

FINANCIAL STATEMENTS

SOUTH CAROLINA
RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2008

South Carolina Retirement Systems

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June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I to the financial statements, the Systems' financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the System. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2008, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the South Carolina Retirement Systems, as of June 30, 2008, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note X to the financial statements, the Systems is a party to legal actions claiming amounts due for certain retirement contributions that have been collected inappropriately. The ultimate outcomes of the litigation cannot be presently determined. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Management's Discussion and Analysis on pages 3 - 8 and the required supplementary information on pages 34 and 35 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2008 on our consideration of the Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other supplementary information on pages 36 - 42 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Roger Lalan, PA

October 6, 2008

Management's Discussion and Analysis

This section presents management's discussion and analysis of the South Carolina Retirement Systems' financial position and performance for the year ended June 30, 2008, and is offered as an introduction and analytical overview. This narrative is intended as a supplement and should be read in conjunction with the financial statements and other information presented in the *Comprehensive Annual Financial Report*.

The Retirement Systems' financial statements provide information about the activities of the five defined benefit pension plans administered (listed below), in addition to comparative summary information about the activities of the Retirement Systems as a whole:

- *South Carolina Retirement System (SCRS)* – A member contributory multi-employer plan covering public school districts, as well as state and municipal employees;
- *Police Officers Retirement System (PORS)* – A member contributory multi-employer plan covering state and local law enforcement personnel and firefighters;
- *The Retirement System for Members of the General Assembly (GARS)* – A member contributory plan providing benefits to the members of the South Carolina General Assembly;
- *The Retirement System for Judges and Solicitors (JSRS)* – A member contributory plan covering Judges, Solicitors, and Circuit Public Defenders; and
- *National Guard Retirement System (NGRS)* – A non-contributory supplemental benefit plan for members of the South Carolina National Guard.

Overview of the Financial Statements

The Retirement Systems is a part of the primary government of the state of South Carolina and is included in the comprehensive annual financial report of the state. The Plan's financial statements include the following components:

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements
- Required Supplementary Information
- Other Supplementary Information

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

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 and deductions for annuity payments, refunded contributions, group life insurance payments, and administrative expenses.

Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the financial statements.

Required Supplementary Information presents information concerning the Retirement Systems' funding progress trends and its obligations to provide pension benefits to members. A schedule

of required employer contributions is also presented and is useful in evaluating the condition of the plans.

Other Supplementary Information includes Schedules of Changes in Plan Net Assets by system, as well as schedules of administrative expenses, professional and consultant fees, and investment fees and expenses.

Financial Highlights

- For the year ended June 30, 2008, the aggregate rate of return on the pooled investments of the consolidated pension trust funds was negative 2.56 percent. Returns for the combined investment portfolio were significantly less than the 13.35 percent return from the prior fiscal year and below the 7.25 percent actuarial investment assumed rate of return for the plans for fiscal year 2008. Results of the current financial market crisis should moderate with time due to actuarial smoothing methods and may even be eliminated entirely if investment returns are restored to historic norms.
- The South Carolina Retirement System Investment Commission continued to make significant progress toward the implementation of a complete restructuring and reallocation of the Retirement Systems' investments. Funds are now invested in a highly diversified portfolio with holdings and, therefore, risks, spread across multiple asset classes, including domestic and foreign equity and fixed income, private equity, and other alternative investments. The complete restructuring plan and the elimination of previous restrictions have allowed the trust funds to be on a level playing field with other public retirement funds and the investment portfolio is better structured to focus on the long-term stability of the plan. The Commission reported that our peer ranking among funds of more than \$1 billion in invested assets increased from the fourth quartile to the second quartile during the fiscal year.
- The South Carolina Retirement Systems' combined total net assets decreased by \$1.4 billion or 5 percent during fiscal year 2008. As previously explained, investment performance had a negative impact on the change in plan net assets, but additionally, increased annuity, refund, group life, and administrative expenses contributed to the overall decline in plan net assets. Total plan net assets represents all five pension trust funds administered by the South Carolina Retirement Systems. Net assets of the plans are held in trust to meet future benefit payments and the decrease in net assets from \$28.0 billion to \$26.6 billion was primarily due to negative returns in the investment market and increased deductions for pension expenditures.
- Significant changes in value are reflected in the individual components of assets at the end of the fiscal year. Again, these variances are a direct result of the Commissions' transition and reallocation process. At the end of the prior fiscal year, a large portion of the investment portfolio was classified as cash and cash equivalents because unsettled investments were in the process of being transitioned to the new asset classes through the overlay manager. The investment portfolio's reduced allocation to domestic fixed income and equity securities resulted in the transition to new asset classes that are not lendable, thus, the reduction in securities lending cash collateral invested.
- The Teacher and Employee Retention Incentive (TERI) program is a deferred retirement option program that allows retired members to accumulate annuity benefits on a deferred basis for up to five years while continuing employment. The total amount of assets held in trust for future payment of accrued TERI benefits decreased from \$642 million to \$552 million during fiscal year 2008, with the number of members actively participating in TERI decreasing as well from 9,049 to 7,899 at fiscal year end.
- A deferred retirement option program was also established under the Retirement System for Judges and Solicitors (JSRS). A member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit may continue to serve as a judge, a solicitor, or a circuit public defender, and the member's normal monthly retire-

ment benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60, the balance of the member's deferred retirement benefit is distributed to the member. As of June 30, 2008, three JSRS members were participating in the deferred retirement option program and benefits held in trust totaled \$349,000.

- As passed by the South Carolina General Assembly in 2005, Act 153 increased the employer contribution rate of the South Carolina Retirement System (SCRS) from 8.05 percent to 9.06 percent effective July 1, 2007; therefore, an increase in the dollar amount of employer contributions collected was recognized.
- The number of retired members and beneficiaries receiving monthly benefits through the Retirement System plans increased to more than 119,000 annuitants during the year. The increase in the number of annuitants, coupled with increases for cost-of-living adjustments (COLAs) resulted in an almost 6 percent increase in the amount of benefit payments from the prior year—from \$1.95 billion to more than \$2.07 billion.
- Although participation in TERI declined during the year, we continue to experience an upward trend in the number of retirees returning to covered employment after retirement. Retired members of SCRS and the Police Officers Retirement System (PORS) are allowed to return to work after retirement or after ending TERI participation, and draw an annuity benefit with no limit on earnings. Retirees who return to work for a covered employer pay employee contributions, which partially fund guaranteed COLAs under SCRS and PORS.
- Members of JSRS who are age 60 and are eligible to receive the maximum monthly benefit may also retire and receive a benefit while continuing to serve as a judge, a solicitor or a circuit public defender until the member attains the age of 72.
- Working retirees also have an impact on the group life insurance program. The value of group life benefits for working retirees is significantly greater than the benefit value for non-working retirees and as a result of the increased number of working retirees, the plans experienced an increase in group life expense this fiscal year.
- The South Carolina General Assembly was successful in passing legislation which included recommendations concerning public retiree COLAs. The State Budget and Control Board, as trustees for the Retirement Systems, approved an increase in the Retirement Systems' assumed rate of investment return from 7.25 percent to 8 percent, which allowed the guaranteed COLA provisions of House Bill 4876 to take effect. As a result of the legislation, each July 1, eligible retired members of SCRS and PORS will receive an automatic COLA of up to 2 percent as long as the Consumer Price Index (CPI) as of the previous December 31 was at least 2 percent. If the CPI is less than 2 percent, the COLA will equal the actual increase in the CPI. House Bill 4876 also authorized the Board, as trustees of the state's pension trust funds, to approve ad hoc COLAs in addition to the automatic COLA of up to 2 percent if certain guidelines are met. The new provisions took effect July 1, 2008.
- Administrative and other expenses were greater this fiscal year due to increases in the number of staff positions required to implement provisions of the Pension Protection Act, charges for evaluating disability claims, other professional service fees for rotating various external reviews, transfers to the Investment Commission, and premiums for our fiduciary liability insurance policy.

Condensed Financial Information

The Retirement Systems' ability to adequately fund retirement benefits payable to members in future years is viable because funds are accumulated and invested on a regular and systematic basis. The five defined benefit plans provide lifetime annuity benefits to vested eligible members who serve as employees of state, public school, local and municipal government, state legislative, judicial and National Guard employers.

The principal sources from which the Systems' derives revenues are employee contributions,

employer contributions, and earnings on investments. Required annual 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 members of the PORs.

Summary comparative financial statements of the pension trust funds are presented as follows:

Plan Net Assets			
June 30			
<i>(Amounts expressed in thousands)</i>			
Assets	<u>2008</u>	<u>2007</u>	<u>% Increase/ (Decrease)</u>
Cash and cash equivalents, receivables and prepaid expenses	\$ 2,835,196	\$ 6,855,459	(58.64%)
Investments, at fair value	24,697,700	22,188,448	11.31%
Securities lending cash collateral invested	3,796,183	5,085,506	(25.35%)
Property, net of accumulated depreciation	3,459	3,577	(3.30%)
Total Assets	<u>31,332,538</u>	<u>34,132,990</u>	(8.20%)
Liabilities			
Deferred retirement benefits	552,260	641,750	(13.94%)
Obligations under securities lending	3,796,183	5,085,506	(25.35%)
Other liabilities	351,050	356,954	(1.65%)
Total Liabilities	<u>4,699,493</u>	<u>6,084,210</u>	(22.76%)
Total Net Assets	<u>\$ 26,633,045</u>	<u>\$ 28,048,780</u>	(5.05%)

Changes in Plan Net Assets			
Year Ended June 30			
<i>(Amounts expressed in thousands)</i>			
Additions	<u>2008</u>	<u>2007</u>	<u>% Increase/ (Decrease)</u>
Employee contributions	\$ 618,576	\$ 578,019	7.02%
Employer contributions	898,417	760,167	18.19%
State-appropriated contributions	3,948	3,948	0.00%
Investment income (loss)	(731,466)	3,397,801	(121.53%)
Other income	3,542	3,382	4.73%
Total Additions	<u>793,017</u>	<u>4,743,317</u>	(83.28%)
Deductions			
Annuities	2,072,109	1,947,789	6.38%
Refunds	93,094	89,825	3.64%
Group Life	19,969	18,253	9.40%
Administrative & other expenses	23,580	20,618	14.37%
Total Deductions	<u>2,208,752</u>	<u>2,076,485</u>	6.37%
Increase (Decrease) in Net Assets	<u>(1,415,735)</u>	<u>2,666,832</u>	(153.09%)
Beginning Net Assets	28,048,780	25,381,948	10.51%
Ending Net Assets	<u>\$ 26,633,045</u>	<u>\$ 28,048,780</u>	(5.05%)

Analysis of the Plan's Financial Position and Results of Operations

On a combined basis, plan net assets were valued at \$26.6 billion at June 30, 2008, representing a 5 percent decrease in net assets from the previous fiscal year-end. Investment income is traditionally a major revenue source; however, this year's negative performance partially offset contributions and resulted in a reduction in total plan income for the fiscal year. Total combined investment return for fiscal year 2008 was negative 2.56 percent, which was substantially less than the assumed actuarial investment rate of return of 7.25 percent. For fiscal year 2008, returns for specific assets allocations were 3.90 percent for cash, 6.39 percent for fixed income, negative 15.58 percent on the equity segment, and 4.24 percent on alternative investments. In comparison, the prior fiscal year 2007 produced a combined total investment return of 13.35 percent, with 18.69 percent and 7.02 percent returns for the equity and fixed income segments, respectively.

Despite the negative returns, diversification of the portfolio enabled the fund to outperform the Investment Commission's policy benchmark return and the ICC Universe large fund median return for the one year period ended June 30, 2008, whose returns were negative 2.89 percent and negative 4.19 percent, respectively. Independent Consultants Cooperative (ICC) is a benchmark group that was developed by New England Pension Consultants (NEPC), general investment consultants for the Investment Commission.

While the fluctuations in returns between market segments exemplify the need for an optimally diversified investment portfolio, the Retirement Systems' investment performance was limited in the past by state constitution and state statute. South Carolina's recently modernized retirement investment policies and practices now allow for a more diversified target allocation under the oversight of the Investment Commission and its Chief Investment Officer. The target mix is comparable to peer public pension funds and is expected to increase long-term rates of return.

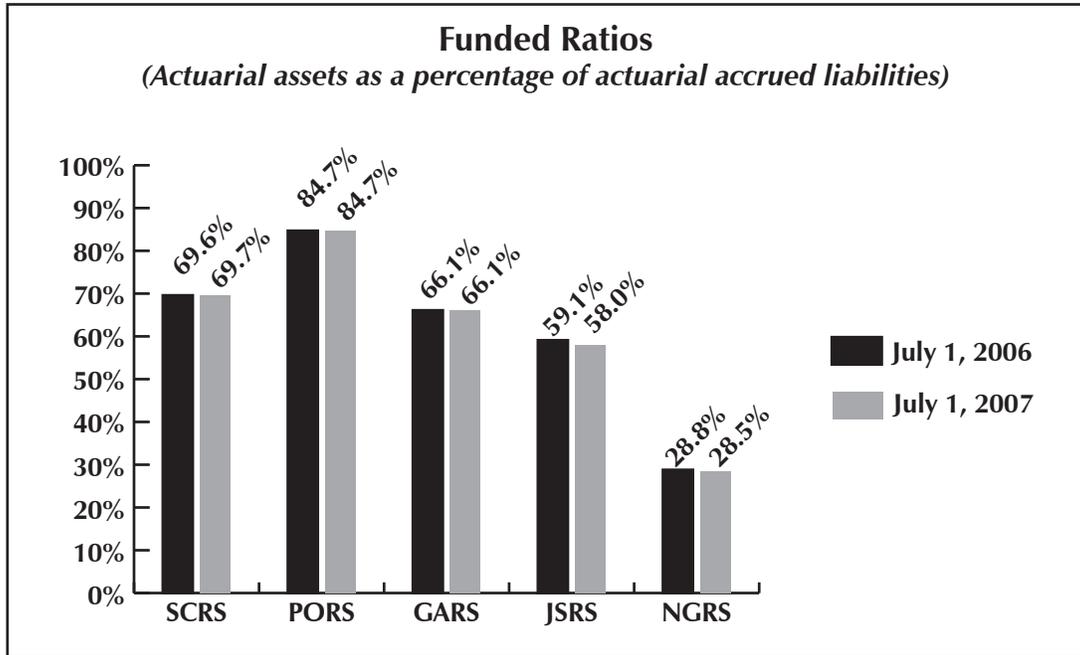
During fiscal year 2008, the total dollar amount of retirement annuities paid increased more than 6 percent when compared with the previous fiscal year. This was due primarily to an increase in the number of annuitants, a 2.4 percent cost-of-living adjustment (COLA) that was granted effective July 1, 2007, and liberal return-to-work provisions. COLAs, which were heavily debated during the year, are a very important benefit to retirees, providing a critical part of retiree income. Ad hoc COLAs were historically granted and funded with either unanticipated actuarial gains or an extension of the system's unfunded actuarial accrued liability (UAAL) amortization period; however, the South Carolina General Assembly was successful in passing legislation which became effective July 1, 2008, that includes a guaranteed 2 percent COLA each July 1 to eligible retired members of SCRS and PORS, provided the Consumer Price Index (CPI) as of the previous December 31 was at least 2 percent. As of the most recent actuarial valuation dated July 1, 2007, the UAAL amortization period for SCRS was 29 years. Subsequent provisions for the 2 percent automatic COLA and assumption changes related to investment returns and smoothing methodology will be reflected in the July 1, 2008, actuarial valuation.

Funding Status

An overall objective in the funding of a defined benefit pension plan is to accumulate sufficient funds to meet long-term obligations to pay benefits to participants when due. The primary sources of assets to fund benefits include investment income, member contributions, and employer contributions. A five-year smoothing method is currently used in actuarially valuing assets to mitigate the impact of market volatility and allow changes in market conditions to be recognized (smoothed) over several years.

The ratio of actuarial assets to actuarial liabilities provides an indication as to whether sufficient assets are accumulated to pay benefits when due. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities. The most recent actuarial valuations

prepared as of July 1, 2007, and adopted by the Budget and Control Board, indicate that the funded ratios of each of the five individual plans remained relatively stable from the previous valuations, which were completed as of July 1, 2006. As of July 1, 2007, funding levels of all the plans are such that annual contributions are sufficient for the valuation to find the plans in good actuarial condition. The changes in the levels of funding do not affect the availability of fund resources for future use, and actuarial projections indicate that unfunded liabilities will be amortized and funded within acceptable funding guidelines. The funded ratios of the five plans are presented in the following graph.



Requests for Information

This financial report is designed to provide a general overview of the Retirement Systems' finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be directed as follows:

Financial Services
 South Carolina Retirement Systems
 PO Box 11960
 Columbia, SC 29211-1960
 (803) 737-6800
www.retirement.sc.gov

South Carolina Retirement Systems
Statement of Plan Net Assets
June 30, 2008
With comparative totals for June 30, 2007
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	NGRS	TOTAL	TOTAL 2007
ASSETS							
Cash and cash equivalents	\$ 1,509,652	\$ 209,614	\$ 2,849	\$ 8,447	\$ 1,074	\$ 1,731,636	\$ 6,064,921
Receivables							
Due from other Systems	1,374	158	8		175	1,715	671
Employee and employer contributions	166,476	17,366	37	737		184,616	166,853
Employer contributions long-term	577	19				596	867
Accrued investment income	77,503	10,476	146	423	52	88,600	131,741
Unsettled investment sales	721,176	96,321	1,358	3,923	486	823,264	471,858
Other investment receivables	3,923	524	8	21	3	4,479	18,054
Total receivables	<u>971,029</u>	<u>124,864</u>	<u>1,557</u>	<u>5,104</u>	<u>716</u>	<u>1,103,270</u>	<u>790,044</u>
Investments, at fair value							
Short-term securities	89,014	11,889	168	484	60	101,615	229,972
Debt							
Domestic Fixed Income	5,390,761	727,962	10,140	29,283	3,626	6,161,772	8,777,316
Global Fixed Income	3,093,577	413,183	5,827	16,828	2,083	3,531,498	
Public Equity							
Domestic Equity	5,406,024	722,037	10,183	29,406	3,642	6,171,292	13,156,728
Global Equity	425,462	56,825	801	2,314	287	485,689	
Alternatives	7,223,315	964,757	13,605	39,291	4,866	8,245,834	24,432
Total investments	<u>21,628,153</u>	<u>2,896,653</u>	<u>40,724</u>	<u>117,606</u>	<u>14,564</u>	<u>24,697,700</u>	<u>22,188,448</u>
Prepaid administrative expenses	252	34	1	1	2	290	494
Securities lending cash collateral invested	3,325,439	444,151	6,264	18,089	2,240	3,796,183	5,085,506
Capital assets, net of accumulated depreciation	3,116	319	9	15		3,459	3,577
Total assets	<u>27,437,641</u>	<u>3,675,635</u>	<u>51,404</u>	<u>149,262</u>	<u>18,596</u>	<u>31,332,538</u>	<u>34,132,990</u>
LIABILITIES							
Due to other Systems	166	1,045	462	42		1,715	671
Accounts payable - unsettled investment purchases	95,976	9,483	134	386	48	106,027	282,602
Investment fees payable	15,288	2,038	29	84	10	17,449	7,605
Obligations under securities lending	3,325,439	444,151	6,264	18,089	2,240	3,796,183	5,085,506
Deferred retirement benefits	551,911			349		552,260	641,750
Due to Employee Insurance Program	35,990	640				36,630	34,258
Benefits payable	1,984	365	2		1	2,352	2,192
Other liabilities	163,740	21,842	305	881	109	186,877	29,626
Total liabilities	<u>4,190,494</u>	<u>479,564</u>	<u>7,196</u>	<u>19,831</u>	<u>2,408</u>	<u>4,699,493</u>	<u>6,084,210</u>
Net assets held in trust for Pension Benefits (a schedule of funding progress for each plan is presented on Page 29)	<u>\$ 23,247,147</u>	<u>\$ 3,196,071</u>	<u>\$ 44,208</u>	<u>\$ 129,431</u>	<u>\$ 16,188</u>	<u>\$ 26,633,045</u>	<u>\$ 28,048,780</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Retirement Systems
Statement of Changes in Plan Net Assets
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	NGRS	TOTAL	TOTAL 2007
Additions							
Contributions							
Employee	\$ 540,845	\$ 75,666	\$ 712	\$ 1,353	\$ -	\$ 618,576	\$ 578,019
Employer	774,269	114,095	2,440	7,613		898,417	760,167
State appropriated					3,948	3,948	3,948
Total contributions	<u>1,315,114</u>	<u>189,761</u>	<u>3,152</u>	<u>8,966</u>	<u>3,948</u>	<u>1,520,941</u>	<u>1,342,134</u>
Investment Income							
Net appreciation (depreciation) in fair value of investments	(1,236,067)	(164,721)	(2,306)	(6,693)	(782)	(1,410,569)	2,601,359
Interest and dividend income	626,255	83,466	1,232	3,496	457	714,906	820,899
Investment expense	(58,747)	(7,785)	(116)	(326)	(43)	(67,017)	(36,147)
Net income (loss) from investing activities	<u>(668,559)</u>	<u>(89,040)</u>	<u>(1,190)</u>	<u>(3,523)</u>	<u>(368)</u>	<u>(762,680)</u>	<u>3,386,111</u>
From securities lending activities:							
Securities lending income	183,573	24,274	363	1,021	133	209,364	293,125
Securities lending expense	(156,210)	(20,649)	(309)	(869)	(113)	(178,150)	(281,435)
Net income from securities lending activities	<u>27,363</u>	<u>3,625</u>	<u>54</u>	<u>152</u>	<u>20</u>	<u>31,214</u>	<u>11,690</u>
Total net investment income (loss)	<u>(641,196)</u>	<u>(85,415)</u>	<u>(1,136)</u>	<u>(3,371)</u>	<u>(348)</u>	<u>(731,466)</u>	<u>3,397,801</u>
Supplemental retirement benefits funded by the State	1,321	52				1,373	1,587
State appropriations for administrative expenses					50	50	50
Transfers of contributions from other Systems	<u>27</u>	<u>2,008</u>	<u>21</u>	<u>63</u>		<u>2,119</u>	<u>1,745</u>
Total additions	<u>675,266</u>	<u>106,406</u>	<u>2,037</u>	<u>5,658</u>	<u>3,650</u>	<u>793,017</u>	<u>4,743,317</u>
Deductions							
Refunds of contributions to members	79,027	13,754	102	211		93,094	89,825
Transfers of contributions to other Systems	2,092		27			2,119	1,745
Regular retirement benefits	1,633,493	194,490	6,181	12,499	3,199	1,849,862	1,704,424
Deferred retirement benefits	219,078			349		219,427	240,580
Supplemental retirement benefits	1,321	52				1,373	1,587
Group life insurance claims	17,617	2,068	28	256		19,969	18,253
Accidental death benefits		1,447				1,447	1,198
Depreciation	107	11				118	119
Administrative expenses	<u>18,553</u>	<u>2,494</u>	<u>37</u>	<u>103</u>	<u>156</u>	<u>21,343</u>	<u>18,754</u>
Total deductions	<u>1,971,288</u>	<u>214,316</u>	<u>6,375</u>	<u>13,418</u>	<u>3,355</u>	<u>2,208,752</u>	<u>2,076,485</u>
Net increase (decrease)	(1,296,022)	(107,910)	(4,338)	(7,760)	295	(1,415,735)	2,666,832
Net assets held in trust for Pension Benefits							
Beginning of year	<u>24,543,169</u>	<u>3,303,981</u>	<u>48,546</u>	<u>137,191</u>	<u>15,893</u>	<u>28,048,780</u>	<u>25,381,948</u>
End of year	<u>\$ 23,247,147</u>	<u>\$ 3,196,071</u>	<u>\$ 44,208</u>	<u>\$ 129,431</u>	<u>\$ 16,188</u>	<u>\$ 26,633,045</u>	<u>\$ 28,048,780</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Retirement Systems

Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

The financial statements of the South Carolina Retirement Systems (Systems) presented herein contain the following funds:

Pension Trust Funds

- South Carolina Retirement System (SCRS)
- South Carolina Police Officers Retirement System (PORS)
- Retirement System for Members of the General Assembly of the State of South Carolina (GARS)
- Retirement System for Judges and Solicitors of the State of South Carolina (JSRS)
- National Guard Retirement System (NGRS)

Each pension trust fund operates on an autonomous basis; funds may not be utilized for any purpose other than for the benefit of each plan's participants.

The Retirement Systems are part of the state of South Carolina's primary government and are included in the *Comprehensive Annual Financial Report of the State of South Carolina*. In making this determination, factors of financial accountability, governance and fiduciary responsibility of the state were considered.

Plan Descriptions

The South Carolina Retirement System, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for public school districts and employees of the state and political subdivisions thereof.

The South Carolina Police Officers Retirement System, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

The Retirement System for Members of the General Assembly of the State of South Carolina, a single-employer defined benefit pension plan, was created effective January 1, 1966, pursuant to the provisions of Section 9-9-20 of the South Carolina Code of Laws to provide retirement allowances and other benefits for members of the General Assembly.

The Retirement System for Judges and Solicitors of the State of South Carolina, a single-employer defined benefit pension plan, was created effective July 1, 1979, pursuant to the provisions of Section 9-8-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for judges, solicitors, and circuit public defenders of the state.

The National Guard Retirement System, a single-employer defined benefit pension plan, was created effective July 1, 1975, and is governed by the provisions of Section 9-10-30 of the South Carolina Code of Laws for the purpose of providing supplemental retirement benefits to certain members who served in the South Carolina National Guard.

A summary of information related to participating employers and active members for the fiscal year ended June 30, 2008, follows (dollar amounts expressed in thousands):

	<u>State¹</u>	<u>School</u>	<u>Other</u>	<u>Total</u>
SCRS				
Number of Employers	111	106	583	800
Annual Covered Payroll	\$ 2,238,486	\$ 3,111,405	\$ 1,773,063	\$ 7,122,954
Average Number of Contributing Members	56,547	88,092	54,466	199,105
PORS				
Number of Employers	62	45	293	400
Annual Covered Payroll	\$ 373,595	\$ 244	\$ 620,307	\$ 994,146
Average Number of Contributing Members	10,863	7	16,395	27,265
GARS				
Number of Employers	2			2
Annual Covered Payroll	\$ 3,099			\$ 3,099
Number of Elected Positions	170			170
JSRS				
Number of Employers	3			3
Annual Covered Payroll	\$ 14,488			\$ 14,488
Average Number of Contributing Members	144			144
NGRS				
Number of Employers	1			1
Annual Covered Payroll ²	N/A			N/A
Average Number of Active Members	12,559			12,559

¹Each state agency is considered a separate employer for reporting purposes. Quasi-state agencies and institutions of higher education are reported in this category.

²Annual covered payroll is not applicable for NGRS because it is a non-contributory plan.

Based upon the most recent actuarial valuations dated July 1, 2007, and adopted by the Budget and Control Board, membership in the Systems was as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGRS</u>	<u>Totals</u>
Retirees and beneficiaries currently receiving benefits ¹	100,897	10,701	333	175	3,204	115,310
Terminated members entitled to but not yet receiving benefits	153,477	11,038	56	7	3,063	167,641
Total active, elected positions, and other special contributing members	187,968	25,645	197	128	11,076	225,014
Total membership	<u>442,342</u>	<u>47,384</u>	<u>586</u>	<u>310</u>	<u>17,343</u>	<u>507,965</u>

¹Retirees and beneficiaries totals include participants who retired and returned to work.

Membership and benefit requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of each is presented below.

Membership

SCRS

Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers.

State ORP

As an alternative to membership in SCRS, newly hired state, public school, and higher education employees have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. 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. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the Systems for financial statement purposes.

Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the investment providers for the employee contribution (6.50 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to the SCRS for a portion of the employer contribution (4.06 percent) and a group life contribution (.15 percent), which is retained by the SCRS. The activity for the State ORP is as follows:

State ORP Activity
Year Ended June 30, 2008
(Dollar amounts expressed in thousands)

Average Number of Contributing Participants	18,559
Annual Covered Payroll	\$ 854,301
Employer Contributions Retained by SCRS	34,685
Group Life Contributions Retained by SCRS	1,281
Employee Contributions to Investment Providers	55,530
Employer Contributions to Investment Providers	42,715

PORS

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, the 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 year to this work, unless exempted by statute.

GARS

All members of the Senate and the House of Representatives are required to participate in and contribute to the system upon taking office as a member of the South Carolina General Assembly.

JSRS

All solicitors, circuit public defenders, and judges of a Circuit or Family Court and justices of the Court of Appeals and Supreme Court are required to participate in and contribute to the system upon taking office.

NGRS

Membership consists of individuals who serve in the South Carolina National Guard.

Pension Benefits

SCRS

A monthly pension is payable at age 65 or with 28 years credited service regardless of age. Reduced pension benefits are payable at age 55 with 25 years of service credit. A member is eligible to receive a reduced deferred annuity at age 60 with five years earned service. Group life insurance benefits are also available to active and retired members who have at least one year of service, provided their employer participates in the program.

Eligible retirees receive an automatic cost-of-living adjustment of up to 1 percent and may also receive an additional ad hoc cost-of-living adjustment of up to 3 percent annually based on increases in the Consumer Price Index. The State Budget and Control Board grants ad hoc increases in accordance with its funding policies and state statute.

PORS

A monthly pension is payable at age 55 with a minimum of five years earned service or with 25 years of service regardless of age. A member is eligible to receive a deferred annuity at age 55 with five years earned service. Group life insurance benefits are also available to members who have at least one year of service provided their employer participates in the program. An additional accidental death benefit is also offered to members killed in the line of duty while working for a covered employer.

Eligible retirees may receive ad hoc cost-of-living adjustments of up to 4 percent annually based on increases in the Consumer Price Index. The State Budget and Control Board grants ad hoc increases in accordance with its funding policies and state statute.

GARS

A member is eligible for a monthly pension at age 60 or with 30 years credited service. A member who has attained age 70 or has 30 years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. A member is eligible to receive a deferred annuity with eight years of service. A group life insurance benefit is also provided to members who have at least one year of service.

Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

JSRS

A pension benefit is payable at age 70 with 15 years service, age 65 with 20 years service, age 65 with four years in a JSRS position and 25 years other service with the

state, 25 years service regardless of age for a judge or 24 years of service for a solicitor or a circuit public defender regardless of age. A judge is vested in the system after attaining 10 years of earned service in the position of judge, and a solicitor or a circuit public defender is vested in the system after attaining eight years of earned service. A member who has reached maximum eligibility is eligible to retire and draw an annuity while continuing to serve. A group life insurance benefit is also provided to members with at least one year of service.

Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

NGRS

A monthly pension is payable at age 60 provided the member was honorably discharged from active duty with at least 20 years of total creditable military service. Of the 20 years total creditable military service, at least 15 must have been served in the South Carolina National Guard. Additionally, the last 10 years of service must have been served in the South Carolina National Guard. No cost-of-living increases are provided to NGRS retirees.

Summary of Significant Accounting Policies Fund Structure

The Systems' accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate pension trust funds (fiduciary fund type) are used to account for the activities of the five public employee retirement systems administered by the Systems.

Basis of Accounting

All funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized

when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan.

Administrative Expenses

The State Budget and Control Board's Office of Internal Operations maintains an internal service fund to account for the administrative costs of operating the Systems. All accounting and corresponding disclosures related to administrative expenses are the responsibility of the internal service fund administered by the Board. Administrative expenses are funded by both employer contributions and investment earnings and are assessed to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expenses incurred during the year. Administrative expenses of the Systems include employee salaries and associated employee benefits, transfers to the Investment Commission to fund investment operations and investment related obligations for the trust funds, disability evaluations, fiduciary liability insurance, and other professional service fees.

Cash and Cash Equivalents

The Systems classifies cash on deposit in financial institutions and cash on deposit in the state's internal cash management pool as cash and cash equivalents. The Systems also classifies certain short-term highly liquid securities as cash equivalents if the date of maturity is three months or less from the date of acquisition.

Contributions

Employee, employer, and state-appropriated contributions are recognized in the period in which they are due, pursuant to formal commitments as well as statutory requirements. Substantially all contributions receivable are collected within 30 days of year-end.

Investments

The Retirement System Investment Commission, created by the General Assembly in 2005 as fiduciary for the Retirement Systems, has exclusive authority for investing and managing all assets of the plan. Funds of the Retirement System are invested subject

to the terms, conditions, limitations, and restrictions imposed by Section 16, Article X of the South Carolina Constitution and Section 9-1-1310 (B) and Title 9 Section 16 of the South Carolina Code of Laws. The funds and assets of the various state retirement systems are not funds of the State, but are instead held in trust as provided in Section 9-16-20.

The Investment Commission is structured as a separate state agency reporting to a group of Commissioners. Commission members are comprised of six financial experts, including the State Treasurer and a nonvoting retired member. The Commission employs a chief investment officer who has oversight for complete structuring of the investment program for the Retirement Systems' \$26.6 billion pension trust fund. The Commission also retains an independent consultant to provide investment consulting services necessary to fulfill the duties for investing the Systems' portfolio.

As fiduciary on behalf of the Retirement Systems, the Commission enters into individual agreements with various investment managers to invest plan assets. As of June 30, 2008, legal agreements were in place with 57 investment managers.

For financial statement purposes, investments of the pension trust funds are reported at fair value in the Statement of Plan Net Assets. The investment categories presented on the Statement of Plan Net Assets were consolidated for fiscal year 2008 to accommodate and more clearly present the expanded asset classes of the diversified portfolio. As a result, prior year values have been restated to conform with the modified category presentation.

Short term securities categorized as cash or cash equivalents are reported at fair value. The Systems holds domestic equity and fixed income securities traded on national exchanges and these are valued by the investment custodian using the last reported sales price on a trade-date basis. Fair values of limited partnership investments are based

on valuations of the underlying companies of the limited partnerships. Given the complexity and depth necessary to ascertain reasonable estimates, with the exception of one limited partnership, timing for the remaining partnerships is delayed and valuations are obtained on a quarter's lag basis and therefore are valued as of March 31, 2008. Fair values of other alternative investments are based on the respective investment manager's statements as of June 30, 2008.

Investments are combined in a commingled investment pool, with each system owning a percentage of the pool and receiving proportionate investment income in accordance with their respective ownership percentage. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments, interest income earned, dividend income earned, less investment expense, plus income from securities lending activities, less deductions for securities lending expenses. Several of the alternative investment managers provide account valuations on a net of fee basis. Management fees are netted against investment income and because they are not readily separable, amounts are recorded and reported net of fees in the net appreciation (depreciation) in the fair value of investments.

Capital Assets

Capital assets are capitalized at cost and depreciated on a straight-line basis over an estimated useful life of forty years.

II. Contributions and Reserves

Contributions to each of the Plans are prescribed in Title 9 of the South Carolina Code of Laws.

Plan members are required to contribute at statutorily established rates. The rates applicable for fiscal year 2008 follow:

SCRS	6.5% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10% of earnable compensation
JSRS	10% of earnable compensation
NGRS	Non-contributory

Employer contributions are established by the State Budget and Control Board at the actuarially determined rates recommended by the Systems' actuaries.

Contributions for the NGRS are provided by state appropriations based on the annual required contribution determined by the Systems' actuary on an annual basis.

In accordance with provisions of the 2007-2008 State Appropriations Act, an additional employer contribution surcharge of 3.42 percent of covered payroll was added to the contribution rate applicable to state and local governments, and public school entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates for retirement funding purposes. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) \$234,844 and \$13,474 respectively in retiree insurance surcharges (\$29,114 of which was applicable to the State ORP) and remitted these funds to the Employee Insurance Program.

Net Assets of each plan are required to be reserved in the following accounts:

The **Employer Fund** is credited with all employer retirement contributions and investment earnings of the Employee and Employer Funds. Upon retirement, all member account balances and contributions are transferred to the Employer Fund as all annuities and administrative expenses of the Systems are paid from this fund. Annual state appropriations to the NGRS are also credited to the Employer fund to provide funding for the payment of annuities and administrative expenses.

The **Employee Fund** is credited with all contributions made by active members of the Systems. Interest is credited to each member's individual account at an annual rate of 4 percent by transferring funds from the Employer Fund to the Employee Fund. At ter-

mination of employment prior to retirement, employee contributions and accumulated interest may be refunded from this fund to the member. At retirement, employee contributions and interest are transferred from the Employee Fund to the Employer Fund for subsequent payment of benefits.

The **Group Life Insurance Fund** (SCRS and PORS only) is the fund to which participating employers contribute for the purpose of providing a life insurance benefit to active and retired members of the Systems. Employer group life contributions and investment earnings are credited to this fund.

Group life insurance benefit payments and administrative expenses are paid from this fund.

The **Accidental Death Fund** (PORS only) is the fund to which participating employers contribute for the purpose of providing annuity benefits to beneficiaries of members of PORS killed in the actual performance of their duties. This fund and its benefits are independent of any other retirement benefit available to the beneficiary. Employer contributions and investment earnings are credited to this fund. Monthly survivor annuities and administrative expenses are paid from this fund.

Balances in the respective reserves at June 30, 2008, were as follows (amounts expressed in thousands):

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGRS</u>
Employee Fund	\$ 5,708,620	\$ 697,423	\$ 7,265	\$ 17,367	
Employer Fund	17,415,774	2,441,128	36,943	112,064	\$ 16,188
Group Life Insurance Fund	122,753	25,437			
Accidental Death Fund		32,083			
	<u>\$ 23,247,147</u>	<u>\$ 3,196,071</u>	<u>\$ 44,208</u>	<u>\$ 129,431</u>	<u>\$ 16,188</u>

III. Deposits and Investments

Deposit and Investment Risk Disclosures

The tables presented on Pages 19-22 include disclosures of credit and interest rate risk in accordance with Governmental Accounting Standards Board Statement 40 and are designed to inform financial statement users about investment risks which could affect the Systems' ability to meet its obligations. These tables classify investments by risk type, while the financial statements disclose investments by asset class. The table amounts were provided by the custodian bank and may vary from the Statement of Plan Net Assets primarily because the amounts reported include accrued income receivable.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Systems' deposits may not be recovered. As prescribed by statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits are secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the state against loss in the event of insolvency or liquidation of the institution or for any other cause. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 or collateralized with securities held by the state or its agent in the State Treasurer's name as custodian.

The total amount of the Systems' deposits at June 30, 2008, was as follows (amounts expressed in thousands):

	<u>Carrying Amount</u>
SCRS	\$ 34,759
PORS	5,850
GARS	29
JSRS	66
NGRS	11
Total	<u><u>\$ 40,715</u></u>

Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investing for the Systems is governed by Section 16, Article X of the South Carolina Constitution and Section 9-1-1310(B) and Title 9 Section 16 of the South Carolina Code of Laws. Funds held in trust for the Retirement Systems may be invested and reinvested in a variety of instruments including, but not limited to, fixed income instruments of the United States, foreign fixed income obligations, futures and options, collateralized mortgage obligations, domestic and international equity securities, private equity, real estate, and fund of funds.

The following table presents the fair value of investments as of June 30, 2008:

Statement of Invested Assets

June 30, 2008

(Amounts expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u>
<u>Short Term Investments</u>	
Commingled Funds U.S. Debt	\$ 140,140
Mutual Funds	251,014
Repurchase Agreements	432,791
Certificates of Deposit	45,153
Commercial Paper	242,637
U.S. Treasury Bills	236,657
U.S. Government Agencies	259,619
Total Short Term Investments	<u>1,608,011</u>
<u>Convertible Securities</u>	
Convertible Preferred	<u>1,042</u>
<u>Equity Allocation</u>	
Domestic Equity	
Common Stocks	3,305,213
Real Estate Investment Trusts	67,380
Commingled Equity Funds	2,800,917
Global Equity	
International Commingled Funds	485,689
Total Equity	<u>6,659,199</u>
<u>Fixed Income Allocation</u>	
Domestic Fixed Income	
U.S. Government:	
U.S. Government Treasury Notes and Bonds	177,441
U.S. Government Agencies	23,278
Mortgage Backed:	
Government National Mortgage Association	2,528,428
Federal National Mortgage Association	(597,402)
Collateralized Mortgage Obligations	184,240
Corporate:	
Corporate Bonds	3,026,955
Asset Backed Securities	62,832
Yankee Bonds*	54,449
Private Placements	776,708
Global Fixed Income	
International Commingled Funds	3,531,498
Total Fixed Income	<u>9,768,427</u>
<u>Alternatives</u>	
Commingled Funds Balanced	2,072,432
Total Return Swaps	(171,648)
Hedge Funds	5,983,862
Private Equity Limited Partnerships	361,188
Total Alternative Investments	<u>8,245,834</u>
Total Invested Assets	<u><u>\$26,282,513</u></u>

*Yankee Bonds are foreign bonds denominated in U.S.Dollars and is registered with the Securities and Exchange Commission (SEC) for sale in the United States.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration (option adjusted duration). Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates.

The Systems invests in mortgage-backed securities which are reported at fair value in the Statement of Plan Net Assets and are based on cash flows from principal and interest payments of the underlying mortgages. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security. The Systems invests in these securities to diversify the fixed income portfolio and minimize risk.

Disclosures for interest rate risk are noted below.

South Carolina Retirement Systems Interest Rate Sensitivity - Effective Duration June 30, 2008 (Amounts expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u> (option adjusted duration)
<u>Short Term Investments</u>		
Commingled Funds U.S. Debt	\$ 140,140	0.00
Mutual Funds	251,014	0.08
Repurchase Agreements	432,791	0.08
Certificates of Deposit	45,153	0.18
Commercial Paper	242,637	0.01
U.S. Treasury Bills	236,657	0.23
U.S. Government Agencies	259,619	0.03
Total Short Term Investments	1,608,011	
<u>Fixed Income Allocation</u>		
U.S. Government:		
U.S. Government Treasury Notes and Bonds	177,441	4.81
U.S. Government Agencies	23,278	1.57
Mortgage Backed:		
Government National Mortgage Association	2,528,428	4.41
Federal National Mortgage Association	(597,402)	4.44
Collateralized Mortgage Obligations	184,240	4.02
Corporate:		
Corporate Bonds	3,026,955	7.24
Asset Backed Securities	62,832	4.19
Yankee Bonds	54,449	10.53
Private Placements	776,708	8.95
Total Fixed Income	6,236,929	
Total Invested Assets	\$ 7,844,940	
Total Portfolio Effective Duration (option adjusted duration)		5.65

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and disclosure is not required. As of June 30, 2008, the Systems' fixed income assets that are not government guaranteed represented 77 percent of the fixed income portfolio. As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality. The Systems' fixed income investments were rated by Moody's and are presented below:

South Carolina Retirement Systems Credit Risk - Moody's Quality Ratings June 30, 2008 (Amounts expressed in thousands)

Investment Type and Fair Value	AAA	AA	A	BAA	BA	B	NR
Short Term Investments							
Commingled Funds U.S. Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140,140
Mutual Funds							251,014
Repurchase Agreements							432,791
Certificates of Deposit		25,153					20,000
Commercial Paper		167,602		25,000			50,035
Fixed Income Allocation							
Corporate:							
Corporate Bonds	51,514	91,258	1,202,116	1,466,987	73,172	34,480	107,428
Asset Backed Securities	58,607	1,817	2,409				
Yankee Bonds			39,366	15,083			
Private Placements		133,185	386,084	168,968			88,471
Global Fixed Income							
International Commingled Funds							3,531,498
Alternatives							
Total Return Swaps							(16,462)
	<u>\$ 110,121</u>	<u>\$ 419,015</u>	<u>\$ 1,629,975</u>	<u>\$ 1,676,038</u>	<u>\$ 73,172</u>	<u>\$ 34,480</u>	<u>\$ 4,604,915</u>

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with the Statement of Investment Objectives as amended and adopted by the Retirement System Investment Commission which states that "except that no limitations on issues and issuers shall apply to obligations of the U.S. Government and Federal Agencies, the domestic fixed income portfolio shall contain no more than 6 percent exposure to any single issuer." As of June 30, 2008, there is no single issuer exposure within the portfolio that comprises 6 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Systems participates in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. Policy, however, forbids speculating in forwards and other derivatives.

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars as of June 30, 2008, (amounts expressed in thousands):

<u>Currency</u>	<u>Cash & Cash Equivalents</u>	<u>Forward Contracts</u>	<u>Private Equity</u>
Australian Dollar	\$ -	\$ 141,457	\$ -
British Pound Sterling		558,565	
Canadian Dollar		257,263	
Euro Currency	3	1,769,160	34,268
Japanese Yen		876,241	
Totals	<u>\$ 3</u>	<u>\$ 3,602,686</u>	<u>\$ 34,268</u>

Derivatives

Derivatives are financial instruments whose value is derived from underlying assets or data. They generally take the form of contracts in which two parties agree to make payments at a later date based on the value of the underlying assets or data. The main types of derivatives that are common in today's financial markets are futures, forwards, options, and swaps.

Futures are contractual obligations that require the buyer (seller) to buy (sell) assets

at a predetermined date at a predetermined price. These contracts are standardized and traded on an organized exchange with gains and losses settled daily thereby minimizing credit and default risk. To comply with the requirements of multiple exchanges, \$237.63 million in performance bonds (U.S. Treasury Bills) were held in trust by the clearing broker on June 30, 2008. These assets represent the required margin amount to establish the Systems' futures exposure. As of June 30, 2008, the Systems had the following exposure to futures contracts (dollar amounts expressed in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value*
MTF CAC40 10EU	July 2008	Long	2,595	\$ 181,690
EURX DAX INDEX	September 2008	Long	612	156,201
EURX ER STX 50	September 2008	Long	9,174	488,533
NEW FTSE 100	September 2008	Long	3,882	436,822
HKFE - HSI	July 2008	Long	395	56,033
IBEX 35 PLUS	July 2008	Long	357	67,236
IDEM S&P/MIB	September 2008	Long	285	66,625
TSE TOPIX	September 2008	Long	3,531	438,341
ME S&P CAN 60	September 2008	Long	1,164	197,407
SFE SPI 200	September 2008	Long	1,088	135,388
Total International Equity				2,224,276
CAN GOVT BOND	September 2008	Long	467	53,704
EURX EUR-BOBL	September 2008	Long	1,341	223,486
EURX EUR-BUND	September 2008	Long	1,874	326,457
EURX E-SHATZ	September 2008	Long	1,428	230,212
TSE 10 YR JGB	September 2008	Long	330	420,850
LIF LONG GILT	September 2008	Long	511	106,276
Total International Fixed Income				1,360,985
S&P 500 INDEX	September 2008	Long	23	7,366
EMINI S&P 500	September 2008	Long	1505	96,403
Total Large Cap Equity				103,769
IMM MINI RUSL	September 2008	Long	1,337	92,480
IMM EMINI MDCP	September 2008	Long	1,423	116,857
Total Small/Mid Cap Equity				209,337
US 2YR T-NOTE	September 2008	Short	(1,332)	(281,323)
CBT 5-YR TNOTE	September 2008	Short	(2,460)	(271,965)
10 YR T-NOTES	September 2008	Short	(1,866)	(212,578)
U.S. T-BONDS	September 2008	Short	(1,183)	(136,747)
Total Core Fixed Income				(902,613)
Total				\$ 2,995,754

*Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, etc.). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

Forwards are contractual obligations that require the delivery of assets at a fixed price on a predetermined date. These contracts are “over-the-counter” instruments, meaning they are not traded on an organized exchange. As of June 30, 2008, the Systems had the following forward exposures, listed by counterparty (amounts expressed in thousands):

<u>Broker</u>	<u>Notional Value*</u>	<u>Base Gain/(Loss)</u>	<u>Base Exposure</u>
Goldman Sachs	\$ 1,602,423	\$ 32,107	45.19%
Lehman Brothers	882,097	15,121	24.88%
Deutsche Bank	791,643	8,047	22.33%
Royal Bank of Scotland	254,794	1,383	7.19%
UBS	<u>14,656</u>	<u>(18)</u>	<u>0.41%</u>
Totals	<u><u>\$ 3,545,613</u></u>	<u><u>\$56,640</u></u>	<u><u>100.00%</u></u>

*Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, etc.). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

The Systems have entered into various swap agreements to manage risk exposure. Swaps are “over-the-counter” (OTC) agreements to exchange a series of cash flows according to specified terms. The underlying asset can be an interest rate, an exchange rate, a commodity price or any other index.

Total return swaps are used to efficiently achieve a target asset allocation. Exposures to an asset class are typically gained by paying a reference rate such as LIBOR, plus or minus a spread, in exchange for the risk and returns of a desired index. Similarly, exposures can be reduced by receiving a reference rate in exchange for the economic risks and returns of an index.

Counterparty risk, or default risk, is the risk that either party will not honor its contractual obligations. The Systems seeks to actively manage its counterparty risk by thorough analysis and evaluation of all potential counterparties by investment staff and the independent overlay manager. Risk is further minimized through diversification among counterparties with high credit ratings.

As of June 30, 2008, the Systems was exposed to counterparty risk through currency forwards and swap agreements. The Systems, however, does not anticipate any default in our contractual positions.

Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Plan Net Assets. At June 30, 2008, the Systems held swaps as shown in the table below (amounts expressed in thousands):

Counterparty	Total Return Swaps	SCRS Pays	SCRS Receives	Maturity Date	Current Notional	Gain (Loss) Since Trade
Morgan Stanley	SP500 Swap	LIBOR minus 12.5 bps	SP500	9/19/2008	\$ 178,655	\$ (23,590)
Lehman Brothers	High Yield Swap	LIBOR plus 120 bps	High Yield	4/30/2009	97,555	(2,445)
Morgan Stanley	MSCI EM Swap	LIBOR minus 15 bps	MSCI EM	6/30/2009	251,605	1,605
J.P. Morgan	MSCI EM Swap	LIBOR minus 27 bps	MSCI EM	3/13/2009	99,638	(362)
Morgan Stanley	MSCI EM Swap	LIBOR minus 25 bps	MSCI EM	3/31/2009	247,845	(2,155)
J.P. Morgan	MSCI EM Swap	LIBOR minus 27 bps	MSCI EM	1/31/2009	151,350	1,350
J.P. Morgan	MSCI EM Swap	LIBOR minus 29 bps	MSCI EM	2/28/2009	91,972	(8,028)
Merrill Lynch	MSCI EM Swap	LIBOR minus 75 bps	MSCI EM	7/31/2008	49,694	(306)
J.P. Morgan	MSCI EM Swap	LIBOR minus 69 bps	MSCI EM	8/5/2008	101,118	1,118
Merrill Lynch	MSCI EM Swap	LIBOR minus 100 bps	MSCI EM	8/25/2008	159,971	9,971
Credit Suisse	MSCI EM Swap	LIBOR minus 55 bps	MSCI EM	12/4/2008	132,307	(17,693)
Credit Suisse	MSCI EAFE+Canada Swap	LIBOR minus 33 bps	MSCI EAFE+Canada	12/4/2008	178,928	(21,072)
Morgan Stanley	MSCI EAFE+Canada Swap	LIBOR minus 35 bps	MSCI EAFE+Canada	1/8/2009	185,197	(14,803)
Deutsche Bank	MSCI EAFE+Canada Swap	LIBOR minus 34 bps	MSCI EAFE+Canada	1/9/2009	279,987	(20,013)
J.P. Morgan	MSCI EAFE+Canada Swap	LIBOR minus 31 bps	MSCI EAFE+Canada	10/31/2008	221,495	(28,505)
Morgan Stanley	MSCI EAFE+Canada Swap	LIBOR minus 30 bps	MSCI EAFE+Canada	10/31/2008	224,419	(25,581)
Deutsche Bank	MSCI EAFE+Canada Swap	LIBOR minus 42 bps	MSCI EAFE+Canada	2/28/2009	240,133	(9,867)
J.P. Morgan	EM Debt Swap	LIBOR minus 20 bps	EM Debt	1/12/2009	246,882	(3,118)
J.P. Morgan	EM Debt Swap	LIBOR minus 30 bps	EM Debt	1/12/2009	196,537	(3,463)
J.P. Morgan	EM Debt Swap	LIBOR minus 10 bps	EM Debt	4/30/2009	243,671	(6,329)
Lehman Brothers	Lehman Agg Swap	Lehman Agg	LIBOR	4/30/2009	249,889	111
Total Swap Exposures					<u>\$3,828,848</u>	<u>\$ (173,175)</u>

Alternatives

The investment categories on the Statement of Plan Net Assets were modified in 2008 to accommodate the new asset types approved by the Commission to further diversify the assets of the Systems. The Alternatives category includes private equity, global tactical asset allocation, absolute return, and swaps. Private equity investments are legally structured as limited partnerships. In this structure, the Systems is one of several limited partners, while the investment manager serves as the general partner. Investing in limited partnerships legally obligates the Systems to invest the committed amount until the investment is fully funded.

Commitments

During the year and subsequent to year-end, the Systems entered into commitment agree-

ments with numerous investment managers for future funding of various asset classes including private equity, global tactical asset allocation, absolute return and global fixed income investments. There are varying degrees and understandings regarding the commitments across the individual managers. The total amount of investment commitments outstanding as of June 30, 2008 was \$1.554 billion (US dollars) and € 117 million (Euros), with an additional amount of \$1.875 billion (US dollars) being committed subsequent to year-end. The commitment agreements represent the Investment Commission's continued reallocation and transition efforts for investments. In addition, the Systems was committed to purchase Federal National Mortgage Association TBA's (To be Announced) with a market value of \$601 million as of June 30, 2008.

Securities Lending

Through a custodial agent, the Systems participate in a securities lending program whereby securities are loaned for the purpose of generating additional income. The Systems lends securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2008, included U. S. Government securities, U. S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodial bank provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan.

Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan.

With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding was 1 day. The average weighted maturity of investments made with cash collateral was 30 days. At June 30, 2008, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2008.

	June 30, 2008						June 30, 2007
	SCRS	PORS	GARS	JSRS	NGRS	TOTALS	TOTALS
Securities lent for cash collateral:							
U.S. Government securities	\$ 128,438	\$ 17,154	\$ 242	\$ 699	\$ 87	\$ 146,620	\$ 326,573
U.S. Government agencies	2,135,942	285,280	4,023	11,618	1,438	2,438,301	3,214,931
Corporate bonds	17,817	2,380	34	97	12	20,340	26,833
Common Stock	1,005,771	134,332	1,894	5,471	678	1,148,146	1,390,903
Total securities lent for cash collateral	<u>\$ 3,287,968</u>	<u>\$ 439,146</u>	<u>\$ 6,193</u>	<u>\$ 17,885</u>	<u>\$ 2,215</u>	<u>\$ 3,753,407</u>	<u>\$ 4,959,240</u>
Cash collateral invested as follows:							
Repurchase agreements	\$ 83,885	\$ 11,204	\$ 158	\$ 456	\$ 56	\$ 95,759	\$ 1,014,357
Corporate bonds						-	2,323,139
Asset Backed Securities	616,902	82,394	1,162	3,356	416	704,230	1,405,379
Bank Notes						-	342,631
Floating Rate Notes	<u>2,624,652</u>	<u>350,553</u>	<u>4,944</u>	<u>14,277</u>	<u>1,768</u>	<u>2,996,194</u>	-
Total for cash collateral invested	<u>\$ 3,325,439</u>	<u>\$ 444,151</u>	<u>\$ 6,264</u>	<u>\$ 18,089</u>	<u>\$ 2,240</u>	<u>\$ 3,796,183</u>	<u>\$ 5,085,506</u>

IV. Capital Assets

Capital assets at June 30, 2008, consist of the following amounts (expressed in thousands). There were no additions or dispositions of capital assets during the year.

	<u>SCRS</u>		<u>PORS</u>		<u>GARS</u>		<u>JSRS</u>		<u>TOTALS</u>		<u>TOTALS</u>	
											<u>2007</u>	
Land	\$	524	\$	54	\$	1	\$	3	\$	582	\$	582
Building		4,279		437		13		20		4,749		4,749
Total Capital Assets		4,803		491		14		23		5,331		5,331
Less: Accumulated Depreciation		(1,687)		(172)		(5)		(8)		(1,872)		(1,754)
Net Capital Assets	\$	3,116	\$	319	\$	9	\$	15	\$	3,459	\$	3,577

V. Transfers Between Systems

Transfers between systems are statutorily authorized transfers of contributions and service credit from one retirement system to another retirement system that result from members voluntarily initiating the transfer when certain conditions are met.

Transfers made during the fiscal year ended June 30, 2008, were as follows (amounts expressed in thousands):

<u>Transfers from</u>	<u>Transfers to</u>					
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGRS</u>	<u>Totals</u>
SCRS	\$ -	\$ 2,008	\$ 21	\$ 63	\$ -	\$ 2,092
PORS						-
GARS	27					27
JSRS						-
NGRS						-
Totals	<u>\$ 27</u>	<u>\$ 2,008</u>	<u>\$ 21</u>	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ 2,119</u>

The following schedule reflects amounts due to or from other systems as of June 30, 2008, (amounts expressed in thousands):

<u>Due from</u>	<u>Due to</u>					
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>NGRS</u>	<u>Totals</u>
SCRS	\$ -	\$ 158	\$ 8	\$ -	\$ -	\$ 166
PORS	1,045					1,045
GARS	329				133	462
JSRS					42	42
NGRS						-
Totals	<u>\$1,374</u>	<u>\$ 158</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ 1,715</u>

VI. Related Party Transactions

The pension plans provide pension and other fringe benefits to employees of all state agencies. Revenues attributed to these agencies are recorded in the financial statements as employee and employer contributions and constitute approximately 34 percent of combined contribution revenues. In addition, the Systems receives custodial and related services from the State Treasurer.

At June 30, 2008, liabilities of approximately \$36.7 million were due to other state departments and agencies, and contributions receivable of approximately \$34.5 million were due from other state departments and agencies.

The National Guard Retirement System received state-appropriated contributions in the amount of \$3.9 million during the fiscal year. In addition, the Systems received state appropriations in the amount of \$50,000 to cover some of the costs associated with the administration of the plan.

The Retirement System Investment Commission was established in 2005 and is considered a separate state agency; however, the expenses of the Commission are funded by transfers from the Systems. Transfers in the amount of approximately \$3.6 million were made to the Commission during the fiscal year.

VII. Deferred Retirement Option Plans

The Teacher and Employee Retention Incentive (TERI) program, implemented effective January 1, 2001, is a deferred retirement option plan available to active SCRS members eligible for service retirement on or after January 1, 2001. When a member enters TERI, the member's status changes from an active member to a retiree even though the employee continues to work at his regular job and earn his regular salary for a period of up to five years. 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. During the TERI participation period, the retiree's monthly benefits are accrued and accumulate in the trust account. Upon termination of employment or at the end of the TERI period (whichever is earlier), the retiree may elect to roll over his funds into a qualified, tax-sheltered, retirement plan or to receive a single-sum distribution (or a combination thereof). No interest is paid on the participant funds accumulated in the TERI account.

A total of 7,899 members were actively participating in the TERI program at June 30, 2008. The activity for this program is reflected in the following schedule:

Schedule of TERI Activity
Year Ended June 30, 2008
(Amounts expressed in thousands)

Beginning Liability Balance	\$ 641,750
Additions	219,078
TERI Distributions	<u>(308,917)</u>
Ending Liability Balance	<u>\$ 551,911</u>

A deferred retirement option program has also been established under the Retirement System for Judges and Solicitors (JSRS). A member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit, may continue to serve as a judge, a solicitor, or a circuit public defender. The member's normal monthly retirement benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60 years, the balance of the member's deferred retirement benefit is distributed to the member. As of June 30, 2008, three JSRS members were participating in the deferred retirement option program and benefits held in trust totaled \$349,031.

VIII. Funded Status and Funding Progress - Pension Trust Funds

The funded status of each defined benefit pension plan as of July 1, 2007, the most recent actuarial valuation date, is as follows (dollar amounts expressed in thousands):

System	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS	\$ 23,541,438	\$ 33,766,678	\$ 10,225,240	69.7%	\$ 7,093,181	144.2%
PORS	3,160,240	3,730,544	570,304	84.7%	992,849	57.4%
GARS	46,925	71,014	24,089	66.1%	3,854	625.0%
JSRS	132,990	229,388	96,398	58.0%	16,407	587.5%
NGRS	15,937	55,917	39,980	28.5%	N/A	N/A

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Methods and Significant Assumptions

	SCRS	PORS	GARS	JSRS	NGRS
Valuation date	07/01/07	07/01/07	07/01/07	07/01/07	07/01/07
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level dollar closed	Level percent open	Level dollar open
Remaining amortization period	29 years	16 years	18 years	28 years	26 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:					
Investment rate of return	7.25%	7.25%	7.25%	7.25%	7.25%
Projected salary increases	4.00% - 8.00%	4.50% - 11.50%	None	3.25%	None
Includes inflation at	3.00%	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	Automatic 1% ¹	None	None	3.25%	None

¹Beginning the July 1st following one year of receiving benefits, the monthly benefit amount will increase by the calendar year change in CPI but not to exceed 1 percent. Additional ad hoc COLAs may be paid as approved by the State Budget and Control Board and based upon the financial condition of the System.

IX. Other Post Employment Benefits (OPEB)

In addition to the retirement benefits provided through the Retirement Systems, group life insurance benefits are funded through a separate Death Benefit Program for SCRS and PORS. This benefit program is a cost-sharing multiple employer plan. Benefits considered for purposes of OPEB are group life insurance benefits provided to eligible non-working retirees under the governing statute. The funding for this plan is collected as a percent of covered payroll as determined by the Systems' actuary and approved by the Budget and Control Board. The current employer contribution rate for the group life insurance program is 0.15% and 0.20% of payroll for SCRS and PORS respectively. These contributions fund both the employee and retiree group life insurance benefits.

Retiree Group Life Insurance

Retired members of SCRS and PORS whose last employer prior to retirement is covered by the Group Life Insurance benefit, and who also met applicable service credit requirements, are protected under a state-sponsored group life insurance benefit. Upon the death of a retired member, the beneficiary of a non-working retiree will receive a group life insurance payment based on the member's total creditable service at the time of retirement. As of the most recent actuarial valuation dated July 1, 2007, 71,461 non-working retired participants were covered under SCRS and 9,307 under PORS retiree group life.

<u>Years of Service Credit</u>		<u>Death Benefit</u>
<u>SCRS</u>	<u>PORS</u>	
10 to 19	10 to 19	\$2,000
20 to 27	20 to 24	\$4,000
28 or more	25 or more	\$6,000

Members who continue employment after retirement by either participating in the TERI program or by continuing employment as a working retiree are covered for an increased level of group life insurance death benefits, but those benefits to retired members who continue employment after retirement are not considered post employment benefits for purposes of OPEB. Working retirees are eligible for a group life insurance benefit which equates to a death payment to their beneficiary, valued at the amount of their annual salary in lieu of the standard \$2,000, \$4,000 or \$6,000 retired member benefit.

Historically, the sufficiency of group life contributions was tested by the actuary on an expected cash flow basis. However, the Governmental Accounting Standards Board (GASB) issued Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which requires different parameters for determining the funded status of the program and calculation of the annual required contribution necessary to amortize any unfunded liability. Accordingly, GASB 43 requires additional reporting and disclosures for financial statement presentation. Milliman, Inc, the Systems' actuary, performed the first separate actuarial valuation for the retiree group life insurance program as of July 1, 2007. The valuation determined the actuarial accrued liabilities and the required funding necessary to support the retiree life insurance program in compliance with GASB 43. Of the 0.15% group life contribution collected for SCRS, 0.047% represents the annual required contribution for the retiree portion. Under PORS, 0.021% of the 0.20% group life contribution is attributable to the retiree benefits.

The funded status of the SCRS and PORS retiree group life insurance programs as of July 1, 2007, the most recent actuarial valuation date, is as follows (dollar amounts expressed in thousands):

System	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS	7/01/2007 ¹	\$ 127,910	\$ 167,035	\$ 39,125	76.6%	\$ 8,459,000	0.5%
PORS	7/01/2007 ¹	25,806	15,636	(10,170)	165.0%	1,020,782	(1.0%)

¹2007 was the first actuarial valuation prepared using the required parameters of GASB 43.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Methods and Significant Assumptions

	SCRS Retiree Group Life Insurance Program	PORS Retiree Group Life Insurance Program
Valuation Date	July 1, 2007	July 1, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Amortization Period	29 years	N/A
Asset Valuation Method	Market Value less a reserve of 3 months of expected active group life benefits	Market Value less a reserve of 3 months of expected active group life benefits
Actuarial Assumptions:		
Investment Rate of Return	7.25% annual return net of both administrative and investment related expenses	7.25% annual return net of both administrative and investment related expenses
Payroll Growth	4.00% per year	4.00% per year

Schedule of Employer Contributions (Amounts expressed in thousands)

Year Ended June 30,	SCRS Retiree Group Life Insurance Program		PORS Retiree Group Life Insurance Program	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2007 ²	\$ 3,976	100%	\$ 214	100%

²2007 was the first actuarial valuation prepared using the required parameters of GASB 43 and therefore the Schedule of Employer Contributions includes only contributions paid based on the first year's separate valuations.

X. Litigation

In addition to the litigation mentioned below, controversies or disputes between the South Carolina Retirement Systems and its members arising out of the provisions of Title 9 of the South Carolina Code of Laws (Retirement provisions) are resolved through the “South Carolina Retirement Systems Claims Procedures Act” established by S.C. Code Ann. §§9-21-10 et seq. Claims brought pursuant to the Claims Procedures Act generally involve matters pertinent to the individual member or beneficiary. Claims may not be brought on behalf of a class under the Claims Procedures Act.

1. *Howard Duvall v. South Carolina Budget and Control Board, South Carolina Retirement Systems, 03-ALJ-30-0448*, is an appeal from a contested case in the Administrative Law Court. The Petitioner is the Executive Director of the Municipal Association of South Carolina, who received payment for excess annual leave (above the allowable 45 days). The Retirement Systems excluded these payments from the Petitioner’s average final compensation for determining retirement benefits. The Administrative Law Judge agreed with the Retirement Systems and the Petitioner filed an appeal to the Court of Commons Pleas for Richland County. The Circuit Court ruled in favor of the Retirement Systems and Petitioner appealed to the South Carolina Court of Appeals. After briefs were served and filed with the Court of Appeals by both parties, the Supreme Court took the case. Oral arguments were heard on January 22, 2008. The Supreme Court issued its opinion on March 10, 2008, affirming the lower court’s decision and ruling in favor of the Retirement Systems.

2. *Nancy Layman et al. v. South Carolina Retirement System and the State of South Carolina, Case Number 05-CP-40-2785*. The Supreme Court decided this case in favor of the plaintiffs who were participants in the Teacher and Employee Retention Incentive program (“TERI”) in the summer of 2006. The Court remanded the case for a determination of whether attorneys’ fees are appropriate under South Carolina Code Section 15-77-300 and if so, the amount of those attorneys’ fees. By order entered February 20, 2007, the Circuit Court for Richland County issued an order awarding attorneys’ fees against SCRS and the State in the amount of \$8,665,298. SCRS appealed the award to the Supreme Court. By order dated March 10, 2008, the Supreme Court approved the

award of attorneys’ fees, but reduced the amount to \$1,075,702. This judgment was satisfied with other state funds and was not an expense of the Systems.

2(a). As part of the Layman decision, the Supreme Court also remanded the claims of persons enrolled in the “working retiree program” for determination by the trial court, although the Supreme Court found that the statute creating the working retiree program did not create a contract between the State and the participants in that program. Discovery regarding these issues is underway, and it is premature to estimate any potential loss associated with them. However, as of June 30, 2008, the Retirement Systems had collected approximately \$19.3 million in the form of retirement contributions from members of the South Carolina Retirement System who retired prior to July 1, 2005, and returned to work. If the Plaintiffs were to prevail, these contributions would be refunded to the members and no future contributions could be collected from them. The Retirement Systems and the State of South Carolina believe their defense is meritorious and intend to vigorously contest these claims.

3. *Arnold et al. v. the South Carolina Police Officers Retirement System, the South Carolina Retirement System and the State of South Carolina, Civil Action Number 2005-CP-22-756*. This case is a putative class action case filed on August 9, 2005, alleging that provisions in Act No. 153 of the Acts and Joint Resolutions of the General Assembly for the year 2005 (“Act No. 153”) requiring working retirees in the Police Officers Retirement System (“PORS”) to make employee contributions are unconstitutional and illegal. The plaintiffs allege that the provisions of Act No. 153 requiring working retirees to make contributions impairs contractual rights, constitutes an unlawful taking of property, and violates due process. Plaintiffs seek a declaration that provisions in Act No. 153 affecting members who retired prior to July 1, 2005, are unconstitutional, an injunction enjoining the defendants from collecting employee contributions from plaintiffs, and a refund of all contributions paid by working retirees under Act No. 153, including attorney’s fees. Discovery regarding these issues is underway, and it is premature to estimate any potential loss associated with them. If the plaintiffs were to prevail, the defendants estimate the potential loss from PORS based on a refund of contributions, as of June 30, 2008, to be \$9.5 million. There would also be a loss of future contributions. PORS, the South Carolina Retirement

System, and the State of South Carolina believe their defense is meritorious and are vigorously defending the case.

XI. Financial Markets

Subsequent to June 30, 2008, the financial markets as a whole have experienced unprecedented adverse actions. The markets continue to suffer significant turmoil from a general uncertainty about how to best address the expanded global credit crisis and losses that financial institutions are facing. Giant mergers have been announced, storied investment firms have failed or altered their purpose, regulators have seized banks and protected deposits, and governments have attempted stabilizing efforts; however, markets have continued to decline.

The South Carolina Retirement System Investment Commission's review of our exposure to these events indicates that specific investments have experienced a permanent loss, and although the amounts are not considered material to the financial statements, the following information is provided. Lehman Brothers declared the largest bankruptcy in U.S. history. The Systems' owns no direct Lehman Brothers' stock; however, aggregate net exposure through the bond portfolio and hedge funds is estimated to be \$95 million. The amount is unlikely to exceed 0.37 percent of all assets and there is likely to be some degree of recovery. In addition, Washington Mutual set the record for the largest bank failure in U.S. history. The Systems' total estimated credit default exposure to Washington Mutual was \$10.4 million. As of September 30, 2008, the most recent quarter end, the Commission's pension consultants estimate asset class allocation and performance as follows:

**South Carolina Retirement Systems
Preliminary (Unaudited) Investment Performance
Quarter Ended September 30, 2008**

<u>Percentage Allocation</u>	<u>Asset Class</u>	<u>Estimated Returns</u>
13.5%	Total Domestic Equity	-9.8%
1.6%	Int'l Equity Composite	-20.5%
42.1%	Total Fixed Income	-2.9%
1.2%	Opportunistic Credit	2.6%
8.3%	Global Tactical Asset Allocation	-10.8%
1.9%	Private Equity	1.5%
23.3%	Portable Alpha	-8.1%
8.1%	Other Alternative	n/a
100.0%	Total Pension Portfolio	-10.7%

October 2008 continues to experience an unusual market environment as President Bush signed a \$700 billion bailout plan and world central banks coordinated a rate cut of 50 basis points. The week of October 6 was the worst one-week period in the market since the Great Depression with an 18.9 percent decline.

The assets of the South Carolina Retirement Systems have also incurred a considerable decline in value due to the turbulent market environment, and future investment returns could be adversely impacted in certain asset classes with a prolonged decline in the world's financial markets. Because the values of individual investments fluctuate based on volatile market conditions, the amount of losses that the Systems will recognize in its future financial statements, if any, cannot be determined. Market fluctuations are a normal investment risk for a pension fund, and the Systems' investments are diversified across many asset classes, ensuring that the headline numbers reported for various indices are not representative of what the plan has experienced as a whole. The Systems' assets are invested with a long term perspective, in keeping with the long term nature of participants' employment and retirement time horizons. While the market has faltered and the value of the Systems' funds has been adversely affected by these events, the long-term nature of the plan and its investment diversity are strengths. History has shown that, over time, the inclines should exceed the declines, and the best returns follow on the heels of the worst.

The Investment Commission is continually monitoring the Systems' investment portfolio through the assessment of economic events and adjusting strategies to mitigate risk as needed. Extraordinary circumstances that occurred subsequent to the balance sheet date, but prior to the issuance of financial statements are disclosed because they could have a material impact on the value of investments after the date of the financial statements. Negative returns on the Systems' assets through October 6, 2008, could ultimately affect the funded status of the Plans. The ultimate impact on the funded status will be determined based upon market conditions in effect when annual valuations for the year ended June 30, 2009, are performed.

South Carolina Retirement Systems Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated.

Schedule of Funding Progress (Amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS						
7/01/02	\$19,298,174	\$22,446,574	\$3,148,400	86.0%	\$6,147,712	51.2%
7/01/03	20,197,936	24,398,931	4,200,995	82.8%	6,240,768	67.3%
7/01/04	20,862,659	25,977,852	5,115,193	80.3%	6,180,599	82.8%
7/01/05	21,625,510	30,217,471	8,591,961	71.6%	6,356,489	135.2%
7/01/06	22,293,446	32,018,519	9,725,073	69.6%	6,733,379	144.4%
7/01/07	23,541,438	33,766,678	10,225,240	69.7%	7,093,181	144.2%
PORS						
7/01/02	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
7/01/03	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
7/01/04	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%
7/01/05	2,774,606	3,173,930	399,324	87.4%	850,610	46.9%
7/01/06	2,935,841	3,466,281	530,440	84.7%	931,815	56.9%
7/01/07	3,160,240	3,730,544	570,304	84.7%	992,849	57.4%
GARS						
7/01/02	43,841	73,046	29,205	60.0%	4,515	646.9%
7/01/03	44,682	66,619	21,937	67.1%	3,844	570.8%
7/01/04	45,087	68,332	23,245	66.0%	3,839	605.5%
7/01/05	46,316	69,161	22,845	67.0%	3,853	592.9%
7/01/06	46,075	69,734	23,659	66.1%	3,854	613.9%
7/01/07	46,925	71,014	24,089	66.1%	3,854	625.0%
JSRS						
7/01/02	100,074	166,440	66,366	60.1%	14,211	467.0%
7/01/03	106,114	166,655	60,541	63.7%	14,437	419.3%
7/01/04	112,016	185,052	73,036	60.5%	14,870	491.2%
7/01/05	118,888	204,847	85,959	58.0%	15,465	555.8%
7/01/06	124,837	211,384	86,547	59.1%	15,929	543.3%
7/01/07	132,990	229,388	96,398	58.0%	16,407	587.5%
NGRS						
6/30/00*	11,089	43,427	32,338	25.5%	N/A	N/A
6/30/02	12,608	44,678	32,069	28.2%	N/A	N/A
6/30/04	13,567	47,281	33,714	28.7%	N/A	N/A
6/30/05	12,151	46,985	34,835	25.9%	N/A	N/A
7/01/06	14,046	48,755	34,709	28.8%	N/A	N/A
7/01/07	15,937	55,917	39,980	28.5%	N/A	N/A

*As of April 30, 2000

South Carolina Retirement Systems Required Supplementary Information (continued)

Schedule of Employer Contributions (Amounts expressed in thousands)

Year Ended June 30,	SCRS		PORS		GARS		JSRS		NGRS	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Pension Cost ¹	Percentage Contributed
2008	\$774,269	100%	\$114,095	100%	\$2,440	100%	\$7,613	100%	\$3,923	100.6%
2007	644,350	100%	106,753	100%	2,358	100%	6,706	100%	3,948	130.6%
2006	577,468	100%	100,281	100%	2,171	100%	6,511	100%	2,969	132.8%
2005	538,809	100%	90,528	100%	2,890	100%	6,260	100%	2,887	69.2%
2004	515,996	100%	87,922	100%	2,731	100%	6,078	100%	2,796	71.4%
2003	512,345	100%	86,563	100%	2,577	100%	6,014	100%	2,804	71.2%

¹The Annual Pension Cost (APC) for the National Guard Retirement System includes both the Annual Required Contribution (ARC) and the discounted present value of the balance of the net pension obligation.

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
SCRS Pension Trust Fund
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	TOTALS	TOTALS 2007
Additions					
Employee contributions					
State department employees	\$ 163,912	\$ 10,495		\$ 174,407	\$ 162,484
Public school employees	218,571	22,173		240,744	225,020
Other political subdivision employees	121,105	4,589		125,694	117,618
Employer contributions					
State department employees		255,071	\$ 4,707	259,778	214,479
Public school employees		336,645	5,796	342,441	286,090
Other political subdivision employees		169,629	2,421	172,050	143,781
Total contributions	<u>503,588</u>	<u>798,602</u>	<u>12,924</u>	<u>1,315,114</u>	<u>1,149,472</u>
Investment Income					
Net appreciation (depreciation) in fair value of investments		(1,229,455)	(6,612)	(1,236,067)	2,306,678
Interest and dividend income		622,919	3,336	626,255	714,352
Investment expense		(58,449)	(298)	(58,747)	(31,988)
Net income (loss) from investing activities		<u>(664,985)</u>	<u>(3,574)</u>	<u>(668,559)</u>	<u>2,989,042</u>
From securities lending activities:					
Securities lending income		182,593	980	183,573	254,471
Securities lending expense		(155,377)	(833)	(156,210)	(244,304)
Net income from securities lending activities		<u>27,216</u>	<u>147</u>	<u>27,363</u>	<u>10,167</u>
Total net investment income (loss)		<u>(637,769)</u>	<u>(3,427)</u>	<u>(641,196)</u>	<u>2,999,209</u>
Supplemental retirement benefits funded by the State		1,321		1,321	1,532
Transfers of contributions from other Systems	27			27	
Total additions	<u>503,615</u>	<u>162,154</u>	<u>9,497</u>	<u>675,266</u>	<u>4,150,213</u>
Deductions					
Refunds of contributions to members	79,027			79,027	77,212
Transfers of contributions to other Systems	1,326	766		2,092	1,745
Regular retirement benefits		1,633,493		1,633,493	1,505,080
Deferred retirement benefits		219,078		219,078	240,580
Supplemental retirement benefits		1,321		1,321	1,532
Group life insurance claims			17,617	17,617	15,948
Depreciation		107		107	107
Administrative expense		18,454	99	18,553	16,402
Total deductions	<u>80,353</u>	<u>1,873,219</u>	<u>17,716</u>	<u>1,971,288</u>	<u>1,858,606</u>
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(387,828)	387,828			
Interest credited to members' accounts	208,430	(208,430)			
Net interfund transfers	<u>(179,398)</u>	<u>179,398</u>			
Net increase (decrease)	<u>243,864</u>	<u>(1,531,667)</u>	<u>(8,219)</u>	<u>(1,296,022)</u>	<u>2,291,607</u>
Net assets held in trust for Pension Benefits					
Beginning of year	<u>5,464,756</u>	<u>18,947,441</u>	<u>130,972</u>	<u>24,543,169</u>	<u>22,251,562</u>
End of year	<u>\$ 5,708,620</u>	<u>\$ 17,415,774</u>	<u>\$ 122,753</u>	<u>\$ 23,247,147</u>	<u>\$ 24,543,169</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
PORS Pension Trust Fund
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	ACCIDENTAL DEATH FUND	TOTALS	TOTALS 2007
Additions						
Employee contributions						
State department employees	\$ 26,693	\$ 1,232			\$ 27,925	\$ 26,517
Public school employees	1	139			140	156
Other political subdivision employees	44,293	3,308			47,601	43,968
Employer contributions						
State department employees		40,465	\$ 784	\$ 784	42,033	39,661
Public school employees		246	5	5	256	218
Other political subdivision employees		69,287	1,298	1,221	71,806	66,874
Total contributions	<u>70,987</u>	<u>114,677</u>	<u>2,087</u>	<u>2,010</u>	<u>189,761</u>	<u>177,394</u>
Investment Income						
Net appreciation (depreciation) in fair value of investments		(161,797)	(1,305)	(1,619)	(164,721)	276,937
Interest and dividend income		81,994	657	815	83,466	100,175
Investment expense		(7,654)	(58)	(73)	(7,785)	(3,921)
Net income (loss) from investing activities		<u>(87,457)</u>	<u>(706)</u>	<u>(877)</u>	<u>(89,040)</u>	<u>373,191</u>
From securities lending activities:						
Securities lending income		23,844	192	238	24,274	36,380
Securities lending expense		(20,283)	(163)	(203)	(20,649)	(34,948)
Net income from securities lending activities		<u>3,561</u>	<u>29</u>	<u>35</u>	<u>3,625</u>	<u>1,432</u>
Total net investment income (loss)		<u>(83,896)</u>	<u>(677)</u>	<u>(842)</u>	<u>(85,415)</u>	<u>374,623</u>
Supplemental retirement benefits funded by the State		52			52	55
Transfers of contributions from other Systems	1,241	767			2,008	1,614
Total additions	<u>72,228</u>	<u>31,600</u>	<u>1,410</u>	<u>1,168</u>	<u>106,406</u>	<u>553,686</u>
Deductions						
Refunds of contributions to members	13,754				13,754	12,543
Transfers of contributions to other Systems		194,490			194,490	180,135
Regular retirement benefits		52			52	55
Supplemental retirement benefits			2,068		2,068	1,919
Group life insurance claims				1,447	1,447	1,198
Accidental death benefits		11			11	11
Depreciation		2,450	20	24	2,494	2,168
Administrative expense						
Total deductions	<u>13,754</u>	<u>197,003</u>	<u>2,088</u>	<u>1,471</u>	<u>214,316</u>	<u>198,029</u>
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(44,448)	44,448				
Interest credited to members' accounts	25,374	(25,374)				
Net interfund transfers	<u>(19,074)</u>	<u>19,074</u>				
Net increase (decrease)	39,400	(146,329)	(678)	(303)	(107,910)	355,657
Net assets held in trust for Pension Benefits						
Beginning of year	<u>658,023</u>	<u>2,587,457</u>	<u>26,115</u>	<u>32,386</u>	<u>3,303,981</u>	<u>2,948,324</u>
End of year	<u>\$ 697,423</u>	<u>\$ 2,441,128</u>	<u>\$ 25,437</u>	<u>\$ 32,083</u>	<u>\$ 3,196,071</u>	<u>\$ 3,303,981</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
GARS Pension Trust Fund
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTALS	TOTALS 2007
Additions				
Contributions				
Employee contributions - State departments	\$ 712		\$ 712	\$ 551
Employer contributions - State departments		\$ 2,440	2,440	2,358
Total contributions	<u>712</u>	<u>2,440</u>	<u>3,152</u>	<u>2,909</u>
Investment Income				
Net appreciation (depreciation) in fair value of investments		(2,306)	(2,306)	4,559
Interest and dividend income		1,232	1,232	1,436
Investment expense		(116)	(116)	(66)
Net income (loss) from investing activities		<u>(1,190)</u>	<u>(1,190)</u>	<u>5,929</u>
From securities lending activities:				
Securities lending income		363	363	527
Securities lending expense		(309)	(309)	(506)
Net income from securities lending activities		<u>54</u>	<u>54</u>	<u>21</u>
Total net investment income (loss)		<u>(1,136)</u>	<u>(1,136)</u>	<u>5,950</u>
Transfers of contributions from other Systems	21		21	52
Total additions	<u>733</u>	<u>1,304</u>	<u>2,037</u>	<u>8,911</u>
Deductions				
Refunds of contributions to members	102		102	70
Transfers of contributions to other Systems	27		27	
Regular retirement benefits		6,181	6,181	5,935
Group life insurance claims		28	28	5
Depreciation				
Administrative expense		37	37	34
Total deductions	<u>129</u>	<u>6,246</u>	<u>6,375</u>	<u>6,044</u>
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(1,343)	1,343		
Interest credited to members' accounts	269	(269)		
Net interfund transfers	<u>(1,074)</u>	<u>1,074</u>		
Net increase (decrease)	(470)	(3,868)	(4,338)	2,867
Net assets held in trust for Pension Benefits				
Beginning of year	7,735	40,811	48,546	45,679
End of year	<u>\$ 7,265</u>	<u>\$ 36,943</u>	<u>\$ 44,208</u>	<u>\$ 48,546</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
JSRS Pension Trust Fund
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTALS	TOTALS 2007
Additions				
Contributions				
Employee contributions - State departments	\$ 1,182	171	\$ 1,353	\$ 1,705
Employer contributions - State departments		\$ 7,613	7,613	6,706
Total contributions	<u>1,182</u>	<u>7,784</u>	<u>8,966</u>	<u>8,411</u>
Investment Income				
Net appreciation (depreciation) in fair value of investments		(6,693)	(6,693)	11,915
Interest and dividend income		3,496	3,496	4,209
Investment expense		(326)	(326)	(167)
Net income (loss) from investing activities		<u>(3,523)</u>	<u>(3,523)</u>	<u>15,957</u>
From securities lending activities:				
Securities lending income		1,021	1,021	1,523
Securities lending expense		(869)	(869)	(1,463)
Net income from securities lending activities		<u>152</u>	<u>152</u>	<u>60</u>
Total net investment income (loss)		<u>(3,371)</u>	<u>(3,371)</u>	<u>16,017</u>
Transfers of contributions from other Systems	63		63	79
Total additions	<u>1,245</u>	<u>4,413</u>	<u>5,658</u>	<u>24,507</u>
Deductions				
Refunds of contributions to members	211		211	
Regular retirement benefits		12,499	12,499	10,348
Deferred retirement benefits		349	349	
Group life insurance claims		256	256	381
Depreciation				1
Administrative expense		103	103	91
Total deductions	<u>211</u>	<u>13,207</u>	<u>13,418</u>	<u>10,821</u>
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(3,339)	3,339		
Interest credited to members' accounts	673	(673)		
Net interfund transfers	<u>(2,666)</u>	<u>2,666</u>		
Net increase (decrease)	(1,632)	(6,128)	(7,760)	13,686
Net assets held in trust for Pension Benefits				
Beginning of year	18,999	118,192	137,191	123,505
End of year	<u>\$ 17,367</u>	<u>\$ 112,064</u>	<u>\$ 129,431</u>	<u>\$ 137,191</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
NGRS Pension Trust Fund
Year Ended June 30, 2008
With comparative totals for the year ended June 30, 2007
(Amounts expressed in thousands)

	<u>TOTALS</u> <u>2008</u>	<u>TOTALS</u> <u>2007</u>
Additions		
Contributions		
State appropriated contributions	\$ 3,948	\$ 3,948
Total contributions	<u>3,948</u>	<u>3,948</u>
Investment Income		
Net appreciation (depreciation) in fair value of investments	(782)	1,270
Interest income	457	727
Investment expense	<u>(43)</u>	<u>(5)</u>
Income (loss) from investing activities	<u>(368)</u>	<u>1,992</u>
From securities lending activities:		
Securities lending income	133	224
Securities lending expense	<u>(113)</u>	<u>(214)</u>
Net income from securities lending activities	<u>20</u>	<u>10</u>
Total net investment income (loss)	<u>(348)</u>	<u>2,002</u>
State Appropriation for Administrative Expenses	<u>50</u>	<u>50</u>
Total additions	<u>3,650</u>	<u>6,000</u>
Deductions		
Regular retirement benefits	3,199	2,926
Administrative charges	156	59
Total deductions	<u>3,355</u>	<u>2,985</u>
Net increase	295	3,015
Net assets held in trust for Pension Benefits		
Beginning of year	<u>15,893</u>	<u>12,878</u>
End of year	<u>\$ 16,188</u>	<u>\$ 15,893</u>

Schedule of Administrative Expenses

For the Year Ended June 30, 2008

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	NGRS	TOTALS
Personal Services						
Salaries and Wages	\$ 7,696	\$ 1,035	\$ 15	\$ 43	\$ 65	\$ 8,854
Employee Benefits	2,167	291	4	12	18	2,492
Contractual Services						
Data Processing Services	1,501	202	3	8	13	1,727
Medical & Health Services	716	96	1	4	6	823
Financial Audit	26	3			-	29
Actuarial Services	261	35	1	1	2	300
Other Professional Services	195	26		1	2	224
Legal Services	166	22	1	1	1	191
Operating Expenses						
Facilities Management	393	53	1	2	3	452
Intergovernmental Services	510	69	1	3	4	587
Transfers to Investment Commission	3,163	425	6	18	27	3,639
Telephone	81	11		1	1	94
Insurance	755	101	1	4	6	867
Postage	353	48	1	2	3	407
Supplies	217	29	1	1	2	250
Other Miscellaneous Expenses						
	353	48	1	2	3	407
Total Administrative Expenses	<u>\$ 18,553</u>	<u>\$ 2,494</u>	<u>\$ 37</u>	<u>\$ 103</u>	<u>\$ 156</u>	<u>\$ 21,343</u>

Schedule of Professional and Consultant Fees

For the Year Ended June 30, 2008

(Amounts expressed in thousands)

Professional/Consultant	Nature of Service	Amounts Paid
Adobe Systems	IT Maintenance & Support	\$ 12
ASAP Software Express Inc.	IT Maintenance	18
Beeline.com	Application Development Resources	967
Cavanaugh Macdonald Consulting	Actuary Services	53
Cost Effectiveness Measurement	Benchmarking Services	35
Document Systems Inc.	IT Tape Storage & Imaging Records Storage	17
Helma Bernardini	IT Maintenance	11
Hollenbeck & Associates LLC	Disability Case Evaluations	18
Ice Miller	IRC Consulting Services	42
Independent Fiduciary Services	Investment Accounting Operational Review	28
Leonard & Associates	Disability Case Evaluations	11
Liebert Corp	IT Maintenance & Support	11
Milliman USA	Actuary Services	247
Piggly Wiggly Carolina Co Inc (Tri-State Printing)	Printing - Popular Annual Financial Report	17
Professional Printers	Printing	21
Psychological & Training Services	Disability Case Evaluations	14
Rogers Laban, PA	Financial Audit	29
SAP Public Services	SAP Software Licenses & Maintenance	11
SDI Networks	IT Maintenance & Support	25
Software AG Inc.	IT Enterprise License & Maintenance	93
Southern Imaging Group	Annual Member Statements	41
Sowell Gray Stepp & Laffitte	Attorney Fees	147
Summit Strategies Inc	Optional Retirement Plan Consultants	120
Sunguard Availability Service	IT Disaster Recovery	24
TeamIA Inc	Imaging Maintenance/Auditing	157
Vocational Rehabilitation	Disability Case Evaluations	823
		<u>\$ 2,992</u>

South Carolina Retirement Systems
Schedule of Investment Fees and Expenses*
Year Ended June 30, 2008
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	NGRS	TOTALS
Equity Investment Managers Fees:						
Barclays Global Investors, N.A. ²	\$ 1,358	\$ 180	\$ 3	\$ 7	\$ 1	\$ 1,549
Batterymarch Financial Management, Inc.	1,150	152	2	6	1	1,311
Wells Capital Management, Inc. (Benson Value Team)	1,884	250	4	10	1	2,149
Bridgewater Associates, Inc. ¹	15,500	2,110	31	88	11	17,740
ClariVest Asset Management, LLC	1,300	172	3	7	1	1,483
Pyramis Global Advisors	2,251	298	4	12	2	2,567
Grantham, Mayo, Van Otterloo & Co. LLC ¹	1,644	218	3	9	1	1,875
Integrity Asset Management, LLC	805	109	2	4	1	921
Legg Mason Capital Management, Inc.	1,501	199	3	8	1	1,712
Loomis Sayles (Global Fixed Income) ¹	1,960	261	4	11	2	2,238
Loomis Sayles (High Yield) ¹	132	18	-	1	1	152
Mellon Bank, N.A. ¹	1,970	263	4	11	1	2,249
Mondrian Investment Group (U.S.), Inc. ¹	1,900	259	4	11	1	2,175
Morgan Stanley ¹	5,500	730	11	31	4	6,276
Putnam Investments ¹	1,265	169	2	7	1	1,444
Pzena Investment Management, LLC	1,535	204	3	9	1	1,752
Russell Investment Group	1,521	142	2	6	1	1,672
State Street Global Advisors Russell 2000 Index Fund	50	6	-	1	-	57
State Street Global Advisors S&P 500 Index Fund	100	13	-	1	-	114
TimesSquare Capital Management, LLC	2,522	334	5	14	2	2,877
Thompson, Siegel & Walmsley, Inc.	1,385	183	3	8	1	1,580
Turner Investment Partners, Inc.	1,700	225	3	9	1	1,938
Western Asset Management Co. ¹	1,500	196	3	8	1	1,708
WCM Investment Management	2,300	301	4	13	2	2,620
Total	<u>52,733</u>	<u>6,992</u>	<u>103</u>	<u>292</u>	<u>39</u>	<u>60,159</u>
Limited Partnership Expenses	1,676	218	4	10	1	1,909
Bank Fees	4,338	575	9	24	3	4,949
Total Investment Management Fees	<u>\$ 58,747</u>	<u>\$ 7,785</u>	<u>\$ 116</u>	<u>\$ 326</u>	<u>\$ 43</u>	<u>\$ 67,017</u>
Securities Lending Expenses:						
Borrower Rebates	\$ 156,210	\$ 20,649	\$ 309	\$ 869	\$ 113	\$ 178,150
Total Securities Lending Expenses	<u>\$ 156,210</u>	<u>\$ 20,649</u>	<u>\$ 309</u>	<u>\$ 869</u>	<u>\$ 113</u>	<u>\$ 178,150</u>

¹Manager hired in Fiscal Year 2008

²BGI EAFE Equity Index Funded October 2007.

* Several of the alternative investment managers provide account valuations on a net of fee basis. Management fees are netted against investment income and because they are not readily separable for specific investment income, amounts are recorded and reported net of fees.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the State Auditor and management of the Systems and is not intended to be and should not be used by anyone other than these specified parties.

Roger Lalan, PA

October 6, 2008