



State of South Carolina Office of the Governor

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June 11, 2010

The Honorable Robert W. Harrell, Jr., Speaker
South Carolina House of Representatives
508 Blatt Building
Columbia, South Carolina 29211

Dear Mr. Speaker and Members of the House:

I am hereby vetoing and returning without my approval H. 4172, R. 322, which allows local government employees to buy back furlough days for the purposes of retirement. Unfortunately, we're compelled to veto this bill because its net effect would further compound our state's precarious financial position with regard to the State Retirement System.

The interface between state and local workers with regard to retirement needs to be examined in its entirety before a bill like this is passed. Presently municipal and local government employees can purchase time for retirement at half the cost of a state employee. Given the actuarial imbalance that I'll outline in the paragraphs below, any appendage to this system only worsens our state's \$12 billion unfunded liability. In short, I am vetoing this bill because the state simply cannot afford to take on any more obligations to its underfunded retirement system – no matter how merited or small.

Approximately 80 percent of public employees nationally receive benefits from pension plans with guaranteed pension payments, while private sector employees receive benefits from their 401(k) accounts which grow or shrink according to market performance. Because political pressures and economic reality so often conflict, states all across the nation are coming to terms with the fact that they currently lack funds to fulfill political promises to state retirees. In fact, hedge fund manager and New Jersey Retirement System Director Orin Kramer estimates that the national pension fund deficit is at least \$2 trillion. According to statements by professors from the University of Chicago and Northwestern University in a recent *Barron's* article, state pension funds have a one-in-twenty chance of meeting their obligations over the next 15 years. Because of this massive deficit, state leaders must now come to terms with the fact that the current systems are unsustainable, and must choose between cutting retirement benefits, cutting government services, or dramatically increasing taxes in an effort to bring some sanity to states' budgets.

The Honorable Robert W. Harrell, Jr.

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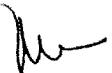
South Carolina is no exception.

The Budget and Control Board contracted with an outside accounting firm to conduct an Actuarial Valuation of the liabilities associated with the state's retirement system in 2009. According to the valuation, which we received just within the last few weeks, the state's unfunded liability for future retirement benefits of state employees is over \$12 billion. We believe that if state retirement accounts were subject to the same valuation and accounting standards that are applied to private retirement accounts, then the long-term deficit figure would be substantially higher. We simply cannot support an effort to increase the retirement system's obligation – no matter how valid – until the General Assembly addresses the larger question of how we're going to uphold our bargain with retirees while not dramatically increasing taxes or eliminating important government services.

It's only natural that the General Assembly wants to help local employees in this instance, but South Carolina taxpayers and people currently in the system are depending on us to be prudent administrators of a sustainable plan. With the South Carolina Retirement System currently more than \$12 billion in debt, we believe the state must address our existing challenges before even contemplating proposals that would make this task any more difficult. Otherwise, we are simply digging a deeper hole.

For this reason, I am vetoing and returning without my approval H. 4172, R. 322.

Sincerely,



Mark Sanford