



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



The 90-day countdown to Alabama losing another \$375 million

The federal government will pay the Medicaid funds quarterly. Thus, we lost the first quarterly payment if not signed by December 31, 2013. If you do not join the program before March 31st, we lose another \$375 million. Waiting until after the 2014 election would cost the state \$1.5 billion.

PEEHIP Faces a Shortfall

By David G. Bronner

The Public Education Employees' Health Insurance Plan is facing a \$220 million shortfall for the fiscal year starting October 1, 2014.

The deficit is caused by medical and pharmaceutical inflation, new expensive drug therapies, growing numbers of retirees and dependents, SEVEN YEARS OF LEVEL FUNDING, and Affordable Care Act mandates. The deficit will decrease with any increased funding that the Legislature may give PEEHIP, but there are insufficient funds available in the Education Trust Fund to fully fund the deficit without new sources of revenue.

The largest factors in the deficit are Affordable Care Act mandates, increased costs due to additional retirees and dependents, and medical and pharmaceutical cost increases. Affordable Care Act mandates alone account for approximately \$65-\$75 million of the shortfall, while additional retirees and dependents and medical and pharmaceutical cost increases account for another approximately \$110-120 million. The shortfall is unavoidable and due to factors beyond the control of the PEEHIP Board and staff.

PEEHIP staff has monitored the situation closely and has worked and will continue to work to find and recommend to the PEEHIP Board ways to close the funding gap that avoid cost increases to members. There are several options

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Déjà Vu

By David G. Bronner

In 1993, Governor Jim Folsom replaced all three governor appointees on the ERS Board. Twenty years later, Governor Bentley has appointed three new members to the Board. Both governors replaced the vice-chairperson and then tried to take control of the three-member Investment Committee.

Gov. Folsom had staffers who wanted to control ERS funds and have Mr. Nathan Chapman to manage the ERS funds. At that time, RSA staff had increased the fund assets from \$154 million in 1973 to \$3.4 billion in 1993. Today, ERS assets total \$10.1 billion. After four weeks of rumors, media stories and, most importantly, pushback from members, Gov. Folsom replaced his appointees with supporters of the RSA. Mr. Chapman went on to the Maryland pension as a money manager and was indicted on twenty-three counts in 2003, convicted in 2004, and released from federal prison in 2011.

Fortunately for our members, the Legislature had the foresight to set up the ERS so that the investment decisions are made by a professional staff. ERS law provides that the Board adopt an investment policy and appoint an investment committee. The role of the Board's investment committee is to review the staff's investment recommendations to ensure that they are consistent with the investment policy – not to approve or disapprove particular investments. These procedures protect the Board and ensure that the assets are professionally managed and not subject to outside forces who might wish to control the investment of ERS's \$10 billion in assets.

The professional investment staff of the RSA includes three lawyers, a Ph.D., thirteen MBA's and twelve Chartered Financial Analysts (CFAs), with two more sitting for the exams. A CFA license requires a minimum of three years of education and trading experience. Each CFA on staff specializes in a specific asset class and spends 40 hours every week researching and following that specific area. In addition, RSA's bank advisor, Regions, then independently reviews each and every investment. I am very proud of RSA's investment staff's record – they have achieved investment returns in the top 25% of the State Street Public Funds universe for the past three years.

In light of the law and existing investment procedures, the ERS Board's recent resolutions exhibit a misunderstanding of the investment committee's role. ERS staff and I look forward to working closely with the Board to resolve to its satisfaction any questions or issues with these investment procedures and then getting back to the business of making money for ERS's members. A board meeting will take place on January 30, 2014, to decide this issue. ■

Grand Hotel, Battle House Bring Home Honors

By Kelli Dugan | *al.com*

The Mobile area hospitality industry shone brightly, securing two Historic Hotels of America 2013 Annual Awards in Milwaukee, Wisconsin. George Moore, historian at the Battle House Renaissance Mobile Hotel & Spa,

was named Ambassador of the Year, while the Grand Hotel Marriott Resort, Golf Club & Spa in Point Clear was named Best Historic Hotel in the more than 400 guest rooms category. ■



Canadian Rail Car Tycoon Accused of Scam on U.S. Pension Plan Ends Up in Jail

By John Greenwood, *Financial Post*, Canada

Greg Aziz usually sleeps in one of the most palatial estates in Canada: a massive French Chateau atop the Niagara Escarpment with views of much of the Greater Toronto Area. But for the past week the uber-wealthy steel magnate has been cooling his jets in a U.S. jail.

Mr. Aziz, chief executive of Hamilton, Ont.-based National Steel Car, one of North America's biggest rail car manufacturers, was arrested Nov. 11 at Chicago's Midway International Airport as he disembarked from his private jet, after allegedly defrauding the Retirement Systems of Alabama, the state's public pension plan.

According to court documents released by the Alabama Securities Commission,

Mr. Aziz entered a deal in the mid-2000s to set up a manufacturing plant in Alabama under which the pension plan would provide US\$350-million of financing, even though Mr. Aziz knew the plan would end up costing much more.

The low-ball estimate meant the Canadian executive kept coming back to borrow more money, with the two sides eventually agreeing to a revised deal under which the loan would not exceed US\$625-million, the documents claim.

"[A]s part of a discussion about how the massive cost overruns occurred [Mr. Aziz] said that he was 'not sure what happened,'" the Alabama Securities Commission said.

Mr. Aziz is alleged to have "devised

and implemented a plan to obtain millions of dollars of investment funds from [the Alabama pension fund] to construct a railcar facility...by misrepresenting its cost and its economic viability, resulting in a substantial financial loss to [the pension fund]..."

The idea was to build a plant that would create an estimated 1,800 jobs but the actual cost was double the original estimate, the indictment says.

Mr. Aziz was charged by an Alabama grand jury with 10 counts of securities fraud between Sept 2006 and July 2009. . . . ■

LPGA Returns

By Tommy Hicks | *al.com*

The LPGA Tour has announced its 2014 schedule, which includes 32 tournaments, four more than in 2013, and it includes two dates at Robert Trent Jones Golf Trail courses in Alabama.

The Mobile Bay LPGA Classic is scheduled May 22-25 at Magnolia Grove Golf Course, the tournament moving back from its 2013 date. The LPGA will return to Prattville's Capitol Hill Golf Course for the Alabama LPGA Classic Sept. 18-21, returning the LPGA to Prattville after a year's absence. Both tournaments will feature a purse of \$1.3 million.



. . . The Mobile LPGA Classic will be sandwiched on the tournament schedule by the Kingsmill Classic in Williamsburg, VA (May 15-18) and the ShopRite LPGA Classic in Galloway, NJ (May 30-June 1).

The Alabama LPGA Classic, formerly known as the Navistar LPGA Classic, will take place the week after the LPGA's fifth and final major championship of the year – the Evian Championship in Evian-les-Bains, France (Sept. 11-14) and just before the Tour's Asian swing that begins in China Oct. 2-5.... ■

PEEHIP Faces a Shortfall

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or combination of options the PEEHIP Board may take to close the shortfall. The Board has repeatedly expressed the desire to close the funding gap with as little negative impact on members as possible.

There are those who wish to exploit the PEEHIP funding shortfall for political gain and blame PEEHIP staff and the Board for the increased costs of the program. Despite what you might read elsewhere, please be assured that the PEEHIP staff and Board are doing all they can to minimize the burden on the members and preserve this fine program, which is provided to its members at a substantially lower cost than all other teachers' health plans in the Southeast and, most likely, in the nation. ■

Wise Metals Group Pays Off RSA

In November 2006, the RSA entered into an agreement that lent the troubled Wise Metals Group, located in the Shoals, up to \$30 million at a 10.7% interest rate. The RSA further invested in Wise in 2008, acquiring preferred stock in the company for \$75 million at a 10% interest rate, while also receiving 4% of the common equity in Wise at no additional cost.

In 2010, the RSA again re-upped its investment in Wise – when a Wall Street vulture fund was targeting to take over the company – refinancing Wise’s debt for an amount up to \$460 million at 9% cash interest, while increasing the preferred stock investment to \$120 million at 10% interest and increasing RSA’s common equity holding to 15%

at no cost to the RSA.

RSA’s December receipt of \$593 million represents a complete return of RSA’s capital investment in the debt and preferred stock of Wise. The RSA will continue to hold a 15% common stock interest at no cost to the RSA. Today, Wise Metals is on its way to a great future because of outstanding top management. ■



Fitch: Hospitals in States Not Expanding Medicaid Face Dire Financial Fate

By Bob Herman, *Becker's Hospital Review*

Hospitals in the 25 states that will not expand Medicaid in 2014 will face “greater financial challenges and rating pressure” compared with hospitals in states that will expand Medicaid, according to a report from Fitch Ratings.

Fitch analysts said states that are not expanding Medicaid generally have higher uninsured rates and higher poverty rates, which will adversely affect hospitals due to higher levels of uncompensated care.

In addition, Medicare and Medicaid disproportionate share hospital funding is eroding under the Patient Protection and Affordable Care Act, although hospitals with more uncompensated care are expected to receive larger chunks of DSH payments. Moody’s Investors Service has also said the loss of DSH payments will hurt the finances and credit profiles of hospitals in states that are not expanding Medicaid.

Overall, hospitals and health systems in states not expanding Medicaid are expected to lose out on more than \$200 billion in additional revenue over the next 10 years.

“Relative to hospitals in states that expand Medicaid, hospitals in states not expanding Medicaid are likely to be more financially challenged in the near term due to the combination of the foregone revenue and the reimbursement cuts,” according to Fitch’s report. “These hospitals will face greater pressure to improve productivity or to cut unprofitable service lines to maintain financial performance and rating stability. However, drawing conclusions about the long-term credit implications on hospitals in nonexpanding states is difficult due to the ability of a state to opt into and out of Medicaid coverage expansion.”

Fitch’s analysis mirrors several others that have been released. Last December, an article in the *New England Journal of Medicine* similarly said that “states forgoing the Medicaid expansion are likely to leave a substantial uncompensated care burden on hospitals.” ■

P&I/Towers Watson World 300

The largest retirement funds

Ranked by U.S. dollars, in millions. U.S. fund data are from the P&I 1,000, published Feb. 4; non-U.S. fund data are as of Dec. 31, 2012, unless otherwise noted.

RANK	FUND	COUNTRY	TOTAL ASSETS
1	Government Pension Investment	Japan	\$1,292,003
5	Federal Retirement Thrift	U.S.	\$325,682
6	California Public Employees	U.S.	\$244,754
21	General Motors	U.S.	\$117,812
33	Ohio Public Employees	U.S.	\$79,612
44	Royal Dutch Shell	Netherlands	\$62,764
57	Lockheed Martin	U.S.	\$53,725
88	Bank of America	U.S.	\$38,998
101	Exxon Mobil	U.S.	\$35,130
115	RSA	U.S.	\$29,666
129	Chevron	U.S.	\$27,366
159	Nestle	Switzerland	\$22,597
279	Toyota	Japan	\$12,585
300	Walt Disney	U.S.	\$11,488

**Report — Street Lights that are out — to the Power Company!
Report — Weedy Lots — to the Mayor!**

RETIREMENT SYSTEMS OF ALABAMA
201 SOUTH UNION STREET
P.O. BOX 302150
MONTGOMERY, ALABAMA 36130-2150

PRSRST STD
U.S. POSTAGE
PAID
MONTGOMERY, AL
PERMIT NO. 402

**ENJOY YOUR WINTER
A Special Deal
FOR RSA MEMBERS**

**The Battle House,
A Renaissance Hotel – Mobile – \$109**
• January 1-2, 6-7, 12, 31 • February 1, 9-13, 16-20
• March 9-13, 17-20, 22-31

The Renaissance Riverview Plaza – Mobile – \$99
• January 1-2, 6-7, 12, 31 • February 1, 9-13, 16-20, 24
• March 9-13, 17-20, 22-31

Marriott Grand – \$109 plus a 15% resort fee
• January 1-2, 5-9, 12, 19-23, 26-30
• February 2-8, 9-13, 16-20, 23-25 • March 12-13

**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
• January 1-2, 5-9, 12, 19-23, 26-30
• February 2-8, 9-13, 16-20, 23-25 • March 12-13

Marriott Shoals – Florence – \$99
• January 1-5, 12, 19, 26 • February 2, 16, 23
• March 9, 23, 30

Renaissance Ross Bridge – Hoover – \$109
• January 1-2, 5-21, 25-29, 31
• February 1-6, 9-13, 16-17, 20, 27
• March 4-6, 9, 12-13, 16, 18-20, 23-27, 30

Opelika Marriott – \$99
• January 1-19, 24-31
• February 1-5, 8-13, 16-18, 20-24, 26-28
• March 4-7, 11-31

Prattville Marriott – \$89
• January 1-7, 9, 12-13, 16-20, 25-26, 28-29, 31
• February 1-9, 12, 16-18, 20-26, 28
• March 1-4, 8-14, 23-25, 28-31

Renaissance Montgomery – \$109
• January 1-11, 15, 19-20, 25-27, 31
• February 1-2, 5, 9-10, 27-28
• March 1-2, 9-10, 14-21, 26-30

RSA Spa Package – \$189 – Promotional code – R2A
• January 8-9, 15-16 • February 27
• March 19-20, 26-27

*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
Book Online and Save RSA \$4.

TRS Board of Control Runoff Election

A runoff election will be held for the Retiree Position 2 between Dr. John Landers and Joe Ward. Only TRS retirees are eligible to vote in this election. Ballots for this election will be mailed no later than January 6, and must be returned to VR Election Services in Carrollton, TX, by 4:00 p.m., February 10. You will be able to vote by mail, internet, or telephone. More information about the candidates can be found on our website.

TRS Board Members Sworn in at Board Meeting



Susan Williams Brown, Sarah Swindle, Ray Hayes, Ricky Whaley, Teresa Swindall, and Susan Lockridge take the Oath of Office. Not pictured is Robbie Owen.

The ADVISOR

CEO

David G. Bronner

Deputy Director

Donald L. Yancey

Executives

Communications

Michael E. Pegues

Chief Accountant & Financial Officer

Diane E. Scott

Employees' and Judicial Retirement

William F. Kelley, Jr.

Field Services

Robert J. Crowe

Information Technology Services

Michael T. Baker

Investments

R. Marc Green

General Counsel

Leura G. Canary

Legislative Counsel

Neah L. Mitchell

Member Services

Penny K. Wilson

PEEHIP

Donna M. Joyner

Teachers' Retirement

Christopher P. Townes

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