

South Carolina Retirement Systems

POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011
Pension Trust Funds of the State of South Carolina



CHARTING OUR FINANCIAL FUTURE

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

Popular Annual Financial Report
For the Fiscal Year Ended June 30, 2011
Pension Trust Funds of the State of South Carolina

To Our Members

We are pleased to present to you the South Carolina Retirement Systems' eighth 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 *CAFR* for fiscal year 2011, 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. Interested users may also obtain a printed copy, for a cost, by submitting a written request to our office at the below address. 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 Composition¹
As of July 1, 2010

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	National Guard Retirement System
Total Membership					
Active	190,239	26,568	196	144	12,445
Inactive	156,871	11,899	36	4	2,683
Retirees & Beneficiaries ²	111,394	12,566	346	194	3,951
Active Members					
Average Age	45	40	52	54	35
Average Years of Service	10	8	10	13	12
Average Annual Salary	\$40,842	\$40,517	\$22,671	\$129,590	N/A ³
Annuitants and Beneficiaries					
Average Current Age	68	63	73	70	68
Average Age at Retirement ⁴	59	56	62	61	60
Average Years of Service at Retirement	23	19	21	25	26
Average AFC ⁵ at Retirement	\$36,328	\$38,012	\$19,121	\$99,851	N/A
Average Current Annual Benefit	\$18,685	\$18,652	\$18,532	\$74,025	\$930

¹Data obtained from the annual actuarial valuations dated July 1, 2010 with the exception of Average Current Age, Average Age at Retirement, 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.

²Represents participants who retired including those who participate in TERI or who returned to employment as a working retiree.

³The National Guard Retirement System is non-contributory; therefore, active member salaries are not reported to the Systems.

⁴Represents 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.

⁵Average Final Compensation, a component used in the formula and calculation of annuity benefits.

Fiscal Year 2011 Highlights

Public Policy Activities



- Prompted by the recent recession and compounded by other economic and demographic factors, public pension funds across the country are financially stressed. Many have experienced growth in their plans' unfunded liabilities, and public policymakers are faced with challenges of devising well-reasoned actions to restore the retirement plans' funding and providing adequate retirement benefits in cost efficient and equitable manners.
- In February 2011, the South Carolina Senate Retirement and Employee Benefits Subcommittee was established to review the five defined benefit plans administered by the Retirement Systems. Committee members were charged with developing long term solutions that would achieve financial sustainability for the plans while being fair to all stakeholders. A subsequent South Carolina House Retirement Ad Hoc Study Committee was also established to perform similar reviews and offer solutions.

Administrative Activities



- The Retirement Systems conducted an online customer satisfaction survey which allowed the division to gauge satisfaction with our service among all of our stakeholder groups. In addition to covered employers and retired members, both with satisfaction ratings exceeding 96 percent, satisfaction ratings were obtained from active employees and other members. Other members include retirees, beneficiaries, inactive members, and those participants who chose not to identify their category. Ratings for active employees and other members were more than 95 percent and 98 percent, respectively.
- Retirement Systems' staff continued efforts to improve efficiencies and implement process improvements in all operational areas while limiting expenditures. Administrative functions were consolidated by creating a Defined Contributions unit that is responsible for management oversight of both the South Carolina Deferred Compensation Program and the State Optional Retirement Program. This achieved staffing efficiencies by cross-training staff members to perform duties for both programs. Changes were also made to the division's organizational structure in efforts to improve operational efficiencies.

Operational System Improvements

- During fiscal year 2011, significant improvements were implemented in the Retirement Systems' web-based Electronic Employer Services (EES) system which included expanding features and functionality for receiving and updating employer provided data. We also began front-end imaging of incoming enrollment documents to improve the workflow processing and eliminate duplicate handling of paper forms.



Investment Returns

- The South Carolina Retirement System Investment Commission (RSIC) faced another challenging year of investing and managing the assets of the retirement trust funds. Uncertainties such as government intervention by the Federal Reserve to stimulate the economy due to fears of a “double dip” recession, the focus of Congress on the U.S. debt ceiling, and concern over the health of the European financial system and potential for a default of their sovereign debt contributed to the RSIC’s challenges.
- As of June 30, 2011, the Retirement Systems’ assets in the investment portfolio were valued at \$26.2 billion, an increase over the \$22.9 billion of assets one year prior. In addition to this portfolio growth, from a cash flow perspective, a net amount of \$897 million in excess incoming contributions, was paid out of the plan for retiree obligations. The portfolio’s overall investment performance for the fiscal year ending June 30, 2011, was 18.59 percent. This performance significantly exceeded its benchmarks as well as the 8 percent actuarial assumed rate of return.
- The plan assets are invested by the Commission 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 a critical overall funding component.



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.

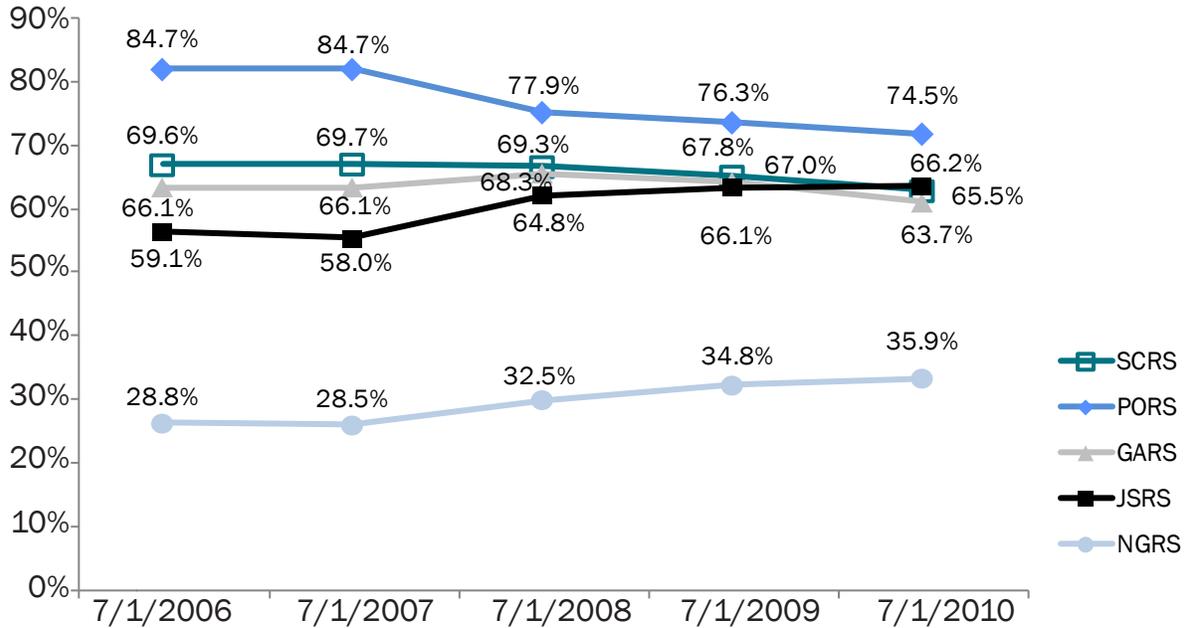
The most recent valuations dated July 1, 2010, confirm that all five defined benefit plans are considered to be adequately funded within the Governmental Accounting Board's standards and the Budget and Control Board's policy requiring actuarial liabilities be funded within a 30 year amortization period.

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 benefit adjustments.

The current funded ratios of the five plans range from a low of 35.9 percent for NGRS to a high of 74.5 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, 2011, 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 snapshot 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 \$3.2 billion or 14.10 percent during fiscal year 2011. The increase in net assets from \$22.7 billion to \$25.9 billion was primarily due to positive returns in the investment market.

During the fiscal year, the Commission increased funding of short duration investments, funded strategic partnership accounts and emerging market equity accounts and continued to fund various limited partnership commitments as capital was called.

These actions resulted in a reduction in the allocation to the cash segment.

The decrease in securities lending collateral is primarily due to the current low interest rate environment and restrictive guidelines imposed to reduce risk. These guidelines mandate that the re-investment of the cash collateral be restricted to short-term, low risk securities.

Liabilities for deferred retirement benefits accumulated under the Teacher and Employee Retention Incentive (TERI) program remained relatively stable during Fiscal Year 2011. At June 30, 2011, there were 5,862 members participating in TERI in comparison to the prior fiscal year when there were 5,641 active TERI participants at June 30, 2010.

South Carolina Retirement Systems
Plan Net Assets
June 30, 2011 and 2010
(Amounts expressed in thousands)

Assets	Fiscal Year 2011	Fiscal Year 2010	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	\$ 3,977,880	\$ 5,298,443	\$ (1,320,563)	(24.92%)
Investments, at fair value	23,870,891	18,829,568	5,041,323	26.77%
Securities lending cash collateral invested	229,161	324,593	(95,432)	(29.40%)
Capital Assets, net of accumulated depreciation	3,103	3,221	(118)	(3.66%)
Total Assets	<u>28,081,035</u>	<u>24,455,825</u>	<u>3,625,210</u>	14.82%
Liabilities				
Deferred retirement benefits	364,005	323,093	40,912	12.66%
Obligations under securities lending	229,161	324,593	(95,432)	(29.40%)
Other accounts payable	1,596,020	1,116,479	479,541	42.95%
Total Liabilities	<u>2,189,186</u>	<u>1,764,165</u>	<u>425,021</u>	24.09%
Total Net Assets	<u>\$ 25,891,849</u>	<u>\$ 22,691,660</u>	<u>\$ 3,200,189</u>	14.10%

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.

Employer contributions decreased due to a reduction in covered payroll for state departments and public school districts. Employee contributions increased slightly due to a significant increase in the amount of employee contributions received for purchased service.

The investment portfolio's overall performance for the fiscal year ending June 30, 2011, was 18.59

percent. This performance significantly exceeded its benchmarks as well as the 8 percent actuarial assumed rate of return.

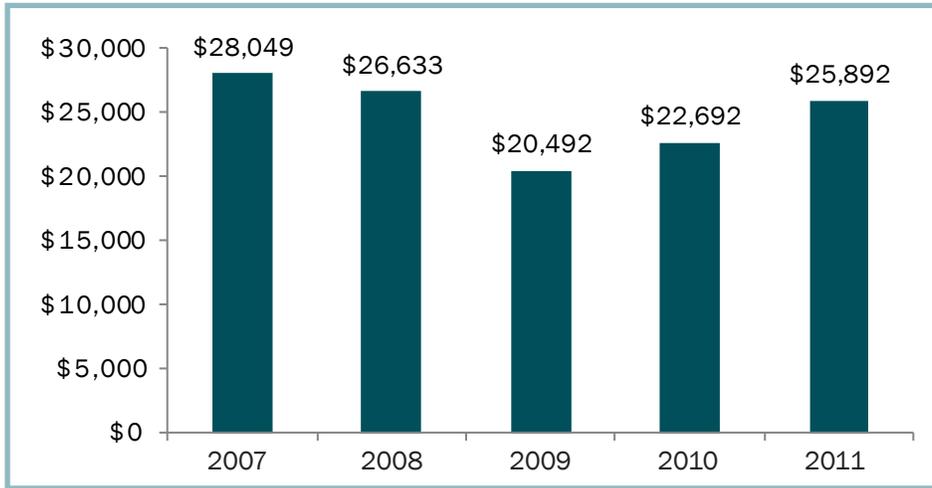
The number of retired members and beneficiaries receiving monthly annuity benefits from the plans increased to more than 134,000 annuitants during the year. Eligible annuitants under both SCRS and PORS received an automatic 2 percent benefit adjustment effective July 1, 2010; therefore, this benefit increase, coupled with the increase in the number of new annuitants added to the payroll during the year, resulted in an overall 6 percent increase in the dollar amount of annual benefits paid to annuitants. Approximately 2 percent of the increased pension expense was attributable to COLA's and slightly more than 4 percent was the result of a volume increase in the number of annuitants.

South Carolina Retirement Systems Changes in Plan Net Assets For the Years Ended June 30, 2011 and 2010 (Amounts expressed in thousands)

	Fiscal Year 2011	Fiscal Year 2010	Increase/ (Decrease)	% Increase/ (Decrease)
Additions				
Employee contributions	\$ 644,337	\$ 641,199	\$ 3,138	0.49%
Employer contributions	948,485	952,698	(4,213)	(0.44%)
State-appropriated contributions	3,904	4,052	(148)	(3.65%)
Net Investment income	4,145,907	2,996,382	1,149,525	38.36%
Other income	3,022	2,415	607	25.13%
Total Additions	<u>5,745,655</u>	<u>4,596,746</u>	<u>1,148,909</u>	24.99%
Deductions				
Annuity benefits	2,403,763	2,263,699	140,064	6.19%
Refunds	99,550	89,491	10,059	11.24%
Death benefits	18,655	21,957	(3,302)	(15.04%)
Administrative & other expenses	23,498	22,317	1,181	5.29%
Total Deductions	<u>2,545,466</u>	<u>2,397,464</u>	<u>148,002</u>	6.17%
Increase in Net Assets	<u>3,200,189</u>	<u>2,199,282</u>	<u>1,000,907</u>	(45.51%)
Beginning Net Assets	22,691,660	20,492,378	2,199,282	10.73%
Ending Net Assets	<u>\$ 25,891,849</u>	<u>\$ 22,691,660</u>	<u>\$ 3,200,189</u>	14.10%

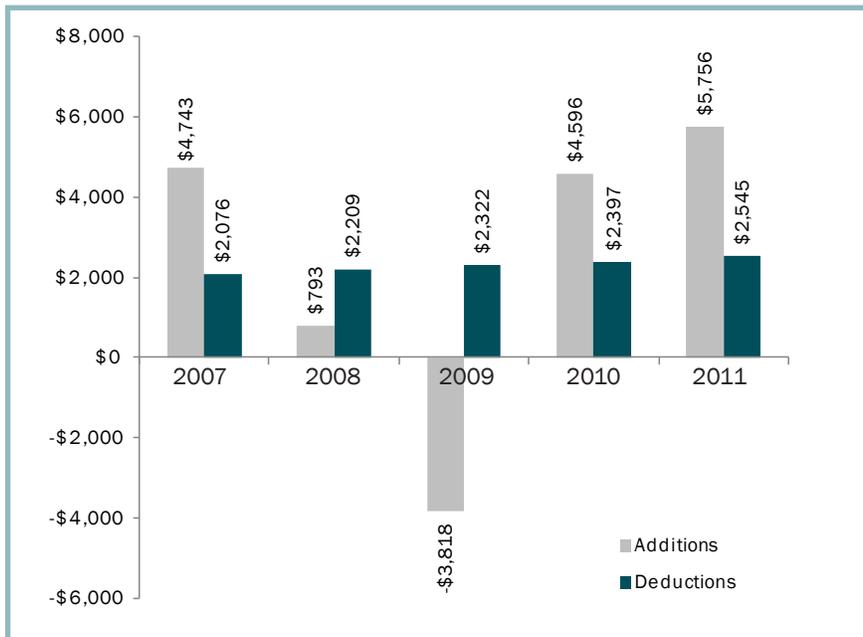
The following graph reflects Plan Net Asset values over the past five fiscal years:

**South Carolina Retirement Systems
Plan Net Assets
Last Five Fiscal Years
(Amounts expressed in millions)**



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

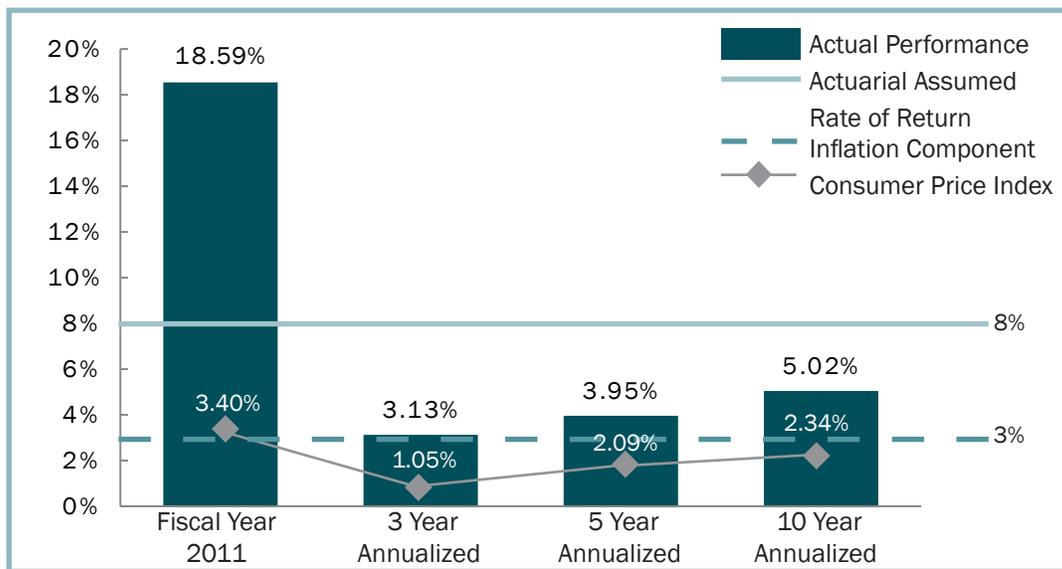
**South Carolina Retirement Systems
Summary of Additions and Deductions
Five Years Ending June 30, 2011
(Amounts expressed in millions)**



Investments Overview

For the fiscal year ended June 30, 2011, the Systems’ custodial bank determined that the total investment portfolio produced an aggregate return of 18.59 percent, which is more than the prior year’s performance of 14.62 percent and above the 8 percent actuarial investment assumed rate of return for the plans. However, average investment returns for the trailing three, five and ten years are significantly below the 8 percent assumption used for actuarial purposes. The chart below summarizes investment performance.

South Carolina Retirement Systems Summary of Investment Performance As of June 30, 2011

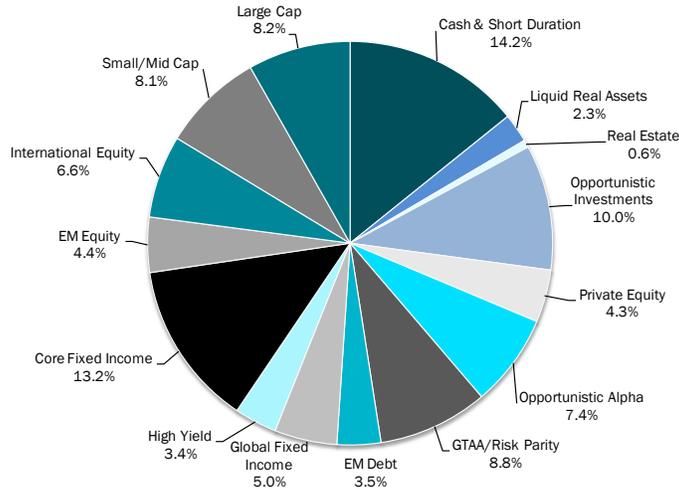


While the Systems’ past investment performance was limited by restrictions within the state constitution and statute, since its inception in 2005, the Retirement System Investment Commission (RSIC) has expeditiously persevered to redeploy investments across a broad range of asset classes with the assistance of New England Pension Consultants who provides full service investment consulting services for the RSIC. Together they have implemented a complete restructuring and reallocation of the Retirement Systems’ investments.

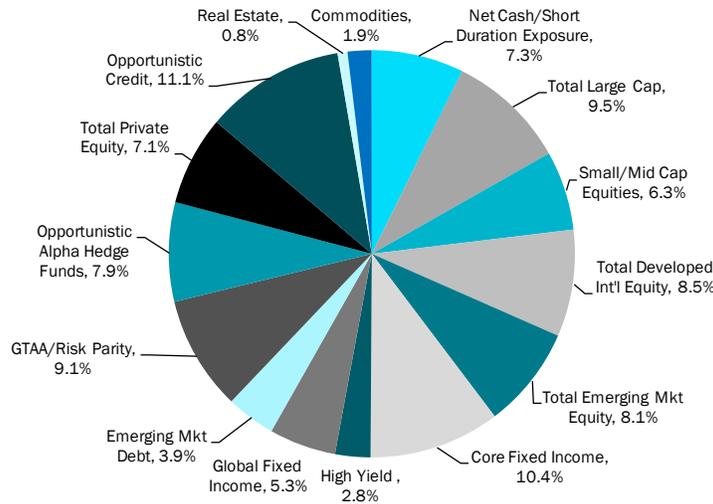
Due to the broad diversification of Retirement System assets, the portfolio is now less heavily invested in equity markets than most other large public funds. The goal of this diversification strategy is to achieve a more prudent balance of risks; thereby, achieving more attractive risk-adjusted returns. In years during which the stock market returns are unimpressive, the portfolio is likely to perform quite well versus other similar public pension funds. In years during which the stock market returns are extraordinarily strong, such as fiscal year 2011, the portfolio’s performance, while very strong, is likely to underperform versus other public pension funds. The rolling one-year investment return through June 30, 2011 ranked in the 30th percentile of the public fund universe and is considered to be at the median.

With the continued volatility in the financial markets, it is essential to note that the use of actuarial smoothing methods continue to help mitigate the long-term impact of sharply fluctuating market returns from an actuarial funding perspective. The charts on Page 12 summarize both the RSIC’s progress toward further diversifying the Retirement Systems’ portfolio from the prior fiscal year and the long-term target for asset allocation.

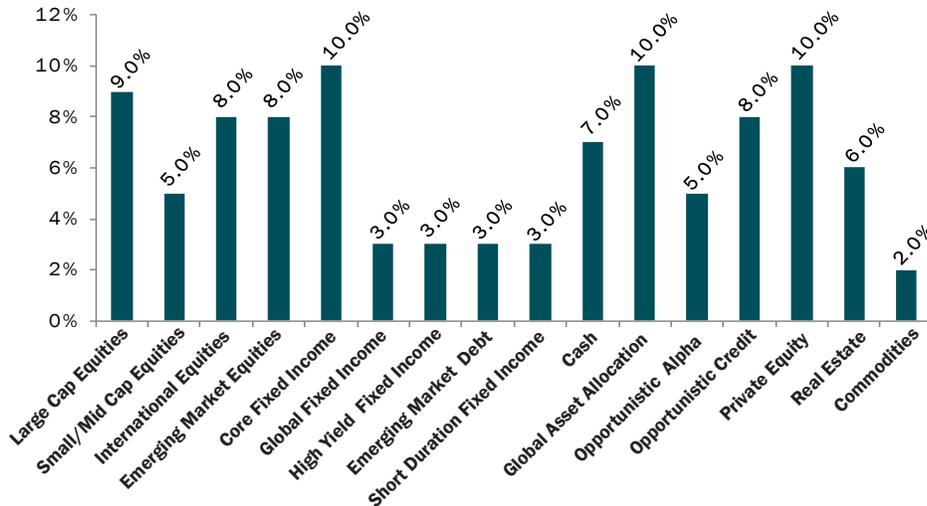
Actual Asset Allocation as of June 30, 2010



Actual Asset Allocation as of June 30, 2011



Target Asset Allocation



Note: Target Asset Allocation in effect at fiscal year end 2011 and adopted by Commission on November 18, 2010.

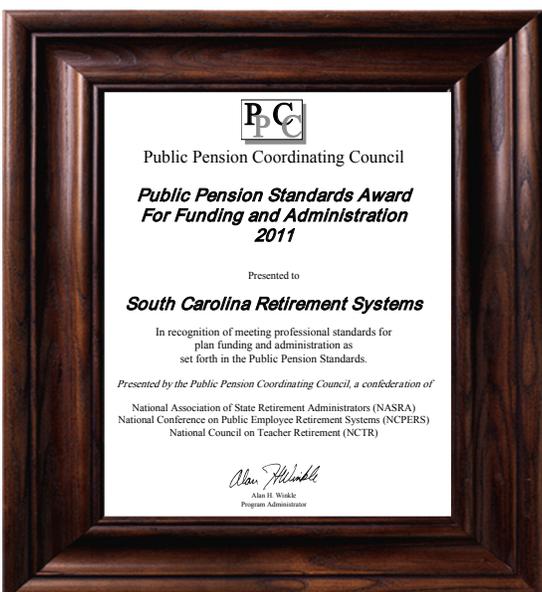
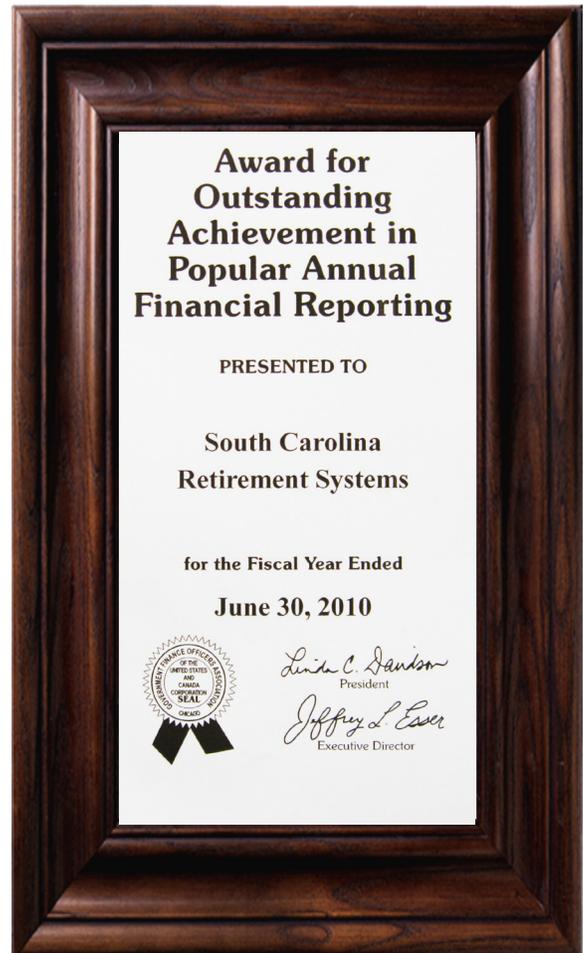
Fiscal Year 2010 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2010, 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 seven consecutive years (fiscal years ended 2004-2010). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



2011 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2011 Award.

It is the eighth 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.

A sunset over the ocean with a seagull flying in the sky. The sun is low on the horizon, creating a bright orange and yellow glow. The water is dark blue with a shimmering path of light reflecting the sun. A seagull is silhouetted against the sky in the upper right quadrant.

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