



## Effects of Pension Plan Changes on Retirement Security

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REPORT: [WWW.SLGE.ORG/PUBLICATIONS/EFFECTS-OF-PENSION-PLAN-CHANGES-ON-RETIREMENT-SECURITY](http://WWW.SLGE.ORG/PUBLICATIONS/EFFECTS-OF-PENSION-PLAN-CHANGES-ON-RETIREMENT-SECURITY)

Since 2009, fiscal constraints have forced state governments to reduce costs, often by laying off or furloughing employees, imposing salary freezes and/or reducing benefits. In fact, according to the National Conference of State Legislatures, since 2009, more than 45 states have made significant changes to their retirement plans, including increasing employee contributions, reducing benefits, or both. Other states have modified their plan design, choosing to transfer more of the risk associated with providing retirement benefits from the state and its political subdivisions to its employees.

While we know a great deal about the unfunded liabilities of public pension plans, we know little about the effects pension plan changes will have on the retirement income of public employees.

This report calculates the retirement income state and participating local employees hired under the new benefit conditions may expect, and compares it with the retirement income they would have earned before the plan was changed. The report also summarizes interviews conducted with state human resource executives and retirement experts from 10 states that have made significant pension plan changes.

### KEY FINDINGS

- Pension reforms reduced the amount of retirement income new employees can expect to receive compared with that of existing employees. Reductions ranged from less than 1 percent to 20 percent.

**[Editor's Note: Most states had reductions of 2%-10%. Two states – ALABAMA and Pennsylvania had 20% reductions.]**

## Return-to-Work Laws: Reminders and Updates

BY NEAH MITCHELL, LEGISLATIVE COUNSEL

After retirement, RSA members may wish to return to work for ERS or TRS participating employers, either to supplement their retirement income, spend time helping others, or to stay involved in the work they enjoy. If a retiree returns to work, however, the retiree's retirement benefit may be subject to suspension.

Alabama law requires the suspension of retirement benefits for retirees who return to work for ERS or TRS employers, unless certain conditions are met – the retiree's employment must be temporary or part-time AND the annual compensation earned must not exceed \$23,000. A retiree can continue to receive his or her retirement, without regard for these conditions, if the retiree returns to work for any employer other than ERS and TRS employers.

Recently, the Alabama Legislature amended the return-to-work laws to apply these same conditions to retirees who return to work for ERS or TRS employers as independent contractors. The amendment goes into effect October 7, 2014.

Prior to the amendment of the return-to-work laws, a retiree's benefit was not subject to suspension if he or she worked for an ERS or TRS employer as an independent contractor. Now, the retiree's benefit may be suspended if the retiree is considered an independent contractor and the retiree does not meet the conditions of the return-to-work laws.

The ERS and TRS Boards recently adopted policies that provide guidance regarding the recent amendments. The policies provide that a retiree is considered an independent contractor when the:

- (1) retiree directly contracts with an ERS or TRS employer; or the
- (2) retiree works for an independent contractor who contracts with an ERS or TRS employer but the retiree acts as an employee for the ERS or TRS employer.

Retirees who work for independent contractors that contract with ERS or TRS employers and who truly act as employees of the independent contractor, not the ERS or TRS employer, are not considered independent contractors under the amendment and are not subject to benefit suspension.

Below are a few illustrative examples of when a retiree is and is not considered to be an independent contractor:

- Retiree A worked in the accounting division of a state agency. After retiring, Retiree A enters into a contract with a public school system to provide accounting services for the school system.
- Retiree B worked for a state agency as a bookkeeper. After retiring,

# The Economic Impact of Highland Oaks in Dothan

BY DR. MARK FAGAN, DEPARTMENT HEAD EMERITUS, JACKSONVILLE STATE UNIVERSITY

Highland Oaks opened in 1993 as the fifth site on The RTJ Golf Trail. It is located four miles west of Dothan, Alabama, on the south side of U.S. Highway 84. Dothan is located in Houston County in the southeast corner of Alabama, about 20 miles from Florida and Georgia. Hugh Wheelless, Jr. donated property for the 36-hole golf complex with plans to develop housing on the surrounding property.

Wheelless began developing subdivisions (The Highlands) in 1992. Over four miles of roads were built including the mile-long entrance road to the clubhouse at Highland Oaks. He also donated property near Highlands Oaks for a 600-student elementary school. As of April 2014, there were 858 houses and 462 apartments built in The Highlands and in developments across the road. The estimated value of these houses and apartments was \$275 million.

The estimated capital outlay for the Highland Oaks golf complex, the adjacent housing units, the roads, and the school was approximately \$325 million. Applying the RIMS II Final Demand Multipliers showed the following impacts: total output, \$699 million; total earnings, \$236 million; total jobs, 6,337; and the value added, \$378 million. The millions of dollars in state and local revenue generated from this spending is not broken out in this analysis.

Data from Annual Reports for the Alabama Tourism Department showed tourism related spending in Houston County for 1995 was \$102.6 million and for 2013 was \$228 million, an increase of \$125.4 million. At the end of 2013, the total increased annual tourism spending

from the 1995 level was \$1.2 billion.

State sales taxes from tourism spending for 1995 were \$4 million and for 2013 were \$9 million, an increase of \$5 million. At the end of 2013, the total

State lodging taxes for 1996 were \$500,670 and for 2013 were \$1.1 million, an increase of \$0.6 million. At the end of 2013, the total increased state lodging taxes from the 1996 level were \$5.6

million. Local lodging taxes for 1995 were \$625,838 and for 2013 were \$1.7 million, an increase of \$1.1 million. At the end of 2013, the total increased local lodging taxes from the 1996 level were \$9.2 million.

At the end of 2013, the total increased state sales taxes and state lodging taxes over the 1995/1996 level were \$55.6 million. At the end of 2013, the total increased local sales taxes and local lodging taxes over the 1995/1996 level were \$59.7 million.

In 1990, there were 18 hotels/motels with a total of 1,500 rooms in Dothan and in February 2014, there were 32 hotels/motels with a total of 3,150 rooms. Between 1990 and 2014, there were 14 hotels/motels with a total of 1,650 rooms added to the inventory in Dothan. In 1990, there were 150 restaurants in Dothan and in February 2014, there were over 300 restaurants.

Dothan has experienced economic growth over the last 20 years in agriculture, manufacturing, and commerce. People employed in Dothan in 2010 totaled 28,707; an increase of 6,903 since 1990.

Highland Oaks has contributed to increased income, property, and fuel taxes in addition to sales and lodging taxes. RSA's investment in Highland Oaks, along with the free RSA publicity and SunBelt Golf marketing since 1993, have contributed to this job and revenue growth in Houston County. ●



HIGHLAND OAKS, DOTHAN



increased state sales taxes over the 1995 level were \$50 million. Local sales taxes from tourism spending for 1995 were \$3 million and for 2013 were \$9 million, an increase of \$6 million. At the end of 2013, the total increased local sales taxes from tourism spending from the 1995 level were \$50.5 million.



## Effects of Pension Plan Changes

CONTINUED FROM PAGE 1



**Mr. Richard Brown takes the Oath of Office for the Principal Position on the TRS Board from Chairperson Sarah Swindle.**

- New employees can expect to work longer and save more to reach the benefit level of previously hired employees.
- Hybrid plans adopted in five states produce a wide range of retirement incomes. The Rhode Island, Tennessee, and Utah plans may increase retirement income, a fact that can be partially attributed to higher required contributions to their defined contribution plan. Georgia and Virginia have lower statutory contribution rates and their hybrid plans may produce lower retirement incomes.
- Changes to retirement plans include an increase in the number of years included in the final average salary calculation (21 states); a reduction in the multiplier (12 states); and a change to both of these variables (nine states).

Although newly hired employees will need to work longer or save more to have the level of retirement benefit that employees previously earned, state human resource officials say that wage stagnation and the increased cost of benefits for employees is a more immediate concern. To address the savings gap, many plan administrators are providing enhanced financial education and sponsoring and promoting supplemental savings opportunities.... ●

## RSA-1 90-Day Investment Option Election

**B**eginning August 1, 2014, RSA-1 participants can change their investment option election **90 days** from their last election. The election will remain in effect until you make a subsequent election change, but it must remain in effect for 90 days. This replaces the 365-day option election.

The option election forms are located on the RSA website at [www.rsa-al.gov/index.php/members/rsa-1/pubs-forms/](http://www.rsa-al.gov/index.php/members/rsa-1/pubs-forms/). You may also request the forms by calling Member Services at 877.517.0020. ●

## Return-to-Work Laws CONTINUED FROM PAGE 1

Retiree B set up a limited liability company, Retiree B, LLC, which entered into a contract with Retiree B's former state agency for Retiree B to perform bookkeeping services for the state agency. Retiree B receives instructions from and reports to the state agency director.

- Retiree C worked in the cafeteria of a public school. After retiring, Retiree C went to work for a food service company, which entered into a contract with a public university to provide food services for its students. Retiree C receives instructions from and reports to a manager employed by the food service company.

The retirement benefits of Retiree A and B would be subject to suspension, unless they complied with the conditions of the return-to-work laws because they would be considered independent contractors of the respective ERS employers. Retiree C's retirement benefit would not be subject to suspension or the conditions of the return-to-work laws because Retiree C would not be considered an independent contractor of or an employee of the TRS employer.

The amendments further require that retirees provide written notice to RSA if the retiree returns to work **and** does not meet the conditions necessary to avoid suspension of the

retiree's benefit. A retiree may do so either by email or mail sent to the ERS, if the retiree retired under the ERS, or the TRS, if the retiree retired under the TRS.

Because the biggest violators of the return-to-work laws are higher paid administrative/professional positions, such as Superintendents, Accountants, Directors, etc., some retirees who return to work will not come close to the annual compensation limit of \$23,000.

**IF** you think your potential contract or postretirement employment might subject your retirement benefit to suspension, call and receive guidance from the RSA to protect yourself! ●

# Start Planning Your Summer/Fall Break Getaway at RSA's Outstanding Hotels, Spas, and RTJ Golf

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FOR RSA MEMBERS

**The Battle House,**

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

- August 3-28 • September 1-5, 13, 17-19
- October 1-2, 5-14, 17-28, 30-31

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

- August 1-28 • September 1-5, 13, 17-19
- October 1-2, 5, 14, 17, 31

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

- August 7, 10-11, 17-19, 24-25
- September 1, 4, 14-16, 21-24 • October 14, 19-21, 28-30

**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

- August 6-7, 10-12, 17-19, 22-25
- September 1, 4, 14-16, 21-25
- October 14-16, 19-21, 28-30

**Marriott Shoals – Florence – \$99;**

**Breakfast Package \$124**

- August 3-4, 16, 21
- September 1-3, 6-7, 14, 21, 28-29 • October 5

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

- August 1-4, 7-20, 24-28
- \* Labor Day Weekend, August 29-31, requires a 2 night stay; early departures will result in a rate change to \$259 plus tax per night\*
- September 1-4, 14-16, 21-25, 28
- October 1-2, 12-13, 26-31

**Opelika Marriott – \$99**

- August 3-7, 10-11, 13, 17, 20-21, 23-28, 31
- September 1-4, 7-14, 16-18, 21-22, 24-25, 28-30
- October 5-9, 12-16, 19, 22-23, 26, 28-29

**Prattville Marriott – \$89**

- August 2-4, 6, 10-11, 20-24, 26, 28-31
- September 1-3, 5, 11, 14-15, 22-23, 26-28
- October 5-7, 11-14, 20-26, 29-31

**Renaissance Montgomery – \$109**

- August 1-4, 7-14, 24
  - September 1-2, 7-10, 12-13, 17, 20-21, 25, 27, 29
  - October 2, 5-6, 9, 12-13, 18-20, 23, 26, 30-31
- RSA Spa Package – \$189 – Promotional code–R2A**
- August 1-2, 7-9, 12-14
  - September 2, 9-10, 12-13, 17, 25, 27
  - October 2, 9, 18, 23, 30-31

*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](http://www.rsa-al.gov)  
**Book Online and Save RSA \$4.**

## ERS Board of Control Election Results

**C**ongratulations to Mr. Steve Williams, Mr. Jim Fibbe, and Mr. Steve Walkley on being re-elected to the ERS Board of Control. Mr. Williams ran unopposed for the Active Local Employee Position No. 1; Mr. Fibbe was re-elected to the Retired Local Employee Position; and Mr. Walkley was re-elected to the Active State Employee Position No.1. Their new terms will begin on October 1, 2014. ●

## Candidates Sought for Four TRS Board Positions

**C**andidates are now being sought for four Teachers' Retirement System (TRS) Board of Control positions. The four positions, Teacher Position No. 3, Support Personnel Position No. 2, Principal Position, and Higher Education Position No. 2, will be filled in an election that will take place this October. Elected members will begin their three-year term of service on July 1, 2015.

If you are eligible and interested in running for any of the above positions, nomination forms are available on our website at [www.rsa-al.gov](http://www.rsa-al.gov) or contact the Elections Coordinator at 877.517.7192.

In order to qualify as a candidate for the Board, potential candidates must complete the Letter of Intent and Certificate of Assurance forms along with the Candidate Biographical Information form. The completed forms must be returned to the TRS office no later than 4:00 p.m., September 5, 2014. ●



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877.517.0020

RSA Website

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