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RSA's Investment Expenses Amongst the Lowest in the Nation

BY MARC GREEN, CIO

RSA's investment expenses are amongst the lowest in the nation when compared to expenses as reported by other state public pension funds – even the Pew Charitable Trusts agrees (according to a January 13, 2016, report made to the Joint Committee on Alabama Public Pensions). The RSA keeps its expenses low by managing its investments in-house and directly. RSA does this through its highly-qualified professional investment staff of 17, including 12 holders of the Chartered Financial Analyst designation.

For fiscal years 2013, 2014, and 2015, RSA's investment expenses have averaged 3 basis points (or 0.03% of its assets). By comparison, South Carolina, whose investment expenses are higher than most, spent 123 basis points on investments in fiscal year 2015, which amounted to \$361M. This is compared to the \$9M that the RSA spent in the same fiscal year to invest a portfolio that is larger than South Carolina's. These higher fees have not resulted in improved investment performance either. As reported by a South Carolina newspaper, the state's 401(k) retirement plan has beaten the pension fund's investment goals over the past five years, and with far lower fees.

And South Carolina is not alone. A number of other states spend hundreds of millions on investment expenses, including Maryland (\$347M), North Carolina (\$522M), Florida (\$530M), and Virginia (\$389M). Even when compared to the national average, between 30 and 50 basis points, the RSA spends on average well over \$100M less a year by managing its investment expenses internally than it would if it spent even the average amount on investments.

What does this mean for RSA's members and employers? It means more of RSA's investment returns can be used to pay their benefits, rather than to pay outside investment management firms. This means that more investment returns can be used to reduce the unfunded liability, rather than to request that additional funding from the employers. All in all, this means a stronger and healthier RSA. ●

What Planet Is He On?

BY DAVID G. BRONNER



STATE SENATOR ARTHUR ORR

Make no mistake about it, we all say and do dumb things. Being a man or a woman, a professional or a non-professional makes no difference, because that is how we learn and grow from our mistakes. Yet, that does not apply to the Honorable State Senator from Morgan County, Arthur Orr.

State Senator Orr led the witch hunt on the RSA with the 2016 Joint Committee on Alabama Public Pensions, which expired at the end of the last regular session of the Legislature. Senator Orr recruited the Pew Foundation to help him put the RSA staff through the political wringer, while wasting the staff's time and your money to try and give you the disastrous Kentucky pension solution. Pew and the Alabama Policy Institute are each partially funded by the Arnold Foundation, who has spent \$50+ million to try and take away your program and give you and public employees across America a 401(k) type program.

The December *Advisor* gave you these investment results for 2016: Teachers' at 10.41% and Employees' at 10.22%. **Both have an average return over 11% and being in the top 12% of State Street Public Funds Universe greater than \$1 billion for the last 5 years!** With those investment results, the Cook's Pest Control Executive, State Senator Orr, stated on AL.com, "One year does not a trend make, but it's certainly good when we're north of 8 percent." I guess five years is not a trend in the pest control business!

Eventually even "the unconcerned" must realize that such a "Pinocchio politician" can wake up the near dead. If there is no reaction by you to his words, then you deserve what you get: the loss of a solid pension program.

I will continue to try and do my best to defend the RSA and your current program. But it is time for you to actively get involved with **your** state legislators so they understand how important the RSA is to your future. ●

PEEHIP Board Votes Again to Preserve Health Insurance Benefits

BY DON YANCEY

During the course of the PEEHIP Board's December 6th meeting, a group of Board members who are opposed to the premium and spousal surcharge increases moved to rescind the increases, which had gone into effect October 1, 2016. After a vigorous debate, the attempt to rescind failed by an 8 to 7 vote and the increases were upheld by a majority of the Board.

Many PEEHIP members initially may be disappointed by that outcome. But when members are made aware of the extremely high cost of healthcare and the consequences of rescinding those increases, however, the great majority are relieved that the vote failed and the financial viability of their health insurance program was preserved.

The PEEHIP Board has a statutory duty to design a health insurance program "to provide reasonable assurance of stability in future years for the plan." *Ala. Code* §16-25A-4. The Board members who voted NOT to rescind the premium and spousal surcharge increases courageously took action that was in the best interest

of PEEHIP members by ensuring that the plan could pay for their healthcare costs. They did so with the knowledge that they would continue to be unfairly attacked by members who don't understand the situation faced by PEEHIP. An explanation of the financial condition of PEEHIP shows why these attacks are unjust.

Medical and pharmaceutical costs in the United States are out of control. The claims paid by PEEHIP have increased over 50% in the last 8 years to almost \$1.5 billion in 2017. These increases have been felt nationwide. PEEHIP funding, however, has not kept up with the pace of increasing costs.

The recent increases in premiums and the spousal surcharge provided an additional \$71 million in revenue to enable PEEHIP to pay members' claims in FY 2017. Those increases were not only necessary to cover costs this year, but are critical to maintaining healthcare coverage in the future. Even including the increased revenue from the changes in the premium and spousal surcharge (\$71 million), the increased annual funding from

the Legislature (a total of \$936.4 million), and the savings generated by the 2017 implementation of the Medicare Advantage Prescription Drug Program (\$75-80 million), PEEHIP will still be short **\$41 million** for FY 2018 and **\$189 million** for FY 2019! **Without the premium and spousal surcharge increases, those expected deficits would be \$71 million per year higher.**

PEEHIP Board members and staff are very aware that the increases were significant and affected members and did all they could to avoid them. No one at PEEHIP – Board members or staff – wants the cost to members to increase and work hard every day to keep that from happening. But those Board members who voted to increase premiums and the spousal surcharge made the difficult and thankless decision to preserve the plan. Those eight Board members deserve gratitude because they are the reason education employees, retirees, and their families will continue to have healthcare coverage they can depend on. ●

Feather Your Retirement Nest with RSA-1

In addition to their pensions, public employees in Alabama have a little-known employment benefit which gives them a financial advantage over non-public sector employees. The Alabama Legislature created RSA-1, a Section 457 tax-deferred compensation plan that public employees may use to save for retirement.

But unlike other tax-deferred plans (even others offered by the state of Alabama) the law provides that RSA-1 will invest your contributions at absolutely no cost to you. Participation in RSA-1 allows you to get the maximum benefit from your supplemental retirement savings and retire with more money than if you had invested in any of those other plans.

So who does this no-cost investing? The same expert financial professionals who invest your pension funds! RSA's highly qualified and trained investment staff handles the investments in the three

fund options offered by RSA-1. Public employees can take advantage of some of the best financial minds around to manage their money for **free** – all they have to do is sign up for RSA-1. And, best of all, contributions to RSA-1 are tax deferred, so you don't pay federal or state income taxes on the contributions until you withdraw them in retirement.

How can this make a difference in your life? Even modestly paid employees can accumulate large balances in RSA-1 over time. For example, one state employee who never earned more than \$24,000 per year began investing very small amounts in the RSA-1 bond fund at the beginning of her career, raising the amount as she earned more. After 22 years, she accumulated an RSA-1 account worth \$106,000.

Another TRS employee who ended his career with a salary of about \$50,000,

started saving small amounts in the RSA-1 bond fund, raising the amount of his contributions as his career advanced, and retired after 22 years with an RSA-1 balance of almost \$140,000.

Some RSA-1 participants have taken more risk by investing in both the bond and the stock funds. One employee who contributed to both funds for 21 years and retired with a salary of about \$80,000 ended up with an RSA-1 balance of \$321,000!

As with all savings programs, it's best to start early, but it's never too late to take advantage of this great benefit! If you're interested in starting your RSA-1 savings today, contact the RSA at 877.517.0020 and ask for an RSA-1 representative or speak with your HR/payroll officer. ●

On the Trail of Excellence

BY ALEX WATSON | BHM BIZ

Like a strategic golfer about to tee off, John Cannon likes to take the wide-angle view of the courses and hospitality amenities that make up the Robert Trent Jones Golf Trail, which is celebrating its 25th anniversary this year.

The value of the Trail, says Cannon, president and CEO of Sunbelt Golf Corporation that develops and manages the Trail for the Retirement Systems of Alabama, lies not just in the direct economic impact it brings to the state, but also in an intangible that is just as important.

“We know we have had billions of dollars of direct economic impact, but just as importantly we have enhanced the image of our state in countless ways,” he says. “The Trail means more than happy golfers.

“When you say the name Alabama to people who know the Trail, the word has a whole different meaning than it had 25 years ago. Now, they know there is a progressive economic engine here. I recently met people from San Francisco at our Auburn course. It was their third or fourth visit to the Trail. They love coming here and interacting with our people. It is just so gratifying to hear that.”

A quarter century is a milestone under any definition. For Cannon the anniversary makes even clearer the Trail’s commitment to constantly improving its product. “Renovation and improvement is very important,” he says. “A guest who visited us 10 years ago must know the experience will only get better over time. What we accomplished we can continue to build upon by ensuring our quality is

always improving.

“We are a world-class destination from the top of the state to the bottom.” Cannon, who has been with the Trail for 18 of its 25 years, intends to keep it that way.

More than a quarter century ago, golf course architect Robert Trent Jones saw the group of public courses he designed in Alabama as his version of Michelangelo’s masterful artwork in the Sistine Chapel.



SILVER LAKES

PHOTO BY MICHAEL CLEMMER

Between 1992 and 2005, 26 courses became the Robert Trent Jones Golf Trail, a total of 468 holes and 11 locations across the state. The Trail’s long list of accolades includes recognition as the best value in the country as a golf destination, according to a recent *Golf Digest* survey, and golfers in the same survey put the Trail among the top eight in the nation for quality of golf. *Golf World* readers named the sites in Opelika and Prattville as the top two public golf sites in the country. Mobile ranked number 32.

Funded by the Retirement Systems of Alabama (RSA), the Robert Trent Jones Golf Trail was built to help expand tourism, recruit industry, and attract retirees,

strengthening the state’s economy while adding to the quality of life for all Alabamians. The concept for the Trail came from Dr. David G. Bronner, who, as chief executive officer, shaped the RSA into one of the nation’s best-performing pension funds. RSA has investments in Raycom Media, PCH Hotels, 55 Water Street in New York City, Community Newspaper Holdings Incorporated, and other interests.

Part of Dr. Bronner’s investment philosophy hits home in the rationale for funding the Trail: “The stronger the Retirement Systems can make Alabama, the stronger the Retirement Systems of Alabama will be.” The Trail has been a strong contributor to Alabama’s economy. In the past 10 years, Alabama’s tourism dollars have increased from less than \$1.8 billion to roughly \$12.6 billion.

The Trail stretches from the rolling hills of northern and central Alabama to the wetlands and woods near the Gulf Coast. Courses are located in or near Anniston, Auburn, Birmingham, Dothan, Greenville, Huntsville, Mobile, Point Clear, Prattville (near Montgomery), Hoover, and Muscle Shoals/Florence. At all these locations, the Trail’s vision remains the same.

“Our mission is bigger than golf,” Cannon says. “We are here to grow the opportunities for all residents of that state whether they play golf or not. My greatest pride in the Trail is that we continue to do that on a daily basis.” ●

Fact & Fiction

SOURCE: BALL STATE UNIVERSITY

Since the beginning of this year, the U.S. has lost 80,000 manufacturing jobs.

A recent study by Ball State University Center for Business and Economic Research should wake us all up. The study found that 88% of manufacturing job losses can be traced to robots moving into U.S. factories, NOT the factories moving to Mexico or China. Simply put, automation, not Mexicans, have stolen the

jobs. We need to also understand that the stronger the U.S. dollar, and the greater the push for higher wages in the U.S., the greater the prospect to automate.

As the former CEO of McDonald’s, Ed Rensi argues in regards to the fight for \$15 minimum wage that small profit margin businesses will replace full-service with automation. This past month, McDonald’s announced it was going to begin touch-screen ordering in its restaurants.

Shockingly, U.S. factories now manufacture TWICE as much as they did in 1984, with one-third FEWER workers, according to the Federal Reserve. In addition, a human welder may earn \$25+ an hour. According to the Boston Consulting Group, a robot welder costs around \$8 an hour, and that cost could drop to as little as \$2 an hour within 15 years. ●

Start Planning Your Spring Getaways at RSA's Outstanding Hotels, Spas, and RTJ Golf

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**Member Hotel
Discounts Webpage**

ENJOY YOUR WINTER/SPRING
A Special Deal
FOR RSA MEMBERS

The Battle House,

A Renaissance Hotel—Mobile—\$109

- January 1-2, 6-8, 15-16, 29-31
- February 8-9, 12-13, 20 • March 1-2, 15-23, 26-31

The Renaissance Riverview Plaza—Mobile—\$99

- January 1-2, 6-12, 20, 23, 30
- February 8-9, 16, 19-22 • March 8, 15, 26-31

Marriott Grand—\$109 plus a 15% resort fee

- January 1-5, 11-16, 26-31
- February 1-2, 5, 12-16, 19-23, 26-28
- March 1-2, 8-9, 15, 22-23, 26-27, 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

- January 1-5, 11-16, 26-31
- February 1-2, 5, 12-16, 19-23, 26-28
- March 1-2, 8-9, 15, 22-23, 26-27, 30

Marriott Shoals—Florence—\$99;

Breakfast Package \$124

- January 1-10, 12-14, 19-22, 29
- February 1-2, 5-6, 12-13, 19-20, 23-26
- March 2, 5-6, 9, 12, 19, 26

Renaissance Ross Bridge—Hoover—\$109

- January 1-31 • February 1-2, 4-5, 9-27
- March 1-9, 12, 15-16, 19-21, 23-28, 30-31

Opelika Marriott—\$99

- January 1-7, 13-16, 22-26
- February 1-7, 12-13, 19-20, 26-27
- March 8-9, 12-13, 19-20, 23, 26-27

Prattville Marriott—\$89

- January 1-9, 12-14, 15, 21-23, 27-29
- February 4-6, 12-13, 22-28
- March 1-2, 4-6, 11-12, 17-20, 22-27

Renaissance Montgomery—\$109

- January 1-4, 15 • February 5, 24
- March 5-6, 19, 26-27

RSA Spa Package—\$189—Promotional code—R2A

- January 3-4 • February 24
- March No dates

*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.



TRS Oaths of Office

TRS Board Chair Luke Hallmark gives the Oath of Office to Clinton Carter, State Finance Director; Susan Lockridge, Support Personnel Position No. 1; Susan Brown, Postsecondary Position; and Ricky Whaley, Teacher Position No. 2 at the December Board Meeting.

TRS Board of Control Election Results

The TRS Election Committee met Tuesday, December 6, to certify the regular election results. Luke Hallmark ran unopposed for the Superintendent Position. Joe Ward was re-elected to Retired Position No. 2. Their 3-year terms will begin July 1, 2017. Congratulations to all of the winners!



ERS Oath of Office

ERS Board Vice Chair Jackie Graham gives the Oath of Office to State Finance Director Clinton Carter at the December Board Meeting.



CEO

David G. Bronner

Deputy Director

Donald L. Yancey

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Communications

Michael E. Pegues

Chief Accountant & Financial Officer

Diane E. Scott

Employees' and Judicial Retirement

William F. Kelley, Jr.

Field Services

Christopher C. Gallup

Information Technology Services

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General Counsel

Leura G. Canary

Legislative Counsel

Neah M. Scott

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Penny K. Wilson

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