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SERVING OVER 339,000 MEMBERS

July 2015

## For The First Time in Decades ERS Members Lose Control of Investments

BY DAVID G. BRONNER

In a surprise move at last month's ERS Board meeting, the Retired State Position member, Mr. Jimmy Rowell, handed over the ERS Investment Committee to politicians.

Mr. Rowell made the motion and Finance Director Bill Newton made the second to put the State Treasurer in Mr. Rowell's Investment Committee position without discussion. Mr. Newton had tried at a TRS meeting to elect his choice for chairperson for TRS Board. For the first time in decades, two politicians control the ERS Investment Committee, with one not being an ERS member.

These two politicians (Newton and Boozer) might be outstanding, but those who succeed them could cause serious problems that have occurred in numerous other states where politicians abused the pension funds for their personal gains. RSA members kept these politicians out of control in past decades for some very good reasons!

Both the TRS and ERS have three-member investment committees, with the state finance director as a member of both. But, members of the systems had control of investments because only

two of the three votes were needed after a staff recommendation. The Investment Committee cannot make the investments without the RSA CEO and RSA bank advisor recommendation; their only purpose is to accept or reject the recommendations.

WHY is this so very important? Two of RSA's largest and very best performing investments were rejected by past finance directors, but it did not matter because the members controlled the two votes.

Past politicians did not like the idea of investing in the second largest office building in America (55 Water St.) and being "way off" in New York City. The RSA has well over a BILLION dollar profit in that investment. Nor did they like buying television stations that have been extremely successful for the RSA and Alabama.

When I came to the RSA, the TRS had \$350 million – today it has \$23.0 BILLION. The ERS had \$150 million – today \$11.1 BILLION. During this time period, the TRS paid out \$27.9 BILLION and the ERS \$12.9 BILLION in retiree benefits. Members of the TRS and ERS must stay actively involved or suffer the consequences. ●

## Teachers Want to Know: Are ERS Actions Influencing TRS Investments?

BY DAVID G. BRONNER

The TRS Board met in late June and did not take up the Investment Policy implemented by the ERS Board. I believe the TRS plan is in the solid hands of TRS members as long as they remain in control of their funds.

The political "game plan" utilized by Bill Newton and Young Boozer on the ERS Board – who are also on the TRS Board – was the following: first, get rid of a chairman or vice chairman that supports the staff; second, come up with a "new investment policy" (even though the old one got the investment results into the top 25% for pension funds for the last five years, and the top 13% for the last three years) that makes our jobs more difficult; and third, elect an ex-officio to the Investment Committee so the Finance Director can control investments.

The 13-member ERS Board has only six elected members

on the ERS Board, with three appointed by the Governor and four ex-officio members. Previously no other governor – except Governor Folsom who rescinded it within weeks after extreme negative reaction across the state – has tried to control the ERS investments.

It should be noted that Governor Folsom's finance director's choice to run the ERS investments later worked for Maryland's pension plan and was convicted and served time in federal prison.

The 15-member TRS Board has 12 elected members with only three ex-officio positions. Therefore, the TRS Board can and should keep politicians from controlling the TRS investments by merely staying united. ●



# Joint Legislative Committee on Alabama Public Pensions

BY NEAH MITCHELL, LEGISLATIVE COUNSEL

**D**uring the recent legislative session, the Alabama Legislature created the Joint Committee on Alabama Public Pensions (Act 2015-498/HJR288). This committee is composed of 16 legislators who will meet once a month from now until next legislative session. They will study RSA pension benefits and retiree health insurance benefits administered by PEEHIP and SEIB. They will present any recommendations they may have to the entire Legislature at the beginning of the next legislative session.

The utmost goal for both the Legislature and the RSA has always been to ensure the long-term financial health of the system so that the promised benefits can continue to be paid to RSA's members. In consideration of that goal, both the Legislature and the RSA have taken actions to ensure the financial soundness of the system.

The Legislature has enacted a number of pension reforms, including the creation of Tier II, which will reduce long-term

costs to taxpayers while still providing a great retirement benefit for state employees and teachers. The ERS and TRS Boards have enacted fiscally conservative funding policies that will ensure that the unfunded liability will be paid off.

The RSA Investment Staff has produced outstanding investment returns (an average of almost an 11% annualized return over the past five years at some of the lowest investment costs in the nation) that will help offset investment losses from the recent recessions.

Nationwide, there have been concerns about public pensions' unfunded liability. The Committee will address these concerns and determine if additional improvements can be made to the system to further enhance its soundness. The RSA looks forward to working with the Committee to educate its members about the RSA and to examine how the system can be further improved. ●

## Summary Economic Impact of The Robert Trent Jones Golf Trail on Alabama

EXCERPTED FROM *THE ROBERT TRENT JONES GOLF TRAIL: HISTORY AND IMPACT* BY DR. MARK FAGAN

**T**he RTJ Golf Trail in Alabama has 11 golf complexes (468 holes); 8 hotels (2,065 rooms, 326,000 sf of meeting space); and 5 spas (38 treatment rooms). The Retirement Systems of Alabama (RSA) financed the construction of these facilities. There have been 8,306 houses constructed on property adjacent to golf courses on The Trail. There has been \$500 million in commercial development generated on sites near The Trail.

The total construction cost for the golf complexes, hotels, spas, houses, and commercial buildings is estimated at \$4.2 billion. The total output from this construction spending was \$9.1 billion with total earnings of \$3.1 billion, \$4.9 billion of value added and 82,543 total jobs created. There has been more tax revenue generated in Alabama from this total construction spending than the initial investment by RSA.

The Trail has produced an average of 500,000 rounds per year for 20 years with half of those rounds coming from out-of-state

golfers. Alabama tourism spending in 1990 was \$3.3 billion and in 2014 was \$11.8 billion; an annual increase of \$8.5 billion. The annual state and local sales taxes from this spending increased from \$330 million to \$1.2 billion, an increase of \$870 million. Annual state/local lodging taxes increased from \$41 million to \$116 million. The total tourism jobs increased from 121,000 to 167,000, an increase of 46,000. Since 1990, there has been \$98 billion in extra tourism spending; \$10.5 billion in extra sales and lodging taxes; 262 more hotels/motels; and 25,000 more hotel/motel rooms.

The Trail has helped to bring retirees to Alabama. There were 9,549 more older interstate migrant households in Alabama in 2012 over the 1990 rate. These retiree households represent \$506 million in increased annual income, \$2.2 billion in increased financial assets, and 26,000 jobs over the level in 1990. ●

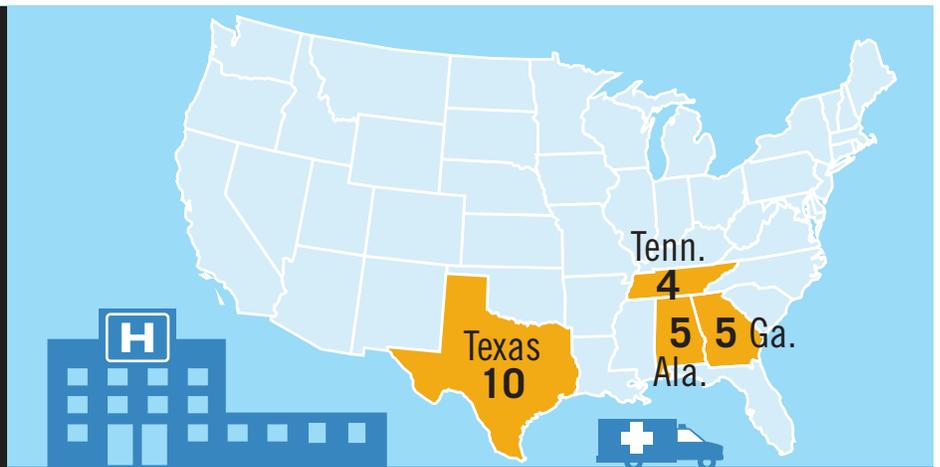
## Demise of Rural Hospitals

Since 2010, 50 rural hospitals — with a total of 1,794 beds — have closed. States that lost the most:

**Note:** Non-federal, general acute care hospitals.

**Source:** National Rural Health Association; shepscenter.unc.edu; data through April 7

USA Today





# 2015 Legislative Update

BY NEAH MITCHELL, LEGISLATIVE COUNSEL

The 2015 Regulation Legislative Session ended on June 4, 2015. The session was difficult for lawmakers who faced a major shortfall in anticipated revenues for the General Fund in the upcoming fiscal year and were unable to reach a consensus on how to address this shortfall.

As a result, no General Fund budget was enacted and lawmakers will be called back by the Governor for a special session to enact a budget. The Legislature did enact an Education Trust Fund budget which fully funds TRS and appropriates almost a billion dollars in funding for PEEHIP.

In addition, SB411, sponsored by Senator Arthur Orr, was enacted (Act 2015-498). This Act reforms retirement benefits for judges who are newly elected or appointed after November 8, 2016. It also provides that district attorneys and circuit clerks newly elected or appointed

after this date will no longer participate in the supernumerary program, but will participate in the Judicial Retirement Fund. The Act is contingent on the passage of a constitutional amendment (Act 2015-342) to allow the district attorneys and clerks to participate in JRF.

The Legislature also enacted Act 2015-410 (HB562), sponsored by Representative Ron Johnson, which increases the return to work compensation limits to \$30,000 for calendar year 2016. This amount would be increased every calendar year after in accordance with the Consumer Price Index.

A number of other bills were enacted that will impact the RSA, including the following:

- **Act 2015-26 (SB35/Allen):** This act proposes a constitutional amendment to allow Lamar County sheriffs to

participate in ERS.

- **Act 2015-82 (HB39/Chesteen):** This act requires the issuance of an employee benefit statement for each fiscal year for active and retired state employees and teachers.
- **Act 2015-256 (HB29/Wood):** This act allows ERS members to purchase service credit for time when the member was away from work because of a job-related injury and was receiving workers' compensation benefits.
- **Act 2015-338 (HB31/Faust):** This act proposes a constitutional amendment to allow Baldwin County mayors to participate in ERS.
- **Act 2015-444 (SB298/Marsh):** This act will allow ERS local units to elect to provide the one-time retiree bonus allowed for under legislation from the prior session (Act 2014-429). ●

## Seniors Beware

EDITORIAL: MONTGOMERY ADVERTISER

When the Alabama Department of Human Resources opened an investigation into whether Harper Lee, author of "To Kill a Mockingbird," had been the victim of elder abuse, it was front-page news.

The agency eventually concluded the 88-year-old writer had not been harmed in connection with publication of a new novel and closed the investigation.

Unfortunately, most cases of actual elder abuse play out below the public radar, its victims unable to stand up for themselves.

As part of the Advertiser's Project 7 initiative on aiding River Region seniors, Kym Klass reported there are currently 17 elder-abuse cases open in Montgomery.

But an estimated 75,000 occur each year in Alabama, according to AARP, with most going unreported.

Cognitive impairments such as dementia, which affect as many as a half of Americans over 80, combined with frailty, leave seniors ripe for financial scams, physical, emotional or sexual abuse or other forms of mistreatment.

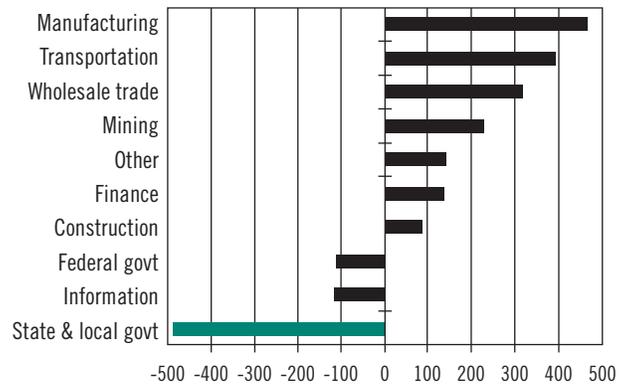
As baby boomers age and the elderly population increases, many more seniors will be at risk of abuse.

The scourge is no respecter of income, affecting seniors in every financial bracket. Nationwide, elders are scammed out of some \$2.6 billion annually, according to the U.S. Department of Health and Human Services.

Worst of all, some of the crooks who target the elderly are family members or supposed friends, making it harder to catch and hold them accountable. . . . ●

## Heaviest Weight on the Jobs Rebound

Net Change in employment since July 2009, ths



Sources: BLS, Moody's Analytics

## 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

# Get Going With Your Summer Break Getaway at RSA's Outstanding Hotels, Spas, and RTJ Golf

**RETIREMENT SYSTEMS OF ALABAMA**  
201 SOUTH UNION STREET  
P.O. BOX 302150  
MONTGOMERY, ALABAMA 36130-2150

**PRSR STD**  
**U.S. POSTAGE**  
**PAID**  
MONTGOMERY, AL  
PERMIT NO. 402



Member Hotel  
Discounts Webpage

ENJOY YOUR SUMMER/FALL  
A Special Deal  
FOR RSA MEMBERS

**The Battle House,  
A Renaissance Hotel—Mobile—\$109**  
• July 1-2, 5-9, 12-18, 26-30 • August 4-27, 30-31  
• September 1-20, 25-27

**The Renaissance Riverview Plaza—Mobile—\$99**  
• July 5-10, 18, 26-31 • August 1-12, 16-28  
• September 3-30

**Marriott Grand—\$109** plus a 15% resort fee  
• July 1, 5-7, 22, 29 • August 9-11, 16-18, 23-24  
• September 7-9, 27-28

**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  
• July 1, 5-7, 22, 29 • August 9-11, 16-18, 23-24  
• September 7-9, 27-28

**Marriott Shoals—Florence—\$99;  
Breakfast Package \$124**  
• July 2, 19, 30  
• August 2-3, 13, 16-17, 23-24, 27, 30  
• September 6-8, 13, 20, 27-28

**Renaissance Ross Bridge—Hoover—\$109**  
• July 1-2, 5-9, 14, 19-21, 28-30  
• August 4-5, 9-12, 16-17, 19-20, 23-27, 30-31  
• September 7-9, 13-17, 20, 24, 26-30

**Opelika Marriott—\$99**  
• July 1-2, 5, 26-30  
• August 2-5, 10, 16-19, 23-26, 30-31  
• September 1-3, 6-7, 13-14, 17, 20-22, 27

**Prattville Marriott—\$89**  
• July 1-6, 12-13, 19-20, 23, 26, 28-30  
• August 2-8, 12, 16-18 • September 4-6, 14, 18-21

**Renaissance Montgomery—\$109**  
• July 2-5, 12-15, 17-18, 25  
• August 2-13, 16-23, 27-31  
• September 6-8, 11-13, 27-30  
**RSA Spa Package—\$189—Promotional code—R2A**  
• July 2-4, 13-15, 17-18, 25  
• August 4-8, 11-13, 18-22, 27-29  
• September 8, 10-12, 29-30

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](http://www.rsa-al.gov)**  
**Book Online and Save RSA \$4.**

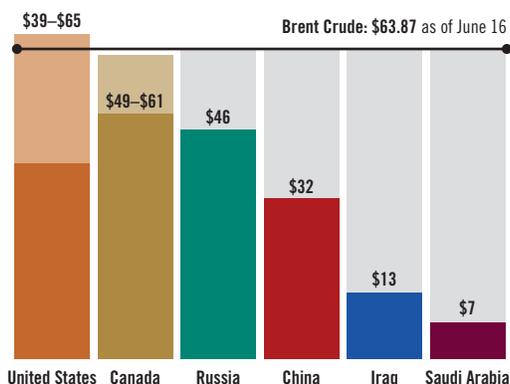
**MYTH:  
PENSIONS COST TOO MUCH**  
**FACT:  
CONTRIBUTIONS MADE  
BY STATE AND LOCAL  
GOVERNMENTS FOR DEFINED  
BENEFIT PENSION PLANS  
ACCOUNTED FOR ONLY 3.1%  
OF TOTAL SPENDING!**

Source: National Association of State Retirement Administrators

## CRUDE REALITY

Oil producers in North America have less of a cushion  
against lower prices than those in the Middle East.

**Break-Even Price** – The per-barrel price required to  
profitably pump oil over the long term



Source: Deutsche Bank (break-even prices) WSJ Market Data Group (oil prices)  
The Wall Street Journal



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