

SB 402 – Alternative Investments on the Table Again for ERS funds

Legislation to permit large pension funds, including the Employees Retirement System, to expand the types of investments to alternative investments is on the table again this Session. The author, Senator Tim Golden, presented a rationale for the bill ([click here for the rationale](#)) and stated that he introduced SB 402 to strengthen the ERS fund by improving investment return and helping state retirees secure their future incomes. While the bill includes several provisions to limit risk, it authorizes the affected pension systems to invest up to 5% of assets over a minimum five-year period in alternative investments without limitation.

While not being surprised that such a measure was introduced this session, GSRA did not expect the speed with which the bill gained momentum. SB 402 was introduced on February 7th and passed by the Senate on February 23rd and was scheduled to be heard by the House Retirement Committee on Feb. 29.

When introduced, GSRA's Legislative Committee began immediately apprising legislators of the members' biggest concerns with SB 402—risky investments, equitable treatment among state sponsored retirement systems, lack of reporting to members and undue influence in investment decisions.

SB 402 includes basically the same provisions as SB 80 that was defeated several years ago. In fact, the push for investing pension funds in alternative investments goes back more than 15 years. However, the severe economic downturn of recent years has accelerated the trend to include alternative investments in public retirement plans. GSRA, on behalf of its members, has consistently opposed such legislation because of the inherent risk of alternative investments ([see the chronology](#)).

SB 402 applies to all "large retirement systems, except Teachers Retirement System," including all ERS administered plans—Public School Employees, Judicial Retirement System, and Legislative Retirement System.

Specific provisions in the bill attempt to reduce investment risk by limiting the percentage of assets to be invested in alternatives and limiting the representative percentage of the large retirement system participation. Although the bill authorizes the respective boards of trustees to invest in all kinds of investment vehicles

without limitation—privately placed investment pools and private placements and private investments—the total to be invested in these type of investments is limited to an annual amount of 1% of assets up to a total of 5% of assets—that's about \$700 million for ERS. In addition, the bill also requires investment pools to have at least \$100 million in assets and that private placements must have at least four other investors who agree to the same basic terms.



GSRA President Bill Tomlinson presents the GSRA position on SB 402 before the House Retirement Committee

When the bill was originally introduced, GSRA legislative liaisons immediately began contacting groups that have worked with GSRA in the past to oppose previous bills. This time around, teachers' groups in particular expressed a marked lack of opposition. In expressing GSRA concerns about ERS retirees being singled out for inclusion while TRS retirees were excluded from SB 402 coverage, legislative liaisons President Bill Tomlinson and Vice President Chuck Freedman were told by senior legislators that they would not consider either adding TRS to the bill nor removing ERS from it. Only our good friends of Georgia County Welfare Association stood squarely with us.

GSRA leadership concluded from this that it would not be able to block SB 402, so it developed measures which would amend the bill to mitigate some of the biggest concerns. These included deleting the riskiest investment

types—mezzanine funds, debt funds, mezzanine debt instruments and distressed debt and equity instrument investments; requiring investment performance reporting to ERS-administered systems' members via the ERS website, and adding a provision barring conflicts of interest and/or undue political influence in the making of investments.

The next step was to alert members of pending actions and have them contact their legislators requesting favorable consideration of the proposed GSRA amendments.

With the notification that the House Retirement Committee would accelerate considering SB 402 on February 29, President Tomlinson and Vice President Freedman began requesting the House Retirement Committee members' support of the GSRA amendments. Representative Debbie Buckner, a consistent and trusted GSRA friend, was exceptionally helpful in requesting that Legislative Council draw one up for submission to the Committee. Representatives Benton, James, and Wilkerson were also supportive. Representatives Brooks, Coleman, Meadows and Williams were open to considering at least some of GSRA's proposals. Other legislators who were also open to one or more GSRA proposals were Representatives Abrams and O'Neal. GSRA legislative liaisons also spoke with the ERS executive director, legislative liaison and several board members and key Administration individuals.

Responding to a last-minute request, about 20 local GSRA members came to the Capitol for the scheduled Feb. 29 House Retirement Committee meeting. However, because of a lengthy floor session, the meeting was delayed until Mar. 6. Several GSRA members also attended that meeting.

The proceedings of the House Retirement Committee meeting will be described in detail in a future newsletter article. In brief, President Tomlinson presented GSRA's position on the bill and received support from GCWA Executive Director Wayne Drummond. The City of Atlanta and Georgia Municipal Association legislative liaisons spoke in favor of the bill. Led by Representatives Buckner, Wilkerson and Benton, the Committee approved an amendment adopting GSRA's proposal for publicly reporting alternative investment performance. While the committee was discussing GSRA's proposal to avoid conflicts of interest and undue political influence, Chairman Maxwell introduced a proposed amendment to do just that, which the committee adopted. Others expressing support of GSRA positions included Representatives Greene and Riley. Although the committee discussed at length GSRA's proposal to exclude the riskiest types of investment instruments, it declined to take action. When the smoke had cleared, the committee had debated the bill for well over 1 ½ hours. The final version was favorably reported with Representatives Buckner, Greene and Williams voting no and Rep. James abstaining.

In conclusion, the full House is now receiving a bill that GSRA does not want, but which is much improved in two areas of concern. The legislative committee will continue working the bill to preserve these hard-earned gains and to attempt to achieve its desired deletion of the riskiest investments.

SHBP Update

The Administration—Department of Community Health (DCH), Board of Community Health (Board), Governor and General Assembly—have addressed several State Health Benefit Plan issues. Increased funding for FY 2012 has been approved to generate additional funding of \$81.2 million, and increased funding has been recommended in FY 2013 to produce an additional \$69 million.

In order to hold down the cost of the plan, the Governor and Legislature have sanctioned the benefit changes for January 1, 2012. DCH has quantified each change and attributed one of the major savings to the projected popularity and enrollment into a "Wellness"

option, but enrollment for January shows enrollment a little less than DCH anticipated and may affect the cost savings.

One of the savings quantified was for the Medicare Advantage options. Although the number of retirees is increasing, the per retiree contract cost for the Standard MA option is a little less in CY 2012 than in CY 2011. Long-term projected savings (OPEB)¹ for retiree medical cost is a result of requiring all age 65+ retirees to enroll in a Medicare Advantage Plan and implementing what is commonly referred to as a "defined contribution" approach for subsidizing premiums for future retirees.

¹ Other Post Employment Benefit.

Employer Funding Changes

DCH Commissioner David Cook has repeatedly shown statistics that the Public School Employees portion for the SHBP has been underfunded since FY 2008 when the state contributed a high of \$280 million on behalf of these members. For FY 2012, the state is contributing “zero” for these members. To infuse the Plan with needed funds, the Amended FY 2012 budget leverages the state agencies \$54 million contribution to generate \$81.2 million to the Plan.

For FY 2013, the state agency rate is expected to generate \$69 million additional funds. The Board has also raised the local school monthly rate for Public School Employees to \$446.20 per enrolled employee to produce \$114 million. After all the funding and benefit changes reflected in Tables 1 and 2, the SHBP remains underfunded in FY 2013 by \$63 million.

Quantified Costs/Savings/Revenue

The Governor and Legislature have sanctioned the members’ benefit and premium changes for CY 2012. The budget comparative total cost and savings for the benefit changes are shown at \$(91.7) million in FY 2012 and \$(180.5) million in FY 2013.

Reported Costs/Savings – In Millions (Table 1)		
	FY 2012	FY 2013
Implement program for tobacco cessation	\$ 17.9	\$ 35.8
Initiation & savings of Wellness plans	1.4	(29.0)
Redesign of Medicare Advantage	(2.9)	(3.0)
Eliminate HMO vision benefit	(2.3)	(4.7)
Rx tiers for HRA Options	(31.3)	(69.0)
Decreased out-of-network Rate	(33.1)	(33.1)
Voluntary Mail Order	(1.5)	(1.6)
Mandatory Specialty Drugs	(3.6)	(3.8)
Offering Tricare	(1.8)	(3.6)
Transition SHBP Children to PeachCare	(16.0)	(32.0)
Eliminate coverage of bariatric surgery	(1.8)	(3.5)
Total Savings & Benefit Reductions	\$ (91.7)	\$ (180.5)

Some of the above provisions are savings to the member and to the SHBP; however, about 40%-45% of the amount above is a cost-shift to the member.

In addition to the benefit costs/savings, revenue is increased by premium increases to the members and employer rate increases. The table below shows the total

member premium increase of \$38.2 million and \$76.4 million and the employer increase of \$113.3 and \$224.5 in FY 2012 and FY 2013, respectively.

Reported Revenue Increases – In Millions (Table 2)		
	FY 2012	FY 2013
Member Premium Increases		
6.2% for expanded dependent and preventive services.	\$ 17.9	\$35.8
5% general for all options	16.3	32.6
6% for remaining in Standard	4.0	8.0
Total member premium increases	\$38.2	\$76.4
Employer Rate Increases		
State % of salary payment	\$ 81.2	\$ 68.9
Local Schools – Non-Certificate	32.1	155.6
Total Employer Increases	\$ 113.3	\$ 224.5
Total Increased Funding	\$ 151.5	\$300.9

Even though these cost/benefit reductions and increased funding are substantial, the SHBP remains funded at less than projected cash costs in FY 2013—a deficit of \$69 million—which is to be “made up” by another round of benefit reductions/cost savings for CY 2013.

The less than desirable financial picture of the SHBP is a result of several issues other than claim increases per member. Major causes for the underfunding are the \$900 million raid of trust fund reserves in FY 2009 and FY 2010, reduced/elimination of state contributions on behalf of the Non-Certificated members of local school systems, failure to increase the salary levels for active employees on which the employer contribution is calculated, layoff of or outsourced jobs in lieu of active state employees, slow growth in the number of active local school personnel and teachers, and increased numbers of retirees.

Expenditures-Percentages

The expenditures of the SHBP for FY 2010 and FY 2011 and projected expenditures for FY 2012 and FY 2013 are shown below. The rate of increased cost for the SHBP is less than that experienced by most large employers.

Actual & Projected Expenditures (Billions) (Table 3)				
	FY 2010	FY 2011	FY 2012	FY 2013
Costs	\$2.57	\$2.84	\$2.91	\$2.99
% Increase	NA	10.5%	2.5%	2.7%

Enrollment – January 2012

Enrollment in the SHBP continues to decrease, but the mix of active and retired members continue to change.

Membership – January 2012			
	State	Local Schools	Total
Active	58,995	177,723	236,718
Retirees Under 65	13,370	26,427	39,797
Retirees Over 65	19,106	41,907	61,013
COBRA	1,577		1,577
Contract	1,271		1,271
Total	94,319	246,057	340,376

The number of retired members increased by 1,370 (503 state and 867 educators) between July 2011 and January 2012, and the number of active members decreased by 1,746 (1,173 state and 573 educators). The reduced number of active employees continues to decrease revenue since the employer contribution is a percentage of salary, and with fewer employees salary amounts are less.

DCH estimated that 80% of active and early retired members would select one of the “wellness” options, and DCH estimated wellness option savings at \$29 million in FY 2013. However, about 58% (instead of the 80%) enrolled in a wellness option. We hope that the savings for the wellness options will be greater than projected.

The Medicare Advantage monthly contract rates—that are paid by SHBP to the vendors (UHC or CIGNA)—decreased for the Standard option and increased for the Premium option.

Medicare Advantage Options

Medicare Advantage Monthly Contract Rates			
	CY 2011	CY 2012	Change
Standard	\$ 150	\$147.25	\$ (2.75)
Premium	190	207.01	\$ 17.01

For the 53% of Medicare retirees who choose the Standard MAP option, the monthly cost to the SHBP decreased in CY 2012 by \$5.08 (\$61.50 annually)—contract fee and increased retiree premium. For the 47% of Medicare retirees who choose the Premium MAP option, the monthly savings in CY 2012 to the SHBP is \$1.37 (\$16.44 annually).

Policy on Premium Subsidy for Retirees

The Board has confirmed a policy to restrict any premium subsidy for retirees and spouses age 65 and over to the Medicare Advantage options. The Board also instituted what is referred to as a “defined contribution” approach to set the amount (percentage) of the premium subsidy. Basically, the policy will provide a subsidy of “0” to a retiree with fewer than 10 years of service. The retiree with 10 service years, the subsidy will be 15% and will increase 3% for each year of service thereafter until it reaches 75% at 30 years. The policy also limits the subsidy for dependents to 15% for an employee/retiree with 10 years and increases at 2% each year until the total reaches 55% for the employee/retiree who served 30 or more years of service. The “defined contribution” portion of this policy will not apply to current retirees or active employees with 5 or more years of service as of the date of approval.

Amended FY 2012 and FY 2013 Budget Update

The House of Representatives and Senate have passed the Amended FY 2012 budget—HB 741. The House of Representatives passed and sent to the Senate the FY 2013 budget—HB 742. Highlights of funding for the State Health Benefit Plan in FY 2012 are:

- An employer rate increase from 27.363% to 34.063% for the period December to April for the State Health Benefit Plan. The rate increase is projected to increase funding by \$81.2M.
- Increase of the Non-Certificate School Personnel to \$296.20 to generate \$32.1M.

Funding increases recommended by the Governor and passed by the House for FY 2013 are:

- Employer SHBP rate for state agencies increase from 2.363% to 29.781% which is projected to produce \$69 million (\$45.9 state funds);
- ERS funding of \$56.5 million for the Annual Required Contribution, but not sufficient for COLAs;
- TRS funding of \$89.1 million for the Annual Required Contribution;
- Public School Employees Retirement System funding of \$8.9 million;
- Georgia Military Pension System funding of \$421,238.

GSRA expects the Senate to approve the above increases for the FY 2013 budget.

GSRA Annual Dues to Increase April 1

After careful consideration of GSRA's financial position and members' service expectations, the GSRA board voted recently to raise GSRA dues to \$20.00 annually. The increased dues are effective April 1, 2012. However, for several months after April 1st, GSRA will honor checks that have been written for \$15 or multiples of \$15 based on brochures or billed statements.

In the February 2011 Newsletter, GSRA spelled out in detail how GSRA dues are spent in support of GSRA's mission to educate and advocate for state active and retired employees and educators. GSRA acknowledged that, "As GSRA grows and expands its services, retirees who volunteer their services will not be able to fulfill the full range of Association business. GSRA is reaching the size and diversity that one or two part-time or full-time paid employees will be required to adequately manage the Association's day to day activities. There are two ways that increased funding for GSRA activities can be accomplished – increased number of members and/or increased membership dues."

Currently, GSRA officers, board members and committee chairs are staffed wholly by retirees who volunteer a considerable amount of their retirement time to cover these responsibilities. However, in order to provide the ongoing professionalism and customer service members expect, in addition to the administrative support the Association needs, GSRA hired a permanent contract employee in late 2011 to provide administrative support to GSRA officers and committees.

In addition, in response to numerous member inquiries and the ever increasing encroachments by elected officials on our promised pension and health insurance benefits, GSRA is weighing/researching the possibility of retaining other legislative liaison to augment the volunteer efforts of our Legislative Committee. Such a move would provide GSRA – like its companion organizations GCWA, Professional Association of Georgia Educators (PAGE), Georgia Retired Educators Association (GREA) and others -- with a full-time presence on Capitol Hill during the session and assistance throughout the year with analyzing current and proposed legislation.

GSRA has been successful in many ways at increasing the membership, but marketing, maintaining databases, mailing statements and maintaining financial records require funding. We have worked feverishly to increase membership through developing new local chapters and attending state-related conferences to educate about our presence/mission. However, the increase in membership has not provided the necessary funding for the association. The Board did not make the decision to increase dues lightly, but concluded that the membership dues must be increased to continue the work to educate and advocate for our members.

GSRA leadership asks members to weigh the dues increase against the consequences of having an inadequate or no voice to represent state active and retired employees and educators in the current challenging environment.

Local Chapter News

Southeast Metro

The Southeast Metro local chapter will hold its next meeting on April 25, 2012 at 2:00 pm. The meeting will be held at the Porter Memorial Library Branch on Highway 212 in Covington. Guest speakers for the meeting will be GSRA Vice-President Chuck Freedman and Stan Levy of AMBA.

Central Metro

GSRA Central Metro local chapter held a meeting on January 12, 2012. Stan Levy, with Association Member Benefits Advisors (AMBA), was the guest speaker. He spoke of the three most financially devastating crises that are potential risks for retirees: the need for Long Term

Care; the cost of Cancer Treatment beyond what is provided by medical insurance; and the cost of Emergency Medical Transportation. Those present were able to ask questions and to schedule a time to discuss individual situations with Mr. Levy. Chuck Freedman, GSRA Vice-President, also presented information concerning Legislative activities and the upcoming Legislative Events. He spoke of legislation that GSRA could support and that GSRA would not support.

The Central Metro Chapter meets quarterly at the Avis G. Williams – Toco Hills Branch Library in Decatur. Its current officers are: Sam Shepherd, President; Judith Byrnes, Vice President; Rick Wingo, Secretary; Dennis Yarman, Membership Director; and Luther Lewis,

Treasurer. All GSRA members, as well as active and retired state employees and educators, are invited to attend.



GSRA Central Metro members Nancy Porteous and John Buffum, chapter President Sam Shepherd and GRE chapter President John Arrington at recent Central Metro meeting

New Tri-county Local Chapter Formed

A new GSRA local chapter has formed to serve state active and retired employees and educators in the Meriwether, Talbot and Upson tri-county area. Interested parties attended the first meeting on January 24, 2012 at the Manchester Public Library and agreed to move forward with forming an official chapter. They met again on

February 21, 2012, where officers were elected and chapter by-laws adopted. The newly elected officers for the Tri-County local chapter are Judith Railey, President, Pinson Garrett, Vice-President, Kathy Clements, Secretary, Sandra Hanna, Treasurer and Kay Garrett, Membership Chair.

The chapter invites all Georgia state retirees in the area to join. The next meeting date will be announced in April, 2012.



New Tri-County officers Kathy Clements, Sandra Hanna, Judith Railey, Pinson Garrett and Kay Garrett

GSRA New Members in February

Name	County	Name	County	Name	County
Judi Arnold Grant	Dekalb	Hollis Hodges	Cobb	Levy Stanford	Cobb
Glenn Aspinwall	Wayne	Steve Jordan	Newton	Eva Stevenson	Baldwin
David Blankenship	Bibb	Kathy Kitchens	Polk	Ruby Teston	Wayne
James Bullard	Appling	Vernice Lawson	Henry	Sheryl Tillman	Clayton
Bobbie Carver	Bibb	Jimmie Mann	Lamar	Kevin Vinson	Dade
Eleanor Castile	Meriwether	Annette McNaron	Dekalb	Emma Walter	Oglethorpe
Thomas Dennis	Coweta	John Nicholson	Hart	Dorothy White	Chatham
Hugh Farley	Dekalb	Donna Pulliam	Floyd	Brenda Winskey	Bulloch
Sheilah Feagin	Jones	Angela Robinson	Clayton	John Yntema	Dekalb
Sherma Francis	Gwinnett	Fred Simpson	(Tenn)		
Sara Godowns	Harris	Jackie Slate	Haralson		
Ryan Greenfield	Gwinnett	Agnes Smith	Coweta		
Gloria Grizzle	Chatham	Gary Smith	Ben Hill		
Sara Heath	Hall	Sue Smith	Ben Hill		

Member Spotlight



This month's Member Spotlight is on Donna Buffum. Donna, hired as fulltime administrative support to GSRA in 2011, is a member of the Central Metro local chapter. She started her state career with Fulton County DFCS, then moved to Dekalb County DFCS and also included a brief stint with Barrow County DFCS. According to Donna, her favorite work was with Adoptions, because of the happy outcomes she witnessed. We asked Donna to answer the following questions.

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

A - After college, I began my career with Fulton County Department of Family and Children Services. A family friend, Mrs. Mary Shoemake, told me the State of Georgia had opportunities and was a stable employer. She explained how to look for various positions. After tests and interviews, I was offered three very different positions. I decided on Family and Children Services because I wanted to provide a service to my community.

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 - During my career with DFCS, I had a great deal of support from a large number of people. My first supervisor, Ms. Willie Mae Barker, taught me the value of being on time. Ms. Janice Whitner also of Fulton County was another mentor; I admired her ability to work with people to get the job done; to create goal oriented teams. Ms. Shirley Trussell hired me when I applied for a promotion in Dekalb County DFCS. I admired her style of leadership and wanted to develop the same qualities. Ms. Ann Wilson, my immediate supervisor in Dekalb County, truly assisted me in developing my own successful style. Other mentors include Mr. Steve Scott, Ms. Joella Vitek, Ms. Peggy Couch, Ms. Dot Sims, Ms. Mary Ellen Myers, Mr. Wayne Drummond and Miss Lottie Be Phelps who demonstrated dramatically what it means to multi-task!

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

A - Developing long-term relationships with those with whom I worked in the various offices and within the community is the best thing. I also enjoyed seeing positive results within families. I admired the quality demonstrated by many of having "grace under fire" while facing very serious adversity.

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

A - During the coming years, I think state government will become more automated, developing a more self-service approach to service delivery. I also think many more programs will become available via a "one-stop shopping" method.

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

A - Sailing, my husband and I have enjoyed sailing on Lake Lanier for many years. In retirement, we have a larger sailboat and have enjoyed a number of sailing trips on the East Coast. We have also chartered sailboats on the West Coast and sailed in the San Juan Islands and into Canada several times.

Q - What makes retirement rewarding for you?

A - Having the time to spend with an ever-growing family.

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

A - All retirees face the challenges of financial security, increasing health care costs, and an unclear political environment at all levels impacting the economy.

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

A - All retirees should participate in the political process at whatever level they feel comfortable. Associations such as GSRA provide a voice for Georgia State Employment retirees. I would encourage every retiree and current employees to participate in an association whose goals match their own.

GSRA *Endorsed*

MEMBER BENEFITS



- Long Term Care / Home Health Care Insurance
- Cancer Treatment Policy
- Medical Air Transportation Services
- Final Expense Whole Life
- Medicare Supplement Plans
- Dental & Vision Plan
- Annuity
- Travel Discounts
- Computer Discounts
- Hearing Solutions
- Hotel Discounts
- Rental Car Discounts

For information on
benefits, call AMBA at
800.258.7041
or visit www.AMBA.info

