South Carolina Public Employee Benefit Authority

South Carolina Retirement Systems

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Pension Trust Funds of the State of South Carolina

Going the Distance

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South Carolina Public Employee Benefit Authority

Retirement Division

South Carolina Retirement Systems

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Pension Trust Funds of the State of South Carolina

To Our Members

We are pleased to present to you the South Carolina Retirement Systems' tenth 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 2013, 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 at http://www.retirement.sc.gov/financial/default.htm. For any other questions or assistance, please contact Customer Services at 803-737-6800, 800-868-9002 (toll free within S.C.), or www.retirement.sc.gov.

David K. Avant
Interim Executive Director of S.C. PEBA

Tammy B. Nichols, CPA
Director of Retirement Systems Finance

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Profile

South Carolina Public Employee Benefit Authority - Retirement Division

The South Carolina Public Employee Benefit Authority (PEBA) 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.

PEBA 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. Retirement reform legislation closed the plan to individuals first elected to the South Carolina General Assembly at or after the general election in November 2012.
- 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 South Carolina National Guard Supplemental Retirement Plan **(SCNG)** 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 Composition

As of July 1, 2013

Total Membership	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System	SC National Guard Supplemental Retirement Plan
Active	184,771	26,201	170[1]	144[1]	12,000
Inactive	153,614	11,375	60	2	2,317
Retirees & Beneficiaries[2]	127,777	15,724	363	201	4,542
Active Members					
Average Age	45	39	54	55	35
Average Years of Service	10	8	12	13	12
Average Annual Salary	$36,906	$35,993	$22,267	$128,558	N/A[3]
Annuitants and Beneficiaries					
Average Current Age	69	64	72	70	69
Average Age at Retirement[4]	59	55	61	60	60
Average Years of Service at Retirement	24	19	20	26	26
Average AFC[5] at Retirement	$41,394	$43,444	$21,396	$112,813	N/A
Average Current Annual Benefit[6]	$19,497	$19,401	$18,560	$79,560	$918

[1]The number of active members reflects the number of seats.

[2]Represents members who retired, including those who participate in the Teacher and Employee Retention Incentive (TERI) program or who returned to employment as a working retiree, and surviving beneficiaries of former members.

[3]The South Carolina National Guard Supplemental Retirement Plan is non-contributory; therefore, active member salaries are not reported to the Systems.

[4]Represents 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.

[5]Average Final Compensation (AFC) is a component used in the formula for calculating annuity benefits.

[6]Includes benefit adjustments applied since retirement.

Fiscal Year 2013 Highlights

Public Policy Activities

- Effective July 1, 2012, PEBA was created by the General Assembly through Act 278, the retirement reform legislation. The former Retirement and Employee Insurance Program divisions of the S.C. Budget and Control Board were transferred to and incorporated into the new administrative agency known as PEBA. The governing board of the authority is an 11-member board of directors.
- While most of the retirement reforms took effect July 1, 2012, some of the changes, such as the actuarially neutral cost of service purchases, were effective January 2, 2013. The final changes will take place January 1, 2014, the date upon which the PEBA board will assume administrative responsibility for the S.C. Deferred Compensation Program and upon which SCRS members who apply for disability retirement must be approved for and receiving benefits from the Social Security Administration in order to be entitled to receive a disability retirement benefit through SCRS.
- Subsequent to Act 278, the General Assembly passed Act 69, the provisions of which removed the PORS disability retirement benefit changes made initially by Act 278 of 2012 but not yet scheduled for implementation.
- Within the first 10 months of the Board's existence, the Board put into place appropriate by-laws and other governance documents, chartered standing committees and approved the annual actuarial valuations for the Retirement Systems.

Administrative Activities

- PEBA operated in two locations until the end of fiscal year 2013 when all employees were in one office complex.
- A strategic reorganization was completed to consolidate similar functions. The organization also underwent the creation and appointments of the new Board of Directors for PEBA and the subsequent transfer and replacement of the agency's interim executive director in December 2012.
- Board members and senior leaders began development of the new agency's first strategic plan, which was approved by the Board in fall 2013.

Operational System Improvements

- Provisions of Act 278 of 2012 (retirement systems reform) were implemented, which required development of and/or modifications to myriad information systems, policies and procedures, operational and other business processes, and communications materials.
- New features were added to member access, the secure online resource through which members may view their retirement account information and make certain changes to that information. Active members may now calculate an unofficial cost estimate to purchase service credit; submit a service purchase request; submit a service retirement application; and view the status of their retirement application.
- Information systems security was strengthened, Internet access was limited for employees, and other internal and external controls were added to safeguard data.

Investment Returns

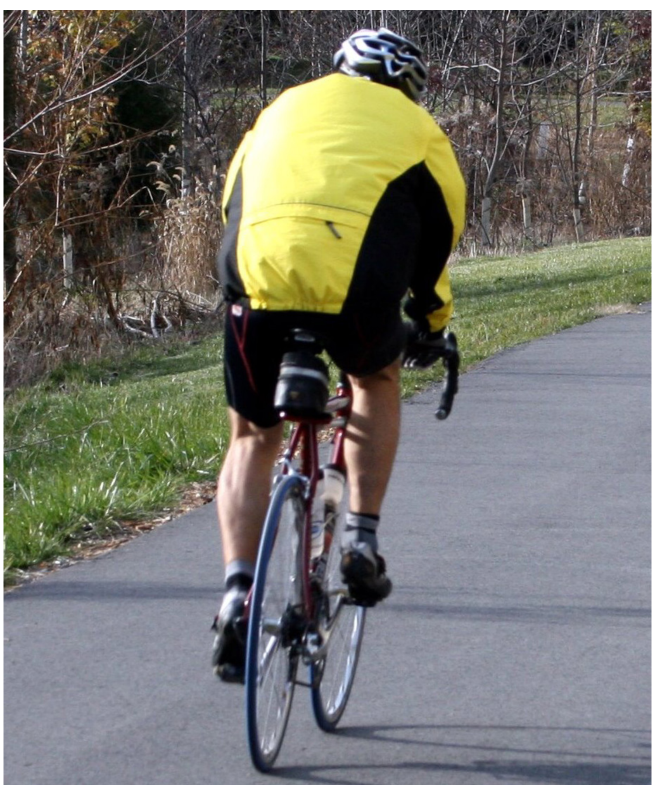
- As of June 30, 2013, invested assets were valued at $26.8 billion as reported by the custodian. The plans are in a negative cash flow position as benefit payments in the amount of $2.9 billon significantly exceeded the receipt of only $1.9 billion in contributions. This resulting negative net cash outflow of $1 billion in net benefit obligations during the year represents approximately 4 percent of the portfolio's assets.
- The trailing one-year period as of June 30, 2013, afforded the Retirement System Investment Commission (RSIC) the opportunity to take advantage of rising financial markets while maintaining the prudent level of risk that it maintains as a hallmark of its investment strategy. The RSIC earned a return of 9.99 percent net of fees on a time-weighted calculation basis for the fiscal year ending June 30, 2013, compared to the Policy benchmark's return of 8.13 percent. This is the fourth consecutive year that the fund has experienced a positive annual return. The three-year annualized net of fees return was 9.30 percent as of the fiscal year end compared to the Policy benchmark return of 8.40 percent. The Plan's actuarial assumed rate of return is 7.50 percent.

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, 2012, concluded that all systems are operating on an actuarially sound basis. All five systems are considered to be adequately funded within the Governmental Accounting Standards Board's (GASB's) standards that require actuarial liabilities be funded over a period not to exceed 30 years.



The July 1, 2012, actuarial valuations, adopted by PEBA and approved by the S.C. Budget and Control Board, determined the actuarial status of each plan and identified the employee and employer contribution requirements to become effective for the fiscal year beginning July 1, 2014.

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.

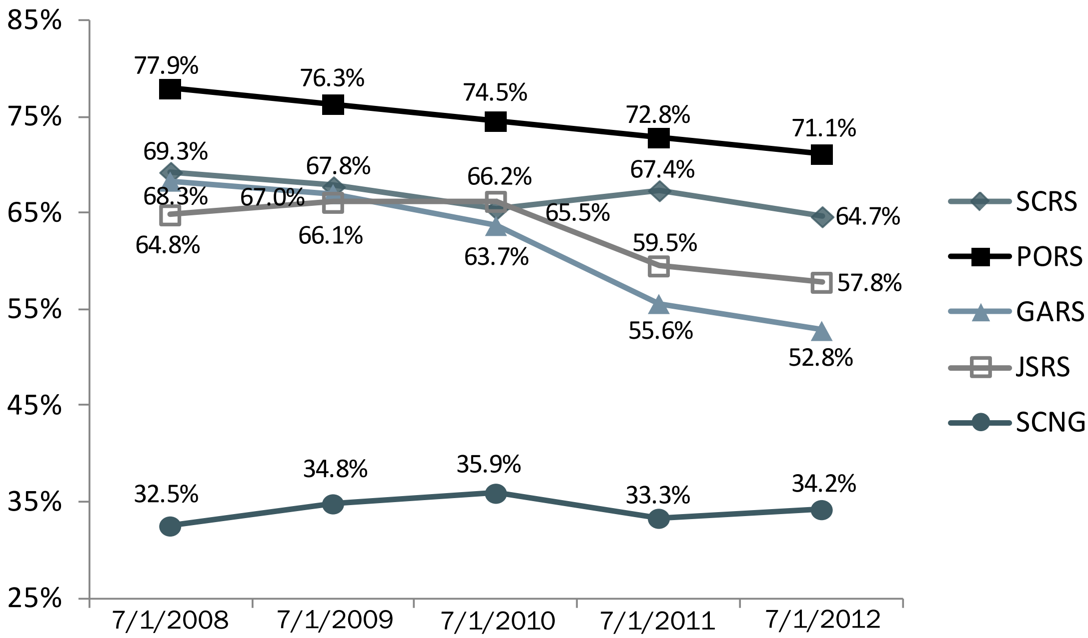
The current funded ratios of the five plans range from a low of 34.2 percent for SCNG to a high of 71.1 percent for PORS. After reflecting the impact of legislative reform, the funded ratio for SCRS, which represents the largest membership of the five plans, decreased from 67.4 percent to 64.7 percent while PORS went down from 72.8 percent to 71.1 percent.

The SCNG 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 SCNG 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 SCNG 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 within the retirement benefit plans include an incidental 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, 2013, are presented on Pages 8 - 9.

Statement of Plan Net Position

The Statement of Plan Net Position presents the Plan's assets and liabilities and the resulting net position, 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 position increased by $1.5 billion or (6.09) percent during fiscal year 2013. The increase in net position from $24.98 billion to $26.50 billion was attributable to both positive investment performance and increased contribution levels. Because the plans are in a net cash outflow position (benefit payments exceed contributions), the difference in the net asset value cannot be attributed to investment performance alone. Investment performance must be calculated taking the net cash outflow into consideration.

The portfolio continued to participate in a securities lending program, managed by the custodial bank, BNY Mellon. Conservative investment guidelines continue to be maintained. Securities lending revenue for the fiscal year was $2.5 million, an increase from $1.4 million in the prior year. Two notable events occurred during the fiscal year. First, BNY Mellon sold all of the remaining Lehman holdings in the collateral pool. Including one prior sale in May 2012, the total realized losses from these sales were approximately $90 million. The realized losses from the Lehman sales are currently being held in the collateral pool as an undistributed loss. Second, in May 2013, a settlement was reached between the S.C. State Treasurer's Office as custodian and BNY Mellon which addressed, among other things, the losses in the collateral pool. As part of the settlement, approximately $20 million was credited to the portfolio's collateral reinvestment account. As a result, the total undistributed loss in the collateral pool was reduced from approximately $90 million to approximately $70 million.

The Teacher and Employee Retention Incentive (TERI) program is a deferred retirement option program under SCRS that allowed retired members to accumulate annuity benefits on a deferred basis for up to 60 months while continuing employment. Retirement reform legislation closes the TERI program to all participants effective June 30, 2018, so members who enter the program after July 1, 2013, will not be eligible to participate in TERI for the full 60 months. As a result, there was a surge in the number of members electing to enter the program to take advantage of the full 60 months of participation. This caused the total amount of assets held in trust for future payment of accrued TERI benefits to increase from $386 million to $469 million during fiscal year 2013 and the number of members actively participating in TERI increased to 9,792 at fiscal year-end 2013.

South Carolina Retirement Systems
Plan Net Position
June 30, 2013 and 2012
(Amounts expressed in thousands)

Assets	**2013**	**2012[1]**	**Increase/ (Decrease)**	**% Increase/ (Decrease)**
Cash and cash equivalents, receivables and prepaid expenses	$ 4,023,450	$ 3,416,972	$ 606,478	17.75%
Investments, at fair value	24,587,774	23,157,144	1,430,630	6.18%
Securities lending cash collateral invested	106,633	184,025	(77,392)	(42.06%)
Capital Assets, net of accumulated depreciation	3,083	2,984	99	3.32%
Total Assets	28,720,940	26,761,125	1,959,815	7.32%
Liabilities				
Deferred retirement benefits	468,781	386,302	82,479	21.35%
Obligations under securities lending	106,633	184,025	(77,392)	(42.06%)
Other accounts payable	1,645,150	1,211,693	433,457	35.77%
Total Liabilities	2,220,564	1,782,020	438,544	24.61%
Total Net Position	$ 26,500,376	$ 24,979,105	$ 1,521,271	6.09%

[1]Certain assets held in strategic partnerships have been restated for fiscal year 2012 to conform with the change in presentation for fiscal year 2013. In an effort to comply with investment reporting by the RSIC; cash, short duration and high yield investments held in the strategic partnerships that were previously classified as alternatives are now presented in the respective categories of cash and cash equivalents, short term securities and domestic fixed income.

Statement of Changes in Plan Net Position

The Statement of Changes in Plan Net Position presents information showing how the Plans' net position 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.

Increases in the amounts of both employee and employer contributions collected from the prior fiscal year were the result of higher contribution rates imposed by retirement reform legislation and an increase in covered payroll. The legislation also implemented actuarially neutral service purchase provisions that resulted in a tremendous influx of members who rushed to purchase service under the old cost provisions. This spike in service purchases caused further increases in the amount of employee contributions from those in the prior year.

For the fiscal year ended June 30, 2013, the aggregate rate of return earned on the pooled investments of the consolidated pension trust funds as a whole was 9.99 percent. Performance for the combined investment portfolio was significantly above the prior year's return of .37 percent and is well above the 7.50 percent actuarial rate of return for the plans.

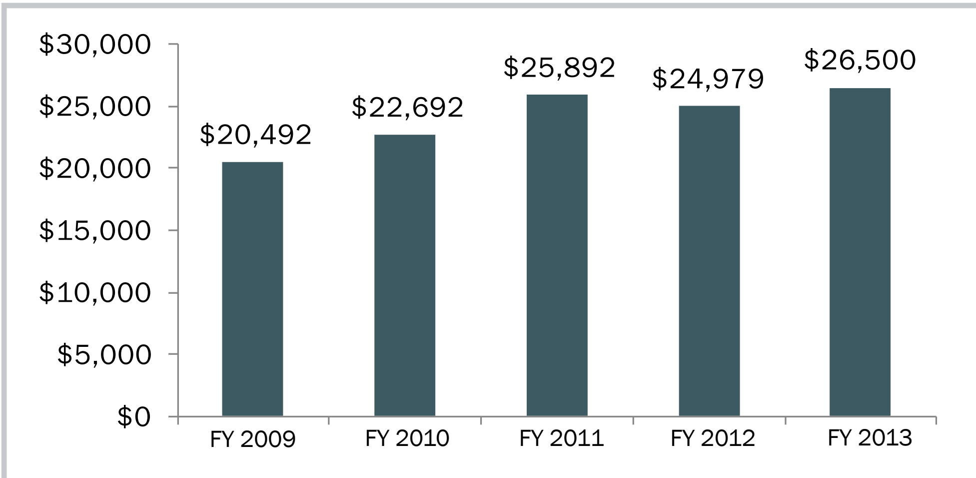
The total number of retired members and beneficiaries receiving monthly annuity benefits from the Retirement Systems' plans increased from 141,000 to more than 149,000 annuitants during the year. Additionally, effective July 1, 2012, eligible annuitant payees received an annual benefit adjustment equal to the lesser of 1 percent or $500. The increase in the number of new annuitants added to the payroll during the year coupled with the retiree benefit adjustment, resulted in an overall 8.57 percent increase in the dollar amount of annual benefits paid to annuitants.

South Carolina Retirement Systems
Changes in Plan Net Position
For the Years Ended June 30, 2013 and 2012
(Amounts expressed in thousands)

Additions	2013	2012	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	$ 775,634	$ 674,311	$ 101,323	15.03%
Employer contributions	1,103,044	969,897	133,147	13.73%
State-appropriated contributions	4,539	3,937	602	15.29%
Net Investment income	2,549,543	127,554	2,421,989	1,898.80%
Other income	4,083	2,951	1,132	38.36%
Total Additions	4,436,843	1,778,650	2,658,193	149.45%
Deductions				
Annuity benefits	2,766,267	2,547,907	218,360	8.57%
Refunds	102,255	98,461	3,794	3.85%
Death benefits	21,268	20,315	953	4.69%
Administrative & other expenses	25,782	24,711	1,071	4.33%
Total Deductions	2,915,572	2,691,394	224,178	8.33%
Increase in Net Position	1,521,271	(912,744)	2,434,015	266.67%
Beginning Net Position	24,979,105	25,891,849	(912,744)	(3.53%)
Ending Net Position	$ 26,500,376	$ 24,979,105	$ 1,521,271	6.09%

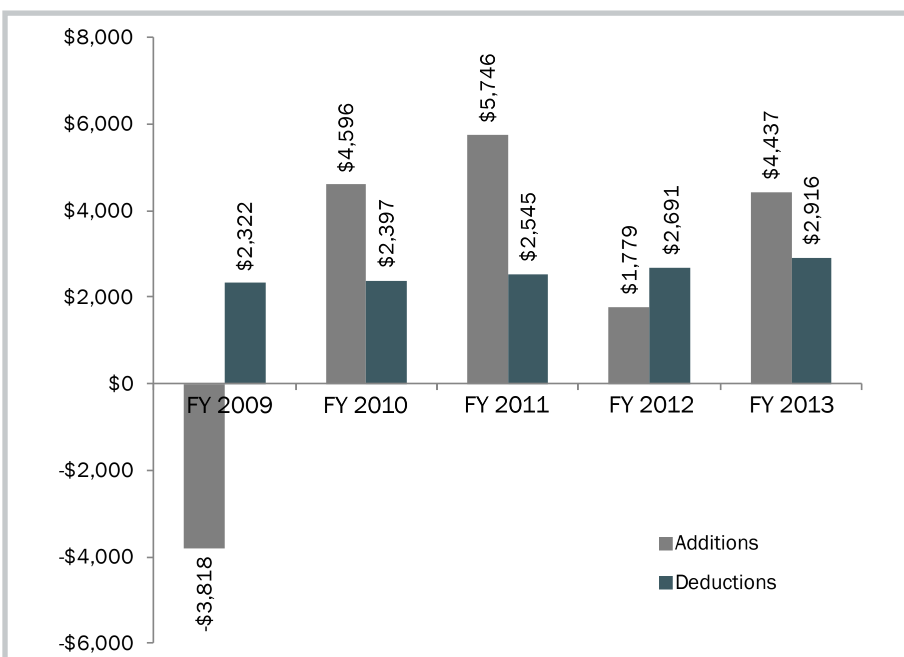
The following graph reflects Plan Net Position held in trust for pension benefits for the five consolidated defined benefit plans over the past five fiscal years:

South Carolina Retirement Systems
Plan Net Position
Five Years Ending June 30, 2013
(Amounts expressed in millions)



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

South Carolina Retirement Systems
Summary of Additions and Deductions
Five Years Ending June 30, 2013
(Amounts expressed in millions)

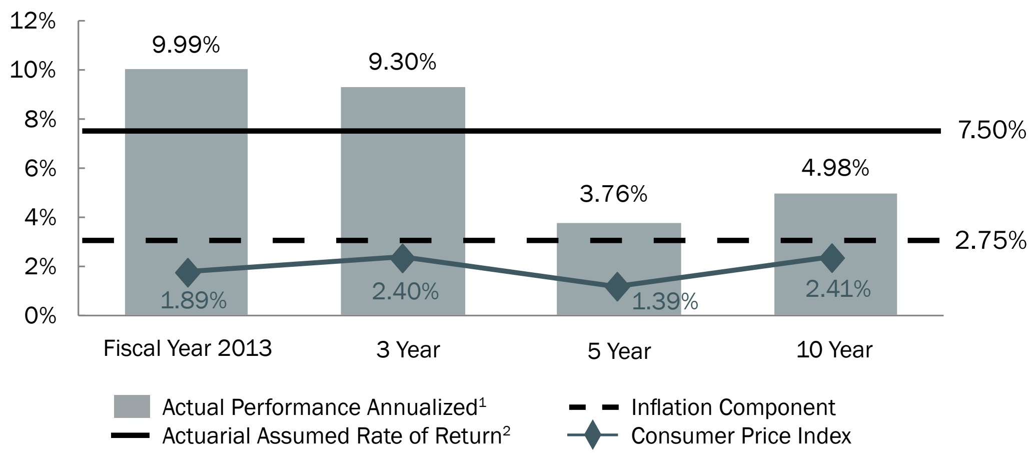


Investments Overview

The Retirement Systems' portfolio, managed and invested by the Retirement System Investment Commission (RSIC), ended fiscal year 2013 with a Net Asset Value (NAV) of investments of $26.8 billion. The investment consultant reported a one-year composite return of 9.99 percent net of fees compared to the policy benchmark's return of 8.13 percent.

The trailing one-year period as of June 30, 2013, afforded the RSIC the opportunity to take advantage of rising financial markets while maintaining the prudent level of risk that it maintains as a hallmark of its investment strategy. This is the fourth consecutive year that the fund has experienced a positive annual return. The three-year annualized net of fees return was 9.30 percent as of the fiscal year end compared to the Policy benchmark return of 8.40 percent. An actuarial assumed rate of return of 7.50 percent is utilized for all plans.

South Carolina Retirement Systems
Summary of Investment Performance
As of June 30, 2013



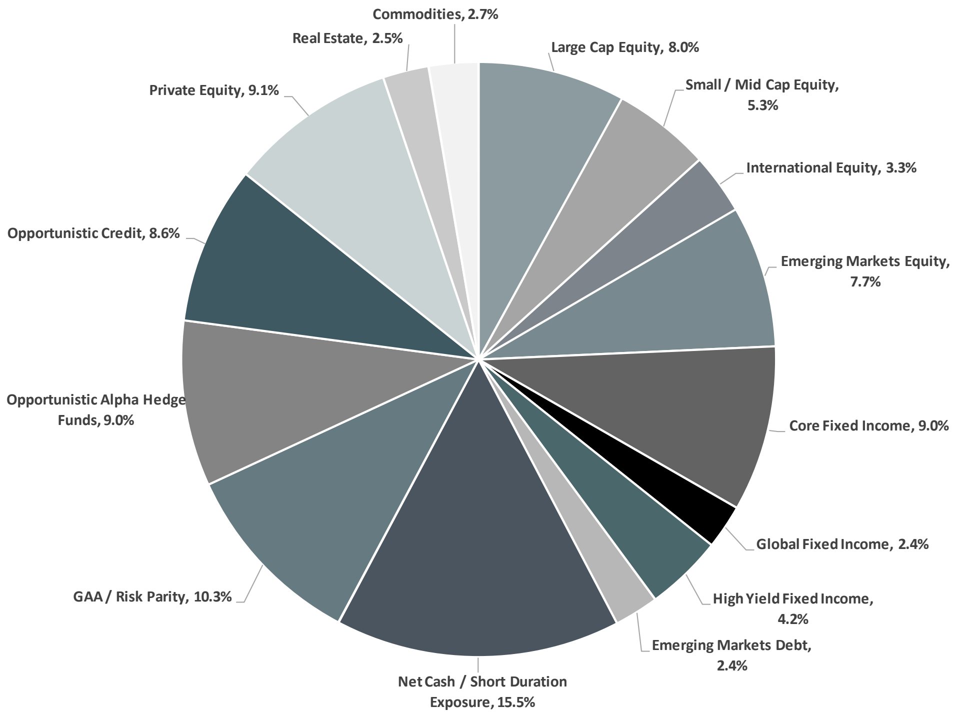
[1] Actual performance was recalculated by the custodial bank on a time-weighted return, net of investment expenses, for the five most recent fiscal years ending June 30, 2013. However, the 10-year annualized return is blended because returns prior to fiscal year 2008 were not recalculated on a net basis and have not been adjusted for investment fees that were directly invoiced.

[2] The actuarial assumed rate of return is 7.50 percent starting with returns after July 1, 2011, and is composed of an assumed 2.75 percent inflation rate and a 4.75 percent real rate of return, net of investment and administrative expenses.

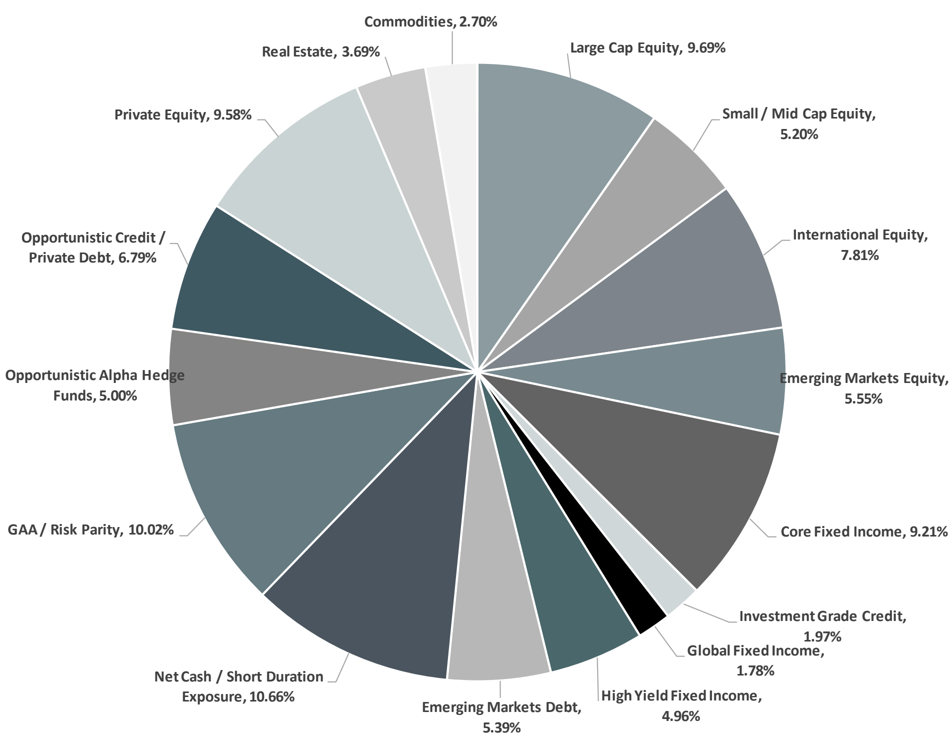
The plan assets are invested and managed by the RSIC in a manner consistent with a long-term investment time horizon. While the financial markets continue to experience significant volatility, the assets of the Retirement Systems are invested in a broadly diversified manner in an effort to mitigate risk. 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.

An optimally diversified investment portfolio is designed to generate long-term returns sufficient to ensure the program's financial stability. While the Systems' investment performance was historically limited by state constitution and state statute, the RSIC has implemented a modern-day asset allocation policy. With the help of the retained investment consultant, the RSIC manages investments across an asset allocation designed to generate attractive long-term risk-adjusted returns.

Investment Portfolio Exposure as of June 30, 2012[1]

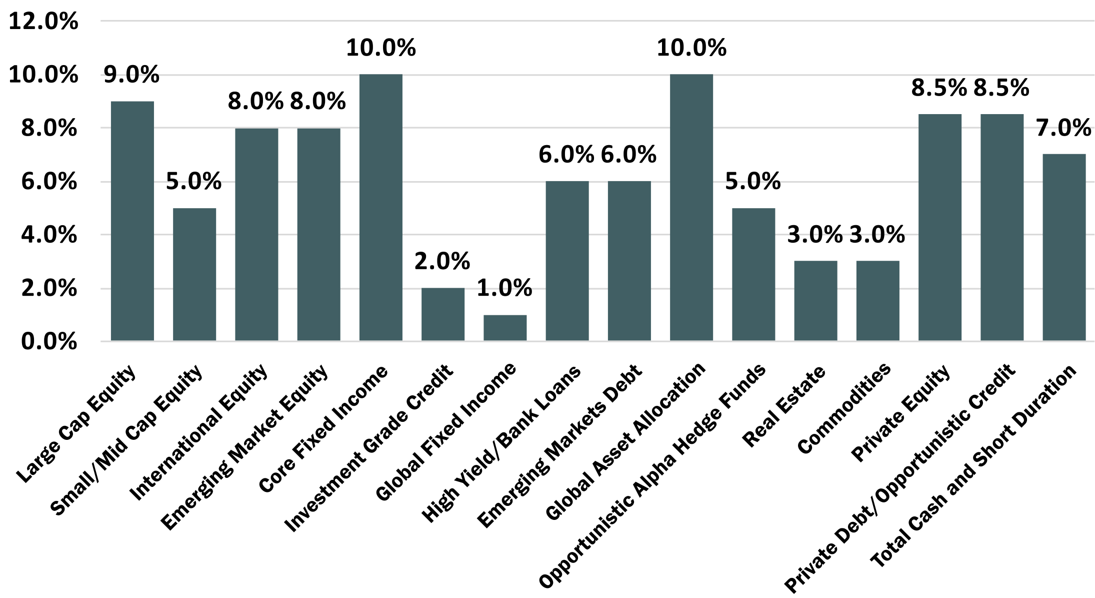


Investment Portfolio Exposure as of June 30, 2013[1]



[1]Portfolio exposure includes adjustments made by managers that invest across asset classes as well as the exposure from the RSIC's derivative overlay program. Investment Grade credit is a new asset class as of FY 2012-2013. Values were rounded for presentation purposes.

Investment Target Asset Allocation



Note: Target Asset Allocation in effect at fiscal year end 2013 and was adopted by the Commission on April 18, 2012.

A Healthy Economic Impact

South Carolina's public pension plans promote a healthy economy through the disbursement of almost $2.8 billion in annuity benefits each year. With 94 percent of the plans' annuitants living in South Carolina, that makes for a sizable economic footprint across the state.

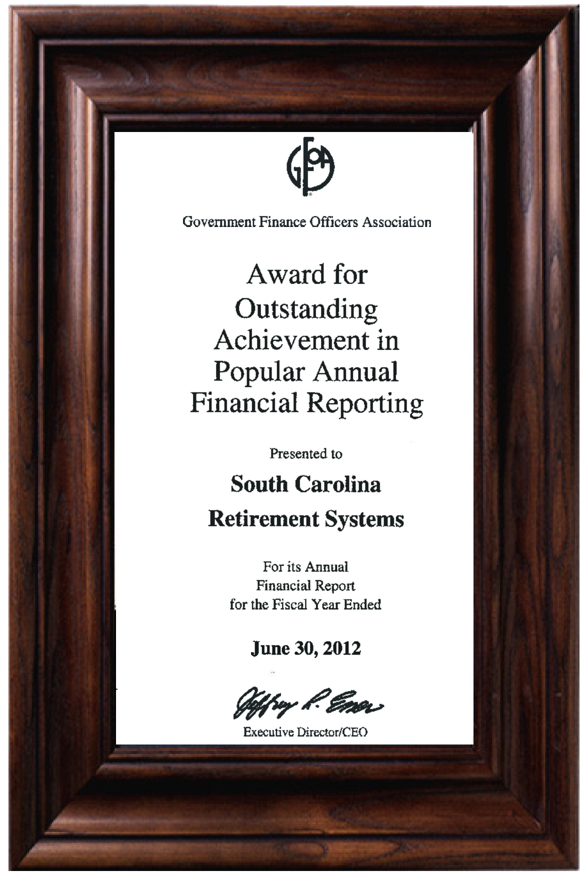
Fiscal Year 2012 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2012, 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 nine consecutive years (fiscal years ended 2004-2012). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



2013 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2013 Award.

It is the tenth 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.

This page contains no other content.

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