


Serving those who serve South Carolina

South Carolina Retirement Systems update

Municipal Association of South Carolina
Travis Turner, CPA
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S.C. Public Employee Benefit Authority (PEBA)



- PEBA was created on July 1, 2012, combining the South Carolina Retirement Systems and the Employee Insurance Program.
- PEBA administers retirement benefits, which are defined in state statute and controlled by the S.C. General Assembly.
- Total authority for the investing of retirement trust funds is statutorily delegated to another agency, the Retirement Systems Investment Commission, or RSIC.

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Total membership as of July 1, 2016



	SCRS	PORS
Active	190,923	26,651
Inactive	169,806	15,001
Retirees and beneficiaries¹	137,855	17,288
Total	498,584	58,940

¹Represents members who retired, including those who participate in the Teacher and Employee Retention Incentive (TERI) program or who returned to employment as a working retiree and surviving beneficiaries of former members.

Information from Actuarial Valuation Reports as of July 1, 2016

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Covered employers as of June 30, 2016



	SCRS	PORS
State agencies and higher education	33	30
Public school districts	117	53
Other	577	325
Total	727	408

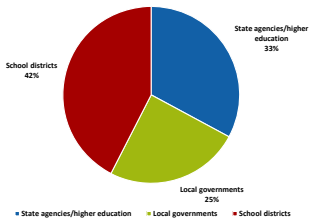
Information from the South Carolina Retirement Systems Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016

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SCRS contributions by employer type



Fiscal year 2016

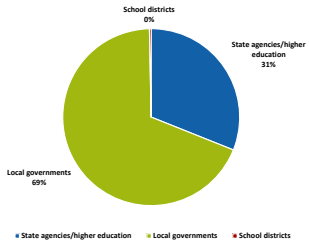


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PORS contributions by employer type



Fiscal year 2016



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Monetary impact for all systems

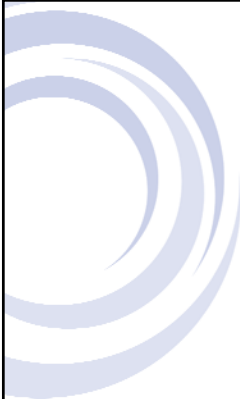


- \$28 billion net position restricted for pensions
- \$872 million in employee contributions
- \$1.3 billion in employer contributions
- \$3.2 billion in benefits distributed

Information from the South Carolina Retirement Systems Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016

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Funding history and contribution rates



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Unfunded liability



- What is an unfunded liability?
 - The excess of the actuarial accrued liability over the actuarial value of assets
- Stated another way: If you have enough assets invested at the valuation date such that they can grow at the assumed rate of return and pay all projected benefits and expenses when due, then you have no unfunded liability.

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SCRS unfunded liability as of June 30, 2016



	Market value \$21.86 billion	Actuarial value \$18.57 billion
Investment losses	\$7.1 billion	\$7.1 billion
Deferred investment losses	\$3.3 billion	Not applicable
Interest on the unfunded actuarial accrued liability (UAAL)	\$2.98 billion	\$2.98 billion
COLAs	\$3.31 billion	\$3.31 billion
Non-COLA benefit changes	\$63 million	\$63 million
Liability experience	\$2.56 billion	\$2.56 billion
Assumption changes	\$2.56 billion	\$2.56 billion

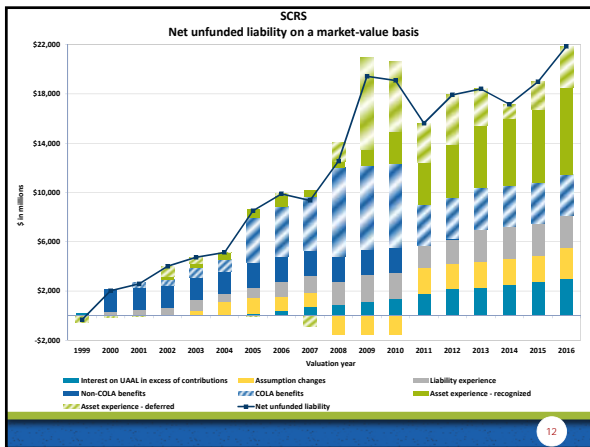
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PORS unfunded liability as of June 30, 2016



	Market value \$2.69 billion	Actuarial value \$2.21 billion
Investment losses	\$1.02 billion	\$1.02 billion
Deferred investment losses	\$479 million	Not applicable
Interest on the unfunded actuarial accrued liability (UAAL)	\$178 million	\$178 million
COLAs	\$481 million	\$481 million
Non-COLA benefit changes	(\$147 million)	(\$147 million)
Liability experience	\$138 million	\$138 million
Assumption changes	\$543 million	\$543 million

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How did we get here?

- Investment performance: of the \$21.8 billion (market value) unfunded liability for SCRS, \$10.4 billion is attributable to investment under performance.
- The remaining \$11.4 billion is due to cost-of-living adjustments, or COLAs, that have been granted but not prefunded, other liability experience and interest on the UAAL.

Investment returns

- Investment returns have been challenging, not only for South Carolina's public plans, but the country as a whole.
- Systems' funding is based on the investment program earning 7.5 percent each year. If the investment program does not earn 7.5 percent, there will be a funding shortfall.

Investment returns

- The 10-year annualized return of the investment program as of June 30, 2016, was 4.49 percent, net of fees.
- The median 10-year return for public pension plans with greater than \$1 billion in total funds as of June 30, 2016, was 5.7 percent.*

*Rate provided by NASRA.

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Investment performance

Period	Actual Performance Annualized	Actuarial Assumed Rate of Return	Actuarial Inflation Component	US CPI Urban Consumers SA
FY 2016	-0.39%	7.50%	1.01%	1.01%
3-year Annualized	5.28%	7.50%	1.90%	1.90%
5-Year Annualized	5.19%	7.50%	1.82%	1.82%
10-Year Annualized	4.49%	7.50%	2.75%	2.02%

Information from the South Carolina Retirement Systems Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.

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Ratio of active members to retirees

Year	Active members	Retirees (includes TER)
1999	~195,000	~55,000
2000	~195,000	~65,000
2001	~195,000	~75,000
2002	~195,000	~85,000
2003	~195,000	~95,000
2004	~195,000	~105,000
2005	~195,000	~115,000
2006	~195,000	~125,000
2007	~195,000	~135,000
2008	~195,000	~145,000
2009	~195,000	~155,000
2010	~195,000	~165,000
2011	~195,000	~175,000
2012	~195,000	~185,000
2013	~195,000	~195,000
2014	~195,000	~205,000
2015	~195,000	~215,000
2016	~195,000	~225,000

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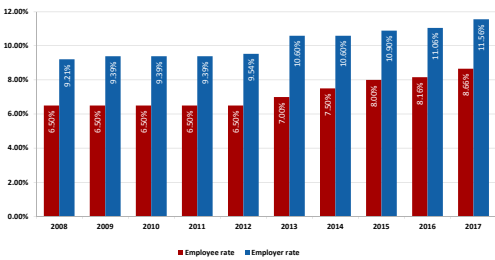
Three sources of income



- There are three sources of income to provide benefits in the Retirement Systems: investment income, employee contributions and employer contributions.
- If any source of funding is reduced, the other sources must be increased, or benefits reduced, to keep the Systems sound.

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SCRS contribution rates by fiscal year



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Additional increases to contribution rates



- Contributions must be increased to keep the funding period of the pension plans within 30 years.
- Statute allows PEBA and the State Fiscal Accountability Authority (SFAA) to increase contribution rates by 0.50 percent in a given year.

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Additional increases to contribution rates



- The PEBA Board of Directors and SFAA approved a 0.5 percent increase in both employee and employer contribution rates for SCRS and PORS effective July 1, 2017. SCRS rates would increase to 9.16 percent for employees and 12.06 percent for employers. PORS rates would increase to 9.74 percent for employees and 14.74 percent for employers.
- The rates adopted by the PEBA Board and SFAA could be modified prior to July 1, 2017, if the General Assembly takes action on SCRS and PORS during the 2017 legislative session.

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Additional increases to contribution rates



- Following 2012 reforms, no decrease in contribution rates may be made until the System is at least 90 percent funded.
- Employers and employees must share any additional increases required to sustain the pension plans.


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Additional increases to contribution rates



- The Joint Committee on Pension Systems Review is studying various options to fund the System. The committee is reviewing:
 - How to recognize deferred investment losses of \$3.5 billion;
 - Options for lowering the assumed rate of return; and
 - How to pay down the unfunded liability.
- It's projected these options will take at least an additional 2-3 percent in future contribution increases without taking into account any future investment losses.


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**Joint Committee
on Pension Systems
Review**

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Pension systems review



- The General Assembly's Joint Committee on Pension Systems Review was formed in response to ongoing funding challenges.
- Staff from PEBA, the actuarial firm Gabriel Roeder Smith & Company, as well as the South Carolina Retirement System Investment Commission are working with the Committee to ensure they have all information needed to make informed decisions.

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Pension systems review



- Joint Committee first met August 30, 2016.
- Meeting materials and reports are available at www.scstatehouse.gov.

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Disclaimer



This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.
