GSRA Newsletter

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STATE HEALTH BENEFIT PLAN NEWS

SHBP CHANGED TO CASH BASIS FOR FY 2010

The Board of Community Health (Board) approved a Resolution ordering the Incurred But Not Reported claim reserves for the State Health Benefit Plan to be used "as necessary" to pay benefits through June 30, 2010. The impact of this resolution is to change the funding of the SHBP to a "cash" basis. In essence, the SHBP is **projected to have sufficient cash to pay claims**, but will be insolvent on an insurance basis.

GSRA has published several articles in previous Newsletters regarding the financial status and funding of the SHBP for Fiscal Years 2009, 2010, and 2011. As a reminder, DCH Chief Financial Officer Carie Summers presented to the Board on September 10, 2009 unaudited revenue and expense for FYs 2010 and FY 2011. The projections for both Fiscal Years included all the changes that will be implemented on January 1, 2010, i.e. increased premiums, movement of retirees age 65+ to Medicare Advantage Plans, and reduced benefits.

At the September Board meeting, DCH staff presented Financial Facts shown in the chart below, and included a statement in the presentation that the department will submit a "request to the Government's Office of Planning and Budget that will address the remaining **fund balance deficit" of $69-$74 million.** GSRA will monitor the budget process, but it is assumed that the Administration has decided to inadequately fund the appropriate claim/benefit reserves.

Financial Facts-SHBP (000s)

Category	**FY 2009**	**FY 2010**	**FY 2011**
Total Revenue	$2,350.5	$2,546.0	$2,895.9
Total Cash Expense	2,778.0	2,831.5	2,900.2
Deficit/Surplus	(427.6)	(114.7)	(4.3)
Fund Balance Reserve	$ 45.3	$ (69.5)	$ (73.7)

RETAIL vs. MAIL ORDER PHARMACIES

Some Retail Pharmacies –But NOT ALL---Agree to Reduce Copays

Some retail pharmacies---BUT NOT ALL---have modified their contracts with United Healthcare and/or CIGNA to better compete with the Mail Order pharmacy benefit introduced by the Medicare Advantage Plan (MAP). If your retail pharmacy has agreed to the modified contract, YOU MAY purchase a 90-day supply of drugs for the reduced copay---just like the Mail Order provisions of MAP.

The Department of Community Health notified retail pharmacies that if they were willing to sign a contract with the pharmacy manager of UHC or CIGNA that complies with the mail order terms and conditions, the copays at the retail pharmacy could be the same as the mail order copays for a 90-day prescription. The decision is an individual decision by the retail pharmacy because these conditions require the pharmacy to provide the prescription at the same cost (ingredient and dispensing fee) to the DCH vendor and the MEMBER as the mail order pharmacy provides. Some retail pharmacies will not agree to these conditions since they may not be able to supply the prescription at the lower cost. If your pharmacy does not agree to the mail order provisions, you may still purchase a 90-day supply of maintenance drugs at retail for the applicable copays (e.g. 3 copays).

As a member of MAP, you are not required to use the mail order services—but you MAY reduce your copay if you choose to use the mail order process. It is your decision about using the mail order process, but it is your pharmacy's decision about agreeing to the lower cost contract in order to compete with the mail order plan.

MORE REPORTS FROM THE GSRA ANNUAL MEETING

How Did the Candidates for Governor Respond to GSRA's Questions?

GSRA sponsored a moderated Roundtable Discussion among six announced candidates in the 2010 race for Georgia's next Governor. Candidates Thurbert Baker, Roy Barnes, Ray McBerry, Dubose Porter, David Poythress, and Austin Scott participated in the roundtable. Although all Democratic and Republican candidates were invited, Nathan Deal, Karen Handel, Eric Johnson, and John Oxendine declined to participate and Jeff Chapman could not attend because of illness. GSRA submitted a total of fourteen written questions to ALL candidates prior to the Annual Meeting, along with a request for written responses, even if the candidate was unable to appear.

Written responses were received from Candidates Barnes, Chapman, Oxendine, Porter, Poythress, and Scott. The first three GSRA questions, along with these candidates' written responses, are shown in this article. We will publish more candidate answers to our questions in upcoming issues of the GSRA Newsletter. We appreciate the participation of all six candidates' at our meeting, and also thank those who submitted written responses to our questions.

<u>Question #1</u>*: *Given the State's current revenue crisis, how do you anticipate addressing the shortfall between cutting services and tax increases/abolishing sales tax exemptions in the face of increased service demands?

- **<u>BARNES:</u>** Unfortunately, state budgeting has become less of an analysis of needs and priorities and more simple "let's cut everything." But there is a reason beyond the economic climate why the state is in such bad fiscal shape. In 1975, there were five exemptions to the sales tax. Currently, there are over 200 exemptions on the books. Special interest tax cuts are costing the state of Georgia between $400 million and $800 million per year, and as Governor, I will stop these special interest exemptions. We cannot continue to allow our in growth revenue to be eroded as the current administration has done over the past several years. Tax cuts for special interest groups simply shift the burden to local taxpayers, and that must and will cease when I am elected Governor.
- **<u>CHAPMAN:</u>** Public office is a public trust, and revenue crisis or not, I am bound by the Code of Ethics for Government Service to "find and employ more efficient and economical ways of getting tasks accomplished" (4th standard in code). In my 10 years of public service, I have never been convinced of the need to increase taxes. However, one alternative that stands out to me is to examine the existing tax breaks in the form of tax credits and deductions. It's important for me to know if they are producing their intended results. If not, I would look at the feasibility of redirecting that benefit to fund essential services.
- **<u>OXENDINE:</u>** I have promised to transform state government. By this, I mean to suggest it is appropriate to, literally, restructure the very structure of state government. It is vital that Georgia have a 21st Century state government. I will abolish the state income tax. Tax increases are never the answer to creating economic growth.
- **<u>PORTER:</u>** As governor, I will push point of sale legislation through the General Assembly. HB 356, which I co-sponsored last session, would allow local governments to collect their own sales taxes at the point of sale. This plan requires no new taxes or fees while raising an estimated $1 billion. Local governments can collect this revenue more efficiently than the state Department of Revenue, which, by their own admission, leaves millions in uncollected sales taxes on the table every year. These taxes are paid in good faith by Georgia consumers at the point of sale, but that money is not being utilized to reform our transportation system; strengthen our public schools; or keep police officers, G.B.I. agents, and state troopers on our streets and highways. It is not being collected at all. The lag time from when revenue is actually delivered back to local governments would also be reduced drastically, allowing for better delivery of services. It is estimated that Georgia could save an estimated $1 billion in revenue without any new taxes or fees with HB 356. Alabama allows tax collection at the point of sale and has saved $1

billion. We are not re-inventing the wheel. If Alabama can do it, we can do it in Georgia. I will also reexamine all sales tax exemptions. I believe some exemptions have merit but there are plenty that can be done away with, especially during these tough economic times. These are the steps I would take immediately. Of course, instead of across-the-board cuts we need priority-based budgeting. Kicking veterans out of the state's nursing home and shutting it down while building a Go Fish center in the governor's hometown does not reflect the values of Georgians.

- **POYTHRESS:** There are three things you can do: you can cut services; you can raise taxes, but before I'd be willing to do either one of those, I want to look at raising revenue. Our sales tax law and other laws are shot through with special interest exceptions. We need to re-evaluate those tax breaks, and we need to make a judgment call about every single one of those at least every two or three years. The other thing we need to do is adequately fund the audit staff at the Department of Revenue (DOR). Since the 1970's, the State of Georgia has chronically underfunded our auditors. And the DOR does a very poor job collecting the tax that is owed to the state, and you and I suffer the consequences of the budget shortfall. The State of Virginia provides a great example, where a good auditor brings in about ten times his/her salary. One of my first priorities will be to collect the taxes that are already due, so that we don't have to raise taxes or make draconian cuts to the budget.
- **SCOTT:** As governor, I will release the budget earlier in the year and increase efficiency at the Department of Revenue so local governments can better serve their citizens and the State can collect the taxes it is due but often not receiving. I will also increase budgetary transparency and accountability by regularly publishing a tax expenditure report so that the public can know how the State is spending its money and what policies it is pursuing through the tax code. Georgia is one of only nine states in the Nation that does not currently publish such a report. This document will lay out the costs of each tax cut in the current tax code, which we can then compare with fiscal notes and provide it to the legislature and the Ways & Means committee prior to passing the currently proposed tax cuts. Once the tax expenditure is published, we may find that it is necessary to repeal some of the existing tax cuts that benefit only certain industries so that we can pursue a reduction in the corporate income tax which should attract industry and help bring Georgia out of this recession through job creation.

Question #2*: In 2001, the employer contribution rate to the ERS was reduced by one-third and has not been restored to an appropriate level for the past 8 years, nor is it scheduled to be restored in the next 2 years. The result of this chronic under-funding has been to decrease the funded percentage of the ERS by some 15%--down to about 89%. Explain your position on increasing the State's contribution rate to restore adequate funding to the ERS system and to maintain the actuarial soundness—close to 100% funded—for all of the publicly funded pension systems, i.e. ERS, TRS, LRS, etc.

- **BARNES:** From the inception of ERS, TRS and our other state retirement systems, the State was the balancing component in keeping our retirement systems financially sound; however, this changed seven years ago. Previously, employee contributions were a constant – when investment returns and funded ratios were high, state contributions were reduced, and when investment returns were low and the funded ratio declined, the state contributions were increased. This is no longer the case. In 2000 and 2001, investment returns were high and the funded ratio was over 100 percent, so the state contribution was reduced. Unfortunately, as reports from 2003 and 2004 came in, the funded ratio for ERS and TRS fell because investment returns were negative. Those were years of state prosperity when traditionally the imbalance would have been corrected by increasing the state contribution. The difference between then and the past is that the State failed to act. By taking a lockdown stance in a period of prosperity, the systems were doomed to be stressed in the next recession. That, combined with the depth of the current recession has put our retirement systems in long term fiscal stress. As Governor, I will promise to maintain a financially sound retirement fund. Employee contributions will not increase beyond 25%, and I pledge that the State will do its part to ensure that the system stays in balance.

- **CHAPMAN:** Maintaining the actuarial soundness of our state pension systems is very important. However, the June 2008 Actuary's Certification Letter for ERS tells me that the current "annual employer contributions… are sufficient to support the benefits of the system," and that the "System is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law." The Actuary states clearly that "the System is operating on an actuarially sound basis." The 2009 Actuarial Report is not yet available on the ERS website. My goal would be to make sure our State Pension Systems remain actuarially sound and that they are fully funded, taking into consideration the economic climate.
- **OXENDINE:** One of the most important aspects of my role as Insurance Commissioner is to monitor financial solvency of regulated entities. There cannot be two sets of rules, one for government and one for Georgia businesses, we must work to restore confidence in our system and the promises made to retirees. The current situation did not happen overnight nor can we correct it overnight but we must craft a plan that brings us to actuarial soundness.
- **PORTER:** As governor, I will uphold the state's commitment to our retired public employees. We need to begin restoring that funding so those former employees can have peace of mind that their pensions are safe and secure. As governor, reducing the employer contribution rates would be off-limits. It all comes back to priority-based budgeting. Robbing Peter to pay Paul is not the way to move Georgia's economy forward.
- **POYTHRESS:** My pledge is three-fold:
  1) no increase in employee contribution,
  2) increase the employer contribution back to an amount that will maintain the fund at a sound level, and
  3) make sure that everyone understands what financial soundness means.

  The retirement law that you and I live under dictates that the fund should be kept "sound" so that there is "no erosion in the purchasing power" of our benefit. That's what financial soundness means to me in the fund. Therefore, the employer contribution should be sufficient not just to continue the current benefits but to see that there is no erosion in purchasing power over time. It's not just a legal issue, it's a moral issue. The state should live up to the moral obligation it made to you and me that we could get these benefits and our purchasing power would not be eroded.
- **SCOTT:** As the economy has weathered this downturn, fund balances have been inevitably reduced. Hopefully as the economy returns, fund balances will increase to the point that all of the systems are at or approach fully-funded status. If the fund balances do not return, it will require additional contributions which will in all likelihood be shared between the employer and the employee.

***Question #3:* For more than thirty consecutive years, retirees of all publicly funded retirement systems have received adjustments of at least 3% per year to maintain purchasing power. However, in the last three years, retirees in the Employees Retirement System have not received adjustments in the same way that other State supported public plan retirees have received pension adjustments. Explain your position on restoring equal treatment among retirees in *all* State supported retirement Systems?**

- **BARNES:** For the past 25 years the Federal Cost of Living Index (CPI) has increased at a compound rate of just slightly over 3 percent. Some years a little higher, some a little lower, but at an average of 3 percent. Maybe it's a coincidence that the retirement systems were intended to increase at the same rate, just maybe it was good planning by the fiscal people of the time. As Governor, I will move to bring all the retirement plans in line and I will ensure that our retirees are treated equitably.
- **CHAPMAN:** I think all State retirees should receive equal treatment in maintaining purchasing power. But how I would restore equal treatment hinges on why the plans have not been uniform, and I need to do some additional research to understand the history of this issue.
- **OXENDINE:** I am very sympathetic to our retirees who have seen purchasing power erode. Given the fact that we are likely entering a period of inflation I am committed to working with both the leadership of ERS and rank and file members to explore every possibility to restore these

important adjustments – but we have a lot of work to do.

- **PORTER:** As governor, I will treat all state retirement systems the same.
- **POYTHRESS:** The plans are not exactly alike - there are several small differences among the plans, so to say that everyone would be treated absolutely equally is really not exactly right. Certainly I think everyone should be treated equitably. As I said earlier, I think we need to recognize and underscore the provision in the law that the benefit will be maintained at a level that does not erode purchasing power, and I will support the adjustments to the extent that we maintain the solvency of fund and also to maintain the purchasing power.
- **SCOTT:** Retirement benefits are calculated differently based on contribution levels made within the structure of the different retirement systems in the State. In many cases the contribution levels vary across systems. If it can be demonstrated that retirees in the ERS system have received a cost of living adjustment that is disproportionate to the amount paid by those retirees into the system, I would like to know.

--To Be Continued in Future Newsletters--

And What Did the ERS Board Chair Say at the Annual Meeting?

Russell Hinton, Chair of the Board of Trustees for the Employees Retirement System and member of the Board of Trustees for the Teachers Retirement System, spoke at the GSRA Annual Meeting on October 21, 2009. Hinton was asked to discuss the funding of the ERS, to explain the Board's actions regarding the Willis v. Employees Retirement System, *et. al.* class action lawsuit, and how the Board appointed COLA committee would address COLA funding for ERS members.

Funding the Pension and Group Term Life Insurance

Mr. Hinton began a discussion of the funding of ERS by defining the "Annual Required Contribution" (ARC)—a standard for pension plans. The ARC is the employer's contribution for a future benefit earned by the service of current employees (normal contribution) plus a contribution to fund any unfunded amount over a period of no more than 30 years. Hinton explained that contributing the ARC amount each year is very important because if the ARC is not paid each year, the bond rating agencies are notified. Such failure to contribute the ARC will then result in the bond rating agencies decreasing the State's bond rating.

Hinton explained that funding the pension plans is based upon availability of State revenue, priorities in the use or expenditures of revenue and the actuarial projections. He first stated that even though substantial reductions in FY 2009 agency budgets were made, the budget needs were greater than the revenue received and resulted in appropriating much of the "rainy day" reserve—Revenue Shortfall Reserve (RSR). The RSR with a balance of $1.025 billion at the beginning of FY 2009 was almost depleted by the end of FY 2009—having only $50 million.

Although the Federal Stimulus Funds included an injection of federal funds into the State to help relieve the extreme shortfall and reduce the budget cuts, Hinton stated that the Federal Stimulus Act provided funds for only three areas as shown below:

	FY 2009	FY 2010
Medicaid	$482,520,361	$ 787,591,143
Education	145,317,456	521,170,062
Public Safety		140,260,406

Most of the State's political leaders demonstrate that their first and foremost funding priority is Education. Hinton summarized the percentage of revenues dedicated to each of the state priorities. The percentages demonstrate that in times of falling revenues, an increase in contributions to retirement or health insurance would result in additional reductions in the State's top priorities.

Appropriation Percentages	
Education	57%
Healthy Georgia	21%
Safe Georgia	8%
Debt Management	6%
Growing Georgia	4%
Best Managed	4%

Hinton, having reported the dire revenue collections and the State's priority funding, nevertheless stated that the current employer contribution rate must be increased in future years if the ERS continues to be in compliance with the 30-year liability liquidation provisions. The following funded percentages and employer rates are based upon draft actuarial projections as of FY 2009. Actuarial projections take into consideration the increased number of retirees, 7.5% annual investment return, and stabilization of the active employee payroll at $2.8 billion. Hinton pointed out that although the Board of Trustees has not officially set the employer contribution rates for FY 2012 to FY 2015, rate increases similar to those below must be requested in future years.

ERS Funded Percentage & Contribution		
Fiscal Year	**Funded Percentage**	**Employer Rate**
FY 2011	89.39%	10.41%
FY 2012	79.46%	12.95%
FY 2013	79.03%	12.94%
FY 2014	76.53%	13.5%
FY 2015	72.5%	14.48%

Chairman Hinton turned his attention to the Group Term Life Insurance Plan (GTLI) for active employees and retirees. The State has not contributed to the GTLI for a number of years but will be required to make a contribution for active employees by July 1, 2011. At the point of retirement, **the contractual requirement for the retirees' life insurance is placed in trust** for the retiree's survivors. Therefore, a State contribution for the life insurance for currently retired members is not required. The impact of required future employer to the GTLI plan causes the Attorney General and actuary to review options for sustainability of the fund. Although retirees will not be affected by any GTLI plan change, contractually active employees have life insurance coverage on a month-by-month basis; therefore, the benefit can be modified for current active employees.

Willis v. ERS et. al.

Chairman Hinton acknowledged that members questioned the length of time to make adjustments in the pension amounts as a result of the Willis v. ERS, et. al. or Anderson v. Public School Employees Retirement System. The members' position is that if the ERS Board had acted more timely, the retirees' loss of a portion of the settlement (and future increased pension amount) for attorney's fees would have been less. Hinton first explained that not all retirees were affected, but those who are affected retired during a specific time period and chose a pension option that reduced the retiree's monthly pension so that a survivor could receive a benefit. Hinton first presented the liability amounts to the ERS and PSERS followed by a historical outline of actions taken by the Board, attorneys, and judges.

ERS Liability		PSERS Liability	
Retroactive payments & Interest	$ 51,142,870	Retroactive payments & Interest	$ 724,871
Attorney Fees–Future Payments	23,707,523	Attorney Fees–Future Payments	360,789
Total Payments in FY 2009	$ 74,850,393	Total Payments in FY 2009	$ 1,085,660
Future Liability	94,830,090	Future Liability	1,443.153
Total Liability	$169,680,483		$ 2,528,813

Historical Events/Actions	
Plymel filed suit against TRS, et. al. (The original lawsuit)	April 2004
Fulton Superior Court grants Summary Judgment for TRS	January 2006
Plaintiffs file appeal to Georgia Supreme Court	April 2006
Georgia Supreme Court Reverses Superior Court Decision	October 2006
TRS Motion to Reconsider Denied	December 2006
ERS Board Discusses Decision and Liability although decisions on member of the Class and Length of time for which the Liability would apply.	January 2007
Plymel Case certified as Class Action; however, decisions on Length of time, Appropriate Interest Rate for back payments, and percentage of award to be awarded for attorney's fees remained undetermined.	January 2007
Willis Vs. ERS, et.al. filed	January 2007
Fulton County Superior Court heard arguments for unresolved issues	October 2007
Georgia Court of Appeals issued final ruling on Length of Time and interest rate and upheld	

Historical Events/Actions	
attorney's fees at 30% of award	February 2009
Negotiations with Willis attorneys resulted in a 5% reduction in attorneys' fees.	Following Court of Appeals Ruling

Hinton stated that the Board of Trustees desired to made decisions more rapidly after the Plymel decision was adverse to the TRS. However, the issues critical to determining who was affected, the length of time for which additional pension payments were due and the interest rate to be paid were unanswered and continued to be litigated. If the Board had made decisions prior to the final judicial rulings, the liability to the ERS trust fund and the reduction from the affected members' payment for attorneys' fees could have been greater than required—resulting in the Board's failure to adhere to its fiduciary responsibilities.

ERS Board's COLA Committee

In closing, Chairman Hinton responded to GSRA members' question about the announced ERS Board of Trustees COLA Study Committee. He stated that the Committee is charged to study COLA funding alternatives while maintaining the Board's fiduciary responsibility to preserve the basic benefit for current and future retirees.

By practice, the actuaries reassess the experiential assumptions regarding retirement rates, turnover rates, age and gender of employees, salaries, etc. every five years. Hinton stated that the five-year reassessment is due. Therefore, the Board charged the COLA Study Committee to develop COLA alternatives by using the draft FY 2009 actuarial study, the new Five Year Experience study, and various funding alternatives. However, Hinton pointed out that the Board does not have the authority to mandate employer contributions from appropriations but must work with the Governor and General Assembly to develop funding strategies.

VALDOSTA CHAPTER HOSTS LEGISLATORS

L-R: Sen. Tim Golden, Chapter Pres. Carroll Griffin, Rep. Jay Shaw, & Rep. Ellis Black enjoy the December meeting of the Valdosta Chapter.

About forty members of the local Valdosta Chapter of GSRA came together on December 3rd to visit with their state legislators. Senator Tim Golden, Rep. Jay Shaw and Rep. Ellis Black discussed matters of concern to state retirees, especially the recent changes in the SHBP. The Legislators indicated that they intend to look more closely into the SHBP benefit reductions and the MAP requirement during the next session of the General Assembly. They also encouraged GSRA to continue recruiting new members and to form more local chapters statewide. Chapter members enjoyed the opportunity to speak one-on-one with their representatives. Rep. Amy Carter was unable to attend due to illness, but the chapter hopes she will be able to attend the next such meeting.

Merry Christmas and Happy New Year from GSRA!!