



# LEGISLATIVE *Update*

State Employees Association of North Carolina • www.seanc.org  
P.O. Drawer 27727 • Raleigh, NC 27611 • 800-222-2758/919-833-6436

July 12, 2013

## Cowell Hopes to Gamble With Retirement Security

With the end of the General Assembly session in sight, State Treasurer Janet Cowell pulled out the big guns this week in her pursuit for more ability to gamble state employees' retirement security on high-risk investment schemes.

Cowell went to the legislature herself this week to personally lobby Senate Bill 558, which would expand the percentage Cowell can legally invest in "alternative investments" – risky ventures such as hedge funds, real estate and credit markets – from 34 percent to 40 percent. What's more, we hear that hedge fund managers from out of state who stand to make millions from the bill's passage contacted legislators as well.

SEANC strongly opposes this bill. State employees and retirees who place 6 percent of their hard-earned paycheck into the retirement system each month do not want to roll the dice on any more risky investment schemes.

Since 2000, the N.C. General Assembly has allowed investments in alternatives to grow from 5 percent to 34 percent of the retirement system with no positive growth to show for it. The truth is that North Carolina's returns on private equity investments in the last 10 years has been poor for public employees with a 2.2 percent return, when the State Treasurer is charged with investing funds to yield a 7.25 percent return. Simply put, the math just doesn't add up and expanding the use of risky alternative investments threatens employees' retirement security.

- **It's unnecessary**
  - SB 558 is not needed. Treasurer Janet Cowell has authority to invest 34% in alternative investments and currently uses only 20%. So what is the necessity to expand this authority to 40%?
- **It's a losing strategy**
  - Since the expanded use of alternatives, the State Employees' Retirement Plan has dropped from 112.8% (2000) to 95.4% funding (2012). An independent financial analysis of N.C.'s plan ranks the state No. 23 of 23 public pensions studied through June 30, 2011 on private equity investments noting that the average is 9.3%, but N.C. has yielded only a 2.2% return.
- **It's expensive**
  - The cost of alternative investments outweighs the payout. Management fees, trading expenses, deal costs and carried interest generally mean 35% or more of investment gains disappear from alternative investments.
- **It's risky**
  - The big winners in alternative investments are money managers in New York, California and Illinois. They share with the retirement system when investments

### What do you think?

Let your legislators know that SB 558 is the wrong way to go by calling the General Assembly's main phone line at (919)733-4111. Also, be sure to come out to the General Assembly on Monday night to help SEANC lobby against the bill. Directions to the Legislative Building [can be found here](#).

gain, but never share in a loss. The retirement system and its members absorb the entire loss.

As of now, SB 558 has been referred to the House Finance Committee. Cowell is sure to be pushing hard for it to move to the floor for a vote in coming days before the session ends.

SEANC members are encouraged to come out to the legislature on Monday night to lobby House members against the bill as well. If you are available, [click here](#) to let us know you are coming. Directions to the Legislative Building can also be found on this page.

### **Budget deal in sight?**

After a quiet month on the state budget front, there were indications this week that legislators may be close to a deal on tax reform and ultimately a compromise on the budget.

It seems that the tax debate has stymied the budget debate – which makes sense because legislators must know just how much money they have before they can spend it. But Sen. Tom Apodaca (R-Henderson) was quoted on Friday afternoon saying he felt a deal on both tax reform and the budget would be reached by early next week.

He even went further, saying the entire legislative session may be wrapped up by the end of next week.

As state employees know, the final weeks of a legislative session can be the most important, when everything begins moving at a frenzied pace. SEANC's legislative team will be at the legislature until the final gavel falls to make sure members are represented and legislators remember the importance of public services.

---

*The SEANC Legislative Update is published when the N.C. General Assembly is in session by SEANC's Legislative Affairs Department. For more information, contact Legislative Affairs Director Ardis Watkins at [awatkins@seanc.org](mailto:awatkins@seanc.org).*