

South Carolina Retirement Systems

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2009
Pension Trust Funds of the State of South Carolina

Planting the Seeds for a Secure Future

South Carolina Retirement Systems
A Division of the South Carolina Budget and Control Board

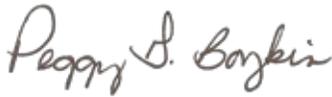
Popular Annual Financial Report
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To Our Members

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 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 www.retirement.sc.gov.



Peggy G. Boykin, CPA, CRA
Division Director



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Deputy Director of Operations

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THIS REPORT CONTAINS AN ABBREVIATED DESCRIPTION OF THE RETIREMENT BENEFITS OFFERED BY THE SOUTH CAROLINA RETIREMENT SYSTEMS. THE INFORMATION IN THIS REPORT IS MEANT TO SERVE AS A GUIDE FOR OUR MEMBERS AND DOES NOT CONSTITUTE A BINDING REPRESENTATION OF THE SOUTH CAROLINA RETIREMENT SYSTEMS. TITLE 9 OF THE SOUTH CAROLINA CODE OF LAWS CONTAINS A COMPLETE DESCRIPTION OF THE RETIREMENT BENEFITS, THEIR TERMS AND CONDITIONS, AND GOVERNS ALL RETIREMENT BENEFITS OFFERED BY THE STATE. STATE STATUTES ARE SUBJECT TO CHANGE BY THE GENERAL ASSEMBLY. PLEASE CONTACT THE RETIREMENT SYSTEMS FOR THE MOST CURRENT INFORMATION.

THE LANGUAGE USED IN THIS REPORT DOES NOT CREATE ANY CONTRACTUAL RIGHTS OR ENTITLEMENTS AND DOES NOT CREATE A CONTRACT BETWEEN THE MEMBER AND THE SOUTH CAROLINA RETIREMENT SYSTEMS. THE SOUTH CAROLINA RETIREMENT SYSTEMS RESERVES THE RIGHT TO REVISE THE CONTENT OF THIS REPORT.

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, 2008

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	National Guard Retirement System
Total Membership					
Active	192,820	26,427	191	144	12,559
Inactive	155,038	11,558	47	5	2,942
Retirees & Beneficiaries ¹	104,522	11,286	342	178	3,492
Active Members					
Average Age	44	39	52	54	31
Average Years of Service	9	8	10	15	8
Average Annual Salary	\$34,385	\$34,121	\$22,641	\$115,294	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	\$18,224	\$18,026	\$18,380	\$73,596	\$940

¹Represents participants who retired including those who participate in TERI or who returned to employment as a working retiree.

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

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

Fiscal Year 2009 Highlights

Operational System Improvements

- One of the most significant accomplishments of the current year was implementation of a newly developed integrated benefit payment system. The new web-based system provides technical functionality superior to the previous legacy system and includes enhanced features such as:
 - Consolidated dual entry accounting and recordkeeping for all benefit payments (refunds, annuities, TERI and death benefits);
 - Capability to make direct deposits for one-time refund, TERI and death payments through EFT as well as flexibility for multiple EFT accounts;
 - Expanded Quality Assurance processes;
 - Means for executing multiple payroll runs in same business day;
 - Streamlined processing of automated transactions submitted to and received from custodial bank; and
 - Automated interfaces between payroll subledger and SAP accounting general ledger system for all benefit payment transactions.
- During fiscal year 2009, staff moved into production improvements to the Electronic Employer Services (EES) system that allow employers to:
 - Submit deposit forms for monthly and quarterly reports electronically, which eliminates the cost of printing thousands of forms, postage, and handling;
 - Upload quarterly reporting detail data to a secure server, which shortens processing time and further protects confidential member data;
 - Submit working retiree data electronically, which ensures greater security and faster processing of data; and
 - Submit supplemental contribution reports electronically, which improves the safety of confidential member data and alleviates manual data input by staff.



Internal Revenue Code Compliance



- The technical nature of the Internal Revenue Code (IRC) and the frequency with which it can change, require that Retirement Systems' staff periodically review retirement statutes to ensure continued compliance with the IRC. Likewise, the Internal Revenue Service (IRS) periodically reviews the Retirement Systems' "plan documents" to ensure compliance with the IRC. The statutes governing the Retirement Systems are considered the plan documents for IRS/IRC purposes.
- During fiscal year 2009, the Retirement Systems worked with South Carolina General Assembly to implement statutory modifications intended to keep the laws governing the South Carolina Retirement Systems in compliance with certain provisions of the IRC. Other changes were implemented to ensure continued compliance with IRC requirements for qualified tax deferred plans, such as required minimum distribution requirements.

Qualified Excess Benefit Plan



- Section 415(b) of the IRC sets limits on the amount of benefits that may be paid from a qualified retirement plan. When these limits are exceeded, the IRC requires that the benefits payable be reduced.
- South Carolina statute defines the benefit formula used to determine the amount of benefits paid under the Retirement Systems. Once earned, these benefits are guaranteed and cannot be repealed, revoked, or reduced, except in the case of error. Both federal and state laws require the Retirement Systems to comply with IRC Section 415(b).
- The IRS recognizes that state laws and constitutional requirements mandate how state retirement plans pay benefits. A process exists to allow state retirement systems to pay retirees all of the benefits to which they are entitled by allowing benefits above the IRC limit to be paid from a Qualified Excess Benefit Arrangement (QEBA). The IRS requires that the QEBA be operated as a separate trust fund. The result is that retirees affected by the IRC limit have a portion of their benefit funded by their retirement plan and a portion funded from the QEBA. The total payment equals the benefit amount promised under state law while complying with IRC requirements.

Ranking Among Peer Pension Plans

- The South Carolina Retirement Systems participates bi-ennially 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. Results for 2009 will not be available until spring 2010.
- 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.



Investment Returns

- The portfolio value declined in fiscal year 2009 as the global financial system reached the brink of collapse in late 2008 before stabilizing in 2009. The resultant colossal financial market swings created a complex backdrop against which the South Carolina Retirement System Investment Commission continued to pursue the reallocation of assets that began in July 2007.
- As of June 30, 2009, the Retirement Systems' investment portfolio value was \$21 billion, down from \$27 billion a year earlier. Of this change, \$822 million was due to cash flows for retiree obligations. The portfolio's overall performance for the fiscal year ending June 30, 2009, was negative 19.04 percent.
- Although the Retirement Systems' portfolio posted a negative return for the fiscal year, it is invested in a manner consistent with a long-term investment time horizon. The Investment Commission has used the financial crisis as a chance to acquire attractive long-term investments at attractive prices. 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.



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, 2008, 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

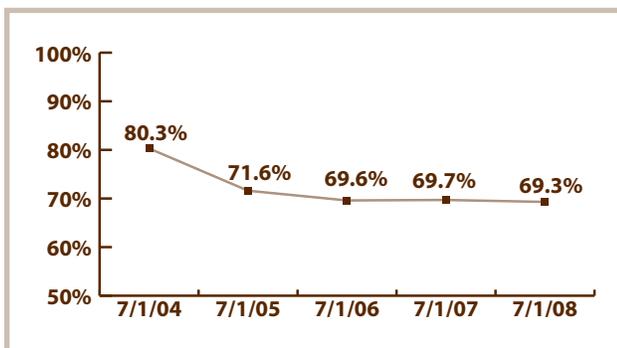
contribution and benefit levels. Changes in the funded ratios from one year to the next generally occur even though there may be adjustments to contribution rates. This is because there are numerous other variables affecting the funded ratio including, but not limited to, investment gains and losses, experience gains and losses, increases in benefit payment levels, and cost-of-living adjustments.

The current funded ratios of the five plans range from a low of 32.6 percent for NGRS to a high of 77.9 percent for PORS. The NGRS 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 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 continued 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.

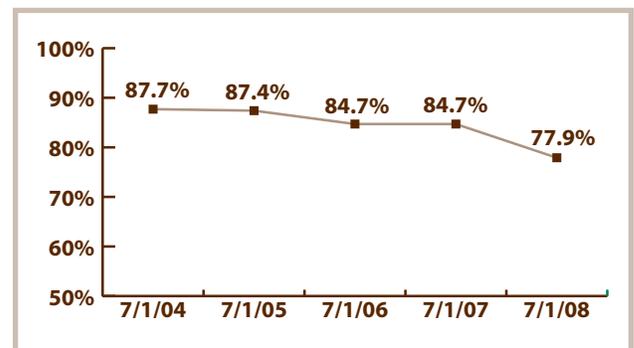
Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)

South Carolina Retirement System



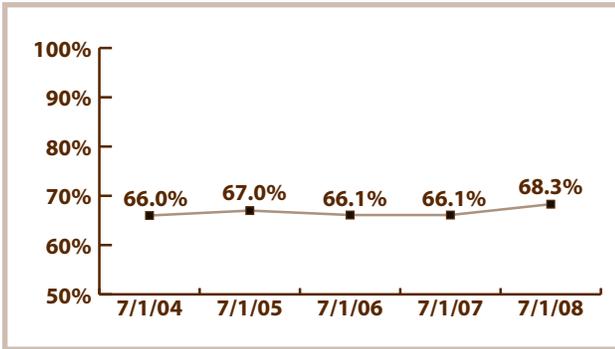
Police Officers Retirement System



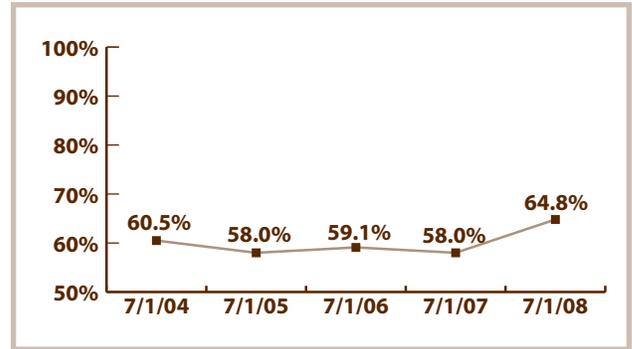
Funded Ratios (continued)

(Actuarial assets as a percentage of actuarial accrued liabilities)

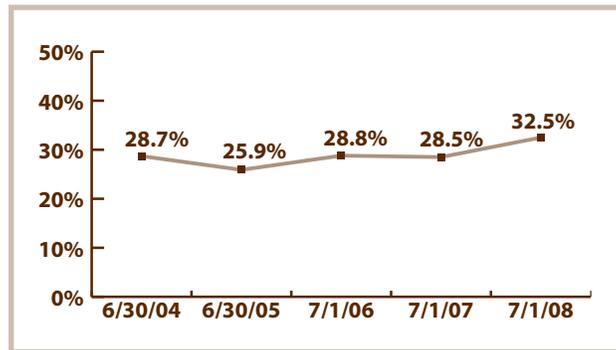
General Assembly Retirement System



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 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, 2009, are presented on Pages 8 - 9.

Statement of Plan Net Assets

The Statement of Plan Net Assets presents the Plan's 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 declined sharply during the fiscal year due to both negative investment returns and increased annuity benefits.

The individual components of plan assets at the end of the fiscal year experienced sizeable fluctuations from the prior year. The Investment Commission's transition and reallocation process continued during fiscal year 2009. Funds are now invested in a highly diversified portfolio across many asset classes, including domestic and global equity and fixed income, high yield debt, emerging debt, real estate, private equity, and other alternative investments. In response to tumultuous market conditions during the fiscal year, a portion of the investment portfolio was strategically allocated to cash in order to be able to capitalize on market opportunities, reduce

portfolio risk, and ensure the payment of retirement benefits.

A significant reduction in securities lending cash collateral invested and obligations under securities lending during the year impacted assets and liabilities reported in the Statement of Plan Net Assets. The investment portfolio's reduced allocation to domestic fixed income and equity securities resulted in the transition to new asset classes that are not lendable. In addition, declining market prices for securities held in the securities lending collateral pool contributed to the reduction in cash collateral invested.

Liabilities for deferred retirement benefits accumulated under the Teacher and Employee Retention Incentive (TERI) program decreased this fiscal year due to a reduction in the number of members actively participating in TERI. At June 30, 2009, there were 6,571 members participating in TERI and in comparison to the prior fiscal year, there were 7,899 active TERI participants at June 30, 2008.

Plan Net Assets June 30, 2009 and 2008 (Amounts expressed in thousands)

Assets	2009	2008	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	\$ 3,403,752	\$ 2,835,196	20.05%
Investments, at fair value	17,915,982	24,697,700	(27.46%)
Securities lending cash collateral invested	1,845,862	3,796,183	(51.38%)
Property, net of accumulated depreciation	3,340	3,459	(3.44%)
Total Assets	23,168,936	31,332,538	(26.05%)
Liabilities			
Deferred retirement benefits	431,503	552,260	(21.87%)
Obligations under securities lending	1,845,862	3,796,183	(51.38%)
Other accounts payable	399,193	351,050	13.71%
Total Liabilities	2,676,558	4,699,493	(43.05%)
Total Net Assets	\$ 20,492,378	\$ 26,633,045	(23.06%)

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets presents information showing 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, death benefit payments and administrative expenses.

In conjunction with legislation enacted by the SC General Assembly in Act 153 and action taken by the Budget and Control Board, the employer contribution rate of the South Carolina Retirement System (SCRS) increased from 9.06 percent in fiscal year 2008 to 9.24 percent in fiscal year 2009; therefore, a slight increase in the dollar amount of employer contributions collected and reported was recognized. Investment performance was negative in fiscal year 2009 as the erosion of the economy dragged nearly all financial markets substantially lower. The Investment

Commission continually monitors the economy and financial markets and adjusts the investment portfolio as appropriate. While the market has faltered and the value of the assets has been adversely affected, defined benefit plans are structured over a long-term horizon to ensure that volatility does not jeopardize the sustainability of the plan or sufficiency of benefits.

The number of annuitants receiving monthly benefits from the plans increased to almost 124,000 during the year. This increase in the number of annuitants, coupled with adjustments for cost-of-living increases that were granted July 1, 2008, and our flexible return to work provisions for working retirees resulted in the amount of annuity benefit payments increasing nearly 6 percent. Administrative and other expenses were slightly lower this fiscal year as the Systems adjusted its budget to meet the challenges of the economic downturn.

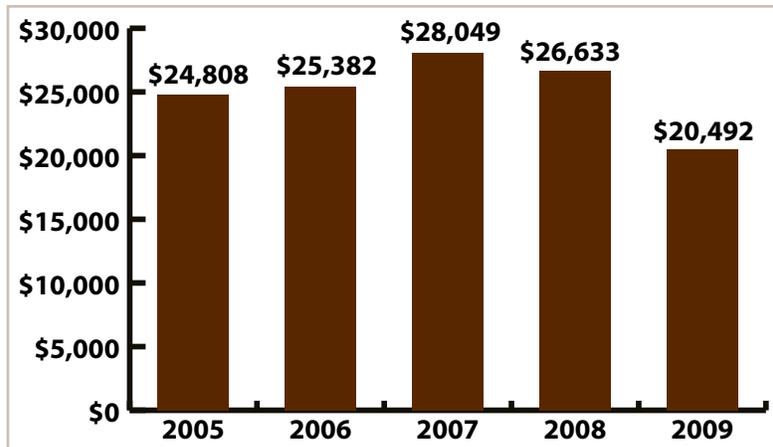
Changes in Plan Net Assets For the Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

	2009	2008	% Increase/ (Decrease)
Additions			
Employee contributions	\$ 645,116	\$ 618,576	4.29%
Employer contributions	962,559	898,417	7.14%
State-appropriated contributions	4,052	3,948	2.63%
Investment income (loss)	(5,433,227)	(731,466)	(642.79%)
Other income	3,071	3,542	(13.30%)
Total Additions	<u>(3,818,429)</u>	<u>793,017</u>	(581.51%)
Deductions			
Annuities	2,191,651	2,072,109	5.77%
Refunds	87,668	93,094	(5.83%)
Death benefits	19,776	19,969	(0.97%)
Administrative & other expenses	23,143	23,580	(1.85%)
Total Deductions	<u>2,322,238</u>	<u>2,208,752</u>	5.14%
Increase (Decrease) in Net Assets	<u>(6,140,667)</u>	<u>(1,415,735)</u>	(333.74%)
Beginning Net Assets	<u>26,633,045</u>	<u>28,048,780</u>	(5.05%)
Ending Net Assets	<u>\$ 20,492,378</u>	<u>\$ 26,633,045</u>	(23.06%)

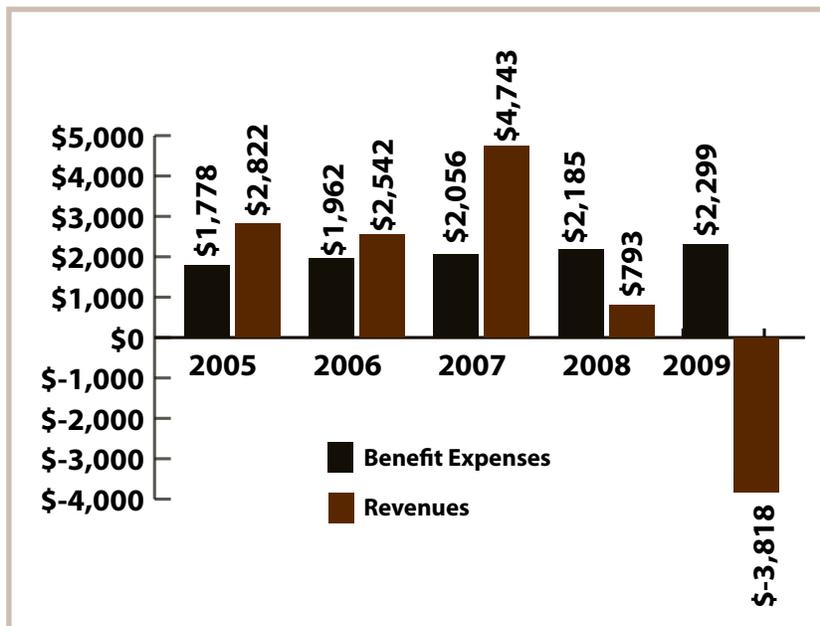
The following graph reflects Plan Net Asset values over the past five fiscal years:

Plan Net Assets
Last Five Fiscal Years
 (Amounts expressed in millions)



The following graph represents benefit expenses (annuities, refunds and death benefits) and revenues from all sources over the past five fiscal years:

Summary of Benefit Expenses and Revenues
Five Years Ending June 30, 2009
 (Amounts expressed in millions)

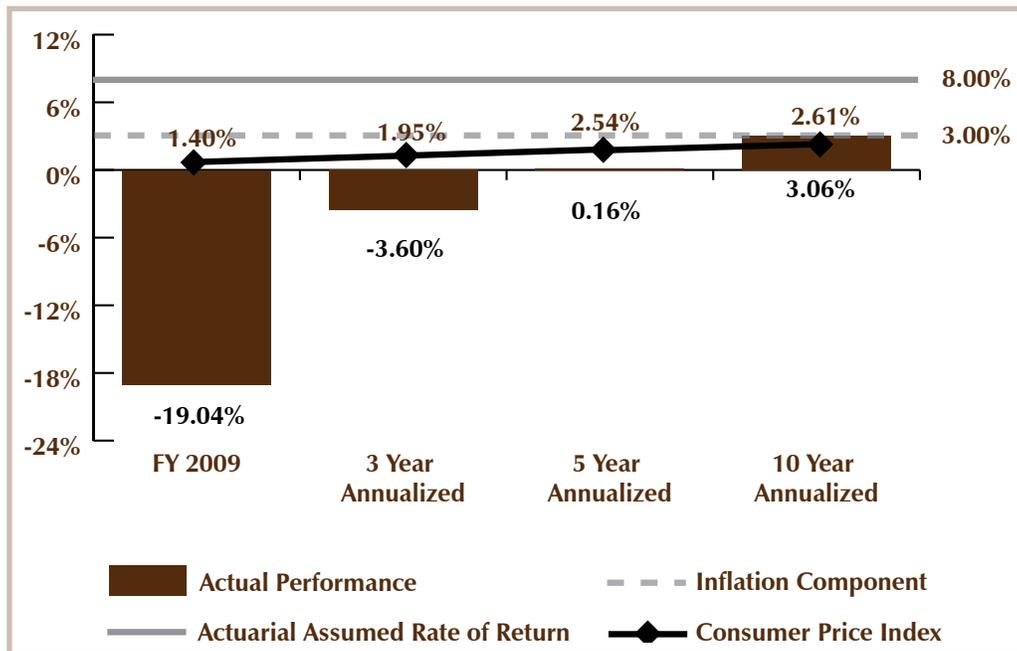


For the fiscal year ended June 30, 2009, the Systems' combined investment portfolio produced a total return of negative 19.04 percent which was significantly less than the actuarial assumed rate of return; however, the actuarial smoothing

methodology spreads investment gains and losses over a period of years to reduce the annual impact of market volatility. This is a conservative measure that ensures the long-range fiscal health of the plans. The chart below summarizes investment performance.

Summary of Investment Performance

As of June 30, 2009



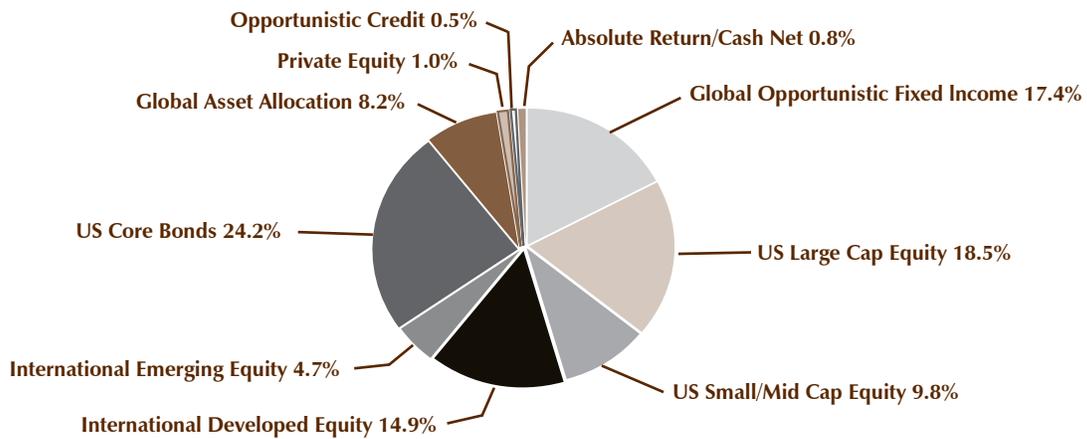
While the Systems' past investment performance was limited by restrictions within the state constitution and statute, the Investment Commission continues to make significant progress in redeploying assets across a broad range of asset classes.

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.

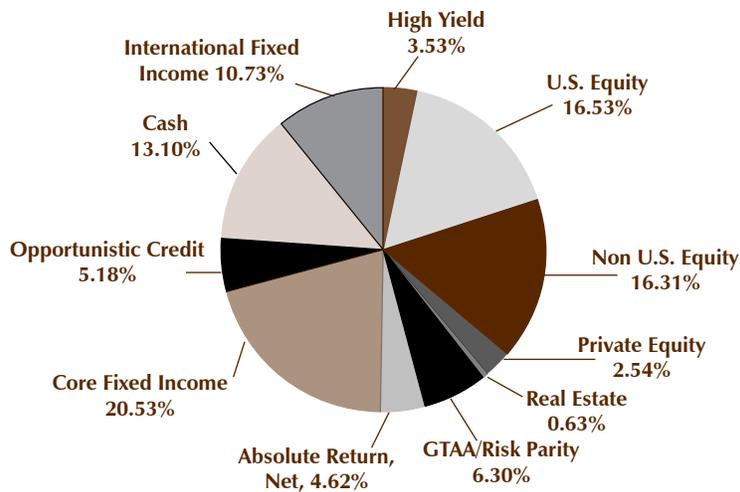
In addition to the Commission's efforts to gain exposure to almost all of the new asset classes, planned strategies will take several years to implement due to the difficulty of investing in less liquid asset classes including private equity and real estate.

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.

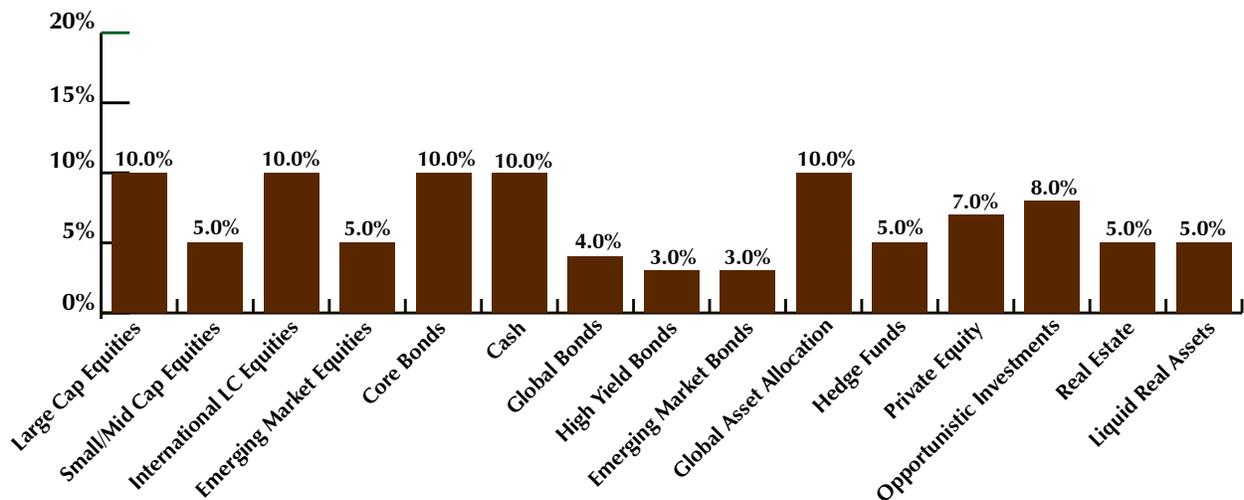
Actual Asset Allocation as of June 30, 2008



Actual Asset Allocation as of June 30, 2009



Target Asset Allocation



Fiscal Year 2008 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2008, 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 five consecutive years (fiscal years ended 2004-2008). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



2009 PPCC Award

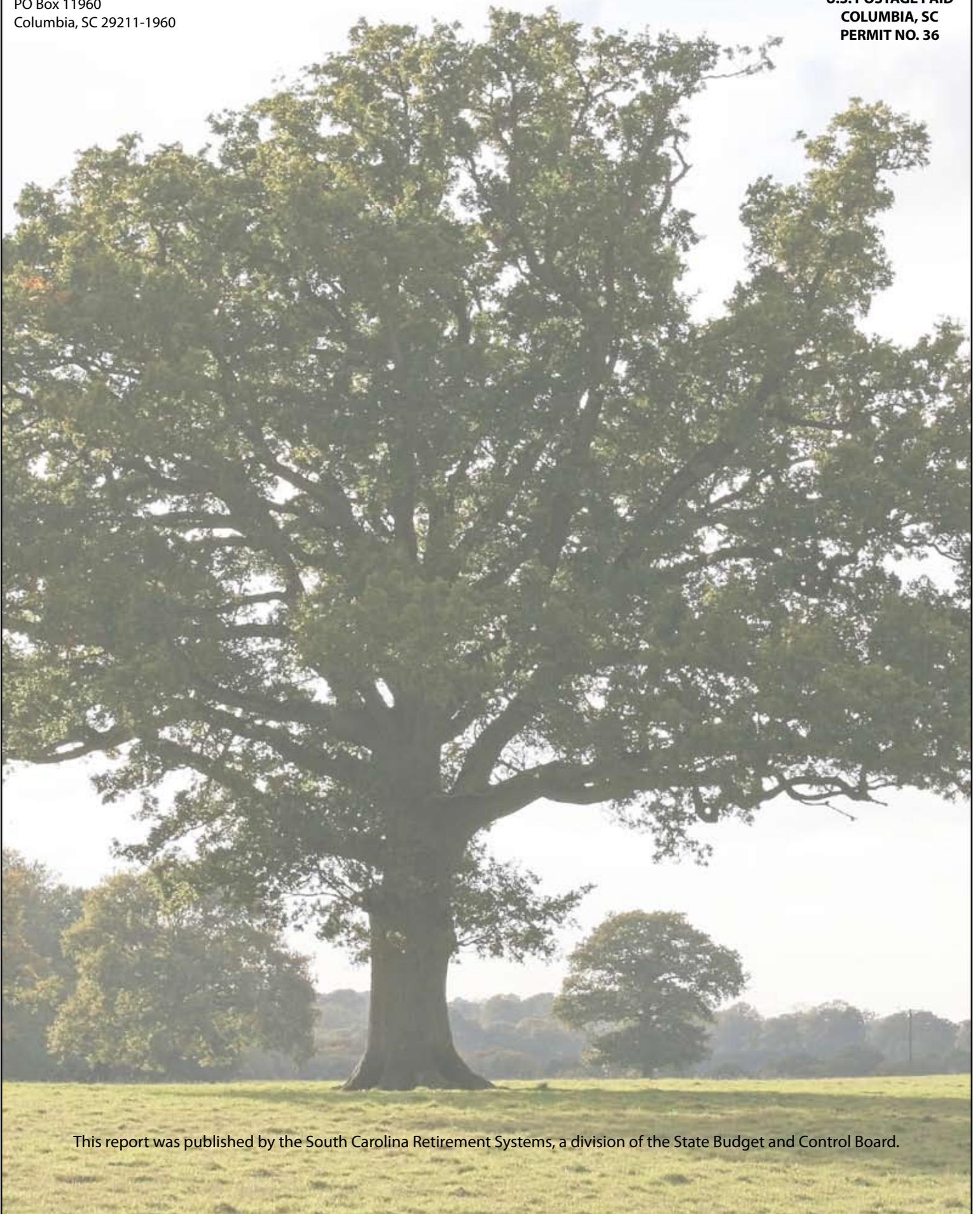
The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2009 Award.

It is the sixth 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
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