GSRA Newsletter

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GOVERNOR INCREASES SHBP MEMBER PREMIUMS BY AT LEAST 30% ----- OR $50 TO $75 PER MONTH FOR CY 2010

In a March 3, 2009, letter to the House and Senate Appropriations Committee Chairs, Governor Perdue announced a $1.624 **B**illion reduction in FY 2010 revenue projections. The Governor's list of proposed FY 2010 spending reductions included the following item:

> *"Adjust State Health Benefit Plan employer contribution rate to 70%" that is projected to produce a reduction in State cost of $98.5 million."*

What does this mean for state employees, teachers, and retirees alike? If the state pays a smaller percentage of the total cost, it means we will pay a larger percentage of the total cost. Reducing the employer's share from the current 75% to 70%, would mean increasing the SHBP member's share of total premium cost from 25% to 30%. The Governor's letter lists a proposed saving of $98.5 million in state funds as a result.

You may think that 5% is not much, but published reports indicate differently, as in this quote from the Atlanta Journal and Constitution the next day: *"House Appropriations Chairman Ben Harbin (R-Evans) said the increased health care premiums for state employees would probably be in the range of $50 to $75 per month.[1]"*

Past presentations by the Department of Community Health show that SHBP members paid $624.2 million in premiums in FY 2008, with an increase of 10.2% expected in FY 2009. By applying the 10.2% increase to the $624.2 million, members will pay about $687.9 million in premiums during FY 2009. Therefore, if almost $100 million more is to be collected from members beginning January 1, 2010, the SHBP monthly premium payments by employees, teachers, and retirees alike will have to increase by at least 30% although Representative Harbin predicts an **increase of about $50 to $75 per month**.

In 1982, the General Assembly passed a Joint House and Senate Resolution to establish the employer's share of health insurance cost at 75% of the total, for employees and teachers. Although the percentage has varied from around 73% to 78% over this 27-year period, the average has historically hovered around 75% of total cost. While not established in law, the 75% employer share expresses the policy of 14 different General Assemblies and 4 previous governors who consistently supported this policy despite several economic downturns during these 27 years. Maintaining the 75% employer share of premium cost is critically important to the ability of state government and local school systems to hire and retain a competent workforce, and to meet their contractual obligations for the post-employment security of the workforce. After all, without good employees, who will provide state services to those citizens of Georgia who pay for them with their tax dollars?

GSRA points out the Administration has already reduced the SHBP funds in FY 2009 by $783 million. With this additional $100 million ($98 million in State funds) in FY 2010, a grand total of $883 million will have been taken from the 352,000 members of the SHBP.

The Governor's latest Budget Report reflects a move of $150 million from the Revenue Shortfall Reserve for use in FY 2009 rather than FY 2010. Based on the Governor's recommendations, in effect he is forcing members of the SHBP to absorb a full two-thirds of this stepped-up use of reserve funds this fiscal year instead of next.

[1] "Perdue Cuts Deep, Won't Refuse Funds", The Atlanta Journal and Constitution, March 4, 2009, page A9.

The Department of Community Health (DCH) released the following chart, "Example of Premium Changes" on March 9th to show the effect of the reduction in employer contribution. The DCH staff was careful to point out that the rates have not been approved, but are representative of the rates that will affect all members—state, teacher and school personnel actives and all retirees.

Example of Premium Changes				
Plan	Tier	Current CY 2009 Monthly Premium	CY 2009 with increased premium	**Amount of Increase**
PPO[2]	Single	$86.10	$110.38	**$24.28**
	Family	262.80	336.91	**74.11**
HMO	Single	91.10	116.79	**25.69**
	Family	223.10	286.01	**62.91**
CDHP/HRA	Single	56.92	72.97	**16.05**
	Family	178.68	229.07	**50.39**
Medicare Advantage[3]	Single	17.50	22.44	**4.94**

[2] Over age 65 Retiree premiums for PPO, HMO, and CDHP/HRA plans will not have a state subsidy and have not been announced, but will be substantially higher than listed in this table.

[3] SHBP Premium plus Medicare Part A and Medicare Part B ($96.40 in 2009) produces a minimum retiree premium of $118.84 for single coverage. For 2 people in Medicare Advantage, the premium is $237.68.

LEGISLATION OF INTEREST

An update to the listing of "Bills of Interest" as of March 13, 2009, has been posted to the GSRA website (www.MyGSRA.com). The General Assembly will meet three days each week during March and adjourn on April 3rd, the 40th legislative day. A brief status report on some of the bills of interest follows:

- SB 122 was substantially modified, passed the Senate on March 9th and has been assigned to the House Retirement Committee. (See the article below regarding SB 122).
- SB 161 to cover extensive services for autism was amended to exclude the State Health Benefit Plan and Medicaid and was subsequently tabled by the Senate.
- SB 176 requiring full funding in the first year for any retirement bill passed the Senate on March 9th and has been assigned to the House Retirement Committee.
- HB 228 to reorganize the Department of Human Resources and Department of Community Health was modified to include only the reorganization of the Department of Human Resources and passed the House on 3/10/09; however, SB 222 was introduced and passed the Senate on 3/12/09 to implement HB 228 as originally written.
- HB 452 to prohibit pension COLAs for new employees after July 1, 2009 passed the House on March 10th.
- HB 249 allowing "alternative investments" was amended to apply only to the Firefighters Pension plan and passed the House Retirement Committee on March 9th.

SB 122 PASSES SENATE—WILL SPLIT RETIREE HEALTH BENEFIT FUND

Senators Greg Goggans and Jack Hill authored SB 122 to split the Georgia Retiree Health Benefit Fund from one commingled fund for retirees into two separate funds—one for teachers/public school retirees and one for state agency retirees. The bill was substantially revised in committee, favorably reported by the Senate Appropriations Committee, and passed in the Senate without one single vote against it on March 12.

Current law creates a trust fund called the Georgia Retiree Health Benefit Fund (GRHBF) for health insurance for state department retirees, teacher retirees and school service retirees, as specified by the Governmental Accounting Standards Board (GASB). Simply stated, the reason for the trust fund is that GASB has begun requiring public employers to determine the long-term liability for other post-employment benefits (OPEB), such as retiree medical and life insurance benefits. GASB also began requiring that a portion of the retiree benefits be funded in much the same way as the pension plans are funded, or at minimum to reflect a portion of the liability on the public employer's balance sheet.

SB 122 deletes references to the combined Georgia Retiree Health Benefit Fund and establishes two separate trust funds—the Georgia School Personnel Post-employment Health Benefit Fund (School Fund) and Georgia State Employees Post-employment Health Benefit Fund (State Fund). Each Fund is to be managed in the same manner. DCH has the responsibility for management of the trust funds and the Board of Community Health (Board) has the authority to establish employer contribution rates for funding the Funds.

The major differences between the two funds are the declaration of "employer" and the authority to determine employer rates. Under current law, the State of Georgia is defined as the employer and would, therefore, be responsible for funding the liability. Under SB 122, the employer of teachers and school system employees is the school system, library, RESA, etc., that employs these individuals----thereby transferring the liability for the local school system (library, RESA, etc.). The employer of state employees is the state organization that employs them.

SB 122 authorizes the Board to establish for the School Fund the "required employer contributions to the fund which are supplemental" to other required employer contributions. On the other hand, the Board is authorized to establish for the State Fund the "required employer contributions to the fund which are supplemental" to other employer contributions, subject to appropriations.

Status of OPEB Liability and Funding for the Current Combined GRHBF

DCH has commissioned three actuarial studies to determine the long-term liability for retiree health insurance. The latest actuarial report shows a projected "unfunded" liability of $16.5 **billion** that should be amortized over a 30-year period. Of the $16.5 billion, $11.8 billion is a liability for teacher and school employees with the remaining $4.7 billion liability for state department retirees.

During FY 2008, state departments contributed $125.9 million to the GRHBF; the Department of Community Health (DCH) transferred $57.3 million from reserves to the fund. The $57.3 million is a mixture of monies paid by the school systems and state agencies.

At the close of FY 2008, DCH reports the balance in the GRHBF at $176 million (after investment income and investment losses). SB 122 requires DCH on August 31, 2009 to determine the amount of funds attributable to the state or school systems payments and transfer those amounts to each of the two new trust funds.

As of FY 2008, GASB requires state governments to reflect the unpaid amount of an "Annual Required Contribution" amount as an accounts payable on the state's combined financial report. The State Audit report for FY 2008 shows that:

- the actuarially required employer contribution for all retirees was $1,262.3 million,

- all employers paid $550.3 million for retirees on a "pay-as-you-go" basis,
- all retirees paid $125 million in premiums,
- all payments therefore totaled $675.3 million, and
- the unpaid liability balance for FY 2008 is $587.1 million.

Possible Impact of SB 122

SB 122 permits several impacts. The major impact on school systems is that it changes the liability relationship between the State and school systems for teachers and school personnel. During the last two years, there has been discussion about whether the liability for teachers and school system employees should be a liability of the State, or a liability of the local school systems. While the law does not prohibit the State from providing the teacher OPEB funding, the State will not be legally required to do so. SB 122 will also eliminate the requirement for including on the State's financial records the liability for the Annual Required Contribution for teachers and school employees.

SB 122 authorizes the Board to set a contribution rate for the OPEB liability for the school systems without the State providing the funding. A school system does not appear to have a way of avoiding the assessment if the Board sets the additional employer contribution.

The major impact on state retirees is the fact that the trust funds are being split and the Administration will have complete leeway to determine the funding level for the state retirees. If all retirees are in the same condition, the Administration will have less opportunity to cut or eliminate funding for retirees.

IS YOUR EMAIL ADDRESS CORRECT?

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