

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

Peggy G. Boykin, CPA
Executive Director
Retirement Benefits

MEMORANDUM

Subject: Disclosure of Pension Information
June 30, 2014 Measurement Date

From: Tammy B. Nichols, CPA
Director of Retirement Systems Finance

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 entitled *Accounting and Financial Reporting for Pension Plans* in June 2012. The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraphs 48 through 82 of GASB 68. The following information is provided in order to assist employers in meeting the current disclosure requirements.

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.
- PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

- **PORS** - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

- Required employee contribution rates for fiscal year 2014-2015 are as follows:

SCRS

Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation

State ORP Employee

8.00% of earnable compensation

PORS

Employee Class One	\$21 per month
Employee Class Two	8.41% of earnable compensation
Employee Class Three	8.41% of earnable compensation

- Required employer contributions for fiscal year 2014-2015 are as follows:

SCRS

Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

State ORP

Employer Contribution	10.75% of earnable compensation ¹
Employer Incidental Death Benefit	0.15% of earnable compensation

PORS

Employer Class One	7.80% of earnable compensation
Employer Class Two	13.01% of earnable compensation
Employer Class Three	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

¹ Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Net Pension Liability

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by our consulting actuary, Gabriel, Roeder, Smith and Company.

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2014, NPL amounts for SCRS and PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 42,955,205,796	\$ 25,738,521,026	\$ 17,216,684,770	59.9%
PORS	5,899,529,434	3,985,101,996	1,914,427,438	67.5%

Change in the Net Pension Liability	SCRS	PORS
Total pension liability		
Service Cost	\$ 739,021,148	\$ 149,605,726
Interest	3,021,003,664	417,950,110
Benefit Changes	0	0
Difference between actual and expected experience	638,744,910	64,336,408
Assumption Changes	0	0
Benefit Payments	(2,571,048,582)	(331,783,332)
Net Change in Total Pension Liability	1,827,721,140	300,108,912
Total Pension Liability – Beginning 06/30/2013	41,127,484,656	5,599,420,522
Total Pension Liability - Ending 06/30/2014 (a)	\$ 42,955,205,796	\$ 5,899,529,434
Plan Fiduciary Net Position		
Contributions - Employer	\$ 962,798,170	\$ 155,608,079
Contributions - Member	652,630,491	96,004,134
Refunds of contributions to members	(90,250,597)	(16,183,410)
Retirement benefits	(2,461,557,940)	(311,593,217)
Death benefits	(19,240,045)	(4,006,705)
Net Investment Income	3,517,324,405	538,385,289
Administrative Expense	(11,765,475)	(1,820,433)
Net transfers to affiliated systems	(2,469,905)	2,260,246
Other	0	0
Net Change in Plan Fiduciary Net Position	2,547,469,104	458,653,983
Plan Fiduciary Net Position – Beginning 06/30/2013	23,191,051,922	3,526,448,013
Plan Fiduciary Net Position – Ending 06/30/2014 (b)	\$ 25,738,521,026	\$ 3,985,101,996
Net Pension Liability 06/30/2014 (a) - (b)	\$ 17,216,684,770	\$ 1,914,427,438

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	0.3	0.01
Short Duration	3.0%	0.6	0.02
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	1.1	0.08
High Yield	2.0%	3.5	0.07
Bank Loans	4.0%	2.8	0.11
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.8	0.02
Emerging Markets Debt	6.0%	4.1	0.25
Global Public Equity	31.0%	7.8	2.42
Global Tactical Asset Allocation Alternatives	10.0%	5.1	0.51
Hedge Funds (Low Beta)	32.0%		
Private Debt	8.0%	4	0.32
Private Equity	7.0%	10.2	0.71
Real Estate (Broad Market)	9.0%	10.2	0.92
Commodities	5.0%	5.9	0.29
	3.0%	5.1	0.15
Total Expected Real Return	100.0%		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to changes in the discount rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 22,279,455,340	\$ 17,216,684,770	\$ 12,992,881,787
PORS	2,675,362,636	1,914,427,438	1,284,816,794

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.