

**Combined Financial Statements**

**State of South Carolina  
Deferred Compensation Program**

**Year ended December 31, 2018**

Administered by the  
South Carolina Public  
Employee Benefit Authority  
Columbia, South Carolina

---

# State of South Carolina Deferred Compensation Program

## *Contents*

---

	<b>Page</b>
<b>Independent Auditors' Report</b> .....	1-2
<b>Management's Discussion and Analysis</b> .....	3-4
<b>Combined Financial Statements</b>	
Combined Statement of Fiduciary Net Position.....	5
Combined Statement of Changes in Fiduciary Net Position.....	6
Notes to Combined Financial Statements.....	7-17



## INDEPENDENT AUDITORS' REPORT

Members  
South Carolina Public Employee Benefit Authority  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying combined statements of fiduciary net position and changes in fiduciary net position of the State of South Carolina Deferred Compensation Program (the Program), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the accompanying table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of December 31, 2018, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Audit Standards*, we have also issued our report dated August 20, 2019, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
August 20, 2019

# State of South Carolina Deferred Compensation Program

## *Management's Discussion and Analysis*

*As of and for the year ended December 31, 2018*

---

This section presents management's discussion and analysis of the financial position and performance of the State of South Carolina Deferred Compensation Program (Deferred Comp) and is intended to provide an overview of Deferred Comp's financial activities as of and for the years ended December 31, 2018 and 2017. It is intended to be a narrative supplement to Deferred Comp's financial statements.

Deferred Comp's financial statements provide information about the activities of the two defined contribution plans administered, which are listed below.

- Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan); and
- South Carolina 457 Deferred Compensation Plan and Trust (457 plan)

### **Overview of the Financial Statements**

Because of the long-term nature of a deferred compensation program, financial statements alone cannot provide sufficient information to properly reflect Deferred Comp's ongoing plan perspective. This financial report consists of two financial statements and the notes to the financial statements.

The *Combined Statement of Fiduciary Net Position* reports Deferred Comp's assets, liabilities and resulting net position where  $\text{Assets} - \text{Liabilities} = \text{Fiduciary Net Position Held in Trust}$  at the end of the year. It can be thought of as a snapshot of the financial position of Deferred Comp at a specific point in time.

The *Combined Statement of Changes in Fiduciary Net Position* reports Deferred Comp's transactions that occurred during the year where  $\text{Additions} - \text{Deductions} = \text{Change in Fiduciary Net Position}$ . It can be thought of as a recording of events that occurred over the specified time period of a year and supports the changes that have occurred to the prior year's fiduciary net position value on the Combined Statement of Fiduciary Net Position.

The *Notes to the Combined Financial Statements* are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

### **Plan Highlights**

The following highlights occurred during the year ended December 31, 2018:

- Participation experienced a slight decrease from the prior year in both the 401(k) and 457 plans. In the 401(k) plan, there were 76,043 and 76,290 participant accounts, and in the 457 plan there were 23,366 and 23,647 participant accounts, at the end of the 2018 and 2017 fiscal years, respectively.
- Fiduciary net position held in trust decreased by \$150.6 million during 2018. This is compared to an increase of \$442.9 million in 2017. The decrease from the prior year was largely attributable to a decline in investment values during 2018.
- Net investment earnings decreased by approximately \$596 million in 2018 compared to an increase of \$214 million in 2017. The decrease in 2018 was the result of market losses.
- Contributions grew in 2018 by \$85.4 million, or 32.24 percent, when compared to contributions in 2017. Deferred Comp again saw a rise in the amount of rollovers into plan accounts, which accounted for just over \$79 million of the growth. The primary driver was rollovers in from individuals ending their participation in the South Carolina Retirement System's Teacher and Employee Retention Incentive (TERI) program.
- Distributions rose approximately \$81.9 million, or 28.94 percent, from 2017 to 2018. Increases in rollovers out of plan accounts, payments to participants, and the number of death claims all contributed to the upsurge.
- Miscellaneous income, which consists primarily of revenue sharing credited back to participants, decreased marginally during the year due to the replacement of a fund that participated in revenue sharing.
- Administrative fees and expenses increased slightly in the current year primarily due to the increase in participant account balances generating larger third party administrator recordkeeping fees.

## State of South Carolina Deferred Compensation Program

### Management's Discussion and Analysis

December 31, 2018

#### Summary comparative statements

Fiduciary Net Position	December 31,		Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
	2018	2017		
<b>Assets</b>				
Fixed income investments	\$1,492,441,791	\$1,545,795,948	\$ (53,354,157)	(3.45)%
Variable earning investments	2,672,360,297	2,768,035,398	(95,675,101)	(3.46)%
Receivables	33,380,511	34,827,008	(1,446,497)	(4.15)%
Total assets	4,198,182,599	4,348,658,354	(150,475,755)	(3.46)%
<b>Liabilities</b>				
Accounts payable	1,228,849	1,092,652	136,197	12.46 %
Total liabilities	1,228,849	1,092,652	136,197	12.46 %
<b>Fiduciary Net Position Held in Trust, end of year</b>	<b>\$4,196,953,750</b>	<b>\$4,347,565,702</b>	<b>\$ (150,611,952)</b>	<b>(3.46)%</b>

#### Changes in Fiduciary Net Position

	For the years ended December 31,		Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
	2018	2017		
<b>Additions</b>				
Net investment earnings/(losses)	\$(130,336,444)	\$ 465,903,957	\$ (596,240,401)	(127.97)%
Contributions	350,346,149	264,930,541	85,415,608	32.24 %
Miscellaneous income	1,355,485	1,432,402	(76,917)	(5.37)%
Total additions	221,365,190	732,266,900	(510,901,710)	(69.77)%
<b>Deductions</b>				
Distributions	364,939,375	283,035,355	81,904,020	28.94 %
Administrative expenses and fees	7,037,767	6,334,197	703,570	11.11 %
Total deductions	371,977,142	289,369,552	82,607,590	28.55 %
<b>Change in Fiduciary Net Position</b>	<b>(150,611,952)</b>	<b>442,897,348</b>	<b>(593,509,300)</b>	<b>(134.01)%</b>
<b>Fiduciary Net Position Held in Trust, Beginning of year</b>	<b>4,347,565,702</b>	<b>3,904,668,354</b>	<b>442,897,348</b>	<b>11.34 %</b>
<b>End of year</b>	<b>\$4,196,953,750</b>	<b>\$4,347,565,702</b>	<b>\$ (150,611,952)</b>	<b>(3.46)%</b>

#### Requests for Information

This financial report is designed to provide a general overview of the South Carolina Deferred Compensation Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Carolina Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223. Inquiries may also be made at [www.peba.sc.gov](http://www.peba.sc.gov) or by calling 888.260.9430.





















## State of South Carolina Deferred Compensation Program

### Notes to Combined Financial Statements

December 31, 2018

#### Note 4. Stable Value Fund (continued)

Quarterly interest rates are declared by the Company prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

The following represents the Fund's annual interest rate credited to participants for the quarters during the year ended December 31, 2018:

1Q 2018	2.20%
2Q 2018	2.25%
3Q 2018	2.25%
4Q 2018	2.30%

The following represents the contract value of the Fund's underlying investments by fixed income sector at December 31, 2018:

<b>Fixed Income Sector</b>	<b>December 31, 2018</b>
Agency - Mortgage Backed Securities	\$ 668,731,344
Agency - Collateralized Mortgage Obligations	38,626,874
Agency - Commercial Mortgage Backed Securities	157,846,410
Agency Securities	4,966,046
Asset Backed Securities	121,656,445
Non-Agency – Commercial Mortgage Backed Securities	46,538,100
Corporate Bonds	245,269,189
Cash and Equivalents	29,445,828
<b>Total</b>	<b>\$ 1,313,080,236</b>

The following represents the contract value of the Fund's underlying investments by their Moody's Credit Rating at December 31, 2018:

<b>Moody's Credit Rating</b>	<b>December 31, 2018</b>
Aaa	\$ 976,893,515
Aa1	2,996,293
Aa2	9,460,034
A1	19,455,401
A2	21,765,686
A3	51,158,443
Ba1	3,501,275
Baa1	19,555,208
Baa2	60,411,019
Baa3	54,191,921
WR	7,820,095
P-1	24,460,472
Not Rated	61,410,875
<b>Total</b>	<b>\$ 1,313,080,236</b>



## State of South Carolina Deferred Compensation Program

Notes to Combined Financial Statements

December 31, 2018

### Note 4. Stable Value Fund (continued)

The following represents the contract value of the Fund's underlying investments by their future maturities at December 31, 2018:

Maturities in Years	December 31, 2018
Less than 1	\$ 39,649,870
1-5	276,792,876
5-10	360,380,139
10-15	365,220,090
15 - 20	30,740,230
20 - 25	77,570,026
25 - 30	81,101,883
More than 30	81,625,120
<b>Total</b>	<b>\$ 1,313,080,236</b>

Mortgage backed securities and collateralized mortgage obligations make up the majority of investments with maturities exceeding 10 years. The fair values of these securities are based on cash flows from principal and interest payments of the underlying mortgages and are subject to the credit worthiness of the individual mortgagors. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security.

### Note 5. 84-Month Guaranteed Investment Contracts

84-month GICs are deposited quarterly with insurance companies who invest the funds in their general asset account. The insurance companies provide a guarantee of principal and a guaranteed quarterly interest rate. As such, the 84-month GICs are subject to credit risk associated with the individual insurance company issuer. Each participant does not have access to the 84-month GIC until the 84-month maturity period is over. Effective January 1, 2015, the 84-month GIC was discontinued as an investment option in Deferred Comp.

The following are the interest rate ranges by year for 84-month GICs based on the date purchased:

Rates in effect during year purchased			
2012	2013	2014	2015
1.65-2.25%	1.30-2.05%	1.75-1.85%	1.80%

The following represents a summary of each 84-month GIC issuer, Moody's credit rating, and future maturities at December 31, 2018:

	Moody's Credit Rating	December 31, 2018		
		Maturities in Years		
		Less than 1	1 - 3	Total
<b>Great-West Life &amp; Annuity Insurance Company</b>	Aa3	\$ 43,974,774	\$ 135,386,781	\$ 179,361,555

## State of South Carolina Deferred Compensation Program

### Notes to Combined Financial Statements

December 31, 2018

#### Note 6. Variable earning investments

Deferred Comp's variable earning investments are held by the custodian in pooled separate accounts. The following represents the fair value of Deferred Comp's units of participation at December 31, 2018:

	<u>December 31, 2018</u>		
<b>Mutual funds</b>			
Vanguard Institutional Index	\$	577,294,393	*
Dodge and Cox Stock		261,546,340	*
T. Rowe Price Growth Stock		240,375,756	*
T. Rowe Price Mid Cap Value		198,388,342	
Baird Aggregate Bond Fund		171,781,639	
Hartford Mid Cap Fund		135,951,448	
American Funds EuroPacific Growth R6		120,793,829	**
Fidelity Inflation Protected Bond Index		65,797,227	
AllianceBernstein Small Cap Growth		60,270,332	
American Funds New Perspective		51,225,461	**
TIAA CREF Small Cap Blend		28,058,572	
American Beacon Small Cap Value		27,271,899	
	<b>\$</b>	<b>1,938,755,237</b>	
<b>Target retirement funds</b>			
SSgA Target Retirement Income	\$	304,203,620	* <u>Effective Duration</u> 2.55
SSgA Target Retirement 2020		121,210,421	2.93
SSgA Target Retirement 2030		90,433,201	2.89
SSgA Target Retirement 2040		49,775,996	2.08
SSgA Target Retirement 2025		17,015,068	2.95
SSgA Target Retirement 2050		7,943,856	1.73
SSgA Target Retirement 2035		5,010,121	2.40
SSgA Target Retirement 2045		3,653,907	1.79
SSgA Target Retirement 2015		2,139,893	2.63
SSgA Target Retirement 2060		1,514,602	1.73
SSgA Target Retirement 2055		882,964	1.73
	<b>\$</b>	<b>603,783,649</b>	
<b>Collective investment trusts</b>			
Fidelity Diversified International		113,249,130	**
	<b>\$</b>	<b>113,249,130</b>	

\* Represents investments exceeding 5 percent or more of net position.

\*\* Represents international funds.

---

## State of South Carolina Deferred Compensation Program

### Notes to Combined Financial Statements

December 31, 2018

---

#### Note 7. Schwab Self-Directed Brokerage Account

Effective January 1, 2010, Deferred Comp participants have the option to invest in a self-directed brokerage account. The self-directed brokerage account is offered through Charles Schwab & Co., Inc. and allows participants to select from numerous mutual funds and other types of securities, such as stocks and bonds, for an additional fee or fees. As of December 31, 2018, the balance invested in the Schwab self-directed brokerage account was \$16,572,282.

#### Note 8. Program Termination

Currently, there are no intentions to terminate either of the plans within Deferred Comp. However, the State reserves the right to terminate, suspend, withdraw or amend Deferred Comp at any time.

#### Note 9. Tax Status

The 457 plan received a favorable determination from the Internal Revenue Service (IRS), stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of compensation deferred by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

The 401(k) plan received a favorable determination from the IRS as qualifying under Section 401(k) of the IRC and, as such, is also exempt from federal and state income taxes. As a result, amounts of compensation deferred by employees participating in the 401(k) plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

Accounting principles generally accepted in the United States of America require Deferred Comp management to evaluate tax positions taken by Deferred Comp and recognize a tax liability (or asset) if Deferred Comp has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by Deferred Comp, and has concluded that as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

#### Note 10. Risks and Uncertainties

Deferred Comp invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the combined statement of fiduciary net position.

#### Note 11. Commitments

Effective July 1, 2017, PEBA entered into an agreement with Deferred Comp's investment consultant that runs through June 30, 2020, and requires an annual fee of \$58,000, payable in four equal quarterly installments. Costs associated with the investment consultant contract are shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management.