



## PUTTING PENSION COST IN CONTEXT: SOUTH CAROLINA

This brief on South Carolina is part of a series of state reports that compare pension obligations to subsidy spending for either FY 2018 or FY 2019, depending on data availability.

The measure chosen for pension obligation is the employer normal cost, which is the portion of the total normal cost (i.e. present value of future benefits allocated to a particular fiscal year) that is attributable to employers. The employer normal cost is obtained from annual financial statements and actuarial valuation reports – either extracted directly or calculated by: 1) multiplying covered payroll by the employer normal rate; or 2) subtracting the employee share from the total normal cost; or 3) subtracting legacy costs (i.e. annual payment needed to amortize the unfunded actuarial accrued liabilities) from actuarially determined employer contribution. Where the necessary information is not provided, the employer normal cost is estimated by multiplying the total normal cost by the actuarially determined employer contribution (rate) as a percentage of total contribution (rate).

The cost of economic development incentive programs was obtained from annual reports from economic development agencies, state tax expenditure reports, and GASB Statement No. 77 Tax Abatement Disclosures in annual financial reports. We also consider corporate tax dodging via offshore tax havens as reported by U.S. PIRG. Where data for a particular program or tax expenditure is not available for the year of study, the most recent data (but no earlier than 2016) is used as an estimate.

<b>2019 South Carolina Public Employee Pension Obligations</b>	<b>\$213,876,520</b>
<b>2019 Cost of South Carolina Subsidies and Corporate Tax Breaks</b>	<b>\$475,045,219</b>

South Carolina's Public Employee Benefit Authority (PEBA) administers retirement plans for state employees, police officers, legislators, judges and solicitors, and National Guard members. The total employer normal cost total for 2019 is \$213.9 million [1-5]. The state's accumulated unfunded liabilities have prompted the governor to propose closing the current defined benefit plans and putting all new employees into defined contribution plans.

The state's past funding shortfalls can be partially attributed to the state's lavish economic development subsidies. In 2019, these included \$28.8 million in funds for business recruitment, \$213.6 million worth of tax credits for job creation and capital investment, another \$56.9 million credits for corporate expenses such as R&D and headquarters relocation, and at least \$33.2 million in tax rebates for film production [9, 10]. There is also an Enterprise Zone program, the cost of which is not stated in its annual report [11]. An estimated \$140 million taxes were lost to offshore tax havens [12].

Altogether, appropriations and lost tax revenue totaled at least \$475 million, more than twice the amount needed to fund the state’s pension obligation.

The state’s subsidy spending has included some megadeals. South Carolina signed a number of enormous deals early in the past decade with Boeing, Volvo, Amazon, and others. Just eight companies are getting \$1.8 billion, according to compilations by Good Jobs First. These are multi-year deals that have a continuing impact on state finances. The high cost has historically been shrouded by the Palmetto State’s remarkable lack of transparency. This has begun to change thanks to the adoption of GASB Statement No. 77 on Tax Abatement Disclosures. New compliance with the landmark rule by local governments offers a glimpse into the heavy cost of targeted subsidies. For example, in 2017, school districts in South Carolina reported losses totaling \$318 million, according to a [report](#) by Good Jobs First. Disappointingly, the state government has yet to adopt the accounting rule, so the public may be missing valuable information in addition to what is provided in the tax expenditure report.

Paring down corporate subsidies could make a significant difference in safeguarding the retirement benefits for which public employees worked so hard. In South Carolina’s case, improving transparency is crucial for accurately gauging the true cost of economic development incentives to the state’s fiscal health. But even for those programs that *are* accounted for, a trimming of less than half would cover pension funding.

## Subsidy Program Costs

Economic Development Subsidies and Corporate Tax Breaks	Subsidy Amount
Rural Infrastructure Fund* [8]	\$6,950,000
Set-Aside Fund* [8]	\$14,825,000
Governor’s Closing Fund* [8]	\$7,000,000
Job Development and Retraining Credit + Apprenticeship Credit [9]	\$86,256,000
Investment Tax Credit (including Angel Investor and Venture Capital) [9]	\$55,661,000
New Jobs Credit [9]	\$71,612,000
Corporate Headquarters Credit [9]	\$1,417,000
Research Expenses Credit [9]	\$55,484,000
Film Incentives – Rebate of Admission Taxes [9]	\$7,994,000
Film Incentives – Wage and Supplier Rebate [10]	\$25,169,192
Film Incentives – Sales and Use Tax Exemption**	unknown
Film Incentives – Tax credit**	unknown
Enterprise Zone [11]	unknown
Corporate tax dodging via offshore havens [12]	\$142,677,027
<b>TOTAL</b>	<b>\$475,045,219</b>

\* the latest data for these is from the 2018 calendar year.

\*\* the existence of these programs is based on the South Carolina Film Commission [website](#).

## Source Documents

(Accessed February 19, 2019)

- [1] South Carolina Retirement System (SCRS). 2017. “Actuarial Valuation Report as of July 1, 2017.” <https://www.peba.sc.gov/assets/scrsval2017.pdf>.
- [2] Police Officers Retirement System (PORS). 2017. “Actuarial Valuation Report as of July 1, 2017.” <https://www.peba.sc.gov/assets/porsval2017.pdf>.
- [3] Retirement System for Members of the General Assembly of the State of South Carolina (GARS). 2017. “Actuarial Valuation Report as of July 1, 2017.” <https://www.peba.sc.gov/assets/garsval2017.pdf>.
- [4] Retirement System of Judges and Solicitors of the State of South Carolina (JSRS). 2017. “Actuarial Valuation Report as of July 1, 2017.” <https://www.peba.sc.gov/assets/jsrsval2017.pdf>.
- [5] South Carolina National Guard Supplemental Retirement Plan (SCNG). 2017. “Actuarial Valuation Report as of July 1, 2017.” <https://www.peba.sc.gov/assets/scngval2017.pdf>.
- [6] South Carolina Department of Revenue. 2018. “South Carolina Tax Incentives for Economic Development.” [https://dor.sc.gov/resources-site/lawandpolicy/Documents/SC\\_TIED\\_Complete.pdf](https://dor.sc.gov/resources-site/lawandpolicy/Documents/SC_TIED_Complete.pdf).
- [7] South Carolina Comptroller General’s Office. 2019. “Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019.” [https://www.cg.sc.gov/sites/default/files/Documents/Publications%20and%20Reports/Comprehensive%20Annual%20Financial%20Reports%20\(CAFR\)/FY2019/FY2019CAFR.pdf](https://www.cg.sc.gov/sites/default/files/Documents/Publications%20and%20Reports/Comprehensive%20Annual%20Financial%20Reports%20(CAFR)/FY2019/FY2019CAFR.pdf).
- [8] South Carolina Coordinating Council for Economic Development. 2019. “2018 Annual Report of Economic Development Set-Aside Fund, Governor’s Closing Fund and Rural Infrastructure Fund Activity.” [https://www.sccommerce.com/sites/default/files/2019-05/cced\\_annual\\_report\\_2019\\_-\\_final.pdf](https://www.sccommerce.com/sites/default/files/2019-05/cced_annual_report_2019_-_final.pdf).
- [9] South Carolina Revenue and Fiscal Affairs Office. 2020. “Tax Expenditure Report FY 2018-19 to FY 2020-21.” [http://rfa.sc.gov/files/TAX%20EXPENDITURE%20REPORT%20FINAL%201-9-2020\\_0.pdf](http://rfa.sc.gov/files/TAX%20EXPENDITURE%20REPORT%20FINAL%201-9-2020_0.pdf).
- [10] South Carolina Film Commission. 2019. “South Carolina Film Incentives Wage and Supplier Rebate 2019 Account Activity.” <https://filmsc.com!/userfiles/2019%20Rebates.pdf>.
- [11] South Carolina Coordinating Council for Economic Development. 2019. “2018 Annual Report of Enterprise Zone Activity.” [https://www.sccommerce.com/sites/default/files/2019-09/EZ%20Annual%20Report%202019%20-%20Final\\_0.pdf](https://www.sccommerce.com/sites/default/files/2019-09/EZ%20Annual%20Report%202019%20-%20Final_0.pdf).
- [12] U.S. PIRG Education Fund. 2016. “Picking up the Tab 2016: Small Businesses Bear the Burden for Offshore Tax Havens.” <https://uspig.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>