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Meeting Minutes | Retirement Policy Committee

Wednesday, March 16, 2016 | 9:30 a.m.
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved May 18, 2016

Board Members Present: Chairman David Tigges and Mr. John Sowards

Board Members Present Via Telephone: Sheriff Leon Lott and Mr. Steve Osborne

Others Present for All or a Portion of the Meeting: Peggy Boykin, Ashley Brindle, Sarah Corbett, Joe Greene, Heather Muller, Tammy Nichols, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Sam Griswold from the State Retirees Association of South Carolina; Paul Staples from Summit Strategies Group (via telephone); and John Barfield from the South Carolina Comptroller General's Office.

I. Call to Order

Chairman David Tigges called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:33 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

II. Adoption of Proposed Agenda

Mr. Leon Lott made a motion, which was seconded by Mr. John Sowards, and approved unanimously, to adopt the proposed Committee meeting agenda.

III. Approval of Meeting Minutes- December 2, 2015 and February 9, 2016

Mr. Sowards made a motion, which was seconded by Mr. Lott, and approved unanimously, to approve the December 2, 2015, and the February 9, 2016, Committee meeting minutes.

IV. Optional Retirement Program- MetLife Proposed Money Market Fund

Mr. Paul Staples, Senior Vice President and Director of Defined Contribution Services with Summit Strategies Group (Summit), reviewed the State Optional Retirement Program (State ORP) MetLife proposed money market fund change. Mr. Staples stated that MetLife has requested a change from the originally proposed Vanguard Money Market Prime Fund to the Vanguard Federal Money Market Fund. Mr. Staples explained that the replacement "Government" fund will avoid redemption fees and liquidity gates possible with the previous "Prime" money market fund. Mr. Staples added that the new fund is scheduled to be implemented on April 1, 2016, and is consistent with broader ORP changes. Mr. Staples confirmed that the change is in compliance with the State ORP Investment Policy Statement criteria.

Mr. Lott made a motion, which was seconded by Mr. Sowards, and approved unanimously, to approve the proposed MetLife Money Market Fund change from the Vanguard Money Market Prime Fund to the Vanguard Federal Money Market Fund.

V. 2016 Experience Study

Ms. Peggy Boykin, Executive Director, stated that the 2016 Experience Study was received as information at the February 18, 2016, Board meeting. Ms. Boykin reminded the Committee that the General Assembly determines the Retirement Systems actuarial rate of return, and advised that there are currently two bills in the General Assembly that provide different avenues for addressing the rate of return. S675 states that if the General Assembly does not establish the rate of return, then PEBA, along with the approval of the State Fiscal Accountability Authority (SFAA), will adjust the rate of return. H5007 states that if the General Assembly does not address the rate of return, SFAA will have the authority to establish the rate of return. Ms. Boykin stated that PEBA is deferring action on the additional actuarial assumptions within PEBA's authority until action is taken on the rate of return.

Ms. Boykin advised the Committee that SFAA will hold a special meeting to review the 2016 Experience study, the 2015 Actuarial Valuations, and funding issues in regards to PEBA and the South Carolina Retirement Systems Investment Commission (RSIC) on April 19, 2016.

Ms. Boykin reminded the Committee that based on the 2015 Actuarial Valuations, the Board approved and adopted a recommendation that would increase the employer and employee contribution rates for The South Carolina Retirement System (SCRS), by the required minimum three basis points effective July 1, 2017, to maintain a 30-year funding period. Ms. Boykin stated that the recommendation was made with the caveat that it could be amended after the completion of the Experience Study and the accompanying recommendations provided by Gabriel, Roeder, Smith & Company. Ms. Boykin reported that historically, contribution increases become effective two years after the date of the actuarial valuations. Ms. Boykin explained that the reason for the two-year delay is to allow participating employers time to incorporate the contribution increase requirements into their budgeting process.

Ms. Boykin stated that the Governor's version of the fiscal year 2017 budget includes funding for the one-half percent contribution increase that will be required to absorb the investment losses from fiscal year 2015, and would be effective July 1, 2016.

Mr. Travis Turner, Chief Financial Officer, provided a summary of the 2016 Experience Study, and the implications of the accompanying actuarial assumption changes. Ms. Boykin pointed out that if the rate of return does not exceed 7.50 percent over the next five years, the ultimate contribution rate resulting from the underperformance of fiscal year 2015, would be 11.54 percent for the employer, and 8.64 percent for the employee in fiscal year 2022, which equals a one-half percent increase in the contribution rate. Ms. Boykin stated that the Committee must decide if it would be more beneficial to increase the employer and employee contribution rates for SCRS by the required minimum three basis points, or to raise the contribution rate by one-half percent to absorb the investment losses from fiscal year 2015. Ms. Boykin added that an additional employer and employee contribution increase of between two and three percent would be needed to fully recognize the results of the recommendations from the Experience Study, and the investment performance through January 2016.

Ms. Boykin advised the Committee that as of March 11, 2016, the fiscal year-to-date investment return was -3.61 percent, which is still significantly below the 7.50 percent assumed rate of return, but is a slight increase over the -6.0 percent fiscal year-to date investment return ending January 2016.

VI. Best Practices Update

Mr. Turner stated that the National Association of Defined Contribution Administrators (NAGDCA), publishes a series of informational guides that define best practices related to Defined Contribution Plans. Mr. Turner reviewed a compliance comparison between NAGDCA's Best Practice Recommendations, the State ORP, and the South Carolina Deferred Compensation Program (SCDCP).

Following further discussion, the Committee decided not to move forward with implementing automatic enrollment to the SCDCP. The Committee also decided to defer pursuing legislative change that would allow PEBA to determine the appropriate number of record-keepers for the State ORP.

VII. Old Business/Director's Report

Ms. Boykin provided the Director's report, and stated that the House will begin budget deliberations next week. Ms. Boykin reminded the Committee that the House version of the budget fully funds the State Health Plan, and includes funding that will cover only the general fund portion of the one-half percent increase in employer contribution rates. The House version includes a one percent pay increase for state employees, and a one-half percent increase in the employer and employee contribution rates. Ms. Boykin added that contribution increases would be effective July 1, 2016.

Ms. Boykin advised that a combined meeting of the Senate Finance Committee - Special Subcommittee to Review the Investment of State Retirement Funds, and the Health and Human Services Subcommittee will meet on March 24, 2016, and will receive a presentation from PEBA and RSIC, with regards to the Experience Study and funding requirements.

Ms. Boykin stated that since SFAA will hold a special meeting on April 19, 2016, the PEBA Board retreat will need to be rescheduled, and may be postponed until the end of the legislative session. Ms. Boykin advised that the April Board meeting will need to be scheduled since the Board is required by statute to meet monthly. Ms. Boykin added that the Retirement Policy Committee meeting may need to meet in April after the SFAA meeting on April 19, 2016.

Ms. Boykin informed the Committee that PEBA will be hiring an Enterprise Risk Manager in the near future.

VIII. Adjournment

There being no further business, and upon motion by Mr. Lott, which was seconded by Mr. Sowards, and approved unanimously, the Committee meeting adjourned at 10:30 a.m.