



ADVISOR



TEACHERS, EMPLOYEES, PUBLIC, STATE POLICE AND JUDICIAL

RSA Retirees Are Everywhere

Currently 93.6% (95,529) of total RSA retirees (102,092) reside in Alabama. Retirement systems in Arkansas, Louisiana, Mississippi, and Texas report a similar percentage (90% to 96%) of retirees residing in their respective states. Florida has the second-most RSA retirees at 1,350 with Georgia close behind at 1,343. Tennessee with 770 RSA retirees and Mississippi with 528 round out the top five. RSA retirees also reside in 17 other countries, with Canada at 9 and the United Kingdom with 5 the top two.

This large percentage of retirees continuing to live in Alabama has had a major impact on the economy of our state. A 2008 study conducted by the Center for Business and Economic Research at the Culverhouse College of Commerce and Business Administration at the University of Alabama found that:

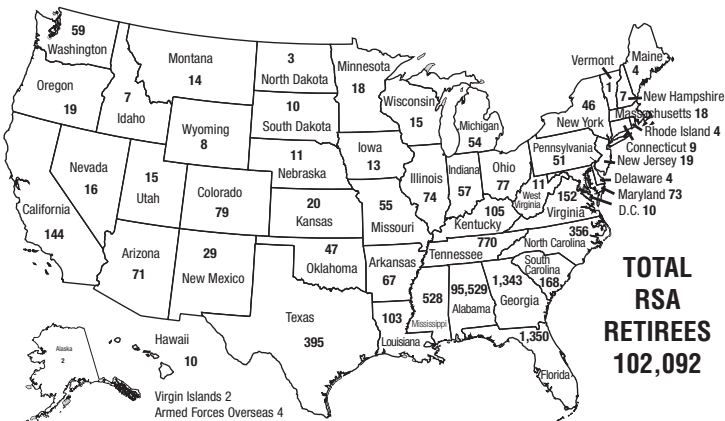
- Pension benefits exceeded \$1.7 billion, of which more than \$1.6 billion went to Alabama residents. Total healthcare payments surpassed \$1.4 billion with over \$1.3 billion going to Alabama providers and facilities. Pension and healthcare benefits paid by RSA, PEEHIP, and SEIB to in-state retirees, providers, and facilities for 2006 totaled \$2.95 billion. RSA accounted for 55 percent, PEEHIP for 27.2 percent, and SEIB had 17.8 percent.

- The combined statewide economic impacts of the pension and healthcare benefit payments are approximately \$5.8 billion in output (3.6 percent of the \$160.6 billion 2006 ALGDP), nearly \$1.9 billion in earnings, and 62,930 jobs (2.7 percent of nonagricultural employment). RSA accounted for 53 percent of the output impact with \$3.1 billion, 48.8 percent of the earnings impact with \$926 million, and 53.9 percent of the employment impact with 33,915 jobs. PEEHIP impacts are \$1.6 billion in output, \$580.3 million in earnings, and 17,917 jobs. SEIB impacts are \$1.1 billion in output, \$392.3 million in earnings, and 11,098 jobs.

- The \$1.9 billion combined earnings impact generated a total of \$100.8 million to state coffers; \$70.2 million in state income taxes and \$30.6 million in state sales taxes. Local (county and city) sales tax receipts totaled \$32.2 million. Total income and sales taxes were \$133 million.

This study along with a study of the impact on the state's economy by RSA-owned investments can be found on our Web site at www.rsa-al.gov.

Where RSA Retirees Live



TOTAL
RSA
RETIRES
102,092

Australia	1
Belize	2
Canada	9
China	1
Costa Rica	1
France	1
Germany	1
Ireland	2
Italy	2
Japan	2
Netherlands	1
Norway	1
Philippines	2
Poland	1
Switzerland	3
Thailand	1
United Kingdom	5

Funding Levels Explained

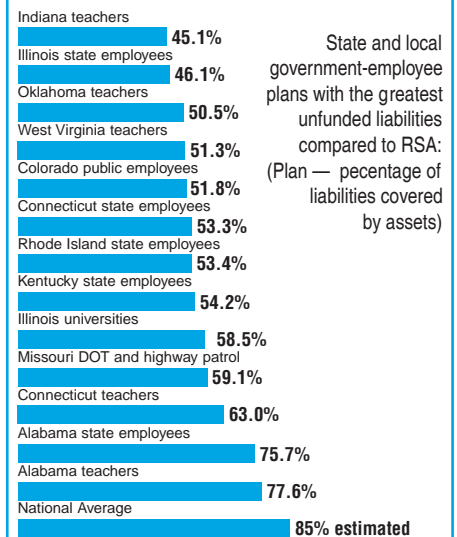
By David G. Bronner

Alabama Birmingham newspaper and others have given the impression that the funding levels are "all" important. They point out that the levels have steadily declined since 2001 when the RSA exceeded 100% in funding levels. The reason is simple: Funding levels will always decline when unfunded benefits are given and/or markets decline. When both occur, it can be like going down a big hill on a roller coaster. The markets are what provide 70-80% of the funding for benefits!

The important thing for members to remember is that if funding requirements are met, the systems will remain actuarially sound and begin a trend back towards 100% funding. The RSA was funded at 25% in 1973, and it took decades of proper funding and great markets to achieve greater than 100% funding.

Next month, we will explain the various options for cost containment of pension and health insurance benefits, just as we have done for decades. ■

FUNDING LEVELS



RSA and Corporate Fraud

By Nedra Bloom, *Business Alabama*

One of Alabama's biggest victories battling securities fraud was snatched from the jaws of two of the biggest corporate scandals in recent times. Adopting an independent stratagem in an international legal fray, the Retirement Systems of Alabama recouped almost all the money it lost when first Enron and then WorldCom went bankrupt in 2001 and 2002.

At the time, RSA held about \$120 million in WorldCom stock and bonds and about \$70 million in Enron, out of a total investment portfolio of about \$30 billion. RSA needed to take action, recalls Bill Kelley, general counsel for the pension funds. Originally, the plan was to join the class action suits being organized by other investors. Instead RSA sued independently, using a provision that allowed quasi-government agencies to take action in their own state courts.

RSA turned to the Haskell Slaughter firm, based in Birmingham, which had represented it since the early 1990s. But the ties go back even farther. RSA chief Dr. David Bronner and Haskell Slaughter attorney Thomas Krebs were classmates at the University of Alabama Law School, in a securities law class taught by Haskell Slaughter partner and former state securities director J. Michael Rediker.

Like other investors, Krebs and Rediker follow the status of publicly traded companies through the financial pages and don't pay particular attention to the RSA portfolio. But when the Enron story, and later WorldCom, broke in financial

news columns, "we weren't surprised that anyone with a large and diverse a portfolio as RSA would have some of these," Rediker says.

Not long before the two financial scandals broke, Congress had placed limitations on shareholder suits – giving the largest member of a class action suit the right to choose counsel and determining that class actions should be filed in federal court, rather than in a hand-picked state court. That legislation created an exception for municipal and state pension funds.

A proponent of individual rather than class action suits, Rediker and RSA were the first to take advantage of the option to file in state court. It gave RSA several advantages, Rediker says. Since the companies in question were bankrupt, the target for recouping funds had to be the underwriters who promoted the investments. Usually, such advice is given in a phone call, he says, with one party in Montgomery and the other, probably, in New York. But in this case, representatives came to Montgomery for face-to-face meetings complete with PowerPoint presentations.

The defendants tried to move the case to federal court, but first the U.S. Appeals court, and later the Supreme Court, upheld their right to be in Montgomery. Yet one more challenge tried to prevent District Court Judge Charles Price from hearing the case, but the 2nd Circuit Court of Appeals, the nation's expert in terms of financial cases, again sent the case back to Montgomery.

From there, it took only a month to reach a settlement, Rediker says. Though he doesn't know the truth of it, he's fond of the story that WorldCom's lawyers sampled the potential jury pool in Alabama, learning that RSA's Bronner was the most respected person in the state, aside from legendary football coach Paul "Bear" Bryant.

It wasn't Alabama's security laws that scared the defendants, Rediker says. "They didn't want to be under state law period." Why? Because state laws allow action for common law fraud. "If you prove deliberate tinkering of the financial statements, intentional cheating, you can get punitive damages."

In fact, that's one of the key reasons Rediker prefers individual suits rather than class actions, particularly for pension funds. And state employee pension funds are of great concern to the taxpayers, he says. "To the extent that investments do well, the amount that the employer had to contribute is reduced," Rediker says. "To the extent that somebody cheats us out of \$100 million, that has to be made up, in effect, by Alabama taxpayers."

Although Alabama was the first to settle in these cases, that's no particular legal advantage and can even be a strategic disadvantage, says Krebs and Rediker. But it's a financial advantage in terms of plain old interest. If you collect \$100 million and invest it at 5 percent while other class action suits are dragging in federal court, you've got extra money in the bank, they say. ■

Auburn Marriott Opelika Named "Hotel of the Year"

The Auburn/Opelika area is on a winning streak. *U.S. News and World Report* named the area one of the 10 best locations to live in America. *Golf World* readers named it the number one location for public golf in America. Now Marriott International has named the Auburn Marriott Opelika Hotel & Conference Center at Grand National as the **Number One** franchise Marriott hotel in North America. The Hotel of the Year award is based on the hotel's guest satisfaction, market share, employee opinion surveys, and financial performance.

"This honor is a tribute to the hard work of our associates every day," said Jay Prater, general manager of the Auburn Marriott Opelika. "They work hard every day to meet and exceed

our guests' expectations and this award shows they are doing it consistently. Being named Hotel of the Year is quite an honor and would not be possible without their efforts and the dedication of our owners, the Retirement Systems of Alabama. From having a great hotel to the country's best golf and now an upscale residential option at National Village, the RSA and Dr. David G. Bronner are committed to bringing the best of the best to this area, as these national recognitions demonstrate."

In addition to Hotel of the Year, the Auburn Marriott Opelika won the Most Improved Market Share Excellence and the Spirit to Serve our Community awards. The Market



Share Excellence award recognizes the improvements in 2008 over the previous year. ■

Medical ID Theft

By Walecia Konrad, *The New York Times*

Brandon Sharp, a 37-year-old manager at an oil and gas company in Houston, has never had any real health problems and, luckily, he has never stepped foot in an emergency room. So imagine his surprise a few years ago when he learned he owed thousands of dollars worth of emergency-service medical bills.

Mr. Sharp, as it turned out, was a victim of a fast-growing crime known as medical identity theft. At the time, Mr. Sharp was about to get married and buy his first home. Before applying for a mortgage he requested a copy of his credit report. That is when he found he had several collection notices under his name for emergency room visits throughout the country.

"There was even a \$19,000 bill for a Life Flight air ambulance service in some remote location I'd never heard of," said Mr. Sharp, who made this unhappy discovery in 2003. "I had emergency room bills from places like Bowling Green, Kan., where I've never even visited. I'm still cleaning up the mess."

The last time federal data on the crime was collected, for a 2007 report, more than 250,000 Americans a year were victims of medical identity theft. That number has almost certainly increased since then, because of the increased use of electronic medical records systems built without extensive safeguards, said Pam Dixon, executive director of the nonprofit World Privacy Forum and author of a report on medical identity theft.

...Medical identity theft takes many guises. In Mr. Sharp's case, someone got hold of his name and Social Security number and used them to receive emergency medical services...In another variant of the crime, someone can use

stolen insurance information, like the basic member ID and group policy number found on insurance cards, to impersonate you...This is surprisingly easy to do, because many doctors and hospitals do not ask for identification beyond insurance information.

Even more common, however, are cases where medical information is stolen by insiders at a medical office. Thieves download vital personal insurance data and related information from the operation's computerized medical records, then sell it on the black market or use it themselves to make fraudulent billing claims.

...And there are none of the consumer protections for medical identity theft. Under the Fair Credit Reporting Act you can get a free copy of your credit report each year, put a fraud alert on your account and get erroneous charges deleted from your record. If your credit card is stolen and the thief goes on a spending spree, you're not liable for more than \$50 worth of the charges. With medical identity theft, though, the fraudulent charges can remain unpaid and unresolved for years, permanently damaging your credit rating....

Here are the steps you need to take to avoid medical identity theft:

1. **Keep track of insurance cards**
2. **Scrutinize those statements**
3. **Get an annual statement**
4. **Check your credit report**
5. **Get copies of medical records**
6. **Avoid offers of free services** - This is a common ruse for fraudsters. Better to have routine screenings like blood pressure and blood sugar tests done through your physician's office. ■

Food

Source: *ISD Research*

Reserve stocks of corn, wheat, and rice are now lower than at any other time, since the 1970s—a period of shortages and inflation. Reserve grain stocks have been reduced in six of the last nine years, totaling 120 million metric tons.

Rebounding economic growth in emerging markets, such as China, India, and Brazil, indicate demand for grain and animal feed may be stronger than anticipated. During the first four months of 2009, China imported a record 13.9 million tons of soybeans. China's soybean demand has risen 123% during the last decade, while India's use of soybeans has jumped 86%, and overall global demand has risen 40%. *Record harvests will continue to be needed in China and India to meet food demand.*

Growing meat demand has a multiplier effect on grains, because it takes 7 to 8.5 pounds of grain to produce a pound of beef. Grain used for feed to produce milk and meat must also be supplemented with high protein feed from soybeans, cottonseeds and other oilseeds.

Food demand is expected to rise 50% in 20 years and double by 2050 from rising population and growing meat demand in developing countries. To meet this demand, at current yield levels, an incremental 2.5 billion hectares of land would be required to cultivate crops. However, there are only an incremental 750 million hectares of good quality land available, spread out over 95 countries.

Since 1960, the amount of arable farmland per capita globally has fallen from 1.1 acres to 0.6 acres, and is expected to keep falling. While large areas of land, such as Brazil and Africa, can be brought online over the next decade, most of the incremental food demand will have to be met with existing land resources.

The FAO raised its estimate for the number of hungry people in the world to a record 1.02 billion, last week, up about 100 million from last year, and equivalent to one-sixth of all humanity. *Nearly half of those hungry are farmers!*

Capital investment and application of new farming techniques and technology to the developing world is the major opportunity in agriculture. "They farm with biblical tools and lousy seed," notes Hugh Grant, CEO of Monsanto. *Developing countries apply little or no fertilizer, utilize little farm*

WANT TO HELP?

A FREE Car Tag

Tired of that worn-out dealer tag on the front of your car? Would you like to help the RSA and our Alabama Tourist Department advertise "Alabama's Robert Trent Jones Golf Trail" on your front bumper? If so, call to request a tag at 334-517-7000, or 877-517-0020, or write:

Tag, P.O. Box 302150 • Montgomery, AL 36130-2150



Continued on page 4

ENJOY YOUR SUMMER/FALL
A Special Deal
FOR RSA MEMBERS

The Battle House,

A Renaissance Hotel – Mobile – \$89

- Aug. 9–11, 17–21, 23–31
- Sep. 1–3, 12–14, 20–23 • Oct. 5–8, 19, 26–28

The Renaissance Riverview Plaza – Mobile – \$79

- Aug. 9–11, 17–21, 23–31
- Sep. 1–3, 12–14, 20–23 • Oct. 5–8, 19, 26–28

Marriott Grand – \$89 plus a 14% resort fee

- Aug. 4, 9–12, 16–20, 23–24
- Sep. 2–3, 6–10, 12–17, 25–27
- Oct. 3–7, 11–15, 18–31

Marriott Grand – RSA Golf Package – \$169

Ask for code – LOCD

Includes: Deluxe Room, One Round of Golf for Two People.

Call for Tee Times after booking package

- Aug. 4, 9–12, 16–20, 23–24
- Sep. 2–3, 6–10, 12–17, 25–27
- Oct. 3–7, 11–15, 18–31

Marriott Shoals – Florence – \$79

- Aug. 2–4, 9–11, 19–20, 25–27, 30–31
- Sep. 1–2, 13–14, 20–21, 27–29 • Oct. 11, 27, 29

Renaissance Ross Bridge – Hoover – \$89

- Aug. 1–13, 16, 17, 21–31 • Sep. 1–10, 13–17, 22
- Oct. 1–3, 6–12, 14, 15, 18–21, 25–29

Opelika Marriott – \$79

- Aug. 2–8, 11, 13–18, 23–27, 29–31
- Sep. 1–3, 6–10, 13–17, 20–24, 27–30
- Oct. 1–7, 8–12, 14, 18–21, 25–27, 29

Prattville Marriott – \$79

- Aug. 5, 9–11, 13–19, 21, 27, 30–31
- Sep. 4–12, 15–16, 20–21, 26–27
- Oct. 9–12, 15, 22–27, 31

Renaissance Montgomery – \$89

- Aug. 1–5, 13, 16–20, 28–31
- Sep. 1–7, 11–15, 24–27, 29–30
- Oct. 7–10, 24, 30

RSA Spa Package – \$159

Ask for code – LOCD Includes Deluxe Room

- Aug. 4–5, 13, 18–19 • Sep. 1–3, 15, 24, 29–30
- Oct. 7–8, 27

Rates available the 1st of the month and are not applicable to groups.

Code: RABM, 800-228-9290

Internet promo code: R2A on marriott.com

Book Online and Save RSA \$4.

Food *continued from page 5*

machinery, irrigation, or productive seeds, and farmers often have little education about efficient-farming techniques.

Only 25% of the arable land in Africa is farmed, with the entire continent accounting for only 2% of global fertilizer consumption. The savannah running from Senegal to South Africa has the potential to transform several African countries into global agriculture players. However, much of the savannah will likely require significant fertilizer to prepare the land for cultivation, similar to the Cerrado in Brazil. *Roughly 400 million hectares of the 600 million hectare (1.5 billion acres) Savannab zone could be cultivated. Only 10% of the Savannab has been farmed so far.* ■

**ERS Board Member
Ronald Matthews Retires,
Candidates Sought**

Candidates are now being sought for the Elected Local Employee, Position No. 1 on the Employees' Retirement System Board of Control. Due to Mr. Ronald Matthews' retirement, he is ineligible to retain his current position on the Board.

Nominees must be active members of the ERS by virtue of employment with a local agency (city, county, town, public or quasi-public agency). This position is a four-year term which began October 1, 2006, and will end September 30, 2010.

Nomination packets are available on our Web site at www.rsa-al.gov or by contacting the elections coordinator at 877-517-0020. The completed petition must be returned to the ERS by 4:00 p.m. September 11, 2009. ■



**The
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RSA Web site

www.rsa-al.gov

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