



THE RETIREMENT SYSTEMS OF ALABAMA

Legislative Orientation

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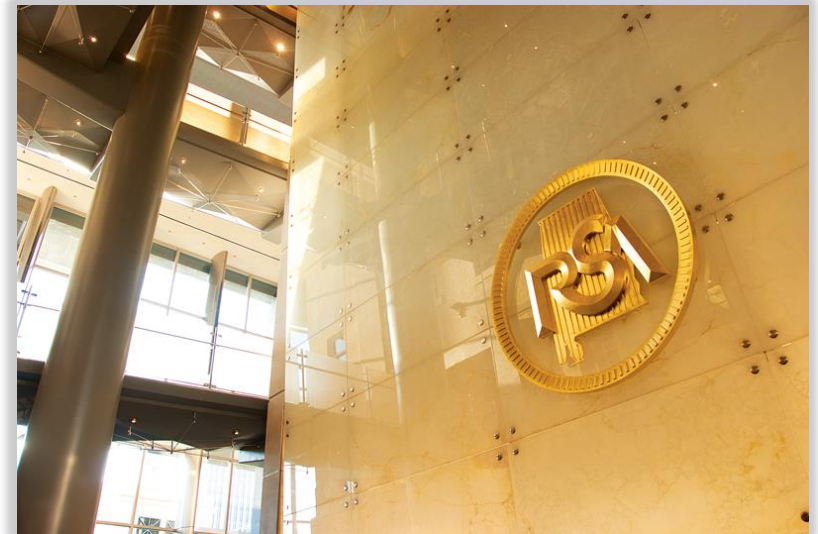


What does RSA do?

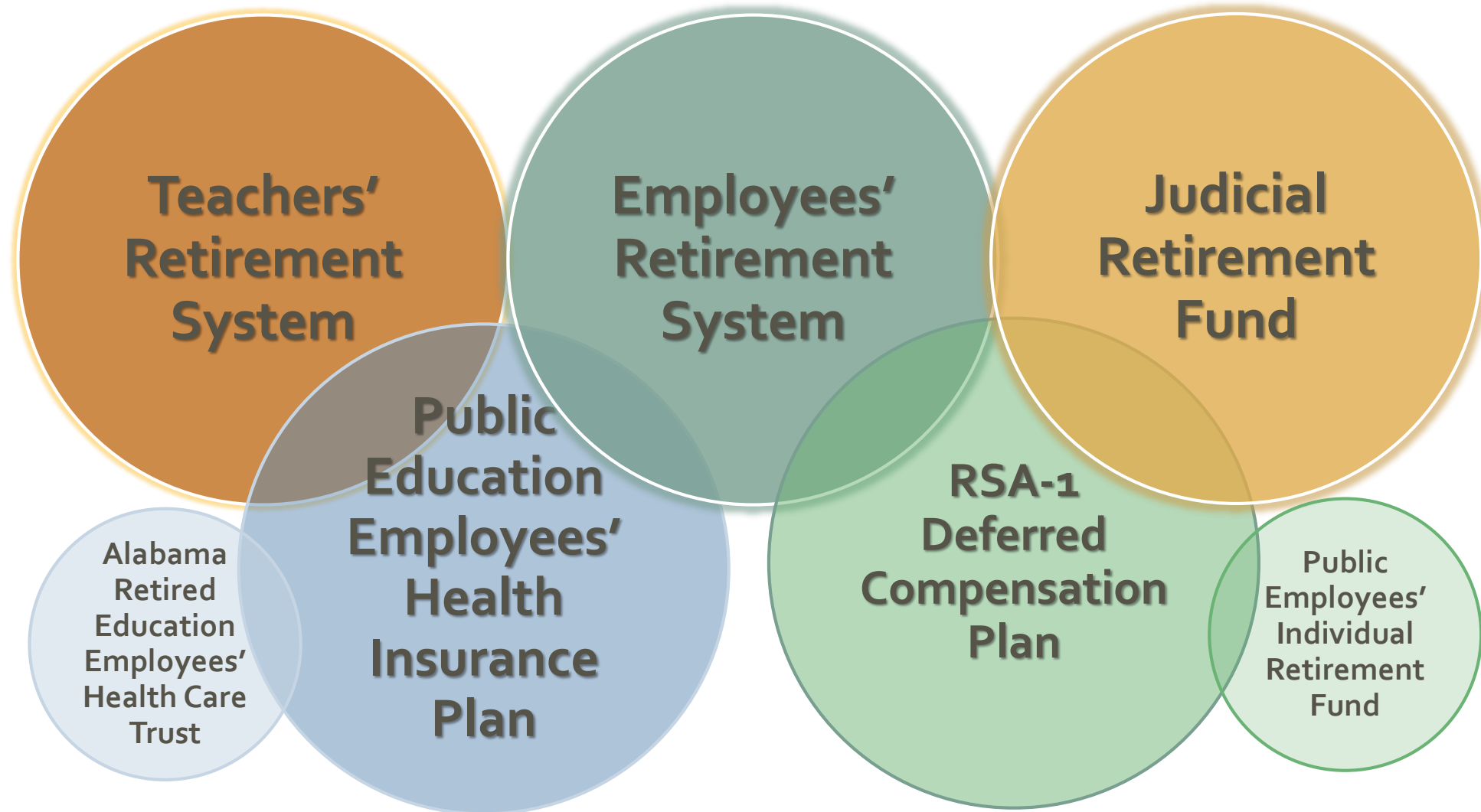
RSA administers the public pension plans for **state, education, judicial, and local government employees** in Alabama.

RSA administers the **health insurance plan** for public education employees (PEEHIP) and the **deferred compensation plan** for public employees (RSA-1).

RSA manages and invests seventeen various funds for the state.



Programs Administered by RSA





RSA's Retirement Plans

Teachers' Retirement System

- Provides retirement benefits to public education employees.

Employees' Retirement System

- Provides retirement benefits to state employees and state police; and
- Administers retirement benefits for local governments that elect to participate.

Judicial Retirement Fund

- Provides retirement benefits to district attorneys and circuit clerks (elected for the first time on or after November 2016) and to justices and judges.



Participating Employers

as of 9/30/21 ACFR

TRS

13 Universities

25 Post-
Secondary

138 Boards of
Education

39 State
Agencies/Other

ERS State

State of
Alabama

ERS Local

304 Cities

66 Counties

510 Other Public
Entities

JRF

67 Counties
(Probate Judges,
Circuit Clerks,
and District
Attorneys)

AOC (Justices
and Judges)

RSA BENEFITS





What is a Pension?

A pension (also known as a defined benefit) is a type of retirement benefit that provides a set monthly income in retirement for the life of the retiree.

Pensions are typically funded by a combination of employee contributions, employer contributions, and investment income.

The size of a pension depends on how long a member works for an employer and his or her salary.

A member is not eligible to receive a lifetime benefit unless he or she works for the employer for a minimum amount of time known as the vesting period.



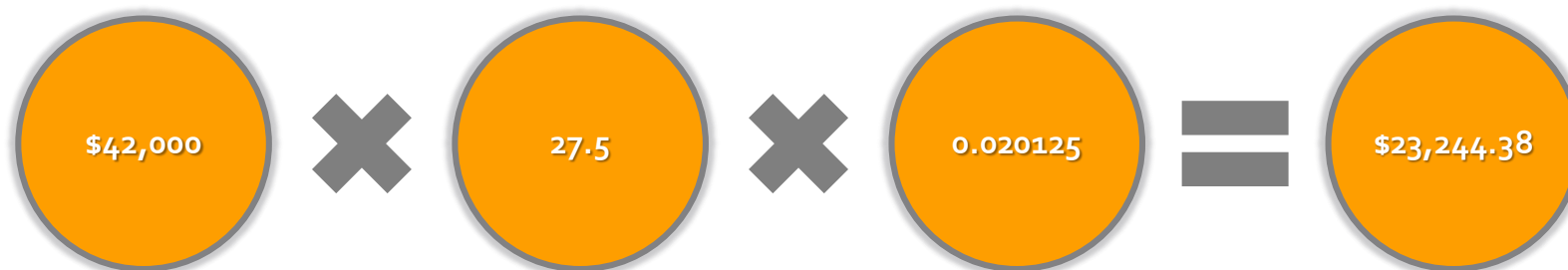


Calculating a Member's Benefit

The formula used to calculate RSA members' pensions is:



Example: Average Final Salary - \$42,000; Service Credit - 27 years and 6 months; Benefit Multiplier for Tier I TRS – 2.0125%





RSA Members and Benefits by System

as of 9/30/21 Actuarial Valuations

	TRS	ERS State*	ERS Local	JRF
Active Members	134,034	28,333	56,238	368
Active Payroll	\$7.2B	\$1.5B	\$2.6B	\$47.9M
Retired Members	103,071	25,814	29,779	452
Retirement Benefits Paid	\$2.4B	\$623M	\$638M	\$39.1M
Average Annual Benefit	\$23,656	\$24,148	\$21,414	\$86,547

*Includes State Police.



RSA Tier I and Tier II Comparison

as of completion of the 2022 Regular Session

	Tier I	Tier II
Date of Employment	Prior to January 1, 2013	On or after January 1, 2013
Member Contribution Rate	<ul style="list-style-type: none"> • 7.5% for TRS/ERS State • 5% or 7.5% for ERS Local • 6% or 8.5% for FLC • 10.0% for State Police 	<ul style="list-style-type: none"> • 6.2% for TRS • 6.0% for ERS • 7.0% for FLC and State Police
Retirement Eligibility	<ul style="list-style-type: none"> • 25 years of service at any age (30 years for local units that have not adopted Act 88-548) • At least 10 years of service at age 60 (age 52 for State Police) 	<ul style="list-style-type: none"> • 30 years of service with an early retirement penalty • At least 10 years of service at age 62 (age 56 for FLC and State Police)
Retirement Factor	<ul style="list-style-type: none"> • 2.0125% for TRS/ERS • 2.875% for State Police 	<ul style="list-style-type: none"> • 1.650% for TRS/ERS, FLC, and State Police
Disability Retirement	No Change	New disability standard



RSA Tier I and Tier II Comparison

	Tier I	Tier II
Average Final Salary	Average of the highest three years of the last ten years	Average of the highest five years of the last ten years
Benefit Cap	None	80% of Average Final Salary <i>(Approx. 48 yrs & 6 mos to get to cap)</i>
Retirement Contributions on Overtime Pay	Earnable Compensation cannot exceed 120% of base pay	Earnable Compensation cannot exceed 125% of base pay
Sick Leave Conversion	Yes	Yes for TRS; No for ERS
FLC Bonus Year/State Police Bonus	Yes	No

RSA FUNDING





Funding RSA's Pension Plans

- An RSA member's retirement benefit is funded from a combination of contributions by:
 - **the member,**
 - by **the member's employer,**
 - and from **investment earnings** on those contributions.
- The benefits are pre-funded and monies from contributions and investments are held in trust by RSA to be used solely for retirement benefits as required by Alabama's Constitution.



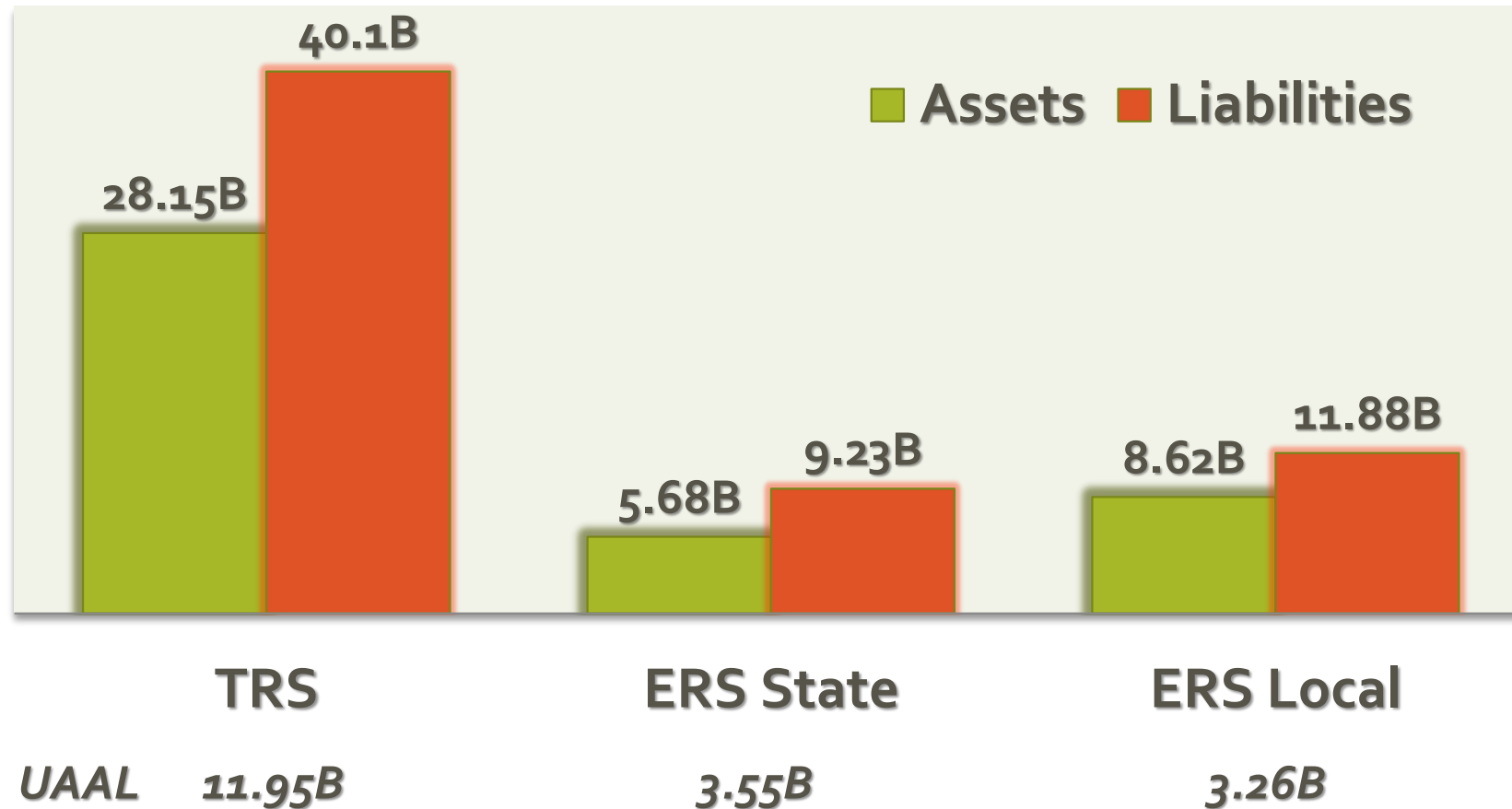


Unfunded Liability

- The unfunded liability is the difference between a pension's liabilities and the amount of assets it holds.
- RSA's actuaries calculate the amount of the unfunded liability (also referred to as the unfunded actuarial accrued liability, or "UAAL").
 - RSA's liabilities are the projected benefits payable to **retired and active members**, discounted to the present value.
 - RSA's assets are determined using a five-year asset-smoothing method as required by statute.
- The comparison of these assets to liabilities is represented as a percentage and called the funded ratio.

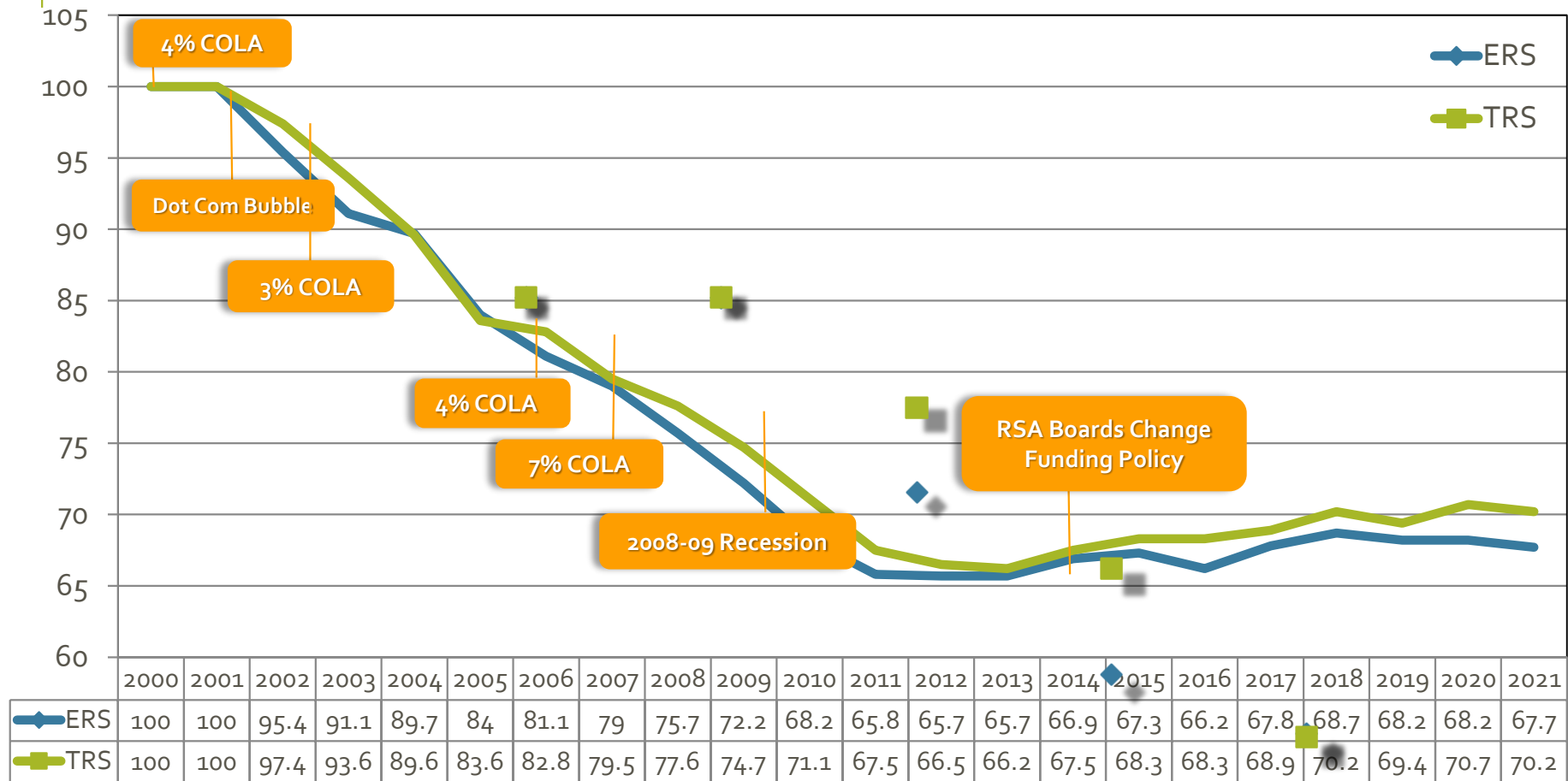


FY21 RSA Liabilities and Assets





RSA's Funded Ratio 2000-2021



* RSA's actuaries estimate that the four unfunded retiree COLAs, as plotted above, added \$2.2B to RSA's unfunded liability.



Employee Contribution Rates

	Tier 1	Tier 2
TRS	7.5%	6.2%
ERS State	7.5%	6.0%
ERS State Police	10.0%	10.0%/7.0%
ERS Firefighters, Law Enforcement & Correction Officers	8.5%	7.0%
ERS Local	5% or 7.5%*	6.0%
JRF	8.5%	8.5%

*Dependent upon whether local units adopted higher contribution rate as set forth in Act 2011-676.



Employer Contribution Rate:

Actuarial Valuation

- The actuaries produce an annual valuation of the assets and liabilities of RSA based upon the actuarial assumptions and methods set by the Boards and required by actuarial standards of practice.
- Based upon this annual valuation, the actuaries determine the amount needed to fund the normal cost of benefits accrued during that year and the amount needed to pay the unfunded liability over the applicable amortization period.





Employer Contribution Rate: Set by Actuaries

- The employer contribution rate is set by RSA's actuaries in the actuarial valuation as a percentage of payroll.
- The employer contribution rate is calculated using the valuation from 3 fiscal years prior.
 - For example, the FY23 rate is based upon the FY20 investment returns.





Employer Contribution Rate:

Approval and Payment

- The Legislature approves the rate for TRS, JRF, and ERS State but does not appropriate money directly to RSA (except for a line item appropriation to JRF for probate judges).
- Each ERS local unit has a unique employer contribution rate that is calculated specifically for that unit and is paid by that unit.
- RSA participating employers submit the contribution to RSA on a monthly basis.





Employer Contribution Rate: Funding the Employer Contribution

- By statute, participating employers must pay the employer contribution from the same source of funds used to pay salaries.
- Not all funds used to pay the employer contribution rate come from the Education Trust Fund and/or General Fund. Some participating employers have other sources of funding that are used to pay the rate.
- ERS Local is funded by each individual participating local unit from local monies. The state is not responsible for the funding of the employer contribution rate of local units.





Employer Contribution Rate:

Employer Contribution Funding Sources

State Agency
Appropriation from
the General Fund

K12, Postsecondary, or
University
Appropriation from
the Education Trust
Fund

State Earmarked
Funds Received by
State Agencies

Federal Funds
Received by State
Agencies

Local Funds from
Local Units

Federal and Local
Funds Received by K12

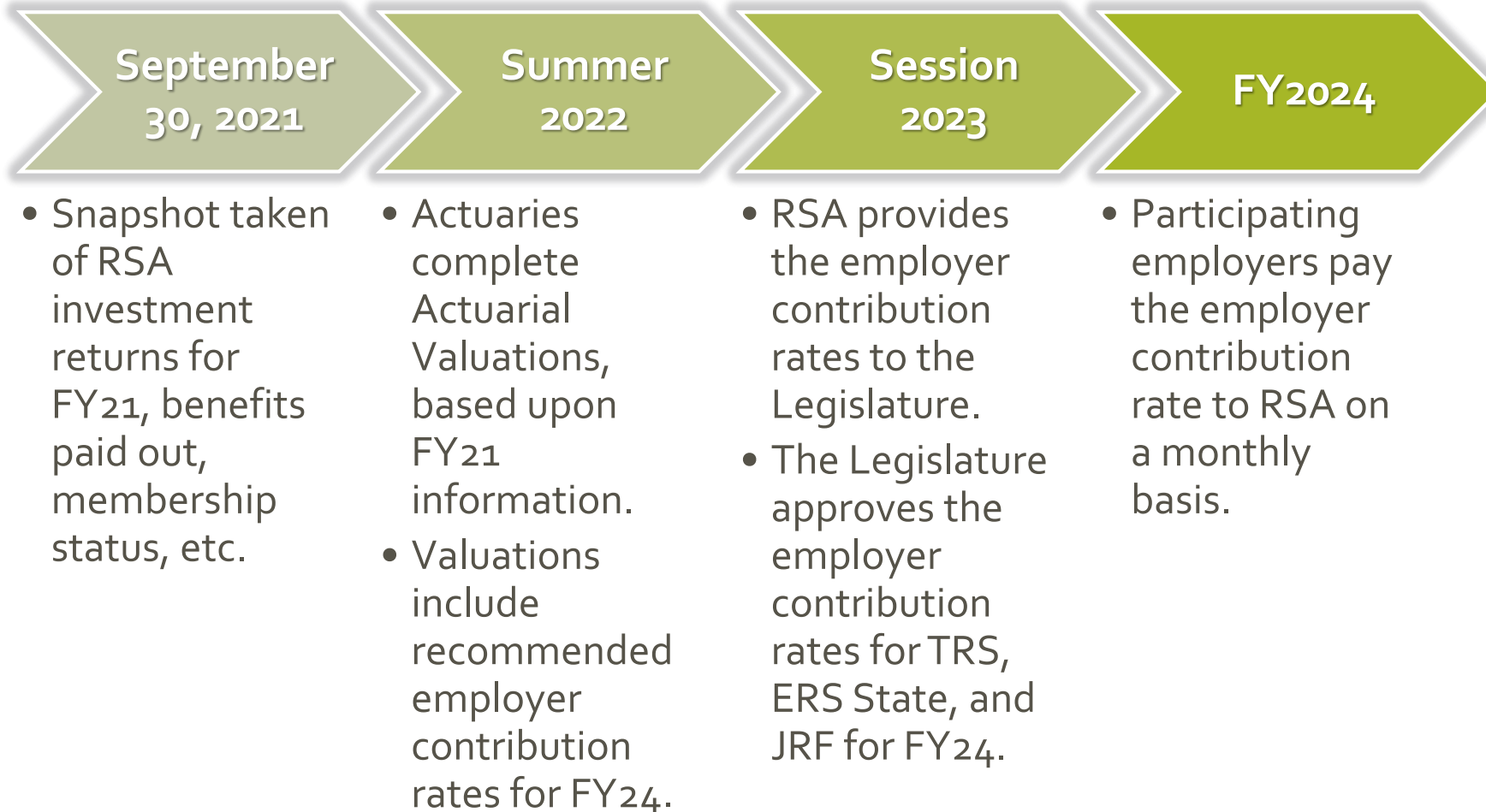
Federal Funds
Received by
Universities and
Postsecondary

Tuition Received by
Universities and
Postsecondary

Private Monies
Received by
Association Employers



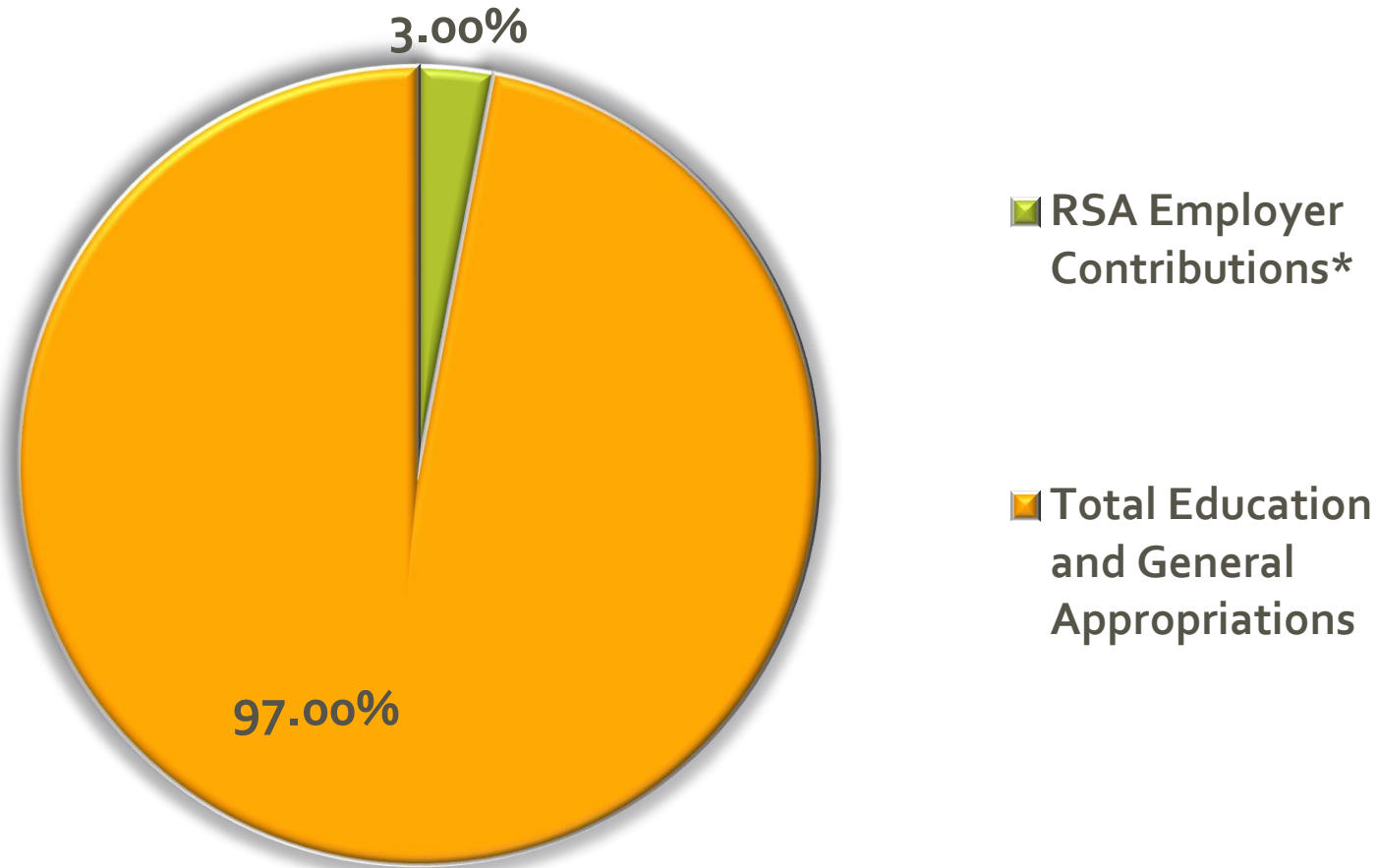
Employer Contribution Rate: Timeline





FY22 RSA Employer Contributions

As a % of Education and General Appropriations

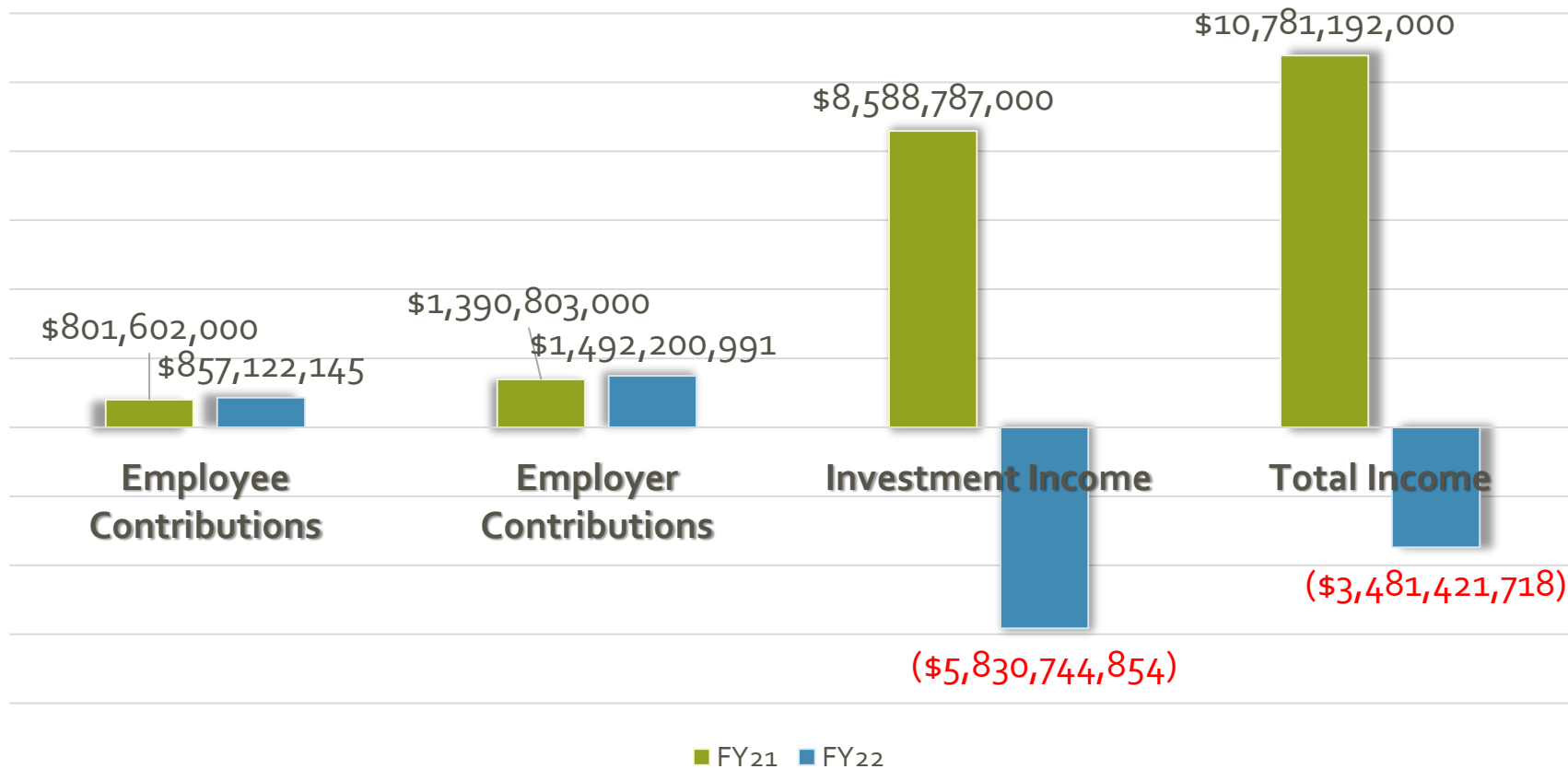


*Does not include employer contributions from local units participating in ERS.



RSA Income Sources:

FY21 and FY22 Comparison



*This includes contributions from all sources for TRS, ERS State, and ERS Local, and excludes transfers from new units, transfers between ERS and TRS, and transfers from internal service funds.



Historical RSA Income Sources:

FY73-FY22

Employee Contributions:

\$18.0B

Employer Contributions:

\$29.8B

Investment Income:

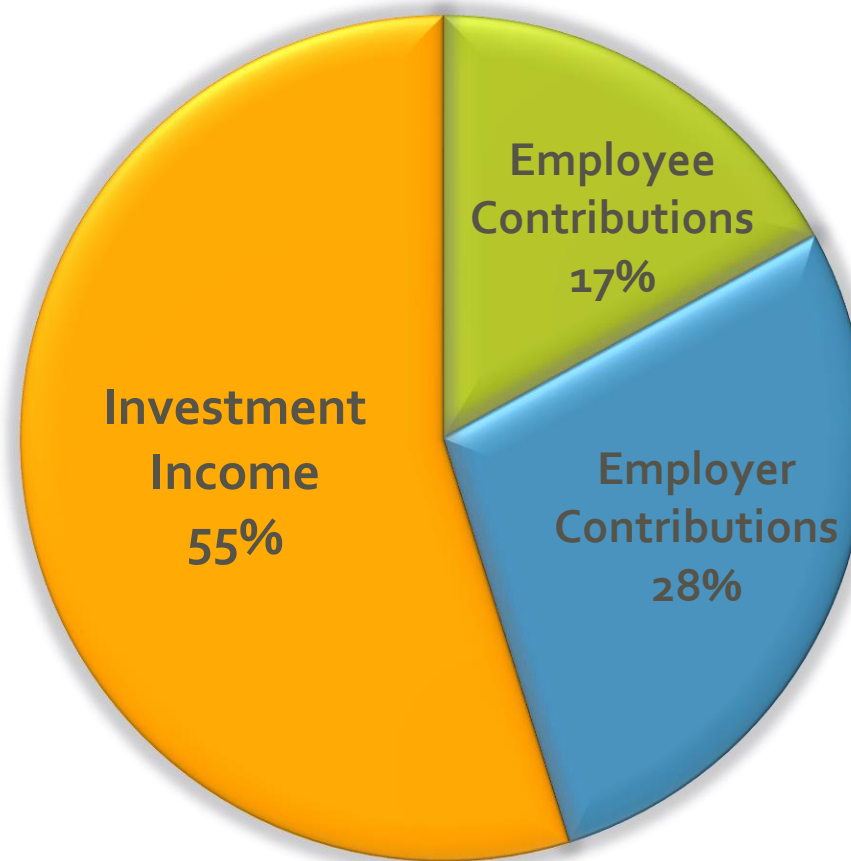
\$58.0B

Total Income:

\$105.8B

Benefits Paid:

\$65.7B



RSA INVESTMENTS





Investment Processes:

Statutory Controls

- The TRS and ERS Boards of Control invest funds through the Secretary-Treasurer. *Ala. Code § 16-25-20(a)(1); Ala. Code § 36-27-25(a).*
- The Secretary-Treasurer makes investments, through RSA's investment staff, in accordance with the investment policies set by the Boards. *Ala. Code § 16-25-20(a)(2); Ala. Code § 36-27-25(c).*
- The TRS and ERS Investment Committees approve investments as made in accordance with the investment policies. *Ala. Code § 16-25-20(a)(3); Ala. Code § 36-27-25(d).*





Investment Processes:

Board Policies

- Investment policies, which establish the policies by which RSA's investments will be managed, are set by the RSA Boards.
- Policies set the eligible asset categories, the asset allocations, and the risk controls and procedures.
- Investment staff run daily compliance checks to ensure investments are made in accordance with the policies.





Investment Earnings

- Employers pay a discounted amount to pre-fund employees' retirement benefits because the funds are invested and the earnings from those investments help fund benefits.
- RSA assumes that it will earn **7.45%** on investments and has historically met that target.
- Lowering this assumed rate would increase the employer contribution as the normal cost for benefits and the unfunded liability would increase.





Investment Staff

- RSA's investments are handled by its in-house investment staff, which consists of 13 chartered financial analysts.
- Having a professional investment staff allows RSA to avoid paying costly fees to outside investment groups.
- As a result, RSA has some of the lowest investment expenses in the country at **\$13.5M** for FY20. If RSA spent just the average amount, it would have spent **\$185M**.





RSA Historical Investment Rates of Return as of FY22

	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr	35 Yr	40 Yr
ERS	-13.02%	3.99%	4.79%	7.38%	4.85%	6.80%	5.81%	6.91%	7.72%	8.35%
TRS	-13.18%	3.99%	4.78%	7.33%	4.95%	6.89%	5.93%	7.00%	7.81%	8.44%

* The highest return for the 40 year period is 22.18% for ERS in FY22 and 28.24% for TRS in FY82. The lowest return for this period is -15.21% for ERS in FY08 and -15.36% for TRS in FY08.

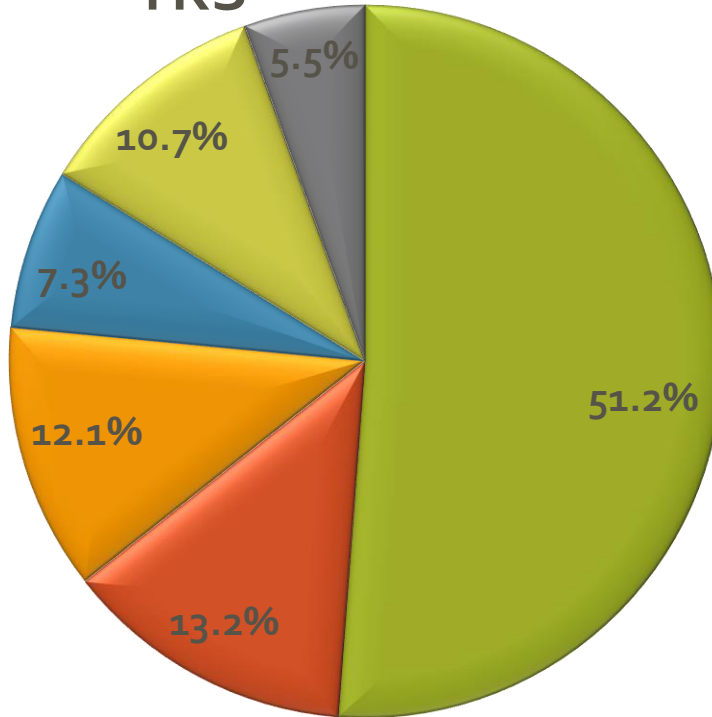
**The returns for years 1980 through 1989 are based upon performance returns calculated from TRS and ERS historical financial statements, which do not weigh cash flows or asset allocation shifts that may have occurred within a given period. These years along with the years 1990 through 1995 were calculated by RSA staff. Returns for all years thereafter were obtained from State Street based upon TRS' and ERS' data.



Asset Allocations:

as of 9/30/22

TRS



Domestic Equity

International Equity

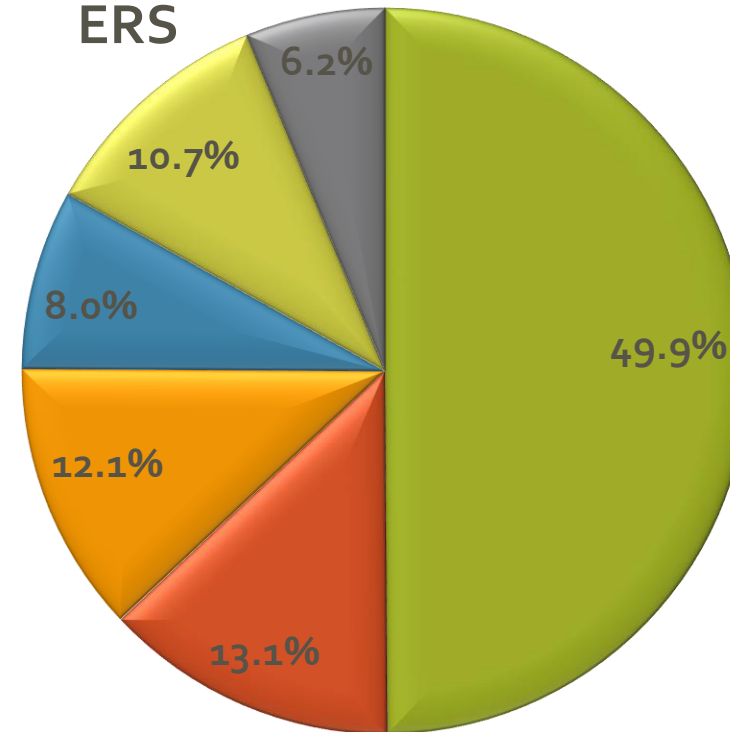
Fixed Income

Private Placements

Real Estate

Cash Accounts

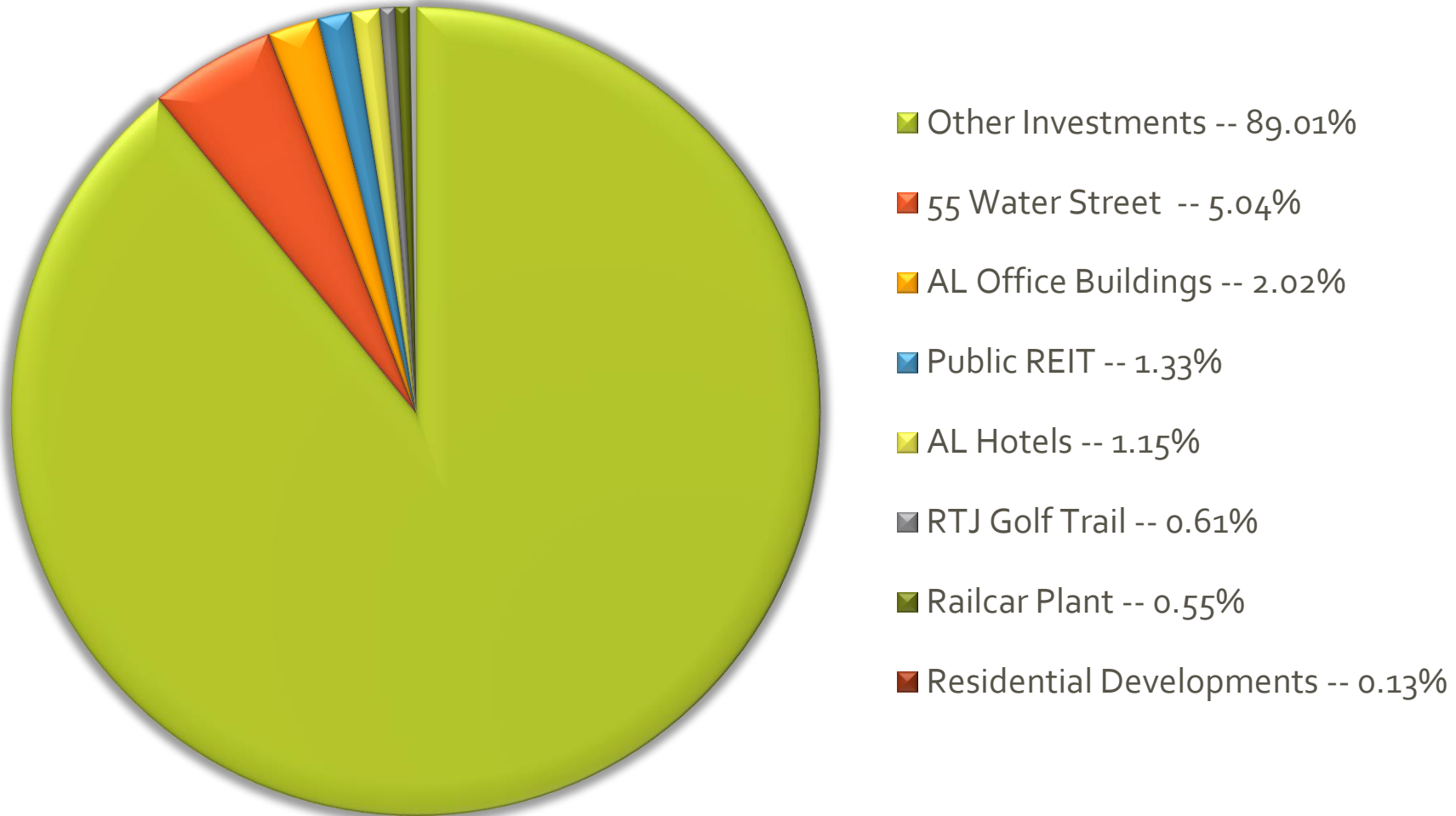
ERS





RSA Real Estate:

Compared to Total Portfolio as of 9/30/22





PEEHIP



The Public Education Employees' Health Insurance Plan

PEEHIP was created in 1983 to provide health insurance benefits to active and retired public education employees.

PEEHIP offers three Hospital/Medical plans, four Optional Coverage plans, one Supplemental plan, and two Flexible Spending Accounts.

By statute, PEEHIP is governed by the same board as TRS.

PEEHIP has over 300,000 covered lives including actives, retirees, and dependents under its Hospital/Medical plans.





PEEHIP Funding

PEEHIP is funded primarily by employer contributions and member premiums, copays, and deductibles.

The employer contribution rate for PEEHIP is set by the Legislature annually.

The rate is set at a flat amount per month to be paid by participating employers for every active employee that is eligible to participate in PEEHIP.

The employer contribution rate has been level set at \$800 per active per month since 2017.

PEEHIP has requested level funding for FY24.



PEEHIP \$800 Per Active Per Month Usage for FY22

PEEHIP received \$800 per active per month in funding from the Legislature for FY22 (\$975.2 million). This amount is used to cover the cost for the following after members have paid their monthly premiums and all other sources of funds are received:

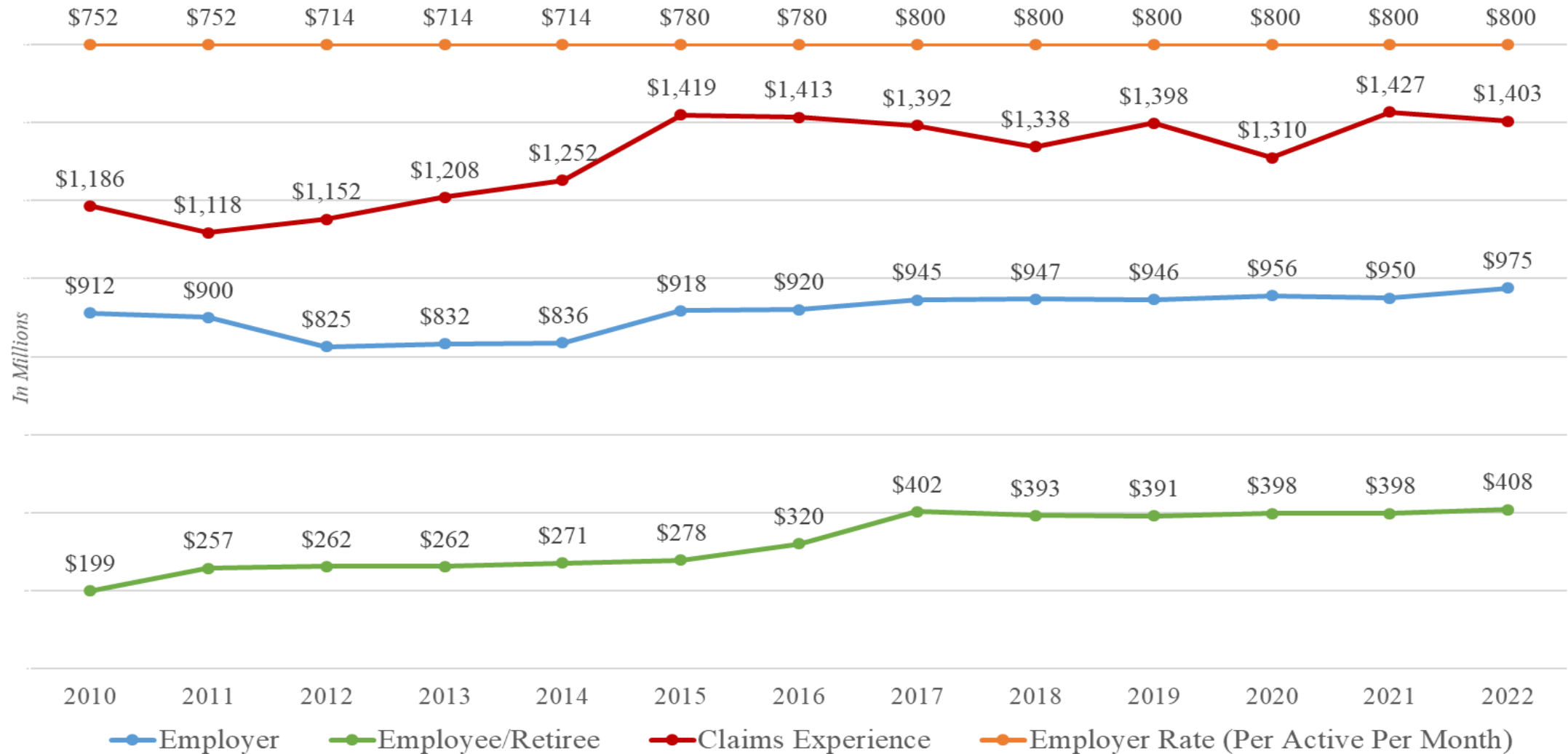
- Active subsidy
- Retiree subsidy (except University Retirees)
- Dependent subsidy (Active & Retiree)
- Administrative expenses

PEEHIP also received funding in FY22 from the following sources:

- Universities to cover their retirees when only University retirees are covered by PEEHIP (\$42.3 million)
- Employer Group Waiver Plan funds for Medicare eligible retirees (\$400,000)
- Investment Income (\$2.6 million)
- Member premiums (\$407.7 million)



PEEHIP Financial Trends 2010-2022





Alabama Retired Education Employees' Healthcare Trust Fund

The Retiree Trust was created by statute in 2007 to prefund healthcare costs for PEEHIP retirees and to help offset the unfunded liability for the plan.

The Retiree Trust had a market balance of \$1.647 billion as of 9/30/22. The assets of the Trust help to offset PEEHIP's unfunded liability.

The Retiree Trust has been funded by two transfers from PEEHIP in 2007 and 2008 (totaling \$631M), by monies from federal programs between 2007-2014, and by investment income.

Monies were transferred from the Trust to PEEHIP in 2015 (\$92M) and 2016 (\$32M) to address funding shortfalls.

The Legislature created but does not appropriate money to this Trust.

No member money has ever been placed in this Trust.

RSA-1 DEFERRED COMPENSATION PLAN





RSA-1: A Deferred Compensation Plan

RSA-1 is an Internal Revenue Code Section 457 deferred compensation plan for all public employees.

No employer contributions are made.

Per Ala. Code § 36-27A-7, no administrative fees are charged to members. Instead, the administrative costs are paid from the expense funds of TRS and ERS.

As of 6/30/2022, RSA-1 held \$2.3B in fair market value assets.

Legislators are eligible to participate in RSA-1.





QUESTIONS?

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