

## GSRA Annual Membership Meeting – Rousing Success



On October 19, 2010, a super turn-out of members of the Georgia State Retirees Association made a great success of the Annual Membership meeting. The Public Safety Training Center Auditorium was filled. The Gubernatorial Candidates were forthright in discussing issues; the State Health Benefit Plan staff gave invaluable information; Sarah Beth Gehl explained budget issues facing the new Administration and General Assembly; and Employees Retirement System Executive Director Pamela Pharris explained facts facing the Administration and Board of Trustees regarding pension funding while discussing the protections of retirees' pensions.

## Gubernatorial Candidates Discuss Issues



a safe and secure retirement had been broken and should be restored. He said he believes in a lean state government but that across-the-board cuts like those during the last few years have not been strategic and have had detrimental impacts. Congressman Deal acknowledged that he understood the importance of public service since both of his parents were teachers. He said he recognizes the importance of stability in our retirement and said that the best way to restore our retirement benefits & government services is to grow the economy.

Each candidate was asked to describe his governing



GSRA members welcomed Gubernatorial Candidates former Congressman Nathan Deal and former Governor Roy Barnes to the Annual Membership Meeting on October 19, 2010. Although at the publication of this newsletter the voters elected Congressman Deal, the comments by both candidates are reported to show GSRA members' respect, honor and thanks to the candidates.

Governor Barnes and Congressman Deal opened the meeting by discussing issues of concern to GSRA members. Governor Barnes thanked retirees for their service to the State. He acknowledged that the promise of

philosophy and the role of government in our lives. Deal explained that citizens expect 4 essential services from government—education, transportation, public safety, and public health. The governor should lead the effort to grow jobs, and Deal said that tax reform is the key to growing jobs especially in the small business area. He supports adequate compensation for state employees and restoring equity for a COLA. However, revenue must be available.

Barnes agreed with the 4 areas of essential government services, and added that the infrastructure must be maintained, which can create jobs and address critical needs. He spoke of the trend during the last 8 years of privatizing government services which has resulted in increased rather than reduced costs and has been detrimental to the quality of state services. His intent is to bring state employees up to 90% of private market compensation with the remaining compensation being provided by retirement and health insurance benefits. He stated that the Gold Dome should stop blaming state employees for everything that goes wrong in government.

When asked about funding benefit promises (pension and health insurance) to former employees, current employees and future employees, both candidates committed to keeping promises made to former employees. Congressman Deal stated affirmatively that government should keep promises made to employees, and that in order to maintain a qualified workforce adequate compensation and benefits must be provided. Governor Barnes agreed that promises to retirees must be maintained and the revenue could be increased by reducing tax exemptions.

Moderator Jim Lyle asked the candidates about adequate funding to the retirement systems to restore the funded percentage from 85% to around 100%. Barnes said that the funding percentage was over 100% when he left office for all of the pension funds, and that the state needs to add money to bring the ERS back to full funding. He said the state needs to front-load the fund (as it did in the past) to bring it back to 100%. Deal answered that he knew about the problems that underfunded retirement funds can create, and that he would work to restore the ERS to an adequate level.

ERS members have not experienced the same treatment for adjustments for purchasing power as other retirement systems. Deal stated that equal treatment for all publicly funded retirees should be maintained when revenue is available and his administration will work to restore. Barnes stated that during his administration, he attempted to treat all retirees equally, but revenue has to be increased by eliminating some of the tax exemptions.

Both candidates were asked about the philosophy of investing pension funds in alternative investments—those that include increased risk. Barnes stated that when pensions are restored to 98%-100% funded—actuarially sound, a small portion of the assets should be invested in alternative investments for higher investment return—as long as members consent. Deal stated that the state should be very cautious about alternative investments—based upon other states' experiences. Members should be heard, but caution should be employed.

When asked about the Department of Community Health's lack of transparency when making benefit policies, Deal said that he supports transparency in making policies and would like to see any proposed legislation that would require input/advice from members before supporting such legislation. Barnes stated that he supports transparency and would support legislation to install additional transparency. When asked about GSRA members' concerns that all reserves in the State Health Benefit Plan had been depleted, Barnes said that the Governmental Accounting Standards Board requires the SHBP to be funded for all plan reserves. If the reserves are not adequately funded, the State is at risk of losing its AAA bond rating by the bond rating agencies. Deal also said that he supported full funding of the Health Plan.

Both candidates were questioned about the impact of the national health care legislation on the state. Deal stated that he expected the new Health Care Reform Act to adversely affect the state by increasing Medicaid cost. Barnes responded that the Insurance Exchanges included in the Health Care Reform Act will be beneficial, but the legislation will increase the state's Medicaid cost in future years.

When asked about the current tax structure and possible changes, Barnes stated that he approved of the Tax Council but did not believe the sales tax should be reinstated on food and drugs, and that tax breaks that benefit only a few should be eliminated. He also stated that the collection of sales tax should be improved and that he will work to accomplish an improvement. Deal stated that he supported the objective of the Tax Council and believed that the state should change the method of collecting all sales tax funds that are due.

GSRA members were interested in how the candidates would balance the budget between increasing revenue and reducing state government expenditures. Deal indicated that he did not favor a tax increase because of its negative impact on growth. He plans to institute a "zero-base" budgeting process. He also stated that all sales taxes should be collected. Deal stated that he did not support

repealing tax exemptions for food and drugs and did not know about the tax on medical services. Barnes stated that “zero-based budgeting” has previously been tried with mixed results. He said that revenues need to be increased by using point of recovery on sales tax collection. He said that the state should repeal or suspend the \$50 million appropriation to private schools. Barnes said that he did not support repeal of sales tax exemption on food and drugs, but taxing medical services would only tax state government since the State is the major purchaser of medical services.

GSRA members were interested in what the candidates’ plans for improving the educational system in the State. Barnes said that he first wanted to get kids back in school for 180 rather than 147 days each year and that he would not furlough teachers. Deal stated that he believed that we could do more with what we have and that the school systems needed flexibility in administering the schools. He likes the “move on when ready” concept and he supports charter schools.

When asked about support for the ongoing need for trauma centers, Deal reported that he supported increasing the tag fee for strengthening the network of trauma centers. Barnes is in favor of funding trauma care in the state.

The candidates were asked about their plans for transportation. Barnes favors changes in funding DOT. He said that ½ cent of the state gasoline tax should be dedicated to mass transit. He favors a regional tax and moving debt service out of the motor fuel fund. Deal concurred that the debt service should be moved out of the motor fuel fund.

When asked about the water dispute, Deal said that he would work aggressively with the other governors to resolve. He supports conservation so that if the resolution among the states is unsuccessful, it can be shown that Georgia is being proactive by conserving. He does not believe in inter-basin transfers of water. Barnes says that the water problem is a storage problem not a source problem. He says that during Joe Frank Harris’ administration 17 sites were identified as potential reservoirs.

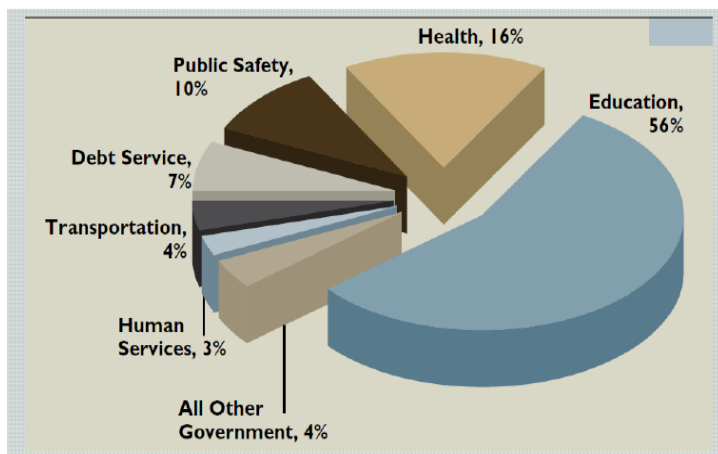
### State Health Benefit Plan Staff Session

The GSRA newsletter of October 30, 2010 was totally devoted to the State Health Benefit Plan. Responses to the questions asked of the State staff were included in the newsletter Special.

## State Fiscal Crises

Sarah Beth Gehl, Deputy Director of the Georgia Budget and Policy Institute, discussed the fiscal crises for the State of Georgia in 2011 and Beyond. She stated that Georgia’s economic growth will return, but that Revenues will lag in the next few years. The 2011 budget has a total of \$16.6 billion in State General Funds, which is down 17.4% (\$3.5 billion) from FY 2009.

The following chart shows how Georgia’s budget is spent.



FY 2011 contains more than \$2.5 Billion in actual cuts (as compared to pre-recessionary FY 2009). These cuts are

- K-12: \$1.07 billion (13%)
- Board of Regents: \$343 million (15.1%)
- Dept. of Human Services: \$128 million (20.1%)
- Corrections: \$100 million (8.7%)
- Natural Resources: \$40 million (30.4%)
- Smaller agencies: average of more than 20%.

Governor Perdue has asked each state agency (except the Dept. of Education) to submit budget cuts of 6%, 8%, and 10% for FY 2012. He has asked the Dept. of Education to

submit reductions of 2% and 4%. The new Governor and the General Assembly will decide what level of cuts will be required for FY 2012. With 82¢ of every dollar devoted to Education, Health, Transportation and Human Services, any additional cuts will need to come from these services simply because that is where the expenditures are.

The FY 2012 projected shortfall is estimated at \$1.8 billion to \$2 billion even with moderate revenue growth since one-time funds are no longer available to the state and because of the ongoing pressures for normal growth; i.e., student growth, increased members in healthcare, state prisoner growth, pay raises, OPEB, mental health, child protective services. Normal growth alone is estimated to require \$500 million to \$1 billion. Although the FY 2011 budget is balanced by legislation that increased revenues in FY 2011, the legislation also carries a sunset of the increases and more tax cuts (projected at \$475 million) in future years.

Gehl stated that these facts carry a structural deficit over the next 3 to 5 years that will be impossible to absorb with minor actions. If major changes are not implemented, policymakers will have to cut significantly across state government, including high priority areas such as education and healthcare.

Major policy changes that carry negative implications will need to be considered. Georgia has an antiquated tax system. Its income tax provisions were developed in 1937 and the sales tax was implemented in 1951, but has been dramatically narrowed over the years with tax breaks of various kinds. House Bill 1405, which was passed in 2010, gives the state an opportunity for fundamental Tax Reform. The bill created the Special Council on Tax Reform and Fairness for Georgians to study the state tax system and make recommendations to the General Assembly for action during the 2011 legislative session.

Gehl offered the following options for reforming the state's tax structure:

- Cut the state sales tax rate and cover more services to mirror 21<sup>st</sup> century spending trends;
- Modernize income tax brackets, rates and standard deductions to better reflect current incomes;
- Create an earned income tax credit to offset sales taxes for the state's lowest earners;
- Eliminate special tax breaks that today shift more of the tax obligation to fewer taxpayers;
- Close corporate loopholes and update the corporate net worth tax, cigarette tax, and motor fuel tax.

## **ERS Update, Governance, and Investment Management**

Pamela Pharris, Employees Retirement System Executive Director, provided an update on the ERS assets and funding, how the ERS pension is governed, and information about the impact of increasing retiree numbers and investment returns on the funding and security of the pension plan. Pharris provided the following statistics:



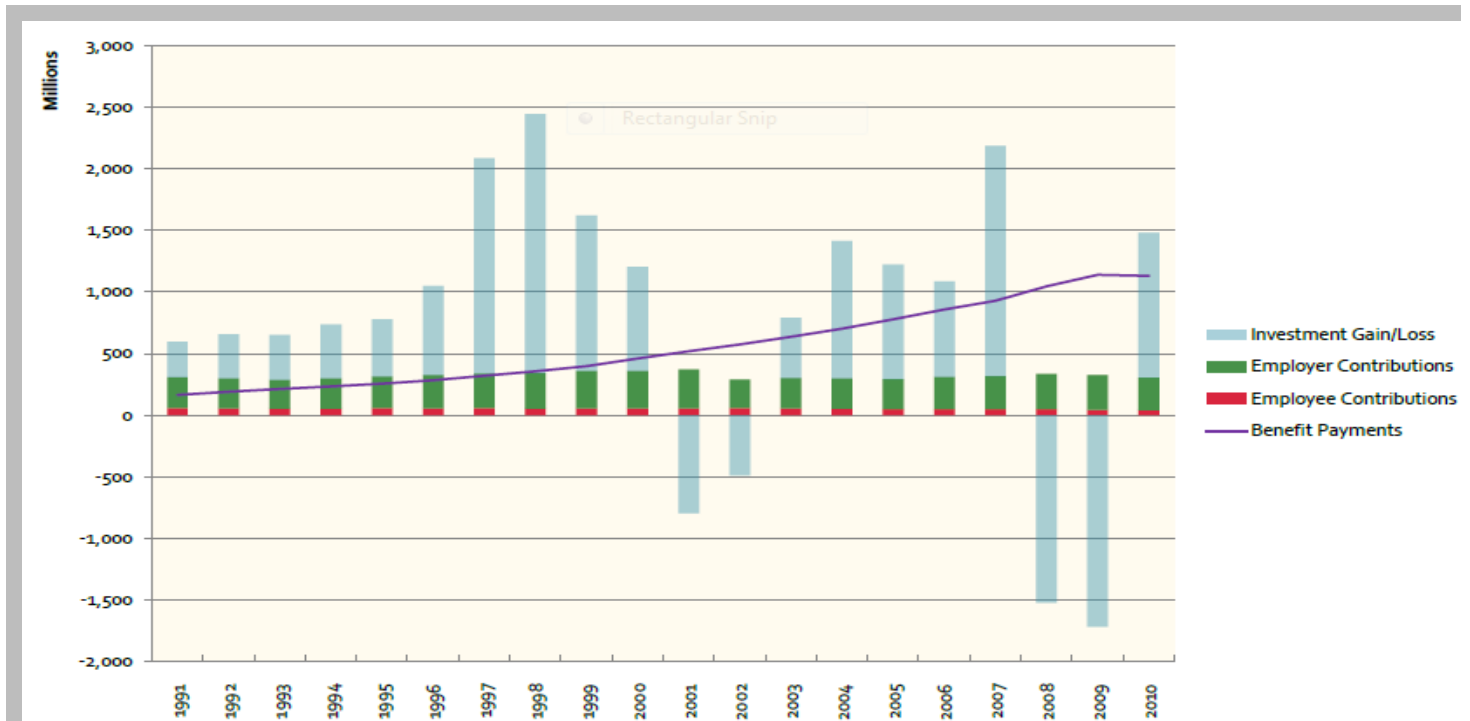
- Market Value of ERS assets was \$11 billion as of August 31, 2010;
- The percentage of liabilities funded as of June, 2009 was 85.7%;
- The employer contribution rate will be increased by 1.22% for FY 2012 for old and new plan members;
- The payroll for active employees is \$2.7 billion
- The annual Employer contribution amount is \$281 million
- An increase of 1% in employer contributions would produce

\$27 million to the ERS pension fund and an increase of 2% would produce \$54 million annually;

- If the State's total budget is \$14.4 billion, which is down from \$18 billion in 2007, the ERS Pension Plan cost is approximately 2% of the budget.

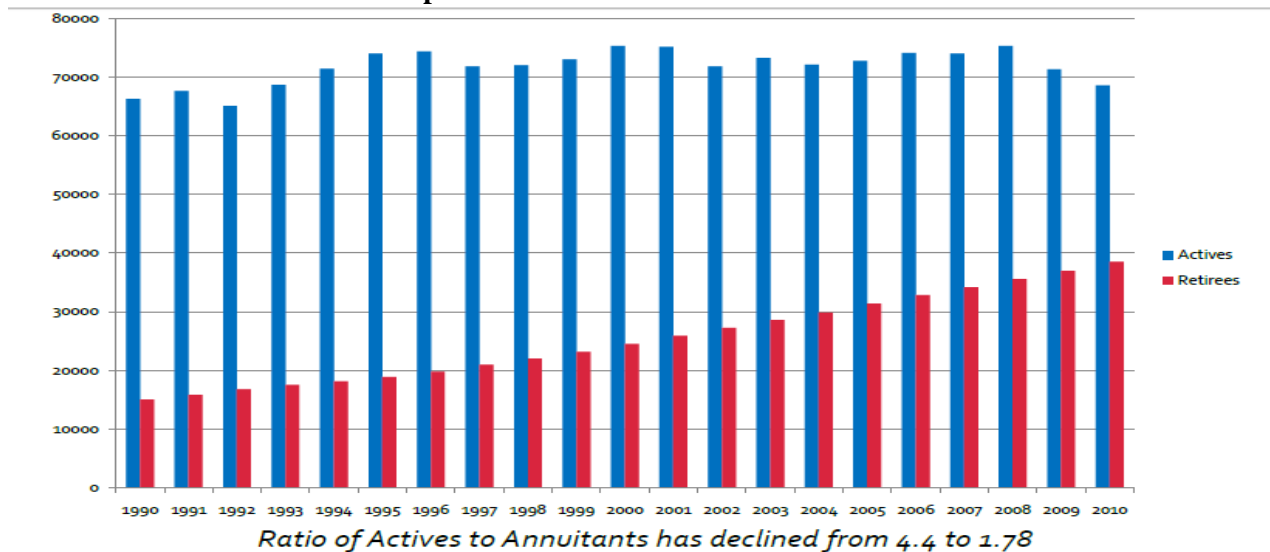
Pharris pointed out that the ERS pension fund is protected through the Georgia Constitution, Title 47 of the Georgia Laws, Internal Revenue Code, Governmental Accounting Standards Board, ERS Board of Trustees, independent actuary, independent auditor, ERS Executive Director, Division of Investment Services, and the members and retirees. She also pointed out that the plan is designed so that investment income produces 75% of the increase in assets and displayed the chart on the following page showing the source of funds.

**Historical Source of Funds – ERS**



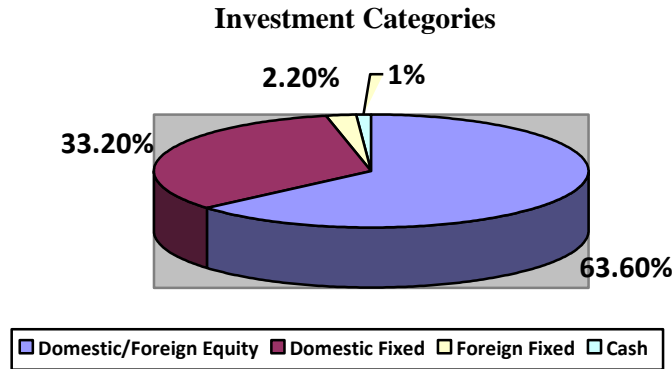
Pharris pointed out that the negative investment gains in four of the last 10 years have heavily impacted the plan assets. When the negative investment returns are combined with the increasing number of retirees—as shown below—the unfunded liabilities increase.

**Comparison of Active and Retired Members**



Pharris referenced the large number of recent negative news articles about public pension funds and the detrimental impact on the fiscal futures of the states. She said that the source of many of these articles is Josuah Ruah, an associate professor of finance at the Kellogg School of Management at Northwestern University. According to Pharris, Ruah’s findings are distorted by the “very narrow window through which he is analyzing the data.” Unfortunately, the Wall Street Journal and Bloomberg’s Business Week along with other publications have quoted from his articles and that has added to the confusion.

Pharris explained that the actuaries use an expected investment return rate of 7.5% when projecting the liabilities and employer contribution rate for the upcoming year. With an actual investment return rate for the last three years of (3.5%) in FY 2008, (12.97%) in FY 2009, and 10.99% in FY 2010, plus the 3 years of expected 7.5% return, the cumulative impact on the pension fund is negative (27.98%). The Investment Division is limited by law to certain types of investment. As of the end of FY 2010, the assets of ERS were invested as shown in the chart below.



Pharris closed her discussion with an explanation of how the members’ retirement information is protected from public disclosure, and that legislation has been adopted to eliminate provisions that can be used to reward favoritism to specific members.

## Plenary Session



GSR President, BJ Bennett, called the Plenary Session to order. The minutes of the 2009 Annual meeting and the Treasurer’s Report were approved.

Legislative Committee Chair, Bill Tomlinson announced that GSR is planning a reception for the General Assembly on January 25, 2011. Members are encouraged to participate in the reception and will receive additional information in future newsletters.

Membership Chair, Reuben Lasseter, reported that the number of local GSR chapters have increased to nineteen during 2010. He appealed to the members to participate in a local chapter or if there was not a chapter in their area to organize one.

The following Officers and Board members were elected for terms as shown. Previously elected Board members are also shown below.

<u>Office</u>	<u>Member</u>	<u>Term</u>
President	BJ Bennett	2011
Vice President	Chuck Freedman	2011
Secretary	Rachel Davis	2011
Treasurer	Kaye Carter	2011
Board Member	Luther Lewis	2011-2012
Board Member	Harold Grindle	2011-2012
Board Member	Ernie Melton	2011-2012
<u>Previously Elected/Appointed Board Members</u>		
Harvey Nation	Claude Vickers	Burton Carter
Darnetta Simalton	Jim Burton	Lewis O’Neal Bob Pollock

### Annual Meeting Video

You can view a video of the Gubernatorial Candidates forum and the State Health Benefit Plan Q&A on the GSRA website ([www.mygsra.com](http://www.mygsra.com)) by selecting "2010 Annual Meeting" in the "What's New" column. In addition, the "2010 Annual Meeting" allows you to view the powerpoint presentations by Sara Beth Gehl and Pamela Pharris.

### Mark Your Calendar – Januar 25, 2011

**GSRA** will co-host a reception in Atlanta for Legislative Members on January 25, 2011. This will be a perfect day for GSRA members to visit with their local representatives about our issues. Please Mark Your Calendars and join other GSRA members in Atlanta on January 25, 2011.

### Does GSRA Have Your Correct Contact Information?

Please be sure to update your email address with GSRA when it changes. Simply log in to [www.mygsra.com](http://www.mygsra.com) using your old email address and password; select "Our Members" and "My Profile", and then change your information using the "edit" feature.

If your mailing address changes, and you do not use a computer, please notify us of your new address by sending a card or letter to the address at the bottom of this page.

### Has Your GSRA Membership Expired? **Renew Today!**

*Just go to [www.mygsra.com](http://www.mygsra.com) and point to the "Join Us" button, then click on "GSRA – Membership Renewal". Update your personal information on the next page if you need to, and then click "Submit" at the bottom. On the next page, click on "Credit Card" and follow the instructions.*

### *Don't use credit cards online?*

*Just click on the "Send Check" option and follow the instructions carefully. Don't forget: Make sure your full name and mailing address, plus the words "MEMBERSHIP RENEWAL are on the check, payable to "Georgia State Retirees Association" and send the check to: GSRA, PO Box 2391, Newnan, GA 30264*

*If you receive GSRA newsletters by US Mail and not by computer, your membership expiration date is shown above your name on the mailing label. Please renew on time by following the check-mailing instructions above. If the expiration date shown on your mailing label is incorrect, drop a note to: GSRA, PO Box 108, Bethlehem, GA 30620 Keep your membership current! Don't miss out on important news and events!!*

### Lake Oconee Area Local Chapter Sponsored Meeting

Mr. Chuck Freedman, Vice President of the Georgia State Retirees Association (GSRA), was the featured speaker at a gathering of over 100 retired state employees in Greensboro on November 4th. Also in attendance were Senator Johnny Grant and Representatives Mickey Channell, Sistie Hudson, and Mack Jackson

Mr. Freedman reported on the overall state of the Employees Retirement System, changes in the State Health Benefit



(l. to r.) GSRA VP Chuck Freedman, Rep Mack Jackson, Rep Mickey Channell, Sen Johnny Grant, Rep Sistie Hudson, Lake Oconee Area Chapter President Lewis O'Neal

Plan, and the past year's legislative session. Reductions in health insurance funding, driven by the current administration's budget, is a growing concern of state retirees, particularly those eligible for Medicare. Mr. Freedman shared that the reserve fund of the State Health Benefit Plan is critically low and that action is needed to sustain the fund. He also praised members of GSRA and the legislators present for their efforts in defeating harmful legislation during the last session. He further encouraged retirees to remain vigilant and to recruit additional members.

Senator Grant and Representatives Channell, Hudson, and Jackson indicated their support for honoring the State's commitment to retirees while recognizing the difficult struggles that the current economy has brought to the budget process.