

SYSTEMS UPDATE

Vol. 20, No. 2

JULY 1999

Year 2000 update

The Year 2000 issue has certainly generated its share of anxiety, and Retirement Systems staff have already heard from a few concerned customers. We are very pleased with our current status, and we'd like to share with you some of the things we've done to reach or exceed Y2K compliance.

Q. HOW LONG HAS THE RETIREMENT SYSTEMS BEEN WORKING ON Y2K COMPLIANCE?

A. We have been on top of this issue since 1994, when we began a large-scale re-engineering project. This project placed us in a unique situation—knowledge of the Y2K problem at a time when we were replacing virtually all of our computer systems, allowing us to begin addressing the issue early, effectively, and cost-efficiently.

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From the Chairman of the Retirement Systems Investment Panel

by Edwin S. Pearlstine, Jr., Panel Chairman

Greetings! On behalf of the S.C. Retirement Systems Investment Panel, I would like to report to you what we are doing and why. Members of this Panel¹ are appointed by the Governor and other members of the S.C. State Budget and Control Board. It is our responsibility to recommend investment strategies to the Board for investing part of the state retirement fund in *equities*, or stocks.

We take our investment responsibilities very seriously. The expertise I see in the other members of the Investment Panel is phenomenal. Not only that, a host of other experts in the asset management and investment communities are contacting us every day, seeking the opportunity to serve. Key to our involvement is the *fiduciary responsibility*. We are bound to act in the best interest of the state retirement fund and the members.

We understand some members' concerns about the volatility in financial markets, and we are mindful that risk is characteristic of markets—both the stock market and the bond market. The main thing to remember is that the State of South Carolina backs your retirement benefits, regardless of investment performance. Your benefits will be secure.

There is no way to predict what the market will do or what the outcome will be, especially over the short term. At any time there could be a downturn in the market; everyone should expect that to occur at some point. But, we don't believe in market timing or investing for the short term, anyway. Retirement Systems funds will be invested incrementally **over the long term**. Even under some worst-case scenarios analyzed by the actuary, all indications still point toward investing in equities for the long-run.

Investment performance risks will also be minimized through a conservative investment philosophy outlined in the statutes. No more than 40% of total assets will be invested in equities, and we will enter the market in stages—no more than 10% of total

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¹Members of the Retirement Systems Investment Panel—

- Edwin S. Pearlstine, Jr.**, Panel Chairman, Charleston, Retired
- Arthur Bjontegard**, Columbia, S.C. Independent Colleges and Universities
- Blaine Ewing**, Charleston, Robinson Humphrey & Smith Barney
- J. William Harper**, Greenwood, Greenwood Capital Associates
- James Shoemaker**, Greenville, Wyche, Burgess, Freeman & Parham

Summary of 1999 legislative changes

MATCHING CONTRIBUTIONS FOR DEFERRED COMPENSATION PROGRAM PARTICIPANTS

Public employers participating in the S.C. Deferred Compensation Program or other existing, similar programs qualified by the IRS are authorized to make contributions to the accounts of participating employees. Up to \$300 per year may be contributed on behalf of full-time employees of state agencies and institutions.

The amount of matching contributions will depend on the availability of funds as determined by the legislature. More than \$7 million in unused appropriations for Fiscal Year 1998-99 is authorized for this purpose if it remains available. Up to \$300 (or a prorated amount if full funding is not available) will be contributed on behalf of each permanent employee who as of July 1, 1999:

- Is a permanent full-time state employee and has been continuously employed for the past 24 months;
- Remains so employed on the date(s) contributions are made; and
- Matches the state contribution(s) if earning an annual salary of \$20,000 or more.

Employees whose annual salary is less than \$20,000 are not required to match the state's contribution(s). The State Budget and Control Board will develop the specific procedures to implement this new provision for state agencies and institutions. Other employers may determine their own procedures.

—H3696 (R200) General Appropriations Act, Act 100, Part IB Provisos, Section 72.48

TAX DEDUCTIONS

State income tax deduction

The income tax deduction for people age 65 and older has been increased from \$11,500 to \$15,000 for tax year 1999. As before, the age 65 deduction must be offset by any retirement deduction claimed. Married taxpayers filing jointly will be allowed a total of up to \$30,000 if both spouses are age 65 or older.

—H3696 (R200) General Appropriations Act, Act 100, Part II Provisos, Section 28. Amends Code §12-6-1170(B)

Retirement income deduction

South Carolina retirees who opted to not take a \$3,000 retirement deduction in prior years are now eligible for a tax refund. This corrects an oversight in a special tax break for senior citizens passed last year. Previously, taxpayers who retired before age 65 could take a \$3,000 deduction on their retirement income or forego the deduction until age 65, at which point they could claim a \$10,000 deduction instead. But legislation passed in 1998 allowed state retirees to claim the \$3,000 deduction until age 65 and then claim \$10,000 when they reach age 65.

Retirees who opted to not take the \$3,000 deduction from 1994 to 1997 can now file an amended state tax return to adjust their income for those years. Retirees who qualified for the deduction in 1994 and 1995 have until December 31, 1999, to file amended returns. Those qualifying for the deduction in 1996 and 1997 have until April 15, 2001, to file. An amended return must be filed for each year claimed.

Taxpayers can download Form SC1040X from the S.C. Department of Revenue's website at www.dor.state.sc.us or call 1-800-768-3676.

—H3696 (R200) General Appropriations Act, Act 100, Part II Provisos, Section 29 Amends Code §12-6-1170

LIFEPLAN offers free retirement planning information

Need to know more about retirement planning? We recently added a link to our website—**LIFEPLAN** (Learning and Investing For an Energetic and Productive Life while accumulating a Nest egg), located on the *National Council on Teacher Retirement* (NCTR) website.

You contribute toward retirement through the Retirement Systems and Social Security, but you will probably need additional savings to maintain your lifestyle in retirement. Americans, as a whole, need to substantially increase their savings not only for their own benefit, but for the continued growth of the U.S. economy. The goal of NCTR's LIFEPLAN is to encourage public employees to save more through tax-sheltered plans approved by the Internal Revenue Service, such as 401(k), 403(b), and IRAs.

LIFEPLAN includes basic information on estimating what you'll need in retirement, where and how much to save, Social Security, estate planning, and preparing for the transition into retirement. LIFEPLAN also offers information on buying a home, creating a budget, life insurance, paying for college, establishing credit, etc., and explores issues such as getting married, moving, and healthy living.

To find the LIFEPLAN page, visit our site at www.scrs.state.sc.us and click on "the LIFEPLAN page." And please, we'd love to hear your comments about LIFEPLAN. Simply reply using the e-mail link on our website: custservice@scrs.state.sc.us. **NOTE:** The South Carolina Retirement Systems neither endorses or guarantees the accuracy of the information on the LIFEPLAN page. ✍

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FROM THE CHAIRMAN

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assets will be invested in equities in any given fiscal year. The Panel and the Board will pursue a prudent strategy and disciplined investment process that will provide diversification across asset classes, investment managers, and management styles.

It is also important to achieve optimal long-term investment performance at the lowest possible cost. We will be doing everything possible to ensure the best investment managers are selected. We will look at such things as historical investment returns, quality of investments, costs and fees, reputation of company and staff qualifications, individual and company track records, prior experience, and results with similar type and size of funds.

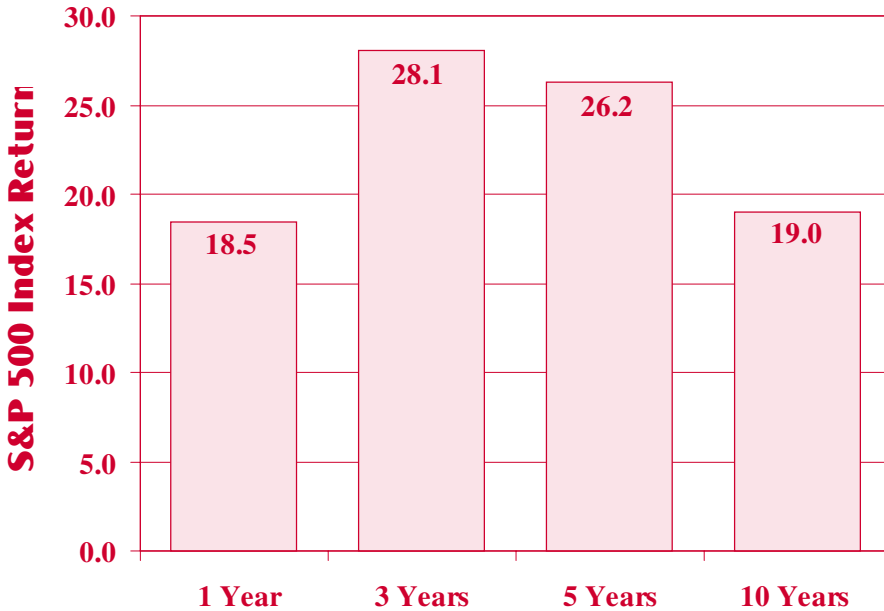
This year, 5% (approximately \$918 million as of June 30, 1998) was invested in a Standard and Poors (S&P) 500 Index fund designed to match the performance of the top 500 stocks rated by S&P. As I already mentioned, historical returns do not guarantee future returns, but in looking back at the S&P 500 over the last decade, performance has been very strong and re-affirms the growth potential. The chart below shows S&P 500 growth over the past 1, 3, 5, and 10 years.

This first investment is an exciting one—launching us into a new era of growing opportunities and possibilities. The article on page 4 of this newsletter explains more the decision and steps culminating in this transaction.

With more than 280,000 active members and benefit recipients, it is very important to the members of the Investment Panel, the Budget and Control Board, and the staff at the Retirement Systems to continue improving services and further enrich the lives of South Carolinians. I am confident, in speaking for all three, that investing pension funds of the Retirement Systems in equities is a positive step toward that end. ✍



S&P 500 Index Return
Periods Ended March 31, 1999



Periods greater than one year are annualized.

Beneficiary designations at retirement

Beginning January 1, 2000, the beneficiary designations on a member's retirement application will take effect on the date of retirement, instead of the date the Retirement Systems receives the application. The new effective date will apply to all applications with a retirement date of January 1, 2000, or later. The change will allow a member to have both primary and contingent beneficiaries for active membership survivor benefits until the member's actual date of retirement.

We are in the process of updating the applications to reflect this change. New applications should be distributed to employers later this year. Until then, members planning to retire on or after January 1 will receive a notice informing them of this change. To review current beneficiary choices, contact Customer Service to get a copy of the last statement mailed to the address on file—1-800-868-9002 (in S.C.) or 803-737-6800. ✍

New installment loan rate

The interest rate for financing additional service through the Installment Service Purchase Program fell from 10.5% to 9.75% for FY 1999-2000. The rate is based on prime, published by the Federal Reserve, plus 2%. The Installment Service Purchase program gives members the opportunity to establish certain, eligible types of service through payments of principal and interest that are payroll-deducted and remitted directly to the Retirement Systems by their employers. ✍

YEAR 2000 UPDATE

Continued from page 1

Q. WHAT HAS BEEN DONE TO ADDRESS THE Y2K ISSUE?

A. We have been making sure purchased hardware, software, and systems are Y2K compliant, and we are requiring all vendors to provide documentation to that effect. All of our systems and applications developed in-house are already compliant.

Regardless of these steps, we can never be too sure. We have been continually testing and re-testing, and we expect to finish later this summer.

Q. IS MY RETIREMENT ACCOUNT SAFE?

A. Yes! In addition to meeting the computer systems requirements, our staff have been meeting with the technology experts with the S.C. Bankers Association. As a financial institution, we felt they could offer much experience and assistance. They have assured us that all banks in this state WILL be 100% compliant. We are also following the compliancy guidelines as published by that association.

As a guarantee, all data is backed up daily and stored off-site according to our disaster recovery plan (in case of hurricane, flood, fire, etc). Our entire system can be restored and operational, on- or off-site, within 24-48 hours.

Q. WHAT ELSE IS THE RETIREMENT SYSTEMS DOING ABOUT Y2K?

A. We're doing everything possible to protect the integrity of membership data and to provide uninterrupted service into 2000. In addition to the points made above, staff are also meeting with various professional groups whose purpose is to address Y2K issues.

Chief among them is the *South Carolina Coalition for Year 2000 Readiness*, which includes representatives from other state agencies and private organizations. This group focuses on Y2K awareness, contingency planning, resource sharing, and consequence management.

For more information on the Year 2000 issue, visit the state Y2K website at www.state.sc.us/y2000. It also includes links to other sites devoted to finding solutions. ✍

Investment Panel update

Much progress has been made toward investing a portion of the state retirement fund in equities. Our last report to you in the *Systems Update* included a summary of the legislation that outlined the general guidelines for investing. That is briefly revisited in a letter from the Retirement Systems Investment Panel Chairman, Edwin Pearlstine, Jr., on page 1. Also reported was a summary of the Panel's first meeting in July 1998.

Since that time, the Panel, Retirement Systems staff, and personnel from the Office of the State Treasurer have worked together to ensure steady, careful progress toward their common goal—achieving greater long-term investment returns for the state retirement fund as directed by the voters of South Carolina and the State Legislature. S.C. Code §9-16-10 through §9-16-90 and §9-16-310 through §9-16-350 outline the duties as trustees and the investment of the funds.

The following timeline provides a brief summary of what has happened since that first meeting almost a year ago.

Sept. 1998	A request for proposals was drafted and issued to select an <i>investment consultant</i> . In general, the consultant's role is to serve as an extension to the Panel and staff.
Oct. 1998	Through the bidding and evaluation process, a contract was signed with <i>William M. Mercer Investment Consultants</i> out of Atlanta. Since then, the company's liaison, Sandra Morelli , has worked closely with the Panel, researching and drafting required documents and interviewing potential money managers who will actually execute most of the investments.
Jan. 1999	Charles S. Way, Jr. , former Investment Panel chairman, was appointed to head up the Department of Commerce in January 1999 and, as a result, was no longer eligible to serve. Governor Hodges appointed Edwin S. Pearlstine, Jr. , from Charleston, to replace Way.
Mar. 1999	Panel members held a telephone conference to further discuss and clarify what types of investments were allowed under the statutes and to begin drafting the necessary documents requiring approval by the Budget and Control Board before any investing could take place.
Apr. 1999	An <i>investment objectives and policies statement</i> was developed to set up guidelines for determining and maintaining investment objectives and for measuring investment performance. <i>Annual investment plans</i> for this fiscal year and next were also drafted and approved by the Panel, recommending 5% of fund assets be invested on or before June 30 of this year and 10% to be invested before June 30 of next year. These plans, along with the objectives and policies statement, were submitted to the Budget and Control Board for their review and approval.

The Panel also recommended to the Board that the initial 5% (\$918 million as of 6/30/98) be placed in a Standard and Poors (S&P) 500 Index fund. (Widely regarded as the standard for measuring large-cap U.S. stock market performance, this popular index includes a representative sample of leading companies in leading industries. The S&P 500 is used by 97% of U.S. money managers and pension plan sponsors. Some \$700 billion is indexed to the S&P 500.¹)

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¹ From Standard & Poor's Index Services website:
www.spglobal.com/ssindexmain.html

INVESTMENT PANEL UPDATE

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May 1999 At their May 11 meeting, the Budget and Control Board adopted the investment objectives and policies statement and both the investment plan for Fiscal Year 1998-1999 and for Fiscal Year 1999-2000.

Following this fiscal year's investment plan, the Panel and the investment consultant reviewed bids from potential money managers, one of whom would be chosen to execute the initial 5% investment. The Panel selected *State Street Global Advisors*.

While not a household name, State Street is one of the largest asset management firms worldwide with more than \$489 billion dollars in assets under management. Out of that figure, \$53 billion represents the assets of 34 other government clients in the U.S.

June 1999 The Budget and Control Board approved the Panel's selection at their June 3 meeting. The initial investment in the stock market took place June 16.

To commemorate this occasion, members of both the State Budget and Control Board and the Investment Panel were invited to New York to ring the closing bell at the New York Stock Exchange June 30. While in New York, they also met with one of the nation's leading market strategists, **A. Marshall Acuff, Jr.**, with Salomon Smith Barney. Acuff is widely known for his market analysis reports on the CNN Financial Network. ✍

Forms now available on the web

Need a form? Retirement Systems forms that members and retirees use, as well as those for employers, are now available on our website at www.scrs.state.sc.us.

You will need Adobe Acrobat Reader installed on your pc to view and print any form. If you do not have it, we have provided a link to the Adobe site where you can download and install Reader 4.0—it's free.

If you have any questions or suggestions concerning any of the forms, you can e-mail us at custservice@scrs.state.sc.us or call Customer Service at 1-800-868-9002 (in S.C.) or 803-737-6800. ✍

IVR system changing

As of January 1, 2000, the scripted information contained in the Retirement Systems Customer Services *integrated voice response* (IVR) system will be converted to an informational format for the Retirement Systems website.

Analysis revealed a steady decline in the number of callers who are accessing and using the IVR exclusively. Since most callers have been choosing to speak with a Call Center representative, the IVR is not being used optimally.

Because the IVR scripts contain a wealth of information about applicable laws, regulations, policies, and business practices, we decided to convert them to an Internet format that anyone can access on our website: www.scrs.state.sc.us. This Internet library of South Carolina Retirement System and Police Officers Retirement System information will be available after January 1 and will be updated periodically. ✍



Ushering in a new era of investment opportunity for the South Carolina Retirement Systems—

Members of the State Budget and Control Board and the Retirement Systems Investment Panel were invited to New York to ring the bell at the closing of the stock market June 30, 1999. Five percent of Retirement Systems funds were invested at the end of the 1998-99 fiscal year.

LEGISLATIVE CHANGES

Continued from page 2

EARLY RETIREMENT BUY OUT

Effective July 1, 1999, members of the S.C. Retirement System (SCRS) who are at least age 55 with 25 or more years of service of service credit may retire *without a permanent reduction in benefits due to early retirement* by making a lump-sum payment of 20% of the higher of current annual salary or an average of the 12 highest consecutive quarters of earnings for each year of service fewer than the normal 30 (partial years are prorated).

Members making this lump-sum payment must retire within 90 days after the date of payment. This buy out does not increase the amount of service credit; benefits will be calculated based on the member's actual service.

The chart at the bottom of this page shows a comparison of cost and benefits for someone who is age 55 with 25 years of service. The left column shows a sample monthly benefit without the buy out, and the right column, with the buy out.
—H3696 (R200) General Appropriations Act, Act 100, Part II Provisos, Section 52. Amends Code §9-1-1515

EARNINGS LIMITATION

Earnings limitation increase

The earnings limitation for service retirees increased to \$25,000. Service retirees may return to work for an employer covered by the Retirement Systems and earn up to \$25,000 per fiscal year (July 1 - June 30). If

they exceed this limit, their benefits will be discontinued for the remainder of the fiscal year.

—H3696 (R200) General Appropriations Act, Act 100, Part II Provisos, Section 27. Amends Code §§9-1-1790 and 9-11-90(4)

Employment as consultant

Effective July 1, the provision for employment of up to six months as a consultant ("especially skilled in scientific knowledge and attainment") is eliminated.

—H3696 (R200) General Appropriations Act, Act 100, Part II Provisos, Section 27. Repeals Code § 9-1-1600

Earnings limitation suspended for teachers in critical needs areas

Certified teachers may return to covered employment without affecting their retirement benefits provided:

- The employer is a school district with a critical geographic need or a critical academic need in the area of the returning teacher's certification (as defined by the State Board of Education);
- The hiring school has provided documentation to the Department of Education that no qualified, non-retired teacher is available and that the retired member meets the requirements; and
- The Department of Education has reviewed and approved the documentation and request.
—H3696 (R200) General Appropriations Act, Act 100, Part IB Provisos, Section 1.30 and Part II Provisos, Section 82. ✍

SAMPLE BENEFIT COMPARISON, WITHOUT AND WITH BUY OUT

MEMBER IS AGE 55, HAS 25 YEARS OF SERVICE CREDIT, AND HAS AN AVERAGE FINAL COMPENSATION OF \$25,000		
	EARLY RETIREMENT WITHOUT BUY OUT	EARLY RETIREMENT WITH BUY OUT
REDUCTION FACTOR	20%	N/A
BUY OUT COST	\$0 (N/A)	\$25,000 (20% × 5 years)
RETIREMENT FORMULA	1. AFC × .0182 × service credit = base annual benefit 2. Less 20% for each year fewer than 30 = reduced annual benefit 3. ÷ 12 = reduced monthly benefit	1. AFC × .0182 × service credit = base annual benefit 2. ÷ 12 = monthly benefit
MONTHLY BENEFIT	\$758 per month	\$948 per month
In this example, it would take this member 10.96 years to recover the cost of the buy out (not including the effect of cost-of-living adjustments).		

SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD

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