

SEANC Retiree Director Mitch Leonard
The Future of Retirement Study Commission
June 14, 2010

Treasurer Cowell, Chairman Clark and members of The Future Retirement Study Commission, my name is Mitch Leonard and I am the Retiree Director of the State Employees Association of North Carolina. Thank you for allowing me to speak on behalf of SEANC's 55,000 active and retired state employee members.

SEANC's goal is for retirees who have committed a lifetime of public service to retire with dignity and respect. Respect can be measured in many ways and from our employer, the State of North Carolina, it is measured by the retirement security of our members.

North Carolina's retirement system is widely touted in the press as one a system that is fully funded (or nearly fully funded this year) but this is a "funding to liability ratio." This means the amount of assets in the system more than cover what is owed to keep cutting retirement checks to retired state employees.

However, employees understand that our current system may be financially sound but when compared with other public systems the benefit levels are middle of the road at best. So as you begin to discuss future retirement benefits for state employees you should know that SEANC members want the benefits currently provided by the Teachers and State Employees Retirement System to provide a respectable income and annual cost-of-living increases.

You heard from human resource professionals that the State of North Carolina has a compensation problem. It begins with low starting salaries, limited advancement opportunities and allows for no annual pay increases or COLA adjustments. In the future a state employee could reach retirement and still be receiving a salary close to their starting pay. You might think that will never happen but the number of state employees forced to take a second job is commonplace today.

So, how do you design a retirement system for future employees that will replace the income needed to sustain them? Given that Social Security benefits are likely to decrease and retirees will have to contribute more annually for health care, future retirees will almost need to replace 100% of their working income. We do believe that a Social Security benefit will be available--probably with a lower benefit than currently offered along with a requirement that forces employees to work longer before receiving full benefits. We believe that a defined benefit system is the best and the most economical to administer. We also feel a good future retirement system should replace 60 percent of working income. That is more than our current system which replaces only 54 percent.

How do you make up the difference? If you assume there will be some benefits from Social Security available then the remainder must be provided through a supplemental retirement plan. This plan would require both an employer and employee contribution. Having an employer match is critical to increasing employee participation. We currently have two very good plans available and should do everything we can to promote increased participation and an employer contribution.

You must remember that it is difficult for an employee to understand the need to plan for their future when they don't have the income to cover their current commitments. Thus an education program is vital. Employees must understand the need to plan for their future. For many years state employees were given an opportunity to attend training designed to help them plan for retirement, the education of their children and financial stability. Like many beneficial programs in state government this was eliminated by budget cuts many years ago.

Currently, there is considerable debate about working longer before retirement. Many retirees are returning to work because recent losses to their defined contribution plans have forced them to supplement their retirement income. We feel that if you want an employee to work longer then give them some incentive to stay. In state government there is no incentive to work longer. For most employees the best course of action is to retire and use their knowledge and skills to secure a position outside of state government. Raising the retirement age or eliminating early retirement may in fact cause employees to look elsewhere earlier in their careers. That just increases the cost of recruitment and training for their replacements.

Having said all that, how do you pay for it! Success requires commitments from the Governor, General Assembly, Department Heads, the Retirement Systems, all employee associations and of course state employees. Given the current funding needs for our retirement system the General Assembly must make future funding a top priority in every session. Increasing returns on investments along with lowering fees to money managers is critical.

Unfortunately fees have only increased over the past decade. A 552 percent increase in pension fees over the last nine years at time when fund growth increased only 13.75 percent is not a good deal for the state of North Carolina, it's a good deal for pension fund managers.

This brings me to SEANC's recommendation to create a system of checks and balances by sharing investment decisions with the state treasurer and a board of trustees. North Carolina is one of less than a handful of states where a sole trustee makes all the decisions regarding public pension fund investments, while more than 46 states have recognized the need to remove the opportunity to choose money managers for personal or political gain. Accusations of impropriety, whether or not they are founded, have brought attention to the potential for

abuse of state retirement funds when choosing money managers. I think we all remember articles published by former Deputy Treasurer to Harlan Boyles who noted former Treasurer Richard “Moore paid out \$1 billion in management fees while at the same time collecting more than \$1.5 million during his political campaign for governor.”

It is tough to have this conversation given today’s economy. Jobs are hard to find and those who have jobs are staying put. But, as the economy picks up, and it will, competition for the most qualified employees and teachers will increase tremendously. Fair pay, a strong retirement and health care plan and a good working environment are essential to recruiting and retaining the type of employees this state needs to provide the critical services our citizens want and expect. We need to plan for the future but a plan without commitment from all the stakeholders it will not succeed.