



COLA Update

Georgia State Retirees Association

January 12, 2008

So how does 2% feel?

GSRA issued an Action Alert prior to the December 2007 ERS Board Meeting. Many GSRA members, greatly concerned about the ERS Board's decision to decrease the COLA for January 2008, contacted their legislators and other State officials. Several who corresponded with the Governor's office received identical replies from Governor Perdue. We thought it appropriate to share his message with all of our members. However, our providing a copy of his response (below) should not prevent others from contacting the Governor and receiving their own personalized copy.

Sonny Perdue
GOVERNOR

Dear (name):

Thank you for your letter concerning cost of living adjustments (COLAs) for retired state employees. I appreciate your concerns.

The board is sensitive to the significance of the COLA to all retirees. However, the board also takes into account its fiduciary responsibility to all of its members, retirees and State of Georgia taxpayers to examine 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. (O.C.G. Title 47, Chapter 2, Section 29).

Unlike the Teachers' Retirement System, ERS was never "pre-funded" for COLAs. In other words, the Board of ERS has to make a determination regarding the amount of increase that can be awarded to retirees. Typically in the past, increases have been awarded at a three percent level. In the fall, when the Board asked the actuary to project the financial status of the system for thirty years with annual three percent ad hoc COLAs, they discovered the system could not support three percent increases. So, the Board reduced the January COLA and asked the actuary to research the issue and provide them with some long-term financial options for COLA administration in the spring.

I hope this helps explain why the Board made their Fall COLA decision. The Board acted in a responsible fiduciary manner and because of their foresight, we are also analyzing the long-term actuarial soundness of other retirement systems administered by ERS.

Again, thank you for contacting me. Be assured that I remain committed to the future financial stability of Georgia's retirement systems.

And now the rest of the story . . .

In this standard response letter sent to some Georgia retirees, Governor Perdue attempts to explain why state retirees will receive only 2% COLAs this year. The Governor's basic justification is that the Board acted prudently because of the financial condition of ERS. The Governor's letter

does not address the inequity of the funding provided to ERS being less than that provided to other state retirement systems; nor does it address the reduced COLA for retirees of the Employee Retirement System while retirees of all other state-funded pensions systems will receive a 3% COLA. Nor does the Governor acknowledge any willingness to address ERS funding issues and COLAs in future years.

In GSRA's effort to understand the dynamics of the COLA issue, we reviewed several years of ERS Board meeting minutes, and on August 28, 2007 we filed a request for information under the Open Records Act. The requested records consisted of documentation (written and electronic) of administrative actions, correspondence, and reports generated by the ERS Executive staff, ERS Board, Executive staff and actuary regarding the July 2007 and January 2008 COLA increase.

Our information indicates that all of the justification for the reduced COLA was developed after the decision was made not to award the COLA. These records also show that:

- Between 1985 and 1991 the COLA cost was added to the employer contribution rate.
- Between 1992 and 2000 the employer contribution rate was held almost constant.
- In 2001 the employer contribution rate was significantly reduced.

Beginning in 2001, the employer contribution rate was reduced to cover only the normal pension benefit payout requirement. In essence, the funding for COLAs was deducted from the budget section providing funding for ERS in 2001 and used to fund other areas of the budget. The employer contribution rate was reduced from 14.5% to 10.41%. Since that time, the cost of the COLA has been absorbed by investment income or added to the unfunded accrued liability; thereby increasing the unfunded percentage.

Based upon our research, we also found that well over a year ago, in the June 2006 ERS Board meeting, a discussion occurred about eliminating the Board of Trustees' ability to "bump" retiree benefits—at the time of retirement. Governor Sonny Perdue's Chief Financial Officer (CFO) Tommy L. Hills questioned the Board's need to provide this benefit when the State had provided a \$25,000 state tax exemption for all retirees. This exchange signaled that retiree benefits were being targeted for reduction.

Apparently, this philosophy and desire resulted in proposed legislation, SB 160 and HB 449. As we know, in the late 1980's Georgia retirees were exempt from paying Georgia income tax on their pension benefits. A Federal retiree sued the State because he was not allowed the same exemption on his Federal pension benefits, and won the suit. The State chose to remove the exemption and to tax all retiree benefits, but in its place provided a 3% increase given on the first \$37,500 of a retiree's pension benefit. The ERS explains that SB 160 and HB 449 *"amend 47-1-30 to terminate on July 1, 2007, the authority of a board of trustees to increase benefits paid future retirees and beneficiaries in order to offset, wholly or partially, the taxation of retirement benefits. No such increase shall be granted on or after such date. This bill does not apply to other post-employment benefit increases allowed by statute such as regular retiree cost of living increases."* SB 160 failed to pass a Senate vote on March 27, 2007, and HB 449 remains in the House Retirement Committee.

A year later in June 2007, CFO Hills apparently influenced the decisions regarding the award of COLAs to ERS retirees. The documents from our open records request reflect the following:

- On June 20, 2007, Executive Director Nehf states that the June 21, 2007 ERS Board agenda includes motions to "approve the COLAs of 1.5% for retirees effective 7/1/07 and 1/1/08."
- On June 20, 2007, CFO Tommy Hills asks that "you not approve the COLA for all of the FY 08 until the board has a chance to discuss it more fully and that you only approve the 6 months beginning July 1, if at all."
- On June 20, 2007, an ERS Board member states that "the COLAs on the agenda proposed for approval apply to the upcoming fiscal year and have already been taken into account for actuarial purposes."

The Board agenda for June 21, 2007 was modified to comply with CFO Tommy Hills' request, thereby approving only the July 1, 2007 increase of 1.5%. By removing the January 2008 COLA of 1.5% from the agenda, the need for open discussion was eliminated; thereby complying with CFO Hills request.

The GSRA member monitoring the June 2007 ERS Board meeting noted that the January 1, 2008 COLA was not approved in the same manner as with other pension plans administered by the Employee Retirement System. When the August 2007 ERS Board meeting generated no discussion of the January 2008 COLA, GSRA's newsletter included an article about the failure of the ERS Board to approve the COLA.

A flurry of activity resulted as the news spread that the January 2008 COLA had not been approved. ERS hurriedly developed various charts and graphs to justify their position. The funding ratio issue was raised; the "retirees are doing better than the cost-of-living" issue was trotted out; and the "pre-funding" issue surfaced. All of this activity appeared to take place to attempt to provide reasoning for the Board's decision. As stated in a June 20, 2007 e-mail, "estimated returns for the valuation year ended June 30 will be in the 15% range, giving a substantial boost in the funded status for the June 30, 2007 actuarial evaluation. . . ."

Upon learning of the eliminated COLA, retirees began expressing concern to executive and elected representatives. By the October ERS Board meeting, a decision was apparently made to provide a 0.5% COLA---one-third the normal increase of 1.5%---on January 1, 2008. Although investment income for FY 2007 approached 15% and was expected to improve the funded percentage above the 94.5%, if the Board approved the normal increase of 1.5%, it would obviously lose credibility in the funding ratio debate. Now, of course, ERS will cite the Board's reduction in the COLA to 2% for 2008 as the reason for a rise in the funded ratio.

The ERS Board can affect the funding ratio primarily in two ways—modify the employer contribution rate or modify the COLA percentage. In all instances this ERS Board has chosen to lower the COLA percentage. ERS Board meeting minutes show that the Board has not discussed raising the employer's contribution rate from the current 10.41% back to the 14.5% level of previous years.

Apparently, the current Administration has decided to permanently curtail the annual COLA for the Employees Retirement System while continuing to grant 3% annual increases to retirees from other State-funded pension systems. In December 2007 a Joint Subcommittee of the House and Senate Retirement Committees held a meeting for the purpose of discussing bills—SBs 327, 328, and 329—related to creating a new retirement plan. Although not on the agenda, Governor Perdue's CFO Hills presented and discussed an actuarial projection (prepared by the ERS actuary) to permanently reduce the annual COLA from 3.0% to 1.5%. This proposal would affect all current members of ERS that are now retired, or that are now working and will retire at some future time. We point out that the new proposed retirement bills, depending on how funded and implemented, can decrease funds into the current "old" and "new" retirement plans.

So when the Governor refers to the financial stability of Georgia's retirement systems, he is referring to your pension payments remaining constant with little or no COLA increases which will reduce the outflow of the system and will in fact make it more financially stable. However it will NOT provide to the retiree what the Georgia General Assembly intended when it passed legislation 40 years ago in 1967 to provide

. . . 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.

-----O.C.G.A. 47-2-29(a)

GSRA will continue to work with the Governor's Office, the Legislature and ERS to explain the impact of recent decisions by the ERS Board. GSRA's mission is to provide you, our members, with more definitive information about the discussions regarding your future pension payments. Remember, as a current or future retiree from the Employees Retirement System, you are being singled out for inequitable treatment, as all other retirees will receive a 3% COLA each year. If you feel that you should contact your elected officials to discuss your concerns, this information may assist you in drafting a letter or making a telephone call.

Published by the
Georgia State Retirees Association
P. O. Box 108
Bethlehem, Georgia 30620

Visit our website at
www.MyGSRA.com
or contact us at
webmaster@MyGSRA.com