State Retirees Association of South Carolina

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March 20, 2012

Presentation

to the

Senate Finance Special Subcommittee on Retirement

We appreciate having the opportunity to speak before you today. My remarks will primarily be directed to the two Sections that most concern retirees because they address cost of living adjustments, Sections 9-1-1815 for SRS and 9-11-312 for PORS. First however let me commend the House Ad Hoc Study Committee on Retirement for what they have accomplished. They decided early on to focus on a strategy of identifying changes to the current systems that would have the least impact on current employees and keep a defined benefit plan for future employees. A well-funded and fiscally sound defined benefit plan has long been a major emphasis of our Association and we applaud their efforts to produce a plan which they feel will reduce the amortization of the unfunded actuarial liability.

Of course while we generally support the House plan, it should come as no shock to anyone in this room that we are not particularly happy with Section 9-1-1815 that deals with COLAs, now commonly referred to as benefit adjustments. It repeals Act 153 which increased employee and employer contributions in order to pre-fund a guaranteed 1% cost of living adjustment based on the Consumer Price Index and links all future benefit adjustments to earnings on investments.

While both Sections assume that a benefit adjustment will be granted every year for accounting purposes, they will only be granted if the five year average return on investment is greater than the assumed rate of return. Both Sections also provide that if the system suffers a loss, benefit adjustments will not be granted even if the five year average return is greater than the assumed rate of return. In other words, if no benefit adjustment is granted the increased employee/employer contributions that have been paid since 2005 to pre-fund COLAs would go to reduce the unfunded liability.

We are having a hard time figuring out how anyone would ever get a benefit adjustment with this plan. If future benefit adjustments must be paid from excess earnings, where do those excess earnings come from when the actuary has stated that we can only expect future earnings to average 7.5%. It seems to us that in order to get a 1% benefit adjustment the fund would have to average at least 8.5% over a five year period, something the Budget and Control Board on the recommendation of the actuary has said probably will not happen. Quite honestly, this just mystifies me. A few retirees with knowledge and experience in actuarial science have mentioned that this plan is not designed to provide benefit adjustments; it is designed to pay down the unfunded actuarial liability at the expense of retirees. We estimate that under this proposal retirees could not anticipate meaningful benefit adjustments in most years.

If you were to randomly stop the average retiree on the street and ask what would you like to see happen, we are pretty certain they would say I want my 1%. I was taught by my granddaddy that "a bird in hand is worth two in the bush" and though one per cent may not seem like much, knowing that we can count on it is a big deal. Knowing that since 2005 active employees, return to work, TERI participants and their employers have paid almost 1.2 billion dollars into the Retirement System specifically for the purpose of pre-funding a 1% COLA and will continue to do so is also a big deal.

To say that we are disappointed in the House proposal on benefit adjustments is an understatement. Furthermore, we feel the State will be on shaky legal ground if Act 153 is repealed and not replaced with an alternative that very closely approximates the benefits retirees would have expected under Act 153 and we do not believe the House plan achieves that.

We would like to see the Sections 9-1-1815 and 9-11-312 improved to provide for annual benefit adjustments based on the Consumer Price Index of at least 1% and to base additional benefit adjustments up to the assumed inflation factor on the formula provided for in the bill as it is presently written.

Finally, we were asked if the State Retirees Association had an opinion regarding the current return to work policy. Frankly, we were surprised that the House Committee took no action. As retirees we have long supported changes to the retirement system that will ensure its financial health to meet its commitments. We are concerned that current policy encourages early retirement as life spans are increasing and that this adds to the problems faced by the system. The State Retirees Association encourages the Subcommittee to consider changes such as salary caps on earnings while keeping the commitments already made to employees currently participating in return to work.

Thank you for giving us this opportunity.

Wayne Bell, President

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