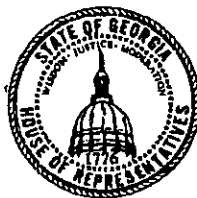


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Public Retirement System COLA

Study Committee



Final Report

*REPRESENTATIVE PAT GARDNER, CHAIR
HOUSE DISTRICT 57*

Honorable Brooks Coleman
Representative, House District 97

Honorable Debbie Buckner
Representative, House District 130

Honorable Roger Williams
Representative, House District 4

Honorable John Meadows
Representative, House District 5

Honorable Mike Coan
Representative, House District 101

Charles Walker
Retiree

Retirement COLA Study Committee

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Retirement COLA Study Committee

I. INTRODUCTION

The House Public Retirement System Cost of Living Adjustment (COLA) Study Committee was created by House Resolution 1271 during the 2008 legislative session. The membership of the Committee consisted of six state representatives: Rep. Pat Gardner, Chair; Rep. Debbie Buckner; Rep. Roger Williams; Rep. Brooks Coleman; Rep. John Meadows; Rep. Mike Coan; and retiree Charles Walker.

The intent of the Committee was to study the current issues pertaining to the Georgia Employees' Retiree System (ERS) postretirement COLA and to explore ways in which the State could fulfill its commitments to the retirees and active employees in this matter.

II. SCHEDULE OF MEETINGS

The Study Committee chaired by Rep. Pat Gardner held two meetings:

1. The first meeting was held on October 1, 2008 and had the following agenda:
 - Representative Pat Gardner, *Committee Chair* – Overview of Committee Purpose
 - John Gates, *Ph.D., Retiree*
 - Employees Retirement System of Georgia Presentation:
 - Pamela Pharris, *ERS, Executive Director* – Introductions and Roles
 - Ed Macdonald, *Actuary* – Pension Funding Overview
 - Russell Hinton, *ERS Board, Chairman, State Auditor* – Overview of COLA History
 - Pamela Pharris – COLA Comparison of SE States
 - Ed Koebel, *Actuary* – Actuarial Overview of the ERS Plan
 - Michael Kennedy, *ERS, Board Member* – Alternative Investments
 - Pamela Pharris - Questions
 - David Bundrick, *Legislative Counsel* – Overview of COLA History
 - Claude Vickers, *Georgia State Retirees Association, President*
 - Public Testimony
2. The second meeting was held on November 12, 2008 and had the following agenda:
 - Steve Stevenson, *State Personnel Agency, Commissioner*
 - Employees Retirement System of Georgia Presentation:
 - Pamela Pharris, *ERS, Executive Director*
 - Ed Macdonald, *Actuary*
 - Public Testimony

Retirement COLA Study Committee

III. OVERVIEW OF THE ISSUE

Two years ago for the first time in four decades, the retired members of the Employees' Retirement System of Georgia were not granted the standard 3% cost of living allowance established in 1967. They have received a 2% COLA in those years.

The General Assembly authorized the Board of Trustees of the Employees' Retirement System of Georgia in 1967 to adopt a method of providing postretirement benefit adjustments "for the purpose of maintaining essentially no less purchasing power for a beneficiary in his postretirement years," and such provision is codified in O.C.G.A. Section 47-2-29. The State must find prudent cost effective solutions to fulfill its promise to state employees so that their retirement benefits will not be permitted to erode to insufficiency, but rather that their ability to purchase the things necessary to life will remain level during their retirement years.

IV. COMMITTEE FINDINGS

Upon conducting public hearings, the House Employees' Retirement System COLA Study Committee finds that:

- Over the years, employer contributions have dropped in the Employees' Retirement System (ERS).
- The Cost of Living Adjustment (COLA) for ERS was not specifically pre-funded but was paid on an ad hoc basis.
- The funded status of the system is eroding due to:
 - the decrease of employer contribution rate,
 - the impact of financial markets,
 - the increase in the number of retirees in the system and
 - the cost of ad hoc COLAs over the last 40 years.
- The Teachers Retirement System (TRS) COLA has been pre-funded while the ERS is considered an ad hoc COLA and requires annual approval of the ERS Board.
- The TRS, the sister to the ERS, continues to provide a 3% COLA. This has created an inequity between the plans.
- There are a number of retirement systems for state employees and they all have different rules and regulations. The TRS, PSERS, and LRS have been pre-funded while the ERS

Retirement COLA Study Committee

and JRS have been considered ad hoc COLAs and require annual approval of the applicable Board with no legislative input.

V. COMMITTEE RECOMMENDATIONS

As a result of public hearings and upon its findings the House Employees' Retirement System COLA Study Committee came forth with the following recommendations:

- The state should pre-fund at least a 1 ½ % COLA for the Employee Retirement System.
- The ERS should move toward funding an additional 1 ½% COLA for retirees and current employees. Employer and employee contributions should increase to help fund COLAs and the funded status of the plan. Current law allows increasing employee contributions by ¼ if additional benefits are added. In this case, the pre-funded 1½% COLA would be the additional benefit. An immediate increase in employee and employer contributions would offset the pre-funded COLA over the longer term.
- The ERS Board should adopt guidelines to determine the granting of COLAs beyond the pre-funded 1 ½ %.
- Historical variables used to determine whether or not the fund is adequately funded need to be re-evaluated to see if they are still appropriate.
- The Group Life Insurance Plan should be closed, if allowed by law, and any remaining assets should be moved to ERS to help improve the funded status of the system thus creating funds to pre-fund the COLA.
- COLAs should not be granted to new hires after January 1, 2010.
- Since the public believes the legislature determines the COLA, consideration should be given to strengthening the role of the legislature in ensuring transparency and adequate oversight of the ERS system.

Retirement COLA Study Committee

VI. ACKNOWLEDGEMENTS

We thank the ERS Executive Director Pamela Pharris and her staff; the Chair of the ERS Board and State Auditor, Russell Hinton; ERS Board member, Michael Kennedy; and actuaries Ed Macdonald and Ed Koebel for their open communication and willingness to work with us on identifying solutions for this problem.

We also thank the following participants for their valuable contributions to our study of this issue:

- John Gates, Ph.D., Retiree
- Claude Vickers, Georgia State Retirees Association, President
- B. J. Bennett, Retiree and former Commissioner of the Merit System
- David Bundrick, Legislative Counsel
- Steve Stevenson, State Personnel Administration, Commissioner
- B.J. Bennett, GSRA, former Merit System Commissioner
- Nataliya Nemtseva, House Committee Services

Retirement COLA Study Committee

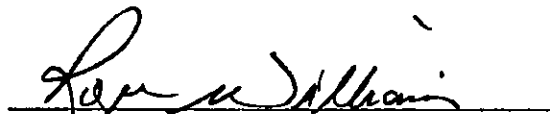
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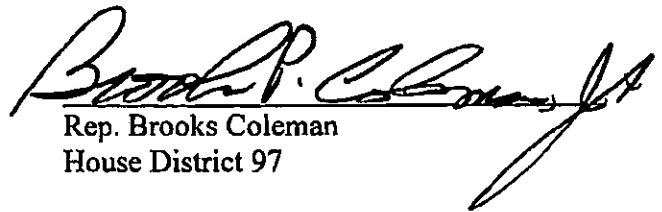
Rep. Pat Gardner, Chairwoman
House District 57



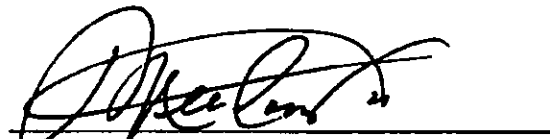
Rep. Debbie Buckner
House District 130



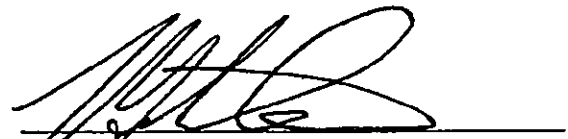
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