

South Carolina
PUBLIC EMPLOYEE BENEFIT AUTHORITY

PEBA

Act No. 278 of 2012

**Impact of Changes from an Employer
and an Employee Perspective**

Structural Changes

- 9-4-10 (A) – Created the South Carolina Public Employee Benefit Authority (PEBA)
- 9-4-10(H) – Incorporated the S.C. Retirement Systems and the Employee Insurance Program into a free-standing state agency known as PEBA

PEBA Governance

- Governing body of authority is PEBA Board of Directors
- Eleven board members appointed by Governor (3), President Pro Tempore of the Senate (2), Chairman of Senate Finance (2), Speaker of the House (2), and Chairman of House Ways and Means (2)
- Members serve two-year terms at pleasure of appointing authority

PEBA Board Qualifications

- One active or retired member of PORS
- One retired member of SCRS
- One active member of SCRS
- One active member of SCRS who is employed by a public school district
- Seven non-representative members that cannot be a member of one of the groups above – Must be a lawyer, CPA, CFP, have experience with pensions/insurance, etc.

Authority of PEBA Board

- Administer retirement systems, insurance programs, State ORP, S.C. Deferred Compensation Program (1/1/2014)
- Make policy determinations for insurance programs and retirement systems; however, must be approved by SC Budget and Control Board
- PEBA Board appoints Executive Director after 12/31/13

PEBA Impact

- **For Employees** – Should provide a one-stop approach to dealing with benefits
- **For Employers** – Should facilitate communications when PEBA staff are cross-trained on both insurance programs and retirement systems
- Provides a dedicated governing body that both employers/employees can express their concerns to regarding retirement/insurance issues

Retirement Reform

- New class of membership
- Increased contributions
- Return-to-work earnings limitation
- TERI phase-out
- Changed service purchase costs

Retirement Reform (cont.)

- Changed Post-Retirement Benefit Adjustments
- Overtime must be mandatory (SCRS)
- Disability retirement changes
- No interest on inactive accounts
- GARS changes

Class Three Membership

- **For Employees** – Class Three Membership applies to employees whose initial effective date of membership in SCRS or PORS is on or after July 1, 2012
- **For Employers** – Seemingly straightforward, but in some cases, determining initial effective date of membership may be difficult
 - Employers may have difficulty determining membership class for a new hire – can verify through EES

Differences from Class Two Membership

- Eight years to vest for a benefit
- Satisfy the Rule of 90 (SCRS) or at age 60
- PORS – 27 years of service or at age 55
- No annual leave or sick leave included in benefit formula
- 20-quarter AFC calculation
- TERI is not available to Class Three members

Rule of 90

- Applies to Class Three SCRS members only
- Member's age plus years of service credit must equal 90
- **Examples**
 - Member starts at age 20, works 35 years, eligible at age 55 (55 YOA + 35 YOS = 90)
 - Member starts at age 40, works 25 years, eligible at 65 (65 YOA + 25 YOS = 90)

Effect of Rule of 90

- Prevents members from retiring at a young age
- Members starting covered employment at older ages are not impacted by Rule of 90 – will become age-eligible prior to satisfying Rule of 90

No Unused Annual Leave or Sick Leave

- **For Employers** – No more PEBA requests for unused annual and sick leave totals
- **For Employees/Members** – Benefit will be less without inclusion of unused annual and sick leave
 - Having a full 45 days of unused annual leave and 90 days of unused sick leave to count toward benefit increases benefit by approximately 7 percent

20-Quarter AFC

- **For Employees** – Class Three Membership benefit formula requires a 20-quarter AFC
 - Could have virtually no impact or a negative impact on benefit amount depending on level of salary increases member received
- **For Employers** – Will probably lead to additional questions from PEBA about periods three-to-five years prior to the member's date of retirement

Overall Impact of Class Three Membership

- Percentage of newly-hired employees of state agencies, school districts and institutions of higher education selecting State ORP may increase
- Employers may have more difficulty recruiting and retaining employees
- Generally, Class Three members will work longer for a smaller benefit amount at retirement

Contribution Rate Increases

- As spelled out in 9-1-1085, SCRS rates will be:

Fiscal Year	Employee	Employer
2013	7.00%	10.60%
2014	7.50%	10.60%
2015	8.00%	10.90%

Contribution Rate Increases

- As spelled out in 9-11-225, PORS rates will be:

Fiscal Year	Employee	Employer
2013	7.00%	12.30%
2014	7.50%	12.50%
2015	8.00%	13.00%

Cost Sharing

- Both SCRS and PORS statute contain language requiring any increase in contribution rates to be shared by both members and employers
- SCRS differential between employee and employer contribution rates must remain at 2.90 percent
- PORS differential must remain at 5 percent

What does cost sharing really mean?

- Current normal cost 10.68 percent for SCRS
- Of that 10.68 percent, member is paying 7 percent (going to 7.5 percent 7/1/13 then 8 percent 7/1/14)
- That means only 3.68 percent of employer contribution is going to cover that year of service credit for a member
- Remainder of normal cost goes toward funding the unfunded liability (UAAL)
- As members pay more of the normal cost, plan becomes less lucrative for active members

Implementation of rate increases

- **Employer rate increases are effective based on when the wages are “paid”**
- **Employee rate increases are based on when the wages were “earned”**

Return-to-Work Provisions

- For members (with several exceptions) who retire on or after 1/2/13
- Member must take 30-day break-in-service
- Member has a \$10,000 per calendar year earnings limit

Exceptions to RTW Provisions

- Member retired or entered TERI before 1/2/13
- Member was age 62 (SCRS) or age 57 (PORS) at retirement
 - Members who aren't exempt initially **are not released** from this restriction when they reach age 62 (SCRS) or age 57 (PORS)
- Member is in a public office by appointment of Governor with Senate confirmation, by appointment or election by General Assembly, or by election of qualified electors of applicable jurisdiction
- 9-1-1795 exempts critical needs teachers from earnings limit

TERI Changes

- TERI not available to Class Three members
- TERI closes to Class Two members 6/30/18
- Members entering TERI after 7/1/13 will be required to end TERI on 6/30/18
 - **Examples**
 - Member enters TERI 7/1/14 –can participate in TERI for maximum of 48 months, not 60
 - Member enters TERI 7/1/15 – can participate in TERI for maximum of 36 months, not 60

Post-TERI RTW

- TERI participants are considered “retired” once they enter TERI program, so a member who enters TERI before 1/2/13 can return to work after ending TERI with no earnings limit
- Someone entering TERI 1/2/13 and after will be subject to earnings limit when he ends TERI (unless he meets one of the exceptions)

What do changes to RTW/TERI mean?

- **For employers** – It may be harder to retain employees with in-demand skills after they reach retirement eligibility
- **For employees** – No more option to build potentially significant savings from TERI participation and/or returning to work after retirement

Changes to Service Purchase

- **Effective 1/2/13 for SCRS and PORS**
 - Actuarially neutral cost based on member's age, service credit, and career highest FY salary
 - Cost will not be less than 35 percent for non-qualified and 16 percent for all other service types
 - Does not apply to withdrawal service, transfers, and supplemental service types

Impact of Service Purchase Changes

- **For employers** – Retirement incentives and buyouts become much more expensive
- **For employees** – Option to buy service credit to reach retirement eligibility more quickly become more expensive

Post-Retirement Benefit Adjustments

- Formerly called cost-of-living adjustments or COLAs
- Previously, there was a 1 percent automatic COLA in SCRS and an ad-hoc COLA in PORS
- Beginning 7/1/12, benefit adjustment for both SCRS and PORS is 1 percent or \$500 per year, whichever is less

Mandatory Overtime (SCRS Only)

- 9-1-10(8)(b) “For work performed by a member after December 31, 2012, earnable compensation does not include any overtime pay not mandated by the employer.”

Current Disability Retirement (SCRS)

- Eligibility for disability retirement currently determined based on occupational or job-specific criteria
- Benefit amount currently calculated as if member had earned service credit until age 65, less actuarial value of contributions that would have been made plus interest

Disability after Reform (SCRS)

- Beginning 1/1/14, member must qualify for Social Security disability to qualify for SCRS disability benefits – member must provide a copy of the SSA award notice within one year from member's last date of employment
- Member must annually prove he is still eligible for and receiving SSA disability to continue receiving SCRS disability benefit

Disability After Reform (SCRS)

- Benefit amount calculated using only member's creditable service without any projection
- **Example**
 - 35-year-old employee with 11 years of service credit and \$52,000 AFC
 - Disability benefit under old statute = \$1,640
 - Benefit after 12/31/2013 = \$865

Current Disability Retirement (PORS)

- Eligibility for disability retirement currently determined based on occupational or job-specific criteria
- Benefit amount calculated as if member had received service credit until age 55 – No actuarial reduction for missed contributions as in SCRS

Disability After Reform (PORS)

- Beginning 1/1/14, PORS member will still qualify for initial disability based on job-specific standards
- After three years, PORS member must provide proof he is still eligible for and receiving SSA disability to continue receiving PORS disability benefit

Disability after Reform (PORS)

- PORS disability benefit still calculated using projected service, but is projected only to lesser of 25 years total service credit or age 55
- Under prior statute, it was possible for younger employees to end up with much more than 25 years total service credit

No Interest on Inactive Accounts

- Previously, both active and inactive accounts received interest at 4 percent on June 30 of each year based on previous June 30 balance
- Beginning June 30, 2013, any account that is “inactive” will no longer receive interest
- Inactive is defined as any account as of July 1 that received no contributions for the preceding 12-month period

Impact of No Inactive Interest

- Since many terminated employees left funds in retirement account to receive the 4 percent interest, many of these members may request refunds in the future
- This may lead to additional work for payroll and HR departments as PEBA processes these refunds

General Assembly Retirement Changes

- Closes GARS to any person first elected in or after November 2012
- They have to go into SCRS or State ORP
- GARS member contribution rate changes from 10 percent to 11 percent

Results of Retirement Reform

- **Prior to reform** – SCRS UAAL was at \$14.4 billion and funded ratio was 64 percent, and PORS was \$1.09 billion and 77.3 percent funded
- **After reform** – SCRS UAAL is \$12.4 billion and funded ratio is 67.4 percent, and PORS is still at \$1.09 billion while funded status fell to 72.8 percent – This is due to 2011 actuarial valuation being done with no assumed COLA for PORS

Questions

Contact Information

Travis Turner, CPA

Deputy Director

S.C. Public Employee Benefit Authority

803-737-7751

tturner@retirement.sc.gov