SC Public Safety Coalition
Statement on Retirement Changes
September 28, 2011

Mr. Chairman, Members of the Committee, I thank you for your willingness to listen to our concerns about the Police Officers' Retirement System. My name is Jarrod Bruder and I am the Executive Director of the South Carolina Law Enforcement Officers' Association, which is commonly known as the SCLEOA. We have joined forces with the SC Sheriffs Association, the SC Fraternal Order of Police, the SC Police Chiefs Association, the Palmetto State Law Enforcement Officers' Association, the SC Campus Law Enforcement Association, the SC Firefighters' Association, and the SC Fire Chief's Association to form the South Carolina Public Safety Coalition. Collectively, we represent over 25,000 public safety workers across the State of South Carolina. We view the Police Officers' Retirement System and the potential changes surrounding the system to be important enough to unify our organizations in to a single voice.

Historically, the public safety community has recognized issues within the PORS system and has come to the table with solutions to the resolve their problems. Most recently, in 2008, members of PORS realized the dangers of issuing Cost of Living Adjustments (COLAs) on an ad-hoc basis and worked with the General Assembly to create a method in which COLAs could be issued in a fiscally responsible manner. It has never been our desire to be a drain on the government or on the taxpayer. We take pride in the fact that we were willing to pay for our benefits and stand ready to make changes to refine and improve our system when necessary.

Today, the public safety community in South Carolina has hopes of making subtle changes to the Police Officers' Retirement System to ensure that it remains solvent, stable, and functional for many years to come. We will admit upfront that the Police Officers' Retirement System has issues that need to be addressed. However, we believe the problems within PORS are minor imperfections that can be resolved without drastic measures.

Like most things in the financial realm, the SC Retirement System experienced tremendous loss in 2008. While the retirement system has been able to recoup a significant portion of its losses in recent years, overall the system's investments are performing at a level which is lower than necessary. The lack of investment revenue combined with guaranteed Cost of Living Adjustments have resulted in a PORS system that is extended beyond governmental accounting standards. Therefore, something must be done to bring the PORS system back within governmental accounting standards and improve the overall health of the system. We realize that doing nothing is not an option. However, we do hope that you will take the time to realize that there are major differences between the Police Officers' Retirement System and the larger SC Retirement System. Furthermore, we hope you will agree that drastic changes are not required to address the problems within the PORS system.

After studying the actuary reports from both Cavanaugh Macdonald and GRS, the SC Public Safety Coalition has come to the conclusion that as little as one or two changes can be made that will resolve our unfunded liability issues, bring the PORS system back within governmental account standards, and make the system solvent and stable for many years to come.

Considering comments from members of the Budget and Control Board, we are anticipating the Assumed Rate of Return to be lowered from 8%. This action will reduce the Cost of Living Adjustment for PORS members from up to 2% to 0%; effectively removing Cost of Living Adjustments for PORS members all together. According to the GRS Actuary Study, lowering the Assume Rate of Return will decrease the amortization period for PORS from 32.8 years to 19.9 years. If this occurs, we hope we would be allowed to work with the General Assembly and the actuary to implement a Cost of Living Adjustment for PORS members that would not cause our unfunded liability to go above the standard of 30 years. We support Cost of Living Adjustments and think they are vital to the quality of life for our retirees. However, we understand that COLA's must be paid for and cannot cause a burden on the overall health of the PORS system. To that end, we are willing to consider implementing a minimum age requirement of 55 years of age before a retiree can receive a Cost of Living Adjustment.

If, however, the Assumed Rate of Return is not lowered, the SC Public Safety Coalition would still be willing consider the implementation of a minimum age requirement of 55 years of age before a retiree can receive a Cost of Living Adjustment. The actuary study done by Cavanaugh Macdonald Consulting in January 2011 shows that issuing a 2% Cost of Living Adjustment to individuals who are age 55 and above will lower the amortization term of the PORS system from 32.8 years to 27.1 years.

** *It should be noted that we would be interested in exploring the option of exempting disabled retirees from the minimum age requirement.*

Both of these scenarios will drastically improve our unfunded liability issues and will improve the overall health of the Police Officers' Retirement System for the foreseeable future. As far as we are concerned, there is no financial reason to make additional changes. With all due respect, we have not seen figures that suggest the PORS system is in such dire conditions that it will require an increase in years of service, an increase in employee contribution, or any other drastic measures.

While these changes will undoubtedly impact a portion of first responders in our state, we believe these changes will be acceptable to our members and will achieve the greatest good for our system. Furthermore, we believe maintaining 25 years of service and the current rate of employee contribution will only improve the quality of public safety in our state. Not only will we be able to retain our most talented and experienced officers, but we will also be able to attract some of our state's best and brightest individuals to the law enforcement and firefighting professions.

In conclusion, we would like to remind everyone that members of the Police Officers' Retirement System were not given the ability to retire after 25 years free of charge. In 1988, when we petitioned the General Assembly for that ability we volunteered to pay a higher employee contribution rate if it meant that we could have a lower number of required years of service and a higher annuity factor. We feel that we have not only earned the ability to enjoy a stable retirement system, but we have also paid for it. We are heavily invested in the Police Officers' Retirement System and appreciate its value. We realize that the financial atmosphere has the retirement system primed for change and hope you agree that the Police Officers' Retirement System can be corrected with minimal changes.

Again, I appreciate the opportunity to address you today and will happily respond to any questions you may have.

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Addendum 1

Additional Requested Analysis for SCRS and PORS.

Analysis of changes to COLA scenarios for SCRS

SCRS Scenarios	Employer Normal Cost Rate	UAAL ($ mil)	Funded Ratio	Amort. Period (yrs)	Expected Employer Rates Fiscal Year Ending	
					2012	2013
Current Plan	3.36%	11,967	67.8%	32.1	9.385%	9.53%
1% COLA for 5 Yrs	3.33%	11,095	69.4%	27.7	9.240%	9.24%
1% COLA for 10 Yrs	3.24%	10,391	70.8%	24.4	9.240%	9.24%
0% COLA for 5 Yrs	3.29%	10,232	71.1%	24.0	9.240%	9.24%
0% COLA for 10 Yrs	3.12%	8,897	73.9%	18.8	9.240%	9.24%
2% COLA @ Age 62 (Future Retirees Only)	3.04%	11,212	69.2%	26.6	9.240%	9.24%
2% COLA @ Age 62	3.04%	10,605	70.4%	24.2	9.240%	9.24%

Analysis of changes to COLA scenarios for PORS

PORS Scenarios	Employer Normal Cost Rate	UAAL ($ mil)	Funded Ratio	Amort. Period (yrs)	Expected Employer Rates Fiscal Year Ending	
					2012	2013
Current Plan	7.04%	1,082	76.3%	35.0	11.3625%	11.595%
1% COLA for 5 Yrs	6.98%	983	78.0%	28.5	11.1300%	11.130%
1% COLA for 10 Yrs	6.87%	902	79.4%	23.8	11.1300%	11.130%
0% COLA for 5 Yrs	6.92%	888	79.7%	23.5	11.1300%	11.130%
0% COLA for 10 Yrs	6.71%	733	82.6%	16.7	11.1300%	11.130%
2% COLA @ Age 55 (Future Retirees Only)	6.81%	1,020	77.3%	28.8	11.1300%	11.130%
2% COLA @ Age 55	6.81%	985	77.9%	27.1	11.1300%	11.130%

	June 30, 2010 Valaution	Proposed Assumptions with 0% COLA	$ Difference	% Difference
	(1)	(2)	(3)	(4)
Liability Information				
1. Prior Year's Payroll provided by System	$ 1,023,391	$ 1,023,391	$ -	0.0%
2. Projected Payroll for Next Fiscal Year[1]	$ 1,076,467	$ 1,058,003	$ (18,464)	-1.7%
3. Actuarial Present Value of Benefits				
a. Active Members	$ 3,256,790	$ 3,098,273	$ (158,517)	-4.9%
b. Members in Payment Status	2,577,772	2,360,236	(217,536)	-8.4%
c. Other Members	110,574	107,494	(3,080)	-2.8%
d. Total Present Value of Future Benefits	$ 5,945,136	$ 5,566,003	$ (379,133)	-6.4%
4. Total Normal Cost	13.74%	13.37%	-0.37%	-2.7%
5. Actuarial Accured Liability				
a. Active Members	$ 2,162,111	$ 2,096,555	$ (65,556)	-3.0%
b. Members in Payment Status	2,577,772	2,360,236	(217,536)	-8.4%
c. Other Members	110,574	107,494	(3,080)	-2.8%
d. Total Actuarial Accrued Liability	$ 4,850,457	$ 4,564,286	$ (286,171)	-5.9%
6. Actuarial Value of Assets	$ 3,612,700	$ 3,612,700		
7. Unfunded Actuarial Accured Liability (5.d. - 6.)	$ 1,237,757	$ 951,586	$ (286,171)	-23.1%
8. Funding Ratio - Actuarial Value Assets Basis	74.5%	79.2%	4.7%	6.3%
9. Funding Ratio - Market Value of Assets Basis	58.8%	62.5%	3.7%	6.3%
Statutory Contribution Rate Information				
10. Employer Normal Cost	7.240%	6.870%	-0.370%	-5.1%
11. Amortization of Unfunded Liability	4.755%	5.125%	0.370%	7.8%
12. Total Employer Contribution Rate	11.995%	11.995%		0.0%
13. Amortization Period - Current Contribution Rate	32.8	19.9	(12.9)	-39.3%
14. 30-Year Funding Contribution Rate -AVA	12.30%	10.87%	-1.43%	-11.6%
15. 25-Year Funding Contribution Rate - AVA	13.00%	12.93%	-0.08%	-0.6%
16. 30-Year Funding Contribution Rate - MVA	16.07%	16.11%	0.05%	0.3%

[1] Projected payroll for fiscal year 2011 (excludes compensation attributable to return to work retirees).