Bill Number: S. 0675
Author: Finance Committee
Requestor: Senate
Date: April 20, 2015
Subject: SC Retirement System trustees
RFA Analyst(s): Fulmer and Walling

**Estimate of Fiscal Impact**

<table>
<thead>
<tr>
<th></th>
<th>FY 2015-16</th>
<th>FY 2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>$0</td>
<td>N/A</td>
</tr>
<tr>
<td>Other and Federal</td>
<td>($444,500)</td>
<td>N/A</td>
</tr>
<tr>
<td>Full-Time Equivalent Position(s)</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>State Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Other and Federal</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Local Expenditure</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Local Revenue</td>
<td>N/A</td>
<td>N/A</td>
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**Fiscal Impact Summary**
This bill will decrease Other Fund expenditures by $444,500. No General Fund or Federal Fund expenditure impact is expected.

**Explanation of Fiscal Impact**

**State Expenditure**
The bill amends Act 278 of 2012 that established governing procedures for the Retirement System Investment Commission (RSIC) and Public Employee Benefits Authority (PEBA). The bill amends Sections 9-4-10 and 9-16-315 pertaining to the composition of board and commission members of PEBA and RSIC, respectively. Currently, PEBA’s board is comprised of eleven members. The bill reduces the Governor’s appointments from three to two members and authorizes the Executive Director of RSIC to become the eleventh, ex officio, member of PEBA’s board.

Similarly, the bill amends Section 9-16-315 by increasing the number of Retirement System Investment Commission members from seven to nine. One of the two commission members is appointed by the President Pro Tempore of the Senate and is a retired member of the South Carolina Retirement System (SCRS). The other new commission member is appointed by the Speaker of the House and is an active contributing member of the SCRS. The bill also removes the State Treasurer as an ex officio board member and requires the Treasurer to appoint someone.
The bill amends Section 9-1-1320 to make PEBA board the custodian of the retirement system assets. The Retirement Investment Commission will have the authority to select the custodial bank and the PEBA will be a third-party beneficiary of the contract with the custodial bank with full rights to information.

The bill amends Sections 9-4-40 and 9-16-380 relating to required audits of PEBA and RSIC, respectively. The audit of PEBA required by 9-4-40 is changed from every year to every four years, beginning with FY 2019-20. Similarly, the audit of RSIC required by 9-16-380 is changed from every year to every 4 years, beginning with FY 2018-19. The amount that has been allocated for this audit expense in the Office of Inspector General’s budget during FY 2013-14 and FY 2014-15 has been $700,000 each year.

**Public Employee Benefit Authority (PEBA).** PEBA reports the bill will provide a savings of $12,000 to Earmarked Funds. The bill states all members of PEBA’s board receive $12,000 in stipend, except for, the Executive Director of RSIC. Therefore, the number of paid board members will be reduced from eleven to ten. The bill has no General Fund or Federal Fund expenditure impact to the agency. Additionally, PEBA expects no additional cost associated with the bill’s amendment of Sections 9-1-1310 and 9-1-1320 which requires PEBA hold the retirement assets in a group trust and authorizes PEBA’s board act as the custodian for the newly selected custodial bank for the retirement assets, respectively.

**Retirement System Investment Commission (RSIC).** RSIC reports the bill will increase Earmarked Fund expenditures by $67,500 each year. This added expense is due to increase of RSIC’s paid commission members from six to nine. Statute authorizes each commission member receive a $20,000 stipend. RSIC expects $2,500 to cover each new paid commissioner’s travel expenses. The bill has no General Fund or Federal Fund expenditure impact to the agency. Furthermore, RSIC expects no additional cost regarding the bill’s amendment of Sections 9-1-1310 and 9-1-1320 which places the commission as co-trustee of the retirement assets and authorizes RSIC to select the custodial bank for the retirement assets, respectively.

**Office of Inspector General (OIG).** OIG anticipates the cost of future fiduciary audits of PEBA and RSIC not be as expensive as the audits just completed. This was the first audit of this type for each agency, and as such, the audit scope included more review than is expected in subsequent years. Because of this, OIG reports this bill will provide an anticipated savings of $500,000 in Earmarked Fund expenditures for each audit not performed. The bill has no General Fund or Federal Fund expenditure impact to the agency.

The total net effect this bill will have on Earmarked Fund expenditures is a cost avoidance of $444,500. This amount will stay in the State Retirement System Trust Fund and the State Employee Insurance Trust Fund and be used to pay out benefits as intended.

**State Treasurer’s Office.** The State Treasurer’s Office indicates that if the custodial bank is changed, any losses in the securities lending account would be demanded by Bank of New York Mellon. The State Treasurer’s Office estimates those losses to total approximately $68 million.
State Revenue
N/A

Local Expenditure
N/A

Local Revenue
N/A