



# The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 339,000 MEMBERS

April 2015

## Governor's Plan for Shortfall

source: [www.governor.alabama.gov](http://www.governor.alabama.gov)

**M**ONTGOMERY—With a focus on tax fairness and debt repayment, Governor Robert Bentley announced his solution to fill a \$700 million funding shortfall in the General Fund Budget.

The Governor's Revenue Plan includes eight options that total \$541 million in estimated increases in revenue. When the Governor presents his budget options to the Legislature, he will also propose unearmarking \$187 million to solve the financial shortfall in the General Fund.

The Governor's revenue options include:

### Corporate Income Tax

- Require combined income reporting for corporation that do business in other states

- **Estimated increase in revenue – \$20 million**

### Financial Institution Excise Tax

- Remove the credit that financial institutions receive for sales taxes paid

- **Estimated increase in revenue – \$1 million**

### Insurance Premium Tax

- Remove the credit for state privilege tax paid by insurance companies
- Remove the credit for ad valorem tax paid by insurance companies
- Remove the office facilities and real property investment credits made by insurance companies

- **Estimated increase in revenue – \$25 million**

### Public Utilities License Tax

- Remove exemption that applies to municipal utilities

- **Estimated increase in revenue – \$47 million**

### Individual Income Tax

- Eliminate income tax withholding exemption certificates

- **Estimated increase in revenue – \$12 million**

### Sales Tax for Automobiles

- Increase the rate for automobile sales to 4%

- **Estimated increase in revenue – \$200 million**

### Rental Tax for Automobiles

- Increase the automobile rental tax to 4%

- **Estimated increase in revenue – \$31 million**

### Cigarette and Tobacco Tax

- Increase the tax to \$1.25 per pack (increase of \$0.825 per pack)

- Increase tax on other tobacco products proportionately

- Keep wholesalers' discount the same as current

- **Estimated increase in revenue – \$205 million ●**



## Investing Billions – A Difficult Business

By David G. Bronner

**T**he ups and downs of Wall Street can be truly amazing. In *The Wall Street Journal* last month, I came across a story of an exceptional investor on Wall Street from the 1990s to 2005. He was paid millions to manage the Harvard Endowment taking it from \$5 billion to \$22 billion. Now he runs a hedge fund that has under-performed the last three years.

In RSA's case, the annual total performance returns are not known until that magic cut-off date of September 30 each year. The returns can be totally different in only a matter of weeks. For example, on June 20, 2013, the stock market dropped 2.5% or about 350 points in the Dow, meaning we lost \$575 million+/- in just one day. On December 18, 2014, the Dow was up 422 points, which equates to a one-day gain of \$600 million+/-.

Recently, an elected official said the RSA had some investments with very nominal earnings. That is true, as most common stocks currently yield from zero to maybe two to three percent, and U.S. governments currently yield from a tiny quarter of one percent to only two percent for 10-year bonds. Incredibly, some German and French government bonds have negative yields!

RSA's investment performance has been great for the last five years – in the top 25% (State Street Public Funds Universe – “70 Funds Over \$1 Billion”) and in the top 13% for the last three years!

**Earnings for fiscal year 2014, net of all losses, which any investor will certainly have sometimes, were over 12% for a gain of \$3.7 BILLION.** That is almost double the entire General Fund budget for Alabama!

One advantage the RSA has is its expenses are a mere 2-3 basis points, while the average is 47 basis points for management of major funds. If you have a 401(k), the management fees can run as high as one to two percent, which can really affect your performance over the years.



Wall Street is a difficult business, but one that must allow for a long-term perspective, not judging on a quarter-to-quarter basis. ●

# ALABAMA TAXES

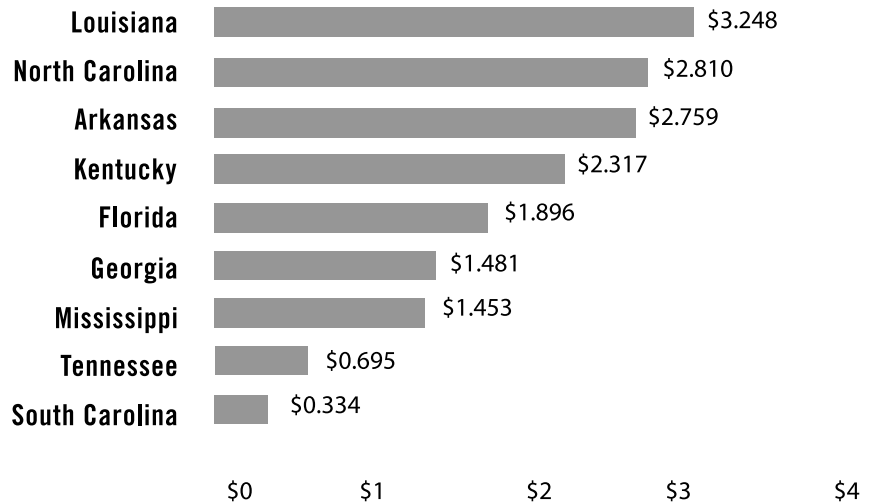
Source: PARCA, AL.COM

## TAXES: WHERE ALABAMA RANKS

Alabama's rank among states on per capita tax collections, 2012

TAX SOURCE	RANK
 Property	50
 Total Sales	29
 General Sales	31
 Motor Fuel	27
 Alcohol	4
 Tobacco	41
 Public Utilities	4
 Individual income	36
 Corporate Income	38
 Motor Vehicle License	44
 Other Taxes	22
 All Taxes	50

## REVENUE ADVANTAGE OVER ALABAMA (IN BILLIONS)



## A MEMBER'S LETTER TO YOU

**N**otice to all Alabama residents who are now or will in the future receive a defined benefit pension! Governor Bentley and the newly elected legislature are considering adding a 5% tax to your defined benefit pension. A defined benefit pension is unlike your 401k plan in that you are receiving or will receive an amount monthly for a period of time. Currently Alabama does not tax these pensions at the 5% tax rate. Do the math and figure how much this will cost you. If you are currently receiving \$1000.00 monthly, your new added tax bill would be \$600.00 annually or \$50.00 monthly. Following are some facts.

Texas and Florida do not tax these pensions. The economic growth in Texas and Florida are the highest in the nation. Alabama gives millions of tax dollar incentives to a new business or an industry to move to Alabama. This is good if it creates new jobs. We must think of these retirees as an industry, recruit them and keep them from moving to Florida or Texas as we do every industry.

The state and local government should love to have retirees move to Alabama because:

1. No education expense is required.
2. Very little police and judicial involvement are required.
3. The local medical community benefits.
4. This group of people spends money locally – restaurants, automobiles, local shops and housing.
5. This group of people should be considered permanent tourists.

Call or write your state representatives and senators.

Do not let Alabama hurt the very people who have worked hard and earned a pension including current Alabama retirees and retirees moving to Alabama.

**(Editor's Note:** Governor Bentley DID NOT propose any tax on your retirement, but some legislators have discussed such a proposal.)

Hal Holmes  
RSA Member

# LONGER LIVES HIT PENSION PLANS HARD

BY MICHAEL RAPOPORT, WALL STREET JOURNAL

**W**hen General Motors Co.'s pension plan took a big hit earlier this month, it joined hundreds of companies facing growing pension shortfalls as Americans keep living longer.

Longevity has a downside for those paying the bills, and the higher costs now have to be reflected on corporate balance sheets because of new mortality estimates released in October.

In its first revision of mortality assumptions since 2000, the Society of

Actuaries estimated the average 65-year-old man today will live 86.6 years, up from the 84.6 it estimated a decade and a half ago. The average 65-year-old woman will live 88.8 years, up from 86.4.

The new estimates won't affect many U.S. companies, which long ago shifted their employees to defined-contribution plans like 401(k)s, which leave workers on their own after retirement. But they are hitting other big companies with defined-benefit plans that have to make

payments to some former employees for as long as they live. The changes may also prompt more companies to take steps to reduce the risks associated with their pension plans, experts say.

When GM announced fourth-quarter earnings Feb. 4, it said the mortality changes had caused the funding of its U.S. pension plans to fall short by an additional \$2.2 billion and contributed to significant pension losses that will be filtered into its earnings over a period of years.

Verizon Communications Inc. and AT&T Inc. recorded big charges to earnings tied to their pension and retiree-benefit plans partly as a result of the new estimates, and the changes could have a significant impact across corporate America. Consulting firm Towers Watson estimates the funding status of 400 large U.S. companies could weaken by a total of \$72 billion as a result.

The cost is another weight on pension-plan operators already wrestling with the impact of declining interest rates. Lower rates boost the current value of the future payments the plans have promised to retirees because the value of future pension obligations isn't discounted back to the present as dramatically. That raises the current value of pension obligations, making pension plans more underfunded.

Some companies will see a quicker, more concentrated impact than others. Ultimately, the mortality changes are expected to affect most or all companies with old-style defined-benefit pension plans that commit to specified payout levels through their retirees' lifetimes.

Larger companies tend to still have a higher proportion of employees in defined-benefit plans. According to 2014 data from the Bureau of Labor Statistics, 41% of workers at companies with 500 employees or more participate in such plans, compared with just 16% in the U.S. private sector as a whole. Overall, there were 15.7 million active participants in private-sector defined-benefit pension plans in 2012, according to the Labor Department. That represents a 48% decline from 1980, which was the peak of participation in such plans. . . . ●



|| 2014 FINANCIAL HIGHLIGHTS

## Membership Activity 2014

	TRS	ERS	JRF
NEW MEMBERS	10,455	9,086	47
WITHDRAWN MEMBERS	4,860	5,481	7
SERVICE RETIREMENTS	3,281	1,967	33
DISABILITY RETIREMENTS	395	302	0
SURVIVING SPOUSES	4	8	0
NEW BENEFICIARIES	347	279	5

### Our Membership by the Numbers

TEACHERS' RETIREMENT SYSTEM  
EMPLOYEES' RETIREMENT SYSTEM  
JUDICIAL RETIREMENT FUND

TOTAL MEMBERSHIP FOR 2014  
(AS OF SEPTEMBER 30, 2014)

ACTIVE  
DROP  
RETIRED  
TOTAL

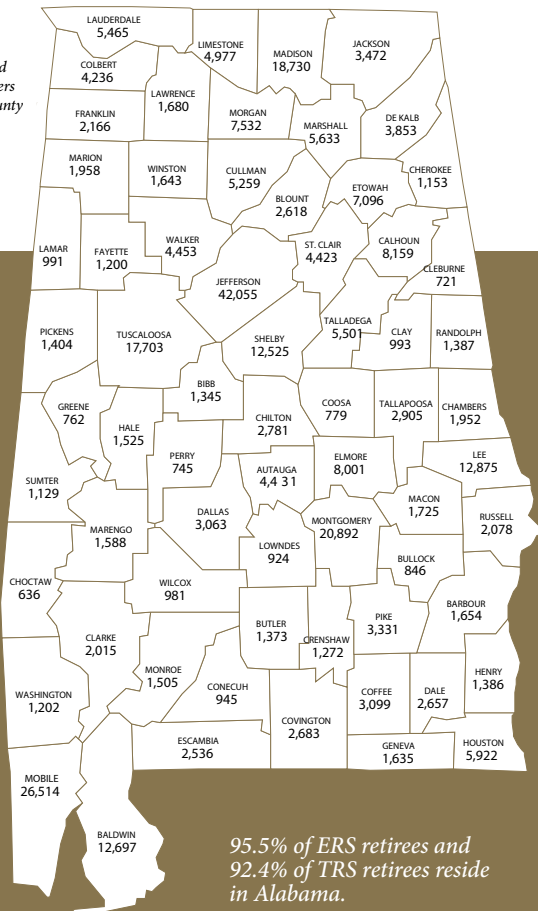
128,070  
1,749  
83,977  
213,796

80,118  
900  
43,712  
124,730

337  
374  
711

208,525  
2,649  
128,063  
339,237

2014  
RSA Active and  
Retired Members  
County by County



# Start Planning Your Spring/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 SPRING/SUMMER  
A Special Deal  
FOR RSA MEMBERS

**The Battle House,**

**A Renaissance Hotel – Mobile – \$109**

- April 1-9, 12-30 • May 3-4, 6-17, 21-31
- June 1-24

**The Renaissance Riverview Plaza – Mobile – \$99**

- April 1-14, 19-23, 27-30 • May 3, 7-9, 15-17, 21-31
- June 1-10, 18-24

**Marriott Grand – \$109 plus a 15% resort fee**

- April 1-2, 26-30
- May 3-6, 10-14, 17, 21, 25-27, 31 • June 3, 7-8

**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
- April 1-2, 26-30
  - May 3-6, 10-14, 17, 21, 25-27, 31 • June 3, 7-8

**Marriott Shoals – \$99; RSA Breakfast Package \$124**

- April 3-6, 9-11, 12-13, 19, 23, 26-27 • May 3-4, 7, 9-11, 17-18, 21, 24-26, 31 • June 4, 21-22, 25, 28-29

**Renaissance Ross Bridge – Hoover – \$109**

- April 1-7, 10-14, 16, 19-20, 23, 26-28
- May 3, 5-12, 14-17, 20-21, 25-31
- June 1-15, 17-31

**Opelika Marriott – \$99**

- April 1-9, 12-14, 19-20, 28-29 • May 2-3, 11-13, 19, 21, 24-31
- June 1-7, 9-10, 13-18, 21-25, 28-30

**Prattville Marriott – \$89**

- April 2, 4-7, 19, 26-28
- May 3-4, 9-12, 17-18, 24-25, 27-31
- June 1, 4-7, 10-15, 21, 26-30

**Renaissance Montgomery – \$109**

- April 1-5, 19-20, 26-27, 29-30 • May 1, 3-5, 9-10, 16-17, 21-26, 28-31 • June 1-2, 4-6, 12-13, 17-19, 25-27

**RSA Spa Package – \$189 – Promotional code–R2A**

- April 1-4, 29-30 • May 1, 5, 9, 16, 21-23, 26, 28-30
- June 2, 4-6, 12-13, 17-19, 25-27

*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/hotels.htm](http://www.rsa-al.gov/hotels.htm)

**Book Online and Save RSA \$4.**

## RSA-1 Offers a Third Investment Option

The Short Term Investment Fund (STIF) provides liquidity and preserves capital by reducing exposure to market volatility. Typically, short-term investments encounter less market risk than do stocks and bonds because of their short duration. Therefore, they usually provide a lower rate of return than investments in those categories.

Investments under this option could include high-quality money market securities, U.S. Treasury bills or notes, and U.S. government agency notes with a maturity of one year or less. An investment in a STIF account is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although this investment option seeks to preserve the value of your investment, it is possible to lose money by investing in the fund.

Contact RSA-1 at 877.517.0020 if you have any questions about this new investment option. ●

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:

### WANT TO HELP?

A FREE CAR TAG



Tag

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36130-2150



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**Deputy Director**

Donald L. Yancey

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**Chief Accountant & Financial Officer**

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**Employees' and Judicial Retirement**

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**Investments**

R. Marc Green

**General Counsel**

Leura G. Canary

**Legislative Counsel**

Neah L. Mitchell

**Member Services**

Penny K. Wilson

**PEEHIP**

Donna M. Joyner

**RSA - 1**

Rhonda H. Peters

**Teachers' Retirement**

Christopher P. Townes

The Retirement Systems of Alabama  
201 South Union Street

P.O. Box 302150

Montgomery, Alabama 36130-2150

Phone: 334.517.7000

877.517.0020

RSA Website

[www.rsa-al.gov](http://www.rsa-al.gov)