

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

Popular Annual Financial Report



For the Fiscal Year Ended June 30, 2005

Pension Trust Funds of the State of South Carolina

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To Our Members

We are pleased to present to you our third annual popular report. This report is intended to provide a summary of annual financial information in an easily understandable format that supplements our more thorough *Comprehensive Annual Financial Report (CAFR)*. Data presented in this report was derived from our *CAFR*, which was prepared in accordance with Generally Accepted Accounting Principles. If you would like more information concerning our financial activities, please visit our Web site at www.retirement.sc.gov. Our *CAFR* may be viewed or downloaded from our Web site or you may obtain a printed copy by submitting a written request to our office at the address below. For any other questions or assistance, please contact Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov.


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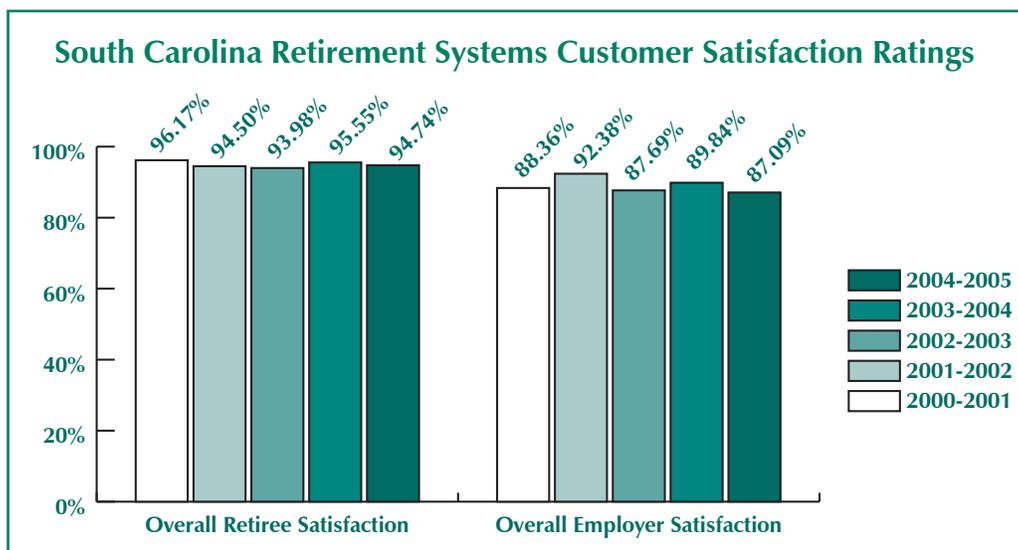
Profile

South Carolina Retirement Systems

The South Carolina Retirement Systems administers four defined benefit pension plans that provide lifetime retirement annuities, disability benefits and death benefits to eligible members. The plans' terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The amount specified is a function of a formula based on years of service, compensation and age. The Retirement Systems also administers a defined contribution retirement plan (the State Optional Retirement Program) which is an alternative to membership in the traditional defined benefit plan. The five retirement plans administered by the Retirement Systems are as follows:

- The South Carolina Retirement System (**SCRS**) was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the state and its political subdivisions.
- The State Optional Retirement Program (**State ORP**) was first established as the Optional Retirement Program for Higher Education in 1987. The State ORP is an alternative to the defined benefit SCRS plan and is offered to certain state, public school and higher education employees of the state.
- The Police Officers Retirement System (**PORS**) was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.
- The Retirement System for Members of the General Assembly of the State of South Carolina (**GARS**) was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly.
- The Retirement System for Judges and Solicitors of the State of South Carolina (**JSRS**) was established July 1, 1979, to provide retirement and other benefits to State Judges and Solicitors.

The mission of the South Carolina Retirement Systems is to administer a comprehensive program of retirement benefits responsive to the needs of public employees and to perform fiduciary duties as stewards of the contributions and disbursements of the pension trust funds. Our vision is to empower our employees to provide comprehensive service in a professional manner for our members, employers, and retirees through timely and accurate processing of payments, claims, inquiries, and other account information using effective and appropriate leading edge technology.



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As of July 1, 2004, the date of our most recent complete actuarial valuation, our membership and annuitant population was composed of the following:

Membership and Annuitant Composition As of July 1, 2004

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System
Total Membership				
Active	181,827	23,734	209	128
Inactive	146,718	9,597	59	3
Retirees & Beneficiaries	89,607	9,056	297	139
Active Members				
Average Age	44	39	52	54
Average Years of Service	10	8	11	18
Average Annual Salary	\$33,992	\$34,653	\$21,199	\$116,348
Annuitants and Beneficiaries				
Average Current Age	67	62	72	68
Average Years of Service at Retirement	23	18	20	24
Average AFC ¹ at Retirement	\$31,230	\$32,026	\$16,601	\$82,128
Average Current Annual Benefit	\$16,363	\$16,114	\$18,023	\$65,190

¹Average Final Compensation, a component used in the formula and calculation of annuity benefits.

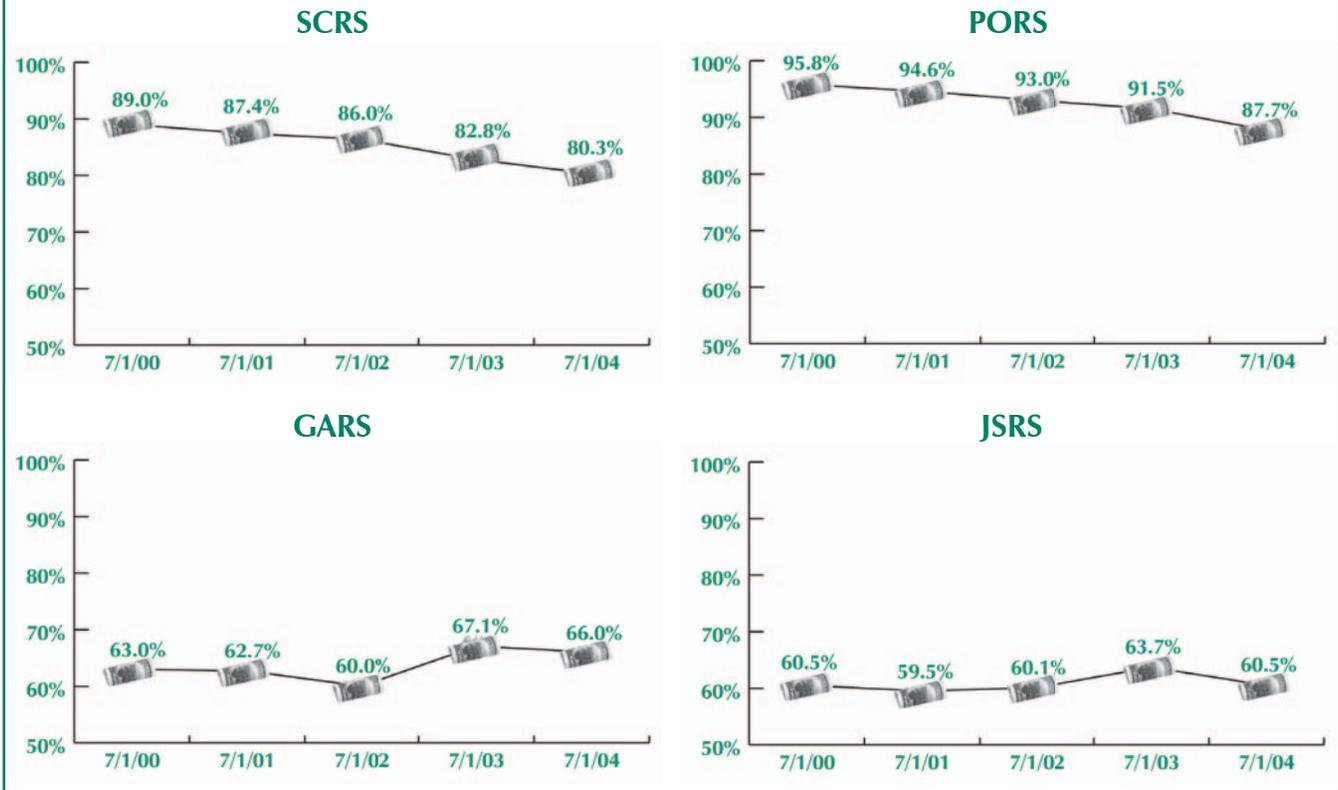
Our most recent actuarial valuations confirm that your retirement plan is sound and in good condition. Our defined benefit pension plans provide guaranteed lifetime annuities to retirees and beneficiaries based on years of service and a legislatively adopted benefit formula. We judge the health of our system through actuarial valuations. Our actuarial consultants estimate our future liabilities and our future assets based on a variety of assumptions commonly accepted in the actuarial industry. The actuaries then estimate what portion of our future liabilities are not yet funded and how long it will take to fund them at current rates. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liability (funded ratio).

Governmental accounting standards suggest that the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. As of the July 1, 2004, actuarial valuation, all four systems are considered adequately funded within Governmental Accounting Standards Board (GASB) standards. The current funded ratios of the four plans range from 60.5 percent to 87.7 percent, and the unfunded liability amortization period ranges from 16 to 27 years. The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. Changes in the funding periods from one year to the next generally occur as a result of no adjustments to contribution rates regardless of numerous variables including, but not limited to, actuarial losses, increases in benefit payment levels, and ad hoc cost-of-living adjustments being granted. The charts on page 3 illustrate funded ratios over the past five years and amortization periods by system.

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Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



Amortization Periods As of July 1, 2004



In order to ensure the Retirement Systems' ability to properly fund the payments of retirement benefits to members in future years, it is necessary to accumulate funds on a regular and systematic basis. The principal sources from which the Systems receives revenues are employee contributions, employer contributions and earnings on investments. Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries and refunds of member contributions paid upon termination. Other programs administered by the Systems include a group life insurance plan for both active and retired members and an accidental death plan for police officers. Condensed financial statements for the fiscal year ended June 30, 2005, are presented on pages 4-5.

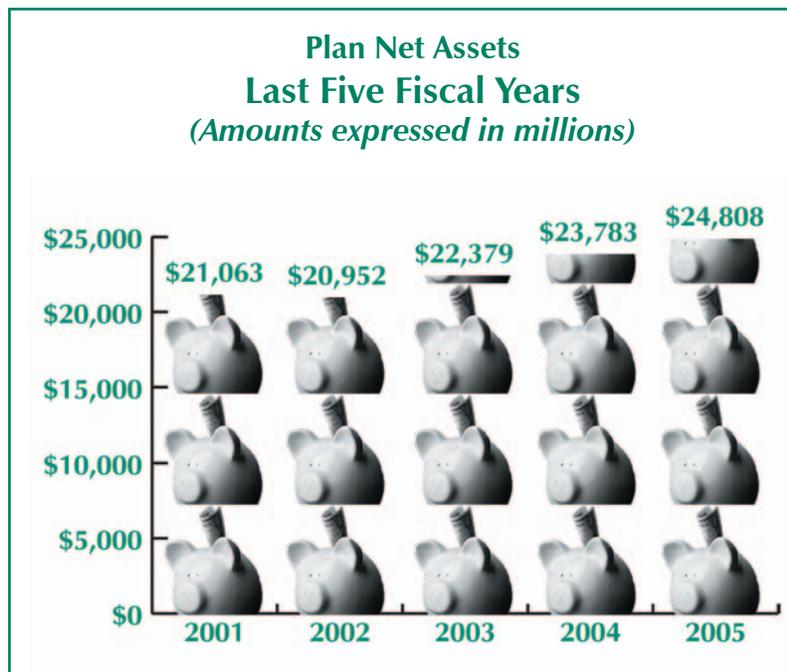
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The *Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snap shot of the Plan's investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities.

Plan Net Assets June 30, 2005 and 2004 (Amounts expressed in thousands)

Assets	2005	2004	% Increase/ (Decrease)
Cash and Cash Equivalents, Receivables and Prepaid Expenses	\$ 3,137,913	\$ 3,087,343	1.64%
Total Investments, at fair value	22,652,248	21,427,345	5.72%
Securities lending cash collateral invested	4,110,377	3,698,749	11.13%
Property, net of accumulated depreciation	3,814	3,933	(3.03%)
Total Assets	29,904,352	28,217,370	5.98%
Liabilities			
Deferred retirement benefits	884,776	649,385	36.25%
Obligations under securities lending	4,110,377	3,698,749	11.13%
Other liabilities	100,752	86,497	16.48%
Total Liabilities	5,095,905	4,434,631	14.91%
Total Net Assets	\$ 24,808,447	\$ 23,782,739	4.31%

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



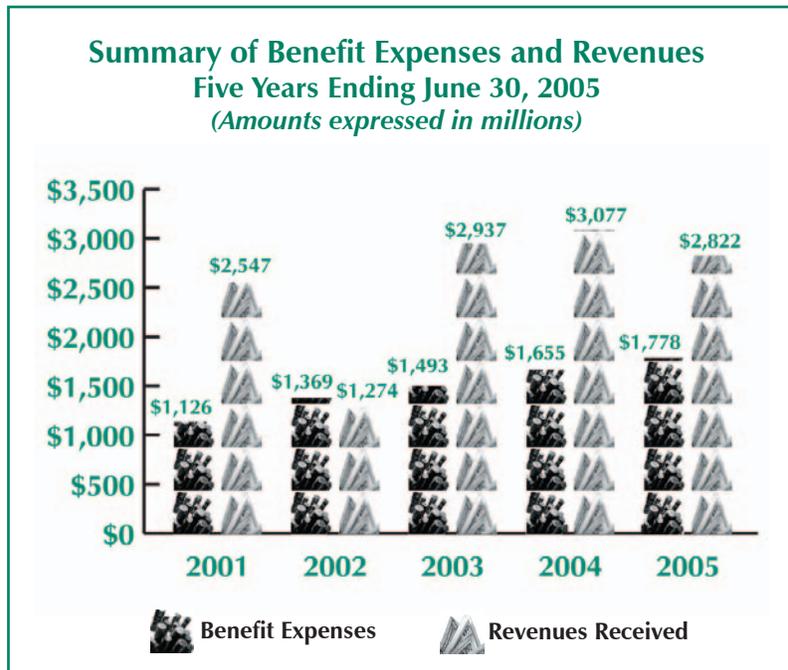
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The *Statement of Changes in Plan Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, group life insurance payments and administrative expenses.

Changes in Plan Net Assets For the Years Ended June 30, 2005 and 2004 (Amounts expressed in thousands)

Additions	2005	2004	% Increase/ (Decrease)
Employee Contributions	\$ 495,012	\$ 473,688	4.50%
Employer Contributions	638,487	612,727	4.20%
Investment Income	1,684,122	1,985,109	(15.16%)
Other Income	4,188	5,232	(19.95%)
Total Additions	2,821,809	3,076,756	(8.29%)
Deductions			
Total Annuities	1,681,582	1,561,371	7.70%
Refunds	80,906	78,423	3.17%
Group Life	15,195	15,202	(0.05%)
Administrative & other expenses	18,418	18,391	0.15%
Total Deductions	1,796,101	1,673,387	7.33%
Increase (Decrease) in Net Assets	1,025,708	1,403,369	(26.91%)
Beginning Net Assets	23,782,739	22,379,370	6.27%
Ending Net Assets	\$ 24,808,447	\$ 23,782,739	4.31%

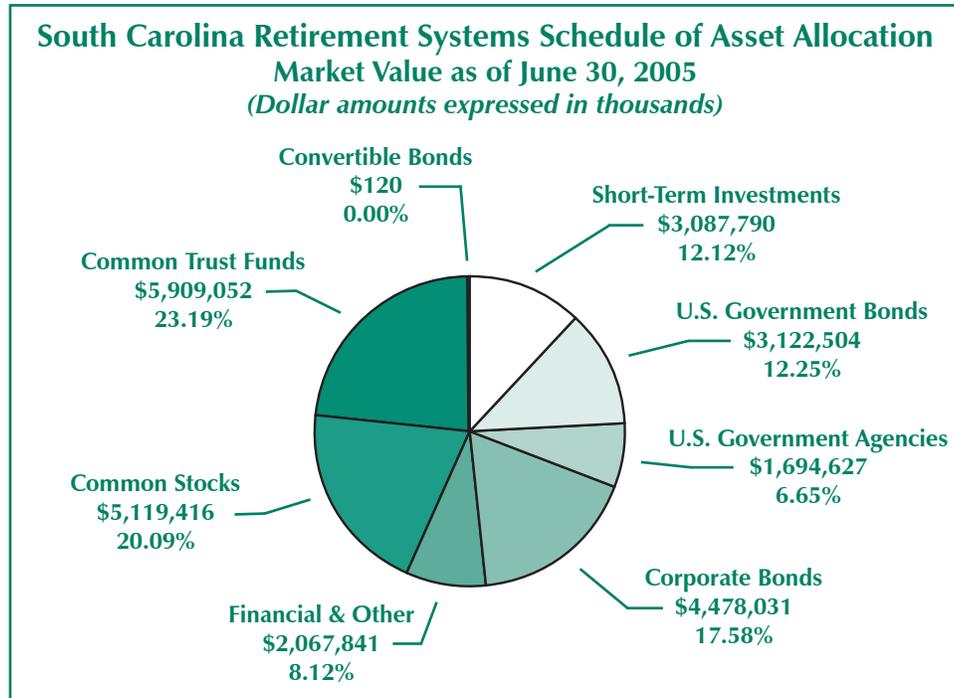
The following graph represents benefit expenses paid and revenues received from all sources over the past five years:



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We have a diversified investment portfolio that is designed to provide long-term returns. The State Treasurer, as custodian of our assets, and the Investment Panel work diligently to ensure our investment strategy is pragmatic and conservative while providing competitive returns. For the year ended June 30, 2005, the Systems' combined investment portfolio produced a total return of 7.02 percent, which lagged behind our assumed actuarial investment return of 7.25 percent. In comparison, our fiscal year 2004 combined total investment return was 8.76 percent.

The following graph illustrates the types and amounts of investments held by the Systems at June 30, 2005.



Fiscal Year 2005 Highlights

Fiscal year 2005 was both an active and challenging year for the South Carolina Retirement Systems. While the Retirement Systems experienced a higher workload trend for the fourth consecutive year, the South Carolina General Assembly formed two ad hoc retirement committees to study the funding status of SCRS and draft legislation to secure its fiscal integrity and protect cost-of-living adjustments (COLAs) for SCRS retirees.

Judges and Solicitors Retirement System Changes Enacted

Other major activity for the fiscal year included legislation enacted effective July 1, 2004, to improve the solvency of the Retirement System for Judges and Solicitors (JSRS). The significant changes to JSRS included the incremental increase (for three consecutive years) of the rate at which employees contribute to the system, the imposition of certain restrictions on service purchases and increase of such costs to coincide with the employee contribution rate, and the lengthening of vesting periods and eligibility for deferred annuities.

Identify Theft Prevention Measures Undertaken

Several projects were initiated to strengthen identity theft controls. Information was disseminated to all annuitant payees receiving monthly checks to encourage them to convert to electronic deposit. This

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initiative resulted in an increase in the percentage of payees receiving benefits via direct deposit from 79 percent to 85 percent. In addition, another division-wide identity theft project was completed to mask Social Security numbers on correspondence to our membership.

Expanded Employer Reporting Requirements

For fiscal year 2005, the Retirement Systems implemented expanded employer reporting requirements for the State Optional Retirement Program (State ORP) and began capturing detailed quarterly earnable compensation data for individual participants. State ORP is a defined contribution plan that is administered by the South Carolina Retirement Systems that serves as an alternative to SCRS, the traditional defined benefit plan. Employees hired into positions with state agencies, institutions of higher education, and public school districts may elect within 30 days of their date of hire to participate in State ORP.

Pre-Tax Installment Service Purchase Program Implemented

The Retirement Systems' program through which members are allowed to purchase various types of service credit via an installment service purchase was expanded effective January 1, 2005, to allow tax deferred installments. Current participants were given a one-time opportunity to convert the remaining balances of existing after-tax accounts to a tax deferred account. This expanded feature provided an opportunity for our membership to achieve a substantial income tax savings.

Press Seminar Conducted

In early January 2005, in anticipation of an active legislative session, the Retirement Systems sponsored a seminar for members of the print media who report on retirement issues. The seminar familiarized the reporters with the basics of public pension fund administration, and provided a primer on unfunded actuarial accrued liability (UAAL) and other fundamentals of actuarial science.

State Retirement System Preservation and Investment Reform Act

Retirement Systems staff coordinated the preparation and dissemination of voluminous actuarial and other information for the two ad hoc retirement committees formed by the South Carolina General Assembly during its 2005 session.

The South Carolina House of Representatives and the South Carolina Senate introduced separate legislation with different approaches to securing the funding of SCRS and protecting retired member COLAs. Following action by a conference committee appointed to reach an agreement, the General Assembly passed Act 153, the State Retirement System Preservation and Investment Reform Act, effective July 1, 2005.

This sweeping legislation required retired members of SCRS and PORS who either participate in the Teacher and Employee Retention Incentive program or return to covered employment to make employee contributions to the system. Active TERI participants and working retirees who retired and returned to work prior to July 1, 2005, have challenged the requirement that they pay member contributions.

Act 153 also increased the SCRS employee contribution from 6 percent to 6.25 percent effective July 1, 2005. The SCRS member contribution will increase to 6.5 percent as of July 1, 2006. Employer contributions will increase as well from 7.55 percent to 8.05 percent effective July 1, 2006, and to 8.55 percent as of July 1, 2007.

Furthermore, the legislation guaranteed and pre-funded a COLA for eligible SCRS retirees. If the Consumer Price Index (CPI) increases no more than 1 percent, the COLA is equal to the percentage increase in the index. If the CPI increases by more than 1 percent, the South Carolina Budget and Control Board is authorized to approve an additional COLA beyond the 1 percent up to the lesser of the CPI or 4 percent.

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Legislation also requires that funding requirements have been met including all unrealized investment gains and losses.

In addition, Act 153 established a six-member investment commission made up of financial experts, the State Treasurer and a nonvoting retired member, and moves fiduciary responsibility for all investments to the commission; provided that equity investments cannot exceed 70 percent of the total investment portfolio (formerly 40 percent); and created the position of chief investment officer. This part of Act 153 was effective October 1, 2005.

Local Government Employer Contribution Rate Increase

An increase in the rate at which local governmental entities contribute as an employer to SCRS was approved. The employer contribution will increase from 6.5 percent to 7.55 percent effective July 1, 2005.

Teacher and Employee Retention Incentive Program Remained Popular

The deferred retirement option program, Teacher and Employee Retention Incentive (TERI), which was initiated January 1, 2001, continued to experience great popularity among our membership during fiscal year 2005. The amount of assets held in trust for future payments of accrued benefit expense increased from \$649 million to \$884.5 million during the fiscal year. This increase is a result of both a growth in new participants in the program during the fiscal year and the continued accumulation of benefits deferred on a monthly basis for all participants.

For the past three fiscal years, legislation has been proposed in the South Carolina General Assembly to repeal the TERI program; however, no action was taken on the bills. TERI continues to be a very controversial issue and threat of possible repeal again contributed to the large number of new participants taking advantage of TERI. Act 153, referred to earlier, did exempt all TERI participants from state grievance rights and required them to make employee contributions to the system.

Active Membership Decreased

Although the number of active members contributing to the South Carolina Retirement Systems decreased for the past two fiscal years, the actual workforce of covered employers throughout the state grew slightly. This resulted from increased State ORP participation and an increased number of working retirees who are either participating in the TERI program or who have terminated employment and returned to work under the earnings limitation.

During fiscal year 2005, a retired member of SCRS who has been retired for at least 60 days could return to employment covered under the system and earn up to \$50,000 a fiscal year without affecting the monthly retirement benefit. Under PORS, a member who has been retired for at least 15 consecutive calendar days may be hired and return to covered employment without affecting the monthly retirement benefit. Act 153 made changes to the earnings limitation for working SCRS retirees to be consistent with PORS retirement provisions.

Number of Annuitants on Payroll Exceeds 100,000

The number of retired members and beneficiaries receiving monthly benefits under the Retirement System plans exceeded 100,000 annuitants during the year.

Rankings Among Peer Pension Plans

The South Carolina Retirement Systems is one of the public pension plans that participates in an annual benchmarking analysis conducted by Cost Effectiveness Management, Inc., (CEM). Fifty-four public pension plans participated in the 2004 CEM survey.

Although the Retirement Systems is a customer centric organization, we are also a division of South Carolina state government and as such, must adhere to stringent budgetary guidelines. According to the

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CEM report, the South Carolina Retirement Systems' total adjusted administrative cost per member was \$46 in comparison to a peer median cost of \$67, the fifth lowest cost among all 54 participants.

Our low administrative cost is achieved through the efficient and proactive deployment of automated systems and appropriately allocated human resources, not by providing fewer or lower quality services. The CEM report is evidentiary of this claim. Our total service score was 75 in comparison to averages of 73 for our peer systems and for all participants. Our 2004 service score of 75 was up from 66 in 2003 and 69 in 2002. In addition, our own annual satisfaction surveys continue to show that our customers are pleased with the services we provide (see chart on page 1).

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the South Carolina Retirement Systems for its *Popular Annual Financial Report* for the fiscal year ended June 30, 2004. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report in which the content conforms to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and we are submitting it to GFOA.



The South Carolina Retirement Systems also received the Public Pension Coordinating Council's Public Pension Standards 2005 Award. It is the second consecutive year during which the Retirement Systems applied for and received the Council's award in recognition of meeting professional plan design and administration standards. The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement.

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