

Meeting Agenda | Retirement Policy Committee

Wednesday, March 16, 2016 | 9:30 a.m.

200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

- I. Call to Order
- II. Adoption of Proposed Agenda
- III. Approval of Meeting Minutes- December 2, 2015 and February 9, 2016
- IV. Optional Retirement Program- MetLife Proposed Money Market Fund
- V. 2016 Experience Study
- VI. Best Practices Update
- VII. Old Business/Director's Report
- VIII. 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.

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
Retirement Policy Committee

Meeting Date: March 16, 2016

1. Subject: Optional Retirement Program: MetLife Proposed Money Market Fund

2. Summary: MetLife has requested a change from the originally proposed Vanguard Money Market Prime Fund to the Vanguard Federal Money Market Fund. The replacement fund will avoid redemption fees and liquidity gates possible with the previous money market fund. The new fund is scheduled to be implemented on April 1, 2016, consistent with broader Optional Retirement Program changes.

3. What is Committee asked to do? Approved the proposed MetLife money market fund

4. Supporting Documents:

(a) Attached: 1. MetLife MMF Change Request



Date: January 25, 2016
From: Summit Strategies Group: Defined Contribution Services
Subject: Optional Retirement Program: MetLife Proposed Money Market Fund

In light of new money market fund regulations, MetLife has requested a change from the originally proposed Vanguard Money Market Prime Fund (VMMXX) to the Vanguard Federal Money Market Fund (VMFXX). While both funds will maintain a stable \$1.00 NAV under the new regulations, the replacement "Government" fund will avoid redemption fees and liquidity gates possible with the previous "Prime" money market fund. The new fund is scheduled to be implemented on April 1, 2016, consistent with broader Optional Retirement Program changes.

Background

- In response to calls for greater transparency in pricing and to prevent investors from being harmed from a "run on the bank", the SEC passed new money market fund regulations effective October 2016.
- The regulations create two classifications for money market funds, "Prime" and "Government".
- Prime funds may invest in government securities, CDs, and debt issued by highly-rated corporations. Government funds can only invest in debt issued by the US Government and its agencies.
- Within a defined contribution plan, both types of funds maintain a stable \$1.00 NAV for trading purposes. However, Government funds are exempt from new rules that would allow Prime funds to implement withdrawal penalties (fees) and impose redemption gates during material market distress.

Additional Considerations

- Retirees who require liquidity to pay living expenses may find the potential withdrawal penalties and redemption gates associated with Prime money market funds problematic, particularly as they increase their allocation to these lower-risk investments as they age.
- MetLife's request is consistent with marketplace trends and recommendations Summit is making to its defined contribution clients.
- Of the ORP's four vendors, only MetLife and TIAA-CREF are offering a money market fund.
 - As TIAA-CREF is changing the strategy of its current money market fund offering to comply with the new guidelines, there is no need to replace this option with another fund.
- The yield and return spread between Prime and Government money market funds is expected to be immaterial, approximately 50 bps or less per annum.
- In short, participants will not be sacrificing much return for greater liquidity.

Conclusion

Summit supports MetLife's position and recommends PEBA approve its request.

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
Retirement Policy Committee

Meeting Date: March 16, 2016

1. Subject: Summary of 2016 Experience Study Recommendations

2. Summary: A summary of the 2016 Experience Study is provided to show the fiscal impact of the each assumption change.

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

4. Supporting Documents:

(a) Attached: 1. Summary of 2016 Experience Study Recommendations

Summary of 2016 Actuarial Experience Study
SCRS

Assumption Changes		
	Previous assumption as used in July 1, 2015 valuation	Recommended Assumption for use in July 1, 2016 valuation
Inflation	2.75%	2.25%
Investment Return	7.50%	7.25%
Salary Increases	3.50%	3.00%
Payroll Growth Rate	3.50%	3.00%
Mortality	Variation of RP 2000 mortality tables with scale AA improvement assumption	System specific mortality table developed using our data with AA improvement assumption
Retirement		Increase assumed rates of retirement for members who retire with reduced benefits
Termination/Withdrawal		Decrease assumed rate of member terminations
Refund of member contributions		Increase and make explicit the assumed number of members that elect a refund
Disability		No change
Asset Valuation Method	Recognize 20% of difference between market value and actuarial value of assets	Each year's gain/loss is recognized over a closed 5 year period at 20% per year

Fiscal Impact of Assumption Changes			
	Impact on Employer Contribution Rate	Impact on UAAL (\$ millions)	Impact on Funded Ratio
Inflation	No direct impact	No direct impact	No direct impact
Investment Return	0.56%	1,270	-1.8%
Salary Increases	-0.33%	-403	0.6%
Payroll Growth Rate	0.30%	0	0.0%
Mortality	0.31%	760	-1.0%
Retirement	0.05%	88	-0.1%
Termination/Withdrawal	0.14%	96	-0.2%
Refund of member contributions	0.14%	-171	0.3%
Disability	0.02%	-1	0.0%
Asset Valuation Method	No direct impact	No direct impact	No direct impact
Total impact of above	1.19%	1,639	-2.2%
July 1, 2015 valuation (current assumptions)	11.09%	16,753	62.0%
Results of recommended assumptions	12.28%	18,392	59.80%

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution rates for the fiscal year beginning July 1, 2018

SCRS Projected Rates

Based on July 1, 2015 valuation and 2016 Experience Study

Current Assumptions (assumes 7.5% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	11.06%	8.16%	1,047	16,753	62%	30
2016	11.06%	8.16%	1,071	17,486	61%	30
2017	11.09%	8.19%	1,104	18,321	61%	30
2018	11.09%	8.19%	1,145	19,242	60%	30
2019	11.19%	8.29%	1,189	20,247	59%	30
2020	11.30%	8.40%	1,240	20,536	59%	29
2021	11.41%	8.51%	1,295	20,780	60%	28
2022	11.54%	8.64%	1,335	20,969	60%	27

Recommended Assumptions (7.25% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	11.06%	8.16%	1,047	16,753	62%	30
2016	11.06%	8.16%	1,061	19,112	59%	30
2017	11.09%	8.19%	1,089	20,086	58%	30
2018	12.43%	9.53%	1,259	21,083	57%	30
2019	12.56%	9.66%	1,304	21,821	57%	29
2020	12.63%	9.73%	1,350	22,528	56%	29
2021	12.68%	9.78%	1,394	22,713	57%	28
2022	12.68%	9.78%	1,433	22,853	58%	27

Recommended Assumptions (-6% return FY 16 and 7.25% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	11.06%	8.16%	1,047	16,753	62%	30
2016	11.06%	8.16%	1,061	19,763	58%	30
2017	11.09%	8.19%	1,089	21,626	55%	30
2018	12.62%	9.72%	1,279	23,527	52%	30
2019	13.02%	10.12%	1,355	25,150	50%	30
2020	13.34%	10.44%	1,430	26,700	48%	30
2021	13.63%	10.73%	1,505	27,032	49%	29
2022	13.84%	10.94%	1,573	27,273	50%	27

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution rates for the fiscal year beginning July 1, 2018

Summary of 2016 Actuarial Experience Study
PORS

Assumption Changes	
	Recommended Assumption for use in July 1, 2016 valuation
Inflation	2.75%
Investment Return	7.50%
Salary Increases	3.50%
Payroll Growth Rate	3.50%
Mortality	Variation of RP 2000 mortality tables with scale AA improvement assumption
Retirement	System specific mortality table developed using our data with AA improvement assumption modification to retirement rates at certain services and ages, but no significant overall change
Termination/Withdrawal	No change to the current termination assumption
Refund of member contributions	No change to current assumptions
Disability	Increase in the rate of disability retirements
Asset Valuation Method	Recognize 20% of difference between market value and actuarial value of assets

Fiscal Impact of Assumption Changes			
	Impact on Employer Contribution Rate	Impact on UAAL (\$ millions)	Impact on Funded Ratio
Inflation	No direct impact	No direct impact	No direct impact
Investment Return	0.77%	193	-2.0%
Salary Increases	-0.34%	-72	0.8%
Payroll Growth Rate	0.26%	0	0.0%
Mortality	0.43%	133	-1.4%
Retirement	-0.07%	-18	0.2%
Termination/Withdrawal	0.00%	0	0.0%
Refund of member contributions	0.13%	-18	0.1%
Disability	0.08%	3	-0.1%
Asset Valuation Method	No direct impact	No direct impact	No direct impact

Total impact of above **1.26%** **221** **-2.4%**

July 1, 2015 valuation (current assumptions, Employer rate is 30 year funding rate)

13.53% 1,895 69.2%

Results of recommended assumptions

14.79% **2,116** **66.80%**

Actual Employer rate currently in effect is 13.74% with 27 year funding period

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution rates for the fiscal year beginning July 1, 2018

PORS Projected Rates

Based on July 1, 2015 valuation and 2016 Experience Study

Current Assumptions (assumes 7.5% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	13.74%	8.74%	169	1,895	69%	27
2016	13.74%	8.74%	172	1,988	69%	28
2017	13.74%	8.74%	177	2,092	69%	28
2018	13.74%	8.74%	182	2,206	68%	29
2019	13.74%	8.74%	188	2,332	68%	30
2020	13.74%	8.74%	193	2,364	69%	28
2021	13.74%	8.74%	199	2,394	69%	27
2022	13.74%	8.74%	206	2,422	70%	26

Recommended Assumptions (7.25% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	13.74%	8.74%	169	1,895	69%	27
2016	13.74%	8.74%	171	2,199	67%	30
2017	13.74%	8.74%	176	2,326	66%	30
2018	14.86%	9.86%	195	2,455	66%	30
2019	14.95%	9.95%	201	2,554	66%	30
2020	14.95%	9.95%	207	2,649	66%	30
2021	14.95%	9.95%	212	2,676	67%	28
2022	14.95%	9.95%	218	2,701	68%	27

Recommended Assumptions (-6% return FY 16 and 7.25% each future year)						
July 1,	Employer Contribution Rate	Member Contribution Rate	Total Employer Contributions (\$Millions)	UAAL (\$Millions)	Funded Ratio	Funding Period
2015	13.74%	8.74%	169	1,895	69%	27
2016	13.74%	8.74%	171	2,303	65%	30
2017	13.74%	8.74%	176	2,573	63%	30
2018	15.10%	10.10%	198	2,846	60%	30
2019	15.54%	10.54%	209	3,086	59%	30
2020	15.83%	10.83%	219	3,315	57%	30
2021	16.12%	11.12%	229	3,365	58%	29
2022	16.38%	11.38%	239	3,405	59%	27

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution rates for the fiscal year beginning July 1, 2018

Summary of 2016 Actuarial Experience Study
JSRS

Assumption Changes

	Previous assumption as used in July 1, 2015 valuation	Recommended Assumption for use in July 1, 2016 valuation
Inflation	2.75%	2.25%
Investment Return	7.50%	7.25%
Salary Increases	3.00%	2.75%
Payroll Growth Rate	3.00%	2.75%
Mortality	Variation of RP 2000 mortality tables with white collar adjustment scale AA improvement assumption	Same as Public School Employees
Retirement		Slight increase over current assumption
Termination/Withdrawal	No terminations assumed	No terminations assumed
Refund of member contributions	None assumed	None assumed
Disability		Same as Public School Employees
Asset Valuation Method	Recognize 20% of difference between market value and actuarial value of assets	5-year with bases

Fiscal Impact of Assumption Changes

	Impact on Employer Contribution Rate	Impact on UAAL (\$ thousands)	Impact on Funded Ratio
Inflation	No direct impact	No direct impact	No direct impact
Investment Return	3.39%	7,031	-1.4%
Salary Increases	-3.34%	-7,211	1.5%
Payroll Growth Rate	0.89%	0	0.0%
Mortality	3.80%	10,754	-2.3%
Retirement	0.98%	1,939	-0.4%
Termination/Withdrawal	0.00%	0	0.0%
Refund of member contributions	0.00%	0	0.0%
Disability	0.46%	122	0.0%
Asset Valuation Method	No direct impact	No direct impact	No direct impact

Total impact of above **6.18%** **12,635** **-2.6%**

July 1, 2015 valuation (current
assumptions, Employer rate is 30
year funding rate)

46.22% 111,692 58.6%

Results of recommended
assumptions

52.40% **124,327** **56.00%**

Actual Employer rate currently in
effect is 47.97% with 27 year
funding period

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution rates for the fiscal year beginning July 1, 2018

Summary of 2016 Actuarial Experience Study
GARS

Assumption Changes		
	Previous assumption as used in July 1, 2015 valuation	Recommended Assumption for use in July 1, 2016 valuation
Inflation	2.75%	2.25%
Investment Return	7.50%	7.25%
Salary Increases	None assumed	None assumed
Payroll Growth Rate	None assumed	None assumed
Mortality	Variation of RP 2000 mortality tables with scale AA improvement assumption	Same as General Employees
Retirement		Increase over current assumption
Termination/Withdrawal	No terminations assumed	No terminations assumed
Refund of member contributions	None assumed	None assumed
Disability		Same as General Employees
Asset Valuation Method	Recognize 20% of difference between market value and actuarial value of assets	5-year with bases

Fiscal Impact of Assumption Changes			
	Impact on Employer Contribution (\$ Thousands)	Impact on UAAL (\$ thousands)	Impact on Funded Ratio
Inflation	No direct impact	No direct impact	No direct impact
Investment Return	233	1,715	-1.1%
Salary Increases	N/A	N/A	N/A
Payroll Growth Rate	N/A	N/A	N/A
Mortality	475	2,990	-2.0%
Retirement	61	267	-0.1%
Termination/Withdrawal	0	0	0.0%
Refund of member contributions	0	0	0.0%
Disability	1	1	0.0%
Asset Valuation Method	No direct impact	No direct impact	No direct impact

Total impact of above	769	4,973	-3.2%
July 1, 2015 valuation (current assumptions, Employer rate is 30 year funding rate)	4,777	37,196	50.1%
Results of recommended assumptions	5,546	42,169	46.90%

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the required contribution for the fiscal year beginning July 1, 2018

Summary of 2016 Actuarial Experience Study
SCNG

Assumption Changes

	Previous assumption as used in July 1, 2015 valuation	Recommended Assumption for use in July 1, 2016 valuation
Inflation	2.75%	2.25%
Investment Return	7.50%	7.25%
Salary Increases	None assumed	None assumed
Payroll Growth Rate	None assumed	None assumed
Mortality	Variation of RP 2000 mortality tables with scale AA improvement assumption	Same as PORS
Retirement		No change Reduce from current assumption
Termination/Withdrawal		N/A
Refund of member contributions	N/A	N/A
Disability	No Disability Coverage	No Disability Coverage
Asset Valuation Method	Recognize 20% of difference between market value and actuarial value of assets	5-year with bases

Fiscal Impact of Assumption Changes

	Impact on Employer Contribution (\$ Thousands)	Impact on UAAL (\$ thousands)	Impact on Funded Ratio
Inflation	No direct impact	No direct impact	No direct impact
Investment Return	19	967	-0.6%
Salary Increases	0	0	0.0%
Payroll Growth Rate	0	0	0.0%
Mortality	164	1,511	-1.0%
Retirement	131	673	-0.4%
Termination/Withdrawal	0	0	0.0%
Refund of member contributions	0	0	0.0%
Disability	-31	-74	0.0%
Asset Valuation Method	No direct impact	No direct impact	No direct impact
Total impact of above	284	3,077	-2.0%
July 1, 2015 valuation (current assumptions, Employer rate is 30 year funding rate)	4,509	36,414	41.4%
Results of recommended assumptions	4,793	39,491	39.40%

Note: The fiscal impact of assumption changes, if approved, would first be incorporated into the July 1, 2016 actuarial valuation, which sets the contribution amount for the following fiscal year.

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
Retirement Policy Committee

Meeting Date: March 16, 2016

1. Subject: Best Practices Update

2. Summary: NAGDCA published a series of guides dealing with DC Plan Best Practices (available on their website). PEBA staff condensed the Best Practices guides into a 17 page spreadsheet back in June 2014, and at the Retirement Policy Committee's previous request, PEBA Staff is providing an update as of March 2016.

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

4. Supporting Documents:

(a) Attached: 1. DC Best Practices Summary 2016

Defined Contribution Plans Best Practices update March 2016

The following summarizes PEBA's progress as well as items still outstanding from the June 2014 comparison of PEBA's defined contribution plans and NAGDCA Best Practices.

Legend:

	Legislative and/or Board Action required to proceed
	Plans already in compliance with best practices prior to 2014 evaluation
	Action taken to comply with best practices since 2014 evaluation

Plan Administration

NAGDCA Best Practice Recommendation	State Optional Retirement Program (State ORP)	South Carolina Deferred Compensation Program (SCDCP)	Comment
Program Complexity	Pursue legislative change that would allow PEBA to determine the appropriate number of record-keepers	Not applicable	Legislative change required before additional action can be taken.
Pursue ways to simplify investment lineup without sacrificing the benefits of diversification	Ongoing project of staff and the Investment Consultant	Ongoing project of staff and the Investment Consultant	In compliance, but a continuing effort.
Plan Documents	There is a plan document which is reviewed on an annual basis	There is a plan document which is reviewed on an annual basis	Already in compliance.
Bundled vs unbundled plan services	Mostly unbundled	Mostly unbundled	Already in compliance.
Contracted vs In-house functions	Administrative services delegated to vendors	Administrative services delegated to vendor	Already in compliance.
Consultants	Investment Consultant - Summit Strategies Group	Investment Consultant - Summit Strategies Group, effective 01.01.2016	Consolidated from two investment consultants to one since 2014 best practices review.
IRS Compliance	Constantly monitored	Constantly monitored	In compliance, but a continuing effort.

Plan Governance

NAGDCA Best Practice Recommendation	State Optional Retirement Program (State ORP)	South Carolina Deferred Compensation Program (SCDCP)	Comment
Plan oversight	Require all participating employers to utilize standardized reporting format	Require all participating employers to offer all features of plan and adhere to standardized reporting format	Work in both programs is ongoing. Employer compliance in the SCDCP is required by January 1, 2017. State ORP compliance will be dependent on employers and vendors.
Plan record retention	Critical documents retained indefinitely	Critical documents retained indefinitely	Already in compliance.
Optional documents	Utilizes by-laws, Investment policy statement	Utilizes by-laws, Investment policy statement	Already in compliance.

Plan Design

NAGDCA Best Practice Recommendation	State Optional Retirement Program (State ORP)	South Carolina Deferred Compensation Program (SCDCP)	Comment
Hardship withdrawals	Not available	Available subject to plan doc and IRS regulations	Already in compliance.
Loans	Not available	Board action cut availability from two loans to one and required payroll deduction for repayment effective January 1, 2015	Changes implemented since 2014 DC Best Practices review.
Investment advice	All 4 vendors required to offer investment advice as of contract resulting from 2015 RFP.	Record keeper offers a managed account service	Changes implemented since 2014 DC Best Practices review.
Rollovers	Allowed subject to plan document and IRS regulations	Allowed subject to plan document and IRS regulations	Already in compliance.
Roth options	Not available	Roth option available for each plan	Added in plan Roth conversion features for SCDCP.
Auto enrollment and/or escalation	Not applicable	Legislative change would likely be required	Requires Board approval; legislative change will be needed to proceed.
Employer match	Employer contributions are required and amount is set in statute	Employer contributions are discretionary	Already in compliance.

Investment menu	Each vendor has its own lineup of investment options. The recent contract removed most revenue share and implemented a more transparent fee arrangement	Single record-keeper with a single lineup of investment options for both 457 and 401(k) plans	Since the 2014 analysis, State ORP Investment fees have been made more transparent. In the SCDCP, the 84 month GICs were frozen, and limits were set on the types and amount participants may invest in the self-directed brokerage option.
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Communication and Participant Education

NAGDCA Best Practice Recommendation		State Optional Retirement Program (State ORP)	South Carolina Deferred Compensation Program (SCDCP)	Comment
What to communicate		Each of the four vendors has marketing and communication efforts	The record-keeper is charged with communication and marketing	PEBA staff review and approve communications to ensure uniformity and effectiveness.
Communication: Fees and expenses		Fees and expenses are posted to PEBA website	Fees and expenses are posted on Def Comp website	Continuing effort to educate participant on fees and transparency.
Annual updates of regulatory changes		All participants receive notification of any plan changes	All participants receive notification of any plan changes	Already in compliance.
Summary plan description		Information about the plan is available via the website	Information about the plan is available via the website	Already in compliance.
How to communicate		Each vendor uses multiple outlets which are periodically reviewed by PEBA staff	The record-keeper uses multiple outlets which are reviewed by PEBA staff	Already in compliance.
Focus groups		Not currently utilized	Not currently utilized	Currently reviewing opportunities to utilize focus groups.
Measuring success		Contributions to each vendor are reviewed quarterly. Enrollment levels in ORP are monitored.	Quarterly activity reports are reviewed. Surveys are periodically utilized, and results are reviewed by PEBA staff.	Already in compliance.

Plan Sponsor Education

NAGDCA Best Practice Recommendation		State Optional Retirement Program (State ORP)	South Carolina Deferred Compensation Program (SCDCP)	Comment
Stay informed		All are addressed by ongoing Board Member training	All are addressed by ongoing Board Member training	Already in compliance.
Build your peer network				
Stay abreast of changes				
Commitment to ongoing training				