The ADVISOR
TEACHERS, EMPLOYEES, and JUDICIAL

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Governor Appoints ERS Board Members

Governor Robert Bentley has appointed three new merit state employees to the ERS Board of Control: Ms. Wendy S. Hester with the Alabama Department of Economics and Community Affairs, Mr. Christopher Blankenship with the Department of Conservation and Natural Resources, and Mr. Curtis E. Stewart of the Alabama Department of Revenue.

All three are long-time vested members of the ERS and dedicated to protecting ERS benefits for its members. ■

Anticipate Another National Attack on Public Pension Plans

By David G. Bronner

The two major players on the "ratings side" of Wall Street are Standard & Poor's and Moody's Investors Service. They simply assign credit ratings to various investment vehicles for the public. Over the past decade, these rating services have sometimes been correct and at other times a total failure. For example, both had a major hand in the 2008 housing bubble and related problems that we still suffer from. Today, all Americans hurt from the downgrade of U.S. government securities by Moody's from Aaa to Aa, while the S&P retains the Aaa for those securities.

Moody's is expected to announce in late April or early May that it has chosen to make adjustments to public pension information by: (1) applying a uniform 5.5% rate for all plans (most states use 7.5-8%); (2) using a single 17-year amortization period (most states use 25-30 years); and (3) replacing asset smoothing with market value of assets — which creates huge swings in employer costs, making it impossible for all state Legislatures to make up an operating budget before the market results are known.

The long and short of it is that Moody's will nearly triple the 2010 reported unfunded liabilities for all 50 states and local governments. There will be lots of negative media that the world is ending if and when Moody's makes this move public. The truth is that Moody's is wrong, just as it was in the housing crisis that has brought great damage to our country. ■

AG Opinion Issued

By Leura Canary, General Counsel

The statutes governing when and under what conditions an RSA retiree can work for an ERS or TRS participating employer without losing benefits clearly provide that an employed retiree will not have his/her retirement benefits terminated if (1) the person is not employed in a permanent full-time capacity and (2) the person's compensation from the employer does not exceed $23,000 per calendar year. The RSA has consistently interpreted the benefit termination and "return to service" provisions as inapplicable to a retiree who works in a true independent contractor relationship with a participating employer. This means, for example, that it is perfectly acceptable for a state employee in law enforcement to retire and join a company that has a contract to provide security services to a state agency, even if the retiree is assigned by his company to work security at a state building.

In recent years, however, the interpretation of these statutes has become increasingly confused. Many participating employers have operated under the erroneous impression that the law will allow a retiree to work for them without losing benefits despite working full-time or earning in excess of $23,000 annually merely because the retiree is employed through a contract with a third party. Under common law as summarized in the IRS "20 factor test," contracting through a third party alone is not sufficient to create a true independent contractor relationship.

On April 11, Attorney General Luther Strange issued an opinion on the matter. He opined that the RSA has the authority to promulgate rules to govern under what circumstances the return to service of a retiree will trigger the pension suspension rules and that the applicability of the suspension rules

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America's Demographic

Source: 13D.com

A record number of U.S. counties – more than 1 in 3 – are now facing more deaths than births. Census data shows that 1,135 of the nation's 3,143 counties are now experiencing a "natural decrease," up from the roughly 880 U.S. counties, or 1 in 4, in 2009. Already long underway in Japan and much of Europe, this natural decrease is now spreading quickly across the U.S., particularly in rural regions. As a notion, the U.S. population grew by just over 0.75% last year, stuck at historically-low levels not seen since 1937.

Immigration is the only thing keeping many metropolitan areas – including New York, Chicago, Pittsburg and St. Louis – from slipping into flat or negative population growth. Not surprisingly, given the economic stakes, political attitudes towards immigration are shifting. Prior to the November 2012 U.S. elections, Republican presidential nominee Mitt Romney called Arizona's restrictive immigration law "a model" for the nation. Recently, Senator Rand Paul, a favorite of anti-tax Tea Party activists, endorsed comprehensive immigration changes to give legal status to America's 11 million undocumented workers.

But, immigration may not be enough to reverse America's "natural decrease." First, historically, countries with fertility rates below replacement level start to face their own labor shortages, and they send fewer people abroad. In Latin America, the rates of fertility decline are even more extreme than in the U.S. Many countries in South America are already below replacement level, and they send very few immigrants to the U.S. As *The Wall Street Journal* reported: "In 1970, the Mexican fertility rate was 6.72. Today, it's just at replacement, a drop of 72% in 40 years. Mexico used to send us several hundred thousand immigrants a year.

"For the last three years, there has been a net immigration of zero. Some of this decrease is probably related to the recent recession, but much of it is likely the result of a structural shift." Second, immigrant women who have long bolstered fertility rates in the U.S. are starting to have fewer children. According to a recent Pew study, both immigrant and native-born Latinas had steeper birthrate declines from 2007 to 2010 than other groups, including non-Hispanic whites, blacks, and Asians. The pullback has been significant – including a 23% decline in the birth rate for Mexican-born Americans during this period. ■

ABC Celebrated its 75th Anniversary

Source: ABC

The Alabama Alcoholic Beverage Control Board (ABC) has plenty to celebrate. According to the latest figures, its total sales, both retail and wholesale, were projected to be over $378 million for the year, an increase, in dollar sales, of almost 5%. (Case sales were up 2.3%.) And **its contributions to the state budget are on track to reach almost $210 million**, an increase of 6.7%.

The 912 employees of the Alabama ABC continuously look for ways to innovate: cutting business expenses, running their wholesale and retail operations more efficiently, working on their service to and relationships with customers, licensees and suppliers, and honing their enforcement and education efforts. ■

AG Opinion Issued

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is a question of fact to be determined by the RSA. The RSA is in the process of drafting proposed regulations to be considered by the ERS and TRS Boards to implement the AG's opinion. Once the Boards adopt the proposed regulations, the RSA will begin the formal process of adoption of the regulations. The RSA will apply the final regulations to the information provided to it by participating employers. ■

The Alpha and the Omega of a Financial Crisis?

Source: Strategas

	SPX Peak (Oct. '07)	4/16/2013	% Change
S&P 500 Level	1565	1570	0%
10-year Treasury Yield (%)	4.6%	1.7%	-63%
Spot Gold Price ($/oz.)	738	1385	88%
Unemployment Rate	4.7%	7.6%	62%
Nominal GDP Level ($Bn)	$14,126	$15,851	12%
National Debt ($Bn)	$9,079	$16,687	84%
Fed Balance Sheet Assets ($Bn)	$859	$3,104	261%
Number of Food Stamp Beneficiaries	26,316,000	47,692,896	81%

Common Error in Assessment of RSA Funding

By David G. Bronner

Dr. Scott Beaulier, a professor at Troy University, has written an editorial criticizing the funding policy and actuarial assumptions made by the Retirement Systems of Alabama (RSA). Citing an article by Andy Kessler, a former hedge fund manager, Beaulier argues that

> The problems Kessler is describing (and relating to California) are ones we face here in Alabama thanks to the Retirement Systems of Alabama. Like CalPERS, the RSA assumes high expected returns of around 8 percent per year, but these returns, according to Kessler, are unlikely any time soon because in our new environment, "inflation is 2%, productivity is 2%, and given the interest rates are zero, multiple expansion should be...-1%."

Dr. Beaulier makes a fundamental and common mistake in his criticism of the RSA assumed rate of return. He looks at only recent market history and current economic conditions to make his dire predictions of pension doom. He is just plain wrong that an 8% assumed rate of return is unrealistic. An 8% return rate is average for all public pension funds, and the RSA has adopted this assumption at the recommendation of its actuaries. The RSA has the fiduciary responsibility of paying lifetime benefits for its members and the many generations of future members who come after them, so this assumption is of an average return over the long haul—not for only the next 10, 20 or even 30 years.

Don't just take my word for it, though. History shows that RSA returns have met and exceeded these assumptions over time. The average return for RSA's funds for the last 25 years is about 8.2%. And although the market went through the worst period of returns in its history during the last 10 years, that trend ended in 2009. In fiscal year 2012, the RSA's returns were over 18%. In fact, RSA returns for the more than 3-year period from October 1, 2009, through the end of February 2013, have averaged over 10% per year, well above RSA's 8% benchmark.

Nonetheless, in recognition of the historically bad market conditions, the RSA has worked with the Legislature to help it make changes to our systems to improve its sustainability. The RSA is ever mindful of its legal and moral responsibilities to its members and the public, and continually seeks to improve and strengthen its operations.

I have the perspective of over 40 years' experience as CEO of the RSA. I have seen incredible swings in market conditions, from the astronomical interest rates of the late 1970s and early 1980s to the dot com bust in the late 1990s to the more recent housing crisis. I understand that the RSA must be operated with an understanding of the past and a view towards the horizon, not based on panic arising from short-term and temporary conditions. ■

United States of Debt

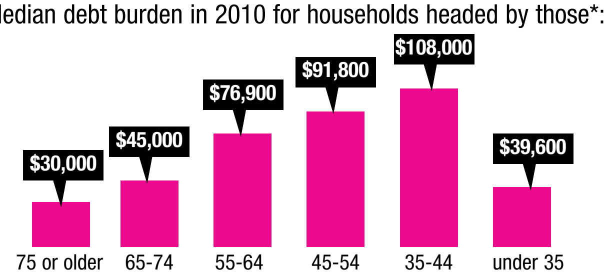
West Virginia, Louisiana, Arkansas
States where the highest percentage of homeowners own their home outright

Washington, D.C., Nevada, Maryland
Areas where the lowest percentage of homeowners own their home outright

Maine – $23,813
State in which residents have the lowest average debt load, not including mortgage

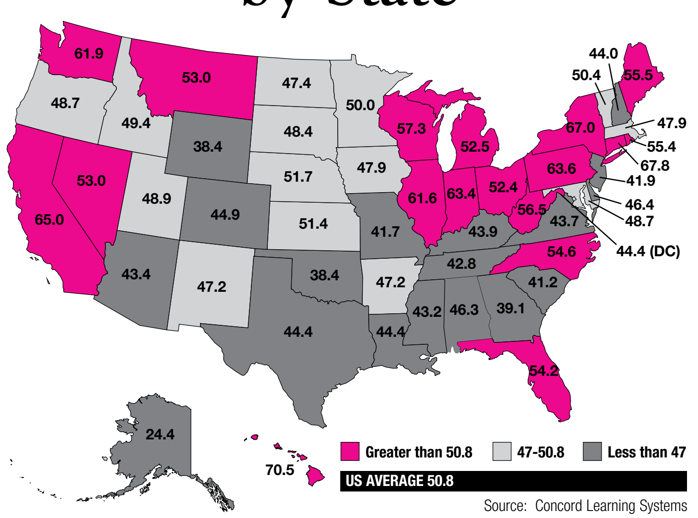
Alaska – $29,734
State in which residents have the highest average debt load, not including mortgage

Median debt burden in 2010 for households headed by those*:



* Figures represent only the holders of debt Sources: Experian, Federeal Reserve; Zillow

U.S. Gasoline Taxes by State



Source: Concord Learning Systems

Top US Banks Big in Alabama

Source: Alex Walsh, awalsh@al.com

Company	Ala. deposits ($B)	Market share (%)
Wells Fargo	8.2	9.68
PNC	3.08	3.64
BB&T	4.46	5.26
SunTrust	0.32	0.38
Regions	21.18	24.98
BBVA USA	9.79	11.55
Synovus	3.67	4.33

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The Science of Obesity

Source: 13D.com

The global obesity pandemic has been well-documented, and the problem is particularly acute in the U.S., where nearly 40% of Americans are obese. It is taking lives and adding to a health care system that is already crippled by soaring costs. Obesity-related health care spending is estimated to cost up to $190 billion per year; or more than 20% of total U.S. health care costs. If nothing is done to stop the epidemic now, chalk up an additional $50 billion or more on top of that total by 2030.

Sadly, it should come as no surprise that the world has not gotten fat by accident – there are sophisticated multi-billion dollar algorithms at work. The food industry, like the cigarette industry before it, has worked diligently for decades to get people hooked on foods that are convenient, inexpensive and are laden with fat, sugar and salt.

Later this month Michael Moss' new book will be published, *Salt Sugar Fat: How the Food Giants Hooked Us*. (Moss won a Pulitzer Prize in 2010 for his reporting on the U.S. meat industry.) *The New York Times* excerpted from the book: The article details how laboratories are charged with creating a perfect sensory intensity that becomes the consumer's "bliss point" so they crave more without ever getting the message from their brains that they have "had enough." ■

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