

STATE HEALTH BENEFIT PLAN: RUNNING ON “EMPTY”

The State Health Benefit Plan is BROKE. As noted in previous GSRA Newsletters, funding for the SHBP since FY 2008 has been reduced to such an extent that *all reserves have been used to pay current claims* and the SHBP has been placed on a “cash” rather than an accrual payment basis. The Plan is technically insolvent. As shown in the chart below it does not have sufficient funds in reserve to pay claims for medical care already provided to members and for which claims have not yet been filed for payment—referred to as “IBNR” (Incurred But Not Reported) reserves. Commissioner Clyde Reese reported to the Board of Community Health that the Department of Community Health is preparing a grant request under the Affordable

Healthcare Act to pay a portion of the health care costs for early retirees—between the ages 55-64. DCH staff presented to and the Board approved a resolution to “front-load” employer receipts to **help restore** SHBP reserves.

GSRA asked for financial information from the Department of Community Health. The specific information requested was a “Balance Sheet”, a “Revenue and Expense Statement”, and the cost for providing each of the options. The most telling financial information is the Balance Sheet which can be compared to DCH website Balance Sheet information for FY 2008 and FY 2009.

Comparative <i>Unaudited</i> Balance Sheets – FY 2008 Through April 30, 2010 ¹					
Category	June 30, 2008	June 30, 2009	March 31, 2010	April 30, 2010	Difference 2008 to Present
Assets	\$ 965,410,826	\$ 484,536,017	\$ 90,501,010	\$ 89,074,197	\$ (876,336,629)
Liabilities	(80,564,649)	(41,854,137)	(193,376,787)	(285,060,897)	(193,496,248)
Cash Basis Net Worth	\$ 884,846,177	\$ 442,681,880	\$(102,875,777)	\$(195,986,701)	\$ (1,080,832,878)
IBNR Reserves	(222,889,000)	(237,631,000)	(237,631,000)	(237,631,000)	(14,742,000)
Accrual Basis Net Worth	\$661,957,177	\$ 205,050,880	\$(340,506,777)	\$ (433,617,701)	\$ (1,095,574,878)

The following facts can be gleaned from the above chart:

- In less than 2 years, the SHBP *cash* basis trust funds have gone from a well-funded \$884,846,177 (*including partial funding for OPEB*) to a negative \$(195,986,701) (*without any OPEB funding*);
- The SHBP *accrual* basis trust funds (considering IBNR claims) reserves have decreased from \$661,957,177 in 2008 to a **negative** \$(1,095,54,878) in April 2010;
- The *cash* basis trust fund **declined** \$93,110,924 (\$-102,875,777 to \$-195,986,701) in one month (March to April, 2010);
- \$1.1 billion has been cut from the SHBP funding during FY 2008, FY 2009 and 10 months of FY 1010 while member premiums have increased 10% and benefits reduced by increasing deductibles, coinsurance (copays) and out-of-pocket maximums.

¹ DCH-provided Balance Sheets on website and through Open Records.

The bottom line: The SHBP is insolvent and if the Plan continues to decline at a monthly rate close to \$93 million—as it did in April—the plan will have a **negative** cash net worth of approximately **\$382 to \$400 million at the close of FY 2010**. In addition to the cash net worth, IBNR liabilities increase the **negative** accrual net work to **\$619 to \$637 million**. At the Board of Community Health Meeting on June 10, 2010, the Chief Financial Officer, Scott Frederking, stated that the FY 2011 projected cost of the SHBP was \$200 million more than the FY 2011 funds appropriated. He further stated that the DCH was working through the issues to present the member rates required for medical options with reduced benefits beginning January 2011.

DCH Commissioner Clyde Reese stated that the department was preparing a \$100 million—about one-half of the currently projected shortage for FY 2011—grant request to the federal government to reimburse the SHBP for a portion of the cost for retirees age 55-64. In the national Affordable Health Care Act, Congress appropriated \$5 billion to help employers until 2014 pay for retirees from age 55-64. Under the act, health plans can be reimbursed at 80% of the claim costs between \$15,000 and \$90,000 for a retiree age 55-64.

Commissioner Reese stated that there was no assurance that the grant request would be approved, but that it would be very helpful to “fill-in” the shortage. Recent news articles have reported on the race by big employers to request retiree funds. Companies are concerned that the early-retiree fund will be exhausted quickly. General Electric Company, the state of California and retired union auto workers are among those preparing to apply.

In addition to the grant request, the Board approved resolutions to “front-load” the employer contributions to meet the funding needs during the FY 2011 1st quarter. The Appropriation Act provided for a state department rate of 22.165% of salaries, the teacher rate of 18.534% of state-based salaries, and \$30,261,983 for school service employees. However, by “front loading” receipt of employer contributions, the Board approved the state employees’ rate at 25.586% and the teachers’ rate at 21.55% for the first calendar quarter of FY 2011. The resolution also included transmittal during the first calendar quarter of the entire \$30,261,983 that was appropriated for school service employees’ health insurance during FY 2011.

General Assembly members and statewide candidates need to be informed about the dire need to fund the State Health Benefit Plan. Remind the candidates that members of the SHBP have suffered a loss of over \$1 billion in the Plan, in addition to having to pay higher premiums, higher deductibles, copayments, and coinsurance.

DON'T FORGET --- ELECTIONS ARE ALMOST HERE!

As featured in last month’s Newsletter, here again are the websites for the Secretary of States Office where you can find out how to contact the candidates in both local and statewide races:

First, to find your house and senate districts: <http://www.sos.georgia.gov/MVP/Login.aspx>

Then, to see who has qualified to run in each race:

- State Senate: <http://qual.sos.ga.gov/QualifyingSearchResults.asp?RaceID=4>
- State House: <http://qual.sos.ga.gov/QualifyingSearchResults.asp?RaceID=2>
- Statewide races: <http://qual.sos.ga.gov/QualifyingSearchResults.asp?RaceID=5>

Don’t use a computer? No problem! Just call the Secretary of State’s Office, Elections Division, at **404 656-2871** to get information on how to contact the candidates to let them know of your concerns about health insurance (see above article) and pension benefits promised to state government retirees. Don’t sit on the sidelines this important election year!

RETIREMENT SYSTEM BOARDS DENY COST OF LIVING ADJUSTMENTS FOR ALL RETIREES

The Boards of Trustees for the Employees Retirement System (ERS), Public School Employees Retirement System (PSERS), Judicial Retirement System (JRS), and Legislative Retirement System (LRS) met June 24 to consider cost of living adjustments (COLAs) for FY 2011 and other matters. As expected, none of the Boards approved COLAs, nor did they consider one-time adjustments as they had done for FY 2010. Self-evident reasons were the disastrous plunge of state revenues, the wholesale devastation of agency budgets and public benefits, the furloughing and layoffs of employees and teachers, and the state's failure to grant active employees COLAs for the third straight year.

Board members were unanimous in their votes for all retirement systems as they expressed the above rationales for each. Each vote followed a presentation by Board actuary Ed Macdonald projecting the annual impact on retirement fund unfunded liabilities and funding percentage for two scenarios over 30 years: a one-time COLA of 3% in January 2011, or no COLA. The boards had previously approved at their April meeting an increase in employer contributions of 1.22% beginning in FY 2012.

During the discussion for the JRS, one of the judicial members of the JRS board expressed his concern regarding equitable treatment of all the retirement systems including TRS. Chairman Hinton responded that the TRS was set up through administrative procedure with a prefunded COLA and that the Board had no authority regarding it.

GSRA regrettably decided before the meeting that it would not be responsible to muster members to advocate for COLAs when the money is just not available, and when inflation has been relatively stagnant over the last two years. Nonetheless, about 15 members did attend. GSRA is concerned that members of all retirement systems are not treated equitably and will work in the future to rectify this situation.

For all systems, Deputy Executive Director Jim Potvin discussed the Secretary's Report (see <http://www.ers.ga.gov/news/boarddocs.aspx> for these documents) which presented updated facts on the systems including number of active employees, beneficiaries, market value of investments, etc. This was followed by an assessment of the associated fund's

health by Mr. Macdonald, approval of a plan document for Cycle E filing, and tentative approval (final approval to be at August meeting) of a proposed amendment to bylaws.

Discussions of individual retirement systems and other matters addressed by the Boards follow:

Judicial Retirement System

The JRS, one of the smallest retirement funds, has less than 500 members and 200 retirees currently. As of 5/31/10, its market value was \$275 million, a considerable recovery from 2009 when it was down to \$248 million (6/30/09). It is well funded at 112% but the low contribution needs to be addressed during the next few years because it is eroding the surplus funds. The employer contribution rate was voted by the board to increase in FY2012 to 3.9%. Returns on investments are projected at 7.5%. For the JRS, a one-time 3% COLA in January 2011 would have dropped its funding ratio to 111%.

Public School Employees Retirement System

The PSERS has 40,000 active members who are contributing and 14,000 retirees. Its market value on 5/31/10 was \$633 million up from \$597 million on 6/30/09. Its unfunded accrued liability is currently 93.5% and is the first time in many years that it has fallen below 100%. According to Mr. Macdonald, the employer contribution rate needs to be increased to 15.9% and this would become effective 7/1/11. He stated that the annual contribution rate needs to be doubled to maintain the fund.

Mr. Macdonald, as an aside, mentioned that the average funding level of public pensions nationally is currently in the 70% range so, by comparison, all of Georgia's state public pension funds are at above average levels.

Legislative Retirement System

The LRS is valued at \$25 million and has 217 members who contributed \$281,000. There are 233 retired members.

Employees Retirement System

The Employees Retirement System has about 69,500 active members and 38,000 retirees drawing \$1.1 billion in annual benefits. Its ratio of active to retired members has shifted significantly with the

growth of active members remaining static as the number of retirees continues to increase. It is currently funded at 85.74% and has a \$2.3 billion unfunded liability. As a maturing system, investment returns are becoming increasingly important. The employer contribution rate will be increased from 10.41% to 11.63% effective 7/1/2011. Funding for a one time COLA of 3% in January 2011 would have required an increase in the employer rate to 12.23%.

One area of concern raised is that the Department of Revenue has not paid its employer contribution of \$5.4 million this fiscal year for tax commissioners, nor have funds been allocated for obligations for these local employees next year. ERS had tried to address this issue during the last session by introducing legislation which would have prohibited tax commissioners employed after 7/1/10 from becoming members of ERS (they currently participate in local retirement systems.) The Senate, anticipating passage of this bill, removed the funding for ERS contributions. But the bill did not pass, the \$5.4 million was left unfunded, and concern was expressed that the state's AAA bond rating might be in jeopardy.

Identifying Rehired Retirees

A new reporting system to allow ERS to enforce the 1,040-hour work restriction and eliminate pension overpayments to rehired employees is close to completion.

Election of Officers

Chairman Hinton noted that he has served the maximum number of terms allowed by the bylaws and cannot succeed himself. Consequently, Harold Reheis was nominated and elected the new chairman of the ERS Executive Board. Ned Winsor was elected to succeed Mr. Reheis as vice chairman. As Frank Thach's term ends June 30, he was reelected to serve for a new term beginning July 1. Michael Kennedy was elected chairman of the Investment Committee. Russell Hinton was elected vice chairman. Frank Thach serves on the Investment Committee.

Georgia Defined Contribution Plan

ING's contract expires 6/30/10. Ms. Pharris said that there have been some problems with services and there is a need to increase participation by GSEPS members. Consequently, a request for proposals had been issued and eight responses received. Staff recommended awarding the contract for the plan's administration to Hewitt Associates. Hewitt's cost proposal, while higher than that of ING, is still lower than the fee currently being paid to ING. During the meeting there was no discussion as to how selection of a new vendor would affect plan members. After the meeting Ms. Pharris said that there would be no direct impact. There would be no change of investment options offered as these were defined and managed by the investment division. There will also be no change in fees to participants.

ERS Board of Trustees 2010 Meetings
August 19, October 21, and December 16
10:30 a.m.
ERS Conference Room
Two Northside 75, Atlanta, GA 30318
Call 404 350-6300 for more information
or visit www.ers.ga.gov

DOES GSRA HAVE YOUR CORRECT CONTACT INFORMATION?

Please be sure to update your email address with GSRA when it changes.

Simply log in to www.mygsra.com using your old email address and password; select "Our Members" and "My Profile", and then change your information using the "edit" feature.

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.

LOCAL CHAPTERS STAY BUSY – JOIN ONE TODAY!

At its June meeting, the **Northwest Georgia Chapter** welcomed candidates for General Assembly races in the 4th and 6th House Districts, and the 54th Senatorial District, which cover mainly Whitfield County in North Georgia. The following candidates participated: 4th House District: Rep. Roger Williams (R – Incumbent) and challenger Dennis Mock (R); 6th House District: Rep. Tom Dickson (R – Incumbent); 54th Senatorial District: Candidates Charlie Bethel (R) and Steve Brannon (R). Around 50 GSRA members and guests listened as the candidates answered questions submitted by chapter members, and all

seemed to get a better idea of what retirees can expect from the next session of the General Assembly. One encouraging note was that all the candidates expressed strong support for transparency in the workings of the retirement system and ensuring retiree representation. The candidates expressed general support for retiree COLAs, but not to the point of supporting a tax increase. The Chapter thanks all the candidates for meeting with us.



NW Ga. GSRA Chapter President Hassell Herrin (at podium) welcomes (seated l-r): Rep. Tom Dickson (R-Incumbent), 6th House District; Dennis Mock (R), candidate, 4th House District; GSRA member Bill Durham; Rep. Roger Williams (R- Incumbent), 4th House District.



(L-R) Charlie Bethel and Steve Brannon, Republican Candidates for Ga. Senate from the 54th District, listen as GSRA Chapter Pres. Hassell Herrin introduces the candidate panel. Rep. Tom Dickson (R-Incumbent) of the 6th Legislative District is seated at right.

The **Northeast Metro Chapter** of GSRA got together for a 'social' at the Gwinnett Braves game on May 20th. The G-Braves are the AAA affiliate of the Atlanta Braves. About 70 loud and rowdy folks attended, in high spirits, supporting their team on a

beautiful spring evening. Chapter President Ernie Melton commented, "Well, we were as loud and rowdy as a bunch of retired folks can get!" The evening was so successful that more such social events are planned.



NE Metro Chapter members live it up at the Gwinnett Braves Game in May. "A good time was had by all!"

The **GRE Local Chapter of GSRA** (comprised of retirees from the Department of Education) will hold its next meeting on Monday, July 12, 2010, immediately following the 10 AM quarterly GRE (Georgia Retired Educators) breakfast at the Holiday Inn (I-285 and Buford Highway) in Doraville, GA. It is anticipated that the local chapter meeting will start at approximately 11 AM.

Representative Pat Gardner will be our featured speaker, after which a business session will be held to include the election of officers for next year. Anyone wishing to attend the GRE breakfast at 10 AM is welcome. The cost of the breakfast is \$10. There is no charge for the GRE Local Chapter of GSRA meeting.

Join a LOCAL GSRA CHAPTER TODAY!

Don't have one in your area? THEN START ONE – It's easy!

Local Level activities and legislative contacts are the best ways to get our message across to your elected officials.

FIND OUT MORE: Visit www.mygsra.com today and click on "Local Chapters"

OR send email to: membership@mygsra.com;

OR drop a line to: Membership Committee

Georgia State Retirees Association

PO Box 108 Bethlehem, GA 30620

Has Your GSRA Membership Expired? Renew today!

BEST way to renew: Online, by credit card!

Just go to 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.

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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GSRA, PO Box 108, Bethlehem, GA 30620

Keep your membership current! Don’t miss out on important news and events!!