PEBA
SC Retirement Systems
and State Health Plan

Past Pension Reform Legislation

In recent years, the S.C. General Assembly passed two sets of pension legislation:

- Benefit reform, also known as Act 278, in 2012.
- Funding reform, also known as the Retirement System Funding and Administration Act of 2017.

Act 278

Act 278 of 2012 created a new tier of membership, Class Three, in the South Carolina Retirement System (SCRS) and Police Officers Retirement System (PORS) with membership dates effective on or after July 1, 2012. The act established the following for Class Three members:

- Increased service requirements for retirement with full benefits.
  - Rule of 90 for SCRS;
  - 27 years of service for PORS; and
  - Age-based retirement requirements were unchanged.
- Increased the vesting period from five years to eight years.
- Changed average final compensation calculations from 12 quarters of highest earnable compensation to 20 quarters.
- Removed credit for unused annual and sick leave at retirement from benefit calculations.

As a result of Act 278, there were changes affecting Class Two and Class Three members:

- The TERI program closed, effective June 30, 2018.
- Changed cost of service purchase to be actuarially neutral.
- Excluded pay for non-mandatory overtime from SCRS earnable compensation.
- Changed eligibility for SCRS disability retirement.
- Eliminated interest on inactive accounts.

Changes affecting retirees as a result of the act included:

- Limited annual benefit adjustment, formerly referred to as a cost of living adjustment (COLA), to 1 percent up to a maximum of $500 annually.
- Added a $10,000 earnings limit for members who retired after January 1, 2013, and return to work for a covered employer, unless the member was older than 62 (SCRS) or 57 (PORS) at retirement. Other exceptions to the earnings limitation include compensation from certain elected and appointed offices and for certain critical needs positions in public schools.

General Assembly Retirement System

Closed the General Assembly Retirement System (GARS) to newly elected officials after the general election of 2012; new members may join SCRS or the State Optional Retirement Program (State ORP).

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Retirement System Funding and Administration Act of 2017

Legislation did not change the benefits provided to members of the retirement systems as a result of the Retirement System Funding and Administration Act of 2017. Instead, the goal was to pay down the unfunded liability faster by:

- Reducing the funding period;
- Increasing contribution rates; and
- Decreasing negative amortization.

The act decreased the assumed rate of return from 7.5 percent to 7.25 percent, effective July 1, 2017. This rate will remain in effect through July 1, 2021, at which time a new rate will be set by the General Assembly. PEBA will provide a proposed rate based upon a recommendation from the systems' actuary and in consultation with the Retirement System Investment Commission (RSIC).

The act also changed employee and employer contribution rates, effective July 1, 2017:

- The SCRS employee rate was increased to and capped at 9 percent.
- The PORS employee rate was increased to and capped at 9.75 percent.
- Employer rates for SCRS and PORS increased by 2 percent. A schedule of rates includes additional 1 percent increases annually through July 1, 2022. The General Assembly provided funding in fiscal years 2018, 2019 and 2020 for credits toward employer contributions for most employers participating in SCRS and PORS.

The Retirement System Funding and Administration Act of 2017 also gradually reduces the maximum funding period from 30 years to 20 years by July 1, 2027. The schedule reflects a one-year reduction in the funding period for each of the next 10 years, but it also allows for future unforeseen investment losses.

The legislation took several important steps to increase funding to the Retirement Systems, which improves the financial condition of the plans more quickly and incorporates a cushion for possible future adverse investment experience.

Effects of 2017 legislation on SCRS

While the Unfunded Actuarial Accrued Liability (UAAL) has continued to rise, the additional contributions required by the 2017 legislation have reduced the funding period. If actuarial assumptions are met, the funding period is expected to shorten over time. The actual reduction in the amortization period will depend upon emerging experience, including investment experience.