GSRA Newsletter

Vol. 2, Number 8 | www.MyGSRA.com | October 2008

HOUSE COLA STUDY COMMITTEE HOLDS FIRST MEETING

At its first meeting on October 1, 2008, the House COLA Study Committee heard from constituents, ERS representatives, and GSRA as it began searching for ways to restore future Cost of Living Adjustments (COLAs) for all state retirees.

In her opening remarks, Committee Chair Rep. Pat Gardner cited the excellent management of retirement funds through the years, and called for improved communications with state retirees and greater regulatory oversight of the system in light of today's economic conditions. She also indicated the need to establish the reasons for the ERS Board's decision to reduce recent COLAs for ERS retirees, and voiced her commitment to restoring future COLAs to the 3% level.

Other Committee members attending were Debbie Buckner, Brooks Coleman, John Meadows, Roger Williams, as well as retiree Charlie Walker. Only Rep. Mike Coan was absent. Legislative Counsel David Bundrick also attended.

Retiree John Gates, Ph.D., addressed the committee on behalf of all the thousands of state retirees who worked so hard for so many years at much lower salaries than they could have earned in the private sector. Dr. Gates' well chosen comments reminded committee members of all those retirees who now depend on the yearly 3% increase to barely keep up with rising costs.

Pamela Pharris, the new Executive Director of ERS, then introduced the following three presenters: ERS Actuary, Ed Macdonald; ERS Board Chair and State Auditor, Russell Hinton, and ERS Board member, Michael Kennedy.

Mr. Hinton gave an overview of the history of COLAs for each of the various retirement systems, and background information on the legislation and policies governing each. During this overview, Mr. Hinton stated that the ERS board was first authorized in 1967 to adopt a method to provide COLAs, and that the method in the statute (O.C.G.A. 47-2-29) included adopting ". . . any additional contribution by the member in an amount not to exceed one-fourth of one percent of his monthly earnable compensation." Mr. Hinton said that no such increase in employee contributions had ever been made, and then he fielded many questions from Committee members.

Mr. Macdonald gave an overview of the long-term funding of pension systems and answered various questions from the Committee regarding COLAs.

Mr. Kennedy spoke in support of Senate Bill 80 as a way of increasing the ERS pension fund's rate of investment return. He referenced 'various safeguards' built in to the bill and to the 'transparency' it provided.

David Bundrick also provided Committee members with more historical information on the granting of COLAs through the years. There was much discussion about the impact and desirability of increasing the active employee contribution rate by the ¼ % authorized by law. No conclusions were reached.

GSRA President presented the following comments.

Text of Comments ByGSRA President Claude Vickers

"Good morning Ladies and Gentlemen.

I'm Claude Vickers and I am a retiree. I retired with 35.5 years of service for the State. I was a member of the Boards of all the state retirement systems for twenty years because of the positions I held; as the Director of the Fiscal Division and as the State Auditor.

I'm here representing the retirees of the ERS and to express my concerns about the recent decisions made by the ERS Board to reduce the COLAs for retirees and particularly the reasons given for those decisions and to try to answer any questions you may have.

Without COLA increases, a retiree's benefit at the time of retirement is where it will remain and with the cost-of-living increasing annually, the retiree's pension benefits will quickly erode. For the last twenty years, the average CPI increase has been 3.1%. At that rate, the erosion happens quickly. The average retiree benefit in 1995 was $15,000, had we stopped COLAs then it would still be there. The poverty level today is above $20,000. So you would have a significant number of retired state employees slipping into poverty.

Legislation was passed in 1967 to authorize the awarding of COLAs in ERS with the stated purpose "of maintaining essentially no less purchasing power for a beneficiary in his post retirement years." (O.C.G.A. 47-2-29) Within two to three years after 1967 all other systems were given the same option. Since that time, 3% increases have been awarded to all retirees in all systems every year until last year - ***that's over 30 years****. Rightly or wrongly, employees who came to work with the state knew that the practice was to award the COLAs because it had always been that way. This benefit was a critical part of their decision to work for the state at a lower salary than in private enterprise. I think an argument could be made that a 30 year practice borders on creating a "right" or at least creates that perception. Last year the decision was made to change that practice for ERS retirees only.*

Let me illustrate where this matters: take three retiring state employees on Capitol Hill, an administrative assistant in the Chancellor's office is assured of 3% COLAs, an administrative assistant in your offices is assured of 3% COLAs, however an administrative assistant doing the same function in the same building for the same salary, who just happens to work in a state agency is not, and with the current ERS policy, their benefit will begin to fall behind the other two.

The employees who decided to make a career of state government did so with the knowledge that state salaries were below the private sector, a fact acknowledged by the Director of the State Personnel Administration, Mr. Stevenson and in several studies over the years. Their decision to make a career of state government was generally driven by the benefits that would follow them into their retirement; health insurance and a pension that would be adjusted for the increasing cost-of-living; another fact recognized by these same studies. What is not often stated is the fact that many of these employees had private sector opportunities which they turned down because of the perceived advantages of the state's benefit structure.

The reason initially given for reducing the COLA was that the funded percentage for the ERS had dropped to what they said was an "alarmingly" low 93.5% and that to continue the awarding of COLAs would further reduce the percentage.

I have two concerns with this reasoning: 1.) Virtually all experts on defined benefit pension systems state that a funded percentage between 80% and 90% is excellent; 2.) The ERS Board has watched the funded percentage drop for the last several years and has chosen not to make any changes to attempt to reverse that downward trend.

When I came to work for the state in 1967 the funded percentage was really a problem but was not recognized. During the 70's a number of things came into play to highlight the problem. As a result, in 1980 legislation was passed to create what we call today the "New Plan" retirement system. The Governor, the General assembly and the ERS Board were faced with the problem of trying to raise the percentage from about 65% to something acceptable which they couldn't do without closing the old system and creating a new one which they did. That action stopped new employees of being entitled to all the "sweetheart" legislation that had been passed in earlier years. It also meant increasing the employer contribution rate. The rate was set at 14% initially and then was increased in small increments each year until in 1990 when it reached just over 18%. The reason they chose to do it in small increments was: 1.) to reduce the budgetary impact in any one year, 2.) to watch the effect to see if *they were going in the right direction either fast enough or too slow and 3.) they knew they didn't have to accomplish it overnight, they had several years to work on it. Initially, the expectation was that it would take 20-40 years to reach the goal of fully funding the system. The funded percentage climbed to slightly over 87% by 1991 and showed signs of continuing to improve so the Board began to tweak the employer contribution rate downward because of the rate of improvement. This process continued through 2000 when the employer contribution rate reached 14.5%. The rate of improvement in the funded percentage was phenomenal and was being driven largely by the GO-GO stock market of the 1990's. By 2000, only nine years later, the funded percentage had reached 104%. During this period, the employer contribution rate was reduced by small increments each year. But then in 2001 the employer rate was cut by one-third; the largest change ever either upward or downward. The first two charts I have handed out to you demonstrate the changes in the employer contribution rate from 1982 to 2007. Since the funded percentage was above 100% in 2000, I think a reduction was called for, I just didn't think it should have been by one-third and I need to say here that I was not on the board at that time so I had no voice in the matter.*

In 2001, the investment earnings went in the tank and with the employer rate at 10.41% the funded percentage started dropping. That decline continues today. My point here is that as the funded percentage began to drop, and drop precipitously, the Board decided not to exercise its fiduciary responsibility and try to correct the decline. Instead, they used it as the reason to reduce benefits; ***the COLAs****. The third chart is from the ERS presentation but is misleading. The fourth chart I think illustrates the principal part of the problem. It is, I believe, a more accurate illustration of the current employer contribution rates. It shows that the 10.41% contribution actually includes the employer pick-up of 4.75% enacted in 1982 in lieu of a pay raise and with the State only contributing 5.66%. The effect is that the employee effectively contributes 6% and the state contributes 5.66% to the ERS. The fifth chart is a rework of chart number two to illustrate the changes in the employer contribution rates.*

Where should we start to correct this situation?

1.) I would suggest that actuarial studies be performed to determine the necessary funding levels to support both the awarding of COLAs and to reach the desired funding percentage.

2.) I would suggest the adoption of a policy similar to the TRS's to pre-fund the COLAs and that employer contribution rates be adjusted to support the recommendations.

3.) You should also consider legislation for a change in the Board make-up to include appointees by the House and Senate.

As you go about your deliberations, I also ask you to think about today's retiree and those preparing to retire; many and probably most of them had little or no opportunity to save or defer compensation on a pre-tax basis and those that did have that opportunity did not have the excess disposable income to allow for those extra savings. They were depending upon their state pension and social security both of which they expected to be increased annually by something close to the CPI increase– ***that was their retirement plan****.*

I thank you for recognizing the problem and for your effort to attempt to correct it."

The Committee then addressed various questions jointly to Mr. Vickers, Mr. Hinton, and Mr. Macdonald, and also heard comments from GSRA Vice President Bill Tomlinson giving more detailed history of the reduction in the employer contribution. All four stated their intention to work collaboratively toward producing specific recommendations for the Committee to consider.

Former DOT Commissioner Wayne Shackelford spoke on behalf of many retired DOT workers who worked for many years in service to the people of Georgia and who have a hard time making ends meet in their retirement without the full 3% COLA.

Mr. Charlie Roberts of the Association of Retired Teachers, addressed the Committee stating his concern about the possible change in policy on funding COLAs for retired teachers.

Mr. Chuck Freedman of GSRA spoke to the Committee to again express GSRA's enthusiasm about working with ERS to develop workable alternatives for the Committee's consideration in suggesting solutions for COLA funding. However, he stated GSRA's need for access to actuarial data which has been difficult over the past 1 ½ years. He asked for the Committee's assistance in obtaining needed information from ERS so that GSRA can work to develop specific recommendations.

Rep. Gardner thanked everyone for their attendance and active participation in today's meeting. The next meeting will be held on Wednesday, November 12, 2008, at a location to be announced.

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ISSUES/SERVE

Do you have a specific question or issue that you would like GSRA to discuss? If so, please let us know by contacting the Communication Committee via the GSRA website.

If you would like to serve on a GSRA Committee, notify the President via the GSRA website.