

## GSRA Meets with ERS Director

GSRA leadership met with Executive Director Pamela Pharris of the Employees Retirement System in December to discuss anticipated legislation, funding issues and general issues. The highlights of the meeting are presented in the following paragraphs.

### Legislation

ERS-sponsored legislation will include “clean-up” type language for several retirement plans administered by the ERS. A bill will be pursued to default the beneficiary to the “next of kin” when there is not a valid beneficiary designation on file for members of the Georgia Defined Contribution Plan (a plan used for temporary or seasonal employees).

ERS will also propose legislation to transfer from ERS to the State Personnel Agency the responsibility now carried by ERS as Georgia’s administrator of the Social Security Program. Since the decision in the 1950s for Georgia State Government and local governments to participate in the federal social security program, the ERS has been responsible for administering certain activities of the program. The administrative expense has been absorbed by the ERS without specific funding. Therefore, this transfer of the administration will eliminate this cost to the ERS trust funds.

Director Pharris stated that although some Legislative bills regarding alternative investments for the Firefighters Pension Plan will roll over to the 2010 General Assembly Session, she does not plan to introduce or expect the introduction of any similar alternative-investments legislation for ERS.

Legislation was passed during the 2009 General Assembly Session that synchronized state retirement law with the Internal Revenue Code and Regulations for retirement plans. One of these provisions is to eliminate extensive “double dipping” by requiring a minimum break of two months after retirement before a state retiree could be re-employed by a state agency. Along with this provision is a requirement that the hours worked by a retiree for a state agency could not exceed 1040 hours each year. Director Pharris plans to clarify the language to better define persons and/or situations governed by the 1040-hour limitation. It is

clear that a retiree rehired by a state agency as an employee or consultant, even if incorporated, may be affected.

Director Pharris stated that she would not oppose legislation to permit GSRA access to the names and addresses of retirees—provided the retiree has authorized the access and GSRA or the legislature provides funding for this work. The legislation would assist GSRA in assuring that new retirees are aware of GSRA and its services provided to retirees. Pharris also stated that she has no opposition to ERS deducting GSRA dues—authorized by the retiree—from the pension check and remitting to GSRA, as long as GSRA or the legislature provides funding for this work. GSRA leadership will continue to work toward selecting a legislative member to address this issue.

### Funding Issues

Our discussion turned to the financial aspects of the ERS plan. GSRA President BJ Bennett stated that the ERS Audit report indicates that the FY 2009 employer contribution amounts are down 3-4% over FY 2008 and the employee contribution amounts are down a greater percentage. Bennett also stated that the Secretary’s December report to the ERS Board for FY 2010 shows that the revenue (both employer and employee) are down even a greater percentage for FY 2010. The decreases are a result of lower employee compensation and a reduced number of employees—not a result of any decrease in the employer contribution rate. Such a decrease in dollar contributions, plus the negative investment income in FY 2009 of **-13%** and an increase in benefit payments for the 1,800 increase in number of retirees place a drain on the plan’s cash flow and require liquidation of investments. Pharris stated that the investment staff is very cautious about ensuring there is sufficient cash to issue pension payments while liquidating investments in a manner that will have the least impact on the plan as a whole.

GSRA representatives asked about the draft actuarial report that the Board of Trustees Chair, Russell Hinton, discussed at the GSRA Annual Meeting. Pharris stated that from preliminary actuarial reports, the FY 2012

State's Annual Required Contribution (ARC) will increase—probably to at least 12.59%. She stated that the actuaries would complete the June 30, 2009 projections by the end of March. The actuaries would then perform a re-evaluation of the workforce assumptions, such as the retirement rate, resignation rate, annual compensation and annual compensation increases. A re-evaluation of the assumptions is conducted every five years and now is time for the re-evaluation. If the previous assumptions are no longer valid, the actuaries may be asked to update the actuarial projections for the required ARC employer contribution.

GSRA Vice President Chuck Freedman asked about the Board of Trustees' COLA study. Director Pharris stated that the actuaries will include options for different methods of prefunding a portion of the COLAs for ERS members. Recommendations will then be provided to the Board for review and decisions.

### General Issues

Director Pharris plans to substantially improve the ERS website to provide additional information to active and retired members. GSRA welcomes the change and the Director's efforts to provide increased transparency of Board proposed actions and Plan information. The new website is scheduled for implementation on February 1, 2010. The new website address will be [www.ers.ga.gov](http://www.ers.ga.gov). Some of the new features are:

- The ERS Board of Trustees meeting agendas will be posted one week in advance of the scheduled meetings, which are every other month, beginning in February of each year.
- The Executive Secretary's Report to the Board that provides ERS Plan, Georgia State Employee Pension and Savings Plan, and Deferred Compensation Plans (401k and 457) facts, including summary investment information, will be posted to the website.
- ERS staff will add the GSRA website link to the new ERS website and GSRA will assure that the ERS website link is included on the GSRA website.

GSRA discussed with the Director the composition of the Board of Trustees and how to assure independence and an environment for the Board to fulfill its fiduciary responsibilities without undue influence from outside sources. Pharris was not opposed to requiring that a retiree member be included on the Board. Pharris pointed out that two state retirees—Frank Thach and Harold Reheis are now on the Board of Trustees. Thach is former deputy director of the Georgia State Finance and Investment Commission and Reheis is the former Director of the Environmental Protection Division of the Department of Natural Resources.

## **ERS Audit Report Issued**

KPMG LLP, an independent audit firm, has released its audit report for FY 2009 on the financial results of the Employees Retirement System. The report echoes the bad news about investment returns and the need for increased funding as a result of reduced contributions revenue and increased benefit payments. While the ERS continues in better financial position than many public retirement plans, FY 2009 has not been a good year for stable funding.

### Investments

Investment income for the year was a negative \$1.728 billion, which is the greatest investment loss since FY 2001, which was \$795.7 million. Investment income rates as shown in audit reports for the past seven years are shown in the following chart.

<b>Investment Returns by Fiscal Year - Percentages</b>							
<b>Type</b>	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2003</b>
Total	-13.0	-3.5	14.7	6.2	7.8	9.8	4.5
Equities	-25.3	-10.8	21.0	11.1	8.4	20.1	-2.3
Fixed Assets	7.5	9.7	6.0	-1.4	7.2	-1.4	12.8
<b>Five-Year Average</b>							
Total	2.0	6.8	8.5	4.7	2.2	2.1	2.3
Equities	-1.2	9.2	11.2	3.9	-1.7	-2.0	-2.1
Fixed Assets	5.6	3.8	4.4	5.4	7.8	7.7	8.1

A key factor for determining future funding needs is the assumed rate of investment income. The ERS actuary, in recent actuarial reports, has projected investment income at the assumed rate of 7.5% of assets over a seven-year smoothing period. The Investment Returns by Fiscal Year chart indicates an average return for the last seven years of less than 7.5%. GSRA awaits decisions by investment advisors about an improvement in investment income and appreciation of the equity market. KPMG reports "Fair Value" of the ERS assets as of June 30, 2009 at \$10.65 billion. However, Executive Director Pamela Pharris reports an increase in asset Fair Value to \$11.6 billion—an increase of 8.9% in the five months of FY 2010.

The fact that the total investment income rate in FY 2009 was a negative -13% is a commendation to the investment advisors and a policy of maintaining a high percentage of assets in fixed income securities. Over the last seven years, the percentage of assets in equities ranged from 59.6% in FY 2005 to 52.3% on June 30, 2009. The complimentary percentages of 40.4% to 47.7% were invested in fixed assets and cushioned the FY 2008-2009 total asset value loss. The equity/fixed asset policy was one of reasons that the ERS asset percentage loss was

smaller than that of many public pension funds during the 2008-2009 economic down turn.

#### Need for Increased Funding

ERS Actuary Macdonald advised the House COLA Study Committee that over the long term, 75% of the increase in a pension plan's asset value comes from investment earnings with 25% being contributed by the employer and employee. In addition to the negative investment returns, the KPMG audit report shows that the employer contribution amounts are down to \$281.2 million (-2%) in FY 2009 from \$286.2 million in FY 2008, and that employee contributions are down to \$44 million (-9%) from \$48.3 million for the same period. In addition, Director Pharris's report to the Board in December 2009 shows that the rate of employer and employee contributions for FY 2010 continue to drop. Although several factors affect the funding needs on a short term (one to two years) basis, a decrease in employer and employee dollars will have a negative impact on the pension trust fund.

The reduced contribution revenue appears to be a result of a reduced number of active employees, an increased number of higher-paid employees retiring, and their replacements (if any) earning a lower salary. See chart below.

Fiscal Year	Active Employees <sup>1</sup>	Retirees/Beneficiaries <sup>2</sup>	Benefit Payments <sup>3</sup>
June 30, 2009	71,272	37,049	\$1.117 Billion
June 30, 2008	74,935	35,186	1.020 Billion
June 30, 2007	72,961	33,871	929 Million
June 30, 2006	77,196	32,685	858 Million
June 30, 2005	74,414	31,453	778 Million

GSRA assumes that with the further reductions in contributions, FY 2010 reflects an even lower number of active employees as more senior employees retire and fewer vacated positions are filled. GSRA is very interested in the upcoming FY 2009 actuarial report and the re-evaluation report of workforce assumptions that are to be completed in the next few months.

<sup>1</sup> ERS Audit Reports for the respective Fiscal Years.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

## ERS Board of Trustees – Report on December Meeting

Several GSRA members monitored the December meeting of the ERS Board of Trustees. Items of interest included the following:

The committee to nominate a replacement for resigned ERS board member Celeste Osborne recommended the selection of Frank Thach. He is a retired state employee who formerly served as deputy director of the Georgia State Finance and Investment Commission and also was an auditor with the Department of Audits. The board approved the nomination.

ERS staff presented an update on the Defined Contribution program which included statistics for the GSEPS members' and pension plan members' participation. It was noted that this past quarter marked

the first time in a while that members transferred more money from the Stable Value Fund than they contributed, representing improved confidence in the market. Staff also stated that the program will discontinue sending out quarterly hard-copy statements and will begin sending them out only annually.

The possibility of a Cost of Living Allowance (COLA) for January was on the agenda. Chairman Hinton stated that he could not recommend a COLA under current financial conditions. Two other board members supported this position. No vote was taken.

Executive Director Pamela Pharris submitted a report indicating that market value for the retirement fund had increased more than 3% for the month of November to close at \$11.6 billion for ERS. However, due to a dip in October, this represents only a slight increase over September.

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## MORE REPORTS FROM OUR 2009 ANNUAL MEETING

### **PART 2: “How Did the Candidates for Governor Respond to GSRA’s Questions?”**

At our Annual Meeting in October, we 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, were printed in the December 12, 2009, GSRA Newsletter, and their answers to questions #4, 5 and 6 are printed in the following pages. GSRA will publish more candidate answers to the questions in upcoming issues of the Newsletter. We appreciate the participation of all six candidates’ at our meeting, and also thank those who submitted written responses to our questions.

#### **Question #4: Given the current and prolonged debate over water usage, how will you resolve the dispute over access to the water from Lake Lanier?**

**BARNES:** Water is crucial. Without it, we cannot attract business, we cannot sustain agriculture, and our State cannot grow. The escalation of the dispute over Lake Lanier with Alabama and Florida poses a threat to everything we have built in Georgia. We must act immediately to secure access to water for all of Georgia, in order to secure a future as well. Our most pressing concern should be repairing the leaky pipes and inefficient municipal water infrastructure. It is estimated that we lose between 17–30% of all water that enters the distribution systems – this is an unacceptable waste. In addition to

structural repairs, we should also offer incentives to consumers to utilize technologies that reduce water usage, such as low-flow toilets and taps in households and modern irrigation systems for farms. As a longer-term solution, we need to create new reservoirs in north Georgia so that we can increase our capacity for water storage. We should also investigate the possibility of underground storage alternatives, and look to utilizing the cavernous old limestone quarries in the northern part of the state. The court battle could be long and drawn out, so we cannot just wait for a legal resolution. Instead, we

must act immediately to make water access and conservation one of the leading priorities statewide. Once we show our neighboring states that Georgia is serious about reducing its burden on Lake Lanier, we will be better placed to see a favorable outcome. In the meantime, we also need to be prepared for every outcome. Given the gravity of this issue, it is essential to draw from the valuable talent and experience in all sectors of Georgia's economy, including business, government, and environmental groups.

**CHAPMAN:** I don't think this issue can be resolved by giving a stimulus package to a select group of attorneys. We need to do a better job of teaching citizens how to conserve water and provide them with incentives to use some of the newer technology that is available. We also need to explore options to increase the capacity of our existing reservoirs and to convert rock quarries into reservoirs. This responsible stewardship should make it unnecessary to spend millions of dollars designing and building new reservoirs.

**OXENDINE:** First thing we must do is to have Georgia start building state reservoirs. Currently, the state has zero reservoirs scheduled to be built. That will change when I am Governor. Additionally, we must guarantee that both south Georgia as well as metro Atlanta are protected in any policy that Georgia agrees to.

**PORTER:** We rely too heavily on Lake Lanier for drinking water in North Georgia. This overreliance puts us in a bad position in the water dispute with Alabama and Florida. I would drop the appeals process because it is a waste of money and would call on the governors of the other states to meet immediately. We must show in good faith as we enter that meeting that we are serious about conservation. Building more reservoirs is attractive but expensive. Conservation begins with fixing leaks, maximizing gray water, instituting smart landscaping, installing efficient fixtures, improving existing dams, metering all use, and piping existing reservoirs. This alone could put over 100,000 gallons of water back in the Chattahoochee. These are all options Georgians should consider in this economy. Weighing the costs versus the benefits, of all the ideas, for now and the future, is the only common sense approach to preserving our water. Our current water plan is designed to fail. We need a comprehensive plan that is based on where the water actually is and not on political boundaries. The plan in place now pits one region against another and prohibits us from uniting under common goals. We need to move forward on a long-term plan to protect our water resources. As governor, I will get the water dispute behind us and protect our water resources so we can move

our economy forward.

**POYTHRESS:** I think most of the answers have been identified. The easiest first step is conservation, but we can't conserve our way out of this crisis. We should have started creating a culture of conservation twenty years ago. We need to build more reservoirs. We need to raise the levels of some existing dams, but we can't save our way out of this problem either. The really tough part of the solution is to reach an agreement with our friends in Alabama and Florida about usage of the water that's available in our river basins. The Chattahoochee River is one of the smallest watersheds in the country serving a big city. This is a tough negotiating challenge that's going to fall to my lot, and I believe I have the leadership and negotiating skills to work it out. I think we've got two negotiating points going for us; one is our capacity to build new dams, the fact that we can build new reservoirs. The other is to bring our friends to realize that we truly live in a regional area and our strategic planning for both water and transportation has got to take that reality into consideration. It's not just Georgia, it is all of our states. This is not about getting back to the same level of water we use now; this is about the economic future of the state. We are living at the center of what has come to be called the Piedmont-Atlantic Mega region. We've got to be thinking about that, in terms of our strategic planning on both water and transportation. For more about my ideas on how to address our water crisis, check out my video <http://www.poythressforgovernor.com/watervideo> and my plan [http://www.poythressforgovernor.com/files/Poythress\\_Water.pdf](http://www.poythressforgovernor.com/files/Poythress_Water.pdf).

**SCOTT:** It is time for Georgia to take the leadership role in conservation and make better use of conservation measures used widely throughout the United States and many other countries. This will be a significant step toward ensuring that we have an abundance of clean water available for our citizens and for Georgia businesses to thrive. As Governor, I will make improvements in our water distribution systems, provide incentives such as tax credits to individuals and corporations for increased conservation, and work to increase Georgia's water supplies in an environmentally responsible manner. I will work to ensure that the waters that fall upon the State of Georgia are not diverted elsewhere at the expense of Georgia citizens or Georgia businesses. As an avid sportsman I will protect Georgia's natural resources for public enjoyment and for the generations of Georgians to come. As regards Lake Lanier specifically, I am a strong advocate that improvements in our conservation efforts will give us a better negotiating position in the Federal

court system. For instance, the men's urinals at Hartsfield-Jackson International Airport in Atlanta still use a full gallon of what was fresh water each time they are flushed. Tens of millions of visitors pass through the airport each

year. Updating these units and urinals in all large government buildings will save hundreds of millions of gallons of fresh water each year.

***Question #5: During the 30-year period leading up to the turn of the century, various Boards that oversee retiree pension and health benefits acted as fiduciaries and worked with governors and legislators to maintain adequate funding to help retirees maintain their standard of living by adjusting benefits and maintaining adequate health insurance benefit reserves. However, in the past several years the ERS and DCH Board and administration leadership have failed to preserve retiree pension and health benefits---partly we believe---as a result of inadequate independent representation. Explain how you would assure independent representation and will you support changes in the Board structures to give retirees representation on the ERS and DCH Boards?***

**BARNES:** With the exception of the State Auditor, all of the ERS board members are appointed by the Governor. As we have seen during the last several years, this can mean that board appointees act in the best interests of the Governor, not in the best interests of the retirees that they have been selected to represent. As Governor, I would move to reconstitute the board memberships, where necessary, to include more members that perceive the responsibilities of the boards as to the retirement systems and their members. I will ensure that ERS board members are acting as fiduciaries and not as political agents.

**CHAPMAN:** I would need to study the existing representation on the ERS and DCH Boards before taking a position on whether retiree representation would result in more "independent representation" or better preservation of retiree pension and health benefits.

**OXENDINE:** I believe it is important that retiree stakeholders should have adequate input and representation. I support expanded representation that allows retiree representation on the ERS and DCH Boards and will commit to use all resources available to the Governor to make this a reality.

**PORTER:** As your governor, I will set the right priorities for retirees. Board members serve at the will of our current governor, who does not believe in protecting retired employee pensions or maintaining adequate health

benefits. I will appoint members who have the best interest of those in the system. Raiding retirement systems would be off limits in my administration. I would also support retiree representation on the ERS and DCH Boards.

**POYTHRESS:** Well I'm a great champion, a great believer, in openness and transparency in government. I don't think we've always seen that when it comes to the ERS, to put it mildly. It's just wrong for them, they may not have met in secret, but they made decisions that affected us without talking to us. They've got to deal with us sooner or later, why not do it on the front end, proactively. Why not invite this organization that I'm represented in to talk up front and at least know what's going to happen or have some understanding and have input on the front end of those decisions. That's transparent, proactive government. That's real leadership. And that's what's missing, frankly, in a lot of Georgia government. We need a return to real leadership who will deal proactively and constructively with interests that are represented in the process.

**SCOTT:** I think that it makes sense to allow retiree representation on the Boards. I expect board representation on all sides to act in a professional manner and balance the interests of the taxpayers of the State with the board that they serve on. The long-term solvency of the system is more important than any one particular goal.

***Question #6: The Department of Community Health has changed the policy for retirees who are age 65 and over effective January 1, 2010. The new policy requires retirees to choose either of two Medicare Advantage Plans if retirees are to receive the traditional 75% state contribution toward their health insurance premiums. This policy change in effect eliminates retiree "choice" in how to receive medical services and exposes retirees to substantially more cost when health care is received. Within the present national health care environment, what is your opinion on how to support funding and benefits for state and teacher retiree health insurance under the State Health Benefit Plan?***

**BARNES:** If elected, I will ensure that those that administer the DCH, including the DCH board, change the direction of their decision processes. We must begin thinking of the health care of the active and retired members of the SHBP first, and cost savings second. If I am Governor, decreasing health care or shifting responsibility for health care for any teacher, state employee, active or retired, or any eligible dependent will not be an option for the DCH board or administrators.

**CHAPMAN:** I do not have a direct response to this question, but having attended the Waycross GSRA District meeting we do need to provide adequate support and instruction for our retirees, so they can make an informed choice about their healthcare benefits.

**OXENDINE:** I do not have to tell your members that the state budget is facing extreme challenges in the next several years. State government employees (myself included) must accept that every day our bosses - the taxpayers of Georgia - face reductions in benefits and even layoffs. As we come to terms with these new realities we must work together to find solutions. Now more than ever we need our retirees to have a seat at the table as we make the difficult choices ahead of us.

**PORTER:** The current administration has taken what was once a great State Health Benefit Plan, with many great options and low costs, and turned it into a monolithic mess that does not improve care for our retirees. People take a job with the state because they have great benefits and now that trust has been violated. Premiums have increased for our hard working state employees and teachers. On top of that, salaries have remained stagnant and employees are now subject to furloughs. This is wrong. Instead of eliminating choice for our retirees and focusing on nothing more than cost savings, we should be focusing on improving healthcare and options. Eliminating healthcare options for any state employees and teachers, retired or not, would not happen when I am governor.

**POYTHRESS:** (No response)

**SCOTT:** Obviously we want to do everything that can be done to keep the cost of healthcare as low as possible, because State employees are also State taxpayers. It would be my goal as governor to work for the best interest of both the employees and the taxpayers in the State.

***--To Be Continued in Future Newsletters--***

## **State Health Benefit Plan Questions About Materials and Part D**

GSRA members have submitted questions about materials being received from the State Health Benefit Plan's vendor—CIGNA or UHC. GSRA asked Nancy Goldstein, Director of the State Health Benefit Plan, about various materials mailed to the Medicare eligible retirees in the last several months. She responded as follows:

1. Each member should have now received a summary plan document (Evidence of Coverage) along with all of the legally required notices from the chosen vendor (CIGNA or UHC). Many members received this material shortly after the Retiree Decision Guide was received (early October, 2009). Other members received the material after the "Retiree Option Change Period" closed on November 10, 2009. Since this material informs you of your coverage for 2010, you should read the material and retain it for reference.
2. Some members have received a "cancellation notice" from their 2009 Part D prescription drug plan. As noted in the post-card distributed by the SHBP, if you enrolled in a Medicare Advantage Plan, prescription drug coverage is included in the MAP, Medicare

cancelled the 2009 Part D Plan, and you should not re-enroll in a Part D Plan. **Re-enrolling in a Part D Plan separate from MAP will cause you to lose your coverage under the SHBP.**

3. Make sure that the identification card that you received from CIGNA or UHC had the coverage for which you enrolled—Standard or Premium MAP or one of the other options. If the coverage level is incorrect, contact the vendor (CIGNA or UHC) that you chose and inform them. The vendors are instructed to make the correction and inform the SHBP.
4. If you enrolled in one of the MAP options for 2010 and your 2009 Part D Vendor sends you an invoice for coverage beginning January 1, 2010, ignore the invoice. If you receive a second invoice from the 2009 Part D Vendor, contact your MAP vendor.
5. ***BE SURE TO GIVE YOUR MAP IDENTIFICATION CARD TO THE PHARMACY WHEN PURCHASING DRUGS ON AND AFTER JANUARY 1<sup>ST</sup>.***

## **Local Chapter News**

The *Coosa Valley Area Chapter* held a business meeting and reception for local elected representatives on December 7, 2009. Following the business meeting, attended by forty-five GSRA members, Sen. Jeff Mullis (Senate District 53), Rep. Howard Maxwell (House District 17, Chairman of the House Retirement Committee), Rep. John Meadows (House District 5, Vice Chairman of the House Retirement Committee), Representatives Barbara Reese (House District 11) and Katie Dempsey (House District 13) joined our meeting for a discussion of Health and Retirement Issues. All the elected officials discussed the importance of local GSRA members establishing contact with their elected officials to keep them informed about our issues and concerns. Representative Maxwell shared information about our health and retirement systems.



*State Sen. Jeff Mullis (left), Coosa Valley Area Chapter President Jim Burton (Center), and State Rep. Howard Maxwell, House Retirement Committee Chairman (Right)*