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# State Budget and Control Board South Carolina Retirement Systems

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## *Retiring South Carolina's Public Workforce For Life*

### MEMORANDUM

**Subject:** Disclosure of Pension Information as of June 30, 2008

**From:** Tammy B. Davis, CPA  
Assistant Director of Financial Reporting

The Governmental Accounting Standards Board issued Statement No. 27 entitled "Accounting for Pensions by State and Local Governmental Employers" in November 1994.

The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraph 20 of GASB 27.

The following information is provided in order to meet these disclosure requirements.

a. Plan description

1. The South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) are cost sharing, multi-employer defined benefit pension plans administered by the South Carolina Retirement Systems, a Division of the State Budget and Control Board. The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The SCRS assumes no liability for State ORP benefits, as they are the liability of the investment providers.
2. Both the SCRS and PORS offer retirement and disability benefits, group life insurance benefits and survivor benefits. Group life benefits are also available to active State ORP participants. For fiscal year 2008, a guaranteed one percent cost of living adjustment (COLA) is funded under SCRS, and all other cost of living adjustments are granted on an ad hoc basis, subject to approval by the State Budget and Control Board. Effective July 1, 2008, a guaranteed two percent COLA will be funded under SCRS and PORS and further, as trustees of the state's pension trust funds, the Budget and Control Board has the authority to approve ad hoc COLAs in addition to the guaranteed two percent COLA if certain guidelines are met. The Plans' provisions are established under Title 9 of the SC Code of Laws.
3. A Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the SCRS and PORS is publicly available on our website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to the South Carolina Retirement Systems, P. O. Box 11960, Columbia, SC 29211-1960.

b. Funding policy

1. Both employees and employers are required to contribute to the Plans under authority of Title 9 of the SC Code of Laws.

2. Required employee contributions to the Plans for fiscal year 2007-2008 are as follows:

<b>SCRS Class I</b>	5.00% of earnable compensation
<b>SCRS Class II</b>	6.50% of earnable compensation
<b>PORS Class I</b>	\$21 per month
<b>PORS Class II</b>	6.50% of earnable compensation

3. Required employer contributions for fiscal year 2007-2008 are as follows:

**SCRS**

Class I	4.25% of earnable compensation
Class II	9.06 % of earnable compensation
Group Life Insurance	0.15% of earnable compensation

**State ORP**

4.06% of earnable compensation

**PORS**

Class I	7.80% of earnable compensation
Class II	10.30% of earnable compensation
Group Life Insurance	0.20% of earnable compensation
Accidental Death Program	0.20% of earnable compensation

All employers contribute at the actuarially required contribution rates.

## SUMMARY OF BASIC PROVISIONS FISCAL YEAR 2007 – 2008

		SCRS	PORS
1.	<b>Membership</b>	All permanent, full-time or part-time employees of covered employers must join unless specifically exempted by statute or are eligible for and elect to participate in the State ORP.	To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position or be a peace officer employed by the Department of Corrections, Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per fiscal year to this work, unless exempted by statute.
2.	<b>Employee Contributions</b>	<u>Class I</u> – 5% of earnable compensation <u>Class II</u> – 6.50% of earnable compensation	<u>Class I</u> - \$21 per month <u>Class II</u> – 6.5% of earnable compensation
3.	<b>Employer Contributions</b>	<u>Class I</u> 4.25% of earnable compensation <u>Class II</u> 9.06% of earnable compensation  <u>Group Life Insurance</u> 0.15% of earnable compensation  <u>Accidental Death Program</u> N/A	<u>Class I</u> 7.8% of earnable compensation <u>Class II</u> 10.3% of earnable compensation  <u>Group Life Insurance</u> 0.20% of earnable compensation  <u>Accidental Death Program</u> 0.20% of earnable compensation
4.	<b>Vesting Requirements</b>	5 years earned service  The member is entitled to a deferred annuity at age 60.	5 years earned service  The member is entitled to a deferred annuity at age 55.
5.	<b>Normal Retirement Age</b>	Age 65	Age 55
6.	<b>Requirements for Full Service Retirement</b>	Age 65 or 28 years of credited service  The member must have a minimum of 5 years of earned service to qualify for retirement.	Age 55 or 25 years of credited service  The member must have a minimum of 5 years of earned service to qualify for retirement.
7.	<b>Early Retirement</b>	Age 60 with 5% reduction for each year under age 65  Age 55 with 25 years service, reduced 4% for each year of service under 28	N/A
8.	<b>Formula for Normal Service Retirement</b>	<u>Class I</u> 1.45% of Average Final Compensation times years of credited service  <u>Class II</u> 1.82% of Average Final Compensation times years of credited service	<u>Class I</u> \$10.97 per month for each year of service  <u>Class II</u> 2.14% of Average Final Compensation times years of credited service
9.	<b>Requirements for Disability Retirement</b>	5 years of earned service, unless injury is job related	5 years of earned service, unless injury is job related
10.	<b>Formula for Disability Retirement</b>	The disability retirement benefit is based on a projection of service to age 65 with an actuarial reduction.	The disability retirement benefit is based on a projection of service to age 55.

		<b>SCRS</b>	<b>PORS</b>
<b>11.</b>	<b>Benefit Options</b>	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 8; Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 8; Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>
<b>12.</b>	<b>Teacher and Employee Retention Incentive (TERI)</b>	<p>TERI is a deferred retirement option program (DROP). Upon meeting normal retirement eligibility, a member can elect to retire and continue working under the TERI program for a maximum of five years, after which employment will cease. During the TERI participation, the retirement annuity is not paid to the TERI retirees, but monthly benefits are accumulated in TERI accounts and are distributed to the members upon termination of employment. For members retiring after June 30, 2005, a payment for annual leave is not included in calculating benefits. Upon termination, however, benefits are increased prospectively to include payment for up to 45 days annual leave paid at termination of employment. No interest is credited to the TERI account. TERI participants who entered the program after June 30, 2005, must continue to contribute at the same rate as active members. Those who entered prior to July 1, 2005, make no employee contributions while participating in TERI. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits.</p>	Not applicable.
<b>13.</b>	<b>Post Retirement Increase<sup>1</sup></b>	<p>Guaranteed increase of up to 1 percent provided that increase in Consumer Price Index (CPI) as of prior December 31 is at least 1 percent. Increases in excess of 1 percent, up to a total of 4 percent, may be approved by the Budget and Control Board if the CPI increase exceeds 1 percent and if the unfunded liability amortization period for SCRS does not exceed 30 years.</p>	<p>Increase in Consumer Price Index, up to 4% (Increases are not guaranteed and must be approved annually subject to compliance with funding policy.)</p>
<b>14.</b>	<b>Accidental Death Program</b>	N/A	<p>Provides 50% of earnable compensation at time of accidental death in the line of duty as an annuity to either the surviving spouse, children, or parents.</p>

		SCRS	PORS
15.	<b>Group Life Insurance Benefits</b>	<ul style="list-style-type: none"> <li>▪ Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active or working retired member with at least one year of service</li> <li>▪ No service requirement for death resulting from actual performance of duties for an active member</li> <li>▪ Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for an increased group life insurance benefit equal to their annual salary in lieu of the standard retired member benefit.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active or working retired member with at least one year of service</li> <li>▪ No service requirement for death resulting from actual performance of duties for an active member</li> <li>▪ Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. Retired contributing members are eligible for an increased group life insurance benefit equal to their annual salary in lieu of the standard retired member benefit.</li> </ul>
16.	<b>Withdrawal of Employee Contributions</b>	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment
17.	<b>Actuarial Valuation Method</b>	Projected benefit with level percentage entry age normal cost and open-end unfunded actuarial accrued liability	Projected benefit with level percentage entry age normal cost and open-end unfunded actuarial accrued liability
18.	<b>Actuarial Interest Rate Assumption<sup>2</sup></b>	7.25% per annum, compounded annually	7.25% per annum, compounded annually
19.	<b>Unfunded Accrued Liability as of July 1, 2007 (in millions)</b>	\$10,225	\$570
20.	<b>Unfunded Accrued Liability Liquidation Period as of July 1, 2007</b>	29 years	16 years

<sup>1</sup> Effective July 1, 2008, a guaranteed two percent COLA will be funded under SCRS and PORS. The Budget and Control Board is authorized to approve additional ad hoc COLAs beyond the two percent guaranteed COLA, up to the lesser of the total percentage increase in the CPI or four percent, but only to the extent all of the following criteria are met as of the most recent actuarial valuation:

- i. the amortization period for the unfunded liability is at twenty-five years or below
- ii. the funded ratio does not decrease
- iii. the amortization period is reduced by at least one year
- iv. no increased employer contribution is required to support the additional ad hoc COLA

<sup>2</sup> Effective July 1, 2008, the actuarial interest rate assumption will increase to 8.00% per annum.