



# ANNUAL REPORT 2000

## EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA

PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

LEGISLATIVE RETIREMENT SYSTEM

GEORGIA JUDICIAL RETIREMENT SYSTEM

GEORGIA DEFINED CONTRIBUTION PLAN

STATE EMPLOYEES' ASSURANCE DEPARTMENT

GEORGIA MILITARY PENSION FUND

**ACT 892 (SB 45)**

**EMPLOYEES' RETIREMENT SYSTEM**

Amends O.C.G.A. 47-2-96(f) and 47-2-334 to allow Old and New Plan members to purchase up to two years' credit for military service during any period in which a military draft was in effect by paying 5% on compensation last paid as an employee before entering military service or 5% on compensation first paid as an employee after returning from military service, plus 4½% interest. Members must have applied prior to December 31, 2001.

**ACT 938 (HB 543)**

**EMPLOYEES' & GEORGIA JUDICIAL RETIREMENT SYSTEMS**

Adds O.C.G.A. 47-23-64 to allow any superior court judge or district attorney to transfer ERS active service to Georgia Judicial Retirement System (GJRS) or establish ERS refunded service under GJRS by paying back contributions plus interest. Members must notify system by December 31, 2000 or within 90 days of becoming a member, whichever is later. No service can be credited that will create any accrued unfunded liability on this System.

**ACT 776 (HB 616)**

**ALL SYSTEMS**

Amends O.C.G.A. 47-20-3, the Public Retirement System Standards Law, to ensure compliance with federal law (GASB 25 and 27), effective January 31, 2000.

**ACT 457 (HB 617)**

**ALL SYSTEMS**

Creates the Public Retirement Systems Investment Authority Law providing investment guidelines for any public retirement system or pension fund supported wholly or partially by public funds and that all such systems/funds are subject to O.C.G.A. 47-20.

**ACT 778 (HB 654)**

**EMPLOYEES' RETIREMENT SYSTEM**

Amends O.C.G.A. 47-2-265 to allow credit for service as a district attorney investigator, prior to becoming an ERS member, by paying employee and employer contributions plus 5% interest. Application must be made no later than December 31, 2000, or within six months of becoming a member of ERS.

**ACT 939 (HB 764)**

**EMPLOYEES' & GEORGIA JUDICIAL RETIREMENT SYSTEMS**

Adds O.C.G.A. 47-2-73 and 47-23-48 to allow a vested member of ERS and GJRS who, without a break in service, becomes the head of a state department or agency, or who is appointed by the Governor to a full-time salaried position on a state board or commission, to maintain membership in the vested system by making an irrevocable election by September 30, 2000 or within 60 days of becoming a member of the other system. This shall apply to any person who is a member of ERS/GJRS on July 1, 2000 and any person becoming a member thereafter. Service may be transferred to the other system but only such service may be granted that will not create any accrued unfunded liability on the other system.

**ACT 786 (HB 767)**

**EMPLOYEES' RETIREMENT SYSTEM**

Amends O.C.G.A. 47-2-99 and 47-2-334 to allow up to 12 months of service as a temporary, full-time employee prior to membership (Old and New Plan members), excluding GDCP service. Member must pay employee and employer contributions that would have been payable had the person been a member during such period, plus regular interest. Application must be received by June 30, 2001 or within 24 months of becoming an ERS member.

**ACT 940 (HB 919)**

**EMPLOYEES' & GEORGIA JUDICIAL RETIREMENT SYSTEMS**

Adds O.C.G.A. 47-23-48 to allow a member of ERS on July 1, 1998 employed in a position otherwise covered by Georgia Judicial Retirement System (GJRS), but who was not eligible for GJRS membership on July 1, 1998, to elect GJRS membership. This election must be made by December 31, 2000 and is irrevocable. ERS shall transfer employee and employer contributions with regular interest. Member is authorized to pay any additional amount within twelve (12) months of becoming a GJRS member; however, such service is not to exceed actual years of service and shall not create any actuarial accrued unfunded liability on ERS.

## **INTRODUCTION LEGISLATION**

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### **ACT 798 (HB988) EMPLOYEES' RETIREMENT SYSTEM**

Amends O.C.G.A. 47-2-245(a) and (b) to allow officers and employees of the Supreme Court and Court of Appeals to establish prior service as an officer or employee of a superior court judge by transferring employer contributions plus interest from a local system. Application must be made by December 31, 2000 or within six months of becoming an ERS member.

Also amends O.C.G.A. 47-2-264 to allow a secretary to a superior court judge or district attorney to establish prior service as a secretary to a state court judge while a member of a county plan. Employee and employer contributions and interest must be transferred by the county, and member shall be credited with such service that will not create any unfunded liability on ERS.

### **ACT 799 (HB 999) EMPLOYEES' AND TEACHERS RETIREMENT SYSTEMS**

Amends O.C.G.A. 47-2-181 and Teachers Retirement System (TRS) law O.C.G.A. 47-3-81, which allowed any person who was vested under ERS or TRS and employed on or after January 1, 1997 in an agency covered by the other system to elect continued membership in the system in which the member was vested. The cutoff date is extended to September 30, 2000 or within 60 days of becoming employed in a position covered by the other system.

### **ACT 802 (HB 1031) LEGISLATIVE RETIREMENT SYSTEM**

Amends O.C.G.A. 47-6-1 to exclude any ERS Board Member from serving on the LRS Board if the member is an active or retired member or beneficiary of LRS. Also amends 47-6-80 by adding subsection (f) which authorizes the Board of Trustees to adopt method(s) of providing increases in retirement allowances based upon (1) recommendation of actuary, (2) actuarial soundness of fund, and (3) any other factors the Board deems relevant.

### **ACT 815 (HB 1148) GEORGIA DEFINED CONTRIBUTION PLAN**

Amends 47-22-1 governing the Georgia Defined Contribution Plan (GDGP) to provide that members of state boards and commissions shall not be deemed employees and would not be required to be members of GDGP.

### **ACT 873 (HB 1457) ALL SYSTEMS**

Amends O.C.G.A. 47-2-110 to include employees of the Department of Motor Vehicle Safety (DMVS) in the ERS membership and allow membership in the Peace Officers Annuity and Benefit Fund. Employees of MVS would be subject to the law enforcement provisions.

## **OTHER LEGISLATION OF INTEREST**

### **ACT 502 (HB 1159)**

Increases the State of Georgia exclusion of taxable net income from any source for income tax purposes from \$13,000 to \$13,500 for calendar year 2000 and to \$14,000 for calendar year 2001.

### **ACT 841 (HB 1285)**

Amends O.C.G.A. 45-24 to provide for the appointment of a taxpayers' pension advocate from the Attorney General's Office to review the termination of employees eligible for involuntary separation and prepare a brief of law and fact, raising all possible objections. A copy of the brief is to be provided to each member of the State Personnel Oversight Commission, Senate Retirement Committee and the House Retirement Committee.

**BUCK  
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900  
Atlanta, Georgia 30339-5945

June 4, 2001

Board of Trustees  
Employees' Retirement System of Georgia  
Two Northside 75  
Atlanta, Georgia 30318

**Members of the Board:**

Section 47-2-26 of the Code of Georgia which governs the operation of the Employees' Retirement System of Georgia provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the valuation of the System prepared as of June 30, 1999. The report indicates that annual employer contributions at the rate of 6.51% of compensation for Old Plan members and 11.26% for New Plan members are sufficient to support the basic benefits of the System as in effect in 2000.

The System is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The valuation method used in the most recent valuation is the entry age normal cost method. Gains and losses are reflected in the unfunded accrued liability, which is being amortized by regular contributions within a 40-year period.

On the basis of the recommended contribution rates, the Retirement System is being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis and the sufficiency of the retirement funds to provide the benefit called for by the System may be safely anticipated.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution rates (ARC) of the employer under GASB for the fiscal year ending June 30, 2001 is 6.51% of active payroll for Old Plan members and 11.26% of active payroll for New Plan members, which will liquidate the unfunded accrued liability over a 40-year period. If contribution rates are continued at 10.00% for Old Plan members and 15.00% for New Plan members, the system will have a negative Net Pension Obligation (NPO) because more than the annual required contribution under GASB 25/27 will be made for the fiscal year ending June 30, 2001.

Sincerely,



Edward A. Macdonald  
Principal and Consulting Actuary

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3504 RET01/169

Buck Consultants, Inc.

770 955-2488 Fax 770 933-8336

**ACTUARIAL SUMMARY**  
**EMPLOYEES' RETIREMENT SYSTEM**

**VALUATION BALANCE SHEET - as of June 30, 1999 - dollar amounts in thousands**

**ACTUARIAL LIABILITIES**

Present value of prospective benefits payable on account of:

1. Present retired members, beneficiaries of deceased members and members entitled to deferred vested benefits:		
Service and disability benefits	\$ 3,677,225	
Death and survivor benefits	337,760	
Deferred vested benefits	<u>151,744</u>	
Total		\$ 4,166,729
2. Present active members:		
Retirement and survivor allowances	\$ 8,333,059	
Refunds of members' contributions	<u>55,372</u>	
Total		\$ 8,388,431
3. Total Actuarial Liabilities		<u>\$12,555,160</u>

**PRESENT AND PROSPECTIVE ASSETS**

4. Actuarial value of assets		\$ 9,848,723
5. Present value of total future contributions = (3) - (4)	\$ 2,706,437	
6. Present value of future member contributions and employer paid member contributions		1,337,730
7. Present value of future employer contributions = (5) - (6)	\$ 1,368,707	
8. Employer normal contribution rate	6.59%	
9. Present value of future payroll (1%)	\$ 230,928	
10. Prospective normal contributions = (8) x (9)		1,521,816
11. Prospective unfunded accrued liability contributions = (7) - (10)		<u>(153,109)</u>
12. Total Present and Prospective Assets		<u>\$12,555,160</u>

**ACTUARIAL SUMMARY**  
**EMPLOYEES' RETIREMENT SYSTEM**

**SUMMARY OF PRINCIPAL RESULTS** - as of June 30, 1999 - dollar amounts in thousands

VALUATION DATE	JUNE 30, 1999	JUNE 30, 1998
Active members:		
Number	73,009	71,982
Annual Compensation	\$ 2,152,072	\$ 2,055,966
Retired members and beneficiaries:		
Number	23,126	22,007
Annual allowances	\$ 411,946*	\$ 370,456*
Assets:		
Market Value	\$12,572,600	\$11,365,377
Actuarial Value	9,848,723	8,613,575
Unfunded actuarial accrued liability	(\$ 153,109)	\$ 480,183
Amortization Period	40 years	9 years
For Fiscal Year Ending	June 30, 2001	June 30, 2000
Annual required employer contribution rates (ARC):		
Old Plan		
Normal	6.59%	6.66%
Accrued Liability	(0.33)	3.09
Group Term Life Insurance	0.25	0.25
Total	<u>6.51%</u>	<u>10.00%</u>
New Plan		
Normal (includes 4.75% paid for member)	11.34%	11.41%
Accrued Liability	(0.33)	3.09
Group Term Life Insurance	0.50	0.50
Total	<u>11.51%</u>	<u>15.00%</u>

\*Does not include Ad Hoc COLA effective July 1, 1999. The results of the valuation have been adjusted to reflect this COLA.

**BUCK  
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900  
Atlanta, Georgia 30339-5945

June 4, 2001

Board of Trustees  
Georgia Public School Employees' Retirement System  
Two Northside 75  
Atlanta, Georgia 30318

**Members of the Board:**

Section 47-4-60 of the law governing the operation of the Georgia Public School Employees' Retirement System provides that the employer contributions toward the cost of the System shall be actuarially determined and approved by the Board. We have submitted the report giving the results of the valuation of the System prepared as of June 30, 1999. The report indicates that an annual employer contribution at the rate of \$391.33 per active member is sufficient to support the benefits of the System as in effect in 2000.

The System is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The valuation method used in the most recent valuation is the entry age normal cost method. Gains and losses are reflected in the unfunded accrued liability, which is currently negative and is amortized by regular contributions within a 40-year period.

On the basis of the recommended contribution rate, the Retirement System is being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion, the System is operating on an actuarially sound basis and the sufficiency of the retirement funds to provide the benefits called for by the System may be safely anticipated.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the employer under GASB for the fiscal year ending June 30, 2001 is \$12,874,104, which will liquidate the unfunded accrued liability over a 40-year period. The System has a negative Net Pension Obligation (NPO) because more than the annual required contribution under GASB 25/27 was made for the fiscal years ending June 30, 1998 and June 30, 1999. Since the appropriation amounts for fiscal years 2000 and 2001 are greater than the ARC for the respective years, the plan will continue to maintain a negative NPO.

Sincerely,



Edward A. Macdonald  
Principal and Consulting Actuary

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Buck Consultants, Inc.

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**ACTUARIAL SUMMARY**  
**PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**VALUATION BALANCE SHEET** - as of June 30, 1999

**ACTUARIAL LIABILITIES**

Present value of prospective benefits payable on account of:

1. Present retired members, beneficiaries of deceased members and terminated members entitled to deferred benefits:		\$ 327,501,582
2. Present active members:		
Service retirement allowances	\$ 328,744,016	
Disability retirement allowances	30,378,548	
Refunds of members' contributions	2,976,319	
Total		<u>\$ 362,098,883</u>
3. Total Actuarial Liabilities		<u>\$ 689,600,465</u>

**PRESENT AND PROSPECTIVE ASSETS**

4. Actuarial value of assets		\$ 599,464,000
5. Present value of total future contributions = (3) - (4)	\$ 90,136,465	
6. Present value of future member contributions to the Members' Contributions Fund		8,129,268
7. Present value of future employer contributions to the Pension Accumulation Fund = (5) - (6)	\$ 82,007,197	
8. Employer normal contribution rate	421.23	
9. Present value of future membership service	\$ 225,813	
10. Prospective normal contributions = (8) x (9)		95,119,210
11. Prospective unfunded accrued liability contributions = (7) - (10)		<u>(13,112,013)</u>
12. Total Present and Prospective Assets		<u>\$ 689,600,465</u>

**ACTUARIAL SUMMARY**  
**PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM**

**SUMMARY OF PRINCIPAL RESULTS** - as of June 30, 1999

<b>VALUATION DATE</b>	<b>JUNE 30, 1999</b>	<b>JUNE 30, 1998</b>
Active members:		
Number	32,898	32,186
Retired members and beneficiaries:		
Number	11,112	10,855
Annual allowances	\$ 28,145,875	\$ 27,073,685
Assets:		
Market Value	\$770,280,000	\$701,850,000
Actuarial Value	599,464,000	528,770,000
Unfunded actuarial accrued liability	(\$13,112,013)	(\$23,990,568)
Amortization Period	40 years	40 years
Fiscal Year Ending	June 30, 2001	June 30, 2000
Employer contribution rate per active member:		
Normal	\$ 421.23	\$ 360.05
Accrued Liability	(29.90)	(55.91)
Total	\$ 391.33	\$ 304.14
Annual required employer contributions (ARC):		
Normal	\$13,857,625	\$ 11,588,569
Accrued Liability	(983,521)	(1,799,512)
Total	\$12,874,104	\$ 9,789,057
Annual appropriation	\$17,642,000	\$ 17,642,000

The valuation takes into account the effect of amendments to the System enacted through the 2000 session of the General Assembly. The valuation reflects the increase in the accrual rate since the previous valuation from \$10.50 to \$12.00 per month effective July 1, 2000.

BUCK  
CONSULTANTS

200 Galleria Parkway, N.W. Suite 1900  
Atlanta, Georgia 30339-5945

June 4, 2001

Board of Trustees  
Georgia Legislative Retirement System  
Two Northside 75  
Atlanta, Georgia 30318

Members of the Board:

Section 47-6-22 of the Code of Georgia which governs the operation of the Georgia Legislative Retirement System provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the valuation of the System prepared as of June 30, 1999. The report indicates that no annual employer contributions are required to support the benefits of the System as in effect in 2000.

The System is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The valuation method used in the most recent valuation is the unit credit actuarial cost method. Gains and losses are reflected in the unfunded accrued liability which is currently negative and is amortized by regular contributions.

On the basis of the recommended contribution rate, the Retirement System is being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis and the sufficiency of the retirement funds to provide the benefits called for by the System may be safely anticipated.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution (ARC) of the employer under GASB for the fiscal year ending June 30, 2001 is \$0. The System has a negative Net Pension Obligation (NPO) because more than the annual required contribution under GASB 25/27 was made for the fiscal years ending June 30, 1998 and June 30, 1999. If the appropriation amounts for fiscal years 2000 and 2001 are greater than the ARC, the plan will continue to maintain a negative NPO.

Sincerely,



Edward A. Macdonald  
Principal and Consulting Actuary

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**ACTUARIAL SUMMARY**  
**LEGISLATIVE RETIREMENT SYSTEM**

**VALUATION BALANCE SHEET** - as of June 30, 1999

**ACTUARIAL LIABILITIES**

Present value of prospective benefits payable on account of:

1. Present retired members and beneficiaries of deceased members and members entitled to deferred vested benefits:		\$ 15,605,476
2. Present active members:		
Service retirement allowances	\$ 6,026,654	
Disability retirement allowances	412,779	
Survivor allowances	290,234	
Refunds of members' contributions	309,896	
Total		<u>\$ 7,039,563</u>
3. Total Actuarial Liabilities		<u>\$ 22,645,039</u>

**PRESENT AND PROSPECTIVE ASSETS**

4. Actuarial value of assets		\$ 22,679,000
5. Present value of total future contributions = (3) - (4)	(\$ 33,961)	
6. Present value of future member contributions		1,131,151
7. Present value of future employer contributions = (5) - (6)	(\$ 1,165,112)	
8. Prospective normal contributions		1,385,238
9. Prospective unfunded actuarial accrued liability contributions = (7) - (8)		<u>(2,550,350)</u>
10. Total Present and Prospective Assets		<u>\$ 22,645,039</u>

**ACTUARIAL SUMMARY**  
**LEGISLATIVE RETIREMENT SYSTEM**

**SUMMARY OF PRINCIPAL RESULTS** - as of June 30, 1999

<b>VALUATION DATE</b>	<b>JUNE 30, 1999</b>	<b>JUNE 30, 1998</b>
Active members:		
Number	210	206
Retired members and beneficiaries:		
Number	190	178
Annual allowances	\$ 1,057,265	\$ 975,066
Assets:		
Market Value	\$ 29,358,000	\$ 26,431,000
Actuarial Value	22,679,000	20,375,000
Unfunded actuarial accrued liability	(\$ 2,550,350)	(\$ 1,102,533)
Amortization period	N/A*	40 years
For Fiscal Year Ending	June 30, 2001	June 30, 2000
Employer contribution rate per active member:		
Normal	\$ 507.53	\$ 510.63
Accrued Liability	(507.53)	(401.46)
Total	\$ 0.00	\$ 109.17
Annual required employer contributions (ARC):		
Normal	\$ 106,581	\$ 105,189
Accrued Liability	(106,581)	(82,700)
Total	\$ 0.00	\$ 22,489

\*If the annual required employer contribution (ARC) is based on 40-year amortization of the unfunded accrued liability, the ARC is less than \$0, which is not allowed under GASB 25/27. Therefore, the accrued liability contribution has been set such that the total ARC equals \$0.

The valuation takes into account the effect of amendments to the System enacted through the 1999 session of the General Assembly.

**BUCK  
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900  
Atlanta, Georgia 30339-5945

June 4, 2001

Board of Trustees  
Georgia Judicial Retirement System  
Two Northside 75  
Atlanta, Georgia 30318

**Members of the Board:**

Section 47-23-21 of the Code of Georgia which governs the operation of the Georgia Judicial Retirement System provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement System on the basis of regular interest and the tables last adopted by the Board of Trustees.

We have submitted the report giving the results of the valuation of the System prepared as of June 30, 1999. The report indicates that employer contributions at the rate of 4.62% of compensation are sufficient to support the benefits of the System as in effect in 2000.

The System is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System. The valuation method used in the most recent valuation is the entry age normal cost method. Gains and losses are reflected in the unfunded accrued liability which is currently negative and is amortized by regular contributions within a 17-year period.

On the basis of the recommended contribution rate, the Retirement System is being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion the System is operating on an actuarially sound basis and the sufficiency of the retirement funds to provide the benefits called for by the System may be safely anticipated.

The valuation has been prepared in accordance with the parameters set forth in Statement Nos. 25 and 27 of the Governmental Accounting Standards Board. The annual required contribution rate (ARC) of the employer under GASB for the fiscal year ending June 30, 2001 is 4.62% of active payroll, which will liquidate the unfunded accrued liability over a 17-year period.

Sincerely,



Edward A. Macdonald  
Principal and Consulting Actuary

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Buck Consultants, Inc.

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**ACTUARIAL SUMMARY**  
**GEORGIA JUDICIAL RETIREMENT SYSTEM**

**VALUATION BALANCE SHEET - as of June 30, 1999**

**ACTUARIAL LIABILITIES**

Present value of prospective benefits payable on account of:

1. Present retired members and beneficiaries of deceased members and members entitled to deferred vested benefits:	\$ 44,378,319
2. Present active members:	<u>161,523,922</u>
3. Total Actuarial Liabilities	<u>\$ 205,902,241</u>

**PRESENT AND PROSPECTIVE ASSETS**

4. Actuarial value of assets	\$ 183,249,000
5. Present value of total future contributions = (3) - (4)	\$ 22,653,241
6. Present value of future member contributions	22,406,697
7. Present value of future employer contributions = (5) - (6)	\$ 246,544
8. Employer normal contribution rate	19.41%
9. Present value of future payroll (1%)	\$ 2,795,582
10. Prospective normal contributions = (8) x (9)	54,262,247
11. Prospective unfunded actuarial accrued liability contributions = (7) - (10)	<u>(54,015,703)</u>
12. Total Present and Prospective Assets	<u>\$ 205,902,241</u>

**ACTUARIAL SUMMARY**  
**GEORGIA JUDICIAL RETIREMENT SYSTEM**

**SUMMARY OF PRINCIPAL RESULTS** - as of June 30, 1999

VALUATION DATE	JUNE 30, 1999	JUNE 30, 1998
Active members:		
Number	403	379
Annual compensation	\$ 29,593,641	\$ 26,225,531
Retired members and beneficiaries:		
Number	114	103
Annual allowances	\$ 4,194,492	\$ 3,537,477
Assets:		
Market Value	\$ 226,084,000	\$ 201,880,000
Actuarial Value	183,249,000	160,171,000
Unfunded actuarial accrued liability	(\$ 54,015,703)	(\$ 42,399,972)
Amortization period	17 years	14 years
For Fiscal Year Ending	June 30, 2001	June 30, 2000
Annual required employer contributions rates (ARC):		
Normal	19.41%	19.62%
Accrued Liability	<u>(14.79)</u>	<u>(15.00)</u>
Total	4.62%	4.62%

The valuation takes into account the effect of amendments to the System enacted through the 2000 session of the General Assembly. -

**BUCK  
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900  
Atlanta, Georgia 30339-5945

June 27, 2001

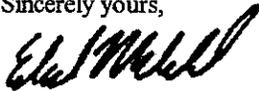
Board of Trustees  
Employees' Retirement System of Georgia  
Two Northside 75  
Atlanta, Georgia 30318

Members of the Board:

Chapters 47-2 and 47-19 of the Code of Georgia which govern the operation of the Georgia Employees' Group Term Life Insurance Plan provide that the actuary shall make periodic valuations of the contingent assets and liabilities of the Insurance Plan on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the valuation of the Plan prepared as of June 30, 1999. The report indicates that combined employer and employee contributions at the rate of 0.75% of salary are sufficient to support the benefits of the Plan.

The Plan is funded on an actuarial reserve basis. The actuarial assumptions used are in the aggregate reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan. In our opinion the Plan is operating on an actuarially sound basis and the sufficiency of the funds to provide the benefits called for by the Plan may be safely anticipated.

Sincerely yours,



Edward A. Macdonald  
Principal and Consulting Actuary

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Buck Consultants, Inc.

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**ACTUARIAL SUMMARY**  
**STATE EMPLOYEES' ASSURANCE DEPARTMENT (GTLI)**

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**VALUATION BALANCE SHEET** — as of June 30, 1999

**ACTUARIAL LIABILITIES**

Present value of prospective benefits payable on account of:

1. Present retired members	\$183,635,271
2. Present active members	<u>559,650,723</u>
3. Total Actuarial Liabilities	<u>\$743,285,994</u>

**PRESENT AND PROSPECTIVE ASSETS**

4. Actuarial value of assets	\$618,777,000
5. Present value of future member premiums	76,939,699
6. Present value of future employer contributions	<u>122,656,205</u>
7. Total present assets and present value of future employee premiums and employer contributions	\$818,372,904
8. Actuarial (Surplus)/Deficit	<u>(75,086,910)</u>
9. Total Present and Prospective Assets	<u>\$743,285,994</u>

**ACTUARIAL SUMMARY**  
**STATE EMPLOYEES' ASSURANCE DEPARTMENT (GTLI)**

**SUMMARY OF PRINCIPAL RESULTS - as of June 30, 1999**

VALUATION DATE	JUNE 30, 1999	JUNE 30, 1998
Active members:		
Number	73,009	71,982
Annual compensation	\$ 2,152,071,587	\$ 2,055,965,813
Retired members:		
Number	18,195	17,178
Insurance amount	\$ 517,717,048	\$ 459,694,205
Assets:		
Market Value	\$ 790,465,000	\$ 708,960,000
Actuarial Value	618,777,000	536,738,000
Actuarial (surplus)/deficit	(\$ 75,086,910)	(28,092,826)
Contribution rates:		
Old Plan Members		
Employee	0.50%*	0.50%*
Employer	0.25	0.25
Total	<u>0.75%</u>	<u>0.75%</u>
New Plan Members		
Employee	0.25%	0.25%
Employer	0.50	0.50
Total	<u>0.75%</u>	<u>0.75%</u>

\*0.25% paid by employer

# AUDITED FINANCIAL STATEMENTS

## COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

### NOTES TO COMBINED FINANCIAL STATEMENTS

#### 1. GENERAL

The accompanying combined financial statements of Employees' Retirement System of Georgia, including all funds and systems administered by the Employees' Retirement System of Georgia (collectively "the System"), is comprised of the Employees' Retirement System of Georgia ("ERS"), PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM ("PSERS"), Legislative Retirement System ("LRS"), Georgia Judicial Retirement System ("GJRS"), Superior Court Judges Retirement Fund ("SCJRF"), District Attorneys Retirement Fund ("DARF"), Georgia Defined Contribution Plan ("GDGP") and State Employees' Assurance Department ("SEAD"). All significant accounts and transactions among the various systems, departments, and funds have been eliminated.

In evaluating how to define the System for financial reporting purposes, the management of the System has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by Governmental Accounting Standards Board ("GASB") Statement 14. The concept underlying the definition of the reporting entity is that elected officials are accountable. Based on these criteria, the System has not included any other entities in its reporting entity. The System is a component unit of the State of Georgia.

Although the System is a component unit of the State of Georgia's financial reporting entity, it is accountable for its own fiscal matters and presentation of its separate, combined financial statements. Boards of Trustees comprised of active and retired members and ex-officio state employees are ultimately responsible for the administration of the System.

#### 2. AUTHORIZING LEGISLATION AND PLAN DESCRIPTIONS

Each fund, including benefit and contribution provisions, was established by state law. The following summarizes authorizing legislation and the plan description of each retirement fund:

- a. ERS is a single-employer, public-employee, defined-benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by

a Board of Trustees and has the powers and privileges of a corporation.

*Membership* - As of June 30, 2000, participation in ERS is as follows:

Retirees and beneficiaries currently receiving benefits	24,506
Terminated employees entitled to benefits but not yet receiving benefits	53,182
Active plan members	72,176
Total	<u>149,864</u>
Employers	<u>218</u>

*Benefits* - The benefit structure of ERS was significantly modified on July 1, 1982. Unless the employee elects otherwise, an employee who currently maintains membership with ERS based upon state employment that started prior to July 1, 1982 is an "old plan" member subject to the plan provisions in effect prior to July 1, 1982. All other members are "new plan" members subject to the modified plan provisions.

Under both the old and new plans, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 65. Additionally, there are some provisions allowing for retirement after 25 years of creditable service regardless of age.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months multiplied by the number of years of creditable service multiplied by the applicable benefit factor. Post-retirement cost-of-living adjustments are also made to members' benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

*Contributions and Vesting* - Member contributions under the old plan are 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200.

## AUDITED FINANCIAL STATEMENTS

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Under the old plan, the State pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these State contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan are 1.25% of annual compensation. The State is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation.

Members become vested after 10 years of membership service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the unfunded actuarial accrued liability within 40 years based upon the actuarial valuation at June 30, 1999.

On November 20, 1997, the ERS Board of Trustees created the Supplemental Retirement Benefit Plan of ERS ("SRBP"). SRBP was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code ("IRC §415") as a portion of ERS. The purpose of the SRBP is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC §415.

Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in this Plan whenever their benefits under ERS exceed the limitation on benefits imposed by IRC §415.

There were 248 and 179 members eligible to participate in this portion of ERS as of June 30, 2000 and 1999, respectively. Employer contributions of \$2,279,000 and \$1,828,000 and retirement payments of \$2,335,000 and \$1,637,000 under the SRBP are included in the combined statements of changes in net assets for the years ended June 30, 2000 and 1999, respectively. Cash of \$79,000 and \$162,000 and employer receivables of \$202,000 and \$175,000 under the SRBP are included in the combined statements of net assets for the years ended June 30, 2000 and 1999, respectively.

- b. PSERS is a defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers Retirement System of Georgia. PSERS is administered by the ERS Board of Trustees plus two other trustees not on the ERS Board of Trustees.

*Membership* - As of June 30, 2000, participation in PSERS is as follows:

Retirees and beneficiaries currently receiving benefits	11,395
Terminated employees entitled to benefits but not yet receiving benefits	<u>9,443</u>
Active plan members	<u>32,864</u>
Total	<u>53,702</u>
Employers	179

*Benefits* - A member may retire and elect to receive normal monthly retirement benefits after completion of 10 years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of 10 years of service.

Upon retirement, the member will receive a monthly benefit of \$10 multiplied by the number of years of creditable service. Death, disability, and spousal benefits are also available through PSERS. Additionally, PSERS makes periodic cost-of-living adjustments to the monthly benefits.

*Contributions and Vesting* - Members contribute \$4 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined, and approved and certified by the PSERS Board of Trustees.

Members become vested after 10 years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

## AUDITED FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

The employer contributions are projected to liquidate the actuarial accrued funding excess within 40 years based upon the actuarial valuation at June 30, 1999.

- c. LRS is a defined benefit plan established by the Georgia General Assembly in 1979 for the purpose of providing retirement allowances for all members of the Georgia General Assembly. LRS is administered by the ERS Board of Trustees.

*Membership* - As of June 30, 2000, participation in LRS is as follows:

Retirees and beneficiaries currently receiving benefits	191
Terminated employees entitled to benefits but not yet receiving benefits	123
Active plan members	<u>209</u>
Total	<u>523</u>
Employers	<u>1</u>

*Benefits* - A member's normal retirement is after eight years of creditable service and attainment of age 65, or eight years of membership service (four legislative terms) and attainment of age 62. A member may retire early and elect to receive a monthly retirement benefit after completion of eight years of membership service and attainment of age 60; however, the retirement benefit is reduced by 5% for each year the member is under age 62.

Upon retirement, the member will receive a monthly service retirement allowance of \$28 multiplied by the number of years of creditable service reduced by age reduction factors, if applicable. Death, disability, and spousal benefits are also available through the plan.

*Contributions and Vesting* - Member contributions are 8.5% of annual salary. The State pays member contributions in excess of 4.75% of annual compensation. Employer contributions are actuarially determined and approved and certified by the ERS Board of Trustees.

Members become vested after eight years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon

request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

- d. The GJRS is a system created to serve the members and beneficiaries of the Trial Judges and Solicitors Retirement Fund ("TJSRF"), the Superior Court Judges Retirement System ("SCJRS") and the District Attorneys Retirement System ("DARS")—collectively the "Predecessor Retirement Systems". As of June 30, 1998 any person who was an active, inactive or retired member or beneficiary of the Predecessor Retirement Systems was transferred to GJRS in the same status effective July 1, 1998. All assets of the Predecessor Retirement Systems were transferred to GJRS as of July 1, 1998. GJRS is administered by the ERS Board of Trustees and three other trustees not on the ERS Board of Trustees.

GJRS is a defined benefit pension plan established by the Georgia General Assembly for the purpose of providing retirement allowances for trial judges and solicitors of certain courts in Georgia, and their survivors and other beneficiaries, superior court judges of the State of Georgia, and district attorneys of the State of Georgia.

*Membership* - As of June 30, 2000, participation in GJRS is as follows:

Retirees and beneficiaries currently receiving benefits	116
Terminated employees entitled to benefits but not yet receiving benefits	18
Active plan members	<u>421</u>
Total	<u>555</u>
Employers	<u>83</u>

*Benefits* - The normal retirement for GJRS is age 60 with 16 years of creditable service; however, a member may retire at age 60 with a minimum of 10 years of creditable service.

Retirement benefits paid to members are computed as 66 2/3% of annual salary plus 1% for each year of credited service over 16 years, not to exceed 24 years. Early retire-

## AUDITED FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

ment benefits paid to members are computed as the pro rata portion of the normal retirement benefit, based on service not to exceed 16 years. Death, disability and spousal benefits are also available.

*Contributions and Vesting* - Members are required to contribute 7.5% of their annual salary plus an additional 2.5% of their annual salary if spousal benefit is elected. Employer contributions are actuarially determined and approved and certified by the GJRS Board of Trustees.

Members become vested after 10 years of creditable service. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contributions, the member forfeits all rights to retirement benefits.

The employer contributions are projected to liquidate the actuarial accrued funding excess within 17 years based upon the actuarial valuation at July 1, 1999.

- e. SCJRF is a defined benefit pension plan established by the Georgia General Assembly in 1945 for the purpose of providing retirement benefits to the superior court judges of the State of Georgia. SCJRF is directed by its own Board of Trustees. The Boards of Trustees for ERS and SCJRF entered into a contract for ERS to administer the plan effective July 1, 1995.

*Membership* - As of June 30, 2000, participation in SCJRF is as follows:

Retirees and beneficiaries currently receiving benefits	33
Terminated employees entitled to benefits but not yet receiving benefits	4
Active plan members	<u>2</u>
Total	<u>39</u>
Employers	<u>1</u>

*Benefits* - The normal retirement for SCJRF is age 68 with 19 years of creditable service with a benefit of two-thirds the salary paid to superior court judges. A member may

also retire at age 65 with a minimum of 10 years of creditable service with a benefit of one-half the salary paid to superior court judges. Death, disability, and spousal benefits are also available.

*Contributions and Vesting* - Member contributions are 5.0% of their salary plus an additional 2.5% for the spousal coverage benefit if elected. The State pays member contributions of 5.0% of the member's annual salary. Additional employer contributions are not actuarially determined but are provided on an as-needed basis to fund current benefits.

- f. DARF is a defined benefit pension plan established by the Georgia General Assembly in 1949 for the purpose of providing retirement benefits to the district attorneys of the State of Georgia. DARF is directed by its own Board of Trustees. The Boards of Trustees for ERS and DARF entered into a contract for ERS to administer the plan effective July 1, 1995.

*Membership* - As of June 30, 2000, DARF had 10 retirees and beneficiaries currently receiving benefits.

*Benefits* - Persons appointed as district attorney emeritus shall receive an annual benefit of \$15,000 or one-half of the state salary received by such person as a district attorney for the calendar year immediately prior to the person's retirement, whichever is greater.

*Contributions and Vesting* - Member contributions were 5.0% of their annual salary plus an additional 2.5% for the spousal coverage benefit if elected. The State paid member contributions of 5.0% of the member's annual salary. Additional employer contributions are not actuarially determined but are provided on an as-needed basis to fund current benefits.

- g. GDGP is a defined contribution plan established by the Georgia General Assembly in July 1992 for the purpose of providing retirement allowances for state employees who are not members of a public retirement or pension system. GDGP is administered by the ERS Board of Trustees.

*Membership* - As of June 30, 2000, participation in GDGP is as follows:

## AUDITED FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

Terminated employees entitled to benefits but not yet receiving benefits	52,534
Active plan members	<u>27,883</u>
Total	<u>80,417</u>
Employers	<u>299</u>

*Benefits* - A member may retire and elect to receive periodic payments after attainment of age 65. The payments will be based upon mortality tables and interest assumptions to be adopted by the ERS Board of Trustees. If a member has less than \$3,500 credited to his/her account, the ERS Board of Trustees has the option of requiring a lump sum distribution to the member. Upon the death of a member, a lump sum distribution equaling the amount credited to his/her account will be paid to the member's designated beneficiary.

*Contributions* - Members are required to contribute 7.5% of their annual salary. There are no employer contributions. Earnings will be credited to each member's account as adopted by the ERS Board of Trustees. Upon termination of employment, the amount of the member's account is refundable upon request by the member.

- h. SEAD was created in 1953 by the Georgia General Assembly to furnish survivors' benefits for eligible members of ERS. SEAD contracts with ERS and LRS to provide group term life insurance coverage for their participants. Death benefit payments are payable to the beneficiary or estate of the insured individual.

### 3. SIGNIFICANT ACCOUNTING POLICIES AND SYSTEM ASSET MATTERS

The following is a summary of significant accounting policies of the System:

- a. *Basis of Accounting* - The System's combined financial statements are prepared on the accrual basis of accounting.
- b. *Investments* - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

Investment income is recognized as earned by the System.

No investment in any one organization except the U.S. Government represents 5% or more of the net assets available for pension benefits.

There are no investments in, loans to, or leases with parties related to the System.

- c. *Real Estate Investments* - The System and the Teachers Retirement System of Georgia equally own an office building. The fair market value of the System's ownership interest in the office building is included in mortgage loans and real estate in the combined statements of net assets. The System incurred approximately \$339,000 and \$328,000 in rental expense for the years ended June 30, 2000 and 1999, respectively. Rent expense is included in administrative expenses in the combined statements of changes in net assets. The remainder of the building is leased to outside parties, and the System's portion of this revenue is included in interest and dividends.

- d. *Use of Estimates* - The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

- e. *New Accounting Pronouncement* - The GASB has issued its Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which is effective for periods beginning after June 15, 2001. This Statement establishes new financial reporting requirements for state and local governments throughout the United States and is applicable to public employees' retirement systems. Management is currently analyzing the effects that the adoption of this standard will have on the System's combined financial statements.

### 4. INVESTMENT PROGRAM

The System maintains sufficient cash to meet its immediate liquidity needs. Cash not immediately needed is invested in either short-term or long-term investment securities as directed by management. All investments are held by agent custodial banks in the name of the System.

## AUDITED FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

*Cash* - Cash balances are fully insured through the Federal Deposit Insurance Corporation, an agency of the U.S. Government. Fiduciary accounts, such as those of the System, are granted \$100,000 of insurance coverage per participant in the System. Temporary cash on hand not committed for a specific purpose is invested overnight.

*Investments* - GASB 3 requires governmental entities to categorize investments as an indication of the level of custodial credit risk assumed by the System at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the System's name. All of the securities held by the System at June 30, 2000 and 1999 are of Category 1 risk level. The System is authorized by its Board of Trustees (through statutes) to invest in a variety of short-term and long-term securities, as follows:

(a) *Short-Term:*

- Short-term investments are authorized in the following instruments:
  - Repurchase and reverse repurchase agreements, whereby the System and a broker exchange cash for direct obligations of the U.S. Government or in obligations unconditionally guaranteed by the agencies of the U.S. Government or U.S. corporations. The System or broker promises to repay the cash received plus interest at a specific date in the future in exchange for the same securities.
  - U.S. Treasury obligations with varying terms up to 360 days.
- Other short-term securities authorized, but not currently used, are:
  - Commercial paper, with a maturity of 180 days or less. Commercial paper is an unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The System considers for investment only commercial paper of the highest

quality, rated P-1 and/or A-1 by national credit rating agencies.

- Master notes, an overnight security administered by a custodian bank and an obligation of a corporation whose commercial paper is rated P-1 and/or A-1 by national credit rating agencies.
- Investments in commercial paper or master notes are limited to no more than \$25 million in any one name.

(b) *Long-Term:*

Fixed income investments are authorized in the following instruments:

- Corporate bonds with at least an "A" rating by a national rating agency and limited to no more than 5% of total System assets in any one name. Maturities of these securities vary up to a period of 40 years to provide the System with flexibility necessary to meet changing market conditions.
- U.S. and foreign government obligations with terms up to 30 years. Quality and call requirements of corporate bonds are applicable.
- Private placements are authorized under the same general restrictions applicable to corporate bonds.
- Mortgage investments are authorized to the extent that they are secured by first mortgages on improved real property located in the State of Georgia having a loan-to-value ratio no higher than 75%. Mortgages, as a group cannot exceed 10% of total assets or 1% for any one loan.

Equity securities are also authorized (in statutes) for investment as a complement to the System's fixed-income portfolio and as a long-term inflation hedge. By statute, no more than 60% of the total invested assets may be placed in equities and no more than 5% in any one corporation. Equity holdings in any one corporation may not exceed 5% of the outstanding equity of the issuing corporation. The equity portfolio is managed by the Investment Services Division (the "Division") in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the Board of Trustees, in-house research considering such things as yield, growth and sales statistics, and analysis of

## AUDITED FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

independent market research. Equity trades are approved and executed by the Division's staff. Common stocks eligible for investment are approved by the Investment Committee of the Board of Trustees before being placed on an approved list.

Substantially all of the investments of ERS, PSERS, LRS, SCJRF, GJRS, SEAD and certain investments of GDCP are pooled into one common investment fund. Investments of approximately \$19,968,000, held by GDCP, are not included in the investment pool. Units in the pooled investment fund are allocated to the respective funds based upon the cost of assets contributed, and additional units are allocated to the participating funds based on the market value of the pooled investment fund at the date of contribution. Net income of the pooled investment fund is allocated monthly to the participating funds based upon the number of units outstanding during the month.

The units of the pooled investment fund at June 30, 2000 and 1999 were allocated as follows (in thousands):

	<u>2000</u>	<u>1999</u>
Employees' Retirement System	7,211	7,276
Public School Employees Retirement System	442	447
Legislative Retirement System	16	17
Georgia Judicial Retirement System	130	131
State Employees' Assurance Department	459	458
Superior Court Judges Retirement Fund	1	1
Georgia Defined Contribution Plan	8	8
	<u>8,267</u>	<u>8,338</u>

#### 5. INVESTMENTS LENDING PROGRAM

The System is presently involved in a securities lending program with major brokerage firms. The System lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. During a loan, the System continues to receive dividends and interest as the owner of the loaned securities. The brokerage firms pledge collateral securities consisting of U.S. Government and agency securities, mortgage-backed securities issued by a U.S. government agency and U.S. corporate bonds. The collateral value must be equal to at least 102% to 110% of the loaned securities' value, depending on the type of collateral security.

Securities loaned totaled \$5,832,633,000 and \$5,667,904,000 at fair value at June 30, 2000 and 1999, respectively. The collateral value was equal to 104.1% and 103.1% of the loaned securities' value at June 30, 2000 and 1999, respectively. The loaned securities are classified as Category 1 investments (see Note 4) based on the custodial arrangements for the collateral securities.

Loaned securities are included in the accompanying combined statements of net assets since the System maintains ownership. The related collateral securities and the corresponding liability are not recorded on the System's combined statements of net assets, since the System does not pledge or trade the collateral securities.

#### 6. SEAD ACTUARIAL VALUATION

According to the SEAD policy terms covering the lives of members, insurance coverage is provided on a monthly, renewable term basis, and no return premiums or cash value are earned. The net assets represent the excess accumulation of investment income and premiums over benefit payments and expenses, and are held as a reserve for payment of death benefits under existing policies.

The most current actuarial valuation of SEAD is as of June 30, 1999. The valuation indicated that the employee contribution rate of .50% and .25%, and the employer contribution rate of .25% and .50% of members' salaries for old plan members and new plan members, respectively, as of June 30, 1999 was appropriate. Old plan members were hired prior to July 1, 1982 and new plan members were hired on or after July 1, 1982.