GSRA Newsletter EXTRA

Vol. 1 – Number 10a October 2007

Why an Extra . . . .

There are quite a few important meetings taking place in October. In addition to GSRA's First General Membership Meeting and the October meeting of the Board of Trustees of the Employees Retirement System of Georgia, there is a joint meeting of the House and Senate Retirement Committees. This joint meeting will have information presented to its membership and other legislators that "may provide insights that will help you better deliberate upcoming legislation as well as answer questions from your constituents." GSRA has requested time on the agenda to present additional information on behalf of state retirees. As this EXTRA edition of the GSRA Newsletter goes out to our membership, we have not heard whether or not GSRA will be included on the Committee's agenda.

Many of our membership may have accessed the ERS website and read the letter from ERS Executive Director Michael Nehf that is accompanied by numerous charts and graphs. Mr. Nehf will be addressing the Joint Committee meeting and these same charts and graphs will probably be included in his presentation. To keep our membership up-to-date, GSRA President Claude Vickers is releasing the following letter to the membership concerning certain points that he feels need to be presented to the Joint Retirement Committee.

An open letter to our membership . . . .

The ERS Director has published several charts and graphs on their website along with written explanation to describe "the current financial condition of the Employee's Retirement System of Georgia and additional information about the cost-of-living adjustments (COLAs) for retirees". The information is accurate to a point but it is incomplete and misleading. The following is my attempt at completing at least some of the information.

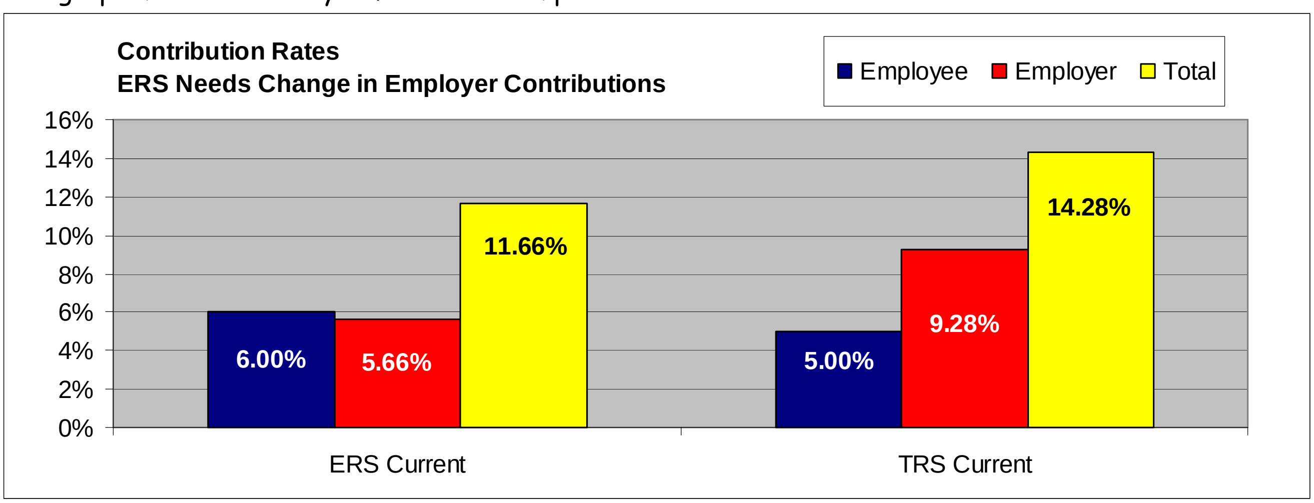
Before I get into a lot of numbers; let me say that my experience on the ERS Board and TRS Board for several years taught me that the funded percentage fluctuated depending on one or all of several factors. The ERS Board and the Director have to make decisions on situations as they arise and be prepared to act. They are called upon to do so in a responsible manner not necessarily as is requested by the Governor or by the Legislature or by the members. As a former Board member I can assure you that on more than one occasion we were requested to consider decreasing the employer contribution rate to "free" up funds for other areas of state government. These requests were always considered and acted upon in a manner consistent with what we felt was our fiduciary responsibility. We were never asked to increase the rate, when that decision was called for we were left on our own to use our discretion and best judgment. Today the current Board finds itself in a position of bringing the ERS out of a situation that they did not create but must deal with.

The information being published by the ERS shows a graph that illustrates that the members of the ERS contribute only 1.25% as employee contributions to ERS while the teachers contribute 5% to the TRS.

That's quite a disparity. Why does that disparity exist? To understand why the disparity exists, you need to go back to 1980. As you remember, in 1980 we were in a period of double-digit inflation. Salaries for both teachers and state employees had fallen significantly behind the market. Governor Busbee and the General Assembly at that time wanted to increase teacher's salaries by 9.75% to encourage them to stay in the profession, to try to attract new teachers and to mitigate the effects of inflation. They did that. When they turned to consider increases for state employees, there weren't enough funds for the proposed 8.75% increase for them, so a plan to award a salary increase of 1.75% and to pick up all but ¼ of 1% of the employee contributions to the ERS was proposed and passed. This plan saved the state 2.5% in direct costs and increased the individual state employee take-home pay because of tax not being incurred on the 4.75% "picked up" by the state in lieu of a pay raise. In conjunction with this decision, Senate Bill 42 was passed to make the necessary changes to the ERS Legislation to accommodate this pick-up. Those changes basically provided that at the time of retirement, the retiree's salary was to be increased by 4.75% for purposes of calculating retirement benefits. This bill also included the Judges and District Attorneys Retirement Systems and the Legislative Retirement System. The bill and the supporting documents from both the Governor's Office of Planning and Budget and the Legislature support that the 4.75% did in fact constitute an employee contribution, not an employer contribution.

So when you compare the ERS employee contributions to the TRS employee contributions you have to add 4.75% to the ERS employee contributions. Then the state employees' contribution to the ERS is at 6% which is more in line with the teachers' employee contributions. In so doing you have to reduce the 10.41% shown in the ERS charts as employer contributions to ERS to 5.66%. Now you're comparing apples to apples.

This graph more accurately reflects the comparison.



According to ERS information, the national average for employer contributions is double that of employee contributions. In the above graph you can see that for the ERS in the State of Georgia the employee and employer contributions are virtually the same.

So now let me "muddy" the water just a little bit more. The "new plan" Employee Retirement System was created in the 1982 General Assembly and was effective for FY 1983. That legislation set the contribution rate for the members of that system at the above-mentioned 1.25% and left the "old plan" members employee contribution at ¼ of 1%. The legislation for the "new plan" system however, did not include the pick-up provision enacted by Senate Bill 42 nor was the salary scale adjusted to put the "new plan" employees on the same effective pay level as the members of the "old system". However, language was included to allow the "new plan" members to be eligible for the COLAs.

Based on the 2000 actuarial report, in FY 2000 the employer contribution to the ERS was reduced from 15.5% to 14.5% and in 2002 was reduced again to today's 10.41%. Concurrent with these reductions, the investment market turned down and earnings dropped significantly for the two years ending in 2002. Consequently, the funded percentage of the ERS began to drop. It dropped from a high of 104% in 2000 to the current 94.5%.

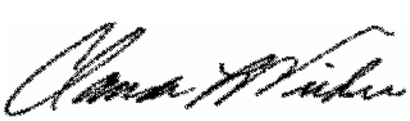
This drop in the funded percentage has been the reason for the recent discussions about the "funding problem" of the ERS and was used as justification for delaying the decision on the January 2008 COLA. During all of this discussion, the 1980 decision to "pick-up" the employee contribution has been conveniently ignored or forgotten and the discussion has centered instead on creating a perception that the members of the ERS are not paying their share.

A point of concern is that when the funded percentage began to drop in 2002 as was shown in the actuarial studies, no discussion or proposal to address the situation was made. The lack of any proposals to increase the funding continued through the next five actuarial studies. That's as the funded percentage dropped steadily from 101.1% in 2002 to the current 94.5%. Now all of a sudden the administration is concerned and has finally decided to let the Legislature know about the situation so that they can share in the problem. In my opinion, the ERS Board exercised their fiduciary responsibility by reducing employer rates when the funded percentage exceeded 100% but as the funded percentage turned down and continued its downward trend, they should have at least started to consider actions to turn it around. ERS's own charts demonstrate a resistance to consider an increase when it comes to being responsible to the members.

The Board's fiduciary responsibility requires that they try to keep the system in a sound financial position. In my opinion, maintaining the funded percentage as close to 100% as possible is a large part of that duty. That means that as the funded percentage begins to exceed or to fall below the 100% level, they should consider appropriate action to correct the situation.

By way of comparison, the graph above titled "Contribution Rates – ERS Needs Change" clearly shows that the total funding received by the TRS exceeds that of the ERS by 2.62%. According to information published by the ERS, the TRS funded percentage is now at 96.5%, only two percentage points above the ERS. The additional 2.62% accounts for the difference in funded percentage and at least partially if not completely gives the TRS the ability to pre-funds the COLAs in their actuarial assumptions. I submit to you that since the TRS funded percentage is dropping also, we will be facing the same situation and same questions from the members of the TRS in the very near future.

Thank you for your support.



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