

SC Public Safety Coalition
Comments Before the Joint Committee on Pension Systems Review
September 27, 2016

Mr. Chairman, Members of the Committee, I thank you for the willingness to listen to our concerns about the Police Officers' Retirement System. My name is Jarrod Bruder and I am the Executive Director of the South Carolina Sheriffs' Association. I have been chosen to convey the concerns of several organizations that have a vested interest in the Police Officers' Retirement System (PORS). We view the recent news on the health of our retirement system to be important enough to unify our organizations into a single voice. These organizations include the SC Sheriffs' Association, the SC Law Enforcement Officers' Association, the SC Fraternal Order of Police, the SC Police Chiefs Association, the SC Troopers' Association, the Palmetto State Law Enforcement Officers Association, the National Association of Campus Safety Administrators, the SC State Firefighters' Association, the SC State Association of Fire Chiefs, the SC Coroners' Association, and the SC Summary Court Judges Association. Collectively, we represent over 25,000 PORS members. We refer to ourselves as the South Carolina Public Safety Coalition.

Background Information

Before I address the current issues facing South Carolina's various pension systems, I feel it would be beneficial to provide the committee with some background information regarding South Carolina's Police Officers' Retirement System.

First, we all need to understand who comprises the PORS system. By statute, this retirement system is limited to police officers (state law enforcement officers, as well as sworn personnel at county sheriffs' offices and local police departments), firefighters, correctional officers, coroners, magistrates, and probate judges. In other words, this system is comprised of South Carolina's front line of defense. These are the individuals who willingly put themselves in harm's way to protect and serve our friends, family, and communities. I mention this because I feel it is important that we acknowledge the tremendous risks and sacrifices these individuals make every day.

Second, we feel it is critically important to understand the retirement benefit that PORS members receive. After the pension reform legislation in 2012, the PORS system now has three classes of members. Members in classes One and Two are eligible for full retirement benefits after 25 years of service while class Three members only become eligible for full retirement benefits after 27 years of service. PORS members (all three classes) all share the same annuity factor of 2.14%. This essentially means that PORS members earn the ability to draw 2.14% of their salary for every year of service. So, after 25 years of service, officers can retire, but are only eligible to draw 53.5% of their salary.

You may notice that the required years of service in order to draw full retirement benefits is slightly lower than SCRS members. There is good reason for that difference. In fact, in 1988, PORS members came to the General Assembly seeking the ability to retire after 25 years of service. In large part, this change was sought because of the highly stressful nature of employment for PORS members and the fact that life expectancy rates were significantly lower for PORS members than members of other retirement systems. PORS members made this

request with their wallets and purses open, as they offered to pay an extra 1.5% in employee contributions in exchange for fewer years of required service. Thankfully, the General Assembly recognized the dangerous nature of these positions and agreed to a shorter term of required service. So, for twenty-four years, PORS members paid 6.5% when members of South Carolina's other retirement systems paid significantly less. The trend of PORS members paying higher rates did not end with the pension reform that came in 2012. In fact, PORS members are currently required to contribute 9.24% of their annual gross salary to their retirement system compared to 8.66% for SCRS members and 10% for JSRS members.

Current Pension Issues

Now that we all share a general understanding of who the PORS system includes and what their benefits and obligations are, we would like to turn our attention to the troubling news that was shared at this committee's first meeting.

Some of you may remember that I was also tasked with representing the South Carolina Public Safety Coalition during the pension system debates in 2012. At that time, the PORS system was 74.5% funded and was the highest funded plan out of all five of South Carolina's Retirement Systems. Despite its funding level, legislators insisted reforms were necessary in order to reduce the unfunded liability and stabilize the retirement systems for the foreseeable future. While we did not necessarily agree with all of the changes that were proposed, we ultimately conceded the fact that a healthy, viable retirement system was in everyone's best interest and agreed to sweeping changes.

At that time, I was the Executive Director of the South Carolina Law Enforcement Officers' Association and regularly updated my membership on the retirement legislation via email. One of those emails was brought to my attention last week when I was preparing my comments for today's meeting. My final update after the pension reform bill was signed in to law included the following sentence, "Best of all, we now have a healthy retirement system that will be able to provide for our retirees, current employees, and many generations to come."

I said that because I genuinely believed that our willingness to sacrifice more would result in a healthy retirement system. So, imagine my frustration as I sat in this committee's first meeting and heard that our unfunded liability is greater today than it was in 2012. Imagine the feeling I felt when I heard that PORS members and PORS employers should anticipate contribution rate increases of 1-1 ½% each as soon as July 1, 2017. Imagine how truly difficult it is to stand here, only four years after encouraging over 25,000 PORS members to give more, only to be told that our sacrifices were not enough and we must make further contributions. Quite frankly, I do not know if we have anything left to give.

The law enforcement profession is arguably under greater scrutiny and ridicule than ever before. To say it is difficult to recruit or retain good police officers in today's environment would be a tremendous understatement! The overwhelming public scrutiny the law enforcement community faces today is driving people away from our profession. The same is true for all public safety professions, not just law enforcement. The fact is we simply cannot hire enough quality candidates in today's environment. If low pay, working weekends and holidays, and laying your life on the line every day was not enough to deter quality individuals from a career in public

safety, they must now also consider the fact that over 10% of their paycheck will soon go to the retirement system.

To gain a better appreciation of what 9.24% actually looks like, we thought it would be beneficial to see a couple of real life scenarios. Below you will find two PORS NET salary projections. The first projection is based on the average annual salary for a PORS member as of June 30, 2015 (as presented by Director Boykin). The next projection is based on the average starting salary for a non-certified deputy sheriff. This average is based on a recent Sheriffs' Survey that has been completed by 16 of the 46 Sheriff's Offices in South Carolina. These figures also include the health insurance costs for a family of four on the State Health Plan.

PORS NET Salary Projection		Employee/Spouse 2 children		
Salary 1	Annual Income	\$	37,776.00	
	Gross minus retirement	\$	34,285.50	
	Gross minus pretax and retirement	\$	30,606.78	
	Gross minus Pretax only	\$	34,097.28	
9.24%	Retirement Contribution	\$	3,490.50	
6.20%	SS	\$	2,114.03	
1.45%	Medicare	\$	494.41	
	Health ins pretax	\$	3,678.72	*dental/vision insurance not included
6%	State Tax	\$	1,836.41	
10%/15%	Fed Tax	\$	3,698.52	
	Net - Annually	\$	22,463.41	
	Net - Monthly	\$	1,871.95	
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Salary 2	Annual Income	\$	30,068.00	
	Gross minus retirement	\$	27,289.72	
	Gross minus pretax and retirement	\$	23,611.00	
	Gross minus Pretax only	\$	26,389.28	
9.24%	Retirement Contribution	\$	2,778.28	
6.20%	SS	\$	1,636.14	
1.45%	Medicare	\$	382.64	
	Health ins pretax	\$	3,678.72	*dental/vision insurance not included
6%	State Tax	\$	1,416.66	
10%/15%	Fed Tax	\$	2,649.15	
	Net - Annually	\$	17,526.41	
	Net - Monthly	\$	1,460.53	

A quick look at the net take home pay of an average public safety officer in our State should give everyone cause for concern. Keep in mind these are merely averages. Many officers in our state are well below these averages and may have gross annual salaries at or below \$24,000. This sad reality means that many public safety officers must work multiple jobs in order to provide for their families. Now, at no fault of their own, these individuals are required to once again fix an ailing retirement system. I use the term required because the 2012 pension reform legislation tied losses in investment revenue and increases in unfunded liability to increases in employer and employee contributions. Therefore, increases in employee and employer contributions are inevitable. Again, I do not know if we have anything left to give.

In this committee's first meeting, Director Boykin reported the national median employee contribution rate for general employees and teachers only (not public safety) is 5.98%. Comparable data is not as readily available for public safety retirement systems, but our best estimate indicates that the national median employee contribution rate for public safety employees is somewhere around 7.52% (based on the enclosed NCSL data). It is important to note that many states do not require any employee contribution at all and most require either less years of service or greater benefits than South Carolina offers. So, in essence, public safety officers in South Carolina are paying nearly 2% more than the national average already and will soon be paying over 3% more than the national average in order to receive less benefits.

Quite frankly, we had hoped to be standing before you today to discuss the possibility of raising or outright removing the \$10,000 salary cap that is placed on individuals who retire and return to work. You see, the 2012 pension reform legislation placed a \$10,000 salary cap on individuals who retire and return to work if they did not retire before January 2, 2013 or if they retired before age 57. When I stood before a similar legislative body in March of 2012, I voiced concern that this provision could cause public safety departments across the State to experience a mass exodus of their most experienced officers. That is precisely what happened. Instead of working longer, individuals chose to leave the PORS system either prematurely or all together. In fact, nearly 10% of the South Carolina Highway Patrol left the agency in 2012 to avoid this restriction. Ultimately, we feel the abrupt implementation of this restriction has done more to hinder public safety in South Carolina than it has to enhance it, especially considering the fact that retire and return to work for SCRS members was gradually phased out and will finally terminate on June 30, 2018. Recent numbers indicate that after this limitation was implemented in 2012, the tenure of PORS members in the retirement system is actually getting slightly shorter instead of longer, which is the exact opposite of the legislative intent. It is critically important that we discover and implement some strategy that will encourage public safety officers to work longer or retire and return to work. Our state can and will benefit from retaining this institutional knowledge and experience these seasoned professionals have to offer.

Historically, PORS members have been more than willing to take on their fair share of contribution increases and cuts in benefits in order to maintain a healthy retirement system. This, however, is not a sustainable, long-term solution if we want to maintain the health and well-being of our retirement system. If employee contribution rates continue to climb our state will not only continue to struggle to fill public safety positions, but we will also see record numbers of current PORS members leave the system and not return. This should give us all great concern as defined benefit retirement plans cannot function without generations of new employees.

Our Coalition is not only concerned about increased employee contributions, but also employer contributions. A large majority (nearly 66%) of PORS members are employed by local governments, which have been statutorily restricted from increasing revenue in their respective cities and counties. Essentially, this means that we, as employers, will be forced to pay increased employer contributions instead of filling vital public safety positions or purchasing much needed public safety equipment. While we are not actuaries or financial planners, we do know that the solution to our retirement system concerns is not found in cutting public safety positions or providing less equipment.

The bottom line is that our State's investments continue to underperform year after year. Apparently, the old adage, "a rising tide lifts all boats" must not be entirely true. We all understand the losses that were endured during the 2008-2009 financial crisis, but we are simply at a loss when it comes to understanding how our State continually underperforms our peers. Furthermore, we simply cannot comprehend how the responsibility for losses in all five of South Carolina's retirement systems lands at the feet of members in only two of South Carolina's retirement systems – PORS and SCRS. If all five systems benefit from financial gain, should they not all suffer from financial loss?

Solutions

Again, we are not financial planners or actuaries, but several things are painfully obvious. First, it is painfully obvious that something has to be done to reverse our trend on returns on investments. Second, it is painfully obvious that any reduction in the assumed rate of return will cause additional increases in employer and employee contribution rates. While I do not have a specific solution to the lack of return on investments, I do know that employees and employers are being held accountable for the underperformance of these funds. The first solution that needs to be implemented is placing the accountability for these losses where it belongs – which is with those who invest these funds rather than on those who contribute these funds. Perhaps we should consider eliminating the automatic increase that was built in to statute and institute some type of cap on employee or employer contributions. Something must be done to reverse this unsustainable path. Finally, it is painfully obvious that local governments will also shoulder the burden of repairing our ailing system even though they have no authority or influence over investment strategies. Therefore, these entities should be given the flexibility to address this budgetary crisis in whatever way they seem fit. Simply put, it is painfully obvious that there are solutions to our pension system concerns, but those solutions should not be placed solely on the backs of current employees and employers.

Again, I would like to thank you all for allowing me to present the concerns of PORS members. I will now happily answer any questions from the Committee.