

Meeting Minutes | Retirement Policy Committee

Wednesday, May 18, 2016 | 9:30 a.m.
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved July 20, 2016

Board Members Present: Mr. Steve Osborne and Chairman David Tigges

Board Members Present Via Telephone: Sheriff Leon Lott and Mr. John Sowards

Others Present for All or a Portion of the Meeting: Peggy Boykin, Ashley Brindle, Sarah Corbett, James Manning, Heather Muller, Tammy Nichols, Sheila Pinckney, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt from the State Retirees Association of South Carolina; Mike Orso and Paul Staples from Summit Strategies Group; Jonathan Hope and Mandy Yelton with VALIC; Karen Davis (via telephone), Nancy Ornduff and Tonya Foster with Empower Retirement; Ned Freer from Voya Investment Management; and Danny White from Gabriel Roeder Smith & Company (via telephone).

I. Call to Order

Chairman David Tigges called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:30 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

II. Adoption of Proposed Agenda

It was noted that the proposed Board meeting agenda was adopted unanimously as presented.

III. Approval of Meeting Minutes- March 16, 2016

Mr. Steve Osborne made a motion, which was seconded by Mr. Leon Lott, and approved unanimously, to approve the March 16, 2016, Committee meeting minutes.

IV. Actuarial Valuations and Experience Study Recommendations

Mr. Travis Turner, Chief Financial Officer, state that Mr. Joseph Newton and Mr. Danny White from Gabriel Roeder Smith & Company (GRS), previously presented the 2016 Experience Study to the Committee as information. The Committee is charged with adopting the Experience Study assumption recommendations, as well as approving the corresponding increase in the South Carolina Retirement System (SCRS), and the Police Officer's Retirement System (PORS) employee and employer contribution rates in the amount of one-half percent effective July 1, 2016.

Chairman Tigges reminded the Committee that the General Assembly ultimately determines the Retirement Systems actuarial rate of return.

Mr. Osborne made a motion, which was seconded by Mr. Lott, and approved unanimously, to adopt the Experience Study recommendations (with the exception of the actuarial rate of return), and to submit the recommendation to the full Board for approval.

Chairman Tigges reminded the Committee that based on the 2015 actuarial valuations, the Board approved and adopted a recommendation that would increase the employer and employee contribution rates for SCRS by the required minimum three basis points effective July 1, 2017, to maintain a 30-year funding period. Chairman Tigges stated that both the Governor's version of the fiscal year 2017 budget, and the budgets adopted by the House of Representatives and the Senate, includes provisions for the one-half percent contribution increase that will be required to absorb the investment losses from fiscal year 2015, and would be effective July 1, 2016.

Mr. Osborne made a motion, which was seconded by Mr. Lott, and approved unanimously, to approve a one-half percent increase in SCRS and PORS employee and employer contribution rates, effective July 1, 2016, and to submit the recommendation to the full Board for approval.

Ms. Peggy Boykin, Executive Director, reviewed the actuarial projected employer and employee contribution rates for SCRS over the next three to five years, based on assumptions recommended by GRS, and incorporating various scenarios including:

1. 7.25 percent rate of return and assuming that the Plan will earn 7.25 percent each year after July 1, 2015;
2. 7.25 percent rate of return and assuming that the Plan will earn 0.00 percent for fiscal year 2016, and 7.25 percent each year thereafter;
3. 7.25 percent rate of return and assuming that the Plan will earn 0.00 percent for fiscal year 2016, 4.00 percent for fiscal year 2017 through fiscal year 2021, and 7.25 percent each year thereafter;
4. 7.00 percent rate of return and assuming that the Plan will earn 7.00 percent each year after July 1, 2015.

Ms. Boykin reported that as of May 13, 2016, the fiscal year-to-date investment return was -3.12 percent, and stated that long term expected rates of return and short term actual rates of return will have a significant impact on the required employee and employer contribution rates. Ms. Boykin suggested that the Committee develop a schedule for contribution increases that are expected over the next five years so employers and employees can start incorporating the increases into their budget planning. Ms. Boykin reminded the Committee that many local governments have fiscal years that end throughout the year which may not coincide with state government fiscal years that end on June 30th of each year.

Chairman Tigges asked how the contribution rates for SCRS compare to the contribution rates of other state plans. Ms. Boykin replied that the National Association of State Retirement Administrators (NASRA), reported the average public pension plan employee contribution rate is approximately 6.00 percent, and the average employer contribution rate is approximately 11.0 percent.

V. Defined Contribution Quarterly Reports

Mr. Paul Staples, Senior Vice President and Director of Defined Contribution Services with Summit Strategies Group (Summit), discussed recent market conditions, and stated that oil prices have recovered, and the US Labor markets continue to improve with unemployment rates remaining at 5.0 percent. Mr. Staples stated that the Gross Domestic Product grew from 1.0 percent to 1.4 percent in the fourth quarter.

Mr. Staples reviewed market performance for the first quarter and reported that the S&P 500 that reflect large cap stocks was low at 1.35 for the quarter, but very strong for the three year period at 11.82 percent. Small cap stocks which are illustrated by the Russell 2000 index, were down for the quarter and the one year period. International markets were down -3.01 percent for the quarter, and -8.27 percent for the one-year period. Emerging markets were up 5.71 percent for the quarter. Mr. Staples also stated that fixed income returns were positive for the quarter.

Mr. Staples reviewed the Deferred Compensation Program Summary, and stated that the BlackRock Inflation Protected Bond fund is on the watch list due to its underperformance for both the three and five year periods, and Summit will conduct a formal review of this fund. Mr. Staples reported that there are three other funds on the watch list for the quarter including the Victory Munder Mid Cap Growth fund; the AllianceBernstein Small Cap Growth fund; and the PIMCO Total Return fund. The T. Rowe Price Mid Cap Value fund was removed from the watch list during the quarter.

Ms. Nancy Ornduff, with Empower Retirement, presented the first quarter plan activity summary. Ms. Ornduff stated that as of March 31, 2016, Plan assets increased by \$12.38 million, or 0.3 percent, and incoming rollovers to the Program have increased to \$10,947,967.26. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 101.7 percent.

Ms. Ornduff advised that contributions increased from \$44.69 million as of December 31, 2015, to \$49.82 million as of March 31, 2016, and the total number of participants investing 100 percent in Target Date Funds increased from 5,265 to 5,399. Ms. Ornduff reported that there are 725 total participating employers in the Program.

Ms. Ornduff reminded the Committee that the Business Transformation Project is part of the best practices recommendations which requires all participating employers to offer all features of the Program, and adhere to standardized remittance and reporting requirements effective January 1, 2017. Ms. Ornduff concluded her presentation by stating that as of March 31, 2016, 65 percent of employers are 100 percent compliant with the Business Transformation Project.

Mr. Staples reviewed the Optional Retirement Program (ORP) investment performance for the first quarter of 2016. Mr. Staples stated that as of March 31, 2016, ORP total assets were \$1.7 billion, with 54 percent of total assets being allocated to CREF; 22 percent of total assets dedicated to VALIC; 13 percent to MassMutual; and 11 percent of total assets with MetLife.

Mr. Staples reviewed the compliance report cards for each ORP vendor, and stated that MassMutual has six funds on the watch list, MetLife has two funds on the watch list, VALIC has one funds on the watch list, and CREF has no funds on the watch list for the quarter. Mr. Staples

reminded the Committee that all funds on the watch list were replaced April 11, 2016, as a result of the revised investment menu including zero revenue share investment options.

VI. Old Business/Director's Report

Ms. Boykin stated that both the House of Representatives and the Senate have passed their versions of the budget and conference reports should start next week.

Ms. Boykin informed the Committee that the next State Fiscal Accountability Authority (SFAA), meeting is scheduled for June 7, 2016, and PEBA will present the 2016 Experience Study recommendations, pending the full Board approval.

Ms. Boykin stated that the Board retreat is tentatively scheduled for June 23, 2016, and asked the Committee to please check their schedule and advise if there are any conflicts.

VII. Adjournment

There being no further business, and upon motion by Mr. Osborne, which was seconded by Mr. John Sowards, and approved unanimously, the Committee meeting adjourned at 10:55 a.m.