

From: William Niner <wpniner@gmail.com>
To: Kevin L. BryantKevinBryant@scstatehouse.gov
Date: 2/13/2017 2:38:57 PM
Subject: Re: State Pension Fund

Dear Lt. Governor,

Firstly, I must thank you for the thoughtful and detailed response. Since turning 18, I have lived in five states, have contacted officials in all of them, and have never received such a through and personalized response as you have given. Nor, as an aside, have I received any response from the three other South Carolina officials I have contacted.

Secondly, I fear I may have communicated my concerns poorly. While the unrealistic return assumptions, poor performance, and resulting pension gap that South Carolina faces is indeed a concern, it is at least a concern we share with 47 other states. What is particular to South Carolina is the high fees that the Retirement Systems Investment Commission and Public Employee Benefit Authority have paid for this underperformance. According to a 2013 report, RSIC pays 1.3 percent of its total assets in fees each year. No other large public pension fund pays even 1 percent. We can underperform the market for far less than the almost \$3 billion in fees that we have paid since 2005. Neither RSIC and PEBA have shown themselves able or trustworthy to be given any increase in responsibility.

Thirdly, the ethics charge would be derisory were the stakes not so high. The phrase "nuisance lawsuit" is not nearly strong enough. Sam Griswold, who filed the charge, is hardly a disinterested party. The lawsuit against BONY-Mellon began under the previous Treasurer. The State Ethics Commission acknowledged Mr. Loftis was not a part of the conversations that led to the decision to hire Mr. Montgomery. The Attorney General approved Mr. Montgomery's hire. A better analogy than "a watchdog who opens the door for the burglar and shows them where to find the good silverware" is "a privateer who hires extra muscle for his letter of marque"; a fine old American tradition.

I regret we do not see eye to eye on this matter.

Regards,
William P. Niner
Beaufort

On Sat, Feb 4, 2017 10:16 AM, Kevin L. Bryant KevinBryant@scstatehouse.gov wrote:

Dear Mr. Niner, thanks for your email and the chance to discuss the state's pension plan.

The pension problem actually resulted, to a great degree, from efforts to enhance teacher compensation and deal with a teacher shortage, 17 years ago. The TERI program and the reduction of the retirement age to 28 years of service were benefits extended with paying for them in cash. The price tag would have been roughly \$7b, at the time, but the General Assembly and Budget and Control Board chose to fund them with actuarial assumptions concerning the investment markets and the future growth of state payrolls. Neither came true, and, along the way, retiree COLAs were extended that also were paid for not with cash but with more assumptions.

The failure of the assumptions to materialize created the unfunded liability, and once it existed, then it accrued interest, like a credit card. Over \$10b of the current unfunded liability of \$17b (this is for fiscal year 2015) resulted from interest

accrual alone. Roughly \$9b arose from benefit extensions, another \$2.5b from other inaccurate assumptions, and about \$6b from investment performance below the assumed rate of return.

One side note about the investment performance is that the "gains" and "losses" of the investments are measured against a statutorily set assumed rate of return, right now 7.5%, but previously as high as 8%. That means that any investment returns below 7.5% are considered losses, even if 7.5% was, in that year, an outlandish expectation. FY 2016 is an example when the top-performing public pension plan in our peer group made only 5.98%. Our investments, nonetheless, were measured against 7.5%, and the "losses" were booked as such. All of that to say, that "investment losses" for the period 1999-2015 total about \$6b, but the performance below the average fund below that period totals about \$1.5b. Now, that's still a lot of money, and the folks who steered the ship through 2015 no longer work at the investment agency, and their returns are improving, both on a real and relative basis. They have been held accountable, and things have changed, but it's important to know the facts about our investments in order to understand the whole problem.

The bill, though, still has to be paid. The most usual way to pay the bill is through contribution increases, and that's what has happened so far. But, a joint committee of House and Senate members has been meeting for months, and I expect a bill from them within days that will address the funding issue with tools other than just contribution increases.

The pension debt exists mainly because unfunded benefits were extended. Now we have to fund them.

The issue of the State Treasurer is a wholly different matter. I never would have thought about this issue until the State Ethics Commission found State Treasurer Curtis Loftis guilty of engineering a \$2m payday for a close and personal friend from the very bank that Mr. Loftis employs to hold the \$29b pension fund. That bank, in violation of its contract with SC, lost over \$200m of our money, and Mr. Loftis signed a legal settlement with them that returned almost nothing to the state but put \$2m in legal fees in the pocket of his close and personal friend. That's like a watchdog who opens the door for the burglar and shows them where to find the good silverware and electronics, and then the burglar gives one of the stolen iPhones to a friend of the watchdog. I don't know about you, but I want our money watched by someone else from now on. So, I'll be voting to keep the current State Treasurer from using his position to enrich any other friends who might be in line with their hands out.

P. S. - I repeatedly have asked for a record of all of the changes to our investments proposed by Mr. Loftis since he has been a Commissioner, because I wanted to ask the other Commissioners why they had rejected his ideas. I have received no response--in the two years since I asked. I'm all for someone raising Cain about a problem, but I also expect them to at least offer a solution.