

**SC PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS MEETING**

Friday March 27, 2015 9:00 a.m. Minutes Approved 4.15.15

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**Retreat Location**

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

**Board Members Present:**

Chairman Art Bjontegard  
Vice Chairman Joe "Rocky" Pearce  
Mr. Audie Penn  
Mr. Frank Fusco  
Mr. Steve Heisler  
Mr. John Sowards  
Mr. David Tigges  
Mr. Steve Osborne

**Board Members Absent:**

Mr. Steve Matthews  
Ms. Stacy Kubu  
Sheriff Leon Lott

**Others present for all or a portion of the meeting:**

Melissa Alexander, Peggy Boykin, Sarah Corbett, Matthew Davis, Ariail Kirk, Heather Muller, John Page, Jacalin Shealy, Rob Tester, Travis Turner, Stephen Van Camp, Angie Warren, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Dori Ditty, Robert Feinstein, Mitchell Goldsmith, Hershel Harper, Mike Hitchcock, and Eric Nelson from the South Carolina Retirement System Investment Commission (RSIC); Mary Beth Braitman from Ice Miller; Paul Staples from Summit Strategy's Group; Joseph Newton and Danny White from Gabriel Roeder Smith & Company; Jan Hartford from CEM Benchmarking; Wayne Pruitt and Donald Tudor with the State Retirees Association; and Brooks Goodman from Blue Cross Blue Shield of South Carolina.

**1. CALL TO ORDER**

Chairman Art Bjontegard called the PEBA Board of Director's (Board) retreat to order at 9:00 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

**2. ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard asked for amendments to the proposed Board meeting agenda. There being none, Mr. Rocky Pearce made a motion, which was seconded by Mr. Frank Fusco, and passed unanimously, to adopt the agenda as presented.

**3. APPROVAL OF MEETING MINUTES – FEBRUARY 18, 2015**

Chairman Bjontegard asked for a motion to adopt the February 18, 2015, meeting minutes. Mr. Pearce made a motion, which was seconded by Mr. Audie Penn, and approved unanimously, to adopt the February 18, 2015, meeting minutes as presented.

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**4. EDUCATIONAL PROGRAM SESSIONS**

**Fiduciary Education:**

Chairman Bjontegard introduced Ms. Mary Beth Braitman from Ice Miller, who conducted a presentation on Fiduciary and Ethical Considerations. Ms. Braitman stated that good fiduciary and ethical practices should follow the applicable South Carolina Code of Laws; the State Ethics Act; the PEBA Board's Ethics Policy; and the PEBA Board's Conflict of Interest Policy.

Ms. Braitman described a fiduciary as any person who exercises any discretionary authority, control, or management of a plan, or exercises any authority, control, or disposition of its assets. A fiduciary also renders investment advice, and has any discretionary authority or discretionary responsibility in the administration of the plan. Ms. Braitman reminded the Board that every power or duty given to the Board by state law must be exercised in accordance with fiduciary principles. Ms. Braitman noted that the Board is one of multiple fiduciaries for the South Carolina Retirement Systems, and shares responsibility with the State Budget & Control Board; the South Carolina Retirement System Investment Commission (RSIC); the State Treasurer; and the state Legislature.

Ms. Braitman also discussed adherence to the trust, and prohibited transactions for fiduciary principles, and provided several hypothetical cases for the Board to review. Ms. Braitman concluded her presentation by reviewing fiduciaries Duties of Care, Duty of Loyalty, and Duty of Impartiality.

Chairman Bjontegard thanked Ms. Braitman for her presentation.

**Powers Reserved:**

Mr. Steven Van Camp, PEBA's General Council, reviewed the draft Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director. Mr. Van Camp advised that the Resolution was drafted in response to the Funston Recommendation that PEBA should develop a central framework governing delegation authority and reservation of powers to the Executive Director. Mr. Van Camp stated that the Resolution reserves certain powers to the PEBA Board, and delegates other management powers to the Executive Director of PEBA. It was noted that the Board may reassume any power or duty delegated to the Executive Director if necessary. Ms. Braitman confirmed that Ice Miller is in agreement with the Resolution in regards to the Board's fiduciary responsibilities.

Following further discussion, the Board asked for the Resolution to be revised by adding a provision to require the Executive Director to adopt an Emergency Succession Plan for the exercises of the powers delegated to the Executive Director.

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**Summit Strategies Group:**

Chairman Bjontegard introduced Mr. Paul Staples from Summit Strategies Group, who provided a general overview of target-date funds; what factors a plan should consider when selecting a target-date fund; and key differentiators between various target-date fund suites.

Mr. Staples explained that target-date funds were created in the 1990's to address a marketplace need for a one-stop-shop investment that did not require participants to determine their risk profile and proactively move from one risk-based portfolio to another. Mr. Staples advised that target-date funds consist of 10 year vintages offered in five year increments and participants select or are defaulted into a fund, based on the year of their retirement at age 65. Mr. Staples stated that target-date funds should address shortfall risk; longevity risk; and inflation risk. It was noted that target-date funds are appropriate for most, but not all participants.

Chairman Bjontegard thanked Mr. Staples for his presentation.

**Gabriel Roeder Smith & Company:**

Chairman Bjontegard introduced Mr. Joseph Newton and Mr. Danny White with Gabriel Roeder Smith & Company, to provide the 2014 valuation results for the State Health Plan; Other Post Employment Benefits (OPEB) accounting changes; and actuarial assumptions used in the valuation of the Retirement System.

Mr. Newton reported that key results of the 2014 State Health Plan valuation include:

1. Proactive cost management continues to generate savings which mitigate the expected liability growth;
2. The average increase to the overall premiums has been 3.6 percent per year over the last ten years; and
3. The funding ratio is eight percent as of June 30, 2014.

Mr. Newton stated that statute requires an experience study to be conducted every five years, so the next experience study will be for the five-year period ending June 30, 2015. Mr. Newton pointed out that actuarial assumptions do not alter the benefits paid to retirees, but rather determines the costs of the benefits and the associated funding strategy.

Mr. Newton concluded his presentation by discussing the summary of recommendations from the 2010 experience study; the historical change in the investment return assumption used by large public retirement systems; life expectancies for the general United States population from age 65; and the mortality assumption evaluation process.

Chairman Bjontegard thanked Mr. Newton and Mr. White for their presentation.

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**CEM Benchmarking:**

Chairman Bjontegard introduced Ms. Jan Hartford with CEM Benchmarking, who discussed the benefits of benchmarking including:

1. Measurement and management of administrative cost;
2. Measurement and management of member service;
3. Obtaining insights into current trends and best practices; and
4. Networking and sharing ideas with peers.

Ms. Hartford reported that PEBA's total pension administration cost was \$12.9 million, or \$31 per active member and annuitant, which is \$47 below the peer average of \$78. Ms. Hartford also stated that PEBA's total pension administration cost per member decreased 12.4 percent over the past fiscal year.

Ms. Hartford discussed key service metrics, and reported that PEBA's total service score was 76, which was below the peer median of 80. Ms. Hartford stated that PEBA can improve the service score by linking the on-line calculator to member data; lowering call wait time; and having fewer undesired call outcomes. Ms. Hartford added that PEBA's service score improved by three points over the last fiscal year due to improvements in the call center.

Chairman Bjontegard thanked Ms. Hartford for her presentation.

**Enterprise Risk Management and RSIC Update:**

Mr. Bjontegard introduced Mr. Eric Nelson from the South Carolina Retirement System Investment Commission (RSIC), to present a report on enterprise risk management (ERM). Mr. Nelson provided a definition of ERM, and stated that ERM provides an integrated and consistent framework to identify, assess, monitor, and ultimately manage risks in support of the Plan's mission to provide superior investment management services.

Mr. Nelson discussed the key benefits to ERM including:

1. Creating and fostering a risk aware culture;
2. Helping management focus on risk in an organized, structured fashion; and
3. Serving as a diagnostic tool for new initiatives, objectives, and system procurements.

Chairman Bjontegard thanked Mr. Nelson for his presentation.

Mr. Mike Hitchcock, Chief Executive Officer, RSIC, provided a brief organizational update of the Investment Commission. Mr. Hitchcock stated that RISC has a strong relationship with PEBA, and both Executive Director's strive to ensure that members and stakeholders are getting accurate, consolidated information.

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Mr. Hershel Harper, Chief Investment Officer, RSIC, provided a performance update for the period December 31, 2014. Mr. Harper reported that total Plan returns fiscal-year-to-date are negative 0.81 percent, compared to the policy benchmark of negative 0.91 percent. Mr. Harper stated that alternative assets including real estate, private equity, hedge funds, and private debt have all been significant performers this year. Mr. Harper reported that commodities were the worst performer for the year at a negative 21 percent, contributed largely to the decline in oil and gold prices. Mr. Harper advised that the long-term trend is very positive, with the five-year return coming in strong at 8.27 percent on an annualized basis, compared to the policy benchmark of 7.33 percent. Mr. Harper concluded his presentation by stating that total Plan performance fiscal-year-to-date ending February 28, 2015, is 1.77 percent, compared to the policy benchmark of 1.43 percent.

Chairman Bjontegard thanked Mr. Harper for his presentation.

**5. ADJOURNMENT**

Chairman Bjontegard reminded the Board that the meeting on March 28, 2015, begins at 8:30 a.m. There being no further business, the Board meeting adjourned at 4:10 p.m.

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BOARD OF DIRECTORS MEETING

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**Retreat Location**

McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201

**Board Members Present:**

Chairman Art Bjontegard  
Vice Chairman Joe "Rocky" Pearce  
Mr. Audie Penn  
Mr. Frank Fusco  
Mr. Steve Heisler  
Mr. John Sowards  
Mr. David Tigges  
Mr. Steve Osborne

**Board Members Absent:**

Mr. Steve Matthews  
Ms. Stacy Kubu  
Sheriff Leon Lott

**Others present for all or a portion of the meeting:**

Peggy Boykin, Sarah Corbett, Megan Lightle, Heather Muller, Lisa Phipps, Rob Tester, Travis Turner, Stephen Van Camp, and Justin Werner with the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt and Donald Tudor with the State Retirees Association; Rex Gale, Brooks Goodman, and Matt Shaffer from Blue Cross Blue Shield of South Carolina; and Will Kinney from Milliken Law Firm.

**1. CALL TO ORDER**

Chairman Art Bjontegard called the PEBA Board of Director's (Board) meeting to order at 8:30 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

**2. ADOPTION OF PROPOSED AGENDA**

Chairman Bjontegard asked that the proposed Board meeting agenda be amended to include the updated Powers Reserved Resolution. Mr. Frank Fusco made a motion, which was seconded by Mr. Audie Penn, and passed unanimously, to adopt the agenda as amended.

**3. POWERS RESERVED**

Mr. Steven Van Camp, PEBA's General Council, stated that the Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director has been revised to include the following language in bold: **The Executive Director shall adopt an Emergency Succession Plan for the exercise of the powers delegated to the Executive Director in this section.**

Mr. David Tigges made a motion, which was seconded by Mr. Steve Heisler, and passed unanimously, to approve the Resolution Reserving Certain Powers To The PEBA Board and Delegating Powers To The Executive Director as amended.

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**4. FUNSTON FIDUCIARY AUDIT RECOMMENDATIONS AND STRATEGIC ACTION PLANS**

Ms. Peggy Boykin, PEBA's Executive Director, stated that it is important for the Board to understand the magnitude of the Board's Strategic Plan-Staff Action Plans, since each action plan is driven by the resources that are available to PEBA. Ms. Boykin reminded the Board that 90 percent of the work needed to complete the staff action plans resides with the Finance, Administration, Audit, and Compliance (FAAC) Committee. In response to a question regarding the number of vacant positions, Ms. Boykin confirmed that there are nine vacant full-time equivalent (FTE) positions, three of which are already designated to be filled.

Ms. Sarah Corbett, PEBA's Chief Operating Officer, reviewed the PEBA Board Strategic Plan-Staff Action Plans related to the following FAAC Committee areas: audit and risk assessment; Board level and governance policies; business continuity; communications; customer services; employer services; facilities; human resources and workforce development; information technology; and operational assessment.

The Board agreed that the Funston recommendation of hiring a consultant to develop an Enterprise Risk Management (ERM) framework could be delayed until 2017-2018, since PEBA already has risk assessment functions in place. It was noted that the Board would like to engage a consultant to facilitate the PEBA Board's self assessment process at the June 17, 2015, Board meeting as recommended by Funston.

Ms. Corbett also provided a copy of the Funston Recommendations Status Report; PEBA Board Strategic Plan - Completed Items through March 25, 2015; PEBA Board Strategic Plan - All Open Items through March 25, 2015; and a recently developed Board of Directors Orientation Notebook for the Board to review.

Following further discussion, Mr. Heisler made a motion, which was seconded by Mr. Steve Osborne, and passed unanimously, to directionally approve the Board's Strategic Plan-Staff Action Plans as presented, subsequent to a June 30, 2015, update on target dates, and to receive additional quarterly updates on progress towards completion.

Mr. John Sowards complimented PEBA staff on their hard work related to the development and completion of the Board's Strategic Plan-Staff Action Plans.

**5. PEBA BOARD POLICY CHANGES**

Mr. Justin Werner, PEBA'S Legal Counsel, reviewed the Funston recommended changes to the PEBA Board of Directors Bylaws; the PEBA Board of Directors Education Policy; and the PEBA Board of Directors Travel Policy. Mr. Werner advised the Board that the FAAC Committee has already voted to approve the modifications to the above mentioned documents.

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Chairman Bjontegard stated that the modifications are Committee recommendations and do not require a second. The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Bylaws.

The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Education Policy.

The Board approved unanimously to accept the Committee recommendations regarding the changes to the PEBA Board of Directors Travel Policy.

**6. COMMITTEE REPORTS**

**A. HEALTH CARE POLICY COMMITTEE**

Mr. Pearce reported that the Health Care Policy Committee met on March 26, 2015, and received a telemedicine update, and a presentation from the Governor's Prescription Drug Abuse Prevention Council. Mr. Pearce stated that the Health Care Committee made a motion to directionally adopt the strategies for the State Health Plan to pursue in 2016-2017, with final approval of strategies for 2016 no later than July 2015. Chairman Bjontegard stated that the motion is a Committee recommendation and does not require a second. The Board approved the aforementioned Committee motion unanimously.

**B. RETIREMENT POLICY COMMITTEE**

Mr. John Sowards reported that the Retirement Policy Committee met on February 4, 2015, and Segal Rogerscasey presented a status memo on the T. Rowe Price Mid Cap Value Fund. Mr. Sowards advised that further due diligence will be needed to decide whether this fund should be retained or replaced. Mr. Sowards added that as a result of the recent formal review, Segal is conducting further due diligence on the T. Rowe Price Mid Cap Value Fund, and will also continue to work with Summit Strategies and PEBA, to determine the best course of action regarding the PIMCO Total Return Fund.

Mr. Sowards reported that the Retirement Policy Committee also met on March 4, 2015, and Segal presented the fourth quarter 2014 Deferred Compensation performance update. In addition, Segal presented its annual S3 report, which is a comprehensive analysis on the core investments, and a memo detailing its recommended course of action regarding the PIMCO Total Return Fund. Mr. Sowards stated that Summit presented the fourth quarter 2014 Optional Retirement Program (ORP) performance report, and Empower presented the fourth quarter 2014 Deferred Compensation Program plan activity report.

Mr. Sowards added that the Retirement Policy Committee will be receiving a T. Rowe Price Mid Cap Value Fund due diligence report from Segal, and Empower will present an overview of the Deferred Comp "Business Transformation Project," previously known as the "Modernization Project" at the May 2015 meeting.

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**C. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE (FAAC) COMMITTEE**

Ms. Boykin reported that the FAAC Committee met on February 11, 2015, and received as information the fiscal year 2013-2014 Health Financial Statements Audit. Ms. Boykin noted that in February there were discrepancies in the amount of the financial statements in regards to the securities lending losses for the Other Post Employment Benefits (OPEB) trust funds. Ms. Boykin stated that the FAAC Committee met again on March 4, 2015, and received confirmation from the Bank of New York Mellon (BONY) that the OPEB trust funds did not have any securities lending losses as originally reported. Ms. Boykin advised that next year's financial statements will include a restatement and a note disclosure explaining the restatement. Ms. Boykin also stated that PEBA has received confirmation from BONY that the securities lending portfolio assets in the OPEB trust funds have been properly segregated as of February 17, 2015, however; PEBA has not yet received the corrected Governmental Accounting Standards Board (GASB) 28 statements that were issued from the inception of OPEB in 2008, through the current date.

Ms. Boykin advised that internal audit reports were received at the March 4, 2015, meeting, and the FAAC Committee approved the 2015 PEBA Internal Audit Plan.

**7. OLD BUSINESS/DIRECTOR'S REPORT**

Ms. Boykin provided the Director's Report, and stated that the Senate Finance Subcommittee reviewed S.527 favorably with several amendments. Ms. Boykin advised that the amendments remove the procurement exemption and the budget approval exemption for both PEBA and the South Carolina Retirement System Investment Commission (RSIC). Thus, PEBA and RSIC will remain under the state procurement code, and will continue to submit annual budgets for approval by the General Assembly. The bill will move to the Full Senate Finance calendar.

At the conclusion of the Director's Report, Chairman Bjontegard provided an opportunity for a roundtable discussion from Board members, staff, and visitors. Chairman Bjontegard expressed his appreciation to Mr. Tigges for the use of his meeting facilities, and to his assistant Ms. Mindy Koon who helped keep the retreat running smoothly. Ms. Boykin thanked Ms. Heather Muller, and staff, for their administrative efforts and support related to the Board retreat.

**8. ADJOURNMENT**

There being no further business, and upon motion by Mr. Fusco, which was seconded by Mr. Heisler, and approved unanimously, the Board meeting adjourned at 11:10 a.m.

**SC Public Employee Benefit Authority**  
**Board of Directors Retreat and Meeting**  
200 Arbor Lake Drive, Columbia SC, 29223 2<sup>nd</sup> Floor Conference Room

PEBA's Mission: To recommend, offer and administer competitive programs of retirement and insurance benefits for  
SC public employers, employees and retirees.

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**Retreat Location**

**McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201**

**Friday, March 27, 2015 – 9:00 a.m. - 5:00 p.m.**

**EDUCATION PROGRAM SESSIONS**

- |       |                               |  |
|-------|-------------------------------|--|
| I.    | 9:00 a.m. - 9:01 a.m.         | Call to Order                              |
| II.   | 9:01 a.m. - 9:02 a.m.         | Adoption of Proposed Agenda                |
| III.  | 9:02 a.m. - 11:00 a.m.        | Fiduciary Education                        |
| IV.   | 11:15 a.m. - 12:30 p.m.       | Powers Reserved                            |
| <br>  |                               |  |
|       | <i>12:30 p.m. - 1:00 p.m.</i> | <i>Lunch Break</i>                         |
| <br>  |                               |  |
| V.    | 1:00 p.m. - 2:00 p.m.         | Summit Strategies Group                    |
| VI.   | 2:10 p.m. - 3:00 p.m.         | Gabriel Roeder Smith & Company             |
| VII.  | 3:00 p.m. - 4:00 p.m.         | Enterprise Risk Management and RSIC Update |
| VIII. | 4:10 p.m. - 5:00 p.m.         | CEM Benchmarking                           |
| IX.   | 5:00 p.m.                     | Adjournment                                |

**Saturday, March 28, 2015 – 8:30 a.m. - 12:00 p.m.**

**BUSINESS MEETING AGENDA**

- |       |                         |  |
|-------|-------------------------|--|
| I.    | 8:30 a.m. - 8:31 a.m.   | Call to Order  |
| II.   | 8:31 a.m. - 8:32 a.m.   | Adoption of Proposed Agenda  |
| III.  | 8:32 a.m. - 8:35 a.m.   | Approval of Meeting Minutes - February 18, 2015                            |
| IV.   | 8:35 a.m. - 10:30 a.m.  | Funston Fiduciary Audit Recommendations and<br>Strategic Action Plans      |
| V.    | 10:30 a.m. - 11:00 a.m. | PEBA Board Policy Changes  |
| VI.   | 11:10 a.m. - 11:35 a.m. | Committee Reports  |
| VII.  | 11:35 a.m.- 11:45 a.m.  | Old Business/Director's Report   |
| VIII. | 11:45 a.m. - 12:00 p.m. | Executive Session (if necessary)<br>(Pursuant to SC Code of Laws §30-4-70) |
| IX.   | 12:00 p.m.              | Adjournment  |

**NOTICE OF PUBLIC MEETING**

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

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**Retreat Location**

**McNair Law Firm - 1221 Main St., Suite 1800, Columbia, SC 29201**

**Friday, March 27, 2015 – 9:00 a.m. - 5:00 p.m.**

**EDUCATION PROGRAM SESSIONS**

- |       |                               |  |
|-------|-------------------------------|--|
| I.    | 9:00 a.m. - 9:01 a.m.         | Call to Order                              |
| II.   | 9:01 a.m. - 9:02 a.m.         | Adoption of Proposed Agenda                |
| III.  | 9:02 a.m. - 11:00 a.m.        | Fiduciary Education                        |
| IV.   | 11:15 a.m. - 12:30 p.m.       | Powers Reserved                            |
| <br>  |                               |  |
|       | <i>12:30 p.m. - 1:00 p.m.</i> | <i>Lunch Break</i>                         |
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| V.    | 1:00 p.m. - 2:00 p.m.         | Summit Strategies Group                    |
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**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 28, 2015**

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**1. Subject:** 2015-2018 Strategic Plan

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**2. Summary:** 2015-2018 Strategic Plan

**Background Information:** The PEBA Board Strategic Plan – Staff Action Plans have been updated to incorporate the recommendations presented by staff and Funston Advisory Services.

**3. What is the Board asked to do?** Vote to accept the 2015-2018 Strategic Plan – Staff Action Plans as presented, and to receive quarterly updates on progress towards completion.

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**4. Supporting Documents:**

- (a) List those attached:
1. PEBA Strategic Plan Progress Reporting- Completed Items
  2. PEBA Strategic Plan Progress Reporting- Open Items
  3. Funston Recommendations Status Report
  4. PEBA Board Strategic Plan- Staff Action Plans

# PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
FAAC	Audit and Risk	M	Hire consultant to develop ERM, including Board level issues as well as staff level implementation	12/31/2016			John Page		1.12, 11.2, 2.5, 2.7.2, 2.7.3, 2.7.4, 2.7.5, 2.7.6, 2.7.1	57
FAAC	Audit and Risk	M	Review written training material to ensure PII and HIPPA information is appropriately protected	12/31/2015			Helen Everson Sue Sadik		7.3	58
FAAC	Board Level / Governance	H	Facilitate PEBA Board strategic planning: Schedule a strategic planning retreat for the PEBA Board	3/31/2015			Sarah Corbett		1.9.2 1.9.3	1
FAAC	Board Level / Governance	H	Facilitate PEBA Board strategic planning: Provide quarterly updates on strategic planning to the PEBA Board	6/30/2015			Sarah Corbett Lisa Phipps		1.9.2 1.9.3	2
FAAC	Board Level / Governance	M	Conduct an annual strategic planning session with a professional facilitator to produce staff action plans appropriately designed to accomplish the PEBA Board's strategic goals. a. Distribute action plans to all staff b. Engage all levels of staff in strategic planning	6/30/2015			Sarah Corbett		1.9.2 1.9.3	3
FAAC	Board Level / Governance	L	Schedule in-house fiduciary training for FY15 and a rotating program for the future. Topics include the duties of loyalty and impartiality.	9/30/2016			Stephen Van Camp	We will modify the education policy	1.8	6
FAAC	Board Level / Governance	H	Develop a PEBA Board member orientation manual and process	4/30/2015			Angela Warren		7.4.1	7
FAAC	Board Level / Governance	H	Improve Bylaws and charters as identified by Funston 1.10	3/31/2015			Justin Werner		1.10 a, b, c, d, g, h	8
FAAC	Board Level / Governance		Engage a consultant to facilitate the PEBA Board's self assessment process	3/31/2015				Discuss at 2015 Board Retreat	1.11	9
FAAC	Board Level / Governance	H	Develop a "Powers Reserved" governance framework: Hire an external facilitator to assist with this process	3/31/2015			Sarah Corbett Stephen Van Camp	2015 Board Retreat	1.9.1	10
FAAC	Board Level / Governance	H	Identify a method for evaluating vendor proposals and include a sourcing and disclosure form	12/31/2015			Georgia Gillens			11
FAAC	Board Level / Governance	M	Develop position description for Board and Committee Officers	6/30/2015			Kim Brown Sarah Corbett		1.10e	12
FAAC	Board Level / Governance	M	Consider enhancing the Board Education Policy to: Provide an expanded framework around ethical standards	5/31/2016			Sarah Corbett Stephen Van Camp		2.1	14
FAAC	Board Level / Governance	M	Consider enhancing the Board Education Policy to: Provide specific topics on which training is needed including fiduciary training	5/31/2016			Sarah Corbett Stephen Van Camp		2.12.2	15
FAAC	Board Level / Governance	M	Consider enhancing the Board Education Policy to: Require some portion of Trustee training to be provided by outside independent sources (non-vendors)	5/31/2016			Sarah Corbett Stephen Van Camp		2.12.1	16
FAAC	Board Level / Governance	M	Create a Board disciplinary policy				Justin Werner	referred to FAAC for review	1.10f	13
FAAC	Business Continuity	H	Complete a business continuity plan a. Development of 24-48 hour plan b. Training of Staff regarding business continuity plan c. Purchasing of Equipment as needed	4/30/2015			Sue Sadik Lisa Phipps		9.3.2, 9.3.1, 11.5, 11.11	44

## PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
FAAC	Communications	H	Develop a comprehensive communications plan for PEBA including Board of Directors, employers, members, employees, legislators, the public and other stakeholders	7/31/2015			Megan Lightle	a. Prepare an overview of current communication mechanisms and planned improvements	4.1, 4.11, 4.8	17
FAAC	Communications	M	Evaluate the use of an external marketing firm and/or market research firm to conduct focus groups of employers, retirees, and active employees to obtain general and specific feedback on PEBA's key informational and educational tools (IBG, newsletter, handbooks, website) and implement recommendations as appropriate.	9/30/2015			Megan Lightle Heather Young		4.1, 4.11, 4.8	18
FAAC	Communications		Meet with stakeholders to determine method for improving communications with the Board and PEBA staff.	3/31/2015			Sarah Corbett Megan Lightle	a. Schedule regular stakeholder meetings b. Ask stakeholders their opinion about mailing newsletters (cost/benefit) c. Ask stakeholders how we can improve communication	1.13, 4.3.1, 4.5.1, 4.5.2, 4.5.3, 4.3.2, 8.7.2	19
FAAC	Communications		Redesign website to improve what information is provided and how it is presented for ease of use	8/31/2015			Megan Lightle	Communications is responsible for updating the content of the website (information and how it is presented). IT will provide technical support.	4.2.1 4.2.2 8.8	20
FAAC	Communications		Meet with stakeholders to determine method for improving communications with the Board and PEBA staff: Modify the website to include a place and a method for receiving public feedback on issues before PEBA	7/31/2015			Sarah Corbett Megan Lightle		1.13, 4.8, 4.5.2	21
FAAC	Communications		Meet with stakeholders to determine method for improving communications with the Board and PEBA staff: Route feedback received to PEBA Board	8/31/2015			Megan Lightle		1.13, 4.8, 4.5.2	22
FAAC	Communications	H	Collect e-mail addresses for members and develop technical mechanism for communicating mass e-mails	12/31/2015			Megan Lightle Lisa Phipps Doug Hislop		8.7.1	23
FAAC	Communications	H	Evaluate current state of branding and co-branding and implement improvements	6/30/2015			Megan Lightle Heather Young	a. Develop a white paper on the pros and cons of co-branding products with our vendors b. Use a brand which defines PEBA (use retirement and insurance in the logo) c. PEBA Branding should be consistent between retirement, insurance and deferred comp. Materials should all be in the same branding "family". Brand should encompass our logo, tagline, website, printed material, word, excel and powerpoint documents.		25
FAAC	Communications	H	Review external vendors marketing and communications plans and contractual responsibilities: Expand or enhance plans or contractual responsibilities as needed	6/30/2015			Megan Lightle Laura Smoak	i. Expand or enhance plans or contractual responsibilities as needed		27
FAAC	Communications	H	Review external vendors marketing and communications plans and contractual responsibilities: Develop marketing plans for key health care and retirement products and services identified in the health care policy strategic action plan.	6/30/2015			Megan Lightle Laura Smoak	i. Determine key marketing and communications initiatives as part of the strategic plan ii. For Calendar Year 2015, the following programs will be included: 1. Generic drug co-pay waiver 2. Worksite screenings 3. Flu shots 4. Shingles shots		28

## PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
FAAC	Customer Service	M	Create a committee to evaluate employer needs and how employer services are currently provided and how employer services can be enhanced in the future	12/31/2015			Sarah Corbett Jennifer Dolder	2. Define objectives/improvements for each touch point 3. Include min of 1 business user from each touch point on committee	4.6.3	48
FAAC	Customer Service	H	Hire a consultant to assist with customer satisfaction surveys and on-going performance monitoring	12/31/2015			Sharon Graham		8.4, 8.5.1, 8.5.2, 8.6	50
FAAC	Customer Service	M	Update call management system	12/31/2015			Sharon Graham Georgia Gillens		8.13.2	51
FAAC	Employer Services		Create an Employer Advisory Group with Employers	12/31/2015			Jennifer Dolder	2. Identify and contact variety of employers (Ins, Ret, Ins&Ret, DC, ORP) 3. Develop agendas/topics for discussion (Communication,	4.6.3	53
FAAC	Employer Services		Create a formal method for receiving feedback on employer services from employees	10/31/2015			Jennifer Dolder	1. Coordinate with Seq #48 committee 2. Initiate survey of employees		54
FAAC	Employer Services		Survey other plans to determine benchmarks for employer services	8/31/2015			Jennifer Dolder	1. Contact and review the employer outreach/support of similar plans 2. Review CEM's 2015 Employer Services trend research		55
FAAC	Facilities	M	Develop a long term facilities plan, which includes remedying current issues in the physical property	4/30/2015			Travis Turner			56
FAAC	Human Resources / Workforce Development		Develop and implement internal and external training programs: Formalize affiliation and participation in industry associations to ensure core competencies are developed and maintained and best practices are shared.	6/30/2015			Kim Brown		3.4.2	29
FAAC	Human Resources / Workforce Development		Develop and implement an internal training program. Some identified needs are: Department-specific training to be used in onboarding new employees and cross-training other employees	6/30/2016			Department Managers		3.4.1, 3.4.2	30
FAAC	Human Resources / Workforce Development		Develop and implement internal and external training programs: Create and implement an orientation program for new employees	9/30/2015			Kim Brown Megan Lightle		3.4.2	32
FAAC	Human Resources / Workforce Development		Develop and maintain a succession plan for several layers of management and key positions. • Identify positions and chart retirement eligibility. Determine skills and competencies required to replace. • Update succession candidate pool. Create development plans for each candidate to include training, mentoring, career coaching, etc.	3/31/2016			Kim Brown		3.5.2	35
FAAC	Human Resources / Workforce Development		Create and communicate an agency compensation plan and philosophy to provide transparency and guidance in pay practices. • Explore the utilization of bonuses for achievement of budget efficiencies and high performance.	9/30/2015			Kim Brown		2.6 3.6.2	37
FAAC	Human Resources / Workforce Development		Ensure each operational area has up to date written policies and procedures	7/31/2016			Department Managers		3.8 5.1.1	38

# PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
FAAC	Human Resources / Workforce Development		Develop and implement an internal training program. Some identified needs are: Organizational Development (hire outside Trainer) - Effective hiring practices - Leadership and supervisory skills - Performance management - Process improvement - Change management - Ethics - Compliance - Fiduciary Responsibility - HIPAA/Cyber Security Identification of specialized staff training for each operational area and cross-training opportunities				Kim Brown		3.4.2, 7.4.2, 3.4.1, 3.5.1	31
FAAC	Human Resources / Workforce Development		Assess Resource Allocation: Determine appropriate staffing levels for organizational areas. Develop plans to address gaps in levels through attrition, transition of FTEs, or addition of FTEs.				Kim Brown		10.2, 3.3, 2.11.1	33
FAAC	Human Resources / Workforce Development		Continued consolidation of common retirement and insurance processes. Explore additional organizational changes to provide opportunity for efficiencies and employee exposure.				Travis Turner	o Financial/Accounting – Physical location and financial statements o Enrollment o Imaging o Cash Receipts	3.6.1	34
FAAC	Human Resources / Workforce Development		Modify hiring practices to ensure effective recruitment and selection of professional level staff with potential to serve the agency in various capacities. • Develop a more formalized, structured recruitment process to include: - HR guided evaluation of job function, job level, and requirements. - Development and approval of selection process tools prior to advertisement. - Use of departmentally diverse interview panels. - Comprehensive review of applicant data and HR selection of candidate pool. • Establish recruitment relationship with nearby colleges and universities for entry-level positions and internship opportunities.				Kim Brown			36
FAAC	Human Resources / Workforce Development		Review the Employee Performance Management System (EPMS): 360 degree reviews; set cultural expectations for employee performance (Characteristics of high performance)				Kim Brown Department Managers			39
FAAC	Information Technology	H	Regularly review and improve upon IT security; Create a security review and practice calendar for internal review	4/30/2015			Doug Hislop		9.2, 11.7	45

# PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
FAAC	Information Technology	M	Evaluate the costs and benefits of cyber insurance: a. Document cyber security risks to the organization, including the financial impact of a potential breach b. Determine scope of cyber insurance c. Determine cost/benefit analysis of purchasing cyber insurance	8/30/2015			Doug Hislop			46
FAAC	Information Technology	M	Complete a post cyber attack recovery plan: Provide an incident response overview to the Board	6/30/2015			Doug Hislop		9.3.1	47
FAAC	Information Technology	H	Regularly review and improve upon IT security: a. Purchase and implement additional security hardware and software b. Comply with State issued information security policies	6/30/2016			Doug Hislop		9.2, 11.7	105
FAAC	Operational Assessment	H	Operational Assessment: Phase 1 – Jan 2015 – Aug 2015 1. 'As Is': Current Business Flow document 2. SWOT analysis document 3. Current High Level Architectural Design (For all systems in scope) 4. Organizational Assessment Document (Current organizational analysis) 5. Executive Summary Report on Phase 1 completion	8/31/2015			Lisa Phipps	Business process improvement and Operational Assessment: This assessment will focus on business processes (how we do what we do and where are we with those processes), information systems (IT systems that support those processes), and the agency organizational structure (who makes all that happen).	9.1, 11.1, 10.4	40
FAAC	Operational Assessment	H	Operational Assessment: Phase 2 – Aug 2015 – Feb 2016 1. 'To Be': Future Business Flow document 2. High Level Architectural Design ( For all Future Systems in PEBA) 3. Organizational Assessment Document (Future organizational analysis) 4. Alternative Proposal Solution 5. Executive Summary Report on Phase 2 completion	2/29/2016			Lisa Phipps		9.1, 11.1, 10.4	41
FAAC	Operational Assessment	H	Operational Assessment: Phase 3 – Feb 2016 – June 2016 1. High Level Roadmap 2. Cost Benefit Analysis 3. Findings & Recommendations for Implementation Projects 4. Executive Summary Report on Phase 3 completion 5. Final Assessment Report	6/30/2016			Lisa Phipps		5.1.2, 9.1, 11.6.1, 11.4, 11.10, 11.1, 10.4	42
Health Care Policy	Compliance	H	Complete additional reporting required by the ACA	1/31/2016			Phyllis Buie Dayle Delong			62
Health Care Policy	Compliance	L	Complete operational requirements for new GASB OPEB standards	6/30/2018			Phyllis Buie			63
Health Care Policy	Data Analysis	H	Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives [incent and encourage participants to share biometric data with the plan]	12/31/2015			Laura Smoak Ken Turnbull Dayle Delong	offering screenings free in 2015		59

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Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
Health Care Policy	Data Analysis	L	Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives [require participants to share biometric data with the plan]	1/1/2017			Laura Smoak Ken Turnbull Dayle DeLong			60
Health Care Policy	Data Analysis	H	Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives: require workplace screening providers to electronically provide biometric data to the plan and / or the ASO	1/1/2016			Laura Smoak Ken Turnbull Dayle DeLong	Contract requires providers to send biometrics to BCBS 1/1/2016 in order to be a provider		61
Health Care Policy	Data Analysis	M	Monitor outcomes at MUSC pilot health plan and take additional action as appropriate based upon outcomes	6/15/2015			Laura Smoak Rob Tester	First analysis will be posted in June 2015		76
Health Care Policy	Planning and Execution	M	Increase participation in wellness programs for PEBA as an employer	12/31/2015			Dayle DeLong			75
Health Care Policy	Planning and Execution		Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: develop a wellness scorecard to provide employers: score card communicated	12/31/2016			Laura Smoak			78
Health Care Policy	Planning and Execution		Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: develop a wellness scorecard to provide employers: score card developed	12/31/2015			Laura Smoak			79
Health Care Policy	Planning and Execution		Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: increase participation in the biometric screenings by 10,000	12/31/2015			Laura Smoak Dayle DeLong BCBSSC			80
Health Care Policy	Planning and Execution		Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: increase participation in the co-pay waiver program to 7 percent of the eligible population	12/31/2015			Laura Smoak Dayle DeLong BCBSSC			81
Health Care Policy	Planning Support	H	Identify and implement a strategic planning health care consultant relationship for the health care plan: complete procurement for consultant relationship	9/1/2015			Georgia Gillens Rob Tester		6.9	71
Health Care Policy	Planning Support	H	Identify and implement a comprehensive health care consultant relationship for the health care plan: Identify Scope of the consultant relationship	4/1/2015			Sarah Corbett Rob Tester		6.9	72
Health Care Policy	Planning Support	H	Identify and implement a comprehensive health care consultant relationship for the health care plan: Issue RFP for consultant relationship	5/9/2015			Georgia Gillens Rob Tester			73
Health Care Policy	Staffing / Organizational Structure		Determine and implement appropriate staffing for the health care plan to achieve strategic goals: Evaluate overall staffing needs	6/30/2015			Rob Tester			66
Retirement Policy	Deferred Compensation Plan	H	Determine methods for increasing participation in Deferred Compensation: Determine a protocol for using information obtained via the Retirement Systems to increase participation in the SCDCP	12/31/2015			Matt Davis Justin Werner			85

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Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	Status	Responsible Staff Leader	Notes	Funston	Seq #
Retirement Policy	Deferred Compensation Plan	H	Determine methods for increasing participation in Deferred Compensation: Complete legal agreement to sharing information between PEBA and Empower Retirement to increase participation in the SDCDP	9/30/2015			Matt Davis Justin Werner			86
Retirement Policy	Deferred Compensation Plan	M	Adopt best practices for SDCDP structure and investment options: Evaluate automatic enrollment	12/31/2015			Matt Davis Justin Werner			88
Retirement Policy	Deferred Compensation Plan	L	Adopt best practices for SDCDP structure and investment options: Implement the modernization project which requires employers to offer all features of the program and adhere to standardized remittance and reporting requirements	1/31/2017			Matt Davis			90
Retirement Policy	Deferred Compensation Plan	H	Adopt best practices for SDCDP structure and investment options: Implement participant fee disclosures conforming to ERISA Section 404(a)				Matt Davis	Awaiting guidance from DOL and SEC		89
Retirement Policy	Defined Benefit Plan		Implement GASB 67 and 68; communicate with stakeholders, employers, and policy makers on new pension reporting requirements; continue assisting employers in retrieving pension expenses and liabilities: Contract and work with external auditor to obtain audit opinion on census data and actuary schedules containing data required for covered employers to be compliant with GASB 68	6/1/2015			Tammy Nichols			93
Retirement Policy	Defined Benefit Plan	H	Implement GASB 67 and 68; communicate with stakeholders, employers, and policy makers on new pension reporting requirements; continue assisting employers in retrieving pension expenses and liabilities: Provide training and education for covered employers and their auditors through presentations at conferences and seminars, and through webinars	12/31/2015			Ashley Brindle			94
Retirement Policy	Defined Benefit Plan	M	Develop procedures to determine when and how to adopt annuity option factor changes	4/30/2015			Tammy Nichols		6.5	100
Retirement Policy	Defined Benefit Plan	M	Develop a protocol with the RSIC to better understand how investment return projections under various asset allocation models may impact plan liabilities and costs.	6/30/2016			Tammy Nichols	a. Determine how to share the GRS actuarial tool with RSIC staff b. Meet with RSIC risk staff on a quarterly basis to review projected liabilities and costs c. Determine protocol for risk reporting to the PEBA Board	6.6	101
Retirement Policy	Defined Benefit Plan	M	Conduct an independent actuarial audit one year after the next scheduled experience study	1/1/2017			Tammy Nichols		6.7	102
Retirement Policy	Defined Benefit Plan		Implement Conifer Relationship (RSIC administrator) for PEBA needs				Faith Wright Tammy Nichols			83
Retirement Policy	Retirement Readiness	M	Focus education for all retirement plan participants on retirement readiness: Define retirement readiness	3/31/2016			Matt Davis Travis Turner			95
Retirement Policy	Retirement Readiness	L	Focus education for all retirement plan participants on retirement readiness: Assess the current state of retirement readiness of retirement plan participants through surveys and focus groups	9/30/2016			Matt Davis Travis Turner			96

## PEBA Board Strategic Plan - Staff Action Plans

Committee	Strategic Category	Priority	Actions	Target Completion Date	Implementation Date	S t a t u s	Responsible Staff Leader	Notes	Funston	Seq #
Retirement Policy	Retirement Readiness	L	Focus education for all retirement plan participants on retirement readiness: Determine appropriate goals for retirement readiness	12/31/2016			Matt Davis Travis Turner			97
Retirement Policy	Retirement Readiness	L	Determine communication strategy for achieving retirement readiness goals	3/31/2017			Travis Turner Matt Davis Megan Lightle Sarah Corbett		4.1	98
Retirement Policy	Retirement Readiness		Increase the number of employers offering the SCDCP							87
Retirement Policy	State Optional Retirement Plan	H	Adopt best practices concerning plan for ORP structure and investment options: Implement elimination of revenue sharing to plan administrators	7/31/2015			Matt Davis			103
Retirement Policy	State Optional Retirement Plan	H	Adopt best practices concerning plan for ORP structure and investment options: Implement requirement for investment advice.	7/31/2015			Matt Davis			104
Retirement Policy	State Optional Retirement Plan		Adopt best practices concerning plan for ORP structure and investment options: Evaluate consolidated investment menu for ORP providers.				Matt Davis	on hold		84

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Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
7.3	The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.	2 = Important	Easy	No	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
7.5	Internal Audit should focus its audit plans on areas that present the highest inherent risk and which rely most of the effectiveness of controls. Time permitting; Internal Audit should focus its consulting efforts on areas of high inherent risk and low control effectiveness.	2 = Important	Easy	No	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
11.2	The Board should proceed with prioritizing enhancement of PEBA's risk identification, risk management and compliance functions. Consideration should be given to the appropriate assignment of Committee oversight responsibilities for this initiative.	2 = Important	Difficult	Yes	May require additional resources	Board	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
2.7.1	PEBA should increase the frequency of its enterprise-wide risk assessment. Currently, one is conducted every five years; however, given the significant changes that have occurred in PEBA's leadership, as well as proposed changes, conducting a more frequent risk assessment would help to ensure that new issues or concerns are promptly identified and prioritized for remediation.	2 = Important	Difficult	Yes	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57

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2.7.2	PEBA should increase the frequency of a full enterprise wide risk assessment to ensure that Internal Audit's Plan for the upcoming year reflects the most significant risks to the organization (see also Recommendations 2.7.1 and 2.7.2).	2 = Important	Medium	Yes	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
2.7.3	Internal Audit should continue to develop a comprehensive risk self-assessment tool for PEBA as an integrated organization.	3 = Consider	Medium	Yes	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
2.7.4	The development of a risk management policy (including risk appetite and risk tolerance) should be the responsibility of executive management with input from Internal Audit and other stakeholders.	2 = Important	Difficult	Yes	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
2.7.5	An executive should be assigned responsibility and accountability for the assessment and management of specific risks within each business function and overall based on factors such as impact, velocity and vulnerability. Internal Audit and others can support management in their self-assessments but operating management should be held accountable for the results.	2 = Important	Medium	No	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57

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Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
2.7.6	The Board should identify the type and magnitude of risks which ought to come to its attention, e.g., financial, legal, operational, organizational, reputational, strategic.	2 = Important	Medium	Yes	No	Risk	Discuss at the March 2015 Board Retreat. Training will be scheduled for the March Retreat on Enterprise Risk Management. Staff recommends hiring a consultant to develop an ERM program. The scope of the engagement would cover all Funston recommendations on risk.	Issue an RFP by Dec 2016	Discuss at March Retreat	John Page	FAAC - Audit and Risk	57
6.5	PEBA should review its printed training materials, reports and use of protected health information to make sure its minimum necessary standards are being consistently applied.	2 = Important	Difficult	No	No	Process	PEBA cusomter service will review training material to ensure that controls are in place to protect PII and HIPPA information	December-15		Sue Sadik Helen Everson	FAAC - Audit and Risk	58
7.4.1	PEBA should provide periodic fiduciary training to staff and Board members through standardized onboarding education, regular updates and use of examples that are targeted to key issues.	1 = Critical	Medium	Yes	No	Board	Agreed. 1. Orientation materials for new Trustees is being developed. 2. Legal will develop a schedule for future fiduciary training.	1. March 2015 2. April 2015	In process	Angela Warren	FAAC - Board Level / Governance	7
1.10a	Formalizing the process for the development of meeting agendas;	2 = Important	Medium	Yes	No	Board	Agreed. Changes to the bylaws will be drafted.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8
1.10b	Creating a Charter for the Executive Committee that includes a framework for evaluation of the Executive Director;	2 = Important	Medium	Yes	No	Board	We will eliminate the Executive Committee from the bylaws because it has not been an active Committee. Legal will draft changes to the bylaws to eliminate the Executive Committee and to place the responsibility of evaluating the ED to the full Board.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8
1.10c	Removing the provision that Committee members serve at the pleasure of the Board Chairman;	2 = Important	Medium	Yes	No	Board	Agreed. Legal will draft changes to the bylaws.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8
1.10d	Establishing procedures for calling a Committee meeting that parallel those for convening a Board meeting;	2 = Important	Medium	Yes	No	Board	Agreed. Legal will draft changes to the bylaws.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8

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Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
1.10g	Formalizing a process for approving the Board Chairman's educational program attendance and cost reimbursements;	2 = Important	Medium	Yes	No	Board	Agreed. Amend bylaws to provide that the Chairman's attendance and expenses will be approved by the Vice-Chairman. Legal will draft changes.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8
1.10h	Including the Board's Self-Assessment process in the Bylaws and using it to identify Trustee training priorities.	2 = Important	Medium	Yes	No	Board	Agreed. Legal will draft changes to the bylaws.	March-15	Changes drafted - Will present to FAAC in February	Justin Werner	FAAC - Board Level / Governance	8
1.11	The Board should periodically engage a consultant to facilitate the Board's self-assessment and improvement process, perhaps on a biennial basis.	2 = Important	Difficult	Yes	Procurement Process	Board	Discuss at the March 2015 Board Retreat. No changes to the bylaws required.	March-15	Discuss at March Retreat		FAAC - Board Level / Governance	9
1.9.1	The Board should engage in a deliberative process to develop a conceptual framework governing the delegation of authority and reservation of powers to the Board. Given the inherent conflicts between Trustees and staff in this exercise, Consideration should be given to engaging an independent expert to assist with the process.	1 = Critical	Easy	Yes	Yes (outside specialist firm)	Board	Agreed. Staff is in the process of identifying a facilitator for this process at the March 2015 Retreat.	March-15	In process	Stephen Van Camp	FAAC - Board Level / Governance	10
1.10e	Developing position descriptions for Board and Committee officers;	2 = Important	Medium	Yes	No	Board	Agreed. The ED will work with the Chairman and Committee Chairs to develop position descriptions.	June-15	Not Started	Kim Brown Sarah Corbett	FAAC - Board Level / Governance	12
1.10f	Creating a Board disciplinary policy	2 = Important	Medium	Yes	No	Board	Delegate evaluation of this recommendation to the FAAC Committee.		Defer to FAAC Committee	Justin Werner	FAAC - Board Level / Governance	13
2.1	To provide the most assistance for Board members in understanding and upholding the ethical requirements, the ethics policy should be expanded to provide an additional framework around the ethical standards.	1 = Critical	Medium	Yes	No	Policy		May-16		Sarah Corbett Stephen Van Camp	FAAC - Board Level / Governance	14

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4.11	The strategic planning process should give particular consideration to risk identification, compliance issues and staff development, over both short- and long-term (three to five years) time horizons.	2 = Important	Medium	Yes	No	Planning	Agreed.	June-15		Sarah Corbett	FAAC - Board Level / Governance	1, 2, 3, 4
2.12.2	The PEBA Trustee Education Policy should specify topics on which training is needed and include mandatory fiduciary training on a periodic basis, and could be linked with the self-assessment process.	1 = Critical	Easy	Yes	No	Policy		May-16		Sarah Corbett Stephen Van Camp	FAAC - Board Level / Governance	5, 15
2.12.1	With most Board members only needing six additional credits after attending the Board's annual retreat, the Board should determine whether the Board members are receiving sufficient training from independent outside sources. If not, the policy should be revised to require additional credits or limit the number of credits from the Board retreat and staff training that can be used to meet training requirements.	2 = Important	Easy	Yes	No	Policy		May-16		Sarah Corbett Stephen Van Camp	FAAC - Board Level / Governance	5, 16
1.8	Training of new Trustees and periodic Board fiduciary education updates should include expanded treatment of the duties of loyalty and impartiality, the different roles of Trustees and plan sponsors and the distinct functions of the Board and staff.	1 = Critical	Easy	Yes	No	Board	Agreed. 1. Fiduciary training covering the recommended topics will be provided at the March 2015 Retreat. 2. New Trustee Orientation material is being developed and will include the referenced fiduciary material.	1 and 2 - March 2015	In process	Stephen Van Camp Angela Warren	FAAC - Board Level / Governance	5, 6
8.4	Further efforts need to be made to move from a data center disaster recovery plan orientation to an enterprise wide business continuity focused plan.	2 = Important	Medium	No	No	Planning	Agreed.	April-15		Sue Sadik Lisa Phipps	FAAC - Business Continuity	44
8.6	PEBA should develop and implement a training program for business unit staff in the event the data center recovery plan has to be activated.	2 = Important	Medium	No	No	Organization	Agreed.			Sue Sadik Lisa Phipps	FAAC - Business Continuity	44

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9.3.2	PEBA should continue its efforts to address its business continuity planning deficiencies.	2 = Important	Medium	No	No	Planning	Agreed.	April-15		Sue Sadik Lisa Phipps	FAAC - Business Continuity	44
9.3.1	PEBA should address identified business continuity planning deficiencies.	2 = Important	Medium	No	No	Process	Agreed.			Sue Sadik Lisa Phipps	FAAC - Business Continuity	44, 47
4.3.1	PEBA should consider mailing newsletters to members with an "opt-out" electronic option for either email delivery or an RSS newsfeed to ensure that all members receive PEBA news on a timely basis.	3 = Consider	Medium	No	No	Process	discuss with stakeholders	March-15		Megan Lightle	FAAC - Communications	19
4.3.2	The PEBA Board should play a more active role in reaching out to employee groups on a regular basis to improve communications.	1 = Critical	Easy	Yes	Stakeholders	Board	Agreed. Will work with employee associations to determine a method for doing this.	March-15		Sarah Corbett Megan Lightle	FAAC - Communications	19
4.5.1	Consistent with Recommendation 4.3.1, PEBA should consider mailing newsletters to retirees and survivors with an "opt-out" electronic option for either email delivery or an RSS newsfeed to ensure that all retirees receive PEBA news on a timely basis.	3 = Consider	Medium	No	No	Process	discuss with stakeholders	March-15		Megan Lightle	FAAC - Communications	19
4.5.3	Similar to Recommendation 4.3.2, the PEBA Board should play a more active role in reaching out to retiree groups on a regular basis to improve communications.	1 = Critical	Easy	Yes	Stakeholders	Board	Agreed. Will work with retirees association to determine a method for doing this.	March-15		Sarah Corbett Megan Lightle	FAAC - Communications	19
8.7.2	PEBA should consider alternative means of reaching members if they do not use email or the internet.	3 = Consider	Difficult	No	No	Process	discuss with stakeholders	March-15		Megan Lightle	FAAC - Communications	19
4.2.1	PEBA should develop the planned consolidated website as soon as practical to improve integration of and access to all information.	2 = Important	Difficult	No	No	Systems	Communications is responsible for updating the content of the website (information and how it is presented). IT will provide technical support.	August-15		Megan Lightle	FAAC - Communications	20

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8.7.1	PEBA should obtain the email addresses of a much higher proportion of its members, particularly retirees, to ensure they receive news electronically.	1 = Critical	Difficult	No	Members	Process	Agreed.	December-15		Lisa Phipps Megan Lightle Doug Hislop	FAAC - Communications	23
4.1	As part of its comprehensive communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with key legislators.	1 = Critical	Medium	Yes	No	Planning	Agreed.	July-15		Megan Lightle	FAAC - Communications	17, 18
1.13	As part of its strategic communications strategy and plan (see Recommendation 4.1), PEBA should include initiatives which improve communications with the general public.	1 = Critical	Medium	Yes	No	Planning	Agreed.	July-15		Megan Lightle	FAAC - Communications	17, 18, 21, 22
4.5.2	PEBA should develop a comprehensive communications strategy and plan.	1 = Critical	Medium	Yes	No	Planning	Agreed.	July-15		Megan Lightle	FAAC - Communications	17, 18, 98
8.8	The Board should evaluate mechanisms to improve its two-way communication with stakeholders.	1 = Critical	Easy	Yes	Stakeholders	Board	Agreed. Staff will develop and implement a formal process to receive written feedback about policies from stakeholders and provide that feedback to Board members.	July-15		Sarah Corbett Megan Lightle	FAAC - Communications	19, 21, 22
4.2.2	The PEBA Board should consider developing a process and protocol for receiving and considering public comments before its meetings.	3 = Consider	Easy	Yes	Stakeholders	Board	Agreed. Staff will develop and implement a formal process to receive written feedback about policies from stakeholders and provide that feedback to Board members.	July-15		Sarah Corbett Megan Lightle	FAAC - Communications	19, 21, 22
1.12	The PEBA Customer Service Department should establish a small group with expertise in customer service metrics and monitoring, or conversely, utilize an outside specialist firm to assist in developing its customer service monitoring approach and tools.	2 = Important	Medium	No	Yes (outside specialist firm)	Process	PEBA will hire a consultant to work with customer service staff to develop a more standardized approach to performance monitoring and customer satisfaction surveys	December-15		Sharon Graham	FAAC - Customer Service	50

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8.13.2	PEBA should identify the key areas and metrics for customer service monitoring and develop a comprehensive, integrated customer service monitoring framework which is used to drive its customer surveys and follow-up improvement programs.	2 = Important	Difficult	No	No	Process	PEBA will hire a consultant to work with customer service staff to develop a more standardized approach to performance monitoring and customer satisfaction surveys	December-15		Sharon Graham	FAAC - Customer Service	50
8.5.1	PEBA should develop a more standardized approach for performance monitoring and customer satisfaction surveys with common tools, data and reporting.	2 = Important	Difficult	No	No	Process	PEBA will hire a consultant to work with customer service staff to develop a more standardized approach to performance monitoring and customer satisfaction surveys	December-15		Sharon Graham	FAAC - Customer Service	50
8.5.2	PEBA should re-evaluate its satisfaction surveying process to include single activity surveys for disability, pension inceptions, withdrawals and transfers-out and service credit purchases.	2 = Important	Difficult	No	No	Process	PEBA will hire a consultant to work with customer service staff to develop a more standardized approach to performance monitoring and customer satisfaction surveys	December-15		Sharon Graham	FAAC - Customer Service	50
2.5	PEBA should evaluate new phone and email management systems and consider acquiring newer technologies if they could improve service levels and/or staff productivity levels.	1 = Critical	Difficult	No	No	Systems	Staff is currently reviewing state contracts to determine if we can update our call management system.	December 2015 (if on State Contract)		Georgia Gillens Sharon Graham	FAAC - Customer Service	51
8.14	PEBA should consider whether offering one-on-one counseling sessions at employer sites would result in improved customer service and participation levels.	3 = Consider	Difficult	No	No	Process	We will hire a consultant to design surveys to determine what additional service features may be needed. However, no data exists at the current time to indicate that the cost associated with one on one counseling sessions in the field would be justified. No action recommended at this time.			Sharon Graham	FAAC - Customer Service	

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8.15	PEBA should consider increasing the number of retirement presentations it offers in the field to reduce the size of the groups and allow more individual attention.	3 = Consider	Difficult	No	No	Process	We will hire a consultant to design surveys to determine what additional service features may be needed. However, no data exists at the current time to indicate that the cost associated with expanding field presentations would be justified. No action recommended at this time.			Sharon Graham	FAAC - Customer Service	
8.16	PEBA should consider adding additional information to member statements to help them better understand their future options.	3 = Consider	Difficult	No	No	Process	PEBA no longer mails benefit statements to retirement systems participants. No action recommended at this time.				FAAC - Customer Service	
4.6.3	PEBA should determine whether having an employer advisory group to provide feedback in a structured manner would be beneficial.	3 = Consider	Medium	No	No	Process	Agreed. The employer services director will determine an appropriate method of receiving feedback from employers on a regular basis. This may include surveys, focus groups or an on-going advisory committee.	December-15		Employer Services Director	FAAC - Employer Services	48, 53
3.5.1	The staff training and education policy should provide for cross-training and rotation of staff to other, similarly classified positions within the business functions for cross-training purposes.	3 = Consider	Medium	No	No	Organization	Agreed.			Kim Brown	FAAC - Human Resources / Workforce Development	31
7.4.2	PEBA should formalize a staff training schedule to ensure that consistent ethics and compliance training is conducted.	1 = Critical	Medium	No	No	Organization	Agreed.			Kim Brown	FAAC - Human Resources / Workforce Development	31
10.2	PEBA should determine if current headcount is adequate in all areas.	1 = Critical	Difficult	Yes	No	Organization	Agreed. This will be evaluated as part of the larger HR and Workforce Development Strategic Action Plans			Kim Brown	FAAC - Human Resources / Workforce Development	33
2.11.1	PEBA should determine whether it needs additional experienced procurement resources to address upcoming requirements.	2 = Important	Easy	No	No	Organization	Agreed.			Kim Brown	FAAC - Human Resources / Workforce Development	33

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3.6.1	As the new technology platform and processes are developed, PEBA should implement additional operational consolidations.	2 = Important	Difficult	No	No	Organization	Agreed.			Travis Turner	FAAC - Human Resources / Workforce Development	34
3.5.2	Succession planning should be a higher priority. Executive Staff and managers should maintain organizational charts of each business unit that reflect the time remaining to retirement eligibility of individual staff members and regularly discuss anticipated vacancies and plan for future staffing needs and training. The discussion should also include the possibility of back-filling positions where vacancies are anticipated to provide that the replacement is fully trained when the retiring staff member vacates the position.	2 = Important	Medium	No	No	Organization	Agreed.			Kim Brown	FAAC - Human Resources / Workforce Development	35
2.6	PEBA should have a formal compensation policy which documents its acknowledgement of its status as a South Carolina State government agency and its compliance with the State's Office of Human Resources policies, job classifications system and pay bands. A simple statement and reference to the State policies to which it adheres would provide transparency of PEBA's compensation policy to its employees and to the public.	3 = Consider	Easy	Yes	No	Policy	Agreed.			Kim Brown	FAAC - Human Resources / Workforce Development	37
3.8	Each of PEBA's departments should create and maintain a standard operating procedures manual documenting its processes for performing its functions.	3 = Consider	Difficult	No	No	Process	Agreed.	July-16		Department Managers	FAAC - Human Resources / Workforce Development	38

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5.1.1	PEBA should continue to maintain internal controls and keep its written policies and procedures current.	2 = Important	Medium	No	No	Policy	Agreed.			Department Managers	FAAC - Human Resources / Workforce Development	38
3.4.2	Human resources should develop a training policy and program that provides for new employee orientation. New Employee Orientation should include a general organizational overview of PEBA's functions and services.	1 = Critical	Medium	No	No	Organization	Agreed.	March-16		Kim Brown Megan Lightle Department Managers	FAAC - Human Resources / Workforce Development	29, 30, 31, 32
3.4.1	Each PEBA business area should develop a specialized staff training and education policy and program for staff in their area.	2 = Important	Medium	No	No	Organization	Agreed.	March-16		Department Managers	FAAC - Human Resources / Workforce Development	30, 31
3.3	PEBA should continue to fill remaining vacant positions in order to maintain sufficient staffing in all areas to effectively and efficiently perform all functions.	2 = Important	Easy	No	No	Organization	Agreed.			Kim Brown Sarah Corbett	FAAC - Human Resources / Workforce Development	33, 52
9.2	PEBA should continue to conduct annual network and security vulnerability tests to ensure its networks and other infrastructural processes are working as intended. Greater use should be made of in-house based security monitoring tools to identify and protect its networks from unauthorized access and unintentional disclosure of member data.	1 = Critical	Difficult	No	No	Systems		April-15		Doug Hislop	FAAC - Information Technology	45, 105
11.7	PEBA should continue to work closely with the State's Information Sharing and Analysis Center (SC-ISAC) along with other third-party information technology consulting firms to proactively assess existing and trending threats to information and network security.	3 = Consider	Medium	No	No	Process	Agreed. PEBA is an active participant in the State's Information Sharing and Analysis Center.	April-15		Doug Hislop	FAAC - Information Technology	45, 105

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11.10	As PEBA completes its Operational Systems Assessment it should consider what, if any, additional methodologies and skills will be required for the Information Technology Department to effectively support a new IT plan.	1 = Critical	Difficult	No	No	Planning	Agreed. The operational assessment project is currently underway. A key deliverable is a roadmap of how to move forward with implementation.	December-16		Doug Hislop	FAAC - Operational Assessment	42
11.4	After the Operational Systems Assessment is completed, the IT department should lead an effort to develop a long-term IT strategic plan which supports the plan infrastructure direction.	1 = Critical	Difficult	Yes	General Assembly	Planning	Agreed. The operational assessment project is currently underway. A key deliverable is a roadmap of how to move forward with implementation.	December-16		Doug Hislop	FAAC - Operational Assessment	42
11.6.1	PEBA should continue to move forward with its plans to conduct a comprehensive IT Operations Assessment to identify common business processes, technology and develop a roadmap to develop its next generation of systems to support the strategic direction of the organization.	1 = Critical	Difficult	No	No	Planning	Agreed. The project is currently underway.	June-16		Lisa Phipps	FAAC - Operational Assessment	42
5.1.2	PEBA should revise its written benefits administration procedures to reflect changes required by the new administration software which will be implemented as part of the new benefits platform.	1 = Critical	Difficult	No	No	Process	Agreed. The operational assessment project is currently underway. A key deliverable is a roadmap of how to move forward with implementation. Implementation of the new software is expected to take 5-7 years. When the new software is implemented, written procedures will be developed.	2017-2022		Lisa Phipps	FAAC - Operational Assessment	42
9.1	PEBA should continue its efforts to conduct a comprehensive assessment of its operational infrastructure and business processes.	1 = Critical	Difficult	No	No	Planning	Agreed. The project is currently underway.	June-16		Lisa Phipps	FAAC - Operational Assessment	40, 41, 42

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10.4	To achieve PEBA's stated strategies of further integration and improved infrastructure, it should request at least a temporary increase in administrative expenses and professional and consulting fees for several years.	1 = Critical	Difficult	Yes	General Assembly	Planning	The current authorization from the General Assembly provides room for the current strategic action plans. However, when a more detailed estimate is known for implementation of a new technology solution, and if that implementation is outside of our current authorization, PEBA will ask for increased authorization.			Travis Turner	FAAC - Operational Assessment	40, 41, 42
11.1	PEBA should complete its comprehensive assessment of its existing IT infrastructure and business systems.	1 = Critical	Difficult	No	No	Planning	Agreed. The project is currently underway.	June-16		Lisa Phipps	FAAC - Operational Assessment	40, 41, 42
6.9	PEBA should explore additional consulting services for the Health Insurance plans to assist in developing long-term strategies to reduce cost and improve health outcomes.	1 = Critical	Medium	No	Procurement Process	Planning	Agreed. The current authorization from the General Assembly provides room to hire a health plan consultant. See the health care strategic action plan.			Sarah Corbett Rob Tester Georgia Gillens	Health Care Policy - Planning Support	71, 72
1.1	The General Assembly should simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA. Appendix A also describes options for consideration in addressing this Recommendation from the Funston Fiduciary Audit Report on RSIC, which covered some of the same issues.	1 = Critical	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.		S.527	General Assembly	Legislation	
1.2	The General Assembly should give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.	2 = Important	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	

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1.4	The General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.	1 = Critical	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
1.5	The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups. See also Recommendation 4.9.	2 = Important	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
1.6	The General Assembly should update the PEBA Board Member appointment process to be more consistent with peer practices. This should include consideration of four- or five- year staggered terms, subject only to early removal for cause. It might also include consideration of changes in the appointment process to improve engagement with participant groups and the PEBA Board by establishing a process for them to submit qualified candidates for consideration by the appointing authorities.	1 = Critical	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.		S.527	General Assembly	Legislation	
1.7	The statutory requirement that the PEBA Board meet monthly throughout the year should be repealed.	2 = Important	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.		S.527	General Assembly	Legislation	

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4.10	The General Assembly should include a provision in future legislation that replaces references to the BCB, or its successor, in S.C. Code Ann. §§ 9-1-1310 and 9-4-45 with specific references to the SFAA, in order to more explicitly effectuate transfer of the BCB's co-trustee functions to new State Fiscal Accountability Authority.	2 = Important	Medium	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.		S.527	General Assembly	Legislation	
4.9	The General Assembly should eliminate the requirement for PEBA to convene a Retirement and Pre-Retirement Advisory Panel, as it duplicates responsibilities of the PEBA Board has not been meeting its legislative intent. See also Recommendation 1.5.	2 = Important	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
8.10	The General Assembly should eliminate the notarization requirement for a member death by amending the appropriate statutes to delete the requirement for a "duly acknowledged" written notification to PEBA.	2 = Important	Medium	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
1.3.1	The General Assembly should transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.	1 = Critical	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
1.3.2	The General Assembly should transfer approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.	1 = Critical	Difficult	No	General Assembly	Legislation	This is within the General Assembly's purview. Staff will be available to provide information to the General Assembly as needed.			General Assembly	Legislation	
6.7	PEBA staff should develop procedures, in conjunction with the actuary, to determine when and how to adopt annuity option factor changes.	2 = Important	Easy	No	No	Actuarial	Agreed.	April-15		Tammy Nichols	Retirement Policy - Defined Benefit Plan	100

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1.9.2	PEBA should consider closer engagement between the PEBA Board, staff, actuary, and the RSIC Board and staff in order to better understand how investment return projections under various asset allocation models may impact plan liabilities and costs.	2 = Important	Medium	No	RSIC	Actuarial		June-16		Tammy Nichols	Retirement Policy - Defined Benefit Plan	101
3.1.2	Over the longer term, PEBA should consider creating the position of a leader of retirement programs who would have responsibility for both defined benefit and defined contribution and savings programs.	3 = Consider	Medium	Yes	No	Organization	No action recommended at this time.				Retirement Policy - Defined Benefit Plan	
1.9.3	PEBA should adopt a policy of conducting regular independent actuarial audits.	2 = Important	Medium	Yes	No	Actuarial	Agreed. Staff will schedule an independent actuarial audit one year after the next regularly scheduled experience study.	July-05		Tammy Nichols	Retirement Policy - Retirement Readiness	102
9.4	PEBA should continue its efforts to address the deferred compensation control procedural deficiencies noted by PEBA's staff. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.	2 = Important	Medium	No	No	Process	Control deficiencies are constantly monitored. There are currently no control deficiencies within PEBA's span of control. Control deficiencies exist that are outside of PEBA's span of control. PEBA will continue to work with those outside entity's to remedy control deficiencies.	Outside of PEBA's control	Complete	Travis Turner	FAAC - Audit and Risk	
11.3	PEBA should continue its efforts to address the IT control procedural deficiencies noted by their external auditors. Once the deficiencies have been remediated, Internal Audit should conduct a follow-up compliance audit to determine that the control enhancements address the specific concerns noted.	2 = Important	Medium	No	No	Process	Control deficiencies are constantly monitored. There are currently no control deficiencies within PEBA's span of control. Control deficiencies exist that are outside of PEBA's span of control. PEBA will continue to work with those outside entity's to remedy control deficiencies.	Outside of PEBA's control	Complete	Travis Turner	FAAC - Audit and Risk	

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2.11.2	PEBA should consider revising its procurement process to provide for a post-audit process by Internal Audit, potentially using a questionnaire.	3 = Consider	Easy	No	No	Process	Internal audit currently has authority to review any processes in the agency it deems at risk. Internal audit will continue to evaluate the procurement process as part of its regular risk assessment.		Complete	John Page	FAAC - Audit and Risk	
1.10	The Board should further improve its Bylaws and Committee Charters by:	2 = Important	Medium	Yes	No	Board			Complete	Justin Werner	FAAC - Board Level / Governance	8
4.8	The Board should continue to prioritize and spend more time on strategic planning, identification of program goals, desired outcomes, implementation strategies, targets and measures to successfully meet PEBA's challenges.	2 = Important	Medium	Yes	No	Board	Agreed. No changes to the bylaws required. Will be accomplished through monitoring of strategic action plans.		Complete	Sarah Corbett	FAAC - Board Level / Governance	1, 2, 3, 4, 26, 74
6.2	PEBA should develop an internal policy that documents its competitive RFP process in future procurements of actuarial services.	2 = Important	Easy	No	No	Policy	All procurements are made in accordance with the procurement code. No action recommended at this time.		Complete		FAAC - Board Level / Governance	
7.2	In conjunction with outside legal counsel, PEBA legal staff should continue to perform periodic reviews of changes in the law and the plans' compliance with federal and state law requirements.	3 = Consider	Medium	No	No	Process	PEBA legal counsel works closely with outside legal counsel to ensure compliance with federal and state requirements.		Complete		FAAC - Board Level / Governance	
10.1	PEBA should review its focus on low cost of retirement operations and ensure there is an adequate level of investment in infrastructure to continue to provide a high level of customer service.	1 = Critical	Difficult	Yes	No	Planning	Agreed. The strategic plan and associated action plans demonstrate a commitment to investment in people, systems and customer service.		Complete		FAAC - Board Level / Governance	
4.6.2	PEBA communications should review its communications process on legislative changes as they relate to employers and ensure that it results in timely employer updates.	2 = Important	Easy	No	No	Process	Agreed.		Complete	Megan Lightle Jennifer Dolder	FAAC - Communications	24

FAS Recommendations - Status Report  
3/23/2015

Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
11.11	As PEBA develops its new website, it should place a high emphasis on maximizing self-service capabilities for both members and employers.	1 = Critical	Difficult	No	No	Systems	Communications is responsible for updating the content of the website (information and how it is presented). IT will provide technical support.	August-15	Complete	Megan Lightle	FAAC - Communications	43
11.5	The new website should include additional self-service functions to reduce the requirement for submission of paper forms and to provide more member information and tools online.	1 = Critical	Difficult	No	No	Systems	Communications is responsible for updating the content of the website (information and how it is presented). IT will provide technical support.	August-15	Complete	Megan Lightle	FAAC - Communications	43
4.6.1	PEBA should ensure that its new website has significantly improved functionality for accepting online submission of forms and reports.	1 = Critical	Difficult	No	No	Systems	Communications is responsible for updating the content of the website (information and how it is presented). IT will provide technical support.	August-15	Complete	Megan Lightle	FAAC - Communications	43
5.3	PEBA should consider expanding the scope of information provided on annual benefit statements.	3 = Consider	Medium	No	No	Process	PEBA no longer mails benefit statements to retirement systems participants. No action recommended at this time.		Complete		FAAC - Communications	
8.13.1	PEBA should consider if expanded hours for its call center would result in improved customer service.	3 = Consider	Difficult	No	No	Process	We will hire a consultant to design surveys to determine what additional service features may be needed. However, no data exists at the current time to indicate that the cost associated with expanding call center hours would be justified. No action recommended at this time.		Complete		FAAC - Customer Service	
8.17	PEBA should determine if assigning responsibility for monitoring insurance customer service to a single manager in the insurance organization could help focus the reporting and provide helpful input during contract negotiations.	2 = Important	Easy	No	No	Process	PEBA has hired an employee to be dedicated to contract compliance. This employee works for the procurement director and is therefore intimately involved in new procurements. Furthermore, procurement and customer service are meeting on a regular basis.		Complete		FAAC - Human Resources / Workforce Development	

FAS Recommendations - Status Report  
3/23/2015

Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
3.1.1	PEBA should consider adding the title of Deputy Executive Director to the title of Chief Operating Officer to provide a more streamlined flow of communication between the Executive Director and executive staff, as well as create a succession plan for the Executive Director position.	3 = Consider	Medium	Yes	No	Organization	No action recommended at this time.		Complete		FAAC - Human Resources / Workforce Development	
3.6.2	The budgeting process for all areas should be more coordinated and collaborative. A formal budget process should be developed and include all department heads in its development. Integration of the budget process will reduce silos and enhance an enterprise approach to administrative functions.	3 = Consider	Easy	No	No	Planning	Agreed.	September-15	Complete	Darry Oliver	FAAC - Human Resources / Workforce Development	
11.9	The Information Technology Department should consider developing a formal IT user satisfaction feedback process	3 = Consider	Medium	No	No	Process	A formal survey process was conducted for IT help desk activities and will be completed on a regular basis going forward. An in depth of IT software will be conducted as part of the operational assessment.		Complete	Doug Hislop	FAAC - Information Technology	
11.6.2	PEBA should continue to assess potential third-party IT vendors which may be able to provide additional legacy "Natural language" programming support in the event a large number of existing PEBA programming staff retire or leave the organization.	2 = Important	Medium	No	No	Organization	Agreed. This is currently being done.		Complete	Doug Hislop	FAAC - Information Technology	
11.8	Issues and error correcting processes should be shared across functional business units to ensure that similar errors in one beneficiary system are also being addressed in other similar application systems.	3 = Consider	Easy	No	No	Process	Agreed. The new Operational Research and Development Unit is a consolidated unit across PEBA that will review all operational areas as part of the operational assessment, which should provide consistency between departments.		Complete	Lisa Phipps	FAAC - Operational Assessment	

FAS Recommendations - Status Report  
3/23/2015

Category	RECOMMENDATIONS (numbering corresponds to the numbering of conclusions and not every conclusion has a recommendation)	1 = Critical 2 = Important 3 = Consider	Difficult, Medium, or Easy to Accomplish	Board involvement needed (yes or no)	Other State Entities / Outside parties cooperation needed (if yes, specify)	Funston Theme (Actuarial, Board, Legislation, Organization, Planning, Policy, Process, Risk, Systems)	Notes	Target Completion Date	Status	Lead Staff Member	Strategic Action Plan Category	Strategic Action Plan Task
6.8	PEBA should consider having the actuary validate the premium rates once PEBA completes the calculation process.	3 = Consider	Easy	No	No	Actuarial	Agreed. This has been completed.		Complete	Laura Smoak	Health Care Policy - Planning Support	
10.5	PEBA should increase its budget for health insurance strategy development and planning.	1 = Critical	Medium	Yes	No	Organization	Agreed. The current authorization from the General Assembly provides room to hire a health plan consultant. See the health care strategic action plan.		Complete		Health Care Policy - Planning Support	
6.6	PEBA should confirm that ORP and Deferred Compensation investment advisors acknowledge their compliance with the SEC 'pay to play' regulations and state requirements.	1 = Critical	Easy	No	No	Policy	Agreed.	April-15	Complete	Matt Davis	Retirement Policy - Deferred Compensation Plan	99
6.1	PEBA should determine whether additional assistance from the actuarial team would be beneficial, as identified under Recommendations 6.6, 6.8 and 6.9 below.	2 = Important	Medium	No	No	Actuarial	This recommendation simply refers to other recommendations. As such, there is nothing to track with this item.		Complete		Retirement Policy - Defined Benefit Plan	
6.4	The actuary, in conjunction with the PEBA staff and subject to approval by the Board, should develop and recommend all actuarial assumptions for the pension plan and other benefit plans. If the state law placing responsibility for setting the investment return assumption with the Legislature is not changed, there should be a prescribed periodic review process adopted by the State Legislature.	1 = Critical	Medium	Yes	General Assembly	Actuarial	PEBA will continue the practice of conducting experience studies once every five years for the defined benefit retirement plans. During the experience study, the actuary will conduct a review of the assumed rate of return as has been the historical practice. If the actuary recommends a change in the assumed rate of return, PEBA will notify the General Assembly.		Complete	Tammy Nichols	Retirement Policy - Defined Benefit Plan	

# PEBA Board Strategic Plan - Completed Items through 3/23/15

Committee	FAAC
<b>Action</b>	<b>Progress</b>
Complete the conversion of paper documents to electronic submission and self service opportunities via the internet.	
Ensure legislative updates are communicated with employers timely	
Evaluate the results of the fiduciary audit, integrate results into strategic plan and take action on the recommendations as appropriate	
Hire a Director of Employer Services	
Prepare a list of suggested external Board training and education programs and update on annual basis	
Continue regular participation in CEM Benchmarking services for pension plans and the annual 50-State Survey for public employee health plans	
Conduct an annual strategic planning session with a professional facilitator to produce staff action plans appropriately designed to accomplish the PEBA Board's strategic goals. a. Conduct staff strategic planning session	
Conduct an annual strategic planning session with a professional facilitator to produce staff action plans appropriately designed to accomplish the PEBA Board's strategic goals. a. Update all staff action plans	

Committee	Health Care Policy
<b>Action</b>	<b>Progress</b>
Define and measure appropriate benchmarks against both public and private sector insurance plans: identify best practices among other insurance plans regarding improving health outcomes and reducing costs	
Define and measure appropriate benchmarks against both public and private sector insurance plans: recommend three best practices with the highest projected return on investment for potential implementation	
Determine and implement appropriate staffing for the health care plan to achieve strategic goals: Recruit an Insurance Policy Director	
Develop a post-grandfathered health plan for review by the Governor and Legislature	
Expand and utilize database for biometric data: determine appropriate database location to track biometric	
Expand and utilize database for biometric data: procurement or development of database (if necessary)	
Research alternate PBM structures	
Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: survey 100 largest employers, which represent 79 percent of active employee membership, and record wellness initiatives	

Committee	Retirement Policy
<b>Action</b>	<b>Progress</b>
Analyze contract with ORP and SCDCP investment consultants and determine if any changes, including potential structural changes, are prudent	
Confirm that investment advisors acknowledge their compliance with SEC pay to play regulations and state requirements	
Implement GASB 67 and 68; communicate with stakeholders, employers, and policy makers on new pension reporting requirements; continue assisting employers in retrieving pension expenses and liabilities: Implement GASB 67 in the Retirement Systems financial statements for the fiscal year ended June 30, 2014	

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
<b>Action</b>	<b>Progress</b>
Assess Resource Allocation: Determine appropriate staffing levels for organizational areas. Develop plans to address gaps in levels through attrition, transition of FTEs, or addition of FTEs.	
Collect e-mail addresses for members and develop technical mechanism for communicating mass e-mails	
Complete a business continuity plan a. Development of 24-48 hour plan b. Training of Staff regarding business continuity plan c. Purchasing of Equipment as needed	
Consider enhancing the Board Education Policy to: Provide an expanded framework around ethical standards	
Consider enhancing the Board Education Policy to: Provide specific topics on which training is needed including fiduciary training	
Consider enhancing the Board Education Policy to: Require some portion of Trustee training to be provided by outside independent sources (non-vendors)	
Create a Board disciplinary policy	
Create a committee to evaluate employer needs and how employer services are currently provided and how employer services can be enhanced in the future	
Create a formal method for receiving feedback on employer services from employees	

Committee	Health Care Policy
<b>Action</b>	<b>Progress</b>
Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives: require workplace screening providers to electronically provide biometric data to the plan and / or the ASO	
Complete additional reporting required by the ACA	
Complete operational requirements for new GASB OPEB standards	
Determine and implement appropriate staffing for the health care plan to achieve strategic goals: Evaluate overall staffing needs	
Identify and implement a comprehensive health care consultant relationship for the health care plan: Identify Scope of the consultant relationship	
Identify and implement a comprehensive health care consultant relationship for the health care plan: Issue RFP for consultant relationship	
Increase participation in wellness programs for PEBA as an employer	
Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: develop a wellness scorecard to provide employers: score card communicated	
Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: develop a wellness scorecard to provide employers: score card developed	

Committee	Retirement Policy
<b>Action</b>	<b>Progress</b>
Adopt best practices for SCDCP structure and investment options: Evaluate automatic enrollment	
Adopt best practices for SCDCP structure and investment options: Implement participant fee disclosures conforming to ERISA Section 404(a)	
Adopt best practices for SCDCP structure and investment options: Implement the modernization project which requires employers to offer all features of the program and adhere to standardized remittance and reporting requirements	
Conduct an independent actuarial audit one year after the next scheduled experience study	
Determine communication strategy for achieving retirement readiness goals	
Develop a protocol with the RSIC to better understand how investment return projections under various asset allocation models may impact plan liabilities and costs.	
Develop procedures to determine when and how to adopt annuity option factor changes	
Focus education for all retirement plan participants on retirement readiness: Assess the current state of retirement readiness of retirement plan participants through surveys and focus groups	
Focus education for all retirement plan participants on retirement readiness: Define retirement readiness	

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
Create an Employer Advisory Group with Employers	
Develop a "Powers Reserved" governance framework: Hire an external facilitator to assist with this process	
Develop a long term facilities plan, which includes remedying current issues in the physical property	
Develop a PEBA Board member orientation manual and process	
Develop and implement an internal training program. Some identified needs are: Department-specific training to be used in onboarding new employees and cross-training other employees	
Develop and implement internal and external training programs: Formalize affiliation and participation in industry associations to ensure core competencies are developed and maintained and best practices are shared.	
Develop and maintain a succession plan for several layers of management and key positions. <ul style="list-style-type: none"> <li>Identify positions and chart retirement eligibility. Determine skills and competencies required to replace.</li> <li>Update succession candidate pool. Create development plans for each candidate to include training, mentoring, career coaching, etc.</li> </ul>	
Develop position description for Board and Committee Officers	

Committee	Health Care Policy
Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: increase participation in the biometric screenings by 10,000	
Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives [incent and encourage participants to share biometric data with the plan]	
Collect and analyze applicable health care data in order to appropriately measure the effectiveness of current and future health care initiatives [require participants to share biometric data with the plan]	
Identify and implement a strategic planning health care consultant relationship for the health care plan: complete procurement for consultant relationship	
Monitor outcomes at MUSC pilot health plan and take additional action as appropriate based upon outcomes	
Wellness Health Management Initiatives: understand and document the current level of wellness participation to create an accurate baseline: increase participation in the co-pay waiver program to 7 percent of the eligible population	

Committee	Retirement Policy
Focus education for all retirement plan participants on retirement readiness: Determine appropriate goals for retirement readiness	
Implement Conifer Relationship (RSIC administrator) for PEBA needs	
Implement GASB 67 and 68; communicate with stakeholders, employers, and policy makers on new pension reporting requirements; continue assisting employers in retrieving pension expenses and liabilities: Contract and work with external auditor to obtain audit opinion on census data and actuary schedules containing data required for covered employers to be compliant with GASB 68	
Implement GASB 67 and 68; communicate with stakeholders, employers, and policy makers on new pension reporting requirements; continue assisting employers in retrieving pension expenses and liabilities: Provide training and education for covered employers and their auditors through presentations at conferences and seminars, and through webinars	
Adopt best practices concerning plan for ORP structure and investment options: Evaluate consolidated investment menu for ORP providers.	
Determine methods for increasing participation in Deferred Compensation: Determine a protocol for using information obtained via the Retirement Systems to increase participation in the SCDCP	
Determine methods for increasing participation in Deferred Compensation: Complete legal agreement to sharing information between PEBA and Empower Retirement to increase participation in the SCDCP	
Increase the number of employers offering the SCDCP	

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
Engage a consultant to facilitate the PEBA Board's self assessment process	
Ensure each operational area has up to date written policies and procedures	
Evaluate current state of branding and co-branding and implement improvements	
Facilitate PEBA Board strategic planning: Provide quarterly updates on strategic planning to the PEBA Board	
Facilitate PEBA Board strategic planning: Schedule a strategic planning retreat for the PEBA Board	
Hire a consultant to assist with customer satisfaction surveys and on-going performance monitoring	
Hire consultant to develop ERM, including Board level issues as well as staff level implementation	
Identify a method for evaluating vendor proposals and include a sourcing and disclosure form	
Improve Bylaws and charters as identified by Funston 1.10	
Meet with stakeholders to determine method for improving communications with the Board and PEBA staff.	
<p>Modify hiring practices to ensure effective recruitment and selection of professional level staff with potential to serve the agency in various capacities.</p> <ul style="list-style-type: none"> <li>• Develop a more formalized, structured recruitment process to include:                             <ul style="list-style-type: none"> <li>- HR guided evaluation of job function, job level, and requirements.</li> <li>- Development and approval of selection process tools prior to advertisement.</li> <li>- Use of departmentally diverse interview panels.</li> <li>- Comprehensive review of applicant data and HR selection of candidate pool.</li> </ul> </li> <li>• Establish recruitment relationship with nearby colleges and universities for entry-level positions and internship opportunities.</li> </ul>	

Committee	Health Care Policy

Committee	Retirement Policy
Adopt best practices concerning plan for ORP structure and investment options: Implement elimination of revenue sharing to plan administrators	
Adopt best practices concerning plan for ORP structure and investment options: Implement requirement for investment advice.	

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
Operational Assessment: Phase 1 – Jan 2015 – Aug 2015 1. 'As Is': Current Business Flow document 2. SWOT analysis document 3. Current High Level Architectural Design (For all systems in scope) 4. Organizational Assessment Document (Current organizational analysis) 5. Executive Summary Report on Phase 1 completion	
Operational Assessment: Phase 2 – Aug 2015 – Feb 2016 1. 'To Be': Future Business Flow document 2. High Level Architectural Design ( For all Future Systems in PEBA) 3. Organizational Assessment Document (Future organizational analysis) 4. Alternative Proposal Solution 5. Executive Summary Report on Phase 2 completion	
Operational Assessment: Phase 3 – Feb 2016 – June 2016 1. High Level Roadmap 2. Cost Benefit Analysis 3. Findings & Recommendations for Implementation Projects 4. Executive Summary Report on Phase 3 completion 5. Final Assessment Report	
Redesign website to improve what information is provided and how it is presented for ease of use	
Review written training material to ensure PII and HIPPA information is appropriately protected	
Schedule in-house fiduciary training for FY15 and a rotating program for the future. Topics include the duties of loyalty and impartiality.	
Survey other plans to determine benchmarks for employer services	
Update call management system	
Develop a comprehensive communications plan for PEBA including Board of Directors, employers, members, employees, legislators, the public and other stakeholders	

Committee	Health Care Policy

Committee	Retirement Policy

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
Evaluate the use of an external marketing firm and/or market research firm to conduct focus groups of employers, retirees, and active employees to obtain general and specific feedback on PEBA's key informational and educational tools (IBG, newsletter, handbooks, website) and implement recommendations as appropriate.	
Meet with stakeholders to determine method for improving communications with the Board and PEBA staff: Modify the website to include a place and a method for receiving public feedback on issues before PEBA	
Meet with stakeholders to determine method for improving communications with the Board and PEBA staff: Route feedback received to PEBA Board	
Review external vendors marketing and communications plans and contractual responsibilities: Expand or enhance plans or contractual responsibilities as needed	
Review external vendors marketing and communications plans and contractual responsibilities: Develop marketing plans for key health care and retirement products and services identified in the health care policy strategic action plan.	
Develop and implement an internal training program. Some identified needs are: Organizational Development (hire outside Trainer) - Effective hiring practices - Leadership and supervisory skills - Performance management - Process improvement - Change management - Ethics - Compliance - Fiduciary Responsibility - HIPAA/Cyber Security Identification of specialized staff training for each operational area and cross-training opportunities	
Develop and implement internal and external training programs: Create and implement an orientation program for new employees	

Committee	Health Care Policy

Committee	Retirement Policy

# PEBA Board Strategic Plan - All Open Items through 3/23/15

Committee	FAAC
Continued consolidation of common retirement and insurance processes. Explore additional organizational changes to provide opportunity for efficiencies and employee exposure.	
Create and communicate an agency compensation plan and philosophy to provide transparency and guidance in pay practices. • Explore the utilization of bonuses for achievement of budget efficiencies and high performance.	
Review the Employee Performance Management System (EPMS): 360 degree reviews; set cultural expectations for employee performance (Characteristics of high performance)	
Regularly review and improve upon IT security: Create a security review and practice calendar for internal review	
Evaluate the costs and benefits of cyber insurance: a. Document cyber security risks to the organization, including the financial impact of a potential breach b. Determine scope of cyber insurance c. Determine cost/benefit analysis of purchasing cyber insurance	
Complete a post cyber attack recovery plan: Provide an incident response overview to the Board	
Regularly review and improve upon IT security: a. Purchase and implement additional security hardware and software b. Comply with State issued information security policies	
Conduct an annual strategic planning session with a professional facilitator to produce staff action plans appropriately designed to accomplish the PEBA Board's strategic goals. a. Distribute action plans to all staff b. Engage all levels of staff in strategic planning	

Committee	Health Care Policy
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Committee	Retirement Policy
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**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 28, 2015**

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**1. Subject:** PEBA Board Policy Changes

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**2. Summary:**

**Background Information:** The PEBA Board of Directors Bylaws, Travel Policy and Education Policy were revised by the FAAC Committee based on recommendations by Funston Advisory Services.

**3. What is the Board asked to do?** Approve the Committee motions to accept the revised changes to the above documents as suggested by Funston Advisory Services.

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**4. Supporting Documents:**

- (a) List those attached:
1. Revised PEBA Board of Directors Travel Policy
  2. Revised PEBA Board of Directors Education Policy
  3. Revised PEBA Board Bylaws

**SOUTH CAROLINA PUBLIC EMPLOYEE BENEFIT AUTHORITY  
BOARD OF DIRECTORS  
BYLAWS**

**I. PURPOSE**

The South Carolina Public Employee Benefit Authority Board of Directors (“Board”) is the governing body of the South Carolina Public Employee Benefit Authority (“PEBA”), established by Act No. 278 of 2012 of the South Carolina General Assembly, as codified in Title 9 of the Code of Laws, Chapter 11 of Title 1 of the Code of Laws, and Chapter 23 of Title 8 of the Code of Laws, as amended from time to time (“Governing Law”); and the Board has the powers and responsibilities set out in the Governing Law. PEBA is an administrative agency charged by the Governing Law with administering the State’s public employee insurance programs, its retirement programs, and its deferred compensation program.

**II. BOARD MEMBERSHIP**

**A. COMPOSITION**

1. The Board shall consist of the number of members selected in the manner set forth in the Governing Law; each member, prior to commencing performance of the member’s duties, must meet the qualifications, comply with the requirements, and take the oath of office set forth therein and elsewhere in the Code of Laws of South Carolina 1976, as amended.
2. Copies of records of appointments and of notarized oaths of all Board members will be maintained by the secretary of the Board.

**B. TERM OF OFFICE**

1. Board members will serve for the periods determined in accordance with the Governing Law.
2. It shall be the responsibility of the Board secretary to notify the Secretary of State and the relevant appointing authority of any appointment to, resignation from, or vacancy in the membership of the Board and to insure that the requirements of Section II.A.1~~1~~ above are met.

**III. GENERAL RESPONSIBILITIES AND DUTIES**

The Board will fulfill the responsibilities, perform the duties, and exercise the powers assigned to it by the Governing Law and other relevant provisions of the Code of Laws of South Carolina 1976, as amended.

In discharging his or her duties with respect to PEBA, a Board member is entitled to rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by: (1) one or more officers or employees of the State whom the Board member reasonably believes to be reliable and competent in the matters

presented; (2) legal counsel, public accountants, actuaries, the South Carolina Retirement Systems Investment Commission or other persons as to matters the Board member reasonably believes are within the person's professional or expert competence; or (3) a committee of the board of directors of which a Board member is not a member if the Board member reasonably believes the committee merits confidence. A Board member is not acting in good faith under this section if he or she has knowledge concerning the matter in question that makes reliance otherwise permitted by this section unwarranted.

#### **IV. BOARD MEETINGS**

##### **A. REGULAR MEETINGS**

1. The Board shall meet at such times and intervals and in such places as it may determine to be necessary to meet its responsibilities, but not less often than may be required by law.
2. At or before its final regular meeting of any calendar year, the Board shall establish the calendar for its regular meetings during the upcoming calendar year.

##### **B. SPECIAL MEETINGS**

1. The Chairman of the Board or the Executive Director of PEBA or any two chairmen of the Board's standing committees may call a special meeting of the Board upon not less than forty-eight (48) hours notice, sent to members of the Board via e-mail to the e-mail address provided by the Board members to PEBA for that purpose.
2. The calling authority or the Board secretary may send the notice, which shall state the date, time, place, and purpose of the meeting; and the business to be transacted at such special meeting shall be limited to such purpose.
3. Any member may waive notice of any meeting. Except as provided in the next sentence, the waiver must be in writing, signed by the member entitled to the notice, and filed with the minutes or corporate records. The attendance of a member at a meeting shall constitute a waiver of notice of such meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business and at the beginning of the meeting (or promptly upon arrival) objects to holding the meeting or transacting business at the meeting, and does not thereafter vote for or assent to action taken at the meeting.

##### **C. QUORUM**

A majority of the statutorily authorized number of Board members shall constitute a quorum for the transaction of business at any meeting of the Board.

**D. MANNER OF ACTING**

1. Required Vote. The act of the majority of the members present at a meeting at which a quorum is present when the vote is taken shall be the act of the Board, unless, by law, a supermajority is required.

2. Telephone Meeting. Any or all members may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all members participating may simultaneously hear each other during the meeting. A member participating in a meeting by this means is deemed to be present in person at the meeting. A member or invited non-member may participate in Executive Session by telephone provided the participant provides assurance to the Board or Committee, reflected in the minutes of the meeting, that no uninvited person is present and able to listen to the Executive Session portion of the meeting.

3. Failure To Object To Action. A member who is present at a meeting of the Board or a committee of the Board when corporate action is taken is deemed to have assented to the action taken unless: (1) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting; or (2) his dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the Executive Director immediately after adjournment of the meeting. The right of dissent or abstention is not available to a member who votes in favor of the action taken.

**E. EXECUTIVE SESSION**

The Board and its Committees may enter executive session during a public meeting in the manner and for the purposes authorized under the Code of Laws of South Carolina 1976, as amended.

**F. ATTENDANCE**

The attendance of members at Board meetings and of Board committee members at committee meetings shall be recorded, and the Board secretary shall transmit each member's attendance record for the preceding six (6) months to that member's appointing authority in each January and July. At the request of a member, the attendance record transmitted to a member's appointing authority may also reflect the reason for an absence from a meeting of the Board or a committee of the Board, provided that the member has also notified the Chairman of the Board or Chairman of the committee, as applicable, of the reason for the absence.

**G. AGENDA**

1. Proposed meeting agendas will be developed by the Executive Director in consultation with the Chairman of the Board and the chairmen of the Board's standing committees.

2. Any member of the Board may propose an item for the agenda of a Board meeting by submitting the proposed item to the Chairman or Executive Director not less than seven days prior to the date of the meeting or, for a special meeting called with less than seven days' notice, as soon as practicable. Any such requests shall be taken into consideration in developing the proposed meeting agenda.

3. All meeting agendas are subject to final approval by the Chairman of the Board.

## **H. BOARD ASSESSMENT PROCESS**

At least annually, the Board shall engage in a self-assessment process to evaluate the Board's performance. The results of the self-assessment process shall be taken into consideration by the Chairman and Executive Director in developing and recommending training and educational opportunities for Board members.

## **V. COMMITTEES**

### **A. CREATION OF COMMITTEES**

The Board may create one or more committees, and the Chairman shall appoint members of the Board to serve on them. Each committee must have not fewer than two nor more than five Board members. The term of committee members shall be annual and shall run from July 1 through the succeeding June 30. Each committee shall have a chairman who shall be appointed by the Chairman of the Board, and a vice-chairman who shall be elected by the members of the committee. Each committee may appoint one or more non-Board members to serve as voting members of a committee if the committee finds that the non-Board members possess expertise, skills or qualifications that would aid the committee in fulfilling its responsibilities. Such non-Board members may vote only on committee matters and may not vote at meetings of the Board as a whole.

The Finance, Administration, Audit and Compliance Committee, the Retirement Policy Committee, and the Health Care Policy Committee shall be standing committees of the Board. The Chairman of the Board shall be a member of each standing committee. The Board may establish ad hoc committees as it deems appropriate to address specific matters or issues.

#### **1. Committee Assignment Process**

No later than May 30 of each year, the Chairman shall solicit input from the members of the Board regarding their desired committee assignments for the committee term commencing July 1. In addition, no later than May 30 of each year, the members of each committee shall, by vote at a duly called committee meeting, make a recommendation to the Chairman for the committee chairman for the ensuing committee term commencing July 1. The Chairman shall take these requests and recommendations into consideration in making committee assignments for the committee term commencing July 1. At the first committee meeting after July 1 each year, the committee shall elect a vice-chairman to preside over the committee and oversee committee business in the absence of the committee chairman.

## 2. Removal of Committee Members

No member shall be removed from a committee or from the chairmanship of a committee during a committee term, except upon request by that committee member or upon a vote of the Board.

### **B. REQUIRED PROCEDURES**

The provisions of these Bylaws that govern meetings, including calling and setting agendas for regular and special meetings, notice and waiver of notice, executive sessions, and voting requirements of the Board apply to committees and their members, mutatis mutandis. A majority of Board members assigned to a committee of Board members constitutes a quorum for that committee to conduct business, and a majority of the Board members present must vote for an item for the committee to take official action on the item.

### **C. AUTHORITY**

The authority of committees of the Board shall be limited to information-gathering and advice and recommendations to, and on behalf of, the Board, and to ministerial acts. Authority delegated to the Board by law may be exercised only by the Board. Committees may invite administrators, consultants, staff, external auditors, and/or others to attend meetings and provide pertinent information as necessary.

### **D. FINANCE, ADMINISTRATION, AUDIT AND COMPLIANCE COMMITTEE**

The Finance, Administration, Audit and Compliance Committee (FAAC) will gather, analyze, and study information concerning PEBA's governance, financial reporting, audits, budgets, and regulatory compliance and will make recommendations and reports to the Board on those matters.

### **E. RETIREMENT POLICY COMMITTEE**

The Retirement Policy Committee will gather, analyze, and study information concerning issues arising out of PEBA's administration of the retirement plans set out in Title 9 of the Code and the Deferred Compensation Program, and will make recommendations and reports to the Board on those matters.

### **F. HEALTH CARE POLICY COMMITTEE**

The Health Care Policy Committee will gather, analyze, and study information concerning issues arising out of PEBA's administration of the insurance plans set out in Chapter 11 of Title 1 of the Code, and will make recommendations and reports to the Board on those matters.

## **VI. INDEMNIFICATION OF BOARD MEMBERS**

PEBA shall indemnify and hold harmless members of the Board from and against all liabilities, costs, fees, and expenses, incurred as a result of their acts taken in their official capacity or as a result of allegations regarding those acts, to the full extent permitted by law, and shall insure its obligation hereunder from the insurers and in the amounts determined by the Board, if deemed reasonably necessary.

## **VII. OFFICER SELECTION PROCESS**

A. The officers of the Board will be a Chairman, a Vice-Chairman, a secretary of the Board and the Executive Director of PEBA.

B. The Chairman and the Executive Director shall be selected in accordance with the Governing Law. The Board shall, in each regular meeting held in the month of July of even-numbered years, select one of its nonrepresentative members to serve as Chairman for the ensuing twenty-four months. If there is a vacancy in the Chairman position, the Vice-Chairman shall serve as Chairman until the next regularly scheduled meeting. At its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Chairman until the next election held in July of even-numbered years.

C. The Chairman shall (1) preside and conduct meetings of the Board, (2) convene and adjourn meetings, (3) appoint committee chairmen, and (4) propose agendas for Board meetings.

D. The Executive Director shall be the principal executive officer PEBA and, subject to the control of the Board of directors, shall, in general, perform and fulfill the statutory duties, responsibilities and powers conferred upon that office, and supervise and control all of the business and affairs of PEBA and have responsibility for the development and implementation of the strategic direction and initiatives of PEBA. The Board of Directors shall be responsible for selecting, evaluating the performance of, and, subject to the regulations of the Agency Head Salary Commission, setting the compensation of the Executive Director.

E. The Board shall, in each regular meeting held in the month of July of even-numbered years, select a Vice-Chairman from among its nonrepresentative members to serve for the ensuing twenty-four months. If there is a vacancy in the Vice Chairman position, at its next regularly scheduled meeting, the Board shall select a nonrepresentative member to serve as Vice Chairman until the next election held in July of even-numbered years. In the absence of the Chairman, the Vice Chairman shall preside at Board meetings.

F. The Board shall, from time to time and with the advice of the Executive Director, select from among the PEBA employees, a person to serve as secretary of the Board, to serve at the pleasure of the Board. The secretary of the Board shall have the responsibilities prescribed herein and such other duties as the Board may from time to time require, including: (a) keep the minutes of the proceedings of the Board; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; and (c) be custodian of the records of the Board.

## **VIII. RULES OF ORDER**

- A. Board meetings should proceed in an informal and collegial manner with a design towards reaching consensus when possible.
- B. 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.
- C. The item can then be discussed by the Board. The Chairman shall manage the discussion of the item and may participate in the discussion.
- D. The Chairman shall call for a vote on the item.
- E. Questions of reconsideration, tabling or amendment of motions, etc., are all decided by majority vote.
- F. The Board and its Committees may utilize the rules of order prescribed for small assemblies or similar small bodies in the most recently published revision of Robert's Rules of Order as a guide in conducting its meetings. Robert's Rules of Order shall not be binding on the Board, however. Rather, such rules of order will be construed to promote the orderly and efficient conduct of business and to avoid procedural complexity which may delay or hinder the taking of action required by law or advisable in the prudent exercise of the Board's fiduciary responsibilities.
- G. The order of business will be at the discretion of the Chairman in the absence of instructions from the Board, but will normally be as follows:

- i. Call to Order
- ii. Approval of previous Board meeting minutes
- iii. Committee Reports
- iv. Executive Director Report
- v. Other Business
- vi. Adjournment

## **IX. MEETING MINUTES**

- A. Minutes of the Board's meetings will be taken in accordance with law, and such records are open to public inspection.
- B. The Chairman will cause the minutes of all Board meetings to be prepared, recording therein the time and place of each meeting, the names of the Board members present, and the actions of the Board giving the affirmative and dissenting votes, except where the action is unanimous, and when requested, a Board member's dissent or approval with reasons.

C. The Chairman will cause the minutes to be presented for approval at the next regular Board meeting. Board minutes will focus on describing any actions that occurred, and will provide sufficient detail to evidence the Board's due diligence in the matter. The minutes of a meeting during which an executive session is held will reflect the topic of the discussion at the executive session.

D. The minutes as approved by the Board, will be preserved as a part of the public record of the Board, and will be kept open to public inspection in accordance with law.

E. Board proceedings will be recorded on audio. The audio recordings will be kept at least until official minutes of the meeting are approved, after which time they may be destroyed.

## **X. REVIEW, HISTORY, AND AMENDMENT**

A. The Board will review the PEBA Bylaws at least every three years to ensure that they remain relevant and appropriate.

B. No provision within these Bylaws shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

C. These Bylaws were adopted by a majority of the Board members at a duly convened meeting of the Board on November 21, 2012. These Bylaws were amended on December 12, 2012, September 18, 2013, December 17, 2014, and on March 28, 2015.

D. These Bylaws may be amended only upon a majority vote of the Board members at a duly convened meeting of the Board upon proper notice pursuant to the South Carolina Freedom of Information Act. For purposes of this provision, majority shall mean a majority of the total membership of the Board, not simply a majority of the Board members present at any meeting convened for the purpose of amending the Bylaws.

## South Carolina Public Employee Benefit Authority Board of Directors Travel Policy

### **GENERAL TRAVEL AUTHORIZATION**

From time to time, it may be necessary for members of the Public Employee Benefit Authority Board of Directors to travel on behalf of the Board. Travelers will be reimbursed for travel expenditures in compliance with the PEBA Board of Directors travel policy and applicable state laws and regulations. Adequate documentation must exist to allow for verification of expenditures.

All travel by the Board of Directors must be pre-approved by the Chairman of the Board or his designee. Travel should be for the purpose of fulfilling the educational requirements set forth by the Continuing Education Policy or performing due diligence when necessary.

All reimbursements should be submitted on an approved travel voucher. Travel vouchers submitted for reimbursement are required to have the signature of the traveler certifying that the amounts are true and correct and conform to state and federal laws, rules and regulations. All signatures must be original or in an approved electronic format (faxed or electronic mail). No stamped signatures will be accepted. The reimbursement must be approved by the Chairman of the Board or his designee. This approval certifies that the Chairman or his designee is aware of the Board member's travel and that the expenditures appear reasonable.

When a Board member files for reimbursement of travel expenditures, the member is certifying that:

1. The member has followed the PEBA Board of Directors travel policy;
2. The member has not, and will not, receive reimbursement for the expenditures from any other entity outside PEBA;
3. All expenditures are business-related; and,
4. That all supporting documentation has been provided to PEBA.

Travelers are expected to exercise the same judgment when making travel arrangements and expenditures that a prudent person would exercise if traveling on personal business. As a steward of the retirement and insurance funds entrusted to PEBA, each individual should use the following guidance when traveling:

- Excess costs, circuitous routes, delays or luxury accommodations unnecessary or unjustified in the performance of an assignment are not considered exercising prudence.
- Travel by commercial airlines should be in coach or tourist class.

- Automobile transportation may be used when common carrier transportation cannot be arranged satisfactorily, or to reduce expenses when two or more Directors or staff travel together.
- Transportation to or from points of arrival and departure should be by the most economical method.

## **SPECIFIC TRAVEL GUIDELINES**

### **LODGING**

Lodging arrangements are the responsibility of the traveler and will be reimbursed as part of the lodging expenses upon completion of the trip. In some instances, prepayment of lodging expenses may be approved.

For all approved travel, the traveler will be allowed reimbursement for actual expenses incurred for lodging, not to exceed the current maximum lodging rates, excluding taxes, established by the U.S. General Services Administration. The Chairman may approve lodging reimbursements above the applicable GSA rate where appropriate, taking into consideration location, purpose of travel or other extenuating circumstances. Any such exception must be made in writing.

Lodging expenses will be allowed subject to the following guidelines:

- When payment is made to the hotel/motel, documentation should include an original itemized receipt.
- When payment is made through an internet provider (i.e. hotels.com, hotwire.com), documentation should reflect the name and location of the lodging and the amount of payment. If payment is not indicated, another source of documentation may be used to adequately document the expense.
- Only actual lodging expenses (plus applicable taxes) will be reimbursed; however, the more moderately priced accommodations should be requested when a choice is available.
- Travelers should request a state or government rate when available.
- No reimbursement should be made for overnight lodging within 50 miles of the traveler's official headquarters or residence.
- All necessary and reasonable tips for baggage handling will be reimbursed.

### **MEALS**

While on official travel, travelers will be reimbursed for the actual expenses incurred in the obtaining of meals except that such costs shall not exceed the maximum daily meal reimbursements established by state law and regulation.

If meals are provided as part of a convention, meeting, or conference, the per diem rate will be reduced for the corresponding meals that were provided.

#### MISCELLANEOUS EXPENSES

Travelers will be reimbursed for all reasonable costs associated with taxi fare, tips, tolls and portage.

Movies, bar bills, laundry, room service, health or spa fees, and the like will not be subject to reimbursement on the travel expense report. These expenses are considered personal in nature and should be paid by the traveler.

#### RECEIPTS

Travelers must submit receipts for expenditures of \$5 or more, except for meals, taxi fare, tips, tolls and portage. All receipts and paid bills should be originals. In rare occasions, a receipt may not have been provided to the traveler or the traveler may misplace the receipt. If originals are not available or documentation is inadequate, a detailed explanation signed by the authorized signer may be substituted.

#### REGISTRATION FEES

Registration fees in the amount necessary to qualify individuals to attend conventions, meetings, and conferences are allowed. These fees can be prepaid. If the registration is prepaid by the traveler or paid at the time of registration of the meeting, reimbursement will be made after the trip is completed.

#### REIMBURSEMENT PROCEDURES

Travel reimbursement requests should be filed:

- within 60 calendar days of completion of the trip or at least quarterly for local trips of a repetitive nature; and,
- within the same fiscal year in which the trip occurred (if feasible).

#### SPOUSAL TRAVEL

Travel expenses for spouses, friends, or other individuals not traveling on official PEBA Board business are not reimbursable. Any fees (such as registration fees) paid in advance by PEBA for such individuals will be offset against any travel reimbursement requests.

## TRAVEL BY AUTOMOBILE

Travelers may use their own automobiles for official travel, provided PEBA will incur no added expenses above that of other forms of transportation available.

Reimbursement for personal automobiles will be based on the standard mileage rate set by the Internal Revenue Service.

No reimbursement will be made for fines related to moving or non-moving violations.

Mileage between a traveler's residence and his/her place of employment is not subject to reimbursement. However, when a traveler leaves on a business trip directly from his/her residence, and does not go by his/her place of employment, the employee shall be eligible for reimbursement for actual mileage beginning at his/her residence.

## TRAVEL BY COMMON CARRIER

Transportation for individuals traveling alone should be by common carrier (i.e., airline, train, bus, etc.) whenever practical. Advantages of reduced round-trip rates must be taken when available. Travel must be by the most direct route possible. Individuals traveling by an indirect route must bear any additional expenses. However, when discount fares are available which result in a savings to PEBA by extending a trip using personal time, the reimbursement will be limited to the lesser of the actual expenses incurred (subject to the limitations contained herein, such as meal allowances, mileage rates, etc.) or the amount that would be incurred for the business portion only. The calculations for the business portion of the trip must be made using the least expensive rates available.

Travel by airplane is recommended when the cost of the traveler's time is an important factor or where the travel time by other methods would increase the subsistence expense. Accommodations should be limited to tourist or economy class.

Expenses for travel by common carrier will be allowed subject to the following guidelines:

- **DIRECT PAYMENT BY PEBA**  
Air transportation tickets may be purchased in advance from a travel agency or an air carrier directly by PEBA. A credit card should be used for prepayment of airline tickets.
- **INITIAL PAYMENT BY THE INDIVIDUAL**  
Travelers who choose to purchase their tickets must secure reimbursement through a travel voucher after travel is completed. No reimbursement for reduced-fare advance purchase tickets will be made to travelers prior to completion of travel because direct payment by PEBA is available.
- **FREQUENT FLYER PROGRAM**  
Travelers, while in official travel status, shall select air carriers based on the cost and time criteria, not on whether frequent flyer premiums are given. Travelers earning

frequent flyer premiums while on state business must use them to reduce the cost of subsequent business travel whenever possible.

- **ADEQUATE DOCUMENTATION**

In order for the traveler to receive reimbursement, adequate documentation reflecting the ticket cost, dates, and destination must accompany the travel voucher. This may be accomplished via one or several of the following: boarding pass, copy of a printed ticket, or print-out from internet purchase.

Baggage fees charged by common carriers will be reimbursed to the extent that the amount of baggage in use is reasonable for the length of the trip. Receipts for such fees must be provided in order for them to be reimbursed to the traveler.

#### UNAUTHORIZED COSTS

Travelers will be responsible for unauthorized costs and any additional expenses incurred for personal preference or convenience.

#### CHAIRMAN'S TRAVEL

Reimbursement for travel expenses incurred by the Chairman of the Board shall be subject to review and approval by the Vice Chairman of the Board.

South Carolina Public Employee Benefit Authority  
Board of Directors Continuing Education Policy

The Public Employee Benefit Authority Board of Directors recognizes its fiduciary responsibility to remain aware of significant current events impacting the retirement and insurance programs administered by PEBA and to be well-informed and educated on topics related to those programs, including best practices for the programs. Accordingly, the purpose of this policy is to promote high professional standards of trusteeship by the Board of Directors and to assure the participants of PEBA's retirement and insurance plans of the Board's continuing professional competence, consistent with prevailing industry standards.

1. As nearly as practical, members of the Board of Directors shall participate in no less than eighteen (18) hours of qualifying educational training programs or conferences each reporting period. The reporting period shall be a period of two fiscal years ending on June 30 of even-numbered years, commencing with the period beginning July 1, 2014. If a member has earned more than the required number of hours of educational credit during a reporting period, the member may carry over up to nine (9) hours of excess credit to the following reporting period. If a member is appointed to the Board of Directors after the beginning of a reporting period, the number of hours of required educational credit for that member shall be prorated for that period based upon the period of time between the member's appointment and the end of the reporting period, or may, at the Chairman's discretion, be waived in appropriate circumstances.

2. The annual PEBA Board retreat will include a minimum of six (6) hours of such qualifying educational credit. Other qualifying educational credit shall be approved at the discretion of the Chairman of the Board of Directors. By way of illustration, the additional educational credit that may be approved by the Chairman may include, but is not limited to: attendance at educational training programs and conferences offered by organizations related to governmental retirement and insurance plans; attendance at training sessions provided by PEBA staff, consultants, and affiliates; and participation in professional continuing educational programs related to the member's qualifications to serve on the Board. Qualifying participation in educational training programs and conferences may include both in-person attendance at educational programs as well as participation in programs by electronic means, such as viewing webinars or completing on-line training modules.

3. At the discretion of the Chairman of the Board, a Board member may be reimbursed for reasonable registration fees and travel expenses related to the member's attendance at or participation in an educational training program or conference that is pertinent to the retirement and insurance plans administered by PEBA. If approved by the Chairman, registration fees for these educational programs or conferences and associated travel expenses will be paid by PEBA

in accordance with the Board's travel policy and applicable state laws and regulations in effect at the time of travel.

4. Board members should promptly report all qualifying educational training to the Chairman, and records of each member's qualifying educational credit will be included in the regular reports of the members' attendance to their appointing authorities. However, if a member has failed to participate in the required amount of qualifying educational credit within two fiscal years, the member will be allowed forty-five (45) days to obtain the necessary credit before any deficiency in the member's educational credit is reported to the member's appointing authority.

5. The terms of this policy may be suspended or modified at the discretion of the Chairman of the Board, owing to the non-availability of funding or other limitations.

6. Records of educational credits earned, and reimbursement for educational expenses incurred, by the Chairman shall be subject to review and approval by the Vice Chairman of the Board.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 27, 2015**

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**1. Subject:** Fiduciary Education

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**2. Summary:** Fiduciary Education

**Background Information:** An educational presentation by Mary Beth Braitman from Ice Miller as part of the Funston Recommendations.

**3. What is the Board asked to do?** Receive as Information- No action required

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. Fiduciary and Ethical Considerations Presentation

# Fiduciary and Ethical Considerations

South Carolina Public Employee Benefit Authority Board of Directors Retreat

By:  
Mary Beth Braitman, Partner  
Robert L. Gauss, Partner

March 27, 2015

# What Are the Guiding Principles?

"We shall strive for perfection. We shall not achieve it immediately — but we still shall strive. We may make mistakes — but they must never be mistakes which result from faintness of heart or abandonment of moral principle."

- FDR, 4th Inaugural, January 20, 1945

## CONTACT POINTS IN FUNSTON REPORT:

Conclusion 7.4: Legal counsel could improve Trustee and staff training on fiduciary duties through standardized onboarding education, regular updates and use of examples that are targeted to key issues.

Recommendation 7.4.1: PEBA should provide periodic fiduciary training to staff and Board members through standardized onboarding education, regular updates and use of examples that are targeted to key issues.

Recommendation 7.4.2: PEBA should formalize a staff training schedule to ensure that consistent ethics and compliance training is conducted.

# Considerations

- ➔ Prior Fiduciary Training Presentation
- ➔ 2013 Report on Fiduciary Responsibilities (SBCB)
- ➔ RSIC Presentation by Sarah Corbett, February 25, 2014
- ➔ Funston Performance Audit, April, 2014 (RSIC)
- ➔ Funston Performance Audit, January, 2015 (PEBA)
- ➔ Funston Board Presentation, January 21, 2015

# Touchstones

- ➔ South Carolina Code of Laws 9-16-10, 9-16-40, and 9-16-50
- ➔ State Ethics Act
  - ➔ Code § 8-13
  - ➔ Code Rules of Conduct § 8-13-700 et. seq.
- ➔ Board's Ethics Policy
  - ➔ (1) A Director shall take no action concerning matters before PEBA where the Director, his family, or his business associates have a financial interest in the action;

**CONTACT POINTS IN FUNSTON REPORT:**

Conclusion 2.1: The Ethics policies by which PEBA is governed are reasonable and adequate and reflects PEBA's commitment to high ethical standards for its Board members and employees.

# Touchstones (cont'd)

- ➔ (2) A Director shall take no action to commit funds administered by PEBA if the Director, his family, or his business associates have an interest in, are underwriters of, or receive any fees from the transaction;
- ➔ (3) A Director shall have no interest in the profits or receive any benefit from a contract entered into by PEBA;

# Touchstones (cont'd)

- ➔ (4) A Director shall not use his position to secure, solicit, or accept things of value, including gifts, travel, meals and lodging, consulting fees or other payment for outside employment, or other valuable business relationships from parties doing or seeking to do business with or who are interested in matters before PEBA;
- ➔ (5) A Director shall not represent, while serving on the PEBA Board of Directors and for one year after leaving the PEBA Board of Directors, any person, in any fashion, before any public agency, with respect to any matters in which the Director personally participated while serving on the PEBA Board of Directors;

# Touchstones (cont'd)

- ➔ (6) A Director shall not take any official action on matters that will result in a benefit to himself, his family, or his business associates;
- ➔ (7) A Director shall not, during or after his term of service, disclose or use confidential information acquired in his official capacity as a member of the PEBA Board of Directors without proper authorization;
- ➔ (8) A Director shall not use assets administered by PEBA for his own interest; and,

# Touchstones (cont'd)

- ➔ (9) A Director shall not act on behalf of a party whose interests are adverse to PEBA, even if the Director receives no personal gain.
  
- ➔ **Board's Conflict Policy**
  - ➔ (A) No member of the Board of Directors may make, participate in making, or in any way attempt to use his membership to influence a Board decision in which he, a family member, an individual with whom he is associated, or a business with which he is associated has an economic interest. A Board member who, in the discharge of his official responsibilities, is required to take action or make a decision which affects an economic interest of himself, a family member, an individual with whom he is associated, or a business with which he is associated shall:

# Touchstones (cont'd)

- ➔ (1) Prepare a written statement describing the matter requiring action or decisions and the nature of his potential conflict of interest with respect to the action or decision;
- ➔ (2) Furnish a copy of the statement to the Board Chairman, who shall cause the statement to be printed in the minutes and require that the member be excused from any votes, deliberations, and other actions on the matter on which the potential conflict of interest exists and shall cause the disqualification and the reasons for it to be noted in the minutes.
- ➔ (B) The members of the PEBA Board of Directors must abide by the following additional conflict-of-interest guidelines:

# Touchstones (cont'd)

- ➔ (1) Directors should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest.
- ➔ (2) Directors may not under any circumstances accept offers, by reason of their service, relationship or employment with PEBA, to trade in any security or other investment on terms more favorable than those available to the general investing public or, in the case of private market investments, a similarly situated investor.
- ➔ (3) A conflict of interest exists for a Director whenever the Director has or is seeking a personal or private commercial or business relationship that could reasonably be expected to diminish the Director's independence of judgment in the performance of the Director's responsibilities to PEBA.

# Touchstones (cont'd)

- ➔ **Note:** Cure ability in PEBA Conflicts of Interest Policy
- ➔ **Note:** Exceptions to Conflict of Interest Policy
- ➔ **Note:** Policies apply to all activities (Retirement, Health, OPEB)

# Fiduciary Entities

## ➔ Who is a fiduciary?

### ➔ Any person who:

- ➔ Exercises any discretionary authority or discretionary control respecting management of a plan or exercises any authority or control respecting management or disposition of its assets.
- ➔ Renders investment advice
- ➔ Has any discretionary authority or discretionary responsibility in the administration of the plan.
  - *IRC § 4975(e)(3)*
  - *9-16-10(4)*

# Fiduciary Entities (cont'd)

- ➔ PEBA Board is one of multiple fiduciaries for the South Carolina Retirement Systems
  - ➔ PEBA (Board is trustee – 9-16-10(9))
  - ➔ State Budget & Control Board (co-Trustee with PEBA) (9-1-1310)
  - ➔ Retirement System Investment Commission (RSIC)
  - ➔ State Treasurer (Custodian) (9-1-1320)
    - ➔ Can hold in cash up to 10% of System assets (9-1-1330)
  - ➔ Legislature

# Fiduciary Entities (cont'd)

- ➔ Each has different (and sometimes overlapping) responsibilities
  - ➔ "Unique among state public pension funds"
  - ➔ "Inherent potential for confusion and conflict"

# Fiduciary Entities (cont'd)

- ➔ Every power or duty given to the Board by state law must be exercised in accordance with fiduciary principles

## CONTACT POINTS ON FUNSTON REPORT:

Page 33 and 35 of Report

Conclusion 1.1.1: The statutory allocation of Retirement System fiduciary authority and responsibilities amongst PEBA and the other State entities that are either designated as co-trustees or exercise fiduciary powers is uniquely complex, duplicative and confusing. PEBA is exposed to potentially extreme variations over time in interpretation of ambiguous powers that are held by the State Treasurer and by the BCB (and its successors).

Conclusion 1.1.2: The complex fiduciary structure in which PEBA operates results in dilution of accountability due to lack of role clarity and misalignment of authority with responsibilities. It also likely increases exposure to fiduciary duty lapses and related liability risk.

Recommendation 1.1: The General Assembly should simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA. Appendix A also describes options for consideration in addressing this Recommendation from the Funston Fiduciary Audit Report on RSIC, which covered some of the same issues.

Conclusion 1.3: Some allocations of authority that relate to PEBA's fiduciary responsibilities seem to be grounded in historical practices that no longer apply. For example, although the General Assembly established the RSIC to house the State's investment expertise, the State Treasurer still approves deferred compensation investment options and invests insurance program trust fund assets.

Recommendation 1.3.1: The General Assembly should transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.

Recommendation 1.3.2: The General Assembly should transfer approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.

Conclusion 1.5: Although the Retirement and Pre-Retirement Advisory Panel has been fulfilling a useful role in helping to keep members and retirees informed, it appears to now be somewhat redundant with the PEBA Board of Directors. See also Conclusion 4.9.

Recommendation 1.5: The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups. See also Recommendation 4.9.

Conclusion 1.6: The appointment process for PEBA Board members is not consistent with peer practices or with similar South Carolina State entities in regard to length of terms, staggered terms, rigid appointment criteria and service at the pleasure of appointing authorities.

# Sources of Fiduciary Principles

- ➔ Internal Revenue Code – Applicable to governmental plans.
- ➔ ERISA – Not applicable to governmental plans, but an excellent resource due to robust regulatory framework and extensive developed case law.
- ➔ Restatement of Third, Trusts.
- ➔ Uniform Management of Public Retirement Systems Act (UMPERSA) – compilation of common law.

# Sources of Fiduciary Principles (cont'd)

- ➔ State Law:
  - ➔ (1) solely in the interest of the retirement systems, participants, and beneficiaries;
  - ➔ (2) for the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the system;
  - ➔ (3) with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;
  - ➔ (4) impartially, taking into account any differing interests of participants and beneficiaries;

# Sources of Fiduciary Principles (cont'd)

- ➔ (5) incurring only costs that are appropriate and reasonable; and
- ➔ (6) in accordance with a good faith interpretation of this chapter.

(9-16-40)

- ➔ (A) Compliance by the trustee, commission, or other fiduciary with Sections 9-16-30, 9-16-40, and 9-16-50 must be determined in light of the facts and circumstances existing at the time of the trustee's, commission's, or fiduciary's decision or action and not by hindsight.
- ➔ (B) The commission's investment and management decisions must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the retirement system.

(9-16-60)

See also standards of conduct 9-16-360.

# Fiduciary Principles – Exclusive Benefit Rule

- ➔ "Under the trust instrument it [must be] impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries."

- *Internal Revenue Code, § 401(a)(2)*

# Fiduciary Principles – Exclusive Benefit Rule *(Cont'd)*

- ➔ "A fiduciary shall discharge his duties with respect to a plan
  - ➔ Solely in the interest of the participants and beneficiaries and
  - ➔ For the exclusive purpose of:
    - ➔ Providing benefits to participants and their beneficiaries
    - ➔ Defraying reasonable expenses of administering the plan"
      - ➔ These expenses must be plan expenses, not settlor expenses
- *ERISA*
- *9-16-40(1) and (2) – Standards of Discharge of Duty*

# Fiduciary Principles – Prohibited Transactions

- ➔ A qualified plan is prohibited from participating in any transaction in which it –
  - 1) "Lends any part of its income or corpus, without receipt of adequate security and a reasonable rate of interest, to;
  - 2) Pays any compensation, in excess of a reasonable allowance for salaries or other compensation for personal services actually rendered, to;
  - 3) Makes any part of its services available on a preferential basis to;

# Fiduciary Principles – Prohibited Transactions *(Cont'd)*

- 4) makes any substantial purchase of securities or any other property, for more than adequate consideration in money or money's worth, from;
- 5) sells any substantial part of its securities or other property, for less than an adequate consideration in money or money's worth, to; or
- 6) engages in any other transaction which results in a substantial diversion of its income or corpus to;

the creator [of or] a person who has made a substantial contribution to [the trust]...."

- *Internal Revenue Code, § 503(b)*

- *9-1-1340 -- Conflicts of Interest (RSIC)*

- *9-16-350 -- Use of Information for self-interest (RSIC)*

- *9-16-360 -- Standards of conduct for fiduciary or employee of fiduciary (RSIC)*

## **HYPOTHETICAL NO. 1**

- ➔ South Carolina State Law

# Prohibited Transactions – Practical Impact on Trustee

- ➔ A fiduciary may not:
  - ➔ Deal with plan assets in his own interest.
  - ➔ Act in a transaction with a "party in interest" if adverse to the interests of plan participants.
    - ➔ Any "deals" with the employer (or "funder") must be commercially reasonable, at arms' length.
  - ➔ Receive any consideration for his personal account from any party in connection with a transaction involving the plan.

# Fiduciary Principles – Adherence to the Trust

- ➔ Administer the trust in accordance with its terms and applicable laws – "Doing things by the book"
- ➔ Set aside pre-conceived notions and work from the facts and from statutes, rules, Board policies and procedures.
- ➔ The plan must be administered as written.
- ➔ Make sure to keep up-to-date with law changes.

# Fiduciary Principles – Adherence to the Trust (cont'd)

- ➔ The fiduciary must be aware of the entire legal context, of issues that come before them, including other state and federal laws.

## CONTACT POINTS ON FUNSTON REPORT:

Conclusion 7.1: PEBA has reasonable processes and review mechanisms in place to determine applicable legal requirements and achieve compliance.

Conclusion 7.3: PEBA has implemented tools to monitor and comply with privacy and security requirements.

# Fiduciary Principles – Co-Trustees

- ➔ Duty with respect to co-Trustees from ERISA and from the Restatement
  - ➔ Settlor determines areas of responsibility
  - ➔ Each trustee must take reasonable care to prevent a co-trustee from committing a breach of trust and to obtain redress if there is a breach.
    - ➔ Recognizing RSIC's responsibilities for investments
    - ➔ Consideration by trustees of integrity of process used for decision-making
    - ➔ Duties of care and prudence related to process
- ➔ PEBA and SBCB (or its successor) are co-trustees of the Retirement System (9-1-1310)

# Overall Fiduciary Principles – Care, Skill, Prudence, Diligence

- ➔ "With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims;
  - *ERISA*
  - *9-16-40: ". . . With the care, skill, and caution under the circumstances then prevailing which a prudent person in a like capacity and familiar with the matters would use in the conduct of an activity of like character and purpose. . ."*
  - Restatement of Trusts, Third

## **HYPOTHETICAL NO. 2**

- ➔ A Bayside Retirement System's Board Meets the Grand Jury

# Duty of Care – Importance of Delegation

- ➔ "If you don't know jewelry, know the jeweler."
- ➔ "Risk comes from not knowing what you are doing."
- ➔ "Can you really explain to a fish what it's like to walk on land? One day on land is worth thousands of years talking about it, and one day running a business has exactly the same kind of value."

-- Warren Buffett

# Duty of Care – Importance of Delegation (cont'd)

- ➔ Responsibilities that are outside the trustee's skill set
- ➔ Secure and consider advice of experts

**CONTACT POINT ON FUNSTON REPORT:**

1.9.1: The Board should engage in a deliberative process to develop a conceptual framework governing the delegation of authority and reservation of powers to the Board. Given the inherent conflicts between trustees and staff in this exercise, consideration should be given to engaging an independent expert to assist with the process.

# Duty of Loyalty

- ➔ The trustee must conform to "fundamental fiduciary duties of loyalty (Restatement of Trusts, Third §170) and impartiality (Restatement of Trusts, Third §183)."
- ➔ Balancing the interests of retirees and active participants
- ➔ Balancing interests of different groups of participants
- ➔ Balancing roles with regard to different plans and trusts

**CONTACT POINTS IN FUNSTON REPORT:**

Conclusion 1.8: Board members would benefit from greater clarity about application of the fiduciary duty of loyalty, periodic refreshers and a standard portal for fiduciary training.

Recommendation: 1.8: Training of new Trustees and periodic Board fiduciary education updates should include expanded treatment of the duties of loyalty and impartiality, the different roles of Trustees and plan sponsors and the distinct functions of the Board and staff.

# Duty of Impartiality

- ➔ UMPERSA Commentary: "Differing interests are inevitable in the retirement system setting. Differences can arise between retirees and working members, young members and old, long- and short-term employees, and other groupings of those with interests in the retirement system. The duty of impartiality does not mean that fiduciaries must accommodate such interests according to some notion of absolute equality. The duty of impartiality . . . requires that such decisions be made carefully and after weighing the differing interests."
- ➔ 9-16-40: ". . .Impartially, taking into account any differing interests of participants and beneficiaries. . ."
- ➔ Also applies to health/OPEB plans.

# Impartiality – Practical Impact on Trustee

- ➔ Trustees must identify impact of actions on each plan or trust (in the case of multiple plans or trusts) and on each group of participants and beneficiaries.

# Maintaining Independence

- ➔ A trustee must set aside the interests of the appointing authority or the group the trustee represents.
- ➔ "It is as improper for a fiduciary to take actions for the purpose of benefiting a third person as it is for a fiduciary to act in its own interest. **In the retirement system setting, it is important to note that this duty includes the obligation to set aside the interests of the party that appoints a trustee or fiduciary. A trustee, for example, must act solely in the interests of participants and beneficiaries and set aside any interest of a party responsible for the trustee's appointment, such as an employer or union.**"
  - *UMPERSA Comments on § 7* (Emphasis added)
- ➔ Significant because South Carolina, in effect, adopted UMPERSA in 9-16-40(1).

# Maintaining Independence (Cont'd)

- ➔ UMPERSA "is intended to ensure that retirement system trustees have a level of independence sufficient to permit them to perform their duties and to do so effectively and efficiently. Trustees are different from other state actors because they are subject to an extensive and stringent set of fiduciary obligations to retirement system participants and beneficiaries. These obligations both require and justify some level of trustee independence."
  - *UMPERSA Comments on § 5.*

# Independence – Practical Impact on Trustee

- ➔ Independence comes from following procedural prudence – have established procedures and follow them.
- ➔ Applying lessons from "outside world" is not prohibited, but the overriding principle is to follow the exclusive benefit rule.
- ➔ A trustee must make a decision given the facts and circumstances that are relevant.

**CONTACT POINTS IN FUNSTON REPORT:**

Recommendation 1.2: The General Assembly should give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.

Conclusion: 1.4: The legislative mandate that specified a required number of service providers (four) for the Optional Retirement Plan now limits PEBA's ability to adjust to current industry practices and implement efficiencies that could generate cost reductions without impairing program quality.

Recommendation 1.4: The General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.

# Independence – Practical Impact on Trustee *(Cont'd)*

- ➔ One challenge of "independence" for a trustee is to be independent of preconceived notions.

"Chains of habit are too light to be felt until they are too heavy to be broken."

– Warren Buffett

## **HYPOTHETICAL NO. 3**

- ➔ Large City Plan in Beautiful Coastal City

# Board's Role as Fiduciary

- ➔ Settlor establishes the terms of the trust and the plan.
  - ➔ The Settlor = Legislature/State
- ➔ Settlor determines the scope of authority of the fiduciaries.
- ➔ Each fiduciary must administer the trust and the plan for the benefit of the participants and their beneficiaries in accordance with the role assigned.

# Board's Role as Fiduciary (cont'd)

- ➔ Board's role with regard to benefits
  - ➔ Act 278 of 2012, S.C. Code Title 9, Chapter 1
  - ➔ Board is responsible for the general administration and proper operation of the plans (9-1-210)
  - ➔ Administer benefits in accordance with plan
  - ➔ Engage actuarial and other experts (9-1-230)
  - ➔ Establish contribution rates (9-1-1060)
  - ➔ Establish rules and regulations (9-1-290)

# Board's Role as Fiduciary (cont'd)

- ➔ Board's role with regard to investments:
  - ➔ Settlor gave investment responsibility to RSIC.
  - ➔ But Board is a co-trustee of the trust assets
  - ➔ According to the AG, Board has the responsibility to act in the best interests of the trust, including with respect to investments

# "Pay to Play" – Securities and Exchange Commission

- ➔ SEC Rule 206(4)-5, adopted in 2010, prohibits investment advisors from providing advisory services, for compensation, for a period of two (2) years following a political contribution to a public official or candidate who is or would be in a position to influence the selection or retention of advisors to manage public pension funds or other government client assets.
- ➔ Specifically defines advisors and its "covered associates"
- ➔ Also allows a *de minimis* standard (\$350 or \$150 depending on the election involved)

**CONTACT POINT ON FUNSTON REPORT:**

Recommendation 7.5: PEBA should confirm that ORP and Deferred Compensation investment advisors acknowledge their compliance with the SEC 'pay to play' regulations and state requirements.

## "Pay to Play" – Securities and Exchange Commission *(Cont'd)*

- ➔ SEC recently settled its first enforcement action (TL Ventures Inc. – a Pennsylvania private equity firm)
- ➔ Takeaways:
  - ➔ Public plans should have ethics and investment policies which require compliance
  - ➔ Policies should require compliance certification from investment advisory providers
  - ➔ Ban on transactions with investment advisory providers which violate the Pay to Play Rule
  - ➔ Possible requirements in contracts with investment advisors

# Additional Ethical Considerations

- ➔ *Fifth Third Bancorp v. Dudenhoeffer*
  - ➔ Alleged fiduciary breach in 401(k) plan
  - ➔ Struck down a presumption of prudence which protected plan fiduciaries in employee stock ownership plan “stock drop” cases
  - ➔ Ruled same standard of prudence applies to all ERISA fiduciaries – the prudent expert standard of care
  - ➔ Claims in such cases often involve the use of non-public information in complex securities law issues
  - ➔ Changing Landscape
  - ➔ Recent White House Proposals regarding Extension of Fiduciary Obligations

# Settlor Functions vs. Fiduciary Functions

- Based on DOL Guidance
- Settlor Functions
  - Plan Design / Amendment
  - Plan Termination
  - GASB Required Statements
  - Design Studies and Cost Projections
  - Union Negotiations
  - Consulting
  - Costs associated with evaluating alternatives related to changes in the law
  - Certain corrections under IRS' EPCRS Program

# Settlor Functions vs. Fiduciary Functions *(Cont'd)*

- ➔ Fiduciary / Administrative Functions
  - ➔ Implementation of Settlor Decisions
  - ➔ Benefit Calculations
  - ➔ Routine Nondiscrimination / 415 Testing
  - ➔ Amending the Plan to Comply with Tax Law Changes
  - ➔ Certain Communication Costs
  - ➔ IRS Determination Letter
  - ➔ Certain corrections under IRS' EPCRS Program

## **CONTACT POINTS ON FUNSTON REPORT:**

Recommendation 7.2: In conjunction with outside legal counsel, PEBA legal staff should continue to perform periodic reviews of changes in the law and the plans' compliance with federal and state law requirements.

Conclusion 1.2: PEBA's limited influence over its budget and headcount creates a misalignment of authority with its fiduciary responsibilities. This appears to be fostered (at least in part) by a lack of understanding that PEBA is primarily funded out of earnings on trust assets rather than from appropriation of State tax dollars.



Robert L. Gauss, Partner  
ICE MILLER LLP  
One American Sq., Suite 2900  
Indianapolis, IN 46282-0200  
(317) 236-2133 (Telephone)  
(317) 592-4668 (Facsimile)

Mary Beth Braitman, Partner  
ICE MILLER LLP  
One American Sq., Suite 2900  
Indianapolis, IN 46282-0200  
(317) 236-2413 (Telephone)  
(317) 592-4616 (Facsimile)

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 27, 2015**

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**1. Subject:** Powers Reserved Resolution

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**2. Summary:** Powers Reserved Resolution

**Background Information:** Resolution drafted to reserve certain powers to the PEBA Board and delegating other management powers to the Executive Director of PEBA. The PEBA Board may reassume any power or duty delegated to the Executive Director if necessary.

**3. What is the Board asked to do?** Adopt the Resolution Reserving Certain Powers to the PEBA Board and Delegating Powers to the Executive Director.

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. Resolution Reserving Certain Powers to the PEBA Board and Delegating Powers to the Executive Director

**RESOLUTION RESERVING CERTAIN POWERS TO THE PEBA BOARD AND  
DELEGATING POWERS TO THE EXECUTIVE DIRECTOR**

WHEREAS, under Section 9-4-10 of the South Carolina Code of Laws, the Board of Directors of the South Carolina Public Employee Benefit Authority (“PEBA Board”) is designated as the governing body of the Public Employee Benefit Authority (“Authority”), and the functions of the Authority must be performed, exercised, and discharged under the supervision and direction of the PEBA Board; and

WHEREAS, pursuant to Section 65 of Act 278 of 2012 and Sections VII(A) and VII(D) of the PEBA Board Bylaws, the PEBA Board is responsible for designating an Executive Director to serve as the principal executive officer for the Authority; and,

WHEREAS, the PEBA Board finds that a prudent person acting in a like capacity and familiar with the Authority’s functions would delegate the power to manage the Authority’s affairs to the Authority’s Executive Director, except for certain trustee-level responsibilities that the PEBA Board reserves for itself; and

WHEREAS, the PEBA Board recognizes and acknowledges that its responsibilities with regard to the governance of the employee benefit plans under its administration, including any delegation of powers related to the administration of those plans, must be exercised in accordance with fiduciary principles; and,

WHEREAS, the PEBA Board further recognizes that, in accordance with those fiduciary principles, the PEBA Board must undertake appropriate oversight of the Executive Director’s exercise of responsibilities delegated to the Executive Director to ensure the proper administration of the Authority’s affairs.

NOW, THEREFORE, BE IT RESOLVED THAT:

SECTION 1. The PEBA Board is the ultimate governing body of the Authority and reserves for itself the following, trustee-level powers and duties:

- a. The selection, supervision, evaluation, and compensation of the Authority’s Executive Director;
- b. The governance of the Board’s activities, including the adoption of bylaws, committee charters, and other Board-level governance documents;

- c. The approval of the long-term strategic direction and major initiatives for the Authority;
- d. The approval of the Authority's budget;
- e. The adoption of actuarial assumptions for the retirement and insurance programs administered by the Authority;
- f. The adoption of funding policies for the defined benefit retirement programs administered by the Authority;
- g. The adoption of employee and employer contribution rates for the defined benefit retirement programs administered by the Authority, where authorized by law;
- h. The approval of the interest rate credited to member accounts under the defined benefit retirement programs administered by the Authority;
- i. The acceptance of actuarial valuations and financial statements for the retirement and insurance programs administered by the Authority;
- j. The receipt and oversight of audits of the Authority's programs and functions;
- k. The approval of the insurance benefits offered by the Authority, including the coverage to be offered and employee and employer premiums required for the coverage, and the approval of any mid-year adjustments required for those insurance benefit plans;
- m. The adoption and amendment of plan documents for the defined contribution plans administered by the Authority;
- n. The approval of investment options offered to participants in the defined contribution plans administered by the Authority, including the approval of investment policy statements for those plans; and,
- o. The adoption of regulations for the programs administered by the Authority.

SECTION 2. A. The Executive Director is the Authority's chief executive officer. As such, the PEBA Board hereby delegates to the Executive Director, with the authorization to sub-delegate, each and every power to manage the Authority and the employee benefit programs it administers, subject to law, except for the powers and duties reserved to the PEBA Board in Section 1 above.

B. In making the delegation set out in this resolution, the PEBA Board has exercised, and shall continue to exercise, reasonable care, skill and caution in selecting the Authority's Executive Director, establishing the scope and terms of the delegation of powers and duties to

the Executive Director, and periodically reviewing the Executive Director's performance and compliance with the terms of the delegation.

C. In exercising the powers and performing the duties delegated by this resolution, the Executive Director shall comply with the terms of the delegation and, as a fiduciary, shall discharge duties with respect to the Authority's programs in accordance with fiduciary principles set out in law.

SECTION 3. The PEBA Board may, upon giving appropriate notice, reassume any power or duty delegated to the Executive Director in Section 2 above and/or delegate such powers and duties to another appropriate person if such action would be prudent. Further, nothing in this resolution shall be construed as restricting the PEBA Board's authority to discuss and, if necessary, take action on any significant issue that comes before the PEBA Board for consideration and decision, nor shall anything in this resolution be construed as limiting the access of the PEBA Board to information related to the Authority's activities.

ADOPTED by the South Carolina Public Employee Benefit Authority Board of Directors this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

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Arthur M. Bjontegard, Jr.  
Chairman  
South Carolina Public Employee Benefit Authority  
Board of Directors

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM**  
**Board Retreat**

**Meeting Date:** March 27, 2015

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**1. Subject:** Defined Contribution Education

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**2. Summary:** Target Date Fund (TDF) Presentation

**Background Information:** Paul Staples, from Summit Strategies Group, will share a brief history and general overview of TDFs. He'll also touch on key differentiators between various TDF suites, which should provide a deeper understanding of the role this investment option plays within PEBA's defined contribution retirement plans.

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**3. What is Committee asked to do?** Receive as information

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. Target Date Fund Presentation



**Summit Strategies Group**

*8182 Maryland Avenue, 6th Floor*

*St. Louis, Missouri 63105*

*314.727.7211*

**Target-Date Fund Education**

**South Carolina Optional Retirement Program**

*March 27, 2015*

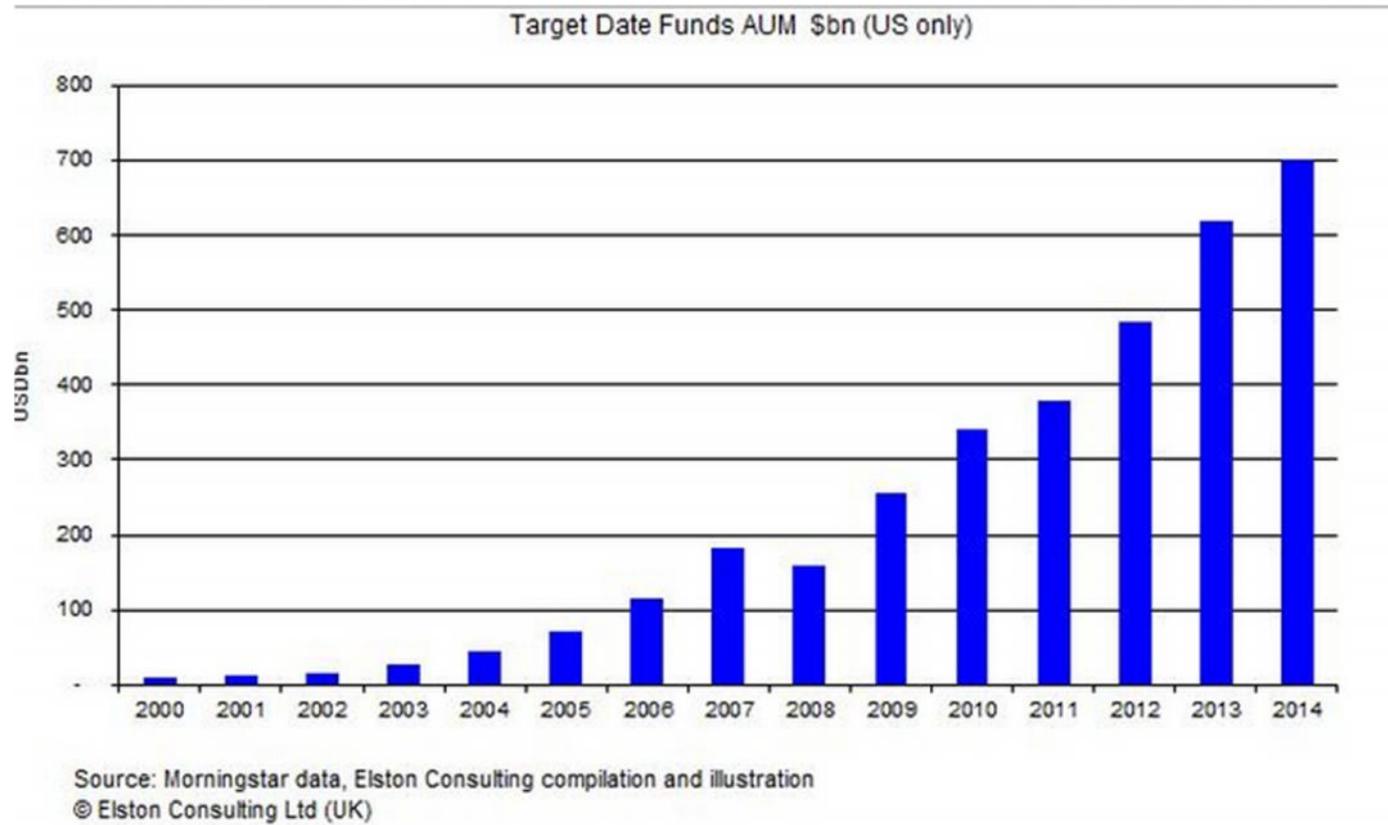
## TOPICS FOR DISCUSSION

- What are target-date funds?
- What factors should a sponsor consider when selecting a target-date fund?
- How are they differentiated?
- What are their strengths and weaknesses?
- Off-the-shelf versus custom options.
- Benchmarking considerations.

## WHAT ARE TARGET-DATE FUNDS

- Created in the 1990's to address a marketplace need for a one-stop-shop investment that did not require participants to determine their risk profile and proactively move from one risk-based portfolio to another.
  - Participants are typically overly conservative.
  - Due to inertia, participants rarely progress from most to least aggressive in a timely/prudent fashion.
- BGI, Fidelity and Vanguard were first to market.
- There are now several dozen products available.
- With the establishment of Qualified Default Investment Alternative regulations by the DoL, target-date funds have become the preferred default investment in most plans today.
- A suite of target-date funds typically consists of 10+ “vintages” offered in five-year increments (e.g., 2060, 2055, 2050).
  - Most fund families (not all) merge into their Retirement Income vintage in the year of maturity (e.g., 2030).
- Participants select, or are defaulted into a fund, based on the year of their retirement at age 65, nothing else.
- Generally speaking, target-date funds provide participants with a more diversified asset allocation than they could otherwise create on their own using the Plan's core options.

## TARGET-DATE FUND GROWTH



## TARGET-DATE FUND SELECTION CONSIDERATIONS

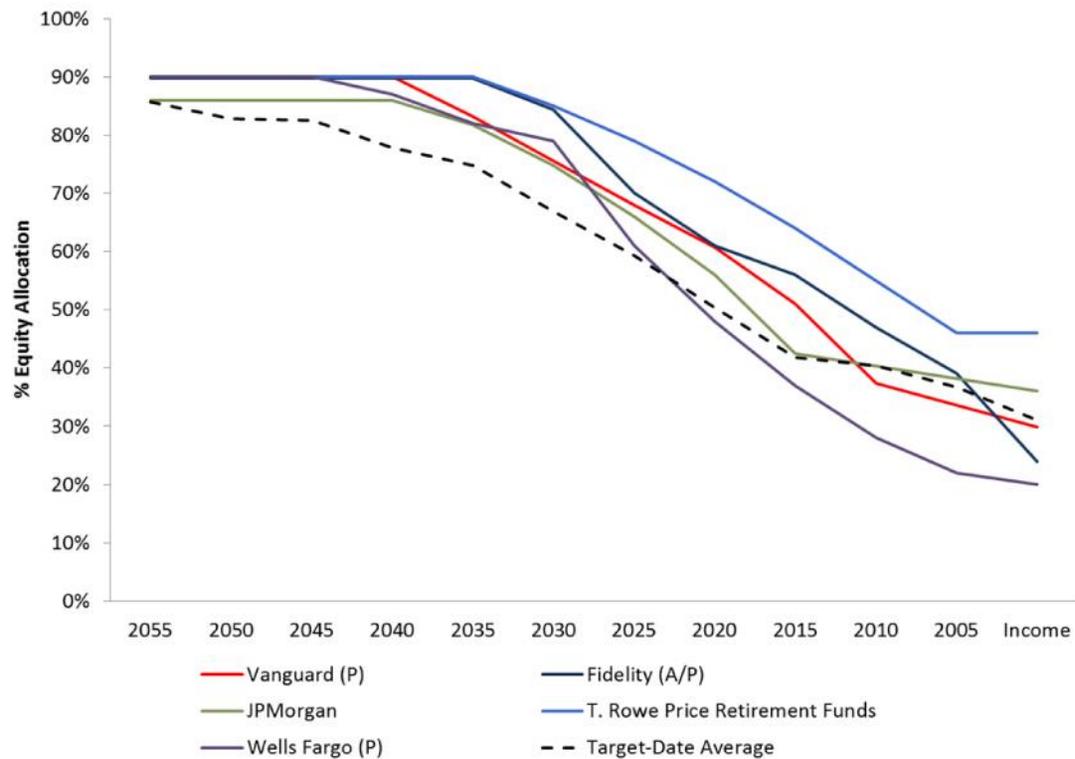
- Target-date funds need to address the following three risks:
  1. **Shortfall** – The risk of not saving enough to maintain a standard of living.
  2. **Longevity** – The risk of outliving assets due to lower returns, higher spending, or living longer than assumed.
  3. **Inflation** – The risk of earning a rate of return in retirement below that of inflation.
- Due to different construction assumptions, one product may be a better fit for a plan than another.
- Target-date funds are appropriate for most, but not all participants.
  - To the extent that an individual participant has an investor profile that differs from the construction assumptions, the target-date fund is not a good “fit” for that participant.
  - Still the best option for the vast majority of active participants.
  - Target-date funds work best during the asset accumulation years, less so in retirement when spending rates, health, longevity and lifestyle choices vary considerably.
- Active management is a double-edged sword.
  - The manager’s tolerance for underperformance may be much greater than participant tolerance.
- Diversification is emphasized through the inclusion of lower correlated (not more) asset classes.
- Sponsor risk is asymmetrical.

## HOW ARE TARGET-DATE FUNDS DIFFERENTIATED?

1. Glidepath construction (stock/bond mix)
2. Asset allocation (how many sub asset classes)
3. Construction assumptions (participant time horizon, contribution rates, salary growth rate, age of retirement)
4. Overall strategy (to versus through, income replacement ratio)
5. Passive versus active management
6. Proprietary versus non-proprietary investments
7. Performance
8. Benchmarking (proprietary versus third party)
9. Fees

## GLIDEPATH CONSTRUCTION

- The chart shows the “glidepath” of leading target-date fund products.
- While the allocation to equities at the start of the glidepath is similar, there are pronounced differences as the glidepaths evolve.
- These differences reflect each manager’s philosophy around risk, return, and ultimate objective.
- It is not clear if glidepaths reflect the manager’s conviction, or if they are now a point of differentiation in an attempt to cater to different market preferences.



## ASSET ALLOCATION

- Most managers have similar exposure to global equities and domestic fixed income.
- Differences occur in real assets and other diversifiers.
- Note, managers use multiple products in a specific asset class, prompting diversification questions.

Asset Class Coverage Comparison						
Target-Date Provider	Fidelity (A)	Fidelity (P)	JPMorgan (A)	T. Rowe Price (A)	Vanguard (P)	Wells Fargo (P)
# of Underlying Funds/Holdings	26	6	28	19	5	+10,000
Domestic Large Cap	X	X	X	X	X	X
Domestic Non-Large Cap	X	X	X	X	X	X
Developed International Equity	X	X	X	X	X	X
Emerging Markets Equity	X	X	X	X	X	X
Domestic Real Estate	X		X			X
Global Real Estate	X					
Commodities	X	X	X			
Other Alternative Strategies				X		
Domestic Fixed Income	X	X	X	X	X	X
International Fixed Income				X	X	X
Emerging Markets Bonds	X		X	X		
High Yield	X		X	X		X
TIPS/Real Return	X	X	X	X	X	
Bank Loans	X		X			
Short Duration Bonds	X					
Money Market/Cash	X	X	X	X	X	X
<b>Total Asset Classes</b>	<b>14</b>	<b>8</b>	<b>12</b>	<b>11</b>	<b>8</b>	<b>9</b>

## CONSTRUCTION ASSUMPTIONS

- Target-date funds are built using assumptions that reflect a “typical” participant.
- These assumptions vary considerably by manager.
- Sponsors should ideally select a manager whose assumptions align well with the majority of plan participants.
- If one cannot be found, then a custom solution should be considered.
- Custom solutions are ideal when there is a shared similar characteristic within the population, such as participation in a defined benefit plan.

Construction Assumption Illustration	
Starting Age	25
Retirement Age	65
Participant Deferral	6%
Employer Match	3%
Total Contribution	9%
Annual Merit-Based Salary Increases	2%
Mortality Age	93

## USE OF PROPRIETARY INVESTMENT PRODUCTS

- Most large institutional sponsors determine their own asset allocation and hire best-in-class managers.
- In contrast, most defined contribution sponsors select a single manager to design the asset allocation and exclusively use that manager’s own investment products, whether they are best-in-class or not.
- This contradiction exists due to administrative simplicity and sponsor litigation concerns.
- For example, Fidelity Freedom Funds are comprised from 26 Fidelity products.
  - This includes 9 domestic large cap equity options which are highly correlated to one another.
    - For example, the Growth Company and Blue Chip Growth funds have 171 common holdings, representing 77% and 81% of their respective portfolios.
- In contrast, the passive version of the same product only utilizes 6 investment products to achieve similar asset class exposure.

Asset Class	Fidelity Freedom Funds (Active)
Large Blend	Series 100 Index
Large Blend	Series Growth & Income
Large Blend	Series All-Sector Equity
Large Value	Series 1000 Value Index <sup>1</sup>
Large Value	Series Stock Selector Large Cap Value
Large Value	Series Equity-Income
Large Growth	Growth Company
Large Growth	Blue Chip Growth
Large Growth	Series Opportunistic Insights
Small Blend	Series Small Cap Opportunities
Small Blend	Series Small Cap Discovery <sup>2</sup>
Real Estate	Series Real Estate Equity
Commodities	Series Commodity Strategy
World Stock	Series Intrinsic Opportunities
Foreign Large Value	Series International Value
Foreign Large Growth	Series International Growth
Foreign Small/Mid Growth	Series International Small Cap
Emerging Markets Equity	Series Emerging Markets
Interm-Term Bond	Series Investment Grade Bond
High Yield Bond	Series High Income
Real Estate Income	Series Real Estate Income
Emerging Markets Bond	Series Emerging Markets Debt
TIPS	Series Inflation-Protected Bond Index
Bank Loan	Series Floating Rate High Income
Short-Term Bond	Short-Term Bond
Money Market	Institutional Money Market

Asset Class	Fidelity Index Funds (Passive)
Domestic Equity	Spartan Total Market Index
Commodities	Series Commodity Strategy
Foreign Equity	Series Global Ex U.S. Index
Interm-Term Bond	Spartan U.S. Bond Index
TIPS	Series Inflation-Protected Bond Index
Money Market	Institutional Money Market

<sup>1</sup>The Series 1000 Value Index replaced the Series Large Cap Value in 2013.

<sup>2</sup>The Series Small Cap Discovery replaced Fidelity Small Cap Value and Small Cap Growth funds in 2013.

## PROPRIETARY MANAGER SUB FUND RANKINGS

- Proprietary target-date fund managers often do not provide consistent value add from active management across all asset classes.
- This dynamic led to the interest in custom solutions that use the Plan’s core options as building blocks or best-in-class managers outside of the Plan.
- Products such as Wells Fargo and JPMorgan are managed to a third party benchmark, such as the Dow Jones Global Target Indices, eliminating the issues with active management and proprietary glidepath design.

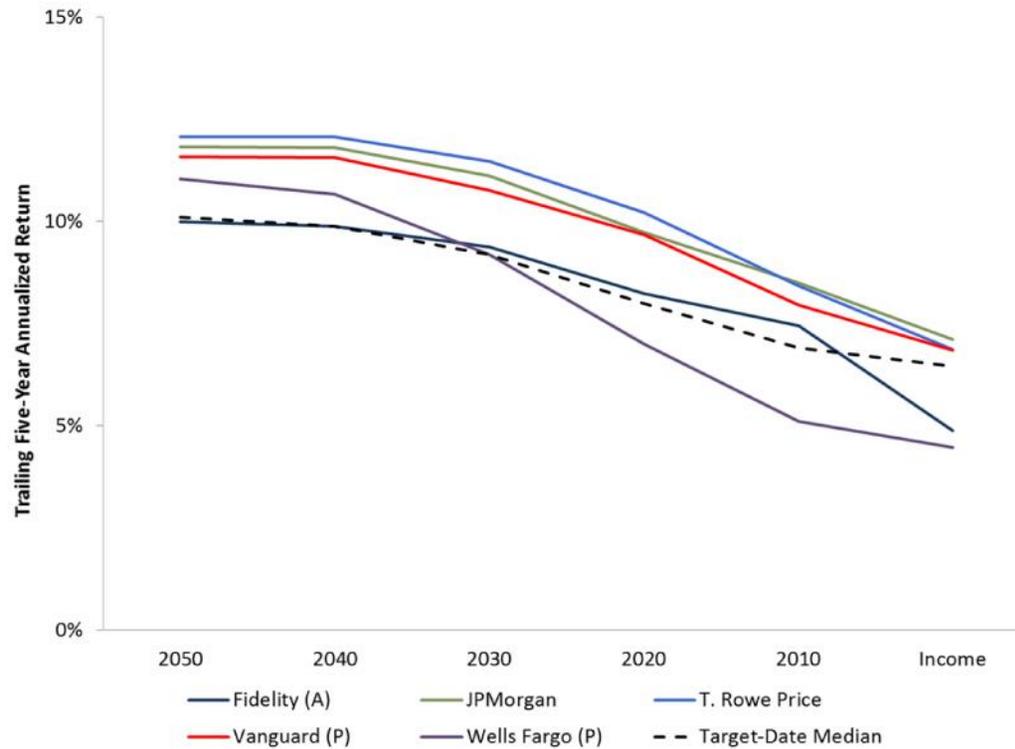
### Major Target-Date Fund Provider

Component Fund Asset Class	Morningstar Overall Rating	5-Year Return Peer Rank*
Large Blend	4	10
Large Value	4	30
Large Growth	3	<b>52</b>
Mid-Cap Value	5	23
Mid-Cap Growth	3	<b>73</b>
Small Blend	4	15
Foreign Large Growth	4	30
Diversified Emerging Mkts	3	38
Real Estate	3	7
Intermediate-Term Bond	3	<b>61</b>
Inflation-Protected Bond	4	25
Inflation-Protected Bond (Short Duration)	3	<b>71</b>
High Yield Bond	3	46
World Bond	<b>1</b>	<b>95</b>

\* 1 = Best; 100 = Worst.

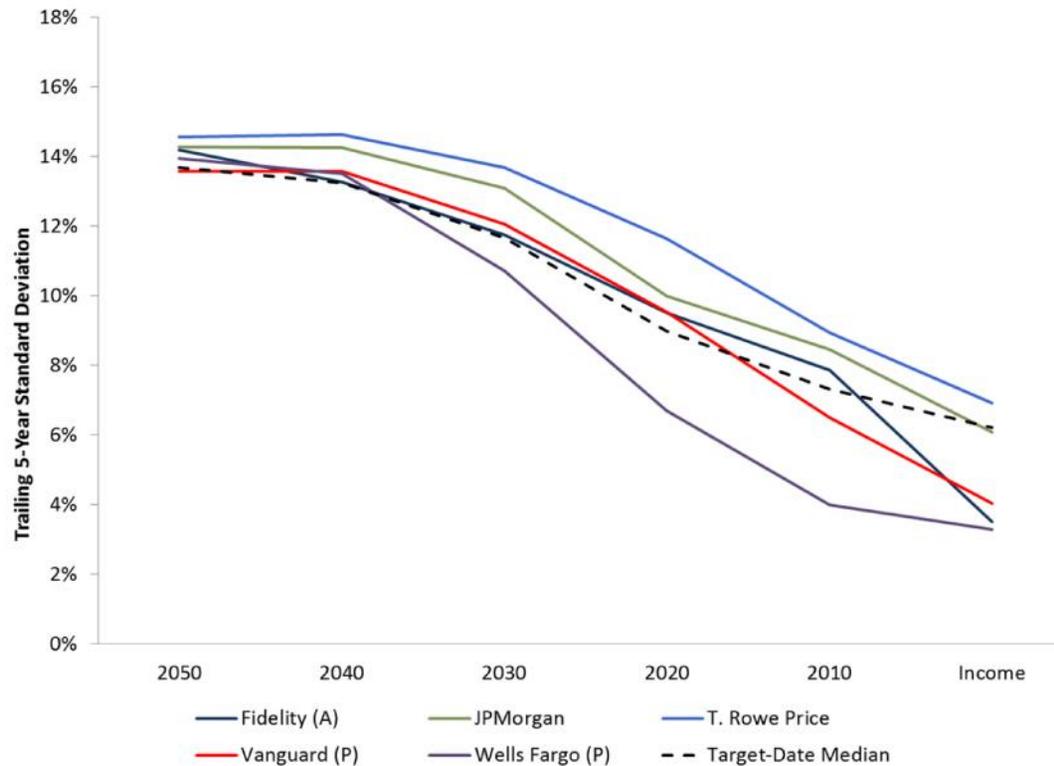
## ANNUALIZED PERFORMANCE

- Performance varies due to macro asset allocation, use of active management and rebalancing techniques.
- While active management may not add value in all market cycles, it can reduce volatility and if employed correctly, mitigate losses during severe market corrections.



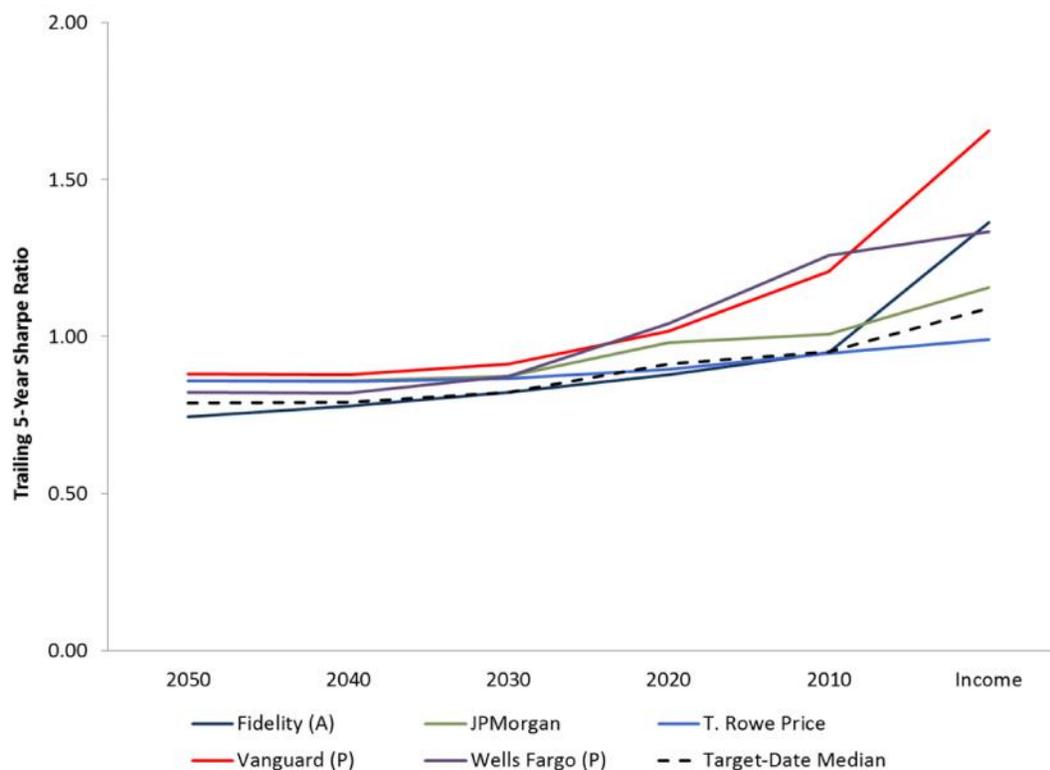
## VOLATILITY: STANDARD DEVIATION

- The cost of volatility can have a profound impact on asset accumulation.
- Mitigating losses in down markets preserves capital for when markets rebound.
- Less volatility can also improve the overall efficiency of a portfolio.
- For example, while T. Rowe Price has compelling trailing five-year performance, they are also the most volatile among the peers shown.



## PORTFOLIO EFFICIENCY: SHARPE RATIO

- Some products focus on total return, others on lower volatility.
- Summit believes efficiency is a major differentiator and point of consideration.
- As noted earlier, T. Rowe Price has the highest returns, but also the highest volatility, resulting in the least efficient product relative to the peers shown.
- In contrast, two of the passive products, Vanguard and Wells Fargo, are among the most efficient.
  - If volatility is a currency, then these two products offer the greatest “value” to participants.



## BENCHMARKING

- Benchmarking is critical to determine if the manager is adding value from asset allocation, active management, or both.
- Value add from asset allocation is measured through peer universe ranks.
- To measure the value add from active management managers would ideally use a composite benchmark comprised of each sub fund's weight and benchmark returns.
- Few managers do this, instead using simplified composites based on broad market indices.
- For example, Fidelity's proprietary composite benchmark is constructed from four broad indices, considerably less than the 21 sub funds used to create the Freedom Funds.
- Given their relative short performance history, Summit is not aware of any manager that currently measures their ability to achieve retirement readiness or a similar objective.

Fidelity Freedom Fund Extended Asset Class Benchmarks
Dow Jones U.S. Total Stock Market
MSCI World ex U.S. (net)
Barclays U.S. Aggregate
Barclays 3 Month T-Bill

## FEES

- As expected, fees vary based on the use of active versus passive management.
- Summit expects that actively managed products outperform their benchmarks on a net of fee basis.
- The use of many sub funds makes this difficult as gains made in one fund are often offset with losses in another.
- Very few products use active and passive products together, instead being entirely active or passive.
- The use of active management only where there is a likelihood of adding consistent value (small cap, emerging market equity, real assets) would dramatically lower the cost of actively managed products.

Vintage	Fidelity (A)	Rank	Fidelity (P)	Rank	JPMorgan	Rank	T. Rowe Price	Rank	Vanguard (P)	Rank	Wells Fargo (P)	Rank	Peer Average	# Peers
2050	0.65%	12%	0.16%	1%	0.70%	16%	0.76%	23%	0.18%	1%	0.37%	3%	1.04%	241
2040	0.66%	33%	0.16%	1%	0.70%	16%	0.76%	24%	0.18%	1%	0.37%	3%	1.04%	257
2030	0.65%	14%	0.16%	1%	0.67%	15%	0.73%	23%	0.17%	1%	0.36%	3%	1.02%	258
2020	0.57%	11%	0.16%	1%	0.63%	16%	0.67%	20%	0.16%	1%	0.35%	3%	0.97%	257
2010	0.53%	10%	0.16%	1%	0.57%	15%	0.59%	15%	0.16%	1%	0.32%	3%	0.92%	158
Income	0.44%	6%	0.16%	1%	0.55%	13%	0.57%	15%	0.16%	1%	0.30%	2%	0.96%	297
<b>Average Peer Rank</b>		<b>14%</b>		<b>1%</b>		<b>15%</b>		<b>20%</b>		<b>1%</b>		<b>3%</b>		

## CONCLUSIONS

- There is no single ideal target-date family for every plan sponsor.
- Choose the family that represents the best fit with participant demographics.
- Incorporate sponsor philosophy or bias in the decision, such as active versus passive and total return versus efficiency.
- Look beyond the marketing materials; which products have a sound management and construction philosophy?
- If off-the-shelf solutions are not a good fit, consider a custom solution, but be mindful of the value received for the added complexity and fees.
- Be critical of manager supplied benchmark comparisons knowing that manipulation can occur.
- Supplement target-date funds with managed accounts for participants with unique circumstances not adequately addressed by a target-date fund.
- Provide participants with financial advice during retirement, recognizing the variability of financial situations and the limitations of target-date funds.

**APPENDIX**

CALENDAR YEAR PERFORMANCE

- The table below shows the year-to-date and calendar year performance and peer ranks of the 2045, 2025, and Income funds.
- The peers highlighted in blue represent the top performers during a particular year.

	2014		2013		2012		2011		2010		2009		2008	
<b>2050</b>														
Fidelity (A)	5.96	39	22.08	60	15.23	58	-5.50	79	15.06	41	32.57	44	-40.61	77
Fidelity (P)	6.57	27	19.34	79	13.47	87	-3.27	20	14.94	49	-	-	-	-
JPMorgan	7.82	12	23.01	54	18.37	1	-4.80	64	17.02	3	33.94	29	-33.53	1
T. Rowe Price	6.19	33	25.90	10	17.55	5	-3.36	21	16.41	13	38.92	5	-38.80	43
Vanguard (P)	7.19	18	24.34	33	15.58	47	-2.54	14	15.20	37	28.31	92	-34.62	6
Wells Fargo (P)	5.73	47	23.26	49	15.12	61	-4.07	41	17.25	1	33.34	36	-35.77	11
2050 Funds Median (241)	5.44		23.08		15.47		-4.38		14.80		31.42		-39.08	
<b>2020</b>														
Fidelity (A)	5.40	30	13.35	38	11.86	43	-1.24	65	13.07	38	29.00	24	-32.12	51
Fidelity (P)	5.84	20	11.10	59	10.00	81	0.34	40	12.24	51	-	-	-	-
JPMorgan	6.91	4	13.77	34	14.58	3	-0.76	56	15.02	1	29.39	21	-28.79	33
T. Rowe Price	5.63	25	18.05	3	15.01	1	-1.20	63	14.74	2	34.19	4	-33.48	68
Vanguard (P)	7.12	2	15.85	18	12.35	37	0.60	33	13.12	36	23.10	71	-27.04	22
Wells Fargo (P)	4.47	61	8.44	77	8.94	94	1.63	12	11.81	61	19.65	91	-21.92	8
2020 Funds Median (257)	4.76		12.03		11.53		-0.51		12.27		25.92		-31.95	
<b>Income Funds</b>														
Fidelity (A)	3.96	43	4.60	57	6.36	81	2.12	72	7.68	82	16.30	72	-12.14	28
Fidelity (P)	3.91	45	3.10	67	4.80	96	2.47	60	5.96	100	-	-	-	-
JPMorgan	5.17	13	7.91	14	10.30	10	1.13	87	11.35	8	21.62	26	-16.97	67
T. Rowe Price	3.92	45	9.16	8	10.06	15	1.43	84	10.11	30	22.06	23	-18.38	82
Vanguard (P)	5.54	10	5.87	34	8.23	62	5.25	8	9.39	50	14.28	80	-10.93	16
Wells Fargo (P)	3.63	58	1.00	84	4.99	95	4.86	10	7.99	77	9.69	93	-3.17	3
Income Funds Median (297)	4.36		5.12		8.76		2.78		9.33		18.05		-15.43	

## TARGET-DATE FUND PEER GROUP

- Each target-date fund provider maintains a different combination of advantages versus peers (advantages highlighted below in blue).
- This variety allows sponsors to select a “best-fit” strategy most appropriate for their plan demographics and investment preferences.
- Fidelity recently began tactical allocation in the actively managed Freedom Funds, potentially improving their comparative advantage.

Provider Name	Fidelity (A)	Fidelity (P)	JPMorgan (A)	T. Rowe Price (A)	Vanguard (P)	Wells Fargo (P)
Firm Headquarters	Boston, MA	Boston, MA	New York, NY	Baltimore, MD	Malvern, PA	San Francisco, CA
%Passive	3-5% Passive	100%	0 - 1.5% Passive	7 - 23% Passive	100% Passive	100% Passive
Strategy Inception Date (Oldest)	Oct-96	Oct-09	May-06	Sep-02	Oct-03	Mar-94
Target-Date Strategy Assets	\$189.6 billion <sup>1</sup>	\$14.5 billion <sup>1</sup>	\$47.46 billion	\$125.6 billion	\$302.8 billion	\$19.5 billion
To or Through Strategy	Through Retirement	Through Retirement	To Retirement	Through Retirement	Through Retirement	Through Retirement
# of Underlying Funds/Holdings	Up to 26	Up to 6	Up to 28	Up to 19	Up to 5	10,000+ Securities
% of Funds managed by Provider	100%		98.5% - 100% (by vintage)	100%	100%	0%
Underlying Fund Types	Fidelity TD-Specific Funds <sup>2</sup>	Fidelity Retail/TD-Specific Funds <sup>2</sup>	JPM MFs/Global Natural Resources ETF	TRP Mutual Funds	Vanguard Mutual Funds	Dow Jones and Barclays Indices
Benchmark Utilized <sup>3</sup>	Custom	Custom	Custom and S&P Target Indices	Custom	Custom	Dow Jones Global Target Indices
Tactical Allocations Utilized?	Yes (as of 08/2014)	No	Yes	Yes	No	No
Highest Equity Exposure	90%	90%	86%	90%	90%	95%
Lowest Equity Exposure	24%	24%	36%	20%	30%	15%
Maturation Process	Actively managed for 19 years	Actively managed for 19 years	Final allocation at retirement	Actively managed for 30 years	Actively managed for 7 years	Actively managed for 10 years
Participant Rollover Age	Age 84	Age 84	Age 65	Age 67	Age 72	Age 75
Glidepath Customization Available?	Yes; for recordkeeping clients with \$200 mil (target-date)	Yes; for recordkeeping clients with \$200 mil (target-date)	Yes; for Plans with either \$500 mil (target-date) or \$1 bil (total AUM)	No	Yes; Open for discussion if requirements met	Yes; Through GIA (subadvisor)

(A) Denotes Active Fund; (P) Denotes Passive Fund

<sup>1</sup> Includes Pyramis collective trust target-date assets

<sup>2</sup> TD-Specific: 'Series' portfolios which were designed specifically for inclusion in the target-date suite and are not available for retail purchase.

<sup>3</sup> See Custom Benchmark detail on following page.

**CUSTOM BENCHMARKS**

- The table below outlines the individual indices utilized by each target-date fund family’s respective Custom Benchmark.

	Fidelity	Fidelity (P)	JPMorgan	T. Rowe Price	Vanguard (P)	Wells Fargo (P)
1	Dow Jones US Total Stock Market	Dow Jones US Total Stock Market	S&P 500	Russell 3000 index	CRSP US Total Market Index	Dow Jones Global Target Indices
2	MSCI AC World ex US (Net)	MSCI AC World ex US (Net)	Russell 3000 Value	MSCI AC World ex US	FTSE Global All Cap ex US	
3	Barclays US Aggregate	Barclays US Aggregate	Russell 3000 Growth	Barclays US Aggregate	Barclays US Aggregate Float Adj	
4	Barclays 3 Month T-Bill	Barclays 3 Month T-Bill	Russell Midcap	Barclays 1-5 Year TIPS	Barclays Global Agg ex US Float Adj RIC Cap	
5			Russell 2000	US T-Bill (3 month)	Barclays 1-5 Year TIPS	
6			Russell 2000 Value			
7			Russell 2000 Growth			
8			MS REIT			
9			MSCI EAFE			
10			MSCI EM Free (Net)			
11			S&P Global Natural Resources			
12			Dow Jones UBS Commodity Index			
13			Barclays US Aggregate			
14			Barclays US TIPS			
15			Barclays 1-10 Year TIPS			
16			Barclays US Agg Corp TR Index			
17			JPM EMBI Global			
18			JPM EMBI Global Diversified			
19			Credit Suisse Leveraged Loan Idx			
20			Barclays HY 2% Issuer Capped			
21			US T-Bill (3 month)			
22						

**Disclaimer:** All data as of December 31, 2014 unless otherwise indicated. Summit Strategies Group (Summit) has prepared this report for the exclusive use by its clients. The information herein was obtained from various sources, which Summit believes to be reliable, and may contain opinions developed by Summit. Summit does not guarantee the accuracy or completeness of the opinions, observations or other information contained in this report. The opinions, market commentary, portfolio holdings and characteristics are as of the date shown and are subject to change. Past performance is no guarantee of future performance. No graph, chart, or formula can, in and of itself, be used to determine which managers or investments to buy or sell. Any forward-looking projection contained herein is based on assumptions that Summit believes may be reasonable, but are subject to a wide range of risks, uncertainties and the possibility of loss. Accordingly, there is no assurance that any estimated performance figures will occur in the amounts and during the periods indicated, or at all. Actual results and performance will differ from those expressed or implied by such forward-looking projections. Any information contained in this report is for informational purposes only and should not be construed to be an offer to buy or sell any securities, investment consulting or investment management.

**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 27, 2015**

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**1. Subject:** Educational presentation by GRS

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**2. Summary:** An educational presentation by PEBA's external actuaries from Gabriel Roeder Smith & Company (GRS). Joe Newton and Danny White from GRS will cover the actuarial valuations related to the SC Retiree Health Care Plan, future OPEB accounting changes, and discuss the actuarial assumptions used in the Retirement Systems valuations.

**Background Information:** GRS is the external actuary for PEBA as it relates to both the Retirement Systems and the State Health Plan. As such, GRS is responsible for compiling the annual actuarial valuations for both the five defined benefit trust funds of the Retirement Systems, and the two trust funds of the SHP.

**3. What is the Board asked to do?** Receive as Information- No action required

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. GRS presentation document



# South Carolina Public Employee Benefit Authority

## OPEB Accounting & Actuarial Assumptions

Joe Newton and Danny White  
March 27, 2015

**GRS**

Gabriel Roeder Smith & Company  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)

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# Agenda

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- ◆ 2014 Valuation Results – State Retiree Health Care Plan
- ◆ OPEB Accounting Changes
- ◆ Actuarial Assumptions used in the Valuation of the Retirement System



# **Actuarial Valuation Results**

## **Retiree Health Care Plan**



# Actuarial Valuation as of July 1, 2014

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## ◆ Purposes:

- ▶ Measure the System's liabilities
- ▶ Explain changes in actuarial condition of the retiree medical plan
- ▶ Provide information for accounting and financial reporting under GASB 43 and 45



# Retiree Premiums

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- ◆ 2015 medical premiums for Funded Retirees:

	<b>Total Premium</b>	<b>Employer's Portion</b>	<b>Retiree's Portion</b>
Retiree Only	\$442.26	\$344.58	\$97.68
Retiree + Spouse	\$935.90	\$682.54	\$253.36

- ◆ Premiums shown are for the most common plan choices (Standard Plan and the Medicare Supplement)
- ◆ Employees hired before May 2, 2008 are eligible for funded premiums with 10 years of service.
- ◆ Employees hired on or after May 2, 2008 are eligible for funded premiums if they have at least 25 years of service. Partially funded if service is between 15 and 24 years.



# Summary of Key Results

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- ◆ Proactive cost management continues to generate savings which mitigate the expected liability growth
  - ▶ Over the last six years, the UAAL has increased from \$9.0 billion to \$9.3 billion (much less than expected)
- ◆ Over the last ten years, the average increase to the overall premiums has been 3.6% per year.
  - ▶ Aggressive unit cost management in plan networks
  - ▶ Moderate increases to deductibles and out-of-pocket costs
  - ▶ EGWP savings for Medicare retirees
- ◆ Funding ratio is 8% as of June 30, 2014
  - ▶ Current assets only provide roughly 2 years of benefit reserve



# Summary of July 1, 2014 Valuation Results

(\$ in millions) Item	As of June 30,		
	2014	2013	2012
(1)	(2)	(3)	(4)
Actuarial accrued liability	\$10,124	\$10,073	\$10,328
Actuarial value assets	<u>785</u>	<u>669</u>	<u>592</u>
Unfunded liability (UAAL)	\$9,339	\$9,404	\$9,736
Funded ratio	8%	7%	6%
Annual OPEB Cost	\$750	\$748	\$779
Per Active Participant (\$)	\$4,243	\$4,292	\$4,554
% of payroll	9.13%	9.67%	10.51%
Expected Net Employer Contribution			
Credited Against OPEB Cost	\$440	\$410	\$401



# Summary of July 1, 2014 Valuation Results (Continued)

(\$ in millions)	As of June 30, 2014		
	Item	State	Schools
(1)	(2)	(3)	(4)
Actuarial accrued liability	\$4,623	\$5,501	\$10,124
Actuarial value assets	<u>358</u>	<u>427</u>	<u>785</u>
Unfunded liability (UAAL)	\$4,265	\$5,074	\$9,339
Funded ratio	8%	8%	8%
Annual Required Contribution	\$332	\$418	\$750
Per Active Participant (\$)	\$4,225	\$4,254	\$4,243
% of payroll	8.29%	9.92%	9.13%



# Current Funding Policy

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- ◆ Employer surcharge is designed to cover the employer's share of the premiums for the current fiscal year
  - ▶ 5.00% of payroll for fiscal year 2014-15
- ◆ Additional contributions from State appropriations and IBNR transfers above 140%
  - ▶ \$176, \$96, \$67 and \$106 million in FYE15 through FYE12, respectively

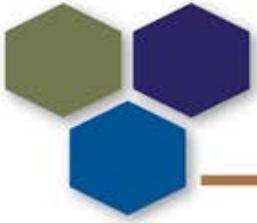


# Projected Cost

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- Historical and expected employer surcharge based on current funding policy:

FYE	Surcharge	FYE	Surcharge
2009	3.50%	2016	5.29%
2010	3.50%	2017	5.65%
2011	3.90%	2018	5.89%
2012	4.30%	2019	6.09%
2013	4.55%	2020	6.26%
2014	4.92%	2021	6.42%
2015	5.00%	2022	6.57%



# OPEB Accounting Changes



# The Big Picture

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- ◆ The proposed OPEB standards would bring OPEB accounting in line with the new pension standards
- ◆ Effective Dates
  - ▶ Plans: Plan years beginning after December 31, 2015 (FY 2017 for the Retiree Health Care Plan)
  - ▶ Employers: Fiscal years beginning after December 31, 2016 (FY 2018 for employers in the Retiree Health Care Plan)



# The Big Picture

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## ◆ Balance Sheet

- ▶ Employers recognize a Net OPEB Liability (NOL) on their balance sheets (*NOL is code for the Unfunded Accrued Liability based on Market Value of Assets*)

## ◆ Income Statement

- ▶ Employers recognize a new OPEB Expense on their income statements. Expense (and deferred inflows and outflows of resources) results from changes to the Net OPEB Liability

## ◆ Footnotes and RSI

- ▶ Additional disclosure information and 10-year trend information



# Allocation of Liability and Cost to Participating Employers

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- ◆ OPEB accounting – similar approach as pension for school districts and employers who fall under the State’s retiree medical liability
  - ▶ These are the employers who pay the retiree medical payroll surcharge; 5.00% of payroll for FYE15
  - ▶ Proportion of liability, expense, deferred inflows/outflows based on employer’s “contribution requirement” relative to total contributions
- ◆ Employers who have their own OPEB plan will not be assigned a portion of the State’s OPEB liability.



# Discount Rate

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- ◆ For pay-as-you-go plans, discount rate is based on the yield of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
  - ▶ Rates decreased from 4.29% in July of 2014 to 3.36% in January of 2015
- ◆ Plans with trusts will perform a test to determine when assets are projected to be depleted.
  - ▶ The discount rate will be a blend of the long-term expected rate of return on plan assets and the municipal bond index rate.



# Impact of Proposed GASB Standards

(\$ in millions)	As of June 30, 2014		
	Municipal Bond Rate <b>4.00%</b>	Current Accounting <b>5.50%</b>	Expected Asset Return <b>7.00%</b>
Item	(2)	(3)	(4)
(1)			
Actuarial accrued liability	\$12,594	\$10,124	\$8,166
Actuarial value assets	<u>785</u>	<u>785</u>	<u>785</u>
Unfunded liability (UAAL)	\$11,809	\$9,339	\$7,381
Funded ratio	6%	8%	10%
Theoretical Funding Contribution	\$906	\$750	\$633
% of Pay	11.03%	9.13%	7.71%
Expected Surcharge FYE16	5.29%	5.29%	5.29%



# Employer Reporting Requirements - Footnote Disclosures

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- ◆ Expanded footnote disclosures
  - ▶ Basic information about each OPEB plan
  - ▶ Classes of employees covered
  - ▶ Information regarding TOL, OPEB Expense, proportionate share, deferred outflows/(inflows) of resources related to OPEB
  - ▶ Significant actuarial assumptions
  - ▶ Target asset allocations and projected rates of return by asset class
  - ▶ Sensitivity of the NOL to changes in the discount rate



# **Actuarial Assumptions used in the Valuation of the Pension System**



# How Assumptions Factor In...

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- ◆ Over time, the actual plan cost is borne in actual experience
- ◆ Assumptions do not affect true plan cost
  - ▶ Inappropriate assumptions can lead to improper decisions and outcomes
  - ▶ Conversely, overly conservative assumptions overstate the benefit cost and pull excess resources to the System
- ◆ Assumptions help us anticipate and manage what each component of the equation will be
  - ▶ Develop expectations for future contributions, investment returns and benefit payments
  - ▶ Dictate the timing of the contributions



# 2015 Experience Study

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- ◆ Experience study conducted for five-year period ending June 30, 2015
  - ▶ Last experience study conducted on June 30, 2010
- ◆ Timeline for next assumption review
  - ▶ Present draft report of experience study results to Board in early 2016
  - ▶ The Board adopts, modifies, or rejects proposed assumptions
  - ▶ The Board adopted assumptions are used for performing the July 1, 2016 actuarial valuation



# Purpose of Experience Study

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- ◆ Assumptions are not static; they should occasionally change to reflect
  - ▶ New information and changing knowledge
  - ▶ Mortality improvement
  - ▶ Changing patterns of retirements, terminations, etc.
- ◆ The analysis will address these questions for each assumption
  - ▶ What was the plan's actual experience?
  - ▶ How does that compare with current assumptions?
  - ▶ Is a change warranted?
  - ▶ The impact of the assumption change on the liability and cost



# Principle Assumptions for Review

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## ◆ Demographic

- ▶ Mortality (pre/post retirement, healthy/disabled)
- ▶ Disability
- ▶ Termination
- ▶ Retirement
- ▶ Other

## ◆ Economic

- ▶ Inflation
- ▶ Investment return assumption
- ▶ Individual salary increases
- ▶ Total payroll growth



# Summary of Recommendations 2010 Experience Study

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## ◆ Significant Assumption Changes

- ▶ Lower investment return assumption from 8.00% to 7.50%
  - 0.25% decrease in inflation assumption and 0.25% decrease in the real rate of return
- ▶ Strengthen the mortality assumption and adding an explicit provision for continued future mortality improvement



# Summary of Recommendations 2010 Experience Study (Cont.)

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## ◆ Moderate/Minor Assumption Changes

- ▶ Increased rates of retirement
- ▶ Modified rates of termination
- ▶ Decreased rates of salary increases
- ▶ Decreased the payroll growth assumption
- ▶ Changed asset smoothing method from a 10-year smoothing to a modified 5-year smoothing method



# Summary of Recommendations 2010 Experience Study (Cont.)

## Summary of Financial Impact of Assumptions Adopted in 2010 (Before Pension Reform Legislation Enacted in 2012)

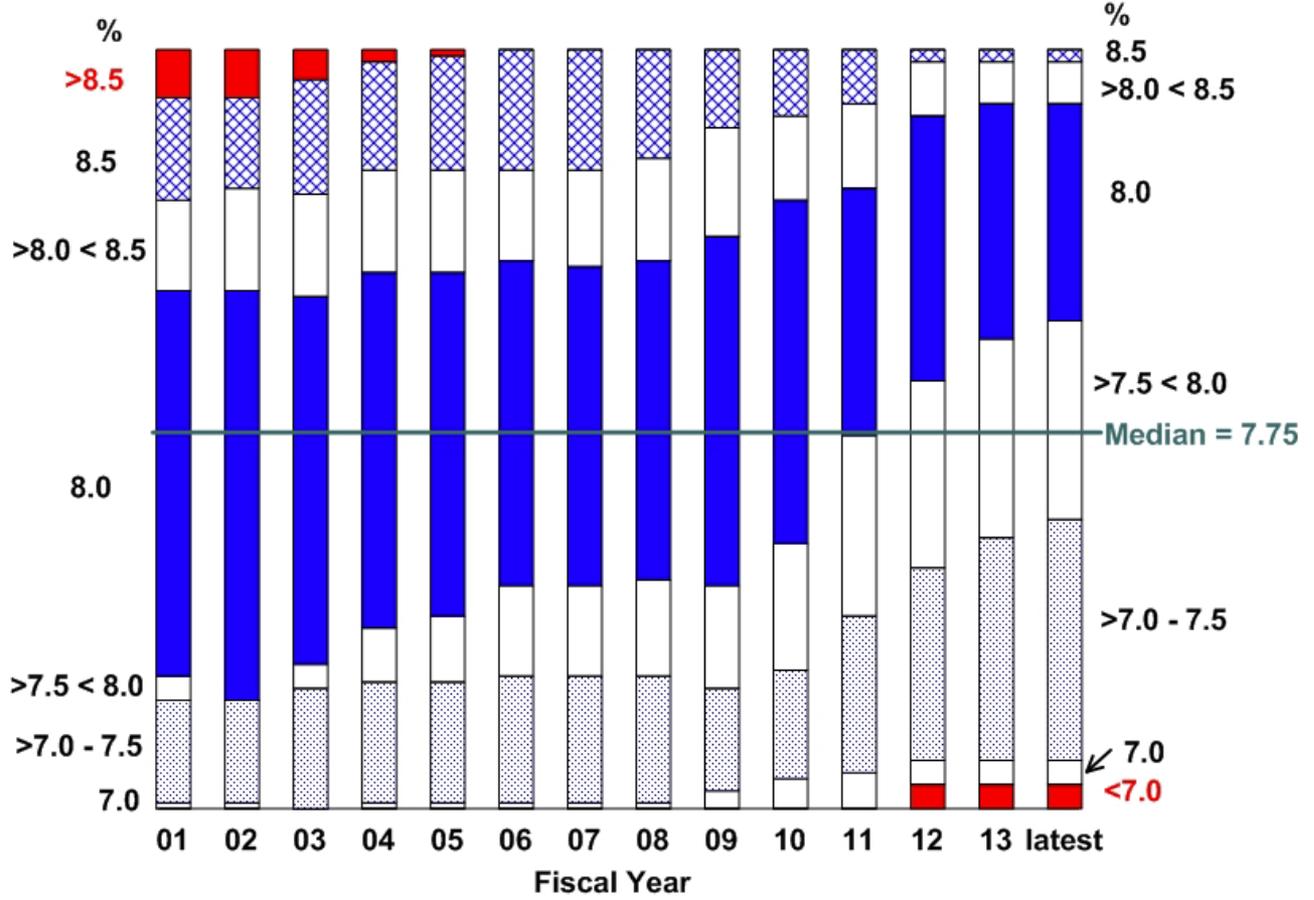
Item	SCRS		PORS	
	UAAL	Contribution Rate	UAAL	Contribution Rate
(1)	(2)	(3)	(4)	(5)
Prior assumption	\$13.4	10.60%	\$1.2	12.30%
Impact due to a change in:				
Investment/Inflation	2.2	1.90%	0.2	2.12%
Mortality	1.1	0.93%	0.3	2.33%
All other	0.3	1.33%	0.2	1.31%
Decrease in COLA*	<u>(3.7)</u>	<u>(3.20%)</u>	<u>(0.9)</u>	<u>(7.19%)</u>
Current assumption	\$13.3	11.56%	\$1.0	10.87%

\* The decrease in the valuation interest rate decreased the automatic benefit adjustment provided to retirees in SCRS by 1.00% and retirees in PORS by 2.00%.



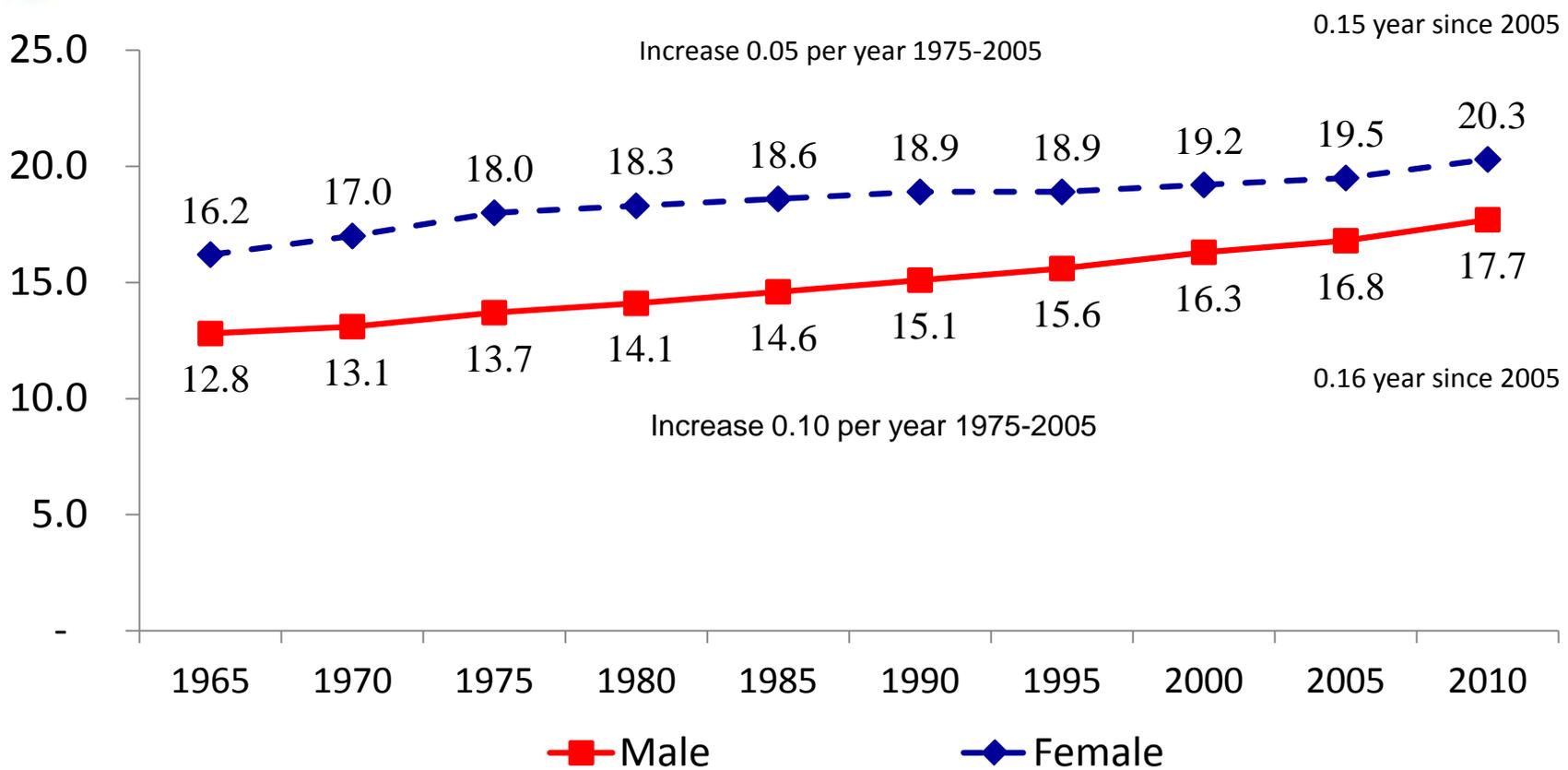
# Investment Return Assumption

## Historical Change in the Investment Return Assumption Used by Large Public Retirement Systems





# Life Expectancy for the General US Population - from Age 65



Since 2010, life expectancies continue to increase. The latest published rates (2012) are 20.5 years for females and 17.9 years for males, both from age 65.



# Variation of Life Expectancy by State – from Age 65

*South Carolina ranks 41 with an average life expectancy of 18.5 years (16.9 years for males and 19.7 years for females)*

States with the Longest Life Expectancy		
1	Hawaii	21.3
2	Florida	20.4
3	California	20.3
4	Arizona	20.2
5	Connecticut	20.2
6	Minnesota	20.1
7	New York	20.0
8	North Dakota	19.9
9	Colorado	19.8
10	South Dakota	19.8

States with the Shortest Life Expectancy		
<b>41</b>	<b>South Carolina</b>	<b>18.5</b>
42	Georgia	18.2
43	Arkansas	18.1
44	Tennessee	18.0
45	Louisiana	17.9
46	Oklahoma	17.7
47	Alabama	17.6
48	Kentucky	17.6
49	Mississippi	17.5
50	West Virginia	17.5



# Evolution of Mortality Assumptions

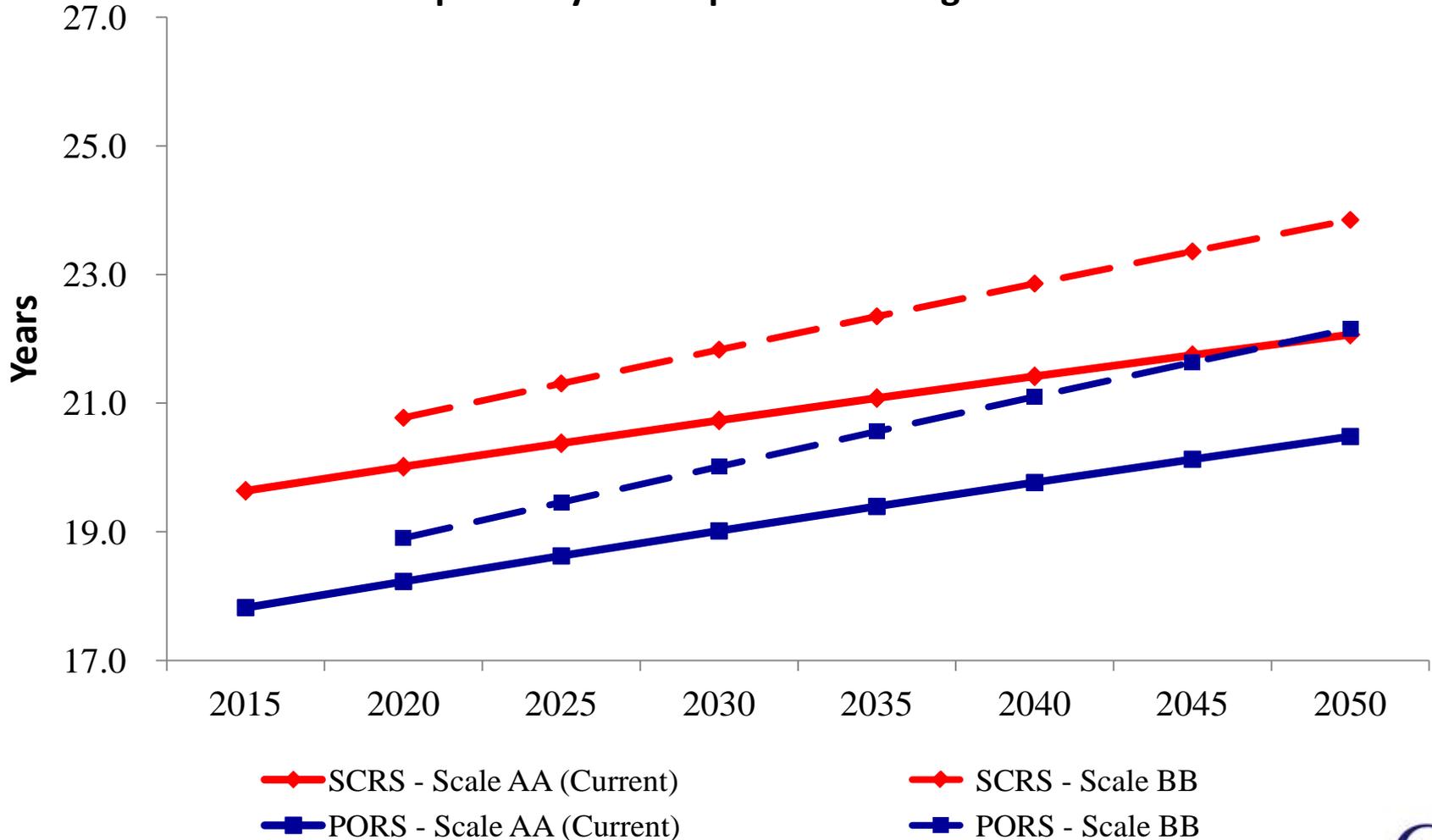
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- ◆ The update to the mortality assumption in 2010 included an explicit assumption to anticipate future increases in life expectancy
  - ▶ Projection Scale - Scale AA
- ◆ Since 2010 two new projection scales has been introduced, both suggesting mortality will improve at a rate faster than Scale AA
  - ▶ Scale BB (Released in September 2012)
  - ▶ Scale MP-2014 (Released in October 2014)



# Mortality Assumptions – Male Retirees

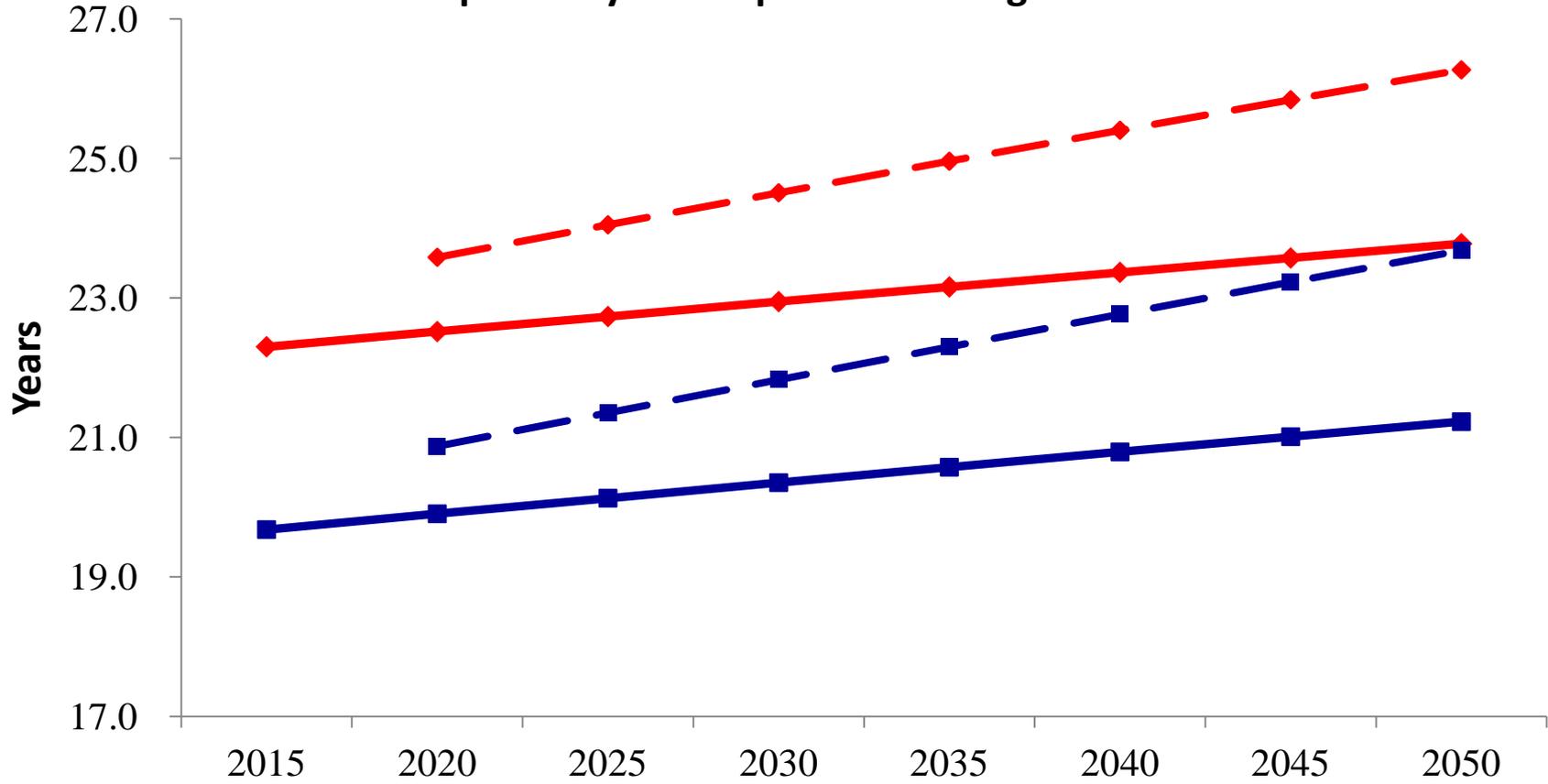
### Life Expectancy Assumption for an Age 65 Male Retiree





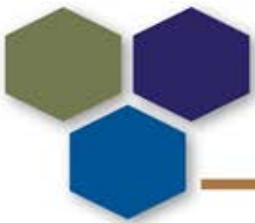
# Mortality Assumptions – Female Retirees

### Life Expectancy Assumption for an Age 65 Female Retiree



—◆— SCRS - Scale AA (Current)  
—■— PORS - Scale AA (Current)

—◆— SCRS - Scale BB  
—■— PORS - Scale BB



# Mortality Assumption Evaluation Process

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- ◆ The mortality assumptions will be based on the System's actual experience.
  - ▶ May be different than life expectancies based on the national population
- ◆ Additional analysis will be performed to identify the rate of improvement over mortality
  - ▶ Will review the improvement over the last five-year period and ten-year period



**Questions?**



# Disclaimers

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- ◆ This presentation is intended to be used in conjunction with the actuarial valuation report issued on March 6, 2015. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
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**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date: March 27, 2015**

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**1. Subject:** Enterprise Risk Management and RSIC Update

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**2. Summary:** Enterprise Risk Management and RSIC Update

**Background Information:** The Enterprise Risk Management presentation defines and identifies various aspects of Enterprise Risk Management as related to PEBA.

The RISC Update presentation is a performance update for the quarter ending December 31, 2014.

**3. What is the Board asked to do?** Receive as information

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**4. Supporting Documents:**

- (a) List those attached:
  - 1. PEBA ERM Presentation
  - 2. RSIC Performance Update 12/31/14

# Enterprise Risk Management

*“Getting your ducks in a row”*

March 27, 2015

PEBA Board Retreat

Presenter: Eric Nelson CFA, FRM

RSIC Director of Enterprise Risk  
Management & Compliance



# Disclaimer

The opinions and viewpoints expressed here today are my own do not represent the opinions and viewpoints of the Chairman of the South Carolina Retirement System Investment Commission (RSIC), the Commission members, the Executive Director or any other member of RSIC management.



# What is Enterprise Risk Management

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Enterprise risk management is a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage the risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

*COSO's Enterprise Risk Management – Integrated Framework (2004)*



# COSO Who?

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## Committee of Sponsoring Organizations of the Treadway Commission

- American Accounting Association
- AICPA
- Financial Executives Institute
- Institute of Internal Auditors
- Institute of Management Accountants

*Announced project in 10/14 to update the 2004 ERM – Integrated Framework*



# What is ERM and what does it do?

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- ERM provides an integrated and consistent framework to identify, assess, monitor, and ultimately manage risks in support of the plan's mission to provide superior investment management services.
  - The goal is to ensure that all risks are identified and managed effectively in the achievement of an organization's goals

*Excerpt from an RSIC 2014 Presentation*



# The COSO ERM Cube



# Risk Identification

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- Develop risk framework (portfolio, universe) applicable to your organization and circumstances
- Start with senior management, refine with management and key staff
- Create risk taxonomy - ideally with definitions that are meaningful to staff

# Example – RSIC Draft Risk Framework (excerpt)

Governance / Management Risk	Public Affairs / Reputational Risk	Legislative / Political Risk	Compliance Risk	Fraud/ Misconduct/ Internal Control Risk	Service Provider Risk	Operational Risk	Human Capital Risk	Security Risk	Business Continuity / Infrastructure Risk	Legal Risk
Resource Allocation Risk			Laws, Rules & Regulations	Internal Staff	Financial Condition	Valuation	Recruitment and Retention	Physical Security	Facilities	Contract Development
Governance Policy Design Risk			Governance and Staff Policies	Service Providers	Service Level Quality	Performance Measurement	Training & Development	Network / Systems Security	Communications	Legal Advisory
Fiduciary / Ethics Risk			Investment Policies and Portfolio Guidelines	External Parties	Key Personnel	Transaction Processing	Key Person / Succession Planning	Information Security / Records Management	Data / System Recovery	Litigation
Management Execution Risk			Contractual Agreements		Premature / Unexpected Service Termination	Asset Reconciliation			Process Recovery	
						Financial Reporting				
						Internal Systems Reliability / Electronic Data Integrity				



# Risk Ownership

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- Identify and document “Risk Owners”
- I like designating “High” and “Medium” ownership
  - High – Front line risk mitigator, typically supervisory level / line management
  - Medium – Oversees high risk owners or indirectly manages risk, often middle to senior management



# Risk Assessment - Inherent

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- Assess aggregate inherent risk with senior management
- Stick with qualitative approach
- Representative Factors
  - Materiality
  - Business drivers
  - Complexity
  - Stable or dynamic
  - People, Process, Technology

*Goal is to know and agree on potential risk profile*



# Risk Assessment - Residual

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- Quantitative (I like 4 x 3 scale)
- Qualitative – Make it conversational
  - Probability
  - Severity
  - Velocity??

## Example - Risk Assessment Scale Definitions

Probability Scale	Probability of Occurrence within 36 Months
4 - Highly Likely	>90%
3 - Likely	60% - 75% (about 2 out of 3 chance)
2 - Unlikely	25% - 40% (about 1 out of 3 chance)
1 - Highly Unlikely	<10%

### Guidance

#### Highly Likely

- Event has occurred multiple times at SBA within last 12 months
- Event occurring regularly/routinely within industry or within similar organizations

#### Likely

- Event has occurred once at SBA within last 12 months
- Event has occurred multiple times at SBA during past 3 years
- Event has occurred multiple times (or systematically) in industry or to similar organizations within past 12 months

#### Unlikely

- Event has occurred once at SBA during last 3 years
- Event has occurred multiple times (but infrequently/sporadically) in industry or to similar organizations during last 3 years

#### Highly Unlikely

- Event has not occurred at SBA within last 3-5 years and is not foreseeable
- Event has very isolated or no occurrences in industry or within similar organizations during during last 3-5 years

**Event** - threat, breach, violation, incident, occurrence, mistake, accident, emergency, mishap, disaster

*Source: Florida State Board of Administration*



Impact/Severity Scale	Representative Characteristics of Each Level May Include:
<b>3 - Major</b>	Complete loss of operating capability, transaction processing, or telecommunications for more than 2 business days
	Reportable event to Trustees
	Multiple moderate events occurring simultaneously
	Litigation
	Criminal investigation
	Significant negative publicity
	Significant to complete loss of stakeholder confidence - SBA "brand" destroyed
	Loss of assets and/or mandates
	Legislative intervention
	Significant and persistent deviations from risk budget
	Material investment losses due to such factors as significant deviations from investment policy statements, investment policy guidelines, lack of/improper due diligence, etc.
	Material investment losses due to such factors as issuer defaults, counterparty defaults, etc.
	Unauthorized trading, cash transfers, or wire transfer initiation
	Regulatory investigations
	Significant adverse audit findings
	Significant involuntary termination of staff
	20% or greater turnover in staff
	Employee or service provider fraud greater than \$ _____
	Loss of system or application control / breach of IT security
	Unauthorized access to confidential/sensitive data, including bank account/wiring instruction information
Loss of transaction data	
<b>2 - Moderate</b>	Possible reportable event to Trustees
	Minor negative publicity
	Loss of operating capability, transaction processing, or telecommunications for one to two business days
	Isolated employment litigation
	Some loss of stakeholder confidence
	Deviations from risk budget
	Minor investment losses due to such factors as deviations from investment policy statements, investment policy guidelines, improper due diligence, etc.
	Isolated investment losses due to such factors as issuer defaults, counterparty defaults, etc.
	Improper records retention, records missing or records destroyed pre-maturely
	Material valuation errors
	Multiple minor events occurring simultaneously
	Multiple minor/moderate adverse audit findings
	10% to 20% turnover in staff
	Multiple service provider terminations occurring simultaneously
	Persistent contractual and/or investment policy guidelines compliance infractions
	Employee or service provider fraud from \$ _____ to \$ _____
	Unauthorized access to SBA systems, non-sensitive data, or physical facility
<b>1 - Minor</b>	Loss of operating capability, transaction processing or telecommunications for several hours
	Minor adverse audit findings
	Isolated staff turnover
	Isolated service provider terminations
	Minor valuation errors
	Employee or service provider fraud of \$ _____
	Non-material contractual and/or investment policy guidelines compliance infractions

# Risk Assessment - Residual

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- Reconcile info received
- Validate results with senior management / key staff
- Take first cut at risk mitigation gap analysis i.e., where might there *appear* to be control weaknesses or insufficient risk management

*Goal is to know and agree on current risk profile*



# Risk Response Options

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- **Reduce** – implement / improve controls
- **Accept** - do nothing
- **Avoid** - stop doing whatever you're doing!
- **Transfer** - insurance, hedging, etc.



# Risk Response

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- Identify and document risk mitigants in place
  - What procedures (job duties) do you have in place to manage (mitigate) this risk???
- Create / Document Risk Register
  - Current controls in place
  - Where/how documented
  - Reporting and monitoring
  - Compliance processes
  - Improvement initiatives
  - Validation of controls

*Resource constraints loom large here*



# Risk Response - Evaluation

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- Does the documented risk register appear to support managements' assertions of controls in place that informs their assessment of residual risk??? *a.k.a Reality Check*
- Work collaboratively with management to identify/validate potential risk mitigation gaps (second cut) and facilitate formulation of enhancement initiatives



# Risk Reporting

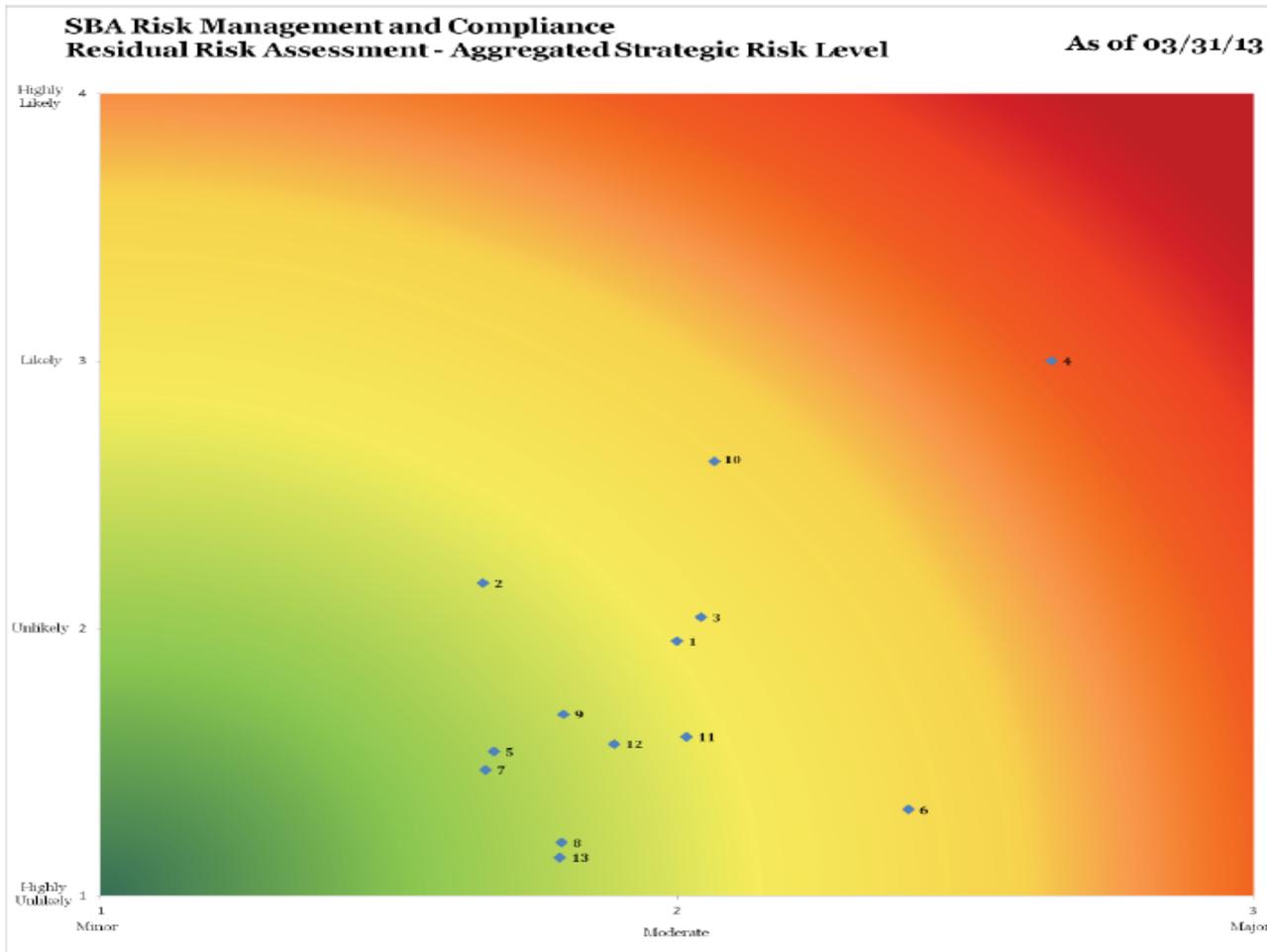
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- Identify Key Risk Indicators (KRIs)
  - Relevant
  - Timely
  - Detective or Predictive
- Build off what reporting and data is currently available
- Enhance over time

*Operational metrics in smaller organizations can be very difficult to obtain and/or generate*



# Example Residual Risk Heat Map



- 1 Investment Management Risk
- 2 Governance/Management Risk
- 3 Communication/Public Affairs/Reputational Risk
- 4 Legislative/Political Risk
- 5 Compliance Risk
- 6 Fraud/Misconduct/Internal Controls Risk
- 7 Service Provider Risk
- 8 Client Relationship Risk
- 9 Operational Risk
- 10 Human Capital Risk
- 11 Security Risk
- 12 Business Continuity/Infrastructure Risk
- 13 Legal Risk



# Example Residual Risk Summary

Residual Risk Level					
	Low		Moderate		High
	Low Moderate		High Moderate		
<b>1. Investment Management Risk</b>	<b>2. Governance/Management Risk</b>	<b>7. Service Provider Risk</b>	<b>9. Operational Risk (cont.)</b>	<b>12. Business Continuity / Infrastructure Risk</b>	
<ul style="list-style-type: none"> <li> 1.A. Policy Risk</li> <li> 1.A.i. Investment Policy Design Risk</li> <li> 1.A.ii. Investment Objective Risk</li> <li> 1.A.iii. Capital Market Assumption Risk</li> <li> 1.A.iv. Liability Risk</li> </ul>	<ul style="list-style-type: none"> <li> 2.A. Resource Allocation Risk</li> <li> 2.B. Governance Policy Design Risk</li> <li> 2.C. Fiduciary/Ethics Risk</li> <li> 2.D. Management Execution Risk</li> </ul>	<ul style="list-style-type: none"> <li> 7.A. Financial Condition</li> <li> 7.B. Service Level Quality</li> <li> 7.C. Key Personnel</li> <li> 7.D. Premature/Unexpected Service Termination</li> </ul>	<ul style="list-style-type: none"> <li> 9.E. Accounting and Financial Reporting</li> <li> 9.F. Valuation</li> <li> 9.G. Performance Measurement</li> <li> 9.H. Internal System Reliability/ Electronic Data Integrity Risk</li> <li> 9.I. FHCF/DC Program-Specific Risks</li> <li> 9.J. Proxy Voting</li> <li> 9.K. External Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li> 12.A. Facilities</li> <li> 12.B. Communication Systems</li> <li> 12.C. Data/System Recovery</li> <li> 12.D. Process Recovery</li> </ul>	
<ul style="list-style-type: none"> <li> 1.B. Implementation Risk</li> <li> 1.B.i. Strategic Risk</li> <li> 1.B.ii. Portfolio Under Performance Risk</li> <li> 1.B.iii. Trading Risk</li> <li> 1.B.iv. Asset Transition Risk</li> <li> 1.B.v. Model Risk</li> <li> 1.B.vi. Due Diligence Risk</li> </ul>	<ul style="list-style-type: none"> <li> 3. Communication/Public Affairs/ Reputational Risk</li> </ul>	<ul style="list-style-type: none"> <li> 8. Client Relationship Risk</li> <li> 8.A. Service Delivery</li> <li> 8.B. Education</li> <li> 8.C. Communication/Reporting</li> <li> 8.D. Allocation of Investment Opportunities</li> </ul>	<ul style="list-style-type: none"> <li> 10. Human Capital Risk</li> <li> 10.A. Recruitment and Retention</li> <li> 10.B. Training and Development</li> <li> 10.C. Key Person/Succession</li> </ul>	<ul style="list-style-type: none"> <li> 13. Legal Risk</li> <li> 13.A. Contract Development</li> </ul>	
<ul style="list-style-type: none"> <li><b>1.B. Implementation Risk (cont.)</b></li> <li> 1.B.vii. Leverage Risk</li> <li> 1.B.viii. Aggregate Issuer/Counterparty Credit Risk</li> </ul>	<ul style="list-style-type: none"> <li> 5. Compliance Risk</li> <li> 5.A. Laws, Rules &amp; Regulations</li> <li> 5.B. SBA Policies</li> <li> 5.C. Investment Policy Guidelines</li> <li> 5.D. Contractual Agreements</li> </ul>	<ul style="list-style-type: none"> <li> 9. Operational Risk</li> <li> 9.A. Cash Management</li> <li> 9.B. Trade Settlement</li> <li> 9.C. Transaction Processing</li> <li> 9.C.i. Incoming/Outgoing Wire Processing</li> <li> 9.C.ii. Check Processing/Disbursement</li> <li> 9.C.iii. Client Deposit/Redemption Processing</li> <li> 9.C.iv. Corporate Actions and Income Collections Processing</li> <li> 9.D. Asset Reconciliation</li> </ul>	<ul style="list-style-type: none"> <li> 11. Security Risk</li> <li> 11.A. Physical Security</li> <li> 11.A.i. Employee Security</li> <li> 11.A.ii. Facility Security</li> <li> 11.B. Network/System Security</li> <li> 11.C. Information Security &amp; Records Management</li> </ul>	<ul style="list-style-type: none"> <li> 13.B. Legal Advisory</li> <li> 13.C. Litigation</li> </ul>	
<ul style="list-style-type: none"> <li> 1.C. Inherent Risk</li> <li> 1.C.i. Market/Systematic Risk - Credit Risk</li> <li> 1.C.i.a. Credit Risk</li> <li> 1.C.i.b. Interest Rate Risk</li> <li> 1.C.i.c. Inflation Risk</li> <li> 1.C.i.d. Liquidity Risk</li> <li> 1.C.i.e. Currency Risk</li> <li> 1.C.i.f. Systemic Risk</li> </ul>	<ul style="list-style-type: none"> <li> 6. Fraud/Misconduct/Internal Controls Risk</li> <li> 6.A. Internal Staff</li> <li> 6.B. Service Providers</li> <li> 6.C. External Parties</li> </ul>				
<ul style="list-style-type: none"> <li> 1.C.ii. Idiosyncratic /Unsystematic Risk</li> </ul>					



Client Relationship Risk				Operational Risk													Human Capital Risk				Security Risk				Business Continuity/ Infrastructure Risk				Legal Risk	
Service Delivery	Education	Communication	Allocation of Investment Opportunities	Cash Management	Trade Settlement	Transaction Processing	Asset Reconciliation	Accounting (Financial Reporting)	Valuation	Performance Measurement	Internal Controls Reliability / Electronic Data Interchange	FHC Program-Specific Risks	DC Program-Specific Risks	Proxy Voting	External Corporate Governance	Recruitment / Retention	Training & Development	Key Person/S	Physical Security		Network/Security	Information Systems Records Management	Facilities	Communication	Data/System Integrity	Process Reliability	Contract Development	Legal Advisory	Litigation	
																			Employee Security	Facility Security										

Aggregate Residual Risk	1.8	1.7	1.8	1.3	1.4	1.7	1.6	2.0	1.7	1.6	1.6	1.7	1.9	1.6	1.8	1.8	2.3	2.0	3.1	2.4	2.2	2.0	1.8	2.1	2.0	2.1	2.0	1.2	2.2	1.8
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DED and Staff (Includes SPM and RCM)	M	M	M	L-N/A	M	M	L-N/A	L-N/A	M	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	M	M	M	M	M									
CAT Fund	M	M	H	L-N/A	M	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	L-N/A	M	M	
Defined Contribution/Legislative Affairs	H	H	H	L-N/A	M	L-N/A	M	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	H	H	M	L-N/A	M		
RMC	L-N/A	M	M	L-N/A	M	M	L-N/A	M	M	M	M	M	M	L-N/A	L-N/A	L-N/A																
RPC	L-N/A	L-N/A	H	L-N/A	M	L-N/A	L-N/A	L-N/A	M	L-N/A	H	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A		
Inspector General	L-N/A	M	M	M	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A																					
Communications	M	M	H	L-N/A	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A																			
Corporate Governance & Investment Programs	H	H	H	M	L-N/A	H	H	L-N/A	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A											
Legal	L-N/A	M	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	H	H	H	H													
Global Equity	M	L-N/A	L-N/A	H	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	M	L-N/A	L-N/A		
Fixed Income	M	L-N/A	L-N/A	H	M	L-N/A	L-N/A	L-N/A	L-N/A	M	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	M	L-N/A	L-N/A		
Private Equity	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	
Strategic Investments	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	
Real Estate	L-N/A	L-N/A	L-N/A	L-N/A	M	L-N/A	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	M	M	M	L-N/A	
COO (Includes Budget Manager)	M	L-N/A	H	L-N/A	M	M	M	M	M	M	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	L-N/A	H	H	H	M	M	M	M	M	M	M	M	M	M	L-N/A	
Financial Operations	H	M	H	L-N/A	H	H	H	L-N/A	L-N/A	L-N/A	H	M	M	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	H	L-N/A	L-N/A	L-N/A		
Accounting	M	L-N/A	H	L-N/A	L-N/A	M	H	H	H	H	M	M	M	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	M	L-N/A	L-N/A	L-N/A	
IT	L-N/A	H	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	L-N/A	M	M	M	L-N/A	L-N/A	H	H	L-N/A	H	H	H	H	L-N/A	L-N/A										
HR (Including Training)	L-N/A	H	H	L-N/A	M	L-N/A	L-N/A	M	L-N/A																							
Administrative Services	L-N/A	H	H	L-N/A	H	H	L-N/A	H	H	H	M	M	L-N/A	L-N/A																		

**Ownership Level**

**H-High**

a) A significant and direct role is played by a process owner in risk management/ mitigation  
 b) May include process, contract, budget resource, strategic objective ownership  
 c) Risk severity level and/or frequency may be high at the process owner level  
 d) May include direct reporting of risk metrics to ERM  
 e) May be responsible for developing and maintaining well documented written policies describing risk management  
 f) Significant compliance and/or dedicated monitoring processes may be required  
 g) Significant level of internal controls may be required

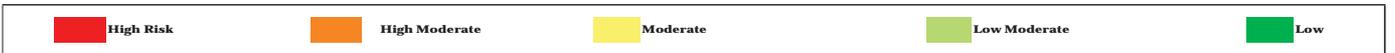
**M-Medium**

a) Key support responsibilities are provided by a participant in risk management/mitigation  
 b) May provide oversight of risk management activities  
 c) May be organizationally responsible for risk management efforts through subordinates with high or medium responsibilities  
 d) Promote compliance with established risk appetite  
 e) Manage risks within their spheres of responsibility consistent with risk tolerances  
 f) May provide key data/information to support reporting of risk metrics

**L-Low**

a) Minor or minimal support responsibilities are provided by participant in risk management/ mitigation  
 b) Risk severity level and/or frequency is typically low at the participant level  
 c) Execute risk management/mitigation procedures in accordance with established policies & procedures (e.g., records retention)  
 d) Risk metrics are typically not accumulated or reported

Note: An arrow indicates a



# ERM Benefits

---

- Create and foster a “risk aware” culture
  - Risk management discipline much more important than colorful reports and fancy heat maps
- Helps management focus on risk in an organized, structured fashion
  - Proactive rather than reactive
  - Counteract natural tendencies for line management to focus on the crisis du jour – “we have a day job to do”

*Have I routinely and methodically considered what can go wrong in my processes or business unit?*



# ERM Benefits

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- Risk framework can serve as a punch list and/or diagnostic tool for new initiatives, objectives, system procurements, etc.
  - What are the downstream implications of my decisions?

# Keys to Success

---

- Visible support and involvement from the top
- Keep it practical
- Continuous incremental improvement
- Focus on top risks to strategy, mission and core operations
  - But don't forget the external, emerging and strategic risks – i.e., go beyond operational and compliance risks

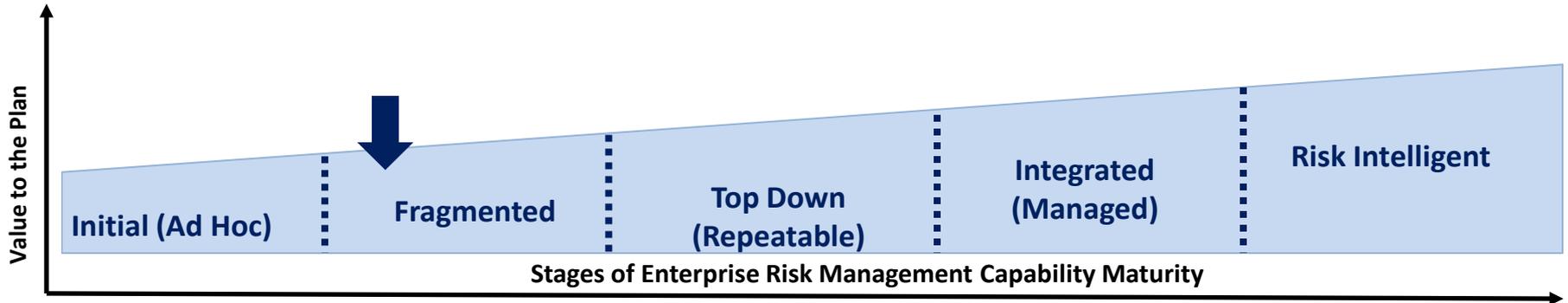
# ERM - What's in it for me?

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- Board Member – To have greater assurance that management understands and manages their risks effectively
- Senior Management – To increase the likelihood of achieving organizational goals
- Risk Owner / Line Management – To make logical arguments to management about the resources that I need allocated in order to achieve my goals



# Enterprise Risk Management Maturity Matrix



Initial	Fragmented	Top Down	Integrated	Risk Intelligent
<ul style="list-style-type: none"> <li>• Ad hoc/chaotic</li> <li>• Depends primarily on individual heroics, capabilities, and verbal wisdom</li> </ul>	<ul style="list-style-type: none"> <li>• Independent risk management activities</li> <li>• Limited focus on the linkage between risks</li> <li>• Limited alignment of risk to strategies</li> <li>• Disparate monitoring &amp; reporting functions</li> </ul>	<ul style="list-style-type: none"> <li>• Common framework and policies</li> <li>• Routine risk assessments</li> <li>• Communication of top strategic risks to the Board</li> <li>• Executive/Steering Committee</li> <li>• Knowledge sharing across risk functions</li> <li>• Awareness activities</li> <li>• Formal risk consulting</li> <li>• Dedicated team</li> </ul>	<ul style="list-style-type: none"> <li>• Coordinated risk management activities</li> <li>• Risk appetite is fully defined</li> <li>• Enterprise-wide risk monitoring, measuring, and reporting</li> <li>• Technology implementation</li> <li>• Contingency plans and escalation procedures</li> <li>• Risk management training</li> </ul>	<ul style="list-style-type: none"> <li>• Risk discussion is embedded in strategic planning, capital allocation, etc.</li> <li>• Early warning risk indicators used</li> <li>• Linkage to performance measures and incentives</li> <li>• Risk modeling/scenarios</li> <li>• Industry benchmarking used regularly</li> </ul>



2.5: PEBA should increase the frequency of its enterprise-wide risk assessment. Currently, one is conducted every five years ..... conducting a more frequent risk assessment would help to ensure that new issues or concerns are promptly identified and prioritized for remediation.

*Annual assessments synced up with IA audit plan, budget prep (and strategic retreat?)*



2.7.1: Internal Audit should continue to develop a comprehensive risk self-assessment tool for PEBA as an integrated organization.

*May consider using resource outside of (or in collaboration with) IA to develop tool and process that meets the organization's needs.*



2.7.2: The development of a risk management policy (including risk appetite and risk tolerance) should be the responsibility of executive management with input from Internal Audit and other stakeholders.

*Tricky – takes honest dialogue to admit where you're willing to assume more risk – especially in public sector*

Good Resource

“Understanding and Communicating  
Risk Appetite”

One in a series of thought leadership  
papers on ERM published by COSO



2.7.3: An executive should be assigned responsibility and accountability for the assessment and management of specific risks within each business function and overall based on factors such as impact, velocity and vulnerability.

*Risk Owners*

*Risk Assessment (inherent and residual)*



2.7.4: The Board should identify the type and magnitude of risks which ought to come to its attention, e.g., financial, legal, operational, organizational, reputational, strategic.

### *Risk Framework*

*Risk Assessment (inherent) – strategic focus important since Board-level*



2.7.5: The Board should require that the presentation of information for all major decisions include a risk assessment including the risk of inaction.

*Risk framework as diagnostic tool /  
punchlist*



2.7.6: Internal Audit should focus its audit plans on areas that present the highest inherent risk and which rely most of the effectiveness of controls. Time permitting; Internal Audit should focus its consulting efforts on areas of high inherent risk and low control effectiveness.



11.2 PEBA should increase the frequency of a full enterprise wide risk assessment to ensure that Internal Audit's Plan for the upcoming year reflects the most significant risks to the organization

*Annual risk assessment before annual IA work plan (and ideally before budget developed)*



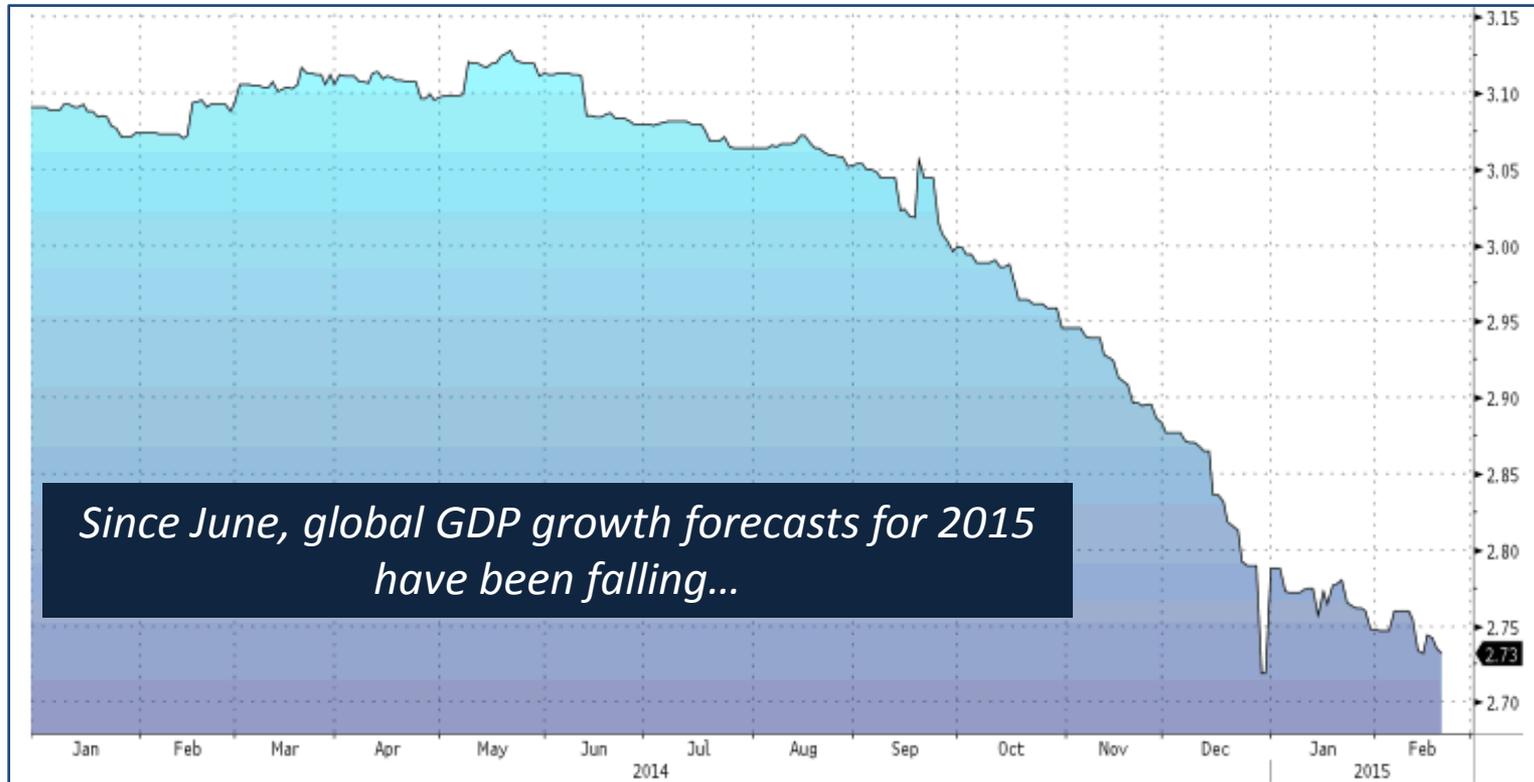
# Performance Update

RSIC Internal Reporting

December 31, 2014



# Declining Global Growth Estimates



# Falling Global Inflation Estimates



# Performance<sup>1</sup> – Plan and Asset Class

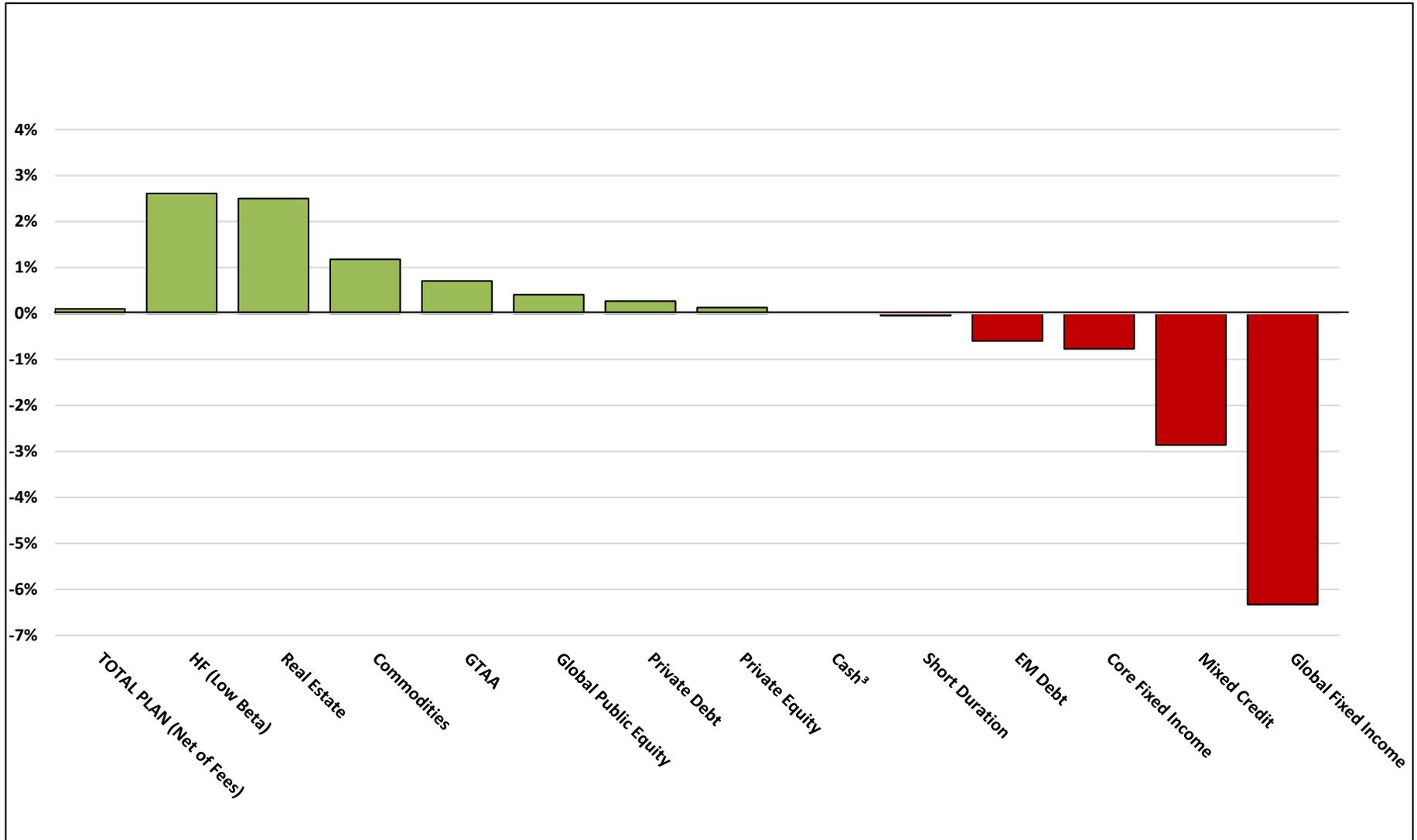
As of December 31, 2014

	Month	3 Month	FYTD	1 Year	3 Years	5 Years
<b>TOTAL PLAN (Net of Fees)</b>	<b>-0.94%</b>	<b>0.20%</b>	<b>-0.81%</b>	<b>5.10%</b>	<b>9.66%</b>	<b>8.27%</b>
<i>POLICY BENCHMARK</i>	-1.30%	-0.10%	-0.91%	4.77%	8.52%	7.33%
Relative Performance	0.36%	0.30%	0.10%	0.33%	1.14%	0.94%
<i>Cumulative Benefit Payments (Net)</i> <sup>2</sup>	(\$120)	(\$243)	(\$510)	(\$1,023)	(\$3,096)	(\$4,964)
<i>Real Estate</i>	1.45%	4.03%	9.27%	18.70%	17.12%	12.18%
Private Equity	1.67%	2.48%	5.33%	16.99%	16.74%	15.02%
HF (Low Beta)	0.86%	1.39%	2.45%	7.95%		
Private Debt	-0.39%	-0.45%	1.94%	8.49%	12.87%	10.32%
Core Fixed Income	-0.13%	1.34%	1.19%	5.08%	3.01%	4.73%
Short Duration	-0.21%	0.32%	0.16%	0.80%	1.45%	
Cash <sup>3</sup>	0.00%	0.00%	0.01%	0.03%	0.07%	0.09%
<i>Global Public Equity</i>	-1.52%	0.80%	-1.49%	4.53%	14.23%	9.93%
<i>GTAA</i>	-1.74%	-0.29%	-2.49%	4.05%	7.50%	8.77%
Global Fixed Income	-1.69%	-1.29%	-2.97%	2.75%	3.98%	4.89%
Mixed Credit	-1.46%	-1.82%	-3.48%	0.97%	7.20%	7.28%
<i>EM Debt</i>	-3.68%	-3.36%	-6.79%	0.17%	6.02%	6.27%
<i>Commodities</i>	-7.24%	-11.74%	-21.32%	-15.11%	-8.61%	



# Asset Class relative Performance vs Policy Benchmarks

FYTD As of December 31, 2014



# Portfolio Exposure

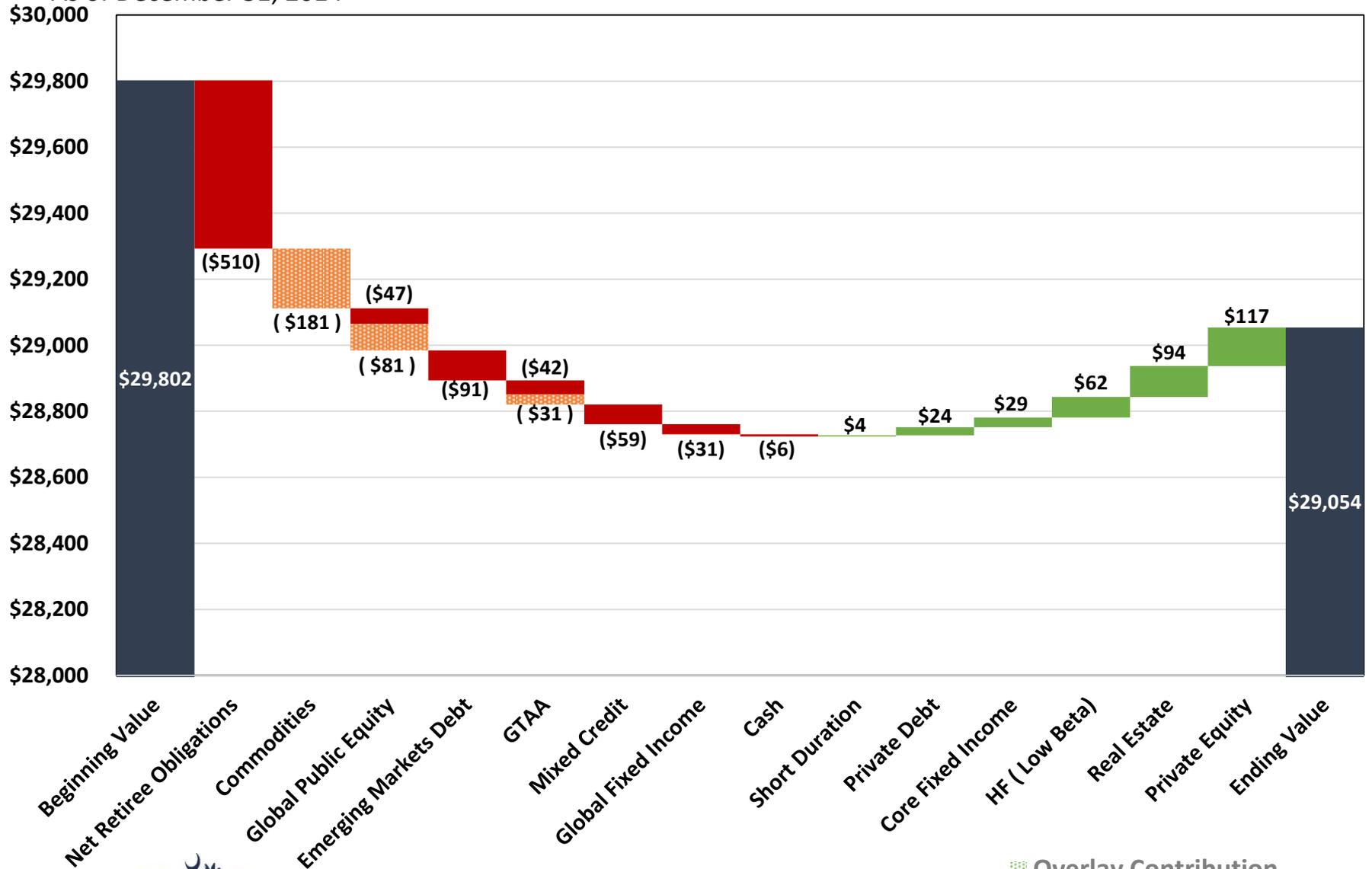
As of December 31, 2014

Estimated Exposure	Market Value	Portfolio Exposure	Target Allocation	Difference	Under / Over
<b>Global Equity</b>	<b>\$11,829</b>	<b>40.7%</b>	<b>40.0%</b>	<b>0.7%</b>	
Global Public Equity	9,189	31.6%	31.0%	0.6%	
Private Equity	2,639	9.1%	9.0%	0.1%	
<b>Real Assets</b>	<b>\$1,879</b>	<b>6.5%</b>	<b>8.0%</b>	<b>-1.5%</b>	
Real Estate	1,134	3.9%	5.0%	-1.1%	
Commodity	745	2.6%	3.0%	-0.4%	
<b>Opportunistic</b>	<b>\$5,388</b>	<b>18.5%</b>	<b>18.0%</b>	<b>0.5%</b>	
GTAA	3,002	10.3%	10.0%	0.3%	
HF (Low Beta)	2,386	8.2%	8.0%	0.2%	
<b>Diversified Credit</b>	<b>\$4,997</b>	<b>17.2%</b>	<b>19.0%</b>	<b>-1.8%</b>	
Mixed Credit	1,756	6.0%	6.0%	0.0%	
Emerging Markets Debt	1,582	5.4%	6.0%	-0.6%	
Private Debt	1,659	5.7%	7.0%	-1.3%	
<b>Conservative Fixed Income</b>	<b>\$4,960</b>	<b>17.1%</b>	<b>15.0%</b>	<b>2.1%</b>	
Core Fixed Income	2,469	8.5%	7.0%	1.5%	
Global Fixed Income	809	2.8%	3.0%	-0.2%	
Cash and Short Duration (Net of Overlay)	1,683	5.8%	5.0%	0.8%	
<b>Total Plan</b>	<b>\$29,054</b>	<b>100.0%</b>			



# Fiscal YTD Contribution by Asset Class

As of December 31, 2014



Overlay Contribution



# February Estimated Performance<sup>1</sup>

As of February 28, 2015

	FYTD
Total Plan (net of fees)	1.77%
Policy Benchmark	1.43%
<i>Relative Performance</i>	<i>0.34%</i>



# Footnotes and Disclosures

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## **Footnotes**

1. Cash performance includes the impact of administrative fees and expenses for Strategic Partnerships.
2. Benefit payments are net of Plan contributions and disbursements.
3. “Cash” market value is the aggregate cash held at the custodian, Russell Investments, and strategic partnerships. Cash performance is estimated using the Merrill Lynch 3-Month T-Bill rate.

## **Disclosures**

- Market values are presented in millions of USD except as otherwise indicated.
- Supplemental performance perspectives are based on RSIC internal analysis except as otherwise indicated. Estimated contributions to return over multiple reporting periods are calculated as [beginning value \* periodic return] except as otherwise indicated. Internal estimates utilize inputs from BNY Mellon and Russell Investments.
- Returns are provided by BNY Mellon and are time-weighted, total return calculations. Net of fee performance is calculated and presented after the deduction of management fees and trading expenses. Periods greater than one year are annualized. Past performance is no guarantee of future results. Policy benchmark is the blend of asset class policy benchmarks using policy weights. Asset class benchmarks and policy weights are reviewed annually by the Commission’s consultant and adopted by the Commission and have changed over time. The policy benchmark return history represents a blend of these past policies.
- The Estimated Portfolio Exposures reflect adjustments made to certain fixed income accounts that invest across multiple fixed income sectors (Core Fixed Income, Global Fixed Income, Mixed Credit, and Emerging Markets Debt).
- Overlay allocation detail is provided by Russell Investments.
- This report was compiled by the Staff of the South Carolina Retirement System Investment Commission and has not been reviewed, approved or verified by the external investment managers. No information contained herein should be used to calculate returns or compare multiple funds, including private equity funds.



**PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM  
BOARD RETREAT**

**Meeting Date:** March 27, 2015

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**1. Subject:** CEM Benchmarking

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**2. Summary:** Ms. Jan Hartford from CEM Benchmarking, Inc. of Toronto, Ontario, Canada will present the results of PEBA's Fiscal Year 2014 Defined Benefit Administration Benchmarking Analysis.

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**3. What is Committee asked to do?** Receive as information

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**4. Supporting Documents:**

(a) Attached:

1. FY 2014 – CEM Board Presentation

# The South Carolina Public Employee Benefit Authority (PEBA)

## Pension Administration Benchmarking Results FY 2014



# What are the benefits of benchmarking?

- Measure and manage your administration costs
- Measure and manage your member service
- Gain insights into current trends and best practices
- Network and share ideas with your peers
- Benchmarking is critical because:

***“What gets measured, gets managed”***

# CEM's universe of participants

## Participants

### United States

Arizona SRS  
 CalPERS  
 CalSTRS  
 Colorado PERA  
 Delaware PERS  
 Florida RS  
 Idaho PERS  
 Illinois MRF  
 Indiana PRS  
 Iowa PERS  
 KPERS  
 LACERA  
 Maine PERS  
 Michigan ORS  
 MOSERS  
 Nevada PERS  
 North Carolina RS  
 NYC TRS  
 NYSLRS  
 Ohio PERS  
 Ohio SERS  
 Oregon PERS

Pennsylvania PSERS  
 South Carolina PEBA  
 South Dakota RS  
 STRS Ohio  
 TRS Illinois  
 TRS Louisiana  
 TRS of Texas  
 Utah RS  
 Virginia RS  
 Washington State DRS  
 Wisconsin DETF

### The Netherlands

ABP  
 bpfBOUW  
 Pensioenfond Metaal en Techniek  
 Pensioenfond van de Metalektro  
 PFZW  
 Rabobank Pensioenfond  
 Pensioenfond voor de  
 Woningbouwcorporaties

### Canada

APS  
 BC Pension Corporation  
 Canada Post  
 Defence Canada  
 Desjardins  
 Federal Public Service  
 HOOPP  
 LAPP  
 OMERS  
 Ontario Pension Board  
 Ontario Teachers  
 OPTrust  
 RCMP  
 Saskatchewan HEPP

### Denmark

ATP

### United Arab Emirates

Abu Dhabi RPB

### Australia

AustralianSuper  
 BUSS(Q)  
 CBUS  
 First State Super  
 HESTA  
 QSuper  
 REST  
 StatewideSuper  
 SunSuper  
 VicSuper

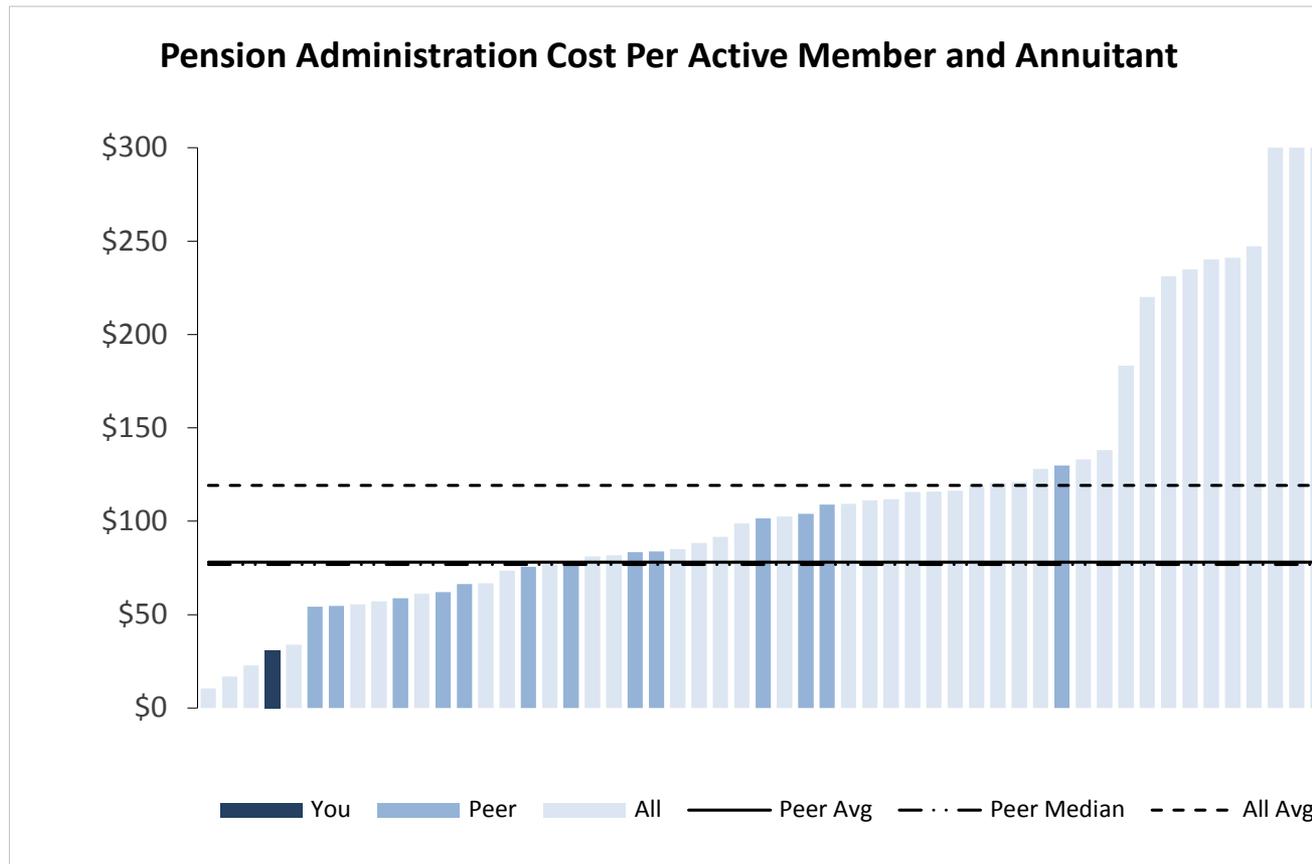
### United Kingdom

Armed Forces Pension Schemes  
 Principal Civil Service Pension Scheme  
 Railway Pensions  
 Rolls Royce  
 Shell UK  
 Scottish Public Pension Agency  
 The Pension Protection Fund  
 Universities Superannuation Scheme

# PEBA was compared to the following peers:

Custom Peer Group for South Carolina RS			
Peers (sorted by size)	Membership (in 000's)		
	Active		
	Members	Annuitants	Total
Ohio PERS	347	195	543
Virginia RS	341	177	519
Michigan ORS	236	255	492
Pennsylvania PSERS	260	214	474
Washington State DRS	296	158	454
Wisconsin DETF	257	180	437
<b>South Carolina RS</b>	<b>261</b>	<b>153</b>	<b>414</b>
Indiana PRS	253	133	386
STRS Ohio	211	154	365
Arizona SRS	203	130	334
Colorado PERA	229	103	332
Oregon PERS	162	131	294
Illinois MRF	174	107	281
Iowa PERS	166	108	274
Peer Median	245	153	400
Peer Average	243	157	400

# Your Total Pension Administration Cost was \$31 per active member and annuitant.



- This was \$47 below the peer average of \$78 and the 4<sup>th</sup> lowest cost in our universe.
- Your total pension administration cost was \$12.9 million.

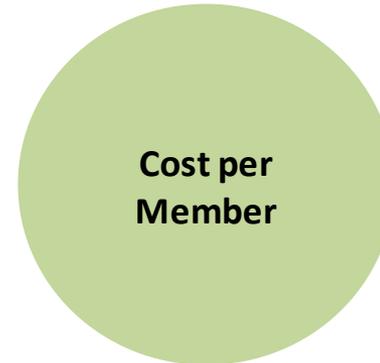
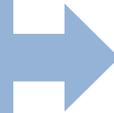
# Your cost per member was lower in all pension administration categories.

Category	<u>\$s per Active Member and Annuitant</u>		<u>\$000s</u>
	You	Peer Avg	You
Member Transactions	7.27	11.57	3,008
Member Communication	6.53	14.47	2,702
Collections and Data Maintenance	2.69	5.61	1,112
Governance and Financial Control	1.63	5.06	675
Major Projects	0.00	7.35	0
Information Technology	7.05	20.05	2,918
Support Services and Other	5.91	13.94	2,444
<b>Total Pension Administration</b>	<b>31.07</b>	<b>78.05</b>	<b>12,859</b>

# CEM uses this cost model to explain differences in total costs:

## Reasons for differences in total costs

- 1 Economies of scale
- 2 Workloads: transactions per member
- 3 Productivity: transactions per FTE
- 4 Paying more/ less per FTE for: salaries and benefits, building and utilities, HR and IT desktop
- 5 Higher/ lower third-party costs and other miscellaneous costs in front-office activities
- 6 Higher/ lower back-office activity costs



# Reasons why your total cost was \$47 below the peer average:

Reason	Impact
1. Paying more/-less for back-office activities:	
- Governance and Financial Control	-\$2.48
- Major Projects	-\$7.06
- IT Strategy, Database, Applications (excl. major projects)	-\$7.38
- Actuarial, Legal, Audit, Other Support Services	-\$4.38
2. Lower costs per FTE for: salaries and benefits, building and utilities, HR and IT desktop	-\$14.02
3. Lower transactions per member (workloads)	-\$5.42
4. Lower third-party and other costs in front-office activities	-\$5.04
5. Economies of scale advantage	-\$0.90
6. Higher transactions per FTE (productivity)	-\$0.30
<b>Total</b>	<b>-\$46.98</b>

# You paid less for the back-office activities.

Back-Office Activities - Cost per Active Member & Annuitant			
Back Office Activities	You	Peer Avg	More/-less
Governance and Financial Control	\$2.17	\$4.64	-\$2.48
Major Projects	\$0.00	\$7.06	-\$7.06
IT Strategy, Database, Applications (excl. major projects)	\$4.89	\$12.26	-\$7.38
Actuarial, Legal, Audit, Other	\$2.85	\$7.23	-\$4.38
Total	\$9.90	\$31.20	-\$21.30

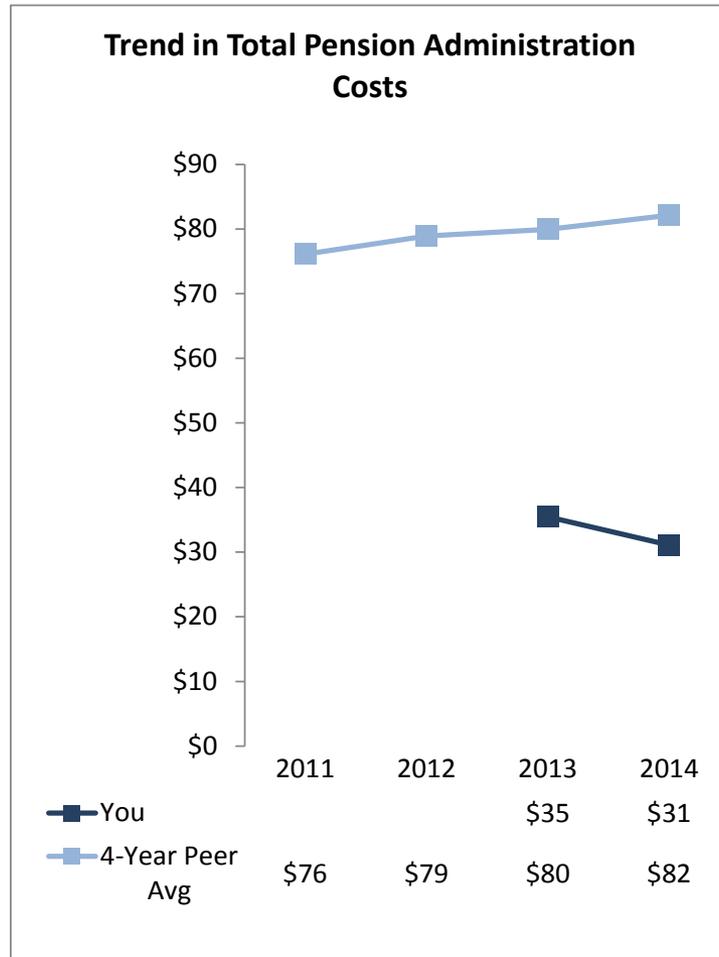
- Your cost per active member and annuitant of \$9.90 for back-office activities was below the peer average of \$31.20.
- This decreased your total cost per member by \$21.30 relative to the peer average.

# Your overall costs per FTE were lower.

Cost per FTE		
	You	Peer Avg
Salaries and Benefits	\$60,896	\$82,871
Benefits for Retired Staff	\$2,455	\$567
Building and Utilities	\$6,001	\$9,060
Human Resources	\$1,092	\$2,723
IT Desktop, Networks, Telecom	\$8,040	\$12,665
Total	\$78,483	\$107,886

- Your lower costs per FTE decreased your total cost by \$14.02 per member relative to the peer average.

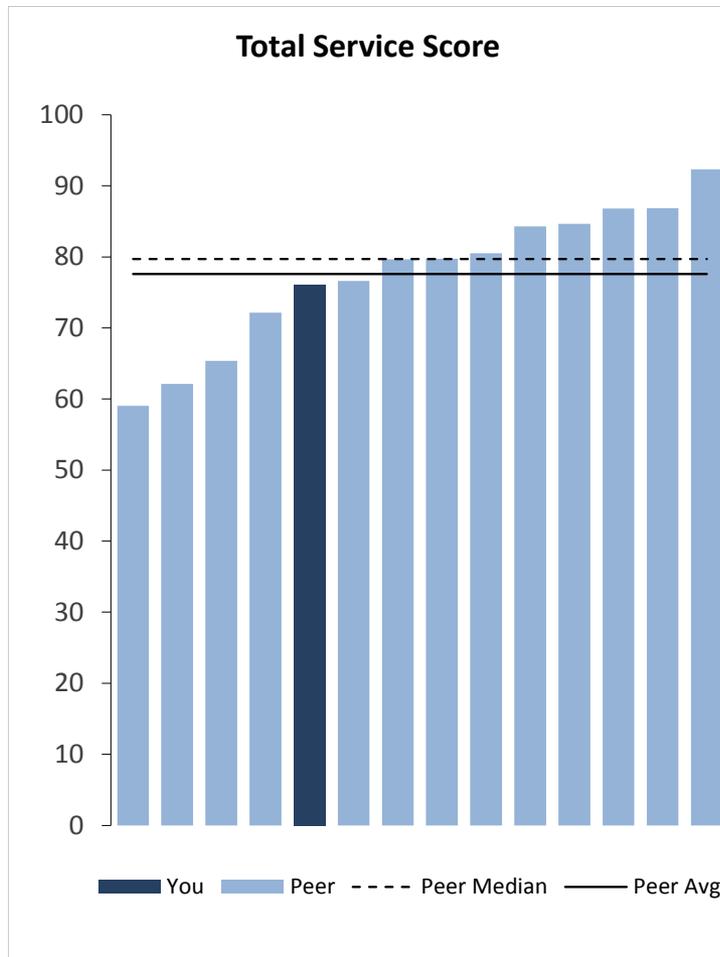
# Your cost decreased 12.4% over the past fiscal year.



This was primarily due to:

- A decreased allocation of FTE to your pension administration.
- An increased allocation of FTE to several large projects in your insurance division.

# Your total service score was 76.



- This was below the peer median of 80.
- CEM defines service from the member's perspective:
  - More channels
  - Faster turnaround times
  - More availability
  - More choice
  - Better content
  - Higher quality

Select Key Service Metrics	You	Peer Avg
<u>Member Contacts</u>		
• % of calls resulting in undesired outcomes (busy signals, messages, hang-ups)	8%	15%
• Average total wait time including time negotiating auto attendants, etc.	103 secs	175 secs
<u>Website</u>		
• Can members access their own data in a secure environment?	Yes	93% Yes
• Do you have an online calculator linked to member data?	No	86% Yes
• # of other website tools offered such as changing address information, registering for counseling sessions and/or workshops, viewing or printing tax receipts, etc.	14	11
<u>1-on-1 Counseling and Member Presentations</u>		
• % of your active membership that attended a 1-on-1 counseling session	4.9%	3.5%
• % of your active membership that attended a presentation	2.6%	6.5%
<u>Pension Inceptions</u>		
• What % of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension check?	99.8%	84.9%
<u>Member Statements</u>		
• How current is an active member's data in the statements that the member receives?	3.0 mos	2.3 mos
• Do statements provide an estimate of the future pension entitlement?	No	57% Yes

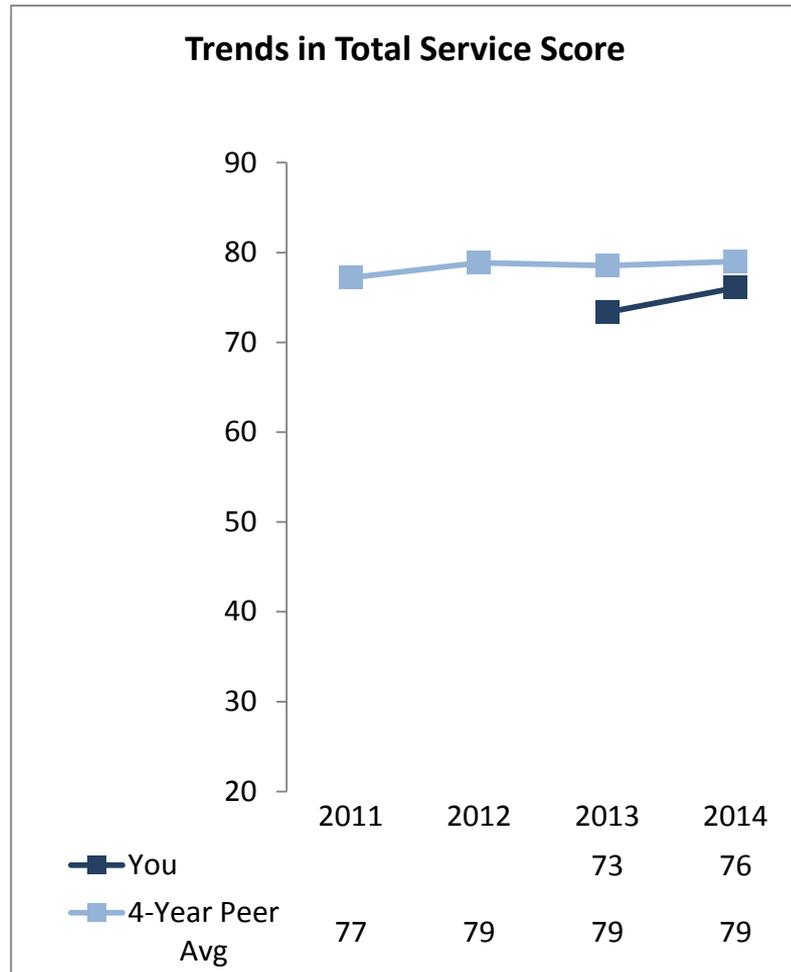
# Where can PEBA improve your score?

- Link your calculator to member data
- Lower your call wait time
- Fewer undesired call outcomes

*CEM is not recommending these changes.*

*Service improvement should be cost effective and important to your members.*

# Your service score improved by 3 points between 2013 and 2014.



This was primarily due to improvements in your call center:

- Your call wait time decreased from 163 seconds to 103 seconds
- Your undesired call outcomes decreased from 13.6% to 7.9% of total calls

# Key Takeaways:

- You are a low cost pension administrator.
- Your cost of \$31 per member and annuitant was the lowest of your peer group and fourth lowest in CEM's universe.
- The primary reasons why:
  - Your lower costs per FTE
  - Your lower costs for the back office activities
- Your service score was 76 - below the peer median score of 80.
- Your service score improved by 3 points over the last fiscal year due to improvements in your call center.
- Recent enhancements to your website are reflected in your high number of online transaction tools.
  - In 2013, you had 9 tools; in 2014 you had 14 tools vs. a peer average of 11

# Trends in Pension Administration

- **Communication**

- Engaging with younger members through social media and mobile apps
- Engaging with all members for advocacy
- Use of videos for member education
- Movement away from newsletters to “news”

- **Targeting and segmentation**

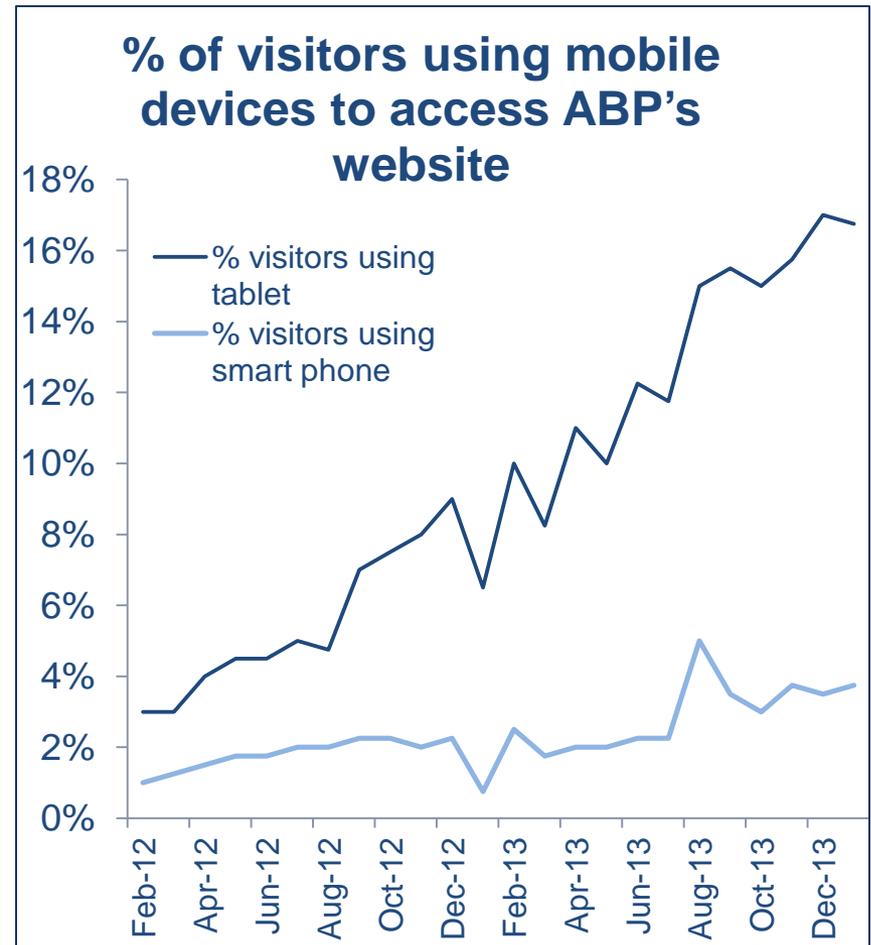
- Use of business intelligence to be better informed on membership
- Targeting members based on age, life cycle, gender, preferences

- **Electronic transactions and communication**

- **Retirement preparedness**

# CEM Research on Mobile Apps: Mobile usage is increasing rapidly.

- For example, at the Dutch public sector plan, ABP:
  - 17% of web visitors used tablets
  - 4% of web visitors used smart phones



# Mobile apps will be in your future:



- Cost is coming down and demand is increasing.
- Mobile technology is advancing at a rapid pace.
- Apps are better than a website for some things, such as single purpose tools:
- Targeted real-time communication will be crucial.

# Targeted mobile apps

Worklog



*Tracking mechanism for re-employed pensioners*

Classtime



*Tool for occasional teachers to monitor paid days*

MatApp\*



*Secure, personalized tool for women on mat leave*

# Use photos, video, infographics to engage members

 Michigan Office of Retirement Services  
March 13

When you're ready to retire, you'll need to submit an application online. #ORSresources Log in to miAccount here: <http://ow.ly/ubUAF>



Like · Comment · Share 1

16 people like this.

Write a comment...

2,782 people saw this post Boost Post

A Tale of Two Kitties



Will you have enough to retire?

Keep Saving!

\$2.7 million

\$1.6 million

0:13 / 0:53

ORS members and retirees live in one of every nine Michigan households.



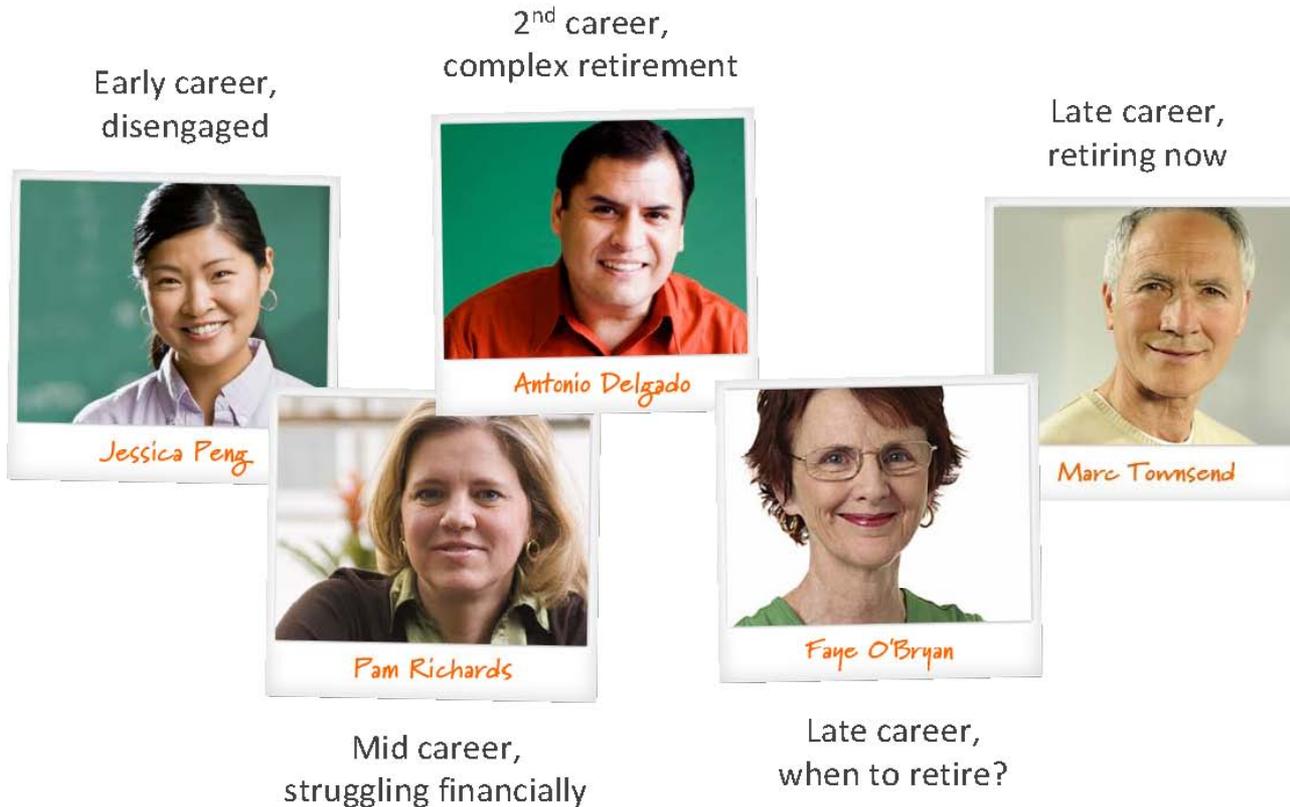
 Michigan Office of Retirement Services  
[facebook.com/MichiganORS](https://facebook.com/MichiganORS)

# Colorado PERA has an ambassador program

- Ambassadors (CoPERA members) advocate for PERA at the State Legislature
- Evolved to be primarily retirees
  - 100 Ambassadors
  - Managed by a retired PERA employee (part-time)
- Hired two Ambassador Field Managers
  - Recruited more than 600 Ambassadors
    - 100 “active” members
  - Coverage in every legislative district

# Different approaches for targeting communication

CALSTRS



# Other systems creating personas to help understand member characteristics



Typical Tania



A+ Annie



Superficial Samantha



Overwhelmed Olivia



Confused Carter



Challenging Charles

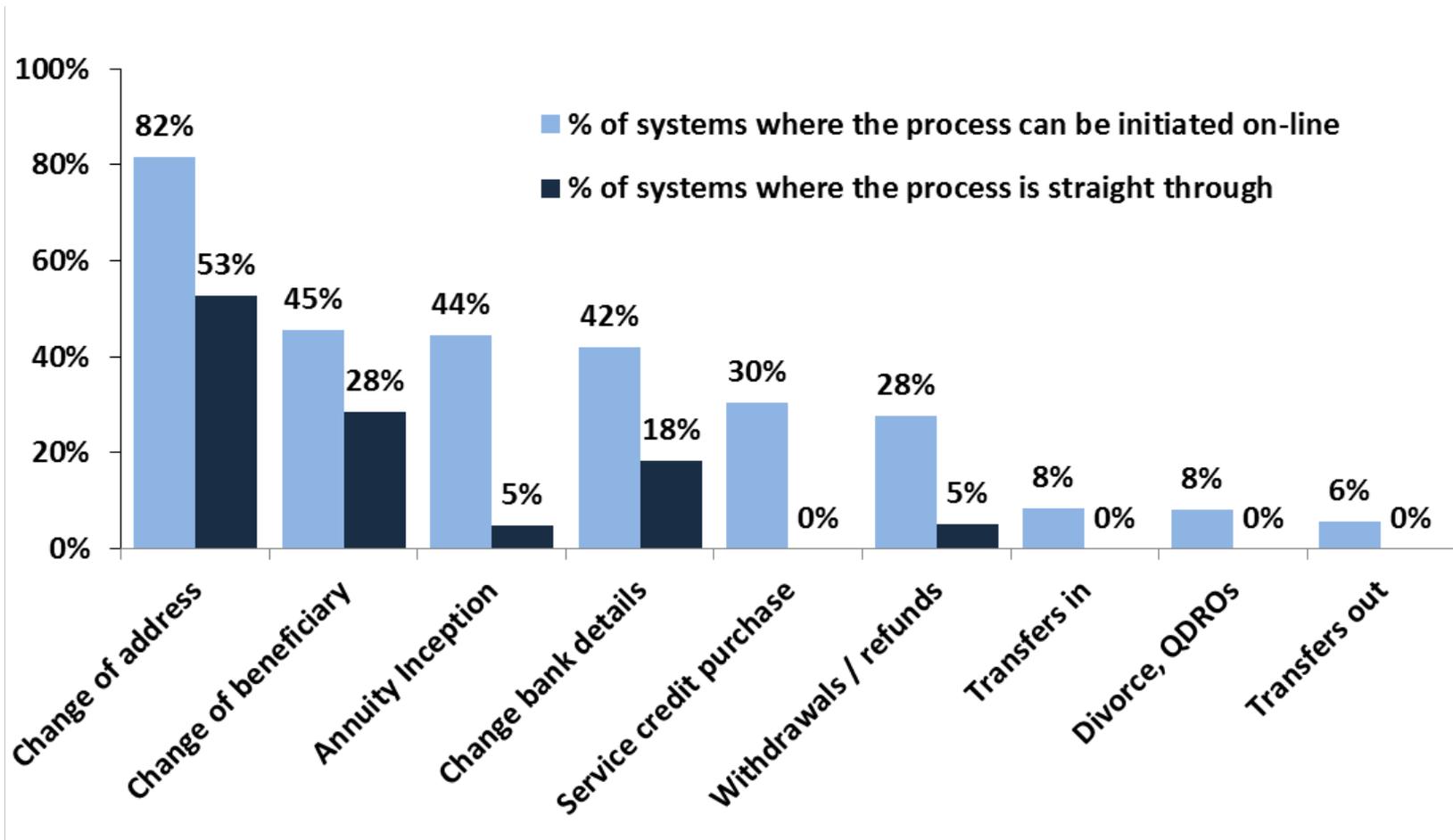


Indecisive Ira

# Example of targeting members based on age and life cycle

 <p><b>Super Scoop for members aged 35 and under</b></p> <ul style="list-style-type: none"><li>Simple ways to boost your super</li><li>Protecting yourself against online fraud</li></ul>	 <p><b>Super Scoop for members aged 36 to 49 Female</b></p> <ul style="list-style-type: none"><li>Getting super savvy with our seminars and webinars</li><li>Understanding your insurance cover</li></ul>	 <p><b>Super Scoop for members aged 36 to 49 Male</b></p> <ul style="list-style-type: none"><li>Taking control with Self Invest</li><li>Options to customise your super experience</li></ul>	 <p><b>Super Scoop for members aged 50 and over</b></p> <ul style="list-style-type: none"><li>Seminars to help you prepare for retirement</li><li>Insurance and estate planning essentials</li></ul>	 <p><b>Super Scoop for Income account members</b></p> <ul style="list-style-type: none"><li>5 easy ways to protect your identity online</li><li>Protecting what you've worked so hard for</li></ul>
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# Straight Through Processing



# Online Retiring

## Choose A Method to Submit Your Application

### ▶ [Submit Online Now](#)

You have completed the application. Choose this option if you wish to submit your **Service Retirement** application on *myCalSTRS* now. Using *myCalSTRS* to transmit this information is simple, secure and immediate.

You will automatically receive a confirmation e-mail once CalSTRS has received your **Service Retirement** application submitted on *myCalSTRS*. You will also receive a notification e-mail when status alerts are available to view on *myCalSTRS*.

### ▶ [Print, Sign, Send](#)

Your **Service Retirement** application is complete. Select the printer-friendly copy of the application to sign and send by mail, Service, fax or hand-deliver to a local CalSTRS counseling center. *Turn off Pop-up Blocker in your browser if you are unable to view.*

#### Mailing Address:

CalSTRS  
P.O. Box 15275, MS 65  
Sacramento, CA 95851-0275

#### Fax Numbers:

916-414-5964  
916-414-5965

#### Hand-Delivery:

[Local Counseling Offices](#)

- 16 North American systems allow members to retire online.
- An average of 33.4% of their retiring members retire online.
- 99% of OTPP's members retire online.

#### Agreement

By typing my name into the E-Signature text box below and selecting the **Submit** button, I acknowledge and affirm that I am the person whose name appears in the signature block, and I recognize that CalSTRS will rely on that guarantee. I understand that I am providing the legal equivalent of my written signature, and that I am authorizing CalSTRS to perform the actions that I have specified above.

I hereby certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct. I understand that perjury is punishable by imprisonment for up to four years (Penal Code section 126).

I understand it is a crime to fail to disclose a material fact or to make any knowingly false material statements for the purpose of altering a benefit administered by CalSTRS and it may result in penalties, including restitution, up to one year in jail and a fine of up to \$5,000 (Education Code section 22010).

Name:

\* E-Signature:

Enter your Name exactly as it is displayed above.

Date: **2/1/2013**

\* Required field to continue.

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