

GSRA Annual Meeting
August 17-18
Savannah

Annual Meeting - Employees Retirement System

The Board of Trustees for the Employees Retirement System held its annual meeting on April 16, 2015. The topics of discussion consisted of summary financial and operational information, a report from the COLA Study Committee about COLAs, and the June 30, 2014 actuarial report. From a financial standpoint, the market value of assets over the last 12 months (March 2014 to March 2015) is increased by 1.2%, active contributing members in the ERS is up from 60,500 to 61,635, and investment returns in FY 2014 (CY 2014) were good. GSRA President Russell Hinton requested that the Board approve a COLA for retirees; however, the Board voted against approving a COLA in FY 2015 based on the discussion and report from the COLA Committee. The independent actuaries for the ERS discussed the valuation of all retirement funds and reported that the funded ratio for the ERS has increased from 71.4% on June 30, 2013 to 72.8% on June 30, 2014.

Summary of financial & Operational Information¹

Assets for the ERS pension fund increased 1.2% from \$12.995 billion to \$13.155 billion between March 31, 2014 and March 31, 2015. The increase is a result of employee and employer payments, a fairly stable benefit payout and investment returns.

Employee contributions for the 8 months in FY 2015 were stable with only a .2% increase over the same period in FY 2014; however, the contributions by state agencies increased by 22.8% (by \$62.5 million) for the same 8 months in FY 2015.

Benefit payments to retirees increased 6.9% in FY 2014 over FY 2013, but has increased only 2.4% (\$20.6 million) in the 8 months in FY 2015 over the same period in FY 2014. Increasing payments are primarily a result of an increasing number of retirees, which has increased by 3% in the last twelve months.

The percentage of investment earnings (including increasing value of the assets) for fiscal years 2008 through 2014 is displayed in the table below. FY 2015 investment income rate will not be available until late June or July; however, the percentage is likely to be less than for FY 2014.

Combined (Equity and Fixed Assets) Investment Return							
	2008	2009	2010	2011	2012	2013	2014
ERS Website Percentage	(3.5)%	(12.97)%	10.99%	21.27%	2.19%	13.33%	17.29%

¹ Secretary Potvin's Report of April 16, 2015, to the Board of Trustees.

As reflected in the “investment section” of the ERS [Comprehensive Financial Annual Report](#) for FY 2014, total assets included equities at 67.2%, fixed income instruments at 25.6%, private equity at 0.1% and the remaining 7.1% investment allocation was in Mutual and Common Collective Trust funds. The five largest equity holdings were Apple, Inc., Exxon Mobil, Microsoft, Johnson & Johnson, and Google. Investment Fees and Commissions for all trust funds administered by the ERS totaled \$19,371,106 with another \$3,848,258 in Investment Commissions and Transaction Fees, or a total of \$23,219,264 in Fees and Commissions for FY 2014.

On March 2, 2015, ERS released the [annual investment update](#) for Alternative Investments. As reported, the maximum allowable amount for commitments to alternative investments in 2015 is \$157 million. The Alternative Investments portfolio had a net internal rate of return of 16.47% for CY 2014,

Report of COLA Study Committee

At the 2014 annual meeting, the Board Chair appointed the State Auditor, Greg Griffin, and Board member Frank Thach to work with Executive Director, Jim Potvin, and the independent actuaries to develop a [framework for considering COLA adjustments](#). Auditor Griffin presented to the full Board the model framework on April 16, 2015. The Committee emphatically stated the “framework” was not a policy but a discussion tool to be used as desired by the Board and amended as the Board deemed appropriate.

You are encouraged to read the entire “framework” document; however, the bottom line provides that in addition to other policies already in place about retirees who would be eligible, COLAs would be a percentage, e.g. 1%, 2%, 3%, of the annual benefit amount up to \$30,000. In other words, no retiree (or beneficiary) would receive a COLA calculated at more than the annual benefit of \$30,000. The COLA percentage would be based on the “funding ratio” of the trust fund as follows:

- A funding ratio of less than 80%, a COLA would not be awarded;
- A funding ratio of between 80% and 89.9%, a 1% maximum COLA would be considered;
- A funding ratio of between 90% and 99.9%, a 2% maximum COLA would be considered,
- A funding ratio of at least 100%, a 3% maximum COLA would be considered.

As reflected in the actuarial 2014 report, the ERS funding ratio is at 72.8% and has increased over the year from 71.5%; however, it is hoped that the ratio will improve fairly quickly with the funding policy that the State has adopted.

Report of the Actuary

The Board of Trustees contracts with an independent actuarial firm, Cavanaugh Macdonald Consulting, to advise and produce an annual valuation of the Employees Retirement System. A few of the salient facts reported and compared with previous valuation reports are reflected in the following tables.

Comparative Information – FY 2012 – FY 2014

	6/30/12	6/30/13	6/30/14	% Change
<i>Number of active members</i>	63,942	61,550	60,486	(5.4%)
<i>Number of retired members & beneficiaries</i>	41,860	44,348	45,729	9.2%
<i>Market Value of Assets</i>	\$11.5 billion	\$12.1 billion	\$13.3 billion	15.7%

Active Members (6/30/2013)				Active Members (6/30/2014)			
	Number	Annual Comp. (000s)	Average Annual Comp	Number	Annual Comp. (000s)	Average Annual Comp	% Change (Average active Comp.)
Old Plan	679	\$ 35,741	\$ 52,638	382	\$20,816	\$54,492	3.5%
New Plan	42,335	1,689,575	39,910	38,241	1,568,896	41,027	2.8%
GSEPS	18,536	610,457	32,934	21,863	725,913	33,203	.8%
Total	61,550	\$2,335,773	\$ 37,949	60,486	\$2,315,625	\$38,284	.9%

Retired Members (6/30/2013)				Retired Members (6/30/2014)			
	Number	Annual Comp. (000s)	Average Annual Comp.	Number	Annual Comp. (000s)	Average Annual Comp.	% Change (Average Comp.)
Service Retirements	33,993	\$1,037,661	\$ 30,525	35,123	\$1,061,251	\$ 30,215	(1.0)%
Disability Retirements	5,136	143,754	27,989	5,232	145,263	27,764	(0.8)%
Beneficiaries of Members	5,219	79,286	15,192	5,374	82,368	15,327	0.9%
Total	44,348	\$1,260,701	\$ 28,427	45,729	\$1,288,882	\$28,185	(0.9)%

The good news from the actuarial report is that the funding ratio increased from 71.4% on June 30, 2013 to 72.8% on June 30, 2014. The improvement is a result of good investment returns, increased employer contributions, and minor changes in the growth of retired members although the average retiree benefit decreased by 1% by June 30, 2014.

GSRA leadership will continue to work with the Employees Retirement System staff, the Board of Trustees and members of the General Assembly to assure continued funding to improve the funding ratio and to seek benefit COLAs for retired members.

Federal Medicare Premium Changes Adopted

President Obama signed on April 16, 2015 the Medicare Access and CHIP Reauthorization Act of 2015. The bill—referred to as the Medicare “doc fix”—was approved by the US Senate with a vote of 92 to 8 and by the US House of Representatives with a vote of 392 to 37. The bill is a welcome change for Medicare covered citizens, but it brings additional changes in the Medicare premium structure. The reason for the “doc fix” is a result of a 1997 Balanced Budget Act that called for limiting Medicare physician payments to the same rate of growth as the overall

economy. Each year, the growth in the economy has been less than the increased cost of medical services, and Congress has passed legislation to “kick” the can down the road so that the physician payments would not be reduced. Without the fix, payments to doctors would have declined sharply beginning April 1 with the most likely result that many physicians would discontinue providing services to Medicare (Medicare Advantage) patients. Some of the increased cost for maintaining and slightly increasing physician payments will be assessed to patients—especially those

who have an income greater than \$85,000 (\$170,000 for married joint filers).

Provisions of the federal law require that the standard Part B enrollee premium be set to cover at least 25% of the cost of the Part B (physicians and out-patient) and Part D (prescription drugs) Medicare programs. However, according to the Congressional Budget Office, the new legislation will add an additional \$10 a month to the enrollee premium—higher than would have been assessed.

The Medicare physician payments will be frozen until the last six months of 2015, when payments will increase by 0.5%. Similar 0.5% increases in physician payments will be made annually in 2016 through 2019 when the reimbursement schedule will be replaced with a new “Merit-Based Incentive Payment System” that focuses on “quality, value and accountability.” A “technical advisory committee” will review and recommend how to develop alternative payment models. Measures will be developed to judge the quality of care provided and how physicians will be rewarded or penalized based on their performance.

Consumer & aging organizations have expressed concerns that beneficiaries will face greater out-of-pocket expenses on top of higher Part B premiums to help finance the way Medicare pays physicians.

What Does Medicare Means Testing Mean?

Means testing was created with the passage of the 2003 Medicare Modernization act and implemented in 2007 for Medicare Part B premiums. The purpose was

to contain the cost of Medicare, which in turn would improve the sustainability of the system. It remains to be seen whether the current means testing will help to keep Medicare going into the future. If a person’s income is above a specified amount, that person must contribute more than the base level in premiums for Medicare Part B and Medicare Part D. For purposes of this determination, all income is accumulated to produce what is referred to as the Modified Adjusted Gross Income (MAGI). It includes all income: pensions, payments from any tax-favored 401(k), 457, 403(b), etc., non-taxable interest, social security payments, capital gains, etc.

In President Obama 2013 budget request, the means testing was to be expanded to 9 levels from the current 4 levels. President Obama’s 2015 budget included a somewhat different proposal to increase income-related premiums for Medicare Part B and Part D. The two following tables provide the current Means testing categories, President Obama’s 2015 proposal and the congressionally adopted provisions. Beginning in 2018, the adopted proposal will restructure income-related premiums under Medicare Parts B & D by maintaining the 4 income categories but lowering the MAGI for the higher percentages of the Medicare premiums. The proposal maintains the income thresholds associated with the approved premium structure until 25% of beneficiaries under Parts B & D are subject to Means testing premiums. This reduction in federal subsidy of Medicare premiums is estimated to save Medicare \$52.8 billion over ten years.

<i>Increase Income-Related Premiums under Medicare Part B and Part D</i>			
<i>Current Law</i>		<i>President’s Budget 2015 Proposal</i>	
<i>Modified adjusted gross income (MAGI)</i>	<i>Applicable premium percentage</i>	<i>MAGI</i>	<i>Percentage of Medicare Cost</i>
<i>Less than \$85,000</i>	25% for Part B, around 25.5% for Part D (\$104.90 plus Part D premium)	Less than \$85,000	25% for Part B, around 25.5% for Part D
<i>More than \$85,000 but not more than \$107,000</i>	$(\$104.90 + \$42) + (D \text{ premium} + \$12.30) = 35\% \text{ of B\&D premiums}$	More than \$85,000 but not more than \$107,000	40%
<i>More than \$107,000 but not more than \$160,000</i>	$(\$104.90 + \$104.90) + (\text{Part D premium plus } \$31.80) = 50\% \text{ of prem.}$	More than \$107,000 but not more than \$133,500	52.5%

Increase Income-Related Premiums under Medicare Part B and Part D			
Current Law		President's Budget 2015 Proposal	
More than \$160,000 but not more than \$214,000	$(\$104.90 + \$167.80) +$ (Part D premium plus \$51.30) = 65% of prem.	More than \$160,000 but not more than \$196,000	77.5%
More than \$214,000	$(\$104.90 + \$230.80) +$ (Part D + \$70.80) = 80% of prem	More than \$196,000	90%

Increase Income-Related Premiums under Medicare Part B and Part D (2018)			
Current Law		Adopted Provisions	
Modified adjusted gross income (MAGI)	Applicable premium percentage	MAGI	Percentage
Less than \$85,000	25% for Part B, around 25.5% for Part D (\$104.90 plus Part D premium)	Less than \$85,000	25% for Part B, around 25.5% for Part D
More than \$85,000 but not more than \$107,000	$(\$104.90 + \$42) +$ (D premium + \$12.30) = 35% of B&D premiums	More than \$85,000 but not more than \$107,000	35%
More than \$107,000 but not more than \$160,000	$(\$104.90 + \$104.90) +$ (Part D premium plus \$31.80) = 50% of prem.	More than \$107,000 but not more than \$133,500	50%
More than \$160,000 but not more than \$214,000	$(\$104.90 + \$167.80) +$ (Part D premium plus \$51.30) = 65% of prem.	More than \$133,500 but not more than \$160,000	65%
More than \$214,000	$(\$104.90 + \$230.80) +$ (Part D + \$70.80) = 80% of prem	More than \$160,000	80%

An estimated 6% of senior citizens on Medicare have incomes of more than \$85,000 and already pay higher monthly premiums for Part B coverage for physician services, outpatient care and lab test and for Part D. Although the new provisions will be implemented in January 2018, the income for establishing the MAGI income will be the 2016 IRS filing.

About 91% of physicians nationwide accept new Medicare patients, according to the non-partisan Kaiser Family Foundation. Anecdotal statements by GSRA members indicate that the percentage of physicians who will not accept new Medicare patients is higher in

some parts of Georgia than the 9% found by the Kaiser Family Foundation.

Another change for Medicare patients – those who are NOT enrolled in a Medicare Advantage Plan—is that starting in 2020, “first-dollar” supplemental Medicare insurance known as “Medigap” policies would not be able to cover the Part B deductible (which is currently \$147 per year) for new beneficiaries.

Members of the State Health Benefit Plan (SHBP)—if the MAGI is greater than \$85,000 (\$170,000 for joint filers) are required to pay the additional Part B and Part D premiums even though they may be covered under a Medicare Advantage Plan. The additional Part B and Part D premium is

usually deducted from the Social Security benefit check for those who receive a payment from the Social Security Administration. The Part D (prescription drugs) means testing percentages are required of SHBP

members even though prescription drugs are included in the Medicare Advantage options and no specific Part D premium at the base amount is separately required.

Local Chapter News

Savannah Coastal

The Savannah Coastal local chapter met on April 20, 2015, at the Marsh Auditorium of Candler Hospital. Local Chapter President Allan Hill gave a recap of the recent legislative agenda, detailing the efforts of the GSRA Legislative Committee and Liaison, as well as the Day at the Capitol and Legislative Reception events. The chapter also made plans for the GSRA Annual Meeting, to be held in Savannah on August 17-18, as it will be the host chapter. Members are looking forward to having the GSRA membership visit our beautiful city.



Members of Savannah Coastal at their recent meeting

MARCH/APRIL NEW MEMBERS

Name	County	Name	County	Name	County
March		Max Silman	Pierce	Melanie Poole	Walton
Deltonia Allen	Dekalb	Brenda Webb	Troup	G. Wayne Quinn	Walton
Joel Bowers	Bartow	Larry Young	Meriwether	Melinda Quinn	Walton
Harold Carney	Dekalb	April		John Yearwood	Putnam
Shelley Cyphers	Hall	Marsha Broom-Burton	Newton	Susan Yearwood	Putnam
Daniel Ebersole	Fulton	Margaret Ellis	Muscogee		
Alice Phillips	Newton	Susan Hill	Dekalb		
Gloria Rosemond-Artis	Dekalb	Tommy Norman	Rockdale		

Don't Forget to Take Advantage of AM Hotel Rates!

Annual Meeting discounted hotel rates are good to July 16, 2015. Take advantage of these special rates and reserve your room for the Annual Meeting now. Click on the link below to access the list of hotels conveniently located to the Annual Meeting venue, Coastal Georgia Center.

[Annual Meeting Hotels](#)

Endorsed Benefits

The Georgia State Retirees Association (GSRA) makes many member only benefits available to its members. GSRA endorses the following member benefits:

- Long Term Care / Home Health Care Policy
- Life Insurance
- Medical Air Services Association (MASA)
- Travel Discounts
- Car Rental Discounts
- Tax-Deferred Annuity
- Cancer Treatment Policy
- Medicare Supplement Insurance
- Identify Theft Protection
- Hotel Discounts
- Computer Discounts

Review your benefits at: www.myAMBAbenefits.info/gsra



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Welcome SHBP RETIREES

We're back!


We are honored and look forward to serving you in 2015!





Plans are insured through UnitedHealthcare Insurance Company or one of its affiliated companies, a Medicare Advantage organization with a Medicare contract. Enrollment in the plan depends on the plan's contract renewal with Medicare.

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