



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 335,000 MEMBERS

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Thanks Governor Bentley

EDITORIAL

Governor Bentley and Finance Director Bill Newton deserve the thanks of every member of the Employees' Retirement System for not allowing the ERS Investment Policy to be adopted as originally written.

Both RSA Boards review the RSA investment policy every few years as is their fiduciary responsibility. In years past, the Boards have worked with the RSA staff to make any necessary changes to the policy to maintain compliance with state law and to ensure the changes do not make the investment staff's job harder and/or add unnecessary investment expenses to RSA operations.

In this case, the ERS Investment Policy Committee did not show the revised policy to the ERS investment staff until the Thursday before the Monday Board meeting. The original version of the investment policy would have basically prevented the ERS investment staff from doing their jobs, returned the RSA to the 1970s and cost the system excessive and unnecessary expenses.

After amendments to the policy were proposed by Mr. Newton during Monday's meeting, several of these flaws were corrected. In the days following the meeting, the staff was able to spend time studying the entire policy and found that there were still items in the new investment policy that would violate existing law governing the ERS and add to expenses. The RSA staff will present its recommendations for corrections of these provisions to the ERS Board for their consideration.

The ERS policies were discussed at the TRS Board of Control meeting and no action was taken on those policies. The RSA staff was directed to make recommendations to the TRS Board on any needed updates to the TRS investment policy. ●

Hugo Boss Moves to 55 Water

BY JOHN JORDAN, DAILY NEWS

NEW YORK CITY—Noted men's and women's fashion designer Hugo Boss is relocating its North American headquarters operations to 55 Water St.

The firm, which currently houses its North American headquarters at 601 West 26th St. (the Starrett-Lehigh Building) in Midtown South, has signed a long-term lease for 73,690 square feet at the 53-story 55 Water St. building that contains 3.9 million square feet of office space. The transaction was announced



TRS and ERS Are Financially Sound

BY DAVID G. BRONNER

As reported last month, the RSA has been on a very positive roll since the near depression of 2008-09. The investment performance on all assets was 12.13% for TRS and 12.02% for ERS during fiscal year 2014. The last three-year-average for TRS was 15.09% and 14.85% for ERS. That placed the RSA in the **top** 13th percentile of the State Street Public Funds Universe (70 funds over \$1 billion) for both the one-year and three-year period. In addition, the RSA is in the top 25% over the last five years.

These stellar returns are due to several factors. The strong bull market for the last several years, of course, has been important to RSA's success. But the unique factors that made us outperform most of our peer funds, however, are the rebound in value of RSA's hand-picked real estate and alternative investments and the performance of our highly qualified professional investment staff. They have achieved these outstanding results while having the lowest investment expenses in the industry. The public pension fund average is 47 basis points annually, while RSA's is only 2 basis points. The RSA does it better and cheaper!

There is an old saying that applies to the RSA: "If it isn't broke, don't try and fix it." Even that would be an understatement in this case. How many Alabama state programs are in the top 13% for three years in a row?

TRS and ERS members must remember that our legislators, who have **always** properly funded our systems, must be encouraged to continue to do so every year. An actuarial term called "smoothing" was incorporated in most pension funds over the last couple of decades. It has made it difficult for members and politicians to understand that gains and losses are spread over a 5-year period. This means that the great gains of the recent years are spread over five years, thus the assets to liabilities (funding ratio) will continue to improve over the coming years. ●

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Statement of Changes in Fiduciary Net Position

FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2014*
(AMOUNTS IN THOUSANDS)

	ERS	TRS
ADDITIONS		
Contributions		
Employee	\$223,135	\$477,300
Employer	391,181	739,547
Transfers from Teachers' Retirement System	2,880	-
Transfers from Employees' Retirement System	-	3,549
Transfers from Judicial Retirement Fund	1	-
Total Contributions	<u>617,197</u>	<u>1,220,396</u>
Investment Income		
From Investing Activities		
Net Increase in Fair Value of Investments	888,303	1,853,288
Interest and Dividends	298,049	618,861
Total Investment Income from Investing Activities	<u>1,186,352</u>	<u>2,472,149</u>
Less: Investment Expenses, Net	<u>2,766</u>	<u>5,732</u>
Net Investment Income from Investing Activities	<u>1,183,586</u>	<u>2,466,417</u>
From Securities Lending Activities		
Securities Lending Income	4,199	9,629
Less Securities Lending Expenses:		
Borrower Rebates	21	65
Management Fees	<u>1,235</u>	<u>2,829</u>
Total Securities Lending Expenses	<u>1,256</u>	<u>2,894</u>
Net Income from Securities Lending Activities	<u>2,943</u>	<u>6,735</u>
Total Net Investment Income	<u>1,186,529</u>	<u>2,473,152</u>
Total Additions	<u>1,803,726</u>	<u>3,693,548</u>
DEDUCTIONS		
Retirement Allowance Payments	948,478	1,997,595
Return of Contributions and Death Benefits	47,937	54,699
Transfers to Teachers' Retirement System	3,549	-
Transfers to Employees' Retirement System		2,880
Transfers to Judicial Retirement Fund	83	-
Administrative Expenses	9,612	13,103
Depreciation	<u>2,055</u>	<u>4,336</u>
Total Deductions	<u>1,011,714</u>	<u>2,072,613</u>
NET INCREASE	792,012	1,620,935
Net Position Restricted for Pension Benefits:		
Beginning of Year	<u>10,091,940</u>	<u>20,820,372</u>
End of Year	<u>\$10,883,952</u>	<u>\$22,441,307</u>

* UNAUDITED

Editorial: Education on the cheap in Alabama

BY THE EDITORIAL BOARD
OF THE ANNISTON STAR

Imagine public education in Alabama if the state funded it as a priority instead of a line-item on a spreadsheet. The possibilities would be endless.

Teacher salaries and retention? Check.

Quality pre-K programs in every county, for every child? Check.

Curriculum that make every Alabama high school a college-preparatory school? Check.

Schools that act as magnets for families with school-age children looking to relocate? Check.

Sadly, that isn't the case.

The Alabama Legislature has never funded public education as it should, and as result, Alabamians get what they can out of their schools. Some are marvelous. Others are woefully substandard. A great many are in the middle — adequate schools whose performance could be enhanced if funding wasn't seen as the devil in Montgomery.

So imagine the task before Superintendent Tommy Bice, who told the state Board of Education that he's requesting a 5 percent increase — about \$227 million — for K-12 schools in the next fiscal year. Bice's request Thursday centered around a three-year plan to help fund schools' basic operations. He might as well ask for a private Lear jet and a limousine.

Remember, the Alabama Legislature is already in a pickle over a \$200 million shortfall in the General Fund budget. Thus far, Montgomery's brightest ideas for plugging that shortfall rest in one of two categories: (1.) ideas considered before, but not adopted; and (2.) ideas that won't work.

Constructive creativity at the state Capitol is a rare commodity, and Republican fears of spending money, creating new revenue streams or — aghast! — considering modest tax increases to pay for necessities shut down most conversations. In that respect, department heads who seek budget increases on the north side of \$200 million are wise to harbor low expectations.

Our message to Bice: Go for it.

Alabama's money is split into two piles, education in one, everything else in another. The General Fund is a mess and is likely to stay that way considering the state's tepid economy. The Education Trust Fund provides only for education, and there's no reason why the man responsible for Alabama's schools shouldn't speak the truth when it comes to funding for education.

Bice's job is tough. The Common Core controversy has taken up too much of his time. The political demise of the Alabama Education Association has changed the entire paradigm for education discussions in Montgomery. And funding for public education still hasn't returned to its pre-recession form.

Smart advocates urge the state board and lawmakers to see Alabama's schools as a garden needing cultivation — with money, resources and personnel. Yes, that's expensive. But Alabama's historic tendency to pay for education on the cheap has proven to be a fallacy that fails the state and its children. It doesn't work.

New Postretirement Form for Retirees

Due to the passage of ACT 2014-297, all ERS and TRS retirees who are currently employed by or perform services for an agency participating in the ERS or TRS must submit the RETIREE NOTICE POSTRETIREMENT EMPLOYMENT (PRE RN) form to the RSA no later than **January 31, 2015**, and annually in December thereafter, regardless of date of previous/last submission.

After January 31, 2015, any retiree who returns to work or performs a service with an ERS or TRS participating agency

must submit the Retiree Notice of Postretirement Employment **within 30 days** of engaging in employment and annually thereafter in December.

THE RETIREE NOTICE OF POSTRETIREMENT EMPLOYMENT (PRE RN) is located in the ERS and TRS retiree section of the RSA website at www.rsa-al.gov, or you may request the form by calling 877.517.0020. All Human Resources Departments will also have the form. ●

Noble Eagle Service Act 02-430

Noble Eagle Service applies to TRS contributing members who are called to active military duty.

Upon return from active duty, members are permitted to purchase credit for retirement service that was missed during the period of military activation. The member must provide TRS with a copy of his or her *Form DD214*. The employing agency must provide TRS with a record of the missed salary for the period. The member must submit the contributions that were missed during that period and the employer must submit the employer contributions that were missed during that period. No

interest is charged.

The member has up to 3 times the length of the activation, up to a maximum of 5 years, to submit the contributions. For example, a member who was activated for 1 year will have 3 years to submit the missed contribution and establish retirement credit. A member who was activated for 6 months would have 18 months to submit the missed contributions.

Members cannot purchase Noble Eagle credit for a leave of absence for training. ●



ERS Board Vice Chair Jackie Graham delivers the Oath of Office to ERS Board members Steve Walkley and Steve Williams.

Hugo Boss Moves to 55 Water

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by CBRE Group, Inc., which represented the building ownership New Water Street Corp., an entity controlled by The Retirement Systems of Alabama, in the deal. The design firm will occupy the entire 48th floor at 55 Water St., comprising 68,793 square feet, as well as partial sublevel space of 4,897 square feet, for a total of 73,690 square feet. The company intends to move into 55 Water St. in the second quarter of 2015.

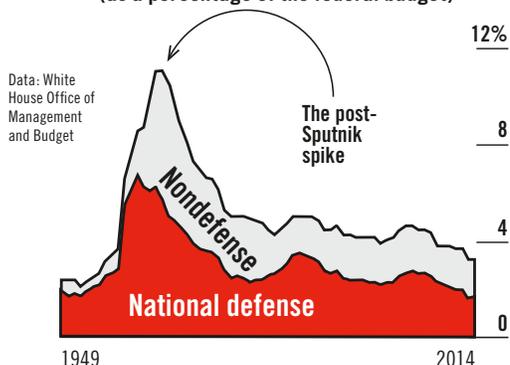
“This relocation continues the accelerating trend of creative firms of all types moving Downtown,” says George Acero, executive vice president and COO of NWSC. “TAMI and fashion companies are attracted to the excitement that is being generated Downtown and 55 Water St. is ideal for these types of users because of its large, efficient floor plates, tremendous views, access to light and an abundance of in-building amenities.”

Among 55 Water Street’s amenities are two on-site parks with Wi-Fi accessibility; The Elevated Acre, updated with a seasonal beer garden; a new high-end tenant only cafe and coffee bar; a 600-car parking garage and above standard HVAC with emergency power.

“We are proud that 55 Water St. has attracted forward-thinking creative firms like Hugo Boss, who appreciates the environmentally sustainable infrastructure of the building, including the newly installed thermal storage ice plant, which will increase cooling efficiency and decrease energy consumption,” says Acero. “This is a major investment in green technology that will remove 32.5 million pounds of CO2 from the environment, the equivalent of removing 3,000 cars from the road annually, or planting 4,400 acres of trees.” ●

U.S. Government Spending on R&D

(as a percentage of the federal budget)



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

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**Member Hotel
Discounts Webpage**

ENJOY YOUR WINTER/SPRING
A Special Deal
FOR RSA MEMBERS

The Battle House,

A Renaissance Hotel—Mobile—\$109

- January 1, 5-13, 17, 23-31 • February 1-5, 18-28
- March 1-4, 10-11, 15-18, 22-24, 29-31

The Renaissance Riverview Plaza—Mobile—\$99

- January 5-14, 25-29 • February 4-5, 11, 15-23, 27-28
- March 1-4, 10, 15-19, 22-25, 29

Marriott Grand—\$109 plus a 15% resort fee

- January 1-11, 16-19, 24-25, 29, 31
- February 1-10, 15-19, 22, 25-26 • March 1-5, 15-19

**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

- January 1-11, 16-19, 24-25, 29, 31
- February 1-10, 15-19, 22, 25-26 • March 1-5, 15-19

**Marriott Shoals—Florence—\$99;
Breakfast Package \$124**

- January 1-5, 9-12, 15-18, 22, 29
- February 7-9, 15-16, 19-22, 26-28
- March 1, 8, 12, 15, 22-23, 29-30

Renaissance Ross Bridge—Hoover—\$109

- January 1-10, 14-18, 20-31
- February 1-16, 19, 21, 25-28
- March 1-5, 7-8, 11-16, 19-20, 25-31

Opelika Marriott—\$99

- January 1-20, 23-29 • February 1-2, 8-11, 15, 22-26
- March 4-5, 8-11, 15-17, 19-26, 28-31

Prattville Marriott—\$89

- January 1-6, 10-12, 15-18, 20-21, 24-27, 29-31
- February 1-5, 7-8, 12-17, 21-27
- March 9, 13-15, 20-22, 25, 27-31

Renaissance Montgomery—\$109

- January 1-15, 18, 24-25, 31
- February 1-4, 8-9, 19
- March 1, 4-5, 9, 18-22, 24-25, 28-31

RSA Spa Package—\$189—Promotional code—R2A

- January 2-3, 6-10, 13-15, 24, 31
- February 3-4, 19
- March 4-5, 18-21, 24-25, 28, 31

*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.



**TRS Board Chair Sarah Swindle delivers Oath
of Office to TRS Board members Joe Ward and
Luke Hallmark.**

TRS Board Election News

Congratulations to Russell Twilley, Charlene McCoy, and Richard “Dickie” Brown on their re-election to the TRS Board.

There will be a runoff for Higher Education Position No. 2, between Dr. Donald L. Large, Jr., and Mr. John D. Kasberg.

To be eligible to vote for the Higher Education Position No. 2, you must be an active member currently contributing to the TRS and working in a public four-year institution of higher education or for the Commission on Higher Education.

Eligible members will receive runoff ballots after January 5, 2015. To be counted, ballots must be returned to VR Election Services of Carrollton, Texas, by 4:00 p.m., February 9, 2015. Members will be able to vote by returning the ballot in a prepaid postage envelope or by voting online or by telephone. Instructions will be included with the ballot. ●



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