ERSGA
Employees' Retirement System of Georgia
Serving those who serve Georgia

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2022 ERSGA Updates

I. Overview of Proposed Changes

1. **Forfeited Leave**. Granting service in the ERS for forfeited leave (FL) creates liabilities in the system that are currently funded via direct payments from employers to ERS when a member retires.

    a. Employers are not always able to anticipate retirement dates for all employees, so the direct payment requirements can strain their budgets.
    b. Employers are required to pay for all FL service for a retiring employee, even if the employee spent significant parts of their career at other agencies.

    To eliminate such direct payments, the system's actuarial assumptions have been changed to include an estimate of FL liability and increase the Actuarially Defined Employer Contribution (ADEC) by an amount sufficient to cover that liability.

    Actions taken: The Board amended its Funding Policy during its April 2022 Meeting to include FL liability in the ADEC and legislation (SB 343, *Act No. 790*) was signed and passed into law which amends OCGA to remove references to the employer direct payment requirement after July 1, 2022.

2. **COLA Payments**. COLAs are not currently prefunded in ERS and the ERS Board has not granted an ad hoc COLA since 2009.

    ERS will begin prefunding a COLA, and has adopted a model (detailed below) that relies on four variables:

    a. investment results as measured by the valuation actuarial rate of return
    b. the ERS funding position as measured by the valuation funding ratio
    c. a COLA begin date which is later than the member's actual or projected normal retirement date, and
    d. inflation as represented by the Social Security COLA increase each year, with the stipulation that a COLA will not be less than 0% or greater than 3%.

    Actions taken: The Board voted to update its Funding Policy to include (1) the details of the COLA payment model and (2) an increase in the ADEC sufficient to amortize the liabilities generated by the proposed COLA payment model. Such increased ADEC payments have been included in the FY 2023 budget, which has been approved by the General Assembly and signed by the Governor on May 12, 2022 (*Act No. 865)*.

In addition, the Board voted and approved a 1.5% COLA for eligible ERS members at its regular April 2022 Board meeting to become effective July 1, 2022

3. **GSEPS 401(k) Matching Contributions**. The current 401(k) employer match is 100% of the first 1% of pay saved by the members, and 50% of the next 4% of pay, resulting in a maximum employer match of 3% of the member's pay, provided the member saves at least 5%. This applies to GSEPS members only, not to the New Plan or Old Plan members.

   Turnover among active state employees is currently at unacceptably high levels, and recruiting new employees is expensive and time-consuming in a competitive job market. Training new employees is also very costly.

   Effective July 1, 2022, legislation proposed by ERS was passed to increase the employer match to 100% of the first 5% of pay. Members with at least six years of Creditable Service can also receive a higher match, with a maximum of a 9% match at 13 or more years of service, provided they save at least 5% of their pay.

   Action taken: SB 343 (*Act No. 790*) contained all necessary legal provisions for providing the increased employer match, which was signed by Governor Kemp on May 2, 2022. Along with SB 343, the FY 2023 Budget (*Act No. 865*) contained necessary appropriations to fund this employer match increase.

II. Legislative Updates

Passed Legislation – SB 343 (*Act No. 790*, signed on May 2, 2022 and effective July 1, 2022)

Section 1 – Specifies that employers shall contribute amounts relating to creditable service for forfeited leave only for retirements that become effective prior to July 1, 2022.

- All forfeited leave payments for future retirements beyond such date will be factored into actuarial assumptions for ERS and paid as part of the ADEC.

Section 2 – Updates 401(k) employer matching structure for GSEPS members of ERS.

- Employers will match employee contributions on a one-for-one basis up to a maximum of five percent of the employee's pay.
- GSEPS members with more than five years of creditable service and who contribute five percent to their 401(k) would receive an additional 0.5 percent employer match for each year of service that exceeds five years.
- The additional employer matching contribution will be capped after 13 years of service, which is equivalent to a maximum employer contribution of nine percent.

III. ERSGA Board Updates

Funding Policy

COLA Amounts. During the regular April Board Meeting, the ERS Board considered and voted in favor of adopting several amendments to the Board's Funding Policy. This included implementing a prefunded, variable COLA for all eligible ERS retirees and beneficiaries which is encompassed in the Actuarial Accrued Liability and Normal Cost of the System and funded through an increase in the ADEC.

Annual COLAs, ranging from no less than 0% to no more than 3%, will be granted as follows:

1. The system's recent investment performance, as measured by the Actuarial Rate of Return, will be compared to a target rate of return, known as the "Hurdle Rate", which will be set at approximately 6%.

    a. If the Actuarial Rate of Return is less than the Hurdle Rate, the COLA for that year will be 0%.

2. The Actuarial Rate of Return which is in excess of the Hurdle Rate is the "Excess Return".

3. The amount of Excess Return that may be considered as a possible COLA payment will be based on the funded ratio of the system:

    a. If the funded ratio is less than 70%, the COLA will be 0%
    b. If the funded ratio is 70%-79%, multiply the Excess Return by 0.25
    c. If the funded ratio is 80%-89%, multiply the Excess Return by 0.50
    d. If the funded ratio is 90%-99%, multiply the Excess Return by 0.75
    e. If the funded ratio is at least 100%, multiply the Excess Return by 1.00

4. The possible COLA payment will be no higher than the rate of inflation, as measured by the COLA increase granted to Social Security recipients at the beginning of the current calendar year.

    a. If the possible COLA payment is greater than 3%, the COLA will be capped at 3%

5. The COLA will be rounded to the nearest 0.25% and paid to eligible retirees (and beneficiaries of retirees) who have exceeded the later of their Normal Retirement Date or actual retirement date by at least 12 months.

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Example (for illustration purposes only)

Proposed COLA payment date: 7/1/2025
Actuarial Rate of Return: 11.00%
Hurdle Rate: 6.00%
ERS Funded Ratio: 76.0%
Inflation Rate (Social Security COLA increase): 4.5%

The Excess Return equals 11% - 6% = **5%**.

Since the funded ratio is between 70% and 79%, multiply 5% x 0.25 = **1.25%** possible COLA payment

1.25% is less than the inflation rate.

1.25% is less than the 3% cap.

The COLA payable effective 7/1/2025 would be **1.25%** of the payee's monthly retirement benefit.

Official Rules and Regulations

1. **COLA Amounts.** Language in the ERS COLA Rule (Rule 513-1-1-.05) will be updated to reflect the corresponding changes in the ERS Funding Policy (detailed above).

A Notice of Intent for the Rule changes was sent out and made available on May 2, 2022, where the changes will then be considered and voted upon during the regular ERS Board meeting on June 16th.

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