

## Summary of Funston Audits

### **SC Retirement Systems Investment Commission**

Fiduciary Responsibilities - Delete duplicate and superfluous fiduciary responsibilities.

Custodial Banking - Transfer choice of custodial bank from the Treasurer to RSIC.

Organizational Structure - Single direct operating report.

Budgeting, Staffing and Compensation - Allow Commission to set its own budget, staffing levels and compensation levels.

Procurement - Grant the Commission a procurement exemption.

Board Structure:

Qualifications - rely less on certifications and more on experience.

Sector Representation - increase beneficiary representation.

Term Limits - impose limits on the length of service on the Commission.

Rate of Return - develop a systematic review of the rate of return.

### **Public Employee Benefits Authority**

Fiduciary Responsibility - Simplify and clarify.

Budgeting & Staffing - offer greater independence to the PEBA Board to manage these issues.

Insurance Trust Fund Investment - Transfer investment responsibility to RSIC.

↪ Deferred Compensation Investment Options - Transfer responsibility to PEBA.

↪ Optional Retirement Program - Transfer the decision of the appropriate number of vendors to PEBA.

Board Structure:

Terms - staggered four or five year terms with removal only for cause. Consider nominations by constituent groups.

Meetings - Delete requirement to meet monthly.

Advisory Board - Eliminate Retirement and Preretirement Advisory Panel.

↪ SFAA - Update reference in Code.

Actuaries - In conjunction with PEBA staff and subject to Board approval, actuaries develop and recommend all actuarial assumptions.

↪ Notarization Requirement for Member Death - Eliminate requirement of notarization.

### **Funston Audit of RSIC - Legislature**

G1: The Legislature should better align Retirement System governance authority with assignment of obligations and clarify what fiduciary responsibilities, if any, still reside with the BCB and, subsequently, the Department of Administration and the State Fiscal Accountability Authority.

G2: The Legislature should resolve the Treasurer's conflicting fiduciary duties (alternatives are discussed in I17).

G3: The Legislature should delegate selection of the custodial bank and management of the relationship to the RSIC (alternatives are further discussed in I17).

G4: The Legislature should revise legislation to allow the Commission to designate a single direct operating report with the title of either Chief Executive Officer (CEO) or Executive Director, and not require that the Chief Investment Officer (CIO) report directly to the Commission.

G5.1: The Legislature should delegate authority for operating budget, staffing and all compensation approval to the Commission.

G8.1: The Legislature should revise the Commissioner's qualification requirements to achieve a more diverse composition of members, including some Commissioners with a broader business experience beyond investments which is not as reliant on professional certifications when there is significant practical experience.

G8.2: The Legislature should consider adding one or three additional voting members to the Commission to increase diversity, increase beneficiary representation and reduce the potential for tie votes (making the PEBA representative a voting Commissioner could be an option, but would require an exemption from the prohibition for a state employee).

G9: The Legislature should consider imposing term limits for Commissioners.

I1: If the Legislature continues to set the expected rate of return, it should regularly review the process and its assumptions on a periodic basis. Ideally, that cycle should be set to take advantage of the information available from the every five year PEBA experience study and RSIC's asset liability study.

I17: The Legislature should consider four potential options to significantly improve the ability of the RSIC to obtain services from and work with its custodial bank (see Recommendations G2 and G3).

P5: To facilitate timely acquisition and implementation of information systems, RSIC should develop a proposed modified procurement process for approval by the BCB or the Legislature which would allow acceptable transparency and objectivity, improve the ability to evaluate, select and implement new systems, as needed, and include documentation to allow oversight on a post-purchase audit basis (rather than imposing pre-purchase restrictions).

### **Funston Audit of PEBA - Legislature**

1.1: The General Assembly should simplify and clarify the system of fiduciary governance for the Retirement System and insurance programs by reducing the multiple conflicts and overlapping fiduciary authority of the Treasurer and BCB (and its successors) with PEBA. Appendix A also describes options for consideration in addressing this Recommendation from the Funston Fiduciary Audit Report on RSIC, which covered some of the same issues.

1.2: The General Assembly should give the PEBA Board of Trustees greater independence for budget and headcount decisions to ensure that they are consistent with the strict fiduciary standards to which it is bound.

1.3.1: The General Assembly should transfer investment responsibility for insurance trust fund assets to the Retirement System Investment Commission as the most qualified State entity to provide those services.

1.3.2: The General Assembly should transfer approval of Deferred Compensation investment options from the State Treasurer to the PEBA Board of Trustees.

1.4: The General Assembly should allow PEBA greater flexibility to reduce the number of ORP vendors in order to obtain lower fees and make other improvements without materially affecting program quality.

1.5: The General Assembly should eliminate the requirement for a Retirement and Pre-Retirement Advisory Panel, in the context of an improved PEBA Board communications and engagement plan that covers a broad range of stakeholder groups. See also Recommendation 4.9.

1.6: The General Assembly should update the PEBA Board Member appointment process to be more consistent with peer practices. This should include consideration of four- or five-year staggered terms, subject only to early removal for cause. It might also include consideration of changes in the appointment process to improve engagement with participant groups and the PEBA Board by establishing a process for them to submit qualified candidates for consideration by the appointing authorities.

1.7: The statutory requirement that the PEBA Board meet monthly throughout the year should be repealed.

4.9: The General Assembly should eliminate the requirement for PEBA to convene a Retirement and Preretirement Advisory Panel, as it duplicates responsibilities of the PEBA Board has not been meeting its legislative intent. See also Recommendation 1.5.

4.10: The General Assembly should include a provision in future legislation that replaces references to the BCB, or its successor, in S.C. Code Ann. §§ 9-1-1310 and 9-4-45 with specific references to the SFAA, in order to more explicitly effectuate transfer of the BCB's co-trustee functions to new State Fiscal Accountability Authority.

6.4: The actuary, in conjunction with the PEBA staff and subject to approval by the Board, should develop and recommend all actuarial assumptions for the pension plan and other benefit plans. If the state law placing responsibility for setting the investment return assumption with the Legislature is not changed, there should be a prescribed periodic review process adopted by the State Legislature.

8.10: The General Assembly should eliminate the notarization requirement for a member death by amending the appropriate statutes to delete the requirement for a “duly acknowledged” written notification to PEBA.

# Governance Structure

The current RSIC governance structure is very complex and fragmented.

<p><b>Legislature</b></p> <p><b>Policy and Legal Framework:</b></p> <ul style="list-style-type: none"> <li>* Sets RSIC legal authorities (no change)</li> <li>* Sets fund assumed rate of return (modified)</li> </ul> <p><b>Oversight:</b></p> <ul style="list-style-type: none"> <li>* Approves budget annually (assigned to RSIC)</li> <li>* Approves headcount annually (assigned to RSIC)</li> <li>* Approves Performance Incentive Compensation (PIC) plan annually (assigned to RSIC)</li> </ul>	<p><b>Budget &amp; Control Board</b></p> <p><b>Named Trustee and Fiduciary</b></p> <p><b>Policy and Legal Framework:</b></p> <ul style="list-style-type: none"> <li>* Approves RSIC purchasing policy (RSIC exempted)</li> <li>* Appoints 4 of 7 Commissioners (no change)</li> </ul>	<p><b>State Treasurer</b></p> <p><b>Fiduciary</b></p> <p><b>Responsibilities:</b></p> <ul style="list-style-type: none"> <li>* Custodian of the funds (assigned to PEBA, Custodial Banking to RSIC)</li> <li>* RSIC Commissioner (must appoint)</li> <li>* Member of B&amp;C Board (Fiduciary responsibility removed)</li> </ul>
<p><b>Public Employee Benefit Authority</b></p> <p><b>Named Trustee and Fiduciary</b></p> <p><b>Responsibilities:</b></p> <ul style="list-style-type: none"> <li>* Sets RSIC accounting policies (no change)</li> <li>* Provides investment accounting and financial reporting (no change)</li> <li>* Directs external auditing (no change)</li> <li>* Provides RSIC IT support (no change)</li> </ul>	<p><b>Retirement System Investment Commission</b></p> <p><b>Fiduciary</b></p> <p><b>Responsibilities:</b></p> <ul style="list-style-type: none"> <li>* Invests and manages pension funds (no change)</li> </ul>	<p><b>Attorney General</b></p> <p><b>Oversight:</b></p> <ul style="list-style-type: none"> <li>* Approves retention and rates of external counsel (assigned to RSIC for investment related matters)</li> <li>* Approves hiring of temporary internal counsel (assigned to RSIC for investment related matters)</li> </ul>
<p><b>Comptroller General</b></p> <p><b>Oversight:</b></p> <ul style="list-style-type: none"> <li>* Conducts accounts payable and payroll procedures audit (no change)</li> </ul>	<p><b>Inspector General</b></p> <p><b>Oversight:</b></p> <ul style="list-style-type: none"> <li>* Conducts annual fiduciary performance review (change in period of review only)</li> </ul>	<p><b>State Auditor</b></p> <p><b>Oversight:</b></p> <ul style="list-style-type: none"> <li>* Selects external auditor (assigned to PEBA)</li> </ul>

## RISC Board Membership

Seven members, six with voting rights. **Nine members, all with voting rights.**

One appointed by Governor

**One appointed by Governor, active or retired from PORS, JSRS or NGRS.**

**One appointed by the Senate President Pro Tempore, must be SCRS retiree.**

**One appointed by House Speaker, must be SCRS active.**

State Treasurer (can appoint a member in his stead) **must appoint, cannot serve himself.**

One appointed by the Comptroller

One appointed by SFC Chair

One appointed by House W&M Chair

One retired member chosen unanimously by above members **deleted.**

Director of PEBA with no voting rights **PEBA Director has voting rights.**

Serve five year terms

Appointment are staggered

No Term Limits **limited to two terms.**

Commission chooses Chairman except that PEBA Director and Treasurer cannot be chairman **Treasurer appointee can serve as Chairman.**

Qualifications:

Chartered Financial Analyst

Certified Financial Planner **and 12 years experience.**

**Chartered Alternative Investment Analyst**

Twenty Years Actuarial Experience

Twenty Years Teaching Experience in Economics or Finance

PhD in Economics or Finance

Certified Internal Auditor

**CPA with 12 years experience.**

Elected, appointed and employees of the state are disqualified **employees can now serve**

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## PEBA Board Membership

Eleven Members

Three Non-Representatives Appointed by Governor **decreased to two**

Two Members Appointed by Senate President Pro Tempore, One Non-Sector and One Retired SCPORS

Two Members Appointed by the SFC Chairman, One Non-Sector and One Retired SCRS

Two Members Appointed by the Speaker, One Non-Sector and One Active SCRS

Two Members Appointed by HW&M Chairman, One Non-Sector and One Active SCRS School District  
**Director of the Retirement Systems Investment Commission (not eligible for \$12K pay).**

Qualifications:

### *NON-REPRESENTATIVE MEMBER QUALIFICATIONS*

Twelve Years Experience in Financial Management of Pensions or Insurance Plans

Twelve Years Academic Experience and Bachelors Degree

Twelve Years Experience as CPA

Twelve Year Experience Certified Financial Planner

Twelve Years Membership in SC Bar

### *REPRESENTATIVE MEMBER QUALIFICATIONS*

Possess one of the qualifications above

Twelve Years Public Employment Experience and Holds Bachelors Degree

Terms:

Two Year Terms **Five Year Terms (staggered among three groups), Two Term Limit.**

Member Serves at the Pleasure of Appointer **Can only be removed for cause per §1-3-24 (c).**

Only Non-Representative Member can be Chair, Chosen by Membership

Members Receive \$12K per Year **exception for RSIC Director.**

Board Must Meet Monthly **Must Meet Quarterly.**