SOUTH CAROLINA RETIREMENT SYSTEM (SCRS)

How to Transition to a New Retirement Plan Design

Defined Benefit Plans Are Not Like Social Security

- ✓ Healthy DB plans use employer and employee contributions, combined with investment earnings to fully fund promised benefits in advance.
- ✓ Pension plans are designed to be prefunded, meaning each year the state and employees are responsible for paying enough into the plan to cover all benefits earned that year.
- ✓ Employee contributions to defined benefit plans are the property of the employee and should not subsidize current retirees.

SCRS employee contributions are not used to pay down unfunded liabilities - SCRS requiring new money from new members to sustain itself would make it a Ponzi scheme.

Unfunded Liabilities Should Follow The Individual

- ✓ The concept of a "transition cost" when adopting a new retirement plan design for new hires is a myth. There is no legal requirement to increase debt payments in a transition to a new plan.
- ✓ Unfunded pension benefits would still need to be paid off by the state along with the costs to fund new accruals in both the legacy and new pension plans, but there is no additional cost inherent to offering additional retirement plan options to employees.
- ✓ Any growth in unfunded liabilities within the closed plan would simply be a result of the state continuing to tolerate unrealistic investment assumptions, weak funding policies, overly lengthy amortization policies, and other drivers of pension debt in the legacy pension plan.

Planning For A Transition To A New Tier

- ✓ When opening a new retirement plan—or providing a choice of plans— to new hires, policymakers must have a strategy in place to continue paying down legacy debts at either the existing or an accelerated pace to ensure long-term cost savings.
- ✓ The most effective way to do this, which other states already do today, is for the employer to make a supplemental payment toward unfunded liabilities for every new hire, just as if the reform never happened and the legacy pension was still the only retirement option.

New Memebers Are **Not** Required to Keep Public Pension Plans Solvent

See Other States and Cities

- ✓ Most states that opened a new tier of retirement benefits have gone on to see risk reductions, cost savings, and a more diverse group of members receiving retirement benefits that fit their needs.
- ✓ Instances where states have reversed course on their new tier like West Virginia disregarded their legacy obligations and fell victim to poor reform design.

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