First of all, I would like to introduce the South Carolina State Employees Association President, Ms. Frances Feagin. Ms. Feagin is from Florence and has worked for the State of Department of Mental Health for a number of years, just how long - she will have to share that number with you personally - but suffice it to say - she has a wealth of experience and knowledge that has benefited the State Employees Association and me personally. Ms. Feagin would you please stand.

Gentlemen Ms. Feagin and others are representative of the state employees and retirees who will ultimately be affected by any proposed changes to the state's retirement system. I would like to thank them for their dedication, taking time and making a sacrifice to be here today.

Let me start by saying, too often, decisions are made in a vacuum and without a real handle on the lives these forums and processes in the end affect. From our member's perspective, it is too early in the research and evaluation process to come to any conclusive findings. Therefore, my comments today are not intended to offer any recommendations, but rather my purpose today is to define our association's priorities as related to key plan components As recently as a few days ago, revelations about the current system have continued to emerge that impact the decision making process and deserve serious consideration.

It appears from most media reports, a proposal will be developed by this committee before the General Assembly reconvenes in January. A heightened sense of urgency has developed as a result of certain assumptions that tend to present only worst case scenarios.

One assumption is based on a scenario in which every eligible employee were to retire at the same time. This is not a realistic scenario. In fact, this is the exact polar opposite of the premise on which retirement systems and other systems of insurance operate. The premise being that by consolidating the resources of the whole, the risk- in this case retirement - is effectively absorbed and mediated by the group to provide for individual retirement pensions.

The fact is if we do absolutely nothing to modify the current plan, it would take several years before any adverse outcome was realized. A fact substantiated even by the current actuary report.

Many of you are aware, the State Employees Association, shares a relevant and common history with the state retirement system. The SCSEA was originally organized in 1943 by a group of 20 employees. This small group of employees were exceptionally astute and forward thinkers who recognized the need and importance of establishing a system of retirement for all state workers. Through hard work and what I would describe as unprecedented ingenuity, their efforts successfully established the South Carolina Retirement System through an amendment to the State Constitution in 1945
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At this juncture, and as a part of the evaluation process, it is important to take into account, the current financial plight of state employees and retirees. Over the past ten years, the CPI has increased 27.9%. During this same period, state employees received Cost of Living increases totaling 17%, a difference of nearly 11%. The economic impact is even more significant given that state employees have not received a COLA since

2007 or a merit increase since 2001.

These factors when coupled with furloughs (which are essentially pay cuts), potential changes to the retirement system that could reduce benefits and increase contributions, and the most recent 4.5% increase in employee health insurance, is back breaking for most state employees and retirees.

The rub for state employees comes in comparison to the state's health insurer. Blue Cross Blue Shield of South Carolina has generated millions of dollars in profits over the past five years. In 2010 alone, the company's profits rose 46% to about $96 million. Total capital increased from $1.5 billion in 2009 to nearly $1.7 billion in 2010. In the past year, nine members of the company's board of directors more than doubled their reported salaries. Meanwhile, the ranks of the nation's poor swelled to a record 46.2 million which means nearly 1 in 6 Americans now live in poverty.

Today, the state retirement system has approximately 530,000 plan participants. The industry standard for a public pension unfunded liability is 30 years. The state system has an unfunded liability of 37.6 years. Clearly not where we want to be, but it is important to keep the problem in perspective. As the overall economy recovers, investment returns and funding levels will continue to improve. Public pension funds have already experienced a robust recovery from the recent market downturn. The state retirement system reported returns of 14.6% in FY2010 and an unprecedented return of 18.4% in FY2011.

The retirement system is not at a point of no return as some suggest. Public pensions generally account for less than 4% of state's budgetary expenditures. Conservative measures alone will strengthen the current plan to meet or even exceed industry standards. Eliminating the state's pension system, as proposed again last week by former Governor Mark Sanford, is an extreme reaction that creates panic and crisis conditions.

We agree, as a matter of practice, retirement plans should occasionally be reviewed to reflect new information, economic conditions, mortality improvements, and changes in patterns of retirement. From the State Employees Association's perspective however, there are certain key components that should be maintained. Those components include maintaining a defined benefits plan, protecting economies of scale for retirees, and 28 year retirement.

First, maintaining a defined benefit plan is critical to our state's economy. Traditional defined benefit plans are more cost effective than defined contribution plans, such as a 401K, which require employees to also become expert financial advisers. Most importantly, as we have already observed, defined benefit plans are designed to respond consistently over time to periodic market fluctuations.

Secondly, providing additional measures to balance retiree incomes based on the rate of inflation is another necessary plan component. Inadequate retirement income means more retirees will be dependent upon taxpayer supported health and welfare programs. Research confirms that poverty among older households lacking pension income was six times greater than those with pension income. If members of our society are self-sufficient, the need for taxpayer funded public assistance is substantially reduced.

Senator Glen McConnell was quoted a few days ago in the Post and Courier, defending legislators' special retirement benefits based primarily on low salaries. The same argument holds true for state employees. Over the years, 28 year retirement has been used to bridge, or at least to some degree lessen, the traditional gap in pay between public and private sector employment. Senator McConnell states the lower pay starves "out good people from serving." The same is true when it comes to the state's ability to recruit and retain highly qualified, long-term employees; 28 year retirement is a variable that helps balance salary shortcomings.

Maintaining the fundamental attributes of the current plan is a priority for the State Employees Association and hopefully for this committee. This state's plan alone serves more than a half a million participants. Protecting our state's retirement plan protects local economies. Therefore, this evaluation process should continue to be approached deliberately and with an uncompromising attention to details.