THE DAILY CALLER

South Carolina pension officials succumb to Wall Street greed

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South Carolina's pension fund is running a deficit of $14.4 billion, and critics say that like so many other states across the country, South Carolina pension officials were blinded by the sparkle of Wall Street into making risky investments with taxpayer money.

"We have people making decisions that may be unduly influenced by huge sums of money," Curtis M. Loftis Jr., South Carolina's state treasurer, told The Daily Caller.
Loftis is working to revamp the pension system by cutting down on the risk of losing money in an economic downturn and removing what he sees as a layer of Wall Street secrecy.

"It's all shaded by the lack of transparency and accountability," he added. "It's bleeding money from tax payers' coffers — that should be invested — into the coffers of Wall Street and others."

In an effort to produce faster returns to close in on the shortfall, state pension investors are engaging more frequently in alternative investments. Instead of using traditional public stocks and bonds, this money is being handled by Wall Street brokers in private equity firms and hedge funds.

These firms have the privilege of charging fees that run high into the millions. Just last year South Carolina paid $344 million in fees, without being told what specifically they were paying for.

"Public pension plans represent the largest inflow of cash into Wall Street," Loftis said.

"This lack of transparency and accountability keeps the playing field unlevel. So instead of owning that bus, we are still riding it."

Chris Edwards, an expert on federal and state tax and budget issues at the libertarian Cato Institute, told TheDC that although corruption has been rife in state pension investment for years, he is more optimistic about reforms on the state level than, for example, in the federal budget.
"The corruption problem is caused by the fact that it's such a lucrative business for Wall Street firms to manage these defined benefit plans. They have a big pool of assets and they need to make all of these active investment decisions," Edwards said. "We don't need that; it's just asking for trouble."

"But there is progress. It's slow, but it's happening," he added.
Edwards praised states that have made efforts to increase the retirement age and contributions required by state and local workers, as well as reducing the benefits employees receive under their pension plans.

“Scott Walker’s pension reforms were actually not in themselves the slightest bit controversial,” he said. “And these sorts of reforms we’ve seen in numerous states.”

“It has been a problem in some heavily unionized states, like Wisconsin and Illinois. The unions have exacerbated the problem. They have often pushed for excessive pensions.”

Ultimately, Edwards advocates for states switching from defined benefits plans to 401(k) or defined contribution plans. He believes this will solve the problem of underfunded and overpromised pensions. As well as eliminating corruption because the power to allocate assets will be put in the hands of individual workers and local governments.