From: Kevin L. Bryant
To: wpniner@gmail.comwpniner@gmail.com
BCC: 'Kevin Bryant'kevin@kevinbryant.com
Date: 2/4/2017 10:16:39 AM
Subject: State Pension Fund

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.