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## Senate Finance Committee



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### MEMORANDUM

February 11, 2011

TO: Senator Thomas Alexander  
Senator Nikki Setzler  
Senator Phil Leventis  
Senator Greg Ryberg  
Senator Danny Verdin  
Senator Darryl Jackson

FROM: Senator Hugh K. Leatherman, Sr.

SUBJECT: Assignment for the Retirement and Employee Benefits Subcommittee

The Retirement Systems valuations for the various programs for 2010 have been completed, and we again find that these systems are financially stressed. Retirement programs across the entire nation are experiencing similar difficulties. So, I am asking that you collectively as a subcommittee of the Finance Committee focus on a thorough "top to bottom" review of our systems. This process will be difficult and take some time, so I am asking Senator Ryberg to co-chair the subcommittee for this specific task along with Senator Alexander. Given that this will be the third major review of the systems in the past six years, I seek solutions that will lead to longer term financial sustainability while attaining fairness for our employees.

Several aspects of this endeavor should be considered:

Scope - I would request that you review every separate system of employee retirement to include the South Carolina Retirement System, the Police Officers Retirement System, the General Assembly Retirement System, the Judges and Solicitors Retirement System and the National Guard Retirement System.

Length of Time - There is a short run and long run aspect to this issue. First, the SCRS valuation will prompt action by the Budget and Control Board to increase the employer contribution rate - unless the General Assembly intervenes. Thus, I would be interested in the thoughts of the Subcommittee on the prudence of legislative action, if any, for the short run. Second, substantive changes to the systems for the long run should take months and include input from stakeholders. It would be my hope that omnibus legislation be prepared for pre-filing at the end of this calendar year and considered early in the 2012 legislative session.

Governance Structure - In recent months I have been developing legislation for the creation of a Department of Administration. My preference is not to relocate the organizational entity of the SCRS in a Department of Administration where popular political pressure could lead to hasty decision making. Neither do I prefer that the SCRS be organizationally located in a successor Board to the Budget and Control Board. Instead, my preference is to pursue a trustee system that allows the governance structure to rightly focus on the longer financial horizon. So, I am interested in learning how other states handle this balancing act as well as learning the sentiments of the subcommittee.

Elements of the Systems - It is evident to me that perceptions and expectations of retirement have dramatically changed in recent times. Life expectancy in the United States has increased by nearly a decade from 1960 to 2008. Further, defined contribution benefit plans occupy a significant and growing portion of the national and global pension market. Our retirement systems need to reflect this new reality. In a presentation that Peggy Boykin offered at the Governor's Retirement Summit this past October, she listed a number of possible retirement element changes for consideration. They included:

- Increase required years of service for retirement from 28 to 30
- Increasing the number of years used to calculate a member's average final compensation from 3 to 5
- Eliminating the use of sick leave, annual leave, and overtime pay in the calculation of a member's average final compensation
- Using the actuarial cost for service purchases
- Eliminating the Teacher and Employee Retention Incentive program
- Applying an annual earnings limitation to retirees who return to work
- Decreasing or eliminating the rate of interest on inactive member accounts
- Increasing the early retirement factor to be actuarially neutral
- Forcing the escheatment/forfeiture of inactive member accounts after some period of time
- Eliminating part-time service credit

I would ask the subcommittee to consider the elements listed as well as any other valid plan elements. We must strengthen our systems financially, and this will involve changes to elements of our retirement systems.

Thank you for your efforts. The task I am asking you to address is not easy, and much time and effort will be necessary. But, our various retirement systems are too important not to adapt to the new reality of public service retirement in the 21<sup>st</sup> century. Remember - Any promise or commitment made to those in the systems MUST be honored. However, those to be added to the systems in future years should be evaluated based on the costs and benefits to the state.