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Fix S.C. pension system

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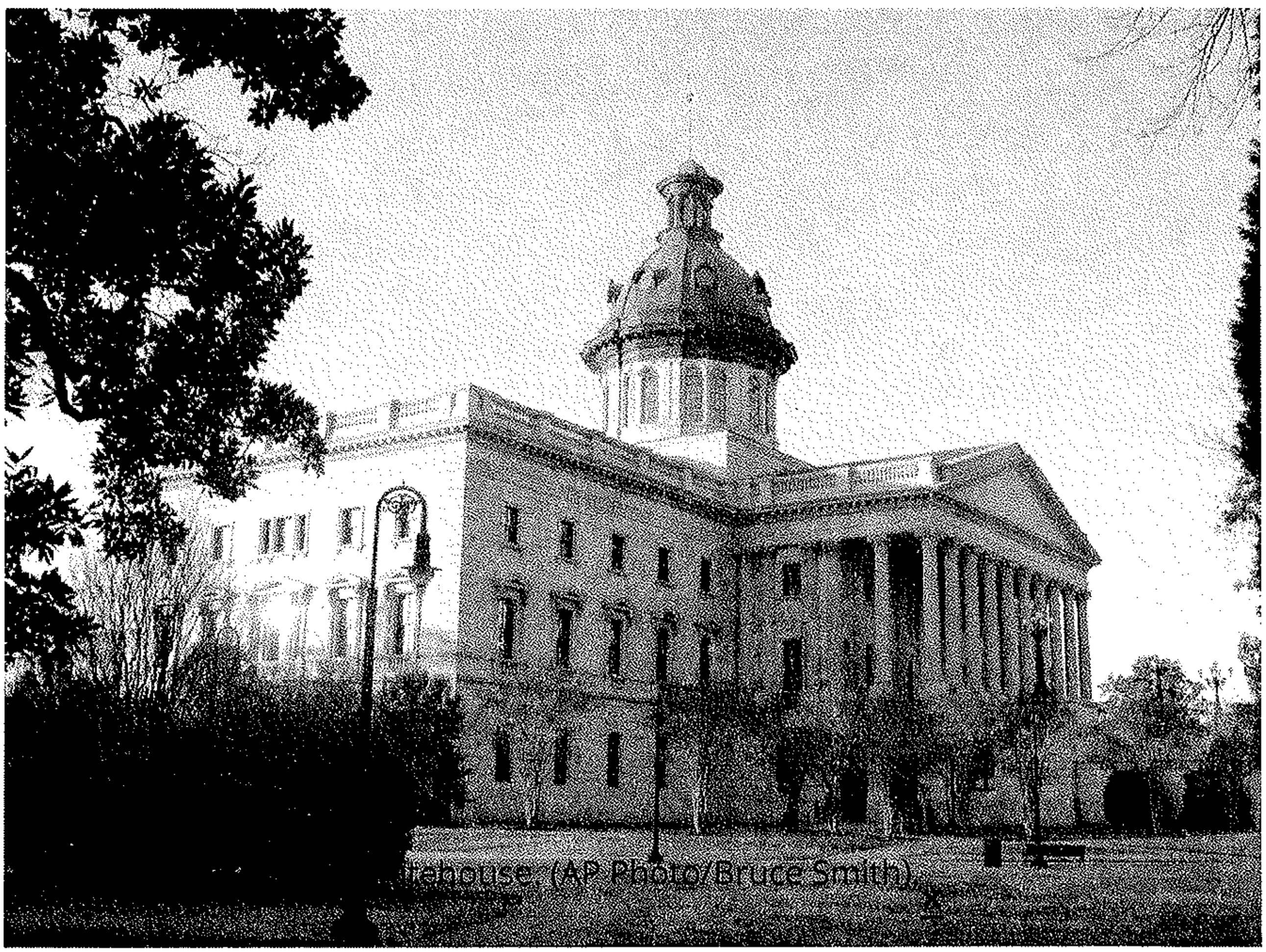

tehouse. (AP Photo/Bruce Smith).

A hard look at the S.C. pension fund reveals a picture that isn't pretty. It is underfunded and getting more so. And while the national trend of pension funds is downward, South Carolina is below the national median.

According to the Legislative Audit Council, which on Monday released an assessment of the state's public pensions, the pension portfolio has not met its target (7.5 percent rate of return) over the past decade, and is not expected to meet it over the next 30 years, resulting in a shortfall in the two largest pension funds of as much as $11 billion.

Speaker of the House Jay Lucas, R-Hartsville, is right to make pension reform a primary focus of the upcoming legislative session. It's hard to see how the leadership could do otherwise, given the findings of the audit.

As Comptroller General Richard Eckstrom said, "It is heartening that the audit does what has needed to be done for years." He said projections need to be reasonable and arrived at by using more accurate information, which the audit calls for.

As it stands now, the LAC predicts either state and local taxes will have to increase to address the problems, or public services will have to be cut. Or both.

Or, Mr. Eckstrom said, employee contributions to the pension funds can be increased.

One problem the LAC described is the rate of return on investments that South Carolina has received. It is consistently below the national average and, for example, below North Carolina almost every year for the past decade.

The Retirement System Investment Commission (RSIC) has been given legal authority to make riskier investments, under the premise that the returns can be greater. However, the returns have been smaller and the fees paid by the state larger.

For example, in 2012, RSIC's returns were an abysmal 0.4 percent as compared to the Vanguard Balanced Index Fund of 5.77 percent.

Certainly, one issue the General Assembly should take up is whether to limit how much the RSIC can spend on riskier investments. And certainly legislators need to make sure that information reported by RSIC and PEBA (Public Employee Benefits Authority, which administers benefits) should be "in a format that can be understood by an interested reader without expertise in finance or pensions," as the audit notes.

As in almost every audit, the agencies being scrutinized don't agree with every one of the LAC's findings and recommendations.

For example, the LAC recommended that RSIC commissioners not be allowed to recommend investments — only staff — to avoid possible conflicts of interest. RSIC disagrees, saying that commissioners have insights that might be helpful, and that they are required to disclose any financial benefits they might enjoy from such an investment.

One option cited by the LAC that is sure to draw controversy would transition from a pension-based system to a defined contribution system in which each employee manages his own retirement account.

Rep. Lucas is wise to be talking about comprehensive pension reform. Tweaks made in past years have obviously not fixed the system's problems. Something different must be done.

That's long been the view of Treasurer Curtis Loftis, a persistent critic of the state's pension system.

Now is a good time to do it — before the liability grows another $1 billion.

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