Return on market value	18.3%	14.8%
• Return on actuarial value	4.3%	2.9%
• Ratio of actuarial to market value of assets	114.0%	128.5%
• External cash flow %	-3.4%	-3.1%
Actuarial Information		
• Normal cost %	27.90%	22.16%
• Actuarial accrued liability (AAL)	$243,514	$215,823
• Unfunded actuarial accrued liability (UAAL)	98,587	72,952
• Funded ratio	59.5%	66.2%
• Funding period (years)	30	16
Reconciliation of UAAL		
• Beginning of Year UAAL	$72,952	$72,566
- Interest on UAAL	7,277	5,805
- Amortization payment with interest	(5,271)	(6,821)
- Assumption/method changes	24,079	0
- Asset experience	4,444	7,151
- COLA	(5,121)	(4,623)
- Salary experience	(2,141)	(1,942)
- Other liability experience	2,368	816
- Legislative Changes	0	0
• End of Year UAAL	$98,587	$72,952

[1] Active member counts include unfilled positions and counts for members in DROP or Retired-in-Place.

[2] The contribution rate determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.

Retirement System for Members of the General Assembly of the State of South Carolina (GARS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active positions	170	170
- Special contributors	26	26
- Retirees and beneficiaries	353	346
- Inactive members	40	36
- Total	589	578
• Projected payroll	$3,854	$3,854
Contribution Requirement		
• Member contribution rate	10.00%	10.00%
• Employer contribution requirement[1]	$4,063	$2,831
Assets		
• Market value	$34,669	$32,770
• Actuarial value	41,484	43,712
• Return on market value	17.6%	15.4%
• Return on actuarial value	3.5%	2.6%
• Ratio - actuarial value to market value	119.7%	133.4%
• External cash flow %	-11.1%	-10.4%
Actuarial Information		
• Normal cost %	21.67%	17.73%
• Actuarial accrued liability (AAL)	$74,604	$68,671
• Unfunded actuarial accrued liability (UAAL)	33,120	24,959
• Funded ratio	55.6%	63.7%
• Funding period from the valuation date	16 years	17 years
Reconciliation of UAAL		
• Beginning of Year UAAL	$24,959	$22,600
- Interest on UAAL	2,296	1,808
- Amortization payment with interest	(2,241)	(2,263)
- Assumption change	5,715	0
- Asset experience	1,704	2,373
- Liability experience	687	441
- Legislative changes	0	0
• End of Year UAAL	$33,120	$24,959

[1] The contribution requirement determined by the July 1, 2011 actuarial valuation is subject to approval and adoption by the Budget and Control Board before becoming effective for the fiscal year beginning July 1, 2013.

South Carolina National Guard Retirement System (NGRS)

Executive Summary

(Dollar amounts expressed in thousands)

Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active Members	12,271	12,445
- Retirees and Beneficiaries	4,252	3,951
- Inactive Members	2,458	2,683
- Total	18,981	19,079
GASB No. 25 Annual Required Contribution		
• Member	$0	$0
• Employer contribution[1]	$4,539	$3,937
Assets		
• Market value	$17,466	$15,053
• Actuarial value	20,138	19,458
• Return on market value	14.9%	14.4%
• Return on actuarial value	4.5%	2.4%
• Ratio - actuarial value to market value	115.3%	129.3%
• External cash flow %	-0.7%	3.1%
Actuarial Information		
• Normal cost	$703	$524
• Actuarial accrued liability (AAL)	60,388	54,153
• Unfunded actuarial accrued liability (UAAL)	40,250	34,695
• Funded ratio	33.3%	35.9%
• Amortization period (blended)	21	22
Reconciliation of UAAL		
• Beginning of Year UAAL	$34,695	$34,821
- Interest on UAAL	3,010	2,785
- Amortization payment with interest	(3,670)	(3,576)
- Assumption/method changes	5,441	0
- Asset experience	668	1,062
- Other liability experience	106	(397)
- Legislative changes	0	0
• End of Year UAAL	$40,250	$34,695

[1] The contribution amont determined by the actuarial valuation is effective for the following fiscal year.

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Comparison of Current Statute to H.4967 Changes

Affected System/Group	Current Statute	H.4967 Changes
SCRS		
For Retired Members		
Post-Retirement Benefit Adjustments (formally known as COLAs)	1 percent automatic	Retirement allowances annually increased by 1 percent, capped at $500; effective for **July 1, 2012**
For Current Members and New Hires (Class Two and Class Three Members – All Dates of Membership)		
Contribution Rates	SCRS 6.5 percent	Employee contribution rate increased from 6.5 percent to 8.0 percent in 0.5 percent increments annually from **July 1, 2012** to **July 1, 2014**
		Employer contribution rate will be 10.6 percent beginning **July 1, 2012**, and for **July 1, 2013**, and will increase to 10.9 percent beginning **July 1, 2014**
		If additional contribution increases are required, both employee and employer contribution rates are increased to maintain a 2.90 differential between the rates
		No decrease in contribution rates may be made until the System is at least 90 percent funded
Service Purchase Cost (also applies to GARS members by cross-reference)	Qualified time 16 percent of highest salary; Non-qualified time 35 percent of highest salary	Actuarially neutral service purchase cost, effective **January 2, 2013**; qualified time will cost no less than 16 percent of highest salary and non-qualified time will cost no less than 35 percent of highest salary
Earnable Compensation	SCRS members allowed to use overtime and special pay as earnable compensation	Effective **January 1, 2013**, earnable compensation does not include pay for non-mandatory overtime

Affected System/Group	Current Statute	H.4967 Changes
Interest on Inactive Accounts	Interest accrues to inactive accounts	No interest accrued on inactive accounts effective **July 1, 2012** (interest will be paid on balance as of June 30, 2012, but not thereafter)
Death Benefit		Clarifies that if a member dies prior to retirement, but was eligible to retire at the time of death, the member's beneficiary may elect a retirement allowance in lieu of a lump-sum return of contributions – effective **July 1, 2012**
Disability Retirement	Occupation/job specific	Conforms state disability standards to Social Security provisions effective **January 1, 2014**
Return-to-work Provisions	No earnings limitation	Participation in the TERI Program ended as of **June 30, 2018** (i.e., new enrollees in the Program after June 30, 2012, must end their participation by five years after their retirement date or June 30, 2018, whichever is earlier) For retirements on or after **January 2, 2013**, a retiree may return to work after being retired for 30 days and receive a benefit subject to a $10,000 earnings limitation; however, the $10,000 limitation does not apply if the retiree was at least 62 years of age at retirement or has returned to certain elected or appointed positions
For New Hires Only (Class Three Members – Dates of Membership After June 30, 2012)		
Benefit Accruals	Average Final Compensation based upon the member's three highest years of earnable compensation	Average Final Compensation based upon the member's five highest years of earnable compensation effective **July 1, 2012**
	Annual leave (45 days) added to the AFC	Payments for unused annual leave no longer included in a member's AFC effective **July 1, 2012**

Affected System/Group	Current Statute	H.4967 Changes
	Sick leave (90 days) added for additional service credit	No service credit awarded for unused sick leave at retirement effective **July 1, 2012**
"Vesting" (Minimum Service Requirement)	Five years earned service	Eight years of earned service required for eligibility for service retirement benefits, disability benefits based upon non-work-related injuries, in-service death benefits, the ability to purchase non-qualified service credit, etc., effective **July 1, 2012**
Retirement Eligibility	28 years with full benefits	Effective **July 1, 2012**, a member may retire if the member (1) has eight or more years of earned service; (2) has reached age 65 (or age 60 with a 5 percent reduction for each year the member retires before age 65) or has satisfied the Rule of 90; and (3) has separated from service Service retirement benefit calculation remains unchanged (but see five- year AFC and no sick or annual leave) Early retirement at age 55 with at least 25 years of service is not available effective **July 1, 2012**
PORS		
For Retired Members		
Post-Retirement Benefit Adjustments	Ad Hoc	Retirement allowances annually increased by 1 percent, capped at $500; effective for **July 1, 2012**
For Current Members and New Hires (Class Two and Class Three Members – All Dates of Membership)		
Contribution Rates	6.5 percent	Employee contribution rate increased from 6.5 percent to 8.0 percent in 0.5 percent increments over the next three years, beginning on **July 1,**

Affected System/Group	Current Statute	H.4967 Changes
		2012
		Employer contribution rate will be 12.3 percent beginning **July 1, 2012**, will increase to 12. 5 percent **July 1, 2013**, and will increase to 13 percent **July 1, 2014**
		If additional contribution increases are required, both employee and employer contribution rates are increased to maintain a 5.0 differential between the rates
		No decrease in contribution rates may be made until the System is at least 90 percent funded
Service Purchase Cost (also applies to GARS members by cross-reference)	Qualified time 16 percent of highest salary; Non-qualified time 35 percent of highest salary	Actuarially neutral service purchase cost, effective **January 2, 2013**; qualified time will cost no less than 16 percent of highest salary and non-qualified time will cost no less than 35 percent of highest salary
Interest on Inactive Accounts	Interest accrues to inactive accounts	No interest accrued on inactive accounts effective **July 1, 2012** (interest will be paid on balance as of June 30, 2012, but not thereafter)
Death Benefit		Clarifies that if a member dies prior to retirement, but was eligible to retire at the time of death, the member's beneficiary may elect a retirement allowance in lieu of a lump-sum return of contributions – effective **July 1, 2012**
Disability Retirement	Occupation/job specific	Retains occupation/job specific for initial determination, but after three years, must meet disability standards of Social Security provisions. Becomes effective **January 1, 2014**
Return-to-work Provisions	No earnings limitation	For retirements on or after **January 2, 2013**, a

Affected System/Group	Current Statute	H.4967 Changes
		retiree may return to work after being retired for 30 days and receive a benefit subject to a $10k earnings limitation; however, the $10k limitation does not apply if the retiree was at least 57 years of age at retirement or has returned to certain elected or appointed positions
For New Hires Only (Class Three Members – Dates of Membership After June 30, 2012)		
Benefit Accruals	Average Final Compensation based upon the member's three highest years of earnable compensation	Average Final Compensation based upon the member's five highest years of earnable compensation effective **July 1, 2012**
		Payments for unused annual leave no longer included in a member's AFC effective **July 1, 2012**
		No service credit awarded for unused sick leave at retirement effective **July 1, 2012**
"Vesting" (Minimum Service Requirement)	Five years of earned service	Eight years of earned service required for eligibility for service retirement benefits, disability benefits based upon non-work-related injuries, in-service death benefits, the ability to purchase non-qualified service credit (i.e., "air time"), etc., effective **July 1, 2012**
Retirement Eligibility	25 years with full benefits	Effective **July 1, 2012**, a member may retire if the member (1) has 8 or more years of earned service; (2) has reached age 55 or has 27 years of service credit (increased from 25); and (3) has separated from service Service retirement benefit calculation remains unchanged (but see five-year AFC and Sick and Annual Leave provisions)

Affected System/Group	Current Statute	H.4967 Changes
GARS		
For Current GARS Members		
Contribution Rate		Member contribution rate increased from 10 percent to 11 percent effective **January 1, 2013**
Retire-in-place Provisions		No changes to current retire-in-place provision
For New General Assembly Members		
System Closed to New Members		Persons first elected to the General Assembly in **November 2012** or after must elect membership in SCRS or State ORP
Plan Governance		
Assumed Rate of Return		Effective **July 1, 2012**, assumed rate of return on Retirement Systems' investments set by General Assembly; initially set at 7.5 percent
Governance Structure	Under the Budget and Control Board	Effective **July 1, 2012**, Retirement Systems placed under PEBA with Employee Insurance Program. B&CB (or successor agency) retains authority to approve certain PEBA actions
Miscellaneous		
		Effective **January 1, 2014**, the South Carolina Deferred Compensation Commission is abolished and its duties are handled by the Board of Directors of PEBA
		Qualification and compensation changes to the Investment Commission; provision regarding magistrate educational requirements; studies on

Affected System/Group	Current Statute	H.4967 Changes
		legislative and constitutional officer salaries and on compensation spiking in SCRS and PORS

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August 27, 2012

South Carolina Public Employee Benefit Authority
South Carolina Retirement System
P.O. Box 11960
Columbia, SC 29211-1960

Dear Members of the Authority:

Re: Certification of the Employer Contribution Rates for Fiscal Year 2014 that reflect H. 4967 as Enacted

H. 4967 as amended was enacted on June 26, 2012. Prior to the enactment of the legislation, the results of the July 1, 2011 actuarial valuation would determine the actuarial and financial information that is disclosed in the Retirement System's accounting information under the Governmental Accounting Standards, as well as the identify the employer contribution requirements that would be adopted by the South Carolina Budget and Control Board and become effective for Fiscal Year 2014 (i.e. effective July 1, 2013). The enactment of the pension reform bill changes the results disclosed in the 2011 actuarial valuation. Therefore, the information below documents the FY 2014 employer contribution rates for the South Carolina Retirement System (SCRS) and the South Carolina Police Officers Retirement System (PORS) that reflects the legislative changes. The Retirement System will also use this updated liability and cost information for disclosure and financial reporting under the Governmental Accounting Standards Board Statement No. 25 (GASB 25).

FY 2014 Contribution Rates

Sections 9-1-1085 and 9-11-225 of South Carolina Code establish the policy for determining the employer and member contribution rates for SCRS and PORS respectively. Under these statutes, the scheduled contribution rate as of July 1, 2013 for the employer is 10.60% for SCRS and 12.50% for PORS. The member contribution rate will be 7.50%. However, if these scheduled contribution rates are insufficient to maintain a 30-year amortization period, both the member and employer contribution rates will increase to an amount sufficient to satisfy the 30-year amortization period requirement. Based on the actuarial valuation as of July 1, 2011 that recognizes the changes enacted by the pension reform bill, the following table documents the member and employer contribution rates for fiscal year 2014.

Table 1. - Contribution Rates in Effect for Fiscal Year 2014

System	SCRS	PORS
Members	7.50%	7.84%
Employers	10.60%	12.84%
Funding Period	25 years	30 years

The scheduled employer and member contribution rates in the Code are sufficient to satisfy the 30-year funding period requirement for SCRS. However, the scheduled employer and members contribution rates for PORS would result in a 38-year amortization period, thus are not sufficient and must be increased by an additional 0.34% to decrease the amortization period to 30 years.

Funding Liabilities and Assets

The following is a table with a summary of the key funded status measures as of July 1, 2011. Also attached is an exhibit providing additional financial information for each of the retirement system.

Table 2. – Summary of Key Funded Status Measurements as of July 1, 2011

System	SCRS	PORS
Actuarial Value of Assets (AVA)	$25,604,823	$3,728,318
Actuarial Accrued Liability (AAL)	38,011,610	5,122,501
Unfunded Actuarial Accrued Liability (UAAL)	12,406,787	1,394,183
Funded Ratio	67.4%	72.8%
Annual Covered Payroll	$7,687,558	$1,087,587
UAAL as a % of Payroll	161.4%	128.2%

$ in thousands

Basis of Calculations

The calculations and analysis disclosed in this letter are based on the member and financial data provided by the System used to perform the actuarial valuation as of July 1, 2011. Except where noted otherwise, the actuarial assumptions and methods are based on those recommended in our Experience Study Report dated September 2011 and adopted by the Budget and Control Board in November 2011.

For purposes of this analysis, we adjusted the rate of retirement assumption for members impacted by the proposed legislation. It was assumed the change in the disability eligibility provisions would result in a 20% reduction in the number of members who receive a disability allowance. Those members who would not meet the qualification requirements are assumed to continue employment.

It is our opinion that the recommended assumptions are internally consistent and are reasonably based on past and anticipated future experience of the System. The actuarial assumptions and method used in this report comply with the parameters for disclosure that appear in GASB 25.

General Comments

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can, and almost certainly will, differ as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rate, and funding periods. The actuarial calculations are intended to provide information for rational decision making.

All of our work conforms with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. We certify that the undersigned are members of the American Academy of Actuaries and that we meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, both of the undersigned are experienced in performing valuations for large public retirement systems. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either of us.

Sincerely,

Daniel J. White, FSA, MAAA, EA
Senior Consultant

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Enclosure

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Summary of July 1, 2011 Valuation Results
Reflecting H. 4967 as Enacted

(Dollar amounts expressed in thousands)

		SCRS (1)	PORS (2)
1.	Projected payroll of active members	$ 7,687,558	$ 1,087,587
2.	Present value of future pay	$ 63,758,111	$ 8,362,408
3.	Normal cost rate		
	a. Total normal cost rate	9.93%	14.36%
	b. Less: member contribution rate	-7.50%	-7.84%
	c. Employer normal cost rate	2.43%	6.52%
4.	Actuarial accrued liability for active members		
	a. Present value of future benefits	$ 20,142,861	$ 3,373,687
	b. Less: present value of future normal costs	(6,138,251)	(1,155,437)
	c. Actuarial accrued liability	$ 14,004,610	$ 2,218,250
5.	Total actuarial accrued liability for:		
	a. Retirees and beneficiaries	$ 23,160,658	$ 2,784,144
	b. Inactive members	846,342	120,107
	c. Active members (Item 4c)	14,004,610	2,218,250
	d. Total	$ 38,011,610	$ 5,122,501
6.	Actuarial value of assets	$ 25,604,823	$ 3,728,318
7.	Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	$ 12,406,787	$ 1,394,183
8.	GASB No. 25 Annual Required Contribution Rate		
	a. Employer normal cost rate	2.43%	6.52%
	b. Employer contribution rate available to amortize the UAAL	8.17%	6.32%
	c. Total employer contribution rate	10.60%	12.84%
9.	Funding period based on the applicable statutorily required contribution rates[1] (years)	25	30
10.	Applicable statutorily required contribution rates		
	a. Employer contribution rate	10.60%	12.84%
	b. Member contribution rate	7.50%	7.84%

[1] The applicable scheduled contribution rates for SCRS are determined in accordance with Section 9-1-1085 of the South Carolina Code. The corresponding statutes for determining the member and employer contribution rates for PORS are located in Section 9-11-225 of the South Carolina Code.

GRS

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July 2, 2012

William M. Blume Jr., CPA
Director
South Carolina Retirement Systems
PO Box 11960
Columbia, SC 29211-1960

Re: Analysis of H. 4967 as Enacted and its Financial Impact on SCRS

Dear Bill:

Below is the actuarial analysis of H. 4967 as enacted and its financial impact on the South Carolina Retirement System (SCRS). The summary below provides the cost impact as of July 1, 2011. Additionally, enclosed are exhibits with projections of the benefit cost and liability under the prior and newly enacted plan designs.

Summary of Cost Impact

The fiscal impact was determined using the preliminary valuation results as of July 1, 2011. While these results have not been accepted or approved by the Budget and Control Board at the time this analysis was prepared, performing the cost analysis using the 2011 valuation provides a more current view of the financial condition of the retirement system.

The enactment of the legislation resulted in a $2.004 billion decrease in the actuarial accrued liability (and corresponding unfunded actuarial accrued liability) as of July 1, 2011. The funded ratio of the plan as of that date also increased from 64.0% to 67.4%. The decrease in actuarial accrued liability as of the valuation date is driven by the return to work, TERI, and disability retirement provisions. The change in benefit provisions that apply to employees hired after June 30. 2012 does not impact the unfunded liability as of the valuation date, but will result in additional cost savings in future years.

The employer contribution rate under the current plan would have gradually increased in future years to an ultimate level of 14.7% in fiscal year 2018, when the extraordinary investment loss that occurred in 2008 becomes fully recognized in determining the contribution rate. However, the combination of benefit changes and increase in the member contribution rate is projected to result in the employer contribution rate to increase to an ultimate rate of 11.1% of pay.

Assuming all assumptions are met, including the 7.50% investment return assumption, and there are no future benefit improvements, the combination of benefit changes and increased contribution rates are projected to result in the retirement system attaining a 90% funded ratio in the year 2040 and a 100% funded ratio in the year 2044.

Provisions of Bill

Below is a summary of the changes that are in the pension reform bill.

Retiree Benefit Adjustments: Retirees and surviving annuitants would receive an annual increase in their pension benefit equal to the lesser of 1.00% or $500. The benefit increase is not contingent on the actual investment performance of the retirement system. Additionally, the $500 limit in the annual increase is not indexed to escalate in future years.

Retirement Eligibility: The eligibility for a normal retirement benefit for current members remains unchanged (i.e. 28 years of credited service). Employees hired after June 30, 2012 (i.e. Class Three members) will be eligible to receive a service retirement benefit after accruing at least 8 years of earned service and upon either: (1) reaching age 60 (with a reduction for retirement prior to age 65) or (2) the combination of the member's age and years of credited service equals or exceeds 90 (i.e. Rule of 90).

Average Final Compensation (AFC): The AFC for Class Three members will be determined using a twenty-quarter averaging period (i.e. five years). There is no change in the calculation of the AFC for members hired prior to July 1, 2012.

Sick and Annual Leave: Unused sick leave will be excluded in the member's credited service and unused annual leave will excluded in determining the member's average final compensation for calculation of pension benefits of Class Three members. Unused sick and annual leave will continue to be included in the calculation of retirement benefits for Class One and Class Two members.

Disability Benefits: Effective December 31, 2013, the eligibility for a disability retirement will be based upon the member's entitlement for Social Security disability benefits. The determination of the disability allowance will also be based on the member's credited service as of the date of retirement and no longer include an actuarial offset for a hypothetical balance of member contributions.

Service Purchase: Effective January 2, 2013, the cost of purchasing service credit, other than the reestablishment of withdrawn time and transfer service, will be determined on an actuarially neutral basis. However, the cost of purchasing one year of nonqualified service shall not be less than 35% of (a) the member's current salary or (b) highest historical fiscal year salary. The cost of purchasing other types of service shall not be less than 16% of pay.

Employer and Member Contributions: Effective July 1, 2012, the member contribution rate for all employees will increase by 0.50% each subsequent year until an 8.00% contribution rate is attained beginning July 1, 2014. The employer contribution rate will increase to 10.90% of pay beginning July 1, 2014. In the event these contribution rates are insufficient to maintain a 30-year amortization period, the board shall increase the member and employer contribution rates by an equal amount (i.e. maintain a 2.90% differential) as necessary to maintain a 30-year funding period. The employer and member contribution rates may not decrease until the plan attains a 90% funded ratio.

Please note the employer contribution rate and incremental difference between the member and employer rate quoted in the previous page includes contributions for the incidental death benefit plan. The employer contribution rate for employers that do not participate in the incidental death benefit plan will be appropriately adjusted.

Earnable Compensation: The definition of earnable compensation will be modified such that compensation attributable to overtime is not included in the member's compensation for purposes of determining their AFC unless that compensation is for overtime that is mandated by the employer.

Teacher and Employee Retention Incentive Program (TERI): TERI will be phased-out such that no members may participate in the program after June 30, 2018.

Return-to-Work Provisions: There is no change to the return-to-work provisions for those members who retire prior to January 2, 2013. Members who retire after January 1, 2013 and subsequently become employed by an employer that participates in the retirement system may earn up to $10,000 annually without affecting their retirement allowance. Retired members who earn in excess of $10,000 will have their retirement allowance suspended for the remainder of the calendar year. However, this earnings limitation will not apply to members who attained the age of 62 at the time of their initial retirement.

Vesting: Class Three members must attain 8 years earned service to be eligible for retirement benefits.

Interest in Member Account Balance: After June 30, 2012, inactive members of the System will no longer accrue future interest on their account balance attributable to their contributions.

Valuation Investment Return Assumption: The General Assembly will have the authorization to set and change the assumed rate of return on the System's investments for valuation purposes.

South Carolina Public Employee Benefit Authority: The South Carolina Public Employee Benefit Authority will be established as of July 1, 2012, and be responsible for the administration of the retirement systems.

Actuarial Analysis

The enclosed projections provide additional information about the expected liability and cost of the current and proposed plan designs. Exhibit 1. shows the projected cost for the current plan. Exhibit 2. provides the projected cost under the pension reform bill.

The increase in the member contribution rate will result in a greater portion of the retirement benefit being financed by the employees. The $500 limit on the annual increase in the retirement allowance will impact the long-service and high-wage earning retirees. Specifically, approximately 4% of the current retirees in SCRS are projected to be limited by the $500 threshold. This COLA design may have relevance for policy reasons; but it does not materially reduce the liability of the retirement system.

The change in benefits for new members (i.e. the change in vesting, AFC averaging period, removal of unused sick/annual leave, and retirement eligibility) does not impact the actuarial accrued liability or contribution rate as of the valuation date, but does change the long-term cost of the retirement system. These may also important for policy, HR, and workforce management reasons.

Basis of Calculations

GRS based the calculations and analysis in this letter on the member and financial data provided by SCRS used to perform the actuarial valuation as of July 1, 2011. The valuation results as of July 1, 2011 for the current plan in this analysis have not yet been accepted by the Budget Control Board. Except where noted otherwise, the actuarial assumptions and methods are based on those recommended in our Experience Study Report dated September 2011 and adopted by the Budget Control Board in November 2011. The calculation of the funding period is based on a 10.60% employer contribution rate, which is the effective employer contribution rate for FY 2013 (i.e. the fiscal year beginning July 1, 2012).

For purposes of this analysis, we adjusted the rate of retirement assumption for members impacted by the proposed legislation. It was assumed the change in the disability eligibility provisions would result in a 20% reduction in the number of members who receive a disability allowance. Those members who would not meet the qualification requirements are assumed to continue employment.

The projections assume no actuarial gains or losses will occur in the future, and that members will terminate, retire, become disabled, or die as predicted by the actuarial assumptions. The size of the active member population is assumed to remain constant, with each member who leaves the active population being replaced by a new member. These projections also do not reflect the actual investment experience of the retirement system after the measurement date of July 1, 2011.

General Comments

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Depending on actual plan experience, actual results could deviate significantly from our projections.

We are not attorneys, and we cannot provide a legal opinion regarding the changes in this proposed legislation. Nothing in this letter should be construed as providing legal, investment or tax advice. It may be prudent to consult with the Retirement System's counsel before enacting any such changes. Finally, no statement in this letter is intended to be interpreted as a recommendation in favor of or in opposition to the changes studied herein.

We certify that the undersigned are members of the American Academy of Actuaries and that we meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, both of the undersigned are experienced in performing valuations for large public retirement systems. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either of us.

Sincerely,

Daniel J. White, FSA, MAAA, EA
Senior Consultant

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Enclosure

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South Carolina Retirement System (SCRS)

Exhibit 1. - Projected Cost of the Current Plan

July 1.	Projected Payroll	Employer Contr Rate	Member Contr Rate	Total Contr (3) + (4)	Employer Contributions	Actuarial Accrued Liability	Market Value of Assets	Actuarial Value of Assets	Unfunded Liability	Funded Ratio AVA / AAL	Funding Period (years)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2011	$ 7,688	9.5%	6.5%	16.0%	$ 850	$ 40,016	$ 22,395	$ 25,605	$ 14,411	64%	30
2012	7,778	10.6%	6.5%	17.1%	962	41,400	23,133	25,721	15,679	62%	30
2013	7,949	12.2%	6.5%	18.7%	1,140	42,788	23,925	25,780	17,008	60%	30
2014	8,132	13.0%	6.5%	19.5%	1,244	44,172	24,846	25,842	18,329	59%	30
2015	8,334	13.6%	6.5%	20.1%	1,331	45,553	25,827	25,827	19,726	57%	30
2016	8,548	14.1%	6.5%	20.6%	1,421	46,932	26,855	26,855	20,077	57%	30
2017	8,774	14.7%	6.5%	21.2%	1,516	48,310	27,939	27,939	20,371	58%	30
2018	9,013	14.6%	6.5%	21.1%	1,549	49,688	29,088	29,088	20,600	59%	30
2019	9,265	14.5%	6.5%	21.0%	1,576	51,068	30,244	30,244	20,824	59%	30
2020	9,531	14.4%	6.5%	20.9%	1,605	52,453	31,404	31,404	21,049	60%	30
2021	9,808	14.2%	6.5%	20.7%	1,635	53,846	32,575	32,575	21,271	60%	30
2022	10,095	14.0%	6.5%	20.5%	1,662	55,296	33,756	33,756	21,540	61%	30
2023	10,393	13.8%	6.5%	20.3%	1,689	56,755	34,942	34,942	21,813	62%	30
2024	10,704	13.7%	6.5%	20.2%	1,720	58,221	36,132	36,132	22,090	62%	30
2025	11,026	13.5%	6.5%	20.0%	1,752	59,696	37,327	37,327	22,368	63%	30
2026	11,360	13.4%	6.5%	19.9%	1,783	61,175	38,528	38,528	22,647	63%	30
2027	11,708	13.2%	6.5%	19.7%	1,815	62,657	39,730	39,730	22,927	63%	30
2028	12,077	13.0%	6.5%	19.5%	1,850	64,146	40,936	40,936	23,210	64%	30
2029	12,466	12.9%	6.5%	19.4%	1,885	65,648	42,155	42,155	23,493	64%	30
2030	12,875	12.7%	6.5%	19.2%	1,922	67,171	43,395	43,395	23,776	65%	30
2031	13,305	12.5%	6.5%	19.0%	1,959	68,724	44,666	44,666	24,058	65%	30
2032	13,753	12.4%	6.5%	18.9%	1,996	70,315	45,975	45,975	24,340	65%	30
2033	14,217	12.2%	6.5%	18.7%	2,031	71,946	47,324	47,324	24,622	66%	30
2034	14,700	12.0%	6.5%	18.5%	2,068	73,621	48,715	48,715	24,907	66%	30
2035	15,204	11.8%	6.5%	18.3%	2,109	75,345	50,153	50,153	25,192	67%	30
2036	15,732	11.7%	6.5%	18.2%	2,148	77,126	51,649	51,649	25,477	67%	30
2037	16,287	11.5%	6.5%	18.0%	2,190	78,978	53,214	53,214	25,764	67%	30
2038	16,866	11.3%	6.5%	17.8%	2,230	80,921	54,871	54,871	26,050	68%	30
2039	17,475	11.1%	6.5%	17.6%	2,274	82,970	56,631	56,631	26,338	68%	30
2040	18,092	11.0%	6.5%	17.5%	2,316	85,131	58,506	58,506	26,625	69%	29
2041	18,728	10.8%	6.5%	17.3%	2,357	87,401	60,489	60,489	26,913	69%	27

Notes and Assumptions

Projections are based on the preliminary actuarial valuation results as of July 1, 2011 and assume the plan earns 7.50% annually for all future years

Projected contribution rates shown above are effective for the fiscal year and assumes the employer contribution rate will not decrease below 10.60% which was adopted by the Budget Control Board in November 2011 and is effective for FY 2012.

Projected contribution rates shown above are effective at the beginning of the fiscal year

Employer contributions include employer contributions made on behalf of payroll attributable to ORP, TERI, and working retirees

It is assumed retirees will receive a 1.00% automatic COLA and no additional ad hoc COLAs above the 1.00% automatic adjustment

South Carolina Retirement System (SCRS)

Exhibit 2. - Projected Cost of H. 4967 as Enacted

July 1,	Projected Payroll	Employer Contr. Rate	Member Contr Rate	Total Contr (3) + (4)	Employer Contributions	Actuarial Accrued Liability	Market Value of Assets	Actuarial Value of Assets	Unfunded Liability	Funded Ratio AVA / AAL	Funding Period (years)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2011	$ 7,688	9.5%	6.5%	16.0%	$ 850	$ 38,012	$ 22,395	$ 25,605	$ 12,407	67%	25
2012	7,879	10.6%	7.0%	17.6%	968	39,241	23,153	25,741	13,499	66%	24
2013	8,146	10.6%	7.5%	18.1%	993	40,523	24,089	25,944	14,579	64%	26
2014	8,419	10.9%	8.0%	18.9%	1,050	41,859	25,116	26,113	15,746	62%	29
2015	8,703	10.9%	8.0%	18.9%	1,079	43,243	26,266	26,266	16,977	61%	30
2016	8,992	10.9%	8.0%	18.9%	1,108	44,668	27,462	27,462	17,206	61%	28
2017	9,291	11.2%	8.3%	19.4%	1,168	46,116	28,687	28,687	17,429	62%	27
2018	9,598	11.2%	8.3%	19.4%	1,201	47,581	29,994	29,994	17,587	63%	26
2019	9,917	11.2%	8.3%	19.4%	1,236	49,056	31,326	31,326	17,730	64%	25
2020	10,180	11.2%	8.3%	19.4%	1,272	50,548	32,692	32,692	17,855	65%	24
2021	10,452	11.2%	8.3%	19.4%	1,310	52,048	34,096	34,096	17,952	66%	23
2022	10,731	11.2%	8.3%	19.4%	1,349	53,552	35,535	35,535	18,017	66%	22
2023	11,019	11.2%	8.3%	19.4%	1,390	55,057	37,011	37,011	18,046	67%	21
2024	11,315	11.2%	8.3%	19.4%	1,432	56,561	38,524	38,524	18,036	68%	20
2025	11,622	11.2%	8.3%	19.4%	1,475	58,062	40,079	40,079	17,983	69%	19
2026	11,941	11.2%	8.3%	19.4%	1,520	59,560	41,679	41,679	17,881	70%	18
2027	12,271	11.2%	8.3%	19.4%	1,567	61,056	43,330	43,330	17,726	71%	17
2028	12,614	11.2%	8.3%	19.4%	1,616	62,548	45,037	45,037	17,511	72%	16
2029	12,966	11.2%	8.3%	19.4%	1,666	64,034	46,804	46,804	17,230	73%	15
2030	13,333	11.2%	8.3%	19.4%	1,719	65,515	48,637	48,637	16,878	74%	14
2031	13,712	11.2%	8.3%	19.4%	1,773	66,990	50,544	50,544	16,446	75%	13
2032	14,102	11.2%	8.3%	19.4%	1,829	68,461	52,534	52,534	15,927	77%	12
2033	14,505	11.2%	8.3%	19.4%	1,887	69,926	54,614	54,614	15,313	78%	11
2034	14,926	11.2%	8.3%	19.4%	1,948	71,388	56,795	56,795	14,594	80%	10
2035	15,364	11.2%	8.3%	19.4%	2,012	72,853	59,093	59,093	13,760	81%	9
2036	15,822	11.2%	8.3%	19.4%	2,078	74,327	61,527	61,527	12,800	83%	8
2037	16,297	11.2%	8.3%	19.4%	2,147	75,819	64,117	64,117	11,702	85%	7
2038	16,791	11.2%	8.3%	19.4%	2,218	77,337	66,883	66,883	10,454	86%	6
2039	17,302	11.2%	8.3%	19.4%	2,293	78,886	69,845	69,845	9,040	89%	5
2040	17,831	10.9%	8.0%	18.9%	2,309	80,472	73,024	73,024	7,447	91%	4
2041	18,377	10.9%	8.0%	18.9%	2,386	82,102	76,331	76,331	5,771	93%	3

Notes and Assumptions

Projections are based on the preliminary actuarial valuation results as of July 1, 2011 and assume the plan earns 7.50% annually for all future years

Projected contribution rates shown above are effective at the beginning of the fiscal year. All contribution rates are projected to satisfy the 30-year funding requirement

The principle benefit changes that apply to all current and future members of SCRS include

- Cost neutral service purchase
- 5-Year AFC for all employees hired after June 30, 2012
- 8-year vesting for members hired after June 30, 2012
- Eliminate sick/annual leave credit for members hired after June 30, 2012
- Retirement eligibility for members hired after June 30, 2012 will be the Rule of 90 or age 60 (with 8 years of service)
- Retirees and beneficiaries will have their retirement allowances increase annually by the lesser of 1.00% and $500, regardless of actual investment performance
- Restrictive return-to-work provisions for members retiring after January 1, 2013 under the age of 62 (based on a $10k earnings limit)
- Modified eligibility requirements for a disability benefit and to the calculation of the disability allowance
- Contributions based on a funding policy that increases the member rate over a 3-year period to 8.00% beginning July 1, 2014 and maintains a 2.90% difference in the employer / member rate thereafter. Contribution rates are not permitted to decrease until the plan attains a 90% funded ratio

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July 2, 2012

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Re: Analysis of H. 4967 as Enacted and its Financial Impact on PORS

Dear Bill:

Below is the actuarial analysis of H. 4967 as enacted and its financial impact on the South Carolina Police Officers Retirement System (PORS). The summary below provides the cost impact as of July 1, 2011. Additionally, attached are exhibits with projections of the benefit cost and liability under the prior and newly enacted plan designs.

Summary of Cost Impact

The fiscal impact was determined using the preliminary valuation results as of July 1, 2011. While these results have not been accepted or approved by the Budget and Control Board at the time this analysis was prepared, performing the cost analysis using the 2011 valuation provides a more current view of the financial condition of the retirement system.

The enactment of the legislation resulted in a $298 million increase in the actuarial accrued liability (and corresponding unfunded actuarial accrued liability) as of July 1, 2011. The funded ratio of the plan as of that date also decreased from 77% to 73%. The increase in actuarial accrued liability as of the valuation date is driven by the benefit adjustment provision that provides the retirees an automatic 1.00% annual increase in their retirement allowance. The change in benefit provisions that apply to employees hired after June 30, 2012 does not impact the unfunded liability as of the valuation date, but will result in cost savings in future years.

Assuming all assumptions are met, including the 7.50% investment return assumption, and there are no future legislated benefit increases, the combination of benefit changes and increased contribution rates is projected to result in the retirement system attaining a 90% funded ratio in the year 2036 and a 100% funded ratio in the year 2043.

Note, the scheduled employer and member contribution rates in the proposed bill will not be sufficient to satisfy a 30-year amortization period as of the July 1, 2011 valuation date. As a result, Section 9-11-225(C) of the legislation will require the member and employer contribution rates to increase by 0.34% to 7.84% and 12.84%, respectively, to maintain a 30-year amortization period. These contribution rates would become effective for the 2013/2014 fiscal year (i.e. effective beginning July 1, 2013).

Provisions of Bill

Below is a summary of the changes that are in the pension reform bill.

Retiree Benefit Adjustments: Retirees and surviving annuitants would receive an annual increase in their pension benefit equal to the lesser of 1.00% or $500. The benefit increase is not contingent on the actual investment performance of the retirement system. Additionally, the $500 limit in the annual increase is not indexed to escalate in future years.

Retirement Eligibility: The eligibility for an unreduced retirement benefit for current members remains unchanged (i.e. 25 years of credited service). Employees hired after June 30, 2012 (Class Three members) will be eligible to retire with an unreduced benefit upon attaining: (1) age 55 with 8 or more years of earned service or (2) upon attaining 27 years of credited service.

Average Final Compensation (AFC): The AFC for Class Three members will be determined using a twenty-quarter averaging period (i.e. five years). There is no change in the calculation of the AFC for members hired prior to July 1, 2012.

Sick and Annual Leave: Unused sick leave will be excluded in the member's credited service and unused annual leave will excluded in determining the member's average final compensation for calculation of pension benefits of Class Three members. Unused sick and annual leave will continue to be included in the calculation of retirement benefits for Class One and Class Two members.

Disability Benefits: There is no change in the initial approval process for a disability retirement benefit. However, members who apply for a disability retirement benefit after December 31, 2013 must provide proof to the system that they are entitled to Social Security disability benefits after their third year of retirement in order to continue receiving their disability retirement allowance. The determination of the disability allowance will be based on the member's credited service projected to age 55 subject to a maximum of 25 years.

Service Purchase: Effective January 2, 2013, the cost of purchasing service credit, other than the reestablishment of withdrawn time and transfer service, will be determined on an actuarially neutral basis. However, the cost of purchasing one year of nonqualified service shall not be less than 35% of (a) the member's current salary or (b) highest historical fiscal year salary. The cost of purchasing other types (other than previously withdrawn service) of service shall not be less than 16% of pay.

Employer and Member Contributions: Effective July 1, 2012, the member contribution rate for all employees will increase by 0.50% each subsequent year until an 8.00% contribution rate is attained beginning July 1, 2014. The employer contribution rate will increase to 12.50% of pay beginning July 1, 2013, and to 13.00% of pay beginning July 1, 2014. In the event these contribution rates are insufficient to maintain a 30-year amortization period, the board shall increase the member and employer contribution rates by an equal amount (i.e. maintain a 5.00% differential) as necessary to maintain a 30-year funding period. The employer and member contribution rates may not decrease until the plan attains a 90% funded ratio.

Please note the employer contribution rate and incremental difference between the member and employer rate quoted in the previous page includes contributions for the incidental death benefit plan. The employer contribution rate for employers that do not participate in the incidental death benefit plan will be appropriately adjusted.

Return to Work Provisions: There is no change to the return-to-work provisions for those members who retire prior to January 2, 2013. Members who retire after January 2, 2013 and subsequently become employed by an employer that participates in the retirement system may earn up to $10,000 annually without affecting their retirement allowance. Retired members who earn in excess of $10,000 will have their retirement allowance suspended for the remainder of the calendar year. However, this earnings limitation will not apply to members who initially retired after attaining the age of 57.

Vesting: Class Three members must attain eight (8) years earned service to be eligible for retirement benefits.

Interest in Member Account Balance: After June 30, 2012, inactive members of the System will no longer accrue future interest on their account balance attributable to their contributions.

Valuation Investment Return Assumption: The General Assembly will have the authorization to set and change the assumed rate of return on the System's investments for valuation purposes.

South Carolina Public Employee Benefit Authority: The South Carolina Public Employee Benefit Authority will be established as of July 1, 2012, and be responsible for the administration of the retirement systems.

Actuarial Analysis

The enclosed projections provide additional information about the expected liability and cost of the current and proposed plan designs. Exhibit 1. shows the projected cost for the current plan. Exhibit 2. provides the projected cost under the pension reform bill.

The increase in the member contribution rate will result in a greater portion of the retirement benefit being financed by the employees. The $500 limit on the annual increase in the retirement allowance will impact the long-service and high-wage earning retirees. Specifically, less than 10% of the retirees in PORS are projected to be limited by the $500 threshold. This COLA design may have relevance for policy reasons; but it does not substantially impact on the liability of the retirement system.

The change in benefits for new members (i.e. the change in vesting, AFC averaging period, removal of unused sick/annual leave, and retirement eligibility) does not impact the actuarial accrued liability or contribution rate as of the valuation date, but does change the long-term cost of the retirement system. These may also important for policy, HR, and workforce management reasons.

Basis of Calculations

GRS based the calculations and analysis in this letter on the member and financial data provided by SCRS used to perform the actuarial valuation as of July 1, 2011. The valuation results as of July 1, 2011 for the current plan in this analysis have not yet been accepted by the Budget Control Board. Except where noted otherwise, the actuarial assumptions and methods are based on those recommended in our Experience Study Report dated September 2011 and adopted by the Budget Control Board in November 2011.

For purposes of this analysis, we adjusted the rate of retirement assumption for members impacted by the proposed legislation. It was assumed the change in the disability eligibility provisions would result in a 20% reduction in the number of members who receive a disability allowance. Those members who would not meet the qualification requirements are assumed to continue employment.

The projections assume no actuarial gains or losses will occur in the future, and that members will terminate, retire, become disabled, or die as predicted by the actuarial assumptions. The size of the active member population is assumed to remain constant, with each member who leaves the active population being replaced by a new member. These projections also do not reflect the actual investment experience of the retirement system after the measurement date of July 1, 2011.

General Comments

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Depending on actual plan experience, actual results could deviate significantly from our projections.

We are not attorneys, and we cannot provide a legal opinion regarding the changes in this proposed legislation. Nothing in this letter should be construed as providing legal, investment or tax advice. It may be prudent to consult with the Retirement System's counsel before enacting any such changes. Finally, no statement in this letter is intended to be interpreted as a recommendation in favor of or in opposition to the changes studied herein.

We certify that the undersigned are members of the American Academy of Actuaries and that we meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, both of the undersigned are experienced in performing valuations for large public retirement systems. If you have any questions, or require any additional or clarifying information, please do not hesitate to contact either of us.

Sincerely,

Daniel J. White, FSA, MAAA, EA
Senior Consultant

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

Enclosure

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Police Officers Retirement System (PORS)

Exhibit 1. - Projected Cost of the Current Plan
Based on a Minimum Employer Contribution Rate of 12.30%

July 1, (1)	Projected Payroll (2)	Employer Contr. Rate (3)	Member Contr. Rate (4)	Total Contr. (3) + (4) (5)	Employer Contributions (6)	Actuarial Accrued Liability (7)	Market Value of Assets (8)	Actuarial Value of Assets (9)	Unfunded Liability (10)	Funded Ratio AVA / AAL (11)	Funding Period (Years) (12)
2011	$ 1,088	12.0%	6.5%	18.5%	$ 141	$ 4,825	$ 3,318	$ 3,728	$ 1,097	77%	22
2012	1,097	12.3%	6.5%	18.8%	146	5,050	3,509	3,840	1,209	76%	26
2013	1,124	12.3%	6.5%	18.8%	149	5,280	3,706	3,944	1,336	75%	30
2014	1,153	12.3%	6.5%	18.8%	152	5,515	3,908	4,036	1,479	73%	30
2015	1,184	12.3%	6.5%	18.8%	156	5,755	4,115	4,115	1,641	71%	30
2016	1,217	12.8%	6.5%	19.3%	166	6,001	4,326	4,326	1,675	72%	30
2017	1,251	13.3%	6.5%	19.8%	178	6,251	4,549	4,549	1,703	73%	30
2018	1,287	13.3%	6.5%	19.8%	182	6,508	4,785	4,785	1,723	74%	30
2019	1,325	13.2%	6.5%	19.7%	186	6,771	5,029	5,029	1,742	74%	30
2020	1,364	13.0%	6.5%	19.5%	189	7,038	5,278	5,278	1,761	75%	30
2021	1,404	12.9%	6.5%	19.4%	193	7,311	5,531	5,531	1,780	76%	30
2022	1,446	12.8%	6.5%	19.3%	196	7,592	5,789	5,789	1,803	76%	30
2023	1,490	12.6%	6.5%	19.1%	200	7,878	6,052	6,052	1,826	77%	30
2024	1,536	12.5%	6.5%	19.0%	204	8,169	6,320	6,320	1,849	77%	29
2025	1,584	12.3%	6.5%	18.8%	208	8,466	6,593	6,593	1,873	78%	28
2026	1,635	12.3%	6.5%	18.8%	214	8,767	6,870	6,870	1,897	78%	27
2027	1,687	12.3%	6.5%	18.8%	221	9,075	7,155	7,155	1,919	79%	26
2028	1,743	12.3%	6.5%	18.8%	228	9,389	7,450	7,450	1,939	79%	24
2029	1,801	12.3%	6.5%	18.8%	236	9,713	7,756	7,756	1,957	80%	23
2030	1,861	12.3%	6.5%	18.8%	244	10,045	8,075	8,075	1,971	80%	22
2031	1,924	12.3%	6.5%	18.8%	252	10,388	8,407	8,407	1,981	81%	21
2032	1,988	12.3%	6.5%	18.8%	261	10,739	8,752	8,752	1,987	81%	20
2033	2,056	12.3%	6.5%	18.8%	269	11,100	9,110	9,110	1,989	82%	19
2034	2,126	12.3%	6.5%	18.8%	279	11,470	9,484	9,484	1,986	83%	18
2035	2,199	12.3%	6.5%	18.8%	288	11,853	9,875	9,875	1,978	83%	17
2036	2,276	12.3%	6.5%	18.8%	298	12,248	10,285	10,285	1,963	84%	16
2037	2,355	12.3%	6.5%	18.8%	309	12,657	10,716	10,716	1,941	85%	14
2038	2,437	12.3%	6.5%	18.8%	319	13,081	11,168	11,168	1,912	85%	13
2039	2,522	12.3%	6.5%	18.8%	331	13,519	11,644	11,644	1,874	86%	12
2040	2,610	12.3%	6.5%	18.8%	342	13,972	12,144	12,144	1,828	87%	11
2041	2,701	12.3%	6.5%	18.8%	354	14,441	12,671	12,671	1,771	88%	10

Notes and Assumptions

Projections are based on the preliminary actuarial valuation results as of July 1, 2011 and assume the plan earns 7.50% annually for all future years

Projected contribution rates shown above are effective for the fiscal year and assumes the employer contribution rate will not decrease below 12.30% which was adopted by the Budget Control Board in November 2011 and is effective for FY 2012

The current plan does not include an automatic COLA and it is assumed there will be no future ad hoc COLAs provided in future years

Employer contributions include employer contributions made on behalf of working retirees

Police Officers Retirement System (PORS)

Exhibit 2. - Projected Cost of H. 4967 as Enacted

July 1,	Projected Payroll	Employer Contr. Rate	Member Contr. Rate	Total Contr (3) + (4)	Employer Contributions	Actuarial Accrued Liability	Market Value of Assets	Actuarial Value of Assets	Unfunded Liability	Funded Ratio AVA / AAL	Funding Period (Years)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2011	$ 1,088	12.0%	6.5%	18.5%	$ 141	$ 5,123	$ 3,318	$ 3,728	$ 1,394	73%	30
2012	1,106	12.3%	7.0%	19.3%	146	5,383	3,509	3,840	1,543	71%	30
2013	1,142	12.8%	7.8%	20.7%	156	5,651	3,714	3,952	1,699	70%	30
2014	1,180	13.1%	8.1%	21.2%	163	5,928	3,945	4,073	1,856	69%	30
2015	1,220	13.3%	8.3%	21.6%	171	6,216	4,190	4,190	2,026	67%	30
2016	1,261	13.6%	8.6%	22.1%	179	6,513	4,451	4,451	2,062	68%	29
2017	1,305	13.8%	8.8%	22.6%	187	6,818	4,728	4,728	2,090	69%	28
2018	1,351	13.8%	8.8%	22.6%	192	7,130	5,020	5,020	2,111	70%	27
2019	1,398	13.8%	8.8%	22.6%	198	7,449	5,320	5,320	2,129	71%	25
2020	1,448	13.8%	8.8%	22.6%	204	7,775	5,631	5,631	2,144	72%	24
2021	1,499	13.8%	8.8%	22.6%	211	8,109	5,953	5,953	2,155	73%	23
2022	1,545	13.8%	8.8%	22.6%	217	8,449	6,287	6,287	2,162	74%	22
2023	1,594	13.8%	8.8%	22.6%	224	8,797	6,633	6,633	2,164	75%	21
2024	1,644	13.8%	8.8%	22.6%	231	9,151	6,991	6,991	2,160	76%	19
2025	1,695	13.8%	8.8%	22.6%	238	9,510	7,361	7,361	2,149	77%	18
2026	1,748	13.8%	8.8%	22.6%	246	9,873	7,742	7,742	2,131	78%	17
2027	1,803	13.8%	8.8%	22.6%	253	10,241	8,136	8,136	2,105	79%	16
2028	1,860	13.8%	8.8%	22.6%	262	10,613	8,542	8,542	2,071	80%	15
2029	1,920	13.8%	8.8%	22.6%	270	10,989	8,963	8,963	2,026	82%	14
2030	1,983	13.8%	8.8%	22.6%	279	11,370	9,399	9,399	1,971	83%	13
2031	2,049	13.8%	8.8%	22.6%	288	11,758	9,853	9,853	1,904	84%	12
2032	2,117	13.8%	8.8%	22.6%	298	12,152	10,327	10,327	1,825	85%	10
2033	2,188	13.8%	8.8%	22.6%	308	12,553	10,822	10,822	1,731	86%	9
2034	2,262	13.8%	8.8%	22.6%	318	12,962	11,339	11,339	1,622	87%	10
2035	2,338	13.8%	8.8%	22.6%	329	13,378	11,881	11,881	1,497	89%	9
2036	2,419	13.0%	8.0%	21.0%	321	13,803	12,450	12,450	1,352	90%	7
2037	2,502	13.0%	8.0%	21.0%	332	14,238	13,010	13,010	1,228	91%	6
2038	2,590	13.0%	8.0%	21.0%	344	14,683	13,600	13,600	1,083	93%	5
2039	2,681	13.0%	8.0%	21.0%	356	15,143	14,224	14,224	919	94%	4
2040	2,776	13.0%	8.0%	21.0%	368	15,619	14,886	14,886	734	95%	3
2041	2,873	13.0%	8.0%	21.0%	381	16,112	15,587	15,587	525	97%	2

Notes and Assumptions

Projections are based on the preliminary actuarial valuation results as of July 1, 2011 and assume the plan earns 7.50% annually for all future years

Projected contribution rates shown above are effective for the fiscal year. All contribution rates are projected to satisfy the 30-year funding requirement

The other principle benefit changes that apply to all current and future members of PORS include

- Cost neutral service purchase
- 5-Year AFC for all employees hired after June 30, 2012
- 8-year vesting for members hired after June 30, 2012
- Eliminate sick/annual leave credit for members hired after June 30, 2012
- Retirement eligibility for members hired after June 30, 2012 will be age 55 (with 8 years of service) or 27 years of credited service
- Retirees and beneficiaries will have their retirement allowances increase annually by the lesser of 1.00% and $500. The increase is not contingent on the plan's actual investment performance
- Restrictive return-to-work provisions for members retiring after January 1, 2013 under the age of 57 (based on a $10k earnings limit)
- Modified disability retirement provisions
- Contributions based on a funding policy that increases the member rate over a 3-year period to 8.00% beginning July 1, 2014 and maintains a 5.00% difference in the employer / member rate thereafter

PEBA Section of Act 278 of 2012

Part IV
Subpart 1
South Carolina Public Employee Benefit Authority

PEBA established

SECTION 30. A. Title 9 of the 1976 Code is amended by adding:

CHAPTER 4
South Carolina Public Employee Benefit Authority
Article 1
General Provisions

Section 9-4-10. (A) Effective July 1, 2012, there is created the South Carolina Public Employee Benefit Authority. The governing body of the authority is a board of directors consisting of eleven members. The functions of the authority must be performed, exercised, and discharged under the supervision and direction of the board of directors.

(B)(1) The board is composed of:

(a) three nonrepresentative members appointed by the Governor;

(b) two members appointed by the President Pro Tempore of the Senate, one a nonrepresentative member and one a representative member who is either an active or retired member of SCPORS;

(c) two members appointed by the Chairman of the Senate Finance Committee, one a nonrepresentative member and one a representative member who is a retired member of SCRS;

(d) two members appointed by the Speaker of the House of Representatives, one a nonrepresentative member and one a representative member who must be a state employee who is an active contributing member of SCRS;

(e) two members appointed by the Chairman of the House Ways and Means Committee, one a nonrepresentative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

(2) For purposes of the appointments provided by this section, a nonrepresentative member may not belong to those classes of employees and retirees from whom representative members must be appointed.

(C)(1) A nonrepresentative member may not be appointed to the board unless the person possesses at least one of the following qualifications:

(a) at least twelve years of professional experience in the financial management of pensions or insurance plans;

(b) at least twelve years academic experience and holds a bachelor's or higher degree from a college or university as classified by the Carnegie Foundation;

(c) at least twelve years of professional experience as a certified public accountant with financial management, pension, or insurance audit expertise;

(d) at least twelve years as a Certified Financial Planner credentialed by the Certified Financial Planner Board of Standards; or

(e) at least twelve years membership in the South Carolina Bar and extensive experience in one or more of the following areas of law:

(i) taxation;

(ii) insurance;

(iii) health care;

(iv) securities;

(v) corporate;

(vi) finance; or

(vii) the Employment Retirement Income Security Act (ERISA).

(2) A representative member may not be appointed to the board unless the person:

(a) possesses one of the qualifications set forth in item (1); or

(b) has at least twelve years of public employment experience and holds a bachelor's degree from a college or university as classified by the Carnegie Foundation.

(D) Members of the board shall serve for terms of two years and until their successors are appointed and qualify. Vacancies must be filled within sixty days in the manner of original appointment for the unexpired portion of the term. Terms commence on July first of even numbered years. Upon a member's appointment, the appointing official shall certify to the Secretary of State that the appointee meets or exceeds the qualifications set forth in subsections (B) and (C). No person appointed may qualify unless he first certifies that he meets or exceeds the qualifications applicable for their appointment. A member serves at the pleasure of the member's appointing authority.

(E) The members shall select a nonrepresentative member to serve as chairman and shall select those other officers they determine necessary. Subject to the qualifications for chairman provided in this section, members may set their own policy related to the rotation of the selection of a chairman of the board.

(F)(1) Each member must receive an annual salary of twelve thousand dollars. This compensation must be paid from approved accounts of general funds and retirement system funds based on the proportionate amount of time the board devotes to its various functions. Members may receive the mileage and subsistence authorized by law for members of state boards, commissions, and committees paid from approved accounts funded by general funds and retirement system funds in the proportion that compensation is paid.

(2) Notwithstanding any other provision of law, membership on the board does not make a member eligible to participate in a retirement system administered pursuant to this title and does not make a member eligible to participate in the employee insurance program administered pursuant to Article 5, Chapter 11, Title 1. Any compensation paid on account of the member's service on the board is not considered earnable compensation for purposes of any state retirement system.

(G) Minimally, the board shall meet monthly. If the chairman considers it more effective, the board may meet by teleconferencing or video conferencing. However, if the agenda of the meeting consists of items that are not exempt from disclosure or the meeting may not be closed to the public pursuant to Chapter 4, Title 30, the provisions of Chapter 4, Title 30 apply, and the meeting must be open to the public.

(H) Effective July 1, 2012, the following offices, divisions, or components of the State Budget and Control Board are transferred to, and incorporated into, an administrative agency of state government to be known as the South Carolina Public Employee Benefit Authority:

(1) Employee Insurance Program; and

(2) the Retirement Division.

Section 9-4-15. RESERVED

Section 9-4-20. RESERVED

Section 9-4-30. (A)(1) The South Carolina Public Employee Benefit Authority shall operate a retirement division to administer the various retirement systems and retirement programs pursuant to Title 9 and, effective after December 31, 2013, to administer the deferred compensation program pursuant to Chapter 23, Title 8.

(2) Expenses incurred by the Retirement Division in administering, after December 31, 2013, the deferred compensation plans must be reimbursed to the Retirement Division from funds generated by the deferred compensation plans available to pay for administrative expenses.

(B) The South Carolina Public Employee Benefits Authority shall provide copies of annual actuarial valuations of all retirement systems requiring such annual valuations to the General Assembly by the second Tuesday in January of every year.

Section 9-4-40. Each year in the general appropriations act, the General Assembly shall appropriate sufficient funds to the Office of the State Inspector General to employ a private audit firm to perform a fiduciary audit on the South Carolina Public Employee Benefit Authority. The audit firm must be selected by the State Inspector General. The report from the previous fiscal year must be completed by January fifteenth. Upon completion, the report must be submitted to the Governor, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee.

Section 9-4-45. (A) Policy determinations made by the South Carolina Public Benefit Authority are subject to approval by the State Budget and Control Board or its successor, evidenced by a majority vote of the board.

(B) For purposes of this section, policy determination means a determination by law required to be made by the South Carolina Public Benefit Authority in its administration of the Employee Insurance Program relating to coverage changes and premium increases and in its administration of the Retirement Division, actuarial assumptions governing the retirement system and adjustments in employer and employee contributions.

Section 9-4-50. (A) The South Carolina Public Employee Benefit Authority shall maintain a transaction register that includes a complete record of all funds expended, from whatever source for whatever purpose. The register must be prominently posted on the authority's Internet website and made available for public viewing and downloading.

(1)(a) The register must include for each expenditure:

(i) the transaction amount;

(ii) the name of the payee;

(iii) the identification number of the transaction; and

(iv) a description of the expenditure, including the source of funds, a category title, and an object title for the expenditure.

(b) The register must include all reimbursements for expenses, but must not include an entry for:

(i) salary, wages, or other compensation paid to individual employees; and

(ii) retirement benefits, deferred compensation plan distributions, insurance reimbursements, or other payments paid to individual employees, members, or participants, as applicable, pursuant to programs administered by the board.

(c) The register must not include a social security number.

(d) The register must be accompanied by a complete explanation of any codes or acronyms used to identify a payee or an expenditure.

(e) The register may exclude any information that can be used to identify an individual employee or student.

(f) This section does not require the posting of any information that is not required to be disclosed under Chapter 4, Title 30.

(2) The register must be searchable and updated at least once a month. Each monthly register must be maintained on the Internet website for at least three years.

(B) Any information that is expressly prohibited from public disclosure by federal or state law or regulation must be redacted from any posting required by this section.

(C) If the authority has a question or issue relating to technical aspects of complying with the requirements of this section or the disclosure of public information under this section, it shall consult with the Office of the Comptroller General, which may provide guidance to the authority."

B. This section takes effect July 1, 2012.

Subpart 2
Conforming Amendments for the South Carolina Public Employee Benefit Authority

Reference change

SECTION40. Section 9-1-20 of the 1976 Code is amended to read:

"Section 9-1-20. A retirement system is hereby established and placed under the management of the board for the purpose of providing retirement allowances and other benefits for teachers and employees of the State and political subdivisions or agencies or departments thereof. The system so created shall have the power and privileges of a corporation and shall be known as the 'South Carolina Retirement System', and by such name all of its business shall be transacted, all of its funds invested, and all of its cash, securities, and other property held."

Reference change, Retirement System cotrustees

SECTION42. A. Section 9-1-310 of the 1976 Code, as last amended by Act 155 of 2005, is further amended to read:

"Section 9-1-310. The administrative cost of the South Carolina Retirement System, the South Carolina Police Officers Retirement System, the Retirement System for Members of the General Assembly of the State of South Carolina, the Retirement System for Judges and Solicitors of the State of South Carolina, and the National Guard Retirement System must be funded from the interest earnings of the above systems. The allocation of the administrative costs of the systems must be made by the board and must be based upon a proration of the cost in proportion to the assets that each system bears to the total assets of all of the systems for the most recently completed fiscal year."

B. Section 9-1-1310(A) of the 1976 Code, as last amended by Act 153 of 2005, is further amended to read:

"(A) The South Carolina Public Employee Benefit Authority and the State Budget and Control Board, or its successor, are cotrustees of the retirement system as 'retirement system' is defined in Section 9-16-10(8) in performing the functions imposed on them by law in the governance of the Retirement System. Notwithstanding any other provision of law, any reference in law to the trustee of the Retirement System must be construed to conform to the cotrusteeship as provided in this subsection. The Retirement System Investment

Commission shall invest and reinvest the funds of the retirement system as 'retirement system' is defined in Section 9-16-10(8), subject to all the terms, conditions, limitations, and restrictions imposed by Section 16, Article X of the South Carolina Constitution, subsection (B) of this section, and Chapter 16 of this title."

"CHAPTER 2

Retirement and Preretirement Advisory Panel

Section 9-2-10. There is created the South Carolina Retirement and Preretirement Advisory Panel for the purpose of advising the Director of the South Carolina Retirement System and the Director of the State Personnel Division on matters relating to retirement and preretirement programs and policies.

Section 9-2-20. (a) The panel shall consist of eight members appointed by the Board of Directors of the South Carolina Public Employee Benefit Authority and must be constituted as follows:

(1) one member representing municipal employees;
(2) one member representing county employees;
(3) three members representing state employees, one of whom must be retired and one of whom must be an active or retired law enforcement officer who is contributing to or receiving benefits from the Police Officers Retirement System. If this law enforcement member is retired, the other two members representing state employees do not have to be retired;
(4) two members representing public school teachers, one of whom must be retired;
(5) one member representing the higher education teachers. The board of directors shall invite the appropriate associations, groups, and individuals to recommend persons to serve on the panel.

(b) The terms of the members shall be for four years and until their successors have been appointed and qualify. No member shall serve more than two consecutive terms. After serving two consecutive terms a member shall be eligible to serve again, four years after the expiration of his second term. Provided that of those first appointed, four of the members shall serve for a term of two years. In the event of a vacancy, a successor shall be appointed in the same manner as the original appointment to serve the unexpired term.

(c) A chairman, vice chairman, and secretary shall be elected from among the membership to serve for terms of two years.

Section 9-2-40. The panel shall review retirement and preretirement programs and policies, propose recommendations, and identify major issues for consideration.

Subpart 3

Transfer and Devolution

Retirement System Investment Commission

Deferred Compensation Commission abolished

SECTION63. Effective July 1, 2012, Section 9-16-310 of the 1976 Code, relating to the State Retirement Systems Investment Panel, is repealed. Effective after December 31, 2013, the Deferred Compensation Commission is abolished. All of the functions and duties of the Deferred Compensation Commission are devolved upon the Board of Directors of the South Carolina Public Employee Benefit Authority as of January 1, 2014.

Retirement System Investment Commission

SECTION64. A. Section 9-16-315 of the 1976 Code, as added by Act 153 of 2005, is amended to read:

"Section 9-16-315. (A) There is established the 'Retirement System Investment Commission' (RSIC) consisting of seven members as follows:

(1) one member appointed by the Governor;

(2) the State Treasurer, ex officio;

(3) one member appointed by the Comptroller General;

(4) one member appointed by the Chairman of the Senate Finance Committee;

(5) one member appointed by the Chairman of the Ways and Means Committee of the House of Representatives;

(6) one member who is a retired member of the retirement system. This representative member must be appointed by unanimous vote of the voting members of the commission; and

(7) the Executive Director of South Carolina Public Employee Benefit Authority, ex officio, without voting privileges.

(B) The State Treasurer may appoint a member to serve in his stead. A member appointed by the State Treasurer shall serve for a term coterminous with the State Treasurer and must possess at least one of the qualifications provided in subsection (E). Once appointed, this member may not be removed except as provided in subsection (C).

(C) Except as provided in subsection (B), members shall serve for terms of five years and until their successors are appointed and qualify, except that of those first appointed, the appointees of the Comptroller General and the Chairman of the Senate Finance Committee shall serve for terms of three years and the appointee of the Chairman of the Committee on Ways and Means and the representative appointee shall serve for terms of one year. Terms are deemed to expire after June thirtieth of the year in which the term is due to expire. Members are appointed for a term and may be removed before the term expires only by the Governor for the reasons provided in Section 1-3-240(C).

(D) The commission shall select one of the voting members to serve as chairman and shall select those other officers it determines necessary, but the State Treasurer may not serve as chairman.

(E) A person may not be appointed to the commission unless the person possesses at least one of the following qualifications:

(1) the Chartered Financial Analyst credential of the CFA Institute;

(2) the Certified Financial Planner credential of the Certified Financial Planner Board of Standards;

(3) reserved;

(4) at least twenty years professional actuarial experience, including at least ten as an Enrolled Actuary licensed by a Joint Board of the Department of the Treasury and the Department of Labor, to perform a variety of actuarial tasks required of pension plans in the United States by the Employee Retirement Income Security Act of 1974;

(5) at least twenty years professional teaching experience in economics or finance, ten of which must have occurred at a doctorate-granting university, master's granting college or university, or a baccalaureate college as classified by the Carnegie Foundation;

(6) an earned Ph.D. in economics or finance from a doctorate-granting institution as classified by the Carnegie Foundation; or

(7) the Certified Internal Auditor credential of The Institute of Internal Auditors.

(F) Not including the State Treasurer, no person may be appointed or continue to serve who is an elected or appointed officer or employee of the State or any of its political subdivisions, including school districts.

(G) The Retirement System Investment Commission is established to invest the funds of the retirement system. All of the powers and duties of the State Budget and Control Board as investor in equity securities and the State Treasurer's function of investing in fixed income instruments are transferred to and devolved upon the Retirement System Investment Commission. To assist the commission in its investment function, it shall employ a chief investment officer, who under the direction and supervision of the commission, and as its agent, shall develop and maintain annual investment plans and invest and oversee the investment of retirement system funds. The chief investment officer serves at the pleasure of the commission and must receive the compensation the commission determines appropriate. The commission may employ the other professional, administrative, and clerical personnel it determines necessary and fix their compensation. All employees of the commission are employees at will. The compensation of the chief investment officer and other employees of the commission is not subject to the state compensation plan.

(H)(1) The administrative costs of the Retirement System Investment Commission must be paid from the earnings of the state retirement system in the manner provided in Section 9-1-1310.

(2) Effective beginning July 1, 2012, each commission member, not including the Executive Director of the South Carolina Public Employee Benefit Authority, must receive an annual salary of twenty thousand dollars plus mileage and subsistence as provided by law for members of state boards, committees, and commissions paid as provided pursuant to item (1) of this subsection. Notwithstanding any other provision of law, membership on the commission does not make a member eligible to participate in a retirement system administered pursuant to this title and does not make a member eligible to participate in the employee insurance program administered pursuant to Article 5, Chapter 11, Title 1. Compensation paid on account of the member's service on the commission is not considered earnable compensation for purposes of any retirement system administered pursuant to this title."

Transition

SECTION65.

(A) Where the provisions of this act transfer portions of the Budget and Control Board to the South Carolina Public Employee Benefit Authority, the employees, authorized appropriations, and assets and liabilities of the transferred portions of the Budget and Control Board are also transferred to and become part of the South Carolina Public Employee Benefit Authority. All classified or unclassified personnel employed by the transferred portions of the Budget and Control Board either by contract or by employment at will, shall become on July 1, 2012, employees of the South Carolina Public Employee Benefit Authority, with the same compensation, classification, and grade level, as applicable. Before its abolition, the Budget and Control Board shall cause all necessary actions to be taken to accomplish this transfer in accordance with state laws and regulations. Notwithstanding the provisions of Section 9-4-10(A) of the 1976 Code, as added by this act, on the effective date of this section, the Governor and the Chairmen of the House Ways and Means Committee and the Senate Finance Committee jointly shall appoint the initial and any necessary succeeding Executive Director of the South Carolina Public Employee Benefit Authority to serve through December 31, 2013, after which the position must be filled by the appointment of the authority board. Notwithstanding the provisions of Section 9-4-10(F) of the 1976 Code, as added by this act, the Governor shall name a member of the Board of Directors of the South Carolina Public Employee Benefit Authority to serve as chairman of that board through December 31, 2013.

(B) Regulations promulgated by the transferred portions of the Budget and Control Board are continued and are considered to be promulgated by the South Carolina Public Employee Benefit Authority. Contracts entered into by the Budget and Control Board and the Deferred Compensation Commission are continued and are considered to be devolved upon the South Carolina Public Employee Benefit Authority at the time of the transfer.

(C) The Code Commissioner is directed to change or correct all references to the Employee Insurance Program, the Retirement Division, and the Deferred Compensation Commission to reflect its transfer to the South Carolina Public Employee Benefit Authority. References to the name of the Employee Insurance Program, the Retirement Division, and the Deferred Compensation Commission in the 1976 Code or other provisions of law are considered to be and must be construed to mean appropriate references.

Proposed PEBA Board Committees

Finance, Administration, Audit and Compliance

- Steve Matthews (chair)
- Peggy Boykin
- Leon Lott

Health Care Policy Committee

- Cindy Hartley (chair)
- Rocky Pearce
- Stacy Kubu
- Audie Penn

Retirement Policy Committee

- John Sowards (chair)
- David Tigges
- Frank Fusco

PEBA Board Committees

Finance, Administration, Audit and Compliance

This committee would focus on the budget, financial reporting and internal governing policies and general business practices of PEBA.

- 3-4 members, one serving as Chair.
- The chair would serve as Secretary-Treasurer for the PEBA Board.
- The chair would also serve on the Executive Committee.
- The chair of the PEBA Board would serve ex officio.

Health Care Policy Committee

This committee would focus on PEBA's health care insurance policies, products and benefit structures and costs to the system.

- 3-4 members, one serving as Chair.
- The chair would also serve on the Executive Committee.
- The chair of the PEBA Board would serve ex officio.

Retirement Policy Committee

This committee would focus on PEBA's retirement benefit programs and services, including defined benefit, defined contribution, and deferred compensation plans.

- 3-4 members, one serving as Chair.
- The chair would also serve on the Executive Committee.
- The chair of the PEBA Board would serve ex officio.

Executive Committee

- Comprised of 4-5 members:
  - The PEBA Board chair
  - The chairs from each of the 3 standing committees above
  - The vice chair, who may or may not be a chair from a standing committee.

For Health Care Policy Committee

Does the State Health Plan attempt to remain "grandfathered" under the Patient Protection and Affordable Care Act?

- Remaining in grandfathered status allows the plan to avoid increased plan liability associated with the preventative services that must be provided under the Patient Protection and Affordable Care Act (PPACA) without increasing copayments or deductibles. However, remaining in grandfathered status restricts the plan's ability to share these increased costs with members via increases in deductibles, co-pays or premiums. Given the projected required increase in revenue needed for plan year 2014, this option would mean a fairly substantial increase in employer rates.
- If the plan chooses to become PPACA-compliant, the cost of the required preventative care and other plan increases could be partially offset by premium increases, increases in deductibles and co-pays, and/or benefit reductions.

PEBA Board will also need to be aware of the long-term implications for the State Health Plan:

- To remain a viable plan with a broad and inclusive provider network, provider reimbursements must continue to increase, relative to healthcare inflation. How do you accomplish this with limited resources? The costs can be shared with the members (employees), but at some point, with healthcare inflation consistently exceeding salary growth, it may become difficult to hire and retain employees. The costs can be passed on to the employers, but with decreasing tax revenues and increasing budgetary pressures employers cannot sustain continuing premium increases either. These economic pressures will require plan evaluation and creative restructuring to maintain an attractive and sustainable plan.