

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



Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2007
Pension Trust Funds of the State of South Carolina

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

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To Our Members

We are pleased to present to you our fifth 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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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 and Solicitors.
- 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. Legislation transferred administrative responsibility of the plan from the Adjutant General's Office to the South Carolina Retirement Systems effective January 1, 2006.

Membership and Annuitant Composition

As of July 1, 2006

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	National Guard Retirement System
Total Membership					
Active	184,282	24,813	197	128	2,502
Inactive	151,510	10,464	63	5	3,142
Retirees & Beneficiaries	97,205	10,134	317	144	2,903
Active Members					
Average Age	45	39	51	55	45
Average Years of Service	10	8	11	20	23
Average Annual Salary	\$36,538	\$37,554	\$22,808	\$124,463	N/A ¹
Annuitants and Beneficiaries					
Average Current Age	68	63	74	73	68
Average Years of Service at Retirement	23	19	20	24	26
Average AFC ² at Retirement	\$33,134	\$34,187	\$17,942	\$88,262	N/A
Average Current Annual Benefit	\$17,536	\$17,263	\$18,218	\$69,799	\$950

¹The National Guard Retirement System is non-contributory; therefore, active member salaries are not required to be reported to the Systems.

²Average Final Compensation, a component used in the formula and calculation of annuity benefits.

Fiscal Year 2007 Highlights

South Carolina Retirement System Investment Commission

- The South Carolina Retirement System Investment Commission was established effective October 1, 2005. Commissioners function as fiduciaries for the Retirement Systems, and are comprised of six financial experts who are exclusively responsible for investing and managing all pension trust assets and are completely, independently, and fully empowered to make all investment decisions.
- The Commission is an independent agency with professional and administrative staff that assists in the investing and management of assets, monitoring of investment managers, and implementing decisions approved by the Commission members.
- In November 2006, South Carolina voters approved a referendum which was ratified by the South Carolina General Assembly in February 2007 to allow full diversification of the South Carolina Retirement Systems' portfolio.
- Since its inception, the Commission has made significant progress in implementing a complete restructuring of the state's investment program for the Retirement Systems' \$28 billion pension trust fund.
- Responsibilities for investment of fixed income securities were transferred from the State Treasurer's Office to the Commission, and although asset allocation transition is an ongoing process, the portfolio is being diversified through the development of private equity, portable alpha, global fixed income, and domestic and international equity investments.



Retiree Return-to-Work Provisions

- South Carolina's retirees benefit from very lenient and generous return-to-work provisions. Service retirees of SCRS and PORS are allowed to return to work after having been retired for at least 15 days. During retirement, members continue to receive an annuity benefit and have no limit on the amount of wages they may earn from employment.
- In contrast, many other public retirement plans across the nation require members to forfeit their right to retirement benefits, limit members' earnings, and/or require members to again become active contributing members when they return to covered employment.
- In South Carolina, retirees who return to work for a covered employer continue to pay employee contributions, which partially fund guaranteed cost-of-living adjustments (COLAs) under SCRS and also help provide funding for ad hoc COLAs under SCRS and PORS.



National Guard Retirement System Update



- During the prior fiscal year, the South Carolina Retirement Systems assumed administrative responsibilities for the National Guard Retirement System (NGRS) which was previously administered by the Adjutant General's Office.
- The NGRS was previously closed to new entrants since July 1, 1993; however, recent legislation reopened the system effective January 1, 2007, to any new entrants since June 30, 1993.

Ranking Among Peer Pension Plans



- The South Carolina Retirement Systems participates in an annual public pension plan benchmarking analysis conducted by Cost Effectiveness Management, Inc., (CEM). Fifty-six public pension plans participated in the 2006 CEM survey, which marked the sixth 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 \$46 in comparison to a peer median cost of \$83. 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.

Legislative Changes to Retirement System for Judges and Solicitors



- The General Assembly enacted several changes related to the JSRS this fiscal year. Legislation established a statewide unified indigent defense system that provides JSRS coverage for circuit public defenders throughout the state.
- Statute was also modified to allow working retiree provisions for members of the JSRS. After reaching maximum retirement eligibility, a JSRS member may now elect to begin receiving or accruing an annuity benefit while continuing employment. A retired JSRS member may continue to serve as a judge, solicitor, or public defender until the end of the calendar year in which the member attains the age of 72.

Implementation of Pension Protection Act of 2006

- The United States Congress passed the Pension Protection Act of 2006 (PPA), which was signed into law by President George W. Bush on August 17, 2006.
- The most significant provision to the Systems provides for the pre-tax treatment of qualified health insurance premiums, defined as premiums for coverage for retired public safety officers, their spouses, and dependents, by an accident or health insurance plan, or qualified long-term care insurance contract.
- South Carolina was among the first to implement this PPA provision allowing for the pre-tax distributions of up to \$3,000 from public pension plans for use in purchasing retiree health or long-term care insurance by public safety retirees. The legislation provides that health and long-term care insurance premiums must be deducted from the distributions of a retiree's annuity by the pension plan and paid directly to the insurance provider in order for the premiums to be excluded from taxable income.
- This legislation is a tremendous step forward in ending a long-standing inequity of active employees being allowed to use pre-tax dollars to pay health insurance premiums and health care costs and retirees not being able to do so.
- The impact of the PPA on South Carolina's economy is expected to be positive. There are currently more than 1,600 participants enrolled in the PPA deduction program administered by the South Carolina Retirement Systems. Based on an average deduction of \$174 per month, it is estimated that these participants will benefit from an increase in disposable income of almost \$734,000 per year as a result of the federal and state income tax savings.



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, 2006, confirm that all five plans are considered to be adequately funded within the Governmental Ac-

counting 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.

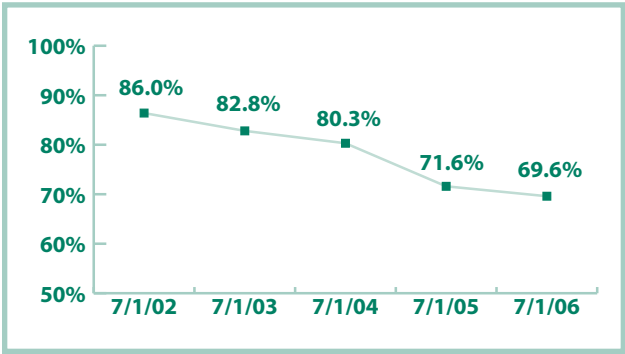
This is because there are numerous other variables affecting the funded ratio including, but not limited to, investment gains and losses, experience gains and losses, increases in benefit payment levels, and ad hoc cost-of-living adjustments.

The current funded ratios of the five plans range from a low of 28.5 percent for NGRS to a high of 84.7 percent for PORS. The charts below and on Page 7 illustrate funded ratios over the past five years for each of the five plans.

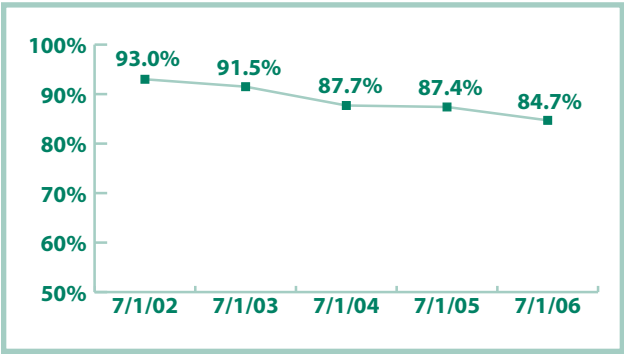
Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)

South Carolina Retirement System



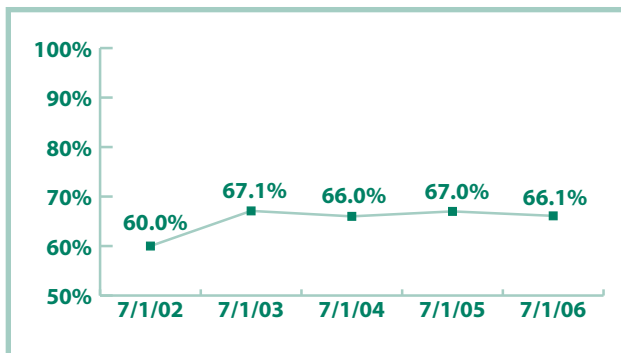
Police Officers Retirement System



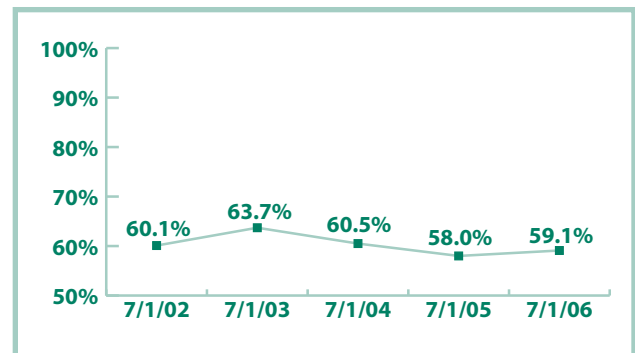
Funded Ratios (continued)

(Actuarial assets as a percentage of actuarial accrued liabilities)

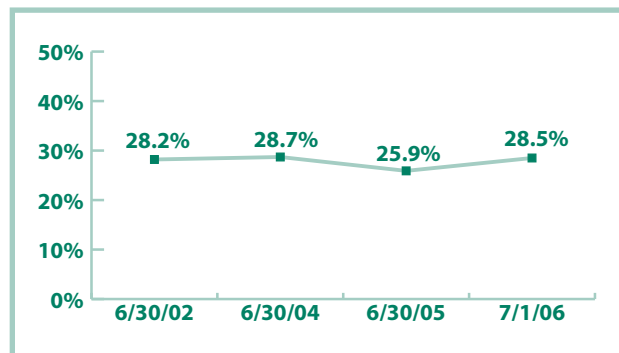
General Assembly Retirement System



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, 2007, 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 Plan's investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities.

Net assets changed significantly from fiscal year 2006 to 2007 with certain individual categories experiencing meaningful fluctuations. The substantial increase in the cash and cash equivalents

category was the result of the implementation of a revised asset allocation strategy which began with the reduction of exposures to US large cap equity.

These funds were placed temporarily in short term cash equivalents until final allocations to the new asset classes could be implemented. SCRS also experienced a considerable increase in the amount of other liabilities this fiscal year which was primarily related to unsettled investment purchases at year end.

Plan Net Assets June 30, 2007 and 2006 (Amounts expressed in thousands)

	2007	2006	% Increase/ (Decrease)
Assets			
Cash and cash equivalents, receivables and prepaid expenses	\$ 6,855,459	\$ 2,078,394	229.84%
Investments, at fair value	22,188,448	24,114,946	(7.99%)
Securities lending cash collateral invested	5,085,506	4,372,175	16.32%
Property, net of accumulated depreciation	3,577	3,696	(3.22%)
Total Assets	<u>34,132,990</u>	<u>30,569,211</u>	11.66%
Liabilities			
Deferred retirement benefits	641,750	670,527	(4.29%)
Obligations under securities lending	5,085,506	4,372,175	16.32%
Other liabilities	356,954	144,561	146.92%
Total Liabilities	<u>6,084,210</u>	<u>5,187,263</u>	17.29%
Total Net Assets	<u>\$ 28,048,780</u>	<u>\$ 25,381,948</u>	10.51%

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets presents information showing how the Plan's 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.

Starting in fiscal year 2007, the plans' additions include state-appropriated contributions for the NGRS. Although the Systems assumed administrative responsibility for the NGRS January 1, 2006, this was the first fiscal year the Systems received the annual state-appropriated contribution. In the prior fiscal year, the contribution was received and

recognized as income by the Adjutant General's Office. The sizeable increase in investment income for fiscal year 2007 was the result of favorable market conditions and the Retirement System Investment Commission's continued efforts to further diversify our portfolio.

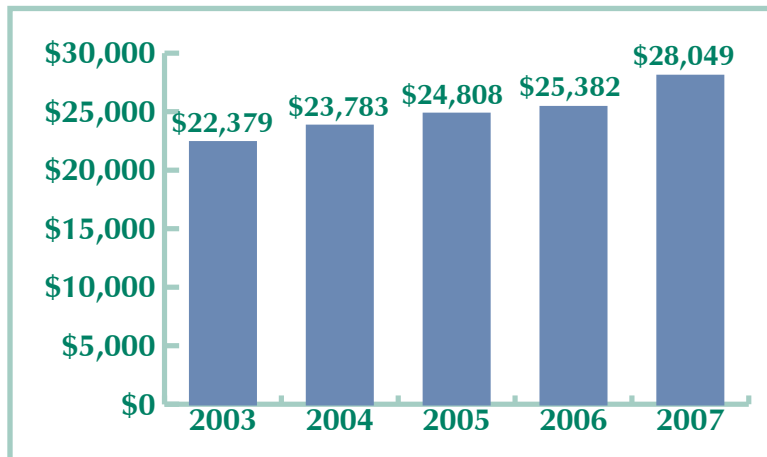
Refund expenses returned to normal this fiscal year after a dramatic increase in the prior year resulting from corrective distributions issued to certain retired members of the TERI program. A special transfer of net assets from the State Adjutant General's Office to the Retirement Systems occurred during the prior fiscal year as our office assumed responsibility for administration of the NGRS, which was previously administered by the Adjutant General's Office.

Changes in Plan Net Assets For the Years Ended June 30, 2007 and 2006 (Amounts expressed in thousands)

	2007	2006	% Increase/ (Decrease)
Additions			
Employee contributions	\$ 578,019	\$ 567,908	1.78%
Employer contributions	760,167	686,431	10.74%
State-appropriated contributions	3,948	-	100.00%
Investment income	3,397,801	1,282,360	164.96%
Other income	3,382	5,399	(37.36%)
Total Additions	<u>4,743,317</u>	<u>2,542,098</u>	86.59%
Deductions			
Annuities	1,947,789	1,823,085	6.84%
Refunds	89,825	121,841	(26.28%)
Group Life	18,253	16,837	8.41%
Administrative & other expenses	20,618	20,898	(1.34%)
Total Deductions	<u>2,076,485</u>	<u>1,982,661</u>	4.73%
Increase in Net Assets before Transfer	<u>2,666,832</u>	<u>559,437</u>	376.70%
Transfer from State Adjutant General's Office	-	14,064	(100.00%)
Total Increase in Net Assets	<u>2,666,832</u>	<u>573,501</u>	365.01%
Beginning Net Assets	25,381,948	24,808,447	2.31%
Ending Net Assets	<u>\$ 28,048,780</u>	<u>\$ 25,381,948</u>	10.51%

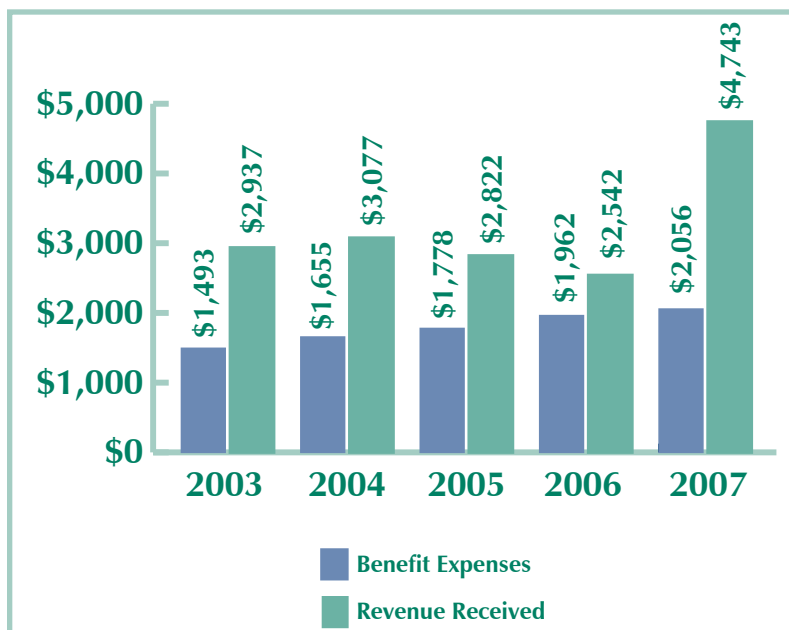
The following graph reflects Plan Net Asset values over the past five fiscal years:

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:

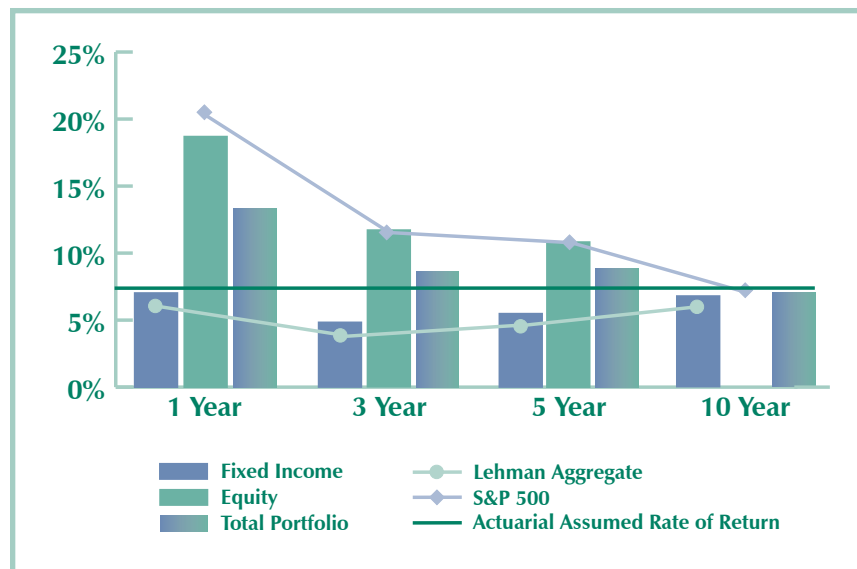
Summary of Benefit Expenses and Revenues
Five Years Ending June 30, 2007
(Amounts expressed in millions)



For the fiscal year ended June 30, 2007, the Systems' combined investment portfolio produced a total return of 13.35 percent, which substantially

exceeded our actuarial assumed return of 7.25 percent. The below chart summarizes investment performance.

Summary of Investment Performance As of June 30, 2007



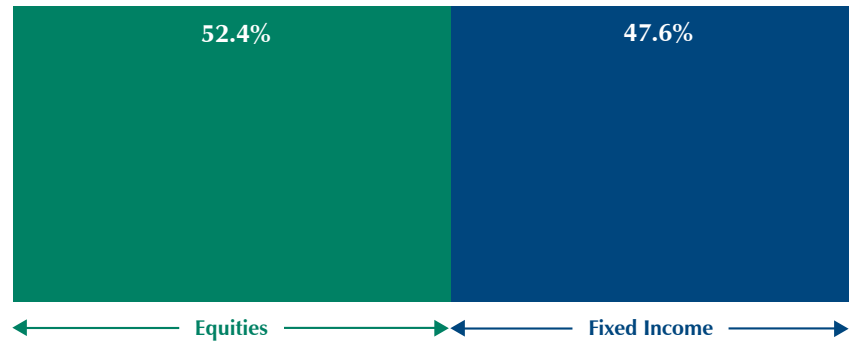
While the Systems' past investment performance was limited by restrictions within the state constitution and statute, the Investment Commission continues to work diligently to implement a modern-day asset allocation policy.

New England Pension Consultants provides full service investment consulting services for the Commission and together, they have worked together to begin deploying investments across a progressive asset allocation designed to reduce the amount of risk while aiming to increase overall returns.

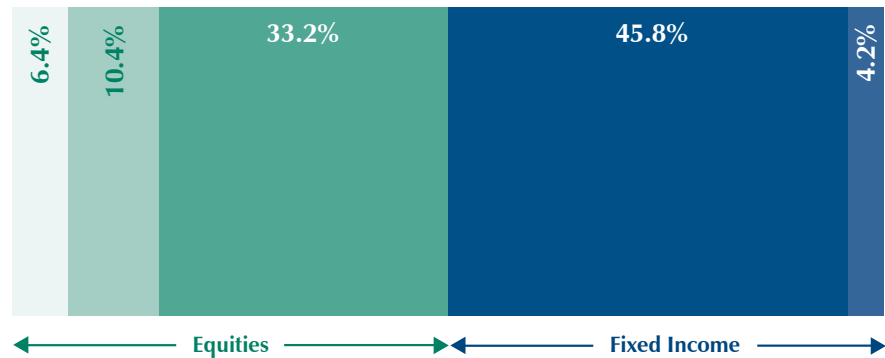
In addition to the Commission's efforts to gain immediate exposure to almost all of the new asset classes, planned strategies that will take several years to implement include additional private equity agreements, real estate, and other entrepreneurial opportunities in the hedge fund arena.

The charts on Page 13 depict progress towards achievement of the Commission's long-term target allocations.

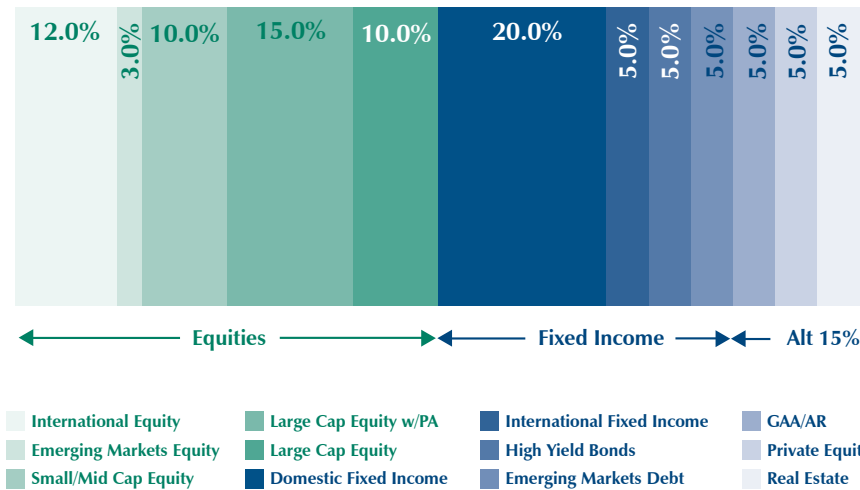
Actual Asset Allocation as of Prior Year - June 30, 2006



Actual Asset Allocation as of Current Year - June 30, 2007



Long-term Target Asset Allocation



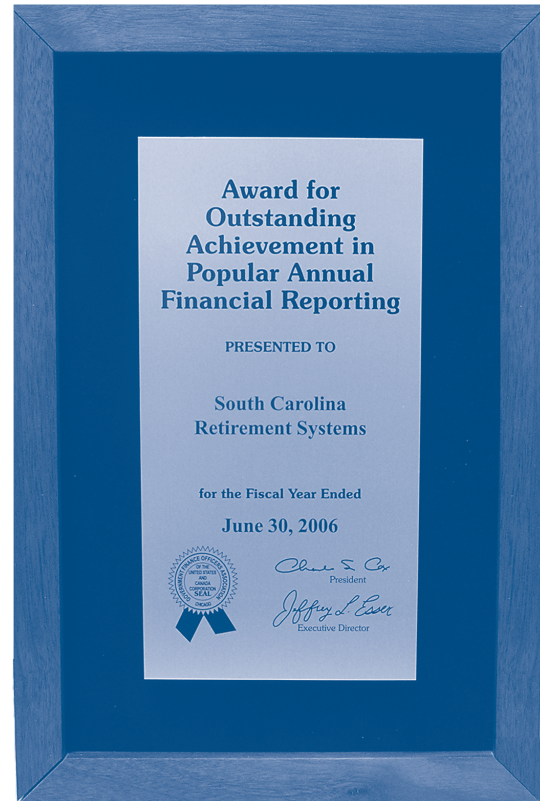
FY 2006 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2006, 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 three consecutive years (fiscal years ended 2004-2006). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



2007 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2007 Award.

It is the fourth 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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