



Meeting Minutes | Retirement Policy Committee

Wednesday, December 6, 2023 | 1:00 p.m.

202 Arbor Lake Dr., Columbia, SC 29223 | First Floor Conference Room

Minutes Approved March 6, 2024

Board Members Present for All or a Portion of the Meeting: Mr. Steve Heisler, Committee Chairman Paige Lewis, PEBA Board Chairman Joe “Rocky” Pearce, Sheriff Steve Mueller, and Mr. Ed Walton.

Board Members Absent: Mr. Calvin Elam

Others Present for All or a Portion of the Meeting: Peggy Boykin, Robby Brown, Ashley Brindle, Amber Carter, Justin Ellis, Evan Mitchell, Jessica Moak, Heather Muller, Sheila Pinckney, Katie Turner, Travis Turner, Angie Warren, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Shaun Eskamani and Sam Kirby from CapTrust; Danny White from Gabriel, Roeder, Smith & Company, Stephanie Biddle and Nancy Ornduff from Empower; Elke Delacruz, Amy Heyel, and David Rowe from Corebridge Financial; Austin Morris from TIAA; and Sam Griswold from the State Retirees Association of South Carolina.

I. Call to Order

Chairman Paige Lewis called the PEBA Retirement Policy Committee (Committee) meeting to order at 1:00 p.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

II. Approval of Meeting Minutes- June 21, 2023

Mr. Ed Walton made a motion, which was seconded by Sheriff Steve Mueller, and passed unanimously, to approve the minutes from the June 21, 2023, Committee meeting.

III. Presentation of the 2023 Actuarial Valuations by the External Actuary

Mr. Danny White, Senior Consultant, from Gabriel, Roeder, Smith & Company (GRS), presented the 2023 Retirement Systems Actuarial Valuations to the Committee.

Mr. White reviewed a summary of the membership demographics of the systems and the benefits provided to members.

Mr. White noted that the investment return for the South Carolina Retirement Systems (SCRS) fiscal year 2023 was 7.2 percent, which was \$71 million more than expected for SCRS. Mr. White explained that the valuation uses a five-year smoothing process for investment returns and the valuation assets are approximately equal to the market value of assets on July 1, 2023. Mr. White advised that active membership in SCRS increased 2.5 percent and their annualized pay increased 7.3 percent from fiscal year 2022 to fiscal year 2023.

Mr. White discussed the summary results of the 2023 valuation for both the South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS), and pointed out that the funding ratio for SCRS and PORS increased from 57 percent to 58 percent, and 65 percent to 66 percent respectively, during the last year. Mr. White added that effective July 1, 2017, employee contribution rates were capped at 9.00 percent for SCRS, and 9.75 percent for PORS.

Mr. White added that the calculated funding period for SCRS decreased to 16 years for 2023, and remained 16 years in 2023 for PORS. It was noted that positive amortization on the unfunded liability is reached once a funding period of approximately 20 years is obtained. The employer contribution rates for both SCRS and PORS are statutorily scheduled and are fully phased in according to Act 2017.

Mr. White also provided the Valuation results for the Judges and Solicitors Retirement System (JSRS); the General Assembly Retirement System (GARS); the South Carolina National Guard Retirement (SCNG) System; and the contributions necessary for each system.

Mr. White reviewed historical and projected liability and assets for both SCRS and PORS, and provided a history of the Unfunded Actuarial Accrued Liability (UAAL) for SCRS. Mr. White stated that the UAAL was expected to decline from 2022 to 2023, but the UAAL slightly increased due to larger than expected salary increases for active members. The UAAL in 2024 is expected begin declining and this will be a financial turning point for SCRS.

Mr. White discussed the projected unfunded liability and projected contribution rates for SCRS and PORS, and projected probabilities of outcomes. Mr. White stated that the funding ratios are beginning to increase and the UAAL is decreasing for both systems. It is highly likely the current employer contribution rates for SCRS and PORS will satisfy the 20-year maximum amortization period in statute. GRS' recommendation is to stay the course and give the strategy time to achieve its objectives.

Mr. White turned the discussion to the upcoming Experience Study that will be conducted for the period ending June 30, 2023, and presented to the Board in June of 2024. He explained that an experience study is a review of economic information, member behavior, and demographics to develop actuarial assumptions used in an actuarial valuation. The objective of an experience study is to validate current actuarial assumption or recommend new assumptions for the Board's consideration. Mr. White noted that best practice is to conduct an experience study every three to five years. The last experience study on demographic assumptions was as of June 30, 2019.

Mr. White added that the assumed rate of return is currently 7.0 percent and will be reviewed in November 2024. PEBA will submit an assumed rate of return recommendation to the Chairman of the Senate Finance Committee by the end of 2024. The General Assembly may take action to adopt an updated investment return assumption for use beginning with the July 1, 2025, actuarial valuation.

Mr. Walton made a motion, which was seconded by Sheriff Mueller, and approved unanimously, that the Retirement Policy Committee recommend to the PEBA Board that it receive as information the actuarial valuations of SCRS, PORS, JSRS, GARS, and SCNG as of July 1, 2023; and

adopt the employer contributions for JSRS, GARS, and SCNG recommended therein, to be effective July 1, 2024.

IV. Defined Contribution Plans Quarterly Investment Performance Report

Mr. Shawn Eskamani, Principal and Financial Advisor Financial from CapTrust, introduced Mr. Sam Kirby, Investment Strategist, who provided market commentary for the quarter, specifically noting that September 2023 was a very challenging month for stocks and bonds, but the market rebounded significantly in November. Mr. Kirby reported negative quarterly results in most major asset classes, including international and emerging markets.

Mr. Eskamani reviewed the South Carolina Deferred Compensation Program (Deferred Comp) investment performance for the third quarter of 2023, and stated that CapTrust recommends keeping the T. Rowe Price Growth Stock fund, the American Funds Europacific Growth R6 fund, and the Alliance Bernstein Small Cap Growth I fund on the watch list for further review. Mr. Kirby provided the rationale behind these investment watchlist recommendations.

Mr. Eskamani turned the discussion to the State Optional Retirement Program (State ORP) investment performance for the third quarter of 2023, and stated that CapTrust recommends keeping the Vanguard U.S. Growth Admiral fund in the Corebridge lineup on the watch list for further review. Mr. Kirby provided the rationale behind this investment watchlist recommendation.

Mr. Eskamani advised that CapTrust recommends replacing the Invesco Small Cap Growth fund, in the Empower Retirement investment lineup with the Fidelity Small Cap Growth K6 fund. Mr. Kirby provided the rationale behind this fund replacement.

Mr. Eskamani stated that CapTrust recommends placing the JP Morgan Emerging Markets Equity R6 fund on the watch list for further review. Mr. Kirby provided the rationale behind this investment watchlist recommendation.

V. Defined Contribution Plan Fund Change Recommendation

Mr. Eskamani reviewed fund change recommendations and share class changes for the State ORP and Deferred Comp as proposed in its Investment Menu Recommendations memo dated December 6, 2023.

Sheriff Mueller made a motion, which was seconded by Mr. Walton, and approved unanimously, that the Retirement Policy Committee recommend to the PEBA Board it adopt the changes to the State ORP and Deferred Comp investment options, as presented and recommended by CAPTRUST, PEBA's co-fiduciary investment consultants.

VI. Deferred Compensation Program Quarterly Plan Summary

Ms. Nancy Ornduff, from Empower, presented the third quarter of 2023 Deferred Comp quarterly plan summary to the Committee. Ms. Ornduff reviewed the plan statistics for the third quarter, including participant accounts; assets; contributions and distributions; rollovers; new enrollments; and participating employers.

Ms. Ornduff concluded her presentation by reviewing retirement plan advisory activity; outreach to participants and employers during the third quarter; and website and call center statistics.

VII. State ORP Service Provider Review (Empower)

Mr. Travis Turner, Deputy Director and Chief Financial Officer, introduced Ms. Stephanie Biddle, relationship manager for Empower, to provide a service overview of the State ORP administered through Empower. Ms. Biddle reminded the Committee that Empower acquired MassMutual in December of 2020, and migrated the State ORP from the MassMutual recordkeeping platform to the Empower recordkeeping platform in September of 2022.

Ms. Biddle reported that State ORP assets at Empower totaled approximately \$540 million with 11,877 participants. She further noted that the median participant balance at Empower was \$16,888 as of the third quarter of 2023.

Ms. Biddle also reviewed contributions and withdrawal history, participant balance by age, retirement plan advisory activity, participant engagement communication, and website and call center statistics.

VIII. Deferred Compensation Program Amendment

Mr. Justin Werner, General Counsel, reviewed an amendment to the Deferred Comp 457(b) Plan. Mr. Werner advised that prior to the enactment of the SECURE Act 2.0, changes in deferral rates, including enrollments, for participants in a governmental 457(b) plan could not become effective until the first day of the month following the month in which the change was requested. This rule was unique to 457(b) plans and did not apply to other defined contribution plans. Section 306 of the SECURE Act 2.0 gave plan sponsors the option to remove this “first day of the month” rule and now allows deferral elections for governmental 457(b) plans to be made at any time prior to the date that the compensation being deferred is available.

Sheriff Mueller made a motion, which was seconded by Mr. Walton, and approved unanimously, that the Retirement Policy Committee recommend that the PEBA Board amend the Deferred Comp 457(b) plan, effective January 1, 2024, to delete the “first day of the month” rule and to allow deferral elections for the plan to be effective as soon as practicable after being made, with conforming plan document amendments to be made at a later time.

IX. Old Business/Director’s Report

Ms. Peggy Boykin, Executive Director, thanked PEBA staff and the various Deferred Comp and State ORP service providers for their collaborated efforts to provide service for PEBA’s defined contribution plan participants.

X. Adjournment

There being no further business, and upon motion by Mr. Walton, which was seconded by Sheriff Mueller, and approved unanimously, the Committee meeting adjourned at 2:41 p.m.