



PEBASM
SC Retirement Systems
and State Health Plan

Serving those who serve South Carolina

PEBA update

S.C. Association of Counties | August 2, 2022
Justin Werner, Deputy General Counsel

1

South Carolina Retirement Systems

2

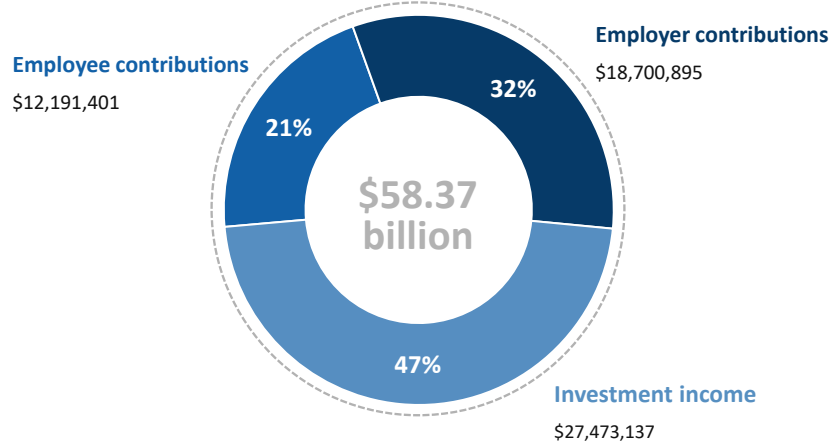
Size and scope of the retirement systems as of July 1, 2021

	SCRS	PORS
Membership		
Active	199,162	26,555
Retirees/beneficiaries	148,008	20,181
Inactive	207,341	20,589
Total	554,511	67,325
Employers	813	437
Covered payroll	\$11.66 billion	\$1.44 billion
Actuarial value of assets	\$30.35 billion	\$5.53 billion
Total annual benefits paid	\$3.09 billion	\$425.23 million

3

Additions to pension trust funds | 2007-2021

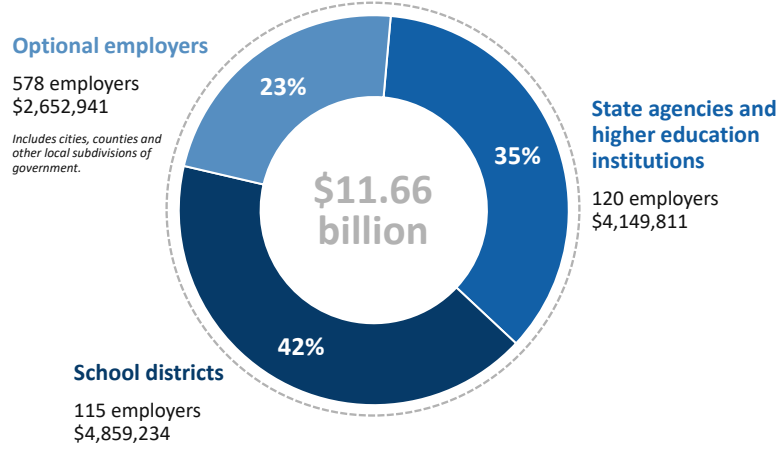
Includes SCRS, PORS, GARS, JSRS and SCNG
Amounts expressed in thousands



4

FY 2021 total annual compensation by employer type for SCRS

Includes active employees, State ORP participants and return-to-work retirees
Amounts expressed in thousands

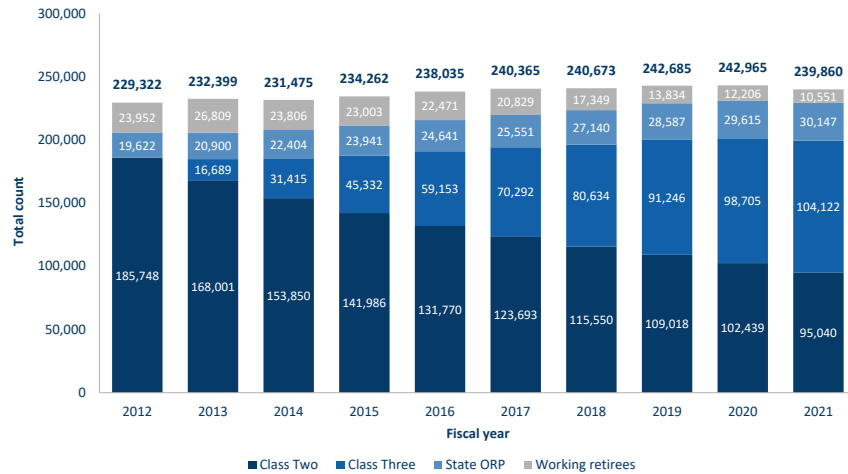


South Carolina Public Employee Benefit Authority

5

SCRS contributing membership

As of July 1, 2021, 52% of active SCRS members were Class Three.

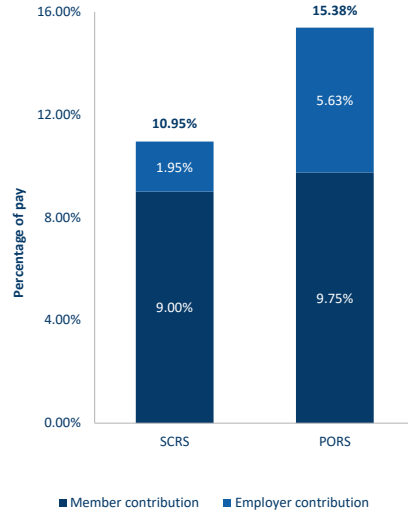


South Carolina Public Employee Benefit Authority

6

Normal cost of benefits for SCRS and PORS

The difference between the total employer contribution rate and the employer portion of the normal cost is used to finance the unfunded actuarial accrued liability.



7

Contributions effective July 1, 2022

	SCRS	PORS
Member contribution rate¹	9.00%	9.75%
Employer contributions		
Retirement contribution	17.41%	19.84%
Incidental death benefit²	0.15%	0.20%
Accidental Death Program benefit²	N/A	0.20%
Total employer contribution rate	17.56%	20.24%

¹Member rates are capped at the listed rates.

²Rates are applicable only to employers covered under these programs.

8

Pension reform legislation

South Carolina Public Employee Benefit Authority

9

9

Past pension reform

2012 Benefit reform was passed.

2017 Funding reform was passed.

South Carolina Public Employee Benefit Authority

10

10

Act 278 of 2012

- Created Class Three tier of membership in SCRS and PORS for newly hired employees with membership dates on or after July 1, 2012.
 - Increased service requirements for retirement with full benefits
 - Rule of 90 for SCRS; 27 years of service for PORS.
 - Age-based retirement requirements were unchanged.
 - Increased 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.

11

Act 278 of 2012

- Changes affecting Class Two and Three members:
 - Closed TERI program 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.

12

Act 278 of 2012

- Changes affecting retirees:
 - Set a guaranteed 1% annual benefit adjustment (formally referred to as a COLA) up to a maximum of \$500 annually.
 - Added \$10,000 earnings limit for members who retired after January 1, 2013, and return to work for a covered employer, unless the member was over age 62 (SCRS) or age 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.
- Closed GARS to newly elected members of the General Assembly beginning with the general election of 2012.
 - New members may join SCRS or State ORP.

13

Retirement System Funding and Administration Act of 2017

- Legislation did not change the benefits provided to members of the Retirement Systems.
- Goal of the legislation was to pay down the unfunded liability faster by:
 - Reducing the funding period;
 - Increasing contribution rates; and
 - Decreasing the negative amortization.
- Decreased the assumed rate of return from 7.5% to 7.25% effective July 1, 2017.
 - Rate reevaluated every four years
 - Rate proposed by PEBA based upon the recommendation of the systems' actuary and in consultation with the RSIC.
 - Rate reduced to 7.00% effective July 1, 2021.

14

Retirement System Funding and Administration Act of 2017

- Changed employee and employer contribution rates effective July 1, 2017.
 - SCRS employee rate was increased to and capped at 9%.
 - PORS employee rate was increased to and capped at 9.75%.
 - Employer rates for SCRS and PORS increased by 2%. A schedule of rates includes additional 1% increases annually through July 1, 2022.
 - The General Assembly has provided funding in fiscal years 2018 through 2022 for credits towards employer contributions for most employers participating in SCRS and PORS.

Retirement System Funding and Administration Act of 2017

- Gradually reduced the maximum funding period from 30 years to 20 years by July 1, 2027.
 - Schedule reflects a one-year reduction in the funding period for each of the next 10 years, but 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.

SCRS contribution schedule set by Retirement System Funding and Administration Act of 2017

Fiscal year	Original employer contribution schedule	Amended employer contribution schedule	Employee contribution	Maximum amortization period	Actual amortization period
2017	11.56%	11.56%	8.66%	30 years	24 years
2018	13.56%	13.56%	9.00%	30 years	22 years
2019	14.56%	14.56%	9.00%	29 years	23 years
2020	15.56%	15.56%	9.00%	28 years	20 years
2021	16.56%	15.56%	9.00%	27 years	20 years
2022	17.56%	16.56%	9.00%	26 years	
2023	18.56%	17.56%	9.00%	25 years	
2028	18.56%		9.00%	20 years	

The General Assembly included a provision in its 2020 continuing resolution suspending the statutory employer contribution rate increase for fiscal year 2021. As such, it is expected that the scheduled time period for employer contribution rate increases will be extended by one year.

Rates include incidental death benefit contributions when applicable.

South Carolina Public Employee Benefit Authority

17

17

PORS contribution schedule set by Retirement System Funding and Administration Act of 2017

Fiscal year	Original employer contribution schedule	Amended employer contribution schedule	Employee contribution	Maximum amortization period	Actual amortization period
2017	14.24%	14.24%	9.24%	30 years	23 years
2018	16.24%	16.24%	9.75%	30 years	20 years
2019	17.24%	17.24%	9.75%	29 years	18 years
2020	18.24%	18.24%	9.75%	28 years	18 years
2021	19.24%	18.24%	9.75%	27 years	19 years
2022	20.24%	19.24%	9.75%	26 years	
2023	21.24%	20.24%	9.75%	25 years	
2028	21.24%		9.75%	20 years	

The General Assembly included a provision in its 2020 continuing resolution suspending the statutory employer contribution rate increase for fiscal year 2021. As such, it is expected that the scheduled time period for employer contribution rate increases will be extended by one year.

Rates include incidental death benefit and Accidental Death Program contributions when applicable.

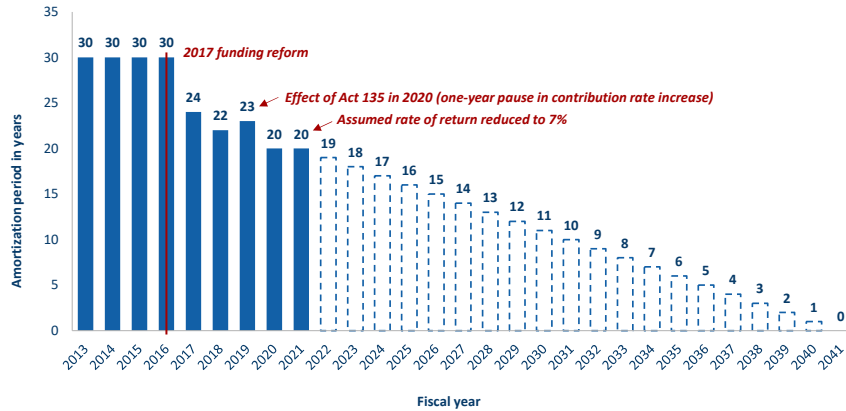
South Carolina Public Employee Benefit Authority

18

18

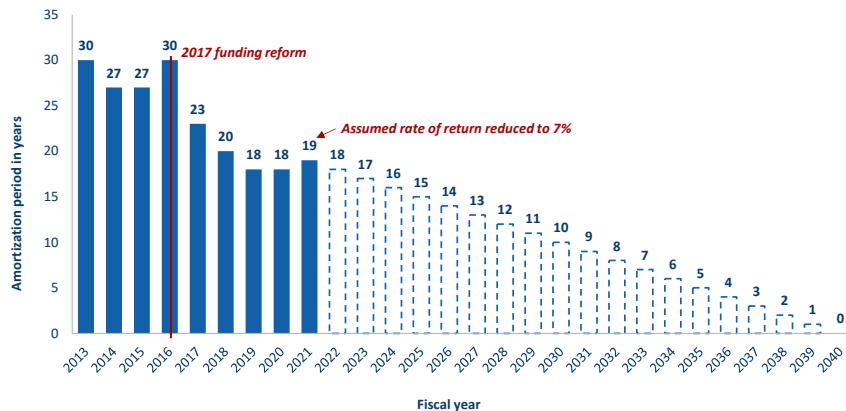
Effects of 2017 legislation on SCRS

While the 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.



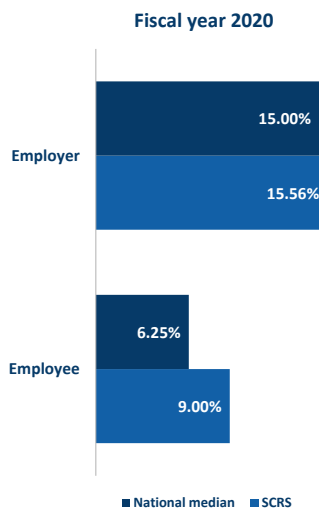
Effects of 2017 legislation on PORS

While the 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.



Contribution rate comparison for general employee plans

According to the National Association of State Retirement Administrators (NASRA), the median employer contribution rate was 15% of pay and the median employee contribution rate was 6.25% of pay for fiscal year 2020 for general employee and teacher plans that are also covered by Social Security.

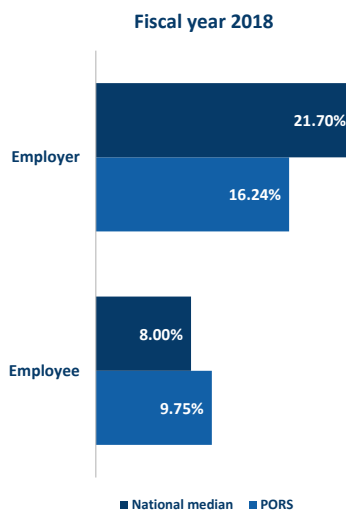


National median contribution rates for fiscal year 2020 from NASRA, November 2021.

21

Contribution rate comparison for public safety plans

According to the National Association of State Retirement Administrators (NASRA), the median employer contribution rate was 21.7% of pay and the median employee contribution rate was 8% of pay for fiscal year 2018 for public safety plans that are also covered by Social Security.



National median employer contribution rate for fiscal year 2018 from NASRA, December 2019. National median employee contribution rate for fiscal year 2018 from NASRA Issue Brief, September 2019.

22

Service retirement earnings limitation

23

Earnings limitation

- Contribution and benefit structures are designed to provide a retirement benefit that replaces a portion of a member's income after retirement.
- Ability to return to covered employment after retirement without affecting benefits incentivizes members to retire earlier than they would have without the availability of unlimited post-retirement employment.
- Acceleration of members' retirement dates has a cost to the systems because it results in the systems paying benefits earlier and longer than would otherwise be expected.
 - Earnings limitation is intended to remove incentives.

24

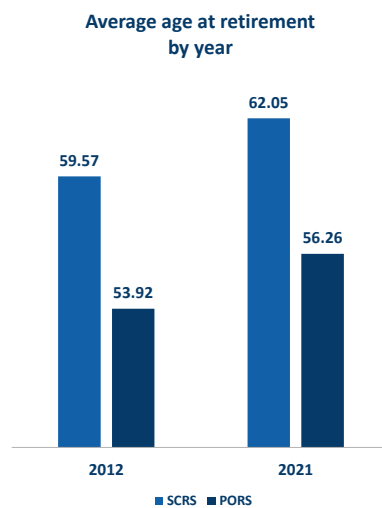
What is the earnings limitation?

- Provisions do not actually limit the ability of a retiree to return to covered employment or restrict the amount of compensation a retiree may receive.
 - Provisions are limitations on the receipt of benefits.
- Applies to members who retire on or after January 2, 2013, and are younger than age 62 (SCRS) or age 57 (PORS) on the date of retirement, unless they meet an exception.
- Once a member earns more than \$10,000 in a calendar year from covered employment, his retirement benefit is suspended for the remainder of the year. His retirement benefit payments will be reinstated the next January.
 - Benefit will be reinstated before the next January if he terminates covered employment before the end of the year.

25

What is the earnings limitation?

- Earnings limitation was put into place to encourage members to delay the start of their monthly retirement benefit.
- The TERI program and less restrictive return-to-work provisions encouraged members to retire earlier than expected, resulting in additional costs to the plan.



26

Service retirement earnings limitation exceptions

- Full exception by statute:
 - Members who retired before January 2, 2013, regardless of age at retirement.
 - SCRS members who retired on or after January 2, 2013, but were age 62 or older on their date of retirement.
 - PORS members who retired on or after January 2, 2013, but were age 57 or older on their date of retirement.
- Position-specific exception by statute:
 - Teachers who meet a critical needs exception.
 - The S.C. Department of Education must certify each school year that a member is working in a critical needs area, either academic or geographic.
 - Members who receive compensation for service in a public office filled by appointment of the Governor with confirmation by the South Carolina Senate, by appointment or election by the General Assembly, or by popular election of the voters of the jurisdiction.

27

Service retirement earnings limitation exceptions

- Position-specific exception by proviso (requires continued approval in each year's budget):
 - Class One law enforcement officers who retired under PORS prior to January 1, 2018, and are employed as critical needs school resource officers.
 - SCRS and PORS members who return to covered employment to participate in the state's public health preparedness and response to the COVID-19 virus.
 - Provision renewed for fiscal year 2023.
 - If an employer believes a return-to-work retiree still qualifies for this exemption during fiscal year 2023, the employer must recertify the return-to-work retiree's exemption.

28

New earnings limitation exception for FY 2023

- By budget proviso, the \$10,000 earnings limitation does not apply if an SCRS or PORS member has had a period of at least 12 consecutive months after retirement during which the member did not perform services for any covered employer in any capacity.
- To qualify, during the 12 consecutive months, the member must have had a total break from performing services for any employer that participates in the retirement systems administered by PEBA.
 - Work considered as performing services for a covered employer include: work performed for compensation in any capacity, whether as an employee, independent contractor, leased employee, joint employee or other classification of worker; work performed under another exception to the earnings limitation; or work performed under a different retirement system than the member retired from.

New earnings limitation exception for FY 2023

- The qualifying 12-month break can have been completed either before or after July 1, 2022; however, a member is not eligible for the exception until July 1, 2022, or the date the member completes the 12-month break, whichever is later.
- The member must complete a *12-Month Break-in-Service Exemption Certification* (Form 7218) and submit it to PEBA to certify that he has had a period of at least 12 consecutive months after retirement during which he did not perform services for a covered employer.
- Like other proviso-based exceptions, this exception is contingent upon continued approval in each year's state budget.

\$50,000 earnings limitation for some retired SCRS members

- Beginning in April 2021, the earnings limitation was increased to \$50,000 for SCRS members who retired on or before April 1, 2019, and return to covered employment in the K-12 public education system.
- If a retired member is otherwise subject to the earnings limitation, all other employment remains subject to the regular \$10,000 earnings limitation.
- A retiree may only qualify for this increased earnings limitation for a maximum period of 36 consecutive months of employment.

31

\$10,000 earnings limitation example

Pre-retirement salary \$50,000	Retirement benefit \$25,000 ($\$25,000 \div 12 =$ $\$2,083.33/\text{month}$)
--	--

The member returns to covered employment and does not meet any of the exceptions to the earnings limitation. The member's retirement benefit is suspended after three months because at that point he had earned more than \$10,000 in a calendar year from covered employment.

Return-to-work salary \$50,000	+	Retirement benefit \$6,249.99 ($\$2,083.33 \times 3$)	=	Total gross income \$56,249.99
--	---	--	---	--

32

\$10,000 earnings limitation example

Pre-retirement salary \$70,000	Retirement benefit \$35,000 ($\$35,000 \div 12 =$ $\$2,916.67/\text{month}$)
--	--

The member returns to covered employment and is eligible for an exception to the \$10,000 earnings limitation. The member's retirement benefit is not suspended because he met an exception.

Return-to-work salary \$50,000	+	Retirement benefit \$35,000	=	Total gross income \$85,000
--	---	---------------------------------------	---	---------------------------------------

33

Other return-to-work considerations

- Member must have a complete, bona fide termination from all covered employment to retire and begin receiving a monthly benefit.
- If a member returns to covered employment sooner than 30 consecutive calendar days after retirement, he is not eligible to receive his benefit until the separation requirements are satisfied.
- If an employer fails to notify PEBA when it hires a retired member, the employer may be responsible for reimbursing the retirement systems for any benefits wrongly paid to the retired member.
- Return-to-work retirees contribute the same percentage of earnable compensation as active members.

34

Cost-of-living adjustments

35

Cost-of-living adjustments (COLAs)

- Historically, COLAs were granted based on inflation measures and were not prefunded.
 - This practice was a major factor in creating the current unfunded actuarial accrued liability that exists today.
- Act 278 provided a guaranteed annual 1% benefit increase to retired members of SCRS and PORS up to an annual maximum of \$500.
- This moderate, but guaranteed benefit adjustment is prefunded through retirement contributions and provides a predictable annual increase to retired members.
- These benefit adjustments are fully guaranteed and are awarded on a compound basis.
- Any increase in the benefit adjustment as currently structured would have long-term material costs for the system that would have to be addressed.

36

Other benefits

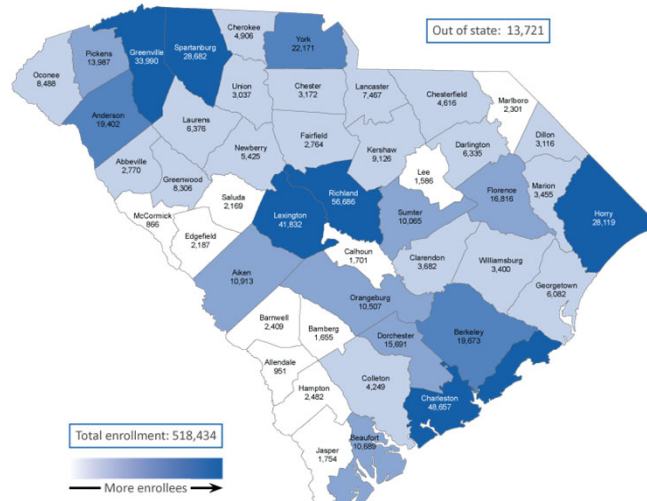
- Members of SCRS are also covered by Social Security.
 - The Social Security Administration provides cost-of-living adjustments to combat inflation.
 - In 2022, Social Security benefits will increase 5.9%.
- Most retired SCRS and PORS members are also covered by the State Health Plan.
 - Subscriber premiums have not increased since 2012, which means that retired members who are covered by the State Health Plan have not seen an increase in their monthly health premiums for 10 years.
 - Many retired members who are Medicare-eligible enroll in the State Health Plan's Medicare Supplemental Plan.
 - The Medicare Supplemental Plan pays the part of Medicare-approved charges that Medicare Parts A and B do not, including deductibles and coinsurance, which in effect results in a zero deductible health plan for these members.

37

State Health Plan

38

State Health Plan insured lives as of June 2022



39

Historical State Health Plan increases and funding

Plan year	Employee increase	Employer increase	Plan design changes
2012	4.50%	4.50%	
2013	0.00%	6.37%	
2014	0.00%	6.80%	Increased copayments, deductibles and coinsurance maximum
2015	0.00%	3.90%	Increased copayments, deductibles and coinsurance maximum
2016	0.00%	4.50%	
2017	0.00%	0.80%	
2018	0.00%	3.30%	
2019	0.00%	7.40%	Added adult well visit coverage; increased copayments, deductibles and coinsurance maximum
2020	0.00%	0.00%	
2021	0.00%	0.00%	
2022	0.00%	0.80%	
2023	0.00%	18.10%	Expanded adult well visit coverage; increased copayments, deductibles and coinsurance maximum

40

2023 State Health Plan

- Pursuant to the State Health Plan funding proviso in the state budget, the following changes will go into effect for the 2023 plan year, which begins January 1, 2023:
 - An 18.1% employer only rate increase;
 - No employee rate increase;
 - Expansion of adult well visit coverage to allow for an annual visit with no patient cost; and
 - Increases in patient cost sharing within the parameters allowed to remain in ACA-grandfathered status.
- Final rates and patient cost sharing changes will be published in August 2022.
- Participating optional employers, those whose health insurance rates are subject to an annual experience rating, should also apply any change in the experience rating load factor. PEBA mailed load factor letters to optional employers the week of March 7, 2022.

Disclaimer

This presentation does not constitute a comprehensive or binding representation of the employee benefit programs PEBA administers. The terms and conditions of the employee benefit programs PEBA administers are set out in the applicable statutes and plan documents and are subject to change. Benefits administrators and others chosen by your employer to assist you with your participation in these employee benefit programs are not agents or employees of PEBA and are not authorized to bind PEBA or make representations on behalf of PEBA. 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.