



## Covered Employer Training Program

Introduction to the Retirement Systems  
FY 2016

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### About this series



Designed for benefits administrators, payroll personnel, and human resource staff, the Covered Employer Training Program is a comprehensive, training series on the retirement benefits administered by the S.C. Public Employee Benefit Authority (PEBA) for the state's public employees.

You are encourage to have your *Covered Employer Procedures Manual* handy as you review this presentation.

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### Who is eligible?



- State employees;
- Public school district employees;
- Higher education employees;
- Employees of other participating employers; and
- Individuals first elected to the S.C. General Assembly in November 2012 or after

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### Plans offered

- South Carolina Retirement System; or
- State Optional Retirement Program (not available to local government employees)
  
- Police Officers Retirement System (must meet eligibility requirements)



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### Retirement plan types

- Defined Benefit (DB) Plan
  - Provides a monthly annuity based on a formula, not on a member's account balance at retirement.
- Examples:
  - South Carolina Retirement System (SCRS)
  - Police Officers Retirement System (PORS)



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### Retirement plan types

- Defined Contribution (DC) Plan
  - Provides a retirement benefit based on the balance in a participant's account
- Examples:
  - State Optional Retirement Program (State ORP)
  - 401(k) or 457 plans such as those offered by the South Carolina Deferred Compensation Program



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## Defined benefit plan advantages



- SCRS and PORS:
  - Fixed lifetime annuity
  - Benefit amount not subject to investment risk
  - Disability protection and incidental death benefit
  - Benefit adjustments
    - Under current law each July 1 eligible annuitants receive a 1 percent benefit adjustment up to a maximum of \$500
    - Survivor options available

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## Defined benefit plan disadvantages



- If a member terminates employment and takes a refund, he does not receive employer contributions or earnings on employer contributions.
- Member has no control over investment decisions.
- Lifetime benefit is reduced for early retirement.
- Retirement benefits are adjusted annually by 1 percent, up to \$500, regardless of inflation or the plan's investment performance.

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## Defined contribution plan advantages



- State ORP
  - Participant self-directs and manages investments
  - Employee and a portion of the employer contributions (5 percent of compensation) are allocated directly to participant's account
  - Participant has immediate rights to both employee and their portion of employer contributions upon termination of employment and can choose how funds are distributed
  - Active employees are covered under incidental death benefit program
  - Account is portable

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## Defined contribution plan disadvantages



- Participant assumes investment risk
- No disability protection
- No benefit adjustment protection
- Participant bears life expectancy risk – benefits are limited to account balance
- Vendors charge a fee to participate

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## Defined benefit plan funding



- SCRS and PORS
  - Investment returns are critical to funding for SCRS and PORS
  - Employers contribute a percentage of payroll for each member
  - Employees contribute a pre-tax percentage of their salary
- Trust funds are pooled together and invested by the S.C. Retirement System Investment Commission (RSIC)

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## Market volatility



- Due to the long-term nature of governmental pension plan obligations, actuarial smoothing methods are used to provide a less volatile long-term look at public pension plan investment performance

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## Market volatility



- By recognizing only a portion of investment gains and losses each year, market volatility, either positive or negative, is moderated and required contributions to a plan are more predictable and relatively level
- Current market conditions should not impact PEBA's long-term ability to pay benefits

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## Governmental Accounting Standards Board (GASB)



- New GASB Pension Accounting Standards
  - GASB 67, *Financial Reporting for Pension Plans*
    - Affected Retirement Systems financial statements issued by PEBA
    - Implemented on June 30, 2014, financial statements for the pension trust funds
  - GASB 68, *Accounting and Financial Reporting*
    - Affects reporting by participating employers
    - Effective for fiscal periods beginning after June 30, 2014
- Changes the way public pension plans, and the employers that participate in the plans, calculate and report the costs and obligations of the plans

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## What will the new GASB Standards change?



- Completely disconnect the accounting for pensions from the funding of pensions
  - Note that contribution rates will continue to be determined as they were in the past and will be provided to employers in a manner consistent with previous years
- Require the pension fund to use a different method of calculating its net pension liability

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### What will the new GASB Standards change?



- Require participating employers to recognize a portion of the net pension liability in their financial statements
- Require additional financial statement disclosures for both pension funds and participating employers

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### What does this mean for employers?



- Along with additional footnote disclosures, employers will have to report a large and frequently changing net pension liability in their financial statements
- Employers should be prepared to explain the liability to governing boards, stakeholders, and taxpayers
- Audit costs may increase

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### What is PEBA doing to help?



- PEBA has posted educational and instructional information for participating employers, public policy makers, members, and the general public to its GASB Resource Center
- PEBA has provided financial information for employers' financial reporting purposes to the employer section of the GASB Resource Center

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## GASB



- Please pass this information on to your financial reporting staff
  - Visit GASB Resource Center: [www.retirement.sc.gov/gasb/resourcecenter.htm](http://www.retirement.sc.gov/gasb/resourcecenter.htm)
  - Contact PEBA staff with questions: [PensionGASB@peba.sc.gov](mailto:PensionGASB@peba.sc.gov)
  - Add Financial Reporting contact to EES if one is not already listed un the "FinReporting/GASB" contact type
  - Sign up for PEBA's employer RSS feed: <http://www.retirement.sc.gov/employers/default.htm>

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## Summary



- Most employees have the choice to participate in the retirement plan that best suits their needs.
- SCRS and PORS retirement benefits are secure and include an annual 1 percent benefit adjustment up to \$500.
- Assets are prudently managed and invested to maximize returns.

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## Disclaimer



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

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