
**South Carolina Public Employee Benefit Authority
Retirement Policy Committee
Meeting Minutes (as Adopted May 2, 2013)**

Monday, April 15, 2013

2nd Floor Conference Room
202 Arbor Lake Drive
Columbia, South Carolina 29223

Board Members Present:

Mr. John Sowards, Chairman (in person)
Mr. Frank Fusco (in person)
Mr. Art Bjontegard, Ex-officio (in person)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Justin Werner, Travis Turner, Robbie Bell from the South Carolina Public Employee Benefit Authority (PEBA); Donald Tudor from State Retirees' Association; Daniel Brennon from the State Treasurer's Office.

I. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Chairman Sowards called the meeting to order at 4:30 p.m. Chairman Sowards gave the invocation. Ms. Hayes confirmed meeting notice in compliance with the Freedom of Information Act.

A. Adoption of Proposed Agenda

Mr. Fusco moved to adopt the proposed agenda. Mr. Bjontegard seconded, with the unanimous vote to approve.

II. APPROVAL OF MEETING MINUTES – JANUARY 16, 2013

Mr. Fusco moved to approve. Mr. Bjontegard seconded. The meeting minutes were unanimously approved.

Chairman Sowards requested the committee hold in abeyance the Executive Session scheduled for the end of the meeting.

III. UPDATE: HUTTO V. SCRS

Mr. Justin Werner explained the Hutto case. He explained that it is hopefully the last case in the string of cases arising out of the requirement for working retirees to contribute to the retirement systems with no increase to benefit. The Hutto case was filed in 2010. He explained that the request to reconsider the denial of the case has been rejected. They have until May ? to file a final appeal. Chairman Sowards requested the committee to submit this as information to the full Board on Wednesday April 17, 2013. No objections from committee members.

IV. UPDATE: DISABILITY RETIREMENT STUDY – FURTHER RESEARCH

Mr. Avant explained that a bill is pending which would repeal the portion of Act 278 that changed the standards for disability retirement for PORS. He explained that the valuation for PORS would have to be reconsidered because the current valuations are based upon the changes, but will have to be

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revised to take into account the reversion back to the own-occupation standard of disability retirement. He explained that the section of the bill was originally shot down in the Senate, but was put in the House version at the last minute. The PORS disability language stayed in the conference committee bill, arising out of the Senate's concern surrounding the burden posed by the stricter standard for PORS disability retirement and eventually passed. Mr. Van Camp explained that the statisticians considered the implications of the changes to try to determine how the rate-of-approval is related to the standard. In other words: are there more approvals when the less-strict standard of own-occupation disability than with the stricter any-occupation disability? He explained that PEBA may have to pay to actuaries to delve the depths of the information available to determine the value of the changes. Mr. Fusco introduced a list of considerations for the changes in disability retirement standards. He asserted that there should be a more robust fraud prevention system in place and that there should be a benchmark against which future determinations would be compared to assess the value of the updates. Chairman Sowards agreed with Mr. Fusco's list of consideration and requested staff to prepare a response to each of the questions in preparation for the May committee meeting. Mr. Avant asked for clarification on what the purpose of the "fairness" question with regard to the disability retirement standards. He explained that PEBA would have to consider whether the disability model is being used as a replacement for income or for a replacement for future pension benefits. Mr. Avant explained that one could only be eligible for either retirement or disability pension, but not both together. Chairman Sowards asked whether the retirement benefit is less than the full income of a working employee. Mr. Avant explained that, generally, retirement benefits are less than the full income when an employee is working. Mr. Avant explained that the disability benefit is calculated with a projected benefit out to when the employee would have been eligible to retire, minus an actuarially determined reduction based upon the lack of contributions for that employee. Chairman Sowards requested further information on eligibility for retirement and disability retirement and how the benefits are calculated so that he can better understand it to evaluate the considerations necessary for evaluating how PEBA retirement systems compare to other states systems. Mr. Bjontegard explained that in England, the public disability authority required all citizens on disability to submit to a physical to determine their continued eligibility. If someone did not submit to the physical, his benefits would be cut off. One-third of those on disability did not submit to the physical. Of the two-thirds that did submit to the physical, half were determined not to be disabled. For this reason, Mr. Bjontegard asserted, a more robust fraud prevention system is a good idea. Mr. Avant reminded the committee that any changes to criteria or benefit calculations that would result in an added cost to the system will drive contribution rates up to accommodate for the extra expense. Mr. Bjontegard requested different scenarios that demonstrate the impact of the changes and the criteria used to determine benefits for a future meeting. Mr. Fusco requested further clarification on what PEBA does for fraud prevention and what other states are doing. Mr. Van Camp explained that there is a 14-state grouping of southeastern states that can be used as the basis for a survey of system setups.

V. STRATEGIC PLANNING AND COMMITTEE CHARTER

Mr. Sowards explained that he does not wish to engage in too much discussion for strategic planning. He explained that PEBA has enlisted the services of the University of South Carolina Institute of Public Service and Policy Research. Mr. Bjontegard asked Mr. Avant what is the expected result of the project. Mr. Avant explained that he hopes to have a living document established for PEBA's strategic plan by the end of June 2013. Mr. Sowards explained that many of the strategic plans he has seen contain "soft language" and "feel-good" ideas that are difficult to measure and do not provide recognizable goals. He explained that there should be a plan which has a specific, defined, and unchanging master plan with a continuously-changing strategy for the execution of the master plan. Mr. Fusco agreed with Chairman Sowards' assessment of what a strategic plan should look like. Chairman Sowards gave an example, by explaining that if the PEBA

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Board is given discretion over vendors for ORP, there will need to be a strategic goal or initiative related to how the Board will carry out this duty. He added other examples, such as annual system valuations and the Board's relationship to the SCRSIC. Chairman Sowards added that the plan should provide a template for action, including measures and goals. Mr. Bjontegard asked for details of what the USC project hopes to achieve, because he is skeptical of "university projects" such as this. Mr. Avant explained that the project can be driven by PEBA's desires for the outcomes. Mr. Fusco asked whether this topic will be taken up during the full Board meeting on Wednesday April 17, 2013. Ms. Hayes advised that there will be discussion in the FAAC Committee meeting and the full Board meeting. Mr. Bjontegard requested to meet with Bill Tomes, the consultant from USC IPSPR who is leading the strategic planning project. Mr. Bjontegard advised Mr. Avant to set up a meeting between the Board and Mr. Tomes as soon as possible to prevent staff from getting too far into the planning project without the Board's input.

Mr. Sowards then introduced the committee charter. He explained that all the committee members provided input and the document is a collaborative effort. Mr. Fusco asked that the planning efforts of the Board and its committees should include a schedule of assigned duties and/or responsibilities of the Board. He requested that a schedule be developed that would lay out the timeline for these various responsibilities. Mr. Avant asserted that a good schedule would be based around the various quarterly reports required of PEBA. Mr. Sowards suggested that the committee meetings should be scheduled far enough ahead of the monthly PEBA meetings that the committee can review its actionable assignments and present knowledgeable recommendations to the Board.

VI. EXECUTIVE SESSION

Chairman Sowards requested that the committee have an open brief on the lawsuit between the SCRSIC and the State Treasurer. He stated he did not want any advice, but rather a brief. He explained that the suit surrounds the SCRSIC's request for a writ of mandamus requiring the Treasurer to pay funds for investments that were properly approved. He explained that the State Retirees Association submitted an amicus brief to the court and the Treasurer as of April 15, 2013 has agreed to pay the funds for the investments. The Treasurer has claimed that the case is moot because he has agreed to pay the funds. Chairman Sowards explained that the Court has ordered all parties to be in court at 8:30 a.m. on Tuesday April 16, 2013, likely meaning that Court does not believe the case is moot. He explained that the PEBA Board is, in no way, a party to the case. Mr. Avant explained that he has crafted a document asserting that PEBA has met its statutorily-required standard of fiduciary responsibility regarding the SCRSIC.

Chairman Sowards requested an executive session for the Wednesday April 17, 2013 PEBA Board meeting for more clarification.

There being nothing further to discuss, Chairman Sowards adjourned the meeting at 5:30 p.m.