

# SYSTEMS UPDATE



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## **Beneficiary policy becomes more flexible**

The beneficiary designations a member makes on a retirement application now take effect on the date of retirement instead of the date the Retirement Systems receives the application. This new policy applies to all applications with a retirement date of January 1, 2000, or later.

This change allows members to continue to have both primary and contingent beneficiaries for active membership survivor benefits until the actual date of retirement. Newly revised retirement applications are available from your employer or the Retirement Systems at 1-800-868-9002 (in S.C.) or 803-737-6800. ✍

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## **From the Director**

### **Guaranteed COLAs important step**

Taking steps to guarantee the cost-of-living adjustments (COLAs) for South Carolina Retirement System (SCRS) retirees is the most important initiative in this year's legislative agenda. The COLA is a critical feature of the retirement benefit—protecting the purchasing power of the retirement benefit over the lifetime of the member and the member's beneficiary.

But the effort involves more than a benefit increase—it represents a **system reform**. All relevant measures of the soundness and stability of the retirement system are based on the calculation of system **liabilities**, the state's financial commitment owed to current and future retirees.

Our commitment to pay the COLA is not included in the official statement of liabilities. Accountants and actuaries have national standards that exclude conditional (or ad hoc) benefits from the liability calculation. Excluding the COLA from liabilities is formally "accurate" from an accounting standpoint, but it ignores a real economic liability. The guaranteed COLA would be appropriately represented in our accounting statements and fairly describe the reality of the COLA commitment.

Financing any benefit increase out of system liabilities without acknowledgment of the COLA liability is wrong. It is like borrowing money to buy a car and failing to disclose the mortgage on your home.

Until the COLA is guaranteed, we must evaluate all proposed benefit changes in light of the impact on the COLA liability. For example, reducing the service time required for retirement (say, to 28 years from 30 years), does not substantially exacerbate the problem. Members will be eligible for the COLA sooner, but there is no dramatic increase in the numbers of COLA recipients or the amount of the monthly benefit used to calculate the COLA.

Increasing the retirement annuity formula multiplier severely compounds the problem. An increase of the SCRS multiplier to 1.95 from 1.82 increases every member's annuity by more than 7 percent. Thus, the base upon which the COLA is granted increases by more than 7 percent, as does the liability represented by our commitment to pay the annual COLA to every member for his or her lifetime, and the lifetime of the member's beneficiary.

The SCRS offers public employees an adequate retirement benefit—a lifetime annuity well in excess of 50 percent of final salary. Sustaining this system for future generations is our most important goal. ✍

*Bob Toomey*

## To vest or invest

If you leave employment covered by the South Carolina Retirement Systems and keep your money in your retirement account, you will retain your membership. If you have at least five years of service credit toward retirement, you are vested—eligible for a future retirement benefit.


But, if you're only 30 years old, you may wonder if it would be better to withdraw your member contributions, forfeit any future benefits, and invest your money yourself. Consider the number of years until you are eligible to receive a pension, whether you plan to return to covered employment in South Carolina, and your confidence that you will invest your money wisely.

### If you remain vested:

- You are **guaranteeing** your membership and, if you have at least five years of service credit, a future benefit.
- If you later return to covered employment, you retain your membership and service credit.
- Your contributions continue to earn interest and will be paid to your beneficiary if you die before you are eligible to retire.

### If you withdraw and invest

- You have your contributions plus interest to invest now, with the possibility that your money will grow into a greater sum before you retire.
- If you return to covered employment, you will be able to purchase your previous service to reestablish your service credit toward retirement.
- Withdrawn member contributions are subject to a 20 percent tax withholding unless you roll over the funds directly into a qualified retirement account.

You can calculate an estimate of future benefits on our website or request one by calling the Retirement Systems at 1-800-868-9002 (in S.C.) or 803-737-6800. 


# Deferred Compensation match on the way

Last session, legislation passed allowing public employers to make contributions to accounts of employees participating in the South Carolina Deferred Compensation Program or other similar programs offered by the employer. The match is designated for employees of state agencies and institutions such as universities.

The Appropriations Act requested more than \$7.1 million in unspent general fund appropriations for a 401(k) matching contribution program. Of this, \$2.8 million is available. This amount will be applied to that portion of salary that is appropriated. Employers will make up the difference from other funding sources. The amount of the match will be \$118 for each eligible state employee and will be distributed on or around April 1. Governor Jim Hodges hopes this year's match will not be a onetime offering but will be the beginning of a new, ongoing benefit for these employees.

## For your information

- During calendar year 1999, assets in the Deferred Compensation Program grew by 15 percent to \$1.5 billion.
- Deposits during 1999 increased 12 percent to \$124 million from \$111 million in 1998.
- More than \$600 million (40 percent of all assets) is invested in mutual funds as opposed to the guaranteed funds.
- In 1999, mutual fund deferrals accounted for 59 percent of all deposits.

For more information about the benefits and choices of contributing to a tax-deferred savings program, contact your personnel/benefits office or contact the South Carolina Deferred Compensation Program directly at 1-800-922-1380 or 803-734-9700. You may also want to visit the Deferred Compensation website at [www.sc.hrbenefits.com](http://www.sc.hrbenefits.com). 

## Frequently asked questions about your membership

**Q. How much of my salary is withheld for membership?**

**A.** If you are a member of the South Carolina Retirement System (SCRS), 6 percent of your salary is withheld and remitted to our office monthly. If you are member of the Police Officers Retirement System (PORS), the rate is 6.5 percent.

**Q. May I borrow against my funds?**


**A.** No. Your funds are refundable after a minimum of 90 days have elapsed following termination of covered employment by all participating Retirement Systems employers.

**Q. Is membership in the Retirement Systems mandatory?**

**A.** Any full-time or part-time employee

who fills a permanent position must join. There are a few specific positions for which membership is not mandatory, and employers give that option to these employees when hired. If you already have an account with the Retirement Systems from previous employment and have not withdrawn your account, membership is usually mandatory regardless of the position.

**Q. Do I remain in SCRS or PORS if I change employers?**

**A.** If your new employer is covered by the Retirement Systems, your membership continues. Your new job description determines if you would participate in SCRS or PORS. 

# Investment Panel continues to develop equity portfolio

Retirement Systems Investment Panel members have been working diligently on their appointed task to make recommendations for investing the retirement funds in equities. To date, approximately \$1.7 billion has been invested in equities, including the initial 5 percent investment in the Index fund during Fiscal Year 1998-1999.

Last fall, the Panel began selecting money managers to invest the funds in equities. The strategies for the types of investments and diversification are determined according to the annual investment plan for Fiscal Year 1999-2000, which was approved by the State Budget and Control Board last May. These investments will occur in increments throughout the remainder of this fiscal year.

William M. Mercer Investment Consulting, Inc., as you may recall, is the investment consultant. Part of the consultant's task in the money manager selection process is to sort through the more than 1,200 companies in its extensive database, select those qualified to make such investments based upon the guidelines set by the Investment Panel and the Board, and recommend the top candidates for the Panel to consider for interviews. The Panel selects finalists, then conducts interviews and selects managers to recommend to the Board for final appointment.

This winter the Panel selected managers for the next allocation of funds targeted for investment. This block of funds will be invested during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of the fiscal year and managers for the final allocations will be selected within the next two months.

By the end of this fiscal year, approximately \$2.8 billion of the retirement assets will have been invested in equity securities during the last two fiscal years. This represents about 15 percent of the total retirement portfolio. The remaining 85 percent will still be invested in fixed-income vehicles such as government and corporate bonds until an investment plan is implemented for Fiscal Year 2000-2001. ✍

## Welcome, new members!

The employers below joined the South Carolina Retirement Systems during 1999. If you are a current or former employee of one of them, you may be eligible to purchase additional service credit for previous work with these employers. Contact your personnel/benefits office or the Retirement Systems at 1-800-868-9002 (in S.C.) or at 803-737-6800.

- Anderson County Fire Protection Commission
- Town of Ruby
- Darlington County Council on Aging
- Dorchester Human Development
- Lancaster County Council on Aging
- Town of Carlisle
- Union County Council of Aging
- Catawba Area Agency on Aging
- York County Council on Aging
- Town of Hilton Head Island
- City of Folly Beach
- Town of Andrews
- Piedmont Park Fire District
- Poplar Springs Fire Department
- Town of Sycamore ✍

## Social Security rates for 2000

**Maximum Taxable Earnings.** The maximum earnings on which Social Security taxes (6.2 percent) are withheld increased to \$76,200. There is no limit for Medicare (1.45 percent).

**Quarter of Coverage.** The amount of wages needed to earn a Social Security credit (a quarter of coverage) is now \$780. Forty quarters are needed to be able to receive benefits upon eligibility. In calculating benefits, Social Security reviews the individual's entire work record and selects the highest 35 years of earnings.

**Cost-of-living Adjustment.** The 2000 Social Security cost-of-living adjustment (COLA) is 2.4 percent.

**Social Security Earnings Limit.** If you are under full retirement age (currently age 65) when you begin receiving your Social Security benefit, \$1 in benefits will be deducted for each \$2 you earn above an annual limit of \$10,080.

In the year you reach full retirement age, \$1 in benefits will be deducted for each \$3 you earn above an annual limit of \$17,000.

Beginning with the month you reach full retirement age, you will no longer be subject to an earnings limit.

**Hospital Insurance Part A.** The monthly premium decreased to \$301. **This premium is paid only by individu-**

**als who are not eligible for Social Security benefits or who are not otherwise eligible for premium-free hospital insurance.** The Part A deductible increased to \$776.

**Supplemental Medicare Insurance Part B.** The Part B deductible remains \$100. The monthly premium also remains \$45.50.

If you have any questions, call the Social Security Administration at 1-800-772-1213 or the local office nearest you. You may also access Social Security and Medicare information online at [www.ssa.gov](http://www.ssa.gov). ✍

# Age for full Social Security benefits gradually increasing from 65 to 67

The Social Security Administration is gradually raising the age for full retirement benefits. If you were born before 1938 you will be eligible for full Social Security benefits at age 65. For those born later, however, the eligible age will increase in gradual steps from 65 to 67.

When you will be eligible for full benefits depends on your year of birth, as indicated in the chart below. The age gradually increases to 66 for those born 1938-1943, levels off and remains at 66 for those born between 1943 and 1954, and then goes up again gradually, until reaching age

67 for those born in 1960 or later.

No matter what your "full" retirement age is, you may still begin receiving Social Security benefits as early as age 62, but the bigger the gap between 62 and your full retirement age, the bigger the reduction in your Social Security benefits.

There are disadvantages and advantages to taking your benefit before your full retirement age. The disadvantage is that your benefit is permanently reduced. The advantage is that you collect benefits for a longer period of time. Each person's

situation is different, so make sure you contact Social Security before you decide to retire.

Though the age for full Social Security benefits will be increasing, **the age for Medicare eligibility will remain 65.**

If you have any questions, call the Social Security Administration at 1-800-772-1213 or call the local office nearest you. You may also access Social Security and Medicare information online at [www.ssa.gov](http://www.ssa.gov).

Your year of birth	Year you will reach age 62	Full retirement age (100% of benefits)	Percentage of benefits at age 62
1937 or earlier	1999 or earlier	65 yrs.	80.00%
1938	2000	65 yrs., 2 mos.	79.17%
1939	2001	65 yrs., 4 mos.	78.33%
1940	2002	65 yrs., 6 mos.	77.50%
1941	2003	65 yrs., 8 mos.	76.66%
1942	2004	65 yrs., 10 mos.	75.83%
1943 - 1954	2005 - 2016	66 yrs.	75.00%
1955	2017	66 yrs., 2 mos.	74.17%
1956	2018	66 yrs., 4 mos.	73.33%
1957	2019	66 yrs., 6 mos.	72.50%
1958	2020	66 yrs., 8 mos.	71.66%
1959	2021	66 yrs., 10 mos.	70.83%
1960 or later	2022 or later	67 yrs.	70.00%

## Benefit limits for 2000

**Pretax contribution cap.** The maximum amounts employees may contribute on a tax-deferred basis to the South Carolina Deferred Compensation Program are:

- **401(k) plan**—25 percent of adjusted gross salary or \$10,500;
- **403(b) tax-sheltered annuity**—\$10,500, depending on exclusion allowance calculation;
- **457 plan**—25 percent of adjusted gross salary or \$8,000.

Contact the Deferred Compensation Program at 1-800-922-1380 or 803-734-9700 for additional information.

**Compensation cap.** Employees who join the Retirement Systems on or after January 1, 1996, have a limit each calendar year on the amount of compensation subject to retirement contributions. The limit this year is \$170,000.

## Did you know...

If all the dollars paid in monthly benefits last year to retirees and beneficiaries of the Retirement Systems were laid end-to-end along the equator, they would circle the globe more than three times?



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