The ADVISOR
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Attorney General Issues Investment Opinion

After a year of controversy between RSA staff and the ERS Board on who should make decisions on specific investments, the TRS Board requested and has received the Attorney General's opinion on the issue. The statutes governing the TRS and ERS are identical.

The staff has maintained that the ERS and TRS Boards set the overall policy – for example, what percentage of common stock should be domestic or foreign – while the RSA professional staff decides individual investments like whether to buy Ford or GM because the staff works at that analysis full-time. The ERS and TRS Boards monitor the Secretary-Treasurer to ensure he or she fulfills those responsibilities.

The four-page letter of the question, facts, and analysis comes to the following conclusion and is available upon request. ●

Conclusion

"In considering investments recommended by the Secretary-Treasurer, the investment committee for the Board of Control of the Teachers' Retirement System is statutorily mandated to determine whether to approve or disapprove investments based on whether the investments are in accordance with the investment policies set by the Board of Control, and not based on other factors beyond those investment policies. The proper performance of that function fulfills the investment committee's fiduciary duty to the members of TRS."

Follow the Money

BY DAVID G. BRONNER

In recent years, a story comes out every two or three months about how bad defined benefit public pension plans – like the RSA – are compared to defined contribution plans – like a 401k.

These one-sided stories conclude that money will run out, investments should be "risk-free" at 1%-3% (meaning absolute failure), and the unfunded liabilities are greater than the assets. Most of the studies being released across America are funded by billionaires such as the Arnold Foundation (get this, a former "Enron" energy trader) and the Koch Brothers (ultra, right-wing businessmen). The studies from the Pew Foundation, George Mason University, and Troy University – surprise, surprise – get some of their funding from these very same people.

For example, Troy University's Manuel H. Johnson Center released the George Mason University study that indicated the world is ending and the RSA will be out of money in ten years. That is pure nonsense.

In the 1970s, the funds had only 25% funding with $500 million in assets. Today, the RSA has 66+% funding with over $30 billion in assets. It is a real stretch of the imagination to say we should replace the defined benefit programs when the funding level is more than two times better. Remember that before the market crashes of 2001 and 2009 the RSA was over 100% funded. In my opinion, 80% funding is perfectly fine for a public fund.

Every Alabama governor and Legislature has always made the necessary appropriations to the RSA, while states like Illinois and Kentucky – who cheat their systems out of proper funding – wonder why they have more serious issues with pensions.

Maybe it is a case of seeing too many Wall Street scams. Otherwise, why the extreme stress over state pension programs that have real funding and real assets? Especially when the public employee health insurance programs require GREATER funding than pensions, while having much LARGER liabilities with much SMALLER assets! Maybe we should "follow the money." Could it be pensions have real sizeable funds and state health insurance programs have very limited pools of funds for someone to get their hands on?

Because Troy University professor Scott Beaulier of the Johnson Center wants to take away the current defined benefit plan and replace it with a 401k, I am willing to support "a test program for Troy University" in the next session of the Alabama Legislature to see how it works. If the faculty and staff have confidence in Professor Beaulier, then we should allow the Troy University family to have a 401k instead of the current plan. I have a lot of friends and supporters at Troy University, but I would suggest to them that it would be a very bad move! (See page three for specific criticisms of the Troy report.) ●

Economic Impact of The RSA's Golf Complex, Marriott Hotel/Conference Center, and National Village in Opelika/Auburn

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

The RSA has implemented a three-phase investment strategy in Auburn/Opelika in Lee County since 1990: a 54-hole golf complex opened in 1993; the Auburn Marriott Opelika Hotel and Conference Center in 2002; and National Village, a recreational/retirement community in 2006. This investment has been a public-private partnership and has included the RSA, the city of Opelika, SunBelt Golf, Alabama Real Estate Holdings, and Conner Brothers.

AUBURN MARRIOTT OPELIKA HOTEL & CONFERENCE CENTER AT GRAND NATIONAL

RTJ GOLF TRAIL AT GRAND NATIONAL

NATIONAL VILLAGE – AUBURN/OPELIKA

The estimated costs for construction spending are: golf complex, $25 million; hotel/conference center, $70 million; and housing development (101 houses), $30 million. This totals to $125 million and applying the RIMS II Final Demand Multipliers to these construction costs produced the following impacts. The total output was $269 million; total earnings were $91 million; jobs were 2,437; and value added was $145 million. State and local tax revenue, such as income and sales, are not included in these impacts, nor is the spending by governments of the tax revenue.

The initial construction spending on these RSA assets and the subsequent increase in tourism spending has directly created jobs and tax revenue. This spending increased the demand for commercial and hospitality services in Lee County. The indirect economic impact from these investments has contributed to further growth in jobs and tax revenue from residential and commercial development and from increased household spending and assets.

Annual Reports for the Alabama Tourism Department showed tourism spending in Lee County for 1995 was $97.7 million and for 2013 was $324.0 million, an increase of $226.3 million. At the end of 2013, the total increased tourism spending over the 1995 level was $1.6 billion, the total increased state sales taxes and state lodging taxes over the 1995/1996 level were $81.7 million, and the total increased local sales taxes and local lodging taxes over the 1995/1996 level were $146.0 million.

In 1990, there were four motels/hotels in Auburn with 469 rooms and six motels/hotels in Opelika with 539 rooms. There are 23 more hotels/motels and 1,366 more rooms in the Auburn/Opelika area in 2014 than there were in 1990. There are 52 more restaurants in Auburn and 13 more restaurants in Opelika in 2014 than there were in 1990.

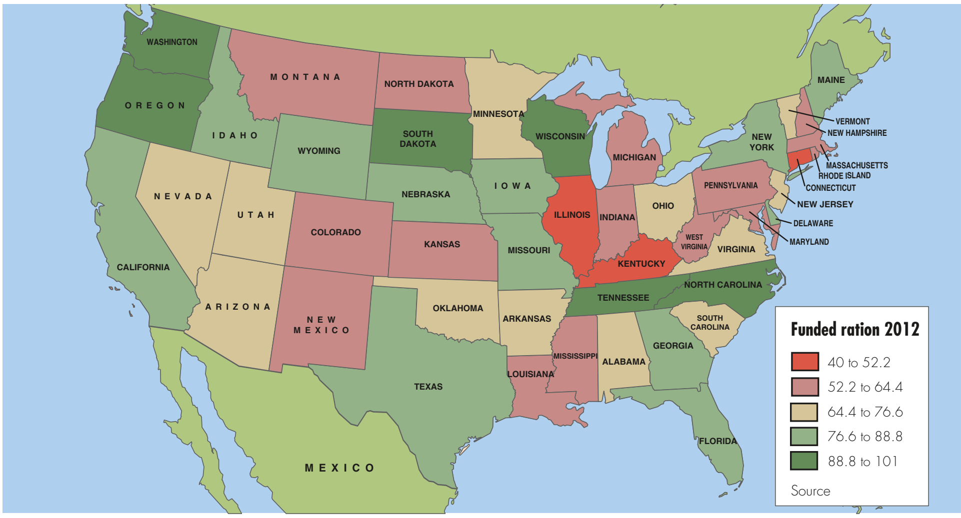
The Opelika City Planning Office issued 806 new permits for commercial buildings with a cost of $706 million between 1990 and February 2014. The Auburn City Planning Office issued 686 new permits for non-residential buildings with 5.8 million square feet and $433 million in value between 1990 and March 2014. The total value of new and expanded commercial space in Auburn and Opelika since 1990 was $1.1 billion.

The economic growth in Lee County since 1990 has produced tax revenue for the state and local governments each time spending occurred and continued until the money left the area. This economic growth is the result of several factors such as increased enrollment at Auburn University, expansion of the manufacturing industry, and RSA investments at Grand National. The RSA's almost $1 billion in free advertising from its media companies since 1995 has also contributed to this economic growth.

The Grand National golf complex, Marriott, and National Village have provided important tourism and retirement industry assets that have helped to diversify and stabilize the local economy. Other benefits include: increased household incomes, increased tax base for financing government services, and an increased community deposit base for financing infrastructure and other industry. This investment has provided a perpetual form of economic resources for Lee County as well as a financial return for the RSA.

Alabama's Unfunded Pension Liability Puts It Right In the Middle Of The 50 States

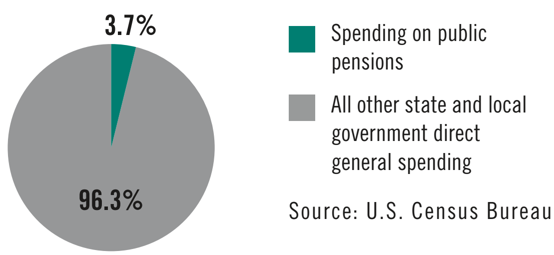
BY ALEX WALSH, AL.COM



Nationwide Spending on Public Pensions: Alabama is 3.48%

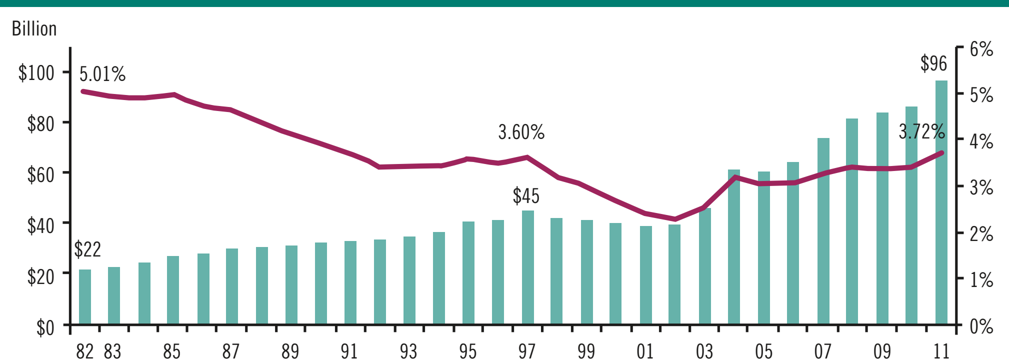
Based on the most recent information provided by the U.S. Census Bureau, approximately 3.7 percent of all state and local government spending is used to fund pension benefits for employees of state and local government. Pension costs have remained within a narrow range over a 30-year period, declining from around 5 percent to 3.7 percent in 2011.

Figure 1: State and local spending on public pensions as percentage of total government direct general spending, 2011



Source: U.S. Census Bureau

Figure 2: State and local pension contributions, in dollars, and as a percentage of state and local direct general expenditures, 1982-2011.



Source: U.S. Census Bureau

Troy University Report on RSA has Erroneous Assumptions!

BY RSA STAFF

1. The 2010 study by Professor Joshua Rauh is used as the basis of the Troy report and assumes that no new money goes to fund past unfunded liabilities.
2. The report assumes that there are ad hoc COLA's at a 3.5% annual rate, whereas there has not been a COLA since 2006 because of the economic crisis and slow recovery. This has a big impact over time.
3. The report assumes that the returns should be commensurate with the risk-free rate of a notional 15-year treasury bond of 3.12%. However, RSA returns over the most recent 4-year period have been nearly 11% annually.
4. The study irresponsibly asserts that the RSA will run out of money in less than ten years – by 2023. This conclusion is drawn from the 2010 study that made projections based on historically bad market performance and RSA's 2009 valuation of $24 billion at the low point of the market meltdown. The Troy report does not update those earlier erroneous projections or take into account what has happened to the RSA valuations since then. Between 2009 and September 30, 2013, the RSA has paid out $10.6 billion in benefits and increased its assets by 29% to $31 billion. RSA's annual returns for the last four years have averaged almost 11%.
5. This report and prior Troy studies say what the liabilities are by using bad data, a too low discount rate, and what the cost is to suddenly fully fund the plan. Even if you did convert to a defined contribution type plan, most everyone would agree that no one has all the money they need in their account to be able to retire "fully funded" today – that is not how it works. You continue to save, put money in the retirement account, and expect some normal return that has been demonstrated by the marketplace over a long time frame.
6. Despite arguing that the assumed rate of return of 8% is unrealistic and unobtainable, this study advocates the switch to a defined contribution plan which would require such returns to adequately fund an employee's retirement.
7. Using an artificially depressed risk-free rate to discount liabilities is probably the biggest mistake. Current market environment is probably the worst time to try and immunize the liability side of the ledger.
8. The study used a dated report as its primary source, its numbers are blatantly wrong, and it is being used by a group with the ulterior motive of forcing a change to a defined contribution plan.

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

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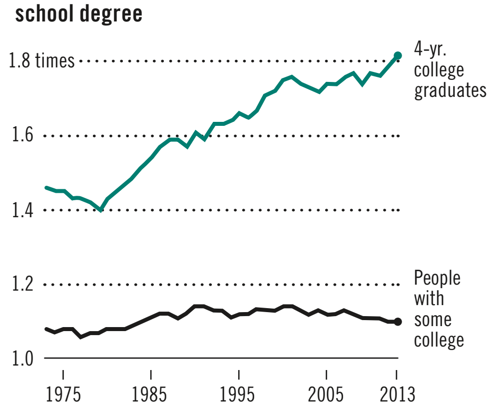
Rising Value of a College Degree

Compared to the pay of people with no college credit, the pay of people with a four-year college degree has risen, while that of people who attended college without earning a four-year degree has stayed flat.

Pay compared to that of people with a high school degree



Labels reflect each group's highest level of education. "4-yr. college graduates," for instance, excludes people with graduate degrees.

Source: Analysis of Economic Policy Institute data

WANT TO HELP?

A FREE CAR TAG

Tired of that worn-out dealer tag on the front of your car? Would you like to help the RSA and our Alabama Tourist Department advertise "Alabama's Robert Trent Jones Golf Trail" on your front bumper? If so, call to request a tag at 334.517.7000 or 877.517.0020, or write:

**Tag, P.O. Box 302150
Montgomery, AL 36130-2150**

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