The ADVISOR
TEACHERS, EMPLOYEES, and JUDICIAL

Vol. XXXIX — No. 8 SERVING OVER 330,000 MEMBERS February 2014

State of the State Address

BY DAVID G. BRONNER

Governor (Doc.) Bentley gave his State of the State address on January 14 and made some good points. Clearly, getting the Chinese to build the Golden Dragon Copper Tubing plant in one of the poorest counties in America is a huge feat. Recommending the expansion of Pre K programs and getting high school seniors to also be college freshmen in Dual Enrollment Programs is outstanding.

The governor and I disagree on the positive impact of Medicaid expansion, but to recommend a four percent raise for state employees without an additional revenue source is not wise. Maybe after the election, he will realize that good intentions remain good intentions without money.

Economic Impact of The RTJ Golf Trail at Hampton Cove

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

Hampton Cove on The RTJ Golf Trail was initiated in 1990 in the Big Cove area of Huntsville. This area was largely undeveloped with no city utilities and services. The 1990 U.S. Census showed there were 716 total housing units in this tract. The city of Huntsville assisted the RSA golf complex and adjacent housing development by securing a major access road from south Huntsville along with water and sewer. The 2012 Development Review Report for Huntsville showed 4,834 total housing units in this tract. So, as of 2012, there were 4,118 more housing units in Big Cove than in 1990.

The median value of the newer homes in Big Cove for 2012 was $309,000. Using this as a cost assumption, the economic impact from the construction alone from 1990-2012 was $1.6 billion. Using a modest economic multiplier of two, the economic impact was $3.2 billion from 1990 to 2012.

Commercial development has grown in Big Cove in response to the increase in households and their demand for goods and services. As these commercial establishments increased, they created an extra amenity for enhancing the quality of life for residents in the Big Cove area and added to the attractiveness of the area. As a result of the increased population, there has also been an increase in the number of commercial and other services such as swimming pool services, etc. in Big Cove.

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Our Future

BY DAVID G. BRONNER

Two years ago, the Alabama Legislature and Governor Bentley moved to address the same problems facing public pension programs across America. Like most states, the result was to limit any cost increases by having the public employee pay more into their retirement plan while lowering the pension benefits for future employees.

The somewhat shocking result has been that out of the 878 local units (cities, counties, hospitals, utility boards, etc.) that participate in the RSA; only 66 have taken any steps to modify their programs. While the RSA only provides each of these units with record keeping, actuarial services and investment expertise, their financial obligations are solely the responsibility of the local units. Some units are as financially sound as any in the country, while others are not. Local officials need to be aware of their situation.

Very recently, Detroit's bankruptcy shook the pension world when bankruptcy court Judge Steven Rhodes determined that Chapter 9 bankruptcy would affect bullet-proof public pension benefits despite being protected under Michigan's constitution. This is the first time that U.S. courts have determined public pensions can be cut. A precedent may have already been set in Central Falls, Rhode Island, when a small city's retired pensioners agreed to a 25% cut for five years. We need not panic as I know of no effort to do that in Alabama. We must wait to see how this event plays out in the Appellate Court.

For decades my critics have told me "not to worry about Alabama, because that is not your job." But without adequate tax revenues, state, county and local government employers cannot afford to keep their promises to fund their employees' pensions, which have already been earned. RSA's investments in Alabama help generate the tax revenue needed to fund these obligations. With upcoming 2014 elections, Alabamians need to be aware and make your elected leaders understand the importance of fully funding the pension plans administered by the RSA.

DANGER, DANGER: RSA is investing in Alabama!

BY DAVID G. BRONNER

I have been called many things in the past 40 years of serving Alabamians as the head of the Retirement Systems of Alabama. Call me liberal or conservative, arrogant or brilliant, but dangerous? Really, Gov. Bentley? Dangerous?

In remarks on RSA investments to an Alabama-based Raycom political reporter on Dec. 18 that is exactly what Gov. Bentley called me. "That's pretty dangerous if someone uses your proxy," said Gov. Bentley. "I wouldn't give somebody my proxy."

When I started with the Retirement Systems of Alabama in 1973, the Retirement Systems of Alabama was worth $500 million and over the years it has grown and now sits at $30+ billion. Let's take a look at some of my "dangerous" financial investments and their impacts on Alabama:

Golf. People thought I was crazy coming up with the concept of a golf trail. Now the Golf Trail has enhanced the image of Alabama and recently welcomed its 10 millionth round of golf. Golfers spend money in Alabama and that helps everyone. Twenty-one years ago the Golf Trail did not exist and now it is among the top golf destinations in the world, according to *GOLF Magazine*, *Golf Digest* and *Golf Channel*. We will have international coverage with two LPGA tournaments this year which will improve both our rounds of golf and international investments in the future. Very dangerous.

Hospitality. The Retirement Systems of Alabama owns eight upscale hotels, including favorites from *Travel + Leisure, Conde Nast Traveler, Successful Meetings* and other leading publications. Our hospitality ambassadors welcome investors to Alabama every day. Not only are these hotels showcasing the best in Southern Hospitality, they also employ thousands of workers. Ask the elected officials in Florence, Hoover, Opelika, Prattville, Montgomery, Mobile and Fairhope if our hotels are dangerous. They are more likely to call them an essential catalyst for growth.

Real Estate. Are those green roofed buildings across the state dangerous? From the RSA Battle House Tower in Mobile to multiple blocks in the Capitol city to residential communities in Opelika and Fairhope, RSA investments are making Alabama a great place to work and live. We have attracted major companies to move into our buildings and invest in Alabama. Not all RSA's real estate investments are in Alabama. We own the largest building in New York City and tenants, including Standard & Poor's, pay Alabama rent. Very dangerous.

Pensions. From state workers to teachers, Alabama has one of the best pension programs in the country. Taking care of these investments is what gets me up early in the morning and keeps me up at night. Our RSA investment team has done a remarkable job navigating rough economic times internationally. We also averaged a return of over 14% last year and RSA has ranked in the top 25% in the State Street Public Funds Universe for the last three years. RSA investments bring in a strong rate of return, enhance the image of our state, attract new industry and employ thousands of Alabamians. If that is dangerous, count me in.

Real Danger. Medicaid. Politics is taking precedence over the poor and that is not acceptable. The 300,000 women and children in Alabama that would benefit from Medicaid expansion need for us to do the right thing. We need the billions of dollars and tens of thousands of jobs that would come with Medicaid expansion. We don't need political games taking the priority over helping Alabamians in need. Gov. Bentley, listen to your friends in the Alabama Hospital Association, the Business Council of Alabama, AARP Alabama, American Heart Association, American Cancer Society, Alabama Primary Health Care Association, American Academy of Pediatrics Alabama Chapter, Children First Foundation and other "dangerous" groups that support expanding Medicaid. The researchers at the University of Alabama at Birmingham and the University of Alabama are right on target. Even your Republican governor peers in Arizona, Iowa, Michigan, Nevada, New Jersey, New Mexico, North Dakota and Ohio have seen the importance of Medicaid expansion. We invite you to take a closer look at it, as well.

More Danger. Restricting Investments. The investments made by the Retirement Systems of Alabama are strategic, financially sound and successful. Our team has a proven track record in investing the money of our teachers and state employees. It is surprising that two of the people you appointed to the ERS board who had only attended one meeting previously are now trying to restrict our investment options and you had no knowledge of their actions in advance. Hogwash. **(The ERS Board will meet January 30th, to decide who is in charge of ERS investments.)**

Gov. Bentley, you were elected to serve all of the people of Alabama and even took the Hippocratic Oath earlier in your career. It is time to stop the politics and start the healing.

Economic Imact of the RTJ Trail

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Certificates of Occupancy issued by Huntsville show that there was 1,060,857 square feet of non-residential space added to Big Cove from 1990 to 2012. The current cost is $100 per square foot, so this represents over $100 million in commercial space for Big Cove. Using the multiplier of two, the economic impact for the Huntsville area was over $200 million from 1990-2012. This space produces continued annual sales and revenue.

Combining the residential and commercial impact figures yields approximately $3.5 billion of financial input from 1990-2012 in the fastest growing area of Huntsville. These households have high annual incomes and other economic assets that provide a continued positive economic impact on the Huntsville area. There has been a tremendous increase in revenue as a result of the development of The RTJ Golf Trail, adjacent Hampton Cove Community, other housing nearby, and the resulting commercial development.

RSA's investment in Hampton Cove may not have been the only reason the Big Cove area has developed as it has. However, the initial partnership by RSA, the Hays family, SunBelt Golf, and the City of Huntsville served as a major catalyst for the significant economic development that has occurred. Hampton Cove is a very attractive, self-sustaining community that is an asset for Huntsville and for Alabama.

The Hidden Danger in Public Pension Funds

THEIR INVESTMENTS EXPOSE GOVERNMENT BUDGETS AND TAXPAYERS TO 10 TIMES MORE RISK THAN IN 1975.

BY ANDREW G. BIGGS, *THE WALL STREET JOURNAL*

The threat that public-employee pensions pose to state and local government finances is well known—witness the federal ruling earlier this month that Detroit's pension obligations are not sacrosanct in a municipal bankruptcy. Less well known is that pensions are larger and their investments riskier than at any point since public employees began unionizing in earnest nearly half a century ago.

Public pensions have long been advertised as offering generous, guaranteed benefits for public employees while collecting low and stable contributions from taxpayers. But with Detroit's bankruptcy filing, citing $3.5 billion in unfunded pension liabilities, and with four of the five largest municipal bankruptcies in U.S. history occurring in the past two years, reality tells us otherwise.

How much riskier are public pensions now? According to my research, public pensions pose roughly 10 times more risk to taxpayers and government budgets than in 1975. And while elected officials—a few Democratic mayors included—are now pushing for reforms, even they may not realize the danger.

In 1975, state and local pension assets were equal to 49% of annual government expenditures, according to my analysis of Federal Reserve data. Pension assets have nearly tripled to 143% of government outlays today. That's not because plans are better funded—today's plans are no better funded than in 1980—but mostly because pension plans have grown as public workforces have aged.

The ratio of active public employees to retirees has fallen drastically, according to the State Budget Crisis Task Force. Today it is 1.75 to 1; in 1950, it was 7 to 1. This means that a loss in pension investments has three times the impact on state and local budgets than 40 years ago.

And pensions can expect to take losses more often because of increased investment risk. Public plans have historically assumed roughly an 8% rate of return. But thanks to falling yields on safe assets, pensions must invest in riskier assets to have any hope of getting 8% returns. A one-year Treasury bond in 1975 yielded a 5.9% return. In 1980, it offered 14.8%, and in 1985 an investor could expect 6.5%. Today, the Treasury yield hovers at 0.1%.

Meager yields leave America's enterprising public-pension plan managers with a choice: Accept a lower return—forcing higher taxpayer contributions—or take on more risk to keep 8% returns flowing. My estimate, based on Treasury yields and analysis from economists at the Office of the Comptroller of the Currency, is that a pension today must build a portfolio with a standard deviation—how much returns vary from year-to-year—of 14%. Such high volatility means that a fund would suffer losses roughly one out of every four years.

By contrast, in 1975 a plan could achieve 8% expected returns with a standard deviation of just 3.7%. Those portfolios would lose money once every 65 years. This level of risk varied little through the 1980s and 1990s: An 8% return portfolio in 1985 would require a standard deviation of 2.7%, and 4.3% in 1995. Risk began inching upward after 2000 and has increased rapidly since the recession as low-risk assets continue to fall.

These figures aren't theoretical. They represent public pensions' decades-long shift from safe bonds to risky stocks, along with the recent growth of "alternative investments" such as hedge funds and private equity. These alternatives are, according to Wilshire Consulting, 60% riskier than U.S. stocks and more than five times riskier than bonds.

Larger pensions and riskier investments combine to increase risk to state and local budgets. The standard deviation of public pension investments equaled 1.8% of state and local budgets in 1975. That figure crept upward to 2.2% in 1985, and reached 5.8% in 1995. Today it stands at 19.8%. Pension investment risk to budgets has risen roughly tenfold over the past four decades.

As pension plan managers in Detroit, California and elsewhere can attest, there aren't easy solutions. Mature pensions should move their investments away from risky assets, but many plan managers are doing the opposite in a double-or-nothing attempt to dig out of multitrillion-dollar funding shortfalls. In most instances, significant benefit cuts for current retirees who made the contributions asked of them is difficult to justify and legally problematic.

The only real option, then, is to make structural changes, including more modest benefits and increased risk-sharing between plan sponsors and public employees. But that will only happen if elected officials accept that they can't continue with business as usual without accumulating tremendous risk.

Editorial: *The Montgomery Advertiser*

This page has for decades criticized Alabama's unbalanced taxation system for its failure to equitably utilize the state's full tax base. By all but ignoring the property component of that tax base, the state assures a regressive system that relies far too heavily on sales and income taxes for a revenue stream that is not only inadequate but also always vulnerable to the peaks and valleys of the economy.

If Social Security is the "third rail" of Washington politics, property taxes surely are the same for Alabama politics. Historically, the state's political leaders have taken a perverse pride in having the lowest property taxes in the country, even though the implications of that are hardly beneficial. . . .

We have never advocated, nor has anyone else with any degree of credibility, that Alabama become a high-tax state, with property taxes similar to those in Massachusetts or New York. However, even in the generally low-tax states of our region, Alabama's property taxes stand out as absurdly low.

A few examples: Here in Montgomery County, the average property tax is $460 a year, the average home value is $124,000 and the tax paid as a percentage of home value is 0.37 percent. In Elmore County, the figures are $395, $143,200 and 0.28 percent; in Autauga County, $392, $137,500 and 0.29 percent.

Contrast that with these examples:

- Troup County, Ga.: $1,162; $129,100, 0.90 percent.
- Pearl River County, Miss.: $774, $119,100, 0.65 percent.
- Shelby County, Tenn.: $1,930, $136,200, 1.42 percent.
- Pulaski County, Ark.: $973, $139,800, 0.70 percent.
- Rowan County, N.C.: $984, $127,200, 0.77 percent.

These are all in fairly similarly situated Southern states, not California or Massachusetts. It is pure fiscal folly, not to mention inherently inequitable, for a state to continue tilting its taxation system in the manner Alabama does.

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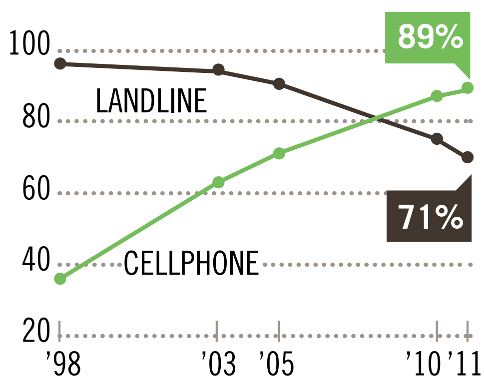

Sources: Census Bureau, *The Wall Street Journal*

Alabama Cities

2013 Estimated Median Family Income

Metro Area	Income
Anniston	$53,100
Auburn	$63,000
Birmingham	$57,100
Decatur	$55,200
Dothan	$50,000
Florence	$51,000
Gadsden	$42,100
Huntsville	$71,500
Mobile	$52,400
Montgomery	$61,500
Tuscaloosa	$55,700

Source: HUD Office of Economic Affairs, Economic and Market Analysis Division

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