

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Finance, Administration, Audit, and Compliance Committee

MINUTES adopted 12/3/13

202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Wednesday, November 6, 2013, 2:00 p.m.

FAAC Committee Members Present:

Mr. Steve Matthews, Chairman (in person)
Ms. Peggy Boykin (in person)
Mr. Leon Lott (by phone)
Mr. Art Bjontegard (in person)

Other Members Present:

Mr. Frank Fusco (in person)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Travis Turner, Justin Werner, Caroline Royal, Faith Wright, Danielle Quattlebaum, John Page, Kim Brown, Tammy Nichols, Sharon Graham from the South Carolina Public Employee Benefit Authority (PEBA); Thomas Rey with CliftonLarsonAllen; Donald Tudor and Wayne Pruitt with the SC Retirees Association.

AGENDA

1. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Mr. Matthews called the meeting to order at 2:05 p.m. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Bjontegard moved to adopt the proposed agenda. Mr. Lott seconded. Unanimously approved.

2. APPROVAL OF MEETING MINUTES- OCTOBER 1, 2013

Mr. Matthews asked for amendments to the October 1, 2013 committee minutes. There being none, Mr. Matthews asked for a motion to approve the minutes. Ms. Boykin moved to approve and Mr. Lott seconded. Unanimously approved.

3. SCRS FINANCIAL STATEMENTS AUDIT FY 12/13 [IN NOTEBOOK MATERIALS]

Mr. Matthews introduced Thomas Rey, CliftonLarsenAllen's Engagement Partner-in-Charge, who summarized the audit results of South Carolina Retirement Systems (SCRS) FY 12/13 Financials. PEBA Interim Director, David Avant, commended PEBA Staff (Tammy Nichols, Danielle Quattlebaum, and Faith Wright) for completing SCRS's FY 12/13 financial statements in compliance with the reclassification of investment expenses recommended by the U.S. Generally Accepted Accounting Principles (GAAP), which expedited the financial reporting timeline significantly. He also noted that PEBA's Internal Auditor John Page, worked very hard with the Retirement System Investment Commission to conform to the reclassification. There was discussion of the auditor's continual valuation of marketable securities and alternative investments to insure full accountability of fees and assets. There was also discussion regarding the future implementation of GASB 67 (financial reporting for pension plans) for FY 13/14 and GASB 68 (accounting and financial reporting for pensions) for FY 14/15. Mr. Avant advised that an educational presentation will be held at the 2014 PEBA Board Retreat to review the anticipated effects of the implementation of GASB 68 as PEBA will be operationally responsible for disseminating and gathering required financial reports from all participating employers of the

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plan. It was noted that PEBA and SCRS are not part of any litigation involving the manipulation of Labor. However, the Committee would like to be informed if the RSIC at any point is associated with such litigation.

4. OLD BUSINESS

PEBA Agency Human Resources Report for Fiscal Year 12/13 [in notebook materials]

Mr. Matthews introduced Kim Brown, PEBA's HR Director, who presented PEBA's FY 12/13 HR Report. There was discussion regarding the current HR policies, vacancies, new hires, separations, and workforce planning procedures. Ms. Brown advised that current workforce planning should be completed in the next quarter which will identify gaps between the current workforce and the workforce needed in the next three years. She will also be completing employee satisfaction and engagement surveys during the next quarter.

2014 PEBA Legislation – Volume 2 [in notebook material]

Substantive Change

Section 1. Explanation: Changed the version previously considered by FAAC and the PEBA Board to provide that if a Board member is appointed at a time other than the beginning of a term, the Board member will serve the remainder of the defined unexpired term for that particular Board seat.

Amends Section 9-4-10 to increase Board terms to three years from two years and to stagger Board terms. No Board member may serve more than two consecutive terms. A Board member may sit out one three-year term and become eligible to serve again.

The Board positions are identified by number and are placed into three different Term cycles:

Term A positions are appointed on July 1, 2014 for three-year terms.

Term B positions are appointed on July 1, 2015 for three-year terms.

Term C positions are appointed on July 1, 2016 for three-year terms.

Term A positions would serve an initial two-year term from July 1, 2012 until the later of June 30, 2014 or until their successors are appointed and qualify. Thereafter, Term A positions would have three-year terms.

Term C positions would serve an initial four-year term from July 1, 2012 until the later of June 30, 2016 or until their successors are appointed and qualify. Thereafter, Term C positions would have three-year terms.

Section 9-4-10 is further amended to provide for quarterly rather than monthly meetings.

Finally, Section 9-4-10 is amended to provide that PEBA's activities will be performed under the supervision of an Executive Director who will be appointed by the PEBA Board on and after January 1, 2014.

The FAAC Committee recommended approval of this section.

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Technical Changes

Section 2. Explanation: Amends Section 9-1-640 to add the new Class Three members to a statute providing for a division of SCRS members into classes.

The FAAC Committee recommended approval of this section.

Section 3. Explanation: Amends Section 9-1-1850 to clarify that the statute is available to Class Two members only. The statute allows Class Two members with 25 years of service credit to establish up to three years of service credit to reach the Class Two retirement eligibility of 28 years of service credit. Class Three members do not have 28-year retirement eligibility; they must satisfy the "Rule of Ninety" (age +service credit must equal or exceed ninety).

The FAAC Committee recommended approval of this section.

Section 4. Explanation: Amends Section 9-1-1770(E), the Incidental Death Benefit payments, to conform with the new Class Three retirement provisions. Upon death, the beneficiaries of Class Two retired members receive \$2k if the retiree had at least 10 years of service but less than 20; \$4k if the member had more than 20 years of service but less than 28 years; and \$6k if the retiree has 28 or more years of service credit. A retiree only receives the full \$6k if they have reached the full number of years needed for unreduced retirement under Class Two.

For the new Class Three retirees, the amounts would be: \$2k if the retiree had at least 10 years of service but less than 20; \$4k if the member had more than 20 years of service but less than 30 years; and \$6k if the retiree has 30 or more years of service credit. Thirty years was used for Class Three members under the Rule of Ninety because the normal retirement age is 60 and under the Rule of Ninety, a person at normal retirement would need 30 years of service credit to receive unreduced retirement benefits.

The FAAC Committee recommended approval of this section.

Section 5. Explanation: Amends Section 9-1-10(17) to provide a definition for "effective date of membership" in SCRS. A Class Three member has an "effective date of membership" after June 30, 2012. The term "effective date of membership" means the beginning date of any period of employment that constitutes earned service in SCRS or the beginning date of a period of earned service in a correlated system (PORS, GARS). This definition tracks agency practice in administering the new Class Three requirements.

The FAAC Committee recommended approval of this section.

Section 6. Explanation: Amends Section 9-11-10(10) to add Class Three service. The provision now defines Class One service as service that is not Class Two service or Class Three service.

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Section 6 further amends Section 9-11-10(18) to provide a definition for “effective date of membership” in PORS. A Class Three member has an “effective date of membership” after June 30, 2012. The term “effective date of membership” means the beginning date of any period of employment that constitutes earned service in PORS or the beginning date of a period of earned service in a correlated system (SCRS, GARS). This definition tracks agency practice in administering the new Class Three requirements.

The FAAC Committee recommended approval of this section.

Section 7. Explanation: Amends paragraphs (3), (7) and (10) of Section 9-11-40 to provide for Class Three service and to clarify that any member with an effective date of membership after June 30, 2012 is a Class Three member of PORS.

The FAAC Committee recommended approval of this section.

Section 8. Explanation: Amends Section 9-11-210(3) to specify “Class One” service rather than service “which does not qualify as Class Two service”. The original language could have included Class Three service.

The FAAC Committee recommended approval of this section.

Section 9. Explanation: Amends Sections 1-11-703(10) and 1-11-703(14) to substitute “PEBA” for “Employee Insurance Program” or “EIP”.

The FAAC Committee recommended approval of this section.

Section 10. Explanation: Amends Section 1-11-705 to substitute “PEBA” for “Employee Insurance Program” in several places. In paragraphs (G)(1), (G)(2) and (I)(2), substitutes “PEBA’s self-funded health plans” for “Employee Insurance Program” where appropriate.

The FAAC Committee recommended approval of this section.

Section 11. Explanation: Amends Section 1-11-707 to substitute “PEBA” for “Employee Insurance Program” in several places. In paragraphs (G)(1) and (G)(2), substitutes “PEBA’s self-funded LTD plans” for “Employee Insurance Program” where appropriate.

The FAAC Committee recommended approval of this section.

Section 12. Explanation: Amends Section 1-11-715 to substitute “PEBA” for “Employee Insurance Program of the Budget and Control Board” and “Employee Insurance Program”.

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The FAAC Committee recommended approval of this section.

Section 13. Explanation: Amends Section 1-11-720(C) to substitute "PEBA" for "Office of Insurance Services".

The FAAC Committee recommended approval of this section.

Section 14. Explanation: Amends Section 1-11-725 to substitute "State Health Plan" for "state employee health insurance program".

The FAAC Committee recommended approval of this section.

Section 15. Explanation: Amends Section 1-11-730(C) to substitute "PEBA" for "EIP".

The FAAC Committee recommended approval of this section.

Section 16. Explanation: Amends Section 1-11-740 to substitute "PEBA" for the "Division of Insurance Services of the board".

The FAAC Committee recommended approval of this section.

Section 17. Explanation: Amends Section 1-11-780 to substitute "PEBA's self-funded health plans" for the "State Employee Insurance Program".

The FAAC Committee recommended approval of this section.

PEBA Agency Internal Auditor Report – Initial Presentation

Mr. Matthews introduced PEBA's Internal Auditor, John Page, who presented PEBA's audit coverage, audit planning considerations, audit schedule, auditor duties, time budget, and current initiatives. There was discussion regarding the State Auditor's oversight of contract length of PEBA's external auditors. The Committee advised they would like to receive a quarterly report from the internal auditor.

5. EXECUTIVE SESSION PURSUANT TO S.C. CODE OF LAWS § 30-4-70 (A)(1) AND (A)(2)

The Committee did not enter into Executive Session due to a loss of a quorum.

6. ADJOURNMENT

There being nothing further to discuss, the Committee meeting adjourned at 4:15 p.m.