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Retiring South Carolina's Public Workforce For Life

MEMORANDUM

Subject: Disclosure of Pension Information as of June 30, 2009

From: Tammy B. Nichols, CPA
Deputy Director of Operations

The Governmental Accounting Standards Board (GASB) issued Statement No. 27 entitled "Accounting for Pensions by State and Local Governmental Employers" in November 1994. In May 2007, this statement was amended with the issuance of GASB Statement No. 50 "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27". GASB 50 requires enhanced information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans.

The disclosure requirements applicable to employers participating in the South Carolina Retirement System or the Police Officers Retirement System are prescribed in paragraph 20 of GASB 27 and paragraph 7 of GASB 50.

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

a. Plan description

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

b. Funding policy

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

2. Required employee contributions to the Plans for fiscal year 2008-2009 are as follows:

SCRS Class I	5.00% of earnable compensation
SCRS Class II	6.50% of earnable compensation
State ORP	6.50% of earnable compensation
PORS Class I	\$21 per month
PORS Class II	6.50% of earnable compensation

3. Employer contributions are established by the State Budget and Control Board at the actuarially determined rates recommended by the Systems' actuary. All employers are required to contribute at these actuarially determined rates. Required employer contributions for fiscal year 2008-2009 are as follows:

SCRS

Class I	4.25% of earnable compensation
Class II	9.24 % of earnable compensation
Group Life Insurance	0.15% of earnable compensation

State ORP

Group Life Insurance	4.24% of earnable compensation 0.15% of earnable compensation
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PORS

Class I	7.80% of earnable compensation
Class II	10.65% of earnable compensation
Group Life Insurance	0.20% of earnable compensation
Accidental Death Program	0.20% of earnable compensation

SUMMARY OF BASIC PROVISIONS FISCAL YEAR 2008 – 2009

		SCRS	PORS
1.	Membership	All permanent, full-time or part-time employees of covered employers must join unless specifically exempted by statute or are eligible for and elect to participate in the State ORP.	To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position or be a peace officer employed by the Department of Corrections, Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per fiscal year to this work, unless exempted by statute.
2.	Employee Contributions	<u>Class I</u> – 5% of earnable compensation <u>Class II</u> – 6.50% of earnable compensation	<u>Class I</u> - \$21 per month <u>Class II</u> – 6.50% of earnable compensation
3.	Employer Contributions	<u>Class I</u> 4.25% of earnable compensation <u>Class II</u> 9.24% of earnable compensation <u>Group Life Insurance</u> 0.15% of earnable compensation <u>Accidental Death Program</u> N/A	<u>Class I</u> 7.80% of earnable compensation <u>Class II</u> 10.65% of earnable compensation <u>Group Life Insurance</u> 0.20% of earnable compensation <u>Accidental Death Program</u> 0.20% of earnable compensation
4.	Requirements for Full Service Retirement	Age 65 or 28 years of credited service The member must have a minimum of 5 years of earned service to qualify for retirement.	Age 55 or 25 years of credited service The member must have a minimum of 5 years of earned service to qualify for retirement.
5.	Early Retirement	Age 60 with 5% reduction for each year under age 65 Age 55 with 25 years service, reduced 4% for each year of service under 28	N/A
6.	Formula for Normal Service Retirement	<u>Class I</u> 1.45% of Average Final Compensation times years of credited service <u>Class II</u> 1.82% of Average Final Compensation times years of credited service	<u>Class I</u> \$10.97 per month for each year of service <u>Class II</u> 2.14% of Average Final Compensation times years of credited service
7.	Requirements for Disability Retirement	5 years of earned service, unless injury is job related	5 years of earned service, unless injury is job related
8.	Formula for Disability Retirement	The disability retirement benefit is based on a projection of service to age 65 with an actuarial reduction.	The disability retirement benefit is based on a projection of service to age 55.

		SCRS	PORS
9.	Benefit Options	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 8; Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>	<p><u>Option A</u> (Maximum/Retiree Only) Formula benefit as calculated in item 8; Non-recovered contributions paid upon death.</p> <p><u>Option B</u> (100% - 100% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death continues to retiree's beneficiary.</p> <p><u>Option C</u> (100% - 50% Joint Retiree/Survivor) Provides a reduced (from Option A) lifetime benefit that upon retiree's death will continue to retiree's beneficiary at 50% of the retiree's annuity.</p> <p>Note: If a retiree selects Option B or Option C and all of the retiree's beneficiaries predecease the retiree, the retiree's benefit will revert to Option A.</p>
10.	Teacher and Employee Retention Incentive (TERI)	<p>TERI is a deferred retirement option program (DROP). Upon meeting normal retirement eligibility, a member can elect to retire and continue working under the TERI program for a maximum of five years, after which employment will cease. During the TERI participation, the retirement annuity is not paid to the TERI retirees, but monthly benefits are accumulated in TERI accounts and are distributed to the members upon termination of employment. For members retiring after June 30, 2005, a payment for annual leave is not included in calculating benefits. Upon termination, however, benefits are increased prospectively to include payment for up to 45 days annual leave paid at termination of employment. No interest is credited to the TERI account. TERI participants who entered the program after June 30, 2005, must continue to contribute at the same rate as active members. Those who entered prior to July 1, 2005, make no employee contributions while participating in TERI. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits.</p>	Not applicable.
11.	Post Retirement Increase	<p>Guaranteed increase of up to 2 percent provided the increase in the Consumer Price Index (CPI) as of the prior December 31 is at least 2 percent. Increases in excess of 2 percent, up to a total of 4 percent, may be approved by the Budget and Control Board if the CPI increase exceeds 2 percent and the unfunded liability amortization period for SCRS does not exceed 30 years.</p>	<p>Guaranteed increase of up to 2 percent provided the increase in the Consumer Price Index (CPI) as of the prior December 31 is at least 2 percent. Increases in excess of 2 percent, up to a total of 4 percent, may be approved by the Budget and Control Board if the CPI increase exceeds 2 percent and the unfunded liability amortization period for PORS does not exceed 30 years.</p>
12.	Accidental Death Program	N/A	<p>Provides 50% of earnable compensation at the time of accidental death in the line of duty as an annuity to the surviving spouse, children, or parents.</p>

		SCRS	PORS
13.	Group Life Insurance Benefits	<ul style="list-style-type: none"> ▪ Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member with at least one year of service ▪ No service requirement for death resulting from actual performance of duties for an active member ▪ Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for an increased group life insurance benefit equal to their annual salary in lieu of the standard retired member benefit. 	<ul style="list-style-type: none"> ▪ Lump-sum payment equal to one year's salary payable to the beneficiary upon the death of an active member with at least one year of service ▪ No service requirement for death resulting from actual performance of duties for an active member ▪ Lump-sum payment to retiree's beneficiary of up to \$6,000 based on years of service at retirement. Retired contributing members are eligible for an increased group life insurance benefit equal to their annual salary in lieu of the standard retired member benefit.
14.	Withdrawal of Employee Contributions	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment	Accumulated contributions, plus interest, payable 90 days after termination of all covered employment
15.	Actuarial Valuation Method	Projected benefit with level percentage entry age normal cost and open-end unfunded actuarial accrued liability	Projected benefit with level percentage entry age normal cost and open-end unfunded actuarial accrued liability
16.	Actuarial Interest Rate Assumption	8.00% per annum, compounded annually	8.00% per annum, compounded annually
17.	Unfunded Accrued Liability as of July 1, 2008 (in millions)	\$10,964	\$956
18.	Unfunded Accrued Liability Liquidation Period as of July 1, 2008	29 years	30 years