Retirement System Funding Issues

December 2007

The Board of Trustees for the Employees Retirement System awarded retired State employees only a 0.5% increase in pension benefits as an adjustment for living costs on January 1, 2008. Conversely, the same Board awarded a 1.5% increase for the other retirement systems administered by the Employees Retirement System. Also, the Board of Trustees for the Teachers Retirement System awarded a 1.5% increase for all pensioners under the TRS. These increases approved during 2007 totaled 2% for State employee pensioners—about 1/3 of all pensioners—and 3% for all other pensioners.

- Such disparate treatment creates an inequity for about 1/3rd of the public service pensioners and penalizes the State retirees not only during 2008 but for their entire lifetime. *State retirees must pay the 10% increase in the cost of retiree health insurance, higher utility and fuel costs, and inflationary price increases for other goods and services in the same manner as retirees from other State retirement systems.* The consumer price index (CPI) has increased by an average rate of 3.1% each year for the last 25 years. An annual 3% Cost of Living Adjustment (COLA) barely keeps retirees even.

- The General Assembly has a continuing fiduciary responsibility—to beneficiaries and taxpayers alike—to provide adequate funding for <u>all</u> the retirement systems, not just to some. All of the State's pension systems were created by the General Assembly for the purpose of hiring and retaining qualified public servants. With some minor tweaking, these pension systems have the same benefit structure and have historically been operated in the same prudent fashion. Since the General Assembly created the pension systems for the same purpose and the same basic benefits, retirees from all of these systems should be treated equally.

The ERS reports that the Employees Retirement System is less than 100% funded, unlike other state-sponsored retirement systems, and that higher numbers of retirees require that all future COLAs for ERS members be reconsidered. ERS compares the contribution rates of the Employees Retirement System and those of the Teachers Retirement System, and states that the TRS is in better financial condition. These comparisons reflect the fact that the total rate of contributions to the Teachers Retirement System is 14.28% of payroll each year, but only 11.66% is contributed into the Employees Retirement System.

- In 2001, when the Employees Retirement System was 100% funded, the State reduced the amount of its contributions to the ERS by over 28%, nearly by a third, from 14.5% to just 10.41% of salary costs. At the same time, the TRS contribution rate was reduced by only 2.05%--only half the rate reduction imposed on ERS contributions. It is past time to restore the State's share of annual payments to the ERS to previous levels. A return now to the previous contribution rate of 14.5% should not only enable annual 3% COLA increases to <u>all</u> state retirees, but also insure the long term future of the fund.

- The Employees Retirement System's earnings on investments exceeded expectations last year by over $900 million. An additional 1% COLA for ERS members in January 2008 does not seem to be a strain on the fund.

- Since the contribution rate paid by members of TRS exceeds the rate paid by members of the ERS, it should be noted that, because of a 1980 decision by the State to pay 4.75% of state employees' salaries into the retirement fund in lieu of a 7% pay raise (a raise that did go to Teachers and Board of Regents employees), the state has saved about 3.3% of its total payroll costs every year for the last 28 years. With total personnel costs approaching $4 billion, the State will save a net of about $140 million this year alone because of that decision.

Returning the employer's contribution rate to 14.5% should not be considered burdensome to taxpayers since the State's contribution to the ERS, as a percent of total revenue, has dropped from 3.41% to less than 1.45% in 2007. In addition, Georgia is projected to have a surplus of over $1.5 billion dollars just this year, in part because of the reduction of the State's contribution to the ERS.