PASSED

UPSTATE CHAMBER COALITION

ISSUE BRIEFING

PENSION REFORM

South Carolina workers currently pay some of the highest costs in the nation for state pension plans and our state faces a monstrous unfunded liability for future benefit payments to state retirees.

$18-40 Billion

Estimated cost unfunded liability for the S.C. public pension system.

- As of 2015, nearly 40 percent of future payments for the pension plan were not supported with funds. Translated to a dollar amount, that's nearly **$18 billion** in unfunded pension liabilities. Unfortunately, this number is optimistic – based on other studies our unfunded liability could be as much as **$40 billion**, due primarily to the state's overly optimistic expected rate of return.
- There are three main reasons for the current state of the state pension system:
    - Investments in stocks have yielded poor returns and have routinely fallen far short of the 7.5 percent target.
    - Fewer state workers are employed so fewer wage earners are paying into the system, while the aging population means more retirees are taking out benefits.
    - State retirees are retiring earlier and living longer.
- In addition, many critics, notably State Treasurer Curtis Loftis, cite high fees charged by the plan's money managers in exchange for market-lagging returns.

H. 3726 Signed into Law

A bi-partisan joint committee (made of House representatives and senators) met on our state's pension crisis in 2016 to begin drafting legislation to keep the state retirement system solvent. While several proposals were on the table for 2017, H. 3726 passed both bodies and signed by Governor McMaster:

- H. 3726 increases employee and employer contribution rates over 10 years and requires that the unfunded liabilities be funded on a certain amortization schedule.
    - Increases the employee contribution rate from 8% and is capped at **9%.**
    - Increases police officers' contribution rate from 8% and is capped at **9.75%.**
    - Increases the employer contribution rate – i.e., the taxpayer contribution – in the State Retirement System from 10.9% to **18.56%** of a public employee's salary.

- Increases the employer contribution for the Police Officers' Retirement System from 13% to **21.24%.**

While this bill does not completely fix our state's pension problems, it's a step in the right direction to inject cash to cover the state's unfunded liability. The Joint Pension Review Committee has said that this bill is only a "part 1," and the committee will continue to meet throughout 2017 to look at other options, such as closing the system to new employees and offering them a 401K option.

Impact to Business

With the large employer increases included in H. 3726, local governments are forecasting significant hits to their budget. Prior legislation, such as Act 388, imposes caps on local governments' taxing authority and shifted school operating taxes to business.

Employers

The Greenville County School District is the second-largest employer in the pension system, behind the state itself. Spartanburg Regional is the 9th largest employer.

To cover the increased employer contributions, local governments – county, city, school boards, special purpose districts, water systems – will all have to raise taxes and rates. If you have a business within a city or special purpose district, you will see significant increases in your taxes and fees across all levels of government.

Estimated Additional Costs to Local Governments*

Local Government	Additional Cost in 2027	Equivalent in Mills
City of Greer	$632,000	5.7 Mills
City of Greenville	$2.5 Million	6 Mills
City of Spartanburg	$1.25 Million	3 Mills
ReWa	$1.5 Million	+ $20.59 per customer

** These amounts could be off-set by direct appropriations from the General Assembly, as are proposed in the 2017-2018 budget.*

Here's where you can see how your representatives voted:
House: Adoption of Conference Report
Senate: Adoption of Conference Report

Other States

South Carolina is not the only state facing pension woes: Michigan and Pennsylvania have recently both mad strides to fix their (larger) state pension systems.

Michigan has developed a hybrid pension plan but also offers a more attractive 401(k) plan that new employees will be automatically enrolled in, and will have to opt out of. The 401(k) matches up to seven percent for those employees contributing, and four percent for employees that are not. The new hybrid system would require a bigger contribution from employees and would close it to new hires if it were less than 85% funded for two years in a row.

Pennsylvania, whose pension system was also in a financial free-fall, established three new plans for new hires beginning in 2019. The first one will require employees to contribute 8.25 percent, split between the pension and 401(k) plan, and receive their 401(k) savings and 1.25 percent of the final average salary. The second is similar to the first, requiring a 7.5 percent employee contribution split, and employees receive their 401(k) saving and 1% of the final average salary. The third option is a straight 401(k) that requires a 7.5 percent employee contribution with a two percent match.

The Joint Pension Review Committee plans to take a look at a 401(K) option and hybrid plans as they consider further legislation.

The Greenville Chamber's Position

The Greenville Chamber recognizes that there is no easy fix to our state's pension crisis. The state must keep pension promises to workers already in the system, and as a result, local governments will face extreme shortfalls in their budgets. Recognizing that taxes will undoubtedly have to go up, the Greenville Chamber has advocated for the least bad deal for business and for the General Assembly to not put off fixing the system. We've also encouraged the General Assembly to seriously consider long-term structural changes to the pension system, including the possibility of closing the retirement system to new employees and giving employees a 401k option.

ACTION ITEM: Urge your legislators to continue working on realistic solutions for the state pension system and communicate the significant impact tax increases could have on your business's bottom line.