GSRA Newsletter

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Save the Date!

2016 Annual Meeting

October 17-18

Anderson Center, Macon

ERS Board Approves One-Time Adjustment

At the April 21, 2016, Employees Retirement System Board meeting, the status of the retirement funds was discussed (see the companion article ERS Actuarial/Fund Report) and a one-time payment for ERS Retirement System retirees was approved. ERS recently posted to its website that ERS expects to issue the one-time payment no later than August 31, 2016.

GSRA President Kip Man requested and was acknowledged to present an adjustment request for ERS retirees in FY 2017 and beyond. President Mann submitted the request in writing in early April and at the April 21st meeting summarized the following requests:

- Grant a one-time adjustment for all retirees in FY 2017;
- Grant a full 3% COLA for FY 2018;
- Include a COLA in the actuarial assumptions so that the projected employer contribution rates in future years would include the provisions for granting COLAs beginning in FY 2018 for all future years;
- Request legislation to allow GSEPS employees to be granted COLAs on the defined benefit portion of their retirement benefits—after surveying GSEPS members to determine their willingness to increase by a reasonable amount their employee contribution rate to allow for COLAs.

ERS Board Chair, Lonice Barrett, asked the Board members if they had questions or a motion about the request. There being none, Board Member Frank Thach moved to approve a one-time, non-compounding payment for ERS retirees and beneficiaries who receive a monthly benefit on July 1, 2016. The motion further provided that:

- the payment should be made as soon as possible after July 1st and should use the General Assembly formula – 3% of the payee's annual benefit up to an income cap of $30,000;
- retirees who are not disabled and at least age 45 with a retirement effective date of December 1, 2015 or earlier will be eligible to receive the payment, and
- disability retirees with a retirement date of December 1, 2015 or earlier will be eligible to receive the payment regardless of age.

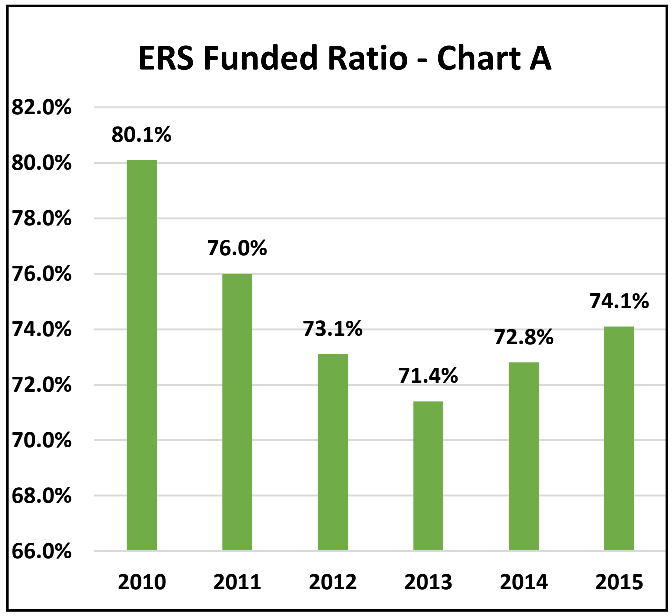
The motion was seconded and unanimously approved. In addition, the Board approved a one-time 3% payment for the Legislative Retirement System retirees. No specific action was taken on the other GSRA requests for future COLAs.

ERS Actuarial Trust Fund Report – Funding Ratio for Trust Fund Increases Slightly for Second Straight Year

Representatives from Cavanaugh MacDonald Consulting presented the actuarial analysis for the ERS trust fund as of June 30, 2015 to the ERS Board on April 21st. Actuary Ed Koebel reported that the Five-Year study (2009–2014) of the economic and demographic experience for the Employees' Retirement System had been completed and was approved by the Board in December 2015. The results of this study were considered in determining the "Funding Ratio" for the ERS trust fund that improved from 72.8% to 74.1% as of June 30, 2015. The report shows that the number of active members declined slightly in 2015 from 60,486 to 60,416 in 2015, although the workforce's aggregate compensation increased slightly to $2.35 billion from $2.32 billion. The presentation also compared the number of active employees and the number of retirees (including beneficiaries) during the years 2011 through 2015. Active members decreased 8.6% while retired members increased 17% over the four-year period. Average active salary has increased slightly and average retiree benefit decreased over the comparative years. The full actuarial report includes employer contribution rates and actuarial assumptions, and it can be viewed at the ERS website.

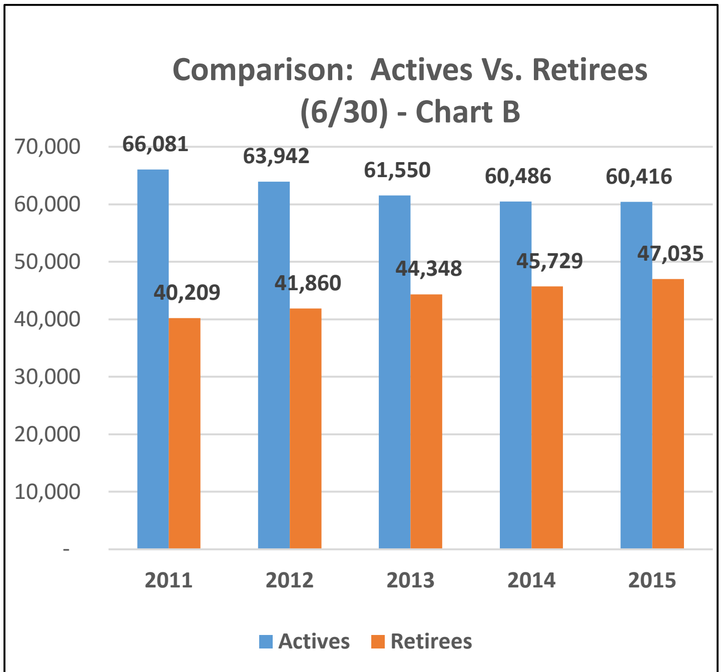
The investigation of the economic and demographic experience for the period 2009-2014 indicates that the rates of separation from active service due to withdrawal, disability, death and retirement, and rates of salary increase and post-retirement mortality in the assumptions used for that period's actuarial projections do not accurately reflect the actual and anticipated experience of the Retirement System. As a result of the investigation, new withdrawals, salary, disability, retirement and mortality tables were developed and included in the assumptions used for 2015 Actuarial projections to more closely reflect the actual experience of the membership. The Actuarially Determined Employer Contribution (ADEC) rate remains the same in FY 2018 as adopted for FY 2017 – at 24.69% (including the 4.75% pick-up) for the Old and New Plan Members. Payment on GSEPS members' compensation for the "accrued liability rate" is the same as for Old and New Plan Members.

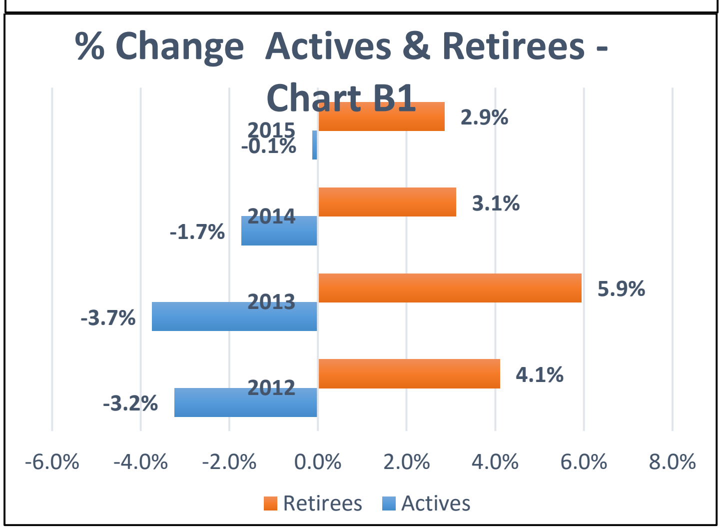
The good news is that the funded ratio for the ERS trust fund improved in 2015 (Chart A) from 72.8% to 74.1% although the investment rate of return for FY 2015 was only 3.74%. The actuary uses an investment "smoothing" technique to project the unfunded actuarial accrued liability (UAAL). Using the smoothing technique plus assumption changes as a result of the economic and demographic study decreased the UAAL from $4.6 billion to $4.4 billion. However, given that the FY 2018 employer contribution rate is the same as FY 2017, and COLAs are not included in the projected actuarial assumptions, the $4.4 billion UAAL is projected to be amortized in 19.6 years. Chart A compares the funded ratio percentage for six years.



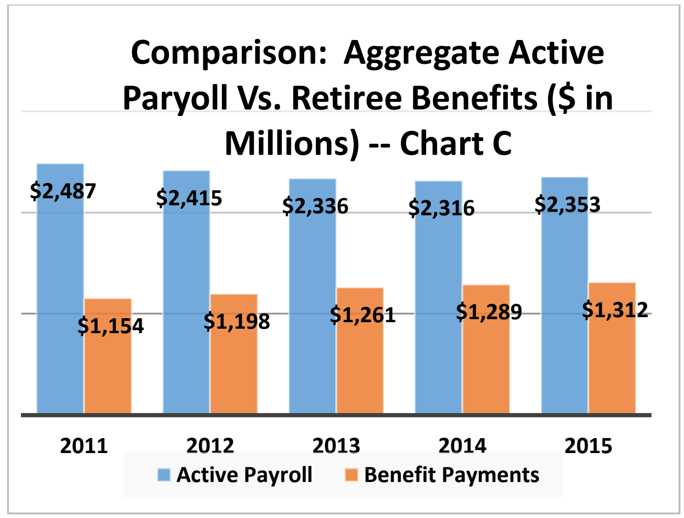
As written in previous GSRA articles, the number of State employees has continued to decrease, and the number of State retirees has continued to increase since the 2008 economic downturn. The decreased number of employees resulted in reduced trust fund contribution income if the state contribution rate had not increased during this period. During this same period, a sizable number of active members retired and required an increase in the dollars to pay retiree benefit payments. Charts B and C show the Active and Retired member numbers, compensation, and retiree benefit payments for the last five years.

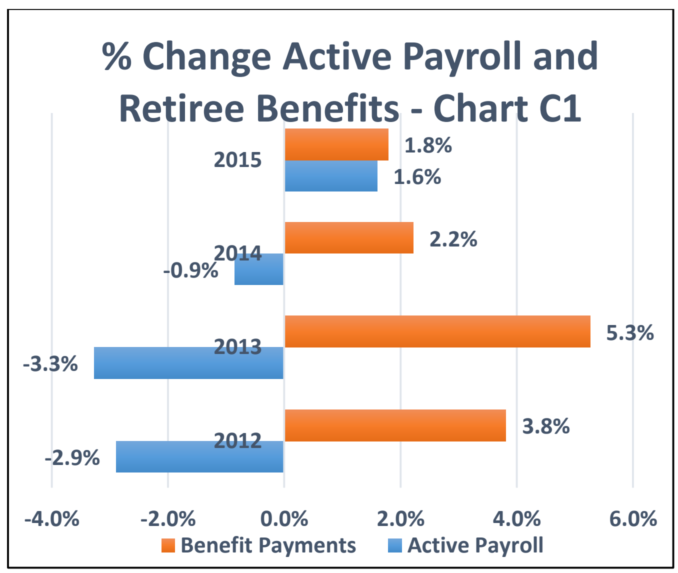
A percentage calculation of the numbers in Charts B & B1 show that during the four year period (2011-2015), the active employee population decreased 8.6%, and the retiree population increased by 17%. Page 3 of the actuarial report shows that of the active population of 60,416 on June 30, 2015, only 171 were "Old Plan" members, 34,577 (57.2%) were "New Plan" members and the remaining 25.688 (42.5%) were GSEPS (Georgia State Employees' Pension & Savings) members. Executive Director Jim Potvin stated in the Board Meeting that the number of active employees in 2016 seems to have stabilized.





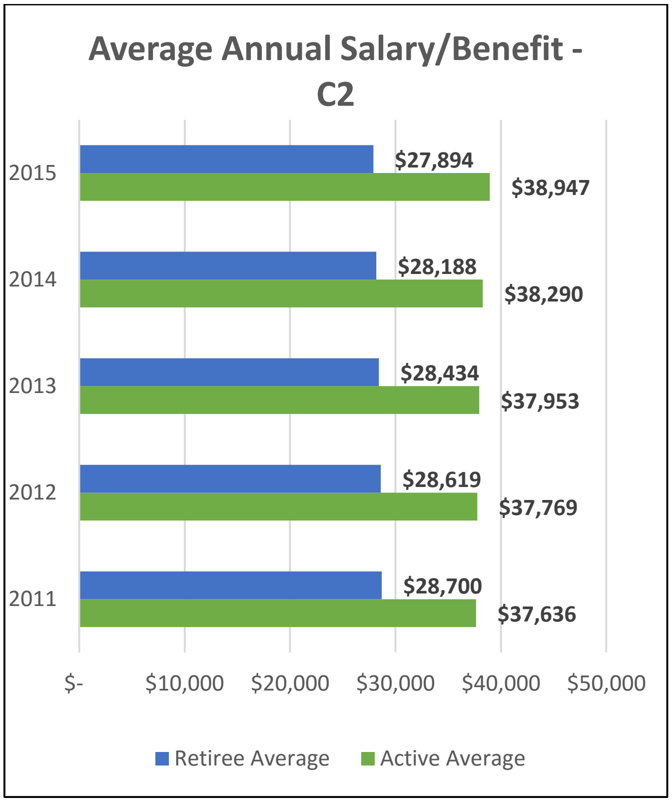
Charts C & C1 show that the 2011 active payroll amount of $2,487 million decreased to $2,353 million in 2015 or by 5.4% in the 4 years. By dividing the aggregate active payroll by the number of active members, the average salary (Chart C2) for active state employees in 2011 is calculated at $37,636 and in 2015 calculated at $38,745 or an increase of only 2.9% during the four years. A look back at the 2008[1] report shows that the average active salaries between 2008 and 2015 have increased a total of only 3.8%. Statistics in Chart C and C1 show that during the same four years, the retiree Benefit Payments increased from $1,154 million to $1,312 million or 13.1%.





[1] 2008 Actuarial Report.

A simple calculation shows that the average retiree benefit payment decreased from $28,700 to $27,894 from 2011 to 2015. The decrease can be anecdotally explained as members retiring with fewer years of service or different retiree option choices.



GSRA members are appreciative for the retirement system; however, there continues to be much work to be done by the members for equitable treatment in the area of retirement benefits. With the ERS Board having guidelines to withhold COLAs until the funded ratio reaches 80% and slow improvement from last year's 72.8% to this year's 74.1%, COLAs remain a few years away. Hopefully, State leadership will see the value of awarding salary increases for active employees and benefit adjustments for retired employees.

ERS Announces Alternative Investment Update

Executive Director Potvin announced the 2016 Alternative Investments Annual Update on February 17, 2016. Director Potvin reports that the net internal rate of return was 9.49% for the year ended December 31, 2015. The profit during the year was $5,163,676. Comparatively, calendar year 2015 update reported the profit at $4.8 million and a net internal rate of return at 16.47%.

As reported, the 2016 capital that may be allocated to alternative investments is $149 million. Although the dollar amount allocated to alternative investments was at $21.9 million as of June 30, 2014, $51.8 million as of June 30, 2015, and averaged around $54.4 million during CY 2015.

GSRA Requests Meeting with DCH Commissioner

GSRA has requested a meeting with the Department of Community Health Commissioner, Clyde Reese, to discuss prospective changes in the State Health Benefit Plan effective January 1, 2017. Our collaborative partners, PAGE, GREA, GAE, and TRAGIC will join GSRA and Representative Buckner in the meeting with Commissioner Reese to discuss any plans to implement HB 1381 for a Customer Advisory Council to the SHBP that was passed by the House of Representatives in 2016.

Income Tax Legislation Threatens Georgia's Stellar Bond Rating

Former State Auditor and past GSRA President Russell Hinton published the following article in the Georgia Policy & Budget Institute's March online blog, during the Legislative Session, regarding the threat to Georgia's finances and bond rating if either of the following pieces of legislation, SR 756 and/or HB238, were to be passed. While neither did pass during the session just concluded, both could be resurrected during the 2017 session.

Managing Georgia's finances in a responsible way is one of the most sober and sacred responsibilities of state lawmakers. Families and businesses in Georgia's largest cities and smallest towns can't thrive unless lawmakers are able to raise sufficient tax revenue, or to borrow money at decent rates. Our elected state officials need financial flexibility to make cost-effective investments in schools, roads and other public resources key to our quality of life. As Georgia's state auditor from 1999 to 2012, I worked to provide the General Assembly and governor with sound information to help guide their stewardship of the state's treasury. Today I'm briefly coming out of retirement to warn that a pair of tax bills threatens Georgia's ability to prudently manage its finances and ensure taxpayers get a good return on their investments.

Anyone who's ever balanced a checkbook knows keeping a healthy stream of income and maintaining access to credit at competitive rates are two essential pillars of a strong family balance sheet. This fundamental financial wisdom also holds true for the state a whole. Lawmakers need a range of tools to raise sufficient tax revenue to pay the state's bills. That flexibility also earns the state a good credit rating so taxpayers get a good deal when Georgia borrows money for big-ticket public works, such as new university buildings or roads and bridges.

Two pieces of legislation with a chance to become law in the final weeks of Georgia's legislative session threaten to undermine those financial lynchpins. Senate Resolution 756 and House Bill 238 both could slash Georgia's personal income tax, the revenue source for nearly half of the state's yearly tax collections. Either of the bills could destabilize the state treasury, draining it of hundreds of millions in lost revenue each year. The damage could be even worse if the measures are passed in tandem. That could open up considerable budget shortfalls and threaten both state and local services families and businesses rely on.

The worst aspect of the two-part legislation is the potential to tarnish Georgia's stellar AAA bond rating. That golden credit status allows lawmakers to save taxpayers millions each year with low interest rates on borrowed money. Most families must take out a mortgage to buy a home. Similarly, states must borrow to pay for big capital investments. Some states get a better deal than others when they borrow based on financial track record. Georgia's relatively strong track record for responsible financial management and saving for rainy days ranks it as one of only 10 states that earns a AAA grade from each of the three national rating agencies.

That status could change if state lawmakers set in motion a process designed to slash income taxes. That is especially true if they cement the problem in the state's constitution as SR 756 proposes. One of the key factors bond agencies evaluate to judge a state's' credit worthiness is the overall revenue structure to make sure lawmakers can raise enough money to balance the budget.

Georgia legislators know this danger firsthand. Just two years ago lawmakers put a constitutional amendment on the ballot to cap the state's personal income tax rate at 6 percent and voters approved it that November. Analysts at Moody's, one of the top three national ratings agencies, quickly sounded the alarm. "A significant strength of state management lies in its broad powers and resources to manage its finances in the face of volatility… Georgia's constitutional cap has stripped the state of that option with respect to its personal income tax," they reported soon after voters approved the amendment. This year's resolution would worsen the effect of the prior amendment by locking a rigid new formula of ongoing tax cuts into the constitution. The permanence of a constitutional amendment means only a supermajority of future lawmakers can override the formula in the case of a natural catastrophe or a deep recession.

We only need to look to the west to see what the bond rating agencies think of states that destabilize their finances with reckless tax cuts. Kansas is still reeling from the fallout after a 2012 tax cut created significant budgetary challenges and triggered a credit downgrade.

Let's hope Georgia lawmakers take a look at the Kansas example and heed its warning as a cautionary tale before they pass a point of no return. None of them would want to be governor the day the bond analysts announce Georgia's credit downgrade.

Kip's View: A Good Start, But More Work Remains

This year has gotten off to a good start! We had a good legislative session, made some good contacts, and gained legislative support for a 3% one-time adjustment to our annual retirement benefits. The compromise necessary to getting it passed resulted in the payment being limited to the first $30,000.00 of the retirees' benefits or a maximum of $900.00 for the one-time payment. At its April 21, 2016 meeting the Employees Retirement System Board approved the one-time adjustment to be given as soon as possible after July 1, 2016.

In addition to requesting that this one-time adjustment be granted to ERS retirees, GSRA requested that the issue of equity be reviewed and addressed. We asked for several things to occur that are mentioned in the article in this newsletter, "ERS Board Approves One-Time Payment", to move the state closer toward treating all employees the same in work and in retirement. The need for this became more evident when other funds managed by the ERS were granted 2% COLAs when their funded liability was in better financial shape than the ERS' retirement fund. Those funds were the Judicial Retirement System (JRS) and the Public Service Employees Retirement System Board (PSERS). JRS was at 113% of funded liability and PSER was at 83.2% of funded liability.

To better position ERS retirees to receive equitable treatment the ERS retirement funds needs assistance in the following manner:

- Include a COLA in the actuarial assumptions so that the projected employer contribution rates in future years would include the provisions for granting COLAs beginning in FY 2018 for all future years;
- Request legislation to allow GSEPS employees to be granted COLAs on the defined benefit portion of their retirement benefits—after surveying GSEPS members to determine their willingness to increase by a reasonable amount their employee contribution rate to allow for COLAs.

Thank you all for your support and assistance in this effort!

Thomasville Announces Area Meeting in June

Thomasville Local Chapter is sponsoring a regional meeting for all state employees and educators, active and retired, on June 1, 2016, at 10:30 am at the Thomas County Public Library at 201 N. Madison Street, Thomasville, GA.

The GSRA leadership team will be there to present goals for the future and area legislators will each give a short presentation with a Q&A session afterward.

Lunch will be served.

Please RSVP by May 15th to 229-200-9535 or thomasvillegsra@rose.net.

GSRA Members!

Check out ERSGA/GTA's

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