South Carolina Retirement Systems

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Pension Trust Funds of the State of South Carolina

Impacting SC's economy by more than $2 billion annually

South Carolina Retirement Systems

A Division of the South Carolina Budget and Control Board

Popular Annual Financial Report

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Pension Trust Funds of the State of South Carolina

To Our Members

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

Data presented in this report was derived from our *CAFR*, which was prepared in accordance with Generally Accepted Accounting Principles. To learn more about our financial activities, please visit our Web site at www.retirement.sc.gov.

Our *CAFR* contains more detailed information and may be viewed or downloaded from our Web site. Interested users may also obtain a printed copy by submitting a written request to our office at the address below. For any other questions or assistance, please contact Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov.

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Division Director

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Profile

South Carolina Retirement Systems

The South Carolina Retirement Systems (the Systems) 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.

The Retirement Systems 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 defined benefit SCRS 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.
- 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 National Guard Retirement System **(NGRS)** was established July 1, 1975, to provide supplemental retirement benefits to members who served in the South Carolina National Guard.

Membership and Annuitant Composition

As of July 1, 2007

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	National Guard Retirement System
Total Membership					
Active	187,968	25,645	197	128	11,076
Inactive	153,477	11,038	56	7	3,063
Retirees & Beneficiaries[1]	100,897	10,701	333	175	3,204
Active Members					
Average Age	45	39	52	55	32
Average Years of Service	10	8	11	19	10
Average Annual Salary	$37,736	$38,715	$22,652	$128,206	N/A[2]
Annuitants and Beneficiaries					
Average Current Age	68	63	74	72	68
Average Years of Service at Retirement	23	18	21	25	27
Average AFC[3] at Retirement	$34,660	$35,948	$18,664	$96,004	N/A
Average Current Annual Benefit	$17,904	$17,631	$18,267	$72,634	$945

[1]Totals include participants who retired and returned to work.

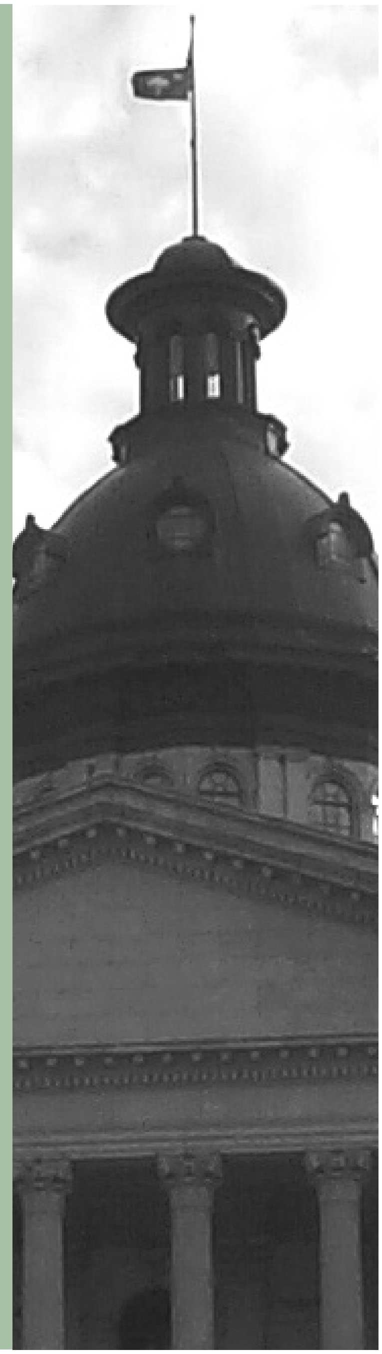
[2]The National Guard Retirement System is non-contributory; therefore, active member salaries are not reported to the Systems.

[3]Average Final Compensation, a component used in the formula and calculation of annuity benefits.

Fiscal Year 2008 Highlights

South Carolina General Assembly Passes COLA Legislation

- The South Carolina General Assembly passed House Bill 4876 which provides an automatic annual COLA of up to 2 percent each July for eligible annuity recipients of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS). The automatic COLA provisions became effective June 17, 2008, the date the State Budget and Control Board, as trustees for the Retirement Systems, approved an increase in the Retirement Systems' assumed rate of investment return to 8 percent from 7.25 percent.
- Passage of this bill is important because future ad hoc COLAs, those that are neither guaranteed nor pre-funded, are not included in a retirement plan's actuarial liabilities until the time at which they are approved. Once ad hoc COLAs are approved, they must be paid using assets of the retirement trust funds or through some other funding mechanism. Historically, ad hoc COLAs granted to our retirees have been paid primarily from the assets of the retirement trust funds.
- By guaranteeing an annual COLA and providing a stabilized funding mechanism, the cost of the COLA is recognized as a liability for actuarial purposes up front. Additionally, by guaranteeing and pre-funding a COLA, eligible retirees can count on protection of their future purchasing power.
- The bill also set limits on COLAs. If the Consumer Price Index (CPI) as of the previous December 31 is less than 2 percent, the automatic COLA would equal the increase in the CPI. If the CPI is greater than 2 percent, the Board has authorization to increase the COLA beyond the automatic annual 2 percent up to the total percentage increase in CPI or 4 percent, whichever is less. However, the increase beyond the automatic 2 percent may only be granted when certain conditions are met. Previously, ad hoc COLAs could be granted as long as the system(s) could support the funding of the COLA and maintain an unfunded liability amortization period of 30 years or less.
- This legislation protects the systems from increased actuarial liabilities due to ad hoc COLAs by preventing ad hoc COLAs from being granted if a system's amortization period for the prior year's unfunded liability exceeds 25 years and by prohibiting employer contribution rate increases to support the grant of an ad hoc COLA. The provisions also require that the system's amortization period must have decreased by one year in the most recently concluded fiscal year valuation and that the estimated funded ratio must not decrease.



Internal Revenue Code Compliance

- In addition to the COLA provisions, House Bill 4876 also included provisions that modified retirement statutes to ensure the Retirement Systems' continued compliance with the Internal Revenue Code (IRC).
- While most of the provisions were technical in nature, one provision affected a member's ability to choose a payment plan that provides for a continuing survivor annuity benefit. The IRC allows a spouse and multiple beneficiaries, regardless of age, to receive a 100 percent survivor benefit. However, a sole beneficiary who is not the member's spouse must be within certain age difference limits as determined by an IRC formula that is based on the retiring member's age, the beneficiary's age, and the difference between the member's age in the year of retirement and age 70.
- Another provision of the legislation required that the Retirement Systems comply with IRC-required distribution guidelines.

Transition of Custodial Bank

- The Bank of New York (BNY) has been the custodial bank for investments of the South Carolina Retirement Systems for many years.
- After BNY merged with Mellon Bank, the Retirement Systems' Investment Accounting Unit and the Retirement System Investment Commission staff worked closely with BNY Mellon to migrate to Mellon's superior operating "Workbench" platform.
- This team of individuals from each organization successfully completed the transition project, which included developing and implementing automated general ledger interfaces for the various investment asset classes, effective May 1, 2008.

Ranking Among Peer Pension Plans

- The South Carolina Retirement Systems participates biennially in a public pension plan benchmarking analysis conducted by Cost Effectiveness Management, Inc., (CEM). Seventy-four public pension plans participated in the 2007 CEM survey, which marked the seventh year of participation for the Retirement Systems.
- Although the Retirement Systems is a primary customer organization, we are a division of South Carolina state government and as such, must adhere to stringent budgetary guidelines. According to the CEM report, the South Carolina Retirement Systems' total adjusted administrative cost per member was $47 in comparison to a peer median cost of $77. Our low administrative cost is achieved through the efficient and proactive deployment of automated systems and appropriately allocated human resources.
- To continue to provide best practice service levels to our stakeholders, we must expend funds necessary to both maintain our infrastructure and expand our technological and human resources. Our infrastructure has been stagnated by mandatory changes required by legislation and court rulings and human resources have been utilized far beyond capacity.

Investment Returns

- Given the volatility and uncertainty of the investment market, there is widespread concern and anxiety; however, retirement benefits provided by the defined benefit plans administered by the South Carolina Retirement Systems are protected and secure.
- Defined benefit plans have vastly long-term investment time horizons; so, while the financial markets are currently experiencing significant volatility, the assets of the Retirement Systems are invested in a broadly diversified manner to help mitigate risks.
- Member benefits under the Retirement Systems' defined benefit plans are protected because they are defined by state statute and are not dependent on individual account balances or investment returns.
- Although the Retirement Systems posted a negative return for the fiscal year, our investments outperformed our benchmarks. Wilshire Associates, a leading global investment technology, investment consulting, and investment management firm maintains a Trust Universe Comparison Service (TUCS) that is considered the most widely accepted benchmark for the performance of institutional assets. According to the TUCS database maintained for the period ended June 30, 2008, the average investment return of our peers was negative 4.36 percent, in comparison to our negative 2.56 percent for the same time period.

Summary of Financial Condition

The South Carolina Retirement Systems' five defined benefit pension plans provide guaranteed lifetime annuities to retirees and beneficiaries based on years of service and a legislatively adopted benefit formula. 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, 2007, confirm that all five plans are considered to be adequately funded within the Governmental Accounting Board's standards and the Budget and Control Board's policy requiring actuarial liabilities be funded within a 30 year amortization period.

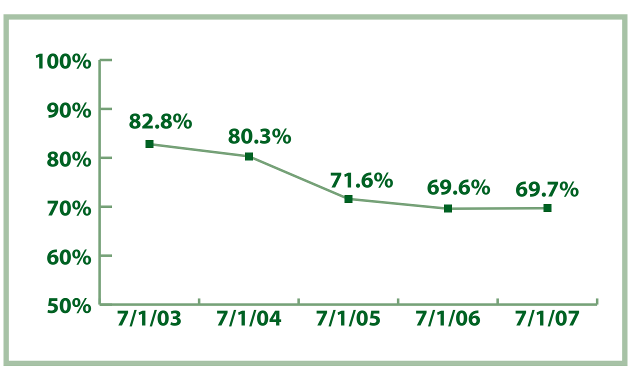
The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. Changes in the funded ratios from one year to the next generally occur even though there may be adjustments to contribution rates. This is because there are numerous other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

The current funded ratios of the five plans range from a low of 28.8 percent for NGRS to a high of 84.7 percent for PORS. The NGRS has a very low funded ratio since historically the plan was not funded on an actuarial sound basis. In 2006, the General Assembly made a commitment to ensure the plan would be sufficiently funded prospectively and transferred administrative responsibility from the Adjutant General's Office to the Retirement Systems. Now recurring funds are set aside in the state's annual budget each year to fund NGRS over an amortization period that does not exceed 30 years and we anticipate improvement in the funded ratio. The charts below and on Page 7 illustrate funded ratios over the past five years for each of the five plans.

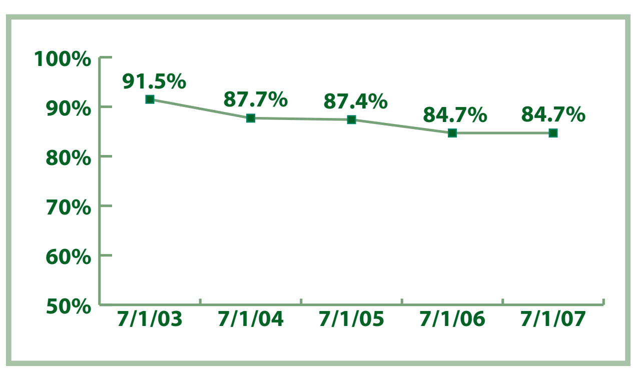
Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)

South Carolina Retirement System



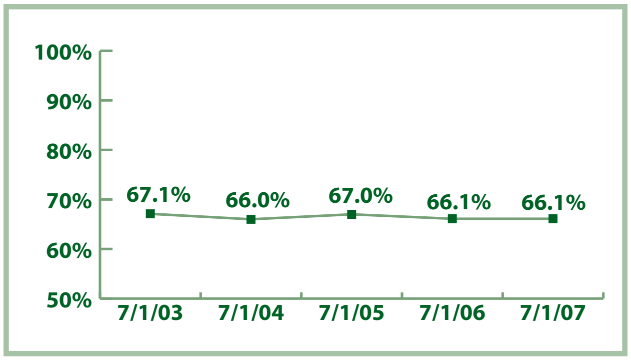
Police Officers Retirement System



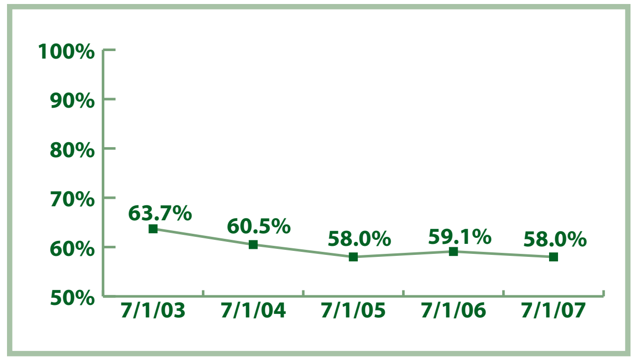
Funded Ratios (continued)

(Actuarial assets as a percentage of actuarial accrued liabilities)

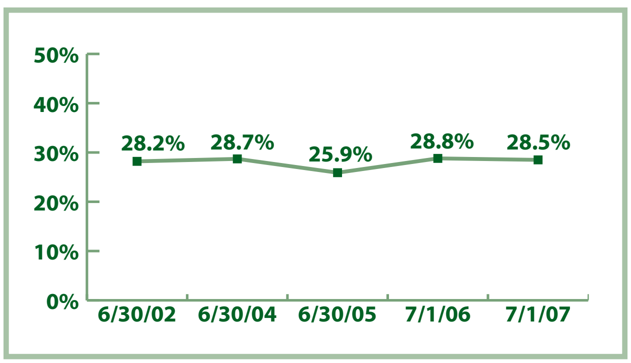
General Assembly Retirement System



Judges and Solicitors Retirement System



National Guard Retirement System



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 NGRS 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 contributions and interest paid upon termination.

Other programs administered by the Systems include a group life insurance 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, 2008, are presented on Pages 8 - 9.

Statement of Plan Net Assets

The Statement of Plan Net Assets presents the Plan's net assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snap shot of the Plans' investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities.

Plan net assets experienced a sizable decrease from fiscal year 2007 to fiscal year 2008 primarily as a result of a decline in the market value of investments. The individual components of plan net assets at the end of the fiscal year also experienced significant fluctuations from the prior year. These variances are a direct result of the Commissions' transition and reallocation process. The portion of assets classified as cash and cash equivalents returned to a normal level after a large portion of the investment portfolio had been classified as cash and cash equivalents the prior year because unsettled investments were in the process of being transitioned to the new asset classes through the overlay manager. Additionally, this fiscal year's transition to new asset classes reduced the allocation to domestic fixed income and equity securities that are lendable, resulting in the reduction in securities lending cash collateral invested and obligations under securities lending.

Liabilities were also impacted by the reduction in obligations under securities lending. Liabilities for deferred retirement benefits decreased this fiscal year due to a drastic reduction in the number of active TERI participants. At the end of fiscal year 2007, there were 9,049 active TERI participants; however, at June 30, 2008, that number had decreased to 7,899.

Plan Net Assets
June 30, 2008 and 2007
(Amounts expressed in thousands)

Assets	**2008**	**2007**	**% Increase/ (Decrease)**
Cash and cash equivalents, receivables and prepaid expenses	$ 2,835,196	$ 6,855,459	(58.64%)
Investments, at fair value	24,697,700	22,188,448	11.31%
Securities lending cash collateral invested	3,796,183	5,085,506	(25.35%)
Property, net of accumulated depreciation	3,459	3,577	(3.30%)
Total Assets	31,332,538	34,132,990	(8.20%)
Liabilities			
Deferred retirement benefits	552,260	641,750	(13.94%)
Obligations under securities lending	3,796,183	5,085,506	(25.35%)
Other liabilities	351,050	356,954	(1.65%)
Total Liabilities	4,699,493	6,084,210	(22.76%)
Total Net Assets	$ 26,633,045	$ 28,048,780	(5.05%)

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets presents information on how the Plans' net assets held in trust for pension benefits 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, group life insurance payments and administrative expenses.

As passed by the South Carolina General Assembly in 2005, Act 153 increased the employer contribution rate for SCRS from 8.05 percent to 9.06 percent on July 1, 2007; therefore, an increase in the dollar amount of employer contributions collected was recognized. Investments experienced a net loss during the fiscal year as a result of declines in the financial marketplace. The Investment Commission continually monitors the Systems' investment portfolio through the assessment of economic events and adjusts strategies to mititage risk as needed.

While the market has faltered and the value of the assets has been adversely affected, the long-term nature of the defined benefit plans and the diversity of the investment portfolio are definite strengths.

The number of annuitants receiving monthly benefits increased to more than 119,000 during the year. This increase, coupled with increases for COLAs, resulted in an almost 6 percent increase in the amount of benefits paid. The plans also experienced an increase in group life expense this fiscal year as a result of the benefits paid on behalf of an increased number of working retirees. Administrative and other expenses were greater this fiscal year due to costs of implementing provisions of the Pension Protection Act, increased charges for evaluating disability claims, other professional service fees for rotating various external reviews, transfers to the Investment Commission, and premiums for our fiduciary liability insurance policy.

Changes in Plan Net Assets

For the Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

Additions	**2008**	**2007**	**% Increase/ (Decrease)**
Employee contributions	$ 618,576	$ 578,019	7.02%
Employer contributions	898,417	760,167	18.19%
State-appropriated contributions	3,948	3,948	0.00%
Investment income (loss)	(731,466)	3,397,801	(121.53%)
Other income	3,542	3,382	4.73%
Total Additions	793,017	4,743,317	(83.28%)
Deductions			
Annuities	2,072,109	1,947,789	6.38%
Refunds	93,094	89,825	3.64%
Group Life	19,969	18,253	9.40%
Administrative & other expenses	23,580	20,618	14.37%
Total Deductions	2,208,752	2,076,485	6.37%
Increase (Decrease) in Net Assets	(1,415,735)	2,666,832	(153.09%)
Beginning Net Assets	28,048,780	25,381,948	10.51%
Ending Net Assets	$ 26,633,045	$ 28,048,780	(5.05%)

The following graph reflects Plan Net Asset values over the past five fiscal years:

Plan Net Assets

Last Five Fiscal Years

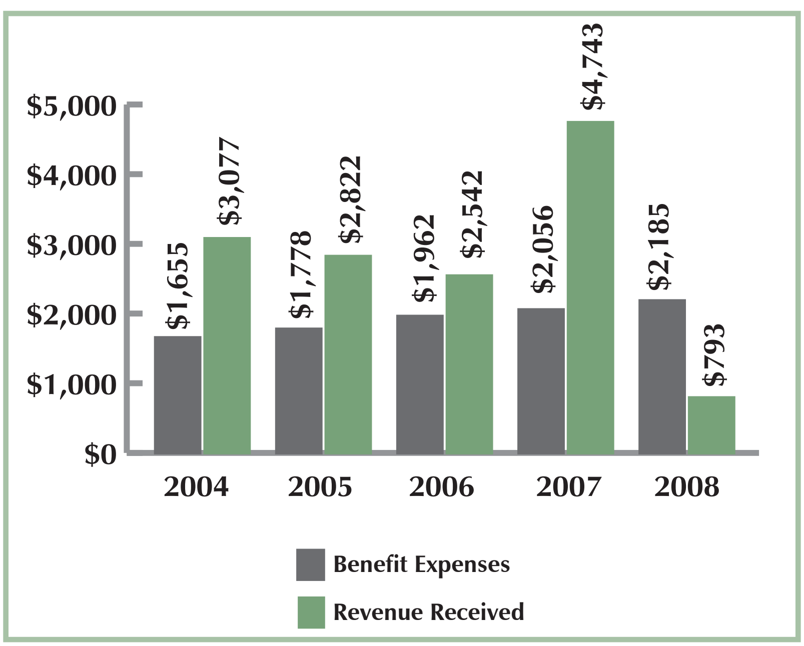
(Amounts expressed in millions)

The following graph represents benefit expenses paid (annuities, refunds and group life) and revenues received from all sources over the past five fiscal years:

Summary of Benefit Expenses and Revenues

Five Years Ending June 30, 2008

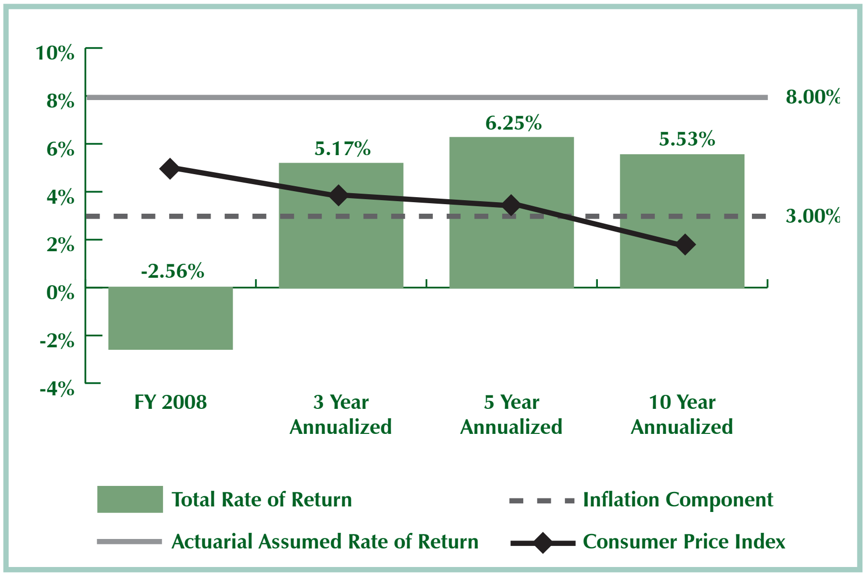
(Amounts expressed in millions)



For the fiscal year ended June 30, 2008, the Systems' combined investment portfolio produced a total return of negative 2.56 percent which was significantly less than the actuarial assumed rate of return; however, the actuarial smoothing methodology offsets investment gains and losses over a period of years to mitigate market volatility. The chart below summarizes investment performance.

Summary of Investment Performance

As of June 30, 2008



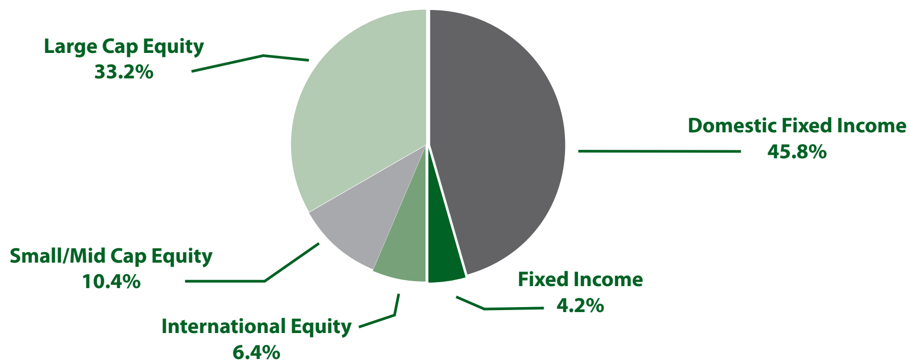
While the Systems' past investment performance was limited by restrictions within the state constitution and statute, the Investment Commission has made significant progress in redeploying assets across a broad range of asset classes.

New England Pension Consultants provides full service investment consulting services for the Commission. Together they have implemented a complete restructuring and reallocation of the Retirement System's investments designed to achieve the highest risk-adjusted returns.

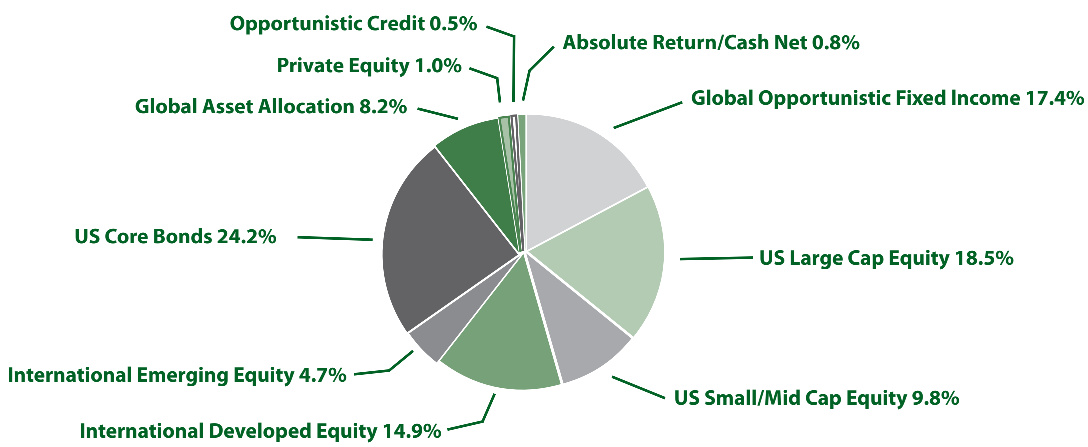
In addition to the Commission's efforts to gain exposure to almost all of the new asset classes, planned strategies will take several years to implement due to the difficulty of investing in less liquid asset classes including private equity and real estate.

The charts on Page 12 summarize the Investment Commission's progress toward diversifying the Retirement Systems' portfolio from the prior fiscal year and the long-term target allocation.

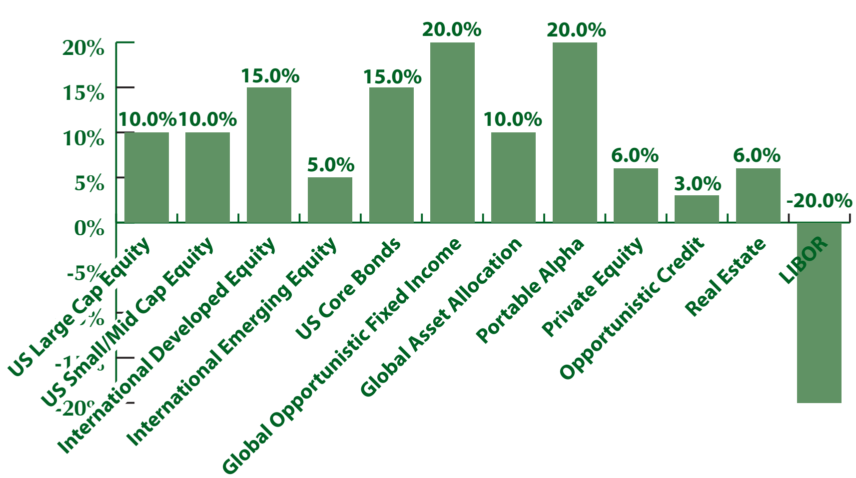
Actual Asset Allocation as of June 30, 2007



Actual Asset Allocation as of June 30, 2008



Target Asset Allocation



FY 2007 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2007, 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 four consecutive years (fiscal years ended 2004-2007). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.

2008 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2008 Award.

It is the fifth consecutive year during which the Retirement Systems 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.

State Budget and Control Board
South Carolina Retirement Systems
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This report was published by the South Carolina Retirement Systems, a division of the State Budget and Control Board.