



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 335,000 MEMBERS

December 2014



For Our Critics – “Have a Nice Day” 2014 Great Performance



BY MARC GREEN, CIO

	Annualized			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	12.13%	15.09%	10.97%	6.43%
ERS	12.02%	14.85%	10.93%	6.15%
JRF	12.45%	15.14%	11.17%	7.17%

Fiscal year 2014 was another good year in the capital markets with positive returns in all asset classes of the portfolio. The total returns for the TRS, ERS, and JRF were 12.13%, 12.02%, and 12.45% respectively. **These results ranked the funds in the 13th percentile of the State Street Public Funds Universe (70 funds over \$1 billion) for the one-year and three-year period, and the top quartile for the past five years in aggregate.**

Good results in our private placement portfolio, a big skew towards large capitalization stocks and an overweighting in domestic vs international equities drove the outperformance. Given the lower interest rate environment and a small chance of an earnings recession, we view the overweight weighting in stocks versus bonds as still having merit. ●

Ending Defined Benefit Plans Would Worsen New Jersey’s Pension Debt

BY JON WHITEN, NJPP

Moving new employees out of defined benefit pension plans (like RSA) and into 401(k)-type retirement accounts would not reduce New Jersey’s crushing pension debt and could cost taxpayers \$42 billion for the transition, according to a study released by New Jersey Policy Perspective and the Pennsylvania-based Keystone Research Center.

“Most states that have considered switching employees to 401(k)-type accounts have rejected doing so because it risks putting a severe burden on taxpayers,” said Dr. Stephen Herzenberg, Keystone Research Center economist and author of the report. “The three states that have actually gone forward have seen pension debt mushroom. It’s a policy prescription that New Jersey taxpayers simply can’t afford.”

While no actuarial studies have yet been conducted of the cost of a switch to

401(k)-type accounts in New Jersey, Pennsylvania conducted studies of pension plans with the same unfunded liabilities and pension assets as New Jersey’s just last year. These studies found that closing existing pension plans to new employees would increase pension debt by \$42 billion. Given the nearly identical size and funded status of New Jersey’s plans, \$42 billion is a close estimate of the cost of a switch to 401(k)-type accounts in New Jersey. This cost is driven by the fact that investment returns of defined benefit pension plans gradually fall once they close to new employees and their only remaining members are retired or approaching retirement.

Studies of proposals to switch to of 401(k)-style plans in a dozen other states also found that this change would increase pension debt by reducing investment returns.

The NJPP/KRC report also examines the experiences of Alaska, Michigan, and West Virginia, all of which moved their public employees into 401(k)-style plans in an effort to reduce pension debt.

- In Alaska, pension debt ballooned from \$5.7 billion to \$11.9 billion.
- In Michigan, debt grew from \$697 million to \$5.4 billion.
- West Virginia reopened its pension plan after its 14-year experiment with 401(k) plans. The state’s pension fund had reached a rock-bottom funding ratio of 18 percent, and retirees with defined contribution accounts averaged \$23,193 in their “nest eggs” and were increasingly reliant on social welfare programs.

State of Alabama v. Gregory Aziz Results in Settlement

Bryce Graham, District Attorney for the 31st Judicial Circuit, Colbert County, Alabama; and Joseph Borg, Director of the Alabama Securities Commission (ASC) announced that State of Alabama v. Gregory Aziz has resulted in a settlement that requires Aziz to pay \$21,000,000 in damages to the Retirement Systems of Alabama (RSA), and to reimburse the Alabama Securities Commission and the Colbert County District Attorney's Office for investigative costs associated with the case. Aziz was charged in November 2013 with 11 Counts of Securities Fraud. According to the indictment and the settlement agreement, Aziz was granted a three-year loan of \$350,000,000 dollars by RSA to construct a railcar plant in Colbert County, Alabama. Aziz was to have paid interest to RSA on the loan at 9%. The plant was supposed to employ 2200 people and was, at the time, thought to be a major industrial development project for the State of Alabama. At the conclusion of the construction, Aziz was to obtain long-term financing through an alternate source.

To induce RSA to make the loan, Aziz represented that he could build the plant for \$350,000,000, that he owned a railcar manufacturing company in Canada worth over \$200,000,000 that was debt free, that he had access to an unused line of credit of \$100,000,000, and that he owned the unencumbered rights to the patents necessary to build numerous types of railcars in Alabama. Aziz failed to disclose to RSA that before he spent any of the original

loan proceeds he knew that the plant would cost well in excess of \$350,000,000, or that his company had incurred over \$100,000,000 in long-term debt, no longer had the \$100,000,000 line of credit, and had granted liens on the railcar patent rights which would have required him to get permission from a third party to build the railcars in Alabama. As a result of Aziz's failure to notify RSA of these events, RSA was required to expend an additional \$215,000,000 to complete the railcar plant and in 2010 took over ownership of 100% of the stock in the plant from Aziz.

A forensic audit and the criminal investigation conducted by the ASC reflects that of the \$565,000,000 ultimately spent by RSA on the railcar plant, \$554,000,000 was, in fact, expended to construct the plant, to buy state of the art equipment necessary to build railcars, and thereby to make the plant completely ready to construct railcars. Aziz and related parties were to receive approximately \$3,600,000 to oversee the construction of the facility. However, the audit revealed that Aziz actually received approximately \$11,400,000, approximately \$7,800,000 more than originally agreed. The \$21,000,000 paid to RSA in damages is to reimburse them for all money paid to Aziz and includes an additional \$10,000,000 in damages. The \$21,000,000 received by RSA will be transferred back to the retirement funds managed by RSA on behalf of teachers and state employees. Because Aziz has

repaid the \$11,400,000 received by him from RSA to manage the construction of the railcar plant, paid approximately \$10,000,000 in additional damages to RSA (for a total of \$21,000,000), and has voluntarily forfeited all right, title and interest in the railcar plant, prosecutors have agreed that the charges against Aziz will be dismissed. Aziz spent 12 months confined on an ankle bracelet in Colbert County, Alabama, during which this settlement agreement was proposed by Aziz and agreed to by the ASC.

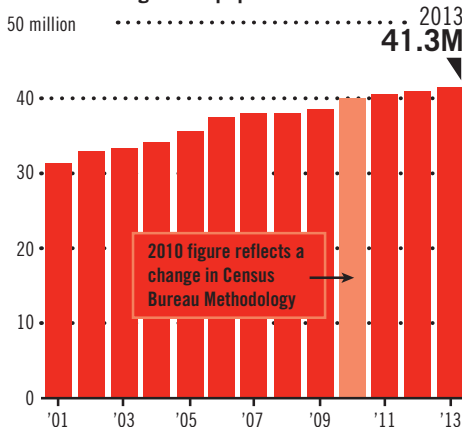
ASC Director Joseph Borg said, "This settlement was entered into after extensive forensic investigation and only after conferring with the Colbert County District Attorney's Office and RSA, the victim in the case. The recovery of \$21,000,000 by the Teachers' and Employees' Retirement Systems, the fact that Aziz paid double damages on any profit he made, and that RSA now owns 100% of the plant they paid to build should discourage others in the future from making inaccurate financial representations when doing business in the State of Alabama." ASC Director Joseph Borg and Colbert County District Attorney Bryce Graham said, "We are proud to have been able to work together in an outstanding collaborative effort and we commend our staffs for their hard work on this case."

(Editor's note: A serious **thank you** to Joseph Borg, his staff and D.A. Bryce Graham and his staff. The plant is fully leased to Navistar and FreightCar America. They are also expanding operations.) ●

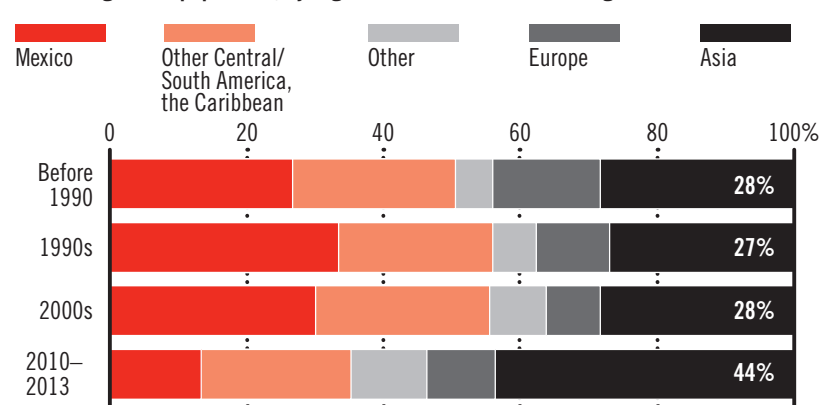
COMING TO AMERICA

Immigration is gaining traction as the economy improves, but its face has changed since the recession – recent arrivals are less likely to be from Latin America and more likely to be Asian.

Total U.S. foreign-born population



2013 foreign-born population, by region of birth and decade of migration to the U.S.



Projected State Costs for 2015 – 16

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

Retirement	Actual 2013–2014	Estimated 2014–2015	Requested 2015–2016
Teachers'	\$729	\$744	\$757
Employees' Regular-State	164	182	198
Judicial	16	16	18
Total Retirement Cost	\$909	\$942	\$973

FY2016 Increase in ERS primarily due to 2014 COLA funded in FY2016

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

Insurance	Actual 2013–2014	Estimated 2014–2015	Requested 2015–2016
PEEHIP (Teachers)	\$887	\$959	\$994
SEHIP (State Employees)	320	316	336
Total Insurance Cost	\$1,207	\$1,275	\$1,330

Note: PEEHIP numbers include amounts from Universities for retiree costs
Note: FY2016 estimated cost of PEEHIP totals \$1.46 billion

Grand Hotel Awards

BY MARC D. ANDERSON | AL.COM

Continuing its string of accolades, the Grand Hotel Marriott Resort, Golf Club & Spa was named one of the top Southern resorts by *Conde Nast Traveler* magazine. With a paid subscription audience of 822,000 and a total reported reach of 3.4 million people, the luxury and lifestyle travel publication's 2014 Readers' Choice Awards rated the 167-year-old Point Clear hotel the 18th "Best Resort in the South."

Traveler has taken notice of the Grand in other ways, too. In 2013, it was ranked No. 28 in the magazine's Top 100 Resort Spas, and in August it jumped from 15th place to No. 11 among the Top 20 Resorts in the South. Other honors have included *ConventionSouth* magazine readers voting the Grand a Readers' Choice Award winner for best meeting sites in the South, and the publication also named it one of the "South's Top 18 Golf Resorts for Groups."

In 2013, the Historic Hotels of America named the Grand the "Best Historic Hotel" in the country. *Travel & Leisure* magazine also listed "The Queen of Southern Resorts" as one of the Top 500 Hotels in the World for 2013, and the only hotel in Alabama, Mississippi and the Florida panhandle to make the list. ●

RSA's Newspaper Group Honored

Editor & Publisher magazine has named North of Boston Media Group, headed by Karen Andreas, "Publisher of the Year." Community Newspaper Holdings, Inc., with headquarters in Montgomery, is the parent company to North of Boston Media Group. CNHI operates in 22 states and provides RSA with revenue and support for Alabama tourism.

The award normally goes to the large papers, like the *New York Times* or the *Chicago Tribune*. Such an award to smaller papers is an exciting achievement for CNHI and the RSA. ●

RSA's TV Group Honored

TVNewsCheck
THE BUSINESS OF BROADCASTING

RAYCOM TAPPED AS TVN'S TOP STATION GROUP
BY STAFF TVNEWSCHECK

TTVNewsCheck today named Raycom Media Group as its Station Group of the Year for 2015, citing its innovative approach to technology, digital media and programming.

"Under the bold direction of CEO Paul McTear for the past 13 years, the group has grown considerably and emerged as an industry leader," said TVNewsCheck Editor Harry A. Jessell. "The honor is well deserved."

"Raycom is at the forefront of broadcasters that are developing their own daytime and evening programming," Jessell said. "And it was among the first groups to plunge deeply into online media with its investment in World-Now in 2000.

"Raycom continues to excel in local news because it recognizes that its future lies in local services and because it has embraced transformative news technologies like Bitcentral and Live Link," Jessell added.

McTear joined Raycom in 1997 as chief financial officer and took over as president and CEO upon the retirement of John Hayes in 2001. On McTear's watch, Raycom acquired the stations of Liberty Corp. in 2006 and those of Lincoln Financial in 2008.

With 53 stations covering more than 13% of U.S. households, the group now ranks No. 11 (by spot revenue) on the BIA/Kelsey-TVNewsCheck Top 30. ●



Start Planning Your Holiday Getaways at RSA's Outstanding Hotels, Spas, and RTJ Golf

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MONTGOMERY, ALABAMA 36130-2150



**Member Hotel
Discounts Webpage**

ENJOY YOUR WINTER
A Special Deal
FOR RSA MEMBERS

**The Battle House,
A Renaissance Hotel—Mobile—\$109**
• December 1-26 • January 12-13, 25-29
• February 1-5, 15-28

The Renaissance Riverview Plaza—Mobile—\$99
• December 1-26 • January 12-14, 25-29
• February 4-5, 18-23

Marriott Grand—\$109 plus a 15% resort fee
• December 1-3, 5-7, 13-22, 26-30
• January 1-11, 16-19, 24-25, 29-31
• February 1-5, 8-10, 17-19, 22

**Marriott Grand—RSA Golf Package—\$179
plus a 15% resort fee —Promotional code—R2A**
Includes: Deluxe Room, One Round of Golf for Two People.
Call for Tee Times after booking package
• December 1-3, 5-7, 13-22, 26-30
• January 1-11, 16-19, 24-25, 29-31
• February 1-5, 8-10, 17-19, 22

**Marriott Shoals—Florence—\$99;
Breakfast Package \$124**
• December 4, 7-8, 11, 14-15, 21-30
• January 1-5, 9-12, 15-18, 22-23, 29-31
• February 6-9, 15-16, 19-22, 26-28

Renaissance Ross Bridge—Hoover—\$109
• December 1-31 • January 1-10, 14-31
• February 1-4, 8-12, 14-16, 19-21, 25-28

Opelika Marriott—\$99
• December 1, 3, 5-11, 14-18, 20-31
• January 1-20, 23-29 • February 1-2, 8-11, 22-28

Prattville Marriott—\$89
• December 3, 5, 7, 10-31
• January 1-6, 11-12, 15-19, 23-27, 29-31
• February 1-8, 14-17, 21-28

Renaissance Montgomery—\$109
• December 9-10, 12-13, 21-30
• January 1-15, 24-25, 30-31
• February 1-4, 8-9, 19
RSA Spa Package—**\$189—Promotional code—R2A**
• December 9-10, 12-13, 23, 30
• January 2-3, 6-10, 13-15, 24, 30-31
• February 3-4, 19

*Specific room requests may require additional charge.
Rates available the 1st of the month and
are not applicable to groups.*

800-228-9290 Ask for RSA rate. **Promotional
Code: R2A** on www.rsa-al.gov
Book Online and Save RSA \$4.

Ending Defined Benefit Plans Would Worsen New Jersey's Pension Debt

CONTINUED FROM PAGE 1

The report also shows that defined contribution systems deliver “less bang for the buck” for public workers and taxpayers. Current New Jersey public retirees receive a modest average annual pension benefit of \$26,000 per year. A defined contribution plan would require 45 to 85 percent more in contributions to deliver the same level of retirement benefits, according to the National Institute on Retirement Security, because of higher fees charged by financial firms and because individuals investing on their own achieve lower returns than professionally managed pension plans.

“New Jersey pension systems have been wildly underfunded since 2000, and Gov. Christie’s decision to cut \$2.5 billion in promised pension funding has significantly exacerbated the problem,” said Gordon MacInnes, president of New Jersey Policy Perspective. “What we need is for the state to make good on its funding promises. What we don’t need is to move state employees into a risky new system that will make our funding problems worse and their retirements more insecure.” ●



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