The ADVISOR
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Investment Performance 2010 - 2011

By Marc Green, CIO

The fiscal year that ended September 30 was certainly a roller coaster as early optimism over the economy eventually gave way to concerns over the ongoing debt crisis in the European periphery. Total returns for the Employees' (ERS) and Teachers' (TRS) Retirement Systems finished the year up 2.2% and 1.8% respectively. The equity market volatility continued into the new fiscal year as the S&P 500 posted its best monthly return since 1991, rebounding by 10.9%.

The total fund performance on the fiscal year ranks the RSA in the 35th and 46th percentile on a relative basis versus all the public funds in the State Street universe and in the 47th and 60th percentile versus public funds with assets greater than $1 billion. On a segment performance basis, RSA domestic equity returns ranked in the 38th percentile, RSA international equity in the 42nd percentile, RSA fixed in the 36th percentile, and RSA cash management in the 21st percentile.

The discrepancy in performance versus our peers with over $1 billion in assets is due to the private equity component, which is not valued in real time. While most state pension funds have a June fiscal year end, the RSA has a September fiscal year end, which ends up comparing apples to oranges with respect to this line item. In an attempt to normalize this difference, our finding was that private equity, which on average represented a 6.4% allocation in our peer universe, showed a positive 2.2% return in the final quarter of the fiscal year for the peer group. Given the S&P 500 fell 13.8% in the final quarter of the year, these returns are clearly not marked to market.

The following chart conservatively attempts to mark those returns to market by assuming the returns fell by roughly half of what the public equity markets fell in the quarter. Under this conservative assumption, the median peer total return falls to 1.48% versus 2.2% and 1.8% for the ERS and TRS systems respectively. ■

Private Equity Quarterly Returns As Reported

Dec	5.29%
Mar	4.93%
June	5.02%
Sept	2.02%
FY Return	18.37%

	Weight	Return	Contribution
Private Equity	6.38%	18.37%	1.17%
All other assets	93.62%	1.04%	0.97%
50th Percentile Total Return			2.15%

Private Equity Quarterly Returns After Adjustment

Dec	5.29%
Mar	4.93%
June	5.02%
Sept	***-7.00%***
FY Return	7.91%

	Weight	Return	Contribution
Private Equity	6.38%	7.91%	0.50%
All other assets	93.62%	1.04%	0.97%
50th Percentile Total Return			***1.48%***

Navistar Will Impact The Shoals

By David G. Bronner

The Shoals and Alabama are very excited about the major expansion of Navistar into the area. Navistar has been building engines in Huntsville for the last ten years and will now have a plant that allows it to expand in any direction that Navistar desires.

NAVISTAR

The Alabama Development Office (ADO) analysis of the project is truly exciting for the entire state. The ADO says 1,800 direct jobs will create 8,857 indirect jobs for a total job count of 10,657. Put another way, the direct and indirect earnings from these jobs will create $270 million in annual payroll earnings for the Shoals region. ■

Montgomery Advertiser Editorial

Overall, Alabamians pay less in taxes than their counterparts in just about every other state, yet complaints about "high" taxes still abound. One reason is the ridiculous sales tax rates paid by Alabamians, shown by a new study to be among the highest in the nation.

Year in and year out, Alabamians rank in the bottom two or three states in the

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overall amount of taxes they pay. That is true whether the taxes are measured simply on the average amount paid, or whether the comparison is based on the percentage of income Alabamians pay in taxes.

Despite the gripes, there is no getting around it – Alabamians don't pay much in taxes when compared to people in other states.

But what they do pay are high sales tax rates. And because sales taxes are so obvious to most residents – after all, you shell out those taxes in small bits almost every day – the impression is left that taxes are high.

Meanwhile, Alabama's property taxes are among the lowest in the nation. Its income tax rate is relatively low, and the state allows so many deductions that the effective income tax rate is even lower.

The new study by the Tax Foundation found that the average of city, county and state sales taxes in Alabama is 8.64 percent, which is the sixth highest in the nation.

But don't blame state government for those high sales taxes. The state's sales tax rate is only 4 percent, which ranks it in a tie for the second lowest state sales tax among the 45 states that collect a statewide sales tax. Only Colorado is lower at 2.9 percent.

It is the sales tax tacked on by cities and counties that push Alabama's sales tax rate to such comparatively high levels.

The state and local rates are combined to get Alabama's overall rate of 8.64 percent.

According to The Associated Press, the Tax Foundation used population to weight the figures. For example, Montgomery's sales tax would carry more weight in the calculations than a lower rate in a small town paid by fewer people.

So what does it mean to the state to have some of the lowest overall taxes while also having some of the highest sales taxes?

For one thing, it means that low-income Alabamians pay an inordinately high share of their income in taxes while middle- and high-income taxpayers pay a very low share in taxes. That raises serious questions about fairness.

And since sales taxes are so volatile in a down economy, it means that state and local governments are battered by every major downturn.

But one of the most significant impacts of this disparity between low overall taxes and high sales taxes is that it persuades so many Alabamians that they are taxed at a high rate when in fact they aren't.

Alabama needs more revenues for such things as education and health care. But even if the state kept its overall tax burden at its current low rates, Alabama state and local governments would be better off if they had a better balance in how they taxed their citizens. ■

Fairness goal of sales tax reform

By Luke Kenley, CNHI News Service

With the rapid growth of Internet retail sales, two things have occurred that require an adjustment in our sales tax system.

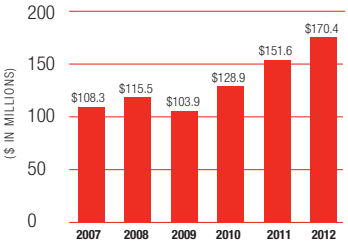
First, bricks-and-mortar retailers in our hometowns, and in states large and small, are placed at a competitive price disadvantage. They have to add on a sales tax, then collect and remit it to the state, the Internet retailer doesn't, although the tax liability still exists.

That price difference, particularly on large-ticket items or in places with a high sales tax, drives purchase decisions. The very retailers who support our communities by paying taxes, hiring employees and providing local choices have to overcome the price advantage given to the remote retailer who does not support our community, does not hire our people and is not readily available to solve purchase problems.

Secondly, the sales tax system itself, which to date has been grudgingly accepted because it basically treats everyone the same, has become discriminatory. You now pay the sales tax depending on whether you made a purchase from a store or over the Internet.

GROWING CONCERN

This chart shows estimated year-by-year local and state tax revenue loss from e-commerce for **Alabama**:



Source: Center for Business and Economic Research, University of Tennessee

None of us like to pay taxes. But we tolerate them as long as they are fair to all, because we know we need some public services. When tax systems are perceived as unfair, people try to find ways around them.

The current sales-tax system makes criminals of those who don't pay their "use tax" for online purchases when they file their state income tax returns. Every state with a sales tax has this alternative use tax: If the seller doesn't collect a sales tax at the time of purchase, buyers have the obligation to report and remit the tax themselves. But few do.

These problems need to be corrected, both to provide the Main Street retailer with a level playing field, and to provide fairness in the sales tax system.

The Main Street Fairness Act filed by U.S. Sen. Dick Durbin, D-Ill., will correct these problems. It builds on the Streamlined Sales Tax Agreement that now includes 24 states with uniform definitions of what's taxable, along with a single-point sales-tax remission system, and a simplified sales-tax code.

Through this agreement, these 24 states – and others that join in – are relieving the undue burden on interstate commerce which may have existed in the past.

The act provides that if a state adopts the Streamlined Sales Tax Agreement and helps build this national uniformity, the state may then require remote retailers to collect and remit the sales tax.

To help make it work, the Streamlined Sales Tax Governing Board has software to collect the tax for the online retailer and remit it to the state at no charge to the remote retailer. It ensures that there are no extra costs to the online retailer for collecting the sales tax.

Obviously, more tax revenues will be collected by the states, since there has been tax avoidance under the current system. How those funds are used is up to the states. In Indiana, we hope to use the extra revenue to eliminate an outdated and unfair inheritance tax.

Most important is the need to establish equity for all retailers and to update the sales tax system so it is shared fairly by digital age consumers. ■

Luke Kenley is the Republican chairman of the Indiana Senate Committee on Appropriations, and president of the Streamlined Sales Tax Governing Board, a coalition of 24 states that have agreed to simplify their sales tax systems.

PROJECTED STATE COSTS FOR 2012 - 2013

Projected **Retirement** Employer Cost
Retirement Systems of Alabama
(Amounts in millions)

Retirement	Actual 2010-2011	Estimated 2011-2012	Estimated 2012-2013
Teachers'	$780	$621	$693
Employees' Regular-State	187	153	172
Judicial	11	11	13
Total Retirement Cost	$978	$785	$878

Projected **Insurance** Employer Cost
Retirement Systems of Alabama
(Amounts in millions)

Insurance	Actual 2010-2011	Estimated 2011-2012	Estimated 2012-2013
PEEHIP (Teachers)	$954	$879	$976
SEHIP (State Employees)	358	329	346
Total Insurance Cost	$1,312	$1,208	$1,322

Note: PEEHIP numbers include amounts from Universities for retiree costs

SCHEDULE OF FUNDING PROGRESS
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN (PEEHIP)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/2005	0	14,611,991,403	14,611,991,403	0	4,733,415,807	308.7%
9/30/2006	0	12,532,330,293	12,532,330,293	0	5,458,443,133	229.6%
9/30/2007	400,783,000	12,965,397,562	12,564,614,562	3.1%	5,897,771,699	213.0%
9/30/2008	579,813,000	13,224,410,942	12,644,597,942	4.4%	6,294,341,264	200.9%
9/30/2009	670,004,000	11,915,692,108	11,245,688,108	5.6%	6,236,921,598	180.3%
9/30/2010	750,384,000	11,584,965,113	10,834,581,113	6.5%	6,183,204,075	175.2%

Ross Bridge Named One of *Golf Digest's* Best North American Golf Resorts – Compare the Prices!

Source: Market Wire

When naming the "75 Best Golf Resorts in North America" for its November 2011 issue, *Golf Digest* magazine had 1,000 course-ranking panelists evaluate each golf resort's overall quality, not strictly its golf course or courses. Pebble Beach, The Cloister, Greenbrier, Broadmoor, Pinehurst, and countless Ritz-Carltons and Four Seasons all made the list, as expected. However, so did Renaissance Ross Bridge Golf Resort & Spa on the Robert Trent Jones Golf Trail. All are exceptional golf resorts – without question.

Now look at the average room rates each resort provided and eyebrows start to rise.

- Pebble Beach Resort/Inn at Spanish Bay – $615 per night.
- Sea Island Resorts, The Cloister & The Lodge – $525 per night.
- The Greenbrier – $359 per night.
- The Broadmoor – $360 per night.
- Pinehurst Resort – $340 per night.
- Ritz-Carlton, Half Moon Bay – $545 per night.
- Four Seasons Resort Jackson Hole – $625 per night.
- Renaissance Ross Bridge Golf Resort & Spa – $189 per night.

Golf Digest certainly was not the only national magazine looking to rank resorts on quality for the benefit of their readers. When *Conde Nast Traveler* named its Readers Choice Awards, the Grand Hotel Marriott Resort, Golf Club & Spa was listed for the second year in a row as one of the top resorts in the world. *Travel + Leisure* magazine has been a fan of the RTJ Golf Trail and its Resorts. The Grand Hotel Marriott Resort, Golf Club & Spa was ranked one of the "Top 500 Hotels in the World" for 2011 and highlighted as a great value. Renaissance Ross Bridge and the Battle House Hotel both are alumni of this world ranking, as well.

To learn more about Renaissance Ross Bridge and the other seven hotels and 25 courses on the Robert Trent Jones Golf Trail, visit www.rtjresorts.com or call 1.800.949.4444.

About the Renaissance Birmingham Ross Bridge Resort & Spa: This four diamond resort – a standout among hotels in Birmingham, Alabama – has 259 guest rooms, with balconies overlooking the second longest 72–par golf course in the world at 8,191 yards from the tips. For the highest standard in luxury, visit the Birmingham golf resort's 12,000 square-foot European spa and salon. Ross Bridge consistently remains among the top Renaissance hotels in the world for guest satisfaction and overall style. ■

ENJOY YOUR WINTER
A Special Deal
FOR RSA MEMBERS

The Battle House,
A Renaissance Hotel – Mobile – $99
- December 1-2, 11-14, 18-29
- January 1-3, 11-17, 20, 29-31
- February 1-2, 6-9, 12-14, 22-28

The Renaissance Riverview Plaza – Mobile – $89
- December 1, 6-31 • January 1-3, 8-16, 20, 29-31
- February 5-6, 22-23, 26-28

Marriott Grand – $99 plus a 15% resort fee
- December 4-5, 9, 11-22, 26-29 • January 1-16, 20-31
- February 1-2, 5-6, 11-12, 19-29

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
- December 4-5, 9, 11-22, 26-29 • January 1-16, 20-31
- February 1-2, 5-6, 11-12, 19-29

Marriott Shoals – Florence – $89
- December 3-5, 11-12, 18-28
- January 1-7, 15-19, 22-26
- February 5-7, 19-21, 23, 26-28

Renaissance Ross Bridge – Hoover – $99
- December 1, 4-8, 11-30 • January 1-10, 15-18, 22-26, 29-31
- February 1-2, 5-9, 12-16, 19-20, 28

Opelika Marriott – $89
- December 4-9, 15, 18-31
- January 1-8, 11-12, 15-17, 19-24, 26-31
- February 1-4, 8-15, 17-19, 23-29

Prattville Marriott – $89
- December 2, 4-6, 8-11, 13-31
- January 1-3, 6, 8-9, 13-18, 21-24, 27-30
- February 2-4, 10-14, 16-21, 26-27

Renaissance Montgomery – $99
- December 3-4, 10-11, 17-31
- January 1-2, 8-9, 12, 15-16, 21-23, 29
- February 2, 5, 19-20

RSA Spa Package – **$159**
Ask for code – LOCD Includes Deluxe Room
- December 20-22, 27-29 • January 12 • February 2

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.

ALLKids Extends the Enrollment Deadline to December 31, 2011

Good news regarding the ALLKids program! ALLKids is extending the deadline to December 31, 2011, to allow SEIB members to enroll their eligible dependents without having a 3-month waiting period. Therefore, our members can continue to enroll their eligible children under the age of 19 from SEIB to ALLKids and not have a break in coverage. These changes can be made outside of the SEIB Open Enrollment period.

Over 2,200 children have moved from SEIB to ALLKids since April 2011 when the program started allowing dependent children of public employees to participate. For more details about enrolling, please visit the ALLKids web site at www.adph.org/allkids, or call ALLKids toll free at 888-373-KIDS(5437). Don't miss this new deadline! Submit your enrollment application to ALLKids before it is too late!

2011 Tax Reporting

The RSA will mail 1099Rs during the last week of January 2012. Information to assist you in the tax reporting of your retirement benefit will be available on our Web site at www.rsa-al.gov after January 9, 2012. This information can also be obtained by contacting Member Services toll-free at 1.877.517.0020 or 334.517.7000. Additionally, you may email your request for the information to member.services@rsa-al.gov.

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