THE STATE OF GEORGIA

The plans:
Georgia has three large state-administered pension systems, six smaller state-administered systems, and many locally-administered systems. The state also maintains two retiree health plans. This analysis focuses primarily on two of the three large state-administered systems – the Georgia Employees' Retirement System (ERS) and the Georgia Teachers Retirement System (TRS) – which make up 75 percent of public plan active membership in the state.

The impact of the crisis:
As a result of the economic crisis, the amount required to amortize unfunded liabilities increased for both ERS and TRS. For ERS, the amount jumped from 4 percent to 12 percent of payroll. However, much of this increase stems from a drop in the assumed payroll growth used in the amortization of the unfunded liabilities. For TRS – which did not lower its payroll growth assumption – the increase was more modest, rising from 2 percent to 6 percent of payroll. Over the crisis period, both systems continued to pay 100 percent of the annual required contribution (ARC). For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 3.1 percent to 4.4 percent.

The impact of pension plan reforms:
In the midst of the financial crisis, ERS made a major structural change in 2009 when it introduced a hybrid system for new hires that combined a traditional defined benefit (DB) pension with a defined contribution (DC) plan. Benefits under the DB portion of the new hybrid system provide a lower benefit factor for each year of service and no cost-of-living adjustment. At a minimum, employees and employers each contribute 1 percent of payroll to the DC portion of the hybrid. The dramatic plan design change will gradually reduce the projected employer's contribution to the normal cost from 6 percent of payroll today to 3 percent in 2046, when all active employees will be covered under the hybrid system.

For TRS, no plan design reforms were introduced. However, the system did implement a variable discount rate. The variable rate automatically increases after periods of lower-than-expected returns and decreases after periods of greater-than-expected returns.

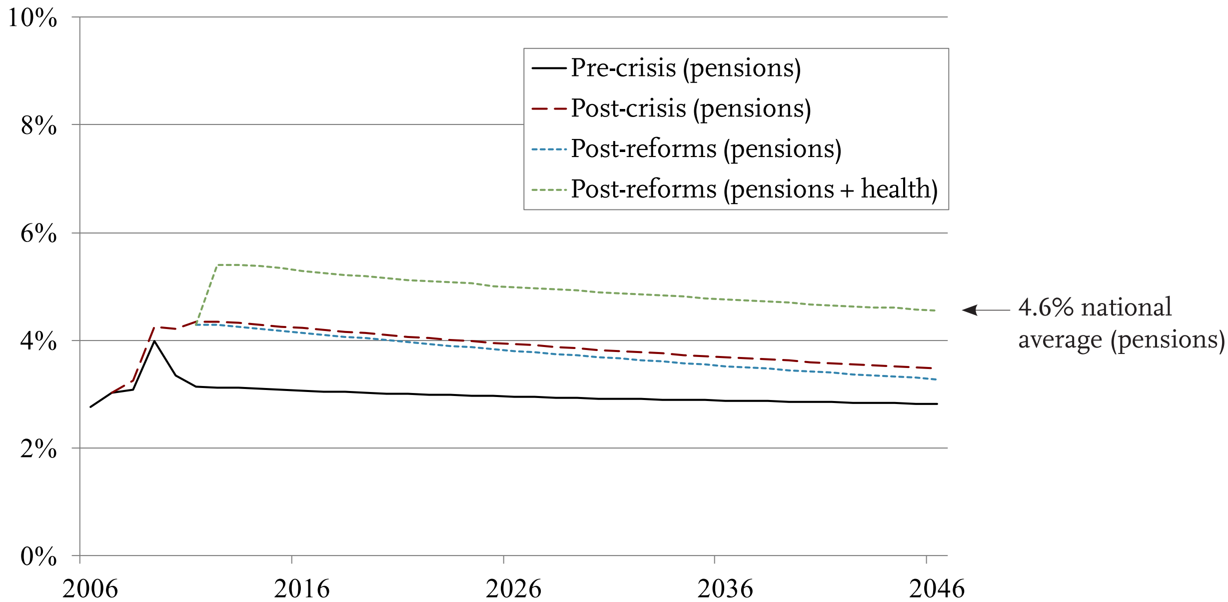
If both systems continue to pay the full ARC and assumed returns are realized, the payments required to amortize the unfunded liability will decline. But because TRS did not make any benefit changes and consitutes over 50 percent of active membership in the state, the total impact of reforms is modest. Taking into account both the benefit changes by ERS and paying down the unfunded liability, the share of state and local budgets devoted to pension costs is projected to drop from 4.4 percent today to 3.4 percent by 2046. Overall, pension reforms were less than commensurate with the challenges caused by the crisis, leaving employer costs above pre-crisis levels in 2046.

Total state costs:
In Georgia, the state also provides retiree health benefits, which amount to about 1.2 percent of state and local budgets. When retiree health and pension costs are combined, Georgia's total retirement benefit costs as a percent of state and local budgets equaled 4.3 percent prior to the crisis, increased to 5.4 percent during the crisis, and are projected to drop to 4.6 percent in 2046 after pension reforms.

PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

GEORGIA: TOTAL PENSION AND RETIREE HEALTH COSTS

Figure 1. Employer Pension and Retiree Health Costs as Percent of Budget: Pre-Crisis, Post-Crisis, and Post-Reform



Notes: Budget = general own source revenues of all Georgia state/local governments. Retiree health costs assumed pay-as-you-go. Pension costs include 1 percent employer match to Georgia State Employees Pension and Savings Plan (GSEPS).

Table 1. Employer Pension and Retiree Health Costs as Percent of Budget, by Plan

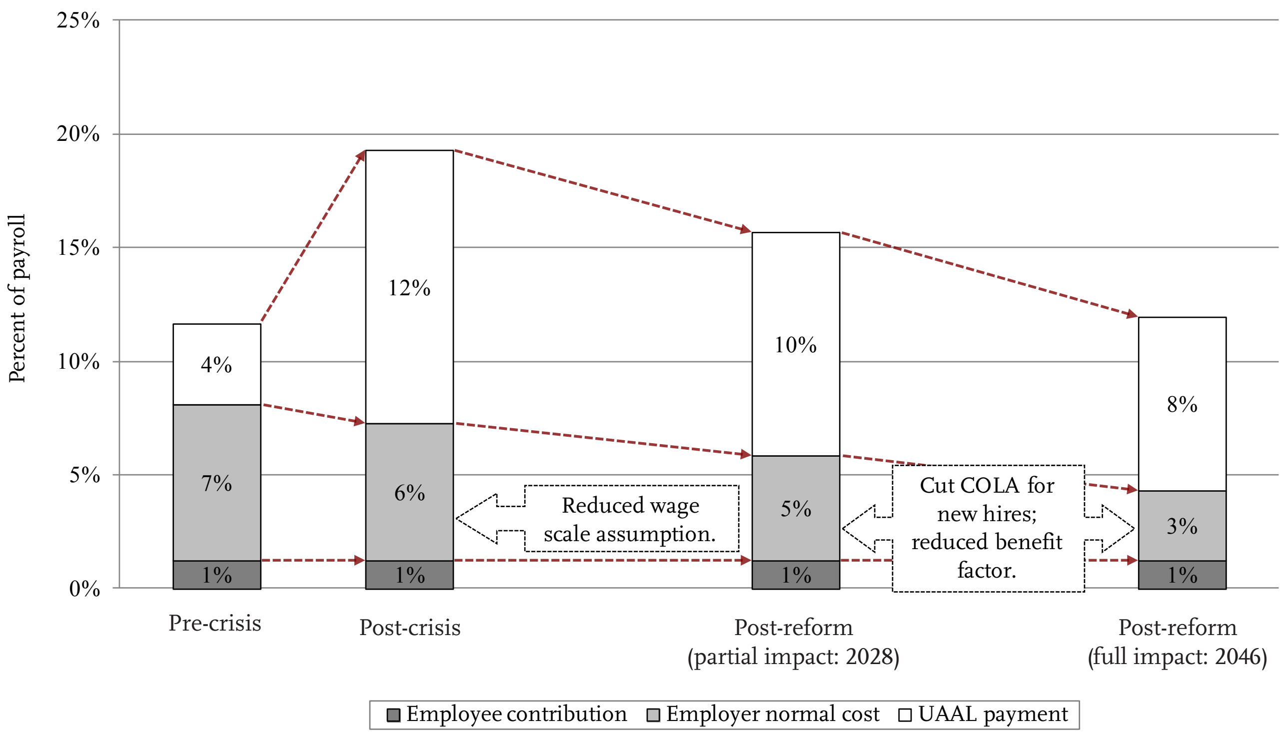
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	3.1%	4.4%	3.8%	3.4%
Georgia ERS	0.6	1.0	0.8	0.6
Georgia TRS	1.9	2.6	2.2	2.0
Other pension plans[a]	0.6	0.8	0.8	0.8
Total retiree health	1.2	1.2	1.2	1.2
Georgia ERS	0.4	0.4	0.4	0.4
Georgia schools	0.8	0.8	0.8	0.8
Total	4.3	5.4	5.0	4.6

[a] Includes five small state-administered plans to cover firemen, peace officers, judges, court clerks, and public school employees who are not teachers, as well as all the locally-administered pension plans within Georgia.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems.*

EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA (ERS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- ☑ Social Security coverage
- ☑ Defined benefit
- ☑ Defined contribution/hybrid

Funding method and history

- ☐ Set by statute
- ☑ Actuarially determined

Mandated to contribute 100 funding of ARC, as determined by actuaries using board's assumptions.

Plan design changes

- ☑ Cut COLA: new hires only
- ☐ Increased employee contribution
- ☐ Increased age/tenure eligibility
- ☐ Increased average salary period
- ☑ Reduced benefit factor: new hires only
- ☐ None

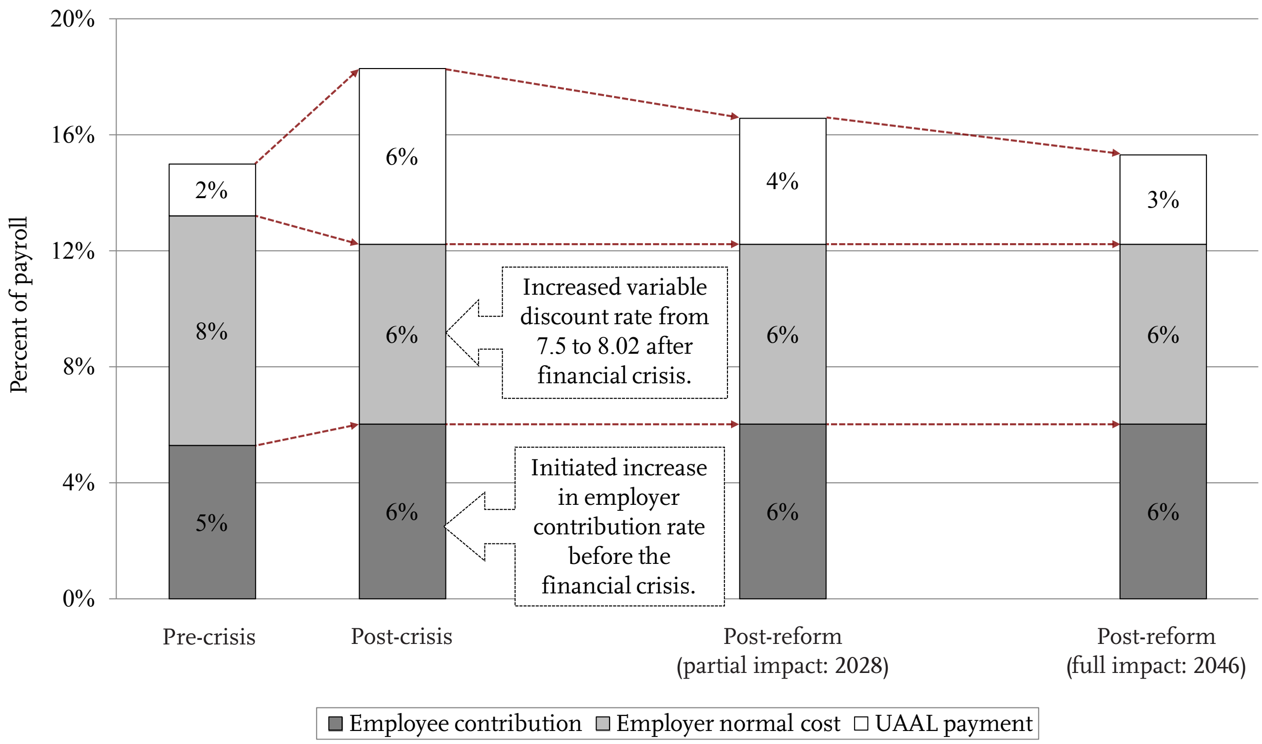
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	93.0 %	76.0 %	–	–
Employer ARC rate	10.4	17.8	14.1	10.7
Percent of ARC paid	100.0	100.0	100	100
Assumptions				
Discount rate	7.5	7.5	7.5	7.5
Payroll growth	3.75	1.00	n/a	n/a
Amortization period	15 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuations and CRR calculations.

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Figure 3. Pension Costs as Percent of Payroll: Pre-Crisis, Post-Crisis, and Post-Reform



KEY FACTS

Structure of retirement system

- ☑ Social Security coverage
- ☑ Defined benefit
- ☐ Defined contribution/hybrid

Funding method and history

- ☐ Set by statute
- ☑ Actuarially determined

Has historically funded 100 percent of ARC calculated by its actuaries based on assumptions set by board.

Plan design changes

- ☐ Cut COLA
- ☐ Increased employee contribution
- ☐ Increased age/tenure eligibility
- ☐ Increased average salary period
- ☐ Reduced benefit factor
- ☑ None

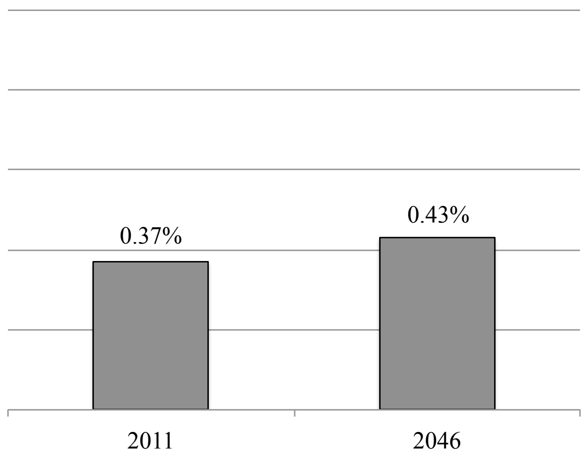
Table 3. Pension Finances and Actuarial Assumptions

Item	Pre-crisis	Post-crisis	Post-reform 2028	Post-reform 2046
Plan finances				
Funded ratio	94.7 %	84.0 %	–	–
Employer ARC rate	9.7	12.3	10.6	9.3
Percent of ARC paid	100.0	100.0	100	100
Assumptions				
Discount rate	7.5	7.5	7.5	7.5
Payroll growth	3.75	3.75	3.75	3.75
Amortization period	30 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuations and CRR calculations.

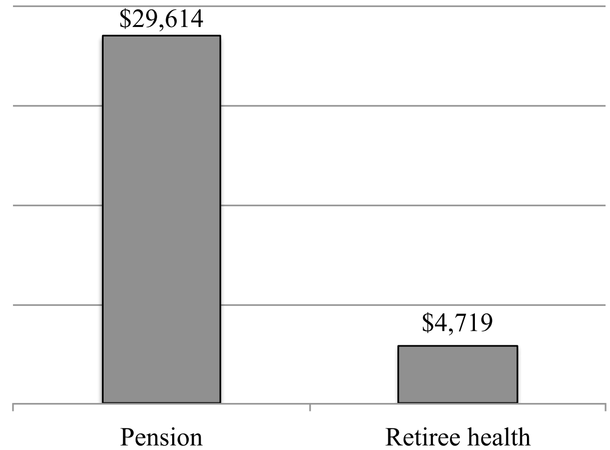
GEORGIA STATE HEALTH BENEFIT PLAN: GENERAL EMPLOYEES

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit



Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

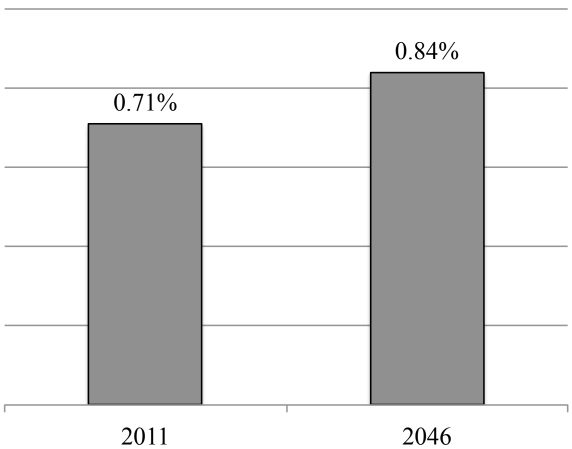
- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5 percent by 2018.
- Employer contribution: Fixed annual premiums based on plans elected. Retirees also pay a portion of the premium.

Benefits and membership

- Benefit eligibility: Employees who claim pension benefits immediately upon retirement.
- Benefits for Medicare-eligible retirees: The program offers subsidized Medicare-Advantage plans for members over age 65.
- Active employees: 69,277
- Beneficiaries: 41,971
- Most recent actuarial valuation: 6/30/10

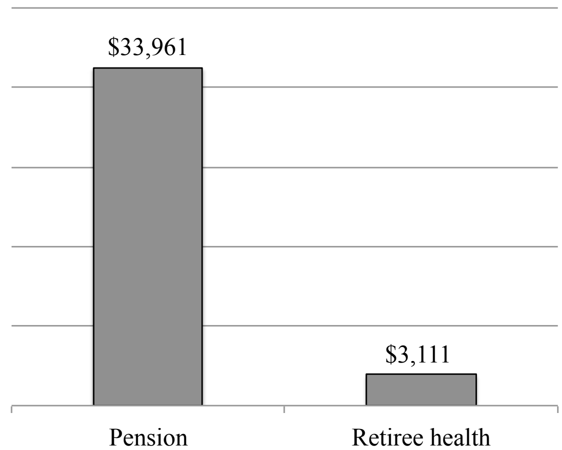
GEORGIA STATE HEALTH BENEFIT PLAN: SCHOOL EMPLOYEES

Retiree Health as Percent of Budget



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Average Annual Benefit



Source: CRR calculations from plan actuarial valuations.

Retiree health funding and costs

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5 percent by 2018.
- Employer contribution: Fixed annual premiums based on plans elected. Retirees also pay a portion of the premium.

Benefits and membership

- Benefit eligibility: Employees who claim pension benefits immediately upon retirement.
- Benefits for Medicare-eligible retirees: The program offers subsidized Medicare-Advantage plans for members over age 65.
- Active Employees: 261,982
- Beneficiaries: 81,777
- Most recent actuarial valuation: 6/30/10