No changes this year to state's retirement system

By Mary Sell Montgomery Bureau | Posted: Thursday, May 12, 2016 12:20 am

MONTGOMERY — There were no significant changes to the state’s retirement system this legislative session, despite talk of possible major and minor reforms.

Some north Alabama lawmakers are discouraged, while at least one said he’s not sure change is needed at this point.

“I’m disappointed that we didn’t get any bills passed,” Sen. Larry Stutts, R-Tuscumbia, said.

He said a trio of bills recommended by the pension study committee, which he was a part of, were common-sense approaches for change.

But Rep. Randall Shedd, R-Cullman, said Wednesday he was upset about the time spent by the committee of lawmakers that began meeting in August to gather information on the Retirement Systems of Alabama.

“I felt like we were just being spoon fed information from the national organizations who are intent on phasing out pension plans across America,” Shedd said Wednesday. He questioned whether all the information received was credible.

“I was just disappointed in the entire process,” he said.

The pension study commission’s charter has expired, and the group won’t meet again, at least not in its previous form. But legislation could be revived next year, co-chairman Sen. Arthur Orr, R-Decatur, said recently.

“We’ll just have to evaluate where we are when we start focusing on the 2017 session,” he said.

The commission pledged early on not to do anything to impact current employees or retirees, but Rep. Lynn Greer, R-Rogersville, said he was inundated with calls and emails from people telling him to leave their retirements alone.

“The ones we are trying to help are the ones hating us, and there’s nothing we can do to educate them,” Greer said Wednesday.

He’s been one of the main advocates for pension plan restructuring. In March, he drafted legislation to create for new employees a cash balance plan instead of RSA’s current defined benefit plan. RSA leadership opposed that idea, and legislation was never filed.

Some states have gone from a defined benefit plan, where retirees have a fixed monthly income benefit based on their age at retirement, years of service and salary, to a hybrid plan. Hybrids include a reduced defined benefit plan, along with a 401(k)-type plan.
A cash balance plan, like Greer suggested, is one in which the employer credits a participant’s account with a set percentage of their yearly compensation, plus interest.

Greer’s concern has been the system’s billions in unfunded liability and the state’s annual allocation. According to RSA’s recently released 2015 annual report, the system had $2.2 billion in total revenue last year. It paid out a total of $2.6 billion in benefits.

Investment income accounted for 17 percent of that, employee contributions made up 31 percent, and employer contributions, largely the state, made up 52 percent. In 2014, the total revenue was $5.5 billion.

“The people who draw (their pensions from RSA) ought to get their heads out of the sand and pay attention,” Greer said.

But Leura Canary, RSA’s general counsel who attended all the pension committee meetings, said the process was productive, and the system was able to educate lawmakers about how it works. She said previous changes to the system need time to work.

“The major reforms to make the pension system more stable and affordable occurred in 2011,” she said.

Those included raising the retirement age, lowering the benefits of future employees, and raising the contributions of employees.

“The cost shifted from the employer to the employee,” Canary said last week.

Shedd agrees with Canary and RSA.

“Let’s give (those 2011 changes) a little time to work,” he said. He also wonders if some aren’t crying wolf on pension problems across the country. “I’m afraid it may be a manufactured crisis.”

The unfunded liability in the Teachers’ Retirement System is about $10 billion. In the Employees’ Retirement System, it is about $2.5 billion. RSA officials have said they have a plan to pay off the unfunded liability in about 30 years, depending on rates of return.

Stutts this year filed legislation with language stressing RSA had to consider in potential investments certain things “relevant to the fund or its beneficiaries,” including rate of return and its role in the overall investment portfolio.

“RSA has done a lot of good things that help the state as a whole,” Stutts said, “but economic development shouldn’t be their focus. Their primary focus should be getting that 8 percent return.”

Eight percent is what RSA needs to average annually to properly fund the system.

Meanwhile, one of the things learned by the committee in the past year is RSA invests more in
“economically targeted investments” chosen for their social or economic benefit to an area than the pension systems in other states.

Stutts’ bill made it out of committee but never got a vote on the Senate floor. He’s thinks legislation will resurface next year.

Greer said he’s not ruling out more legislation, but if there’s another study group, he won’t be on it.

“I don’t want on any more committees,” he said. “Everyone you’re trying to help hates you because they don’t understand it.”