



# The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



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SERVING OVER 350,000 MEMBERS

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## Moving to a Better Alabama

BY DAVID G. BRONNER

I have spent my working life – a mere four plus decades – with a simple philosophy: The stronger we make Alabama, the stronger the RSA will be in the future. I wish I could say all my attempts were home runs, but that would be incorrect.

A few years ago, the Arnold Foundation, the Koch brothers, and the Alabama Policy Institute, along with some universities, attacked your RSA pension fund. The RSA won that battle, but the war continues and they will return.

As I have written many times in the past, all new governors and their finance directors want to solve the current problems they identified during the campaign. This is the reason we vote for them. Past governors have promised to fund your pensions. But, like buying a house with a 30-year mortgage, if you do not make the proper annual payment (thankfully, the Alabama Legislature has always funded the RSA at 100%), you end up like Illinois, Kentucky, or New Jersey. That is why it so important that you know your state senator and state

representative. You need their personal commitment and full support to keep your pension program sound.

It is crystal clear that many Alabam-



ians hate taxes that pay for reasonable education and state services. For years I have stated that low taxes are good, but having the lowest is just plain dumb! The Public Affairs Council of Alabama (<http://parcalabama.org/lowest-per-capita-tax-collections-in-the-nation-2/>) recently

presented data showing Alabama having the lowest total taxes of all ten southern states. The numbers are large with four states (LA, AK, NC, and KY) having over \$3 billion more in revenue than Alabama, one state (MS) having over \$2.5 billion, three states (GA, FL, SC) having over \$1.5 billion, while the ninth state (TN) has over \$600 million more.

In 1983, I was asked how to solve Alabama's numerous problems. At the time, I suggested reasonable property taxes for schools and a lottery. Alabama is the only southern state without a lottery so it may be closer to reality. On the other hand, reasonable property taxes are probably a pipedream. If Alabama does seriously consider a lottery, please consider adding 'Sports Betting' – which is now legal across America – with the lottery. Put those much needed funds into education and the General Fund to fix the prison, state police, and mental health programs. This would move us a step closer to an even better Alabama. ●

## Three States that Abandoned Their Pensions – and Suffered the Consequences

SOURCE: NATIONAL PUBLIC PENSION COALITION ([HTTPS://PROTECTPENSIONS.ORG/](https://protectpensions.org/))

What happens when a state abandons its defined benefit pension for a riskier, 401(k)-style plan?

- **Taxpayers lose** – According to the National Institute on Retirement Security, “for a given level of retirement income, a typical 401(k) plan

costs 91% more than a typical pension plan.”

- **Unfunded liabilities increase** – closing a pension system exacerbates funding challenges
- **Workers lose** – few can retire with dignity in a 401(k)-style system

These states have made the switch and suffered the consequences:

### WEST VIRGINIA

In 1991, the West Virginia Teachers' Retirement System (TRS) was closed after

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# Three States that Abandoned Their Pensions CONTINUED FROM PAGE ONE

decades of underfunding by the state. While teachers contributed 6% of every paycheck to the system, the state failed to live up to its end of the bargain. Instead of paying its share, West Virginia shuttered the system and moved new hires to a 401(k)-style plan. Fourteen years later, with fewer than 18,000 active teachers paying into a fund that supported nearly 27,000 retirees, the funding level sank to 25%. The 401(k) plan also left thousands of teachers grossly unprepared for retirement.

After a thorough evaluation revealed that the pension plan was nearly half the cost of the 401(k) plan, the state reopened the TRS in 2005. When given the option

to move back to a pension, 78.6% of teachers made the switch. The plan's funding level bounced back and today West Virginia's teachers enjoy an average annual retirement benefit of \$18,964.

## MICHIGAN

In 1997, the Michigan State Employees' Retirement System (MSERS) pension plan was closed and new hires were placed in a 401(k)-style plan. At the time of the plan's closure, the funded status was 109%. With no new employees paying into the pension fund and an aging demographic, plan costs soared and the funding level dropped; by 2012, the plan was severely underfunded at 60.3%. After 20 years under the 401(k) plan, the state's

Office of Retirement Services found that the median balance in these accounts is just \$37,260.

## ALASKA

An error made by an actuarial firm resulted in a \$2.5 billion unfunded liability for Alaska's pension systems. The state sued the firm and foolishly used the settlement money to close the pension and switch to a 401(k)-style plan. With the plans closed and no money coming in from new employees, plan costs skyrocketed. The state's consistent refusal to make the annual required contributions to the pension systems, coupled with an aging demographic, caused unfunded liabilities to double in less than a decade. ●

## What I Wish I Had Known Sooner

BY RHONDA H. PETERS, DIRECTOR OF RSA-1

In all of my years working at the RSA, I have NEVER heard a member say, "I wish I had not joined RSA-1." What I do hear them say is, "I wish I had known about it sooner" or "No one told me about it until later in my career."

One of the most important reasons many do join RSA-1 sooner rather than later is the power of compounding interest.

Would you like to have \$100,000 when you retire? By starting at age 25 and contributing \$100 per month to a tax-deferred retirement plan, such as RSA-1, you will have accumulated \$100,451 by the time you are age 55\*. Investing your money in stocks or bonds is not something you can do and get rich quick; rather, your funds build over time through the power of compounding interest.

Rates of return are posted on the average daily balance, so the longer you have an account, the more your average daily balance includes prior interest earned. By committing to a savings plan early, you can contribute less but save more.

Below are two examples of **actual**

### Time Period: 23 years from 1995 – 2018

Total contributions: \$54,025

Total interest earned: \$49,962

**Account Balance as of August 2018: \$103,987**

RSA-1 member accounts that the member began contributing early in their career, then gradually increased their contributions over time.

Maybe you feel like you could never contribute that amount of money. You will never know if you don't ever start saving. State employees received a Cost-of-Living Adjustment (COLA) October 1, 2018, or you may have recently received a salary increase. How will you spend that extra income now that you know the key to saving is to start early? One way to spend the COLA is to begin participating in RSA-1. If you are already a member, this is the perfect opportunity to increase your deferral amount.

RSA-1 is a free benefit offered to **all** active public employees (state, local, and education employees) and does **not** charge its members any fees! If you are interested in starting your RSA-1 Deferred Compensation savings today, contact the RSA at 877.517.0020 and ask for an RSA-1 Representative or speak with your HR/Payroll Officer.

\* This example assumes a 6% rate

### Time Period: 24 years from 1986 – 2010

Total contributions: \$163,000

Total interest earned: \$394,516

**Account Balance as of August 2018: \$557,516**

of return and is only an example, not a guarantee of how any RSA-1 investment options will perform in the future. ●

## 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



## Alabama Success Stories Marion Military Institute

Alabama's Community College System provides a wide range of curricula for our ever-changing workforce.

As a member college since 2006, Marion Military Institute (MMI) carves out its unique niche in higher education through leadership development in an immersive military environment. Tucked away in rural West Alabama, MMI continues to gain national and statewide acclaim for its finished product—“Marion Made” graduates. Here are a few bragging points our fellow Alabamians may not know about MMI:

- MMI was founded in Perry County as Howard College (later Samford University in Birmingham) in 1842 and became a military college in 1871.
- MMI's motto is Truth, Honor, Service.
- MMI is one of only four military junior colleges in the country and is the oldest of the four.
- The MMI Corps of Cadets is coed, 38% racially diverse, and represented by 48 Alabama counties and 44 U.S. states.
- MMI's combined graduation and transfer rate has averaged 77%, reaching a record 89% in 2017.
- Nearly half of MMI cadets have no military obligation and transfer to pursue civilian careers.
- The past four years, 368 cadets have gone to one of the five U.S. Service Academies: Air Force, Coast Guard, Merchant Marine, Naval Academy, and West Point through MMI's Service Academy Program.
- The past four years, more than 120 cadets have been commissioned as Second Lieutenants in the National Guard and Army Reserves through MMI's Army ROTC Early Commissioning Program found only in the military junior colleges.
- MMI was recently ranked #3 in the

state by the U.S. Department of Education for “salary after attending” among Alabama colleges and universities.

- MMI has produced more than 210 generals and admirals for the U.S. military.
- Forbes List & Fortune 500 CEOs credit their success to MMI, includ-



ing Jimmy Rane '64 (Great Southern Wood Preserving) and Stuart Parker '80 (USAA).

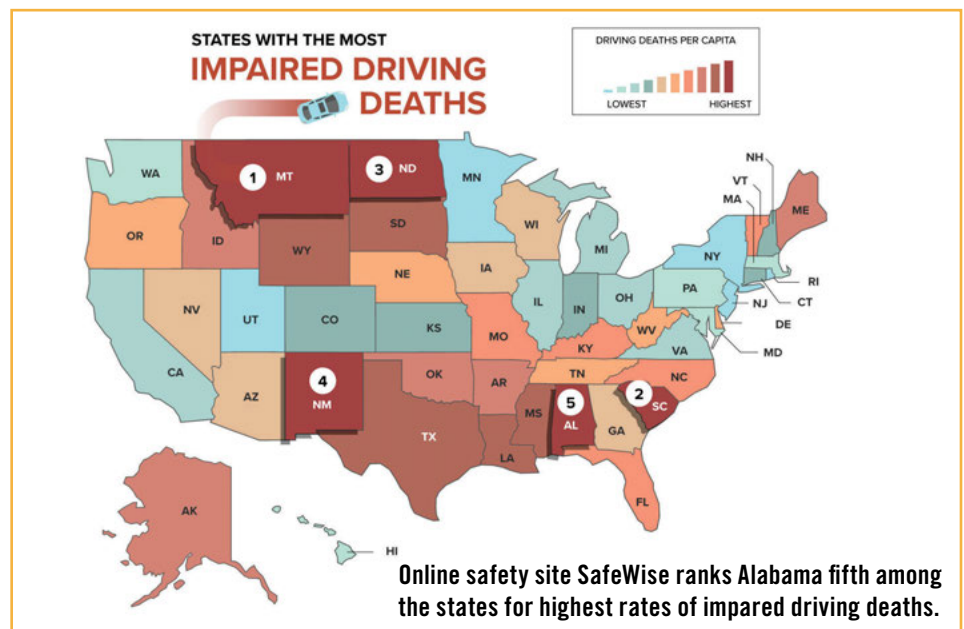
- MMI's campus features antebellum buildings, a leadership center, 9-hole golf course, and a Department of

Defense standard obstacle course, reaction course, and rappel tower.

- MMI's NJCAA athletics program has captured six conference titles in the last three years and has produced a number of professional athletes.
- The college's current slogan, “Marion Made,” was coined by a group of young alumni who engraved those words in their West Point class rings.
- Woodrow Wilson is responsible for the current MMI colors and mascot. Wilson, then president of Princeton, spoke at MMI in 1909. Following the speech, MMI's colors were changed to orange and black, and the athletic teams were called “Tigers” in honor of Wilson and Princeton University.

This is the first in a series of articles about Alabama Success Stories.

Please let us know if you have a similar success story you would like us to share with the RSA membership. You may contact us at [communication.correspondences@rsa-al.gov](mailto:communication.correspondences@rsa-al.gov).



# Start Planning Your Fall and Winter Getaways at RSA's Outstanding Hotels, Spas, and RTJ Golf

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FOR RSA MEMBERS

**The Battle House,**

**A Renaissance Hotel—Mobile—\$119**

- October 1-4, 7-12, 13-15, 26-31 • November 4-7, 11-29
- December 4-13, 16-17, 23-30

**The Renaissance Riverview Plaza—Mobile—\$109**

- October 1-2, 5-8, 12-19, 24, 28-31
- November 4-6, 11-13, 20-29 • December 7-17, 23-30

**Marriott Grand—\$127** plus a 15% resort fee

- October 1-2, 7, 14, 24-25, 31
- November 4-5, 9-12, 20, 25-30
- December 1-12, 16-20

**Marriott Grand—RSA Golf Package—\$199**  
**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, 7, 14, 24-25, 31
- November 4-5, 9-12, 20, 25-30
- December 1-12, 16-20

**Marriott Shoals—Florence—\$109**

- October 10, 14, 21, 28-29
- November 1, 4-5, 11, 18-22, 25-26
- December 2-3, 9, 16-19, 23-27

**Renaissance Ross Bridge—Hoover—\$119**

- October 2-4, 17-18, 21-22, 25, 28-29
- November 2-3, 7, 11-22, 25-30 • December 1-31

**Opelika Marriott—\$109**

- October 1-3, 6, 8, 14-23, 28-31
- November 1, 4-8, 11-15, 18-30
- December 5-13, 16-31

**Prattville Marriott—\$89**

- October 1, 7-8, 14, 16, 20-21, 28-29
- November 4, 9-12, 18-25
- December 2-3, 5, 8-9, 12, 15-31

**Renaissance Montgomery—\$119**

- October 19-20, 28-30 • November 18-21, 24-25
- December 16-18, 23-27

**RSA Spa Package—\$199—Promotional code—R2A**

- October 19-20, 30 • November 20-21, 24
- December 18, 26-27

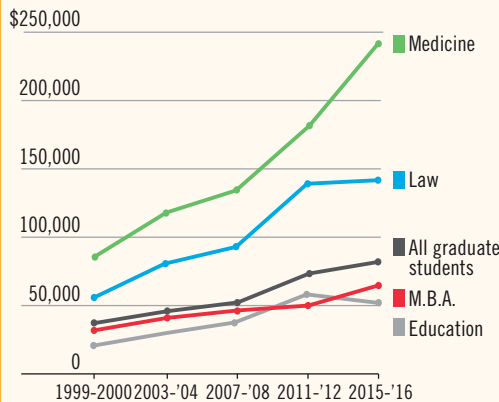
Specific room requests may require additional charge.  
Rates available the 1st of the month and  
are not applicable to groups.

800-228-9290 Ask for RSA rate. **Promotional  
Code: R2A** on [www.rsa-al.gov](http://www.rsa-al.gov)  
**Book Online and Save RSA \$4.**

## Burden of Debt

The cumulative amount M.B.A. and other graduate students borrow to finance their education has climbed over the past two decades.

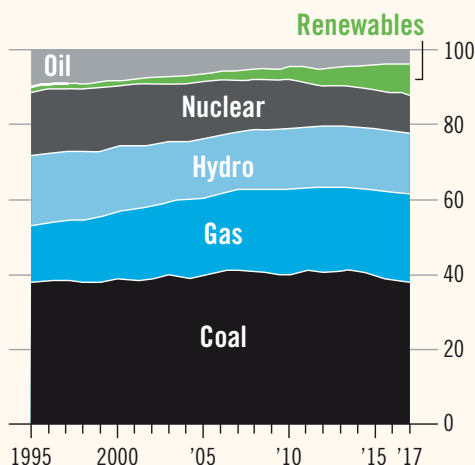
### Average debt load of graduates with loans



Note: Total debt in constant-2016 dollars Source: U.S. Department of Education

## Coal is Still King

Global electricity generation, by fuel type, %



Source: BP Statistical Review of World Energy 2018



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