South Carolina Public Employee Benefit Authority

South Carolina Retirement Systems

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2014
Pension Trust Funds of the State of South Carolina

Communicating with Our Stakeholders

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Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2014

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To Our Members

We are pleased to present to you the South Carolina Retirement Systems' eleventh annual popular report. This report is intended to provide a summary of the Systems' annual financial information in an easily understandable format that supplements the more thorough *Comprehensive Annual Financial Report (CAFR)*.

Data presented in this report was derived from the fiscal year 2014 *CAFR*, which was prepared in accordance with Generally Accepted Accounting Principles. To learn more about the Systems' financial activities, please visit our website at www.retirement.sc.gov.

The *CAFR* contains more detailed information and may be viewed online or downloaded from our website at http://www.retirement.sc.gov/financial/default.htm. For any other questions or assistance, please contact Customer Services at 803-737-6800, 800-868-9002 (toll free within S.C.), or www.retirement.sc.gov.

Peggy G. Boykin

Peggy G. Boykin, CPA
Executive Director of S.C. PEBA

Tammy B. Nichols

Tammy B. Nichols, CPA
Director of Retirement Systems Finance

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Profile

South Carolina Public Employee Benefit Authority - Retirement Division

The South Carolina Public Employee Benefit Authority (PEBA) administers five defined benefit pension plans that provide lifetime retirement annuities, disability benefits and death benefits to eligible members. The plans' terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The amount specified is a function of a formula based on years of service, compensation and age.

PEBA also provides a defined contribution retirement plan (the State Optional Retirement Program) which is an alternative to membership in the traditional defined benefit plan.

Following is a summary of the six retirement plans.

- The South Carolina Retirement System **(SCRS)** was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the state and its political subdivisions.
- The State Optional Retirement Program **(State ORP)** was first established as the Optional Retirement Program for Higher Education in 1987. The State ORP is an alternative to the SCRS defined benefit plan and is now available to certain state, public school and higher education employees of the state.
- The Police Officers Retirement System **(PORS)** was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.
- The Retirement System for Members of the General Assembly of the State of South Carolina **(GARS)** was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly. Retirement reform legislation closed the plan to individuals first elected to the South Carolina General Assembly at or after the general election in November 2012.
- The Retirement System for Judges and Solicitors of the State of South Carolina **(JSRS)** was established July 1, 1979, to provide retirement and other benefits to State Judges, Solicitors, and Circuit Public Defenders.
- The South Carolina National Guard Supplemental Retirement Plan **(SCNG)** was established July 1, 1975, to provide supplemental retirement benefits to members who served in the South Carolina National Guard. The Retirement Systems assumed administrative responsibility for this fund in 2006.

Membership and Annuitant Composition

As of June 30, 2014

Total Membership	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	SC National Guard Supplemental Retirement Plan
Active	185,355	26,708	116[1]	133[2]	12,222
Inactive	156,792	11,987	56	2	2,137
Retirees & Beneficiaries[3]	131,573	16,217	355	204	4,629
Active Members					
Average Age	45	39	55	55	35
Average Years of Service	10	8	13	13	12
Average Annual Salary	$37,225	$36,746	$22,612	$130,279	N/A[4]
Annuitants and Beneficiaries					
Average Current Age	69	64	72	70	69
Average Age at Retirement[5]	59	55	61	60	60
Average Years of Service at Retirement	24	19	20	26	26
Average AFC[6] at Retirement	$42,129	$43,811	$21,576	$114,874	N/A
Average Current Annual Benefit[7]	$19,644	$19,527	$18,653	$79,068	$914

[1]There were 170 positions in fiscal year 2014.
[2]There were 153 positions in fiscal year 2014.
[3]Represents 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.
[4]The South Carolina National Guard Supplemental Retirement Plan is non-contributory; therefore, active member salaries are not reported to the Systems.
[5]Represents retired members who are currently receiving annuity benefits, including members who may have received benefits under a deferred retirement option (i.e. TERI). Disability retirees and surviving beneficiary payees are excluded.
[6]Average Final Compensation (AFC) is a component used in the formula for calculating annuity benefits.
[7]Includes benefit adjustments applied since retirement.

Fiscal Year 2014 Highlights

Public Policy Activities

One of the most basic and effective ways that PEBA communicates with our stakeholders is face-to-face. Employer training sessions and regional retirement seminars are just a few examples of the face-to-face communication PEBA has with stakeholders. This method of communication provides us with immediate feedback from our stakeholders.

- The last piece of major retirement system reform resulting from Act 278 was formalized with the establishment and activation of the medical board required for review of disability retirement claims for members of PORS.

- PEBA implemented GASB Statement 67 in its financial statements for the fiscal year ended June 30, 2014 and for the Comprehensive Annual Financial Report. PEBA has a website dedicated to providing information to covered employers and has provided information to employers through various communications media to help them better understand the implications of GASB Statement 68. In October 2014, PEBA published unaudited proportionate share information for covered employers on the public website. PEBA has also contracted with its external auditor for services that include auditing the actuarially determined proportionate share of the net pension liability so that each covered employer's auditor will be able to rely on PEBA's auditor's opinion on the data.

- PEBA's Board of Directors assumed responsibility for the S. C. Deferred Compensation Program effective January 1, 2014 and adopted a number of best practices for both the S.C. Deferred Compensation Program and the State Optional Retirement Program.

Investment Returns

PEBA communicates with our stakeholders on a daily basis through our social media outlets. We currently use Facebook, Twitter, and LinkedIn.

- As of June 30, 2014, invested assets were valued at $29.8 billion as reported by the custodian. The plans are in a negative cash flow position as benefit payments in the amount of $2.7 billon (on a cash flow basis) significantly exceeded the receipt of only $1.7 billion in contributions (on a cash flow basis). This resulting negative net cash outflow of $1 billion in net benefit obligations during the year represents approximately 3.5 percent of the portfolio's assets.

- Capital markets during the fiscal year were favorable for the Plan as broad indices in equity, fixed income, and real estate posted positive returns. The RSIC earned a return of 15.29 percent net of fees on a time-weighted calculation basis for the fiscal year ended June 30, 2014, compared to the Policy benchmark's return of 14.26 percent. This is the fifth consecutive year that the fund has experienced a positive annual return. The three-year annualized net of fees return was 8.37 percent as of the fiscal year end compared to the Policy benchmark return of 7.51 percent. The Plan's actuarial assumed rate of return is 7.50 percent.

Operational System Improvements

- PEBA continued to provide additional self-service options for its members through the agency's secure Member Access website. Members may now file service retirement applications online. PEBA also added reporting and other features to the secure Electronic Employer Services (EES) website related to the earnings limit for retired members returning to covered employment. In addition, the agency developed and implemented an automated data exchange with the Department of Employment and Workforce to monitor earnings for service and disability retirees.

- PEBA discontinued the distribution of printed direct deposit statements for benefit payments. The agency also developed and implemented a system through which a unique payment transaction identifying number is used to transmit electronic payments, which further improved the security and protection of personally identifiable information for payment recipients.

- PEBA implemented recommendations from a comprehensive information technology risk and vulnerability assessment conducted during the fiscal year. The agency outfitted its facilities with additional security cameras, panic buttons, and a new security alarm system that included new employee access cards for the various secured areas of the facilities. Additional security enhancements included new logon banners for all workstations, increased network access controls, and improved physical security of network switches.

PEBA's Call Center is vital to our organization. Comprised of 38 benefits counselors, Call Center staff answers questions, resolves issues and handles requests from members and employers.

Administrative Activities

- PEBA began and ended its second fiscal year as a state agency under the leadership of its Board of Directors and two interim executive directors. PEBA appointed a permanent executive director in July 2014. PEBA's management team is working closely with the Board to implement an ongoing strategic planning review process that will result in quarterly performance reports to the Board and continual updates to the current plan to reflect closed projects and new initiatives.

- The agency focused on employee development and succession planning during the fiscal year. Agency management developed workforce plans for each major operational function.

Another example of PEBA's face-to-face communication with stakeholders is via retirement consultations. These meetings enable us to develop a rapport and trust with our customers.

Summary of Financial Condition

A funding objective of the pension trust funds is to meet future benefit obligations of retirees and beneficiaries through contributions and investment earnings. The health and stability of the plans is measured through annual actuarial valuations. External consulting actuaries estimate future liabilities and future assets based on a variety of assumptions commonly accepted in the actuarial industry.

The actuaries then estimate the portion of future liabilities not yet funded and determine how long it will take to fund them at current rates. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities (funded ratio) will be.

The most recent valuations dated July 1, 2013, concluded that funding levels of all the plans are such that annual expected contributions are sufficient for the valuations to find that the plans are actuarially sound. The changes in the levels of funding do not affect the availability of funds or resources for future use and actuarial projections indicate that unfunded liabilities should be amortized and funded within acceptable funding guidelines.

The July 1, 2013, actuarial valuations, adopted by PEBA and approved by the S.C. Budget and Control Board, not only determined the actuarial status of each plan but also identified the employee and employer contribution requirements to become effective for the fiscal year beginning July 1, 2015.

The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. Changes in the funded ratios from one year to the next generally occur even though there may be adjustments to contribution rates. This is because there are numerous other variables affecting the funded ratio including, but not limited to, investment gains and losses, experience gains and losses, increases in benefit payment levels, and benefit adjustments.

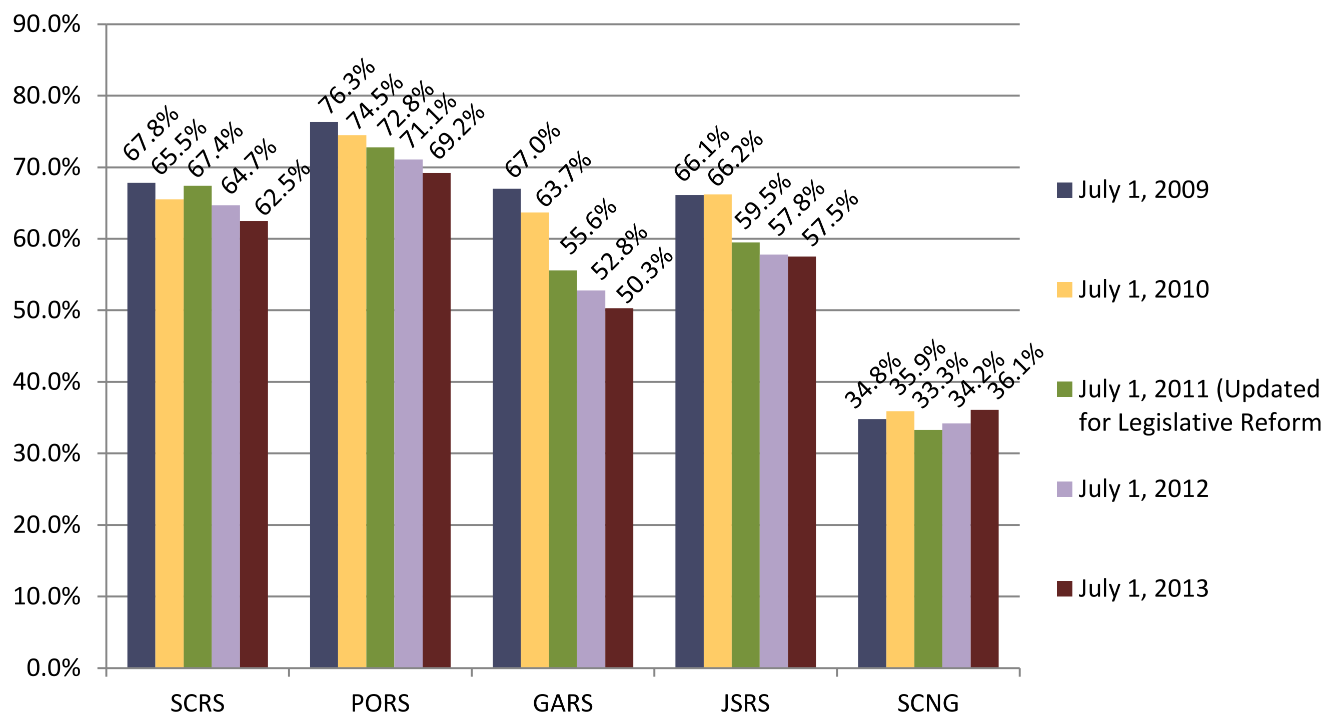
The current actuarial funded ratios of the five plans range from a low of 36.1 percent for SCNG to a high of 69.2 percent for PORS. The funded ratio for SCRS, which represents the largest membership of the five plans, decreased from 64.7 percent to 62.5 percent while PORS went down from 71.1 percent to 69.2 percent.

The SCNG has a very low funded ratio because it was not pre-funded or funded with recurring funds in the past. In 2006, the General Assembly made a commitment to ensure the plan would be sufficiently funded prospectively and transferred administrative responsibility to the Retirement Systems. Now recurring funds are set aside in the state's annual budget each year to fund SCNG over an amortization period that does not exceed 30 years and we anticipate continued improvement in the funded ratio.

The chart on Page 7 illustrates actuarial funded ratios over the past five years for each of the five defined benefit plans.

Actuarial Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



To ensure the Systems' ability to properly fund the payment of retirement benefits to members in future years, it is necessary to accumulate funds on a regular and systematic basis.

The principal sources from which the Systems derives revenues are employee contributions, employer contributions, and earnings on investments. In addition, annual required contributions for the SCNG are funded through an annual State appropriation.

Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries, and refunds of member account balances paid upon request after termination.

Other programs administered within the retirement benefit plans include an incidental death benefit plan for both active and retired members, and an accidental death plan for police officers. Condensed financial statements for the fiscal year ended June 30, 2014, are presented on Pages 8 - 9.

Statement of Fiduciary Net Position

The Statement of Fiduciary Net Position presents the Plan's assets and liabilities and the resulting net position, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plans' investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities. Total fiduciary net position increased by $3.0 billion or 11 percent during fiscal year 2014. The increase in net position from $26.9 billion to $29.9 billion was attributable to both positive investment performance and increased contribution levels. Because the plans are in a net cash outflow position (benefit payments exceed contributions), the difference in the net asset value cannot be attributed to investment performance alone. Investment performance must be calculated taking the net cash outflow into consideration.

The portfolio continued to participate in a securities lending program, managed by the custodial bank, BNY Mellon. Conservative investment guidelines continue to be maintained. Securities lending revenue for the fiscal year was $1.7 million, a decrease from $2.5 million in the prior year. As reported by BNY Mellon, at June 30, 2014, the fair value of securities on loan was $118.70 million, the fair value of the invested cash collateral was $72.64 million, and the securities lending obligations were $121.31 million. The reported difference in the value of the invested cash collateral and the securities lending obligations in the securities lending program is reflected within "Other Liabilities" on the Retirement Systems' Statement of Fiduciary Net Position, consistent with the information reported on accounting statements provided by BNY Mellon as the custodial bank.

The Systems implemented the requirements of GASB 67 as approved by the Governmental Accounting Standards Board in June 2012 in the financial statements for the fiscal year ended June 30, 2014. GASB 67 requires a change in the actuarial calculation of the total and net pension liability in addition to changes in the presentation of plan financial statements. In accordance with U.S. Generally Accepted Accounting Principles (GAAP) and paragraph 49 of GASB 67, certain changes in accounting principle were retrospectively applied and therefore, comparative financial statements include a restatement of the financial statements for the fiscal year ended June 30, 2013.

South Carolina Retirement Systems
Fiduciary Net Position
June 30, 2014 and 2013
(Amounts expressed in thousands)

Assets	2014	2013[1]	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	$ 4,063,173	$ 4,023,274	$ 39,899	0.99%
Investments, at fair value	26,754,819	24,587,950	2,166,869	8.81%
Securities lending cash collateral invested	72,645	106,633	(33,988)	(31.87%)
Capital Assets, net of accumulated depreciation	2,912	3,083	(171)	(5.55%)
Total Assets	30,893,549	28,720,940	2,172,609	7.56%
Liabilities				
Deferred retirement benefits	56,901	68,344	(11,443)	(16.74%)
Obligations under securities lending	72,645	106,633	(33,988)	(31.87%)
Other accounts payable	836,292	1,645,150	(808,858)	(49.17%)
Total Liabilities	965,838	1,820,127	(854,289)	(46.94%)
Total Fiduciary Net Position	$ 29,927,711	$ 26,900,813	$ 3,026,898	11.25%

[1] As a result of the implementation of GASB 67, financial statements for fiscal year 2013 have been restated to report a liability only for benefits due but not yet distributed to members who had ended their participation in the DROP program at June 30.

Statement of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary Net Position presents information showing how the Plans' net position restricted for pensions changed during the year. This statement includes additions for contributions by members and employers and investment earnings. It also includes deductions for annuity payments, refunded contributions, death benefit payments and administrative expenses.

An increase in the amount of employer contributions collected from the prior fiscal year is attributable to higher contribution rates imposed by retirement reform legislation of 2012. The employee contribution rate increased proportionately but the dollar amount of employee contributions collected during fiscal year 2014 decreased because the prior year's employee contributions were inflated due to an influx of members purchasing service credit that year as a result of legislative reform.

For the fiscal year ended June 30, 2014, the aggregate rate of return earned on the pooled investments of the consolidated pension trust funds as a whole was 15.29 percent. The plans net of fee return exceeded the assumed rate of return of 7.50 percent.

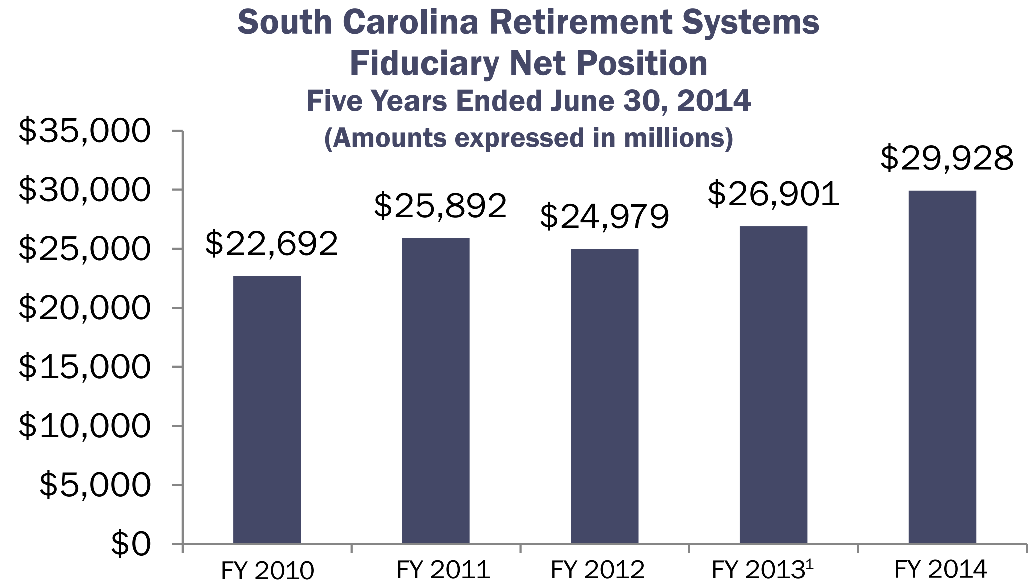
The total number of retired members and beneficiaries receiving monthly annuity benefits from the Retirement Systems' plans increased from 149,000 to approximately 153,000 annuitants during the year. Additionally, effective July 1, 2013, eligible annuitant payees received an annual benefit adjustment equal to the lesser of 1 percent or $500. The increase in the number of new annuitants added to the payroll during the year coupled with the annual benefit adjustment, resulted in an overall 4.10 percent increase in the dollar amount of annual benefits paid to annuitants.

South Carolina Retirement Systems
Changes in Fiduciary Net Position
For the Years Ended June 30, 2014 and 2013
(Amounts expressed in thousands)

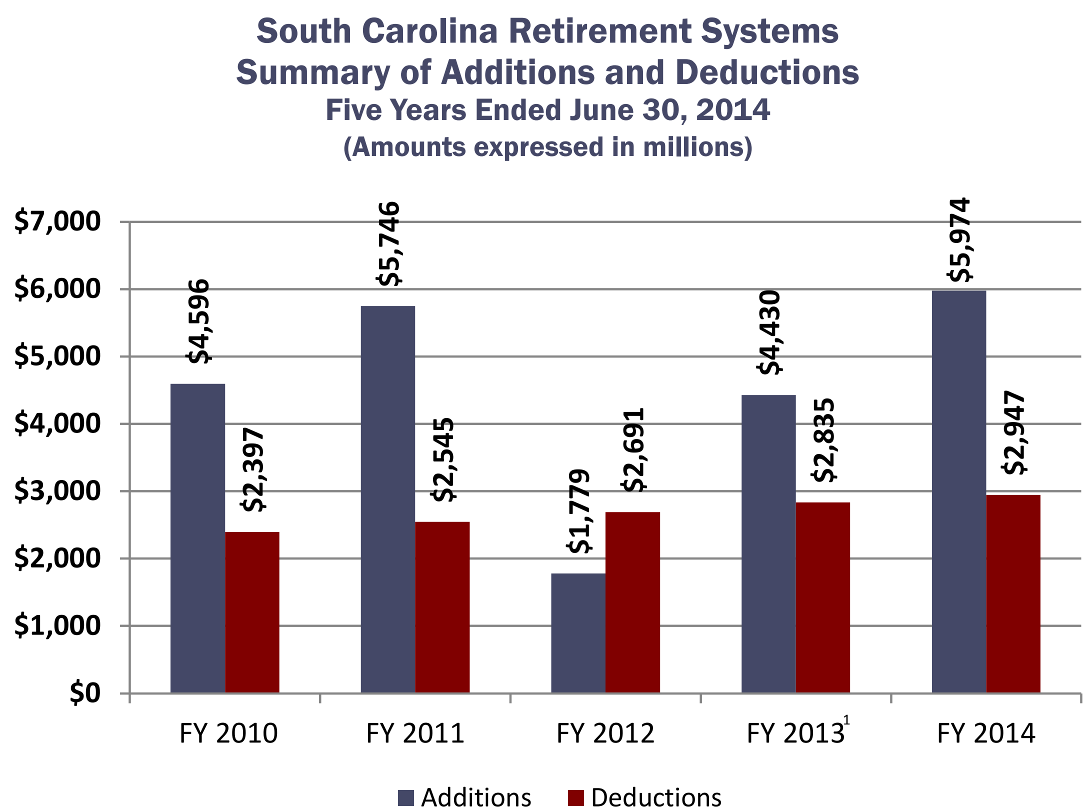
Additions	2014	2013[1]	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	$ 751,467	$ 775,634	$ (24,167)	(3.12%)
Employer contributions	1,132,128	1,103,044	29,084	2.64%
State-appropriated contributions	4,586	4,539	47	1.04%
Net Investment income	4,083,023	2,542,502	1,540,521	60.59%
Other income	3,083	4,083	(1,000)	(24.49%)
Total Additions	5,974,287	4,429,802	1,544,485	34.87%
Deductions				
Annuity benefits	2,803,084	2,692,799	110,285	4.10%
Refunds	106,475	102,255	4,220	4.13%
Death benefits	21,680	21,268	412	1.94%
Administrative & other expenses	16,150	18,741	(2,591)	(13.83%)
Total Deductions	2,947,389	2,835,063	112,326	3.96%
Increase in Fiduciary Net Position	3,026,898	1,594,739	1,432,159	89.81%
Beginning Fiduciary Net Position	26,900,813	25,306,074	1,594,739	6.30%
Ending Fiduciary Net Position	$ 29,927,711	$ 26,900,813	$ 3,026,898	11.25%

[1]As a result of the implementation of GASB 67, annuities reported in fiscal year 2013 have been restated to include only DROP amounts actually distributed to participants as well as amounts due but not yet distributed. Also, as a result of the implementation of GASB 67, RSIC administrative expenses previously classified as administrative expenses have been reclassified as investment expenses for fiscal year 2013 to conform to the presentation for fiscal year 2014.

The following graph reflects Fiduciary Net Position restricted for pensions for the five consolidated defined benefit plans over the past five fiscal years:



The following graph represents additions from all sources and deductions (annuities, refunds, death benefits, administrative expense and depreciation) from Fiduciary Net Position over the past five fiscal years:



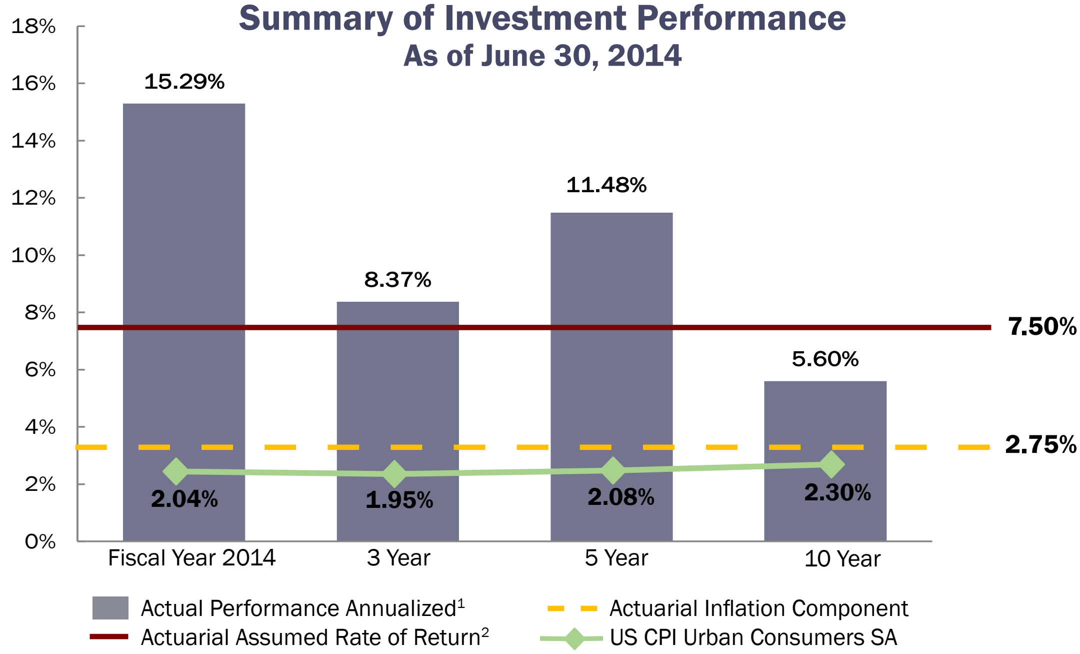
[1]As a result of the implementation of GASB 67, financial statements for fiscal year 2013 have been restated to report a liability only for benefits due but not yet distributed to members who had ended their participation in the DROP program at June 30. Annuities reported in fiscal year 2013 have been restated to include only DROP amounts actually distributed to participants as well as amounts due but not yet distributed. RSIC administrative expenses previously classified as administrative expenses have been reclassified as investment expenses for fiscal year 2013 to conform to the presentation for fiscal year 2014.

Investments Overview

The Retirement Systems' portfolio, managed and invested by the Retirement System Investment Commission (RSIC), ended fiscal year 2014 with a Net Asset Value (NAV) of investments of $29.8 billion. The investment consultant reported a one-year composite return of 15.29 percent net of fees compared to the policy benchmark's return of 14.26 percent.

The trailing one-year period as of June 30, 2014, afforded the RSIC the opportunity to take advantage of rising financial markets while maintaining the prudent level of risk that it maintains as a hallmark of its investment strategy. This is the fifth consecutive year that the fund has experienced a positive annual return. The three-year annualized net of fees return was 8.37 percent as of the fiscal year end compared to the Policy benchmark return of 7.51 percent. An actuarial assumed rate of return of 7.50 percent is utilized for all plans.

South Carolina Retirement Systems
Summary of Investment Performance
As of June 30, 2014



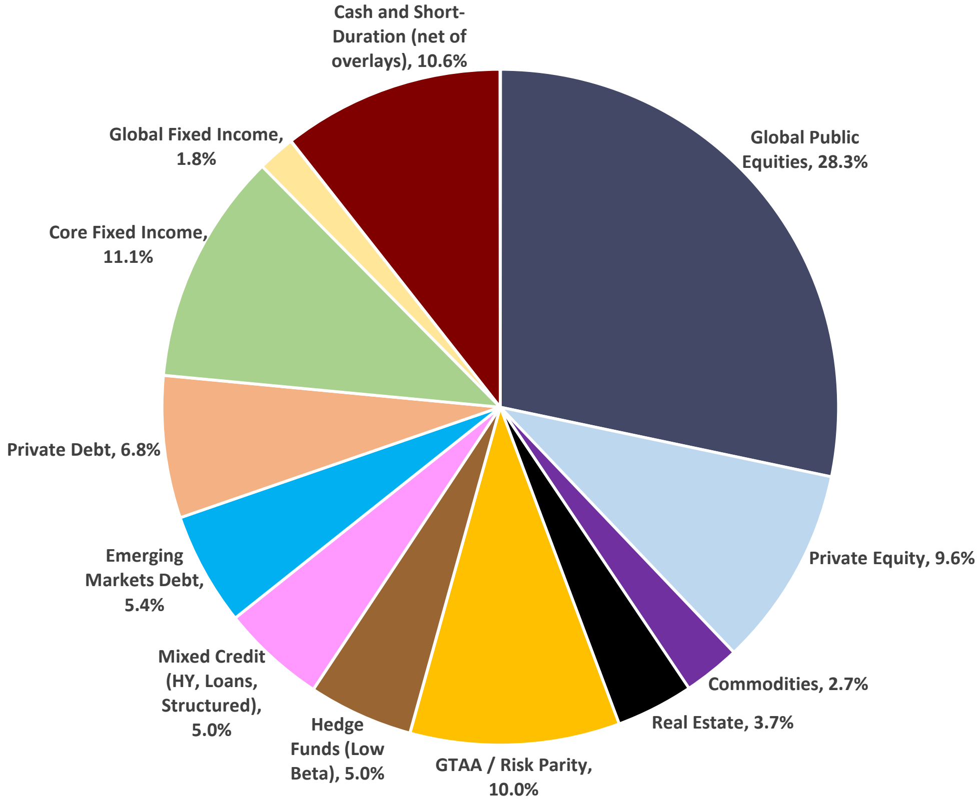
[1] Plan returns are from BNY Mellon and are time-weighted, total return calculations, net of fees and expenses. All returns are expressed in U.S. Dollars. Periods greater than one year are annualized.

[2] The actuarial assumed rate of return is 7.50 percent starting with returns after July 1, 2011, and is composed of an assumed 2.75 percent inflation rate and a 4.75 percent real rate of return, net of investment and administrative expenses.

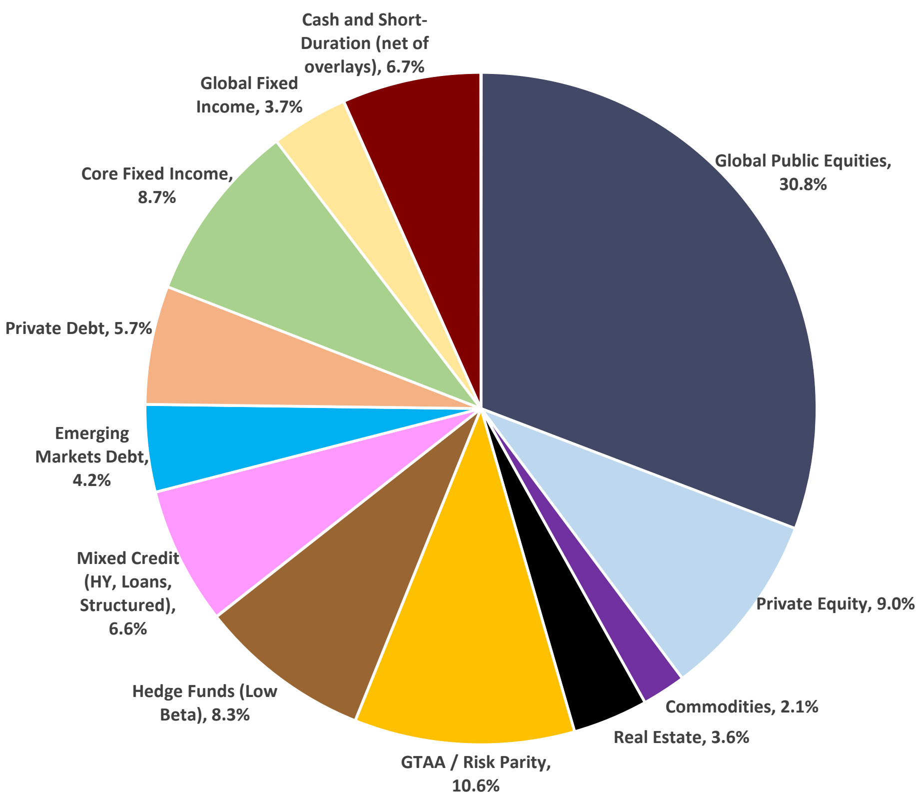
The plan assets are invested and managed by the RSIC in a manner consistent with a long-term investment time horizon. While the financial markets continue to experience significant volatility, the assets of the Retirement Systems are invested in a broadly diversified manner in an effort to mitigate risk. Although member benefits accrued and payable under the Retirement Systems' defined benefit plans are not dependent on individual member account balances, investment returns are an important overall funding component.

An optimally diversified investment portfolio is designed to generate long-term returns sufficient to ensure the program's financial stability. While the Systems' investment performance was historically limited by state constitution and state statute, the RSIC has implemented a fully diversified asset allocation policy. With the help of the retained investment consultant, the RSIC manages investments across an asset allocation designed to generate attractive long-term risk-adjusted returns at a prudent level of risk.

Portfolio Exposure as of June 30, 2013[1, 2]

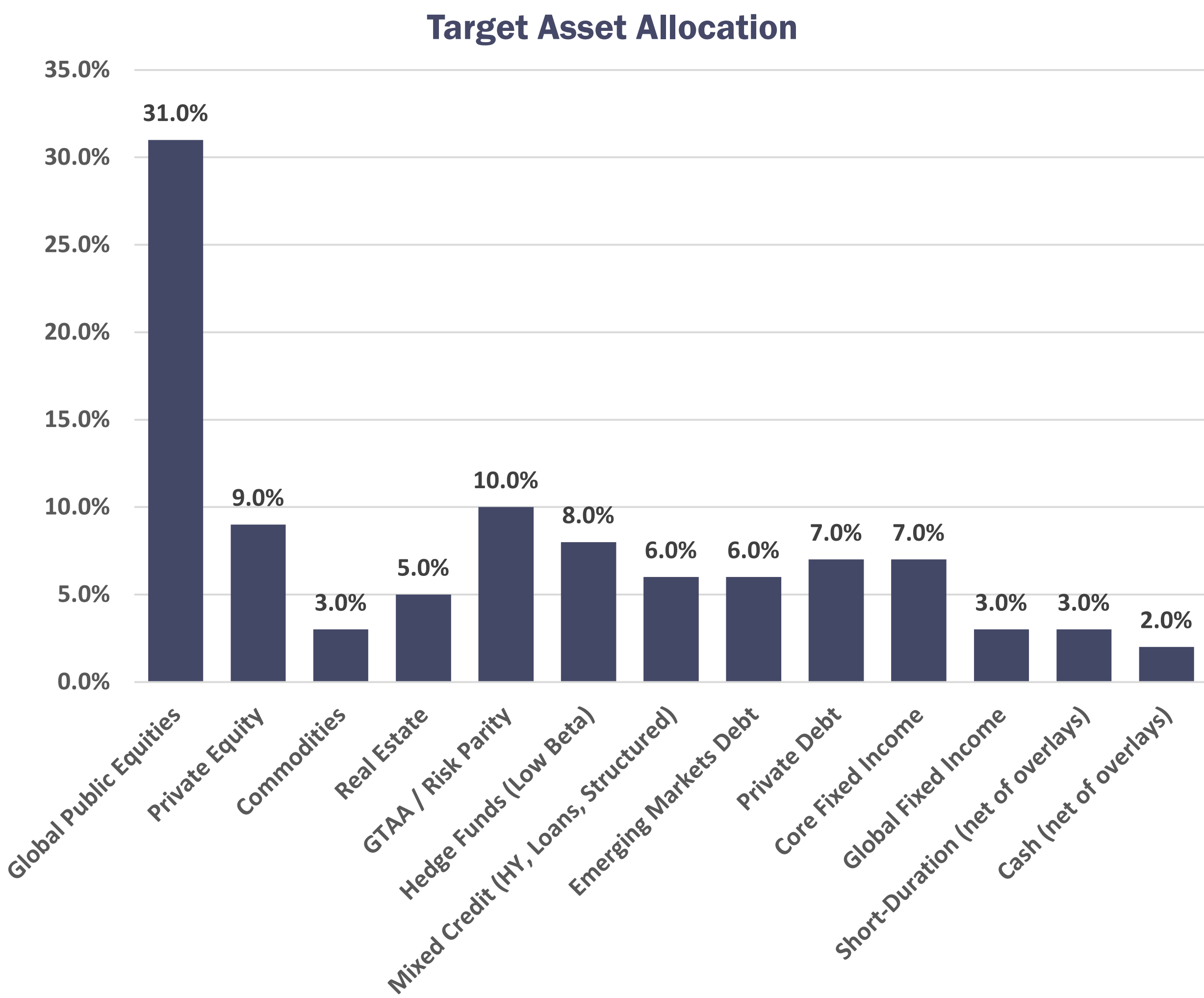


Portfolio Exposure as of June 30, 2014[1, 2]



[1]Portfolio exposure includes adjustments made by managers that invest across asset classes as well as the exposure from RSICs derivative overlay program.

[2]Values rounded for presentation purposes



Note: Target Asset Allocation in effect at July 1, 2013, and adopted and amended by the Commission on September 26, 2013.

South Carolina Retirement Systems
List of Largest Assets Held
As of June 30, 2014

SCRS held units in the following index fund:

Units	Description	Fair Value
128,309,554	Blackrock MSCI World Index	$2,013,691,045
	Total	$2,013,691,045

Top Ten Equity Holdings

Units	Description	Fair Value
371,469	Apple Inc	$ 34,520,614
314,500	Exxon Mobil Corp	31,663,860
456,800	Wells Fargo & Co	24,009,408
384,200	JP Morgan Chase & Co	22,137,604
458,311	Microsoft Corp	19,111,569
143,500	Chevron Corp	18,733,925
154,098	Johnson & Johnson	16,121,733
591,581	General Electric Co	15,546,749
996,000	Tencent Holdings Ltd	15,189,920
188,100	Shire PLC	14,698,161
	Total Top Ten Equity Holdings	$ 211,733,543

Top Ten Fixed Income Holdings

Par Value	Description	Fair Value
$396,700,000	U S Treasury Note 2.750% due 02/15/2024	$405,716,991
5,600,000	iShares Emerging Markets Local Currency Bond ETF	288,624,000
1,200,000	iShares JP Morgan USD Emerging Market Bond ETF	138,324,000
125,000,000	U S Treasury Note 1.500% due 12/31/2018	125,068,750
100,000,000	U S Treasury Note 0.375% due 02/15/2016	100,117,000
100,000,000	U S Treasury Note 0.375% due 03/15/2016	100,055,000
96,990,000	U S Treasury Note 0.875% due 06/15/2017	97,027,826
85,000,000	U S Treasury Note 0.375% due 01/15/2016	85,132,600
78,000,000	U S Treasury Note 0.250% due 04/15/2016	77,819,820
75,000,000	U S Treasury Note 1.000% due 08/31/2016	75,773,250
	Total Top Ten Fixed Income Holdings	$1,493,659,237

Note: A complete list of portfolio holdings is available upon request.

Fiscal Year 2013 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2013, received an Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada.

This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a *Popular Annual Financial Report* in which the content conforms to program standards of creativity, presentation, understandability, and reader appeal.

This award is valid for a period of one year only. The Systems has received the Award for Outstanding Achievement for each of the last ten consecutive years (fiscal years ended 2004-2013). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.

2014 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2014 Award.

It is the eleventh consecutive year during which the S.C. Public Employee Benefit Authority applied for and received the Council's award in recognition of meeting professional plan design and administration standards.

The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement.

South Carolina
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PEBA

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