

ERS Board Hears Update on System Financial Status

As reported in the February Newsletter, the ERS Board heard a report at its February meeting on the financial status of the systems administered by Employees' Retirement System of Georgia (ERSGA). Also, as promised, ERSGA Executive Director Jim Potvin provides GSRA members his take on the report in the following article. GSRA thanks Jim for providing his timely insight.

Preparations for the April 2020 Annual Board Meetings for the Employees' Retirement System (ERS) of Georgia and our various smaller systems under the Employees' Retirement System of Georgia (ERSGA) are well underway. To assist the Board of Trustees in its deliberations on the possible granting of a post-retirement benefit adjustment (PRBA) for the next fiscal year, each year in February I provide the Board with a summary of the current and projected future financial status of the system, based on the assumptions used for the annual actuarial valuation.

My remarks to the Board this year were based on the June 30, 2018 actuarial valuation (the most recent). The funding ratio (generally, the ratio of the plan's assets to the total liabilities the plan expects to pay) for ERS was 75.3%, leaving an unfunded liability (UAL) of \$4.4 billion. We expect to have the majority of the UAL paid off around the year 2032.

While we don't yet know the June 30, 2019 valuation results, we do know that our investment return for FY19 was 6.9%. This is close to our assumed return of 7.3%, so we do not expect a dramatic change between the 2018 and 2019 valuations.

Recent History

The ERS story of the past several years has been one of stabilizing the fund. From a high of 104% in 2002, the ERS funding ratio declined steadily until it reached its recent low point of 71.4% in 2013. From that point until 2018, it has improved by an average of about $\frac{3}{4}$ of 1% per year.

The State's contribution requirements rose sharply for several years in the early 2010s, but have leveled off at their current rates. Though the rates are high based on ERS history, they are expected to remain stable for at least the next several years. One demographic trend assisting in the recovery is that, after years of shrinking, the state's total payroll for its active ERS members has increased for four consecutive years.

In 2013, the Board approved a new funding policy designed to help put the system in a better position to both recover from the Great Recession, and to prepare for the next downturn. A favorable investment climate has helped, but the Board also changed a number of actuarial assumptions, including the assumed rate of investment return, to put the system into a more conservative financial posture.

We have seen a clear improvement in the status of the ERS. When we ran future projections in 2012, the ERS funding ratio in 2018 was expected to be 70.3%. In reality, it was 75.3%. The funding ratio in 2023 was projected to be 72%; our most recent projections suggested it will be 81%. The actions taken by the Board, along with some recovery in the markets, have set the system on an upward trend.

Projected Funding Ratios, 2018-2023

<u>Year</u>	<u>Projection Date 6/30/2012</u>	<u>Projection Date 6/30/2018</u>
2018	70.3%	75.3% (actual)
2019	70.9%	75.5%
2020	71.3%	76.6%
2021	71.7%	78.7%
2022	72.0%	80.2%
2023	72.3%	81.6%

In a series of decisions that has hit very close to home for our retiree population, the Board has not granted a true Cost of Living Adjustment (COLA) since 2009. As financial conditions have begun to stabilize, the Board did provide a series of non-compounding PRBAs in fiscal years 2017-2020, in an attempt to assist retirees financially while not straining the ERS fund too much.

Alternate History of PRBAs

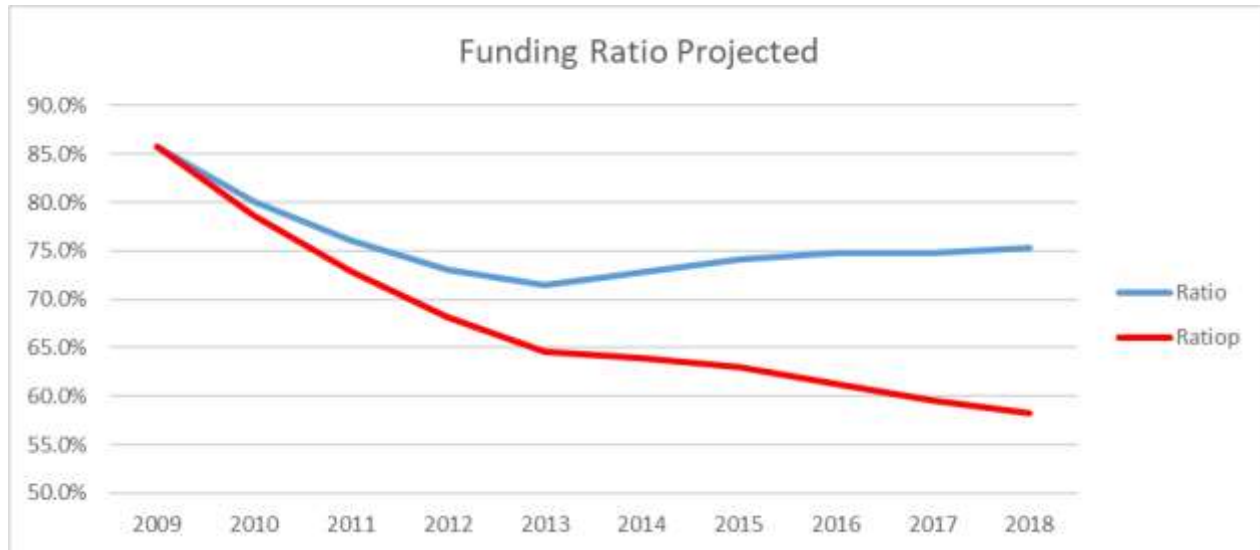
At meetings with GSRA groups and others, I have maintained for some time that the decisions not to pay COLAs, while painful, have been necessary to secure the health of the system and give it a chance to recover. This year I decided to quantify that impact by creating a model of what would have happened to the system’s finances had a 3% COLA been paid each year from 2010 to 2018.

Here are the results:

1. Retiree Payroll: FY2018 payroll would have been about \$370 million higher than it actually is, increasing from \$1.36 billion to \$1.73 billion per year.
2. Total Plan Liabilities: Also known as Actuarial Accrued Liabilities (AAL), this would have

changed from the actual \$17.8 billion to \$21.3 billion, an increase of almost \$3.5 billion.

3. Plan Assets: The actuarial value of the assets in the fund would have decreased by over \$1 billion, from the actual \$13.4 billion to \$12.4 billion.
4. Unfunded Liability: If the assets decrease and the total liabilities increase, then the unfunded liability must also increase. In this case, it doubles, from the actual \$4.4 billion to almost \$8.9 billion.
5. Employer Contributions: It follows then that the state would have to put more money into the plan. By 2018, the state’s obligation would be about \$177 million per year higher, and the gap would likely double over the next ten years.
6. Funding Ratio: Lower assets and higher liabilities mean that the funding ratio must decrease as well. Instead of 75% funded, the system would be about 58% funded. More alarming, despite years of overall market gains, the funding ratio would have never had a year where it increased over the prior year.



As painful as it has been not to pay COLAs, the numbers show that it has been necessary in order to accomplish the Board's #1 goal: To ensure that the fund remains able to pay the monthly retirement benefits for this and future generations of retirees.

Looking Ahead

At the meeting, I presented a series of 10-year projections of the current (upward) trajectory of the funding status of the system. Also presented were two moderately adverse scenarios to illustrate the impact that such scenarios can have on those projections.

A lot can change in a month, and it certainly has in response to the current Coronavirus (COVID-19) pandemic. It is safe to say that the projections I presented are now

obsolete, with the recent downturn in the economy and financial markets. I have been saying for several years that a market downturn was more or less inevitable, but nobody could predict when or how much. Certainly no one in February was ready to predict "now" nor could they foresee the magnitude of the recent changes.

But just as I once thought that a downturn was coming, now I look to the future for our next recovery. I can't say when, or that the current correction is fully behind us. But what the Board and I *can* do is continue to make sound, thoughtful financial decisions for the system. When that recovery begins, we want to be in position to take the fullest possible advantage of it. We will continue to focus on our mission to be the guardians of the system on behalf of our retirees and all of our members.

GSRA's First Ever Major Bill Passes on Crossover Day Before General Assembly Session Crashes to Covid 19 Halt

As of March 12, the General Assembly had completed 28 days, including crossover day. Its session was suspended immediately and indefinitely following day 28 due to the coronavirus, Covid 19. Before that halt, however, GSRA was successful in having its first ever major bill passed, HB 821. The General Assembly met in special session on

March 16 to pass a bill authorizing the governor to take emergency actions to mitigate the Covid 19 crisis.

Among the bills crossing over was the amended FY '20 budget. It contained a large number of changes from the Governor's recommendations, mostly restorations of his cuts. Unfortunately, the House then passed HB 949 which

would cut the income tax rate by .375% and potentially result in an annual revenue reduction of \$500 million (estimates vary). The House passed out its version of the “big” budget for FY ’21. HB 793 includes the following statement: “The Board of Trustees is urged to consider a benefit adjustment for retired state employees in accordance with sound actuary principles.” We thank House Appropriations Chair Terry England and the rest of the House for including this language.

Also crossing over was HB 821, which was introduced at the urging of GSRA. HB 821 would remove the prohibition against COLAs for GSEPS retirees as well as for judicial and legislative systems’ retirees. It was co-sponsored by Representatives Sainz and Buckner and sailed through committee. However, it ran into a bump on the House floor that required assistance from your GSRA legislative team to pass, which it did. Read about the events at mygsra.com.

SB 26 by Sen. Ligon to allow members of the state's defined contribution plan to buy equivalent credit in the state's defined benefit plan still remains alive in the House. Also crossing over were these retirement bills:

- HB 830 which would increase the permissible level of alternative investments to 10% of all large retirement systems’ funds. GSRA has expressed its concerns about this bill.
- SB 294 which authorizes TRS to invest in alternative investments.

And these bills addressing medical surprise billing and various aspects of pharmaceutical pricing and consumers’ access to drugs:

- SB 303, SB 359, HB 789, HB 888 and HB 991 taking various measures to prevent surprise billings. GSRA has long supported the intent of these bills and several look promising.
- SB 313, HB 918, HB 946, HB 947 regulating certain aspects of pharmacy benefits managers’ activities with the purpose of reducing drug pricing and improving consumers’ access to drugs. GSRA has not taken a position on these bills until we can ascertain their impact on the SHBP and state retirees prescription drug costs.

ERS Remains Open for Business!

ERSGA Executive Director Jim Potvin provides this update to assure GSRA members the agency remains open for business and to provide members with helpful information.

At the Employees’ Retirement System of Georgia (ERSGA), we realize this is an uncertain time for our Retirees and their Beneficiaries due to the coronavirus (COVID-19) pandemic. We also understand that the monthly benefit payment that you receive is crucial to your overall well-being. As the guardian of the State of Georgia’s pension plan for over 70 years, ERSGA’s primary responsibility is to make sure your monthly checks go out on time each month.

Proactive Steps Taken:

The health and safety of our employees and members is our first priority during the current COVID-19 pandemic. We have transitioned to a nearly 100% work-from-home (teleworking) agency, and are continually evaluating our business processes to ensure that you will continue to

receive the high level of customer service and professionalism you have come to expect from us.

ERSGA is fully capable of running our monthly payrolls with our dedicated staff working remotely. If you receive your benefit payment through direct deposit, you can be confident in receiving your monthly payments as scheduled.

As a continual effort, we have created a number of online processes so that our members can avoid using and mailing in paper forms. Most former members can apply for refunds of contributions online, and Employees’ Retirement System (Old Plan, New Plan, and GSEPS) members can apply for retirement online. Other changes, such as tax withholding and beneficiary changes, can also be accomplished electronically.

Areas of Concern for Members:

An area of concern is for those specific members who still receive paper checks in the mail each month. Our Financial Management Division staff has worked diligently to contact these members, and has converted almost 50% of the remaining paper checks over to direct deposit. However, to date, about 900 paper checks still remain as the method of payment. The issue with paper checks is if either the check printing vendor or the U.S. Postal Service were to experience a disruption in service, then the delivery of paper checks could be significantly delayed. If you or another ERSGA member that you know is still receiving paper checks, please contact us immediately to set up direct deposit to make sure everyone receives their benefits on time.

We also highly encourage the use of electronic communications whenever possible, as another area of concern is our ability to continue to process the large volume of physical mail we send and receive each day. For now, we are able to handle it, but the less we receive the more effective we can be at getting your important communications into the right hands. We ask that you take full advantage of email or (if the information is confidential) our secure file transfer process.

Our Customer Care Group and retirement specialists can answer your questions about how to securely send private or confidential information to us. In addition, our IT Development Group is hard at work creating a direct document upload function in the secure member portal area of our website. Any member who has signed up for an ERSGA account will be able to use this functionality in the next few weeks.

Contacting ERSGA

Our Customer Care Group (call center) is 100% operational, with all of our agents teleworking. We have made some changes to other areas of communication in the effort of social distancing. This effort includes the suspension of face-to-face meetings and outreach educational presentations. During this time, we are using technology to connect with our members. The Workshop for Retirement Answers and Preparation (WRAP) pre-retirement seminars are now presented in video format available on our website. In addition, our retirement specialists are available for one-

on-one phone or teleconference meetings. We are also frequently updating our website and sending out written communications with timely information as we receive updates.

Stay Connected and Current!

Please stay connected to us by logging into your secure ERSGA account and confirming that your contact information and beneficiaries are current.

If you have not signed into your account previously, the blue log in button is located on the top, right side on the homepage of our website. By logging into your secure account, you have the ability to perform many of the electronic tasks outlined above. Additionally, another important benefit to signing up is it gives us a way to reach you. Circumstances are changing quickly these days, and we would greatly appreciate the ability to easily connect with all of our members, retirees, and beneficiaries. You can also help us by encouraging other current and former state employees to create or to log into their ERSGA account, so we can keep everyone up to date!

Personal Message from Jim Potvin, Executive Director of ERSGA:

Know that our ERSGA employees are dedicated to serving those who served Georgia. We are still here for you during this time, as we have been for the past 70 years. We know you are depending on us and we intend to keep our daily operations stable and running efficiently.

We also would like to extend our appreciation to GSRA for their partnership in providing this additional communication avenue through this newsletter.

Let us know how we can help, and please stay safe.

Connect with ERSGA

Visit our website:
ers.ga.gov

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ERSGA Toll Free: 800.805.4609 (outside metro Atlanta area)



Jim's View: What a Difference a Month Makes!

I want to send my best wishes to all GSRA members for a safe and coronavirus free month of March and beyond. Please follow all state and federal advisories concerning this virus.

March has been an up and down month for GSRA. In the first part of the month we were celebrating our success in having two GSRA sponsored Bills passed and sent to the other legislative body prior to "crossover day". Plus we were pleased that the House passed a proposed budget that included a 2% across the board pay raise for active state employees, additional raises for those critical positions for which the State is having difficulty recruiting and retaining employees, restored some of the agency cuts proposed by Governor Kemp, and, last but not least, language encouraging the ERS Board to grant a post benefit adjustment to retirees provided that it is actuarially sound to do so. This is similar language to what was included in the current budget.

You could say that we had, up to that point, one of our best legislative sessions. However, things can change in a heartbeat and they have for the time being. We do not know at this point when the General Assembly will return and what kind of shape the economy will be in when they do return.

I will tell you this. GSRA is ready to spring into action again. We have already reached out to Senator Jack Hill's Office (Chair of the Senate Appropriations Committee) to

schedule a meeting with him. Once the Senate returns into session, a definite date and time for the meeting will be established.

We are scheduled to meet later this month with Jim Potvin and his staff to discuss, among other things, the upcoming April ERS Board meeting. The April board meeting is a very important one, and normally we would like to pack the house with GSRA members. However, ERS has already indicated that the April board meeting will be conducted via teleconferencing due to social distancing measures. GSRA leadership has been invited to join the teleconferencing proceedings, so we will be sure to report back to the membership as quickly as possible after the meeting.

I am not sure how things will unfold over the next couple of months. Be assured, however, that the GSRA Board will exert every effort to ensure that the positive momentum we had earlier this month is not totally dissipated as the result of the coronavirus. The adverse impact that the coronavirus is having and will continue to have on state retirees must be addressed by the state through restoring the annual across the board cost of living adjustment. We will continue to make that point with our elected and appointed state leaders.

Thank you for your continued support of GSRA. It is very much appreciated.

Jim

The April ERS Board Meeting Will NOT be Conducted in Person. Stay Home!

Like your GSRA board, the ERS board of trustees will be conducting its April meeting via teleconference to stay as safe as possible from Covid 19. We appreciate those of you who were planning to attend, but please **STAY HOME** now. The board has graciously extended an invitation to President Jim Somerville and the rest of your GSRA legislative team to join in the teleconference. We will report the results of the meeting -- especially decisions regarding "post-retirement benefits" -- shortly after the meeting ends.



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