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SERVING OVER 330,000 MEMBERS

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Making RSA Stronger

By David G. Bronner

As I have written in recent *Advisor* articles, the RSA has been closely monitoring legislative proposals to reform pension law for Alabama teachers and public employees. The last decade of record low-market returns and interest rates, the increase in average life expectancies, and the shrinking ratio of public employees to retirees all work together to make pension reform necessary to more accurately reflect the realities of modern life and keep the RSA financially sound.

I have two pieces of wonderful news to report: First, I have reviewed the legislation to amend Alabama's public pension system to be proposed by Governor Bentley's administration. The proposed changes are reasonable and in line with reforms made by forty other states grappling with the same market conditions and demographics as Alabama. Most important to all of you reading the *Advisor*, the proposed changes **DO NOT AFFECT CURRENT PUBLIC RETIREES OR EMPLOYEES, WHETHER VESTED OR NOT**. Despite many rumors to the contrary, Governor Bentley's pension reform bill as drafted affects only new hires **after January 1, 2013**. No one who is retired or has state or teacher service prior to that date will see a change in the pension they were promised upon employment.

Second, the new pension plan will be a defined benefit plan for new hires very similar to the current plan. That is, public teachers and employees will, upon retirement, receive a set monthly benefit based upon the number of years of service and the average final salary. I have heard that many of our members were concerned that lawmakers wanted to replace the current defined benefit pension plan with a defined contribution plan, which does not guarantee a set retirement benefit. I am very happy to report that Governor Bentley and his staff listened to RSA's concerns about such a change and chose to propose reasonable reforms to the current system.

I believe the changes, as proposed, are fair and, most importantly, will result in a more secure and financially viable RSA for generations to come. Please keep in mind, however, that the proposed bill is subject to amendment during the legislative process. If amendments are made which substantially alter the scope of the pension reform bill, those changes may not be reasonable and may not be in the best interest of the members and retirees of the RSA.

Finally, please know that despite the lagging overall market the RSA is working diligently to maximize its investment

returns. For example, I testified before members of the Alabama House and Senate at joint budget hearings that **RSA Equities** (U.S. common stocks) **outperformed** the Russell 3000, **RSA bond investments outperformed** the Barclay's Aggregate, and **RSA International Equities outperformed** the MSCI EAFE in overall performance for the last 3-, 5-, 7-, and 10-year periods.

I also explained how the investment of 10-12% of RSA's portfolio in Alabama projects strengthens earnings and the state's ability to pay its employer contributions. It is my opinion that this investment strategy has been an effective hedge against low market returns and helped ameliorate the adverse market conditions over the last ten years. To see a copy of my presentation to the joint budget committees, please visit the RSA website at www.rsa-al.gov.

As I stated in last month's *Advisor*, independent experts will determine if investing ten to twelve percent of RSA's portfolio in Alabama was cost effective versus what Alabama would have received in equity and bond returns. Because the world of high finance is risk and reward, I hope that it will show that Alabama came out far ahead. ■

Five-Year Study Lowers Tax-Payer Costs to RSA

The actuarial firm of Cavanaugh Macdonald has lowered state contributions to the RSA by \$78 million for fiscal year 2013. The RSA had asked the state to contribute \$878 million, but now only requires \$800 million. This

change is based, in part, on the lowered "assumed annual growth in employees' payroll" from 4.5% to 3.25% to reflect the recent reduction in hiring and the freezing of merit raises.

The five-year study provided for

employer costs for 2014, but the ERS and TRS Boards of Control concluded that raising the rate for 2013, only to then lower the rate in 2014, was detrimental to the RSA and the state in these difficult economic times. ■

What We Give Up for Health Care

By Dr. Ezekiel J. Emanuel

When it comes to health care, most liberals are committed above all to ensuring that every American has insurance. In their view, the greatest achievement of the health care reform act passed under President Obama is to finally erase the moral stain of the United States' being the only major developed country without universal coverage. But we also hold the questionable distinction of having the world's most expensive health care system—what about cost control? For many liberals, that just sounds like a cover for heartless conservatives who care only about cutting benefits and not about helping people in need.

But liberals are wrong to ignore costs. The more we spend on health care, the less we can spend on other things we value. If liberals care about middle-class salaries, public education and other state-funded services, then they need to care about controlling health care costs every bit as much as conservatives do.

Over the past 30 years, health care inflation has been a major reason average wages have remained stagnant. For employers, the cost of labor is total compensation—wages plus benefits. As the cost of benefits rises, wages tend not to rise, or to rise much more slowly. According to the Bureau of Labor Statistics, as health care costs skyrocketed between 2000 and 2009, workers' total compensation increased by 1.3 percent per year, but workers' hourly wages alone increased by just 0.7 percent per year, significantly below the rate of inflation.

During those 30 years, the only sustained period when real hourly earnings increased was 1990 through 1998—which coincided almost exactly with a period of unusually low increases in health care costs.

The middle and working classes are also hit by the rising price of health care when states are forced to cut other services to pay for it. Last year, Medicaid spending was estimated to account for nearly a quarter of total state spending—the largest portion of their budgets—and it's getting only more expensive. States really have just three ways to make ends meet: restrict Medicaid eligibility (which most have done already), raise taxes or reduce funding for other programs to pay more for health care.

And so states have turned to cutting funding for public education—the next biggest item in their budgets. In 2010, 29 states spent more on Medicaid than on primary and secondary education. By the middle of 2011, 18 states had cut funding for kindergarten through 12th-grade education, and 19 for higher education. It's no surprise that, in the last decade, the average in-state tuition at public four-year colleges rose 72 percent to over \$8,000 per year, beyond what many students can afford. While health care costs do not account for all of this rise, they are a crucial factor.

But perhaps the simplest reason that costs should matter to liberals is this: as health care costs rise, so too do the

number of uninsured Americans. According to an analysis I did a few years ago, for every 10 percent increase in the average cost of family health insurance premiums, the ranks of the uninsured (excluding seniors covered by Medicare) increased by 0.55 percent. When premiums doubled between 2000 and 2009, the percentage of Americans who were covered by employer-sponsored health insurance dropped to 61 percent from 69 percent.

This relationship between cost and coverage will change somewhat in 2014, when the provision of the health care reform act that provides coverage for the uninsured through Medicaid and subsidies kicks in. But even with subsidies, some Americans will find rising premiums unaffordable and will be forced to opt out and pay the penalty for not having insurance. Nor will the act do much to ease the strain on state budgets. An estimated 21.8 million more adults and children will be covered by Medicaid and Children's Health Insurance Program. While states will be responsible for only a small portion of these new enrollees, there will be added costs. And they will no longer be able to restrict eligibility to save money.

There is one final cause that is close to liberals' hearts and threatened by the projected rise in Medicare and Medicaid costs. The corresponding rise in the national debt will weaken America financially and diminish our voice on the global stage,

continued on page 3



Proposed Legislative Changes

By Lindy J. Beale, Legislative Counsel

Several bills have been introduced that would allow members participating as State Police to contribute retirement contributions on their overtime pay. The legislation as introduced does not allow correctional officers, mental health workers, or any other state employee this opportunity. However, Rep. Jay Love amended the House bill to include all state employees, including local agencies participating in the ERS, but with a reasonable cap to the amount of overtime that can be included in retirement. The House Ways and Means General Fund voted unanimously in favor of the substitute. RSA staff wants to go on record as supporting Rep. Love's bill as substituted. If the Legislature wants to include overtime pay in the calculation

for retirement benefits, it should be for all members and not a select few. We further support the idea of a cap in order to curb the practice of pension spiking, where employees artificially inflate their compensation in the years immediately preceding retirement in order to receive larger pensions than they otherwise would be entitled to receive.

Three senators are proposing to increase the TRS Board of Control by eight new members to a total of twenty-two. This bill would give the governor the power to appoint one member from each of the Alabama State Board of Education Districts "with recognized competence and experience in the evaluation and management of investments."

If the proposal should pass, it would

make the TRS Board the largest pension board we know of in the country. The legislation is sponsored by Senators Phil Williams, R-Rainbow City, Gerald Allen, R-Tuscaloosa, and Greg Reed, R-Jasper.

Several bills dealing with a new Deferred Retirement Option Plan (DROP) have been introduced early in the session. As Dr. Bronner testified at the joint budget hearings, these types of plans can be beneficial under certain circumstances. However, due to the dire budgetary restraints Alabama is currently facing, this year is probably not the best time to look at adding new benefits.

The RSA will monitor these bills and report further developments in future *Advisors* and on our website at www.rsa-al.gov. ■

You get what you pay for

By Bob Blalock, *The Birmingham News*

Two national championships in three years make a pretty persuasive case for the University of Alabama as the premier college football program in the country. How it got there is no mystery....It hired one of the nation's top coaches in Nick Saban... and one of the best coaching staffs, and together they recruited many of the country's stellar athletes....

Deep-pocketed alumni and boosters write large checks, and a rabid fan base spares no expense on tickets and all things Bama. But what if the University of Alabama paid its coaches less than the coaches at all 119 other programs? ... What if its recruiting budget and recruits' star ratings were at the bottom of all those schools? Of course, the answer is as clear as the crystal football Saban's team captured....The Crimson Tide would be a college football doormat.

"Dixie's football pride" would be more like the "Heart of Dixie," better known as the state of Alabama, which collects the nation's lowest state and local taxes per person. In the 2009 fiscal year, Alabama's state and local governments collected \$2,793 per person, according to a *Birmingham News* study in November of the latest U.S. Census Bureau reports. That figure ranks Alabama dead last, behind Tennessee (\$2,819), South Carolina (\$2,829), Idaho (\$2,884) and Mississippi (\$3,033).

If Alabama's state and local governments had collected the same amount in taxes per resident that Mississippi's did, they would have had \$1.15 billion more to spend on schools and services such as police and fire protection, health and social services and paving roads.

For the 50 states, the median state and local taxes collected per resident was \$3,799. That means the total was higher in half the states and lower in half. At that rate, Alabama governments would have had \$4.81 billion more than they actually collected.

Now, I'm not suggesting Alabama should be one of the highest taxed states in the country, or even taxed at the national median. We are a poor state. Still, we make nowhere near the taxing effort we could compared to other states. If we did, we'd at least be "up" there with Mississippi.

As things are, it is impossible for

Alabama to pay for adequate, much less premier, state and local government services when it raises less per resident than every other state. We do have some great programs, such as the Alabama Reading Initiative, the Alabama Math, Science and Technology Initiative and First Class prekindergarten. But we don't fund even those well enough to offer them to all who need them. Given the state's financial straitjacket, not even Gov. Nick Saban could transform Alabama's government into one of the best in the country.

And really, it's no mystery what that would take: a fairer state tax system that wouldn't stick it to the poor and raised enough money to provide quality schools and services, and a new constitution that unshackled the 1901 Constitution's chains on state and local governments. That, and leadership from a governor akin to what Saban brings to Alabama football.

Think about what the Crimson Tide's triumphs have brought to the University of Alabama: positive attention and prestige....

But successful state government can bring much the same to Alabama – positive attention and prestige, better lives for residents and more investment in Alabama. Imagine what an even better state we would live in if state government in the Heart of Dixie were just as successful as Dixie's football pride. ■

What We Give Up

continued from page 2

allowing other countries less friendly to human rights and democracy to become more powerful.

There is an inevitable trade-off between rising health care costs and things liberals really care about, like access to college and good wages for working Americans. We cannot have it all. The health care reform act will help us save—mainly by changing how physicians and hospitals are paid and delivering better care to our most expensive patients. But more can be done: for starters, we could speed up the implementation of payment reform, stop Medicare payments for tests and treatments that provide no benefit and endorse competitive bidding for medical goods and services.

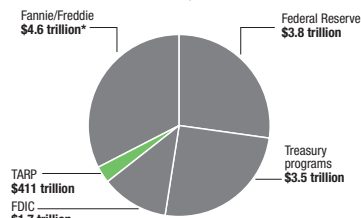
During the campaign season and into 2013—a vital year for health care legislation—liberals must make the issue of cost control their own. ■

Ezekiel J. Emanuel is an oncologist, former White House adviser and a vice provost and professor at the University of Pennsylvania. He is a contributing opinion writer for The New York Times.

HOW \$14 TRILLION IN EXPOSURE IS TURNING INTO TENS OF BILLIONS OF PROFIT

SPENDING ON TARP (BELOW) WAS DWARFED BY THE MONEY PUT AT RISK TO PROTECT FANNIE MAE, FREDDIE MAC, AND OTHER ENTITIES. BUT FORTUNE'S ESTIMATES (AT RIGHT) SHOW HOW U.S. TAXPAYERS WILL COME OUT AT LEAST \$42 BILLION AHEAD.

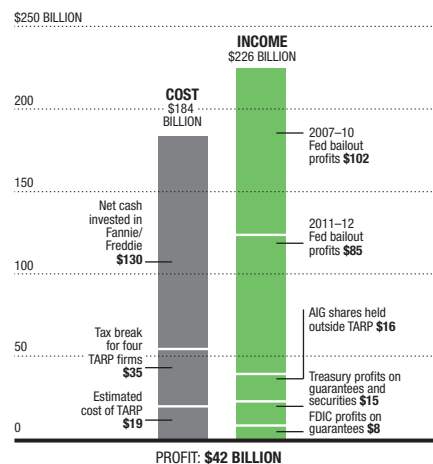
TOTAL BAILOUT EXPOSURE: \$14.0 trillion



* Does not include \$1.4 trillion in securities held by the Federal Reserve and U.S. Treasury.

Sources: Congressional Budget Office, Treasury, *Fortune* estimates from public records

BAILOUT COST AND INCOME



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ENJOY YOUR SPRING A Special Deal FOR RSA MEMBERS

The Battle House,

A Renaissance Hotel – Mobile – \$99

- March 4-5, 18, 25-28 • April 8-9, 22-24, 29-30
- May 1, 5-9, 27-31

The Renaissance Riverview Plaza – Mobile – \$89

- March 4-5, 18, 25-28 • April 8-9, 22-24, 29-30
- May 1, 5-9, 27-31

Marriott Grand – \$99 plus a 15% resort fee

- March 1, 4-7, 11-12, 18-22, 25-26
- April 1-2, 8-11, 17-18, 22-24
- May 1-3, 6-8, 13-14, 20-23

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

- March 1, 4-7, 11-12, 18-22, 25-26
- April 1-2, 8-11, 17-18, 22-24
- May 1-3, 6-8, 13-14, 20-23

Marriott Shoals – Florence – \$89

- March 4-6, 11-14, 18-22, 25-27
- April 1-4, 18, 25-26, 29-30 • May 3, 10, 20-21

Renaissance Ross Bridge – Hoover – \$99

- March 11-12, 25-26 • April 7-8, 15, 29
- May 6, 13, 19-20, 29-30

Opelika Marriott – \$89

- March 1-3, 7-11, 18-21, 23-28
- April 1-2, 4-5, 7-10, 12, 14-17, 22, 24-25
- May 2, 8-9, 11-14, 20-24, 27-31

Prattville Marriott – \$89

- March 2-5, 8-11, 14-20, 30-31
- April 1-2, 6-10, 15, 17, 22-23, 25-29
- May 2, 5-7, 11-15, 20-22, 25-31

Renaissance Montgomery – \$99

- March 1, 4-5, 9, 15-18, 22-24
- April 1-2, 6-8, 12, 14-15, 20-21, 30
- May 3-6, 10-13, 17-19, 25-28, 31

RSA Spa Package – \$159

Ask for code – LOCD Includes Deluxe Room

- March 1, 15, 22 • April Sorry No Dates Available
- May 3, 10, 17, 31

RSA Spray Tan Package – \$129

- March 1, 15, 22 • April Sorry No Dates Available
- May 3, 10, 17, 31

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.

TRS Board News



TRS Board Chairman Mrs. Sarah Swindle administers the Oath of Office to new board members Dr. Henry Mabry and Dr. Tommy Bice.

ERS Board Seeks Candidates for Upcoming Election

Candidates are now being sought for an ERS Board of Control position to be filled in a statewide election to take place in May.

Candidates for the Retired State Employee Position must be retired members of the ERS by virtue of retirement from a state agency.

Retired state employees will be able to vote for this position by mail, phone or the internet. Instructions will be included with the ballot. This position is a three-year term beginning October 1, 2012, and ending September 30, 2015. Mr. James H. Rowell currently holds the Retired State Employee Position.

The nomination packet is available on our website at www.rsa-al.gov or contact the election coordinator at 877.517.7020. The completed petition must be returned to the ERS by 4:00 p.m., April 16, 2012. ■



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