Remarks to the Senate Finance Committee
Subcommittee on the Investment of Retirement Funds

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Gentlemen, thank you for allowing me to speak. I am a retired state employee and have been active in matters relating to retirees for many years. I, along with many other dedicated retirees, have worked with the General Assembly on many issues associated with state retirement benefits and funding. We have always striven to be a part of the solution to the several problems we have faced rather than just lay problems at the feet of our legislators. I want to thank the General Assembly for the fine solutions that have been devised. Our retirement system is now not broken and, if we maintain the direction we are currently on, is clearly headed in the right direction. All I have read and studied supports that conclusion.

I would like to talk for just a minute about the nature of investing the retirement fund and the recent criticisms that it has received. Our Retirement Plan is not fully funded. The plan passed by the General Assembly two sessions ago put forth a means of reaching full funding over time. A part of that plan assumes an average return on investment of the Fund over the next 30 years of 7.5%. Since the Plan is not fully funded and since part of the earnings must be applied to fully fund it and another part to meeting the payment of annual benefits, attention must be paid not only to achieving an appropriate return on investment but also to minimizing the amount of risk—the probability of loss of investments—which would greatly detract from the ability of the Plan to be solvent.

That is the challenge our Investment Commission must meet: an average return of 7.5% while at the same time reducing the probability that there will be losses so great as to jeopardize the plan the General Assembly put in place. Most people tend to focus on returns on investment. Thank goodness, we have Commissioners and staff that know how important the reduction of risk is as well. They have carefully diversified our portfolio into different kinds of investments to protect the fund from losing huge amounts of money when something in the economy changes drastically, such as the Great Recession of 2008. If such a thing were to happen today, we would be much better off than other funds invested solely in stocks and bonds.

There is a downside to such conservative investing: returns on investments are consistent, but not as spectacular as the latest hot trend. The return on investments over the past year was 9.9%. This is well above what we need to pay benefits while improving the plan's funding level.

So we, as retirees are pleased that the potential downside of investing is getting as much attention from the Investment Commission as is the upside or the returns. We are conservative and we want to minimize risk. That's what the Commission is doing by diversifying into asset classes that by industry standard carry fee structures higher than traditional stocks and bonds.

Speaking of fees, I would like to briefly address them. While there is an increase in fees given the nature of our portfolio, there is another reason for the increase in fees. And that is the extreme transparency that the Investment Commission has implemented. Many fees charged by external investment organizations are netted out before the returns are presented. By counting only the net returns, as many funds do, we could reduce reported fees significantly overnight. Industry standards for reporting fees are very vague. But our Commission counts and reports every penny that could conceivably be considered a fee. In this and in all their dealings, the Commission is the most transparent governmental body I have seen in my nearly 40 years of working in and around South Carolina state government.

The issues raised by the Treasurer—fees, returns and compensation—are legitimate issues. What he fails to tell you is that they are issues raised by every Commissioner that sits on the Commission. They have contracted for extensive studies of these issues by some of the most expert consultants in the land. Universally, those consultants have concluded that, for our unique and particular circumstances, the approach the Commission is taking is a wise approach that achieves the twin objectives of reducing the unfunded liability and maintaining the benefit package both now and in the future.

I am saddened by the Treasurer's depiction of the Investment Commission to audiences all across our state and even to the national media. He portrays the members as corrupt and amoral, as sinners, who, for reasons nobody understands, overpay their staff and pay too much in fees while shortchanging returns and personally profiting. He does not portray the fine distinctions he made with you in his earlier presentation. He leaves his audience to believe we have a den of corruption and he is the white knight sent to destroy it. We disagree with this portrayal. It is untrue. But it is apparently his stock in trade because he uses this method not only with the Investment Commission but with others who do not agree with him as well. He makes up information, attacks, based on that, and portrays those who do not believe as he does as evil and corrupt. He has attacked the State Retirees Association for example.

He has accused the State Retirees Association, and me personally of being dishonorable, of taking pay-offs or donations from entities other than our membership because we support the Commission's approach. This has been festering a long while but started in earnest after we supported the Commission with an Amicus Brief in the Supreme Court. He has reported the Association to the Ethics Commission, the Attorney General and the Secretary of State with allegations that we are breaking ethics laws and laws pertaining to non-profit organizations. We have met with all these entities and shared information with them. Just as the Inspector General found with the Investment Commission, no allegation was ever upheld by any of those offices primarily because such activity never existed in the first place. What this did do is divert a lot of the Association's time and attention in a wasteful effort. And it does the same thing to the Investment Commission. This is precipitated out of the mind of the Treasurer who sees fraud, waste and abuse in nearly every governmental activity. Like so much else, the allegations were made up out of thin air simply because we disagreed with him and said so. We contradicted his stereotype of government and that draws an irrational attack.
(See http://www.srasc.org/resourcesdocuments2013_events_summary.html)

This is not rational behavior. This is abuse and an inappropriate use of state resources—both his staff and that of other state offices. This is the behavior of a bully of the worst sort. We are concerned at the discord the Treasurer injects into the investment environment because it diverts attention and effort away from the true task at hand; and that is to have a viable system that can serve its constituents now and in the foreseeable future. We are so close to being there. We don't want anything, and especially things that cannot be proven or have been disproven or don't even exist, to jeopardize that goal.

Thank you for your kind attention. If I can be of any service to you, please do not hesitate to contact me.