



Newsletter

ERS Board Votes “No” ON COLAs

At the April 21, 2011, Annual Meeting of the Boards of Trustees for all pension funds managed by the Employees Retirement System, the Boards voted “NO” on retiree cost-of-living adjustments for July 1, 2011 and January 1, 2012. The meeting agenda was full, with discussion of the Secretary’s report, actuarial reports, and other items.

Executive Director, Pamela Pharris, presented and discussed the report. The market value of the investments managed by the Employee Retirement System for March 31, 2010 and March 31, 2011 is as follows:

Market Value Net Assets (billions)			
	2010	2011	Change
ERS Pension Fund	\$11.8	\$12.3	4.4%
All ERS Mngd Pensions	13.8	14.5	4.9%

Actuarial reports for all systems were presented, discussed and adopted by the appropriate Board of Trustees. The Boards of Trustees adopted several changes to the economic assumptions on December 16, 2010, and these new assumptions have negatively impacted the funded percentages. The actuarial reports will be reviewed for pinpointing information of interest to you, but in the meantime, GSRA reports the funded percentages for pension plans managed by ERS as follows.

Pension System	6/30/2009	6/30/2010
Employees Retirement System	85.7%	80.1%
Public School Employees	93.5%	84.2%
Legislative Retirement System	128.8%	118.3%
Judicial Retirement System	112.4%	113.7%
GA Military Retirement System	30.5%	31.8%

Legislative Committee Report

The General Assembly closed the 2011 session on April 14, 2011, with several bills of general interest unfinished. There were no big surprises and few small ones during the last four legislative days which took place over two weeks. Again, much credit is due to you who responded to GSRA action alerts.

Having missed the cross-over day for our desired legislation—obtain, with the retirees approval, contact information for retirees from the Employees Retirement System and create a State Health Benefit Plan advisory council—nothing further happened on these proposed bills. Commissioner Cook of the Department of Community Health expressed a desire to have an informal communication process rather than a legislated advisory council; therefore, GSRA will work to open communication with DCH about GSRA members’ concerns.

The status of the bills for which we reported in our last newsletter follows:

- **Tax reform** issues turned out to be more complex than supporters anticipated, resulting in the House Speaker withdrawing the third (and final) proposed

bill. Legislators were concerned that the impacts of the bill were unknown on various segments of the population – particularly moderate and low income taxpayers. Also, legislators were concerned that the two last proposals were revenue negative, reducing state revenues in 2012 and 2013 by about \$250 million and \$140 million, respectively. Some political strategists expect a new bill to surface during the special reapportionment session in August.

- **Bills to make more difficult passage of future “dead peasants” or similar unwarranted use of our pension funds to buy insurance on employees’ and retirees’ lives:** We were disappointed that HB 293, 297, 308, and 371 were held up in Senate Rules after having passed the House and being favorably reported by their primary committees in the Senate. We have had various unconfirmed explanations for the delay and will seek to have these bills approved by the Senate early next session.
- **Resolution to cap state revenues and expenditures:** SR 20, sponsored by the Senate

Leadership and known as the Taxpayer Protection Amendment of 2011, passed the Senate early in the session. SR 20 is a proposed constitutional amendment, which would cap budgeted revenues. The formula for the cap is the sum of the previous year's revenues plus the percentage increase in state population. The product of these revenues would then be adjusted by the percentage increase in the Bureau of Labor Statistics' state and local government gross product index. SR 20 did not move out of the House Ways and Means Committee and will be held over for the 2012 session.

- **HR 810 to create a House State Health Insurance Plan Alternative Funding Study Committee** was introduced and adopted late in the session. The Study Committee will study alternative funding, cost management strategies, and reinsurance options in order to provide adequate and effective coverage for employees while ensuring actuarial soundness and budgetary responsibility.

- **SB 178** addresses the current gap in elder care by creating a new "assisted living" category of long-term care provider. The new category will allow a level of care between the personal care home and the current "assisted living" care homes.
- **HB 214 creates a Department of Public Health:** Public Health was transferred to the Department of Community Health in 2010 and will now be set aside in 2011 as an independent department.
- **HB 107 and HB 156** respectively provide benefits to dependents of state employees killed in the line of duty, and to state highway employees for partial disability in the line of duty.

A complete list of bills that were tracked during the 2011 General Assembly session is posted on the [GSRA Website](#). One final status report will be posted after the time has expired for Governor Deal to sign or veto the bills that have been forwarded to him by the General Assembly.

DCH Gives Brief Report on SHBP Status

At the Board of Community Health meeting on April 14, 2011, Vince Harris, DCH Chief Financial Officer, presented a brief verbal report on the State Health Benefit Plan status. The points verbally stated by CFO Harris are:

- The FY 2012 SHBP's funding deficit is approximately \$273 million dollars;
- The Conference Committee for the FY 2012 budget provides for the Board to set the "member increase" as close to 10% as feasible, although the House included a 20% increase and the Senate included a 19% increase;
- The local school system's contribution to the SHBP for each enrolled non-certificated school employee is shown in the Appropriation Bill at \$246;
- The state departments' rate was increased from about 22% to about 27% of salary, which is projected to produce revenue of \$104 million to the SHBP.

Acknowledging that there have been many discussions about the deficit and what will be required to "fill the hole," Harris stated that the staff's future plans regarding the SHBP are:

- To provide a quarterly report to the Board on the funding status,
- To work with "funding partners" to see that there is sufficient revenue provided for the SHBP,

- To work on plan design issues for meeting the required budget for January 1, 2012, and
- To develop plans for funding the liability for Other Post-Employment Benefits (OPEB)—\$16.3 billion (\$4.4 billion for State members and \$11.9 billion for teachers and non-certificate members).

Board member Bill Wallace, a retiree of the Board of Regents, stated that he was very concerned about passing along 19-20% increases to members, as included in the various FY 2012 Appropriations bills. He also stated that he believed that the employers of each group of members covered, i.e. state, teachers, and non-certificate, should cover the cost for that group of members.

Each of these member groups is included in the State Health Benefit Plan by separate laws and separate funding. However, the laws authorizing each group were modified several years ago to allow the commissioner to combine the contributed funds for the three separate groups. Many of the resolutions adopted by the Board of Community Health specifically provide that the Commissioner is authorized to combine funds for the purpose of paying benefits. Therefore, since the Department of Education is clearly not contributing sufficient funds for the non-certificate school employees, the state departments are contributing substantial amounts for the non-certificated school employees benefit cost.

How Did the SHBP Get to a Deficit of \$273 Million?

The Department of Community Health Commissioner, David Cook, outlined in his presentation to the Appropriations Committees some of the factors¹ that explain how the SHBP deficit has risen to \$273 million for FY 2012, although the **Department projected in August 2010 a balanced SHBP FY2012 budget** with the following changes:

- Increase member premiums on January 1, 2012, by 10%, and
- Reduce benefits on January 1, 2012, by \$37.3 million.

Commissioner Cook presented five factors that contributed to the deficit: (a) FY 2011 supplemental appropriation that does not carry forward into FY 2012, (b) lower reimbursement through the federal health care reform for early retirees, (c) decreased appropriation for non-certificate school employees, (d) the timing of employer billings, and (e) the assumption that active payrolls will continue to decline and employee retirements will continue to increase.

a. **FY 2011 supplemental appropriation does not carry forward**

DCH requested a FY 2011 supplemental appropriation of \$56.5 million from the Department of Education for the non-certificated school personnel. Instead of approving the funding increase to the Department of Education (DOE), the state departments' rate was increased and spread so that a total of \$86 million in revenue will be generated. That increase did not carry forward to FY2012. **Note: In the final legislative days, the FY 2012 Budget increased the employer rate to state departments to generate \$147.4 million in additional revenue.**

b. **Lower reimbursement from federal health care reform for early retirees**

DCH projected that \$110 million would be received in FY 2012 from the Patient Protection and Affordable Care Act (PPACA) for retirees under age 65. DCH has now adjusted the projection downward to \$67 million. Congress appropriated \$5 billion for the "Early Retiree Reinsurance Program", and Georgia is the 3rd highest of 12 state health plans (behind only California & New Jersey) to receive reimbursement; however, there is no guarantee that the funds will be made available to employers.

c. **Decreased appropriation for non-certificated school personnel**

In FY 2008, the Department of Education's appropriation designated \$279 million for the non-certificate school personnel and teachers who retired before 1979. In FY 2011, the appropriation was only \$25 million. **Note: It appears to GSRA that all of the funds (\$30,261,983)² that were included in the Governor's budget for SHBP for non-certificate personnel were deleted in favor of spreading the cost to state departments (see item 1 above).**

d. **Timing of the employer billings**

The teachers' employer contribution rate of 21.955% normally produces a payment of \$113-\$111 million each month; however, the contribution rate was reduced to 1.429% for two months (May & June 2010) and resulted in the revenue for each of these two months to drop from \$111 million to \$7 million. Although the employer rate was adjusted for FY 2011, it was set at 18.534%—still less than the rate in early FY 2010. At the 18.534% rate, the employer revenue was \$91.3 million per month (at least \$10 million less each month at the lower rate).

e. **Assumption that active payroll will continue to decline and retirements will continue to increase**

Employees/teachers are retiring at a higher rate than in the past. This reduces employer revenue because a lower paid employee is substituted for a higher paid retiring employee or reduces the employer revenue to \$0 if the retiring employee is not replaced.

In summary, the dollar impact of some of these factors has been listed, but the resulting impact on the deficit cannot be ascertained by GSRA. We know the following from the budget documents: (a) revenue from state departments is increased by \$147.4 million less the \$30.3 million reduced from the Education Department for a net increase of \$117.1 million (you will note that CFO Harris stated that the increase would generate \$104 million in revenue); (b) the local

¹ Commissioner David Cook. FY 2012 Program Budgets. March 17, 2011. Department of Community Health. April 26, 2011. <http://dch.georgia.gov/vgn/images/portal/cit_1210/44/43/169159377SenateSubFY12%20Presentation.pdf>.

²General Assembly. HB 78 FY 2012 Appropriations Act, page 88. April 14, 2011. Joint Conference Committee. April 27, 2011. <http://www1.legis.ga.gov/legis/2011_12/house/budget/reports/FY_2012_Bill_Final_Conf_Cmte.pdf>.

school system increase in the monthly per member rate from \$218.20 to \$246 (also shown in the FY 2012 approved appropriations act, will produce additional revenue—approximately \$65-\$67 million, (c) the FY 2012 budget³ also included a savings of \$21.9 million by maximizing use of minimally invasive surgical procedures.

The deficit of \$273 million **MAY BE REDUCED** by the \$117.1 million and the \$65 million increased employer cost for local school systems, plus \$21.9 million cost savings for a total of approximately \$200 million. Clearly, these changes do not “wipe out” a \$273 million deficit, and we await further information from DCH about how members’ premiums will be held to an increase of 10% on January 1, 2012.

In the meantime, GSRA provides in the following article historical information that is gleaned from presentations, resolutions, audits and other reports regarding SHBP funding. The bottom line from the historical information is that the cost for providing health care benefits is being shifted among groups and from the State to members.

Funding Issues & Cost Shifting

In order to explain how the State Health Benefit Plan converted in FY 2010 to a cash rather than an accrual accounting basis and is shifting more cost to members, GSRA provides additional background and historical information. The Administration has shifted cost among the three major groups of covered members, “spent down” all SHBP reserves by reducing the employer contributions to the fund, and shifted cost to members by increasing premiums and reducing benefits. The information will require a little study, but understanding the facts is important to the members’ ability to articulate to elected representatives that the plan cost is being shifted to members by premium increases and out-of-pocket increases when medical services are received.

Cost Shifting Among Groups

The State Health Benefit Plan consists of three major groups: (1) state employees, (2) teachers—certificated positions, (3) public school employees—non-certificated school personnel. Each of the groups has specific legislation that authorizes health care benefits and State funding. Until the last few years, each group was funded and expenses paid as if there were 3 separate trust funds; however, the laws have now been amended to permit the DCH Commissioner to comeingle the funds.

One might ask, “What difference does it make—it’s all State money?” It makes a difference because one group of employers pays more than required for providing benefits for that group. Decision-makers then begin questioning why one group is so much more expensive than another. On the other hand, by increasing the state departments’ rate, State dollars leverage additional revenue to the SHBP by collecting a higher amount of federal/other dollars than if the State dollars were appropriated to DOE.

Reserves-State (Employer) Contributions

GSRA has repeatedly reported how the reserve funds of the SHBP have been depleted by decreasing the employer revenue into the plan. The following chart shows the total reserves⁴, including the Incurred But Not Reported (IBNR)⁵ liability, as of June 30 of each fiscal year.

State Health Benefit Plan Reserves (Fiscal Year)						
	Fund Balance Reserves	IBNR Reserves	Retiree/OPEB/ Reserves	Retiree IBNR/ Reserves	Total	Change
June 30, 2008	483,973,459	167,106,000	177,983,718	55,783,000	884,846,177	
June 30, 2009	39,090,959	179,543,000	165,959,922	58,088,000	442,681,881	\$(442,164,296)
June 30, 2010	(234,057,199)	215,454,072	244,827	25,299,093	6,940,793	(435,741,088)
Total loss to Reserves						\$(877,905,384)

³ Ibid.

⁴ Reserve amounts as reflected by unaudited financial reports by DCH, except for the reserve amounts for June 30, 2010, that is reflected in the State Auditor’s FY 2010 Comprehensive Report.

⁵ IBNR reserves are to pay for medical services provided to members, but for which the providers/members have not been paid.

Although the reduction in the SHBP reserves allowed the State to fund other critical needs, the “spend down” of all reserves converts the SHBP finances to a cash rather than accrual accounting basis and places the SHBP in critical financial condition—essentially “broke” on June 30, 2010. The “spend down” was accomplished by decreasing the contribution on behalf of the non-certificate school personnel from the originally appropriated amount in FY 2008 of \$279 million to \$25-\$30 million in FY 2010, and reducing the employer contribution rates for state departments and teachers in FY 2009 and FY 2010 as shown in the Employer Contribution Rate chart.

Employer Contribution Rates ⁶		
Month/Year	State	Teacher
July 2008-January 2009	22.165%	18.534%
February 2009	1.925%	8.579%
March 2009 – June 2009	0.000%	3.688%
July 2009	22.165%	18.534%
August 2009-October 2009	16.581%	14.492%
November 2009-June 2010	22.165%	18.534%

Cost-Shifting to Members

In August 2011, DCH presented plans to balance the FY 2012 projected revenue with the SHBP expense. Premiums were increased, benefits were reduced and costs of implementing PPACA were quantified. However, throughout the early months of FY 2011, DCH revised budget projections as additional information became available and announced a SHBP deficit for FY 2012 between \$250 million to \$300 million. In this GSRA newsletter’s companion article, “[How Did the SHBP Get to a Deficit of \\$273 Million](#)”, Commissioner Cook addresses the **deficit as a REVENUE problem rather than a PLAN COST problem**. Information in the following chart⁷ shows the dollar value of DCH projected revenue and cost changes that were implemented on January 1, 2011, the concomitant dollar value of these changes in FY 2012, and the additional FY 2012 changes that have already been approved by the Administration.

Dollar Value of Changes			
	FY 2011	FY 2012	Impact on Member
1. Reduce Expense for plan changes (eliminate OAP and increase in deductibles, out-of-pocket maximum, and copays) less reduced employee premiums because of the elimination of OAP.	\$92,048,200	\$197,798,360	Increased member out-of-pocket cost for medical services-cost shift to member
2. Increase spousal and tobacco surcharges	\$8,279,974	16,553,348	Increase member premium cost
3. Cost to improve 100% coverage for preventive coverage as required by the Patient Protection & Affordable Care Act (PPACA)	(4,995,741)	(10,335,923)	Decreased member cost at the point of service
4. Cost to insure dependents up to age 26, less member premium cost (FY 2011-\$54,421,666 less \$35,939,886) (FY 2012 - \$113,197,064 less \$74,929,544)	(18,481,780)	(38,267,520)	Decrease member cost for insuring dependent
5. Increase member premiums on 1/1/2012		29,686,345	Increase member premium cost
6. Reduce plan benefits on 1/1/2012		37,326,621	Increase member out-of-pocket cost
7. Increase local school system monthly per member payment from \$162.72 to \$218.20	25,000,000	49,080,795	Increase from employer-local schools
Net Total Increase to members (Premiums & Out-of-Pocket)		\$232,761,231	

All of the factors mentioned above impact the member’s medical care cost, except item number 7. **The net total dollar value for increased member cost during FY 2011 is \$76,850,653 (for ½ year) and during FY 2012 is**

⁶ Source: The State Audit Department Comprehensive Financial Statements of FY 2009 and FY 2010.

⁷ Source: Governor’s Deal’s FY 2012 Budget Report.

\$232,761,231. GSRA concludes that it is apparent that in FY 2012, additional cost will be shifted to the member since the FY 2012 approved budget bills show:

- continuation of the FY 2010 teacher's employer rate (18.534%),
- state employer contribution for non-certificate school personnel at "0",
- an increase in **the local school system monthly per member** rate for non-certificate school personnel from \$218.20 to \$246 (valued at \$65-67 million), and
- an increase in the state department employer contribution rate to compensate for the "0" contribution from the state for non-certificate school personnel valued at \$104 million to \$147.4 million (depends on source).

DCH is charged with the challenge of trying to limit the members' premium increases to 10% on January 1, 2012. Hopefully, updated information will reflect efficiencies for some of the changes made in Plan year 2011. If the choice is between increasing premiums and decreasing benefits, GSRA encourages DCH to seek members' opinions.

If GSRA members will gain an understanding of these historical facts, they will have the ability to explain how costs are being shifted to the members to the elected decision-makers.

Local Chapter News

Athens Area

The Athens Area Chapter of GSRA held its second quarter meeting at Ryan's Steakhouse on Wednesday, April 13, 2011. The keynote speaker was Mr. Chuck Freedman, GSRA's Vice President. Chuck presented chapter members with an overview of GSRA educational efforts during the 2011 legislative session. The chapter members present at the meeting were very interested in Chuck's presentation and appreciative of the organization's efforts on its member's behalf.

Coosa Valley Area

Coosa Valley Area Chapter will have a lunch meeting Thursday May 5, 2011. A dutch treat lunch will be served starting at 11:45 AM at the Western Sizzling Restaurant at 801 Martha Berry Blvd. Rome, Georgia. Representative Howard Maxwell, Chairman of the House Retirement Committee, has been invited to be our speaker for the program.

Northeast Metro Atlanta

The Northeast Metro Atlanta Chapter held a social meeting at the Golden Corral in Lawrenceville, April 27th with 50 people attending. Several new members joined at the meeting. Ernie Melton, the local chapter president, discussed the Advocacy System being implemented, as well as the Legislative Day at the Capitol becoming an annual event. Ernie also shared with the members a status of the bills that GSRA was tracking in the recent legislative session.

South Coastal

The next meeting for the South Coastal Chapter will be June 28, 2011 at Blythe Island Regional Park in Brunswick, GA. It will be located at Pavilion # 4. There will be a Hamburger Cook-Out and a meeting starting at 12 noon.

Savannah Coastal

The Savannah Coastal Chapter of GSRA met on April 19th at the Exchange Restaurant in Savannah. Senator Lester Jackson provided the group of approximately 40 members with an update on actions taken in this year's legislative session.



Ken McCorkle, Cecil Wilkerson, Jenifer Chambers and Senator Lester G. Jackson

Thomasville

The Thomasville Chapter will meet on May 09 at 5:30 PM at the Scott Senior Center Council on Aging located at 611 N. Steven St. The director of the council will be the featured speaker. Hope to see you there.

GSRA New Members in Jan/Feb

Name	City	Name	City	Name	City
Shirley Griggs	Stone Mountain	Frances Meeks	Milledgeville	James Shirley	St. Simons Island
Donald Harris	Milledgeville	Frances Burden	Waycross	Patrick Thornton	Brunswick
Jeannette Holsey	Milledgeville	Lorraine Frew	Savannah	Annie Westbrook	Riverdale
Lona Banks	Jesup	Glenda Lee	Blackshear	Michael Howell	Enigma
Cynthia Wydick	Commerce	Freddie Norris	St. Simons Island	Howard Johnson	Lithonia
Donald Hocott	Edwardsville	Connie Riner	Savannah	John Loudermilk	Mt. Airy
Jean Jackson	Manchester	Thomas Swinford	Cohutta	Janet Fong	Athens
Janet Thomas	Savannah	Jim Norris	St. Simons Island	Eleanor Jones	Blue Ridge
Russ Atchley	Decatur	Rhonda Summers	Hapeville	Vivian Murray	Brunswick
Kathy Cofield	Hogansville	Willie Webb	Stone Mountain	Helen Plymale	Athens
Beverly Nash	Decatur	Susan Dukes	Valdosta	Carlton Stallings	Rising Fawn
Gale Belton	Snellville	Jerome Brown	LaGrange	Bill Abercrombie	Lafayette
Patricia Jarrett	Athens	Joseph Coker	Buford	James Crosby	Brunswick
Elizabeth Ladson	Atlanta	Eddie Turner	Social Circle	Barbara Drake	Atlanta
Vernice Lawson	Locust Grove	Deborah Elswick	Stone Mountain	Rosa Green	Louisville
Olivia Maupin	Lithonia	David Scarbrough	Tifton	David Hammond	Winterville
Eddie Snelling	Pine Lake	Catherine Anderson	Roswell	Evelyn O'Kelley	Jefferson
Rosa Spencer	Austell	Kay Garrett	Manchester	Don Lively	Waco
Wanda Brown	Decatur	Pinson Garrett	Manchester	Michael Bone	Chestnut Mountain
Virginia Boswell	Hahira	Bessie Harper	Pearson	Terry Jones	Chickamauga
Bonnie Chandler	St. Simons Island	Harold Teal	Mableton	Sherry Wilson	Valdosta
Connie Taylor	Jefferson	Jerry Sewell	Lawrenceville	Winifred Gourley	Broxton
Larry Benton	Milledgeville	Cherry Kirkland	Columbus	Harriet Moore	Atlanta
Helen Courson	Valdosta	William Meriwether	Evans	Billy Bearden	Dalton
Sharon Fitzgerald	Conyers	Joseph Tollison	Snellville	Aida Galarza	Lilburn
Angela Jones	Hampton	Lynda Boatwright	Hampton	Gwendolyn Skinner	Villa Rica
Demetra Milam	Cumming	Karen Clark	Brunswick	Patrick Skinner	Villa Rica
Barbara Moss	Decatur	Sandra Clark	Waverly	Ralph Stamp	Woodstock
Robert Sanders	Statham	Judith Culbertson	Phenix City	Nora Stephens	Cobb
Gene Shepard	Watkinsville	Mary Daniels	Pearson		
Larry Spearman	Athens	Mary Evans	Hampton		
Martin Teem	Marietta	Judith Hartley	Midway		
Janie Worton	Athens	Kathy Matthews	Brunswick		
Carl Meeks	Milledgeville	Susan Shipman	St. Simons Island		

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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.

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