



The Atlanta Journal-Constitution

Big state subsidy for pensions spurs concern for Georgia lawmakers

By James Salzer
February 13, 2017

After a lousy year in the stock market, the pension system that covers about 400,000 teachers, University System employees and retired educators requires a \$223 million infusion from Georgia taxpayers.

It is one of the biggest payments — and possibly the biggest — the state has had to make to ensure the financial security of the Teachers Retirement System, and such a massive subsidy has lawmakers asking some tough questions.

Legislators have been targeted for years for criticism over small pay raises or none at all for teachers, plus “austerity cuts” built into school budgets.

But the \$223 million slated for the retirement system, which ended fiscal 2016 with fewer assets than it had two years earlier, is enough to have given all teachers 4 percent or 5 percent pay raises, [rather than the 2 percent Gov. Nathan Deal and lawmakers are offering](#). And it’s more than enough to return the state to the education funding levels lawmakers long ago promised public schools.

[State Sen. Hunter Hill, R-Atlanta](#), said the state has underpaid teachers for years while offering generous retirement benefits, an equation he would like to change.

“We need to modernize our approach to paying teachers what they are worth while they are working for us and adding value to our children,” said Hill, who has pushed legislation in

the past to change retirement benefits for newly hired educators.

But any mention of altering the current system for teachers causes a political uproar that is felt at the state Capitol. Teachers and retirees say it’s a terrible idea because the pension benefits are a key tool in recruiting and retaining educators.

“I love the way TRS is set up,” said Beth Stallings Odom, a retired teacher from Richmond Hill. “They don’t need to mess with it.”

But such massive payments to prop up pension systems mean states across the country have less money to spend on other things, experts say. Donald Boyd, the director of fiscal studies at the Rockefeller Institute of Government, the public policy research arm of the State University of New York, said increases in spending on pensions and the Medicaid public health system have eaten up tax revenue growth in many states.

“It has very definitely been crowding out other things governments want to do,” Boyd said.

Government pension woes have been well documented in the past decade, with some states and municipalities facing huge shortfalls for reasons ranging from general underfunding to poor stock performance, from a decline in employees paying into systems to a big increase in retirees taking money out of them.

The state of Georgia’s two major systems, the TRS and the Employees Retirement System, which covers state employees and retired staff, have long been considered to be well run

and well funded in comparison with retirement plans in other states, such as Illinois, which for years has seen almost constant pension crisis.

The Georgia systems are funded with a combination of contributions from employees and employers (school districts, public colleges, state agencies, etc.), as well as investment income. The pensions teachers and employees receive are based on the highest income they receive over a period of time and the years they work. Statewide, the average TRS payout last year to 117,918 retirees was about \$36,000. The TRS reports show the number of people receiving pension benefits is rising.

The TRS had \$65.7 billion in total assets at the end of fiscal 2016. The value of the fund went down during the Great Recession, had good years in 2013 and 2014 when investments paid off big, was relatively flat in 2015 and declined in value by more than \$1 billion in 2016, with a sizable decline in investment income at time when the Dow Jones industrial average eked out a small gain.

The system had 84 percent of its pension liability covered in 2014. At the end of 2016, that had fallen to 76 percent, still better than many state pension plans.

Still, if lawmakers [approve the governor's budget proposal for the upcoming fiscal year](#), state taxpayers will have pumped in almost an additional \$900 million over the past nine years to shore up the TRS and the state employees pension system.

The employees who run the system's investment division are some of the highest paid employees in state government. The Atlanta Journal-Constitution recently reported [that Charles Cary, the chief investment officer, made \\$806,490 in salary and bonuses last year](#). His compensation increased 5.5 percent even though the assets of the system declined.

Buster Evans, the system's executive director, said incentive payments to investment staff are paid out for past years' performance.

Evans said pension systems such as his take a long-term view. One or two bad years in the stock market can be quickly made up in

boom years, which is what happened after the Great Recession ended.

"I think in time you'll see this smooth out," said Evans, a former superintendent of Forsyth County schools. "In the short term, the best thing that would help us would be strong returns."

Evans said the system has seen a 6 1/2 percent gain during the first half of this fiscal year as stock prices rose.

TRS officials base their financial model on a 7 1/2 percent average annual return on investments, which Evans said is pretty much the middle of the pack among state pension systems.

But that projection, and the big hit to next year's budget, has some lawmakers concerned.

At a recent budget hearing, [House Speaker Pro Tem Jan Jones, R-Milton](#), questioned Evans over whether such expectations are too high, leading to holes that taxpayers are being asked to fill.

"I want to better understand how the state wound up in this position — not too far short of \$1 billion (in additional payments) over a short period of time — and how to dig our way out of the hole and put projections in place so this doesn't occur in the future," Jones said in an interview with the AJC. "It is an enormous amount of money."

Boyd of the Rockefeller Institute said many pension systems have been "going in the wrong direction" the past few years, in part because of overly optimistic investment projections, and in part because they are making riskier investments, something Georgia retiree groups have long fought against.

He said there has been a "small movement" toward changing government pension systems so that they are based on defined contributions — how much an employee and employer puts into something like a 401(k) — rather than strictly defined benefits, where an employee gets a set lifetime pension when he or she retires.

A few years ago, Hill, the Atlanta state senator, proposed a hybrid retirement plan for

newly hired teachers – part traditional pension and part 401(k). New teachers would pay into both. The state employees retirement system had gone to a new plan almost a decade ago, and Hill said it was time for the TRS to go in the same direction.

But [teacher and retiree groups flexed their political muscle and Hill’s bill stalled](#).

John Palmer, a Cobb County educator and spokesman for the teacher group TRAGIC, said changing the employees system has been a short-term financial disaster. Fewer teachers making full payments into the TRS would mean less money coming from educators to help pay for pensions, he said.

Palmer said teachers who think long term would likely make ensuring the strength of the pension system a priority.

“I think we’ve got to get folks to understand that this is an investment in education, an investment in our children, and stop nickle and diming the education budget,” Palmer said. “This is the strongest tool we have to keep experienced teachers and good teachers in the classroom.”

But Hill doesn’t see the state as having a choice but to consider changing the system so more emphasis is placed on higher pay for teachers and less on retirement, at least for new hires.

“Thinking long term about the health of our teaching core and the financial health of the state, we have to look at this issue,” he said. “If I have anything to do about it, we will be looking at it.”

Retirement funds’ impact

The state Teacher Retirement System administers the retirement fund for public school teachers, many employees of the University System of Georgia and certain other designated employees in education-related work. Below is the number of Georgians receiving TRS benefits in 2016 from select metro Atlanta counties, and the total amount paid to them:

Fulton County

7,016
\$307 million

DeKalb County

5,839
\$247 million

Cobb County

5,531
\$205 million

Gwinnett County

4,385
\$165 million

Cherokee County

2,007
\$73 million

Clayton County

1,196
\$44 million

Forsyth County

978
\$35 million

Douglas County

936
\$33 million

Source: Georgia Teacher Retirement System

Retirement fund infusions

Taxpayers have been pouring additional money into the Employees Retirement System and Teacher Retirement System since the Great Recession started hammering the systems’ finances. Below is the extra contributions the state has made in recent fiscal years:

Employees Retirement System

2012: \$26.5 million
2013: \$57.2 million
2014: \$57.5 million
2015: \$56.7 million
2016: \$46 million
2017: \$1.8 million
2018: \$2 million

Teacher Retirement System

2010: \$35.7 million

2011: \$52.3 million

2012: \$0

2013: \$89.7 million

2014: \$70 million

2015: \$71.8 million

2016: \$93.6 million

2017: \$0

2018: \$223 million

Source: Office of Planning and Budget