EMPLOYEES'
RETIREMENT SYSTEM
OF GEORGIA

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To Retirees, Members and Beneficiaries:

The purpose of this letter is to provide information about the current financial condition of the Employees' Retirement System of Georgia (ERS) and additional information about the cost-of-living adjustments (COLAs) for retirees.

At the annual meeting of the ERS board of trustees held in June 2007, the board approved a 1.5% COLA for retirees effective July 1, 2007 but took no action on the 1.5% COLA to be effective January 1, 2008. In recent years, when the funding status of ERS was higher, the board had approved both of the COLAs at the same time.

The financial condition of ERS is now changing, as further explained below, and the board is currently studying the ERS financial condition relative to awarding the January 1, 2008 COLA. The board is sensitive to the significance of the COLA to all retirees. However, the board also understands its fiduciary responsibility to all of its members, retirees and State of Georgia taxpayers to fully understand the financial effects of the COLA and ERS' financial condition prior to approving the COLA.

ERS may only award COLAs according to the rules established by law. The Official Code of Georgia, Title 47, Chapter 2, Section 29, provides for postretirement benefit adjustments as follows:
(a) On a date to be established by the board of trustees, but not before April 1, 1967, the board of trustees is authorized to adopt a method of providing for postretirement benefit adjustments for the purpose of maintaining essentially no less purchasing power for a beneficiary in his postretirement years. Such method shall be based upon:
(1) Recommendation of the actuary for the board of trustees;
(2) Maintaining the actuarial soundness of the retirement system;
(3) Its application to the retirement income of members retiring on or after the adoption of such method by the board of trustees; and
(4) Any additional contribution by the member in an amount not to exceed one-fourth of 1 percent of his monthly earnable compensation.

Reports of the Actuary indicate that the *funded ratio* of ERS has decreased from 100.5% in 2003 to 94.5% in 2006. The funded ratio of a retirement system is determined as the ratio of its actuarial assets to its actuarial liabilities. While ERS is a properly funded retirement system in accordance with the law, its financial condition has been declining over the past several years. Please refer to the attached charts illustrating the following:

1. The number of state employees has been stable over the years, but, as the baby boomer generation ages, the number of state retirees continues to grow. ERS is becoming a mature retirement system, and the ratio of retirees to active employees has nearly doubled over the past ten years. Furthermore, **the cost of ERS COLAs approximates $250 million per year**, an amount that **will soon exceed the total annual funding** ERS receives from the state as the employer. These numbers can be evidenced in the ERS actuarial and audited financial reports.

2. The ERS funded ratio has fluctuated over time, but it has decreased to below 100% over the past several years. **ERS is no longer fully funded.** Unless additional funding comes in the form of increases in investment returns, state contributions, and/or employee contributions, **the ERS funded ratio will continue to decline**. This has been substantiated by the Actuary. While the ERS funded ratio is 94.5%, other funds' funded ratios are:

Public School Employees Retirement	110.8%
Judicial Retirement System	121.6%
Legislative Retirement System	124.6%

3. The state as the employer contributes 10.41% of employee payroll each year into ERS as its share of the cost of retirement benefits. By comparison, ERS state employees contribute a relatively low share of the cost for retirement benefits – 1.25% of pay. ERS retirement benefits and Georgia teacher retirement benefits are nearly identical – yet Georgia teachers contribute 5% of their pay for retirement benefits. The levels of employee and employer contributions to ERS could be changed by law and by budget, respectively, to attain greater funding. Alternatively, the state legislature could approve a New Hire Plan that is more affordable.

4. Investments are earning the actuarially-assumed 7.5% rate of return, but the statutory restrictions on how ERS assets may be invested limit the amount of excess returns ERS can earn. ERS needs increased exposure to broader investment options to improve its investment returns. State law would need to be changed in order to do this.

5. Future retirement bills that add costs resulting in increased liabilities to ERS will further deteriorate ERS' financial condition. The state must be very careful to analyze future changes to the retirement plans to avoid further erosion of ERS' financial condition.

In summary, ERS continues to study whether additional funding is required to properly fund the system. Whether such funds come from investments, the state as the employer, or the employees, ERS must seek to improve its financial condition.

ERS continues to study the history of awarding retiree COLAs. A separate research study summarizing the COLA changes over time is being finalized.

Respectfully,

Michael J. Nehf
Executive Director, Employees' Retirement System of Georgia