

MEMORANDUM

Subject: Change in Net Pension Liability (NPL)
June 30, 2015 Measurement Date

A plan's Net Pension Liability (NPL) is determined by reducing its total pension liability by its fiduciary net position. Total pension liability is defined by the Governmental Accounting Standards Board (GASB) as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GASB 67. Total pension liability may be impacted annually by the cost of service accrued by participants, interest accrued on the liability, the impact of benefit and assumption changes, the cost of benefit payments, and the difference between expected and actual plan experience. The most significant impact on a plan's fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investments substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL.

Investments earned 1.60% during the plan year ended June 30, 2015 and thus the market value of the South Carolina Retirement System (SCRS) and Police Officers' Retirement System's (PORS) investments increased slightly. However, this resulted in negative cash flows because net investment income plus other plan additions (contributions) were not substantial enough to offset plan deductions (benefit payments and administrative costs). Accordingly, SCRS and PORS experienced an overall decrease in plan fiduciary net position for the fiscal year ended June 30, 2015. This change, coupled with the annual increase in the total pension liability, led to a \$1.75 billion and \$265 million increase in the NPL for SCRS and PORS, respectively, for the measurement period ended June 30, 2015.

As previously communicated by PEBA, the financial reporting changes required by GASB 68 are likely to result in increased volatility in an employers' reported proportionate share of the NPL from one year to the next. Regardless of the NPL reported on the employer's financial statements, the employer is responsible only for making the contributions required by state law during any given year. Employers cannot pay down or pay off their proportionate share of the NPL because SCRS and PORS are multiple employer, cost-sharing defined benefit plans.