



**THE HONORABLE CURTIS M. LOFTIS, JR.**  
State Treasurer

January 17, 2012

The Honorable James H. "Jim" Merrill  
Chairman, House Budget Subcommittee  
308-C Blatt Building  
Columbia, SC 29201

The Honorable Gilda Cobb-Hunter  
309 C Blatt Building  
Columbia, SC 29201

The Honorable Liston D. Barfield  
Member, House Budget Subcommittee  
503-A Blatt Building  
Columbia, SC 29201

Dear Chairman Merrill and Representatives Cobb-Hunter and Barfield:

Enclosed for your information is the Annual Actuarial Valuation of the South Carolina Tuition Prepayment Program (SCTPP) Fund as of June 30, 2011. Please note the unfunded liability is updated from the September 30, 2011.

**As the actuarial analysis states, the Fund's deficit as of June 30, 2011 was \$35,322,751 and the Fund is projected to run out of assets in FY 2019.**

In order for the Program to pay contract owners their benefits, remedial action must be taken by the General Assembly. The executive summary and suggested remedial actions prepared by Actuarial Resources Corporation are enclosed.

Please let us know if you have any questions regarding this matter.

Yours very truly,

A handwritten signature in blue ink, reading "Curtis M. Loftis, Jr.", is written over the typed name and title.

Curtis M. Loftis, Jr.  
State Treasurer

CMLjr/afw  
Enclosure

## I. EXECUTIVE SUMMARY

The following are the key findings of our analysis.

### *Adequacy of the Fund*

The Fund's liabilities exceed its assets by \$35,322,751. The key results are shown below.

Value as of June 30, 2011	Assets and Liabilities
Assets	
Investments	\$127,362,559
Future Contract Payments	<u>8,385,373</u>
Total Assets	<u>\$135,747,932</u>
Liabilities and Surplus	
Future Contract Benefits	\$171,070,683
Other Liabilities	<u>0</u>
Total Liabilities	<u>\$171,070,683</u>
Surplus	<u>(\$35,322,751)</u>
Total Liabilities and Surplus	<u>\$135,747,932</u>
Funded Ratio	79.4%

### *From Last Year to This Year*

The table below summarizes the change in the deficit from June 30, 2010 to June 30, 2011.

Progression of Surplus/(Deficit)	
Surplus at June 30, 2010	(\$ 52,954,690)
Projected Change to June 30, 2011	(3,508,918)
Gain From Favorable Investment Experience	14,028,343
Change Due to Additional Contract Sales	N/A
All Other Experience Items	7,112,514
Surplus at June 30, 2011	(\$ 35,322,751)

### *Implications of the Deficit*

The existing deficit is an indicator that existing assets combined with future cash flows are insufficient to pay all contract owners their benefits. We project that assets will be depleted in Fiscal Year 2019. Unless remedial action is taken, the Program will be unable to pay benefits.

Remedial actions may include, but are not limited to the following:

1. Shut down the Program. This will require the refund of unused contributions accumulated at 4%. As of June 30, 2011 this liability was \$101.2 million. If the Program is shut down at June 30, 2012, we project that the liability will be \$104.6 million. We project assets to be \$101.4 million, so that we are projecting that the State would need to refund \$3.2 million from the General Fund.
2. Shut down the Program on February 28, 2019 when the Program is projected to run out of assets. This would require the refund of unused contributions accumulated at 4%, which in last year's report was projected to be \$41.9 million. This would require that the entire amount be paid from the General Fund.
3. Provide additional appropriations annually beginning at the time of asset depletion to pay the contractual benefit. The estimated total cost to pay these benefits is \$8.6 million annually beginning in December, 2018 (immediately before asset depletion) continuing until all benefits are projected to be paid. Total additional appropriations would be \$77,400,000.
4. Scenario 3, immediately above, allows for assets to be depleted at interim dates since cash out-flows are greater than \$8.6 million dollars in the early years. A similar scenario that provides non-level appropriations such that assets are projected never to be depleted is shown immediately below. The total appropriations for this scenario are \$72,950,000.
  - o December 2018: \$2.41 million
  - o December 2019: \$16.08 million
  - o December 2020: \$14.73 million
  - o December 2021: \$12.93 million
  - o December 2022: \$10.53 million
  - o December 2023: \$ 8.12 million
  - o December 2024: \$ 5.15 million
  - o December 2025: \$ 2.36 million
  - o December 2026: \$ 0.64 million
5. Provide an additional appropriation now to offset the deficit. We are projecting that a lump-sum appropriation of \$39.2 million in December, 2012 would offset the deficit, if all actuarial assumptions are realized.

6. Provide an additional appropriation at the time of asset depletion to offset the deficit. We are projecting that a lump-sum appropriation of \$60.1 million in January, 2019 would offset the deficit if all actuarial assumptions are realized.
7. Provide a series of annual appropriations until asset depletion. We project that annual appropriations of \$5.76 million beginning December, 2012 and ending December 2018 would offset the deficit if all actuarial assumptions are realized. This is a total appropriation of \$46,080,000.
8. Provide a series of annual appropriations until all liabilities are mature in February 2027. We project that these amounts would be:
  - o \$4.08 million, if begun at December, 2012 for a total of \$61,200,000;
  - o \$4.55 million, if begun at December 2013 for a total of \$63,700,000;
  - o \$5.10 million, if begun at December 2014 for a total of \$66,300,000

### *Investment Strategy*

Based on discussions with Program personnel, the investment strategy of SCTPP is anticipated to be 45% domestic equities and 15% International Equity Index Fund (total 60% equities) and 40% domestic fixed income. The State Treasurer's Office has adopted this strategy based on their discussions with their investment advisors Jamison, Eaton, & Wood, Inc.

The objective of the increase in overall equities and the investment in international equities is to provide diversification and higher portfolio returns than would be available from a portfolio consisting mainly of fixed income investments. The assumption for investment returns is based on the recommendation of South Carolina State Treasurer's Office personnel and the advice of Jamison, Eaton, & Wood, Inc. We have not reviewed the strategy nor are we expressing an opinion on the strategy.