GSRA Newsletter

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2012 GSRA Annual Meeting . October 17 . Georgia Public Safety Training Center

DCH Highlights Funding Needs

The agenda for the Board of Community Health's meeting of June 14, 2012, consisted primarily of Medicaid issues, including a briefing on Medicaid's Amended FY 2013 budget request for a $308.2 million shortfall. Also, Commissioner David Cook and the Department of Community Health staff presented an initial projection on how the healthcare reform act (Affordable Care Act) is projected to impact the Medicaid program. DCH staff did not present comments about how the ACA will impact the State Health Benefit Plan. The briefing illustrates the stiff competition for funds for many years to come.

DCH presented information showing that the Medicaid shortfall for FY 2013 is **$308.2 million** and that the department will be requesting at least that amount in the amended FY 2013 budget for Medicaid. Seventy-five percent of the amended request is for two items—FY 2013 population growth and increased health care cost ($153.5 million) and the 12th month's Care Management Organization's bill ($76 million), which was not funded in the original FY 2013 budget. The DCH staff presented historical enrollment and costs by major category, i.e. ABD (Age, Blind, & Disable) and PeachCare for Kids. The staff also presented the percentage of state funds dedicated to Medicaid over a number of years. In 2006, the percentage of state funds consumed by Medicaid was 15.3%, in 2010 the percentage increased to 18.2%, in 2012 the percentage fell to 16.7%, but in 2013 it is projected to increase to 18.0%. As reported in Governor Deal's budget document, all state health cost related functions consumed 22.5% of the FY 2013 budget. Given that almost $1 of every $5 of state revenue is consumed by Medicaid programs, implementation of the Affordable Care Act will increase the percentage of state funds consumed by Medicaid health care.

Commissioner David Cook pointed out that there are many clarifications needed about the ACA's provisions in order to determine the state's costs for reimbursement changes required by the law and for expanding Medicaid eligibility to persons/families earning up to 133% of the poverty income level. DCH's initial and preliminary projections for each year become staggering. GSRA selected a few years from the presentation to show the additional cost impact.

2014	$ 79.6 million
2015	224.9 million
2018	404.9 million
2023	765.0 million

DCH's total projected increased State cost for the 10-year period (2014-2023) is $4.6 billion. The bottom line is that the competition for state funds in future years will be fierce.

State Health Benefit Plan Financials—March 31, 2012

DCH has not presented a briefing on the funding status of the SHBP in open meeting for quite some time. However, GSRA has requested financial information from the SHBP. Based upon March 31, 2012 expenses, SHBP FY 2012 expense may be in excess of the projected expense. DCH reports the revenue and expense for nine months of FY 2012 - through March 31, 2012 as shown in the table in the opposite column.

Year-To-Date SHBP Revenue & Expense March 31, 2012

	Revenue	Expense	Surplus/ (Loss)
Active	$1,916,542,592	$1,779,853,917	$136,688,675
Retirees	527,736,685	524,366,685	3,370,000
Total	**$2,444,279,277**	**$2,304,220,602**	**$140,058,675**

Based upon the surplus of $140 million, one might conclude that the Plan is being funded at a level to restore some of the reserves that we drained in 2009-2010. However, the surplus amount is deceiving since the employer contribution rates were substantially reduced for the last 3 months of FY 2012 in order to stay within the legislatively approved employer contribution rate. The local school systems' rate was reduced by 83% and the state departments' rate was reduced by about 20% for the last 3 months of the fiscal year. Therefore, the lost revenue for the last quarter is much greater than $140 million, and it is unlikely that the fund will end FY 2012 with surplus revenue over expense. Simply adding the same expenditure amount that was paid during the 3rd quarter of the fiscal year to the March 31st expense, FY 2012 expense would exceed $3.05 billion or at least $15 million greater than the FY 2012 projected expense of $2.9 billion. A negative $15 million is better than the amount that GSRA projected based upon the first six month's expenses; regardless, the fund remains bankrupt because there are insufficient cash reserves to pay the Incurred But Not Reported (IBNR) claims.

As GSRA previously reported, the FY 2013 budget includes a provision that SHBP premiums must be increased or benefits reduced to produce $63 million for FY 2013. Given the budgetary mandate to generate $63 million in the last half of FY 2013, any revenue shortfall or increased expense level in FY 2012 or FY 2013 will result in a request to the Governor for additional funds in the amended FY 2013 budget **or an additional shift of the cost to members. As stated in Medicaid** article, stiff competition for additional funds will be in play for the amended FY 2013 and the FY 2014 budgets in January 2013.

ERS Executive Director Discusses Changes to ERS Plan

The Employees Retirement System Board of Trustees expressed concern when the recent actuarial report reported a substantial increase in the ERS unfunded liability and the FY 2014 Annual Required Contribution. The Board asked the Executive Director to identify any changes that should be considered and that demonstrate that the Board acted prudently and performed their due diligence. Executive Director Jim Potvin researched options with the actuaries and presented for discussion at the June 21st Board of Trustees meeting eight retirement plan changes that could reduce the trust fund liabilities and the Annual Required Contribution (ARC). All of these changes require legislation; except the 3% Tax Offset Adjustment (limited to $37,500 of retirement benefits) at the time the member retirees. GSRA anticipates that the elimination of the Tax Offset Adjustment will be presented for adoption at the August 16th meeting to become effective for employees retiring at a designated future date.

Director Potvin presented for discussion eight retirement plan modifications. Seven of the plan modifications require legislation and, therefore, could not take effect until FY 2018. The one that the Board could approve would become effective with adequate notice. As presented by Director Potvin, any legislated changes would apply only to future persons employed after the effective date of the legislation. Possible changes as presented are:

1. Increase the Normal and Early Retirement age/service by five years. For example, an employee could retiree with 10 years of service at age 65 rather than age 60 and at any age with 35 years of service rather than 30 years of service.
   Impact: Reduce the ARC by 0.13% in FY 2018 but by 0.35% in FY 2023. The dollar impact is initially projected as a savings of $3.25million in FY 2018 ($8.75 million in FY 2023).
2. Increase the Formula Salary from the highest 24 consecutive months to the highest 48 consecutive months.
   Impact: Reduce ARC by 0.07% in FY 2018 but by 0.17% by FY 2023. The dollar impact is initially projected as a savings of $1.75 million in FY 2018 ($4.25 million in FY 2023).
3. Increase the Employee Contribution's rate from 1.25% of pay to 2.50% of pay.
   Impact: Reduce the ARC by 0.24% in FY 2018 but by 0.63% by FY 2023. The dollar impact is initially projected as a savings of $6.0 million in FY 2018 ($18 million in FY 2030).
4. Change the vesting threshold from 10 years of service to 15 years of service.
   Impact: Reduce the ARC by 0.07% in FY 2018 but by 0.17% by FY 2023. The dollar impact is initially projected as a savings of $1.75 million in FY 2018 ($4.5 million in FY 2023).
5. Discontinue the ability of the employee to use forfeited leave for the purpose of increasing the years of creditable service.
   Impact: Reduce the ARC by 0.05% in FY 2018 but by 0.11% by FY 2023. The dollar impact is initially projected as a savings of $1.25 million in FY 2018 ($2.75 million in FY 2023).

6. Increase the Normal and Early Retirement age/service by five years and eliminate service-only retirement eligibility. For example, an employee could retire with 10 years of service at age 65 rather than age 60 and at any age with 35 years of service rather than 30 years of service. Eliminating service-only retirement eligibility *Impact: Reduce the ARC by 0.44% in FY 2018 but by 1.18% in FY 2023. The dollar impact is initially projected as a savings of $11million in FY 2018 ($34 million in FY 2030).*
7. Leave the Normal and Early Retirement age/service at the current age 60 with 10 years of service and at any age with 30 years of service, but eliminate the service-only retirement eligibility. *Impact: Reduce the ARC by 0.06% in FY 2018 but by 0.14% in FY 2023. The dollar impact is initially projected as a savings of $1.5 million in FY 2018 ($3.5million in FY 2023).*

If items 1 through 5 were approved by the legislature, the ARC would be reduced by 0.44% in FY 2018, by 1.18% in FY 2023 and by 1.36% in FY 2030. The dollar savings of all five changes would be $11 million in FY 2018 and $34 million by FY 2030.

The final benefit change discussed was the elimination of the discretionary 3% Tax Offset Adjustment that each retiree is awarded only one-time—when the employee retires. The offset is limited to 3% of the first $37,500 of retirement formula salary.

The discretionary tax offset was permitted to compensate retirees for a change required by the US Supreme Court in 1989 when the Court ruled that every state must treat the taxation of federal and state retirement benefits in the same manner. Georgia law was changed so that retirement benefits would be taxed, but it allowed the trustees to increase a retiring member's 2-year final average salary by 3% in determining the retirement benefit. The Board discussed whether the tax offset adjustment continues to be necessary because Georgia tax law now provides for a retirement income exclusion of $35,000/$70,000 annually. The new Georgia tax law, adopted in the 2012 Session, allows the exclusion to rise to $65,000 for retirees age 65 and older.

Board member Lonice Barrett asked Director Potvin to place the elimination of the 3% tax offset on the August 16th Board of Trustees agenda for discussion and action. There was no discussion of an appropriate effective date to implement.

Actuary Projects SHBP OPEB Unfunded Liability at $15.5 Billion

The OPEB actuarial report shows that the State Health Benefit Plan's unfunded liability as of June 30, 2011, for **current and future retirees' medical benefits** is $15.5 billion (State Trust of $4.3 billion and School Trust of $11.2 billion), a reduction of $274 million since the 2010 report. The unfunded liability has been created because the State has historically contributed as "Pay As You Go" which is less than the Annual Required Contribution (ARC)—at $1.3 billion in 2011—for retiree coverage. The contract actuary's report states that if the various employers continue to pay less than the ARC amount, the SHBP will not be operated in an actuarially sound manner. The Governmental Accounting Standards Board (GASB) requires public employers to establish the unfunded liability—much like that for pensions—for other post-employment benefits, such as health and life. The liability for Other Post-Employment Benefits (OPEB) is noted in the public employer's financial records. Operationally, in order to recognize the GASB requirements, the Department of Community Health maintains two separate trust funds for the SHBP—State and School—for retiree health revenue, expenses, and liabilities. The actuarial report for June 30, 2011 shows the following facts.

OPEB Actuarial Report Facts			
	State[1] Trust	School[2] Trust	Total
Unfunded Liability	$ 4.3 billion	$ 11.2 billion	$15.5 billion
ARC	$321.5 million	$ 943.3 million	$ 1.3 billion
ARC as a % of Payroll	12.64%	8.48%	NA
Retirees & Dependents	43,638	88,574	132,212
Active Members	66,806	255,386	322,192
Annual payroll	$2.543 billion	$11.127 billion	NA

[1] Includes State department members, Legislative members, and Judicial members.
[2] Includes teachers and all other public school employees.

The unfunded liability of $15.5 billion is a net $274 million less than the projected unfunded liability as of the close of FY 2010. The actuarial report shows that while there were costs of $1.9 billion added to the liability for the 30-year period, $2.2 billion of savings was subtracted from the liability. The $2.2 billion reduction is for SHBP benefit changes—$1.2 billion for increased deductibles and co-pays on January 1, 2012 and $0.952 billion based on the change in premium subsidy approved by the Board of Community Health on December 11, 2011

GASB requires the projected unfunded liability to be amortized over a maximum period of 30 years; thereby establishing the ARC for the next fiscal year, which in the case for the SHBP would by FY 2014. Contributions to the SHBP for the State Employee Trust are $321.5 million and for the School Employee Trust are $943.3 million.

Georgia—like most other states—has adopted a "Pay-as-You-Go" method of funding the promised benefits for retirees. Generally, the PAYGO funding method is less than the ARC funding. The 2011 actuarial report stipulates that "If the employer contributions are not increased to the required levels, the Fund will not be operating in an actuarially sound manner. If contributions are increased to the required levels then the Fund will be operating in an actuarially sound manner and the discount [interest] rate for valuing liabilities could be increased." The table below shows the percentage of ARC contributed to each trust fund since the implementation of the GASB requirement—6/30/2008.

Percentage of ARC Contributed		
	State	**School**
June 30, 2008	74.8%	30.8%
June 30, 2009	44.0%	23.5%
June 30, 2010	6.4%	28.6%
June 30, 2011	48.2%	30.5%

The actuarial report clearly shows that Georgia's "Pay-as-You-Go" policy for retiree health benefits is not the recommended policy. In addition, recent news articles indicate that GASB will be reviewing the guidelines to tighten the requirement for identifying full disclosure on the state's financial records. In other words, the liability is currently only being reported in a "note" and there appears to be a move to require at least the ARC amount or some similar amount reflected as a liability on the "Comprehensive Financial Report" for the State.

State Auditor Hinton Reflects on Career and Retirement

Russell W. Hinton retired as the State of Georgia State Auditor on June 30, 2012. Following twenty-five years of service in the State Department of Audits and Accounts, Hinton was appointed State Auditor by Governor Roy Barnes on June 2, 1999 and was confirmed by the General Assembly in March, 2000. As State Auditor, he was an ex-officio member of the Boards of Trustees for the Employees Retirement System and the Teachers Retirement System. Hinton will certainly be missed by the State's leadership and state employees. GSRA appreciates his service to the State, the retirement systems, and to the state workforce in general.

Hinton, a native Georgian, graduated with honors from the University of Georgia in 1974 and began his career with the Office of the State Auditor shortly thereafter. He has performed financial audits of state agencies, universities and local education agencies and served as the Director of the Professional Practice Division. During his thirty-eight years of service, he has seen the Department expand in both size and responsibility, to include financial, performance, information technology and compliance audits for Georgia's state agencies, colleges and universities, and local boards of education.

Hinton has participated and/or served in leadership roles in many professional organizations, such as the American Institute of Certified Public Accountants (AICPA), the Georgia Society of Certified Public Accountants (GSCPA), the National State Auditor's Association (NSAA), the National Southeastern Intergovernmental Audit Forum, the State of Georgia Fiscal Management Council, and the Association of Government Accountants (AGA). He also served on the Advisory Council for revising the "Government Auditing Standards."

Hinton received awards recognizing his service—two notable awards are the AICPA 2010 Outstanding CPA in Government and the National State Auditor's Association 2012 Distinguished Leadership. Both awards recognize Hinton's significant and sustained leadership contributions to increased efficiency and effectiveness of governmental operations and the accounting profession.

GSRA President Bill Tomlinson and Treasurer BJ Bennett celebrated Hinton's retirement with him and talked about his state career and his thoughts about State Government. Topical questions and his responses are provided.

Q: As a top accounting graduate from the University of Georgia you could have easily opted for a private sector job. What made you decide on a public service career?

A: *At graduation in 1974, I was interested in an auditing career and talked to friends working in CPA firms. These friends told me that they were required to work 60-70 hours per week. That kind of schedule didn't excite me since I had just married and I wanted more free time. I then talked to State Auditor Billy Nixon about the State Audit Department and I liked his explanation of the value that a young auditor's contribution could make to State Government. He told me at the time that if you work for the State you will never get rich, but that the satisfaction is rewarding. He, of course, highlighted the retirement and medical benefits. I have found what Auditor Nixon said to be true. My state service has been an honorable profession and I am proud to have worked for the State of Georgia.*

Q: What situations or issues stand out for you regarding State of Georgia financials from early in your career and currently?

A: *When I first started with the Department of Audits, the accounting functions were decentralized. One of my goals was to improve accounting and auditing in general. When asked by the budget staff if I needed additional auditors, my response was that I needed better accounting systems. We now have better systems and an accounting office that has allowed the Audit Department to transition from a detailed review of the accounting records to independent auditing.*

Q: In a broad sense, how has state financial accounting and reporting changed since you started as a young auditor?

A: *The most significant change has been the implementation of a State Accounting Office. The SAO has replaced the Audit Department's responsibility for generating the Comprehensive Annual Financial Report (CAFR). In this process the SAO has established more consistency in the financial records and reports, while the State Audit Department has truly become independent in auditing the State's financial records. The SAO has also allowed the Audit staff to fulfill the additional responsibilities required by the General Assembly over the years.*

Q: As State Auditor, what has been your biggest challenge?

` A: *I have been blessed with good relationships with the elected State leaders over the years. These relationships have been essential in accomplishing additional tasks dictated by the General Assembly while economic downturns have affected the available budget monies. We have had at least a 15% reduction in staff between 2008 and 2012 (354 positions to 304 positions) with only 274 actually being funded.*

Q: In your role as State Auditor, what do you feel has been your most satisfying achievement?

A: *My role in the creation of the State Accounting Office that allowed the Audit Department to transition into truly independent auditors of the State's financial record was very rewarding. Also, I am pleased to have been instrumental in assuring that the auditing information systems remained distinct and separate when all of the state's technology was being combined under one agency.*

Q: How do you see the role of State Auditor and the Department of Audits and Accounts evolving over the next 10 years? Include how you see state government as a whole evolving.

A: *I don't see the Audit Department or State Government reverting to the "good ole days" or "business as usual." I think that the service and money demands will continue to force an attitude of "doing more with less."*

Q: As a member of Employees Retirement System and the Teachers Retirement System Boards and Chairman of ERS, how do you see your role in the governance of these Boards?

A: *My role on each of the Boards is as a fiduciary of the fund, and as such I have a responsibility to the members and for assuring the health of the fund. I am concerned that State leadership will at some point "choke" on the continuing increases in the Annual Required Contribution. Therefore, the Board must balance being able to afford doing something for retirees while remaining "lean & mean." If the state leadership ever fails to fund the Annual Required Contribution (ARC) for pensions, it will negatively affect the State's AAA bond rating and result in increased interest cost for State bonds.*

Q: As State Auditor, you have been well acquainted with the financials of both the pension systems and the State Health Benefit Plan. From the perspective of an about to be state retiree, how comfortable are you with the financial condition of your state retirement trust fund and the state health benefit plan funding?

A: *Funding for the ERS and TRS as a whole is pretty good – the Governor and General Assembly have always paid the ARC. We have, however, seen the constant rise in health care cost making the funding problematic. The Department of Community Health staff has made many changes in the plan to accommodate the ever increasing cost, but the state continues to experience a huge liability for Other Post-Employment Benefits (OPEB).*

Q: What parting advice might you have for state leadership and elected officials regarding both benefit areas?

A: *I hope that state leadership understands its obligation to fund these benefit programs. If leadership does not meet the obligations promised to current, past, and future employees, the state's ability to hire and retain good employees will be negatively affected thereby negatively affecting the services to Georgia citizens.*

Q: Do you have specific plans for what you want to do in retirement? Include one hobby or interest that you will have more time to pursue.

A: *I will do a little consulting and/or teaching, play a little golf and enjoy my grandchild. I hope to improve my skills in my long-time photography hobby.*

Hinton closed the interview by saying that he enjoyed his career in state government, and that public service is an honorable and worthy profession. He said that he would like to see increased respect for the state government employee because most of them are dedicated and work hard to provide services to the citizens of the State.

Local Chapter News

Coosa Valley Area

The Coosa Valley Area Chapter held a chapter meeting June 12 at Bella Roma Italian Grill in Rome with area state legislators presenting about the 2012 session and their personal views on the most effective way for their constituents to contact them regarding pending legislation and issues effecting retirement benefits and health insurance.

Reps John Meadows, Katie Dempsey and Howard Maxwell, Sheila Gove, Jim Burton and Rep. Barbara Reece

Lake Oconee Area

The Lake Oconee Area Chapter held a Legislative Forum on May 17th at the First United Methodist Church of Greensboro. Approximately 45 members heard panelists Representative Mickey Channel and Representative Rusty Kidd respond to questions asked by Moderator/President Lewis "Peanut" O'Neal. After the social gathering of the Legislators received questions related to the status of the ERS retirement fund, SHBP insurance cost increases, tax reforms that affect seniors, and the overall financial health of state government. Both Representatives Channel and Kidd stated that cost of living adjustments and insurance cost relief are not possible until the overall economy and state revenues improve.

Rep. Mickey Channel addresses Lake Oconee Area members

West Georgia/Columbus Area

The West Georgia/Columbus Area Chapter held its quarterly meeting May 8, 2012, at the Epworth United Methodist Church in Columbus. Ms. Amanda Hughes, Programs Director for the local chapter of the Alzheimer's Association, gave a very informative presentation on Alzheimer's Disease and outlined the Alzheimer's Association programs and services available to patients and their families. State Representative Debbie Buckner, a chapter member, then led a discussion of recent bills passed by the Georgia Legislature which will affect GSRA members.

Member Spotlight

This month's Member Spotlight is Duane Harris. Duane, longtime Director of DNR's Coastal Resources Division and Golden Isles local chapter member, started his public service career in July 1970 as a wildlife biologist with the Game & Fish Commission in Brunswick, Georgia. He progressed through the biologist ranks in what became the Coastal Resources Division (CRD) of the Georgia Department of Natural Resources and became Director of CRD in 1983. After steering the Coastal Resources Division for 19 years, he retired in April 2002. During his career he represented Georgia on the South Atlantic Fishery Management Council and the Atlantic States Marine Fisheries Commission and served as chair of both bodies during that time. Since retirement he has been a fishing guide, environmental consultant, and appointed member and chair of the South Atlantic Fishery Management Council. We asked Duane to answer some questions about his public service career and retirement.

Q – What was your first job in state government? Why did you want to work in public service/state government?

A – I began my career with the Game & Fish Commission on July 1, 1970 right out of Colorado State University. My interest in marine fisheries science was peaked in the 10th grade on Guam.

Q - Did you have a role model or mentor in your public service career? If so, who was it and how did they help?

A – The man who hired me and became my role model was William W. Anderson who had just been hired by the Game & Fish Commission after a 39 year career in federal service with the Bureau of Commercial Fisheries. My mentors were Joe Tanner, Leonard Ledbetter, and Lonice Barrett, all former Commissioners of the agency.

Q – What's the biggest challenge you faced in your public service career?

A – I was assigned the task of implementing a law which rid Georgia's rivers of river houses. When the law was passed there were 210 river houses on 5 of Georgia's coastal rivers. At the end of 5 years there were 3 left.

Q – What was the best thing about your public service career?

A – Employees of the Georgia Department of Natural Resources included the best in public service. It was a great honor and pleasure to work with these folks.

Q – What was the worst thing about your public service career?

A – I was responsible for overseeing construction of the Coastal Regional Headquarters of the agency. The state's low bid process is the pits.

Q - What do you think is the biggest change in state government we will see in the next 10 years?

A – Because of budget issues, I believe we'll see continued reduction in services at all levels of government.

Q - What have been your favorite hobbies or activities in retirement?

A– I am a professional fishing guide and I love to take folks fishing, especially children.

Q – What makes retirement rewarding for you?

A – The best part of retirement is the opportunity to spend time with my 10-year old twin granddaughters who were born on my last day at DNR.

Q - What is the biggest challenge you see for state retirees in 2012 and beyond?

A – I believe we can expect lawmakers to continue to make runs on our benefits.

Q – How do you think retirees could address that challenge?

A – There is no excuse for any state retiree not joining the GSRA. There is power in numbers and we need everyone to participate to protect what we worked to achieve. If you are a member and know someone who is not, encourage them to join.

New Look Coming for mygsra.com

GSRA is in the process of redesigning the GSRA website to provide better, more dynamic content and make it easier to navigate. The process is in the design phase right now, with an expected "go live" date by September. Stay tuned for a better GSRA web experience coming soon!