

## GSRA Legislative Day Big Success!

To all of you who braved the bad weather and joined together to showcase GSRA, we thank you. The GSRA Legislative Day and Legislative Reception were highly successful. Read all about it in the upcoming special edition newsletter. Coming soon.



## Special Council on Tax Reform & Fairness—Impact on Senior Citizens

The Special Council on Tax Reform and Fairness issued on January 7, 2011, [the report](#) on recommendations as required by HB 1405 of the 2010 General Assembly Session. The Council intended that its recommendations lead to the betterment of Georgia, with the goal of changing the philosophy of taxation from income to consumption based, increasing stability of tax revenues, and enhancing the perception of fairness for all. The Council presented recommendations on 11 areas of taxes. Senior citizens in general -- and, therefore, GSRA members -- are most severely impacted by recommendations in two of the areas. These areas are the change in personal income tax and the institution of sales tax on food and specified other services.

The Council, composed of four economists, business leaders, and elected officials, projected that the recommendations will be “revenue neutral” when all recommendations are implemented. However, a later analysis by one of the Council’s economist

members shows that the proposals as a whole will be more “regressive” (meaning that lower income citizens as a group will pay a higher percentage of their income in taxes than higher income citizens) than the current tax structure.

The next step for the recommendations will be consideration by a Special Joint Committee on Georgia Revenue Structure that was also established in HB 1405. Any bill that is approved by the Committee will be voted “up” or “down” without amendments. Therefore, any concerns about tax reform legislation drafted by this committee must be expressed while the committee is deliberating and before its bill is introduced.

### Income Tax Recommendation

The Council proposes to reduce the top income tax rate from 6% to 4% by 2014. The current tax rate schedule approved in 1937 rises quickly from 1% to 6%. Coupled with reduced upper rates, the proposal eliminates the \$35,000 income exemption amount for persons age 62+ and eliminates all itemized deductions for the taxpayer, i.e. mortgage interest, etc. The Council has also proposed credits for the lowest of income earners.

### Sales Tax Recommendations

The Council proposes several changes to the Sales Tax provisions. Proposals having the greatest impact are: (a) reinstitute state sales tax (4%) on food for home consumption and prescription drugs; (b) eliminate sales tax exemption from some entities, i.e. non-profit organizations and medical appliances; (c) impose sales tax on personal and household services, i.e. haircuts, lawn services, household services and health care.

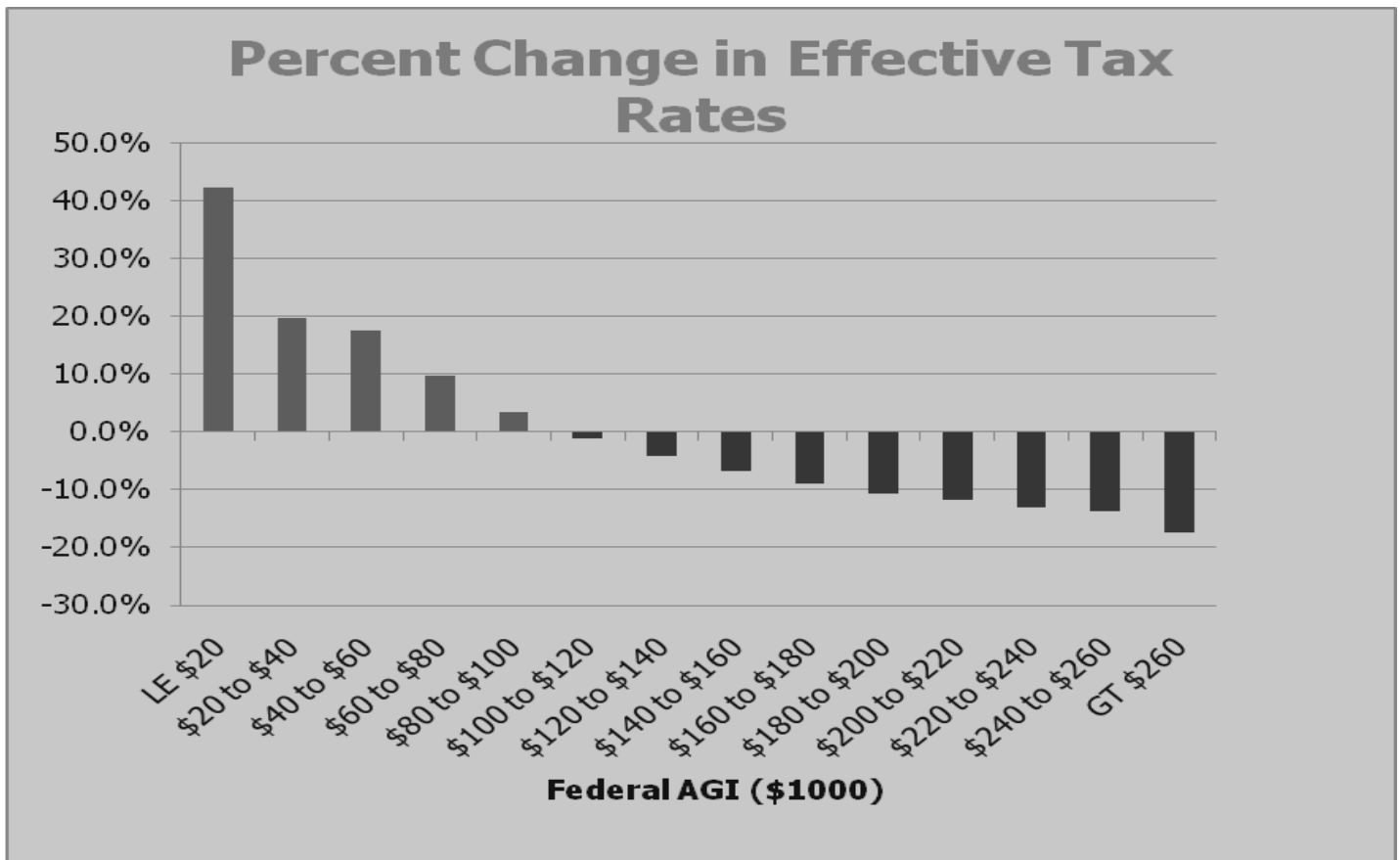
### Impact on Senior Citizens-Including GSRA Members

Income Tax: The Bureau of Labor Statistics (BLS) states that the average age 65+ household of 1.7 persons had an income of about \$39,000 in 2009. Retirees of the Employees Retirement System and Teachers Retirement System

average between \$29,000 and \$30,000 annually in pension benefits. Therefore, the average pension benefit plus social security payments track very closely with the reported BLS income. As reflected on pages 68-69 of the Council’s reports, members (primarily because of eliminating the \$35,000 income exemption for 62+ individuals) around the average \$39,000 income level will be required to pay more income tax annually (\$1,400 for single filers and \$1,286 for 2 member families) than currently required.

**Sales Tax:** The BLS report for 2009 shows that on average elderly citizens spend \$8,600 annually on groceries, prescription drugs, and health care. At the state sales tax of 4%, the average sales tax increase for the elderly is approximately \$350 per year, which will increase over time faster than other goods and services.

Overall, seniors having an annual income around \$30,000-\$40,000 will be impacted to a greater degree than seniors having a higher income. They could ultimately suffer a tax increase of about \$1,750 per year, and initial increases could be even more. We stated at the beginning of this article that the Council’s recommendations are regressive in that lower income earners will pay more while higher income earners will pay less. This is demonstrated by the graph below prepared by one of the Council’s members. It shows that the point at which the current tax structure and the proposed tax structure generate equal tax payments is annual income of approximately \$100,000 to \$120,000. For lower income seniors, the tax impact would be greater than the current tax impact.



**Reactions**

The Council’s recommendations generally have been received positively. For example, the respected [Georgia Budget and Policy Institute \(GBPI\)](#) has written, “The Tax Council took strong action to broaden tax bases—a tenet of good tax policy.” However, many have perceived weaknesses in some of the recommendations, and many of those perceived weaknesses are the major increases in taxes that seniors and low income individuals will have to pay. The GBPI also states that, “Although the Tax Council’s recommendations would improve Georgia’s ability to meet current and future needs, they would do so by shifting taxes away from wealthy Georgians and onto middle-and low-income Georgians.”

GBPI's most recent statements can be found at <http://us.mg3.mail.yahoo.com/dc/launch.gx=1&rand=emavgjsejns8o>. AJC writer Jim Galloway reports that Governor Deal says, "We're not going to sign anything that is a tax increase . . . in this climate. . . ."

If you have concerns about any of the Council's recommendations, we encourage you to contact the Special Joint Committee on Georgia Revenue Structure before it finalizes a bill. We do not know when that will occur. The Special Joint Committee is co-chaired by Senator Bill Heath and Representative Mickey Channell. Other legislative members are Senators Tommie Williams, Chip Rogers, Robert Brown, Bill Cowsert and Steve Thompson, and Representatives Jan Jones, Larry O'Neal, Stacey Abrams, Allen Peake and Bob Bryant.

### **Correction – Retirement Legislation Process**

Statements in a previous GSRA newsletter regarding the introduction of retirement legislation were incomplete and included incorrect information. The following information provides the filing requirements for retirement legislation.

- Non-fiscal retirement bills (not requiring funding) must be introduced during the first 20 days of either year of the two-year General Assembly Session, i.e. 2011 or 2012.
- Fiscal retirement bills (requiring funding) must be introduced at any time during the first year of the two-year General Assembly Session, i.e. during 2011. An actuarial evaluation will be completed and submitted to the General Assembly for consideration of the bill during the second year of the two-year Session.

### **State Health Benefit Plan – Financial Information**

David Cook, the new Commissioner of the Department of Community Health, explained to the Joint Appropriations Committees on January 20<sup>th</sup> the Amended FY 2011 and FY 2012 budgets for the Department, including the State Health Benefit Plan. The Governor's recommendations for the SHBP reflect the 2011 increased deductibles and out-of-pocket for members, increased member premiums, elimination of the OAP option because of cost, and increased cost required to insure dependents up to age 26 and additional preventive service. The recommendations also include additional premium increases and benefit reductions for CY 2012. The table below shows the dollar impact of the major changes reflected in the Governor's recommendation for 2011 and 2012.

<b>Dollar Impact of the Changes to the SHBP for CY 2011 and Projected for CY 2012</b>		
	<b>FY 2011</b>	<b>FY 2012</b>
<b>Increased SHBP Cost</b>		
Cost of extending preventive coverage required by health care reform	\$ 4,995,741	\$ 10,335,923
Cost of adding dependent coverage up to age 26 (less premium increase)	18,481,780	38,267,520
<b>Decreased SHBP Cost</b>		
Elimination of the OAP Option expense (net of reduced premiums)	92,048,200	197,798,360
Additional plan design changes in CY 2012		37,326,621
<b>Increased SHBP Revenue</b>		
Increased appropriation to Education to support public school employee program	56,468,639	
Increased member premiums for spousal (\$10) tobacco (\$20) surcharges	8,279,974	16,553,348
Increased premiums by 10% in CY 2012		29,686,345
Federal Govt. reimbursement for under age 65 retirees' claims	69,800,000	110,000,000

None of the above dollar amounts provide sufficient information to understand the financial position of the SHBP. It only reflects the projected reduced Plan expenditures by cost-shifting to members through benefit reductions and increased premiums and surcharges, and increased Plan expenditures because of the Patient Protection and Affordable Care Act. In addition, the table shows the anticipated subsidy from the federal government for the cost for early retirees under age 65. The only increase in State funding is the \$56,468,639 to support the public school employee program—which became a necessity because of the reduction in contributions during the last several fiscal years. In fact, the budget document shows the same employer contribution rate for FY 2011 and FY 2012, which produces less employer funds than was paid into the fund in FY 2008.

Commissioner Cook stated that **the audited FY 2010 SHBP reserve balance is just over \$17 million (excluding the Incurred But Not Reported claim reserve)**. The Commissioner's presentation states that this reserve amount represents **about 2 average days of claim payments**. The financial statements furnished to GSRA as of November 30, 2010 shows that the reserve balance has decreased to \$7.5 million (excluding the IBNR liabilities). As reflected in several GSRA articles, the SHBP is basically "broke" because reserves are insufficient to cover all liabilities.

### SHBP Audit Report – June 30, 2010

The Independent Auditor's report for the Department of Community Health shows the following information for the State Health Benefit Plan. Cash and Expenditures for active members of the Plan are referred to as "Enterprise" funds and Cash and Expenditures for retired members are referred to as "Fiduciary" trust funds

State Health Benefit Plan				
Enterprise Fund and Fiduciary Trust Fund – FY 2010				
	Active	State Retirees	School Retirees	Total
Revenue				
Contributions	\$ 1,993,469,124	\$ 61,272,669	\$ 383,054,747	\$ 2,437,795,540
COBRA Subsidy	3,826,963			3,826,963
State Appropriations	33,300,000			33,300,000
Investment Income	226,917	3,957,498	976,118	5,160,533
Total Revenue	\$2,030,823,004	\$ 65,230,167	\$ 384,030,865	\$ 2,480,083,036
Expense				
Health & Welfare	\$2,298,354,057	\$ 198,471,584	\$ 416,337,897	\$2,913,163,538
Net Revenue over Expense	\$ (267,531,053)	\$ (133,241,417)	\$ (32,307,032)	(433,080,502)
Net Assets, July 1, 2009	33,473,854	133,426,789	32,366,487	199,267,130
Net Assets, June 30, 2010	\$ (234,057,199)	\$ 185,372	\$ 59,455	\$ (233,813,372)
IBNR Claim Liability	215,454,072	25,299,093		240,753,165
Net Asset Reserve				\$ 6,939,793

Although the SHBP reserves are **negative by \$233.8 million**, the Incurred But Not Reported claim liability estimate of \$240.8 million gives a positive Net Asset Reserve of \$6.9 million. There are several items that are included in an accrual audit report that masks the "cash" balance, which was reflected at \$42,317,649 as of June 30, 2010. The financial statements of November 30, 2010, show that the cash and reserve funds have not changed appreciably.

### Medicare Advantage Plan Vendor Premiums

The State Health Benefit Plan "Other Post-Employment Benefits (OPEB)" recently received the actuarial report for June 30, 2009 which reported the projected cost of providing future retiree health insurance benefits at a total of \$16.4 billion. The report also included the monthly amount that DCH paid the vendors during CY 2010 for each person who is enrolled in the Medicare Advantage Plan Options. GSRA asked for the comparable amounts that are being paid to the vendors for CY 2011.

Based upon the premium amounts, United Healthcare and CIGNA reduced the cost to the SHBP based on the change (as required by Medicare) from the private fee for service to the PPO plan and the members' increased copays

and out-of-pocket maximums for CY 2011. The comparison monthly amounts reflect **reduced vendor** premiums of 10% to 20% as shown below although **member** premiums were **increased** by 10% at the same time.

Monthly Premium Amounts Paid to Vendors Medicare Advantage Plans			
	CY 10	CY 11	Change
Standard MAP (PFFS-2010, PPO-2011)	\$185	\$150	-\$35
UHC Premium MAP (PFFS-2010; PPO-2011)	209	190	-19
CIGNA Premium MAP (PFFS-2010; PPO-2011)	215	190	-25

The result on the SHBP's annual cost per retiree is reduced by \$443 (Standard) or \$299 (Premium) in 2011. These reductions are partially a result of increased retiree premium cost of \$23 (Standard) and \$71 (Premium).

However, in addition to the premium increases, the retiree is subject to increased out-of-pocket cost of \$1,000 (Standard) and \$500 (Premium).

### SHBP Enrollment – January 1, 2011

GSRA requested and received January 1, 2011 enrollment information for the State Health Benefit Plan. As written in several news articles and as political leaders have talked about budget reductions, a comparison of enrollment for January 1, 2010 and January 1, 2011 shows that **almost 10,000 active** employees and teachers **have lost jobs** through retirement, resignation, and layoffs **during 2010**. At the same time, the number of retirees **has increased by 4,240 (4.6%) with all but 860 in the school systems**.

The financial impact of the change in composition is two-fold: (a) a reduction of state contributions to the SHBP because the base salary on which the state contributes is lower with fewer actives and usually lower for any replacements of retiring persons; (b) the state does not make a direct contribution on behalf of retirees, therefore, an increase in retirees results in higher benefit payments without OPEB funding of the earned benefit during the retirees' working life.

The table below compares the number of employees & retirees covered as of January 1<sup>st</sup> of each year.

Employees & Retirees Enrolled – January				
	1/1/10	1/1/11	Change	% Change
<b>RETIRES</b>				
State	30,527	31,387	860	2.8%
Teachers	43,875	46,247	2,372	5.4%
School Pers	17,873	18,881	1,008	5.6%
<b>Total Retirees</b>	<b>92,275</b>	<b>96,515</b>	<b>4,240</b>	<b>4.6%</b>
<b>ACTIVES</b>				
State	64,279	61,957	-2,322	-3.6%
Teachers	114,182	108,976	-5,206	-4.6%
School Pers	76,143	73,195	-2,948	-3.9%
<b>Other<sup>1</sup></b>	<b>3,252</b>	<b>3,891</b>	<b>639</b>	<b>19.6%</b>
<b>Total Actives</b>	<b>257,856</b>	<b>248,019</b>	<b>-9,837</b>	<b>-3.8%</b>
<b>Grand Total</b>	<b>350,131</b>	<b>344,534</b>	<b>-5,597</b>	<b>-1.6%</b>

One of DCH's objectives has been to move members into a Consumer Driven Health Plan—HRA or HDHP. DCH furthered this objective by eliminating the OAP option on January 1<sup>st</sup>. In addition, the DCH policy to eliminate discounted premium rates for retirees desiring to continue enrollment in an option other than one of the Medicare Advantage plans drove almost all retirees over age 65 into one of the Medicare Advantage options. Results of the analysis by option are below.

Total Enrolled Lives by Option – January 1, 2011					
	Actives	Retirees	COBRA	Total	% by Option
HMO	285,815	19,268	1,975	307,058	44.06%
HRA	248,776	34,780	1,897	285,453	40.96%
HDHD	21,191	3,822	352	25,365	3.64%
MAP Standard		39,820	24	39,844	5.72%
MAP Premium		39,157	28	39,185	5.62%
<b>Total</b>	<b>555,782</b>	<b>136,837</b>	<b>4,276</b>	<b>696,905</b>	<b>100.00%</b>
Percentage	79.8%	19.6%	.6%	100.0%	

<sup>1</sup> Primarily COBRA participants/

The percentage enrollment in Consumer Driven Options increased from 31% to 44.6% (the HRA option from 29% to 41% and the HDHP option from 2% to 3.6%). Retirees over age 65 changed enrollment patterns from 57% to 50.4% in the Standard Medicare Advantage option and from 43% to 49.6% in the Premium Medicare Advantage option. The number of over age 65 retiree lives who continue in an option other than a Medicare Advantage option is reported at 283. There are 7,179 member contracts that have both under age 65 lives (8,022) and over age 65 lives (7,179).

By comparison, the SHBP enrollment in the CDHPs is much higher than in private plans. A December article in Employee Benefit News reported that CDHP enrollment for privately insured population rose from 17% in 2009 to 19% in 2010 compared to the SHBP at 31% in 2010 and increasing to 44.6% in 2011. The article also reported that:

- Enrollees in CDHPs exhibit more cost-conscious behaviors than those in traditional health care plans, such as PPOs and HMOs. Behaviors such as checking to see whether the plan would cover specific care and asking for a generic drug instead of a brand name.
- Seventy Five percent of CDHP enrollees participate in a health risk assessment program compared to 60% in traditional plan enrollees.

## Athens Area Chapter Officially a Go

GSRA Policy and Operations Committee voted at its January meeting to make the Athens Area Chapter official. The new chapter is GSRA's latest success in bringing education and awareness to GSRA members at the local level.

The chapter, which held organizing meetings in November and December, 2010, met the critical thresholds of having the minimum number of members, electing a full slate of officers and preparing and submitting an annual budget, making it eligible for full chapter status. Officers for the chapter are: Kip Mann, President; Charlotte Tolbert, Vice-President; Frank Johnson, Treasurer, Cheryl Johnson, Secretary; John and Wanda Latta, Membership Co-Chairs.

39 members from ten counties surrounding the Athens area make up the current membership. According to Kip

Mann, president of the chapter, members "felt it was necessary to help insure that our retirement benefits were protected in these difficult times, and that the best way to accomplish this was to insure that our local legislators understand how issues that arise affect their constituents...us. We felt that a local chapter could help us focus these efforts, especially since there are so many retirees in this area".

The chapter invites other eligible retirees to join. Members meet quarterly at 12:00 PM on Wednesday at the Ryan's Steakhouse on Epps Bridge Parkway in Athens. The next meeting is Wednesday, April 13, 2011. For more information call John Latta, Membership Co-Chair, at 706-255-0772 or email at [jlatta570@charter.net](mailto:jlatta570@charter.net).

## News and Activities for Other GSRA Local Chapters

The *GSRA Southeast Georgia Chapter, Waycross*, held its winter quarterly meeting, Monday, January 17, 2011, at the Quality Inn Banquet Room. Thirty-four members were present and were honored to have Mr. Jimmy Brown, Chairman of the Ware County Commission, as guest speaker. Chairman Brown discussed local area transportation, industry and government matters, including the current local economic state.

The Chapter's 2011 Budget was presented and adopted. Authorization for the rental of a van to transport Chapter members to Atlanta in order to attend the GSRA Legislative Day on Tuesday, January 25, was also approved.



**Southeast Georgia Chapter**

GSRA's *Northeast Metro Chapter* held its final 2010 meeting Thursday, September 30 at the Bethesda Park Senior Center. President Ernie Melton opened the meeting by recognizing W. D. Ballard, a former legislator who served for over 23 years. Prior to guest introductions,

President Melton informed members that future meetings would include a social in February and another trip to a Gwinnett Braves game in May. Mr. Bill Tomlinson, who held a number of positions in state government, including Director of the Office of Planning and Budget, was then introduced. In addition to providing information regarding how and why the GSRA was created, Mr. Tomlinson addressed some key issues facing state retirees. Two State Representatives, Honorable Toney Collins, District 95, and Honorable Lee Thompson, District 104, were also present and acknowledged. Each made brief statements and took several questions.

During the business portion of the meeting, Darrell Thompson and Ernie Yawn, members of the Elections

Committee, presented a slate of candidates to serve as 2011 Chapter officers. Those candidates presented and elected were: Ernie Melton, President; Mike Murdock, Vice President; Darrell Thompson, Treasurer; Holly Pounders, Secretary; and, Ronnie Owens, Membership Director.

Following the September 30<sup>th</sup> meeting, an Opinion Survey was conducted for *Northeast Metro Chapter* members. The survey's focus centered around 1) membership and 2) Chapter social events. The Chapter's Activity Committee will be compiling the results and they will be shared with local chapter members.

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

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