

POLICE OFFICERS RETIREMENT SYSTEM (PORS)
ACTUARIAL VALUATION REPORT
AS OF JULY 1, 2011

April 16, 2012

State Budget and Control Board
South Carolina Retirement System
P.O. Box 11960
Columbia, SC 29211-1960

Dear Members of the Board:

Subject: Actuarial Valuation as of July 1, 2011

This report describes the current actuarial condition of the Police Officers Retirement System (PORS), determines the calculated employer contribution rates, and analyzes changes in these contribution rates. In addition, the report provides information required by the Retirement System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data. Results of this report should not be used for any other purpose without consultation with the undersigned. Valuations are prepared annually as of July 1, the first day of the plan year for PORS. This report was prepared at the request of the State Budget and Control Board (Board) and is intended for use by the South Carolina Retirement System (SCRS) staff and those designated or approved by the Board.

Under SCRS statutes, the Board must certify the employer contribution rate annually. This rate is determined actuarially, based on the Board's funding policy, although, the Board may choose not to reduce the current rate if it is greater than the actuarially calculated rate. A contribution rate is determined by a given actuarial valuation and becomes effective twenty-four months after the valuation date. In other words, the rates determined by this July 1, 2011 actuarial valuation will be used by the Board when certifying the employer contribution rates for the year beginning July 1, 2013 and ending June 30, 2014. If new legislation is enacted between the valuation date and the date the contribution rates become effective, the Board may adjust the calculated rates before certifying them, in order to reflect this new legislation. Such adjustments are based on information supplied by the actuary.

FINANCING OBJECTIVES AND FUNDING POLICY

The principle objectives in the funding policy that is maintained by the Board include:

- Establish a contribution rate that remains relatively level over time.
- To set a rate so that the measures of the System's funding progress which include the unfunded actuarial accrued liability, funded ratio, and funding period will be maintained or improved.

- To set a contribution rate that will result in the unfunded actuarial accrued liability (UAAL) to be amortized over a period from the current valuation date that does not exceed 30 years;

To accomplish this, the Board's funding policy requires that the employer contribution rate be at least equal to the sum of the employer normal cost rate (which pays the current year's cost) and an amortization rate which results in the UAAL to be funded over a period that does not exceed 30 years in installments that increase at the assumed rate of growth in payroll for PORS.

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches at least 100%.

The funded ratio of the System increased from 74.5% to 77.3%. This increase was primarily due to the decrease in the automatic COLA from 2.00% to 0.00% as a result of the reduction in the valuation interest rate to 7.50%. However, absent favorable experience, we expect the funded ratio to decrease for the next several years as the 2008 investment loss is continually recognized in the development of the actuarial value of assets.

If market value of assets had been used in the calculation instead of actuarial (smoothed) value of assets, the funded ratio for the System would have been 68.8%, compared to 58.8% in the prior year. The increase in funded ratio on a market value basis is due to: (a) a favorable experience in the assets during the last fiscal year, and (b) the decrease in the automatic COLA.

ASSUMPTIONS AND METHODS

The Board, in consultation with the actuary, sets the actuarial assumptions and methods used in the valuation. Current Board policy is to have the actuary perform an experience study every five years. An experience analysis was carried out in calendar year 2011, and as a result, we recommended, and the Board adopted a number of changes in the actuarial assumptions to be used for calculating the actuarial valuation as of July 1, 2011.

It is our opinion that the recommended assumptions are internally consistent and are reasonably based on past and anticipated future experience of the System. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

BENEFIT PROVISIONS

The benefit provisions reflected in this valuation are those which were in effect on July 1, 2011. The automatic portion of the COLA, provided to annuitants, was decreased from 2.00% to 0.00% as a result of the change in the investment return assumption. There have been no other material changes in plan provisions since the preceding actuarial valuation.

DATA

Member data for retired, active and inactive members was supplied as of July 1, 2011, by the SCRS staff. The staff also supplied asset information as of July 1, 2011. We did not audit this data, but we did apply a number of tests to the data, and we concluded that it was reasonable and consistent with the prior year's data. GRS is not responsible for the accuracy or completeness of the information provided to us by SCRS.

CERTIFICATION

We certify that the information presented herein is accurate and fairly portrays the actuarial position of PORS as of July 1, 2011.

All of our work conforms with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of South Carolina Code of Laws and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Mr. Newton and Mr. White are Enrolled Actuaries and Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries. Both are experienced in performing valuations for large public retirement systems.

Sincerely,

Gabriel, Roeder, Smith & Co.

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SECTION A

EXECUTIVE SUMMARY

Executive Summary
(Dollar amounts expressed in thousands)

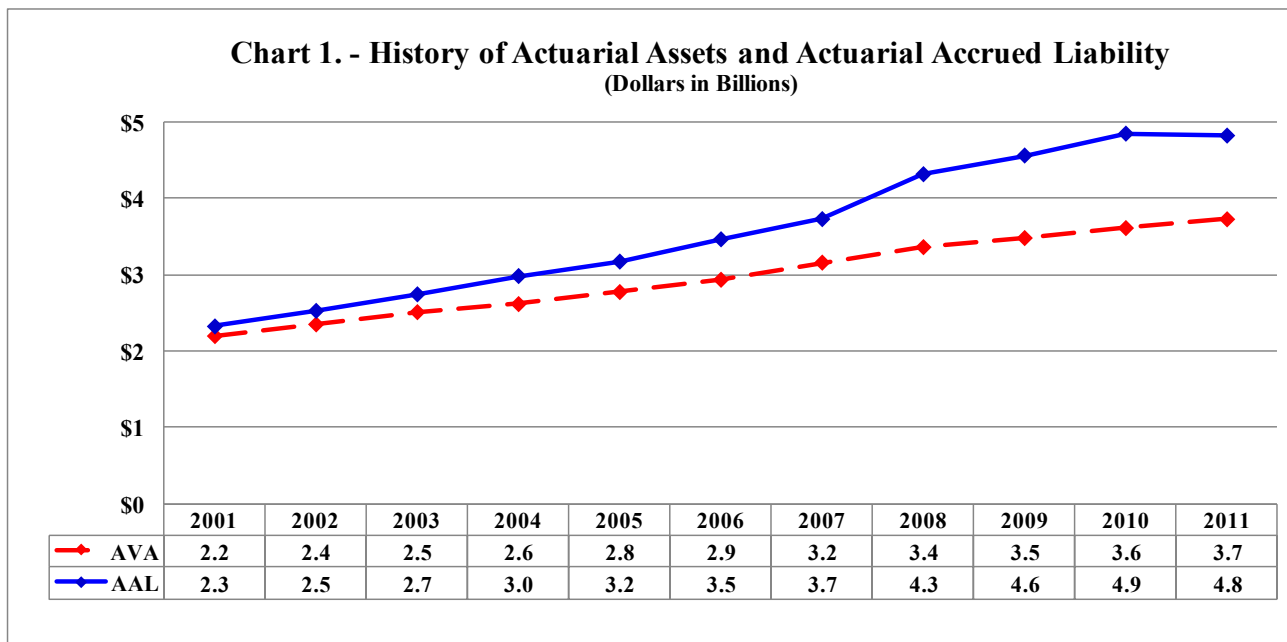
Valuation Date:	July 1, 2011	July 1, 2010
Membership		
• Number of		
- Active members	26,650	26,568
- Retirees and beneficiaries	13,358	12,566
- Inactive members	11,980	11,899
- Total	51,988	51,033
• Projected payroll of active members	\$1,087,587	\$1,076,467
• Projected payroll for all active members, including working retirees	\$1,173,772	\$1,158,390
Contribution Rates		
• Employer contribution rate	12.30%	12.30%
• Member	6.50%	6.50%
Assets		
• Market value	\$3,317,533	\$2,851,474
• Actuarial value	3,728,241	3,612,700
• Return on market value	18.3%	14.3%
• Return on actuarial value	4.6%	3.2%
• Ratio - actuarial value to market value	112.4%	126.7%
• External cash flow %	-1.6%	-1.5%
Actuarial Information		
• Normal cost %	13.39%	13.74%
• Actuarial accrued liability (AAL)	\$4,824,941	\$4,850,457
• Unfunded actuarial accrued liability (UAAL)	1,096,700	1,237,757
• Funded ratio	77.3%	74.5%
• Funding period (years)	22.2	30.0
Reconciliation of UAAL		
• Beginning of Year UAAL	\$1,237,757	\$1,081,891
- Interest on UAAL	71,369	86,551
- Amortization payment with interest	(64,459)	(52,536)
- Assumption/method changes ²	(286,171)	0
- Asset experience	102,677	167,396
- COLA	40,124	0
- Salary experience	(41,879)	(80,056)
- Other liability experience	37,282	34,524
- Incidental death benefit	0	(13)
• End of Year UAAL	\$1,096,700	\$1,237,757

¹ Includes the change in liability due to the change in automatic COLA provisions.

EXECUTIVE SUMMARY (CONTINUED)

The unfunded actuarial accrued liability decreased by \$0.1 billion since the prior year’s valuation to \$1.1 billion. The single largest source of this decrease is due to the decrease in the automatic COLA from 2.0% to 0.00% (a decrease \$0.3 billion). Absent favorable investment experience, we expect the unfunded actuarial accrued liability to increase as the extraordinary investment loss of 2008 continues to be reflected in the actuarial value of assets.

Below is a chart with the System’s historical actuarial value of assets and actuarial accrued liability.



The 12.30% employer contribution rate in effect for FY 2013 continues to be sufficient to result in a funding period that does not exceed 30 years. Therefore, the employer contribution rate for FY 2014 will remain unchanged. However, absent legislative changes or significantly favorable investment experience, the continued recognition of the investment loss that occurred in 2008 in the actuarial value of assets is expected to put upward pressure on the funding period, thus possibly increase the employer contribution rate.

SECTION B
DISCUSSION

DISCUSSION

The results of the July 1, 2011 actuarial valuation of the Police Officers Retirement System are presented in this report. The primary purposes of the valuation report is to depict the current financial condition of the System, determine the annual required contribution, and analyze changes in the System's financial condition. In addition, the report provides information required by the Retirement System in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data.

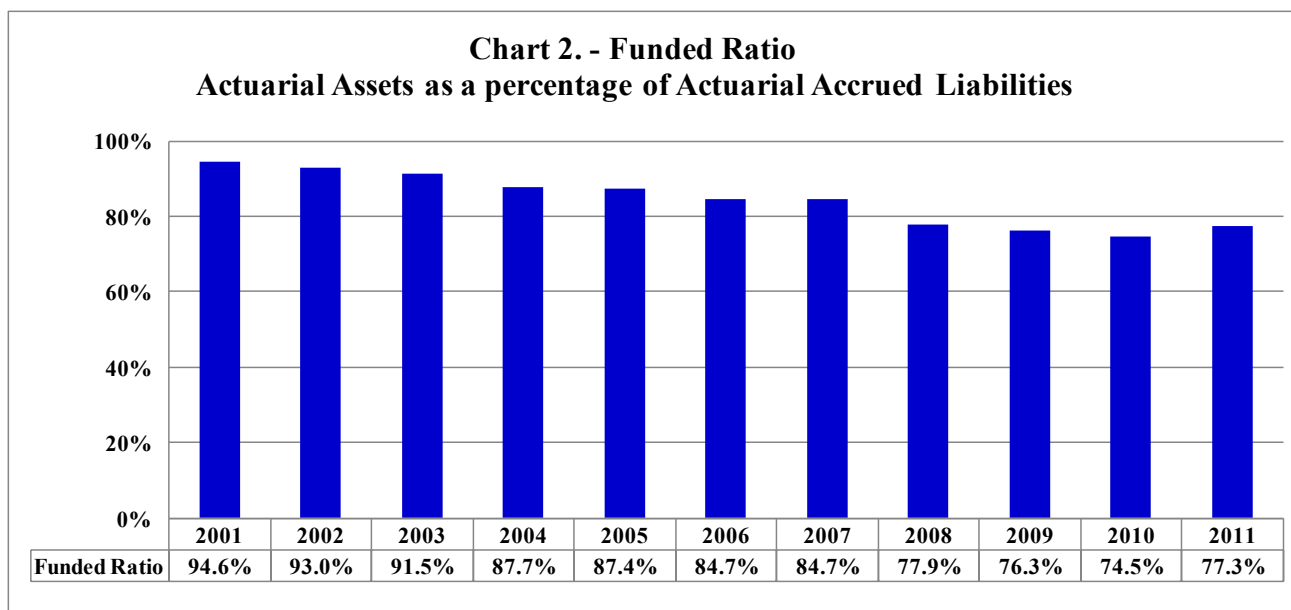
This section discusses the determination of the current funding requirements and the System's funded status, as well as changes in financial condition of the retirement system.

The valuation results for the prior year are shown in this report are for comparison purposes. These were prepared by the Retirement System's prior actuary, Cavanaugh Macdonald Consulting LLC. As part of our transition work, we replicated the results and have previously communicated the results of our replication effort to the State Budget and Control Board

All of the actuarial and financial Tables referenced by the other sections of this Report appear in Section C. Section D provides member data and statistical information. Appendices A and B provide summaries of the principle actuarial assumptions and methods and plan provisions. Finally, Appendix C provides a glossary of technical terms that are used throughout this report.

Funding Progress

The funded status of the System is shown in Table 10, Schedule of Funding Progress. The funded ratio increased from 74.5% to 77.3%; however, the funded ratio has generally trended downward since 2001 as shown in the graph below. This decrease in the funded status over the last 10 years has generally been due to a combination of: (i) the actual investment experience being less than the System’s expected investment return assumption and (ii) increases in the actuarial accrued liability due to the enactment of ad hoc cost of living adjustments to retirees during several of these years.



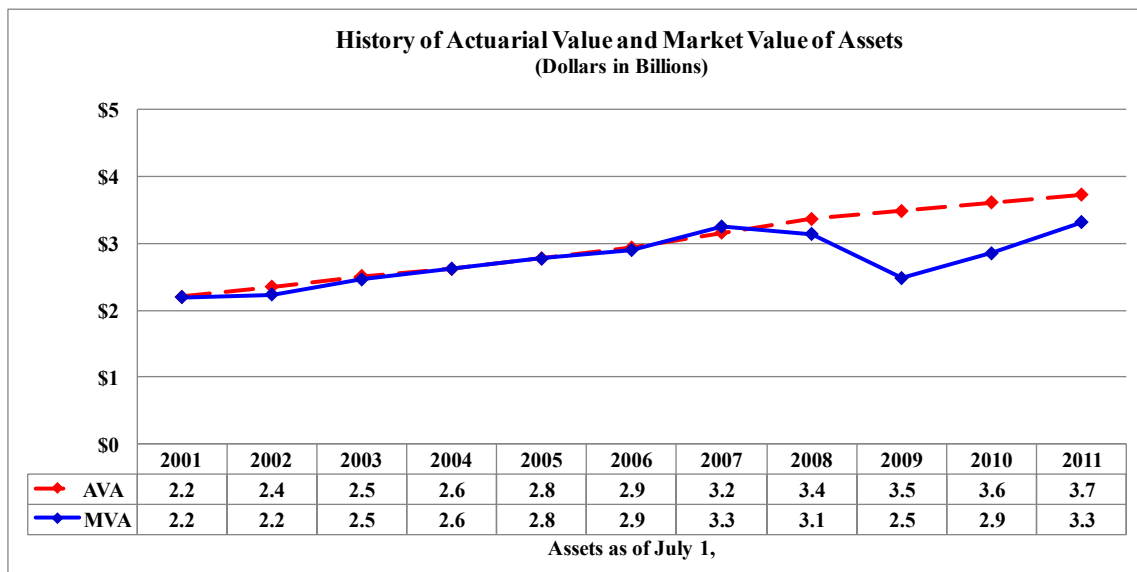
It is expected that the funded ratio (on an actuarial value of asset basis) will decline for the next four or five years before it gradually improves.

Asset Gains/ (Losses)

The actuarial value of assets (“AVA”) is based on a smoothed market value of assets, using a systematic approach to phase-in actual investment return in excess of (or less than) the expected investment income. This is appropriate because it dampens the short-term volatility inherent in investment markets. The expected investment income is determined using the assumed annual investment return rate and the actuarial value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses. Table 8 shows the development of the actuarial value of assets. The actuarial value of assets increased from \$3.613 billion to \$3.728 billion since the prior valuation.

The rate of return on the mean market value of assets in 2011 was 18.3%; which is significantly above the expected annual return. However, because of the recognition of prior investment experience, the actuarial (smoothed) asset value returned only 4.6%. This difference in the estimated return on market value and actuarial value illustrates the smoothing effect of the asset valuation method.

The market value of assets is less than the actuarial value of assets, which signifies that the retirement system is in a position of deferred losses. Therefore, unless the System experiences investment returns in excess of the assumed rate of return, the future recognition of these deferred losses is expected to increase the unfunded actuarial accrued liability and decrease the System’s funded ratio over the next few years.



Tables 6 and 7 provide asset information that was included in the annual financial statements of the System. Also, Table 9 shows the estimated yield on a market value basis and on the actuarial asset valuation method.

Actuarial Gains/ (Losses) and the Funding Period

The System experienced a net liability gain of \$0.04 billion, which is a 0.7% loss when compared to a total actuarial accrued liability (“AAL”) of \$4.8 billion. This net loss was primarily related to the 1.70% COLA that was provided to annuitants at July 1, 2011 (versus a 0.00% assumed COLA).

The annual actuarial valuation is a snapshot analysis of the benefit liabilities, assets and funded position of the System as of the first day of the plan year. In any one fiscal year, the experience can be better or worse from that which is assumed or expected. The actuarial assumptions do not necessarily attempt to model what the experience will be for any one given fiscal year, but instead try to model the overall experience on average over many years. Therefore, as long as average salary increases over a number of years are reasonably close to the current assumptions, the long-term funding requirements of the System will remain relatively consistent. The demographic experience is briefly summarized in the chart below.

The unfunded actuarial accrued liability (UAAL) decreased from \$1.2 billion in 2010 to \$1.1 billion in 2011. The table below shows the source of the gains and losses and the impact of those gains and losses on the UAAL.

Reconciliation of UAAL	
(Dollars in thousands)	
• Beginning of Year UAAL	\$1,237,757
- Interest on UAAL	71,369
- Amortization payment with interest	(64,459)
- Assumption/method changes ¹	(286,171)
- Asset Experience	102,677
- COLA	40,124
- Salary Experience	(41,879)
- Other Liability Experience	37,282
- Legislative Changes	0
• End of Year UAAL	\$1,096,700

¹ Includes the change in liability as a result of the change in automatic COLA provisions.

The current contribution rate in effect for FY 2013 will continue to satisfy the 30-year funding requirement for FY 2014. Below is a table reconciling the change in the funding period from the prior year's valuation. The decrease in the funding period due to the assumption change is primarily the result of the automatic cost-of-living-adjustment decreasing from 2.00% to 0.00% as a result of the decrease in the valuation interest rate to 7.50%.

Change in Funding Period (Years) Based on a 12.30% Contribution Rate	
• Prior Year	30.0
- Expected Experience	(1.0)
- Assumption Change	(10.1)
- Asset Experience	3.1
- Demographic Experience	0.3
- Legislative Changes	0.0
- Total Change	(7.7)
• Current Year Valuation	22.3

Absent favorable investment experience, we expect the funding period to increase over the next few years as remaining deferred investment losses become fully recognized in the actuarial value of assets.

GASB No. 25 and No. 27 Disclosures

Accounting requirements for SCRS are provided by the Governmental Accounting Standards Board Statements No. 25 (“GASB 25”) and No. 27 (“GASB 27”). Table 10 shows a historical summary of the funded ratios and other information for the System. Table 11 shows other information needed in connection with the required disclosures under GASB 25. GASB 27 governs reporting by the employers of government-sponsored retirement plans.

GASB 25 requires that plans calculate an Annual Required Contribution (“ARC”), and, if actual contributions received are less than the ARC, this must be disclosed. The ARC is calculated in accordance with certain parameters. In particular, it includes a payment to amortize the UAAL. This amortization payment must be computed using a funding period no greater than thirty (30) years. For this disclosure, SCRS treats the Board-established contribution rate as the ARC, as long as this produces a funding period that does not exceed 30 years.

Actuarial Assumptions and Methods

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an annual investment return assumption. The Board adopts the actual assumptions to be used in the actuarial valuation, taking into account the actuary's recommendations. The actuarial valuation as of July 1, 2011 reflects the assumptions and methods adopted by the Board in November 2011.

The principle assumption changes were as follows:

- Decrease the investment return assumption from 8.00% to 7.50%.
- Decrease the inflation assumption from 3.00% to 2.75%.
- Modifications to the rate of salary increases.
- Decrease the payroll growth assumption from 4.00% to 3.50%.
- Modify the post-retirement mortality assumption and include an explicit assumption for future improvement in life expectancy.
- Modify the retirement rates for all groups. The changes result in an overall decrease in the rates at which members are expected to retire.
- Modify the termination rates. The updates result in a slight overall increase in the rates at which active members are expected to terminate.
- The actuarial valuation of asset method was changed from one that recognized the difference between the expected and actual return on the market value of assets over a 10-year period, to a modified 5-year asset smoothing method.

It is our opinion that the recommended assumptions are internally consistent and are reasonably based on past and anticipated future experience of the System. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

Benefit Provisions

Appendix B of this report includes a summary of the benefit provisions for PORS. The automatic cost-of-living-adjustment was reduced from 2.00% to 0.00% when the valuation interest rate was reduced to 7.50%. There have been no other material changes in the benefit provisions since the prior valuation.

Summary of Retirement Provisions

- Average Final Compensation (AFC) is based on the highest twelve (12) consecutive quarters of compensation. The determination of a member's AFC also includes up to 45 days of unused annual leave paid at termination. Monthly benefits are based on one-twelfth of this amount;
- The retirement benefit amount is equal to the 2.14% of the member's AFC times the member's credited service (years).
- Members are eligible for retirement after they have (i) 25 years of credited service or (ii) attained age 55 with 5 years of earned service.
- Members do not receive an automatic cost of living adjustment. Subject to certain financial requirements, the Board may grant an ad hoc increase that is above the automatic benefit adjustment.

SECTION C

ACTUARIAL TABLES

TABLES

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Summary of Cost Items
(Dollar amounts expressed in thousands)

	July 1, 2011	July 1, 2010
	(1)	(2)
1. Projected payroll of active members ¹	\$ 1,087,587	\$1,076,467
2. Present value of future pay ²	\$ 7,690,082	N/A
3. Normal cost rate		
a. Total normal cost rate	13.39%	13.74%
b. Less: member contribution rate	<u>-6.50%</u>	<u>-6.50%</u>
c. Employer normal cost rate	6.89%	7.24%
4. Actuarial accrued liability for active members		
a. Present value of future benefits	\$ 3,165,467	\$ 3,256,790
b. Less: present value of future normal costs	<u>1,010,613</u>	<u>1,094,679</u>
c. Actuarial accrued liability	\$ 2,154,854	\$ 2,162,111
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 2,558,128	\$ 2,577,772
b. Inactive members	111,959	110,574
c. Active members (Item 4.c.)	<u>2,154,854</u>	<u>2,162,111</u>
d. Total	\$ 4,824,941	\$ 4,850,457
6. Actuarial value of assets	\$ 3,728,241	\$ 3,612,700
7. Unfunded actuarial accrued liability (UAAL) (Item 5.d. - Item 6.)	\$ 1,096,700	\$ 1,237,757
8. GASB No. 25 Annual Required Contribution Rate		
a. Employer normal cost rate	6.89%	7.24%
b. Employer contribution rate available to amortize the UAAL	<u>5.41%</u>	<u>5.06%</u>
c. Total employer contribution rate	12.30%	12.30%
9. Funding period based on the current employer contribution rate (years)	22	30

¹ The projected payroll for fiscal year 2012 for all members, including working retirees is \$1,173,772.

² The present value of future pay was not disclosed in the prior actuary's report.

Actuarial Present Value of Future Benefits
 (Dollar amounts expressed in thousands)

	<u>July 1, 2011</u>	<u>July 1, 2010</u>
	(1)	(2)
1. Active members		
a. Service retirement	\$ 2,643,729	\$ 2,606,117
b. Deferred termination benefits and refunds	249,061	323,128
c. Survivor benefits	37,073	49,499
d. Disability benefits	235,604	253,576
e. Incidental and accidental death benefits ¹	N/A	24,470
f. Total	<u>\$ 3,165,467</u>	<u>\$ 3,256,790</u>
2. Retired members		
a. Service retirement	\$ 2,008,093	\$ 2,018,410
b. Disability retirement	402,956	384,726
c. Beneficiaries	112,597	127,347
d. Incidental and accidental death benefits	34,482	47,289
e. Total	<u>\$ 2,558,128</u>	<u>\$ 2,577,772</u>
3. Inactive members		
a. Vested terminations	\$ 90,073	\$ 89,460
b. Nonvested terminations	21,886	21,114
c. Total	<u>\$ 111,959</u>	<u>\$ 110,574</u>
4. Total actuarial present value of future benefits	\$ 5,835,554	\$ 5,945,136

¹ The value of the incidental death benefit is included in the other reported benefits amounts for 2011.

Analysis of Normal Cost

	<u>July 1, 2011</u>	<u>July 1, 2010</u>
	(1)	(2)
1. Total normal cost rate		
a. Service retirement	8.53%	8.59%
b. Deferred termination benefits and refunds	2.99%	3.10%
c. Survivor benefits	0.19%	0.20%
d. Disability benefits	1.68%	1.71%
e. Incidental and accidental death benefits ¹	<u>N/A</u>	<u>0.14%</u>
f. Total	13.39%	13.74%
2. Less: member contribution rate	<u>6.50%</u>	<u>6.50%</u>
3. Net employer normal cost rate	6.89%	7.24%

¹ The cost of the incidental death benefit is included in the other reported benefits amounts for 2011.

Results of July 1, 2011 Valuation
 (Dollar amounts expressed in thousands)

	July 1, 2011
	(1)
1. Actuarial Present Value of Future Benefits	
a. Present retired members and beneficiaries	\$ 2,558,128
b. Present active and inactive members	<u>3,277,426</u>
c. Total actuarial present value	\$ 5,835,554
2. Present Value of Future Normal Contributions	
a. Member	\$ 499,855
b. Employer	<u>510,758</u>
c. Total future normal contributions	\$ 1,010,613
3. Actuarial Liability	\$ 4,824,941
4. Current Actuarial Value of Assets	\$ 3,728,241
5. Unfunded Actuarial Liability	\$ 1,096,700
6. Unfunded Actuarial Liability Rate	5.41%
7. Unfunded Actuarial Liability Liquidation Period	22 years

Actuarial Balance Sheet
(Dollar amounts expressed in thousands)

	July 1, 2011	July 1, 2010
	(1)	(2)
1. <u>Assets</u>		
a. Current assets (actuarial value)		
i. Employee annuity savings fund	\$ 786,724	\$ 758,695
ii. Employer annuity accumulation fund	2,941,517	2,854,005
iii. Total current assets	\$ 3,728,241	\$ 3,612,700
b. Present value of future member contributions	\$ 499,855	\$ 529,752
c. Present value of future employer contributions		
i. Normal contributions	\$ 510,758	\$ 564,927
ii. Accrued liability contributions	1,096,700	1,237,757
iii. Total future employer contributions	\$ 1,607,458	\$ 1,802,684
d. Total assets	\$ 5,835,554	\$ 5,945,136
2. <u>Liabilities</u>		
a. Employee annuity savings fund		
i. Past member contributions	\$ 786,724	\$ 758,695
ii. Present value of future member contributions	499,855	529,752
iii. Total contributions to employee annuity savings fund	\$ 1,286,579	\$ 1,288,447
b. Employer annuity accumulation fund		
i. Benefits currently in payment	\$ 2,558,128	\$ 2,577,772
ii. Benefits to be provided to other members	1,990,847	2,078,917
iii. Total benefits payable from employer annuity accumulation fund	\$ 4,548,975	\$ 4,656,689
c. Total liabilities	\$ 5,835,554	\$ 5,945,136

System Net Assets
Assets at Market or Fair Value
(Dollar amounts expressed in thousands)

Item (1)	July 1, 2011 (2)	July 1, 2010 (3)
1. Cash and cash equivalents (operating cash)	\$ 381,861	\$ 487,115
2. Receivables	121,715	158,277
3. Investments		
a. Short-term securities	\$ 1,471	\$ 71
b. Domestic fixed income	481,410	483,997
c. Global fixed income	404,422	352,874
d. Domestic equities	263,105	201,319
e. Global equities	156,482	36
f. Alternative investments	1,703,719	1,301,710
g. Total investments	<u>\$ 3,010,609</u>	<u>\$ 2,340,007</u>
4. Securities lending cash collateral invested	\$ 28,902	\$ 40,338
5. Prepaid administrative expenses	132	119
6. Capital assets, net of accumulated depreciation	<u>286</u>	<u>297</u>
7. Total assets	<u>\$ 3,543,505</u>	<u>\$ 3,026,153</u>
8. Liabilities		
a. Due to other Systems	\$ 92	\$ 0
b. Accounts payable	168,870	114,849
c. Investment fees payable	2,336	2,126
d. Obligations under securities lending	28,902	40,338
e. Deferred retirement benefits	0	0
f. Due to Employee Insurance Program	1,491	837
g. Benefit payable	459	257
h. Other liabilities	23,822	16,272
i. Total liabilities	<u>\$ 225,972</u>	<u>\$ 174,679</u>
9. Total market value of assets available for benefits (Item 7. - Item 8.i.)	<u>\$ 3,317,533</u>	<u>\$ 2,851,474</u>
10. Asset allocation (investments)		
a. Net Invested cash	9.3%	17.8%
b. Domestic fixed income	14.5%	17.0%
c. Global fixed income	12.2%	12.4%
d. Domestic equities	7.9%	7.1%
e. Global equities	4.7%	0.0%
f. Alternative investments	51.4%	45.7%
g. Total investments	<u>100.0%</u>	<u>100.0%</u>

Reconciliation of System Net Assets
(Dollar amounts expressed in thousands)

	Year Ending	
	July 1, 2011	July 1, 2010
	(1)	(2)
1. Value of assets at beginning of year	\$ 2,851,474	\$ 2,530,632
2. Revenue for the year		
a. Contributions		
i. Member contributions	\$ 79,334	\$ 77,051
ii. Employer contributions	129,351	123,205
v. Total	\$ 208,685	\$ 200,256
b. Income		
i. Interest, dividends, and other income	\$ 30,881	\$ 33,029
ii. Investment expenses	(8,945)	(6,288)
iii. Net	\$ 21,936	\$ 26,741
c. Net realized and unrealized gains (losses)	497,595	335,825
d. Total revenue	\$ 728,216	\$ 562,822
3. Expenditures for the year		
a. Disbursements		
i. Refunds	\$ 14,902	\$ 13,673
ii. Regular annuity benefits	242,872	223,473
iii. Other benefit payments	3,555	3,523
iv. Transfers to other Systems	(1,815)	(1,266)
iv. Total	\$ 259,514	\$ 239,403
b. Administrative expenses and depreciation	2,643	2,577
c. Total expenditures	\$ 262,157	\$ 241,980
4. Increase in net assets (Item 2.d.- Item 3.c.)	\$ 466,059	\$ 320,842
5. Value of assets at end of year (Item 1. + Item 4.)	\$ 3,317,533	\$ 2,851,474
6. Net External Cash Flow		
a. Dollar amount	\$ (50,829)	\$ (39,147)
a. Percentage of market value	-1.6%	-1.5%

Development of Actuarial Value of Assets
 (Dollar amounts expressed in thousands)

	July 1, 2011
	(1)
1. Actuarial value of assets at the prior valuation date	\$ 3,612,700
2. Market value of assets at the prior valuation date	\$ 2,851,474
3. Net external cash flow during the year	
a. Contributions	\$ 208,685
b. Disbursements	<u>(259,514)</u>
c. Subtotal	\$ (50,829)
4. Expected net investment income at 7.50% earned on	
a. Actuarial value of assets at the prior valuation date	\$ 270,953
b. Contributions	7,826
c. Disbursements	<u>(9,732)</u>
d. Subtotal	\$ 269,047
5. Expected actuarial value of assets, end of year (Item 1. + Item 3.c. + Item 4.d.)	\$ 3,830,918
6. Market value of assets as of the current valuation date	\$ 3,317,533
7. Difference between expected actuarial assets and market value of assets (Item 6. - Item 5.)	\$ (513,385)
8. Excess/(shortfall) recognized (20% of Item 7.)	\$ (102,677)
9. Actuarial value of plan assets, end of year (Item 5. + Item 8.)	\$ 3,728,241
10. Asset gain (loss) for year (Item 9. - Item 5.)	\$ (102,677)
11. Asset gain (loss) as % of the actuarial value of assets	(2.75%)
12. Ratio of AVA to MVA	112.4%

Estimation of Yields
(Dollar amounts expressed in thousands)

	Year Ending	
	July 1, 2011 (1)	July 1, 2010 (2)
1. Market value yield		
a. Beginning of year market assets	\$ 2,851,474	\$ 2,530,632
b. Contributions to fund during the year	208,685	200,256
c. Disbursements	(259,514)	(239,403)
d. Investment income (net of investment and administrative expenses)	516,888	359,989
e. End of year market assets	\$ 3,317,533	\$ 2,851,474
f. Estimated dollar weighted market value yield	18.3%	14.3%
2. Actuarial value yield		
a. Beginning of year actuarial assets	\$ 3,612,700	\$ 3,482,220
b. Contributions to fund during the year	208,685	200,256
c. Disbursements	(259,514)	(239,403)
d. Investment income (net of investment and administrative expenses)	166,370	169,627
e. End of year actuarial assets	\$ 3,728,241	\$ 3,612,700
f. Estimated actuarial value yield	4.6%	3.2%

Schedule of Funding Progress
(Dollar amounts expressed in thousands)

July 1,	Actuarial Value of	Actuarial Accrued	Unfunded Actuarial	Funded Ratio	Annual Covered	UAAL as % of
<u>July 1,</u>	<u>Assets (AVA)</u>	<u>Liability (AAL)</u>	<u>Accrued Liability</u>	<u>(2)/(3)</u>	<u>Payroll¹</u>	<u>Payroll (4)/(6)</u>
(1)	(2)	(3)	(UAAL) (3) - (2)	(5)	(6)	(7)
2001	\$ 2,197,982	\$ 2,324,257	\$ 126,275	94.6%	\$ 757,335	16.7%
2002	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
2003	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
2004	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%
2005	2,774,606	3,173,930	399,324	87.4%	850,610	46.9%
2006	2,935,841	3,466,281	530,440	84.7%	931,815	56.9%
2007	3,160,240	3,730,544	570,304	84.7%	992,849	57.4%
2008	3,363,136	4,318,955	955,819	77.9%	1,060,747	90.1%
2009	3,482,220	4,564,111	1,081,891	76.3%	1,084,154	99.8%
2010	3,612,700	4,850,457	1,237,757	74.5%	1,076,467	115.0%
2011	3,728,241	4,824,941	1,096,700	77.3%	1,087,587	100.8%

¹ Covered payroll does not include payroll attributable to working retirees.

**Notes to Required Supplementary Information
 (as required by GASB #25)**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	July 1, 2011
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll
Amortization period for GASB 25 ARC:	22-year open period ¹
Asset valuation method:	5-year smoothed market
Actuarial assumptions:	
Investment rate of return ²	7.50%
Projected salary increases ²	4.00% to 10.00% (varies by service)
Inflation	2.75%
Cost-of-living adjustments	0.00%

¹ The Board will maintain the prior year's contribution rate to the extent the amortization period does not exceed 30 years.

² Includes inflation at 2.75%

Solvency Test
(Dollar amounts expressed in thousands)

July 1,	Actuarial Accrued Liability			Valuation Assets	Portion of Aggregate Accrued Liabilities Covered by Assets		
	Active Member Contributions	Retirants & Beneficiaries	Active & Inactive Members (Employer Financed)		Active	Retirants	ER Financed
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2001	\$ 464,217	\$ 977,769	\$ 882,271	\$ 2,197,982	100.0%	100.0%	85.7%
2002	492,178	1,136,998	898,700	2,351,100	100.0%	100.0%	80.3%
2003	516,313	1,265,173	963,363	2,511,369	100.0%	100.0%	75.8%
2004	548,699	1,415,627	1,020,258	2,616,835	100.0%	100.0%	64.0%
2005	585,701	1,530,199	1,058,030	2,774,606	100.0%	100.0%	62.0%
2006	622,008	1,668,449	1,175,824	2,935,841	100.0%	100.0%	54.9%
2007	658,023	1,818,914	1,253,607	3,160,240	100.0%	100.0%	54.5%
2008	697,423	2,183,645	1,437,887	3,363,136	100.0%	100.0%	33.5%
2009	726,214	2,348,685	1,489,212	3,482,220	100.0%	100.0%	27.4%
2010	758,695	2,577,772	1,513,990	3,612,700	100.0%	100.0%	18.2%
2011	786,724	2,558,128	1,480,089	3,728,241	100.0%	100.0%	25.9%

SECTION D

MEMBERSHIP DATA

MEMBERSHIP TABLES

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Summary of Membership Data

	July 1, 2011 (1)	July 1, 2010 (2)
1. Active members		
a. Males	20,079	20,017
b. Females	6,571	6,551
c. Total members	26,650	26,568
d. Total annualized prior year pay	\$ 1,035,908,201	\$ 1,076,467,000
e. Average pay	\$ 38,871	\$ 40,517
f. Average age	39.8	39.8
g. Average service	9.6	8.7
h. Member contributions with interest	\$ 706,506,136	\$ 681,487,261
i. Average contributions with interest	\$ 26,511	\$ 25,651
2. Vested inactive members		
a. Number	1,932	1,885
b. Total annual deferred benefits	\$ 13,904,792	\$ 13,770,635
c. Average annual deferred benefit	\$ 7,197	\$ 7,305
3. Nonvested inactive members		
a. Number	10,048	10,014
b. Member contributions with interest	\$ 21,885,917	\$ 21,108,232
c. Average refund due	\$ 2,178	\$ 2,108
4. Service retirees		
a. Number	10,206	9,599
b. Total annual benefits	\$ 201,651,947	\$ 186,554,000
c. Average annual benefit	\$ 19,758	\$ 19,435
d. Average age at the valuation date	64.1	64.1
5. Disabled retirees		
a. Number	2,006	1,862
b. Total annual benefits	\$ 38,839,921	\$ 35,124,000
c. Average annual benefit	\$ 19,362	\$ 18,864
d. Average age at the valuation date	53.4	53.2
6. Beneficiaries		
a. Number	1,146	1,105
b. Total annual benefits	\$ 13,494,593	\$ 12,698,000
c. Average annual benefit	\$ 11,775	\$ 11,491
d. Average age at the valuation date	67.9	68.0

Summary of Active Membership Data
 (Dollar amounts expressed in thousands)

	July 1, 2011 (1)	July 1, 2010 (2)
1. Active Members		
a. Number of State Employees	9,767	9,886
Total Annual Compensation	\$ 350,386	\$ 372,161
b. Number of Public School Employees	5	5
Total Annual Compensation	\$ 313	\$ 313
c. Number of Other Agency Employees	16,922	16,677
Total Annual Compensation	\$ 687,177	\$ 703,993
Total Number of Active Members	26,694	26,568
Total Annual Compensation	\$ 1,037,876	\$ 1,076,467
2. Rehired Retired Participants		
a. Number of State Employees	561	637
Total Annual Compensation	\$ 19,729	\$ 21,087
b. Number of Public School Employees	172	2
Total Annual Compensation	\$ 4,616	\$ 107
c. Number of Other Agency Employees	1,464	1,429
Total Annual Compensation	\$ 59,546	\$ 60,729
Number of Rehired Retired Members	2,197	2,068
Total Annual Compensation	\$ 83,891	\$ 81,923

Note: Total compensation is the annualized pay for the prior year.

Summary of Historical Active Membership

July 1,	Number of Employers	Active Members		Covered Payroll ¹		Average Annual Pay		Average Age	Average Service
		Number	Percent Increase / (Decrease)	Amount in Thousands	Percent Increase / (Decrease)	Amount	Percent Increase / (Decrease)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2001	296	24,821	N/A	\$ 757,335	N/A	\$ 30,512	5.50%	N/A	N/A
2002	302	23,963	-3.5%	757,393	0.0%	31,607	3.59%	N/A	N/A
2003	314	23,871	-0.4%	800,394	5.7%	33,530	6.08%	N/A	N/A
2004	314	23,734	-0.6%	822,448	2.8%	34,653	3.35%	N/A	N/A
2005	314	23,795	0.3%	850,610	3.4%	35,747	3.16%	N/A	N/A
2006	314	24,813	4.3%	931,815	9.5%	37,554	5.05%	N/A	N/A
2007	313	25,645	3.4%	992,849	6.6%	38,715	3.09%	N/A	N/A
2008	313	26,427	3.0%	1,060,747	6.8%	40,139	3.68%	N/A	N/A
2009	318	26,598	0.6%	1,084,154	2.2%	40,761	1.55%	39.6	8.4
2010	322	26,568	-0.1%	1,076,467	-0.7%	40,517	-0.60%	39.8	8.7
2011	356	26,650	0.3%	1,087,587	1.0%	40,810	0.72%	39.8	9.6

¹ Covered payroll does not include payroll attributable to members in ORP, TERI, or working retirees.

Distribution of Active Members by Age and by Years of Service

Attained Age	Years of Credited Service												Total Count & Avg. Comp.	
	0 Count & Avg. Comp.	1 Count & Avg. Comp.	2 Count & Avg. Comp.	3 Count & Avg. Comp.	4 Count & Avg. Comp.	5-9 Count & Avg. Comp.	10-14 Count & Avg. Comp.	15-19 Count & Avg. Comp.	20-24 Count & Avg. Comp.	25-29 Count & Avg. Comp.	30-34 Count & Avg. Comp.	35 & Over Count & Avg. Comp.		
Under 20	19 \$29,556	1 \$40,833	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	20 \$30,120
20-24	652 \$28,817	371 \$30,086	215 \$32,252	121 \$31,809	67 \$33,512	24 \$33,288	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1,450 \$30,192
25-29	586 \$29,826	570 \$31,885	581 \$33,806	677 \$33,874	592 \$34,720	963 \$36,051	22 \$38,486	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	3,991 \$33,662
30-34	347 \$30,282	312 \$31,698	306 \$33,247	384 \$35,492	370 \$35,079	1,624 \$37,807	624 \$40,916	24 \$41,427	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	3,991 \$36,358
35-39	252 \$31,184	203 \$32,354	212 \$33,264	245 \$33,893	215 \$34,336	900 \$37,513	1,469 \$42,131	521 \$45,827	26 \$47,250	0 \$0	0 \$0	0 \$0	0 \$0	4,043 \$39,060
40-44	204 \$30,450	192 \$32,023	190 \$33,857	206 \$34,446	179 \$34,801	750 \$38,066	878 \$41,864	1,159 \$47,100	576 \$50,801	31 \$51,972	0 \$0	0 \$0	0 \$0	4,365 \$41,898
45-49	138 \$31,157	148 \$33,036	148 \$31,951	150 \$34,280	129 \$33,490	518 \$36,222	508 \$41,354	577 \$43,967	932 \$50,650	284 \$55,469	16 \$48,234	0 \$0	0 \$0	3,548 \$42,912
50-54	89 \$32,686	92 \$31,709	90 \$35,054	109 \$33,210	88 \$35,177	394 \$36,035	421 \$40,055	378 \$43,629	472 \$45,953	296 \$53,882	71 \$61,320	5 \$45,895	5 \$45,895	2,505 \$42,104
55-59	63 \$30,520	50 \$31,955	56 \$34,829	81 \$35,369	67 \$33,105	290 \$36,697	285 \$38,946	265 \$43,556	260 \$45,457	121 \$50,486	79 \$56,411	16 \$63,101	16 \$63,101	1,633 \$41,171
60-64	38 \$34,161	26 \$34,247	43 \$32,797	43 \$36,116	48 \$36,498	151 \$37,568	128 \$39,490	142 \$42,947	125 \$44,981	55 \$51,781	27 \$57,573	24 \$60,650	24 \$60,650	850 \$41,424
65 & Over	7 \$43,922	10 \$30,012	6 \$67,559	15 \$38,959	10 \$31,370	52 \$33,134	44 \$41,659	39 \$45,542	27 \$47,737	24 \$52,497	13 \$65,122	7 \$67,295	7 \$67,295	254 \$43,739
Total	2,395 \$30,122	1,975 \$31,685	1,847 \$33,505	2,031 \$34,256	1,765 \$34,612	5,666 \$37,103	4,379 \$41,307	3,105 \$45,326	2,418 \$48,849	811 \$53,675	206 \$58,170	52 \$60,880	52 \$60,880	26,650 \$38,871

Schedule of Annuitants by Type of Benefit

Type of Benefit/ Form of Payment <u>(1)</u>	<u>Number</u> (2)	Annual Benefits Amount <u>(3)</u>	Average Monthly Benefit <u>(4)</u>
Service :			
Maximum & QDRO	6,074	\$ 117,097,838	\$ 1,607
100% J&S	1,702	30,542,733	1,495
50% J&S	1,309	32,373,540	2,061
Level Income	<u>1,121</u>	<u>21,637,836</u>	1,609
Subtotal:	10,206	\$ 201,651,947	1,647
Disability:			
Maximum	1,605	\$ 32,224,573	\$ 1,673
100% J&S	216	2,901,460	1,119
50% J&S	<u>185</u>	<u>3,713,888</u>	1,673
Subtotal:	2,006	\$ 38,839,921	1,613
Beneficiaries:	1,146	\$ 13,494,593	\$ 981
Total:	<u>13,358</u>	<u>\$ 253,986,461</u>	\$ 1,584

Distribution of Annuitants by Monthly Benefit

Monthly Benefit Amount			Number of Annuitants	Female	Male	Average Service
(1)			(2)	(3)	(4)	(5)
	Under \$200		691	295	396	2.59
\$	200 -	399	987	382	605	7.48
	400 -	599	1,098	425	673	9.68
	600 -	799	1,048	411	637	12.08
	800 -	999	1,032	355	677	14.22
	1,000 -	1,199	900	284	616	15.68
	1,200 -	1,399	848	238	610	17.96
	1,400 -	1,599	855	238	617	19.87
	1,600 -	1,799	846	168	678	21.41
	1,800 -	1,999	828	138	690	22.32
	2,000 -	2,199	754	133	621	23.35
	2,200 -	2,399	666	95	571	23.96
	2,400 -	2,599	609	72	537	24.91
	2,600 -	2,799	478	56	422	25.58
	2,800 -	2,999	368	34	334	26.80
	3,000 -	3,199	278	36	242	27.33
	3,200 -	3,399	220	24	196	27.70
	3,400 -	3,599	175	12	163	28.50
	3,600 -	3,799	147	11	136	28.77
	3,800 -	3,999	112	15	97	29.46
	4,000 & Over		418	29	389	32.49
Total			13,358	3,451	9,907	18.02

Schedule of Retirants Added to And Removed from Rolls

(Dollar amounts except average allowance expressed in thousands)

Year Ending June 30,	Added to Rolls		Removed from Rolls		Rolls End of the Year		% Increase in Annual Benefit	Average Annual Benefit
	Number	Annual Benefits	Number	Annual Benefits	Number	Annual Benefits		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2001	989	\$ 17,235	341	\$ 3,986	6,970	\$ 102,395	14.9%	\$ 14,691
2002	956	17,378	220	2,639	7,706	117,134	14.4%	15,200
2003	947	18,614	226	2,733	8,427	133,015	13.6%	15,784
2004	894	16,256	265	2,923	9,056	146,348	10.0%	16,114
2005	778	12,576	173	2,147	9,661	160,756	9.8%	16,640
2006	678	16,880	205	2,691	10,134	174,945	8.8%	17,263
2007	772	16,474	205	2,745	10,701	188,674	7.8%	17,631
2008	779	17,458	194	2,691	11,286	203,441	7.8%	18,026
2009	931	17,937	267	3,879	11,950	217,499	6.9%	18,201
2010	943	21,877	327	5,000	12,566	234,376	7.8%	18,652
2011	1,042	22,580	250	2,970	13,358	253,986	8.4%	19,014

APPENDIX A

ACTUARIAL ASSUMPTIONS AND METHODS

Summary of Actuarial Methods and Assumptions

The following presents a summary of the actuarial assumptions and methods used in the valuation of the South Carolina Police Officers Retirement System.

Investment Rate of Return

Assumed annual rate of 7.50% net of investment and administrative expenses composed of a 2.75% inflation component and a 4.75% real rate of return, net of investment and administration expenses.

Rates of Annual Salary Increase

Rates of annual salary increase are assumed to vary for the first 11 years of service to include anticipated merit and promotional increases. The assumed annual rate of increase is 4.00% for all members with 12 or more years of service.

The 4.00% rate of increase is composed of a 2.75% inflation component and a 1.25% real rate of wage increase (productivity) component.

Active Male & Female Salary Increase Rate		
Years of Service	PORS	
	Annual Promotional/Longevity Rates of Increase	Total Annual Rate of Increase Including 3.50% Wage Inflation
0	6.00%	10.00%
1	5.00%	9.00%
2	2.00%	6.00%
3	1.00%	5.00%
4	0.75%	4.75%
5	0.50%	4.50%
6	0.25%	4.25%
7	0.25%	4.25%
8	0.25%	4.25%
9	0.25%	4.25%
10	0.25%	4.25%
11	0.25%	4.25%
12	0.00%	4.00%
13	0.00%	4.00%
14	0.00%	4.00%
15	0.00%	4.00%
16	0.00%	4.00%
17	0.00%	4.00%
18	0.00%	4.00%
19	0.00%	4.00%
20+	0.00%	4.00%

Active Member Decrement Rates

- a. Assumed rates of Service Retirement are shown in the following tables. The first table is for members who attain age 55 before attaining 25 years of service. The second table is based on service and is for members who attain 25 years of service before age 55.

Annual Age Based Retirement Rates			Annual Service Based Retirement Rates		
Age	PORS		Years of Service	PORS	
	Male	Female		Male	Female
55	20%	20%	25	35%	22%
56	14%	14%	26	22%	22%
57	12%	12%	27	22%	22%
58	12%	12%	28	22%	22%
59	12%	12%	29	22%	22%
60	12%	12%	30	35%	35%
61	12%	12%	31	35%	35%
62	35%	35%	32	35%	35%
63	25%	25%	33	35%	35%
64	25%	25%	34	35%	35%
65	30%	30%	35	100%	100%
66	30%	30%			
67	30%	30%			
68	30%	30%			
69	30%	30%			
70	100%	100%			
71	100%	100%			
72	100%	100%			
73	100%	100%			
74	100%	100%			
75	100%	100%			

- b. Members are assumed to purchase service and retire as they become within 5 years of the service related eligibility condition (20 years of service). 80% of purchased service is expected to be at 16% of payroll and 20% at 35% of payroll. Members are assumed to purchase service based on the following probabilities:

Years of Service	Assumed Probability of Purchasing Unreduced Eligibility Service
20	4.00%
21	2.00%
22	3.25%
23	4.50%
24	6.50%

- c. Assumed rates of disability are shown in the following table. 25% of disabilities are assumed to be duty-related.

Disability Rates		
Age	PORS	
	Males	Females
25	0.1376%	0.1376%
30	0.1835%	0.1835%
35	0.3441%	0.3441%
40	0.4588%	0.4588%
45	0.6882%	0.6882%
50	0.8602%	0.8602%
55	0.0000%	0.0000%
60	0.0000%	0.0000%
64	0.0000%	0.0000%

- d. Active Member Mortality

Rates of active member mortality are based upon a client specific table with applicable multipliers to match the experience.

Active Mortality Rates (Multiplier Applied)		
Age	PORS	
	Males	Females
25	0.0338%	0.0186%
30	0.0653%	0.0264%
35	0.0978%	0.0467%
40	0.1234%	0.0790%
45	0.1614%	0.1248%
50	0.2171%	0.1767%
55	0.3776%	0.2516%
60	0.7443%	0.4454%
64	1.2430%	0.8222%
Multiplier	90%	90%

e. Rates of Withdrawal

Rate of withdrawal for active members prior to eligibility for retirement are based upon actual experience from 2002 through 2010. Rates are developed for each employee group and differ by gender and service. Sample rates are shown in the tables below.

Years of Service	Annual Withdrawal Rate	
	PORS	
	Male	Female
0	0.2500	0.2500
1	0.1800	0.1800
2	0.1400	0.1400
3	0.1200	0.1200
4	0.1070	0.1070
5	0.0954	0.0954
6	0.0850	0.0850
7	0.0758	0.0758
8	0.0675	0.0675
9	0.0602	0.0602
10	0.0537	0.0537
11	0.0478	0.0478
12	0.0426	0.0426
13	0.0380	0.0380
14	0.0339	0.0339
15	0.0302	0.0302
16	0.0269	0.0269
17	0.0240	0.0240
18	0.0214	0.0214
19	0.0191	0.0191
20	0.0170	0.0170
21	0.0151	0.0151
22	0.0135	0.0135
23	0.0120	0.0120

f. Post Retirement Mortality

Healthy retirees and beneficiaries – The RP-2000 Mortality Table with Blue Collar Adjustment projected using the AA projection table. The following are sample rates:

Nondisabled Annuitant Mortality Rates Before Projection (Multiplier Applied)		
Age	PORS	
	Males	Females
50	0.2774%	0.2257%
55	0.4825%	0.3214%
60	0.9511%	0.5691%
65	1.7870%	1.1958%
70	3.0772%	2.1429%
75	4.9601%	3.5521%
80	8.1129%	5.6296%
85	13.2339%	9.5565%
90	20.9021%	15.7189%
Multiplier	115%	115%

Life Expectancy for an Age 65 Retiree in Years				
Member	Year of Retirement			
	2015	2020	2025	2030
Male	17.8	18.2	18.6	19.0
Female	19.7	19.9	20.1	20.4

A separate table of mortality rates is used for disabled retirees based on the RP-2000 Disabled Retiree Mortality Table. The following are sample rates:

Disabled Annuitant Mortality Rates (Multiplier Applied)		
Age	PORS	
	Males	Females
50	1.7385%	0.6921%
55	2.1265%	0.9926%
60	2.5225%	1.3103%
65	3.0104%	1.6816%
70	3.7550%	2.2581%
75	4.9240%	3.1338%
80	6.5623%	4.3387%
85	8.4962%	6.0122%
90	11.0045%	8.4029%
Multiplier	60%	60%

Asset Valuation Method

The actuarial value of assets is based on the market value of assets with five-year smoothing applied. This is accomplished by recognizing each year 20% of the difference between the market value of assets and the expected actuarial value of assets, based upon the assumed valuation rate of return.

Expected earnings are determined using the assumed investment rate of return and the beginning of year actuarial value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of administrative and investment expenses.

Actuarial Cost Method

The Entry Age Normal actuarial cost method allocates the plan's actuarial present value of future benefits to various periods based upon service. The portion of the present value of future benefits allocated to years of service prior to the valuation date is the actuarial accrued liability, and the portion allocated to years following the valuation date is the present value of future normal costs. The normal cost is determined for each active member as the level percent of payroll necessary to fully fund the expected benefits to be earned over the career of each individual active member. The normal cost is partially funded with active member contributions with the remainder funded by employer contributions.

An unfunded accrued liability exists in the amount equal to the excess of accrued liability over valuation assets. The amortization period of the System is the number of years required to fully amortize the unfunded accrued liability with the expected amount of employer contributions in excess of the employers' portion of the normal cost.

The calculation of the amortization period takes into account scheduled increases to contribution rates applicable to future years and payroll growth. Also, the calculation of the amortization period reflects additional contributions the System receives with respect to return to work retirees. These contributions are assumed to grow at the same payroll growth rate as for active employees. It is assumed that amortization payments are made monthly at the end of the month.

Unused Annual Leave

To account for the effect of unused annual leave on Annual Final Compensation, liabilities for active members are increased 3.75%.

Unused Sick Leave

To account for the effect of unused sick leave on members' final credited service, the service of active members who retire is increased 3 months.

Future Cost-of-living Increases

It is assumed there will be no automatic or ad hoc benefit adjustments provided in all future years.

Payroll Growth Rate

The total annual payroll of active members (also applies to rehired retiree participants) is assumed to increase at an annual rate of 3.50%.

Other Assumptions

1. Valuation payroll (used for determining the amortization contribution rate): Prior fiscal year payroll projected forward one year using the overall payroll growth rate. This was determined separately for active employees and return to work employees by dividing the actual member contributions received during the prior fiscal year by the member contribution rate of 6.50%, and then projecting forward at 3.50%.
2. Individual salaries used to project benefits: Actual salaries from the past fiscal year are used to determine the final average salary as of the valuation date. For future salaries, the salary from the last fiscal year is projected forward with one year's salary scale.
3. Pay increase timing: Beginning of (fiscal) year. This is equivalent to assuming that reported salaries represent amounts paid to members during the year ended on the valuation date.
4. Percent married: 100% of male and 100% of female employees are assumed to be married.
5. Age difference: Males are assumed to be four years older than their spouses.
6. Percent electing annuity on death (when eligible): All of the spouses of vested, married participants are assumed to elect an immediate life annuity.
7. Inactive Population: All non-vested members are assumed to take an immediate refund. Vested members are assumed to take a deferred retirement benefit.
8. There will be no recoveries once disabled.
9. Decrement timing: Decrements of all types are assumed to occur mid-year.
10. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
11. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
12. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
13. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

Participant Data

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birth date, gender, service with the current city and total vesting service, salary, and employee contribution account balances. For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, and form of payment code.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Changes from Prior Valuation

Changes in the assumptions were made based on the 2011 Experience Study.

APPENDIX B

BENEFIT PROVISIONS

**SUMMARY OF BENEFIT PROVISIONS FOR
SOUTH CAROLINA POLICE OFFICERS RETIREMENT SYSTEM
(PORS)**

Effective Date: July 1, 1962.

Administration: The South Carolina Retirement System, organizationally aligned as a Division of the State Budget and Control Board, is responsible for the general administrative operations and day to day management of the Plan.

Type of Plan: This is a qualified governmental defined benefit retirement plan. Under GASB 25, it is considered to be cost-sharing multiple-employer plans.

Eligibility: This System covers police officers and firefighters employed by the state, and any participating political subdivision, agency, or department of the state. With the exception for magistrates and probate judges, eligible public safety employees must earn at least \$2,000 per year and devote at least 1,600 hours per year, unless exempted by statute.

Employee Contributions: Members contribute 6.50% of earnable compensation per year. These contributions are "picked-up" under Section 414(h) of the Internal Revenue Code. Member contributions are credited with interest at the rate of 4.0% per annum.

Average Final Compensation (AFC): The monthly average of the member's highest twelve (12) consecutive quarters of earnable compensation. Earnable compensation is the compensation that would be payable to a member if the member worked a full, normal working time, which includes gross salary, overtime, sick pay, and deferrals. The calculation of a member's AFC also includes up to 45 days pay for unused annual leave paid at termination.

Members joining the System after January 1, 1996, have their compensation limited in accordance with IRC Section 401(a)(17) for determining benefits.

Service Retirement:

- a. **Eligibility:** A member may retire with an unreduced benefit at age 55 or after 25 years of creditable service, if earlier. The member must have a minimum of 5 years of "earned" service to qualify for retirement.
- b. **Monthly Benefit:** 2.14% times Average Final Compensation (AFC) times years of creditable service. Members will receive service credit for up to 90 days of unused sick leave where twenty days of sick leave constitutes one month of service credit.
- c. **Payment Form:** Maximum retirement allowance (Option A) and survivor allowances under Options B and C.

Disability Retirement:

- a. **Eligibility:** Member must have five or more years of earned service, unless the disability is due to performing his or her job duties.
- b. **Monthly Benefit:**
The monthly benefit is equal to the member's service retirement benefit that would have been payable based on the member's AFC determined as of the date of his disability and a projected credited service amount that assumes the member continued employment to age 55. However, a member must receive a disability retirement allowance equal to at least 15% of his AFC.
- c. **Payment Form:** Maximum retirement allowance (Option A) and survivor allowances under Options B and C.
- d. **Death while Disabled:** A disabled member is treated as a retired member for purposes of determining a death benefit.

Vesting and Refunds:

- a. **Eligibility:** All members who are not vested are eligible for a refund when they terminate service. Members are vested after five (5) years of service. Vested members may also elect to receive a refund in lieu of the deferred termination benefit described below.
- b. **Amount:** The refund benefit is the accumulated value of the member's contributions plus interest credited by the fund.

Deferred Termination Benefit:

- a. **Eligibility:** Member must be vested (5 years of earned service) and must elect to leave his/her contributions on deposit.
- b. **Monthly Benefit:** Same as the unreduced or reduced service retirement benefit, based on service and AFC at termination, and commencing once the member is eligible.
- c. **Payment Form:** Maximum retirement allowance (Option A) and survivor allowances under Options B and C.
- d. **Death Benefit:** The beneficiary of an inactive member who dies is entitled to receive the amount of the member's accumulated contributions (with interest). In accordance with administrative policy, if the member met service eligibility requirements at their time of death, the beneficiary is eligible for a monthly survivor annuity benefit.

Death while an Active Member:

Members who die while actively employed will receive the regular death benefit described below. If the member was an employee of an employer participating in the Accidental Death Benefit Program and/or the Preretirement Death Benefit Program, then the beneficiary will receive additional death benefits.

Regular Death Benefit:

- a. **Refund**: In the event of a death of an active member (duty or non-duty related), a refund of the member's accumulated contributions (with interest), subject to a minimum refund of \$1,000, is paid to the beneficiary of a deceased member.
- b. **Beneficiary Annuity**: If the deceased member (i) has 5 or more years of earned service and (b) attained age 55 or accumulated 15 or more years of creditable service, the beneficiary may elect to receive, in lieu of the accumulated contributions, a monthly benefit for life of the beneficiary determined under "Option B" described under the Optional Forms of Benefit. For purposes of the benefit calculation, a member under the age of 55 is assumed to be 55 years of age.

Accidental Death Benefit Program:

The statutory beneficiary (i.e. surviving spouse, child, or parent of the member) of an active employee of an employer participating in the Accidental Death Benefit Program who dies as a result of a duty related event is entitled to the following beneficiary annuity.

- a. **Beneficiary Annuity**: In the event a member dies as a result of a duty related event, a monthly benefit is provided for the duration of the beneficiary's lifetime equal to 50% of the member's compensation at the time of death.

Optional Forms of Benefit: The Systems permit members to elect from three forms of benefit at retirement. In each case the benefit amount is adjusted to be actuarially equivalent to the "Option A" form. The optional forms are:

- a. **Option A (Maximum Retirement Allowance)**: A life annuity. Upon the member's death, any remaining member contributions will be paid to the member's designated beneficiary.
- b. **Option B (100% Joint & Survivor with Pop-up)**: A reduced annuity payable as long as either the member or his/her beneficiary is living. In the event the member's designated beneficiary predeceases the member, then the member shall receive a retirement allowance equal to the maximum retirement allowance (Option A), plus any applicable cost of living increases that would have been granted.
- c. **Option C (50% Joint & Survivor with Pop-up)**: A reduced annuity payable during the member's life, and continues after the member's death at 50% of the rate paid to the member for the life of the member's designated beneficiary. In the event the member's designated beneficiary predeceases the member, then the member shall receive a retirement allowance equal to the maximum retirement allowance (Option A), plus any applicable cost of living increases that would have been granted.

Incidental Death Benefit:

- a. Active Employees: The beneficiary (or estate) of an active employee of a employer participating in the Preretirement Death Benefit Program who completes at least one full year of membership service, will receive a death benefit equal to the member’s annual earnable compensation at the time of death.

The one full year membership requirement is waived for members whose death is a result of an injury arising out of an in the course of performing his duties.

For purposes of determining eligibility for incidental death benefits, active employees include those members who are actively reemployed and contributing as a working retiree with a participating employer.

- b. Post Employment: The beneficiary (or estate) of a retiree, both current and future retiree will receive a one-time payment upon the retiree’s death if the employer was participating in the Preretirement Death Benefit Program at the time of the retired member’s death. The amount of the one-time payment is based on the retiree’s years of credited service at retirement.

Years of Service Credit	Death Benefit
10 or more, but less than 20	\$2,000
20 or more, but less than 25	\$4,000
25 or more	\$6,000

Postretirement Benefit Increases: Retired annuitants do not receive an automatic adjustment to their benefit based on changes in inflation. However, the Board may grant ad hoc COLAs if certain financial conditions and constraints are met.

APPENDIX C

GLOSSARY

GLOSSARY

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)

b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and

c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and GASB 27: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded

Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.