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What to Expect When Pew and the Arnolds Come Calling

THE RECENT ALABAMA EXPERIENCE

SOURCE: THE NATIONAL COUNCIL ON TEACHER RETIREMENT (NCTR)

A recent article in AL.com by Tom Krebs, entitled “The Truth Behind the Big Money Efforts to Change Pensions in Alabama,” explains how the Laura and John Arnold Foundation and their surrogates, including the Pew Charitable Trusts, have tried over the last two years to convert the Retirement Systems of Alabama’s defined benefit approach to a cash balance plan as part of a “nationwide crusade against public pension funds.”

AL.com is one of the brands of the Alabama Media Group, a digitally-focused news and information company that includes the *The Birmingham News*, *The Huntsville Times*, and *Mobile’s Press-Register* and *The Mississippi Press*, and Krebs is a Securities lawyer in Birmingham and a former director of the Alabama Securities Commission, as well as a former Senior Counsel to the U.S. House of Representatives’ Financial Services Committee.

Krebs’ commentary discusses the work of the Joint Committee on Alabama Public Pensions, which was formed by a joint resolution during Alabama’s 2015 Legislative Session, and ultimately recommended that Alabama implement a cash balance plan for new employees. However, the 2016 Regular Legislative Session ended on May 4, 2016, without taking action on such a proposal, and the pension study commission’s charter has now expired.

“The Alabama Legislature seemingly is bound and determined to hand over Alabama’s pension funds of \$32 billion to the same Wall Street firms that brought us the financial crisis of 2008,” Krebs proclaims, and is doing so acting in reliance on “volunteered and tainted ‘research reports’ from the Pew Charitable Trusts, the Alabama Policy Institute (API), the Mercatus Center at George Mason University” and others. They are doing so, in Krebs’ opinion, “in an attempt to gain access to bribes, kickbacks, influence peddling, campaign contributions and pork barrel politics.”

Whether one agrees with Krebs’ characterization of motives, he accurately describes how John Arnold and the Pew Charitable Trusts are funding the attempt to take over state, county, and city retirement funds. Specifically, he notes that the “free service,” in the form of “Research Reports” from Pew, offered to the Alabama Joint Committee on Public Pensions, is nothing more than the

Quick Fixes a Danger to RSA

BY SENATOR CAM WARD

There’s been a lot of chatter over the past year about pension reform in Alabama, both from legislators and outside groups. This chatter has been fueled by concerns about the size of the Retirement Systems of Alabama’s (RSA) unfunded liability and the total amount the state pays in every year.

There’s just one thing missing from these conversations. We’ve already enacted major pension reforms. In 2011 and 2012, the Alabama Legislature increased the employee contribution rate, reduced benefits for new employees, and eliminated a costly postretirement incentive program. The reduction in benefits for new employees alone is estimated to save four billion dollars over the next thirty years and tied with Pennsylvania as some of the most extensive reforms in the nation.

I supported these reforms because they would ultimately reduce the taxpayer’s burden, would still provide a decent retirement benefit for new employees, and would protect the retirement benefits promised to current employees and retirees.

I’m skeptical of new “reforms” being discussed in the Legislature. These new bills promise to instantly save the state money. That is not true and is in fact very risky. The unfunded liability (which represents the majority of the state’s current contribution) can’t be reduced because it represents promises made to current employees and retirees. We promised to provide them benefits and we intend to keep that promise. Luckily, we have enacted measures to pay down this unfunded liability. We also have time. In the meantime, RSA has billions of dollars in assets and investments that are used to pay out current benefits owed.

The only way to save any more money is to further reduce the benefits for new employees and teachers. We’ve already done this once. To do it again could hinder our ability to recruit qualified professionals.

A public pension is like a big ship. It takes time to turn around and there are no instant fixes. However, we’ve had a few years for the recent reforms to take effect and seen some improvements. RSA estimates that the state has already saved millions since 2013. And the state is contributing less than it did in 2009. After a steady decline in funding levels after the 2008 recession, RSA’s funding level went up in 2014. And again in 2015.

We are on the right path. We just need to give the current reforms time to work. ●

WHAT TO EXPECT WHEN PEW AND THE ARNOLDS COME CALLING: THE RECENT ALABAMA EXPERIENCE

(CONTINUED FROM PAGE ONE)

purchased opinions of “seemingly independent nonpartisan think tank ‘experts,’ who in turn parrot what they are told to say about claimed failures of Alabama’s pension funding. This is exactly what the tobacco companies did years ago when they purchased research and scientific studies in an attempt to convince us that smoking was not injurious to our health,” Krebs insists.

Krebs notes that, since 2008, John Arnold “has spent upwards of \$53 million in an effort to change public pension funds, paying over \$177,000 to the Alabama Policy Institute” and funding “almost \$10 million of the Pew Charitable Trust’s effort to change public pension funds. All these entities and institutions have undertaken, directed and commissioned purportedly independent ‘research reports’ by professors and self-proclaimed experts on retirement fund management,” Krebs argues, “in an attempt to provide ammunition to our state’s legislators so that they can change Alabama’s pension system.” In fact, they are “nothing more than highly paid bloggers, who only parrot what they have been told by the donors to their respective institutions,” using “flawed reports” that often rely on each other’s previous report as “evidence of the correctness of their paid-for positions.”

Indeed, Alabama State Representative Randall Shedd was quoted in the Alabama press as saying that “I felt like we were just being spoon fed information from the national organizations who are intent on

phasing out pension plans across America,” and he questioned whether all the information received was credible.

The Alabama experience closely parallels that of Kentucky, which adopted a cash balance approach in lieu of its DB plan in 2013. In June of that same year, a joint letter from ten Kentucky state legislators to their colleagues in other states warned how Pew had “duped enough [Kentucky] legislators into passing a bill that will cost taxpayers millions of dollars, will not reduce our state’s unfunded liabilities, and will diminish retirement security. Don’t let Pew and Arnold convince you to pass this harmful reform that will have long-lasting consequences in your state,” the letter stressed.

“If Pew and the Arnold Foundation come knocking on your state’s door, offering their so-called ‘objective’ assistance in reforming pensions, I hope that these experiences in Alabama and Kentucky will be used to show your legislators what is really going on,” said Meredith Williams, NCTR’s Executive Director.

Williams also warned that the Arnold Foundation is continuing its efforts to fund new “echo chambers” for its anti-public pension propaganda, including the following new grants:

- \$1,500,000 (2016-2018) to the Reason Foundation
- \$190,000 (2016-2018) to the American Institutes for Research in the Behavioral Sciences
- \$100,000 (2016-2017) to the Colorado

Nonprofit Development Center

- \$50,000 (2016-2017) to Georgetown University
- \$200,000 (2016-2018) to the National Alliance for Public Charter Schools
- \$252,823 (2016-2017) to Stanford University

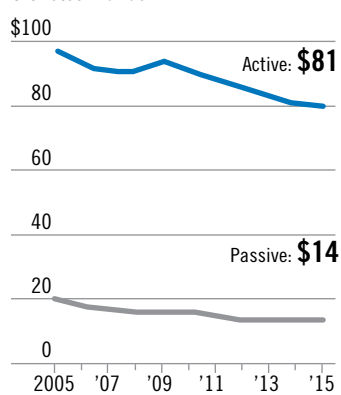
“These may not be huge numbers, but they are significant, and they reflect the ever-increasing efforts of the Arnold Foundation to develop a base of ‘research’ that supports their strategy of doing away with the defined benefit model for public pensions,” Williams stressed.

Also, Williams pointed to a video of John and Laura Arnold where Laura Arnold explains that the Arnold Foundation does not do grant solicitations to study a problem to determine the best solution to it, but instead they search for funding opportunities that fit their existing strategy. “That is, if they identify an idea that they like, they figure out a strategy and then find someone whose work fits with that strategy so they can collaborate,” he explained. “But if they cannot find someone who agrees with them, then they create them,” Williams continued. “Laura says this is what they would actually prefer to do, because it gives them the ability to control the message and ‘to very definitively exclude’ work that is not ‘aligned’ with their viewpoint,” Williams said.

“Just incredible! This is what propagandists do, not objective researchers,” he pointed out. ●

Gravity

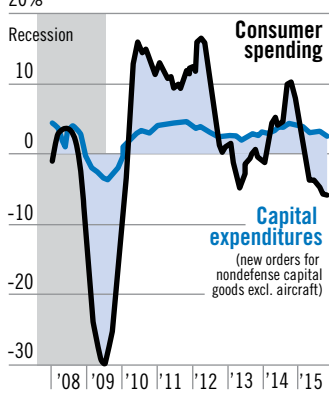
Annual cost per \$10,000 invested at actively and passively managed U.S. stock funds



Source: Morningstar

Diverging Paths

Change from a year earlier, three-month moving average



Note: All figures adjusted for seasonality
Source: Commerce Department

WANT TO HELP?



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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

TRS and ERS Fact Sheet

Percentage of members who vest:

TRS – 63.9%
ERS State – 62.8%

Amount of Unfunded Liability as of 9/30/2015:

TRS – \$10.1B
ERS State – \$2.65B
ERS Locals – \$2.48B

FY2016 Blended Employer Contribution Rates:

TRS – 11.72%
ERS State – 13.48%

Percentage of Tier II Employees:

TRS – 18.17%
ERS – 20.97%

2015 Funded Ratio:

TRS – 68.3%
ERS (State & local) – 67.3%
ERS (State only) – 62.9%

Current Assets (as of 6/30/2016):

TRS – \$22,200,445,447 (\$22.2B)
ERS – \$10,837,897,976 (\$10.8B)
JRF – \$272,496,379 (\$272M)
Total – \$33,310,839,802 (\$33.3B)

Amount and Percent of Employer’s Contribution from total Education Appropriations (per EBO):

2015: Contributions – \$737.7M; % of Total Education Appropriations – 5.04%
FROM ETF ONLY: Contributions – \$479.5M; % of ETF – 8.11%

Amount and Percent of Employer’s Contribution from total State Appropriations (per EBO):

2015: Contributions – \$184.9M; % of Total State Appropriations – 1.29%
FROM General Fund ONLY: Contributions – \$68.4M; % of GF – 3.63%

Rates of Return (as of 9/30/15):

TRS – 1YR: **1.04%** 3YR: **9.20%** 5YR: **9.42%** 10YR: **5.42%** 20YR: **6.66%** 30YR: **8.18%** 35YR: **8.81%**
ERS – 1YR: **1.05%** 3YR: **9.06%** 5YR: **9.37%** 10YR: **5.16%** 20YR: **6.46%** 30YR: **8.04%** 35YR: **8.75%**

The 2015 fiscal year ending September 30 was difficult, but both the investment returns of the ERS and TRS were in the top 12% for 2015. The TRS returns were in the top 6% and ERS in the top 10% for the last three years; the TRS in the top 10% and ERS in the top 12% for the last five years, all according to the State Street Public Funds Universe (59 funds over \$1 billion).

Alabama Shoppers To Start Paying A Tax On Amazon Purchases

BY MORGAN YOUNG | WSFA

Beginning on Nov. 1, all Amazon online purchases made by shoppers who live in Alabama will have an additional eight percent sellers use tax. Amazon will collect the tax and pay to the state on the 20th of each month with the standard two percent discount taxpayers receive for paying on-time [...]

Founded in 1994, Amazon is the largest e-commerce company in the world in terms of revenue. Julie Magee, Alabama’s Commissioner of Revenue, said Amazon’s participation in the program would be extremely beneficial to the state. “Amazon has grown

30 percent in the last year,” Magee said. “This new revenue for the state, cities and counties will have a phenomenal impact.” Magee said the state expects to see a \$40

from Alabama residents is good news for local business owners. “This is great news for retailers all across the state. For decades, brick-and-mortar stores have been fighting for a level playing field. Essentially, the government has been giving online stores a 10 percent advantage over brick-and-mortar stores.” This 10 percent advantage is the sales tax stores have to pay, which makes their prices higher than the prices charged by the online retailers that are not required to charge taxes [...]



to \$50 million influx from the tax funds by 2017 and a “substantial” increase by 2018. She said 75 percent of the revenue goes to the state’s general fund.

Warnke said Amazon collecting taxes

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The Battle House,

A Renaissance Hotel—Mobile—\$109

- September 1-5, 7-8, 10-14, 18, 22, 24-27
- October 1, 5-6, 9-18, 20-26, 30-31 • November 1-30

The Renaissance Riverview Plaza—Mobile—\$99

- September 1-8, 10-11, 18, 22-30
- October 1-6, 9-16, 23-26, 29-31 • November 6, 13-30

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

- September 5-7, 11-13, 16-19, 25-26
- October 2-6, 9, 16-17, 23, 30-31
- November 6-10, 13-15, 20-22, 28-30

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

- September 5-7, 11-13, 16-19, 25-26
- October 2-6, 9, 16-17, 23, 30-31
- November 6-10, 13-15, 20-22, 28-30

Marriott Shoals—Florence—\$99;

Breakfast Package \$124

- September 1, 5-8, 11, 13, 23-25, 29
- October 1-2, 6, 8, 13, 16-17, 20, 23-24, 27-30
- November 4, 6-7, 10-14, 20-28

Renaissance Ross Bridge—Hoover—\$109

- September 5-9, 11-14, 18-20, 25
- October 2-3, 6, 9, 11-12, 16-17, 19, 23-26, 30-31
- November 6-9, 13-17, 20-30

Opelika Marriott—\$99

- September 5-9, 11-14, 18-20, 25
- October 11, 16-17, 23-24, 30-31
- November 6-8, 10-17, 20-28, 30

Prattville Marriott—\$89

- September 4-8, 11-12, 15, 18-19, 25
- October 9, 16, 23, 30-31
- November 6-7, 13-24, 20-30

Renaissance Montgomery—\$109

- September 1-6, 8-12, 18, 25-27
- October 3-4, 16, 20 • November 6-8, 22

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

- September 1-3, 6, 8-10, 27 • October 4, 20
- November 8, 22

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.**

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SOURCE Hotels.com Mobile Travel Tracker study of 9,200 travelers
across 31 countries

Aviation Deaths

The USA leads the world in
fatal civil airliner accidents

789
with
10,628
deaths



NOTE 1945 through May 29; excludes corporate jet or military transport accidents
SOURCE Aviation Safety Network



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