



Kay Ivey: All indications point toward PACT fund's positive flow

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State Treasurer

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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 RSA Chairman 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 PACT 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 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) 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.

Current calculations show the market value of PACT's assets to be just more than \$526 million.

If these preliminary numbers bear out, the investment returns for FY 2009 will again be in positive territory; that's six of the last seven years.

While I'm careful to avoid spreading "irrational exuberance" over the market's current rebound, I am very pleased that the PACT fund is now headed in a positive direction.

That's why I favor cooperation between the PACT board, education leaders and members of the legislature to find a long-term solution for PACT accountholders.

Here are the five "Guiding Principles" I have constructed as a framework for a solution:

- * Fairness: A solution must equally serve all eligible PACT accountholders (currently estimated to be about 45,000 accountholders).
- * Solvency: A solution must preserve the fund's corpus to maximize future asset growth and fund stability.
- * Taxpayer Protection: No new tax or tax increases should be passed to prop up the PACT fund.
- * Prudence: No solution should include any draw-down, or raid, on the Alabama Trust Fund. Much of the revenue generated from the Alabama Trust Fund provides economic support for the state's general fund.
- * Pragmatism: And finally, the state must address the issue of rapidly escalating college tuition rates. This isn't suggested for PACT accountholders alone, but for the greater good of all college-bound students in Alabama.

On Nov. 4 at 1:30 p.m., the board of the PACT program will convene in Montgomery in the Capitol Auditorium.

The board desires to review and discuss the most current financial, market performance and actuarial information as soon as it is available on Nov. 4. The Board continues to work with all parties for support of all students eligible for the PACT program.

I know that we have it within us to develop sound ideas for a solution that is best for all Alabamians.

Kay Ivey is treasurer for the state of Alabama and a 2010 gubernatorial hopeful.