



The ADVISOR

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SERVING OVER 350,000 MEMBERS

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The New “Skinny” DROP Proposal

BY NEAH SCOTT, LEGISLATIVE COUNSEL

You may have heard by now that a bill to bring back a modified “skinny” version of the Deferred Retirement Option Program (DROP) has been pre-filed in the House and the Senate. The original DROP was introduced in 2002, but was repealed in 2011 due in part to the greater than expected cost to the system and to employers (the repeal of DROP reduced RSA’s unfunded liability and reduced the annual employer contribution by an estimated \$58.5 million).

The “skinny” DROP is designed to be cost-neutral (i.e. it will not increase RSA’s unfunded liability or increase costs to RSA-participating employers) and therefore not as generous as the original DROP by making three changes:

- First, the old DROP provided that 100% of the member’s benefit would be paid into the DROP account. Under the “skinny” DROP, only 80% of the member’s benefit would be paid into the account.
- Second, under the old DROP, members could earn interest on their DROP accounts. Under the “skinny” DROP, **NO interest** will be credited to the DROP account.
- Finally, under the old DROP, a member was entitled to a refund of his or her employee contributions made during the DROP participation period under certain conditions. Under the “skinny” DROP, there is no refund of employee contributions available.

Due to these changes, the “skinny” DROP is less beneficial for members, and in many instances may not be the best option in the long-term because the lump-sum amount may not offset the decreased retirement benefit. Of course, every member’s situation is different and must be evaluated on an individual basis.

The Legislature will not be able to take the modified DROP legislation under consideration until the 2018 Legislative Session, which begins on January 9, 2018. ●

RSA: A Great Bang for the Buck

SOURCE: RSA’S 2016 ANNUAL REPORT
AVAILABLE ONLINE AT WWW.RSA-AL.GOV

The RSA will close out Fiscal Year 2017 on September 30. Final numbers will be available about 60 days later. The following numbers are based on **FY 2016** and not political rhetoric.

- Employer contributions for TRS: \$751 million (approximately \$428 million or 57% of the contributions from the ETF); ERS (excluding cities and counties as they pay their own) \$201 million (approximately \$56 million or 28% of the contributions from the GF); and JRF \$17 million.#
- Total benefits paid to 137,706 retirees in 2016 totaled over \$3.2 BILLION of which \$2.8 BILLION went to retirees residing in Alabama.
- 79.5% of ERS retirees and 76.8% of TRS retirees earned less than \$30,000 in annual benefits paid.
- Since the Great Recession of 2008-2009 (last 7 years), RSA investment earnings were \$18.6 BILLION, assets increased \$10.4 BILLION or 43.7%, while paying benefits of \$19.6 BILLION.
- During the same time frame (last 7 years), rate of returns averaged 9.36% for the TRS, 9.42% for the ERS, and 9.38% for the JRF.
- Retiree expenditures supported a total of \$4 BILLION in total economic output in the state.*
- Pension payments made to Alabama residents supported a total of \$383.4 million in federal tax AND \$319.8 million in state/local tax.*
- Retiree expenditures from RSA supported 27,814 jobs in the state that paid \$1.2 BILLION in wages and salaries.*
- *As a historical note:* An economic study of 1990-2011 showed RSA’s impact with \$1.1 billion in state tax revenues; \$14.3 billion in payroll; 282,564 FTE jobs; and \$28 billion in additional GDP.

The percentages from the Education Trust Fund (ETF) and the General Fund (GF) are based on FY 2015 estimates from the Executive Budget Office.

* From “Pensionomics 2016” based on most current data from 2014, National Institute on Retirement Security ●

Message from PEEHIP Concerning the AEA Lawsuit

BY DON YANCEY, DEPUTY DIRECTOR

As many of you know, last year the Alabama Education Association (AEA) filed suit against the PEEHIP Board seeking to overturn the premium and spousal surcharge increases that went into effect on October 1, 2016. On August 21, 2017, PEEHIP's lawyers received notice that the trial judge had granted summary judgment to AEA and ordered that the premium increase and spousal surcharge be invalidated. The judge also ordered that the additional premiums and spousal surcharges paid since October 1, 2016, be refunded to PEEHIP members.

This litigation is far from over. It involves important issues which bear upon the ability of the PEEHIP Board – which consists of 15 members, 12 of whom you elect from TRS membership – to effectively manage the PEEHIP program. PEEHIP had no choice but to appeal the decision and seek a stay of the order to refund premiums until the case is decided by the Alabama Supreme Court. PEEHIP's lawyers believe that the Court's order is incorrect and will be reversed on appeal.

On September 8, 2017, the Supreme

Court ordered a stay of the refunds, which means that members will not receive a refund unless the Supreme Court affirms the trial court's decision. On the other hand, if the Alabama Supreme Court overturns the trial court's ruling, there will be no refunds and the premium increase will remain in effect.

PEEHIP is a self-funded health plan, which means that your premiums and the amounts contributed for education employees by your employers (currently \$800 per active employee per month) are paid into the PEEHIP fund and used to pay participants' healthcare costs. The PEEHIP fund is the only money available to pay claims. Your healthcare plan is not underwritten by Blue Cross/Blue Shield of Alabama – they are merely administrators of the plan and do not provide funds to pay claims. If the PEEHIP fund runs short of funds, there will be no money for your healthcare and medications.

AEA has taken the position that there should never be a premium increase to PEEHIP participants. This is a popular position because no one, including the

PEEHIP Board and staff, wants premiums to increase. Although the Legislature has increased funding for PEEHIP over the last several years, there is a limit to the funds available for employers to contribute. And although the PEEHIP staff has been diligent in implementing cost-saving measures and seeking out federal subsidies, there is a limit to those sources of funds as well.

Meanwhile, PEEHIP costs continue to rise, and PEEHIP faces shortfalls of hundreds of millions of dollars in the next few years. That is why PEEHIP is appealing this case: Your PEEHIP Board needs to have the ability to manage the plan so that premiums can remain as low as possible and your healthcare coverage is there when you need it.

There is a lot of inaccurate information regarding this litigation coming from outside sources. PEEHIP has the most accurate and up-to-date information concerning the effect of this lawsuit on you. Please direct any questions you may have to Member Services at 334.517.7000 or toll-free 877.517.0020. ●

New NCPERS Study

PUBLIC PENSIONS ARE A GOOD DEAL FOR TAXPAYERS

www.ncpers.org

A new research report from the National Conference on Public Employee Retirement Systems (NCPERS) documents that public pension plans are “resilient, pose little burden to taxpayers, and stimulate the U.S. economy.”

The report underscores that public pensions are beneficial to taxpayers in a variety of ways that are both under-reported and poorly understood by many observers. “Critics often advance the false imperative that cities and states should be able to cover their long-term pension liabilities with current revenues,” said Hank Kim, executive director and counsel of NCPERS. “But that’s not how advance funding models work, whether for public pensions or other long-term goals such as

retirement or college savings,” he stressed.

“In the quest for simple answers to complex questions about public pensions, facile observers routinely overlook salient facts,” the report begins, making the following points:

1. Taxpayers get important services from public employees and pay only 20 cents on the dollar for their retirement benefits, with the rest coming from investment earnings and employee contributions.
2. Taxpayers benefit from \$3.7 trillion of pension fund assets invested in the economy, providing capital for established businesses and start-ups.
3. Taxpayers benefit because retirees typically spend their pension checks

locally, creating new jobs. “Above all, tax revenues created through retiree spending and pension investments may exceed what taxpayers pay into public pensions,” the report points out.

The benefit of advance-funding is a major focus of the overall report. Michael Kahn, NCPERS research director and author of the report, explains this as follows: “If you prefunded your child’s education by establishing a college fund at birth, you’d have an unfunded liability for many years. Over time, investment income and ongoing contributions would reduce this unfunded liability. With proper planning, the unfunded liability can be reduced to zero, and sometimes a surplus is created. That is how pensions work.” ●

Alabama's RTJ Golf Trail Changes with the Times

SOURCE: *GOLFWEEK*

My first buddies trip to Alabama's Robert Trent Jones Golf Trail was in early 2001. I'd spent plenty of time in Alabama prior to that. My big sister, the saintly Mary, had married into a Birmingham family, so we'd occasionally visit, usually on the way to my Mom's house near Panama City, Fla. Along the way I sometimes squeezed in a spare round at one of The Trail stops. But 2001 was the first time visiting with some buddies.

At the time the golf magazine I was editing in New York had just folded. So I pitched another near-bankrupt golf magazine on the idea of sending me and three unemployed pals to Alabama. It seemed like the perfect Trail story: We'd pile our luggage and clubs into an SUV, loop around the southern half of The Trail – Opelika, Montgomery, Greenville, Mobile, and Dothan – survive on fast food and sleep in fleabag motels. That was what The Trail was all about, right? Rise early, play as many holes as possible, pound beers and burgers late into the evening, pile into your \$59/night room with three of your buddies, sleep it off, wake up and do it all over again.

This month marks the 25th anniversary of The Trail, which was birthed by David G. Bronner, CEO of Retirement Systems of Alabama. Like the state itself, The Trail has undergone significant changes over the past quarter century,

both on the golf courses and off.

Last year I visited several Trail stops. In Mobile, the Battle House Renaissance Hotel & Spa is one of the finest hotel restorations you'll ever find and an anchor for a vibrant part of downtown that's a welcome departure from the

darkened streets and empty storefronts I saw in 2001. To the south, across Mobile Bay, the Grand Hotel Marriott Resort is one of the more quaint hideaways in the Southeast. In Muscle Shoals, the state's historic music destination, Rodney Hall of FAME Studios told me the Marriott Shoals Hotel & Spa has helped him recruit top recording acts because he can provide four-star accommodations.

"(The hotels) really expanded the

demographics we could sell to," said John Cannon, CEO of SunBelt Golf Corp., which manages The Trail's operations. "We now sell to an international clientele and a couples clientele that has enabled us to stay ahead of the curve as golf has suffered with (declining) participation."

Cannon was the first director of golf at Capitol Hill, the 54-hole Trail complex, with three distinct course-design styles in

Prattville, just north of Montgomery. He arrived there in 1998 when it was still under construction. At that time, he said, the only businesses on that part of I-65 were a Christmas tree farm and a dairy farm.

"I was coming from Myrtle Beach at the time and thought this was the craziest idea I had ever heard of," Cannon recalled.

The Trail now spans 11 sites with 26 courses and 468 holes of golf. Last year more than 500,000 rounds were played on The Trail, and in a typical year nearly half of the golfers come from out of state. While air service into Alabama is spotty, Cannon said more than half of out-of-staters fly in, many from long distances. He noted that one of SunBelt's top-10 markets each year is Orange County, Calif. . . .

Editor's Note: The tourism industry has grown from \$1.8 billion in 1992 to \$13.4 billion in 2017. ●



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

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Member Hotel
Discounts Webpage

ENJOY YOUR FALL/WINTER
A Special Deal
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The Battle House,

A Renaissance Hotel—Mobile—\$109

- October 1-2, 8-9, 15, 22-23, 29-31
- November 1, 5-6, 12-14, 19-30
- December 1-6, 10-13, 17-28

The Renaissance Riverview Plaza—Mobile—\$99

- October 1-5, 9, 11-12, 15-18, 22-23, 29-31
- November 1, 12-13, 19-30 • December 3-18, 24-28

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

- October 1-2 • November 5-6, 12-15, 19-21, 25
- December 3-4, 10, 14-21, 26-28

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

- October 1-2 • November 5-6, 12-15, 19-21, 25
- December 3-4, 10, 14-21, 26-28

Marriott Shoals—Florence—\$99

- October 5, 10, 15, 22, 29-31
- November 5, 12, 19-21, 24-28
- December 3, 7, 10-11, 17-20

Renaissance Ross Bridge—Hoover—\$109

- October 1-2, 5, 9-10, 22-23, 26, 29-30
- November 5, 8-9, 12-14, 16, 20-30
- December 1-30

Opelika Marriott—\$99

- October 1-2, 8-11, 15-16, 24-25, 29-31
- November 1, 5, 12-13, 19-23, 26-27, 29-30
- December 8-14, 17-31

Prattville Marriott—\$89

- October 1-3, 8-9, 16-18, 22, 29-31
- November 5-6, 12-15, 19-22, 24-29
- December 1-2, 7-31

Renaissance Montgomery—\$109

- October 3, 14-15, 24-31
- November 5, 7-8, 21-23, 25-28
- December 5-6, 17-28

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

- October 3, 14, 24-28, 31 • November 8, 21-23, 25, 28
- December 5-6, 19-28

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.

2017 TRS Board of Control Election

Four positions on the TRS/PEEHIP Board of Control are currently up for election: Teacher Position No. 3, Support Personnel Position No. 2, Principal Position, and Higher Education Position No. 2. These positions are currently held by Charlene McCoy, Russell Twilley, Dickie Brown, and Don Large, respectively. Read all the candidates' bios on the RSA website at www.rsa-al.gov beginning October 1.

Because Charlene McCoy was the only candidate for Teacher Position No. 3, she will retain her position on the Board.

Members will receive ballots after **October 16, 2017**. To be counted, ballots must be returned to Election America by **4:00 p.m., November 21, 2017**. Members will be able to vote by returning the prepaid postage mailer ballot or by voting online or by telephone. Instructions will be included with the ballot.

Elected members to the TRS/PEEHIP Board will only be elected by members from the same category of the retirement system. To be eligible to vote for the:

- **Principal Position:** You must be an active member currently contributing to the TRS and hold the position of Principal.
- **Higher Education Position No. 2:** You must be an active member currently contributing to the TRS and working in a public four-year institution of higher education or for the Commission on Higher Education.
- **Support Personnel Position No. 2:** You must be an active member currently contributing to the TRS and working as a maid, custodian, bus driver, lunchroom worker, cafeteria worker, secretary, clerk, clerical assistant, maintenance worker, or other non-certificated employee working an average of 20-hours-a-week. All active members who are not otherwise eligible to vote for another position (in this or any other election) shall be eligible to vote for the Support Personnel Position.

By submitting your vote, you are confirming that you are eligible to vote for the position based upon your classification. If your classification is incorrect, please contact the Election Coordinator at 334.517.7192 or 877.517.0020. ●



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