GSRA Newsletter

Vol. 2, Number 10 www.MyGSRA.com November 2008

HOUSE COLA COMMITTEE SECOND MEETING

Representative Pat Gardner, Chair of the House Public Retirement COLA Study Committee, held the Committee's second meeting November 12, 2008. The State Personnel Agency Commissioner, Steve Stevenson, presented information about turnover of State employees and the need for performance pay. He stated that about 30% of employees leave state government within the 1st year. When questioned about the 2006 Compensation Study, he stated that the report found that the State's defined benefit plan was 190% of the private compensation market. However, when defined contribution plans (401k) are combined with the defined benefit plans, the comparative percentage drops to 140%. Mr. Stevenson stated, however, that the promises to employees and retirees should be honored. He further stated that when soliciting information from new job applicants, salary was the most important component of compensation.

Next, Ed Macdonald, the Employees Retirement System consulting actuary, provided the Committee with information about actuarial principles, benefit principles, and investment and funding policies. He stressed the value of prefunding COLAs to save state contribution costs—that by setting aside level COLA contributions "up-front", investment earnings on the funds would ultimately provide COLAs at less cost to the state. Mr. Macdonald also defined and explained actuarial assumptions when preparing a projection of funded and unfunded liability.

ERS Executive Director Pamela Pharris provided background information about the ERS and the other pension plans administered by ERS, including the history of employer contribution rates. She gave interesting facts about ERS as follows. The ERS:

- has assets of $13.2 billion;

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- pays annual pension benefits of $984 million to just under 37,000 retirees;
- pays an average annual pension of just under $28,000;
- gains revenue in the fund by $30 million for each 1% increase in the contribution rate;
- incurs increased costs of $250 million for just one 3% Annual COLA; and
- would need to increase the contribution rate by 8-10% in order to amortize in 30 years a fully funded 3% COLA.

BJ Bennett, former Merit System Commissioner, commented on the need for honoring promises to current employees and retirees and requested that the 14.5% employer contribution rate be restored. She also recommended legislation that would increase legislative oversight and include a strong conflict-of-interest provision for investment activities. She also called for more transparency and formality to the development and asset allocation strategies and investment reporting.

Several other employees and retirees presented comments regarding promises made and the trade-offs between salary and future retirement benefits that state employees have made and continue to make during their careers.

Representative Gardner stated that the third and final meeting of the Study Committee, to be held in December, would be devoted to finalizing findings and recommendations.

IT'S TIME TO RENEW OR CHANGE YOUR MEDICARE PART D PRESCRIPTION DRUG PLAN

State Health Benefit Plan (SHBP) members who are eligible for Medicare may enroll, change, or discontinue their Medicare Part D Prescription Drug Plan between November 15 and December 31. Be sure to review information that was mailed to you—if you are currently enrolled in a Part D plan. Many of the available plans have changed the formulary (covered drugs), the copayment/coinsurance amount for drugs, and/or premium amounts. **Do not assume that the same drugs will be covered in 2009 that were covered in 2008.**

Part D plans that have a deductible have increased the deductible, although the SHBP will provide coverage while the deductible accumulates. The Medicare maximum allowable deductible for Part D plans has increased from $275 to $295 and the "gap" amount has increased from $2,510 to $2,700. Remember that your SHBP premium is less if you are enrolled in a Part D plan.

You should carefully review your current plan's 2009 premium, check the 2009 drug formulary to see if your drugs are covered (including the tier on which the drugs are listed) and make a decision to renew (which generally requires nothing of you) or to change plans between November 15 and December 31. The Medicare website (www.medicare.gov) allows you to research the Part D plans on-line. In addition, each plan provides customer service staff to assist you in your decision. Some of the Part D plans caution members about the length of time—two to three months—to resolve the premium, etc. Therefore, if you are changing plans, you should make the change as soon as you possibly can so that the processes for effectuating the change can be completed prior to January 1, 2009.

LAKE OCONEE AREA LOCAL CHAPTER NEWS

GSRA President Claude Vickers expressed his pleasure that Local Chapters are spearheading growth in membership and helping retirees to better understand the issues facing them. He was the featured speaker at the Lake Oconee Area Chapter of GSRA on November 10, 2008, where there was an enthusiastic overflow crowd of about 125 retirees from several state agencies, many of whom became new members of GSRA. Three State Legislators—State Senator Johnny Grant, State Representative Mickey Channel and State Representative Sistie Hudson—also accepted an invitation to join the local chapter meeting.

President Vickers reported on the overall state of the Employees Retirement System (ERS.) He expressed his concern that the state reduced its share of contributions to the retirement fund by one-third in 2001, and after seven years of under-funding, the fund has declined to 93% of that required to support its pension obligations. He also stated that the Employees Retirement System Board has failed in its fiduciary responsibility to recommend measures that would adequately fund the system. The impact of the inaction is the reduced cost of living adjustments in pension payments and the reduced funded percentage of the trust fund.

President Vickers stated that GSRA has subsequently asked the ERS to develop alternatives that will restore the trust fund to a funded percentage consistent with that experienced in the last four decades. Senator Grant and Representatives Channel and Hudson expressed interest in hearing from retirees, and they reported that a House Study Committee is reviewing the funding shortfall and is expected to issue a report of findings and recommendations in December.

Lewis O'Neal, Chapter President (left) welcomes Claude Vickers (right) to Lake Oconee Area Chapter Meeting

TRS BOARD HOLDS FIRM ON COLA POLICY

At the Teachers Retirement System Board of Trustees meeting of November 19, 2009, the Board voted unanimously against changing the COLA policy for retired educators. There will be no change in the COLA policy.

LETTER FROM GSRA PRESIDENT CLAUDE VICKERS

You may be aware of the recent decision of the Teachers Retirement System (TRS) Board to abandon the change in COLA regulations as requested by Governor Perdue. Active and retired educators are to be congratulated for their successful efforts to thwart this attempt to reduce their pension benefits. Their actions that led to the Board of Trustees abandoning the proposed change demonstrated what can happen when a large group gets behind a cause.

One revelation that came from the Board's proposal was that Attorney General Thurbert Baker's office apparently advised the TRS Board that any attempt to eliminate the COLA would break an "implied contract" between the state and educators and that the state would likely lose any subsequent lawsuit. Such advice seems to support my statement to the COLA Study Committee in October that thirty years of a practice of awarding COLAs to the ERS retirees certainly borders on the creation of a guarantee.

Governor Perdue's Office agreed with the Board's decision not to go forward with their proposal to change the teachers' COLAs because of the probable legal problems. The Governor's Office defended their attempt to reduce or eliminate TRS COLAs by claiming that they were trying to help secure the long-term future of the TRS fund. "This (the COLA) is a commitment that is only going to grow overtime. What a COLA like this does is it doesn't give the state the ability to manage the amount of tax money going into the fund," according to the Governor's Office. That's a curious statement, since the TRS Board has the responsibility of deciding the contribution rates based on the benefits established in legislation. The real message that has consistently come from this Governor's office is, "We don't believe in COLAs for retirees."

The funds going into the State's Retirement Systems come from three sources: (1) Employ<u>ee</u> contributions, (2) Employ<u>er</u> contributions, and (3) Earnings from investment activities. The employee contributions are fixed by law. The earnings from investments are a function of stock and bond market performance and investment expertise. The only variable over which the various boards have control is the employer contributions. For the last thirty-five years, the boards of all state retirement systems have exercised their fiduciary responsibility without undue influence. Attempting to achieve or maintain a desired funding level, they have responsibly raised or lowered the contribution rate based on the needs as reflected by actuarial analyses.

From 1982 through 1990, the TRS employer contribution was raised, generally in small increments, to a high of 13.63%. Beginning in 1991, as both the ERS and TRS funding levels approached one hundred percent, the TRS employer contribution were lowered, again in small increments to 11.995% in 1998 and to 9.24% in 2001. At the same time the ERS employer contribution rate was reduced by one-third to 10.41% (5.66% employer plus 4.75% employee share 'pick-up' in lieu of a pay increase). The TRS employer contribution rate continues at just above the 9.24% level through FY 2009 because the Board of Trustees correctly chose to exercise its fiduciary responsibility to maintain the appropriate funding level. But, in 2001 the ERS Board reduced the employer contribution rate by one-third to 10.41% (5.66% plus 4.75% employee pick-up) where it remains today. The Governor's Office is trying to rationalize this manipulation of the employer contribution rate by claiming that they need "the ability to manage the amount of money going into the fund." For the past 6 years the Governor's office has kept the ERS Board from exercising its fiduciary responsibility. The Governor attempted to put the same curbs on the TRS Board. Fortunately, the TRS Board has more independent membership than the ERS Board.

Actions by the educators serve as an example of why our organization must grow in numbers. We need the unified support of numbers to carry our cause for all the retirement systems in the same way as was done in TRS.

E-MAIL ADDRESS

Is your e-mail address with GSRA correct? Help us to maintain your information by updating your e-mail address when it changes. You must log-in under your old e-mail address and select "Our Members" and "My Profile." You can then change your information through the "edit" feature.

ISSUES/SERVE

Do you have a specific question or issue that you would like GSRA to discuss? If so, please let us know by contacting the Communication Committee via the GSRA website.

If you would like to serve on a GSRA Committee, notify the President via the GSRA website.