GSRA Newsletter

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On Our Radar

>>> SHBP – State Health Benefit Plan (SHBP) Monitoring

Most SHBP developments will be discussed in the meetings of the Board of Community Health and reflected in the actions of the Department of Community Health (DCH). Because of the importance of these discussions to State retirees, GSRA plans to continually monitor these developments.

As reported in the GSRA Newsletter (Vol. 2, No. 2), Governor Perdue's FY 2008 budget for the State Health Benefit Plan (SHBP) includes the following increases:

Increase in Employer Contributions:	
Executive Branch	$ 176 million
Legislative & Judicial Branches	9 million
Increase in Member premiums (10%)	30 million
Total Increase FY 2008	$ 215 million

DCH reports that these increases are required to reestablish a working fund balance to pay current claims. To illustrate the impact on members of the $30 million premium increase, the DCH Commissioner stated that the PPO monthly premium is projected to increase as follows:

- single coverage $ 7.11
- family coverage 21.72

The premium increase is projected to take effect for January 2008 coverage. This start date coincides with the state's change from a fiscal year (FY) basis to a calendar year (CY) basis for insurance premiums. Increases in premiums for other options were not reported.

DCH indicated that the employee share of total PPO premiums has decreased over the past several years: As reported by DCH, the members' pro rata share of the cost has changed as follows:

- Family coverage from **28**% in FY 2004 to **24**% in CY 2008.
- Single coverage from **17**% in FY 2004 to **14**% in CY 2008.

The other funding problem for the SHBP is the new requirement to project and to amortize the Other Post Employment Benefit (OPEB) costs. The GSRA Newsletter Vol. 2, No. 1 provided background information about this new requirement imposed by the Governmental

Accounting Standards Board (GASB). GASB Statements 43 and 45 now require the state government to disclose in its financial reports the future liability projections for OPEB, including the "unfunded actuarial accrued liability (UAAL)" which must be amortized over a period of 30 years.

As previously reported, Governor Perdue's FY 2008 budget includes an increase in the State employer contribution rate from 16.713% to 22.843% of salaries to produce $100 million for the OPEB obligation for State retirees. The employer contribution rate for school teachers and other personnel was not increased for the OPEB obligation.

On February 8, 2007, DCH staff submitted a report, as required by GASB Statement 43, to the Board of Community Health. For details, please see the DCH website at http://dch.georgia.gov/vgn/images/portal/cit_1210/25/28/75344255Retiree_Medical_Valuation_Report%202005_02-05-07.pdf.

Cavanaugh Macdonald Consulting LLC performed the actuarial valuation, which reflects a UAAL for the SHBP's OPEB of $15.035 billion. The good news is that the valuation was decreased by $4.248 billion based on actual retiree participation rates in Medicare Part D. DCH stated that based upon the valuation, the Annual Required Contribution for 30 years is $1.262 billion (10.87% of payroll).

GASB further requires an update of the valuation of the OPEB liability every 2 years. Many factors are considered in producing the actuarial valuation. The current valuation was adjusted downward as the result of revised assumed rates of withdrawal, disability, retirement and mortality to reflect the experience during the 2004-2005 time period.

Recognizing that the number of retirees is increasing each year, GSRA requested that the DCH provide the number of retirees covered under the SHBP at six-month intervals since July 2004. The retiree information provided is as follows:

State Health Benefit Plan Retiree Information
July 2004 through January 2007

As of Date	State	School System	Other	Total Retirees
July 2004	26,183	47,511	17	73,711
January 2005	26,484	50,018	912	77,414
July 2005	27,050	49,999	813	77,862
January 2006	27,545	52,799	862	81,206
July 2006	27,903	52,819	739	81,461
January 2007	28,221	54,804	818	83,843

School System includes certified teachers, school service personnel and school board members.
Other includes Cobra and Retired Contract Employees

The percentage increases in retiree SHBP members during the last two years are:

	Jan 05 to Jan 06	Jan 06 to Jan 07
•State	4.0%	2.4%
•School Systems	5.5%	3.8%

DCH reports that the next steps in the process for developing policy for handling the OPEB are:

1. Valuation report presentation to the Legislative Leadership and appropriate Legislative Committees;
2. DCH Board resolution on revenue allocation for GASB Statement 43 in March, and
3. Decision on GASB Statement 45 Contractual Requirements in May

As a follow-up to the announced next steps for developing OPEB policy, as of this publication date, Legislative Leadership has not taken a position on the valuation report. Further, the DCH did not present additional information regarding the OPEB requirements in the open session of the Board of Community Health at the Board Meeting on March 8, 2007. Therefore, at this time, no further information is available regarding the anticipated policy.

>>> Senate Bill 80 - Alternative Investments for ERS

As the General Assembly returned from its recent two-week break, Senate Bill 80 had progressed to its second reading in the Senate. SB 80 was brought up in two different Senate Retirement Committee meetings. In the first meeting held on February 21, 2007, the committee vote was 3-3 with Senators Bill Heath, Jack Murphy, and Nancy Schaefer for the bill and Senators Gail Davenport, Preston Smith and Horacena Tate against it. Senator Doug Stoner did not vote for or against. In the second committee meeting held on February 27th, the committee vote was 3-2 with Senators Bill Heath, Nancy Schaefer, and Preston Smith for the bill and Senators Gail Davenport and Horacena Tate against it, and thus the bill was sent to the Senate with a "Do Pass" recommendation. Neither Senators Doug Stoner nor Jack Murphy voted on the bill in the second meeting. The Retirement Committee did not make any changes to the bill from the original introduced legislation.

GSRA noted that many of our members contacted their senators. Initial responses were varied and appeared to be more individual than scripted. However, as the bill was on its way from the Committee to the full Senate, longer, more "scripted" responses were going out from legislators to our members. The apparent intent of the responses, which one might assume came from the Senate Leadership, was to provide everyone with a real "warm and fuzzy feeling" about how wonderful the proposed legislation is, and how it will benefit both the state and retirees. Summarized portions of these responses along with GSRA comments on the responses appear in the Special Section at the end of this newsletter.

Education Corner

Save money on some generic prescription drugs

Are you a retiree on a fixed income? Are you looking for options on how to stretch your monthly retirement check? Wal-Mart/Sam's Club, Target and possibly some other stores offer a prescription drug program that could help you. These generic drug programs are independent of insurance coverage options and are available to everyone, including retirees who are covered by any option under the State Health Benefit Plan (SHBP). They offer a thirty-day supply of certain generic drugs for a $4.00 flat fee.

These generic drug programs could save GSRA members a significant amount of money. For details of the Wal-Mart program go to www.walmart.com, click on "Pharmacy" then choose "Generic Drug Program", where you will see a list of drugs included in the offer. Or, go to www.target.com, click on "Health" then choose "Pharmacy & Prescription" to see program details for Target.

To demonstrate a retiree's savings under the $4 generic plan, the pricing of one generic drug was examined. However, one must first determine the copayment under the SHBP option and how much the SHBP will pay to the pharmacy for the prescription.

All options under the SHBP, except for the High Deductible Health Plan, require a $10 copayment for Tier 1 prescription drugs. As a general rule, Tier 1 pharmacy consists of generic drugs. Therefore, if your physician has authorized generic substitution and that generic drug is included on the $4 program with Wal-Mart and/or Target, you can save $6 for each 30-day fill or refill. Your $4 purchase in one of these programs also saves the SHBP the difference between the normal $10 copayment and the State's allowed price for the drug. The allowed price, payments, and savings for the sample generic drug are as follows:

Where Purchased	Price Allowed by SHBP Option	Your cost or Copayment	SHBP Pays Pharmacy
Generic drug purchased at your pharmacy	$25.00	$10.00	$15.00
Generic drug under Wal-Mart and/or Target $4 generic pricing		$4.00	$.00
Savings to Retiree		**$ 6.00**	
Savings to SHBP			**$ 15.00**

This is a win-win situation since you took less money out of your pocket and there was less cost to the SHBP.

If you are enrolled in a Medicare Part D prescription drug plan that has a front-end deductible (normally $265 for 2007), coordination between your Medicare plan and the SHBP should generate the same savings as shown above. In other words, if you have not met your Part D deductible, you would pay $4 and save $6 with the SHBP saving $15. If the prescription claim has been properly filed with both plans, you should pay only the SHBP option's copayment until the price allowed by your Part D plan reaches the Medicare Part D deductible. In the example, the $4 will accumulate toward your Part D deductible.

If you have met your Part D deductible, your payment may be as low as $1, depending upon the Part D plan in which you are enrolled. In this case, your Part D Plan would pay $3 to the pharmacy. Remember, for your maximum savings, your pharmacy **MUST** file your drug claims with your Part D Plan <u>and</u> with the SHBP. Although all pharmacies should automatically file with both your Part D Plan and the SHBP, you should always inspect the receipt or ask **each time you fill or refill the prescription** to make sure the claim has been filed with both plans.

It is important to remember that all generic drugs are not covered by the $4 plan. The total savings for any generic will depend on the price allowed for that drug. Also, it is possible that your current pharmacy will match the price of the $4 generic plan so be sure to ask your pharmacy before making any decision on where to purchase prescriptions.

NOTE: The GSRA membership is being provided with this educational information so that you can make prudent purchasing decisions for you and your health plan. It is not the intent of this educational information to encourage you to change pharmacies.

Special Section – Responses to Senate Bill 80

Our Action Alert of February 4, 2007, notified you about the provisions of Senate Bill 80, which was introduced by Senator Judson Hill on January 30, 2007. This Bill expands the types of investments that are permitted within public pension plans, including the Employees Retirement System. Many of you contacted your Senators. GSRA appreciates the Senator's responsiveness to members on this proposed legislation.

Below is a respectfully submitted reflection upon many of the points included in correspondence from various Senators to our members. GSRA is just as concerned as these Senators about the continued stability of Georgia's retirement plans. GSRA members, who represent literally thousands of years of devoted service to State Government, desire that State Government be administered by a competent and effective workforce. GSRA recognizes that a well-administered and effective retirement system is one of the tools necessary for Government to attract and retain such a workforce.

The format below summarizes some of the various Senators' responses (in bold type) and where there is a difference in perspective; GSRA has attempted to show another side of the issue.

- **Pension plans in Georgia are at increasing risk because of the expected number of baby boomer retirees; however the Georgia retirees' benefits are secure because of the guarantee by the taxpayers of Georgia.**

Although the number of baby boomers is predicted to heavily impact social security programs, these statistics cannot directly be translated to Georgia's Retirement systems. The most important number to the ERS is the expected number of employees who work for the State long enough to retire from State departments and institutions and receive pension benefits. Statistics will reflect that a great percentage of current employees will retire over the next several years, but that the rate of retirees will diminish in future years because of the current employee turnover rate.

GSRA recognizes that the current retirees' benefits are a contractual obligation of the taxpayers of the State of Georgia. However, GSRA members are also taxpayers, and as such conclude that none of Georgia's taxpayers should be liable to guarantee benefits because of poor decisions in "high risk" investments.

- **The retirement systems have expert and experienced staff and investment committees under the discipline of Trustees that continue to grow the retirement funds at a rate exceeding most indexes.**

  While the current retirement system investment staffs and Trustees have extensive experience and integrity, history demonstrates that unless there are laws to prohibit assumption of excessive risk, future changes in members and/or government can foster poor and/or fraudulent decisions. The GSRA is therefore concerned and opposes future permissive laws that allow "high risk" decisions that have as much risk for increased performance loss as increased performance gain.

- **SB 80 seeks to allow investment committees access to additional markets for investments that meets strict criteria for probability of growth to maximize opportunity while minimizing risk. The criteria are: (a) An annual limit of 1% per year with an overall cap of 5%, (b) Targeted funds must be successful $100 million-plus funds—not start-ups, (c) Direct investments into a specific project are prohibited, (d) 100% of ERS investment returns must be reinvested into ERS, (e) Annual reporting to the House and Senate Retirement Committees.**

  Additional markets included in the bill are private equity funds, mezzanine funds, leveraged buy-out funds, and venture capital funds. Private equity funds include investment companies and funds that provide capital on a negotiated basis generally to private businesses. Mezzanine funds provide capital for businesses that have high potential for growth and earnings but are currently unable to obtain from a bank all the funds necessary to achieve their goals. Leveraged buy-out funds provide monies for the acquisition of a company financed with a substantial portion of borrowed funds. Venture capital funds primarily invest in young companies with significant growth potential.

  Given that Georgia's retirement system is one of the best systems in the country and this status has been achieved by the current investment strategies, investments in high risk alternative types, such as described above, appear to defeat the purpose of protecting the Georgia taxpayer.

The limitation criteria stated in the bill are indeed appropriate given the jeopardy involved in the high risk investments. However, unless future legislation modifies some of the criteria, the impact of "higher earnings" will be minimal. The impact of less than desirable earnings and/or losses will have a much greater impact on the funds and taxpayer.

The limited reporting allowed by the bill is insufficient. GSRA understands the need for protecting sensitive information during initial investment negotiations. However, to forestall any question of impropriety or unethical practices, the bill should require more openness about these alternative investments after the transactions have been finalized. Trust in the integrity of the process and of all involved is greatly enhanced by an after-the-fact complete disclosure to the public of the investments and their returns. Anything less is not being forthright and true to the taxpayers of Georgia.

- **The retirement systems of Georgia are Defined Benefit Plans rather than the Defined Contribution Plans. In order to maintain an actuarially sound plan, the taxpayer's (state contribution) rate may be adjusted from time to time; however, the employee contribution rate is fixed.**

  As a Defined Benefit Plan, the Georgia taxpayer is promising to the State retiree a retirement check of the approved plan percentage of salary for life. The plan requires the retirement system to receive monies for the duration of each employee's working years from both the State and the employee. It behooves the State to invest the received funds in a prudent manner so that the actuarial projection of the ultimate liability can be paid to the employee. In fact the actuarial assumptions (which include recognition of the number of "baby boomer" employees retiring) plus the current investment returns have allowed the State to reduce its contribution as a percentage of current salaries over the past decade by almost one-third.

  GSRA recognizes that should the retirement systems have financial problems, legislation can change the mix of contributions and or modify the plan for future retirees. In fact, the plan was significantly changed in 1982 when the retirement system had financial problems. In addition to changing the benefits for future employees, employee contribution rates were increased. Competing priorities for taxpayers' money always places pressure on legislative spending decisions. Taxpayers and state employees alike should always be very concerned any legislation proposing to change the way retirement investments are managed. A prudent investment strategy relieves pressure on the State.

- **SB 80 carefully empowers the investment professionals of our retirement systems by granting them access to investment opportunities that other pension funds (42 states and over 200 university endowments) around the nation are already using.**

  Before simply following the lead of other pension funds, GSRA would urge the sponsors of SB 80 to study in detail those "other pension funds" to determine if their actual performance is in fact better than that of Georgia's retirement funds. A study of these other funds compared to Georgia's funds, and the other funds' success rate with non-traditional investments would be beneficial to anyone attempting to make a decision regarding Georgia's proposed use of higher risk alternative investment types. Since we all seem to agree that the Georgia plans are among the best managed using the current proven are alternative investments really needed to improve "one of the best?" A March 2007 Atlanta Journal-Constitution article on hedge funds noted one disastrous result of this "jump on the bandwagon" approach as follows: *"For example, last September, Amaranth Advisors LLC, a Greenwich, Conn.-based fund, collapsed after losing more than $6 billion on natural gas trades. Among its losing investors: the San Diego County Employees Retirement Association."*

- **SB 80 is not about economic development schemes or other risky ventures.**

  One of the Committees for a *New Georgia* Task force report addressed the investment of private equity. Although the report discussed the risks as well as the benefits of private equity investments, a component of the report addressed the need for economic stimulation by the use of private equity investments.

So far, GSRA has seen no evidence that the Employees Retirement System is in eminent danger, that alternative investments are a proven investment vehicle for governments, or that the investments proposed by Senate Bill 80 will enhance the investment returns of ERS. These facts, coupled with the lack of adequate disclosure, make it difficult to support General Assembly passage of this legislation.

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

Visit our website at
www.GeorgiaRetirees.org
or contact us at
info@GeorgiaRetirees.org