



Supreme Court Upholds RSA's Alabama Investments

BY LEURA CANARY, GENERAL COUNSEL

On December 31, 2014, the Alabama Supreme Court issued an important decision that prevents courts from interfering with RSA's historical investment practices, which have promoted economic growth in Alabama as one means of ensuring a secure retirement plan for its members.

In *Ex parte Bronner, (In re Denson, et al., v. Bronner, et al.)*, two plaintiffs sued the RSA, members of the ERS and TRS Boards and Dr. David Bronner, challenging the legality of RSA's longstanding investment policy of making investments that strengthen Alabama where the investment otherwise meets RSA's investment criteria. In a wide-ranging decision issued on December 31, 2014, the Supreme Court ruled against the plaintiffs and in favor of the RSA, ordering the trial court to dismiss the plaintiffs' case. The Supreme Court found that "the legislature unquestionably has delegated to the boards of control discretion in assessing what overall strategies, and what specific investments, will best serve the 'aims'

and 'character'" of the RSA. Applying the principles of sovereign immunity and separation of powers, the Supreme Court held that it is inappropriate for courts to supervise or to "second-guess" discretionary decision-making of state instrumentalities such as the RSA on subjects like the desirability or appropriateness of investments or investment strategies.

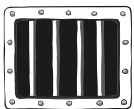
In so holding, the Supreme Court rejected the plaintiffs' argument that under the prudent man rule, it is "beyond the authority" of the boards of control to consider any factor other than the expected rate of return when deciding whether to favor Alabama investments in its investment policies. Instead, the Supreme Court noted that the requirement of prudence "**not only allows, but in fact requires, a trustee to take into consideration many factors** other than the direct and immediate rates of return" when making discretionary investment decisions.

This opinion confirms that the ERS and TRS Boards of Control have ample



discretion under the prudent man rule and Alabama law to consider a multitude of factors in setting investment policy and in overseeing the selection of investments and should once and for all resolve any doubts to the contrary. RSA members can be grateful to Alabama's Supreme Court for safeguarding RSA's ability to carry out those crucial functions in a way that best ensures a secure retirement for the public servants who do so much for this state.

The entire opinion is located under Featured News on our website at www.rsa-al.gov. ●



Why Alabama Cannot Wait on Prison Reform

BY STATE SENATOR CAM WARD

Prisoners are an issue that would never rank high on any list of priorities for the people of Alabama and understandably so. With unemployment hovering near 6 percent and many schools in need of repair, people ask me why prison reform should be a major subject at this time. The answer is simple—because our failure to maintain a good corrections system is going to push over a fiscal cliff

that we may never recover from.

For years as our corrections system became more crowded the political leadership in Montgomery turned their eyes to issues more palatable to the voters during election time. The general feeling for decades has been "let's wait and deal with that when we have more money."

As we waited, our system grew to 192 percent capacity and despite this

incarceration rate our state has the 8th highest violent crime rate in the country. Both of these statistics point to a failing system of corrections.

In addition to allowing for a broken system to continue down a path of inefficiency, we have also created a fiscal nightmare of the likes our state has never seen before. While we spend \$460 million

Keep Current with RSA

KEEP INFORMED

Your ERS or TRS/PEEHIP benefits are established by state law and are subject to change. Active and retired members need to keep up with changes that may affect benefits. Significant changes are included on our website at www.rsa-al.gov, in your member handbook, and your monthly newsletter – *The Advisor*.

KEEP ADDRESS CURRENT

Having your current home mailing address on file with the ERS or TRS/PEEHIP is very important. Many significant documents are mailed to members such as your *Advisor*, ERS or TRS/PEEHIP Board of Control election ballots, Annual Statement of Account, RSA-1 statement, PEEHIP ID cards for insurance, and information about your PEEHIP coverages for TRS members.

You can change your address through Member Online Services at <https://mso.rsa-al.gov> on our website. You will need to set up a User ID and Password to log

in. Be sure to keep your User ID and Password secure to prevent unauthorized changes being made online to your address or other account information. You can also change your address by Address Change Notification form. The change of address form can be obtained from our website or requested from Member Services at 877.517.0020. For security reasons, address changes **cannot** be made through email or over the phone.

KEEP BENEFICIARY DESIGNATION CURRENT

It is very important for members to keep their beneficiary designations current. Failure to do so can result in possible loss of valuable benefits to your survivors. For active members, if you wish to change your beneficiary or in the event of marriage, divorce, or the beneficiary's death, you must file a new beneficiary designation with the ERS, TRS, and RSA-1. The RSA 100-C Change of Beneficiary – Prior to Retirement form and RSA-1 Beneficiary Designation form are available

on our website.

Retirees wishing to change beneficiaries should contact the RSA for information on what changes can be made based on the option they chose at the time of retirement and be provided with the appropriate form to make that change. Retirees who retire under the Maximum benefit or under Option 1 may change beneficiaries at any time and may designate multiple beneficiaries or the estate as beneficiary. If there is no designated beneficiary at the time of the retiree's death, the retiree's estate will be paid any death benefits.

A retired member who is receiving a benefit under a joint survivor option may designate a replacement beneficiary to receive a monthly survivor benefit only if the original beneficiary should predecease the retiree, or if the retiree and the designated beneficiary become divorced. ●

State Bans on Texting While Driving

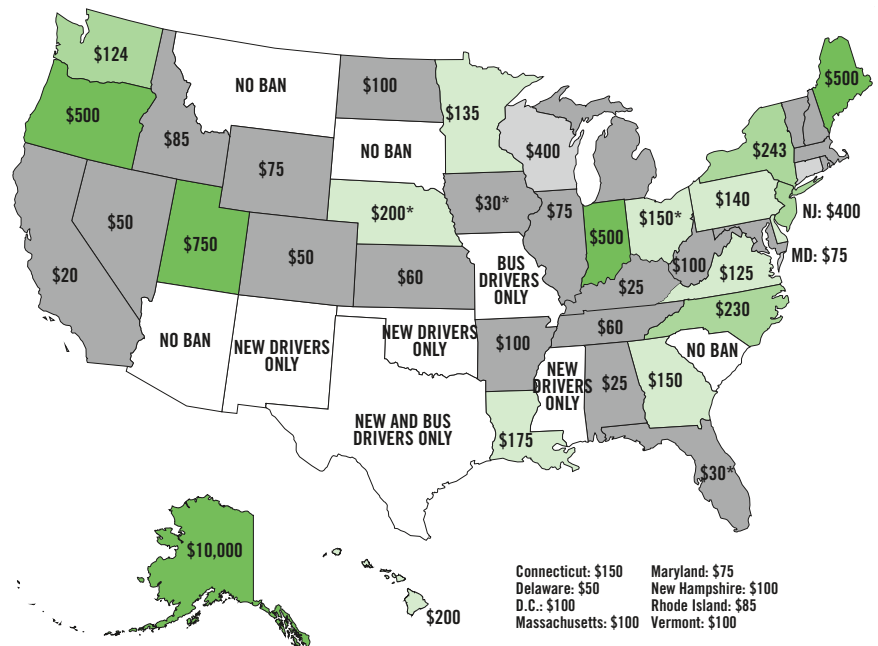
Maximum penalty for a first time offense. Local bans may also apply.

Some states impose bans only on new drivers and bus drivers.

Additional prison time and license suspensions may apply.

* States where drivers cannot be pulled over for texting, but can be fined in addition to other charges.

Source: State Legislatures, local media reports



Special Notice on 2014 Federal Withholding for Retirees and Beneficiaries

RS 1099-R Income Statements for use in filing a personal income tax return were mailed at the end of January to retirees and beneficiaries who received benefit payments in 2014. If you do not receive this form by February 9, 2015, please contact the RSA toll-free at 877.517.0020 to request a duplicate.

Please review your tax information and if you wish to change the amount of federal taxes being withheld from your monthly retirement benefit, please submit a new W-4P.

Information to assist you in the tax reporting of your retirement benefit is available on our website at www.rsa-al.gov. ●

Still a Better Bang for the Buck

NATIONAL INSTITUTE ON RETIREMENT SECURITY, WWW.NIRSONLINE.ORG

Over the past three decades, private employers have shifted away from defined benefit (DB) pensions that provide employees with a steady retirement income stream, towards defined contribution (DC) retirement accounts—such as 401(k) plans—in which individual workers manage their own investments. Since the 2008 financial crisis, public employers have faced pressures to make a similar change.

However, DB plans are inherently more cost-efficient than DC plans. A seminal NIRS study released in 2008, entitled “A Better Bang for the Buck,” found that a typical large DB pension plan provides a given level of retirement benefit at about half the cost of a DC plan. In this **updated** comparison of DB and DC plan costs, we take into account key developments in the retirement benefits landscape with regard to fees, investment strategies, and annuities, while building an “apples to apples” comparison through a uniform set of demographic and economic assumptions. *Full report is on the RSA website at www.rsa-al.gov.*

Highlights include the following:

1. *A typical DB plan provides equivalent retirement benefits at about half the cost of a DC plan, and 29 percent lower cost than an “ideal” DC plan modeled with generous assumptions.*
 - A DB plan, modeled with the typical fees and asset allocation of a large public plan, has a 48 percent cost advantage compared to a typical individually directed DC plan.
 - The DB pension costs 29 percent less than an “ideal” DC plan that features the same low fees and no individual investor deficiencies.
 - Annuitying DC account balances does not erase the DB pension cost advantage. Annuities offered by private insurance companies would only modestly decrease DC funding requirements at historical average interest rates, and would increase costs at 2014 interest rates.
2. *DB plans have three structural cost advantages compared to DC plans: longevity risk pooling, the ability to maintain a well-diversified portfolio over a long investment horizon, and low fees and professional management.*
 - **Longevity risk pooling.** In order to provide lifelong income to each and every retiree, DB plans only have to fund benefits to last to average life expectancy. In a DC plan, an individual must accumulate extra funds in order to self-insure against the possibility of living longer than average. They can also buy a life annuity from an insurance company, but this comes at a cost.
 - **Asset allocation.** DB pensions are able to maintain portfolio diversification—specifically, stay invested in equities—over time, while DC participants must shift to lower-risk, lower-return investments as they age. Thus

over a lifetime, DB pensions earn higher gross investment returns than do DC accounts.

- **Low fees and professional management.** Due to economies of scale, DB plans feature low investment and administrative expenses as well as management of investments by professionals. An “ideal” DC plan can theoretically achieve the same fees and investment returns, for a given asset allocation, by removing individual choice. When we use more realistic assumptions—industry average fees and a modest “behavioral drag” on investment returns resulting from well-documented tendencies in individual investor behavior—we find that the DB plan has a large advantage in net investment returns.
- 3. *Given the cost efficiencies inherent to DB plans, employers and policymakers should continue to carefully evaluate claims that “DC plans will save money.”*
 - For a given level of retirement income, a typical individually directed DC plan costs 91 percent more—almost twice as much—as a typical DB plan.
 - Consequently, shifting from a DB plan to a DC plan and maintaining the same contribution rate will generate significant cuts in retirement income. The consequences could be dramatic for employees, employers, and taxpayers. ●

Why Alabama Cannot Wait on Prison Reform

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a year on prisons, which represents about one-third of our General Fund Budget, it has not been a factor in what should be our top priority: public safety.

Some have argued that we should now build enough new prisons to reduce this overpopulation. In order to “build our way” to a capacity of 137 percent, we need to spend roughly \$600 million MORE on corrections. That is over \$1 billion in tax dollars out of a \$1.8 billion budget just on prisons. That is fiscally irresponsible.

We have been waiting for years for some magic solution to appear in regards to our prison system. Now an unfortunate solution is staring us in the face: a federal takeover of our state corrections system. If a federal court was to place our system into receivership, it would cost us hundreds of millions of dollars and result in the mass release of inmates. This would be a disaster for the state’s public safety and would make our crime rate increase dramatically while the revenue to deal with it decreases.

Why can’t Alabama wait to deal with prison reform? Because waiting is what got us into this problem to begin with, and the longer we wait the harder it is going to be to solve. ●

Start Planning Your Spring Getaways 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

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MONTGOMERY, AL
PERMIT NO. 402**



Member Hotel
Discounts Webpage

ENJOY YOUR WINTER/SPRING
A Special Deal
FOR RSA MEMBERS

**The Battle House,
A Renaissance Hotel—Mobile—\$109**
• February 1-4, 6-7, 18-22, 25-28
• March 1-4, 6-8, 10-11, 15-18, 22-24, 29-31
• April 1-9, 12-30

The Renaissance Riverview Plaza—Mobile—\$99
• February 4-5, 7-11, 15-23, 27-28
• March 1-4, 6-8, 10, 15-19, 22-25, 29-31
• April 1-14, 19-23, 26-30

Marriott Grand—\$109 plus a 15% resort fee
• February 1-10, 15-19, 22, 25-26 • March 1-5, 15-19
• April 1-2, 19-20, 26-30

**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
• February 1-10, 15-19, 22, 25-26 • March 1-5, 15-19
• April 1-2, 19-20, 26-30

**Marriott Shoals—Florence—\$99;
Breakfast Package \$124**
• February 6-9, 12, 15-16, 19-23, 26
• March 7-9, 15-16, 19-22, 25-28
• April 8, 12, 15, 22-23, 29-30

Renaissance Ross Bridge—Hoover—\$109
• February 1-4, 8-16, 19, 25-28
• March 1-8, 11-12, 15-16, 19-20, 25-31
• April 1-7, 10-30

Opelika Marriott—\$99
• February 1-2, 8-11, 15, 22-26
• March 4-5, 8-11, 15-31
• April 1-9, 12-14, 19-23, 28-29

Prattville Marriott—\$89
• February 1-2, 4-5, 7-8, 12-17, 21-24, 26-27
• March 1, 13-15, 20-22, 25-31
• April 2, 5-7, 11, 19, 25-28, 30

Renaissance Montgomery—\$109
• February 1-2, 4-5, 8-9, 19
• March 1, 4-5, 9, 18-22, 28-29
• April 3-5, 12, 19-20, 26-30
RSA Spa Package—**\$189—Promotional code—R2A**
• February 3-4, 19 • March 4-5, 18-21, 28
• April 3-4, 28-30

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.

401(k) – The 3-Point Difference

401(k) balances of a 65-year-old who started saving at age 25 with a salary of \$25,000 that rose 3 percent a year, assumes contributions at the average rate*, with annual investment returns of 6 percent.

\$812,636

with 6% company match

**Seventeen Companies
That Match Once a Year**

ACE
Automatic Data Processing
Celgene
Charles Schwab
Citigroup
Costco Wholesale
EBay
Intel

\$624,062

with 3% company match

IBM
JP Morgan Chase
Medtronic
Morgan Stanley
Priceline.com
Proctor & Gamble
Regeneron
Pharmaceuticals
Travelers
U.S.-Bancorp

Vesting Period at the 200 Biggest Companies

Amount of time until worker is entitled to all company contributions if he or she leaves a job.

Immediately	34%
After 1 year	1%
After 2 years	12%
After 3 years	26%
After 4 years	6%
After 5 years	14%
After 6 years	3%
Not Specified	4%

* Age-specific average rate as computed by Vanguard
Data: Company filings and websites, employee benefit research institute, and compiled by Bloomberg



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