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Editorial: A vision for South Carolina pension system reform in 2020

BY THE EDITORIAL STAFF

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The S.C. Statehouse in Columbia.

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Lawmakers essentially bought time when they agreed to start pumping more money into South Carolina's woefully underfunded state pension system two years ago. But taxpayers still face a \$25 billion time bomb if the Legislature doesn't act to phase out its defined-benefit retirement programs and shift public employees to 401(k)-style savings plans.

Pulling the plug on a massive pension system that 1 in 9 South Carolinians depend on is complex and politically risky — public employees constitute an important voting bloc — but it must be done to avert a debt crisis that could mean steep tax increases paired with deep cuts to basic state services such as education and public safety.

It's a little like Brexit. The Legislature could choose to “crash out” by closing out its five pension systems and enrolling all new hires in 401(k)-style plans. Or the Legislature could take a softer approach by letting new employees choose between a 401(k)-style plan or a hybrid between a defined-benefit and defined-contribution plan.

Crashing out would mean new employees wouldn't be paying into the existing system, and filling that void would ultimately fall to taxpayers because the state is legally obligated to pay lifetime pension benefits to all vested employees.

Shifting a portion of new employees to a hybridized retirement plan would provide the pension system with reduced income tied to employee earnings but not cut it off entirely and therefore lessen the impact on taxpayers.

But last year, bills aimed at taking the next step in pension reform by Sen. Tom Davis, R-Beaufort, who championed the 2017 reforms, and colleague Sean Bennett, R-Summerville, languished in the Legislature.

State Comptroller Richard Eckstrom, whose job it is to keep tabs on state finances, recently drew attention to the need for further reforms in a widely published column that called on taxpayers to demand that lawmakers take action.

“I've been warning about our broken retirement system since the early 2000s, and there was a time when I'd preface my comments with, ‘I don't want to alarm you, but ...’”

“The time bomb has been ticking away since. It's certainly time to be alarmed by the enormous debt facing our retiree pension fund,” he concluded. And he's right.

State pension funds have three sources of income: employee contributions, employer contributions (which taxpayers ultimately fund) and earnings from investments.

Unfunded liabilities are based on actuarial assumptions and projected income over time.

And even though 2017 reforms dialed back the assumed rate of return on investments from 7.5% to 7.25%, that projection is probably too high, meaning the unfunded liability estimated at \$25 billion could actually be higher. A 2018 pension study by the American Investment Council pegged the 10-year average rate of return at 6.1 percent.

First, lawmakers must resolve to push ahead with pension reform. That will mean phasing out defined benefit plans as soon as possible, taking a more conservative approach to investment returns, increasing the retirement age for some employees and working to reduce management fees paid to investment consultants.

Taking these necessary steps will help ensure the state's prosperity. Failing to act will jeopardize it.