



Retirement News Highlights

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South Carolina Governor Calls for Closure of Defined Benefit Pension

Gov. Henry McMaster's proposed plan would move all new employees into a defined contribution pension.

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South Carolina Gov. Henry McMaster wants to close the \$32 billion state retirement system's defined benefit pension plan and move all new state workers into a defined contribution plan.

"I'm asking that we – at the end of this year – close enrollment in the current defined benefit plan," McMaster said during his State of the State address last week. "Putting money into an open system like that is like trying to fill a bathtub with the drain open. We must close enrollment first."

According to the South Carolina Retirement System's (SCRS) most recent valuation report, the system had unfunded liabilities of just under \$23 billion as of July 1. That is up from just under \$22.1 billion at the same time the previous year.

McMaster's budget for fiscal year 2020-2021 includes proviso language that closes enrollment in the South Carolina Retirement System (SCRS) to new members. A new employee eligible to become a member of SCRS after Dec. 31, 2020 would instead join the State Optional Retirement Program (State ORP) administered by the South Carolina Public Employee Benefit Authority (PEBA).

McMaster said that although adopting the reform will require a "concerted expenditure of political willpower" by the general assembly, he said it pales in comparison to the cost of doing nothing.

"It is time for the legislature to make some hard decisions and implement systemic reforms to correct this problem," McMaster wrote in his budget. "We must maintain our commitment to the 11.5% of South Carolina's population that relies on state retirement systems, while protecting taxpayers from bearing any additional financial burden caused by inaction or indecision. That means enacting a date-certain transition away from defined benefit pension plans to defined contribution retirement plans for new state employees."

The State ORP is a defined contribution retirement plan PEBA administers for employees of state agencies, public and charter school districts, and public higher education institutions in South Carolina. The defined contribution plan participants are solely responsible for their retirement account and they choose how to invest and manage their money.

Like South Carolina, Kentucky proposed a pension reform plan in 2017 that included closing the defined benefit pension and moving new employees to a defined contribution pension plan. An analysis of that proposal released in late 2019 said, however, that the move would have saved the state money in the short term but would have been more expensive over the longer term.



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