Testimony before the Joint Committee on Pensions Systems Review

Presented by: Carlton B. Washington, executive director, SC State Employees Association
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Chairman Bryant, Chairman Herbkersman, and Honorable members of the South Carolina Senate and House: Thank you for the opportunity to speak to you today.

My name is Carlton B. Washington and I serve as executive director of the SC State Employees Association.

Our association is a non-profit, non-partisan organization established to advance the welfare of state employees and retirees.

I am here today on behalf of the 32,442 state employees all across South Carolina. My purpose is to be their voice to your committee.

Every day, South Carolina's state employees are on the front line of enforcing laws, helping citizens, and delivering vital services all across our state. They are the corrections officers, nurses, mental health workers, sanitation employees, social workers, firefighters and so many others who keep our state running safely and efficiently.South Carolina's five million citizens along with all of the state's businesses depend on the services they provide. Their work is vital to all of us.

As you evaluate the SC Retirement System and its long-term solvency, I ask you to strongly consider how your decisions will affect all of the men and women who serve our state and their families. I also ask you to consider how retirees and our state economy will be affected by the recommendations made by this committee.

We all know the issues. The SC Retirement System has been underfunded for years, while benefits such as cost of living adjustments for retirees have never been funded.

To stop the bleeding, the General Assembly passed Act 278 in 2012. This act raised the amount state employees are required to contribute out of their paychecks. It also decreased the cost-of-living increase for every state retiree from two percent to one percent or $500, whichever is greater.

In 2012, it was hoped future increases in employee contributions would not be necessary if the Investment Commission met or exceeded the assumed rate of return of 7.5%. However, the 2015 return on investment was 1.6% and a few weeks ago, when the final tally was made, 2016 ended at -.39%.

It's clear to everyone that the state pension systems need money. No one can dispute that fact. There are no easy answers to make decades of underfunding go away.

However, we cannot place this burden on active employees, teachers, or law enforcement officers in South Carolina, along with so many others who serve our state and its citizens. We also shouldn't place the burden on state retirees—they desperately need the 1% cost-of-living increase they currently receive to just survive. That money should be completely taken off the table when funding options are considered.

It's simply not right to have state employees or retirees shoulder this burden.

I make this point for several reasons.

First, state employees already have some of the lowest wages in the nation, making it very difficult for them to pay more for pension contributions and still have money to live.

South Carolina ranks near the bottom nationally in pay. A large number of state employees are not paid a living wage. Many, even those with years of service, qualify for public assistance or must work two jobs to make ends meet.

In 2015, the General Assembly funded an independent study of employee salaries compared with employees in similar jobs.

Compared with their counterparts in other states and the private sector, state employees in South Carolina are grossly underpaid, making on average, 15 percent less than those doing the same jobs in other states, and almost 20 percent less than in the private sector. State employees in South Carolina are at the bottom of the barrel when it comes to pay, ranking in the bottom 10 states nationally according to the U.S. Census Bureau.

Not only do South Carolina state employees make less money, they are spending more for health care and retirement benefits comparatively, too. In some states, the overall competitiveness of the benefits package offsets lower salaries. That is simply not the case here.

Further, state employees' salaries have not kept pace with the rising costs of health care, food, and other necessities.

The South Carolina Department of Administration reported that 75 percent of state employees, a total of 20,026 men and women serving our citizens, make less than $39,692 a year.

Making less than $40,000 a year is not enough to secure a modest standard of living when factoring in housing, child care, transportation, taxes and other necessities.

The annual budget for one parent and one child to live a "modest standard" in the Columbia, SC area is $43,694. Again, I want to emphasize that more than 20,000 state employees fall below that level—75 percent. Many of these employees have 12 to 15 years of service to the state.

Consider the position of probation and parole officer, a critical job that requires a college degree. This job starts around $26,000 per year. With that salary, there's no way to pay any school loans and support a family. I'm sure you agree with me that parole officers are vital to the safety of South Carolinians. Because wages in this job already are low, we cannot ask these men and women to increase pension contributions.

Taking a national perspective, South Carolina state workers are well below the nation's median household income for 2015, which was $56,500, up 5.2 percent from 2014, according to the U.S. Census Bureau. This was the largest single-year increase since record-keeping began in 1967. Incomes rose sharply for households on every rung of the economic ladder.

S.C. workers are thankful to have received a 3.25 cost-of-living increase in 2016, but wages still lag way behind the nation, neighboring states, and jobs in the private sector. I also would like to note that, while the cost-of-living bump was appreciated, employees really got a 2.75 percent increase rather than a 3.25 percent increase because they were asked to contribute half a percent more of their paychecks to the pension fund this year.

While wages have not been keeping pace with rising costs, state workers have had to pay more for health insurance and federal taxes, while also facing layoffs and furloughs. The employee cost sharing of 21.3% for healthcare is well above the 7-15% in other state governments. Many are working for less now than when they first started working for the state.

With pay lagging, we cannot afford to place an additional burden on our employees by increasing the money they must contribute to retirement.

My second point for you to consider is that South Carolina state workers already pay considerably more in pension fund contributions than their counterparts in other states, who contribute less than 6 percent of their salaries on average. In fact South Carolina state employees already pay MORE for retirement than any other state in the Southeast.

For state employees, required contributions have been growing quickly and steadily each year since 2010. In 2011-12, required contributions which of course come straight out of state employees' paychecks grew from 6 percent to 6.5 percent. The next year, it jumped to 7 percent and then to 7.5 percent the following one. By 2014-15, it hit 8 percent, 2015-16 went to 8.16, and in 2016-17 it went to 8.66 percent, meaning an additional $56 million will collectively come out of the paychecks of employees this fiscal year.

Where do these increases end? When you couple the surges of the last six years with the fact that we already pay more than the national average and more than any other state in the Southeast, it's just not responsible to ask state employees to pay more.

As you are considering solutions, it's very clear that the answer to this deficit is not on the backs of our state employees.

The third point I bring to you is that as pension contribution requirements go up, meaning overall compensation goes down, morale of state employees suffers.

There is a direct connection between salary, job satisfaction, and retention. Salary satisfaction, which would be adversely affected if employees were forced to contribute more to retirement, has a significant impact on commitment and job satisfaction.

There is a high level of dissatisfaction among state employees toward the salary they are currently receiving. We cannot afford to reduce these salaries by increasing contributions. Surely morale will suffer across state agencies.

As morale goes down, it makes it even more difficult to retain quality employees in state government. Many workers are leaving for private-sector jobs where they can make 15 to 20 percent more to support their families.

If state employees are faced with keeping even less of their hard-earned money because of continued increases in pension contributions, state agencies will see increased challenges with recruitment and retention, which is the fourth point I am here to make to you today. If we can't recruit and retain good employees, our best and brightest, South Carolina state government has a critical problem on its hands.

With increased turnover, ongoing training costs increase dramatically. Everyone suffers—state employees, state agencies, and ultimately the people of South Carolina.

During the economic downturn and as part of the legislative effort to streamline state government, state employees have been asked to do more with less. State employees increasingly are taking on the jobs of three to four former colleagues with no pay increase.

This challenge is additionally complicated by South Carolina's remarkable population growth. South Carolina is the nation's 10th-fastest-growing state, increasing in population from 3.5 million in 1995 to just less than 5 million today. Compared to 1995, South Carolina has more than 10,000 fewer state employees today. South Carolina employees are essential to our continued health as a state.

Some of our most critical state agencies already are having trouble luring and holding employees, a problem that could be compounded if you were to require increased pension contributions.

Our State Highway Patrol is a prime example. This department is losing more troopers each year than it's training – approximately 100 every year are jumping ship for local police or sheriff jobs. That costs literally millions of dollars in state money as we continue to have to recruit and train new people. The high officer turnover is compounding already critical problems in law enforcement and corrections in our state.

The Department of Social Services (DSS) is another example where recruiting and retaining workers is critical. Case workers are needed to protect the state's most vulnerable populations such as children and the elderly.

The General Assembly directed DSS to add caseworkers last year after a report revealed 12 children who had interacted with DSS during the past five years have died.

Even with the new positions approved last year, social workers are still carrying an average of 68 cases instead of the target number of 50. Also, DSS is experiencing a very high turnover rate for its employees of almost 10 percent.

The unacceptable result is that children and families suffer. We have a responsibility as a state to ensure that children and the elderly who have been abused or neglected are protected.

A third example is the Department of Corrections (SCDC), which is forced to go to great lengths to recruit and retain employees.

The agency is taking out full-page recruiting ads in the Sumter Daily Item. I have brought an example along.

The agency has been forced to conduct a major recruiting campaign, with billboards, radio, as I mentioned newspaper, and five full-time recruiters. These efforts of course take time away from serving the agency's main functions. In fact, a magnetic board inside the S.C. Department of Corrections recruiting office lists every institution the agency runs – and how short they are on manpower. On average, the agency is short staffed by more than 500 workers.

The staffing shortage means dorms are often on lockdown to protect the safety of inmates and correctional officers who are vastly outmanned.

The General Assembly also approved a $1,500 pay bump for SCDC staffers, which boosted starting base pay to $26,375. The raise, however, wasn't enough to knock the SCDC position from being one of the lowest-paid law enforcement jobs in the state. Turnover rates at SCDC for first-year officers are as high as 50 percent, according to agency data.

These are just a few examples of state agencies having difficulty recruiting and retaining employees. Making state workers pay more for retirement, meaning their take-home pay will decrease farther, surely will only compound these problems.

A fifth point I offer you today is that increasing state employees' contributions would have a negative economic impact on the state in several ways.

Small mom-and-pop businesses would be the ones to suffer most since many state employees tend to spend money in their local communities. If we continue to reduce what employees can spend by raising their contribution rates, it absolutely will affect our economy.

Looking at economic impact is the perfect place to talk about state retirees, too, and how your decisions could impact them. It's possible that as you look at ways to make the pension fund solvent, you could consider eliminating the one percent cost-of-living increase retirees receive each year. This number, as mentioned, was cut from two percent a few years ago.

It's imperative that retirees keep their one percent (the COLA) and that those funds are totally off the table when there are discussions of cutting costs. This one percent is critical to retirees who are living on a shoestring budget with an average income of $19,000 a year. One percent is important not only for their survival, but also for the survival of the mom and pop businesses where many of them spend money. It's important to note that 94 percent of state employees remain in the state after they retire, so the money they spend has a significant economic impact.

The challenge this committee faces certainly is not an easy one. Our state employees, however, should not be forced to bear the burden of a problem they had nothing to do with creating.

I urge the leaders of the General Assembly to find a way to fix this problem that doesn't put an additional burden on state workers.

I want to point to two recent examples where that has happened—where money was found in the state budget to help certain groups without passing along additional costs.

First, when the state's farmers faced the fallout from last October's historic flooding, the General Assembly gave those farmers a lifeline and approved $40 million in aid to help farms in flood-ravaged communities.

Farmers didn't pay for the weather fiasco, which was caused by no fault of their own. This is very similar to the situation with state employees, who did not cause the deficit in the pension fund.

Also, the General Assembly found a way last session to repair South Carolina's crumbling roads without raising taxes and fees for South Carolina citizens. The road system eventually will take $40 billion to fix, twice the amount the retirement system needs.

In both of these examples, solutions were found without hurting a select group of folks. In this case, we must try to figure out how to fix the pension fund without hurting state employees.

Ultimately the General Assembly will have to decide where the low hanging fruit is to deal with the deficit. From the outside looking in, one such example would be the $3 billion in sales tax exemptions given to South Carolina businesses, a number greater than the $2.4 billion actually being collected. If the $3 billion in exemptions were eliminated for six years, that would generate $18 billion that could be used to help fix the problem. It's noteworthy that businesses receiving these exemptions are benefitting from the services of state government, so basically they are getting state services for free while others are paying for them.

Making a pro-active change in this area could put a big dent in the unfunded liabilities.

I call on you to do what is right. I urge you to take a stand with me to truly represent the people who serve us every day as our state employees, as well as the 5 million South Carolinians who depend on capable and competent state employees for their service.

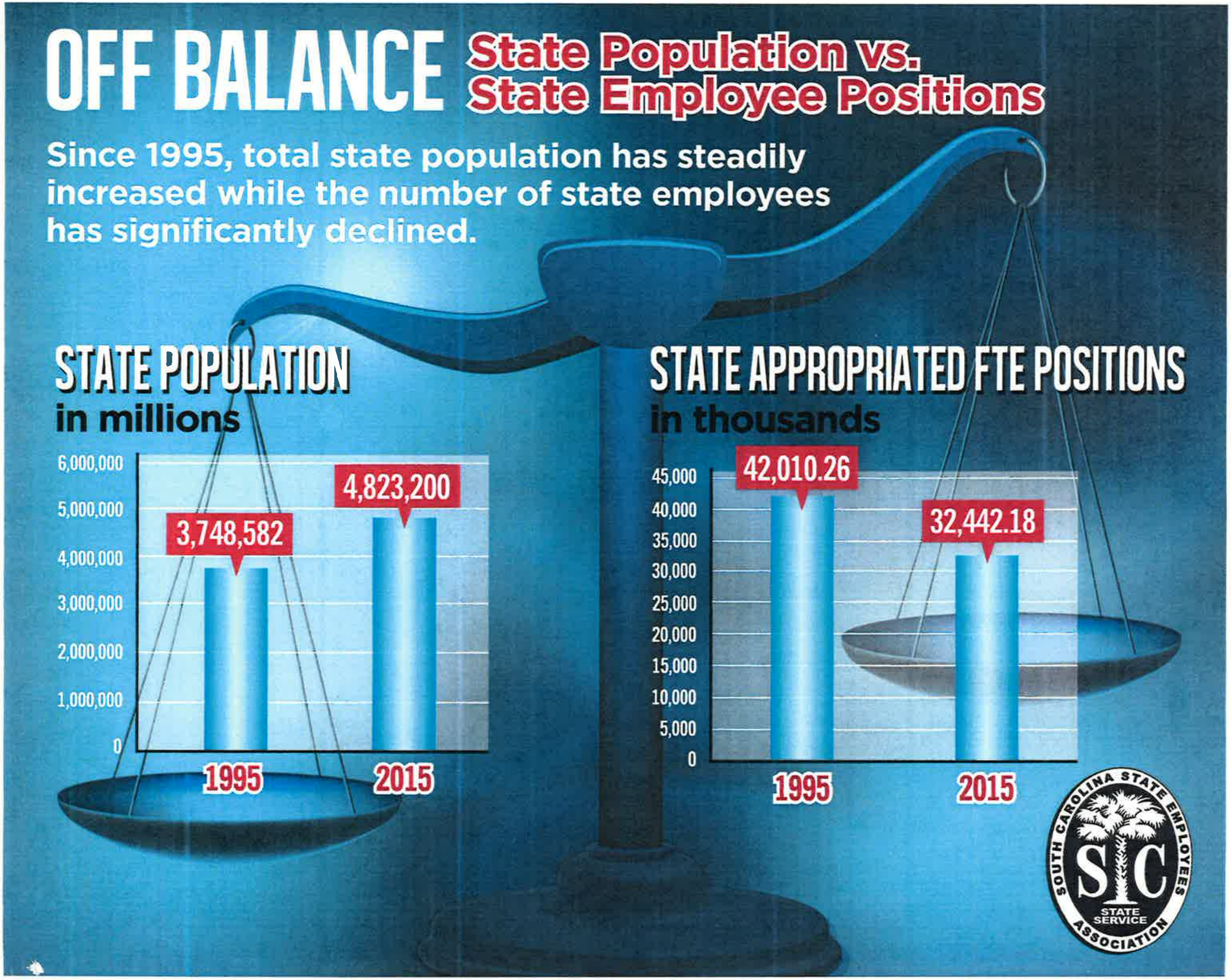
I ask you to take two important steps as you look for solutions:

1. Decide that there should be no more increases in the amount of employee contributions to the retirement system.
2. Maintain the 1 percent cost-of-living increase for state retirees.

In closing, I urge you to look elsewhere to find ways to make the pension fund solvent again. We cannot saddle state employees with more costs or reduce benefits for retirees. Simply put, our state employees are already maxed out and the pay scenario is already horrible. There would be a service impact to 5 million South Carolinians if we don't have capable and competent state employees. It would not be responsible to raise contributions. There's no way around that fact.

State Employee Pension Contribution Increases

2010-2011	6%
2011-2012	6.5%
2012-2013	7%
2013-2014	7.5%
2014-2015	8%
2015-2016	8.16%
2016-2017*	8.66%


OFF BALANCE
State Population vs.
State Employee Positions
Since 1995, total state population has steadily increased while the number of state employees has significantly declined.
STATE POPULATION
in millions
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
3,748,582
4,823,200
1995
2015
STATE APPROPRIATED FTE POSITIONS
in thousands
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
42,010.26
32,442.18
1995
2015
SOUTH CAROLINA STATE EMPLOYEES ASSOCIATION
SC
STATE SERVICE

Average State Employee Salary by Pay Band

The Department of Administration was established on July 1, 2015 in accordance with the South Carolina Restructuring Act of 2014 (Act 121). As the central administrative agency for South Carolina state government, the Department provides services to state agencies, our fellow state employees, and the citizens of South Carolina.

BY THE NUMBERS

35,173 Total Number of Employees in Pay Bands 1-10

30,790 Employees Earning Less Than $50,101 (87%)

20,026 Employees Earning Less Than $39,692 (74%)

18,425 Employees Earning Less Than $32,448 (52%)

*Roughly **75%** of all state employees earn less than **$40,000** per year, well below the estimated secure living standard of **$43,694**.

SOUTH CAROLINA STATE EMPLOYEES
SC
STATE SERVICE
ASSOCIATION

MONTHLY COSTS
for a family with 1 parent and 1 child
in Columbia, SC Metro Area

HOUSING	$793
FOOD	$399
CHILD CARE	$458
TRANSPORTATION	$487
HEALTH CARE	$415
NECESSITIES	$576
TAXES	$512
MONTHLY TOTAL	**$3,641**
ANNUAL TOTAL	**$43,694**

SOUTH CAROLINA STATE EMPLOYEES ASSOCIATION
STATE SERVICE

Economic Institute's Family Budget Calculator measures the income a family needs in order to maintain a secure living standard by estimating community-specific costs of housing, child care, transportation, health care, other necessities, and taxes.