



The ADVISOR

TEACHERS, EMPLOYEES, and JUDICIAL



To RSA’s Critics – “Thank You”

By David G. Bronner

Many of you might be thinking, “Here goes the sarcasm again.” But without the critics of the RSA, we would have never taken the time and effort to analyze the economic impact of RSA’s decision to invest approximately 10% of its assets in Alabama over the last two decades.

There were a few problems, but no more than we encountered investing around the globe in the stock and bond markets. Also, investing in Alabama increases the pressure on RSA’s investment staff because if something goes wrong at home compared to New York or Europe, RSA members will

be more anxious about the downturn in investments in their own backyard.

In October of 1987, the RSA was fully invested in Wall Street. The Black Monday global stock market crash made it clear the RSA had little to show for the previous year’s great returns. The thought was simple: Investing some funds in Alabama, when other investors would not, might improve Alabama’s economy and be a hedge against future economic downturns.

The real truth is that 90% of RSA’s investments in common stocks, international stocks, and fixed income outperformed the benchmark in each year over

the last 10 years. In addition, investing in office buildings and hotels in New York, Los Angeles, or Chicago would have had a greater short-term return, but investing 10% in Alabama set the foundation for a more prosperous long-term future for Alabama and the RSA.

By looking at the economic impact reports’ numbers, even more should have been done in Alabama. Then again, to my knowledge, no pension fund in the country has done more to help its citizens or its state than the RSA. ■

Two Economic Impact Reports

RSA commissioned two economists to report on RSA’s economic impact, including the impact of its Alabama investments. The first was by Dr. Keivan Deravi, Professor of Economics at Auburn University Montgomery, entitled *The Economics of RSA’s Investments on the State Economy and*

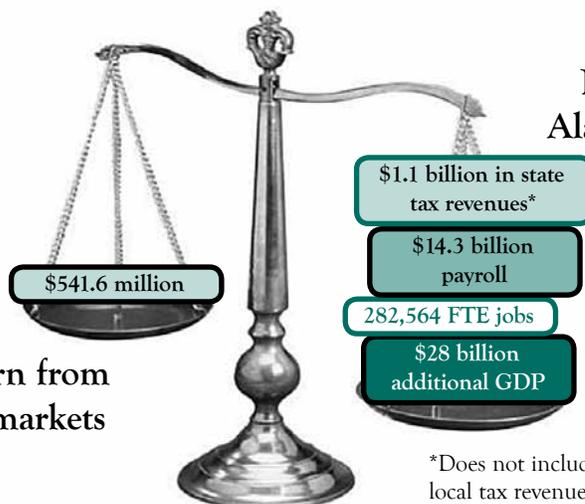
the RSA 1990-2011. Dr. Samuel Addy of the Center for Business and Economic Research at the University of Alabama presented *2009-2011 Economic Impacts of RSA on Alabama*. More detail of these reports can be found on page 2 and page 3, with the entire reports available on the RSA

website at www.rsa-al.gov.

This chart summarizes Dr. Deravi’s conclusions that while public employers and the RSA suffered from the downturn in the economy, not as much as if all of RSA’s funds had been invested in the market alone. ■

Comparison of Hypothetical vs. Alabama Investment Returns 1990 - 2011

Hypothetical return from equity and bond markets



*Does not include estimated \$428 million local tax revenues

Economic Impact Report 2009-2011

Dr. Addy's report presented the economic and fiscal impacts of RSA investments and benefit payments on the Alabama economy from 2009-2011. The difference in the two reports is that Dr. Addy includes the impact of pension benefits, PEEHIP healthcare benefits, and SEIB healthcare benefits on the Alabama economy. Previously, Dr. Addy had done similar reports, also on our website, in 2008.

Combined Pension and Healthcare Benefit Payments' Impacts

This report presents the economic and fiscal impacts of RSA investments and benefit payments on the Alabama economy in the years 2009, 2010, and 2011. The impacts are presented separately for RSA investment construction activity, RSA investment operations activity, and pension and healthcare benefit payments. The last component is further broken down into impacts of RSA pensions, PEEHIP healthcare benefits, and SEIB healthcare benefits. The table below shows the combined economic and fiscal impacts.

The economic impacts focus on output, value-added, earnings (wages and salaries), and employment. Output refers to total or gross sales and contains value-added, which is the contribution to gross domestic product (GDP) or the value of goods and services produced in Alabama on a value-added basis. Earnings impacts are part of value-added impacts and are the wages and salaries of the workers acknowledged by the employment impact. Fiscal impacts are based on the earnings impacts, but are conservative because at the local (county and municipality) level only sales taxes are considered; other local taxes (e.g., local property taxes) are not.

Economic Impacts (\$Millions, unless otherwise stated)	2009	2010	2011
Gross Business Sales or Output Impact	\$9,287.3	\$9,538.9	\$9,463.3
Value-added or GDP Impact	\$5,219.6	\$5,371.8	\$5,339.7
Earnings Impact	\$2,645.0	\$2,735.3	\$2,694.4
Employment Impact (Jobs)	81,921	84,883	84,068
Fiscal Impacts			
State Income Tax	\$87.0	\$89.9	\$88.6
State Sales Tax	\$42.6	\$44.1	\$43.4
State Other Taxes	\$72.1	\$72.8	\$72.3
State Tax Total	\$201.6	\$206.8	\$204.3
Local (County and City) Sales Tax	\$53.3	\$55.1	\$54.3
Total State Tax and Local Sales Tax Receipts	\$254.9	\$261.9	\$258.6

Note: Rounding effects may be present.

Source: U.S. Department of Commerce; Bureau of Economic Analysis; U.S. Department of Labor; Bureau of Labor Statistics; RSA; SEIB; Alabama Department of Revenue; and Center for Business and Economic Research, The University of Alabama.

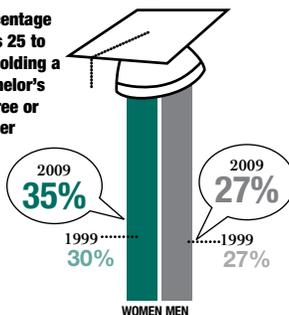
It is important to note that the fiscal impacts are conservative because at the local level only sales taxes are considered; other local taxes (e.g., local property taxes) are not. In each of those years, the value-added impacts represent a 3.1 percent contribution to Alabama Gross Domestic Product (GDP) and the jobs impacts are about 3.3 percent of total employment in the state; output impacts are roughly 5.5 percent of GDP. ■

The Growing Buying Power of Women

EDUCATION

Young women have pulled ahead of their male counterparts in higher education

Percentage ages 25 to 29 holding a bachelor's degree or higher



EARNING

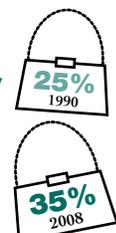
In 47 of the 50 largest U.S. metro areas, single, childless women in their 20s make more money than their male peers

Top five metro areas by wage ratio



Sources: *New York Times*; U.S. Census Bureau, Bureau of Labor Statistics, Reach Advisors, Consumer Electronics Association, Comscore, NFL

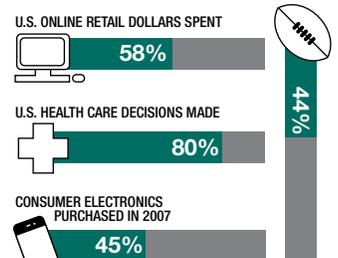
Percentage of wives earning more than their husbands



SPENDING

Marketers in many sectors are increasingly targeting the female market

Women's share of...



Economic Impact Report 1990-2011

By David G. Bronner

This is the third and final in a series of articles concerning RSA's investment policies and performance. In my last article, I stated that independent experts would determine whether RSA's investment policy of investing approximately 10% of its portfolio in Alabama projects was a better strategy than investing 100% of its portfolio in the equity and bond markets. Having now read the experts' reports, I can state unequivocally that is the case: Not only have the Alabama investments been of tremendous benefit to all parties, but the performance of those investments has far exceeded my expectations.

RSA benefits are funded by three sources: member contributions, investment returns, and employer contributions. Dr. Deravi's report showed that RSA's investment of approximately 10% of its portfolio in Alabama projects returned an estimated \$1.5 billion in state and local tax revenues over a 22-year period. That \$1.5 billion funded employer contributions, not only at the state level, but also for the hundreds of local, county, and municipal entities that are RSA members.

The report also estimated what would have happened to RSA investment returns had the funds invested in Alabama instead been invested in the stock and bond mar-

kets during that period. The increased value of RSA trust funds under this hypothetical would be approximately \$542 million dollars. Thus, in exchange for foregoing \$542 million in traditional investment returns, the state and local employers who are statutorily mandated to make contributions received almost three times that much in tax revenues. That directly benefitted state and local governments and RSA members and retirees.

The results of the Alabama investment policy on tax revenues is very impressive, but what is really astounding about the economic impact report is that it shows that those investments also generated \$28 billion in GDP, \$14.3 billion in payroll, and 282,564 full-time equivalent jobs in Alabama during the period from 1990-2011.

The report finds that for every \$1.00 the RSA invested in Alabama, the state has gained an additional return of \$1.57. So, not only did the state and local employers receive more tax revenue to fund their mandatory portion of the retirement benefits paid by RSA, the state of Alabama and its citizens, including RSA members and retirees, benefitted from this very real, but more indirect and harder to measure, economic impact.

Some people may not be happy with these results and argue that all of RSA monies should be in the equity and bond markets. In fact, the Alabama investments have served as a hedge that has protected against broader market conditions. Public and private pension funds throughout the country have suffered from the abysmal performance of the market over the last ten years.

Although RSA's returns have beaten the broader markets, the 10-year rolling return of the stock market generally in 2009 was negative and the lowest such return at any point in the history of the market, including the Great Depression era. As a result, over 40 states have instituted some kind of pension reform in the last two years. Public employers and RSA also suffered from the general market downturn, but as measured by this report, not as much as if all of RSA's funds had been invested in the market alone.

In conclusion, I am confident RSA has taken the steps it needs to address these tough economic times. Most importantly, I am assured by the results of these economic impact reports that RSA's Alabama investments have been part of the solution, not part of the problem. ■

Bottom Line: Total Economic Impact

→ \$28.0 billion of additional GDP for the state.

→ \$14.3 billion of earnings (payroll) for Alabamians.

→ 282,564 FTE jobs in the last 22 years.

Who Taxes the Poor the Most?

Source: Charles B. Stockdale, 24/7 Wall Street

1. Alabama

- ◆ Income tax on working-poor: \$548/yr.
- ◆ Lowest taxable income: \$12,600 (55% of poverty line)
- ◆ Poverty rate: 17.4% (7th highest)
- ◆ Median household income: \$40,474 (5th lowest)

Alabama is one of the country's poorest states, and it taxes its poor residents' incomes the most. The state has a poverty rate of 17.4%, which is among the nation's highest. It also has the fifth-lowest median household income. A family of four at the poverty line must pay \$548 in income taxes. This amount has consistently increased since 1994. Additionally, Alabama has the second-lowest tax threshold in the country. A single-parent family of three making \$9,800 - or 55% of the group's poverty level of \$17,922 - remains subject to income tax.

In an effort to help families work their way out of poverty, most of the United States do not tax the incomes of working-poor families. A handful of states do, however. 24/7 Wall St. examined a new report from the Center on Budget and Policy Priorities to identify the states that tax the poor the most.

The decision of these states to continue taxing the poor is notable because most states have stopped. Over the past two decades, there has been a widespread, bipartisan effort to roll back taxes on working-poor families. Today, only 15 states still tax families with incomes that are at, or below, the federal poverty line - currently \$23,018. ■

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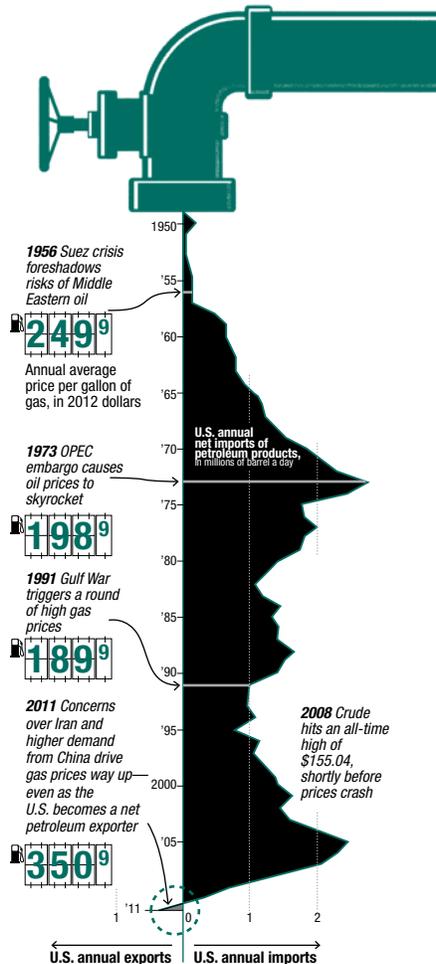
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Global Oil Demand
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Sources: U.S. Energy Information Administration; *Petroleum Supply Monthly*

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