

It is an honor to be here today. As a “full time, salaried officer of the State, being here in Columbia is what I do. It is what I am paid to do so this is a normal part of my day. But as citizen legislators...as part time officials that have business, family and other obligations in other parts of the State, your presence here shows your significant commitment to researching, discussing and possibly renovating one of our most important resources...the SC Retirement System. For that commitment I commend you, and I will pray for your success.

My comments today might be a bit different than you suspect. I will be brief. I am not armed with charts, numbers and conclusions. You will no doubt be overwhelmed with those things and there is no reason I should add to that. As this process moves forward many of the known facts today will change, or be seen in a different light, with a different emphasis...thereby changing our perspective on them. The learning curve for everyone in this process is great; the understanding curve is even greater.

I would like to speak to the process. To the over-arching considerations that must guide us through what is clearly the most important issue of our time.

- + The unfunded liability is the state’s largest debt. It dwarfs our other debts and it is growing.
- + The Retirement System is a massive program that involves approximately 521,000 people. (That is almost 12% of our population...and virtually every family in our state)

+ Due to new standards in disclosure relating to our capital market efforts, this debt, and thereby the Retirement System, will become a far greater determinant in our ability to borrow money on everything from college dormitories to roads and schools. Our current triple A status is under watch by the rating agencies, and with the problems surrounding our Retirement System (and also the Department of Transportation) we must be ever mindful of the seriousness of this situation.

+ We do ourselves no service by overstating our liabilities. In fact, we do just the opposite. An exuberant estimate of those liabilities requires us to fund, at a higher rate, those debts. That is cash out of our pockets now, and that cash probably has better uses. But the converse is true...an optimistic assumption of great returns and low payouts would be equally disastrous. What we must require, is a sober and non-political evaluation of this problem, and an equally sober and non-political solution.

+ Our work needs to be transparent. A truly transparent effort will bring in much greater participation by the stakeholders and that insures accountability. Greater participation ensures that this process cannot be hijacked by politicians with agendas, special interest groups with heightened awareness...or plain old ineptitude.

- Taxpayers, acting as the State in the role of the employer, retirees, active employees and even future employees have a substantial stake in the decisions we make. The decisions will shape the future of the retirement system. These groups should be actively drawn into the process, and their concerns addressed. Without their participation the process is doomed.

- This is not a matter unique to South Carolina. It is a nationwide issue that has already has seen many states take action.
- In 2010 and thus far in 2011, 39 of 50 states have enacted significant legislation to at least one of their respective retirement systems.
- Those alterations have been principally changes to:
 - Eligibility for retirement benefits: these changes generally apply only to new employees; it increases retirement age closer to 65, increases service credit for early retirement, and increases the vesting period.
 - Employee contributions: 26 states acted in 2010/2011 to increase employee contributions and lower state contributions, representing a move toward equalizing employer and employee contributions.
 - 16 states during this period lengthened the period over which the final average salary is calculated.
 - 17 states reduced automatic post retirement COLA's, most often applying only to new employees.

The actuaries have done great deal of work, but their assumptions must be evaluated by our State's leaders. We cannot have the retirement system driven completely by academics working in a vacuum. There is a

role for our State's leadership...and that role must be transparent. Leadership must be willing to "sign their names on the dotted line" to highlight their participation in charting our course forward.

The actuaries are now working on the next part of their assignment, that is, what are the structural recommendations for recasting the nature of the retirement system and what are the options for financing the future of the retirement system. After those recommendations are returned to us, then the real work of balancing priorities and making hard decisions will return to our leadership.

The Treasurer's office stands ready to assume its rightful position in these reforms. The STO does serious work and as State Treasurer I am in the unique position of being the elected official charged with being the sole custodian of the states treasury, and as a member of the B & C Board I view the system as a trustee, and as a member of the Investment Commission I view the system as a fiduciary...indeed, my world is interwoven with the Retirement system.

I want to thank you for the opportunity to speak with you today. I happy to answer any question you might have, and would be please to receive any suggestion you might have for me.

