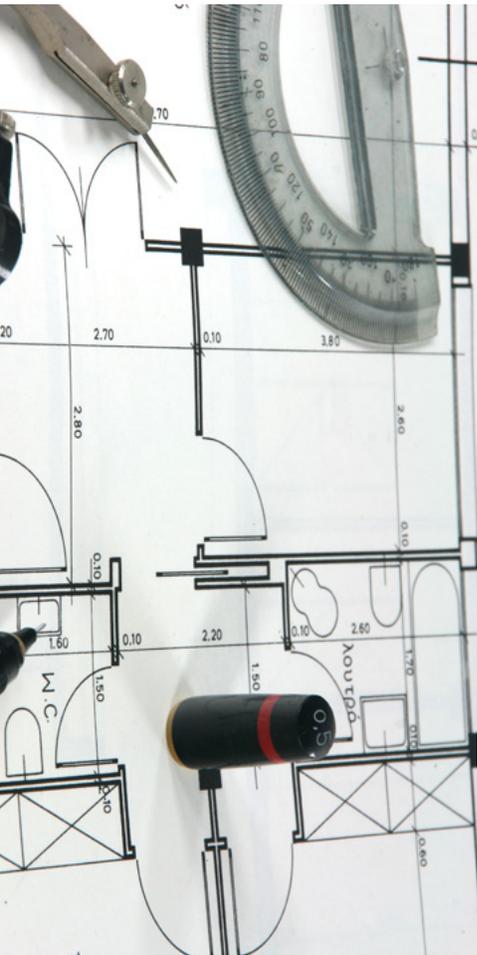


*South Carolina Retirement Systems*

# Popular Annual Financial Report

*Building Our Financial Future*



For the Fiscal Year Ended June 30, 2012  
Pension Trust Funds of the State of South Carolina

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**South Carolina Retirement Systems**

**Popular Annual Financial Report**

**For the Fiscal Year Ended June 30, 2012**

**Pension Trust Funds of the State of South Carolina**

**To Our Members**

We are pleased to present to you the South Carolina Retirement Systems' ninth annual popular report. This report is intended to provide a summary of the Systems' annual financial information in an easily understandable format that supplements the more thorough *Comprehensive Annual Financial Report (CAFR)*.

Data presented in this report was derived from the *CAFR* for fiscal year 2012, which was prepared in accordance with Generally Accepted Accounting Principles. To learn more about the Systems' financial activities, please visit our website at [www.retirement.sc.gov](http://www.retirement.sc.gov).

The *CAFR* contains more detailed information and may be viewed online or downloaded from our website. Interested users may also obtain a printed copy, for a cost, by submitting a written request to our office at the below address. For any other questions or assistance, please contact Customer Services at 803-737-6800, 800-868-9002 (toll free within S.C.), or [www.retirement.sc.gov](http://www.retirement.sc.gov).

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THIS REPORT CONTAINS AN ABBREVIATED DESCRIPTION OF THE RETIREMENT BENEFITS OFFERED BY THE SOUTH CAROLINA RETIREMENT SYSTEMS. THE INFORMATION IN THIS REPORT IS MEANT TO SERVE AS A GUIDE FOR OUR MEMBERS AND DOES NOT CONSTITUTE A BINDING REPRESENTATION OF THE SOUTH CAROLINA RETIREMENT SYSTEMS. TITLE 9 OF THE SOUTH CAROLINA CODE OF LAWS CONTAINS A COMPLETE DESCRIPTION OF THE RETIREMENT BENEFITS, THEIR TERMS AND CONDITIONS, AND GOVERNS ALL RETIREMENT BENEFITS OFFERED BY THE STATE. STATE STATUTES ARE SUBJECT TO CHANGE BY THE GENERAL ASSEMBLY. PLEASE CONTACT THE RETIREMENT SYSTEMS FOR THE MOST CURRENT INFORMATION.

THE LANGUAGE USED IN THIS REPORT DOES NOT CREATE ANY CONTRACTUAL RIGHTS OR ENTITLEMENTS AND DOES NOT CREATE A CONTRACT BETWEEN THE MEMBER AND THE SOUTH CAROLINA RETIREMENT SYSTEMS. THE SOUTH CAROLINA RETIREMENT SYSTEMS RESERVE THE RIGHT TO REVISE THE CONTENT OF THIS REPORT.

## Profile

### South Carolina Retirement Systems

The South Carolina Retirement Systems (the Systems) administers five defined benefit pension plans that provide lifetime retirement annuities, disability benefits and death benefits to eligible members. The plans' terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The amount specified is a function of a formula based on years of service, compensation and age.

The Retirement Systems also provides a defined contribution retirement plan (the State Optional Retirement Program) which is an alternative to membership in the traditional defined benefit plan.

Following is a summary of the six retirement plans.

- The South Carolina Retirement System (**SCRS**) was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the state and its political subdivisions.
- The State Optional Retirement Program (**State ORP**) was first established as the Optional Retirement Program for Higher Education in 1987. The State ORP is an alternative to the SCRS defined benefit plan and is now available to certain state, public school and higher education employees of the state.
- The Police Officers Retirement System (**PORS**) was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.
- The Retirement System for Members of the General Assembly of the State of South Carolina (**GARS**) was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly.
- The Retirement System for Judges and Solicitors of the State of South Carolina (**JSRS**) was established July 1, 1979, to provide retirement and other benefits to State Judges, Solicitors, and Circuit Public Defenders.
- The National Guard Retirement System (**NGRS**) was established July 1, 1975, to provide supplemental retirement benefits to members who served in the South Carolina National Guard. The Retirement Systems assumed administrative responsibility for this fund in 2006.

**Membership and Annuitant Composition**  
As of July 1, 2012

	<b>South Carolina Retirement System</b>	<b>Police Officers Retirement System</b>	<b>General Assembly Retirement System</b>	<b>Judges and Solicitors Retirement System</b>	<b>National Guard Retirement System</b>
<b>Total Membership</b>					
Active	185,817	26,184	170 <sup>1</sup>	144 <sup>1</sup>	12,097
Inactive	150,959	10,892	56	3	2,443
Retirees & Beneficiaries <sup>2</sup>	121,943	14,758	358	202	4,420
<b>Active Members</b>					
Average Age	45	39	53	54	35
Average Years of Service	10	8	11	13	12
Average Annual Salary	\$36,360	\$35,706	\$22,482	\$127,204	N/A <sup>3</sup>
<b>Annuitants and Beneficiaries</b>					
Average Current Age	69	64	72	70	68
Average Age at Retirement <sup>4</sup>	59	55	62	60	60
Average Years of Service at Retirement	24	19	20	26	26
Average AFC <sup>5</sup> at Retirement	\$40,328	\$42,566	\$21,071	\$111,706	N/A
Average Current Annual Benefit <sup>6</sup>	\$19,117	\$19,171	\$18,623	\$76,385	\$922

<sup>1</sup>The number of active members reflects the number of seats.

<sup>2</sup>Represents participants who retired including those who participate in the Teacher and Employee Retention Incentive (TERI) program or who returned to employment as a working retiree.

<sup>3</sup>The National Guard Retirement System is non-contributory; therefore, active member salaries are not reported to the Systems.

<sup>4</sup>Represents retired members who are currently receiving annuity benefits, including members who may have received benefits under a deferred retirement option (i.e. TERI). Disability retirees and surviving beneficiary payees are excluded.

<sup>5</sup>Average Final Compensation (AFC) is a component used in the formula for calculating annuity benefits.

<sup>6</sup>Includes benefit adjustments applied since retirement.

## Fiscal Year 2012 Highlights

### Public Policy Activities



- On June 26, 2012, Governor Nikki Haley signed the Retirement Free Conference Report on House Bill 4967, the retirement reform legislation, and Act 278 became law. Legislative reform included increased contributions for employees and employers, changes to benefit provisions for new members, changes to retiree cost of living adjustments for SCRS and PORS, repeal of the TERI program, modifications to disability eligibility and benefit calculations, allows service purchase at actuarial neutral cost and places restrictions on members retiring after January 1, 2013, who elect to return to covered employment after retirement. A comprehensive list of changes by effective date can also be found on our public website.
- Act 278 also created a new state agency, the S.C. Public Employee Benefit Authority (PEBA), effective July 1, 2012, that combined the Retirement Systems and Employee Insurance Program divisions, formerly structured under the SC Budget and Control Board.

### Administrative Activities



- Organizational structure changes included the consolidation of the Systems' Enrollment unit, Imaging unit, and Postal Center into one unit and in one geographic location to improve workflow and staff utilization.
- The Retirement Systems partnered with the Employee Insurance Program (EIP) for two weeks in April and two weeks in June to provide one-stop services to common customers. EIP staff were temporarily located at the Retirement Systems so that members seeking retirement consultations could also speak with an insurance counselor. The ventures were extremely well received, with many members indicating in post-consultation surveys that they came because of the one-stop opportunity.

## Operational System Improvements

- The web-based Electronic Employer Services (EES) system was further enhanced by adding or expanding features which included automation of employer reporting processes that replaced submission and processing of previous paper forms.
- New features were added to member access, the secure online resource through which members may view their retirement account information and make certain changes to that information. Active and inactive members may now print a statement and change their address. Retired members and annuitant payees not only gained initial access but may now change their tax withholdings, direct deposit account information and their address. They may also view and print an IRS 1099-R form, a Teacher and Employee Retention Incentive (TERI) program statement and an annuity verification letter.
- A Customer Service Live Chat feature was added to our website.



## Investment Returns

- For the fiscal year ended June 30, 2012, the aggregate rate of return earned on the pooled investments of the consolidated pension trust funds as a whole was 0.61 percent. Although performance for the combined investment portfolio was slightly positive, it was significantly below the prior year's return of 18.59 percent and will also be recognized as an actuarial loss as it was well below the 7.5 percent actuarial investment rate of return assumed for the plans. Additionally, the need for liquidity remains important as the portfolio distributed \$2.7 billion in net retiree benefits, compared to receiving only \$1.7 billion in contributions. The negative cash flow of \$1.0 billion in net benefit obligations, represented approximately 4 percent of the portfolio's assets.
- The plan assets are invested by the Commission in a manner consistent with a long-term investment time horizon. While the financial markets continue to experience significant volatility, the assets of the Retirement Systems are invested in a broadly diversified manner in an effort to mitigate risk. Although member benefits accrued and payable under the Retirement Systems' defined benefit plans are not dependent on individual member account balances, investment returns are a critical overall funding component.



## Summary of Financial Condition

A funding objective of the pension trust funds is to meet future benefit obligations of retirees and beneficiaries through contributions and investment earnings. The health and stability of the plans is measured through annual actuarial valuations. External consulting actuaries estimate future liabilities and future assets based on a variety of assumptions commonly accepted in the actuarial industry.

The actuaries then estimate the portion of future liabilities not yet funded and determine how long it will take to fund them at current rates. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities (funded ratio) will be.



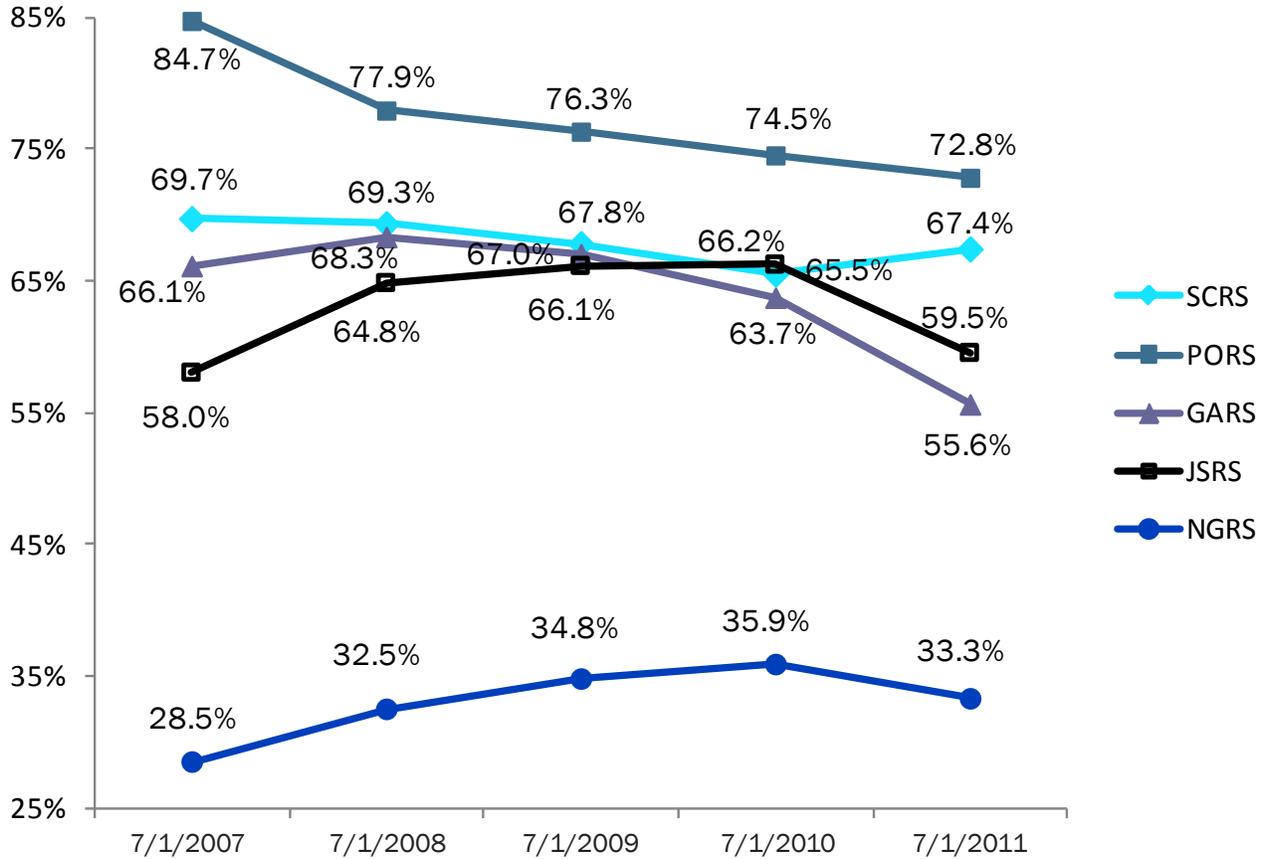
The most recent valuations dated July 1, 2011, confirm that all five defined benefit plans are considered to be adequately funded within the Governmental Accounting Board's standards and the Budget and Control Board's policy requiring actuarial liabilities be funded within a 30 year amortization period. SCRS and PORS July 1, 2011, valuations have been adjusted for retirement reform legislation.

The funded ratios of the individual plans vary because each system is a separate plan with unique contribution and benefit levels. Changes in the funded ratios from one year to the next generally occur even though there may be adjustments to contribution rates. This is because there are numerous other variables affecting the funded ratio including, but not limited to, investment gains and losses, experience gains and losses, increases in benefit payment levels, and benefit adjustments.

The current funded ratios of the five plans range from a low of 33.3 percent for NGRS to a high of 72.8 percent for PORS. The NGRS has a very low funded ratio because it was not pre-funded or funded with recurring funds in the past. In 2006, the General Assembly made a commitment to ensure the plan would be sufficiently funded prospectively and transferred administrative responsibility from the Adjutant General's Office to the Retirement Systems. Now recurring funds are set aside in the state's annual budget each year to fund NGRS over an amortization period that does not exceed 30 years and we anticipate continued improvement in the funded ratio. The chart on Page 7 illustrates funded ratios over the past five years for each of the five defined benefit plans.

## Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



To ensure the Systems' ability to properly fund the payment of retirement benefits to members in future years, it is necessary to accumulate funds on a regular and systematic basis.

The principal sources from which the Systems derives revenues are employee contributions, employer contributions, and earnings on investments. In addition, annual required contributions for the 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 death benefit plan for both active and retired members, and an accidental death plan for police officers. Condensed financial statements for the fiscal years ended June 30, 2012, are presented on Pages 8 - 9.

## Statement of Plan Net Assets

The Statement of Plan Net Assets presents the Plan’s assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plans’ investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities. Total plan net assets decreased by \$913 million or (3.5) percent during fiscal year 2012. The decrease in net assets from \$25.89 billion to \$24.98 billion was primarily the result of relatively flat investment performance coupled with an increase in benefit payments while contributions remained steady. Because the plan is in a net cash outflow position (benefit payments exceed contributions), the difference in the net asset value cannot be attributed to investment performance alone. Rather, investment performance must be calculated taking the net cash outflow into consideration.

The Systems participate in a securities lending program managed by the custodial bank. The collateral pool has been adversely affected by exposure to Lehman Brothers’ securities. Conservative investment guidelines continue to be maintained. Securities lending revenue for the fiscal year was \$1.4 million, a slight increase from \$1.3 million in the prior year. During the fiscal year, the

Systems received a \$7.8 million settlement distribution in relation to a Lehman creditor-payment plan approved by the U.S. Bankruptcy Court. In addition, the custodial bank’s Securities Lending group sold approximately \$44 million of these bonds, resulting in a realized loss of \$30.7 million. Subsequent to June 30, 2012, the custodian bank’s Securities Lending group sold the remaining Lehman bonds.

Liabilities representing assets held in trust for future payment of deferred retirement benefits accumulated under the Teacher and Employee Retention Incentive (TERI) program remained relatively stable during Fiscal Year 2012. The number of members actively participating in TERI increased from 5,862 to 6,986 at fiscal year end. Retirement reform legislation recently enacted closes the TERI program to all participants effective July 2018 and participation spiked during the fiscal year from the surge of members electing to enter the program before its closure.

### South Carolina Retirement Systems Plan Net Assets June 30, 2012 and 2011 (Amounts expressed in thousands)

<b>Assets</b>	<b>2012</b>	<b>2011</b>	<b>Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
Cash and cash equivalents, receivables and prepaid expenses	\$ 3,087,132	\$ 3,977,880	\$ (890,748)	(22.39%)
Investments, at fair value	23,486,984	23,870,891	(383,907)	(1.61%)
Securities lending cash collateral invested	184,025	229,161	(45,136)	(19.70%)
Capital Assets, net of accumulated depreciation	2,984	3,103	(119)	(3.83%)
<b>Total Assets</b>	<b>26,761,125</b>	<b>28,081,035</b>	<b>(1,319,910)</b>	<b>(4.70%)</b>
<b>Liabilities</b>				
Deferred retirement benefits	386,302	364,005	22,297	6.13%
Obligations under securities lending	184,025	229,161	(45,136)	(19.70%)
Other accounts payable	1,211,693	1,596,020	(384,327)	(24.08%)
<b>Total Liabilities</b>	<b>1,782,020</b>	<b>2,189,186</b>	<b>(407,166)</b>	<b>(18.60%)</b>
<b>Total Net Assets</b>	<b>\$ 24,979,105</b>	<b>\$ 25,891,849</b>	<b>\$ (912,744)</b>	<b>(3.53%)</b>

## Statement of Changes in Plan Net Assets

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

The plan experienced increases in the dollar amount of employee and employer contributions from the prior fiscal year. In anticipation of proposed legislation that would potentially impact the future cost of service purchase, the plan experienced a significant increase in the amount of employee contributions received for purchased service. Additionally, the employer contribution rate increased from the prior fiscal year.

For the fiscal year ended June 30, 2012, the aggregate rate of return earned on the pooled investments of the consolidated pension trust funds as a whole was 0.61 percent. Although performance for the combined investment portfolio was slightly positive, it was significantly

below the prior year's return of 18.59 percent and will also be recognized as an actuarial loss as it was well below the 7.5 percent actuarial investment rate of return assumed for the plans.

The total number of retired members and beneficiaries receiving monthly annuity benefits from the Retirement Systems' plans increased from 134,000 to over 141,000 annuitants during the year. Additionally, eligible annuitants under both SCRS and PORS received an automatic 1.7 percent cost of living allowance effective July 1, 2011. The increase in the number of new annuitants added to the payroll during the year coupled with the retiree benefit adjustment, resulted in an overall 6 percent increase in the dollar amount of annual benefits paid to annuitants.

Retirement reform legislation changed COLA provisions for SCRS and PORS retirees and effective July 1, 2012, eligible retirees are entitled to an annual benefit adjustment equal to one percent, but not to exceed \$500 annually.

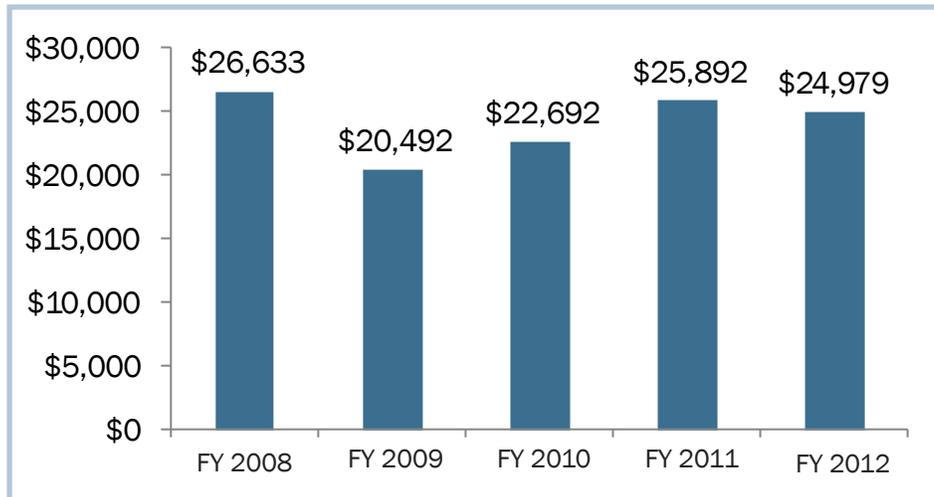
### South Carolina Retirement Systems Changes in Plan Net Assets For the Years Ended June 30, 2012 and 2011 (Amounts expressed in thousands)

Additions	2012	2011	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	\$ 674,311	\$ 644,337	\$ 29,974	4.65%
Employer contributions	969,897	948,485	21,412	2.26%
State-appropriated contributions	3,937	3,904	33	0.85%
Net Investment income	127,554	4,145,907	(4,018,353)	(96.92%)
Other income	2,951	3,022	(71)	(2.35%)
<b>Total Additions</b>	<u>1,778,650</u>	<u>5,745,655</u>	<u>(3,967,005)</u>	<u>(69.04%)</u>
<b>Deductions</b>				
Annuity benefits	2,547,907	2,403,763	144,144	6.00%
Refunds	98,461	99,550	(1,089)	(1.09%)
Death benefits	20,315	18,655	1,660	8.90%
Administrative & other expenses	24,711	23,498	1,213	5.16%
<b>Total Deductions</b>	<u>2,691,394</u>	<u>2,545,466</u>	<u>145,928</u>	<u>5.73%</u>
<b>Increase in Net Assets</b>	<u>(912,744)</u>	<u>3,200,189</u>	<u>(4,112,933)</u>	<u>(128.52%)</u>
Beginning Net Assets	25,891,849	22,691,660	3,200,189	14.10%
<b>Ending Net Assets</b>	<u>\$ 24,979,105</u>	<u>\$ 25,891,849</u>	<u>\$ (912,744)</u>	<u>(3.53%)</u>

**South Carolina Retirement Systems**

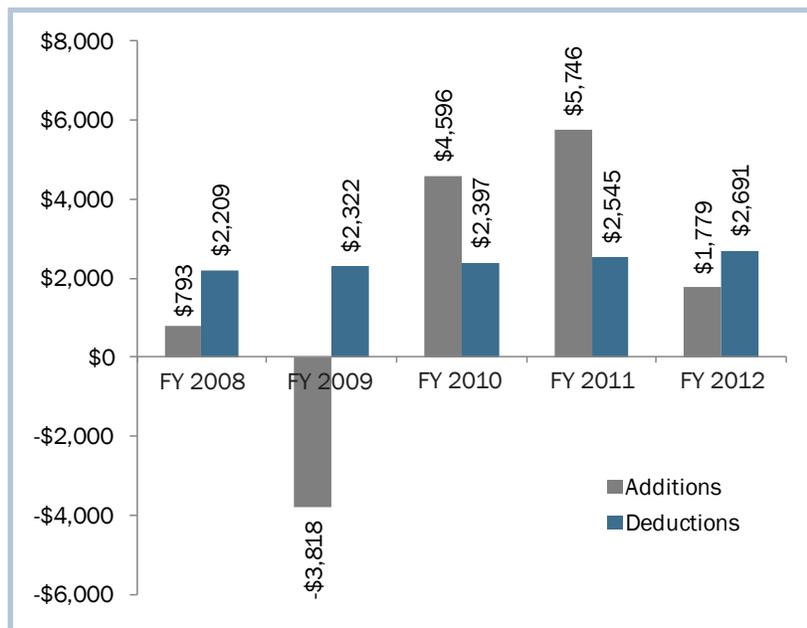
The following graph reflects Plan Net Assets held in trust for Pension Benefits for the five consolidated plans over the past five fiscal years:

**South Carolina Retirement Systems  
Plan Net Assets  
Last Five Fiscal Years  
(Amounts expressed in millions)**



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

**South Carolina Retirement Systems  
Summary of Additions and Deductions  
Five Years Ending June 30, 2012  
(Amounts expressed in millions)**

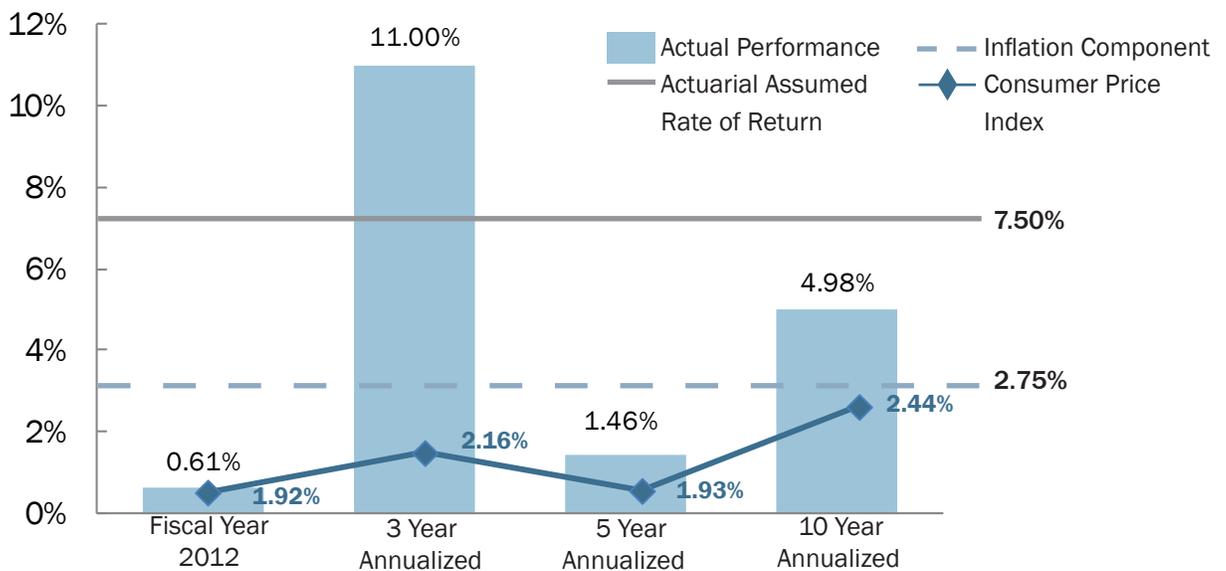


## Investments Overview

The RSIC portfolio ended fiscal year 2012 with a Net Asset Value (NAV) of investments of \$25.3 billion. The investment consultant reported a one-year composite return of 0.4 percent net of fees compared to the policy benchmark's return of 0.6 percent. The portfolio's underperformance to the policy

benchmark was due primarily to allocation decisions and reducing risk in the portfolio. Additionally, the need for liquidity remains important as the portfolio distributed \$1.0 billion in net retiree obligations, or approximately 4 percent of the portfolio's assets.

### South Carolina Retirement Systems Summary of Investment Performance As of June 30, 2012



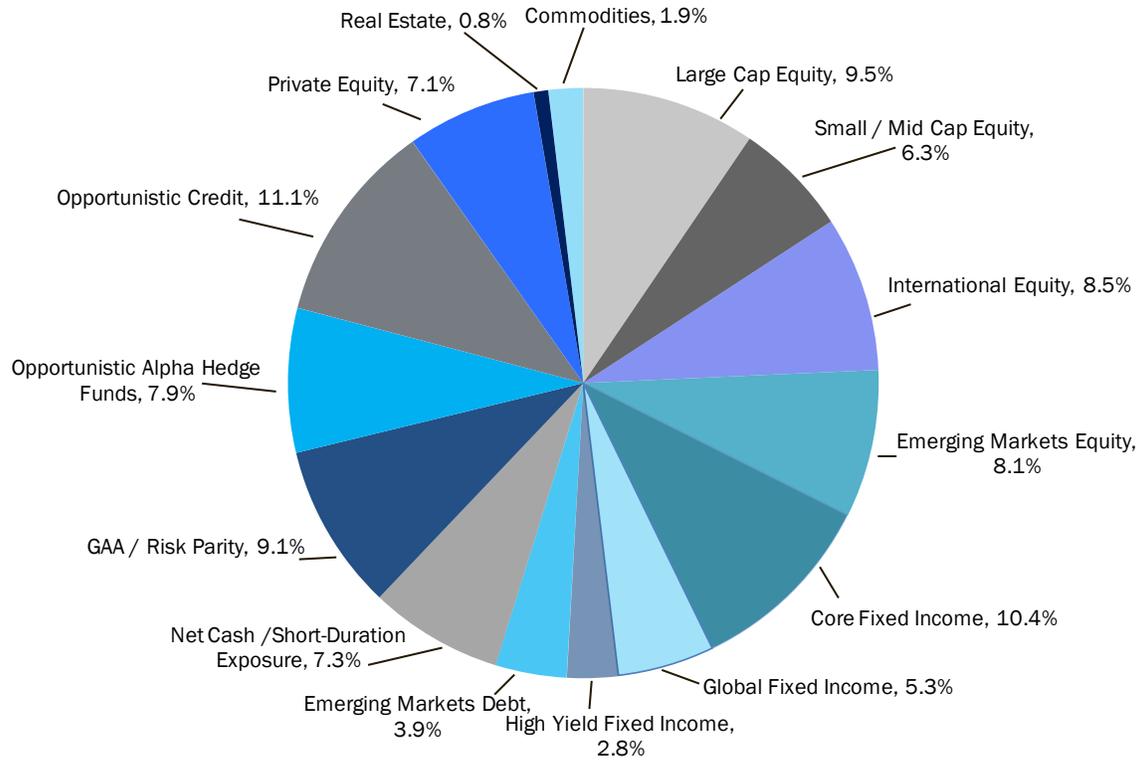
The trailing one-year period as of June 30, 2012, proved to be a challenging year for long-term investors as economic growth continued to sputter and stall, as the effects and limited recovery from the financial crisis of 2008-2009 remained evident. Key events such as continued government intervention through easing monetary policy, the downgrade of the United States' credit rating, the slowing of global growth, the ongoing debt crisis in Europe, and the instability in the Middle East led to significant volatility in the market.

The plan assets are invested by the Commission in a manner consistent with a long-term investment time horizon. While the financial markets continue to experience significant volatility, the assets of the Retirement Systems are invested in a broadly diver-

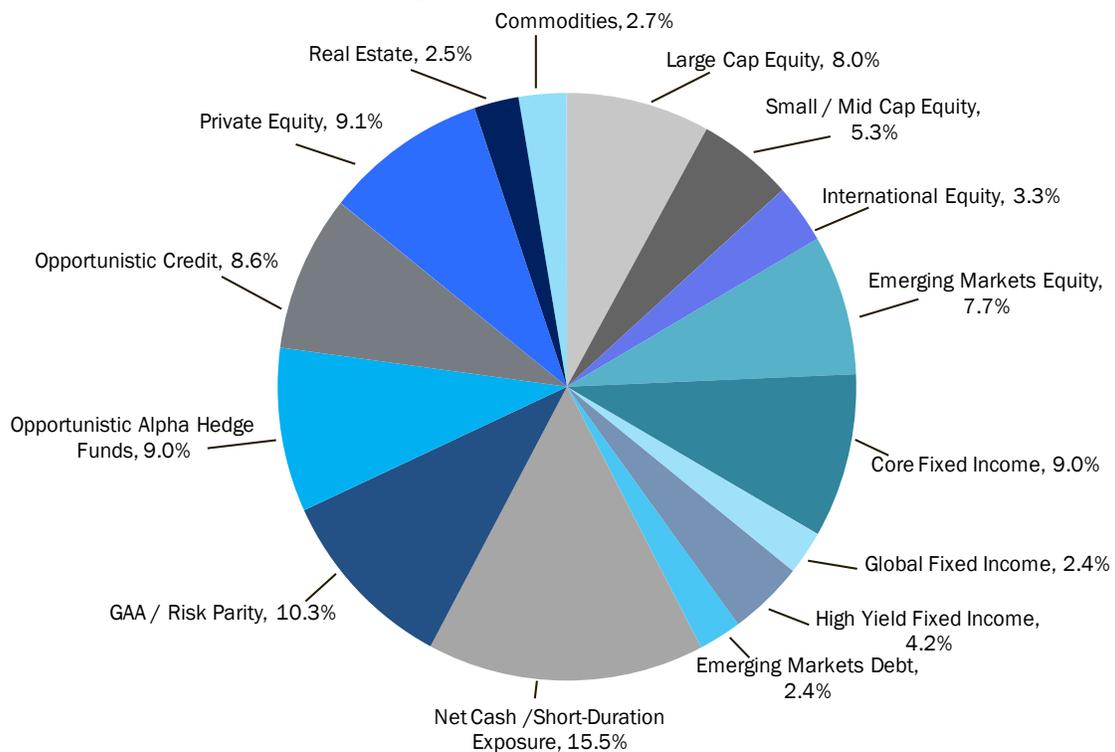
sified manner in an effort to mitigate risk. Although member benefits accrued and payable under the Retirement Systems' defined benefit plans are not dependent on individual member account balances, investment returns are a critical overall funding component.

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

**Portfolio Exposure as of June 30, 2011<sup>1,2</sup>**



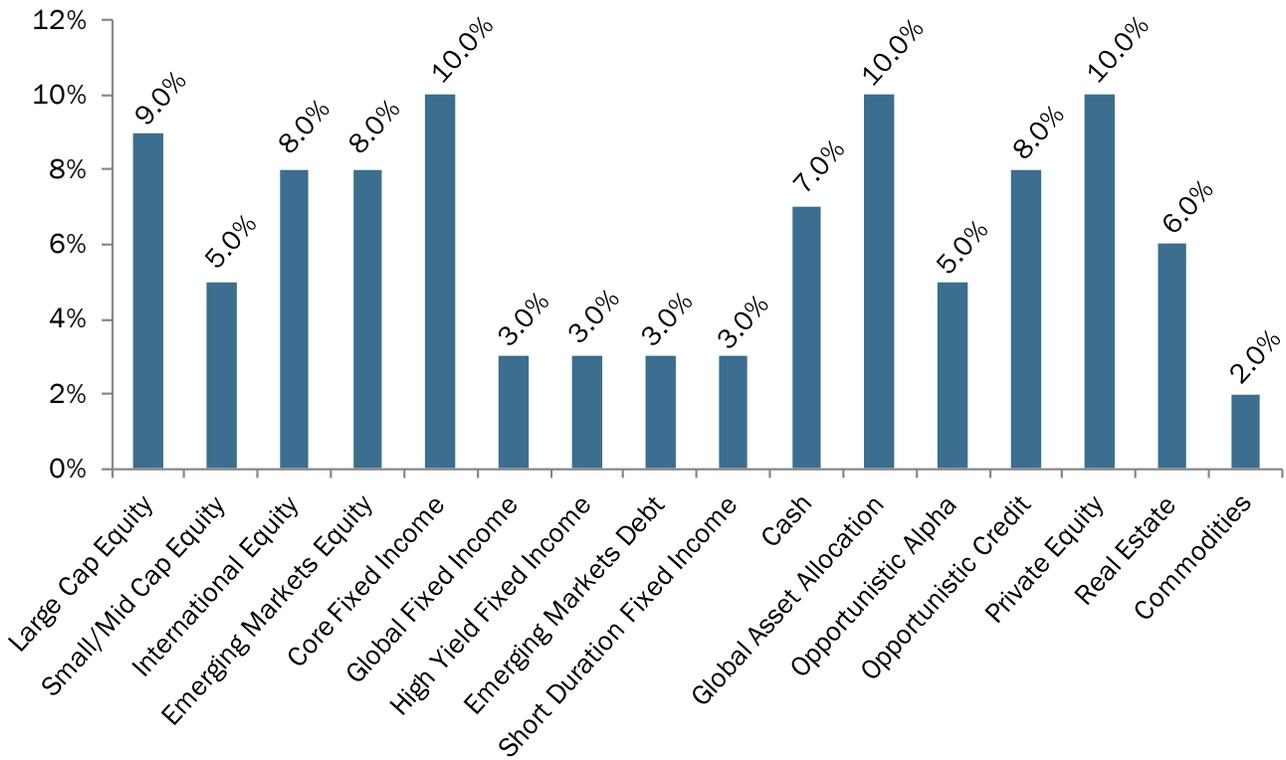
**Portfolio Exposure as of June 30, 2012<sup>1,2</sup>**



<sup>1</sup>Portfolio exposure may differ from Manager Returns (Net of Fees) due to adjustments made by manager that invest across asset classes.

<sup>2</sup>Values rounded for presentation purposes.

### Target Asset Allocation



Note: Target Asset Allocation in effect at fiscal year end 2012 and adopted by Commission on April 21, 2011.

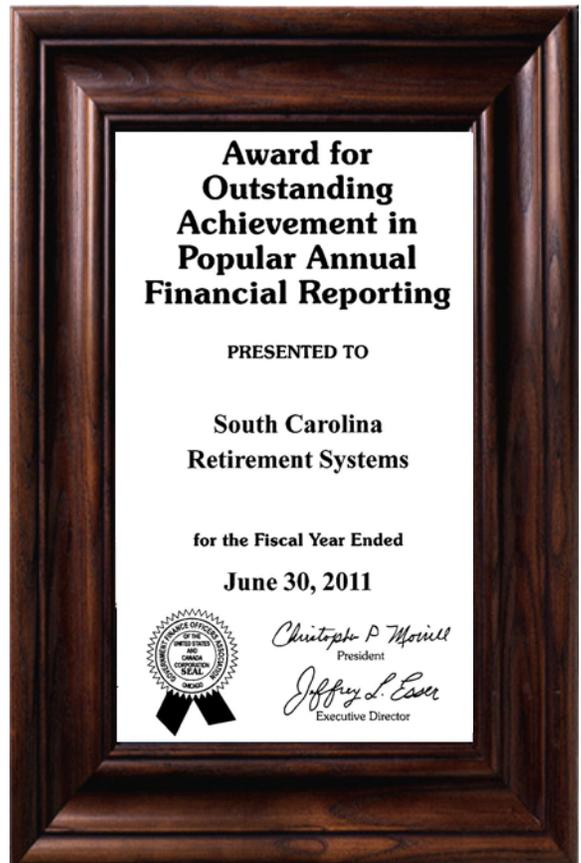
## Fiscal Year 2011 GFOA Award

The South Carolina Retirement Systems' *Popular Annual Financial Report* for the fiscal year ended June 30, 2011, received an Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada.

This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

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

This award is valid for a period of one year only. The Systems has received the Award for Outstanding Achievement for each of the last eight consecutive years (fiscal years ended 2004-2011). We believe our current report continues to conform to the GFOA's Popular Annual Financial Reporting requirements and are submitting it for consideration.



## 2012 PPCC Award

The South Carolina Retirement Systems received the Public Pension Coordinating Council's Public Pension Standards 2012 Award.

It is the ninth consecutive year during which the Retirement Systems applied for and received the Council's award in recognition of meeting professional plan design and administration standards.

The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems, and the National Council on Teacher Retirement.

**This page contains no other content.**

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