

1 SB376  
2 175401-3  
3 By Senator Bussman  
4 RFD: Fiscal Responsibility and Economic Development  
5 First Read: 05-APR-16

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8 SYNOPSIS: Under current law, the Boards of Control of  
9 the Teachers' Retirement System and the Employees'  
10 Retirement System are required to report certain  
11 information annually and designate an actuary to  
12 make a valuation of each system annually. This bill  
13 specifies information that must be included in the  
14 annual report and actuarial report and requires the  
15 Boards of Control to adopt certain reporting  
16 standards for investments.

17  
18 A BILL  
19 TO BE ENTITLED  
20 AN ACT

21  
22 Relating to retirement; to amend Section 16-25-19,  
23 Code of Alabama 1975, relating to the administration of the  
24 Teachers' Retirement System to provide information that must  
25 be included in annual reports of the system and actuarial  
26 valuations of the system and to provide that the Board of  
27 Control of the system shall adopt certain investment reporting

1 standards; and to amend Section 36-27-23, Code of Alabama  
2 1975, relating to the administration of the Employees'  
3 Retirement System to provide information that must be included  
4 in annual reports of the system and actuarial valuations of  
5 the system and to provide that the Board of Control of the  
6 system shall adopt certain investment reporting standards.

7 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

8 Section 1. Sections 16-25-19 and 36-27-23, Code of  
9 Alabama 1975, are hereby amended to read as follows:

10 "§16-25-19.

11 "(a) The general administration and responsibility  
12 for the proper operation of the retirement system and for  
13 making effective the provisions of this chapter are hereby  
14 vested in a board of trustees which shall be known as the  
15 Board of Control and shall be organized immediately after a  
16 majority of the trustees provided for in this section shall  
17 have qualified and taken the oath of office.

18 "(b) The board shall consist of 15 trustees as  
19 follows:

20 "(1) The State Superintendent of Education, ex  
21 officio.

22 "(2) The State Treasurer, ex officio.

23 "(3) The state Director of Finance, ex officio.

24 "(4) Twelve elected members of the retirement  
25 system. Those 12 members shall consist of representatives  
26 elected from each of the following categories: two shall be  
27 retired members, one shall be a city or county superintendent,

1 one shall be a principal, one shall be a member from an  
2 institution of postsecondary education that is part of the  
3 Alabama Community College System, two shall be members from a  
4 public four-year institution of higher education, three shall  
5 be teachers who are actively instructing students in grades  
6 K-12, and two shall be educational support personnel from a  
7 grade K-12 school. Each of the elected members shall be  
8 elected only by members from the same category of the  
9 retirement system. The 12 elected members shall be elected in  
10 a statewide election conducted by a third party entity that is  
11 not a participant of or affiliated with the Teachers'  
12 Retirement System. All such elections shall be conducted in  
13 accordance with accepted principles of fair election  
14 practices. The third party entity shall be responsible for the  
15 distribution and collection of ballots and tallying election  
16 results. Other aspects of the election shall be handled  
17 pursuant to such rules and regulations as the Board of Control  
18 may adopt to assure that members will be eligible to vote for  
19 the applicable elected position as follows:

20 "a. Teacher Place #1 for a term of three years  
21 beginning July 1, 1974.

22 "b. Teacher Place #2 for a term of three years  
23 beginning July 1, 1974.

24 "c. Teacher Place #3 for a term of two years  
25 beginning July 1, 1974.

26 "d. Educational Support Personnel Place #1 for a  
27 term of three years beginning July 1, 1986.

1 "e. Educational Support Personnel Place #2 for a  
2 term of two years beginning July 1, 1986.

3 "f. Retired Place #1 for a term of three years  
4 beginning July 1, 1974.

5 "g. Retired Place #2 for a term of three years  
6 beginning July 1, 1987.

7 "h. Superintendents' Place for a term of two years  
8 beginning July 1, 1976.

9 "i. Principals' Place for a term of three years  
10 beginning July 1, 1976.

11 "j. Postsecondary Place for a term of three years  
12 beginning July 1, 2016, to be filled by the member elected  
13 from an institution of postsecondary education that is part of  
14 the Alabama Community College System.

15 "k. Higher Education Place #1 for a term of three  
16 years beginning July 1, 2013, to be filled by a member elected  
17 from a public four-year institution of higher education.

18 "l. Higher Education Place #2 for a term of three  
19 years beginning July 1, 2015, to be filled by a member elected  
20 from a public four-year institution of higher education. This  
21 higher education position shall replace the Educational  
22 Support Personnel Place #2 at the conclusion of the  
23 incumbent's term June 30, 2015.

24 "Thereafter each member according to place number  
25 shall be elected for three-year terms, according to such rules  
26 and regulations as the Board of Control shall adopt to govern

1 such elections. The terms of these officers shall begin after  
2 they have qualified and taken the oath of office.

3 "(c) The Board of Control of the Teachers'  
4 Retirement System shall provide for annual elections to fill  
5 the position of any trustee whose term has expired.

6 "(d) If a vacancy occurs in the office of a trustee,  
7 the vacancy shall be filled for the remainder of the unexpired  
8 term through appointment by the Governor.

9 "(e) The trustees shall serve without compensation  
10 for their services as trustees, but they shall be reimbursed  
11 from the expense fund for all necessary expenses that they may  
12 incur through service on the Board of Control.

13 "(f) Each trustee shall, within 10 days after his or  
14 her appointment or election, take an oath of office that, so  
15 far as it devolves upon the trustee, the trustee will  
16 diligently and honestly administer the affairs of the Board of  
17 Control and will not knowingly violate or willingly permit to  
18 be violated any of the provisions of law applicable to the  
19 retirement system. Such oath shall be subscribed to by the  
20 member making it, certified by the officer before whom it is  
21 taken and immediately filed in the office of the Secretary of  
22 State.

23 "(g) Each trustee shall be entitled to one vote in  
24 the Board of Control. Eight votes shall be necessary for a  
25 decision by the trustees at any meeting of the board. In case  
26 of a tied vote the decision shall fail.

1           "(h) Subject to the limitations of this chapter, the  
2 Board of Control shall from time to time establish rules and  
3 regulations for the administration of the funds created by  
4 this chapter and for the transaction of its business.

5           "(i) The Board of Control shall elect from its  
6 membership a chairman and by a majority vote of all the  
7 members shall elect a Secretary-Treasurer, who shall serve as  
8 chief executive officer of the retirement system. In addition  
9 thereto, the Board of Control may engage such actuarial and  
10 administrative officers and other special services as shall be  
11 deemed necessary to transact the business of the retirement  
12 system. The compensation and expenses of these actuarial and  
13 administrative officers and other special services shall be  
14 paid at such rates and in such amounts as the Board of Control  
15 shall approve. All other employees not in these categories of  
16 employment shall be employed under the provisions of the Merit  
17 System Act.

18           "(j) The Board of Control shall keep in convenient  
19 form such data as shall be necessary for actuarial valuation  
20 of the various funds of the retirement system and for checking  
21 the experience of the system.

22           "(k) The Board of Control shall keep a record of all  
23 its proceedings which shall be open to public inspection. It  
24 shall publish annually a report showing the fiscal  
25 transactions of the retirement system for the preceding school  
26 year, the amount of the accumulated cash and securities of the  
27 system and the last balance sheet showing the financial

1 condition of the system by means of an actuarial valuation of  
2 the assets and liabilities of the retirement system. As part  
3 of this annual report, the Board of Control shall provide the  
4 following:

5 "(1) Subject to the availability of accurate data  
6 from the third party custodian, the performance of investments  
7 annually, including performance gross of investment fees and  
8 net of investment fees;

9 "(2) Subject to the availability of accurate data  
10 from the third party custodian, the performance of  
11 investments, both net and gross of investment fees, over time  
12 periods of one, three, five, 10, and 20 years; and

13 "(3) Subject to the availability of accurate data  
14 from the third party custodian, the performance of  
15 investments, both net and gross of investment fees, for all  
16 asset classes, including separate reporting for public equity,  
17 fixed income, private placements, private equity, and real  
18 estate over time periods of one, three, five, 10, and 20  
19 years.

20 "(1) The Attorney General of the state shall be the  
21 legal adviser of the Board of Control.

22 "(m) The Board of Control shall designate a medical  
23 board to be composed of three physicians not eligible to  
24 participate in the retirement system. If required, other  
25 physicians may be employed to report on special cases. The  
26 medical board shall arrange for and pass upon all medical  
27 examinations required under this chapter, shall investigate



1 all essential statements and certificates by or on behalf of a  
2 member in connection with an application for disability  
3 retirement and shall report in writing to the Board of Control  
4 its conclusions and recommendations upon all matters referred  
5 to it.

6 "(n) The Board of Control shall designate an actuary  
7 who shall be the technical adviser of the Board of Control on  
8 matters regarding the operation of the funds created by the  
9 provisions of this chapter and who shall perform such other  
10 duties as are required in connection therewith.

11 "(o) Immediately after the establishment of the  
12 retirement system, the actuary shall make such investigation  
13 of the mortality, service and compensation experience of the  
14 members of the system as he shall recommend and the Board of  
15 Control shall authorize, and on the basis of such  
16 investigation he shall recommend for adoption by the Board of  
17 Control such tables and such rates as are required in  
18 subdivisions (1) and (2) of subsection (p) of this section.  
19 The Board of Control shall adopt tables and certify rates;  
20 and, as soon as practicable thereafter, the actuary shall make  
21 a valuation based on such tables and rates, of the assets and  
22 liabilities of the funds created by this chapter.

23 "(p) In the year 1943, and at least once in each  
24 five-year period thereafter, the actuary shall make an  
25 actuarial investigation into the mortality, service, and  
26 compensation experience of the members and beneficiaries of  
27 the retirement system and shall make a valuation of the assets

1 and liabilities of the funds of the system; and, taking into  
2 account the results of such investigation and valuation, the  
3 Board of Control shall:

4 "(1) Adopt for the retirement system such mortality,  
5 service, and other tables as shall be deemed necessary; and

6 "(2) Certify the rates of contributions payable by  
7 the state under the provisions of this chapter.

8 "(q) On the basis of such tables as the Board of  
9 Control shall adopt, the actuary shall make an annual  
10 valuation of the assets and liabilities of the funds of the  
11 system created by this chapter. Annual valuations of the  
12 assets and liabilities of the funds of the system created by  
13 this chapter shall include the following:

14 "(1) Projections of assets, liabilities, actuarially  
15 recommended employer contributions, benefit payments, payroll,  
16 and the funded ratio based on plan assumptions for the next 30  
17 years;

18 "(2) The expected employer contributions as a  
19 percentage of payroll, the ratio of benefit payments to  
20 payroll, the ratio of funding liability to payroll, and the  
21 ratio of market value assets to payroll; and

22 "(3) Estimates of the items listed in subdivision  
23 (1) of this subsection if investment returns over a 20 year  
24 period are two percentage points below plan assumptions and if  
25 investment returns over a 20 year period are two percentage  
26 points above plan assumptions.

1           "(r) The Board of Control shall adopt the following  
2 reporting standards on investments:

3           "(1) Disclose all fee expenses on investments  
4 including management fees, carried interest, performance fees,  
5 and other fees charged against assets; and

6           "(2) Make the results of private placement and real  
7 estate valuation and return results publicly available.

8           "§36-27-23.

9           "(a) The general administration and responsibility  
10 for the proper operation of the retirement system and for  
11 making effective the provisions of this article are hereby  
12 vested in a board of trustees which shall be known as the  
13 Board of Control.

14           "(b) The board shall consist of 13 trustees as  
15 follows:

16           "(1) The Governor, ex officio, who shall be  
17 chairman.

18           "(2) The State Treasurer, ex officio.

19           "(3) The State Personnel Director, ex officio.

20           "(4) The Director of Finance, ex officio.

21           "(5) Three members of the retirement system, to be  
22 appointed by the Governor, no two of whom shall be from the  
23 same department of the state government nor from any  
24 department of which an ex officio trustee is the head. The  
25 state employees appointed pursuant to this section shall be  
26 Merit System employees with at least ten years of creditable  
27 state service and shall not be a department head or an

1 assistant department head. The terms of office of the three  
2 members appointed by the Governor shall begin immediately  
3 after they have qualified and taken the oath of office.

4 "(6) Two members of the State Employees' Retirement  
5 System who shall be vested in the system and elected by a  
6 majority vote of the participating full-time state employees  
7 who are members of the system, through the use of a statewide  
8 ballot conducted by the Secretary-Treasurer under rules  
9 promulgated by the Board of Control. For their original terms,  
10 one shall serve for a two-year term and one shall serve for a  
11 three-year term. Thereafter, their successors each shall serve  
12 for a four-year term.

13 "At the expiration of terms of office of the  
14 respective original trustees elected under this subdivision  
15 and every four years thereafter, their successors shall be  
16 elected in the same manner as provided by this subdivision.

17 "(7) One member from the ranks of retired state  
18 employees and one member from the ranks of retired employees  
19 of a city, a county, or a public agency each of whom is an  
20 active beneficiary of the system shall be elected by a  
21 majority vote of the participating retired beneficiaries of  
22 the system. The retired state employee member shall serve for  
23 a four-year term beginning October 1, 1984, the member who is  
24 a retired employee of a city, a county or a public agency  
25 shall serve for a three-year term, beginning October 1, 1984,  
26 provided after the expiration date of the initial terms

1 provided in this subdivision each term shall be for a period  
2 of three years.

3 "The retired members shall be elected in a statewide  
4 ballot conducted by the Secretary-Treasurer under rules  
5 promulgated by the Board of Control. The Board of Directors of  
6 the Alabama Retired State Employees' Association shall submit  
7 no more than two nominations for each retired member position.  
8 The Board of Control shall determine the procedure for  
9 selecting additional candidates. The ballots shall be  
10 conducted prior to October 1, 1984, and each applicable year  
11 thereafter in order that the trustees can take office by  
12 October 1, next following such election.

13 "(8) Two members of the retirement system who shall  
14 be employed by an employer participating pursuant to Section  
15 36-27-6, who shall be elected by a majority vote of the  
16 full-time employees of employers participating pursuant to  
17 Section 36-27-6, and who are members of the system. For their  
18 original terms one shall serve a three-year term and one shall  
19 serve a four-year term. Thereafter, their successors each  
20 shall serve for a four-year term.

21 "The election shall be conducted by the  
22 Secretary-Treasurer through use of a statewide ballot in  
23 accordance with rules promulgated by the Board of Control,  
24 which shall include a nomination petition of not less than 50  
25 eligible voters. The election provided herein shall be  
26 conducted prior to October 1, 1991, and each applicable year

1 thereafter in order that the trustees can take office October  
2 1, next following such election.

3 "(c) If a vacancy occurs in the office of a trustee,  
4 the vacancy shall be filled for the unexpired term in the same  
5 manner as the office was previously filled, except that of the  
6 trustees elected under subdivision (7) of subsection (b). In  
7 that event the vacancy for the unexpired term shall be filled  
8 by an appointment by the Board of Control of the Employees'  
9 Retirement System from a list of three retired employees  
10 furnished him by the Board of Directors of the Alabama Retired  
11 State Employees' Association.

12 "(d) The trustees shall serve without compensation  
13 for their services as trustees, but they shall be reimbursed  
14 from the Expense Fund for all necessary expenses that they may  
15 incur through service on the Board of Control.

16 "(e) Each trustee shall, within 10 days after his  
17 appointment, take an oath of office that, so far as it  
18 devolves upon him, he will diligently and honestly administer  
19 the affairs of the Board of Control and that he will not  
20 knowingly violate or willingly permit to be violated any of  
21 the provisions of law applicable to the retirement system.  
22 Such oath shall be subscribed to by the member making it,  
23 certified by the officer before whom it is taken and  
24 immediately filed in the office of the Secretary of State.

25 "(f) Each trustee shall be entitled to one vote in  
26 the Board of Control. Seven votes in favor of any decision

1 shall be necessary for a decision by the trustees at any  
2 meeting of said board.

3 "(g) Subject to the limitations of this article, the  
4 Board of Control shall, from time to time, establish rules and  
5 regulations for the administration of the funds created by  
6 this article and for the transaction of its business.

7 "(h) The Board of Control, by a majority vote of all  
8 trustees, shall elect a Secretary-Treasurer who shall serve as  
9 the chief executive officer of the retirement system. The  
10 Board of Control shall engage such actuarial and other special  
11 services as shall be required to transact the business of the  
12 retirement system. The compensation of all persons engaged by  
13 the board, with the exception of clerical employees who shall  
14 be employed under the provisions of the Merit System Act, and  
15 all other expenses of the board necessary for the operation of  
16 the retirement system shall be paid at such rates and in such  
17 amounts as the board shall approve.

18 "(i) The Board of Control shall keep in convenient  
19 form such data as shall be necessary for actuarial valuation  
20 of the various funds of the retirement system and for checking  
21 the experience of the system.

22 "(j) The Board of Control shall keep a record of all  
23 its proceedings which shall be open to public inspection. It  
24 shall publish annually a report showing the fiscal  
25 transactions of the retirement system for the preceding year,  
26 the amount of the accumulated cash and securities of the  
27 system and the last balance sheet showing the financial

1 condition of the system by means of an actuarial valuation of  
2 the assets and liabilities of the retirement system. As part  
3 of this annual report, the Board of Control shall provide the  
4 following:

5 "(1) Subject to the availability of accurate data  
6 from the third party custodian, the performance of investments  
7 annually, including performance gross of investment fees and  
8 net of investment fees;

9 "(2) Subject to the availability of accurate data  
10 from the third party custodian, the performance of  
11 investments, both net and gross of investment fees, over time  
12 periods of one, three, five, 10, and 20 years; and

13 "(3) Subject to the availability of accurate data  
14 from the third party custodian, the performance of  
15 investments, both net and gross of investment fees, for all  
16 asset classes, including separate reporting for public equity,  
17 fixed income, private placements, private equity, and real  
18 estate over time periods of one, three, five, 10, and 20  
19 years.

20 "(k) The Attorney General of the state shall be the  
21 legal adviser of the Board of Control.

22 "(l) The Board of Control shall designate a medical  
23 board to be composed of three physicians not eligible to  
24 participate in the retirement system. If required, other  
25 physicians may be employed to report on special cases. The  
26 medical board shall arrange for and pass upon all medical  
27 examinations required under the provisions of this chapter and



1 shall investigate all essential statements and certificates by  
2 or on behalf of a member in connection with an application for  
3 disability retirement and shall report in writing to the Board  
4 of Control its conclusions and recommendations upon all  
5 matters referred to it.

6 "(m) The Board of Control shall designate an actuary  
7 who shall be the technical adviser of the Board of Control on  
8 matters regarding the operation of the funds created by the  
9 provisions of this article and shall perform such other duties  
10 as are required in connection therewith.

11 "(n) Immediately after the establishment of the  
12 retirement system the actuary shall make such investigation of  
13 the mortality, service and compensation experience of the  
14 members of the system as he shall recommend and the Board of  
15 Control shall authorize, and, on the basis of such  
16 investigation, he shall recommend for adoption by the Board of  
17 Control such tables and such rates as are required in  
18 subsection (o) of this section. The Board of Control shall  
19 adopt tables and certify rates and, as soon as practicable  
20 thereafter, the actuary shall make a valuation based on such  
21 tables and rates of the assets and liabilities of the funds  
22 created by this article.

23 "(o) In 1948, and at least once in each five-year  
24 period thereafter, the actuary shall make an actuarial  
25 investigation into mortality, service, and compensation  
26 experience of the members and beneficiaries of the retirement  
27 system and shall make a valuation of the assets and

1 liabilities of the funds of the system and, taking into  
2 account the results of such investigation and valuation, the  
3 Board of Control shall adopt for the retirement system such  
4 mortality, service, and other tables as shall be deemed  
5 necessary and certify the rates of contribution payable by the  
6 state under the provisions of this article.

7 "(p) On the basis of such tables as the Board of  
8 Control shall adopt, the actuary shall make an annual  
9 valuation of the assets and liabilities of the funds of the  
10 system created by this article. Annual valuations of the  
11 assets and liabilities of the funds of the system created by  
12 this article shall include the following:

13 "(1) Projections of assets, liabilities, actuarially  
14 recommended employer contributions, benefit payments, payroll,  
15 and the funded ratio based on plan assumptions for the next 30  
16 years;

17 "(2) The expected employer contributions as a  
18 percentage of payroll, the ratio of benefit payments to  
19 payroll, the ratio of funding liability to payroll, and the  
20 ratio of market value assets to payroll; and

21 "(3) Estimates of the items listed in subdivision  
22 (1) of this subsection if investment returns over a 20 year  
23 period are two percentage points below plan assumptions and if  
24 investment returns over a 20 year period are two percentage  
25 points above plan assumptions.

26 "(q) The Board of Control shall adopt the following  
27 reporting standards on investments:

1                   "(1) Disclose all fee expenses on investments  
2                   including management fees, carried interest, performance fees,  
3                   and other fees charged against assets; and

4                   "(2) Make the results of private placement and real  
5                   estate valuation and return results publicly available."

6                   Section 2. This act shall become effective October  
7                   1, 2016 following its passage and approval by the Governor, or  
8                   its otherwise becoming law.