PEBA
SC Retirement Systems and State Health Plan

South Carolina Public Employee Benefit Authority
Serving those who serve South Carolina

Meeting Agenda

Meeting Agenda |Finance, Administration, Audit and Compliance Committee|
Health Care Policy Committee |Retirement Policy Committee| Board of Directors
Wednesday, December 2, 2020 | Via teleconference: 888 475 4499 Meeting ID 646 749 5163 ##

Finance, Administration, Audit and Compliance Committee | 9:30 a.m.

I. Call to Order
II. Approval of Meeting Minutes October 1, 2020
III. Financial Statements Audit Review by the External Auditor
IV. Internal Audit Plan Update
V. Old Business/Director's Report
VI. Adjournment

Health Care Policy Committee | 10:30 a.m.

I. Call to Order
II. Approval of Meeting Minutes October 1, 2020
III. Approval of 2022 Initial State Health Plan (SHP) Budget Requirements
IV. COVID-19 Effects on SHP Claims Experience and Population Health
V. PCMH Update and Review
VI. Old Business/Director's Report
VII. Adjournment

LUNCH

Retirement Policy Committee| 1:00 p.m.

I. Call to Order
II. Approval of Meeting Minutes October 1, 2020
III. 2020 Actuarial Valuations of the South Carolina Retirement Systems
IV. Defined Contribution Quarterly Reports
    i. Deferred Compensation Program Investment Performance Report
    ii. State ORP Investment Performance Report
V. Deferred Compensation Program Plan Summary
VI. Old Business/Director's Report
VII. 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.

Board of Directors | 2:00 p.m.

I. Call to Order
II. Approval of Meeting October 1, 2020
III. RSIC Investment Performance Update
IV. Experience Study Approval
V. Committee Reports
    A. Finance, Administration, Audit and Compliance Committee
    B. Health Care Policy Committee
        I. Approval of 2022 Initial State Health Plan Budget Requirements
    C. Retirement Policy Committee
        I. 2020 Actuarial Valuations of the South Carolina Retirement Systems
VI. Old Business
    A. Director's Report
    B. Roundtable Discussion
VII. Executive Session for the Purpose of Discussing Contractual Matters Pursuant to S.C. Code of Laws § 30-4-70(a)(2)
VIII. Adjournment

PUBLIC EMPLOYEE BENEFIT AUTHORITY AGENDA ITEM
Finance, Administration, Audit and Compliance Committee

Meeting Date: December 2, 2020

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1. **Subject**: Health and Retirement Financial Statements Audit and Deferred Compensation Financial Statements Audit Review

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2. **Summary*:*** Thomas Rey from CliftonLarsonAllen will present the Financial Statements for the South Carolina Retirement Systems, Insurance Benefits and OPEB Trust Funds, and for the South Carolina Deferred Compensation Program.

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

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4. **Supporting Documents:**

   (a) Attached:

December 2, 2020

Audit Results Presentation to:

South Carolina PEBA – Finance, Administration, Audit & Compliance (FAAC) Committee

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Agenda

- Introductions
- Overview of Audit Approach
- June 30, 2020 Audit Results
  - South Carolina Retirement Systems
    - ◊ SCRS, PORS, GARS, JSRS & SCNG
  - PEBA Insurance Trust & Other OPEB Trusts
  - Deferred Compensation Program 12/31/19
- Required Communications
- SCRS Financial Highlights
- Discussion of Insurance Trust & Deferred Compensation Financial Statements

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Overview of Audit Approach

- Auditor's responsibility
  - Express an opinion on the financial statements. This requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- Planning the audit
  - Walkthroughs/Process documentation
  - Inquiries
  - Develop understanding of the entity
  - Determine materiality
  - Perform risk assessment to identify critical audit areas

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Critical Audit Areas

- Investments
- Contributions
- Benefit payments
- Actuarial information (Pension & OPEB)

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Critical Audit Areas - Investments

- Investments
  - Understanding of internal controls
    - ◊ Walkthroughs
      - Reconciliation procedures
      - Initial due diligence and on-going monitoring
      - Compliance monitoring
    - ◊ Review custodial bank's SSAE 18/SOC 1 report
  - Substantive procedures
    - ◊ Confirmation of custodial and non-custodial investments
    - ◊ Price testing of equity and fixed income securities
    - ◊ Review of audited financial statements and roll-fowards of non-custodial (alternative) investments

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Critical Audit Areas - Contributions

- Understanding of internal controls
  - Review of internal audit procedures and reports
  - Walkthroughs of contribution and purchase of service processes
  - Test of controls over the contributions process
- Substantive procedures
  - Reconciliation of contributions from G/L to Subsidiary
  - Confirmation of contributions with employers
  - Analytical procedures including Data Analytics

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Critical Audit Areas – Benefit Payments

- Understanding of internal controls
  - Review of internal audit procedures and reports
  - Walkthroughs of benefit payments processes; separate walkthroughs for disability, survivor, regular retirement and refund processes
  - Test of controls over the benefit payment processes
- Substantive Procedures
  - Reconciliation of benefit payments from G/L to Subsidiary
  - Analytical procedures including Data Analytics

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Critical Audit Areas – Actuarial Data

- AU section 500.08 - use of a management specialist
  - Evaluate the competence, capabilities and objectivity of the specialist
    - ◊ Confirm actuaries independence and accreditation
    - ◊ Prior experience with the actuaries
  - Obtain an understanding of the work of the specialist
    - ◊ Review the nature, scope and objectives of the work of the specialist
  - Evaluate the appropriateness of the work of the specialist
    - ◊ Review of the actuary report and compare key assumptions to pension and actuarial industry standards
    - ◊ Review of independent actuarial studies
  - Additional testing specific to GASB 67/68 and 74/75

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Critical Audit Areas – Actuarial Data

- AU section 500.08 - use of a management specialist
  - Census Data
    - ◊ Leverage data analytics performed over contributions and benefit payments to test the active and retiree census data for completeness and accuracy.

- Utilize an independent actuary to evaluate the sufficiency and appropriateness of PEBA's actuarial valuations in accordance with AU-C 620 – Using the Work of an Auditor's Specialist.

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2019 Audit Results

- Independent Auditors' Report - Unmodified "clean" opinions that the financial statements are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Limited procedures were performed, and no opinion was rendered on management's discussion and analysis, required supplemental information, and the Introductory, Investment, Actuarial, and Statistical sections.
- Limited procedures were performed, and an in relation to opinion was rendered on the supplemental schedules.
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
  - No material weaknesses or significant deficiencies were identified.
  - No significant deficiencies were identified for SCRS, Insurance Trust & Deferred Comp.
  - Letter to the Board providing required communications with those charged with governance

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Required Governing Body Communications

- Auditor's responsibility under U.S. Generally Accepted Auditing Standards
- Significant accounting policies
  - No new accounting policies adopted in 2020 nor any other transactions lacking authoritative guidance.
- Management judgments and accounting estimates
  - Valuation of alternative investments
  - Actuarial assumptions and methods used for Pension & OPEB Liabilities
  - Insurance Trust claims incurred but not reported (IBNR)
- Financial statement disclosures
- No audit adjustments or passed adjustments

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Other Communications

- Management was very cooperative and professional during the audit process
- No disagreements with management
- Management did not consult with other accountants on the application of GAAP or GAAS
- No major issues were discussed with management prior to retention
- Management Representations

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SCRS Financial Highlights

Fiduciary Net Position

As of June 30

(Amounts expressed in thousands)

Assets	2020	2019	Increase / (Decrease)	% Increase / (Decrease)
Cash and cash equivalents, receivables, and prepaid expenses	$ 5,249,820	$ 4,323,924	$ 925,896	21.41%
Investments, at fair value	28,875,414	29,547,472	(672,058)	(2.27%)
Securities lending cash collateral invested	20,452	41,327	(20,875)	(50.51%)
Capital assets, net of accumulated depreciation	2,156	2,232	(76)	(3.41%)
Total assets	34,147,842	33,914,955	232,887	0.69%
Liabilities				
Deferred retirement benefits		70	(70)	(100.00%)
Obligations under securities lending	20,452	41,327	(20,875)	(50.51%)
Other liabilities	2,874,001	1,587,595	1,286,406	81.03%
Total liabilities	2,894,453	1,628,992	1,265,461	77.68%
Net Position Restricted for Pensions	$ 31,253,389	$ 32,285,963	$ (1,032,574)	(3.20%)

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SCRS Financial Highlights, cont'd.

Changes in Fiduciary Net Position

Years Ended June 30

(Amounts expressed in thousands)

Additions	2020	2019	Increase / (Decrease)	% Increase / (Decrease)
Employee contributions	$ 1,079,562	$ 1,028,413	$ 51,149	4.97%
Employer contributions	1,936,319	1,705,663	230,656	13.52%
Nonemployer contributions	104,076	101,176	2,900	2.87%
State appropriated contributions	5,290	5,290	-	0.00%
Net investment income (loss)	(523,842)	1,776,400	(2,300,242)	(129.49%)
Other income	1,862	1,577	285	18.07%
Total additions	2,603,267	4,618,519	(2,015,252)	(43.63%)
Deductions				
Annuity benefits	3,451,616	3,356,747	94,869	2.83%
Refunds	140,534	139,692	842	0.60%
Death benefits	25,324	23,717	1,607	6.78%
Administrative and other expenses	18,367	19,504	(1,137)	(5.83%)
Total deductions	3,635,841	3,539,660	96,181	2.72%
Net increase (decrease) in Net Position	(1,032,574)	1,078,859	(2,111,433)	(195.71%)
Net Position Restricted for Pensions				
Beginning of year	32,285,963	31,207,104	1,078,859	3.46%
End of year	$ 31,253,389	$ 32,285,963	$ (1,032,574)	(3.20%)

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SCRS Financial Highlights, cont'd.

The net pension liability (i.e. the Systems' total pension liability determined in accordance with GASB Statement No. 67 less the fiduciary net position) as of June 30, 2020, is as follows (dollar amounts expressed in thousands):

	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a % of the Total Pension Liability
SCRS	$ 51,844,188	$ 26,292,418	$ 25,551,770	50.7% → 54.4% in PY
PORS	8,046,387	4,730,175	3,316,212	58.8% → 62.7% in PY
GARS	71,074	34,454	36,620	48.5% → 48.2% in PY
JSRS	411,367	165,250	246,117	40.2% → 41.8% in PY
SCNG	67,501	31,092	36,409	46.1% → 45.7% in PY

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SCRS Financial Highlights, cont'd.

In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the participating employers calculated using the discount rate of 7.25 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

Discount Rate Sensitivity Analysis

(Amounts expressed in thousands)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
SCRS	$ 31,668,285	$ 25,551,770	$ 20,444,405
PORS	4,390,106	3,316,212	2,453,944
GARS	42,751	36,620	31,329
JSRS	290,327	246,117	208,661
SCNG	44,834	36,409	29,504

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SCRS Financial Highlights, cont'd.

Allocation / Exposure	Policy Target	Expected Arithmetic Real rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**51.0%**		
Global Public Equity[1,2]	35.0%	7.81%	2.73%
Private Equity[2,3]	9.0%	8.91%	0.80%
Equity Options Strategies[1]	7.0%	5.09%	0.36%
Real Assets	**12.0%**		
Real Estate (Private)[2,3]	8.0%	5.55%	0.44%
Real Estate (REITs)[2]	1.0%	7.78%	0.08%
Infrastructure (Private)[2,3]	2.0%	4.88%	0.10%
Infrastructure (Public)[2]	1.0%	7.05%	0.07%
Opportunistic	**8.0%**		
Global Tactical Asset Allocation[1]	7.0%	3.56%	0.25%
Other Opportunistic Strategies	1.0%	4.41%	0.04%
Credit	**15.0%**		
High Yield Bonds/ Bank Loans[1,2]	4.0%	4.21%	0.17%
Emerging Markets Debt	4.0%	3.44%	0.14%
Private Debt[2,3]	7.0%	5.79%	0.40%
Rate Sensitive	**14.0%**		
Core Fixed Income[1]	13.0%	1.60%	0.21%
Cash and Short Duration (Net)	1.0%	0.56%	0.01%
Total Expected Return[4]	100.0%		5.80%
Inflation for Actuarial Purposes			2.25%
			8.05%

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Other Updates

- PEBA Insurance Benefits and Other OPEB Trust Funds June 30, 2020 Financial Statements were audited by CLA and received an unmodified opinion
- South Carolina Deferred Compensation Program December 31, 2019 audited financial statements were audited by CLA and received an unmodified opinion
- CLA would like to thank the FAAC Committee, PEBA management and staff for their cooperation and professionalism during our audits.

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Questions

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