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Allen Mendenhall: The RSA and the fiscal risks facing Alabama

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RSA Plaza in Montgomery. Photo: Craig Monger.

Among the exquisite pleasures of leaving state employment last year, none compares to liberating myself from the Retirement Systems of Alabama (RSA), that hulking bureaucracy that held my future in its grip like some overfed cat clutching a particularly dull mouse. Recently, I rolled over my RSA retirement savings into an investment vehicle that I, myself, might steer.

It was with a certain frisson of vindication, then, that I came across a recent piece (https://www.realclearpolicy.com/articles/2026/01/21/public_pensions_strong_performance_is_no_match_for_a_simple_index_fund_1160046.html) in RealClear Policy by Daniel J. Smith (formerly of Troy University) and Thomas Savidge. The op-ed discusses public pensions, those massive, lumbering institutions that promise workers security while serving something considerably less appetizing.

The authors begin with Alabama's own RSA, specifically its December newsletter, in which its CEO, David Bronner, pushes back against reforms that would, heaven forbid, allow public employees to manage their own retirement accounts. The very notion that ordinary mortals might be trusted with their own money seems to offend him.

The national median for public pensions in 2024 was 9.88%, according to this report (https://annual-pension-report.reason.org/investment) cited by Smith and Savidge, who state that Alabama's systems posted returns hovering around 10.16 to 10.40% for the fiscal year ending Sept. 30. These men point out that these figures exceeded the funds' assumed rates of return.

Are we meant to applaud? That's rather like predicting the University of Alabama Crimson Tide will win six games next season. Technically that's bowl-game eligible, but it's hardly the sort of achievement that has fans painting their faces and screaming themselves hoarse.

Here's where it gets worrisome: Smith and Savidge reveal that the S&P 500 posted a 17.16% return over the same period. That's a seven-percentage-point gap. Seven points. And this isn't some Alabama peculiarity: Every public pension system in America has underperformed the S&P 500 over the past 20 years (https://annual-pension-report.reason.org/investment?utm_source=chatgpt.com).

That's right. Every single one.

"Even a diversified balanced portfolio (60% S&P 500 equities and 40% S&P 500 Bond Index fixed income) would have returned over 12%, readily outperforming 84 percent of public pensions, including the RSA," Smith and Savidge write. "Public employees and retirees could have fared better with low-cost index-tracking individual accounts rather than RSA's active management."

The mathematics are almost embarrassing in terms of their clarity: public employees would have fared better with low-cost index funds than with the RSA's active management and its attendant complexities.

The real trouble – and Smith and Savidge document this with the kind of dreary precision that makes the heart sink – is that these pension systems base everything on optimistic assumptions that reality refuses to honor.

Smith and Savidge warn that Alabama alone faces $22 billion in unfunded liabilities. Here is how the $22 billion figure was calculated. It reflects the total state and local unfunded actuarial liability for 2024 (the most recent year for which data are available, not a projection). Unfunded actuarial liability is defined as actuarial accrued liabilities minus the market value of assets.

The total aggregates liabilities from the Employees' Retirement System, the Judicial Retirement Fund, the Teachers' Retirement System, the City of Birmingham Firemen's and Policemen's Supplemental Pension System, and the Birmingham Retirement and Relief System. The $22 billion figure (more precisely, $21.7 billion) appears on the "Funding Health" tab of this Reason Annual Pension Report (https://annual-pension-report.reason.org/funding) (Figure 5).

Nationwide, the unfunded liability figure exceeds a trillion. A trillion! Should the market turn sour, these gaps widen, and taxpayers – those eternal victims of other people's miscalculations – pick up the tab.

And what have pension managers done in response? They've chased higher yields through increasingly exotic investments, say Smith and Savidge, who allege that Alabama's RSA has used pension funds for economic development and industrial recruitment, noble-sounding endeavors that may put retirees' money at greater risk.

Meanwhile, states like California, Illinois, Massachusetts and New York deploy pension funds for political theater, pursuing Environmental, Social and Governance (ESG) campaigns that may soothe consciences but often disappoint portfolios. (For a study on ESG-driven shareholder engagement by public pension funds and its diffuse but real costs to firms and investors, see here (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5241943).)

The cruelty of it all is that when these schemes underperform, workers shoulder the consequences while bureaucrats maintain their positions of power over these vast pools of other people's money. The incentives are perfectly perverse.

Individual retirement accounts, by contrast, offer actual ownership, portability between jobs, access to passive investments that have historically delivered superior returns with lower fees and far less Byzantine complexity. Reform proposals that would expand individual control threaten only the entrenched interests who've grown comfortable managing these empires.

Which returns us to my own small liberation. It's about *agency* as much as money. In other words, it's about being able to trust oneself, to take responsibility, to succeed or fail on one's own terms rather than at the mercy of bureaucrats who've demonstrated, year after year, that their expertise is more theoretical than actual.

The public employees of Alabama – teachers, firefighters, and all the rest – deserve better than optimistic assumptions and underperforming portfolios. They deserve the dignity of managing their own futures, of making their own choices, of being treated like sound adults rather than incompetent wards of the state. That this should be controversial tells you everything you need to know about the institutions resisting reform.

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