

SYSTEMS UPDATE



Vol. 20, No. 2-R21

RETIREE ISSUE

JULY 1999

IVR system change

As of January 1, 2000, the scripted information contained in the 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. ✍

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

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¹ Members 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*

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Summary of 1999 legislative changes

H3696 (R200) GENERAL APPROPRIATIONS ACT, ACT 100

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.

—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 tax 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.

—Part II Provisos, Section 29. Amends Code §12-6-1170

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.

—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.

—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

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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.

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

A. We have been making sure all hardware, software, and systems purchased 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.

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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 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.

September 1998

A request for proposals was drafted and issued to select an *investment consultant*. In general, the consultant's role is to serve as an extension to the Panel and staff.

October 1998

Through the bidding and evaluation process, a contract was signed with *William M. Mercer Investment Consultants* 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.

January 1999

Charles S. Way, Jr., former Investment Panel chairman, was appointed to 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.

March 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.

April 1999

An *investment objectives and policies statement* was developed to set up guidelines for determining and maintaining investment objectives and for measuring investment performance. *Annual investment plans* 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 June 30, 1998) 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)

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 searched for 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.

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

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Employment opportunity at SCDOR

The SC Department of Revenue (SCDOR) is looking for temporary, part-time employees to work Monday through Friday, with flexible hours from 7 a.m. to 5 p.m. Some positions are seasonal (January - June tax season); others are for two-week periods throughout the year.

The work involves running processing equipment, using a 10-key touch calculator, and/or sorting and batching tax returns. Some positions require lifting from 10 to 40 pounds. Wages range from \$5.90 to \$6.90 per hour.

To apply, please submit a *State Application for Employment (Form PD-10D)* or a *Department of Revenue Seasonal Employment Application* to: SCDOR Human Resources, Attention: Wendy Bonnette, 301 Gervais Street, Columbia, SC 29214, or fax your application to 803-898-5425.

State applications are available on the Internet at www.state.sc.us/jobs/application. You may also obtain a Seasonal Employment Application or the state application from DOR by calling 803-898-5452. Indicate on either application that you are applying for a *Seasonal Processor Position*. ✍

Help us find them!



In the last issue of *Systems Update*, we asked you to help us locate 25 former members who were eligible for lifetime benefit payments. These folks had left covered employment, moved, etc., and we were unable to obtain current information on them. As a result of your help, we were able to gain information on 21 of them!

Due to the great success, we are including another 25 names in this issue. So, can you please help us again? Call us toll-free, within S.C., at 1-800-868-9002 or at 803-737-6800 if you can help us locate these individuals.

NAME	LAST KNOWN EMPLOYER
RITA V. ADDIS	OCONEE COUNTY SCHOOL DISTRICT
JOHN C. BENNETT	HORRY COUNTY COUNCIL
EULA W. BONNER	CHEROKEE COUNTY HOSPITAL BOARD
BOOKER T. BURRIS	AIKEN COUNTY DEPT. OF EDUCATION
ROBERT E. CONNELLY	ALLENDALE COUNTY COUNCIL
G.C. CRANFORD	CENTRAL CAROLINA TECHNICAL COLLEGE
ROBERT H. EDWARDS	CITY OF LANCASTER
FELIX L. FINLEY, JR.	PICKENS COUNTY COUNCIL
PAUL C. FISHER	COLLEGE OF CHARLESTON
FANNIE B. FLEMING	DHEC
DAVID L. FREEMAN	SOUTH CAROLINA JUDICIAL SYSTEM
FLETCHER GAITHER	CHESTER SCHOOL DISTRICT
BRAZOLLA GAMBRELL	ANDERSON SCHOOL DISTRICT 4
MARIAN M. HARPER	DARLINGTON COUNTY DEPT. OF EDUCATION
KATHRYN W. HILL	DARLINGTON COUNTY DEPT. OF EDUCATION
BILL L. JONES	TOWN OF PAGELAND
JOHN PROTHRO LIVINGSTON	BLACKVILLE SCHOOL DISTRICT
OLIVIA MIXON	MIDLANDS TECHNICAL COLLEGE
ETHEL M. MOSES	SUMTER SCHOOL DISTRICT 2
BRAXTON B. SANDERS, III	CITY OF BENNETTSVILLE
THEO SANDERS	DARLINGTON COUNTY COUNCIL
WARREN A. TAYLOR	CITY OF COLUMBIA
WILLIAM A. WEATHERLY	CITY OF SUMTER
SARA W. WILLIAMS	EDGEFIELD BOARD OF EDUCATION
ELIZABETH T. WILLS	UNIVERSITY OF SOUTH CAROLINA

LEGISLATIVE CHANGES

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- The Department of Education has reviewed and approved the documentation and request. —Part IB Provisos, Section 1.30 and Part II Provisos, Section 82

BY ACTION OF THE STATE BUDGET AND CONTROL BOARD

COST-OF-LIVING ADJUSTMENT

South Carolina Retirement System and Police Officers Retirement System retirees received a 1.6% *cost-of-living adjustment* (COLA) effective July 1. This adjustment is tied to the change in the Consumer Price Index for 1998. As always, retirees are eligible to begin receiving COLAs once they have been retired for a complete fiscal year (July 1 - June 30)—upon their second July 1st of retirement. SCRS members who retired early under the age 55/25 years of service provision are not eligible for COLAs until the second July 1st after reaching age 60 or the second July 1st after they would have had 30 years of service. ✍

FROM THE CHAIRMAN

Continued from page 1

the market in stages—no more than 10% of total 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.

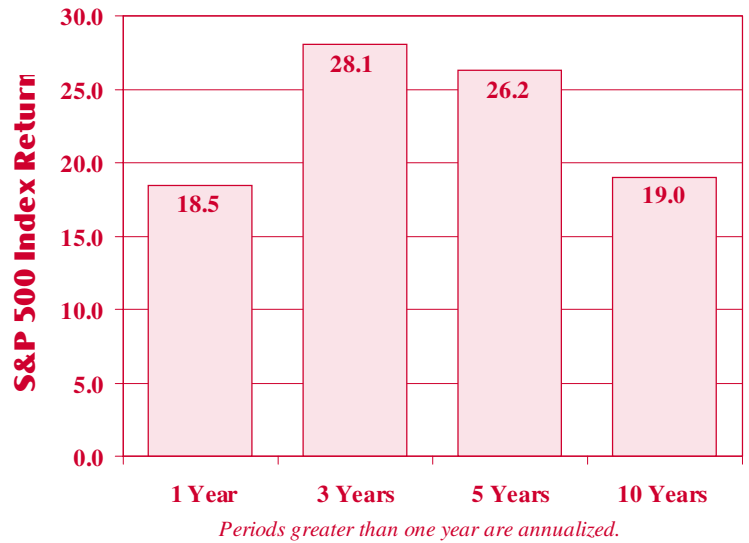
This year, 5% (approximately \$918 million as of June 30, 1998) was invested in a Standard and Poors (S&P) 500 Index fund, designed to match the performance of the top 500 stocks rated

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 reaffirms the growth potential. The chart at right 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 3 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

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



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.

Edwin S. Pearline Jr.

INVESTMENT PANEL UPDATE

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June 1999

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

To commemorate this occasion, members of 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. *✍*



Ushering in a new era of investment opportunity—
Members of the State Budget and Control Board and Retirement Systems Investment Panel were invited to New York to ring the bell at the close of the stock market June 30.



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YEAR 2000 UPDATE

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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. WILL I GET MY RETIREMENT CHECK AS USUAL?

A. Yes! If you get your checks through the mail, we have already tested the printing machines that produce retirement checks, and they are Y2K compliant. For those of you on direct deposit, all bank *electronic fund transfer* (EFT) systems have already been tested and approved. Also, keep in mind direct deposits will be processed before the close of business Dec. 31, before the clock strikes midnight—an extra assurance! And, as an added precaution, we are considering printing a backup set of checks prior to the end of December.

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 Year 2000, visit the state website at www.state.sc.us/y2000. It includes links to other sites devoted to finding solutions. ✍

SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD

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