

Alabama Voices: PACT solution possible

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By Kay Ivey

Last year's worldwide economic collapse was the worst in 80 years. Few, if any, sectors of our economy were spared. In just over a year, \$11 trillion of value disappeared from U.S. financial markets.

As Retirement Systems of Alabama Chief Executive David Bronner, the man in charge of pension investments for Alabama's teachers and state employees, recently observed: "When we had a recession like the ones we had before when the tech bubble blew up, we burned our fingers. Right now, insurance companies are the weakest they have ever been in my lifetime. Big banks are the weakest they have ever been in my lifetime. The pension funds got an arm and leg blown off this time."

As Alabama's state treasurer, I had a front-row view of the impact on the state's finances and I agree with his depiction. The worst of the economic storm for me was witnessing the dramatic losses sustained by the Wallace-Folsom Prepaid Affordable College Tuition fund. The losses were rapid, deep and unprecedented.

At a PACT board meeting in March, I asked for patience while we attempted to work with legislators to find a funding mechanism to infuse the program with cash. I knew liquidating assets from the corpus (the principal of the fund) would lose much-needed gains when the financial markets did begin their recovery.

In the closing days of the 2009 legislative session, the Legislature authorized the Retirement Systems of Alabama to perform an actuarial study on the financial status of the fund. The study, completed in August 2009, illustrated four funding scenarios that could bring long-term stability to the program. Frankly, all of the options presented would cost the state (which is suffering through an agonizing period of double-digit proration) much more than it could afford to provide.

Meanwhile, a fortunate turn of events has occurred on Wall Street: the financial markets reversed course and began a steady, upward climb, bringing the PACT fund along with it.

In fact, I received the latest (as of Sept. 30, 2009) preliminary year-end results this past week from the PACT fund's investment managers. They reveal investment returns for the last fiscal year are estimated at 1.54 percent despite the economic collapse that started last fall.