



THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE

Update on Teacher's Retirement System

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April 17, 2014

Retirement Systems of Alabama Background

Serves 336,000 active and retired members

- Active: 209,014
- DROP: 4,547
- Retired: 123,035

Three Separate Funds

- Teachers' Retirement System (TRS): K-12, higher education, including UAH
- Employees' Retirement System (ERS): State employees
- Judicial Retirement Fund (JRF)

Governed by Boards of Control for each fund

Retirement Systems of Alabama Assets under Management 2013

Total Assets for TRS, ERS, JRF = \$32.9 billion

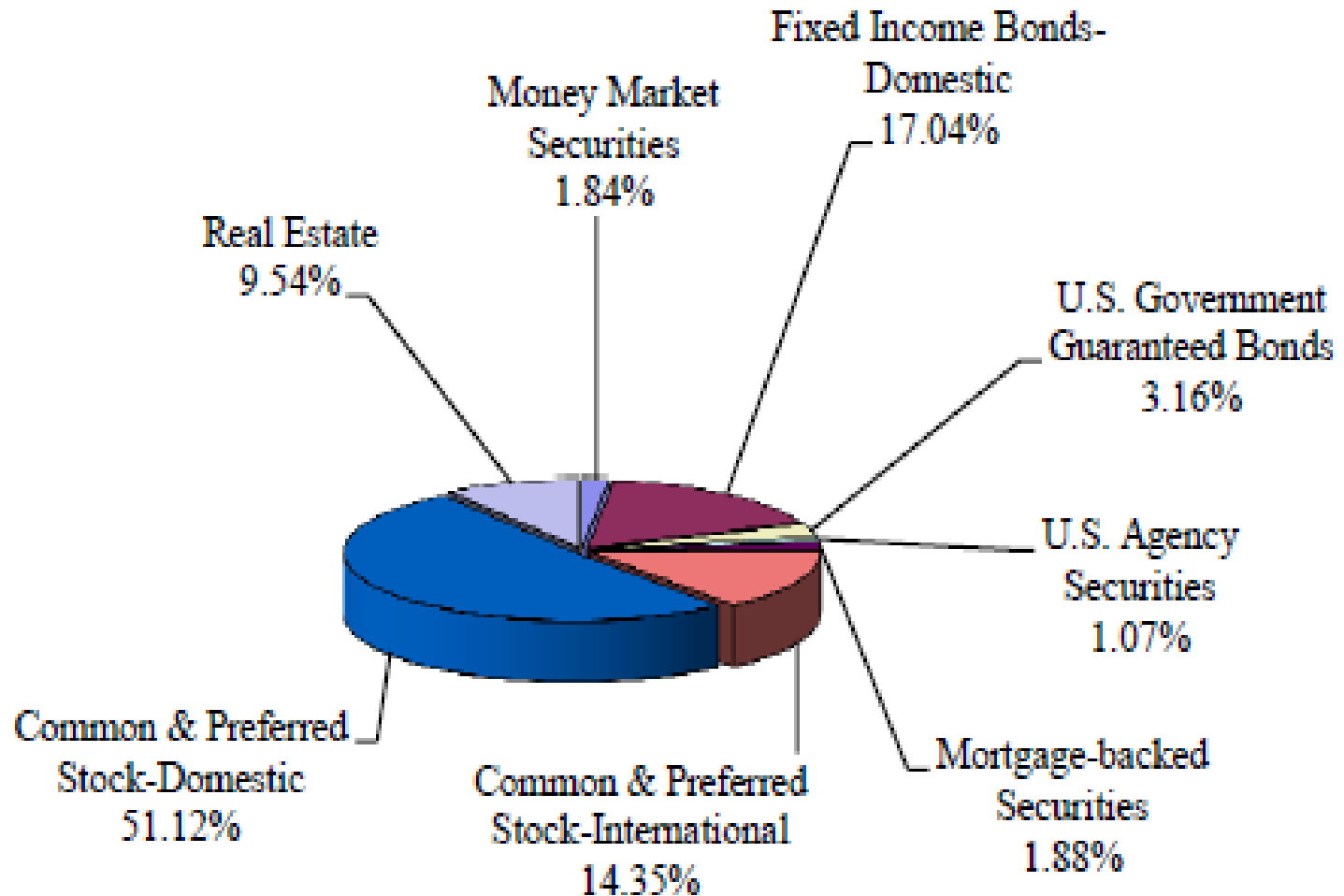
- 115th largest retirement fund

TRS Investments = \$20.6 billion

TRS Portfolio invested as follows:

- Equities = 65.47%
- Fixed Income Instruments = 24.99%
- Real Estate = 9.54%

**TEACHERS' RETIREMENT SYSTEM
INVESTMENT ALLOCATION
Fair Value as of September 30, 2013**



Source: Retirement Systems of Alabama,
Comprehensive Annual Financial Report, 2013

TRS Investment Portfolio Returns as of September 30, 2013

	<u>1-Year</u>	<u>3-Years</u>	<u>5-Years</u>	<u>10-Years</u>
Domestic Equity	21.46%	16.24%	10.24%	8.09%
International Equity	21.54%	8.04%	6.55%	8.52%
Fixed Income and Alternatives	5.63%	7.72%	3.19%	4.08%
Overall Return	14.93%	11.45%	6.68%	6.29%

TRS Additions by Source 2013

Member Contributions	\$	477,586,000	12.44%
Employer Contributions 10.08%	\$	627,892,000	16.36%
Investment Income	\$	2,732,706,000	71.20%
Total	\$	3,838,184,000	100.00%

TRS Deductions by Type 2013

Benefit Payments	\$	1,893,321,000	96.21%
Contribution Refunds & Death Benefits	\$	55,891,000	2.84%
Administrative Expenses	\$	12,591,000	0.64%
Other	\$	6,135,000	0.31%
Total	\$	1,967,938,000	100.00%

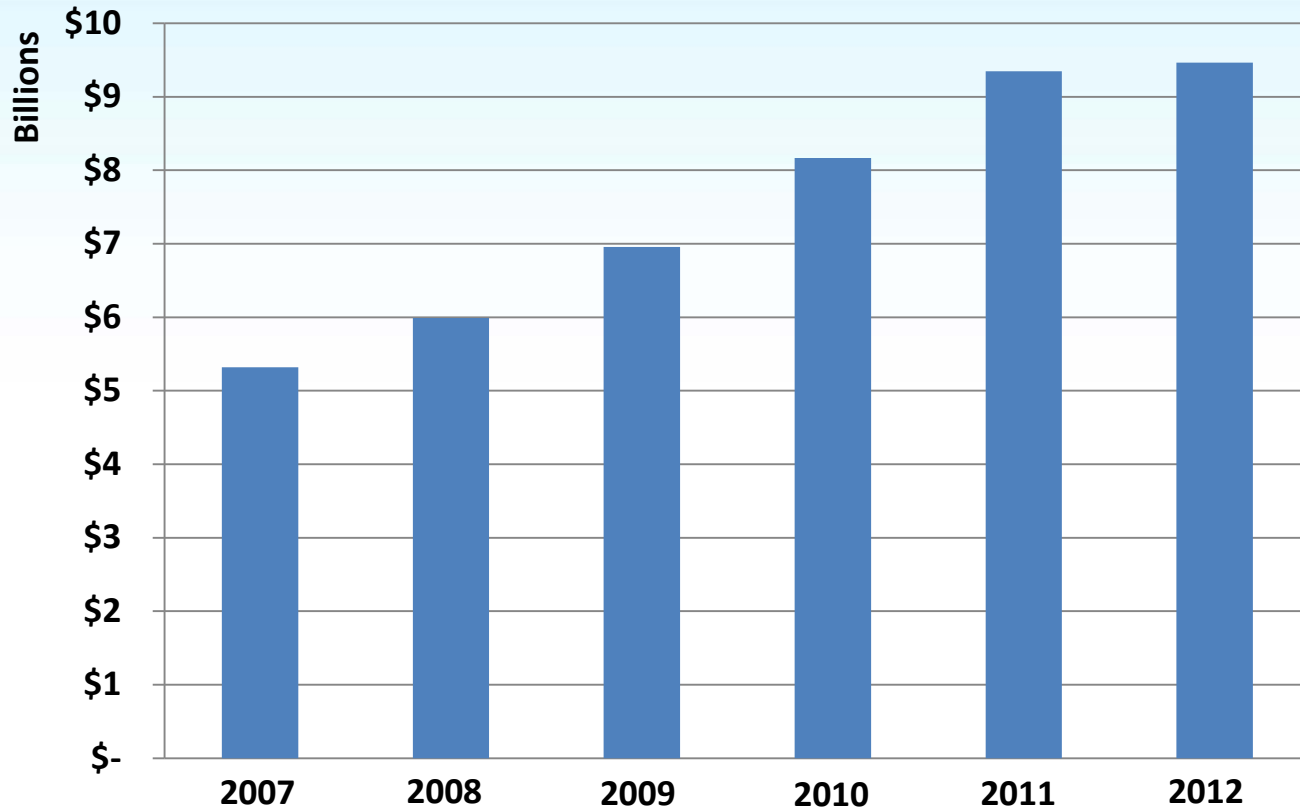
TRS Funding Status as Determined by Actuary

FY 2012 (latest data available):

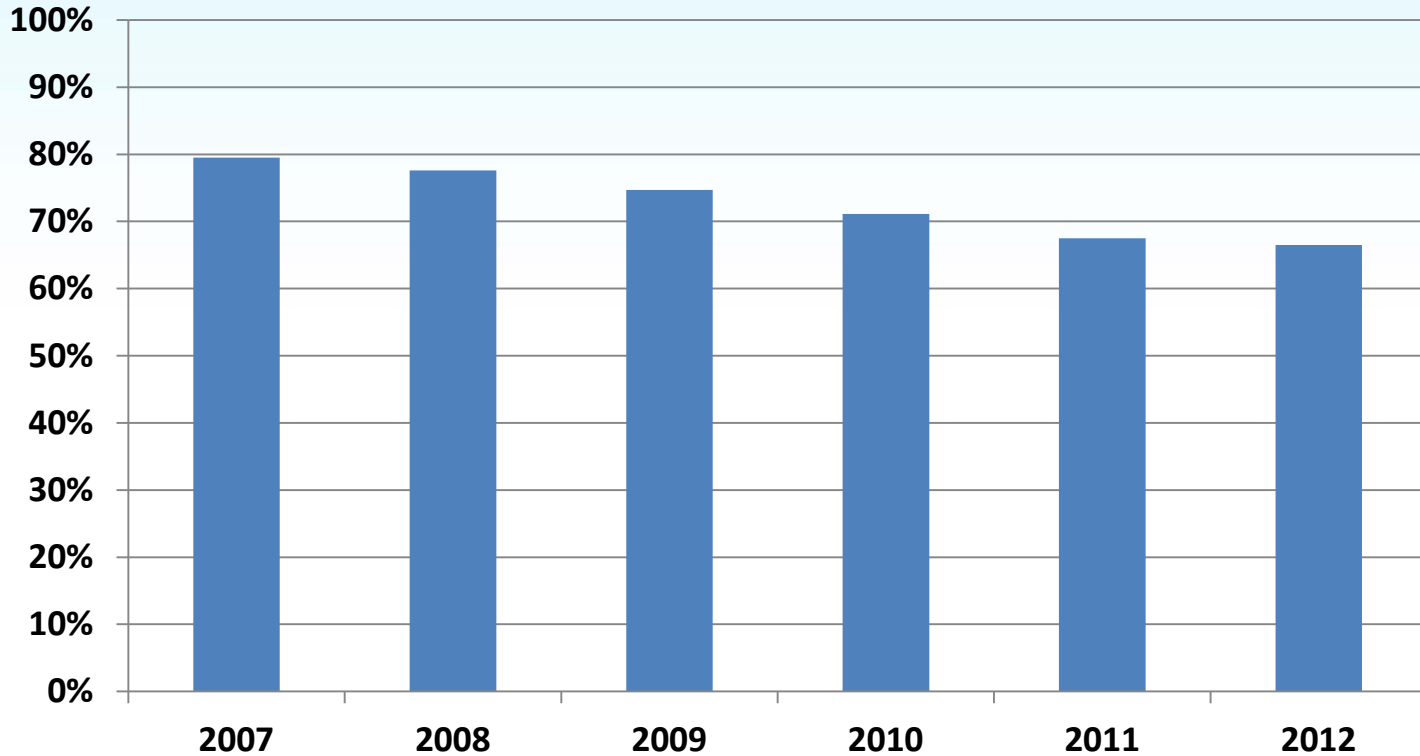
Actuarial Value of Assets	\$	18,786,008,000
Actuarial Accrued Liability	\$	28,251,367,000
Unfunded Actuarial Liability	\$	<u>9,465,359,000</u>

Percentage Funded 66.5%

Unfunded Actuarial Liability



Unfunded Actuarial Liability % Funded



What about other states?

Similar problems in many other states

- 37 of 50 states less than 80% funded for 2012
- Aggregate funding ratio = 72%
- Lowest = Illinois at 40%
- Highest = Wisconsin at 100%

Estimated combined shortfall of over \$1 trillion

- Downward trend line

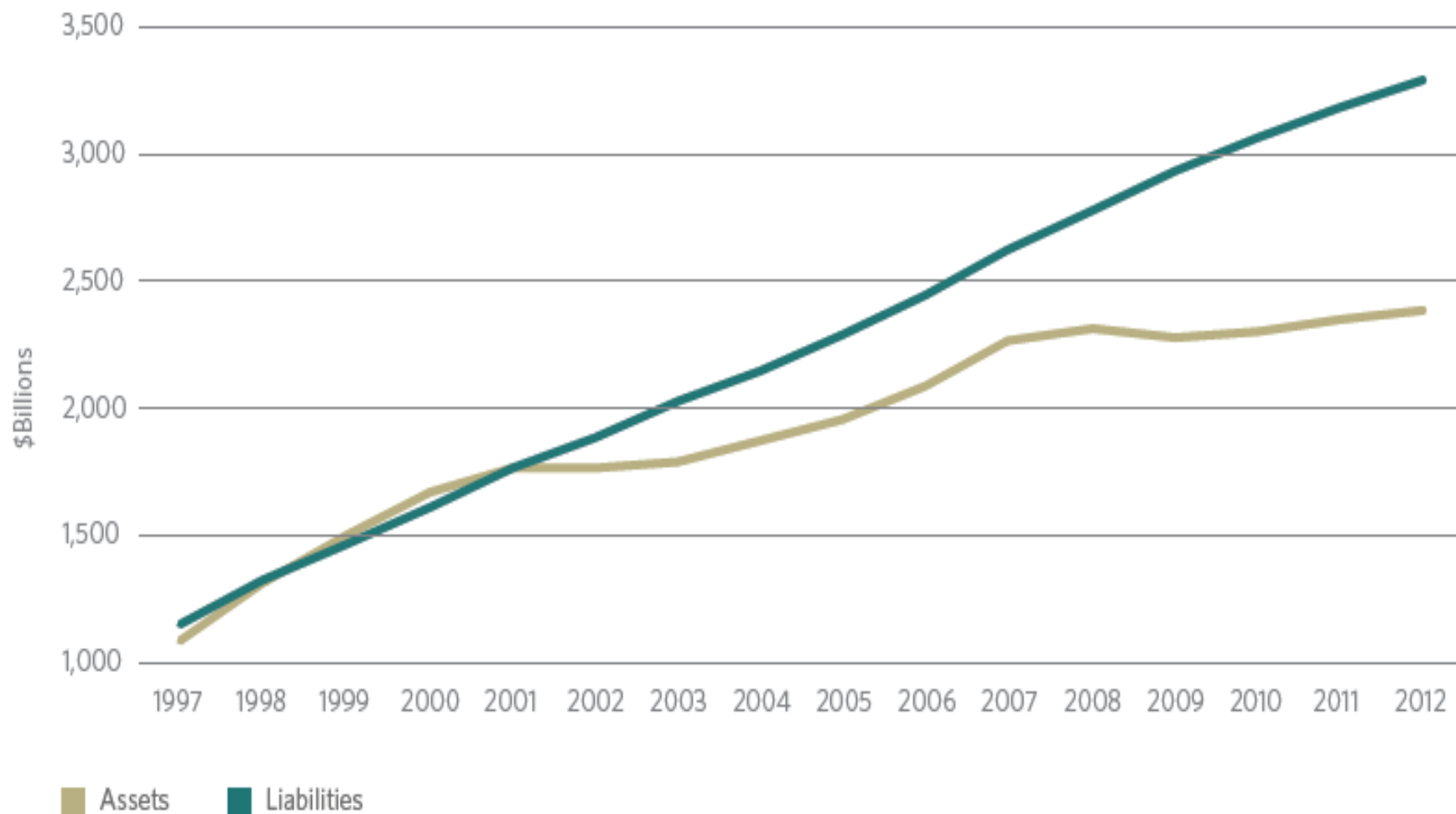
How Did We Get to This Point?

Over many years, common factors for most states are:

- Ratio of retirees receiving payout to currently active employees has grown significantly
- Lifespan of retirees has increased since initial implementation of plans
- Investment returns are volatile and have not kept pace with assumptions
- Funding from employees and employers has not kept pace
 - Some states have skipped or reduced funding in difficult years
- Unfunded cost of living adjustments

The Growing Gap in State Pension Funds

Pension funding has been declining since 2000 as liabilities have grown faster than assets



Source: The Pew Charitable Trusts

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What are Alabama and Other States Doing to Address the Issue?

Pension reform measures include:

- Ignoring the problems and kicking the can down the road
- Increasing required active employee contributions (Alabama)
- Increasing employer contributions (Alabama)
- Establishing a new plan for new hires with generally lower benefits (Alabama)
- Implementing a defined contribution plan as an option
- Reduction of benefits

Alabama Retirement System actuarial review for 2013:

“In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.”

<http://www.rsa-al.gov/index.php/about-rsa/publications/>