

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2010
Pension Trust funds of the State of South Carolina

the Navigating Financial Road Ahead

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



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To Our Members

We are pleased to present to you our seventh 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.



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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 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.
- 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. The Retirement Systems assumed administrative responsibility for this fund in 2006.

Membership and Annuitant Composition⁴
As of July 1, 2009

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	National Guard Retirement System
Total Membership					
Active	192,319	26,598	198	144	12,599
Inactive	156,999	11,832	40	4	2,786
Retirees & Beneficiaries ¹	108,014	11,950	353	184	3,785
Active Members					
Average Age	45	39	51	55	32
Average Years of Service	10	8	9	15	9
Average Annual Salary	\$40,359	\$40,761	\$22,671	\$129,590	N/A ²
Annuitants and Beneficiaries					
Average Current Age	68	63	75	73	68
Average Years of Service at Retirement	23	18	21	25	26
Average AFC ³ at Retirement	\$35,475	\$37,084	\$18,970	\$97,890	N/A
Average Current Annual Benefit	\$18,276	\$18,201	\$18,484	\$74,696	\$934

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

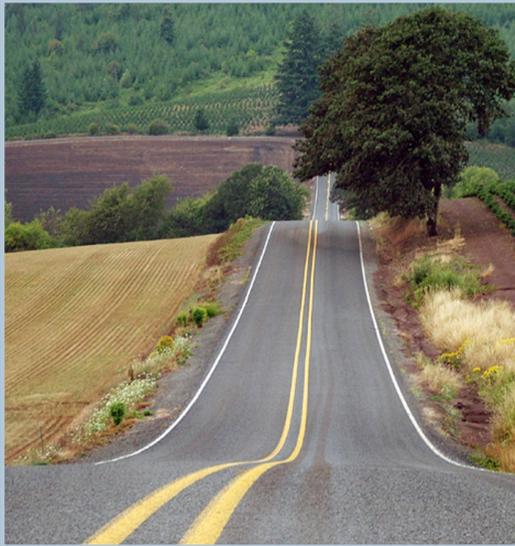
²The National Guard Retirement System is non-contributory; therefore, active member salaries are not reported to the Systems.

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

⁴Data obtained from the annual actuarial valuations dated July 1, 2009 with the exception of Average Current Age, Average Years of Service at Retirement, and Average AFC at Retirement, which were derived from the data files provided to the Systems' actuary for the performance of the annual actuarial valuations.

Fiscal Year 2010 Highlights

Operational System Improvements



- During 2010, significant improvements were implemented in the web-based Electronic Employer Services (EES) system. Changes included:
 - Allowing the Office of the Comptroller General's (CG's) payroll system for state employees to electronically submit transactions to the Retirement Systems for enrollment events for active members, return-to-work retirees, and non-members via the CG's new South Carolina Enterprise Information System (SCEIS);
 - Allowing authorized employers to download custom data files which include retirement information for their employees; and
 - Enhancing the security and privacy restrictions of EES.

Ranking Among Peer Pension Plans



- Compliance with best practices within the public pension industry is a critical element of the Retirement Systems' management values. Therefore, the South Carolina Retirement Systems participates biennially in a public pension plan benchmarking analysis conducted by Cost Effectiveness Management, Inc., (CEM). Biennial participation allows the Retirement Systems to achieve cost savings while still having access to recent benchmarking information for strategic planning and accountability purposes. Seventy-three public pension plans participated in the CEM survey for 2009, which marked the eighth year of participation for the Retirement Systems.
- Although the Retirement Systems is a customer centric organization, we are also 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 \$46 in comparison to a peer median cost of \$78. Our low administrative cost is achieved through the efficient and proactive deployment of automated systems and appropriately allocated human resources.

Disability Retirement Applications

- Act 162 of 2010 amended the statutes governing a member’s eligibility for disability retirement benefits under the correlated retirement plans administered by the Retirement Systems to provide that a member is considered “in service”— and thus eligible to apply for disability retirement — if he or she is not retired and the last day the member was employed by a participating employer in the relevant plan was not more than 90 days prior to the date the application was filed.



Investment Returns

- In the aftermath of the most significant financial crisis since the Great Depression, most major financial markets rebounded sharply during the fiscal year ending 2010. These colossal market swings, along with weakening economic growth forecasts, created a complex backdrop against which the South Carolina Retirement System Investment Commission (Commission) managed the assets of the Plan.
- As of June 30, 2010, the Retirement Systems’ assets in the investment portfolio were valued at \$22.9 billion, much higher than the \$21 billion of assets one year prior. In addition to this portfolio growth, from a cash flow perspective, a net amount of \$899 million was paid out of the plan for retiree obligations. The portfolio’s overall performance for the fiscal year ending June 30, 2010 was 14.62 percent. This performance significantly exceeded its benchmarks as well as the 8 percent actuarial assumed rate of return.
- The plan assets are invested 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 to help mitigate risk. It should be noted that accrued member benefits under the Retirement Systems’ defined benefit plans are not dependent on individual account balances or individual investment returns.



Summary of Financial Condition

The 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, 2009, confirm that all five defined benefit 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.

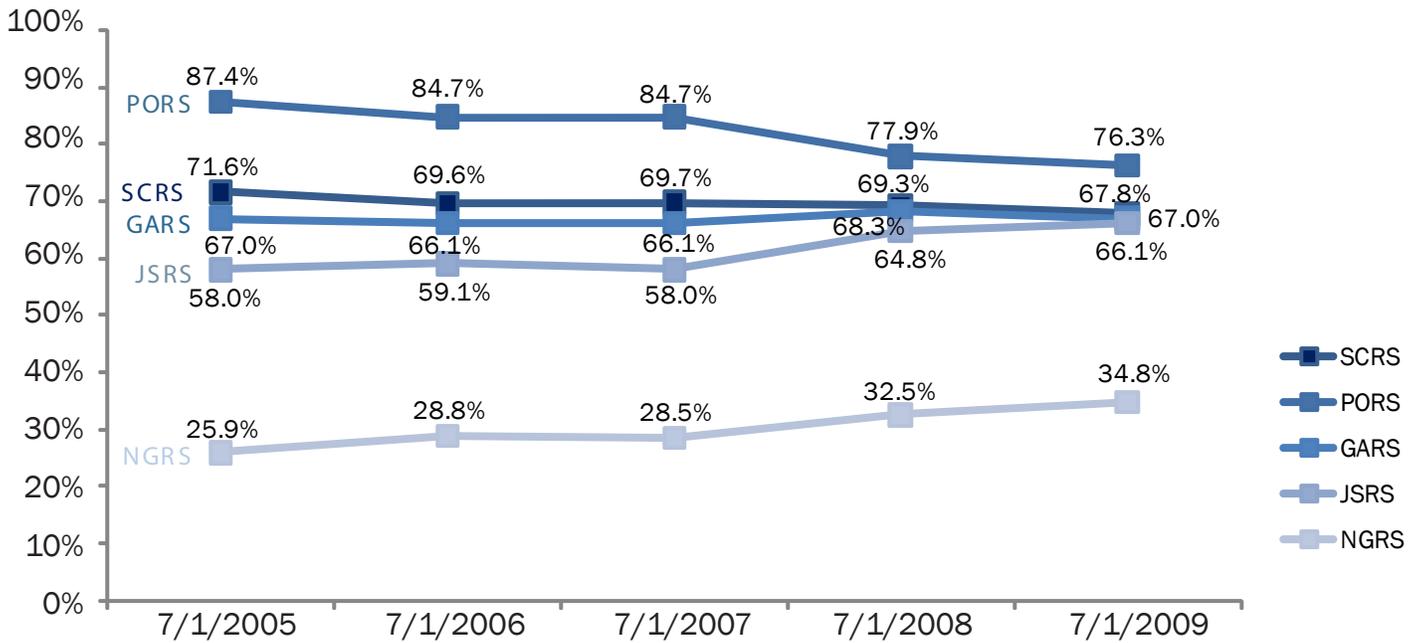
The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. Changes in the funded ratios from one year to the next generally occur even though there may be adjustments to contribution rates. This is because there are numerous other 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 34.8 percent for NGRS to a high of 76.3 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 chart on Page 7 illustrates funded ratios over the past five years for each of the five defined benefit plans.



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 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, 2010, 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. Total plan net assets increased by \$2.2 billion or 10.73 percent during fiscal year 2010. The increase in net assets from \$20.5 billion to \$22.7 billion was primarily due to positive returns in the investment market, although a minor increase in benefit payment expenditures had an impact by offsetting the increase in net assets slightly.

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 2010. 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. During the fiscal year, due to market conditions and cash liquidity requirements for funding investment

commitment obligations and paying benefits, a greater portion of the investment portfolio remained allocated to cash and cash equivalents.

The significant decrease in securities lending collateral and obligations is primarily due to unfavorable market conditions during the fiscal year. The demand for lendable securities has decreased and the fixed income and equity securities within the portfolio continue to be reduced to fund other asset classes that are not lendable. In addition, restrictive investment guidelines for the collateral pool were put into place to reduce risk.

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, 2010, there were 5,641 members participating in TERI in comparison to the prior fiscal year when there were 6,571 active TERI participants at June 30, 2009. Other accounts payable increased significantly due to pending investment trades at year end by several of the large fixed income managers who were hired at the end of the fiscal year 2009.

Plan Net Assets June 30, 2010 and 2009 (Amounts expressed in thousands)

Assets	2010	2009	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	\$ 5,298,443	\$ 3,403,752	\$ 1,894,691	55.66%
Investments, at fair value	18,829,568	17,915,982	913,586	5.10%
Securities lending cash collateral invested	324,593	1,845,862	(1,521,269)	(82.42%)
Capital Assets, net of accumulated depreciation	3,221	3,340	(119)	(3.56%)
Total Assets	24,455,825	23,168,936	1,286,889	5.55%
Liabilities				
Deferred retirement benefits	323,093	431,503	(108,410)	(25.12%)
Obligations under securities lending	324,593	1,845,862	(1,521,269)	(82.42%)
Other accounts payable	1,116,479	399,193	717,286	179.68%
Total Liabilities	1,764,165	2,676,558	(912,393)	(34.09%)
Total Net Assets	\$ 22,691,660	\$ 20,492,378	\$ 2,199,282	10.73%

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.

Employee and employer contributions decreased due to a decline in the number of active members. Additionally, as a result of retirement incentives offered by employers and the depressed economy which caused members to be terminated, retire early, or have their compensation reduced, contributions to the plans were impacted.

The investment portfolio's overall performance for the fiscal year ending June 30, 2010 was 14.62 percent. This performance significantly exceeded its benchmarks as well as the 8 percent actuarial assumed rate of return.

The number of retired members and beneficiaries receiving monthly annuity benefits from the plans increased to nearly 130,000 annuitants during the year. No cost of living allowance was granted July 1, 2009; therefore, an increase in the number of new annuitants added to the payroll during the year was the sole contributor to the 3 percent increase in the amount of annuity benefits paid to members. Administrative and other expenses were lower this fiscal year due to budget restrictions and sustained and successful efforts to conserve financial resources during the depressed economic environment.

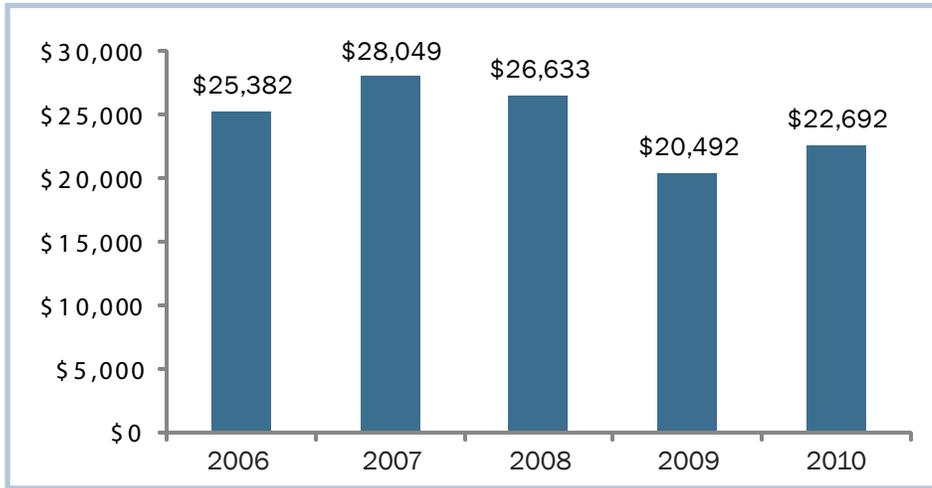
Changes in Plan Net Assets For the Years Ended June 30, 2010 and 2009

(Amounts expressed in thousands)

Additions	2010	2009	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	\$ 641,199	\$ 645,116	\$ (3,917)	(0.61%)
Employer contributions	952,698	962,559	(9,861)	(1.02%)
State-appropriated contributions	4,052	4,052		0.00%
Net Investment income (loss)	2,996,382	(5,433,227)	8,429,609	155.15%
Other income	2,415	3,071	(656)	(21.36%)
Total Additions	<u>4,596,746</u>	<u>(3,818,429)</u>	<u>8,415,175</u>	<u>220.38%</u>
Deductions				
Annuity benefits	2,263,699	2,191,651	72,048	3.29%
Refunds	89,491	87,668	1,823	2.08%
Death benefits	21,957	19,776	2,181	11.03%
Administrative & other expenses	22,317	23,143	(826)	(3.57%)
Total Deductions	<u>2,397,464</u>	<u>2,322,238</u>	<u>75,226</u>	<u>3.24%</u>
Increase (Decrease) in Net Assets	<u>2,199,282</u>	<u>(6,140,667)</u>	<u>8,339,949</u>	<u>135.82%</u>
Beginning Net Assets	20,492,378	26,633,045	(6,140,667)	(23.06%)
Ending Net Assets	<u>\$ 22,691,660</u>	<u>\$ 20,492,378</u>	<u>\$ 2,199,282</u>	<u>10.73%</u>

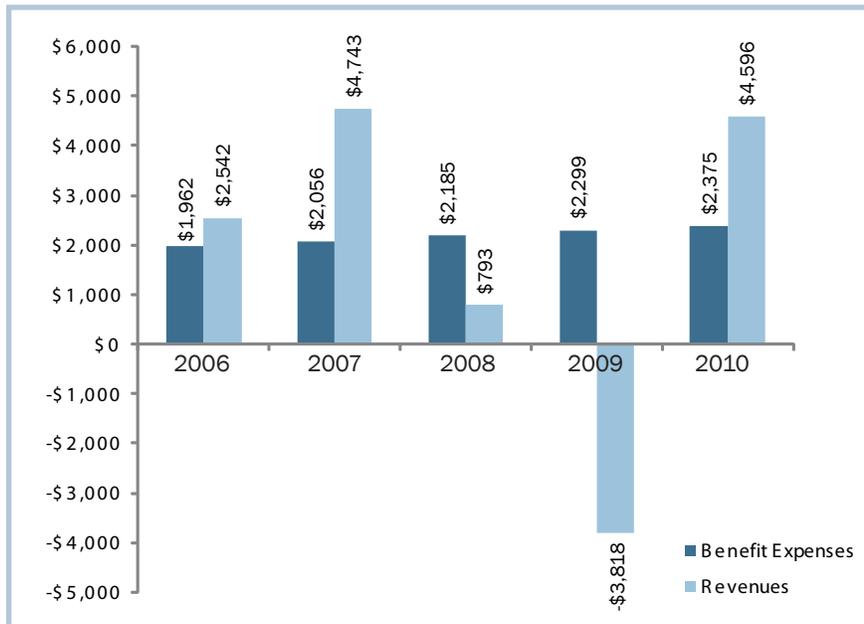
The following graph reflects Plan Net Asset values over the past five fiscal years:

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, 2010
 (Amounts expressed in millions)



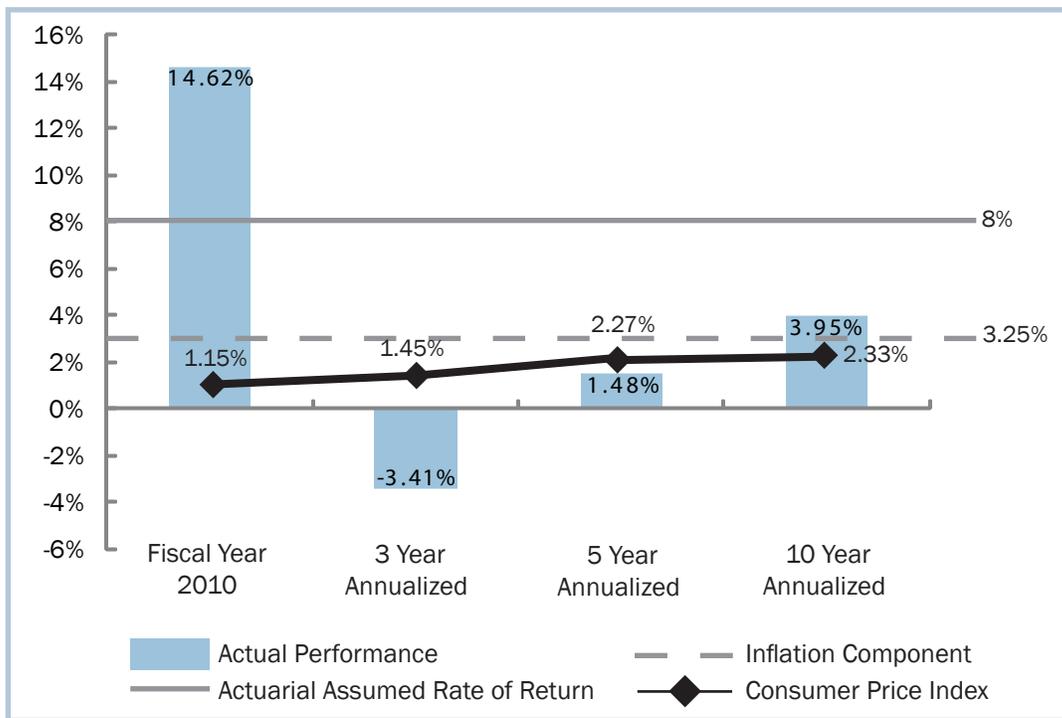
Investments Overview

For the fiscal year ended June 30, 2010, the Systems' combined investment portfolio produced a total return of 14.62 percent. Fiscal year 2010 returns for the combined investment portfolio were significantly above the restated negative 19.60 percent return from the prior fiscal year and above

the 8 percent actuarial investment assumed rate of return for the plans. Although the financial market has been exceptionally volatile over recent years, the long-term impact from an actuarial funding perspective is somewhat mitigated through the use of actuarial smoothing methods. The chart below summarizes investment performance.

Summary of Investment Performance

As of June 30, 2010



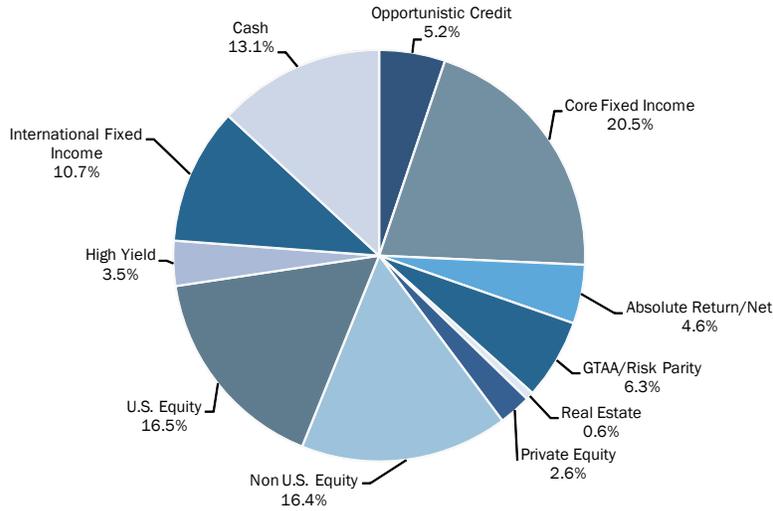
While the Systems' past investment performance was limited by restrictions within the state constitution and statute, the Investment Commission continues to make significant progress in redeploying assets across a broad range of asset classes.

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.

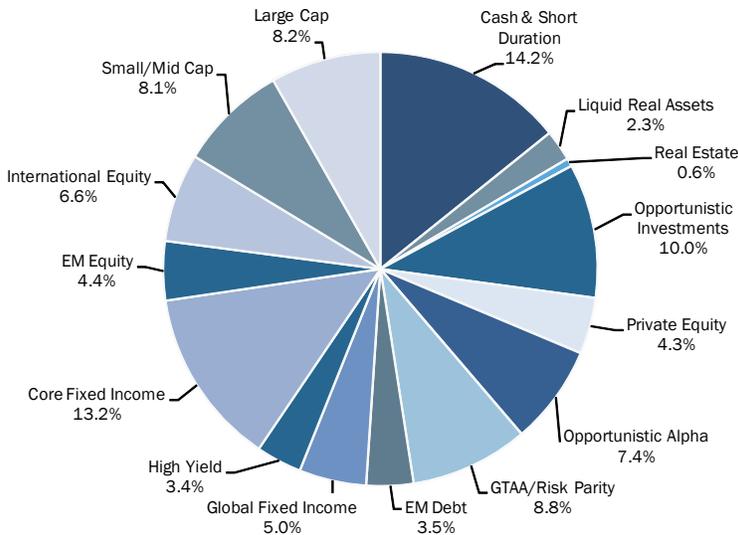
In addition to the Commission's efforts to gain exposure to almost all of the new asset classes, planned strategies will take several years to implement due to the difficulty of investing in less liquid asset classes including private equity and real estate.

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.

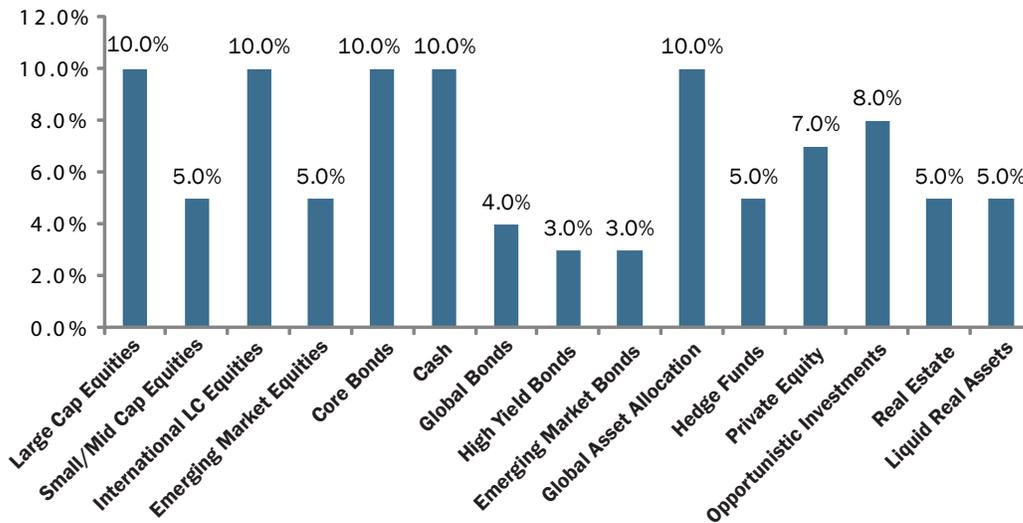
Actual Asset Allocation as of June 30, 2009



Actual Asset Allocation as of June 30, 2010



Target Asset Allocation



Fiscal Year 2009 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2009, 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 six consecutive years (fiscal years ended 2004-2009). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



2010 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2010 Award.

It is the seventh 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.

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