From: Candee Brakefield
To: Whitney Moon
Subject: SCRS from A Benefits Administrator
Date: Wednesday, March 21, 2012 3:21:16 PM

I sent this e-mail to my representatives and I wanted also to share it with you.

I work for York Technical College as a Benefits Administrator and I can retire with 28 years of service in a little over 4 years. During my years of service, I have worked sick many days to come into work so that I could save my sick leave days. I have also worked to save 45 days of annual leave and for the last few years, I have ended up donating leave to both the sick and annual leave pools. I think the state is going to be surprised at the number of people that start using their leave. There have always been people that earned a day and they took a day, but there are far more of us that recognized the need to save our leave for a rainy day and/or retirement.

As a benefits person, it is my job to help others sign up for retirement benefits. I helped numbers of people exit the college. Now when it is almost my turn and when I have done everything I could do in my power, I find out it was all for nothing. Every time I dragged in here or every time I scrambled to find someone to keep my sick kids so I could work was for naught. I don't mind the five year look back -- I don't mind the 7.5%, but I do deeply resent the fact that I will not get to use my sick or annual leave.

Thank you, Crawford H. Brakefield

The South Carolina Education Association
Proposal for the Future of the
South Carolina Retirement System
October 26, 2011

The SCEA is the largest professional organization for public education employees in this state. We represent thousands of public school teachers and education support professionals, who are also taxpayers and voters. I cannot overstate the importance of the South Carolina Retirement System (SCRS) to our members.

We want to extend a great thank you to this Committee, Mr. Bill Blume and the staff at the SCRS, Mr. Bob Borden and the staff at the Retirement Investment Commission, the two actuarial firms – Cavanaugh and Macdonald and GRS, and all those working diligently to ensure a stable Retirement System for public school, state, municipal and county employees. It is vitally important to all of us to find a reasonable solution which secures the Retirement System and continues its important role in keeping quality employees serving South Carolina.

Teaching has never been a highly paid profession, and yet teachers are the key to our nation's future economy, culture and even national security. So school districts everywhere—not just here in South Carolina—looked for affordable ways to attract and retain teachers without offering high salaries. The first solution they found was job security. While teachers have fairly little job security in South Carolina, they have much more, including tenure, in most other states. For those who have it, job security is a big benefit—and hence attraction—that costs taxpayers little money.

Then the question became how to keep experienced teachers in the classroom. As young teachers marry and start families, many leave for higher paid professions. So states need an affordable way to retain

them. And one solution the states found was pensions. Providing a pension is actually one of the most economical ways of compensating school employees. That's because pensions are funded not only by the employer, but also by employees and the return on the investments made by the fund. In South Carolina, school employees pay about two-thirds of the cost of operating the SCRS. And the average rate-of-return on the SCRS's investments over the last 30 years has been very good—greater than eight percent. In fact, the return on investments for FY2010 was 14.6 percent, and for FY 2011 the investment return was 18.6% percent. Investment returns have provided 48 percent of the fund's assets over the last 20 years. So the state is not even contributing most of the money to pension fund. Yet, it is widely perceived to be bestowing a great benefit. That makes it a most affordable way to retain the employees it needs to teach our children, drive them to school, and feed them at lunchtime.

What was true at the time pensions were created is just as true today. Reducing pension benefits reduces the state's ability to retain experienced teachers. It means our students—most of whom are already in overcrowded classes—will have inexperienced, less skilled teachers.

So making major changes to the pension system would harm the quality of public education. Because South Carolina has one of the lowest average teacher salaries in the nation, the state's ability to offer a quality pension and benefit program is crucial to the state's ability to retain highly effective teachers.

So the SCRS should be as critically important to the state as it is to its participants. It is because of the fund's importance to educators that The SCEA considers itself to be a vigilant protector of the SCRS's stability and adequacy.

And the truth is, with some reasonable adjustments, the SCRS will be actuarially sound. It is consistently taking in adequate income and is paying out benefits as required and is projected to do so for the foreseeable future.

According to actuarial reports the SCRS has a 37.6 years amortization period. According to the Governmental Accounting Standards Board (GASB) pension systems such as SCRS should have a 30 year amortization period.

We are very concerned that there are two competing actuarial reports. Apparently the first report was not acceptable for some reason, thus at an additional cost of approximately $250,000 a second firm was hired. The second firm even used a different set of assumptions and not surprisingly came up with different findings. Why was this necessary and what is the motivation behind it?

It is important to point out all pension plans have an unfunded liability at some point. The standard according to GASB is this unfunded liability should not be amortized for more than thirty years. Currently, the amortization period is just slightly over the required standard and SCRS is not in the dire condition as portrayed by some.

The SCEA along with our good friends the State Employees Association is rolling out the following proposal to ensure South Carolina will maintain quality teachers, education support professionals, state, municipal and county employees and SCRS remains secure far into the future:

- Neither The SCEA nor the State Employees Association is calling for any increases to current benefits. We are only proposing to keep what has been promised.

- The SCRS should remain a defined benefit plan for all including new hires. The state already has an option allowing new hires to choose a defined contribution plan (Optional Retirement Plan).

- Maintain the 8% return on investment rate. The rate of return on investments for 2011 is 18.6% and in 2010 it was 14.6%. It is true that in 2009 and 2008 the height of the stock market decline SCRS return on investment was -19.6% in 2009 and a -2.56% in 2008. However in 2007 the rate of return on investments was 13.35%. It is not unrealistic to expect an 8% return. South Carolina has one of the best Investment Commission Directors in the nation. Recently, funding was provided to add approximately 25 employees to the Investment Commission. Time should be given for the Commission to make its investments and to achieve the highest rate of return possible before making unnecessary cuts to employees' retirement benefits.

- Maintain the guaranteed Cost of Living Adjustments up to 2% annually. The average retiree benefit is $1560 per month. Hardly, a rich benefit by any means. Therefore, providing adequate COLAs is necessary.

- Keep the required years of service to obtain full retirement benefits at 28 years. This is an important recruitment and retention tool.

- Maintain Teacher Employment and Retention Incentive (TERI) – TERI is another important retention and recruitment tool and

under current provisions is a no cost obligation to SCRS. As a matter of fact SCRS invests the accrued TERI accounts, the TERI employees continue to pay their contribution rates as does the employer, yet there are no additional benefits paid to the employee or additional costs accrued by SCRS.

- Increase the Employer Contribution Rate by one (.92%) percent by July 2012 – Just this act will decrease the amortization period to within the thirty year standard according to the Cavanaugh Macdonald Report.

- Implement an additional Employer Contribution increase of .96% by July 2012.

- Increase the Employee Contribution Rate by .5% - Phase in this increase over a two year period (.25% per year). In years when school employees are not provided step increases and state employees do not receive cost of living adjustments the increase of employee contribution would not occur. Teachers, state employees, police, firefighters, state, county and municipal employees all are demonstrating their willingness to make sacrifices, even to the point of agreeing to pay higher retirement contributions and higher insurance premiums.

- These increases in employer and employee contributions will increase SCRS funding by $201,841,177 in just two years and over a ten year period adds $2,018,411,770 in funding to SCRS.

- Decrease or eliminate the rate of interest on inactive member accounts. According to a report compiled by Cavanaugh Macdonald in January 2011, as of July 2009 there is approximately $180 million in terminated member accounts who do not meet

the vesting requirements and $510 million in the accounts of vested terminated members.

PRESENTATION
OF THE STATE RETIREES ASSOCIATION
ON THE STATE RETIREMENT PLANS

by
J. Samuel Griswold, Ph.D
President Emeritus
State Retirees Association of SC

Mr. Chairman, Members of the Subcommittee, we appreciate the opportunity to be here and to be heard on our concerns regarding the State Retirement Systems. It seems we have been working on these issues for many years. I was convinced we had reached a credible long term solution with the legislation that passed in 2008 as a result of the work of the Treasurer's Task Force on which I sat as did several others in this room. I actually still believe that. **If we had not encountered the economic recession of 2008/2009 and the serious losses to the Retirement Fund, I don't think we would be here today.** Fortunately we have made up those losses with stellar returns on investment the last two years but it put the fund in the position of losing income from investments which should have been there for three years: the year we lost it and the two years it took to bring it back. All the talk you have heard about unfunded COLAs and TERI were addressed to a great extent in 2008. We are here not because of those things but because of the losses we incurred during the recession of 2008/2009.

As I hope you have found over the past decade of working on this issue, the State Retirees Association does not want to be an obstacle in looking for adjustments that may need to be made. And we know that adjustments must be made to maintain the viable system we all want. We have always tried to be part of the solution, not the problem. We pledge to continue working in that mode.

That being said, we do act as a representative and advocate for retired employees. We have an obligation to bring their concerns, fears and priorities to the table. In doing that, I think you will find that we have never lobbied for more and better benefits. **All we want is what was promised us and what was implicit in the assumptions we made when we retired.**

We have been working closely with the SC Education Association, the SC State Employees Association and the SC Law Enforcement Officers Association over the past number of weeks. All of these representative organizations acknowledge and understand that we must make changes to the current retirement systems so that we can retain those things of greatest value to us and adjust those things that can keep the systems viable. We are prepared to join with you to do that.

WHAT WE HOLD DEAR AND HOPE TO RETAIN

First, the issue of most concern among retirees and those who aspire to be retirees--**their highest priority**--is the maintenance of cost of living adjustments (COLAs) at

least at the current level. Further, we would strongly recommend that the rules regarding COLAs be the same for the SCRS and the PORS systems.

The current level for COLAs reflects the increase in the Consumer Price Index up to a maximum of 2%. Keep in mind, in 2008, as part of the negotiations associated with the Treasurer's Task Force and subsequent changes in retirement law, retirees accepted an upper limit of a 2% COLA . This was half the upper limit of 4% that existed at the time. Retirees have done their part in addressing shortfalls. In many years, 2% does not meet the CPI rate of inflation which has averaged 4% since World War II. So even if a 2% COLA were given each year, inflation would still take its ravaging toll as one ages.

A deep-seated fear among many retirees is that inflation or a major illness will so deplete their resources that they will be driven into desperate circumstances. The COLA and their health insurance helps guard against that. But keep in mind, the average retirement benefit is $19,000 (from the 2010 Comprehensive Financial Report). This, supplemented with a little social security benefit, is what many retirees are living on. This is hardly a huge buffer against the fear that they will not be able to live out their final years with some dignity and pride.

Second, while it is a moot issue for those already retired, active employees place a high priority on maintaining the ability to retire with 28 years of service for teachers and regular employees and 25 years for law enforcement. This really devolves into a burn-out and a recruitment issue. Neither teachers, state employees or law enforcement officers are particularly well paid in our state. These two employee benefits are invaluable in recruiting and retaining quality people into those ranks.

We also believe that we and this Subcommittee have more than just a fiscal problem at stake here. We believe that what is also at stake is the quality and competence of the government you provide to the citizens of South Carolina. Many government employees, myself included, came to work for government first and foremost out of a kind of idealism: we thought we could help build a better life for people in our state. You, as elected officials, I am sure, understand that feeling. We knew you could not get rich working for government--that is just not in the cards, at least for employees. But you could earn a living wage, you had a decent health insurance, and the retirement system was fair and, most importantly, sure.

For many of us, that is what happened. I use myself as an example. From Deputy Director and Chief Operating Officer of the Budget and Control Board, I went on to head two of our largest state agencies and was in the cabinet of two governors, one a Republican and one a Democrat. I felt like I made a positive difference in the lives of thousands of South Carolinians. I didn't care what political party the governor was. I earned enough to live and put my children through school but certainly did not get rich off my government salary. I had opportunities and offers to leave. But I believed in what I was doing, I could survive on my salary, and I was vested in the Retirement System. I stayed. There are thousands more like me in police work, in class rooms, in

mental health, in social services, in our colleges and universities. They make life better for South Carolinians in many different ways. They need to be the best we can buy.

I have lots of friends still in government. Based on what I hear and see, you are in danger of not being able to attract the best and brightest any more. They haven't had a raise in a number of years, they must endure the slings and arrows of various anti-government ideologues, they see more and more top level appointees--who know little about their jobs--earning six figure salaries. They are doing their job and part of their laid off fellow employee's job, and now, NOW, even their modest (compared to many states) benefit package appears under threat. I ask you, given all this, would you recommend to a bright young person right out of college to start a career in our government service?

Yes, retirees have a degree of self interest in what happens here. But they also, perhaps more than most, have a concern that the state maintain a quality work force which can help our state move forward competitively into the future.

WHAT WE ARE DOING TO HELP

To that end, as mentioned earlier, we have not been standing still waiting to see what happens. We have devised a responsible plan of benefit and financial changes which, if enacted, we believe will provide a long-term "fix" to this issue at hand while still preserving those things we hold most dear. The plan is in a first draft status and we still need to get figures and verifications. In addition, we need to hear what our constituents are saying during the public hearing process and learn from our own polls of our members so that any additional common concerns can be addressed. But our plan, at first brush, appears to deal effectively with all the issues at hand, is not outlandish in price, and promises to be as close to a long term fix as we might get.

This Committee has asked that we present specific proposals. In discussions with individual members, that has been strongly emphasized and we were warned not to come to this Committee without suggestions for change. We do not have the fiscal impact of these suggestions which is the big deficiency in our plan at this time. Consequently, we are hesitant to present approaches which are perhaps premature and which are explained in more detail in our plan. However, we suggest that the Committee examine the following actions and ask the actuaries to assess their impact on our retirement system:

1. Increase the employer and employee contribution each an additional 0.75% (or 1%) of salaries with the employee portion phased in over three years.
2. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.
3. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit.

4. Terminate the accrual of interest (now 4%) on inactive accounts (people receiving no benefit and no longer working for a covered employer).
5. Use fair actuarial cost for purchasing years of service.
6. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.
7. Maintenance of an 8% assumed rate of return on investments.

These are the issues we are looking at right now. None of them are "new." Many have been bounced around for several years. We believe that in these issues lies a solution to our collective problem. We would hope, when you get the actuarial figures, you will share them with us so that we can incorporate them and make final decisions about what should or should not be in the plan that we finally submit.

ASSUMED RATE OF RETURN ON INVESTMENTS

Approximately two thirds of the revenue coming into the Retirement Fund is from returns on investment of that fund. This far exceeds the other two sources of revenue which are employer and employee contributions. I would strongly recommend this Committee give great attention to an appropriate projection of these funds into the future. It is the key to funding a state retirement system. The other sources of revenue pale in comparison.

Lots of discussion has occurred over whether we should lower the assumed rate of return on investment of the Retirement Fund from 8% to, say, a slightly lower rate of 7.5%. Somehow, this half a percent has been given inordinate importance. Since this would mean projecting earnings at a lesser rate, this change would significantly **increase** the unfunded liability. We think this issue is the equivalent of the proverbial "straw man." First, as we believe from our first assessments of implementation of our draft plan, the system will easily be within actuarially safe territory regardless of whether this rate is changed by half a percent. Second, future returns will be what they actually turn out to be regardless of what presumptive rate is set and, if necessary, adjustments can be made later when the economy recovers.

This rate is an actuarial assumption that is appropriately thought of as one that should be realistic for a long-run horizon such as 30 to 60 years--not the next year or five to seven years. Investment returns have always been variable from year to year with multiple years of low returns followed by years of high returns. It is too early in the short life of our Investment Commission to declare that an 8% return is unachievable at a reasonable level of risk in a globally diversified portfolio with their 15 asset classes. And nationally, for 20 and 25 year periods, the median rate of return has been 8.5%.

At the current time, we find ourselves in a period of depressed economic activity that leads even many investment professionals to think pessimistically about the future. This psychological phenomenon of overemphasizing the present environment in economic and investment forecasts should not be driving policy decisions for the extended management horizon of a pension fund. Some even think that the US has

seen its best days and will have difficulty maintaining a leadership position in the global economy going forward. Even if such a prognostication materializes in the US, sophisticated investors will maintain high average long run returns by allocating more assets to investments in areas of the world economy that are experiencing relatively high economic growth. At the present time, even US Standard & Poors 500 firms obtain at least 50% of their revenues from international sources, including emerging economies.

There is no scientific formula for calculating assumed rates of investment returns. Actuaries are generally not investment specialists or economists. They are mathematicians. Consequently, they cannot and will not do it. **This rate is a policy decision**. Of course, it cannot be set outlandishly high or it would so distort reality that both employer and employee contributions could, at least theoretically, be eliminated. That would be a poor policy decision. And if we set it abnormally low, we would have to increase dramatically employer and employee contributions. That, too, would be a poor policy decision. And we can never set it "just right" because that would be setting it to the amount actually to be earned which is beyond our capability to predict. That leaves us with a reasonable middle range of perhaps 6% to 9% within which to work.

We pay very dearly for staff at the Retirement Investment Commission to invest the Retirement Fund. With bonuses, top level staff there can earn up to $700,000-$800,000 per year if they meet or exceed returns on their relevant benchmarks subject to certain controls on risk. However, their job is not to tell us what rate of return they are comfortable with. For Investment Commission personnel to recommend a rate of return represents a conflict of interest on their part.

Their job is to structure an investment portfolio that will deliver a return on investments as determined by State policy makers. That is why we pay them the big bucks. Indirectly, their degree of success impacts on taxpayers by influencing how much employers (state and local governments) and employees must contribute to the Retirement Fund. Policy makers should, therefore, set these targets for them.

As long as that presumed return is reasonable--that is, somewhere within the previously mentioned range--these professionals should be able to deliver. If not, we need a new bunch. I am no investment genius but I own shares in a generally available mutual fund which has managed an average annual return in excess of 8% for many years. I never earned $700,000 per year but if I can exceed 8% personally, I think they might as well.

I suggest we tell these folks we want a return of 8%, that this is not an unreasonable demand, and they need to develop a portfolio to achieve it over the long run. Even in a world with an economy like the one we have, the median return for public pension funds similar to ours across the United States was 21% for FY 2011. Our return was 18.4%: **LESS** than the median. Yes, in 2008/2009 we lost money during a (hopefully) once in a lifetime economic event. But the money does not just disappear, it goes somewhere--banks and big companies are stockpiling it and this can be expected to lead to corporate investments with enhanced profits when they decide the economic climate is

right. And returns for public pension funds are doing pretty well. Some of the money is going to them. They are stockpiling some of this money as well. We need to demand performance from our investment team but not be unreasonable about it. An 8% long-run assumption does that.

OTHER MATTERS

In Sunday's State Newspaper, we read of the development of a "hybrid-stacked plan" by the Director of the Retirement Systems for presentation to legislators. We don't even know what that is. Retirees and employees have not been involved in development of such a plan. We are operating in good faith within the structure set up to deal with these issues. If a solution has already been reached and we have not been a part of reaching that solution, we would feel we have been significantly violated. Why hold public hearings at all? By well established law the resources held in our retirement system belong to the 527,000 employees and retirees who contributed to it. These are not the State's resources--they are ours. We understand the State's policy makers will make the final decisions here. But we deserve to be at the table when changes as important as this are made. We have been there in the recent past with the Treasurer's Task Force in 2007/2008 and contributed to a smooth solution without conflict. We resist having "solutions" sprung on us. We embrace being a part of the solution.

I have provided several documents that support some of my statements today. The first is a document from the National Association of State Retirement Administrators showing the median returns on investments and the investment assumptions made by plans like ours across the nation. It shows the median return of 21.6% for FY2011, and the distribution of investment return assumptions with a huge majority of 86 pension plans at 8% or higher. The other document is from the Yacktman Fund web site showing annualized returns over 10 years of 11.20%. It can be done. This Committee should take a stand on the assumed rate of return.

Thank you for the opportunity to express our concerns and accepting our willingness to help find a solution. We look forward to working with you in the future.

10/03/2011

SHOULD CHANGES BE MADE TO THE INFLATION FACTOR AND THE ASSUMED RATE OF RETURN ON INVESTMENTS?

Lots of attention has been paid as to whether the presumed rate of return on investment of the Retirement Fund should be lowered from 8% to, say, a slightly lower rate of 7.5%. Somehow, this half a percent has been given inordinate importance. This move would have significant consequences. Two legislative committees are currently examining the state's retirement programs in a rather holistic fashion. Until that review is complete, any change to the current rate would be premature.

Act 311 of 2008 was passed after the results of the Treasurer's Task Force were presented to the General Assembly. That act, among many other things, reduced the maximum Cost of Living Adjustments (COLAs) for retirees from 4% to 2%. That reduction helped to bring the retirement system into Government Accounting Standards Board (GASB) compliance. In addition, an assumed rate of return of 8% was projected as a reasonable assumption. An extensive assessment was conducted of what other plans were earning, the assumed rates being applied, and the actual historical results achieved by other plans similar to ours throughout the nation. The result of that extensive analysis was a conclusion that by far the most common assumed rate of return was 8% or above and long term returns for 20 and 25 years saw actual rates of return that exceeded 8%. According to the National Association of State Retirement Administrators, those findings are still true today.

Act 311 also contains the following clause:

(C) If for any reason, an assumed annual rate of return on the investments of the assets of the South Carolina Retirement System and the South Carolina Police Officers Retirement System of less than eight percent is approved or otherwise takes effect, then effective at that time the provisions of Section 57 of this act apply and Section 9-1-1810 of the 1976 Code is amended to the version of that section in effect before the enactment of this act.

Adjusting the assumed rate of return to 7.5% would take the State back to the provisions that existed prior to Act 311 which had COLAs "guaranteed" at 1% but more importantly it returns to conditions that allowed "ad hoc" COLAs to be granted. These are not the conditions most would agree to be wise administration of the Retirement Fund. South Carolina is the only state in the nation where these two items are linked by law. This section of the law should be rescinded or modified to eliminate this link. The several constraints to the retirement system that are tied to the 8% assumption make it far more conservative in the long run than changing to an arbitrary lower percentage and reverting to the prior system. Both the Treasurer and Comptroller General who sat on the Treasurer's Task Force were in strong support of those constraints.

Reduction of the assumed rate to 7.5% would mean projecting assumed earnings on investment of the Retirement Fund at a lesser rate. This change would significantly **increase the unfunded liability of the Retirement Fund**. This is exactly the opposite

of what is our preferred outcome, the reduction of unfunded liability. Future returns will be what they actually turn out to be regardless of what assumed rate is set and can be monitored closely. If necessary, adjustments can be made later when the economy recovers.

The assumed rate of return is an actuarial assumption that is appropriately thought of as one that should be realistic for a very long-run horizon such as 30-60 years--not the next five to seven years. Investment returns have always been variable from year to year with multiple years of low returns followed by years of high returns. It is too early in the short life of our Investment Commission to declare an 8% return unachievable at a reasonable level of risk in a globally diversified portfolio with their 15 asset classes.

At the current time, we find ourselves in a period of depressed global economic activity that leads even many investment professionals to think pessimistically about the future. This psychological phenomenon of overemphasizing the present environment in economic and investment forecasts should not be driving policy decisions in management of the retirement systems. Some even think that the US has seen its best days and will have difficulty maintaining a leadership position in the global economy going forward. Even if such a prognostication materializes in the US, sophisticated investors will maintain high average long run returns by allocating more assets to investments in areas of the world economy that are experiencing relatively high economic growth. At the present time, even US Standard & Poors 500 firms obtain at least 50% of their revenues from international sources, including emerging economies.

There is no scientific formula for calculating assumed rates of investment returns. Actuaries are generally not investment specialists or economists. They are mathematicians. Consequently, they cannot and will not do it. **This rate is a policy decision**. Of course, it cannot be set outlandishly high or it would so distort reality that both employer and employee contributions could, at least theoretically, be eliminated. That would be a poor policy decision. And if we set it abnormally low, we would have to increase dramatically employer and employee contributions. That, too, would be a poor policy decision. And we can never set it "just right" because that would be setting it to the amount actually to be earned which is beyond our capability to predict. That leaves us with a reasonable middle range of perhaps 6% to 9% within which to work.

We pay very dearly for staff at the Retirement Investment Commission to invest the Retirement Fund. With bonuses, top level staff there can earn up to $700,000-$800,000 per year if they meet or exceed returns on relevant benchmarks subject to certain controls on risk. From their perspective, the lower the assumed rate of investment return, the less is the amount of risk they have to manage--their job is easier and their bonuses more secure. However, their job is not to tell policy makers what rate of return they are comfortable with. For Investment Commission personnel to recommend a lower rate of return represents a self-serving conflict of interest on their part.

Their job is to structure an investment portfolio that will deliver a return on investments as determined by State policy makers. That is why we pay them the

big bucks. Indirectly, their degree of success impacts taxpayers by influencing how much employees and employers (state and local governments) must contribute to the Retirement Fund. Policy makers should, therefore, set targets for them. As long as that presumed return is reasonable--that is, somewhere within the previously mentioned range--these professionals should be able to deliver. If not, we need a new bunch. Shares in a generally available mutual fund (Yacktman Fund) have managed an average annual return in excess of 8% (actually over 11%) for many years. If the man on the street can earn 8% by buying this fund, perhaps our investment staff might as well. This staff should be told we want a long term return of 8%, that this is not an unreasonable demand, and they need to develop a portfolio to achieve it over the long run.

Even in a world with an economy like the one we have, the median return for public pension funds similar to ours across the United States was over 21% for FY 2011. Our return was 18.4%. Yes, in 2008/2009 we lost money during a (hopefully) once in a lifetime economic event. Yes, the economy is certainly weak right now in some respects. But **the money does not just disappear, it goes somewhere**--banks and big companies are stockpiling it and this can be expected to lead to corporate investments with enhanced profits and larger returns to investors when they decide the economic climate is right. And returns for public pension funds are doing pretty well. We need to demand performance from our investment team and not be unreasonable about it. An 8% long-run assumption does that.

In further support of maintaining the 8% assumed rate of return on investments is a document prepared in 2010/11 by the National Association of State Retirement Administrators titled, "Public Pension Plan Investment Return Assumptions." This document shows that **by far the greater preponderance of public pension funds use an assumed rate of return of 8% or above**. It also shows (in the appended up-date) that the median public pension fund investment return for FY 2011 was 21.6% and **long range returns from 20 and 25 years have median returns of 8.5%**. This is strong data indicating that 8% is a reasonable and achievable long term rate of return. To lower it would create an unnecessary burden on taxpayers and employees to make up the difference.

A part of the determination of the assumed rate of return is driven by assumptions concerning inflation. The assumed rate of inflation has nothing to do with the COLAs which are projected at 2%, the maximum that can currently be paid. But the rate does drive many actuarial adjustments within the retirement system. Currently the rate of inflation is assumed to be 3% for projection purposes. This gets applied to the assumed rate of return on investments. Growth in returns on investments is the sum of 3% assumed inflation and 5% assumed real growth. There is a proposal to reduce the assumed rate of inflation to 2.75%. That automatically reduces the assumed rate of return on investments to 7.75%. So the assumed rate of inflation is very important for many purposes in actuarial projections.

A strong argument can be made that long term (and we are dealing with long term projections here) inflation rates, and other experience with inflation in the past, would suggest that the inflation rate should be increased rather than decreased. Since World War II, the inflation rate has averaged 4%. Recent years have shown a decline in rates of inflation suggesting we know how to control it. Perhaps. However, the national debt has climbed to nearly unprecedented levels as has national debt worldwide. This debt must be paid. It can be paid in one of two ways or a combination of both. We can dramatically increase taxes or we can allow inflation to reduce the value of our currency and pay back the debt with cheaper dollars. Most likely, we will do a little of both. Consequently, the current structure of the world's economy and specifically the indebtedness of the United States will lead to strong pressures to force inflation to increase. A part of our way out of these economic doldrums, regardless of political party in charge, will be to print money. That means inflation. That could even be a good policy given the circumstances, who knows? But that is what we will do. We should acknowledge that and incorporate that into our actuarial projections.

Last, we are placing great faith in economists and actuaries and investors of money advising us as we prepare to make adjustments to **our** Retirement Systems. But they go away. We are left here to manage this. We are foolish if we let ourselves be led by these advisers without applying our own very critical thinking to these matters. Our own experience and wisdom is what will be left to actually implement these decisions. **It is very unwise to place blind faith in those same or similar professionals who FAILED TO PREDICT the economic crisis that precipitated these problems to begin with.**

Prepared by:
J. Samuel Griswold, Ph.D.
President Emeritus
State Retirees Association
10/10/2011

Suggested Changes to Actuarial Assumptions

Please assess the impact on the unfunded liability and its future projection if the following things were done while leaving all other factors as they are. I believe these will bring our pension system into compliance with current GASB standards for years to come.

1. Increase the employer and employee contribution an additional 0.75% (or 1%) of salaries with the employee portion phased in over three years.
2. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.
3. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit
4. Eliminate TERI by replacing it with a benefit payout option which allows a limited lump sum payout upon retirement and a subsequent reduction in monthly benefits for the recipients life. This should be structured for no actuarial impact.
5. Terminate the accrual of interest (now 4%) on inactive (people receiving no benefit and no longer working for a covered employer) accounts.
6. Use fair actuarial cost for purchasing years of service.
7. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.
8. Maintenance of an 8% assumed rate of return on investments.

Prepared by
J. Samuel Griswold, Ph.D.
President Emeritus
State Retirees Association

PRESENTATION
OF THE STATE RETIREES ASSOCIATION
ON THE STATE RETIREMENT PLANS

by
Wayne Bell
President
State Retirees Association of South Carolina

Mr. Chairman, Members of the Subcommittee, we appreciate the opportunity to be here today and to be heard on our concerns regarding the State Retirement Systems. It seems we have been working on these issues for many years. Like many, I was convinced we had reached a credible long term solution with the legislation that passed in 2008 as a result of the work of the Treasurer's Task Force which culminated in Act 311. I actually still believe that. **If we had not encountered the economic recession of 2008/2009 and the serious losses to the Retirement Fund, I don't think we would be here today.** Previous concerns about unfunded COLAs and TERI were addressed to a great extent in 2008. So from our perspective we are here not because of those things but because of the losses we incurred during the recession of 2008/2009.

As I hope you have found over the past decade of working on this issue, the State Retirees

Association does not want to be an obstacle in looking for adjustments that may need to be made. And we know that adjustments must be made to maintain the viable system we all want. We have always tried to be part of the solution, not the problem. We pledge to continue working in that mode.

That being said, we do act as a representative and advocate for retired employees and we have an obligation to bring their concerns, fears and priorities to the table. But we do understand that we may need to make changes to the current retirement systems so that we can retain those things of greatest value to us and adjust those things that can keep the systems viable. We are prepared to join with you to do that.

All we want is what was promised us and what was implicit in the assumptions we made when we retired.

First, we want a fiscally sound and stable defined benefit plan that will provide a sure and dependable source of income to retirees and to future retirees. We want a retirement plan that is managed prudently and

with the understanding that the assets of the plan belong to those of us who paid into it.

Secondly, a major concern of most retirees is the maintenance of cost of living adjustments (COLAs) at least at the current level. Further, we would strongly recommend that the rules regarding COLAs be the same for the SCRS and the PORS systems.

The current level for COLAs reflects the increase in the Consumer Price Index up to a maximum of 2%. Keep in mind, in 2008, as part of the negotiations associated with the Treasurer's Task Force and subsequent changes in retirement law, retirees accepted an upper limit of a 2% COLA . This was half the previous limit of 4% that existed at the time. Retirees feel they have done their part in addressing shortfalls because in many years 2% does not meet the CPI rate of inflation which has averaged 3.75% since World War II. So even if a 2% COLA were given each year, inflation would still erode our purchasing power. Considering the average retirement benefit is around $19,000 per year, any additional reduction in purchasing power will have a serious impact.

But we all recognize that adjustments will need to be made to all of South Carolina's retirement systems if we are going to be able to keep the commitments made to our workforce and restore public confidence. To that end we suggest the following changes. Since we do not have a lot of retired actuaries in our association we have not been able to provide actual dollar amounts to each of the recommendations. However, most of these ideas have been previously discussed in other forums and the information should be readily available. Our recommendations are as follows:

A. Since it has been reported that 28 year retirement contributes significantly to the UAL, it should be funded by whatever employer/employee mix of funding is considered appropriate.

B. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.

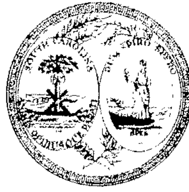
C. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit.

D. Terminate the accrual of interest (now 4%) on inactive accounts (people receiving no benefit and no longer working for a covered employer).

E. Use fair actuarial cost for purchasing years of service.

F. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.

Gentlemen, thank you once again for giving us this opportunity. This concludes my presentation and I'll try to respond to questions.



STATE RETIREES ASSOCIATION
OF SOUTH CAROLINA

Members of the South Carolina Retirement Systems

February 2, 2011

Governor Nikki Haley
Office of the Governor
1205 Pendleton Street
Columbia, SC 2920

Dear Governor Haley:

The State Retirees Association greatly appreciates your willingness to meet with us and to consider our concerns regarding the State Retirement Systems. You asked for our thoughts regarding those systems and suggestions to preserve and strengthen them. Below are several recommendations and observations about the overall health of the retirement systems trust funds.

First, we believe that our retirement systems are not broken as is the case in states such as New Jersey and Illinois. Adjustments may need to be made to further strengthen our retirement systems but there should not be the sense of urgency that some other states are facing. In other words, we should not over react to fix a system that is not broken and we do have adequate time to deliberately consider what adjustments may be necessary. To approach this issue in any other way could do a grievous disservice to thousands of our fellow South Carolinians who have contributed much to our State.

The maintenance and adjustments that may be necessary are not rocket science. They should be based on well thought out strategies that will meet the tests of accepted actuarial and accounting practices. We believe it is imperative that the appropriate professional expertise be relied upon as we consider changes that so directly affect peoples lives. We should not be making changes to our system just because somebody has read a newspaper article or thinks earnings on investments in any particular year are deficient. There are professionals who make their living assessing these matters and it is their expertise that should be considered. We may want the Treasurer to reconvene the Task Force that worked on these issues in 2008.

For all systems we believe the Cost of Living Adjustment (COLA) is a critical element in the benefit package. For retirees, this means the difference between a retirement with

dignity versus a retirement on the edge of poverty as inflation eats away the purchasing power in our retirement years. . We strongly believe this benefit should be maintained.

Those covered by the Police Officers Retirement System (PORS) can currently retire after 25 years with full benefits. Police officers directly paid for this benefit by increasing their employee (and employer) contributions when the shift to 25 years was made. It is a strong belief within the law enforcement community, and one in which we concur, that this represents a compelling and effective recruitment tool which attracts good people into law enforcement work. We believe this benefit should be maintained in its current form.

For the retirement system (SRS) covering regular employees and educators, we believe the minimum number of years necessary for retirement with full benefits should either be changed from 28 years to 30 years or increase the employer/employee contributions to pay for it. Unlike the PORS, the change from 30 to 28 years was not paid for through increases in contributions. Demographics suggest people are living longer more productive lives and the retirement systems should acknowledge that fact.

We believe legislation should be introduced to eliminate the practice of "spiking" or artificially and/or inappropriately inflating the average final compensation in such a way as to dramatically enhance the retirement benefit.

We believe that a strong argument can be made that the real actuarial cost should be used when purchasing additional years of service. We think this should be universally applied for all types of qualifying service. Otherwise, we have some retirees actually subsidizing the retirement costs for others.

We believe that any person with a retirement account should be actively interested in maintaining that account. Thus, for the inactive accounts of non-vested terminated employees, we support decreasing the rate of interest that accrues to that account and that, after due diligence and warning, inactive accounts should be forfeited after an appropriate amount of time.

Finally the time has now come for the TERI program to be repealed. It has outlived its original purpose.

In conclusion, thank you for giving us the opportunity to meet with you and for listening to us. We appreciate the chance to present our concerns and the opportunity to be part of the solution. We look forward to continuing that dialog.

Sincerely,

Wayne Bell
President

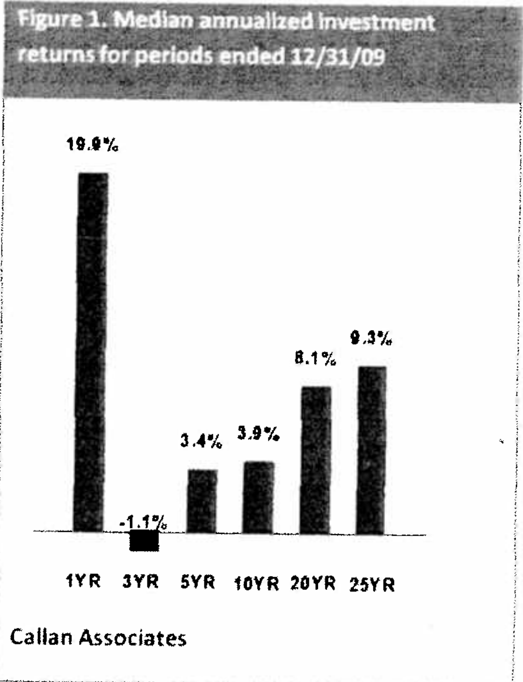
Sam Griswold
President Emeritus

NASRA Issue Brief:
Public Pension Plan Investment Return Assumptions

The issue of the investment return assumption used by public pension plans has been the focus recently of increasing attention. This brief explains the role this assumption plays in pension finance, how it is developed, and compares this assumption with public funds' actual experience.

Some members of the media, academics, and policymakers recently have questioned whether public pension fund investment return assumptions are unrealistically high. If this were true, it could encourage these funds to take too much risk in investing pension fund assets, or it could understate the cost of pension liabilities, reducing their current cost at the expense of future taxpayers. Alternatively, an investment return assumption that is set too low would result in overstating liabilities, which would overcharge current taxpayers.

Figure 1. Median annualized investment returns for periods ended 12/31/09



Callan Associates

Public retirement systems employ a process for setting and reviewing their actuarial assumptions, including the expected rate of investment return. Most systems review these assumptions regularly, pursuant to statute or system policy. The process for establishing and reviewing the investment return assumption involves consideration of various factors, including financial, economic, and market data. This process also is based on a very long-term view, typically 30 to 50 years.

Although public pension funds, along with most other investors, have experienced sub-par returns over the past decade, median public pension fund returns over longer periods exceed the assumed rates used by most plans. As shown in Figure 1, median investment returns for the 20- and 25-year periods ended 12/31/09 exceed the most-used investment return assumption of 8.0 percent. For example, for the 25-year period ended 12/31/09, the median investment return was 9.25 percent.

Why the investment return assumption is important

Public pension actuaries calculate a public pension plan's funding level and cost using assumptions about many future events that have a direct effect on the pension plan, such as the age when participants will retire, their rate of salary growth, how long they'll live after retirement, and how much the plan's investments will earn. Of all the assumptions used to estimate the cost of a public pension plan, none has a larger impact on the plan's costs than the investment return assumption. This is because over time, earnings from investments account for a majority of revenues for most public pension plans.

Figure 2 illustrates this important fact. Since 1982 (when the U.S. Census Bureau began reporting public pension fund revenue data), public pension funds have accrued an estimated $4.4 trillion in revenue, of which $2.64 trillion, or 60 percent, is estimated to have come from investment earnings. Employer (taxpayer) contributions account for $1.2 trillion, or 27 percent of the total and employee contributions total $578 billion, or 13 percent.

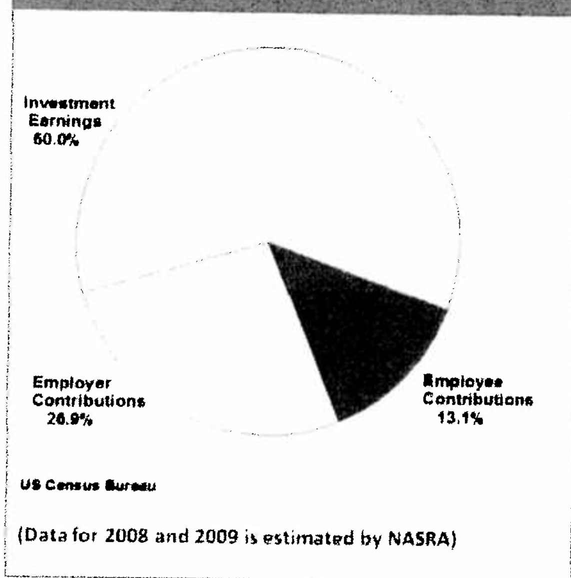


Figure 2. Distribution of public pension fund revenue sources, 1982 to 2009

How the investment return assumption is developed

Public pension plans operate over long time frames and manage assets for many participants whose involvement with the plan can last more than half of a century. Consider the case of a newly-hired public school teacher, 25 years old. If this pension plan participant elects to make a career out of teaching school, he or she may work for 35 years, to age 60, and live another 25 years, to age 85. This teacher's pension plan will receive contributions for the first 35 years, then pay out benefits for another 25 years. During the entire 60-year period, the plan is investing assets on behalf of this participant. To emphasize the long-term nature of the investment return assumption, for a typical career employee, more than one-half of the investment income earned on assets accumulated to pay benefits is received *after* the employee retires.

The investment return assumption is established through a process that considers factors such as economic and financial criteria; the plan's liabilities; and the plan's asset allocation, which reflects the plan's capital market assumptions and its risk tolerance. A public pension plan's actuary typically has considerable influence in setting the investment return assumption. Actuarial Standards of Practice No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations," (ASOP 27), which provides guidance for professional actuaries in setting the investment return assumption (among other assumptions), recommends that actuaries consider such criteria as:

- current yields on government and corporate bonds;
- expected rates of inflation and returns for each asset class;
- historical investment data; and
- the plan's historical investment performance.

ASOP 27 further states that the actuary, in developing the investment return assumption, may consider "historical statistical data showing standard deviations, correlations, and other statistical measures related to historical returns of each asset class and to inflation;" and recommends that other factors be considered, including:

- the plan's investment policy—asset allocation, risk tolerance, target allocations, etc.
- expected volatility of the portfolio
- performance of managers investing the assets
- investment expenses
- projected timing and volatility of cash flows.

ASOP 27 also recommends the use of a range as part of the process of setting the investment return assumption:

> *Because no one knows what the future holds with respect to economic and other contingencies, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on past experience and future expectations, and to select assumptions based upon that application of professional judgment. Therefore, an actuary's best-estimate assumption is generally represented by a range rather than one specific assumption. The actuary should determine the best-estimate range for each economic assumption, and select a specific point from within that range. In some instances, the actuary may present alternative results by selecting different points within the best-estimate range.*

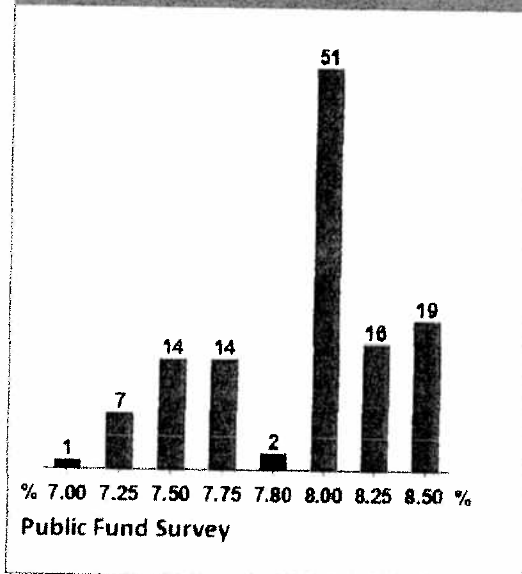


Figure 3. Distribution of public pension fund nominal investment return assumptions

The investment return assumption reflects a value within the projected range, and is considered to be the best predictor of future experience. With an investment return assumption of 8.0 percent, there is a projected 50 percent chance of actual experience being above that figure, and an equal chance of falling below. A return assumption below the expected range would increase the plan's funding requirements, which would increase costs for current taxpayers (and plan participants), and would benefit future taxpayers and participants. Alternatively, an assumption that is too high would reduce the plan's costs in the near-term, at the expense of future taxpayers and plan participants.

Although investment return assumptions used by public pensions are intended to reflect long-term considerations, they are not static, and they do change. Until the 1980s, a majority of public pension assets were invested in bonds and other asset classes that yielded a lower projected return than a diversified portfolio of stocks, bonds, real estate, etc. Investment return assumptions were commensurately lower. First in response to high interest rates during the late 1970s and early 1980s, then as a result of pension funds' movement into diversified portfolios with higher expected returns, investment return assumptions rose to reflect the higher expected real rates of return.

Conclusion

Empirical results show that since 1985, a period that has included three economic recessions and four years when median public pension fund investment returns were negative (including the 2008 decline), public pension funds have exceeded their assumed rates of investment return. As the standard disclaimer says, past performance is not an *indicator of future results. However, considering that public funds operate over very long timeframes, actuarial* assumptions with a long-term focus should also be established and evaluated on similar timeframes. Viewed in this context, compared to actual results, public pension plan investment return assumptions have proven to be conservative.

The purpose of this issue brief is not to argue for any particular investment return assumption; fiduciaries for each plan have a responsibility to consider the range of factors that are used to establish this key assumption. Rather, this brief is intended to clarify how this assumption is established, to compare public funds' actual investment experience with investment return assumptions, and to describe how the suitability of this assumption should be evaluated.

See Also:

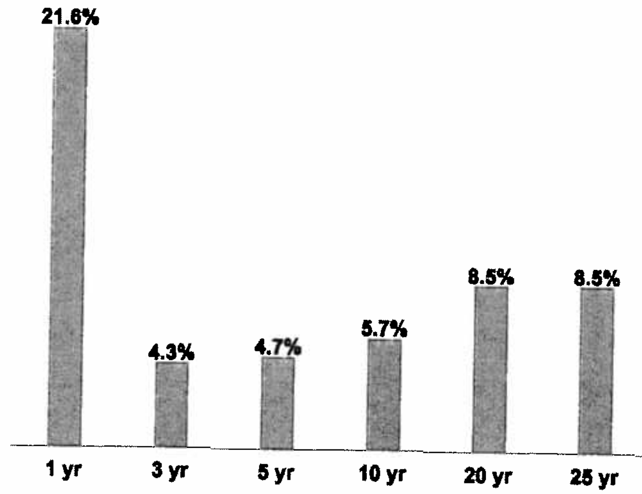
"Actuarial Standards of Practice No. 27," Actuarial Standards Board, http://www.actuarialstandardsboard.org/pdf/asops/asop027_109.pdf

"The Liability Side of the Equation Revisited," Missouri SERS, September 2006, https://www.mosers.org/~/media/Files/Adobe_PDF/About_MOSERS/Board-Newsletters/Operations-Outlook/operations_outlook_September06.ashx

California State Teachers' Retirement System, "Analysis of Investment Return Assumption," February 2010, Milliman USA, http://www.nasra.org/resources/CalSTRS_invreturnanalysis.pdf

Prepared by Keith Brainard, Research Director ***keithb@nasra.org 512-868-2774***
National Association of State Retirement Administrators ***www.nasra.org***

Median public pension fund investment return for periods ended 6/30/11



Callan Associates

Defending Public Pensions

June 29, 2011

Over the past year, politicians, pundits and an array of think tanks have put forth some frightening predictions about public employee pension plans. A misguided belief that pensions, particularly defined benefit plans, are causing the fiscal stress of many states is false. The widely held notion that 401(k) plans can provide adequate retirement benefits is, similiarly, a myth.

Here are some other major and oft-repeated misconceptions floating around many statehouses these days:

Myth: Public employee benefits are bankrupting states. Not so. According to publicly available data gathered from government websites, less than 4 percent of state budget expenditures go to funding pension benefits. A recent study from the Center on Budget and Policy Priorities concluded that state budget shortfalls are largely a result of decreases in tax revenue in part due to falling real estate values and shrinking tax revenue in general.

Myth: Public pensions are overly generous. Hardly. The most recent U.S. census data reveals the average state employee has a retirement benefit of $22,000 per year.

Myth: Public pension funds are going broke and will require billions in taxpayer bailouts. Nope, sorry. It is a fact that the states' pension funds face a shortfall. The Pew Center on the States recently pegged the collective number at $660 billion, a far cry from the $3 trillion figure being bandied about by some professors.

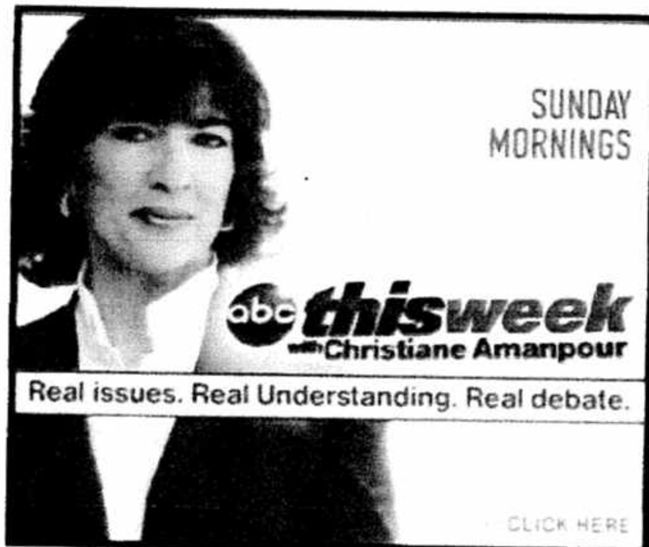
Some forecasts, discussed in certain academic circles and regurgitated unchallenged by the media, have m any public pension plans running out of funds by 2020. But these estimates are based on flawed assumptions, such as no additional contributions and long-term low investment returns. And, that's to say nothing of the $3 trillion in assets public pension plans hold to pay future benefits.

Yes, $660 billion is a big number, but manageable when viewed over a long-term funding horizon, and when coupled with recent plan revisions for new employees.

Here is the simple reality about the bulk of today's shortfall: It is the direct result of the fact that our economy went off a cliff three years ago, sending state revenues plummeting. As the overall economy recovers, funding levels in most public retirement plans will improve as well. Let's remember that pensions are funded over the long-term and have weathered previous swings in market returns.

Over the 25 year-period ended Dec. 31, 2010, the median public pension plan has produced an annualized return of 8.8 percent. For the years ending 2009 and 2010, the median rate of return was 12.8 percent and 13.1 percent respectively. These returns will not fully repair the funding deficit, but as they are recognized by the plans over the next few years, they will help with the recovery of asset levels.

Public plans are not relying only on investment returns to mitigate the shortfall. In 2010, more than 20 states made changes to their pension plans to bring down future costs. Over time, these revisions, combined with employee and employer contributions and investment returns, will restore stronger funding



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for most pension plans.

As state and local legislatures across the country consider scaling back and changing retirement benefits of public employees, it is imperative that they focus on the real challenges they're facing. The critics are missing the real issue: the retirement security of the coming wave of baby boomers, many of whom are woefully unprepared for the financial demands ahead of them. While a defined contribution plan should be an important part of a retirement portfolio, it should not be the sole source of retirement income.

Consider this: By 2020, one-fourth of the U.S. population will be over the age of 65. The Employee Benefit Research Institute reports that the average balance in a DC plan will be only about $35,000, not enough to live on through retirement.

Having so many people without adequate income will have a devastating impact on the economy. This is the real looming crisis you don't hear much about: a growing segment of the population slipping into poverty.

If we don't have some form of serious conversation about America's retirement systems, one that puts retirement security in a more positive light, then in another decade we'll be wondering what we were thinking attacking a mostly healthy system that has served millions of Americans for decades.

Earl Pomeroy is senior counsel at the law firm Alston & Bird and a former U.S. congressman.

Cathie G. Eitelberg is a senior vice president and national public sector market director for the Segal Co., a benefits, compensation and HR consulting firm.

This work is the opinion of the columnists and in no way reflects the opinion of ABC News.

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From:	Sandy Loyd
To:	Whitney Moon
Cc:	David Lambert
Subject:	Retirement System
Date:	Thursday, October 13, 2011 1:58:07 PM

I am a retired state employee and understand that you are taking comments for the Committee studying ways to change the system. I feel that it is wrong for the legislature to change the system for individuals who have already retired under the system. I worked for less than I could have probably made in the private sector for 25 years in the Police Officer Retirement System based on the fact that I would have a guaranteed income and insurance benefits. During this time, I had a portion of my income deducted at a rate determined by the legislature in order to receive this benefit. Also, I feel that part of this process is a political move to gain media attention for some of our elected officials who want to give the appearance of being tough on budget issues.

I have read that automatic COLA increases may be cut out for the PORS system. Individuals who have retired under PORS (like other state retirees) and are working under state systems are having to pay retirement out of their checks. I understand this funds COLA increases. Each system is different with different benefits. I understand that legislators and judges have a much better system with much better benefits. However, it is difficult to find much information regarding this system. All five systems should have simliar benefits and retirement requirements.

As a state employee, I was responsible for interviewing and hiring employees during part of my career in the Department of Corrections. The pay that is offered to starting Correctional Officers does not attract alot of candidates for employment. The benefits have a major impact on hiring. Retirement and insurance benefits play a major role in my opinion. It was a major factor in my remaining in Corrections for 25 years. I believe that changes to PORS will impact Corrections and the ability to staff prisons with quality individuals. I think this applies to most state agencies and we will all see an impact on public service if changes are made. This is my opinion based upon 25 years of experience and contact with other state employees.

The system should be left intact. Any changes, such as increased contributions or service years, should be put in place with new employees. Existing employees should not be required to face changes as they accepted their jobs with faith in the state to honor their obligations. State employees are a valuable part of the state and should be treated as such. Also, retirees have honored their part by paying into the system and remaining employed the required number of years in order to earn this benefit.

I appreciate the opportunity to express my opinions. Barney Loyd 225 Carem Rd Union, SC 29379

My name is Julia Lusk and I am president of the Clemson Chapter of the SC State Employees Association.

Thank you for taking the time to hear our concerns regarding the SC State Retirement System. A review of the system is needed to reflect economic conditions, mortality improvements, and changes in patterns of retirement.

Actuary studies report that the current unfunded liability is 37.6 years and between $13-14 billion. This is not where we should be to keep the system actuarially sound. However, this is based on the assumption of what would happen if the 232,000 active employees in the system were to retire tomorrow. Obviously, this is not going to happen.

When I became a state employee in 1999, I soon realized that I was never going to get rich working for the state, but I knew I had a stable job with great benefits. Now I feel those benefits are being threatened. I have not received a COLA since 2007 and my insurance premiums have increased, thus resulting in a pay decrease. My biggest concern

with the proposed retirement changes is that it will become a defined contribution plan only. The defined benefits plan, or pension, costs the General Fund less than 4% and had returns of 14.6% in FY2010 and 18.4% in FY2011. A defined contribution plan (401K) could not boast such returns on investment.

80% of Fortune 500 companies in Texas (Southwest and Continental Airlines, ConocoPhilips) have retained defined benefit plans for their employees and South Carolina's defined benefit plan should keep up with those private industries. I'm afraid that if SC goes to a sole defined contribution plan that we will lose great state workers to the private industry. We need to be able to recruit and retain competent state employees to pave our roads, enforce our laws, and protect and teach our children.

The SC State Legislators need to invest in the state employees of South Carolina and a way to honor this investment is to keep the defined benefits plan as a choice within the SC State Retirement System.

Again, thank you.

From: Juanita Durham
To: Whitney Moon
Subject: state retirement
Date: Thursday, October 06, 2011 12:41:36 PM

Whitney, I was unable to attend the event last night in Clemson but I would like to state that I don't think it is fair that state employees who retire and then come back to work as a rehired retiree temp have to pay back into the system. We are actually just paying that money in for nothing and will never see a benefit from it. In other words, we are being punished for coming back to work for the state.

Juanita Durham

From:	Liz Browder
To:	Whitney Moon
Subject:	Retirement for Teachers
Date:	Wednesday, October 05, 2011 8:25:40 AM

Mrs. Moon,

I was told to email comments about the proposed movement to raise the retirement years from 28 to 30 for teachers. Please, express the following comments to the SC Senate and leaders of the movement at the public hearing.

As a future teacher, I have come to realize a few things about how politicians treat us. I have noticed that while you run for office, you treat us as a special pet. You make promises. You seem to support us. You champion our causes. Once you get elected, however, you attempt to increase the amount of years it takes until we can retire with full benefits. You say we have to give more. You say what we do is not enough.

Every day, teachers go home exhausted and close to broken because of how the system treats the people who are teaching the Nation's children. Those two years mean something to us. We do not go into teaching with bright-eyed optimism. We go into teaching because, for many of us, it is what we were born to do. We have a passion. The system seems want to try and stifle that passion at every chance.

Teachers have been called the "sleeping giant" in that we are mostly passive about what happens to us. Maybe we are quiet because we are so used to being stepped on. I am a future teacher. I still have the energy and passion to fight for what I believe in. I am also a leader. If this movement is passed, expect to hear from us in the form of emails, letters, petitions, and poll results.

Sincerely,
Your Child's Future

From:	Mullinax, Anita
To:	Whitney Moon
Subject:	RE: Retirement Systems
Date:	Tuesday, October 04, 2011 2:24:50 PM

Thank you for letting me address my concerns and opinions by email. I would like to say that these are my personal opinions and not of any group or organization that I am affiliated with. I have several ideas that I would like to propose.

My husband and I both retired in 2003 and are both working retirees. We both purchased time at the 36 per cent rate in order to have our time in, because at the time we thought we were moving out of state . I still think that this program is beneficial and should be continued. I do however believe that different rates for purchasing time such as military at 16 per cent should be discontinued. Buying time should be calculated in such a way that the State is not penalized for allowing you to purchase it. Working retirees have been given a bad reputation and the State of South Carolina should welcome their participation not only for the money that we provide but the continued service to the State.

Example for PORS employee

Average salary of working retiree	average starting salary
$50,000	$25,000
6.5 per cent our portion	
$3250	$1625
Employer portion of 11.363 per cent	
$5681.50	$2840.75
total	
$8931.50	$4465.75

Even if the State did not receive our 6.5 per cent, you would still get more from a working retiree than a new hire. My husband and I both retired not having to pay again into the retirement system, only to be told that we had to start paying again July 2005. The retirement system unfairly receives more from us due to this fact.

Calculation of pension. I am not a math person, but it does not take one to realize that using overtime pay into the formula for benefits using your last 3 years of work for a lifetime of annualized payments will work. If someone comes in as a deputy and retires as a captain and the salary commensurate, then that is a logical increase. Not working all the overtime you can to boost your salary before your retirement date. Pensions in my opinion should be based on base salary only.

Working in a job that is covered by one of our retirement systems. Example. My husband retired after being a fire fighter and then was re-employed as a teacher. He has to pay 6.5 per cent into retirement instead of the 6.25 that the teachers pay. When he originally was hired he did not have to pay anything and even tried to again enter the retirement system paying the 6.25 but was told he could not do this. I understand that being vested in the retirement system twice and having two accounts causes concern. That is when you structure the system so as to only be vested when you have put in 10 years instead of the current 5. This would insure that only people interested in having a true career to be paid a pension. Secondly, you would structure it like the military by getting points or percentages that follow yearly guidelines. My husband retired from the military also, but since the majority of his time was in reserves he has to wait until he is 60 to be able to receive his retirement pension. This pension is based upon points received from drills, regular two

week active duty assignments and deployments to active duty. Although, we don't have different types of work duties, you could structure it by years attained equate to a certain percentage. Similar to what we have now with 25 years of service equates to 54 per cent of salary. For a person entering the system for a second time under a different program, you could have a smaller percentage payable. That would insure that money is provided to the system and the worker would actually get a benefit. They would still have to pay the percentage of pay that someone entering the system for the first time would pay.

To sum it up, my recommendations are to give working retirees some benefit to the extra money they are paying into the system or not require them to continue paying their employee portion as long as they are in their same system; make all percentages of purchasing time the same with the 5 year cap; increase being vested from 5 years to 10; base pensions on base salaries without overtime; and allow retirees to re-enter under another system using a tiered percentage payout for additional years of service- since most will be older than 55 the second time around. My hope is that a reasonable compromise can be made for current retirees and new employees so that annuities will continue and not the 401k's that I have heard rumored. Our retirement benefit is the single most important draw for young people wanting to enter public service. We need to encourage their commitment to the State as our future depends on them. Thank you for your time and I hope some of my suggestions warrant further exploration. Anita Mullinax – amulli@bellsouth.net

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From: Whitney Moon [mailto:WhitneyMoon@scsenate.gov]
Sent: Tuesday, October 04, 2011 11:31 AM
To: Mullinax, Anita
Subject: RE: Retirement Systems

Ms. Mullinax,

Yes, please e-mail me your information. The information will be given to all the members of the retirement subcommittee meeting on October 5, 2011. Thank you for the e-mail and we look forward to hearing from you. Thanks again.

Sincerely,
Whitney Moon

From: Mullinax, Anita [mailto:amullinax@spartanburgcounty.org]
Sent: Tuesday, October 04, 2011 10:40 AM
To: Whitney Moon
Subject: Retirement Systems

I will be unable to attend the session at Clemson tomorrow and was wondering if there was an avenue that I could express my views by email. I am a retiree and currently working and paying into the retirement system. I believe I have some good ideas and would like to share them. Please let me know of a way I can do this without attending these sessions. Thank you for your attention.

Anita Mullinax
Master Deputy
864-503-4693

I began teaching in 1972. I have taught 37 of the 39 years in 2 different states. Since I have begun teaching I have seen children come to school far more needy and less prepared each and every year. Parenting skills seem to be diminishing. Parenting workshops are offered by the school with very few parents attending, but teachers are required to be there. Countless hours at home are spent planning and preparing for lessons to be taught, or other school related work. We miss family time in order to attend PTO, Open House, Christmas Concerts, grade level meetings, Faculty Meetings, IEP Meetings. We are asked to come out in the evening to support our school for fundraiser nights, Fall Festivals and Spring Flings. I don't say this to complain. Teachers do these things because we are conscientious and intend to go the extra mile being professional. Please do not penalize teachers by reducing our retirement benefits. The return on investments for the SCRS for the fiscal year 2010 was 14.6% and for 2011 it is 18.4%. This return is more than ample to continue COLA for retirees at the current level. Reducing retirement benefits will cause our children to have inexperienced, less skilled teachers. I implore you to maintain a secure retirement system for all state employees.

Elaine M. Randles
1528 Enterprise Lane
Seneca, SC 29672

ve

From: Cherlyn May
To: Whitney Moon
Subject: Public Hearing
Date: Tuesday, October 11, 2011 9:00:55 AM

Good morning Ms. Moon,

I have several concerns about the issues that will be discussed @ Wednesday's public hearing (Airport Campus). I would be more than happy to voice my opinion or ask questions.

I think it is a sad thing for any lawmaker/government official to attempt to change our retirement plan especially those that have already served several years. I sought employment with state government b/c of the benefits that were offered and now we lose a little of that package each year. It is one thing to request the changes for new employees but not existing employees who have focused and made goals for a 28-year retirement. We haven't received pay increases or cost-of-living for 5 years now. It is a terrible thing to work for state government for over 20 years and not even make $30,000 a year but someone new in the system can start with that income. State employees are tax paying citizens and we get treated as if years of service can be voided at anytime. Why should this fall on the back of state employees?

Next issue:

For the limited amount of income we make, we already pay a substantial amount into the retirement system. How can anyone expect the economy to grow when funds are constantly being deducted from state employees--insurance premium increases, higher out-of-pocket expenses, etc. We are already paying the price. I pray that someone realizes this and not vote for the items regarding state employee benefits.

Thanks for the opportunity to express my concerns.

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This message is intended for the use of the person or entity to which it is addressed and may contain information, including health information, that is privileged, confidential, and the disclosure of which is governed by applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this information is STRICTLY PROHIBITED.

If you have received this in error, please notify us immediately and destroy the related message.

From:	Tom Ward
To:	Whitney Moon
Subject:	Public comment on SCRS
Date:	Wednesday, October 05, 2011 2:02:48 PM

Ms. Whitney,

While I will be unable to attend the public hearing about the SC retirement system this evening at Clemson's Madren Center, I would like to share my views on this matter. I am writing this during my lunch break and using my personal email account.

I have faithfully served the state of South Carolina for over 24 years and am concerned about three issues being discussed: 1) reducing or eliminating COLA's for retirees, 2) increasing the retirement age from 28 years to 30 years, and 3) the TERI program.

Any proposal to reduce or eliminate cost-of-living adjustments for retirees is short-sighted and sends the wrong message regarding how the State of South Carolina treats those who provided a career of faithful service. In fact, the real question should be why there are not consistent annual cost-of-living adjustments for active employees? With the lack of funding to reward state employees who provide value to the workplace, and with many state classifications being completely out of sync with the market value for their skills, the State of South Carolina runs the risk of not only demotivating its current workforce, but of positioning themselves to not be competitive in attracting and retaining the best and brightest in the future.

While I am not inherently opposed to raising the retirement age to 30 years, it's a matter of how that would be done. I would certainly hope that it would grandfather those in who are currently in the system. It would simply be unconscionable to change the rules on those who have labored under the understanding they could retire with full benefits at 28 years. I would also hope that appropriate adjustments would be made to those required to labor 2 additional years.

Lastly, discussion about eliminating the TERI program is short-sighted. The failure of the state to properly manage the TERI program by allowing employees to participate for up to 5 years and then return to their jobs at full salary has violated the original intent of the program and cost the state untold millions of dollars. It is widely recognized as an abuse and fleecing of the system. The TERI program can be a useful tool if managed, with controls, properly.

Thank you for allowing me this opportunity to have my views included in the public comment phase of this process. If you have any questions about what I have written, please feel free to contact me.

Sincerely,

Tom Ward
235 Windrush Trail
Walhalla, SC 29691

From:	Melissa Mathis
To:	Whitney Moon
Subject:	Please Don"t Mess with our Retirement
Date:	Thursday, October 13, 2011 11:22:20 AM

We have worked continually toward retirement. I personally have worked for the Department of Juvenile Justice for 22 years. With no raises in the past 4 or 5 years, it has been a hard struggle. This is our money that we have invested in our future as senior citizens. Each one of you will be old one day, and you will realize how hard it is for seniors.

Please speak out for us.

Confidentiality Notice: This message is intended exclusively for the individual or entity to which it is addressed. This communication may contain information that is proprietary, privileged, confidential or otherwise legally exempt from disclosure. If you are not the named addressee, you are not authorized to read, print, retain, copy or disseminate this message or any part of it. If you have received this message in error, please notify the SC Department of Juvenile Justice immediately either by phone (803-896-9505) or reply to this e-mail and delete all copies of this message.

From: Angie Stoner
To: Whitney Moon
Subject: FW: SC Retirement Systems Comment
Date: Monday, October 10, 2011 2:50:08 PM

From: Paul Corbeil [mailto:paulcorbeil@bellsouth.net]
Sent: Thursday, October 06, 2011 3:36 PM
To: baumgarn@bellsouth.net
Cc: rcroom@scac.sc
Subject: SC Retirement Systems Comment

Gentlemen:

Let me first thank you for a very informative, well done public meeting. The speakers were obviously very knowledgeable and provided just the right amount of information on what can be a very complex issue. Also, I strongly support your intent to use a comprehensive, hard nosed approach to get it right and not just put patches on the symptoms. Everything mentioned in SCAC's Sept. 28 notice of the meeting should remain on the table.

Following are some comments I'd like to share, many of which might be applicable to the overall national unfunded liability problem, so I've tried to list them form generic to more specific:

1. Since this problem exists on the federal, state and local level, and involves both retirement and health care benefits, what existing or pending legislation is there to require local solutions? What is that timeline? One concern I have is that when, not if, we get the state system(s) corrected at some cost, will we be able to afford other required fixes along with the Washington unknowns?

2. I think it's time to seriously challenge a long standing assumption that public employees should have more generous benefits since their wages are less than the private sector. We're going to be doing that at our county level so that overall we're competitive on total compensation, but not digging a deeper and deeper future expense burden (part of Dr. Ulbrich's policy issues).

3. Does the government accounting standards board have a prescribed policy on various potential solutions?

4. Does SC regularly publish a balance sheet, and if so, does it include these unfunded liabilities? As the private sector has addressed this problem, particularly since ERISA, one part of their solution has been selling non-critical assets. Should the state consider this, i.e. real estate?

5. Number 4 could also include any upfront payments received from outsourcing of in-house services, which in itself could be a major part of the solution.

6. Is there an overall priority list of how to deal with this issue and other liabilities, such as the federal loan for SUTA?

7. Like the federal discussion issue, whatever you arrive at will be much more palatable to the public if everyone has one plan, even with different components as necessary. The current question of serving legislators collecting retirement pay in lieu of lower salaries is just the tip of the iceberg.

8. Would one big plan be more cost effective and easier to achieve and maintain actuarial soundness?

9. The argument that this is a permanent contract or promise is unrealistic, and again, has been previously addressed by the private sector, unions and courts. Please see IBM conversion(s), recent Ford/UAW agreement, etc. Why not freeze for protected group(s) and convert to defined contribution?

10. Argument that salaries have been frozen is at best naïve. Whose hasn't? For individuals, sure beats permanent layoffs and/or salary cuts.

11. An affordable solution can and should be phased in to be fair, such as Senator Graham has proposed for SS.

12. Don't we need much sounder logic for calculation of benefit payments based on today's world (again, Dr. Ulbrich)?

13. I've heard even current and recently retired teachers question TERI fairness.

14. Sorry, I missed his name, but the Economics Chair made a good case for lowering the inflation assumption. Would a historic net difference between inflation and investment return be better for at some part of calculation?

15. Especially without a DC plan, I think a good argument can be made for shifting much of the employer contribution to the EE/beneficiary.

16. Do we have the best investment team available? Is asset allocation appropriate?

Thank you for this opportunity to comment. Please don't hesitate to contact me for any clarification.

Sincerely,
Paul Corbeil
Oconee County Council- Dist. 1
864-944-0630

Mr. Chairman and members of the Subcommittee, my name is Fordyce Mason. I am a retired employee of the South Carolina Department of Corrections. I am the legislative chair of the Richland/Lexington Chapter of the SC State Employees Association, a member of the South Carolina Law Enforcement Association and a member of the South Carolina Retirees Association. I have been active in all three organizations and have attended many of the previous subcommittee meetings on retirement this year and in 2007 and 2008. The comments I am making today are primarily my own, but are influenced by my participation in the three associations, the previous retirement subcommittee meetings I have attended and the additional articles and studies that I have read.

I was very pleased in 2008 when the Treasurer's Taskforce consisting of many diverse stakeholders of the retirement system met, negotiated, and studied together. With many different players ranging from the State Chamber of Commerce to various state employee organizations and governmental bodies meeting together, the negotiations were difficult. However, it is my understanding that Ken Wingate and Dr. Sam Griswold took a leadership position to consolidate all the hard work and technical data into an agreement that everyone supported except Governor Sanford, who merely abstained.

Although the State Employee Retirees lost the opportunity to gain an up to 4% COLA increase when inflation was 4% or higher and had to accept a maximum COLA of 2% for the foreseeable future. I was pleased because I was told that the COLAs were paid for and the system was actuarially sound. I was also pleased that the state could continue

to count on hiring quality people despite the low state wage scale because a sound retirement program and adequate health insurance would compensate for such low wages.

After the very serious recession in 2008 and 2009, we are now re-evaluating the financial risk that the state is taking in maintaining the current retirement system. However, many on the retirement subcommittees are committed to resolving the fiscal crisis of the retirement system by modifying the fiscal and actuarial characteristics of the program so that it becomes fiscally sound and reduces unfunded liability to acceptable levels. Others want to end the defined benefit program in favor of a defined contribution program or a hybrid program and thereby eliminate or reduce any investment risk.

I am in favor of a maintaining a Defined Benefit Program for the following reasons:

1) It has not been demonstrated that the current program is so risky that we must end it. Our current program has only been in existence for three years. In 2008-9, we lost a lot of money in a very severe economic downturn which was described as a 100 year event. In the last two years, we have earned over14% and over18%. This is much higher than the 7.5% earning rate expected by some people. We shouldn't allow the weak condition of the American stock market to cloud our impression of the potential of our investment program. Our retirement fund with 15 investment

areas has more than regained its losses from the 2008-9 declines while the Dow Jones Industrial Average is still !9.5% below its all time high in 2007. Additionally, many state pension programs similar to ours have performed well over the last 20-30 years and over 80 state pension carry an 8% to 8.5% expected rate of return.

2) Predicting fiscal markets is at best an inexact science. There is a tendency to predict great future markets when the market has been good and to predict poor future markets when the market has been bad. Our current poor market may be creating a false negative impression of future markets. Our long investment horizon allows us to recover losses and increase our profits. Our significant fiscal reserves should allow us more time to better evaluate the stability of our pension fund before we radically change it. While it is appropriate to modify the program now to reduce unfunded liability, this is not the time to end the Defined Benefit Program or make significant changes to the expected rate of return.

3) Without an adequate and consistent retirement income provided by a defined benefit program, retirees may not be able to afford basic living expenses, pay health care deductibles or taxes, purchase goods and services, and remain a vital part of their communities. Taxpayers and workers have much at stake in this

retirement crisis because without adequate retirement income, there is an increased risk of higher elder poverty and rising public assistance costs over the long term. The average retiree pay is around $19,000. I ask you how much lower can the average retirement pension go without creating significant economic problems for retirees.

4) The retirement fund has brought hundreds of millions of dollars to this state and funds 65% of our retirement program. The retirement checks for the most part stay within the state and help support small and large businesses and generate tax revenues. Unless we are absolutely sure that the continuation of this program would create a serious fiscal problem for this state, we would be unwise to end retirement investment through a defined contribution program or reduce investment funds through a hybrid program. Without the investment program, retirement funds provided to state employees would be greatly reduced or costs to state government and employees would be greatly increased. Most state employees would not have the expertise to match the kind of return currently generated by our pension fund.

I support maintaining the expected investment return at 8% for the following reasons:

1) SC is one of the few states enjoying the highest credit rating possible. Formally lowering the expected rate of investment return to 7.5% would immediately require us to recognize a much higher level of debt and thereby risk reducing our credit rating and possibly increase the interest rate on our state borrowing. We should take advantage of the accounting rules that are available to present our fiscal position in a favorable manner.
2) Adoption of a 7.5% earnings rate would greatly reduce the potential for COLAs for retirees. Treasurer Curtis Loftis has suggested some changes in the system which would increase the integrity of the pension without affecting COLAs. Some of his ideas have been supported by employee groups. Other ideas are also available which would retain COLAs and reduce unfunded liability.

State Employees, Public Safety Employees, Teachers and Retirees are united in seeking an equitable solution to our retirement problems. It is my understanding that further recommendations for change to the program will be made when the actuarial implications of these recommendations are known and members have the opportunity to

completely express their views in meetings such as this and in their chapter meetings.

I wish to highlight a few points which I have found helpful in considering this complex problem.

1) Representative Skelton has pointed out that when you use percentages to calculate gains or losses you have the potential to miscommunicate. For example, if you lose 20% of $100. and later gain 20% back, you have $96. not $100. Where possible we should use actual dollar figures when talking about pension funding changes.
2) Treasurer Loftis has warned us to be aware of spiking, wherein certain retirees are able to unfairly collect higher benefits than other retirees.
3) Representative Cobb-Hunter has reminded us that the recent longevity increases in our general population, which put fiscal pressure on our retirement program, might be lowered in light of recent obesity and poor exercise patterns in the general population.

There are many more ideas to be considered before the best plan can be obtained.

Senator Glenn McConnell was quoted a few days ago in the Post and Courier defending high retirement pay for legislators because legislative pay is so low. State employees receive low wage salaries and often work in dangerous or difficult or noxious jobs and they receive low pay which rarely keeps up with inflation. Good people can work for state government for low salaries in difficult circumstances because they have good health insurance and because they anticipate a good pension program with cost of living increases. The citizens of South Carolina deserve good people working for them.

The disparity between public and private salaries was pointed out to me recently in a very dramatic way. After my son recently finished his graduate work, his first salary in the private sector matched my highest state salary. In the spring, my daughter will finish her doctorate. She is already talking to companies which are offering her salaries averaging over $20,000 more than the highest salary I ever made in state government.

In conclusion, the defined benefit pension program with COLAs is a valuable tool that attracts high quality people to government service. It brings many additional dollars to the state which provides greater economic support for retirees and a stronger economy and tax base for

the state. A recent serious economic downturn has caused many to question the integrity of the pension program and to call for changing the program to a hybrid program or a defined contribution program and a reduction in the assumed rate of return to 7.5%. There are many things that can be done to stabilize the pension program which will not change the basic defined benefit nature of the program or the 8.0% assumed rate of return which we now have. Employers and state representatives and other stake holders should reduce unfunded liability through a series of constructive meetings as was done in 2008. There appear to be enough options on the table to solve our unfunded liability problems without changing the defined benefit nature of the pension program or changing the expected rate of return.

Fordyce H. Mason, Ph.D.

Columbia, SC 29201

803 252-4584

From: Starlett Craig
To: Whitney Moon
Date: Wednesday, October 05, 2011 3:08:48 PM

My name is Starlett Craig and I am 64 years old. I started working at Clemson University on August 21, 1989 at the age of 42. Prior to coming to Clemson, I worked at the University of North Carolina in Asheville and Western Carolina University in Cullowhee, NC. Consequently, I was vested in the North Carolina Retirement System.

During my first week of employment, a VALIC agent visited me in my office and signed me up for the SC State Optional Retirement Program. I never received an invitation to attend an orientation program for new employees. Perhaps the fact that I had lecturer attached to my title, made me a sitting target for the VALIC agent who made a personal visit to my office unannounced. At any rate, I was so disappointed with VALIC, I switched to TIAA CREFF.

My greatest concern and the dilemma that I face is that I have asked over and over again about being converted to the State Retirement Defined Benefits Program only to hear that I am not eligible. Because of a decision that essentially was made for me in August 1989, I have worked 22 years at Clemson and 9 years in North Carolina but I have no substantial retirement income to show for those 31 years. I withdrew my retirement savings from North Carolina in order to purchase a home for my children in 1990. (We had lived in campus housing at Western Carolina University).

I cannot buy back my years of service in North Carolina because I am in the SCORP system. As you know, the stock market is in a downward spiral and people like me are forced to stay in the workforce even though they may experience age discrimination. Not only that, the social security administration requires that my age group works until age 66 before we can receive full retirement benefits.

I think there should be an age limit placed on anyone who signs up for the Optional Retirement Plan. There is no way a 42 year old individual should have been allowed to sign up for this program and the agent should not have been given my name and address before I had the opportunity to attend an Orientation Program.

To add insult to injury, I see my contemporaries retiring using all of the existing incentives offered at Clemson University and then they are being rehired. I hope that policy makers will place an age limit on new recruits for the Optional Retirement Program. I also pray that an exception can be made in my case, so that I can buy back the years of service from North Carolina and have a more financially stable retirement income.

Thank you for this opportunity to express my concern. I do not wish to speak publicly, but I wish to have this statement as part of the public record.

Please advise.

Starlett Russell Craig
Director/Lecturer
The Charles H. Houston Center
Eugene T. Moore School of Education
Clemson University
Clemson, South Carolina 29634-5128
Phone: (864) 656-0676

From: Starlett Craig
To: Whitney Moon
Date: Wednesday, October 05, 2011 3:08:48 PM

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Please advise.

Starlett Russell Craig
Director/Lecturer
The Charles H. Houston Center
Eugene T. Moore School of Education
Clemson University
Clemson, South Carolina 29634-5128
Phone: (864) 656-0676

From: Tom Ward
To: Whitney Moon
Subject: Public comment on SCRS
Date: Wednesday, October 05, 2011 2:02:48 PM

Ms. Whitney,

While I will be unable to attend the public hearing about the SC retirement system this evening at Clemson's Madren Center, I would like to share my views on this matter. I am writing this during my lunch break and using my personal email account.

I have faithfully served the state of South Carolina for over 24 years and am concerned about three issues being discussed: 1) reducing or eliminating COLA's for retirees, 2) increasing the retirement age from 28 years to 30 years, and 3) the TERI program.

Any proposal to reduce or eliminate cost-of-living adjustments for retirees is short-sighted and sends the wrong message regarding how the State of South Carolina treats those who provided a career of faithful service. In fact, the real question should be why there are not consistent annual cost-of-living adjustments for active employees? With the lack of funding to reward state employees who provide value to the workplace, and with many state classifications being completely out of sync with the market value for their skills, the State of South Carolina runs the risk of not only demotivating its current workforce, but of positioning themselves to not be competitive in attracting and retaining the best and brightest in the future.

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Lastly, discussion about eliminating the TERI program is short-sighted. The failure of the state to properly manage the TERI program by allowing employees to participate for up to 5 years and then return to their jobs at full salary has violated the original intent of the program and cost the state untold millions of dollars. It is widely recognized as an abuse and fleecing of the system. The TERI program can be a useful tool if managed, with controls, properly.

Thank you for allowing me this opportunity to have my views included in the public comment phase of this process. If you have any questions about what I have written, please feel free to contact me.

Sincerely,

Tom Ward
235 Windrush Trail
Walhalla, SC 29691

I began teaching in 1972. I have taught 37 of the 39 years in 2 different states. Since I have begun teaching I have seen children come to school far more needy and less prepared each and every year. Parenting skills seem to be diminishing. Parenting workshops are offered by the school with very few parents attending, but teachers are required to be there. Countless hours at home are spent planning and preparing for lessons to be taught, or other school related work. We miss family time in order to attend PTO, Open House, Christmas Concerts, grade level meetings, Faculty Meetings, IEP Meetings. We are asked to come out in the evening to support our school for fundraiser nights, Fall Festivals and Spring Flings. I don't say this to complain. Teachers do these things because we are conscientious and intend to go the extra mile being professional. Please do not penalize teachers by reducing our retirement benefits. The return on investments for the SCRS for the fiscal year 2010 was 14.6% and for 2011 it is 18.4%. This return is more than ample to continue COLA for retirees at the current level. Reducing retirement benefits will cause our children to have inexperienced, less skilled teachers. I implore you to maintain a secure retirement system for all state employees.

Elaine M. Randles
1528 Enterprise Lane
Seneca, SC 29672

ve

From:	Mullinax, Anita
To:	Whitney Moon
Subject:	RE: Retirement Systems
Date:	Tuesday, October 04, 2011 2:24:50 PM

Thank you for letting me address my concerns and opinions by email. I would like to say that these are my personal opinions and not of any group or organization that I am affiliated with. I have several ideas that I would like to propose.

My husband and I both retired in 2003 and are both working retirees. We both purchased time at the 36 per cent rate in order to have our time in, because at the time we thought we were moving out of state . I still think that this program is beneficial and should be continued. I do however believe that different rates for purchasing time such as military at 16 per cent should be discontinued. Buying time should be calculated in such a way that the State is not penalized for allowing you to purchase it. Working retirees have been given a bad reputation and the State of South Carolina should welcome their participation not only for the money that we provide but the continued service to the State.

Example for PORS employee

Average salary of working retiree	average starting salary
$50,000	$25,000
6.5 per cent our portion	
$3250	$1625
Employer portion of 11.363 per cent	
$5681.50	$2840.75
total	
$8931.50	$4465.75

Even if the State did not receive our 6.5 per cent, you would still get more from a working retiree than a new hire. My husband and I both retired not having to pay again into the retirement system, only to be told that we had to start paying again July 2005. The retirement system unfairly receives more from us due to this fact.

Calculation of pension. I am not a math person, but it does not take one to realize that using overtime pay into the formula for benefits using your last 3 years of work for a lifetime of annualized payments will work. If someone comes in as a deputy and retires as a captain and the salary commensurate, then that is a logical increase. Not working all the overtime you can to boost your salary before your retirement date. Pensions in my opinion should be based on base salary only.

Working in a job that is covered by one of our retirement systems. Example. My husband retired after being a fire fighter and then was re-employed as a teacher. He has to pay 6.5 per cent into retirement instead of the 6.25 that the teachers pay. When he originally was hired he did not have to pay anything and even tried to again enter the retirement system paying the 6.25 but was told he could not do this. I understand that being vested in the retirement system twice and having two accounts causes concern. That is when you structure the system so as to only be vested when you have put in 10 years instead of the current 5. This would insure that only people interested in having a true career to be paid a pension. Secondly, you would structure it like the military by getting points or percentages that follow yearly guidelines. My husband retired from the military also, but since the majority of his time was in reserves he has to wait until he is 60 to be able to receive his retirement pension. This pension is based upon points received from drills, regular two

week active duty assignments and deployments to active duty. Although, we don't have different types of work duties, you could structure it by years attained equate to a certain percentage. Similar to what we have now with 25 years of service equates to 54 per cent of salary. For a person entering the system for a second time under a different program, you could have a smaller percentage payable. That would insure that money is provided to the system and the worker would actually get a benefit. They would still have to pay the percentage of pay that someone entering the system for the first time would pay.

To sum it up, my recommendations are to give working retirees some benefit to the extra money they are paying into the system or not require them to continue paying their employee portion as long as they are in their same system; make all percentages of purchasing time the same with the 5 year cap; increase being vested from 5 years to 10; base pensions on base salaries without overtime; and allow retirees to re-enter under another system using a tiered percentage payout for additional years of service- since most will be older than 55 the second time around. My hope is that a reasonable compromise can be made for current retirees and new employees so that annuities will continue and not the 401k's that I have heard rumored. Our retirement benefit is the single most important draw for young people wanting to enter public service. We need to encourage their commitment to the State as our future depends on them. Thank you for your time and I hope some of my suggestions warrant further exploration. Anita Mullinax – amulli@bellsouth.net

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From: Whitney Moon [mailto:WhitneyMoon@scsenate.gov]
Sent: Tuesday, October 04, 2011 11:31 AM
To: Mullinax, Anita
Subject: RE: Retirement Systems

Ms. Mullinax,

Yes, please e-mail me your information. The information will be given to all the members of the retirement subcommittee meeting on October 5, 2011. Thank you for the e-mail and we look forward to hearing from you. Thanks again.

Sincerely,
Whitney Moon

From: Mullinax, Anita [mailto:amullinax@spartanburgcounty.org]
Sent: Tuesday, October 04, 2011 10:40 AM
To: Whitney Moon
Subject: Retirement Systems

I will be unable to attend the session at Clemson tomorrow and was wondering if there was an avenue that I could express my views by email. I am a retiree and currently working and paying into the retirement system. I believe I have some good ideas and would like to share them. Please let me know of a way I can do this without attending these sessions. Thank you for your attention.

Anita Mullinax
Master Deputy
864-503-4693

From: Liz Browder
To: Whitney Moon
Subject: Retirement for Teachers
Date: Wednesday, October 05, 2011 8:25:40 AM

Mrs. Moon,

I was told to email comments about the proposed movement to raise the retirement years from 28 to 30 for teachers. Please, express the following comments to the SC Senate and leaders of the movement at the public hearing.

As a future teacher, I have come to realize a few things about how politicians treat us. I have noticed that while you run for office, you treat us as a special pet. You make promises. You seem to support us. You champion our causes. Once you get elected, however, you attempt to increase the amount of years it takes until we can retire with full benefits. You say we have to give more. You say what we do is not enough.

Every day, teachers go home exhausted and close to broken because of how the system treats the people who are teaching the Nation's children. Those two years mean something to us. We do not go into teaching with bright-eyed optimism. We go into teaching because, for many of us, it is what we were born to do. We have a passion. The system seems want to try and stifle that passion at every chance.

Teachers have been called the "sleeping giant" in that we are mostly passive about what happens to us. Maybe we are quiet because we are so used to being stepped on. I am a future teacher. I still have the energy and passion to fight for what I believe in. I am also a leader. If this movement is passed, expect to hear from us in the form of emails, letters, petitions, and poll results.

Sincerely,
Your Child's Future

PRESENTATION
OF THE STATE RETIREES ASSOCIATION
ON THE STATE RETIREMENT PLANS

by
Wayne Bell
President
State Retirees Association of South Carolina

Mr. Chairman, Members of the Subcommittee, we appreciate the opportunity to be here today and to be heard on our concerns regarding the State Retirement Systems. It seems we have been working on these issues for many years. Like many, I was convinced we had reached a credible long term solution with the legislation that passed in 2008 as a result of the work of the Treasurer's Task Force which culminated in Act 311. I actually still believe that. **If we had not encountered the economic recession of 2008/2009 and the serious losses to the Retirement Fund, I don't think we would be here today.** Previous concerns about unfunded COLAs and TERI were addressed to a great extent in 2008. So from our perspective we are here not because of those things but because of the losses we incurred during the recession of 2008/2009.

As I hope you have found over the past decade of working on this issue, the State Retirees

Association does not want to be an obstacle in looking for adjustments that may need to be made. And we know that adjustments must be made to maintain the viable system we all want. We have always tried to be part of the solution, not the problem. We pledge to continue working in that mode.

That being said, we do act as a representative and advocate for retired employees and we have an obligation to bring their concerns, fears and priorities to the table. But we do understand that we may need to make changes to the current retirement systems so that we can retain those things of greatest value to us and adjust those things that can keep the systems viable. We are prepared to join with you to do that.

All we want is what was promised us and what was implicit in the assumptions we made when we retired.

First, we want a fiscally sound and stable defined benefit plan that will provide a sure and dependable source of income to retirees and to future retirees. We want a retirement plan that is managed prudently and

with the understanding that the assets of the plan belong to those of us who paid into it.

Secondly, a major concern of most retirees is the maintenance of cost of living adjustments (COLAs) at least at the current level. Further, we would strongly recommend that the rules regarding COLAs be the same for the SCRS and the PORS systems.

The current level for COLAs reflects the increase in the Consumer Price Index up to a maximum of 2%. Keep in mind, in 2008, as part of the negotiations associated with the Treasurer's Task Force and subsequent changes in retirement law, retirees accepted an upper limit of a 2% COLA . This was half the previous limit of 4% that existed at the time. Retirees feel they have done their part in addressing shortfalls because in many years 2% does not meet the CPI rate of inflation which has averaged 3.75% since World War II. So even if a 2% COLA were given each year, inflation would still erode our purchasing power. Considering the average retirement benefit is around $19,000 per year, any additional reduction in purchasing power will have a serious impact.

But we all recognize that adjustments will need to be made to all of South Carolina's retirement systems if we are going to be able to keep the commitments made to our workforce and restore public confidence. To that end we suggest the following changes. Since we do not have a lot of retired actuaries in our association we have not been able to provide actual dollar amounts to each of the recommendations. However, most of these ideas have been previously discussed in other forums and the information should be readily available. Our recommendations are as follows:

A. Since it has been reported that 28 year retirement contributes significantly to the UAL, it should be funded by whatever employer/employee mix of funding is considered appropriate.

B. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.

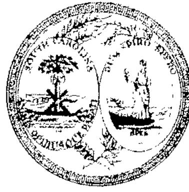
C. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit.

D. Terminate the accrual of interest (now 4%) on inactive accounts (people receiving no benefit and no longer working for a covered employer).

E. Use fair actuarial cost for purchasing years of service.

F. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.

Gentlemen, thank you once again for giving us this opportunity. This concludes my presentation and I'll try to respond to questions.



STATE RETIREES ASSOCIATION
OF SOUTH CAROLINA

Members of the South Carolina Retirement Systems

February 2, 2011

Governor Nikki Haley
Office of the Governor
1205 Pendleton Street
Columbia, SC 2920

Dear Governor Haley:

The State Retirees Association greatly appreciates your willingness to meet with us and to consider our concerns regarding the State Retirement Systems. You asked for our thoughts regarding those systems and suggestions to preserve and strengthen them. Below are several recommendations and observations about the overall health of the retirement systems trust funds.

First, we believe that our retirement systems are not broken as is the case in states such as New Jersey and Illinois. Adjustments may need to be made to further strengthen our retirement systems but there should not be the sense of urgency that some other states are facing. In other words, we should not over react to fix a system that is not broken and we do have adequate time to deliberately consider what adjustments may be necessary. To approach this issue in any other way could do a grievous disservice to thousands of our fellow South Carolinians who have contributed much to our State.

The maintenance and adjustments that may be necessary are not rocket science. They should be based on well thought out strategies that will meet the tests of accepted actuarial and accounting practices. We believe it is imperative that the appropriate professional expertise be relied upon as we consider changes that so directly affect peoples lives. We should not be making changes to our system just because somebody has read a newspaper article or thinks earnings on investments in any particular year are deficient. There are professionals who make their living assessing these matters and it is their expertise that should be considered. We may want the Treasurer to reconvene the Task Force that worked on these issues in 2008.

For all systems we believe the Cost of Living Adjustment (COLA) is a critical element in the benefit package. For retirees, this means the difference between a retirement with

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dignity versus a retirement on the edge of poverty as inflation eats away the purchasing power in our retirement years. . We strongly believe this benefit should be maintained.

Those covered by the Police Officers Retirement System (PORS) can currently retire after 25 years with full benefits. Police officers directly paid for this benefit by increasing their employee (and employer) contributions when the shift to 25 years was made. It is a strong belief within the law enforcement community, and one in which we concur, that this represents a compelling and effective recruitment tool which attracts good people into law enforcement work. We believe this benefit should be maintained in its current form.

For the retirement system (SRS) covering regular employees and educators, we believe the minimum number of years necessary for retirement with full benefits should either be changed from 28 years to 30 years or increase the employer/employee contributions to pay for it. Unlike the PORS, the change from 30 to 28 years was not paid for through increases in contributions. Demographics suggest people are living longer more productive lives and the retirement systems should acknowledge that fact.

We believe legislation should be introduced to eliminate the practice of "spiking" or artificially and/or inappropriately inflating the average final compensation in such a way as to dramatically enhance the retirement benefit.

We believe that a strong argument can be made that the real actuarial cost should be used when purchasing additional years of service. We think this should be universally applied for all types of qualifying service. Otherwise, we have some retirees actually subsidizing the retirement costs for others.

We believe that any person with a retirement account should be actively interested in maintaining that account. Thus, for the inactive accounts of non-vested terminated employees, we support decreasing the rate of interest that accrues to that account and that, after due diligence and warning, inactive accounts should be forfeited after an appropriate amount of time.

Finally the time has now come for the TERI program to be repealed. It has outlived its original purpose.

In conclusion, thank you for giving us the opportunity to meet with you and for listening to us. We appreciate the chance to present our concerns and the opportunity to be part of the solution. We look forward to continuing that dialog.

Sincerely,

Wayne Bell
President

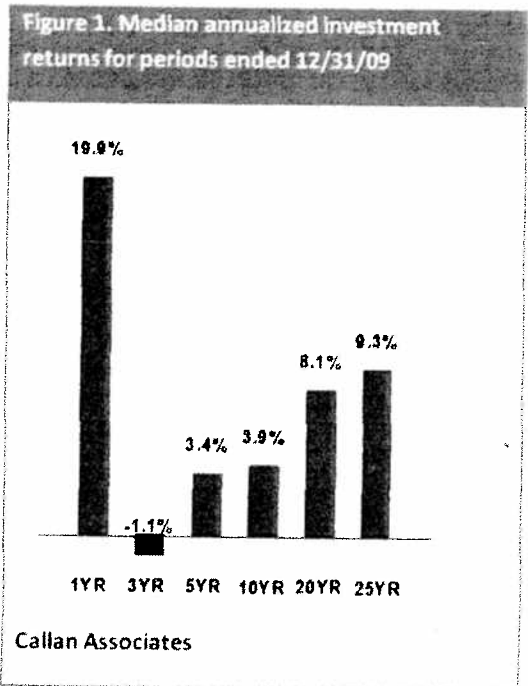
Sam Griswold
President Emeritus

NASRA Issue Brief:
Public Pension Plan Investment Return Assumptions

NASRA

The issue of the investment return assumption used by public pension plans has been the focus recently of increasing attention. This brief explains the role this assumption plays in pension finance, how it is developed, and compares this assumption with public funds' actual experience.

Some members of the media, academics, and policymakers recently have questioned whether public pension fund investment return assumptions are unrealistically high. If this were true, it could encourage these funds to take too much risk in investing pension fund assets, or it could understate the cost of pension liabilities, reducing their current cost at the expense of future taxpayers. Alternatively, an investment return assumption that is set too low would result in overstating liabilities, which would overcharge current taxpayers.



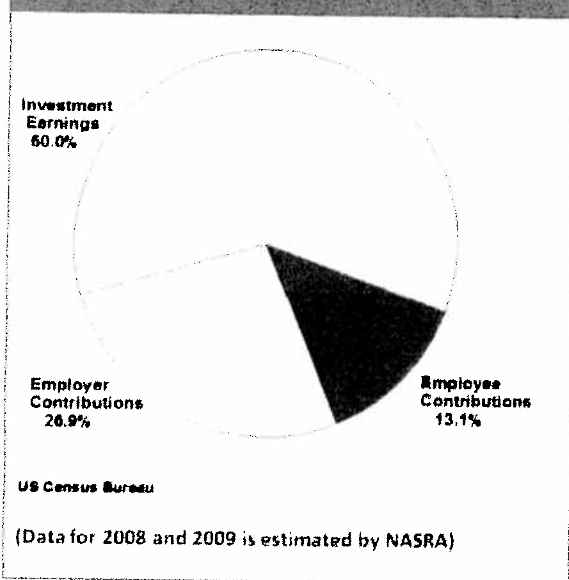
Public retirement systems employ a process for setting and reviewing their actuarial assumptions, including the expected rate of investment return. Most systems review these assumptions regularly, pursuant to statute or system policy. The process for establishing and reviewing the investment return assumption involves consideration of various factors, including financial, economic, and market data. This process also is based on a very long-term view, typically 30 to 50 years.

Although public pension funds, along with most other investors, have experienced sub-par returns over the past decade, median public pension fund returns over longer periods exceed the assumed rates used by most plans. As shown in Figure 1, median investment returns for the 20- and 25-year periods ended 12/31/09 exceed the most-used investment return assumption of 8.0 percent. For example, for the 25-year period ended 12/31/09, the median investment return was 9.25 percent.

Why the investment return assumption is important

Public pension actuaries calculate a public pension plan's funding level and cost using assumptions about many future events that have a direct effect on the pension plan, such as the age when participants will retire, their rate of salary growth, how long they'll live after retirement, and how much the plan's investments will earn. Of all the assumptions used to estimate the cost of a public pension plan, none has a larger impact on the plan's costs than the investment return assumption. This is because over time, earnings from investments account for a majority of revenues for most public pension plans.

Figure 2 illustrates this important fact. Since 1982 (when the U.S. Census Bureau began reporting public pension fund revenue data), public pension funds have accrued an estimated $4.4 trillion in revenue, of which $2.64 trillion, or 60 percent, is estimated to have come from investment earnings. Employer (taxpayer) contributions account for $1.2 trillion, or 27 percent of the total and employee contributions total $578 billion, or 13 percent.



How the investment return assumption is developed

Public pension plans operate over long time frames and manage assets for many participants whose involvement with the plan can last more than half of a century. Consider the case of a newly-hired public school teacher, 25 years old. If this pension plan participant elects to make a career out of teaching school, he or she may work for 35 years, to age 60, and live another 25 years, to age 85. This teacher's pension plan will receive contributions for the first 35 years, then pay out benefits for another 25 years. During the entire 60-year period, the plan is investing assets on behalf of this participant. To emphasize the long-term nature of the investment return assumption, for a typical career employee, more than one-half of the investment income earned on assets accumulated to pay benefits is received *after* the employee retires.

The investment return assumption is established through a process that considers factors such as economic and financial criteria; the plan's liabilities; and the plan's asset allocation, which reflects the plan's capital market assumptions and its risk tolerance. A public pension plan's actuary typically has considerable influence in setting the investment return assumption. Actuarial Standards of Practice No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations," (ASOP 27), which provides guidance for professional actuaries in setting the investment return assumption (among other assumptions), recommends that actuaries consider such criteria as:

- current yields on government and corporate bonds;
- expected rates of inflation and returns for each asset class;
- historical investment data; and
- the plan's historical investment performance.

ASOP 27 further states that the actuary, in developing the investment return assumption, may consider "historical statistical data showing standard deviations, correlations, and other statistical measures related to historical returns of each asset class and to inflation;" and recommends that other factors be considered, including:

- the plan's investment policy—asset allocation, risk tolerance, target allocations, etc.
- expected volatility of the portfolio
- performance of managers investing the assets
- investment expenses
- projected timing and volatility of cash flows.

ASOP 27 also recommends the use of a range as part of the process of setting the investment return assumption:

> *Because no one knows what the future holds with respect to economic and other contingencies, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on past experience and future expectations, and to select assumptions based upon that application of professional judgment. Therefore, an actuary's best-estimate assumption is generally represented by a range rather than one specific assumption. The actuary should determine the best-estimate range for each economic assumption, and select a specific point from within that range. In some instances, the actuary may present alternative results by selecting different points within the best-estimate range.*

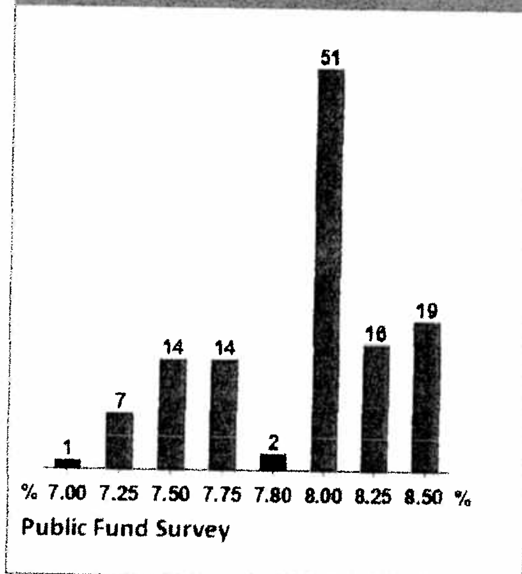


Figure 3. Distribution of public pension fund nominal investment return assumptions

Public Fund Survey

The investment return assumption reflects a value within the projected range, and is considered to be the best predictor of future experience. With an investment return assumption of 8.0 percent, there is a projected 50 percent chance of actual experience being above that figure, and an equal chance of falling below. A return assumption below the expected range would increase the plan's funding requirements, which would increase costs for current taxpayers (and plan participants), and would benefit future taxpayers and participants. Alternatively, an assumption that is too high would reduce the plan's costs in the near-term, at the expense of future taxpayers and plan participants.

Although investment return assumptions used by public pensions are intended to reflect long-term considerations, they are not static, and they do change. Until the 1980s, a majority of public pension assets were invested in bonds and other asset classes that yielded a lower projected return than a diversified portfolio of stocks, bonds, real estate, etc. Investment return assumptions were commensurately lower. First in response to high interest rates during the late 1970s and early 1980s, then as a result of pension funds' movement into diversified portfolios with higher expected returns, investment return assumptions rose to reflect the higher expected real rates of return.

Conclusion

Empirical results show that since 1985, a period that has included three economic recessions and four years when median public pension fund investment returns were negative (including the 2008 decline), public pension funds have exceeded their assumed rates of investment return. As the standard disclaimer says, past performance is not an *indicator of future results. However, considering that public funds operate over very long timeframes,* actuarial assumptions with a long-term focus should also be established and evaluated on similar timeframes. Viewed in this context, compared to actual results, public pension plan investment return assumptions have proven to be conservative.

The purpose of this issue brief is not to argue for any particular investment return assumption; fiduciaries for each plan have a responsibility to consider the range of factors that are used to establish this key assumption. Rather, this brief is intended to clarify how this assumption is established, to compare public funds' actual investment experience with investment return assumptions, and to describe how the suitability of this assumption should be evaluated.

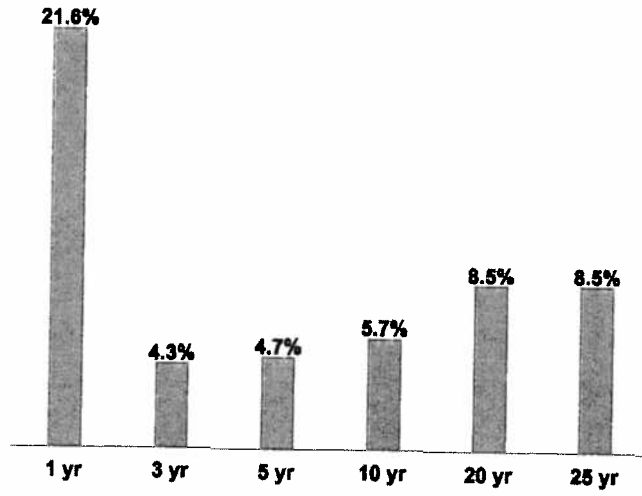
See Also:

"Actuarial Standards of Practice No. 27," Actuarial Standards Board, http://www.actuarialstandardsboard.org/pdf/asops/asop027_109.pdf

"The Liability Side of the Equation Revisited," Missouri SERS, September 2006, https://www.mosers.org/~/media/Files/Adobe_PDF/About_MOSERS/Board-Newsletters/Operations-Outlook/operations_outlook_September06.ashx

California State Teachers' Retirement System, "Analysis of Investment Return Assumption," February 2010, Milliman USA, http://www.nasra.org/resources/CalSTRS_invreturnanalysis.pdf

Prepared by Keith Brainard, Research Director* keithb@nasra.org *512-868-2774
***National Association of State Retirement Administrators* www.nasra.org**


Median public pension fund investment return for periods ended 6/30/11
21.6%
4.3%
4.7%
5.7%
8.5%
8.5%
1 yr
3 yr
5 yr
10 yr
20 yr
25 yr
Callan Associates

Defending Public Pensions

June 29, 2011

Over the past year, politicians, pundits and an array of think tanks have put forth some frightening predictions about public employee pension plans. A misguided belief that pensions, particularly defined benefit plans, are causing the fiscal stress of many states is false. The widely held notion that 401(k) plans can provide adequate retirement benefits is, *similiarly*, a myth.

Here are some other major and oft-repeated misconceptions floating around many statehouses these days:

Myth: Public employee benefits are bankrupting states. Not so. According to publicly available data gathered from government websites, less than 4 percent of state budget expenditures go to funding pension benefits. A recent study from the Center on Budget and Policy Priorities concluded that state budget shortfalls are largely a result of decreases in *tax revenue in part due to falling real estate values* and shrinking tax revenue in general.

Myth: Public pensions are overly generous. Hardly. The most recent U.S. census data reveals the average state employee has a retirement benefit of $22,000 per year.

Myth: Public pension funds are going broke and will require billions in taxpayer bailouts. Nope, sorry. It is a fact that the states' pension funds face a shortfall. The Pew Center on the States recently pegged the collective number at $660 billion, a far cry from the $3 trillion figure being bandied about by some professors.

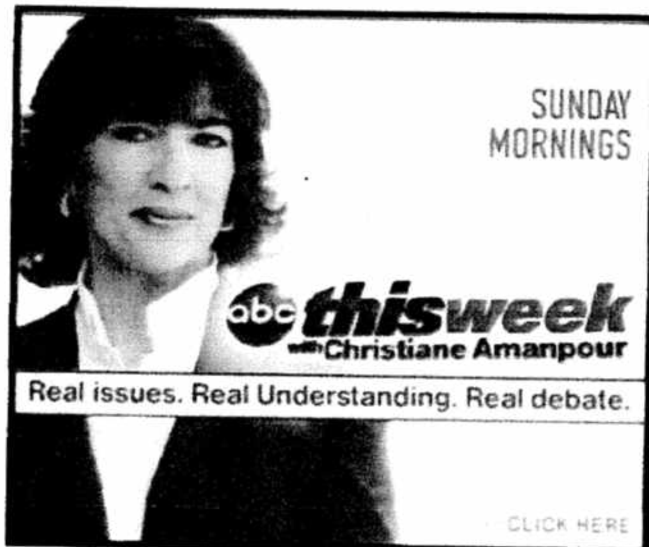
Some forecasts, discussed in certain academic circles and regurgitated unchallenged by the media, have m any public pension plans running out of funds by 2020. But these estimates are based on flawed assumptions, such as no additional contributions and long-term low investment returns. And, that's to say nothing of the $3 trillion in assets public pension plans hold to pay future benefits.

Yes, $660 billion is a big number, but manageable when viewed over a long-term funding horizon, and when coupled with recent plan revisions for new employees.

Here is the simple reality about the bulk of today's shortfall: It is the direct result of the fact that our economy went off a cliff three years ago, sending state revenues plummeting. As the overall economy recovers, funding levels in most public retirement plans will improve as well. Let's remember that *pensions are funded over the long-term and have* weathered previous swings in market returns.

Over the 25 year-period ended Dec. 31, 2010, the median public pension plan has produced an annualized return of 8.8 percent. For the years ending 2009 and 2010, the median rate of return was 12.8 percent and 13.1 percent respectively. These returns will not fully repair the funding deficit, but as they are recognized by the plans over the next few years, they will help with the recovery of asset levels.

Public plans are not relying only on investment *returns to mitigate the shortfall. In 2010, more than* 20 states made changes to their pension plans to bring down future costs. Over time, these revisions, combined with employee and employer contributions and investment returns, will restore stronger funding



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for most pension plans.

As state and local legislatures across the country consider scaling back and changing retirement benefits of public employees, it is imperative that they focus on the real challenges they're facing. The critics are missing the real issue: the retirement security of the coming wave of baby boomers, many of whom are woefully unprepared for the financial demands ahead of them. While a defined contribution plan should be an important part of a retirement portfolio, it should not be the sole source of retirement income.

Consider this: By 2020, one-fourth of the U.S. population will be over the age of 65. The Employee Benefit Research Institute reports that the average balance in a DC plan will be only about $35,000, not enough to live on through retirement.

Having so many people without adequate income will have a devastating impact on the economy. This is the real looming crisis you don't hear much about: a growing segment of the population slipping into poverty.

If we don't have some form of serious conversation about America's retirement systems, one that puts retirement security in a more positive light, then in another decade we'll be wondering what we were thinking attacking a mostly healthy system that has served millions of Americans for decades.

Earl Pomeroy is senior counsel at the law firm Alston & Bird and a former U.S. congressman.

Cathie G. Eitelberg is a senior vice president and national public sector market director for the Segal Co., a benefits, compensation and HR consulting firm.

This work is the opinion of the columnists and in no way reflects the opinion of ABC News.

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From:	Hunt, Kevin
To:	Whitney Moon; Shane Massey; Greg Ryberg; Phil P. Leventis; Nikki Setzler; Darrell Jackson; Thomas Alexander
Subject:	SCRS funding
Date:	Thursday, October 20, 2011 12:13:41 AM

Senators:

I live in Aiken County in Senator Massey's district & am a small business owner in Senator Ryberg's district. I attended the town hall meeting tonight at Aiken Technical College about the financial status of the SCRS.

I did not know the format or the specifics in advance so did not speak. However, since the meeting I have formulated some suggestions that I wish you would consider in your deliberations.

1. There should NOT be 5 separate retirement systems in SC. That is pure ridiculous. There should be 2. 1 for those that have been promised a defined benefit & are vested (say hired on 12/31/2005 or earlier or already retired). Another (defined contribution) plan for those hired 1/1/2006 or later. All retirees & active duty state employees have the same stake in the game - one group of employees should not be held up to a different standard than another.

2. HONOR YOUR COMMITMENTS - this is why the 5 year vesting cut off on #1 above. We have an OBLIGATION to honor our contracts to those already vested &/or retired. **Even if this means CUTTING OTHER NON-RELATED items in the SC state budget. We must honor commitments to those already in the system**.

3. Change to 30 years of service to retire if hired after xxx date (perhaps the same 1/1/2006). Georgia & NC are both already at 30-years to retire so we can still compete.

4. Terminate the 4% interest for non-active accounts for those that have left state employment but not retired.

5. Adjust the formula for buying back years of service to a less attractive figure.

6. In the new defined contribution plan - allow MORE market competition by opening up the investment options to more company's than the current ORP allows.

7. Adjust the projected rate of return on investment to a more realistic figure with 2-year adjustments. 8% current projection is unrealistic.

Many or all of these points were discussed in tonights meeting, but I wished to add 1 more voice to the debate.
Thanks for your thoughtful consideration of finding a maximum solution that hurts the minimum of people. I believe that these 7 suggestions are certainly a start in that direction.

Cordially,

Kevin A. Hunt, Owner
Hunt Insurance Agency, LLC
PO Box 1668
Clearwater, SC 29822
Office: 803-278-7201
E-Mail: Kevin.Hunt@comcast.net

PRESENTATION ON THE STATE RETIREMENT PLANS
Senate Finance Special Retirement Subcommittee
Public Hearing
Aiken Technical College
October 19, 2011
by
Stephen King, Ph.D.
Professor Emeritus of Mathematics, USC Aiken
Member of the Board, State Retirees Association of South Carolina

Thank you for this opportunity to speak. My name is Stephen King. I am retired from the Mathematics Department at the University of South Carolina Aiken, and a member of the Board of the State Retirees Association of South Carolina.

I would like to read into the record the Retirees Association Position Statement on the Current Retirement System Debate, adopted by the Board of the Association last week. This statement is posted on the Retirees Association website.

State Retiree's Position on the Current Retirement System Debate October 11, 2011

http://www.srasc.org/Positions.aspx

As the debate continues regarding the South Carolina State Retirement System's overall financial health and its ability to meet future obligations, it has been suggested by several political leaders that all parties need to be prepared to give something up. As retirees we have always been committed and willing to do our share for the common good. Unfortunately this particular challenge finds us in a position of having little to offer that does not have major consequences for retirees. Since we have retired we can only contribute by reducing our monthly retirement check, reduce or eliminate annual Cost of Living Adjustments (COLAs), or die. We mention the third option simply because it is the only one that will probably not involve litigation.

While we present this somewhat tongue in cheek, the fact is retirees have little we can bring to the proverbial table. We feel somewhat awkward presenting recommendations that affect other people and we understand there is certain to be resentment that we have got ours and now want to take away hard earned benefits from active workers. But the reality is changes to benefits are probably necessary if we are to keep the defined benefit plan intact. Failure to adjust to the current economic and political climate could very well spell its dismantling.

Therefore, as good citizens we recommend the following actions be taken or changes considered to both reduce the current unfunded liability and to place the Retirement System on sound financial footing.

A. The Budget and Control Board should increase the employer contribution by .92% as recommended by the previous actuarial firm of Cavanaugh and McDonald. This action alone should reduce the unfunded liability to 30 years or less.

B. The issue of 28 year retirement should be revisited particularly in light of the fact that it is not funded.

C. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.

D. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit.

E. Terminate the accrual of interest (now 4%) on inactive accounts (people receiving no benefit and no longer working for a covered employer).

F. Use fair actuarial cost for purchasing years of service.

G. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.

H. Maintain the current 8% assumed rate of return on investments.

There may be other options available the General Assembly may wish to consider but these are the ones we feel will have a positive impact on the Unfunded Liability with minimal disruption to the life plans of teachers and public employees.

I would like to add a comment of my own about the assumed rate of return. A lot has been said about whether the 8% return is achievable. It seems to have been little noticed that Bob Borden, Chief Executive Officer and Chief Investment Officer of the SC Retirement Investment Commission, said last October in his report to the Governor's Roundtable on the South Carolina Retirement Systems that according to the Commission's outside investment consulting firm, the New England Pension Consultants (NEPC), with the 2010 target allocation for the fund, the expected value of the 30 year average annual rate of return is 8.7%. I think the House and Senate Committees need to take note of this.

The 8.7% projection is given on page 11 of Mr. Borden's report. That report (pdf) can be downloaded from http://www.mediafire.com/?1haa8rzsw5087fd.

Governor Sanford's office posted a video of the Roundtable on YouTube (http://www.youtube.com/governorsanford). Mr. Borden's presentation on this YouTube video is at times between about 22:45 and 36:24.

Presentation to the Senate Finance Committee Special Retirement Subcommittee

October 19, 2011

Good evening and welcome to Aiken County. My name is Will Barnes and I live in North Augusta (South Carolina). I do not represent any organization, I am here as a retiree after 30 years of service with the Department of Revenue, and I am here as a lifelong citizen of the State of South Carolina. Thank you, Mr. Chairman and members of the committee, for coming. Most of us do not get the opportunity to go to Columbia, so we are grateful that you would come out here to us, and there are a lot of us out here.

Gentlemen, I'm not going to repeat all the figures and suppositions that have been so eloquently presented today and at previous hearings. I will tell you that a very, very important aspect of the retirement system is to maintain the COLAs at the maximum 2% level as passed in legislation during 2008. That very modest amount should not be difficult to maintain. To demonstrate, and since you are here in the CSRA today, let's look next door at the state of Georgia and the Teacher's Retirement System of Georgia. Their retirees have been, and continue to receive COLAs of 1.5% EVERY 6 MONTHS. That is just over 3% a year and that's what we are competing with for teachers here in Aiken County. How do they do that, and why can't our system maintain the opportunity for 2% annual increases?

While I don't profess to know all the intricacies of the TRS system, there appear to be similarities between the SCRS and the TRS in Georgia: similar contribution amounts from employers and employees – and differences including: 10 year vesting, 30 year retirement, no interest on inactive accounts after 4 years, and purchase of additional time at full actuarial cost.

If they can do better than 3%, we ought to be able to maintain at least 2%. Gentlemen, adjusting COLAs downward is the one thing that should be OFF THE TABLE. There are other means to deal with this issue. For example, the solutions advanced by the State Retirees Association seem to be well thought out and sensible.

I appreciate the concern, and I truly appreciate the discussion and the opportunity to have input into the discussion, but the sky is not all of a sudden falling. It is obvious that there are differences of opinion and there needs to continue to be open, honest discussion and review of all the facts. I truly appreciate the members of the committee who continue to demonstrate that you have an open mind and appear committed to both maintaining the retirement system for the long haul and also fulfilling the promises that have been made. We appreciate your public service, you asked for it, and we elected you.

Now that I have spoken from the head, please allow me a moment to speak from the heart.

Gentlemen, we elected you to be our leaders. I've always heard that the most important quality of a leader is Integrity, there are other qualities but integrity is most important. To me, one of the most important aspects of a leader's integrity is his or her insistence on conforming to the same rules as everyone else.

Mr. Chairman, I understand your committee is charged with reviewing and making recommendations to all the retirement systems. If you are to recommend changes to any of the systems, may I suggest that the first change be to fold the General Assembly system into the SCRS. That way we are all subject to the same computations, the same calculations, the same rules.

Mr. Chairman, Senators, thank you for your consideration, thank you for the opportunity to have this discussion, and thank you for your service to South Carolina.

Please have a safe trip home.

Retirement Hearing
Madren Center, Clemson, SC
October 5, 2011

My Official Statement to the Hearing Legislators:

In 2004 I had to retire due to physical problems. At retirement I am to receive 51% of my salary averaged over the top three highest years. I am now on a fixed income from the SC Retirement System for the years of service I gave the students of SC. As a professional educator, my contract with the State of South Carolina promised me a "decent" income from working 30+ years? The COLAs were also part of THAT promise.

You are NOW considering cutting the COLAs for retirees. What a crock!! I guess you have decided that the public school teachers don't need to live a "decent life" in retirement. I'm on a fixed income. It is FIXED by the State of South Carolina and by the retirement system, by way of the legislators and their policies. The COLAs are the only way we are able to POSSIBLY afford to buy groceries, clothing, pay the mortgage and all the other necessary monetary requirements. The cost of living continues to increase.

According to the figures I have received, the return on investments for the Retirement System for the year 2010 was 14.6% and for this year, the return is 18.4%. The Retirement System is sound for another 50-60 years and can fully operate without any changes for this time period.

Let's look at the TERI program. It is revenue neutral. Initially there was a flaw in the program, but it was corrected. Help me to understand HOW the TERI program is causing a financial problem!

Now, let's look at the unfunded liability. This could be a problem, but not every state employee or public school teacher will retire on the same day. You will not have to pay out all the money at one time. Why are there legislators who are predicting a doomsday event IF this were to happen? It won't and you know it!

My request is to leave the retirement system alone. Leave the COLAs alone. Monitor and make adjustments where needed with the investments. Leave the revenue neutral TERI program alone.

Mary Ann Bloch, PROUD RETIRED PUBLIC SCHOOL EMPLOYEE
108 Cardinal Woods Way
Easley, SC 29642
864-855-9351

From:	Bob Botsch
To:	Whitney Moon
Subject:	Printed comments for the Aiken Tech Hearing on Wednesday night
Date:	Monday, October 17, 2011 11:16:00 PM

Dear Ms. Moon:

Though I will be unable to come to the hearing because I will be teaching an intro to politics class that evening, I hope that you will be able to post the following brief comments in the record as written testimony. I certainly understand if this is not possible under the rules.

Sincerely,
Bob Botsch, Professor of Political Science, USC Aiken

In 1978 I faced a difficult decision: to move to a new small public university in a state with a rather poor educational reputation or to go to a more established school in a state with better rankings. I chose to come to USC Aiken for several reasons. USC Aiken would provide the chance to work with bright and ambitious young educators build a university that might improve the reputation of a Southern state that had long lagged behind. One important factor in that decision was the knowledge that the state had a reasonable defined benefits pension system that pretty well kept pace with the high inflation that sometime hits the economy. Later I was told that the faculty at Appalachian State University were disappointed that I did not choose them. Financially they would have been the better choice, but I liked the challenge here better.

I do not regret that choice. I did get to play a small role in helping build USC Aiken into the number one small undergraduate public university in the South—a position that it has held for a number of years now, according to the rankings in US News and World Report.

And now the leaders of this state are considering gutting the pension system that allowed me to make the choice to come to USC Aiken without placing the financial security of my family at great risk. Unfortunately, some leaders in this state have too often taken a short term view and failed to make necessary investments to attract and keep the best and the brightest in this state. That failure of political will has, over generations, led many brilliant people to "vote with their feet" and leave the state—producing a well-chronicled brain drain. Catching up to surrounding states requires that we not only keep our own best, but attract the best from across the country.

I will be retiring in a few years. While I will survive, I worry about others. I especially worry about the brilliant and energetic young educators who in 2018 may be facing that same choice I made in 1978. Will they come to a state with a weak retirement system, or will they go to other states with a system that promises a larger measure of financial security for their families?

Weakening our defined benefits system is about far more than just the self-interest of state employees. It is about whether this state will have a chance to catch up or exacerbate the brain drain that has long held South Carolina back.

Robert E. Botsch
Professor of Political Science, USC Aiken
Carolina Trustee Professor
Mary Grew Chair in American Studies
USC System Professor of the Year, 1988
Carnegie Foundation Award for a top ten professor in the US, 1988

Jane Page Thompson, 240 Knox Ave. Aiken-
Senators, Thank you for the opportunity to address you about the State Pension Plan Unfunded Liabilities.

I am NOT a Banker or Stock Broker, but as a 40 something investor with a personal retirement fund, an independent contractor without matching funds from an employer and a private Health Insurance policy payer– I think it is time for government employees and elected officials to feel, face and comprehend the issues I, as a small business person adjust for everyday.

The Kellogg School Of Management 2010 report for Public and Private investment standards assert that:

- **Healthcare costs will rise,**
- **Average life expectancy will rise and**
- **With 51% of the population of South Carolina being female and the percentage of female employees has gone from 19-22% in the past 3 years that rate will rise, too.**

All of these are factors putting pressure on your Pension Fund and Benefit assumptions.

Other pressures contributing to this shortfall are:

- **The rates governments pay for Investment Services are a third, too high when compared to Private Standards and fees.**
- **The propensity for Government investment to be in Equities which carry a higher risk which is a gamble with tax dollars and pension funds and remember gambling is not legal in South Carolina; cause greater losses over the long run and**
- **The recommendation that salaries can rise to accommodate an increase in both employee and employer contributions to address the mismanagement are unrealistic in light of the impending double digit recession.**

For GRS in their September Report to you to suggest such an aggressive salary increase fix to this problem is a bureaucratic solution - not a logical nor practical solution to fix this problem; and you Gentleman are looking for the logical and practical answer.

The American Legislative Exchange Council published a report on State Government Unfunded Liabilities in Pension Plans based on CAFR's and in 2009 they reported South Carolina with only 9.2 Billion, today the actual figures are near double that at 19 Billion.

You know why:

- **Government Assumptions of Healthcare costs are Below Actual Inflation Rates**
- **Actuarial Tables and Assumptions have not been adjusted to account for extended life expectancies and**
- **The rate of return assumed on the investments is too high**

You also know how to fix it:

- **Reduce the Return Assumption to 6.8%**
- **Cap the Brokerage Handling fees at 2%**
- **Adjust the COLA to 2.2%**
- **Amortize at 28 years, not 30 years**
- **Hires since 2005, all new hires or job transfers from one agency to another will exchange from the Defined Benefit Plan to a Defined Contribution Plan.**

Other states have successfully addressed their unfunded liabilities within the last 6 years by switching from A Define Benefits plan to a Defined Contribution plan.

For South Carolina this change is not an idea or possibility it must be an imperative.
Idaho reduced their Unfunded Liability by 92.8% in 4 Budget Cycles with just changing from Defined– Benefits to Defined Contribution plan.

States like Iowa and Virginia have exchanged their Defined Benefits to Defined Contribution plans in the last 3 years have seen their divergence in Unfunded Liabilities extended by double that in years and estimates show that in 3 more years the issue will resolve based on new realistic adjusted assumptions and conservative expectations.

As elected officials you are concerned with not only those in the system now, those entering the system in the next 10 years but with those young people starting out. Well, let me assure you that something is better than nothing. People in the system since 2005 have been hearing about the issues and will accept a minor loss now to ensure a solid plan in 2033.

In 1987, my economics professor warned my class that when we were 40 years old Medicare would be failing, Social Security would be bankrupt and our Pension Plans from Corporations depleted by fees and risk tolerant investors. Was he Clairvoyant, no but he was a realistic data miner, statistician with a long economic view.

He also taught us the concept of short term pain for long term gain and that is the attitude South Carolina needs to take in order to fix this Unfunded Liability without raising taxes on those of us in small business that have not chosen the path of Government or Corporate vocation, but have toiled in our Small Businesses for all we can.

The solution is clear - the steps are easy, although painful to some:

1. Reduce the Return Assumption to 6.8%
2. Cap the Brokerage Handling fees at 2%
3. Adjust the COLA to 2.2%
4. Amortize at 28 years, not 30 years
5. Hires since 2005, all new hires or job transfers from one agency to another will exchange from the Defined Benefit Plan to a Defined Contribution Plan.

While not as catchy as 999, this 5 Step suggestion is conservative and aggressive. Thank you.

From:	Angie Stoner
To:	Whitney Moon
Subject:	FW: SC Retirement Systems Comment
Date:	Tuesday, October 18, 2011 11:06:09 AM

From: Paul Corbeil [mailto:paulcorbeil@bellsouth.net]
Sent: Thursday, October 06, 2011 3:36 PM
To: baumgarn@bellsouth.net
Cc: rcroom@scac.sc
Subject: SC Retirement Systems Comment

Gentlemen:

Let me first thank you for a very informative, well done public meeting. The speakers were obviously very knowledgeable and provided just the right amount of information on what can be a very complex issue. Also, I strongly support your intent to use a comprehensive, hard nosed approach to get it right and not just put patches on the symptoms. Everything mentioned in SCAC's Sept. 28 notice of the meeting should remain on the table.

Following are some comments I'd like to share, many of which might be applicable to the overall national unfunded liability problem, so I've tried to list them form generic to more specific:

1. Since this problem exists on the federal, state and local level, and involves both retirement and health care benefits, what existing or pending legislation is there to require local solutions? What is that timeline? One concern I have is that when, not if, we get the state system(s) corrected at some cost, will we be able to afford other required fixes along with the Washington unknowns?

2. I think it's time to seriously challenge a long standing assumption that public employees should have more generous benefits since their wages are less than the private sector. We're going to be doing that at our county level so that overall we're competitive on total compensation, but not digging a deeper and deeper future expense burden (part of Dr. Ulbrich's policy issues).

3. Does the government accounting standards board have a prescribed policy on various potential solutions?

4. Does SC regularly publish a balance sheet, and if so, does it include these unfunded liabilities? As the private sector has addressed this problem, particularly since ERISA, one part of their solution has been selling non-critical assets. Should the state consider this, i.e. real estate?

5. Number 4 could also include any upfront payments received from outsourcing of in-house services, which in itself could be a major part of the solution.

6. Is there an overall priority list of how to deal with this issue and other liabilities, such as the federal loan for SUTA?

7. Like the federal discussion issue, whatever you arrive at will be much more palatable to the public if everyone has one plan, even with different components as necessary. The current question of serving legislators collecting retirement pay in lieu of lower salaries is just the tip of the iceberg.

8. Would one big plan be more cost effective and easier to achieve and maintain actuarial soundness?

9. The argument that this is a permanent contract or promise is unrealistic, and again, has been previously addressed by the private sector, unions and courts. Please see IBM conversion(s), recent Ford/UAW agreement, etc. Why not freeze for protected group(s) and convert to defined contribution?

10. Argument that salaries have been frozen is at best naïve. Whose hasn't? For individuals, sure beats permanent layoffs and/or salary cuts.

11. An affordable solution can and should be phased in to be fair, such as Senator Graham has proposed for SS.

12. Don't we need much sounder logic for calculation of benefit payments based on today's world (again, Dr. Ulbrich)?

13. I've heard even current and recently retired teachers question TERI fairness.

14. Sorry, I missed his name, but the Economics Chair made a good case for lowering the inflation assumption. Would a historic net difference between inflation and investment return be better for at some part of calculation?

15. Especially without a DC plan, I think a good argument can be made for shifting much of the employer contribution to the EE/beneficiary.

16. Do we have the best investment team available? Is asset allocation appropriate?

Thank you for this opportunity to comment. Please don't hesitate to contact me for any clarification.

Sincerely,
Paul Corbeil
Oconee County Council- Dist. 1
864-944-0630

Please continue to leave the retirement years at 28 years for those employees already enrolled in the retirement system. For those just entering the retirement

Lynn Rogers [lRogers@marion1.k12.sc.us]

Please continue to leave the retirement years at 28 years for those employees already enrolled in the retirement system . For those just entering the retirement system they could have retirement at 30 years. Please keep those of us who have 20 years of service or above grandfathered into the 28 years retirement. Please keep us informed about your decisions.
Thanks,
Lynn Rogers
Easterling Primary Marion, SC

South Carolina Retirement System (SCRS) under unnecessary attack

I have had the opportunity to attend Senate and House hearings in Columbia on the SCRS. The SCRS is not in any immediate dire straight. I do firmly believe that the 2008/2009 economic recession is a major factor to the concerns being raised on the SCRS along with the new GSAB regulations.

As a new Retiree, I retired with promised assumptions and I look forward to a dependable source of retirement through a fiscally sound SCRS.

Therefore I briefly provide you some suggestions.

Maintain the Defined Compensation Plan and do not consider the defined contribution plan.

Stop furloughing and allowing attrition of Employees. As long as South Carolina is short on Employees, then there are less working Employees to contribute to the SCRS. Hire the needed Employees to provide South Carolinians with the needed public services, and specifically to allow Public Schools to build the future of South Carolina.*

I served on the 2008 Treasurer's Task Force and the information and discussion led us to decide to guarantee the 2% Cost of Living Adjustments (COLAs) for retirees with qualifications. Guaranteeing COLAs takes away the unfunded liability, whereas the previously "Ad Hoc" COLAs did cause an unfunded liability. We must continue to guarantee the 2% COLAs (Act 311).

Maintain the 8% Assumed Rate of Return on Investments. Investments for the Retirement Fund make up almost two-thirds of the revenue, while Employee and Employer contributions make up the rest. We all recognize that the market fluctuates. We are paying a good penny for the Investment Commission. Let them do their job.

Tax reform in South Carolina must be addressed consistently and immediately. This is another major part responsible for the financial difficulty that South Carolina finds itself. The General Assembly has shifted costs from the state to locals while limiting the local's ability to raise needed revenue. The South Carolina General Assembly needs to review past legislation such as Act 388 while overhauling the entire tax structure.

Terminate the accrual of interest on inactive accounts (a person who is no longer working for a covered Employer and is no longer receiving any benefits). Inactive accounts should be forfeited after an appropriate amount of time with corresponding warnings.

Use fair actuarial cost for purchasing years of service and attach an age formula.

Keep the 28 Year and Teacher and Employee Retention (TERI) Options. They have already reached their "high" in the amortization period, both are *somewhat* actuarially neutral. TERI participants should not be allowed to return to work, as was the original design of the program.

Allow retirees, excluding TERI participants, to return to work limiting their compensation to $60,000 within a school year/fiscal year. Working Retirees continue to pay into the system in order to stabilize the SCRS, with their final compensation remaining fixed.

Either eliminate or limit the ability of an Employee to "spike" his/her salary. Spiking allows an Employee to increase final compensation by using overtime and such to inflate his/her retirement benefit. There should be compensation for unused sick leave.

Address laws passed by the General Assembly that has allowed abuse within your section of SCRS.

I have heard a few NOT really good ideas:

1) Increase both the Employer and Employee Contribution at an additional .75% of salaries. The Employee contribution phased in over three years.

2)Limit Cost of Living Adjustments (COLA) only to retirees who are 55 or 57 years of age…or another age?

I'll end by saying that the responsibility you have as legislators is to the South Carolina public and their Employees, not to yourself nor to Party affiliation.

Thank you for the time to speak on this issue.

And remember "It's a great day in South Carolina!"

Respectfully,

Sheila C. Gallagher
Florence County Education Association-Retired

*Our public schools are doing a great job…could they be better—for sure...but that means that students would be provided all the needed resources…Specifically needed are MORE Teachers, Education Support Professionals and Administrators. Our students deserve more than fulfilling the minimum funding requirements. We need fiscal responsibility…and that means paying for our future. [Facilities vary all over the state and are actually funded under a separate set of resources issued through Bonds.]

State Retirees Association of South Carolina

P.O. Box 3601
Irmo, S.C. 29063

Gentlemen, thank you for giving us this opportunity to come before you today in this fourth and final public hearing concerning the State Retirement System. Over the past month you have received a lot of testimony from citizens, some advocating drastic changes such as a defined contribution plan for new hires. Others have advocated no changes at all, a sort of economic watchful waiting. The State Retirees Association has offered suggestions which we feel will help correct the problem of a 37 year amortization period and I have included those suggestions as an attachment to my remarks.

You have also received or will receive reams of information from the head of the State Retirement System, GRS, your own staff and other financial experts. You will be inundated with numbers and statistics and encouraged to choose or adopt those numbers that favor a particular point of view. We do not envy the task you have before you because no matter what you collectively agree upon, in the end you are affecting people's lives and that impact can be immediate and long lasting.

As retirees, we fear that changes could be made to the defined benefit plan that will alter its funding and future ability to meet its commitments without increasing taxes. We don't want to see that and neither do you. So we encourage you to be very careful about making changes that will have the unintended consequence of removing one of the legs of the three legged stool.

As retirees we are also concerned about the future of Cost of Living Adjustments and encourage taking no action that will further reduce COLAS below the 2% cap mandated by Act 311 and here's why. As you know, because of the wording in Act 311, if the assumed rate of return falls below 8%, the Act becomes null and void and reverts to the previous statute which provides for a 1% COLA which was pre-funded through increased employee/employer contributions.

While it may not appear that the loss of 1% would have a drastic impact, if we use the 2.7% GRS recommended rate of inflation, with which we do not

necessarily agree, a person receiving an annual annuity of $20,000 would see their purchasing power reduced by almost **15%** in their first ten years of retirement. If they are blessed and lucky enough to live ten more years their retirement annuity would only purchase **70%** of what it purchased on the day they retired. Clearly the loss or reduction of COLAs would have a serious negative impact on the over 100,000 retired public employees in South Carolina.

In conclusion, though you will have to rely on hard and factual information to guide your decision making, the decisions you all make will have a lasting impact on individuals. We are all hoping it is a positive impact.

Thank you once again for your time and your patience.

Wayne Bell, President
State Retirees Association of South Carolina
1675 Craig Farm Road
Lancaster, S.C. 29720
w.bell1675@yahoo.com

State Retiree's Position on the Current Retirement System Debate October 11, 2011

As the debate continues regarding the South Carolina State Retirement System's overall financial health and its ability to meet future obligations, it has been suggested by several political leaders that all parties need to be prepared to give something up. As retirees we have always been committed and willing to do our share for the common good. Unfortunately this particular challenge finds us in a position of having little to offer that does not have major consequences for retirees. Since we have retired we can only contribute by reducing our monthly retirement check, reduce or eliminate annual Cost of Living Adjustments (COLAs), or die. We mention the third option simply because it is the only one that will probably not involve litigation.

While we present this somewhat tongue in cheek, the fact is retirees have little we can bring to the proverbial table. We feel somewhat awkward presenting recommendations that affect other people and we understand there is certain to be resentment that we have got ours and now want to take away hard earned benefits from active workers. But the reality is changes to benefits are probably necessary if we are to keep the defined benefit plan intact. Failure to adjust to the current economic and political climate could very well spell its dismantling.

Therefore, as good citizens we recommend the following actions be taken or changes considered to both reduce the current unfunded liability and to place the Retirement System on sound financial footing.

A. The Budget and Control Board should increase the employer contribution by .92% as recommended by the previous actuarial firm of Cavanaugh and McDonald. This action alone should reduce the unfunded liability to 30 years or less.

B. The issue of 28 year retirement should be revisited particularly in light of the fact that it is not funded.

C. Limit Cost of Living Adjustments only to retirees who are 55 (or 57) years of age or older.

D. Pass legislation that limits spiking, the practice through use of overtime or washing proceeds from a second job through a covered employer to increase final salary thus inflating the retirement benefit.

E. Terminate the accrual of interest (now 4%) on inactive accounts (people receiving no benefit and no longer working for a covered employer).

F. Use fair actuarial cost for purchasing years of service.

G. Adjust the benefit associated with early (25 year in SCRS) retirement to be actuarially neutral.

H. Maintain the current 8% assumed rate of return on investments.

There may be other options available the General Assembly may wish to consider but these are the ones we feel will have a positive impact on the Unfunded Liability with minimal disruption to the life plans of teachers and public employees.

Re: Florence-Darlington Agenda 10/26
Earl Rumble [earlr@darlington.k12.sc.us]
Sent: Wed 10/26/2011 11:37 AM
To: Whitney Moon

Ms. Whitney here is my question:

Why is it that you have to work the last 5 years without being laid-off to qualify for the state medical, and then when called back your last 5 years have to start all over again? That is discriminatory against a laid-off person.

From:	Wendy Howard
To:	Whitney Moon
Subject:	South Carolina State Retirement System
Date:	Thursday, November 03, 2011 8:56:34 AM

Ms. Moon,

I was out of town when the Town Hall Mtg. was held here at Clemson and have since been out of town again. But I wanted to take the opportunity to weigh in on the SC Retirement System debate.

I feel very strongly that whatever changes are made in terms of required years of service should not apply to vested current employees. When I started working for the State of South Carolina over 19 years ago, there was no other choice but to participate in the SC Retirement System. I have been a loyal and dedicated employee, paying into the system with the expressed intention of retiring after 28 years of service. To change the requirements of this system after I have completed over 2/3 of the requirement is unconscionable. And should not be any more acceptable to the SC Senate than if employees had the power to say they were going to retire 2 years early with full benefits. The State entered into an agreement with its employees and should uphold that agreement and trust.

I will also be sending comments to my State legislatures.

Thank you,
Wynona "Wendy" Howard

DATE: November 8, 2011

TO: The SC Senate Subcommittee on Retirement

FROM: Mr. Stephen D. Wright

SUBJECT: Input on SC Retirement Change Recommendations

The following submission is respectfully forwarded for consideration.

In January 2009 I retired from the City of Charleston Police Department after over 29 years of service.

The following week, I became an employee of the Charleston Housing Authority in a civilian capacity as their Security Director. Prior to this job change, both the Housing Authority's HR Manager and I contacted the SC Retirement Systems Office and inquired whether I would be required to make contributions to the plan since I was fully retiring from law enforcement. The Housing Authority several years ago voluntarily joined the SC Retirement Program. On both separate occasions, we were told that I would not since I would no longer be a full time police officer. We were told that I would begin as a new participant under the civilian arm of the program. Three months after the hiring, I began unexpectedly having this amount taken out of my check which was contrary to what we were told. We called again and the Retirement Office reversed their previous position and stated that since the Housing Authority was a part of the System, I would be required to make the contribution whether I was fully retired and out of law enforcement or not. Under this concept, I do not receive any additional retirement benefit. Of course, since then we have appealed and researched with no positive response on this issue from them.

The penalization of retirees of the program who return to work is an unfair one. It tremendously impacts law enforcement officers who have placed their lives in peril for 25 years or more. It sends a negative message that it is more profitable to exit the SC Government workforce than to remain. It is a privilege to return to work in any capacity, however the community also benefits from a veteran employee. Nowhere else in our government including the military do we place such a statement of taxation for continuing to work. The retirement system states that the money charged to return to work is put back into the retirees benefit pay but has refused to put that in writing or document that in the annual account statement which is issued. I have also never experienced such a return in my allotted monthly pension.

Recommendation #1

That employees who retire from the Police Retirement Plan are allowed to return to work and charged the same rate of 6.5% for a maximum of five years.

Recommendation #2

That employees who retire from the Police Retirement Plan and go to any government agency under the SC Retirement System in a new civilian and non-law enforcement certified capacity be allowed to begin as a new participant in the retirement program.

Recommendation #3

That all employees receive an annual statement describing all disbursements, withdrawals, and deposits made by a participant.

Recommendation #4

That an internal appeals arm in the SC Retirement System be implemented giving employees the right to be heard when disputes occur involving disputed decisions rendered.

sdw

From:	Peden
To:	Whitney Moon
Subject:	retirement
Date:	Monday, November 07, 2011 5:16:37 PM

Please pass on . The folks around here are very upset about the members of the GA getting full retirement while serving. They probably need too change that.Peden McLeod

From: Frances McCullough
To: Whitney Moon
Subject: Retirement subcommittee comment
Date: Monday, November 07, 2011 2:56:03 PM

Ms. Moon, I am unable to attend the public hearing on November 8 regarding the state retirement system. A a retiree however, I would like to point out to the commitee:

State employees **ARE TAXPAYERS TOO!!** Every check I drew had state income taxes witheld, so I guess I really contributed to my retirement benefit **TWICE**. I also **pay state taxes on my retirement benefit, so I am continuing to contribute**. As you discuss ways to improve and fund the retirement system, please be sure to acknowledge that state employees **DO CARRY THEIR SHARE OF THE WEIGHT to fund the plan, individually and as tax payers.**

Thank you.

From: marchehn@mindspring.com
To: Whitney Moon
Subject: RE:
Date: Monday, November 07, 2011 12:29:18 PM

Whitney,
I would like the Committee to be aware of my unique situation. I was the Director of Berkeley County Water and Sanittion Authority and decided to TERI with 33 years in April, 2005. Unfortunately, due to Chemical exposure, I was forced to retire in July, 2005 before I could save five years of TERI Funds. I tried to take disability retirement; but, I could ot afford the Appeal. So, I am out 5 years of TERI funds because someone was reckless in their handling of Sulfa chemicals. I cannot get disablity even though I cannot work near H2S. And, now will not get the COLA I was promised.

SC Administrative Law Court Decisions

CAPTION:
J. Marc Hehn vs. SCBCB

AGENCY:
South Carolina Budget and Control Board

PARTIES:
Petitioners:
J. Marc Hehn

Respondents:
South Carolina Budget and Control Board, South Carolina Retirement Systems

DOCKET NUMBER:
06-ALJ-30-0251-CC

APPEARANCES:
n/a

ORDERS:

CONSENT ORDER OF DISMISSAL WITH PREJUDICE

THIS MATTER COMES BEFORE THE COURT upon motion of the Petitioner to dismiss his disability claim with prejudice. Petitioner has advised the court that after further consideration he has decided not to pursue his disability claim. Accordingly, Petitioner has asked to court to dismiss his disability claim with prejudice, but to also specify that such dismissal in no way affects Petitioner's rights to his pension monies and rights otherwise. The Respondent consents to the Petitioner's motion and agrees that this dismissal shall not affect the Petitioner's rights and entitlements in any way except as to his disability claim. Accordingly for good cause shown, the matter *sub judice* is dismissed with prejudice pursuant to S.C.R.Civ.P. 41(a)(2).

WHEREFORE, it is ORDERED, ADJUDGED and DECREEED that the matter *sub judice* is dismissed with prejudice pursuant to S.C.R.Civ.P. 41(a)(2).

AND, IT IS SO ORDERED.

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CAROLYN C. MATTHEWS
SC Administrative Law Judge
November 27, 2006
Columbia, South Carolina

I SO MOVE: I CONSENT:

Robert E. Hoskins, Esquire Kelly Rainsford, Esquire
Foster Law Firm, L.L.P. State Budget and Control Board
Attorneys for Petitioner Attorneys for Respondent

Marc Hehn

-----Original Message-----
From: Whitney Moon
Sent: Nov 7, 2011 8:44 AM
To: 'Marc Hehn'
Subject: RE:

Mr. Hehn,

Sorry you will not be able to attend. If you e-mail me your written comments I will post your comments on the Committee Information page (link below) and get your comments to the senators. The senators on the Special Retirement Subcommittee is co-chaired by Sen. Alexander and Sen. Ryberg, Senators Setzler, Leventis, Verdin, and Jackson. Please let me know if you need anything else.

http://www.scstatehouse.gov/committeeinfo/SenateFinanceSpecialRetirementSubcommittee/sfinretiresubcomm.php

Sincerely,
Whitney

From: Marc Hehn [mailto:marchehn@mindspring.com]
Sent: Monday, November 07, 2011 7:04 AM
To: Whitney Moon
Subject:

Whitney,
I would like very much to testify tomorrow. Unfortunately, tomorrow's public hearing was scheduled on a Municipal Election Day and I am unable to attend. Will the Committee accept written comments and who should that be addressed to?
Marc Hehn

S. Travis Pritchett
709 Marlin Lane
Charleston, SC 29412

Statement before Senate Finance Subcommittee on Retirement

November 8, 2011
Trident Technical College
Charleston, SC

Honorable Senators Alexander, Ryberg, and others, I want to thank you for being in the low-country tonight. During hearings leading up to retirement legislation in 2005 and 2008, I offered extensive written recommendations. This year, I have intentionally minimized my involvement and had intended not to share any views until I saw the announcement that you are taking time to be in my home area. My remarks will be relatively brief. I speak as a retiree in the South Carolina Retirement System.

I am a Virginia native who, in 1973, was attracted to the Finance and Insurance faculty at what is now named the Moore School of Business at the University of South Carolina (USC) in Columbia. At the time, the SCRS had features similar to the Virginia Retirement System in which I participated. Consequently, the retirement plan was acceptable and was not a deciding factor in this career move.

In later years, features of the SCRS did play a significant role in career decisions to remain at the University of South Carolina. I entertained offers of three endowed chairs over the years: at Ohio State University in 1981, at Georgia State University in 1988, and at Indiana University in 1995. Salary offers were as much as 40% higher than my pay at the Moore School. Because my specialties include finance and retirement plans (as part of broader interests in employee benefits and financial planning), each time, I calculated the present value of expected retirement benefits under alternative retirement plans and made pensions part of the financial packages being compared. In quantifying projected benefits under the SCRS, each time, I assumed 3% COLAs during retirement. Given my understanding of retirement plans, I was aware that COLAs were not guaranteed in the South Carolina plan, yet South Carolina's history of paying COLAs led me to include them in the calculation. And, benefit calculations with COLAs are far more than those without. The point here is that—in making important career decisions--I relied on the continued existence of significant COLAs in the SCRS. I looked at them as part of my USC compensation. The higher salaries elsewhere were less alluring after the comparative analysis of retirement plans was built into the analysis. (Indiana University offers a defined contribution plan with a 12% employer contribution; Ohio State and Georgia State offered state defined benefit plans. Negative aspects of vesting in moving from one defined benefit plan to another were also major influences on expected benefits.)

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When faced with career decisions, I doubt the typical state employee in South Carolina has made explicit actuarial valuations of pension benefits as I did. Yet, it seems well known that many have served the State of South Carolina with the expectation of significant COLAs being part of their retirement benefits. This number includes both active and retired members of the retirement systems.

A 1% COLA going forward would not be burdensome for my family because I had the discretionary income and foresight to begin individual contributions to a separate tax-deferred defined contribution plan at age 31 and accumulated a substantial sum there. Other assets are also part of my estate. This is likely the case for most higher income members of the Systems. Therefore, higher income earners are not my concern tonight, or why I have volunteered time as the retiree representative on the Investment Commission since 2005. However, I have great empathy for lower-income workers and retirees who have not had the same discretionary income and need to rely more heavily on the SCRS average benefit of approximately $19,000, or less for many below this average.

Life expectancy at age 65, based on an average of life expectancies in 2010 for males and females (in general employees, public school employees, and police categories) rounds to 20 years. This figure means that half of those retiring at age 65 are expected to be dead at age 85; the other half will live longer, some even for 30 years or more. The impact of inflation on retirement income that is not adequately adjusted by COLAs over long periods is deadly in a financial sense. For example, assume (1) a 65 year old retires today with a $20,000 benefit, (2) future inflation averages the conservative 2.75% estimate of GRS, and (3) a 1% COLA is granted by the SCRS. Under these assumptions, at age 85, the retiree's current $20,000 benefit is worth around $14,000 in today's dollars. By age 95, the retirement benefit would only buy approximately as much as $10,000 now. Of course the negative impact on those in systems without any COLAs would be even greater. A 2% COLA would bring the age 85 benefit up to around $17,000 and that at age 95 to approximately $16,000. Declines are still substantial but more manageable. The impact of inflation and COLAs at 2% has, in my opinion, been shared equitably by retirees and their plans.

My appeal is that your proposed legislation include a provision for guaranteed COLAs greater than 1%. This raises the question of how to pay for an increase in the current 1% guarantee. The additional 1% increase in the guaranteed rate as included in Act 153 resulted in essentially no impact on the System's unfunded liability by, concurrently, increasing the assumed rate of investment return from 7.25% to 8.00%. Last week's Budget and Control Board action to reduce the assumed rate to 7.50% leaves 0.25% of the 2008 increase. It would seem this remaining 0.25%, relative to the old 7.25% assumption, still leaves financing for a COLA somewhere in the neighborhood of 1.33%. So, the question becomes how to move financing closer to 2%.

This is a challenge because it is legally and ethically difficult to reduce benefits for active plan participants on which actuarial costs and valuations are based. Two possibly acceptable

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plan revisions come to mind with desirable impacts on plan finances: (1) require minimum ages—such as 55 or 60—for any COLAs above the 1% guarantee in the SCRS and (2) explore the legal implications of additional design changes applying to non-vested plan participants. I am not an attorney and have no valid opinion of the feasibility of these suggestions.

As you are well aware, defined benefit plan changes applicable to new plan participants (i.e., new employees) are feasible and necessary. Going back to my presentations in 2005 and 2008, I have—with respect to the SCRS—recommended:

- a return to 30 years of service before qualifying for full benefits
- accompanying this with a minimum retirement age such as 55 or higher
- increasing normal retirement age (without 30 years of service) above 65, in recognition of improvements in life expectancy, and
- repeal of TERI to discourage early retirement and accompanying long average payout periods

Other changes that, in my opinion, deserve your consideration include:

- significant tightening of the return to work provisions for state retirees because such provisions encourage early retirement with the consequence of longer payout periods for the retirement system
- change the benefit formula provision of the highest 12 consecutive quarters of income to 20 quarters
- use fair actuarial costs for the purchase of outside service
- use fair actuarial cost factors in calculating early retirement benefits, and
- terminate the accrual of interest on inactive accounts

Thank you.

CLEMSON
UNIVERSITY

November 5, 2011

Senate Finance Special Retirement Subcommittee
S.C. General Assembly

Dear Committee Members:

As I write to you on Guy Fawkes day and in the specter of the collapse of the Greek economy, one is forced to take a somber view on the problems that you committee members face. While the rebellion in which Fawkes was involved largely involved religion, there were still strong overtones of fiscal policy, especially differential taxation. The mess in Greece is all fiscal and mostly differential taxation as well.

I will make the argument that the problem faced by the S.C. Retirement System is also one of differential taxation.

Our retirement system is in fiscal crisis almost solely due to one fact: a decade ago, the full-vesting retirement age was lowered from 30 years of service to 28 years. On the face of it, this seems like an inconsequential change, but the actuarial impact is enormous. In simple terms, this move instantly gave two years of retirement salary to twenty-eight cohorts. This was a pure and simple gift to current employees *at the expense of retired employees*. This was differential taxation.

I am sure that at the time everyone imagined that it would work out without crisis. Many factors suggested such hope, among other things, a vibrant economy in the 1990s and a change in the investment options for the system. Of course, these hopes were dashed by a lack-luster economy in the early 2000s and then the recession of 2008. Nonetheless, we should not overlook the fundamental cause of the problem that we now face.

The retirement system is in crisis because of wealth redistribution from one group to another. This is the same problem that has caused the fiscal crises in Greece, Italy, Illinois, California, and even the United States. Politicians promise future rewards to some individuals in society without fiscal provision for doing so. To put a fine point on it, my estimate is that when the law was changed to give away 2 years of early retirement, it instantly put the retirement system in default by $6 billion. Over the last 10 years, this deficit has grown to at least $10 billion.

However, the problem is not just to determine how Humpty-Dumpty fell and broke, but to determine what is the best way to put him back together. The obvious answer to me is to make people retiring with 28 years of benefits accept lower benefits than those retiring with 30 years. Furthermore, a simple way to achieve this is to make current employees choose between a 30 year plan and a 28 year plan in which, if they choose 28 years, they have to pay a higher retirement contribution rate when they are working. This will not be perfect because we are ten years into the problem, but it will equitably undo the fundamental problem.

I wish the committee good luck in addressing this problem.

Sincerely,

Michael T. Maloney
Emeritus Professor of Economics

THE JOHN E. WALKER DEPARTMENT OF ECONOMICS
College of Business & Behavioral Science 222 Sirrine Hall Box 341309 Clemson, SC 29634-1309
864.656.3481 FAX 864.656.4192

From: Carullo, Susan Hyler
To: Whitney Moon
Subject: Retirement question/comment
Date: Tuesday, November 08, 2011 3:45:42 PM

Hi Whitney,

Thank you for responding to Dee's question. We certainly would like to provide some comments and offer our assistance in any way possible. As you may know, MUSC is the largest employer in the Charleston area with over 11,000 employees, including the hospital. Our Benefits Managers will certainly assist and provide input should you need additional comments from HR practitioners.

Below is one question that has come up a few times recently:

Question/Comment:

As this process moves forward, current employees may become concerned that changes will impact their benefits although they may already be vested or have significant years of service in the SCRS. We assume that changes in the SCRS will impact future employees or employees that are not vested in the SCRS (less than five years of service). This should be a key consideration in any revisions. Can this be clarified?

Thank you for your consideration. We do appreciate your time and energy devoted to this initiative.

Susan Carullo

MUSC Director of Human Resources

From: Whitney Moon [mailto:WhitneyMoon@scsenate.gov]
Sent: Tuesday, November 08, 2011 11:49 AM
To: Crawford, Dee
Subject: RE: Registering for Comments

Ms. Crawford,

It is if you would like to stand up and make a public comment to the members of the retirement subcommittee at the hearing at Trident Tech at 5:00pm. The way it works is if you would like to make a comment I will place your name on the list and your name will be called to speak. If you would not like to speak and would like to make a comment you may e-mail me your comments and I will post on the Committee Information page and give the comments to the senators. Please let me know if you have any questions.

Sincerely,

Whitney Moon

From: Horlbeck, Peter M
To: Whitney Moon
Subject: FW: SC Retirement System
Date: Wednesday, November 09, 2011 7:26:09 AM

Whitney –

I am resending the email below. I sent it to the wrong address.

Pete

From: Horlbeck, Peter M
Sent: Tuesday, November 08, 2011 12:30 PM
To: 'whitneymoon@scsenate.com'
Subject: SC Retirement System

To Whom It May Concern –

I cannot attend the subcommittee meeting to be held at Trident Tech tonight so I thought I would email in my comments.

I understand the state of the retirement system because I have closely followed the situation over the past few years. I have almost 25 years of service with the retirement system.

I respectfully request that every effort be made to phase in changes to the retirement system. I made a number of financial decisions based on the current structure of the retirement system. It is too late to change those decisions because I am too far along in my working career. I do not mind paying more into the system on a personal level, but I would greatly appreciate a phased approach to major changes. Some examples - If the 28 year retirement option must be eliminated or if the cost to purchase service time must increase, please give those of us close to retirement a chance to use the current options before they change or expire.

I understand changes are needed, but please do not make them effective right from the moment they are approved.

A word of caution – I understand that some are considering changing the retirement structure so that the state no longer provides a defined benefit. Before you do this, please consider that a number of working folks do not understand how to manage their personal finances in a safe and productive way. I am concerned that they will not do well under a different system especially during times when the economy does poorly.

Thanks for consideration of my thoughts.

Pete Horlbeck